

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

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

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, 2018 and 2017**

Table of Contents

	Page
Treasurer's Office Officials	1
Financial Statement Report	
Summary	3
Independent Auditor's Report	4
Basic Financial Statements	
Statements of Fiduciary Net Position	6
Statements of Changes in Fiduciary Net Position	8
Notes to the Financial Statements	9
Supplementary Information	
Portfolio of Investments	21
Condensed Statement of Fiduciary Net Position by Investor Type and Condensed Statement of Changes in Fiduciary Net Position by Investor Type	30
Other Information	
The Illinois Funds Local Government Investment Pool Investment Policy Statement – Effective March 2018 (Unaudited)	31
The Illinois Funds Local Government Investment Pool Investment Policy Statement – Effective September 2017 through March 2018 (Unaudited)	39
The Illinois Funds Money Market Fund Investment Policy Statement – Effective November 2016 through September 2017 (Unaudited)	47
Money Market Fund Investment Policy – Effective June 2015 through November 2016 (Unaudited)	55
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>	61
Schedule of Findings	63
Prior Finding Not Repeated	65

**State of Illinois
Office of the Treasurer**

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

Treasurer's Office Officials

Treasurer	The Honorable Michael W. Frerichs
Chief of Staff	Mr. Justin Cajindos (through January 5, 2018)
Chief of Staff	Vacant (January 6, 2018 to June 6, 2018)
Chief of Staff	Mr. Allen Mayer (June 7, 2018 to Present)
Deputy Treasurer	Mr. Jay Rowell (through June 30, 2018)
Deputy Treasurer & Chief Investment Officer	Mr. Rodrigo Garcia (March 18, 2018 to Present)*
Chief Investment Officer/Chief Financial Officer	Mr. Rodrigo Garcia (through March 17, 2018)*
General Counsel & Ethics Officer	Mr. Keith Horton (through December 8, 2017)
General Counsel & Ethics Officer	Mr. Allen Mayer (December 1, 2017 to June 6, 2018)
Interim General Counsel & Ethics Officer	Mr. Allen Mayer (June 7, 2018 through June 30, 2018)
General Counsel & Ethics Officer	Ms. Gwendolyn Drake (July 1, 2018 to Present)
Director of ePay & Illinois Funds	Ms. Johanna Perez
Director of IPTIP (Illinois Public Treasurers Investment Pool) Investments	Mr. Jack Weisenborn (September 16, 2017 to present)
Director of IPTIP (Illinois Public Treasurers Investment Pool) Investments	Mr. Robert Holley (through September 15, 2017)
Director of Fiscal Operations	Ms. Deborah Miller
Executive Inspector General for the Illinois State Treasurer	Mr. Raymond Watson
Chief Internal Auditor	Ms. Leighann Manning

* Chief Investment Officer/Chief Financial Officer title merged into Deputy Treasurer & Chief Investment Officer title on March 18, 2018.

**State of Illinois
Office of the Treasurer**

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

Treasurer's Office Officials (Continued)

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

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

Unclaimed Property Division
Myers Building
1 W. Old State Capitol Plaza, 1st & 4th Floors
Springfield, Illinois 62701

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, 2018 and 2017**

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, 2018 and 2017.

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. The significant deficiency is described in the accompanying Schedule of Findings on pages 63-64 of this report as item 2018-001, Lack of Adequate Controls over the Review of External Service Provider.

Exit Conference

The Treasurer's Office waived an exit conference in correspondence dated December 18, 2018. The response to the recommendation was provided by Leighann Manning in an email dated December 31, 2018.

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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017, the changes in its financial position, or, where applicable, its 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 21 - 30) and Other Information (pages 31 - 60) 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 Money Market Fund Investment Policy has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2019, on our consideration of the 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 the effectiveness of the Office of the Treasurer's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the 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 10, 2019

FINANCIAL STATEMENTS

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Statements of Fiduciary Net Position
June 30, 2018 and 2017**

