

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF JANUARY 29, 2010

The meeting of the Board of Pension Trustees was called to order by P. Reese, at 9:02 a.m. in the Delaware Conference Room of the Pension Office.

Trustees Present

Nancy Shevock
Tom Cook
Robert Allen
Helen Foster
Phil Reese

Trustees Absent

Ann Visalli
Suzanne Grant

Others Present

Dave Craik, Pension Office
Terri Timmons, Pension Office
Wade Sallings, Pension Office
Jeff Hoover, Pension Office
Kim Vincent, Pension Office
Rob Gooderham, Ashford Consulting Group
Jim Testerman, PAC
Cindy Collins, DAG

1. OPENING COMMENTS

The meeting of the Board of Pensions Trustees was called to order by P. Reese.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the Public Minutes of the December 18, 2009 meeting.

MOTION made by N. Shevock and seconded by R. Allen to approve the Public Minutes of the Board of Pension Trustees' December 18, 2009 meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the December 18, 2009 meeting.

MOTION made by N. Shevock and seconded by R. Allen to approve the Executive Minutes of the Board of Pension Trustees' December 18, 2009 meeting.

MOTION ADOPTED UNANIMOUSLY

3. INVESTMENT COMMITTEE REPORT

Investment Committee Performance Report

| <u>Fund</u> | <u>Previous Month</u> | <u>Fiscal Year To Date</u> | <u>12-Month</u> |
|-----------------------------|-----------------------|----------------------------|-----------------|
| Total Fund | 1.4% | 15.5% | 22.5% |
| S & P 500 Index | 1.9% | 22.6% | 26.5% |
| 60/35/5* | 0.5% | 14.7% | 17.5% |
| Delaware Benchmark** | 1.0% | 15.4% | 22.6% |

*Benchmark mix of 60% S&P500 Index, 35% Barclays Long Gov't and Credit Bond Index, 5% T-bills.

**Benchmark mix of 38% Russell 3000 Index, 20% MSCI ACWI exUS, 38.5% Barclays Universal Bond Index, 1.5% Barclays TIPS Index, 2% T-bills

Total assets in the Fund at the end of December totaled \$6.551 billion. Equity markets continued to experience positive returns in December. The Fund's December return of 1.4% outperformed the Delaware Benchmark return of 1.0%, while the 12-month return for the total fund is slightly behind the Delaware Benchmark. For the fiscal year-to-date, the total fund is up 15.5%, slightly ahead of the Delaware Benchmark.

During the month of December, both domestic and international equity markets experienced gains. The S&P 500 was up 1.9%, while small cap stocks did much better, as measured by the Russell 2000 which gained 8.0%, making up for relative weakness earlier in the quarter. The MSCI EAFE international stock index was up 1.4%, and the broader MSCI All-Country World ex-U.S. stock index (which includes emerging markets) was up 2.1% in December. Fixed Income market returns were mixed during the month as Government Securities fell while credit bonds did better. The Barclays TIPS Index was down 2.2% and the Barclays LT Govt/Credit Index fell 3.3%, while the JP Morgan Global High Yield index returned 3.0% for the month.

The Investment Committee has met twice since the last Board meeting. On January 12th, the Investment Committee received a presentation from existing fixed income manager Loomis, Sayles. In addition, the Investment Committee reviewed the derivatives report for the quarter ended 9/30/09.

The Investment Committee continued discussions from prior meetings regarding the current investment policy statement and reviewed more encompassing revisions than had been proposed at the previous Investment Committee meeting.

At its second January meeting, held January 26th, the Investment Committee received a presentation from Oaktree Capital Management on the Fund's international convertible portfolio.

In addition, the Investment Committee engaged in a lengthy review of the Fund's current risk level in light of current equity and fixed income valuations. After discussion, the Investment Committee recommended the following action to the Board, via poll vote, in order to reduce the Fund's risk level:

The Investment Committee recommended to the Board that it approve the withdrawal of \$100 million from the Mellon Capital Global Equitized Collateral Fund account to be invested in the Northern Trust cash account pending future investment. A poll vote was held to approve the transfer of funds and the Board is asked to ratify the poll vote. A discussion of the merits was held.

MOTION made by N. Shevock and seconded by R. Allen that the Board's poll vote to withdraw \$100 million be withdrawn from the Mellon Capital Global Equitized Collateral Fund account and invested in the Northern Trust cash account pending future investments be ratified.

MOTION ADOPTED UNANIMOUSLY

The Investment Committee, under its authority to approve documents, or to make decisions on all issues, transactions, or documents, pertaining to limited partnerships which have been approved for investment by the Board, approved an amendment to the Liquid Realty Partners IV Limited Partnership Agreement which reduced both the amount of committed capital and fees payable in the future.

C. Collins reported that Northern Trust has indicated their willingness to extend the current contract with DPERS for an additional two years with no change in fee.

MOTION made by P. Reese and seconded by H. Foster to approve the contract amendment with Northern Trust for custodial services to be extended for an additional 2 years through 6/30/12.

The next meeting of the Investment Committee will be held on February 9th.

MOTION made by H. Foster and seconded by R. Allen to enter into Executive Session to consider pension personnel matters, and confidential medical records, legal matters, sensitive commercial information, proprietary business information, trade secrets and confidential financial information.

