

DELAWARE CASH MANAGEMENT POLICY BOARD

RESOLUTION NO. 2017-1 APPROVING AND MEMORIALIZING INVESTMENT ARCHITECTURE FOR THE STATE'S CASH ACCOUNTS¹

WHEREAS, the Cash Management Policy Board (hereinafter the “**Board**”) is authorized and empowered by 29 *Del. C.* § 2716(a) to establish policies (a) for the investment of all money belonging to the State of Delaware (the “**State**”) or on deposit from its political subdivisions, except money deposited in any State pension fund or deferred compensation program, and (b) to determine the terms, conditions and other matters relating to the investment of State Funds, including the designation of permissible investments, the allocation between short- and long-term investments, the selection of investment managers (“**Managers**”) and the allocation of funds among the Managers; and

WHEREAS, the Board has promulgated investment objectives and guidelines for the investment of State Funds, as memorialized in 1 *Del. Admin. C.* § 1201 (the “**Guidelines**”); and

WHEREAS, under the Guidelines, unless otherwise determined by the Board, the Office of the State Treasurer (“**OST**”) has discretionary authority to allocate State Funds among the Cash Accounts in accordance with the general purposes of the Accounts and the investments objectives for those Accounts set forth in the Guidelines; and

WHEREAS, under the Guidelines, unless otherwise determined by the Board, OST is required to allocate State Funds in the Liquidity and Reserve Accounts pro rata among the Liquidity and Reserve Managers selected by the Board based on the aggregate amount of State Funds in such Accounts; and

WHEREAS, the Guidelines include general investment objectives, investment maturity restrictions and permissible investments for the Liquidity and Reserve Accounts; and

WHEREAS, under the Guidelines, the maximum maturity for the investment of State Funds in the Reserve Accounts is ten (10) years from the date of settlement, provided that the maximum average maturity of each account managed by a Reserve Manager may not exceed seven (7) years from the date of settlement; and

WHEREAS, the Guidelines do not expressly prescribe (a) the specific amounts or percentages of State Funds that must remain in the Cash Accounts, (b) the number of Liquidity or Reserve Accounts that will be maintained to manage State Funds, (c) the number of Managers that are required or authorized to provide investment services for the Liquidity and Reserve Accounts, or (d) the benchmarks or benchmark proxies that will be used by OST and the Board to assess the performance of State Funds and the Managers; and

WHEREAS, on May 24, 2017, at a public meeting of the Board at which a quorum of the members of the Board was present, OST recommended to the Board and the Board approved the

¹ Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Guidelines (as defined herein).

investment architecture attached hereto as **Exhibit A** (the “**Investment Architecture**”), which Investment Architecture (a) establishes certain practices and procedures related to the Cash Accounts and the investment of State Funds and (b) contemplates and may necessitate one or more revisions to the Guidelines; and

WHEREAS, the Investment Architecture is designed and intended and should be interpreted to enhance the State’s ability to address anticipated and unanticipated liquidity needs and preserve and maximize returns on State Funds; and

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD:

1. The Investment Architecture attached hereto as **Exhibit A** is approved and adopted by the Board; provided, however, that the Investment Architecture shall not be effective or binding on OST or the Managers until January 1, 2018 or such other date as the Board may establish (the “**Effective Date**”).
2. OST and its officers and employees are authorized and directed to take such action as may be necessary or appropriate to effectuate or carry out the purpose and intent of this Resolution, including, without limitation, any action that may be necessary to formally revise the Guidelines if and as necessary under Chapter 101 of Title 29 of the Delaware Code, and the execution and delivery of any documents, instruments, agreements or amendments as may be necessary, advisable or appropriate to implement the Investment Architecture, and the taking of any such action shall conclusively evidence the appropriateness or necessity of any such documents, instruments or agreements.
3. The Board reserves the right, whether prior to or after the Effective Date, to make any changes to the Investment Architecture that it believes are in the best interest of the State.
4. All acts, transactions or agreements undertaken prior to the adoption of this Resolution by any member of the Board or any officers or employees of OST in connection with the matters authorized by this Resolution and all actions incidental thereto are hereby ratified, confirmed and adopted by Board.

EXHIBIT A

INVESTMENT ARCHITECTURE FOR CASH ACCOUNTS²

The following Investment Architecture shall govern the management of the State's Cash Accounts. The Investment Architecture is intended to provide the Office of State Treasurer ("OST") and the Managers of such Accounts with a flexible framework to maintain the safety and availability of State Funds to meet the State's immediate and intermediate funding needs and maximize the return on State Funds.

