



The Illinois State Treasurer's Office **Investment Policy Statement for the State Investment Portfolio**

1.0 POLICY

Under this instrument, the Illinois State Treasurer's Office Investment Policy Statement for the State Investment Portfolio ("Policy"), it is the policy of the Illinois State Treasurer's Office ("Treasurer") to invest all moneys and securities deposited with the Treasurer (collectively, the "State Investment Portfolio") in a manner that will provide safety to the principal investment, meet the State's daily cash flow demands, and seek the highest investment return, using authorized instruments and supporting community development efforts, in accordance with all State statutes governing the investment of public funds.

This Policy applies to all investments of the State Investment Portfolio entered into on or after the adoption of this instrument. Investments made prior to the adoption of this Policy will continue to be governed by the policy in effect at the time such investments were made, until the maturity or selling of such investments.

This Policy applies to any investment under the control of the Treasurer for which no other specific investment policy exists.

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 of Staff, Chief Investment Officer, Chief Policy and Programs Officer, General Counsel, Director of the Division of Accounting/Budget/Warrant, Director of State Portfolio and Banking, Portfolio Manager and Director of Portfolio Operations – Illinois Funds, Director of the Division of Illinois Funds and E-Pay Operations, 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 OBJECTIVE

The primary objective in the investment of the State Investment Portfolio is to ensure 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 ethical and social stewardship in its investment decision-making.

3.1 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 9.0 of this Policy, is required to ensure that the Treasurer prudently manages market, interest rate, and credit risks.

3.2 Liquidity

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

3.3 Return on Investment

The State Investment Portfolio shall be designed to obtain the highest available return, given the objectives of safety of principal and liquidity. The Director State Portfolio and Banking or equivalent thereto 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. When the Treasurer deposits funds in support of community development efforts, the rate of return may 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 State Investment 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 Socially Responsible Investing

Consistent with achieving the investment objectives of the Treasurer set forth herein, the Treasurer shall prudently exercise ethical and social stewardship in its investment decision-making, because the Treasurer aspires to contribute to a more just, accountable, and sustainable State of Illinois.

Socially responsible investing shall be implemented within a framework predicated on the following:

- a) Integration of environmental, social and governance (“ESG”) factors as components of investment decision-making, due diligence, and risk management, given that these intangible factors may have a material financial impact as well as non-financial impacts;
- b) Regular evaluation of ESG factors to ensure the factors are relevant to the Treasurer’s investment portfolio and the evolving marketplace;
- c) Attentive oversight of investment holdings to encourage the advancement of ESG through engagement with entities, such as funds, companies, government bodies, and other organizations and move the marketplace toward more socially responsible investment practices; and
- d) Consideration of long-term sustainability and regulatory and reputational risks, in addition to the current return environment in investment decision-making.

The Treasurer shall develop criteria for socially responsible investing that may pertain to particular products, funds, companies, or government bodies, which shall be provided to internal and external investment managers to factor into their investment decision-making. The criteria for socially responsible investing shall be reviewed and updated every two (2) years at a minimum to ensure consistency within the rapidly changing definition of socially responsible investing.

The State Portfolio's investment officers shall endeavor to identify and select authorized investment options that meet the Treasurer's criteria for socially responsible investing and fall within the framework of the investment objectives.

4.0 ETHICS AND CONFLICTS OF INTEREST

Authorized investment officers and employees in policy-making positions shall refrain from 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 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 State Portfolio. In addition, such individuals shall subordinate their personal investment transactions to those of the State Portfolio, particularly with regard to the time of purchases and sales.

5.0 AUTHORIZED BROKERS/DEALERS AND FINANCIAL INSTITUTIONS

The Treasurer shall maintain a list of approved financial institutions, which shall be utilized by authorized investment officers. No State funds may be deposited in any financial institution, unless the institution has a current satisfactory or outstanding rating under the Community Reinvestment Act of 1977, and the Treasurer's 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, 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 9.0 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 the 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, 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 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 documents, 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 State of Illinois registration;
- e) Proof of registration with the Securities and Exchange Commission;
- f) Completed Broker/Dealer and Authorized Counterparty Questionnaire;
- g) Certification of notice and acknowledgment of this Policy; and
- h) Any other documentation deemed necessary by the Treasurer.

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.

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.

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 Treasurer’s procurement rules at 44 Ill. Admin. Code § 1400.

