

RESOLUTION R-98-17

**A RESOLUTION AUTHORIZING THE EXECUTION OF AN AGREEMENT WITH
CS MCKEE, LP FOR INVESTMENT MANAGEMENT SERVICES FOR THE
INTERMEDIATE TERM FIXED INCOME STRATEGY**

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, the subject matter of this resolution pertains to the government and affairs of the City and its residents; and

WHEREAS, the City has previously engaged Marquette Associates, Inc. ("Marquette") to provide investment consulting and portfolio performance monitoring services for the City's operating funds; and

WHEREAS, Marquette conducted fixed income investment manager searches for the City's short-term and immediate term fixed income strategies; and

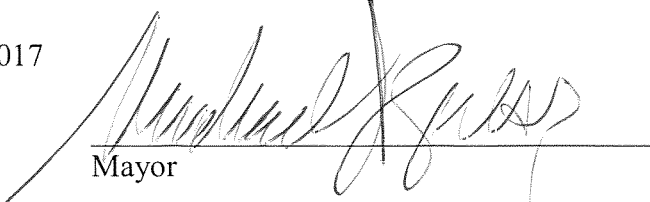
WHEREAS, the City desires to engage an investment manager to invest and manage the City's operating funds in accordance with the Public Funds Investment Act, 30 ILCS 235 et seq. and the City's Investment Policy; and

WHEREAS, it is determined by Marquette and City that CS McKee, LP meets the City's needs; and

WHEREAS, it is necessary for the City to enter into an agreement with CS McKee, LP for the purposes of providing investment management services for the intermediate term fixed income strategy of the City.

NOW, THEREFORE, BE IT RESOLVED by the Mayor and City Council of the City of Wheaton, Illinois, that the Mayor is hereby authorized to execute and the City Clerk is hereby directed to attest to an agreement between the City of Wheaton and CS McKee, LP for investment management services for the intermediate term fixed income strategy.

ADOPTED this 2nd day of October, 2017



Mayor

ATTEST:



City Clerk

Roll Call Vote

Ayes: Councilman Scalzo
Councilman Suess
Councilman Barbier
Councilman Prendiville
Mayor Gresk

Nays: None

Absent: Councilwoman Fitch
Councilman Rutledge

Motion Carried Unanimously

INVESTMENT ADVISORY AGREEMENT

CS McKee ("Advisor"), and City of Wheaton ("Client") enter into this Investment Advisory Agreement ("Agreement") as of October [insert] , 2017 (the "Effective Date"). This Agreement sets forth the terms and conditions with regard to the investment management services Advisor will provide Client and the responsibilities of the parties.

This Agreement incorporates by reference the City of Wheaton Investment Policy ("Policy") that the parties have separately agreed to, which is attached as Exhibit 1 to this Agreement.

Terms and Conditions

1. Advisor's Discretionary Authority and Responsibilities

Client, a Qualified Institutional Buyer, has hired Advisor to act as the Client's investment advisor to perform the services described in this Agreement. The Advisor will assume responsibility for the investment management of the Account as of the date set forth above, or such later date as set forth on the signature page of this Agreement. However, in any event, the Advisor shall not become responsible for the investment management of the Account until such time as it is able to make investment decisions with respect to the Account. Upon such date, Advisor shall supervise and direct the investments of and for the Account without prior consultation with Client, but subject to and in accordance with the investment guidelines as set forth in the Policy which is hereby incorporated herein (the "Guidelines"). This Account, subject to the Guidelines, (a) to buy, sell, exchange, convert and otherwise trade in any and all fixed income and other securities as the Advisor may select; and (b) to establish and deal through accounts with one or more securities broker-dealers or banks as the Advisor may select, except that Client, in compliance with the conditions specified in this Agreement, may designate specific brokers, dealers or banks. This discretionary authority shall remain in full force and effect until the Advisor receives written notice from Client of its termination.

