OTHER POST-EMPLOYMENT BENEFITS (OPEB) BOARD

The Other Post-Employment Benefits (OPEB) Board meeting was held on August 14, 2014 at 11:06 a.m with Chairwoman Mitchell presiding. Members present were Mrs. Williams and Mr. Koenig. Mr. Hare and Mrs. Hawkins were absent.

AGENDA ADDITIONS/DELETIONS
By unanimous consent, the agenda was approved as presented.

Adoption of Minutes - OPEB Board Meeting of May 1, 2014
Mr. Koenig moved for adoption of the minutes of the OPEB Board meeting of May 1, 2014, seconded by Mrs. Williams and unanimously carried.

Organizational Issues - Election of Chair
Mrs. Mitchell opened the floor for nominations for Chair of the OPEB Board.

Mr. Koenig moved to nominate Mrs. Mitchell to serve as Chair. The motion failed for lack of a second.

Mrs. Mitchell moved to nominate Mr. Koenig to serve as Chair, seconded by Mrs. Williams.

By unanimous consent, nominations were closed.

By unanimous consent, Mr. Koenig was elected to serve as Chair of the OPEB Board.

Quarterly Performance Review *(Quarter Ending June 30, 2014)*/Investment Manager *Recommendations (Milliman, Inc.)*
Mr. Jeff Marzinsky, Principal and Employee Benefits Consultant, Milliman, Inc., reviewed the Board Meeting Notes dated August 14, 2014, Mr. Marzinsky advised members that plan assets totaled approximately $18.3M, an increase from $16.8M at the end of the previous quarter, noting that contributions had been made to the fund. He indicated that performance for the quarter was approximately 4%, which was in line with the plan benchmark performance of 4.41%. Mr. Marzinsky explained that returns for the quarter were slightly low as some cash was held because of contributions made; however, since funds were now fully invested, it was expected that current returns would be generally in line with targets. The return for the last one (1) year period was approximately 15%. As discussed during the Board's previous meeting held on May 1, 2014, Mr. Marzinsky stated that the portfolio was slightly more conservative compared to "the middle of the road." Members were advised that the plan's asset allocation was in line with the allocation targets and that funds are rebalanced to the approximate asset allocation each quarter or when contributions are made to the plan.

In response to Mrs. Williams regarding why the portfolio was heavily invested in Vanguard funds, Mr. Marzinsky stated that expenses for Vanguard's actively managed funds are generally slightly lower compared to other managers and Vanguard is the standard for index funds.

Mr. Marzinsky reviewed the Quarterly Investment Monitor - Summary Report for the Quarter Ending June 30, 2014. Referring to Page 3, Market Indices - 2nd Quarter 2014, he explained that

overall and fixed income markets for the year to date had been "pretty good." Interest rates had fallen since the beginning of the year and some of the issues seen in emerging markets internationally were beginning to resolve. Mr. Marzinsky stated that the Federal Reserve had indicated that they would monitor the strength of the U.S. economy and keep interest rates low. Long-term bonds were at approximately 3% - 4% and short-term bonds at approximately 0% - 2%.

In reference to Page 9 - Asset Allocation, Mr. Marzinsky advised members that allocations were generally in line with targets.

Responding to Mrs. Williams regarding the amount of funds that the City invests in the plan, Mrs. Mitchell stated that the City invests a percentage of payroll, which varies according to the specific City Fund, e.g., approximately 60% of payroll is invested from the Electric Fund. She stated the dollar amount was approximately $831,000 for the quarter ending June 30, 2014 and $2.7M for FY 2014.

Mr. Koenig confirmed that $2.7M was contributed for the year, noting that the return was approximately 15%.

Mr. Marzinsky stated that the funded status of the plan was improving when the contributions and positive return were considered.

Mrs. Mitchell advised members that payments for retiree health care premiums are made from the City's cash account rather than from plan investments.

Responding to Mrs. Williams regarding the actual return on the plan, Mr. Marzinsky explained, for example, that if a contribution is made on the fifth day of the month, its return is counted on the day this activity happens. Since newly invested contributions are time weighted, 15% was the actual return for the fund last year.

Referring to Page 10 - Investment Policy Review - Active Management, Mr. Marzinsky explained that it was desired for funds to rank from 0 - 50 and to have a return in excess of their indices. Generally, funds met these goals, and some ranked in the top 3% - 5%, including the Oppenheimer International Growth Y Fund. He noted that the Target Small Capitalization Value T Fund was slightly more conservative and diversified than other funds and showed slight underperformance; however, its relative standard deviation of 0.91 indicated that this fund was less risky than the market index, and three (3) year Alpha and Sharpe values showed good manager effectiveness. Other investments ranked in the top half or better in their categories. Mr. Marzinsky stated that there were no recommendations for changes in the plan at this time.

