CIVILIAN PENSION BOARD

The Civilian Pension Board meeting was held on August 14, 2014 at 9:00 a.m with Mr. Koenig presiding until Chairman Lynn's arrival at 9:03 a.m. Members present were Mr. Blakeman, Mr. Clendaniel, Mrs. Tieman, and Mrs. Mitchell. Mr. Anderson was absent.

AGENDA ADDITIONS/DELETIONS

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

Approval of Minutes - Civilian Pension Board Meeting of May 1, 2014

Mr. Blakeman moved for approval of the minutes of the Civilian Pension Board Meeting of May 1, 2014, seconded by Mrs. Mitchell and unanimously carried.

Organizational Issues - Election of Chair

Mr. Blakeman requested that this item be deferred until the next meeting, seconded by Mr. Clendaniel and unanimously carried.

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, noting that the plan had approximately $34.4M in assets. He stated that the net return was approximately 4.08% for the quarter, which was in line with the performance benchmark of 4.08%, and that the plan was also in line with allocation targets. He explained that the plan is rebalanced at least on a quarterly basis to its targets. Referring to Page 2 of the Board Meeting Notes, Mr. Marzinsky indicated that the Vanguard Prime Cap Fund had been closed to new investments; therefore, it was recommended to rebalance to different investments within the plan. He explained that this would be discussed later in the meeting. In addition, the Vanguard Morgan Growth Fund had shown underperformance and changes were recommended.

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 advised members that equity markets had generally been performing well for the quarter and year to date, with some recent volatility but positive returns. Since the beginning of the year, interest rates had reduced slightly, which had helped bond investments, and bond returns for the quarter had been very good. Mr. Marzinsky stated that there had been some volatility in the market; however, the portfolio was diversified across fixed income, cash, and equity investments and could weather some volatility. He noted that there were good economic reports domestically and internationally, the Federal Reserve had committed to keeping interest rates low, and unemployment was down to the 6% range after being in the double digits a couple of years ago.

In reference to Page 9 - Asset Allocation, Mr. Marzinsky explained that Wells Fargo manages the Fund's cash assets in a money market fund from which monthly benefit payments are made. Other assets are allocated among bond and equity investments. He stated that the asset allocation was in line with the targets set in the investment policy in 2013.

Referring to Page 10 - Investment Policy Review - Active Management, Mr. Marzinsky reviewed the performance of the plan, explaining that this report revealed whether managers were making proactive and strategic decisions. He indicated that the Return Rank could range from 0 - 99, with 0 being the best rank. The Excess Return showed the return of the fund compared to the return of the index, with a positive number indicating that the fund was exceeding the index and a negative number trailing the index. The Relative Standard Deviation reflected the volatility of the fund compared to the index, and higher numbers reflected greater risk than the market index. Mr. Marzinsky stated that Alpha and Sharpe measures indicated manager effectiveness compared to others in their categories, with a lower number reflecting better performance. He noted that the Ivy High Income I Fund ranked in the top 1% of all income funds in its category. Mr. Marzinsky stated that the majority of funds were doing very well compared to their peers and indexes on a risk-adjusted basis and in terms of manager effectiveness. He pointed out that the Vanguard Morgan Growth Admiral Fund reflected the beginning of a trend of underperformance and was trailing its peer group and index in the Excess Return column. It was also taking on more risk than other funds in its category, as reflected by Standard Deviation. This fund also ranked in the bottom quarter and bottom half, respectively, in Alpha and Sharpe rankings over a three (3) year period and was starting to trail over a five (5) year period. He explained that the Vanguard Morgan Growth Admiral Fund was composed of 75% large cap stocks and 25% small-to-mid cap funds. Mr. Marzinsky stated that Milliman, Inc. recommended replacing this fund with two (2) index funds.

Responding to Mrs. Mitchell regarding the length of time that Vanguard Morgan Growth Admiral Fund had been included in the City's portfolio, Mr. Marzinsky indicated that this fund was included by the City's prior financial advisor.

