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Office of the State Treasurer & Cash Management Policy Board

Investment Performance Summary

Month Ending December 31, 2016

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Index Performance Summary as of 12/30/2016

	2009	2010	2011	2012	2013	2014	2015	Q1	Q2	Q3	Oct	Nov	Dec	YTD
Liquidity Custom Index	1.12%	0.93%	0.58%	0.42%	0.27%	0.27%	0.33%	0.39%	0.29%	0.09%	0.03%	-0.09%	0.05%	0.77%
Reserve Custom Index	2.58%	3.01%	2.35%	1.51%	0.12%	1.1%	0.86%	1.23%	0.70%	-0.02%	-0.12%	-0.68%	0.04%	1.15%
Land & Water Custom Index	20.44%	10.23%	-0.01%	11.29%	14.46%	5.43%	-0.07%	1.10%	1.50%	3.1%	-1.47%	-0.08%	1.49%	5.71%
Russell 2000	27.2%	26.9%	-4.2%	16.3%	38.8%	4.9%	-4.4%	-1.5%	3.8%	9.0%	-4.8%	11.2%	2.8%	21.3%
Alerian MLP	76.4%	35.9%	13.9%	4.8%	27.6%	4.8%	-32.6%	-4.2%	19.7%	1.1%	-4.5%	2.3%	4.4%	18.3%
Russell 2500	34.4%	26.7%	-2.5%	17.9%	36.8%	7.1%	-2.9%	0.4%	3.6%	6.6%	-4.1%	8.5%	1.9%	17.6%
Russell 1000	28.4%	16.1%	1.5%	16.4%	33.1%	13.2%	0.9%	1.2%	2.5%	4.0%	-2.0%	3.9%	1.9%	12.1%
S&P 500	26.5%	15.1%	2.1%	16.0%	32.4%	13.7%	1.4%	1.3%	2.5%	3.9%	-1.8%	3.7%	2.0%	12.0%
MSCI EM	78.5%	18.9%	-18.4%	18.2%	-2.6%	-2.2%	-14.9%	5.7%	0.7%	9.0%	0.2%	-4.6%	0.2%	11.2%
MSCI ACWI	34.6%	12.7%	-7.3%	16.1%	22.8%	4.2%	-2.4%	0.2%	1.0%	5.3%	-1.7%	0.8%	2.2%	7.9%
Barclays US Agg Bond	5.9%	6.5%	7.8%	4.2%	-2.0%	6.0%	0.5%	3.0%	2.2%	0.5%	-0.8%	-2.4%	0.1%	2.6%
Barclays US Agg Interm	6.5%	6.1%	6.0%	3.6%	-1.0%	4.1%	1.2%	2.3%	1.4%	0.3%	-0.4%	-1.7%	0.0%	2.0%
Citi WGBI	2.6%	5.2%	6.4%	1.6%	-4.0%	-0.5%	-3.6%	7.1%	3.4%	0.3%	-3.4%	-4.6%	-0.7%	1.6%
BC US Govt/Credit 1-3 Yr	3.8%	2.8%	1.6%	1.3%	0.6%	0.8%	0.7%	1.0%	0.7%	0.0%	0.0%	-0.4%	0.1%	1.3%
MSCI EAFE	31.8%	7.8%	-12.1%	17.3%	22.8%	-4.9%	-0.8%	-3.0%	-1.5%	6.4%	-2.0%	-2.0%	3.4%	1.0%

Source: Bloomberg, Barclays, Alerian, Nareit, MSCI, JP Morgan, Credit Suisse



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Market Environment

US equities continued to march upward in December, shrugging off an appreciating dollar and a rate hike from the Federal Reserve. The S&P 500 gained 2.0% on the month, racking up returns of 12.0% in 2016; the Russell 2000 gained 2.8% in December and 19.9% for the year. International developed equities were also in the black last month with the MSCI EAFE Index posting returns of 3.4%, as strong manufacturing data fueled gains in Europe and expectations of higher inflations bolstered stocks in Japan. In emerging markets, the MSCI EM Index eked out a modest 0.2% in December, ending the year up 10.4%.

