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

A Joint Meeting of the Civilian Pension and Police Pension and Other Post-Employment Benefits (OPEB) Boards was held on July 20, 2011 at 3:05 p.m. with Dr. McGlumphy, Chairman of the Civilian Pension Board, presiding. Members present were Mr. Bonar, Mr. Hare, Mrs. Williams, Mr. Blakeman, Mr. Clendaniel, Mrs. Hettinger, Ret. Lt. Knotts, Ret. Cpl. Stallings, Mr. Koenig (Interim City Manager), and Mrs. Mitchell. Ret. Lt. Mullaney and Chief Hosfelt were absent.

AGENDA ADDITIONS/DELETIONS

Mrs. Williams moved for approval of the agenda as presented, seconded by Ret. Cpl. Stallings and unanimously carried.

Investment Management Proposal

Mrs. Donna Mitchell, Controller/Treasurer, stated that she had received a proposal from Peirce Park Group to expand their investment management services. She advised members that, currently, Peirce Park reviews city investments, selects mutual funds, advises the City when funds should be rebalanced, ensures that the City's investments remain in compliance with its investment policy, and provides quarterly performance reports. Under the expanded proposal, Peirce Park would be authorized to manage the City's accounts more actively. Since the Civilian and Police Pension Boards now schedule regular meetings every six (6) months, this would allow Peirce Park to transfer City funds from one investment account to another in the interim if they determine that adjustments are needed. Referring to Page 4 of the information provided by Peirce Park Group entitled *City of Dover - June 9, 2011*, under the heading PPG Consulting Plus, Mrs. Mitchell explained that the expanded services would include selecting managers, making manager changes, determining allocation among managers, and rebalancing. She stated that Peirce Park indicated that several of their clients have adopted this service.

Mrs. Mitchell explained that during regular meetings of the Civilian and Police Pension Boards, representatives from Peirce Park indicated that the City's fund returns have been in the top tier of all their clients. However, when this expanded opportunity was provided to her, she was told by the firm that the City is now in the middle range and is achieving mediocre results.

Mrs. Mitchell advised members that the cost for the augmented services would be 25 basis points for management and advisory services (which equates to one-quarter of a percentage on the dollar), noting that the City would also continue to pay percentage fees for mutual funds. She stated that the City currently has fixed-rate agreements with Peirce Park, with rates determined by the amount of assets in the funds and, based on the assets held on June 7, 2011, the annual fee is $13,940 for the Police Pension Fund and $27,060 for the Civilian Pension Fund, totaling $41,000. Mrs. Mitchell stated that changing to the new service and fee structure would increase these fees to $27,720 for the Police Pension fund and $54,162 for the Civilian Pension Fund, for a total of $81,882. She indicated that the City pays Peirce Park $20,000 annually to manage the OPEB trust, noting that this trust has a lower asset value than the pension funds and, under the proposed agreement, the annual management fee for the OPEB fund (25 basis points) would equate to $17,000.

Mrs. Mitchell explained that when the OPEB Trust was established, the OPEB Board decided to utilize Peirce Park Group as their investment manager, realizing that the agreement would expire on June 30, 2012 and would be re-bid at that time. She suggested that an investment service provider for all pension and OPEB funds be solicited through the City's Request for Proposals (RFP) process.

Mrs. Williams felt that the results achieved by Peirce Park Group were inferior to those that could have been achieved by the City's previous manager, Merrill Lynch.

Mrs. Mitchell advised members that an RFP was recently issued for the City's investment account and approximately 26 proposals were received and reviewed. She explained that the City's investments are now being managed for a fee of less than ten (10) basis points; however, she acknowledged that this is a fixed income account which typically involves lower management fees. Mrs. Mitchell noted that the City pays approximately $37,000 annually for management of this account, which has approximately $40M in assets. She indicated that the amount of assets in an account is also a factor in determing fees.

Mrs. Williams noted the importance of determining a "track record" before engaging a broker, noting that basis points and fees are secondary to achieving the maximum return on investments.

In response to Mrs. Hettinger, Mrs. Mitchell stated that the RFP would include benchmarks that an investment manager would be expected to meet. She indicated that this information is included on Peirce Park's performance summaries as the Policy Index and that Peirce Park is meeting these benchmarks. For example, Mrs. Mitchell stated that the Policy Index listed on the Employee Pension Plan Provisional Performance Summary dated June 7, 2011 is 3.4%, and the year-to-date return is 3.5%; therefore, Peirce Park has met the established target.

Responding to Mrs. Hettinger, Mrs. Mitchell stated that the decision to place all of the City's investments in mutual funds was made when Peirce Park became the City's investment manager. She explained that the City's portfolio is blended between value, growth, and bond mutual funds with varying levels of risk.

Mrs. Mitchell stated that the City does not pay transaction fees to Peirce Park; however, the individual mutual funds charge basis points (e.g., 26 basis points paid to the Vanguard Value Index Fund). Under the proposal received from Peirce Park, the City would pay 25 basis points to the Group for management and advisory services above and beyond these mutual fund fees.

In response to Mrs. Hawkins, Mrs. Mitchell stated that she would prefer to use one (1) investment manager for all three (3) funds (Civilian Pension Fund, Police Pension Fund, and OPEB Fund). She noted that the City could terminate its existing agreements with Peirce Park after providing 30 days written notice without penalty. She reiterated that both contracts (OPEB and Pension) will expire on June 30, 2012.

In response to Mrs. Williams, Mrs. Mitchell indicated that she was unsure if Peirce Park offered other investment products in addition to mutual funds. She stated she would perform further research to determine if investing in guaranteed annuities is an option for the City.

Mr. Hare stated his understanding that annuities can guarantee a fixed rate of return, provided that no more than 5% of assets are withdrawn annually.

Mr. Blakeman stated that Peirce Park should have informed the City previously if fund performance had dropped significantly since the Joint Pension Boards' last meeting.

Responding to Mrs. Williams, Mrs. Mitchell explained that the stock market declined rapidly when the City's investments were held by Merrill Lynch and, as a result, the value of City's invested assets decreased. This resulted in higher management fees under Merrill Lynch's tiered fee structure. In addition, it was determined at that time that Merrill Lynch had placed the City's investments in a retail account rather than an institutional account, which would have incurred lower fees. Consequently, the City's transaction costs and fees escalated. Mrs. Mitchell stated that these fees were substantially reduced after engaging Peirce Park Group's services; however, the fees have increased in the interim.

In response to Mrs. Williams, Mrs. Mitchell stated that the RFP would compare advisory firms but would not compare each firm's individual investments.

Responding to Mrs. Hettinger, Mrs. Mitchell stated that the City's investment management agreements typically extend three (3) to five (5) years and that agreements are sometimes signed for three (3) years with an option to extend if performance is satisfactory.

Mr. Bonar moved to request staff to issue a Request for Proposals (RFP) for investment management services for the City's Civilian Pension, Police Pension, and Other Post-Employment Benefits (OPEB) funds and to return to the Joint Boards with a recommendation regarding the early termination of the City's existing agreements with the Peirce Park Group and the procurement of an investment management firm. The motion was seconded by Mrs. Hettinger and unanimously carried.

Mr. Hare moved for adjournment, seconded by Ret. Cpl. Stallings and unanimously carried.

Meeting adjourned at 3:39 P.M.

Respectfully submitted,

William P. McGlumphy
Chairman of the Civilian Pension Board

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