



2020 ANNUAL REPORT

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A MESSAGE FROM THE TREASURER



Letter From Treasurer Michael W. Frerichs

It is with great pleasure to present The Illinois Funds Annual Report, which presents the progress and investment activities during the calendar year 2020. Governments in Illinois are now, more than ever, trying to do more with less. The Illinois Funds offers a safe investment option to provide additional income to strained government budgets.

With recent market volatility and economic uncertainty, investors needed reliable sources of investment income. Many turned to the stability and returns of The Illinois Funds, causing the fund balance to increase over 37% and not only cross \$7 billion in net assets for the first time, but remain over that mark for the second half of the year.

I proudly present the following accomplishments for 2020:

- The Illinois Public Treasurer's Investment Pool (IPTIP), also known as The Illinois Funds, returned over \$42 million to Participants. The Illinois Fund ended 2020 with a balance of \$7.4 billion, an increase of \$1.5 billion year-over-year.
- 40 new Illinois Funds accounts were opened using 146 qualified leads, a 33% increase over 2019.
- Maintained S&P's highest rating, AAAm, for the 24th year in a row.
- Engaged over 8,000 non-participating government agencies through recruitment campaign.
- Hosted "Navigating Payments and Investments through COVID-19" online event to highlight challenges of the pandemic and solutions available through the Office of the Illinois State Treasurer.

With uncertainty and unprecedented changes in 2020, The Illinois Funds provided a haven for Illinois Government investment. Despite a remote working environment, The Illinois Funds maintained the same level of service. Participants have come to expect over the last 45 years. As we move forward, we will continue to innovate while providing a safe and reliable investment option.

Sincerely,

A handwritten signature in dark ink, reading "Michael Frerichs". The signature is written in a cursive, flowing style.

Illinois State Treasurer

FUND OVERVIEW

History of The Illinois Funds

Created in 1975, The Illinois Public Treasurers' Investment Pool (referred to as "The Illinois Funds") is a local government investment pool operated by the Office of the Illinois State Treasurer ("Treasurer") for state and local government agencies. The Illinois Funds was one of the first local government investment pools established in the nation. It provides units of State and local governments a convenient investment pool option that utilizes the Treasurer's resources to safely invest their funds while allowing participants to enjoy economies of scale. The Illinois Funds allows participants to safely invest their monies, while providing a competitive rate of return and daily access to invested funds.

The Illinois Funds is comprised of over 1,500 participating entities, holding approximately 3,000 accounts with net assets of approximately \$7 billion. Investments and processes are managed so that Participants comply with Deposit of State Moneys Act [15 ILCS 520] or the Public Funds Investment Act [30 ILCS 235], as applicable, and the Illinois Sustainable Investing Act [30 ILCS 238]. Since 1996, The Illinois Funds has maintained a AAAM rating from S&P, the highest rating available for money market funds.

Illinois Funds Structure

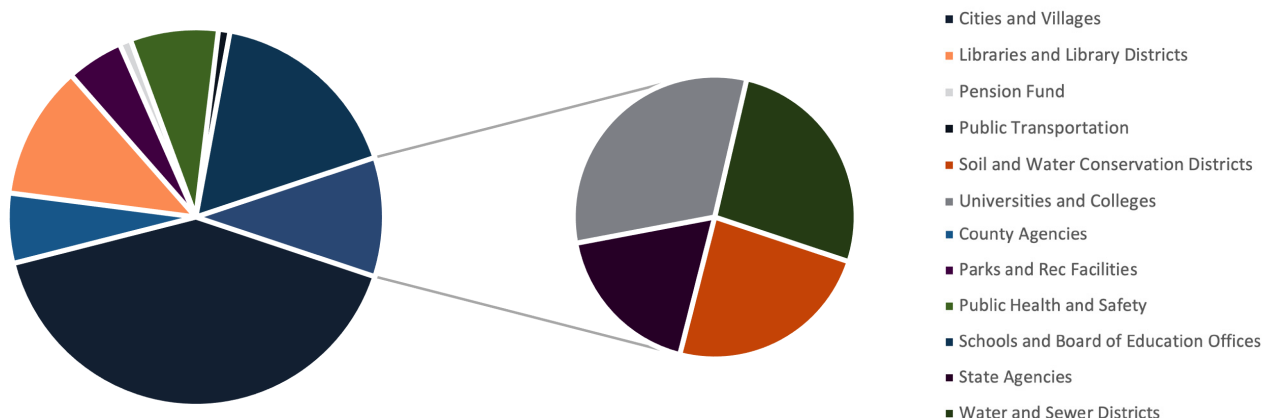
The Treasurer operates The Illinois Funds by splitting the product into two distinct divisions. The administrative side is managed by The Illinois Funds and ePAY division. Its primary responsibilities are determining eligibility, enrollments, customer service, and managing its primary service provider.

