

**OFFICE OF THE STATE TREASURER  
INVESTMENTS AND CASH MANAGEMENT**

Statutory Authority: 29 Delaware Code, Section 2716 (29 Del.C. §2716)  
1 DE Admin. Code 1201

**PROPOSED**

**PUBLIC NOTICE**

**1201 Objectives and Guidelines for the Investment of State of Delaware Funds**

**NATURE OF PROCEEDINGS; SYNOPSIS OF THE SUBJECT AND SUBSTANCE OF THE PROPOSED REGULATION**

In accordance with the procedures set forth in 29 Del.C. Ch. 11, Subch. III and 29 Del.C. Ch. 101, the Cash Management Policy Board of the State of Delaware is proposing to adopt a regulation on objectives and guidelines for the investment of State funds as described in 29 Del.C. §2716. The proposed regulation sets forth the rules governing practices for those investments.

**STATUTORY BASIS AND LEGAL AUTHORITY TO ACT**

29 Del.C. §2716.

**OTHER REGULATIONS AFFECTED**

None.

**HOW TO COMMENT ON THE PROPOSED REGULATION**

Members of the public may receive a copy of the proposed regulation at no charge by U.S. Mail by writing or calling [need name of person, address, phone and fax numbers. Members of the public may present written comments on the proposed regulation by submitting such written comments to Mr. Stephen McVay, at the Office of the State Treasurer, 820 Silver Lake Boulevard, Suite 100, Dover, DE 19904. Written comments must be received on or before October 31, 2016.

**SUMMARY OF PROPOSED REGULATION**

The Cash Management Policy Board (hereinafter the "Board") was created by 63 Del. Laws., Ch. 142, to establish policies (a) for the investment of all money belonging to the State or on deposit from its political subdivisions, except money deposited in any State Pension Fund or the State Deferred Compensation Program, and (b) to determine the terms, conditions, and other matters relating to those investments including the designation of permissible investments. (29 Del.C. §2716(a)). This regulation was adopted by the Board on August 10, 2016, but the changes herein have not previously been through the process of adoption established by the Administrative Procedures Act. The Board determined that certain amendments to the regulations adopted August 12, 2015 are desirable. Those amendments are included as a part of this proposed regulation.

**1201 Objectives and Guidelines for the Investment of State of Delaware Funds**

**4.0 Statutory Authorization**

- 1.1 ~~The Cash Management Policy Board (hereinafter the "Board") was created by 63 Del. Laws Ch. 142, to establish policies (a) for the investment of all money belonging to the State or on deposit from its political subdivisions, except money deposited in any State Pension Fund or the State Deferred Compensation Program, and (b) to determine the terms, conditions, and other matters relating to those investments including the designation of permissible investments. (29 Del.C. §2716(a)).~~
- 1.2 ~~The objectives and guidelines, as outlined herein, apply to all cash and special purpose funds for which the State is financially accountable (the "State's Fund"). These funds are categorized as outlined below.~~
  - 1.2.1 ~~Cash Accounts. The State's available cash divided into three parts:~~
    - 1.2.1.1 ~~Collection and Disbursement Accounts: The State maintains an amount of cash in its general collection and disbursement accounts sufficient to meet its outstanding obligations.~~
    - 1.2.1.2 ~~Cash and Liquidity Accounts: The majority of the State's cash balance available for investment is maintained in the cash and liquidity accounts. These accounts will be managed and invested by investment managers, selected by the Board through competitive bid, in order to maximize the return to the State while, at the same time, providing for safety of principal and sufficient liquidity for the State to meet its cash needs. The State will manage its short term (12 to 18 month)~~

~~investments to ensure sufficient liquidity and prevent their premature sale for the purpose of covering expenditures. Short term investments should mature at face value in sufficient amounts to meet any needs.~~

~~1.2.1.3 Reserve Cash (Intermediate) Account: To the extent cash is not expected to be needed on short notice, the Board will direct the funding of a third part. This fund shall be managed and invested by an investment manager or managers, selected by the Board after a competitive bid, in order to maximize the return on said money to the State while providing for the safety of principal. The State will manage its intermediate investments to ensure they are made under circumstances and in amounts in which the State would not be forced to liquidate them at a loss.~~

~~1.2.2 Special Purpose Accounts. There are two primary types of Special Purpose accounts:~~

~~1.2.2.1 Endowment Accounts: Endowment accounts consist of funds set aside for specified purposes.~~

~~1.2.2.2 Authority Accounts: The State's Authorities maintain a variety of fund types, including various operating funds, bond funds and debt service reserve funds.~~

## **2.0 Prudent Person Standard**

~~As mandated by 29 Del.C. §2716, the State's funds shall be invested pursuant to the prudent person standard under the guidelines set forth below. The Board will review regularly its investment policies and strategies in light of the State's experience as well as economic and financial conditions. Any modifications to these guidelines shall be promptly communicated in writing to the investment managers acting pursuant thereto. The Board will consider special exceptions to these guidelines on a case-by-case basis. To the extent certain funds are subject to additional restrictions, the most limiting of the guidelines will apply to those funds.~~

## **3.0 List of Accounts**

~~Appendix A hereto lists the accounts within the State's Fund and the investment managers currently responsible for them.~~

## **4.0 Investment Objectives and Maturity Restrictions**

~~4.1 Each of the accounts within the State's Fund shall be invested consistent with the primary objective for the account and the following general guidelines:~~

~~4.1.1 Where appropriate, the manager shall maintain a pool of liquid funds that is considered sufficient to meet the uncertainty of cash demands.~~

~~4.1.2 The remainder of the assets will be managed to produce the highest return available, consistent with liquidity and quality constraints, given the investment manager's outlook for interest rates and the economic environment.~~

~~4.1.3 Purchases in Violation of Guidelines~~

~~4.1.3.1 In the event that an investment manager purchases any security that violates the guidelines at the time of purchase, the Board expects the investment manager to remove the security from the State's portfolio as soon as possible. The Board will not require the investment manager to sell such securities at a loss. The investment manager will, however, absorb any investment losses or extraordinary costs associated with the purchase and sale of the security.~~

~~4.1.3.2 In case of such purchases, the Board expects an investment manager to ignore the book gains and losses and sell the security. An investment manager will inform the Delaware State Treasury about these transactions immediately.~~

~~4.1.4 Holding Securities in Violation of Guidelines~~

~~4.1.4.1 In the event that an investment manager holds any security that violates the guidelines after the time of purchase, as the result of a downgrade to below the specified purchase criteria, the Board requires the investment manager to remove the security from the State's portfolio immediately.~~

~~4.1.4.2 In such downgrade of currently held investments, the Board expects an investment manager to sell the securities without any consideration to the book gains and losses. An investment manager will inform the Delaware State Treasury about these transactions immediately.~~

~~4.2 The objectives and maturity restrictions for each of the investable account types are outlined below.~~

~~4.2.1 Cash Account Investment Objectives:~~

~~4.2.1.1 The funds in the Cash Account must be available to support State governmental programs and activities. Since the amount of assets available for investment will fluctuate, the investment program adopted must allow the State to meet both anticipated and unanticipated cash demands. The primary objective of this account is, therefore, to be invested so as to provide sufficient~~

liquidity to meet the State's needs for funds as they arise. (In this respect, liquidity is defined as the ability to realize, when required, the amount originally invested).

