STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
MCARDLE BUILDING
860 SILVER LAKE BLVD., SUITE 1
DOVER, DE 19904-2402

When Calling Long Distance
Toll Free Number 1-800-722-7300
E-mail: pensionoffice@state.de.us

Telephone (302) 739-4208
FAX # (302) 739-6129
www.delawarepensions.com

BOARD OF PENSION TRUSTEES
MEETING MINUTES OF APRIL 30, 2010

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
Robert Allen	Nancy Shevock
Phil Reese	
Ann Visalli	
Suzanne Grant	
Tom Cook	
Helen Foster	

Others Present

Dave Craik, Pension Office
Kim Vincent, Pension Office
Terri Timmons, Pension Office
Wade Sallings, Pension Office
Jeff Hoover, Pension Office
Rob Gooderham, Ashford Consulting Group
Garry Musto, Ashford Consulting Group
Jim Testerman, PAC
Cindy Collins, DAG
Paul Kasriel, Director of Economic Research, Northern Trust
Pam Newton, Vice President, Northern Trust

1. OPENING COMMENTS

The meeting of the Board of Pensions Trustees was called to order by P. Reese.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the Public Minutes of the March 26, 2010 meeting.

MOTION made by R. Allen and seconded by A. Visalli to approve the Public Minutes of the Board of Pension Trustees' March 26, 2010 meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the March 26, 2010 meeting.

MOTION made by R. Allen and seconded by A. Visalli to approve the Executive Minutes of the Board of Pension Trustees' March 26, 2010 meeting.

MOTION ADOPTED UNANIMOUSLY

2. INVESTMENT COMMITTEE REPORT

Economic Outlook – 2010 Continuing Along a Rocky Recovery Road

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

P. Kasriel stated that we have just weathered the longest and deepest recession in the post-WWII era, hence its name, The Great Recession. The recovery has begun not because any one sector is soaring, rather because a number of sectors have started to grow modestly.

Thanks to the low level of mortgage rates and the sharp decline in home prices, house purchases are now much more affordable. High housing affordability and homebuyer tax credits have resulted in an uneven rebound in home sales. With the inventory of new homes for sale at levels not seen since the early 1970s, housing starts have stopped declining.

The tax cuts of the fiscal stimulus program plus unemployment insurance have helped to boost after-tax household income, which, in turn, has helped to revive consumer spending. Some of those drill presses, computers, and 737s need replacing too.

Economic activity is improving in the developed economies but perhaps more importantly, in China and other developing economies. The economic recovery underway in the rest of the world is boosting U.S. exports. After the largest inventory liquidation in the post-WWII era, some businesses have begun restocking because their warehouse shelves are bare.

State & local government infrastructure spending picked up earlier in 2009 due to the “Build America Bonds” program authorized by the fiscal stimulus program, but faded at the end of the year as fiscal situations deteriorated. Speaking of the stimulus program, a large part of the federal spending portion of it has yet to kick in.

If there is one sector that is not improving, it is commercial real estate. High and rising unemployment will keep office vacancy rates rising. Mall vacancy rates will remain high as retailing is years away from returning to its recent boom era. Hotel vacancy rates will remain high as discretionary travel will be slow to strengthen.

This is also likely to be another jobless recovery. Growth will be too slow to quickly re-employ laid-off workers let alone employ new labor-market entrants. The near-record low workweek means that production can be increased by extending the hours worked by current staff rather than having to hire additional employees. As the lowest labor participation rate since the mid 1980s begins rising, the measured unemployment rate will too. There is going to be structural unemployment in industries such as autos, housing and financial services.

The economy still faces strong headwinds primarily from the financial sector. Commercial banks have experienced extremely high loan charge-off and delinquency rates and will continue to do so. As a result, there has been an unprecedented contraction in net lending by the private financial system.

Financial institutions have acquired much needed capital through the TARP program and new equity issuance in the market. But with a wave of commercial mortgage defaults expected, some institutions could become undercapitalized again. Until financial institutions are confident of their longer-run capital adequacy, they will be unable and/or reluctant to create new credit, which will restrain the pace of the economic recovery. Despite being adequately capitalized, the banking system still is contracting credit.

Is the federal deficit a headwind? Not right now. Although Treasury borrowing has soared in recent quarters, there has been an unprecedented net paydown of nonfederal debt. Thus, the pace of *total* nonfinancial sector borrowing has slowed, which has helped keep Treasury yields at relatively low levels. The biggest driver of recent increases in the budget deficit has been decelerating revenues rather than accelerating outlays. But with federal budget deficits projected to run at rates near 4% of GDP well into the economic expansion, federal spending could “crowd out” business investment, which would lower future *potential* economic growth.

What about inflation? Won’t all the credit the Fed has created in recent years guarantee rapid inflation? Fed credit has soared from $877 billion at the end of 2007 to over $2 trillion today. But a large part of this Fed credit creation has ended up as excess, or idle, cash sitting on the books of banks. Although growth in the broad measure of money supply skyrocketed right after the Lehman failure, it has fallen back to Earth in recent months.

