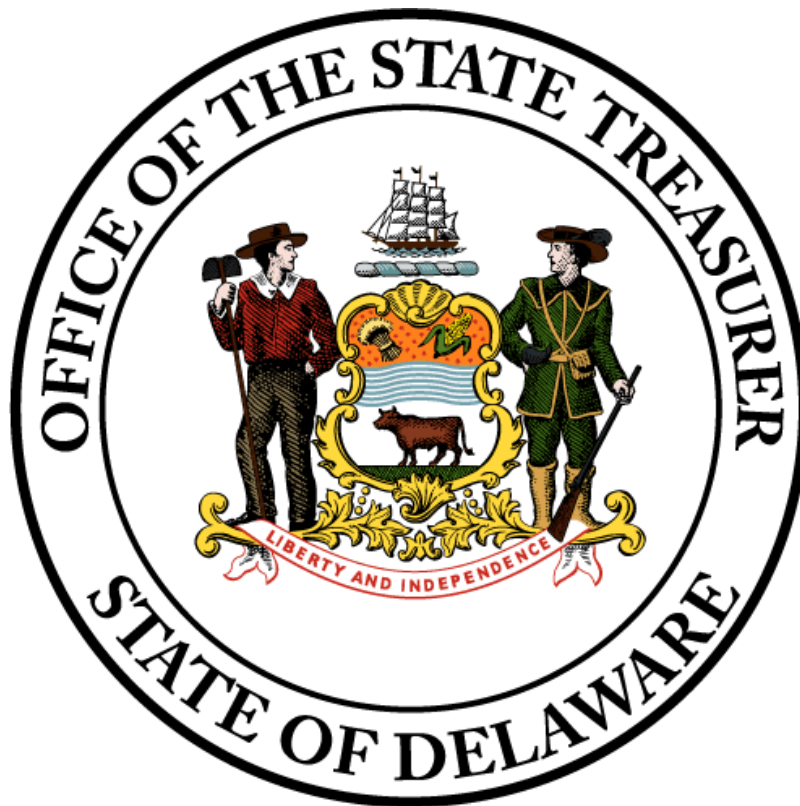


Cash Management Policy Board

ANNUAL REPORT



Fiscal Year 2023

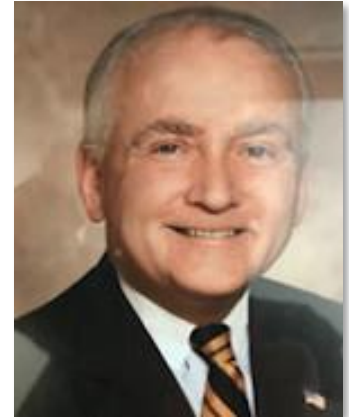
July 1, 2022 – June 30, 2023

Cash Management Policy Board Annual Report Fiscal Year ending June 30, 2023

LETTER FROM THE CHAIR

At the end of Fiscal Year 2023, we bid farewell to two of our longest standing Cash Management Policy Board Members, Mr. John Flynn, and Mr. David Marvin. Both gentlemen had been with the Cash Management Policy Board since its inception. We thank them for their timeless wisdom, dedication, and service to the State of Delaware (the “State”).

Their departure led to additional leadership changes. Mr. Mike Karia is the chair of the Investment Subcommittee. Ms. Tarrie Miller is the chair of the Banking Subcommittee. We have brought on two additional members from the private sector, Mr. Stephen Marvin who serves on the Investment Subcommittee and Mr. Leland Sylver who serves on the Banking Subcommittee.



I am grateful and honored to work alongside the Subcommittee Chairs and Board Members to continue the legacy of upholding our commitment to fiscal stewardship, operational excellence, and continuous improvement. The Board’s responsibility for oversight of the State’s investments and banking remains a top priority. We take our mandate for safety, liquidity, financial soundness, and return seriously. We continue to remain steadfast in our approach.

The Investment Subcommittee worked diligently to ensure that the State’s \$6 billion investment portfolio withstood challenges and pressure brought on by an uncertain macroeconomic and a rising interest rate environment. The Subcommittee monitored the investment architecture and made several strategic, defensive reallocations, which safeguarded State funds amidst a period of interest rate volatility.

