JOINT CIVILIAN AND POLICE PENSION BOARDS

The Civilian and Police Pension Boards met on August 19, 2011, at 3:02 p.m. with Dr. McGlumphy presiding. Members present were Mr. Blakeman, Mrs. Hettinger, Ret. Lt. Knotts, Ret. Cpl. Stallings, Chief Hosfelt, Mr. Koenig (Interim City Manager), and Mrs. Mitchell. Mr. Bonar, Mr. Clendaniel, and Ret. Lt. Mullaney were absent.

AGENDA ADDITIONS/DELETIONS

Ret. Lt. Knotts moved for approval of the agenda as presented, seconded by Mr. Blakeman and unanimously carried.

ADOPTION OF MINUTES - CIVILIAN AND POLICE PENSION BOARDS AND JOINT CIVILIAN AND POLICE PENSION AND OTHER POST-EMPLOYMENT BENEFITS (OPEB) BOARDS MEETINGS OF JULY 20, 2011

The minutes of the Civilian and Police Pension Boards and Joint Civilian and Police Pension and Other Post Employment Benefits (OPEB) Boards meetings of July 20, 2011 were unanimously approved by motion of Mrs. Hettinger, seconded by Mr. Blakeman.

INVESTMENT PERFORMANCE ANALYSIS REPORT - PRESENTED BY PEIRCE PARK GROUP

Mr. Michael Shone, President, Peirce Park Group, reviewed the Investment Performance Report dated June 30, 2011. He advised members that he would provide information regarding the progress of the City's investments over the past five (5) to six (6) years, the current status of funds, and structural changes to the City's portfolio that Peirce Park Group would recommend for the future.

Referring to Page 22 of the report, Mr. Shone explained that the figures listed in brackets next to the Police Total Fund indicate the City's ranking in the public fund "universe" to which Peirce Park Group subscribes. He noted that the City's rankings listed between 2001 and 2004 were in the bottom 10%. Subsequently, the City contracted with Peirce Park Group as consultants and underwent a restructuring and, as a result, an investment policy statement was developed, the portfolio was diversified into multiple managers, and international and small cap stocks were added to the portfolio. Mr. Shone advised members that performance improved substantially in 2005, 2006, and 2007, with above average returns achieved almost every year. He stated that the cumulative returns listed on Page 21 of the report reflect that the City's plan rankings were in the top 18% over the past seven (7) years and in the top 16% over the past five (5) years.

Mr. Shone stated that, in the present quarter, the City ranked in the 93rd percentile. He recommended that adjustments be made to the City's portfolio mix. He noted that the City's performance has consistently been in the top two (2) to three (3) of all of Peirce Park's clients.

Referring to Page 1 of the report, Mr. Shone advised members that, in recent years, the market has experienced the biggest economic and financial downturn since the Depression, which has caused uncertainty, fear, and market volatility. He indicated that the "steady path" that the City has maintained has worked well and advocated continuing this approach. He cautioned members that the City's investments would not be "at the very top" all of the time.

Mr. Shone advised members that oil prices recently fluctuated dramatically; however, he felt that they would increase over the long term. He stated his belief that the economic downturn will eventually end, and that it is likely that oil prices will increase as new strong economies, such as China and India, increase their demand for energy. He felt it wise to make sure that the City's portfolio has representation in this area.

Mr. Shone explained that as the economy declined, investors sought out U. S. Treasuries, which drove down the interest rate on bonds. He noted that, as interest rates declined, bond values increased; therefore, the City's bond funds have done very well this year. However, he noted that, at some point, interest rates will rise again, which will cause bond values to decrease. Mr. Shone noted that as interest rates declined, stocks were slightly positive or slightly negative over the last quarter but have performed well over the last two (2) years.

Referring to the Highlights listed on Page 8 of the report, Mr. Shone stated that the Employees Fund returned 0.6% for the quarter and gained over $100,000, which placed it in the top 25% of all public funds in the "universe" over three (3), five (5), and seven (7) years. He indicated that this was notable because the City is one of the smaller public funds handled by Peirce Park Group and its relatively strong performance speaks well of the overall structure of the City's portfolio. The Police Fund increased by 0.4% and gained $40,000 during the last quarter, placing it in the top 25% over three (3), five (5), and seven (7) years. Although rankings were not as high over the last quarter, Mr. Shone reminded members that it is not possible to "win" every quarter. He explained that one of the factors that caused the City's underperformance during the past quarter was the value tilt to the City's portfolio, in the form of higher dividend paying stocks such as energy, finance, and utility. Peirce Park Group continues to advocate this orientation because these investments tend to be more defensive and perform better in down markets.

