

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

MEETING OF SEPTEMBER 28, 2001

The meeting of the Board of Pension Trustees was called to order by D. Stratton at 9:05 a.m. in the Delaware Conference Room of the McArdle Building, in Dover, Delaware.

Trustees Present

A. Dale Stratton
Robert W. Allen
David W. Singleton
Nancy J. Shevock

Trustees Absent

Keith Dorman
Jan M. King
Lisa Blunt-Bradley

Others Present

Charlotte Lister, Pension Advisory Council
David C. Craik, Pension Office
Carolyn J. Williams, Pension Office
Calvin L. Scott, Jr., DAG
Ron Draper, Auditor's Office
Steve Kubico, Controller General's Office
Donald Hofmann, Audit Committee

1. OPENING COMMENTS

D. Stratton announced that at 10:30 a.m., following the meeting, an official dedication ceremony for the new building honoring Donald F. McArdle will be held.

D. Stratton welcomed Ron Draper and Don Hofmann to the meeting. Ernst & Young were unable to send a representative to the meeting due, to a pending birth of the wife of a senior auditor. Mr. Hofmann stated that the audit report was self-explanatory, but that Ernst & Young would be able to attend later, if needed, to answer any questions.

Mr. William Markell is recuperating in the hospital being treated for a broken leg stemming from an accident when he was hit by a car. The Board expressed its concern and well wishes for Mr. Markell.

The Board was informed that Dr. Edward Gliwa died on September 2, 2001. A Resolution was presented for the Board's approval for the late Dr. Edward Gliwa to be presented to his family.

MOTION was made by David Singleton and seconded by N. Shevock to approve the Resolution for Dr. Edward Gliwa.

MOTION ADOPTED UNANIMOUSLY

D. Stratton complimented the Pension Office for the efficient move over the weekend of July 27th. Pension Office Staff left the building at the end of the workday on July 26th and resumed work at the new location on July 30th with all systems up and running.

D. Stratton complimented Alice Simon and the Pension Office, Investment Section Staff for a great job done in the assembling of the 30th CAFR.

2. APPROVAL OF THE MINUTES

The Trustees reviewed minutes of the July 20, 2001 meeting.

MOTION was made by R. Allen and seconded by N. Shevock to approve the minutes of the July 20, 2001 meeting as written.

MOTION ADOPTED UNANIMOUSLY

3. DEPUTY ATTORNEY GENERAL REPORT

No report was given.

4. INVESTMENT COMMITTEE REPORT

D. Stratton provided the Investment Committee Report.

- a) Through August 31, 2001, Fund returns:
 - 1) 12 months: -9.5 vs -11.2 for 60/35/5 benchmark: -9.3 for Delaware benchmark.
 - 2) Calendar Year To Date: -7.2 vs -5.5 for 60/35/5 and -4.8 for Delaware benchmark.
- b) Based on performance of the indices, not actual manager reports, Fund's 12-month return was down approximately 16% on 9/21/01.
- c) To put performance in context:
 - 1) As of 9/10/01, the last trading day before the attacks, the S&P500 had lost 28.5% from all-time high set in March 2000. In the five trading days after the attacks, the S&P lost an additional 11.6% bringing the total decline to 36.8%. On 9/21/01, the index was at its lowest point since 1/27/98.
 - 2) Other market classes declined as well:
 - i) For the period from 9/17/01 – 9/21/01:
 - a. NASDAQ – (16.1)
 - b. DJIA – (14.3)
 - c. Russell 2000 – (14.0)
 - d. Russell 3000 – (11.9)
 - e. Wilshire 5000 – (11.9)
 - f. S&P – (11.6)
 - g. Average – (13.3)
 - ii) Worst segments hit were transportation, capital goods, and technology while the best were utilities, health care, and consumer staples.
 - 3) Although the 9/11/01 attacks are unprecedented, investor patience after past dramatic events has been rewarded. A study looked at the S&P impact of key events in the last 60 years (example: Pearl Harbor, Korean War, Kennedy Assassination, Arab Oil Embargo, Desert Storm, Oklahoma City Bombing) and measured market return one year later. With the exception of the Arab Oil Embargo, the market was up from 1% to 33% one year later. On average, the S&P was up 4.1% six months after these major events.

