



**MINUTES FROM THE INVESTMENT SUBCOMMITTEE
OF THE CASH MANAGEMENT POLICY BOARD
August 7, 2024**

A meeting of the Investment Subcommittee (the “Subcommittee”) of the Cash Management Policy Board (the “Board”) was held on August 7, 2024, at 10:00 a.m. The meeting was conducted virtually, with public accommodations provided in the Large Conference Room of the Office of the State Treasurer (“OST”), 820 Silver Lake Blvd., Suite 100, Dover, DE 19904.

Subcommittee Members Represented or in Attendance:

Mr. Mike Karia, Subcommittee Chair
Mr. Stephen Marvin, Vice Chair
The Honorable Rick Geisenberger, Secretary of Finance
The Honorable Colleen Davis, State Treasurer
Mr. Warren Engle, Board Chair

Others in Attendance:

Mr. Jordan Seemans, Deputy Treasurer, OST
Mr. Jason Staib, Deputy Attorney General, Delaware Department of Justice
Ms. Fiah Kwesseu, Director of Operations and Fund Management, OST
Ms. Khairat Makanjuola, Chief Operating Officer, OST
Mr. Stephen McVay, Assistant Cash and Debt Manager, OST
Ms. Antonia Kramer, Assistant Cash and Debt Manager, OST
Ms. Ninna Vaughn, Executive Assistant, OST
Ms. Monai Roberts, Special Assistant to the Treasurer, OST
Ms. Priya Vaidya, Accounting Specialist, OST
Ms. Peyton Moody, Interns, OST
Ms. Yasmin Ramirez Sandoval, Interns, OST
Mr. Jonovan Sackey, NEPC
Mr. Kevin Leonard, NEPC
Ms. Jennifer Appel, NEPC

CALLED TO ORDER

The meeting was called to order at 10:01 a.m. A quorum was established.

INTRODUCTIONS

Mr. Seemans announced Antonia Kramer as the dual incumbent successor to Mr. McVay's position following his retirement. He also introduced Ninna Vaughn, who will be stepping in as the new Executive Assistant, taking over CMPB-related responsibilities from Priya Vaidya. Additionally, Mr. Seemans introduced the OST interns, Peyton, and Yasmin.

APPROVAL OF THE MINUTES

A MOTION to approve the May 1, 2024, minutes was made by Mr. Marvin and seconded by Secretary Geisenberger.

MOTION ADOPTED UNANIMOUSLY

PRESENTATION AND DISCUSSION OF THE 2ND QUARTER PERFORMANCE REPORT

NEPC provided a review of the 2nd Quarter Performance Report. Mr. Leonard and Ms. Appel presented the Subcommittee with an overview of the State's portfolio performance for the 2nd Quarter 2024. The State's consolidated balance is \$6.9 billion (including ARPA funds), with liquidity and reserve portfolio balances of \$ 6.3 billion.

DISCUSSION AND POTENTIAL VOTE ON:

School and Special Fund Calculation Rate

Ms. Appel explained the calculation of School and Special Fund (SSF) rates. The changes in the SSF rate are calculated using a trailing 9-month rolling average return on the State's liquidity portfolio. There is a rate cap and a rate floor. The rate cap is applied when the liquidity portfolio is outperforming the total portfolio return. The rate floor is applied when the liquidity portfolio return is negative so that the rate does not go below 0.00%. Usually, during a volatile period, rate caps and rate floors are applied. There has been some volatility over the last couple of years. Since the rates rose over the last couple of years, SSF rates will move up shortly. Hence, there is a lag to view the market changes on the SSF rates due to the calculation methodology. Over the long run, the positive and negative lags even out. NEPC is not recommending a change to the calculation methodology.

Investment Guideline & Investment Manager Benchmark

Mr. Leonard discussed the Liquidity & Reserve Manager Due Diligence Memo and Endowment Manager Due Diligence Memo.

- **Liquidity & Reserve Manager Due Diligence Memo**

NEPC presented a due diligence memo that was compiled after holding meetings with all the managers. This meeting discussed absolute relative performance, current market views, and current guideline changes. Each manager was asked if the current guidelines were restrictive in any way. Many managers requested some changes that NEPC is not recommending since it requires higher risk. NEPC did not recommend a change in guidelines to permit BBB rated securities, as the additional level of risk does not align with the portfolio's mandate of liquidity, capital preservation and downside risk protection. NEPC recommends:

- Lifting the Private Placement (144a) security limit from 25% to 30% in order to benefit from areas that have significant issuance levels such as commercial paper programs.
- Increasing the two-year average life limit on ABS products, as funds will still be managed to the duration of the benchmark.
- Maintaining current ABS limit at 10%, to remain in compliance with respect to FINRA Rule 4210.

