INVESTMENT POLICY STATEMENT

The State of Delaware Deferred Compensation Plans
Under IRC §§ 457, 403(b) and 401(a)

Approved on September 5, 2018

By the Delaware Plans Management Board
I. THE PLANS MANAGEMENT BOARD AND COMMITTEES

Effective as of July 1, 2016, the Delaware General Assembly abolished the Deferred Compensation Council and created the Plans Management Board (the “Board”) to oversee and administer the State’s deferred compensation program authorized under chapter 60A of title 29 of the Delaware Code (the “Program”). See 29 Del. C. § 2722. The Program is intended to create a vehicle through which State employees may, on a voluntary basis, provide for additional retirement income. See 29 Del. C. § 6051. The Program is in addition to pension and other benefit programs provided by law for employees of the State. See id.

The Program encompasses three distinct deferred compensation plans (each a “Plan”, and collectively the “Plans”): (a) the State’s deferred compensation plan under section 457 of the Internal Revenue Code (“IRC”); (b) the State’s tax-sheltered annuity plan for education employees under IRC § 403(b)1; and (c) the State’s employer match plan under IRC § 401(a)2.

On February 2, 2018, as memorialized in Resolution No. 2018-1 (the “Resolution”), the Board dissolved its existing plan-based committee structure and adopted a functional committee structure. Pursuant to the Resolution, the Board created a standing “Investment Committee” and vested it with authority to review and make recommendations to the Board with respect to all matters related to Plan investment options and Plan investment performance, as well as all other investment-related matters pertaining to the Plans as may be referred by the Board. The Board created a second standing committee - the “Audit and Governance Committee” - and vested it with responsibility for all audit-related matters, potential Plan amendments, Plan-related cybersecurity issues, and such other audit or governance matters pertaining to the Plans as may be referred by the Board.

II. STATEMENT OF PURPOSE

This investment policy statement (the “IPS”) memorializes the investment philosophy of the Board as it relates to the Plans and establishes rules, criteria and processes for investment-related decisions for the Program. The Board, upon the recommendation of the Investment Committee, has adopted this IPS to guide decision-making related to the selection, monitoring and removal of Plan investment options and other matters addressed below. The IPS supersedes and replaces all prior investment policy statements governing the Plans.

The IPS is designed to accommodate shifting economic and market conditions and changes in applicable statutory and regulatory requirements. Rigid adherence to the IPS may not be required or reasonable in certain circumstances and should be avoided where strict compliance would be

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1 The IPS does not cover any assets under the 403(b) plan that are held in contracts offered by former vendors to which contributions have not been made on or after September 1, 2016. The contracts held by these former vendors are individual annuity contracts and custodial agreements that are between the former vendors and participants. The Board does not have the contractual right to direct the transfer of the assets held under these contracts without participant consent, and participants may be limited in their ability to voluntarily direct the transfer of these assets due to applicable surrender charges and other penalties.

2 The General Assembly has not appropriated funds for the employer match since July 1, 2008.
inconsistent with the standard of care under 29 Del. C. § 2722(d) or other applicable laws or regulations.

III. DELEGATION OF DUTIES TO THE INVESTMENT COMMITTEE

Pursuant to the Resolution, the Board has delegated to the Investment Committee oversight responsibility for all matters related to this IPS. Consistent with such duty, the Investment Committee shall periodically (at least every other year) review and, if appropriate, make recommendations to the Board concerning:

- the need for amendments to this IPS;
- the investment architecture of the Program;
- the selection, monitoring, replacement, or removal of investment options; and
- other matters delegated to the Investment Committee under this IPS.

