# VILLAGE OF ARLINGTON HEIGHTS
# INVESTMENT POLICY

## I. Scope

This policy applies to the investment of short-term operating funds. Longer-term funds, including investments of employee's retirement funds, are covered by a separate policy.

1. Pooling of Funds

   Except for cash in certain restricted and special funds (Police and Fire Pension Funds), the Village 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. These funds are accounted for in the Village's Comprehensive Annual Financial Report and include:

   A. General Fund
   B. Special Revenue Funds
   C. Debt Service Funds
   D. Capital Project Funds
   E. Enterprise Funds
   F. Internal Service Funds
   G. Agency Funds

## II. General Objectives

The primary objective, in priority of order, of investment activities shall be safety, liquidity and yield:

1. Safety

   Safety of principal is the most important objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital. The objective will be to mitigate credit risk and interest rate risk.

   A. Credit Risk

      The Village 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, intermediaries and advisors with which the Village will conduct business.
      - Diversifying the investment portfolio so that potential losses on individual investments will be minimized.

B. Interest Rate Risk

The Village will minimize the risk that the market value of securities in the portfolio will fall due to change in interest rates by:

- Structuring the investment portfolio so the securities will mature to meet cash requirements for ongoing operations. This will prevent the need to sell the securities prior to maturity.
- Investing operating funds primarily in shorter-term securities, money market or mutual funds, or similar investment pools.

2. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that can be reasonably anticipated. This will be accomplished by structuring the portfolio so the securities mature concurrent with cash needs to meet the anticipated demand. Furthermore, since all possible cash demands cannot be anticipated, the portfolio shall consist largely of securities with active secondary markets. A portion of the portfolio may also be placed in money market mutual funds or local government investment pools, which offer same day liquidity for short-term funds.

3. Yield

Return on investment is of secondary importance compared to the safety and liquidity objective discussed above. The core of the investments are limited to low risk securities in anticipation of earning a fair return relative to the risk being assumed. Therefore, the investment portfolio shall be designed with the objective of attaining a market rate of return equal to the return on a one year Treasury Note. Securities shall not be sold prior to maturity with the following exceptions:

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

## III. 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. Investment officers acting in accordance with written procedures and 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.

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 probable income to be derived.

2. Ethics and Conflict 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/investment positions that could be related to the performance of the 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 Village.

3. Delegation of Authority

   Authority to manage the investment program is granted to the Finance Director/Treasurer, (hereafter referred to as the investment officer). Responsibility for the operation of the investment program is hereby delegated tot he investment officer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officer. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

## IV. Safekeeping and Custody

1. Authorized Financial Dealer and Institutions

   A list will be maintained of financial institutions authorizes to provide investment services. In addition, a list also will be maintained of approved security brokers/dealers selected by creditworthiness (e.g., a minimum capital requirement of $10,000,000 and at least five years of operation). These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule a5C3-1 (uniform net capital rule).

   All financial institutions and brokers/dealers who desire to become qualified bidders for investment transactions must supply the following as appropriate:

   - Audited financial statements
   - Proof of National Association of Securities Dealers (NASD) certification

- Proof of state registration
- Completed broker/dealer questionnaire
- Certification of having read the Village's investment policy

An annual review of the financial condition and registration of qualified bidders will be conducted by the investment officer. From time to time, the investment officer may choose to invest in instruments offered by minority and community financial institutions. In such situations a waiver to the criteria under Paragraph 1 may be granted. All terms and relationships will be fully disclosed prior to purchase and will be reported to he Village Board on a consistent basis and should be consistent with state or local law. The Village Board should approve these types of investment purchases in advance.

2. Internal Controls

The investment officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Village 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 judgement by management.

Accordingly, the investment officer shall establish a process for an 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
- Written confirmation of telephone transactions foe investments and wire transfers
- Development of a wire transfer agreement with the lead bank or third party custodian

3. Delivery vs. Payment

All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities will be held by a third party custodian as evidenced by safekeeping receipts.

## V. Suitable and Authorized Investments

1. Investment Types

Consistent with the GFOA Recommended Practice on State Statutes Concerning Investment Practices, the following investments will be permitted by this policy and are those defined by state law where applicable:

A. U.S. government obligations, U.S. government agency obligations, and U.S. government instrumentality obligations, which have a liquid market with a readily determinable market value;
B. Canadian government obligations (payable in local currency);
C. Certificates of deposit and other evidences of deposit at financial institutions, bankers' acceptance, and commercial paper, rated in the highest tier (e.g., A-1, P-1, D-1, or F-1 or higher) by nationally recognized rating agency.
D. Investment-grade obligations of state, provincial and local governments and public authorities;
E. Repurchase agreements following the Illinois Complied Statutes (30 ILCS 235) Public Funds Investment Act.
F. Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist of dollar-denominated securities; and
G. Local government investment pools

Investments in derivatives of the above instruments shall require approval by the Village Board.

2. Collateralization

Where allowed by state law and in accordance with the GFOA Recommended Practices on the Collateralization of Public Deposits, Full Collateralization (110%) will be required on all non-negotiable certificates of deposit.

3. Repurchase Agreements

Repurchase agreements shall be consistent with the GFOA Recommended Practices on Repurchase Agreements. (See GFOA Recommended Practices)

## VI. Investment Parameters

1. Diversification

The investments shall be diversified by:

- limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities)
- limiting investment in securities that have higher credit risks
  investing in securities with varying maturities, and
- continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreements to ensure that proper liquidity is maintained in order to meet ongoing obligations.

2. Maximum Maturities

To the extent possible, the Village shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Village will not directly invest in securities maturing more than five years from the date of purchase or in accordance with state and local statutes and ordinances. The Village shall adopt weighted average maturity limitations, consistent with the investment objectives.

Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five years if the maturity of such investments are made to coincide as nearly as practicable with the expected use of funds. The intent to invest in these types of securities shall be disclosed in writing to the Village Board.

## VII. Reporting

1. Methods

The investment officer shall prepare an investment report at least quarterly, including a succinct management summary that provides a clear picture of the status of the current investment portfolio and the transactions made over the last quarter. This management summary will be prepared in a manner that will allow the entity to ascertain whether the investment activity during the reporting period has conformed to the investment policy. The report should be provided to the investment officer, the Village Board and any pool participant. The report will include the following;

A. Listing of individual securities held at the end of the reporting period
B. Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one year in duration that are not intended to be held to maturity.
C. Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
D. Listing of investment by maturity date
E. Percentage of the total portfolio which each type of investment represents.

2. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. An appropriate benchmark (1-year Treasury) shall be established against which portfolio performance shall be compared on a regular basis.

3. Marking to Market

The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Recommended practice on Mark to Market Practices for State and Local Government Investment Portfolios and Investment Pools.

## VIII. Policy Considerations

1. Exemption

   Any investment currently held that dos 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 approved by this policy.

2. Amendment

   This policy shall be reviewed on an annual basis. Any changes must be approved by the investment officer and any other appropriate authority, as well as the individual(s) charges with maintaining internal controls.