



**MINUTES FROM MEETING OF
THE CASH MANAGEMENT POLICY BOARD
August 25, 2021**

A meeting of the Cash Management Policy Board (the “Board”) was held on August 25, 2021 at 10:00 a.m. in the Large Conference Room of the Office of the State Treasurer (“OST”), 820 Silver Lake Blvd., Suite 100, Dover, DE 19904. Board members and members of the public were able to participate telephonically or virtually via Webex.

Board Members Represented or in Attendance:

Mr. John Flynn, Chair
Mr. Warren Engle, Banking Subcommittee Chair
Mr. Mike Karia, Investment Subcommittee Co-Chair
Mr. David Marvin, Investment Subcommittee Chair
Mr. Richard Geisenberger, Secretary, Department of Finance
Ms. Liza Davis, Deputy Treasurer (for Treasurer Davis)
Mr. Jeffrey Bullock, Secretary, Department of State
Ms. Ruth Ann Jones, Controller General

Board Members Not Represented or in Attendance:

Ms. Tarrie Miller, Banking Subcommittee Co-Chair

Others in Attendance:

Mr. Jason Staib, Deputy Attorney General, Delaware Department of Justice
Mr. Daniel Madrid, Chief Operating Officer, OST
Ms. Fiah Kwesseu, Director of Operations & Fund Management, OST
Ms. Lisa Embert, Director of Reconciliations and Transaction Management, OST
Mr. Brennon Fountain, Controller II, OST
Ms. Dawn Davis, Assistant Cash and Debt Manager, OST
Mr. Stephen McVay, Assistant Cash and Debt Manager, OST
Ms. Claudia Moses, Executive Assistant, OST
Mr. Sean McNeeley, Director of Bond Finance, Department of Finance
Mr. John Krimmel, Partner, NEPC
Mr. Kevin Leonard, Partner, NEPC
Ms. Jennifer Appel, Senior Research Analyst, NEPC

CALLED TO ORDER

Mr. Flynn called the meeting to order at 10:00 a.m.

INTRODUCTIONS

APPROVAL OF THE MINUTES

A MOTION was made by Mr. Karia and seconded by Mr. Marvin to approve minutes from the Board meeting on May 26, 2021.

MOTION ADOPTED UNANIMOUSLY.

NEPC PERFORMANCE REPORT

2021 2nd Quarterly Investment Performance Report

Ms. Appel reported on the performance of assets for the second quarter of 2021. There were strong returns across equities with growth outperforming value. Credit spreads continued to tighten. Interest rates decreased from the March 30th highs. The yield curve flattened. The 10-year U.S. Treasury yield fell 29 basis points, and the 30-year fell 36 basis points. The Fed Open Market Committee announced no changes to the Fed Funds rate but expects two 25 basis point rate hikes in interest rates by the end of 2023. The Consumer Price Index was elevated due to supply chain disruptions, increased energy prices and impact from certain industries reopening after the economic shut-down. NEPC's long-term outlook for inflation is moderate.

There was a brief discussion about anticipated outcomes from the Jackson Hole Economic Symposium. Mr. Krimmel presented the Board with an overview of the State's portfolio performance for the second quarter of 2021. The total portfolio returned 0.66% for the quarter and -0.64% fiscal year-to-date ("YTD"). The combined liquidity and reserve portfolios returned -1.53% for the quarter and -1.25% fiscal YTD. The liquidity portfolio returned 0.64% for the quarter and -0.09% fiscal YTD. The reserve portfolio returned 0.94% for the quarter and -1.29% fiscal YTD. The endowment portfolio returned 5.46% for the quarter and 7.77% fiscal YTD. The CARES Act funds were invested in money market funds, returned 0.03% YTD and expect to be spent in the near-term. There was no performance data for the ARPA funds because OST received the funds in May 2021.

Cash flows continue to follow expected seasonal patterns trends. The State's liquidity and reserve portfolios have grown by approximately \$1 billion over the last 12 months.