The investments made by The Illinois Funds are managed by the Illinois Public Treasurers' Investment Pool Investment division. Their responsibilities are establishing investment policies and investing assets available in the fund. The primary objectives of the investment division in order of importance are 1) safety of principal, 2) maintain sufficient liquidity to ensure immediate access to funds, and 3) provide a competitive rate of return relative to comparable investment options.

Illinois Funds Participants

The Illinois Funds is available to local and state agencies in Illinois that handle public funds. At the end of 2020 over 1500 government entities participated in the fund.

Illinois Funds Participants by Government Type



Government Type	Number of Participants
Cities and Villages	622
County Agencies	91
Libraries and Library Districts	174
Parks and Rec Facilities	74
Pension Fund	15
Public Health and Safety	115
Public Transportation	15
Schools and Board of Education Offices	258
Soil and Water Conservation Districts	37
State Agencies	28
Universities/Colleges	49
Water and Sewer Districts	41
Total	1519

ILLINOIS FUNDS PARTNERS

US Bank Fund Services



US Bank Funds Services (USBFS) acts as Illinois Funds primary service provider and custodian. While they do not manage the fund investments, they handle accounting, distribution of interest, and account maintenance. USBFS was awarded the contract after a competitive procurement process.

ePAY



The Illinois Funds partners with the ePAY division of the Treasurer. This partnership allows ePAY partners to have their payment activity swept to their Illinois Funds account. On average, ePAY-specific Illinois Funds accounts hold total balances of approximately \$800 million.



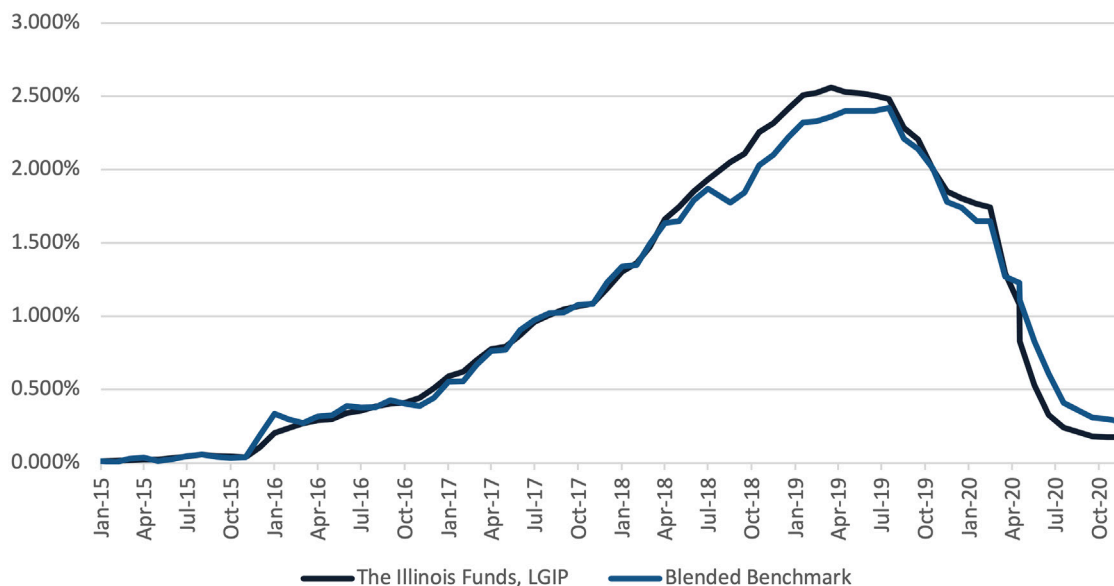
INVESTMENT LANDSCAPE

Impact of COVID-19 Pandemic

In immediate response to the COVID-19 pandemic, the Treasurer's Risk Analytics team placed restrictions on several classes of investments to reduce risk to the office and its investments. The restricted classes represented roughly one-third of the portfolio's investments. While reducing risk, this reduction in investment options also reduced the overall return of The Illinois Funds.

In addition, interest rates have held at or near zero throughout the pandemic. This reduced the overall return of equities and caused many institutions to refinance their obligations to take advantage of these lower rates. Because The Illinois Funds only invests in bonds, these reduced rates caused the fund return to drop significantly.