- 4.2.1.2 In order to facilitate the management of the Cash Account, each week the Cash Management Unit of the State Treasurer's Office will provide its best estimate of revenue receipts and expected expenditures to the investment manager for the succeeding one, two, three, and four-week periods. The investment manager shall recognize that it must allow for daily variations in cash demands by maintaining a portion of the account in overnight investments.
- 4.2.2 ~~Maturity Restrictions: The maximum maturity for any investment at the time of purchase for the Cash Account shall be one year.~~
- 4.2.3 ~~Liquidity Accounts~~
  - 4.2.3.1 ~~Investment Objectives: The primary investment objectives of the Liquidity Accounts are to maximize yield and to maintain safety of principal. In the event a cash withdrawal is necessary, the investment manager will be given as much advance notification as possible.~~
  - 4.2.3.2 ~~Maturity Restrictions: The maximum maturity for any investment at the time of purchase shall be two years for the Liquidity Accounts.~~
- 4.2.4 ~~Reserve Cash (Intermediate) Account~~
  - 4.2.4.1 ~~Investment Objectives: The Reserve Cash Account has been established to provide funding over an intermediate horizon. The primary investment objectives, therefore, are to maximize yield and maintain safety of principal during the investment period.~~
  - 4.2.4.2 ~~Maturity Restrictions: The maximum maturity for any investment at the time of purchase shall be ten years. The maximum average maturity of the portfolio shall be seven years.~~
- 4.2.5 ~~Authority Operating, Bond and Debt Service Reserve Fund Accounts~~
  - 4.2.5.1 ~~Investment Objectives: State Authorities maintain various operating, bond and debt reserve funds, the investment of which is governed by statutes, bond trust agreements or Federal guidelines. The investment objectives of the operating, bond and debt service reserve funds include maximizing yield and maintaining the safety of principal. (Current tax law requires that aggregate earnings in excess of the bond yield on bond and debt service reserve funds, however, must be rebated to the Federal government).~~
  - 4.2.5.2 ~~Maturity Restrictions: The maximum maturity for any investment at the time of purchase shall be ten years, except when prudent to match a specific investment instrument with a known specific future liability, in which case the maturity limitation shall match the maturity of the corresponding liability.~~

## **5.0 Investment Restrictions**

- 5.1 ~~The Board has adopted the following restrictions and policies relating to the investment of its assets. The policies are fundamental and may not be changed without written approval of the Board.~~
- 5.2 ~~The investment manager may not:~~
  - 5.2.1 ~~Purchase any securities other than money market and other securities described under Section 6.0, "Permissible Investments," subject to the percentage of account limitations as defined in Section 8.0, "Percentage of Account Limitations," hereof;~~
  - 5.2.2 ~~Make investments for the purpose of exercising control or management of an issuer;~~
  - 5.2.3 ~~Purchase or sell real estate (other than money market securities secured by real estate or money market securities issued by companies which invest in real estate, or interests therein), commodities or commodity contracts, interests in oil, gas or other mineral exploration or development programs;~~
  - 5.2.4 ~~Purchase any securities on margin, except for use of short-term credit necessary for clearance of purchases and sales of portfolio securities;~~
  - 5.2.5 ~~Make short sales of securities or maintain a short position or write, purchase or sell puts, calls, straddles, spreads or combinations thereof;~~
  - 5.2.6 ~~Make loans to other persons, provided that the investment manager may purchase money market securities or enter into repurchase agreements;~~
  - 5.2.7 ~~Mortgage, pledge, hypothecate or in any manner transfer as security for indebtedness any securities owned or held;~~
  - 5.2.8 ~~Invest in securities (except for repurchase agreements or variable rate master demand notes) with legal or contractual restrictions on resale or for which no readily available market exists; except for private placements considered not to be illiquid, but, instead, readily marketable by issuing dealers and the investment manager.~~

- 5.2.9 Act as an underwriter of securities; or
- 5.2.10 Buy or sell any authorized investment when it is a party or any related or affiliated party in the transaction on both sides, except that it may enter into a repurchase agreement with itself when the maturity does not exceed one business day and the amount does not exceed \$500,000.

## **6.0 Permissible Investments**

The following investments are permissible for all funds under the review of the Cash Management Policy Board, subject to the percentage limitations summarized in Section 8.0 hereof.

- 6.1 ~~United States Government Securities. Marketable securities issued by the U.S. government and supported by the full faith and credit of the U.S. Treasury either by statute or an opinion of the attorney general of the United States.~~
- 6.2 ~~Government Agency Securities. Debt securities issued by government sponsored enterprises, federal agencies, federal financing banks, and international institutions part of whose capital stock has been subscribed for by the United States.~~
- 6.3 ~~Certificates of Deposit, Time Deposits, and Bankers Acceptances.~~
  - 6.3.1 ~~Domestic Institutions: Issued or endorsed by a domestic bank, or a savings and loan association, organized and supervised under federal or any state laws, or any of its branches located in the United Kingdom, the Bahamas, or the Cayman Islands and denominated in U.S. dollars; provided, however, that:~~
    - 6.3.1.1 ~~The banking institution has assets of not less than \$5 billion; and~~
    - 6.3.1.2 ~~The banking institution is rated not lower than "B" by Fitch, Inc. (formerly Thomson's BankWatch Service).~~
  - 6.3.2 ~~Non-Domestic Institutions: Issued or endorsed by a non-domestic bank organized and supervised under the laws of Japan, Canada, United Kingdom, Holland, Germany, France, or Switzerland and denominated in U.S. dollars, provided, however, that:~~
    - 6.3.2.1 ~~The banking institution has assets of not less than \$5 billion; and~~
    - 6.3.2.2 ~~The banking institution has a Fitch, Inc. (formerly Thomson's BankWatch Service) "Peer Group Rating" not lower than II.~~
  - 6.3.3 ~~Delaware-Domiciled Institutions: The Cash Account, and only the Cash Account, may also be invested in Certificates of Deposit, Time Deposits, and Bankers Acceptances issued by or endorsed by any bank or savings association domiciled in the State of Delaware and organized and supervised under federal or State of Delaware banking laws which does not meet the requirements of subsection 6.3.1 hereto; provided, however, that:~~
    - 6.3.3.1 ~~For each of the latest two years, the bank or association has had a return on total average assets of 0.50% or greater and an average capital ratio (defined as total equity capital to total assets) of at least 1 to 20, or the instrument is secured as set forth in Section 8.0, "Collateralization of State Deposits," hereto; and~~
    - 6.3.3.2 ~~Not more than the lesser of \$10 million or 25% of an issuer's total equity capital, may be invested in any one issuer. (Investments due to mature in one business day may be excluded from the computation of this percentage.)~~
    - 6.3.3.3 ~~The Board expressly affirms that, consistent with these guidelines, Delaware banks and savings associations should be considered as a source of investment.~~
- 6.4 ~~Corporate Debt Instruments. Such instruments include commercial paper, variable rate master demand notes, and non-convertible debt securities (bonds and debentures); provided, however, that:~~
  - 6.4.1 ~~Any such instrument must be issued by a U.S. corporation or a non-domestic corporation subject to the laws of Japan, Canada, United Kingdom, Holland, Germany, France, Switzerland, Australia, New Zealand, Sweden, and Norway and denominated in U.S. dollars; and~~
  - 6.4.2 ~~Commercial paper investments must be rated "A-1" by Standard & Poor's ("S&P") and/or "P-1" by Moody's Investors Service ("Moody's") and/or "F1" by Fitch Ratings ("Fitch"), and the senior long-term debt of the issuer must be rated not lower than "A" by S&P and/or "A" by Moody's and/or "A" by Fitch (excluding asset-backed commercial paper that is rated A1 or better). Investments in corporate bonds and debentures must be rated at least "A" by S&P and/or "Aa" by Moody's and/or "AA" by Fitch.~~
  - 6.4.3 ~~Any such instrument may be backed fully by an irrevocable, unconditional letter of credit issued by a bank which meets the requirements of subsections 6.3.1 or 6.3.2 hereto. The security will count as a holding of the letter of credit provider for purposes of applying the percentage limitations outlined in Section 9.0 hereto.~~