- Allowing the purchase of securities with duration up to 11 years, as this expands the investable opportunity set and the portfolio will still be managed to the benchmark duration.

A MOTION to recommend that the full Board approve NEPC's recommended investment guideline changes was made by Secretary Geisenberger and seconded by Treasurer Davis.

MOTION ADOPTED UNANIMOUSLY

Endowment Manager Due Diligence Memo

NEPC discussed the endowment manager due diligence memo based on the meeting with each manager. Endowment managers are balanced in investing across both global equities and fixed income. The meeting with endowment managers covered their views on the market, current portfolio positioning, and any changes recommended in asset allocation policy.

SEI aims to consolidate the emerging market equity fund and global exposure. This newly proposed allocation would be a slight increase in high-yield fixed income and emerging market debt that would result in efficient portfolio. SEI is also seeking to get a slightly higher expected rate of return without an increase in overall risk or change in fee structure. The aims are consistent with overall kind of macro viewpoints, particularly on the fixed-income side within high-yield and emerging market debt. Yield advantage remains and with higher risk-return. Mercer proposed slight adjustments with regard to target weights within the equity portfolio relative to the benchmarks as the portfolio is based on the MSCI World Index. Mercer aims to raise the Vanguard total stock market index from under 40% to 42% as that will reduce exposure to non-US markets from 20% to 18%. NEPC has indicated that these changes do not materially increase portfolio risk and are permitted by current benchmarks. The Subcommittee concurred with NEPC's assessment.

No vote necessary as no guideline changes are needed for the approaches to exposure of Investment Managers

ENDOWMENT ACCOUNTS DISCUSSION

Mr. McVay discussed the memo showcasing another aspect of the endowment accounts. As requested by Secretary Geisenberger, information about participants, participant's activities, and contributions. The memo discusses the background of DNREC and the transition of the Land and Water (L&W) account from maintaining principal amount to equity exposure. After recommendations from the division of accounting and auditor of accounts, Woodbridge and Smyrna school districts joined in 2018. The end of the memo discusses inflows and outflows of each school district. Smyrna only contributes while Woodbridge draws more than contributing about 6 times on average a year.

Secretary Geisenberger suggested that OST confirm if school districts, libraries and other state agencies have funds raised from private donations that should be subject to the Board's investment authority. Additionally, he asked OST to correct the memo from cultural access funds to cultural arts funds. OST updated and circulated an updated version of this memo after the meeting.

The Subcommittee requested a legal opinion from Mr. Staib regarding CMPB's authority relating to funds held by state agencies/school districts that are derived from private donations/endowments for

purposes such as scholarships, or other purposes that are to the benefit of Delawareans at large. Further, does the CMPB have the authority to direct the deposit of these funds which are invested/managed by third parties like the Delaware Community Foundation with OST and as such, be subject to the CMPB's investment guidelines?

Ms. Makanjuola stated that should DAG's opinion affirmatively support the assertion that the CMPB had a duty to bring in these funds under the umbrella of the CMPB and invest/manage them, OST would need to have an internal discussion about how to fold the added responsibility for management into current operations and whether additional resources would be needed given that processing scholarships for one entity that has frequent withdrawals already takes up a great deal of time. OST will provide updates to the subcommittee on this endeavor during future meetings.

DISCUSSION ON PFM UPDATE CLIENT CONSENT TO CHANGE OF REGISTERED INVESTMENT ADVISOR

Mr. Staib discussed the PFM update on client consent for the consolidation of PFMAM into USBAM and associated change of registered advisor status. From December 7, 2021, to present, PFMAM has been operating as a wholly owned subsidiary of USBAM. The Board previously consented to a deemed assignment of the Professional Services Agreement with PFMAM (PSA) due to a change in control. USBAM and PFMAM are presently separate legal entities and maintain separate registrations as investment advisers with the U.S. Securities and Exchange Commission (SEC). After the consolidation, USBAM will be the legal entity responsible under the PSA and the registered investment adviser that will serve PFMAM clients moving forward DAG Staib indicated that there are issues with the consent form and that he will work with USBAM's counsel to ensure that the document is in acceptable form prior to execution.

A MOTION to recommend that the full Board approve the Client Consent request, subject to additional modifications from DAG Mr. Staib, was made by Mr. Warren and seconded by Mr. Karia.

MOTION ADOPTED UNANIMOUSLY

OTHER MATTERS OF THE SUBCOMMITTEE

None

PUBLIC COMMENT

No public comment issued by attending member of the public.

EXECUTIVE SESSION

No executive session was held.

NEXT MEETING

The next full Board meeting will be held at Buena Vista on September 11, 2024
The next Investment Subcommittee meeting is scheduled for November 6, 2024

ADJOURNMENT

The meeting concluded at 11:30 am.

Respectfully submitted,

Mike Karia
Chair for the Investment Subcommittee