

## Edwardsville Township

### Investment Policy

#### I. Policy

It is the policy of Edwardsville Township to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the Township and conforming to all state and Township ordinances governing the investment of public funds.

#### II. Scope

This policy includes all Township funds. Except for certain restricted special funds, the Township will maximize investment earnings and increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

#### III. Objectives

Investment yield is of secondary importance to legality, safety, and liquidity. The primary objectives, in order of priority, shall be:

1. **Legality:** The investment program shall be operating in conformance with federal, state and local requirements.
2. **Safety:** Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objectives will be to mitigate credit risk and interest rate risk.
  - a. ***Credit Risk:*** The Township will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer by:
    - i. Limiting investments to the types of securities listed in Section VII of the Investment Policy.
    - ii. Pre-qualifying the financial institutions, brokers/dealers, intermediaries and advisors with which the Township will do business in accordance with Section IV.
    - iii. Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.
  - b. ***Interest Rate Risk:*** The Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:
    - i. Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

- ii. Investing operating funds primarily in shorter-term securities, money market funds, or similar investment pools and limiting the maximum maturity. The Township will not directly invest in securities maturing more than five years from the date of purchase unless matched to a specific cash flow.
- c. Custodial Credit Risk: In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. In order to avoid this risk, the Township requires the collateralization of public deposits whenever the amount on deposit exceeds the Federal Deposit Insurance Corporation's balance limitations.

For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession on an outside part. The Township requires that its investments be held by an independent third party custodian to eliminate this risk.

- 3. **Liquidity**: The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should include securities with active secondary or resale markets. A portion of the portfolio may be placed in money market funds or the government investment pool which offer same day liquidity.
- 4. **Yield**: The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the legality, safety and liquidity objectives. Securities shall generally be held until maturity with the following exceptions:
  - a. A security with declining credit may be sold early to minimize loss of principal.
  - b. Liquidity needs of the portfolio require that the security be sold.

The portfolio should be reviewed periodically as to its effectiveness in meeting the Township's investment objectives and its general performance.

#### **IV. Standards of Care**

- 1. **Prudence**: The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing and overall portfolio. Township Supervisors acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price change.

The "prudent person" standard states that, "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as the probable income to be derived."

- 2. **Ethics and Conflicts of Interest**: Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and

management of the investment program, or that could impair their ability to make impartial decisions.

3. **Delegation of Authority:** Management and administrative responsibility for the investment program is hereby delegated to the Township Supervisor who, under the direction of the Township Administrator, shall establish investment policies approved by the Township Board for the operation of the investment program.

The Township Supervisor shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Township Supervisor.

## V. **Authorized Financial Institutions, Depositories, and Broker / Dealers**

The Township Supervisor will maintain a list of financial institutions authorized to provide investment services. In addition, a list will be maintained of approved security broker dealers selected by creditworthiness. These may include primary dealers or regional dealers.

1. Only financial institutions with a Bauer financial rating of at least four stars will be considered.
2. The Board of Trustees may approve by resolution a list of approved brokers.

## VI. **Safekeeping and Custody**

1. **Delivery vs. Payment:** All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.
2. **Safekeeping:** Securities will be held by an independent third-party custodian designated by the Township Supervisor and evidenced a written custodial agreement.
3. **Internal Controls:** The Township Supervisor is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Township are protected from loss, theft, or misuse. Details of the internal control system shall be documented in an investment procedures and internal control manual and shall be reviewed and updated periodically. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

The internal controls shall address the following points:

- Control of collusion.
- Separation of transaction authority from accounting.
- Custodial safekeeping.
- Clear delegation of authority to subordinate staff members.

## VII. **Suitable and Authorized Investments**

1. **Investment Types:** Investments may be made in any type of security authorized per Illinois Compiled Statutes regarding the investment of public funds.
2. **Collateralization:** Collateralization of deposits by the financial institution is required for all demand deposit accounts, including checking accounts, money market accounts and certificates of deposit, whenever the total amount on deposit at that institution exceeds the limits established by the Federal Deposit Insurance Corporation. The collateral shall be held by an independent third party institution in the name of the Township. A written collateralization agreement shall be executed by the financial institution, the Federal Reserve Bank and the Township.

## VIII. **Investment Parameters**

1. **Diversification:** It is the policy of the Township to diversify its investment portfolio to eliminate risk of loss resulting from the over concentration of assets in a specific maturity, issuer or class of securities. The Township shall diversify its investments to the best of its ability based on the types of funds invested and the cash flow needs of those funds. Diversification can be by the type of investment, number of institutions invested in, and the length of maturity.
2. **Maximum Maturities:** To the extent possible, the Township shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Township will directly invest in securities with an average maturity of two (2) years or less, not to exceed a final maturity of five years. No investments will be bought between January 1 and June 1 during an election year.

Because of the inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds to ensure that appropriate liquidity is maintained to meet ongoing obligations.

An exception to not directly investing in securities maturing more than (5) years from the date of purchase would be securities purchased prior to the effective date of this policy.

## IX. **Reporting**

1. **Methods:** The Township Supervisor shall prepare an investment report and submit it to the Township Board quarterly. The report shall be accompanied by a management summary that provides an analysis of the status of the current investment portfolio. The report will be available upon request to the Board of Trustees and will be in a format suitable for review by the general public. The report will include a listing of individual securities held at the end of the reporting period.
2. **Performance Standards:** This investment portfolio will be managed in accordance with the parameters specified within this policy. . A series of appropriate benchmarks shall be established which may include the Illinois Funds rate, certificate of deposit rates and U.S. Treasury and Agency rates. The benchmarks shall be reflective of the actual securities being purchased.
3. **Marking to Market:** The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed.

**X. Policy Considerations**

- 1. Exemption:** Any investment currently held that does not meet the guidelines of this policy shall be temporarily exempted from the requirements of this policy and reported to the Township Supervisor. Investments must come in conformance with the policy within six months of the policy's adoption or the Township Supervisor must be presented with a plan through which investments will come into conformance.
- 2. Amendments:** This policy shall be reviewed on an annual basis. Any changes must be approved by the Township Supervisor and Board of Trustees.

**XI. Investment Policy Adoption**

The investment policy shall be approved and adopted by the Board of Trustees.

This policy was approved on March 25, 2014 by Ordinance No. 2014-004.