# CIVILIAN PENSION BOARD

The Civilian Pension Board meeting was held on February 12, 2015 at 9:01 a.m with Chairwoman Tieman presiding. Members present were Mr. Anderson (arrived at 9:08 a.m.) and Mr. Koenig. Mr. Blakeman, Mr. Clendaniel, and Mrs. Mitchell were absent.

Chairwoman Tieman advised members that a quorum was not present. No official action could be taken; however, scheduled review and updates were provided.

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

Due to the lack of a quorum, the minutes of the Joint Civilian and Police Pension and Other Post-Employment Benefits (OPEB) Boards Meeting of December 11, 2014 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 Board Meeting Notes for the City of Dover, Delaware Employees' Pension Plan, noting that the asset statements provided by Wells Fargo are reviewed each month by Milliman, Inc. and a monthly rate of return is calculated. He advised members that at the end of the quarter, the plan had approximately $34.5M in assets and contributions were made during the quarter in the amount of $782,000. Payments made to beneficiaries and pensioners amounted to approximately $919,000. Mr. Marzinsky stated that the overall return for the plan for the quarter was approximately 3.5%, which was in excess of the plan's benchmarks. The plan's performance was generally good, even though there had been volatility in the market.

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, he advised members these figures are the market benchmarks that Milliman, Inc. uses. He stated that the Barclays indexes reflect fixed income investments, and these indexes had positive returns through December, due in part to a decline in interest rates for the year. Year to date in 2015, there were also positive returns for fixed income investments. The Dow Jones Industrial Average, Standard & Poor, and Russell U.S. equity indexes had good markets last year, even though there was more volatility. Mr. Marzinsky stated that markets in the U.S. were positive due to improving economic data. He indicated that the Federal Reserve had hinted that they would probably raise interest rates at some point this year. Internationally, there were struggles in Europe, reflected in the Europe Asia Far East (EAFE) index, as well as in the emerging markets, as shown by the MSCI EM (Emerging Markets) index. Concerns in Europe with the European Central Bank (ECB) or the eurozone coming to some agreement to develop quantitative easing resulted in tension there, and there were also tensions between Ukraine and Russia. Mr. Marzinsky indicated that some of those concerns had resolved this year. On the emerging markets side, there were issues in China with lessening gross domestic product (GDP) and lessening growth rates, and potential there for slower sales than anticipated. International markets were not as good as the U.S. markets. Mr. Marzinsky stated that, in general, economic news was positive, with the U.S. back on track from the decline in 2008 and 2009.

In reference to Page 9 - Asset Allocation, Mr. Marzinsky stated that the fund balance of $34.5M,was a slight improvement from the prior quarter end. He advised members that the plan is rebalanced to the target investment elections at least quarterly, and the fund is also reviewed for potential rebalancing when contributions come in. He noted that it is important to rebalance the plan back to the targets because equities grow faster than fixed income investments, which changes the plan's risk profile. Mr. Marzinsky stated that there is a pretty good mix of investments in the portfolio, providing diversification across different equity markets caps, fixed income styles, and between equities internationally and within the U.S.

Referring to Page 10 - Investment Policy Review - Active Management, Mr. Marzinsky reviewed the performance of the plan. He indicated that a lower number in the return rank indicates that a fund is performing better than its peers, and a higher number means that it ranks lower than average. The excess return compares funds to their indexes, and positive returns are desired. The relative standard deviation is a risk measure that reflects the volatility of the fund versus the market indicators, and Alpha and Sharpe are risk-adjusted measures that indicate the effectiveness of the manager, and the desire is to see lower numbers rather than higher. Mr. Marzinsky noted that the Ivy High Income I and Target Small Capitalization Value T funds had manager changes and were being watched by Milliman at this time. The Ivy High Income I fund replaced the lead manager on that fund. He advised members that the ranks indicated that they were still performing well, ranking in the top couple percent, but the return last year was not so good, so Milliman would monitor the manager over the upcoming quarters. If there were any issues, they would make a recommendation to the Board. The Target Small Capitalization Value T fund is owned by Prudential and in the past several underlying managers were managing pieces of the portfolio. They had now decided to go with one (1) manager, Quantitative Management Associates, for this fund and Milliman would be watching its performance. Mr. Marzinsky stated that, in general, there was good performance by the fund managers.

In regard to Page 11 - Investment Policy Review - Passive Management, Mr. Marzinsky stated that generally a beta around 1.0 was desired. He advised members that some of the Vanguard funds changed their underlying market indexes in 2013 in order to lower their expense ratio, resulting in a beta that was slightly off. However, in the near term the figures were fairly closely aligned to the index now being followed.

In reference to Page 12 - Investment Option Return Summary, Mr. Marzinsky stated that in general the plan's performance was pretty good in 2014, with a return of a little over 9%, exceeding the market benchmark of approximately 7.9%. He stated that this would potentially improve the funded status of the plan. Mr. Marzinsky indicated that the return for the quarter was approximately 3.5%, versus 2.93% for the plan benchmark. He explained that market indicators are used to develop a similar portfolio called the benchmark, based on the weightings and target allocation of the assets. He stated that the performance of the plan had been good for the last year and also for the last three (3) years.

Mr. Anderson questioned the future economic outlook now that some members of the Federal Reserve had hinted they might start a gradual rate increase. Mr. Marzinsky stated that if the Fed tightens or raises interest rates, this would impact fixed income markets. He noted that in 2014, the

Board lowered the plan's allocation to longer-term fixed income investments. Investments with longer duration would be more impacted by a rate shift, so this change was made in anticipation of the Fed's potential action. Mr. Marzinsky reiterated that the U.S. economy was doing fairly well, with unemployment the lowest since 2008. He noted that all was not perfect in the U.S. and, although people were back to work, retail sales were still struggling, even for large companies. He expressed cautious optimism about the U.S. economy. He explained that the eurozone and the ECB came out a couple of weeks ago with their version of a quantitative easing, which would help internationally. Mr. Marzinsky noted concerns with Greece's debt and that China continued to have issues with gross domestic product (GDP) and growth rates. India may have a better emerging market economy than China. Europe did not do well in general last year, and it was hoped that they would rebound this year. He advised memgbers that European and emerging market indexes had been positive through the current year, as of yesterday.

**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. During the Civilian Pension Board meeting of February 12, 2015, 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.

Mr. Koenig noted that the change in the basis rate would result in an 8% decrease in fees.

In response to Mr. Koenig, Ms. Peddicord stated her belief that these fees applied to the combined accounts for the General Employee and Police Pension Funds because they are billed on the same bill.

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 a belief that everyone had to opt in or out for electronic distribution, and she stated that this did not appear to be true. Mrs. Hawkins stated that she was unsure if this mattered since the mail distribution rate would now be reduced to $2.35 per month.

Mr. Koenig suggested that staff check this figure to verify that $2.35 was correct.

Mr. Koenig asked if the City had to transfer paperwork to accept these figures. Referring to Ms. Karablacas' email, Ms. Peddicord explained that Wells Fargo had scheduled the City's accounts for a periodic review later in the year, but had expedited this review due to staff's requests.

Ms. Peddicord stated her assumption that Wells Fargo would put those fees into place without staff having to approve them.

Meeting adjourned at 9:19 a.m.

Teresa A. Tieman
Chairwoman

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