Advisor is acting as a fiduciary regarding investment advisory services for Client and shall put Client's interests above its own in managing Client's Account. Advisor agrees to provide these services to Client in a manner consistent with its fiduciary duty to Client and the provisions of all applicable laws, including the Investment Advisers Act of 1940 (the "Advisers Act") and ¹ advisor shall comply with "Advisors Part 2 A Form ADV".

Advisor will have no authority to withdraw or transfer assets from Client's Account (except to a destination pre-set by the Client and in accordance with Client's specific instructions to Advisor).

Advisor will monitor Client's Account on an ongoing basis. Advisor will generally be available to discuss Client's Account during normal business hours with Client's Director of Finance and Client's Investment Consultant.

The Advisor shall send an inventory and appraisal of the securities in the Account monthly to Client **electronically** as follows:

rlehnhardt@wheaton.il.us

Pmarchese@marquetteassociates.com

Sophia.flynn1@usbank.com

The Client acknowledges its understanding and acceptance of the risks associated with such electronic delivery and hold Advisor harmless from any and all related losses that may occur as a result thereof.

Advisor will also review Client's Account performance and the continued suitability of investments recommended by Advisor for Client at least quarterly.

Client authorizes Advisor to respond to inquiries from, communicate and share information with Client's accountants, attorneys, advisors and other consultants or professionals as deemed necessary by Advisor to provide its services to Client and/or as requested by Client.

Advisor is responsible only for the assets over which Client has provided Advisor discretionary authority and not for the diversification or prudent investment of any other assets of Client.

The Advisor represents and warrants that it is registered as an investment adviser with the Securities and Exchange Commission pursuant to the Advisers Act, and that such registration is currently effective.

Each of the parties to this Agreement hereby represents that (a) it is duly authorized and empowered to execute, deliver and perform this Agreement, (b) that such action does not conflict with or violate any provision of law, rule or regulation, contract, deed of trust, or other instrument to which it is a party or to which any of its property is subject and (c) that this Agreement is a valid and binding obligation of such party enforceable against such party in accordance with its terms except as such enforcement may be limited by bankruptcy or similar laws affecting creditors' rights.

Advisor represents and warrants that Advisor, (including its Investment Advisor Representatives), does not receive any compensation or other remuneration that is contingent on the Client's purchase or sale of a financial product. Advisor does not receive a fee or other compensation from another party based on the referral of the Client or Client's business. Advisor may refrain from rendering any advice or services concerning securities of companies in which Advisor may have substantial economic interest or other conflict, unless Advisor discloses such conflict to Client before providing such advice or services with respect to Client's Account.

2. Client's Responsibilities: Documents and Authorities

Client represents and warrants that the appointment of the Advisor on the basis set forth in this Agreement is authorized by and has been accomplished in accordance with procedures specified in the charter, by-laws, certificate, trust agreement, or other document(s) of Client regarding governance of the Account.

Client agrees to deliver to Advisor all account forms and other documents, including a written statement of his or her investment objectives, policies and restrictions, as Advisor may reasonably require. Client also agrees to provide all municipal resolutions or similar documentation necessary to establish the undersigned's authority to execute and deliver this Agreement. Client agrees to promptly deliver all amendments or supplements to these documents and agrees that Advisor will not be liable for any losses, costs, damages or claims arising out of Client's failure to provide Advisor with any of these required documents.

Client also agrees to give Advisor prompt written notice of any modifications, changes or investment restrictions applicable to the Account.

Client agrees to notify Advisor before making any withdrawals or transfers from Client's Account to allow Advisor to manage the impact of the withdrawal on Advisor's trading in the Account. If Client withdraws assets from the Account, Client's advisory fee to Advisor will be appropriately adjusted to reflect the withdrawal. Except as otherwise instructed by Client in writing, all dividends, interest or other income earned by the Account will be retained in the Account.

3. Fees and Expenses

Client agrees to pay Advisor a fee for its investment advisory services. The fee shall be payable upon billing, at the end of each calendar quarter for the previous three month period, or partial portion thereof based on the commencement or termination date of this Agreement. Client shall make payment to the location directed by the Advisor.

