

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF FEBRUARY 26, 2016

The meeting of the Board of Pension Trustees was called to order by Suzanne Grant, at 9:04 a.m. in Delaware Conference Room in the Pension Office.

Trustees Present

Suzanne Grant
Nancy Shevock
Helen Foster
Ann Visalli
Tom Cook

Trustees Absent

Art Agra
Tom Shaw (via conference call)

Others Present

Dave Craik, Pension Office
Kathy Kunkle, Pension Office
Terri Timmons, Pension Office
Ann Marie Johnson, Deputy Attorney General
Josh Hitchens, Pension Office
Khairat Makanjoula, Pension Office
Lincoln Nathan, Pension Office
Jennifer Dillworth, Pension Office
Paul Roth, TVB Advisors
Rob Gooderham, Ashford Consulting Group
Charlotte Lister, Pension Advisory Counsel

1. **OPENING COMMENTS**

S. Grant welcomed everyone to the meeting.

2. **APPROVAL OF THE MINUTES**

The Trustees reviewed the Public Minutes of the January 29, 2016 meeting.

MOTION made by N. Shevock and seconded by A. Visalli to approve the Public Minutes of the January 29, 2016 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the January 29, 2016 meeting.

MOTION made by T. Cook and seconded by N. Shevock to approve the Executive Minutes of the January 29, 2016 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

MOTION made by A. Visalli and seconded by N. Shevock to amend the December, 2015 Public Meeting Minutes to reflect the Appeal Hearing decision of C. Guinan.

MOTION ADOPTED UNANIMOUSLY

3. **AUDIT COMMITTEE REPORT**

The GASB 68 Statements will be delayed for another month. There is work being done on the break out for the liabilities of each Plan. Cheiron, and KPMG are working on this with D. Craik.

4. **PENSION ADVISORY COUNCIL REPORT**

C. Lister stated that the Pension Advisory Council met in January and agreed to endorse the advocating of continuing contributions into the OPEB Fund.

5. **PENSION ADMINISTRATOR REPORT**

Risk Management -

P. Roth is working on reviewing investment agreements, monthly or quarterly reports and audited financial statements.

D. Craik reported that the vacant H.R. Specialist IV position was filled from within the office, thus still leaving one vacant position. He stated that we are in the process of re-classing three other new positions.

D. Craik reported that the Joint Finance Committee (JFC) is on their break. During the hearings in January the Delaware Retired School Personnel Association had requested that retirees get a 3% pay increase and also an increase of \$3,000 for the burial benefits.

D. Craik reported that the calculations for the Correctional Officers Comprehensive Annual Statements were incorrect. This is being looked into and has been made a priority.

During the January meeting it was agreed that anyone who is within 5 years of retiring should be mailed a letter advising them on what they need to do to prepare for retirement. We have learned that there are roughly 12,000 employees who are eligible to retire within the next 5 years. The letter is being worked on and the letters will be mailed shortly.

D. Craik reported that the retirees were mailed their tax forms at the end of January. There were 1,200 pieces of mail returned due to unknown addresses. Retirees are moving and not notifying the Pension Office, and we are also not hearing from beneficiaries of deceased retirees.

The "Ray J" Johnson annual award was given to Amy Jozwiak this year.

D. Craik reported that the quarterly statistics reflected a significant decrease for the 2nd quarter in the following areas: New Pension Applications, Deletes (deaths and RTW), and Healthcare additions. The 1st quarter statistics reflect the Healthcare Reopening figures. The requests for Estimates increased during the 2nd quarter. The Disability statistics reflect 4 new cases.

