CIVILIAN PENSION BOARD AGENDA

July 20, 2011 - 3:00 P.M.- Council Chambers - City Hall - City of Dover

AGENDA ADDITIONS/DELETIONS

1. Adoption of Minutes - Civilian Pension Board Meeting of February 9, 2011
2. Organizational Issues - Election of Chair
3. Adjournment

CIVILIAN AND POLICE PENSION BOARDS AGENDA

Immediately Following the Adjournment of the Civilian Pension Board Meeting

AGENDA ADDITIONS/DELETIONS

1. Adoption of Minutes - Civilian and Police Pension Boards Meeting of February 9, 2011
2. Adjournment

JOINT CIVILIAN AND POLICE PENSION BOARDS AND OTHER POST EMPLOYMENT BENEFITS (OPEB) BOARD AGENDA

Immediately Following the Adjournment of the Civilian and Police Pension Boards Meeting

AGENDA ADDITIONS/DELETIONS

1. Investment Management Proposal
2. Adjournment

**TO ENSURE THAT THERE WILL BE A QUORUM,
PLEASE RSVP BY CONTACTING
THE CITY CLERK'S OFFICE BY
EMAIL AT CITYCLERK@DOVER.DE.US
OR CALLING 736-7008
AS SOON AS POSSIBLE**

/jjs

THE AGENDA ITEMS AS LISTED MAY NOT BE CONSIDERED IN SEQUENCE. THIS AGENDA IS SUBJECT TO CHANGE TO INCLUDE THE ADDITION OR THE DELETION OF ITEMS, INCLUDING EXECUTIVE SESSIONS.

CIVILIAN AND POLICE PENSION BOARDS

The Civilian and Police Pension Boards met on February 9, 2011at 3:00 p.m. with Ret. Lt. Mullaney presiding until the arrival of Mr. Leary at 3:03 p.m. Members present were Dr. McGlumphy, Mr. Blakeman, Mr. Clendaniel, Mrs. Rigby, Ret. Lt. Knotts, Ret. Cpl. Stallings, Chief Hosfelt, and Mrs. Mitchell. Mr. DePrima was absent.

AGENDA ADDITIONS/DELETIONS

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

APPROVAL OF MINUTES

By motion of Ret. Lt. Knotts, seconded by Mrs. Mitchell, the minutes of the Civilian and Police Pension Board meeting of August 20, 2010, were unanimously approved.

QUARTERLY INVESTMENT PERFORMANCE ANALYSIS REPORT - PRESENTED BY PEIRCE PARK GROUP

Mr. Lee Martin, Principal and Senior Investment Consultant, Peirce Park Group, advised members that Peirce Park has made some organizational changes, including the addition of two (2) new staff members. He explained that Mr. Christopher Thorsheim joined the firm and is responsible for performing due diligence on investment managers and funds for the Group, and Ms. Sarah Wilkerson joined the staff as a consultant. He noted that Peirce Park is growing and has opened an office in Pittsburgh, PA, in addition to their headquarters in West Chester, PA and office in Wilmington, DE. He noted that the Group now handles $4 billion in investments, which is an increase from $2 billion seven (7) to eight (8) years ago. He indicated that Peirce Park now provides additional consulting services to five (5) of their clients which involve exercising discretionary authority to hire and fire managers and perform timely rebalancing. He noted that passing on this type of fiduciary responsibility has become a trend in the industry and may be an option that the City would like to consider in the future.

Mr. Martin reviewed the Quarterly Investment Performance Analysis Report dated December 31, 2010. He explained that the U.S. market finished ahead of many international markets in 2010. Mr. Martin noted that the recession appears to be ending; however, unemployment remains a problem. He noted that the current unemployment rate is 9.4%, compared to a historical rate of 5% to 5.5%. Mr. Martin stated that industrial production and consumer spending increased in the fourth quarter and that the dollar was fairly low compared to other currencies, which led to good growth of exports to emerging markets. He indicated that inflation has not been a problem in the U.S.; therefore the Federal Reserve has kept interest rates low to encourage reinvestment in capital and to stimulate the job market.

