

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF JULY 31, 2015

The meeting of the Board of Pension Trustees was called to order by Tom Shaw, Acting Chair, at 9:02 a.m. in Delaware Conference Room in the Pension Office.

Trustees Present

Tom Cook
Tom Shaw
Art Agra
Helen Foster
Ann Visalli

Trustees Absent

Suzanne Grant
Nancy Shevock

Others Present

Kathy Kunkle, Pension Office
Terri Timmons, Pension Office
Jennifer Dilworth, Pension Office
Rob Gooderham, Ashford Consulting Group
Joe Malloy, PAC
Charlotte Lister, PAC
Courtney Stewart, Legislative Analyst

1. **OPENING COMMENTS**

T. Shaw, Acting Chair, welcomed everyone to the meeting.

2. **APPROVAL OF THE MINUTES**

The Trustees reviewed the Public Minutes of the June 26, 2015 meeting.

MOTION made by H. Foster and seconded by A. Agra to approve the Public Minutes of the June 26, 2015 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the June 26, 2015 meeting.

MOTION made by A. Agra and seconded by H. Foster to approve the Executive Minutes of the June 26, 2015 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. **PENSION AUDIT REPORT**

A. Agra reported that the Audit Committee met on July 24th. The Audit Committee appreciates the Pension Office staff for all their help. The FY15 audit process has started. The Board fully discussed concerns relating to the FY14 audit and any remaining issues which might impact the FY15 audit. Sophia Smith, with Ashford Consulting Group, presented the Audit Committee with a very helpful review of risk from an audit perspective. K. Kunkle provided a review of control activities for the audit.

4. **PENSION ADVISORY COUNCIL REPORT**

No report.

5. **PENSION ADMINISTRATOR REPORT**

Risk Management – No Report

Legislative Update –

- SB 50 Expands the definition of a Correctional Officer in the State Employees' Pension Plan. Bill was signed by the Governor.
- SB 53 Allows a volunteer fire company or ladies auxiliary in the Volunteer Firemen's pension plan to withdraw from the plan. As part of the withdrawal process the company or auxiliary would pay a withdrawal liability payment – Bill not signed as of today.
- HS 1 for HB 225 Section 72 of the appropriation act reverts \$7 million from the County/Municipal COLA fund to the State's General Fund in FY16. Bill was signed by the Governor.

Quarterly Statistics –

K. Kunkle reported that healthcare additions were down during the fiscal 4th quarter versus previous quarter. In addition it was concluded that our pensioners did not make many changes during healthcare re-opening. Estimate requests have increased in the last quarter. Refunds and Burial Benefits were also higher during the 4th quarter. One other area where an increase was seen was the number of forms and documents that were imaged into our OnBase imaging system.

Governance Project Update –

T. Shaw reported that 99% of the requested documentation has been given to AON Hewitt. There are interviews scheduled for next week with Staff Members, Board Members, Governance Committee and Committee Chairs. AON is in the review phase now. Committee meetings have been scheduled for the near future and we are still on target for completion date.

Continuity of Operations Plan (COOP) –

K. Kunkle reported that this process is going forward and is even ahead of schedule at this time. A review of the final plan will happen in early September and any changes that are needed will be completed at that time.

GFOA Award -

DPERS was awarded the GFOA award for last year's CAFR. K. Kunkle is working diligently on this year's information for the CAFR.

Cost Effective Measurement (CEM) –

K. Kunkle reported that the Pension Office has been participating in the CEM Benchmarking since 2005. Out of 74 pension systems, DPERS is compared to 11 systems in our peer group.

The Pension Administrative cost of \$73 per active member represented a decrease from the previous year per member cost of \$81.

DPERS' cost was \$38 below our peer average, attributable to DPERS relative smaller size, and the resulting economies of scale advantage: lower transactions per member; higher tractions per FTE; lower costs per FTE salaries and benefits, building and utilities, HR and IT desktop; high third-party and other costs in front-office activities; and paying more or less for back office activities.

