

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF SEPTEMBER 30, 2016

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

Suzanne Grant
Nancy Shevock
Art Agra
Brian Maxwell
Tom Shaw
Helen Foster

Trustees Absent

Tom Cook

Others Present

Dave Craik, Pension Office
Terri Timmons, Pension Office
Khariat Mankanjuola, Pension Office
Josh Hitchens, Pension Office
Jeff Johnson, Pension Office
John McCartney, Pension Office
Paul Roth, TBV Advisors
Ann Marie Johnson, Deputy Attorney General
Gary Musto, Ashford Consulting Group
Rob Gooderham, Ashford Consulting Group
Charlotte Lister, Pension Advisory Council
Elaine Starkey, Chief Security Officer, DTI
Earle Dempsey, Customer Engagement Manager, DTI
Tom Banez, DelDot

1. **OPENING COMMENTS**

S. Grant welcomed everyone.

2. **APPROVAL OF THE MINUTES**

The Trustees reviewed the Public Minutes of the July 29, 2016 meeting.

MOTION made by N. Shevock and seconded by H. Foster to approve the Public Minutes of the July 29, 2016 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

MOTION made by T. Shaw 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.

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 matters.

MOTION made by A. Agra and seconded by T. Shaw to exit Executive Session.

At this point in the meeting Elaine Starkey, Earle Dempsey, and John McCartney left the meeting. Tom Banez joined the meeting at this time.

The Trustees reviewed the Executive Minutes of the July 29, 2016 meeting.

MOTION made by N. Shevock and seconded by H. Foster to approve the Executive Minutes of the July 29, 2016 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. PENSION AUDIT REPORT

D. Craik reported that the Auditors have been here for a little over two months. The audit is progressing in a timely manner. The next Audit Committee meeting will be held in October.

4. PENSION ADVISORY COUNCIL REPORT

Chair, Joe Mallow contacted D. Craik this past Saturday regarding the two firefighters who were killed in the line of duty. D. Craik reported that the Pension Office will work with the City of Wilmington regarding the benefits for these firemen.

5. PENSION ADMINISTRATOR REPORT

Positons

D. Craik reported that the vacancy of Deputy Pension Administrator has been filled. Joanna Adams was a former Pension Office employee where she worked in several different sections and positions has been hired to fill the Deputy's position. Due to the constraints with her present contract she may not be able to begin with the Pension Office until January 1, 2017.

The office recently conducted second interviews for the five vacancies we have for the H.R. Specialist I's. We hope to fill these vacancies within the next week.

We are also conducting interviews for the vacant State Accountant II position which was vacated last month.

We will also be conducting interviews for the vacant H.R. Specialist III position next week.

Reporting Schedule

- Proxy Voting Policy was reviewed and approved
- Budget was submitted for FY18
- Board Performance Self-Evaluation is today
- Board Education policy, and Board Operating Policy, including Committee Charters is to come.

Organizational Chart

D. Craik reminded the Board that each month he will review a different section of the office. The Human Resources & Base Benefits Section's main task is to ensure accurate timely handling of health benefit enrollment elections for retirees, their eligible spouses and dependents as well as the Long-Term Disability recipients. Customer service is provided to walk-in customers, through e-mail and by phone. As a note, 7,000 personal checks come into this section for deductions. These deductions are more than their pension benefit received therefore they must submit the difference.

6. DEPUTY ATTORNEY GENERAL REPORT

Return to Work

Several new issues have arisen regarding the return to work for the State agencies by retirees. Specifically, there has been confusion regarding whether retirees hired by third party contractors to do work for the State are in compliance with IRS rules and the relevant plan. The State Employees' Pension Plan (SEPP) specifically states "...that an individual shall not receive a pension benefit for any month they are employed by the State of Delaware, with certain exemptions. See 29 Del. C § 5502.

IRS rules require that benefits from a plan may be paid after retirement. To this end, the facts in each case must support that an actual retirement has occurred. Facts which support an actual intention by an employee to retire include: (1) no pre-existing plan between an employer or employee to return to work after retirement, and (2) an actual break in service for any employee under the age of 65.

When the IRS determines that a particular individual (under the age of 65) has not actually retired, but is receiving pension payments, it may assess a ten percent additional tax for what it considers to be an early distribution pension payment, ("in-service distribution").

Work for the State through a third party contractor should comply with IRS law and the SEPP, assuming certain criteria are met. Under Delaware law, the inquiry would be whether the State or the third party entity has the "right to control" the employee, and will include such factors as the authority to hire, terminate, pay and direct the activities of the employee. The IRS will evaluate these relationships using the IRS 20 Factor test, which is an expanded version of the common law "right to control" standard. If the facts support an actual employment by the State of a retiree (e.g. the State exercises control over the work of the employee, such as the right to select particular employees, or direct their work), any payment to the retiree from the Pension Fund could be deemed an in-service distribution, and the Pension system could be at risk—the members for the additional ten percent tax penalty, and the system for making in-service distributions.

