

**STATE OF DELAWARE**  
**STATE BOARD OF PENSION TRUSTEES**  
**AND**  
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**BOARD OF PENSION TRUSTEES**  
**MEETING MINUTES OF OCTOBER 27, 2006**

The meeting of the Board of Pension Trustees was called to order by P. Reese at 9:03 a.m. in the Delaware Conference Room of the Office of Pensions in Dover.

Trustees Present

Philip S. Reese  
Robert Allen  
Jan King  
Nancy J. Shevock  
Richard Cordrey  
Jennifer Davis  
Helen Foster

Trustees Absent

Others Present

David Craik, Pension Office  
Kim Vincent, Pension Office  
Kathy Kunkle, Pension Office  
Terri Timmons, Pension Office  
Marsha Kramarck, DAG  
Cindy Collins, DAG  
Karen Field Rogers, OMB  
Jim Testerman, PAC  
Joel Poorman, Audit Committee  
Faith Rentz, OMB  
Fiona Liston, Cheiron  
Margaret Tempkin, Cheiron  
Tom Cook, Finance  
Charlotte Lister, PAC

## 1. OPENING COMMENTS

The meeting of the Board of Pensions Trustees was called to order by P. Reese. Mr. Reese welcomed and recognized Tom Cook, Karen Field Rogers and Faith Rentz. Mr. Reese welcomed and introduced Fiona Liston and Margaret Tempkin from Cheiron.

## 2. APPROVAL OF THE MINUTES

The Trustees reviewed the minutes of the September 29, 2006 meeting.

MOTION made by R. Cordrey and seconded by N. Shevock to approve the minutes of the Board of Pension Trustees' September 29, 2006 meeting.

MOTION ADOPTED UNANIMOUSLY

## 3. AUDIT COMMITTEE REPORT

### FY06 Financial Audit Follow-up

Joel Poorman, Chair of Audit Committee, spoke in reference to the Management Letter sent to the Audit Committee by KMPG. J. Poorman asked that everyone pay special attention to the comments and recommendations.

J. Poorman spoke of the Alternative Investment comments and recommendations and suggested that the Board pay greater attention to these. He stated there may need to be a Board policy decision for closer control on Alternative Investing, whether it is with Ashford Consulting Group or in-house. A discussion was held and P. Reese suggested a 90 day reporting cycle.

P. Reese asked that we prepare a Matrix of the Audit Comments for the next meeting.

### FY06 Actuarial Results

Fiona Liston and Margaret Tempkin presented the Board with the 2006 Actuarial Valuation results. The topics that were discussed are as follows:

- Replication of 2005 Results
- Principal 7/1/2006 Valuation Results
- Disability Study Results
- Recommended Amortization Changes

State law requires that the plan changes be amortized over a period of 30 years. A discussion was held on whether the amortization period should be changed to 15 or 20 years. This change would require that legislation be changed.

The following employer contribution rates for FY08 were presented:

State Employees'	7.07%
State Judiciary	27.99%
New State Police	14.37%
County/Municipal Police	13.60%
County/Municipal Employees	6.20%
Volunteer Firemen	\$296.22
Diamond State Port	6.95%

MOTION made by P. Reese and seconded by R. Allen to adopt the above rates.

MOTION ADOPTED UNANIMOUSLY

#### 4. INVESTMENT COMMITTEE REPORT

<u>Fund</u>	<u>Previous Month</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
<b>Total Fund</b>	<b>1.2%</b>	<b>2.7%</b>	<b>10.4%</b>
<b>S &amp; P 500 Index</b>	<b>2.6%</b>	<b>5.7%</b>	<b>10.4%</b>
<b>60/35/5*</b>	<b>1.9%</b>	<b>4.8%</b>	<b>8.4%</b>
<b>Delaware Benchmark**</b>	<b>1.2%</b>	<b>4.2%</b>	<b>10.3%</b>

\*Benchmark mix of 60% S&P500 Index, 35% Salomon Long Government and Corporate Bond Index, 5% T-bills.

\*\*Benchmark mix of 37% Russell 3000, 1% NAREIT, 20% MSCIA, 38.5% Lehman Bond universal, 1.5% LBTIPS, 2% T-bills.