In reference to Page 12 - Investment Option Return Summary, Mr. Marzinsky informed members that the Net Return revealed an approximate 4% return for the quarter, 6.5% for the year to date, 15% for the last year, and over 8% for the last three (3) years, which he stated were "pretty good" returns.

Annual Review of Investment Policy

Mr. Jeff Marzinsky, Principal and Employee Benefits Consultant, Milliman, Inc., reviewed the draft Investment Policy Statement - City of Dover OPEB Board, August 2014, which he stated had been

prepared by streamlining the Board's current policy. He explained that the policy defined the roles and responsibilities of the Board, the investment consultant, and the plan custodian and would also serve as an instruction manual for the Board on managing fund assets. Mr. Marzinsky advised members that the policy statement defined objectives; stated how assets will be invested, managers selected and monitored, and allocations developed; and established a formal policy for monitoring performance and the development of quarterly reports. It also established a timeline for the performance expectations of the plan.

Mrs. Mitchell advised members that she had compared the August 2014 draft policy with the City's current policy, as well as the draft Investment Policy Statement provided by Mr. Marzinsky during the Board's meeting held on May 1, 2014. In her opinion, the August 2014 draft streamlined and clarified the policy and was a much better document than the current policy, which was developed by Peirce Park Group, the City's previous investment manager, approximately five (5) years ago.

Mr. Marzinsky explained that the Investment Policy Statement defined the policies and procedures of the Board and the Strategic Asset Allocation Policy was Appendix A to the document. If the Board opted to change fund asset allocations, these changes would need to be made only to Appendix A, not the body of the policy.

Mrs. Williams inquired if the City's financial status would be impacted by the procedure and policy portion of the document if the financial climate became better or worse. Responding, Mr. Marzinsky stated that the investment guidelines contained in the main body of the policy would be used to invest contributions appropriately regardless of the financial climate.

Mrs. Mitchell informed members that the policy would be reviewed annually in August. Referring to Page 3 - Section II. Statement of Objectives - Item #9, she explained that members of the Civilian and Police Pension Boards, who had reviewed similar investment policies during their meetings held earlier in the day, were not comfortable with the stated objective to "Attain a funded status such that the employer has the option to terminate the plan if deemed appropriate," and amended this to read "Attain a funded status such that the employer has the option to discontinue contributions if the plan is fully funded and deemed appropriate."

Mrs. Williams felt that this objective would place control of the plan with bureaucracy, rather than elected officials who have final fiduciary responsibility. She expressed her discontent with the formation of the Board, which she felt was not balanced properly in that there were two (2) Council members and three management representatives.

Mr. Koenig stated that all union contracts allow for retirement health care; therefore, the City could not terminate the plan.

Mrs. Williams stated that if the plan were not funded, it would be essentially terminated. She felt that elected officials, by the City's charter, should have final responsibility in determining what happens to the operating assets of the City. Responding, Mr. Koenig stated that this fund was not an asset of the City but rather a trust fund. He explained that Council has the authority to adopt a

budget which indicates that an amount of money will be transferred to this trust fund; however, Council does not have the authority to close the trust and if Council did not fund it, there would be a legal claim from those involved in the trust.

Mr. Marzinsky stated that the plan funds benefits to employees which are guaranteed and would have to be paid, whether or not funds were available in the trust, possibly out of operating assets.

Mr. Koenig stated that the trust was created to show that the City was addressing the unfunded liability for OPEB, as required by Generally Accepted Accounting Principles (GAAP); therefore, there was a fiduciary responsibility on Council's part to fund the trust to offset the liability.

Mrs. Williams questioned if these funds could be accessed in a forced choice, if all of the current beneficiaries were paid out and Council needed the money for the City's survival. Responding, Mrs. Mitchell stated that funds cannot be taken out once placed in the trust.

Mr. Marzinsky questioned if new beneficiaries were entering this plan. Mrs. Mitchell responded affirmatively and noted that this would continue as long as new employees continued to receive a retirement benefit.

Mrs. Williams stated that she had changed her opinion regarding the Board's structure and, since Council's responsibility was to fund the plan, the OPEB fund should be more controlled by staff.

