

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF OCTOBER 26, 2004

The meeting of the Board of Pension Trustees was called to order by P. Reese at 1:30 p.m. in the conference room of Ashford Capital Management's Wilmington office.

Trustees Present

Phillip Reese
Robert W. Allen
David W. Singleton
Nancy J. Shevock
Jan King
Dana Jefferson
Helen Foster

Trustees Absent

Others Present

Marsha Kramarck, DAG
David Craik, Pension Office
Kim Vincent, Pension Office
Alice Simon, Pension Office
Kathy Kunkle, Pension Office
Clarke Phippen, Investment Committee
Theresa Leatherbury, Milliman, USA
Sheldon Hudson, Budget Office
Steve Kubico, Comptroller's Office

1. OPENING COMMENTS

The meeting of the Board of Pensions Trustees was called to order at 1:30 p.m. P. Reese welcomed Dana Jefferson to the meeting replacing Lisa Blunt-Bradley.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the minutes of the October 1, 2004 meeting.

MOTION made by D. Singleton and seconded by R. Allen to approve the minutes of the Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. ACTUARIAL PRESENTATION

D. Craik introduced Theresa Leatherbury of Milliman USA.

T. Leatherbury provided a detailed presentation of the FY04 Actuarial Valuation for all plans contained in the Delaware Public Employees' Retirement System.

Discussed that this year's valuation included the first assumption changes in nine years. The change in assumptions were based, in part, on lengthening of retirement liability due to improved mortality rates and reduction in expected rate of return on the Fund from 8.5% to 8.0%. The prior retirement assumption on the County/Municipal General and County/Municipal Police used 100% of the employees retired at 25 years of service. The assumption is now retirement at 30 years of service.

An overview of the Post Retirement Increase Fund was reviewed. The funding rate for FY05 is 2.43% of payroll for SEPP, Judicial and State Police plans. The projection of the fund includes assumptions of an 8% return per year on assets and an annual increase in aggregate payroll of 3.75%. The 2004 PRI increased plan liabilities by \$47.6 million to be smoothed over 5 years. The 2.43% rate for the PRI Fund is sufficient for current PRI's.

ACTUARIAL PRESENTATION (continued)

D. Singleton asked D. Craik for a report on DPERS administrative expenses based on a presented summary of the SEPP expenses increasing from .25% to .35% in FY04.

The following employer contribution rates for FY06 were presented:

State Employees'	6.12%
State Judiciary	22.11%
New State Police	12.76%
County/Municipal Police	10.75%
County/Municipal Employees	1.35%
Volunteer Firemen	\$277.52
Diamond State Port	5.91%

MOTION made by R. Allen and seconded by J. King to adopt the above rates with the rate for the Volunteer Firemen's plan contingent on further review by Milliman USA.

MOTION ADOPTED UNANIMOUSLY

4. GOVERNANCE ISSUES

A list of Governance Issues had been distributed to Board members at an earlier date for further discussion. A discussion then followed on the following items.

- Self-Audit – In an effort to evaluate best practices, the Board will discuss self-audit in two specific areas: Administrative functions and Investment Functions.
- Actuary and Investment Advisor contracts – The Investment Advisor contract will be discussed with Pension Office staff to arrive at alternatives for Board review. M. Kramarck reported that there is no legal bid requirement from the State's Department of Administrative Services. A five-year cycle for custodian review has already been established upon which an RFP is generated for a new custodian. There are current established reviews for an auditor contract as well as an actuary contract.
- Delegation of authority to the Investment, Medical or Audit committees –

Medical Committee - by statute, the Medical Committee reports to the Pension Administrator

Audit Committee – R. Allen to discuss this delegation with J. Poorman

GOVERNANCE ISSUES (continued)

Investment Committee - J. King presented a draft of the proposed delegation of duties to the Investment Committee. After discussion, P. Reese asked M. Kramarck to review the draft and put it in final format for review by the Investment Committee at their next meeting. Final approval by the Board to be obtained at the November 2004 Board meeting.

- Management information to be provided to the Board – Nonfinancial members of the Board to meet with the Pension Office to learn what they might need. The State Personnel Office maintains Human Resources type of information.
- Screening of our holdings for terrorist-related entities – D. Craik and D. Singleton reviewing

GOVERNANCE ISSUES (continued)

- Contractual language that prevents our managers from participating in any of the IRS’s “Listed Transactions” which are believed to be tax abuse schemes – D. Singleton to provide M. Kramarck with the list so that M. Kramarck can review for legal wording.

