

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF JULY 19, 2013

The meeting of the Board of Pension Trustees was called to order by Suzanne Grant, at 9:05 a.m. in Delaware Conference Room in the Pension Office.

Trustees Present

Suzanne Grant
Helen Foster
Tom Shaw
Tom Cook
Ann Visalli
Nancy Shevock
Art Agra

Trustees Absent

Others Present

Dave Craik, Pension Office
Terri Timmons, Pension Office
Kathy Kunkle, Pension Office
Rob Gooderham, Ashford Consulting Group
Ann Marie Johnson, Deputy Attorney General, Delaware Department of Justice
Lisa Loikith, Pension Paralegal, Delaware Department of Justice
Courtney Stewart, Controller Generals Office
Bobbie Figary, Pension Office

1. OPENING COMMENTS

S. Grant welcomed everyone and called the meeting to order.

D. Craik introduced Bobbie Figary who works in our Human Resource & Base Benefit's Section. Ms. Figary stated she has worked in the insurance industry for many years. Presently she is working with the Employer Group Waiver Plan, (EGWP).

Lisa Loikith has just begun her employment with the Department of Justice as a Paralegal and will be working directly with our Deputy Attorney General, Ann Marie Johnson.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the Public Minutes of the June 21, 2013 meeting.

MOTION made by N. Shevock seconded by T. Shaw to approve the Public Minutes of the June 21, 2013 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the June 21, 2013 meeting.

MOTION made by H. Foster and seconded by A. Agra to approve the Executive Minutes of the June 21, 2013 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. INVESTMENT COMMITTEE REPORT

Investment Committee Performance Report as of 6/30/13

<u>Fund</u>	<u>June-13</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	(1.4)%	11.1%	11.1%
S & P 500 Index	(1.3)%	20.6%	20.6%
60/35/5*	(1.4)%	11.8%	11.8%
Delaware Benchmark**	(2.1)%	11.0%	11.0%

*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 June totaled \$8,079 million. The Fund's June return of -1.4% outperformed the Delaware Benchmark return. For the fiscal year, the total Fund is up 11.1%, 0.1 percentage points above the Delaware Benchmark.

Equity markets declined in June, reacting to comments from Federal Reserve Chairman Bernanke that the Fed might scale back its asset purchases later this year. For June, the broad Russell 3000 declined, 1.3%, while the MSCI EAFE international stock index lost 3.6% as the Eurozone

economy remains mired in recession. The broader MSCI All-Country World ex-U.S. stock index (which includes emerging markets) declined 4.3%. Mr. Bernanke's "tapering" comments also caused a setback in the bond market with a rapid and significant increase in bond yields. The Barclays Universal Bond Index declined by 1.8%, while the JP Morgan global High Yield index lost 2.6% for the month. The Barclays TIPS index was down 3.5% in June.

The Investment Committee has met twice since the Board's June meeting.

At its meeting on June 25th, the Investment Committee received a presentation from existing manager Baillie Gifford and reviewed the Fund's global equity account.

The Investment Committee, pursuant to its authority to execute documents relating to manager schedules and contracts, unanimously approved a Schedule A change to the T. Rowe Price Global Large Cap contract.

The Investment Committee, pursuant to its authority relating to partnerships, acknowledged the change of name of Media Technology Ventures Fund VI to the Allegis Special Opportunities Fund, by Allegis Capital.

At its meeting on July 16th, the Investment Committee received a presentation from existing manager T. Rowe Price and reviewed the Fund's natural resources equity account.

The Investment Committee voted to recommend to the Board, by poll vote, to approve the following allocation moves:

1. Withdraw \$96 million from the T. Rowe Price natural Resources equity account.
2. Withdraw \$125 million from the Mellon Capital S&P MLP index fund account.
3. Allocate \$221 million to the Mellon Capital non-securities lending (NSL) S&P 500 stock index fund.

The next meeting of the Investment Committee will be on August 20th.

MOTION made by T. Shaw and seconded by H. Foster to enter into Executive Session pursuant to 29 Del. C. §§ 10002, 10004 (b)(6), and 8308(d), and to consider pension personnel matters

The Board then moved into Executive Session pursuant to 29 Del. C. § 10004 (6) to discuss the content of documents, excluded from the definition of "public record" in 29 Del. C. §§ 10002(1) and 8308(d) where such discussion may disclose the contents of such documents, which are records, materials or data received, prepared, used or retained by the Board or its employees, investment professionals or agents relating to an investments.

MOTION made by H. Foster and seconded by N. Shevock to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

MOTION made by N. Shevock and seconded by A. Agra to ratify the poll vote to 1) Withdraw \$96 million from the T. Rowe Price natural Resources equity account, 2) Withdraw \$125 million from the Mellon Capital S&P MLP index fund account, 3) Allocate \$221 million to the Mellon Capital non-securities lending (NSL) S&P 500 stock index fund.

MOTION ADOPTED UNANIMOUSLY

4. AUDIT COMMITTEE REPORT

H. Foster did not have any updates from the Committee. D. Craik stated that the Auditors are currently on location. They have completed their work on the IT area and are completing their fieldwork on the financial audit.

