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To: Delaware Plans Management Board

Below is an outline of a Fidelity proposal that was presented to and approved by the Investment Committee on May 21, 2019. This proposal represents Fidelity's best thinking based on research related to both the 529 marketplace and the capital markets. The proposal is intended to strengthen the investment and product offering by providing differentiated options at exceptional value.

1) Enhance glide path and strategic asset allocation for the Delaware College Investment Plan

As part of Fidelity's ongoing and current research on participant needs and the capital markets, Fidelity proposes adding exposure to long-term U.S. Treasuries and inflation-protected debt to the glide path and strategic allocation in the age-based portfolios. The belief is that these changes will increase diversification and help strengthen the resiliency of 529 participants' investments. As a result of the strategic allocation changes, the composite benchmarks for the portfolios will be updated accordingly.

2) Convert to Fidelity Series funds as underlying investments for the Delaware College Investment Plan

Fidelity recommends transitioning the underlying investments in the Delaware 529 age-based and static allocation portfolios from publicly available mutual funds to the Fidelity Series Funds. The Fidelity Series Funds are mutual funds dedicated to Fidelity's asset allocation strategies and are currently used in the Fidelity target date retirement funds (Fidelity Freedom Funds). The Series Funds are not available to retail investors.

The Series Funds allow for closer investment alignment and better execution of the Portfolio Managers' points of view. Industry analysts, such as Morningstar, are familiar with the Series Funds due to their inclusion in Fidelity's target date retirement funds.

3) Eliminate the Multi-Firm product as an investment option within the Delaware College Investment Plan

The Multi-Firm product was launched in 2011 and currently accounts for approximately 2.5% of the assets in the plan. As noted by Morningstar, this product has some of the highest fees in the industry, ranking in the 95th percentile of the peer universe for fees. Additionally, according to the Strategic Insights 2019 Consumer Survey, access to multiple investment managers ranked 13th out of 14 plan selection factors in importance to parents with children under the age of 18.

Participants who prefer active investment management will continue to have access to the Fidelity Active 529 strategy, which has had similar or stronger long-term relative performance, as an investment option within the plan.

4) Introduce a Blend age-based product offering for the Delaware College Investment Plan

To provide additional choice to participants, Fidelity recommends adding a Blend age-based product offering, consisting of a mix of both active and passive investments, to the plan lineup. Blended products have become an attractive option in the industry as participants receive a combination of the benefits of active management and the cost reduction of passive management.

Fidelity would utilize active strategies in areas where there are greater informational advantages and opportunity to add value through Fidelity's active management capabilities. The proposed Fidelity Blend pricing will include a program management fee of 10 bps and a state management fee of 4 bps.

5) Transition participants who currently own the Multi-Firm to the Fidelity Active 529 Strategy

As noted above, the Multi-Firm product currently invests primarily in actively managed mutual funds and is most closely aligned with the Fidelity Active 529 strategy. Fidelity proposes to move the current Multi-Firm participants into the Fidelity Active 529 strategy. The participants will be notified of the change and will be provided the ability to opt into an alternative strategy.

Fidelity is currently reviewing this proposal with all State partners. At this time, Massachusetts and New Hampshire have approved the proposal and agreed to move forward to the next stage of the process. Arizona is currently reviewing the proposal.

Fidelity is requesting approval of this proposal from the Delaware Plans Management Board. If the proposal is approved, Fidelity will work with the DOJ and OST on updates to the investment management agreement that will be brought back to the Board in the September session.

We appreciate your partnership, support and concern for your plan participants and look forward to working closely together on helping Delaware residents continue to save for education.

Sincerely,

Melissa Ridolfi

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