

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF NOVEMBER 20, 2020

The meeting of the Board of Pension Trustees was called to order by Suzanne Grant, Chair, at 9:02 a.m. via-video and tele-conferencing.

Trustees Present

Suzanne Grant
Art Agra
Harold Stafford
Tom Shaw
Nancy Shevock
Rick Geisenberger
Mike Jackson

Trustees Absent

Others Present

Joanna Adams, Pension Administrator
Terri Timmons, Pension Office
Jodie Wedel, Deputy Pension Administrator
Ann Marie Johnson, Deputy Attorney General
Ryan Connell, Deputy Attorney General
Mary Wood, Pension Office
Khairat Makanjuola, Pension Office
Josh Hitchens, Pension Office
Stephenie Tatman, Pension Office
Rob Gooderham, Windmark
Garry Musto, Windmark
Jackie Nycum, BDO
Benjamin Chen, BDO
Keith Hammond, BDO

Joe Malloy, PAC
Emily Molinara, OMB
Maya Ben, Journalist
Gemma Healy, Journalist

1. OPENING COMMENTS

S. Grant welcomed everyone to the meeting. Ms. Grant congratulated Mike Jackson who will be transitioning at end of year to become the Vice President of Finance with Delaware Technical & Community College. The Board wishes him the best of luck in his new endeavors.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the Public Minutes of the October 30, 2020 meeting.

MOTION made by T. Shaw and seconded by A. Agra to approve the Public Minutes of the October 30, 2020 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the October 30, 2020 meeting.

MOTION made by T. Shaw and seconded by A. Agra to approve the Executive Minutes of the October 30, 2020 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. GOVERNANCE COMMITTEE UPDATE

Nothing to report.

4. AUDIT COMMITTEE UPDATE

K. Hammond stated that BDO had given a high-level presentation with the Audit Committee last week.

Mr. Hammond stated that BDO had completed their audit of the financial statements. He reported that they have issued a clean opinion and that the financial statements were approved by the Audit Committee. Mr. Hammond thanked J. Adams and her team for their help with the audits.

Significant Accounting Estimates Include:

- Valuation of the co-mingled investments (pooled, alternative, fixed income, & equity, but specifically those which are not publicly traded) and related net appreciation / depreciation and underlying disclosures
- For the Pension System, total and net pension liability and related disclosures and underlying assumptions (i.e. expected rate of return, inflation rates, and mortality rates)

- For the OPEB Trust, total and net OPEB liability and related disclosures and underlying assumptions (i.e. discount rate, healthcare cost inflation rates, and retirement rates)

Corrected and Uncorrected Misstatements

There were no corrected or uncorrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we brought to the attention of management.

Results of Our Audits

A discussion was held regarding the quality of the financial reporting for the Pension System and OPEB Trust, which included the following:

- Qualitative aspects of significant accounting policies and practices
- Our conclusions regarding significant account estimates
- Financial statement preparation
- Alternative accounting treatments. BDO noted management has disclosed investment performance fees in the footnotes to the financial statements

Internal Control over Financial Reporting

In planning and performing the audits of the financial statements, BDO considered the internal control over financial reporting (internal control) of the Pension System and OPEB Trust as a basis for designing the auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of these internal controls. In conjunction with the audit of the financial statements, BDO noted no material weaknesses.

BDO communicated to management of the Pension System and OPEB Trust internal control and accounting items that were identified as a result of the audit that we did not consider to be material weaknesses or significant deficiencies.

- Pension System Benefit Payments
 - BDO recommends that this deficiency is consistent with finds from prior year, BDO has noted an additional compensating monitoring control implemented by management during FY 2020 involving the periodic review of transactional overrides with internal audit. BDO recommends that management continue to review transactions on a quarterly basis to identify any improper changes in years of service or benefit payment calculations arising as a result of overrides.
- Census Data and Actuarial Assumptions – County Municipal Plan
 - BDO recommends management and the Board take measures to ensure participating employers in the County/Municipal Plans provide timely census information, with a focus on receiving all updates prior to submitting information to the actuaries. While the projection of payroll data could not result in a material amount to the System, as a whole, it could impact the accuracy of the estimate on the individual County & Municipal plans.

