



Kenneth A. Simpler
State Treasurer

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**MINUTES FROM THE MEETING OF
THE CASH MANAGEMENT POLICY BOARD
NOVEMBER 16, 2016**

A meeting of the Cash Management Policy Board was held November 16, 2016
At 10:00 AM in the Buena Vista Conference and Reception Center
Located at 661 South DuPont Highway, New Castle, DE 19720

Board Members Represented or in Attendance:

Mr. John Flynn, Chair, Cash Management Policy Board
Mr. Dave Marvin, Chair, Investment Subcommittee
Mr. Mike Karia, Co-Chair, Investment Subcommittee
The Honorable Ken Simpler, State Treasurer
The Honorable Jeff Bullock, Secretary of State
Mr. Art Jenkins (on behalf of Mr. Michael Morton, Controller General)
Ms. Lynda Messick

Board Members Not Represented or in Attendance:

Mr. Warren Engle, Chair, Banking Subcommittee
The Honorable Thomas J. Cook, Co-Chair, Banking Subcommittee, Secretary, Department of Finance

Others in Attendance:

Ms. Laura Gerard, Deputy Attorney General, Department of Justice (Telephonically)
Mr. Steve McVay, Director of Investments and Cash Management, Office of the State Treasurer
Mr. James DiDonato, Manager of Banking Services, Office of the State Treasurer
Ms. Susan Steward, Policy Advisor, Office of the State Treasurer
Ms. Martha Sturtevant, Executive Assistant to the State Treasurer
Mr. John Krimmel, NEPC

CALLED TO ORDER

Mr. Flynn called the meeting to order at 10:04 AM and introductions were made around the table.

APPROVAL OF MINUTES

A MOTION was made by Ms. Messick and seconded by Mr. Simpler to approve the minutes from the meeting of the Cash Management Policy Board (Board) on August 10, 2016.
MOTION ADOPTED UNANIMOUSLY.

REPORT ON QUARTERLY INVESTMENT PERFORMANCE

Review of Quarterly Performance Report by NEPC

Mr. Krimmel reviewed the portfolio position and summarized current financial markets. Most notably, the rising equities and 10-year Treasury bond yield are encouraging. He stated all managers outperformed their respective indices, and noted the Reserve and Liquidity Accounts are up in an otherwise down market.

Mr. Krimmel stated that for the short-term, NEPC projects the Federal Reserve will raise interest rates another 25 basis points (bps) in December, with one or two additional rate hikes at the beginning of 2017. He stated that the market anticipates higher inflation in the next year.

UPDATE ON WELLS FARGO

Direct Deposit Contract Negotiations and Concerns with Wells Fargo

Mr. Simpler referred to the November 14th memo he distributed to the Board regarding Wells Fargo. The memo and appendices cited the ongoing investigations into their internal practices and Wells Fargo's response to OST regarding the matter. He stated that OST outlined three specific considerations for the Board: the first consideration was Wells' operational capacity to perform, the second was administration costs of monitoring Wells Fargo, and the third was the Board's stewardship of public trust.

Mr. Simpler reminded the Board that OST had been in negotiations for six months, unsuccessfully, with Wells Fargo for the Direct Deposit contract. Furthermore, the previous agreement with Wells Fargo has expired and requires that OST either sign an extension, a new contract, or cancel the RFP award and proceed to negotiate with alternative finalist PNC for a two-year contract. Mr. Simpler reported that PNC is the current disbursements bank for the State and already performs ACH transactions for the State. OST believes that conversion testing would take several months, but PNC would provide the smoothest transition for State organizations.

Mr. Simpler stated that after weighing all three considerations, OST recommends that the Board authorize OST to enter into negotiations with PNC for a two-year contract. The Board discussed the standard for financial institutions, the issue of public trust, and Wells Fargo's failure to finalize the contract award as reasons to proceed as recommended.

A MOTION was made by Mr. Simpler and seconded by Mr. Marvin to authorize OST to enter into negotiations with PNC for the Direct Deposit services contract.

MOTION ADOPTED UNANIMOUSLY.

UPDATE ON SPECIAL COUNSEL RFP

Mr. Simpler updated the Board on the status of the RFP for Special Counsel. He reported that the selection committee concurred that two firms were competent and that both firms brought different areas of expertise. Mr. Simpler stated that OST recommends engaging both firms as Special Counsel.

A MOTION was made by Mr. Simpler and seconded by Mr. Marvin to authorize OST to enter into negotiations for Special Counsel for Investment and Banking matters.

