RESOLUTION R-38-16

A RESOLUTION APPROVING AN INVESTMENT POLICY FOR THE CITY OF WHEATON

WHEREAS, the City of Wheaton, Illinois (the "City") is an Illinois Home Rule Municipality pursuant to provisions of Article VII, Section 6 of the Illinois Constitution of 1970, and as such the City may exercise any power and perform any function pertaining to its government and affairs; and

WHEREAS, on May 18, 1998 the City Council passed Resolution R-47-98, adopting a written policy ("Investment Policy") for the investment and management of City funds in accordance with the Illinois Public Funds Investment Act, 30 ILCS 235/0.01; and

WHEREAS, on September 19, 2005 the City Council amended the Investment Policy through passage of Resolution R-78-05; and

WHEREAS, the Director of Finance and City's investment consultant, Marquette Associates, have performed a comprehensive review of the Investment Policy and presented such to the City Council; and

WHEREAS, the City Council has reviewed the Investment Policy and has determined that it is in the best interest of the City and residents to adopt the Investment Policy.

NOW, THEREFORE, BE IT RESOLVED by the Mayor and City Council of the City of Wheaton, Illinois, as follows:

1. That the Investment Policy adopted on May 18, 1998, as amended on September 19, 2005 is hereby repealed.

2. That the Investment Policy attached to this Resolution as Exhibit A and incorporated in this Resolution by reference ("Investment Policy") is hereby approved.

3. That the City Manager and Finance Director are hereby authorized and directed to implement the investment policies, goals, and objectives as set forth in the Investment Policy and are further authorized and directed to report to the City Council progress and results of the implementation of the Investment Policy.

ADOPTED this 15th day of August, 2016.

Michael J Gresk

Mayor

ATTEST:

Sharon Barrett-Hagen

City Clerk

	<u>Roll Call Vote:</u>
Ayes:	Councilman Suess Councilwoman Fitch Councilman Prendiville Councilman Rutledge Mayor Gresk Councilman Saline Councilman Scalzo
Nays:	None
Absent:	None
	<u>Motion Carried Unanimously</u>

CITY OF WHEATON, ILLINOIS
INVESTMENT POLICY
August 15, 2016

POLICY:

It is the policy of the City of Wheaton ("City") to invest Public Funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City and conforming to all state and local statutes governing the investment of Public Funds.

SCOPE:

This Investment Policy ("Policy") applies to all financial assets accounted for in the Comprehensive Annual Financial Report of the City, except the Wheaton Police and Firefighter's Pension Funds, which are governed by a separate Board of Trustees and Investment Policy. Except for cash in certain restricted and special funds, the City 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.

OBJECTIVES:

The City Finance Department will follow four major, prioritized objectives in investing funds:

1. **Legality** - All investment transactions will be in accordance with all applicable State and Federal Statutes, City Municipal Code restrictions and the tenets of this Policy.
2. **Safety** - Each investment transaction shall seek to ensure that capital losses are avoided due to security defaults, and to minimize erosion of value due to normal market fluctuations.
    a. Credit Risk. The risk of loss due to the failure of the security issuer or backer. Credit risk may be mitigated by:
        i. Limiting investments to the safest types of securities;
        ii. Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the City will do business; and
        iii. Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
    b. Interest Rate Risk. The risk that the market value of securities in the portfolio will fall due to changes in general interest rates. Interest rate risk may be mitigated by:
        i. Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity; and
        ii. By investing operating funds primarily in shorter-term securities.
3. **Liquidity** - The investment portfolio will at all times be maintained in a structure which enables the immediate cash flow needs of the City to be met through the maturity or sale of investment securities.
4. **Return on Investment** - The portfolio shall be designed to attain a market rate of return (Target: 91 Day T-Bills + 100bps) throughout budgetary and economic cycles, taking into account the

City's legal constraints, investment risk constraints, and the cash flow characteristics of the portfolio. Return on Investment is of least importance compared to the 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.

PRUDENCE:

The standard of prudence to be used by individuals involved in the investment process shall be the "prudent person," which states, "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" and shall be applied in the context of managing the entire portfolio.

Individuals involved in the investment process acting in accordance with the terms of this 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 appropriate action is taken to control adverse developments.

