CIVILIAN PENSION BOARD

The Civilian Pension Board meeting was held on February 26, 2014 at 10:00 a.m. with Mr. Scott Koenig, City Manager, presiding in the absence of Chairman Lynn. Members present were Mrs. Hettinger and Mrs. Mitchell. Mr. Bonar, Mr. Blakeman, and Mr. Clendaniel were absent.

Mr. Koenig advised members that no official action could be taken because a quorum was not present; however, the scheduled review and updates would be provided. He noted that the Board may have to schedule a special meeting if official action is required.

Approval of Minutes - Civilian Pension Board Meeting of November 14, 2013

Due to the lack of a quorum, the minutes of the Civilian Pension Board Meeting of November 14, 2013 will be placed on a future agenda for consideration.

Quarterly Performance Review *(Quarter Ending December 31, 2014) (Milliman, Inc.)*

Mr. Jeff Marzinsky, Principal and Employee Benefits Consultant, Milliman, Inc., reviewed the Quarterly Performance Monitor Report for the Quarter Ending December 31, 2013. Referring to the Board Meeting Notes dated February 12, 2014, he noted that the plan had $32.8M in assets, which was an increase from $30.9M on September 30, 2013 and $24.6M at the end of 2012. The plan had a return of approximately 4% for the quarter, which was generally in line with the index. Performance was approximately 8.72% for the year, slightly below the index, and Mr. Marzinsky noted that the timing of cash contributions through the year had contributed to this return. He advised members that plan assets are rebalanced to target allocations at the end of each quarter and were in line with those allocations at quarter end.

Referring to Page 3 of the Report - Market Indices - 4th Quarter 2013, Mr. Marzinsky explained that equity investment categories were positive for the year; however, due to rising interest rates, bond investments had negative returns as did emerging markets. He stated that U.S. stock markets had declined during January and early February 2014 but had begun to rebound. He indicated that the Standard & Poor (S&P) index was flat for the year, after having declined 3% - 4%, and the Dow Jones industrial average had increased from -5% to -2% year to date. Some positives were being seen in that the government had indicated an intent to keep long-term interest rates low for the next 18 months to two (2) years, which he felt could spur the economy. Mr. Marzinsky stated that unemployment was improving slightly and the overall rate was reduced; however, great improvements had not been seen in adding jobs to the economy. He noted that bad weather over December and January had affected job growth, economic conditions, sales, and production. He stated that the overall outlook was cautiously positive.

In reviewing Page 9, Asset Allocation, Mr. Marzinsky reiterated that the assets were generally in line with the plan's asset allocation targets. He informed members that the statistics on Page 10 - Investment Policy Review - Active Management, reflected that the majority of investments ranked well within their peer groups; however, there was a little underperformance in some investments. He noted that PIMCO had a management issue in that its Chief Executive Officer would be leaving the firm within the next couple of months and PIMCO was restructuring its research and upper management sections. Milliman had scheduled a meeting with them this week and would monitor developments within PIMCO, which is the largest fixed income manager in the world. Mr. Marzinsky stated that the Target Small Cap Value Fund also had slight underperformance.

Referring to Page 12 - Investment Option Return Summary, Mr. Marzinsky stated that, in general, all of the equity funds had positive returns for the year. Emerging markets had a slight negative return for the year to date and in the 1 Year Column; however, the 3 Month return for the plan showed an approximate 4% return for the quarter and close to a 9% return for the year, which was generally in line with the indexes. He noted slight underperformance due to the Pension Fund's cash allocation, which he stated was a little high during the previous summer, as discussed during the meeting held on November 14, 2013. Mr. Marzinsky stated that the fund appeared to be generally in line in terms of asset allocation and returns and reminded members that the portfolio is diversified and not fully equity based; therefore, it is not realizing high, double-digit returns, but it also has less volatility due to the balanced mix of bonds and stocks.