MOTION ADOPTED UNANIMOUSLY

The Board then moved into Executive Session to discuss pending personnel matters and confidential medical records, legal matters, sensitive commercial information, proprietary business information, trade secrets and confidential financial information.

MOTION made by R. Allen and seconded by T. Cook to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

4. AUDIT COMMITTEE REPORT

R. Allen reported that the next Audit Committee meeting will be held on February 10th.

C. Collins reported that the State Auditor's Office has granted KPMG a one year contract extension. A discussion approving the Auditor's Office extension of KPMG's contract was held.

MOTION made by R. Allen and seconded by H. Foster to affirm the Auditor's Office contract extension of KPMG's contract for an additional year.

MOTION ADOPTED UNANIMOUSLY

5. PENSION ADMINISTRATOR'S REPORT

Quarterly Statistics

D. Craik reported that the quarterly statistics show that estimates and counseling sessions are down from last year; however, these numbers are not reflective of the office work load as estimates and counseling sessions were suspended this past summer due to the heavy July and August payroll workload. Phone calls have been higher this year due to many factors.

The Disability quarterly report shows one new case. Since the inception of the Disability Insurance Program the number of new cases has declined.

Newsletter E-mail

D. Craik reported that an e-mail had been sent to the Pension Office e-mail address from a pensioner, after receiving their December Newsletter. It stated that "we wish to offer our thank you to the conscientious and dedicated work done by DPERS staff, Board of Trustees, and the Investment Committee on behalf of the System's beneficiaries. You seem to have done a great job during this difficult economic time."

Legislative Activity

HB 218 - has passed the Senate. This act is to amend Title 11 of the Delaware code relating to Delaware County and Municipal Police/Firefighter Pension Plan. This act would allow the calculation of a retiree's final average compensation so that it does not result in a loss of pension due to mandatory leave without pay (furlough).

SS 1 for SB 147 – is with the Senate Finance Committee. This act provides a retirement incentive of 2 additional years of service to employees in the State Employees Pension Plan that retire on 6/30/10. There is also a new tier of benefits created for employees hired on or after 7/1/10.

Positions

D. Craik reported that 5 positions have been eliminated from the Pension Office. DPERS currently has 2 positions that will be filled next week and an IT position that we will be conducting interviews for within the next couple of weeks.

Pension Pay Advices

During the 12/24/09 pension pay advice a printing error occurred at DTI. While most of the pensioners received correct advices some pensioners received 2 advices, and some received blank pay advices. DTI re-printed the pay advices and reviewed the advices to make sure everything was being printed correctly before mailing the replacement pay advices. Many confused and upset pensioners called the Pension Office to ask questions.

Additionally, the Federal and State tax tables were updated as of January 1, 2010. This has resulted in increased phone calls from pensioners asking why their net pay was lower with their January 29th pay.

Actuarial Reports

D. Craik reported that the Actuarial Valuation Reports as of June 30, 2009 were available to the Trustees.

County/Municipal General Employees Pension Plan

D. Craik stated he has heard from the Millville Fire Company for their paid employees covered by this plan. Millville would like to get out of the Plan which according to D. Craik is not allowed because an election into the plan is irrevocable. D. Craik and C. Collins are working on a response.

DROP Plan

D. Craik reported that he had received feedback on the DROP Plan. There was a request from the legislature to specifically address the issues related to the implementation of a DROP for the Judges. An updated report will be prepared.

6. PENSION ADVISORY COUNCIL REPORT

J. Testerman spoke about the 2.5% salary decrease for active state employees that occurred last year and that apparently will not be restored this year. He also talked about where the state stands versus the public sector and stated that there are some state employees at the lowest pay grade who qualify for public assistance. A fulsome discussion was held and an inquiry was made whether a study exists comparing governmental pay scales and benefits verses private sector pay and benefits. It was mentioned that if such a study exists it might be helpful to the Board and State for planning purposes.

7. DEPUTY ATTORNEY GENERAL REPORT

C. Collins stated that Cheiron and Ashford Consulting Group contracts will be up for renewal soon. She will prepare information for this discussion at the February Board meeting.

8. PENDING ITEMS

There were no new pending items.

9. NEW BUSINESS

MOTION made by T. Cook and seconded by H. Foster to enter into Executive Session to consider pension personnel matters, and confidential medical records, legal matters, sensitive commercial information, proprietary business information, trade secrets and confidential financial information.

MOTION ADOPTED UNANIMOUSLY

The Board then moved into Executive Session to discuss pending personnel matters and confidential medical records, legal matters, sensitive commercial information, proprietary business information, trade secrets and confidential financial information.

MOTION made by R. Allen and seconded by T. Cook to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

T. Cook stated that the Governor has made it a point to say how well the Pension Office and Board are run. He further stated that when he and A. Visalli are at Wall Street they always hear how well Delaware's Pension Fund is doing. T. Cook applauded D. Craik, Pension Office Staff, the Board, Investment and Audit Committees for the job they do.

10. ADJOURNMENT

The next Pension Board meeting is scheduled to be held on February 26, 2010, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 10:52 a.m., there being no further business, MOTION was made by T. Cook and seconded by R. Allen to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator