RESOLUTION NO. 2018-003

RESOLUTION OF THE VILLAGE OF MONTGOMERY, ILLINOIS ADOPTING AN INVESTMENT POLICY

WHEREAS, the Village of Montgomery's ("Village") investment program shall comply at all times with the Illinois Public Funds Investment Act (30 ILCS 235); and

WHEREAS, the Village is required to adopt a written Investment Policy (30 ILCS 235/2.5(a)); and

WHEREAS, the Village is required to identify the chief investment officer (30 ILCS 235/2.5(a)(7)); and

WHEREAS, the Village is required by the Illinois Municipal Code to maintain a list of authorized financial institutions (65 ILCS 5/3.1-35-50); and

WHEREAS, the Village will regularly review existing policies and establish additional policies to promote fiscal responsibility and the efficient transaction of Village business; and

WHEREAS, the Village is an Illinois municipal corporation and a non-home rule unit of government under the Illinois Constitution, Article VII, Section 7, and accordingly, is a public body subject to these provisions; and

WHEREAS, the Village Board finds it in the best interest of the citizens to establish policies to ensure the financial stability of the Village.

NOW, THEREFORE, BE IT RESOLVED by the Village President and the Board of Trustees of the Village of Montgomery, Kane and Kendall Counties, Illinois, as follows:

Section One: Incorporation of Preambles

The Board hereby finds that all of the recitals contained in the preambles to this Resolution are full, true and correct and does incorporate them into this Resolution by this reference.

Section Two:

The Investment Policy attached as Exhibit A to this resolution, incorporated herein by reference, is hereby adopted.

Section Three: General Provisions

REPEALER: All ordinances, resolutions, policies, or portions thereof in conflict with this resolution are hereby repealed.

SEVERABILITY: Should any provision of this Resolution be declared invalid by a court of competent jurisdiction; the remaining provisions will remain in full force and effect the same as if the invalid provision had not been a part of this Resolution.

EFFECTIVE DATE: This Resolution shall be in full force and effect from and after its approval, passage and publication in pamphlet form as provided by law.

PASSED AND APPROVED by the President and Board of Trustees of the Village of Montgomery, Kane and Kendall Counties, Illinois, this 12th day of February, 2018.

Matthew Brolley
President of the Board of Trustees of the Village of Montgomery

ATTEST:

Penny Fitzpatrick
Clerk of the Village of Montgomery

	Aye	Nay	Absent	Abstain
Trustee Stan Bond	✓			
Trustee Peter Heinz				✓
Trustee Steve Jungermann	✓			
Trustee Dennis Lee	✓			
Trustee Douglas Marecek	✓			
Trustee Theresa Sperling	✓			

I. Purpose

The purpose of this investment policy is to formalize the framework for the Village of Montgomery, Illinois' investment activities. This policy applies to all of the Village's financial assets and is intended to be broad enough to allow the Village to function properly within the parameters of responsibility and authority, while adequately safeguarding such assets. All transactions involving the Village's financial assets, and related activity, shall be administered and conducted in accordance with this Policy.

II. Responsibility

A. Governing Body: The Board will retain ultimate fiduciary responsibility for the portfolio. The Board will receive monthly reports, designate investment officers, and approve changes to the investment policy.

B. Investment officer: Authority to manage the investment program is granted to the Director of Finance, hereinafter referred to as investment officer as designated by 30 ILCS 235/2.5(a)(7). Management responsibility for the operation of the investment program is hereby delegated to the Director of Finance, with the advice and consent of the Village Administrator, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this policy.

III. Scope

This policy applies to the investment activities of the Village with regard to the financial assets of all funds, with the following exceptions:

A. The Village of Montgomery Police Pension Fund is governed by the Montgomery Police Pension Board and has a separate investment policy.

B. Funds set aside to decrease Village debt in conjunction with a refunding agreement will be invested in accordance with appropriate bond documents and not necessarily in compliance with this policy.

C. Should bond covenants be more restrictive than this policy, funds will be invested in full compliance with those restrictions.

The following funds are accounted for in the Village's Comprehensive Annual Financial Report and are covered under this policy:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Enterprise Funds
- Agency Funds
- Any new fund created, unless specifically exempted above

III. Scope (Continued)

Except for cash and investments in certain restricted and special funds, the Village commingles its cash and investments to maximize investment earnings and to increase efficiencies with regard to pricing, safekeeping, and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with accounting principles generally accepted in the United States of America.

IV. General objectives

The primary objectives, in order of priority, of all investment activities involving the financial assets of the Village shall be:

A. Safety: Safety shall be the foremost objective of this policy and refers to the preservation of capital and protection of investment principal. Village investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the Village's overall portfolio by mitigating credit and interest rate risk.

