

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF SEPTEMBER 25, 2015

The meeting of the Board of Pension Trustees was called to order by Suzanne Grant, at 9:01 a.m. in Delaware Conference Room in the Pension Office.

Trustees Present

Suzanne Grant
Nancy Shevock
Tom Shaw
Art Agra
Helen Foster
Ann Visalli

Trustees Absent

Tom Cook

Others Present

Dave Craik, Pension Office
Kathy Kunkle, Pension Office
Terri Timmons, Pension Office
Ann Marie Johnson, Deputy Attorney General's Office
Jennifer Dilworth, Pension Office
Lincoln Nathan, Pension Office
Paul Roth, TBV Advisors LLC
Rob Gooderham, Ashford Consulting Group
Sophia Smith, Ashford Consulting Group
Joe Malloy, PAC
Charlotte Lister, PAC

1. **OPENING COMMENTS**

S. Grant welcomed everyone to the meeting.

2. **APPROVAL OF THE MINUTES**

The Trustees reviewed the Public Minutes of the July 31, 2015 meeting.

MOTION made by N. Shevock and seconded by T. Shaw to approve the Public Minutes of the July 31, 2015 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the July 31, 2015 meeting.

MOTION made by A. Agra and seconded by H. Foster to approve the Executive Minutes of the July 31, 2015 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. **PENSION AUDIT REPORT**

A. Agra reported that Mark Finfrock, of DPERS Audit Committee, will be taking over the position of Chair for the Audit Committee. The next meeting is scheduled for October 23rd. A. Agra posed the question of whether Audit Committee members can attend Investment Committee meetings. After a brief discussion the Board agreed that one member of the Audit Committee, because of space issues would be allowed to attend an Investment Committee meeting. The Board agrees that it would be very educational for them to attend.

4. **PENSION ADVISORY COUNCIL REPORT**

No report.

5. **PENSION ADMINISTRATOR REPORT**

Risk Manager's Report

P. Roth reported that the Disaster Recover / Business Continuity (COOP) plan is on track with a test scheduled for early November.

P. Roth stated he was hired in part to confirm the valuations of the assets of external investment managers. As part of this effort, a member of the Investment Committee and P. Roth recently visited two managers to discuss valuations, risk, compliance and operations. P. Roth reported they were satisfied that the managers use appropriate policies and procedures to guide their valuations, removing as much subjectivity from the process as possible. They also both use Valuation Committees, including a number of staff members from different areas within each firm, to oversee and manage the valuation process.

Governance Project

T. Shaw reported that the Governance sub-committee continues to work with AON Hewitt and has received a draft of the first two sections. The Committee met yesterday to review both sections, which contain 57 pages of material. Changes and updates will be made to the draft and returned to AON next week before the scheduled conference call. A final summarization and recommendations will be brought to the Board for consideration.

S. Grant took a moment to thank the volunteers who are on the Governance Committee. She thanked them for all of their time and effort that they have put into this project.

FY15 Audit

K. Kunkle reported that KPMG has finished much of their site work and will now be in touch via email and phone. The production schedule is on task, and the financial section has been sent to the printer and will be sent to us next week. Clean copies will be available to the Audit Committee during their next meeting in October.

Other

D. Craik reported that the office is in the beginning phase to set up state email addresses for all Board and Committee members.

The November Board meeting slated for November 20th may be moved to the afternoon of the 17th in Wilmington.

6. **DEPUTY ATTORNEY GENERAL REPORT**

No report.

