NEPC, LLC

To: Delaware Cash Management Policy Board Investment Committee

From: John Krimmel, Partner and Margaret Belmondo, Senior Consultant

Date: October 24, 2018

Subject: Delaware Land & Water Manager Review

Background
The investment managers in the Delaware Land & Water Endowment Fund recently passed their 3rd anniversary as retained investment managers. NEPC was asked to meet with each of the firms and provide an assessment of the strategies. John Krimmel, Partner, and Margaret Belmondo, Senior Consultant, met with all three managers on October 8th in NEPC's Atlanta office. The remainder of this memorandum provides a brief description of each firm, an overview of the investment strategy, and a review of the investment results.

JP Morgan
The strategy being managed by JP Morgan is the JP Morgan Diversified Fund. The strategy was incepted in October 1993 and currently has $1.3 billion in total assets. The strategy is managed as a part of the Multi Asset solutions group, which has a total of $255 billion in assets.

The Diversified Fund is managed off the firm's global asset allocation platform and seeks to tactically shift assets based on the firm's macro outlook for asset classes. This is one of the most risk constrained strategies on the platform where deviations from the long-term or strategic benchmark are less than 5%. The strategies are managed to a tracking error target between 1.25% - 1.75%. Deviations generally reflect the firm's macro view and asset valuation levels. The portfolio is managed by three portfolio managers, with Michael Schoenhaut being the senior PM with more than 20 years of experience.

The JP Morgan Diversified Fund has a strategic allocation of 61% equities and 39% fixed income and seeks to generate returns above the 60% MSCI World Index / 40% Barclays Capital U.S. Aggregate benchmark. The three portfolio managers have the discretion to invest across all asset classes and investment strategies, within constraints, to implement the firm's macros view. As of August 31, 2018, the portfolio is underweight equities 3% with a corresponding overweight to fixed income. The underlying exposures are actively managed by various JP Morgan investment teams. Based upon our review of the underlying exposures, the portfolio is highly diversified and liquid.

The Endowment Fund is invested in an institutional share class and the management fee is 0.58%.

In summary – this is a risk constrained approach to an actively managed balance account. Return expectations, over a market cycle, are benchmark +/- 2%.

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Morgan Stanley
The strategy being managed by Morgan Stanley is the MSIFT Global Strategist Portfolio. The strategy was incepted in December 1992 and currently has $305 million in total assets. The strategy is managed as a part of the Global Multi-Asset team, which has a total of $28 billion in assets.

The Global Strategist Portfolio Diversified Fund is managed off the firm's global asset allocation platform and seeks to tactically shift assets based firm's outlook for various markets. The goal of the portfolio is to generate total returns above its 60% global equity / 40% global bond benchmark. The strategy strives for a 1.5% to 5.0% tracking error. Since inception, the strategy has been on the lower end of the range with a 1.7% realized tracking error.

There are four portfolio managers that have overall responsibility for managing the firm's global multi-asset strategies. The portfolio employs a top-down, thematic approach to multi-asset investing. The strategy is fundamentally driven and supported by a discipled research process. The portfolio expresses its thematic views directionally (i.e., overweight US Treasury bonds versus the benchmark) or as paired, relative value positions (i.e., underweight US cyclical stocks / overweight US defensive stocks). The portfolio is global in nature and invests in global equities, global fixed income, commodities and currencies.

The portfolio is currently very defensively positioned. As of September 30, 2018, the portfolio is underweight equities (primarily US equities) and overweight fixed income US fixed income).

The Endowment Fund is invested in an institutional share class and the management fee is 0.72%.

In summary – this is a risk thematic, value-oriented approach to an actively managed balance account. Return expectations, over a market cycle, are benchmark +/- 3%.

SEI Investments
The strategy being managed by SEI is a custom strategy using the firm's manager-of-manager approach. SEI has been managing custom strategies such as the Endowment strategy for more than 25 years. As of September 30, 2018, SEI has $331 billion in assets under management.

