To:	**Cash Management Policy Board**
From:	**Jennifer Appel, Kevin Leonard, Alexandra Sollers**
Date:	**October 20, 2023**
Subject:	**Investment Manager Guideline Change Recommendation**

Earlier this year, Members of the Delaware Office of the State Treasurer (OST) Staff and NEPC met with the investment management firms charged with implementing the fixed income portfolio structure for the Delaware OST. The purpose of the meetings was to discuss any significant changes to the investment management organizations, team members, and investment process, along with receiving updates on current portfolio positioning, potential positioning changes, and current market conditions. Further, the investment management firms relayed potential Investment Guideline enhancements to their mandates managed on behalf of the Delaware OST, summarized in the table below:

	PFM	Wilmington Trust	JP Morgan	BlackRock	Chandler	Lazard
Increase 144a Limits		Y	Y	Y		Y
Carve Out Commercial Paper from 144a Restrictions				Y		
Allow Split Ratings			Y	Y		
Increase Agency Limits		Y		Y		
Loosen Forced Liquidation Requirements	Y	Y	Y	Y		Y
An Increase Average Life Restrictions				Y		
Expand ABS Defintion			Y	Y		
Benchmark Change						
Increase ABS & MBS Limits	Y	Y	Y	Y		Y
Allow Derivatives			Y	Y		
Allow BBB Securities			Y	Y	Y	
Maturity Restrictions					Y	
Corporate Debt Ratings Requirements	Y					

Many of the investment managers suggested changes that NEPC believes to be outside the scope of Delaware OST's mandate. With that said, NEPC is recommending Delaware OST to consider two enhancements: loosen forced liquidation requirements and allowing split-rated securities. We believe these recommendations complement each other as existing guidelines require managers to liquidate downgraded securities that no longer meet the quality aspect of the mandate.

NEPC believes the forced sale rule may result in disadvantageous pricing and would recommend reconsidering the existing guidelines to include additional discussions with the portfolio managers on the best course of action and/or adding a window of time for the managers to offload the security.

As it relates to the split-rated securities, the liquidity and quality aspects of the State's portfolio remain the priority. With that said, NEPC suggests the split-rated securities guideline be amended to exempt bonds that have defeased, meaning they are now collateralized by high-quality assets (cash, Treasuries, or Corporate bonds). This is a ratings downgrade in a technical sense as the ratings agencies will no longer rate the securities, though the underlying security is often viewed as a more safe investment given the collateralization structure.

We look forward to discussing this recommendation with the Board at the upcoming meeting on November 1, 2023.