

Colleen C. Davis
State Treasurer



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TO: Cash Management Policy Board and Investment Subcommittee Members

FROM: Khairat Makanjuola, CPA, Chief Operating Officer

CC: The Honorable Treasurer Colleen Davis
Deputy Treasurer Brennon Fountain
Deputy Attorney General Jason Staib
Ms. Fiah Kwessey, Director of Operations and Funds Management

DATE: February 28, 2025

RE: Rebalance of Liquidity vs. Reserve Portfolios to Approved Targets

During the Cash Management Policy Board (“CMPB”)’s Investment subcommittee meeting held on February 26, 2025, the board’s investment advisor (“NEPC”) advised that as of December 31, 2024, the liquidity portion of Delaware’s total consolidated portfolio was 19.6% (or 21% of liquidity and reserve pools only). See fund performance detail below.

Delaware State Treasury

TOTAL FUND PERFORMANCE DETAIL - NET OF FEES

	Allocation		Performance (%)										
	Market Value (\$)	% of Portfolio	1 Mo (%)	3 Mo (%)	9 Mo (%)	1 Yr (%)	2 Yrs (%)	3 Yrs (%)	4 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Inception (%)	Inception Date
Delaware Total Consolidation	6,268,038,317	100.00	-0.54	-1.20	3.03	3.24	4.38	2.02	1.29	2.00	2.07	2.11	Jan-05
Total Liquidity & Reserve	5,738,289,379	91.55	-0.56	-1.34	2.90	2.92	4.14	1.79	1.02	1.86		2.17	Dec-16
Total Liquidity	1,209,127,018	19.29	0.39	0.95	4.13	5.33	5.30	3.45	2.55	2.33	1.91	1.96	Jan-05
PFM Asset Management	619,624,624	9.89	0.40	1.03	4.18	5.40	5.34	3.76	2.81	2.53	2.03	1.82	Jun-13
Wilmington Liquidity	589,502,394	9.40	0.39	0.86	4.07	5.25	5.25	3.14	2.30	2.14	1.79	3.91	Jan-85
Total Reserve	4,529,162,361	72.26	-0.83	-1.99	2.68	2.37	3.58	-0.15	-0.56	0.80	1.58	2.07	Jan-05
Reserve Custom Index			-0.81	-1.99	2.84	2.56	3.64	-0.65	-0.91	0.55	1.41	2.14	
Over/Under			-0.01	0.00	-0.17	-0.19	-0.07	0.50	0.35	0.25	0.17	-0.08	
JPM Intermediate	1,144,948,432	18.27	0.18	-0.02	3.95	4.46	4.66	1.98	1.38	1.81	1.80	1.66	Jun-13
J.P. Morgan Custom Index			0.23	-0.03	3.88	4.28	4.37	1.63	1.10	1.52	1.60	1.48	
Over/Under			-0.05	0.01	0.07	0.17	0.29	0.34	0.29	0.29	0.21	0.18	
Blackrock Financial Mangement	1,144,532,639	18.26	-0.14	-0.73	3.60	3.78	4.31	0.94	0.48	1.29		1.97	Mar-18
Blackrock Custom Index			-0.08	-0.71	3.58	3.69	4.15	0.89	0.41	1.21		1.87	
Over/Under			-0.06	-0.01	0.03	0.09	0.16	0.05	0.06	0.09		0.10	
Chandler Asset Management	1,132,454,141	18.07	-1.60	-3.43	1.99	1.04	3.29	-2.06	-2.19	-0.04	1.40	1.33	Jun-13
Chandler/Lazard Custom Index			-1.70	-3.60	1.93	1.12	2.97	-2.59	-2.60	-0.32	1.22	1.16	
Over/Under			0.10	0.17	0.07	-0.07	0.32	0.54	0.42	0.27	0.17	0.17	
Lazard Financial Management	1,107,227,150	17.66	-1.76	-3.76	1.15	0.23	2.54	-2.54	-2.58	-0.51		1.26	Mar-18
Chandler/Lazard Custom Index			-1.70	-3.60	1.93	1.12	2.97	-2.59	-2.60	-0.32		1.42	
Over/Under			-0.06	-0.16	-0.78	-0.88	-0.43	0.05	0.02	-0.20		-0.16	
Total Endowment	136,999,857	2.19	-2.44	-1.76	5.72	10.95	13.64	2.48	4.72	5.43			Dec-10
Endowment Custom Index			-2.22	-1.31	6.19	11.45	13.83	2.93	5.13	6.72	6.67	7.20	
Over/Under			-0.22	-0.44	-0.47	-0.50	-0.19	-0.45	-0.42	-1.29			
SEI Balanced Strategy	70,574,637	1.13	-2.22	-1.71	6.24	11.54	14.17	2.64	4.85	6.83		7.21	Aug-15
Vanguard Funds	66,425,128	1.06	-2.67	-1.81	5.17	10.32	13.08	2.31	4.57			5.96	Sep-20

This discussion resurrected a previous motion proposed by OST to the Board’s Investment Subcommittee (“ISC”) (which was approved at the February 12, 2025) meeting to allow OST to take up to six months to rebalance the



liquidity and reserve funds to the board approved targets of 25% and 75% respectively, should these fund targets dip outside of the buffer range of either 20% or 30 % for the liquidity portion.

