



**MINUTES FROM MEETING OF
THE CASH MANAGEMENT POLICY BOARD
December 2, 2020**

A meeting of the Cash Management Policy Board (the “Board”) was held on December 2, 2020 at 10:00 a.m. Pursuant to Governor Carney’s Emergency Orders concerning the Covid-19 pandemic, the meeting was held telephonically, without a physical location.

Subcommittee Members Represented or in Attendance:

Mr. John Flynn, Chair
Mr. Warren Engle, Banking Subcommittee Chair
Ms. Tarrie Miller, Banking Subcommittee Co-Chair
Mr. Mike Karia, Investment Subcommittee Co-Chair
Mr. David Marvin, Investment 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, Acting Controller General

Subcommittee Members Not Represented or in Attendance:

Others in Attendance:

Mr. Jason Staib, Deputy Attorney General, Delaware Department of Justice
Ms. Liza Davis, Deputy Treasurer, Office of the State 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. Brennon Fountain, Controller II, OST
Ms. Dawn Davis, Assistant Cash and Debt Manager, OST
Mr. Stephen McVay, Assistant Cash and Debt Manager, OST
Mr. Todd Feeley, Banking Services Implementation Manager, 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 10:02 a.m.

INTRODUCTIONS

Ms. Ruth Ann Jones was introduced to the Board. Ms. Jones is the acting Controller General and will replace Mr. Michael Morton, who retired as of December 1, 2020.

APPROVAL OF THE MINUTES

A MOTION was made by Secretary Geisenberger and seconded by Treasurer Davis to approve minutes from the Board meeting on August 26, 2020.

MOTION ADOPTED UNANIMOUSLY.

NEPC PERFORMANCE REPORT

2020 3rd Quarterly Investment Performance Report

Ms. Appel reported that there are two factors driving capital markets: (1) the pandemic and how the virus and market's response to the virus have changed over time; and (2) the idea that global central banks and fiscal policy makers will do "whatever it takes" to support economies and market sentiment. NEPC referred to the "permanent interventions" as a long-term theme impacting market pricing today. The stimulus from central banks and the government has allowed investors to tolerate the uncertainties in the market, such as the economic fallout from pandemic and the timing and success of a vaccine. There was strong performance across risk assets due to the stimulus.

During most of the 3rd quarter, most global equity indices were positive with emerging and U.S. markets leading the way. Rates will likely remain anchored near current levels barring any inflationary spike. The rate movements in the last quarter were in line with expectations. The federal funds rate will remain near zero through 2023. This environment is favorable for fixed income investors. The State's interest earnings will experience lower yields with the expectation of lower interest received in the long term. With rates moving lower, managers have taken the opportunity to realize gains in the portfolio. The realized gains likely will not last, which should be reflected in the DEFAC model and other projections.

There were discussions around when the realized gains would start to fall off, the level of reported interest revenue and how realized gains are reported in the State's accounting standards.

Mr. Krimmel presented the Board with an overview of the State's portfolio performance for Q3 2020. The total portfolio returned 0.25% for the quarter and 4.70% fiscal year-to-date ("YTD"). The combined liquidity and reserve portfolios returned 0.29% for the quarter and 5.29% fiscal YTD. The liquidity portfolio returned 0.11% for the quarter and 1.41% fiscal YTD. The reserve portfolio returned 0.37% for the quarter and 6.42% fiscal YTD. The endowment portfolio was up 2.14% for the quarter and down 1.36% fiscal YTD. The drag on performance was due to the transition of the JP Morgan and Morgan Stanley portfolios to the cash account at the end of the fiscal year. The Vanguard portfolio was funded in September and does not have a full month of return to report. The CARES Act Fund was still invested in the Northern Trust government money market fund at the end of the quarter with a return of 0.00.

Mr. Krimmel updated the Board on the Securities and Exchange Commission (“SEC”) rule change for 144A (private placement) securities. Previously, SEC regulations did not expressly permit state governments to hold 144A securities. The SEC changed that restriction, effective December 8, 2020, so that State will soon meet the definition of a qualified institutional buyer (“QIB”) eligible to hold 144A securities. The Board’s Investment Guidelines provide that, if in the future the SEC includes state governments within the definition of a QIB, 144A securities will be permissible investments for the State’s investment managers.

The Board discussed concerns with and potential limitations on 144A securities. The Board directed NEPC to convey to investment managers three restrictions on their ability to purchase 144A securities. First, they must be readily marketable. Second, CARES Act funds may not be used to purchase 144A securities. Third, liquidity and reserve manager portfolios may hold no more than 15% of their balances in 144A securities. As part of the 2021 Guideline review, and subject to further analysis and Board input, OST will update the Guidelines to memorialize the 144A security limitations.