7. **INVESTMENT COMMITTEE REPORT**

<u>Fund</u>	<u>July-15</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	0.2%	0.2%	(0.2)%
S & P 500 Index	2.1%	2.1%	(0.6)%
60/35/5*	1.5%	1.5%	0.7%
Delaware	0.8%	0.8%	(1.7)%
Benchmark**			

*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

<u>Fund</u>	<u>Aug-15</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	-2.4%	-2.2%	0.4%
S & P 500 Index	-6.0%	-4.1%	0.5%
60/35/5*	-0.1%	-2.2%	0.8%
Delaware	-3.9%	-3.2%	-1.9%
Benchmark**			

*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 July totaled \$9,293 million. The Fund's July return of 0.2% underperformed the Delaware Benchmark return of 0.8%. At the end of August, Fund assets totaled \$9,036 million. The Fund's August return of -2.4% outperformed the Delaware Benchmark return of -3.9%. For the fiscal year to date, the total Fund was down 2.2%, versus the Delaware Benchmark return of -3.2%

Developed market equities advanced in July, while emerging markets and commodities moved lower. Worries over the debt crisis in Greece diminished as the country reached a deal with creditors. However, concern grew over the strength of China's economy, leading to a sharp sell-off in Chinese equities and other emerging markets. Despite international concerns, U.S. equities moved higher. The Russell 3000 index moved higher by 1.7%. International developed equity markets as measured by the MSCI EAFE returned 2.1% while the MSCI All-Country World ex-U.S. stock index (which includes emerging markets) was down 0.3%. With global growth concerns and uncertainty about the future path of interest rates in the U.S., "safe-haven" fixed income assets performed relatively well. The Barclays Universal was up 0.6% during the month.

Global equities experienced sharp declines in August, while high quality bonds benefited from a move to “safe-haven” assets during the volatile period. The main culprit for the sell-off in riskier assets was concern that the Chinese economy may be weaker than previously expected. Amid this backdrop, U.S. equities as measured by the broad Russell 3000 index were lower by 6%. International equities fared worse with the MSCI EAFE declining 7.4% while the MSCI All-Country World ex-U.S. stock index (which includes emerging markets) was down 7.6%. While the global volatility helped to boost demand for high quality fixed income assets, stronger domestic economic reports boosted the cash for higher rates. The Barclays Universal Bond index was down 0.3%.

The Investment Committee has met twice since the Board’s last meeting.

At its meeting on August 18th, the Investment Committee met with Thornburg Investment Management, manager of a multi-sector bond portfolio, who was hired in November 2013. Additionally, the Investment Committee voted to recommend to the Board by poll vote to approve a \$100 million allocation to the Vanguard Short Term Federal Fund, to be funded from the case account. They all voted to approve, under its power to amend manager agreements, an amendment to the operating agreement of Media Technology Venture III Pledge Fund.

At the Investment Committees meeting on September 16th, Northern Trust, DPERS’ custodian bank presented an overview of the services they provide to DPERS. The Investment Committee also voted to recommend that the Board, by poll vote, to approve an allocation of up to \$50 million to the Viking Global Opportunities Fund, to be funded from the cash account.

The Investment Committee also discussed the discount rate for the OPEB Trust and voted to recommend that the Board maintain a 4.25% discount rate.

The next meeting of the Investment Committee meeting will be held on September 29th.

MOTION made by H. Foster and seconded by A. Agra 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 N. Shevock and seconded by T. Shaw to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

MOTION made by A. Agra and seconded by H. Foster to ratify the poll vote to approve a \$100 million allocation to the Vanguard Short Term Federal Fund, to be funded from the cash account.

MOTION ADOPTED UNANIMOUSLY

MOTION made by T. Shaw and seconded by H. Foster to ratify the poll vote to approve an allocation of up to \$50 million to the Viking Global Opportunities Fund, to be funded from the cash account.

MOTION ADOPTED UNANIMOUSLY

MOTION made by N. Shevock and seconded by T. Shaw to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

The Board reviewed the Investment Committee's recommendation for the OPEB discount rate and agreed that the discount rate would remain at 4.25%.

8. **PENDING ITEMS**

There were no pending items.

9. **NEW BUSINESS**

There was no new business.

10. **ADJOURNMENT**

At 11:10 a.m., there being no further business, MOTION was made by T. Shaw and seconded by N. Shevock to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Suzanne Grant
Chair for the Board of Pension Trustees