

**State of Illinois
Office of the Treasurer
The Illinois Funds**

Financial Audit
For the Years Ended June 30, 2019 and 2018

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

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Financial Audit
For the Years Ended June 30, 2019 and 2018**

Table of Contents

| | Page |
|--|-------------|
| Treasurer's Office Officials | 1 |
| Financial Statement Report | |
| Summary | 2 |
| Independent Auditor's Report | 3 |
| Basic Financial Statements | |
| Statements of Fiduciary Net Position | 5 |
| Statements of Changes in Fiduciary Net Position | 7 |
| Notes to the Financial Statements | 8 |
| Supplementary Information | |
| Portfolio of Investments | 20 |
| Condensed Statement of Fiduciary Net Position by Investor Type and Condensed Statement of Changes in Fiduciary Net Position by Investor Type | 27 |
| Other Information | |
| The Illinois Funds Local Government Investment Pool Investment Policy Statement – Effective March 2018 (Unaudited) | 28 |
| The Illinois Funds Local Government Investment Pool Investment Policy Statement – Effective September 2017 through March 2018 (Unaudited) | 37 |
| The Illinois Funds Money Market Fund Investment Policy Statement – Effective November 2016 through September 2017 (Unaudited) | 45 |
| 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 <i>Government Auditing Standards</i> | 54 |
| Schedule of Findings | 56 |

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Financial Audit
For the Years Ended June 30, 2019 and 2018**

Treasurer's Office Officials

| | |
|--|---|
| Treasurer | The Honorable Michael W. Frerichs |
| Chief of Staff | Mr. G. Allen Mayer |
| Deputy Treasurer & Chief Investment Officer | Mr. Rodrigo Garcia |
| General Counsel & Ethics Officer | Ms. Laura Duque (December 1, 2019 to Present) |
| General Counsel & Ethics Officer (<i>Acting</i>) | Mr. Chris Flynn (April 22, 2019 to November 30, 2019) |
| General Counsel & Ethics Officer | Ms. Gwendolyn Drake (July 1, 2018 to April 21, 2019) |
| Director of ePay & Illinois Funds | Ms. Johanna Perez |
| Director of Investment Analysis & Due Diligence | Mr. Joe Aguilar |
| Director of IPTIP (Illinois Public Treasurers Investment Pool) Investments | Mr. Jack Weisenborn |
| Director of Fiscal Operations | Ms. Deborah Miller |
| Executive Inspector General for the Illinois State Treasurer | Mr. Raymond Watson |
| Chief Internal Auditor | Ms. Leighann Manning |

Treasurer's Office Locations

The Office of the Treasurer maintains the following four office locations:

Executive Office
State Capitol
219 State House
Springfield, Illinois 62706

Unclaimed Property Division
Myers Building
1 W. Old State Capitol Plaza, Suite 400
Springfield, Illinois 62701

Operations Division
Illinois Business Center
400 West Monroe, Suite 401
Springfield, Illinois 62704

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

FINANCIAL STATEMENT REPORT

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Financial Audit
For the Years Ended June 30, 2019 and 2018**

Financial Statement Report

Summary

The audits of the accompanying financial statements of The Illinois Funds of the State of Illinois, Office of the Treasurer, were performed by Crowe LLP, as of and for the years ended June 30, 2019 and 2018.

Based on their audits, the auditors expressed an unmodified opinion on The Illinois Funds' financial statements.

Summary of Findings

The auditors identified a matter involving the Treasurer's internal control over financial reporting that they considered to be a significant deficiency.

| <u>Item No.</u> | <u>Page</u> | <u>Last Reported</u> | <u>Description</u> | <u>Finding Type</u> |
|------------------|-------------|--------------------------|---|------------------------|
| CURRENT FINDINGS | | | | |
| 2019-001 | 56 | 2018 | Lack of Adequate Controls Over the Review of External Service Providers | Significant Deficiency |

Exit Conference

The Treasurer's Office waived an exit conference in a correspondence from Leighann Manning, Chief Internal Auditor, on December 10, 2019. The response to the recommendation was provided by Leighann Manning, Chief Internal Auditor, in a correspondence dated December 19, 2019.

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 Illinois Funds, a fiduciary (investment trust) fund of the State of Illinois, Office of the Treasurer, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 financial position of The Illinois Funds, of the State of Illinois, Office of the Treasurer, as of June 30, 2019 and 2018, and the changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only The Illinois Funds, and do not purport to, and do not, present fairly the financial position of the State of Illinois or the State of Illinois, Office of the Treasurer, as of June 30, 2019 and 2018, the changes in financial position, or, where applicable, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements of The Illinois Funds of the State of Illinois, Office of the Treasurer. The Supplementary Information (pages 20 - 27) and Other Information (pages 28 - 53) as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The Supplementary Information, consisting of the portfolio of investments and the condensed statements by investor type, 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. Such information 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 Supplementary Information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The Other Information, consisting of the Illinois Funds Investment Policy Statements, 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 8, 2020, on our consideration of the State of Illinois, Office of the Treasurer's internal control over financial reporting of The Illinois Funds 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 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 State of Illinois, Office of the Treasurer's internal control over financial reporting of The Illinois Funds and its compliance.

Crowe LLP

Springfield, Illinois
January 8, 2020

BASIC FINANCIAL STATEMENTS

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Statements of Fiduciary Net Position
June 30, 2019 and 2018**

| | 2019 | 2018 |
|---|------------------|------------------|
| Assets | | |
| Cash equivalents | | |
| Repurchase agreements, including accrued interest of \$314,125 and \$216,778 in 2019 and 2018, respectively | \$ 1,550,314,125 | \$ 1,300,216,778 |
| Commercial paper, net of unaccreted discount of \$1,187,599 and \$705,212 in 2019 and 2018, respectively | 569,782,401 | 545,274,788 |
| Money market mutual funds | 400,180,132 | 438,401,299 |
| U.S. agency obligations | | |
| Federal Home Loan Bank Debentures, net of unamortized premium of \$1,501 and \$0 in 2019 and 2018, respectively | 165,001,501 | - |
| Federal Home Loan Bank Discount Notes, net of unaccreted discount of \$0 and \$38,750 in 2019 and 2018, respectively | - | 49,961,250 |
| Federal Home Loan Mortgage Corporation Notes, net of unaccreted discount of \$53 and \$0 in 2019 and 2018, respectively | 54,999,947 | - |
| Federal National Mortgage Association Debentures, net of unaccreted discount of \$0 and \$7,443 in 2019 and 2018, respectively | - | 14,992,556 |
| Federal Farm Credit Bureau Debentures, net of unaccreted discount of \$0 and \$2,248 in 2019 and 2018, respectively | - | 90,010,578 |
| Corporate Bonds, net of unamortized premium of \$3,564 and \$0 in 2019 and 2018, respectively | 3,158,564 | - |
| Supranational Notes, net of unamortized premium of \$2,462 and \$268 in 2019 and 2018, respectively | 31,002,462 | 5,499,732 |
| Total cash equivalents | 2,774,439,132 | 2,444,356,981 |
| Deposits and investments | | |
| Repurchase agreements, including accrued interest of \$101,250 and \$0 in 2019 and 2018, respectively | 50,101,250 | - |
| Commercial paper, net of unaccreted discount of \$7,490,083 and \$5,469,928 in 2019 and 2018, respectively | 1,276,914,918 | 1,133,430,072 |
| U.S. Treasury Bills, net of unaccreted discount of \$0 and \$27,604 in 2019 and 2018, respectively | - | 24,972,396 |
| U.S. Treasury Notes, net of unaccreted discount of \$116,312 and \$214,082 in 2019 and 2018, respectively | 74,883,688 | 79,785,918 |
| U.S. agency obligations | | |
| Federal Home Loan Bank Debentures, net of unaccreted discount of \$1,560 and \$11,356 in 2019 and 2018, respectively | 284,998,440 | 294,888,644 |
| Federal Home Loan Mortgage Corporation Notes, net of unaccreted discount of \$34,934 and \$23,894 in 2019 and 2018, respectively | 146,965,066 | 94,236,106 |
| Federal Home Loan Mortgage Corporation Discount Notes, net of unaccreted discount of \$0 and \$7,113 in 2019 and 2018, respectively | - | 34,992,888 |

The accompanying notes are an integral part of these statements.

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Statements of Fiduciary Net Position (Continued)
June 30, 2019 and 2018**

| | 2019 | 2018 |
|---|-------------------------|-------------------------|
| Assets (Continued) | | |
| U.S. agency obligations (Continued) | | |
| Farm Credit Discount Notes, net of unaccreted discount of \$163,278 and \$2,913,835 in 2019 and 2018, respectively | \$ 39,836,722 | \$ 292,086,165 |
| Federal Farm Credit Bureau Debentures, net of unaccreted net discount of \$1,402 and \$9,801 in 2019 and 2018, respectively | 435,498,598 | 409,990,199 |
| Federal Home Loan Bank Discount Notes, net of unaccreted discount of \$175,933 and \$2,196,063 in 2019 and 2018, respectively | 34,824,067 | 250,903,937 |
| Federal National Mortgage Association Debentures | 13,000,000 | - |
| Supranational Notes, net of unaccreted discount of \$532,523 and \$36,409 in 2019 and 2018, respectively | 203,544,477 | 229,963,591 |
| Corporate Bonds, net of unaccreted net discount of \$601,188 and \$855,660 in 2019 and 2018, respectively | <u>272,939,812</u> | <u>277,083,340</u> |
| Total deposits and investments | 2,833,507,038 | 3,122,333,256 |
| Accrued interest receivable | <u>7,379,542</u> | <u>4,397,518</u> |
| Total assets | <u>\$ 5,615,325,712</u> | <u>\$ 5,571,087,755</u> |
| Liabilities and Net Position | | |
| Accrued liabilities | | |
| Bank custodial fees | \$ 343,068 | \$ 344,799 |
| State management fees | <u>225,363</u> | <u>235,239</u> |
| Total liabilities | <u>568,431</u> | <u>580,038</u> |
| Net position held in trust for pool participants | <u>\$ 5,614,757,281</u> | <u>\$ 5,570,507,717</u> |
| The pricing of shares | | |
| Participant shares outstanding (\$1.00 par, unlimited shares authorized) | <u>5,614,757,281</u> | <u>5,570,507,717</u> |
| Participant net position value, offering and redemption price per share | <u>\$ 1.00</u> | <u>\$ 1.00</u> |

The accompanying notes are an integral part of these statements.

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Statements of Changes in Fiduciary Net Position
For the Years Ended June 30, 2019 and 2018**

| | 2019 | 2018 |
|--|-------------------------|-------------------------|
| Additions | | |
| Investment income | | |
| Investment earnings | \$ 136,610,905 | \$ 80,643,381 |
| Investment expenses | | |
| Bank custodial fees | 2,213,898 | 2,035,166 |
| State management fees | 3,034,595 | 2,735,228 |
| Total investment expenses | <u>5,248,493</u> | <u>4,770,394</u> |
| Net investment income | <u>131,362,412</u> | <u>75,872,987</u> |
| Dividends to participants from net investment income | (131,362,412) | (75,872,987) |
| Share transactions (dollar amounts and number of shares are the same) | | |
| Subscriptions | 26,033,159,879 | 25,695,071,237 |
| Reinvestments | 123,664,130 | 69,838,825 |
| Redemptions | <u>(26,112,574,445)</u> | <u>(24,852,332,357)</u> |
| Change in net position and shares resulting from share transactions | 44,249,564 | 912,577,705 |
| Net position, beginning of year | <u>5,570,507,717</u> | <u>4,657,930,012</u> |
| Net position, end of year | <u>\$ 5,614,757,281</u> | <u>\$ 5,570,507,717</u> |

The accompanying notes are an integral part of these statements.

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Notes to the Financial Statements
For the Years Ended June 30, 2019 and 2018**

Background

The Illinois Funds was established in 1976 (through 15 ILCS 505/17) to supplement and enhance the investment opportunities available to custodians of public agency funds throughout the State of Illinois. The management, custodianship, and operation of The Illinois Funds are under the supervision of the State of Illinois, Office of the Treasurer ("Treasurer").

Note 1. Summary of Significant Accounting Policies

Financial Reporting Entity: As described in the Illinois Comprehensive Annual Financial Report, the State of Illinois is the primary government, which includes all funds, elected offices, departments, and agencies of the State, as well as boards, commissions, authorities, universities and colleges over which the State's executive or legislative branches exercise legal control.

The Illinois Funds is not legally separate from the State of Illinois and is, therefore, determined to be part of the primary government. The Illinois Funds is included in the Illinois Comprehensive Annual Financial Report as an investment trust fund. The Illinois Funds consists of an internal and external portion. The internal portion is the portion that belongs to the State and its component units. The external portion is the portion belonging to the noncomponent-unit participants. The scope of The Illinois Funds' financial statements presented herein is limited to the financial position of The Illinois Funds, including net position available to all participants, both internal and external, and the changes in net position. The internal portion of The Illinois Funds is included in the various funds in the Illinois Comprehensive Annual Financial Report as an investment.

As a governmental sponsored investment pool, The Illinois Funds is not eligible to register with the Securities and Exchange Commission ("SEC") and thus is not a registrant with the SEC; however, The Illinois Funds has adopted operating procedures consistent with those required of an SEC 2a-7 Fund (2a-7-like Fund). The Illinois Funds has a policy that it will, and does, operate in a manner consistent with SEC Rule 2a-7, which governs the operation of SEC regulated money market funds. While the Illinois Funds operates in accordance with SEC Rule 2a-7, for valuation purposes it complies with GASB Statement No. 79. See Note 2 below for additional information.

