



**MINUTES FROM THE MEETING OF  
THE CASH MANAGEMENT POLICY BOARD  
NOVEMBER 28, 2018**

A meeting of the Cash Management Policy Board (the “Board”) was held on November 28, 2018 at 10:00 a.m. in the DuPont Room of the Buena Vista Conference Center, 661 S DuPont Hwy New Castle DE 19720

Board Members Represented or in Attendance:

Mr. John Flynn, Board Chair  
Mr. Dave Marvin, Co-Chair, Investment Subcommittee  
Mr. Mike Karia, Co-Chair, Investment Subcommittee  
Mr. Warren Engle, Co-Chair, Banking Subcommittee  
The Honorable Kenneth Simpler, State Treasurer  
Mr. Michael Morton, Controller General  
Mr. Jeffery Bullock, Secretary of State  
Mr. Richard Geisenberger, Secretary, Department of Finance

Board Members Not Represented or in Attendance:

Ms. Lynda Messick, Co-Chair, Banking Subcommittee

Others in Attendance:

Mr. Jason Staib, Deputy Attorney General  
Ms. Nora Gonzalez, Deputy State Treasurer, Office of the State Treasurer (“OST”)  
Mr. Joshua Berkow, Director of Debt and Cash Management, OST  
Mr. Khary DeWitt, Director of Banking Services, OST  
Ms. Liza Druck, Policy Advisor, OST  
Mr. John Krimmel, Partner, NEPC  
Ms. Jennifer Appel, Research Analyst, NEPC  
Ms. Colleen Davis, State Treasurer-Elect  
Ms. Nancy Cook, Member of the Public  
Mr. Michael Butler, Member of the Public

**CALLED TO ORDER**

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

**ANNOUNCEMENTS**

Mr. Flynn announced that Banking Subcommittee Co-Chair Lynda Messick has submitted her resignation to the Board, effective December 31, 2018.

Mr. Flynn introduced Mr. Khary DeWitt, the new Banking Services Director at OST, to the Board.

## **APPROVAL OF MINUTES**

**A MOTION was made by Mr. Karia and seconded by Mr. Morton to approve the minutes of the August 22, 2018 Board meeting.**

**MOTION ADOPTED UNANIMOUSLY**

## **NEPC PERFORMANCE REPORT**

### *2018 3rd Quarter Investment Performance Report*

Ms. Appel presented the Board with NEPC's Federal Reserve outlook. NEPC believes that the Fed will continue down the path of rate normalization, predicting three to four rate hikes in the coming year. The State's investment portfolio should benefit from higher rates and subsequent greater yields in the long-term.

Mr. Marvin led the Board in a discussion about outlooks across the international fixed income market. NEPC has advised clients to be more defensive in their positioning to offset the impact of potential volatility in the near-term.

Mr. Krimmel presented NEPC's quarterly investment performance report to the Board. As of September 30, 2018, the portfolio was \$1.98 billion. For the quarter, the overall portfolio is up 0.33%. The liquidity portfolio generated a return of 0.50% in the Third Quarter. The reserve portfolio generated a return of 0.11% in the Third Quarter. The combined liquidity and reserve portfolios are up 0.60% year-to-date. NEPC has reviewed each manager's three- and five-year performance results. None of the results cause the firm any concern. The liquidity portfolio balances are currently at the upper limit of the expected range. As such, liquidity levels are sufficient to prevent unanticipated reserve portfolio draws. The reserve managers are currently holding securities from higher quality issuers of a mildly short duration to offset volatility brought on by rising interest rates.

### *3 Years Performance Review for Endowment Accounts*

Mr. Krimmel presented the Board with a review of NEPC's memo regarding endowment portfolio composition and performance. The three endowment portfolios are different in strategy, despite having the same objective. JP Morgan's strategy is a low volatility approach to investing in a balanced portfolio. Morgan Stanley's strategy is contrarian and generally invests in assets that are inexpensive relative to the broad market. SEI's portfolio follows a momentum-driven strategy.

The Total Endowment Fund returns are mixed. Since inception, the Total Endowment Fund trails the Custom Benchmark by 0.07%, while the three-year results are ahead of the benchmark by 0.15%. The underperformance for the Total Endowment Fund for the since-inception period is due, in part, to the Morgan Stanley portfolio and the permanent 5% cash requirement applicable to all three portfolios. Individual manager results were mixed. JP Morgan and SEI exceeded the benchmark over the 3-year and since-inception periods. Morgan Stanley trails the Custom Benchmark for all periods due to Morgan Stanley's contrarian investment approach. Mr. Krimmel confirmed that Morgan Stanley's performance has improved in the time since September 30, 2018, as was predicted at the recent Investment Subcommittee meeting.