The Banking Subcommittee continued its partnership with the Department of Technology and Information (DTI) working to create a secure, convenient digital government platform for Delawareans. The Board maintains oversight of the merchant processing services and related contractual obligations. The Board’s governance will ensure that our agencies, the residents, and visitors of the State are able to transact in the most secure and efficient manner possible.

We continued to facilitate implementation of local banking services for State agencies and schools to M&T, Citizens, and TD Banks.

As we look towards Fiscal Year 2024 and beyond, we intend to complete the local banking transition and continue our efforts with the development of the digital government platform. We do this while providing best-in-class oversight of the State’s investments and banking operations, proudly bringing safety and value to Delaware and its citizens.

Sincerely,

A handwritten signature in dark ink, appearing to read "Warren C. Engle".

Warren C. Engle

OVERVIEW OF THE BOARD'S WORK IN FISCAL YEAR 2023

Banking

- Continued with transition of State agencies and schools to Fiserv, Inc. for merchant services processing.
- Ensured significant progress in the State's efforts to be fully compliant with the payment card industry (PCI) requirements required by the Payment Card Industry Security Standards Council.
- Continued project implementation with State agencies and schools to M&T, Citizens, and TD Banks for local banking services inclusive of over-the-counter branch deposits.
- Approved contract extensions for local banking partners, TD, M&T and Citizens Banks.

Investment

- Reviewed the Board's investment and banking guidelines and promulgated changes through the State's formal regulatory process.
- Directed a shift in the investment architecture of the State's liquidity versus reserve allocations which allowed the Board to safeguard and preserve the State's financial portfolio.
- Evaluated and changed the School and Special Fund Rate calculation to better align with changing market environments.
- Oversaw the draw down of the Cares Act and ARPA funding.

OVERVIEW OF THE BOARD'S GOALS FOR FISCAL YEAR 2024

The Board

- Develop CMPB by-laws and subcommittee charters to outline oversight and control of certain matters (i.e., quorum, appointment of proxies, special meeting procedures, board members appointment etc.)

Banking

- Finalize the transition of local banking services and over-the-counter deposits to M&T, Citizens, and TD Banks.
- Complete the PCI Compliance migration and transition for State agencies and school districts to Fiserv, Inc. for merchant services processing, payment gateway, account reconciliation, and account analysis services.
- Continue to work with DTI for digital government services which includes the design of a resident and visitor portal that will provide a centralized payment interface.
- Complete PCI Compliance Validation and Attestation

Investment

- Continue to uphold the investment architecture by monitoring and assessing the strategic allocation between the State's liquidity and reserve accounts.
- Conduct an annual review of the Board's investment and banking guidelines and promulgate any approved guideline changes through the formal regulatory process.
- Evaluate the School and Special Fund Rate calculation.
- Oversee an annual review of the Investment portfolio managers.

INVESTMENT PERFORMANCE RESULTS FOR FISCAL YEAR 2023

Fiscal Year 2023 Commentary

In June 2023, the target allocation between the liquidity and reserve portfolios was adjusted to a more conservative split of 25% liquidity/ 75% reserve in light of the current market environment. Previously, the target allocation was 40% liquidity/60% reserve.

Total Liquidity Portfolio Results

As of June 30, 2023, the market value of the liquidity portfolio was \$2,384,910,596. The liquidity portfolio generated a Fiscal Year 2023 return of 3.1%. The liquidity portfolio restructuring has been in place for slightly more than three years and balances have “normalized”. At the time of restructuring, the liquidity portfolio shifted from a return-seeking perspective to a risk-mitigating perspective. The current distribution within the liquidity portfolio is split between two managers, PFM and Wilmington Trust, which invest in high-quality U.S. government, agency, and investment grade corporate securities. Over the fiscal year, these securities performed well relative to the opportunity set and the flight to safety seen by the market over the period.

Total Reserve and Operating Portfolio Results

As of June 30, 2023, the market value of the reserve and operating portfolio was \$3,505,590,552. The reserve and operating portfolio generated a Fiscal Year 2023 return of -0.2% which outperformed its custom index by 0.6% on a net of fee basis. The increased exposure to shorter duration, more conservative managers drove relative outperformance as the shorter end of the curve continued to rise over the period.