In response to Mrs. Mitchell regarding the cost to purchase the fund, its value, and if there would be a loss of the City's investments if this fund were sold, Mr. Marzinsky stated that he anticipated that a gain would be realized if these investments were sold.

Mr. Marzinsky recommended removing the Vanguard Morgan Growth Admiral Fund and investing 75% of the balance in the Vanguard Growth Index Fund and 25% in the Vanguard Mid Cap Index fund, which would place these investments in the market in a similar asset allocation. Since the Vanguard Morgan Growth Admiral Fund was not exceeding the market index, it would be better to invest in index funds.

In reference to Page 12 - Investment Option Return Summary, Mr. Marzinsky stated that the three (3) month return exceeded the employee plan policy index, and the year-to-date gross return was 7.06%, versus the policy index of 6.67%. Although the fund trailed the policy index slightly over the last year, Mr. Marzinsky reminded members that some cash had been held in the plan over the summer last year; however, over three (3) and five (5) year periods, it was performing adequately. He reminded members that Milliman, Inc. became the City's investment manager approximately two (2) to three (3) years ago, so the report reflected returns under the prior advisor. In the near term, he indicated that the fund was doing well and was in line with the policy index and the asset allocations established.

Mrs. Tieman moved that the Civilian Pension Fund's investments be removed from the Vanguard Morgan Growth Admiral Fund and 75% of the balance be invested in the Vanguard Growth Index Fund and 25% in the Vanguard Mid Cap Index Fund, as recommended by Milliman, Inc., seconded by Mr. Blakeman and unanimously carried.

Annual Review of Investment Policy

Members reviewed the proposed Investment Policy Statement - City of Dover Employees Pension Plan - August 2014. Mrs. Donna Mitchell, Controller/Treasurer, advised members that she had compared this document with the current investment policy, as well as the draft policy that was provided to members during their meeting held on May 1, 2014. She felt that the current draft was much more streamlined and clear.

Mr. Marzinsky reviewed the proposed Investment Policy Statement - City of Dover Employees Pension Plan - August 2014. He explained that an investment policy is an instruction manual to be used by the Board to make decisions regarding selecting funds, developing asset allocation, and monitoring funds. He noted that the review of the fund's return rank, risk-adjusted returns, and Alpha and Sharpe measures were written into the investment policy.

Referring to Objective #5 on Page 3 - II. Statement of Objectives, Mr. Marzinsky explained that a Liability Driven Investment (LDI) strategy would take movements in interest rates into consideration, noting that the inverse relationship between interest rates and the value of liabilities affects the funded status of the plan. In an LDI strategy, it is attempted to have some exposure to interest rates that will help offset the losses or gains in the plan liabilities.

Mrs. Mitchell questioned if the City's unfunded liability was considered in relation to the LDI strategy. Responding, Mr. Marzinsky stated that the duration is considered in this regard. The annual projected cash flows are developed from the actuarial valuation of the plan, and the duration is then determined based on those cash flows. He advised members that the duration measured for the plan was approximately 18 years, which was a somewhat long duration and would be more affected by small movements in interest rates. Mr. Marzinsky stated that Milliman attempts to consider liability shifts to some degree; however, since the funded status of the plan is 40% - 50%, it is desired to have some equity growth.

Referring to Objective #7, "Establish policies based on total return and expected projected payouts rather than current income," Mrs. Mitchell questioned whether the "policies" mentioned were policies outside of the Investment Policy Statement or policies included within the document. Responding, Mr. Marzinsky explained that an expected return is developed for each asset category, e.g., short-term bonds may have an expected return of 2% per year over the next ten years. An asset allocation policy is then developed using this expected total return and projected payouts.

Mr. Blakeman questioned the phrase "terminate the plan" included in Objective #9, and suggested adding language to indicate that if the plan were fully funded, the City could discontinue making payments into the plan. As currently stated, Mr. Blakeman felt that the objective seemed to indicate that the City could terminate the plan.

