

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF SEPTEMBER 29, 2017

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

Trustees Present

Suzanne Grant
Art Agra
Helen Foster
Tom Shaw
Nancy Shevock
Mike Jackson
Rick Geisenberger

Trustees Absent

Others Present

Dave Craik, Pension Office
Joanna Adams, Pension Office
Terri Timmons, Pension Office
Ann Marie Johnson, Deputy Attorney General
Khairat Makanjuola, Pension Office
Josh Hitchens, Pension Office
Jeff Johnson, Pension Office
Jennifer Dilworth, Pension Office
Paul Roth, TVB Advisors
Joe Malloy, Pension Advisory Council
Jim Testerman, Pension Advisory Council
Charlotte Lister, Pension Advisory Council
Rob Gooderham, Ashford Consulting Group
Seth Yablonovitz, Ashford Consulting Group

1. **OPENING COMMENTS**

S. Grant welcomed everyone to the meeting.

2. **APPROVAL OF THE MINUTES**

The Trustees reviewed the Public Minutes of the August 3, 2017 meeting.

MOTION made by N. Shevock and seconded by T. Shaw to approve the Public Minutes of the August 3, 2017 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the August 3, 2017 meeting.

MOTION made by H. Foster and seconded by N. Shevock to approve the Executive Minutes of the August 3, 2017 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. **PENSION AUDIT REPORT**

D. Craik reported that the Audit Committee met last Friday to discuss the internal auditor services. The special committee received three proposals:

- Protiviti
- KPMG
- Plante Moran

Following a timetable that was part of the RFP, the material received from the firms was reviewed by the special committee. Two finalists were selected after quantifying the documents using the evaluation process described in the RFP. The finalists were interviewed by the committee and a recommendation was made to the Audit Committee.

MOTION made by T. Shaw and seconded by A. Agra that the internal audit services contract be awarded to KPMG and to direct the Pension Office with the assistance of the Deputy Attorney General to begin contract negotiations.

MOTION ADOPTED UNANIMOUSLY

D. Craik announced that the ongoing audit for FY17 is on schedule.

4. GOVERNANCE COMMITTEE

No report.

5. PENSION ADVISORY COUNCIL REPORT

C. Lister will be retiring as of January 1st.

6. PENSION ADMINISTRATOR REPORT

Positions

The office is scheduling interviews for those positions that have been approved thus far. We have had no new vacancies.

The Internal Auditor position posting closed last night and we have about 20 applications to review before scheduling interviews.

Pension Activities

There were two pre-retirement workshops held in September and each only 35 attendees. The attendance for these workshops is usually larger.

Reporting Schedule

Nothing has changed since last month. M. Jackson has met with D. Craik to review his performance plan.

7. DEPUTY ATTORNEY GENERAL REPORT

National Association of Public Pension Attorneys Conference

- Fiduciary and Plan Governance
 - Ethics Training for Attorneys
 - Key takeaway: Who is the Client?
 - Model Rule 1.13 – Organization as Client
 - Board Delegation of Investment Authority
 - Key takeaway: This is meaningful only if you accept the initial thesis that delegated investment authority is more effective
 - The Art, Science and Law of Setting Actuarial Assumptions, and Funding Gaps and Fiduciary
 - Key takeaway: Use of an internal auditor to periodically review employers who have payroll diminishing, and inability to fund the plan. Importance of provisions to enable enforcement of payment obligations. Some systems have the right to attach funds

- Pension Litigation
 - Key takeaways: Most litigation relates to automatic COLA provisions
- What does Good Board Governance “Look” Like
 - Key takeaways: Board Education, Self-Evaluation, Board chair rotation
- Investments
 - Ethical Issues Raised in Negotiations with GP
 - Key takeaway: Would a Delaware Court enforce these provisions?
- Benefits
 - Tax law Refresher of Public Plan Counsel
 - Key takeaway: Plans must continue to be operated in compliance with any change in qualification requirements from the effective date of the change, regardless of the plans 401(b) period for adopting amendments
 - Litigation Update
 - Key takeaway: All involved police employees, and all reversed in favor of the employee

Ms. Johnson reported that she has a temporary paralegal, in the Dover office, starting on Monday, which will be a huge help to her.

8. INVESTMENT COMMITTEE REPORT

R. Gooderham reported that the global equity markets continued their positive trend with strong gains in July and more modest returns in August. Equity market strength for much of the period was supported by signs of stronger global economic growth and better than expected corporate earnings. August saw a return of volatility and gains were challenged by a number of factors, including rising tensions with North Korea, the possibility that Congress would fail to raise the debt-ceiling, and potential economic implications from Hurricane Harvey. For July and August, US equities as measured by the broad Russell 3000 index advanced 2.1%, while the MSCI EAFE index was up 2.8% and the MSCI All-Country World ex-U.S. stock index (which includes emerging markets) gained 4.2%. With weaker than expected inflation data and the return of volatility in August, interest rates moved lower (prices higher) and credit spreads widened modestly over the period. For the two months, the Barclays Universal bond index advanced 1.4%; the Barclays TIPS index gained 1.5%, while the riskier Barclays High Yield index was up 1.1%.