6.0 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 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 by an 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 (1) of the two (2) highest classifications established by at least two (2) standard rating services (i.e., not less than an A-1 short-term rating or equivalent rating);
- 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 by at least one (1) standard rating service (i.e., not less than a AAA long-term rating or equivalent rating);
- 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 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, (i.e., not less than an A- long-term rating 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;

- 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 at one (1) of the three (3) highest classifications established by at least two (2) standard rating services, (i.e., not less than an A- long-term rating or equivalent rating), 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;
- m)** Investments made in accordance with the Technology Development Act (30 ILCS 265/1 *et seq.*);
- 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; and
- o)** 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, (i.e., not less than an A- long-term rating or equivalent rating). At the time of purchase, the maturity or pre-refunded date(s) of the obligations authorized by this subsection shall not be less than 270 days and shall not exceed five (5) years.

7.0 INVESTMENT RESTRICTIONS

The following restrictions apply to the Treasurer when investing the State 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)** All qualified repurchase agreement dealers 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;
- d)** All qualified commercial paper 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 issuer must have a significant economic presence in the State of Illinois as determined by the Treasurer;

- e) All qualified 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 issuer must have a significant economic presence in the State of Illinois as determined by the Treasurer;
- f) 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);
- g) Asset-backed commercial paper is prohibited;
- h) 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;
- i) 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; and
- j) The authorization of the Treasurer to invest in new obligations under Section 6.0(o) of this Policy shall expire on June 30, 2019.

8.0 COLLATERALIZATION

The following shall apply:

- 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 set forth in the Securities Lending Agreement between the Treasurer and a financial institution ("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.

9.0 DIVERSIFICATION

The State 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 State Investment 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 State Investment Portfolio by distributing investments among authorized investment categories among financial institutions, issuers and broker/dealers.
- b) The State Investment Portfolio shall not hold time deposits that constitute more than 15% of any single financial institution's total deposits. Any deposits 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 other than community development deposits, described in Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7). Provided, however, that 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 State Investment Portfolio shall not contain investments that exceed the following diversification limits. These limits will apply to the total assets in the State Investment 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 6.0 of this Policy, no more than 55% of the State Investment Portfolio shall be invested in other investment categories;
 - ii. No more than one-third of the State Investment Portfolio shall be invested in commercial paper;
 - iii. As much as 40% of the State Investment 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 State Investment Portfolio shall be invested in foreign government securities, not to exceed a five (5) year maturity, as defined in Section 6.0(1) of this Policy;
 - v. No more than 55% of the State Investment Portfolio shall be allocated to investments greater than two (2) years and less than or equal to three (3) years;
 - vi. No more than 30% of the State Investment Portfolio shall be allocated to investments greater than three (3) years and less than or equal to four (4) years, not including foreign government securities;
 - vii. No more than 15% of the State Investment Portfolio shall be allocated to investments greater than four (4) years and less than or equal to five (5) years;

- viii. No more than 5% of the State Investment Portfolio shall be allocated to investments greater than five (5) years and no less than or equal to ten (10) years;
 - ix. There shall be no limit to the percentage of the State Investment Portfolio that may be allocated to investments with a 0- to 2-year maturity band; and
 - x. No more than 5% of the State Investment Portfolio shall be invested in obligations of corporations or limited liability companies as defined by Section 6.0(o) of this Policy.
- e) The investment portfolio 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.

10.0 CUSTODY AND SAFEKEEPING

The custody and safekeeping of collateral will be handled by Illinois financial institutions selected in compliance with the Treasurer's procurement rules at 44 Ill. Adm. Code 1400. Financial institutions selected by the Treasurer 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.

11.0 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 the Treasurer's Chief Internal Auditor for review. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, 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 6.0 of this Policy shall be approved by the Chief Investment Officer 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, investments in a new issue, and investments defined under Sections 6(a)-(b) of this Policy purchased from the agency discount window are exempt from this provision.
- c) **Certificates of Deposit:** Authorized investment officers shall purchase certificates of deposit on the basis of a qualified financial institution's ability to pay a required rate of interest to the Treasurer, which is established daily. Such rate is generally determined on the basis of treasury or other appropriate market rates for a comparable term.

12.0 LIMITATION OF LIABILITY

The standard of care to be used by authorized investment officers shall be the "prudent person" standard, which 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.

