

DRAFT Investment Policy Statement

529 Plan

Statement of Purpose of Investment Policy

This investment policy statement ("IPS") memorializes the investment philosophy and establishes rules, criteria and processes for investment-related decisions for the Delaware College Investment Plan ("Program"), a 529 education savings plan. The IPS represents the formal investment policy document for the Program and is to be used by the Plans Management Board ("Board") as the basis for investment management decisions, measurement, and evaluation of investment performance of the Program.

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.

This Statement will be reviewed at least annually by the Board to ensure that it is consistent with the investment needs of the Program.

Program Purpose

The Program provides an opportunity for eligible account owners to take an active role in saving for their tuition expenses through a tax-advantaged vehicle. The Program consists of an array of investment options ("Investment Portfolios") for the allocation of accounts in the trust with the intent to achieve the following goals:

- Meet the various educational saving needs of account owners and Program 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 Programs' account owners;
- Allow for a rate of return commensurate with an appropriate level of risk to meet the investment goals of that Investment Portfolio; and
- Comply with all fiduciary, prudence, and due diligence requirements and with all applicable laws, rules, and regulations from state and federal political entities that may impact Programs' assets and participants.

By providing education and information to the account owners, the Program enables them to make informed decisions about their Investment Portfolio(s) selections.

In order to achieve the above goals, Program Investment Portfolios are to be comprised of mutual funds ("Funds"), individual securities, insurance agreements, etc., ("Underlying Investments"), as outlined in this document. The Program offers these Investment Portfolios while also taking into consideration the intent to minimize the costs of administering the program for the sole benefits and interest of the account owners and beneficiaries.

Responsibilities / Sponsor Oversight

Plans Management Board

The Board will fulfill its responsibilities as a trustee and fiduciary of the Program. 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.

Under this IPS, the Board will generally be responsible for the following:

- Developing a sound and consistent IPS;
- Reviewing (at least annually) and refining the IPS as needed;
- Reviewing and monitoring the investment architecture of the Program;
- Employing qualified investment managers, custodians, and investment consultants;
- Reviewing and approving investment proposals by Program Manager, including an annual review of asset allocation strategies and age band changes; and
- Approving procedures for monitoring investment performance criteria and other investment related contractual obligations of the Program Manager.

In reviewing the Plan's investment architecture, the Board shall consider some or all of the following criteria, as appropriate:

- The overarching purposes and goals of the Program;
- The unique characteristics and requirements of the Program;
- Developments within the 529 industry, including current "best practices";
- Whether the Program 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 Program features.

Program Manager

The Program Manager has the responsibility to manage the day-to-day operations of the program. In managing the Investment Portfolios of the Program and the Underlying Investments, the Program 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 Program 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 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 Board, or more frequently if needed.

Investment Consultant(s)

The Board may determine that it is necessary and reasonable to retain a professional investment consultant to advise the Board with regard to the investments of the Trust (the "Investment Consultant"). Under this Policy, the Investment Consultant will generally be responsible for the following:

- Providing general and/or specific investment advice to the Board
- Providing evaluation of the investment results achieved by the designated investment managers considering the investment guidelines and performance standards contained in this Statement;
- Providing assistance to the Board in screening and selecting investment managers, as appropriate;
- Making recommendations on investment policies, objectives, and strategies, including asset allocation;
- Making recommendations to the Board for appropriate actions to be considered which are intended to enhance the probability of achieving overall investment program objectives; and
- Providing analysis and review of the Investment Portfolios and their Underlying Investments, such as long-term performance, risk, and risk-adjusted return metrics.

The Investment Consultant will serve as a co-fiduciary for the Program. The Board may rely on the professional advice of the consultant and shall consult with the consultant in discharging its duties under this IPS.

Age-Based Portfolios/Static Portfolios

The Age-Based Portfolios offer account owners pre-diversified Investment Portfolios that become more conservative as the beneficiary nears his/her intended year of enrollment into college. The investment objective of each Age-Based Portfolio shall be capital appreciation with reasonable safety of principal, consistent with the ages of the beneficiaries. For younger beneficiaries, the Investment Portfolios shall have a greater emphasis on capital appreciation. For older beneficiaries, the Investment Portfolios shall have a greater emphasis on preservation of capital.

Static Portfolios offer account owners pre-diversified Investment Portfolios based on risk preference. The strategic asset allocation of these Investment Portfolios remains static over time and represent a weighted allocation among a pre-determined number and type of investment strategies. The investment objective of each Static Portfolio is to provide a specific risk exposure type, along with corresponding level of expected return.

Commented [CA1]: An individual or family may have an overall risk tolerance but may want to invest more or less aggressively in the college plan versus their other investment accounts.

The Age-Based Portfolios represent a weighted allocation among a pre-determined number and type of investment strategies. The Static Portfolios typically have a fixed allocation that does not change over time. The Program Manager, with the oversight of the Board and Investment Consultant, reviews these strategic allocations periodically and makes adjustments when deemed appropriate within the terms of the Program Manager's Investment Management agreement.

When reviewing the Age-Based and Static Portfolios, the following qualities will be considered by the Board, in regard to their relative performance versus similar peer-based portfolios:

- Fund construction and asset allocation in comparison to appropriate peer groups or applicable strategies;
- Diversification of asset classes; and
- Performance in comparison to category averages and a custom style benchmark reflecting the weighted allocation of the Underlying Investments in the Investment Portfolio in question. These comparative metrics will be based on both the portfolios performance in aggregate, and the performance of the Funds that comprise the portfolios.

In monitoring both Age-Based and Static Portfolios, the Board shall, as appropriate, (a) consider relevant age-based allocation selection factors identified above and (b) consider criteria including, but not limited to, the following:

- 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;
- Changes in fund managers (e.g., notable staff departures, significant gain or loss of asset, regulatory examinations or scrutiny, disciplinary actions, etc.); and
- An evaluation of the management of the funds to assess its consistency with the stated strategy and objectives.

Individual Portfolios

Individual Portfolios are stand-alone options which allow account owners to allocate their account into one or more Investment Portfolios. The goal in offering the Individual Portfolios is to provide account owners with the ability to construct diversified portfolios by asset class and investment style that match their risk tolerance, asset class preferences, time horizons and expected returns.

The Board shall evaluate Individual Portfolio's performance relative to an assigned benchmark and peer group. Each Individual Portfolio will have an assigned benchmark and peer group, based on its underlying holdings and objectives. In general:

- The objective of an actively managed fund is to outperform its benchmark over longer periods on a net-of-fee basis. Longer periods may be defined as 3-years, 5-years, 10-years, or a full market cycle for measuring purposes.
- The objective of an index fund is to match the performance of its benchmark with minimal tracking error. As a result, the evaluation of index funds will focus on their

ability to match the return of the benchmark on a gross-of-fee basis and to do so with minimal tracking error.

Capital Preservation Portfolios

For the initial selection and ongoing monitoring of any fixed interest/bank deposit/stable value investment(s), if offered under the Program, the Board shall take into account some or all of the following criteria, as the Board deems appropriate:

- Financial strength ratings of the guarantor, as provided by the major independent ratings agencies;
- Interest rate history, minimum guaranteed contract rate, and current crediting rate;
- Contract liquidity provisions;
- Current and historical market-to-book value ratio (stable value funds only); and
- Comparison between fixed interest accounts (backed by general assets) and stable value accounts (backed by separate account) that may be available to the Program.

Miscellaneous Provisions

This IPS shall guide the Board and shall remain in effect until amended by the Board. 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.