

BERWYN PARK DISTRICT

- Investment Policy -

I. AUTHORITY

The Board of Commissioners delegates responsibility for the management of the agency's funds. The executive director, with full and complete backing of the Board, hereby establishes written procedures and policies for the operation of the cash management and investment program. Such procedures include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Board of Commissioners, who shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

II. POOLING OF FUNDS

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

III. GENERAL OBJECTIVES

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

A. Safety

Safety of principle 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.

1. Credit Risk – The agency will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:
 - Limiting investments to the safest types of securities.
 - Pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisers with which the agency will do business.
 - Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

2. Interest Rate Risk – The agency will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by:
3. Structuring the investment portfolio so that securities meet cash flow requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
4. Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

B. 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 the money market mutual funds or the Illinois State Treasurer's Pool, which offer same-day liquidity for short-term funds.

C. 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 previously stated. 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.

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

IV. PRUDENCE

The agency Treasurer shall be the designated person to make all investment transactions. The standards of prudence to be used by the Treasurer shall be the "prudent person", which states, "Investments shall be made with judgement 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 profitable income to be derived and shall be applied in the context of managing the entire portfolio."

The Treasurer, acting in accordance with written procedures 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 appropriate action is taken to control adverse developments.

V. **LEGAL AUTHORITY AND LIMITATIONS ON INVESTMENT SECURITIES**

All securities purchased under this policy shall be governed by the Public Funds Investment Act 30 ILCS 235/1 et seq. (*The Investment Act*), and all revisions made by the Illinois Legislature. Included is a summary of acceptable investments as determined by the executive director in compliance with the applicable statute:

- A. Treasury bills, notes and bonds including STRIPs (zero coupon treasury obligations) or other securities guaranteed by the United States.
- B. Interest-bearing savings accounts, certificates of deposit, interest-bearing time deposits or any other investments that are direct obligations of banks and savings & loans that are either:
 - 1. Fully insured by the appropriate U.S. government agency.
 - 2. Fully insured by a AAA rated U.S. Corporation.
 - 3. Collateralized by investment securities authorized under the Investment Act and authorized under this policy. Such collateral is to be held by a neutral third-party, registered in the agency's name, priced to the market on a weekly basis and be valued at 110% of the uninsured portion of the deposit. The Treasurer will monitor the adequacy of collateralization weekly. The agency requires the Treasurer to submit monthly reports with market values of pledged securities from all financial institutions.
 - 4. "Eligible" Bankers' Acceptances with a maximum maturity date of 180 days from the date of purchase. "Eligible" BA's can be pledged as collateral by banks to secure loans from the Federal Reserve Bank.
 - 5. Investments in any one particular bank or savings & loan shall not exceed 10% of the investment portfolio, or 10% of an institution's capital unless fully insured.
- C. Commercial Paper is limited to the following requirements:
 - 1. A1 by Standard & Poor's and P1 by Moody's.
 - 2. No single commercial paper investment shall exceed 10% of the portfolio; may not have a maturity longer than 180 days; may not exceed 5% of the corporation's outstanding commercial paper debt and is limited to no more than one-third of the agency's portfolio.

- D. The short-term discount notes of the Federal National Mortgage Association, and other U.S. agency securities specifically reported in the Investment Act.
- E. Money market mutual funds registered under the Investment Company Act of 1940, provide that the portfolio of any such money market mutual fund is limited to securities guaranteed by the U.S. government or issued by U.S. governmental agencies and which have as their stated objective the maintenance of \$1.00 per share net asset value.

The investment pool and fix-termed securities that meet the agency's investment guidelines shall be that offered by the Illinois Park District Liquid Asset Fund.

- F. Investments in "derivative securities" are not permitted. A derivative security is any security whose value is based on the performance of an underlying financial asset, index, or other investment. Some commonly traded derivatives are: Structured Notes, Index Amortizing Notes, and certain tranches of Collateralized Mortgage Obligations (CMOs).
- G. Additional investments may be added to this list as changes to the statutes occur.

VI. DUE DILIGENCE

All approved depositories must provide the agency with their annual audited financial statement in a timely manner as well as their quarterly statement.

VII. FINANCIAL REPORTING

The Treasurer shall provide a monthly copy of the investment report to the Board of Commissioners. The report shall include:

- The full description of each security holding
- The purchase date of each security
- The maturity date of each security
- The credit ratings, if applicable
- The yield on each security
- The weighted average yield and weighted average maturity of the portfolio
- The providers of each investment
- The total amount of funds invested including the checking account balances

A list of Authorized Financial Institutions that provide investment services to the agency will be reviewed, updated, and provided to the Board of Commissioners on a quarterly basis.

VIII. SEPARATE PROVISIONS OF POLICY CONFLICTS WITH ILLINOIS LAW AND CONFLICTS OF INTEREST

The above policies shall remain in full force and effect until revoked by the Board of Commissioners. If, after adoption of this policy, there is any conflict with the Illinois Investment Statutes, current law shall dictate.

No person acting as treasurer or financial officer, or who is employed by the Berwyn Park District in a similar capacity may:

- Have any interest, directly or indirectly, in any institution or management of any institution in which the agency is permitted to invest.
- Receive any compensation of any type, including preferred treatment from any institution or person in which the agency has a relationship.