O'Fallon ILLINOIS

INVESTMENT POLICY

Purpose

The purpose of this investment policy (Policy) is to formalize the framework for the investment activities of the City of O'Fallon, Illinois (City). This Policy applies to all of the City's financial assets and is intended to be broad enough to allow the City to function properly within the parameters of responsibility and authority, while adequately safeguarding such assets. All transactions involving the City's financial assets, and related activity, shall be administered and conducted in accordance with this Policy.

I. Responsibility

A. Governing Body: The City Council shall retain ultimate fiduciary responsibility. The City Council shall receive quarterly reports at the Finance and Administration Committee meeting and shall approve changes to the investment policy as recommended by the Investment Committee.

B. Investment Officer: Authority to manage the investment program is granted to the Director of Finance in consultation with the Investment Committee hereinafter referred to as investment officer as designated by 30 ILCS 235/2.5(a)(7). Management responsibility for the operation of the investment program is hereby delegated to the Director of Finance.

II. Rules and Procedures

A. Scope

This Policy applies to the investment activities of the City with regard to the financial assets of all funds, with the following exceptions:

1. The City of O'Fallon Police Pension Fund is governed by the O'Fallon Police Pension Board and has a separate investment policy.
2. The City of O'Fallon Fire Pension Fund is governed by the O'Fallon Fire Pension Board and has a separate investment policy
3. The City of O'Fallon Library Fund is governed by the Library Board who make their own investment decisions.
4. Funds set aside to decrease City debt in conjunction with a refunding agreement shall be invested in accordance with appropriate bond documents and not necessarily in compliance with this Policy. Should bond covenants be more restrictive than this Policy, funds shall be invested in full compliance with those restrictions.

II. Rules and Procedures (Continued)

A. Scope (Continued)

The following funds are accounted for in the City's Comprehensive Annual Financial Report (Audit) and are covered under this Policy:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Enterprise/Proprietary Funds
- Any new fund created, unless specifically exempted above

Except for cash and investments in certain restricted and special funds, the City commingles its cash and investments to maximize investment earnings and to increase efficiencies with regard to pricing, safekeeping, and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with accounting principles generally accepted in the United States of America (United States).

B. General Objectives

The primary objectives (Objectives), in order of priority, of all investment activities involving the financial assets of the City shall be:

1. Safety: Safety shall be the foremost objective of this Policy and refers to the preservation of capital and protection of investment principal. City investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the City's overall portfolio by mitigating credit and interest rate risk.

   a. Credit Risk: Credit risk is the risk that an issuer of a debt security will not pay its par value upon maturity. The goal shall be to minimize credit risk by:

      - Limiting investments to the types of securities identified in Article III, Section F of this Policy; and

      - Diversifying the Portfolio in accordance with Article III, Section H of this Policy, so that potential losses on individual securities will be minimized. Diversification reduces the risk that potential losses on individual securities might exceed the income generated from the remainder of the Portfolio.

   b. Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The goal shall be to minimize interest rate risk by:
      - Structuring the 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 markets, or similar investment pools.

II. Rules and Procedures (Continued)

B. General Objectives (Continued)

2. Liquidity: The Portfolio shall maintain sufficient liquidity to enable the City to meet all operating requirements and expected liabilities which may be reasonably anticipated in any City fund. This is accomplished by structuring the portfolio so that securities or other allowable investments mature concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should provide adequate liquidity to meet unexpected cash needs. Liquidity can be achieved utilizing securities with active secondary markets, money market accounts and/or savings deposit accounts offering daily liquidity, or other liquid options acceptable under State statute.

3. Return on Investments: The Portfolio shall be designed to obtain a reasonable return, which for the purposes of this Policy means the Portfolio should obtain a market-average rate of return in accordance with Article III, Section K of this Policy, taking into account the City's investment risk constraints and cash flow needs of the City's funds.

C. Standards of Care

1. Prudence: The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investments and deposits of public funds shall be made with judgment and care under the 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. City officers and employees acting in accordance with this Policy, and any other written procedures, and exercising due diligence shall be relieved of personal liability for an individual security's credit risk or market changes, provided that officers and employees report deviations from expectations in a timely fashion and take appropriate action to control adverse developments.

2. Maintaining the Public Trust: All participants in the investment process shall seek to act responsibly as custodians of the public trust and shall avoid any transaction that might impair public confidence in the City.

