



# OFFICE OF THE CITY TREASURER

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## Statement of Investment Policy & Investments

The Municipal Code of Chicago (the "Code") authorizes the City Treasurer (the "Treasurer") to invest funds of the City of Chicago (the "City") in certain authorized classes of securities. All persons involved in the investment of public funds in the Office of the City Treasurer (the "Office") are to comply with the Code provisions relating to the deposit and investment of public funds. The purpose of this Statement of Investment Policy and Guidelines (the "Policy") is to establish cash management and investment guidelines for the Office. This Policy has been prepared in accordance with Section 2-32-515 of the Code.

### 1.0 Policy

The Office is responsible for the management of daily receipt and investment of cash and related accounting operations. The Treasurer is the Chief Investment Officer of the City and investments may be directed by the Comptroller and the Treasurer, their designee, or outside professional fund managers, in accordance with this Policy. It is the policy of the Treasurer to invest all funds under her control in a manner that provides the highest investment return using authorized instruments while meeting the City's daily cash flow demands in conformance with the Code.

### 2.0 SCOPE OF POLICY:

This Policy applies to all investments held within the Office and made on behalf of the Treasurer with the exception of certain bond funds for which the City may specifically authorize other allowable investments consistent with applicable bond ordinance, trust indenture, the Code or state law.

### 3.0 OBJECTIVES:

The primary objective in the investment of City funds under control of the Treasurer is to ensure the safety of principal, while managing liquidity requirements of debt service and other financial obligations of the City, providing the highest investment return using authorized investment instruments, and promoting economic development in the City.

*3.1 Safety.* The safety of principal is the foremost objective of the investment program. City investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the portfolio. To attain this objective, diversification is required to ensure that the Treasurer prudently manages market, interest rate and credit risk. Each investment purchase shall be limited to those defined as eligible under the Code.

*3.2 Liquidity.* The investment portfolio shall remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated. Except as otherwise authorized by the Code or other applicable law, all investments shall be fully payable as to principal and interest in accordance with section 2-32-520 of the Code.

*3.3 Return on Investments.* The investment portfolio shall be designed to obtain the highest available return, taking into account the Treasurer's investment risk constraints and cash flow needs.

*3.4 Economic Development and local considerations.* The Treasurer seeks to promote economic development in the City through various programs that provide incentives for community reinvestment and financial assistance.

#### **4.0 PRUDENCE:**

To accomplish the objectives of the Treasurer, all authorized persons engaged in the investment process will perform their duties responsibly in accordance with the following standard:

Investments shall be made with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the City and the Board of Education of the City, Policemen's Annuity and Benefit Fund, Firemen's Annuity and Benefit Fund, Municipal Employees' Annuity and Benefit Fund, and Laborers' and Retirement Board Employee's Annuity and Benefit Fund ("Depositors"), that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of like character and with like aims, to safeguard the principal and maintain the liquidity needs of the City and the Depositors (the "Prudent Investor Standard").

The standard of prudence to be used by the Office's investment officers shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers shall: (i) act in accordance with written procedures and this Policy, (ii) exercise due diligence, (iii) prepare all reports in a timely fashion, and (iv) exercise appropriate action to control adverse developments.

#### **5.0 OPERATIONAL GUIDELINES:**

*5.1 Particular Fund Investments.* The Code requires that any investments of a particular segregate fund be credited to that fund. Principal and interest shall be credited to the particular segregate fund so invested. The Treasurer and Comptroller jointly may transfer ownership of any security purchased with monies of a particular segregate fund to the aggregate fund in the City treasury. The particular segregate fund originally invested shall be credited with the amount of the principal and accrued interest up to the date of the transfer of ownership of such security from the particular segregate fund to the aggregate fund.

*5.2 Government Fund Accounting.* The City's financial record-keeping system is operated and maintained on a fund accounting basis. A Fund is an independent fiscal accounting entity with a separate set of accounting records to record cash and investment activities. Funds are either segregate or aggregate, as determined by law, special regulation or contractual agreement. The Comptroller determines the classification of Funds in either segregate or aggregate category and Treasurer's records are prepared accordingly.

Funds classified as "segregate" by the Comptroller or the Treasurer require that separate accounts be established related to all financial resources, investment and payment requirements. Generally, these segregate funds

represent financial resources employed for specified governmental projects and are for restricted use. The Office is required and does maintain a cash and investment record of the segregated accounts and has monies available to pay obligations under segregate funds when due. Generally, debt service payments and investments are made through the trust accounts provided for these funds and coordinated by the Office. All other receipts and cash not allocated by law or contractual agreement and used to pay the City's general operating expenses are pooled for investment and classified as aggregate funds. The Treasurer disburses these operating funds on a daily basis to cover electronic transfers, checks and warrants issued by the Comptroller. The Corporate (General) fund is the aggregate major operating fund of the City. All general tax revenues and ordinary receipts are aggregated into this fund. Disbursements are based on spending plans of the City departments and include items such as employee payroll and health benefit costs and operating expenditures.

*5.3 Competitive Bidding:* At least three competitive bids are solicited on most investment transactions made by the Office. Bids/quotes and markups or discounts need to be consistent with prevailing institutional trades at the time of each transaction and are to be compared to market quotations for the same type and maturity investment on the Bloomberg independent market quotation information service or a comparable service available in the Office. In certain exigent circumstances, the Office may solicit less than three competitive bids. The guiding principle with choosing any bid for any investment transaction made by the Office is the quality of the bid and the assurance that the bidder can complete the investment transaction.