ETHICS & CONFLICTS OF INTEREST:

Individuals 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. Individuals involved in the investment process shall disclose any interests in financial institutions with which they conduct business. In addition, such individuals shall disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Individuals involved in the investment process shall refrain from undertaking personal investment transaction with the same individual with whom business is conducted on behalf of the City.

DELEGATION OF AUTHORITY:

1. City Council. Responsible for the establishment of the Investment Policy.
2. Director of Finance. Management and administrative responsibility for the investment program is hereby delegated to the Director of Finance who, under the direction of the City Manager, shall establish written procedures for the operation of the investment program consistent with this Policy. Such procedures shall 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 Director of Finance. The Director of Finance shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. The Director of Finance may from time to time amend the written procedures in a manner not inconsistent with this Policy, state statutes, or other governing laws or regulations.

3. Investment Managers. The City may engage the services of one or more external Investment Managers to assist in the management of the City's investment program. Such external Investment Managers may be granted discretion to purchase and sell investment securities in accordance with this Policy.

AUTHORIZED FINANCIAL INSTITUTIONS:

Financial institutions may include depositories, investment advisors, investment managers, broker/dealers, and local government investment pools as authorized in this Policy. Financial institutions who desire to become qualified for transactions must provide certification (Addendum A) of having read and understood this Policy, agree to comply with this Policy, and ensure all investments proposed for purchase will conform to this Policy and applicable State statutes. Selection of financial institutions authorized to engage in transactions with the City shall be at the sole discretion of the City.

All depositories shall be insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA) and may consist of banks, savings and loan associations, and credit unions.

All financial institutions must supply the following (as appropriate):

- Audited financial statements
- Proof of state registration
- Evidence of adequate insurance coverage (Addendum C)
- Certification of having read and understood this Policy

To be considered as a depository for investments of City idle funds, the financial institution must meet the rules established by The Federal Reserve, Office of Comptroller of Currency, and Federal Deposit Insurance Corporation (collectively, the Federal Agencies) for a "well-capitalized" institution. An institution is well-capitalized if it satisfies each of the following capital ratio standards:

Ratio	Well-Capitalized
Total Risk-Based Capital	10.0%
Tier 1 Risk-Based Capital	8.0%
Tier 1 Leverage	5.0%
Common Equity Tier 1 Capital	6.5%

A periodic review of the financial condition and registration of all designated financial institutions will be conducted by the Director of Finance, or his or her designee.

Any financial institution selected by the City may be requested to provide cash management services, including but not limited to: checking accounts, wire transfers, purchase and sale of investment securities and safekeeping services. Fees for banking services shall be mutually agreed to by an authorized representative of the financial institution and the Director of Finance.

DIVERSIFICATION:

It is the policy of the City to diversify the investment portfolio. Assets invested shall be diversified to reduce the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer or a specific class of securities.

COLLATERALIZATION:

It is the policy of the City and in accordance with the Government Finance Officers Association's Recommended Practices on the Collateralization of Public Deposits, that funds on deposit in excess of FDIC limits be secured by some form of collateral. The City will accept any of the following assets as collateral:

- Government Securities;
- Obligations of Federal Agencies; and/or
- Obligations of Federal Instrumentalities.

The City reserves the right to accept/reject any form of the above named securities. The City also requires that all depositories that hold the City's deposits in excess of the FDIC limit must provide and sign a Collateralization Agreement. The amount of collateral provided will not be less than 105% of the fair market value of the net amount of public funds secured. The ratio of fair market value of collateral to the amount of funds secured will be reviewed regularly, and additional collateral will be required when the ratio declines below the level required and collateral will be released if the fair market value exceeds the required level. Pledged collateral will be held in safekeeping, by an independent third party depository, or the Federal Reserve Bank, evidenced by a safekeeping agreement. Collateral agreements will preclude the release of the pledged assets without an authorized signature from the City.