Mrs. Mitchell moved to amend Section II. Statement of Objectives, Item #9 to read as follows: "Attain a funded status such that the employer has the option to discontinue contributions to the plan if deemed appropriate and fully funded." The motion was seconded by Mr. Blakeman and unanimously carried.

In regard to Page 7 - Section IV. Investment and Allocation Policy - Risk Tolerances, Mrs. Mitchell referred to Item #2, which indicated that extending durations in the fixed income portion of the Plan assets should be considered. She questioned if this was a recommendation within the Investment Policy Statement or if this would be discussed in regard to asset allocation and would change each time the policy was reviewed. Responding, Mr. Marzinsky stated that this was not a driver of the investment policy but referred to considering the duration of the benefit payments in developing the asset allocation.

Mrs. Mitchell questioned if there would be a recommendation for a longer duration based on new asset allocations. Responding, Mr. Marzinsky estimated that the duration of plan assets as a whole was approximately two (2) to three (3) years, whereas the duration of the liabilities was approximately 18 years. For this reason, the plan was in a capital appreciation mode and the goal was to focus on improving the funded status rather than managing interest rate sensitivity of plan assets.

Mr. Marzinsky explained that the body of the Investment Policy Statement contained the operational goals and objectives for the Board. The actual plan asset allocation was included as Appendix A to the body of the Investment Policy Statement. In this way, the Board could approve the body of the investment policy and only change Appendix A as needed.

Mrs. Mitchell moved to approve the Investment Policy Statement, as amended *(Attachment #1)*, seconded by Mr. Blakeman and unanimously carried.

Mr. Marzinsky reviewed the City of Dover, Delaware General Employee Pension Plan Asset Allocation Study dated July 2014 that was included with the Quarterly Investment Monitor - Summary Report for the Quarter Ending June 30, 2014. He reminded members that at the previous meeting held on May 1, 2014, members discussed the asset allocation and actual return of the plan. Referring to Page 2 - Optimization Input Review, Mr. Marzinsky explained that Milliman, Inc. develops an expected return over the next several years based on market forecasts for the different asset categories, e.g., short-term bonds over the next five (5) to 10 years will have on average a 2.25% return. An expected level of risk or volatility is also projected, as indicated under Annual Standard Deviation. For example, U.S. Large Growth investments were expected to yield 8.9% over the next ten years or so on average, but were expected to be somewhat risky due to the Annual Standard Deviation of 21.20, indicating that these investments could go up or down an additional 21%.

In reference to Page 3 - Input Correlation, Mr. Marzinsky stated that the correlation reflected how closely one (1) investment moves with another investment, with 1.0 being an exact correlation. He emphasized that this helps to attain portfolio diversification, noting that it is important to look at not only the expected return and risk but how closely each of the returns move together.

Referring to Page 4 - Individual Constraints and Group Constraints, Mr. Marzinsky explained that minimum and maximum constraints were also put on the model to ensure diversification within the portfolio.

In reference to Page 5 - Portfolio Options, Mr. Marzinsky noted that the fifth column reflected the Current Portfolio Allocation, which was approximately 61% stocks and 39% fixed income. He stated that this was a conservatively balanced, middle-of-the-road portfolio with an expected annual return of approximately 6.61%. He noted that the performance of the plan over the last year was approximately 14%; therefore, the managers exceeded expectations for the year with an expected volatility of 11.993. Mr. Marzinsky stated that the goal for the Board was to determine if they wished to maintain the approximate 60/40 portfolio or attempt to obtain a better return on investments by selecting an alternative Sample Portfolio. He noted that fixed income exposure could be reduced, as indicated in Sample Portfolio #1, which would increase the expected return on average to 7%. The standard deviation would increase slightly to 13.152, which would create the potential for a return ranging from approximately -6% to approximately 20%, therefore the risk would also increase. He noted that the most dramatic change would be Sample Portfolio #3, with approximately 80% stocks and 20% fixed income. This would significantly increase both the expected return and the expected risk.