   1. Credit risk: Credit risk is the risk that an issuer of a debt security will not pay its par value upon maturity. The goal will be to minimize credit risk by:
      - Limiting investments to the types of securities identified in Article VII, Section A of this policy; and
      - Diversifying the portfolio in accordance with Article VII, Section B of this policy, so that potential losses on individual securities will be minimized. Diversification reduces the risk that potential losses on individual securities might exceed the income generated from the remainder of the portfolio.

   2. Interest rate risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The goal will be to minimize interest rate risk by:
      - Structuring the 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
      - Investing operating funds primarily in shorter-term securities, money markets, or similar investment pools.

B. Liquidity: The portfolio shall maintain sufficient liquidity to enable the Village to meet all operating requirements and expected liabilities which may be reasonably anticipated in any Village fund.

C. Return: The portfolio shall be designed to obtain a reasonable return, which for the purposes of this policy means the portfolio should obtain a market-average rate of return in accordance with Article VIII, Section B of this Policy, taking into account the Village's investment risk constraints and cash flow needs of the Village's funds.

V. Standards of care

A. 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. Investments and deposits of public funds shall be made with judgment and care under the 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. Village officers and employees acting in accordance with this policy, and any other written procedures, and exercising due diligence shall be relieved of personal liability for an individual security's credit risk or market changes, provided that officers and employees report deviations from expectations in a timely fashion and take appropriate action to control adverse developments.

B. Maintaining the public trust: All participants in the investment process shall seek to act responsibly as custodians of the public trust and shall avoid any transaction that might impair public confidence in the Village.

C. Ethics and conflicts of interest: Officers and employees of the Village who are involved in the investment process shall refrain from personal business activity that could conflict with proper execution and management of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Board any material interests in financial institutions with which they conduct business. They shall further disclose any material personal financial or investment positions that could be related to the performance of the portfolio. Employees and officers shall subordinate their personal investment transactions to those of the Village, particularly with regard to the timing of purchases and sales.

VI. Safekeeping and custody

A. Authorized financial institutions

Financial institutions may include depositories, investment advisors, broker/dealers, and local government investment pools as authorized in this Policy. Financial institutions who desire to become qualified for transactions must provide certification 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 Village shall be at the sole discretion of the Village. Financial institutions will be selected based on financial condition, proper registration, level of service, experience with Illinois municipalities, and competitive pricing.

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 who desire to become designated depositories must supply the following (as appropriate):

- Audited financial statements
- Proof of state registration
- Evidence of adequate insurance coverage

VI. Safekeeping and custody (Continued)

A. Authorized financial institutions (Continued)

All investment advisors shall be registered under the Investment Advisors Act of 1940. All financial institutions who desire to become designated investment advisors must supply the following (as appropriate):

- Audited financial statements
- Securities and Exchange Commission (SEC) Form ADV – Parts 1 and 2
- Proof of state or SEC registration as appropriate
- Evidence of adequate insurance coverage

All broker/dealers shall be insured by the Securities Investor Protection Corporation (SIPC). All financial institutions who desire to become designated broker/dealers must supply the following (as appropriate):

- Audited financial statements
- Proof of Financial Industry Regulatory Authority (FINRA) certification
- Proof of state registration
- Evidence of adequate insurance coverage

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 Village of Montgomery 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 of the Village.

B. Collateralization

The Village shall require that deposits in excess of Federal Deposit Insurance Corporation (FDIC), National Credit Union Administration (NCUA), and Securities Investor Protection Corporation (SIPC) insurable limits in a single financial institution and investments not guaranteed by the United States of America or one of its agencies be secured by some form of collateral. To fulfill this requirement, every pledge of collateral must be documented by an approved written security and pledge agreement, executed by the financial institution contemporaneously with the acquisition of the pledged collateral by the financial institution.

To the extent that there are funds in excess of FDIC, NCUA, and/or SIPC insurance protection, eligible collateral instruments are as follows:

- Bonds, notes, or other securities constituting direct and general obligations of the United States;
- Bonds, notes, or other securities constituting the direct and general obligation of any agency or instrumentality of the United States, the interest and principal of which is unconditionally guaranteed by the United States;

