

The Illinois State Treasurer Office's Investment Policy

1.0 POLICY:

Under this instrument, the Illinois State Treasurer's Investment Policy ("Policy"), it is the policy of the Treasurer of the State of Illinois ("Treasurer") to invest all funds under his control in a manner that provides the highest investment return using authorized instruments and supports community development efforts while meeting the State's daily cash flow demands in conformance with all state statutes governing the investment of public funds.

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 investment under the control of the Treasurer for which no other specific investment policy exists.

2.0 OBJECTIVE:

The primary objective in the investment of state funds is to ensure the safety of principal, while managing liquidity to pay the financial obligations of the State, 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 investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the portfolio. To achieve this objective, diversification, as defined in Section 8.0 of this Policy, is required to ensure that the Treasurer prudently manages market, interest rate and credit risks.

2.2 LIQUIDITY:

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

2.3 RETURN ON INVESTMENT:

The safety of principal and the availability of sufficient liquidity are the foremost objectives of the investment program. The investment portfolio shall be designed to obtain the highest available return given the foremost objectives. The Director of the State Portfolio and Banking shall seek to obtain the highest available return using authorized investments during budgetary and economic cycles as mandated in Section 1.0 of this Policy. When the Treasurer deposits funds in support of community development efforts, the rate of return shall include benefits other than direct investment income as authorized by Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7).

The rate of return achieved on the Treasurer's portfolio is measured at regular intervals against relevant industry benchmarks established by the Investment Policy Committee (see Section 2.4 of this Policy), to determine the effectiveness of investment decisions in meeting investment goals. Benchmarks shall be reviewed at a minimum of every two years to ensure accuracy and relevance.

2.4 INVESTMENT POLICY COMMITTEE:

The Investment Policy Committee is chaired by the Treasurer and includes the following members of the Treasurer's office staff: Deputy Treasurer, Chief Investment Officer, General Counsel, Director of

Accounting/Budget/Warrant, Director of State Portfolio and Banking, Portfolio Manager & Director of Portfolio Operations, Director of Illinois Funds & E-Pay, the Portfolio Investments & Cash Management Officer, and anyone else deemed appropriate by the Treasurer.

The Chief Investment Officer, who bears responsibility for the administration, planning, development and implementation of all financial and investment strategies per the direction of the Treasurer, shall assist the Treasurer in executing the duties and activities of the Investment Policy Committee.

3.0 ETHICS AND CONFLICTS OF INTEREST:

Authorized investment officers and employees in policy-making positions shall refrain from personal business activity that could conflict, or give the appearance of a conflict with proper execution of the investment program, or that could impair their ability to make impartial investment decisions. Such individuals shall disclose to the Treasurer any material financial interests in financial institutions that conduct business within the State, 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, unless 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 \$250,000. The amount and duration of deposits shall be based on the safety and soundness review in accordance with guidelines established by the Investment Policy Committee and the diversification limits set forth in Section 8.0 of this Policy. Furthermore, the financial institution's record and current level of financial commitment to its local community will be considered when deciding whether to deposit state funds in that financial institution. No public deposit may be made except in a qualified public depository as defined by the Deposit of State Moneys Act (15 ILCS 520/et seq.).

In addition, a list shall be maintained of approved security brokers/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 that 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 § 15Cc3-1 (Net Capital Requirements for Brokers or Dealers).

All broker/dealers who wish to qualify to bid for investment transactions shall initially, and on a periodic basis upon request, provide to the Treasurer's credit review staff the following, where applicable:

- a) Audited financial statements or a published Statement of Condition;
- b) Proof of minority-, woman-, disabled-, and/or veteran-owned broker/dealer status;
- c) A signed copy of the Treasurer's trading authorization;
- d) Proof of State of Illinois registration;
- e) Proof of registration with the Securities and Exchange Commission;
- f) Completed Broker/Dealer Questionnaire;
- g) Certification of notice and knowledge of this Policy; and
- h) Any other documentation determined necessary by the Treasurer.

The Treasurer's Office shall seek to accord preference to qualified brokers/dealers that provide proof of minority-, female-, disabled-, and/or veteran-owned status. The Treasurer's Office shall establish a

process by which said specially designated statuses are verified, and a review shall be conducted at fixed intervals to ensure that special statuses continue to apply.

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

To the extent that the Investment Policy Committee deems it advisable to hire external investment consultants, it may do so in accordance with the procurement rules at 44 Ill. Adm. Code 1400.

5.0 AUTHORIZED AND SUITABLE INVESTMENTS:

The Treasurer has authorized the following types of investments subject to the provisions of the Deposit of State Moneys Act (15 ILCS 520) and the Public Funds Investment Act (30 ILCS 235):

- 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" 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, which 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 two 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.A. § 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.A. § 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 four 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;

- 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 time of acquiring those obligations;
- m) Investments made in accordance with the Technology Development Act (30 ILCS 265/1 et seq.); and
- n) The Treasurer may lend any securities acquired under this policy. However, securities may be lent under this Policy only in accordance with Federal Financial Institution Examination Council guideline and only if the securities are collateralized at a level sufficient to assure the safety of the securities, taking into account market value fluctuation. The securities may be collateralized by cash or collateral acceptable under Sections 11 and 11.1 of the Deposit of State Moneys Act. Securities lending cash collateral may be invested according to the Securities Lending Agreement between the Treasurer and the Treasurer's Agent.