IV. PROGRAM DESIGN

A. Investment Philosophy and Program Architecture

The Program is voluntary and participant-directed. The Program has been designed to afford participants with a sufficiently diverse set of investment options that encompass a variety of risk/reward characteristics to enable participants to adequately diversify their supplemental retirement portfolios. A summary of the decision-making process relating to the investment architecture is available at: Program Architecture Summary

The Program includes a multi-tiered investment architecture providing participants with three overarching types or “tiers” of investment options:

- **Tier 1 – Default Options.** This tier includes a family of target date retirement funds that have been selected as the Program’s “default” investment options. Retirement date funds have the primary objective of providing asset allocation strategies for participants using a methodology that allows for a gradual reallocation (commonly referred to as the “glide path”) of assets to more conservative strategies as the participant approaches the fund’s stated retirement date. Tier 1 is designed to allow participants to choose the time horizon that works best for their specific financial goals by selecting the anticipated retirement year in the fund’s name. The current lineup of target date funds can be found here: Tier One Investment Options

- **Tier 2 – Core Options.** This tier consists of “core” investment options of actively and passively managed funds selected from among the major asset classes. Participants who are comfortable selecting and allocating contributions among core funds may do so. Participants also have the option, subject to additional fees, of having their core investments selected and
managed professionally by a third-party investment advisor. The current lineup of Tier 2 funds, along with information regarding fees payable to the third-party investment advisor, if applicable can be found here: Tier Two Investment Options

- **Tier 3 – Brokerage Window.** This tier offers a self-directed brokerage account option that provides participants with the opportunity to allocate their contributions to investments not otherwise offered in the Program’s investment array. Participants in the 457 and 401(a) Plans can invest in individual stocks and bonds, exchange traded funds and mutual funds. Under law, participants in the 403(b) Plan are limited to investing in mutual funds. Tier 3 is designed for participants who desire a more expansive universe of investment options, and who have the time and ability to build their own portfolios. Each Participant who selects the brokerage account option is assessed an annual fee by the Program’s trustee/custodian and/or recordkeeper (the “**Provider**”) and is also responsible for paying applicable brokerage account fees. The current Provider and brokerage fee structure for Tier 3 services can be found here: Tier Three Investment Option

V. **REVIEW OF PROGRAM DESIGN FEATURES**

The Investment Committee shall periodically review and, if appropriate, make recommendations to the Board concerning the Program’s investment architecture and optional managed account and brokerage services. If requested by the Board, the Investment Committee shall periodically review and, if appropriate, make recommendations to the Board concerning other Program design features.

**A. Investment Architecture Review**

In reviewing the Program’s investment architecture, the Investment Committee shall consider criteria including, but not, limited to the following:

- the overarching purposes and goals of the Program;
- the unique characteristics and requirements of each Plan;
- developments within the retirement savings industry, including current “best practices”;
- whether each “tier” provides participants with an investment option or an array of investment options that permit participants to diversify their balances and construct portfolios spanning the risk/reward spectrum; and
- the perceived ease of use of the investment architecture and Program features.

**B. Monitoring of Managed Account and Brokerage Service Providers**

In reviewing the Program’s optional managed account services for core Tier 2 investments and Tier 3 brokerage account services, the Investment Committee shall consider criteria including, but not, limited to the following:
the experience of the service provider;
the responsiveness of the service provider’s call center and the consistency of the advice that is provided to participants;
the contractual terms upon which the services are offered to participants; and
the reasonableness of the managed account services and investment advisor fees.

In addition, with respect to the Program’s optional managed account services for core Tier 2 investments, the Investment Committee shall consider:

- the service provider’s asset allocation philosophy and managed account construction methodology; and
- net-of-fee results for the managed account participants compared to other asset allocation alternatives.

Neither the Board nor the Investment Committee shall have any duty to select, monitor or evaluate the individual investment options available through the brokerage window.

Except as set forth in this Section V.B., the selection, monitoring, replacement, and removal of outside Plan-related vendors shall be governed by a vendor management policy to be established by the Board.

VI. SELECTION AND REVIEW OF TIER 1 TARGET DATE FUNDS

The Board has selected Tier 1 target date funds to serve as the Program’s “default” investment options, i.e., the options into which contributions will be directed on behalf of participants who fail to make affirmative investment elections. This section guides the selection of new or replacement target date funds and establishes a process for monitoring the performance of existing target date funds.

