

**State of Illinois  
Office of the Treasurer  
Fiscal Officer Responsibilities**

Financial Audit  
For the Years Ended June 30, 2018 and 2017

and Compliance Examination  
For the Year Ended June 30, 2018

Performed as Special Assistant Auditors  
for the Auditor General, State of Illinois

**State of Illinois  
Office of the Treasurer  
Fiscal Officer Responsibilities**

**Financial Audit  
For the Years Ended June 30, 2018 and 2017**

**Compliance Examination  
For the Year Ended June 30, 2018**

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**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Office of the Treasurer Officials  
For the Year Ended June 30, 2018**

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**Treasurer's Office Officials**

Treasurer	The Honorable Michael W. Frerichs
Chief of Staff	Mr. Allen Mayer (June 7, 2018 to Present)
Chief of Staff	Vacant (January 6, 2018 to June 6, 2018)
Chief of Staff	Mr. Justin Cajindos (through January 5, 2018)
Deputy Treasurer	Mr. Jay Rowell (through June 30, 2018)
Deputy Treasurer & Chief Investment Officer	Mr. Rodrigo Garcia (March 18, 2018 to Present)
Chief Investment Officer – Chief Financial Officer*	Mr. Rodrigo Garcia (through March 17, 2018)
General Counsel & Ethics Officer	Ms. Gwendolyn Drake (July 1, 2018 to Present)
Interim General Counsel & Ethics Officer	Mr. Allen Mayer (June 7, 2018 to June 30, 2018)
General Counsel & Ethics Officer	Mr. Allen Mayer (December 1, 2017 to June 6, 2018)
General Counsel & Ethics Officer	Mr. Keith Horton (through December 8, 2017)
Executive Inspector General for the Illinois State Treasurer	Mr. Raymond Watson
Chief Internal Auditor	Ms. Leighann Manning
Director of State Investment and Banking	Ms. Elizabeth Turner
Director of Fiscal Operations	Ms. Deborah Miller

\*Chief Financial Officer title merged into Chief Investment Officer title on March 18, 2018

The Office of the Treasurer had the following office locations during the year:

Executive Office  
State Capitol  
219 State House  
Springfield, Illinois 62706

Chicago Office Legal/Programmatic  
James R Thompson Center  
100 West Randolph Street, Suite 15-600  
Chicago, Illinois 60601

Operational Divisions  
Illinois Business Center  
400 West Monroe, Suite 401  
Springfield, Illinois 62704

Unclaimed Property Division  
Myers Building  
1 W. Old State Capital Plaza, 1<sup>st</sup> & 4<sup>th</sup> Floors  
Springfield, Illinois 62701



OFFICE OF THE ILLINOIS STATE TREASURER  
MICHAEL W. FRERICHS

January 10, 2019

Crowe LLP  
3601 W Wabash Avenue, Suite 201  
Springfield, IL 62711

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the State of Illinois, Office of the Treasurer (Treasurer) Fiscal Officer Responsibilities. We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Treasurer's compliance with the following assertions during the year ended June 30, 2018. Based on this evaluation, we assert that during the year ended June 30, 2018, the Treasurer has materially complied with the assertions below.

- A. The Treasurer has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Treasurer has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
- C. The Treasurer has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Treasurer are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Treasurer on behalf of the State or held in trust by the Treasurer have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

State Capitol  
Room 219  
Springfield, IL 62706  
Phone: (217) 782-2211  
Fax: (217) 785-2777  
TTY: (866) 877-6013

James R. Thompson Center  
100 West Randolph Street  
Suite 15-600  
Chicago, IL 60601  
Phone: (312) 814-1700  
Fax: (312) 814-5930  
TTY: (866) 877-6013

Illinois Business Center  
400 West Monroe Street  
Suite 401  
Springfield, IL 62704  
Phone: (217) 782-6540  
Fax: (217) 524-3822  
TTY: (866) 877-6013

Myers Building  
One West Old State Capitol Plaza  
Suite 400  
Springfield, IL 62701  
Phone: (217) 785-6998  
Fax: (217) 557-9365  
TTY: (866) 877-6013

Yours truly,

State of Illinois, Office of the Treasurer

**SIGNED ORIGINAL ON FILE**

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Honorable Michael Frerichs,  
State Treasurer

**SIGNED ORIGINAL ON FILE**

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Mr. Allen Mayer,  
Chief of Staff

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Mr. Rodrigo Garcia,  
Deputy Treasurer & Chief Investment Officer

**SIGNED ORIGINAL ON FILE**

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Ms. Gwendolyn Drake  
General Counsel & Ethics Officer

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
For the Year Ended June 30, 2018**

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**Compliance Report**

**Summary**

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

**Accountant's Report**

The Independent Accountant's Report on State Compliance and on Internal Control Over Compliance does not contain scope limitations, disclaimers, or other significant non-standard language.

**Summary of Findings**

<u>Number of</u>	<u>Current Report</u>	<u>Prior Report</u>
Findings	0	1
Repeated findings	0	0
Prior recommendations implemented or not repeated	1	0

**Schedule of Findings**

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
<b>Prior Finding Not Repeated</b>			
A.	10	Internal Controls Over Financial Statement Reporting Needs Improvement	Noncompliance and Significant Deficiency

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
For the Year Ended June 30, 2018**

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**Exit Conference**

The Treasurer's Office waived an exit conference in correspondence dated December 6, 2018 by Leighann Manning, Chief Internal Auditor.

## Independent Accountant's Report on State Compliance and on Internal Control Over Compliance

The Honorable Frank J. Mautino  
Auditor General  
State of Illinois

### Compliance

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois (State), Office of the Treasurer, Fiscal Officer Responsibilities' (the Treasurer) compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2018. The management of the Treasurer is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Treasurer's compliance based on our examination.

- A. The Treasurer has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Treasurer has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Treasurer has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Treasurer are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Treasurer on behalf of the State or held in trust by the Treasurer have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act (the Audit Guide). Those standards, the Act, and the Audit Guide require that we plan and perform the examination to obtain reasonable assurance about whether the Treasurer complied, in all material respects, with the specified requirements listed above. An examination involves performing procedures to obtain evidence about whether the Treasurer complied with the specified requirements listed above. The nature, timing and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error.

We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on the Treasurer's compliance with specified requirements.



In our opinion, the Treasurer complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the year ended June 30, 2018.

The purpose of this report on compliance is solely to describe the scope of our testing and the results of that testing in accordance with the requirements of the Audit Guide issued by the Illinois Office of the Auditor General. Accordingly, this report is not suitable for any other purpose.

### **Internal Control**

Management of the Treasurer is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the Treasurer's internal control over compliance with the requirements listed in the first paragraph of this report to determine the examination procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the Treasurer's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Treasurer's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements listed in the first paragraph of this report on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

As required by the Audit Guide, immaterial findings excluded from this report have been reported in a separate letter to your office.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Audit Guide, issued by the Illinois Office of the Auditor General. Accordingly, this report is not suitable for any other purpose.

**SIGNED ORIGINAL ON FILE**

Crowe LLP

Springfield, Illinois  
January 10, 2019

**Independent Auditor's Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

The Honorable Frank J. Mautino  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State of Illinois (State), Office of the Treasurer, Fiscal Officer Responsibilities (the Treasurer), which are comprised of the Statement of Assets and Other Debits, Liabilities and Accountabilities as of June 30, 2018, the related Statement of Investment Income for the year then ended and the related notes to the financial statements, and have issued our report thereon dated January 10, 2019. As described in Note B of the financial statements, the financial statements are prepared by the Treasurer on the basis of the financial reporting provisions determined by the Illinois Office of the State Comptroller, which is a basis of accounting other than accounting principles generally accepted in the United States of America to meet the requirements of the State of Illinois. Our opinion was not modified with respect to this matter.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Treasurer's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Treasurer's internal control. Accordingly, we do not express an opinion on the effectiveness of the Treasurer's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Treasurer's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Treasurer's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Treasurer's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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Crowe LLP

Springfield, Illinois  
January 10, 2019

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Schedule of Findings  
For the Year Ended June 30, 2018**

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**Prior Finding Not Repeated**

**A. Finding - Internal Controls Over Financial Statement Reporting Needs Improvement**

During the prior audit, the Office did not fully analyze the pricing sources and methods used to determine the fair value of investments and, as a result, reported certain investments in debt securities, totaling \$5.1 billion, as Level 1 investments. Following auditor inquiry, those investments were subsequently reported as Level 2. Level 1 investments are investments whose fair value is determined based on quoted prices in an active market. Level 2 investments are investments whose fair value is determined based on observable inputs other than quoted prices in an active market.

In the current year, we noted the Office properly disclosed those investments in debt securities as Level 2 investments. (Finding Code No. 2017-001)

## **Financial Statement Report**

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
For the Years Ended June 30, 2018 and 2017**

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**Financial Statement Report**

**Summary**

The audits of the accompanying financial statements of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities (Treasurer) as of and for the years ended June 30, 2018 and 2017 were performed by Crowe LLP.

Based on their audits, the auditors expressed an unmodified opinion on the Treasurer's financial statements. The financial statements are special purpose framework financial statements prepared on a basis of accounting determined by the Illinois Office of the State Comptroller that is not in conformity with accounting principles generally accepted in the United States of America (GAAP) (see Note B).

**Exit Conference**

The Treasurer's Office waived an exit conference in correspondence dated December 6, 2018 by Leighann Manning, Chief Internal Auditor.

## **Independent Auditor's Report**

## Independent Auditor's Report

The Honorable Frank J. Mautino  
Auditor General  
State of Illinois

### Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the State of Illinois, Office of the Treasurer, Fiscal Officer Responsibilities (the Treasurer), which comprise the Statements of Assets and Other Debits, Liabilities and Accountabilities as of June 30, 2018 and 2017, the related statements of Investment Income for the years then ended and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions determined by the Illinois Office of the State Comptroller as described in Note B. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the Assets and Other Debits, Liabilities and Accountabilities of the Treasurer, as of June 30, 2018 and 2017, and the Investment Income for the years then ended in accordance with the financial reporting provisions determined by the Illinois Office of the State Comptroller described in Note B of the financial statements.



## ***Emphasis of Matter***

### *Basis of Accounting*

We draw attention to Note B of the financial statements, which describes the basis of accounting. The financial statements are prepared by the Treasurer on the basis of the financial reporting provisions determined by the Illinois Office of the State Comptroller, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the State of Illinois. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements of the Treasurer. The accompanying Supplementary Information (pages 47-60) and the Other Information (pages 61-108) as listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the financial statements.

The accompanying Supplementary Information (pages 47-60) is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The accompanying Supplementary Information (pages 47-60) has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying Supplementary Information (pages 47-60) is fairly stated, in all material respects, in relation to the financial statements as a whole.

The Other Information (pages 61-108) has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2019 on our consideration of the Treasurer's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Treasurer's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Treasurer's internal control over financial reporting and compliance.

## ***Restricted Use of this Auditor's Report***

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller and Treasurer Management and is not intended to be and should not be used by anyone other than these specified parties.

**SIGNED ORIGINAL ON FILE**

Crowe LLP

Springfield, Illinois  
January 10, 2019

## **Financial Statements**

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Statements of Assets and Other Debits, Liabilities and Accountabilities  
June 30, 2018 and 2017**

	2018	2017
<b>Assets and Other Debits</b>		
Cash and Cash Equivalents		
Demand Deposits	\$ 7,226,145	\$ 7,268,532
Clearing Account Deposits and Deposits in Transit	138,123,910	31,548,075
Total Cash	145,350,055	38,816,607
Repurchase Agreements	1,474,973,589	1,954,797,989
Commercial Paper	805,163,622	434,307,063
The Illinois Funds	1,603,093,165	1,393,601,529
Federal Home Loan Bank Discount Notes	49,961,979	99,910,070
Federal National Mortgage Association Discount Notes	49,943,931	-
Municipal Bonds - Externally Managed	-	289,977
Money Market Mutual Funds	766,701,100	1,004,587,650
Total Cash and Cash Equivalents	4,895,187,441	4,926,310,885
Deposits and Investments		
Short-term Investments		
Time Deposits	161,906,000	119,189,278
Commercial Paper	2,497,510,737	2,556,112,766
U.S. Treasury Bills	1,108,475,235	694,711,612
U.S. Treasury Notes	148,948,230	948,486,685
Federal Home Loan Mortgage Corporation	-	274,567,000
Federal National Mortgage Association	-	124,702,500
Federal Home Loan Bank	114,375,900	164,775,150
Federal Farm Credit Banks	74,399,250	124,707,000
Federal Agriculture Mortgage Corporation	408,679,950	340,249,190
Federal National Mortgage Association Discount Notes	-	99,732,847
Federal Home Loan Mortgage Corporation Discount Notes	149,499,125	273,323,958
Federal Home Loan Bank Discount Notes	174,679,646	223,709,170
Federal Farm Credit Banks Discount Notes	49,793,000	-
Federal Agriculture Mortgage Corporation Discount Notes	-	120,016,365
Supranational Bonds	14,120,146	39,879,400
Municipal Bonds	467,813	-
Municipal Bonds Externally Managed	3,231,031	1,019,193
Corporate Bonds	22,303,691	-
Corporate Bonds Externally Managed	45,282,097	19,603,596
Foreign Investments	20,000,000	10,000,000
Long-term Investments		
Time Deposits	31,496,476	2,934,074
U.S. Treasury Notes	2,389,926,742	493,449,875
Federal Home Loan Mortgage Corporation	981,877,800	952,101,900
Federal Home Loan Bank	260,708,250	329,013,050
Federal National Mortgage Association	303,581,900	332,805,200
Federal Farm Credit Banks	122,060,500	199,562,250
Federal Agriculture Mortgage Corporation	250,938,150	612,137,790
Supranational Bonds	116,635,500	59,371,100
State of Illinois Secondary Pool Investment Program	24,797	39,700
Illinois Technology Development I	43,076,735	52,360,431
Illinois Technology Development II	41,853,173	26,475,646
Foreign Investments	30,000,000	30,000,000
Municipal Bonds	18,169,805	1,884,821
Municipal Bonds Externally Managed	33,326,881	4,300,289
Corporate Bonds	260,824,654	55,321,831
Corporate Bonds Externally Managed	54,992,007	30,781,207
Total Deposits and Investments	9,933,165,221	9,317,324,874

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Statements of Assets and Other Debits, Liabilities and Accountabilities (Continued)  
June 30, 2018 and 2017**

	2018	2017
Securities Lending Collateral		
Invested in Repurchase Agreements	\$ 4,521,091,000	\$ 3,522,922,500
Total Securities Lending Collateral	4,521,091,000	3,522,922,500
Other Assets		
Receivables from Universities and Agencies for Moneys Advanced	451,181	380,007
Receivable from City of Edwardsville	224,796	230,656
Investment Income Earned, but not Received	47,489,300	28,144,633
Total Other Assets	48,165,277	28,755,296
Other Debits		
Amount of Future General Revenue Obligated for Debt Service	41,757,902,408	35,620,354,797
Total Assets and Other Debits	\$ 61,155,511,347	\$ 53,415,668,352
<b>Liabilities and Accountabilities</b>		
Liabilities for Balances on Deposit		
Comptroller		
Protested Taxes	\$ 81,935,473	\$ 87,638,527
Available for Appropriation or Expenditure	11,138,215,572	11,269,376,040
Agencies' Deposits Outside the State Treasury	1,001,577,109	1,015,395,813
Comptroller's Warrants Outstanding	1,067,218,442	638,105,706
Total Liabilities for Balances on Deposit	13,288,946,596	13,010,516,086
Other Liabilities		
Obligations under Securities Lending	4,521,091,000	3,522,922,500
Total Other Liabilities	4,521,091,000	3,522,922,500
General Obligation Indebtedness		
Principal and Interest Due Within One Year	4,091,101,568	3,295,497,388
Principal and Interest Due Thereafter	39,248,266,748	33,544,549,746
Total General Obligation Indebtedness	43,339,368,316	36,840,047,134
Accountabilities		
Receivable from City of Edwardsville	224,796	230,656
Investment Income Earned, but not Received (Net of Cumulative Market Adjustments)	5,880,639	41,951,976
Total Accountabilities	6,105,435	42,182,632
Total Liabilities and Accountabilities	\$ 61,155,511,347	\$ 53,415,668,352

See Notes to the Financial Statements.

State of Illinois  
Office of the Treasurer

Fiscal Officer Responsibilities  
Statements of Investment Income  
For the Years Ended June 30, 2018 and 2017

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	2018	2017
Investment Income Earned	<u>\$ 137,948,630</u>	<u>\$ 97,849,563</u>

See Notes to the Financial Statements.

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Notes to the Financial Statements  
For the Years Ended June 30, 2018 and 2017**

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**NOTE A. AUTHORIZING LEGISLATION**

The State of Illinois, Office of the Treasurer (Treasurer), is authorized by the State Treasurer Act (15 ILCS 505/et seq.). The Treasurer shall receive the revenue and all other public monies of the State, and all monies authorized by law to be paid to him and safely keep the same.

**NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Financial Reporting Entity: The Treasurer is not a legally separate entity. It is an office of the primary government, which is the State of Illinois (the State) and is considered part of the State financial reporting entity. As such, it is included in the State of Illinois reporting entity. The Treasurer is custodian of the State's cash and investments comprised of the balances in the separate funds, which are considered to be either in the State Treasury or outside the State Treasury. Accounting control for funds outside the State Treasury is the responsibility of other State agencies. Further, the Treasurer is not responsible for determining that all cash received by State agencies is deposited in the State Treasury.

Basis of Presentation and Accounting: The basis of the presentation of the financial statements for the Treasurer is to have a set of financial statements that present the financial position of the State's assets that the Treasurer is custodian of and responsible for safeguarding and investing as well as State liabilities including general obligation indebtedness that the Treasurer is responsible for making payments.

The format of the Fiscal Officer Responsibilities financial statements was created to aid the Illinois Office of the State Comptroller (Comptroller) in the preparation of the State's Comprehensive Annual Financial Report (CAFR). The Comptroller, acting as the State's accountant, designates which agencies are considered part of the primary government required to prepare financial statements (SAMS 27.10.10-B). The basis of presentation, Statements of Assets and Other Debits, Liabilities and Accountabilities and Statements of Investment Income have been determined by the Comptroller.

The Treasurer's financial statements consist of the Statements of Assets and Other Debits, Liabilities and Accountabilities and Statements of Investment Income. These financial statements are not presented in the traditional framework of Generally Accepted Accounting Principles (GAAP) because the statements only present those assets and activities for which the Treasurer is held accountable by his fiscal officer responsibilities. Exceptions to the traditional GAAP framework are the securities, funds and other assets of The Illinois Funds, College Savings Program, and the ABLE Program and amounts receivable from inheritance tax assessments are not included in the Fiscal Officer financial statements. In addition, the Fiscal Officer financial statements do not include financial statements of the various funds administered by the Fiscal Officer. The Illinois Funds, the College Saving Program, and the ABLE Program are audited annually and reported upon separately. Other exceptions to the traditional GAAP framework are that a traditional presentation of the Statement of Net Position is not included, a Statement of Revenues, Expenses and Changes in Net Position and, where applicable, a Statement of Cash Flows, are excluded entirely, some note disclosures required by GAAP are not included in the Fiscal Officer financial statements, and Management's Discussion and Analysis is not presented.

The basis of accounting is essentially a full accrual basis in that investment revenues are reported when earned, regardless of when the related cash flow takes place, subject to certain exceptions as described in the sections that follow.

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**NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

State Treasury Funds: The accounting for the State Treasury Fund group, with the exception of general obligation indebtedness and the related amount of future general revenue obligated for debt service, is presented on a basis whereby: (a) assets in the State Treasury and the related liability to the Comptroller for available balances on deposit are recognized at the time the Comptroller "orders" cash into the State Treasury; (b) the liability to the Comptroller is reduced as warrants are presented to the Treasurer for countersignature; and (c) the cash in the State Treasury is reduced as warrants are paid by the Treasurer.

Funds Outside the State Treasury: Funds outside the State Treasury consist of State assets held by the Treasurer, primarily deposits in clearing accounts, demand deposits and temporary investments, which are not under the accounting control of the Comptroller. Such funds and the related liabilities or accountabilities to the depositing State agencies are recognized when the funds are deposited in clearing accounts or certain demand deposit accounts with the Treasurer. This liability or accountability is transferred to funds available for appropriation or expenditure when the Comptroller orders the funds into the State Treasury.

General Obligation Indebtedness: The liability for general obligation indebtedness is the aggregate amount of all future principal and interest payments necessary to retire such outstanding debt. The amount to be derived from future revenue for debt service (the "Other Debits") is the difference between the currently outstanding certificates and bonded indebtedness and available balances in the bond redemption and interest fund. The expenditures from the proceeds of the certificates and bond issues are accounted for by other State agencies. This balance represents a liability that is not in compliance with accounting principles generally accepted in the United States of America. It represents the future revenue that will be needed to provide for future debt service.

Investment Income: Investment income is recorded by the Treasurer using the accrual basis of accounting whereby income is recognized and an accountability established as income is earned. Funds participating in the investment pool are allocated income monthly based on their proportionate share of the pooled investment base. As authorized by statute, segregated funds are individually invested and specifically credited with the income earned on those investments.

Cash and Cash Equivalents: Cash and cash equivalents include deposits and short-term, highly liquid investments readily convertible to cash, with a maturity of 90 days or less at the time of purchase. Demand deposit accounts are the principal accounts used to process cash and investment transactions within the State Treasury. The clearing accounts are used to process collected receipts and to identify nonsufficient fund checks.

Other Assets: Items reported in the Statement of Assets and Other Debits, Liabilities and Accountabilities as "Other Assets" are transactions in process and assets not available for investment. Receivables from Universities and Agencies for Monies Advanced represent unreimbursed amounts advanced for statutorily authorized imprest funds. The cash balance of the Universities and Agencies imprest funds is reclassified to "Demand Deposits" under Cash and Cash Equivalents on the Statement of Assets, Liabilities and Accountabilities.

The noninterest-bearing amount, reported as "Receivable from the City of Edwardsville," is reported as an Other Asset and is the unpaid balance of funds advanced to the City in 1967 for the planning and construction of a water main. The receivable from the City of Edwardsville is also reported as an "Accountability." Investment income earned but not received is reported as an "Other Asset" and represents accrued income on investments not yet matured or collected. Investment income earned but not received, net of cumulative market adjustments, is reported as an "Accountability."

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**NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Protested Taxes: The fund balance of the Protest Fund is reported separately from funds available for appropriation and is recorded as a liability for balances on deposit called "Protested Taxes."

Available for Appropriation or Expenditure: This amount is the State of Illinois' balance available to be appropriated by the general assembly or expended by State agencies at June 30.

Use of Estimates: In preparing financial statements, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities during the reporting period. Actual results could differ from those estimates.

**NOTE C. COMPENSATING BANKS FOR SERVICES**

The principal method of payment for receipt and disbursement processing services provided by banks is by warrant from the Treasurer's Bank Services Trust Fund appropriation.

**NOTE D. DEPOSITS AND INVESTMENTS**

Overview: The Treasurer's investment activities are governed by the Treasurer's published investment policy that was developed in accordance with State statute. In addition, the Treasurer's Office has adopted its own investment practices that supplement the statutory requirements.

Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, generally requires state and local governments to measure assets that meet the definition of an investment at fair value. GASB defines an investment asset as a security or other asset that a government holds primarily for the purpose of income or profit and its present service capacity is based solely on its ability to generate cash or to be sold to generate cash. In addition, GASB Statement No. 72 defines fair value as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments exempt from fair value measurement include the following:

- Money market investments and participating interest-earning investment contracts (non-negotiable CDs) that have remaining maturity at time of purchase of one year or less and are held by governments other than external investment pools should be measured using amortized cost.
- Qualified state and local government external investment pools should be measured at amortized cost.
- Certain short-term investments that have a maturity date of less than one year from the date of acquisition should be measured at amortized cost.



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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

Investments are recorded at fair market value, with the exception of Commercial Paper, Money Market Mutual Funds, Repurchase Agreements, The Illinois Funds, U.S. Agency Discount Notes, and U.S. Treasury Bills which are valued at amortized cost. Certain short-term investments have a maturity date of less than one year from the date of acquisition and are valued at amortized cost as permitted by GASB Statement No. 72. The Treasurer's investments in U.S. Treasury Bills and U.S. Agency Discount Notes are short-term investments with no coupon payments. The investments in repurchase agreements have maturities less than one year from date of acquisition. The Illinois Funds meets the criteria established in GASB Statement No. 79 and, thus, reports all investments at amortized cost.

GASB Statement No. 72 also established a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instrument measured at fair value on a recurring basis:

- |         |   |
|---------|---|
| Level 1 | Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date. |
| Level 2 | Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.                 |
| Level 3 | Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.                                    |

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

The following tables summarize investments within the fair value hierarchy at June 30, 2018 and 2017 (expressed in thousands):

<b>FY18 Investments by Fair Value Level:</b>	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
U.S. Treasury Notes	\$ 2,538,875	\$ -	\$ 2,538,875	\$ -
Foreign Investments	50,000	-	\$ 50,000	-
Federal Home Loan Mortgage Corporation	981,878	-	\$ 981,878	-
Federal Home Loan Bank	375,084	-	\$ 375,084	-
Federal National Mortgage Association	303,582	-	\$ 303,582	-
Federal Farm Credit Banks	196,460	-	\$ 196,460	-
Federal Agriculture Mortgage Corporation	659,618	-	\$ 659,618	-
Municipal Bonds	55,195	-	\$ 55,195	-
Corporate Bonds	383,402	-	\$ 383,402	-
Supranational Bonds	130,756	-	\$ 130,756	-
State of Illinois Secondary Pool Investment Program	25	-	\$ 25	-
Total Investments by Fair Value Level	<u>\$ 5,674,875</u>	<u>\$ -</u>	<u>\$ 5,674,875</u>	<u>\$ -</u>

**FY18 Investments measured at net asset value (NAV)**

**Illinois Technology Development I**

Apex Venture Partners	\$ 3,178
Baird Venture Partners III. LP	6,300
Beecken, Petty, O'Keefe & Company, LLP	436
Ceres Venture LP	199
Illinois Emerging Technologies	131
Illinois Emerging Technologies Fund II	534
Illinois Innovation Accelerator Fund LLC - I2A	1,157
JK & B Capital V, LP	3,320
MK Capital LP	525
MK Capital II, LP	6,339
MVC Private Equity Fund, LP	5,063
OCA Venture Partners II, LP	4,047
Open Prairie Ventures II, LP	2,752
Patriot Capital II LP	1,356
Prairie Capital V LP	3,479
Sterling Partners - Small Market Growth 2009, LP	2,166
Sterling Venture Partners II, LP	1,798
Svoda, Collins Fund II, LP	297

**Illinois Technology Development II**

Brightwood Capital Fund LP	2,043
Builders VC Fund I LP	864
Bullpen Capital III LP	1,260
Chicago Ventures Fund II LP	7,175
Corazon Capital II LP	1,285
GreatPoint Ventures Innovation Fund, LP	5,523
Hyde Park Venture Partners II LP	1,762
Listen Ventures II LP	872
Math Venture Partners II LP	500
Madison Dearborn Partners LLC	2,450
Method Capital LLC (formerly KDWC Ventures)	3,588
Moderne Ventures Fund I LP	421
New Enterprise Associates 16 LP	2,928
Patriot Capital IV	1,480
PPC MM LP	1,918
Techstars Ventures 2017 LP	50
Tensility Venture Partners	253
Visra Group	2,612
Windpoint Partners VIII-A LP	4,869
Total Investments measured at net asset value (NAV)	<u>\$ 84,930</u>

Total FY18 Investments at Fair Value \$ 5,759,805

Investments classified in Level 2 of the fair value hierarchy are valued using the market approach by using either matrix pricing or quoted prices for identical assets in markets that are not active.

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

<b>FY17 Investments by Fair Value Level:</b>	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
U.S. Treasury Notes	\$ 1,441,937	\$ -	\$ 1,441,937	\$ -
Foreign Investments	40,000	-	40,000	-
Federal Home Loan Mortgage Corporation	1,226,669	-	1,226,669	-
Federal Home Loan Bank	493,788	-	493,788	-
Federal National Mortgage Association	457,508	-	457,508	-
Federal Farm Credit Banks	324,269	-	324,269	-
Federal Agriculture Mortgage Corporation	952,387	-	952,387	-
Municipal Bonds	7,494	-	7,494	-
Corporate Bonds	105,707	-	105,707	-
Supranational Bonds	99,250	-	99,250	-
State of Illinois Secondary Pool Investment Program	40	-	40	-
Total Investments by Fair Value Level	<u>\$ 5,149,049</u>	<u>\$ -</u>	<u>\$ 5,149,049</u>	<u>\$ -</u>

**FY17 Investments measured at net asset value (NAV)**

**Illinois Technology Development I**

Apex Venture Partners	\$ 3,425
Baird Venture Partners III, LP	6,681
Beecken, Petty, O'Keefe & Company, LLP	412
Ceres Venture LP	252
Illinois Emerging Technologies	337
Illinois Emerging Technologies Fund II	863
Illinois Innovation Accelerator Fund LLC - I2A	1,777
JK & B Capital V, LP	3,896
MK Capital LP	1,025
MK Capital II, LP	7,109
MVC Private Equity Fund, LP	4,412
OCA Venture Partners II, LP	5,488
Open Prairie Ventures II, LP	2,802
Patriot Capital II LP	2,757
Prairie Capital V LP	5,835
Sterling Partners - Small Market Growth 2009, LP	1,958
Sterling Venture Partners II, LP	1,947
Svboda, Collins Fund II, LP	1,384

**Illinois Technology Development II**

Builders VC Fund I LP	1,125
Bullpen Capital III LP	504
Chicago Ventures Fund II LP	5,450
Corazon Capital II LP	436
GreatPoint Ventures Innovation Fund, LP	5,198
Hyde Park Venture Partners II LP	1,520
KDWC Ventures	3,000
Listen Ventures II LP	625
Madison Dearborn Partners LLC	1,761
Modeme Ventures Fund I LP	336
New Enterprise Associates 16 LP	450
PPC MM LP	1,458
Windpoint Partners VIII-A LP	4,613

Total Investments measured at net asset value (NAV) \$ 78,836

Total FY17 Investments at Fair Value \$ 5,227,885

Investments classified in Level 2 of the fair value hierarchy are valued using the market approach by using either matrix pricing or quoted prices for identical assets in markets that are not active.

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

Additional disclosures for investments measured using the net asset value per share are listed below (expressed in thousands):

<b>FY18 Investments measured at net asset value (NAV)</b>	<b>NAV</b>	<b>Unfunded Commitments</b>
<b>Illinois Technology Development I</b>		
Apex Venture Partners	\$ 3,178	\$ -
Baird Venture Partners III. LP	6,300	-
Beecken, Petty, O'Keefe & Company, LLP	436	-
Ceres Venture LP	199	61
Illinois Emerging Technologies	131	-
Illinois Emerging Technologies Fund II	534	367
Illinois Innovation Accelerator Fund LLC - I2A	1,157	-
JK & B Capital V, LP	3,320	392
MK Capital LP	525	-
MK Capital II, LP	6,339	600
MVC Private Equity Fund, LP	5,063	1,373
OCA Venture Partners II, LP	4,047	32
Open Prairie Ventures II, LP	2,752	-
Patriot Capital II LP	1,356	750
Prairie Capital V LP	3,479	900
Sterling Partners - Small Market Growth 2009, LP	2,166	-
Sterling Venture Partners II, LP	1,798	-
Svboda, Collins Fund II, LP	297	149
<b>Illinois Technology Development II</b>		
Brightwood Capital Fund LP	2,043	7,876
Builders VC Fund I LP	864	6,375
Bullpen Capital III LP	1,260	1,125
Chicago Ventures Fund II LP	7,175	2,400
Corazon Capital II LP	1,285	3,500
GreatPoint Ventures Innovation Fund, LP	5,523	3,857
Hyde Park Venture Partners II LP	1,762	3,250
Listen Ventures II LP	872	1,500
Math Venture Partners II LP	500	4,500
Madison Dearborn Partners LLC	2,450	4,542
Method Capital LLC (formerly KDWC Ventures)	3,588	1,023
Moderne Ventures Fund I LP	421	1,890
New Enterprise Associates 16 LP	2,928	11,963
Patriot Capital IV	1,480	8,500
PPC MM LP	1,918	7,727
Techstars Ventures 2017 LP	50	4,950
Tensility Venture Partners	253	2,275
Vistra Group	2,612	7,269
Windpoint Partners VIII-A LP	4,869	9,966
<b>Total Investments measured at net asset value (NAV)</b>	<b>\$ 84,930</b>	<b>\$ 99,112</b>

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

FY17 Investments measured at net asset value (NAV)	<u>NAV</u>	<u>Unfunded Commitments</u>
<b>Illinois Technology Development I</b>		
Apex Venture Partners	\$ 3,425	\$ -
Baird Venture Partners III. LP	6,681	-
Beecken, Petty, O'Keefe & Company, LLP	412	-
Ceres Venture LP	252	61
Illinois Emerging Technologies	337	-
Illinois Emerging Technologies Fund II	863	367
Illinois Innovation Accelerator Fund LLC - I2A	1,777	-
JK & B Capital V, LP	3,896	437
MK Capital LP	1,025	-
MK Capital II, LP	7,109	600
MVC Private Equity Fund, LP	4,412	1,373
OCA Venture Partners II, LP	5,488	32
Open Prairie Ventures II, LP	2,802	-
Patriot Capital II LP	2,757	750
Prairie Capital V LP	5,835	900
Sterling Partners - Small Market Growth 2009, LP	1,958	-
Sterling Venture Partners II, LP	1,947	-
Svboda, Collins Fund II, LP	1,384	149
<b>Illinois Technology Development II</b>		
Builders VC Fund I LP	1,125	6,375
Bullpen Capital III LP	504	2,000
Chicago Ventures Fund II LP	5,450	4,500
Corazon Capital II LP	436	4,500
GreatPoint Ventures Innovation Fund, LP	5,198	5,117
Hyde Park Venture Partners II LP	1,520	3,250
KDWC Ventures	3,000	-
Listen Ventures II LP	625	1,875
Madison Dearborn Partners LLC	1,761	5,675
Moderne Ventures Fund I LP	336	2,027
New Enterprise Associates 16 LP	450	2,050
PPC MM LP	1,458	1,043
Windpoint Partners VIII-A LP	4,613	-
Total Investments measured at net asset value (NAV)	<u>\$ 78,836</u>	<u>\$ 43,081</u>

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

Illinois Technology Development I and II (ITD I and ITD II) investments are privately-held limited partnership equity investment funds that invest in privately-held companies in accordance with the Technology Development Act (TDA) (30 ILCS 265). The TDA Accounts invest in venture capital firms. A "venture capital" firm makes equity financings for starting up, expanding, or relocating a company, or for related purposes such as financing for seed capital, research and development, introduction of a product or process into the marketplace, or similar needs requiring risk capital. This includes, but is not limited to, financing classified as venture capital, mezzanine, buyout and/or growth. The firms will have a strong Illinois presence with an overall goal to attract, assist and retain quality technology businesses in Illinois.

These investments cannot be redeemed with the funds. Instead, the nature of these investments is that distributions are received through the liquidation of the underlying assets of the fund over the contractual term lives of the investments. The contractual terms of these investments generally range between 10-15 years from the original investment date depending upon whether optional extensions are exercised by the managers of the partnerships. Based on the terms of the limited partnership investments, it is anticipated that the last of the proceeds of these investments will be returned no later than February 10, 2024 for ITD I and June 24, 2027 for ITD II, with the bulk of the proceeds being received sooner. The fair values of the ownership interests in the various limited partnership investments have been determined based on the most recent capital account balances provided by the respective general partners of each limited partnership. Due to the uniqueness and illiquid nature of the underlying privately-held investments, general partners use valuation techniques that rely on unobservable inputs such as estimates and appraisals derived from comparable market transactions to determine the net asset value per share for limited partner investors.

Interest Rate Risk: Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Treasurer's investment policy limits the investment portfolio to maturities not to exceed ten years with no limit to the amount allocated to investments with less than a two-year maturity. No more than 55% of the investment portfolio shall be allocated to investments with a 2 to 3 year maturity band. No more than 30% of the investment portfolio shall be allocated to investments with a 3 to 4 year maturity band (not including Foreign Government Securities). No more than 15% of the investment portfolio shall be allocated to investments with a 4 to 5 year maturity band. No more than 5% of the investment portfolio shall be allocated to investments with a 5 to 10 year maturity band. The portfolio shall not deviate from these guidelines unless specifically authorized by the Treasurer in writing. The Treasurer's Office uses the segmented time distribution method to identify and manage interest rate risk.

Investments: Most of the Treasurer's investments at June 30, 2018 and 2017 are short-term due to the responsibility to keep funds "liquid" to reimburse banks for warrants paid.

Investments in the Treasurer's pooled accounts are authorized by statute. Certain investments are held in segregated accounts and are purchased at the request of the agency administering the segregated trust fund.

Excluding Time Deposits, the Treasurer had the following investments, stated at fair value except as noted below and maturities as of June 30. Unrealized gains and losses are accounted for in the investment in which the change in fair value occurred. (Expressed in thousands.)

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

<u>2018</u>	Maturing in:					Total
	Less than 1 year	1 - 5 years	6 - 10 years	NA***		
Commercial Paper *	\$ 3,302,674	\$ -	\$ -	\$ -	\$ -	\$ 3,302,674
Repurchase Agreements*	1,474,974	-	-	-	-	1,474,974
U.S. Treasury Bills *	1,108,475	-	-	-	-	1,108,475
U.S. Treasury Notes	148,948	2,389,927	-	-	-	2,538,875
Federal Home Loan Bank	114,376	260,708	-	-	-	375,084
Federal Farm Credit Banks	74,399	122,061	-	-	-	196,460
Federal Home Loan Mortgage Corporation	-	981,878	-	-	-	981,878
Federal National Mortgage Association	-	303,582	-	-	-	303,582
Federal Agriculture Mortgage Corporation	408,680	250,938	-	-	-	659,618
Federal National Mortgage Association Discount Notes*	49,944	-	-	-	-	49,944
Federal Home Loan Mortgage Corporation Discount Notes*	149,499	-	-	-	-	149,499
Federal Home Loan Bank Discount Notes*	224,642	-	-	-	-	224,642
Federal Farm Credit Banks Discount Notes*	49,793	-	-	-	-	49,793
State of Illinois Secondary Pool	-	25	-	-	-	25
Supranational Bonds	14,120	116,636	-	-	-	130,756
Municipal Bonds	468	11,623	6,547	-	-	18,638
Municipal Bonds Externally Managed	3,231	20,854	12,472	-	-	36,557
Corporate Bonds	22,303	260,825	-	-	-	283,128
Corporate Bonds Externally Managed	45,282	54,992	-	-	-	100,274
Foreign Investments**	20,000	30,000	-	-	-	50,000
Securities Lending Collateral Invested in Repurchase Agreements*	4,521,091	-	-	-	-	4,521,091
Illinois Technology Development I	-	-	-	43,077	-	43,077
Illinois Technology Development II	-	-	-	41,853	-	41,853
The Illinois Funds*	-	-	-	1,603,093	-	1,603,093
Money Market Mutual Funds*	-	-	-	766,701	-	766,701
Total Investments and Securities Lending Collateral, excluding Time Deposits	\$ 11,732,899	\$ 4,804,049	\$ 19,019	\$ 2,454,724	\$ -	\$ 19,010,691

\* Reported at Amortized Cost

\*\* These securities are denominated in U.S. dollars.

\*\*\* Categorization not applicable.

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

<u>2017</u>	Maturing in:				
	Less than 1 year	1 - 5 years	6 - 10 years	NA***	Total
Commercial Paper *	\$ 2,990,420	\$ -	\$ -	\$ -	\$ 2,990,420
Repurchase Agreements*	1,954,798	-	-	-	1,954,798
U.S. Treasury Bills *	694,712	-	-	-	694,712
U.S. Treasury Notes	948,487	493,450	-	-	1,441,937
Federal Home Loan Bank	164,775	329,013	-	-	493,788
Federal Farm Credit Banks	124,707	199,562	-	-	324,269
Federal Home Loan Mortgage Corporation	274,567	952,102	-	-	1,226,669
Federal National Mortgage Association	124,703	332,805	-	-	457,508
Federal Agriculture Mortgage Corporation	340,249	612,138	-	-	952,387
Federal National Mortgage Association Discount Notes*	99,733	-	-	-	99,733
Federal Home Loan Mortgage Corporation Discount Notes*	273,324	-	-	-	273,324
Federal Home Loan Bank Discount Notes*	323,619	-	-	-	323,619
Federal Agriculture Mortgage Association Discount Notes*	120,016	-	-	-	120,016
State of Illinois Secondary Pool	-	9	31	-	40
Supranational Bonds	39,879	59,371	-	-	99,250
Municipal Bonds	-	1,885	-	-	1,885
Municipal Bonds Externally Managed	1,309	4,300	-	-	5,609
Corporate Bonds	-	55,322	-	-	55,322
Corporate Bonds Externally Managed	19,604	30,781	-	-	50,385
Foreign Investments**	10,000	30,000	-	-	40,000
Securities Lending Collateral Invested in Repurchase Agreements*	3,522,923	-	-	-	3,522,923
Illinois Technology Development I	-	-	-	52,360	52,360
Illinois Technology Development II	-	-	-	26,476	26,476
The Illinois Funds*	-	-	-	1,393,601	1,393,601
Money Market Mutual Funds*	-	-	-	1,004,587	1,004,587
<b>Total Investments and Securities Lending Collateral, excluding Time Deposits</b>	<b>\$ 12,027,825</b>	<b>\$ 3,100,738</b>	<b>\$ 31</b>	<b>\$ 2,477,024</b>	<b>\$ 17,605,618</b>

\* Reported at Amortized Cost

\*\* These securities are denominated in U.S. dollars

\*\*\* Categorization not applicable



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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Cash received by the Treasurer is initially deposited in clearing accounts maintained in banks located in Illinois that are insured by the Federal Deposit Insurance Corporation (FDIC). Surplus funds, as determined by the Treasurer, may be invested in time deposits, certificates of deposit and other interest-bearing accounts in FDIC-insured banks located in the State, credit unions whose principal office is located in Illinois, short-term obligations of corporations whose obligations (i.e., commercial paper) were rated by two or more standard rating services at a level that is at least as high as the following: A-2 by Standard & Poor's, P-2 by Moody's Investor Service, or F-2 by Fitch, repurchase agreements or other investments approved by State law.

As of June 30, 2018, excluding the securities lending program, the Treasurer's investments in commercial paper were rated P-1 by Moody's Investors Service and A-1 by Standard & Poor's Ratings, except for those issued by Apple Incorporated, BNY Mellon, Chevron Corporation, Exxon Mobile, Roche Holdings Incorporated, Sanofi, and Walt Disney which were rated A-1+ by Standard & Poor's. The Treasurer's short-term investments in all U.S. Agency obligations, including collateral for repurchase agreements, were rated P-1 by Moody's Investors Service, except for Federal Agriculture Mortgage Corporation securities which were not rated. The Treasurer's long-term investments in all U.S. Agency obligations were rated Aaa by Moody's Investors Service or AA+ by Standard & Poor's Ratings, except for Federal Agriculture Mortgage Corporation securities which were not rated. The Treasurer's short-term investment in foreign debt securities were rated A-1 by Standard & Poor's Ratings. The Treasurer's long-term investment in foreign debt securities were rated A1 by Moody's Investors Service and AA- by Standard & Poor's Ratings. The Treasurer's long-term investments in Supranational Bonds were rated Aaa by Moody's Investors Service and AAA by Standard & Poor's Ratings. The Treasurer's investments in The Illinois Funds were rated AAAM by Standard & Poor's Ratings. The Treasurer's investments in money market mutual funds were rated Aaa by Moody's Investors Service or AAAM by Standard & Poor's Ratings. The Treasurer's short-term investments in Municipal Bonds and Corporate Bonds were rated by Moody's and Standard & Poor's in the following tables:

**Municipal Bonds:**

	<b>S&amp;P</b>	<b>Mdy</b>
ALAMO CAPITAL - Village of Addison	AA	NR
ALAMO CAPITAL - Winnebago County	NR	Aa2
MISCHLER FINANCIAL - Kane County Forest Preserve District	AA+	NR
MISCHLER FINANCIAL - Village of Orland Park IL	AA+	Aa1
MULTI-BANK SECURITIES - Will Grundy etc. Counties CCD525	NR	Aa2
PIPER JAFFRAY & CO - Cook County HS207 Maine Township	NR	Aaa
PIPER JAFFRAY & CO - Village of Skokie IL	NR	Aa1
ROBERT BAIRD - Champaign County CUSD 116 Urbana	AA-	NR
ROBERT BAIRD - City of Evanston IL	NR	Aa2
ROBERT BAIRD - City of Rock Falls	A	NR
ROBERT BAIRD - Cook County SD 88 Bellwood	A-	NR
ROBERT BAIRD - Cook County SD31 West Northfield	NR	Aa2
ROBERT BAIRD - Dewitt Ford County CCD540 Heartland	AA+	NR
ROBERT BAIRD - Greene Jersey Macoupin CUSD9	A+	NR
ROBERT BAIRD - Grundy Kendall & Will CUSD 201	NR	Aa2
ROBERT BAIRD - Henry Whiteside County CUSD	A+	NR

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

**Municipal Bonds: (continued)**

ROBERT BAIRD - Kane County SD 129 Aurora W Side	AA	A1
ROBERT BAIRD - Madison Macoupin ETC CCD536	A-	NR
ROBERT BAIRD - Menard Sangamon Logan CUSD 213	A+	NR
ROBERT BAIRD - Randolph County CUSD 140 Sparta	A	NR
ROBERT BAIRD - Village of Addison	AA	NR
ROBERT BAIRD - Village of Bedford Park	AA-	NR
ROBERT BAIRD - Village of Palatine	AA+	NR
ROBERT BAIRD - Village of Skokie IL	NR	Aa1
ROBERT BAIRD - Will County SD33 Homer Glen	AA	NR
ROBERT BAIRD - Will County CCSD 30 - C Troy Township	NR	Aa2
ROBERT BAIRD - Will & Kendall CCSD 202 Plainfield	NR	Aa2
SUN TRUST- Village of Oak Park	AA	A1

**Municipal Bonds External Manager:**

	<b>S&amp;P</b>	<b>Mdy</b>
RAMIREZ EXTERNAL MNG Bond & Montgomery CCSD2 Greenville	AA	N/A
RAMIREZ EXTERNAL MNG CCSD 31 West Northfield	N/A	Aa2
RAMIREZ EXTERNAL MNG Champaign County SD 116 Urbana	AA-	N/A
RAMIREZ EXTERNAL MNG City of Rockford	N/A	A2
RAMIREZ EXTERNAL MNG City of Chicago Tax Incr Revenue	A	N/A
RAMIREZ EXTERNAL MNG City of Collinsville	N/A	Aa3
RAMIREZ EXTERNAL MNG City of Evanston IL	N/A	Aa2
RAMIREZ EXTERNAL MNG City of Granite City	AA	N/A
RAMIREZ EXTERNAL MNG City of Waukegan	AA	A2
RAMIREZ EXTERNAL MNG Cook County Community College District 524	N/A	Aa1
RAMIREZ EXTERNAL MNG Cook County SD #104 Summit	AA	N/A
RAMIREZ EXTERNAL MNG Cook County SD 153 Homewood	A+	N/A
RAMIREZ EXTERNAL MNG Cook County SD 153	AA	N/A
RAMIREZ EXTERNAL MNG Cook County SD 163 Park Forest	AA	N/A
RAMIREZ EXTERNAL MNG Cook County SD 88 Bellwood	AA	N/A
RAMIREZ EXTERNAL MNG Dekalb County CUSD 428	N/A	Aa2
RAMIREZ EXTERNAL MNG DuPage Cook County CUSD 181 Hinsdale	AAA	N/A
RAMIREZ EXTERNAL MNG Green Jersey & Macoupin SD 9	AA	N/A
RAMIREZ EXTERNAL MNG Grundy Kendall & Will County SD 201	N/A	Aa2
RAMIREZ EXTERNAL MNG Henry Whiteside County CUSD 228	AA	N/A
RAMIREZ EXTERNAL MNG Kane County SD 129 Aurora W Side	AA	A1
RAMIREZ EXTERNAL MNG Kane County Forest Preserve	AA+	N/A
RAMIREZ EXTERNAL MNG Kane McHenry Cook Dekalb CUSD 300	AA	N/A
RAMIREZ EXTERNAL MNG Kankakee County SD 111	N/A	A3
RAMIREZ EXTERNAL MNG Lake County CCSD 50 Woodland	AA+	Aa2

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

**Municipal Bonds External Manager: (continued)**

RAMIREZ EXTERNAL MNG	Madison Bond etc. Counties CUSD 5	AA	N/A
RAMIREZ EXTERNAL MNG	Madison County Community SD 9	A-	N/A
RAMIREZ EXTERNAL MNG	Madison Macoupin Counties ICCD 536	AA	N/A
RAMIREZ EXTERNAL MNG	Menard Sangamon Logan CUSD 213	AA	N/A
RAMIREZ EXTERNAL MNG	Monroe County CUSD 3	A+	N/A
RAMIREZ EXTERNAL MNG	Randolph County CUSD 140 Sparta	AA	N/A
RAMIREZ EXTERNAL MNG	Regional Trans Authority	AA	N/A
RAMIREZ EXTERNAL MNG	Rockford Park District	N/A	Aa3
RAMIREZ EXTERNAL MNG	Sales Tax Securitization Corporation	AA	N/A
RAMIREZ EXTERNAL MNG	St. Clair County HS 201 Belleville	AA	N/A
RAMIREZ EXTERNAL MNG	Stephenson County SD 145 Freeport	AA	N/A
RAMIREZ EXTERNAL MNG	Village of Addison	AA	N/A
RAMIREZ EXTERNAL MNG	Village of Bedford Park	AA	N/A
RAMIREZ EXTERNAL MNG	Village of Hodgkins IL	AA-	N/A
RAMIREZ EXTERNAL MNG	Village of Johnsburg	AA	N/A
RAMIREZ EXTERNAL MNG	Village of Lake Zurich	AAA	N/A
RAMIREZ EXTERNAL MNG	Village of Northbrook	AAA	Aaa
RAMIREZ EXTERNAL MNG	Village of Oak Park	AA	A1
RAMIREZ EXTERNAL MNG	Village of Orland Park	AA+	Aa1
RAMIREZ EXTERNAL MNG	Village of Palatine	AA+	N/A
RAMIREZ EXTERNAL MNG	Village of Rantoul	AA	N/A
RAMIREZ EXTERNAL MNG	Village of Rosemont	AA	A2
RAMIREZ EXTERNAL MNG	Village of Round Lake Park	AA	N/A
RAMIREZ EXTERNAL MNG	Village of Skokie	N/A	Aa1
RAMIREZ EXTERNAL MNG	Village of Vernon Hills	AAA	N/A
RAMIREZ EXTERNAL MNG	Whiteside County CUSD 6 Morrison	AA	N/A
RAMIREZ EXTERNAL MNG	Will & Kendall County CCSD 202	N/A	Aa2
RAMIREZ EXTERNAL MNG	Will County CCSD 30-C Troy Township	N/A	Aa2
RAMIREZ EXTERNAL MNG	Williamson Jackson County IL CC	AA	N/A
RAMIREZ EXTERNAL MNG	Winnebago & Boone County CHSD 207	N/A	Aa3

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

<b>Corporate Bonds:</b>	<b>S&amp;P</b>	<b>Mdy</b>
ALAMO CAPITAL - 3M Company	AA-	A1
ALAMO CAPITAL - Apple Incorporated	AA+	Aa1
ALAMO CAPITAL - Chevron	AA-	Aa2
ALAMO CAPITAL - Coca Cola	A+	Aa3
ALAMO CAPITAL - Exxon Mobil Corporation	AA+	Aaa
ALAMO CAPITAL - Johnson and Johnson	AAA	Aaa
ALAMO CAPITAL - Procter and Gamble	AA-	Aa3
ALAMO CAPITAL - US Bank North America Cincinnati	AA-	Aa1
CABRERA CAPITAL - 3M Company	AA-	A1
CABRERA CAPITAL - Alphabet Incorporated	AA+	Aa2
CABRERA CAPITAL - Apple Incorporated	AA+	Aa1
CABRERA CAPITAL - Chevron Corporation	AA-	Aa2
CABRERA CAPITAL - Coca Cola	A+	Aa3
CABRERA CAPITAL - Colgate-Palmolive	AA-	Aa3
CABRERA CAPITAL - Exxon Mobil Corporation	AA+	Aaa
CABRERA CAPITAL - Microsoft Corporation	AAA	Aaa
CABRERA CAPITAL - Procter and Gamble	AA-	Aa3
CABRERA CAPITAL - US Bank North America Cincinnati	AA-	Aa1
CASTLEOAK - Apple Incorporated	AA+	Aa1
DREXEL HAMILTON LLC - Coca Cola	A+	Aa3
DREXEL HAMILTON LLC - Exxon Mobil Corporation	AA+	Aaa
DREXEL HAMILTON LLC - Microsoft Corporation	AAA	Aaa
LOOP CAPITAL MARKETS - ADP	AA	Aa3
LOOP CAPITAL MARKETS - Chevron Corporation	AA-	Aa2
LOOP CAPITAL MARKETS - Johnson and Johnson	AAA	Aaa
MICROSOFT/ CABRERA - Microsoft Corporation	AAA	Aaa
MISCHLER FINANCIAL - 3M Company	AA-	A1
MISCHLER FINANCIAL - ADP	AA	Aa3
MISCHLER FINANCIAL - Apple Incorporated	AA+	Aa1
MISCHLER FINANCIAL - Chevron Corporation	AA-	Aa2
MISCHLER FINANCIAL - Coca Cola	A+	Aa3
MISCHLER FINANCIAL - Exxon Mobil Corporation	AA+	Aaa
MISCHLER FINANCIAL - Johnson and Johnson	AAA	Aaa
MISCHLER FINANCIAL - Microsoft Corporation	AAA	Aaa
MISCHLER FINANCIAL - Procter and Gamble	AA-	Aa3
MISCHLER FINANCIAL - US Bank North America Cincinnati	AA-	Aa1
MULTI-BANK SECURITIES - Alphabet Incorporated	AA+	Aa2
MULTI-BANK SECURITIES - Chevron Corporation	AA-	Aa2
MULTI-BANK SECURITIES - Microsoft Corporation	AAA	Aaa
PIPER JAFFRAY & CO - 3M Company	AA-	A1
PIPER JAFFRAY & CO - ADP	AA	Aa3

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

**Corporate Bonds: (continued)**

PIPER JAFFRAY & CO - Apple Incorporated	AA+	Aa1
PIPER JAFFRAY & CO - Chevron Corporation	AA-	Aa2
PIPER JAFFRAY & CO - Coca Cola	AA+	Aa3
PIPER JAFFRAY & CO - Johnson and Johnson	AAA	Aaa
PIPER JAFFRAY & CO - Microsoft Corporation	AAA	Aaa
PIPER JAFFRAY & CO - Procter and Gamble	AA-	Aa3
PIPER JAFFRAY & CO - US Bank North America Cincinnati	AA-	Aa1
RAMIREZ & CO - Alphabet Incorporated	AA+	Aa2
RAMIREZ & CO - Apple Incorporated	AA+	Aa1
RAMIREZ & CO - Chevron Corporation	AA-	Aa2
RAMIREZ & CO - Coca Cola	A+	Aa3
RAMIREZ & CO - Exxon Mobil Corporation	AA+	Aaa
RAMIREZ & CO - Procter and Gamble	AA-	Aa3
RAMIREZ & CO - US Bank North America Cincinnati	AA-	Aa1
RAYMOND JAMES - Chevron Corporation	AA-	Aa2
RAYMOND JAMES - Coca Cola	A+	Aa3
RAYMOND JAMES - Johnson and Johnson	AAA	Aaa
SUN TRUST - 3M Company	AA-	A1
SUN TRUST - Johnson and Johnson	AAA	Aaa
TD SECURITIES - Microsoft Corporation	AAA	Aaa
WILLIAMS CAPITAL - Apple Incorporated	AA+	Aa1