6.0 INVESTMENTS RESTRICTIONS:

- a) Any investments not authorized by this or any other investment policy or applicable law of the office are prohibited.
- b) Repurchase agreements may only be executed with approved financial institutions or broker/dealers meeting the Treasurer's standards, which include mutual execution of a Master Repurchase Agreement adopted by the Treasurer.
- 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.

7.0 COLLATERALIZATION:

- a) All State deposits, repurchase agreements and securities lending shall be secured as required by the Treasurer and provided for by the Deposit of State Moneys Act (15 ILCS 520) and the Treasurer's Acceptable Collateral Listing, which may change from time to time. The Treasurer may take possession and title to any securities held as collateral and hold such securities until it is prudent to dispose of them.
- b) Securities lending cash or securities collateral shall have the meaning as set forth in the Securities Lending Agreement between the Treasurer and the Treasurer's Agent. The Treasurer's Agent may reinvest cash collateral as indicated in the Securities Lending Agreement. The Treasurer or Treasurer's Agent may take possession and title to any cash or securities held as collateral and hold such securities according to the Securities Lending Agreement.

8.0 DIVERSIFICATION:

The investment portfolio shall be diversified to mitigate 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 the Treasurer in writing:

a) The Treasurer shall seek to achieve diversification in the portfolio by distributing investments among authorized investment categories among financial institutions, issuers and broker/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. These limits will apply to the total assets in the portfolio at the time of the origination or purchase. As maturities and or calls of instruments occur these limits will be monitored and adjusted accordingly:

i. With the exception of cash equivalents, treasury securities and time deposits, as defined in Section 5.0 of this Policy, no more than 55% 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. As much as 40% of the portfolio may be invested in time deposits when required by the cash flow of the State;

iv. 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;

v. No more than 55% of the investment portfolio shall be allocated to investments greater than 2 years and less than or equal to 3 years;

vi. No more than 30 % of the investment portfolio shall be allocated to investments greater than 3 years and less than or equal to 4 years (not including Foreign Government Securities).

vii. No more than 15% of the investment portfolio shall be allocated to investments greater than 4 years and less than or equal to 5 years; and

viii. 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 Treasurer's office procurement rules at 44 Ill. Adm. Code 1400. Financial institutions selected by the Treasurer's office to perform custody and safekeeping services will be required to enter into a contractual agreement approved by the General Counsel.

All security transactions entered into by the Treasurer 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 Treasurer, and evidenced by safekeeping receipts or a statement of holdings.

10.0 INTERNAL CONTROLS:

The Treasurer and the Chief Investment Officer, with the assistance of the Investment Policy Committee, shall establish a system of internal controls and written operational procedures that shall be documented and filed with Treasurer'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 or 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 Treasurer 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.

Certificates of deposit shall be purchased by authorized investment officers on the basis of a qualified financial institution's ability to pay a required rate of interest to the Treasurer, which is established on a daily basis. Such rate is generally determined on the basis of treasury or other appropriate market rates for a comparable term.

11.0 LIMITATION OF LIABILITY:

The standard of prudence to be used by authorized investment officers shall be the "prudent person" standard and 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:

Monthly reports are presented by the Chief Investment Officer to the Investment Policy Committee, chaired by the Treasurer, for its review. The monthly report shall contain sufficient information to enable the Investment Policy Committee to review the investment portfolio, its effectiveness in meeting the needs of the Treasurer's office 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 held by the State Treasurer;
- b) The asset allocation for the investments made by the State Treasurer;
- c) The benchmarks established by the State Treasurer;
- d) A report detailing and summarizing deposits of funds in support of local community development efforts including the intended benefits of the deposit(s), the rate of interest on the deposit(s), the rate of interest on the loan or extension of credit to borrower(s), and the overall rate of return including a quantifiable measure related to the benefits;
- e) Current and historic return information;
- f) Any circumstances resulting in a deviation from the standards established in Section 8.0 of this Policy; and

- g) Impact of any material change in investment policy adopted during the month.

The Treasurer shall develop performance reports in compliance with established industry reporting standards within six (6) months following the adoption of this Investment Policy. Such reporting standards shall be in accordance with Generally Accepted Accounting Principles ("GAAP").

The Treasurer reserves the right to amend this Policy at any time.

13.0 EXTERNAL ADVISORY COMMITTEE

The Investment Policy Committee may convene an External Advisory Committee at the direction of the Treasurer to provide independent advice and counsel to the Treasurer and the Internal Committee on investment policy, investments and investment related issues for the benefit of all Illinois citizens.

14.0 EMERGENCY POWERS

In the event of an emergency, the Treasurer may, at his or her discretion, invoke emergency powers and suspend any or all of the provisions of this policy provided that:

a) The Treasurer shall, even in the event that emergency powers are invoked, comply with all state statutes governing the use and investment of state monies including, but not limited to, the State Treasurer Act, the Treasurer as Custodian of Funds Act, the Deposit of State Moneys Act, the Securities Safekeeping Act, and any other applicable statute;

b) The Treasurer reasonably believes that deviating from the Investment Policy is in the best interest of the taxpayers;

c) Within 30 days of invoking emergency powers the Treasurer shall provide an explanation in writing to the Chief Internal Auditor and the Investment Policy Committee, a copy of which shall be posted on the Treasurer's website that includes:

i) The date and time that the emergency powers were invoked;

ii) The date and time that emergency powers were repealed;

iii) The section or sections of the Investment Policy that were affected by the emergency or use of emergency powers; and

iv) The reason for deviating from the written investment policy.

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