Mr. Shone explained that investments in small cap stocks benefitted the City in 2009 and 2010. He explained that smaller companies tend to do the best when emerging from a recession because they can be more "nimble" as the economy turns around and, because they have been "hit the hardest" in a downturn, they tend to rebound the best. He advised members that it would be prudent to "bank the winnings" realized from small cap investments and lower the City's allocation in this category.

Mr. Shone reviewed the City's individual funds listed on Pages 13 and 14 of the report. He stated his general satisfaction with the diversity provided in the City's portfolio and the long-term performance of the Vanguard Value Index, the Vanguard Primecap Core, and the Vanguard Morgan Growth Admiral Funds. Mr. Shone recommended that the City's investments in the Royce Value Plus Fund be terminated and reallocated to an alternative investment. In addition, he stated that the American Funds Growth Fund (R6) has experienced decreased performance as a result of an influx of funds and suggested that members consider making a change regarding investments in this product.

Mr. Shone stated that DFA U.S. Targeted Value, American Funds Europacific Growth (R6), and DFA International Value Funds have performed well and noted that the City's bond funds, Vanguard

Intermediate Bond Index and Vanguard Short Term Bond Index, were in the top 1% and 7% of their peer groups, respectively, for the quarter and in the 14th and 35th percentiles, respectively, for the year to date.

GLOBAL EQUITY MANAGER SEARCH

Mr. Lee Martin, Principal and Senior Investment Consultant, Peirce Park Group, reviewed a presentation entitled, "City of Dover Global Equity Search." He reminded members that, at the meeting held on February 9, 2011, he recommended making changes in the City's growth investments with American Funds Growth Fund and Royce Value Plus. At that time, he explained the benefit of global funds, noting that global managers can take advantage of investment opportunities anywhere in the world, in contrast to international managers (who can only invest overseas) and domestic managers (who can invest only in the U. S.). He noted that, after a thorough analysis, the Global Equity Search was developed to present members with information on three (3) options for global investment: American Funds New Perspective, Harding Loevner Global Equity, and Thornburg Global Opportunities. Mr. Martin presented an overview of the three (3) funds, as follows:

1) American Funds New Perspective Fund - Mr. Martin explained that the City had invested in this company's domestic growth fund, American Funds Growth Fund, for many years. He indicated that the fund performed well originally, but it attracted many investors and grew significantly, and it has been difficult for fund managers to put those funds to use because growth opportunities have been limited in the U.S. American Funds New Perspective allows managers to invest in countries around the world where growth opportunities are more prevalent. Mr. Martin stated that this fund is well diversified (with 250 funds) and has low turnover, tracking error, and cost. He explained that it has nine (9) managers who manage independently, which has resulted in low volatility. He indicated that it is tilted more toward large to mega cap stocks.

2) Harding Loevner Global Equity Institutional Fund is a high-quality, pure growth fund. It is primarily large cap, but does enter the mid-cap space, which is beneficial because this allows room for growth. Mr. Martin noted that this fund is a little more expensive than the American Funds New Perspective, is fairly well diversified (with 66 funds), and offers very good down side protection.

3) Thornburg Global Opportunities - Mr. Martin explained that Thornburg has a strong track record with its international and domestic offerings. Approximately five (5) to six (6) years ago, Thornburg released its Global Opportunities product, which was developed by "scouring the earth" for the best investment opportunities. He noted that the fund is fairly concentrated, with 36 holdings across all market caps (small, mid, and large). Managers

buy funds that have been "beaten up" which they believe have value and will turn around. He noted that this stock has much more volatility than the other two (2) being considered and tends to perform extremely well in the up markets but not as well in the down markets.

In response to Dr. McGlumphy, Mr. Martin explained that it is wise to have the City's overall portfolio structured with more down side protection with a slight value tilt; however, a portion of the portfolio should be positioned to do well in the up markets, and Thornburg Global Opportunities was presented for consideration for this reason.

Mr. Martin reviewed detailed information provided in the presentation regarding the performance and volatility of each fund being considered.

In response to Mrs. Mitchell, Mr. Shone stated that the funds being considered were approximately one-half international and one-half U. S. stocks, and that Peirce Park Group would ensure that the investments chosen would conform to the City's investment policy as it relates to fund allocation.

Responding to Mrs. Mitchell, Mr. Martin recommended that the City select one (1) or two (2) global funds of the three (3) presented. He suggested that American Funds Growth Fund and Royce Value Plus investments be terminated, and that other adjustments should be made to the portfolio depending upon the global funds selected.

In response to Mr. Koenig, Mr. Martin explained that the amount of money recommended for allocation to global funds would depend on the specific fund(s) chosen.

Concerned about the volatility of the Thornburg Global Opportunities Fund, Mrs. Mitchell stated that she preferred the American Funds New Perspective and Harding Loevner Funds.

