DELAWARE CASH MANAGEMENT POLICY BOARD
RESOLUTION NO. 2020-1 FURTHER AMENDING INVESTMENT ARCHITECTURE FOR THE STATE'S CASH ACCOUNTS[1]

WHEREAS, the Delaware Cash Management Policy Board (the "**Board**") is authorized and empowered by 29 *Del. C.* § 2716(a) to establish policies (a) for the investment of all money belonging to the State of Delaware (the "**State**") or on deposit from its political subdivisions, except money deposited in any State pension fund or deferred compensation program, and (b) to determine the terms, conditions and other matters relating to the investment of State Funds, including the designation of permissible investments, the allocation between short- and long-term investments, the selection of investment managers ("**Managers**") and the allocation of funds among the Managers;

WHEREAS, the Board has promulgated investment objectives and guidelines for the investment of State Funds, as memorialized in 1 *Del. Admin. C.* § 1201 (the "**Guidelines**");

WHEREAS, under the Guidelines, unless otherwise determined by the Board, the Office of the State Treasurer ("**OST**") has discretionary authority to allocate State Funds among the Cash Accounts in accordance with the general purposes of the Accounts and the investments objectives for those Accounts set forth in the Guidelines;

WHEREAS, the Guidelines do not expressly prescribe (a) the specific amounts or percentages of State Funds that must remain in the Cash Accounts, (b) the number of Liquidity or Reserve Accounts that will be maintained to manage State Funds, (c) the number of Managers that are required or authorized to provide investment services for the Liquidity and Reserve Accounts, (d) the benchmarks or benchmark proxies that will be used by OST and the Board to assess the performance of State Funds and the Managers, or (e) the treatment of restricted State Funds ("**Open Investment Issues**");

WHEREAS, pursuant to Resolution No. 2017-1, the Board preliminarily approved an investment architecture addressing certain of the Open Investment Issues to provide a more detailed framework for the investment of State Funds;

WHEREAS, pursuant to Resolution No. 2018-1, the Board approved an Amended Investment Architecture that refined the benchmark guidance and Reserve Account structure;

WHEREAS, on April 15, 2020, at a special meeting of the Board's Investment Subcommittee (the "**Subcommittee**") at which a quorum of the members of the Subcommittee was present, the Subcommittee reviewed and discussed various changes to the Amended Investment Architecture;

WHEREAS, on May 6, 2020, at a regularly scheduled meeting of the Subcommittee at which a quorum of the members of the Subcommittee was present, the Subcommittee voted to recommend to the full Board certain proposed changes to the Amended Investment Architecture; and

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[1] Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Guidelines or Resolution No. 2018-1, as appropriate.

WHEREAS, on May 27, 2020, at a regular public meeting of the Board at which a quorum of the members of the Board was present, the Board by unanimous vote approved the Second Amended Investment Architecture attached hereto as **Exhibit A** (the "**Second Amended Investment Architecture**") and the form of this Resolution;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD:

1. The Second Amended Investment Architecture is approved and adopted by the Board, effective as of May 27, 2020.

2. OST and its officers and employees are authorized and directed to take such action as may be necessary or appropriate to effectuate or carry out the purpose and intent of this Resolution, including, without limitation, the execution and delivery of any documents, instruments, agreements or amendments as may be necessary, advisable or appropriate to implement the Second Amended Investment Architecture, and the taking of any such action shall conclusively evidence the appropriateness or necessity of any such documents, instruments or agreements.

3. The Board reserves the right to make any changes to the Second Amended Investment Architecture that it believes are in the best interest of the State.

4. All acts, transactions or agreements undertaken prior to the adoption of this Resolution by any member of the Board or any officers or employees of OST in connection with the matters authorized by this Resolution and all actions incidental thereto are hereby ratified, confirmed and adopted by Board.

Adopted by the Cash Management Policy Board on May 27, 2020

John Flynn, Chairperson

ATTEST:

Colleen Davis, State Treasurer
& Board Member

EXHIBIT A

SECOND AMENDED INVESTMENT ARCHITECTURE FOR CASH ACCOUNTS

The following Second Amended Investment Architecture (the "Investment Architecture") shall govern the management of the State's Cash Accounts. The Investment Architecture is intended to provide the Office of State Treasurer ("**OST**") and the Managers of such Accounts with a flexible framework to maintain the safety and availability of State Funds to meet the State's immediate and intermediate funding needs and maximize the return on State Funds. Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Guidelines or Board Resolution No. 2020-1, as appropriate.