Fiduciary Fund: The Illinois Funds is classified as an investment trust fund. This investment trust fund is used to account for assets held by The Illinois Funds in a trustee capacity or as an agent for public treasurers and other custodians of public monies throughout the State of Illinois. This investment trust fund is not held in the State Treasury and is a non-appropriated fund.

Basis of Accounting and Measurement Focus: The accounts of The Illinois Funds are maintained and reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place.

Cash Equivalents, Deposits, and Investments: Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash with maturities of 90 days or less at time of purchase.

Repurchase agreements (securities purchased under agreements to resell) are reported at cost plus accrued interest.

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Notes to the Financial Statements
For the Years Ended June 30, 2019 and 2018**

Note 1. Summary of Significant Accounting Policies (Continued)

Commercial paper is stated at amortized cost, which excludes accrued interest and includes accretion of discounts and amortization of premiums. Commercial paper utilizes the straight-line method of amortization or accretion. It is the intent of management to hold commercial paper to maturity. Money market mutual funds are carried at cost and are purchased from various brokerage firms. The funds are comprised of U.S. Treasury and U.S. agency obligations. Mutual fund yields are subject to market rate fluctuations.

U.S. agency obligations and Supranational notes are stated at amortized cost, which excludes accrued interest and includes accretion of discounts and amortization of premiums. U.S. agency coupon and Supranational notes utilize the constant yield method and, when applicable, all others use straight-line amortization. It is the intent of management to hold U.S. agency securities and Supranational notes to maturity unless market conditions provide for realization of a gain and management determines a sale would be in the best interest of The Illinois Funds.

U.S. Treasury obligations are stated at amortized cost, which excludes accrued interest and includes accretion of discounts and amortization of premiums. Treasury notes utilize the constant yield method and strips and bills use straight-line amortization. It is the intent of management to hold U.S. Treasury obligations to maturity unless market conditions provide for realization of a gain and management determines a sale would be in the best interest of The Illinois Funds.

Investment expenses consist of bank custodial fees and State management fees. Both custodial fees and State management fees are accrued daily based on the net asset value of The Illinois Funds. For more information, see Note 4.

Management Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make certain estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. These estimates may differ from actual results.

Net Position Held in Trust for Pool Participants: The net position held in trust for pool participants represents the total value of all participant deposits including late deposits held in an overnight investment account as of June 30, 2019 and 2018.

The Illinois Funds operates in a manner similar to an open-end mutual fund. Participants' deposits and withdrawals were accounted for as purchases and sales of The Illinois Funds' capital shares. The amount of net proceeds from the sale of shares represents the gross withdrawals, which were redeemed from The Illinois Funds' shares during the year. The cost of shares purchased represents the gross deposits, which were invested in The Illinois Funds' shares during the year. These amounts did not include deposits or earnings, which were remitted directly to participants versus invested (or reinvested) in The Illinois Funds' shares.

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Notes to the Financial Statements
For the Years Ended June 30, 2019 and 2018**

Note 2. Deposits and Investments

Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, generally requires investments to be measured at fair value. GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, established criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost rather than fair value for financial reporting purposes. The Illinois Funds meets the criteria established in GASB Statement No. 79 and, thus, reports all investments at amortized cost.

Fair Value Measurements:

As stated in the aforementioned paragraph, The Illinois Funds reports its investments at amortized cost for financial reporting purposes. GASB Statements No. 72 and 79 require disclosure regarding the fair value of investments. GASB Statement No. 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement 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 instruments 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. |

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Notes to the Financial Statements
For the Years Ended June 30, 2019 and 2018**

Note 2. Deposits and Investments (Continued)

The following table summarizes The Illinois Funds' investments within the fair value hierarchy at June 30, 2019 and 2018.

| June 30, 2019 | | | | |
|---|-------------------------|-----------------------|-------------------------|----------------|
| Type | Fair Value | Level 1 | Level 2 | Level 3 |
| Repurchase Agreements | \$ 1,600,415,375 | \$ - | \$ 1,600,415,375 | \$ - |
| Commercial Paper | 1,847,877,454 | - | 1,847,877,454 | - |
| Money Market Mutual Funds | 400,180,132 | 400,180,132 | - | - |
| United States Treasury Notes | 74,894,800 | - | 74,894,800 | - |
| Federal Home Loan Bank Debentures | 449,956,600 | - | 449,956,600 | - |
| Federal Home Loan Bank Discount Notes | 34,836,800 | - | 34,836,800 | - |
| Federal National Mortgage Association Debentures | 12,995,060 | - | 12,995,060 | - |
| Federal Farm Credit Bureau Debentures | 435,476,865 | - | 435,476,865 | - |
| Farm Credit Discount Note | 39,862,200 | - | 39,862,200 | - |
| Supranational Notes | 234,700,374 | - | 234,700,374 | - |
| Corporate Bonds | 276,530,518 | - | 276,530,518 | - |
| Federal Home Loan Mtg Corp Notes | 201,933,860 | - | 201,933,860 | - |
| | \$ 5,609,660,038 | \$ 400,180,132 | \$ 5,209,479,906 | \$ - |

| June 30, 2018 | | | | |
|---|-------------------------|-----------------------|-------------------------|----------------|
| Type | Fair Value | Level 1 | Level 2 | Level 3 |
| Repurchase Agreements | \$ 1,300,216,778 | \$ - | \$ 1,300,216,778 | \$ - |
| Commercial Paper | 1,678,878,200 | - | 1,678,878,200 | - |
| Money Market Mutual Funds | 438,401,299 | 438,401,299 | - | - |
| United States Treasury Bills | 24,971,250 | - | 24,971,250 | - |
| United States Treasury Notes | 79,735,800 | - | 79,735,800 | - |
| Federal Home Loan Mtg Corp Discount Notes | 34,991,450 | - | 34,991,450 | - |
| Federal Home Loan Bank Debentures | 294,799,149 | - | 294,799,149 | - |
| Federal Home Loan Bank Discount Notes | 300,806,262 | - | 300,806,262 | - |
| Federal National Mortgage Association Debentures | 14,957,700 | - | 14,957,700 | - |
| Federal Farm Credit Bureau Debentures | 499,703,550 | - | 499,703,550 | - |
| Farm Credit Discount Note | 292,013,270 | - | 292,013,270 | - |
| Supranational Notes | 235,377,780 | - | 235,377,780 | - |
| Corporate Bonds | 276,668,950 | - | 276,668,950 | - |
| Federal Home Loan Mtg Corp Notes | 94,137,978 | - | 94,137,978 | - |
| | \$ 5,565,659,416 | \$ 438,401,299 | \$ 5,127,258,117 | \$ - |

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Notes to the Financial Statements
For the Years Ended June 30, 2019 and 2018**

Note 2. Deposits and Investments (Continued)

Repurchase Agreements classified in Level 2 of the fair value hierarchy are valued using the cost approach which reflects the amount that would be required to replace the investment. The remaining investments classified in Level 2 of the fair value hierarchy are valued using a market approach that involves using prices and other relevant information generated by market transactions involving comparable assets.

The Illinois Funds does not have any limitations or restrictions on participant withdrawals.

Permitted Deposits and Investments: The Treasurer's investment activities are governed by the Treasurer's published investment policies, which were developed in accordance with State statute and the desire to maintain The Illinois Funds' AAAM rating from Standard & Poor's. In addition, the Treasurer's Office has adopted its own investment practices, which supplement the statutory requirements.

For The Illinois Funds, the Treasurer may invest in time deposits and other interest-bearing accounts in banks and savings and loan associations located in Illinois that are insured by the Federal Deposit Insurance Corporation ("FDIC"), credit unions whose principal office is located in Illinois, obligations of the United States and its agencies, short-term obligations of corporations whose obligations are rated among the two highest classifications established by at least two standard rating services, repurchase agreements, or other investments approved by State law.

The Illinois Funds is rated AAAM by Standard & Poor's Ratings.

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Notes to the Financial Statements
For the Years Ended June 30, 2019 and 2018**

Note 2. Deposits and Investments (Continued)

The Illinois Funds determines the fair value of investments annually in connection with year-end financial reporting. A summary of investments held at June 30, 2019 and 2018 is as follows:

Summary of Investments at June 30, 2019:

| Type | Carrying Amount | Fair Value | Face / Par Principal Amount | Range of Interest Yields | Range of Maturity Dates |
|---|-------------------------|-------------------------|-----------------------------|--------------------------|-------------------------|
| Repurchase Agreements | \$ 1,600,415,375 | \$ 1,600,415,375 | \$ 1,600,000,000 | 2.300-2.510% | 7/1/19-8/13/19 |
| Commercial Paper | 1,846,697,319 | 1,847,877,454 | 1,855,375,000 | 2.344-3.124% | 7/1/19-2/5/20 |
| Money Market Mutual Funds | 400,180,132 | 400,180,132 | 400,180,132 | NA | NA |
| United States Treasury Notes* | 74,883,688 | 74,894,800 | 75,000,000 | 2.206-2.484% | 6/29/19-9/30/19 |
| Federal Home Loan Mtg Corp Notes | 201,965,013 | 201,933,860 | 202,000,000 | 1.497-2.591% | 7/2/19-6/4/20 |
| Corporate Bonds | 276,098,376 | 276,530,518 | 276,696,000 | 2.506-2.886% | 7/30/19-2/3/20 |
| Federal Home Loan Bank Debentures* | 449,999,941 | 449,956,600 | 450,000,000 | 2.250-2.558% | 6/29/19-6/17/20 |
| Federal Home Loan Bank Discount Notes | 34,824,067 | 34,836,800 | 35,000,000 | 2.342-2.349% | 9/3/19-9/27/19 |
| Federal Farm Credit Bureau Debentures* | 435,498,598 | 435,476,865 | 435,500,000 | 2.197-2.747% | 6/29/19-12/4/19 |
| Farm Credit Discount Notes | 39,836,722 | 39,862,200 | 40,000,000 | 2.527-2.693% | 8/7/19-9/16/19 |
| Federal National Mortgage Assn Debentures | 13,000,000 | 12,995,060 | 13,000,000 | 1.049% | 7/12/19 |
| Supranational Notes | 234,546,939 | 234,700,374 | 235,077,000 | 2.310-2.691% | 7/8/19-12/6/19 |
| | <u>\$ 5,607,946,170</u> | <u>\$ 5,609,660,038</u> | <u>\$ 5,617,828,132</u> | | |

**These investments have a callable or floating interest rate reset date of 6/29/19 used for the calculation of the Weighted Average Maturity and do not reflect the end of maturity.*

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Notes to the Financial Statements
For the Years Ended June 30, 2019 and 2018**

Note 2. Deposits and Investments (Continued)

Summary of Investments at June 30, 2018:

| Type | Carrying Amount | Fair Value | Face / Par Principal Amount | Range of Interest Yields | Range of Maturity Dates |
|---|-------------------------|-------------------------|-----------------------------|--------------------------|-------------------------|
| Repurchase Agreements | \$ 1,300,216,778 | \$ 1,300,216,778 | \$ 1,300,000,000 | 1.820-2.080% | 7/2/18-7/6/18 |
| Commercial Paper | 1,678,704,860 | 1,678,878,200 | 1,684,880,000 | 1.867-2.512% | 7/2/18-12/21/18 |
| Money Market Mutual Funds | 438,401,299 | 438,401,299 | 438,401,299 | NA | NA |
| United States Treasury Bills | 24,972,396 | 24,971,250 | 25,000,000 | 1.603% | 7/26/18 |
| United States Treasury Notes | 79,785,918 | 79,735,800 | 80,000,000 | 1.698-2.027% | 10/31/18-12/31/18 |
| Federal Home Loan Mtg Corp Notes | 94,236,106 | 94,137,978 | 94,260,000 | 1.108-2.119% | 8/10/18-10/12/18 |
| Federal Home Loan Mtg Corp Discount Notes | 34,992,888 | 34,991,450 | 35,000,000 | 1.282-1.323% | 7/3/18-7/16/18 |
| Corporate Bonds | 277,083,340 | 276,668,950 | 277,939,000 | 1.594-2.602% | 10/15/18-5/16/19 |
| Federal Home Loan Bank Debentures | 294,888,644 | 294,799,149 | 294,900,000 | 1.242-2.339% | 7/4/18-6/6/19 |
| Federal Home Loan Bank Discount Notes | 300,865,187 | 300,806,262 | 303,100,000 | 1.420-2.355% | 7/16/18-6/14/19 |
| Federal Farm Credit Bureau Debentures | 500,000,777 | 499,703,550 | 500,000,000 | 1.250-2.323% | 7/1/18-6/11/19 |
| Farm Credit Discount Note | 292,086,165 | 292,013,270 | 295,000,000 | 1.254-2.287% | 7/16/18-5/1/19 |
| Federal National Mortgage Assn Debentures | 14,992,556 | 14,957,700 | 15,000,000 | 1.239% | 10/19/18 |
| Supranational Notes | 235,463,323 | 235,377,780 | 235,500,000 | 1.366-2.293% | 7/2/18-11/30/18 |
| | <u>\$ 5,566,690,237</u> | <u>\$ 5,565,659,416</u> | <u>\$ 5,578,980,299</u> | | |

Custodial Credit Risk: Custodial credit risk for deposits and investments is the risk that, in the event of a financial institution failure, The Illinois Funds would not be able to recover the value of the deposits and investments in the possession of an outside party. The Treasurer has a formal policy to address custodial credit risk.