SAFEKEEPING AND CUSTODY:

Collateral for certificates of deposits and repurchase agreements will be registered in the City's name. The Director of Finance will hold all safekeeping receipts of pledged securities used as collateral for certificates of deposits and repurchase agreements. A third party institution will hold pledged securities in trust on behalf of the City's financial institution. Funds managed by outside money managers will be held in trust for the City by a custodial bank under separate contract and will be administered in concurrence with the City's Investment Policy. The custodial bank will perform (but not limited to) the following:

- Hold and safeguard the assets of the City;
- Collect the interest, dividends, distributions, redemptions or other amounts due;
- Provide monthly reporting to all necessary parties;
- Sweep all interest and dividend payments and any other un-invested cash into a short-term money market fund for re-deployment; and
- Other duties as detailed in the respective custodial agreement.

INTERNAL CONTROLS:

The Director of Finance is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurances that these objectives are met. The concept of reasonable assurance recognizes that the cost of the control should not exceed the benefits likely to be derived and the valuation costs and benefits require estimates and judgments by management.

GENERAL METHODS & FREQUENCY OF EVALUATING THE ASSET ALLOCATION:

The Director of Finance, with the assistance of the Investment Consultant, will review the target asset allocation of the City at least annually. The Director of Finance will take into consideration applicable statutes, the cash flow needs of the City, and the general asset allocation structure of its peers. The Director of Finance will make assumptions on the capital markets over the long-term and optimize the asset allocation within the established target asset allocation described below to best meet the cash flow needs of the City at a prudent level of risk. Any changes outside the parameters of the asset allocation will require approval of the City Council.

ASSET ALLOCATION/REBALANCING:

The Director of Finance has established the target asset allocation and permissible percentage ranges shown in the table set forth below:

Asset Class	Target	Minimum*	Maximum*
1-3 Yr. Government Fixed Income	35.0%	25.0%	45.0%
Intermediate Government Fixed Income	40.0%	25.0%	55.0%
Total Fixed Income	**75.0%**	**50.0%**	**95.0%**
Money Market/ CD	25.0%	5.0%	50.0%
Total Cash & Cash Equivalents	**25.0%**	**5.0%**	**50.0%**
TOTAL	**100.0%**		

*May not equal 100%

No single Investment Manager allocation shall exceed 55% of the City's total invested asset base.

On a quarterly basis, the investment portfolio shall be evaluated to determine if the investment mix should be rebalanced to achieve appropriate diversification. If the City becomes aware of issues or concerns with a particular investment, the City will take steps to address them in a timely manner, including ending the relationship or rebalancing the portfolio, or other action as appropriate.

INVESTMENT MANAGER SELECTION:

No Investment Managers shall be hired who are a party in interest or who have not, by their record and experience, demonstrated their Fiduciary responsibility, their investment experience, and their capacity to undertake the mandate for which they are being considered. Investment Managers are required to comply with the following:

1. Acknowledge in writing a Fiduciary and Investment Manager relationship with respect to the City as defined by Illinois law;
2. Be currently registered and maintain registration as an investment advisor under the Investment Advisors Act of 1940, a bank (as defined in the Act), or an insurance company qualified to perform investment management services under the law of more than one state unless otherwise approved on an exception basis; and
3. Be granted by the City the power to manage, acquire or dispose of any assets of the City pursuant to City documents.

The City will establish investment guidelines for the Investment Managers and, with the assistance of the Investment Consultant, will conduct due diligence before the appointment of all Investment Managers.

FREQUENCY OF MEASUREMENT AND MEETINGS:

1. Monthly Report. The Director of Finance shall provide a cash and investment report to the City Manager and City Council on a monthly basis.
2. Quarterly Report and Meeting. The Director of Finance, with the assistance of the Investment Consultant, shall prepare quarterly investment reports to the City Manager and City Council to measure investment performance. The quarterly performance report will include, but is not limited to, the following:
   a. An analysis and summary of the most recent events in the financial markets;
   b. An analysis of the allocation of the City's investments across asset classes and/or Investment Managers and changes in that allocation; and
   c. A review of the investment results of Investment Manager(s), funds and asset classes in the context of their objectives and benchmarks, along with specific commentary on factors affecting performance.

INVESTMENT MANAGER COMMUNICATION & EVALUATION TERMINOLOGY:

The following terminology has been developed to facilitate efficient communication between the Investment Managers, Investment Consultant, and the City staff. Each term signifies a particular status with the City and any conditions that may require improvement. In each case, communication is made only after consultation with the Director of Finance.

STATUS ***DESCRIPTION***

A. ***"In Compliance"*** The Investment Manager is acting in accordance with the Investment Policy Guidelines.

B. ***"Alert"*** The Investment Manager is notified of a problem in performance (usually related to a benchmark or volatility measure), a change in investment characteristics, an alteration in management style or key investment professionals, and/or any other irregularities. The Investment

Manager will be completing a monthly compliance checklist from the Investment Consultant to ensure thorough oversight.

C. ***"On Notice"*** The Investment Manager is notified of continued concern with one or more Alert issues. Failure to improve upon stated issues within a specific time frame justifies termination. The Investment Manager will be completing a monthly compliance checklist from the Investment Consultant to ensure thorough oversight.

D. ***"Termination"*** The Director of Finance has decided to terminate the Investment Manager. The Investment Manager is notified and transition plans are in place.

INVESTMENT MANAGER INVESTMENT GUIDELINES:

A. PERMISSIBLE INVESTMENTS:

Except as modified herein, pursuant to home rule authority, all investments purchased under this Policy shall be guided by the Public Funds Investment Act 30 ILCS 235 et seq. and all revisions thereto, as may be made by the Illinois Legislature. Below is a summary of acceptable investments as determined by the Director of Finance in compliance with the applicable statute:

1. Bonds, notes, certificates of indebtedness, treasury bills or other securities guaranteed by the full faith and credit of the United States of America, its agencies, and its instrumentalities as to principal and interest.

2. Interest bearing savings accounts, interest-bearing certificates of deposit or interest-bearing time deposits or any other investments that are direct obligations of any bank as defined by the Illinois Banking Act.

3. Commercial Paper of corporations organized in the United States with assets exceeding $500,000,000 if:
   A. Such obligations are rated at the time of purchase at P1/A1/F1 (Moody's Investors Service,, Standard &Poor's, or Fitch) and which mature not later 270 days from the date of purchase;
   B. Such purchases do not exceed 10% of the corporation's outstanding obligations, and
   C. No more than 10% of the City's funds may be invested in short term obligations of corporations.

4. Money-market mutual funds registered under the amended Investment Company Act of 1940 provided that the portfolio is limited to bonds, notes, certificates of indebtedness, treasury bills, or other securities which are guaranteed by the full faith and credit of the United States of America, its agencies, and its instrumentalities or agreements to repurchase these same types of obligations under 30 ILCS 235 et seq.

5. Interest bearing bonds of any county, 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 owned in the name of the municipality and shall be rated at the time of purchase within the 2 highest general classifications established by the following rating agencies: Moody's Investors Service, Standard & Poor's, or Fitch.

6. Securities legally issued by state or federal savings and loan associations which are insured by the F.D.I.C.

7. Public Treasurer's Investment Pool created under Section 17 of the State Treasurer Act or Funds managed, operated and administered by a bank or subsidiary of a bank.

8. Agency bonds rated within the 2 highest general classifications established by the following rating agencies: Moody's Investors Service, Standard & Poor's, or Fitch. Permissible federal agency bonds include: Federal National Mortgage Association, Federal Housing Administration (FHA), Public Housing Boards (HUD), Federal Farm Credit Banks, Farmers Home Administration, Federal Land Banks, Federal Home Loan Banks, Federal Loan Home Mortgage Corporation (Freddie Mac), Student Loan Mortgage Corporation, and other agencies authorized under the statutes so long as they are approved by the Director of Finance.

9. U.S. Agency and GSE insured mortgages, including single family pass-through pools, pass-through coupon and principal stripped securities, Federal Financial Institutions Examination Council (FFIEC) qualified collateralized mortgage obligations (CMOs) and other home equity and multi-family pass-through securities (U.S. Agency MBS). These investments may not comprise more than 35% of the total portfolio at any point in time. Leveraged, interest only, principal only, and companion tranche CMO's are strictly prohibited from purchase.

10. Other types of investments may be added to this list as changes to the statutes governing such investments are revised.

B. RESTRICTIONS:

1. The Investment Manager shall be responsible for selecting the maturities of individual fixed income securities within the account. Effective or modified duration of the account should, under normal circumstances, not deviate from the duration of the benchmark (Addendum B) by more than +/- 20% of the benchmark duration.

2. The average quality of the overall portfolio may not be rated lower than AA/Aa2 by at least two of the three rating agencies.