DPERS Fund assets are estimated to be \$9,594.7 million at August 31, 2017, representing a net increase of \$121.3 million since June 30th. Estimated returns through August 21, 2017 are as follows:

<u>Fund</u>	<u>Sep-17</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	0.2 %	1.6%	9.8%
S & P 500 Index	0.3%	2.4%	16.2%
60/35/5*	0.5%	1.9%	9.7 %
Delaware	0.5%	2.2%	10.2%
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

Mr. Gooderham reported that, at the August 22nd meeting, the Investment Committee reviewed and discussed:

- The Fund's performance and allocations as part of the Quarterly Investment Review
- A presentation from Summit Partners on their Subordinated Debt Fund
- A presentation on Portfolio Impact of several Private Investment recommendations
- A recommendation to commit to Flagship Pioneering Fund VI

Under its authority to amend manager agreements, the Investment Committee had also approved limited partnership amendments for Advanced Technology Ventures VIII and for Angelo Gordon Capital Recovery Partners VII.

Mr. Gooderham then reported that the Investment Committee, at its September 12th meeting, reviewed and discussed:

- Presentations on the Fund's international equity asset allocation and a new summary of asset class information
- A recommendation for the liquidation of the redeemable portion of Centerbridge Credit Partners
- A recommendation to commit to Carlyle Asia Partners V
- The annual review of the Fund's custodian, Northern Trust
- The proposed CAFR Investment Section

Pending legal review, the Investment Committee also consented to acquisition of Harvest Fund Advisors by The Blackstone Group, Inc. In addition, the Investment Committee convened an OPEB meeting to review results and discuss second quarter performance.

Mr. Gooderham then reported that, at the Investment Committee's September 26th meeting, the following topics were reviewed and discussed:

- A presentation on the Fixed Income Market Outlook
- A presentation from Loomis Sayles
- An analysis of the Fund's Fixed Income Sector
- A recommendation to commit to Summit Partners Subordinated Debt Fund V

Mr. Yablonovitz distributed analysis of the investment market outlook to the Board. He pointed to evidence that both the US and global economies were displaying remarkable economic strength. He noted how growth is translating into significant upward revisions of corporate earnings estimates across US, developed international and emerging markets. He further noted that, after nearly a decade of dramatic underperformance of international equity markets relative to US markets, both developed international and emerging markets are valued at a meaningful discount to US markets. He further noted that continued monetary policy support would likely provide a tailwind to international equity returns relative to US.

Turning to the fixed income section of the portfolio, Mr. Yablonovitz posed the question “why should we continue to invest in fixed income given the very low yields offered by these securities?” He noted three general reasons to invest in fixed income: 1) to meet the cash and liquidity needs of the plan 2) provide diversification and risk reduction to the equity section of the portfolio and 3) to generate income and/or opportunistic returns. He noted that, due to subdued inflation expectations along with significant amounts of “quantitative easing” that had made its way into bond prices, high quality fixed income was currently unattractive. He further noted that, due to strong economic growth and low projected defaults, excess returns from credit markets relative to higher quality bonds were at the lower end of historical levels. As a result, research efforts continue into other asset classes and strategies that could be used to supplement the fixed income section of the portfolio.

The next meeting of the Investment Committee is scheduled for Tuesday, October 10th.

MOTION made by H. Foster and seconded by A. Agra to enter into Executive Session to consider pension personnel matters, and confidential medical records, legal matters, sensitive commercial 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 T. Shaw to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

MOTION made by R. Geisenberger and seconded by H. Foster to approve the repayment schedule, of E. Malgieri, to repay the State Employee's Pension Plan over a 6 year period and if Ms. Malgieri were to pass away before the balance is paid in full, the burial benefit will be applied to the outstanding balance.

MOTION ADOPTED UNANIMOUSLY

MOTION made by A. Agra and seconded by H. Foster to ratify the recommendation that the Board, by poll vote, approve a commitment of up to \$50 million to Flagship Pioneering Fund VI, pending legal review of the documents.

MOTION ADOPTED UNANIMOUSLY

MOTION made by N. Shevock and seconded by H. Foster to approve the commitment of up to \$40 million to Carlyle Asia V, pending legal review of the documentation.

MOTION ADOPTED UNANIMOUSLY

MOTION made by H. Foster and seconded by N. Shevock to approve the liquidation of the redeemable portion of the November 2008 tranche of the Centerbridge Credit Partners investment (approximately \$2.9 million) with proceeds allocated to cash.

MOTION ADOPTED UNANIMOUSLY

MOTION made by T. Shaw and seconded by A. Agra to approve a commitment of up to \$40 million to Summit Partners Subordinated Debt Fund V, pending legal review of the documents.

MOTION ADOPTED UNANIMOUSLY

MOTION made by H. Foster and seconded by A. Agra to enter into Executive Session to consider pension personnel matters, and confidential medical records, legal matters, sensitive commercial 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 H. Foster to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

9. **PENDING ITEMS**

There were no pending items.

10. **NEW BUSINESS**

There was no new business.

11. **ADJOURNMENT**

At 11:27 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