5. INVESTMENT COMMITTEE REPORT

INVESTMENT PERFORMANCE – MONTH ENDING SEPTEMBER 30, 2004

<u>Fund</u>	<u>Previous Month</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	2.7%	1.5%	13.8%
S & P 500 Index	1.1%	(1.9)%	13.9%
60/35/5*	0.8%	0.1%	9.6%
Delaware Benchmark**	1.1%	0.5%	10.2%

***Benchmark mix of 60% S&P500 Index, 35% Solomon Long Government and Corporate Bond Index and 5% T-bills.**

****Benchmark mix of 45% Russell 3000, 10% EAFE (international), 43% Lehman Bond aggregate and 2% T-bills.**

Total assets in the fund at the end of September totaled \$5,566 billion. The fund posted a month of strong performance with September gaining a 2.7% return during the month. This return was in excess of the Delaware Benchmark of 1.1% and was also higher than the 60/35/5 benchmark of .8%

The month of September was a positive one for the equity markets. The Russell 3000 stocks gained 1.5%, Large Growth stocks gained 1.0% and Large Value index returned a positive 1.6%. Small cap stocks posted the strongest returns in the equity market with the Russell 2000 returning a positive 4.7% mainly due to the growth sector. The international markets lead the U.S. market with the unhedged EAFE returning a positive 2.6%. The bond market continues to ring out returns with the Lehman LT Government/Corp Index at 1.0% and the High Yield sector returned a positive 1.5% as spreads continue to widen and higher coupons. Outstanding returns were posted for the month in the commodity markets.

The fiscal year returns for the three months for the Fund will be reported at a positive 1.5%, compared to a .5% benchmark. Calendar year to date returns are 5.0% compared to 2.7% for the Delaware benchmark. At the end of the quarter, 3 yr returns were 6.7% and 5 years returns were 5.2%.

Some members of the Investment Committee met in a special meeting with the principals of the Carlyle Fund. As you remember from our last meeting, we approved up to \$100 million to be invested in Carlyle IV now in formation as part of our private investment program. Carlyle II and III have both been strong performers with strong cash flows even as committed capital is drawn down. After this special meeting and further discussion in the Investment Committee meeting this month, we recommend moving up to a \$200 Million commitment to be funded over the next 5 years. This is our only manager that specializes as a buy-out firm versus private and start up ventures. Even with this higher level of commitment, we can keep our exposure to non-liquids at manageable levels of around 10%. We have worked with a limit of 15% with normal operating range of 10%-12%.

5. INVESTMENT COMMITTEE REPORT(continued)

In addition, the Investment Committee recommends extending a commitment to Trident VI at \$20MM. We have participated in Trident IV and V.

The meeting previously scheduled this morning was cancelled due to the travel schedule of some of our members. We did not have a manager scheduled to visit but had items on the agenda that we will attend to at the November meeting to be held November 16th.

MOTION made by R. Allen, seconded by D. Singleton to move up to \$200 million to Carlyle IV over five years.

MOTION ADOPTED UNANIMOUSLY

MOTION made by R. Allen, seconded by H. Foster to commit up to \$20 million to Trident VI.

MOTION ADOPTED UNANIMOUSLY

6. PENSION ADVISORY COUNCIL

No members of the Pension Advisory Council were present to provide a report.

7. PENSION ADMINISTRATOR'S REPORT

Medical Report

As of October 1, 2004, there were 22 new cases pending receipt of original medical information. Only one was over 30 days old. The medical committee has reviewed 222 new cases in a rolling 12-month history. 306 continuance cases have been reviewed in the same time period.

Meeting Dates

D. Craik reiterated the need for each Board member sign up for three appeal dates in 2005 and forward those dates to him. Several board members provided dates and others will confirm tentative dates.

PENSION ADMINISTRATOR'S REPORT(continued)

Attendance Policy

D.Craik provided the following Board attendance policy as drafted by M. Kramarck:

It shall be the policy of the Board of Pension Trustees that the Members of the Board, and of all of its standing committees, must attend a minimum of 75% of all regularly scheduled meetings. It shall be the responsibility of the Executive Secretary to report cumulative absences of a Member in excess of 25% per year to the Board Chair. Upon the failure of the Board or committee member to attend at least 75% of regularly scheduled meetings of the Board or Committee in any rolling 12-month period, the Board shall discuss such absences, and determine whether any action is required to contact the Member whose attendance is in question to notify him or her of the attendance policy and of the absences noted. The Board shall also consider its options to authorize the Chair to notify the Governor of such absences.

MOTION made by R. Allen, seconded by D. Singleton to approve the attendance policy.

MOTION ADOPTED UNANIMOUSLY

8. PENDING ITEMS

D. Craik reported that meetings had been scheduled with the top vendors for the Disability Project, item #1 on the list of pending items.

9. DEPUTY ATTORNEY GENERAL REPORT

No report

10. EXECUTIVE SESSION

There was no Executive Session

11. ADJOURNMENT

The next Pension Board meeting will be held on November 19, 2004 at 9:00, in the Delaware Conference Room of the Office of Pensions.

At 4:00 p.m., there being no further business,
MOTION was made by J. King and
seconded by D. Singleton to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Philip S. Reese
Board of Pension Trustees Chairman