A. New or Replacement Target Date Funds

Target date funds in Tier 1 shall be selected for the Program utilizing the U.S. Department of Labor’s standards for the selection of qualified default investment alternatives (“QDIsAs”) and the following additional criteria:

- consideration of primary objectives in relation to risk management scale at retirement (i.e., minimizing risk on a static glide path “to” retirement, versus maximizing savings “through” life expectancy with a more aggressive glide path after retirement); and
- consideration of participant demographics to define risk tolerance, including characteristics of the various age cohorts including, but not limited to, overall investment knowledge and current usage of target date funds, hybrid funds, or asset allocation funds;
- underlying fund construction and asset allocation in comparison to appropriate peer groups or applicable strategies;
- diversification of asset classes (i.e., whether the target date funds chosen should include several types of assets classes that would normally not be considered under a core line up, including, but not be limited to, real estate, commodities, high yield debt, emerging market equity and debt, inflation hedging, and long/short equity strategies);
- length of track record (i.e., whether the target date series should have at least a minimum track record, such as 3 years or a full economic cycle);
- fees and expenses in comparison to category averages and as related to overall Program cost; and
- performance in comparison to a custom style benchmark and category averages.

B. Monitoring Target Date Funds

The Investment Committee shall monitor on an ongoing basis and periodically make recommendations to the Board concerning the Program’s target date funds. In monitoring target date funds, the Investment Committee shall, as appropriate, (a) consider relevant target date fund selection factors identified above and (b) consider criteria including, but not limited to, the following:

- the appropriateness of the glide path given current economic conditions;
- changes in fund managers, notable staff departures; and
- on assessment of management of the funds to assess consistency with the stated strategy and objectives.

VII. SELECTION AND REVIEW OF TIER 2 INVESTMENT OPTIONS

The Board has selected the Program’s core investment options. This section guides the selection of new or replacement Tier 2 funds and establishes a process for monitoring the performance of all core investment options. For selection and review purposes, the core investment options have been segregated into two discrete groups: (a) U.S./international equities, fixed income investments, and alternative investments; and (b) fixed interest/stable value options.

A. Selection and Monitoring of Equities, Fixed Income, and Alternative Investments

In recommending or selecting U.S./international equities, fixed income investments, and alternative investments, the Investment Committee and the Board shall consider criteria, including, but not limited to the following:

- performance as compared to an appropriate benchmark and/or an appropriate peer group;
- risk measures versus those of the benchmark and/or peer group;
- risk-adjusted return measures as compared to those of the benchmark and/or peer group;
- fees and expenses;
- organizational structure and stability of fund personnel;
- manager tenure;
- track record (minimum 3-year); and
- qualitative characteristics, including, but not limited to, management strategy, portfolio turnover, and recent portfolio activity in view of current market conditions.

The Investment Committee shall monitor on an ongoing basis and periodically make recommendations to the Board concerning U.S./international equities, fixed income investments and alternative investments. The Investment Committee shall consider criteria, including but not limited to the following:

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Measure</th>
<th>Goal(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td>3-, 5-, &amp; 10-year record</td>
<td>reasonable vs. peer group</td>
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<tr>
<td></td>
<td>3-, 5-, &amp; 10-year record</td>
<td>reasonable vs. appropriate benchmark</td>
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<tr>
<td>Risk</td>
<td>3-year standard deviation</td>
<td>reasonable vs. peer group and/or benchmark</td>
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<tr>
<td>Risk-adjusted performance</td>
<td>3-year Sharpe ratio</td>
<td>reasonable vs. peer group and/or benchmark</td>
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<tr>
<td>Expense ratios</td>
<td>Total expenses</td>
<td>Below peer group median</td>
</tr>
<tr>
<td>Investment objective/style</td>
<td>Style purity</td>
<td>Option should maintain reasonable correlation to appropriate benchmark as evidenced by R-squared</td>
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**B. Selection and Monitoring of Fixed Interest/Stable Value Options**

In recommending or selecting any fixed interest or stable value option, the Investment Committee and the Board shall consider criteria, including but not limited to, the following:

- financial strength of the guarantor as determined by a nationally recognized statistical rating organization ("NRSRO");
- interest rate history and minimum guaranteed contract rate;
- contract liquidity provisions;
- current and historical market to book value ratios (stable value funds only); and
- comparison between fixed interest accounts (e.g., general accounts or separate accounts) and stable value accounts.