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

<b>Corporate Bonds External Manager:</b>	<b>S&amp;P</b>	<b>Mdy</b>
GARCIA HAMILTON EXTERNAL MNG - American Express - Float	A-	A-
GARCIA HAMILTON EXTERNAL MNG - Apple	AA+	AA+
GARCIA HAMILTON EXTERNAL MNG - Apple Floating Rate	AA+	AA+
GARCIA HAMILTON EXTERNAL MNG - BB & T - Floating	A-	A-
GARCIA HAMILTON EXTERNAL MNG - Bank of America Floating Rate	A-	A-
GARCIA HAMILTON EXTERNAL MNG - Bank of New York Mellon	A	A1
GARCIA HAMILTON EXTERNAL MNG - Bank of New York Floating Rate	A	A
GARCIA HAMILTON EXTERNAL MNG - Berkshire Hathaway Financial	AA	AA
GARCIA HAMILTON EXTERNAL MNG - Chevron - Floating	AA-	AA-
GARCIA HAMILTON EXTERNAL MNG - CISCO Systems	AA-	AA-
GARCIA HAMILTON EXTERNAL MNG - Citibank - Floating	A+	A+
GARCIA HAMILTON EXTERNAL MNG - Coca Cola	A+	A+
GARCIA HAMILTON EXTERNAL MNG - John Deere Cap Floating	A	A
GARCIA HAMILTON EXTERNAL MNG - Walt Disney Company	A+	A+
GARCIA HAMILTON EXTERNAL MNG - Walt Disney Floating	A+	A+
GARCIA HAMILTON EXTERNAL MNG - Exxon Mobile Corp - Floating	AA+	AA+
GARCIA HAMILTON EXTERNAL MNG - Fifth Third Bank Floating Rate	A-	A-
GARCIA HAMILTON EXTERNAL MNG - Goldman Sachs - Floating	BBB+	BBB+
GARCIA HAMILTON EXTERNAL MNG - Honeywell Intl Floating Rate	A	A
GARCIA HAMILTON EXTERNAL MNG - Intel Corp. Floating Rate	A+	A+
GARCIA HAMILTON EXTERNAL MNG - IBM	A+	A+
GARCIA HAMILTON EXTERNAL MNG - IBM Corp Floating Rate	A+	A+
GARCIA HAMILTON EXTERNAL MNG - JP Morgan Floating	A-	A-
GARCIA HAMILTON EXTERNAL MNG - Johnson & Johnson Floater	AAA	AAA
GARCIA HAMILTON EXTERNAL MNG - Key Bank	A-	A-
GARCIA HAMILTON EXTERNAL MNG - Lowe's - Floating	A-	A-
GARCIA HAMILTON EXTERNAL MNG - Merck & Company Floating Rate	AA	AA
GARCIA HAMILTON EXTERNAL MNG - Morgan Stanley - Floating	BBB+	BBB+
GARCIA HAMILTON EXTERNAL MNG - Oracle Corporation	AA-	AA-
GARCIA HAMILTON EXTERNAL MNG - PNC Bank Floating Rate	A	A
GARCIA HAMILTON EXTERNAL MNG - PepsiCo Incorporated	A+	A+
GARCIA HAMILTON EXTERNAL MNG - PepsiCo Inc. Floating Rate	A+	A+
GARCIA HAMILTON EXTERNAL MNG - Procter & Gamble	AA-	AA-
GARCIA HAMILTON EXTERNAL MNG - State Street - Floating	A	A
GARCIA HAMILTON EXTERNAL MNG - State Street Corporation	A	A
GARCIA HAMILTON EXTERNAL MNG - Target Corporation	A	A
GARCIA HAMILTON EXTERNAL MNG - UPS Floating Rate	A-	A-
GARCIA HAMILTON EXTERNAL MNG - US Bancorp Floating Rate	A+	A+
GARCIA HAMILTON EXTERNAL MNG - UnitedHealth Group Incorporated	A+	A+
GARCIA HAMILTON EXTERNAL MNG - Wells Fargo Floating	A-	A-

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

As of June 30, 2018, credit ratings of collateral for securities lending collateral invested in repurchase agreements are as follows:

Standard & Poor's Rating	Percentage % (Percent of Total)	Moody's Rating	Percentage % (Percent of Total)
AAA	1.38%	Aaa	3.91%
AA+	1.59%	Aa1	1.90%
AA	2.88%	Aa2	1.92%
AA-	2.32%	Aa3	1.49%
A-2	4.09%	A1	2.42%
A-1+	0.05%	A2	1.19%
A-1	1.28%	A3	4.68%
A+	1.62%	Baa1	1.20%
A	4.88%	Baa2	1.96%
A-	1.14%	Baa3	1.58%
BBB+	2.17%	Ba1	1.77%
BBB	2.27%	Ba2	1.62%
BBB-	2.64%	Ba3	1.52%
BB+	1.36%	B1	4.17%
BB	0.81%	B2	1.96%
BB-	3.86%	B3	3.51%
B+	2.96%	Caa1	2.68%
B	2.99%	Caa2	0.85%
B-	3.32%	Caa3	1.67%
CCC+	1.39%	Ca	0.71%
CCC	1.09%	C	1.33%
CCC-	0.60%	P-1	1.18%
CC	0.18%	P-2	4.83%
C	0.00%	Not Rated	49.95%
Not Rated	53.13%		
	<b>100.00%</b>		<b>100.00%</b>



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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

As of June 30, 2017, excluding the securities lending program, the Treasurer's investments in commercial paper were rated P-1 by Moody's Investors Service and A-1 by Standard & Poor's Ratings, except for those issued by Apple Incorporated, Chevron Corporation, Coca-Cola Company, Pfizer Incorporated, Roche Holdings Incorporated and Toronto Dominion HDG USA which were rated A-1+ by Standard & Poor's. The Treasurer's short-term investments in all U.S. Agency obligations, including collateral for repurchase agreements, were rated P-1 by Moody's Investors Service, except for Federal Agriculture Mortgage Corporation securities which were not rated. The Treasurer's long-term investments in all U.S. Agency obligations were rated Aaa by Moody's Investors Service or AA+ by Standard & Poor's Ratings, except for Federal Agriculture Mortgage Corporation securities which were not rated. The Treasurer's short-term investment in foreign debt securities were rated A-1 by Standard & Poor's Ratings. The Treasurer's long-term investment in foreign debt securities were rated A1 by Moody's Investors Service and A+ by Standard & Poor's Ratings. The Treasurer's long-term investments in Supranational Bonds were rated Aaa by Moody's Investors Service and AAA by Standard & Poor's Ratings. The Treasurer's investments in The Illinois Funds was rated AAAM by Standard & Poor's Ratings. The Treasurer's investments in money market mutual funds were rated Aaa by Moody's Investors Service or AAAM by Standard & Poor's Ratings. The Treasurer's short-term investments in Municipal Bonds and Corporate Bonds were rated by Moody's and Standard & Poor's in the following tables:

<b>Municipal Bonds:</b>	<b>S&amp;P</b>	<b>Mdy</b>
ROBERT BAIRD - Village of Addison	AA	NR
ROBERT BAIRD - City of Rock Falls	AA	NR
PIPER JAFFRAY & CO - Village of Skokie	NR	Aa1
PIPER JAFFRAY & CO - Maine Township	NR	Aaa
MISCHLER FINANCIAL - Village of Orland Park	AA+	Aa1

<b>Municipal Bonds External Manager:</b>	<b>S&amp;P</b>	<b>Mdy</b>
RAMIREZ EXTERNAL MNG - City of Chicago Waterworks	A	NR
RAMIREZ EXTERNAL MNG - Kankakee County SD 111	NR	A2
RAMIREZ EXTERNAL MNG - Madison County Comm SD 9	A-	NR
RAMIREZ EXTERNAL MNG - Monroe County CUSD 3	A+	NR
RAMIREZ EXTERNAL MNG - St. Clair County HS201 Belleville	AA	NR
RAMIREZ EXTERNAL MNG - Village of Addison	AA	NR
RAMIREZ EXTERNAL MNG - Village of Hodgkins	AA-	NR
RAMIREZ EXTERNAL MNG - Village of Round Lake Park	AA	NR
RAMIREZ EXTERNAL MNG - Village of Vernon Hills	AAA	NR
RAMIREZ EXTERNAL MNG - Williamson Jackson County	AA	NR



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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

<b>Corporate Bonds:</b>	<b>S&amp;P</b>	<b>Mdy</b>
CABRERA CAPITAL - Coca Cola	AA-	Aa3
CABRERA CAPITAL - Exxon	AA+	Aaa
CABRERA CAPITAL - Microsoft	AAA	Aaa
CASTLEOAK - Apple	AA+	Aa1
DREXEL HAMILTON LLC - Coca Cola	AA-	Aa3
DREXEL HAMILTON LLC - Microsoft	AAA	Aaa
LOOP CAPITAL MARKETS - Johnson and Johnson	AAA	Aaa
MISCHLER FINANCIAL - 3M	AA-	A1
MISCHLER FINANCIAL - Apple	AA+	Aa1
MISCHLER FINANCIAL - Coca Cola	AA-	Aa3
MISCHLER FINANCIAL - Johnson and Johnson	AAA	Aaa
MISCHLER FINANCIAL - Microsoft	AAA	Aaa
PIPER JAFFRAY & CO - ADP	AA	Aa3
PIPER JAFFRAY & CO - Coca Cola	AA-	Aa3
TD SECURITIES - Microsoft	AAA	Aaa
WILLIAMS CAPITAL - Apple	AA+	Aa1

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

<b>Corporate Bonds External Manager:</b>	<b>S&amp;P</b>	<b>Mdy</b>
GARCIA HAMILTON EXTERNAL MNG - General Electric Floating	AA-	A1
GARCIA HAMILTON EXTERNAL MNG - American Express Float	A-	A2
GARCIA HAMILTON EXTERNAL MNG - Apple	AA+	Aa1
GARCIA HAMILTON EXTERNAL MNG - Bank of America	A+	A1
GARCIA HAMILTON EXTERNAL MNG - Bank of New York Mellon	A	A1
GARCIA HAMILTON EXTERNAL MNG - BB & T Floating	A-	A2
GARCIA HAMILTON EXTERNAL MNG - Bear Stearns (JP Morgan)	A-	A3
GARCIA HAMILTON EXTERNAL MNG - Berkshire Hathaway	AA	Aa2
GARCIA HAMILTON EXTERNAL MNG - Chevron - Floating	AA-	Aa2
GARCIA HAMILTON EXTERNAL MNG - CISCO Systems	AA-	A1
GARCIA HAMILTON EXTERNAL MNG - Citibank - Floating	A+	A1
GARCIA HAMILTON EXTERNAL MNG - Coca Cola	AA-	Aa3
GARCIA HAMILTON EXTERNAL MNG - Exxon	AA+	Aaa
GARCIA HAMILTON EXTERNAL MNG - Goldman Sachs - Floating	BBB+	A3
GARCIA HAMILTON EXTERNAL MNG - Honeywell International	A	A2
GARCIA HAMILTON EXTERNAL MNG - IBM	A+	A1
GARCIA HAMILTON EXTERNAL MNG - John Deere Cap - Floating	A	A2
GARCIA HAMILTON EXTERNAL MNG - JP Morgan - Floating	A-	A3
GARCIA HAMILTON EXTERNAL MNG - Key Bank	A-	A3
GARCIA HAMILTON EXTERNAL MNG - Lowe's - Floating	A-	A3
GARCIA HAMILTON EXTERNAL MNG - Maerck & Co	AA	A1
GARCIA HAMILTON EXTERNAL MNG - Merck Floating	AA	A1
GARCIA HAMILTON EXTERNAL MNG - Metlife, Inc	A-	A3
GARCIA HAMILTON EXTERNAL MNG - Microsoft	AAA	Aaa
GARCIA HAMILTON EXTERNAL MNG - Morgan Stanley - Floating	BBB+	A3
GARCIA HAMILTON EXTERNAL MNG - Occidental Petroleum	A	A3
GARCIA HAMILTON EXTERNAL MNG - Oracle Corp	AA-	A1
GARCIA HAMILTON EXTERNAL MNG - Pepsico	A+	A1
GARCIA HAMILTON EXTERNAL MNG - Pfizer	AA	A1
GARCIA HAMILTON EXTERNAL MNG - PNC Bank	A	A2
GARCIA HAMILTON EXTERNAL MNG - Procter & Gamble	AA-	Aa3
GARCIA HAMILTON EXTERNAL MNG - State Street - Floating	A	A1
GARCIA HAMILTON EXTERNAL MNG - Walt Disney - Floating	A+	A2
GARCIA HAMILTON EXTERNAL MNG - Wells Fargo - Floating	A	A2

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

As of June 30, 2017, credit ratings of collateral for securities lending collateral invested in repurchase agreements are as follows:

Standard & Poor's Rating	Percentage % (Percent of Total)	Moody's Rating	Percentage % (Percent of Total)
AAA	1.20%	Aaa	8.36%
AA+	0.37%	Aa1	0.39%
AA	1.19%	Aa2	0.70%
AA-	3.30%	Aa3	1.41%
A-1+	0.04%	A1	2.29%
A-1	0.34%	A2	0.93%
A+	0.94%	A3	1.19%
A	1.89%	Baa1	1.89%
A-	1.16%	Baa2	1.35%
BBB+	1.64%	Baa3	1.28%
BBB	1.85%	Ba1	2.68%
BBB-	1.71%	Ba2	1.41%
BB+	1.88%	Ba3	4.40%
BB	3.26%	B1	5.55%
BB-	3.40%	B2	3.42%
B+	5.84%	B3	7.47%
B	6.68%	Caa1	3.96%
B-	5.56%	Caa2	1.75%
CCC+	3.16%	Caa3	1.78%
CCC	0.78%	Ca	0.38%
CCC-	1.28%	P-1	0.38%
CC	0.47%	Not Rated	47.03%
C	0.22%		
Not Rated	51.84%		
	<b>100.00%</b>		<b>100.00%</b>

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

The amount of the deposit not covered by Federal deposit insurance for all time deposits is required to be collateralized. Securities pledged as collateral to secure these deposits are required to have a market value at an established percentage of the deposit based on the type of security pledged. Securities that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts, which require a market value of at least 105% of the deposit. If the obligation of the United States and its agencies is a mortgage backed security, the securities pledged as collateral are required to have a market value of at least 110% of the deposit.

Other securities that may be pledged as collateral to secure time deposits are MBIA Certificates (issued by the Municipal Bond Investors Assurance Corporation), Letters of Credit (issued by Federal Home Loan Bank (FHLB)), and Share Certificates (issued by credit unions), which require a market value of at least 102% of the deposit.

Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit was made. Written custodial agreements are required that provide, among other things, that the collateral securities are held separate from the assets of the custodial bank. Prior to placing the deposit and at least monthly thereafter, the Treasurer determines that the collateral has a market value adequate to secure the deposit.

The Treasurer has established accounts with The Illinois Funds for investment of State funds. The Illinois Funds participation provides comparable yields, a source of liquidity and requires less administrative intervention than other short-term investments. The management, custodianship and operation of The Illinois Funds are under the supervision of the State of Illinois, Office of the Treasurer. The fair value of the pool position is the same as the value of pool shares.

The Treasurer purchased investments in eight mutual funds in both 2018 and 2017. These mutual funds provide a comparable yield to other investments, particularly during times of falling interest rates and are a source of liquidity when cash is needed. Investments to the mutual funds can be made daily and interest income is received monthly.

Repurchase agreements are purchased from various financial institutions and rated brokerage firms located in the State. Securities pledged as collateral to secure these agreements are required to have a fair value of at least 102% of the agreement. The agreements require both parties to maintain an acceptable margin on underlying securities to ensure the agreements are adequately collateralized. The Treasurer accepts only obligations of the United States government or its sponsored agencies as collateral for repurchase agreements (other than within the securities lending program).

All securities pledged to secure repurchase agreements are required to be delivered to a bank other than the institution from which the investment was acquired. A written custodial agreement with the banks that hold the Treasurer's repurchase agreement collateral requires, among other things, that the collateral securities be held separately from the assets of the bank.

Commercial paper is purchased from various brokerage firms located in the State and is held in safekeeping by a bank for the Treasurer. A written custodial agreement requires, among other things, that the safekeeping bank hold the commercial paper separately from the assets of the bank.

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

The Treasurer's investment in the State of Illinois Secondary Pool Investment Program was deposited in a trust to purchase a security interest in a pool of Small Business Administration (SBA), Federal Home Loan Mortgage Corporation Adjustable Rate Mortgage (FHLMC ARM), and Federal National Mortgage Association Adjustable Rate Mortgage (FNMA ARM) loans. The securities have a floating rate indexed to the prime rate as quoted in *The Wall Street Journal* and are adjusted quarterly. The pool is guaranteed by the U.S. Government and/or the respective agency.

The Treasurer has purchased investments in Supranational Bonds, U.S. Treasury Obligations and U.S. Agency Securities. These purchases permit greater portfolio diversification, provide comparable yields to other investment options, and provide liquidity due to the active secondary market.

The Treasurer's net increase (decrease) in the fair value of investments during 2018 and 2017 was (\$65,014,767) and \$4,758,544, respectively. This amount takes into account all changes in fair value (including purchases and maturities) that occurred during the year and is reported as investment income earned in the Statements of Investment Income.

In allocating funds for short-term investment, the portions allocated to time deposits (certificates of deposit) commercial paper, mutual funds, and bank notes are based on forecasts of anticipated receipts and disbursements to determine funds not needed for at least 30 days from date of investment. Substantially all remaining available funds are invested in repurchase agreements with banks and brokerage firms.

The average yield for investments including amounts listed as cash equivalents on the 2018 and 2017 financial statements was 1.51% and .79%, respectively.

The master repurchase agreements utilized by the Treasurer require the broker or financial institution to maintain the market value of collateral securities at 102% of the agreement. The carrying amount of repurchase agreements, including accrued interest, was \$1,474,973,589 and \$1,954,797,989, and the fair value of the collateral securities under the repurchase agreements was \$1,506,747,520 and \$1,993,367,968, as of June 30, 2018 and 2017, respectively.

Investment Commitment: The Illinois Technology Development Account I and II (TDA I and II) are administered by the Treasurer in accordance with 30 ILCS 265 and have made commitments totaling approximately \$213 million as of June 30, 2018 and \$133 million as of June 30, 2017. The remaining unfunded commitment was approximately \$99.1 million as of June 30, 2018 and \$43.1 million as of June 30, 2017.

The Illinois Technology Development Account I has made commitments totaling approximately \$73 million as of June 30, 2018 and \$73 million as of June 30, 2017. The remaining unfunded commitment amount was approximately \$4.6 million as of June 30, 2018 and \$4.7 million as of June 30, 2017.

The Illinois Technology Development Account II (also known as the Illinois Growth and Innovation Fund) has made commitments totaling \$140 million as of June 30, 2018 and \$60 million as of June 30, 2017. The remaining unfunded commitment amount was approximately \$94.5 million as of June 30, 2018 and \$38.4 million as of June 30, 2017.

It is anticipated that additional commitments will be made in the coming years for TDA II up to or near to the limits established in the Act. No additional future commitments are anticipated for TDA I.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the Treasurer's investment in a single issuer. The following investments exceeded 5 percent of the total investments at June 30, 2018 and 2017. (Expressed in thousands.)

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**NOTE D. DEPOSITS AND INVESTMENTS (CONTINUED)**

	2018		2017	
	Carrying Value	% of Total Investments	Carrying Value	% of Total Investments
U.S. Agency:				
Federal Agriculture Mortgage Corp	\$ -	-	\$ 1,072,403	6.09
Federal Home Loan Mortgage Corp	1,131,377	5.95	1,499,993	8.52
Repurchase Agreements:				
HSBC	-	-	1,000,000	5.68

Securities Lending Transactions: The State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer has, through a Securities Lending Agreement, authorized Deutsche Bank AG to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During fiscal year 2018 and 2017, Deutsche Bank AG lent U.S. Agency securities and U.S. Treasury securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

The State Treasurer did not impose any restrictions during fiscal years 2018 and 2017 on the amount of loans of available, eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. There were no losses during fiscal years 2018 and 2017 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal years 2018 and 2017, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank AG and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending collateral invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2018 were \$4,521,091,000 and \$4,451,198,793, respectively. The securities lending collateral received that was invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2017 were \$3,522,922,500 and \$3,475,790,990, respectively.

**State of Illinois  
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**Fiscal Officer Responsibilities  
Notes to the Financial Statements  
For the Years Ended June 30, 2018 and 2017**

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**NOTE E. DEFEASED DEBT**

During fiscal year 2018, the State of Illinois did not issue General Obligation Refunding Bonds. During fiscal year 2017, the State of Illinois issued \$1,303,145,000 General Obligation Refunding Bonds which were called by April 1, 2017.

For financial reporting purposes, the obligations under the defeased bonds have been fully liquidated by the escrow deposit of the funds from the refunding bonds, resulting in a net reduction of General Obligation Indebtedness of \$159,385,493 during fiscal year 2017, as follows:

	Balances at June 30, 2017		
	Principal	Interest	Total
Balance of Defeased Bond Issues	\$ 1,374,170,000	\$ 575,455,650	\$ 1,949,625,650
General Obligation Refunding Bonds	1,303,145,000	487,095,157	1,790,240,157
 Net Decrease	 \$ 71,025,000	 \$ 88,360,493	 \$ 159,385,493

The advance refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$106,356,419 during fiscal year 2017.

In prior fiscal years, the State of Illinois defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the State of Illinois' financial statements. At June 30, 2018 and 2017, no bonds outstanding were considered defeased.

**NOTE F. SECURITIES UNDER CUSTODIAL RESPONSIBILITY OF THE TREASURER**

At June 30, 2018 and 2017, the Treasurer was responsible for \$115,028,010 and \$114,641,685, respectively, of securities held in safekeeping for various State departments, agencies and institutions. These amounts are not reflected in the Statements of Assets and Other Debits, Liabilities and Accountabilities.

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**NOTE G. GENERAL OBLIGATION INDEBTEDNESS**

A summary of the changes from June 30, 2017 to June 30, 2018, in General Obligation Bonded Indebtedness by issue type follows:

	Multi-Purpose - Interest Rates varying from 3.140% to 8.100% Series 2001 through 2018, due serially to 2043	Pension Funding - Interest Rates varying from 4.950% to 5.877% Series 2003 and 2011, due serially to 2033	General Obligation Refunding Series 2003 through 2016 - Interest Rates varying from 3.000% to 8.100% due serially to 2032	Total General Obligation Indebtedness
<b>Balance at June 30, 2017</b>				
Principal	\$ 10,316,165,769	\$ 10,975,000,000	\$ 3,394,515,000	\$ 24,685,680,769
Interest	6,008,807,319	5,261,946,000	883,613,046	12,154,366,365
Total	<u>16,324,973,088</u>	<u>16,236,946,000</u>	<u>4,278,128,046</u>	<u>36,840,047,134</u>
<b>Redemptions charge to Appropriations</b>				
Principal	510,922,806	1,050,000,000	428,280,000	1,989,202,806
Interest	733,920,648	568,615,500	165,391,616	1,467,927,764
Total	<u>1,244,843,454</u>	<u>1,618,615,500</u>	<u>593,671,616</u>	<u>3,457,130,570</u>
<b>Certificates/Bonds issued</b>				
Principal	7,250,000,000	-	-	7,250,000,000
Interest	2,706,451,752	-	-	2,706,451,752
Total	<u>9,956,451,752</u>	<u>-</u>	<u>-</u>	<u>9,956,451,752</u>
<b>Balance at June 30, 2018</b>				
Principal	17,055,242,963	9,925,000,000	2,966,235,000	29,946,477,963
Interest	7,981,338,423	4,693,330,500	718,221,430	13,392,890,353
Total	<u>\$ 25,036,581,386</u>	<u>\$ 14,618,330,500</u>	<u>\$ 3,684,456,430</u>	<u>\$ 43,339,368,316</u>
<b>Amounts due within one year</b>				
				\$ 2,554,685,000
				1,536,416,568
				<u>\$ 4,091,101,568</u>



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**NOTE G. GENERAL OBLIGATION INDEBTEDNESS (CONTINUED)**

A summary of the changes from June 30, 2016 to June 30, 2017, in General Obligation Bonded Indebtedness by issue type follows:

	Multi-Purpose - Interest Rates varying from 2.690% to 7.600% Series 2001 through 2016, due serially to 2041	Pension Funding - Interest Rates varying from 4.350% to 5.877% Series 2003 and 2011, due serially to 2033	General Obligation Refunding Series 2003 through 2016 - Interest Rates varying from 3.000% to 7.600% due serially to 2032	Total General Obligation Indebtedness
<b>Balance at June 30, 2016</b>				
Principal	\$ 11,755,570,311	\$ 12,000,000,000	\$ 2,489,226,799	\$ 26,244,797,110
Interest	6,876,819,555	5,884,284,000	535,948,088	13,297,051,643
Total	<u>18,632,389,866</u>	<u>17,884,284,000</u>	<u>3,025,174,887</u>	<u>39,541,848,753</u>
<b>Redemptions charge to Appropriations</b>				
Principal	580,730,167	1,025,000,000	362,361,174	1,968,091,341
Interest	619,451,272	622,338,000	136,139,078	1,377,928,350
Total	<u>1,200,181,439</u>	<u>1,647,338,000</u>	<u>498,500,252</u>	<u>3,346,019,691</u>
<b>Certificates/Bonds issued</b>				
Principal	480,000,000	-	1,303,145,000	1,783,145,000
Interest	323,603,565	-	487,095,157	810,698,722
Total	<u>803,603,565</u>	<u>-</u>	<u>1,790,240,157</u>	<u>2,593,843,722</u>
<b>Refunding</b>				
Principal	1,338,674,375	-	35,495,625	1,374,170,000
Interest	572,164,529	-	3,291,121	575,455,650
Total	<u>1,910,838,904</u>	<u>-</u>	<u>38,786,746</u>	<u>1,949,625,650</u>
<b>Balance at June 30, 2017</b>				
Principal	10,316,165,769	10,975,000,000	3,394,515,000	24,685,680,769
Interest	6,008,807,319	5,261,946,000	883,613,046	12,154,366,365
Total	<u>\$ 16,324,973,088</u>	<u>\$ 16,236,946,000</u>	<u>\$ 4,278,128,046</u>	<u>\$ 36,840,047,134</u>

Amounts due within one year

Principal	\$ 2,007,050,000
Interest	1,288,447,388
Total	<u>\$ 3,295,497,388</u>

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**NOTE G. GENERAL OBLIGATION INDEBTEDNESS (CONTINUED)**

Interest on zero coupon bonds is reflected in the previous schedules as interest to agree to the charge to appropriations. Interest on such bonds is reflected as principal in the debt service requirement schedule below.

Future general obligation debt service requirements at June 30, 2018, are as follows:

Year ending June 30	Principal	Interest	Total
2019	\$ 2,554,685,000	\$ 1,536,416,568	\$ 4,091,101,568
2020	1,681,330,000	1,403,918,634	3,085,248,634
2021	1,708,790,000	1,319,518,114	3,028,308,114
2022	1,726,729,945	1,231,836,325	2,958,566,270
2023	1,772,054,948	1,142,357,179	2,914,412,127
2024-2028	9,220,130,236	4,319,175,035	13,539,305,271
2029-2033	8,741,654,859	1,930,068,080	10,671,722,939
2034-2038	2,032,380,012	396,780,731	2,429,160,743
2039-2043	568,400,000	53,142,650	621,542,650
Total	<u>\$ 30,006,155,000</u>	<u>\$ 13,333,213,316</u>	<u>\$ 43,339,368,316</u>

The principal amounts reflected above include accretion to date on zero-coupon bonds.

Additional information and disclosures related to the State's General Obligation Indebtedness are presented in the State of Illinois Comprehensive Annual Financial Report. This report may be obtained online at [www.illinoiscomptroller.gov](http://www.illinoiscomptroller.gov) or by writing to the Illinois Office of the State Comptroller, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1858.

**NOTE H. CONTINGENCIES**

The State of Illinois, Office of the Treasurer (Treasurer) is involved in certain lawsuits and other legal proceedings. While the range of potential losses as a result of these lawsuits and other proceedings against the Treasurer is unknown at this time, the Office believes the potential losses would be immaterial to the Fiscal Officer Responsibilities financial statements.