Illinois Funds Rate v. Blended Benchmark

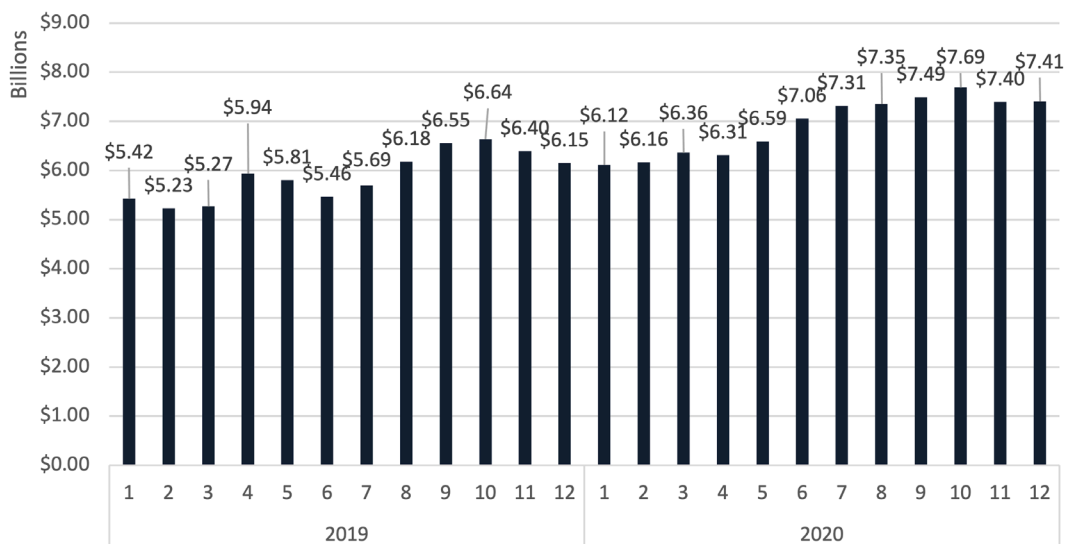


ECONOMIC IMPACT

Fund Balances

Despite the drastic drop in returns, the balance of The Illinois Funds continued to increase throughout 2020. This is primarily driven by market volatility, economic uncertainty, and the lack of safe investment options. For the first time in fund history, The Illinois Funds passed total net assets of \$7 billion. The fact that the fund balance increased during times of great uncertainty and low returns shows that The Illinois Funds is a safe, stable option for Illinois governments. It also suggests that other alternatives either do not exist or do not have the same services available through The Illinois Funds.

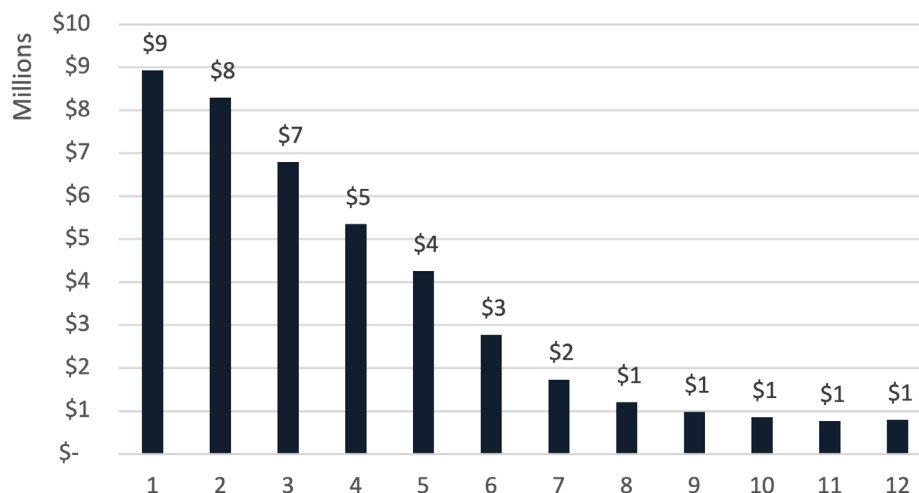
Monthly Average Fund Balance



Return on Investment

As stated above, the overall returns of The Illinois Funds were greatly depressed in 2020. However, The Illinois Funds continues to return income to local governments with a safe and liquid investment option. In 2020, we returned over \$42 million to governments in Illinois.

Earnings Net of Fees



PARTICIPANT OUTREACH

Customer Support

Customer support is a primary focus of The Illinois Funds staff and our custodial bank, US Bank Fund Services. Our dedicated toll-free phone number is monitored for common issues as well as overall satisfaction with the service. In 2020, 81% of respondents stated our customer service was above average or better. In addition, our staff were rated higher in every category included in our annual survey.

