



Kenneth A. Simpler  
State Treasurer

TEL: 302.672.6700  
FAX: 302.739.2274

**MINUTES FROM THE MEETING OF  
THE CASH MANAGEMENT POLICY BOARD  
NOVEMBER 15, 2017**

A meeting of the Cash Management Policy Board (the "Board") was held on November 15, 2017 at 10:00 a.m. in the Buck Library 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. Dave Marvin, Chair, Investment Subcommittee  
Mr. Mike Karia, Co-Chair, Investment Subcommittee  
Ms. Lynda Messick, Co-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. Warren Engle, Chair, Banking Subcommittee  
Mr. Michael Morton, Controller General

Others in Attendance:

Ms. Stephanie Scola, Director of Bond Finance, Department of Finance  
Mr. Jason Staib, Deputy Attorney General, Delaware Department of Justice  
Ms. Nora Gonzalez, Deputy State Treasurer, OST  
Ms. Susan Steward, Policy Advisor, OST  
Mr. John Krimmel, Partner, NEPC, LLC  
Mr. Ian Spencer, Research Consultant, NEPC, LLC

**CALLED TO ORDER**

The meeting was called to order at 10:12 a.m.

**APPROVAL OF MINUTES**

**A MOTION was made by Mr. Flynn and seconded by Mr. Bullock to approve the minutes of the May 24, 2017 Board meeting.**

**MOTION ADOPTED UNANIMOUSLY**

**A MOTION was made by Mr. Flynn and seconded by Mr. Bullock to approve the minutes of the July 11, 2017 Board meeting.**

## **MOTION ADOPTED UNANIMOUSLY**

### **NEPC PRESENTATION ON PORTFOLIO PERFORMANCE**

Mr. Spencer reviewed the portfolio performance for the quarter ending September 30, 2017 which was detailed in a handout distributed to Board members. He noted the markets are anticipating that the Federal Reserve will raise interest rates in December. As a result, there was a pullback in September despite the stronger numbers from previous months. On a trailing one-year basis, the liquidity and reserve managers have continued to outperform the Board's benchmarks.

Mr. Spencer reviewed the trends of the cash flows for FY18 as compared to cash flows over the last ten years, noting that the current year is within trend.

### **INVESTMENT MANAGER RFP UPDATE**

Mr. Krimmel updated the Board on the Investment Manager RFP process. The Evaluation Committee met earlier this week to rank and select finalists. The Evaluation Committee decided to bring back 14 of the 35 total respondents for presentations in late-November and mid-December. The Evaluation Committee anticipates reporting more information to the Investment Subcommittee in anticipation of final manager selection in January.

Mr. Flynn asked if respondents submitted proposals for each tier of the proposed new investment architecture. Mr. Krimmel responded in the affirmative and indicated that there were three strong candidates for reserve tiers three and four.

Treasurer Simpler proposed a January meeting for members to meet with finalists as chosen by the Evaluation Committee. An anticipated vote of the Investment Subcommittee would be held at that time on the approval of recommendation for managers, with a Board meeting to follow. Treasurer Simpler reminded the Board that all of the managers' contracts end in May 2018, and that there would need to be time for transition of portfolios and implementation of the new architecture.

### **APPROVAL OF BOARD RESOLUTION 2017-1 APPROVING AND MEMORIALIZING INVESTMENT ARCHITECTURE FOR THE STATE'S CASH ACCOUNTS**

Mr. Marvin put forth the recommendation from the Investment Subcommittee to the Board to approve the resolution memorializing the investment architecture designed last spring by NEPC.

**A MOTION was made by Mr. Karia and seconded by Mr. Marvin to adopt the investment structure recommended by the Investment Subcommittee.**

## **MOTION ADOPTED UNANIMOUSLY**

### **BANKING STRUCTURE ARCHITECTURE UPDATE**

Ms. Gonzalez updated the Board on the banking structure report produced by PFM on the State's banking architecture. She noted there are four main recommendations that PFM has made to date on improving the State's banking architecture in the future. These four recommendations focus on technology, vendor management, the role of the Treasurer's office, and the overall cash management structure with various banks.

Ms. Gonzalez discussed the need for additional outside resources if these recommendations were to be implemented across the State. As part of this effort, OST has reached out to the Governor's

Efficiency and Accountability Review Board (GEAR). GEAR's charter is focused on creating efficiencies within State operations, which aligns well with the aims of this Banking Structure report. The Financial Delivery Services Subcommittee of GEAR was presented with the recommendations from this report to be included within their annual report to the Governor to hopefully bring more resources for support.

Mr. Geisenberger noted the redundancies across State government associated with banking transactions and discussed the need for this initiative to be undertaken.

Ms. Messick asked whether differences within the State's technology infrastructure would hamper efforts to achieve a new banking structure. The Treasurer stated that OST intends to complete an ROI or RFP next year to determine the best methods for implementing PFM's banking structure recommendations.

### **COLLATERALIZATION OF STATE FUNDS UPDATE**

Mr. Staib provided an update to the Board on the work being done by OST to research the issues associated with collateralization of State funds. Mr. Staib discussed the potential risks associated with intraday bank failures, generally, as well as risks associated with the various risk reduction mechanism, including sweep accounts, collateralization with securities and collateralization with letters of credit. Overall, Mr. Staib stated that intraday bank failure is very rare and presents minimal risk for public cash managers using same-day sweep products and/or some form of collateral with levels and valuations tied to end-of-day or average monthly balances.

Mr. Staib stated that, with the exception of Maryland, there are no other states that require banks to post collateral at levels and values covering highest intraday balances. Given the minimal risk associated with intraday balances, the Board may want to consider amending the Guidelines to permit collateralization using end-of-day or average monthly balances. Ms. Messick concurred with Mr. Staib's assessment of the intraday risk being minimal because the FDIC will usually close at end of day absent substantial fraud.

### **BANK OF AMERICA MERCHANT SERVICES IMPLEMENTATION**

Ms. Gonzalez updated the Board on the transition from EPX to BAMS. She informed the Board that OST has brought on a specialist to move the project forward with BAMS and EPX. OST hopes to begin moving merchants in December.

### **NEW BUSINESS**

No new business

### **PUBLIC COMMENTS**

No members of the public present.

### **NEXT MEETING**

The next meeting of the Board is scheduled for February 28, 2018.

### **ADJOURNMENT**

**A MOTION was made by Mr. Flynn adjourn the meeting at 11:29 a.m.**

**MOTION ADOPTED UNANIMOUSLY.**

Respectfully submitted,

---

John Flynn  
Chair, Cash Management Policy Board