- 6.5 ~~Repurchase Agreements. The underlying securities shall consist of U.S. government or government agency securities, certificates of deposit, commercial paper or bankers acceptances; provided, however, that:~~
- 6.5.1 ~~All repurchase transactions must be governed by written repurchase agreements;~~
  - 6.5.2 ~~Agreements will be entered into only with respect to underlying securities in which the investment manager may otherwise invest as described above, and only with a recognized U.S. Government/broker or a bank which meets the requirements set out under subsection 6.3 above;~~
  - 6.5.3 ~~In the case of repurchase collateral held in book entry form in the Federal Reserve System, all deliveries of securities must be made, for the transfer thereof, through the Federal Reserve book entry system to the account designated by the investment manager for such purpose. Securities held in certificated form must be delivered to the investment manager or a custodian as directed by the investment manager; and~~
  - 6.5.4 ~~Any collateral employed under this paragraph shall be counted towards the applicable maximum limits set forth within these guidelines for such type of investment, and such collateral shall be valued at market at not less than 102 percent of the maturity value of the agreement and marked to the market as requested by the investment manager.~~
- 6.6 ~~Reverse Repurchase Agreements. The investment manager may enter into reverse repurchase agreements which involve the sale of money market securities held by the State, with an agreement to repurchase the securities at an agreed upon price, date and interest payment, so long as:~~
- 6.6.1 ~~The agreement is entered into only with a recognized U.S. government broker/dealer or a bank which meets the requirements set out under subsection 6.3 above who is acting as a principal to the agreement;~~
  - 6.6.2 ~~The State's securities are sold at not less than 98% of their fair market value including all accrued interest; and~~
  - 6.6.3 ~~The investment manager marks to market as appropriate.~~
- 6.7 ~~Money Market Funds. The money market fund(s) selected by the investment manager shall be consistent with the investment quality guidelines as stated in this document.~~
- 6.8 ~~Canadian Treasury Bills. Marketable securities issued by the government of Canada, which are fully hedged against fluctuations in foreign exchange markets.~~
- 6.9 ~~Canadian Agency Securities. Debt securities issued by the Export Development Corporation, a Federal Crown Corporation and an agent of Her Majesty in Right of Canada. These securities are issued as U.S. dollar denominated commercial paper having a maximum maturity of 270 days.~~
- 6.10 ~~Mortgage Backed Securities. The Cash Reserve (Intermediate) Account and Liquidity Account may invest in AAA-rated Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Association (FHLMC) mortgage backed securities in the form of pass-throughs. The average life of these securities in the Liquidity Account is not to exceed two years.~~
- 6.11 ~~Asset Backed Securities. These investments include auto loan receivables, credit card receivables, home equity loans, and manufactured housing loans. These can be fixed or floating rate and purchased tranches must be rated AAA by a major rating agency. The average life of these securities must not to exceed two years.~~
- 6.12 ~~Municipal Obligations. Taxable and tax exempt securities issued by state and local governments and public authorities in the U.S. These investments are permissible only for the Cash Reserve (Intermediate) Account.~~

## **7.0 ~~Additional Permissible Investments for Special Purpose Accounts Only~~**

- 7.1 ~~Guaranteed Investment Contracts. From time to time, a situation arises whereby it is prudent to match a specific investment instrument with a known specific future liability. Guaranteed investment contracts, subject to the credit quality guidelines outlined in subsection 6.4.2 above and with adequate exit provisions in the event of the future downgrade of the issuer, are permitted to be purchased in these circumstances.~~
- 7.2 ~~Asset Backed Securities and Trust Certificates. Securities secured by specific collateral and specified related acquisition payments assigned by a trust agreement, contract or indenture.~~

## **8.0 ~~Collateralization of State Deposits~~**

~~If the State of Delaware deposits any funds in any financial institution, those funds will be subject to the following collateralization requirements. The financial institution shall:~~

- 8.1 ~~Collateralize the State's total average monthly ledger balance(s) if, for any quarter during the most recent eight quarters, the bank has not met both of the following two criteria:~~
  - 8.1.1 ~~Return on total average assets of 0.50 percent or greater.~~
  - 8.1.2 ~~Average capital ratio (total equity to total assets) of 5.00 percent or greater.~~
- 8.2 ~~If either criterion in subsection 8.1 is not satisfied collateral must be pledged and shall consist of one or more of the following securities:~~

- 8.2.1 U.S. Government securities.
- 8.2.2 U.S. Government agency securities.
- 8.2.3 Federal Home Loan Board letters of credit.
- 8.2.4 State of Delaware securities.
- 8.2.5 Securities of a political subdivision of the State of Delaware with a Moody's rating of "A" or better.
- 8.3 Ensure that the securities pledged as collateral (except for Federal Home Loan Board letters of credit) have a market value equal to or greater than 102 percent (102%) of the total average monthly ledger balance(s) (net of FDIC insurance limits) held in all accounts. The financial institution is required to make any necessary collateral adjustments by the third business day of the following month.
- 8.4 Ensure that securities pledged as collateral are housed at the Federal Reserve Bank.
- 8.5 Provide reports on a monthly basis to the State Treasurer's Office detailing the collateral pledged.
- 8.6 Provide a Call Report (Consolidated Report of Condition and Income, FFIEC 031) on a quarterly basis to the State Treasurer's Office.

## **9.0 Percentage of Account Limitations**

The purchase of the securities outlined in Section 6.0 cannot exceed the following percentage limits of the Account, valued at market. Investments due to mature in one business day may be excluded from the computation of said percentages.

