

**Meeting Minutes
Investment Committee
Dewey Beach, DE
July 8, 2021**

Chair called the meeting to order at 5:05 PM.

Meeting was conducted remotely using Zoom.

Committee members present included Chairman Brian Privor, Mike Schaffer, Jimmie Lee, Dennis Trencher, and Bernie Krauss.

Other Attendees: Dominic Difebo from Brown Advisory, Commissioners Bill Stevens and Gary Persinger, Town Manager Bill Zolper and Sheena Gosset.

The meeting minutes from the previous meeting were reviewed. Unanimous vote to accept the meeting minutes.

Overview of Town Budget by Bill Zolper

- Overall a strong year so far, approximately \$500k over budgeted revenue if no major problems later in year.
- Transfer Tax is ahead of last year; made budget for year by July
- Parking and building permits are on track
- Need to think of alternatives to Transfer Tax since the current housing trend won't last.
- Hotel Occupancy Tax started 1 July 2021 and is due monthly. We will see first payment in August 2021
- American Rescue Act: received over \$100k so far.
- Expected drop in Transfer Tax will stress budget
- There are no anticipated holes in the budget this year and we do not expect any withdrawal from reserves
- Mike suggested a list of expenditures of expected budget needs for the October meeting

The Committee discussed the 2021-2022 Rainy Day Fund and General Fund Balance Policy

- Commissioner Persinger drafted General Fund Balance Policy and consulted auditors.
- Rainy Day fund set at \$1.9M (approximately 6 months reserve, or 50% of annual budget); Unassigned approximately 2 months or \$600k to go to operating account
- Committee can look at ways to invest Rainy Day fund with Brown Advisory
- Total cash is \$4.8M across all accounts, of which \$2M is in General Fund and \$1.4M at Brown Advisory. \$600k for short term operating account needs to be set aside for operations (Fulton Bank account), leaving the balance (approximately \$800k) that also can be invested at Brown. [Thus, \$600k to Fulton Bank; \$1.9M would go to Rainy Day Fund; leaving \$2.3 that can be invested at Brown for longer term.]
- 5% of transfer tax currently being added to Brown investments. This was result of the commissioners eliminating an older account

Dominic DiFebo from Brown Advisory updated the committee on the Dewey Beach investment portfolio and the current investment environment

- Accounting for funds done at town level and asset allocation would be done at Brown for short term instruments for the \$1.9M
- Current investments focused on long term and exceed goals overall vs blended benchmarks
- Bond-fixed income is focused on high quality
- Equity flexible outperforming S&P 500
- Small Cap value has outperformed growth, manages to balance out with the Small/Mid Cap equity funds
- Emerging markets added in 2019 has performed generally well and contributed to overall positive performance. We are watching the funds closely for any volatility caused by China that is included in the funds
- Overall net performance for past 12 months is 13.1%, benefiting from allocation decisions (e.g., emerging markets) and underweight fixed income.
- Brown Advisory has started using outside consultants to analyze and grade investment decisions
- Question posed if other municipalities are diversifying away from cash-cash equivalents. Dominic advised against accepting risks at this time and suggested small adjustment around the margins in the current environment given factors such as struggles to find workers and low interest rates. Suggests considering a 60-40 (bond to equity) mix.
- Suggestion the committee discuss how much risk the Town should take on

Observations and question by the Committee Chair and Discussion

- Moving money from short to long term accounts to improve performance; can lengthen duration or slightly reduce credit quality (but still investment grade) of fixed income to improve returns
- Dominic has tweaked portfolio and we have realized growth
- Town needs to decide how much risk they are willing to accept
- Solid rainy-day fund allows to take on marginal risk.
- Dominic said cash in long term funds considered “strategic cash” to react to market opportunities. We can realign some of this cash to longer term investments to improve performance.

Discussion of revising Investment Policy needed to make changes to give Brown necessary direction

- Capital Improvement funds must be separate from Beach Replenishment funds in different accounts; Town will advise if permissible to blend Beach Replenishment with Capital Improvements funds into one long-term account to simplify; otherwise will have to remain as two accounts.
- Policy needs to be amended to use different investment vehicles for short term funds to support the General Fund. The other short term instruments must meet criteria such as duration (e.g. maximum 2 years to meet acceptable risk level) and credit quality (e.g. good credit)
- Need to improve current treasury investment instruments strategy

- Comment that different fund instruments OK as long as we can get money out then when we need it. Liquidity should not be an issue with any investment funds, but greater risk will entail greater volatility in value.
- Commissioner Persinger will send Dominic the current draft of the Investment Policy

Discussion of Vanguard fund (or other investments) to see if it is acceptable under current policy

- It should be because it is an index fund
- Jimmie commented that several HOA Boards he is on use Vanguard funds for reserves
- The Implementation Plan (i.e., guidelines from this Committee), however, does not track more permissive investment guidelines in Investment Policy (set forth in Town Code). Recommend changing Implementation Plan to provide Brown Advisory more leeway and guidance on permissible investments, particularly with regard to short-term fixed income.
- Motion made, seconded, and unanimously approved to Recommend to the Town Council a change to the Investment Implementation Plan definition of short-term investment to allow investment grade Index Funds. Chair will circulate draft to be presented at next meeting for approval.

No new business

October 14 is planned for the next Investment Committee meeting.

A motion to adjourn was made and seconded and the meeting dates were unanimously accepted.

Meeting adjourned 6:34 PM