

**STATE OF DELAWARE**  
STATE BOARD OF PENSION TRUSTEES  
AND  
OFFICE OF PENSIONS  
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**BOARD OF PENSION TRUSTEES**  
**MEETING MINUTES OF JUNE 27, 2014**

The meeting of the Board of Pension Trustees was called to order by Suzanne Grant, at 9:00 a.m. in Delaware Conference Room in the Pension Office.

Trustees Present

Nancy Shevock  
Tom Cook  
Tom Shaw  
Helen Foster  
Ann Visalli

Trustees Absent

Art Agra  
Suzanne Grant

Others Present

Dave Craik, Pension Office  
Amy Jozwiak, Pension Office  
Kathy Kunkle, Pension Office  
Rob Gooderham, Ashford Consulting Group (ACG)  
Ann Marie Johnson, DAG (via phone)  
Lisa Loikith, DOJ Office  
Joe Malloy, PAC  
Charlotte Lister, PAC  
James Testerman, PAC

1. **OPENING COMMENTS**

T. Shaw welcomed everyone to the meeting.

2. **APPROVAL OF THE MINUTES**

The Trustees reviewed the Public Minutes of the May 30, 2014 meeting.

MOTION made by N. Shevock and seconded by T. Cook to approve the Public Minutes of the May 30, 2014 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the May 30, 2014 meeting.

MOTION made by N. Shevock and seconded by T. Cook to approve the Executive Minutes of the May 30, 2014 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. **PENSION ADVISORY COUNCIL REPORT**

J. Malloy reported that he continues to talk to Legislators about the possibility of a Post-Retirement Increase. He is looking forward in continuing to work on behalf of retirees next year.

J. Malloy thanked Ashford Consulting Group for providing a very informative presentation to members of the Pension Advisory Council at the June 10 meeting held in Wilmington.

4. **PENSION ADMINISTRATOR REPORT**

D. Craik gave a status report on legislation making its way through the Legislature before it adjourns on June 30<sup>th</sup>:

SB 255, the budget bill, has been passed by the Senate, and now moves to the House. It includes the actuarially required contribution for the State Employees', Judiciary, and New State Police plans, and the pay-as-you-go amount for the Closed State Police Plan. OPEB funding is 0.9% of payroll, approximately \$16 million.

Recently passed legislation includes HB158, providing dependent health care coverage for public employees killed in the line-of-duty; HB 213, providing some health insurance premium funding for members in the County and Municipal Police and Firefighter Plan who retire after 7/1/2015; and SB 29, which exempts per diem employees of the General Assembly from the current threshold for retiree earnings.

Other legislation under consideration by the General Assembly includes SB 240, which would allow participating entities in the Delaware Volunteer Firemen's Plan to opt out upon payment of a withdrawal penalty; SB 261, which would provide for a 1% post-retirement increase for retirees

effective 1/1/2015; HB 137, which increases the number of joint-survivor retirement benefit options; and HB 299, which includes uniformed paramedics as an employee for purposes of the Delaware County and Municipal Police and Firefighter Pension Plan.

MOTION made by N. Shevock and seconded by T. Cook 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.

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 T. Cook and seconded by N. Shevock to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

## 5. INVESTMENT COMMITTEE REPORT

<u>Fund</u>	<u>May-14</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
<b>Total Fund</b>	<b>2.4%</b>	<b>15.8%</b>	<b>14.2%</b>
<b>S &amp; P 500 Index</b>	<b>2.3%</b>	<b>22.1%</b>	<b>20.4%</b>
<b>60/35/5*</b>	<b>1.8%</b>	<b>14.6%</b>	<b>12.9%</b>
<b>Delaware</b>	<b>1.7%</b>	<b>14.2%</b>	<b>11.8%</b>
<b>Benchmark**</b>			

\*Benchmark mix of 60% S&P500 Index, 35% Barclays Government 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

Assets in the Fund at the end of May totaled \$9,098 million. The Fund's May return of 2.4% outperformed the Delaware Benchmark return. For the fiscal year to date, the total Fund is up 15.8%, 1.6 percentage points above the Delaware Benchmark.

In May both domestic and international equity markets provided positive returns. For May, the broad Russell 3000 index was up 2.2%, while the MSCI EAFE international stock index gained 1.6%. The broader MSCI All-Country World ex-U.S. stock index (which includes emerging markets) was up 1.9%. Fixed income markets also experienced positive returns. The Barclays Universal bond index gained 1.2%, while the JP Morgan Global High Yield index was up 1.2% for the month. The Barclays TIPS index was up 2.1% in May.

The Investment Committee has met twice since the Board's last meeting. At its meeting on June 10<sup>th</sup>, the Investment Committee received a presentation from existing private equity manager Lightstone Ventures and reviewed the firm's strategy. The Investment Committee discussed and approved recommendations to the Board to adopt assumed long term rates of return for the Fund and inflation of 7.2% and 3.0% respectively. The Investment Committee also approved a recommendation to the Board for an additional revision to the Investment Policy.

At its meeting on June 24<sup>th</sup>, the Investment Committee received a presentation from existing manager Oaktree Capital and reviewed the firm's domestic and international convertible strategies. The Investment Committee approved a recommendation to the Board for approval of a change to the Investment Advisor's contract.

The next meeting of the Investment Committee will be July 15<sup>th</sup>.

R.Gooderham presented the Investment Committee's Long Term Expected Return Recommendation and Analysis.