- 9.1 U.S. Government. No Restrictions.
- 9.2 Government Agency. 50% total, 20% in any one agency.
- 9.3 CDs, Time Deposits and Bankers Acceptances. 50% total, 5% in any one issuer.
  - 9.3.1 Domestic. No additional restrictions.
  - 9.3.2 Non-Domestic. 25%.
  - 9.3.3 Delaware Domiciled. See subsection 6.3.3 hereof.
- 9.4 Corporate Debt. 50% total, 25% in any one industry, 5% in any one issuer, 5% of any issuer's total outstanding securities.
  - 9.4.1 Domestic. No additional restrictions.
  - 9.4.2 Non-Domestic. 25%, 5% in any one issuer.
- 9.5 Repurchase Agreements. 50% total.
- 9.6 Reverse Repurchase Agreements. 25% total.
- 9.7 Money Market Funds. 25% total, 10% in any one fund.
- 9.8 Canadian Treasuries. 25% total, 10% in any one agency.
- 9.9 Canadian Agency Securities. 25% total, 10% in any one agency.
- 9.10 Mortgage-backed and asset backed securities. 10% total (combined with subsection 9.10, below if applicable).
- 9.11 Municipal Obligations. 5% in any one issuer.
- 9.12 Guaranteed Investment Contracts. See subsection 7.1 hereof.
- 9.13 Asset Backed Securities and Trust Certificates. 10% total (when combined with subsection 6.10 above).

## **10.0 Account Reviews**

The investment manager(s) shall meet with the Board periodically to review the investment outlook, structure of the accounts, and historic results. A general agenda for these meetings shall include but not be limited to:

- 10.1 A review of the investment results achieved over the prior quarter and year in relation to the account restrictions and the investment manager's investment views and internal policies in effect prior to, and during the period;
- 10.2 The investment manager's current outlook for the financial markets during the next six to twelve months;
- 10.3 The investment manager's internal investment policies that have been adopted in response to these expectations;
- 10.4 The appropriateness of the present portfolio given the expectations, internal investment policies and the State's requirements; and
- 10.5 A review of the guidelines relative to any constraint that the investment manager feels limits his/her ability to respond to market developments in a manner consistent with the investment objectives.

The names of the various State Funds and their respective investment managers are listed below.

### **Current Title of Account Investment Manager**

#### **Cash Accounts:**

1. Collection and Disbursement Accounts
  - Over the Counter Deposits — Citizens Bank
  - Electronic Transfers — BNY Mellon
  
2. Liquidity Accounts
  - Cutwater Asset Management
  - PFM Asset Management LLC
  - Wells Capital Management
  - Wilmington Trust Investment Advisors
  
3. Reserve Cash (Intermediate) Account
  - Chandler Asset Management
  - Federated Investors, Inc.
  - J.P. Morgan Asset Management
  - Morgan Stanley Investment Management
  - Schroder Investment Management North America, Inc.
  
4. Special Purpose Accounts
  - Health Fund — Schroder Investment Management North America, Inc.
  - Land and Water — Schroder Investment Management North America, Inc.

## **1.0 Statutory Authorization**

- 1.1 Role of the Cash Management Policy Board.** The Cash Management Policy Board ("Board") was created by 63 Del. Laws, c. 142, to establish policies (a) for the investment of all money belonging to the State or on deposit from its political subdivisions, other than money deposited in any State Pension Fund or the State Deferred Compensation Program, ("State Funds") and (b) to determine the terms, conditions, and other matters relating to those investments including the designation of permissible investments (29 **Del.C.** §2716(a)).
- 1.2 Role of the Office of the State Treasurer.** The investment of State Funds is to be made by the Office of the State Treasurer ("OST") in accordance with the objectives and guidelines outlined herein ("Guidelines") (29 **Del.C.** §2716(e)(2)).

## **2.0 Accounts**

- 2.1 Designation of Accounts.** For purposes of these Guidelines, State Funds are to be allocated and held in a variety of accounts as outlined below ("Accounts"):
  - 2.1.1 Collection and Disbursement Accounts.** Cash required to meet the State's anticipated near-term operating requirements is to be held in "Collection and Disbursement Accounts." These accounts will be managed and invested in accordance with the general provisions of these Guidelines and the specific provisions of Section 5.0 below by qualified financial institutions ("Cash Management Banks") selected by the Board through a competitive bid process.
  - 2.1.2 Liquidity Accounts.** Cash not required for the State's near-term operating requirements but readily available for anticipated funding needs of the State will be held in "Liquidity Accounts." State Funds in these accounts will be managed and invested in accordance with the general provisions of these Guidelines and the specific provisions of Section 6.0 below by qualified investment managers ("Liquidity Managers") selected by the Board through a competitive bid process.
  - 2.1.3 Reserve Accounts.** Cash that is not anticipated to be needed for the State's near-term operating requirements or funding needs, but can be made available for unanticipated needs is to be held in "Reserve Accounts". State Funds in these accounts will be managed and invested in accordance with the general provisions of these Guidelines and the specific provisions of Section 7.0 below by qualified investment managers ("Reserve Managers") selected by the Board through a competitive bid process.
  - 2.1.4 Endowment Accounts.** "Endowment Accounts" consist of State Funds set-aside for specified legislative purposes with the intent of growing the corpus of such funds over time. State Funds in these accounts will be managed and invested in accordance with the general provisions of these Guidelines and the specific

provisions of Section 8.0 below by qualified investment managers selected by the Board through a competitive bid process (“Endowment Managers”).

**2.1.5 Operating Accounts.** “Operating Accounts” consist of State Funds set aside for specified purposes to be made available as and when required to meet such purposes. State Funds in these accounts will be managed and invested in accordance with the general provisions of these Guidelines and the specific provisions of Section 9.0 below by Liquidity Managers or such other financial institutions as determined by the Board.

**2.2 List of Accounts.** OST shall maintain on its website a current listing of all Accounts and the Cash Management Banks, Liquidity Managers, Reserve Managers, and Endowment Managers approved by the Board to manage State Funds in such Accounts.

### **3.0 Allocation of State Funds**

**3.1 General Allocation.** The Board is responsible for setting the policy as to the allocation of State Funds among the Accounts (29 Del.C. §2716(a)(2)).

#### **3.2 Allocation among Accounts**

**3.2.1 Cash Accounts.** Unless otherwise determined by the Board, OST shall use its discretion to allocate State Funds among the Collection and Disbursement Accounts, Liquidity Accounts, and Reserve Accounts (collectively, “Cash Accounts”) in accordance with the general purposes of such Accounts as described in Section 2.0 of these Guidelines and the investment objectives more particularly described in Sections 5.0 – 7.0 below. In general, OST attempts to minimize the number of transfers of State Funds in and out of both Liquidity Accounts and Reserve Accounts. In the former case, OST maintains balances of funds with the Cash Management Banks sufficient to meet the State’s daily requirements over the near-term, allowing Liquidity Account balances to fluctuate based on the reasonably predictable cyclical pattern of the State’s annual collections and disbursements. In the latter instance, OST allocates State Funds to and from Reserve Accounts only as unforeseen need for, or receipt of, funds occurs that deviates meaningfully from the State’s historical pattern of collections and disbursements. Notwithstanding the foregoing, the Board may express a fixed allocation of State Funds to be held in each of the Cash Accounts to reflect then-prevailing market conditions or other considerations related to the probable income from and/or level of risk related to the investment of State Funds. (29 Del.C. §2716(a)). In such cases, OST may be required to make more frequent allocations among the Cash Accounts.

