



**MINUTES FROM THE INVESTMENT SUBCOMMITTEE
OF THE CASH MANAGEMENT POLICY BOARD
FEBRUARY 1, 2017**

A Telephonic Meeting of the Investment Subcommittee of the Cash Management Policy Board
Was held on February 1, 2017 at 10:00 AM in the 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. John Flynn, Chair, Cash Management Policy Board (Telephonic)
Mr. Dave Marvin, Chair, Investment Subcommittee (Telephonic)
Mr. Mike Karia, Co-Chair, Investment Subcommittee (Telephonic)
The Honorable Ken Simpler, State Treasurer (Telephonic)

Subcommittee Members Not Represented or in Attendance:

None, but current vacancy on sub-committee due to appointment of new Secretary of Finance in January 2017.

Others in Attendance:

Mr. Jason Staib, Deputy Attorney General, Office of the State Treasurer
Mr. Steve McVay, Director of Investments and Cash Management, Office of the State Treasurer
Ms. Susan Steward, Policy Advisor, Office of the State Treasurer
Ms. Martha Sturtevant, Executive Assistant, Office of the State Treasurer
Ms. Jessie Ryan, Administrative Specialist, Office of the State Treasurer
Mr. John Krimmel, NEPC
Mr. Kevin Leonard, NEPC
Mr. Ian Spencer, NEPC

CALLED TO ORDER

Mr. Marvin called the meeting to order at 10:06 AM and introductions were made around the table.

APPROVAL OF THE MINUTES

A MOTION was made by Mr. Karia and seconded by Mr. Flynn to approve the minutes from the meeting of the Cash Management Policy Board, Investment Subcommittee on November 4, 2016.
MOTION ADOPTED UNANIMOUSLY

NOMINATIONS TO INVESTMENT SUBCOMMITTEE

Mr. McVay recommended Rick Geisenberger (Secretary of Finance) be named to the Investment Subcommittee. The subcommittee agreed to recommend to the Board that Rick Geisenberger be named to the Investment Subcommittee, assuming he agrees to the appointment.

The Subcommittee discussed the appointment of designees to serve on subcommittees. Mr. Staib will review and report recommendations at the next Board meeting.

NEPC UPDATE

Mr. Spencer reviewed the current Liquidity Analysis report (dated January 2017). He noted the volatility and cash needs of each account and suggested a restructuring of the investment accounts to satisfy the seasonality of liquidity needs for the state.

Mr. Spencer reviewed the current structure against the proposed restructuring. Noting the need for a buffer, he added that a lower duration fund as part of the reserve fund could be used for the unanticipated liquidity needs. He stated that another option would be to readjust the current allocation between Liquidity/Reserve fund from a 50/50 allocation to 30/70 allocation.

Mr. Marvin queried whether there would be temporary cash loss as interest rates continue to rise. He stated that he would support the reduction in the number of managers, so long as it was not less than two or three. Mr. Spencer addressed Mr. Marvin's concerns noting that the recommendations include a tiered structure among the managers. Mr. Krimmel added that layering with flexibility is key.

The Board discussed anticipated market volatility. Mr. Marvin noted asset allocation is the priority. Mr. Simpler suggested that NEPC analyze various portfolio scenarios comparing different tier structures as well as the different amounts allocated between the liquidity and reserve accounts for the Subcommittee to consider before making recommendations to the Board. Also, above scenarios would be analyzed to determine their sensitivity to projected increases in market interest rates.

OPERATING ACCOUNTS UPDATE

Investment Accounts

Mr. McVay updated the Subcommittee on the outside investment accounts. He noted that the largest account was held by the Court of Chancery and that PFM is the investment manager for those funds. Mr. McVay informed the Subcommittee that a memo was drafted and mailed on January 30th to the Court Chancellor asking that the account be managed according to the Guidelines and by an approved Investment Manager.

Mr. McVay updated the subcommittee on the accounts that are held by school districts. He noted the monies were invested primarily for scholarships. He went into detail regarding the balances and type of investments for each account. He also noted that none of the current managers being utilized in these accounts, are approved managers based on the Board's guidelines. Mr. McVay went on to question how these accounts should be handle and that the Treasurer's office had sought guidance from the Division of Accounting.

Mr. Simpler said these are non-appropriated special funds, which could earn the interest rate paid on School/Special Funds, or could be treated as endowment accounts.

The Subcommittee discussed Police Department funds acquired by seizures. Mr. Simpler added that we are only aware of accounts opened with the State's EIN number, but acknowledged there may be accounts opened up outside of the State and that our goal is to ensure that whatever funds have been reported, are being managed under the Board's guidelines.

Mr. Flynn confirmed that additional research is needed before a recommendation can be made.

Rainy Day Fund/Budget Reserve Account Update

Mr. McVay updated the Subcommittee that the JPMorgan Reserve Fund (where the Rainy Day is held) cushion was increased to \$5 million in mid-November, as directed by the Board,.

DISCUSSION OF WELLS FARGO

Mr. Simpler explained to the Board that information gathered by his office has been detailed in the attached memo. The Subcommittee consider extending the investment management contract with Wells Fargo for one more year.

Mr.Karia praised the memo for the amount of detail it contained, and agreed that we should move forward with the extending the contract with Wells Fargo as a Liquidity Account Investment Manager.

A MOTION was made by Mr. Simpler and seconded by Mr. Karia to recommend extension of the Wells Fargo contract through May of 2018.

MOTION ADOPTED UNANIMOUSLY

CMPB ANNUAL REPORT

Mr. Simpler stated that it was his opinion that the Annual Report was prepared with a lot of care and intention, but it was not his belief that the information was being consumed by the General Assembly. He offered to make a request to the General Assembly to remove the statute to produce an Annual Report, and instead provide a year-end memorandum, with assistance from NEPC. He also noted that the Plans Management Board has dropped the requirement to produce an Annual Report. The Subcommittee concurred unanimously.

Mr. Simpler said he would put together a summary cover letter to identity future initiatives that would be attached to an investment performance report, for the board to review.

NEW BUSINESS

The Subcommittee discussed the legislation circulating for sponsorship in the House of Representatives that would require the CMPB appointed members be defined as Public Officers and therefore be subject to annual financial disclosure requirements.

PUBLIC COMMENTS

No members of the public present for comment.

NEXT MEETING

Mr. McVay announced that the next meeting is scheduled to be telephonic May 3rd, 2017.

ADJOURNMENT

A MOTION was made by Mr. Simpler and seconded by Mr. Karia to adjourn the meeting of the Investment Subcommittee of the Cash Management Policy Board at 11:15 AM

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David Marvin
Chair for the Investment Subcommittee

Mike Karia
Co-Chair for the Investment Subcommittee