Mrs. Mitchell moved to change the wording of Section II. Statement of Objectives, Item #9 to read, "Attain a funded status such that the employer has the option to discontinue contributions to the plan if deemed appropriate and fully funded.

Mrs. Williams requested that the motion be amended to remove the phrase "fully funded" and Mrs. Mitchell concurred.

Mrs. Mitchell moved to amend Section II. Statement of Objectives, Item #9 of the City of Dover OPEB Board Investment Policy Statement to read, as follows: "Attain a funded status such that the employer has the option to terminate the plan if deemed appropriate", seconded by Mrs. Williams and unanimously carried.

Mr. Marzinsky reiterated that Pages 1-14 of the policy included operational and procedural language and, if approved, this portion of the document would remain standard unless different oversight or monitoring methods were required by the government. Appendix A would be revised if there were asset allocation changes.

Responding to Mrs. Williams regarding the entity responsible for asset allocation, Mrs. Mitchell stated that Council had the authority to set up the plan and establish the benefit levels; however, management and allocation of the assets were the responsibility of the Board.

Responding to Mrs. Williams, Mr. Koenig stated that the policy would be signed by the Board Chairperson.

Mrs. Mitchell moved for adoption of the Investment Policy Statement, as amended, *(Attachment #1)*, seconded by Mr. Koenig and unanimously carried.

Mr. Marzinsky reviewed the City of Dover, Delaware Other Postemployment Benefit (OPEB) Asset Allocation Study - July 2014, that was included with the Quarterly Investment Monitor - Summary Report for the Quarter Ending June 30, 2014. He explained that members had previously discussed the possibility of changing the plan's asset allocation to attempt to achieve a higher level of return. Referring to Page 2, Optimization Input Review, he informed members that, at least annually, Milliman, Inc. sets return expectations for the various asset classes. An expected level of risk is also established, and this is reflected in the Annual Standard Deviation. For example, he explained that emerging markets are expected to return approximately 11%, with an annual standard deviation of 30.05; consequently, the risk component could result in a return of approximately 40% or could decline to -20%. Mr. Marzinsky indicated that, in developing a portfolio, assets are mixed to obtain an acceptable rate of return and level of risk. Referring to Page 3 - Input Correlation, he stated that this information reflected how likely different assets are to move up or down at the same time, noting that the goal is to obtain a mix of investments.

In reference to Page 4 - Individual Constraints and Group Constraints, Mr. Marzinsky stated that minimum and maximum limitations are set so that funds are not fully invested in any one (1) category and a good mix is obtained.

Referring to Page 5 - Portfolio Options, Mr. Marzinsky explained that the fund's Current Asset Allocation of approximately 60% stocks and 40% bonds had an expected return of approximately 6.67% for the year. Noting that the plan's one (1) year return through June 30, 2014 was approximately 15%, he stated that the plan was exceeding this benchmark. He noted that the expected return was considered when developing actuarial projections and that approximately 7% - 7.5% was used for actuarial purposes. The expected return of 6.67% was slightly less; however, he noted that expectations for equities had been lowered since the markets had risen over the last few years and equities could not be anticipated to continue to rise indefinitely. Mr. Marzinsky stated that he developed three (3) alternative sample portfolios that could potentially increase returns but would also increase volatility and therefore risk. He questioned members if there was interest in adjusting the asset allocation or leaving it at the current level.

Mrs. Williams expressed concern with a more aggressive portfolio since she believed that most corporate and small business employers were waiting for the current administration in Washington, D. C. to leave office before making investments. She stated her preference to remain conservative for the next year. She felt that there could be a surge in the market in the future since companies had been sitting on cash for some time, depending on the next administration.

Mr. Marzinsky confirmed that many companies were holding onto cash and not making investments, although they were paying some dividends.

Mrs. Mitchell advised members that during meetings held earlier in the day, the Civilian Pension Board selected Sample Portfolio #1, which would modestly increase equities from 60% to approximately 67% and reduce fixed income from approximately 40% to 33% to try to attain the

actuarial assumption rate of return and improve the funded level of the plan. She stated that the Police Pension Board had opted to not make any change at this time since their Chairman was not present.

Mr. Koenig stated his preference for Sample Portfolio #2.

Mrs. Mitchell indicated that she favored Sample Portfolio #1.

Mrs. Williams stated that she preferred not to make any change from the current portfolio.

Mr. Marzinsky reminded members that asset categories and investments were not locked in and could be changed at the next meeting if desired.

