

**PROVISO TOWNSHIP SCHOOL TREASURER
TRUSTEES OF SCHOOLS
TOWNSHIP 39N RANGE 12E**

INVESTMENT POLICY

Revised: 7/9/2020

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I. Purpose/Scope

The purpose of this Investment Policy is to establish a clear understanding between the Proviso Township Trustees of Schools and financial institutions regarding investment objectives, goals and guidelines for the Trustees of Schools, to comply with Section 2.5 of the Public Funds Investment Act, 30 ILCS 235/2.5, and to obtain a maximized return within the confines of low risk tolerance. In this context funds should be managed in a prudent manner as it relates to such issues as rates of return, investment vehicles and diversification among individual investments.

- 1. Pooling of Funds.** Except for cash in certain restricted and special funds, the Trustees of Schools will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

II. General Objectives

The primary objectives, in priority order, of investment activities shall be safety, liquidity and yield:

- 1. Safety.** Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner which seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.
 - a. Credit Risk.** Credit risk is the risk of loss due to the failure of the security issuer or backer. The Trustees of Schools will minimize credit risk by:
 - Limiting investments to the safest types of securities/financial instruments;
 - Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the Trustees of Schools will do business; and
 - Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
 - b. Interest Rate Risk.** The Trustees of Schools will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity; and
 - Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.
2. **Liquidity.** The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities/financial instruments mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). A portion of the portfolio also may be placed in money market mutual funds or local government investment pools that offer same-day liquidity for short-term funds.
3. **Yield.** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. The goal of investment is to exceed the inflation rate as measured by the consumer price index (CPI) on an annualized basis. Securities shall not be sold prior to maturity with the following exceptions:
- A security with declining credit may be sold early to minimize loss of principal;
 - A security swap would improve the quality, income potential, or target duration in the portfolio; and
 - Liquidity needs of the portfolio require that the security be sold.
4. **Maintaining the Public Trust.** The investment officers shall seek to act responsibly as custodians of the public trust and shall avoid any transaction that might impair public confidence in the School Treasurer.

III. Standards of Care

1. **Prudence.** The standard of prudence to be used by the Trustees of Schools' treasurer shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. The treasurer acting in accordance with written procedures and this investment 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 the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

2. Ethics and Conflicts of Interest. The treasurer and employees of the treasurer's office involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Such employees and the treasurer shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial or investment positions that could be related to the performance of the investment portfolio. The treasurer or any employee having influence on the Trustees of Schools' investment decisions shall not:

- Have any interest, directly or indirectly, in any investments in which the Trustees of Schools are authorized to invest.
- Have any interest, directly or indirectly, in the sellers, sponsors, or managers of those investments.
- Receive, in any manner, compensation of any kind from any investments in which the Trustees of Schools is authorized to invest.

3. Delegation of Authority. The Board of Trustees of the Trustees of Schools hold the ultimate responsibility for the funds and the appropriateness of its investment policy and execution. The Board of Trustees:

- Defines investment policy, objectives and guidelines for the investments including risk tolerance;
- Reviews adequacy or need for change of this policy;
- Meets and reviews reports concerning asset management and performance; and
- Selects institutions authorized to accept fund assets.

Authority to manage the investment program is hereby granted by the Board of Trustees to the Trustees of Schools' treasurer. Responsibility for the operation of the investment program is hereby delegated to the treasurer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements as permitted under 30 ILCS 235/2(g), wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the treasurer. The treasurer shall:

- Be responsible for all transactions undertaken;
- Establish a system of controls to regulate the activities of subordinate

- officials and employees;
- Have full discretion of the management of the investments subject to the overall investment guidelines set by the Board of Trustees and state law;
- Serve as fiduciary responsible for specific security decisions;
- Ensure that all cash is productively employed at all times;
- Meet, as required with the Board of Trustees and provide reports relative to the status of the investments;
- Assist the Board of Trustees in developing investment policy guidelines; and
- Follow all legal and statutory requirements regarding investments.

IV. Safekeeping and Custody

1. **Authorized Financial Institutions.** Qualified and licensed financial institutions shall be selected which qualify as depositories/custodians under Illinois law. In making these selections, the Board of Trustees shall consider financial stability and strength of the institution and availability of financial data regarding the institution. A list will be maintained of the financial institutions authorized to provide investment services.

