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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF FEBRUARY 27, 2009

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

Trustees Present	Trustees Absent
Philip Reese	Gary Pfeiffer
Nancy Shevock	Helen Foster
Robert Allen	
Jan King	
Ann Visalli	

Others Present

David Craik, Pension Office
Kim Vincent, Pension Office
Terri Timmons, Pension Office
Kathy Kunkle, Pension Office
Wade Sallings, Pension Office
Jeff Hoover, Pension Office
Cindy Collins, DAG
James Testerman, PAC
Charlotte Lister, PAC
Rob Gooderham, Ashford Consulting Group
Garry Musto, Ashford Consulting Group
Paul Kasriel, Director of Economic Research, Northern Trust
Pam Newton, Vice President, Northern Trust
Randall Chase, Associated Press Reporter

1. OPENING COMMENTS

The meeting of the Board of Pensions Trustees was called to order by P. Reese. Mr. Reese welcomed Paul Kasriel and Pam Newton from Northern Trust.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the Public Minutes of the January 30, 2009 meeting.

MOTION made by R. Allen and seconded by N. Shevock to approve the Public Minutes of the Board of Pension Trustees' January 30, 2009 meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the January 30, 2009 meeting.

MOTION made by R. Allen and seconded by J. King to approve the Executive Minutes of the Board of Pension Trustees' January 30, 2009 meeting.

MOTION ADOPTED UNANIMOUSLY

3. INVESTMENT COMMITTEE REPORT

Economic Outlook

P. Reese welcomed Paul Kasriel, Director of Economic Research, Northern Trust and Pam Newton, Vice President, Northern Trust.

P. Kasriel made a presentation to the Board and said he intended to present a history lesson on the Great Depression. Kasriel stated that, contrary to what we might believe, the Great Depression of the 1930's was not a decade-long era of economic decline. Rather, the Great Depression was made up of two distinct economic slumps – August 1929 through March 1933 and May 1937 through June 1938. The first recessionary period of the Great Depression was not only longer in duration, but more severe in magnitude. However a quite robust economic recover/expansion occurred between the two recessions. In the four years ended 1937, real GDP grew at a compound annual rate of 9.4%. Lest you think that all of the increase in real GDP growth in the four years ended 1937 was accounted for by federal government spending. In the four years ended 1937, real GDP excluding real federal government expenditures grew at a compound annual rate of growth of 9.0%. In the four years ended 1937, industrial production grew at a compound annual rate of 12.9%. Although this vigorous real economic recovery did not bring the unemployment rate back down to anywhere near where it was before the 1929 recession commenced, the unemployment rate did fall from a cycle high of 25.6% in May 1933 to a cycle low of 11.0% in July 1937.

After the stock market crashed in October 1929, the New York Fed cut its discount rate by 100 basis points to a level of 5% on November 1. They continued reducing its discount rate through May 8, 1931, when the level came to rest at 1-1/2%. Then in two 100 basis point stems the New York Fed increased its discount rate.

In 1932, marginal income tax rates on personal income were raised. In 1931, the highest marginal tax rate was 25% on incomes in excess of $100,000. What's more, the top marginal tax rate when to 63% on incomes in excess of $1,000,000.

Starting in 1930 and continuing through 1933, almost 9,100 commercial banks failed with deposits of $6.8 billion. The deposits of these failed banks represented 13.3% of total commercial bank deposits as of 1929. Despite protective tariffs, Fed discount rate increases, personal income tax rate increases and massive bank failures, the first recession of the Great Depression ended in March 1933, the same month in which Franklin D. Roosevelt was inaugurated as president.

P. Kasriel asked what this review of historical facts has to do with the current economic environment. For starters, the policy hurdles that were put in front of an economic recovery in the early 1930's are absent today. The "Buy American" proposal related to the fiscal stimulus program seems to have gone by the wayside. The fed has no intention of raising interest rates until it is sure the economy has begun to recover. Personal income taxes are not likely to be raised until 2011. Today, we have federal deposit insurance, so, for the most part, bank and thrift depositors will not incur losses if institutions fail. In addition we have income maintenance programs such as Social Security, Medicare, Medicaid, food stamps and unemployment insurance. So, the hurdles that today's economy has to jump over to enter a recovery would appear to be much lower than the hurdles that were erected between 1930 and 1932.