5. PENSION ADVISORY COUNCIL REPORT

No report.

6. PENSION ADMINISTRATOR REPORT

Moody's Investors Report

D. Craik discussed the June 27th article from Moody's Investors Report titled, "Adjusted Pension Liability Medians for US States". The report presents adjusted pension data for the 50 individual states, based on recently published methodology for analyzing state and local government pension liabilities. The highlights of the report included the following:

- State pension burdens vary widely.
- The largest accumulated liabilities most often reflect management decisions not to fund contributions at levels reflecting actuarial guidelines.
- The level of state contributions to cover pension costs of teachers and other local government employees is a significant factor in the size of state liabilities.
- Allocating reported pension liabilities of cost-sharing plans to participating local governments leads to the greatest difference between our adjusted and states' reported pension liabilities.

A discussion of the merits was held.

Quarterly Statistics

D. Craik stated that the Healthcare additions were higher in FY13 due to the Employer Group Waiver Plan (EGWP); incoming phone calls were higher in FY13 than last year, and the Refunds and Burial Benefits were also higher in FY13. Estimates and Group Counseling have been suspended until the fall due to having 443 pension applications for August payroll.

D. Craik reported that the Disability report shows 4 new cases for the quarter, with nothing else unusual to report.

Legislative Update

Per D. Craik the following legislation was signed by the Governor:

- HB 25: Removes language regarding the Wilmington Federal Credit from the definition of an employee.
- HB 75: Same gender marriages, administrative changes within the pension plans.
- HB 200: Budget Bill – Increases the pension offset for retirees that work part-time for the State from \$19,240 to \$30,000.

The following legislation has not been signed by the Governor as of today:

- SB 107: Codifies Joint Sunset Committee recommendation to remove Board members from the definition of an employee. Effective for those appointed after 6/30/13.
- HB 207: Increases benefits for Correctional Officers funded by an increase in their employee contribution rate by an additional 2%.

Pending Legislation:

- HB 137: Increase the number of Joint/Survivor benefit options available to a retiree.
- SB 28: Exempts per diem employees of the General Assembly from the pension offset for retirees.
- HB213: Provides a revenue stream by increasing the tax on surplus lines by an additional 1% to provide for health insurance coverage for retired police and firefighters.

Federal Law Update – 2013

D. Craik presented a report prepared by Ice Miller on the update of Federal Law/Projects. He spoke about the IRS position on Cycle C-2 and Cycle E-2 filings. DPERS will be filing in C-2 (February 1, 2013 – January 31, 2014) and expects to have the filing made in November of 2013 with an expected turnaround of application by the IRS in one year (perhaps longer because of budget sequester and/or cutbacks).

The requirements for filing in C-2 are the elements of a new Form 5300 which will include demographics from CAFR and litigation update needed from General Counsel.

The IRS has issued a detailed PLR describing what it means for a member of a qualified plan to retire (retirement means “stop working”). DPERS has already implemented a return to work policy, which is included in regulations.

The IRS is turning to a computerized checking of 1099-R’s for problem areas, such as:

- Proper coding of early retirement distributions.
- Review of non-taxable disability distributions.
- Non-resident reporting.
- IRS is continuing to allow truncated SSN.

The IRS declined to rule on the Department of Corrections PLR request for ruling regarding HB 164 (correctional officers’ hazardous duty pay.) A new revised HB 207 to address this subject will incorporate language making it specifically contingent upon the receipt of an affirmative approval by the IRS through the Cycle C-2 determination letter process.

Deputy Attorney General Johnson reported on the Supreme Court decision of *United States v. Windsor* which struck down certain sections of the Defense of Marriage Act (“DOMA”) which prevented same sex couples from receiving certain benefits under federal law. The decision will have some impact on DPERS statutes and regulations. Delaware currently has legalized civil unions between same sex couples and legalized same sex marriages effective July 1, 2013. Any existing civil unions will be converted to marriages as of July 1, 2014. The recently adopted DPERS regulations addressed many of the issues, and DPERS tax counsel will work with DPERS to update the regulations in light of the decision in Windsor.

7. **DEPUTY ATTORNEY GENERAL REPORT**

Deputy Attorney General Johnson recently attended the National Association of Public Pension Attorney Conference (NAPPA). Ms. Johnson reported on the key topics at the conference.

- Governance
- Investments
- Pension Administration
- Securities Litigation-Model Policy
- Legislative/Case-Law Update

Ms. Johnson further reported progress on the completion of negotiations and drafting of the actuary contract, and anticipated that it would be executed within a few weeks. She further indicated that the custodial bank contract was finalized and would be executed today.

8. **PENDING ITEMS**

There were no pending items.

9. **NEW BUSINESS**

There was no new business.

10. **ADJOURNMENT**

The next Pension Board meeting is scheduled to be held on September 27, 2013, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 11:05 a.m., there being no further business, MOTION was made by A. Agra and seconded by H. Foster to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Suzanne B. Grant
Chair for the Board of Pension Trustees