This fee shall be based on a percentage of the market value of the assets under management in accordance with the Schedule of Fees attached to this Agreement and

incorporated as Exhibit 2, and in accordance with the procedures described in Advisor's Form ADV.

Client authorizes the broker and/or Custodian carrying Client's Account to charge his or her Account the amount of Advisor's fee and to remit such fee to Advisor in accordance with Client's instructions.

4. Custody of Assets; Cash Management; Reconciliations

The Advisor shall not act as custodian for assets of the Account, or take or have possession of any assets of the Account.

The Client has the responsibility to ensure that the assets of the Account are held by a qualified custodian ("Custodian") as defined in the Investment Advisers Act of 1940, as amended (the "Advisers Act"). Client authorizes and directs Advisor to instruct Custodian on the Client's behalf to (a) send Client at least quarterly a statement showing all transactions occurring in the Account during the period covered by the Account statement, and the funds, securities and other property in the Account at the end of the period; and (b) provide Advisor copies of all periodic statements and other reports for the Account that Custodian sends to Client in order that the Advisor from time to time may reconcile its records to those of the Custodian. Such reconciliations are solely for the Advisor's own internal purposes in the administration of the Account, and the Advisor undertakes no responsibility or liability for any act or omission of the Custodian whether or not disclosed in the statements of the Custodian received by the Advisor. The Client acknowledges and agrees that the Client has the responsibility to ensure the Client receives statements directly from the Custodian and to verify statements from the Custodian with statements received from the Advisor.

The Advisor shall have no responsibility for the management of cash assets of the Account if Client has authorized and directed the Custodian to manage uninvested cash assets of the Account. If the Advisor has responsibility for the management of cash assets, the Advisor shall inform Client in writing of the procedures and types of short-term investment vehicles employed for that purpose in the management of the Account, and shall from time to time inform Client of any material changes in such procedures or types of investment vehicles.

Client will be solely responsible for paying all fees or charges of the Custodian.

5. Non-Exclusivity

Client acknowledges that Advisor shall be free to render investment advice to others and Advisor does not make its investment management services available exclusively to Client. Client also understands that Advisor provides investment advisory services to multiple clients with different economic needs and agrees that Advisor may give advice and take action with respect to any of its other clients, which

may differ from the advice given or the timing or action taken regarding Client's Account. Nothing in this Agreement shall impose on Advisor any obligation to Client to purchase, sell or recommend for purchase or sale any security that Advisor, its principals, affiliates, officers, members or employees may purchase or sell for their own accounts or for the account of any other client if in the sole and absolute discretion and reasonable opinion of Advisor it is not for any reason practical or desirable to acquire a position in such security for Client's Account.

6. Trade Errors

Advisor assumes responsibility for any Account losses for trading errors directly resulting from Advisor's failure to follow its trading procedures or from a lapse in Advisor's internal communications and will compensate Client for any corresponding losses. Advisor shall not be responsible for trade errors solely caused by a third-party: such as a broker.

7. Legal Proceedings, Proxies, and Voting Right of Portfolio Securities

The Advisor will utilize its best efforts to act on Client's behalf with regard to class actions. The Client agrees that Advisor is not obligated to advise or act for Client in any other type of legal proceedings involving securities held or previously held by the Account or the issuers of these securities ("Legal Proceedings").

Advisor *will vote* proxies for securities held in the Account in accordance with Advisor's policies regarding proxy voting. Advisor is authorized and directed to instruct the Custodian to forward promptly to Advisor copies of all proxies and shareholder communications relating to securities held in the Account (other than materials relating to Legal Proceedings). Client agrees that Advisor will not be responsible or liable for failing to vote any proxies where it has not received such proxies or related shareholder communications on a timely basis.

