

10581. RESOLUTION 12-35 – AUTHORIZES THE MODIFICATION OF INVESTMENT GUIDELINES FOR THE OTHER POST EMPLOYMENT BENEFITS (“OPEB”) TRUST

WHEREAS, The Delaware River and Bay Authority (the “Authority”) is a bi-state Authority created by Compact for the purpose of owning, operating and controlling both Crossing and Non-Crossing facilities; and

WHEREAS, the Authority has established and maintains certain employee benefit plans that provide post-employment benefits other than pensions (hereinafter “other post employment benefits” or “OPEBs”), such as but not limited to medical, dental, vision and prescription drug coverage, to OPEB participants who are eligible for coverage thereunder; and

WHEREAS, pursuant to Resolution 09-60, the Authority established an irrevocable OPEB trust pursuant to Section 115 of the Internal Revenue Code for the purpose of funding and pre-funding OPEBs provided under its retirement benefit plans in accordance with GASB 43 and GASB 45; and

WHEREAS, pursuant to Resolution 10-48, the Authority appointed an Investment Manager, adopted Investment Guidelines and appointed an Investment Committee for the OPEB Trust; and

WHEREAS, Brown Advisory, as Investment Manager, has recommended modifications to the current Investment Guidelines with the intention of broadening the asset allocation, enhancing growth opportunities and increasing the diversification and risk management of the OPEB Trust; and

WHEREAS, the Chief Financial Officer and the Budget and Finance Committee, as the Investment Committee, have reviewed and concur with the recommended changes to the Investment Guidelines.

NOW, THEREFORE BE IT RESOLVED, that the attached guidelines shall replace and function as the stated Investment Guidelines for the Other Post Employment Benefits (“OPEB”) Trust.

A motion to approve Resolution 12-35 was made by Commissioner Murphy, second by Commissioner Downes, and approved by a roll call vote of 9-0.

Resolution 12-35 Executive Summary Sheet

Resolution: Authorizes the Modification of Investment Guidelines for the Other Post Employment Benefits (“OPEB”) Trust

Committee: Budget & Finance Committee

Committee Date: October 16, 2012

Board Date: October 16, 2012

Purpose of Resolution: To modify the current investment guidelines as to allow for the use of Venture Capital, Private Equity, Real Estate, actively-managed Emerging Market Small-Cap, Commodity and expanded Fixed Income investments for the OPEB Trust.

Background for Resolution:

The Investment Committee, with the assistance of the services of the Investment Manager, is responsible for reviewing and making recommendations regarding the Investment Guidelines of the OPEB Trust. The Committee’s goal is to increase potential returns in the fund by broadening the asset allocation to include higher growth opportunities and increasing the diversification and risk management of the investments.

Guidelines

THE DELAWARE RIVER AND BAY AUTHORITY

RETIREES' HEALTH BENEFITS PLAN

STATEMENT OF INVESTMENT POLICY

Dated: October 16, 2012

THE DELAWARE RIVER AND BAY AUTHORITY

RETIREES HEALTH BENEFITS PLAN

STATEMENT OF INVESTMENT POLICY

Section I Investment Philosophy and Strategy

1. Investment Philosophy

The fiduciary responsibilities for the Delaware River and Bay Authority Retirees' Health Benefits Plan (the "Plan") rest with Plan Trustees who are appointed by the Delaware River and Bay Authority to oversee the

management of the Health Benefits Plan's assets. As fiduciaries, the Trustees are to establish an investment policy for the Plan, based on care and diligence, and designed exclusively for the purpose of providing benefits to the Plan members and beneficiaries.

The Trustees have adopted these investment objectives and operating policies and procedures in furtherance of their responsibilities.

2. Investment Strategy

The investment policy of the Health Benefit Plan has been developed from a comprehensive evaluation of alternatives considered by the Trustees. This policy represents a consensus of input from trustees, financial and actuarial consultants, investment advisors and legal counsel.

Among the factors considered in the development of this investment policy are:

- Primary Investment Goal
- Rate of Return Objective
- Investment Risk
- Investment Time Horizon
- Asset Allocation
- Investment Requirements and Prohibitions

The Trustees will periodically review this Statement of Investment Policy to assure that it accurately reflects the needs and objectives of the Plan and its beneficiaries. The Trustees may also revise the investment policy of the Plan as required by changing legal, economic, actuarial or investment conditions in order to meet its fiduciary responsibilities.

a. Primary Investment Goal

The goal of the Health Benefit Plan is to provide, protect and enhance the economic well being of employees, retirees and beneficiaries through effective management of the Plan based on sound actuarial principles and available resources consistent with applicable laws. Consistent with this objective, the goal of the investment policy is to preserve the capital of the Plan and maximize investment earnings in excess of inflation with acceptable levels of volatility. This objective will be achieved through an investment strategy which combines the need to maintain a long term horizon in making investment decisions with acceptable levels of volatility.

b. Rate of Return Objective

The Trustees have adopted an investment strategy which has as its target a real rate of return objective in excess of inflation over long (ie. 10 to 15 year) periods of time. This return objective will be the same as reflected in the actuarial assumptions and should be consistent with capital market expectations.

c. Investment Risk and Diversification

Risk is often defined in terms of portfolio volatility; however, for the Health Benefit Plan, risk is also defined in terms of the probabilities of not meeting the primary investment goal. These probabilities will be evaluated from time to time by the Trustees, based on these evaluations, the Trustees may make adjustments in the asset allocation strategy to maintain an acceptable level of risk for the Health Benefit Plan's portfolio. Additional risk control will be implemented through diversification of assets among different asset classes, and where practical and efficient, managers with different investment styles will be utilized to further diversify systematic market risk.

d. Investment Time Horizon

In making investment decisions and evaluating investment performance, the Plan's focus will reflect the long term investment time horizon of at least a complete market cycle (generally occurring over three to five years).

e. Asset Allocation

One of the more important components of an investment strategy is the portfolio asset mix, or the allocation between the various classes of securities available to the Health Benefit Plan for investment purposes. The Trustees will establish the long term asset allocation policy. In addition, the Trustees may implement changes in the asset allocation policy when they deem it suitable.

