



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

A special 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, Office of the 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, Director of Legislative Affairs, Office of the Governor
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 (liquidity and reserve) was presented by Mr. Krimmel. As of March 31, 2020, the beginning market value of the overall portfolio was \$2.7 billion. The purpose of the analysis was to project potential portfolio balances in light of potential revenue declines caused by the COVID-19 pandemic. NEPC forecasted three scenarios using (1) global financial crisis cash flows, (2) trailing 10-year worst month cash flows, and (3) trailing 10-year worst month cashflows - smoothed. Each scenario was analyzed with two variations, (1) utilizing historical cash flows as a “best case” scenario, and (2) utilizing a \$0 cash flow assumption as a “worst case” scenario. The analysis compared terminal values at the end of the 18-month forecasting period, September 30, 2020.

The terminal values (best and worst case) using global financial crisis cash flows were \$2.4 billion and \$1.85 billion. The results using trailing 10-year worst month cash flows were \$795 million and \$741 million. The results using smoothed trailing 10-year worst month cash flows were \$2.69 billion and \$1.29 billion. The analysis showed a wide range of outcomes over the 18-month period. The best-case scenario terminal value was \$2.4 billion. The worst-case scenario terminal value was \$741 million. Mr. Krimmel advised that the results suggest that the State has enough cash in its portfolio to support operations through the next 12 to 18 months. He emphasized the inherent uncertainty in forecasting and cautioned that many unknown variables could result in actual results differing from projected values.

Short-term Liquidity Analysis

Deputy Treasurer Davis presented OST’s short-term liquidity analysis. The purpose of the forecast is to determine the need for and the timing of transfers between the State’s bank and investment accounts over the next two months. The analysis was based on the conservative assumptions that (a) revenue would drop significantly from historical averages during April and May 2020, and (b) the level of expenditures would not change. The market value of the State’s liquidity accounts as of March 31, 2020 was \$675 million. The first liquidity draw in April 2020 was \$130 million. Based on the conservative assumptions, OST projects the potential need for drawing an additional \$380 million by May 31, 2020. In this scenario, the projected liquidity balance as of May 31, 2020 is \$165 million. No reserve account draws are anticipated during this time.

INVESTMENT ARCHITECTURE DISCUSSION AND REVIEW

Deputy Treasurer Davis advised that the current investment architecture (approved by Resolution 2018-1) was adopted by the Board on February 28, 2018. She indicated that the State’s liquidity and reserve portfolios have been positioned to reflect this architecture for approximately two years. Deputy Treasurer Davis advised that OST has conducted a review of the architecture, including its strengths and weaknesses, and proposes three potential amendments.

The first proposed amendment will change the liquidity-versus-reserve allocation amounts to percentages - 25% liquidity and 75% reserve. The second proposed amendment relates to the reserve accounts and will require pro-rata draws from reserve managers. The third proposed amendment will address the presence of restricted amounts within the portfolio, including the Budget Reserve Account, the Budget Stabilization Fund.

The Subcommittee discussed the proposed amendments and potential modifications thereto and requested that a revised architecture be presented at the next Subcommittee meeting for further discussion and possible vote.

RECENT DOWNGRADES DISCUSSION AND REVIEW

Mr. Krimmel discussed recent developments in Lazard's reserve account. The Lazard portfolio included three airline equipment trust certificate ("ETCs") bonds, secured by American Airlines and United Airlines aircraft. The ETC bonds were subject to a series of downgrades by the rating agency S&P, beginning on March 20, 2020. The resulting BBB ratings on the three ETC bonds caused the securities to fall outside of the Guidelines for permissible investments within in the portfolio. The Guidelines require the immediate sale of any security which is no longer in compliance with the Guidelines due to a downgrade.

Mr. Krimmel indicated that Lazard contacted OST on March 26, 2020 to request a temporary exception to the immediate sale of the ETC bonds. Lazard stated that no market for the ETC bonds then existed. Treasurer Davis, Deputy Treasurer Davis and Mr. Krimmel spoke with Lazard on multiple occasions and communicated that the ETC bonds were to be sold as soon as a market materialized, without regard to losses, in order to bring Lazard's account back into compliance.

The Subcommittee discussed the recommendations from OST staff and Mr. Krimmel and was in agreement that Lazard would need to sell the securities by close of business on Friday, April 17, 2020.

The travel restrictions and stay-at-home orders instituted to reduce the spread of COVID-19 have negatively impacted the travel and leisure industry.

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,

David Marvin
Chair for the Investment Subcommittee

Mike Karia
Co-Chair for the Investment Subcommittee