

# **Investment Policy**

## **Madison County Treasurer's Office**

### **I. Scope**

This policy applies to the investment of all operating funds of Madison County, Illinois under the jurisdiction of the Madison County Treasurer. This policy will also apply to any new funds or temporary funds placed under the jurisdiction of the Madison County Treasurer. The Illinois Compiled Statutes will take precedence except where this policy is more restrictive wherein this policy will take precedence. All transactions involving the financial assets and related activity of the foregoing funds shall be administered in accordance with the provisions of this policy.

#### **1. Pooling of funds**

Except for cash in certain restricted and special funds, the Madison County Treasurer 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.

#### **2. External Management of Funds**

Investment through external programs, facilities and professionals operating in a manner consistent with this policy will constitute compliance.

### **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 that 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**

The Madison County Treasurer will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the Madison County Treasurer will do business.
- Diversifying the portfolio so that potential losses on individual securities will be minimized.

**b. Interest Rate Risk**

The Madison County Treasurer 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.
- Investing operating funds primarily in shorter-term securities.

**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 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 bank deposits or repurchase agreements or overnight investments 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. Securities shall not be sold prior to maturity with the following exceptions:

- A security with declining credit may be sold early to minimized loss of principal.
- A security swap would improve the quality, yield, or target duration in the portfolio.
- Liquidity needs of the portfolio require that the security be sold.

### **III. Standards of Care**

#### **1. Prudence**

The standard of care to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall 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 fashion to the governing body 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**

Officers and employees 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. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio.

#### **3. Delegation of Authority**

Responsibility for the operation of the investment program is hereby delegated to the investment officers, who shall act in a manner consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officers. The investment officers shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

#### **IV. Investment Transactions**

##### **1. Authorized Financial Dealers and Institutions**

A list will be maintained of financial institutions authorized to provide investment transactions.

##### **2. Internal Controls**

The investment officer is responsible for establishing and maintaining an internal control structure that will be reviewed annually with Madison County, Illinois' independent auditor. The internal control structure shall be designed to ensure that the assets of Madison County, Illinois are protected from loss, theft or misuse and to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits require estimates and judgments by management.

The internal controls shall address the following points:

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

#### **V. Suitable and Authorized Investments**

##### **1. Investment Types**

In accordance with and subject to restrictions imposed by current statutes, the following list represents the entire range of investments that Madison County, Illinois will consider and which shall be authorized for the investment of funds by the Madison County Treasurer.

- a. United States Treasury Securities. The Madison County Treasurer may invest in obligations of the United States government for which the full faith and credit of the United States are pledged for the payment of principal and interest.
- b. United States Agency Securities. The Madison County Treasurer may invest in obligations issued or guaranteed by an agency of the United States Government as described in V. (2).

- c. Repurchase Agreements. The Madison County Treasurer may enter into repurchase agreements with financial institutions provided that the parties to the agreement have executed a written master repurchase agreement, which has been signed by both parties, before entering into the transaction. The agreement will outline the basic responsibilities of both the buyer and the seller and should extend for periods of 330 days or less. All repurchase agreements will consist of securities which are direct obligations of, or obligations guaranteed as to principal or interest by, the United States of America, securities which are issued by or guaranteed by a corporation in which the United States has a direct or indirect interest and which are designated by the Secretary of the Treasury for exemption, or securities issued by any corporation, the securities of which are designated by statute as exempt securities within the meaning of the laws administered by the Securities and Exchange Commission. The market value of the securities received should equal at least 110% of the amount of the cash transferred. The purchaser in a repurchase agreement (repo) enters into a contractual agreement to purchase U.S. Treasury and government agency securities while simultaneously agreeing to resell the securities at predetermined dates and prices.
- d. Direct Obligations of Banks and Savings Institutions. The Madison County Treasurer may invest in direct obligations of banks doing business in Illinois and savings banks or savings and loan associations incorporated under the laws of the State of Illinois or any other state. These instruments include interest-bearing savings accounts, interest-bearing certificates of deposit or interest-bearing time deposits or any other investments constituting direct obligations of banks and savings institutions. In all instances these types of investments shall be federally insured or collateralized for that amount which exceeds the limits of the federal insurance.
- e. Bankers' Acceptances. Time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances. The Madison County Treasurer may invest in bankers' acceptances issued by domestic commercial banks possessing the highest rating issued by Moody's Investor Services, Inc. or Standard and Poor's Corporation.
- f. Commercial Paper. The Madison County Treasurer may invest in commercial paper issued by domestic corporations, which has received the highest rating issued by Moody's Investor Services, Inc. or Standard and Poor's Corporation. Eligible paper is further limited to issuing corporations that have total assets in excess of five hundred million dollars (\$500,000,000).

