

**STATE OF DELAWARE**  
**STATE BOARD OF PENSION TRUSTEES**  
**AND**  
**OFFICE OF PENSIONS**  
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**BOARD OF PENSION TRUSTEES**  
**MEETING MINUTES OF DECEMBER 17, 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

Phil Reese  
Suzanne Grant  
Helen Foster  
Nancy Shevock  
Thomas Shaw

Trustees Absent

Tom Cook  
Ann Visalli

Others Present

Dave Craik, Pension Office  
Kim Vincent, Pension Office  
Terri Timmons, Pension Office  
Cindy Collins, DAG  
Wade Sallings, Pension Office  
Jeff Hoover, Pension Office  
Rob Gooderham, Ashford Consulting Group  
Seth Yablonovitz, Ashford Consulting Group  
Jim Testerman, PAC

Dr. Shellenberger, Medical Committee  
Dr. Riegel, Medical Committee  
Dr. Frelick, Medical Committee  
Dr. Smoyer, Medical Committee  
Dr. DelDuca, Jr., Medical Committee  
Dr. Gelb, Medical Committee  
Dr. Brereton, Medical Committee  
Dr. Bill, Medical Committee  
Robin List, Pension Office

## **1. OPENING COMMENTS**

The meeting of the Board of Pensions Trustees was called to order by P. Reese. Mr. Reese announced that George Saxon, Chair of the Investment Committee, has requested a leave of absence for personal reasons. Discussion was held on the merits of Mark Stalnecker, Investment Committee member, acting as Investment Committee Chair until G. Saxon's return.

MOTION made by N. Shevock and seconded by H. Foster to approve the decision to have Mark Stalnecker become Acting Chair of the Investment Committee until the return of George Saxon.

## **2. APPROVAL OF THE MINUTES**

The Trustees reviewed the Public Minutes of the November 19, 2010 meeting.

MOTION made by T. Shaw and seconded by S. Grant to approve the Public Minutes of the Board of Pension Trustees' November 19, 2010 meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the November 19, 2010 meeting.

MOTION made by T. Shaw and seconded by S. Grant to approve the Executive Minutes of the Board of Pension Trustees' November 19, 2010 meeting.

MOTION ADOPTED UNANIMOUSLY

## **2. MEDICAL COMMITTEE REPORT**

Dr. Shellenberger reported that there is less work for the Committee to oversee since the new State Disability Program was created which is currently administered by the Hartford Insurance Company. The majority of the case work of the Committee is the review of existing cases. There are a limited number of employees still eligible for the former Pension Disability program so there are not many new applications for pension disability pensions.

Dr. Smoyer spoke about establishing a system whereby the Medical Committee would have a formalized way of tracking those who attend and those who do not attend Vocational Re-hab. This is something the Committee is working on because they would like to know the percentage of those who do attend Re-hab and if it provides measurable benefits.

### 3. INVESTMENT COMMITTEE REPORT

#### Investment Market Outlook – December 2010

Seth Yablonovitz, of Ashford Consulting Group, distributed copies of the Investment Market Outlook. Although many economic indicators have recently turned up, some of the conditions that brought on the crisis of late 2008 have not yet been solved. He explained that although U.S. consumers and businesses have made significant efforts to de-lever their balance sheets, the U.S. Federal Government and other developed sovereign governments across the world have significantly increased their debt levels, posing substantial risks to the global economy. Mr. Yablonovitz discussed that high aggregate debt levels, consumer deleveraging, and high unemployment was forcing the Federal Reserve to focus on deflation, which has resulted in massive injections of stimulus into the U.S. economy. He further noted that the future of the U.S. economy would be determined in part by the inflationary implications of Fed policy and also by the economy's ability to operate without the assistance of low interest rates and other highly accommodative measures which are currently in place. Mr. Yablonovitz stated that much excess liquidity has found its way into food and energy prices, in addition to fixed income and emerging markets, creating pricing distortions. The investment opportunities and the risks posed by global imbalances are carefully reviewed by the Investment Committee and Ashford Consulting Group on an ongoing basis.

#### Investment Committee Performance Report as of 11/30/10

<u>Fund</u>	<u>November 2010</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
<b>Total Fund</b>	<b>0.4%</b>	<b>11.6%</b>	<b>11.8%</b>
<b>S &amp; P 500 Index</b>	<b>0.0%</b>	<b>15.5%</b>	<b>9.9%</b>
<b>60/35/5*</b>	<b>-0.3%</b>	<b>10.2%</b>	<b>8.6%</b>
<b>Delaware</b>	<b>-0.8%</b>	<b>10.6%</b>	<b>9.0%</b>
<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

Total assets in the Fund as of November 30, 2010 totaled \$6,994MM. The Fund's November return of 0.4% was slightly positive but outperformed the Delaware Benchmark return of -0.8%, while the 12-month return for the total Fund is significantly ahead of the Delaware Benchmark. For the fiscal year-to-date, the total Fund is up 11.6%, ahead of the Delaware Benchmark of 10.6%.