Mr. Martin noted that fixed income fund returns were reduced to 1.3% for the quarter and continue to be reduced in 2011. He stated that the strong bull market for fixed income investments has prevailed for 30 years; however, he felt that this trend will not hold true in the future. He explained that there is a general feeling that 3.0% to 3.5% is a more realistic expected rate of return for fixed income investments and suggested that the Boards may wish to discuss how the 7.5% or 8% assumed rate of return can be achieved, possibly by increasing the equity allocation or utilizing other types of investments.

Referring to Page 2 of the report, Mr. Martin indicated that market returns for December 2010 were the best in 20 years and that, after two (2) years, Standard and Poor's (the S & P) has returned to the rate which was in effect just prior to the market collapse in 2008. He indicated that small caps performed best for the quarter and for the last year and that growth investments outperformed value in 2010; however, over a ten (10) year period, value outperformed growth. Mr. Martin explained that Peirce Park prefers a value tilt to porfolios because value funds provide reasonable returns in good markets and are more stable when the market is down.

Mr. Martin noted that cyclical growth sectors, including energy and materials, performed better than defensive sectors, such as health care, utilities, and consumer staples, noting that this situation was reversed when the Boards last met in August. He noted that this illustrates the importance of maintaining a diversified portfolio of investment managers and funds.

Referring to Page 4 of the report, Mr. Martin indicated that the U.S. outperformed the international market during the fourth quarter, noting that the U.S. tends to do better than most of the developed world when emerging from a recession.

In reference to Page 5 of the report, Mr. Martin stated that the City's Employees' Fund returned 7.0% for the quarter and 12.6% for the year. He provided members a City of Dover Employees' Pension Plan Provisional Performance Summary dated February 8, 2011 ***(Attachment #1)*** and noted that the Summary reflects an additional 3% gain for 2011 and that the fund balance now exceeds $21M. In response to Mrs. Mitchell, he indicated that these figures reflect gross returns and that fees amount to 30 basis points annually or 7.5 points per quarter. Mr. Martin advised members that the five (5) and seven (7) year returns for this fund rank it in the top 15% of all public funds, yet lower volatility than the policy index has been maintained. Mr. Martin indicated that this fund gained $1.3M in the fourth quarter and ranked in the 19th percentile, despite a value tilt to the fund.

Mr. Martin provided members a City of Dover Police Pension Plan Provisional Performance Summary dated February 8, 2011 ***(Attachment #2)*** and stated that the Police Fund typically mirrors the Employee Fund; however, the allocations are slightly different due to benefit withdrawals and timing. He noted that the fund increased 12% over the quarter, 3.2% for the year, and has a balance of more than $11.3M. In addition, he noted that this fund ranks in the 15th percentile over the long term.

Referring to Page 8 of the Investment Performance Report, Mr. Martin stated that the Employees Fund's one (1) year return is 12.6%, which exceeds the policy index of 12.3%. He felt that this was a strong performance, especially since the City's portfolio has a value tilt and value investments underperformed growth last year. Mr. Martin stated that he was generally satisfied with the performance of the City's individual domestic equity and international funds and that the various funds balance each other to provide a diversified portfolio.

Noting that he would be presenting information on global investing later in the meeting, Mr. Martin suggested that, should the City opt to pursue this strategy, it may be appropriate to remove funds from the American Funds Growth and American Funds Europacific Growth Funds for this purpose.

When reviewing Fixed Income Investments, Mr. Martin noted that short-term bonds did well compared to the benchmark and that intermediate bonds were down 2.9% for the quarter. Referring to the City of Dover Employees and Police Pension Plan Provisional Performance Summaries dated

February 8, 2011, he advised members that the Vanguard Short Term Bond Index is down 0.4% for the year and the Vanguard Intermediate Bond Index is down 1.6% for the year. He suggested that the City consider rebalancing its portfolio back to long-term strategic targets.

EDUCATION REGARDING UTILIZING GLOBAL FUND MANAGERS - PRESENTED BY PIERCE PARK GROUP

Mr. Martin provided members with a revised City of Dover Global Education Presentation dated February 9, 2011 ***(Attachment #3).*** He explained that the investment market is increasingly subject to global influences and that many U.S. based companies receive more than 50% of their revenue from overseas, and the reverse is also true. Mr. Martin advised members that it is becoming increasingly important to invest in emerging markets as well as developed markets. He noted that global fund managers are not restricted to U.S. or international funds but can invest in either. Mr. Martin explained that investors have increasingly been taking advantage of global investment opportunities to achieve greater diversification and flexibility, to take advantage of global sectors and currency trends, and to decrease volatility.

