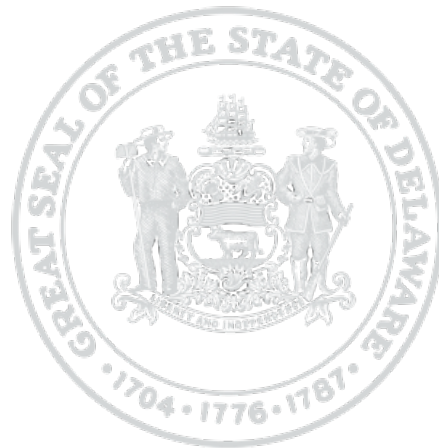


Cash Management
Policy Board

ANNUAL REPORT

To the Governor and
General Assembly



Fiscal Year 2022
July 1, 2021 – June 30, 2022

LETTER FROM THE CHAIR

In Fiscal Year 2022, we continued our work confronting challenges brought on by the COVID-19 pandemic, while upholding our commitment to fiscal stewardship, operational excellence, and continuous improvement. We dutifully navigated the State's investments and banking architecture through a period which included an historic economic slowdown and a period of record-setting inflation. The Board's responsibility for oversight of the State's investments and banking became more crucial than ever. We take our mandate for safety, liquidity, and return seriously and I'm proud to say that we are emerging from these tumultuous times as fiscally strong as ever.



The Investment Subcommittee worked diligently to ensure that the State's \$5 billion investment portfolio withstood unprecedented pressure brought on by an uncertain macroeconomic environment. The Subcommittee monitored the investment architecture and made several strategic, defensive reallocations, which safeguarded State funds amidst a period of interest rate volatility.

The Banking Subcommittee continued its partnership with the Department of Technology and Information working to create a secure, convenient digital government platform for Delawareans. The Board awarded a contract to Fiserv, Inc. for merchant processing services. This contract will ensure that citizens, businesses, and agencies alike are able to transact payments in the most secure, efficient manners possible.

Additionally, we entered the final phases of implementing the recommendations of the Board's banking architecture study with the transition of the State's disbursement and collection accounts to JPMorgan Chase and facilitated implementation of local banking services for state agencies and schools to M&T, Citizens, and TD Banks.

As we look towards Fiscal Year 2023 and beyond, we intend to complete the local banking transition and continue to play a major role in the development of the digital government platform. We do this while continuing our track record of providing best-in-class oversight of the State's investments and banking operations, proudly bringing tremendous value to Delaware and its citizens.

Sincerely,

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

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

OVERVIEW OF THE BOARD'S WORK IN Fiscal Year 2022

Banking

- Awarded a comprehensive digital government contract inclusive of merchant services processing, payment gateway, account reconciliation, and account analysis services to Fiserv, Inc.
- Initiated transition with state agencies and schools to Fiserv, Inc. for merchant services.
- Oversaw significant progress in the State's efforts to ensure full compliance with the payment card industry requirements imposed by the Payment Card Industry Security Standards Council.
- Managed 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 Reliacard program from Key Bank to U.S. Bank for the Department of Services for Children, Youth, and their Families.
- Commenced project implementation with state agencies and schools to M&T, Citizens, and TD Banks for local banking services inclusive of over-the-counter branch deposits.

Investment

- Finalized and awarded investment custodian services contract to Northern Trust Corporation.
- Reviewed the Board's investment and banking guidelines and promulgated changes through the State's formal regulatory process.
- Directed a shift in the investment architecture of the State's liquidity versus reserve allocations which allowed the Board to safeguard and preserve the State's financial portfolio.
- Evaluated and changed the School and Special Fund Rate calculation to better align with changing market environments.

OVERVIEW OF THE BOARD'S GOALS FOR Fiscal Year 2023

The Board

- Strengthen CMPB By-laws and subcommittee charters to outline oversight and control of certain matters (i.e., quorum, appointment of proxies, special meeting procedures, board members appointment and term limits, etc.)

Banking

- Complete the transition of local banking services and over-the-counter deposits to M&T, Citizens, and TD Banks
- Complete the PCI Compliance migration and transition for state agencies and school districts to Fiserv, Inc. for merchant services processing, payment gateway, account reconciliation, and account analysis services.
- Continue to work with DTI to finalize the contract for digital government services which includes the design of a residential and visitor portal.

Cash Management Policy Board Annual Report Fiscal Year ending June 30, 2022

Investment

- Continue to uphold the investment architecture by continuing to monitor and assess the strategic allocation between the State's liquidity and reserve accounts
- Conduct an annual review of the Board's investment and banking guidelines and promulgate any approved guideline changes through the formal regulatory process
- Evaluate the School and Special Fund Rate calculation on an annual basis.