Secretary Geisenberger added that the FY 2021 General Fund disbursements only increased by \$3 million from fiscal year 2020 and the general fund revenue increased by \$865M over the same period. The minor change in disbursements, the gains in revenues and the utilization of CARES Act funds for pandemic related expenses attributed to the \$1 billion growth.

Scenario Analysis/Investment Architecture Discussion and Vote

Ms. Appel presented NEPC's scenario analysis to assess the impact of higher interest rates and inflation on the liquidity and reserve portfolios. The analysis incorporated various projected distributions between the liquidity and reserve portfolios. NEPC suggested that the Board replace the current 30/70 distribution between the liquidity and reserve portfolios with a 40/60 distribution. The revised distribution between the portfolios would provide better protection in a rising rate environment without sacrificing meaningful returns.

There was discussion about the history of the investment architecture and how the Board previously changed the liquidity and reserve allocation from 25/75 to 30/70 (as it currently stands). Should the

Board adopt this recommendation, Mr. Krimmel suggested moving funds from the reserve to get to a 35/65 allocation and then use the revenue earned during the fall to move to 40/60.

Deputy Treasurer Davis suggested memorializing the investment architecture change and will present a resolution to the Investment Subcommittee and Board during the November round of meetings.

**A MOTION was made by Mr. Marvin and seconded by Mr. Karia to recommend that the Board revise the investment architecture to provide for a 40/60 liquidity-versus-reserve allocation.
MOTION ADOPTED UNANIMOUSLY**

PFM CONTRACT ASSIGNMENT DISCUSSION AND VOTE

Mr. Krimmel discussed the assignment of the PFM contract in connection with the merger of PFM with US Bank. Mr. Krimmel reported that PFM will continue to operate as an independent subsidiary of US Bank, and that all key individuals on the account will stay on with PFM for at least two years. There should not be any degradation to services. Mr. Krimmel noted that the acquisition by US Bank may strengthen some of PFM's regulatory and compliance operations.

**A MOTION was made by Secretary Geisenberger and seconded by Mr. Flynn to recommend that the Board approve the assignment of the PFM investment management contract.
MOTION ADOPTED UNANIMOUSLY**

INVESTMENT GUIDELINES CHANGE DISCUSSION AND VOTE

Mr. Krimmel presented the annual review of the investment guidelines. He discussed proposed changes submitted for consideration by the fixed-income managers. The most frequently cited suggestions were: (1) increasing the Rule 144(a) limits for private placements from 15% to 25%, (2) changing the rule for split ratings, and (3) revising agency, mortgage, and asset-backed securities definitions and limits.

**A MOTION was made by Deputy Treasurer Davis and seconded by Mr. Marvin to recommend that the Board approve the increase the private placement limits from 15% to 25% for liquidity managers.
MOTION ADOPTED UNANIMOUSLY**

INVESTMENT SUBCOMMITTEE REPORT

Investment Custodian RFP Discussion and Vote

Deputy Treasurer Davis provided the recommendation from the evaluation committee for the investment custodian request for proposals and requested approval for OST to negotiate and execute a contract with Northern Trust for investment custodian services.

**A MOTION was made by Deputy Treasurer Davis and seconded by Secretary Geisenberger to recommend that the Board grant OST authority to negotiate and execute a contract with Northern Trust.
MOTION ADOPTED UNANIMOUSLY**

American Rescue Plan Act (ARPA) Discussion

Deputy Treasurer Davis indicated that the State received \$926 million of ARPA funds in May 2021. The funds were allocated equally to both PFM and WTC and have been invested similarly to CARES Act funding.

Secretary Geisenberger shared that the State may receive approximately \$112 million from the ARPA capital projects fund. The U.S. Treasury is expected to provide details in September of how the funds will be distributed (lump-sum or installment) and whether the State will need to apply for the funds.

BANKING SUBCOMMITTEE REPORT

Mr. Madrid presented the banking subcommittee updates to the Board.