6. DEPUTY ATTORNEY GENERAL REPORT

Ann Marie Johnson attended the National Association of Public Pension Attorney's (NAPPA) conference last week, held in Washington, D.C. The following reports upon some of the key updates in the field of public pension law:

- Investment Section Meeting
 - Current trends in private equity. *Key takeaway:* Pattern of lower returns generally and expectation of lower returns in the near term.
 - Ins and outs of direct vs. indirect infrastructure investments. *Key takeaway:* DPERS does not invest in local infrastructure.
 - Untangling the Cat's Cradle. *Key takeaway:* The SEC is raising the bar for due diligence in the negotiation and decision making process in private equity.
- Fiduciary and Plan Governance Section
 - Fiduciary discretion and authority in investments. *Key takeaway:* Many systems moving towards either planned de-risking over time and/or social investing.
 - Fiduciary responsibility in selecting and managing relationships with service providers. *Key takeaway:* Although unclear how this might be incorporated

into current relationships. Possibly in future contracts. Sheds some clarity on Pay to Play rules.

- Benefit Section
 - Responding to media. *Key takeaway:* This is a tricky and nuanced topic. Some positive PR is in order, but must be carefully and narrowly tailored to address misinformation.
- Tax Section
 - Update on current tax issues. *Key takeaways:* Good to understand, but does not directly impact DPERS. Good review of this topic. Will need to get a sense from tax council about what they recommend for DPERS going forward. Cadillac tax implementation delayed until 2020, and regulations need to be published.
- Senior Counsel Section
 - Helpful discussion about setoff rights in bankruptcy for overpayments, etc. Clarity on right of bankruptcy court to garnish payments in light of anti-alienation statutes. *Key takeaway:* These are very important discussions for DPERS to have, and more compliance oversight and documentation would enhance the governance function and be in keeping with best practices.

Discussion was held on how systems manage compliance on legal matters.

7. INVESTMENT COMMITTEE REPORT

<u>Fund</u>	<u>Jan-16</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	-2.9%	-6.7%	-3.1%
S & P 500 Index	-5.0%	-4.8%	-0.7%
60/35/5*	-2.5%	-2.1%	-0.5%
Delaware	-3.1%	-5.3%	-3.3%
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

Estimated assets in the Fund at the end of January totaled \$8,490 million. The Fund's estimated January return of -2.9% outperformed the Delaware Benchmark return of -3.1%. For the fiscal year to date, the total Fund was down -6.7%, versus the Delaware Benchmark return of -5.3%.

Global equities experienced declines in January, while fixed income benefited from a move to "safe-haven" assets amidst heightened volatility. Concerns over slowing global growth and an acceleration in the drop of the price of oil weighed heavily on investor sentiment during the month. The broad Russell 3000 index falling 7.2% and the MSCI All-Country World ex-U.S. stock index (which includes emerging markets) declining 6.8%. In this risk-averse environment, high quality fixed income assets saw positive returns and lower credit quality assets moved down. The Barclays

Aggregate index was up 1.4% and while the riskier JP Morgan Global High Yield index moved lower by 1.6% for the month.

Since the Board's last meeting, the Investment Committee has met once, on February 16th.

The Investment Committee received a presentation from T. Rowe Price about that firm's floating rate bank loan strategy.

The Investment Committee voted to recommend that the Board, by poll vote, approve a commitment of up to \$40 million to three new Accel Partners funds: Accel XIII, Growth IV, and Leaders Fund, subject to satisfactory review of the documents.

The next meeting of the Investment Committee will be Tuesday, March 15th.

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

MOTION ADOPTED UNANIMOUSLY

MOTION made by T. Cook and seconded by N. Shevock to ratify the poll vote to approve a commitment of up to \$40 million to three new Accel Partners funds: Accel XIII, Growth IV, and Leaders Fund, subject to satisfactory review of the documents.

MOTION ADOPTED UNANIMOUSLY

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

MOTION ADOPTED UNANIMOUSLY

8. **PENDING ITEMS**

There were no pending items.

9. **NEW BUSINESS**

There was no new business.

10. **ADJOURNMENT**

At 11:33 a.m., there being no further business, MOTION was made by T. Cook and seconded by N. Shevock to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator