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Sponsor(s): Mendoza, Susana A. (Clerk)

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Title: Amendment of Statement of Investment Policy and Guidelines

Committee(s) Assignment:

OFFICE OF THE CITY TREASURER

STEPHANIE D. NEELY • TREASURER • CITY OF CHICAGO

MEMORANDUM

To: Amer Ahmad
City Comptroller
Department of Finance

Susana Mendoza
City Clerk
Office of the City Clerk

Cc: Edward Burke
Chairman
Committee on Finance

Lois Scott
Chief Financial Officer
City of Chicago

From: Stephanie D. Neely SN
City Treasurer
Office of the City Treasurer

Re: Amendment of Statement of Investment Policy and Guidelines

Date: October 18, 2011

RECEIVED
CITY COUNCIL DIVISION
2011 OCT 27 AM 11:35
OFFICE OF THE
CITY CLERK

In accordance with section 2-32-515 of the Municipal Code of Chicago, the Office of the City Treasurer is providing your offices with a copy of the amended Statement of Investment Policy and Guidelines. The amended Policy provides the Treasurer's Office additional flexibility as well as aligns the Policy with the changes to section 2-32-520 of the Municipal Code of Chicago, as adopted by City Council on October 5, 2011.

If further discussion is requested, I would be more than happy to discuss the changes to the Statement of Investment Policy and Guidelines.

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STATEMENT OF INVESTMENT POLICY AND GUIDELINES

OFFICE OF THE CITY TREASURER
CITY OF CHICAGO

STEPHANIE D. NEELY
CITY TREASURER

STATEMENT OF INVESTMENT POLICY AND GUIDELINES

(Last Amended: October 5, 2011)

The Municipal Code of Chicago (the "Municipal Code") authorizes the City 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 Municipal Code provisions relating to the deposit and investment of public funds. The purpose of this Statement of Investment Policy and Guidelines (this "Policy") is to establish cash management and investment guidelines for the Office. This Policy has been prepared in accordance with the Public Funds Investment Act (30 ILCS 235/2.5).

1.0 POLICY

The Office is responsible for the management of daily receipt and investment of cash and related accounting operations. The City Treasurer is the Chief Investment Officer of the City and investments may be directed by the City Treasurer, her designee, or outside professional fund managers, in accordance with this Policy.

It is the policy of the City 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 Municipal Code.

2.0 SCOPE OF POLICY:

This Policy applies to all investments held within the Office and made on behalf of the City 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 Municipal Code or State law.

3.0 OBJECTIVES:

The primary objective in the investment of city funds under control of the City 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 City Treasurer prudently manages market, interest rate and credit risk. Each investment purchase shall be limited to those defined as eligible under the Municipal 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 Municipal Code or other applicable law, all investments shall be fully payable as to principal and interest within ten years from the date of purchase.

3.3 Return on Investments.

The investment portfolio shall be designed to obtain the highest available return, taking into account the City Treasurer's investment risk constraints and cash flow needs. The City Treasurer shall seek to obtain the highest available return using authorized investments.

3.4 Economic Development and local considerations.

The City 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 City 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 Chicago Board of Education, Policemen's Annuity and Benefit Fund, Firemen's Annuity and Benefit Fund, Municipal Employee's Annuity and Benefit Fund, and Laborer's 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 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 Municipal 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. City Treasurer and City 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 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 City Comptroller determines the classification of Funds in either segregate or aggregate category and City Treasurer's records are prepared accordingly.

Funds classified as "segregate" by the City Comptroller or the City 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 City Treasurer disburses these operating funds on a daily basis to cover warrants issued by the City 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 (3) 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 (3) 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.

5.4 Sale of Securities:

Section 2-32-580 of the Municipal Code provides that

> "At any time that the balance of cash in the city treasury shall for any reason become less than the amount necessary for immediate use, then the comptroller and city treasurer jointly may, in their discretion, sell or cause to be sold such amount or amounts of the securities so purchased under the authority herein granted as may be necessary to insure the keeping on hand of a sufficient amount of money for such immediate needs. Such sales shall be at not less than the par value or the cost thereof, whichever is greater, with accrued interest thereon unless otherwise authorized by the city council."

6.0 ETHICS AND CONFLICT OF INTEREST:

It is the policy of the Office and in compliance with Section 2-156-080 of the Municipal Code 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 City's Governmental Ethics Ordinance, Chapter 2-156 and State law limit the gifts that employees, officials, their spouses, and/or their minor children can accept from persons who have an interest in city business.

7.0 AUTHORIZED BROKER/ DEALERS AND QUALIFIED INSTITUTIONS:

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

Depositories. Section 2-32-400 of the Municipal 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.

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 City Treasurer, including the firm's prior experience, financial stability, and other requirements deemed necessary by the Office, the Municipal Code or other applicable government agencies. The Office on an annual basis notifies brokers/dealers of their approval in writing.

The City 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 City Treasurer unless they have signed a sworn certification serving as an affidavit that the institution understands the eligible investment securities that can be purchased for the City. Only broker/dealers with offices located in the City are used to transact business for the City investment accounts.

8.0 AUTHORIZED INVESTMENTS:

The City Treasurer has authorized the following types of investments subject to the provisions of Section 2-32-520 of the Municipal Code and the Public Funds Investment Act (30 ILCS 235):

(A). Interest-bearing general obligations of the United States and the State of Illinois;

(B). United States treasury bills and other non-interest bearing general obligations of the United States when offered for sale in the open market at a price below the face value of same, so as to afford the City a return on such investment in lieu of interest;

(C). Tax anticipation warrants, municipal bonds, notes, commercial paper or other instruments representing a debt obligation issued by the City of Chicago;

(D). Short-term discount obligations of the United States government or United States government agencies;

(E). Reverse repurchase agreements if the term does not exceed 90 days and the maturity of the investment acquired with the proceeds of the reverse repurchase agreement does not exceed the expiration date of the reverse repurchase agreement. Reverse repurchase agreements

may be transacted with primary dealers and financial institutions, provided the city has on file a master repurchase agreement;

(F). Certificates of deposit of banks or savings and loan associations designated as municipal depositories which are insured by federal deposit insurance; provided that any amount of the deposit in excess of the federal deposit insurance shall be either: (1) fully collateralized at least 102 percent by: (i) marketable U.S. government securities marked to market at least monthly; (ii) bonds, notes, or other securities constituting the direct and general obligation of any agency or instrumentality of the United States; or (iii) bonds, notes or other securities constituting a direct and general obligation of any county, township, city, village, incorporated town, municipal corporation, or school district, of the State of Illinois or of any other state, or of any political subdivision or agency of the State of Illinois or any other state which are rated in either the AAA or AA rating categories by at least two accredited ratings and maintaining such rating during the term of such investments; or (2) secured by a corporate surety bond issued by an insurance company licensed to do business in Illinois and having a claims-paying rating in the top rating category as rated by a nationally recognized statistical rating organization and maintaining such rating during the term of such investment;

(G). Bankers acceptance of banks whose senior obligations, at the time of purchase, are rated in the AAA or AA rating categories by at least two accredited ratings agencies;

(H). Tax-exempt securities exempt from federal arbitrage provisions applicable to investments of proceeds of the City's tax-exempt debt obligations;

(I). Domestic money market mutual funds regulated by and in good standing with the Securities and Exchange Commission; provided that such money market funds' portfolios are limited to investments authorized by this section;

(J). Any other suitable investment instrument permitted by state laws governing municipal investments generally, subject to the reasonable exercise of prudence in making investments of public funds;

(K). Except where otherwise restricted or prohibited, a non-interest bearing savings account, non-interest bearing checking account or other non-interest bearing demand account established in a national or state bank, or a federal or state savings and loan association, when, in the determination of the treasurer, the placement of such funds in the non-interest bearing account is used as compensating balances to offset fees associated with that account that will result in cost savings to the city;

(L). Bonds of companies organized in the United States with assets exceeding $500,000,000 that, at the time of purchase, are rated in either the AAA or AA rating categories by at least two accredited ratings agencies. Investments authorized by this subsection (L) shall, at the time of purchase, not exceed 5% of the total holdings across all the funds, including principal and interest, and the maturity shall not exceed 10 years;

