

**INVESTMENT POLICY STATEMENT**

*State of Delaware College Investment Plan*

*Under Internal Revenue Code § 529*

Approved on December 8, 2020

By the Delaware Plans Management Board

## **I. THE PLANS MANAGEMENT BOARD AND INVESTMENT COMMITTEE**

The Plans Management Board (the “Board”) oversees and administers, among other things, the State’s college investment plan under section 529 of the Internal Revenue Code, as authorized in this State by subchapter XII, chapter 34 of title 14 of the Delaware Code (the “Plan”).

In February 2018, as memorialized in Resolution No. 2018-1, the Board dissolved its existing plan-based committee structure and adopted a new committee structure based on committee function. 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 Plan as may be referred by the Board.

## **II. STATEMENT OF PURPOSE**

This investment policy statement (“IPS”) memorializes the investment philosophy and establishes rules, criteria and processes for investment-related decisions for the Plan. 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. This IPS supersedes and replaces all prior investment policy statements governing the Plan.

The IPS is designed to afford flexibility 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 inconsistent with the standard of care under 29 *Del. C.* § 2722(d) or other applicable laws or regulations.

## **III. BOARD DUTIES AND DELEGATION**

The Board members will fulfill their responsibilities as trustees under the Plan trust and serve as fiduciaries for participants and beneficiaries. The Board may delegate functions that a prudent entity acting in a like capacity and familiar with those matters could properly delegate under the circumstances.

Pursuant to the Resolution, the Board has delegated to the Investment Committee oversight responsibility for all matter related to this IPS. Consistent with such duty, the Investment Committee shall annually review and, if appropriate, make recommendations to the Board concerning:

- The need for amendments to this IPS;
- The investment architecture of the Plan;
- The selection, monitoring, replacement, or removal of investment options; and

- Other matters delegated to the Investment Committee under this IPS or pursuant to a majority vote of the Board, which vote shall be memorialized in minutes or a written resolution.

#### **IV. PROGRAM DESIGN**

##### **A. Investment Philosophy**

The Plan is voluntary, and participant directed. The Plan provides an opportunity for eligible participants to take an active role in saving for their tuition expenses through a tax-advantaged vehicle. The assets are held collectively in a trust. Board members serve as trustees under the trust document.

The Plan offers participants an array of commingled investment options (“Investment Portfolios”) to achieve the following goals:

- Meet the various educational saving needs of participants and Plan beneficiaries;
- Enable diversification across a range of risk levels, asset classes, and investment strategies in order to accommodate the varying levels of needs and risk tolerances of the participant;
- Allow for a rate of return commensurate with an appropriate level of risk; and
- Comply with all fiduciary, prudence, and due diligence requirements and with all applicable laws, rules, and regulations.

##### **B. Program Architecture**

In order to achieve the above goals, the Plan presently offers an array of professionally managed Investment Portfolios. Participants have the option of selecting an age-based strategy, or they may create a custom strategy in order to meet their particular investment goals. Participants following a custom strategy could choose to invest with an age-based option, a static allocation option, one or more individual fund options, or any combination of the foregoing. Participants also have the option of a bank deposit portfolio.

###### *Age-Based Options*

The Plan’s investment array includes multiple aged-based options tied to a beneficiary’s year of birth. Age-based options are “fund of funds” Investment Portfolios with “glide path” strategies that reallocate assets to more conservative fund investments as the beneficiary approaches college enrollment age. The current program manager adjusts the asset allocation of the age-based options on a monthly basis (versus a step-down approach in which the allocation changes annually on the beneficiary’s birthdate). Participants may select Investment Portfolios invested in actively managed funds, passively managed index funds, or a blend of actively managed and index funds. The investment objective of each aged-based Investment Portfolio is capital appreciation with reasonable safety of principal, consistent with the ages of the beneficiaries.

### *Static Allocation Options*

The investment array presently includes six “static” allocation options – meaning that the target asset class allocations do not change over time. Each static Investment Portfolio is a “fund of funds” that invests in either actively or passively managed funds. Participants have three allocation options - aggressive growth, moderate growth, and conservative. The aggressive growth option invests 100% of assets in equity funds. The investment objective is growth of capital over the long term. The moderate growth option invests 70% of assets in equity funds and 30% in bond funds. The investment objective is to maximize total return over the long term. The conservative growth option invests approximately 45% in bond funds and 55% in short-term bond funds. The investment objective is preservation of capital, with income a secondary objective.

### *Individual Fund Options*

The investment array presently includes five Investment Portfolios, each of which is invested in a single underlying index-based fund or an actively managed money market fund. The individual fund options allow participants to construct diversified portfolios and investment styles matching their risk tolerances, asset class preferences, time horizons, and expected returns. Options presently include two U.S. equity funds, one non-U.S. equity fund, one investment-grade debt fund, and one short-term debt (money market) fund. The investment objective of each is the same as the investment objective of the fund in which it invests.