8. Risk Acknowledgement

Advisor shall be responsible for managing Account in accordance with this Agreement, the Guidelines, and applicable law. Advisor does not guarantee the future performance of the Account or any specific level of performance, the success of any investment decision or strategy that Advisor may use, or the success of Advisor's overall management of the Account. Client understands that investment decisions made for the Account by Advisor are subject to various market, currency, economic, political and business risks, including those described in Advisor's Part 2A of Form ADV, and that those investment decisions will not always be profitable. Advisor will manage only the securities, cash and other investments held in the Account and in making investment decisions for the Account, Advisor will not consider any other securities, cash or other investments owned by Client. Except as may otherwise be provided by law, Advisor will not be liable to Client for (a) any loss that a Client may suffer by reason of any investment decision made or other action taken or omitted in

good faith by Advisor with that degree of care, skill, prudence, and diligence under the circumstances that a prudent person acting in a fiduciary capacity would use; (b) any loss arising from Advisor's adherence to Client's instructions or the Guidelines; or (c) any act or failure to act by the Custodian, any broker or dealer to which Advisor directs transactions for the Account, or by any other third party. The federal and state securities laws impose liabilities under certain circumstances on persons who act in good faith, and therefore nothing in this Agreement will waive or limit any rights that Client may have under those laws.

9. Non-Waiver of Compliance

Nothing in this Agreement, including any condition, stipulation or provision, may be interpreted to waive or limit any obligation of Advisor to comply with the Advisers Act or any rights that Client may have under applicable federal and state securities laws, rules and regulations.

10. Termination and Cancellation

This Agreement will continue in effect until terminated by either party. Advisor may terminate this Agreement at any time by giving thirty (30) days signed written notice to the Client. Any fee paid in advance to the Advisor shall be refunded. Client may terminate this Agreement by providing written notice to the Advisor to stop trading on Client's behalf.

.11. Binding Effect, Successors and Assigns, Assignment and Ownership Changes

Neither Client nor Advisor may assign this Agreement within the meaning of the Advisers Act and/or any applicable state securities law without the express prior written consent of the other party. Should there be a change of control of Advisor, the successor advisor will notify Client in writing within a reasonable time after such change and continue to provide the services previously provided to Client by Advisor. If Client continues to accept the services provided by the successor without written objection during the 60 days after receipt of the written notice from the successor, the successor may assume that Client has consented to the assignment and the successor will become the advisor to Client under the terms and conditions of this Agreement. Notwithstanding the foregoing, Advisor may disclose Client as a representative client in its marketing materials.

Client acknowledges that transactions that do not result in a change of actual control or management of Advisor shall not be considered an assignment pursuant to Rule 202(a)(1)-1 of the Advisers Act and/or any applicable state securities law.

12. Governing Law

Where not pre-empted by Federal Law, this Agreement will be governed by and construed in accordance with the laws of the State of Illinois without giving effect to its conflict of laws principles. The Agreement shall also be construed in a manner consistent with the Advisers Act and the SEC rules and regulations under that Act and nothing in this Agreement shall be construed in any manner inconsistent with the Advisers Act or any SEC rule, regulation or order promulgated thereunder and applicable to Advisor.

13. Disclosure Concerning Advisor's Registration

Advisor represents that it is currently duly registered as an investment advisor with the SEC pursuant to the Advisers Act.

14. Client Acknowledgement of Receipt of Form ADV Brochure and Privacy Policy

Client acknowledges having received, on or before the date of this Agreement, a copy of Advisor's Form ADV Part 2A Brochure and Form ADV Part 2B Brochure Supplement(s) or an equivalent document meeting the disclosure requirements of the Investment Advisers Act or applicable state law.

Client understands that Advisor will provide Client with an annual notice indicating the manner in which Client can obtain an updated Form ADV Part 2, and will provide Client with a copy of the same upon request.

Client also acknowledges receiving, on or before the date of this Agreement, copies of Advisor's Privacy Policy and agrees to allow Advisor to make such limited disclosures of Client information as are permitted under its Privacy Policy.

15. Confidentiality

During the term and following the termination of this Agreement, the parties agree to treat as confidential all information and advice furnished by either party, including their agents and employees, and all transactions and investments held in Client's Account. This confidential information shall not be disclosed to any third parties except as agreed upon in writing, as required by federal or state law, regulatory authorities, or as may be necessary to effect transactions in the Account.