**NOTE I. SUBSEQUENT EVENTS**

Subsequent to June 30, 2018, the State of Illinois sold \$965,770,000 State of Illinois General Obligation Refunding Bonds, Series A and B of September 2018 maturing October 1, 2033 with an interest rate of 5% which refunded outstanding series as follows:

1. Series A
  - a. General Obligation Bonds, Series of October 2003B all maturities
2. Series B
  - a. General Obligation Bonds, Series of September 2005 maturing September 2022 and September 2029
  - b. General Obligation Bonds, Series of April 2007 with annual maturities on April 1 from 2021 to 2028

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**Fiscal Officer Responsibilities  
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**NOTE I.           SUBSEQUENT EVENTS (CONTINUED)**

- c. General Obligation Bonds, Series of June 2007A with annual maturities on June 1 from 2021 to 2025
- d. General Obligation Bonds Series of April 2008 with annual maturities on April 1 from 2022 to 2033
- e. General Obligation Bonds, Series of April 2009 with annual maturities on April 1 from 2021 to 2034
- f. General Obligation Bonds, Series of September 2009 with annual maturities on September 1 from 2026 to 2034 with the exception of 2027

## **Supplementary Information**

State of Illinois  
Office of the Treasurer

Fiscal Officer Responsibilities  
Assets and Other Debits – Detail  
June 30, 2018 and 2017

	June 30, 2018		June 30, 2017	
	Collected	Bank Balances Float	Collected	Bank Balances Float
Demand Deposits				
Huntington Bank	\$ 42,516	\$ -	\$ -	\$ -
Bank of America	458,629	-	598,798	-
JP Morgan Chase	65,598	-	217,512	-
Wells Fargo Bank	131,081	390,880	14,499	1,052
	<u>\$ 697,824</u>	<u>\$ 390,880</u>	<u>\$ 830,809</u>	<u>\$ 1,052</u>
Net Reconciling Items (e.g., Deposits-in-Transit and Outstanding Drafts)		<u>1,088,704</u>		<u>831,861</u>
Total Demand Deposits		<u>\$ 7,226,145</u>		<u>\$ 7,268,532</u>

Note - The total bank balances represent all funds recorded by the financial institution. This balance includes the float and collected amounts. The float balance represents funds credited to the ledger balance which were unavailable, subject to the clearing process. The collected balance represents available funds which have completed the clearing process.

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**Fiscal Officer Responsibilities  
Assets and Other Debits – Detail (Continued)  
June 30, 2018 and 2017**

	June 30, 2018		June 30, 2017	
	Collected	Bank Balances Float Total	Collected	Bank Balances Float Total
Clearing Account Deposits and Deposits in Transit				
Huntington Bank	\$ 15,565	\$ -	\$ -	\$ -
Bank of America	107,966	1,299,271	239,677	249,962
DuQuoin State Bank	49,259	-	39,647	-
JP Morgan	210,983	23,100	258,600	13,468
Fifth Third	1,360,980	26,032,404	16,578	25,793,691
Illinois National Bank	200,002	1,355,601	200,002	345,178
US Bank-Springfield	1,550,948	1,988,660	1,438,809	2,947,124
Wells Fargo Bank	-	-	5,339	-
	<u>\$ 3,495,703</u>	<u>\$ 30,699,036</u>	<u>\$ 2,198,652</u>	<u>\$ 29,349,423</u>
Net Reconciling Items (e.g., Deposits-in-Transit and Outstanding Drafts)		<u>103,929,171</u>		<u>-</u>
Total Clearing Account Deposits		<u>\$ 138,123,910</u>		<u>\$ 31,548,075</u>

Note - The total bank balances represent all funds recorded by the financial institution. This balance includes the float and collected amounts.

The float balance represents funds credited to the ledger balance which were unavailable, subject to the clearing process.

The collected balance represents available funds which have completed the clearing process.

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**Fiscal Officer Responsibilities  
Assets and Other Debits – Detail (Continued)  
June 30, 2018 and 2017**

**Securities Lending Collateral**

The securities lending collateral represents investments made with cash collateral received for U.S. Agency Securities, U.S. Treasury Bills, U.S. Treasury Notes and U.S. Agency Discount Notes lent and any remaining cash collateral received but not yet invested. The cash collateral received on each loan will be returned for the same securities in the future.

	June 30	
	2018	2017
Securities Lending Collateral		
Invested in Repurchase Agreements	\$4,521,091,000	\$3,522,922,500

**Other Assets**

This classification includes other assets not available for investment and transactions in process. Details at June 30 follow:

	June 30	
	2018	2017
Warrants cashed, but not canceled	\$ -	\$ -
Receivables from Universities and Agencies for monies advanced	451,181	380,007
Receivable from City of Edwardsville	224,796	230,656
Investment income earned, but not received	47,489,300	28,144,633
Total Other Assets	\$48,165,277	\$28,755,296

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**Fiscal Officer Responsibilities  
Assets and Other Debits – Detail (Continued)  
June 30, 2018 and 2017**

**Other Assets (Continued)**

The account balances of warrants cashed but not canceled and the receivable from universities and agencies represent cash expenditures from the State Treasury which were in the process of being recorded by the Comptroller at June 30, 2018 and 2017. The balances in these accounts will vary significantly from day to day, depending on the availability of investable funds and the timing of warrant presentation for payment.

The noninterest-bearing amount receivable from the City of Edwardsville (City) is stated as the unpaid balance of funds advanced to the City in 1967 for the planning and construction of a water main. The repayment terms require the City to pay into the State Treasury ten cents per one thousand gallons of water sold by the City to users receiving water from this main.

Repayments received for the years ended June 30, 2018 and 2017, were \$5,860 and \$6,326, respectively.

Investment income earned but not received represents accrued income on investments not yet matured or collected. The balance fluctuates based on market adjustments, total investments and investment maturity dates.

**Amount of Future General Revenue Obligated for Debt Service**

The following summary reflects the general revenue obligated for debt service:

	June 30	
	2018	2017
Certificates, Bonds and Coupons Maturing in Next Fiscal Year	\$ 4,091,101,568	\$ 3,295,497,388
Less - Balance on Deposit in State Treasury at Year End, for Certificate and Bond Redemption and Interest	(1,581,465,908)	(1,219,692,337)
Amount Obligated from Future General Revenue		
General Revenue - Next Fiscal Year	2,509,635,660	2,075,805,051
General Revenue - Thereafter	39,248,266,748	33,544,549,746
 Amount of Future General Revenue Obligated for Debt Service at Fiscal Year End	 \$ 41,757,902,408	 \$ 35,620,354,797



**State of Illinois  
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**Fiscal Officer Responsibilities  
Assets and Other Debits – Detail (Continued)  
June 30, 2018 and 2017**

**Amount of Future General Revenue Obligated for Debt Service (Continued)**

A summary of the changes during fiscal years 2018 and 2017, in the amount of future general revenue obligated for debt service is as follows:

	2018	2017
Balance at Beginning of Fiscal Year	\$ 35,620,354,797	\$ 38,220,779,191
Issuance of Certificates and Bonds	9,956,451,752	2,593,843,722
Bonds and Coupons Redeemed	(3,457,130,570)	(3,346,019,691)
Bonds and Coupons Refunded	-	(1,949,625,650)
Net Change in Balances on Deposit in State Treasury	(361,773,571)	101,377,225
Balance at End of Fiscal Year	\$41,757,902,408	\$35,620,354,797

The amount of future general revenue obligated for debt service reconciled with total indebtedness at June 30 is as follows:

	June 30	
	2018	2017
<u>General Obligation Bonds</u>		
Amount of future general revenue obligated for debt service	\$ 41,757,902,408	\$ 35,620,354,797
Balance on deposit in the State Treasury at June 30 for bond redemption and interest	1,581,465,908	1,219,692,337
Total indebtedness at June 30	\$ 43,339,368,316	\$ 36,840,047,134

The liability for general obligation indebtedness is the aggregate amount of all future principal and interest payments necessary to retire such outstanding debt. The balancing amount included in assets in the statements of assets and other debits, liabilities and accountabilities of the Treasurer is equivalent to the amount to be derived from future general revenue for debt service. The proceeds of these certificate and bond issues are accounted for by other State agencies.

Under the Short Term Borrowing Act whenever casual deficits or failures in revenue of the State occur, monies borrowed are applied to the purpose for which they were obtained, or to pay the debts thus created, and to no other purpose. The interest and principal are paid by the Treasurer out of the General Obligation Bond Retirement and Interest Fund. All monies borrowed shall be borrowed for no longer than one year.

There were no General Obligation Certificates issued under the Short Term Borrowing Act during fiscal years 2018 or 2017.

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Liabilities and Accountabilities – Detail  
June 30, 2018 and 2017**

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**Liabilities for Balances on Deposit**

Protested Taxes: Substantially all of the \$81,935,473 and \$87,638,527 at June 30, 2018 and 2017, respectively, in the Protest Trust Fund has been enjoined by the courts pending the outcome of cases in process. By statute, a taxpayer making a tax payment "under protest" has 30 days to initiate a court suit and obtain an injunction. If not enjoined, the tax payments are transferred to the fund in the State Treasury that would have received the original deposit.

Available for Appropriation or Expenditure: This amount is the State of Illinois' balance at June 30 available to be appropriated by the general assembly or expended by State agencies.

Agencies' Deposits Outside the State Treasury: The liability for agencies' deposits not under the statutory recordkeeping control of the Comptroller consists of:

	2018	2017
Treasurer's Clearing Account Balances	\$ 242,398,693	\$ 210,595,314
Treasurer's Clearing Account Drafts in Process of Being Ordered into the State Treasury	26,536,133	101,781,948
Deposits in Process of Being Ordered into the Treasurer's Clearing Accounts	467,866,666	528,494,911
Deposits in Demand Accounts in Process of Being Ordered into the State Treasury	264,775,617	174,523,640
Total Agency Deposits Outside the State Treasury	<u>\$1,001,577,109</u>	<u>\$1,015,395,813</u>

The Treasurer's liability for agencies' deposits outside the State Treasury is composed principally of deposits of county and municipal retailers' occupation taxes and State income taxes awaiting designation of account distribution before being deposited in the State Treasury. Agencies' deposits outside the State Treasury consist principally of cash and short-term investments.

Comptroller's Warrants Outstanding: Warrants prepared by the Comptroller are recorded as outstanding upon countersignature by the Treasurer. Warrants outstanding are reduced when paid warrants are returned to the Comptroller.

**Other Liabilities**

Obligations Under Securities Lending: This amount represents cash collateral received and invested in Repurchase Agreements for U.S. Treasury Bills, U.S. Treasury Notes, U.S. Agency Securities, and U.S. Agency Discount Notes lent that will be returned for the same securities in the future.

**General Obligation Indebtedness**

Refer to the "Amount of Future General Revenue Obligated for Debt Service" section of the "Supplementary Information – Assets and Other Debits – Detail" part of the report for information relating to outstanding general obligation indebtedness.

**Accountabilities**

Refer to the "Other Assets" section of the "Supplementary Information – Assets and Other Debits – Detail" part of the report for information relating to these accountabilities.

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Investment Income  
For the Years Ended June 30, 2018 and 2017**

Investment income earned by the Treasurer is summarized by fund as follows:

	2018	2017
General Revenue Fund	\$ 70,525,602	\$ 53,379,240
Other State funds	49,076,313	37,577,064
Segregated State trust funds	18,346,715	6,893,259
	\$ 137,948,630	\$ 97,849,563

An analysis of investment income earned, classified by fund, is shown below:

	2018	2017
Funds Participating in Pooled Investments		
General Revenue Fund	\$ 70,525,602	\$ 53,379,240
Aggregated Operations Regulatory Fund	4,211	4,175
Airport Land Loan Revolving Fund	827	675
Alternative Compliance Market Account Fund	3,145	1,943
Ambulance Revolving Loan Fund	1,632	37
AML Reclamation Set Aside Fund	392,727	287,959
Appraisal Administration Fund	15,380	9,759
Assisted Living and Shared Housing Regulatory Fund	12,071	6,621
Autism Research Checkoff Fund	32	29
Autoimmune Disease Research Fund	401	327
Bank & Trust Company Fund	125,378	74,213
Brownfields Redevelopment Fund	18,904	15,741
Budget Stabilization Fund	31,070	471,651
Build Illinois Bond Retirement and Interest Fund	155,725	74,284
Build Illinois Capital Revolving Loan Fund	22,568	22,549
Build Illinois Fund	151,518	135,271
Capital Project Fund	1,304,703	439,089
Care Provider Persons with Developmental Disabilities Fund	45,142	21,901
Cemetery Consumer Protection Fund	47	414
Cemetery Relief Fund	2,159	1,328
Charitable Trust Stabilization Fund	31,261	26,077
Chicago State University Education Improvement Fund	12,874	9,742
Child Abuse Prevention Fund	573	721
Clean Air Act (CAA) Permit Fund	70,932	47,938
Coal Mining Regulatory Fund	905	1,280
Common School Fund	1,418,079	889,603
Community College Health Insurance Security Fund	33,395	17,040
Community DD Services Medicaid Trust Fund	161,562	345,263
Community Mental Health Medical Trust Fund	223,254	172,281
Community Water Supply Laboratory Fund	8,010	6,315
Compassionate Use of Medical Cannabis Fund	69,011	50,285
Conservation Police Operations Assistance Fund	21,685	14,730

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Investment Income (Continued)  
For the Years Ended June 30, 2018 and 2017**

	2018	2017
Funds Participating in Pooled Investments (Continued)		
County Automobile Renting Tax Fund	\$ 276	\$ 217
County Hospital Services Fund	112,156	139,123
County Option Motor Fuel Tax Fund	39,196	30,547
County Water Commission Tax Fund	3,408	5,930
Credit Union Fund	17,500	15,793
Criminal Justice Trust Fund	134,266	137,618
Debt Settlement Consumer Protection Fund	3,288	2,655
Design Professionals Administration and Investigation Fund	10,270	4,789
DHS Community Services Fund	80,748	119,070
DHS Technology Initiative Fund	59,914	58,117
Diabetes Research Checkoff Fund	1,171	622
Drug Rebate Fund	(69,576)	243,369
Drycleaner Environmental Response Trust Fund	18,995	14,977
Early Intervention Services Fund	24,089	26,919
Electronics Recycling Fund	5,840	5,992
Environmental Laboratory Certification Fund	3,197	2,373
EPA Court Ordered Trust Fund	58	44
Explosive Regulatory Fund	2,469	2,394
Facilities Management Fund	138,729	334,518
Fair Share Trust Fund	1,145	896
Family Care Fund	7,913	9,814
Federal Asset Forfeiture Fund	4,333	4,673
Federal Home Investment Trust Fund	402	3,861
Federal Student Loan Fund	357,737	271,622
Federal Workforce Training Fund	1,056	475
Fire Truck Revolving Loan Fund	13,950	1,642
Fish and Wildlife Endowment Fund	20,494	16,450
Food and Drug Safety Fund	12,050	7,808
Gaining Early Awareness Fund	28,172	23,838
General Assembly Retirement Excess Benefits Fund	557	383
General Assembly Retirement Fund	63,782	39,257
General Obligation Bond Retirement and Interest Fund	12,498,056	8,795,441
General Professions Dedicated Fund	118,806	71,792
Grant Accountability & Transparency Fund	61,588	-
Group Home Loan Revolving Fund	379	378
Group Insurance Premium Fund	191,608	132,599
Group Workers Compensation Pool Fund	19,718	15,487
Hansen-Therkelsen Memorial Deaf Student College Fund	9,133	7,418
Health and Human Services Medicaid Trust Fund	18,369	56,572
Health Information Exchange Fund	2,998	3,076
Health Insurance Reserve Fund	2,508,950	1,519,296
Healthcare Providers Relief Fund	1,024,825	345,917
Hearing Instrument Dispenser Examining and Disciplinary Fund	101	170
Help Illinois Vote Fund	(27,124)	15,837

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Investment Income (Continued)  
For the Years Ended June 30, 2018 and 2017**

	2018	2017
Funds Participating in Pooled Investments (Continued)		
Home Inspector Administration Fund	\$ 7,993	\$ 7,157
Home Rule City Retailers' Occupation Tax Fund	656,059	652,106
Home Rule Municipal Retailers' Occupation Tax Fund	705,850	475,611
Home Services Medicaid Trust Fund	233,816	141,269
Hospital Licensure Fund	29,123	25,483
Hospital Provider Fund	1,261,188	989,648
Human Service Priority Cap Program Fund	35	23
Illinois Affordable Housing Trust Fund	297,977	202,482
Illinois Beach Marina Fund	26	417
Illinois Clean Water Act Fund	164,961	102,305
Illinois Equity Fund	5,214	5,729
Illinois Farmer and Agri-Business Loan Guarantee Fund	69,887	56,888
Illinois Habitat Fund	62,719	47,106
Illinois State Dental Disciplinary Fund	18,088	27,841
Illinois State Medical Disciplinary Fund	319,467	105,019
Illinois State Pharmacy Disciplinary Fund	16,994	28,147
Illinois State Podiatric Disciplinary Fund	5,647	4,728
Illinois State Police Federal Projects Fund	3,763	2,021
Illinois State Police Operations Assistance Fund	141,997	124,141
Illinois Veteran's Assistance Fund	4,175	5,829
Injured Workers Benefit Fund	31,233	22,679
Innovations in Long-Term Care Quality Demonstration Grants Fund	22,671	12,220
Intercity Passenger Rail Fund	2,855	2,155
Interpreters for the Deaf Fund	4,032	2,922
Judges Retirement Excess Benefits Fund	8,993	6,276
Judges Retirement Fund	300,721	274,869
Juvenile Accountability Incentive Block Grant Fund	724	1,330
Kaskaskia Commons Permanent School Fund	2,028	1,655
Large Business Attraction Fund	17,871	13,144
Law Enforcement Camera Grant Fund	18,298	12,679
Local Government Health Insurance Reserve Fund	88,693	44,059
Long-Term Care Ombudsman Fund	20,742	13,998
Long-Term Care Provider Fund	289,219	310,563
Medicaid Buy-In Program Revolving Fund	6,650	6,123
Mental Health Reporting Fund	38,260	27,317
Metro East Mass Transit District Tax Fund	38,977	26,666
Metropolitan Pier and Exposition Authority Trust Fund	34,515	93,677
Money Follows the Person Budget Fund	48,531	36,646
Motor Vehicle Theft Prevention Fund	80,287	72,596
Multiple Sclerosis Research Fund	(688)	2,684
Municipal Automobile Renting Tax Fund	5,882	6,064
Non-Home Rule Municipal Retailer's Occupation Tax Fund	156,779	128,000
Nuclear Safety Emergency Preparedness Fund	72,267	70,320
Nursing Dedicated and Professional Fund	20,789	95,725
Off-highway Vehicle Trails Fund	13,840	9,554

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Investment Income (Continued)  
For the Years Ended June 30, 2018 and 2017**

	2018	2017
Funds Participating in Pooled Investments (Continued)		
Oil Spill Response Fund	\$ 749	\$ 574
Optometric Licensing and Disciplinary Committee Fund	2,503	4,914
Personal Property Tax Replacement Fund	721,423	652,314
Plugging and Restoration Fund	17,346	18,530
Prescription Pill and Drug Disposal Fund	2,297	1,529
Private Sewage Disposal Program Fund	1,474	1,327
Professional Services Fund	61,770	67,801
Professions Indirect Cost Fund	114,745	102,053
Public Agriculture Loan Guarantee Fund	89,121	72,541
Public Health Services Revolving Fund	46,056	20,716
Public Infrastructure Construction Loan Revolving Fund	14,886	16,847
Public Pension Regulation Fund	32,703	21,739
Quality of Life Endowment Fund	10,080	7,715
Radiation Protection Fund	52,513	45,737
Radioactive Waste Facility Development and Operation Fund	17,394	11,190
Rail Freight Loan Repayment Fund	22,647	28,295
Rate Adjustment Fund	57,193	33,980
Real Estate Audit Fund	1,779	1,449
Real Estate License Administration Fund	15,654	50,753
Real Estate Recovery Fund	12,562	10,447
Real Estate Research and Education Fund	4,986	3,587
Regional Transit Authority Sales Tax Trust Fund	923,598	431,494
Registered CPA Administration and Disciplinary Fund	19,543	27,487
Road Fund	9,153,514	7,818,541
Road Transportation A Fund	180,836	217,076
Salmon Fund	1,465	1,277
Savings and Residential Finance Regulatory Fund	32,573	32,309
Savings Institution Regulatory Fund	7,851	4,831
School Technology Revolving Loan Fund	15,858	14,480
Second Injury Fund	6,109	4,834
Securities Audit and Enforcement Fund	125,674	98,549
Self-Insurers Administration Fund	2,402	2,490
Self-Insurers Security Fund	173,667	143,564
Sexual Assault Service & Prevention Fund	1,732	3,061
Sheffield February 1982 Agreed Order Fund	25,183	21,141
Soil and Water Cons Dist Fund	2	-
Special Olympics Illinois and Special Children's Charities Fund	3,399	1,401
St. Jude Children Research Fund	31	23
State Assets Forfeiture Fund	28,236	24,967
State Construction Account Fund	3,591,893	2,565,561
State Employees Retirement Excess Benefits Fund	3,089	2,055
State Employees Retirement System Fund	1,678,153	1,079,247
State Employees' Deferred Compensation Plan Fund	28,369	21,680
State Furbearer Fund	2,585	1,749
State Migratory Waterfowl Stamp Fund	47,132	35,404
State Pheasant Fund	24,428	18,117

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Investment Income (Continued)  
For the Years Ended June 30, 2018 and 2017**

	2018	2017
Funds Participating in Pooled Investments (Continued)		
State Police Firearm Service Fund	\$ 89,359	\$ 58,025
State Police Merit Board Public Safety Fund	48,402	30,325
State Rail Freight Loan Repayment Fund	69,321	45,890
State Small Business Credit Initiative Fund	258,077	211,877
State Treasurer Admin Fund	342	193
State Treasurer Court - Ordered Escrow (Harland vs. Sweet) Fund	5,036	4,100
Student Loan Operating Fund	498,489	391,142
Supreme Court Historic Preservation Fund	(134)	1,618
Tax Compliance and Admin Fund	108,759	45,407
Teachers' Health Insurance Security Fund	233,270	275,694
Teachers' Retirement Excess Benefits Fund	278,019	225,305
Teachers' Retirement System Fund	1,219,324	1,057,174
Ticket for the Cure Fund	13,238	10,515
TOMA Consumer Protection Fund	2,025	2,263
Underground Resource Conservation Enforcement Trust Fund	22,439	14,116
Underground Storage Tank Fund	516,350	450,415
University of Illinois Hospital Services Fund	102,795	152,563
Violent Crime Victims Assistance Fund	58,264	52,454
Water Pollution Control Revolving Fund	634,082	563,741
Wildlife and Fish Fund	151,566	110,549
Wildlife and Prairie Park Fund	363	439
Worker's Compensation Revolving Fund	192,360	188,743
Working Capital Revolving Loan Fund	4,043	2,259
	<hr/>	<hr/>
Total pooled investment income	<u>\$ 119,601,915</u>	<u>\$ 90,956,304</u>



**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Investment Income (Continued)  
For the Years Ended June 30, 2018 and 2017**

	2018	2017
<b>Segregated Investments</b>		
Agrichemical Incident Response Trust Fund	\$ 44	\$ 19
College Savings Pool Administration Fund	50,084	24,536
Deferred Lottery Prize Winners Trust Fund	34,741	16,350
Eric Operations Trust Fund	-	377
Grant vs Dimas Trust Fund	26,230	-
Homeland Security Emergency Preparedness Trust Fund	92,395	21,691
IL ABLE Accounts Administration Fund	3	-
Illinois Habitat Endowment Trust Fund	158,603	68,364
Illinois Prepaid Tuition Trust Fund	96,941	37,764
Illinois State Toll Highway Revenue Fund	16,360,811	6,252,738
Kanerva vs State Trust Fund	-	20
Municipal Wireless Service Emergency Trust Fund	18,477	8,193
National Heritage Endowment Trust Fund	5,579	2,404
Radioactive Waste Facility Closure and Compensation Fund	25	10
Regulatory Trust Fund	4,921	2,355
St Metro-East Park & Rec Dist Fund	7,311	-
Title III Social Security and Employment Service Fund	765,170	257,476
Tobacco IPTIP Fund	656,895	166,255
Unemployment Compensation Special Administration Fund	68,485	34,707
	<hr/>	<hr/>
Total segregated investment income	18,346,715	6,893,259
	<hr/>	<hr/>
Total investment income	\$ 137,948,630	\$ 97,849,563



**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Investment Income (Continued)  
For the Years Ended June 30, 2018 and 2017**

An analysis of investment income earned by funds participating in pooled investments is shown below by type of investment:

	2018	2017
The Illinois Funds	\$ 14,727,936	\$ 6,484,067
Time Deposits	1,184,547	622,242
Money Market Mutual Fund	10,662,350	4,003,855
Repurchase Agreements	15,933,028	7,517,304
Commercial Paper	39,766,664	27,506,696
Federal Farm Credit Bank Notes	2,035,960	1,034,556
State of Illinois Secondary Pool Investment Program	(17,783)	1,590
Federal National Mortgage Association	2,032,617	2,508,212
Foreign Investments	1,058,354	618,228
Federal Home Loan Mortgage Corporation	1,905,368	4,914,008
Federal Home Loan Bank Notes	4,163,887	2,929,066
Supranational Bonds	(502,290)	72,736
U.S. Treasury Bills	6,321,929	11,953,596
U.S. Treasury Notes	889,089	5,479,535
Illinois Technology Development	9,992,953	9,630,108
Federal Agriculture Mortgage Corporation	9,120,113	5,231,077
Municipal Bonds	(77,656)	7,191
Corporate Bonds	371,718	409,514
IIMPP	33,131	32,723
	<hr/>	<hr/>
Total pooled investment income	\$ 119,601,915	\$ 90,956,304

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Administrative Responsibilities  
For the Years Ended June 30, 2018 and 2017**

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**Protest Trust Fund**

	2018	2017
Liability at Beginning of Year	\$ 87,638,527	\$ 136,048,539
Add		
Trust Receipts Collected by Other State Agencies	6,165,598	4,839,771
	93,804,125	140,888,310
Deduct		
Trust Disbursements for Refunds of Successfully Protested Tax Payments	8,580,285	48,590,181
Transfers to Other Funds	3,288,367	4,659,602
	11,868,652	53,249,783
Liability at End of Year	\$ 81,935,473	\$ 87,638,527

## **Other Information**

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Key Performance Measures and Other Information  
For the Years Ended June 30, 2018 and 2017  
(Unaudited)**

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**Key Performance Measures:**

- The Illinois Funds' net asset base (net position) at 6/30/18 was \$5,570,507,717.
- The Illinois Funds' earned net investment income of \$75.9 million during FY18.
  
- Funded 140 Cultivate IL Annual Agriculture Invest deposits totaling \$163,021,000.
- Funded 26 Cultivate IL Annual Agriculture Long Term Invest deposits totaling \$3,902,402.
- Funded 0 Cultivate IL Alternative Agriculture Invest deposit totaling \$0.
- Funded 7 Community Uplift Program deposits totaling \$23,595,000.
  
- Total number of warrants successfully issued, countersigned and recorded: 3,082,055.
- Total number of warrants successfully canceled, paid and recorded: 2,965,223.
- Total amount of warrants successfully issued, countersigned and recorded: \$95,552,220,631.
  
- Total amount of estate tax collections: \$388,954,961
- Total amount of estate tax refunds: \$13,742,400
  
- The investment portfolio earned \$137,948,630 during fiscal year 2018.
- Investments yielded approximately 1.51% throughout the current year.
- The average investment base increased approximately \$603,482,065 from the prior year.
  
- The value of the Illinois Technology Development I account at cost as of 6/30/18 was \$31,363,614.
- The value of the Illinois Technology Development I account at estimated fair value as of 6/30/18 was \$43,076,735. Fair values were estimated by the individual technology development accounts' fund managers not the State Treasurer's Office or an independent third party.
- The value of the Illinois Technology Development II account at cost as of 6/30/18 was \$41,455,710.
- The value of the Illinois Technology Development II account at estimated fair value as of June 30, 2018 was \$41,853,173. Fair values were estimated by the individual technology development accounts' fund managers not the State Treasurer's Office or an independent third party.

**Other Information:**

**Inheritance and Estate Taxes**

The Treasurer's Fiscal Officer Responsibilities include joint responsibility with the Attorney General of the State of Illinois (Attorney General) for the collection of inheritance and estate taxes assessed by the circuit courts and the Attorney General, respectively.

Public Act 97-732 went into effect July 1, 2012. As a result, all Illinois Estate and Inheritance taxes are paid directly to the State Treasurer's Office by the estate rather than flowing through the county treasurers. Additionally, county treasurers no longer receive a monthly six percent estate tax distribution for collection services. Instead, six percent of all estate tax collections is deposited in the Estate Tax Refund Fund to be used exclusively for paying estate tax refunds.

