



## INVESTMENT POLICY

### General Objectives

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

### Safety of Principal

---

The safety of principal is the foremost objective of the Forest Preserve District of Kane County's Investment Policy. All investments shall be undertaken in a manner that seeks to ensure the preservation of the principal. The objective will be to minimize credit risk and interest rate risk.

- a. Credit Risk – The District will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer by;
  - Limiting investments to the types of securities listed in the Authorized Investments section of this policy.
  - Investing with institutions designated as Federally Insured, Licensed Institutions permitted to hold Public Funds.
  - Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from an individual issuer will be minimized.
- b. Interest Rate Risk – The District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:
  - Structuring the investment portfolio so that securities mature to meet cash requirements for on-going operations, thereby avoiding the need to sell securities on the open market prior to maturity.
  - Investing operating and reserve funds in securities, money market funds, or similar investment pools permitted by this policy and the Public Funds Investment Act. Average and final maturities will be limited based on the investment parameters established for both operating and reserve funds in accordance with this policy.

### Liquidity of Funds

---

The investment portfolio shall remain sufficiently liquid to enable the District to meet all of its reasonably anticipated operating requirements, thereby avoiding the need to sell securities on the open market or redeeming time deposits prior to maturity. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demand (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, a portion of the portfolio should be placed in a money

market mutual fund or local government investment pools which offer same day liquidity for short-term funds.

## **Return on Investment**

---

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout the budgetary and economical cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

## **Standards of Care**

---

### 1. Delegation of Authority

- Management responsibility for the investments is borne by the Director of Finance or Treasurer, who shall act in accordance with this investment policy. The Director of Finance or Treasurer may explicitly delegate authority to other persons, responsible for investment transactions and records.
- Investment Managers shall have full discretion over funds subject to the guidelines established by this policy and the Commission.

### 2. Prudence

The standard of prudence to be used by the Director of Finance or Treasurer or his authorized delegates, shall be the “prudent person” standard and shall be applied in the context of managing the overall portfolio. The Director of Finance or Treasurer acting in accordance with 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.

The “prudent person” standard states that “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.”

### 3. 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/investments positions that could be related to the performance of the District’s investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the District.

## **Safekeeping and Custody**

---

### **1. Authorized Financial Dealer and Institution**

With respect to bank accounts maintained at financial institutions, it shall be the policy that the District will not maintain funds on deposit in any financial institution that is not a member of the F.D.I.C. The financial institution must also be eligible to hold Public Funds in accordance with Section 6 of the Public Funds Investment Act. Furthermore, the District shall not deposit public funds in any financial institution unwilling or unable to post the required collateral in excess of F.D.I.C. insurance limits to the extent applicable.

### **2. Well-Capitalized Financial Institutions**

Depository Institutions must meet the definition of a well-capitalized bank as follows:

- Has a total risk-based capital ratio of 10.0 percent or greater; and
- Has a Tier 1 risk-based capital ratio of 6.0 percent or greater; and
- Has a leverage ratio of 5.0 percent or greater; and
- Is not subject to any written agreement, order, capital directive, or prompt corrective action directive issued by the FDIC pursuant to section 8 of the FDI Act (12 U.S.C. 1818), the International Lending Supervision Act of 1983 (12 U.S.C. 3907), or section 38 of the FDI Act (12 U.S.C. 1831o), or any regulation thereunder, to meet and maintain a specific capital level for any capital measure.

### **3. Internal Controls**

The Director of Finance or Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity 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 requires estimates and judgments by management.

Accordingly, the Director of Finance or Treasurer shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. 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 or Investment Managers
- Written confirmation or telephone transactions for investments and wire transfers

- Development of a wire transfer agreement with the lead bank or third party custodian

#### 4. Delivery vs. Payment

All trades where applicable will be executed by delivery vs. payment (DVP). This ensures that securities are deposited in the eligible financial institution prior to the release of funds.

#### 5. Safekeeping

Securities will be held by an independent third-party custodian as evidenced by safekeeping receipts in the District's name.

