

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES

MEETING OF OCTOBER 26, 2001

The meeting of the Board of Pension Trustees was called to order by D. Stratton at 9:00 a.m. in the Delaware Conference Room of the McArdle Building, in Dover, Delaware.

Trustees Present

A. Dale Stratton
Robert W. Allen
Jan M. King
David W. Singleton
Lisa Blunt-Bradley
Nancy J. Shevock

Trustees Absent

Keith Dorman

Others Present

Jim Testerman, Pension Advisory Council
Charlotte Lister, Pension Advisory Council
David C. Craik, Pension Office
Christy L. Ulmer, Pension Office
Alice Simon, Pension Office
Kathy Kunkle, Pension Office
Calvin L. Scott, Jr., DAG
Steve Kubico, Controller General's Office
Fionia Liston, Milliman USA
Jill Floore, Budget Office

1. OPENING COMMENTS

D. Stratton welcomed the actuary, Fiona Liston, to the meeting. Ms. Liston informed the group that Milliman & Robertson's name has changed to Milliman USA.

On behalf of the Board, D. Stratton expressed condolences to C. Williams for the death of her mother.

2. APPROVAL OF THE MINUTES

The Trustees reviewed minutes of the September 29, 2001 meeting.

MOTION was made by J. King and seconded by N. Shevock to approve the minutes of the September meeting as written.

MOTION ADOPTED UNANIMOUSLY

3. DEPUTY ATTORNEY GENERAL REPORT

No report was given. An Executive Session will be held to discuss one pending appeal. Currently, there are no appeal hearings are scheduled for November or December 2001.

4. ACTUARIAL REPORT

F. Liston provided a detailed presentation of the FY01 Actuarial Valuations for all plans contained in the Delaware Public Employees' Retirement System.

Discussion was held on the future funding method of the County/Municipal Police plans. F. Liston recommended that the County/Municipal Police & Fire Funding FICA and Non-FICA Plans be merged together and move funding method to the Entry Age Normal (EAN) Method for rate stabilization. F. Liston recommended that the EAN be applied to General Employees also. The recommendation was also made to discontinue using the annual adjustment factor. David Singleton expressed concern regarding notifying the participating employers prior to changing any of the assumptions. D. Craik commented that in previous contacts with the employers, their concern was to reduce the employers' rates. Since these changes drop the employers rates, then there should not be any problems with the employers.

MOTION was made by N. Shevock and seconded by J. King to adopt the recommendation on combining the County/Municipal Police & Fire FICA and Non-FICA Plans for the purpose of establishing rates and moving to an age normal funding method.

MOTION ADOPTED UNANIMOUSLY

MOTION was made by J. King and seconded by R. Allen to abolish the annual adjustment factor.

MOTION ADOPTED UNANIMOUSLY

5. ACTUARIAL REPORT

The employer contribution rates for FY 2003 for all plans were presented as follows.

State Employees'	2.99%
State Judiciary	18.18%
State Police	7.58%
County Police FICA	12.05%
County Police Non-FICA	12.05%
County Employees	3.16%
Volunteer Firemen	\$122.48
Diamond State Port Authority	3.89%

MOTION was made by D. Singleton and seconded by R. Allen to adopt the proposed FY 2003 actuarial rates for the plans administered by the Pension Office.

MOTION ADOPTED UNANIMOUSLY

6. INVESTMENT COMMITTEE REPORT

- A) Thru September 30, 2001, the Fund had a -12.8 return for the 12 month period compared
- B) to -12.6 for a 60/35/5 benchmark and -11.4 for the Delaware benchmark.
- C) Fiscal 2002, YTD Fund return is -6.5 compared to -7.4 and -6.7 for the 2 benchmarks.
- D) October so far has been a better month. As of close of the markets on 10/25/01, both the S&P 500 and the NASDAQ were at or above pre 9/11/01 levels.
- E) The Investment Committee made a recommendation, approved by a poll vote, to hire Alliance Capital Management as a large cap, growth manager and to fund them initially with \$125 million. A search for a large cap growth manager was triggered by the performance of Lincoln Capital Management and the significant reduction in funding during the summer. The funds taken from Lincoln have been in a passive account managed by Barclays.
- E) D. Stratton provided insight on the Investment Committee's selection process.
 - i) The Investment Committee had two issues - how much should be allocated to this asset class, and who is an appropriate manager?
 - ii) The Committee first examined the proportion of equity portfolio in large and small cap asset classes. With the TAA portfolios, there was a question if too much was allocated to the S&P. On analysis, the S&P 500 is 73% of the Wilshire 5000, or broad market index. In the Delaware portfolio, 62.4% of our equities are in large cap with the remainder in small cap portfolios, convertibles and private equity. The later two classes tend to include small rather than large companies so the Committee is comfortable in maintaining the large cap commitment.
 - iii) The related question was whether the large cap allocation should be value or growth oriented. Although growth outperformed value significantly in the late 90's, if you invested \$1 in a large cap value portfolio in 1989, you would have had \$4. at the end of June 01; \$1., invested in a growth portfolio, would have returned \$3.45. Our assessment is to keep a balance between value and growth with our active managers.
 - iv) Next came manager selection; there are 175 growth stock managers in the Piper database. When they were checked for their consistency with a large cap benchmark and a large growth style bias, 83 managers were eliminated.
 - v) The historical performance of those remaining were ranked in five categories looking at both absolute and consistency of return. After considering this factor, another 62 were eliminated.