Responding to Mr. Koenig regarding when payments would be made from the fund, Mrs. Mitchell stated that OPEB payments were already being made; however, they are made from the City's operating funds and the remaining contributions are invested through Milliman, Inc.

Mr. Koenig expressed his opinion that the investment cycle was on the upswing. He felt, personally, that Sample Portfolio #2 should be selected since only $18M had been set aside for the $100M OPEB liability. It was his belief that the Board should adopt a portfolio that was more aggressive; however, stated that he would concur with adopting Sample Portfolio #1 as a "middle ground."

Mrs. Mitchell moved to adopt Sample Portfolio #1, seconded by Mr. Koenig, and carried by a roll call vote of two (2) yes (Mitchell and Koenig) and one (1) no (Williams). *(City Clerk's Office Note: The City of Dover OPEB Board Strategic Asset Allocation Policy is Appendix A to the Investment Policy Statement.)*

Future Meeting Dates

Mrs. Donna Mitchell, Controller/Treasurer, moved for approval of the proposed meeting dates, as follows: November 14, 2014; February 12, 2015; May 14, 2015; and August 13, 2015, seconded by Mr. Koenig and unanimously carried. *(City Clerk's Office Note: All meetings were intended to be scheduled for the second Thursday of the month, according to the Board's previous practice. The November date was listed as the 14th due to a typographical error and the meeting was subsequently scheduled for November 13, 2014.)*

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

Meeting adjourned at 11:58 a.m.

Scott D. Koenig
Chairman

SK/JS/dd
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Attachment
Attachment #1 - Investment Policy Statement - City of Dover OPEB Board - August 2014

INVESTMENT POLICY STATEMENT

CITY OF DOVER OPEB BOARD

August 2014

INVESTMENT POLICY STATEMENT

CITY OF DOVER OPEB PLAN

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I. PURPOSE & BACKGROUND

The City of Dover OPEB Plan is a post retirement employee benefit program established for the purpose of funding retiree health care and life insurance as provided for in Article VI of Chapter 2 of the City Ordinances. The OPEB fund shall constitute a trust fund that shall be separate and distinct from all other funds, including the pension funds established by Article IV of Chapter 2 (General Employee Pension Plan) and Article III of Chapter 62 (OPEB Plan) of the City Ordinances (City Code).

The purpose of this Investment Policy Statement ("IPS") is to assist the participants of the plan who serve as members of the OPEB Board of the City of Dover ("Board") under Section 2-202 of the City of Dover Code of Ordinances, this Investment Policy Statement ("Statement") presents investment objectives, policies, guidelines, and monitoring and review procedures relating to financial assets (the "Fund") of the City of Dover OPEB Plan ("Plan").

The IPS will function to:

1. State in a written document the Board's expectations, objectives, and guidelines for the investment of Plan assets which the Board judges to be appropriate and prudent, in consideration of the needs of the Plan.
2. Define and assign the responsibilities for the oversight of the Plan's assets.
3. Set forth an investment structure for managing Plan assets. This structure will help to define asset class, Investment Manager styles, asset allocation and acceptable ranges that, combined, will help to generate the risk/return profile needed to meet the objectives of this policy.
4. Encourage effective communication between the Board and the Investment Consultant, as well as any other interested parties.
5. Establish formalized performance criteria that the Investment Managers selected are expected to meet and against which they are to be measured on a regular basis.
6. Serve as a review document to guide Board and Investment Consultant oversight of the investment options of the Plan's assets.
7. Establish the relevant investment time horizon, risk tolerances and performance expectations of the Plan assets and the Board.

II. STATEMENT OF OBJECTIVES

The assets of the Plan are invested under the supervision of the Board.

After reviewing expected short-term and long-term cash flow requirements of the plan, as well as considering the investment time horizon and risk tolerance level believed to be appropriate for the invested assets, the following set of objectives has been established:

1. Preservation of capital.

2. Pay all benefit and expense obligations when due.

3. Achieve a funding cushion to reduce the impact of possible future downturns in the plan's funded status.

4. Achieve or exceed actuarial earnings assumptions.

5. If applicable, effectively manage the funded status volatility and mitigate undue risk exposure under a Liability Driven Investment (LDI) strategy. The approach can assist in managing interest rate and inflationary risks.

6. Control risk exposure through reasonable and rational diversification of the assets into various asset classes.

7. Establish policies based on total return and expected projected payouts rather than current income.

8. Contain costs of administering and managing the portfolio.

9. Attain a funded status such that the employer has the option to discontinue contributions to the plan if deemed appropriate.

