

Cash Management  
Policy Board

ANNUAL REPORT

To the Governor and  
General Assembly



Fiscal Year 2019  
*July 1, 2018 – June 30, 2019*

## LETTER FROM THE CHAIR

*John V. Flynn, Jr., Ph.D.*

The Board worked diligently during throughout FY19 to continue optimizing the State's investment and banking architectures ensuring security, liquidity, and adequate return on the State's invested and deposited funds. Having fully completed the investment architecture conversion in FY 18, we turned our focus to banking in FY19, through several large-scale initiatives. This report highlights the key achievements of FY19 and outlines our goals for what we hope will be a transformative FY20.



With the new investment architecture fully in place, FY19 was a year to monitor the results and ensure the soundness of our new structure. The Investment Subcommittee worked in conjunction with the Office of the State Treasurer to test and validate the cash flow assumptions which serve as the foundation for the new investment architecture. We were pleased to see that our FY18 cash flow analysis resulted in the generation of additional investment income for the State while providing sufficient liquidity throughout the entire first year of the new structure.

When I penned this letter at the close of FY18, I anticipated that the Board would turn its focus in the coming years to the State's banking needs. The Banking Subcommittee spent much of FY19 carrying out work to establish the State's newly designed banking architecture—a large scale project which was first conceived in FY17. We made significant progress in FY19, awarding and signing contracts with JP Morgan to provide general banking, lockbox, and check printing services, and with US Bank to provide stored value card services. Additionally, we awarded contracts to four local bank partners. Each of these vendors is uniquely suited to provide the State with the high level of service and cost-efficiency that Delaware state agencies expect. We will continue working with the Office of the State Treasurer in FY20 to oversee an expedient, well thought-out implementation and transition to our new banking partners. Additionally, we anticipate FY20 will bring a renewed focus to the optimizing and securing the State's payment systems.

It has brought me great pleasure to watch these large transformations come to fruition under the guidance of the Cash Management Policy Board. I can confidently say that we are upholding our mandate to keep Delaware state funds safe and liquid, while ensuring value and efficient service delivery. The Cash Management Policy Board has helped to shape the field of public finance in Delaware for over 30 years through the guidance and insight of a collective body of government and industry leaders. We look forward to continue serving Delaware in this upcoming fiscal year.

Sincerely,

A handwritten signature in black ink, appearing to read "John V. Flynn, Jr.", written over a white background.

John V. Flynn

### **OVERVIEW OF THE BOARD'S WORK IN FY19**

- Exercised contract extensions with the State's incumbent banking services providers and banking consultant to ensure adequate coverage for the duration of the banking services transition
- Reviewed and approved the removal of the 5% cash requirement in the endowment manager portfolios
- Reviewed and validated investment architecture assumptions and established portfolio rebalancing thresholds
- Exercised the first one-year extension of the Board's investment consultant contract with NEPC
- Negotiated, finalized and award general banking services contracts to new vendors
- Issued a request for proposals, finalized and awarded local bank contracts to ensure agency local banking needs banking needs are met
- Exercised contract extensions with the Board's banking consultant PFM to assist with the Local Bank RFP
- Exercised second one-year extension of Endowment manager contracts
- Finalized and signed JPMorgan and US Bank Banking Services contracts for general banking, lockbox, stored value card, purchasing card and check printing services

### **OVERVIEW OF THE BOARD'S GOALS FOR FY20**

- Continue to monitor and validate investment architecture to ensure sufficient liquidity
- Issue a request for proposals, finalize and award contracts for the endowment fund managers in the fourth quarter of FY20
- Recommend and approve changes to the Investment Guidelines and carry out the the APA process in the first and second quarter of FY20
- Negotiate and execute local bank contracts with M&T Bank, WSFS, Citizens and TD Bank in the second quarter of FY20
- Exercise the second one-year extension of the Board's investment consultant contract with NEPC in the second quarter of FY20
- Issue a request for proposals, finalize and award contract for Merchant Services consulting services in the third quarter of FY20

## **INVESTMENT PERFORMANCE RESULTS FOR FISCAL YEAR 2019**

### **Total Liquidity Portfolio Results**

As of June 30, 2019, the market value of the Liquidity Portfolio was \$756,757,968. The Liquidity Pool generated a Fiscal Year 2019 return of 2.89%. The final phase of the Liquidity Portfolio restructuring occurred towards the end of the fiscal year. The Liquidity Portfolio balances were “normalized” to the targets established under the new revised investment architecture adopted during the previous fiscal year. Under the revised architecture, the Liquidity Portfolio emphasis shifted from a return-seeking perspective to a liquidity perspective. The result culminated in a portfolio of high-quality U.S. government, agency and investment grade corporate securities that performed well during the fiscal year.