Total assets in the Fund at the end of September were \$6.7 billion. The Fund gained 1.2% for the month which was equal to the Delaware Benchmark of a positive 1.2% and was behind the 60/30/5 benchmark which was 1.9%. The underperformance to 60/35/5 benchmark is mainly due to the large allocation to natural resources.

The month of September was a strong market with positive returns in most asset classes. The Russell 3000 stocks gained 2.2% with large Growth Stocks leading at a positive 2.5% gain for the month while the large Value Index returned a positive 2.0%. Small Cap Stocks also had a positive return of .9%. The International Markets were also positive with unhedged EAFE returning .2%. The Bond Market with Lehman LT Government/Corp Index experienced gains of 1.7% with the

remainder of the fixed income indices also yielding positive results. Natural Resources Index experienced large losses returning a negative 5.2% for the month.

The fiscal year 2007 for 3 months return for the Fund will be reported at a 2.7% gain, compared negatively to a 4.2% benchmark. This negative variance to benchmark is mainly due to the high NRIS tactical allocation. Calendar returns for 2006 are a positive 7.9% compared to a 6.5% benchmark.

The Investment Committee recommends the partial liquidation of \$50 million from the T. Rowe Price natural resources account and to use the proceeds to fund short-term cash flow needs. The account will still be maintained at an adequate level to provide asset class exposure and inflation protection.

MOTION was made by J. King and seconded by H. Foster to liquidate \$50 million from the T. Rowe Price NRIS natural resources account to fund cash-flow for the quarter.

MOTION ADOPTED UNANIMOUSLY

The next Investment Committee meeting will be held on October 31, 2006 and will include a presentation from Mercator, our International Equity Manager.

P. Reese requested that K. Kunkle give a brief synopsis of the custodial bank transition. K. Kunkle stated that the transition is going smoothly. In addition to the weekly conference calls there is clean up to be completed on some accounting issues and there is a need to fine-tune our computer system for the new reports.

## **5. PENSION ADVISORY COUNCIL**

J. Testerman stated that the DSEA pre-retirement conference is scheduled for November 4<sup>th</sup>. He thanked the staff for their help in preparing for this conference.

## **6. PENSION ADMINISTRATOR'S REPORT**

### 2007 Appeal Hearing Dates

D. Craik stated that the 2007 Pension Appeal Hearings sign-up sheets were in each Trustee's packets and asked that each member sign up for three or four dates.

### 2007 Board/Committee Dates

D. Craik stated that the 2007 Board and Committee dates were also included in their packets.

### Disability Pension Report

D. Craik reported that there was a low number of three new cases for the month of October. Since the number of new cases is decreasing D. Craik stated that he will be adding the disability figures into his quarterly report.

2006 COLA Fund – City of Wilmington

D. Craik discussed with the Trustees' the funding for the City of Wilmington COLA Fund.

MOTION made by J. Davis and seconded by R. Allen to approve the funding for the COLA Fund as of July 1, 2006 with a 14 year amortization schedule.

MOTION ADOPTED UNANIMOUSLY

Workshops

D. Craik stated that there are 28 upcoming Disability Insurance Program workshops for the roughly 3,600 state employees who did not elect into the Disability Insurance Program last year.

We also have 5 upcoming pre-retirement conferences at various places throughout the state.

**7. DEPUTY ATTORNEY GENERAL REPORT**

MOTION was made by R. Allen and seconded by P. Reese that the Board goes into Executive Session to consider pending personnel and confidential legal matters.

MOTION ADOPTED UNANIMOUSLY

The Board then moved into Executive Session to discuss pending personnel and confidential legal matters.

MOTION was made by J. King and seconded by J. Davis to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

Following a discussion of the merits the following motion was made:

MOTION made by J. King and seconded by N. Shevock to approve an additional \$50,000 for consulting fees to the Jones Day Law Firm.

MOTION ADOPTED UNANIMOUSLY

**8. PENDING ITEMS**

D. Craik stated that there were no updates on the Pending Items List.

**9. NEW BUSINESS**

There was no new business to discuss.

**10. ADJOURNMENT**

The next Pension Board meeting will be held on November 17, 2006, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 11:40 p.m., there being no further business, MOTION was made by R. Allen and seconded by R. Cordrey to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik  
Pension Administrator

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Philip S. Reese  
Board of Pension Trustees Chairman