III. CONTROL PROCEDURES & RESPONSIBILITIES

Disclosure

Any member of the Board, Custodian/Directed Trustee or Investment Consultant must make full disclosure of any potential conflicts of interest, including any financial gain that may be received as a result of investment decisions made by those entities, which may be required by applicable law. This disclosure should be made before the investment of the plan assets governed by this Investment Policy Statement. Disclosure should be in written form and presented to the members of the Board.

Delegation of Authority and Responsibilities

The Board is charged under Section 18-51 of the City of Dover Code of Ordinances with overall responsibility for investment of the Fund. To assist the Board in this function, it is authorized and permitted by said Ordinances to appoint an Investment Advisor, Investment Manager or IM(s), including for this purpose banks, insurance companies, and firms registered under the Investment Advisers Act of 1940 and/or Delaware State law, to manage (including the power to acquire and dispose of) Plan assets. Any appointed Investment Advisor must agree to conduct itself in accordance with all applicable City of Dover Ordinances.

The Board shall be responsible for approving any changes to this Investment Policy Statement, and shall be responsible for reviewing the implementation of the Investment Policy Statement not less frequently than annually.

These responsibilities include, but are not limited to:

Board The Board will be responsible for establishing investment objectives, investment policy and monitoring and review procedures. The establishment of standards for measuring, monitoring, evaluating and comparing absolute and relative investment performance to assure that investment returns are reviewed on a regular basis and investment return objectives are met during acceptable periods of time. The establishment of authorization, reporting, control, review and general governance procedures to assure that investment policies and guidelines are reviewed on a regular basis and conformed to at all times. All modifications of policies and/or guidelines shall be in writing, signed by all Board members, and delivered on a timely basis to any IM and/or Custodian affected by such changes. The establishment of, through contractual relationships with recognized and carefully selected professional organizations, or by alternative means satisfactory to the Board, a retirement plan management structure which will assure appropriate investment management, custody, and surveillance or compliance procedures to meet investment objectives in conformity with the Board's stated investment policies and guidelines. The Board will have discretion to select, add, replace or remove Investment Managers that will be used to meet the Plan's investment objectives, consistent with the recommendations and advice of the Investment Consultant.

Investment Consultant The Investment Consultant will be responsible for: providing recommendations to the Board for the selection of Investment Managers and appropriate asset allocation, consistent with the Investment Policy Statement objectives and guidelines; reviewing the performance of such Investment Managers over time; periodically reviewing and providing recommendations to the Board for revisions to the Investment Policy Statement; and other tasks as deemed appropriate by the Board. The Investment Consultant will act in a non-discretionary capacity.

Custodian/Directed Trustee The Custodian/Directed Trustee appointed by the Board will be responsible for the safekeeping of the fund assets, including all transaction settlements and deliveries and will perform regular accounting of all assets owned, purchased or sold, as well as transactions and movement of assets into and out of the Plan account.

Fund safekeeping and securities settlement procedures shall include direct Custodian participation in one or more appropriate securities depositories (e.g., Depository Trust Company, New York) and, as necessary, correspondent participation in other major depositories (e.g., the Federal Reserve System). The Plan's beneficial ownership of all assets shall be inviolate and in all circumstances perfected. Board or designated IM authority to direct all investment transactions shall similarly be protected.

The Directed Trustee will maintain possession of securities owned by the Plan, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The Directed Trustee will also be responsible for the payments to such persons and for such purposes in order to provide benefits to plan participants and the remittance of any tax related payments to the applicable State and Federal bodies.

Fiduciary insurance, and officer liability and omissions and errors insurance coverages, of any Custodian, must meet standards set by the Board from time to time.

Investment Manager(s)
The specific responsibilities of the Investment Manager(s) relating to the investment management of the fund include:

1. Managing the Plan assets under its care, custody, and/or control in accordance with their Investment Policy Statement ('IPS') or Prospectus objectives and guidelines set forth herein.

2. Exercising investment discretion (including holding cash equivalents as an alternative) within their IPS or Prospectus objective and guidelines set forth herein.

3. Promptly communicating all significant and/or material matters and changes pertaining to the investment of Plan assets, including, but not limited to:

    i. Investment strategy.
    ii. Portfolio structure.
    iii. Tactical approaches.
    iv. Ownership.
    v. Organizational structure.

vi. Financial condition.
vii. Professional staff.
viii. All legal material and SEC and other regulatory agency proceedings affecting the firm.

