



**MINUTES FROM THE MEETING OF
THE CASH MANAGEMENT POLICY BOARD
BUENA VISTA, DINNING ROOM
MAY 12, 2015**

A meeting of the Cash Management Policy Board was held on Tuesday, May 12, 2015 at 10:00 AM in the Dining Room of Buena Vista Conference & Reception Center Located at 661 S. DuPont Highway, New Castle, Delaware.

Board Members in Attendance:

Mr. John Flynn, Chairman
The Honorable Ken Simpler, State Treasurer
The Honorable Tom Cook, Secretary of Finance (telephonically)
Mr. Warren Engle, Chair, Banking Subcommittee
Mr. Michael Morton, Controller General
Mr. Mike Karia, Co-Chair, Investment Subcommittee (telephonically)

Board Members Not in Attendance:

The Honorable Jeff Bullock, Secretary of State
Mr. Dave Marvin, Chair, Investment Subcommittee

Others in Attendance:

Ms. Laura Gerard, Deputy Attorney General, OST Counsel (telephonically)
Mr. Ed Black, Deputy Attorney General, Cash Management Policy Board Counsel
Mr. Bob Ehemann, CMPB Grant Contributor, DNREC
Mr. Greg Abbott, Park Administrator, DNREC (telephonically)
Mr. Bill Lane, Vice President, Credit-Suisse North America
Mr. Bill Gambardella, Credit-Suisse North America
Mr. Steve McVay, Director of Finance & Investment Services, Office of the State Treasurer
Mr. Jeff Hoover, Investment Manager, Office of the State Treasurer
Ms. Martha Sturtevant, Executive Assistant to the State Treasurer

CALLED TO ORDER

Mr. Flynn called the meeting to order at approximately 10:00 AM

Mr. Flynn announced a change to the agenda that the CMPB would not be addressing the contract for electronic collections at this meeting. Further information was being collected to make the decision at a later date.

APPROVAL OF MINUTES

A MOTION was made by Mr. Flynn to approve the minutes from the April 14th meeting.

MOTION ADOPTED UNANIMOUSLY

LAND & WATER INVESTMENT MANAGER

Mr. Flynn asked Mr. Hoover to review the document he distributed highlighting the process of the RFP and deadlines. Mr. Hoover noted 16 respondents, the selection committee members and described the scoring used by the committee to narrow the selection to 8 finalists, and finally narrowing finalists to the four being presented to the Board: SEI, Morgan Stanley, JP Morgan & Vanguard.

Mr. Flynn asked for a review of the summary distributed by Credit Suisse. Mr. Gambardella stated he was impressed with the process the selection committee used to narrow and score the respondents. He cited his expertise in same and described set criteria he applies to finding the best managers from a historical basis, while also trying to ensure the future performance. He focused on the finalists with a stable investment practice and considered age, history, track record, diversification for optimizing the portfolio, and their investment process in order to give the best performance going forward.

Mr. Gambardella described active managers and passive managers and noted that there is a cycle for each. When evaluating managers, he described the focus on semi-standard deviation, referred to as, 'Sortino.' Mr. Gambardella said Credit Suisse tries to strip out the benefits for the clients and focus on the negatives as a way to rank the managers to evaluate how the managers will protect on the downside as well as produce on the upside.

Mr. Gambardella said that research shows that having active managers in the portfolio would be a benefit. Mr. Flynn added that he and Mr. Simpler talked with Mr. Marvin and together they also felt that the active manager strategy would be more effective.

Mr. Gambardella said that in the current market environment, he felt it necessary to protect on the downside to insure principals are protected and we achieve our minimal acceptable returns.

Mr. Lane elaborated on the 10 year Sortino-ratio section of the presentation. He stated that the three active managers, JP Morgan, Morgan Stanley & SEI had superior Sortino-ratios relative to the Vanguard All-Index portfolio as did any combination of the recommended portfolios.

Mr. Engle wanted to clarify Morgan's performance. Mr. Lane said JP Morgan & SEI's results were better than Morgan Stanley's from a downside deviation perspective. Mr. Simpler added that it was a relative metric and it had no absolute value.

As an observer, not a voter in the selection process, Mr. Flynn gave his reaction to the presentations of the four finalists. He was most impressed with the teams from SEI, Morgan Stanley as well as JP Morgan. He added that he also considered which finalists have made a significant investment in Delaware. JP Morgan stood out to him, not only in terms of performance, but also in terms of the return they provide to the State. He felt the committee must include them as a finalist. He reiterated his preference for an active manager strategy.

Mr. Lane reviewed the suggested portfolios: 2 & 3 that include JP Morgan as a 1/3 allocation, portfolio 2 has a piece still allocated to indices so it is less expensive from an implementation perspective, and described portfolio 3 as an all active style and has the best down-capture ratio, best Sortino-ratio and best 10 year downside risk – better than any one manager on their own.