Mr. Blakeman agreed with Mrs. Mitchell, noting that the Thornburg product has been available for only five (5) years and he would like to see more of a "track record."

Noting the fact that the City's portfolio consists of 65% equities and that the City is unable to sustain as much volatility as the State can, Mr. Shone concurred, suggesting that the more conservative funds (excluding the Thornburg option) might be more appropriate for the City.

Mr. Martin provided members with Peirce Park Group Analytics for the Police and Employee Funds ***(Attachment #1)*** which contained the recommended allocations should members opt to invest in the American Funds New Perspective and Harding Loevner Global Institutional Funds, matching up the international target to the City's investment policy.

Dr. McGlumphy moved that the Police and Employees Pension Fund portfolios be adjusted as of August 18, 2011 to terminate the Royce Value Plus, American Funds Growth, and American Funds Europacific Growth Funds; rebalance fixed income to 35%; add American

Funds New Perspective and Harding Loevner Global Institutional Funds; decrease the Vanguard Value Index Fund allocation; and allocate the balance to the Vanguard Morgan Growth Fund, as reflected in the Peirce Park Group Analytics for the Police and Employee Funds *(Attachment #1)*, seconded by Mr. Koenig and unanimously carried.

ASSET ALLOCATION MIX - POTENTIAL FUTURE CHANGES

Mr. Shone advised members that many of Peirce Park Group's clients with portfolios consisting of 65% equities have adjusted their international investment targets from 14% to 16%. He noted that non-U.S. investments currently comprise approximately 58% of the world market. At this time, the City's equity investments are targeted at 51% U.S. investments and 14% international funds. Mr. Shone stated that global diversification makes sense and that the City may wish to consider increasing its international target from 14% to 16% at some point in the future.

Mr. Shone explained that the Government Accounting Standards Board (GASB) was planning to make changes to accounting standards that would require plans that are not fully funded to calculate the plan liability differently, which would increase the liability reflected on financial statements and increase the accounting expense. This may mean that short-term assets must be matched up to short-term liabilities, intermediate assets to intermediate liabilities, and long-term assets to long-term liabilities. He explained that, currently, the City's bonds are all intermediate bonds; however, in view of this prospective change, the City may want to acquire some shorter bonds, some intermediate bonds, and some longer bonds structured to match up to when benefit payments are due. He stated that Peirce Park Group would bring more information forward on this topic to members in the future.

In response to Mr. Koenig, Mr. Shone stated that, currently, the City's actuary assumes a 7% return when calculating liability; however, in the future, if the GASB implements this change, the 7% figure would be used to calculate funded liability, and municipal bond rates (currently 3.5% or 4%) would be used to calculate unfunded liability. Mr. Shone stated that this change is expected to become effective in 2014 and may result in changes to the City's asset allocation, possibly toward more conservative investing, such as allocating more funds to bonds and less to stocks.

SETTING OF FUTURE MEETING DATES

By unanimous consent, members agreed to schedule meetings quarterly rather than every six (6) months and to schedule subsequent meetings for November 9, 2011; February 8, 2012; May 9, 2012; and August 8, 2012, with all meetings to be held at 4:00 p.m.

Mr. Blakeman moved for adjournment, seconded by Ret. Lt. Knotts and unanimously carried.

Meeting adjourned at 4:03 p.m.

William P. McGlumphy
Chairman

WPM/JS/dd/tm
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Attachment:
Attachment #1 - Peirce Park Group Analytics for the Police and Employee Funds

Investment Name	% of Portfolio	Cost
Vanguard Value Index Signal	21.0%	0.12%
Vanguard PRIMECAP Core	7.5%	0.51%
Vanguard Morgan Growth	8.0%	0.30%
DFA US Targeted Value I	5.0%	0.38%
Harding Loevner Global Equity Inst'l	8.0%	1.00%
American Funds New Perspective R6	8.0%	0.46%
DFA International Value I	5.6%	0.45%
Vanguard Interm. Term Bond Index Signal	11.9%	0.11%
Vanguard Short-Term Bond Index Signal	23.1%	0.11%
CASH	1.9%	0.00%
TOTAL	**100.0%**	**0.2870%**

Total Portfolio Allocations

Domestic Equities	Value	Growth
Large	19.6%	14.5%
Mid	5.7%	5.0%
Small	3.2%	0.8%

Int'l & Emg Mkt Equities	Value	Growth
Large	6.7%	5.8%
Mid	1.0%	0.8%
Small	0.0%	0.0%

Value/Growth Splits

Domestic Equities	Value	Growth
Large	57.5%	42.5%
Mid	53.2%	46.8%
Small	80.0%	20.0%
total	58.4%	41.6%

Int'l & Emg Mkt Equities	Value	Growth
Large	53.7%	46.3%
S/Mid	56.5%	43.5%
total	54.0%	46.0%