Repurchase agreements are purchased from various brokerage firms and financial institutions. 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 (yield) on underlying securities to ensure that the agreements are adequately collateralized. The Treasurer accepts only U.S. agency obligations and U.S. Treasury obligations as collateral for repurchase agreements. All securities pledged to secure repurchase agreements are required to be delivered to an appointed custodian of The Illinois Funds. In a delivery-vs.-pledge transaction, the custodian will be the primary custodian of The Illinois Funds. In a tri-party repurchase agreement, an appointed clearing bank will act as custodian and valuation agent for the securities.

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Notes to the Financial Statements
For the Years Ended June 30, 2019 and 2018**

Note 2. Deposits and Investments (Continued)

As noted above, the master repurchase agreements utilized by The Illinois Funds require the broker or financial institution to maintain the fair value of collateral securities at 102% of the agreement. The carrying amount of the repurchase agreements (excluding accrued interest) was \$1,600,000,000 and \$1,300,000,000 as of June 30, 2019 and 2018, respectively. The fair value, including accrued interest, of the underlying securities to be resold based on commitments under the repurchase agreements was \$1,636,827,688 and \$1,328,975,029 as of June 30, 2019 and 2018, respectively.

Other instruments, such as U.S. Treasury obligations, may be purchased from various brokerage firms and are held in safekeeping by the appointed Custodian of The Illinois Funds.

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 investment policies limit the investment portfolio maturities. The Illinois Funds investment policy limits its investment portfolio to maturities not to exceed two years with a minimum of 75% required to be in authorized investments with less than one-year maturity. The investment policy specifically requires that no more than 50% of total assets can be invested in securities with maturities greater than 30 days issued by any single permissible United States government agency or instrumentality. The Treasurer's Office uses the segmented time distribution method to identify and manage interest rate risk.

Within The Illinois Funds, certain U.S. Agency Obligations, Supranational Notes, and Commercial Paper carry variable rates that reset at a specific date, based on each individual investment. The date used for the calculation of interest rate risk is that of the variable rate reset date for each investment that contains a variable rate.

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Notes to the Financial Statements
For the Years Ended June 30, 2019 and 2018**

Note 2. Deposits and Investments (Continued)

Investments: The Illinois Funds had the following investments, stated at carrying value, and maturities as of June 30, 2019 and 2018. (Amounts are in thousands.)

| | 2019 | | | | 2018 | | | |
|---|------------------------|------------------------------|-----------------------------------|---------------------|------------------------|------------------------------|-----------------------------------|---------------------|
| | Thirty Days or Less | Thirty One to Ninety Days | Ninety One Days to One Year | Total | Thirty Days or Less | Thirty One to Ninety Days | Ninety One Days to One Year | Total |
| Repurchase agreements | \$ 1,550,314 | \$ 50,101 | \$ - | \$ 1,600,415 | \$ 1,300,217 | \$ - | \$ - | \$ 1,300,217 |
| Commercial paper | 543,437 | 798,709 | 504,551 | 1,846,697 | 667,831 | 673,964 | 336,910 | 1,678,705 |
| Supranational notes | 51,494 | 76,075 | 106,978 | 234,547 | 160,500 | 44,968 | 29,995 | 235,463 |
| Corporate Bonds | - | 56,395 | 219,703 | 276,098 | - | - | 277,083 | 277,083 |
| U.S. Treasury notes | 20,000 | 29,932 | 24,952 | 74,884 | 24,972 | - | 79,786 | 104,758 |
| U.S. agency obligations | 798,000 | 240,234 | 136,891 | 1,175,125 | 757,419 | 297,526 | 477,118 | 1,532,063 |
| Subtotal | <u>\$ 2,963,245</u> | <u>\$ 1,251,446</u> | <u>\$ 993,075</u> | <u>5,207,766</u> | <u>\$ 2,910,939</u> | <u>\$ 1,016,458</u> | <u>\$ 1,200,892</u> | <u>5,128,289</u> |
| Treasury-only money market mutual funds | | | | <u>400,180</u> | | | | <u>438,401</u> |
| Investments | | | | <u>\$ 5,607,946</u> | | | | <u>\$ 5,566,690</u> |

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2019, The Illinois Funds' investments in U.S. Agencies, including collateral for repurchase agreements were rated AA+ by Standard & Poor's Ratings and the Supranational Notes that were rated AAA by Standard & Poor's. The Illinois Funds' investments in commercial paper were rated P-1 by Moody's Investors Service and A-1 or A-1+ by Standard & Poor's Ratings. Commercial Paper issued by Caterpillar Inc and United Healthgroup Inc were also rated P-2 by Moody's Investor Services. The Illinois Funds investments in Corporate Bonds were rated as A-1 and A-1+ by Standard & Poor's and P-1 by Moody's Investors Services. The Illinois Funds' investments in money market mutual funds were rated Aaa by Moody's Investors Service and AAAM by Standard & Poor's Ratings.

As of June 30, 2018, The Illinois Funds' investments in U.S. Agencies, including collateral for repurchase agreements were rated AA+ by Standard & Poor's Ratings or Aaa by Moody's Investors Service and the Supranational Notes that were rated AAA by Standard & Poor's. The Illinois Funds' investments in

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Notes to the Financial Statements
For the Years Ended June 30, 2019 and 2018**

Note 2. Deposits and Investments (Continued)

commercial paper were rated P-1 by Moody's Investors Service and A-1 or A-1+ by Standard & Poor's Ratings, except for those issued by Citigroup Inc that were rated A-2 by Standard & Poor's and P-2 by Moody's Investors Service. Commercial Paper issued by Caterpillar Inc, Prudential Financial Inc, and United Healthgroup Inc were also rated P-2 by Moody's Investor Services. The Illinois Funds investments in Corporate Bonds were rated as A-1+ by Standard & Poor's and P-1 by Moody's Investors Service other than US Bancorp, which was rated A-1 by Standard & Poor's. The Illinois Funds' investments in money market mutual funds were rated Aaa by Moody's Investors Service and AAAM by Standard & Poor's Ratings.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of The Illinois Funds' investment in a single issuer. The following investments exceeded 5% of The Illinois Funds' total investments at June 30, 2019 and 2018. (Expressed in thousands.)

| | 2019 | | 2018 | |
|------------------------|----------------|------------------------|----------------|------------------------|
| | Carrying Value | % of Total Investments | Carrying Value | % of Total Investments |
| Repurchase agreements | | | | |
| HSBC Securities* | \$ 400,080 | 7.13% | \$ 200,022 | 3.59% |
| Bank of Nova Scotia | 500,100 | 8.92 | 500,057 | 8.98 |
| Bank of Montreal | 450,183 | 8.03 | 400,044 | 7.19 |
| U.S. Agency | | | | |
| Federal Home Loan Bank | 450,000 | 8.02 | 294,889 | 5.30 |
| FHLB Discount Notes | - | - | 300,865 | 5.40 |
| FFCB Notes | 435,499 | 7.77 | 500,001 | 8.98 |
| FFCB Discount Notes | - | - | 292,086 | 5.25 |
| Commercial Paper | | | | |
| HSBC Securities* | 255,024 | 4.55 | 114,657 | 2.06 |
| Bank of Montreal* | - | - | 109,785 | 1.97 |

*Issuer total exceeds 5% for all investment types though concentration for a specific investment type may not

No more than 5% of total assets can be invested in securities issued by any single commercial paper issuer (calculated at the time of purchase); and, a maximum of 33.3% of the portfolio may be invested in direct commercial paper obligations that do not exceed 270 days to maturity. Additionally, a maximum of 25% of the total assets may be invested in any approved AAAM Money Market Fund.

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Notes to the Financial Statements
For the Years Ended June 30, 2019 and 2018**

Note 3. Investment Income

The Illinois Funds follows the accounting practice known as equalization. Accordingly, distributable investment income is allocated daily and paid monthly to participants on a pro rata (per share) basis and accumulated investment income payable is credited to The Illinois Funds' net asset base. A portion of the proceeds from sales and costs of repurchases of The Illinois Funds' capital shares (equivalent, on a per share basis, to the amount of distributable investment income on the date of the transaction) are credited or charged to undistributed income. As a result, undistributed investment income per share is unaffected by sales or redemptions of The Illinois Funds capital shares.

Note 4. Administrative Fees

To administer The Illinois Funds, the Treasurer has established a division titled "The Illinois Funds' Administrative Office." This division had 18 and 17 average full time equivalent employees for the years ended June 30, 2019 and 2018, respectively. The revenues and expenditures of the division are recorded in an enterprise fund maintained by the Treasurer titled The Illinois Funds' Administrative Trust Fund No. 195.

US Bank (USB) performs the custodial responsibilities for the administration of The Illinois Funds. USB calculates the administrative and custodial fees paid to the State Treasurer and USB, respectively.

Fees are calculated on a tiered structure. The fee is accrued daily and is paid via a voucher payment. The custodian's Annual Custody, Fund Accounting Transfer Agent Fee shall be based upon average net assets per fund as follows: Base fee of \$240,000 per fund per year plus, 0.0350% for the first \$3,000,000,000; 0.0275% for the next \$2,000,000,000; 0.0250% for the next \$2,000,000,000; 0.0175% on the balance. The minimum annual fee is \$1,200,000.

The State Treasurer receives up to 0.05% per annum of the net asset value of The Illinois Funds. This fee is used to defray administrative costs associated with investing The Illinois Funds' assets, to increase marketing efforts needed to expand participation in The Illinois Funds, and to improve the level of service to participants.

The Treasurer's Office has the ability to rebate to The Illinois Funds' participants any excess administrative fees collected during the fiscal year. There were no excess administrative fees rebated to The Illinois Funds' participants during fiscal years 2019 and 2018.

The Treasurer received fees and paid expenditures from the Administrative Trust Fund No. 195 as follows:

| | 2019 | 2018 |
|---------------|--------------|--------------|
| Fees received | \$ 5,540,000 | \$ 4,390,000 |
| Expenditures | 4,819,000 | 5,016,000 |

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Notes to the Financial Statements
For the Years Ended June 30, 2019 and 2018**

Note 5. Related Parties

The Illinois Funds' Administrative Office, a division of the State Treasurer's Office, is responsible for the administration of The Illinois Funds, including management of investments and marketing services. The Illinois Funds' Administrative Office received fees as stated in Note 4 during fiscal years 2019 and 2018, respectively. The Illinois Funds' Administrative Trust Fund No. 195 was maintained by the Treasurer in a separate investment account of The Illinois Funds. The cash balance at June 30, 2019 and 2018, was approximately \$2,566,000 and \$2,124,000, respectively.

The State of Illinois, its agencies, and its universities invest in The Illinois Funds. The detail follows:

| | <u>2019</u> | <u>2018</u> |
|--|------------------|------------------|
| Total number of participants | 1,533 | 1,622 |
| Number of State of Illinois participants | 24 | 23 |
| Balance of State of Illinois investments | \$ 1,916,803,244 | \$ 2,093,613,306 |

Note 6. Contingencies

The State of Illinois, Office of the Treasurer (Treasurer) is involved in a lawsuit. While the range of potential losses as a result of this lawsuit against the Treasurer is unknown at this time, the Treasurer believes the potential losses would be immaterial to The Illinois Funds financial statements.

