

Cash Management
Policy Board

ANNUAL REPORT

To the Governor and
General Assembly



Fiscal Year 2020
July 1, 2019 – June 30, 2020

LETTER FROM THE CHAIR

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



The Board faced new challenges in FY20 due to the uncertainty in the economy brought on by the coronavirus pandemic but continued to work diligently to move the State's banking and investment systems into the future. The Board also took on a new responsibility of oversight of Coronavirus Aid, Relief, and Economic Securities (CARES) Act funding for the State. This report highlights these and other achievements of FY20 as well as goals for FY21.

As I wrote last year, as recommended by the Board's banking architecture study, contracts were negotiated and executed with JP Morgan Chase and US Bank to provide stored value card, lockbox, and other banking services to state agencies. Implementation of these services has continued throughout FY20 by moving collection and disbursement accounts to JP Morgan Chase, thereby optimizing efficiency, data security and consistency. Also transitioned was the State's stored value card activities to U.S. Bank.

To better enhance the Office of the State Treasurer's ability to serve other agencies, the Office, on behalf of the Board, set forth a set of goals and strategies focused on the State's merchant payment systems, including the data security of those systems. During the prior year, the Board approved a consulting engagement to enhance the Payment Card Industry Data Security Standards (PCI-DSS) for the State's payment platforms with the vendor Campus Guard. In the forthcoming year, the Office, on behalf of the Board is expanding its focus on modernizing the payment components and interfaces to create a seamless digital government experience for our citizens.

As the status of the economy remains on shaky ground heading to the end of the fiscal year, the Board moved to protect federal CARES Act funds by requiring that the money be invested exclusively in money market mutual funds. Questions remain about additional stimulus funds coming from the federal government, but I along with my fellow board members remain committed to working in the best interest of the State and its citizens and we look forward to serving Delaware through the next fiscal year.

Sincerely,

A handwritten signature in black ink, appearing to read "John V. Flynn, Jr.", written in a cursive style.

John V. Flynn

OVERVIEW OF THE BOARD'S WORK IN FY20

Banking

- Executed on the findings of the Board's banking architecture study and, to that end, oversaw the consolidation of the State's collection and disbursement accounts and transition of those services to JPMorgan Chase
- Oversaw the transition of the State's stored value card activities to U.S. Bank
- Retained a consultant to assist the Board in assessing security and infrastructure relating to the processing of debit and credit card transactions
- Engaged a consultant to review and improve the processes related to the calculation of the State's daily cash position
- Issued request for proposals, finalized and awarded Payment Card Industry ("PCI") consulting services contract to CampusGuard

Investment

- Directed an annual review of the Board's investment and banking guidelines and promulgated changes through the State's formal regulatory process
- Led a public procurement process to select the Board's investment consultant
- Selected and engaged SEI and Vanguard as the Board's endowment fund managers
- Conducted a review of, and approved modifications to, the directives governing deposits to and withdraws from the State's liquidity and reserve accounts
- Oversaw the management of the State's CARES Act Funding

OVERVIEW OF THE BOARD'S GOALS FOR FY21

Banking

- Conduct a public procurement process for custodial services
- Complete the transition of general banking services from incumbent providers to JPMorgan Chase Bank
- Complete the transition of local banking services to M&T Bank, Citizens Bank, WSFS Bank and TD Bank
- Conduct a public procurement process for digital government services, including:
 - Web and application design
 - Payment gateway
 - Merchant processing
 - Account reconciliation and fee analysis

Investment

- Continue to monitor and assess the management of the State's liquidity and reserve accounts
- Conduct an annual review the Board's investment and banking guidelines and promulgate any approved changes through the formal regulatory process

INVESTMENT PERFORMANCE RESULTS FOR FY20

Total Liquidity Portfolio Results

As of June 30, 2020, the market value of the Liquidity Portfolio was \$910,739,015. The Liquidity Portfolio generated a Fiscal Year 2020 return of 2.53%. The Liquidity Portfolio restructuring, which was completed slightly more than one year ago, is now operating with “normalized” balances. The Liquidity Portfolio emphasis has shifted from a return-seeking to liquidity perspective. The result of the restructuring 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, 2020, the market value of the Reserve and Operating Portfolio was \$2,011,828,163. The Reserve and Operating Portfolio generated a Fiscal Year 2020 return of 7.73%, which on a net of fee basis, underperformed its Custom Index by 0.05%. 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 markedly following the onset of the Covid-19 pandemic.

Total Land and Water Endowment Fund Results

As of June 30, 2020, the market value of the Land and Water Endowment Fund Portfolio was \$71,593,839. The Land and Water Endowment Fund generated a Fiscal Year 2020 return of 2.35%, which trailed its Custom Index for the year. 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 during the fiscal year.

