



**MINUTES FROM MEETING OF  
THE CASH MANAGEMENT POLICY BOARD  
December 1, 2021**

A meeting of the Cash Management Policy Board (the “Board”) was held on December 1, 2021, at 10:00 a.m. The meeting was conducted virtually, with public accommodations provided in the Large Conference Room of the Office of the State Treasurer (“OST”), 820 Silver Lake Blvd., Suite 100, Dover, Delaware.

Board Members Represented or in Attendance:

Mr. John Flynn, Chair  
Mr. David Marvin, Investment Subcommittee Chair  
Mr. Mike Karia, Investment Subcommittee Co-Chair  
Mr. Warren Engle, Banking Subcommittee Chair  
Ms. Tarrie Miller, Banking Subcommittee Co-Chair  
The Honorable Colleen Davis, State Treasurer  
Mr. Richard Geisenberger, Secretary, Department of Finance  
Mr. Jeffrey Bullock, Secretary, Department of State  
Ms. Ruth Ann Jones, Controller General

Board Members Not Represented or in Attendance:

Others in Attendance:

Mr. Jason Staib, Deputy Attorney General, Delaware Department of Justice  
Ms. Liza Davis, Deputy Treasurer, OST  
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. Jordan Seemans, Director of Policy and Communication 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. Lindy Scott, 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 10:01 a.m.

## **INTRODUCTIONS**

The OST organizational chart was provided to the Board to indicate OST's new staff members.

## **APPROVAL OF THE MINUTES**

**A MOTION was made by Mr. Karia and seconded by Mr. Engle to approve minutes from the Board meeting on August 25, 2021.**

**MOTION ADOPTED UNANIMOUSLY.**

## **FY21 ANNUAL REPORT DISCUSSION AND VOTE**

The draft FY21 Annual Report was provided to the Board prior to the full board meeting. One minor correction was submitted.

**A MOTION was made by Mr. Engle and seconded by Ms. Miller to approve the modified FY 2021 Annual Report and submit same to the General Assembly.**

**MOTION ADOPTED UNANIMOUSLY**

## **CY22 & CY23 CALENDAR DISCUSSION**

The proposed 2022 and 2023 meeting calendars were provided to the Board.

## **NEPC PERFORMANCE REPORT**

### *2021 3<sup>rd</sup> Quarterly Investment Performance Report*

Ms. Appel reported on the performance of assets for the third quarter of 2021. The beginning of the quarter started out strong but steadily declined due to the impact of inflation concerns and the economic crisis in China. Governmental regulatory actions caused big tech names to lose trillions of dollars in market capital. The big story for the quarter and the remainder of 2021 is the uptick in inflation in the U.S. due to "transitory" factors (i.e., the pandemic and supply chain disruptions) that are still having an impact on inflation. The concern is that inflation will materialize over an average of 3% during the next few years. The expectation for rate hikes, originally set to begin in 2023, is now projected to occur in late 2022. As a result, fixed income underperformed during the quarter. The growing cases related to the Omicron variant caused volatility in interest rates and equity markets over the past weeks. Volatility was expected to be more elevated due to inflation and the Fed's decreasing asset purchases.

Mr. Krimmel presented the Board with an overview of the State's portfolio performance for the third quarter of 2021. The State's consolidated balance is \$4.8 billion (including CARES and ARPA funds), with liquidity and reserve portfolio balances of \$3.6 billion and an endowment balance of just over \$100 million.

The total portfolio returned -0.01% for the quarter and -0.65% 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 -0.02% for the quarter and -0.92% fiscal YTD. The reserve portfolio returned -0.03% for the quarter and -1.32% fiscal YTD. The endowment portfolio returned -0.60% for the quarter and 7.12% fiscal YTD. The CARES Act funds returned 0.01% for the quarter and 0.04% YTD. The ARPA funds returned 0.07% for the quarter.

There was discussion around the effect of a rising interest rate environment on the liquidity and reserve portfolios in the next few years. The Board discussed changing the Investment Architecture to reduce the loss in the reserve portfolio.

NEPC will provide an updated analysis to the Board after January 14, 2022.

As an update to the Board, related to recent changes in the investment guidelines, Mr. Kimmel noted that private placement securities (Rule 144(a)) comprise 5.4% of the total liquidity and reserve portfolio. The liquidity managers have the largest number of Rule 144(a) securities.