	2018	2017
Assets		
Cash equivalents		
Repurchase agreements, including accrued interest of \$216,778 and \$36,347 in 2018 and 2017, respectively	\$ 1,300,216,778	\$ 1,225,036,347
Commercial paper, net of unaccreted discount of \$705,212 and \$266,437 in 2018 and 2017, respectively	545,274,788	515,250,563
Money market mutual funds	438,401,299	218,383,241
U.S. agency obligations		
Federal Home Loan Bank Debentures	-	10,000,000
Federal Home Loan Bank Discount Notes, net of unaccreted discount of \$38,750 and \$57,122 in 2018 and 2017, respectively	49,961,250	129,942,878
Federal Home Loan Mortgage Corporation Notes	-	20,000,000
Federal National Mortgage Association Debentures, net of unaccreted discount of \$7,443 and \$0 in 2018 and 2017, respectively	14,992,556	-
Federal Farm Credit Bureau Debentures, net of unaccreted discount of \$2,248 and \$4,258 in 2018 and 2017, respectively	90,010,578	59,995,742
Supranational Notes, net of unaccreted discount of \$268 and \$0 in 2018 and 2017, respectively	5,499,732	-
Total cash equivalents	2,444,356,981	2,178,608,771
Deposits and investments		
Commercial paper, net of unaccreted discount of \$5,469,928 and \$1,284,022 in 2018 and 2017, respectively	1,133,430,072	597,540,978
U.S. Treasury Bills net of unaccreted discount of \$27,604 and \$154,314 in 2018 and 2017, respectively	24,972,396	94,845,686
U.S. Treasury Notes, net of unaccreted discount of \$214,082 and \$8,473 in 2018 and 2017, respectively	79,785,918	174,991,527
U.S. agency obligations		
Federal Home Loan Bank Debentures, net of unaccreted discount of \$11,356 and \$44,146 in 2018 and 2017, respectively	294,888,644	463,372,521
Federal Home Loan Mortgage Corporation Notes, net of unaccreted discount of \$23,894 and \$3,488 in 2018 and 2017, respectively	94,236,106	128,832,512
Federal Home Loan Mortgage Corporation Discount Notes, net of unaccreted discount of \$7,113 and \$254,076 in 2018 and 2017, respectively	34,992,888	110,745,924

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, 2018 and 2017**

	2018	2017
Assets (Continued)		
U.S. agency obligations (Continued)		
Farm Credit Discount Notes, net of unaccreted discount of \$2,913,835 and \$621,812 in 2018 and 2017, respectively	\$ 292,086,165	\$ 249,378,188
Federal Farm Credit Bureau Debentures, net of unaccreted discount of \$9,801 and \$0 in 2018 and 2017, respectively	409,990,199	155,000,000
Federal Home Loan Bank Discount Notes, net of unaccreted discount of \$2,196,063 and \$595,114 in 2018 and 2017, respectively	250,903,937	267,904,886
Supranational Notes, net of unaccreted discount of \$36,409 and \$0 in 2018 and 2017, respectively	229,963,591	165,000,000
Corporate Bonds, net of unaccreted discount of \$855,660 and \$81,998 in 2018 and 2017, respectively	<u>277,083,340</u>	<u>70,380,002</u>
Total deposits and investments	3,122,333,256	2,477,992,224
Accrued interest receivable	<u>4,397,518</u>	<u>1,836,293</u>
Total assets	<u><u>\$ 5,571,087,755</u></u>	<u><u>\$ 4,658,437,288</u></u>
Liabilities and Net Position		
Accrued liabilities		
Bank custodial fees	\$ 344,799	\$ 151,406
State management fees	<u>235,239</u>	<u>355,870</u>
Total liabilities	<u>580,038</u>	<u>507,276</u>
Net position held in trust for pool participants	<u><u>\$ 5,570,507,717</u></u>	<u><u>\$ 4,657,930,012</u></u>
The pricing of shares		
Participant shares outstanding (\$1.00 par, unlimited shares authorized)	<u>5,570,507,717</u>	<u>4,657,930,012</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, 2018 and 2017**

	2018	2017
Additions		
Investment income		
Investment earnings	\$ 80,643,381	\$ 42,557,492
Investment expenses		
Bank custodial fees	2,035,166	2,044,056
State management fees	2,735,228	2,457,505
Total investment expenses	4,770,394	4,501,561
Net investment income	75,872,987	38,055,931
Dividends to participants from net investment income	(75,872,987)	(38,055,931)
Share transactions (dollar amounts and number of shares are the same)		
Subscriptions	25,695,071,237	18,657,299,634
Reinvestments	69,838,825	27,819,627
Redemptions	(24,852,332,357)	(18,468,394,703)
Change in net position and shares resulting from share transactions	912,577,705	216,724,558
Net position, beginning of year	4,657,930,012	4,441,205,454
Net position, end of year	\$ 5,570,507,717	\$ 4,657,930,012

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, 2018 and 2017**

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, 2018 and 2017**

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, 2018 and 2017.

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, 2018 and 2017**

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 instrument measured at fair value on a recurring basis:

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

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Notes to the Financial Statements
For the Years Ended June 30, 2018 and 2017**

Note 2. Deposits and Investments (Continued)

The following table summarizes The Illinois Funds' investments within the fair value hierarchy at June 30, 2018 and 2017.