Noting her recollection that the actuarial assumption for the plan was approximately 7.5%, Mrs. Mitchell commented that the most aggressive sample option had an expected return of 7.85%, although she was unsure if this would be too aggressive. She requested the Board's input.

Mr. Blakeman indicated that he did not feel that making a change would be wise at this time, noting that investments were doing well.

Mrs. Tieman suggested that Sample Portfolio #1 be adopted, noting that the current expected return was not attaining the actuarial assumption. Mrs. Tieman indicated that Sample Portfolio #1 would allow for a gain of approximately 0.5% without much more risk and would bring the plan closer to the actuarial assumption.

Mrs. Mitchell concurred with Mrs. Tieman, noting that the Board could reallocate these funds every year and could return to the previous allocation if necessary. She indicated that she would like to see if Sample Portfolio #1 would benefit the fund.

Mr. Marzinsky stated that the investments were all very liquid. If this change were made, and if equity markets declined or interest rates rose significantly, additional changes could be made at any time.

In regard to the plan's liabilities, Mrs. Mitchell stated that a very conservative portfolio would make it difficult to get the plan funded and new accounting standards would make this even more difficult.

Mr. Koenig expressed his personal preference for Sample Portfolio #2, but stated that he did not plan to recommend it. He questioned if there would be hidden "churning fees" that might cause the fund to miss its target if funds were reapportioned.

Responding, Mr. Marzinsky reassured members that there would be no issues or additional fees for excessive trading. He stated that fund investments are rebalanced on a quarterly basis or when contributions are made and that additional trading would not be necessary.

Mrs. Tieman moved to reallocate the fund investments based on Sample Portfolio #1, seconded by Mr. Blakeman and carried by a vote of five (5) yes (Lynn, Blakeman, Tieman, Koenig, and Mitchell) and one (1) no (Clendaniel). *(City Clerk's Office Note: The City of Dover Employees' Pension Plan Strategic Asset Allocation Policy is Appendix A to the Investment Policy Statement.)*

Future Meeting Dates

By unanimous consent, the proposed meeting dates were approved, as follows: November 13, 2014; February 12, 2015; May 14, 2015; and August 13, 2015.

Mr. Blakeman moved for adjournment, seconded by Mr. Clendaniel and unanimously carried.

Meeting adjourned at 9:58 a.m.

Sean M. Lynn
Chair

SL/JS/dd
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Attachment
Attachment #1 - Investment Policy Statement - City of Dover Employees Pension Plan, August 2014

INVESTMENT POLICY STATEMENT

CITY OF DOVER EMPLOYEES PENSION PLAN

August 2014

INVESTMENT POLICY STATEMENT

CITY OF DOVER EMPLOYEES' PENSION PLAN

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I. PURPOSE & BACKGROUND

The Plan is a public employee retirement plan governed by The City of Dover Code of Ordinances.

The purpose of this Investment Policy Statement ("IPS") is to assist the participants of the plan who serve as members of the Employees' Pension 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 Employees' Pension 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 and fully funded.

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 objectives 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, options and futures, stocks, bonds, commingled funds, and collective trusts, exchange traded funds (ETFs):

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 cash and equivalents, mutual funds, separate accounts, options and futures, stocks, bonds, commingled funds, and collective trusts, exchange traded funds (ETFs). 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 *group 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

_____

Controller/Treasurer

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

Asset Class	Target
Cash & Short-Term Bond	7%
Inflation-Protected Bond	5%
Intermediate Term Bond	6%
Long-Term Bond	8%
High Yield Bond	7%
Large Value	11%
Large Growth	14%
Mid Cap Equity	6%
Small Cap Equity	7%
Foreign Equity	12%
Diversified Emerging Mkts	9%
Real Estate	8%
	100.00%

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: _____

Chairman or representative of the Board

Date approved: 8/14/14

_____

Controller/Treasurer