**3.2.2 Endowment Accounts and Operating Accounts.** Unless otherwise determined by the Board, OST shall allocate State Funds to the Endowment Accounts and Operating Accounts in accordance with the general purposes of such Accounts described in Section 2.0 of these Guidelines and the investment objectives more particularly described in Sections 8.0 and 9.0 below.

#### **3.3 Allocation among Banks and Managers**

**3.3.1 Cash Management Banks.** Unless otherwise determined by the Board, OST shall further allocate State Funds in the Collection and Disbursement Accounts among the Cash Management Banks in such proportions as OST determines in its discretion are necessary or desirable to meet the State’s anticipated near-term anticipated operating liquidity requirements.

**3.3.2 Liquidity Managers.** Unless otherwise determined by the Board and subject to the provisions of subsection 3.3.5 below, OST shall further allocate State Funds in the Liquidity Accounts pro rata among the Liquidity Managers based on the aggregate amount of State Funds in such Accounts.

**3.3.3 Reserve Managers.** Unless otherwise determined by the Board, OST shall further allocate State Funds in the Reserve Accounts pro rata among the Reserve Managers based on the aggregate amount of State Funds in such Accounts.

**3.3.4 Endowment Managers.** Unless otherwise determined by the Board, OST shall further allocate State Funds in the Endowment Accounts pro rata among the Endowment Managers based on the aggregate amount of State Funds in such Accounts.

**3.3.5 Special Allocation of State Funds in Operating Accounts.** Unless otherwise determined by the Board, OST shall further allocate State Funds in Operating Accounts pro rata among the Liquidity Managers or such other financial institutions as directed by the Board pursuant to subsection 2.1.5.

### **4.0 General Investment Standards and Objectives**

**4.1 Standard of Care.** In general, the banks and managers engaged as fiduciaries to manage State Funds shall exercise the judgment and care over the investment of such funds with the care, skill, prudence, and diligence under the circumstances then prevailing that prudent professional investment managers, acting in like capacity and familiar with such matters, would use in the investment of State Funds.

**4.2 General Objectives.** Subject to the more specific policies set out in Sections 5.0, 6.0, 7.0, 8.0, and 9.0 of these Guidelines, State Funds shall be invested in a manner that ensures the safety of, provides liquidity for, and maximizes return on such funds. For purposes of these Guidelines, the foregoing priorities have the following meanings:

**4.2.1 Safety.** Safety is defined as the ability, under ordinary market conditions, to ensure against the loss of the original investment amount of State Funds. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the portfolio.

**4.2.2 Liquidity.** Liquidity is defined as the capacity to realize, convert to cash, an asset in a timely fashion, at or near its value. An asset is said to be liquid when the act of selling has little impact on the asset's price. State Funds shall remain sufficiently liquid to meet all anticipated operating requirements and funding needs, and should be managed and invested for availability to meet unanticipated needs with minimal losses associated with illiquidity.

**4.2.3 Return.** Return is defined as the gain or loss on an investment over a specified period. Gains on investments are considered to be any income received from the security plus the earnings an asset generates in excess of its initial cost. The State Funds portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints of safety and liquidity set out herein.

## **5.0 Collection and Disbursement Accounts**

**5.1 Investment Objectives.** The funds in the Collection and Disbursement Accounts must be immediately available to support the State's daily governmental programs and activities. The primary investment objectives are therefore safety and liquidity of such funds; return is a secondary priority.

**5.2 Permissible Investments.** Cash Management Banks shall maintain State Funds in either collateralized demand deposit accounts or open-end money market mutual funds, in each case, subject to the provisions of subsections 5.2.1 and 5.2.2, respectively, in order to mitigate the risk of State Funds being exposed to the credit risk of such financial institution.

**5.2.1 Demand Deposit Accounts.** State Funds held by Cash Management Banks in demand deposit accounts shall be collateralized by the pledge and transfer by such financial institution of government securities that meet the definitions set out in subsections 6.3.1 and 6.3.2 ("Eligible Collateral") to a custody account held at a Federal Reserve Bank for the benefit of the State ("Fed Custody Account"). The market value of Eligible Collateral in a Fed Custody Account shall be set at a level equivalent to the highest daily intra-day balances of State Funds held or expected to be held at such financial institution plus such additional amount of Eligible Collateral as OST may request such bank to pledge and transfer as may be required to ensure against volatility in daily balances. A Cash Management Bank may adjust collateral levels at a Fed Custody Account as frequently as may be required to comply with the foregoing requirement, so long as OST is provided with same day notice of any additions to or reductions of Eligible Collateral in the Custody Account. In addition, a Cash Management Bank shall provide OST with a detailed report of the Eligible Collateral held in any Fed Custody Account by 5:00 P.M. on the close of each business day.

**5.2.2 Money Market Mutual Funds.** State Funds held by Cash Management Banks in money market mutual funds shall be invested solely in government securities that meet the definitions set out in subsections 6.3.1 and 6.3.2 and which are rated in the highest rating category by at least one nationally recognized statistical rating organization ("NRSRO").

**5.3 Call Reports.** Each Cash Management Bank shall provide OST with a Consolidated Report of Condition and Income (FFIEC 031) with respect to such financial institution on a quarterly basis by the last day of the month following the end of such calendar quarter.

## **6.0 Liquidity Accounts**

**6.1 Investment Objectives.** The primary investment objectives of the Liquidity Accounts are to maintain the safety of State Funds while ensuring the liquidity of such funds to be drawn down to the Cash Management Banks for the support of the anticipated funding needs of the State. As variations in the State's otherwise predictable pattern of annual collections and disbursements do occur and can be material, Liquidity Managers must be prepared to meet unanticipated liquidity demands of the State in addition to those anticipated by OST. After the achievement of those goals, the State seeks to maximize the return on such investments.

**6.2 Maturity Restrictions.** The maximum maturity for any investment of State Funds in the Liquidity Accounts shall be two years from the date of settlement. Notwithstanding the foregoing, securities identified in subsections 6.3.4, 6.3.9, and 6.3.10 that are subject to periodic reset of coupon or interest rate may have an average life not to exceed three years as measured from the date of settlement.

**6.3** **Permissible Investments and Percentage of Account Limitations.** State Funds held in Liquidity Accounts can be invested solely in the types of securities set out in this subsection 6.3. Each Liquidity Manager is further subject to limit the aggregate value of State Funds invested in each type of security held in the account under such manager's discretion to the "Percentage Limit" of such security type identified in this subsection 6.3, measured as a percentage of the total Liquidity Account value of State Funds under such manager's discretion.