During the month of November, with the exception of the small cap sector, the large cap domestic equity market was flat while the international equity markets were negative due to debt concerns. The S & P 500 returned 0.02%, while small cap stocks, as measured by the Russell 2000, gained 3.5%. The MSCI EAFE international stock index was down 4.8%, with the broader MSCI All-Country World ex-U.S/ stock index (which includes emerging markets) down 3.9% in November. While fixed Income market returns varied by sector, all were negative in November. The Barclays TIPS Index was down 1.7%, while the Barclays LT Govt/Credit Index fell 1.4%. With credit spreads expanding, the JP Morgan Global High Yield index fell 1.1% for the month.

The Investment Committee has met once since the last Board meeting. On December 14<sup>th</sup>, the Committee received a presentation from existing manager Barlow Partners reviewing the First State Independence Fund account. In addition, the Committee reviewed the derivatives report for the quarter ended September 30, 2010

Mr. Ashford presented a recommendation on a secondary purchase opportunity in a venture capital fund. The Investment Committee determined that a secondary purchase of a limited partnership interest in MTV IV, L.P. would be consistent with its strategy of opportunistic investments with proven, experienced firms and recommends approval of a purchase of up to \$750,000 in MTV IV, L.P. subject to counsel's review of documents.

The Investment Committee also reviewed the Fund's asset allocation and risk level. In order to lower risk and raise cash for anticipated capital calls and expenses, the Investment Committee recommended that the Mellon Capital Global Equitized Collateral fund account (approximately \$245 million) be liquidated with proceeds invested as follows: \$50 million to the Sanderson Asset Management international equity account, \$145 million to the T. Rowe Price Global Large Cap account and \$50 million to DPERS' Northern Trust STIF account.

MOTION made by N. Shevock 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 P. Reese and seconded by N. Shevock to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

MOTION made by P. Reese and seconded by S. Grant to approve the recommendation that a secondary purchase of up to \$750,000 in limited partnership interest be made in MTV IV, L.P. subject to counsel's review of documents.

MOTION ADOPTED UNANIMOUSLY

MOTION made by P. Reese and seconded by N. Shevock to approved the recommendation that the Mellon Capital Global Equitized Collateral Fund account (approximately \$245 million) be liquidated with proceeds invested as follows: \$50 million to the Sanderson Asset Management International Equity account, \$145 million to the T. Rowe Price Global large Cap account and \$50 million to DPERS' Northern Trust STIF account.

MOTION ADOPTED UNANIMOUSLY

The Investment Committee, under its authority to execute documents relating to manager schedules and contracts over which it exercises authority, approved an amendment to the T. Rowe Price International contract.

The next meeting of the Investment Committee is scheduled for January 11<sup>th</sup>.

#### **4. AUDIT COMMITTEE REPORT**

S. Grant reported that there will be an Audit Committee meeting in January. D. Craik reported that DPERS received limited printed versions of the CAFR. We are advising those that are interested in having a copy to visit our Website.

P. Reese congratulated S. Grant and the Pension Office Staff for the work completed on the audit.

#### **5. PENSION ADVISORY COUNCIL REPORT**

J. Testerman reported that the Advisory Council will continue to work very hard in 2011. He also thanked Kim Vincent and the Pension Office Staff for their hard work on the Retiree Workshops.

#### **6. STATE PENSION ADMINSTRATOR'S REPORT**

D. Craik reported that he recently attended and spoke at the Annual Convention for the Council of State Governments.

D. Craik reported that the National Institute on Retirement Security (NRIS) is undergoing a new research project along with the University of Arizona. They will be conducting case studies of public funds that have historically been well-funded and well-managed. DPERS is one of six retirement systems that have been identified for the study. This research is aimed at finding the good practices at pension systems like DPERS which may have resulted in our better financial condition. They hope to provide an alternative perspective on public sector defined benefit plans than is generally conveyed—that if managed prudently, defined benefit plans can both be affordable to taxpayers and provide a secure retirement to public sector retirees.

Mr. Craik brought to the attention of the Board Members the Retiree Newsletter that will be mailed out with the December retiree pay. He stated that on page three, in the graph for Market Values, that while the values were correct the dates were not.

Mr. Craik reminded the Board that we have two appeal hearings in January that were rescheduled from December. He stated that the one case that was held in December had been settled during the hearing.

**7. DEPUTY ATTORNEY GENERAL REPORT**

C. Collins reported that she had attended an ADA meeting in Washington, D.C. recently where the SEC's new Pay to Play rules and regulations were discussed. C. Collins is currently working on a Policy for DPERS where this is concerned.

**8. PENDING ITEMS**

There were no new pending items.

**9. NEW BUSINESS**

There was no new business.

**10. ADJOURNMENT**

The next Pension Board meeting is scheduled to be held on January 28, 2011, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 11:01 a.m., there being no further business, MOTION was made by P. Reese 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