SUPPLEMENTARY INFORMATION

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Portfolio of Investments
June 30, 2019**

| | Execution Date | Interest Rate | Maturity Date | Face Amount | Fair Value |
|-----------------------------|-------------------|------------------|------------------|-------------------------|-------------------------|
| Repurchase Agreements | | | | | |
| BANK OF MONTREAL | 5/2/2019 | 2.430% | 8/13/2019 | \$ 50,000,000 | \$ 50,101,250 |
| BANK OF MONTREAL | 6/28/2019 | 2.450% | 7/1/2019 | 400,000,000 | 400,081,667 |
| BANK OF NOVA SCOTIA | 6/28/2019 | 2.400% | 7/1/2019 | 500,000,000 | 500,100,000 |
| HSBC SECURITIES | 6/28/2019 | 2.440% | 7/1/2019 | 300,000,000 | 300,061,000 |
| HSBC SECURITIES | 6/28/2019 | 2.300% | 7/1/2019 | 100,000,000 | 100,019,166 |
| SUN TRUST | 6/28/2019 | 2.510% | 7/1/2019 | 250,000,000 | 250,052,292 |
| | | | | <u>\$ 1,600,000,000</u> | <u>\$ 1,600,415,375</u> |
| Total Repurchase Agreements | | | | | |

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Portfolio of Investments (Continued)
June 30, 2019**

| | Execution Date | Effective Yield | Maturity Date | Fair Value | Carrying Value |
|---------------------------------|-------------------|--------------------|------------------|------------------|-------------------|
| Commercial Paper | | | | | |
| ABN AMRO FDG USA LLC | 11/02/18 | 2.954% | 07/24/19 | \$ 19,969,800 | \$ 19,963,328 |
| ABN AMRO FDG USA LLC | 11/07/18 | 3.066% | 08/02/19 | 24,948,000 | 24,934,111 |
| ABN AMRO FDG USA LLC | 03/14/19 | 2.629% | 08/14/19 | 14,957,100 | 14,953,250 |
| ABN AMRO FDG USA LLC | 11/30/18 | 3.103% | 08/20/19 | 39,870,000 | 39,833,333 |
| ABN AMRO FDG USA LLC | 02/01/19 | 2.829% | 10/24/19 | 56,594,160 | 56,498,536 |
| ABN AMRO FDG USA LLC | 05/06/19 | 2.615% | 11/05/19 | 19,846,800 | 19,821,847 |
| ABN AMRO FDG USA LLC | 05/13/19 | 2.610% | 11/08/19 | 19,843,200 | 19,818,000 |
| ABN AMRO FDG USA LLC | 03/18/19 | 2.760% | 11/25/19 | 14,867,100 | 14,837,381 |
| ALLIANCE CAP MGMT LP | 03/15/19 | 2.666% | 08/13/19 | 12,963,730 | 12,959,783 |
| APPLE INC | 02/25/19 | 2.581% | 07/15/19 | 24,977,000 | 24,975,160 |
| BOEING CO | 04/10/19 | 2.612% | 07/10/19 | 44,973,450 | 44,970,813 |
| BOEING CO | 04/24/19 | 2.617% | 07/23/19 | 79,884,000 | 79,872,889 |
| BOEING CO | 03/15/19 | 2.680% | 08/07/19 | 19,952,000 | 19,946,556 |
| BOEING CO | 06/12/19 | 2.556% | 09/11/19 | 19,908,800 | 19,898,400 |
| BOEING CO | 06/14/19 | 2.554% | 12/11/19 | 49,515,500 | 49,438,556 |
| CATERPILLAR FINL SVCS CORP | 02/08/19 | 2.670% | 07/09/19 | 24,986,750 | 24,985,333 |
| CATERPILLAR FINL SVCS CORP | 04/17/19 | 2.586% | 07/11/19 | 24,983,500 | 24,982,361 |
| CATERPILLAR FINL SVCS CORP | 06/06/19 | 2.540% | 09/25/19 | 50,727,023 | 50,703,433 |
| CITIGROUP GLOBAL MKTS INC | 04/16/19 | 2.620% | 09/13/19 | 14,929,650 | 14,921,683 |
| CITIGROUP GLOBAL MKTS INC | 04/09/19 | 2.616% | 10/07/19 | 24,848,250 | 24,827,139 |
| COCA COLA CO | 01/22/19 | 2.727% | 07/24/19 | 22,965,270 | 22,960,692 |
| COCA COLA CO | 03/01/19 | 2.660% | 08/06/19 | 34,918,100 | 34,909,700 |
| COCA COLA CO | 04/12/19 | 2.624% | 09/17/19 | 12,886,027 | 12,878,592 |
| COCA COLA CO | 01/09/19 | 2.948% | 09/18/19 | 49,750,000 | 49,686,743 |
| COCA COLA CO | 04/12/19 | 2.738% | 11/19/19 | 24,787,500 | 24,741,010 |
| GLAXOSMITHKLINE LLC | 06/07/19 | 2.441% | 07/15/19 | 34,967,800 | 34,966,857 |
| GLAXOSMITHKLINE LLC | 06/14/19 | 2.461% | 07/22/19 | 10,954,861 | 10,954,290 |
| GLAXOSMITHKLINE LLC | 06/11/19 | 2.447% | 07/24/19 | 19,969,800 | 19,968,822 |
| GLAXOSMITHKLINE LLC | 06/24/19 | 2.407% | 08/12/19 | 49,863,500 | 49,862,917 |
| GLAXOSMITHKLINE LLC | 06/26/19 | 2.449% | 08/28/19 | 49,811,500 | 49,806,667 |
| HERSHEY CO | 06/10/19 | 2.401% | 07/16/19 | 49,950,500 | 49,950,104 |
| HSBC USA INC | 05/07/19 | 2.670% | 01/24/20 | 24,693,750 | 24,630,562 |
| HSBC USA INC | 05/13/19 | 2.659% | 02/04/20 | 24,679,000 | 24,613,958 |
| HSBC USA INC | 05/13/19 | 2.616% | 02/05/20 | 19,742,000 | 19,694,617 |
| HSBC USA INC | 03/07/19 | 2.725% | 09/06/19 | 24,894,000 | 24,877,632 |
| HSBC USA INC | 03/13/19 | 2.694% | 09/09/19 | 24,889,250 | 24,873,611 |
| HSBC USA INC | 03/14/19 | 2.694% | 09/10/19 | 24,887,500 | 24,871,806 |
| HSBC USA INC | 03/29/19 | 2.746% | 09/27/19 | 34,805,050 | 34,773,278 |
| HSBC USA INC | 03/14/19 | 2.712% | 10/15/19 | 24,835,750 | 24,807,139 |
| HSBC USA INC | 03/18/19 | 2.755% | 11/18/19 | 24,789,000 | 24,742,361 |
| HSBC USA INC | 03/15/19 | 2.755% | 12/02/19 | 27,198,833 | 27,138,824 |
| ING US FDG LLC | 10/11/18 | 2.834% | 07/02/19 | 24,998,250 | 24,998,094 |
| ING US FDG LLC | 10/22/18 | 2.892% | 07/16/19 | 24,975,250 | 24,970,833 |
| ING US FDG LLC | 04/05/19 | 2.616% | 10/03/19 | 29,825,400 | 29,801,033 |
| INTERNATIONAL BUSINESS MACHINES | 04/23/19 | 2.686% | 09/04/19 | 24,897,000 | 24,882,639 |
| INTERNATIONAL BUSINESS MACHINES | 04/17/19 | 2.688% | 09/11/19 | 24,886,000 | 24,869,750 |
| JPMORGAN SECURITIES LLC | 10/23/18 | 3.017% | 07/01/19 | 25,000,000 | 25,000,000 |
| JPMORGAN SECURITIES LLC | 10/10/18 | 2.797% | 07/05/19 | 24,993,500 | 24,992,472 |
| JPMORGAN SECURITIES LLC | 11/02/18 | 3.059% | 07/30/19 | 19,961,800 | 19,951,828 |
| JPMORGAN SECURITIES LLC | 02/11/19 | 2.660% | 08/15/19 | 24,927,000 | 24,918,437 |
| JPMORGAN SECURITIES LLC | 11/28/18 | 3.124% | 08/23/19 | 24,914,000 | 24,888,847 |
| JPMORGAN SECURITIES LLC | 03/05/19 | 2.694% | 09/03/19 | 14,939,250 | 14,930,667 |
| JPMORGAN SECURITIES LLC | 01/09/19 | 2.987% | 10/04/19 | 29,823,600 | 29,771,208 |
| JPMORGAN SECURITIES LLC | 03/15/19 | 2.611% | 11/05/19 | 19,846,800 | 19,822,200 |
| MUFG UNION BANK NA | 06/07/19 | 2.408% | 10/08/19 | 34,785,450 | 34,773,813 |
| NATIONAL SEC CLEARING CORP | 05/24/19 | 2.523% | 09/10/19 | 29,865,000 | 29,855,929 |
| NESTLE CAP CORP | 06/10/19 | 2.344% | 07/08/19 | 24,988,500 | 24,988,625 |
| UNITED HEALTHCARE CORP | 06/12/19 | 2.531% | 07/15/19 | 34,967,800 | 34,965,632 |
| UNITED HEALTHCARE CORP | 06/18/19 | 2.525% | 07/18/19 | 24,972,000 | 24,970,250 |
| UNITED HEALTHCARE CORP | 06/27/19 | 2.481% | 07/31/19 | 49,901,500 | 49,896,875 |
| UNITED HEALTHCARE CORP | 06/19/19 | 2.573% | 08/19/19 | 39,872,800 | 39,862,800 |
| UNITED HEALTHCARE CORP | 06/20/19 | 2.562% | 08/21/19 | 74,751,750 | 74,733,313 |
| Total Commercial Paper | | | | \$ 1,847,877,454 | \$ 1,846,697,319 |

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Portfolio of Investments (Continued)
June 30, 2019**

| | Fair Value |
|-------------------------------------|---------------------------|
| Money Market Mutual Funds | |
| Goldman Sachs Fin Sq Govt | \$ 50,000,000 |
| Legg Mason Western Asset Inst Govt | 1,316,500 |
| Morgan Stanley Liq Govt Inst | 5,693,817 |
| Northern Inst'l Fds Life 2015 R-5 | 10,000,300 |
| Invesco Aim Govt & Agency Portfolio | <u>333,169,515</u> |
| Total Money Market Mutual Funds | <u>\$ 400,180,132</u> |

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Portfolio of Investments (Continued)
June 30, 2019**

| | Execution Date | Effective Yield | Maturity Date | Fair Value | Carrying Value |
|--|-------------------|--------------------|------------------|-----------------------|-----------------------|
| United States Treasury Obligations | | | | | |
| U.S. Treasury Notes | | | | | |
| Treasury Notes | 03/13/19 | 2.431% | 08/31/19 | \$ 14,974,200 | \$ 14,968,647 |
| Treasury Notes | 03/11/19 | 2.484% | 09/30/19 | \$ 24,973,750 | \$ 24,951,942 |
| Treasury Notes | 02/06/19 | 2.422% | 08/31/19 | 14,968,050 | 14,963,099 |
| Treasury Notes* | 09/27/18 | 2.206% | 06/29/19 | 19,978,800 | 20,000,000 |
| Total U.S. Treasury Notes | | | | <u>\$ 74,894,800</u> | <u>\$ 74,883,688</u> |
| International Notes | | | | | |
| Supranational Notes | | | | | |
| Inter American Development Bank | 06/19/19 | 2.439% | 09/13/19 | \$ 14,995,650 | \$ 15,000,462 |
| Inter American Dev Bk Global Mtn Fr | 08/13/18 | 2.529% | 09/12/19 | 5,648,433 | 5,644,716 |
| International Bank for Recon & Gbl | 05/29/19 | 2.560% | 10/07/19 | 77,320,064 | 77,228,922 |
| International Bank for Recon & Gbl | 07/19/18 | 2.310% | 07/26/19 | 9,991,600 | 9,991,765 |
| International Bank for Recon & Gbl | 03/05/19 | 2.544% | 08/15/19 | 33,477,607 | 33,472,363 |
| International Bank for Recon & Sr Gbl NT 19 | 12/13/18 | 2.691% | 11/27/19 | 14,932,500 | 14,902,079 |
| International Bank for Recon & Development | 06/28/18 | 2.506% | 07/19/19 | 5,500,000 | 5,500,000 |
| International Bank for Recon & Development Gbl | 06/13/19 | 2.431% | 07/18/19 | 15,998,880 | 16,002,000 |
| International Financial Corporation | 01/23/19 | 2.608% | 09/16/19 | 21,976,240 | 21,957,365 |
| International Financial Corporation | 09/07/18 | 2.456% | 07/08/19 | 19,995,600 | 20,000,000 |
| International Financial Corporation | 06/04/19 | 2.348% | 12/06/19 | 14,863,800 | 14,847,267 |
| Total Supranational Notes | | | | <u>\$ 234,700,374</u> | <u>\$ 234,546,939</u> |

**These investments have a callable or floating interest rate reset date of 6/29/19 used for the calculation of the Weighted Average Maturity and do not reflect the end of maturity.*

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Portfolio of Investments (Continued)
June 30, 2019**

| | Execution Date | Effective Yield | Maturity Date | Fair Value | Carrying Value |
|---|-------------------|--------------------|------------------|-----------------------|-----------------------|
| Corporate Bonds | | | | | |
| Apple Inc | 04/05/19 | 2.623% | 08/02/19 | \$ 8,291,700 | \$ 8,288,773 |
| Bank New York Mtn Bk Ent | 01/29/19 | 2.816% | 08/11/19 | 27,500,825 | 27,484,404 |
| Bank New York Mtn Bk Ent | 04/22/19 | 2.671% | 01/24/20 | 21,059,809 | 21,017,894 |
| Chevron Corp | 04/25/19 | 2.617% | 02/03/20 | 41,323,188 | 41,247,993 |
| Honeywell International Inc | 05/17/19 | 2.573% | 07/30/19 | 3,157,871 | 3,158,564 |
| Honeywell International Inc | 05/14/19 | 2.506% | 10/30/19 | 1,697,008 | 1,695,862 |
| Microsoft Corp | 04/12/19 | 2.648% | 01/12/20 | 5,988,240 | 5,974,902 |
| Microsoft Corp | 04/16/19 | 2.527% | 08/08/19 | 17,469,187 | 17,463,705 |
| Pepsico Inc | 05/13/19 | 2.556% | 01/15/20 | 3,162,594 | 3,157,239 |
| US Bank | 04/17/19 | 2.886% | 09/28/19 | 50,101,426 | 50,036,896 |
| US Bank | 05/09/19 | 2.719% | 12/24/19 | 39,576,657 | 39,475,741 |
| US Bank | 04/25/19 | 2.646% | 12/23/19 | 57,202,013 | 57,096,403 |
| Total Corporate Bonds | | | | <u>\$ 276,530,518</u> | <u>\$ 276,098,376</u> |
| United States Agency Obligations | | | | | |
| Federal Home Loan Mortgage Corporation Notes | | | | | |
| Federal Home Loan Mortgage Corporation Notes | 03/07/19 | 1.497% | 09/27/19 | \$ 21,966,560 | \$ 22,000,000 |
| Federal Home Loan Mortgage Corporation Notes | 04/08/19 | 2.553% | 07/02/19 | 55,000,550 | 54,999,947 |
| Federal Home Loan Mortgage Corporation Notes | 04/08/19 | 2.475% | 07/08/19 | 25,001,750 | 25,000,000 |
| Federal Home Loan Mortgage Corporation Notes | 04/22/19 | 2.548% | 07/22/19 | 25,005,750 | 25,000,000 |
| Federal Home Loan Mortgage Corporation Notes | 06/06/19 | 2.399% | 06/04/20 | 25,004,250 | 25,004,514 |
| Federal Home Loan Mortgage Corporation Notes | 06/12/19 | 2.407% | 09/12/19 | 24,981,750 | 25,000,000 |
| Federal Home Loan Mortgage Corporation Notes | 12/10/18 | 2.591% | 08/15/19 | 24,973,250 | 24,960,552 |
| Total Federal Home Loan Mortgage Corporation Notes | | | | <u>\$ 201,933,860</u> | <u>\$ 201,965,013</u> |
| Federal Home Loan Bank Discount Notes | | | | | |
| Federal Home Loan Bank Discount Notes | 06/04/19 | 2.349% | 09/03/19 | \$ 14,942,400 | \$ 14,937,733 |
| Federal Home Loan Bank Discount Notes | 06/04/19 | 2.342% | 09/27/19 | 19,894,400 | 19,886,334 |
| Total Federal Home Loan Bank Discount Notes | | | | <u>\$ 34,836,800</u> | <u>\$ 34,824,067</u> |

