VILLAGE OF WESTMONT
INVESTMENT POLICY

I. POLICY

It is the policy of the Village of Westmont (Village) to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the Village government and conforming to all state and local statutes governing the investment of public funds.

II. SCOPE

This investment policy applies to all financial assets of the Village of Westmont. These funds are accounted for in the Village's Comprehensive Annual Financial Report and include:

1. General Fund
2. Special Revenue Funds
3. Capital Projects Funds
4. Enterprise Funds
5. Trust and Agency Funds
6. Capital Improvement Funds
7. Debt Service Funds
8. Any new funds created by the Village Board of Trustees (Village Board)/Finance Director unless specifically exempted

III. OBJECTIVES

The primary objectives, in priority order, of the Village's investment activities shall be:

1. Legality: The Village's investments will be in compliance with all statutes governing the investment of public funds and will conform to federal, state, and other legal requirements.

2. Safety: Safety of principal is the foremost objective of the investment program. Investments of the Village shall be undertaken in a manner that seeks first to ensure that capital losses are avoided whether they be from securities defaults or erosion of market value. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

3. Liquidity: The Village's investment portfolio will remain sufficiently liquid to enable the Village to meet all operating requirements which might be reasonably anticipated.

4. Return on Investments: The Village's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic

cycles, commensurate with the Village's investment risk constraints and the cash flow characteristics of the portfolio.

IV. PRUDENCE

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the primary objective of safety of capital as well as the secondary objective of the attainment of market rates of return.

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual's security credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion, and appropriate action is taken to control adverse developments.

V. ETHICS AND CONFLICT OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Mayor and Village Board of Trustees any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal/financial investment positions that could be related to the performance of the Village investments.

VI. DELEGATION OF AUTHORITY

Authority to manage the Village's investment program is derived from local ordinance. Management responsibility for the investment program is hereby delegated to the Village Treasurer who shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

The Village Treasurer shall establish written investment policy procedures for the operation of the investment program consistent with this policy. The procedures should include reference to safekeeping, repurchase agreements, wire transfer agreements, banking service contracts, collateral/depository agreements, and record keeping. Such procedures shall include explicit delegation of authority to persons secondarily responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Village Treasurer.

VII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Village Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of Illinois. These may include “primary” dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule). No public deposit shall be made except in a qualified public depository as established by state laws. Furthermore, employees of any firm or financial institution offering securities or investments to the Village are expected to be trained in the precautions appropriate to public sector investments, and are expected to familiarize themselves with the Village’s investment objectives, policies, and constraints. These firms and financial institutions are expected to make reasonable efforts to preclude imprudent transactions involving Village funds.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Village Treasurer with the following:
1. A copy of the most recent audited financial statement
2. Proof of National Association of Security Dealers (NASD) certification, if applicable
3. Copy of the trading resolution on file
4. Proof of Illinois registration
5. Copies of the last two sworn statements of resources and liabilities which the institution is required to furnish to the Commissioner of Banks and Trust Companies or to the Comptroller of the Currency
6. Certification of having read, understood and agreed to comply with the Village’s investment policy
7. Depository contracts, as appropriate
8. Evidence of adequate insurance coverage

In addition, investment pools must provide the following:
1. A description of eligible investment securities, and a written statement of investment policy and objectives.
2. A description of interest calculations, how they are distributed, and how gains and losses are treated.
3. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
4. A description of who may invest in the program, how often, and what size deposits and withdrawals are allowed.
5. A schedule for receiving statements and portfolio listings.
6. Are reserves, retained earnings, etc. utilized by the pool?
7. A fee schedule, and when and how it is assessed.
8. Is the pool eligible for bond proceeds and/or will it accept such proceeds?

The Village Treasurer will conduct a periodic review of the financial condition and registration of qualified financial institutions and broker/dealers. A current audited financial statement is required to be on file for each financial institution and broker/dealer with which the Village invests.

VIII. AUTHORIZED AND SUITABLE INVESTMENTS

The Village of Westmont is empowered by statute to invest in the following types of securities:

1. **Interest bearing direct obligations of the United States of America, or its agencies**
   U.S. Government bonds, notes, certificates of indebtedness, treasury bills, treasury strips or other securities, which are guaranteed by the full faith and credit of the Government of the United State of America as to principal and interest. Other similar obligations of the United States of America or its agencies including obligations of the Governmental National Mortgage Association (GNMA) are approved by the Government of the United States of America and have a liquid market with a readily determinable market value;

2. **Direct obligations of institutions defined in Illinois Banking Act and insured by the Federal Deposit Insurance Corporation (FDIC)**
   Interest bearing savings accounts, interest bearing certificates of deposit or interest bearing time deposits or any other investment constituting direct obligations of any institution as defined by the Illinois Banking Act and is insured by the FDIC. Any such investment shall not exceed FDIC insurance limitations, including principal and interest. Exceptions are provided under section dealing with collateralization.