Mr. Simpler asked about the up-capture ratio of portfolio 2 and what specifically was driving the performance. Mr. Lane said SEI, JP Morgan and Vanguard are the top three up-capture ratios.

Mr. Flynn asked Tom Cook for his thoughts before he excused himself. Mr. Cook asked about one manager who was not a finalist. Mr. Lane described criteria not met to be a finalist; specifically not having either a 10 year track record in a minimum of \$1.0 billion in assets or a 250 million dollar portfolio in Delaware investments for the proposed strategy.

Mr. Simpler asked Mr. Lane to refresh the board on how gross fees and net fees were compared. Mr. Lane said they did not include fees because they did not report how the fees were calculated across the managers, but he did not feel it would have significantly changed the outcome. Mr. Simpler noted that nothing reported captured fees, and that only one certainty going forward was what we were being charged and Vanguard's fees were 1/4 to 1/3 the other managers and they were outliers worth noting.

Mr. Flynn asked Mr. Morton & Mr. Cook if they had any additional thoughts. None noted.

Mr. Simpler added he had no objections to any of the four proposals and asked Mr. Ehemann and Mr. Abbott if they wanted to weigh-in further. Mr. Ehemann reminded the Board that they are looking for 3-5 year commitment, not 10+ years commitment, and added he was confident that the final four were the best four.

Mr. Simpler recapped portfolios 2 & 3 noting the difference in the two portfolios was the decision between Morgan Stanley and Vanguard. Mr. Flynn was in favor of portfolio 3, but declined to make the motion.

Mr. Cook felt indifferent between the two and asked for a vote.

A MOTION was made by Mr. Simpler and seconded by Mr. Flynn to approve the three active managers pending successful contract negotiations: JP Morgan, Morgan Stanley & SEI.

MOTION ADOPTED UNANIMOUSLY

CREDIT SUISSE REVIEW OF PERFORMANCE

Mr. Lane reviewed the portfolio allocation as of April 30th. The core allocation, liquidity versus reserve is 50/50 but that may change as we get toward funding the Land & Water commitment (on which he was working with Mr. Hoover). Mr. Flynn asked about the rollout on July 1st. Mr. Hoover said it would be funded from the operating cash account and the existing Land & Water account folded into Schroder's reserve account.

Mr. Lane noted no major changes despite the volatility in the market. He said liquidity accounts were ahead of the custom benchmark and he noted the managers are positioned well for any rate increases from the Fed. Mr. Lane described the concerns on liquidity and why the flexibility to own different types of paper is so valuable to managers.

Mr. Flynn & Mr. Simpler asked Mr. Lane about the effects of the Fed unwinding its balance sheet and Mr. Lane said it's not how but when and how orderly. The discussed possible projections and agreed managing duration becomes key.

EPX UPDATE

March 31, 2015 earnings (EBITDA) are positive and have been growing since the fall. Mr. McVay stated OST is executing due diligence to keep track of their performance but noted that Bancorp (EPX's processing bank) has not scheduled their first quarterly meeting this year and he is in the process of investigating earnings. Mr. McVay indicated further due diligence is warranted and outgoing.

OLD BUSINESS

Mr. Flynn asked for status on the Investment Guidelines revision and Mr. Simpler said that OST owes the initial draft to Mr. Black.

Mr. Flynn asked about reviewing the guidelines and making recommendations regarding the way we look at the architecture of our investments. Mr. Simpler said that he would like to bring together what we have learned about our liquidity needs, and through the RFP criteria process to bring recommendations to the Board later this year. Mr. Simpler added that inter-fund borrowing was a great concern to him and added that access to data stored outside of our office was not readily available.

Mr. Simpler congratulated the members on their reappointments to the Board.

Mr. Hoover asked Mr. Black about the status of the APA process on the Investment Policy. Mr. Black said the changes are in process for final language, but were effective when adopted, albeit they had not yet been published. Mr. Hoover said he would get him the approved language immediately and asked him to publish final language as soon as possible.

For reference and compliance, Mr. Hoover asked Mr. Black to provide OST written guidance on what requires an APA process.

Calendar distributed – with no objections. Dates approved for Full Cash Management meetings are as follows:

- August 12, 2015 (telephonic)
- November 9, 2015 (Buena Vista)
- February 10, 2016 (telephonic)
- May 11, 2016 (Buena Vista)

All meeting times are at 10:00 AM

Mr. Simpler said we may need to arrange a telephonic meeting in early June to address the tabled Electronic Banking Services.

PUBLIC COMMENTS

No public present for comment.

ADJOURNMENT

A MOTION was made by Mr. Flynn and seconded by Mr. Simpler to adjourn the meeting at 11:26 AM
MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

John Flynn
Chairman, Cash Management Policy Board