Gross inheritance and estate tax receipts for the fiscal years ended June 30, 2018 and 2017, were \$388,954,961 and \$268,012,085, respectively.

The State Treasurer's Office did not receive any new monies to fund its new collection responsibilities.

**State of Illinois  
Office of the Treasurer**

**Fiscal Officer Responsibilities  
Key Performance Measures and Other Information  
For the Years Ended June 30, 2018 and 2017  
(Unaudited)**

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**Tobacco Settlement Recovery Fund**

Pursuant to Public Act 91-0646, the State Treasurer shall make deposits into the Tobacco Settlement Recovery Fund that shall contain deposits of all monies paid to the State for settlement proceeds and investment income. Pursuant to Public Act (Act) 96-0958, the Railsplitter Tobacco Settlement Authority (Authority) was established. The Act transferred the State's right to tobacco settlement proceeds to the Authority in exchange for the net proceeds of bonds and a right to the residual interest in tobacco settlement proceeds. On December 8, 2010, the Authority issued \$1.5 billion in bonds at an interest rate of 5.599%, with a maturity date of June 1, 2028. The following is a detail of the deposits into Fund Number 733:

	<u>2018</u>	<u>2017</u>
Tobacco Settlement Proceeds	\$ 224,579,132	\$ 101,771,964
Interest and Other Investment Income	432,106	166,927
Total Receipts and Deposits	<u>\$ 225,011,238</u>	<u>\$ 101,938,891</u>

**Investment Policy**  
**For the Years Ended June 30, 2018 and 2017 (Unaudited)**

**The Illinois State Treasurer's Office**  
**Investment Policy Statement for the State Investment Portfolio**  
**(effective May 2018 through June 2018)**  
**(Unaudited)**

**1.0 POLICY**

Under this instrument, the Illinois State Treasurer's Office Investment Policy Statement for the State Investment portfolio ("Policy"), it is the policy of the Illinois State Treasurer's Office ("Treasurer") to invest all moneys and securities deposited with the Treasurer (collectively, the "State Investment portfolio") in a manner that will provide safety to the principal investment, meet the State's daily cash flow demands, and seek the highest investment return, using authorized instruments and supporting community development efforts, in accordance with all State statutes governing the investment of public funds.

This Policy applies to all investments of the State Investment portfolio entered into on or after the adoption of this instrument. Investments made prior to the adoption of this Policy will continue to be governed by the policy in effect at the time such investments were made, until the maturity or selling of such investments.

This Policy applies to any investment under the control of the Treasurer for which no other specific investment policy exists.

**2.0 INVESTMENT POLICY COMMITTEE**

The Treasurer affirms the existence of the Investment Policy Committee. The Investment Policy Committee shall be chaired by the Treasurer and include the following members of the Treasurer's staff: Deputy Treasurer, Chief Investment Officer, Chief Financial Products Officer, Chief Legislative and Policy Officer, General Counsel, Director of State Investments and Banking, Director of Investment Analysis and Due Diligence, Director of Fiscal Operations, Director of IPTIP Investments, Director of ePAY and The Illinois Funds, the Portfolio Investments & Cash Management Officer, and anyone else deemed appropriate by the Treasurer.

The Chief Investment Officer, who bears responsibility for the administration, planning, development, and implementation of all financial and investment strategies per the direction of the Treasurer, shall assist the Treasurer in executing the duties and activities of the Investment Policy Committee.

**3.0 OBJECTIVE**

The primary objective in the investment of the State Investment portfolio is to ensure the safety of principal. In addition, it is the Treasurer's objective to manage liquidity for payment of the State's financial obligations and provide the highest investment return, using authorized instruments, while prudently exercising ethical and social stewardship in its investment decision-making.

**3.1 Safety**

The safety of principal is the foremost objective of the investment program. State investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the portfolio. To achieve this objective, diversification, as defined in Section 9.0 of this Policy, is required to ensure that the Treasurer prudently manages market, interest rate, and credit risks.

**3.2 Liquidity**

The State Investment portfolio shall remain sufficiently liquid to enable the State to meet all operating requirements that might be reasonably projected.

**3.3 Return on Investment**

The State Investment portfolio shall be designed to obtain the highest available return, given the objectives of safety of principal and liquidity. The Director State Investments and Banking or equivalent thereto shall seek to obtain the highest available return, using authorized investments during budgetary and economic cycles as mandated by Section 1.0 of this Policy. When the Treasurer deposits funds in support of community development efforts, the rate of return may include benefits other than direct investment income, as authorized by Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7).

The rate of return achieved on the State Investment portfolio shall be measured at regular intervals against relevant industry benchmarks, established by the Investment Policy Committee, to determine the effectiveness of investment decisions in meeting investment goals. The benchmarks shall be reviewed a minimum of every two (2) years to ensure accuracy and relevance.

### **3.4 Sustainability**

Consistent with achieving the investment objectives of the Treasurer set forth herein, the Treasurer shall prudently integrate sustainability factors into its investment decision-making in furtherance of the Treasurer's investment goals to fulfill its fiduciary duty, to increase expected financial returns, minimize projected risk, and contribute to a more just, accountable, and sustainable State of Illinois.

Sustainability factors shall be implemented within a framework predicated on the following:

- a) Integration of material sustainability factors, including, but not limited to environmental, social capital, human capital, business model and innovation, and leadership and governance factors, as components of portfolio construction, investment decision-making, investment analysis and due diligence, and risk management, given that these tangible and intangible factors may have a material and substantive financial impacts as well as non-financial impacts;
- b) Recurring evaluation of sustainability factors to ensure the factors are relevant to the Treasurer's investment portfolio and the evolving marketplace;
- c) Attentive oversight of investment holdings to encourage the advancement of sustainability accounting and disclosure through engagement with entities, such as funds, companies, government bodies, and other organizations, and move the marketplace toward more prudent sustainability investment practices; and
- d) Consideration of other relevant factors such as legal, regulatory, and reputational risks that enable an optimal risk management framework and supports long-term investment value.

The Treasurer shall develop policy guidelines to integrate material risks relevant to particular financial products, investment funds, companies, or government bodies, which shall be provided to internal and external investment managers to factor into their investment decision-making. The policy guidelines for integrating sustainability factors shall be reviewed and updated every two (2) years at a minimum to ensure consistency within the rapidly evolving global economy.

The State Investment portfolio's investment officers shall endeavor to identify and select authorized investment options that meet the Treasurer's criteria for sustainable investing and fall within the framework of the investment objectives.

### **4.0 ETHICS AND CONFLICTS OF INTEREST**

Authorized investment officers and employees in policy-making positions shall refrain from personal business activity that could (a) conflict, or give the appearance of a conflict, with proper execution of the investment program or (b) impair their ability to make impartial investment decisions. Such individuals shall disclose to the Treasurer any material financial interests in financial institutions that conduct business within the State, and they shall further disclose any personal financial investment positions that could be related to the performance of the State Investments portfolio. In addition, such individuals shall subordinate their personal investment transactions to those of the State Investments portfolio, particularly with regard to the time of purchases and sales.

### **5.0 AUTHORIZED BROKERS/DEALERS AND FINANCIAL INSTITUTIONS**

The Treasurer shall maintain a list of approved financial institutions, which shall be utilized by authorized investment officers. No State funds may be deposited in any financial institution, unless the institution has a current satisfactory or outstanding rating under the Community Reinvestment Act of 1977, and the Treasurer's investment officers have conducted a safety and soundness review of the financial institution by consulting various bank rating services. If the financial institution has not yet been rated by the bank



rating services, the institution may be eligible for a deposit that at maturity will not exceed \$250,000. The amount and duration of deposits shall be based on the safety and soundness review, in accordance with guidelines established by the Investment Policy Committee, and the diversification limits set forth in Section 9.0 of this Policy. Furthermore, the financial institution's record and current level of financial commitment to its local community will be considered when deciding whether to deposit State funds in the financial institution. No public deposit may be made, except in a qualified public depository, as defined by the Deposit of State Moneys Act (15 ILCS 520/et seq.).

In addition, the Treasurer shall maintain a list of approved security brokers/dealers, which shall be utilized by authorized investment officers. The security brokers/dealers shall be selected according to their creditworthiness and their financial significance in the State, which shall be measured in terms of the location of the broker/dealer's corporate office, the number of full-time employees, the size of its payroll, or the extent that the broker/dealer has an economic presence in the State. The list may include "primary" dealers or regional dealers who qualify under Securities and Exchange Commission Rule 17 CFR § 15Cc3-1 (Net Capital Requirements for Brokers or Dealers).

All broker/dealers who wish to qualify to bid for investment transactions shall initially, and on a periodic basis upon request, provide to the Treasurer's credit review staff the following documents, where applicable:

- a) Audited financial statements or a published Statement of Condition;
- b) Proof of minority-, woman-, disabled-, and/or veteran-owned or –managed broker/dealer status;
- c) A signed copy of the Treasurer's trading authorization;
- d) Proof of State of Illinois registration;
- e) Proof of registration with the Securities and Exchange Commission;
- f) Completed Broker/Dealer and Authorized Counterparty Questionnaire;
- g) Certification of notice and acknowledgment of this Policy; and
- h) Any other documentation deemed necessary by the Treasurer.

To the greatest extent feasible within the bounds of financial and fiduciary prudence, it is the policy of the Treasurer to remove any barriers to the full participation in investment transactions afforded via the investment program by actively identifying and considering for hire brokers/dealers that provide proof of minority-, female-, disabled-, and/or veteran-owned or -managed status. The Treasurer shall establish a process by which said specially claimed statuses are verified, and a review shall be conducted at fixed intervals to ensure that special statuses continue to apply.

The Treasurer shall seek to provide preference to qualified brokers/dealers that provide proof that their corporate headquarters is located in the State of Illinois. In doing so, the Treasurer shall establish a process to verify the location of broker/dealers' corporate headquarters, and a review shall be conducted at fixed intervals to ensure that the Illinois-based location continues to apply.

An annual review of the financial condition and registration of qualified bidders will be conducted by the Treasurer's authorized investment officer(s). More frequent reviews may be conducted if warranted.

To the extent that the Investment Policy Committee deems it advisable to hire external investment consultants, it may do so in accordance with the Treasurer's procurement rules at 44 Ill. Admin. Code § 1400.

## **6.0 AUTHORIZED AND SUITABLE INVESTMENTS**

The Treasurer has authorized the following types of investments, subject to the provisions of the Deposit of State Moneys Act (15 ILCS 520) and the Public Funds Investment Act (30 ILCS 235):

- a) Securities that are guaranteed by the full faith and credit of the United States of America (“United States”) as to principal and interest;
- b) Obligations of agencies and instrumentalities of the United States, as originally issued by the agencies and instrumentalities. For purposes of this Section, the term “agencies and instrumentalities of the United States” includes the following: federal land banks, federal intermediate credit banks, banks for cooperative, federal farm credit banks or any other entity authorized to issue debt obligations under the Farm Credit Act of 1971 and Acts amendatory thereto, the federal home loan banks and the federal home loan mortgage corporation, and any other agency created by an Act of Congress and issues dollar-denominated debt;
- c) Interest-bearing savings accounts, interest-bearing certificates of deposit, or interest-bearing time deposits of a bank as defined by Section 2 of the Illinois Banking Act (205 ILCS 5/2);
- d) Interest-bearing accounts or certificates of deposit of any savings and loan association incorporated under the laws of the State of Illinois, any other state, or the United States;
- e) Interest-bearing accounts for the deposit of funds in support of local community development efforts;
- f) 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 United States that maintains its principal office in the State of Illinois;
- g) Bankers’ acceptances of banks whose senior obligations are rated in the top 2 rating categories by 2 national rating agencies and maintain that rating during the term of the investment;
- h) Commercial paper of a corporation or a limited liability company that is organized in the United States with assets exceeding \$500,000,000 and is rated at the time of purchase at one (1) of the two (2) highest classifications established by at least two (2) standard rating services (i.e., not less than an A-1 short-term rating or equivalent rating);
- i) Money market mutual funds registered under the Investment Company Act of 1940 (15 U.S.C. § 80a-1 *et seq.*) and rated at the highest classification by at least one (1) standard rating service (i.e., not less than a AAA long-term rating or equivalent rating);
- j) The Illinois Funds, created under Section 17 of the State Treasurer Act (15 ILCS 505/17);
- k) Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986 (1 U.S.C. § 78o-5);
- l) Interest-bearing bonds, at a price not to exceed par, issued by counties or municipal corporations of the State of Illinois, whether the interest earned thereon is taxable or tax-exempt under federal law. The bonds shall be registered in the name of the State of Illinois or held under a custodial agreement at a financial institution. The bonds shall be rated at the time of purchase at one (1) of the three (3) highest classifications established by at least one (1) standard rating service with nationally recognized expertise in rating bonds of states and their political subdivisions, (i.e., not less than an A- long-term rating or equivalent). The maturity or pre-refunded date(s) of the bonds authorized by this subsection shall, at the time of purchase, not exceed ten (10) years. Notwithstanding the foregoing, a longer maturity is authorized, if the State of Illinois has a put option to tender the bonds within ten (10) years from the date of purchase;
- m) Securities of a foreign government that are guaranteed by the full faith and credit of that government as to principal and interest and rated at one (1) of the three (3) highest classifications established by at least two (2) standard rating services, (i.e., not less than an A- long-term rating or equivalent rating), and only if the foreign government has not defaulted and has met its payment obligations

in a timely manner on all similar obligations for at least 25 years prior to the time of acquiring those obligations;

- n) Investments made in accordance with the Technology Development Act (30 ILCS 265/1 *et seq.*);
- o) The Treasurer may lend any securities acquired under this Policy. However, securities may be lent under this Policy only in accordance with Federal Financial Institution Examination Council guideline and only if the securities are collateralized at a level sufficient to assure the safety of the securities, taking into account market value fluctuation. The securities may be collateralized by cash or collateral acceptable under Sections 11 and 11.1 of the Deposit of State Moneys Act. Securities lending cash collateral may be invested according to the Securities Lending Agreement between the Treasurer and the Treasurer's Agent; and
- p) Obligations of either corporations or limited liability companies organized in the United States that have a significant presence in the State of Illinois, with assets exceeding \$500,000,000, and rated at the time of purchase at one (1) of the three (3) highest classifications established by at least two (2) standard rating services, (i.e., not less than an A- long-term rating or equivalent rating). At the time of purchase, the maturity or pre-refunded date(s) of the obligations authorized by this subsection shall not be less than 270 days and shall not exceed five (5) years.

## **7.0 INVESTMENT RESTRICTIONS**

The following restrictions apply to the Treasurer when investing the State Investments portfolio:

- a) Any investments not authorized by this or any other investment policy or applicable law are prohibited;
- b) Repurchase agreements may only be executed with approved financial institutions or broker/dealers that meet the Treasurer's standards, which include mutual execution of a Master Repurchase Agreement adopted by the Treasurer;
- c) All qualified repurchase agreement dealers must have a corporate headquarters, corporate office, or operating location in the State of Illinois and that location must retain full-time staff employed within the State of Illinois or the dealer must have a significant economic presence in the State of Illinois as determined by the Treasurer;
- d) All qualified commercial paper issuers must have a corporate headquarters, corporate office, or operating location in the State of Illinois and that location must retain full-time staff employed within the State of Illinois or the issuer must have a significant economic presence in the State of Illinois as determined by the Treasurer;
- e) All qualified corporate bond issuers must have a corporate headquarters, corporate office, or operating location in the State of Illinois and that location must retain full-time staff employed within the State of Illinois or the issuer must have a significant economic presence in the State of Illinois as determined by the Treasurer;
- f) Investments may not be made in any savings and loan association unless a commitment by the savings and loan association, executed by the president or chief executive officer of that association, is submitted in the form required by Section 22.5 of the Deposit of State Moneys Act (15 ILCS 520/22.5);
- g) Asset-backed commercial paper is prohibited;
- h) Commercial paper with a credit rating or evaluation that is derived from any factor other than the full faith and credit of the issuing institution and/or the guarantee of the parent company is prohibited;

- i) Obligations may not be purchased from a corporation or limited liability company that has been placed on the list of restricted companies by the Illinois Investment Policy Board under Section 1-110.16 of the Illinois Pension Code; and
- j) The authorization of the Treasurer to invest in new obligations under Section 6.0(o) of this Policy shall expire on June 30, 2019.

## **8.0 COLLATERALIZATION**

The following shall apply:

- a) All State deposits, repurchase agreements, and securities lending shall be secured as required by the Treasurer and provided for by the Deposit of State Moneys Act (15 ILCS 520) and the Treasurer's Acceptable Collateral Listing, which may change from time to time. The Treasurer may take possession and title to any securities held as collateral and hold such securities until it is prudent to dispose of them.
- b) Securities lending cash or securities collateral shall have the meaning set forth in the Securities Lending Agreement between the Treasurer and a financial institution ("Treasurer's Agent"). The Treasurer's Agent may reinvest cash collateral as indicated in the Securities Lending Agreement. The Treasurer or Treasurer's Agent may take possession and title to any cash or securities held as collateral and hold such securities according to the Securities Lending Agreement.

## **9.0 DIVERSIFICATION**

The State Investment portfolio shall be diversified to mitigate the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. In order to properly manage any risk attendant to the investment of State assets, the State Investment portfolio shall not deviate from the following diversification guidelines, unless specifically authorized by the Treasurer in writing:

- a) The Treasurer shall seek to achieve diversification in the State Investment portfolio by distributing investments among authorized investment categories among financial institutions, issuers and broker/dealers.
- b) The State Investment portfolio shall not hold time deposits that constitute more than 15% of any single financial institution's total deposits. Any deposits that constitute more than 10% of an institution's total deposits must qualify as community development deposits, described in Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7).
- c) No financial institution shall at any time hold more than \$100,000,000 of time deposits other than community development deposits, described in Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7). Provided, however, that financial institutions that, as a result of a merger or acquisition, hold deposits that exceed \$100,000,000.00 may continue to be eligible to hold deposits that do not exceed the amount of deposits held on the date of the merger or acquisition.
- d) The State Investment portfolio shall not contain investments that exceed the following diversification limits. These limits will apply to the total assets in the State Investment portfolio at the time of the origination or purchase. As maturities and or calls of instruments occur, these limits will be monitored and adjusted accordingly:
  - i. With the exception of cash equivalents, treasury securities and time deposits, as defined in Section 6.0 of this Policy, no more than 55% of the State Investment portfolio shall be invested in other investment categories;
  - ii. No more than one-third of the State Investment portfolio shall be invested in commercial paper;
  - iii. As much as 40% of the State Investment portfolio may be invested in time deposits when required by the cash flow of the State;

- iv. No more than ½ of 1% of the State Investment portfolio shall be invested in foreign government securities, not to exceed a five (5) year maturity, as defined in Section 6.0(l) of this Policy;
  - v. No more than 55% of the State Investment portfolio shall be allocated to investments greater than two (2) years and less than or equal to three (3) years;
  - vi. No more than 30% of the State Investment portfolio shall be allocated to investments greater than three (3) years and less than or equal to four (4) years, not including foreign government securities;
  - vii. No more than 15% of the State Investment portfolio shall be allocated to investments greater than four (4) years and less than or equal to five (5) years;
  - viii. No more than 5% of the State Investment portfolio shall be allocated to investments greater than five (5) years and no less than or equal to ten (10) years;
  - ix. There shall be no limit to the percentage of the State Investment portfolio that may be allocated to investments with a 0- to 2-year maturity band; and
  - x. No more than 5% of the State Investment portfolio shall be invested in obligations of corporations or limited liability companies as defined by Section 6.0(o) of this Policy.
- e) The investment portfolio shall not hold obligations of corporations or limited liability companies that exceed 10% of the corporation's or the limited liability company's outstanding obligations.

#### **10.0 CUSTODY AND SAFEKEEPING**

The custody and safekeeping of collateral will be handled by Illinois financial institutions selected in compliance with the Treasurer's procurement rules at 44 Ill. Adm. Code 1400. Financial institutions selected by the Treasurer to perform custody and safekeeping services will be required to enter into a contractual agreement approved by the General Counsel.

All security transactions entered into by the Treasurer shall be conducted on a delivery-versus-payment ("DVP") or receipt-versus-payment ("RVP") basis. Securities shall be held by a safekeeping agent designated by the Treasurer and evidenced by safekeeping receipts or a statement of holdings.

#### **11.0 INTERNAL CONTROLS**

The Treasurer and the Chief Investment Officer, with the assistance of the Investment Policy Committee, shall establish a system of internal controls and written operational procedures that shall be documented and filed with the Treasurer's Chief Internal Auditor for review. 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 actions by authorized investment officers.

- a) **Asset Allocation:** The allocation of assets within investment categories authorized under Section 6.0 of this Policy shall be approved by the Chief Investment Officer in writing.
- b) **Competitive Bidding:** Authorized investment officers shall obtain competitive bids from at least three (3) broker/dealers prior to executing the purchase or sale of any authorized investments. Reverse inquiry investments, investments in a new issue, and investments defined under Sections 6(a)-(b) of this Policy purchased from the agency discount window are exempt from this provision.
- c) **Certificates of Deposit:** Authorized investment officers shall purchase certificates of deposit on the basis of a qualified financial institution's ability to pay a required rate of interest to the Treasurer, which is established daily. Such rate is generally determined on the basis of treasury or other appropriate market rates for a comparable term.

## **12.0 LIMITATION OF LIABILITY**

The standard of care to be used by authorized investment officers shall be the "prudent person" standard, which shall be applied in the context of managing an overall portfolio. Authorized investment officers, acting in accordance with written procedures and this Policy and exercising due diligence, will 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 manner and necessary action is taken to control adverse developments.

## **13.0 REPORTING**

Monthly reports shall be presented by the Chief Investment Officer to the Investment Policy Committee for its review. The monthly report shall contain sufficient information to enable the Investment Policy Committee to review the investment portfolio, its effectiveness in meeting the needs of the Treasurer for safety, liquidity, rate of return, and diversification, and the general performance of the State Investments portfolio. The following information shall be included in the monthly reports:

- a) The total amount of funds held by the Treasurer;
- b) The asset allocation for the investments made by the Treasurer;
- c) The benchmarks established by the Treasurer;
- d) The current and historic return information;
- e) Any circumstances resulting in a deviation from the standards established in Section 9.0 of this Policy; and
- f) Impact of any material change in investment policy adopted during the month.

The Treasurer shall develop performance reports in compliance with established industry reporting standards within six (6) months following the adoption of this Policy. Such reporting standards shall be in accordance with Generally Accepted Accounting Principles ("GAAP").

## **14.0 EXTERNAL ADVISORY COMMITTEE**

The Investment Policy Committee may convene an External Advisory Committee at the direction of the Treasurer to provide independent advice and counsel to the Investment Policy Committee on investment policy, investments, and investment related issues for the benefit of all Illinois citizens.

## **15.0 EMERGENCY POWERS**

In the event of an emergency, the Treasurer may, at his or her discretion, invoke emergency powers and suspend any or all of the provisions of this Policy, provided that:

- a) The Treasurer shall, even in the event that emergency powers are invoked, comply with all State statutes governing the use and investment of the State Investment portfolio including, but not limited to, the State Treasurer Act, the Treasurer as Custodian of Funds Act, the Deposit of State Moneys Act, the Securities Safekeeping Act, and any other applicable statute;
- b) The Treasurer reasonably believes that deviating from this Policy is in the best interest of the taxpayers; and
- c) Within thirty (30) days of invoking emergency powers the Treasurer shall provide an explanation in writing to the Chief Internal Auditor and the Investment Policy Committee, a copy of which shall be posted on the Treasurer's website that includes the following:
  - i. The date and time that the emergency powers were invoked;
  - ii. The date and time that emergency powers were repealed;

- iii. The Section or Sections of this Policy that were affected by the emergency or use of emergency powers; and
- iv. The reason for invoking emergency powers resulting in the deviation from this Policy.

**16.0 STATUTORY REFERENCES**

Any statutory references in this policy shall include any amendments to or repeals of those statutes.

**17.0 AMENDMENTS**

The Treasurer reserves the right to amend this Policy at any time.



## Appendix A

### **Investment Policy Statement for the State Investment portfolio's Externally Managed Municipal Securities**

#### **1.0 POLICY**

Under this instrument, the Illinois State Treasurer's Investment Policy for Externally Managed Municipal Securities ("Policy"), it is the policy of the Illinois State Treasurer's Office ("Treasurer") to invest all funds under its control in a manner that provides the highest investment return, using authorized instruments.

This Policy applies to all investments entered into by any of the Treasurer's external managers of municipal securities on or after the adoption of this Policy.

#### **2.0 OBJECTIVE**

The primary objective in the investment of State funds by any external manager of municipal securities is to ensure the safety of principal and provide the highest investment return, using authorized instruments.

##### **2.1 Safety**

The safety of principal is an objective of the investment program. Investments managed externally on behalf of the Treasurer shall be undertaken in a manner that seeks to ensure the preservation of capital in the portfolio. To achieve this objective, diversification, as defined in Section 7.0 of this Policy, is required to ensure that the Treasurer prudently manages market, interest rate and credit risks.

##### **2.2 Return on Investment**

The investment portfolio shall be designed to obtain the highest available return, given the safety of principal objective. The external manager shall seek to obtain the highest available return, using the authorized investments set forth in Section 5.0 of this Policy.

The rate of return achieved on the externally managed funds shall be measured at regular intervals against the Bloomberg Barclays Intermediate US Treasury Index to determine the effectiveness of investment decisions in meeting the Treasurer's investment goals. The benchmark shall be reviewed annually by the Treasurer to ensure accuracy and relevance.

##### **2.3 Sustainability**

Consistent with achieving the investment objectives of the Treasurer set forth herein, the Treasurer shall prudently integrate sustainability factors into its investment decision-making in furtherance of the Treasurer's investment goals to fulfill its fiduciary duty, to increase expected financial returns, minimize projected risk, and contribute to a more just, accountable, and sustainable State of Illinois.

Sustainability factors shall be implemented within a framework predicated on the following:

- a) Integration of material sustainability factors, including, but not limited to environmental, social capital, human capital, business model and innovation, and leadership and governance factors, as components of portfolio construction, investment decision-making, investment analysis and due diligence, and risk management, given that these tangible and intangible factors may have a material and substantive financial impacts as well as non-financial impacts;
- b) Recurring evaluation of sustainability factors to ensure the factors are relevant to the Treasurer's investment portfolio and the evolving marketplace;
- c) Attentive oversight of investment holdings to encourage the advancement of sustainability accounting and disclosure through engagement with entities, such as funds, companies, government bodies, and other organizations, and move the marketplace toward more prudent sustainability investment practices; and
- d) Consideration of other relevant factors such as legal, regulatory, and reputational risks that enable an optimal risk management framework and supports long-term investment value.



The Treasurer shall develop policy guidelines to integrate material risks relevant to particular financial products, investment funds, companies, or government bodies, which shall be provided to internal and external investment managers to factor into their investment decision-making. The policy guidelines for integrating sustainability factors shall be reviewed and updated every two (2) years at a minimum to ensure consistency within the rapidly evolving global economy.

The State Investment portfolio's investment officers shall endeavor to identify and select authorized investment options that meet the Treasurer's criteria for sustainable investing and fall within the framework of the investment objectives.

### **3.0 ETHICS AND CONFLICTS OF INTEREST**

External managing firm employees making investment decisions on behalf of the Treasurer shall refrain from personal business activity that could conflict or give the appearance of a conflict with this Policy, or impair their ability to make impartial investment decisions. Any individuals with such a conflict or impairment shall disclose to the Treasurer any material conflicts of interest or impairment. If permitted by the Treasurer to proceed, such individuals shall subordinate their personal investment transactions to those of the investment portfolio, particularly with regard to the time of purchases and sales.

### **4.0 BROKERS/DEALERS**

The external manager, on behalf of the Treasurer, shall seek to provide a preference to qualified brokers/dealers that provide proof of minority-, female-, disabled-, and/or veteran-owned or -managed status and brokers/dealers that provide proof that their corporate headquarters are located in the State of Illinois.

