

**STATE OF DELAWARE**  
STATE BOARD OF PENSION TRUSTEES  
AND  
OFFICE OF PENSIONS  
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**BOARD OF PENSION TRUSTEES**  
**MEETING MINUTES OF OCTOBER 28, 2016**

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

Trustees Present

Tom Cook  
Nancy Shevock  
Art Agra  
Brian Maxwell  
Tom Shaw  
Helen Foster

Trustees Absent

Suzanne Grant

Others Present

Dave Craik, Pension Office  
Terri Timmons, Pension Office  
Khairat Mankanjuola, Pension Office  
Josh Hitchens, Pension Office  
Mary Wood, Pension Office  
Paul Roth, TBV Advisors  
Gary Musto, Ashford Consulting Group  
Rob Gooderham, Ashford Consulting Group  
Melissa Marlin, OMB Budget Analyst  
Regina Mitchell, OMB Budget Analyst  
Art Jenkins, Controller Generals Office  
Keith Hammond, CPA, BDO Audit Director  
Brock Thomas, CPA, BDO Audit Manager  
James Doyle, CPA, Audit Engagement Partner

1. **OPENING COMMENTS**

Tom Shaw welcomed everyone to today's meeting. Introductions of all attendees were made.

2. **APPROVAL OF THE MINUTES**

The Trustees reviewed the Public Minutes of the September 30, 2016 meeting.

MOTION made by H. Foster and seconded by B. Maxwell to approve the Public Minutes of the September 30, 2016 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the September 30, 2016 meeting.

MOTION made by B. Maxwell and seconded by A. Agra to approve the Executive Minutes of the September 30, 2016 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. **PENSION AUDIT REPORT**

Keith Hammond, BDO Audit Director reported that they are near completion of the audit and anticipate a clean report. He stated that the scope of the engagement has not changed from the beginning of the audit. He reported that Management's cooperation was excellent. The GASB 68 schedules will be worked on now and be completed by spring time.

Upon implementing GASB 72, Management changed the process by which they categorize and disclose fair value of investments; however the methods of valuing investments themselves remain unchanged.

As a result of the experience study performed by their outside actuarial firm, Management made the following changes to the significant assumptions used to develop the actuarial related accounting estimates in 2016:

- Mortality rate tables were updated to the current RP-2014 tables
- Inflation was adjusted from 3% to 2.5%
- Termination and Disability rates were updated as well

There were no corrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we presented to management. There were two uncorrected misstatements and we concur with Management's assessment that the effects of not recording such adjustments are, both individually and in the aggregate, immaterial to the financial statements taken

as a whole, considering both qualitative and quantitative factors. None of the proposed adjustments could potentially cause future-period financial statement to be materially misstated.

Mr. Hammond stated that BDO's consideration of internal control was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We are required to communicate, in writing, to those charged with governance all material weaknesses, and significant deficiencies that have been identified in the System's internal controls over financial reporting. In conjunction with our audit of the financial statements, we noted no material weaknesses.

B. Thomas spoke about the other required communications and discussion points as they pertain to the System.

Over the next few weeks the draft CAFR will be reviewed, with some minor changes to be made. Draft audit opinion will be sent to the State Auditor's office. At the end of November DPERS should be finalizing the CAFR. At that point BDO will release their letter.

At this point in the meeting BDO, D. Craik, M. Wood, J. Hitchens and K. Makanjoula left the meeting. The Board discussed that there were some hic-ups in the beginning of the year but had nothing to do with Management but because the audit was started late. D. Craik and his team were very open with BDO and the audit went as smoothly as they had hoped. Both J. Hitchens and K. Makanjuola are good to the team, one on the investments side and the other on the accounting side. The Board agreed that it was good news that the Deputy Pension Administrator position has been filled. At this point there is nothing that will hold up the States CAFR.

At this point in the meeting K. Hammond, B. Thomas, J. Doyle, M. Marlin, and R. Mitchell left the meeting. D. Craik, J. Hitchens, and K. Makanjuola rejoined the meeting.

#### **4. PENSION ADVISORY COUNCIL REPORT**

J. Malloy stated that elections for new officers will take place at the November meeting. Since there was no Post Retirement Increase (PRI) this year the Pension Advisory Council will push for this to happen next year.

#### **5. PENSION ADMINISTRATOR REPORT**

Risk Management – no report

Current Positions – D. Craik reported that the Office of Pensions has filled several positions but have had one individual leave and one individual promoted internally. Requests to fill other positions have been made.

Reporting Schedule - no change

Payroll Section - Amy Cole is the manager for the Payroll Section of the office. This section is responsible for the monthly check write, and they also handle refunds and burial benefits. Over one million dollars was paid out for refunds and burial benefits in October. The section activities includes 168 deaths per month, 32 ACH returns, 300 tax withholding changes, 326 direct deposit changes, 209 address changes, and 120 refunds per month.

Meeting Dates – in your binders you will find the 2017 meeting dates, and appeal hearing dates. D. Craik stated that Board members should sign up for three appeal hearing dates and return to T. Timmons.

Quarterly Statistics – there were no significant changes. The Disability report reflects 5 new cases.

D. Craik stated that there will be a dinner held on November 15<sup>th</sup> for the Investment Committee members along with the Board members. This will be an educational meeting. The November Board meeting may be moved to the 16<sup>th</sup>. More information will be disseminated at a later date.