### **Total Reserve and Operating Portfolio Results**

As of June 30, 2019, the market value of the Reserve and Operating Portfolio was \$1,823,872,911. The Reserve and Operating Portfolio generated a Fiscal Year 2019 return of 6.95%, which underperformed its Custom Index by 0.24%. The below benchmark return was largely due to the longer duration actively managed accounts falling short of their target returns. Underweight duration positioning led to below target returns as interest rates declined throughout the fiscal year.

### **Total Land and Water Endowment Fund Results**

As of June 30, 2019, the market value of the Land and Water Endowment Fund Portfolio was \$71,520,096. The Land and Water Endowment Fund generated a Fiscal Year 2019 return of 6.50%, which trailed its Custom Index return by 0.83%. The return shortfall was due to all three of the actively managed portfolios falling short of their target returns. Collectively, the three portfolios held underweight positions, relative to their targets, in US equities and fixed income securities, which were two of the best performing asset classes throughout the fiscal year.

## Cash Management Policy Board Annual Report Fiscal Year ending June 30, 2019

|  | Market Value(\$)     | % of Portfolio | 3 Mo (%)    | 1 Yr (%)    | 3 Yrs (%)   | 5 Yrs (%)   | Inception (%) | Inception Date |
|--|----------------------|----------------|-------------|-------------|-------------|-------------|---------------|----------------|
| <b>Delaware Total Consolidation</b>                | <b>2,652,150,975</b> | <b>100</b>     | <b>1.92</b> | <b>5.26</b> | <b>2.35</b> | <b>1.85</b> | <b>2.11</b>   | <b>Jan-05</b>  |
| <b>Total Liquidity &amp; Reserve</b>               | <b>2,580,630,879</b> | <b>97.3</b>    | <b>1.87</b> | <b>5.25</b> | <b>--</b>   | <b>--</b>   | <b>2.38</b>   | <b>Nov-16</b>  |
| <b>Total Liquidity</b>                             | <b>756,757,968</b>   | <b>28.5</b>    | <b>0.84</b> | <b>2.89</b> | <b>1.69</b> | <b>1.26</b> | <b>1.81</b>   | <b>Jan-05</b>  |
| <i>eV US Cash Management Net Median</i>            |                      |                | 0.63        | 2.38        | 1.49        | 1.04        | 1.51          | Jan-05         |
| PFM Asset Management                               | 379,459,861          | 14.31          | 0.82        | 2.76        | 1.73        | 1.33        | 1.19          | Jun-13         |
| Wilmington Liquidity                               | 377,298,107          | 14.23          | 0.86        | 3.00        | 1.58        | 1.21        | 4.19          | Jan-85         |
| <b>Total Reserve</b>                               | <b>1,823,872,911</b> | <b>68.77</b>   | <b>2.57</b> | <b>6.95</b> | <b>2.44</b> | <b>2.09</b> | <b>2.47</b>   | <b>Jan-05</b>  |
| <i>Reserve Custom Index</i>                        |                      |                | 2.71        | 7.19        | 2.33        | 2.03        | 2.67          | Jan-05         |
| <i>eV US Interim Duration Fixed Inc Net Median</i> |                      |                | 2.44        | 6.63        | 2.04        | 2.35        | 3.78          | Jan-05         |
| JPM Intermediate                                   | 446,232,523          | 16.83          | 1.45        | 4.33        | 1.59        | 1.59        | 1.47          | Jun-13         |
| <i>J.P. Morgan Custom Index</i>                    |                      |                | 1.47        | 4.17        | 1.45        | 1.50        | 1.37          | Jun-13         |
| Blackrock Financial Management                     | 450,402,164          | 16.98          | 1.79        | 5.10        | --          | --          | 4.25          | Mar-18         |
| <i>Blackrock Custom Index</i>                      |                      |                | 1.86        | 5.14        | 1.73        | 1.66        | 4.14          | Mar-18         |
| Chandler Asset Management                          | 465,725,064          | 17.56          | 3.27        | 9.04        | 3.05        | 2.56        | 2.25          | Jun-13         |
| Lazard Financial Management                        | 461,513,160          | 17.4           | 3.71        | 9.31        | --          | --          | 7.24          | Mar-18         |
| <i>Chandler/Lazard Custom Index</i>                |                      |                | 3.75        | 9.76        | 3.08        | 2.47        | 7.27          | Mar-18         |
| <b>Total Endowment</b>                             | <b>71,520,096</b>    | <b>2.7</b>     | <b>3.61</b> | <b>6.50</b> | <b>8.41</b> | <b>--</b>   | <b>5.95</b>   | <b>Aug-15</b>  |
| <i>Endowment Custom Index</i>                      |                      |                | 3.75        | 7.33        | 8.07        | 5.31        | 6.01          | Aug-15         |
| <i>eV Global Balanced Net Median</i>               |                      |                | 2.84        | 6.57        | 8.08        | 5.33        | 6.25          | Aug-15         |
| SEI Funds  | 24,666,596           | 0.93           | 3.46        | 6.32        | 8.93        | --          | 6.91          | Aug-15         |
| MSIFT Global Strategist                            | 23,080,612           | 0.87           | 3.47        | 6.11        | 7.99        | --          | 5.31          | Aug-15         |
| JP Morgan Diversified                              | 23,772,475           | 0.9            | 3.91        | 6.64        | 8.96        | --          | 6.22          | Aug-15         |
| Cash Account                                       | 413                  | 0              | 0.56        | 1.93        | 1.10        | --          | 0.88          | Aug-15         |
| <b>Source: NEPC</b>                                |                      |                |             |             |             |             |               |                |