4. Promptly voting all proxies and related actions in a manner consistent with the long-term interests and objectives of the Plan set forth herein. Each manager shall keep detailed records of said voting and proxies and related actions and will comply with all regulatory obligations related thereto.

5. Utilize the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced, investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like benefit plans with like aims in accordance and compliance with all applicable laws, rules, and regulations from local, state, and federal political entities as the pertain to fiduciary duties and responsibilities.

The investments should be relatively liquid, or with a reasonable amount of notice, should be capable of liquidating to cash. There should be no fees or penalties for regular trading or liquidation.

IV. INVESTMENT AND ALLOCATION POLICY

***Investment Horizon*:** The investment guidelines are based on the expectation that the investment horizon will be several years in length. Short-term variability in returns should be expected.

Because of this, the Plan's strategic asset allocation is established with moderate to long-term perspective in mind. The Plan is required to pay retirement benefits to participants as they come due. Therefore, sufficient liquid reserves must be available to satisfy this obligation.

1. The actuary will provide future benefit payment amounts, funding and contribution requirements.

2. The plan should hold a portion of assets in short-term and cash holdings to provide for the schedule of future benefit payments.

***Risk Tolerances*:** It is understood by the Board that achieving the Plan's investment objectives is not guaranteed and there will be time periods for which these objectives will not be met. The Board also recognizes that some risk must be assumed to achieve the Plan's investment objectives and accepts the inevitable fluctuations in returns that will occur. While it is understood that a certain level of risk is expected in the Plan's portfolio, the ability to withstand short and intermediate term variability was specifically considered in the development of the IPS risk tolerances. Factors considered were:

1. It is the intention to fund at least the minimum required contribution (MRC) each year providing ample liquidity.
2. Due to the amount of payouts to occur for many years into the future, the Plan's liabilities exhibit a longer duration (sensitivity to changes in interest rates). As a result, extending durations in the fixed income portion of Plan assets should be considered.
3. The cash balance portion of the plan's liabilities grows at the rate of T-bill + 1%. Future liability growth will be factored into all investment decisions.

As a result of the above-named considerations, the Board believes that the Plan can tolerate some interim variability in market value and rates of return in order to achieve its long-term objectives.

Allowable Investments: Cash and Equivalents, Mutual Funds, Separate Accounts, Options and Futures Contracts, Stocks, Bonds, Commingled Funds, and Collective Trusts, Exchange Traded Funds (ETFs)

Liquidity Policy: The trust will be required to provide periodic distributions in the form of retirement benefit payments to participants. The actuary provides annual assessments of the funding requirements and payments necessary to meet the plans benefit obligations.

Overall Asset Allocation Policy

Based on the Plan's time horizon, risk tolerances, liquidity needs, and asset class preferences and constraints, an efficient or optimal portfolio was identified. This allocation shall be reviewed at least annually and modified as necessary to meet the needs of the Board.

[See Appendix A for the Strategic Asset Allocation Policy of the Plan.]

The current allocation strategy is dynamic in nature under a Liability Drive Investment (LDI) approach. The allocation shall be reviewed periodically, at least annually, and modified as necessary to de-risk the plan, based on the funded status. The overall performance of the portfolio relative to the liabilities will be reviewed in addition to actual performance of the managers.

Rebalancing: Rebalancing is the periodic adjustment of the portfolio to restore a pre-defined Target asset allocation, and will be reviewed at least once per calendar quarter, or as such when the allocation of any asset class exceeds the range around its respective target.

Change in Funding Target Level

Based on the asset allocation glidepath and funding target levels outlined in the Asset Allocation Policy, an increase in the Plan funding ratio that elevates the plan to a new increment level will trigger a rebalancing of Plan assets to the new targets. If the Plan funding ratio decreases and meets a lower target level, the plan will not rebalance to the new target asset allocation.

Timing

Rebalancing reviews generally take place quarterly, or at a frequency determined by appropriate by the Board. Generally, the rebalancing transactions will occur over a period of time to reduce undue market timing risk.

The Plan will diversify its investment portfolio to avoid incurring unreasonable risks. Investment maturities should be scheduled to coincide with projected cash flow requirements. As funded status improves, the asset allocation policy targets will reduce equity investments and increase fixed income investments and "de-risk" the plan portfolio.