**6.3.1** **United States Treasury Obligations**

6.3.1.1 Definition: Bills, bonds, and notes issued by the U.S. Treasury.

6.3.1.2 Percentage Limit: No limit.

**6.3.2** **United States Government Agency Obligations**

6.3.2.1 Definition: Any obligation of, or obligation that is insured as to principal and interest by, the U.S. or any agency or corporation thereof (excluding bills, bonds and notes issued by the U.S. Treasury), and any obligation and security of U.S.-sponsored enterprises, including, the Export-Import Bank of the United States, Farmers Home Administration, Federal Farm Credit Banks, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, Federal Land Banks, and the Government National Mortgage Association.

6.3.2.2 Percentage Limit: 50% in total; 20% in any one issuer.

**6.3.3** **Certificates of Deposit and Time Deposits**

6.3.3.1 Definition: Certificates of deposit and time deposits denominated in U.S. dollars and issued or endorsed by either (i) a bank or a savings and loan association organized and supervised under federal or any state laws and regulated by the Federal Reserve or a trust company which is a member of the Federal Reserve system or (ii) a bank organized and supervised under the laws of Japan, Canada, United Kingdom, the Netherlands, Germany, France, Switzerland, Australia, New Zealand, Sweden, or Norway. Any such banking institution must have assets of not less than \$100 billion and be rated not lower than A1/P-1/F1 Short Term by at least two NRSROs.

6.3.3.2 Percentage Limit: 50% in total (domestic & non-domestic combined); 25% in all non-domestic banking institutions; 5% in any one issuer.

**6.3.4** **Corporate Debt Instruments**

6.3.4.1 Definition: Commercial paper, variable rate notes, and non-convertible bonds and debentures denominated in U.S. dollars and issued by a U.S. corporation or a non-domestic corporation subject to the laws of Japan, Canada, United Kingdom, the Netherlands, Germany, France, Switzerland, Australia, New Zealand, Sweden, or Norway. Such securities must be rated by at least two NRSROs and (i) in the case of commercial paper, must be rated not lower than "A-2" by S&P, "P-2" by Moody's and "F2" by Fitch and the senior long-term debt of the issuer must be rated not lower "A-" by S&P, "A3" by Moody's and "A-" by Fitch (excluding asset-backed commercial paper that is rated A1 or better) and (ii) in the case of notes, bonds and debentures, must be rated not lower than "A-" by S&P, "A3" by Moody's and "A-" by Fitch; provided that, any security that meets the foregoing rating standards and is backed fully by an irrevocable, unconditional letter of credit issued by a banking institution shall not be permissible hereunder unless such banking institution meets the definition of subsection 6.3.3.1 (in which case, any such securities will be deemed to be securities of both the corporate issuer and the banking institution for purposes of calculating the Percentage Limits set forth in subsections 6.3.4.2 and 6.3.3.2, respectively).

6.3.4.2 Percentage Limit: 50% in total; 25% in all non-domestic corporations; 25% in any one industry; 5% in any one issuer.

**6.3.5** **Repurchase Agreements**

6.3.5.1 Definition: Securities permissible pursuant to subsections 6.3.1 and 6.3.2 acquired from a primary dealer designated by the NY Federal Reserve Bank, or a domestic bank which meets the definition set out in subsection 6.3.3.1, subject to a written repurchase agreement from such dealer or bank; provided that, (i) in the case of securities held in book-entry form in the Federal Reserve System, all deliveries of such securities must be made through the Federal Reserve book-entry system to an account designated by the State's custodian for such purpose and (ii); in the case of securities held in certificated form, all deliveries of such securities must be made to such address as designated by the State's custodian.

6.3.5.2 Percentage Limit: 50% in total; provided that any securities purchased subject to repurchase agreements shall be subject to the respective Percentage Limit for such security type as set forth in this subsection 6.3 and valued for such purposes at the lesser of fair market value and 102 percent of the maturity value of the securities pursuant to the repurchase agreement and marked-to-the-market daily as requested by the investment manager.

### **6.3.6 Money Market Funds**

6.3.6.1 Definition: Open-end money market mutual funds that are invested solely in government securities (as defined in subsections 6.3.1 and 6.3.2) and which are rated in the highest rating category by at least one NRSRO.

6.3.6.2 Percentage Limit: No limit.

### **6.3.7 Canadian Treasury Bills**

6.3.7.1 Definition: Marketable securities issued by the government of Canada; provided that such securities are U.S. dollar denominated.

6.3.7.2 Percentage Limit: 25% in total.

### **6.3.8 Canadian Agency Securities**

6.3.8.1 Definition: Any obligation of any Canadian government-sponsored agency that is insured as to principal and interest by the Canadian Government; provided that the obligation is U.S. dollar denominated commercial paper having a maximum maturity of 270 days from the date of settlement.

6.3.8.2 Percentage Limit: 25% in total; 10% in any one agency.

### **6.3.9 Mortgage-Backed Securities**

6.3.9.1 Definition: Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Association (FHLMC) mortgage-backed securities issued in the form of pass-throughs; provided that, such securities have (i) been issued and guaranteed by the US Government or Government Agency and (ii) an average life not to exceed two years from the date of settlement (unless such securities are subject to periodic reset of coupon or interest rate, in which case the average life may not exceed three years from the date of settlement).

6.3.9.2 Percentage Limit: 10% in total, including securities defined in subsection 6.3.10.1.

### **6.3.10 Asset-Backed Securities**

6.3.10.1 Definition: Securities collateralized by pools of auto loan receivables, credit card receivables, and equipment loans; provided that such securities have (i) the highest credit rating from at least two NRSROs and (ii) an average life not to exceed two years from the date of settlement (unless such securities are subject to periodic reset of coupon or interest rate, in which case the average life may not exceed three years from the date of settlement).

6.3.10.2 Percentage Limit: 10% in total, including securities defined in subsection 6.3.9.1.

## **7.0 Reserve Accounts**

7.1 **Investment Objectives.** The Reserve Accounts have been established to provide funding over an intermediate horizon but must be available to meet unanticipated operating requirements of the State as they arise. The primary investment objectives are to maintain the safety of and maximize the return on such funds. Liquidity of such funds is a secondary consideration, but Reserve Managers are expected to invest State Funds in a manner to mitigate losses in connection with the need to liquidate investments for unforeseen operating requirements.

7.2 **Maturity Restrictions.** The maximum maturity for any investment of State Funds in the Reserve Accounts shall be ten years from the date of settlement; provided that, the maximum average maturity of each account managed by a Reserve Manager shall be seven years.

7.3 **Permissible Investments and Percentage of Account Limitations.** State Funds held in Reserve Accounts can be invested solely in the types of securities set out in this subsection 7.3. Each Reserve Manager is further subject to limit the aggregate value of State Funds invested in each type of security held in the account under such manager's discretion to the "Percentage Limit" of such security type identified in this subsection 7.3, measured as a percentage of the total Reserve Account value of State Funds under such manager's discretion.