### Authorized Investments

---

#### 1. Investment Types

While striving to achieve the objectives of this investment policy and limited by the State statutes, the District has approved the following for investment of public funds:

- 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 of America as to principal and interest;
- bonds, notes, debentures, or other similar obligations of the United States of America or its agencies, and instrumentalities;
- 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 (201 ILCS 5/1 et seq.), provided such a bank is federally insured; or
- ~~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 3 highest classifications established by at least 2 standard rating services and which mature no later more than 270 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; or~~
- in 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 no more than 270 days from the date of purchase, or mature in more than 270 days but less than 10 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 public agency's funds may be invested in obligations of corporations; or
- 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 obligations described in paragraph (1) or (2) of this subsection and to the agreements to repurchase such obligations; or
- interest bearing bonds of any county, township, city, village, incorporated town, municipal corporation, or school district, of the state of Illinois, or any other state, or any other political subdivision or agency of the State of Illinois or of any other

state so long as the bonds are general obligations of the issuer and carry a minimum quality rating of "A" or the equivalent by one of the major rating agencies, whether the interest earned thereon is taxable or tax-exempt under federal law or

- short term discount obligations of the Federal National Mortgage Association or in shares of other forms of securities legally issued by savings banks or
- dividend-bearing share accounts, share certificates accounts or class of share accounts of a credit union chartered under the laws of this State or the laws of the United States; provided the principal office must be located in the State of Illinois or
- agencies of the United State of America including: federal land banks, federal intermediate credit banks, banks for cooperative, federal farm credit banks, or any other entity authorized to issue debt obligations under the Farm Credit Act of 1971 or
- federal home loan banks and the federal home loan mortgage corporation; and any other agency created by Act of Congress or Public Treasurers' Investment Pool created under Section 17 of the State Treasurer Act.
- [In addition to all other investments authorized in this Section, the District may allow for investment in other instruments not specifically listed in this Section provided that those investments comply with 1\) any other state law that authorizes public agencies to invest funds and 2\) the Investment Policy adopted by the District.](#)

Formatted: Indent: Left: 0.5", No bullets or numbering

This policy prohibits the investment in derivatives.

## 2. Collateral

The District shall require that funds on deposit in excess of insured limits be secured by collateral. The District will accept any of the following assets as collateral:

- U.S. Government Securities.
- Obligations of Federal Agencies.
- Obligations of the State of Illinois.
- General Obligation municipal bonds rated "A" or better issued by a governing body in the State of Illinois.

The amount of collateral provided shall not be less than 110 percent of the fair market value of the net amount of District funds on deposit at each financial institution.

Pledged collateral shall be held by the District, or kept in a safekeeping account by a third party and evidenced by a custodial agreement and safekeeping receipt.

## Investment Parameters

---

### 1. Diversification

- The investments will be diversified by security type and institution.

### 2. Selection of Investment Instruments

- The District shall invest any surplus funds for a specific maturity date that is required for either cash flow purposes or for conformance to maturity guidelines, if such instruments which would be most advantageous under prevailing market

conditions, exist. Records will be kept of all investments purchased or sold by the District in compliance with statutes.

3. Select Alternatives

- If certificate of deposit or time deposits are to be used, the District will solicit telephone quotes from at least two (2)-approved institutions. Preference shall be given to any local institution whenever comparable opportunities arise. Money Market accounts may be used if rates are competitive.

4. Performance Benchmark

- In order to effectively measure investment performance for a managed portfolio, an established benchmark will be selected and approved by the Director of Finance or Treasurer. The appropriate benchmark will be selected based on the portfolio goals and objectives as governed by guidelines in this policy. The managed portfolio will be compared to the established benchmark on a monthly/quarterly basis.

**Investment Parameters-Operating Funds**

---

To the extent possible, the District will attempt to match its investments with anticipated cash flow requirements. Maturity scheduling shall be timed according to anticipated need.

- The maximum maturity should not exceed three (3) years and the portfolio duration should not exceed two (2).
- For investment in pooled accounts or funds the duration should not exceed two (2).

**Investment Parameters Reserve Funds:**

---

Reserve funds and other funds with longer-term horizons may be invested in securities with the following guidelines.

- The maximum maturity should not exceed five (5) years and the portfolio duration should not exceed three (3)
- For investment in pooled accounts or funds the duration should not exceed three (3).

**Policy Considerations**

---

1. Exemption

Any investment held prior to the approval of this policy 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. Amendment

This policy shall be reviewed on an annual basis. The Board of Commissioners of the Forest Preserve District of Kane County must approve any changes to this policy.