Referring to the Competitor Analysis Report, Mr. Marzinsky stated that the Harding Loevner Global Equity Institutional Fund was initially recommended by the General Employee Pension Fund's prior advisor as a non-U.S developed market stock fund. He indicated that this fund has a large U.S. stock exposure, which is causing some overlap with its holdings as well as with some of the holdings of other mutual funds in the Civilian Pension Fund's portfolio. He stated that, with the U.S. exposure, it is really not an international mutual fund, as it should be. It was suggested that a more focused international fund be considered as a replacement. Mr. Marzinsky stated that two (2) potential replacement funds had been examined. The first fund, the MFS Institutional International Equity Fund, has a focused non-U.S. portfolio with large, growing companies outside the U.S. that have good sustained growth financial performance. The second fund, the Oppenheimer International Growth Y Fund, has the same type of strategy, with growing companies that have good economies of scale and new technologies. In reviewing the Trailing Peer Group Performance on Page 1 of the Report, Mr. Marzinsky stated that the Oppenheimer Fund has good returns and ranks well within its category over just about every time period. This fund was recommended as a replacement for Harding Loevner due to its better returns, better rank compared to its peers, lower level of risk for the performance it is generating, and comparable Alpha and Sharpe statistics. It also had expenses comparable to the other funds evaluated. He noted that this fund was also recommended to the Police Pension and Other Post-Employment Benefits (OPEB) Boards. Mr. Marzinsky proposed that the Board consider replacing the Harding Loevner Global Equity Institutional Fund with the Oppenheimer International Growth Y Fund.

Mr. Koenig reminded members that the Board could not take official action at this time. Mrs. Hettinger expressed her concurrence with Milliman's recommendation.

Update - 2013 Form 1099's for Retirees

Members were provided correspondence from Ms. Virginia Karablacas, Relationship Manager/Vice President, Wells Fargo, dated February 12, 2014 regarding Recent Service Concerns ***(Attachment #1***). Mrs. Donna Mitchell, Controller/Treasurer, advised members that representatives from Wells Fargo were present to speak to members regarding problems experienced in providing Form 1099's for retirees. Mr. Tony Marsella, Wells Fargo Senior Vice President/Managing Director, stated that he was responsible for the Wells Fargo Relationship Management Team in the northeast. He apologized personally for the tax reporting errors and inconvenience caused to retirees. He assured members that he had been involved in several management discussions to ensure that a process was

in place to prevent further recurrence and stressed the importance of his own relationship, as well as Wells Fargo's relationship, with the City of Dover.

Ms. Virginia Karablacas, Wells Fargo Relationship Manager/Vice President, stated that she was ultimately responsible and accountable for the City's overall satisfaction. She indicated that there were two (2) key issues that brought Wells Fargo to the meeting today, Form 1099 corrections and concerns regarding the issuance of monthly payment confirmations/advices to retirees in a timely manner in January and February 2014. She stated that the City had not experienced the same level of service over the last couple of months as it had prior to these issues. She informed members that Wells Fargo had evaluated the circumstances, identified the root cause of the issues related to both concerns, and put appropriate corrections in place. She indicated that all of the Form 1099R's had been generated and mailed in early February and pay advices for January, February, and March had been generated and mailed. This matter had received the attention of executive management within Wells Fargo and a number of discussions had been held, which allowed Wells Fargo staff to identify opportunities to enhance their standard operating procedures going forward. Ms. Karablacas stated that her goal was to restore the confidence that the City experienced previously and that Wells Fargo was committed to partnering with Mrs. Mitchell to ensure that the City's needs are met.

Mrs. Hettinger stated that she accepted Wells Fargo's apologies on behalf of members who were not present; however, she expressed concerns regarding Wells Fargo's handling of retiree payments. She recalled that when the City was responsible for disbursing checks, if the first of the month occurred on a Saturday, checks were deposited on Friday afternoon and were payable on Saturday. She expressed her opinion that Wells Fargo was not very prompt in getting the checks deposited so that retirees can use funds, noting that many pensions received are small and retirees need quick access to these funds. Mrs. Hettinger felt that this had improved lately; however, it was still "not good." She expressed additional concerns about difficulties in allocating checks to multiple bank accounts and confusion regarding the way that gross and net pay were reflected on pay statements. She noted that there were many members of the General Employees' Pension Plan, including herself, who did not understand the numbers included in the statements that they receive each month. Mrs. Hettinger recommended that the City bid out these services when its agreement with Wells Fargo is up for renewal.

Ms. Karablacas expressed her appreciation for the feedback received, stating that she was not aware of some of these items. Ms. Karablacas stated that she would look into this matter herself upon returning to her office. She indicated that her goal was to restore the confidence that the City once had with Wells Fargo. She noted that her firm handles these types of services for thousands of clients and "gets it right" most of the time. She stated that they would evaluate what they had heard today and partner with Mrs. Mitchell to make sure that the City is receiving what is needed.

Mrs. Mitchell also offered to research these concerns. *[Clerk's Office Note: Subsequent to the meeting, the Clerk's Office was informed by Mrs. Mitchell that she had researched the concerns expressed by Mrs. Hettinger. She indicated that retiree payments are processed by Wells Fargo with all of their other client retiree payments and that Wells Fargo is following banking regulations when issuing these payments. In addition, she stated that Wells Fargo offers the option to allocate checks to multiple accounts and net pay amounts are being reflected accurately on pay statements.]*

Mrs. Hettinger noted that the problem with the Form 1099s cost her $40 because, in the absence of the Form 1099, she had provided her accountant the 2012 form and he had to redo her taxes when the 1099 Form was received.