The IRS oversees the administration that the plans are being run correctly, and Delaware law prohibits pensioners from receiving a pension payment and a paycheck from the State at the same time. It is the Board's fiduciary duty to consider the interest of the Fund, and be consistent with each plan and the IRS regulations.

At this point in the meeting Tom Banez exited the meeting.

MOTION made by N. Shevock and seconded by Helen 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.

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 A. Agra and seconded by T. Shaw to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

MOTION made by A. Agra and seconded by T. Shaw to remand the Appeal case of Albert Strauss back to the Office of Pensions in lieu of the decisions made in executive session.

MOTION ADOPTED UNANIMOUSLY

8. INVESTMENT COMMITTEE REPORT

<u>Fund</u>	<u>Aug-16</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	1.1 %	3.0%	6.9%
S & P 500 Index	0.1%	3.8%	12.6%
60/35/5*	0.0%	2.5%	10.1%
Delaware	0.3%	3.1%	7.7%
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

Since the Board's last meeting, the Investment Committee has met twice, on August 16th and September 27th.

Following strong gains in July, August saw global equity markets posted modest returns in a relatively calm month. Domestic equity performance was helped by post-Brexit vote views that rates would stay lower longer, positive economic reports, including strength in employment and housing data. Continued strong employment data in August served to raise expectations of future interest rate hikes and limited equity market gains for the period. For July and August, U.S. equities as measured by the broad Russell 3000 index gained 4.2%, while the MSCI EAFE index was up 5.1% and the MSCI All-Country World ex-U.S. stock index (which includes emerging markets) gained 5.6%. Within fixed income, credit outperformed government bonds. For the two months, the Barclays Universal bond index was up 0.9%, the Barclays TIPS index rose 0.4%, while the riskier JP Morgan Global High Yield index gained 4.8%.

At its meeting on August 16th the Investment Committee:

- Heard and discussed a presentation from existing manager Sanderson on their International value equity strategy
- Reviewed detailed quarterly reporting on the Fund
- Received a draft copy of the CAFR Investment Section
- Under its authority to execute documents relating to partnerships the Investment Committee approved amendments to the Limited Partnership Agreements for:
 - Media Technology Ventures III Pledge Fund
- Convened an OPEB Trust meeting to consider a recommendation for the assumed return for the OPEB Trust's liability

At its meeting on September 30th the Investment Committee:

- Heard and discussed a presentation from Thornburg Investment Management on their Multisector Opportunistic fixed income strategy
- Received Ashford Consulting Group's annual report on equity commissions, and a summary of two external studies, one on overall equity transaction costs, the other on foreign exchange trading costs
- Performed its annual review of the investment managers' proxy voting policies and evidence that the proxies had been voted
- Reviewed data from an external study of comparative private equity returns relative to other State Pension Plans
- Under its authority to execute documents relating to partnerships the Investment Committee approved amendments to the limited partnership agreement for Onset IV, L.P.

The next meeting of the Investment Committee will be Tuesday, October 11, 2016.

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

MOTION ADOPTED UNANIMOUSLY

MOTION made by A. Agra and seconded by T. Shaw to approve the recommendation that the Board approve the shift of all separate account cash balances, including the main cash account, from the Northern Trust GSTIF money market fund to the Northern Trust STIF money market fund.

MOTION ADOPTED UNANIMOUSLY

MOTION made by B. Maxwell and seconded by N. Shevock to approve the recommendation that the Board adopt a blended discount rate of 3.75% for the OPEB Trust.

MOTION ADOPTED UNANIMOUSLY

MOTION made by N. Shevock and seconded by T. Shaw to authorize shifting the assets in the Vanguard Total Stock Market and Vanguard total Bond Market index funds to the Institutional Plus class of each fund in order to reduce fees.

MOTION ADOPTED UNANIMOUSLY

At this point R. Gooderham and G. Musto exited the meeting.

MOTION made by B. Maxwell 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.

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. Shaw and seconded by B. Maxwell to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

MOTION made by T. Shaw and seconded by A. Agra to remand the A. Strauss appeal to the Pension Office to review in light of the approved Return to Work protocol for 3rd party contractors.

MOTION ADOPTED UNANIMOUSLY

9. **PENDING ITEMS**

There were no pending items.

10. **NEW BUSINESS**

There was no new business.

11. **ADJOURNMENT**

At 12:07 a.m., there being no further business, MOTION was made by N. Shevock and seconded by T. Shaw to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator