



**MINUTES FROM THE MEETING OF  
THE CASH MANAGEMENT POLICY BOARD  
NOVEMBER 12, 2015**

A meeting of the Cash Management Policy Board was held November 12, 2015 at 10:00 AM  
In the DuPont Room, of the Buena Vista Conference  
Located at 661 S. DuPont Highway, New Castle, DE 19720

Board Members in Attendance:

Mr. John Flynn, Chairman  
The Honorable Jeff Bullock, Secretary of State  
Mr. Warren Engle, Chair, Banking Subcommittee  
Mr. Mike Karia, Co-Chair, Investment Subcommittee  
Ms. Lynda Messick  
Mr. Michael Morton, Controller General (Telephonically)  
The Honorable Ken Simpler, State Treasurer

Board Members Not in Attendance:

Mr. Dave Marvin, Chair, Investment Subcommittee  
The Honorable Tom Cook, Secretary of Finance

Others in Attendance:

Mr. Frank Broujos, for Ms. Laura Gerard, Deputy Attorney General, OST Counsel (Telephonically)  
Mr. Ed Black, Deputy Attorney General, Cash Management Policy Board Counsel  
Mr. Steve McVay, Director of Finance & Investment Services, Office of the State Treasurer  
Ms. Karen Morton, Assistant Cash & Debt Manager, Office of the State Treasurer  
Ms. Martha Sturtevant, Executive Assistant to the State Treasurer  
Mr. Bill Lane, Vice President, Credit-Suisse North America  
Mr. Vasyl ("Bill") Zuk, JP Morgan

**CALLED TO ORDER**

Mr. Flynn called the meeting to order at 10:05 AM.

**APPROVAL OF MINUTES**

A MOTION was made by Mr. Karia and seconded by Mr. Simpler to approve the minutes from the telephonic meeting of the Investment Subcommittee on August 11, 2015 and the Board meeting on August 12, 2015.  
MOTION ADOPTED UNANIMOUSLY.

**REVIEW OF PERFORMANCE FROM CREDIT SUISSE**

Mr. Lane reviewed the most recent month end performance for the portfolio. As of October 31<sup>st</sup>, the Liquidity accounts comprised 56% of the overall asset mix. This aligns with November being the second seasonal peak of the portfolio. He added overweighting Liquidity was done so that money can be withdrawn without the frictional costs to the Reserve managers. Mr. Lane stated the Reserve accounts comprise 44% of the overall portfolio and the current yield for the total portfolio is 77bps.

Mr. Lane reviewed individual liquidity and reserve portfolio manager performance and the differences between them and stated that the managers were already positioning defensively for a likely FED rate hike in December.

Mr. Simpler stated the summary of the portfolio manager strategies was insightful as most of the 3-year contracts are up in May 2016. He said future decisions involving portfolio manager selections could be informed by the strategies pursued by the managers during this “unusual” period.

Mr. Lane reviewed the overall asset allocation of the Land & Water endowment. He said market volatility impacted the portfolio by almost 4% for the month, but reminded the Board that the portfolio was structured to handle significant volatility and would rebound.

Mr. Lane reviewed the compliance template, noting the 60% target and minimum and maximum allocations. He said Morgan Stanley shifted the mutual fund portfolio to outweigh investments outside of the U.S. beyond the mandated asset allocations. Mr. Engle asked Mr. Lane if Morgan Stanley was aware that they were out of compliance. Mr. Lane said he had spoken at length to Morgan Stanley and they expressed that they were unable to apply the exact investment guidelines for Delaware’s \$20 million account over their \$7 billion dollar mutual fund (as had been known when the investment was made).

Mr. Lane said that in order to bring the fund back into compliance, a portion of the portfolio would need to be reallocated. He reviewed options, but noted Credit-Suisse did not recommend them. Mr. Engle expressed concern that the alternatives he presented meant the Board would be managing the fund directly, which he added is what we were paying Morgan Stanley to do.