Despite the Federal Open Market Committee's decision to raise the target range for the Fed Funds rate to 0.50%-0.75%, domestic bond prices stabilized on the back of November's re-pricing. The 10-year Treasury yield closed the month up eight basis points at 2.45% but experienced a run-up to 2.60% mid-month as yields rose post-election. Spread compression in corporate issues was a tailwind for performance for the Barclays US Credit and Barclays US Corporate High Yield Indexes, which returned 0.6% and 1.9% on the month, respectively. Emerging market debt indexes were also in the black in December as the JP Morgan EMBI Index gained 1.4%. The local currency-denominated JP Morgan GBI-EM Index gained 1.9% as the Brazilian real, Russian ruble, and South African rand appreciated versus the US dollar.

Market Outlook

The last two months of 2016 have not only provided surprising results for many investors, but also have given context to our recommendations as we start the new year. We believe the post-election rally in domestic stocks provides an opportune rebalancing point to express a modest overweight to international developed and emerging market equities. In both areas, we see opportunities with small-cap equities and also believe a dedicated global equity allocation is an attractive way to garner international exposure. At home, we continue to observe above average valuations with investors pricing in expectations of robust earnings growth in 2017. We think macro hedge funds offer potentially attractive returns for many investors amid sustained volatility in currencies, above-average equity valuations, and prolonged divergence in central bank policies. As we enter into 2017, we urge investors to remain committed to their diversified policy targets while also embracing a dynamic approach to capture opportunities as they arise.

Delaware Office of the State Treasurer

Total Fund Performance Detail-Net of Fees

	Market Value (\$)	% of Portfolio	1 Mo (%)	3 Mo (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Return (%)	Since
Delaware Total Consolidation	1,530,407,910	100.00	0.14	-0.35	-0.13	1.31	0.91	0.76	1.58	1.94	Jan-05
Total Liquidity	634,120,796	41.43	0.11	0.11	0.27	0.97	0.58	0.55	1.37	1.78	Jan-05
Liquidity Custom Index			<u>0.05</u>	<u>-0.01</u>	<u>0.08</u>	<u>0.77</u>	<u>0.46</u>	<u>0.41</u>	<u>1.45</u>	<u>1.82</u>	Jan-05
Over/Under			0.06	0.12	0.19	0.20	0.12	0.14	-0.08	-0.04	
Insight Investment	157,129,889	10.27	0.08	0.07	0.17	0.84	0.49	--	--	0.46	Jun-13
PFM Asset Management	160,201,531	10.47	0.16	0.20	0.39	1.05	0.69	--	--	0.66	Jun-13
Wells Capital Inv. Liquidity	158,644,054	10.37	0.11	0.11	0.32	1.05	0.58	0.54	1.31	4.32	Jan-85
Wilmington Liquidity	158,145,322	10.33	0.07	0.06	0.19	0.92	0.54	0.56	1.60	4.38	Jan-85
Total Reserve & Operating	831,776,379	54.35	0.08	-0.71	-0.66	1.38	1.19	0.97	2.10	2.31	Jan-05
Reserve Custom Index			<u>0.04</u>	<u>-0.76</u>	<u>-0.78</u>	<u>1.15</u>	<u>1.03</u>	<u>0.95</u>	<u>2.46</u>	<u>2.57</u>	Jan-05
Over/Under			0.04	0.05	0.12	0.23	0.16	0.02	-0.36	-0.26	
Chandler Asset Management	103,321,369	6.75	0.08	-0.92	-0.88	1.38	1.42	--	--	1.02	Jun-13
Federated Investors	145,501,406	9.51	0.07	-0.73	-0.68	1.34	1.42	--	--	0.96	Jun-13
JPM Intermediate	227,428,658	14.86	0.03	-0.79	-0.75	1.33	1.07	--	--	0.95	Jun-13
Morgan Stanley	155,611,862	10.17	0.09	-0.65	-0.63	1.28	1.12	--	--	0.92	Jun-13
Schroder Intermediate	199,913,084	13.06	0.11	-0.36	-0.29	1.69	1.20	1.03	2.05	3.52	Jul-95
Total Land & Water Endowment	64,510,735	4.22	1.34	-0.05	3.74	6.62	--	--	--	1.29	Jan-15
L&W Endowment Custom Index			<u>1.49</u>	<u>-0.08</u>	<u>3.01</u>	<u>5.71</u>	<u>3.65</u>	<u>7.24</u>	--	<u>2.78</u>	Jan-15
Over/Under			-0.15	0.03	0.73	0.91	--	--	--	-1.49	
SEI Funds	21,121,375	1.38	1.56	0.27	4.54	9.06	--	--	--	3.71	Jul-15
MSIFT Global Strategist	20,033,453	1.31	1.54	-0.71	2.94	5.58	--	--	--	0.11	Jul-15
JP Morgan Diversified	20,345,196	1.33	1.12	0.25	4.27	6.19	--	--	--	1.14	Jul-15
Cash Account	3,010,711	0.20	0.03	0.06	0.14	0.29	--	--	--	0.21	Jul-15