### **5.0 INVESTMENT PARAMETERS:**

The Treasurer has authorized the purchase of municipal securities, subject to the provisions of the Deposit of State Moneys Act (15 ILCS 520/1 *et seq.*), the Public Funds Investment Act (30 ILCS 235/1 *et seq.*), and the following:

- a) Municipal securities ("securities") must be issued by any counties or municipal corporations of the State of Illinois;
- b) Securities must be interest-bearing and sold at a price that does not exceed par at the time of purchase;
- c) At a maximum, securities must have a maturity or pre-refunded date of ten (10) years from the time of purchase;
- d) Securities shall be rated within three (3) intermediate credit ratings of United States' sovereign credit rating but not less than an A-, or an equivalent rating by at least one (1) accredited rating agency with nationally recognized expertise in rating bonds of states and their political subdivisions ("Rating Agency"), at the time of purchase;
- e) If the securities are credit enhanced with bond insurance policies, the external manager will apply the securities' underlying credit ratings or bond insurer's credit rating, whichever is greater. There will be no limit on the percentage of credit enhanced bonds with an underlying issuer rating not less than A-, or its equivalent by a Rating Agency, in the externally managed portfolio. For securities with credit enhancements with an underlying issuer rating below A-, or its equivalent by a Rating Agency, the external manager will not hold more than 10% of securities guaranteed by a single bond insurer in the externally managed portfolio. Only bond insurance policies issued by the following companies are permissible:
  - i. Assured Guaranty Municipal Corporation;
  - ii. Assured Guaranty Corporation;

- iii. Build America Mutual; and
  - iv. National Public Finance Guarantee.
- f) Should a security be downgraded below A3/A-, the external managers will provide written notification to the Treasurer in order to determine the appropriate action (sell or hold) based on the perceived risk and expected return.

## **6.0 INVESTMENT RESTRICTIONS**

The Treasurer's external investment managers may not invest in the following types of investments:

- a) Any investments not authorized by this Policy, any other investment policy of the Treasurer, or applicable law are prohibited; or
- b) Any investments prohibited by Section 22.6 of the Deposit of State Monies Act.

## **7.0 DIVERSIFICATION**

The externally managed municipal securities shall be diversified to mitigate the risk of loss resulting from concentration of assets in a specific maturity or a specific issuer. In order to properly manage any risk attendant to the investment of State assets, the external managers shall not deviate from the following diversification guidelines unless specifically authorized by the Treasurer in writing:

- a) The Treasurer's external managers shall seek to achieve diversification in the portfolio by distributing investments among issuers and broker/dealers and
- b) The externally managed municipal securities shall not contain investments that exceed the lesser of 25% of an issuance or \$2,000,000.00.

## **8.0 INTERNAL CONTROLS**

The Treasurer's external managers shall establish a system of internal controls and written operational procedures and share them with the Treasurer. 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 actions by authorized investment officers.

## **9.0 DUE DILIGENCE**

The Treasurer's external managers will perform due diligence, including, but not limited to, research and financial analysis of municipal securities and legal compliance with federal and State laws, rules, and regulations, and the Treasurer's investment policies.

## **10.0 RISK MANAGEMENT**

The Treasurer's external managers will establish risk management protocols to mitigate risk, including but not limited to, credit risks, liquidity risks, market risks, operational risks, reputational risks, and legal risks for the Treasurer.

## **11.0 LIMITATION OF LIABILITY**

External managing firm employees making investment decisions on behalf of the Treasurer shall use the "prudent person" standard, which shall be applied in the context of managing an overall municipal securities portfolio. Such individuals who act in accordance with this Policy and exercise due diligence will 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 manner and necessary action is taken to control adverse developments.

## **12.0 REPORTING**

The external investment manager shall present monthly reports to the Treasurer for review. The monthly reports shall contain sufficient information for the Treasurer to evaluate the investment portfolio; its effectiveness in meeting the Treasurer's standards for safety, liquidity, rate of return, and diversification;

and the general performance of the portfolio. At a minimum, the following information shall be included in the monthly reports:

- a)** Change in market value of the securities;
- b)** Rating changes of the securities;
- c)** Portfolio performance and characteristics;
- d)** Benchmark comparison;
- e)** Portfolio transaction detail and holdings, including any supporting research documentation; and
- f)** Listing of all securities held with a rating less than A-, or equivalent, with supporting research documentation.

## Appendix B

### **Investment Policy Statement for the State Investment portfolio's Externally Managed Corporate Securities**

#### **1.0 POLICY**

Under this instrument, the Illinois State Treasurer's Investment Policy for Externally Managed Corporate Securities ("Policy"), it is the policy of the Illinois State Treasurer's Office ("Treasurer") to invest all funds under its control in a manner that provides the highest investment return, using authorized instruments.

This Policy applies to all investments entered into by any of the Treasurer's external managers of corporate securities on or after the adoption of this Policy. The Treasurer's authorization to invest in corporate bonds shall expire on June 30, 2019.

#### **2.0 OBJECTIVE**

The primary objective in the investment of State funds by any external manager of corporate securities is to ensure the safety of principal and provide the highest investment return, using authorized instruments.

#### **2.1 Safety**

The safety of principal is an objective of the investment program. Investments managed externally on behalf of the Treasurer shall be undertaken in a manner that seeks to ensure the preservation of capital in the portfolio. To achieve this objective, diversification, as defined in Section 7.0 of this Policy, is required to ensure that the Treasurer prudently manages market, interest rate, and credit risks.

#### **2.2 Return on Investment**

The investment portfolio shall be designed to obtain the highest available return, given the safety of principal objective. The external manager shall seek to obtain the highest available return, using the authorized investments set forth in Section 5.0 of this Policy.

The rate of return achieved on the externally managed funds shall be measured at regular intervals against the Bloomberg Barclay's U.S. Corporate A+ 1-3 Index to determine the effectiveness of investment decisions in meeting the Treasurer's investment goals. The benchmark shall be reviewed annually by the Treasurer to ensure accuracy and relevance.

#### **2.3 Sustainability**

Consistent with achieving the investment objectives of the Treasurer set forth herein, the Treasurer shall prudently integrate sustainability factors into its investment decision-making in furtherance of the Treasurer's investment goals to fulfill its fiduciary duty, to increase expected financial returns, minimize projected risk, and contribute to a more just, accountable, and sustainable State of Illinois.

Sustainability factors shall be implemented within a framework predicated on the following:

- a) Integration of material sustainability factors, including, but not limited to environmental, social capital, human capital, business model and innovation, and leadership and governance factors, as components of portfolio construction, investment decision-making, investment analysis and due diligence, and risk management, given that these tangible and intangible factors may have a material and substantive financial impacts as well as non-financial impacts;
- b) Recurring evaluation of sustainability factors to ensure the factors are relevant to the Treasurer's investment portfolio and the evolving marketplace;
- c) Attentive oversight of investment holdings to encourage the advancement of sustainability accounting and disclosure through engagement with entities, such as funds, companies, government bodies, and other organizations, and move the marketplace toward more prudent sustainability investment practices; and

- d) Consideration of other relevant factors such as legal, regulatory, and reputational risks that enable an optimal risk management framework and supports long-term investment value.

The Treasurer shall develop policy guidelines to integrate material risks relevant to particular financial products, investment funds, companies, or government bodies, which shall be provided to internal and external investment managers to factor into their investment decision-making. The policy guidelines for integrating sustainability factors shall be reviewed and updated every two (2) years at a minimum to ensure consistency within the rapidly evolving global economy.

The State Investment portfolio's investment officers shall endeavor to identify and select authorized investment options that meet the Treasurer's criteria for sustainable investing and fall within the framework of the investment objectives.

### **3.0 ETHICS AND CONFLICTS OF INTEREST**

External managing firm employees making investment decisions on behalf of the Treasurer shall refrain from personal business activity that could conflict or give the appearance of a conflict with this Policy, or impair their ability to make impartial investment decisions. Any individuals with such a conflict or impairment shall disclose to the Treasurer any material conflicts of interest or impairment. If permitted by the Treasurer to proceed, such individuals shall subordinate their personal investment transactions to those of the investment portfolio, particularly with regard to the time of purchases and sales.

### **4.0 BROKERS/DEALERS**

The external manager, on behalf of the Treasurer, shall seek to provide a preference to qualified brokers/dealers that provide proof of minority-, female-, disabled-, and/or veteran-owned or -managed status and brokers/dealers that provide proof that their corporate headquarters are located in the State of Illinois.

### **5.0 INVESTMENT PARAMETERS**

The Treasurer has authorized the purchase of corporate securities, subject to the provisions of the Deposit of State Moneys Act (15 ILCS 520/1 *et seq.*), the Public Funds Investment Act (30 ILCS 235/1 *et seq.*), and the following:

- a) Securities must be issued by corporations or limited liability companies ("securities/security") organized in the United States that have a significant presence in the State of Illinois and assets exceeding \$500,000,000;
- b) At the time of purchase, the maturity of the securities shall not be less than 270 days and shall not exceed five years;
- c) Securities must be rated at the time of purchase by one of the three (3) highest classifications established by at least two (2) standard rating services, but not less than an A- long-term rating or equivalent;
- d) The corporation or limited liability company has not been placed on the list of restricted companies by the Illinois Investment Policy Board under Section 1-11.16 of the Illinois Pension Code;
- e) The Treasurer's external managers will not purchase corporate bonds that are credit enhanced by mortgages or the collection of mortgages;
- f) Corporate bonds with credit enhancements based on tangible assets pledged as collateral for the bond will not exceed 20% of the overall externally managed portfolio; and
- g) Should a security be downgraded below A3/A- , or equivalent rating, the external managers will provide written notification to the Treasurer in order to determine the appropriate action (sell or hold) based on the perceived risk and expected return.

### **6.0 INVESTMENT RESTRICTIONS**

The Treasurer's external investment managers may not invest in the following types of investments:

- a) Any investments not authorized by this Policy, any other investment policy of the Treasurer, or applicable law are prohibited; or
- b) Any investments prohibited by Section 22.6 of the Deposit of State Monies Act.

#### **7.0 DIVERSIFICATION**

The externally managed corporate securities shall be diversified to mitigate the risk of loss resulting from concentration of assets in a specific maturity or a specific issuer. In order to properly manage any risk attendant to the investment of State assets, the external managers shall not deviate from the following diversification guidelines, unless specifically authorized by the Treasurer in writing:

- a) The Treasurer's external managers shall seek to achieve diversification in the portfolio by distributing investments among issuers and broker/dealers; and
- b) Purchases cannot exceed 10% of the corporation's or the limited liability company's outstanding obligations.

#### **8.0 INTERNAL CONTROLS**

The Treasurer's external managers shall establish a system of internal controls and written operational procedures and share them with the Treasurer. 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 actions by authorized investment officers.

#### **9.0 DUE DILIGENCE**

The Treasurer's external managers will perform due diligence, including, but not limited to, research and financial analysis of corporate securities and legal compliance with federal and State laws, rules, and regulations, and the Treasurer's investment policies.

#### **10.0 RISK MANAGEMENT**

The Treasurer's external managers will establish risk management protocols to mitigate risk, including but not limited to, credit risks, liquidity risks, market risks, operational risks, reputational risks, and legal risks for the Treasurer.

#### **11.0 LIMITATION OF LIABILITY**

External managing firm employees making investment decisions on behalf of the Treasurer shall use the "prudent person" standard, which shall be applied in the context of managing an overall corporate portfolio. Such individuals who act in accordance with this Policy and exercise due diligence will 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 manner and necessary action is taken to control adverse developments.

#### **12.0 REPORTING**

The external investment manager shall present monthly reports to the Treasurer for review. The monthly reports shall contain sufficient information for the Treasurer to evaluate the investment portfolio; its effectiveness in meeting the Treasurer's standards for safety, liquidity, rate of return, and diversification; and the general performance of the portfolio. At a minimum, the following information shall be included in the monthly reports:

- a) Change in market value of the securities;
- b) Rating changes of the securities;
- c) Portfolio performance and characteristics;
- d) Benchmark comparison;

- e)** Portfolio transaction detail and holdings, including any supporting research documentation; and
- f)** Listing of all securities held with a rating less than A3/A-, or equivalent, with supporting research documentation.

**The Illinois State Treasurer's Office**  
**Investment Policy Statement for the State Investment Portfolio**  
**(effective July 2017 through May 2018)**  
**(Unaudited)**

**1.0 POLICY**

Under this instrument, the Illinois State Treasurer's Office Investment Policy Statement for the State Investment Portfolio ("Policy"), it is the policy of the Illinois State Treasurer's Office ("Treasurer") to invest all moneys and securities deposited with the Treasurer (collectively, the "State Investment Portfolio") in a manner that will provide safety to the principal investment, meet the State's daily cash flow demands, and seek the highest investment return, using authorized instruments and supporting community development efforts, in accordance with all State statutes governing the investment of public funds.

This Policy applies to all investments of the State Investment Portfolio entered into on or after the adoption of this instrument. Investments made prior to the adoption of this Policy will continue to be governed by the policy in effect at the time such investments were made, until the maturity or selling of such investments.

This Policy applies to any investment under the control of the Treasurer for which no other specific investment policy exists.

**2.0 INVESTMENT POLICY COMMITTEE**

The Treasurer affirms the existence of the Investment Policy Committee. The Investment Policy Committee shall be chaired by the Treasurer and include the following members of the Treasurer's staff: Deputy Treasurer, Chief of Staff, Chief Investment Officer, Chief Policy and Programs Officer, General Counsel, Director of the Division of Accounting/Budget/Warrant, Director of State Portfolio and Banking, Portfolio Manager and Director of Portfolio Operations

– Illinois Funds, Director of the Division of Illinois Funds and E-Pay Operations, Portfolio Investments & Cash Management Officer, and anyone else deemed appropriate by the Treasurer.

The Chief Investment Officer, who bears responsibility for the administration, planning, development, and implementation of all financial and investment strategies per the direction of the Treasurer, shall assist the Treasurer in executing the duties and activities of the Investment Policy Committee.

**3.0 OBJECTIVE**

The primary objective in the investment of the State Investment Portfolio is to ensure the safety of principal. In addition, it is the Treasurer's objective to manage liquidity for payment of the State's financial obligations and provide the highest investment return, using authorized instruments, while prudently exercising ethical and social stewardship in its investment decision-making.

**3.1 Safety**

The safety of principal is the foremost objective of the investment program. State investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the portfolio. To achieve this objective, diversification, as defined in Section 9.0 of this Policy, is required to ensure that the Treasurer prudently manages market, interest rate, and credit risks.

**3.2 Liquidity**

The State Investment Portfolio shall remain sufficiently liquid to enable the State to meet all operating requirements that might be reasonably projected.

**3.3 Return on Investment**

The State Investment Portfolio shall be designed to obtain the highest available return, given the objectives of safety of principal and liquidity. The Director State Portfolio and Banking or equivalent thereto shall seek to obtain the highest available return, using authorized investments during budgetary and economic cycles as mandated by Section 1.0 of this Policy. When the Treasurer deposits funds in support of community development efforts, the rate of return may include benefits other than direct investment income, as authorized by Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7).



The rate of return achieved on the State Investment Portfolio shall be measured at regular intervals against relevant industry benchmarks, established by the Investment Policy Committee, to determine the effectiveness of investment decisions in meeting investment goals. The benchmarks shall be reviewed a minimum of every two (2) years to ensure accuracy and relevance.

### **3.4 Socially Responsible Investing**

Consistent with achieving the investment objectives of the Treasurer set forth herein, the Treasurer shall prudently exercise ethical and social stewardship in its investment decision-making, because the Treasurer aspires to contribute to a more just, accountable, and sustainable State of Illinois.

Socially responsible investing shall be implemented within a framework predicated on the following:

- a) Integration of environmental, social and governance (“ESG”) factors as components of investment decision-making, due diligence, and risk management, given that these intangible factors may have a material financial impact as well as non-financial impacts;
- b) Regular evaluation of ESG factors to ensure the factors are relevant to the Treasurer’s investment portfolio and the evolving marketplace;
- c) Attentive oversight of investment holdings to encourage the advancement of ESG through engagement with entities, such as funds, companies, government bodies, and other organizations and move the marketplace toward more socially responsible investment practices; and
- d) Consideration of long-term sustainability and regulatory and reputational risks, in addition to the current return environment in investment decision-making.
- e) The Treasurer shall develop criteria for socially responsible investing that may pertain to particular products, funds, companies, or government bodies, which shall be provided to internal and external investment managers to factor into their investment decision-making. The criteria for socially responsible investing shall be reviewed and updated every two (2) years at a minimum to ensure consistency within the rapidly changing definition of socially responsible investing.

The State Portfolio’s investment officers shall endeavor to identify and select authorized investment options that meet the Treasurer’s criteria for socially responsible investing and fall within the framework of the investment objectives.

### **4.0 ETHICS AND CONFLICTS OF INTEREST**

Authorized investment officers and employees in policy-making positions shall refrain from personal business activity that could (a) conflict, or give the appearance of a conflict, with proper execution of the investment program or (b) impair their ability to make impartial investment decisions. Such individuals shall disclose to the Treasurer any material financial interests in financial institutions that conduct business within the State, and they shall further disclose any personal financial investment positions that could be related to the performance of the State Portfolio. In addition, such individuals shall subordinate their personal investment transactions to those of the State Portfolio, particularly with regard to the time of purchases and sales.

### **5.0 AUTHORIZED BROKERS/DEALERS AND FINANCIAL INSTITUTIONS**

The Treasurer shall maintain a list of approved financial institutions, which shall be utilized by authorized investment officers. No State funds may be deposited in any financial institution, unless the institution has a current satisfactory or outstanding rating under the Community Reinvestment Act of 1977, and the Treasurer’s investment officers have conducted a safety and soundness review of the financial institution by consulting various bank rating services. If the financial institution has not yet been rated by the bank rating services, the institution may be eligible for a deposit that at maturity will not exceed \$250,000. The amount and duration of deposits shall be based on the safety and soundness review, in accordance with guidelines established by the Investment Policy Committee, and the diversification limits set forth in Section 9.0 of this Policy. Furthermore, the financial institution’s record and current level of financial commitment to its local community will be considered when deciding whether to deposit State funds in the financial institution. No public deposit may be made, except in a qualified public depository, as defined by the Deposit

of State Moneys Act (15 ILCS 520/et seq.).

In addition, the Treasurer shall maintain a list of approved security brokers/dealers, which shall be utilized by authorized investment officers. The security brokers/dealers shall be selected according to their creditworthiness and their financial significance in the State, which shall be measured in terms of the location of the broker/dealer's corporate office, the number of full-time employees, the size of its payroll, or the extent that the broker/dealer has an economic presence in the State. The list may include "primary" dealers or regional dealers who qualify under Securities and Exchange Commission Rule 17 CFR § 15Cc3-1 (Net Capital Requirements for Brokers or Dealers).

All broker/dealers who wish to qualify to bid for investment transactions shall initially, and on a periodic basis upon request, provide to the Treasurer's credit review staff the following documents, where applicable:

- a) Audited financial statements or a published Statement of Condition;
- b) Proof of minority-, woman-, disabled-, and/or veteran-owned or –managed broker/dealer status;
- c) A signed copy of the Treasurer's trading authorization;
- d) Proof of State of Illinois registration;
- e) Proof of registration with the Securities and Exchange Commission;
- f) Completed Broker/Dealer and Authorized Counterparty Questionnaire;
- g) Certification of notice and acknowledgment of this Policy; and
- h) Any other documentation deemed necessary by the Treasurer.

To the greatest extent feasible within the bounds of financial and fiduciary prudence, it is the policy of the Treasurer to remove any barriers to the full participation in investment transactions afforded via the investment program by actively identifying and considering for hire brokers/dealers that provide proof of minority-, female-, disabled-, and/or veteran-owned or - managed status. The Treasurer shall establish a process by which said specially claimed statuses are verified, and a review shall be conducted at fixed intervals to ensure that special statuses continue to apply.

The Treasurer shall seek to provide preference to qualified brokers/dealers that provide proof that their corporate headquarters is located in the State of Illinois. In doing so, the Treasurer shall establish a process to verify the location of broker/dealers' corporate headquarters, and a review shall be conducted at fixed intervals to ensure that the Illinois-based location continues to apply.

An annual review of the financial condition and registration of qualified bidders will be conducted by the Treasurer's authorized investment officer(s). More frequent reviews may be conducted if warranted.

To the extent that the Investment Policy Committee deems it advisable to hire external investment consultants, it may do so in accordance with the Treasurer's procurement rules at 44 Ill. Admin. Code § 1400.

## **6.0 AUTHORIZED AND SUITABLE INVESTMENTS**

The Treasurer has authorized the following types of investments, subject to the provisions of the Deposit of State Moneys Act (15 ILCS 520) and the Public Funds Investment Act (30 ILCS 235):

- a) Securities that are guaranteed by the full faith and credit of the United States of America ("United States") as to principal and interest;
- b) Obligations of agencies and instrumentalities of the United States, as originally issued by the agencies and instrumentalities. For purposes of this Section, the term "agencies and instrumentalities of the United States" includes the following: federal land banks, federal intermediate credit banks, banks for cooperative, federal farm credit banks or any other entity

authorized to issue debt obligations under the Farm Credit Act of 1971 and Acts amendatory thereto, the federal home loan banks and the federal home loan mortgage corporation, and any other agency created by an Act of Congress and issues dollar- denominated debt;

- c) Interest-bearing savings accounts, interest-bearing certificates of deposit, or interest- bearing time deposits of a bank as defined by Section 2 of the Illinois Banking Act (205 ILCS 5/2);
- d) Interest-bearing accounts or certificates of deposit of any savings and loan association incorporated under the laws of the State of Illinois, any other state, or the United States;
- e) Interest-bearing accounts for the deposit of funds in support of local community development efforts;
- f) 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 United States that maintains its principal office in the State of Illinois;
- g) Commercial paper of a corporation or a limited liability company that is organized in the United States with assets exceeding \$500,000,000 and is rated at the time of purchase at one (1) of the two (2) highest classifications established by at least two (2) standard rating services (i.e., not less than an A-1 short-term rating or equivalent rating);
- h) Money market mutual funds registered under the Investment Company Act of 1940 (15 U.S.C. § 80a-1 *et seq.*) and rated at the highest classification by at least one (1) standard rating service (i.e., not less than a AAA long-term rating or equivalent rating);
- i) The Illinois Funds, created under Section 17 of the State Treasurer Act (15 ILCS 505/17);
- j) Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986 (1 U.S.C. § 78o-5);
- k) Interest-bearing bonds, at a price not to exceed par, issued by counties or municipal corporations of the State of Illinois, whether the interest earned thereon is taxable or tax- exempt under federal law. The bonds shall be registered in the name of the State of Illinois or held under a custodial agreement at a financial institution. The bonds shall be rated at the time of purchase at one (1) of the three (3) highest classifications established by at least one (1) standard rating service with nationally recognized expertise in rating bonds of states and their political subdivisions, (i.e., not less than an A- long-term rating or equivalent). The maturity or pre-refunded date(s) of the bonds authorized by this subsection shall, at the time of purchase, not exceed ten (10) years. Notwithstanding the foregoing, a longer maturity is authorized, if the State of Illinois has a put option to tender the bonds within ten (10) years from the date of purchase;
- l) Securities of a foreign government that are guaranteed by the full faith and credit of that government as to principal and interest and rated at one (1) of the three (3) highest classifications established by at least two (2) standard rating services, (i.e., not less than an A- long-term rating or equivalent rating), and only if the foreign government has not defaulted and has met its payment obligations in a timely manner on all similar obligations for at least 25 years prior to the time of acquiring those obligations;
- m) Investments made in accordance with the Technology Development Act (30 ILCS 265/1 *et seq.*);
- n) The Treasurer may lend any securities acquired under this Policy. However, securities may be lent under this Policy only in accordance with Federal Financial Institution Examination Council guideline and only if the securities are collateralized at a level sufficient to assure the safety of the securities, taking into account market value fluctuation. The securities may be collateralized by cash or collateral acceptable under Sections 11 and 11.1 of the Deposit of State Moneys Act. Securities lending cash collateral may be invested according to the Securities Lending Agreement between the Treasurer and the Treasurer's Agent; and

- o) Obligations of either corporations or limited liability companies organized in the United States that have a significant presence in the State of Illinois, with assets exceeding \$500,000,000, and rated at the time of purchase at one (1) of the three (3) highest classifications established by at least two (2) standard rating services, (i.e., not less than an A- long-term rating or equivalent rating). At the time of purchase, the maturity or pre-refunded date(s) of the obligations authorized by this subsection shall not be less than 270 days and shall not exceed five (5) years.

## **7.0 INVESTMENT RESTRICTIONS**

The following restrictions apply to the Treasurer when investing the State Portfolio:

- a) Any investments not authorized by this or any other investment policy or applicable law are prohibited;
- b) Repurchase agreements may only be executed with approved financial institutions or broker/dealers that meet the Treasurer's standards, which include mutual execution of a Master Repurchase Agreement adopted by the Treasurer;
- c) All qualified repurchase agreement dealers must have a corporate headquarters, corporate office, or operating location in the State of Illinois and that location must retain full-time staff employed within the State of Illinois or the dealer must have a significant economic presence in the State of Illinois as determined by the Treasurer;
- d) All qualified commercial paper issuers must have a corporate headquarters, corporate office, or operating location in the State of Illinois and that location must retain full-time staff employed within the State of Illinois or the issuer must have a significant economic presence in the State of Illinois as determined by the Treasurer;
- e) All qualified corporate bond issuers must have a corporate headquarters, corporate office, or operating location in the State of Illinois and that location must retain full-time staff employed within the State of Illinois or the issuer must have a significant economic presence in the State of Illinois as determined by the Treasurer;
- f) Investments may not be made in any savings and loan association unless a commitment by the savings and loan association, executed by the president or chief executive officer of that association, is submitted in the form required by Section 22.5 of the Deposit of State Moneys Act (15 ILCS 520/22.5);
- g) Asset-backed commercial paper is prohibited;
- h) Commercial paper with a credit rating or evaluation that is derived from any factor other than the full faith and credit of the issuing institution and/or the guarantee of the parent company is prohibited;
- i) Obligations may not be purchased from a corporation or limited liability company that has been placed on the list of restricted companies by the Illinois Investment Policy Board under Section 1-110.16 of the Illinois Pension Code; and
- j) The authorization of the Treasurer to invest in new obligations under Section 6.0(o) of this Policy shall expire on June 30, 2019.

## **8.0 COLLATERALIZATION**

The following shall apply:

- a) All State deposits, repurchase agreements, and securities lending shall be secured as required by the Treasurer and provided for by the Deposit of State Moneys Act (15 ILCS 520) and the Treasurer's Acceptable Collateral Listing, which may change from time to time. The Treasurer may take possession and title to any securities held as collateral and hold such securities until it is prudent to dispose of them.

- b) Securities lending cash or securities collateral shall have the meaning set forth in the Securities Lending Agreement between the Treasurer and a financial institution (“Treasurer’s Agent”). The Treasurer’s Agent may reinvest cash collateral as indicated in the Securities Lending Agreement. The Treasurer or Treasurer’s Agent may take possession and title to any cash or securities held as collateral and hold such securities according to the Securities Lending Agreement.

## 9.0 DIVERSIFICATION

The State Investment Portfolio shall be diversified to mitigate the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. In order to properly manage any risk attendant to the investment of State assets, the State Investment Portfolio shall not deviate from the following diversification guidelines, unless specifically authorized by the Treasurer in writing: The Treasurer shall seek to achieve diversification in the State Investment Portfolio by distributing investments among authorized investment categories among financial institutions, issuers and broker/dealers.

