



**MINUTES FROM THE INVESTMENT SUBCOMMITTEE
OF THE CASH MANAGEMENT POLICY BOARD
FEBRUARY 7, 2018**

A meeting of the Investment Subcommittee (the “Subcommittee”) of the Cash Management Policy Board (the “Board”) was held on February 7, 2018, 10:00 a.m., in the main conference room of the Office of the State Treasurer (“OST”), located at 820 Silver Lake Blvd., Suite 100, Dover, Delaware.

Subcommittee Members Represented or in Attendance:

Mr. Dave Marvin, Subcommittee Chair
Mr. Mike Karia, Subcommittee Co-Chair
Mr. John Flynn, Board Chair
The Honorable Kenneth Simpler, State Treasurer
Ms. Stephanie Scola, Director of Bond Finance, Department of Finance (on behalf of Mr. Richard Geisenberger, Secretary, Department of Finance)

Subcommittee Members Not Represented or in Attendance:

Others in Attendance:

Mr. Jason Staib, Deputy Attorney General, Delaware Department of Justice
Ms. Nohora Gonzalez, Deputy State Treasurer, OST
Mr. Stephen McVay, Cash Manager, OST
Ms. Susan Steward, Policy Advisor, OST
Mr. John Krimmel, Partner, NEPC, LLC

CALLED TO ORDER

The meeting was called to order at 10:05 a.m.

APPROVAL OF THE MINUTES

A MOTION was made by Mr. Karia and seconded by Ms. Scola to approve minutes from the Subcommittee meeting on November 1, 2017.

MOTION ADOPTED UNANIMOUSLY

A MOTION was made by Mr. Marvin and seconded by Mr. Karia to approve minutes from the Subcommittee meeting on January 11, 2018.

MOTION ADOPTED UNANIMOUSLY

LIQUIDITY AND RESERVE MANAGERS UPDATE

Status of investment manager agreements

Mr. Krimmel provided an update with respect to the status of the investment manager agreements and noted that, to date, five of the six managers have formally executed agreements. BlackRock has confirmed as of the start of the meeting they are ready to move to execution by close of business today.

Conversion timeline

Mr. Krimmel discussed the transition process with Northern Trust. Northern Trust will reconcile assets and transfer assets to new managers on March 1. The new managers will reconcile their positions on March 2. Managers will receive additional funds (up to architecture limits) as cash flows are received throughout the spring.

Mr. Krimmel broached the issue of potential unrealized gains and losses and noted that the transition to the new architecture may require managers to realize losses of about \$10 million. Such losses will impact the State's financial reporting and the interest credit received by the State. Mr. Krimmel opened the floor to discussion. Mr. Marvin stated that the losses exist regardless of the transfer and noted the transfer provides justification for realizing the losses at this time.

Mr. Krimmel noted that one of the transition goals is to ensure that all portfolios will be reconfigured in accordance with the new structure by March 31. Mr. Marvin announced his support for the expectation that all portfolios be fully compliant with the new investment architecture by the end of the quarter.

Mr. Krimmel provided the Subcommittee with updates on where each of the managers stand with respect to the transition. Mr. Krimmel noted that the liquidity portfolios held by PFM and Wilmington Trust were insulated through the end of February from any additional cash draws and both managers are reasonably compliant as their strategy mandate remains unchanged. Additionally, JP Morgan's duration mandate is not changing, but there will be a benchmark change which should not be problematic. Chandler will be moving from a 1-3 year to a 5-10 year mandate under the new architecture, which will require them to buy and sell securities as they transition. There are no anticipated issues as these securities are mostly high quality and very liquid assets. Finally, BlackRock and Lazard are also not expected to encounter any issues as they transfer out of 1-3 year portfolios into longer duration portfolios.

Mr. Krimmel explained that all managers should be in compliance with the new investment architecture by April 2.

Treasurer Simpler asked Mr. Krimmel if the Subcommittee should allow the managers to hold losses where the managers deem appropriate. Mr. Krimmel responded that portfolios will likely see less than 100 percent turnover due to Treasury holdings. The Subcommittee engaged in discussion about the impact that realizing losses would have on DEFAC revenue forecasts. Mr. Krimmel offered that the best course of action might be to tell the managers to begin with selling corporate securities that pose a credit risk, and then focus on selling off Treasury securities by July 1.

Mr. Karia and Mr. Marvin agreed with the approach proposed by Mr. Krimmel. Ms. Scola asked Mr. Krimmel to confirm the potential loss from selling credit risks. Mr. Krimmel estimated that this could be between \$4.5 and \$5 million, which would not cause DEFAC estimates to go negative at any time in the current fiscal year.

Treasurer Simpler and Mr. Krimmel considered the need to have a discussion with the managers to emphasize the Subcommittee's preference that the portfolios be brought into compliance, and that the books be in a position that the managers are comfortable with, in a short period of time. Mr. Flynn was in agreement that such a discussion would be appropriate. Ms. Gonzalez noted that the OST team would provide the Subcommittee with an update at the end of February.

OUTSIDE INVESTMENT ACCOUNTS UPDATE

Land and water account

Ms. Gonzalez explained that the land and water endowment investment manager contracts will need to be extended for an additional year as the original terms of the contracts end in July 2018. NEPC will report on the performance from the manager's first three years at the full Board meeting in August.

A MOTION was made by Mr. Flynn and seconded by Ms. Scola to recommend to the Board the extension of the land and water contracts for one year.

MOTION ADOPTED UNANIMOUSLY.

School scholarship accounts

Ms. Gonzalez reported that the two schools with outside investment accounts have agreed to close the accounts. OST will work with the Division of Accounting and Office of Management and Budget to transition the funds and set up each account. The Division of Accounting provided reporting instructions last Friday, and Northern Trust has begun the process of implementing the instructions.

ACTION ITEMS

Discussion and vote to make change to Guidelines

Treasurer Simpler introduced a proposed change to the Board's Guidelines. To accommodate the new investment architecture, the proposal is to strike the seven-year maximum average maturity restriction for reserve account investments.

A MOTION was made by Mr. Flynn and seconded by Mr. Karia to recommend changes in Section 7.2 of the Guidelines related to the maximum average maturity restriction for reserve managers.

MOTION ADOPTED UNANIMOUSLY.

Discussion and vote on Resolution 2018-01

Treasurer Simpler opened the discussion of the Resolution 2018-01 that memorializes the proposed architecture as amended at the January 11, 2018 meeting of the Subcommittee.

Mr. Krimmel explained that the benchmark proxies for reserve managers has been changed to "ICE-BAML," reflecting a recent name change to the benchmark.

Treasurer Simpler raised the issue of whether liquidity managers should have benchmarks. The Subcommittee discussed removing the liquidity benchmark and permitting liquidity managers to use historical and forecasted draw patterns. The Subcommittee agreed that removal of the benchmark for liquidity managers would be appropriate. Mr. Staib noted that the Board has authority to impose or change a benchmark at any time.

**A MOTION was made by Ms. Scola and seconded by Mr. Flynn to recommend the adoption of Resolution 2018-01 to the Board.
MOTION ADOPTED UNANIMOUSLY**

PUBLIC COMMENTS

No members of the public present for comment.

NEXT MEETING

The next meeting is scheduled for May 2, 2018.

ADJOURNMENT

**A MOTION was made by Ms. Scola and seconded by Treasurer Simpler to adjourn the meeting of the Subcommittee at 11:10 a.m.
MOTION ADOPTED UNANIMOUSLY**

Respectfully submitted,

David Marvin
Chair for the Investment Subcommittee

Mike Karia
Co-Chair for the Investment Subcommittee