OTHER POST-EMPLOYMENT BENEFITS (OPEB) BOARD

The OPEB Board meeting was held on February 12, 2015 10:00 a.m with Mr. Koenig presiding in the absence of Chairwoman Mitchell. Members present were Mr. Hare, Mrs. Williams, and Mrs. Hawkins.

AGENDA ADDITIONS/DELETIONS

Mrs. Williams moved for approval of the agenda, seconded by Mrs. Hawkins and unanimously carried.

Adoption of Minutes - Joint Civilian and Police Pension and Other Post-Employment Benefits (OPEB) Boards Meeting of December 11, 2014

Mrs. Williams moved for adoption of the minutes of the Joint Civilian and Police Pension and Other Post-Employment Benefits (OPEB) Boards Meeting of December 11, 2014, seconded by Mrs. Hawkins and unanimously carried.

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

Mr. Jeff Marzinsky, Principal and Employee Benefits Consultant, Milliman, Inc., reviewed the Board Meeting Notes - City of Dover, Delaware OPEB Plan. He advised members that as of December 31, 2014, the plan had approximately $19.5M in assets, which was a slight increase from $18.1M at the beginning of the quarter. Returns for the quarter were positive, and a contribution of approximately $800,000 was made. Mr. Marzinsky stated that the rate of return for the plan was approximately 3.36%, which exceeded the performance benchmark of approximately 2.76%; therefore, the benchmark was exceeded by approximately 60 basis points.

In response to Mrs. Williams regarding whether the $800,000 contribution was the minimum required, Mrs. Hawkins stated her understanding that this additional contribution was made from excess budget funds.

Mr. Koenig noted that the Board Meeting Notes reflected two (2) contributions, one (1) in the amount of $831,375 on June 30, 2014 and another in the amount of $800,000 on December 31, 2014. It was his belief that the second contribution was made from budget savings.

Responding to Mrs. Williams regarding payments required by the federal government, Mr. Koenig explained that the City maintains a payment plan for the Trust, and it was his belief that the City was in conformance with federal legislation regarding funding.

Mrs. Williams questioned which of the two (2) contributions was made in accordance with the City's OPEB payment plan. Responding, Mr. Koenig stated his belief that the $831,375 payment was made to satisfy federal requirements and the $800,000 was an additional contribution; however, he indicated that this would have to be confirmed by Mrs. Donna Mitchell, Controller/Treasurer. Mrs. Williams inquired about the percentage of the City's required contribution, and Mr. Koenig was unsure.

Mr. Koenig expressed his belief that approximately $83M was needed for the City's OPEB Trust to be fully funded and the funding gap was being amortized over approximately 30 years. He indicated that the contributions included in the Board Meeting Notes reflected a regular and a

catch-up contribution. In response to Mrs. Williams, Mr. Koenig confirmed that the catch-up contribution was allowable by the federal government.

Mr. Marzinsky reviewed the Quarterly Investment Monitor - Summary Report for the Period Ending December 31, 2014. Referring to Page 3 - Market Indices - 4th Quarter 2014, Mr. Marzinsky explained that the Barclay's indexes are fixed income indexes and that one (1) year fixed income returns were positive due to the decline in interest rates last year. He stated that interest rates had continued to drop in 2015, even though the Federal Reserve had hinted that they will raise rates at some point, and fixed income returns were positive year to date as well. Last year U. S. equities did well. Mr. Marzinsky stated that the Dow Jones Industrial Average, Standard & Poor, and Russell indexes had positive returns last year; however, the European and Far East (EAFE) indexes showed a slightly negative return of approximately 5% due to issues in Europe similar to those that U.S. experienced in 2008 and 2009. Mr. Marzinsky explained that there had been discussion regarding Europe doing its own version of a quantitative easing. This was approved a couple of weeks ago, and there had been some positive rebound at the beginning of 2015. In regard to emerging markets, he stated that there had been issues with growth rates and retail sales in China, which had been lower than in recent years, resulting in negative pullback in the portfolio in non-U.S. investments. Mr. Marzinsky stated that, in general, there was positive economic news in the U.S., with unemployment at its lowest level since 2008, and retail sales was the only struggling area. He indicated that there is a fairly good outlook going forward. Mr. Marzinsky reminded members that adjustments were made to the portfolio last year, lowering the duration and moving out of some of the longer-term bonds, since these are some of the areas that would be impacted more as interest rates rise.

In response to Mrs. Williams regarding how long a fund has to struggle before Milliman would recommend a change, Mr. Marzinsky stated that Milliman would typically monitor this over a couple of quarters. He noted that Wells Fargo has access to many different fund managers; for example, the large cap growth asset category may have 3,000 managers. Milliman would use their quantitative model to screen these investments and then perform due diligence by talking to managers. They would then come to the Board and provide three (3) options that would best fit the OPEB portfolio and review the pros and cons of each fund.