P. Kasriel stated it is not his role to endorse government policies. It is his role to forecast the impact of government policies on the economy. He believes that large increases in federal government spending that are monetized by the Fed and the banking system will result in a recovery in real economic activity. The facts of the 1930's appear to be pretty clear – monetized increased federal government spending does result in increased real economic activity in the short run.

The economic data are likely to be abysmal through the first half of this year. The popular media will reinforce the gloom of the data. The same pundits who did not see this downturn coming will not see the recovery coming either. P. Kasriel's advice is to keep your eye on the index of Leading Economic Indicators. If history is any guide, the LEI will signal a recovery well ahead of the pundits.

A brief discussion was held and questions asked.

MOTION was made by J. King and seconded by N. Shevock to enter into Executive Session to consider sensitive commercial information, proprietary business information, trade secrets and confidential financial information.

MOTION ADOPTED UNANIMOUSLY

The Board then moved into Executive Session to discuss sensitive commercial information, proprietary business information, trade secrets and confidential financial information.

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

Investment Committee Performance Report

Fund	**Previous Month**	**Fiscal Year To Date**	**12-Month**
Total Fund	**-2.1%**	**-22.2%**	**-22.5%**
S & P 500 Index	**-8.4%**	**-34.5%**	**-38.5%**
60/35/5*	**-5.6%**	**-21.1%**	**-24.2%**
Delaware Benchmark**	**-5.2%**	**-23.9%**	**-25.6%**

*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 January totaled $5,412 million. The Fund lost (2.1%) for the month comparing positively to a benchmark of (5.2%) and ahead of the 60/35/5 benchmark which was (5.6%).

The market, during the month of January, continued to fall this month in all the equity markets. U.S. Stocks in the broad Russell 3000 lost (8.4%) including Large U.S. Growth stocks at a negative (4.9%) and the Large Value Index returned a negative (11.5%). Value includes a lot of the financial stocks that have been under enormous pressure. Small Cap Stocks were also off (11.1%) according to the Russell 2000 Index. The International markets also lost with the MSCI ACWI ex U.S. Index returning a negative (8.8%). The credit markets were also under great pressure on the long with the Barclays Lehman Got/Corp Long Index posting a negative (6.1%). The Lipper Natural Resources Index was also off at a negative (3.2%).

The fiscal year, un-audited year-to-date, for 7 months for the Fund will be reported at a (22.2%) loss, slightly better than the return for the benchmark at (25.6%). Calendar returns for 2009 are the same as the monthly returns for January.

The Investment Committee met twice this month and received market updates from Ballie Gifford and Farallon Capital. The Fund at January end has $753 million in cash or 13.9% of the Fund.

During October 2008, the Oaktree convertible accounts, both Domestic and International, took unexpected hits, due to the need for cash from Hedge funds and other short sellers. Returns for November and December of 2008 have rebounded. It is recommended that DPERS liquidate $50 million from each of the Oaktree Domestic and International Funds and reinvest the proceeds in $50 million in the Mellon Capital Aggregate Index, $25 million in the Mellon Large Capital Value Index Fund and $25 million in T. Rowe Price's Natural Resource Fund.

MOTION was made by J. King and seconded by P. Reese to liquidate $50 million from each of the Oaktree Domestic and International Funds and reinvest the proceeds with $50 million in the Mellon Capital Aggregate Index, $25 million in the Mellon Large Capital Value Index Fund and $25 million in T. Rowe Price's Natural Resource Fund.

MOTION ADOPTED UNANIMOUSLY

The next Investment Committee meeting is March 17th.

