

Delaware Municipal Electric Corporation, Inc. (DEMEC)
Investment Policy

Purpose

The purpose of this document is to identify the policies that will govern the investment activities of all unrestricted operating funds for DEMEC. Any restricted funds will be governed by the bond covenants for which they are restricted.

This policy is designed to ensure the prudent management of funds available for investment, the availability of operating and capital funds, when needed, and earning an investment return competitive with comparable funds and financial market indices.

The guidance set forth herein is to be strictly followed by all those responsible for any aspect of the management or administration of these funds. All authorized staff involved in the investment process shall act responsibly as custodians of the trust bestowed upon them by the DEMEC Board of Directors (Board).

Investment Objectives

1. **Preservation of Principal** - The single most important objective of the investment program is the preservation of principal of those funds within the Portfolio. It is recognized that occasional losses are inevitable and such possibility will be considered in evaluating diversification decisions and investment strategy.
2. **Maintenance of Liquidity** - The Portfolio shall be managed in such a manner that assures that funds are available as needed to meet those immediate and/or future operating requirements of DEMEC. No investment will be made unless, at the time the investment is made, DEMEC staff reasonably believes that the investment can be held until maturity. However, an investment may be sold prior to maturity if the DEMEC staff determines that such sale is prudent.
3. **Maximize Return** - The Portfolio shall be managed in such a fashion as to attain a market-average rate of return within the context and parameters set forth by objectives 1 and 2 above.

Permitted Investments

The DEMEC President & CEO and the COO-SVP Power Supply & Operations are authorized to invest funds as summarized and restricted below. These permitted investments are as follows:

A. United States Treasury Obligations

- i. Definition: Bills, bonds, and notes issued by the U.S. Treasury.
- ii. Percentage Limit: No limit.

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B. United States Government Agency Obligations

- i. Definition: Any obligation of, or obligation that is insured as to principal and interest by, the U.S. or any agency or corporation thereof (excluding bills, bonds and notes issued by the U.S. Treasury), and any obligation and security of U.S.-sponsored enterprises, including, the Export-Import Bank of the United States, Farmers Home Administration, Federal Farm Credit Banks, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, Federal Land Banks, and the Government National Mortgage Association.
- ii. Percentage Limit: 50% in total; 20% in any one issuer.

C. Certificates of Deposit and Time Deposits

- i. Definition: Certificates of deposit and time deposits denominated in U.S. dollars and issued or endorsed by either (i) a bank or a savings and loan association organized and supervised under federal or any state laws and regulated by the Federal Reserve or a trust company which is a member of the Federal Reserve system or (ii) a bank organized and supervised under the laws of Japan, Canada, United Kingdom, the Netherlands, Germany, France, Switzerland, Australia, New Zealand, Sweden, or Norway. Any such banking institution must have assets of not less than \$100 billion and be rated not lower than A1/P-1/F1 Short Term by at least two NRSROs.
- ii. Percentage Limit: 50% in total (domestic & non-domestic combined); 25% in all non-domestic banking institutions; 5% in any one issuer.

D. Corporate Debt Instruments

- i. Definition: Commercial paper, variable rate notes, and non-convertible bonds and debentures denominated in U.S. dollars and issued by a U.S. corporation or a non-domestic corporation subject to the laws of Japan, Canada, United Kingdom, the Netherlands, Germany, France, Switzerland, Australia, New Zealand, Sweden, or Norway. Such securities must be rated by at least two NRSROs and (i) in the case of commercial paper, must be rated not lower than "A-2" by S&P, "P-2" by Moody's and "F2" by Fitch and the senior long-term debt of the issuer must be rated not lower "A-" by S&P, "A3" by Moody's and "A-" by Fitch (excluding asset-backed commercial paper that is rated A1 or better) and (ii) in the case of notes, bonds and debentures, must be rated not lower than "A-" by S&P, "A3" by Moody's and "A-" by Fitch; provided that, any security that meets the foregoing rating standards and is backed fully by an irrevocable, unconditional letter of credit issued by a banking institution shall not be permissible hereunder unless such banking institution meets the definition of section C (in which case, any such securities will be deemed to be securities of both the corporate issuer and the banking institution for purposes of calculating the Percentage Limits set forth in section D and C, respectively).
- ii. Percentage Limit: 50% in total; 25% in all non-domestic corporations; 25% in any one industry; 5% in any one issuer.

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E. Money Market Funds

- i. Definition: Open-end money market mutual funds that are invested solely in government securities (as defined in sections A and B) and which are rated in the highest rating category by at least one NRSRO.
- ii. Percentage Limit: No limit.

F. Canadian Treasury Bills

- i. Definition: Marketable securities issued by the government of Canada; provided that such securities are U.S. dollar denominated.
- ii. Percentage Limit: 25% in total.

G. Canadian Agency Securities

- i. Definition: Any obligation of any Canadian government-sponsored agency that is insured as to principal and interest by the Canadian Government; provided that the obligation is U.S. dollar denominated commercial paper having a maximum maturity of one year from the date of settlement.
- ii. Percentage Limit: 25% in total; 10% in any one agency.

H. Mortgage-Backed Securities

- i. Definition: Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Association (FHLMC) mortgage-backed securities issued in the form of pass-throughs; provided that, such securities have (i) been issued and guaranteed by the US Government or Government Agency and (ii) an average life not to exceed two years from the date of settlement (unless such securities are subject to periodic reset of coupon or interest rate, in which case the average life may not exceed three years from the date of settlement).
- ii. Percentage Limit: 20% in total when combined with section I

I. Asset-Backed Securities

- i. Definition: Securities collateralized by pools of auto loan receivables, credit card receivables, and equipment loans; provided that such securities have (i) the highest credit rating from at least two NRSROs and (ii) an average life not to exceed two years from the date of settlement (unless such securities are subject to periodic reset of coupon or interest rate, in which case the average life may not exceed three years from the date of settlement).
- ii. Percentage Limit: 20% in total when combined with section H

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Investment Type	Total Limit	Limit Per Issuer
US Treasury Obligations	No Limit	No Limit
US Gov't Agency Obligations	50%	20%
Certificates of Deposit and Time Deposits	50% Total - 25% non-domestic	5%
Corporate Debt Instruments	50% Total - 25% non-domestic – 25% in one industry	5%
Money Market Funds	No Limit	No Limit
Canadian Treasury Bills	25%	NA
Canadian Agency Securities	25%	10%
Mortgage-Backed Securities	20% when combined with I	NA
Asset-Backed Securities	20% when combined with H	NA

Maturity Restrictions

The maximum maturity for any investment shall be two years from the date of settlement. Notwithstanding the foregoing, securities identified in sections D, H and I that are subject to periodic reset of coupon or interest rate may have an average life not to exceed three years as measured from the date of settlement. The Weighted Average to Maturity of the portfolio must be less than 18 months.

Credit Quality Restrictions

The average credit quality of the portfolio must be at or above the Aa3 ranking (Moody's)

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Diversification

The Portfolio shall be structured to diversify investments to reduce the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer or a specific type of security.

Reporting

DEMEC staff shall maintain accurate, complete, and timely records of all investment activities in adherence to the policy. DEMEC staff will submit an investment report to the Board for review on a quarterly basis. This policy will be reviewed annually and modified, if necessary, to reflect changing conditions.

A copy of this policy may be provided to all securities dealers, investment bankers, and other entities doing investment business with DEMEC.