INVESTMENT ARCHITECTURE DISCUSSION

DELAWARE OFFICE OF THE TREASURER & CASH MANAGEMENT POLICY BOARD

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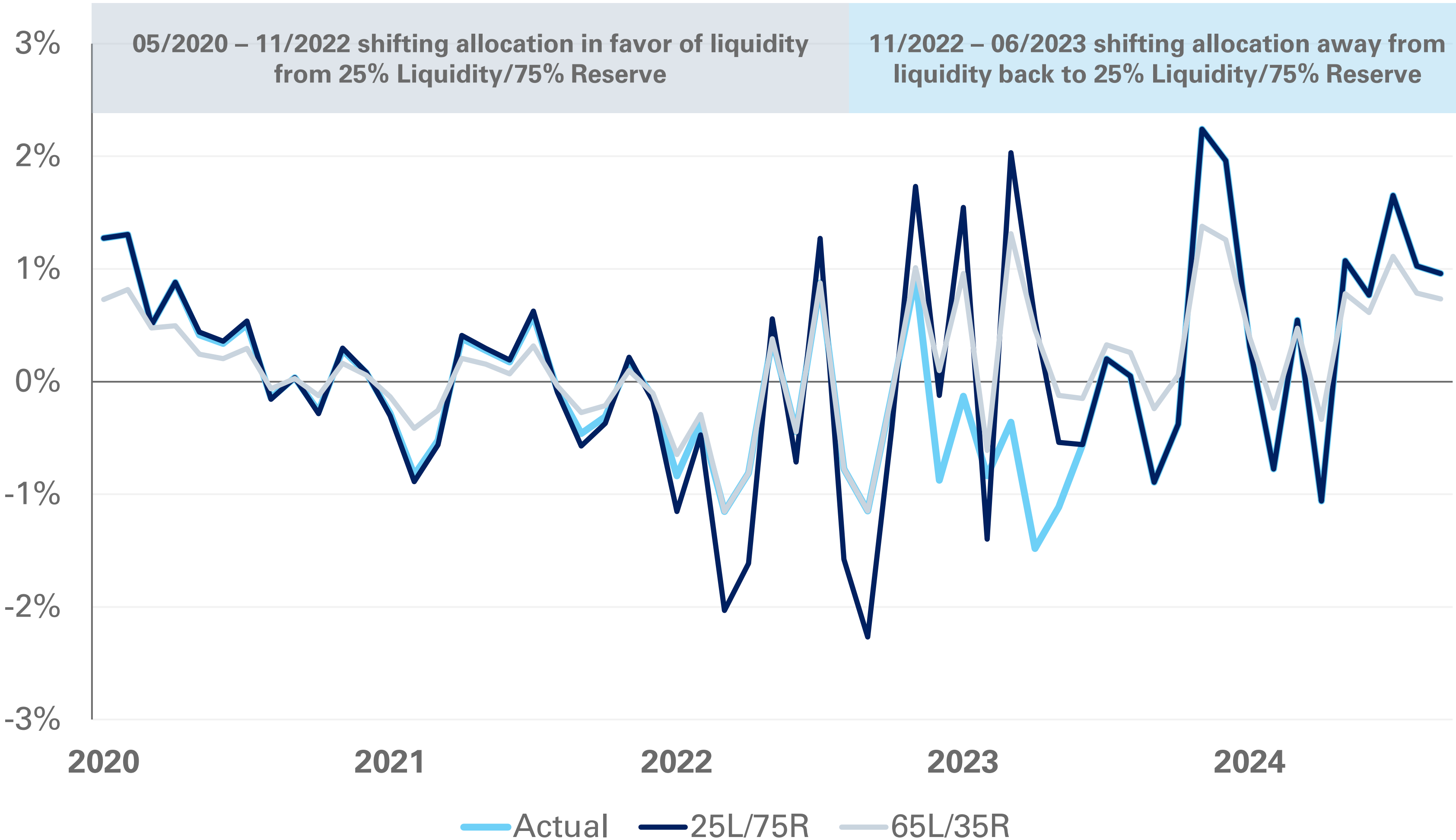
INVESTMENT ARCHITECTURE THOUGHTS