Responding to Mr. Koenig regarding whether these types of concerns should be reported to City staff or Wells Fargo, Mrs. Mitchell explained that either approach can be used. She indicated that retirees can contact City staff with concerns and also have the option to call Wells Fargo directly, although she cautioned that staff answering the bank's toll free number may not be familiar with their account or with the problems the City has been experiencing. She stated that Wells Fargo sent a letter to each retiree regarding the Form 1099 issue which included contact information for the appropriate contact at the bank.

Meeting adjourned at 10:24 a.m.

Scott D. Koenig
Acting Chair

SK/JS/dd/tm
S:\AGENDAS-MINUTES-PACKETS-PRESENTATIONS-ATT&EXH\Misc-Minutes\PENSION\2014\02-26-2014 Civilian Pension.wpd

Attachment
Attachment #1 - Correspondence from Virginia Karablacas, Wells Fargo dated February 12, 2014 - Recent Service Concerns

Institutional Retirement & Trust
MAC Y1379-070
123 South Broad Street, 7th Floor
Philadelphia, PA 19109

RECEIVED FEB 19 2014

February 12, 2014

Donna S. Mitchell, CPA
Controller/Treasurer
City of Dover
5 E. Reed Street
Dover, DE 19901

RE: Recent Service Concerns

Dear Donna,

The purpose of this letter is to provide you with a summary of the recent service concerns, including results of our research and the outcomes as outlined in our meeting with you today. We acknowledge that the combination of these issues in a very short period of time has caused significant inconvenience for you, others on your team, and your retirees. We sincerely apologize, and would like to assure you that we have taken the necessary steps to understand the root cause and to implement the appropriate corrective measures.

2013 1099R Corrections

Issue: Upon your notification on January 21, 2014 that there may be a potential issue with the 2013 1099Rs, we immediately began our research. We determined that Wells Fargo did not retroactively correct the IRS payment type code for 49 retirees, which resulted in two 1099Rs being generated and mailed for each retiree. This was caused due to an internal training issue that has been addressed.

Resolution: Wells Fargo has generated and mailed corrected 1099Rs to the 49 retirees. In addition, we have informed our Retirement Service Center regarding this matter in the event further inquiries are received. Further, we have prepared a letter of apology to the impacted retirees. Included in the letter is the contact information for a dedicated Client Service Consultant familiar with the details that will be available to your retirees to address any questions. These letters are being mailed today.

2014 February Payment Confirmations / Advices

Summary: When you alerted us on February 6, 2014 that there may be a potential issue with the 2014 February pay advices, we began our research. We initially advised that advices for individuals set up to receive pay advices had been mailed. We recently determined a system issue that prevented these pay advices from printing.

Resolution: The team is actively working to resolve the system issue that impacted a small number of plans, including yours. In the meantime we are having the February advices printed and sent to all of the retirees.

Together we'll go far



Institutional Retirement & Trust
MAC Y1379-070
123 South Broad Street, 7th Floor
Philadelphia, PA 19109

System Access

Summary: Upon notification from you on January 17, 2014 that you were experiencing issues with editing retiree information on RPP, we immediately began our research. Our research indicates that the issue you experienced is a stand-alone issue. We were able to trace the issue back to a file that was uploaded and recalled several times on December 18 and 19, 2013, which resulted in certain retiree records "freezing". Our technology team reviewed the records on the file, and has taken steps to ensure the retiree records are no longer frozen.

Resolution: We want to ensure that you continue to have a positive experience with RPP as you did prior to this recent issue. We are absolutely available to provide additional training on the system if that would be helpful. Also, we want to be available for you when it is time to make your next edits in the system. If you advise us regarding the timing of future edits, we would be happy to be on the line with you and/or your team to walk through the process.

Donna, our goal is to restore the confidence you once had with Wells Fargo. We understand that these issues have created disruption, and want to stand by you as your partner to provide you with the quality service you have been accustomed to. Further, we are happy to attend the Retirement Board meetings scheduled for the end of February to personally address these issues. Please let us know the specifics of these meetings.

I look forward to seeing you soon. In the meantime, please do not hesitate to contact me if you have any questions or need additional information.

Sincerely,

Virginia

Virginia Karablacas
Relationship Manager
Vice President
Tel (215) 670-7735 | Cell (267) 634-9329 | Fax (215) 670-7791
virginia.karablacas@wellsfargo.com

Together we'll go far