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	-
	<u>\$ 5,565,659,416</u>	<u>\$ 438,401,299</u>	<u>\$ 5,127,258,117</u>	<u>\$ -</u>

June 30, 2017				
Type	Fair Value	Level 1	Level 2	Level 3
Repurchase Agreements	\$ 1,225,036,347	\$ -	\$ 1,225,036,347	\$ -
Commercial Paper	1,112,719,086	-	1,112,719,086	-
Money Market Mutual Funds	218,383,241	218,383,241	-	-
United States Treasury Bills	94,848,000	-	94,848,000	-
United States Treasury Notes	174,865,550	-	174,865,550	-
Federal Home Loan Mtg Corp Discount Notes	110,708,280	-	110,708,280	-
Federal Home Loan Bank Debentures	473,253,772	-	473,253,772	-
Federal Home Loan Bank Discount Notes	397,748,660	-	397,748,660	-
Federal Farm Credit Bureau Debentures	215,126,300	-	215,126,300	-
Farm Credit Discount Note	249,302,850	-	249,302,850	-
Supranational Notes	165,059,500	-	165,059,500	-
Corporate Bonds	70,311,522	-	70,311,522	-
Federal Home Loan Mtg Corp Notes	148,727,055	-	148,727,055	-
	<u>\$ 4,656,090,163</u>	<u>\$ 218,383,241</u>	<u>\$ 4,437,706,922</u>	<u>\$ -</u>

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Notes to the Financial Statements
For the Years Ended June 30, 2018 and 2017**

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, 2018 and 2017**

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, 2018 and 2017 is as follows:

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%	7/26/2018
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 Notes	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%	10/19/2018
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>		

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Notes to the Financial Statements
For the Years Ended June 30, 2018 and 2017**

Note 2. Deposits and Investments (Continued)

Summary of Investments at June 30, 2017:

Type	Carrying Amount	Fair Value	Face / Par Principal Amount	Range of Interest Yields	Range of Maturity Dates
Repurchase Agreements	\$ 1,225,036,347	\$ 1,225,036,347	\$ 1,225,000,000	1.030-1.100%	7/3/2017
Commercial Paper	1,112,791,541	1,112,719,086	1,114,342,000	0.921-1.382%	7/3/17-12/5/17
Money Market Mutual Funds	218,383,241	218,383,241	218,383,241	NA	NA
United States Treasury Bills	94,845,686	94,848,000	95,000,000	0.780-1.047%	7/6/17-11/24/17
United States Treasury Notes	174,991,527	174,865,550	175,000,000	0.526-1.000%	7/31/17-12/15/17
Federal Home Loan Mtg Corp Notes	148,832,512	148,727,055	148,836,000	0.831-1.001%	7/16/17-12/15/17
Federal Home Loan Mtg Corp Discount Notes	110,745,924	110,708,280	111,000,000	0.734-1.005%	8/31/17-10/23/17
Corporate Bonds	70,380,002	70,311,522	70,462,000	0.765-1.356%	10/27/17-5/3/18
Federal Home Loan Bank Debentures	473,372,521	473,253,772	473,416,667	0.699-1.314%	7/5/17-5/2/18
Federal Home Loan Bank Discount Notes	397,847,764	397,748,660	398,500,000	0.654-1.033%	7/7/17-1/31/18
Federal Farm Credit Bureau Debentures	214,995,742	215,126,300	215,000,000	0.680-1.365%	7/1/17-9/6/17
Farm Credit Discount Note	249,378,188	249,302,850	250,000,000	0.613-1.210%	7/7/17-3/7/18
Supranational Notes	165,000,000	165,059,500	165,000,000	0.875-1.362%	7/14/17-11/15/17
	<u>\$ 4,656,600,995</u>	<u>\$ 4,656,090,163</u>	<u>\$ 4,659,939,908</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 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, 2018 and 2017**

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 \$1,300,000,000 and \$1,225,000,000 as of June 30, 2018 and 2017, respectively. The fair value, including accrued interest, of the underlying securities to be resold based on commitments under the repurchase agreements was \$1,328,975,029 and \$1,250,504,453 as of June 30, 2018 and 2017, 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, 2018 and 2017**

Note 2. Deposits and Investments (Continued)

Investments: The Illinois Funds had the following investments, stated at carrying value, and maturities as of June 30, 2018 and 2017. (Amounts are in thousands.)

