

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF NOVEMBER 16, 2016

The meeting of the Board of Pension Trustees was called to order by Suzanne Grant at 9:00 a.m. at the Greenville Country Club meeting room.

Trustees Present

Suzanne Grant
Nancy Shevock
Art Agra
Tom Shaw
Helen Foster

Trustees Absent

Tom Cook
Brian Maxwell

Others Present

Dave Craik, Pension Office
Terri Timmons, Pension Office
Khairat Makanjuola, Pension Office
Josh Hitchens, Pension Office
Jeff Johnson, Pension Office
Paul Roth, TBV Advisors
Rob Gooderham, Ashford Consulting Group

1. OPENING COMMENTS

S. Grant welcomed everyone to today's meeting.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the Public Minutes of the October 28, 2016 meeting.

MOTION made by N. Shevock and seconded by A. Agra to approve the Public Minutes of the October 28, 2016 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the October 28, 2016 meeting.

MOTION made by A. Agra and seconded by N. Shevock to approve the Executive Minutes of the October 28, 2016 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. EDUCATIONAL ITEM

Michael Barry, an attorney with a major securities litigation firm, gave a presentation to the Board on Securities Litigation and Corporate Governance on the following items:

- What is Corporate Governance and why does it matter
- Tools
- Litigation

Mr. Barry answered questions from the Board members.

At this point Mr. Barry left the meeting.

4. AUDIT COMMITTEE REPORT

D. Craik reported that the audit firm, BDO, recently turned over their work papers to the Auditor's Office for review. D. Craik is working on the Management Letter responses. One of the management comments is that a Fraud Monitoring Hotline be established. The Board discussed and asked D. Craik and Deputy Attorney General, A. Johnson to work on this issue.

The internal audit risk assessment has begun interviews with Senior Management, A. Johnson, and P. Roth to identify operational, financial and compliance processes for inclusion in the internal audit plan and associated risk assessment. The interviews with Senior Management will focus on understanding organization-wide changes in processes expected during 2016 and 2017. There will be a meeting on February 3, 2017 where the final report will be presented to the Audit Committee. S. Grant would like the Governance Committee included in the results.

5. PENSION ADVISORY COUNCIL REPORT

No report.

6. PENSION ADMINISTRATOR REPORT

Risk Management – no report.

Current Positions – D. Craik reported that the Office of Pensions has filled two more positions. Requests to fill four other positions have been made to Human Resource Management. Interviews are in the process for once vacancy and scheduling interviews are underway for a second vacancy. D. Craik reported that we have one employee who will be retiring in May.

Reporting Schedule - no changes.

D. Craik stated that Josh Hitchens, Cash & Debt Manager for the Office of Pensions, was asked to be a part of the Treasurer's Office Request for Proposal (RFP) to choose a new bank for the State's direct deposit system. There have been some issues with the awarding of this contract and the Treasurer's office has requested an estimated time line for the Pension Office to begin a transition period if necessary.

7. DEPUTY ATTORNEY GENERAL REPORT

Ms. Johnson reported that the Brad Richardson pension appeal was affirmed by Superior Court to the Board of Pension Trustees original opinion.

8. INVESTMENT COMMITTEE REPORT

Much of October's market action reflected concerns that interest rates were moving higher due to stronger economic data. U.S. equities as measured by the broad Russell 3000 index finished the month down 2.2%, while the MSCI EAFE index was down 2.0% and the MSCI All-Country World ex-U.S. stock index (which includes emerging markets) lost 1.4%. Within fixed income, bond yields moved higher across the board as the markets fully discounted a December rate hike. As a result, bond prices moved lower for the month, with the Barclays Universal bond index down 0.7%, while the Barclays TIPS index lost 0.4% and the riskier Barclays High Yield gained 0.4%.

DPERS Fund assets are estimated to be \$8,947.5 million at October 31, 2016, representing a net decrease of \$139.5 million at October 31, 2016, representing a net decrease of \$136.9 million during the month. Estimated returns through October 31, 2016 are as follows:

<u>Fund</u>	<u>Oct-16</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	-1.1%	2.3%	2.8%
S & P 500 Index	-1.8%	2.0%	4.5%
60/35/5*	-1.4%	1.0%	4.5%
Delaware	-1.4%	2.0%	3.8%
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

At its meeting on November 15th the Investment Committee:

- Received and discussed a presentation from Ashford Consulting Group on recommended changes in fixed income allocations
- Received and discussed a presentation from the Fund's Actuary, Cheiron, on this year's actuarial results for the Pension Fund and for OPEB
- Received and discussed the Fund's Quarterly Investment Review on the Traditional Portfolio, and the Volunteer Firefighters fund
- Received and discussed a presentation from the Pension Office on the Fund's annual Cash Flow review
- Convened an OPEB Trust meeting to review the 3Q16 performance and consider a money market recommendation

The next meeting of the Investment Committee will be Tuesday, December 13th.

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

MOTION ADOPTED UNANIMOUSLY

MOTION made by A. Agra and seconded by N. Shevock to approve the termination of Thornburg and the re-allocation of approximate proceeds as follows: 44% to the Mellon Capital EB DV High Yield fund, 36% to Vanguard Short Term Corporate Bond Index fund and 20% to the T. Rowe Price Floating Rate Strategy. Details of a transition play are to be finalized by Ashford Consulting Group in conjunction with the Office of Pensions and approved by the Investment Committee Chair, with all documentation subject to satisfactory legal review.

MOTION ADOPTED UNANIMOUSLY

MOTION made by H. Foster and seconded by A. Agra to authorize the movement of \$5 million from the Northern Trust U. S. Government Select Money Market Fund to the Northern Trust Prime Obligations Fund.

MOTION ADOPTED UNANIMOUSLY

9. PENDING ITEMS

There were no pending items.

10. NEW BUSINESS

There was no new business.

11. **ADJOURNMENT**

At 11:24 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 Grant, Chair
Board of Pension Trustees