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Portfolio of Investments (Continued)
June 30, 2019**

| | Execution Date | Effective Yield | Maturity Date | Fair Value | Carrying Value |
|--|-------------------|--------------------|------------------|-----------------------|-----------------------|
| Federal National Mortgage Association Debentures | | | | | |
| Federal National Mortgage Association Debentures | 09/25/18 | 1.049% | 07/12/19 | \$ 12,995,060 | \$ 13,000,000 |
| Total Federal National Mortgage Association Debentures | | | | <u>\$ 12,995,060</u> | <u>\$ 13,000,000</u> |
| Federal Farm Credit Bureau Debentures | | | | | |
| Federal Farm Credit Bureau Bullet Notes | 09/12/18 | 2.504% | 07/05/19 | \$ 9,998,700 | \$ 9,998,368 |
| Federal Farm Credit Bureau Bullet Notes* | 01/19/18 | 2.471% | 06/29/19 | 24,992,250 | 25,000,000 |
| Federal Farm Credit Bureau Bullet Notes* | 01/05/18 | 2.476% | 06/29/19 | 24,993,250 | 25,000,000 |
| Federal Farm Credit Bureau Bullet Notes* | 01/04/18 | 2.484% | 06/29/19 | 24,995,250 | 25,000,000 |
| Federal Farm Credit Bureau Bullet Notes* | 01/03/18 | 2.455% | 06/29/19 | 24,996,750 | 25,000,000 |
| Federal Farm Credit Bureau Bullet Notes* | 01/23/18 | 2.460% | 06/29/19 | 14,997,600 | 15,000,000 |
| Federal Farm Credit Bureau Bullet Notes | 07/12/17 | 2.323% | 07/12/19 | 24,999,500 | 25,000,000 |
| Federal Farm Credit Bureau Bullet Notes* | 08/08/17 | 2.344% | 06/29/19 | 15,000,300 | 15,000,000 |
| Federal Farm Credit Bureau Bullet Notes | 01/25/18 | 2.350% | 07/25/19 | 14,997,600 | 15,000,000 |
| Federal Farm Credit Bureau Bullet Notes | 09/24/18 | 2.228% | 07/02/19 | 14,991,600 | 15,000,000 |
| Federal Farm Credit Bureau Bullet Notes | 10/11/18 | 2.580% | 07/01/19 | 15,011,850 | 15,000,000 |
| Federal Farm Credit Bureau Bullet Notes* | 04/30/18 | 2.407% | 06/30/19 | 9,996,800 | 10,000,000 |
| Federal Farm Credit Bureau Bullet Notes | 04/30/18 | 2.648% | 07/01/19 | 10,005,200 | 10,000,000 |
| Federal Farm Credit Bureau Bullet Notes | 05/25/18 | 2.356% | 07/25/19 | 14,995,350 | 15,000,000 |
| Federal Farm Credit Bureau Bullet Notes* | 06/27/18 | 2.526% | 06/29/19 | 25,009,000 | 25,005,490 |
| Federal Farm Credit Bureau Bullet Notes | 06/11/18 | 2.633% | 07/01/19 | 15,014,100 | 15,000,000 |
| Federal Farm Credit Bureau Bullet Notes | 06/27/18 | 2.359% | 07/27/19 | 14,991,000 | 15,000,000 |
| Federal Farm Credit Bureau Bullet Notes | 12/04/18 | 2.439% | 08/16/19 | 15,483,415 | 15,500,000 |
| Federal Farm Credit Bureau Bullet Notes | 07/25/18 | 2.590% | 07/01/19 | 10,008,900 | 10,000,000 |
| Federal Farm Credit Bureau Bullet Notes | 08/01/18 | 2.399% | 07/01/19 | 24,974,750 | 25,000,000 |
| Federal Farm Credit Bureau Bullet Notes | 12/04/18 | 2.428% | 07/27/19 | 14,994,300 | 14,994,740 |
| Federal Farm Credit Bureau Bullet Notes* | 08/17/18 | 2.197% | 06/29/19 | 14,993,550 | 15,000,000 |
| Federal Farm Credit Bureau Bullet Notes | 11/30/18 | 2.448% | 08/30/19 | 24,974,750 | 25,000,000 |
| Federal Farm Credit Bureau Bullet Notes | 12/04/18 | 2.747% | 12/04/19 | 10,037,300 | 10,000,000 |
| Federal Farm Credit Bureau Bullet Notes | 09/11/18 | 2.626% | 07/01/19 | 20,023,800 | 20,000,000 |
| Total Federal Farm Credit Bureau Debentures | | | | <u>\$ 435,476,865</u> | <u>\$ 435,498,598</u> |

**These investments have a callable or floating interest rate reset date of 6/29/19 used for the calculation of the Weighted Average Maturity and do not reflect the end of maturity.*

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Portfolio of Investments (Continued)
June 30, 2019**

| | Execution Date | Effective Yield | Maturity Date | Fair Value | Carrying Value |
|---|-------------------|--------------------|------------------|-----------------------|-----------------------|
| Farm Credit Discount Notes | | | | | |
| Farm Credit Discount Notes | 09/11/18 | 2.527% | 08/07/19 | \$ 19,954,600 | \$ 19,949,228 |
| Farm Credit Discount Notes | 11/02/18 | 2.693% | 09/16/19 | 19,907,600 | 19,887,494 |
| Total Farm Credit Discount Notes | | | | <u>\$ 39,862,200</u> | <u>\$ 39,836,722</u> |
| Federal Home Loan Bank Debentures | | | | | |
| Federal Home Loan Bank Notes | 07/11/17 | 2.451% | 07/11/19 | \$ 15,000,450 | \$ 15,000,000 |
| Federal Home Loan Bank Notes | 08/08/17 | 2.391% | 07/08/19 | 24,998,750 | 25,000,000 |
| Federal Home Loan Bank Notes | 01/12/18 | 2.323% | 07/12/19 | 14,999,700 | 15,000,000 |
| Federal Home Loan Bank Notes | 06/27/19 | 2.250% | 07/26/19 | 35,000,700 | 35,001,501 |
| Federal Home Loan Bank Notes | 04/23/18 | 2.373% | 07/23/19 | 14,996,850 | 15,000,000 |
| Federal Home Loan Bank Notes | 08/10/18 | 2.381% | 07/10/19 | 24,986,000 | 25,000,000 |
| Federal Home Loan Bank Notes | 08/15/18 | 2.388% | 07/07/19 | 19,989,000 | 20,000,000 |
| Federal Home Loan Bank Notes | 08/10/18 | 2.372% | 08/10/19 | 24,988,500 | 25,000,000 |
| Federal Home Loan Bank Notes | 10/29/18 | 2.358% | 08/16/19 | 44,999,100 | 44,998,457 |
| Federal Home Loan Bank Notes | 08/27/18 | 2.387% | 08/24/19 | 24,992,250 | 25,000,000 |
| Federal Home Loan Bank Notes | 03/19/19 | 2.553% | 12/19/19 | 20,019,800 | 20,000,000 |
| Federal Home Loan Bank Notes | 04/03/19 | 2.475% | 10/03/19 | 25,000,500 | 25,000,000 |
| Federal Home Loan Bank Notes | 04/02/19 | 2.558% | 07/02/19 | 15,000,150 | 14,999,983 |
| Federal Home Loan Bank Notes | 04/09/19 | 2.558% | 07/03/19 | 35,000,350 | 35,000,000 |
| Federal Home Loan Bank Notes* | 06/11/19 | 2.456% | 06/29/19 | 49,993,000 | 50,000,000 |
| Federal Home Loan Bank Notes | 06/17/19 | 2.407% | 06/17/20 | 15,001,050 | 15,000,000 |
| Federal Home Loan Bank Notes* | 06/20/19 | 2.469% | 06/29/19 | 24,996,250 | 25,000,000 |
| Federal Home Loan Bank Notes* | 06/21/19 | 2.495% | 06/29/19 | 19,994,200 | 20,000,000 |
| Total Federal Home Loan Bank Debentures | | | | <u>\$ 449,956,600</u> | <u>\$ 449,999,941</u> |

*These investments have a callable or floating interest rate reset date of 6/29/19 used for the calculation of the Weighted Average Maturity and do not reflect the end of maturity.

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Condensed Statement of Fiduciary Net Position by Investor Type and
Condensed Statement of Changes in Fiduciary Net Position by Investor Type
June 30, 2019
(Expressed in thousands)**

CONDENSED STATEMENT OF FIDUCIARY NET POSITION BY INVESTOR TYPE
June 30, 2019

| | Total | Internal | External |
|--------------------------|---------------------|---------------------|---------------------|
| Assets | | | |
| Cash equivalents | \$ 2,774,439 | \$ 1,043,173 | \$ 1,731,266 |
| Deposits and investments | 2,833,507 | 873,630 | 1,959,877 |
| Interest receivable | 7,380 | 2,522 | 4,858 |
| | 5,615,326 | 1,919,325 | 3,696,001 |
| Liabilities | | | |
| Bank custodial fees | 344 | 117 | 227 |
| State management fees | 225 | 77 | 148 |
| Net position | <u>\$ 5,614,757</u> | <u>\$ 1,919,131</u> | <u>\$ 3,695,626</u> |

CONDENSED STATEMENT OF CHANGES IN FIDUCIARY
NET POSITION BY INVESTOR TYPE
For the Year Ended June 30, 2019

| | Total | Internal | External |
|-----------------------------------|---------------------|---------------------|---------------------|
| Subscriptions and reinvestments | \$ 26,156,824 | \$ 11,382,162 | \$ 14,774,662 |
| Investment earnings | 136,611 | 44,501 | 92,110 |
| Investment expense | (5,248) | (1,794) | (3,454) |
| Redemptions | (26,112,575) | (11,558,972) | (14,553,603) |
| Dividends to participants | (131,363) | (41,815) | (89,548) |
| Change in net position and shares | 44,249 | (175,918) | 220,167 |
| Beginning net position | 5,570,508 | 2,095,049 | 3,475,459 |
| Ending net position | <u>\$ 5,614,757</u> | <u>\$ 1,919,131</u> | <u>\$ 3,695,626</u> |

OTHER INFORMATION

**The Illinois Funds
Local Government Investment Pool Investment Policy Statement
(Effective March 2018)
(Unaudited)**

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Local Government Investment Pool Investment Policy Statement
(Effective March 2018)
(Unaudited)**

1.0 POLICY

The Illinois State Treasurer's Office ("Treasurer") has authority under Section 17 of the State Treasurer's Act (15 ILCS 505/17) to establish and administer a Public Treasurer's Investment Pool to supplement and enhance investment opportunities otherwise available to custodians of public funds for public agencies in the State of Illinois. The Public Treasurer's Investment Pool is a local government investment pool known as "The Illinois Funds." Under this instrument, The Illinois Funds Local Government Investment Pool Investment Policy Statement ("Policy"), it is the policy of the Treasurer to invest funds pooled by local and State custodians of public funds for public agencies in The Illinois Funds in a manner that will provide safety to the principal investment, meet the daily cash flow demands of participants, and seek the highest investment return, using authorized instruments in accordance with all State statutes governing the investment of public funds. It is the policy of The Illinois Funds to operate in a manner consistent with Securities and Exchange Commission Rule 2a7 (17 CFR § 270.2a-7).

2.0 OBJECTIVE

The primary objective in the investment of funds within The Illinois Funds is the safety of principal. In addition, it is the Treasurer's objective to provide all participants daily access to the invested funds and a competitive rate of return, while prudently exercising ethical and social stewardship in its investment decision-making.

2.1 Safety

The safety of principal is the foremost objective of the investment program. The Illinois Funds' investments shall be undertaken in a manner that seeks to ensure the preservation of principal in the portfolio. To obtain this objective, diversification among permissible investments is required to ensure that The Illinois Funds properly manages market, interest rate, and credit risks.

2.2 Liquidity

The investment portfolio shall remain sufficiently liquid to enable The Illinois Funds to meet all participant redemption demands that might be reasonably anticipated.