	2018				2017			
	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	\$ 1,300,217	\$ -	\$ -	\$ 1,300,217	\$ 1,225,036	\$ -	\$ -	\$ 1,225,036
Commercial paper	667,831	673,964	336,910	1,678,705	575,173	403,189	134,430	1,112,792
Supranational notes	160,500	44,968	29,995	235,463	60,000	65,000	40,000	165,000
Corporate Bonds	-	-	277,083	277,083	-	-	70,380	70,380
U.S. Treasury obligations	24,972	-	79,786	104,758	59,993	59,997	149,847	269,837
U.S. agency obligations	757,419	297,526	477,118	1,532,063	689,881	396,812	508,480	1,595,173
Subtotal	<u>\$ 2,910,939</u>	<u>\$ 1,016,458</u>	<u>\$ 1,200,892</u>	5,128,289	<u>\$ 2,610,083</u>	<u>\$ 924,998</u>	<u>\$ 903,137</u>	4,438,218
Treasury-only money market mutual funds				438,401				218,383
Investments				<u>\$ 5,566,690</u>				<u>\$ 4,656,601</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, 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 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.

As of June 30, 2017, 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 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. The Illinois Funds investments in Corporate Bonds were rated as A-1+ by Standard & Poor's and P-1 by Moody's Investors Service. The Illinois Funds' investments in money market mutual funds were rated Aaa by Moody's Investors Service and 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, 2018 and 2017**

Note 2. Deposits and Investments (Continued)

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, 2018 and 2017. (Expressed in thousands.)

	2018		2017	
	Carrying Value	% of Total Investments	Carrying Value	% of Total Investments
Repurchase agreements				
HSBC Securities*	\$ 200,022	3.59%	\$ 300,009	6.44%
Bank of Nova Scotia	500,057	8.98	500,015	10.74
Bank of Montreal	400,044	7.19	-	-
BMO Capital Markets	-	-	300,009	6.44
U.S. Agency				
Federal Home Loan Bank	294,889	5.30	473,372	10.17
FHLB Discount Notes	300,865	5.40	397,848	8.54
FFCB Notes	500,001	8.98	-	-
FFCB Discount Notes	292,086	5.25	249,378	5.36
Commercial Paper				
HSBC Securities*	114,657	2.06	74,719	1.61
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.

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.

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Notes to the Financial Statements
For the Years Ended June 30, 2018 and 2017**

Note 4. Administrative Fees

To administer The Illinois Funds, the Treasurer has established a division titled "The Illinois Funds' Administrative Office." This division had 17 and 19 average full time equivalent employees for the years ended June 30, 2018 and 2017, 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 2018 and 2017.

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

	2018	2017
Fees received*	\$ 4,390,000	\$ 4,915,000
Expenditures	5,016,000	4,670,000

*2018 Fees received includes ePay admin fees

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 2018 and 2017, 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, 2018 and 2017, was approximately \$2,124,000 and \$2,431,000, respectively.

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Notes to the Financial Statements
For the Years Ended June 30, 2018 and 2017**

Note 5. Related Parties (Continued)

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

	<u>2018</u>	<u>2017</u>
Total number of participants	1,622	1,631
Number of State of Illinois participants	23	23
Balance of State of Illinois investments	\$ 2,093,613,306	\$ 1,682,854,024

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, 2018**

	Execution Date	Interest Rate	Maturity Date	Face Amount	Fair Value
Repurchase Agreements					
BANK OF MONTREAL	6/29/2018	2.000%	7/2/2018	\$ 400,000,000	\$ 400,044,445
BANK OF NOVA SCOTIA	6/29/2018	2.050%	7/2/2018	500,000,000	500,056,945
BMO CAPITAL MARKETS	6/29/2018	1.820%	7/6/2018	50,000,000	50,075,833
HSBC SECURITIES	6/29/2018	2.000%	7/2/2018	200,000,000	200,022,222
SUN TRUST	6/29/2018	2.080%	7/2/2018	150,000,000	150,017,333
Total Repurchase Agreements				\$ 1,300,000,000	\$ 1,300,216,778

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Portfolio of Investments (Continued)
June 30, 2018**