All financial institutions who desire to become qualified for investment transactions must submit written confirmation of receipt of this investment policy and certification of having read and understood and agreeing to comply with the Trustees of Schools' investment policy.

The treasurer will conduct an annual review of the financial condition of qualified financial institutions.

2. **Authorized Investment Advisors.** The treasurer, with the approval of the Board of Trustees may appoint investment advisors. The investment advisor shall be a fiduciary with respect to the security decisions and shall be one of the following:

- An investment advisor registered under the Federal Investment Advisors Act of 1940 (15 U.S.C. Section 80b-1 *et seq.*) and the Illinois Securities Law of 1953;
- A bank or trust company authorized to conduct a trust business in Illinois;
- A life insurance company authorized to transact business in Illinois; or
- An investment company as defined and registered under the Federal Investment Company Act of 1940 (15 U.S.C. Section 80A-1 *et seq.*) and registered under the Illinois Securities Law of 1953.

The investment advisor shall be a person who:

- Has the power to manage, acquire, or dispose of any security;
- Has knowledge in writing that he or she is a fiduciary with respect to the Trustees of Schools' securities; and
- Is at least one of the following: (i) registered as an investment advisor under

the Federal Investment Advisors Act of 1940 (15 U.S.C. 80b-1 *et seq.*); (ii) registered as an investment advisor under the Illinois Securities Law of 1953; (iii) a bank, as defined in the Investment Advisors Act of 1940; or (iv) an insurance company authorized to transact business in this Illinois.

All investment advice and services provided by an investment advisor so appointed shall be rendered pursuant to written contract between the investment advisor and the Trustees of Schools, and in accordance with the Trustees of Schools' investment policy. The contract shall include all of the following:

- Acknowledgment in writing by the investment advisor that he or she is a fiduciary with respect to the Trustees of Schools' securities;
- The Trustees of Schools investment policy;
- Full disclosure of direct and indirect fees, commission, penalties, and any other compensation that may be received by the investment advisor, including reimbursement for expenses; and
- A requirement that the investment advisor submit periodic written reports, on at least a quarterly basis, for the Board of Trustees' regularly scheduled meetings. All returns on investments shall be reported as net returns after payment of all fees, commissions, and any other compensation.

- 3. Internal Controls.** The treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Trustees of Schools are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits require estimates and judgments by management.

Accordingly, the treasurer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following:

- Control of collusion;
- Separation of transaction authority from accounting and recordkeeping;
- Custodial safekeeping;
- Avoidance of physical delivery securities;
- Clear delegation of authority to subordinate staff members;
- Written confirmation of transactions for investment and wire transfers; and
- Development of a wire transfer agreement with the lead bank and third party custodian.

All investments shall be clearly held and accounted for to indicate ownership by the Trustees of Schools.

Custody at a national brokerage firm is allowed if the account is insured by the

Security Investor Protection Corporation (SIPC). Additional amounts of insurance will be necessary to cover the total investment value of the funds. Funds invested in institutions insured by the FDIC including CDs must be fully collateralized, except for Negotiable CDs that are rated at the time of purchase at one of the 3 highest classifications (single A or better) established by at least 2 standard rating services and are on the Approved List of the contracted Investment Advisor who is acting as a Fiduciary

V. Suitable and Authorized Investments

1. Investment Types. The following investments, as detailed in Exhibit A will be permitted by this policy and as limited by the Public Funds Investment Act, 30 ILCS 235/2 and the Investment of Municipal Funds Act, 50 ILCS 340, where applicable:

