



**MINUTES FROM THE MEETING OF  
THE CASH MANAGEMENT POLICY BOARD  
May 11, 2016**

A meeting of the Cash Management Policy Board was held May 11, 2016 at 10:00 AM  
At the Buena Vista Conference and Reception Center  
Located at 661 South DuPont Highway, New Castle, DE 19720

Board Members in Attendance:

Mr. John Flynn, Chairman  
Mr. Warren Engle, Chair, Banking Subcommittee  
Mr. Mike Karia, Co-Chair, Investment Subcommittee  
Ms. Lynda Messick  
The Honorable Ken Simpler, State Treasurer  
The Honorable Jeff Bullock, Secretary of State  
The Honorable Tom Cook, Secretary of Finance

Board Members Not in Attendance:

Mr. Michael Morton, Controller General  
Mr. Dave Marvin, Chair, Investment Subcommittee

Others in Attendance:

Ms. Laura Gerard, Deputy Attorney General, OST Counsel  
Mr. Steve McVay, Director of Investments & Cash Management, Office of the State Treasurer  
Ms. Susan Steward, Policy Analyst, Office of the State Treasurer  
Mr. James DiDonato, Office of the State Treasurer  
Ms. Martha Sturtevant, Executive Assistant to the State Treasurer  
John Krimmel, Partner, NEPC

**CALLED TO ORDER**

Mr. Flynn called the meeting to order at 10:05 AM.

**APPROVAL OF MINUTES**

A MOTION was made by Ms. Messick and seconded by Mr. Engle to approve the minutes from the meeting of the Cash Management Policy Board on February 5, 2016.  
MOTION ADOPTED UNANIMOUSLY.

**NEPC UPDATE**

REVIEW OF PORTFOLIO PERFORMANCE

Mr. Krimmel presented and reviewed the monthly flash report and the quarterly portfolio performance report.

Mr. Krimmel indicated that NEPC would continue to review the format and benchmarks with the Investment Subcommittee. The Board discussed benchmarks as a tool for managers.

Mr. Krimmel reviewed the portfolio's Executive Summary. He added that the liquidity managers were outperforming the benchmark. Mr. Krimmel provided an overview of the five year risk and return and noted that among similarly structured portfolios, the State ranked in the 15<sup>th</sup> percentile. He reported NEPC had no concerns regarding the managers.

Mr. Krimmel noted that the Land and Water portfolio is just nine months old, but the managers have added value relative to the benchmark.

#### DISCUSSION OF REPORTING FORMAT

He reviewed the format of the reports and asked the Board for feedback on the scope and format of the reports.

Mr. Engle asked about the Reserve and Operating Fund performance since changes in August. Mr. Simpler noted an improvement, but questioned whether the benchmarks were the right ones.

Mr. Simpler said it was an excellent summary. Mr. Flynn and Mr. Engle also stated they approved of the format and found it informative.

Mr. Engle asked if the formatting was similar to what NEPC presented to their other clients. Mr. Krimmel noted that some client reports include, what he referred to as, a lava graph. He said it indicates how manager portfolios have changed over time. Mr. Simpler said he would like to see it added to the reports. Mr. Krimmel said NEPC would collect the data and prepare a sample for the report.

#### CALENDAR AND NEXT STEP

Mr. Krimmel provided an update on initiatives currently underway.

Mr. Krimmel stated NEPC is assisting OST in preparing for the upcoming RFP for Custodial Services. He reviewed the RFP timeline and indicated that final recommendations will be presented at the August meeting.

Mr. Krimmel stated that NEPC has worked with the Investment Subcommittee to review and revise the Statement of Objectives and Guidelines ("Guidelines"). He indicated a second revision of the Guidelines would be forthcoming after the completion of the architectural review.

Mr. Krimmel stated that NEPC is currently preparing a review and recommendations to the liquidity and reserve structure.

Mr. Simpler questioned the liquidity constraints. He encouraged further investment strategy collaboration between the Investment Subcommittee and NEPC to manage and minimize cash draws from investment accounts banks for seasonal near-term anticipated and unanticipated needs. Mr. Krimmel added that NEPC would be able to provide an unbiased assessment of how the portfolio is situated. Mr. Flynn noted that some meetings are telephonic and he suggested Mr. Krimmel schedule certain items for in-person meetings.

## **INVESTMENT SUBCOMMITTEE**

### **STATUS OF INVESTMENT CUSTODIAN RFP**

Mr. Simpler stated that the Investment Subcommittee expects to have a recommendation(s) for the full board by the next telephonic meeting.