4. PENSION ADMINISTRATOR'S REPORT

FY08 Audit Comments

D. Craik stated that the FY08 Audit comments matrix will be completed and reported during the March Board meeting.

Employer Contribution Rate

D. Craik stated that he was asked to prepare the breakdown of the projected Employer Contribution Rate for the next few fiscal years, with the assumption that market losses will reach thirty percent for FY 2009, with no returns for the following three years.* This projection assumes a worst case scenario and is only a projection. D. Craik stated that based on the assumptions listed below the rate will double within the next four years. These Employer Contribution Rates could change if investments returns improve. The Employer Contribution Rates for the following years noted below are subject to change and adjustment.

FY09	5.67%
FY010	6.01%
FY11	7.83%
FY12	9.55%
FY13	11.57%
FY14	13.42%
FY15	14.88%
FY16	16.00%
FY17	16.86%
FY18	17.49%
FY19	17.94%
FY20	18.24%
FY21	18.42%
FY22	18.50%

***Estimated Investment Returns for the DPERS' Fund for the projected Employer Contribution Rate**

FY09 -30%
FY10 0%
FY11 0%
FY12 0%
8% per year there after

5. PENSION ADVISORY COUNCIL REPORT

J. Testerman stated that he had received many calls from pensioners who are upset with the recent issues that are on the table at the present time. Pensioners are distressed with the thought of their healthcare and prescription costs being increased along with other proposals from the State Employees Benefit Committee.

6. DEPUTY ATTORNEY GENERAL REPORT

<u>Ice Miller, LLP – Update on Pending Projects</u>

Issue #1 – Volunteer Firefighters Plan

- At this time, Ice Miller is working with DPERS staff on the appropriate tax reporting of payments from the new plan.

Issue #2 – Determination Letter Filings

- Recently spoke with IRS agent who reviewed the VCP plan compliance amendments and have been told that they are approved without modification. Having these legislative and regulatory changes approved in this fashion is a great compliment to DPERS Board and staff who worked very hard to effectuate legislative and regulatory revisions.
- We are also pleased to report that DPERS will be receiving a refund of 50% of its filing fees for the VCP filing because the IRS has chosen to "reward" governmental plans that filed during Cycle C. A total of $30.750, of filing fees will be refunding to the plans.

Issue #3 – Review Status of OPEB Trust IRS Submission

- The Board received a favorable PLR for the OPEB Trust on July 7, 2008. Subsequently, on behalf of the Board, DPERS staff sent a letter to then Senator Biden asking his help in getting the IRS to approve investment of the OPEB Trust in a Group Trust with the pension plans. In recent conferences, we have learned that the IRS is actively considering this issue.

<u>Trustee Education – Fiduciary Responsibilities</u>

C. Collins stated that in the board packets was an overview of the Trustees' fiduciary responsibilities. Below are the areas outlined:

- What is a Fiduciary
- What are the Legal Bases for Fiduciary Responsibilities
- What are the General Fiduciary Duties
- Prohibited Transactions
- Delegation of Fiduciary Responsibilities
- Fiduciary Liability
- Co-Fiduciary Liability

7. AUDIT COMMITTEE

R. Allen reported that two nominees for the Audit Committee met with members of DPERS staff along with himself and J. Poorman this week. It is being recommended that Araya Debessay and Susan Herrmann be appointed to the Audit Committee. A discussion of the merits was held.

MOTION made by R. Allen and seconded by J. King to approve the appointment of Araya Debessay as a member of DPERS Audit Committee.

MOTION ADOPTED UNANIMOUSLY

MOTION made by R. Allen and seconded by N. Shevock to approve the appointment of Susan Herrmann as a member of DPERS Audit Committee.

MOTION ADOPTED UNANIMOUSLY

8. PENDING ITEMS

D. Craik stated that there were no new pending items.

9. NEW BUSINESS

There was no new business to discuss.

10. ADJOURNMENT

The next Pension Board meeting is scheduled to be held on March 27, 2009, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 11:04 p.m., there being no further business, MOTION was made by R. Allen and seconded by N. Shevock to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

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Philip Reese
Chair for the Board of Pension Trustees