	Execution Date	Effective Yield	Maturity Date	Fair Value	Carrying Value
Commercial Paper					
ABN AMRO FDG USA LLC	04/05/18	2.349%	07/06/18	\$ 29,993,100	\$ 29,990,375
ABN AMRO FDG USA LLC	05/10/18	2.096%	07/23/18	62,724,640	62,720,972
ABN AMRO FDG USA LLC	04/02/18	2.409%	08/01/18	49,914,000	49,898,819
ABN AMRO FDG USA LLC	05/07/18	2.388%	09/04/18	14,940,750	14,937,438
ABN AMRO FDG USA LLC	04/05/18	2.478%	09/06/18	19,918,600	19,910,481
ABN AMRO FDG USA LLC	06/05/18	2.491%	12/03/18	19,793,800	19,791,611
ABN AMRO FDG USA LLC	06/07/18	2.481%	12/04/18	24,740,500	24,738,917
ALLIANCE CAP MGMT LP	06/19/18	2.088%	08/01/18	14,724,630	14,724,153
ALLIANCE CAP MGMT LP	05/29/18	2.131%	08/20/18	14,956,050	14,956,875
ALLIANCE CAP MGMT LP	06/05/18	2.128%	09/04/18	14,940,750	14,943,937
BANK OF MONTREAL	01/17/18	1.867%	07/16/18	24,980,000	24,980,729
BANK OF MONTREAL	06/21/18	2.050%	07/20/18	49,948,500	49,945,992
BANK OF MONTREAL	06/04/18	2.260%	09/04/18	34,861,750	34,858,002
BANK NEW YORK MELLON CORP	03/29/18	2.301%	07/05/18	24,995,750	24,993,778
BOEING CO	06/20/18	2.082%	08/15/18	31,915,840	31,917,000
COCA COLA CO	05/22/18	2.338%	09/27/18	13,825,496	13,823,040
COCA COLA CO	06/27/18	2.451%	12/07/18	49,471,000	49,474,417
JOHN DEERE CAP CORP	04/26/18	2.127%	07/11/18	49,974,500	49,970,972
JOHN DEERE CAP CORP	06/27/18	1.977%	07/17/18	44,961,300	44,960,500
JOHN DEERE CAP CORP	05/02/18	2.091%	07/18/18	19,981,600	19,980,592
JOHN DEERE CAP CORP	05/21/18	2.042%	07/31/18	24,958,500	24,958,229
GENERAL ELECTRIC CO	04/11/18	2.442%	09/10/18	24,892,000	24,883,146
GENERAL ELECTRIC CO	04/03/18	2.413%	09/28/18	24,864,250	24,855,066
GLAXOSMITHKLINE LLC	06/27/18	2.001%	07/10/18	49,977,000	49,975,000
GLAXOSMITHKLINE LLC	06/13/18	2.004%	07/16/18	24,980,000	24,979,167
GLAXOSMITHKLINE LLC	06/27/18	2.033%	07/24/18	49,937,000	49,935,153
GLAXOSMITHKLINE LLC	06/26/18	2.137%	08/28/18	10,912,770	10,913,041
HSBC USA INC	05/24/18	1.956%	07/17/18	34,969,900	34,969,800
HSBC USA INC	02/22/18	2.153%	08/22/18	24,923,750	24,923,083
HSBC USA INC	03/12/18	2.328%	09/05/18	29,879,700	29,876,250
HSBC USA INC	03/16/18	2.398%	09/07/18	24,896,750	24,888,083
ING US FDG LLC	03/14/18	2.265%	08/14/18	24,935,750	24,932,778
ING US FDG LLC	03/14/18	2.348%	09/14/18	24,886,000	24,881,771
ING US FDG LLC	06/11/18	2.411%	11/08/18	24,789,500	24,788,750
ING US FDG LLC	01/04/18	2.195%	07/05/18	50,002,000	50,000,000
ING US FDG LLC	01/31/18	2.209%	07/02/18	20,003,400	20,000,000
INTEL CORP	06/21/18	2.022%	08/20/18	24,926,750	24,930,035
JP MORGAN	03/26/18	2.368%	07/02/18	20,000,000	19,998,719
JP MORGAN	01/05/18	1.867%	07/03/18	74,995,500	74,992,292
JP MORGAN	04/24/18	2.398%	08/23/18	29,906,700	29,896,650
JP MORGAN	05/03/18	2.423%	09/04/18	19,921,000	19,915,319
JP MORGAN	06/05/18	2.352%	10/01/18	24,855,250	24,853,375
JP MORGAN	04/18/18	2.440%	10/16/18	29,797,800	29,785,108
JP MORGAN	06/21/18	2.404%	10/19/18	34,757,450	34,749,215
JP MORGAN	06/21/18	2.512%	12/17/18	29,662,500	29,656,367
NOVARTIS FIN CORP	06/06/18	1.940%	07/23/18	24,970,000	24,970,438
SANOFI	05/21/18	2.299%	09/06/18	24,898,250	24,896,708
SANOFI	05/07/18	2.287%	09/10/18	24,892,000	24,890,788
SANOFI	06/07/18	2.234%	09/17/18	49,762,500	49,759,500
SANOFI	05/21/18	2.314%	09/21/18	24,875,250	24,872,444
SANOFI	05/09/18	2.320%	09/28/18	49,728,500	49,720,948
TORONTO DOMINION BANK	06/26/18	2.053%	07/23/18	10,467,424	10,466,871
TORONTO DOMINION BANK	04/16/18	2.387%	10/15/18	49,666,000	49,658,444
TORONTO DOMINION BANK	06/26/18	2.512%	12/21/18	49,424,500	49,413,722
Total Commercial Paper				\$ 1,678,878,200	\$ 1,678,704,860