Other Required Communications

B. Chen reported on other communications that are required:

- Significant changes to planned audit strategy or significant risks initially identified
- Obtain information from those charged with governance relevant to the audit
- If applicable, nature and extent of specialized skills or knowledge needed related to significant risks
- If applicable, extent to which our plan to use the work of others and the basis for our determination that we can serve as the principal auditor has changed since our planning communication
- Significant findings and issues arising during the audit in connection with the Pension System or OPEB Trust's related parties
- Disagreements with management
- Significant difficulties encountered during the audits
- If applicable, other matters significant to the oversight of the Pension System or OPEB Trust's financial reporting process, including accounting or auditing matters
- Representations requested from management

GASB 68 and 75 Updates

J. Nycum stated the other portion of the audit is to report on elements that relate to the employer allocations of amounts relating to the Pension System and OPEB Trust. She stated they will leverage knowledge about the specified elements in the GASB 68 and GASB 75 schedules gained during our audits of the financial statements of the Pension System and OPEB Trust. As of the date of this communication, we have selected employers for testing of census data and have received the relevant census information from many of these selected employers. Once the CAFR is finalized, management will work with Cheiron to update employer allocations after which we will finalize our testing in the spring of 2021.

The areas of focus for the audits of the schedules and some of the related audit procedures will be:

- Employer Contributions and Allocation Percentages – Sending participating employer confirmations and performing trending analysis and recalculations
- Census Data – confirming directly with participating employer HR departments that census data used by the actuary was accurate. Obtaining payroll documentation from participating employers to test whether all eligible employees were included in the census data used by the actuary
- Actuarial Liabilities – Utilizing the expertise of BDO's actuaries to review the methodologies and assumptions used. Tracing actuarial calculations to schedules and related disclosures.
- Other deferred items – performing rollforward recalculations of the "layers" of deferred items to be amortized.

R. Geisenberger stated that he appreciates all the work done for the audit, especially undertaking it remotely. We are still on track for the State's CAFR where a lot of other states will not be completed by the end of the year. S. Grant thanked J. Adams and her team.

MOTION made by N. Shevock and seconded by H. Stafford to approve the Comprehensive Annual Financial Report (CAFR) as recommended by DPERS Audit Committee.

MOTION ADOPTED UNANIMOUSLY

5. PENSION ADVISORY COUNCIL UPDATE

J. Molloy reported that the yearly election of officers had been completed and all stayed the same except for J. Testerman who will be the 1st Vice President.

6. PENSION ADMINISTRATOR UPDATE

Employee Recognition

J. Adams applauded J. Hitchens and K. Makanjuola and their staff for their work on the CAFR and having a successful audit.

J. Adams congratulated Deputy Pension Administrator, Jodie Wedel, for graduating and receiving her Human Resources Certification.

S. Grant congratulated all for their accomplishments.

Positions

J. Adams reported that we have filled our vacant Investment/Financial position. This was an internal promotion. This however created a new vacancy.

- The H.R. Manager I interviews will be held next week
- The Sr. H.R. Technician interviews have been scheduled
- We have scheduled 2nd interviews for our HR Specialist I position's, which will be completed this afternoon
- We have been approved to hire 5 H.R. Specialist I, Dual Incumbency positions, which have a limited employment term of 2 years. We have a back log of over 2,000 vested pension applications that need to be completed. We will be posting and hiring for these in January.

Office Activities

We have scheduled several employer training classes, some of which will be virtual, and some will be in person. Our Pre-Retirement virtual presentation is expecting to have between 300 to 500 participants.

Reporting Schedule

Ms. Adams noted the upcoming meeting dates.

