

STATE OF DELAWARE

INVESTMENT COMMITTEE MEETING MINUTES

August 16, 2016

The Investment Committee met at Walker's Mill at 8:30 a.m. on August 16, 2016. Present were Committee members George J. Saxon, Chair, Suzanne B. Grant, Nancy Shevock, A. Dale Stratton, and Mark Stalnecker. Also present were Robert D. Gooderham, Garry A. Musto, Seth J. Yablonovitz, Ann Marie Johnson, David C. Craik, Paul Roth, Melysa Montano, and Julia Delack.

The public session minutes of the July 19, 2016 Investment Committee meeting were approved with corrections.

Mr. Stalnecker moved, Ms. Shevock seconded, and the Committee unanimously approved a motion to enter Executive Session at 8:35 a.m. to consider sensitive commercial information, proprietary business information, trade secrets and confidential financial information.

The Committee returned to public session at 11:50 a.m. by unanimous vote, on the motion of Ms. Stratton, seconded by Ms. Shevock.

The executive session minutes of the July 19, 2016 Investment Committee meeting were approved with corrections.

On the motion of Ms. Stratton, and seconded by Mr. Stalnecker, the Committee under its authority to execute documents relating to partnerships over which it exercises authority, approved an amendment to the operating agreements of Media Technology Ventures III Pledge Fund.

There being no further business to come before the Committee, the meeting was, on the motion of Ms. Shevock, seconded by Ms. Grant and unanimously approved, adjourned at 11:55 a.m.

Respectfully submitted,

/S/Robert D. Gooderham

Robert D. Gooderham
Executive Secretary

/S/George J. Saxon

George J. Saxon, Chairperson

STATE OF DELAWARE

INVESTMENT COMMITTEE MEETING MINUTES

EXECUTIVE SESSION
CONFIDENTIAL

August 16, 2016

The Committee reviewed the executive session minutes of the July 19, 2016 Investment Committee meeting.

Mr. Gooderham reviewed preliminary July performance for individual managers and the Total Fund, noting underperformance during the month due to the domestic equity segment and lagged partnership returns. He described the challenging macro environment where rates are expected to remain lower for longer, stocks are out-yielding bonds, and the concept of the “TINA” (there is no alternative) trade.

Mr. Yablonovitz then commented on the Fund’s strategies in response to a question from the Committee. Starting with Brahman, Mr. Yablonovitz noted he is re-underwriting the investment thesis for Brahman following the firm’s large Valeant position and resulting capital loss. Mr. Yablonovitz noted that while the firm has not changed their investment process of seeking strong businesses with attractive capital allocation processes and transformational CEOs, they have become more sensitive to trim or exit a position when there is any change in the CEO. They have also become more aware of overcrowding trades such occurred with Valeant. He mentioned he’s also in discussions with Angelo Gordon regarding their underperformance and high fees. Lastly, he commented on Vikings difficult calendar year, which was magnified in February when they reduced their gross exposure, locking in losses.

Mr. Gooderham continued reviewing the Fund’s second quarter and fiscal year performance which both lagged Delbench. Long duration bonds and the Barclays Aggregate were the highest returning segments of the market in the second quarter. For DPERS, the Mellon Aggregate Index and Wellington Dividend Growth portfolios were top contributors to performance. International equity managers and private partnerships detracted.

To further dissect the Fund’s recent performance, Mr. Gooderham distributed additional charts showing longer history of DPERS’ peer group performance, performance versus Delbench, and additional attribution. Despite disappointing performance relative to the benchmark and peer group, the Fund has been in this position before, in the early 1990s and again in the trailing 5 year period in the early 2000s. In both instances, the Fund rebounded nicely. To review trailing 5-year return attribution, Mr. Gooderham noted the overweight to equities as well as the privates ex-Riverstone both added to performance. The energy sector performance was the largest drag both the public exposure and was more pronounced in the private program through Riverstone. Total fixed income exposure was

additive to 5 year performance despite the overweight to cash. Finally, Mr. Gooderham reviewed an analysis of asset-weighted benchmark-relative returns over the last 5 years. It illustrated overall positive asset allocation positioning versus Delbench but negative attribution from asset allocation within major asset classes (style, market cap, etc) which was driven by domestic equity. The Riverstone allocation also proved to be a headwind over 4 of the last 5 calendar years.

Mr. Gooderham also provided additional information about DPERS' portfolio positioning versus TUCS universes. It showed DPERS has less public US and international equity exposure versus peers and higher fixed income and alternatives exposure.

Moving on to DPERS' manager performance in the second quarter, Mr. Musto outlined results of several managers including the underperformance of equity managers Sanderson, Dodge & Cox, Focused, and Wellington, as well as fixed income managers Loomis Sayles and Thornburg. Overall, he concluded the portfolios are being managed to their stated mandates despite recent underperformance.

