

INVESTMENT POLICY STATEMENT

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

Approved [in Draft Form] on June 12, 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 security. *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 (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 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 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 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 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

¹ This investment policy statement covers only those 403(b) Plan assets transferred to the recordkeeper in September 2016. The 403(b) Plan includes individual annuity contracts with former approved vendors that the Board was unable to transfer without participant consent and acceptance of surrender charges. Those assets remain with the original vendors, are outside of the current Program investment architecture and are not subject to this investment policy statement.

² The General Assembly has not appropriated funds for the employer match since July 1, 2008.

applicable laws or regulations.

~~{The IPS has been approved in draft form as of June 12, 2018. The Investment Committee shall for a period of one year periodically revisit and compile potential changes to the draft IPS. The Investment Committee shall thereafter promptly recommend to the Board a version for final approval.}~~

V.III. DELEGATION OF DUTIES TO THE INVESTMENT COMMITTEE

In addition or as a supplement to those matters referenced in the Resolution, the Investment Committee shall exercise oversight responsibility for all matters related to this IPS. The Investment Committee shall periodically 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 and ~~termination~~-replacement of investment options; and
- Other matters delegated to the Investment Committee under this IPS.

V.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/return characteristics to enable participants to diversify adequately their supplemental retirement portfolios.

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 of assets to more conservative strategies as the participant approaches the fund’s stated retirement date, commonly referred to as a “glide path.” 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 and corresponding expense ratios are set forth on Exhibit 1.~~ ~~can be found here: [hyperlink](#)]~~
- **Tier 2 – Core Options.** This tier consists of “core” investment options

and provides ~~a suite of 14~~ 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 can be found here: [hyperlink](#), along with and corresponding expense ratios are set forth on Exhibit 2. Exhibit 2 also reflects the information regarding fees payable to the third-party investment advisor, if applicable.]

- **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 ~~more than 10,000~~ individual stocks and bonds, exchange traded funds and mutual funds. 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. ~~Under the Program, no participant may transfer more than 50% of their aggregate account balance into a Tier 3 brokerage account.~~ 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: [hyperlink](#) is set forth on Exhibit 3.]

VI.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 take into account ~~some or all of~~ the following criteria, including but not limited to as appropriate:

- 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/return spectrum; and

- Ease of use or complexity 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 take into account the following criteria, including but not limited to some or all of the following criteria, as appropriate:

- The experience ~~and reputation~~ of the service provider;
- ~~Participant satisfaction;~~
- The contractual terms upon which the services are offered to participants; and
- The reasonableness of the managed account services and investment advisor fees.

[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. The Investment Committee, in its discretion, may inquire ~~and make recommendations to the Board~~ as to whether to restrict access to certain investment options available through the brokerage window-;.]

Commented [VM1]: To discuss with Ice Miller (legal counsel)

[Except as set forth in this Section V.B., the selection, monitoring and removal of outside Plan-related vendors shall be governed by the ~~Board’s~~ vendor management policy established by the Board.]

VIII.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 – using the U.S. Department of Labor’s standards for the selection of “qualified default investment alternatives” (“**QDIAs**”). This section shall govern 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 following general guidelines [with the understanding that the target date suite universe is very broad and each target date suite of funds differs from the others. ~~Less emphasis will be placed on category averages based on glide path dispersion between target date fund families.~~]

In recommending or selecting target date funds, the Investment Committee and the Board shall take into account the U.S. Department of Labor’s standards for the selection of QDIAs and the following additional criteria, including but not limited to some or all of the following additional criteria, as appropriate:

- ~~Whether a particular fund is actively or passively managed?;~~
- Consideration of primary objectives in relation to risk management: ~~Whether minimizing risk on a static scale at retirement is desired (i.e., managing the glide path “to” retirement) versus maximizing savings “through” life expectancy, with a more aggressive glide path after retirement];~~
- Consideration of Pparticipant demographics in order to define risk tolerance, including average age of population, overall investment knowledge, and current usage of target date funds, hybrid funds, or asset allocation suites;
- Diversification of asset classes: ~~Whether~~ the target date suite chosen should include various 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;
- Inception of the target date fund suite, ~~which normally should be at least three years?];~~
- Fees and expenses in comparison to 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) conduct and consider the results of some or all of the following inquiries:

- Review of glide paths to ensure consistency with the reasons the funds were chosen;
- Review performance relative to custom style benchmark and category averages;
- Review underlying holdings in comparison to appropriate peer groups or applicable strategy; and
- Review qualitative assessment on management of the funds in an effort to demonstrate consistency with overall strategy.