V. INVESTMENT MANAGER GUIDELINES

Every Investment Manager selected to manage Plan assets shall be selected by their policy or ability to adhere to these general guidelines; however will have discretion to meet the investment objectives of their portfolio or investment fund. Unless receiving prior Board approval, the only allowable investments of the Plan will be in cash and equivalents, mutual funds, separate accounts, commingled funds, options and futures, stocks, bonds, exchange traded funds (ETFs) and collective trusts:

Cash Policy

Cash equivalents will be invested in an appropriate cash-like fund. Returns should be equal to or better than the 90-day Treasury Bill Index (3-month).

Money market mutual funds may be used, so long as these funds meet the high standards suitable for funds of this nature.

Fixed Income Policy

Investment Objectives

These assets are to be invested in a mutual fund, commingled funds, separate accounts, or collective trusts of high-grade index or active fixed income portfolio subject to the limitations set forth below. The investment objectives of the fixed income portion in order of importance are:

1. Preservation of capital
2. Provide for regular dividend and or interest payments
3. Stability of returns – obtain fairly consistent annual returns.

Investment Guidelines

The Plan's fixed income assets will be managed in accordance with the following:

1. All funds selected for the fixed income portion must have a readily ascertainable market value and must be readily marketable.

2. Investment Managers selected will be diversified and generally conform to industry guidelines.

3. The Investment Managers shall have discretion to invest a portion of the assets in cash reserves when they deem appropriate. However, the Investment Managers will be evaluated against their peers on the performance of the total funds under their direct management.

Equity Policy

Investment Objectives

Equity assets are to be invested in mutual funds, commingled funds, separate accounts, stocks, bonds, options and futures, exchange traded funds (ETFs) or collective trusts. Within this framework, the investment objectives of the equity portion are:

1. Long Term Growth of Capital – Assets, exclusive of contribution and withdrawals, should grow in the long run and earn returns equal to the market while risk should be less than the market.

2. Follow a predefined market style (e.g. large cap vs. small cap, value vs. growth) strategy.

Investment Guidelines

The Plan's equity assets will be managed in accordance with the following:

1. All funds selected for the equity portion must have a readily ascertainable market value and must be readily marketable.

2. Investment Managers selected will be diversified and generally conform to industry guidelines.

3. The Investment Managers shall have discretion to invest a portion of the assets in cash reserves when they deem appropriate. However, the Fund Managers will be evaluated against their peers on the performance of the total funds under their direct management.

VI. SELECTION OF INVESTMENT MANAGERS

The Board, with the assistance of the Investment Consultant, will select appropriate Investment Managers to manage the Plan assets. Investment Managers must meet the following minimum criteria:

1. Is a bank, insurance company, investment management company, or investment advisor as defined by the Registered Investment Advisers Act of 1940.

2. Provide at a minimum, historical quarterly performance numbers calculated on a time-weighted basis, based on a composite of all the fully discretionary accounts of similar investment style, and reported net and gross of fees.

3. Provide performance evaluation reports prepared by an objective third party that illustrate the risk/return profile of the Investment Manager relative to other managers of like investment style.

4. Provide detailed information on the history of the firm, key personnel, key clients, fee schedule, and support personnel. This information can be supplied by a third party vendor comparable to Lipper or Morningstar.

5. Clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.

6. Investment Managers will be ranked within the top 50 percent of their respective styles on the Investment Consultant's internal ranking program when available.

7. Some of the measures that may be included in the statistical analysis of a fund would be:

    a. *Alpha* – a measure of fund performance compared to its expected return
    b. *Beta* – the general level of influence a fund's market has over its performance
    c. *Standard Deviation* – a measure of a fund's variation of returns over time
    d. *Sharpe Ratio* – a measure of a fund's risk-adjusted return compared to its risk
    e. *Duration* – a measure of sensitivity to interest rate fluctuations over time

8. The Board will consider replacing an actively managed fund if the rank versus its peer group remains in the bottom 50 percent for four consecutive quarters versus its peer group and if statistical analysis concludes that the fund's level of return does not provide an acceptable ratio as compared to its general level of risk.

9. The Board may consider a fund for replacement when the Investment Manager or policy of the fund is changed. In addition, if there are any substantial transactions with regard to the fund management company or holding, or other types of instabilities in the fund company, replacement will be considered.

10. The Board may also consider replacing a fund if its relative performance over a complete market cycle trails its benchmark.

VII. INVESTMENT EVALUATION

Not more than 90 days after the end of each calendar quarter, the Investment Consultant shall report investment positions and performance results to the Board, based on performance reported by each Fund Manager, to monitor and evaluate progress toward the attainment of longer-term targets.

