

The ILLINOIS Funds

The Money Market Fund Investment Policy

1.0 POLICY:

The Illinois State Treasurer's Office ("Treasurer") has authority under Section 17 of the State Treasurer's Act (15 ILCS 505/17) to establish and administer an investment pool to supplement and enhance investment opportunities otherwise available to managers of public funds or public agencies in the state. It is the policy of the Treasurer to invest funds pooled by local governments in the Money Market Fund within The Illinois Funds (previously referred to as the Illinois Public Treasurers' Investment Pool or IPTIP) in a manner that will provide the highest investment return using authorized instruments, while meeting the daily cash flow demands of participants and conforming to 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 Money Market Fund is the safety of principal, while providing all participants a competitive rate of return and daily access to invested funds.

2.1 SAFETY:

The safety of principal is the foremost objective of the investment program. Money Market Fund 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 Money Market Fund properly manages market, interest rate and credit risk.

2.2 LIQUIDITY:

The investment portfolio shall remain sufficiently liquid to enable the Money Market Fund to meet all Participant redemption demands that might be reasonably anticipated.

2.3 RETURN ON INVESTMENT:

While the safety of principal and the availability of sufficient liquidity are the foremost objectives of the investment program, the investment portfolio shall be designed to obtain the highest available return. The Portfolio Manager shall seek to obtain the highest available return using authorized investments during budgetary and economic cycles as mandated in Section 1.0 of this Policy.

The Treasurer will select accepted industry benchmarks that best reflect the Money Market Fund's portfolio and measure performance against certain benchmarks over time. Benchmarks shall be reviewed at a minimum of every two years to ensure accuracy and relevance.

3.0 ETHICS AND CONFLICTS OF INTEREST:

Authorized investment staff and employees in policy-making positions for the Money Market Fund shall refrain from engaging in personal business activity that (a) conflicts, or give the appearance of a conflict, with proper execution of the investment program, or (b) impairs 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 Money Market Fund's portfolio. In addition, such individuals shall subordinate their personal investment transactions to those of the Money Market Fund, particularly with regard to the time of purchase 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 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 \$100,000. 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. 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, a list shall also be maintained of approved security brokers/dealers 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 and the extent to which the broker/dealer has a large labor or economic impact on the State. They 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 or 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 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 Questionnaire;
- f) Certification of notice and knowledge of this Policy; and
- g) Any other documentation determined necessary by the Treasurer.

The Treasurer's Office shall seek to accord preference to qualified brokers/dealers that provide proof of minority-, female-, disabled-, and/or veteran-owned status. The Treasurer's Office shall establish a process by which said specially designated statuses are verified, and a review shall be conducted at fixed intervals to ensure that special statuses continue to apply.

An annual review of the financial condition and registration of qualified 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 permitted investments of state funds according to the Deposit of State Moneys Act (15 ILCS 520/22.5) and the Public Funds Investment Act (30 ILCS 235/2) and are authorized to the extent they are approved by Standard & Poor's for AAAm rated funds:

- a) Bonds, notes, certificates of indebtedness, treasury bills or other securities now or hereafter issued that are guaranteed by the full faith and credit of the United States of America ("United States") as to principal and interest; Public Funds Investment Act (30 ILCS 235/2) and Deposit of State Moneys Act (15 ILCS 520/22.5);
- b) Bonds, notes, debentures, or similar obligations of the United States or its agencies; Public Funds Investment Act (30 ILCS 235/2) and Deposit of State Moneys Act (15 ILCS 520/22.5);
- c) Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986, subject to the provisions of such Act and the regulations

issued thereunder; Public Funds Investment Act (30 ILCS 235/2) and Deposit of State Moneys Act (15 ILCS 520/22.5);