Notes: Net of Fees. Results for periods longer than one year are annualized

Performance history through 12/2015 is from BNY Mellon. NEPC Performance start date is January 2016. Fiscal Year end is June 30.

Liquidity Custom Index is comprised of 25% BofA Merrill Lynch 1-3 year Govt/Corporate A+ or Better/ 75% 6 Month Treasury Bill.

Reserve Custom Index is comprised of 75% BofA Merrill Lynch 1-5 year Govt/Corporate A+ or Better/ 25% 6 Month Treasury Bill.

L&W Endowment Custom Index is comprised of 60% MSCI World Index/40% Barclays Capital Aggregate.

HFE Schroder and Schroder intermediate returns are preliminary

Total Fund Cash Flow Summary

Cash Flow Summary

Month Ending December 31, 2016

	Beginning Market Value	Withdrawals	Contributions	Net Investment Change	Ending Market Value
Cash Account	\$3,009,700	\$0	\$0	\$1,011	\$3,010,711
Chandler Asset Management	\$114,235,400	-\$11,000,000	\$0	\$85,969	\$103,321,369
Federated Investors	\$161,381,950	-\$16,000,000	\$0	\$119,456	\$145,501,406
Insight Investment	\$157,007,248	\$0	\$0	\$122,641	\$157,129,889
JP Morgan Diversified	\$20,119,373	\$0	\$0	\$225,823	\$20,345,196
JPM Intermediate	\$244,345,910	-\$17,000,000	\$0	\$82,748	\$227,428,658
Morgan Stanley	\$172,456,093	-\$17,000,000	\$0	\$155,769	\$155,611,862
MSIFT Global Strategist	\$19,729,110	\$0	\$0	\$304,343	\$20,033,453
PFM Asset Management	\$159,940,818	\$0	\$0	\$260,713	\$160,201,531
Schroder Intermediate	\$221,675,070	-\$22,000,000	\$0	\$238,014	\$199,913,084
SEI Funds	\$20,797,285	\$0	\$0	\$324,090	\$21,121,375
Wells Capital Inv. Liquidity	\$158,464,936	\$0	\$0	\$179,118	\$158,644,054
Wilmington Liquidity	\$158,029,714	\$0	\$0	\$115,608	\$158,145,322
Total	\$1,611,192,607	-\$83,000,000	\$0	\$2,215,303	\$1,530,407,910

Information Disclaimer and Reporting Methodology

Information Disclaimer

- Past performance is no guarantee of future results.
- All investments carry some level of risk. Diversification and other asset allocation techniques are not guaranteed to ensure profit or protect against losses.
- NEPC's source for portfolio pricing, calculation of accruals, and transaction information is the plan's custodian bank. Information on market indices and security characteristics is received from other sources external to NEPC. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.
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Reporting Methodology

- The client's custodian bank is NEPC's preferred data source unless otherwise directed. NEPC generally reconciles custodian data to manager data. If the custodian cannot provide accurate data, manager data may be used.
- Trailing time period returns are determined by geometrically linking the holding period returns, from the first full month after inception to the report date. Rates of return are annualized when the time period is longer than a year. Performance is presented gross and/or net of manager fees as indicated on each page.
- For managers funded in the middle of a month, the "since inception" return will start with the first full month, although actual inception dates and cash flows are taken into account in all Composite calculations.
- This report may contain forward-looking statements that are based on NEPC's estimates, opinions and beliefs, but NEPC cannot guarantee that any plan will achieve its targeted return or meet other goals.