OTHER POST-EMPLOYMENT BENEFITS (OPEB) BOARD

The Other Post-Employment Benefits (OPEB) Board met on February 8, 2012, at 3:45 p.m., with Mr. Hare presiding in the absence of Chairwoman Williams. Members present were Mrs. Hawkins, Mr. Koenig, and Mrs. Mitchell. Councilman Bonar and Mayor Carey were also present.

AGENDA ADDITIONS/DELETIONS

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

INVESTMENT PERFORMANCE ANALYSIS REPORT - PRESENTED BY PEIRCE PARK GROUP

Mr. Lee Martin, Principal and Senior Investment Consultant, Peirce Park Group, reviewed the City of Dover OPEB Trust Investment Performance Report dated December 31, 2011. He noted that the OPEB fund increased by 7.5% during the quarter, gaining over $450,000 and outperforming the policy index. He attributed this gain to the value tilt of the portfolio and favorable returns from the PIMCO Total Return Fund. He noted that the OPEB Fund balance was over $8M in 2012.

Mr. Martin explained that the OPEB fund is designed to capture more of the up market than the Pension Funds as it is a long-term liability with a lower funded ratio. Although the OPEB fund is a little more aggressive on asset allocation, defensive-minded managers are utilized. Mr. Martin noted that during the quarter to date, the fund was up 4.1%, which is 0.5% above the index. He mentioned that the Fund's volatility could be reduced by indexing in the core area and managing the value area actively and he stated that this would be a topic of discussion later in the meeting.

In reviewing individual funds, Mr. Martin stated that American Funds Fundamental Investors underperformed last year but did well in the last quarter and the current year to date. Against its peer group it was just below median, but over three (3) and five (5) years has done very well. The Vanguard Mid Cap Index Fund did well in the last quarter and increased by 12.1%. He advised members that the Target Small Cap Value Fund was included for down side protection.

Mr. Martin noted that global funds are performing exceptionally well in the quarter to date at 2%. Performance in the last quarter was quite strong but was slightly behind the index because riskier, low-quality growth did better last quarter; however, he emphasized that it is best to invest in high quality over the long term.

In terms of fixed income investments, Mr. Martin stated that the Vanguard Total Bond Index Fund performed exceptionally well last year, ranking in the 15th percentile at 7.7%. He explained that PIMCO was included in the portfolio to capture more return than the index; however, it is slightly more volatile. Mr. Martin noted that two-thirds of the OPEB Fund's fixed income assets are held in the Vanguard Total Bond Index Fund and one-third in the PIMCO Total Return. He stated that PIMCO's correlation to the index is currently .85 and he suggested that this be monitored to ensure that it does not continue to diverge. Should this divergence increase, he suggested that some of the investments in PIMCO be placed back into the Vanguard Total Bond Index Fund.

ADJUSTMENTS TO PORTFOLIO - VALUE AND CORE STOCKS - PRESENTED BY PEIRCE PARK GROUP

During the Joint Civilian and Police Pension Boards and OPEB Trust Board Meeting held on November 9, 2011, members requested Peirce Park Group to provide additional information at a subsequent meeting in regard to making adjustments to the OPEB portfolio by switching its value and core stocks. Peirce Park Group previously suggested that the City's American Funds Fundamental Investors funds (a large core manager) be switched to the Washington Mutual Fund (a value fund) and the Vanguard Value Index Fund to the Vanguard S&P Fund. This would allow the OPEB Trust funds to remain with the same mutual fund companies currently being utilized but switch specific funds.

Mr. Lee Martin, Principal and Senior Investment Consultant, Peirce Park Group, reviewed the City of Dover OPEB Portfolio Changes - February 2012. He advised members that after analyzing the approach that was previously suggested, it was determined that this strategy would not achieve the value tilt desired for the City's portfolio. For this reason, it was suggested that mid cap value index funds be added to the portfolio to restore the value tilt. Mr. Martin reviewed Portfolio Allocations (Page 1) that compared the original proposal (Switch) to the modified suggestion (MidVal). He indicated that Peirce Park Group suggested the mid-value approach.

Mrs. Mitchell moved to reallocate the City's OPEB portfolio according to the Mid-Value Option listed under Portfolio Allocations, Page 1 of the the City of Dover - OPEB Portfolio Changes Report *(Attachment #1)*, seconded by Mr. Koenig and unanimously carried.

By unanimous consent, the meeting adjourned at 4:01 P.M.

William F. Hare
Acting Chairman

WPM/JS/dd/tm
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Attachment
Attachment #1 - Portfolio Allocations - City of Dover - OPEB Portfolio Changes Report

Portfolio Allocations (%)

	Current Portfolio	Switch*	MidVal**
Vanguard Value Index Signal	21.6%	-	-
American Funds Fundamental Investors R6	8.7%	-	-
Vanguard Mid Cap Index Signal	8.3%	10.8%	-
Target Small Capitalization Value	7.3%	7.3%	7.0%
American Funds New Perspective R6	13.0%	13.0%	13.0%
Harding Loevner Global Equity Inst'l	9.6%	12.6%	12.7%
Vanguard Total Bond Market Index Signal	18.7%	18.7%	18.7%
PIMCO Total Return Inst'l	12.8%	12.8%	12.8%
American Funds Washington Mutual R6	-	10.0%	10.0%
Vanguard 500 Index Signal	-	14.8%	15.8%
Vanguard Mid Cap Value Adm Index	-	-	10.0%
Total Cost	0.35%	0.38%	0.38%

**Terminates Value Index and American Funds Fundamental Investors. 3% to Harding Loevner Global and 2.5% to Mid Cap Index. Add American Funds Washington Mutual at 10% and balance to S&P 500 Index.*

***Terminates Value Index and Fundamental Investors. Switches the Mid Cap index to the Mid Cap Value Index and invests 10%. 3% to Harding Loevner Global – Redeem some from Target Small Cap Value. Adds American Funds Washington Mutual at 10% and balance to S&P 500 Index.*

ATTACHMENT #1
OPEB Board Meeting of February 8, 2012