

Lake County Investment Policy

I. Introduction

The intent of the Investment Policy of Lake County is to define the parameters within which funds are to be managed. In methods, procedures and practices, the policy formalizes the framework for Lake County's investment activities that must be exercised to ensure effective and judicious fiscal management of Lake County's funds. The guidelines are intended to be broad enough to allow the investment officer to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

II. Governing Authority

The investment program shall be operated in conformance with federal, state, and other legal requirements.

III. Scope

This Investment Policy applies to the investment activities of all funds of Lake County. All financial assets of funds, including: the General Fund, Special Revenue Funds, Capital Project Funds, Debt Service Funds, Special Assessment Funds, Enterprise Funds, Internal Service Funds, Trust and Agency Funds, and other funds that may be created from time to time, shall be administered in accordance with the provisions of this Policy.

IV. General Objectives

The purpose of the Investment Policy of Lake County is to establish cash management and investment guidelines for County Officials responsible for the stewardship of public funds. The primary objectives, in priority order, of investment activities shall be:

1. *Safety*

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

Each investment transaction shall seek to first ensure that capital losses are avoided, whether they are from securities defaults or erosion of market value. The County shall diversify its investments to avoid incurring unreasonable risks regarding specific security types and/or individual financial institutions. The County will minimize the risk that the market value of the securities in the portfolio will fall due to changes in the general interest rate.

2. *Liquidity*

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. The County investment portfolio shall mitigate any interest rate risk by remaining sufficiently liquid to enable the County to meet all operating requirements which may be reasonably anticipated in any County fund. Investing in such a way to avoid the need to sell securities prior to maturity.

3. *Return*

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints of safety and liquidity needs.

The investment portfolio of the County shall be designed with the objective of regularly exceeding the average return of 1-3 year U. S. Agency. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles.

V. **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 liability 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.

The "prudent person" standard states that,

“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.”

2. *Ethics and Conflicts of Interest*

County officials involved in the investment process shall refrain from personal activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. Disclosure shall be made to the governing body. 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 any personal investment transactions with the same individual with whom business is conducted on behalf of the Lake County. The Lake County Ethics Ordinance shall cover all Lake County employees in their dealings regarding any type of investment.

3. *Internal Control - Duties and Responsibilities*

The County Treasurer shall be responsible for the management of the investment program and the daily operational duties. A designated Deputy Treasurer shall have the authority to perform operational duties as authorized by the Treasurer. The Treasurer or representative thereof will record all investment activities and maintain the files with supporting documentation.

4. *Separation of Duties*

Investment staff shall observe proper segregation of duties while engaged in investment activities.

5. *Delegation of Authority and Responsibilities*

Management responsibility for the investment program of Lake County is hereby delegated, as provided

by law, to the Treasurer or other custodians of public funds, who shall each be the designated Deputy Treasurer of the public funds over which they exercise control. No person may engage in an investment transaction except as provided under terms of this Policy. The Treasurer or other custodians of public funds shall be responsible for all transactions undertaken and shall establish a system of internal controls and written operational procedures to regulate the activities of subordinate officials.

Officers will prepare monthly investment reports and other special reports as may be deemed necessary.

VI. Authorized Financial Institutions, Investment Advisors and Broker/Dealers

1. Financial Institutions- Depositories

It shall be the policy of Lake County to select financial institutions on the following basis:

- A. Security: The County will not maintain funds in any financial institution that is not a member of the Federal Deposit Insurance Corporation or the National Credit Union Association systems. Furthermore, the County will not maintain funds in any financial institution that does not collateralize all funds in excess of the FDIC or NCUA insurance limits, except as listed in Section VII, Sub Sections F & G.
- B. Size: The County will not deposit additional funds in any financial institution in which the uncollateralized County funds on deposit will exceed 75% of the institution's capital stock and surplus; except deposits in credit unions shall not exceed 50% of the unimpaired capital and surplus of such credit union which shall include shares, reserves and undivided earnings (Illinois Compiled Statutes, 30 ILCS 235/6).
- C. Location: The County will maintain operating and investment accounts in the financial institutions within Lake County whenever possible, and not precluded by other standards of this Policy. However, the County may approve depositories regardless of location.
- D. Statement of Condition: The County will conduct periodic review of current statements of condition for each financial institution named as depository. If, for any reason, the information furnished is considered by the County Treasurer to be insufficient, the County may request additional data. The refusal of any institution to provide such data upon request may serve as sufficient cause for the withdrawal of County funds.

The investment officer shall determine which financial institutions are authorized to provide investment services to Lake County. Institutions eligible to transact investment business with Lake County include:

1. Primary government dealers as designated by the Federal Reserve Bank;
2. Nationally or state-chartered banks;
3. The Federal Reserve Bank; and,
4. Direct issuers of securities eligible for purchase.

All financial institutions who desire to become depositories must supply the following:

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines

2. Investment Advisor

The Lake County may engage the services of one or more external investment managers to assist in the management of the entity's investment portfolio in a manner consistent with the entity's objectives. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisers Act of 1940.

