



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

A telephonic meeting of the Cash Management Policy Board was held on August 12, 2015 at 10:00 AM
Public attended in-person at the Office of the State Treasurer
Located at 820 Silver Lake Boulevard, Dover

Board Members in Attendance:

Mr. John Flynn, Chairman (Telephonically)
The Honorable Ken Simpler, State Treasurer
The Honorable Tom Cook, Secretary of Finance (Telephonically)
The Honorable Jeff Bullock, Secretary of State (Telephonically)
Mr. Warren Engle, Chair, Banking Subcommittee (Telephonically)
Mr. Mike Karia, Co-Chair, Investment Subcommittee (Telephonically)
Mr. Dave Marvin, Chair, Investment Subcommittee (Telephonically)
Ms. Lynda Messick (Telephonically)

Board Members Not in Attendance:

Mr. Michael Morton, Controller General

Others in Attendance:

Mr. Frank Broujos, for Ms. Laura Gerard, Deputy Attorney General, OST Counsel (Telephonically)
Ms. Carrie Erickson, Comptroller, DNREC (Telephonically)
Mr. Ed Black, Deputy Attorney General, Cash Management Policy Board Counsel (Telephonically)
Mr. Greg Abbott, Park Administrator, DNREC (Telephonically)
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
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 10:00 AM

Mr. Flynn welcomed Ms. Lynda Messick to the Board and recognized her accomplishments and community involvement. Mr. Flynn noted that Lynda has agreed to join the Banking Sub-Committee.

APPROVAL OF MINUTES

A MOTION was made by Mr. Flynn to approve the minutes from the meeting on May 12.
MOTION ADOPTED UNANIMOUSLY.

REVIEW OF PERFORMANCE FROM CREDIT SUISSE

Mr. Flynn asked Mr. Lane to review the presentation prepared by Credit-Suisse and to discuss the impact of the developing news about China on the State's portfolio.

Mr. Lane said historically summertime is a peak valuation period for the core portfolio and as a result there was an overweight toward liquidity. He stated 57% of the account was allocated toward liquidity managers and 43% was allocated to the reserve managers. Mr. Lane said this was in preparation for drawdowns due to seasonal net state expenditures and anticipated rate hikes from the Federal Reserve.

Mr. Lane stated that the total yield to maturity was 72bps, an increase from 61bps on May 31, 2015 and duration has declined to 1.31yrs from 1.40yrs during that period.

Mr. Lane summarized the core performance of the portfolio. Year to date, Mr. Lane stated there was a benefit to having a diversification of managers and noted liquidity returning 35bp. He said an increase in short-term rates and the incremental addition of floating rate securities approved at April's Board meeting allowed the managers to enhance returns.

In the reserve, Mr. Lane said the performance is more varied with managers averaging 79bps as of the end of July. The reserve portfolio had a year-to-date return of 66bps overall and the trailing one-year performance is above average with 81bps (up from 73bps annualized average since 2010).

Mr. Lane reviewed the Land and Water portfolio, stating the three new managers were approved in July and the data was limited to one month. He described the new asset allocation as 60% in equities, 28% in fixed income, almost 10% to cash and 1.2% to alternative strategies. Mr. Lane added each manager was allocated \$20 million.

Mr. Lane reviewed the Health Fun Endowment. He said it remains allocated to a reserve mandate and is performing like a reserve manager.

Mr. Lane discussed the changes that the breaking news from China might have on the global markets. He said by depreciating their currency China is a more attractive exporter to the world, however it puts the exports of other countries at a disadvantage.

Mr. Lane said in the previous day global equity markets sold off 2.5-3.0%, resulting in strong bids for high quality, safe securities in the United States. He said the 10yr note in the US traded down from 2.25% before the announcement to just under 2.10%. He said that scenario benefits the core portfolio of Delaware.

Mr. Lane said as the Chinese export deflation to the rest of the world, it makes it hard for the Fed to raise rates. He said from an investment strategy standpoint, he would like to see the return to normalcy and the move from China is a potential delay. He said thoughts around risk need to be recalibrated to a new unexpected dynamic in global trade.

Mr. Marvin added that in terms of currency markets, he would have expected the Chinese devaluation to result in the rise of the US dollar and most other currencies would have been weaker. He said it was interesting that there was a rise in the Euro, Yen and the Pound, but the dollar had gone down by 1%. He said he believed that the Federal Reserve was keeping interest rates at zero to stimulate domestic growth. He now thinks they were

trying to move currencies. Mr. Marvin stated the only way to get stimulus around the world was to change currency values. He said the Euro had declined by 25%, the Yen declined by 30% and the only two major countries that kept their currency strong were China and the US.

Mr. Marvin said the US has suffered the consequences it's currency rising sharply, and the other countries declining sharply. He summarized by stating he thought the financial authorities acted together to allow a massive currency devaluation to occur, which he said was essentially a stimulus program. Mr. Marvin said the Federal Reserve may have realized it had gone too far and that they were now attempting to stabilize. He added that raising rates may have resulted in the dollar getting even stronger, thus resulting in a crisis for international goods. Mr. Marvin concluded his thoughts by saying from his perspective the markets were almost calming down in terms of the effects a potential rate hike by the US would have on the world.

Mr. Flynn asked about the yield curve. Mr. Lane said Credit-Suisse projects a rate hike will occur at the September 17th FOMC meeting and that the portfolio was well positioned to weather the volatility.

Mr. Simpler asked how the last 36 hours had impacted Fed Futures. Mr. Flynn said he read on Bloomberg that it had declined by 15bp.