Total Endowment Portfolio Results

As of June 30, 2023, the market value of the endowment fund portfolio was \$94,866,846. The endowment fund generated a Fiscal Year 2023 return of 10.4%, which on a net of fee basis underperformed the benchmark by 0.2%. Endowment fund assets are split between two balanced strategy managers, Vanguard and SEI.

Total CARES Act Portfolio Results

As of June 30, 2023, the market value of the CARES Act portfolio was \$0. The portfolio was liquidated in February 2023 at a market value of \$21,216,917.

Total ARPA Portfolio Results

As of June 30, 2023, the market value of the ARPA portfolio was \$649,167,079, and generated a Fiscal Year 2023 return of 3.3%. The American Rescue Plan Act (ARPA) portfolio was established during Fiscal Year 2021. Funds in the composite were received from the Federal Government and deposited into the account during May 2021. The funds are invested in liquid, high quality U.S. government and corporate fixed income instruments to preserve principal as they are disbursed for qualified program expenses.

Cash Management Policy Board Annual Report

Fiscal Year ending June 30, 2023

	Change in Market Value Fiscal Year-to-Date Through June 30, 2023																	
	Beginning Market Value	Contributions	Withdrawals	Fees	Income	Unrealized Gain (Loss)	Realized Gain (Loss)	Amortization / Accretion	Ending Market Value									
Liquidity Managers																		
PFM Asset Management	\$	1,758,096,982	\$	290,000,002	\$	(887,500,000)	\$	(979,341)	\$	33,912,614	\$	6,112,339	\$	(796,167)	\$	7,160,948	\$	1,206,007,372
Wilmington Liquidity	\$	1,740,698,726	\$	290,000,009	\$	(887,500,000)	\$	(907,264)	\$	17,627,330	\$	15,231,799	\$	(1,303,968)	\$	5,056,595	\$	1,178,903,224
Total Liquidity Managers	\$	3,498,795,708	\$	580,000,010	\$	(1,775,000,000)	\$	(1,886,605)	\$	51,539,943	\$	21,344,137	\$	(2,100,135)	\$	12,217,543	\$	2,384,910,597
Reserve Managers																		
BlackRock Financial Management	\$	378,121,432	\$	487,500,000	\$	-	\$	(351,236)	\$	16,866,428	\$	160,412	\$	(11,095,445)	\$	3,335,979	\$	874,534,970
Chandler Asset Management	\$	255,893,933	\$	627,500,000	\$	-	\$	(236,986)	\$	13,566,962	\$	(11,909,956)	\$	(396,401)	\$	672,679	\$	885,547,859
JPM Intermediate	\$	543,213,871	\$	317,500,000	\$	-	\$	(430,533)	\$	19,585,185	\$	(613,606)	\$	(10,981,807)	\$	1,156,368	\$	869,429,478
Lazard Asset Management	\$	250,262,091	\$	627,500,000	\$	-	\$	(369,702)	\$	14,100,352	\$	(9,752,817)	\$	(5,861,042)	\$	199,363	\$	876,078,244
Total Reserve Managers	\$	1,427,491,327	\$	2,060,000,000	\$	-	\$	(1,388,457)	\$	64,118,927	\$	(22,115,968)	\$	(28,334,696)	\$	5,364,389	\$	3,505,590,552
Total Liquidity & Reserve Managers	\$	4,926,287,035	\$	2,640,000,010	\$	(1,775,000,000)	\$	(3,275,062)	\$	115,658,870	\$	(771,830)	\$	(30,434,831)	\$	17,581,932	\$	5,890,501,148
Land & Water Endowment																		
SEI Funds	\$	45,025,736	\$	254,500	\$	(1,253,069)	\$	(164,597)	\$	1,307,822	\$	1,369,744	\$	2,313,259	\$	-	\$	48,853,444
Vanguard	\$	42,730,310	\$	254,500	\$	(1,250,338)	\$	(78,319)	\$	1,037,173	\$	3,266,963	\$	53,027	\$	-	\$	46,013,315
Total Land & Water Endowment	\$	87,756,130	\$	509,000	\$	(2,503,407)	\$	(242,916)	\$	2,345,080	\$	4,636,707	\$	2,366,286	\$	-	\$	94,866,928
CARES																		
PFM CARES	\$	8,948,733	\$	-	\$	(9,092,965)	\$	-	\$	115,614	\$	-	\$	-	\$	-	\$	0
PFM NCC CARES	\$	1,508,979	\$	38,923	\$	(8,562,644)	\$	-	\$	1,579,196	\$	47,250	\$	(1,409)	\$	503,903	\$	-
Wilmington CARES	\$	8,908,368	\$	-	\$	(16,065,295)	\$	(4,741)	\$	1,050,387	\$	(436,037)	\$	36,588	\$	1,296,417	\$	-
Wilmington NCC CARES	\$	1,512,549	\$	-	\$	(15,515,625)	\$	-	\$	2,588,811	\$	(388,831)	\$	34,652	\$	1,658,966	\$	0
Total CARES	\$	20,878,629	\$	38,923	\$	(49,236,530)	\$	(4,741)	\$	5,334,007	\$	(777,618)	\$	69,831	\$	3,459,285	\$	0
ARPA																		
PFM ARPA	\$	376,776,820	\$	175,000	\$	(54,924,717)	\$	(221,228)	\$	5,580,575	\$	2,791,609	\$	(74,654)	\$	1,946,240	\$	327,157,915
Wilmington ARPA	\$	372,965,022	\$	175,012	\$	(54,924,717)	\$	(219,603)	\$	2,052,414	\$	6,312,316	\$	(141,108)	\$	1,002,449	\$	322,009,164
Total ARPA	\$	749,741,842	\$	350,012	\$	(109,849,434)	\$	(440,831)	\$	7,632,989	\$	9,103,925	\$	(215,762)	\$	2,948,689	\$	649,167,079
Total	\$	5,784,663,636	\$	2,640,897,945	\$	(1,936,589,371)	\$	(3,963,550)	\$	130,970,946	\$	12,191,183	\$	(28,214,477)	\$	23,989,906	\$	6,634,535,156