3. Ethics and Conflicts of Interest: Officers and employees of the City who are involved in the investment process shall refrain from personal business activity that could conflict with proper execution and management of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Council any material interests in financial institutions with which they conduct business. They shall further disclose any material personal financial or investment positions that could be related to the performance of the Portfolio. Employees and officers shall subordinate their personal investment transactions to those of the City, particularly with regard to the timing of purchases and sales.

II. Rules and Procedures (Continued)

D. Authorized Financial Institutions

Financial institutions may include depositories, investment advisors, broker/dealers, and local government investment pools as authorized in this Policy. Financial institutions who desire to become qualified for transactions must provide certification of having read and understood this Policy, agree to comply with this Policy, and ensure all investments proposed for purchase shall conform to this Policy and applicable State statutes. Selection of financial institutions authorized to engage in transactions with the City shall be at the sole discretion of the City. Financial institutions shall be selected based on financial condition, proper registration, level of service, experience with Illinois municipalities, and competitive pricing. Whenever possible, the City shall maintain operating and investment accounts in financial institutions within the City of O'Fallon.

All depositories shall be insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA) and may consist of banks, savings and loan associations, and credit unions. All financial institutions who desire to become designated depositories must supply the following (as appropriate):

- Audited financial statements
- Proof of state registration
- Evidence of adequate insurance coverage

All investment advisors shall be registered under the Investment Advisors Act of 1940. All financial institutions who desire to become designated investment advisors must supply the following (as appropriate):

- Audited financial statements
- Securities and Exchange Commission (SEC) Form ADV – Parts 1 and 2
- Proof of state or SEC registration as appropriate
- Evidence of adequate insurance coverage

All broker/dealers shall be insured by the Securities Investor Protection Corporation (SIPC). All financial institutions who desire to become designated broker/dealers must supply the following (as appropriate):

- Audited financial statements
- Proof of Financial Industry Regulatory Authority (FINRA) certification
- Proof of state registration
- Evidence of adequate insurance coverage

A periodic review of the financial condition and registration of all designated financial institutions shall be conducted by the Director of Finance, or his or her designee.

Any financial institution selected by the City of O'Fallon may be requested to provide cash management services, including but not limited to: checking accounts, wire transfers, purchase and sale of investment securities and safekeeping services. Fees for banking services shall be mutually agreed to by an authorized representative of the financial institution and the Director of Finance of the City.

II. Rules and Procedures (Continued)

E. Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities shall be held by a third-party custodian designated by the Director of Finance and evidenced by safekeeping receipts.

F. Authorized Investments

The City is empowered by statute to invest in the following:

1. Bonds, notes, certificates of indebtedness, treasury bills or other securities now or hereafter issued, which are guaranteed by the full faith and credit of the United States as to principal and interest;

2. Bonds, notes, debentures, or other similar obligations of the United States, its agencies, and its instrumentalities;

3. Interest-bearing savings accounts, interest-bearing certificates of deposit or interest-bearing time deposits or any other investments constituting direct obligations of any bank as defined by the Illinois Banking Act; provided, however, that such investments may be made only in banks which are insured by the Federal Deposit Insurance Corporation;

4. Short term obligations of corporations organized in the United States with assets exceeding $500,000,000 if (1) such obligations are rated at the time of purchase at one of the three highest classifications established by at least two standard rating services and which mature up to three years from the date of purchase, (2) such purchases do not exceed 10% of the corporation's outstanding obligations and (3) no more than one-third of the City's funds may be invested in short term obligations of corporations;

5. Money market mutual funds registered under the Investment Company Act of 1940, provided that the portfolio of any such money market mutual fund is limited to (1) bonds, notes, certificates of indebtedness, treasury bills or other securities now or hereafter issued, which are guaranteed by the full faith and credit of the United States as to principal and interest, (2) bonds, notes, debentures, or other similar obligations of the United States, or its agencies, and its instrumentalities, or (3) agreements to repurchase such obligations;

6. Interest-bearing bonds of any county, township, city, village, incorporated town, municipal corporation, or school district, of the State of Illinois, of any other state, or of any political subdivision or agency of the State of Illinois or of any other state. The bonds shall be registered in the name of the municipality or held under a custodial agreement at a bank. The bonds shall be rated at the time of purchase within the four highest general classifications established by a rating service of nationally recognized expertise in rating bonds of states and their political subdivisions;