3. Broker/Dealer

All broker/dealers who desire to become qualified for investment transactions must supply the following (as appropriate):

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of FINRA certification
- Proof of state registration
- Certification of having read and understood and agreeing to comply with Lake County's investment policy.
- Evidence of adequate insurance coverage.

Selection of Financial Institutions, Investment Advisors and Broker/Dealers authorized to engage in transactions with the Lake County shall be at the sole discretion of the Treasurer, Deputy Treasurer or Investment Officer.

A periodic review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the investment officer.

VII. Suitable and Authorized Investments

All investments shall be made in accordance with the Illinois Public Funds Investment Act (30 ILCS 235/2 et seq), as may be amended from time to time.

The County shall not:

- Purchase financial forwards or futures.
- Purchase any leveraged investments.
- Lend securities.
- Participate in reverse repurchase agreements.
- Purchase any credit-risk transfers.

IMPORTANT NOTE: If the credit rating of a security is subsequently downgraded below the minimum rating level for a new investment of that security, the Investment Officer shall evaluate the downgrade on a case-by-case basis in order to determine if the security should be held or sold. The Investment Officer will apply the general objectives of safety, liquidity, yield and legality to make the decision.

VIII. Maturities

Maturities of investments of the various funds of the County shall be determined to enable the County to have available sufficient cash for all operating purposes.

Investments may be purchased with maturities to match cash flow needs, future projects or liability requirements,

IX. Collateralization

- A. It is the policy of Lake County to require that funds on deposit in excess of FDIC limits be secured by collateral types described below. High volume checking accounts under the control of the Treasurer shall be collateralized based upon the anticipated average balance for the following weeks. The ratio of fair market value of collateral to the amount of funds secured will be reviewed quarterly and additional

collateral will be requested when the ratio declines below the level required.

- B. The County will accept any of the following assets as collateral, provided that the amount of collateral pledged will be not less than 105% of the fair market value of the net amount of public funds secured; and any financial institution pledging collateral from this section must place required collateral securities in a restricted account at a Federal Reserve Bank, a trust department of a commercial bank or with another financial institution that is not owned or controlled by the same institution or holding company. Collateral agreements will provide that pledged assets may be released by the instructions of both the financial institution or the County. If conflict arises in the instructions of the County and the financial institution as to the release of any pledged assets, the instructions of the County control. Agreements will allow for an exchange of collateral of like value.
- U. S. Government Securities.
 - Obligations of Federal Agencies.
 - Obligations of Federal Instrumentalities.
 - Obligations of the State of Illinois.
 - Obligations of Lake County.
 - Irrevocable Letter of Credit.
 - General Obligation Municipal Bonds rated at one of the 4 highest classifications established by at least 2 standard rating services
- C. Pledged collateral will be held in safekeeping as evidenced by a safekeeping agreement.
- D. Any financial institution pledging collateral under this section shall supply the following reports:
1. A report at the end of each month, listing the description of the collateral pledged and its value. Those financial institutions that do not require written authorization to release collateral, must in addition provide weekly reports, as well as providing web base access that will in turn be checked daily.
 2. Accurate and truthful response to the Lake County external auditor's confirmation requests related to amounts on deposit as of November 30th of each year.
 3. Any reports submitted under section 1 and 2 immediately above shall be considered exempt from public inspection under the Freedom of Information Act.

X. Reporting/Disclosure

Lake County maintains its accounting records on the basis of funds and account groups, each of which is considered a separate accounting entity. All investment transactions shall be recorded in the various funds of the County in accordance with generally accepted accounting principles as promulgated by the Government Accounting Standards Board.

Methods

The investment officer shall prepare an investment report at least quarterly. The report should be provided to the Treasurer, Deputy Treasurer and/or County Board. The report will include, at a minimum, the following:

- A listing of securities by class or type.
- The book value of each security.
- Interest earned for said period.

- The market value as of the report date.

XI. Environmental, Social, and Governance Concerns

The Treasurer's Office will prudently integrate sustainability factors into its investment decision-making, investment analysis, portfolio construction, due diligence, and investment ownership in order to maximize anticipated financial returns, minimize projected risk, and more effectively execute its fiduciary duty. In considering investment opportunities, the Treasurer's Office will deliberate corporate governance and leadership, environmental factors that may have an adverse or positive financial impact on investment performance, social capital factors that impact relationships with key outside parties and human capital factors that recognize that the workforce is an important asset to delivering long-term value.

This paragraph shall be implemented in accordance with the Illinois Sustainable Investing Act, 30 ILCS 328/1 *et seq.*

XII. Policy Considerations

1. Exemption

Any investment currently held that does 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 provided by this policy.

2. Amendments

This policy shall be reviewed from time to time. Any changes shall be presented to the County Board for approval.

XIII. Approval of Investment Policy

The investment policy and any modifications to that policy shall be formally approved and adopted by the County Board.

Adopted by the County Board on _____