- d) Short-term obligations of corporations organized in the United States with assets exceeding \$500,000,000 if (i) such obligations are rated at the time of purchase at one of the two highest classifications established by at least two standard rating services and that mature not later than 180 days from the date of purchase, (ii) such purchases do not exceed 10% of the corporation's outstanding obligations, and (iii) no more than one-third of the public agency's funds may be invested in short-term obligations of corporations and (iv) the corporation is not a forbidden entity as defined in Section 22.6 of the Deposit of State Moneys Act (15 ILCS 520/22.6); Public Funds Investment Act (30 ILCS 235/2) and Deposit of State Moneys Act (15 ILCS 520/22.5);
- e) Money market mutual funds registered under the Investment Company Act of 1940, provided the portfolio of any such money market mutual fund is limited to United States Treasury and United States Agency Securities and agreements to repurchase such obligations provided the funds are rated AAA; Public Funds Investment Act (30 ILCS 235/2) and Deposit of State Moneys Act (15 ILCS 520/22.5);
- f) Bonds, notes, debentures, or similar obligations of a foreign government, other than the Republic of Sudan (effective Jan 27, 2006), that are guaranteed by the full faith and credit of that government as to principal and interest, but only if the foreign government has not defaulted and has met its payment obligations for a period of at least 25 years immediately before the acquisition of those obligations; Deposit of State Moneys Act (15 ILCS 520/22.5);
- g) Bonds issued by counties or municipal corporations of the State of Illinois; Deposit of State Moneys Act (15 ILCS 520/22.5);
- h) 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.); Public Funds Investment Act (30 ILCS 235/2) and Deposit of State Moneys Act (15 ILCS 520/22.5); and
- i) Suitable securities in the Money Market Funds portfolio may be lent in accordance with the Federal Financial Institution Examination Council Guidelines.

6.0 INVESTMENT RESTRICTIONS:

The following restrictions will apply to all Money Market Fund investment transactions:

- a) Investments in derivative products and leveraging of assets through reverse repurchase agreements are prohibited;
- b) Repurchase agreements may only be executed with financial institutions or broker/dealers meeting the Treasurer's standards, which will include mutual execution of a Master Repurchase Agreement adopted by the Treasurer;
- c) There will be no investments in mortgage-backed securities of any kind;
- d) There will be no investments in asset-backed securities of any kind;
- e) Certificates of deposit may not be purchased from the Money Market Fund's custodial institution or any of its subcontractors;
- f) Investments in Bankers' Acceptances of any kind are prohibited; and
- g) There will be no investments prohibited by Section 22.6 of the Deposit of State Moneys Act (15 ILCS 520/22.6) shall be prohibited.

7.0 COLLATERALIZATION:

All Money Market Fund 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.

8.0 SAFEKEEPING AND CUSTODY:

All direct treasury, agency and instrumentality security transactions entered into by the Money Market Fund 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.

9.0 DIVERSIFICATION:

The primary purpose of diversification in general is to control credit and market risk. The Money Market Fund 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 Money Market Fund 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 Money Market Fund assets, The Money Market Fund portfolio will observe the following diversification limits, at the time of purchase:

The Money Market Fund will invest no more than 50% of its total assets in securities with maturities greater than 30 days issued by any single permissible United States Government Agency or Instrumentality;

The Money Market Fund will invest no more than 5% of its total assets in securities issued by any single Commercial Paper Issuer (calculated at the time of purchase);

- a) A maximum of 1/3 of the portfolio may be invested in direct Commercial Paper Obligations not to exceed 180 days to maturity at time of purchase;
- b) A maximum of 25% of total assets may be invested in any approved AAAM Money Market Fund;
- c) The Money Market Fund will seek to achieve diversification in the portfolio by reasonably distributing investments within authorized investment categories, and with issuers and brokers/dealers;
- d) The Money Market Fund shall at no time hold certificates of deposit constituting more than 10% of any single financial institution's total deposits; and
- e) The Money Market Fund shall invest a minimum of 75% of its assets in authorized investments of less than one-year maturity. No investment shall exceed two years maturity.

10.0 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, and/or imprudent actions by authorized investment staff of the Money Market Fund.

The Treasurer shall publish the current investment policy on The Illinois Funds website and in accordance with the Statutes.

11.0 ASSET ALLOCATION:

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

12.0 COMPETITIVE BIDDING:

Authorized investment staff shall obtain competitive bids from at least three brokers/dealers prior to executing repurchase agreements, purchasing United States Treasury securities, United States Government Agency or Instrumentality securities or Commercial Paper from a broker/dealer. Reverse inquiry investments and investments in a new issue 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.

13.0 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 relations to the Illinois Public Treasurers' Investment Pool.

14.0 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) Performance as compared to the established benchmark;
- b) Asset allocation;
- c) Any deviation from the standards established in Section 9.0 of this Policy;
- d) Any change in investment policy adopted during the quarter; and
- e) The average 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.

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 monies;
- b)** The Treasurer reasonably believes that deviating from the Policy is in the best interest of the participants;
- c)** Within 30 days of invoking emergency powers the Treasurer shall provide an explanation in writing to the Chief Internal Auditor and the Investment Policy Committee, a notice of which shall be posted on the Treasurer's website that includes:
 - i)** The date and time that the emergency powers were invoked;
 - ii)** The date and time that emergency powers were repealed, 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.

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