VI. Safekeeping and custody (Continued)

B. Collateralization (Continued)

- Bonds, notes, or other securities or evidence of indebtedness constituting the obligation of a U.S. agency or instrumentality;
- Direct and general obligation bonds of the State of Illinois or of any other state of the United States; provided, however, the bonds shall be rated at the time of purchase within the 4 highest general classifications established by a rating service of nationally recognized expertise in rating bonds of states and their political subdivisions;
- Revenue bonds of the State of Illinois or any authority, board, commission, or similar agency thereof; provided, however, the bonds shall be rated at the time of purchase within the 4 highest general classifications established by a rating service of nationally recognized expertise in rating bonds of states and their political subdivisions;
- Direct and general obligation bonds of any city, town, county, school district, or other taxing body of any state, the debt service of which is payable from general ad valorem taxes; provided, however, the bonds shall be rated at the time of purchase within the 4 highest general classifications established by a rating service of nationally recognized expertise in rating bonds of states and their political subdivisions;
- Revenue bonds of any city, town, county, or school district of the State of Illinois; provided, however, the bonds shall be rated at the time of purchase within the 4 highest general classifications established by a rating service of nationally recognized expertise in rating bonds of states and their political subdivisions;

The amount of collateral provided will not be less than 105% of the market value of the net amount of public funds secured. The ratio of fair market value of collateral to the amount of funds secured shall be reviewed monthly and additional collateral will be requested when the ratio declines below the level required.

Third party safekeeping shall be required for all collateral, which may be held at the following locations:

- A Federal Reserve Bank or its branch office; or
- By an independent third party with whom the Village has a current custodial agreement, unless physical securities are involved.

Safekeeping of collateral shall be documented by written agreement which may take the form of a safekeeping agreement, trust agreement, escrow agreement, or custody agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the Village. Substitution or exchange of securities held for collateral shall not be done without prior written notice of the Village at least 10 days prior to any proposed substitutions and provided that the market value of the replacement collateral is equal or greater than the market value of the collateral being replaced. The Village must pre-approve all substitution and exchanges of collateral.

VI. Safekeeping and custody (Continued)

C. Safekeeping

All security transactions, including collateral for repurchase agreements, entered into by the Village shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third-party custodian designated by the Director of Finance and evidenced by safekeeping receipts.

VII. Investment portfolio

A. Authorized investments

The Village is empowered by statute to invest in the following:

1. Bonds, notes, certificates of indebtedness, treasury bills or other securities now or hereafter issued, which are guaranteed by the full faith and credit of the United States of America as to principal and interest;

2. Bonds, notes, debentures, or other similar obligations of the United States of America, its agencies, and its instrumentalities;

3. Interest-bearing savings accounts, interest-bearing certificates of deposit or interest-bearing time deposits or any other investments constituting direct obligations of any bank as defined by the Illinois Banking Act; provided, however, that such investments may be made only in banks which are insured by the Federal Deposit Insurance Corporation;

4. Short term obligations of corporations organized in the United States with assets exceeding $500,000,000 if (1) such obligations are rated at the time of purchase at one of the 3 highest classifications established by at least 2 standard rating services and which mature not later than 270 days from the date of purchase, (2) such purchases do not exceed 10% of the corporation's outstanding obligations and (3) no more than one-third of the Village's funds may be invested in short term obligations of corporations;

5. Money market mutual funds registered under the Investment Company Act of 1940, provided that the portfolio of any such money market mutual fund is limited to (1) bonds, notes, certificates of indebtedness, treasury bills or other securities now or hereafter issued, which are guaranteed by the full faith and credit of the United States of America as to principal and interest, (2) bonds, notes, debentures, or other similar obligations of the United States of America, or its agencies, and its instrumentalities, or (3) agreements to repurchase such obligations;

VII. Investment portfolio (Continued)

A. Authorized investments (Continued)

6. 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. The bonds shall be registered in the name of the municipality or held under a custodial agreement at a bank. The bonds shall be rated at the time of purchase within the 4 highest general classifications established by a rating service of nationally recognized expertise in rating bonds of states and their political subdivisions;

7. Short term discount obligations of the Federal National Mortgage Association;

8. Shares or other forms of securities legally issuable by State or Federal savings banks or savings and loan associations which are insured by the FDIC;

9. Dividend-bearing share accounts, share certificate accounts or class of share accounts of a credit union chartered under the laws of the State of Illinois or the laws of the United States; provided, however, the principal office of any such credit union must be located within the State of Illinois whose accounts of which are insured by applicable law;

10. A Public Treasurers' Investment Pool created under Section 17 of the State Treasurer Act (Illinois Funds);

11. Illinois Metropolitan Investment Fund (IMET);

12. Illinois Trust (formerly Illinois Institutional Investors Trust), IIIT Class;

13. Interest-bearing bonds of the Village of Montgomery, Illinois. The bonds shall be registered in the name of the municipality, held under a custodial agreement at a bank, or held at the Village offices;

14. Savings accounts placed through a depository institution that has a main office or a branch office in Illinois and that contractually agrees to place the funds in federally insured depository institutions through the Insured Cash Sweep service (ICS).

