

CASH MANAGEMENT POLICY BOARD MINUTES

The Cash Management Policy Board (the “Board”) held a meeting on October 4, 2012 at 9:00AM in the Buena Vista Conference Center, New Castle, Delaware.

In Attendance:

Members: Mr. John V. Flynn, chairman (chair)
Mr. David F. Marvin, co-chairman
Honorable Chipman Flowers, State Treasurer
Honorable Thomas Cook, Secretary of Finance
Honorable Jeffery W. Bullock, Secretary of State
Honorable Michael L. Morton, Controller General
Mr. Mike Karia
Mrs. Margaret Iorii (by phone)
Mr. Warren Engle

Guests: Erika Benner, Delaware State Treasury
Louis Vitola, Delaware State Treasury
Stephen McVay, Delaware State Treasury
Peter Jamison, Deputy Attorney General
John McDaniel (for Elio Battista), Deputy Attorney General
William L. Lane, Credit Suisse
Charles D. Kurtzman, Credit Suisse
William I. Woodson, Credit Suisse

CALL TO ORDER:

Mr. Flynn called the meeting to order at 9:10 AM.

Mr. Flynn dispensed with the approval of the prior Board minutes and opted to defer the approval of such minutes to the next Board meeting.

AGENDA/DISCUSSION ITEMS:

Mr. Flynn inquired whether the Treasury and the Department of Finance made progress on the identification of a minimum threshold that would be appropriate in the short-term investment portfolio. Secretary Cook discussed that the Department of Finance and Delaware State Treasury were working together to develop a model to ensure adequate liquidity, which should be ready for presentation at the next meeting.

Mr. Lane reviewed the portfolio composition and performance for the periods ended September 30, 2012. Mr. Lane noted that Structured Securities comprised 10.98% of the Liquidity portfolio versus a target of 10.00% due to Wilmington Trust’s overweighting of U.S. Agency mortgage backed securities. The underlying holdings were in compliance at the time of purchase, but fell out of compliance due to draw-downs from the portfolio to meet liquidity requirements. Treasurer Flowers stated that he will issue a directive to all investment managers detailing the process to “re-balance” the state’s portfolios when draw-downs result in noncompliance with

respect to asset allocation. Mr. Jamison commented that the Attorney General's office will determine if this directive needs to go through the Administrative Procedure Act ("APA") process for public comment.

Mr. Marvin recalled action being taken by the board to allow holdings rated no less than "A" by one of the three major credit rating agencies, and asked whether that change was implemented in the Investment Policy. Treasurer Flowers reminded the Board that the Delaware State Treasury was subject to APA and the Attorney General had issued an opinion stating that it is advisable such change should be promulgated through the APA. The Board agreed that the Investment Policy should be revised to permit investment in securities rated no less than "A" by one of the three major credit rating agencies at the time of purchase, but did not agree such change should go through the APA.

Mr. Woodson reviewed the benchmarks proposed by Credit Suisse for the liquidity and reserve portfolios:

Liquidity Portfolio: 25% B of A 1-3 Year Govt/Corp A+
 75% 6-month Treasury Bill

Reserve Portfolio: 75% B of A 1-5 Year US Govt/Credit A+
 25% 6-month Treasury Bill

Mr. Flynn asked whether it is prudent to employ a benchmark that more closely reflects the actual allocations in the portfolios. Mr. Lane commented that it is more practical to represent the broader market in a broader benchmark to allow the managers to capitalize on their skills, rather than manage directly to a specific benchmark. The Board agreed that the Investment Policy should reflect that the investment managers will be measured against the benchmarks recommended by the Delaware State Treasury and Credit Suisse.

Treasurer Flowers commented that the Treasury is working together with Credit Suisse on two RFPs – one for liquidity managers and one for reserve managers. Mr. Marvin commented that concurrent RFP processes may overburden resources and recommended that the reserve RFP precede the liquidity RFP. Treasurer Flowers stated the Delaware State Treasury was more than capable of issuing and conducting multiple RFPs simultaneously. The Board agreed to extend the current manager contracts to April 15, 2013 to allow all parties involved to sufficiently review the RFP responses. Treasurer Flowers welcomed input from one or more Board members on the Treasury's RFP Committee. Mr. Karia indicated that he would serve on the RFP Committee. Mrs. Iorii commented that she would participate on the RFP Committee only if Mr. Karia required additional support.

Treasurer Flowers announced agreements with two investment managers (JP Morgan and Schroders) to reduce their fees after successful negotiations by the Delaware State Treasury with those investment banks.

Treasurer Flowers introduced Louis Vitola, who was recently hired as Director of Finance and Investment Services for the Delaware State Treasury.

The next Board meeting will be scheduled after the RFP process is concluded (target January or February 2013).

No members of the public were present. Mr. Flynn adjourned the meeting at 10:30 AM.