INVESTMENT SUBCOMMITTEE

Mr. Simpler stated the Investment Sub-committee met August 11th and prepared a motion for the Board to consider. He said the proposed motion was to approve technical clarifications to the Guidelines passed by the full Board in April and include clarifications related to the implementation of the new accounts in the Land & Water funds.

With respect to the Land and Water funds, Mr. Simpler said the guidelines given to the managers were a traditional 60/40-equity/fixed income split, with 5% required to be kept in cash at all times. He said the mandate to keep cash is difficult, because two of the accounts are mutual funds. Mr. Simpler stated the sub-committee agreed to a 5% cash account to be managed at the Treasurer's Office independent of the money allocated to the Land and Water Managers.

Mr. Simpler noted that proposed changes had been distributed to the Board. The Board discussed the clarifications to the technical changes and 5% cash account.

Mr. Simpler introduced a second motion. He stated that previously the Liquidity and Reserve accounts were maintained at a 50/50 split with a 5% variance. He said the second motion was to request approval to alter the prior directive allowing OST the flexibility to exceed the 45/55 cushion over a period not to exceed 90 days at any given time and only to the extent that it is required to address known liquidity requirements of the State of Delaware.

Mr. Engle asked if the variance would be reported to the Investment Subcommittee. Mr. Simpler said it was not part of the motion, noting that Mr. Flynn and Mr. Marvin were in favor of relaxing the requirement. Mr. Engle agreed and stated he wanted OST to have the flexibility.

A MOTION was made by Mr. Simpler and seconded by Mr. Engle to approve the technical clarifications to the Guidelines as circulated to the Board, adopt the changes to the Land & Water Guidelines regarding the 5% cash

account and agree that the Current Directive will remain in effect, provided that the Board authorizes the Office of the State Treasurer the discretion to deviate from the directive over periods not expected to exceed 90 days in order to accommodate near-term, identifiable liquidity requirements.

MOTION ADOPTED UNANIMOUSLY

Mr. Simpler then discussed the need for an Investment Guideline Review Working Group. He solicited the Board to become involved in the process to “clean up” the Guidelines, noting Mr. Black and Mr. Karia had already volunteered. Ms. Messick, Mr. Flynn and Mr. Engle also volunteered. Mr. Marvin stated he would like to get involved only as the committee nears their final conclusions. Mr. Simpler thanked the Board members for volunteering and said OST would soon distribute a schedule.

Mr. Simpler updated the Board on the Investment Advisor RFP. He said the contract with Credit-Suisse legally ends at the end the calendar year. Mr. Simpler stated the RFP process begins the end of August to either re-engage Credit-Suisse or to select their successor. Mr. Simpler solicited Board members to be part of the Selection Committee and added that Mr. Karia had already volunteered. Mr. Marvin stated he would be involved in final selections. Mr. Simpler stated the RFP was in draft form and would be posted within ten days. Mr. Flynn said he volunteered to be part of the Selection Committee.

Mr. Flynn asked Mr. Simpler if the RFP would include a Scope of Services defined by the Board, or if it included a solicitation to the respondents for alternate options. Mr. Simpler said the RFP allows the option to make suggestions on how to lower the cost or provide more value than what was being requested, and the Scope of Services included options that may or may not be included as part of the final selections through the RFP process. Mr. Simpler clarified the arrangement is for a three-year term engagement to begin January 1, 2016.

BANKING SUBCOMMITTEE

Mr. Flynn noted Mr. Engle had recused himself in advance of the motion, and asked Mr. Simpler to review the State’s electronic collections.

Mr. Simpler said BNY Mellon has been the provider for some time and OST had previously asked the Board for input on the two finalists, PNC and BNY Mellon. He said the concern was whether the Board wanted to consolidate its banking structure by having one bank perform both collection and disbursement services.

Mr. Simpler said after several months of cost analysis, he reported the recommendation was to stay with BNY Mellon for a period of two years and four months with the options to extend for one-year periods thereafter, and up to three extensions. Mr. Simpler said this would put BNY Mellon on the same timeline as our disbursement bank, PNC. He proposed in that time an inter-agency task force would select a consultant to review the State’s banking infrastructure.

A MOTION was made by Mr. Simpler and Mr. Marvin and seconded by Mr. Karia to engage BNY Mellon in a new contract for the State’s electronic collection services for the period beginning September 1, 2015 and continuing for two years and four months.

MOTION ADOPTED UNANIMOUSLY.

Mr. Engle said there had been concerns regarding EPX and Bankcorp. He noted OST has been monitoring their performance and would continue to monitor their financials.

PUBLIC COMMENTS

Mr. Zuk said he was grateful for the opportunity to attend the meeting and was impressed with the dialog of the Board. He added that he found the meeting minutes transparent and thorough and said the minutes provided valuable insight for doing business in the future. Mr. Zuk described locating the meeting minutes online as a challenge. He asked the Board to consider an easier way to locate the minutes and details of future meetings in the future. Mr. Flynn asked if the minutes were on the State Treasure’s site. Mr. Cook noted DEFAC minutes were posted on the Department of Finance website. Mr. Simpler said he was sympathetic and has also found it difficult to locate them, but if the Board was unopposed he was happy to host the details on the OST site. None objected.

Noting the conflict of Veterans Day, the next CMPB meeting was moved to the 12th of November.

Mr. Simper recapped the committee assignments and said OST would circulate a schedule and confirmation of participants.

ADJOURNMENT

A MOTION was made by Mr. Flynn to adjourn the meeting at 11:08 AM.
MOTION ADOPTED UNANIMOUSLY.

Respectfully submitted,

John Flynn
Chairman, Cash Management Policy Board