II. Rules and Procedures (Continued)

F. Authorized Investments (Continued)

7. Short term discount obligations of the Federal National Mortgage Association;

8. Shares or other forms of securities legally issuable by State or Federal savings banks or savings and loan associations which are insured by the FDIC;

9. 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 laws of the United States; provided, however, the principal office of any such credit union must be located within the State of Illinois whose accounts of which are insured by applicable law;

10. A Public Treasurers' Investment Pool created under Section 17 of the State Treasurer Act (Illinois Funds);

11. Illinois Metropolitan Investment Fund (IMET); and

12. Any other investment permitted by Illinois statute.

G. Collateralization

The City shall require that deposits in excess of Federal Deposit Insurance Corporation (FDIC), National Credit Union Administration (NCUA), and Securities Investor Protection Corporation (SIPC) insurable limits in a single financial institution and investments not guaranteed by the United States or one of its agencies be secured by some form of collateral. To fulfill this requirement, every pledge of collateral must be documented by an approved written security and pledge agreement, executed by the financial institution contemporaneously with the acquisition of the pledged collateral by the financial institution.

To the extent that there are funds in excess of FDIC, NCUA, and/or SIPC insurance protection, eligible collateral instruments are as follows:

- Bonds, notes, or other securities constituting direct and general obligations of the United States;
- Bonds, notes, or other securities constituting the direct and general obligation of any agency or instrumentality of the United States, the interest and principal of which is unconditionally guaranteed by the United States;
- Bonds, notes, or other securities or evidence of indebtedness constituting the obligation of a U.S. agency or instrumentality;
- Direct and general obligation bonds of the State of Illinois or of any other state of the United States; provided, however, the bonds shall be rated at the time of purchase within the four highest general classifications established by a rating service of nationally recognized expertise in rating bonds of states and their political subdivisions;
- Revenue bonds of the State of Illinois or any authority, board, commission, or similar agency thereof; provided, however, the bonds shall be rated at the time of purchase within the four highest general classifications established by a rating service of

II. Rules and Procedures (Continued)

G. Collateralization (Continued)

nationally recognized expertise in rating bonds of states and their political subdivisions;

- 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; provided, however, the bonds shall be rated at the time of purchase within the four highest general classifications established by a rating service of nationally recognized expertise in rating bonds of states and their political subdivisions; and
- Revenue bonds of any city, town, county, or school district of the State of Illinois; provided, however, the bonds shall be rated at the time of purchase within the four highest general classifications established by a rating service of nationally recognized expertise in rating bonds of states and their political subdivisions.

The amount of collateral provided shall not be less than 110% of the market value of the net amount of public funds secured. The ratio of fair market value of collateral to the amount of funds secured shall be reviewed monthly, and additional collateral shall be requested when the ratio declines below the level required and collateral shall be released if the fair market value exceeds the required level

Third party safekeeping shall be required for all collateral, which may be held at the following locations:

- A Federal Reserve Bank or its branch office; or
- By an independent third party with whom the City has a current custodial agreement, unless physical securities are involved.

Safekeeping shall be documented by written agreement which may take the form of a safekeeping agreement, trust agreement, escrow agreement, or custody agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City. Substitution or exchange of securities held in safekeeping shall not be done without prior written notice of the City at least ten (10) days prior to any proposed substitutions and provided that the market value of the replacement securities are equal or greater than the market value of the securities being replaced. The City must pre-approve all substitution and exchanges of securities.

H. Diversification

It is the policy of the City to diversify its Portfolio. Investments shall be diversified to eliminate the risk of loss and balance the effect of interest rate changes on different types of securities. Investment shall be diversified by:

- Limiting investments to avoid over-concentration in securities from a specific issuer;
- Investing in securities with varying maturities;
- Investing a portion of the Portfolio in readily available funds such as bank cash management accounts, money market funds, Illinois Funds, or IMET Convenience Fund to ensure liquidity is maintained to meet ongoing obligations.

II. Rules and Procedures (Continued)

H. Diversification (Continued)

With the exception of U.S. Treasury and U.S. agency securities, as well as Illinois Investment Pools no more than 50% of the City of O'Fallon's total investment portfolio shall be invested in a single security type and no more than 50% of the City of O'Fallon's total investment portfolio shall be invested with a single financial institution. It is understood this goal is for investment planning purposes and may not be achieved or maintained when adherence to the 50% goal would create a cost (penalty) by reallocating funds within a portfolio solely to comply with the 50% goal.