Mr. Bullock said he understood there was a reason for the 35% limit within the Investment Guidelines, but he was not sure adding an additional layer of risk management was necessary. Mr. Lane said the intent was for diversified allocations, but added that one option is to review the performance of the 35% and to reconsider the asset allocation mix. He said he wanted to be respectful of the guidelines, but agreed it may not be necessary from a risk standpoint. Mr. Flynn asked if the Investment Subcommittee should meet for further consideration and to bring back recommendations. Mr. Lane said he would like to include Mr. Marvin in the conversation. All agreed.

Mr. Simpler stated that there is 5% in cash allocations that is managed at the Treasurer’s office and in theory each manager could have a 0% allocation to cash. He asked Mr. Lane if the managers know they could have 0% and if the managers were carrying 5% for a strategic reason. Mr. Lane said they were just recently made aware of the option in October and were likely still considering the best options for allocation.

Mr. Lane then reviewed the Health Fund Endowment. He said the funds were managed in a reserve style and it was reflected in the performance of the fund. He added the scope, purpose and mission of the funds as well as the policy to govern them is to be discussed and implemented near-term.

Mr. Simpler said it was not clear that the Health Fund should be managed as an endowment account and suggested it be managed as a liquidity fund. He added that further guidance was needed at the Treasurer's office on the cash flow of the Health Fund. Mr. Flynn asked to clarify that the General Assembly determines how to spend the money in the portfolio. Mr. Morton clarified that Health Fund recommendations would be made to the JFC, and approved in the budget bill.

Mr. Lane reviewed global market view and interest rate policy. Mr. Engle said that the financial structure of the portfolio is sound regardless of the changes from the Federal Reserve. Mr. Lane added the review helps to explain how the managers might position themselves. Mr. Simpler asked Mr. Lane to clarify that the managers were not requesting a change to the guidelines. Mr. Lane said he had reached out to the managers for feedback, but had not had a specific request to change guidelines.

Mr. Lane then reviewed the revised Statement of Objectives and Guidelines for the Investment of State Delaware Funds. He clarified it was not a final document. His recommendation to the Board was to table the Guidelines until 2016, because a new consultant will replace Credit-Suisse. Mr. Simpler agreed and said it would be good to have a fresh review from a new advisor. Mr. Karia agreed that postponing the final document for three months would not be a significant delay. Though not in its final version, Mr. Flynn had some concerns about the Statement of Objectives. Mr. Simpler said he would review these with fresh eyes.

Mr. Lane reviewed the Account Review & Benchmarking Procedures for the Investment of State of Delaware Funds. Mr. Flynn said he considered the document more as by-laws, rather than a policy. Mr. Black said the Guidelines need to go through the APA process, but if the guidelines are drafted appropriately, the Board would be free to develop its own policy for self-governance and would not need to go through the APA process. Mr. Simpler noted the Board was not required to have by-laws, but said he felt they were considered a best practice. Mr. Engle said additionally it provides a history for future boards.

Finally, Mr. Lane briefly reviewed the probability of reaching target goals as estimated by Credit-Suisse.

Mr. Lane asked to make personal comments. He said he appreciated the professionalism of the Board and he thanked the Board. He said the last year was a great example of a relationship with clients and said he felt there was very solid progress. He said as Credit Suisse transitions to Wells Fargo, he would still make himself available. Mr. Flynn thanked Mr. Lane and his firm. Mr. Simpler echoed Mr. Flynn's remarks on behalf of the Treasurer's office.

### **INVESTMENT SUBCOMMITTEE**

Mr. Flynn stated 4 out of 5 Investment Committee members were on the new advisor selection committee and noted six firms responded to the RFP, including Credit-Suisse. Due to organizational changes at the corporate level Credit-Suisse withdrew. The committee then narrowed it to three finalists: Callan, Meketa & NEPC. In reviewing the final presentations, the committee selected two for final review. The committee discussed the finalists with their client references and the committee selected NEPC.