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Portfolio of Investments (Continued)
June 30, 2018**

	Fair Value
Money Market Mutual Funds	
Western Asset Instl Govt	\$ 21,652,427
Morgan Stanley Govt Inst	230,638,922
Northern Inst'l Fds Life 2015 R-5	10,000,000
Invesco Aim Govt & Agency Portfolio	<u>176,109,950</u>
 Total Money Market Mutual Funds	 <u>\$ 438,401,299</u>

State of Illinois
Office of the Treasurer

The Illinois Funds
Portfolio of Investments (Continued)
June 30, 2018

	Execution Date	Effective Yield	Maturity Date	Fair Value	Carrying Value
United States Treasury Obligations					
U.S. Treasury Bills					
Treasury Bills	01/25/18	1.603%	07/26/18	\$ 24,971,250	\$ 24,972,396
Total U.S. Treasury Bills				\$ 24,971,250	\$ 24,972,396
U.S. Treasury Notes					
Treasury Notes	04/17/18	2.027%	12/31/18	\$ 19,921,800	\$ 19,930,571
Treasury Notes	03/27/18	1.854%	10/31/18	19,917,200	19,920,610
Treasury Notes	03/12/18	1.698%	10/31/18	39,896,800	39,934,737
Total U.S. Treasury Notes				\$ 79,735,800	\$ 79,785,918
International Notes					
Supranational Notes					
Inter American DevBk Disc Notes	12/01/17	1.557%	08/13/18	\$ 9,977,600	\$ 9,981,606
Inter American DevBk Global Mtn Fr	03/16/18	1.945%	08/28/18	9,984,200	9,986,537
International Bank for Reconstruction and Development	06/28/18	2.271%	07/19/18	5,498,680	5,499,732
International Bank for Reconstruction and Development	01/16/18	1.978%	07/09/18	20,001,600	20,000,000
International Bank for Reconstruction and Development	10/30/17	1.450%	11/30/18	14,997,000	15,000,000
International Bank for Reconstruction and Development	01/02/18	2.074%	07/18/18	24,986,250	25,000,000
International Bank for Reconstruction and Development	01/29/18	2.052%	07/30/18	24,979,250	25,000,000
International Bank for Reconstruction and Development	04/04/18	2.151%	07/05/18	24,996,000	25,000,000
International Bank for Reconstruction and Development	04/30/18	2.116%	07/30/18	24,950,750	25,000,000
International Bank for Reconstruction and Development	09/25/17	1.366%	10/26/18	14,999,100	14,995,448
International Bank for Reconstruction and Development	09/19/16	2.265%	09/19/18	25,004,750	25,000,000
International Bank for Reconstruction and Development	10/27/16	2.293%	07/27/18	25,004,500	25,000,000
International Financial Corporation	03/01/18	2.005%	07/02/18	9,998,100	10,000,000
Total Supranational Notes				\$ 235,377,780	\$ 235,463,323