3. **Commercial Paper**
   Short-term obligations of corporations (commercial paper) organized in the United States with assets exceeding $500 million and rated at the time of purchase at the highest classification established by at least two standard rating services. These must mature within 180 days from the date of purchase. Such purchases may not exceed 10% of the corporation's outstanding obligations and no more than 10% of the Village's funds may be invested in commercial paper.

4. **Savings and Loan Institution obligations**
   Short-term discount obligations of the Federal National Mortgage Association (FNMA) or in shares or other forms of securities legally offered by saving and loan associations incorporated under the laws of this state or any other state or under the laws of the United States. Investments may be made only in those savings and loan associations of which the shared, or investment certificates are insured by the FDIC.

5. **Local government investment pools**
   Local government investment pools, either administered by the State of Illinois or through joint powers statutes and other intergovernmental agreement legislation.

6. **Public Funds**
   Interest bearing bonds of any county, township, city, village, incorporated town, municipal corporation, or school district, of the State of Illinois, or of any other state, or of any political subdivision or agency of the State of Illinois or of any other state. Such purchases may not exceed 10% of the Villages funds.

7. **The Illinois Metropolitan Investment Fund (IMET)**
   An actively managed investment fund for Illinois local governments consisting of investments in obligations issued or secured by the U.S. Government and/or its agencies, and/or money market mutual funds that are permitted under HB885, adopted by the Illinois General Assembly on May 9, 1996, which amended Section 3.1-35-50 of the Illinois Municipal Code, also known as the Investment Act.

8. **Government Money Market Funds**
   Money market mutual funds registered under the Investment Company Act of 1940, provided that the portfolio of any such money market mutual fund is limited to investments in obligations of the United States of America or its agencies, or repurchase of such obligations.

IX. MASTER REPURCHASE AGREEMENT

If repurchase agreements are legal or authorized, a Master Repurchase Agreement must be signed with the bank or dealer.

X. COLLATERALIZATION

It is the policy of the Village, as recommended by State Statute and Government Finance Officers Association (GFOA) Recommended Practices on the Collateralization of Public Deposits, that Village funds on deposit in excess of FDIC limits be secured by some form of collateral or separate insurance, witnessed by a written agreement and held by an independent third-party institution in the name of the Village of Westmont. The Village can accept any of the following assets as collateral:

1. Government Securities
2. Obligations of Federal Agencies
3. Obligations of Federal Instrumentalities
4. Obligations of the State of Illinois and municipalities of Illinois
5. Separate Insurance through a Triple A rated provider.
~~5.~~6. A class of security permitted by Public Funds Investment Act (30 ILCS 235/6 (d))

The Village reserves the right to accept or reject any form of the above named securities. The Village also requires that all depositories that hold Village deposits in excess of the FDIC limits must agree to utilize the Village's Collateralization requirements listed below.

The amount of collateral provided will not be less than 110% of the fair market value of the net amount of public funds secured. The ratio of the fair market value of collateral to the amount of funds secured will be reviewed at least quarterly, and additional collateral will be required when the ratio declines below the level required and collateral will be released if the fair market value exceeds the required level.

Pledged collateral will be held in safekeeping, by an independent third-party custodian, or the Federal Reserve Bank, designated by the Village and evidenced by a safekeeping agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the Village and retained.

Each time collateral is changed, it must be approved by the Village Treasurer. The change must be recorded in the Bank Board Minutes and a copy of the Minutes must be furnished to the Village. This requirement will be waived, and the right of collateral substitution is granted if the bank is rated by a reputable, outside rating agency such as Moody's, Standard and Poor's, A.M. Best, or Fitch Ratings Ltd.

Collateral agreements will preclude the release of the pledged assets without an authorized signature from the Village of Westmont.

XI. SAFEKEEPING AND CUSTODY

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

XII. DIVERSIFICATION

The Village will diversify its investments by security type and institution.