~~Less emphasis should be placed on category averages based on glide path dispersion between target date fund families.?~~

IX-VII. SELECTION AND REVIEW OF TIER 2 INVESTMENT OPTIONS

The Board has selected the Program’s core investment options. This section shall govern 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 ~~income~~ 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 take into account the following criteria, including but not limited to some or all of the following criteria, as appropriate:

- 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;
- Organizational structure and stability of fund personnel;
- Manager tenure;
- Fees and expenses; and
- Qualitative characteristics, including, but not limited to, management strategy, 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 take into account ~~relevant selection factors identified above and~~ the following criteria, including but not limited to some or all of the following criteria, measures and goals, as appropriate:

Criteria	Measure	Goal(s)
Performance	<ul style="list-style-type: none"> ▪ 3-, 5-, & 10-year record ▪ 3-, 5-, & 10-year record 	<ul style="list-style-type: none"> ▪ reasonable vs. peer group ▪ reasonable vs. appropriate benchmark
Risk	<ul style="list-style-type: none"> ▪ 3-year standard deviation 	<ul style="list-style-type: none"> ▪ reasonable vs. peer group and/or benchmark
Risk-adjusted performance	<ul style="list-style-type: none"> ▪ 3-year Sharpe ratio 	<ul style="list-style-type: none"> ▪ reasonable vs. peer group and/or benchmark
Expense ratios	<ul style="list-style-type: none"> ▪ Total expenses 	<ul style="list-style-type: none"> ▪ Consistent with peer group median
Investment objective/style	<ul style="list-style-type: none"> ▪ Style purity 	<ul style="list-style-type: none"> ▪ Option should maintain reasonable correlation to appropriate benchmark as evidenced by R-squared

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 take into account the following criteria, including but not limited to some or all

of the following criteria, as appropriate:

- 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 (~~i.e., those backed by e.g.,~~ general assets accounts or separate accounts) and stable value accounts (~~i.e., those backed by [a separate account]~~).

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 take into account ~~relevant selection factors identified above and the following criteria, including but not limited to some or all of the following factors, as appropriate:~~

- Financial strength of the guarantor as determined by an NRSRO;
- current interest rates; and
- current market to book value ratio (stable value funds only).

~~VIII.~~ WATCH LIST AND ~~TERMINATION-REPLACEMENT~~ 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 ~~over a period of time, [usually four consecutive quarters],~~ may be placed on a watch list. ~~The watch list designation usually indicates a concern with the short term performance of an investment option while recognizing that the longer term fundamentals of the investment remain positive.~~

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 ~~termination~~ replacement.

A. Placement, Monitoring and ~~Replacement~~ Termination

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) ~~termination~~ replacement of investment options.

In carrying out the foregoing duties, the Investment Committee shall take into account the following criteria, including but not limited to some or all of the following factors, as appropriate:

- Significant increase in management fees or expense ~~ratios~~ratios;
- The investment option's long-term investment performance on a rolling basis;
- Recent changes, such as investment option restructurings or management changes designed to correct deficiencies;
- 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, 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-base basis. ~~The Investment Committee may recommend that an investment option be removed from the watch list if the investment's short-term performance improves.~~ The Investment Committee may recommend the ~~termination~~replacement of an investment option that is no longer suited for the Program, irrespective of whether the investment had previously been placed on the "watch list."

~~{The Investment Committee, in its discretion, may formulate and recommend to the Board rules related to watch list decisions, including criteria for the automatic placement of funds on the watch list.}~~

The Board reserves the right to remove any investment option at any time if it determines that such ~~termination~~replacement is in the best ~~interests~~interest of the Program and its participants and beneficiaries.

~~XI.IX.~~ NOTICE OF WATCH LIST PLACEMENT OR ~~REPLACEMENT~~TERMINATION

The Board has no duty to provide participants with notice when an investment option is placed on the watch list. ~~{The Board may, in its sole discretion, direct the Provider to provide notice to all affected participants concerning the reasons for any such placement.}~~

If the Board ~~terminates~~replaces an investment option, ~~all affected~~ participants will be provided with advance notice ~~must be promptly notified of such termination~~replacement and ~~given an adequate opportunity to select alternative investments.~~

~~XI.X.~~ FUND MAPPING

If an investment option is ~~terminated~~replaced, unless otherwise directed by a participant or prohibited by contract, the Provider shall transfer funds ~~in the terminated~~from the replaced investment options to an investment option with similar risk and reward characteristics or,

alternatively, in accordance with the U.S. Department of Labor's QDIA standards.

~~XIII~~.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.

~~{The Investment Committee, in its discretion, may formulate and recommend to the Board rules governing the investment consultant's reporting obligations, including the frequency and form of periodic reports concerning the performance of investment options.}~~

~~— [PROXY VOTING?]~~

~~XIV. —~~

~~XIV. —~~

~~XIV. —~~

~~XIV. — [EXCESSIVE TRADING?]~~

~~XIV. — [SOCIALLY RESPONSIBLE MANDATES?]~~

~~XV~~.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 12th day of June, 2018, as evidenced by the signature of the Board Chair below.

Stephen Saville, Chair

ATTEST:

Ken Simpler, State Treasurer

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