Mrs. Williams inquired if domestic production, such as natural gas, would be factored into the portfolio. Responding, Mr. Marzinsky stated that the portfolios are generally diversified and would not focus on a small area. He indicated that investments that focus on one (1) specific thing are more volatile.

Mrs. Williams questioned what percentage of the City's portfolio would be considered aggressive. Responding, Mr. Marzinsky stated, in terms of fixed income funds, that high-yield and longer-term investments would be more aggressive. On the equity side of the portfolio, emerging markets, non-U.S. funds, and small cap U.S. funds would be the three (3) most aggressive investments. He estimated that approximately 20% of the portfolio was invested in more aggressive funds.

In response to Mrs. Williams, Mr. Marzinsky stated that each of the investment funds would potentially have exposure to companies that produce or store natural gas, even the fixed income

investment companies. He noted that as the price of oil has decreased, share prices of some companies had decreased significantly over the last couple of months.

In reference to Page 9 - Asset Allocation - Mr. Marzinsky stated that the plan was rebalanced in August 2014 to the targets approved last year and is rebalanced at least quarterly to keep the risk profile intact. It is also reviewed when contributions come in. He indicated that there had been good improvements in the plan.

In reference to Page 10 - Investment Policy Review - Active Management, Mr. Marzinsky stated that this was the scorecard for fund managers. He explained that a zero (0) would be the highest return rank and 99 would be the worst, and excess return compares the fund manager to its benchmark. He stated that underperformance was seen in a couple of the funds, including the Target Small Capitalization Value T Fund. This fund is owned by Prudential and previously had multiple managers managing pieces of the portfolio. This policy would be changed as of January 2015 to use just one (1) manager, Quantitative Management Associates. In addition, a lead manager left the Ivy High Income I fund last year. If the new manager could not assume the portfolio and maintain its strong rankings, Milliman will recommend a change. Mr. Marzinsky stated that he would monitor these funds going forward due to under performance. If there are issues, he stated that Milliman would come back to the Board and make a recommendation for potential change.

Referring to Page 11 - Investment Policy Review - Passive Management, Mr. Marzinsky stated that the OPEB portfolio was designed to have market exposure by using index-type funds, which move up and down with market changes, as well as active investments using alpha managers. This allows for a good portion of market exposure, as well as managers who try to enhance exposure when the market goes up and decrease it when it goes down. Mr. Marzinsky advised members that index funds are generally low cost, and Milliman works with Wells Fargo to get into the lowest possible expense share class. He stated that the OPEB portfolio has some exposure to Vanguard Admiral shares and as assets increase, Milliman will work with Wells Fargo to obtain lower expense share classes.

Referring to Page 12 - Investment Option Return Summary, Mr. Marzinsky stated that the plan had a return of just over 3.4% for the quarter, compared to the benchmark of approximately 2.76%. The return for the last year was approximately 8.7%, exceeding the index of approximately 8.69%. Over the three (3) year period, the fund's return was approximately 10.6%. Mr. Marzinsky stated that the contributions and positive returns of the plan over the last few years would have the potential to improve its funded status.

Mr. Hare moved for acceptance of the report, seconded by Mrs. Hawkins and unanimously carried.

Discussion - Wells Fargo Bank Proposed Fee Changes and Mailing Cost

During the Joint Civilian and Police Pension and Other Post-Employment Benefits (OPEB) Boards Meeting of December 11, 2014, members discussed Trust Fund Custody Services. Mrs. Donna Mitchell, Controller/Treasurer, stated that she would discuss bank fees, postage rates, and the mailing of pay statements to retirees with Wells Fargo. Ms. Lori Peddicord, Assistant

Controller/Treasurer, referred members to an email dated January 28, 2015 from Ms. Virginia Karablacas, Relationship Manager/Vice President, Wells Fargo Institutional Retirement and Trust. Ms. Peddicord indicated that staff had a dialog with Wells Fargo about reducing some of the fees and Wells Fargo had offered to change the fee structure to three (3) basis points on the first $50M, two (2) basis point on the next $50M, and one (1) basis point on funds over $100M for the Employee and Police Pension Funds. She noted that Wells Fargo had also offered to reduce postage fees for the mailing of pay statements for City retirees from $0.49 per item to a flat $2.35 for all pieces of mail sent each month.

Mrs. Hawkins stated that mailing fees would not affect the OPEB Trust because no statements related to OPEB are mailed. Ms. Peddicord stated that it appeared that there had been a quarterly charge of approximately $130. Mrs. Hawkins was unsure about this charge because, although the funds are invested in the OPEB Trust for the employees, there are no statements mailed. *[City Clerk's Office Note: Subsequent to the meeting, Ms. Peddicord stated that there were no fees for the OPEB Trust for postage and the per piece versus flat rate charge would affect only the Civilian and Police Pension Funds.]*

Mr. Hare moved for adjournment, seconded by Mrs. Williams and unanimously carried.

Meeting adjourned at 10:21 a.m.

Scott D. Koenig
Chairman

SDK/JS/dd
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