2.3 Return on Investment

The investment portfolio shall be designed to obtain the highest available return. The Treasurer 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.

The Treasurer will select accepted industry benchmarks that best reflect The Illinois Funds' portfolio and measure performance against those benchmarks over time. The benchmarks shall be reviewed a minimum of every two (2) years to ensure accuracy and relevance.

2.4 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.

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Local Government Investment Pool Investment Policy Statement
(Effective March 2018)
(Unaudited)**

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.

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 Illinois Funds’ 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.

3.0 ETHICS AND CONFLICTS OF INTEREST

Authorized investment staff and employees in policy-making positions for The Illinois Funds shall refrain from engaging in 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 or broker/dealers that conduct business within the State. They shall further disclose any personal investments that are related to the performance of The Illinois Funds’ portfolio. In addition, such individuals shall subordinate their personal investment transactions to those of The Illinois Funds, particularly with regard to the time of purchases and sales.

4.0 AUTHORIZED BROKERS/DEALERS AND FINANCIAL INSTITUTIONS

Authorized investment staff shall utilize the Treasurer’s approved list of broker/dealers and financial institutions when selecting institutions to provide investment services.

No monies may be deposited in any financial institution until the Treasurer’s credit review team has 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 \$25,000. 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 10.0 of this Policy. No public deposit

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Local Government Investment Pool Investment Policy Statement
(Effective March 2018)
(Unaudited)**

may be made, except in a qualified public depository, as defined by the Deposit of State Moneys Act (15 ILCS 520/1 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 credit worthiness and their financial significance in the State, which shall be measured in terms of the location of the broker/dealer's corporate office, or the extent to which the broker/dealer has a large labor or economic impact on the State. The approved broker/dealers may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 17 CFR § 15Cc3-1 (Net Capital Requirements for Brokers or Dealers).

All brokers/dealers interested in becoming qualified parties for investment transactions must supply the Treasurer's authorized investment staff with the following documents or the equivalent acceptable to the Treasurer, 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 National and State of Illinois registration;
- e) Completed Broker/Dealer and Authorized Counterparty Questionnaire;
- f) Certification of notice and acknowledgment of this Policy; and
- g) Any other documentation deemed necessary by the Treasurer.

To the greatest extent feasible within the bounds of financial and fiduciary prudence, the Treasurer shall seek to provide preference to qualified 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.

To the greatest extent feasible within the bounds of financial and fiduciary prudence, the Treasurer shall also seek to accord preference to qualified brokers/dealers that provide proof that their corporate headquarters is located in the State of Illinois. 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 parties and investments will be conducted by the Treasurer's authorized investment staff. More frequent reviews may be conducted.

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Local Government Investment Pool Investment Policy Statement
(Effective March 2018)
(Unaudited)**

5.0 AUTHORIZED AND SUITABLE INVESTMENTS

The following investments are permitted investments of The Illinois Funds, pursuant to the Deposit of State Moneys Act (15 ILCS 520/22.5) and the Public Funds Investment Act (30 ILCS 235/2), and are authorized to the extent they are approved by Standard & Poor's for AAAm rated funds:

- a) Bonds, notes, certificates of indebtedness, treasury bills or other securities now or hereafter issued that are guaranteed by the full faith and credit of the United States of America ("United States") as to principal and interest;
- b) Bonds, notes, debentures, or similar obligations of the United States or its agencies;
- c) Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986, subject to the provisions of such Act and the regulations issued thereunder;
- d) 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);
- e) Money market mutual funds registered under the Investment Company Act of 1940, provided the portfolio of any such money market mutual fund is limited to United States Treasury and United States Agency Securities, and agreements to repurchase such obligations, provided the funds are 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);
- f) 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 the time of purchase at one (1) 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, 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;
- g) Bonds issued by counties or municipal corporations of the State of Illinois;
- h) Interest-bearing savings accounts, interest-bearing certificates of deposit, interest-bearing time deposits or any other investments constituting direct obligations of any bank as defined by the Illinois Banking Act (205 ILCS 5/1 et seq.);
- i) Suitable securities in The Illinois Funds portfolio may be lent in accordance with the Federal Financial Institution Examination Council Guidelines; and
- j) 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). At the time of purchase, the maturity – date(s) of the obligations authorized by this subsection shall not be less than 270 days and shall not exceed five years.

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Local Government Investment Pool Investment Policy Statement
(Effective March 2018)
(Unaudited)**

6.0 INVESTMENT RESTRICTIONS

The following restrictions will apply to all The Illinois Funds investment transactions:

- a) Investments in derivative products and leveraging of assets through reverse repurchase agreements are prohibited;
- b) Repurchase agreements may only be executed with financial institutions or broker/dealers that meet the Treasurer's standards, which will 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) There will be no investments in mortgage-backed securities of any kind;
- g) There will be no investments in asset-backed securities of any kind;
- h) Certificates of deposit may not be purchased from The Illinois Funds' custodial institution or any of its subcontractors;
- i) Investments in bankers' acceptances of any kind are prohibited;
- j) Asset-backed commercial paper is prohibited;
- k) 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;
- l) 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
- m) The authorization of the Treasurer to invest in new obligations under Section 5.0(j) of this Policy shall expire on June 30, 2019.

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Local Government Investment Pool Investment Policy Statement
(Effective March 2018)
(Unaudited)**

6.1 Operational Requirements

Pursuant to Securities and Exchange Commission Rule 2a7 (17 CFR § 270.2a-7), the Treasurer shall:

- a) Maintain and execute standard operating procedures for deviations beyond the normal net asset value (“NAV”) of The Illinois Funds; and
- b) Annually complete a checklist that clarifies the intention of the Treasurer to operate The Illinois Funds as a Securities and Exchange Commission Rule 2a7-like fund.

7.0 RATINGS CRITERIA

The Illinois Funds strives to achieve AAAM fund rating guidelines. As such, the fund will meet and abide by the guidelines for a AAAM fund rating from a “Nationally Recognized Statistical Rating Organization” (NRSRO).

8.0 COLLATERALIZATION

All The Illinois Funds deposits and repurchase agreements shall be secured by direct U.S. Treasury and/or U.S. Agency obligations as required by the Treasurer and provided for by the Deposit of State Moneys Act (15 ILCS 520/1 et seq.) and the Treasurer’s Acceptable Collateral Listing, which may change from time to time.

9.0 SAFEKEEPING AND CUSTODY

All direct treasury, agency and instrumentality security transactions entered into by The Illinois Funds 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. Commercial paper will settle daily with the Depository Trust Company.

10.0 DIVERSIFICATION

The primary purpose of diversification in general is to control credit and market risk. The Illinois Funds portfolio will be diversified to eliminate the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer or a specific class of securities. The majority of The Illinois Funds’ investments will be in direct obligations of the United States Treasury and United States Government Agencies and Instrumentalities and cash equivalents as listed in Section 5.0 of this Policy. In order to properly manage any risk that may be attendant to the investment of The Illinois Funds assets, The Illinois Funds portfolio will observe the following diversification guidelines, at the time of purchase:

- a) The Illinois Funds will seek to achieve diversification in the portfolio by reasonably distributing investments within authorized investment categories, and with issuers and brokers/dealers.
- b) The Illinois Funds shall at no time hold certificates of deposit constituting more than 10% of any single financial institution's total deposits.
- c) The Illinois Funds 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.

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Local Government Investment Pool Investment Policy Statement
(Effective March 2018)
(Unaudited)**

- 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 The Illinois Funds will invest no more than 50% of its total assets in securities with maturities greater than thirty (30) days issued by any single permissible United States government agency or instrumentality;
 - ii The Illinois Funds will invest no more than 5% of its total assets in securities issued by any single commercial paper issuer;
 - iii The Illinois Funds will invest no more than 1/3 of its total assets in direct commercial paper obligations not to exceed 270 days to maturity at the time of purchase;
 - iv A maximum of 25% of total assets may be invested in any approved AAAM Money Market Fund;
 - v The Illinois Funds shall invest a minimum of 75% of its assets in authorized investments of less than one-year maturity. No investment shall exceed two (2) years maturity; and
 - vi No more than 5% of The Illinois Funds shall be invested in obligations of corporations or limited liability companies as defined by Section 5.0(j) of this Policy.

11.0 INTERNAL CONTROLS

The Treasurer shall establish a system of internal controls, which shall be documented in writing and filed with the Treasurer's Chief Internal Auditor for review. The controls shall be designed to prevent loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by authorized investment staff of The Illinois Funds.

The Treasurer shall publish the current investment policy on The Illinois Funds website and in accordance with applicable statutes.

12.0 ASSET ALLOCATION

The Treasurer shall approve asset allocation among investment categories authorized under Section 5.0 of this Policy.

13.0 COMPETITIVE BIDDING

Authorized investment staff shall obtain competitive bids from at least three (3) brokers/dealers prior to executing repurchase agreements, purchasing United States Treasury securities, United States government agency or instrumentality securities, obligations of either corporations or limited liability companies, bonds issued by counties or municipal corporations of the State of Illinois, or commercial paper from a broker/dealer. Reverse inquiry investments, investments in a new issue, and investments defined under Section 5(a)-(b) of this Policy purchased from the agency discount window are exempt from this

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Local Government Investment Pool Investment Policy Statement
(Effective March 2018)
(Unaudited)**

provision. Certificates of deposit shall be purchased by authorized investment staff on the basis of a financial institution's ability to pay the Treasurer's required interest rate.

14.0 LIABILITY

Authorized investment staff, acting in accordance with written procedures and this Policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments. The Treasurer is bonded to a level of \$150,000 for the faithful performance of duties in relation to The Illinois Funds.

15.0 REPORTING

Reports shall be made available quarterly by the Director of The Illinois Funds to the Treasurer and The Illinois Funds participants. The quarterly report shall contain the following:

- a) The performance of The Illinois Funds as compared to the established benchmark;
- b) Asset allocation;
- c) Any deviation from the standards established in Section 10.0 of this Policy;
- d) Any change in investment policy adopted during the quarter; and
- e) The average number of days to maturity.

A listing of all investments in the portfolio marked to market shall be made available to the Treasurer and The Illinois Funds participants annually.

16.0 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 monies;
- b) The Treasurer reasonably believes that deviating from this Policy is in the best interest of the participants;
- 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, if applicable;

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Local Government Investment Pool Investment Policy Statement
(Effective March 2018)
(Unaudited)**

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

17.0 STATUTORY REFERENCES

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

18.0 AMENDMENTS

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

**The Illinois Funds
Local Government Investment Pool Investment Policy Statement
(Effective September 2017 through March 2018)
(Unaudited)**

**State of Illinois
Office of the Treasurer**

**Illinois Funds
Local Government Investment Pool Investment Policy Statement
(Effective September 2017 through March 2018)
(Unaudited)**

1.0 POLICY

The Illinois State Treasurer's Office ("Treasurer") has authority under Section 17 of the State Treasurer's Act (15 ILCS 505/17) to establish and administer a Public Treasurer's Investment Pool to supplement and enhance investment opportunities otherwise available to custodians of public funds for public agencies in the State of Illinois. The Public Treasurer's Investment Pool is a local government investment pool known as "The Illinois Funds." Under this instrument, The Illinois Funds Local Government Investment Pool Investment Policy Statement ("Policy"), it is the policy of the Treasurer to invest funds pooled by local and State custodians of public funds for public agencies in The Illinois Funds in a manner that will provide safety to the principal investment, meet the daily cash flow demands of participants, and seek the highest investment return, using authorized instruments in accordance with all State statutes governing the investment of public funds. It is the policy of The Illinois Funds to operate in a manner consistent with Securities and Exchange Commission Rule 2a7 (17 CFR § 270.2a-7).

2.0 OBJECTIVE

The primary objective in the investment of funds within The Illinois Funds is the safety of principal. In addition, it is the Treasurer's objective to provide all participants daily access to the invested funds and a competitive rate of return, while prudently exercising ethical and social stewardship in its investment decision-making.

2.1 Safety

The safety of principal is the foremost objective of the investment program. The Illinois Funds' investments shall be undertaken in a manner that seeks to ensure the preservation of principal in the portfolio. To obtain this objective, diversification among permissible investments is required to ensure that The Illinois Funds properly manages market, interest rate, and credit risks.

2.2 Liquidity

The investment portfolio shall remain sufficiently liquid to enable The Illinois Funds to meet all participant redemption demands that might be reasonably anticipated.

2.3 Return on Investment

The investment portfolio shall be designed to obtain the highest available return. The Treasurer 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.

The Treasurer will select accepted industry benchmarks that best reflect The Illinois Funds' portfolio and measure performance against those benchmarks over time. The benchmarks shall be reviewed a minimum of every two (2) years to ensure accuracy and relevance.

2.4 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.

**State of Illinois
Office of the Treasurer**

**Illinois Funds
Local Government Investment Pool Investment Policy Statement
(Effective September 2017 through March 2018)
(Unaudited)**

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.

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 Illinois Funds’ 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.

3.0 ETHICS AND CONFLICTS OF INTEREST

Authorized investment staff and employees in policy-making positions for The Illinois Funds shall refrain from engaging in 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 or broker/dealers that conduct business within the State. They shall further disclose any personal investments that are related to the performance of The Illinois Funds’ portfolio. In addition, such individuals shall subordinate their personal investment transactions to those of The Illinois Funds, particularly with regard to the time of purchases and sales.