State of Illinois
Office of the Treasurer

The Illinois Funds
Portfolio of Investments (Continued)
June 30, 2018

	Execution Date	Effective Yield	Maturity Date	Fair Value	Carrying Value
United States Agency Obligations					
Federal Home Loan Mtg Corp Discount Notes					
Federal Home Loan Mtg Corp Discount Notes	11/07/17	1.323%	07/03/18	\$ 24,998,750	\$ 24,998,179
Federal Home Loan Mtg Corp Discount Notes	10/17/17	1.282%	07/16/18	9,992,700	9,994,709
				<u>\$ 34,991,450</u>	<u>\$ 34,992,888</u>
Total Federal Home Loan Mtg Corp Discount Notes					
Federal Home Loan Bank Discount Notes					
Federal Home Loan Bank Discount Notes	03/29/18	2.166%	03/29/19	\$ 19,674,200	\$ 19,682,000
Federal Home Loan Bank Discount Notes	06/08/18	2.272%	04/01/19	14,748,600	14,745,408
Federal Home Loan Bank Discount Notes	06/14/18	2.355%	06/14/19	7,921,962	7,919,910
Federal Home Loan Bank Discount Notes	01/31/18	1.654%	08/08/18	14,970,450	14,974,033
Federal Home Loan Bank Discount Notes	01/29/18	1.615%	08/28/18	14,954,400	14,961,333
Federal Home Loan Bank Discount Notes	02/07/18	1.710%	10/11/18	9,944,500	9,952,117
Federal Home Loan Bank Discount Notes	04/20/18	2.000%	10/19/18	24,850,250	24,848,750
Federal Home Loan Bank Discount Notes	10/26/17	1.420%	10/25/18	9,936,800	9,954,889
Federal Home Loan Bank Discount Notes	01/24/18	1.750%	11/19/18	14,881,650	14,898,656
Federal Home Loan Bank Discount Notes	02/27/18	1.928%	11/27/18	14,874,750	14,882,042
Federal Home Loan Bank Discount Notes	02/27/18	1.928%	11/28/18	9,916,000	9,920,833
Federal Home Loan Bank Discount Notes	06/07/18	2.123%	12/07/18	14,863,800	14,860,875
Federal Home Loan Bank Discount Notes	06/07/18	2.123%	12/12/18	14,859,450	14,856,500
Federal Home Loan Bank Discount Notes	03/14/18	2.031%	12/13/18	14,858,550	14,862,500
Federal Home Loan Bank Discount Notes	04/25/18	2.108%	12/14/18	14,857,650	14,856,133
Federal Home Loan Bank Discount Notes	05/02/18	2.119%	12/27/18	24,744,250	24,740,202
Federal Home Loan Bank Discount Notes	05/24/18	1.865%	07/16/18	49,963,500	49,961,250
Federal Home Loan Bank Discount Notes	11/29/17	1.536%	07/30/18	9,985,500	9,987,756
				<u>\$ 300,806,262</u>	<u>\$ 300,865,187</u>
Total Federal Home Loan Bank Discount Notes					

State of Illinois
Office of the Treasurer

The Illinois Funds
Portfolio of Investments (Continued)
June 30, 2018

	Execution Date	Effective Yield	Maturity Date	Fair Value	Carrying Value
Corporate Bonds					
Apple Inc	04/20/18	2.086%	02/22/19	\$ 11,493,823	\$ 11,522,297
Apple Inc	01/31/18	1.916%	02/08/19	4,973,800	4,987,922
Chevron Corp	06/20/18	2.011%	11/16/18	32,720,555	32,768,024
Chevron Corp	06/05/18	2.525%	05/16/19	7,979,210	7,985,149
Coca Cola Co	04/19/18	1.974%	11/01/18	28,922,424	28,998,159
Exxon Mobil Corp	06/11/18	2.433%	02/15/19	11,530,592	11,545,242
Exxon Mobil Corp	06/29/18	2.371%	03/01/19	30,893,508	30,914,302
Microsoft Corp	01/30/18	1.594%	11/03/18	41,601,503	41,709,947
Proctor and Gamble Co	02/05/18	1.706%	11/15/18	14,654,136	14,693,432
US Bank	06/14/18	2.602%	03/26/19	34,755,318	34,768,587
US Bank	06/22/18	2.391%	10/15/18	28,527,393	28,549,482
US Bank	06/20/18	2.596%	03/25/19	28,616,688	28,640,797
Total Corporate Bonds				\$ 276,668,950	\$ 277,083,340
Federal Home Loan Mortgage Corporation Notes					
Federal Home Loan Mortgage Corporation Notes	09/11/17	1.108%	09/28/18	\$ 29,179,828	\$ 29,260,000
Federal Home Loan Mortgage Corporation Notes	02/10/17	2.119%	08/10/18	50,006,000	50,000,000
Federal Home Loan Mortgage Corporation Notes	10/18/17	1.445%	10/12/18	14,952,150	14,976,106
Total Federal Home Loan Mortgage Corporation Notes				\$ 94,137,978	\$ 94,236,106
Federal National Mortgage Association Debentures					
Federal National Mortgage Association Debentures	09/18/17	1.239%	10/19/18	\$ 14,957,700	\$ 14,992,556
Total Federal National Mortgage Association Debentures				\$ 14,957,700	\$ 14,992,556