Other

Ms. Adams announced that the December Appeal Hearing will be canceled.

7. DEPUTY ATTORNEY GENERAL UPDATE

Ms. Johnson confirmed that at the last Board meeting the Board confirmed the proposal to affirm P. Tikellis as the newest member of the Governance Committee.

8. INVESTMENT COMMITTEE UPDATE

Mr. Gooderham noted that the global equity markets fell in October as rising coronavirus cases in the U.S. and Europe, stalled fiscal stimulus negotiations in Washington, and uncertainty pertaining to the US Presidential election weighed on stocks. The broad US equity market, as measured by the Russell 3000 index, fell 2.2%. While growth and large cap have outperformed in most recent periods, value and small cap provided better returns for the second consecutive month. International equity performance was mixed as the developed market MSCI EAFE index fell 4.0%, while the MSCI Emerging Markets index managed a 2.1% gain. In fixed income markets, yields moved higher (prices lower) and credit spreads narrowed resulting in a 0.45 LOSS FOR THE Bloomberg Barclays Universal bond index, while the more credit-sensitive Bloomberg Barclays High Yield index gained 0.5%.

Mr. Gooderham reported that DPERS Fund assets are estimated to be \$11,737.5 million at October 31, 2020, representing a net decrease of \$47.7 million during the month. Estimated returns through October 31, 2020 are as follows:

<u>Fund</u>	<u>Oct-20</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	-0.1%	8.7%	12.7%
S & P 500 Index	-2.7 %	6.0%	9.7%
Delaware	1.5%	3.5%	6.0%
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 November 17, 2020 Investment Committee meeting, the Investment Committee reviewed and discussed the following:

- A presentation from Cheiron regarding the 2020 Actuarial Valuations
- Other Business Items:
 - Private Investment Term Amendments & L.P. Opportunities
 - Northern Trust Performance Fee
- Scheduled Annual Review Items:
 - Annual Cash Flow Review
- The Third Quarter 2020 Investment Review
- Asset Allocation:
 - Research Rebalancing
 - Investment Policy Implementation – Step 2
- A Q3 Private Investment Review Follow-up

Mr. Gooderham reported the Investment Committee had approved under its authority:

- Amendments to the Limited Partnership Agreements for AG Capital Recovery Partners VII, Marcus Capital Partners Fund III., ONSET VI, L.P., and Trident Capital Fund-IV, L.P., subject to legal review.
- A secondary transaction affecting assets of certain Summit partnerships in which the Fund is invested, subject to finalization of certain terms and subject to legal review.
- An amendment to the Investment management agreement with Northern Trust.
- Redeem \$136 million from the Cash account
- Redeem \$90 million from the T. Rowe Price Global Growth Equity account
- Redeem \$55 million from the Baillie Gifford Long Term Global Growth account
- Invest \$6 million in the Highclere Smaller Companies account
- With Ms. Stratton abstaining:
 - Invest \$85 million in the Dodge & Cox International Equity account
- With Mr. Stalnecker abstaining:
 - Invest \$100 million in the new BlackRock S&P Small Cap 600 account
- With Ms. Stratton abstaining:
 - Invest \$90 million in the new Dodge & Cox Equity account

The next meeting of the Investment Committee is scheduled for Tuesday, December 15, 2020.

MOTION made by A. Agra and seconded by H. Stafford 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 A. Agra to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

10. **NEW BUSINESS**

There was no new business.

11. **ADJOURNMENT**

At 10:47 a.m., there being no further business, **MOTION** was made by N. Shevock and seconded by T. Shaw to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

Joanna M. Adams
Joanna M. Adams (Dec 18, 2020 11:35 EST)

Joanna M. Adams
Pension Administrator

Suzanne B. Grant
Suzanne B. Grant (Dec 19, 2020 07:07 EST)

Suzanne Grant, Chair
Board of Pension Trustees