(M). Debt instruments of international financial institutions, including but not limited to the World Bank and the International Monetary Fund, that, at the time of purchase, are rated in either the AAA or AA rating categories by at least two accredited ratings agencies. Investments authorized by this subsection (M) shall, at the time of purchase, not exceed 10% of the total holdings across all the funds, including principal and interest, and the

maturity shall not exceed 10 years. For purposes of this subsection (M), an "international financial institution" means a financial institution that has been established or chartered by more than one country and the owners or shareholders are generally national governments or other international institutions such as the United Nations;

(N). United States dollar denominated debt instruments of foreign sovereignties that, at the time of purchase, are rated in either the AAA or AA rating categories by at least two accredited ratings agencies. The investments authorized by this subsection (N) shall, at the time of purchase, not exceed five percent of the total holdings across all funds, including principal and interest and the maturity shall not exceed 10 years;

(O). Interest-bearing bonds of any country, 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, whether the interest earned thereon is taxable or tax-exempt under federal law. The bonds shall be registered in the name of the city or held under a custodial agreement at a bank. The bonds shall be rated, at the time of purchase, within the 5 highest rating categories by at least two accredited rating agencies with nationally recognized expertise in rating bonds of states and their political subdivisions. The maturity of the bonds authorized by this subsection (O) shall, at the time of purchase, not exceed 10 years; provided that a longer maturity is authorized if the city has a put option to tender the bonds within 10 years from the date of purchase.

All securities so purchased, excepting the bond authorized in subsection (O) and the tax anticipation warrants, municipal bonds, notes, commercial paper or other instruments representing a debt obligation of the city purchased under subsection (C), shall show on their face that they are fully payable as to principal and interest, where applicable, if any, within ten years from the date of purchase.

9.0 INVESTMENT RESTRICTIONS:

The City Treasurer will not utilize investment of leveraged transactions, financial forwards, futures, hedged investments, index amortizing notes, dual index notes, de-leveraged bonds, range bonds, inverse floaters, interest only, principal only bonds and any other financial derivative. The City Treasurer is not authorized, without the approval of the City Council, to (i) invest in financial agreements whose returns are linked to or derived from the performance of some underlying asset such as bonds, currencies or commodities products, or (ii) borrow against or otherwise obligate City investments, other than for purposes of a security lending transaction conducted under section 2-32-575 of the Municipal Code.

10.0 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 102% of marketable U.S. government or approved securities or surety bonds issued by top-rated insurers. Collateral is required as security for any amount in excess of the federal deposit insurance limit. 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 City 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.

11.0 SAFEKEEPING AND CUSTODY:

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

12.0 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.

13.0 INTERNAL CONTROLS:

The City Treasurer, as the Chief Investment Officer, 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 City Treasurer has established 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.

14.0 PERFORMANCE EVALUATION:

The City Treasurer will utilize the average three (3) months U.S. Treasury Bill return or other appropriate benchmarks to determine whether market average yields are being achieved.

15.0 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 Chief Financial Officer of the City for distribution to the Mayor and City Council on a quarterly basis pursuant to the Public Funds Investment Act.

16.0 PERIODIC REVIEW:

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

17.0 MINORITY-OWNED FINANCIAL INSTITUTIONS:

When investing or depositing public funds, each custodian for the City Treasurer shall, to the extent permitted by the Public Funds Investment Act (30 ILCS 235) and by the lawful and reasonable performance of his or her custodial duties, invest or deposit such funds with or in minority-owned financial institutions within the City.

18.0 HUMAN RIGHTS:

It is the policy of the City Treasurer and in compliance with Section 2-160-030 of the Municipal Code 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.

19.0 POLICY ADOPTION AND AMENDMENT:

This Policy may be reviewed from time to time and amended by the City Treasurer and shall be consistent with the provisions of the Municipal Code pertaining to investments. Copies of the written policy and any amendments thereto shall be kept on file with the city clerk and the comptroller, and shall be submitted annually, or if amended, no later than 30 days after such amendment, to the chairman of the city council on finance and the chief financial officer.