Chair Engle requested that this previous motion be directed back to the ISC for further consideration, and asked OST about the current allocations of liquidity and reserve portions of the stated portfolio. As of January 31, 2024, the liquidity portion of Delaware's liquidity and reserve pools only was 16.2%, with reserve making up 83.8%. See portfolio detail below.

Liquidity Portfolio Yield and Duration Analysis								
Portfolio					Benchmark			
		% of Total Liquidity &						
	Portfolio Value	Reserve Assets	Yield	Duration		Yield	Duration	
PFM \$	456,842,262	8.4%	4.65%	0.72	6-Month Treasury Bill	4.30%	0.48	
Wilmington Trust \$	426,567,025	7.8%	4.41%	0.77	6-Month Treasury Bill	4.30%	0.48	
Total Liquidity \$	883,409,287	16.2%	4.53%	0.74	6-Month Treasury Bill	4.30%	0.48	
Reserve Portfolio Yield and Duration Analysis								
Portfolio					Benchmark			
		% of Total Liquidity &						
	Portfolio Value	Reserve Assets	Yield	Duration		Yield	Duration	
JP Morgan \$	1,150,202,397	21.1%	4.41%	1.81	BAML 1-3 Yr Govt/Credit A+	4.31%	1.80	
BlackRock \$	1,150,452,228	21.2%	4.47%	2.63	BAML 1-5 Yr Govt/Credit A+	4.36%	2.52	
Chandler \$	1,139,384,691	20.9%	4.80%	5.91	BAML 5-10 Yr Govt/Credit A+	4.65%	6.04	
Lazard \$	1,115,658,946	20.5%	4.56%	6.22	BAML 5-10 Yr Govt/Credit A+	4.65%	6.04	
Total Reserve \$	4,555,698,262	83.8%	4.56%	4.12	Custom Reserve Benchmark	4.49%	4.10	
Total Liquidity & Reserve Portfolio Yield and Duration Analysis								
Portfolio					Benchmark			
		% of Total Liquidity &						
	Portfolio Value	Reserve Assets	Yield	Duration		Yield	Duration	
Total Liquidity & Reserve \$	5,439,107,549	100.0%	4.56%	3.57	Weighted Average	4.40%	2.29	

Chair Engle asked OST to provide to the Board, OST's analysis and intended transactions considered to restore the liquidity and reserve pools back to the board approved targets in a manner that did not cause significant realized losses to the portfolio.

After internal discussions, which included a review of projected inflows of excess cash in the amount of \$490 million (from the State's current disbursement account) to the liquidity accounts from February 2025 to June 2025, OST determined that the portfolio allocations could be organically restored to a 22.3% and 77.7% split by June 2025 without targeted drawdowns from the reserve pool.

OST further determined that action was necessary now to attempt to restore the liquidity allocations to 20% or 25% as soon as possible. Our analysis revealed that a \$300 million or a \$550 million draw down would help us accomplish either of these targets. To that end, we asked respective managers and the Board's investment advisor to provide an analysis of expected realized losses and gains.

The tables below indicate the split of funds drawn from each reserve manager along with a projection of expected gains and losses in either scenario.



Scenario 1. An equal drawn down of \$75 million from each reserve manager for a total of \$300 million.

Reporting Account Name	Current (MV)	As Of Date	Portfolio Transactions for REALLOCATION	Unrealized as of 01/25	Post (MV)	Post Draw % of Total	Cumulative	Prorated Realized G/L
<u>Liquidity</u>								
PFM	423,008,078.40	2/24/2025	150,000,000.00		573,008,078.40	10.61%	10.61%	
WILMINGTON	392,615,339.97	2/24/2025	150,000,000.00		542,615,339.97	10.05%	20.66%	
					1,115,623,418.37			
<u>Reserve</u>								
BLACKROCK (DEL-SD)	1,154,947,955.66	2/24/2025	(75,000,000.00)	(1,091,421.30)	1,079,947,955.66	20.00%	40.67%	140,000.00
CHANDLER	1,149,217,558.70	2/24/2025	(75,000,000.00)	(33,145,485.13)	1,074,217,558.70	19.90%	60.56%	(1,400,000.00)
JPM INTERMEDIATE	1,153,649,967.43	2/24/2025	(75,000,000.00)	4,118,920.14	1,078,649,967.43	19.98%	80.54%	330,000.00
LAZARD	1,125,404,081.54	2/24/2025	(75,000,000.00)	(32,419,519.53)	1,050,404,081.54	19.46%	100.00%	450,000.00
					-			
TOTAL Fixed Income	\$ 5,398,842,981.70		\$ -	\$ -	5,398,842,981.70	100.00%		(480,000.00)
					\$ 269,942,149.09			

Scenario 2. An equal drawn down of \$137.5 million from each reserve manager for a total of \$550 million.