Footnotes:

As of June 2023, the target allocation between Liquidity and Reserve Portfolios was adjusted to 25%/75%. The previous target allocation was 50%/50%.

Values provided by Northern Trust and are reconciled to the audited custodian reports.

Income is a product of income received during the month plus accrued income.

Numbers may not add due to rounding.

Source: NEPC, LLC period ending June 30, 2023

OVERVIEW OF THE CASH MANAGEMENT POLICY BOARD

Creation of the Board

The Cash Management Policy Board was established by the General Assembly in 1981. The Board's duties and authority are codified in 29 *Del. C.* § 2716. The Board is required to submit an annual report to the Governor and General Assembly.

Mission

The Board exists to create policies and provide oversight for the investment and banking of all money belonging to the State or on deposit from its political subdivisions, except money deposited in any State pension fund or the State Deferred Compensation Program, and to determine the terms, conditions and other matters relating to those investments, including the designation of permissible investments.

Responsibility

The members of the Board are fiduciaries and are required to exercise the same level of prudence, discretion, and intelligence as they would in the management of their own affairs with due regard to the probable income and level of risk from investments belonging to the State.

Authority

The Board is authorized to adopt rules and regulations for the general administration of its duties, to establish a policy for the State's checking accounts, and to enter into agreements for the services of private and public consultants, research, technical or other services, and facilities whenever deemed necessary by the Board.

Composition of the Board

The Board is comprised of nine members, four of whom are government officials serving "ex officio" and five of whom are financial experts from the private sector appointed by the Governor and approved by the Senate. At the end of Fiscal Year 2023, the Board was comprised of the following members:

Appointed Members

Mr. Warren C. Engle- Chairman
Retired, Senior Vice President, PNC Bank

Mr. Mike Karia- Investment Chair
Adjunct Professor/MBA Advisor, Wilmington University

Ms. Tarrie Miller- Banking Chair
President and Chief Operating Officer, County Bank

Mr. Stephen Marvin
Chief Risk Officer, Marvin & Palmer Associates

Mr. Leland Sylver
Wealth Manager, BNY Mellon Wealth Management

Ex Officio Members

Mr. Richard J. Geisenberger
Secretary of Finance

Mr. Jeffrey W. Bullock
Secretary of State

The Honorable Colleen C. Davis
State Treasurer

Ms. Ruth Ann Miller
Controller General