	Excellent	Above Average	Average	Below Average	Poor	2020 Average	2019 Average	Change
Promptness	25	16	7	0	0	4.26	4.38	+0.12
Courtesy	31	12	5	0	0	4.45	4.54	+0.09
Expertise	27	14	7	0	0	4.37	4.42	+0.05
Enthusiasm	23	18	7	0	0	4.32	4.33	+0.01

Annual Customer Satisfaction Survey

The annual Illinois survey was distributed to participants on September 9, 2020 and concluded on October 5, 2020. The key objective of this survey is to garner feedback from existing participants to identify strengths, improve upon weaknesses, and gain insight on potential enhancements to The Illinois Funds. The survey solidified our view of The Illinois Funds as a safe investment option as 86% of Participants were at least very likely to refer The Illinois Funds to a peer despite satisfaction with the rate of return dropping by 8% compared to 2019. We continue to explore different strategies for engaging with our participants and welcome additional feedback.

Review Quarterly Statements

61.2% in 2020 vs. 44.8% in 2019

↑ **36.6%**
increase

Importance of S&P AAAM Rating

87% in 2020 vs. 67.2% in 2019

↑ **29.5%**
increase

Level of Communication

94.9% in 2020 vs. 92.6% in 2019

↑ **2.5%**
increase

SERVICE ENHANCEMENTS

Illinois Funds Website

In 2020, The Illinois Funds launched new webpages with the Treasurer's website. The pages were designed to provide better access to the mostly commonly used resources. Participants can now quickly access daily rates, login to the online account portal, and search for specific information.

Digital Enrollments

The Illinois Funds enrollment, bank changes, and changes of Participant information are based entirely on paper forms sent via physical mail. In total, a bank change can take 7-10 business days to implement due to mail delays and manual form verification. In 2021, The Illinois Funds will deploy a digital enrollment tool that will allow over 90% of such activities to be done entirely online. This will reduce the amount of operational overhead for Illinois Funds and USBFS staff while reducing the implementation time to less than 24 hours in most cases.

Terms and Conditions

The Illinois Funds created a set of terms and conditions for participation in the fund. These terms help protect both Participants and the Treasurer from unintended use or exploitation of the Fund. The terms and conditions document will be distributed digitally in coordination with the launch of our digital enrollment platform.

Closing Statement

Despite such a unique year, the Office of the Illinois State Treasurer and The Illinois Funds teams were proud to continue a high-level of quality service. If you are interested in The Illinois Funds or have questions about the program, please visit us at www.illinoisfunds.com or call our dedicated help desk at 1-800-947-8479.

The full investment policy used by The Illinois Funds in 2020 is given below and can also be found [here](#).

The Illinois Funds

Local Government Investment Pool

Investment Policy Statement

1.0 Policy

The Office of the Illinois State Treasurer (“Treasurer”) is authorized under Section 17 of the State Treasurer’s Act (15 ILCS 505/17) to establish and administer a Public Treasurer’s Investment Pool to supplement and enhance investment opportunities otherwise available to custodians of public funds for public agencies in the State of Illinois. The Illinois Public Treasurer’s Investment Pool is a local government investment pool known as “The Illinois Funds.” Under this Illinois Funds Local Government Investment Pool Investment Policy Statement (“Policy”), it is the policy of the Treasurer to invest funds pooled by local and State custodians of public funds for public agencies in The Illinois Funds in a manner that will provide safety to the principal investment, meet the daily cash flow demands of participants, and seek the highest investment return, using authorized instruments in accordance with all State statutes governing the investment of public funds. The Illinois Funds operates in a manner consistent with Securities and Exchange Commission Rule 2a-7 (17 CFR § 270.2a-7).

2.0 Investment Policy Committee

The Treasurer affirms the existence of the Investment Policy Committee. The Investment Policy Committee shall be chaired by the Treasurer and include the following members of the Treasurer’s staff: Deputy Treasurer & Chief Investment Officer, Chief of Staff, Chief Financial Products Officer, Chief Legislative and Policy Officer, General Counsel, Director of State Investments and Banking, Director of Investment Analysis and Due Diligence, Director of Fiscal Operations, Director of IPTIP Investments, Director of ePAY and The Illinois Funds, Director of Portfolio and Risk Analytics, Director of Corporate Engagement & Investment Operations, State Investments - Portfolio Management Officer and anyone else deemed appropriate by the Treasurer.

The Deputy Treasurer & 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 Objective

The safety of principle is the primary objective in the investment of funds within The Illinois Funds. In addition, it is the Treasurer’s objective to manage liquidity for payment of the State’s financial obligations and provide the highest investment return, using authorized instruments, while prudently exercising sustainable stewardship in its investment decision-making.

3.1 Safety

The Illinois Funds’ investments shall be undertaken in a manner that seeks to ensure the preservation of principal in the portfolio. The safety of principal is the foremost objective of the investment program. To obtain this objective, diversification among permissible investments is required to ensure that The Illinois Funds properly manages market, operational, reputational, financial, legal, sustainability, interest rate, and credit risks.

3.2 Liquidity

The investment portfolio shall remain sufficiently liquid to enable The Illinois Funds to meet all participant redemption demands that might be reasonably anticipated.

