

Cash Management
Policy Board

ANNUAL REPORT

To the Governor and
General Assembly



Fiscal Year 2021
July 1, 2020 – June 30, 2021

LETTER FROM THE CHAIR

To say that Fiscal Year 2021 presented uncertain and challenging economic times would be an understatement, but the Board worked diligently to continue to maximize the State's investments and oversee banking and cash management services. At the same time, the Board took on the new responsibility of fiduciary oversight of funds received under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the American Rescue Plan Act (ARPA). This report highlights these and other achievements of FY21 as well as goals for FY22.



Driven by its goal from FY 20 to create a secure digital government experience for our citizens, the Office of the State Treasurer, on behalf of itself and the Board, and in partnership with the Department of Technology and Information (DTI), issued a request for proposals that included web and application design, payment gateway, merchant processing, and account reconciliation and fee analysis services. This set of services will establish a new foundation for State agencies to provide modern and fully secured payment channels to their various constituencies in the future.

Similar to last year, work continued on executing the findings of the Board's banking architecture study, including finalizing the transition of general banking services to JPMorgan Chase, while also establishing new contracts for local banking services, investment consultant services and investment custodian services.

As we move ahead, we look forward to completion of the transition of local banking services and implementation of the new array of services for digital government.

With the economy remaining unsettled in the wake of the Covid-19 pandemic, I, along with my fellow Board members, offer our ongoing pledge to provide comprehensive guidance on investments, banking and merchant services in order to ensure the best possible return and services while mitigating risks for Delaware.

Sincerely,

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

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

OVERVIEW OF THE BOARD'S WORK IN FY21

Banking

- Issued a comprehensive digital government request for proposals inclusive of merchant processing, payment gateway, account analysis and web & application design technology services
- Oversaw the transition of the State's disbursement and collection accounts from PNC & BNY Mellon Banks to JPMorgan Chase
- Oversaw the transition of the State's stored value card program from Key Bank to U.S. Bank
- Oversaw significant progress in the State's efforts to ensure full compliance with the data security requirements imposed by the Payment Card Industry
- Executed contracts with M&T Bank, Citizens Bank and TD Bank for local banking services

Investment

- Finalized and awarded investment consulting services contract to NEPC, LLC
- Established new percentage limits on the purchase of private placement securities
- Oversaw the management of the State's CARES and ARPA funds
- Led a public procurement process to select the State's investment custodian
- Reviewed the Board's investment and banking guidelines and promulgated changes through the State's formal regulatory process

OVERVIEW OF THE BOARD'S GOALS FOR FY22

Banking

- 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 and TD Bank
- Complete the transition of stored value card services from KeyBank to U.S. Bank ReliaCard
- Select vendors and complete contract negotiations for merchant processing, payment gateway and account analysis services
- Work with DTI on the planning and implementation of digital government services

Investment

- Select and complete contract negotiations with the State's new investment custodian
- Continue to monitor and assess the management of the State's liquidity and reserve accounts
- Conduct an annual review of the Board's investment and banking guidelines and investment architecture and promulgate any approved guideline changes through the formal regulatory process

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INVESTMENT PERFORMANCE RESULTS FOR FISCAL YEAR 2021

Total Liquidity Portfolio Results

As of June 30, 2021, the market value of the liquidity portfolio was \$1,338,065,334. The liquidity pool generated a Fiscal Year 2021 return of 0.23%. The liquidity portfolio restructuring has been in place for slightly more than two years and balances have “normalized”. At the time of restructuring, the liquidity portfolio shifted from a return-seeking perspective to a risk-mitigating perspective. The current distribution within the liquidity portfolio includes high-quality U.S. government, agency and investment grade corporate securities that performed well, relative to the opportunity set and relative to the low appetite for risk or potential losses, during the fiscal year.

Total Reserve and Operating Portfolio Results

As of June 30, 2021, the market value of the reserve and operating portfolio was \$2,602,732,757. The reserve and operating portfolio generated a Fiscal Year 2021 return of -0.94%, which on a net of fees basis, underperformed its custom index by 0.18%. The below benchmark return was largely due to the longer duration of actively managed accounts falling short of their target returns, and several corporate fund positions came under pressure due to increased volatility related to the ongoing Covid-19 pandemic.

Total Endowment Portfolio Results

As of June 30, 2021, the market value of the endowment fund portfolio was \$86,226,021. The endowment fund generated a Fiscal Year 2021 return of 20.91%, which on a net of fee basis underperformed the performance benchmark by 1.19%. The underperformance within the portfolio was the result of two legacy (terminated) managers falling short of the benchmark during their tenure. The legacy manager returns continue to be included in the portfolio’s overall results for historical integrity purposes. The portfolio was restructured to a two-manager portfolio during the fiscal year, resulting in improved returns over the last ten months of the fiscal year.

Total CARES Act Portfolio Results

The CARES Act portfolio was established during Fiscal Year 2020. Funds were received from the Federal Government and deposited into the portfolio during April 2020. The funds are invested in liquid, high quality U.S. government and corporate fixed income instruments to preserve principal as they are disbursed for qualified program expenses. As of June 30, 2021, the market value of the CARES Act portfolio was \$164,384,049. During Fiscal Year 2021, approximately \$690 million was expended for program-related expenses.