I. Allocation Among Cash Accounts

The Investment Architecture contemplates that, on an annual average basis, (a) approximately \$100 million of State Funds will be held in Collection and Disbursement Accounts and used to meet the State's anticipated near-term operating requirements, (b) approximately \$400 million of State Funds not needed for near-term operating requirements will be held in Liquidity Accounts and used to meet anticipated funding needs of the State and (c) approximately \$1.2 billion of State Funds will be held in Reserve Accounts and made available if an as needed to satisfy the State's unanticipated funding needs.

II. Allocation Among Liquidity Accounts and Managers

There shall be two (2) Liquidity Accounts, each with its own Liquidity Manager. State Funds in the Liquidity Accounts will be allocated to two (2) Liquidity Managers. Each Liquidity Manager may receive allocations and manage State Funds totaling up to approximately \$200 million on an annual average basis. The Liquidity Accounts will be managed in accordance with sections 4 and 6 of the Guidelines.

OST may in its discretion draw on State Funds in one Liquidity Account or both Liquidity Accounts to meet anticipated funding needs within a given fiscal year. Discretionary draws need not be made on a pro rata basis. One or both of the Liquidity Accounts may be completely liquidated during certain periods of the fiscal year.

OST shall have discretion to replenish the Liquidity Accounts as revenues are received throughout the fiscal year. Refunding of the Liquidity Accounts need not be made on a pro rata basis.

² Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Guidelines or Resolution No. 2017-1 adopted and approved by the Cash Management Policy Board, as appropriate.

III. Allocation Among Reserve Accounts and Managers

There shall be four (4) “Tiers” of Reserve Accounts, with each Tier having a unique investment duration target. The Tier 1 Reserve Account has a duration target of one (1) to three (3) years.³ The Tier 2 Reserve Account has a duration target of three (3) to five (5) years. The Tier 3 Reserve Account has a duration target of five (5) to seven (7) years. The Tier 4 Reserve Account has a duration target of seven (7) to ten (10) years.

State Funds in the Reserve Accounts will be allocated to four (4) Reserve Managers. Each Reserve Manager will manage one (1) Tier and may receive allocations and manage State Funds totaling up to approximately \$300 million on an annual average basis. The Reserve Accounts will be managed in accordance with sections 4 and 7 of the Guidelines.

In the event the State has unanticipated funding needs, draws from the Reserve Accounts should be made first from the lowest-numbered available Tier, except as noted below. When the lowest-numbered available Tier has been exhausted, OST may draw on and utilize State Funds in the Reserve Account with the next lowest-numbered available Tier. OST shall have discretion to draw from the Reserve Accounts, regardless of Tier number, to access cash or near-maturity investments in an effort to minimize losses or transactional costs.

OST shall have discretion to replenish the Reserve Accounts as revenues are received throughout the fiscal year. Refunding of the Reserve Accounts need not be made on a pro rata basis or with preference for any particular Tier.

IV. Benchmark Proxies

Liquidity Managers. The benchmark proxy for the Liquidity Managers shall be: 75% invested in 6 month U.S. Treasury Bills, and 25% invested in Bank of America Merrill Lynch (“BofA ML”) 1- to 3-year government/corporate bonds rated “A” or better.

Tier 1 Reserve Manager. The Benchmark Proxy for the Tier 1 Reserve Manager shall be: 100% invested in BofA ML 1- to 3-year government/corporate bonds rated “A” or better.

Tier 2 Reserve Manager. The Benchmark Proxy for the Tier 1 Reserve Manager shall be: 100% invested in BofA ML 3- to 5-year government/corporate bonds rated “A” or better.

Tier 3 Reserve Manager. The Benchmark Proxy for the Tier 1 Reserve Manager shall be: 100% invested in BofA ML 5- to 7-year government/corporate bonds rated “A” or better.

Tier 4 Reserve Manager. The Benchmark Proxy for the Tier 1 Reserve Manager shall be: 100% invested in BofA ML 7- to 10-year government/corporate bonds rated “A” or better.

³ The Tier 1 Reserve Account includes the “Budget Reserve Account” provided for in art. VIII, § 6 of the Delaware Constitution of 1897. The Budget Reserve Account has a present balance of approximately \$226 million (including a \$5 million cushion approved by the Board), which State Funds may not be drawn down by OST or used to satisfy unanticipated needs absent a 3/5 vote of the members of each house of the General Assembly.

V. Modification of Allocation Amounts

The allocation amounts set forth herein are based on current Cash Account balances and revenue and expense projections and present economic conditions and may need to be modified to account for materially changed circumstances. OST shall have discretion to increase or decrease on a temporary or permanent basis any allocation amount provided that such change does not alter the allocation amount by more than 10 percent (10%). OST shall seek Board approval to increase or decrease any allocation amount by more than 10 percent (10%). OST may temporarily alter an allocation amount on an emergency basis pending Board approval.