

State Agency Investment Policy
For Investments Not Under the Control of the Illinois State Treasurer's Office

1.0 POLICY:

This Policy applies to all investments entered into on or after the adoption of this instrument. Until the expiration of investments made prior to the adoption of this Policy, such investments will continue to be governed by the policies in effect at the time such investments were made.

This policy applies to any state agency investment not under the control of the Illinois State Treasurer's Office for which no other specific investment policy exists.

2.0 OBJECTIVE:

The primary objective in the investment of state agency funds is to ensure the safety of principal, while managing liquidity to pay the financial obligations related to those state agency funds, and providing the highest investment return using authorized instruments.

2.1 SAFETY:

The safety of principal is the foremost objective of the investment program. State agency investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the portfolio. To attain this objective, diversification, as defined in Section 8.0 of this Policy, is required to ensure that the state agency prudently manages market, interest rate and credit risk.

2.2 LIQUIDITY:

The investment portfolio shall remain sufficiently liquid to enable the State agency to meet all financial requirements that might be reasonably projected.

2.3 RETURN ON INVESTMENT:

While maintaining the foremost objective of the investment program, safety of principal, the investment portfolio shall be designed to obtain the highest available return, given the portfolio's investment objective and cash flow needs. The state agency's designated investment officer shall seek to obtain the highest available return, using authorized investments during budgetary and economic cycles.

As deemed necessary by the state agency, the rate of return achieved on the state agency's portfolio shall be measured at regular intervals against relevant industry benchmarks to determine the effectiveness of investment decisions in meeting investment goals. Benchmarks shall be reviewed at minimum every two years to ensure accuracy and relevance.

3.0 ETHICS AND CONFLICTS OF INTEREST:

Authorized investment officers and state employees in policy-making positions shall refrain from engaging in personal business activity that could (a) conflict, or give the appearance of a conflict, with proper execution of the investment program, or (b) impair their ability to make impartial investment decisions. Such individuals shall disclose to the state agency any material financial interests in financial institutions that conduct business with the State agency, and they shall further disclose any personal financial investment positions that could be related to the performance of the investment portfolio. In addition, such individuals shall subordinate their personal investment transactions to those of the investment portfolio, particularly with regard to the time of purchases and sales.

4.0 AUTHORIZED BROKERS/DEALERS AND FINANCIAL INSTITUTIONS:

A list shall be maintained of approved financial institutions, which shall be utilized by authorized investment officers. No state funds may be deposited in any financial institution until receipt of a current satisfactory or outstanding rating under the Community Reinvestment Act of 1977 and investment officers have conducted a safety and soundness review of the financial institution by consulting various bank rating services. If the financial institution has not yet been rated by the bank rating services, in which case the institution may be eligible for a deposit that at maturity will not exceed \$100,000. The amount and duration of deposits shall be based on the safety and soundness review in accordance with guidelines established by the agency and the diversification limits set forth in Section 8.0 of this Policy. No public deposit may be made except in a qualified public depository as defined by the Deposit of State Moneys Act (15 ILCS 520/1 *et seq.*).

In addition, a list shall be maintained of approved security broker/dealers selected according to their creditworthiness, and their financial significance in the state, which shall be measured in terms of the location of the broker/dealer's corporate office, the number of full-time employees, the size of its payroll, or the extent to which the broker/dealer has an economic presence in the state. The list may include "primary" dealers or regional dealers who qualify under Securities and Exchange Commission Rule 17 CFR § 240.15c3-1 (Net Capital Requirements for Brokers or Dealers).

All financial institutions and broker/dealers who wish to qualify to bid for investment transactions shall initially, and on a periodic basis upon request, provide to the state agency's authorized team member the following, where applicable:

- Audited financial statements or a published Statement of Condition;
- Proof of minority/female/veteran/disabled-owned broker status;
- A signed copy of the state agency's trading authorization;
- Proof of State of Illinois registration;
- Proof of registration with the Securities and Exchange Commission;
- Completed Broker/Dealer Questionnaire;
- Certification of notice and knowledge of this Policy; and
- Any other documentation determined necessary by the state agency.

An annual review of the financial condition and registration of qualified bidders will be conducted by the state agency's authorized investment officer(s). More frequent reviews may be conducted if warranted.

To the extent that the state agency deems it advisable to hire external investment consultants, it may do so in accordance with procurement rules.