The custom strategy is built using SEI's standard investment process that has four key tenets:

- Goals Based Asset Allocation
- Best of Breed Managers & Portfolio Construction
- Active Management of Investment Managers
- Active Asset Management

All portfolios are designed based upon the client's goals & objectives; SEI uses what they believe to be "best in class" managers to implement the program in a risk-controlled process; they believe in dynamic positioning of high conviction investment managers – both active and passive strategies are employed; coupled with a changing asset allocation to enhance returns based on current market conditions.

As of September 30, 2018, the portfolio had an allocation of 56% equities, 37% fixed income, and 7% to a dynamic asset allocation fund. Within the US equity component all the exposure is passively managed to reduce tracking error and maintain a reasonable cost structure. Equity assets outside the US and fixed income assets are currently actively managed as a source of excess return.

In summary – this is a custom multi-manager, dynamic asset allocation investment strategy. Return expectations, over a market cycle, are benchmark +/- 3%.

Performance Results
The following table presents net of fee investment results for the investment strategies and the benchmark for the 1-Quarter, 1-Year, 3-Year, and Since Inception periods ending September 30, 2018. The investment returns for the investment strategies are presented in green or red. Green results indicate outperformance and red results indicated underperformance.

	Returns			
	1-Qtr	1-Yr	3-Yr	Since Inception
JP Morgan	2.65	5.43	9.33	6.45
Morgan Stanley	1.68	3.98	8.06	5.18
SEI Investments	2.51	5.60	9.93	7.37
Cash	0.44	1.32	0.66	0.63
Total Endowment Fund	2.19	4.84	8.76	6.02
Endowment Custom Index	2.98	6.18	8.61	6.09

Inception date of the portfolio is August 1, 2015.

The Total Endowment Fund results are mixed. Since inception, the Total Endowment Fund trails the Custom Benchmark by 0.07%, while the three-year results are ahead of the benchmark by 0.15%. The underperformance for the Total Endowment Fund for the Since Inception period is due to the Morgan Stanley portfolio and the permanent 5% cash allocation in the portfolio.

Individual manager results are also mixed as JP Morgan and SEI exceed the benchmark over the 3-year and Since Inception Periods. Both firms have seen recent performance shortfalls due to increased volatility in the financial markets in 2018.

Morgan Stanley trails the Custom Benchmark for all periods presented in the table. Given that Morgan Stanley follow a contrarian investment approach, we are not surprised by the performance shortfall. The strategy has been investing in value-oriented investments, which have not been rewarded over the since inception life of this strategy. The strategy over a longer period has generated acceptable returns. If the market volatility continues in the near-term, we would expect that this strategy will begin to gain traction and generate above benchmark returns.

Observations
These three portfolios are all very different. As such, based upon our observations, should have different return patterns over time. Over longer periods of time, these strategies have generated above benchmark returns for their investors. The shorter since inception time-period, 3 years and 1 month, does not lend themselves adequately when measuring performance. Consider that:

- JP Morgan's strategy is a low tracking error (volatility) approach to investing in a balanced portfolio. In many ways this portfolio can be thought of as benchmark-like over a full market cycle. This strategy should perform reasonably close to the benchmark in most market environments.
- Morgan Stanley's strategy is contrarian and generally invests in assets that are "cheap" relative to the broad market. This strategy should perform well, relative to the benchmark in periods of prolonged market stress.
- SEI's portfolio is the most active of the three and their process leads them to be more of a momentum-driven strategy. This strategy should perform well during directional markets, both positive and negative.

Another observation that we made was that from inception through September 30, 2018, the 5% allocation to cash has detracted approximately 0.3% in return per annum. In dollar terms, the cash drag has been about $195,000 per year or nearly $600,000 since inception. We believe that the next time the guidelines are revisited, an item to discuss should be a to either remove the 5% cash allocation or embed the allocation within the Benchmark Index.

Conclusions
After meeting with each of the three investment managers and reviewing their investment philosophy, process, and results, we believe that all three investment strategies have performed within expectations.

We look forward to discussing this memorandum with the Investment Committee on November 7, 2018.