The target rate of return for the Plan has been based on the assumption that future real returns will approximate the long-term rates of return experienced for each asset class in the IPS. The real rate of return is the return in excess of the anticipated rate of inflation as measured by the Consumer Price Index (CPI).

Total Plan Portfolio Performance: Over a complete business cycle, the Plan's overall annualized total return (net of expenses) should perform at or above the Plan Benchmark. The Plan Benchmark is a customized index composed of the following benchmarks for each target asset class and based on the current and prior target asset allocation policy for the Plan:

Asset Category	Index*
Cash & Money Market	BofA ML 3-month T-bill Total Return Index
Short-term Bond	Barclays US Govt/Credit 1-3 Yr TR USD
Inflation Protected Bond	Barclays US Treasury US TIPS TR USD
Intermediate-term Bond	Barclays US Govt 5-10 Yr TR USD
Long-term Bond	BC Long Government/Credit
High Yield Bond	BC High Yield Corporate Bond
Large Cap Value	S&P 500 Value
Large Cap Blend	S&P 500 Index
Large Cap Growth	S&P 500 Growth
Mid Cap Value	S&P 400 Value
Mid Cap Blend	S&P 400 Index
Mid Cap Growth	S&P 400 Growth
Small Cap Value	S&P 600 Value
Small Cap Blend	S&P 600 Index
Small Cap Growth	S&P 600 Growth
World Stock	MSCI AC World Index ND USD
Diversified Emerging Markets	FTSE Emerging NR USD
REIT/Real Estate	MSCI US REIT NR USD

**Or other index as designated by the fund and/or fund manager as an appropriate target benchmark for the investment portfolio or fund.*

Individual Investment Managers: During its periodic meetings but not less than annually, the Board will review the following specifics with regard to each Investment Manager:

1. The manager's adherence to their prospectus.
2. Material changes in the manager's organization, investment philosophy, and/or personnel.
3. Performance compared against an appropriate peer group and benchmark, as listed in the Executive Summary of this IPS, over various time periods.

The Board expects the following criteria to be met by each Investment Manager. If a manager fails to meet these, a further review of the manager will be warranted. The Board reserves the right to replace an Investment Manager at their discretion at any time.

1. The Investment Manager's rank (3-year and 5-year return) versus its peer group is over 50 *(where a percentile ranking of 1 would be the highest a fund could achieve and 100 would be the lowest*). If a fund or Investment Manager's rank (3-year and 5-year return) versus its peer g*roup is over 50, the fund will warrant a closer analytic review. The Board's review will* be comprised of a further analysis of the fund's statistical performance and risk measures.

2. The Investment Manager's risk over 3 to 5 years, as measured by standard deviation, should be equal to or lower than the comparative index. If the standard deviation is higher than the index, an increase in performance is expected.

3. The Investment Manager's Sharpe ratio should be positive over 3 to 5 years and ranked above the peer group median.

4. The Investment Manager's Alpha should be positive over a 3 to 5 year period and ranked above the peer group median.

SIGNATURE

This Statement of Investment Policy approved by action of the Board.

Approved by: _____
Chairman or representative of the Board

_____
Treasurer/Finance Director

Date approved: 8/14/14

APPENDIX A

This Appendix to the Investment Policy Statement has been reviewed and approved by the Board:

STRATEGIC ASSET ALLOCATION POLICY (1)

Asset Class	Target
Cash & Short-Term Bond	8%
Inflation-Protected Bond	5%
Intermediate Term Bond	6%
Long-Term Bond	7%
High Yield Bond	7%
Large Value	12%
Large Growth	13%
Mid Cap Equity	7%
Small Cap Equity	9%
Foreign Equity	10%
Diversified Emerging Mkts	9%
Real Estate	7%
	100%

The above ranges will be considered the long-term or policy allocation. The current "Policy" is the Target for such respective Asset Class of investment. There will be a Range of +/- 5% to the Target to allow for modest market fluctuations before rebalancing of the portfolio. The portfolio will be reviewed at least quarterly and adjusted as necessary to maintain alignment with the target allocations. Any deviations beyond the "Range" must have prior approval by the Board, unless caused by market actions.

To indicate approval of this amendment to the Investment Policy Statement, the appropriate designated Board member shall sign below.

This Appendix to the Statement of Investment Policy approved by action of the Board.

Approved by: Scott D. Koenig
Chairman or representative of the Board

Date approved: 8/14/14

Owen S. Mitchell
Controller/Treasurer