The asset allocation guidelines are shown in Attachment A and represent minimums and maximums allocations as well as specific targets for asset subsectors. The investment manager will periodically rebalance the portfolio within the established allocations.

Section II Investment Guidelines and Evaluation Criteria

The assets of the Health Benefits Plan will be broadly diversified across multiple asset classes in order to minimize the overall portfolio volatility. Permissible investments include:

1. Equities (Domestic and International)
2. Cash and Fixed Income Securities
3. Alternative Assets

Outside investment management organizations considered as Plan managers must be registered under the Investment Company Act of 1940 and should have at least three years of historical performance which is audited or audit verifiable.

1. Equity Investment Policy Guidelines

The equity portion of the Plan will be diversified among the market's various subsectors to diversify risk. The invested assets may include mutual funds, ETFs, separately managed accounts, or specific stocks where appropriate. The subsectors to be used include, but are not limited to:

Large Capitalization U.S. Stocks
Small & Mid Sized Capitalization U.S. Stocks
International (Developed and Emerging Market)

2. Fixed Income Investment Policy Guidelines

The Fixed Income portion of the Plan will be diversified among various sectors to moderate risk.

3. Alternative Investments

Alternative investments will be in asset classes and strategies that have low correlation to traditional bonds and equities in order to broaden the long-term diversification of the overall portfolio.

Alternative investment assets may include real estate, commodities, alternative investment funds, venture capital and private equity.

Section III Investment Policy Implementation

1. Regular Meetings

On a regular basis, the Trustees shall meet and review the investment and funding status of the plan. Such reviews will include (but not be limited to) such items as investment strategy and compliance with policy, investment performance, manager performance evaluation, and other such topics.

In addition to providing reporting on performance, holdings and transactions, the Investment Manager will communicate to the Trustees on a timely basis any extraordinary events such as defaults of securities within the portfolios, periods of unusual market volatility and material changes in the organizational structure and senior personnel working on behalf of the Plan.

2. Performance Evaluation

The Trustees will regularly review and analyze the performance of the Plan and its managers. Investment performance will be evaluated on a time weighted total rate of return basis (capital appreciation plus interest/dividends).

Further, individual portfolio segments will be evaluated relative to other similar investment styles, as well as appropriate benchmarks (such as the Standard and Poor's 500). Performance will be analyzed on a rolling quarterly, one year, three year and five year basis.

The Health Benefit Plan's overall performance is evaluated on the basis of meeting or exceeding the stated investment objectives outlined earlier in this policy as well as a blend of fixed income and equity indices that may reflect the long-term asset allocation such as 35% Barclays Aggregate Bond Index and 65% of the S&P 500.

Attachment A

THE DELAWARE RIVER AND BAY AUTHORITY
RETIREES' HEALTH BENEFIT PLAN
ASSET ALLOCATION POLICY AND TARGETS

	Asset Allocation Policy
Cash & Fixed Income	30% - 40%
Equities	40% - 60%
Alternative Investments	0% - 20%

	Target
Cash & US Fixed Income	27.00%
US High Yield	<u>4.00%</u>
Domestic Fixed Income	31.00%
International Fixed Income	<u>2.00%</u>
Total Fixed Income	33.00%
Domestic Equities	37.00%
Developed Intl Equities	7.00%
EM Equities	<u>7.00%</u>
International Equities	<u>14.00%</u>
Total Equities	51.00%
Commodities/Real Assets	5.00%
Private Equity	6.00%
Private Real Estate	5.00%
Hedge Funds	<u>n/a</u>
Alternative Investments	<u>16.00%</u>
TOTAL	100.00%

Attachment B

THE DELAWARE RIVER AND BAY AUTHORITY

RETIREES' HEALTH BENEFIT PLAN

FIXED INCOME GUIDELINES

I. Permissible Investments

1. All types of U.S. dollar denominated fixed income securities may be used, including but not limited to, Governments (Treasuries, Agencies, International Agencies), Corporate, Mortgage-Backed, Asset Backed Securities and issues of U.S. state and local governments.
2. Issues of corporations and state and local governments are limited to 5% of the fixed income portfolio.
3. Industry concentration limited to 25% of portfolio.
4. Up to 10% of the fixed income portfolio may be invested in non-U.S. dollar denominated securities

II. Quality

80% of all holdings must be investment grade (minimum Baa3/BBB-).

Commercial paper must be rated top quality (A1 or P1) by at least one rating service (ie. split rated issues allowed).

III. Maturity

No maturity limit shall apply per individual issue. The portfolio's overall sensitivity to interest rate changes will be measured by its relative duration. Expected average maturity/duration will be utilized in the case of amortizing structures (i.e. mortgage backed, asset backed, etc.) and cash pro rata sinking fund issues.

IV. Duration

The portfolio's average duration will be in a range of 70% to 125% of the benchmark Barclays Capital Aggregate Bond Index.

V. Performance Measurement and Comparison

Total return performance for the portfolio will be calculated by using a time weighted measure. Monthly returns will be calculated and then linked to provide return data for longer time periods. The results for the portfolio will be compared to that of the Barclays Capital Aggregate Bond Index for comparable periods. The performance objective is to exceed the return of the index, net of fees, over a market cycle of 3 to 5 years. Volatility of returns will be used as a measure of relative risk over long time periods.