



Kenneth A. Simpler
State Treasurer

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**MINUTES FROM THE MEETING OF
THE CASH MANAGEMENT POLICY BOARD
MAY 24, 2017**

A meeting of the Cash Management Policy Board (the "Board") was held on May 24, 2017 at 10:00 a.m. in the DuPont Room at the Buena Vista Conference Center located at 661 S. DuPont Highway New Castle, DE 19720.

Board Members Represented or in Attendance:

Mr. John Flynn, Board Chair
Mr. Warren Engle, Chair, Banking Subcommittee
The Honorable Kenneth Simpler, State Treasurer
Mr. Jeffrey Bullock, Secretary, Department of State
Mr. Richard Geisenberger, Secretary, Department of Finance

Board Members Not Represented or in Attendance:

Mr. Michael Morton, Controller General
Mr. Dave Marvin, Chair, Investment Subcommittee
Mr. Mike Karia, Co-Chair, Investment Subcommittee
Ms. Lynda Messick, Co-Chair, Banking Subcommittee

Others in Attendance:

Mr. Jason Staib, Deputy Attorney General, Delaware Department of Justice
Ms. Nora Gonzalez, Deputy State Treasurer
Mr. Stephen McVay, Cash Manager, OST
Ms. Jessie Ryan, Administrative Specialist, OST
Mr. John Krimmel, Partner, NEPC, LLC
Mr. Ian Spencer, Research Consultant, NEPC, LLC
Ms. Barbara Fava, Managing Director, PFM Asset Management, LLC
Ms. Heather Sights, Senior Analyst, PFM Asset Management, LLC

CALLED TO ORDER

The meeting was called to order at 10:07 a.m.

APPROVAL OF MINUTES

**A MOTION was made by Mr. Flynn and seconded by Mr. Bullock to approve the minutes of the February 22, 2017 Board meeting.
MOTION ADOPTED UNANIMOUSLY**

A MOTION was made by Mr. Flynn and seconded by Mr. Engle to approve the minutes of the April 7, 2017 Board meeting.

MOTION ADOPTED UNANIMOUSLY

NEPC PRESENTATION ON PORTFOLIO PERFORMANCE

Mr. Krimmel reviewed the portfolio performance (for the quarter ended March 31, 2017) which was detailed in a handout distributed to Board members. He noted there were no issues or organizational concerns with the managers at this time and that all managers had outperformed their respective benchmarks for the both the current quarter and fiscal year to date. He went on to note both quarterly and monthly reports are in the process of being re-configured to aid OST in monitoring variances in historical liquidity balances and assisting with tracking estimates of DEFAC general fund interest income estimate.

NEPC PRESENTATION ON STATE LIQUIDITY ANALYSIS AND PROPOSED INVESTMENT ARCHITECTURE

A handout was distributed to the Board members detailing the liquidity analysis and proposed investment structure (recommended by the Board's Investment Subcommittee), which Mr. Spencer reviewed at length. NEPC provided an in-depth review of the proposed investment structure, noting that no changes were occurring to safety considerations (i.e. permissible investments and credit quality restrictions).

The Board discussed the increased volatility relative to increased expected returns of the proposed structure and whether there was comfort with this tradeoff. The Board discussed the historical liquidity requirements of the State, especially during the great recession, and whether sufficient funds were allocated under the proposed investment structure.

After extensive discussion, the Board was satisfied that the proposed structure offers greater investment return and provides sufficient liquidity to meet anticipated needs (even if federal funding is reduced). In addition, the Board was satisfied that the high credit quality of holdings in the reserve space would provide sufficient liquidity for "unanticipated" needs.

The proposed investment architecture will be allocated (assuming a \$1,600 million average portfolio balance) to meet both anticipated liquidity needs (\$400 million) and unanticipated liquidity needs (\$1,200 million) and will be subject to the Board's Guidelines.

Anticipated liquidity needs will be allocated to two managers (each having a \$200 million account balance on average) and subject to section 6.0 (Liquidity Accounts) of the Guidelines. These two accounts will alternate the shared responsibility of being the primary source of anticipated liquidity needs within a given fiscal year, based on historic seasonality in cash flows of public funds. These managers should expect their entire accounts will be completely liquidated during certain periods of the year before surplus funds are available for replenishment.

Unanticipated liquidity needs will be allocated to four managers (each having a \$300 million account balance on average) and subject to section 7.0 (Reserve Accounts) of the Guidelines. Further, these accounts will be structured in a hierarchy consisting of four tiers with each tier having a unique duration target, as expressed by the Board. Tiers one through four will have duration targets of one to three years, three to five years, five to seven years, and from seven to ten years, respectively.

The Treasurer clarified that there will be no guideline changes or changes to the investment structure pending completion of the RFP process for the new investment managers which would be January 2018, at the earliest. Guideline changes will be brought to the Board for approval at the August meeting.

A MOTION was made by Mr. Flynn and seconded by Mr. Bullock to adopt the investment structure recommended by the Investment Subcommittee and authorize OST and NEPC to move forward with further analysis and the next steps.

MOTION ADOPTED UNANIMOUSLY

OST SCHOOL AND SPECIAL FUND PRESENTATION

The Treasurer discussed a handout that was distributed to the Board regarding school and special funds and the rate of interest that such funds currently earn and the impact and rationale for changes in this rate. These funds are deposited with the state and each month are paid a blended rate of interest earned by the liquidity managers. Payments on these deposits result in a reduction of interest income available to the general fund.

After extensive discussion, the Board agreed that the current arrangement was not ideal because the State is overcompensating school and special funds on deposit with the State (to the detriment of the General Fund). The Board will look for a recommendation from the Treasurer on how to move forward. The Treasurer, after consultation with NEPC, will make a recommendation on appropriate interest rates and will present same to the Board for approval at a special telephonic meeting. The Treasurer suggested that the interest rate be reviewed annually by the Board.

PFM BANKING STRUCTURE REVIEW AND VENDOR RISK MANAGEMENT

PFM provided an update on the banking structure review. Ms. Fava reviewed materials that were provided to the Board and discussed the process which PFM will undertake during the review. PFM will present its final recommendations to the Board at the August 2017 meeting.

HOUSE BILL 71

Mr. McVay discussed this legislation which requires financial disclosure for appointed Board members. He went on to explain that as of last week this legislation remains in committee.

FY2016 ANNUAL REPORT

Mr. McVay reviewed the Board's new annual report form. He noted the brevity of the revised report compared to previous versions.

A MOTION was made by Mr. Flynn and seconded by Mr. Bullock to approve the newly formatted annual report.

MOTION ADOPTED UNANIMOUSLY

APPOINTMENT OF DESIGNEES ON SUBCOMMITTEE

The Treasurer and Secretary Geisenberger, both *ex-officio* members, inquired about the possibility of allowing the appointment of designees at the sub-committee level. Mr. Staib

indicated that *ex officio* designees may participate and vote at the sub-committee level but would not, absent legislation, count towards a quorum or enjoy voting rights at the Board level.

**A MOTION was made by Mr. Flynn and seconded by Secretary Geisenberger to allow *ex officio* members to appoint designees for sub-committee meetings.
MOTION ADOPTED UNANIMOUSLY**

NEW BUSINESS

No new business

PUBLIC COMMENTS

No members of the public present.

NEXT MEETING

The next meeting of the Board is scheduled for August 23, 2017.

ADJOURNMENT

**A MOTION was made by Mr. Flynn adjourn the meeting at 12:13 p.m.
MOTION ADOPTED UNANIMOUSLY.**

Respectfully submitted,

John Flynn
Chair, Cash Management Policy Board