3.3 Return On Investment

The investment portfolio shall be designed to obtain the highest available risk-adjusted return. The Treasurer shall seek to obtain the highest available return, using authorized investments during budgetary and economic cycles as required by this Policy.

The rate of return achieved on The Illinois Funds portfolio shall be measured at regular intervals against relevant industry benchmarks, established by the Investment Policy Committee, to determine the effectiveness of investment decisions in meeting investment goals. The benchmarks shall be reviewed a minimum of every two (2) years to ensure accuracy and relevance.

3.4 Sustainability

The Treasurer seeks to invest all funds under its control in a manner that provides the highest risk-adjusted investment return using authorized instruments. Pursuant to the Illinois Sustainable Investing Act (30 ILCS 238/1 et seq.), the Treasurer shall prudently integrate sustainability factors into its investment decision-making, investment analysis, portfolio construction, risk management, due diligence and investment ownership in order to maximize anticipated financial returns, minimize projected risk, to more effectively execute its fiduciary duty. As such, consistent with achieving the foremost investment objectives of the Treasurer set forth herein, the Treasurer and its agents shall prudently integrate sustainability factors into its investment processes.

The sustainability analysis adds an additional layer of rigor to the fundamental analytical approach and helps assess the reliability of future cash flows and debt repayments. Similar to financial accounting, sustainability accounting has both confirmatory and predictive value, thus, it can be used to evaluate past performance, future planning, and decision-making. As a complement to financial accounting, it provides a more complete view of an investment fund or portfolio company's performance on material factors likely to impact its long-term value.

Sustainability factors may include, but are not limited to, the following:

- a) Corporate governance and leadership factors, such as the independence of boards and auditors, the expertise and competence of corporate boards and executives, systemic risk management practices, executive compensation structures, transparency and reporting, leadership diversity, regulatory and legal compliance, shareholder rights, and ethical conduct.
- b) Environmental factors that may have an adverse or positive financial impact on investment performance, such as greenhouse gas emissions, air quality, energy management, water and wastewater management, waste and hazardous materials management, and ecological impacts.
- c) Social capital factors that impact relationships with key outside parties, such as customers, local communities, the public, and the government, which may impact investment performance. Social capital factors include human rights, customer welfare, customer privacy, data security, access and affordability, selling practices and product labeling, community reinvestment, and community relations.
- d) Human capital factors that recognize that the workforce is an important asset to delivering long-term value, including factors such as labor practices, responsible contractor and responsible bidder policies, employee health and safety, employee engagement, diversity and inclusion, and incentives and compensation.

- e) Business model and innovation factors that reflect an ability to plan and forecast opportunities and risks, and whether a company can create long-term shareholder value, including factors such as supply chain management, materials sourcing and efficiency, business model resilience, product design and life cycle management, and physical impacts of climate change.

The Treasurer shall develop policy guidelines to integrate material sustainability risks relevant to particular financial products, investment funds, companies, and government bodies, which shall be provided to internal and external investment managers to factor into their investment decision-making. The policy guidelines for integrating sustainability factors shall be reviewed and updated a minimum of every two (2) years to ensure consistency within the rapidly evolving global economy.

The Illinois Funds' investment officers shall identify and select authorized investment options that meet the Treasurer's criteria for sustainable investing opportunities and risk parameters and fall within the framework of the investment objectives.

4.0 Ethics And Conflicts Of Interest

Authorized investment staff and employees in policy-making positions for The Illinois Funds 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 Treasurer any material financial interests in financial institutions or broker/dealers that conduct business within the State. They shall further disclose any personal investments that are related to the performance of The Illinois Funds' portfolio. In addition, such individuals shall subordinate their personal investment transactions to those of The Illinois Funds, particularly with regard to the time of purchases and sales.

5.0 Authorized Brokers/Dealers And Financial Institutions

Authorized investment staff shall utilize the Treasurer's approved list of broker/dealers and financial institutions when selecting institutions to provide investment services.

The security brokers/dealers shall be selected according to their credit worthiness and their financial significance in the State, which shall be measured in terms of the location of the broker/dealer's corporate office, or the extent to which the broker/dealer has a large labor or economic impact on the State. The approved broker/dealers may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 17 CFR § 15c3-1 (Net Capital Requirements for Brokers or Dealers).

No monies may be deposited in any financial institution until the Treasurer's investment staff has 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, 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 11.0 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.).

All brokers/dealers interested in becoming qualified parties for investment transactions must supply the Treasurer's authorized investment staff with the following documents or the equivalent acceptable to the Treasurer, where applicable:

- a) Audited financial statements or a published Statement of Condition;
- b) Proof of minority-, woman-, disabled-, and/or veteran-owned or -managed broker/dealer status;

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- c) A signed copy of the Treasurer's account authorization agreement;
- d) Proof of National and State of Illinois registration;
- e) Completed Counterparty Questionnaire;
- f) Certification of notice and acknowledgment of this Policy; and
- g) Any other documentation deemed necessary by the Treasurer.