The investment portfolio for the Village shall not exceed the following diversification limits unless specifically authorized by the Village Board:

1. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the Village's total investment portfolio will be invested in a single security type or with a single financial institution.
2. Monies deposited at a financial institution shall not exceed 75% of the capital stock and surplus of that institution.
3. Commercial paper shall not exceed 10% of the Village's investment portfolio, excepting bond issue proceed investments.

XIII. MAXIMUM MATURITIES

To the extent possible, the Village will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Village will not directly invest in securities maturing more than three and one-half (3 ½) years from the date of purchase. However, the Village may collateralize its repurchase agreements and certificates of deposit using longer-dated investments not to exceed five (5) years to maturity.

XIV. INTERNAL CONTROL

The Village Treasurer shall establish an annual process of independent review of internal controls by an external auditor. This review will assure compliance with policies and procedures. The internal control policy will be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the Village of Westmont.

XV. PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles commensurate with the investment risk constraints and the cash flow needs.

Market Yield (Benchmark): The Village's investment strategy is passive due to the bulk of the portfolio being operating funds. Given this strategy, the basis used by the Village Treasurer to determine whether market yields are being achieved shall be the six-month U.S. Treasury Bill and the average Federal Funds rate.

XVI. REPORTING

The Village Treasurer shall provide the Village Manager, Mayor and Village Board with quarterly investment reports which provide a clear picture of the status of the current investment portfolio. The management report should include comments on the fixed income markets and economic conditions, discussions regarding restrictions on percentage of investment by categories, possible changes in the portfolio structure going forward, and thoughts on investment strategies. Schedules in the quarterly report should include the following:

1. A listing of individual securities held at the end of the reporting period by authorized investment category
2. Average life and final maturity of all investments listed
3. Coupon, discount or earnings rate
4. Par value, amortized book value and market value
5. Percentage of the portfolio represented by each investment category

XVII. INVESTMENT POLICY ADOPTION

The Village of Westmont's investment policy shall be adopted by resolution of the Village Board. The policy shall be reviewed annually by the Village Board and any modifications made thereto must be approved by the Village Board.

XVIII. GLOSSARY

AGENCIES - Federal agency securities and/or Government sponsored enterprises.

BROKER - A middleman who brings buyers and sellers together and handles their orders generally charging a commission for their services.

CERTIFICATES OF DEPOSIT - Instruments issued by a bank specifying that a sum of money has been deposited, payable with interest to the bearer of the certificate on a certain date.

COLLATERAL - Securities pledged by a bank to secure deposits of public monies. Also refers to securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan.

DELIVERY VS PAYMENT - Physical delivery of collateral securities or book entry control in exchange for the cash payment. Under this system funds are not transferred until the securities are delivered. If a third party acts as custodian, funds are released by the custodian only when delivery is accomplished.

DIVERSIFICATION - Dividing available funds among a variety of securities and institutions so as to minimize market risk.

DURATION - The number of years required to receive the present value of future payments, both of interest and principal, of a bond, often used as an indicator of a bond's price volatility resulting from changes in interest rates.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC) - A federal agency that insures bank deposits, currently up to $250,000 per type of deposit per financial institution.

LIQUIDITY -The length of time required to convert any investment to cash.

MARKET VALUE - The market value of a security is the price at which the last sale of the same issue was sold.

MONEY MARKET - The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

MATURITY - The date upon which the principal or stated value of an investment becomes due.

PRINCIPAL - The cost of an instrument on which interest is earned.

PRUDENT PERSON STANDARD - An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state – the so-called legal list. In other states, the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

REPURCHASE AGREEMENT - An agreement with an approved broker/dealer that provides for a simultaneous sale of securities by a bank or government securities dealer to a city with an agreement for the bank to repurchase the securities at a fixed date at a specified rate of interest. The difference in the sales and purchase price is the earning rate on the agreement. These agreements range in maturity from overnight to fixed time to open end.

SAFEKEEPING - An arrangement under which an organization's securities are kept in a bank vault or in the case of book entry securities, are held and recorded in the customer's name. Evidence of this arrangement is a safekeeping receipt.

SEC RULE 15c3-1 - An SEC rule that sets minimum net capital requirements for broker-dealers. Firms are expected to have liquid assets equal to or greater than a certain percentage of total liabilities. If the ratio falls below this minimum, the broker-dealer may face restrictions on soliciting new business or on keeping existing business.

UNIFORM NET CAPITAL RULE - Securities Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities. Liquid capital includes cash and assets easily converted into cash.

YIELD - The rate of annual return on an investment expressed as a percentage.

Approved: By Ordinance January 23, 2014