### **PROPOSED INVESTMENT GUIDELINES**

Mr. Engle reviewed the timeline and goals of updating the Guidelines. He added that the focus of the first revision was primarily around technical clean up and secondarily for reorganization. He added that the Investment subcommittee approved the changes.

Mr. Krimmel reviewed the recommended Guideline revisions for the Board. He noted several minor changes to existing language. Other recommendations included an update to the collateralization of the cash management banks to a daily from an average monthly balance, and that alternative investments be reduced from 55% to 25% in the endowment accounts.

### **DISCUSSION OF BANK COLLATERALIZATION**

Mr. DiDonato asked how other states collateralize. McVay noted that OST sent a request through the National Association of State Treasurers, and of the 10 responses, three states collateralized daily, each with a different approach.

Mr. McVay reviewed the possibility of intraday risk and the Board debated perceived risk exposure of daily collateralization. Mr. Flynn asked the Board for comments. Ms. Messick brought up concerns regarding cyber security risk. Mr. Bullock stated he would accept reasonable recommendations from OST. Mr. Simpler suggested the Banking Subcommittee meet again and bring back their recommendation for the full Board.

Mr. Flynn tabled the motion for further review, and suspended approval of the changes to the Guidelines pending resolution of the issue.

Mr. Engle stated in addition to public financial statements, the Board has a call report requirement. He thought the Guidelines should address open access to the financial statements of vendors providing services to the Office of the State Treasurer. Mr. Flynn asked Mr. Simpler to further consider this provision with the Banking Subcommittee. Ms. Messick added her concerns about the State's vendor management policy. Mr. DiDonato replied that for non-banking institutions it was 'on demand.' Mr. McVay added that it was added as a requirement to the Merchant Services RFP.

## **BANKING SUBCOMMITTEE**

### **RECOMMENDATION FOR MERCHANT SERVICES RFP**

Mr. DiDonato provided an overview of the RFP timeline, responses and finalist presentations. He stated that the evaluation team recommends that Bank of America Merchant Services ("BAMS") be retained as the Merchant Services processor for the State of Delaware. Mr. DiDonato stated the evaluation team came to their decision based on performance and customer service.

A MOTION was made by Mr. Engle and seconded by Mr. Cook to authorize OST to negotiate a contract with Bank of America Merchant Services for the State of Delaware.

MOTION ADOPTED UNANIMOUSLY.

PROPOSED ONE YEAR CONTRACT EXTENTIONS OF PNC (DISBURSEMENTS)

Mr. McVay recommended a one-year contract extension for PNC Disbursement services.

A MOTION was made by Mr. Engle and seconded by Mr. Cook to extend the PNC disbursements contract for one year.

MOTION ADOPTED UNANIMOUSLY.

PROPOSED ONE YEAR EXTENTION OF PNC & JPM CHASE LOCKBOX CONTRACT

Mr. McVay recommended a one-year contract extension for PNC and JPM Lockbox services.

A MOTION was made by Mr. Engle and seconded by Mr. Cook to extend the PNC and JPM lockbox contract for one year.

MOTION ADOPTED UNANIMOUSLY.

RECOMMENDATION FOR DIRECT DEPOSIT RFP VENDOR SELECTION

Mr. DiDonato stated that the evaluation team unanimously recommends the incumbent Wells Fargo. He stated the evaluation team came to their decision based on superior pricing and current service provided.

A MOTION was made by Mr. Engle and seconded by Mr. Cook to authorize OST to negotiate a contract with Wells Fargo for Direct Deposit Services for the State of Delaware.

MOTION ADOPTED UNANIMOUSLY

**OLD BUSINESS**

Mr. Simpler stated that he would like to see the Banking Taskforce underway in the next few months and added that it would be a valuable asset to the Board.

**NEW BUSINESS**

Mr. Flynn recognized there was no longer a need to have separate representation for the Treasurer and the Board and that Ms. Laura Gerard would be representing both the Board and the Office of the State Treasurer.

BLOCKCHAIN TECHNOLOGY

Mr. Simpler recognized Ms. Steward as a new addition to OST. She gave an overview of blockchain technology and possible applications. She stated cyber security risks will delay technology implementation. Mr. DiDonato elaborated on the alternate uses of blockchain technology.

**PUBLIC COMMENTS**

No public present for comment.

**NEXT MEETINGS**

Mr. Flynn announced that the next meeting is scheduled for August 10, 2016 at 10:00 AM

**ADJOURNMENT**

A MOTION was made by Mr. Flynn to adjourn the meeting at 12:18 AM.

MOTION ADOPTED UNANIMOUSLY.

Respectfully submitted,

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John Flynn  
Chairman, Cash Management Policy Board