## **6. DEPUTY ATTORNEY GENERAL REPORT**

No report

## **7. ACTUARIAL REPORTS**

Fiona Liston, Elizabeth Wiley, and Margaret Templin, consultants with Cheiron, Inc. presented the Trustees DPERS' Fiscal 2016 Actuarial Valuation for the State Employees' Pension Plan. The following topics were discussed:

- Historical Review
  - Growth in Participation
  - Growth in Assets
  - Assets and Liabilities; and
  - Contributions
- Principal 6/30/16 Pension Valuation Results
  - Key Statistics for the State Employees' Pension Plan
    - Number of active employees increased by 0.5%
    - Average salary decreased by 1.0%
    - Number of retirees increased by 4.3%
    - Average benefit increased by 1.8%
  - Principal 6/30/16 Valuation Results
    - Actuarial Accrued Liability is \$9,505 million
    - Actuarial Value of assets is \$8,461 million
    - Unfunded Actuarial Liability is \$1,044 million
    - Funded ratio of 89% on an actuarial basis

- Principal 6/30/16 OPEB Valuation Results
  - Actuarial Accrued Liability is \$8,039 million
  - Actuarial Value of assets is \$310 million
  - Unfunded Actuarial Liability is \$7,729 million
  - Discount rate of 3.75% down from 4.25%

The following employer contribution rates for FY17 were presented to the Board by Cheiron:

State Employees'	10.42%
State Judicial	19.8%
State Police	21.17%
County/Municipal General	7.09%
County/Municipal P & F	11.42%
Diamond Port	8.38%
Volunteer Fire	\$431.53 per member

T. Shaw asked if the Trustees' or the public had any questions about the Actuarial Valuation.

MOTION made by A. Agra and seconded by N. Shevock to adopt the FY17 employer contribution rates presented to the Board by Cheiron, Inc.

MOTION ADOPTED UNANIMOUSLY

At this point T. Cook left the meeting.

## **8. INVESTMENT COMMITTEE REPORT**

Since the Board's last meeting, the Investment Committee has met twice, on October 11<sup>th</sup> and 25<sup>th</sup>.

Global equities managed modest gains in a month where headlines were largely dominated by concerns over the direction of global monetary policies. After hinting at a rate rise early in the month, the Federal Reserve opted not to make a move at its September meeting. Abroad, the European Central Bank disappointed some investors by not announcing additional stimulus, the Bank of England left its key lending rate at an all-time low and the Bank of Japan tweaked its approach to monetary policy. US equities as measured by the broad Russell 3000 index finished the month higher by 0.2%, while the MSCI EAFE index was up 1.2% and the MSCI All-Country World ex-U.S. stock index (which includes emerging markets) gained 1.2%. Within fixed income, shorter-term bond yields moved slightly lower (prices higher) while longer-term yields moved modestly higher (prices lower). For the month, the Barclays Universal bond index had a flat 0.0% return, while the Barclays TIPS index gained 0.5% and the riskier Barclays High Yield index gained 0.7%.

Assets in the fund at the end of September are estimated to be \$9,085.2 million, representing a net increase of \$20 million since August 31<sup>st</sup>. Estimated returns through September 30, 2016 are as follows:

<b><u>Fund</u></b>	<b><u>Sep-16</u></b>	<b><u>Fiscal Year To Date</u></b>	<b><u>12-Month</u></b>
<b>Total Fund</b>	0.4%	3.4%	6.8%
<b>S &amp; P 500 Index</b>	0.0%	3.9%	15.4%
<b>60/35/5*</b>	-0.1%	2.5%	11.4%
<b>Delaware</b>	0.3%	3.4%	10.2%
<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

At its meeting on October 11<sup>th</sup> the Investment Committee:

- Received and discussed a presentation from Ashford Consulting Group on the high yield bond market and the Fund's positioning in that asset class
- Received and discussed a presentation from existing manager Angelo Gordon on their multi-strategy investment fund
- Under its authority to amend documents relating to partnerships, the Investment Committee approved two amendments, one fully, and one subject to the review of counsel, to the Limited Partnership Agreement for:
  - Marcus Capital Partners Fund II, L.P.

At its meeting on October 25<sup>th</sup> the Investment Committee:

- Received an update from Ashford Consulting Group on a recent monitoring meeting with Northern Trust
- Received and discussed the semi-annual report on the Fund's Non-Traditional Investments
- Received and discussed a presentation from existing manager Lightstone Ventures on their venture capital strategy
- Reviewed and discussed a recommendation from Ashford Consulting Group to commit up to \$25 million to Accel India V, L.P.
- Under its authority to amend manager agreements the Investment Committee approved an amendment to Schedule C of the Thornburg agreement
- Under its authority to amend documents relation to partnerships, the Investment Committee approved an amendment to the Limited Partnership Agreement for:
  - Liquid Realty Partners IV, L.P.

The next meeting of the Investment Committee will be Tuesday, November 15h.

MOTION made by H. Foster and seconded by N. Shevock 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 B. Maxwell to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

MOTION made by N. Shevock and seconded by H. Foster to approve a commitment of up to \$25 million in Accel India V, L.P., subject to counsel's review of documentation.

MOTION ADOPTED UNANIMOUSLY

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

MOTION ADOPTED UNANIMOUSLY

MOTION made by N. Shevock and seconded by A. Agra to extend the Ashford Consulting Group contract for 1 (one) year.

MOTION ADOPTED UNANIMOUSLY

9. **PENDING ITEMS**

There were no pending items.

10. **NEW BUSINESS**

There was no new business.

11. **ADJOURNMENT**

At 11:47 a.m., there being no further business, MOTION was made by N. Shevock and seconded by H. Foster to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik  
Pension Administrator

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Tom Shaw, Acting Chair  
Board of Pension Trustees