INVESTMENT SUBCOMMITTEE REPORT

Endowment Manager Update

Treasurer Davis reported that SEI and Vanguard endowment manager contracts have been signed, and that the assets have been moved to each manager.

Investment Guideline Change Update

Deputy Treasurer Davis reported that the Guideline changes approved back in August 2020 were submitted to the Registrar’s Office for public posting, and that no public comments were received. The next step is to obtain Board member signatures on the final implementing order and submit same to the Registrar’s Office by December 15, 2020 to meet the deadline for publication in January 2021. Dawn Davis will coordinate the collection of electronic signatures.

A MOTION was made by Treasurer Davis and seconded by Mr. Marvin to approve the Investment Guideline Implementing Order. MOTION ADOPTED UNANIMOUSLY.

CARES Act Fund Update

Treasurer Davis reported that the CARES Act funds have been moved from a money market fund at Northern Trust and will now be actively managed by the liquidity managers, PFM and Wilmington Trust in order to achieve a modest yield.

Investment Advisor Contract

Treasurer Davis reported that the investment advisor contract with NEPC was executed effective January 1, 2021. The pricing is \$215,000 per year, subject to adjustment for inflation. No travel costs were proposed or included in the current contract.

BANKING SUBCOMMITTEE REPORT

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

General Banking Update

The transition of the State’s general banking services to JP Morgan continues to advance. The last two agencies scheduled to transition are PHRST, the State’s payroll system, and the Division of Accounting

(“DOA”), which includes the State’s accounting system (First State Financials). PHRST is scheduled to transition on January 1, 2021, with DOA schedule for July 1, 2021. Testing is required throughout the next six months. OST remains on track for a full transition to JP Morgan by the summer of 2021.

As recommended by the Board, agreements with the incumbent general banking providers, PNC and BNYM, have been extended through December 31, 2021 to ensure a smooth transition to JP Morgan.

Local Banking Services Update

OST is negotiating with four banks to provide the State with over-the-counter banking services. The contract with the lead local bank, M&T Bank, has been executed. Citizens Bank and TD Bank have agreed to the State’s standard terms and conditions. Final legal review and contract signing is tentatively scheduled for the end of the month (December). Negotiations continues with WSFS. OST may choose to cease negotiations if WSFS does not agree with the State’s standard terms and conditions. If negotiations with WSFS prove unsuccessful, OST will still have three local banking partners to meet the needs of state agencies.

Merchant Services Project Update

PCI Compliance

Vulnerabilities across the State’s websites have been reduced by half over the last six months. OST is talking to Fiserv, the current merchant processing provider, about PCI compliance reporting expectations for 2021.

Merchant Processing and Gateway Solutions Consultant

OST has been in negotiations with Deloitte Consulting for merchant processing consultant services. Deloitte informed OST of their intent to bid on the digital government services RFP. Both parties agreed that it was not in the best interest of the State to move forward with a consulting contract due to the potential conflicts of interest. OST will revisit the prospect of consulting services after the conclusion of the digital government procurement process.

Merchant Processor and Gateway Contracts

Following the Board’s approval at the August meeting, OST exercised the first one-year option to extend the merchant processor contract with Fiserv. The contract has been extended through written agreement through December 26, 2021.

The gateway solutions contract with Govolution will expire in June 2021. The outcome of the digital government RFP may affect the merchant processor and gateway contracts. OST is confident that they can manage the incumbents and any future providers.

Digital Government RFP

The RFP for digital government services was posted on October 12, 2020, with bids on December 18th. The four components of the RFP include: (1) web and application design, (2) payment gateway services, (3) merchant processing and (4) reconciliation and account analysis software. Negotiations are planned for the spring. OST expects the contracts to be finalized in May and June 2021.

OTHER MATTERS OF THE BOARD

Discussion and Vote on the FY 2020 Annual Report

The annual report was presented to the Board. There were no questions or revisions.

A MOTION was made by Treasurer Davis and seconded by Mr. Karia to approve the FY 2020 Annual Report and submit same to the General Assembly.

MOTION ADOPTED UNANIMOUSLY

Discussion of 2021-2023 Board Calendars

Copies of the calendars were provided to the Board. The meeting days and times will remain the same through the next three years. Meetings are held in February, May, August and November. Investment and Banking Subcommittee meetings are held on the first and second Wednesdays (respectively) of the meeting month. The full Board meeting is held two weeks after the Banking Subcommittee meeting. The November full Board meeting may be held the first Wednesday in December due to the Thanksgiving holiday.

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 24, 2021.

ADJOURNMENT

Mr. Flynn adjourned the meeting at 11:15 a.m. (no motion)

Respectfully submitted,

John Flynn
Board Chair