



INVESTMENT ARCHITECTURE UPDATE

DELAWARE OFFICE OF THE
TREASURER & CASH MANAGEMENT
POLICY BOARD

DECEMBER 2022

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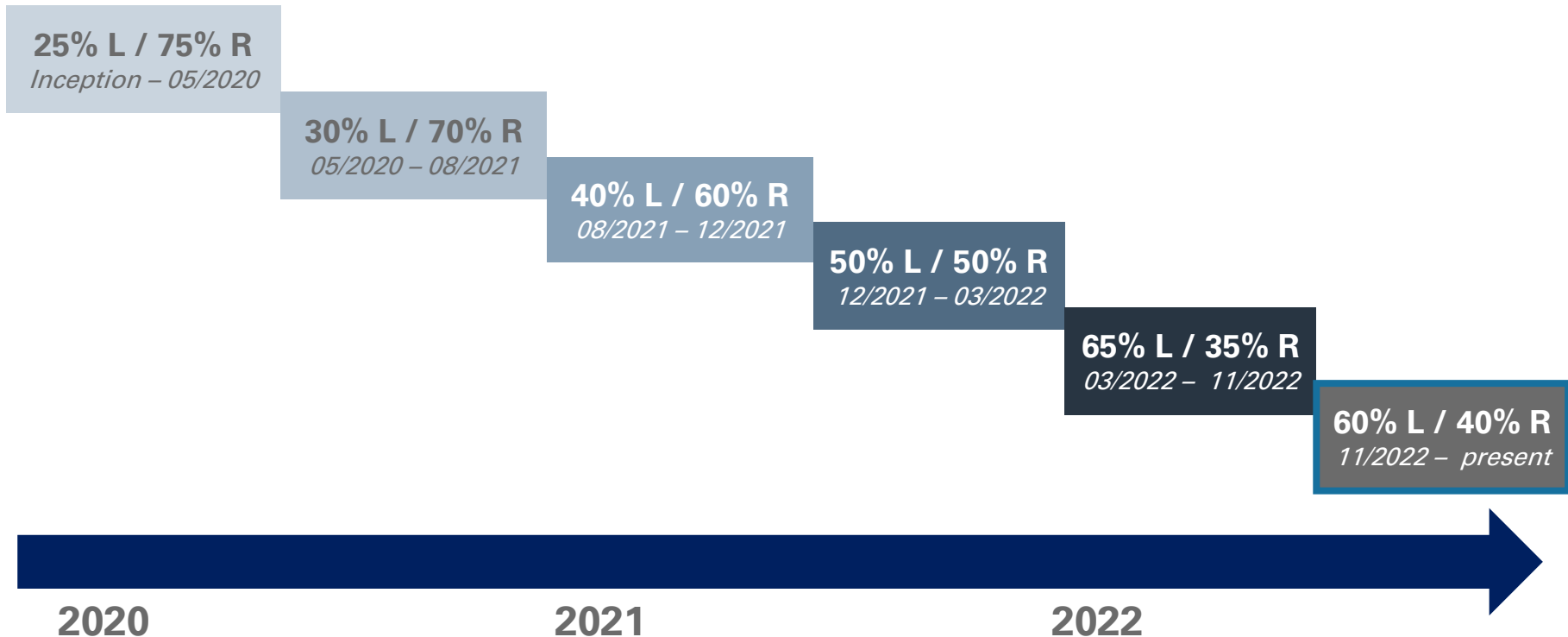
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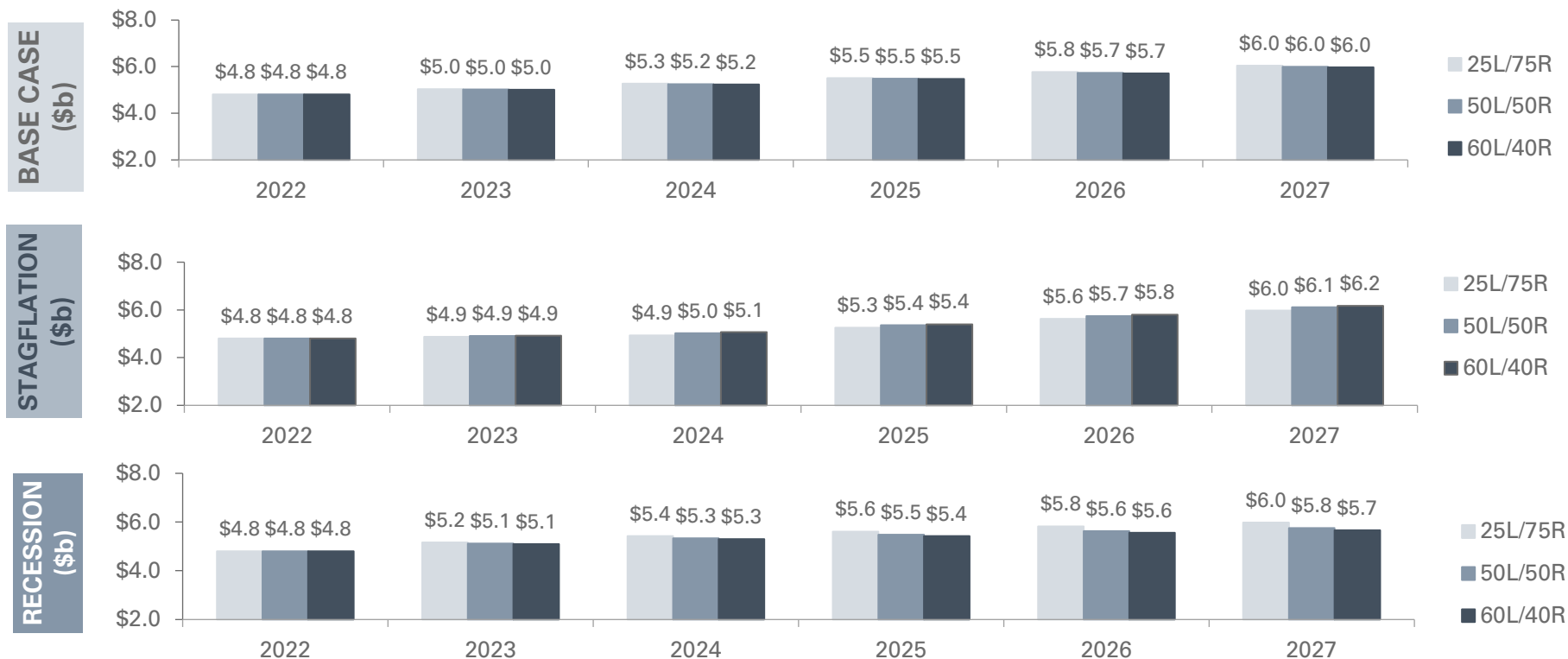
ADJUSTMENTS TO THE ARCHITECTURE