If approved, a broker/dealer will be placed on a list of qualified parties for investment transactions. An annual review of the financial condition and registration of qualified parties will be conducted by the Treasurer's authorized investment staff. More frequent reviews may be conducted if warranted.

5.1 External Investment Consultants

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

5.2 Preference For Broker/Dealers Owned By Minorities, Women, Military Veterans, And Persons With Disabilities

Pursuant to 15 ILCS 505/30, it shall be the aspirational goal of the Treasurer to use businesses owned by, or under the control of, qualified veterans of the armed forces of the United States, qualified service-disabled veterans, minority persons, women, or persons with a disability for not less than 25% of the total dollar of purchases of investment securities, including, but not limited to, the use of broker/dealers. Beginning with fiscal year 2019, and at least annually thereafter, the Treasurer shall measure and report its utilization of broker/dealers owned or under the control of qualified veterans of the armed forces of the United States, qualified service-disabled veterans, minority persons, women, or persons with a disability. The report shall be published on the Treasurer's official website.

The terms "minority person," "woman," "person with a disability," "minority-owned business," "women-owned business," "business owned by a person with a disability," and "control" have the meanings provided in Section 1 of the Business Enterprise for Minorities, Women, and Persons with Disabilities Act (30 ILCS 575/1 et seq.). The terms "veteran," "qualified veteran-owned small business," "qualified service-disabled veteran-owned small business," "qualified service-disabled veteran," and "armed forces of the United States" have the meanings provided in Article 1 of the Illinois Procurement Code (30 ILCS 500/1 et seq.).

To the greatest extent feasible within the bounds of financial and fiduciary prudence, it is the policy of the Treasurer to remove any barriers to the full participation in investment transactions afforded via the investment program by actively identifying and considering for hire brokers/dealers that provide proof of minority-, female-, disabled-, and/or veteran-owned or managed status. The Treasurer shall establish a process by which said specially claimed statuses are verified, and a review shall be conducted at fixed intervals to ensure that special statuses continue to apply.

5.3 Preference For Broker/Dealers Headquartered In Illinois

The Treasurer shall seek to provide preference to qualified brokers/dealers that provide proof that their corporate headquarters is located in the State of Illinois. In doing so, the Treasurer shall establish a process to verify the location of broker/dealers' corporate headquarters, and a review shall be conducted at fixed intervals to ensure that the Illinois-based location continues to apply.

Beginning with fiscal year 2019, and at least annually thereafter, the Treasurer shall measure and report its utilization of broker/dealers with headquarters located in the State of Illinois. The report shall be published on the Treasurer's official website.

6.0 Authorized And Suitable Investments

The following investments are authorized, pursuant to the Deposit of State Moneys Act (15 ILCS 520/22.5) and the Public Funds Investment Act (30 ILCS 235/2):

- a) Federally guaranteed obligations that receive the full faith and credit of the United States of America ("United States") as to principal and interest;
- b) Obligations of agencies of the United States as originally issued by the agencies. For purposes of this Section, the term "agencies of the United States" includes the following: federal land banks, federal intermediate credit banks, banks for cooperatives, federal farm credit banks, or any other entity authorized to issue debt obligations under the Farm Credit Act of 1971 as amended, the federal home loan banks and the federal home loan mortgage corporation, and any other agency created or supported through an Act of Congress and issues United States dollar-denominated debt;
- c) Obligations of instrumentalities of the United States, as originally issued by the instrumentalities. For the purposes of this section, the term "instrumentalities of the United States" is an instrumentality created or supported through an Act of Congress and issues United States dollar-denominated debt;
- d) Obligations of a foreign government that are guaranteed by the full faith and credit of that government as to principal and interest and rated at one (1) of the three (3) highest classifications established by at least two (2) standard rating services (upper medium grade for a long-term rating of A- and above or equivalent), and 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 twenty-five (25) years prior to the time of acquiring those obligations;
- e) Interest-bearing bonds, 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 at one (1) of the three (3) highest classifications established by at least one (1) standard rating service with nationally recognized expertise in rating bonds of states and their political subdivisions, (upper medium grade for the long-term rating of A- and above or equivalent). The maturity or pre-refunded date(s) of the bonds authorized by this subsection shall, at the time of purchase, not exceed ten (10) years. Notwithstanding the foregoing, a longer maturity is authorized, if the State of Illinois has a put option to tender the bonds within ten (10) years from the date of purchase;
- f) Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986. 15 U.S.C. § 78o-5;
- g) Short-term obligations of either corporations or limited liability companies organized in the United States with assets exceeding \$500,000,000 and rated at the time of purchase at one (1) of the two (2) highest classifications established by at least two (2) standard rating services, (short-term rating of A-2 and above or equivalent). In order to comply with the S&P money market fund guidelines, the short-term rating must be A-1 and above. At the time of purchase, the maturity or pre-refunded date(s) shall not exceed two hundred and seventy (270) days to maturity;