5.0 AUTHORIZED AND SUITABLE INVESTMENTS:

This Policy authorizes the following types of investments subject to the provisions of the Deposit of State Moneys Act (15 ILCS 520/1 *et seq.*) and the Public Funds Investment Act (30 ILCS 235/1 *et seq.*):

a) Securities that are guaranteed by the full faith and credit of the United States of America ("United States") as to principal and interest;

b) Obligations of agencies and instrumentalities of the United States as originally issued by the agencies and instrumentalities; For purposes of this Section, the term "agencies and instrumentalities of the United States of America" includes: federal land banks, federal intermediate credit banks, banks for cooperative, federal farm credit banks, or any other entity authorized to issue debt obligations under the Farm Credit Act of 1971, and Acts amendatory thereto; the federal home loan banks and the federal home loan mortgage corporation; and any other agency created by Act of Congress and issues dollar-denominated debt;

- c)** Interest-bearing savings accounts, interest-bearing certificates of deposit, or interest-bearing time deposits of a bank as defined by Section 2 of the Illinois Banking Act (205 ILCS 5/2);
- d)** Interest-bearing accounts or certificates of deposit of any savings and loan association incorporated under the laws of the State of Illinois, any other state, or the United States;
- e)** Interest bearing accounts for the deposit of funds in support of local community development efforts;
- f)** Dividend-bearing share accounts, share certificate accounts, or class of share accounts of a credit union chartered under the laws of the State of Illinois or the United States, that maintains its principal office in the State of Illinois;
- g)** Commercial paper of a corporation or a limited liability company that is organized in the United States with assets exceeding \$500,000,000 and is rated at the time of purchase at one of the 2 highest classifications established by at least two standard rating services;
- h)** Money market mutual funds registered under the Investment Company Act of 1940 (15 U.S.C. § 80a-1 et seq.) and rated at the highest classification of at least one standard rating service;
- i)** The Illinois Funds created under Section 17 of the State Treasurer Act (15 ILCS 505/17);
- j)** Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986 (1 U.S.C. § 78o-5);
- k)** Interest-bearing bonds, at a price not to exceed par, issued by counties or municipal corporations of the State of Illinois, whether the interest earned thereon is taxable or tax-exempt under federal law. The bonds shall be registered in the name of the State of Illinois or held under a custodial agreement at a financial institution. The bonds shall be rated, at the time of purchase, within 4 intermediate credit ratings of the United States' sovereign credit rating by at least two accredited rating agencies with nationally recognized expertise in rating bonds of states and their political subdivisions, but not less than an A- rating, or equivalent rating. The maturity or pre-refunded date(s) of the bonds authorized by this subsection shall, at the time of purchase, not exceed 10 years; provided that a longer maturity is authorized if the State of Illinois has a put option to tender the bonds within 10 years from the date of purchase; and
- l)** Securities of a foreign government that are guaranteed by the full faith and credit of that government as to principal and interest and rated A or higher by at least two of the standard rating services, but only if the foreign government has not defaulted and has met its payment obligations in a timely manner on all similar obligations for at least 25 years prior to the acquisition of those obligations ("Foreign Government Securities").

6.0 INVESTMENTS RESTRICTIONS:

- a)** Any investments not authorized by this or any other investment policy or applicable law of the state agency or Illinois State Treasurer's Office are prohibited.
- b)** Repurchase agreements may only be executed with approved financial institutions or broker/dealers meeting the state agency's standards, which include mutual execution of a Master Repurchase Agreement adopted by the state agency.
- c)** Investments may not be made in any savings and loan association unless a commitment by the savings and loan association, executed by the president or chief executive officer of that association, is submitted in the form required by Section 22.5 of the Deposit of State Moneys Act (15 ILCS 520/22.5).
- d)** Any investments prohibited by Section 22.6 of the Deposit of State Monies Act (15 ILCS 520/22.6) are prohibited.

7.0 COLLATERALIZATION:

All State deposits and repurchase agreements shall be secured as required by the state agency and provided for by the Deposit of State Moneys Act (15 ILCS 520/1 *et seq.*) and the state agency's acceptable collateral listing, if any, which may change from time to time. The state agency may take possession and title to any securities held as collateral and hold such securities until it is prudent to dispose of them.