- The unprecedented volatility and interest rate uncertainty stemming from the COVID-19 pandemic caused the Board, with OST staff and NEPC support, to increase allocations to Liquidity in 2020 and 2021
- Market expectations imply the Fed Funds rate peaks in early- to mid-2023, suggesting that increasing the Reserve allocation is appropriate



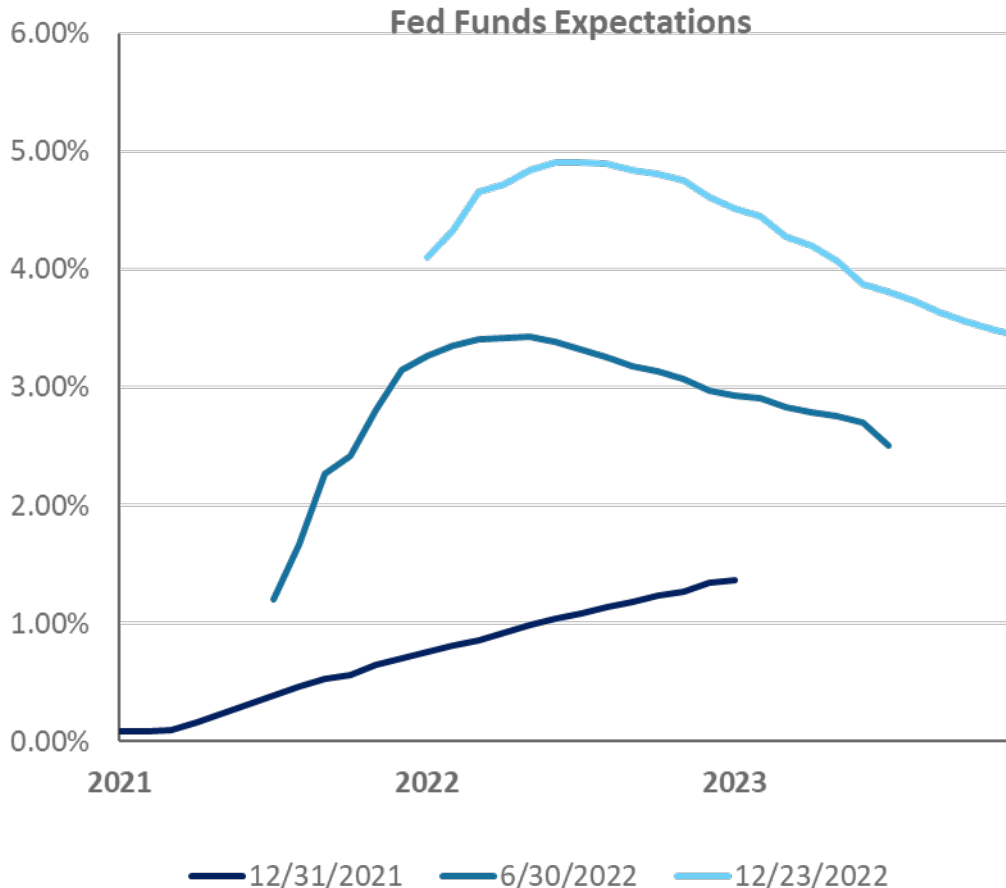
FORWARD-LOOKING SCENARIO ANALYSIS

- NEPC prepared a scenario analysis to assess the impact of higher interest rates and/or inflation on the Liquidity and Reserve portfolios
 - NEPC's scenario analysis highlights the impact of shifting economic and market regimes on the portfolio and potential asset allocation mixes



INTEREST RATE EXPECTATIONS

THE PATH FORWARD



**Restoring price stability
“will require holding policy
at a restrictive level for
some time”. – Jerome
Powell, December 2022**

In the face of still-elevated inflation, NEPC believes the Fed will continue tightening in the near-term and that rates may remain elevated at a level higher than current market pricing suggests.

CONCLUSIONS

- **The scenario analysis shows a small dispersion among various Liquidity and Reserve mixes**
 - Higher allocations to the Liquidity portfolio will outperform during rising rate environments, while the Reserve portfolio will outperform during times of stagnant or falling interest rates and credit spreads
 - The macroeconomic environment remains uncertain, but current data and Fed messaging reflect a tighter policy environment for the foreseeable future
- **NEPC recommends shifting to a 50% Liquidity / 50% Reserve posture**
 - This blend takes advantage of higher yields currently being offered with the slightly longer duration profile
 - In addition, we encourage capitalizing on cash inflows that may present organic rebalancing opportunities, without realizing losses in the portfolio
- **Additionally, we recommend the portfolio's long-term goal still be the original 25% Liquidity / 75% Reserve allocation and the State should consider adjusting once the volatile interest rate environment subsides**
 - A move back to the original architecture framework will continue to provide for the State's cash flow needs, while generating a more attractive yield profile than the current allocation

NEPC DISCLOSURES

Past performance is no guarantee of future results.

All investments carry some level of risk. Diversification and other asset allocation techniques do not ensure profit or protect against losses.

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