

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF OCTOBER 26, 2012

The meeting of the Board of Pension Trustees was called to order by S. Grant, at 9:03 a.m. in Delaware Conference Room in the Pension Office.

Trustees Present

Suzanne Grant
Ann Visalli
Nancy Shevock
Tom Shaw
Tom Cook
Arturo Agra

Trustees Absent

Helen Foster

Others Present

Dave Craik, Pension Office
Kim Vincent, Pension Office
Cindy Collins, DAG
Terri Timmons, Pension Office
Wade Sallings, Pension Office
Kathy Kunkle, Pension Office
Seth Yablonovitz, Ashford Consulting Group
Joe Malloy, PAC
Fiona Liston, Cheiron
Margaret Tempkin, Cheiron
Jessica Eisenbrey, OMB
Rebecca Reichardt, OMB
Courtney Stewart, Controller General's Office

1. **OPENING COMMENTS**

The meeting of the Board of Pension Trustees was called to order by Suzanne Grant.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the Public Minutes of the September 28, 2012 meeting.

MOTION made by T. Shaw and seconded by T. Cook to approve the Public Minutes of the September 28, 2012 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the September 28, 2012 meeting.

MOTION made by A. Agra and seconded by T. Shaw to approve the Executive Minutes of the September 28, 2012 Board of Pension Trustees' meeting as amended.

MOTION ADOPTED UNANIMOUSLY

3. INVESTMENT COMMITTEE REPORT

Investment Committee Performance Report as of 9/30/12

<u>Fund</u>	<u>Sept-12</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	1.6%	3.7%	14.6%
S & P 500 Index	2.6%	6.4%	30.2%
60/35/5*	1.6%	4.4%	19.8%
Delaware	1.9%	4.6%	16.9%
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

Total assets in the Fund at the end of September totaled \$7,720MM. The Fund's September return of 1.6% lagged the Delaware Benchmark return. The calendar year-to-date return of 10.6% for the total Fund is 3.0 percentage points ahead of the Delaware Benchmark. For the one year period, the total Fund is up 14.6%, 2.3% behind of the Delaware Benchmark.

Equity markets continued to experience positive returns in the month of September. The S&P 500 was up 2.6%, while small cap stocks, as measured by the Russell 2000, gained 3.3%. International stocks also experienced positive returns with the MSCI EAFE international stock index up 3.0%. The broader MSCI-All Country World ex-U.S. stock index (which includes emerging markets) gained 3.7% in September. Fixed income market returns were also positive in September.

The Barclays Universal Bond Index was up 0.3%, while the JP Morgan Global High Yield index gained 1.4% in September. The Barclays TIPS index gained 0.5% for the month.

The Investment Committee met once since the last Board meeting.

At the October 16, 2012 Investment Committee meeting, the Investment Committee received presentations on private equity risk estimation and a review of the Fund's composite benchmark.

The Investment Committee, under its authority to execute documents relating to partnerships over which it exercises authority, approved an amendment to Riverstone V.

The next meeting of the Investment Committee will be on October 30th.

DPERS Asset Allocation and Investment Market Outlook

Mr. Yablonovitz turned to the topic of the investment market outlook and DPERS' asset allocation. He noted Ashford Consulting Group's perspective on fixed income continues to favor below benchmark bond duration and an underweight to Treasuries in favor of credit exposure. He described why assuming duration (interest rate) risk was less prudent when nominal yields were near zero. Mr. Yablonovitz also noted that while credit was less attractive on an historical basis, on a yield basis it is significantly more attractive than high grade credit and carries less duration exposure. He then described how DPERS' portfolio is currently positioned.

Mr. Yablonovitz next noted that Ashford Consulting Group continues to favor equities, especially relative to fixed income. He stated that within the equity component of the portfolio, Ashford Consulting Group favors high quality, large cap, domestically oriented dividend producing stocks. He described how massive monetary and fiscal stimulus creates a supportive environment for equities, and noted that, at current earnings levels, U.S. equities were not expensive, especially relative to fixed income. He also described how European growth and earnings would likely be secularly challenged, and that small cap equities are currently valued close to a historical premium relative to large cap stocks. Mr. Yablonovitz described how DPERS' portfolio is currently positioned.

MOTION made by T. Cook 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 T. Cook to exit Executive Session.