- Interest bearing U.S. government bonds, notes, certificates of indebtedness, treasury bills or other securities now or hereafter issued;
- U.S. government obligations and U.S. government agency obligations in the form of bonds, notes, debentures or other similar obligations, including its instrumentalities;
- Interest-bearing savings accounts, certificates of deposit, time deposits or any other investments constituting direct obligations of any bank as defined by the Illinois Banking Act;
- 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 3 highest classifications established by at least 2 standard rating services and which mature not later than 3 years 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 Trustees of Schools' funds may be invested in short term obligations of corporations;
- Money market mutual funds registered under the Investment Company Act of 1940;
- Interest bearing county, township, city, village, incorporated town, and school district bonds;
- FDIC insured banks, short term discount obligations of the Federal National Mortgage Association, securities issuable by savings banks or savings and loan associations insured by the FDIC; insured dividend-bearing share accounts or class of share accounts of a credit union chartered under the laws of Illinois or the United States but having the principal office located within Illinois;
- Public Treasurers' Investment Pool created under Section 17 of the State Treasurer Act, funds managed, operated and administered by a bank, subsidiary of a bank, or subsidiary of a bank holding company;
- The Illinois Trust, Local Government Investment Pools
- The Illinois School District Liquid Asset Fund (ISDLAF).
- Tax anticipation warrants and municipal bonds meeting the requirements of

- the Investment of Municipal Funds Act (50 ILCS 340); and
- Repurchase Agreements as defined below.

2. Repurchase Agreements. The Trustees of Schools may purchase or invest in repurchase agreements of government securities having the same meaning set out in the Government Securities Act of 1986, subject to the provisions of the Act and the regulations issued thereunder. The government securities, unless registered or inscribed in the name of the Trustees of Schools, shall be purchased through banks or trust companies authorized to do business in Illinois. Except for such repurchase agreements, the Trustees of Schools may not purchase or invest in instruments which constitute repurchase agreements unless the instrument and transaction meet the requirements set forth in 30 ILCS 235/2(h)(1) - (11).

3. Collateralization. Collateralization of funds through pledging of appropriate securities by depositories is the only way to fully guarantee the safety of deposits. Collateralization of assets insured by the FDIC should be in writing; executed by the depository and any person claiming an adverse interest, contemporaneously with the acquisition of the asset by a depository; approved by the board of directors of the depository; and kept continuously from the time of execution as an official record of the depository.

Eligible collateral instruments are any investment instruments acceptable under and subject to the conditions set forth in Sections 6(d) through 6(g) of the Illinois Public Funds Investment Act, 30 ILCS 235/6(d) - 6(g). The collateral must be placed in safekeeping at or before the time the treasurer places the deposits with the bank so that it is evident that the purchase of the investment is predicated on the securing of collateral.

Third party safekeeping is required for all collateral. To accomplish this, the pledged securities will be held at a safekeeping depository, separate from the bank where the deposits are placed, as approved from time to time by the treasurer.

4. Derivatives. Investment products that are considered as derivatives are specifically excluded from approved investments.

VI. Investment Parameters

1. Diversification. The investments shall be diversified by:

- Limiting investments to avoid over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities);
- Limiting investment in securities that have higher credit risks;
- Investing in securities with varying maturities; and
- Continuously investing a portion of the portfolio in readily available funds,

such as Local Government Investment Pools (LGIP's) or money market funds, to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

2. **Maximum Maturities.** To the extent possible, the Trustees of Schools shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Trustees of Schools will not directly invest in securities maturing more than five (5) years from the date of purchase or in accordance with Illinois law. The Trustees of Schools shall adopt weighted average maturity limitations (which often range from 90 days to 3 years), consistent with the investment objectives.

Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five (5) years if the maturity of such investments are made to coincide as nearly as practicable with the expected use of funds.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds, such as Local Government Investment Pools (LGIP's) or money market funds, to ensure that appropriate liquidity is maintained to meet ongoing obligations.

Any limitations on the maturity length of investments, identified throughout this investment policy will be calculated and/ or evaluated based on the original cost of each investment at the time of purchase, based on settlement date, of the security in determining compliance with the investment policy.

3. **Credit Quality & Sector Allocation Limits.** Any rating requirements and sector allocation limits, identified throughout this investment policy will be calculated and/or evaluated based on the original cost of each investment at the time of purchase, based on the purchase date, of the security in determining compliance with the investment policy.
4. **Sustainable Investing.** The Trustees of Schools will regularly consider any material, relevant, and decision-useful sustainability factors, within the bounds of financial and fiduciary prudence, in evaluating investment decisions. Such factors include, but are not limited to: (i) corporate governance and leadership factors; (ii) environmental factors; (iii) social capital factors; (iv) human capital factors; and (v) business model and innovation factors, as provided under the Illinois Sustainable Investing Act

VII. Reporting

1. **Methods.** The treasurer shall prepare an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio, transactions made over the last quarter, and a statement of the market value of the portfolio at the end of that quarter. This management

summary will be prepared in a manner which will allow the Trustees of Schools to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report shall be provided to the Board of Trustees. The report will include the following:

- Listing of individual securities held at the end of the reporting period.
 - Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements).
 - Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
 - Listing of investment by maturity date.
 - Percentage of the total portfolio which each type of investment represents.
2. **Performance Standards.** The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis.