The total score for services was 66 out of 100, and below the peer median of 78. Service is measured from the member's perspective. A higher service score is not necessarily better. This is because higher service may not always be cost effective or optimal; and the weights CEM uses are an approximation of the importance of individual service elements. The weights will not always reflect the relative importance that DPERS or its members attach to individual service elements.

Questions were asked and discussion was held on areas of this report.

K. Kunkle also shared a handout published by the National Institute on Retirement Security (NRIS), with the Trustees. Delaware scored 6 out of 10 on the major retiree cost score.

6. DEPUTY ATTORNEY GENERAL REPORT

No report.

7. INVESTMENT COMMITTEE REPORT

<u>Fund</u>	<u>Jun-14</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	-1.3 %	3.9%	3.9%
S & P 500 Index	-1.9%	7.4%	7.4%
60/35/5*	-1.6%	5.1%	5.1%
Delaware	-1.6%	2.4%	2.4%
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

Assets in the Fund at the end of June totaled \$9,267. The Fund's June return of -1.3% outperformed the Delaware Benchmark return. For the fiscal year 2015, the total Fund was up 3.9%, versus the Delaware Benchmark return of 2.4%.

Global equity and bond markets generally declined in June due to higher volatility caused by Greece and a steep decline in Chinese equities. Economic reports in the U.S. indicated improving labor market conditions and stronger consumer spending, but international anxieties weighed on U.S. equities, with the Russell 3000 index declining 1.7%. International equity markets fared worse, with both the MSCI EAFE and the MSCI All-Country World ex-U.S. stock index (which includes emerging markets) down 2.8%. Fixed income asset classes moved lower over the month as strong

U.S. economic reports helped bolster the case for the Federal Reserve to raise rates. However, Greek uncertainty helped to limit the rise in higher rates. The Barclays Universal Bond index fell 1.1%, while the Barclays TIPS index declined 1.0%.

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

At its meeting on June 30th, the Investment Committee met with Harvest Fund Advisors, the Fund's MLP manager, which was hired in December 2014. In addition, the Investment Committee voted to recommend that the Board, by poll vote, approve the termination of the Bares Small Cap account with mechanics of the transition to be recommended by Ashford Consulting Group to the Investment Committee Chair. Proceeds from the liquidation are to be allocated to the cash account.

Mr. Reese was thanked for his many contributions to the System, as he stepped down from the Investment Committee after the June 30th meeting, following almost 12 years of service with the Investment Committee, which included eight years as Board Chair.

At its meeting on July 21st, the Investment Committee voted to recommend to the Board a commitment of up to \$50 million to Summit Partners Growth Equity Fund IX, subject to satisfactory review of the documents.

Rutabaga Capital presented on their small cap account at the July 21st meeting. In addition, the Investment Committee, under its power to amend manager agreements, voted to approve amendments to the Schedule A for the Rutabaga account and the Schedule D for the T. Rowe Price Global Growth account.

The next meeting of the Investment Committee will be Tuesday, August 18th. The Thornburg Multisector Opportunistic team is due to present.

MOTION made by T. Cook and seconded by H. Foster 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 H. Foster and seconded by A. Visalli to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

MOTION made by H. Foster and seconded by A. Agra to ratify the poll vote taken to approve the termination of the Bares Small Cap account with mechanics of the transition to be recommended by Ashford Consulting Group to the Investment Committee Chairperson. Proceeds from the liquidation are to be allocated to the cash account.

MOTION ADOPTED UNANIMOUSLY

MOTION made by A. Agra and seconded by A. Visalli to accept the recommendation of the Investment Committee to commit up to \$50 million to Summit Partners Growth Equity Fund IX, subject to revised terms of the contract.

MOTION ADOPTED UNANIMOUSLY

8. **PENDING ITEMS**

There were no pending items.

9. **NEW BUSINESS**

There was no new business.

10. **ADJOURNMENT**

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

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Tom Shaw
Acting Chair for the Board of Pension Trustees