8.0 DIVERSIFICATION:

The investment portfolio shall be diversified to eliminate the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer or a specific class of securities. In order to properly manage any risk attendant to the investment of state assets, the portfolio shall not deviate from the following diversification guidelines unless specifically authorized by Executive Management of the state agency in writing:

a) The state agency shall seek to achieve diversification in the portfolio by distributing investments among authorized investment categories among financial institutions, issuers and brokers/dealers;

b) The investment portfolio shall not hold time deposits and/or term repurchase agreements that constitute more than 15% of any single financial institution's total deposits. Any deposits and/or repurchase agreements that constitute more than 10% of an institution's total deposits must qualify as community development deposits described in Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7);

c) No financial institution shall at any time hold more than \$100,000,000 of time deposits and/or term repurchase agreements other than community development deposits described in Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7). Provided, however, that:

i. Financial institutions that, as a result of a merger or acquisition, hold deposits that exceed \$100,000,000.00 may continue to be eligible to hold deposits that do not exceed the amount of deposits held on the date of the merger or acquisition.

d) The investment portfolio shall not contain investments that exceed the following diversification limits that apply to the total assets in the portfolio at the time of the origination or purchase, as monitored on a reasonable basis and as maturity of instruments occur, and as adjusted as appropriate:

i. With the exception of cash equivalents, treasury securities and time deposits, as defined in Section 5.0 of this Policy, no more than 35% of the portfolio shall be invested in other investment categories;

ii. No more than one-third of the investment portfolio shall be invested in commercial paper;

iii. No more than ½ of 1% of the investment portfolio shall be invested in Foreign Government Securities, not to exceed a five year maturity, as defined in Section 5.0(k) of this Policy;

iv. No more than 10% of the investment portfolio shall be allocated to investments with a 2-4 year maturity band;

v. No more than 10 % of the investment portfolio shall be allocated to investments with a 4-5 year maturity band (not including Foreign Government Securities); and

vi. There shall be no limit to the amount of investment portfolio allocated to investments with a 0-2 year maturity band.

9.0 CUSTODY AND SAFEKEEPING:

The custody and safekeeping of collateral will be handled by Illinois financial institutions selected in compliance with the state agency's procurement rules. Financial institutions selected by the state agency to perform custody and safekeeping services will be required to enter into a contractual agreement approved by the state agency's Chief Legal Counsel.

All security transactions entered into by the state agency shall be conducted on a delivery-versus-payment (DVP) or receipt-versus-payment (RVP) basis. Securities shall be held by a safekeeping agent designated by the agency, and evidenced by safekeeping receipts.

10.0 INTERNAL CONTROLS:

The state agency shall establish a system of internal controls and written operational procedures that shall be documented and filed with state agency's Chief Internal Auditor for review. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, and imprudent actions by authorized investment officers.

a) Asset Allocation: The allocation of assets within investment categories authorized under Section 5.0 of this Policy shall be approved by the Executive Management of the state agency in writing.

b) Competitive Bidding: Authorized investment officers shall obtain competitive bids from at least three (3) broker/dealers prior to executing the purchase or sale of any authorized investments. Reverse inquiry investments and investments of a new issue at issue are exempt from this provision.

11.0 LIMITATION OF LIABILITY:

The standard to be used by authorized investment officers shall be the "prudent person" standard, and it shall be applied in the context of managing an overall portfolio. Authorized investment officers acting in accordance with written procedures and this Policy and exercising due diligence will be relieved of personal liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and necessary action is taken to control adverse developments.

12.0 REPORTING:

As deemed necessary by the Executive Management of the state agency, monthly reports shall be presented by the designated investment officer to Executive Management for its review. The monthly report shall contain sufficient information to enable Executive Management to review the investment portfolio, its effectiveness in meeting the needs of the agency for safety, liquidity, rate of return, and diversification, and the general performance of the portfolio. The following information shall be included in the monthly reports:

a) The total amount of funds by book value and market value, held by the state agency;

b) The asset allocation for the investments made by the state agency;

c) The benchmarks established by the state agency, if any;

d) Current and historic return information;

e) Any circumstances resulting in a deviation from the standards established in Section 9.0 of this Policy; and

f) The impact of any material change in investment policy adopted during the month.

As deemed necessary by Executive Management of the state agency, the state agency shall develop performance reports in compliance with established industry reporting standards within six (6) months after the adoption of this Policy. Such reporting standards shall be in accordance with Generally Accepted Accounting Principles ("GAAP").

13.0 All statutory references in this policy shall include any amendments to or repeals of those statutes.