### *Bank Deposit Option*

The Plan currently offers a bank deposit option. This portfolio is composed exclusively of deposits in an FDIC-insured interest-bearing omnibus negotiable order of withdrawal (or “NOW”) deposit account. The bank deposit portfolio seeks the preservation of principal.

## **V. REVIEW OF PROGRAM DESIGN**

The Investment Committee shall periodically review and, if appropriate, make recommendations to the Board concerning the Plan’s investment architecture. If requested by the Board, the Investment Committee shall periodically review and, if appropriate, make recommendations to the Board concerning other program design features.

In reviewing the Plan’s investment architecture, the Investment Committee shall consider some or all of the following criteria, as appropriate:

- The overarching purposes and goals of the Plan;
- The unique characteristics and requirements of the Plan;
- Developments within the 529 industry, including current “best practices”;
- Whether the Plan provides participants with Investment Portfolios that permit participants to diversify their balances and construct portfolios spanning the risk/return spectrum; and
- The ease of use or complexity of the investment architecture and Plan features.

## VI. SELECTION AND MONITORING OF INVESTMENT OPTIONS

The Investment Committee shall periodically review and, if appropriate, make recommendations to the Board concerning the selection and review of Investment Portfolios. Unless otherwise noted, the Investment Committee's selection and review processes shall be conducted at the level of each Investment Portfolio.

### *Age-Based and Static Allocation Options*

For the initial selection of age-based and static allocation options, including new age-based vintages, the following factors will be considered:

- Organizational structure and experience and stability of fund personnel;
- Expense ratios versus appropriate peer group;
- Qualitative characteristics, including management strategy, portfolio turnover and recent portfolio activity in view of current market conditions;
- Performance (if available, 3-, 5- and 10-year record) as compared to an appropriate benchmark and/or an appropriate peer group;
- Risk measures (including 3-year standard deviation) versus those of the benchmark or peer group;
- Risk adjusted return measures (including 3-year Sharpe ratio) as compared to those of the benchmark or peer group;
- Fund construction and asset allocation in comparison to the benchmark or peer group, including, for age-based options, the appropriateness of each age-based portfolio's glidepath (in-terms of total risk and underlying investment composition) in regard to the beneficiary's target age;
- Diversification of asset classes; and
- Initial diligence related to the performance of the individual funds that comprise the portfolios.

In monitoring both age-based and static allocation options, the Investment Committee shall, as appropriate, consider (a) relevant selection factors identified above, and (b) additional criteria, including the following:

- Changes in fund managers (*e.g.*, notable staff departures, significant gain or loss of assets, regulatory examinations or scrutiny, disciplinary actions, *etc.*);

- An evaluation of the management of the funds to assess consistency with the stated strategy and objectives; and
- Ongoing diligence related to the underlying funds.

#### *Individual Fund Options*

For the initial selection and ongoing monitoring of individual fund options, the Investment Committee shall evaluate each Investment Portfolio at the level of the underlying mutual funds or other portfolio investments based on relevant selection or monitoring factors identified above for age-based and static allocation options.

#### *Bank Deposit Portfolio*

For the initial selection and ongoing monitoring of a bank deposit option, the Investment Committee should take into account all relevant criteria, such as:

- FDIC insurance coverage;
- Liquidity provisions; and
- Performance and fees relative to industry averages.

### **VII. WATCH LIST, REPLACEMENT OR REMOVAL OF INVESTMENT OPTIONS**

All investment options are expected to perform in line with qualitative and quantitative criteria. 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 watch list may be candidates for replacement or 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 forgoing duties, the Investment Committee may consider, among other factors:

- 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 Plan, 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 Plan's participants and beneficiaries.

Should the Board decide to replace an investment option, Section VI shall guide the selection of a replacement.

### **VIII. 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 shall receive appropriate advance written notice. Such notice must identify the default replacement option and inform participants how their funds will be mapped, unless they opt out and affirmatively select an alternative investment option.

### **IX. PLAN MANAGER**

The Plan manager has the responsibility to manage the day-to-day operations of the Plan. In managing the Investment Portfolios and the underlying investments, the Plan manager will act with the skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like objectives.

The Plan manager and its affiliates and subcontractors will generally be responsible for the following:

- Reviewing, analyzing, and recommending asset allocation guidelines and any changes in age bands periodically by submitting a proposal for the Investment Committee and Board to review and approve;
- Determining prudent review and analysis for the underlying investments in the age-based, static, and individual portfolios;

- Investing, monitoring, and rebalancing the asset allocation of Investment Portfolios to ensure adherence to target allocations on an as needed basis; and
- Providing quarterly reports as contractually obligated to the Investment Committee and Board, or more frequently if requested.

## **X. INVESTMENT CONSULTANT**

The Board has retained the services of an investment consultant to serve as a co-fiduciary for the Plan. The Investment Committee and the Board 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.

## **XI. 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 any rights or benefits or 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 8th day of December 2020, as evidenced by the signature of the Board Chair below.*



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Donna Vieira, Chair

ATTEST:



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Colleen Davis, State Treasurer