**MINUTES FROM MEETING OF INVESTMENT SUBCOMMITTEE**

**OF THE CASH MANAGEMENT POLICY BOARD**

**August 11, 2015**

A telephonic meeting of the Investment Subcommittee of the Cash Management Policy Board was held on Tuesday, August 11, 2015 at 11:00 AM in the Conference Room of the Office of the State Treasurer

Located at 820 Silver Lake Blvd., Suite 100, Dover, Delaware.

Board Members in Attendance:

Mr. Dave Marvin, Chair, Investment Subcommittee of the Cash Management Policy Board (Telephonically)

Mr. Mike Karia, Co-Chair, Investment Subcommittee of the Cash Management Policy Board (Telephonically)

The Honorable Ken Simpler, State Treasurer

The Honorable Tom Cook, Secretary, Department of Finance (Telephonically)

Board Members Not in Attendance:

Mr. John Flynn, Chairman, Cash Management Policy Board

Others in Attendance:

Ms. Laura Gerard, Deputy Attorney General, OST Counsel (Telephonically)

Mr. Ed Black, Deputy Attorney General, Board Counsel (Telephonically)

Mr. Chip Kurtzman, Director, Credit-Suisse North America (Telephonically)

Mr. Bill Lane, Vice President, Credit-Suisse North America (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. Randal Chase, Associated Press

**CALLED TO ORDER**

Mr. Marvin called the meeting to order at 11:05 AM.

Mr. Marvin gave a brief overview of the breaking news from China and the anticipated impact on the global markets. He said he agreed with Alan Greenspan that there was a bubble in the bond market, and that prices were too low, both in the governmental and the short-term sectors. Mr. Marvin stated he wanted the Endowment Fund managers to be diversified and have different strategies. Mr. Simpler added it was a valuable conversation for the Board.

**LAND & WATER ENDOWMENT – TECHNNICAL CHANGES**

Mr. McVay introduced the language for the proposed motion. He stated a technical correction was being requested to allow OST to maintain 5.0% cash in a separate account (sec. 4.2 L&W policy) with the remainder managed by the three portfolio managers. Mr. Hoover said there are three funds currently invested in Land and Water Endowment, including a cash position and noted two are mutual funds, making it difficult to maintain a 5% cash position. Mr. Hoover suggested OST could manage the 5.0% cash position for the endowment in a cash account outside of those three managers and would honor the mandate given for the trust. Mr. Marvin agreed it was the simplest solution. Mr. Simpler said it was a technical clarification, but that for the record Mr. Black wanted to have a motion by the Board. Mr. Black confirmed that was his wish.

Mr. Marvin asked if the 5% would be invested in liquidity accounts. Mr. McVay said it would be kept in a money market account.

Mr. Karia asked if the new appropriations from the budget bill would be added to the cash position first and then allocated to the fund managers. Mr. Simpler said in the current year the legislature did not approve monies for open space.

Mr. McVay said the next technical clarification is to add in section 1.2.2.1 to the current April 14, 2015 guidelines to define endowment accounts. The language addition was old language inadvertently removed. Proposed language states the endowment would include both the Land and Water Conservation Trust Fund and the Health Fund account. Mr. Black said other than the addition of the Land and Water Trust Fund, which did not yet exist when the Guidelines were created, historically the language has been there.

Mr. McVay stated the next clarification is to define the investment objectives and maturity restrictions. He said the clarification would define the investment objectives in section 4.2.5.1 under the current Reserve Guidelines: that endowment accounts as a long-term funding source with dual investment objectives of maximizing yield and maintaining safety of principal. Mr. McVay said the language addition regarding maturity restrictions in section 4.2.5.2 applied to the Health Fund account and also reflected the current Reserve Guidelines: a 10-year fixed maximum with a 7-year average maturity.

Mr. McVay reviewed for the Board the last proposal being requested. He said, the maturity language in section 4.2.3.2 was being amended to include floating rate securities with what the Board previously approved for asset-backed securities and mortgage-backed securities, to have had an average life three years. Mr. Black said the recommendations were intended to clean up the language the Board has already approved.