I. Maximum Maturities

To the extent possible, the City of O'Fallon shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City shall not directly invest in securities maturing more than three (3) years from the date of purchase. However, reserve funds may be invested in securities exceeding three (3) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

J. Internal Controls

The Director of Finance shall establish a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent action by officers and employees of the City.

K. Performance Standards

The Portfolio will be managed in accordance with the parameters specified within this Policy. The Portfolio should obtain a market average rate of return during budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow needs. The City's investment strategy is passive, which means securities are intended to be held to maturity. Given this strategy, the investment portfolio of the City shall be designed with the general objective of regularly exceeding the average return of the Illinois Funds, money market daily rate. The investment program shall seek to augment returns above this level, consistent with risk limitations identified herein and prudent investment principles.

L. Reporting

- Quarterly: The Director of Finance shall submit a cash and investment report to the Finance Committee which lists the individual components of the Portfolio by maturity date, valuation by fund, and rate of return. In addition, the Director of Finance shall ensure that the Portfolio is reviewed to determine its general performance and effectiveness in meeting the Objectives.

II. Rules and Procedures (Continued)

L. Reporting (Continued)

- Annually: The Comprehensive Annual Financial Report (Audit) of the City shall include all investment information and disclosures required by accounting principles generally accepted in the United States as promulgated by the Government Accounting Standards Board.

M. Amendment of Policy

The Investment Committee shall review this Policy from time to time and shall submit any modifications thereto to the Council for approval.

In the event that any state or federal legislation or regulation should further restrict instruments, institutions or procedures authorized by this Policy, such restrictions shall be deemed to be immediately incorporated in this Policy. If new legislation or regulation should liberalize the permitted instruments, institutions or procedures, such changes shall be available and included in this Policy only after written notification to the Council and their subsequent approval of said changes.

III. Legislation and Documentation

The City's investment program shall comply at all times with the Illinois Public Funds Investment Act (30 ILCS 235/1 *et seq.*) and other state laws governing the investment of public funds, as amended from time to time. In the event of any conflict between this Policy and the Illinois Public Funds Investment Act and other state laws, the provisions of the Illinois Public Funds Investment Act and other state laws shall control.

The Director of Finance shall maintain a list of all authorized financial institutions and dealers/brokers and is hereby authorized to deposit City monies, in accordance with 65 ILCS 5/3.1-35-50. The Director of Finance shall review this list from time to time and shall submit any modifications made to this list to the Investment Committee. The Director of Finance shall be discharged from responsibility for all funds or money the Director of Finance deposits in a designated financial institution while the funds and money are so deposited.

IV. Investment Committee

An Investment Committee shall be formed consisting of the City Treasurer, Director of Finance, City Administrator, Chairman of the Finance and Administration Committee and the Mayor. This committee shall meet as needed but no less than semi-annually to determine general strategies and monitor results. The Investment Committee shall include in its deliberations such topics as: economic outlook, portfolio diversification, maturity structure, potential risks to funds, authorized depositories, brokers and dealers and target rate of return on the investment portfolio as well as reviewing RFP's submitted. After its deliberations, the Investment Committee shall make investment decisions.

IV. Investment Committee (Continued)

Investment Committee members shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions Committee members shall disclose to the Mayor any material financial interests in financial institutions that conduct business within this jurisdiction. They shall further disclose any personal financial investment positions that could be related to the performance of the City's portfolio. Committee members shall subordinate their personal investment transactions to those of the City particularly with regard to the time of purchases and sales.

V. Competitive Bidding

The Investment Committee shall make determination of the bidding process required for obtaining competitive bids. The Investment Committee, in compliance with the Purchasing Policy, may require a formal RFP process or an informal process, but in any event, no less than three (3) bids/quotes will be obtained from the Authorized Financial Institution/Broker/Dealer list. The investment will be awarded to the highest bidder as determined by the net return to the City. In the event of tied bids or highest bids totaling more than the face value to be invested, awards of investment will be made first to bidders with offices in the City and then pro rata among other highest bidders. The Director of Finance shall maintain a record of all bids/quotes received and shall make available to the Investment Committee a list showing the bidders, the bids/quotes received, and amount awarded.