Client has received and reviewed a copy of Advisor's Privacy Policy detailing how Advisor protects Client's non-public personal information. Except as otherwise agreed in writing or as required by law, Advisor will keep confidential all information concerning Client's identity, financial affairs, and investments. Advisor will only disclose information Client provides to Advisor in connection with this Agreement as required by law, or as needed, to implement Client's investment needs or to perform the services contemplated by the Agreement. Client may disclose confidential information to its attorneys, accountants or other professional advisors who may need

this information in connection with providing services to Client provided that they agree to protect its confidentiality and to use the information only for the purpose of providing services to Client.

When this Agreement terminates, Client's documents will be returned upon request. Advisor may retain copies of documents and other information in its files for compliance purposes.

16. Representations

Each party executing this Agreement represents that:

- a. It has full legal power and authority to enter into this Agreement;
- b. This Agreement will be legally binding and enforceable against such party when executed;
- c. The terms of this Agreement and the performance of the actions called for under the Agreement by such party will not violate any law, regulation or contractual obligation to which such party is subject; and
- d. If one of the parties is an entity, that party represents that:
 - i. The entity is validly organized under the laws of the applicable jurisdiction;
 - ii. This Agreement has been entered into by an appropriate agent with power to bind the entity who is of legal age and capacity; and
 - iii. This Agreement has been duly authorized by appropriate entity action and when executed and delivered will be binding in accordance with its terms.

17. Notices and Consents to Electronic Delivery

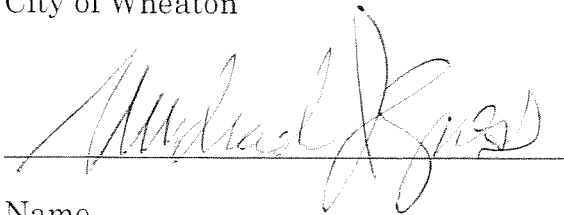
Any notice given to a party under this Agreement (including notices, instructions, and directions related to changes in Client's investment objectives) must be in writing and shall be effective upon receipt by the other party, if delivered to the party at its mailing or email address specified in this Agreement.

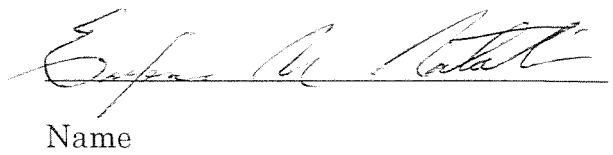
Client agrees and consents to have Advisor deliver or make available electronically all current and future agreements, agreement revisions, deliveries and offers of Form ADV Part 2, account statements, notices (including privacy notices), letters, regulatory communications and other information, documents, data, records and reports related to the Account. Electronic communications may include email delivery and/or electronic communications via Advisor's website. Client acknowledges and agrees that such email delivery and electronic provision will constitute delivery. Client acknowledges and agrees that it must inform Advisor in writing of any changes

uskreppen@esmekee.com

City of Wheaton

C.S. McKee, LP


Name


Name


Date

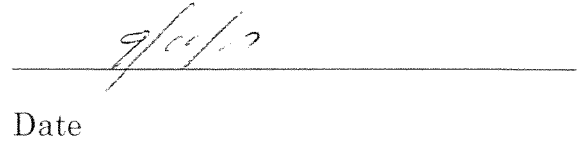

Date

Exhibit 1

City of Wheaton Investment Policy

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.

<u>STATUS</u>	<u>DESCRIPTION</u>
A. <i>"In Compliance"</i>	The Investment Manager is acting in accordance with the Investment Policy Guidelines.
B. <i>"Alert"</i>	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 than 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	TBD	Barclays 1-3 Yr. Gov.
Intermediate Term Fixed Income	TBD	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.

Schedule A

FEE SCHEDULE

Intermediate Government

20 bps flat