Mr. Krimmel advised that the 5% cash allocation held for liquidity purposes has cost approximately 0.3% in return per annum. NEPC recommends that the Board remove the 5% cash allocation for each endowment portfolio.

## **INVESTMENT SUBCOMMITTEE REPORT**

### *Review and approval of deviations from endowment manager investment guidelines*

At the November 7, 2018 Investment Subcommittee meeting, the Subcommittee agreed with NEPC's recommendation concerning the 5% cash requirement. OST's Deputy Attorney General indicated that NEPC's recommendation could be effectuated in two ways: (a) via formal amendment of the Board's investment guidelines pursuant to the Administrative Procedures Act, or (b) through a motion approving exceptions to the 5% cash requirement for each endowment manager. Mr. Flynn informed the Board that the 5% requirement was established when the portfolios were created due to uncertainty about the frequency and magnitude of account withdrawals, which is now known.

**A MOTION was made by Mr. Karia and seconded by Secretary Bullock to remove the 5% cash requirement for the endowment portfolios and amend the guidelines accordingly.**

**MOTION ADOPTED UNANIMOUSLY**

Treasurer Simpler stated that OST would immediately disburse a pro-rata portion of the cash allocation to each endowment manager.

### *Review and approval of contract extension for Investment Consultant (NEPC)*

NEPC representatives left the room and the Board discussed the extension of NEPC's contract, which expires on December 31, 2018, and has two one-year extensions available. OST has issued a letter to NEPC stating that their contract renewal is contingent upon the Board's approval. The Board expressed their satisfaction with the scope and quality of NEPC's work.

**A MOTION was made by Mr. Engle and seconded by Secretary Bullock to extend NEPC's contract for the first optional one-year extension.**

**MOTION ADOPTED UNANIMOUSLY**

## **BANKING SUBCOMMITTEE REPORT**

### *Banking Structure Review Project Update*

Mr. Berkow summarized the Banking Services RFP components and the proposal scoring process. He informed the Board that the final Evaluation Committee score sheets have been tabulated. J.P. Morgan is the top scoring respondent for components one (general banking services), two (lockbox services), three (purchasing card), and five (check printing). U.S. Bank is the top scoring respondent for component 4 (stored value card). Mr. Berkow reviewed the potential risks (liquidity, operational, and reputational) and their corresponding mitigations related to the consolidation of four services into one provider. Mr. Engle informed the subcommittee that both U.S. Bank and J.P. Morgan have passed their most recent Federal Reserve stress tests. Secretary Bullock stated that he would be interested in exploring the possibility of establishing a lockbox facility in the State of Delaware.

Mr. Berkow noted that certain agencies may continue to require the ability to conduct various in-person transactions at local branches. To that end, OST intends to issue an RFQ in early 2019 to identify and

select a number of local banks. Overall implementation of the new banking architecture is expected to take approximately two to three years. The Board discussed the efficiencies that could be realized as a result of the new structure.

Mr. Bullock sought confirmation that the contracts would come before the Board before final approval, which Mr. Flynn provided.

*Review and approval of Banking Services Vendors for Components 1, 2, 3, 4 and 5 under Contract No. TRE18101-BANKINGSVC*

**A MOTION was made by Mr. Engle and seconded by Mr. Karia to recommend the commencement of contract negotiations with J.P. Morgan and U.S. Bank.**

**MOTION ADOPTED UNANIMOUSLY**

#### **UPDATE ON OST ADMINISTRATION TRANSITION**

The Board expressed their gratitude to Treasurer Simpler and Deputy Treasurer Gonzalez for their service to the State. Treasurer Simpler informed the Board of the action items that he has shared with the incoming administration. His administration requested the addition of a second Deputy to oversee OST's asset management activities, so one Deputy could be entirely allocated to OST's financial services. Additionally, the administration intended to add an IT resource and project manager to support the banking structure conversion. Treasurer Simpler informed the Board that a memo recommending changes to the way the State addresses debt policy and a proposal to expand the Board's authority to include oversight of the State's debt policy. The memo was circulated to the Chair and the State's Bond Issuing Officers for further contemplation.

#### **PUBLIC COMMENTS**

Treasurer-elect Davis stated that she is looking forward to working with the Board.

#### **NEXT MEETING**

The next meeting is scheduled for February 27, 2019.

#### **ADJOURNMENT**

**A MOTION was made by Mr. Flynn and seconded Treasurer Simpler to adjourn the meeting of the Board at 11:21 a.m.**

**MOTION ADOPTED UNANIMOUSLY**

Respectfully submitted,

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John Flynn  
Chair, Cash Management Policy Board