VIII. Policy Considerations.

1. **Exemption.** Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.
2. **Amendments.** This policy shall be reviewed by the treasurer on an annual basis. Any changes must be approved by the Board of Trustees. The treasurer will notify the Board of Trustees at the annual meeting that the Board is in compliance with applicable law and that there have been no major changes or amendments to the applicable law within the foregoing year that would affect such compliance.

A copy of the Trustees of Schools' Investment Policy shall be kept on file in the Trustees of Schools' ex-officio clerk's office and made available to the public during normal business hours.

Exhibit A

Investment Limits and Specifications

Sector	Sector Maximum (%)	Per Issuer Maximum (%)	Minimum Ratings Requirement ¹	Maximum Maturity
U.S. Treasury	100%	100%	N/A	5.5 Years (5.5 year avg. life ⁵ for GNMA)
GNMA		40%		
Other U.S. Government Guaranteed (e.g., AID, GTC)		10%		
U.S. Federal Agency/GSE: FNMA, FHLMC, FHLB, FFCB	75%	40% ⁴	N/A	5.5 Years
U.S. Federal Agency/GSE other than those above		10%		
U.S. instrumentalities (including supranational securities where the U.S. is a shareholder and voting member)	30%	10%	Highest ST or Two Highest LT Rating Categories (A-1/P-1, AA-/Aa3, or equivalent)	5.5 Years
U.S. dollar denominated corporate obligations of domestic issuers	33.3% ²	5% ³	Highest ST (A-1/P-1, or equivalent) or Three Highest LT Rating Categories (A-/A3 or equivalent)	3 Years
Municipals	50%	5%	Highest ST or Three Highest LT Rating Categories (SP-1/MIG 1, A-/A3, or equivalent)	5.5 Years
U.S. Agency Mortgage-Backed Securities ("MBS")	50%	40% ⁴	N/A	5.5 Year Avg. Life ⁵
Negotiable Bank Certificates of Deposit (by banks which are insured by the FDIC)	50% ²	5% ³	Highest ST or Three Highest LT Rating Categories (A-1/P-1, A-/A3, or equivalent)	5.5 Years
Secured Bank Deposits	50%	None, if fully secured	None, if fully secured.	2 Years
FDIC-Insured Bank Deposits	25%	FDIC limit for insurance	None, if fully FDIC-insured.	2 Years
Repurchase Agreements	40%	20%	Counterparty (or if the counterparty is not rated by an NRSRO, then the counterparty's parent) must be rated in the Highest ST Rating Category (A-1/P-1, or equivalent); if the counterparty is a Federal Reserve Bank, no rating is required	330 Days
Money Market Funds ("MMF")	100%	25%	Highest Fund Rating by all NRSROs who rate the fund (AAAm/Aaa-mf, or equivalent)	N/A
Illinois Funds	100%	75%		N/A
Illinois Trust local government investment pools	100%	75%		N/A
Illinois School District Liquid Asset Fund	100%	75%		N/A

Notes:

¹ Rating by at least two SEC-registered Nationally Recognized Statistical Rating Organization ("NRSRO"), unless otherwise noted. ST=Short-term; LT=Long-term.

² Maximum allocation to non-federal government or federal agency / GSE securities is 75% combined.

³ Maximum across all non-government permitted investment sectors (excluding Treasuries, U.S. Federal Agencies and Agency MBS) is 5% combined per issuer.

⁴ Maximum exposure to any one federal agency, including the combined holdings of Agency debt and Agency MBS, is 40%.

⁵ The maturity limit for Agency MBS is based on the expected average life at time of purchase, measured using Bloomberg or other industry standard methods.

⁶ All limits and rating requirements apply at time of purchase; maturity and average life are measured from the settlement date.