



**MINUTES FROM THE INVESTMENT SUBCOMMITTEE  
OF THE CASH MANAGEMENT POLICY BOARD  
April 15, 2020**

A meeting of the Investment Subcommittee (the “Subcommittee”) of the Cash Management Policy Board (the “Board”) was held on April 15, 2020 at 1:00 p.m. Pursuant to paragraph 5 of Governor Carney’s Emergency Order dated March 12, 2020 the meeting was held telephonically, without a physical location.

Subcommittee Members Represented or in Attendance:

Mr. Dave Marvin, Subcommittee Chair  
Mr. Mike Karia, Subcommittee Co-Chair  
The Honorable Colleen Davis, State Treasurer  
Mr. Rick Geisenberger, Secretary, Department of Finance

Subcommittee Members Not Represented or in Attendance:

Mr. John Flynn, Board Chair

Others in Attendance:

Mr. Jason Staib, Deputy Attorney General, Delaware Department of Justice  
Ms. Liza Druck Davis, Deputy State Treasurer, OST  
Mr. Daniel Madrid, Chief Operating Officer, OST  
Ms. Fiah Kwesseu, Director of Operations & Fund Management, OST  
Ms. Dawn Davis, Assistant Debt and Cash Manager, OST  
Mr. Stephen McVay, Assistant Debt and Cash Manager, OST  
Mr. Jordan Seemans,  
Mr. Jamie Johnstone, Deputy Principal Assistant, Department of Finance  
Mr. John Krimmel, Partner, NEPC  
Ms. Jennifer Appel, Senior Research Analyst, NEPC

**CALLED TO ORDER**

Ms. Davis called the meeting to order at 1:04 p.m.

**APPROVAL OF THE MINUTES**

**A MOTION was made by Treasurer Davis and seconded by Secretary Geisenberger to approve minutes from the Subcommittee meeting on February 5, 2020.**

**MOTION ADOPTED UNANIMOUSLY**

**CASH FLOW AND PORTFOLIO BALANCE DISCUSSION AND REVIEW**

### *Long-Range Scenario Analysis*

The long-range scenario analysis for the fixed income portfolio balances was presented by Mr. John Krimmel of NEPC. The purpose of the analysis was to generate outcomes related to the COVID-19 Pandemic. The three forecasting methods used were Global Financial Crisis Cash Flows, Trailing 10 Years Worst Month and Trailing 10 Years Worst Month- Smoothed. Each method was analyzed two ways, (1) utilizing actual positive and negative cash flows- “best case” scenario and (2) utilizing a \$0 cash flow in months that normally have positive cash flows- “worst case” scenario. The analysis resulted in a terminal value at the end of the 18-month forecasting period (9/30/2021).

The beginning market value as of 3/31/2020 is \$2.7B. The results of the global financial crisis cash flows under the best- and worst-case scenarios the terminal values were \$2.4B and \$1.85B respectively. The results of the trailing 10 years worst month were \$795M and \$741M. The results of the trailing 10 years worst month smoothed were \$2.69M and \$1.29M. The analysis showed a wide range of outcomes over the 18-month period with the worse-case scenario terminal value at \$741M and the best-case scenario terminal value at \$2.4B. Mr. Krimmel concluded that the State has enough cash to get through the next 12-18 months.

### *Short-term Liquidity Analysis*

Deputy Treasurer Davis presented the short-term liquidity analysis to the Subcommittee. The purpose of the forecast was to determine the need for and the timing of transfers between the State’s bank and investment accounts during the COVID-19 Pandemic. The analysis was based on the conservative assumptions that revenue would drop by 40% during April and May and the level of expenditures would not change. The market value as of March 31, 2020 is \$675B. The first liquidity draw in April 2020 was \$130M and OST anticipates drawing an additional \$380M by May 31, 2020. The project balance as of May 31, 2020 is \$165B and no reserve account draws are anticipated at this time.

## **INVESTMENT ARCHITECTURE DISCUSSION AND REVIEW**

The current investment architecture (Resolution 2018-1) was adopted by the Cash Management Policy Board on February 28, 2018. The State’s liquidity and reserve manager portfolios have reflected this architecture for two years, as of April 1, 2020. OST thought it would be a good time for the Board to review the architecture and three suggested amendments. The first amendment is to restate the allocation as percentages based on a standing 25/75 breakdown (liquidity/reserves) with the Board’s authority to revise the allocations at their discretion. The second amendment would redraft the reserve draw guidance to use a pro-rata distribution for draws in and out of the accounts. The third amendment would create a new section to memorialize the budget reserve account as a restricted account with JP Morgan, the restricted amount of the budget stabilization fund in the liquidity accounts and the Board’s authority to set liquidity account restrictions when the State receives federal funds (i.e. Cares Act). The changes will be drafted in preparation for the next Subcommittee meeting.

## **RECENT DOWNGRADES DISCUSSION AND REVIEW**

Mr. Krimmel informed the Subcommittee about the impact of COVID-19 on the Lazard reserve portfolio. The travel restrictions and stay-at-home orders instituted to reduce the spread of COVID-19 have negatively impacted the travel and leisure industry. The Lazard portfolio includes two airline equipment trust certificates (“ETC”). ETCs are bonds secured by airplanes (American Airlines and United Airlines) and the bond rating was downgraded to BBB+ (Stand and Poor) on March 20, 2020. The downgrade caused the securities to fall outside of the standard guidelines for permissible investments within in the portfolio. Investment Guidelines dictate that when securities are downgraded

and can no longer be held, that they should be sold immediately. The two securities represent approximately \$11M out of the \$500M portfolio. Lazard is aware that the securities must be sold, however they are not tradeable at the time. Treasurer Davis, Deputy Treasurer Davis and Mr. Krimmel have been proactive in asking Lazard to sell the securities as soon as there is a market without regard to a loss minimalization approach to bring the portfolio back into compliance. The market has opened back up and Mr. Krimmel recommends giving Lazard the choice to sell the securities by close of business Friday, April 17, 2020 or be removed as a reserve manager.

#### **EXECUTIVE SESSION**

No executive session was held.

#### **PUBLIC COMMENTS**

No members of the public present for comment.

#### **NEXT MEETING**

The next Subcommittee meeting is scheduled for May 6, 2020

The next full Board meeting is scheduled for May 27, 2020

#### **ADJOURNMENT**

**A MOTION was made by Mr. Karia and seconded by Mr. Marvin to adjourn the meeting of the Subcommittee at 2:30 p.m.**

**MOTION ADOPTED UNANIMOUSLY**

Respectfully submitted,

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David Marvin  
Chair for the Investment Subcommittee

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Mike Karia  
Co-Chair for the Investment Subcommittee