4.0 AUTHORIZED BROKERS/DEALERS AND FINANCIAL INSTITUTIONS

Authorized investment staff shall utilize the Treasurer’s approved list of broker/dealers and financial institutions when selecting institutions to provide investment services.

No monies may be deposited in any financial institution until the Treasurer’s credit review team has 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. No public deposit may be made, except in a qualified public depository, as defined by the Deposit of State Moneys Act (15 ILCS 520/1 *et seq.*).

**State of Illinois
Office of the Treasurer**

**Illinois Funds
Local Government Investment Pool Investment Policy Statement
(Effective September 2017 through March 2018)
(Unaudited)**

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 credit worthiness and their financial significance in the State, which shall be measured in terms of the location of the broker/dealer's corporate office, or the extent to which the broker/dealer has a large labor or economic impact on the State. The approved broker/dealers may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 17 CFR § 15Cc3-1 (Net Capital Requirements for Brokers or Dealers).

All brokers/dealers interested in becoming qualified parties for investment transactions must supply the Treasurer's authorized investment staff with the following documents or the equivalent acceptable to the Treasurer, 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 National and State of Illinois registration;
- e) Completed Broker/Dealer and Authorized Counterparty Questionnaire;
- f) Certification of notice and acknowledgment of this Policy; and
- g) Any other documentation deemed necessary by the Treasurer.

To the greatest extent feasible within the bounds of financial and fiduciary prudence, the Treasurer shall seek to provide preference to qualified 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.

To the greatest extent feasible within the bounds of financial and fiduciary prudence, the Treasurer shall also seek to accord preference to qualified brokers/dealers that provide proof that their corporate headquarters is located in the State of Illinois. 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 parties and investments will be conducted by the Treasurer's authorized investment staff. More frequent reviews may be conducted.

5.0 AUTHORIZED AND SUITABLE INVESTMENTS

The following investments are permitted investments of The Illinois Funds, pursuant to the Deposit of State Moneys Act (15 ILCS 520/22.5) and the Public Funds Investment Act (30 ILCS 235/2), and are authorized to the extent they are approved by Standard & Poor's for AAAM rated funds:

- a) Bonds, notes, certificates of indebtedness, treasury bills or other securities now or hereafter issued that are guaranteed by the full faith and credit of the United States of America ("United States") as to principal and interest;

**State of Illinois
Office of the Treasurer**

**Illinois Funds
Local Government Investment Pool Investment Policy Statement
(Effective September 2017 through March 2018)
(Unaudited)**

- b) Bonds, notes, debentures, or similar obligations of the United States or its agencies;
- c) Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986, subject to the provisions of such Act and the regulations issued thereunder;
- d) 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);
- e) Money market mutual funds registered under the Investment Company Act of 1940, provided the portfolio of any such money market mutual fund is limited to United States Treasury and United States Agency Securities, and agreements to repurchase such obligations, provided the funds are 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);
- f) 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 the time of purchase at one (1) 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, 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;
- g) Bonds issued by counties or municipal corporations of the State of Illinois;
- h) Interest-bearing savings accounts, interest-bearing certificates of deposit, interest-bearing time deposits or any other investments constituting direct obligations of any bank as defined by the Illinois Banking Act (205 ILCS 5/1 et seq.);
- i) Suitable securities in The Illinois Funds portfolio may be lent in accordance with the Federal Financial Institution Examination Council Guidelines; and
- j) 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 \$500,000,000m 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). 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 ten years.

6.0 INVESTMENT RESTRICTIONS

The following restrictions will apply to all The Illinois Funds investment transactions:

- a) Investments in derivative products and leveraging of assets through reverse repurchase agreements are prohibited;
- b) Repurchase agreements may only be executed with financial institutions or broker/dealers that meet the Treasurer's standards, which will include mutual execution of a Master Repurchase Agreement adopted by the Treasurer;

**State of Illinois
Office of the Treasurer**

**Illinois Funds
Local Government Investment Pool Investment Policy Statement
(Effective September 2017 through March 2018)
(Unaudited)**

- 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) There will be no investments in mortgage-backed securities of any kind;
- g) There will be no investments in asset-backed securities of any kind;
- h) Certificates of deposit may not be purchased from The Illinois Funds' custodial institution or any of its subcontractors;
- i) Investments in bankers' acceptances of any kind are prohibited;
- j) Any investments prohibited by Section 22.6 of the Deposit of State Moneys Act (15 ILCS 520/22.6) shall be prohibited;
- k) Asset-backed commercial paper is prohibited;
- l) 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;
- m) 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
- n) The authorization of the Treasurer to invest in new obligations under Section 5.0(j) of this Policy shall expire on June 30, 2019.

6.1 Operational Requirements

Pursuant to Securities and Exchange Commission Rule 2a7 (17 CFR § 270.2a-7), the Treasurer shall:

- a) Maintain and execute standard operating procedures for deviations beyond the normal net asset value ("NAV") of The Illinois Funds; and
- b) Annually complete a checklist that clarifies the intention of the Treasurer to operate The Illinois Funds as a Securities and Exchange Commission Rule 2a7-like fund.

**State of Illinois
Office of the Treasurer**

**Illinois Funds
Local Government Investment Pool Investment Policy Statement
(Effective September 2017 through March 2018)
(Unaudited)**

7.0 COLLATERALIZATION

All The Illinois Funds deposits and repurchase agreements shall be secured by direct U.S. Treasury and/or U.S. Agency obligations as required by the Treasurer and provided for by the Deposit of State Moneys Act (15 ILCS 520/1 *et seq.*) and the Treasurer's Acceptable Collateral Listing, which may change from time to time.

8.0 SAFEKEEPING AND CUSTODY

All direct treasury, agency and instrumentality security transactions entered into by The Illinois Funds 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. Commercial paper will settle daily with the Depository Trust Company.

9.0 DIVERSIFICATION

The primary purpose of diversification in general is to control credit and market risk. The Illinois Funds portfolio will be diversified to eliminate the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer or a specific class of securities. The majority of The Illinois Funds' investments will be in direct obligations of the United States Treasury and United States Government Agencies and Instrumentalities and cash equivalents as listed in Section 5.0 of this Policy. In order to properly manage any risk that may be attendant to the investment of The Illinois Funds assets, The Illinois Funds portfolio will observe the following diversification guidelines, at the time of purchase:

- a) The Illinois Funds will seek to achieve diversification in the portfolio by reasonably distributing investments within authorized investment categories, and with issuers and brokers/dealers.
- b) The Illinois Funds shall at no time hold certificates of deposit constituting more than 10% of any single financial institution's total deposits.
- c) The Illinois Funds 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.
- 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. The Illinois Funds will invest no more than 50% of its total assets in securities with maturities greater than thirty (30) days issued by any single permissible United States government agency or instrumentality;
 - ii. The Illinois Funds will invest no more than 5% of its total assets in securities issued by any single commercial paper issuer;
 - iii. The Illinois Funds will invest no more than 1/3 of its total assets in direct commercial paper obligations not to exceed 270 days to maturity at the time of purchase;

**State of Illinois
Office of the Treasurer**

**Illinois Funds
Local Government Investment Pool Investment Policy Statement
(Effective September 2017 through March 2018)
(Unaudited)**

- iv. A maximum of 25% of total assets may be invested in any approved AAAM Money Market Fund;
- v. The Illinois Funds shall invest a minimum of 75% of its assets in authorized investments of less than one-year maturity. No investment shall exceed two (2) years maturity; and
- vi. No more than 5% of The Illinois Funds shall be invested in obligations of corporations or limited liability companies as defined by Section 5.0(j) of this Policy.

10.0 INTERNAL CONTROLS

The Treasurer shall establish a system of internal controls, which shall be documented in writing and filed with the Treasurer's Chief Internal Auditor for review. The controls shall be designed to prevent loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by authorized investment staff of The Illinois Funds.

The Treasurer shall publish the current investment policy on The Illinois Funds website and in accordance with applicable statutes.

11.0 ASSET ALLOCATION

The Treasurer shall approve asset allocation among investment categories authorized under Section 5.0 of this Policy.

12.0 COMPETITIVE BIDDING

Authorized investment staff shall obtain competitive bids from at least three (3) brokers/dealers prior to executing repurchase agreements, purchasing United States Treasury securities, United States government agency or instrumentality securities, or commercial paper from a broker/dealer. Reverse inquiry investments, investments in a new issue, and investments defined under Section 5(a)-(b) of this Policy purchased from the agency discount window are exempt from this provision. Certificates of deposit shall be purchased by authorized investment staff on the basis of a financial institution's ability to pay the Treasurer's required interest rate.

13.0 LIABILITY

Authorized investment staff, acting in accordance with written procedures and this Policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments. The Treasurer is bonded to a level of \$150,000 for the faithful performance of duties in relation to The Illinois Funds.

14.0 REPORTING

Reports shall be made available quarterly by the Director of The Illinois Funds to the Treasurer and The Illinois Funds participants. The quarterly report shall contain the following:

- a) The performance of The Illinois Funds as compared to the established benchmark;
- b) Asset allocation;

**State of Illinois
Office of the Treasurer**

**Illinois Funds
Local Government Investment Pool Investment Policy Statement
(Effective September 2017 through March 2018)
(Unaudited)**

- c) Any deviation from the standards established in Section 9.0 of this Policy;
- d) Any change in investment policy adopted during the quarter; and
- e) The average number of days to maturity.

A listing of all investments in the portfolio marked to market shall be made available to the Treasurer and The Illinois Funds participants annually.

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 monies;
- b) The Treasurer reasonably believes that deviating from this Policy is in the best interest of the participants;
- 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, if applicable;
 - iii. The Section or Sections of this Policy that were affected by the emergency or use of emergency powers; and
 - iv. The reason for deviating 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.

**The Illinois Funds
Money Market Fund Investment Policy Statement
(Effective November 2016 through September 2017)
(Unaudited)**

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Money Market Fund Investment Policy Statement
(Effective November 2016 through September 2017)
(Unaudited)**

1.0 POLICY

The Illinois State Treasurer's Office ("Treasurer") has authority under Section 17 of the State Treasurer's Act (15 ILCS 505/17) to establish and administer an investment pool to supplement and enhance investment opportunities otherwise available to managers of public funds or public agencies in the state. It is the policy of the Treasurer to invest funds pooled by local governments in the Money Market Fund within The Illinois Funds (previously referred to as the "Illinois Public Treasurers' Investment Pool" or "IPTIP") in a manner that will provide the highest investment return using authorized instruments, while meeting the daily cash flow demands of participants and conforming to all state statutes governing the investment of public funds. It is the policy of The Illinois Funds Money Market Fund to operate in a manner consistent with Securities and Exchange Commission Rule 2a7 (17 CFR § 270.2a-7).

2.0 OBJECTIVE

The primary objective in the investment of funds within The Illinois Funds Money Market Fund is the safety of principal, while providing all participants a competitive rate of return and daily access to invested funds.

2.1 Safety

The safety of principal is the foremost objective of the investment program. The Illinois Funds Money Market Fund investments shall be undertaken in a manner that seeks to ensure the preservation of principal in the portfolio. To obtain this objective, diversification among permissible investments is required to ensure that The Illinois Funds Money Market Fund properly manages market, interest rate and credit risks.

2.2 Liquidity

The investment portfolio shall remain sufficiently liquid to enable The Illinois Funds Money Market Fund to meet all participant redemption demands that might be reasonably anticipated.

2.3 Return on Investment

While 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. The Portfolio Manager 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.

The Treasurer will select accepted industry benchmarks that best reflect The Illinois Funds Money Market Fund's portfolio and measure performance against certain benchmarks over time. 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.

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Money Market Fund Investment Policy Statement
(Effective November 2016 through September 2017)
(Unaudited)**

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 Illinois Funds Money Market Fund'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.

3.0 ETHICS AND CONFLICTS OF INTEREST

Authorized investment staff and employees in policy-making positions for The Illinois Funds Money Market Fund shall refrain from engaging in personal business activity that (a) conflicts, or give the appearance of a conflict, with proper execution of the investment program, or (b) impairs their ability to make impartial investment decisions. Such individuals shall disclose to the Treasurer any material financial interests in financial institutions or broker/dealers that conduct business within the State. They shall further disclose any personal investments that are related to the performance of The Illinois Funds Money Market Fund's portfolio. In addition, such individuals shall subordinate their personal investment transactions to those of The Illinois Funds Money Market Fund, particularly with regard to the time of purchase and sales.

4.0 AUTHORIZED BROKERS/DEALERS AND FINANCIAL INSTITUTIONS

Authorized investment staff shall utilize the Treasurer's approved list of broker/dealers and financial institutions when selecting institutions to provide investment services.

No monies may be deposited in any financial institution until the credit review team has 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

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Money Market Fund Investment Policy Statement
(Effective November 2016 through September 2017)
(Unaudited)**

the diversification limits set forth in Section 9.0 of this Policy. No public deposit may be made except in a qualified public depository as defined by the Deposit of State Moneys Act (15 ILCS 520/1 *et seq.*).

In addition, a list shall also be maintained of approved security brokers/dealers selected according to their credit worthiness, and their financial significance in the State, which shall be measured in terms of the location of the broker/dealer's corporate office and the extent to which the broker/dealer has a large labor or economic impact on the State. The approved broker/dealers may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 17 CFR § 15Cc3-1 (Net Capital Requirements for Brokers or Dealers).