I. Allocation Among Cash Accounts

Under the Investment Architecture, a certain portion of State Funds, as determined by OST, in its discretion, will be held in Collection and Disbursement Accounts and used to cover anticipated near-term transactions. Amounts exceeding the State's projected near-term cash needs ("**Excess Cash**") shall be invested and held in Liquidity or Reserve Accounts in accordance with the Guidelines and this Investment Architecture.

Unless the Board by majority vote determines otherwise, (a) the Liquidity Accounts should have a target balance of approximately twenty-five percent (25%) of Excess Cash, as determined by investment account balances reported at month end, and (b) Reserve Accounts shall hold all other Excess Cash. A discretionary buffer of five percent (5%) shall per permitted. If the aggregate balance of the Liquidity Accounts exceeds thirty percent (30%) of Excess Cash at the end of any month and is projected to continue to exceed such percentage for all or a significant portion of the following month, OST shall consult with the Chair of the Subcommittee, who shall have authority to direct OST to rebalance, or not. [1]

II. Management of Liquidity Accounts and Managers

There shall be two (2) Liquidity Accounts, each with its own Liquidity Manager. The Liquidity Accounts will be managed in accordance with relevant sections of the Guidelines.

OST may in its discretion draw on Excess Cash in one Liquidity Account or both Liquidity Accounts to meet anticipated funding needs within a given fiscal year. Discretionary draws normally will be made on a pro rata basis. One or both of the Liquidity Accounts may be completely liquidated during certain periods of the fiscal year.

OST shall have discretion to replenish the Liquidity Accounts as revenues are received throughout the fiscal year. Refunding of the Liquidity Accounts normally will be made on a pro rata basis.

III. Management of Reserve Accounts and Managers

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[1] Effective immediately, and through December 31, 2020 or such other date as may be approved by the Board, to provide for additional liquidity during the COVID-19 pandemic, (a) the target balance referenced in the first sentence shall be thirty percent (30%) of Excess Cash, and (b) the aggregate balance referenced in the third sentence shall be thirty-five percent (35%) of Excess Cash.

There shall be three (3) "Tiers" of Reserve Accounts, with each Tier having a unique investment maturity target. The Tier 1 Reserve Account has a maturity target of one (1) to three (3) years. The Tier 2 Reserve Account has a maturity target of one (1) to five (5) years. The Tier 3 Reserve Accounts have a maturity target of five (5) to ten (10) years. There shall be two (2) Tier 3 Reserve Accounts, each with its own Reserve Manager.

Excess Cash in the Reserve Accounts will be distributed among four (4) Reserve Managers. The Reserve Accounts will be managed in accordance with relevant sections of the Guidelines.

In the event the State has unanticipated funding needs, draws from the Reserve Accounts should be made on a pro rata basis. Refunding of the Reserve Accounts should likewise be made on a pro rata basis. OST may, with the consent of the Chair of the Subcommittee, deviate from the pro rata draw and refunding requirements.

IV. Restricted Amounts

The Tier 1 Reserve Account shall include the "Budget Reserve Account" provided for in art. VIII, § 6 of the Delaware Constitution of 1897. Excess Cash in the Budget Reserve Account may not be accessed absent a 3/5 vote of the members of each house of the General Assembly.

The Tier 2 Reserve Account shall include the "Budget Stabilization Fund" provided for in Section 77 of House Bill 225, the fiscal year 2020 Budget Bill. Draws from the Budget Stabilization Fund must be authorized by an act of the General Assembly.[2]

Amounts received directly by the State from the federal government in response the Covid-19 emergency ("**Emergency Funds**") shall be allocated pro rata to the Liquidity Managers and managed in separate liquidity accounts ("**Special Liquidity Accounts**") in accordance with the Board's directives. Emergency Funds held within Special Liquidity Accounts shall not be deemed Excess Cash for allocation purposes under Section I above.

V. Benchmark Proxies

Liquidity Managers. None.

Tier 1 Reserve Manager. The Benchmark Proxy for the Tier 1 Reserve Manager shall be: 100% invested in Intercontinental Exchange Bank of America Merrill Lynch ("**ICE BofAML**") 1- to 3-year government/corporate bonds rated "A" or better.

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[2] Effective immediately, and through December 31, 2020 or such other date as may be approved by the Board, to provide for additional liquidity during the COVID-19 pandemic, the Budget Stabilization Fund shall be transferred to Liquidity Managers pro rata and held in Liquidity Accounts.

Tier 2 Reserve Manager. The Benchmark Proxy for the Tier 2 Reserve Manager shall be: 100% invested in ICE BofAML 1- to 5-year government/corporate bonds rated "A" or better.

Tier 3 Reserve Managers. The Benchmark Proxy for the Tier 3 Reserve Managers shall be: 100% invested in ICE BofAML 5- to 10-year government/corporate bonds rated "A" or better.