### **7.3.1 United States Treasury Obligations**

7.3.1.1 Definition: Bills, bonds, and notes issued by the U.S. Treasury.

7.3.1.2 Percentage Limit: No Limit.

### **7.3.2 United States Government Agency Obligations**

7.3.2.1 Definition: Any obligation of, or obligation that is insured as to principal and interest by, the U.S. or any agency or corporation thereof (excluding bills, bonds and notes issued by the U.S. Treasury), and any obligation and security of U.S.-sponsored enterprises, including, the Export-Import Bank of the United States, Farmers Home Administration, Federal Farm Credit Banks, Federal Home

Loan Banks, Federal Home Loan Mortgage Corporation, Federal Land Banks, and the Government National Mortgage Association.

7.3.2.2 Percentage Limit: 50% total; 20% in any one issuer.

### **7.3.3 Certificates of Deposit and Time Deposits**

7.3.3.1 Definition: Certificates of deposit and time deposits denominated in U.S. dollars and issued or endorsed by either (i) a bank or a savings and loan association organized and supervised under federal or any state laws and regulated by the Federal Reserve or a trust company which is a member of the Federal Reserve system or (ii) a bank organized and supervised under the laws of Japan, Canada, United Kingdom, the Netherlands, Germany, France, Switzerland, Australia, New Zealand, Sweden, or Norway. Any such banking institution must have assets of not less than \$100 billion and be rated not lower than A1/P-1/F1 Short Term by at least two NRSROs.

7.3.3.2 Percentage Limit: 50% in total (domestic & non-domestic combined); 25% in all non-domestic banking institutions; 5% in any one issuer.

### **7.3.4 Corporate Debt Instruments**

7.3.4.1 Definition: Commercial paper, variable rate notes, and non-convertible bonds and debentures denominated in U.S. dollars and issued by a U.S. corporation or a non-domestic corporation subject to the laws of Japan, Canada, United Kingdom, the Netherlands, Germany, France, Switzerland, Australia, New Zealand, Sweden, or Norway; provided that such securities must be rated by at least two NRSROs and (i) in the case of commercial paper, must be rated not lower than "A-2" by S&P, "P-2" by Moody's and "F2" by Fitch and the senior long-term debt of the issuer must be rated not lower than "A-" by S&P, "A3" by Moody's and "A-" by Fitch (excluding asset-backed commercial paper that is rated A1 or better) and (ii) in the case of notes, bonds and debentures, must be rated not lower than "A-" by S&P, "A3" by Moody's and "A-" by Fitch; provided that, any security that meets the foregoing rating standards and is backed fully by an irrevocable, unconditional letter of credit issued by a banking institution shall not be permissible hereunder unless such banking institution meets the definition of subsection 7.3.3.1 (in which case, any such securities will be deemed to be securities of both the corporate issuer and the banking institution for purposes of calculating the Percentage Limits set forth in subsections 7.3.4.2 and 7.3.3.2, respectively).

7.3.4.2 Percentage Limit: 50% in total; 25% in all non-domestic corporations; 25% in any one industry; 5% in any one issuer.

### **7.3.5 Repurchase Agreements**

7.3.5.1 Definition: Securities permissible pursuant to subsections 7.3.1 and 7.3.2 acquired from a primary dealer designated by the NY Federal Reserve Bank, or a domestic bank which meets the definition set out in subsection 7.3.3.1, subject to a written repurchase agreement from such dealer or bank; provided that, (i) in the case of securities held in book-entry form in the Federal Reserve System, all deliveries of such securities must be made through the Federal Reserve book-entry system to an account designated by the State's custodian or such purpose and (ii); in the case of securities held in certificated form, all deliveries of such securities must be made to such address as designated by the State's custodian.

7.3.5.2 Percentage Limit: 50% in total; provided that any securities purchased subject to repurchase agreements shall be subject to the respective Percentage Limit for such security type as set forth in this subsection 7.3 and valued for such purposes at the lesser of fair market value and 102 percent of the maturity value of the securities pursuant to the repurchase agreement and marked-to-the-market daily as requested by the investment manager.

### **7.3.6 Money Market Funds**

7.3.6.1 Definition: Open-end money market mutual funds that are invested solely in government securities (as defined in subsections 7.3.1 and 7.3.2) and which are rated in the highest rating category by at least one NRSRO.

7.3.6.2 Percentage Limit: 100% in total.

### **7.3.7 Canadian Treasury Bills**

7.3.7.1 Definition: Marketable securities issued by the government of Canada, provided that such securities are U.S. dollar denominated.

7.3.7.2 Percentage Limit: 25% in total.

### **7.3.8 Canadian Agency Securities**

7.3.8.1 Definition: Any obligation of any Canadian government-sponsored agency that is insured as to principal and interest by the Canadian Government; provided that the obligation is U.S. dollar

denominated commercial paper having a maximum maturity of 270 days from the date of settlement.

7.3.8.2 Percentage Limit: 25% in total; 10% in any one agency.

### **7.3.9 Mortgage-Backed Securities**

7.3.9.1 Definition: Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Association (FHLMC) mortgage-backed securities issued in the form of pass-throughs; provided that they have (i) been issued and guaranteed by the US Government or Government Agency and (ii) an average life not to exceed ten years (from the date of settlement of purchase).

7.3.9.2 Percentage Limit: 10% in total, including securities defined in subsection 7.3.10.1.

### **7.3.10 Asset Backed Securities**

7.3.10.1 Definition: Securities collateralized by pools of auto loan receivables, credit card receivables, and equipment loans; provided that (i) such securities have the highest credit rating from the highest credit rating from at least two NRSROs and (ii) an average life not to exceed two years from the date of settlement (unless such securities are subject to periodic reset of coupon or interest rate, in which case the average life may not exceed three years from the date of settlement).

7.3.10.2 Percentage Limit: 10% in total, including securities defined in subsection 7.3.9.1.

### **7.3.11 Municipal Obligations**

7.3.11.1 Definition: Taxable and tax-exempt securities issued by state and local governments and public authorities in the U.S., excluding securities issued by the State of Delaware, its local governments and public authorities; provided that such securities must be rated by at least two NRSROs and must be rated not lower than "A-" by S&P, "A3" by Moody's and "A-" by Fitch.

7.3.11.2 Percentage Limit: 20% in total; 5% in any one issuer.

## **8.0 Endowment Accounts**

**8.1 Investment Objectives.** Endowment Accounts are funded with State Funds to be preserved and grown over time with a portion of the investment income and/or appreciation thereon withdrawn periodically to provide for specified legislative purposes. The primary objective of such Accounts is to create a perpetual fund whereby returns are maximized over the long term while ensuring safety of the corpus and the availability of amounts prescribed to meet the periodic liquidity requirements of the permitted withdrawals.