Although commodity prices have been advancing rapidly, final demand is not strong enough to permit the pass-through of these higher input prices. With the unemployment rate likely to remain high in 2010, labor costs will not be pushing inflation higher.

A fulsome discussion was held and many questions asked.

Investment Committee Performance Report

Fund	**Previous Month**	**Fiscal Year To Date**	**12-Month**
Total Fund	**3.7%**	**19.3%**	**30.7%**
S & P 500 Index	**6.0%**	**29.2%**	**49.8%**
60/35/5*	**3.5%**	**19.1%**	**31.1%**
Delaware Benchmark**	**3.8%**	**19.4%**	**34.8%**

*Benchmark mix of 60% S&P500 Index, 35% Barclays Long Gov't 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

Total assets in the Fund at the end of March totaled $6.696 billion. Both domestic and international equity markets were strong in March. The Fund's March return of +3.7% slightly underperformed the Delaware Benchmark return of +3.8%. For the fiscal year-to-date through March, the Total Fund is up 19.3%, slightly behind the Delaware Benchmark.

During the month of March, domestic and international equity markets continued to experience strong returns. The S & P was up 6.0%, with small cap stocks, as measured by the Russell 2000, experiencing even stronger positive returns, gaining 8.1%. The MSCI EAFE international stock index was up 6.2%, and the broader MSCI All-Country World ex- U.S. stock index (which includes emerging markets) was even stronger returning 6.8%. Fixed Income Market returns were mixed during the month with credit sectors experiencing positive returns while Government returns were negative. The Barclays TIPS Index was almost flat at 0.1% and the Barclays LT Govt/Credit Index had a negative 0.7% return. The JP Morgan Global High Yield Index increased 3.0% for the month.

The Investment Committee has met once since the last Board meeting, on April 20th. At that meeting, the Committee received a presentation from existing manager T. Rowe Price reviewing the U.S. Economic Outlook.

The Committee, under its authority to approve contract Schedule changes, approved a change to the Oaktree Domestic Convertible account Schedule A.

A manager has requested that one security in a legacy account be deemed worthless. Under the approved procedure for worthless securities, the Committee voted to approve transfer of the security to the T. Rowe Price Venture Distribution account for further determination of its status.

The next meeting of the Investment Committee will be on May 18th.

4. AUDIT COMMITTEE REPORT

MOTION made by H. Foster and seconded by R. Allen 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.

MOTION ADOPTED UNANIMOUSLY

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 R. Allen and seconded by H. Foster to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

5. PENSION ADVISORY COUNCIL REPORT

J. Testerman thanked D. Craik and K. Vincent for their presentations during the spring workshops. There were a total of 299 participants attending the workshops.

J. Testerman stated that the Pension Advisory Council will be preparing a letter to be sent to the Legislature in regards to the proposed new tier of benefits for new employees, sick leave, disability, and medical benefits.

6. STATE PENSION ADMINSTRATOR’S REPORT

<u>Quarterly Statistics</u>

D. Craik stated that the FY10 Pension Office statistics showed that most areas are normal with the exception of the New Pension Applications totals which are running ahead of FY09 because of the magnitude of applications received during the summer months last year. He also reported that the Estimates and Individual Counseling Sessions were behind the previous year due to both of these services being ceased during the summer and early fall months of last year.

<u>OPEB</u>

There was a recent transfer of $10 million into the OPEB Fund.

Pension Healthcare Re-opening

D. Craik reported that the healthcare re-opening begins on Monday, May 3rd and runs through the 19th. The Pension Office has already had an increase in calls due to the materials being mailed out. He further reported that there are very few changes this year.

Legislative Activity

HB 128 – This Bill permits law enforcement officers and probation officers to retire after 25 years of service without penalty.

SB 147 – This Act provides a retirement incentive of 2 additional years of service to employees in the State Employees Pension Plan that retire on 6/30/09. There is also a new tier of benefits created for employees hired after 7/1/09.

7. DEPUTY ATTORNEY GENERAL REPORT

C. Collins stated that she and S. Grant recently attended a CII conference in Washington D.C. C. Collins stated that the conference was very educational and encouraged attendance of the Trustees. The breakout sessions were very informative and gave a sense of what was happening in the global economy.

C. Collins also stated she had received all of the Board Evaluations and will report on the findings at the next meeting along with handing out new evaluations to be completed.

8. PENDING ITEMS

There were no new pending items.

9. NEW BUSINESS

MOTION made by A. Visalli and seconded by S. Grant 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.

MOTION ADOPTED UNANIMOUSLY

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 R. Allen and seconded by H. Foster to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

10. ADJOURNMENT

The next Pension Board meeting is scheduled to be held on May 21, 2010, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 11:28 a.m., there being no further business, MOTION was made by S. Grant and seconded by R. Allen to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Philip Reese
Chair for the Board of Pension Trustees