

CASH MANAGEMENT POLICY BOARD MINUTES

The Cash Management Policy Board held a meeting on May 4, 2010 at 9:00AM in the Buena Vista Conference Center, New Castle, Delaware.

In Attendance:

Members: Mr. David F. Marvin, co-chairman
Mr. Warren C. Engle
Mr. Harold L. Slatcher
Ms. Margaret A. Iorii
Honorable Velda Jones-Potter, State Treasurer
Honorable Jeffery W. Bullock, Secretary of State
Honorable Russell T. Larson, Controller General

Guests: Nick Adams, State Treasurer's Office
Zafar Chaudhry, State Treasurer's Office
Stephen McVay, State Treasurer's Office
James DiDonato, State Treasurer's Office
Dawn Haw-Young, Division of Accounting

CALL TO ORDER:

Mr. Marvin called the meeting to order at 9:04 AM.

APPROVAL OF THE MAY 26, 2009 MEETING MINUTES:

Mr. Larson made the motion to accept the minutes with a minor grammar correction. Mr. Engle seconded the motion. The motion was carried with no objections.

UPDATE ON INVESTMENT PERFORMANCE RESULTS:

Mr. McVay notified the Board that the State had reallocated some investment funds from the WTC liquidity fund to other liquidity and intermediate portfolios, due to the WTC credit rating downgrade (currently BBB) and the possible public perception concerns. Mr. Marvin believes once WTC's credit rating improves, the State should allocate more funds to WTC, due to both past service to Board and their superior performance results. Mr. Marvin expressed dissatisfaction with both BNY Mellon's handling of the State's securities lending program wind-down and their current portfolio's performance.

Mr. McVay explained that investment returns had declined significantly since the last meeting, due to continued low market rates (in the less than two year portion of the market) and how this impacts the reinvestment of higher yielding maturities when they matured. Also, many investment managers were staying relatively short to be better positioned for expected higher future market interest rates.

INVESTMENT MANAGERS PERFORMANCE REVIEW RESULTS:

The five investment managers presented reports on their respective performance and their outlook on the economy. All cited decreased returns from a year ago due to low market interest rates and diminished risk reward in both the corporate bond (“AA” or better) and commercial paper market. Both markets’ spreads relative to treasuries have declined due to both a flight to quality (increased demand) and less supply (the commercial paper market has shrunk approximately 50% since 2007).

With regard to asset backed securities (ABS), all managers were skeptical of current credit ratings (by Moody’s, S&P, etc.) and their firms had devoted significant in-house resources to independently rate specific issues and perform stress tests to evaluate whether ABS should be rated a “Buy.” Many managers would only purchase government backed securities (GNMA) or only top rated (“AAA”) ABS securities.

The consensus outlook called for a continued weak recovery with the anticipation of modest interest rate increases in either late 2010 or early 2011. JP Morgan estimated performance returns for its portfolio would increase by approximately 40 basis points during this period.

Wells Capital was instructed by the Board to sell an ABS security whose expected maturity now exceeded the two year maximum. Finally, a decision was approved by the Board to dispose of all British Petroleum securities held in the State’s portfolio due to the uncertainty surrounding the oil spill in the Gulf.

UPDATE ON SECURITIES LENDING PROGRAM:

Mr. McVay informed the Board that the program was effectively terminated on December 5, 2009 and the remaining cash in portfolio was transferred to the State in January 2010.

UPDATE ON BANKING/INVESTMENT SERVICES CONTRACTS:

Mr. McVay provided the Board with an update and recommendations on major banking services contracts. The specific recommendations included extending the respective individual Investment Manager contracts for one more year with the exception of BNY Mellon (BNYM). The Board believes BNYM is managing this portfolio as cash account instead of a liquidity account and not adding value for the State. Mr. McVay was instructed to contact BNYM and determine if the rationale for their approach was valid and follow up with Mr. Marvin. Mr. Larson made the motion to approve the extensions and Mr. Engle seconded it. The motion carried with no objections.

Mr. McVay requested permission to publish RFPs for both the Corporate Franchise Tax lockbox contract (currently administered by Bank of America and expiring 12/31/10) and the credit card processing contract (currently administered by Bank of America Merchant Services and expiring 06/30/11). Mr. Larson made the motion to approve publishing of RFP’s and Mr. Engle seconded it. The motion carried with no objections.

Mr. McVay further added that the State Treasurer's Office (STO) had published (in April) RFP's for 1) Disbursements and related cash management and 2) Global Custody services and responses were due by the first week in June 2010.

Finally, Mr. McVay notified the Board that all financial institutions holding State of Delaware deposits were being currently required to collateralize. Mr. McVay requested the State's investment guidelines pertaining to collateralization be amended to allow banks' to use the average monthly ledger balance (net of FDIC insurance) as the base for determining the 102% collateral requirement. Mr. Larson made the motion to approve the amendment and Mr. Engle seconded it. The motion carried with no objections.

OTHER BUSINESS:

Credit Suisse (CS) made a presentation to the Board regarding a proposed investment program consisting solely of asset backed securities (ABS). After the presentation, the Board discussed the proposal and determined, based on recent issues impacting the ABS market and the State's past experience, not to pursue this opportunity.

There were no members of the public present. Mr. Marvin made a motion to adjourn. Mr. Engle seconded the motion and it carried with no objections. The meeting was adjourned at 10:45 AM.

Respectfully submitted,

A handwritten signature in cursive script, reading "Velda Jones-Potter". The signature is written in black ink and is positioned above the printed name.

Velda Jones-Potter