4. ACTUARIAL REPORT

Fiona Liston and Margaret Tempkin, consultants with Cheiron, Inc., presented the Trustees DPERS' Fiscal 2012 Actuarial Valuation. The following topics were discussed:

- Historical Review
 - Growth in Participation
 - Growth in Assets
 - Assets & Liabilities; and
 - Contributions
- Principal 6/30/12 Valuation Results
 - Key Statistics for the State Employees' Pension Plan:
 - Number of active employees decreased by 0.4%
 - Average salary increased by 5.5%
 - Number of retirees increased by 3.0%
 - Average benefit increased by 2.9%
 - Principal 6/30/12 Valuation Results
 - Actuarial Accrued Liability is \$7,949 million
 - Actuarial Value of assets is \$7,270 million
 - Unfunded Actuarial Liability is \$679 million
 - Funded ratio of 91.5%

The following employer contribution rates for FY14 were presented to the Board by Cheiron:

State Employees'	9.50%
State Judicial	27.71%
New State Police	19.07%
County/Municipal General	6.62%
County/Municipal P & F	15.52%
Diamond Port	8.57%
Volunteer Fire	\$410.88

S. Grant asked if the Trustees' or the public had any questions about the 2012 Actuarial Valuation. A discussion of the merits was held concerning future benefit costs.

MOTION made by A. Agra and seconded by T. Shaw to adopt the FY14 employer contribution rates presented to the Board by Cheiron.

MOTION ADOPTED UNANIMOUSLY

5. PENSION ADVISORY COUNCIL REPORT

Joe Malloy had nothing to report.

6. AUDIT COMMITTEE REPORT

The Audit Committee met in October and reported that the Audit is 96% complete. The Auditors will be at the November 16th Board meeting to discuss the Audit.

7. STATE PENSION ADMINISTRATOR'S REPORT

Quarterly Statistics

D. Craik reported that there are only 3 new cases being reviewed by the Medical Committee. There are also 32 continuance cases for the 1st quarter of the fiscal year.

The Pension Office quarterly activities for the 1st quarter showed that the number Healthcare additions were higher than last year due to Spousal Coordination forms. The phone calls were higher during this quarter due to EGWP calls.

2013 Board Committees Dates and Appeal Hearing Schedule

D. Craik stated that the 2013 Committee meeting dates have been schedule along with the Appeal Hearing dates. It was noted that the January Board meeting was changed to January 18th. Each Trustee was asked to sign up for 3 Appeal Hearing dates and to let Terri Timmons know as soon as possible.

MOTION made by T. Cook 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 T. Cook to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

8. **DEPUTY ATTORNEY GENERAL REPORT**

C. Collins reported that there was an article from Bloomberg describing that the Delaware public pension system has been managed prudently in the past and was listed as an example of a successful public pension system that would not be burdened by the new pension reporting requirements. The article was placed in the Trustee information for review.

OPEB

C. Collins stated that the Principal Trustee for the OPEB Trust changes when a new Board Chair begins their term. A Certificate of Amendment will be completed to show when S. Grant became the Board Chair and formally changing the Principal Trustee.

MOTION made by N. Shevock and seconded by A. Agra to have a Certificate of Amendment completed to show when S. Grant became Chair as well as the Principal Trustee for OPEB.

MOTION ADOPTED UNANIMOUSLY

QEBA

C. Collins will be submitting documents to the IRS for approval of Qualified Plan for QEBA effective date.

MOTION made by N. Shevock and seconded by T. Shaw on submitting documents to the IRS for approval of Qualified Plan for QEBA effective date.

MOTION ADOPTED UNANIMOUSLY

MOTION made by A. Agra 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 T. Cook to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

MOTION made by N. Shevock and seconded by A. Agra that the appeal of James P. Binnebose for a service pension be remanded to the State Pension Office for proceedings consistent with the Hearing Officers recommendation.

MOTION ADOPTED UNANIMOUSLY

9. **PENDING ITEMS**

There were no pending items.

10. **NEW BUSINESS**

There was no new business.

11. **ADJOURNMENT**

The next Pension Board meeting is scheduled to be held on November 16, 2012, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 12:31 a.m., there being no further business, MOTION was made by S. Grant and seconded by N. Shevock to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Suzanne B. Grant
Chair for the Board of Pension Trustees