In response to a question from the Committee regarding whether the small allocation to Dodge & Cox International was necessary, he noted the liquid mutual fund structure allows for quick implementation should DPERS desire to increase the international equity position in short order.

Mr. Musto then introduced the Sanderson International Value strategy noting the firm was appointed by DPERS in 2009 as an international value manager with a quality bias. The team of 8 analysts is led by Tim Sanderson, Founder and Chief Investment Officer. Historically the position has added approximately 3% annualized over the MSCI EAFE index. The 2015 calendar year underperformance was the first full year underperformance since DPERS appointed the firm. Mr. Musto noted areas worthy of additional diligence including Tim's continued involvement in the investment process and the firm's ownership structure as it relates to professionals who leave or retire.

At this point Mr. Tim Sanderson (Chairman and Chief Investment Officer) and Holly Harralson (Director of Marketing and Client Service) Sanderson Asset Management joined the meeting and turned to detailed materials in connection with Delaware's investment in the International Value fund.

Ms. Harralson provided an update on the organization, noting there have been no changes to the firm's singular focus on the international value strategy or the investment professionals. The firm has been managing to target capacity of \$5 billion in net client contributions since late 2011 and a wait list allows the firm to match new or existing client investments against redemptions.

In response to a question from the Committee regarding the firm's ownership structure, Ms. Harralson noted 49.9% is owned by Silchester International Investors and the remainder is owned by current and former Sanderson employees including Tim at about 28%, and two former employees who combined own 9%. Firm profits are distributed 60%

to active Sanderson employees at the discretion of Tim Sanderson and the remaining 40% is distributed to shareholders in the form of a dividend. In the instance of retirement or resignation by an existing shareholder, he or she may maintain their shares themselves or leave them to their family. If they wish to sell, active Sanderson employees have first right to purchase.

Mr. Sanderson then reviewed the portfolio's current positioning. From a sector perspective, the portfolio is tilted toward cyclical sectors including industrials, information technology, and materials. While there is exposure to less cyclical names such as consumer staples and utilities, valuations in those sectors are currently less attractive. From a geographic perspective, the portfolio is most underweight Europe ex-UK, specifically the Mediterranean countries. The UK exposure continues to be overweight although the allocation primarily represents globally exposed companies listed in the UK such as GlaxoSmithKline and Rolls Royce. The portfolio has also begun to add to the emerging markets exposure as those economies don't look as dire as they appear now that the commodity slide seems to have moderated.

Providing some comments on Brexit, Mr. Sanderson noted that despite the initial drop in equities and the weakening pound, the overall result has been positive for corporate earnings. Uncertainties for actions and timing remain but the initial panic has subsided.

From a valuation perspective, the portfolio is attractive, particularly from a normalized price-to-earnings and a price-to-cash flow perspective. In response to a question from the Committee regarding normalized earnings, Mr. Sanderson noted Sanderson's internal models predict higher earnings two to three years out than expectations.

Mr. Sanderson then went through several company examples in the portfolio to illustrate the investment process from the screenings and analyst research, to the investment committee presentation and debate, and finally to the implementation committee.

Following further discussion, the Sanderson group withdrew from the meeting.

The Committee then discussed the Sanderson presentation and requested additional detail on the ownership structure in the case of employee retirement or resignation.

As a follow-up from a previous meeting regarding the Fund's exposure to passive investments, Mr. Gooderham distributed a chart which shows the Fund has approximately 25% invested in passively managed accounts (including TIPS). Passive exposure since 2009 has largely been above 20%.

Mr. Musto then provided an overview of the results of the securities lending program noting approximately \$222,000 of income in the second quarter, of which Tesla was the large contributor at approximately \$137,000. He updated the Committee regarding the logistics of recalling a security from the program and noted he is still working with Northern Trust to ensure securities can be recalled in a timely manner. Mr. Musto also noted in

addition to Tesla, Baillie Gifford has requested that ARM holdings be recalled as well. He continues to work with the pension office to execute the process.

Mr. Gooderham turned to a proposed amendment to the operating agreement for Media Technology Ventures III Pledge Fund. MTV has requested a one year fund extension to allow for orderly wind down of the two remaining companies in the fund. The fund has not charged management fees and will continue to not charge fees during the extension period. The Committee consented to the amendment.

Mr. Gooderham then reviewed Volunteer Firemen's Fund second quarter results noting performance was in line with expectations given this fund's use of a rebalancing approach employing index funds. The funds produced close to benchmark performance with any noticeable variations due to Vanguard's pricing practices for non-US investments.

Mr. Craik distributed a copy of the investment section of the CAFR and asked the Committee to review and provide comments at the next meeting.

The next meeting is scheduled for Tuesday, September 13th.

Respectfully submitted,

/S/Robert D. Gooderham

Robert D. Gooderham
Executive Secretary

/S/George J. Saxon

George J. Saxon, Chairperson