Total ARPA Portfolio Results

The American Rescue Plan Act (ARPA) portfolio was established during Fiscal Year 2021. Funds in the composite were received from the Federal Government and deposited into the account during May 2021. The funds are invested in liquid, high quality U.S. government and corporate fixed income instruments to preserve principal as they are disbursed for qualified program expenses. As of June 30, 2021, the market value of the ARPA Portfolio was \$924,961,699.

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Fiscal Year ending June 30, 2021**

	Market Value(\$)	% of Portfolio	3 Mo (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	Inception (%)	Inception Date
Delaware Total Consolidation	5,116,369,860	100	0.66	-0.19	3.71	2.59	2.21	Jan-05
Delaware Total Consolidation ex. CARES & ARPA	4,027,024,113	78.71	0.75	-0.17	3.81	2.65	2.23	Jan-05
Total Liquidity & Reserve	3,940,798,091	77.02	0.64	-0.62	3.69	--	2.75	Nov-16
Total Liquidity	1,338,065,334	26.15	0.04	0.23	1.87	1.56	1.76	Jan-05
eV US Cash Management Net Median			0.00	0.07	1.39	1.27	1.41	Jan-05
PFM Asset Management	670,165,384	13.1	0.05	0.23	1.83	1.58	1.23	Jun-13
Wilmington Liquidity	667,899,950	13.05	0.04	0.23	1.92	1.50	4.03	Jan-85
Total Reserve	2,602,732,757	50.87	0.94	-0.94	4.50	2.79	2.57	Jan-05
Reserve Custom Index			1.15	-0.76	4.66	2.77	2.76	Jan-05
eV US Interm Duration Fixed Inc Net Median			1.02	0.85	4.68	2.73	3.77	Jan-05
JPM Intermediate	983,835,579	19.23	0.07	0.34	3.03	1.90	1.69	Jun-13
J.P. Morgan Custom Index			0.01	0.27	2.85	0.18	1.58	Jun-13
Blackrock Financial Mangement	522,812,835	10.22	0.26	0.29	3.60	--	3.41	Mar-18
Blackrock Custom Index			0.20	0.06	3.49	--	3.26	Mar-18
Chandler Asset Management	553,398,402	10.82	1.94	-1.50	5.87	3.56	2.76	Jun-13
Lazard Financial Management	542,685,942	10.61	1.74	-2.48	5.55	--	5.12	Mar-18
Chandler/Lazard Custom Index			2.20	-1.70	6.14	--	5.53	Mar-18
Total Endowment	86,226,021	1.69	5.46	20.91	9.64	9.53	7.71	Aug-15
Endowment Custom Index			5.36	22.10	11.49	10.26	8.52	Aug-15
eV Global Balanced Net Median			4.83	29.69	9.07	9.25	6.80	Aug-15
SEI Balanced Strategy	44,700,020	0.87	5.44	25.63	12.05	11.33	9.59	Aug-15
Vanguard Funds	41,525,917	0.81	5.48	--	--	--	15.73	Sep-20
CARES	164,384,049	3.21	0.02	0.05	--	--	0.06	Apr-20
FTSE T-Bill 1 Month TR			0.00	0.06	1.23	1.08	0.07	Apr-20
eV US Cash Management Net Median			0.00	0.07	1.39	1.27	0.26	Apr-20
PFM CARES	76,743,189	1.5	0.05	0.07	--	--	0.08	Apr-20
PFM NCC CARES	5,471,494	0.11	-0.05	--	--	--	-0.04	Jan-21
Wilmington CARES	76,693,740	1.5	0.00	0.03	--	--	0.05	Apr-20
Wilmington NCC CARES	5,475,625	0.11	-0.02	--	--	--	0.00	Jan-21
ARPA	924,961,699	18.08	--	--	--	--	-0.05	May-21
PFM APRA	462,847,299	9.05	--	--	--	--	-0.02	May-21
Wilmington ARPA	462,114,400	9.03	--	--	--	--	-0.09	May-21

Source: NEPC, LLC period ending June 30, 2021

OVERVIEW OF THE CASH MANAGEMENT POLICY BOARD

Creation of the Board. The Cash Management Policy Board was established by the General Assembly in 1981. The Board’s duties and authority are codified in 29 *Del. C.* § 2716. The Board is required to submit an annual report to the Governor and General Assembly.

Mission. The Board exists to create policies and provide oversight for the investment and banking 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. The members of the Board are fiduciaries and 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, to establish a policy for the State’s checking accounts, and to enter into agreements for the services of private and public consultants, research, technical 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 FY21, the Board was comprised of the following 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
Adjunct Professor/MBA Advisor, Wilmington Univ.

Ms. Tarrie Miller
President and Chief Operating Officer, County Bank

Ex Officio members

Mr. Richard J. Geisenberger
Secretary of Finance

Mr. Jeffrey W. Bullock
Secretary of State

Ms. Colleen C. Davis
State Treasurer

Ms. Ruth Ann Jones
Controller General