



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

A meeting of the Investment Subcommittee (the “Subcommittee”) of the Cash Management Policy Board (the “Board”) was held on November 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 (Telephonically)
Mr. Mike Karia, Subcommittee Co-Chair (Telephonically)
Mr. John Flynn, Board Chair (Telephonically)
The Honorable Kenneth Simpler, State Treasurer (Telephonically)
Mr. Richard Geisenberger, Secretary, Department of Finance (Telephonically)

Subcommittee Members Not Represented or in Attendance:

Others in Attendance:

Mr. Jason Staib, Deputy Attorney General, Delaware Department of Justice (Telephonically)
Mr. Jamie Johnstone, Deputy Principal Assistant, Department of Finance (Telephonically)
Ms. Nohora Gonzalez, Deputy State Treasurer, OST
Mr. Josh Berkow, Director of Debt and Cash Management, OST
Mr. Khary DeWitt, Director of Banking Services, OST
Ms. Liza Druck, Policy Advisor, OST (Telephonically)
Mr. John Krimmel, Partner, NEPC, LLC (Telephonically)
Mr. Kevin Leonard, Partner, NEPC, LLC (Telephonically)

CALLED TO ORDER

Treasurer Simpler called the meeting to order at 10:00 a.m.

A MOTION was made by Mr. Marvin and seconded by Mr. Karia to approve minutes from the Subcommittee meeting on August 1, 2018.

MOTION ADOPTED UNANIMOUSLY

ENDOWMENT PORTFOLIO REVIEW

3 Years Performance Review for Endowment Accounts

Mr. Krimmel presented the Subcommittee with a memo outlining endowment portfolio composition and performance. Despite having the same objective, the three portfolios are different in strategy. 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. 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 follows a momentum-driven strategy. According to Mr. Krimmel, this strategy should perform well during directional markets, both positive and negative.

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 exceeded the benchmark over the 3-year and since-inception Periods. Morgan Stanley trails the Custom Benchmark for all periods due to their contrarian investment approach. Mr. Krimmel advised that NEPC will be monitoring Morgan Stanley's performance closely in the coming months, and suggested results may improve given their contrarian strategy and recent uptick in market volatility.

The 5% allocation to cash for liquidity has cost approximately 0.3% in return per annum. In dollar terms, the cash drag has been about \$195,000 per year and nearly \$600,000 since inception. NEPC recommends that the next time the investment guidelines are updated, the Board should consider either removing the 5% cash allocation or embedding the allocation within the Benchmark Index.

Mr. Marvin questioned whether the cash requirement should be removed given that the 40% bond allocation in the portfolios provides sufficient liquidity. Mr. McVay confirmed that liquidity has never been an issue when drawing upon the endowment portfolios. A question arose as to whether the removal of the 5% cash allocation would require a formal revision of the Board's investment guidelines. Mr. Staib advised that, pursuant to the guidelines, the Board has authority to revise or remove the 5% cash requirement on a case-by-case basis.

**A MOTION was made by Mr. Marvin and seconded by Mr. Karia to recommend changes to the endowment portfolio cash requirements to the Board.
MOTION APPROVED UNANIMOUSLY**

CONTRACT EXTENSIONS

NEPC Contract Extension

Members of the NEPC team left the call at 10:23 am. The subcommittee discussed the extension of NEPC's contract, which expires on December 31, 2018, and has two one-year extensions available. OST has issued a letter to NEPC stating that their contract's renewal is contingent upon the Board's approval. Subcommittee members expressed their satisfaction with the scope and quality of NEPC's work.

**A MOTION was made by Mr. Flynn and seconded by Mr. Karia to recommend a one-year extension of NEPC's contract to the Board.
MOTION APPROVED UNANIMOUSLY**

EXECUTIVE SESSION

No executive session

PUBLIC COMMENTS

No members of the public present for comment.

NEXT MEETING

The next meeting is scheduled for February 6, 2019.

ADJOURNMENT

A MOTION was made by Mr. Karia and seconded by Mr. Marvin to adjourn the meeting of the Subcommittee at 10:29 a.m.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David Marvin
Chair for the Investment Subcommittee

Mike Karia
Co-Chair for the Investment Subcommittee