JOINT CIVILIAN AND POLICE PENSION BOARDS

The Civilian and Police Pension Boards met on February 8, 2012, at 3:00 p.m. with Dr. McGlumphy, Chairman of the Civilian Pension Board, presiding. Members present were Councilman Bonar, Mr. Koenig, Mrs. Mitchell, Mr. Blakeman, Mr. Clendaniel, Mrs. Hettinger, Chief Hosfelt, Ret. Lt. Knotts, and Ret. Cpl. Stallings. Ret. Lt. Mullaney was absent. Mr. Hare and Mayor Carey were also present.

AGENDA ADDITIONS/DELETIONS

Mr. Bonar moved for approval of the agenda as presented, seconded by Mrs. Mitchell and unanimously carried.

INVESTMENT PERFORMANCE ANALYSIS REPORT - PRESENTED BY PEIRCE PARK GROUP

Mr. Lee Martin, Principal and Senior Investment Consultant, Peirce Park Group, reviewed the City of Dover Investment Performance Report dated December 31, 2011. In reviewing the Highlights of the Report (Page 1), he noted that the Employee Fund increased by 6.5% for the quarter and the Police Fund increased by 6.3%. Both funds ranked well above the median and were in the 36th percentile of all public funds for the quarter, gaining over $1.5M in the Employee Fund and over $600,000 in the Police Fund. Over the past three (3) years, the funds have ranked in the top quartile of public funds, while maintaining low volatility.

Mr. Martin noted that approximately seven (7) years ago, the City changed from a single balance manager to more diversified, low-cost institutional funds. Since that time returns have averaged approximately 1% better each year than if funds were strictly benchmarked. Since implementing this approach, the City has earned approximately $350,000 per year (a total of approximately $2.5M). Mr. Martin noted that the City is considered to be of Peirce Park Group's best public fund clients and the firm was proud of the City's strong long-term performance compared to its peer groups.

In reviewing individual funds, Mr. Martin stated that the Vanguard Value Index Fund has performed very well over the years and helped to keep costs down. He explained that he planned to discuss ways to dampen volatility by transferring funds from the Vanguard Value Index Fund to a more defensive-minded large value manager and suggested that more of the core space funds be indexed. Mr. Martin noted that 21% of the Vanguard Value Index Fund is invested in financials, which are very volatile.

He noted that the Vanguard Prime Cap Core Fund was closed to new entrants. He noted that this is a quality core growth fund with less than 10% turnover per year. Rolling three (3) year time periods indicate that this fund is always in the top decile for its peer group and over five (5) and seven (7) year periods, it was in the third or fourth percentile. He noted that it performed slightly behind its index last year and in the current quarter; however, he stressed that the results of this fund should be considered only over a three (3) to five (5) year period.

Mr. Martin described the Vanguard Morgan Growth Fund as an all cap growth fund (not just large cap) that has many assets but is well diversified with 340 stocks. This fund is expected to occupy

the median space. Although it was slightly behind in the last quarter (57th percentile), in the year to date it was 2% above its index and it ranked in the 15th percentile.

Mr. Martin stated that the DFA Targeted Value Fund has 1,500 holdings and buys smaller and mid cap value stocks. It performed very well last quarter and was doing very well in the current quarter. He advised members that this fund does better in up markets, unlike Vanguard Prime Cap Core which performs better in down markets, and these opposing positions are desirable for the City.

Mr. Martin explained that global equities are high-quality, global growth funds which perform better in down markets. In 2008, both of the City's global equity funds were in the top quartile, with extremely good long-term performance. Last quarter they were slightly below the median; however, in the current quarter they were approximately 2% above the index, ranking in the top quartile.

In regard to fixed income investments, Mr. Martin noted that performance rankings for the City's index investments funds over five (5) years indicate that the Vanguard Intermediate Bond Index Fund and Vanguard Short Term Bond Index Fund are in the 4th and 14th percentiles respectively. Mr. Martin stated that the long-term strategy of going with a steady "plain vanilla" allocation for fixed income investments has worked well for the City.

VALUE INVESTMENT OPTIONS - PRESENTED BY PEIRCE PARK GROUP

During the Joint Civilian and Police Pension and OPEB Boards Meeting of November 9, 2011, members requested that Peirce Park Group provide a presentation regarding value investment options at the next meeting. Mr. Lee Martin, Principal and Senior Investment Consultant, Peirce Park Group, reviewed the City of Dover Domestic Large Cap Value Equity Manager Search dated February 2012. He explained that Peirce Park performed a search to identify high-quality, low-cost, defensive-minded managers with established firms with long, proven track records. The four (4) firms selected were Capital Research and Management Company - American Funds Washington Mutual R6, Black Rock - Equity Dividend Institutional, T. Rowe Price - Equity Income, and The Vanguard Group - Equity Income Admiral. He noted that Peirce Park Group's suggestions on how the portfolio should be allocated would depend on the Boards' fund selection.

Mr. Martin reviewed the literature comparing the features, philosophies, returns, and risk metrics of the four (4) recommended funds. He noted that all recommended funds were more defensive-minded than the City's current allocation to Vanguard. Mr. Martin stated that all of the suggested firms have well over 20 years management experience. He explained that some variance from the index was desirable but that members should determine the level of variance with which they were comfortable.

In response to Mr. Hare, Mr. Martin stated that, in his opinion, the Vanguard Equity Income or American Funds Washington Mutual R6 Funds would best fit the City's needs.

Mr. Bonar moved to select The Vanguard Equity Group - Equity Income Admiral as the domestic large cap value fund to be included in the City's Employee and Police Pension Plan portfolio of investments, seconded by Mr. Clendaniel and unanimously carried.

Mr. Martin explained that Peirce Park recommended two (2) possible approaches to implementing this decision:

1) Remove approximately 14% of the funds from the Vanguard Value Index fund and add them to the Vanguard Equity-Income Fund and rebalance the portfolio to current targets. This would leave the City underweight in the mid-cap space compared to the market, and Peirce Park Group would prefer a slightly overweight position in mid-cap investments.

2) Remove all funds from the Vanguard Large Cap Value Index Fund, allocate 14% to the Equity Income Fund and 9% to a mid-cap Value Fund. This would provide a slight mid-cap overweight, the large cap funds would be at market value, and the small cap would be slightly underweight.

Mr. Martin explained that the difference in cost between the two approaches would be 30 basis points, which he did not consider significant.

Mrs. Mitchell felt that the second approach was the preferred option.

Mrs. Mitchell moved to rebalance the portfolio as follows: cash to 2%, fixed income assets to 33%, DFA International Value investments to 6.5%, liquidate Vanguard Value Index assets, DFA U. S. Targeted Value to 5%, Vanguard Equity Income to 14%, and Vanguard Mid Cap Value to 9%, seconded by Ret. Lt. Knotts and unanimously carried.

Mr. Bonar moved for adjournment, seconded by Mr. Blakeman.

Meeting adjourned at 3:45 P.M.

William P. McGlumphy
Chairman, Civilian Pension Board

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