

safety and liquidity of such funds; return is a secondary priority. OST may, consistent with these investment objectives, minimize credit risk associated with demand deposit account balances at Merchant Banks through same-day money market mutual fund sweep products in accordance with subsection 5.2.2. End-of-day ledger balances shall be secured as provided in subsection 5.2.1.

- 10.2 **Permissible Investments.** Merchant Banks shall maintain State Funds in either collateralized demand deposit accounts or open-end money market mutual funds, in each case, subject to the provisions of subsections 5.2.1 and 5.2.2, respectively, in order to mitigate the risk of State Funds being exposed to the credit risk of such financial institutions.

11.0 Restrictions & Violations

- 11.1 **Investment Restrictions.** Notwithstanding any other provision, none of the banks or managers engaged to manage or invest State Funds may:

- 11.1.1 Purchase any securities other than those expressly permitted under Sections 5.0 – 9.0 of these Guidelines;
- 11.1.2 Make investments for the purpose of exercising control or management of an issuer;
- 11.1.3 Purchase any securities on margin, except for use of short-term credit necessary for clearance of purchases and sales of portfolio securities;
- 11.1.4 Make short sales of securities or maintain a short position or write, purchase or sell puts, calls, straddles, spreads or combinations thereof;
- 11.1.5 Make loans to other persons, other than in connection with repurchase agreements as provided herein;
- 11.1.6 Mortgage, pledge, hypothecate or in any manner transfer as security for indebtedness any securities owned or held;
- 11.1.7 Invest in securities with legal or contractual restrictions on resale or for which no readily available market exists (except for repurchase agreements or variable rate master demand notes as provided herein and, if authorized under applicable U.S. Securities and Exchange Commission rules and regulations, 144a private placements considered not to be illiquid, but, instead, readily marketable by issuing dealers);
- 11.1.8 Act as an underwriter of securities on behalf of the State of Delaware; or
- 11.1.9 Buy or sell any authorized investment when it is a party or any related or affiliated party in the transaction on both sides.
- 11.1.10 Where these Guidelines require at least two NRSRO ratings for a security, the lowest such rating shall control.

- 11.2 **Purchases in Violation of Guidelines.** In the event that a bank or manager purchases any security that at the time of purchase violates Sections 5.0 – 10.0, the bank or manager shall remove the security from the State's portfolio by the close of the business day following the date on which the bank or manager learns of the violation and will bear all costs associated with the purchase and sale of such security. The bank or manager shall further ensure that the State recognizes no investment gain or loss on the purchase and sale of such security and/or shall effect such transactions as shall be necessary to eliminate any such gain or loss on the books and records of the State's Account with such bank or manager. A bank or manager shall report to OST any such violation and remedial action(s) taken or proposed by the close of the business day following the date on which the bank or manager learns of the violation.

- 11.3 **Holding Impermissible Securities Following a Downgrade.** In the event that a bank or manager holds any security that complied with Sections 5.0 – 10.0 at the time of purchase, but which ceases to qualify as a permissible investment as the result of a downgrade, the bank or investment manager shall remove the security from the State's portfolio by the close of the business day following the date on which the bank or manager learns of the downgrade without any consideration as to the investment gains or losses occasioned thereby. In such case, the State shall bear all costs associated with the purchase and sale of such security and shall recognize any investment gain or loss on such transactions on the books and records of the State's Account with such bank or manager. A bank or manager shall report to OST any such downgrade and the remedial action(s) taken or proposed by the close of the business day following the date on which the bank or manager learns of the downgrade.