



NEPC, LLC

To: Cash Management Policy Board Investment Committee
From: John Krimmel, Partner and Jennifer Appel, Research Consultant
Date: October 30, 2020
Subject: CARES Act Fund Investment Options

Background

Delaware OST transitioned the CARES Act Fund proceeds to a Government Money Market Fund managed by Northern Trust in late May after approval by the Cash Management Policy Board. Declining yields on short-term government securities forced Northern Trust to stop crediting interest on their Government Money Market Fund in mid-August. Based upon recent conversations with Northern Trust, it is likely that the current environment will continue until yields on short-term government securities rise above the level that more than covers the fund's expenses.

Earlier this year, NEPC presented a memorandum dated May 6, 2020, which discussed three investment options for the investment of the CARES Act Funds. The options presented in that memorandum were 1) utilize the existing investment guidelines for the Liquidity accounts, 2) utilize existing Government Money Market Funds, and 3) modify the existing investment guidelines for the Liquidity accounts to be compatible with those associated with Government Money Market Funds.

Recent Discussions with the Liquidity Managers

OST Staff and NEPC recently surveyed the two Liquidity managers, PFM and Wilmington Trust, to gain an understanding of potential net of fee returns if the Cash Management Policy Board were to revisit options 1 and 3 that were previously considered by the Board.

PFM Response

PFM provided a sample portfolio that would comply with the existing Liquidity account guidelines and maintain adequate liquidity to meet the ongoing CARES Act funding needs and any return of funds to the Federal Government at the end of the program. The gross yield on this portfolio would be 14 basis points (annualized) and the net of fee yield would be 9 basis points. PFM's sample portfolio consists of US treasury bills, high quality commercial paper, negotiable CD's, and a PFM government money market fund for liquidity purposes.

Wilmington Trust Response

Wilmington Trust indicated that they could invest the funds according to the existing Liquidity account guidelines and earn an 8-10 basis point yield (annualized) on a gross basis. Wilmington also indicated that they would be willing to reduce their management fee on the CARES Act funds to 5 basis points, yielding a 3-5 basis points on a net of fee basis.

**Discussion**

NEPC and OST Staff agree that the lack of yield and return on these funds invested in Northern Trust's Government Money warrant revisiting this topic with the Investment Committee. NEPC and OST Staff also agree that PFM and Wilmington Trust are cognizant of the liquidity needs, the ultimate CARES Act program termination date, and could appropriately invest the remaining CARES Act funds to earn a net of fee yield greater than zero.

We look forward to discussing this matter with the Investment Committee on Wednesday, November 4th.