**8.2 Permissible Investments and Percentage of Account Limitations.** State Funds held in Endowment Accounts can be invested solely in the types of securities set out in this subsection 8.2. Each Endowment Manager is further subject to (i) limit the aggregate value of State Funds invested in each type of security held in the account under such manager's discretion to the "Percentage Maximum" of such security type identified in this subsection 8.2, measured as a percentage of the total account value of State Funds under such manager's discretion, and (ii) maintain a minimum of the aggregate value of State Funds invested in each type of security held in the account under such manager's discretion to the "Percentage Minimum" of such security type identified in this subsection 8.2, measured in each case as a percentage of the total account value of State Funds under such manager's discretion.

### **8.2.1 Money Market Funds**

8.2.1.1 Definition: Open-end money market mutual funds that are invested solely in government securities (as defined in subsections 6.3.1 and 6.3.2) and which are rated in the highest rating category by at least one NRSRO.

8.2.1.2 Percentage Maximum: 30% in total.

8.2.1.3 Percentage Minimum Limit: 5% in total.

### **8.2.2 Domestic and International Equities**

8.2.2.1 Definition: Common and preferred stocks of companies domiciled both within the U.S. and outside the U.S. that trade on U.S. or foreign exchanges and over the counter. Ownership in a publicly traded company, whether common or preferred, that trades on globally recognized exchanges, and issued by corporations, both foreign and domestic.

8.2.2.2 Percentage Maximum: 75% in total; no more than 35% of which are in international equities.

8.2.2.3 Percentage Minimum: 45% in total; no more than 35% of which are in international equities.

### **8.2.3 Domestic and International Fixed Income**

8.2.3.1 Definition: Debt securities of U.S. and non-U.S. governments, public agencies, corporations and other non-government entities.

8.2.3.2 Percentage Maximum: 55% in total, including securities permitted under subsection 8.2.4.

8.2.3.3 Percentage Minimum: 25% in total, including securities permitted under subsection 8.2.4.

#### **8.2.4 Alternative Investments**

8.2.4.1 Definition: Securities not otherwise permissible pursuant to subsections 8.2.1 – 8.2.3 that a prudent manager would deem appropriate for portfolios of like character with comparable investment objectives, excluding hedge funds or other blind pool funds that incorporate leverage as part of their investment strategies.

8.2.4.2 Percentage Maximum: 25% in total.

8.2.4.3 Percentage Minimum: none.

### **9.0 Operating Accounts**

**9.1 Investment Objectives.** State agencies and other public authorities maintain various operating accounts with the intent of segregating such funds for accounting and reporting purposes. In addition, operating accounts may be created by the State to meet particular purposes and/or to comply with state statutes, bond trust agreements and/or Federal guidelines. The investment objectives with respect to such funds are to ensure safety and maximize return while providing for the liquidity requirements specifically identifiable to the use of such funds.

**9.2 Maturity Restrictions.** Unless otherwise determined by the Board, the maximum maturity for any investment of State Funds in the Operating Accounts shall be two years from the date of settlement. In some circumstances, State Funds in an Operating Account may be set aside to fund a known, specific future liability; in such cases, the Board grants OST the discretion to set the maturity restrictions with respect to securities purchased with such funds to correspond to the due date of the corresponding liability.

**9.3 Permissible Investments and Percentage of Account Limitations.** Unless otherwise determined by the Board, Operating Accounts shall be governed by the Permissible Investment and Percentage of Account Limitations for the Liquidity Accounts set out in subsections 6.2 and 6.3.

### **10.0 Restrictions & Violations**

**10.1 Investment Restrictions.** Notwithstanding any other provision, none of the banks or managers engaged to manage or invest State Funds may:

10.1.1 Purchase any securities other than those expressly permitted under Sections 5.0 – 9.0 of these Guidelines;

10.1.2 Make investments for the purpose of exercising control or management of an issuer;

10.1.3 Purchase any securities on margin, except for use of short-term credit necessary for clearance of purchases and sales of portfolio securities;

10.1.4 Make short sales of securities or maintain a short position or write, purchase or sell puts, calls, straddles, spreads or combinations thereof;

10.1.5 Make loans to other persons, other than in connection with repurchase agreements as provided herein;

10.1.6 Mortgage, pledge, hypothecate or in any manner transfer as security for indebtedness any securities owned or held;

10.1.7 Invest in securities with legal or contractual restrictions on resale or for which no readily available market exists (except for repurchase agreements or variable rate master demand notes as provided herein and 144a private placements considered not to be illiquid, but, instead, readily marketable by issuing dealers);

10.1.8 Act as an underwriter of securities on behalf of the State of Delaware; or

10.1.9 Buy or sell any authorized investment when it is a party or any related or affiliated party in the transaction on both sides.

**10.2 Purchases in Violation of Guidelines.** In the event that a bank or manager purchases any security that at the time of purchase violates Sections 5.0 – 9.0, the bank or manager shall remove the security from the State's portfolio as soon as possible and will bear all costs associated with the purchase and sale of such security. The bank or manager shall further ensure that the State recognizes no investment gain or loss on the purchase and sale of such security and/or shall effect such transactions as shall be necessary to eliminate any such gain or loss on the books and records of the State's Account with such bank or manager. A bank or manager shall report immediately any such violation and the action(s) taken to correct such violation to OST.

**10.3 Holding Impermissible Securities Following a Downgrade.** In the event that a bank or manager holds any security that complied with Sections 5.0 – 9.0 at the time of purchase, but which ceases to qualify as a permissible investment as the result of a downgrade, the bank or investment manager shall remove the security from the State's portfolio immediately without any consideration as to the investment gains or losses occasioned thereby. In such case, the State shall bear all costs associated with the purchase and sale of such

security and shall recognize any investment gain or loss on such transactions on the books and records of the State's Account with such bank or manager. A bank or manager shall report immediately any such violation and the action(s) taken to correct such violation to OST.

**10.4 Holding Impermissible Securities Following a Drawdown.** In the event that a manager's account exceeds the percentage of account limitations set forth in Sections 6.0 - 9.0 hereof as the result of a portfolio withdrawal. The manager shall provide to OST within 2 business days, a detailed plan for remediation of the allocation to within the permissible percentage of account limitation. Such plan shall include: any expected paydowns on structured securities, expected maturities and expected cash flow items. The manager and OST shall work together to determine a prudent path for remediation, with care taken to manage the overall portfolio risk and implications of any book gains or losses within the portfolio.

**10.5 Mutual or Commingled Fund Exceptions to Guidelines.** The Board recognizes that (i) mutual funds and other types of commingled investment vehicles can provide, under some circumstances, lower costs and better diversification than can be obtained with a separately managed fund pursuing the same investment objectives and (ii) such funds cannot customize their investment policies to conform to the guidelines set out herein. In such cases, the policies of such funds shall supersede these guidelines and are exempt from the policies and restrictions specified herein.

**Originally adopted January 18, 1982**

**18 DE Reg. 462 (12/01/14)**

**20 DE Reg. 275 (10/01/16) (Prop.)**