- a) The State Investment Portfolio shall not hold time deposits that constitute more than 15% of any single financial institution’s total deposits. Any deposits that constitute more than 10% of an institution’s total deposits must qualify as community development deposits, described in Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7).
- b) No financial institution shall at any time hold more than \$100,000,000 of time deposits other than community development deposits, described in Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7). Provided, however, that financial institutions that, as a result of a merger or acquisition, hold deposits that exceed \$100,000,000.00 may continue to be eligible to hold deposits that do not exceed the amount of deposits held on the date of the merger or acquisition.
- c) The State Investment Portfolio shall not contain investments that exceed the following diversification limits. These limits will apply to the total assets in the State Investment Portfolio at the time of the origination or purchase. As maturities and or calls of instruments occur, these limits will be monitored and adjusted accordingly:
  - i. With the exception of cash equivalents, treasury securities and time deposits, as defined in Section 6.0 of this Policy, no more than 55% of the State Investment Portfolio shall be invested in other investment categories;
  - ii. No more than one-third of the State Investment Portfolio shall be invested in commercial paper;
  - iii. As much as 40% of the State Investment Portfolio may be invested in time deposits when required by the cash flow of the State;
  - iv. No more than ½ of 1% of the State Investment Portfolio shall be invested in foreign government securities, not to exceed a five (5) year maturity, as defined in Section 6.0(l) of this Policy;
  - v. No more than 55% of the State Investment Portfolio shall be allocated to investments greater than two (2) years and less than or equal to three (3) years;
  - vi. No more than 30% of the State Investment Portfolio shall be allocated to investments greater than three (3) years and less than or equal to four (4) years, not including foreign government securities;
  - vii. No more than 15% of the State Investment Portfolio shall be allocated to investments greater than four (4) years and less than or equal to five (5) years;

- viii. No more than 5% of the State Investment Portfolio shall be allocated to investments greater than five (5) years and no less than or equal to ten (10) years;
  - ix. There shall be no limit to the percentage of the State Investment Portfolio that may be allocated to investments with a 0- to 2-year maturity band; and
  - x. No more than 5% of the State Investment Portfolio shall be invested in obligations of corporations or limited liability companies as defined by Section 6.0(o) of this Policy.
- d) The investment portfolio shall not hold obligations of corporations or limited liability companies that exceed 10% of the corporation's or the limited liability company's outstanding obligations.

#### **10.0 CUSTODY AND SAFEKEEPING**

The custody and safekeeping of collateral will be handled by Illinois financial institutions selected in compliance with the Treasurer's procurement rules at 44 Ill. Adm. Code 1400. Financial institutions selected by the Treasurer to perform custody and safekeeping services will be required to enter into a contractual agreement approved by the General Counsel.

All security transactions entered into by the Treasurer shall be conducted on a delivery-versus-payment ("DVP") or receipt-versus-payment ("RVP") basis. Securities shall be held by a safekeeping agent designated by the Treasurer and evidenced by safekeeping receipts or a statement of holdings.

#### **11.0 INTERNAL CONTROLS**

The Treasurer and the Chief Investment Officer, with the assistance of the Investment Policy Committee, shall establish a system of internal controls and written operational procedures that shall be documented and filed with the Treasurer's Chief Internal Auditor for review. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by authorized investment officers.

- a) Asset Allocation: The allocation of assets within investment categories authorized under Section 6.0 of this Policy shall be approved by the Chief Investment Officer in writing.
- b) Competitive Bidding: Authorized investment officers shall obtain competitive bids from at least three (3) broker/dealers prior to executing the purchase or sale of any authorized investments. Reverse inquiry investments, investments in a new issue, and investments defined under Sections 6(a)-(b) of this Policy purchased from the agency discount window are exempt from this provision.
- c) Certificates of Deposit: Authorized investment officers shall purchase certificates of deposit on the basis of a qualified financial institution's ability to pay a required rate of interest to the Treasurer, which is established daily. Such rate is generally determined on the basis of treasury or other appropriate market rates for a comparable term.

#### **12.0 LIMITATION OF LIABILITY**

The standard of care to be used by authorized investment officers shall be the "prudent person" standard, which shall be applied in the context of managing an overall portfolio. Authorized investment officers, acting in accordance with written procedures and this Policy and exercising due diligence, will 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 manner and necessary action is taken to control adverse developments.

#### **13.0 REPORTING**

Monthly reports shall be presented by the Chief Investment Officer to the Investment Policy Committee for its review. The monthly report shall contain sufficient information to enable the Investment Policy Committee to review the investment portfolio, its effectiveness in meeting the needs of the Treasurer for safety, liquidity, rate of return, and diversification, and the general performance of the State Portfolio. The following information shall be included in the monthly reports:



- a) The total amount of funds held by the Treasurer;
- b) The asset allocation for the investments made by the Treasurer;
- c) The benchmarks established by the Treasurer;
- d) The current and historic return information;
- e) Any circumstances resulting in a deviation from the standards established in Section 9.0 of this Policy; and
- f) Impact of any material change in investment policy adopted during the month.

The Treasurer shall develop performance reports in compliance with established industry reporting standards within six (6) months following the adoption of this Policy. Such reporting standards shall be in accordance with Generally Accepted Accounting Principles ("GAAP").

#### **14.0 EXTERNAL ADVISORY COMMITTEE**

The Investment Policy Committee may convene an External Advisory Committee at the direction of the Treasurer to provide independent advice and counsel to the Investment Policy Committee on investment policy, investments, and investment related issues for the benefit of all Illinois citizens.

#### **15.0 EMERGENCY POWERS**

In the event of an emergency, the Treasurer may, at his or her discretion, invoke emergency powers and suspend any or all of the provisions of this Policy, provided that:

- a) The Treasurer shall, even in the event that emergency powers are invoked, comply with all State statutes governing the use and investment of the State Investment Portfolio including, but not limited to, the State Treasurer Act, the Treasurer as Custodian of Funds Act, the Deposit of State Moneys Act, the Securities Safekeeping Act, and any other applicable statute;
- b) The Treasurer reasonably believes that deviating from this Policy is in the best interest of the taxpayers; and
- c) Within thirty (30) days of invoking emergency powers the Treasurer shall provide an explanation in writing to the Chief Internal Auditor and the Investment Policy Committee, a copy of which shall be posted on the Treasurer's website, that includes the following:
  - i. The date and time that the emergency powers were invoked;
  - ii. The date and time that emergency powers were repealed;
  - iii. The Section or Sections of this Policy that were affected by the emergency or use of emergency powers; and
  - iv. The reason for invoking emergency powers resulting in the deviation from this Policy.

#### **16.0 STATUTORY REFERENCES**

Any statutory references in this policy shall include any amendments to or repeals of those statutes.

#### **17.0 AMENDMENTS**

The Treasurer reserves the right to amend this Policy at any time.

## Appendix A

### **Investment Policy Statement for the State Investment Portfolio's Externally Managed Taxable Municipal Securities**

#### **1.0 POLICY**

Under this instrument, the Illinois State Treasurer's Investment Policy for Externally Managed Taxable Municipal Securities ("Policy"), it is the policy of the Illinois State Treasurer's Office ("Treasurer") to invest all funds under its control in a manner that provides the highest investment return, using authorized instruments.

This Policy applies to all investments entered into by any of the Treasurer's external managers of taxable municipal securities on or after the adoption of this Policy.

#### **2.0 OBJECTIVE**

The primary objective in the investment of State funds by any external manager of taxable municipal securities is to ensure the safety of principal and provide the highest investment return, using authorized instruments.

##### **2.1 Safety**

The safety of principal is an objective of the investment program. Investments managed externally on behalf of the Treasurer shall be undertaken in a manner that seeks to ensure the preservation of capital in the portfolio. To achieve this objective, diversification, as defined in Section 7.0 of this Policy, is required to ensure that the Treasurer prudently manages market, interest rate and credit risks.

##### **2.2 Return on Investment**

The investment portfolio shall be designed to obtain the highest available return, given the safety of principal objective. The external manager shall seek to obtain the highest available return, using the authorized investments set forth in Section 5.0 of this Policy.

The rate of return achieved on the externally managed funds shall be measured at regular intervals against the Bloomberg Barclays Intermediate US Treasury Index to determine the effectiveness of investment decisions in meeting the Treasurer's investment goals. The benchmark shall be reviewed annually by the Treasurer to ensure accuracy and relevance.

#### **3.0 ETHICS AND CONFLICTS OF INTEREST**

External managing firm employees making investment decisions on behalf of the Treasurer shall refrain from personal business activity that could conflict or give the appearance of a conflict with this Policy, or impair their ability to make impartial investment decisions. Any individuals with such a conflict or impairment shall disclose to the Treasurer any material conflicts of interest or impairment. If permitted by the Treasurer to proceed, such individuals shall subordinate their personal investment transactions to those of the investment portfolio, particularly with regard to the time of purchases and sales.

#### **4.0 BROKERS/DEALERS**

The external manager, on behalf of the Treasurer, shall seek to provide a preference to qualified brokers/dealers that provide proof of minority-, female-, disabled-, and/or veteran-owned or - managed status and brokers/dealers that provide proof that their corporate headquarters are located in the State of Illinois.

#### **5.0 INVESTMENT PARAMETERS:**

The Treasurer has authorized the purchase of taxable municipal securities, , subject to the provisions of the Deposit of State Moneys Act (15 ILCS 520/1 *et seq.*), the Public Funds Investment Act (30 ILCS 235/1 *et seq.*), and the following:

- a) Taxable municipal securities ("securities") must be issued by any counties or municipal corporations of the State of Illinois;



- b) Securities must be interest-bearing and sold at a price that does not exceed par at the time of purchase;
- c) At a maximum, securities must have a maturity or pre-refunded date of ten (10) years from the time of purchase;
- d) Securities shall be rated within three (3) intermediate credit ratings of United States' sovereign credit rating but not less than an A-, or an equivalent rating by at least one (1) accredited rating agency with nationally recognized expertise in rating bonds of states and their political subdivisions ("Rating Agency"), at the time of purchase;
- e) If the securities are credit enhanced with bond insurance policies, the external manager will apply the securities' underlying credit ratings or bond insurer' credit rating, whichever is greater. There will be no limit on the percentage of credit enhanced bonds with an underlying issuer rating not less than A-, or its equivalent by a Rating Agency, in the externally managed portfolio. For securities with credit enhancements with an underlying issuer rating below A-, or its equivalent by a Rating Agency, the external manager will not hold more than 10% of securities guaranteed by a single bond insurer in the externally managed portfolio. Only bond insurance policies issued by the following companies are permissible:
  - i. Assured Guaranty Municipal Corporation;
  - ii. Assured Guaranty Corporation;
  - iii. Build America Mutual; and
  - iv. National Public Finance Guarantee.
- f) Should a security be downgraded below A3/A-, the external managers will provide written notification to the Treasurer in order to determine the appropriate action (sell or hold) based on the perceived risk and expected return.

## **6.0 INVESTMENT RESTRICTIONS**

The Treasurer's external investment managers may not invest in the following types of investments:

- a) Any investments not authorized by this Policy, any other investment policy of the Treasurer, or applicable law are prohibited; or
- b) Any investments prohibited by Section 22.6 of the Deposit of State Monies Act.

## **7.0 DIVERSIFICATION**

The externally managed taxable municipal securities shall be diversified to mitigate the risk of loss resulting from concentration of assets in a specific maturity or a specific issuer. In order to properly manage any risk attendant to the investment of State assets, the external managers shall not deviate from the following diversification guidelines unless specifically authorized by the Treasurer in writing:

- a) The Treasurer's external managers shall seek to achieve diversification in the portfolio by distributing investments among issuers and broker/dealers and
- b) The externally managed taxable municipal securities shall not contain investments that exceed the lesser of 25% of an issuance or \$1,000,000.00.

## **8.0 INTERNAL CONTROLS**

The Treasurer's external managers shall establish a system of internal controls and written operational procedures and share them with the Treasurer. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by authorized investment officers.

## **9.0 DUE DILIGENCE**

The Treasurer's external managers will perform due diligence, including, but not limited to, research and financial analysis of taxable municipal securities and legal compliance with federal and State laws, rules, and regulations, and the Treasurer's investment policies.

## **10.0 RISK MANAGEMENT**

The Treasurer's external managers will establish risk management protocols to mitigate risk, including but not limited to, credit risks, liquidity risks, market risks, operational risks, reputational risks, and legal risks for the Treasurer.

## **11.0 LIMITATION OF LIABILITY**

External managing firm employees making investment decisions on behalf of the Treasurer shall use the "prudent person" standard, which shall be applied in the context of managing an overall taxable municipal securities portfolio. Such individuals who act in accordance with this Policy and exercise due diligence will 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 manner and necessary action is taken to control adverse developments.

## **12.0 REPORTING**

The external investment manager shall present monthly reports to the Treasurer for review. The monthly reports shall contain sufficient information for the Treasurer to evaluate the investment portfolio; its effectiveness in meeting the Treasurer's standards for safety, liquidity, rate of return, and diversification; and the general performance of the portfolio. At a minimum, the following information shall be included in the monthly reports:

- a) Change in market value of the securities;
- b) Rating changes of the securities;
- c) Portfolio performance and characteristics;
- d) Benchmark comparison;
- e) Portfolio transaction detail and holdings, including any supporting research documentation; and
- f) Listing of all securities held with a rating less than A-, or equivalent, with supporting research documentation.

## Appendix B

### **Investment Policy Statement for the State Investment Portfolio's Externally Managed Corporate Securities**

#### **1.0 POLICY**

Under this instrument, the Illinois State Treasurer's Investment Policy for Externally Managed Corporate Securities ("Policy"), it is the policy of the Illinois State Treasurer's Office ("Treasurer") to invest all funds under its control in a manner that provides the highest investment return, using authorized instruments.

This Policy applies to all investments entered into by any of the Treasurer's external managers of corporate securities on or after the adoption of this Policy. The Treasurer's authorization to invest in corporate bonds shall expire on June 30, 2019.

#### **2.0 OBJECTIVE**

The primary objective in the investment of State funds by any external manager of corporate securities is to ensure the safety of principal and provide the highest investment return, using authorized instruments.

##### **2.1 Safety**

The safety of principal is an objective of the investment program. Investments managed externally on behalf of the Treasurer shall be undertaken in a manner that seeks to ensure the preservation of capital in the portfolio. To achieve this objective, diversification, as defined in Section 7.0 of this Policy, is required to ensure that the Treasurer prudently manages market, interest rate, and credit risks.

##### **2.2 Return on Investment**

The investment portfolio shall be designed to obtain the highest available return, given the safety of principal objective. The external manager shall seek to obtain the highest available return, using the authorized investments set forth in Section 5.0 of this Policy.

The rate of return achieved on the externally managed funds shall be measured at regular intervals against the Bloomberg Barclay's U.S. Corporate A+ 1-3 Index to determine the effectiveness of investment decisions in meeting the Treasurer's investment goals. The benchmark shall be reviewed annually by the Treasurer to ensure accuracy and relevance.

#### **3.0 ETHICS AND CONFLICTS OF INTEREST**

External managing firm employees making investment decisions on behalf of the Treasurer shall refrain from personal business activity that could conflict or give the appearance of a conflict with this Policy, or impair their ability to make impartial investment decisions. Any individuals with such a conflict or impairment shall disclose to the Treasurer any material conflicts of interest or impairment. If permitted by the Treasurer to proceed, such individuals shall subordinate their personal investment transactions to those of the investment portfolio, particularly with regard to the time of purchases and sales.

#### **4.0 BROKERS/DEALERS**

The external manager, on behalf of the Treasurer, shall seek to provide a preference to qualified brokers/dealers that provide proof of minority-, female-, disabled-, and/or veteran-owned or - managed status and brokers/dealers that provide proof that their corporate headquarters are located in the State of Illinois.

#### **5.0 INVESTMENT PARAMETERS**

The Treasurer has authorized the purchase of corporate securities, subject to the provisions of the Deposit of State Monies Act (15 ILCS 520/1 *et seq.*), the Public Funds Investment Act (30 ILCS 235/1 *et seq.*), and the following:

- a) Securities must be issued by corporations or limited liability companies (“securities/security”) organized in the United States that have a significant presence in the State of Illinois and assets exceeding \$500,000,000;
- b) At the time of purchase, the maturity of the securities shall not be less than 270 days and shall not exceed five years;
- c) Securities must be rated at the time of purchase by one of the three (3) highest classifications established by at least two (2) standard rating services, but not less than an A- long-term rating or equivalent;
- d) The corporation or limited liability company has not been placed on the list of restricted companies by the Illinois Investment Policy Board under Section 1-11.16 of the Illinois Pension Code;
- e) The Treasurer’s external managers will not purchase corporate bonds that are credit enhanced by mortgages or the collection of mortgages;
- f) Corporate bonds with credit enhancements based on tangible assets pledged as collateral for the bond will not exceed 20% of the overall externally managed portfolio; and
- g) Should a security be downgraded below A3/A- , or equivalent rating, the external managers will provide written notification to the Treasurer in order to determine the appropriate action (sell or hold) based on the perceived risk and expected return.

#### **6.0 INVESTMENT RESTRICTIONS**

The Treasurer’s external investment managers may not invest in the following types of investments:

- a) Any investments not authorized by this Policy, any other investment policy of the Treasurer, or applicable law are prohibited; or
- b) Any investments prohibited by Section 22.6 of the Deposit of State Monies Act.

#### **7.0 DIVERSIFICATION**

The externally managed corporate securities shall be diversified to mitigate the risk of loss resulting from concentration of assets in a specific maturity or a specific issuer. In order to properly manage any risk attendant to the investment of State assets, the external managers shall not deviate from the following diversification guidelines, unless specifically authorized by the Treasurer in writing:

- a) The Treasurer’s external managers shall seek to achieve diversification in the portfolio by distributing investments among issuers and broker/dealers; and
- b) Purchases cannot exceed 10% of the corporation’s or the limited liability company’s outstanding obligations.

#### **8.0 INTERNAL CONTROLS**

The Treasurer’s external managers shall establish a system of internal controls and written operational procedures and share them with the Treasurer. The controls shall be designed to prevent the loss of public

funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by authorized investment officers.

#### **9.0 DUE DILIGENCE**

The Treasurer's external managers will perform due diligence, including, but not limited to, research and financial analysis of corporate securities and legal compliance with federal and State laws, rules, and regulations, and the Treasurer's investment policies.

#### **10.0 RISK MANAGEMENT**

The Treasurer's external managers will establish risk management protocols to mitigate risk, including but not limited to, credit risks, liquidity risks, market risks, operational risks, reputational risks, and legal risks for the Treasurer.

#### **11.0 LIMITATION OF LIABILITY**

External managing firm employees making investment decisions on behalf of the Treasurer shall use the "prudent person" standard, which shall be applied in the context of managing an overall corporate portfolio. Such individuals who act in accordance with this Policy and exercise due diligence will 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 manner and necessary action is taken to control adverse developments.

#### **12.0 REPORTING**

The external investment manager shall present monthly reports to the Treasurer for review. The monthly reports shall contain sufficient information for the Treasurer to evaluate the investment portfolio; its effectiveness in meeting the Treasurer's standards for safety, liquidity, rate of return, and diversification; and the general performance of the portfolio. At a minimum, the following information shall be included in the monthly reports:

- a) Change in market value of the securities;
- b) Rating changes of the securities;
- c) Portfolio performance and characteristics;
- d) Benchmark comparison;
- e) Portfolio transaction detail and holdings, including any supporting research documentation; and
- f) Listing of all securities held with a rating less than A3/A-, or equivalent, with supporting research documentation.

**The Illinois State Treasurer's Office**  
**Investment Policy Statement for the State Investment Portfolio**  
**(effective October 2016 through July 2017)**  
**(Unaudited)**

**1.0 POLICY:**

Under this instrument, the Illinois State Treasurer's Investment Policy ("Policy"), it is the policy of the Illinois State Treasurer's Office ("Treasurer") to invest all funds under its control in a manner that provides the highest investment return using authorized instruments and supports community development efforts while meeting the State's daily cash flow demands in conformance with all state statutes governing the investment of public funds.

This Policy applies to all investments entered into on or after the adoption of this instrument. Until the expiration of investments made prior to the adoption of this Policy, such investments will continue to be governed by the policies in effect at the time such investments were made.

This Policy applies to any investment under the control of the Treasurer for which no other specific investment policy exists.

**2.0 OBJECTIVE:**

The primary objective in the investment of state funds is to ensure the safety of principal, while managing liquidity to pay the financial obligations of the State, and providing the highest investment return using authorized instruments.

**2.1 SAFETY:**

The safety of principal is the foremost objective of the investment program. State investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the portfolio. To achieve this objective, diversification, as defined in Section 8.0 of this Policy, is required to ensure that the Treasurer prudently manages market, interest rate and credit risks.

**2.2 LIQUIDITY:**

The investment portfolio shall remain sufficiently liquid to enable the State to meet all operating requirements that might be reasonably projected.

**2.3 RETURN ON INVESTMENT:**

The safety of principal and the availability of sufficient liquidity are the foremost objectives of the investment program. The investment portfolio shall be designed to obtain the highest available return given the foremost objectives. The Director of the State Portfolio and Banking shall seek to obtain the highest available return using authorized investments during budgetary and economic cycles as mandated in Section 1.0 of this Policy. When the Treasurer deposits funds in support of community development efforts, the rate of return shall include benefits other than direct investment income as authorized by Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7).

The rate of return achieved on the Treasurer's portfolio is measured at regular intervals against relevant industry benchmarks established by the Investment Policy Committee (see Section 2.5 of this Policy), to determine the effectiveness of investment decisions in meeting investment goals. Benchmarks shall be reviewed at a minimum of every two years to ensure accuracy and relevance.

## **2.4 SOCIALLY RESPONSIBLE INVESTING**

Consistent with achieving the foremost investment objectives of the Treasurer set forth herein, the Treasurer's Office shall prudently exercise ethical and social stewardship in its investment decision-making as the Treasurer aspires to contribute to a more just, accountable and sustainable State of Illinois.

This Policy shall be implemented within a framework predicated on:

1. Integration of environmental, social and governance (ESG) factors as components of investment decision-making, due diligence and risk management given that these intangible factors may have a material financial impact as well as non-financial impacts;
2. Regular evaluation of ESG factors to ensure the factors are relevant to the Treasurer's investment portfolio and the evolving marketplace;
3. Attentive oversight of investment holdings to encourage the advancement of ESG through engagement with entities such as funds, companies, government bodies, and other organizations and to move the marketplace toward more socially responsible investment practices; and
4. Consideration of long-term sustainability and regulatory and reputational risks in addition to the current return environment in investment decision-making.

The Treasurer shall develop criteria for socially responsible investing that may pertain to particular products, funds, companies or government bodies, which shall be provided to internal and external investment managers to factor into their investment decision-making. The criteria for socially responsible investing shall be reviewed and updated every two (2) years at a minimum to ensure consistency within the rapidly changing definition of socially responsible investing.

The portfolio's investment officers shall endeavor to identify and select authorized investment options that meet the Treasurer's criteria for socially responsible investing and are within the framework of the investment objectives.

## **2.5 INVESTMENT POLICY COMMITTEE:**

The Investment Policy Committee is chaired by the Treasurer and includes the following members of the Treasurer's office staff: Deputy Treasurer, Chief of Staff, Chief Investment Officer, Chief Policy and Programs Officer, General Counsel, Director of the Division of Accounting/Budget/Warrant, Director of the Division of State Portfolio and Banking, Portfolio Manager and Director of Portfolio Operations – Illinois Funds, Director of the Division of Illinois Funds and E-Pay Operations, Portfolio Investments & Cash Management Officer, and anyone else deemed appropriate by the Treasurer.

The Chief Investment Officer, who bears responsibility for the administration, planning, development and implementation of all financial and investment strategies per the direction of the Treasurer, shall assist the Treasurer in executing the duties and activities of the Investment Policy Committee.

## **3.0 ETHICS AND CONFLICTS OF INTEREST:**

Authorized investment officers and employees in policy-making positions shall refrain from personal business activity that could conflict, or give the appearance of a conflict, with proper execution of the investment program, or that could impair their ability to make impartial investment decisions. Such individuals shall disclose to the Treasurer any material financial interests in financial institutions that conduct business within the State, and they shall further disclose any personal financial investment positions that could be related to the performance of the investment portfolio. In addition, such individuals shall subordinate their personal investment transactions to those of the investment portfolio, particularly with regard to the time of purchases and sales.

## **4.0 AUTHORIZED BROKERS/DEALERS AND FINANCIAL INSTITUTIONS:**

A list shall be maintained of approved financial institutions, which shall be utilized by authorized investment officers. No state funds may be deposited in any financial institution until receipt of a current satisfactory or



outstanding rating under the Community Reinvestment Act of 1977 and investment officers have conducted a safety and soundness review of the financial institution by consulting various bank rating services, unless the financial institution has not yet been rated by the bank rating services, in which case the institution may be eligible for a deposit that at maturity will not exceed \$250,000. The amount and duration of deposits shall be based on the safety and soundness review in accordance with guidelines established by the Investment Policy Committee and the diversification limits set forth in Section 8.0 of this Policy. Furthermore, the financial institution's record and current level of financial commitment to its local community will be considered when deciding whether to deposit state funds in that financial institution. No public deposit may be made except in a qualified public depository as defined by the Deposit of State Moneys Act (15 ILCS 520/*et seq.*).

In addition, a list shall be maintained of approved security brokers/dealers selected according to their creditworthiness, and their financial significance in the state, which shall be measured in terms of the location of the broker/dealer's corporate office, the number of full-time employees, the size of its payroll, or the extent that the broker/dealer has an economic presence in the state. The list may include "primary" dealers or regional dealers who qualify under Securities and Exchange Commission Rule 17 CFR § 15Cc3-1 (Net Capital Requirements for Brokers or Dealers).

All broker/dealers that wish to qualify to bid for investment transactions shall initially, and on a periodic basis upon request, provide to the Treasurer's credit review staff the following, where applicable:

- a) Audited financial statements or a published Statement of Condition;
- b) Proof of minority-, woman-, disabled-, and/or veteran-owned or -managed broker/dealer status;
- c) A signed copy of the Treasurer's trading authorization;
- d) Proof of State of Illinois registration;
- e) Proof of registration with the Securities and Exchange Commission;
- f) Completed Broker/Dealer and Authorized Counterparty Questionnaire;
- g) Certification of notice and knowledge of this Policy; and
- h) Any other documentation determined necessary by the Treasurer.

To the greatest extent feasible within the bounds of financial and fiduciary prudence, it is the policy of the Treasurer to remove any barriers to the full participation in investment transactions afforded via the investment program by actively identifying and considering for hire brokers/dealers that provide proof of minority-, female-, disabled-, and/or veteran-owned or -managed status. The Treasurer's Office shall establish a process by which said specially claimed statuses are verified, and a review shall be conducted at fixed intervals to ensure that special statuses continue to apply.

The Treasurer's Office shall seek to accord preference to qualified brokers/dealers that provide proof that their corporate headquarters is located in the State of Illinois. In doing so, the Treasurer's Office shall establish a process to verify the location of broker/dealers' corporate headquarters, and a review shall be conducted at fixed intervals to ensure that the Illinois-based location continues to apply.

An annual review of the financial condition and registration of qualified bidders will be conducted by the Treasurer's authorized investment officer(s). More frequent reviews may be conducted if warranted.

To the extent that the Investment Policy Committee deems it advisable to hire external investment consultants, it may do so in accordance with the procurement rules at 44 Ill. Adm. Code 1400.

## **5.0 AUTHORIZED AND SUITABLE INVESTMENTS:**

The Treasurer has authorized the following types of investments subject to the provisions of the Deposit of State Moneys Act (15 ILCS 520) and the Public Funds Investment Act (30 ILCS 235):

- a) Securities that are guaranteed by the full faith and credit of the United States of America ("United States") as to principal and interest;
- b) Obligations of agencies and instrumentalities of the United States as originally issued by the agencies and instrumentalities; For purposes of this Section, the term "agencies and instrumentalities of the United States" includes: federal land banks, federal intermediate credit banks, banks for cooperative, federal farm credit banks, or any other entity authorized to issue debt obligations under the Farm



Credit Act of 1971, and Acts amendatory thereto; the federal home loan banks and the federal home loan mortgage corporation; and any other agency created by Act of Congress and issues dollar-denominated debt;

- c) Interest-bearing savings accounts, interest-bearing certificates of deposit, or interest-bearing time deposits of a bank as defined by Section 2 of the Illinois Banking Act (205 ILCS 5/2);
- d) Interest-bearing accounts or certificates of deposit of any savings and loan association incorporated under the laws of the State of Illinois, any other state, or the United States;
- e) Interest-bearing accounts for the deposit of funds in support of local community development efforts;
- f) 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 United States, which maintains its principal office in the State of Illinois;
- g) Commercial paper of a corporation or a limited liability company that is organized in the United States with assets exceeding \$500,000,000 and is rated at the time of purchase at one of the two highest classifications established by at least two standard rating services;
- h) Money market mutual funds registered under the Investment Company Act of 1940 (15 U.S.C.A. § 80a-1 et seq.) and rated at the highest classification of at least one standard rating service;
- i) The Illinois Funds created under Section 17 of the State Treasurer Act (15 ILCS 505/17);
- j) Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986 (1 U.S.C.A. § 78o-5);
- k) Interest-bearing bonds, at a price not to exceed par, issued by counties or municipal corporations of the State of Illinois, whether the interest earned thereon is taxable or tax-exempt under federal law. The bonds shall be registered in the name of the State of Illinois or held under a custodial agreement at a financial institution. The bonds shall be rated, at the time of purchase, within four intermediate credit ratings of the United States' sovereign credit rating by at least one accredited rating agency with nationally recognized expertise in rating bonds of states and their political subdivisions, but not less than an A- rating, or equivalent rating. The maturity or pre-refunded date(s) of the bonds authorized by this subsection shall, at the time of purchase, not exceed 10 years; provided that a longer maturity is authorized if the State of Illinois has a put option to tender the bonds within 10 years from the date of purchase;
- l) Securities of a foreign government that are guaranteed by the full faith and credit of that government as to principal and interest and rated A or higher by at least two of the standard rating services, but only if the foreign government has not defaulted and has met its payment obligations in a timely manner on all similar obligations for at least 25 years prior to the time of acquiring those obligations;
- m) Investments made in accordance with the Technology Development Act (30 ILCS 265/1 et seq.);
- n) The Treasurer may lend any securities acquired under this policy. However, securities may be lent under this Policy only in accordance with Federal Financial Institution Examination Council guideline and only if the securities are collateralized at a level sufficient to assure the safety of the securities, taking into account market value fluctuation. The securities may be collateralized by cash or collateral acceptable under Sections 11 and 11.1 of the Deposit of State Moneys Act. Securities lending cash collateral may be invested according to the Securities Lending Agreement between the Treasurer and the Treasurer's Agent; and
- o) Obligations of either corporations or limited liability companies organized in the United States, that have a significant presence in the State of Illinois, with assets exceeding \$500,000,000 and is rated at the time of purchase at one of the three highest classifications established by at least two standard rating services. At the time of purchase, the maturity or pre-refunded date(s) of the obligations authorized by this subsection shall not be less than 270 days and shall not exceed five years.