General Banking Update

In the past few months, OST migrated accounts for the Division of Developmental Disabilities Services, the States vendor check and ACH payments from First State Financials, and the Office of Pensions lockbox. The remaining pension accounts are scheduled to transition in September 2021. OST continues to monitor the remaining transactions in the PNC & BNYM accounts to ensure all customers have been notified of the new banking instructions.

The Department of Services for Children, Youth and their Families is scheduled to implement US Bank's ReliaCard services in September 2021. This will complete the transition of stored value card services from KeyBank to US Bank's ReliaCard.

Local Banking Services Update

M&T, Citizens and TD Bank Implementation Status

Currently, OST has a total of 329 accounts on the conversion list. Of those, 107 accounts for five of the largest State agencies are in the process of being converted. Twenty-six accounts for Appoquinimink School and Seaford School Districts have been opened with M&T Bank. The balance will be scheduled for conversion in the coming months. The Chairman of the Board requested commentary on the customer service in local banking and how the agencies responded to the process. OST surveyed agencies and schools during the implementation period. OST received one comment from a school district expressing concern about the adequacy branch coverage. OST reassured them that with the new local banking providers, there are over 50 locations for over-the-counter services disbursed throughout the State, which is a significant increase from the prior incumbent vendors.

OST is making progress with this project but recommend to the Board to extend the banking contracts for PNC and BNYM for an additional year to ensure all remaining transactions are migrated efficiently.

A MOTION was made by Mr. Engle and seconded by Mr. Karia to recommend that the Board grant OST authority to extend the banking contracts with PNC and BNYM for one year (through December 31, 2022) with the option to terminate at OST's discretion, with both extensions being subject to an opinion issued by the Delaware Department of Justice.

MOTION ADOPTED UNANIMOUSLY

Merchant Services Project Update

Payment Card Industry ("PCI") Compliance Update

OST recently facilitated a PCI training session with Department of State and Department of Agriculture to arrange for their attestations of PCI compliance. OST is in the process of scheduling CampusGuard for an on-site assessment in Delaware in October to meet our current Level I PCI standards.

Per Fiserv's recent communication to the State, our next PCI reporting date for all merchants is due on March 31, 2022.

Digital Government RFP Update

The digital government evaluation committee received best and final offers from four of the original twelve finalists. Two vendors submitted best and final offers for the web and application design component, which is under the operational authority of the State's Department of Technology and Information. The other two vendors submitted best and final offers for the remaining three components: 1) merchant processing, 2) payment gateway, and 3) account reconciliation and analysis services. These three components are under the operational jurisdiction of the Board and OST.

The evaluation committee reported that Fiserv was the top finalist for merchant processing, payment gateway, and account reconciliation and analysis services.

A MOTION was made by Mr. Engle and seconded by Mr. Karia to grant OST authority to negotiate and execute contracts with Fiserv for merchant processing, payment gateway, and account reconciliation and analysis services.

MOTION ADOPTED UNANIMOUSLY

TELEPHONIC MEETING PROCEDURES DISCUSSION AND VOTE

Deputy Treasurer Davis provided details for the telephonic meeting procedures. On June 30th the General Assembly passed Senate Bill 94 to formalize the practice of telephonic/videoconferencing after the expiration of the Governor's Emergency Orders. One of the requirements in the legislation is that a physical anchor location be established for every public meeting, with at least one board member present at said location. The Board currently has pre-existing statutory authority to conduct virtual meetings without a Board member present at an anchor location.

There was discussion about the Board's decision to follow Senate Bill 94 or continue conducting the meetings under the pre-existing statutory authority. A motion was not presented on the matter.

OTHER MATTERS OF THE BOARD

PUBLIC COMMENTS

No members of the public present for comment.

EXECUTIVE SESSION

No executive session was held.

NEXT MEETING

The next full Board meeting is scheduled for December 1, 2021.

ADJOURNMENT

Mr. Flynn adjourned the meeting at 11:34 a.m. (no motion)

Respectfully submitted,

John Flynn
Board Chair

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