13.0 REPORTING

Monthly reports shall be presented by the Chief Investment Officer to the Investment Policy Committee 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 for safety, liquidity, rate of return, and diversification, and the general performance of the State Portfolio. The following information shall be included in the monthly reports:

- a) The total amount of funds held by the Treasurer;
- b) The asset allocation for the investments made by the Treasurer;
- c) The benchmarks established by the Treasurer;
- d) The 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) 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 Policy. Such reporting standards shall be in accordance with Generally Accepted Accounting Principles ("GAAP").

14.0 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 Investment Policy Committee on investment policy, investments, and investment related issues for the benefit of all Illinois citizens.

15.0 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 the State Investment 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 statute;

- b) The Treasurer reasonably believes that deviating from this Policy is in the best interest of the taxpayers; and
- 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;
 - iii. The Section or Sections of this Policy that were affected by the emergency or use of emergency powers; and
 - iv. The reason for invoking emergency powers resulting in the deviation from this Policy.

16.0 STATUTORY REFERENCES

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

17.0 AMENDMENTS

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

Appendix A

Investment Policy Statement for the State Investment Portfolio's Externally Managed Taxable Municipal Securities

1.0 POLICY

Under this instrument, the Illinois State Treasurer's Investment Policy for Externally Managed Taxable Municipal Securities ("Policy"), it is the policy of the Illinois State Treasurer's Office ("Treasurer") to invest all funds under its control in a manner that provides the highest investment return, using authorized instruments.

This Policy applies to all investments entered into by any of the Treasurer's external managers of taxable municipal securities on or after the adoption of this Policy.

2.0 OBJECTIVE

The primary objective in the investment of State funds by any external manager of taxable municipal securities is to ensure the safety of principal and provide the highest investment return, using authorized instruments.

2.1 Safety

The safety of principal is an objective of the investment program. Investments managed externally on behalf of the Treasurer 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 7.0 of this Policy, is required to ensure that the Treasurer prudently manages market, interest rate and credit risks.

2.2 Return on Investment

The investment portfolio shall be designed to obtain the highest available return, given the safety of principal objective. The external manager shall seek to obtain the highest available return, using the authorized investments set forth in Section 5.0 of this Policy.

The rate of return achieved on the externally managed funds shall be measured at regular intervals against the Bloomberg Barclays Intermediate US Treasury Index to determine the effectiveness of investment decisions in meeting the Treasurer's investment goals. The benchmark shall be reviewed annually by the Treasurer to ensure accuracy and relevance.

3.0 ETHICS AND CONFLICTS OF INTEREST

External managing firm employees making investment decisions on behalf of the Treasurer shall refrain from personal business activity that could conflict or give the appearance of a conflict with this Policy, or impair their ability to make impartial investment decisions. Any individuals with such a conflict or impairment shall disclose to the Treasurer any material conflicts of interest or impairment. If permitted by the Treasurer to proceed, 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 BROKERS/DEALERS

The external manager, on behalf of the Treasurer, shall seek to provide a preference to qualified brokers/dealers that provide proof of minority-, female-, disabled-, and/or veteran-owned or -managed status and brokers/dealers that provide proof that their corporate headquarters are located in the State of Illinois.

5.0 INVESTMENT PARAMETERS:

The Treasurer has authorized the purchase of taxable municipal securities, , subject to the provisions of the Deposit of State Moneys Act (15 ILCS 520/1 *et seq.*), the Public Funds Investment Act (30 ILCS 235/1 *et seq.*), and the following:

- a) Taxable municipal securities (“securities”) must be issued by any counties or municipal corporations of the State of Illinois;
- b) Securities must be interest-bearing and sold at a price that does not exceed par at the time of purchase;
- c) At a maximum, securities must have a maturity or pre-refunded date of ten (10) years from the time of purchase;
- d) Securities shall be rated within three (3) intermediate credit ratings of United States’ sovereign credit rating but not less than an A-, or an equivalent rating by at least one (1) accredited rating agency with nationally recognized expertise in rating bonds of states and their political subdivisions (“Rating Agency”), at the time of purchase;
- e) If the securities are credit enhanced with bond insurance policies, the external manager will apply the securities’ underlying credit ratings or bond insurer’ credit rating, whichever is greater. There will be no limit on the percentage of credit enhanced bonds with an underlying issuer rating not less than A-, or its equivalent by a Rating Agency, in the externally managed portfolio. For securities with credit enhancements with an underlying issuer rating below A-, or its equivalent by a Rating Agency, the external manager will not hold more than 10% of securities guaranteed by a single bond insurer in the externally managed portfolio. Only bond insurance policies issued by the following companies are permissible:
 - i. Assured Guaranty Municipal Corporation;
 - ii. Assured Guaranty Corporation;
 - iii. Build America Mutual; and
 - iv. National Public Finance Guarantee.
- f) Should a security be downgraded below A3/A-, the external managers will provide written notification to the Treasurer in order to determine the appropriate action (sell or hold) based on the perceived risk and expected return.