- **The State's "investment architecture" refers to the allocation split between Liquidity and Reserve accounts**
  - Liquidity funds are used to handle the State's seasonal cash flow profile, while Reserve funds look to enhance the risk-return profile of the portfolio through a longer duration and high-quality credit mandate
- **The baseline allocation has been set at 25% Liquidity, 75% Reserve; this mix maintains overall goals of safety and principal protection, while offering an improved risk-return profile**
- **The Board, with OST staff and NEPC support, shifted capital away from the baseline allocation in favor of Liquidity from 2020-2022 and has since reverted to the 25% Liquidity, 75% Reserve allocation**
  - The decision to gradually shift back to the baseline has been additive to portfolio returns in 2024
- **The normalized interest rate environment and expectations for lower interest rates provide a supportive backdrop for the baseline allocation moving forward**
  - As such, NEPC recommends maintaining the 25% Liquidity, 75% Reserve allocation

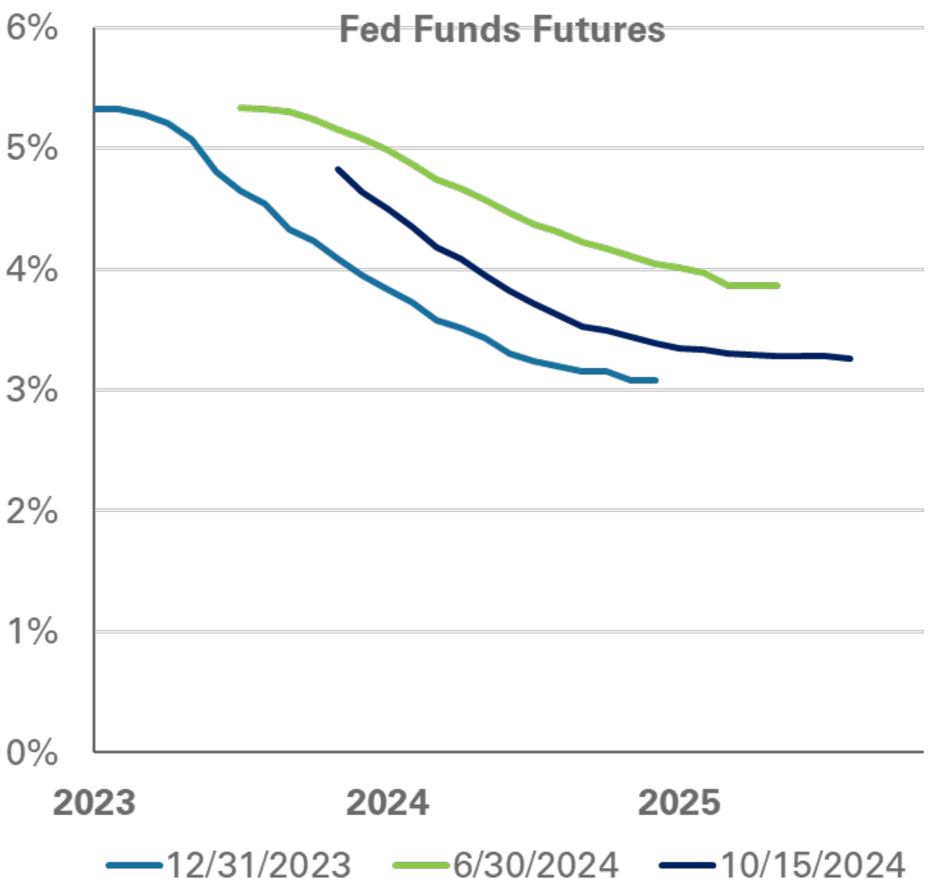
EVALUATING THE ADJUSTMENTS



Note: 65% Liquidity, 35% Reserve allocation in place March 2022 – November 2022

INTEREST RATE EXPECTATIONS

THE PATH FORWARD



- **Market expectations for the Fed Funds rate reflect a bias to lower interest rates**
  - Pricing anticipates interest rates will fall below 4% within six months
- **Data from the labor market will drive the Fed's actions in the near-term**
- **NEPC believes that rates will likely be slower to decline than the market expects given a still-resilient economic backdrop**

Source: FactSet

CONCLUSIONS

- **NEPC recommends maintaining the 25% Liquidity, 75% Reserve allocation**
  - The macroeconomic environment remains uncertain, but current data and Fed messaging reflect an easier monetary policy environment for the foreseeable future
  - The Reserve portfolio allocation can more effectively exploit the yield environment and the longer duration profile will disproportionately benefit from a falling rate regime

- **NEPC suggests revisiting the Liquidity/Reserve split on an annual basis to ensure the original investment architecture framework remains prudent as market and economic conditions change**

- **While the market conditions stemming from the pandemic are unlikely to be repeated, we believe the state's Liquidity-Reserve allocations should be nimble during times of unprecedented market volatility**

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