15. Any other investment permitted by Illinois statute.

B. Diversification

It is the policy of the Village to diversify its portfolio. Investments shall be diversified to eliminate the risk of loss and balance the effect of interest rate changes on different types of securities. Investment shall be diversified by:

- Limiting investments to avoid over-concentration in securities from a specific issuer;

VII. Investment portfolio (Continued)

B. Diversification (Continued)

- Investing in securities with varying maturities;
- Investing a portion of the portfolio in readily available funds such as bank cash management accounts, money market funds, Illinois Funds, or IMET Convenience Fund to ensure liquidity is maintained to meet ongoing obligations.

With the exception of U.S. Treasury and U.S. agency securities, as well as Illinois Funds, IMET, and Illinois Trust no more than 90% of the Village of Montgomery's total investment portfolio will be invested in a single security type and no more than 50% of the Village of Montgomery's total investment portfolio will be invested with a single financial institution.

C. Maturities

In order to minimize the impact of market risk, it is intended that all investments will be held to maturity. Investments may be sold prior to maturity for cash flow purposes. However, no investment shall be made based solely on earnings anticipated from capital gains.

To the extent possible, the Village of Montgomery will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Village will not directly invest in securities maturing more than five (5) years from the date of purchase.

D. Internal controls

The Director of Finance shall establish a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent action by officers and employees of the Village.

VIII. Reporting

A. Frequency and format

- Quarterly: The Director of Finance shall ensure that the portfolio is reviewed to determine its general performance and effectiveness in meeting the objectives. The Director of Finance shall submit a cash and investment report to the Board.
- Annually: The Comprehensive Annual Financial Report of the Village shall include all investment information and disclosures required by accounting principles generally accepted in the United States of America as promulgated by the Government Accounting Standards Board.

VIII. Reporting (Continued)

B. Performance standards

The portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during budgetary and economic cycles, taking into account the Village's investment risk constraints and cash flow needs. The Village's investment strategy is passive, which means securities are intended to be held to maturity. Given this strategy, the investment portfolio of the Village shall be designed with a target range between the average return of the 90-day U.S. Treasury Bill and the two-year U.S. Treasury Note. The investment program shall seek to augment returns above this level, consistent with risk limitations identified herein and prudent investment principles.

IX. Amendment of policy

The Director of Finance shall review this Policy from time to time and shall submit any modifications thereto to the Board for approval.

In the event that any state or federal legislation or regulation should further restrict instruments, institutions or procedures authorized by this policy, such restrictions shall be deemed to be immediately incorporated in this policy. If new legislation or regulation should liberalize the permitted instruments, institutions or procedures, such changes shall be available and included in this Policy only after written notification to the Board and their subsequent approval of said changes.

X. Legislation and documentation

The Village's investment program shall comply at all times with the Illinois Public Funds Investment Act (30 ILCS 235/1 *et seq.*) and other state laws governing the investment of public funds, as amended from time to time. In the event of any conflict between this Policy and the Illinois Public Funds Investment Act and other state laws, the provisions of the Illinois Public Funds Investment Act and other state laws shall control.

The Director of Finance will maintain a list and is hereby authorized to deposit Village monies, in accordance with 65 ILCS 5/3.1-35-50, in financial institutions as attached hereto as Appendix A. The Director of Finance shall review this list from time to time and shall submit any modifications thereto to the Board for approval. The Director of Finance shall be discharged from responsibility for all funds or money the Director of Finance deposits in a designated financial institution while the funds and money are so deposited.

Appendix A

Village of Montgomery
Listing of Authorized Financial Institutions

List of Depositories
Amalgamated Bank of Chicago
Bank of Montgomery
BMO Harris Bank
Byline Bank
First National of Nebraska (including its wholly owned banking subsidiaries)
J.P. Morgan Chase Bank

MB Financial Bank
Old Second National Bank
PMA Financial Network, Inc. (and any bank participating in their program)
U.S. Bank
Wintrust Financial Corporation (including its wholly owned banking subsidiaries)

List of Investment Advisors
PFM Asset Management LLC
Prudent Man Advisors, Inc.

List of Broker/Dealers
Fifth Third Securities, Inc.
First National Capital Markets
J.P. Morgan Securities LLC
PFM Fund Distributors, Inc.
PMA Securities, Inc.

List of Local Government Investment Pools
Illinois Funds
Illinois Metropolitan Investment Fund
Illinois Trust