Mr. Martin stated that adopting a Global Tactical Asset Allocation approach would allow for a global manager who has the capability to purchase bonds as well as stocks and make technical decisions. He did not advocate this approach for the City at this time; however, wanted to make members aware that this type of service is available.

Mr. Martin provided members "Style Map Pages" for the City of Dover Police and Employee Funds ***(Attachment #4)***, which provided a breakdown of the percentage of each individual investment fund invested in U.S., International, Value/Growth, and Large/Medium/Small Cap funds and listed the percent of portfolio allocation. He stated that the City's portfolio should be targeted at 60% value funds and 40% growth funds with a ratio of 65% large cap, 25% medium cap, and 10% small cap funds. He noted that the Police Plan has slightly more invested in large cap funds and is slightly below the targeted value allocation.

In response to Ret. Lt. Mullaney regarding specific recommendations, Mr. Martin noted that the members could request Peirce Park to provide additional information regarding global fund management for discussion at the Joint Pension Board meeting scheduled for August 2011. Alternatively, he suggested that if members wished to move forward with such a change immediately, they could consider investing in New Perspective, a global fund under the American Funds umbrella which has many of the team members who manage the American Funds Growth Fund and the American Funds Europacific Growth Funds. These managers could be given a global mandate rather than an international and a large cap mandate. Mr. Martin provided members with a style map which provided information regarding how City funds could be rebalanced while incorporating global investment ***(Attachment #5)***.

In response to Mr. Leary, Mr. Martin stated that Peirce Park's recommendation would be to retain its current 14.9% overseas allocation and dedicate a portion of this to global investments. The global investments, when added to the DFA International Value Fund investments, would total approximately 14.9% of the portfolio. He noted that a global manager may invest slightly above or below the international target, depending on how they evaluate the U.S. market compared to the rest of the world.

Responding to Mrs. Mitchell, Mr. Martin indicated that he would recommend rebalancing the City's funds at this time, regardless of the Board's decision regarding global investing.

Ret. Lt. Mullaney moved to request Peirce Park Group to rebalance the City's investment funds at this time per the current model and to request additional information from Peirce Park regarding global fund managers for review and discussion at the Pension Board Meeting scheduled for August 19, 2011, seconded by Dr. McGlumphy. The motion carried unanimously.

DISCUSSION - JOINT PENSION BOARD REPRESENTATION ON THE HEALTH BENEFITS COMMITTEE

Ret. Lt. Mullaney stated he had received a number of inquiries from retirees regarding how decisions made by the Health Benefits Committee might affect retirees. Although he acknowledged that this was not strictly a pension issue, he inquired if other members had received similar communications. He questioned whether members were comfortable with the current level of representation on the Health Benefits Committee.

Mr. Leary noted that all three (3) bargaining units and non-bargaining employees are represented on the Committee and that Mr. Richard Hudson, a retiree, also serves on the Committee.

Mr. Mullaney suggested that members of the Civilian and Police Pension Boards be advised regarding Health Benefits Committee meetings. Concurring, Mr. Leary requested that the Clerk's Office be requested to notify members of the Joint Pension Board when meetings of the Health Benefits Committee are scheduled.

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

Meeting adjourned at 4:03 P.M.

Respectfully submitted,

Thomas J. Leary
Chairman of the Civilian Pension Board

Ret. Lt. Timothy Mullaney
Chairman of the Police Pension Board

TJL/TM/JS/ac/dd/tm

Attachments to Original and File Copy

Attachment #1 - City of Dover Employees Pension Plan Provisional Performance Summary dated February 8, 2011
Attachment #2 - City of Dover Police Pension Plan Provisional Performance Summary dated February 8, 2011
Attachment #3 - Revised Presentation - City of Dover Global Education dated February 9, 2011
Attachment #4 - "Style Map Pages" - City of Dover Police and Employee Plans
Attachment #5 - "Style Map Pages" - City of Dover Police and Employee Plans Adding New Perspective; Rebalance Back to Targets