## **6.0 ETHICS AND CONFLICT OF INTEREST:**

It is the policy of the Office that no person acting on behalf of the investment function in the Office shall, in any manner, have any interest, either directly or indirectly, in any investments in which the Office is authorized to invest; or receive in any manner, compensation of any kind, from any investments from the sellers, sponsors or managers of such investments. Investment officers and other staff involved in the investment process 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. The Treasurer and all Office employees shall comply with the City's Governmental Ethics Ordinance and all other applicable laws pertaining to ethics, prohibited acts or gift bans.

## **7.0 AUTHORIZED BROKER/ DEALERS AND QUALIFIED INSTITUTIONS:**

The Treasurer will maintain a list of approved financial institutions and broker/dealers authorized to provide investment services for the City. No public deposits shall be made except in municipal depositories approved by City Council.

*7.1 Depositories.* Section 2-32-400 of the Code allows only regularly organized state or national banks insured by the Federal Deposit Insurance Corporation ("FDIC") and federal and state savings and loan associations insured by Savings Association Insurance Fund of the FDIC to be designated as possible municipal depositories. Depository institutions should be economically viable and have practices that would not impair the safety of investments.

*7.2 Broker/Dealer.* The Office has a Request for Information (RFI) questionnaire to facilitate annual qualification of each broker/dealer interested in working with the City investments. The Office evaluates interested broker/dealers on the basis of criteria set by the Treasurer, including the firm's prior experience, financial stability, and other requirements deemed necessary by the Office, the Code or other applicable

government agencies. The Office on an annual basis notifies brokers/dealers of their approval in writing. The Treasurer maintains relationships with qualified members of the broker/dealer community who understand the permitted investment constraints and goals of the Office. No broker/dealer or financial institution may present investments to the Treasurer unless it has signed a sworn certification serving as an affidavit that the institution understands the eligible investment securities that can be purchased for the City.

## **8.0 AUTHORIZED INVESTMENTS:**

The Treasurer will only authorize investments that comply with the provisions of Section 2-32-520 or of the Code.

*8.1 Derivatives.* The Treasurer will not invest in financial agreements whose returns are linked to or derived from the performance of some underlying asset such as bonds, currencies or commodities without the approval of City Council.

*8.2 Security Lending.* The Treasurer may not borrow against or otherwise obligate City investments for the purpose of investment, other than for purposes of security lending transactions conducted under section 2-32-575.

*8.3 Sale of Securities.* The Treasurer and Comptroller jointly, may in their discretion, sell or cause to be sold securities in compliance with section 2-32-580 of the Code.

## **9.0 COLLATERALIZATION:**

In order to protect the City public fund deposits, depository institutions are to maintain collateral pledges on City certificates of deposit during the term of the deposit of at least 105% of marketable U.S. government or approved securities or surety bonds issued by top-rated insurers. Collateral is required as security whenever deposits exceed the insured limits of the FDIC. The collateral required to secure City funds must be held in safekeeping and pursuant to collateral agreements which would prohibit release or substitution of pledged assets without proper written notification and authorization of the Treasurer. Repurchase agreements must also be collateralized in an amount of 102% of market value of principal and accrued interest.

The final maturity of acceptable collateral pledged shall not exceed 120 months. Collateral pledged for repurchase agreements shall be marked to market at least weekly during the term of the agreement. Additional collateral will be required when the ratio falls below the level required.

## **10.0 SAFEKEEPING AND CUSTODY:**

All securities and collateral will be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts. Safekeeping will be documented by a written agreement, in the form of a safekeeping agreement, trust agreement, escrow agreement or custody agreement.

## **11.0 DIVERSIFICATION:**

A variety of financial instruments and maturities, properly balanced, will help to ensure liquidity and reduce risk or interest rate volatility and loss of principal. Diversifying investments and maturities will avoid incurring

unreasonable risks in the investment portfolio regarding specific security types, issuers or individual financial institutions.

## **12.0 INTERNAL CONTROLS:**

The Treasurer shall maintain a system of internal controls and written operational procedures that shall be documented. 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 actions by authorized investment officers.

In addition, the Treasurer shall establish a system of internal controls to ensure that staff positions and functional duties are adequately segregated for separation of duties between the investment and accounting operations.

These controls shall be tested and reviewed periodically by external auditors during the audit.

## **13.0 PERFORMANCE EVALUATION:**

The Treasurer will utilize the average three-month U.S. Treasury Bill return or other appropriate benchmarks to determine whether market average yields are being achieved.

## **14.0 REPORTING:**

The Office shall record all investment transactions. A written report will be generated monthly for internal purposes listing all active investments by class or type, maturity of investments, book value, interest rate, income earned, including the fair market value of all investments as of the report date and other pertinent information deemed necessary. This report will be submitted to the City's Chief Financial Officer, or if there is no such officer then holding said office, the Comptroller, for distribution to the Mayor and City Council on a quarterly basis.

## **15.0 PERIODIC REVIEW:**

An annual independent audit and review of the Office's books and records will be performed to evaluate the nature of overall portfolio investment activities and to verify invested funds. The independent audit review will also examine procedures and written guidelines and established internal control mechanisms to ensure compliance with the objectives of this Policy.

## **16.0 MINORITY-OWNED FINANCIAL INSTITUTIONS**

When investing or depositing public funds, the Treasurer is encouraged, to the extent permitted by law, to invest or deposit such funds with or in minority-owned financial institutions and/or broker/dealers within the City.

## **17.0 HUMAN RIGHTS:**

It is the policy of the Treasurer that discrimination on the basis of race, color, religion, age, national origin, gender, sexual orientation, ancestry, disability, marital status, parental status, source of income or military discharge status will not be tolerated.

**18.0 POLICY ADOPTION AND AMENDMENT:**

This Policy shall be effective on July 1, 2005 and, upon the approval of the Treasurer, may be amended from time to time.