With the new GASB 67/68 Statements there are new investment related disclosures for the Notes to Financial Statements:

- Disclose the target asset allocation for plan investments.
- Disclose investments (other than those issued or guaranteed by the U.S. Government) in any one organization that represents 5 percent or more of fiduciary net position.
- Long-Term Expected Rate of Return
  - Disclose a composite rate and how it was determined/calculated
  - Disclose expected future real rates of return (expected returns, net of investment expense and inflation) for each major asset class, and indicate if they are based on an arithmetic or geometric basis.
- Money-Weighted Rate of Return on Plan Investments. Note disclosure will include the annual money-weighted rate of return on pension plan investments calculated as the internal rate of return on pension plan investments, net of pension plan investment expense, and an explanation that a money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

Two key options to derive expected returns:

1. ACG Expected Returns Process (used for Investment Process)
  - a) ACG models expected returns of underlying investments and asset classes
  - b) Time horizon is out to ten years and is influenced by market movements over time
2. Adjusted Historical Returns (proposed for GASB 67)
  - a) Data on the major asset classes is available back to 1926
  - b) 88 years of history is a useful guide for thinking about very long term behavior

Based on the second option of adjusting historical returns, the process would develop a ratio of historical real returns to historical GDP and applying that ratio to the current long term GDP growth forecast and then add the long term inflation forecast to arrive at a forecasted long term expected return.

MOTION made by T. Cook and seconded by N. Shevock to approve the recommendation in the hearing officers in the appeal of Mr. Daniel Reitmeyer.

MOTION ADOPTED UNANIMOUSLY

MOTION made by N. Shevock and seconded by T. Cook to lower the long-term expected rate of return for GASB and funding to 7.2% from 7.5% and to lower the inflation assumption to 3.0% from 3.25%.

MOTION ADOPTED UNANIMOUSLY

MOTION made by T. Cook and seconded by H. Foster to approve the Table for Computing Lump Sum Payments for actuarial buy-ins using an interest rate of 7.2% per annum.

MOTION ADOPTED UNANIMOUSLY

MOTION made by N. Shevock and seconded by T. Cook to commingle the assets of the Closed State Police Pension Plan for investment purposes with the DPERS assets.

MOTION ADOPTED UNANIMOUSLY

MOTION made by T. Cook and seconded by H. Foster to adopt, for GASB valuation purposes, the roll-forward methodology for the valuation measurement date.

MOTION ADOPTED UNANIMOUSLY

MOTION made by N. Shevock and seconded by T. Cook to approve the recommendation of the Investment Committee to make an administrative change to the Ashford Consulting Group contract for the delivery of the annual ADD form from October to December.

MOTION ADOPTED UNANIMOUSLY

**6. DEPUTY ATTORNEY GENERAL REPORT**

Ann Marie Johnson reported that she is attending the annual NAPPA conference. She has completed work on three alternative investment contracts; one is pending.

**7. AUDIT COMMITTEE REPORT**

H. Foster reported that she is transitioning the Chair of the Audit Committee to Art Agra and will assume work on a special project for the Board. It will be a timely transition so there will be no negative impact on the performance of the Committee.

**8. PENSION ADMINISTRATOR REPORT (continued)**

Per D. Craik, the PeopleSoft Upgrade kickoff meeting was held on June 25<sup>th</sup>. DTI has configured the superdome server, which will give us significant storage and operating space. Current Go Live date for completion of the upgrade is March 1, 2015.

Pension Office staffing will be at full capacity when a new employee begins work in the Investments & Accounting section on June 30<sup>th</sup>.

Favorable determination letters have been received from the IRS for all submitted plan reviews with the exception of the Port, which requires adoption of updated Rules and Regulations by its Board of Directors, which was approved on June 13<sup>th</sup>.

HB 207 implementation is underway. This legislation provides for a 25-year retirement without a penalty for Correctional Officers in the State Employees' Pension Plan. The Pension Office is working with the State payroll and human resources staff, as well as representatives from the Department of Correction, to work out the details. A list of impacted job titles has been finalized, although some additional legislation may be introduced in January to expand the list of eligible positions.

GASB 67/68 implementation: Eight entities attended a meeting at the Pension Office on June 16<sup>th</sup> with KPMG and the Pension Office. The auditors discussed planned July site visits to the employers to verify data that has been transmitted to the Pension Office and reviewed the expanded financial reporting requirements. For the C/M Police plan they have selected Wilmington, NCC, Dover, Milford and Rehoboth Beach. For the C/M General plan they have selected Wilmington, Town of New Castle and Laurel. A meeting of these employers will be scheduled in June to go over the audit procedures.

Current pending issues are:

- An analysis of ad-hoc post retirement increases: if the increases are on a "regular" basis there must be an assumption built into the valuation process and treat the increase as automatic. Significant increase in liabilities if this is in place (10%). We will be looking at a 15 year analysis.
- Identification of employer sub-groups within the State Employees' Plan that may need to have a portion of the liability broken out for their financial reporting.

9. **PENDING ITEMS**

There were no pending items.

10. **NEW BUSINESS**

There was no new business.

11. **ADJOURNMENT**

The next Pension Board meeting is scheduled to be held on July 25, 2014, at 9:00 a.m., at the Delaware Conference Room of the Office of Pensions.

At 10:30 a.m., there being no further business, MOTION was made by N. Shevock and seconded by T. Cook to adjourn the meeting.

**MOTION ADOPTED UNANIMOUSLY**

Respectfully submitted,

David C. Craik  
Pension Administrator

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Suzanne B. Grant  
Chair for the Board of Pension Trustees