**Notes:** Net of Fees. Results for periods longer than one year are annualized.

Performance history through 12/2015 is from BNY Mellon. NEPC Performance start date is January 2016. Fiscal Year end is June 30.

Prior to 03/01/2018 Reserve Custom Index is comprised of 75% BofA Merrill Lynch 1-5 year Govt/Corporate A+ or Better/ 25% 6 Month Treasury Bill.

Endowment Custom Index is comprised of 60% MSCI World Index/40% Barclays Capital Aggregate.

Blackrock Custom Index consists of 100% BofA Merrill Lynch 1-5 year Corporate/Gov A+ or Better.

J.P Morgan Custom Index consists of 100% BofA Merrill Lynch 1-3 year Corporate/Gov A+ or Better

Chandler/Lazard Custom Index consists of 100% BofA Merrill Lynch 5-10 year Gov/Credit A+ or Better

## OVERVIEW OF THE CASH MANAGEMENT POLICY BOARD

**Creation of the Board.** The Cash Management Policy Board was created by the General Assembly as a provision of Title 29, Section 2716 of the Delaware Code when it was signed into law on July 13, 1981. In accordance with the code, the Board is required to submit an annual report to the governor and General Assembly that reviews the State’s cash management practices and performance.

**Mission.** The Board exists to create policies and provide oversight for the investment of all money belonging to the State or on deposit from its political subdivisions, except money deposited in any state pension fund or the State Deferred Compensation Program, and to determine the terms, conditions and other matters relating to those investments, including the designation of permissible investments.

**Responsibility.** In carrying out its function to designate permissible investments, the members of the Board are required to exercise the same level of prudence, discretion and intelligence as they would in the management of their own affairs with due regard to the probable income and level of risk from investments belonging to the State.

**Authority.** The Board is authorized to adopt rules and regulations for the general administration of its duties, and to enter into agreements or contract for the services of private and public consultants, research, or other services, and facilities whenever deemed necessary by the Board.

**Composition of the Board.** The Board is comprised of nine members, four of whom are government officials serving “ex officio” and five of whom are financial experts from the private sector appointed by the Governor and approved by the Senate. At the end of FY19, the Board was comprised of these members:

### *Appointed members*

Mr. John V. Flynn, Jr. (Chairman)  
Retired Partner, Deloitte Consulting

Mr. David F. Marvin  
Partner, Marvin & Palmer Associates, Inc.

Mr. Warren C. Engle  
Retired, Senior Vice President, PNC Bank

Mr. Mike Karia  
Board Member

Ms. Tarrie Miller  
Senior Vice President, County Bank

### *Ex Officio members*

Mr. Richard J. Geisenberger  
Secretary of Finance

Mr. Jeffery W. Bullock  
Secretary of State

Ms. Colleen C. Davis  
State Treasurer

Mr. Michael L. Morton  
Controller General