- h) Long-term obligations of either corporations or limited liability companies organized in the United States that have a significant presence in the State of Illinois, with assets exceeding \$500,000,000 and rated at the time of purchase at one (1) of the three (3) highest classifications established by at least two (2) standard rating services, (upper medium grade for a long-term rating of A- and above or equivalent). At the time of purchase, the maturity or pre-refunded date(s) shall not exceed two (2) years;
- i) Money market mutual funds registered under the Investment Company Act of 1940. 15 U.S.C. §80a-1;
- j) Securities in accordance with the Federal Financial Institution Examination Council guidelines only if the securities are collateralized at a satisfactory level to assure the safety of the securities, taking into account market value fluctuation and set forth in a Securities Lending Agreement between the Treasurer and the Treasurer's Agent. The securities may be collateralized by cash or collateral acceptable under Sections 11 and 11.1 of the Deposit of State Moneys Act;
- k) Interest-bearing savings accounts, interest-bearing certificates of deposit, interest-bearing time deposits, or any other investments constituting direct obligations of any bank as defined by the Illinois Banking Act. 205 ILCS 5/1 et seq.; and
- l) 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.

7.0 Investment Restrictions

The following investment restrictions apply to The Illinois Funds portfolio:

- a) Any investments not authorized by this investment policy or applicable law are prohibited;
- b) Repurchase agreements may only be executed with approved financial institutions or broker/dealers that meet the Treasurer's standards, which include mutual execution of a Master Repurchase Agreement adopted by the Treasurer;
- c) Investments in derivative products and leveraging of assets through reverse repurchase agreements are prohibited;
- d) All qualified repurchase agreement dealers, commercial paper issuers, and corporate bond issuers must have a corporate headquarters, corporate office, or operating location in the State of Illinois and that location must retain full-time staff employed within the State of Illinois or the dealer must have a significant economic presence in the State of Illinois as determined by the Treasurer;
- e) Commercial paper with a credit rating or evaluation that is derived from any factor other than the full faith and credit of the issuing institution and/or the guarantee of the parent company is prohibited;
- f) Obligations may not be purchased from a corporation or limited liability company that has been placed on the list of restricted companies by the Illinois Investment Policy Board under Section 1-110.16 of the Illinois Pension Code. 40 ILCS 5/1-110.16;
- g) Asset-backed securities and mortgage-backed securities of any kind are prohibited;

- h) Investments in bankers' acceptances of any kind are prohibited; and
- i) Certificates of deposit may not be purchased from The Illinois Funds' custodial institution or any of its subcontractors.

7.1 Operational Requirements

Pursuant to Securities and Exchange Commission Rule 2a-7 (17 CFR § 270.2a-7), the Treasurer shall:

- a) Maintain and execute standard operating procedures for deviations beyond the normal net asset value ("NAV") of The Illinois Funds; and
- b) Annually complete a checklist that clarifies the intention of the Treasurer to operate The Illinois Funds as a Securities and Exchange Commission Rule 2a-7-like fund.

8.0 Ratings Criteria

The Illinois Funds strives to achieve AAAM fund rating guidelines. As such, the fund will meet and abide by the guidelines for an AAAM fund rating from a Nationally Recognized Statistical Rating Organization ("NRSRO").

9.0 Collateralization

The Illinois Funds deposits and repurchase agreements shall be secured by direct U.S. Treasury and/or U.S. Agency obligations as required by the Treasurer and provided for by the Deposit of State Moneys Act (15 ILCS 520/1 et seq.) 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.

10.0 Safekeeping And Custody

All direct treasury, agency and instrumentality security transactions entered into by The Illinois Funds 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. Commercial paper will settle daily with the Depository Trust Company.