All brokers/dealers interested in becoming qualified parties for investment transactions must supply the Treasurer's authorized investment staff with the following or equivalent acceptable to the Treasurer, 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 National and State of Illinois registration;
- e) Completed Broker/Dealer and Authorized Counterparty Questionnaire;
- f) Certification of notice and knowledge of this Policy; and
- g) Any other documentation determined necessary by the Treasurer.

To the greatest extent feasible within the bounds of financial and fiduciary prudence, the Treasurer's Office shall seek to accord preference to qualified 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.

To the greatest extent feasible within the bounds of financial and fiduciary prudence, the Treasurer's Office shall also seek to accord preference to qualified brokers/dealers that provide proof that their corporate headquarters is located in the State of Illinois. 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 parties and investments will be conducted by the Treasurer's authorized investment staff. More frequent reviews may be conducted.

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Money Market Fund Investment Policy Statement
(Effective November 2016 through September 2017)
(Unaudited)**

5.0 AUTHORIZED AND SUITABLE INVESTMENTS

The following investments are permitted investments of state funds according to the Deposit of State Moneys Act (15 ILCS 520/22.5) and the Public Funds Investment Act (30 ILCS 235/2) and are authorized to the extent they are approved by Standard & Poor's for AAAm rated funds:

- a) Bonds, notes, certificates of indebtedness, treasury bills or other securities now or hereafter issued that are guaranteed by the full faith and credit of the United States of America ("United States") as to principal and interest; Public Funds Investment Act (30 ILCS 235/2) and Deposit of State Moneys Act (15 ILCS 520/22.5);
- b) Bonds, notes, debentures, or similar obligations of the United States or its agencies; Public Funds Investment Act (30 ILCS 235/2) and Deposit of State Moneys Act (15 ILCS 520/22.5);
- c) Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986, subject to the provisions of such Act and the regulations issued thereunder; Public Funds Investment Act (30 ILCS 235/2) and Deposit of State Moneys Act (15 ILCS 520/22.5);
- d) 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;
- e) Money market mutual funds registered under the Investment Company Act of 1940, provided the portfolio of any such money market mutual fund is limited to United States Treasury and United States Agency Securities and agreements to repurchase such obligations provided the funds are rated AAA; Public Funds Investment Act (30 ILCS 235/2) and Deposit of State Moneys Act (15 ILCS 520/22.5);
- f) 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;
- g) Bonds issued by counties or municipal corporations of the State of Illinois; Deposit of State Moneys Act (15 ILCS 520/22.5);
- h) Interest-bearing savings accounts, interest-bearing certificates of deposit, interest-bearing time deposits or any other investments constituting direct obligations of any bank as defined by the Illinois Banking Act (205 ILCS 5/1 et seq.); Public Funds Investment Act (30 ILCS 235/2) and Deposit of State Moneys Act (15 ILCS 520/22.5);
- i) Suitable securities in The Illinois Funds Money Market Funds portfolio may be lent in accordance with the Federal Financial Institution Examination Council Guidelines, and

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Money Market Fund Investment Policy Statement
(Effective November 2016 through September 2017)
(Unaudited)**

- j) 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 INVESTMENT RESTRICTIONS

The following restrictions will apply to all The Illinois Funds Money Market Fund investment transactions:

- a) Investments in derivative products and leveraging of assets through reverse repurchase agreements are prohibited;
- b) Repurchase agreements may only be executed with financial institutions or broker/dealers meeting the Treasurer's standards, which will 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) There will be no investments in mortgage-backed securities of any kind;
- g) There will be no investments in asset-backed securities of any kind;
- h) Certificates of deposit may not be purchased from The Illinois Funds Money Market Fund's custodial institution or any of its subcontractors;
- i) Investments in Bankers' Acceptances of any kind are prohibited;
- j) There will be no investments prohibited by Section 22.6 of the Deposit of State Moneys Act (15 ILCS 520/22.6) shall be prohibited;
- k) Asset-backed commercial paper is prohibited;

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Money Market Fund Investment Policy Statement
(Effective November 2016 through September 2017)
(Unaudited)**

- l) 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;
- m) 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
- n) The authorization of the Treasurer to invest in new obligations under Section 5.0(j) of this Policy shall expire on June 30, 2019.

6.1 Operational Requirements

Pursuant to Securities and Exchange Commission Rule 2a7 (17 CFR § 270.2a-7), the Treasurer shall:

- a) Maintain and execute standard operating procedures for deviations beyond the normal Net Asset Value (NAV) of The Illinois Funds Money Market Fund; and
- b) Annually complete a checklist that clarifies the intention of the Treasurer to operate The Illinois Funds Money Market Fund as a Securities and Exchange Commission Rule 2a7-like fund.

7.0 COLLATERALIZATION

All The Illinois Funds Money Market Fund deposits and repurchase agreements shall be secured by direct U.S. Treasury and/or U.S. Agency obligations as required by the Treasurer and provided for by the Deposit of State Moneys Act (15 ILCS 520/1 *et seq.*) and the Treasurer's Acceptable Collateral Listing, which may change from time to time.

8.0 SAFEKEEPING AND CUSTODY

All direct treasury, agency and instrumentality security transactions entered into by The Illinois Funds Money Market Fund 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. Commercial Paper will settle daily with the Depository Trust Company.

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Money Market Fund Investment Policy Statement
(Effective November 2016 through September 2017)
(Unaudited)**

9.0 DIVERSIFICATION

The primary purpose of diversification in general is to control credit and market risk. The Illinois Funds Money Market Fund portfolio will be diversified to eliminate the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer or a specific class of securities. The majority of The Illinois Funds Money Market Fund investments will be in direct obligations of the United States Treasury and United States Government Agencies and Instrumentalities and cash equivalents as listed in Section 5.0 of this Policy. In order to properly manage any risk that may be attendant to the investment of The Illinois Funds Money Market Fund assets, The Illinois Funds Money Market Fund portfolio will observe the following diversification guidelines, at the time of purchase:

- a) The Illinois Funds Money Market Fund will seek to achieve diversification in the portfolio by reasonably distributing investments within authorized investment categories, and with issuers and brokers/dealers;
- b) The Illinois Funds Money Market Fund shall at no time hold certificates of deposit constituting more than 10% of any single financial institution's total deposits;
- c) The Illinois Funds Money Market Fund 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.
- 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. The Illinois Funds Money Market Fund will invest no more than 50% of its total assets in securities with maturities greater than 30 days issued by any single permissible United States Government Agency or Instrumentality;
 - ii. The Illinois Funds Money Market Fund will invest no more than 5% of its total assets in securities issued by any single Commercial Paper Issuer;
 - iii. The Illinois Funds Money Market Fund will invest no more than 1/3 of its total assets in direct Commercial Paper Obligations not to exceed 270 days to maturity at the time of purchase;
 - iv. A maximum of 25% of total assets may be invested in any approved AAAM Money Market Fund;
 - v. The Illinois Funds Money Market Fund shall invest a minimum of 75% of its assets in authorized investments of less than one-year maturity. No investment shall exceed two years maturity; and
 - vi. No more than 5% of The Illinois Funds Money Market Fund shall be invested in obligations of corporations or limited liability companies as defined by Section 5.0(k) of this Policy.

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Money Market Fund Investment Policy Statement
(Effective November 2016 through September 2017)
(Unaudited)**

10.0 INTERNAL CONTROLS

The Treasurer shall establish a system of internal controls, which shall be documented in writing and filed with the Treasurer's Chief Internal Auditor for review. The controls shall be designed to prevent loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, and/or imprudent actions by authorized investment staff of The Illinois Funds Money Market Fund.

The Treasurer shall publish the current investment policy on The Illinois Funds website and in accordance with applicable statutes.

11.0 ASSET ALLOCATION

The Treasurer shall approve asset allocation among investment categories authorized under Section 5.0 of this Policy.

12.0 COMPETITIVE BIDDING

Authorized investment staff shall obtain competitive bids from at least three brokers/dealers prior to executing repurchase agreements, purchasing United States Treasury securities, United States Government Agency or Instrumentality securities or Commercial Paper from a broker/dealer. Reverse inquiry investments and investments in a new issue are exempt from this provision. Certificates of deposit shall be purchased by authorized investment staff on the basis of a financial institution's ability to pay the Treasurer's required interest rate.

13.0 LIABILITY:

Authorized investment staff, acting in accordance with written procedures and this Policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments. The Treasurer is bonded to a level of \$150,000 for the faithful performance of duties in relations to the Illinois Public Treasurers' Investment Pool.

14.0 REPORTING:

Reports shall be made available quarterly by the Director of The Illinois Funds to the Treasurer and The Illinois Funds participants. The quarterly report shall contain the following:

- a) Performance as compared to the established benchmark;
- b) Asset allocation;
- c) Any deviation from the standards established in Section 9.0 of this Policy;
- d) Any change in investment policy adopted during the quarter; and
- e) The average days to maturity.

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Money Market Fund Investment Policy Statement
(Effective November 2016 through September 2017)
(Unaudited)**

A listing of all investments in the portfolio marked to market shall be made available to the Treasurer and The Illinois Funds participants annually.

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 monies;
- b) The Treasurer reasonably believes that deviating from the Policy is in the best interest of the participants;
- 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 notice 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, if applicable;
 - iii. The section or sections of this Policy that were affected by the emergency or use of emergency powers; and
 - iv. The reason for deviating from this Policy.

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

**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***

**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

Report on the Financial Statements

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 Illinois Funds, a fiduciary (investment trust) fund of the State of Illinois, Office of the Treasurer, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise The Illinois Funds financial statements, and have issued our report thereon dated January 8, 2020.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Office of the Treasurer, The Illinois Funds 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*.

Internal Control Over Financial Reporting

Management of the State of Illinois, Office of the Treasurer, The Illinois Funds is responsible for establishing and maintaining effective internal control over financial reporting (internal control).

In planning and performing our audit of the financial statements, we considered the State of Illinois, Office of the Treasurer's internal control of The Illinois Funds 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 State of Illinois, Office of the Treasurer's internal control of The Illinois Funds. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Office 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings as item 2019-001 that we consider to be a significant deficiency.

Office of the Treasurer's Response to the Finding

The State of Illinois, Office of the Treasurer's response to the finding identified in our audit is described in the accompanying Schedule of Findings. The State of Illinois, Office of the Treasurer's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe LLP

Springfield, Illinois
January 8, 2020

SCHEDULE OF FINDINGS

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Schedule of Findings
For the Year Ended June 30, 2019**

2019-001 **Finding** (Lack of Adequate Controls over the Review of External Service Providers)

The Office of the Treasurer (Office) did not maintain adequate controls to ensure all external service providers' internal controls were reviewed.

The Office utilized external service providers as the custodian of the Illinois Funds Program and as payment processors for the E-Pay program. All service providers utilized subservice organizations. As of June 30, 2019, the net position held in trust for pool participants was \$5.6 billion. The Office did not establish an adequate process to monitor its population of service and subservice providers. The following issues were identified during testing:

- Two of six (33%) significant Service Organization Control (SOC) reports were not reviewed timely. The untimely reviews were performed 178 days and 217 days after the SOC report was issued.
- The Office did not establish adequate controls to review significant subservice organizations. The Office identified eight subservice organizations as being significant. Five of eight (63%) significant subservice organization's controls were not reviewed. Two of eight (25%) significant subservice organization's controls were not reviewed timely. One untimely review did not document the SOC report issuance date, but the review was performed approximately 450 days after the SOC report period end. The other untimely review was performed approximately 300 days after the SOC report was issued. In addition, for the two untimely reviews, the Office did not obtain a bridge letter through the fiscal year end.
- The determination of significant subservice organizations utilized by one of six (17%) significant service organization was not documented.

The Office is responsible for the design, implementation, and maintenance of internal controls related to information systems and operations to ensure its critical and confidential data are adequately safeguarded. This responsibility is not limited due to the process being outsourced.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources. In addition, generally accepted information technology guidance endorses the review and assessment of internal controls related to information systems and operations to ensure the accurate processing and security of information.

The Office stated it was utilizing a standardized time period for the collection of SOC reports instead of tracking by individual service organization and it relied on service organizations to perform a review of subservice organizations. Two service organizations did not provide documentation of their reviews of subservice organization controls in a timely manner and the information provided was outdated and insufficient.

Without having identified and reviewed all service and subservice organization controls timely, the Office had no assurance the external service providers' internal controls were adequate to ensure proper accounting and safekeeping of assets and data. (Finding Code No. 2019-001, 2018-001, 2017-002)

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Schedule of Findings
For the Year Ended June 30, 2019**

Recommendation

We recommend the Office establish an internal control process to identify all third party service providers and determine and document if a review of controls is required. If required, the Office should:

- Obtain SOC reports or perform independent reviews of internal controls associated with outsourced systems at least annually.
- Monitor and document the operation of the complementary user entity controls relevant to the Office's operations.
- Either obtain and review SOC reports for subservice organizations or perform alternative procedures to satisfy itself that the existence of the subservice organization would not impact its internal control environment.
- Document its review of the SOC reports in a timely manner, reviewing all significant issues with subservice organizations to ascertain if corrective action plans exist and when they will be implemented, identifying any impacts to the Office, and any compensating controls.
- Review contracts with service providers to ensure applicable requirements over the independent review of internal controls are included.

In addition, we recommend the Office obtain training for its staff regarding service organization due diligence procedures.

Office Response

The Treasurer's Office accepts the recommendation. To prevent reoccurrence we have implemented a solution to help track individual service and subservice organization's SOC reports.