Total CARES Act Portfolio Results

The Coronavirus Aid, Relief, and Economic Securities (CARES) Act Portfolio, was established during Fiscal Year 2020. Funds in the composite were received from the Federal Government and deposited into the account during April 2020. The funds are invested in liquid, high quality U.S. government fixed income instruments to preserve principal as they are disbursed for Covid-19 related expenditures throughout calendar year 2020. As of June 30, 2020, the market value of the CARES Act Portfolio was \$854,873,623.

Cash Management Policy Board Annual Report Fiscal Year ending June 30, 2020

	Market Value(\$)	% of Portfolio	3 Mo (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	Inception (%)	Inception Date
Delaware Total Consolidation	3,849,034,640	100	1.63	6.17	4.09	2.94	2.37	Jan-05
Delaware Total Consolidation ex. CARES	2,994,161,017	77.8	1.92	6.47	4.19	3.00	2.38	Jan-20
Total Liquidity & Reserve	2,922,567,178	75.9	1.62	6.60	4.15	--	3.71	Nov-16
Total Liquidity	910,739,015	23.7	0.83	2.53	2.22	1.68	1.85	Jan-05
<i>eV US Cash Management Net Median</i>			0.22	1.62	1.84	1.35	1.50	Jan-05
PFM Asset Management	456,492,365	11.9	0.68	2.51	2.22	1.73	1.38	Jun-13
Wilmington Liquidity	454,246,650	11.8	0.98	2.54	2.20	1.63	4.14	Jan-85
Total Reserve	2,011,828,163	52.3	1.86	7.73	4.93	3.45	2.80	Jan-05
<i>Reserve Custom Index</i>			1.82	7.78	4.91	3.34	2.99	Jan-05
<i>eV US Interm Duration Fixed Inc Net Median</i>			3.70	6.80	4.30	3.46	4.00	Jan-05
JPM Intermediate	477,223,108	12.4	1.34	4.47	3.02	2.29	1.89	Jun-13
<i>J.P. Morgan Custom Index</i>			0.69	4.18	2.84	2.11	1.77	Jun-13
Blackrock Financial Mangement	486,370,073	12.6	1.57	5.48	--	--	4.77	Mar-18
<i>Blackrock Custom Index</i>			1.03	5.35	3.50	2.51	4.66	Mar-18
Chandler Asset Management	526,857,829	13.7	3.40	10.48	6.47	4.40	3.37	Jun-13
Lazard Financial Management	521,377,153	13.6	1.08	10.31	--	--	8.55	Mar-18
<i>Chandler/Lazard Custom Index</i>			2.78	10.84	6.67	4.38	8.79	Mar-18
Total Endowment	71,593,839	1.9	14.53	2.35	5.07	--	5.21	Aug-15
<i>Endowment Custom Index</i>			12.61	5.73	6.50	6.14	5.95	Aug-15
<i>eV Global Balanced Net Median</i>			12.19	-0.47	3.40	5.72	5.64	Aug-15
SEI Funds	25,440,594	0.7	14.95	5.31	6.18	--	6.58	Aug-15
MSIFT Global Strategist	6	0.0	13.61	-1.08	3.59	--	3.98	Aug-15
JP Morgan Diversified	5	0.0	14.96	2.60	5.42	--	5.47	Aug-15
Cash Account	46,153,234	1.2	0.01	1.27	1.41	--	0.96	Aug-15
CARES	854,873,623	22.2	0.03	--	--	--	0.03	Apr-20
<i>FTSE T-Bill 1 Month TR</i>			0.02	1.37	1.64	1.09	0.02	Apr-20
PFM CARES	427,436,714	11.1	0.03	--	--	--	0.03	Apr-20
Wilmington CARES	427,436,909	11.1	0.03	--	--	--	0.03	Apr-20

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.

Reserve Custom Index consists of 25% ICE BofA 1-5 Yrs AAA-A US Corp & Govt TR / 25% ICE BofA 1-3 Yrs AAA-A US Corp & Govt / 50% ICE BofA US Gov/Credit 5-10 Yrs A Rated and Above, as of 4/1/2018. Prior to this, the index comprised 75% ICE BofA 1-5 Yrs AAA-A US Corp & Govt TR / 25% ICE BofA 6 Months US T-Bills TR.

Endowment Custom Index consists of 60% MSCI World Index/40% BBgBarc US Aggregate.

BlackRock Custom Index consists of 100% ICE BofA 1-5 Yrs AAA-A US Corp & Govt TR.

J.P. Morgan Custom Index consists of 100% ICE BofA 1-3 Yrs AAA-A US Corp & Govt.

Chandler/Lazard Custom Index consists of ICE BofA US Gov/Credit 5-10 Yrs A Rated and Above.

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 FY20, 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