## **6.0 INVESTMENTS RESTRICTIONS:**

- a)** Any investments not authorized by this or any other investment policy or applicable law of the office are prohibited.
- b)** Repurchase agreements may only be executed with approved financial institutions or broker/dealers meeting the Treasurer's standards, which include mutual execution of a Master Repurchase Agreement adopted by the Treasurer.
- c)** All qualified repurchase agreement dealers must have a corporate headquarters, corporate office, or operating location in the State of Illinois and that location must retain full-time staff employed within the State of Illinois or the dealer must have a significant economic presence in the State of Illinois as determined by the Treasurer;
- d)** All qualified commercial paper issuers must have a corporate headquarters, corporate office, or operating location in the State of Illinois and that location must retain full-time staff employed within the State of Illinois or the issuer must have a significant economic presence in the State of Illinois as determined by the Treasurer;
- e)** All qualified corporate bond issuers must have a corporate headquarters, corporate office, or operating location in the State of Illinois and that location must retain full-time staff employed within the State of Illinois or the issuer must have a significant economic presence in the State of Illinois as determined by the Treasurer;
- f)** Investments may not be made in any savings and loan association unless a commitment by the savings and loan association, executed by the president or chief executive officer of that association, is submitted in the form required by Section 22.5 of the Deposit of State Moneys Act (15 ILCS 520/22.5).
- g)** Any investments prohibited by Section 22.6 of the Deposit of State Monies Act.
- h)** Asset-backed commercial paper is prohibited.
- i)** Commercial paper with a credit rating or evaluation that is derived from any factor other than the full faith and credit of the issuing institution and/or the guarantee of the parent company.
- j)** Obligations may not be purchased from a corporation or limited liability company that has been placed on the list of restricted companies by the Illinois Investment Policy Board under Section 1-110.16 of the Illinois Pension Code.
- k)** The authorization of the Treasurer to invest in new obligations under Section 5.0(o) of this Policy shall expire on June 30, 2019.

## **7.0 COLLATERALIZATION:**

- a)** All State deposits, repurchase agreements and securities lending shall be secured as required by the Treasurer and provided for by the Deposit of State Moneys Act (15 ILCS 520) and the Treasurer's Acceptable Collateral Listing, which may change from time to time. The Treasurer may take possession and title to any securities held as collateral and hold such securities until it is prudent to dispose of them.
- b)** Securities lending cash or securities collateral shall have the meaning as set forth in the Securities Lending Agreement between the Treasurer and the Treasurer's Agent. The Treasurer's Agent may reinvest cash collateral as indicated in the Securities Lending Agreement. The Treasurer or Treasurer's Agent may take possession and title to any cash or securities held as collateral and hold such securities according to the Securities Lending Agreement.

## **8.0 DIVERSIFICATION:**

The investment portfolio shall be diversified to mitigate the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer or a specific class of securities. In order to properly manage any risk

attendant to the investment of state assets, the portfolio shall not deviate from the following diversification guidelines unless specifically authorized by the Treasurer in writing:

**a)** The Treasurer shall seek to achieve diversification in the portfolio by distributing investments among authorized investment categories among financial institutions, issuers and broker/dealers.

**b)** The investment portfolio shall not hold time deposits and/or term repurchase agreements that constitute more than 15% of any single financial institution's total deposits. Any deposits and/or repurchase agreements that constitute more than 10% of an institution's total deposits must qualify as community development deposits described in Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7).

**c)** No financial institution shall at any time hold more than \$100,000,000 of time deposits and/or term repurchase agreements other than community development deposits described in Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7). Provided, however, that:

i. Financial institutions that, as a result of a merger or acquisition, hold deposits that exceed \$100,000,000.00 may continue to be eligible to hold deposits that do not exceed the amount of deposits held on the date of the merger or acquisition.

**d)** The investment portfolio shall not contain investments that exceed the following diversification limits. These limits will apply to the total assets in the portfolio at the time of the origination or purchase. As maturities and or calls of instruments occur these limits will be monitored and adjusted accordingly:

i. With the exception of cash equivalents, treasury securities and time deposits, as defined in Section 5.0 of this Policy, no more than 55% of the portfolio shall be invested in other investment categories;

ii. No more than one-third of the investment portfolio shall be invested in commercial paper;

iii. As much as 40% of the portfolio may be invested in time deposits when required by the cash flow of the State;

iv. No more than ½ of 1% of the investment portfolio shall be invested in Foreign Government Securities, not to exceed a five year maturity, as defined in Section 5.0(k) of this Policy;

v. No more than 55% of the investment portfolio shall be allocated to investments greater than 2 years and less than or equal to 3 years;

vi. No more than 30% of the investment portfolio shall be allocated to investments greater than 3 years and less than or equal to 4 years (not including Foreign Government Securities).

vii. No more than 15% of the investment portfolio shall be allocated to investments greater than 4 years and less than or equal to 5 years;

viii. There shall be no limit to the amount of investment portfolio allocated to investments with a 0-2 year maturity band; and

ix. No more than 5% of the investment portfolio shall be invested in obligations of corporations or limited liability companies as defined by Section 5.0(o) of this Policy.

**e)** The investment portfolio shall not hold obligations of corporations or limited liability companies that exceed 10% of the corporation's or the limited liability company's outstanding obligations.

## **9.0 CUSTODY AND SAFEKEEPING:**

The custody and safekeeping of collateral will be handled by Illinois financial institutions selected in compliance with the Treasurer's office procurement rules at 44 Ill. Adm. Code 1400. Financial institutions selected by the Treasurer's office to perform custody and safekeeping services will be required to enter into a contractual agreement approved by the General Counsel.

All security transactions entered into by the Treasurer shall be conducted on a delivery-versus- payment (DVP) or receipt-versus-payment (RVP) basis. Securities shall be held by a safekeeping agent designated by the Treasurer, and evidenced by safekeeping receipts or a statement of holdings.

#### **10.0 INTERNAL CONTROLS:**

The Treasurer and the Chief Investment Officer, with the assistance of the Investment Policy Committee, shall establish a system of internal controls and written operational procedures that shall be documented and filed with Treasurer's Chief Internal Auditor for review. 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 actions by authorized investment officers.

**a) Asset Allocation:** The allocation of assets within investment categories authorized under Section 5.0 of this Policy shall be approved by the Treasurer in writing.

**b) Competitive Bidding:** Authorized investment officers shall obtain competitive bids from at least three (3) broker/dealers prior to executing the purchase or sale of any authorized investments. Reverse inquiry investments and investments of a new issue at issue are exempt from this provision.

Certificates of deposit shall be purchased by authorized investment officers on the basis of a qualified financial institution's ability to pay a required rate of interest to the Treasurer, which is established on a daily basis. Such rate is generally determined on the basis of treasury or other appropriate market rates for a comparable term.

#### **11.0 LIMITATION OF LIABILITY:**

The standard of prudence to be used by authorized investment officers shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Authorized investment officers acting in accordance with written procedures and this Policy and exercising due diligence will 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 manner and necessary action is taken to control adverse developments.

#### **12.0 REPORTING:**

Monthly reports are presented by the Chief Investment Officer to the Investment Policy Committee, chaired by the Treasurer, for its review. The monthly report shall contain sufficient information to enable the Investment Policy Committee to review the investment portfolio, its effectiveness in meeting the needs of the Treasurer's office for safety, liquidity, rate of return, and diversification, and the general performance of the portfolio. The following information shall be included in the monthly reports:

- a)** The total amount of funds held by the State Treasurer;
- b)** The asset allocation for the investments made by the State Treasurer;
- c)** The benchmarks established by the State Treasurer;
- d)** A report detailing and summarizing deposits of funds in support of local community development efforts including the intended benefits of the deposit(s), the rate of interest on the deposit(s), the rate of interest on the loan or extension of credit to borrower(s), and the overall rate of return including a quantifiable measure related to the benefits;
- e)** Current and historic return information;
- f)** Any circumstances resulting in a deviation from the standards established in Section 8.0 of this Policy; and
- g)** Impact of any material change in investment policy adopted during the month.

The Treasurer shall develop performance reports in compliance with established industry reporting standards within six (6) months following the adoption of this Investment Policy. Such reporting standards shall be in accordance with Generally Accepted Accounting Principles ("GAAP").

The Treasurer reserves the right to amend this Policy at any time.

### **13.0 EXTERNAL ADVISORY COMMITTEE**

The Investment Policy Committee may convene an External Advisory Committee at the direction of the Treasurer to provide independent advice and counsel to the Treasurer and the Internal Committee on investment policy, investments and investment related issues for the benefit of all Illinois citizens.

### **14.0 EMERGENCY POWERS**

In the event of an emergency, the Treasurer may, at his or her discretion, invoke emergency powers and suspend any or all of the provisions of this policy provided that:

**a)** The Treasurer shall, even in the event that emergency powers are invoked, comply with all state statutes governing the use and investment of state monies including, but not limited to, the State Treasurer Act, the Treasurer as Custodian of Funds Act, the Deposit of State Moneys Act, the Securities Safekeeping Act, and any other applicable statute;

**b)** The Treasurer reasonably believes that deviating from the Investment Policy is in the best interest of the taxpayers;

**c)** Within 30 days of invoking emergency powers the Treasurer shall provide an explanation in writing to the Chief Internal Auditor and the Investment Policy Committee, a copy of which shall be posted on the Treasurer's website that includes:

- i.** The date and time that the emergency powers were invoked;
- ii.** The date and time that emergency powers were repealed;
- iii.** The section or sections of the Investment Policy that were affected by the emergency or use of emergency powers; and
- iv.** The reason for invoking emergency powers resulting in the deviation from the written investment policy.

### **15.0 Statutory References**

All statutory references in this policy shall include any amendments to or repeals of those statutes.

**The Illinois State Treasurer Office's Investment Policy**  
**(effective July 2016 through October 2016)**  
**(Unaudited)**

**1.0 POLICY:**

Under this instrument, the Illinois State Treasurer's Investment Policy ("Policy"), it is the policy of the Treasurer of the State of Illinois ("Treasurer") to invest all funds under his control in a manner that provides the highest investment return using authorized instruments and supports community development efforts while meeting the State's daily cash flow demands in conformance with all state statutes governing the investment of public funds.

This Policy applies to all investments entered into on or after the adoption of this instrument. Until the expiration of investments made prior to the adoption of this Policy, such investments will continue to be governed by the policies in effect at the time such investments were made.

This policy applies to any investment under the control of the Treasurer for which no other specific investment policy exists.

**2.0 OBJECTIVE:**

The primary objective in the investment of state funds is to ensure the safety of principal, while managing liquidity to pay the financial obligations of the State, and providing the highest investment return using authorized instruments.

**2.1 SAFETY:**

The safety of principal is the foremost objective of the investment program. State investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the portfolio. To achieve this objective, diversification, as defined in Section 8.0 of this Policy, is required to ensure that the Treasurer prudently manages market, interest rate and credit risks.

**2.2 LIQUIDITY:**

The investment portfolio shall remain sufficiently liquid to enable the State to meet all operating requirements that might be reasonably projected.

**2.3 RETURN ON INVESTMENT:**

The safety of principal and the availability of sufficient liquidity are the foremost objectives of the investment program. The investment portfolio shall be designed to obtain the highest available return given the foremost objectives. The Director of the State Portfolio and Banking shall seek to obtain the highest available return using authorized investments during budgetary and economic cycles as mandated in Section 1.0 of this Policy. When the Treasurer deposits funds in support of community development efforts, the rate of return shall include benefits other than direct investment income as authorized by Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7).

The rate of return achieved on the Treasurer's portfolio is measured at regular intervals against relevant industry benchmarks established by the Investment Policy Committee (see Section 2.4 of this Policy), to determine the effectiveness of investment decisions in meeting investment goals. Benchmarks shall be reviewed at a minimum of every two years to ensure accuracy and relevance.



#### **2.4 INVESTMENT POLICY COMMITTEE:**

The Investment Policy Committee is chaired by the Treasurer and includes the following members of the Treasurer's office staff: Deputy Treasurer, Chief Investment Officer, General Counsel, Director of Accounting/Budget/Warrant, Director of State Portfolio and Banking, Portfolio Manager & Director of Portfolio Operations, Director of Illinois Funds & E-Pay, the Portfolio Investments & Cash Management Officer, and anyone else deemed appropriate by the Treasurer.

The Chief Investment Officer, who bears responsibility for the administration, planning, development and implementation of all financial and investment strategies per the direction of the Treasurer, shall assist the Treasurer in executing the duties and activities of the Investment Policy Committee.

#### **3.0 ETHICS AND CONFLICTS OF INTEREST:**

Authorized investment officers and employees in policy-making positions shall refrain from personal business activity that could conflict, or give the appearance of a conflict with proper execution of the investment program, or that could impair their ability to make impartial investment decisions. Such individuals shall disclose to the Treasurer any material financial interests in financial institutions that conduct business within the State, and they shall further disclose any personal financial investment positions that could be related to the performance of the investment portfolio. In addition, such individuals shall subordinate their personal investment transactions to those of the investment portfolio, particularly with regard to the time of purchases and sales.

#### **4.0 AUTHORIZED BROKERS/DEALERS AND FINANCIAL INSTITUTIONS:**

A list shall be maintained of approved financial institutions, which shall be utilized by authorized investment officers. No state funds may be deposited in any financial institution until receipt of a current satisfactory or outstanding rating under the Community Reinvestment Act of 1977 and investment officers have conducted a safety and soundness review of the financial institution by consulting various bank rating services, unless the financial institution has not yet been rated by the bank rating services, in which case the institution may be eligible for a deposit that at maturity will not exceed \$250,000. The amount and duration of deposits shall be based on the safety and soundness review in accordance with guidelines established by the Investment Policy Committee and the diversification limits set forth in Section 8.0 of this Policy. Furthermore, the financial institution's record and current level of financial commitment to its local community will be considered when deciding whether to deposit state funds in that financial institution. No public deposit may be made except in a qualified public depository as defined by the Deposit of State Moneys Act (15 ILCS 520/et seq.).

In addition, a list shall be maintained of approved security brokers/dealers selected according to their creditworthiness, and their financial significance in the state, which shall be measured in terms of the location of the broker/dealer's corporate office, the number of full-time employees, the size of its payroll, or the extent that the broker/dealer has an economic presence in the state. The list may include "primary" dealers or regional dealers who qualify under Securities and Exchange Commission Rule 17 CFR § 15Cc3-1 (Net Capital Requirements for Brokers or Dealers).

All broker/dealers who wish to qualify to bid for investment transactions shall initially, and on a periodic basis upon request, provide to the Treasurer's credit review staff the following, where applicable:

- a) Audited financial statements or a published Statement of Condition;
- b) Proof of minority-, woman-, disabled-, and/or veteran-owned broker/dealer status;
- c) A signed copy of the Treasurer's trading authorization;
- d) Proof of State of Illinois registration;
- e) Proof of registration with the Securities and Exchange Commission;
- f) Completed Broker/Dealer Questionnaire;
- g) Certification of notice and knowledge of this Policy; and
- h) Any other documentation determined necessary by the Treasurer.

The Treasurer's Office shall seek to accord preference to qualified brokers/dealers that provide proof of minority-, female-, disabled-, and/or veteran-owned status. The Treasurer's Office shall establish a process by which said specially designated statuses are verified, and a review shall be conducted at fixed intervals to ensure that special statuses continue to apply.

An annual review of the financial condition and registration of qualified bidders will be conducted by the Treasurer's authorized investment officer(s). More frequent reviews may be conducted if warranted.

To the extent that the Investment Policy Committee deems it advisable to hire external investment consultants, it may do so in accordance with the procurement rules at 44 Ill. Adm. Code 1400.

## **5.0 AUTHORIZED AND SUITABLE INVESTMENTS:**

The Treasurer has authorized the following types of investments subject to the provisions of the Deposit of State Moneys Act (15 ILCS 520) and the Public Funds Investment Act (30 ILCS 235):

- a) Securities that are guaranteed by the full faith and credit of the United States of America ("United States") as to principal and interest;
- b) Obligations of agencies and instrumentalities of the United States as originally issued by the agencies and instrumentalities; For purposes of this Section, the term "agencies and instrumentalities of the United States" includes: federal land banks, federal intermediate credit banks, banks for cooperative, federal farm credit banks, or any other entity authorized to issue debt obligations under the Farm Credit Act of 1971, and Acts amendatory thereto; the federal home loan banks and the federal home loan mortgage corporation; and any other agency created by Act of Congress and issues dollar-denominated debt;
- c) Interest-bearing savings accounts, interest-bearing certificates of deposit, or interest-bearing time deposits of a bank as defined by Section 2 of the Illinois Banking Act (205 ILCS 5/2);
- d) Interest-bearing accounts or certificates of deposit of any savings and loan association incorporated under the laws of the State of Illinois, any other state, or the United States;
- e) Interest-bearing accounts for the deposit of funds in support of local community development efforts;
- f) 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 United States, which maintains its principal office in the State of Illinois;
- g) Commercial paper of a corporation or a limited liability company that is organized in the United States with assets exceeding \$500,000,000 and is rated at the time of purchase at one of the two highest classifications established by at least two standard rating services;
- h) Money market mutual funds registered under the Investment Company Act of 1940 (15 U.S.C.A. § 80a-1 et seq.) and rated at the highest classification of at least one standard rating service;
- i) The Illinois Funds created under Section 17 of the State Treasurer Act (15 ILCS 505/17);
- j) Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986 (1 U.S.C.A. § 78o-5);
- k) Interest-bearing bonds, at a price not to exceed par, issued by counties or municipal corporations of the State of Illinois, whether the interest earned thereon is taxable or tax-exempt under federal law. The bonds shall be registered in the name of the State of Illinois or held under a custodial agreement at a financial institution. The bonds shall be rated, at the time of purchase, within four



intermediate credit ratings of the United States' sovereign credit rating by at least two accredited rating agencies with nationally recognized expertise in rating bonds of states and their political subdivisions, but not less than an A- rating, or equivalent rating. The maturity or pre-refunded date(s) of the bonds authorized by this subsection shall, at the time of purchase, not exceed 10 years; provided that a longer maturity is authorized if the State of Illinois has a put option to tender the bonds within 10 years from the date of purchase;

- l) Securities of a foreign government that are guaranteed by the full faith and credit of that government as to principal and interest and rated A or higher by at least two of the standard rating services, but only if the foreign government has not defaulted and has met its payment obligations in a timely manner on all similar obligations for at least 25 years prior to the time of acquiring those obligations;
- m) Investments made in accordance with the Technology Development Act (30 ILCS 265/1 et seq.); and
- n) The Treasurer may lend any securities acquired under this policy. However, securities may be lent under this Policy only in accordance with Federal Financial Institution Examination Council guideline and only if the securities are collateralized at a level sufficient to assure the safety of the securities, taking into account market value fluctuation. The securities may be collateralized by cash or collateral acceptable under Sections 11 and 11.1 of the Deposit of State Moneys Act. Securities lending cash collateral may be invested according to the Securities Lending Agreement between the Treasurer and the Treasurer's Agent.

#### **6.0 INVESTMENTS RESTRICTIONS:**

- a) Any investments not authorized by this or any other investment policy or applicable law of the office are prohibited.
- b) Repurchase agreements may only be executed with approved financial institutions or broker/dealers meeting the Treasurer's standards, which include mutual execution of a Master Repurchase Agreement adopted by the Treasurer.
- c) Investments may not be made in any savings and loan association unless a commitment by the savings and loan association, executed by the president or chief executive officer of that association, is submitted in the form required by Section 22.5 of the Deposit of State Moneys Act (15 ILCS 520/22.5).
- d) Any investments prohibited by Section 22.6 of the Deposit of State Monies Act.

#### **7.0 COLLATERALIZATION:**

- a) All State deposits, repurchase agreements and securities lending shall be secured as required by the Treasurer and provided for by the Deposit of State Moneys Act (15 ILCS 520) and the Treasurer's Acceptable Collateral Listing, which may change from time to time. The Treasurer may take possession and title to any securities held as collateral and hold such securities until it is prudent to dispose of them.
- b) Securities lending cash or securities collateral shall have the meaning as set forth in the Securities Lending Agreement between the Treasurer and the Treasurer's Agent. The Treasurer's Agent may reinvest cash collateral as indicated in the Securities Lending Agreement. The Treasurer or Treasurer's Agent may take possession and title to any cash or securities held as collateral and hold such securities according to the Securities Lending Agreement.

## 8.0 DIVERSIFICATION:

The investment portfolio shall be diversified to mitigate the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer or a specific class of securities. In order to properly manage any risk attendant to the investment of state assets, the portfolio shall not deviate from the following diversification guidelines unless specifically authorized by the Treasurer in writing:

- a) The Treasurer shall seek to achieve diversification in the portfolio by distributing investments among authorized investment categories among financial institutions, issuers and broker/dealers.
- b) The investment portfolio shall not hold time deposits and/or term repurchase agreements that constitute more than 15% of any single financial institution's total deposits. Any deposits and/or repurchase agreements that constitute more than 10% of an institution's total deposits must qualify as community development deposits described in Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7).
- c) No financial institution shall at any time hold more than \$100,000,000 of time deposits and/or term repurchase agreements other than community development deposits described in Section 7 of the Deposit of State Moneys Act (15 ILCS 520/7). Provided, however, that:
- d) Financial institutions that, as a result of a merger or acquisition, hold deposits that exceed \$100,000,000.00 may continue to be eligible to hold deposits that do not exceed the amount of deposits held on the date of the merger or acquisition.
- e) The investment portfolio shall not contain investments that exceed the following diversification limits. These limits will apply to the total assets in the portfolio at the time of the origination or purchase. As maturities and or calls of instruments occur these limits will be monitored and adjusted accordingly:
  - i. With the exception of cash equivalents, treasury securities and time deposits, as defined in Section 5.0 of this Policy, no more than 55% of the portfolio shall be invested in other investment categories;
  - ii. No more than one-third of the investment portfolio shall be invested in commercial paper;
  - iii. As much as 40% of the portfolio may be invested in time deposits when required by the cash flow of the State;
  - iv. No more than ½ of 1% of the investment portfolio shall be invested in Foreign Government Securities, not to exceed a five year maturity, as defined in Section 5.0(k) of this Policy;
  - v. No more than 55% of the investment portfolio shall be allocated to investments greater than 2 years and less than or equal to 3 years;
  - vi. No more than 30 % of the investment portfolio shall be allocated to investments greater than 3 years and less than or equal to 4 years (not including Foreign Government Securities).
  - vii. No more than 15% of the investment portfolio shall be allocated to investments greater than 4 years and less than or equal to 5 years; and
  - viii. There shall be no limit to the amount of investment portfolio allocated to investments with a 0-2 year maturity band.

## **9.0 CUSTODY AND SAFEKEEPING:**

The custody and safekeeping of collateral will be handled by Illinois financial institutions selected in compliance with the Treasurer's office procurement rules at 44 Ill. Adm. Code 1400. Financial institutions selected by the Treasurer's office to perform custody and safekeeping services will be required to enter into a contractual agreement approved by the General Counsel.

All security transactions entered into by the Treasurer shall be conducted on a delivery-versus- payment (DVP) or receipt-versus-payment (RVP) basis. Securities shall be held by a safekeeping agent designated by the Treasurer, and evidenced by safekeeping receipts or a statement of holdings.

## **10.0 INTERNAL CONTROLS:**

The Treasurer and the Chief Investment Officer, with the assistance of the Investment Policy Committee, shall establish a system of internal controls and written operational procedures that shall be documented and filed with Treasurer's Chief Internal Auditor for review. 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 actions by authorized investment officers.

- a) **Asset Allocation:** The allocation of assets within investment categories authorized under Section 5.0 of this Policy shall be approved by the Treasurer in writing.
- b) **Competitive Bidding:** Authorized investment officers shall obtain competitive bids from at least three (3) broker/dealers prior to executing the purchase or sale of any authorized investments. Reverse inquiry investments and investments of a new issue at issue are exempt from this provision.

Certificates of deposit shall be purchased by authorized investment officers on the basis of a qualified financial institution's ability to pay a required rate of interest to the Treasurer, which is established on a daily basis. Such rate is generally determined on the basis of treasury or other appropriate market rates for a comparable term.

## **11.0 LIMITATION OF LIABILITY:**

The standard of prudence to be used by authorized investment officers shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Authorized investment officers acting in accordance with written procedures and this Policy and exercising due diligence will 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 manner and necessary action is taken to control adverse developments.

## **12.0 REPORTING:**

Monthly reports are presented by the Chief Investment Officer to the Investment Policy Committee, chaired by the Treasurer, for its review. The monthly report shall contain sufficient information to enable the Investment Policy Committee to review the investment portfolio, its effectiveness in meeting the needs of the Treasurer's office for safety, liquidity, rate of return, and diversification, and the general performance of the portfolio. The following information shall be included in the monthly reports:

- a) The total amount of funds held by the State Treasurer;
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- c) The benchmarks established by the State Treasurer;

- d) A report detailing and summarizing deposits of funds in support of local community development efforts including the intended benefits of the deposit(s), the rate of interest on the deposit(s), the rate of interest on the loan or extension of credit to borrower(s), and the overall rate of return including a quantifiable measure related to the benefits;
- e) Current and historic return information;
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- g) Impact of any material change in investment policy adopted during the month.

The Treasurer shall develop performance reports in compliance with established industry reporting standards within six (6) months following the adoption of this Investment Policy. Such reporting standards shall be in accordance with Generally Accepted Accounting Principles ("GAAP").

The Treasurer reserves the right to amend this Policy at any time.

### **13.0 EXTERNAL ADVISORY COMMITTEE**

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### **14.0 EMERGENCY POWERS**

In the event of an emergency, the Treasurer may, at his or her discretion, invoke emergency powers and suspend any or all of the provisions of this policy provided that:

- a) The Treasurer shall, even in the event that emergency powers are invoked, comply with all state statutes governing the use and investment of state monies including, but not limited to, the State Treasurer Act, the Treasurer as Custodian of Funds Act, the Deposit of State Moneys Act, the Securities Safekeeping Act, and any other applicable statute;
- b) The Treasurer reasonably believes that deviating from the Investment Policy is in the best interest of the taxpayers;
- c) Within 30 days of invoking emergency powers the Treasurer shall provide an explanation in writing to the Chief Internal Auditor and the Investment Policy Committee, a copy of which shall be posted on the Treasurer's website that includes:
  - i. The date and time that the emergency powers were invoked;
  - ii. ii) The date and time that emergency powers were repealed;
  - iii. iii) The section or sections of the Investment Policy that were affected by the emergency or use of emergency powers; and
  - iv. iv) The reason for deviating from the written investment policy.

### **15.0 Statutory References**

All statutory references in this policy shall include any amendments to or repeals of those statutes.