INVESTMENT PERFORMANCE RESULTS FOR FISCAL YEAR 2022

Fiscal Year 2022 Commentary

In March 2022, the target allocation between the liquidity and reserve portfolios was adjusted to a more conservative split of 65% liquidity/ 35% reserve in light of current market environment. Previously, the target allocation was 50% liquidity/50% reserve.

Total Liquidity Portfolio Results

As of June 30, 2022, the market value of the liquidity portfolio was \$3,498,795,708. The liquidity pool generated a Fiscal Year 2022 return of -1.2%. The liquidity portfolio restructuring has been in place for slightly more than three 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 is split between two managers, PFM and Wilmington Trust, which invest in high-quality U.S. government, Agency, and investment grade corporate securities. Over the fiscal year, these securities performed well relative to the opportunity set and the flight to safety seen by the market over the period.

Total Reserve and Operating Portfolio Results

As of June 30, 2022, the market value of the reserve and operating portfolio was \$1,427,491,327. The reserve and operating portfolio generated a Fiscal Year 2022 return of -6.3% which outperformed its custom index by 0.8% on a net of fee basis. The increased exposure to shorter duration, more conservative managers drove relative outperformance as the shorter end of the curve continued to rise over the period.

Total Endowment Portfolio Results

As of June 30, 2022, the market value of the endowment fund portfolio was \$87,756,129. The endowment fund generated a Fiscal Year 2022 return of -14.1%, which on a net of fee basis underperformed the benchmark by 1.6%. Endowment fund assets are split between two balanced strategy managers, Vanguard and SEI.

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Total CARES Act Portfolio Results

As of June 30, 2022, the market value of the CARES Act portfolio was \$20,878,629. During Fiscal Year 2022, approximately \$140 million was expended for program-related expenses. The CARES Act portfolio was established in Fiscal Year 2020 in response to funds 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 such, they earn a nominal return.

Total ARPA Portfolio Results

As of June 30, 2022, the market value of the ARPA Portfolio was \$749,741,842, and had generated a Fiscal Year 2022 return of -1.1%. 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.