4. INVESTMENT COMMITTEE REPORT (Continued)

- 4) Investment Committee has no recommendations at this point. The Committee met with Mellon, the largest manager, on 9/25/01. Mellon has shifted more into equities and sees the market levels as a buying opportunity. The Committee will be reevaluating overall asset allocation at the October meeting and will also assess placing limits on the percent of the Fund invested with any one manager.
- 5) The Committee took one action on 9/11/01 under its authority to make add-on venture capital investments up to \$2 million. A secondary purchase of Morgan Holland II was made for approximately \$220,000. This represented the exercise of our proportionate share of a sale made by another limited partner and was exercised below the appraised value of the partnership's holdings.

5. PENSION ADVISORY COUNCIL REPORT

Charlotte Lister provided the PAC report. Ms. Lister stated that no meetings were held over the summer. She complimented the Board for working diligently to provide the benefits enacted during the last legislative session.

6. 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 September 2001. There were 27 new disability cases processed in the month of September. D. Craik reviewed the Report of Earnings Report for Calendar Year 2000. The report reflected the total of completed reports has risen to 846 in 2000 from 791 in 1999. Mr. Craik informed the Board that there is a Medical Committee vacancy due to the death of Dr. Gliwa. Dr. John Kramer has been referred to become a new member.

MOTION was made by R. Allen and seconded by D. Singleton to approved the appointment of Dr. John Kramer to the Medical Committee.

MOTION ADOPTED UNANIMOUSLY

Communications

Copies of the DPERS retiree newsletter, that were distributed with the July pension checks and advices, were provided for the Board's review. In August 2001, the Retiree Annual Statements were distributed. Both of these distributed items generated a large volume of phone calls to the Pension Office.

D. Craik briefly described the security of the new building, and recognized the staff who worked on the building relocation and the dedication ceremony. He reviewed the ceremony agenda that is to follow. It was then moved that a Resolution of Commendation should be prepared for the staff members responsible for the Pension Office relocation.

MOTION was made by D. Singleton and seconded by N. Shevock that the Board of Pension Trustees express their appreciation to Carolyn Williams and Christy Ulmer for their many months of effort and dedication during the relocation process that the Pension Office just completed.

MOTION ADOPTED UNANIMOUSLY

7. AUDIT COMMITTEE

D. Hofmann presented the audit report for Ernst & Young. He complimented the quick time frame considering the complexity of the material. Mr. Hofmann noted that the Pension Office needs to look into a back-up system. D. Craik explained that a back-up system is currently in place. There was discussion about the proximity of the McArdle Building to OIS and further precautions. D. Singleton noted that the new OIS Director listed finding a better disaster/back-up plan as one of his first priorities. There was also discussion of higher costs due to the large volume of transactions. Alice Simon noted that we are GASB 34 compliant a year early. Ron Draper complimented Alice as a "taskmaster of the audit process." D. Craik noted that he was going to set up a special task force to clean up actuarial data, which should correct the accuracy of data in PeopleSoft. The Pension Office is also waiting for a response from OIS regarding its agreement with OIS. The Pension Office will also be implementing software to follow changes to the system to better document transactions.

8. PENDING ITEM

D. Stratton requested that Pending Item #12 for an Actuarial Request for Proposals be completed soon. A Committee was formed with N. Shevock as the Chair and Steve Cimo, Director of Accounting for Kent County as an outside contact. D. Craik will also serve on this committee. The previous RFP process should be followed with the current actuary asked to provide a bid.

9. ADJOURNMENT

At 10:15 a.m., there being no further business,

MOTION was made by R. Allen and seconded
by D. Singleton to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

A. Dale Stratton, Chair
Board of Pension Trustees