6.0 INVESTMENT RESTRICTIONS

The Treasurer's external investment managers may not invest in the following types of investments:

- a) Any investments not authorized by this Policy, any other investment policy of the Treasurer, or applicable law are prohibited; or
- b) Any investments prohibited by Section 22.6 of the Deposit of State Monies Act.

7.0 DIVERSIFICATION

The externally managed taxable municipal securities shall be diversified to mitigate the risk of loss resulting from concentration of assets in a specific maturity or a specific issuer. In order to properly manage any risk attendant to the investment of State assets, the external managers shall not deviate from the following diversification guidelines unless specifically authorized by the Treasurer in writing:

- a) The Treasurer's external managers shall seek to achieve diversification in the portfolio by distributing investments among issuers and broker/dealers and
- b) The externally managed taxable municipal securities shall not contain investments that exceed the lesser of 25% of an issuance or \$1,000,000.00.

8.0 INTERNAL CONTROLS

The Treasurer's external managers shall establish a system of internal controls and written operational procedures and share them with the Treasurer. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by authorized investment officers.

9.0 DUE DILIGENCE

The Treasurer's external managers will perform due diligence, including, but not limited to, research and financial analysis of taxable municipal securities and legal compliance with federal and State laws, rules, and regulations, and the Treasurer's investment policies.

10.0 RISK MANAGEMENT

The Treasurer's external managers will establish risk management protocols to mitigate risk, including but not limited to, credit risks, liquidity risks, market risks, operational risks, reputational risks, and legal risks for the Treasurer.

11.0 LIMITATION OF LIABILITY

External managing firm employees making investment decisions on behalf of the Treasurer shall use the "prudent person" standard, which shall be applied in the context of managing an overall taxable municipal securities portfolio. Such individuals who act in accordance with this Policy and exercise 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

The external investment manager shall present monthly reports to the Treasurer for review. The monthly reports shall contain sufficient information for the Treasurer to evaluate the investment portfolio; its effectiveness in meeting the Treasurer's standards for safety, liquidity, rate of return, and diversification; and the general performance of the portfolio. At a minimum, the following information shall be included in the monthly reports:

- a) Change in market value of the securities;
- b) Rating changes of the securities;
- c) Portfolio performance and characteristics;
- d) Benchmark comparison;
- e) Portfolio transaction detail and holdings, including any supporting research documentation; and
- f) Listing of all securities held with a rating less than A-, or equivalent, with supporting research documentation.

Appendix B

Investment Policy Statement for the State Investment Portfolio's Externally Managed Corporate Securities

1.0 POLICY

Under this instrument, the Illinois State Treasurer's Investment Policy for Externally Managed Corporate Securities ("Policy"), it is the policy of the Illinois State Treasurer's Office ("Treasurer") to invest all funds under its control in a manner that provides the highest investment return, using authorized instruments.

This Policy applies to all investments entered into by any of the Treasurer's external managers of corporate securities on or after the adoption of this Policy. The Treasurer's authorization to invest in corporate bonds shall expire on June 30, 2019.

2.0 OBJECTIVE

The primary objective in the investment of State funds by any external manager of corporate securities is to ensure the safety of principal and provide the highest investment return, using authorized instruments.

2.1 Safety

The safety of principal is an objective of the investment program. Investments managed externally on behalf of the Treasurer 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 7.0 of this Policy, is required to ensure that the Treasurer prudently manages market, interest rate, and credit risks.

2.2 Return on Investment

The investment portfolio shall be designed to obtain the highest available return, given the safety of principal objective. The external manager shall seek to obtain the highest available return, using the authorized investments set forth in Section 5.0 of this Policy.

The rate of return achieved on the externally managed funds shall be measured at regular intervals against the Bloomberg Barclay's U.S. Corporate A+ 1-3 Index to determine the effectiveness of investment decisions in meeting the Treasurer's investment goals. The benchmark shall be reviewed annually by the Treasurer to ensure accuracy and relevance.