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	Market Value (\$)	% of Portfolio	3 Mo (%)	FYTD (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	Inception (%)	Inception Date
Delaware Total Consolidation	5,617,189,830	100.0	-0.8	-0.8	-3.6	-3.9	0.2	1.5	1.8	Jan-05
Delaware Total Consolidation ex. CARES & ARPA	4,878,342,344	86.8	-0.9	-0.9	-4.2	-4.4	0.1	1.4	1.8	Jan-05
Total Liquidity & Reserve	4,795,832,434	85.4	-0.8	-0.8	-3.8	-4.1	0.1	1.4	1.4	Dec-16
Total Liquidity	3,259,027,778	58.0	0.0	0.0	-1.1	-1.3	0.3	1.1	1.6	Jan-05
<i>eV US Cash Management Median</i>			<i>0.5</i>	<i>0.5</i>	<i>0.6</i>	<i>0.6</i>	<i>0.5</i>	<i>1.1</i>	<i>1.3</i>	
PFM Asset Management	1,641,410,300	29.2	0.2	0.2	-0.3	-0.4	0.5	1.2	1.0	Jun-13
Wilmington Liquidity	1,617,617,478	28.8	-0.2	-0.2	-1.8	-2.1	0.0	0.9	3.8	Jan-85
Total Reserve	1,536,804,656	27.4	-2.7	-2.7	-8.4	-8.8	-1.4	0.8	1.9	Jan-05
<i>Reserve Custom Index</i>			<i>-3.5</i>	<i>-3.5</i>	<i>-9.9</i>	<i>-10.3</i>	<i>-1.9</i>	<i>0.5</i>	<i>1.9</i>	
<i>eV US Interm Duration Fixed Inc Median</i>			<i>-3.0</i>	<i>-3.0</i>	<i>-10.0</i>	<i>-10.5</i>	<i>-1.6</i>	<i>0.4</i>	<i>2.9</i>	
JPM Intermediate	535,810,985	9.5	-1.4	-1.4	-4.2	-4.6	-0.2	0.8	1.0	Jun-13
<i>J.P. Morgan Custom Index</i>			<i>-1.6</i>	<i>-1.6</i>	<i>-4.4</i>	<i>-4.9</i>	<i>-0.4</i>	<i>0.7</i>	<i>0.8</i>	
Blackrock Financial Mangement	419,527,020	7.5	-2.1	-2.1	-6.5	-7.2	-0.9	-	0.8	Mar-18
<i>Blackrock Custom Index</i>			<i>-2.3</i>	<i>-2.3</i>	<i>-6.3</i>	<i>-7.0</i>	<i>-0.9</i>	<i>0.6</i>	<i>0.8</i>	
Chandler Asset Management	293,927,872	5.2	-4.2	-4.2	-13.8	-14.0	-2.9	0.3	0.7	Jun-13
Lazard Financial Management	287,538,779	5.1	-4.6	-4.6	-13.3	-13.5	-3.1	-	0.5	Mar-18
<i>Chandler/Lazard Custom Index</i>			<i>-5.7</i>	<i>-5.7</i>	<i>-14.3</i>	<i>-14.4</i>	<i>-3.7</i>	<i>0.3</i>	<i>0.5</i>	
Total Endowment	82,509,910	1.5	-5.9	-5.9	-22.0	-18.7	0.0	1.8	3.2	Aug-15
<i>Endowment Custom Index</i>			<i>-5.6</i>	<i>-5.6</i>	<i>-21.1</i>	<i>-17.4</i>	<i>1.7</i>	<i>3.4</i>	<i>4.2</i>	
<i>eV Global Balanced Median</i>			<i>-6.2</i>	<i>-6.2</i>	<i>-19.9</i>	<i>-16.2</i>	<i>1.8</i>	<i>2.3</i>	<i>3.2</i>	
SEI Balanced Strategy	42,270,382	0.8	-6.0	-6.0	-22.5	-19.0	1.8	3.1	4.6	Aug-15
Vanguard Funds	40,239,444	0.7	-5.7	-5.7	-21.5	-18.3	-	-	-2.8	Sep-20
<i>eV Global Balanced Median</i>			<i>-6.2</i>	<i>-6.2</i>	<i>-19.9</i>	<i>-16.2</i>	<i>1.8</i>	<i>2.3</i>	<i>-1.5</i>	
CARES	20,972,465	0.4	0.4	0.4	0.6	0.6	-	-	0.3	Apr-20
<i>FTSE 1 Month T-Bill</i>			<i>0.5</i>	<i>0.5</i>	<i>0.6</i>	<i>0.6</i>	<i>0.5</i>	<i>1.1</i>	<i>0.3</i>	
<i>eV US Cash Management Median</i>			<i>0.5</i>	<i>0.5</i>	<i>0.6</i>	<i>0.6</i>	<i>0.5</i>	<i>1.1</i>	<i>0.3</i>	
PFM CARES	8,985,659	0.2	0.4	0.4	0.5	0.5	-	-	0.2	Apr-20
PFM NCC CARES	1,515,206	0.0	0.4	0.4	0.5	0.5	-	-	0.3	Jan-21
Wilmington CARES	8,952,810	0.2	0.5	0.5	0.6	0.6	-	-	0.3	Apr-20
Wilmington NCC CARES	1,518,791	0.0	0.4	0.4	0.5	0.5	-	-	0.3	Jan-21
<i>FTSE 1 Month T-Bill</i>			<i>0.5</i>	<i>0.5</i>	<i>0.6</i>	<i>0.6</i>	<i>0.5</i>	<i>1.1</i>	<i>0.4</i>	
ARPA	717,875,021	12.8	0.2	0.2	-0.8	-1.0	-	-	-0.7	May-21
<i>FTSE 1 Month T-Bill</i>			<i>0.5</i>	<i>0.5</i>	<i>0.6</i>	<i>0.6</i>	<i>0.5</i>	<i>1.1</i>	<i>0.4</i>	
<i>eV US Cash Management Median</i>			<i>0.5</i>	<i>0.5</i>	<i>0.6</i>	<i>0.6</i>	<i>0.5</i>	<i>1.1</i>	<i>0.4</i>	
PFM ARPA	361,030,167	6.4	0.2	0.2	-0.4	-0.5	-	-	-0.3	May-21
<i>FTSE 1 Month T-Bill</i>			<i>0.5</i>	<i>0.5</i>	<i>0.6</i>	<i>0.6</i>	<i>0.5</i>	<i>1.1</i>	<i>0.4</i>	
<i>eV US Cash Management Median</i>			<i>0.5</i>	<i>0.5</i>	<i>0.6</i>	<i>0.6</i>	<i>0.5</i>	<i>1.1</i>	<i>0.4</i>	
Wilmington ARPA	356,844,854	6.4	0.1	0.1	-1.2	-1.5	-	-	-1.1	May-21
<i>FTSE 1 Month T-Bill</i>			<i>0.5</i>	<i>0.5</i>	<i>0.6</i>	<i>0.6</i>	<i>0.5</i>	<i>1.1</i>	<i>0.4</i>	
<i>eV US Cash Management Median</i>			<i>0.5</i>	<i>0.5</i>	<i>0.6</i>	<i>0.6</i>	<i>0.5</i>	<i>1.1</i>	<i>0.4</i>	

Source: NEPC, LLC period ending June 30, 2022

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 Fiscal Year 2022, 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 University

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