- g. Money Market Mutual Funds. The Madison County Treasurer may invest in money market mutual funds provided that the portfolio of any such money market mutual fund is limited to obligations that meet one of the following three criteria:
  - a) bonds, notes, certificates of indebtedness, treasury bills or other securities which are guaranteed by the full faith and credit of the United States of America as to principal and interest or obligations of the United States;
  - b) bonds, notes, debentures, or other similar obligations of the United States or its agencies; or
  - c) Agreements to repurchase such obligations.
- h. Illinois Public Treasurers' Investment Pool. The Madison County Treasurer may invest funds in the Investment Pool to take advantage of the ability to invest for short periods of time.
- i. Credit Union Investment Accounts. The Madison County Treasurer may invest in insured dividend-bearing share accounts, share certificate accounts, and any other class of share accounts. The credit union must be chartered under United States or Illinois law, and must be insured with either the National Credit Union Administration or with other insurers jointly approved by the Directors of the Illinois Department of Financial Institutions and the Department of Insurance. Also, the credit union's principal office must be located in Illinois.
- j. Municipal Bonds. The Madison County Treasurer may invest in municipal bonds, both taxable and tax-exempt. The bonds shall be rated at the time of purchase within the 4 highest general classifications established by a rating service of nationally recognized expertise in rating bonds of states and their political subdivisions.
- k. Local Government Investment Pools. The Madison County Treasurer may invest funds in local government investment pools, including Illinois Trust, IIIT Class, Illinois Trust TERM and the Illinois Metropolitan Investment Fund.

**2. Security Selection**

The following list represents the entire range of United States Agency Securities that the Madison County Treasurer will consider and which shall be authorized for the investment of funds by the Madison County Treasurer.

Additionally, the following definitions and guidelines should be used in purchasing the instruments:

- a. U.S. Govt. Agency Coupon and Zero Coupon Securities. Bullet coupon bonds with no embedded options.
- b. U.S. Govt. Agency Discount Notes. Purchased at a discount with maximum maturities of one (1) year.
- c. U.S. Govt. Agency Callable Securities. Restricted to securities callable with maximum final maturities of seven and one half (7.5) years.
- d. U.S. Govt. Agency Step-Up Securities. The coupon rate is fixed for an initial term. At coupon date, the coupon rate rises to a new, higher fixed term. Restricted to securities with maximum final maturities of seven and one half (7.5) years.

**3. Investment Restrictions and Prohibited Transactions**

To provide for the safety and liquidity of Madison County, Illinois' funds, the investment portfolio will be subject to the following restrictions:

- a. Borrowing for investment purposes ("Leverage") is prohibited.
- b. Instruments known as Structured Notes (e.g. inverse floaters, leveraged floaters, and equity-linked securities) are not permitted. Investment in any instrument, which is commonly considered a "derivative" instrument (e.g. options, futures, swaps, caps, floors, and collars), is prohibited.
- c. Contracting to sell securities not yet acquired in order to purchase other securities for purposes of speculating on developments or trends in the market is prohibited.

**4. Collateralization**

It is the policy of the Madison County Treasurer to require some form of collateral to protect public deposits in a single financial institution if it were to default for some reason such as poor management or economic factors. All federally and non-federally insured institutions must fully collateralize deposits using instruments and collateral ratios (market value divided by amount deposited) as follows:

- a. Bonds, notes, or other securities constituting direct and general obligations of the United States

- b. Bonds, notes, or other securities constituting an obligation of any agency of the United States
- c. Direct and general obligation bonds of any state
- d. Direct and general obligation bonds of any city, town, county, school district, or other taxing body of any state, the debt service of which is payable from general ad valorem taxes
- e. Letters of credit issued by the Federal Home Loan Bank of Chicago in an amount equal to 110% of that amount of funds deposited exceeding the insurance limitation provided by the Federal Deposit Insurance Corporation or National Credit Union Administration

Municipal bonds shall be registered in the name of the municipality or county or held under a custodial agreement as described in the section Safekeeping of Collateral. The bonds shall be rated at the time of the purchase within the three (3) highest general classifications established by a rating service of nationally recognized expertise in the rating of bonds of states and their political subdivisions.