3.0 ETHICS AND CONFLICTS OF INTEREST

External managing firm employees making investment decisions on behalf of the Treasurer shall refrain from personal business activity that could conflict or give the appearance of a conflict with this Policy, or impair their ability to make impartial investment decisions. Any individuals with such a conflict or impairment shall disclose to the Treasurer any material conflicts of interest or impairment. If permitted by the Treasurer to proceed, 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 BROKERS/DEALERS

The external manager, on behalf of the Treasurer, shall seek to provide a preference to qualified brokers/dealers that provide proof of minority-, female-, disabled-, and/or veteran-owned or -managed status and brokers/dealers that provide proof that their corporate headquarters are located in the State of Illinois.

5.0 INVESTMENT PARAMETERS

The Treasurer has authorized the purchase of corporate securities, subject to the provisions of the Deposit of State Moneys Act (15 ILCS 520/1 *et seq.*), the Public Funds Investment Act (30 ILCS 235/1 *et seq.*), and the following:

- a) Securities must be issued by corporations or limited liability companies (“securities/security”) organized in the United States that have a significant presence in the State of Illinois and assets exceeding \$500,000,000;
- b) At the time of purchase, the maturity of the securities shall not be less than 270 days and shall not exceed five years;
- c) Securities must be rated at the time of purchase by one of the three (3) highest classifications established by at least two (2) standard rating services, but not less than an A- long-term rating or equivalent;
- d) The corporation or limited liability company has not been placed on the list of restricted companies by the Illinois Investment Policy Board under Section 1-11.16 of the Illinois Pension Code;
- e) The Treasurer’s external managers will not purchase corporate bonds that are credit enhanced by mortgages or the collection of mortgages;
- f) Corporate bonds with credit enhancements based on tangible assets pledged as collateral for the bond will not exceed 20% of the overall externally managed portfolio; and
- g) Should a security be downgraded below A3/A- , or equivalent rating, the external managers will provide written notification to the Treasurer in order to determine the appropriate action (sell or hold) based on the perceived risk and expected return.

6.0 INVESTMENT RESTRICTIONS

The Treasurer’s external investment managers may not invest in the following types of investments:

- a) Any investments not authorized by this Policy, any other investment policy of the Treasurer, or applicable law are prohibited; or
- b) Any investments prohibited by Section 22.6 of the Deposit of State Monies Act.

7.0 DIVERSIFICATION

The externally managed corporate securities shall be diversified to mitigate the risk of loss resulting from concentration of assets in a specific maturity or a specific issuer. In order to properly manage any risk attendant to the investment of State assets, the external managers shall not deviate from the following diversification guidelines, unless specifically authorized by the Treasurer in writing:

- b) The Treasurer's external managers shall seek to achieve diversification in the portfolio by distributing investments among issuers and broker/dealers; and
- c) Purchases cannot exceed 10% of the corporation's or the limited liability company's outstanding obligations.

8.0 INTERNAL CONTROLS

The Treasurer's external managers shall establish a system of internal controls and written operational procedures and share them with the Treasurer. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by authorized investment officers.

9.0 DUE DILIGENCE

The Treasurer's external managers will perform due diligence, including, but not limited to, research and financial analysis of corporate securities and legal compliance with federal and State laws, rules, and regulations, and the Treasurer's investment policies.

10.0 RISK MANAGEMENT

The Treasurer's external managers will establish risk management protocols to mitigate risk, including but not limited to, credit risks, liquidity risks, market risks, operational risks, reputational risks, and legal risks for the Treasurer.

11.0 LIMITATION OF LIABILITY

External managing firm employees making investment decisions on behalf of the Treasurer shall use the "prudent person" standard, which shall be applied in the context of managing an overall corporate portfolio. Such individuals who act in accordance with this Policy and exercise 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

The external investment manager shall present monthly reports to the Treasurer for review. The monthly reports shall contain sufficient information for the Treasurer to evaluate the investment portfolio; its effectiveness in meeting the Treasurer's standards for safety, liquidity, rate of return, and diversification; and the general performance of the portfolio. At a minimum, the following information shall be included in the monthly reports:

- a) Change in market value of the securities;
- b) Rating changes of the securities;

- c) Portfolio performance and characteristics;
- d) Benchmark comparison;
- e) Portfolio transaction detail and holdings, including any supporting research documentation; and
- f) Listing of all securities held with a rating less than A3/A-, or equivalent, with supporting research documentation.