MOTION ADOPTED UNANIMOUSLY.

REPORT FROM THE INVESTMENT SUBCOMMITTEE

Update on the Status of Investment Guidelines

Mr. McVay said that since the Investment Guidelines were approved in August, and published in October with the Register of Regulations, the Investment Managers (Managers) had provided feedback. The Managers recommended defining nationally recognized statistical rating organizations (“NRSROs”). OST recommends defining NRSROs to include Moody’s, Fitch, S&P, and Morningstar. Mr. Flynn asked Ms. Gerard to confirm if this change is a technical change, and she confirmed that it met the definition.

A MOTION was made by Ms. Messick and seconded by Mr. Simpler to amend the definition relating to NRSROs within the guidelines.

MOTION ADOPTED UNANIMOUSLY.

Mr. McVay stated that it would be updated with the Register of Regulations for the December publication of the final Guidelines.

Update on the Liquidity Analysis Report

Mr. Krimmel provided a review of the liquidity analysis. He stated that NEPC had completed an initial analysis and is preparing to add data back to 2008 and 2009. Mr. Krimmel noted that NEPC was in the process of developing three scenarios for testing the minimum thresholds. He said a draft of the revised analysis would be ready for Board by the February meeting.

Renewal of Investment Manager Contracts

Mr. Simpler stated that the contracts for the Managers are up for renewal in May and that OST recommends extending the contracts for one year with eight of the nine Managers. He suggested the Board revisit extending the contract with Wells Fargo at the next Board meeting in February.

A MOTION was made by Mr. Simpler and seconded by Mr. Marvin to approve one-year extensions for eight of the nine existing Manager contracts.

MOTION ADOPTED UNANIMOUSLY.

REPORT FROM THE BANKING SUBCOMMITTEE

Update on Cash Management Bank Collateralization

Mr. McVay provided a review of Bank of New York Mellon’s (BNYM) automated investment sweep, and an update on current collateralization negotiations with other cash management banks. Mr. Simpler acknowledged that the risk is theoretical but added, that at no additional cost, it is an important safeguard for public funds.

Update on Banking Services Task Force (Task Force) and Banking Contracts Timeline

Mr. DiDonato informed the Board that OST was undertaking a top down review on the State’s banking architecture. He reported that ten different State agencies are represented in the Task Force. Mr. DiDonato noted the importance of statewide agency participation and said surveys were sent to all agencies to gauge banking needs. He added that engaging a banking consultant would assist in a risk assessment while achieving efficiencies in studying the State’s banking architecture. Mr. DiDonato noted that in his 25 years at OST, there had never been a comprehensive review of the State’s banking architecture.

Mr. McVay recommended that contingent upon the hiring of a consultant, six of the banking services contracts (BNYM Electronic Collections, PNC Disbursements, Citizens OTC Collections, PNC Department of Labor Lockboxes (2), and JP Morgan Chase Lockbox (Corporations)) be extended for one-year to allow time for consultant engagement, research, and recommendations.

A MOTION was made by Mr. Bullock and seconded by Mr. Simpler to approve the extensions of the six banking contracts contingent upon the engagement of a banking consultant. The extensions for six banking contracts would extend the duration for one-year and expire on December 31, 2018.

MOTION ADOPTED UNANIMOUSLY.

Outside Bank (Investment) Accounts

Mr. McVay stated that there were four outside bank accounts considered to be investment accounts with balances that totaled approximately \$5.6 million. Of the \$5.6 million, approximately \$4.9 million is in one account for the Court of Chancery and currently being managed by Public Financial Management (PFM). OST plans to acquire written confirmation that they are following the Cash Management Policy Board Investment Guidelines as they pertain to these accounts.

Update on the Conversion to New Custodian Northern Trust

Mr. McVay reported that the transfer of assets from BNYM to Northern Trust was scheduled for December 1, 2016.

OLD BUSINESS

No old business presented.

NEW BUSINESS

No new business presented.

PUBLIC COMMENTS

No members of the public present for comment.

NEXT MEETING

Mr. Flynn announced that the next meeting is scheduled to be telephonic on February 8, 2017 at 10:00 AM.

ADJOURNMENT

A MOTION was made by Mr. Flynn to adjourn the meeting at 11:04 AM.

MOTION ADOPTED UNANIMOUSLY.

Respectfully submitted,

John Flynn
Chair, Cash Management Policy Board