3. Investments in securities of a single issuer (with the exception of the U.S. Government and its Agencies) must not exceed 5% of the City's fixed income market value.

4. No single security should comprise more that 5% of the portfolio's overall allocation after accounting for price appreciation.

5. Investments in private placements and leveraged financial futures are not permitted.

6. The portfolio may not exceed 10% in cash or cash equivalents.

7. U.S. Agency and GSE backed or insured mortgages, CMOs or any securitized bond must hold a AAA rating.

8. Non-Agency securitized investments: mortgage backed ("MBS"), asset-backed ("ABS"), commercial mortgage backed ("CMBS"), collateralized mortgage obligation ("CMO"), or collateralized debt obligations ("CDO's") not issued or insured by a Government Agency are prohibited.

9. Agency structured notes, index amortizing notes, and other derivative securities, except the CMO's and mortgage pass-throughs described in section A-8 & A-9, are specifically prohibited under this Policy. At no time may any derivative be utilized to leverage the portfolio for speculation.

10. No repurchase agreements are allowed.

C. Transactions:

Fixed income security purchase and sale transactions must be executed on a "best effort" basis with brokers selected by the Investment Manager. The Investment Manager's selection of a broker or dealer shall take into account such relevant factors as: (a) price and commission; (b) the broker's facilities, reliability, and financial responsibility; and (c) the ability of the broker to effect securities transactions, particularly with regard to such aspects thereof as timing, order size, and execution of orders. The Investment Manager shall make all reasonable efforts to obtain the most competitive rate.

D. Subsequent Events:

If at any time, due to major fluctuations in market prices, abnormal market conditions, or any other reason outside the control of the Investment Manager, there shall be a deviation from the specific guidelines described herein, the Investment Manager shall not be in breach of the Policy so long as it takes such actions over such period of time as the Investment Manager determines are prudent and in the interests of the City to return the investments to compliance with the Policy. It is the duty of each Investment Manager to notify the Director of Finance and the Investment Consultant in writing whenever such deviations occur, what corrective actions will be taken and when they believe the current Policy should be altered.

E. Investment Objective:

Each Investment Manager is expected to outperform the comparative benchmark, outlined in Addendum B, net of investment management fees, over a typical market cycle (3 to 5 years).

INVESTMENT POLICY ADOPTION:

The City's Investment Policy shall be adopted by resolution of the City Council. This Policy shall be reviewed on an annual basis by the Director of Finance and any modifications made thereto must be approved by the City Council.

Addendum A – Financial Institution Adoption of Policy

Financial Institution's Acknowledgments:

The financial institution has received this copy of the Policy. The firm has studied the provisions and believes that it can both abide by its restrictions and fulfill the goals and expectations over the timetables set forth in the Policy. Additionally, the financial institution acknowledges that it is a Fiduciary in regards to the City.

____

Financial Institution Name

____

Authorized Representative-Signature

____

Authorized Representative-Printed Name

____

Authorized Representative-Title

____

Date

Addendum B – Defining the Investment Benchmarks and Professionals

ASSET CLASS	INVESTMENT MANAGER	BENCHMARK INDEX
Short Term Fixed Income Intermediate Term Fixed Income	TBD TBD	Barclays 1-3 Yr. Gov. Barclays Int. Gov.
Cash & Cash Equivalents	TBD	91 Day T-Bills

Other Fund Professionals:

Custodian(s):	TBD
Investment Consultant:	Marquette Associates

Addendum C – Authorized Financial Institution Insurance:

The insurance coverages shall include, but not necessarily be limited to, the following:

1) Professional liability insurance with limits of not less than ten million dollars ($10,000,000) per occurrence covering the Financial Institution against all sums which the Financial Institution may become obligated to pay on account of any liability arising out of the performance of the professional services for the City when caused by any negligence act, error, or omission of the Financial Institution or of any person employed by the Financial Institution or any others for whose actions the Financial Institution is legally liable. The professional liability insurance shall remain in force for a period of not less than four (4) years after the completion of the services to be performed by the Financial Institution.
2) Umbrella or excess liability insurance coverage of not less than five million dollars ($5,000,000) per occurrence.
3) Directors & Officers liability insurance coverage of not less than three million dollars ($3,000,000) per occurrence.