11.0 Diversification

The primary purpose of diversification in general is to control credit and market risk. The Illinois Funds portfolio will 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. The majority of The Illinois Funds' investments will be in direct obligations of the United States Treasury and United States Government Agencies and Instrumentalities and cash equivalents as listed in Section 6.0 of this Policy. In order to properly manage any risk that may be attendant to the investment of The Illinois Funds assets, The Illinois Funds portfolio will observe the following diversification guidelines, at the time of purchase:

- a) The Illinois Funds will seek to achieve diversification in the portfolio by reasonably distributing investments within authorized investment categories, and with issuers and brokers/dealers;
- b) The Illinois Funds shall at no time hold time deposits that constitute more than 10% of any single financial institution's total deposits;
- c) The Illinois Funds shall not hold obligations of corporations or limited liability companies that exceed 10% of the corporation's or the limited liability company's outstanding obligations;
- d) The Illinois Funds shall not hold obligations of a municipality's bonds that exceed 10% of the

- municipality's outstanding obligations;
- e) The Illinois Funds shall not be invested in more than 10% of each prime money market fund's assets (including all share classes) at any given time;
- f) 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. The Illinois Funds will invest no more than 50% of its total assets in securities with maturities greater than thirty (30) days issued by any single permissible United States government agency or instrumentality;
 - ii. No more than 33% of the total portfolio assets shall be invested in short-term obligations of corporations or limited liability companies as defined by Section 6.0(g) of this Policy;
 - iii. No more than 5% of the total portfolio assets shall be invested in short-term obligations of any one corporation or limited liability company as defined by Section 6.0(g) of this Policy;
 - iv. No more than 20% of the total portfolio assets shall be invested in long-term obligations of corporations or limited liability companies as defined by Section 6.0(h) of this Policy;
 - v. No more than 5% of the total portfolio assets shall be invested in long-term obligations of any one corporation or limited liability company as defined by Section 6.0(h) of this Policy;
 - vi. No more than 10% of the total portfolio assets shall be invested in municipal securities issued by counties or municipal corporations of the State of Illinois as defined by Section 6.0(e) of this Policy;
 - vii. No more than 3% of the total portfolio assets shall be invested in any single issuer of municipal securities issued by counties or municipal corporations of the State of Illinois as defined by Section 6.0(e) of this Policy;
 - viii. If invested in more than 3 prime money market funds, then no more than 33% of the portfolio's investments to prime money market funds may be placed with any one prime money market fund option; and
 - ix. The Illinois Funds shall invest a minimum of 75% of its assets in authorized investments of less than one-year maturity. No investment shall exceed two (2) years maturity.

12.0 Internal Controls

The Treasurer shall establish a system of internal controls, which shall be documented in writing and filed with the Treasurer's Chief Internal Auditor for review. The controls shall be designed to prevent loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by authorized investment staff of The Illinois Funds.

The Treasurer shall publish the current investment policy of The Illinois Funds on the Treasurer's official website.

13.0 Asset Allocation

The Treasurer shall approve asset allocation among investment categories authorized under Section 6.0 of this Policy.

14.0 Competitive Bidding

Authorized investment staff shall obtain competitive bids from at least three (3) broker/dealers prior to executing repurchase agreements, purchasing United States Treasury securities, United States government agency or instrumentality securities, obligations of either corporations or limited liability companies, bonds issued by counties or municipal corporations of the State of Illinois, or commercial paper from a broker/dealer. Reverse inquiry investments, investments in a new issue, and investments defined under Section 6(a)-(b) of this Policy purchased from the agency discount window are exempt from this provision. Certificates of deposit shall be purchased by authorized investment staff on the basis of a financial institution's ability to pay the Treasurer's required interest rate.

15.0 Liability

Authorized investment staff, acting in accordance with written procedures and this Policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments. The Treasurer is bonded to a level of \$150,000 for the faithful performance of duties in relation to The Illinois Funds.

16.0 Reporting

Reports shall be made available quarterly by the Director of IPTIP Investments to the Treasurer, the Chief Investment Officer and The Illinois Funds participants. The quarterly report shall contain the following:

- a) The total amount of funds;
- b) The current and historic performance of The Illinois Funds as compared to the established benchmark;
- c) The asset allocation for the investments;
- d) Any circumstances resulting in a deviation from the standards established in Section 11.0 of this Policy;
- e) Any change in investment policy adopted during the quarter; and
- f) The weighted average number of days to maturity.

A listing of all investments in the portfolio marked to market shall be made available to the Treasurer, Chief Investment Officer and The Illinois Funds participants annually.

17.0 Exceptions

The Deputy Treasurer & Chief Investment Officer may issue exceptions to this Policy provided that they do not conflict with applicable State statutes governing the use and investment of the State Investments portfolio 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 statutes and it is reasonably assured that deviating from this Policy is in the best interest of participants.

18.0 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 monies;
- b) The Treasurer reasonably believes that deviating from this Policy is in the best interest of the participants;
- c) Within thirty (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 the following:
 - i. The date and time that the emergency powers were invoked;
 - ii. The date and time that emergency powers were repealed, if applicable;
 - iii. The Section or Sections of this Policy that were affected by the emergency or use of emergency powers; and
 - iv. The reason for deviating from this Policy.

19.0 Statutory References

Any statutory references in this Policy shall include any amendments to or repeals of those statutes.

20.0 Amendments

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