### **EXECUTIVE SESSION**

Mr. Flynn called for Executive Session at 11:09 AM to discuss the selection of the Board's advisor.

## **CALLED TO ORDER**

Mr. Flynn called the public meeting back to order at 11:13 AM. He asked if there was a recommendation from the committee.

A MOTION was made by Mr. Karia and seconded by Mr. Engle to accept the recommendations from the selection committee to contract with NEPC as Advisor to the Cash Management Policy Board.

MOTION ADOPTED UNANIMOUSLY.

Mr. Simpler stated that the engagement with NEPC would begin January 1, 2016. He noted that as a result of the contract being attached to the RFP and therefore being negotiated as part of the RFP, that he did not anticipate a delay in initiating the engagement.

## **BANKING SUBCOMMITTEE**

Mr. Engle requested the Banking Subcommittee move to Executive Session.

## **EXECUTIVE SESSION**

Mr. Flynn called for Executive Session at 11:15 AM.

## **CALLED TO ORDER**

Mr. Flynn called the public meeting back to order at 11:30 AM. He asked if there was a report from the Banking Subcommittee.

A MOTION was made by Mr. Engle and seconded by Ms. Messick to extend the contract with EPX until May 2017.

MOTION ADOPTED UNANIMOUSLY.

Mr. McVay reviewed the Stored Value contract transition from JP Morgan to Key Bank. He said the engagement began in June 2015 and automatically renews each June. He recommended a one-year extension of the contract with Key Bank.

A MOTION was made by Mr. Engle and seconded by Mr. Karia to extend the contract with Key Bank for one year.

MOTION ADOPTED UNANIMOUSLY.

Mr. McVay stated that concurrent with the EPX RFP, the RFP for direct deposits for payroll and pensions, currently performed by Wells Fargo, expires in June with no extensions available. He said the RFP selection committee would include representatives from the Board of Pensions and PHRST, the State's payroll system. Mr. Simpler added that OST would make the Scope of Services and the Evaluation Criteria for both RFP's available to the Banking Subcommittee prior to the initiation of either RFP.

Mr. McVay then reviewed the 2015 Cash Management Policy Board's Annual Report distributed to the Board electronically. He noted no significant changes to the format and requested a formal approval.

Mr. Flynn brought attention to the Investment Banking Results & Balances table found in the Report, noting the low performance reported for the Federated account. He asked Mr. McVay to provide clarification for the Board. Mr. McVay said the book value performance was down because of the long maturity of large and underperforming assets, but the market value performance was up because the rates had gone up.

Mr. Simper stated the format of the Annual Report had not been substantively changed. He noted that it was strong on banking services, but not on investment performance. He would like to update the document in the future and clarified that any proposed changes would be communicated in advance to the Board.

A MOTION was made by Mr. Karia and seconded by Ms. Messick to adopt the Annual Report for presentation to the Governor and the General Assembly.

MOTION ADOPTED UNANIMOUSLY.

Mr. McVay said he would forward the Annual Report to Mr. Morton for distribution to the General Assembly. Mr. Morton agreed he would distribute.

#### **NEW BUSINESS**

Mr. Simper reviewed some structural changes within the Investment and Cash Management unit of OST. He noted the departure of Mr. Hoover and the presence of Karen Morton at the meeting. He said Mr. McVay, as Director of Investments and Cash Management, would assume much of Mr. Hoover's responsibilities. He added that working with Steve, Karen Morton would oversee Debt Management and Jim DiDonato would oversee Banking Services.

Mr. Karia noted for the record the added burden in 2015 on Mr. McVay and complimented him on his ability to effectively carry his added responsibilities.

#### **PUBLIC COMMENTS**

No public remaining for comment.

#### **ADJOURNMENT**

A MOTION was made by Mr. Flynn to adjourn the meeting at 11:43 AM.

MOTION ADOPTED UNANIMOUSLY.

Respectfully submitted,

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John Flynn  
Chairman, Cash Management Policy Board