



The Illinois Funds Local Government Investment Pool **Investment Policy Statement**

1.0 POLICY

The Office of the Illinois State Treasurer (“Treasurer”) has authority 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 Public Treasurer’s Investment Pool is a local government investment pool known as “The Illinois Funds.” Under this instrument, The 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. It is the policy of The Illinois Funds to operate in a manner consistent with Securities and Exchange Commission Rule 2a7 (17 CFR § 270.2a-7).

2.0 OBJECTIVE

The primary objective in the investment of funds within The Illinois Funds is the safety of principal. 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.

2.1 Safety

The safety of principal is the foremost objective of the investment program. The Illinois Funds’ investments shall be undertaken in a manner that seeks to ensure the preservation of principal in the portfolio. 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.

2.2 Liquidity

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

2.3 Return on Investment

The investment portfolio shall be designed to obtain the highest available return. The Treasurer shall seek to obtain the highest available return, using authorized investments during budgetary and economic cycles as mandated by Section 1.0 of this Policy.

The Treasurer will select accepted industry benchmarks that best reflect The Illinois Funds' portfolio and measure performance against those benchmarks over time. The benchmarks shall be reviewed a minimum of every two (2) years to ensure accuracy and relevance.

2.4 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. To achieve this objective, the Treasurer has a responsibility to recognize and evaluate risk factors that may have a material and relevant financial impact on the safety and/or performance of investments. Consistent with achieving the investment objectives set forth herein, the Treasurer and its agents 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, and more effectively execute its fiduciary duty.

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 and be used for 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, or 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 every two (2) years at a minimum 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.

3.0 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.

4.0 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.

No monies may be deposited in any financial institution until the Treasurer's credit review team 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 10.0 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, the Treasurer shall maintain a list of approved security brokers/dealers, which shall be utilized by authorized investment officers. 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 § 15Cc3-1 (Net Capital Requirements for Brokers or Dealers).

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;

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

To the greatest extent feasible within the bounds of financial and fiduciary prudence, the Treasurer shall seek to provide preference to qualified 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.

To the greatest extent feasible within the bounds of financial and fiduciary prudence, the Treasurer shall also seek to accord preference to qualified brokers/dealers that provide proof that their corporate headquarters is located in the State of Illinois. 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.

An annual review of the financial condition and registration of qualified parties and investments will be conducted by the Treasurer's authorized investment staff. More frequent reviews may be conducted.

5.0 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 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 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 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 (1 U.S.C. § 78o-5);
- 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 (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);
- h) 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 be less than 270 days and shall not exceed ten (10) years;
- i) Money market mutual funds registered under the Investment Company Act of 1940;
- j) Securities may be lent in accordance with the Federal Financial Institution Examination Council guidelines and only if the securities are collateralized at a satisfactory level 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; and
- 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.).

6.0 INVESTMENT RESTRICTIONS

The following investment restrictions apply to the Illinois Funds portfolio:

- a) Any investments not authorized by this or any other 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);
- 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.

6.1 Operational Requirements

Pursuant to Securities and Exchange Commission Rule 2a7 (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 2a7-like fund.

7.0 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).

8.0 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.

9.0 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.

10.0 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 5.0 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 certificates of deposit constituting 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. No more than one third of the public agency's funds can be invested in such obligations of corporations or limited liability companies.
- 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. 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. The Illinois Funds will invest no more than 5% of its total assets in securities issued by any single commercial paper issuer;
 - iii. The Illinois Funds will invest no more than 1/3 of its total assets in direct commercial paper obligations not to exceed 270 days to maturity at the time of purchase;
 - iv. A maximum of 25% of total assets may be invested in any approved AAAM Money Market Fund;
 - v. 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; and

- vi. No more than 5% of The Illinois Funds shall be invested in obligations of corporations or limited liability companies as defined by Section 5.0(j) of this Policy.

11.0 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 on The Illinois Funds website and in accordance with applicable statutes.

12.0 ASSET ALLOCATION

The Treasurer shall approve asset allocation among investment categories authorized under Section 5.0 of this Policy.

13.0 COMPETITIVE BIDDING

Authorized investment staff shall obtain competitive bids from at least three (3) brokers/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 5(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.

14.0 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.

15.0 REPORTING

Reports shall be made available quarterly by the Director of The Illinois Funds to the Treasurer and The Illinois Funds participants. The quarterly report shall contain the following:

- a) The performance of The Illinois Funds as compared to the established benchmark;
- b) Asset allocation;
- c) Any deviation from the standards established in Section 10.0 of this Policy;
- d) Any change in investment policy adopted during the quarter; and
- e) The average number of days to maturity.

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

16.0 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.

17.0 STATUTORY REFERENCES

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

18.0 AMENDMENTS

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