PFM's merger with US Bank is moving forward and scheduled to close on December 8, 2021.

**A MOTION was made by Mr. Marvin and seconded by Mr. Engle to change the Investment Architecture to a 50/50 (liquidity vs. reserve) split by drawing assets from Chandler and Lazard. MOTION ADOPTED UNANIMOUSLY.**

#### *Budget Reserve and Budget Stabilization Account Analysis*

Ms. Appel presented the Delaware Budget Reserve (Rainy Day Fund) and Budget Stabilization account analysis. NEPC conducted an analysis to determine the adequacy of the cushion above the statutorily required amount and provided a written report of its findings. NEPC recommended increasing the current \$5 million reserve to \$6 million for FY22. There was discussion about the need to increase the Budget Reserve Account reserve cushion when the likelihood of drawing on the funds was low. The reserve cushions are maintained to ensure adequate funds if there is a loss in the market value of the funds, and they must be sold.

NEPC recommended that the Budget Stabilization Account maintain the \$5 million reserve cushion for FY22.

### **INVESTMENT SUBCOMMITTEE REPORT**

#### *Investment Custodian Contract Update*

Deputy Treasurer Davis indicated that contract negotiations with Northern Trust have begun. OST has provided the vendor with the intent to award letter and professional services agreement. A contract extension is in place to support the contractual negotiations through December 31, 2021.

#### *Investment Guidelines Change Update*

Deputy Treasurer Davis indicated that the recent Guideline changes were published in the October 2021 registry. The implementing order will need to be signed by the Board. The order will be submitted by December 15, 2021, so that it is included in the January 1, 2022 registry.

#### *Resolution No. 2021-1 Further Amending Investment Architecture for the State's Cash Accounts Update*

In light of the Board's decision to change the Investment Architecture to a 50/50 (liquidity vs. reserve) split, the vote to approve the Third Amended Investment Architecture was postponed until February 2022. Secretary Geisenberger indicated that there may be a proposal to write the Budget Stabilization Fund into the Delaware Code. If the proposal is approved, the reference to the "annual Budget Bill" will need to be changed before the next amended Investment Architecture is presented to the Board.

### **BANKING SUBCOMMITTEE REPORT**

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

### *General Banking Services Project Update*

OST completed the transition to JP Morgan for the final agency, Office of Pensions, in the general banking project in September 2021. OST will continue focusing on transitioning the remaining ancillary transactions still processing with BNYM and PNC Bank.

The Department of Services for Children, Youth and their Families transitioned to US Bank's ReliaCard services in September 2021. All stored value card programs have transitioned from Key Bank to US Bank.

### *Local Banking Services Update*

OST is making progress transitioning state agencies and school districts to the new banking partners, M&T, Citizens and TD Banks. Attention is focused on Sussex County state agencies experiencing issues with armored car pickup. OST is working with the state agencies and monitoring the situation.

### *Merchant Services Project Update*

#### *Payment Card Industry ("PCI") Compliance Update*

OST completed the first part of the onsite review with CampusGuard during the week of October 4, 2021. The review revealed that (1) there is a consistent pattern with how agencies are handling credit and debit card transactions and (2) there are larger agencies with more complex programming needs. Additional time to certify the larger agencies is being discussed with Fiserv. The second part of the onsite review will occur the week of January 24, 2022.

### *Digital Government RFP Update*

OST provided the intent to award notice to Fiserv for the following digital government components: (1) payment gateway software and technology, (2) merchant processing services and (3) account reconciliation systems. Contract negotiations are currently underway. The goal is to implement the new contracts by the end of December 2021.

The final component of digital government services, the resident and visitor portal, is still under review with the evaluation committee.

## **TELEPHONIC MEETING PROCEDURES DISCUSSION AND VOTE**

Deputy Treasurer Davis indicated that the Governor's emergency order has been extended, so the issue of whether an anchor location is required will be tabled until the order is lifted.

## **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 February 23, 2022.

## **ADJOURNMENT**

**Mr. Flynn adjourned the meeting at 11:19 a.m. (no motion)**

Respectfully submitted,

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John Flynn  
Board Chair

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