Reporting Account Name	Current (MV)	As Of Date	Portfolio Transactions for REALLOCATION	Unrealized as of 01/25	Post (MV)	Post Draw % of Total	Cumulative	Prorated Realized G/L
<u>Liquidity</u>								
PFM	423,008,078.40	2/24/2025	275,000,000.00		698,008,078.40	12.93%	12.93%	
WILMINGTON	392,615,339.97	2/24/2025	275,000,000.00		667,615,339.97	12.37%	25.29%	
					1,365,623,418.37			
<u>Reserve</u>								
BLACKROCK (DEL-SD)	1,154,947,955.66	2/24/2025	(137,500,000.00)	(1,091,421.30)	1,017,447,955.66	18.85%	44.14%	500,000.00
CHANDLER	1,149,217,558.70	2/24/2025	(137,500,000.00)	(33,145,485.13)	1,011,717,558.70	18.74%	62.88%	(2,400,000.00)
JPM INTERMEDIATE	1,153,649,967.43	2/24/2025	(137,500,000.00)	4,118,920.14	1,016,149,967.43	18.82%	81.70%	750,000.00
LAZARD	1,125,404,081.54	2/24/2025	(137,500,000.00)	(32,419,519.53)	987,904,081.54	18.30%	100.00%	900,000.00
					-			
TOTAL Fixed Income	\$ 5,398,842,981.70		\$ -	\$ -	5,398,842,981.70	100.00%		(250,000.00)

NEPC provided the following recommendation:

NEPC's preference would be to rebalance the portfolio such that Liquidity reaches the full target of 25% by liquidating \$550m from Reserve. By rebalancing the Liquidity portfolio to 25% instead of 20%, the portfolio would be in-line with the policy target and avoid the possibility of having to do an additional rebalance if the allocation drops below 20% again. That said, OST advised of additional inflows into the Liquidity account in the coming months. If the Treasury expects additional inflows of \$500m outside of these transactions, NEPC is comfortable with only rebalancing to 20%.

In addition, given the fee distribution and realized loss assumption from the Reserve managers, we would consider liquidating more from Chandler than Lazard as doing so would reduce the level of realized losses from these



transactions. With that, we acknowledge there would no longer be an even split between the Reserve managers, but the duration of the portfolio would remain the same since both Chandler and Lazard measure against the same benchmark.

Conclusion:

Having consulted with OST's Deputy Attorney General that the investment architecture does not mandate an equal draw down of funds from all managers in these types of situations and considering that NEPC had previously recommended that funds be redirected from Lazard to a different manager due to several quarters of performing below the benchmark during the next request for proposal for the investment managers' contracts in March 2026, OST felt comfortable with withdrawing a larger share of funds from Lazard, with no funds from Chandler. The table below shows the split of drawdowns in Scenario 1, which will restore the liquidity balance to 20% would achieve \$0 in realized losses to the overall portfolio. These transactions are expected to be executed on March 5, 2025.

Reporting Account Name	Current (MV)	As Of Date	Portfolio Transactions for 03/05	Post (MV)	Post Draw % of Total	Cumulative
<u>Liquidity</u>						
PFM	423,008,078.40	2/28/2025	150,000,000.00	573,008,078.40	10.61%	10.61%
WILMINGTON	392,615,339.97	2/28/2025	150,000,000.00	542,615,339.97	10.05%	20.66%
				1,115,623,418.37		
<u>Reserve</u>						
BLACKROCK (DEL-SD)	1,154,947,955.66	2/28/2025	(75,000,000.00)	1,079,947,955.66	20.00%	40.67%
CHANDLER	1,149,217,558.70	2/28/2025		1,149,217,558.70	21.29%	61.95%
JPM INTERMEDIATE	1,153,649,967.43	2/28/2025	(75,000,000.00)	1,078,649,967.43	19.98%	81.93%
LAZARD	1,125,404,081.54	2/28/2025	(150,000,000.00)	975,404,081.54	18.07%	100.00%
				-		
TOTAL Fixed Income	\$ 5,398,842,981.70		\$ -	5,398,842,981.70	100.00%	
				\$ 269,942,149.09		
OST - PFM ARPA	200,689,230.78	2/28/2025		200,689,230.78		
OST - WILMINGTON ARPA	194,491,222.79	2/28/2025		194,491,222.79		
Endowment - SEI	72,942,920.79	2/28/2025	12500	72,955,420.79		
Endowment - Mercer	68,218,688.59	2/28/2025	12500	68,231,188.59		
Endowment - Cash	92.42	2/28/2025	-	92.42		
Total Portfolio	\$ 5,935,185,137.07		\$ 25,000.00	\$ 5,935,210,137.07		