The Investment Committee shall monitor on an ongoing basis and periodically make recommendations to the Board concerning the Program’s fixed interest and/or stable value options. The Investment Committee shall consider criteria, including, but not limited to, the following:

- financial strength of the guarantor as determined by an NRSRO;
- current interest rates;
- current crediting rate (stable value funds only);
- fund effective duration (stable value funds only); and
- current market to book value ratio (stable value funds only).

VIII. WATCH LIST, REPLACEMENT OR REMOVAL OF TIER 1 AND TIER 2 OPTIONS

All investment options are expected to perform in line with the qualitative and quantitative criteria set forth above. Investment options that do not meet expectations may be placed on a watch list.

A fund that is placed on watch will be subject to heightened review and will continue on watch until the Board removes the fund from watch status. Investment options that continue to fail to meet expectations after placement on the watch list may become candidates for replacement or removal.

A. Placement, Monitoring, Replacement and Removal

The Investment Committee shall be responsible for: (a) making recommendations to the Board concerning the placement of investment options on the watch list; (b) ongoing monitoring of investment options placed on the watch list; and (c) making recommendations to the Board concerning (i) the removal of investment options from the watch list and (ii) replacement or removal of investment options.

In carrying out the foregoing duties, the Investment Committee shall consider criteria, including but not limited to, the following:

- investment management fees or expense ratios;
- the investment option’s long-term investment net of fee performance on a rolling 3-year, 5-year and 10-year basis;
- recent changes, such as investment option restructurings or investment team changes;
- the appropriateness or relevance of an investment option’s stated peer group, since funds may be misclassified or poorly classified;
- the investment option’s adherence to a stated investment style and whether or not that investment style has been in or out of favor;
- unusual market circumstances or volatility;
- prospectus investment constraints, such as socially responsible mandates; and
- the degree to which the investment option has reduced or controlled risk, which might constrain the investment option’s ability to outperform other options.

The length of time during which an investment option shall remain on the watch list shall be evaluated on a case-by-case basis. The Investment Committee may recommend the replacement or removal of any investment option that is no longer suited for the Program, irrespective of whether the investment option had previously been placed on watch.
The Board reserves the right to replace or remove any investment option at any time if it determines that such replacement or removal is in the best interest of the Program’s participants and beneficiaries.

Should the Board decide to replace a target date fund series, Section VI-A shall guide the selection of a replacement target date fund series. Should the Board decide to replace a Tier 2 investment option, Section VII shall guide the selection of a replacement investment option.

IX. NOTICE OF WATCH LIST PLACEMENT, REPLACEMENT OR REMOVAL

The Board has no duty to provide participants with notice when an investment option is placed on the watch list.

If the Board replaces or removes an investment option, affected participants should be provided with at least 30, but no more than 60, days' advance written notice. The notice must compare options and inform the participants how their funds will be mapped if they do not opt out of the default option and affirmatively select an alternative investment option.

X. FUND MAPPING

If an investment option is replaced, unless otherwise directed by a participant or prohibited by contract, the Provider shall transfer funds from the replaced investment option to an investment option with similar risk and reward characteristics or, alternatively, in accordance with the U.S. Department of Labor’s QDIA standards.

XI. CONSULTANTS

The Board has retained the services of an investment consultant to serve as a co-fiduciary for the Program. The Investment Committee may rely on the professional advice of the consultant and shall seek input and guidance from the consultant in discharging its duties under this IPS.

XII. MISCELLANEOUS PROVISIONS

This IPS shall guide the Investment Committee and the Board and shall remain in effect until amended by the Board. The Investment Committee and the Board shall have full and complete discretion as to the interpretation of this IPS and its application to a specific situation. Nothing contained in this IPS shall provide to any participant or beneficiary the right to enforce the terms of this IPS.

The Board and the Investment Committee shall document all decisions made under this IPS.
Adopted by the Delaware Plans Management Board this 5th day of September 2018, as evidenced by the signature of the Board Chair below.

Stephen Saville, Chair

ATTEST:

Ken Simpler, State Treasurer