The collateral ratio required under the terms and conditions of any repurchase agreement into which Madison County shall enter shall be one-hundred and five percent (105%). The Collateral Ratio shall apply to the market value of eligible collateral as determined by the Madison County Treasurer.

The Madison County Treasurer, or his designee, shall review monthly the collateral ratios to the amount of funds secured. The Treasurer will request additional collateral when the ratio declines below the level required.

Collateral Pledge Schedule (Banks)

Based upon a commercial bank's Tier I Risk-Based Capital Ratio as describe above, the commercial bank shall pledge collateral on its accounts using the following collateral ratio schedule:

<b>Tier I Risk-Based Capital Ratio</b>	<b>Required Collateral Pledge</b>
10% and above	102%
9.0 – 9.9%	104%
8.0 – 8.9%	104%
7.0 – 7.9%	106%
6.0 – 6.9%	106%
5.0 – 5.9%	108%
4.0 – 4.9%	108%
3.0 – 3.9%	110%
0.0 – 2.9%	110%



### Collateral Pledge Schedule (Credit Unions)

Based upon a credit union's Net Worth Ratio as describe above, the credit union shall pledge collateral on its accounts using the following collateral ratio schedule:

<b>Tier I Risk-Based Capital Ratio</b>	<b>Required Collateral Pledge</b>
10% and above	102%
9.0 – 9.9%	104%
8.0 – 8.9%	104%
7.0 – 7.9%	106%
6.0 – 6.9%	106%
5.0 – 5.9%	108%
4.0 – 4.9%	108%
3.0 – 3.9%	110%
0.0 – 2.9%	110%

### SAFEKEEPING OF COLLATERAL

Third-party safekeeping is required for all collateral. To accomplish this, a security can be held at the following locations:

1. A Federal Reserve Bank or branch office
2. Another custodial facility, generally in a trust department through book-entry at the Federal Reserve, unless physical securities are involved
3. By an escrow agent of the pledging institution

The Madison County Treasurer shall have a *depository contract and pledge agreement* with each safekeeping bank that will comply with the Financial Institutions, Reform, Recovery, and Enforcement Act of 1989 (FIRREA). This will ensure that the Madison County Treasurer's security interest in collateral pledged to secure deposits is enforceable against the receiver of a failed financial institution.

## **VI. Investment Parameters**

### **1. Diversification**

The investments shall be diversified to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and periodically reviewed.

**2. Maximum Maturities**

To the extent possible, the Madison County Treasurer shall attempt to match its investments with anticipated cash flow requirements. Investments in bankers' acceptances and commercial paper shall mature and become payable not more than one hundred eighty days (180) from the date of purchase. All other investments shall mature and become payable not more than seven and one half (7.5) years from the date of purchase. The Madison County Treasurer shall adopt weighted average maturity limitations that should not exceed four (4) years and is consistent with the investment objectives.

**VII. Reporting**

**1. Methods**

The investment officers shall prepare an investment report monthly, including a management summary that provides an analysis of the status of the current investment portfolio. This management summary will be prepared in a manner that will allow the Madison County Treasurer to ascertain whether investment activities during the reporting period have conformed to the policy. The monthly report will be provided to the Madison County Board, and 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 (in accordance with Government Accounting Standards Board (GASB) 31 requirements). [Note: this is only required annually]
- Listing of investment by maturity date.

**2. Performance Standards**

This 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 may be established against which portfolio performance shall be compared on a regular basis.

Commercial paper and bankers' acceptances must be reviewed monthly to determine if the rating level has changed. The commercial paper and bankers' acceptances should be reviewed for possible sale if the securities are downgraded below the minimum acceptable rating levels.

**3. Mark to Market**

The market value of the portfolio shall be calculated monthly and a statement of the market value of the portfolio shall be issued to the Madison County Board. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed.

**VIII. Policy Considerations**

**1. Exemption**

Any investment currently held that does not meet the guidelines of this policy shall be exempt from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

**2. Adoption**

This policy shall be filed with the Madison County Board. The policy shall be reviewed annually by the investment officers and policy revisions or amendments will be filed with the Madison County Board for consideration.

Attested to:  **Chris Slusser**, Madison County Treasurer

**Date: July 23, 2018**