



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

1.0 POLICY:

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

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

2.0 OBJECTIVE

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

2.1 Safety

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

2.2 Liquidity

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

2.3 Return on Investment

The investment portfolio shall be designed to obtain the highest available return, given the objectives of safety of principal and liquidity. The state agency's designated investment officer 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 state agency 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 investment portfolio shall be measured at regular intervals against relevant industry benchmarks 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.

3.0 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 state agency any material financial interests in financial institutions that conduct business within the State, and they shall further disclose any personal financial investment positions that could be related to the performance of the investment portfolio. In addition, such individuals shall subordinate their personal investment transactions to those of the investment portfolio, particularly with regard to the time of purchases and sales.

4.0 AUTHORIZED BROKERS/DEALERS AND FINANCIAL INSTITUTIONS

The state agency 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 state agency'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 state agency and the diversification limits set forth in Section 8.0 of this Policy. No public deposit may be made, except in a qualified public depository, as defined by the Deposit of State Moneys Act (15 ILCS 520/*et seq.*).

In addition, the state agency 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 state agency's authorized representative 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 state agency'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 state agency.

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

5.0 AUTHORIZED AND SUITABLE INVESTMENTS

The state agency 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) 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.

6.0 INVESTMENT RESTRICTIONS

The following restrictions apply to the state agency when investing the funds of the state agency:

- 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 state agency's standards, which include mutual execution of a Master Repurchase Agreement adopted by the state agency;
- 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 state agency to invest in new obligations under Section 5.0(m) of this Policy shall expire on June 30, 2019.

7.0 COLLATERALIZATION

The following shall apply:

- a) All State deposits, repurchase agreements, and securities lending shall be secured as required by the state agency and provided for by the Deposit of State Moneys Act (15 ILCS 520) and the state agency's Acceptable Collateral Listing, which may change from time to time. The state agency may take possession and title to any securities held as collateral and hold such securities until it is prudent to dispose of them.

8.0 DIVERSIFICATION

The investment portfolio shall be diversified to 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 investment portfolio shall not deviate from the following diversification guidelines, unless specifically authorized by the Executive Management of the state agency in writing:

- a) The state agency shall seek to achieve diversification in the portfolio by distributing investments among authorized investment categories among financial institutions, issuers and broker/dealers.
- b) The 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 investment portfolio shall not contain investments that exceed the following diversification limits. These limits will apply to the total assets in the 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 5.0 of this Policy, no more than 55% of the investment portfolio shall be invested in other investment categories;
 - ii.** No more than one-third of the investment portfolio shall be invested in commercial paper;
 - iii.** As much as 40% of the 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 investment portfolio shall be invested in foreign government securities, not to exceed a five (5) year maturity, as defined in Section 5.0(1) of this Policy;
 - v.** No more than 55% of the 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 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 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 investment portfolio shall be allocated to investments greater than five (5) years and no less than or equal to ten (10) years;
 - viii.** There shall be no limit to the percentage of the investment portfolio that may be allocated to investments with a 0- to 2-year maturity band; and
 - ix.** No more than 5% of the investment portfolio shall be invested in obligations of corporations or limited liability companies as defined by Section 5.0(m) 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.

9.0 CUSTODY AND SAFEKEEPING

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

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

10.0 INTERNAL CONTROLS

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

- a) **Asset Allocation:** The allocation of assets within investment categories authorized under Section 5.0 of this Policy shall be approved by the state agency in writing.
- b) **Competitive Bidding:** Authorized investment officers shall obtain competitive bids from at least three (3) broker/dealers prior to executing the purchase or sale of any authorized investments. Reverse inquiry investments, investments in a new issue, and investments defined under Sections 5(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 state agency, which is established daily. Such rate is generally determined on the basis of treasury or other appropriate market rates for a comparable term.

11.0 LIMITATION OF LIABILITY

The standard of 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.

12.0 REPORTING

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

- a) The total amount of funds by book value and market value, held by the state agency;
- b) The asset allocation for the investments made by the state agency;
- c) The benchmarks established by the state agency, if any;

- d) Current and historic return information;
- e) Any circumstances resulting in a deviation from the standards established in Section 9.0 of this Policy; and
- f) The impact of any material change in investment policy adopted during the month.

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

13.0 EMERGENCY POWERS

In the event of an emergency, the Executive Management of the state agency may, subject to the express written approval of the Illinois State Treasurer's Office, invoke emergency powers and suspend any or all of the provisions of this Policy, provided that:

- a) The state agency shall, even in the event that emergency powers are invoked, comply with all State statutes governing the use and investment of the 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 state agency 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 state agency shall provide an explanation in writing to the Chief Internal Auditor of the state agency, a copy of which shall be posted on the state agency'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.

14.0 STATUTORY REFERENCES

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

15.0 AMENDMENTS

The Illinois State Treasurer's Office reserves the right to amend this Policy at any time.