Market Cap. Weightings

Domestic Equities	Portfolio	Target	Weight
	34.1%	33.2%	102.9%
	10.7%	12.8%	83.8%
	4.0%	5.1%	78.4%

Int'l & Emg Mkt Equities	Portfolio	Target	Weight
	12.5%	11.5%	108.9%
	1.8%	2.5%	72.3%

Asset Class	% of Portfolio	Policy Targets	Weights
US Equities	48.8%	51.0%	*95.6%*
International Equities	13.2%		
Emerging Markets Equities	1.1%		
Int'l + Emg Mkt Equity Total	14.3%	14.0%	*102.3%*
US Fixed Income	35.0%		
International Fixed Income	0.0%		
Emerging Markets Fixed Income	0.0%		
Cash	1.9%		
Fixed Income Total	36.9%	35.0%	*105.4%*
	100.0%	100.0%	

	Value/Growth Splits		Market Cap. Distribution		
	Value	Growth	Large	Mid	Small
Portfolio	57.4%	42.6%	73.9%	19.8%	6.3%
Targets	58.0%	42.0%	69.2%	23.3%	7.5%
Weight	99.0%	101.4%	106.7%	85.0%	84.5%

Title:

City of Dover - Police

Notes/Comments:

Portfolio as of August 18, 2011 - Terminating Royce, Amer. Funds Growth & EuroPacific. Rebalancing Fixed to 35%. Adding New Perspective & Harding Loevner. Decreasing Value Index. Balance to Morgan Growth.

PEIRCE PARK GROUP
INVESTMENT MANAGEMENT CONSULTANTS

ATTACHMENT #1
Civilian and Police Pension Boards Meeting of 08/19/2011

Investment Name	% of Portfolio	Cost
Vanguard Value Index Signal	21.5%	0.12%
Vanguard PRIMECAP Core	8.3%	0.51%
Vanguard Morgan Growth	6.4%	0.30%
DFA US Targeted Value I	6.0%	0.38%
Harding Loevner Global Equity Inst'l	8.0%	1.00%
American Funds New Perspective R6	8.0%	0.46%
DFA International Value I	5.4%	0.45%
Vanguard Interm. Term Bond Index Signal	11.9%	0.11%
Vanguard Short-Term Bond Index Signal	23.1%	0.11%
CASH	1.4%	0.00%
TOTAL	**100.0%**	**0.2897%**

Total Portfolio Allocations

Domestic Equities	Value	Growth
Large	20.1%	14.1%
Mid	5.9%	4.6%
Small	3.8%	1.0%

Int'l & Emg Mkt Equities	Value	Growth
Large	6.6%	5.8%
Mid	1.0%	0.8%
Small	0.0%	0.0%

Value/Growth Splits

Domestic Equities	Value	Growth
Large	58.8%	41.2%
Mid	56.2%	43.8%
Small	80.0%	20.0%
total	60.3%	39.7%

Int'l & Emg Mkt Equities	Value	Growth
Large	53.3%	46.7%
S/Mid	56.1%	43.9%
total	53.7%	46.3%

Market Cap. Weightings

Domestic Equities	Portfolio	Target	Weight
	34.2%	33.2%	103.1%
	10.5%	12.8%	82.3%
	4.8%	5.1%	94.1%

Int'l & Emg Mkt Equities	Portfolio	Target	Weight
	12.3%	11.5%	107.4%
	1.8%	2.5%	71.1%

Asset Class	% of Portfolio	Policy Targets	Weights
US Equities	**49.5%**	**51.0%**	***97.0%***
International Equities	**13.0%**		
Emerging Markets Equities	**1.1%**		
Int'l + Emg Mkt Equity Total	**14.1%**	**14.0%**	***100.9%***
US Fixed Income	**35.0%**		
International Fixed Income	**0.0%**		
Emerging Markets Fixed Income	**0.0%**		
Cash	**1.4%**		
Fixed Income Total	**36.4%**	**35.0%**	***104.0%***
	100.0%	**100.0%**	

	Value/Growth Splits		Market Cap. Distribution		
	Value	Growth	Large	Mid	Small
Portfolio	**58.9%**	**41.1%**	**73.1%**	**19.3%**	**7.5%**
Targets	**58.0%**	**42.0%**	**69.2%**	**23.3%**	**7.5%**
Weight	**101.5%**	**98.0%**	**105.7%**	**82.9%**	**100.6%**

Title:

City of Dover - Employees

Notes/Comments:

Portfolio as of August 18, 2011 - Terminating Royce, Amer. Funds Growth & EuroPacific. Rebalancing Fixed to 35%. Adding New Perspective & Harding Loevner. Balance to Morgan Growth.



PEIRCE PARK GROUP
INVESTMENT MANAGEMENT CONSULTANTS