To: Cash Management Policy Board Investment Committee

From: Jonovan Sackey, Jennifer Appel, Kevin Leonard

Date: July 21, 2025

Subject: 2025 Endowment Manager Due Diligence Meetings

Background

Members of the Delaware Office of the State Treasurer (OST) Staff and NEPC met with the two investment management firms charged with implementing the endowment portfolio structure for the Delaware OST. The purpose of these meetings was to discuss any significant changes to the investment management organizations, team members, and investment process, along with receiving updates on current portfolio positioning, potential portfolio positioning changes, and current market conditions. Further, the investment management firms relayed potential Investment Guideline enhancements to their mandates managed on behalf of the Delaware OST. The remainder of this memo summarizes the findings during these meetings.

Endowment Managers

SEI – Endowment Manager

SEI noted that there have been no significant changes to the investment organization, the assigned investment team, the investment philosophy, or the approach since the last annual update with Delaware OST staff and NEPC.

SEI retains the belief that inflation will prove to be sticky and will remain 'higher-for-longer', supported by a resilient labor market. The bulk of the discussion centered around a proposed change to the State's current asset allocation. The recommended adjustment reflects SEI's overarching outlook with respect to inflation.

SEI discussed with OST their impending adjustments to the fund's asset allocation. The change primarily centers around a reduction to the public equity exposure and a new allocation to multi-strategy real assets that will serve as an inflation hedge within the portfolio. The expected return slightly falls from 7.2% to 7.1% following this proposed change, while volatility tightens, going from 13.9% to 13.5%. The Sharpe ratio would remain unchanged, as would the fee structure. The team noted this new exposure would be a '40 Act daily liquidity mutual fund. Additionally, this should be viewed as a strategic shift in the portfolio rather than a constant component of the portfolio moving forward.

Mercer – Endowment Manager

Mercer stated that there had been no significant changes to the investment organization, the assigned investment team, the investment philosophy, or the approach since the last annual update with Delaware OST staff and NEPC.

Mercer discussed the current market environment and how consumer sentiment in the early part of the year declined sharply amidst the announcement of new policies. The team stated that a high share of consumers sees business conditions worsening, household income expectations declining, and inflation expectations rising, while acknowledging the potential positive impact of deregulation and tax cuts on consumer sentiment. Net of fee performance has been right in line with the policy benchmark, trailing slightly by 4 basis points with a return of 6.44%.

Mercer discussed its outlook on asset class return assumptions. It does expect international developed equity to outperform domestic equity over the next 10 years with a 6.6% expected return versus 5.9%. It highlighted their US Aggregate fixed income assumption of 4.9% and how that has evolved given the current higher rate environment compared to where things stood at the bottom of COVID.

Mercer discussed an adjustment to be made to the target weights within the equity portion of the portfolio relative to the MSCI World Index benchmark. This would increase the current weight toward the Vanguard Total Stock Market Index from 39.6% to 42.9% and reduce the Vanguard Developed Markets Index exposure from 20.4% to 17.1%. As the firm does not have a one fund solution to track the MSCI World Index, these changes to the funds would accomplish a similar exposure to the MSCI World Index. This adjustment includes no change to the Vanguard Total Bond Market Index allocation of 40%.

The Mercer team did reference a few additional exposures that have benefited other client portfolios they manage, including below investment grade fixed income, emerging markets equity, and certain alternatives like hedge funds or private equity co-investments and secondaries. However, it acknowledged these additions may not all be appropriate given the State's current mandate.

Closing Remarks:

NEPC believes that the adjustments discussed in this memo are reasonable and do not materially change the composition or goals and objectives of the portfolio. These changes primarily target operational and portfolio management efficiency and do not pose any issues from NEPC's perspective. We look forward to discussing this memo with the Investment Committee and Cash Management Policy Board at their upcoming meetings. In the meantime, please reach out with any questions you may have regarding the memo or the individual manager meetings.