Mr. Simpler asked the Investment Committee members to consider the intent of applying the proposed maturity restrictions drafted from the Reserve Guidelines (10-year maximum/7-year average) to the fixed income portfolio of the Land and Water endowment accounts (managed at a 60%/40% Equity/Fixed Income portfolio). Mr. Marvin said if maturity restrictions were not defined it could allow for unfavorable quality differences. Mr. Simpler expressed that the language may not then be tight enough.

Mr. Hoover stated the changes in section 1.2.2.1 were specific to the Health Fund and not the Land and Water Fund which has its own separate guidelines. He asked Mr. Black if the language for endowment accounts under section 4.2.5 should specify health funds only. Mr. Black said the maturity restrictions apply to everything but the Land and Water account. Mr. Black added that if in the future there is another endowment account specified to have rules separate from the general rules, then the process of amendment would need to be repeated, but clarified his interpretation of section 1.2.2.1 with section 4.2.5.2 is that the maturity restrictions apply generally and to the Health fund but do not apply to the Land and Water Fund which is subject to a separate set of rules for investment.

Mr. Marvin said it might be simpler to invest using the ‘prudent man’ rule or to make their fixed income more restrictive. He clarified that he would like to be consistent whether the restrictions apply or don’t apply. Mr. Simpler said he approved of the current objectives and guidelines of the Land and Water Fund that have no concentration limits and no quality requirements in the equity or fixed-income portfolios, but agreed that the language presented applies only to the Health Fund and not the Land and Water accounts. Mr. Marvin agreed and stated he did not want to be restrictive.

A MOTION was made by Mr. Simpler and seconded by Mr. Karia to adopt the language provided to the Investment Subcommittee to effect the technical changes discussed to the general Board in the Cash Management Policy Guidelines and to clarify the language of the Land & Water Guidelines allow the 5% cash minimum to be managed at the Office of the State Treasurer with the direction of the Cash Management Policy Board.

MOTION ADOPTED UNANIMOUSLY

**INVESTMENT GUIDELINE REVIEW WORKING GROUP**

Mr. Simpler made the request to form an Investment Guidelines Review Committee that would include: Ms. Messick, Mr. Karia, Mr. Black, Mr. Lane, OST staff and himself. Mr. Simpler clarified that the intent of the Review Committee is to make a comprehensive set of recommendations, not substantive changes, to the Guidelines and present them to the Investment Subcommittee. He added the goal is to fix any irregularities and to make the guidelines a more readable document and bring to the attention of the board any inconsistencies that may exist.

**INVESTMENT ADVISOR RFP**

Mr. Hoover made a solicitation of Investment Subcommittee and Board members to be part of the selection process. He said the goal of the committee is to select a finalist(s) for Board consideration and engagement for a new advisor to the Board. Mr. Hoover said it was important to involve the Board in the selection process because the investment advisor would now represent the Board, noting that previously the advisor represented OST. Mr. Simpler distributed a tentative schedule for the committee and added that OST would be happy to lead the evaluation process, but that it was essential the Board be involved in the process.

Mr. Marvin said he would like to be involved in the semi-final selection process and requested no more than three finalists present to the Investment Subcommittee for no more than 30-40 minutes each. He clarified that if the committee felt that four was the right number he was open to hearing more than three.

Mr. Karia asked Mr. Simpler for clarification on the language included in Scope of Services for the RFP as it applies to the structure of the Board. Mr. Simpler said the language, which he noted was previously approved by the board, was written with the intent to have an advisor review the entire investment architecture and to provide guidance on how Delaware’s structure compares to others but not necessarily to change ours.

**NEW BUSINESS**

No New Business was presented.

**PUBLIC COMMENTS**

No public comments.

**ADJOURNMENT**

A MOTION was made by Mr. Simpler and seconded by Mr. Karia to adjourn the meeting at 11:55 AM

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

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David Marvin

Chair for the Investment Subcommittee, Cash Management Policy Board

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Mike Karia

Co-Chair for the Investment Subcommittee, Cash Management Policy Board