- vi) Qualitative factors were then applied (example: very small managers were eliminated.) The field was narrowed to four finalists and out of those, Alliance Capital Management was selected.
- vii) Alliance Capital Management has \$67 Billion of assets under management. Clients include a number of large public pension funds. Alliance has a disciplined investment approach and excellent results. Since 1978 thru September 2001, its large cap growth accounts have outperformed the S&P 500 by 340 bp and the Russell 1000 Growth by 450 bp.
- viii) Alliance was selected after a comprehensive process of elimination starting with a review of the large cap manager universe using a series of screens. Finalists were interviewed by Ashford Capital with results presented to the Committee and, finally, Alliance was interviewed in depth by the entire Investment Committee.

MOTION was made by J. King and seconded by N. Shevock to ratify the October 16, 2001 poll vote conducted by C. Ulmer.

MOTION ADOPTED UNANIMOUSLY

To generate the \$125 million funding, the Barclay's account indexed to the Russell 1000 growth will be closed. There is about \$82 million in that account. The remainder will come from the Trinity CorePlex account, which has a value tilt. This shift helps balance the growth and value bets although there remains slightly more money with value managers.

- F) D. Stratton had the opportunity to meet with the Chief Investment Officers of 60 other public funds at the annual NASIO conference. Most were state pension plans or state investment boards, although a couple of large cities are included as well as the province of Quebec. The Group represented \$1.7 trillion of assets under management. D. Stratton will provide additional information obtained at the conference at a future meeting. A couple of items discussed included only two funds had positive returns for the fiscal year ended 6/30/01. Of the two Funds with positive returns, one returned 2.08% and another with 1.2%. Most of the plans have not changed their asset allocation targets in the past year, nor do they intend to in the near future. As stock values fall, they are maintaining allocations by buying more equities. Delaware's asset allocation falls quite close to the average allocation of all plans, although, there is a wide dispersion from plan to plan. At the NASIO conference, Goldman Sachs provided a report on Global Aging – Capital Market Implications. Copies of this report will be obtained for future distribution.

7. PENSION ADVISORY COUNCIL REPORT

J. Testerman congratulated the Office of Pensions on its relocation.

J. Testerman inquired what the amount of the pension rate will be used for prefunding healthcare benefits based on the actuary's results. D. Craik reminded the Board that 5% of the Plan's normal cost would still be available, or .375% of payroll.

The DSEA workshop is to be held on November 10, 2001 at the Pardee Building in Dover.

The next PAC meeting will be held in November 13, 2001.

8. PENSION ADMINISTRATORS' REPORT

Medical Report

A comprehensive annual report was distributed and discussed covering disability applications and pensions reviewed by the Medical Committee for the month of October 2001. There were 9 new disability cases processed in the month of October.

Communications

The November Board meeting is canceled.

The Pension Office is coordinating with other State Personnel representatives to sponsor the annual fall workshops. A full day workshop is scheduled for November 15, 2001 to be held at the Dover Sheraton. A half-day workshop will be held in each county during the month of November 2001. The Kent County workshop is scheduled to be held on November 8th, Sussex on November 1st, and New Castle County on November 20th.

9. AUDIT COMMITTEE

Dr. Markell is now recuperating at home. The Board extended their good wishes to him and his family.

10. PENDING ITEM

Candidates are being sought to fill the current vacant trustee position. Hopefully, a new trustee will be selected in January when the legislature reconvenes.

11. EXECUTIVE SESSION

MOTION was made by R. Allen and seconded by N. Shevock, that the Board go into Executive Session to discuss pending personnel matters and confidential medical records.

MOTION ADOPTED UNANIMOUSLY

The Board then moved into Executive Session to discuss pending personnel matters and confidential medical records.

MOTION was made by R. Allen and seconded by N. Shevock to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

12. APPEAL CASES

Following a discussion in Executive Session, the following motion was made:

MOTION was made by J. King and seconded by N. Shevock to approve the Hearing Officer's recommendation that Bruce L. Johns application for a disability pension be denied.

MOTION ADOPTED UNANIMOUSLY

13. ADJOURNMENT

At 11:22 a.m., there being no further business,

MOTION was made by R. Allen and seconded
by N. Shevock to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

A. Dale Stratton, Chair
Board of Pension Trustees