POLICE PENSION BOARD

The Police Pension Board meeting was held on February 12, 2015 9:30 a.m with Mr. Koenig presiding in the absence of Chairman Mullaney. Members present were Mr. Anderson, Mr. Stallings, and Chief Bernat. Mrs. Mitchell and Mr. Unterkofler were absent.

AGENDA ADDITIONS/DELETIONS

Mr. Stallings moved for approval of the agenda as presented, seconded by Mr. Anderson and unanimously carried.

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

Mr. Anderson 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 Mr. Stallings 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 Police Pension Plan. He advised members that as of December 31, 2014, the plan had approximately $11.9M in assets, an increase from $11.7M at the previous quarter end. A contribution of $360,000 was made during the quarter, and benefits were paid to pensioners and beneficiaries each month. The rate of return for the plan was approximately 3%, which exceeded the index of approximately 2.5%, so there was good performance generally, although there was volatility in the market. Mr. Marzinsky indicated that the plan's performance for the quarter and the year was good, with an approximate 8% return for January - December 2014.

Mr. Marzinsky reviewed the Quarterly Investment Monitor - Summary Report for the Quarter Ending December 31, 2014. Referring to Page 3 - Market Indices - 4th Quarter 2014, Mr. Marzinsky explained that these figures are the market indicators that Milliman, Inc. reviews for different asset categories. He explained that the Barclay's indexes are fixed income indexes and that one (1) year fixed income returns were positive because interest rates declined last year. Interest rates continued to drop in 2015, although the Federal Reserve had hinted that they would raise rates at some point due to reduced unemployment and improvements in the economy. Mr. Marzinsky advised members that the Dow Jones Industrial Average, Standard & Poor, and Russell indices are U.S. equities, which had positive returns for last year; however, there were concerns internationally. The European and Far East (EAFE) indices showed a slight negative return because of issues in Europe similar to those that the U.S. experienced in 2008 and 2009. Mr. Marzinsky explained that there had been discussion of Europe doing its own version of a quantitative easing, which was approved a couple of weeks ago, and there had been some positive rebound at the beginning of 2015. In regard to emerging markets, there had been issues with growth rates and retail sales in China, which had been lower than in recent years, resulting in some 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 was a fairly good outlook going forward. He reminded members that a couple of 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 reference to Page 9 - Asset Allocation, Mr. Marzinsky stated that the fund improved from the prior quarter, with a value of approximately $11.9M. He advised members that the asset allocation is reviewed at least once per quarter or when contributions are made to the plan, and funds are rebalanced to the allocation targets. This is because equities have a higher level of risk and move up or down more quickly than fixed income investments. Mr. Marzinsky explained that if the amount of equities in the portfolio increases there will be more risk, so the plan is rebalanced back to the target elections to maintain the risk level.

Referring to Page 10 - Investment Policy Review - Active Management, Mr. Marzinsky reviewed performance measurements of the funds. He advised members that the return rank compares each fund to other investments in its category, and a lower number is best. The Ivy High Income I, with a rank of two (2) over five (5) years, ranked near the top when compared to its peers. Mr. Marzinsky stated that the excess return shows the return compared to the fund's peer group. A positive number means that it is exceeding its index; a negative number means that it is trailing its index. The relative standard deviation measures the volatility of the fund, and Alpha and Sharpe are analytic numbers that measure manager effectiveness on a 0-99 scale, with zero (0) being the best. He explained that some of the funds in the portfolio are in the top percentile compared to their peer group.

In general, Mr. Marzinsky stated that this was a very good portfolio. He indicated that there were two (2) funds that would be put on watch, explaining that the Ivy High Income I and Target Small Capitalization Value T Fund had manager changes. The Target fund had multiple managers managing pieces of the portfolio. The fund is owned by Prudential and its policy would be changed as of January 2015 to use just one (1) manager, Quantitative Management Associates. Mr. Marzinsky stated that Milliman would monitor these funds going forward due to underperformance. If there are issues, he stated that Milliman would come back to the Board and make a recommendation for potential change.

In regard to Page 11 - Investment Policy Review - Passive Management, Mr. Marzinsky stated that expense ratios were very low in the Vanguard funds. He stated that he had spoken with Wells Fargo and Vanguard to try to obtain the lowest expense share class for the plan. As the plans that Milliman oversees for the City grow, the City may have the opportunity to move into their Institutional share classes. Milliman had been able to move most funds out of their investor share classes to the Admiral share class, so they have a fairly low expense ratio. Mr. Marzinsky stated that most funds had been following their market benchmarks and there were no problems. He indicated that an alpha/beta approach was being used, with beta obtained through market exposure using indexes, and alpha through the use of active managers developing the portfolio.

Referring to Page 12 - Investment Option Return Summary, Mr. Marzinsky stated that the plan had a return of just over 3% for the quarter, compared to the benchmark of approximately 2.5%; therefore, the plan outperformed the benchmark. The return for the last year was approximately 8.4%, compared to the index of approximately 7.8%, so there were good improvements in the return and growth of the portfolio. He reminded members that benefit payments were being made from the plan. 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. Anderson questioned what the dividing line was, in dollar amounts, between institutional and Admiral share classes. Responding, Mr. Marzinsky stated that, generally, funds with $500,000 to $1M to $3M can get into the Admiral share class. The Institutional class is generally $25M - $50M. He indicated that Milliman had talked with Vanguard about the ability to aggregate across all of the plans. Mr. Marzinsky advised members that he was in conversation with Vanguard regularly trying to get into Institutional share classes. He stated that this could potentially lower the expense ratio on some of the funds; for example, the Vanguard Long Term Bond Index Admiral might decrease from 0.07 to 0.05 by moving into the Institutional share class. He stated that decreasing expenses would improve returns, and Milliman was watching this.

Mr. Anderson moved for acceptance of the report, seconded by Mr. Stallings 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 to an email dated January 28, 2015 from Ms. Virginia Karablacas, Relationship Manager/Vice President, Wells Fargo Institutional Retirement and Trust, explaining 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 points on the next $50M, and one (1) basis point on funds over $100M for the General Employee and Police Pension Funds.

In regard to questions that had been raised about the postage costs the City was incurring to mail statements to retirees, Ms. Peddicord advised members that the City was being billed $0.49 per item; however, Wells Fargo had indicated that they would change the distribution rate to a flat $2.35 for all pieces of mail sent each month.

In regard to the distribution of pay advices, Ms. Peddicord stated that there had been discussion about whether all retirees had to receive mailings or if some could elect to receive advices electronically, which would have some effect on the cost of postage. She explained that retirees could individually opt for electronic distribution.

Mr. Koenig stated that this was good news, noting that keeping the expenses down should improve the overall return.

Mr. Stallings moved for adjournment, seconded by Chief Bernat and unanimously carried.

Meeting adjourned at 9:44 a.m.

Scott D. Koenig
Acting Chairman

SDK/JS/dd