State of Illinois
Office of the Treasurer

The Illinois Funds
Portfolio of Investments (Continued)
June 30, 2018

	Execution Date	Effective Yield	Maturity Date	Fair Value	Carrying Value
Federal Farm Credit Bureau Debentures					
Federal Farm Credit Bureau Bullet Notes	08/01/16	2.300%	07/03/18	\$ 25,005,000	\$ 25,000,000
Federal Farm Credit Bureau Bullet Notes	08/12/16	2.156%	07/12/18	15,001,050	15,000,000
Federal Farm Credit Bureau Bullet Notes	01/19/18	1.968%	07/01/18	24,933,750	24,996,479
Federal Farm Credit Bureau Bullet Notes	01/05/18	1.967%	07/01/18	24,933,750	24,998,928
Federal Farm Credit Bureau Bullet Notes	01/04/18	1.949%	07/01/18	24,943,000	24,999,998
Federal Farm Credit Bureau Bullet Notes	01/03/18	1.961%	07/01/18	24,990,750	24,999,894
Federal Farm Credit Bureau Bullet Notes	03/09/17	2.014%	07/09/18	25,003,750	25,000,000
Federal Farm Credit Bureau Bullet Notes	03/27/17	2.002%	07/01/18	25,001,000	25,000,000
Federal Farm Credit Bureau Bullet Notes	01/23/18	1.951%	07/01/18	14,976,150	14,999,743
Federal Farm Credit Bureau Bullet Notes	05/25/17	2.013%	07/01/18	25,007,750	24,999,629
Federal Farm Credit Bureau Bullet Notes	06/06/17	1.966%	07/01/18	9,999,000	9,999,063
Federal Farm Credit Bureau Bullet Notes	06/12/17	1.972%	07/12/18	24,996,500	25,000,000
Federal Farm Credit Bureau Bullet Notes	07/10/17	1.873%	07/01/18	24,984,500	25,000,000
Federal Farm Credit Bureau Bullet Notes	07/12/17	1.983%	07/12/18	25,002,000	24,999,729
Federal Farm Credit Bureau Bullet Notes	08/03/17	1.926%	07/01/18	14,987,100	15,000,000
Federal Farm Credit Bureau Bullet Notes	08/08/17	2.024%	07/01/18	15,004,050	15,000,000
Federal Farm Credit Bureau Bullet Notes	08/11/17	1.874%	07/01/18	14,990,100	15,000,000
Federal Farm Credit Bureau Bullet Notes	09/14/17	1.250%	09/14/18	19,972,400	20,000,000
Federal Farm Credit Bureau Bullet Notes	01/25/18	2.017%	07/25/18	14,995,950	15,000,000
Federal Farm Credit Bureau Bullet Notes	04/30/18	1.940%	07/01/18	9,999,900	10,000,000
Federal Farm Credit Bureau Bullet Notes	04/30/18	2.114%	07/02/18	9,995,900	10,000,000
Federal Farm Credit Bureau Bullet Notes	05/25/18	2.028%	07/25/18	14,996,850	15,000,000
Federal Farm Credit Bureau Bullet Notes	06/27/18	2.049%	07/01/18	25,000,000	25,012,826
Federal Farm Credit Bureau Bullet Notes	06/11/18	2.323%	06/11/19	14,996,250	14,996,737
Federal Farm Credit Bureau Bullet Notes	06/11/18	2.131%	07/02/18	14,993,550	14,997,751
Federal Farm Credit Bureau Bullet Notes	06/27/18	2.052%	07/27/18	14,993,550	15,000,000
Total Federal Farm Credit Bureau Debentures				\$ 499,703,550	\$ 500,000,777

State of Illinois
Office of the Treasurer

The Illinois Funds
Portfolio of Investments (Continued)
June 30, 2018

	Execution Date	Effective Yield	Maturity Date	Fair Value	Carrying Value
Farm Credit Discount Notes					
Farm Credit Discount Notes	05/01/18	2.194%	01/17/19	\$ 9,883,920	\$ 9,880,000
Farm Credit Discount Notes	05/02/18	2.253%	03/08/19	9,849,200	9,846,528
Farm Credit Discount Notes	04/25/18	2.232%	03/19/19	24,606,500	24,603,788
Farm Credit Discount Notes	04/18/18	2.184%	03/25/19	9,838,900	9,841,283
Farm Credit Discount Notes	04/17/18	2.198%	04/15/19	24,559,500	24,570,000
Farm Credit Discount Notes	04/16/18	2.198%	04/16/19	19,646,400	19,654,806
Farm Credit Discount Notes	05/31/18	2.266%	04/22/19	9,819,500	9,818,083
Farm Credit Discount Notes	06/08/18	2.287%	05/01/19	14,715,900	14,716,267
Farm Credit Discount Notes	11/09/17	1.445%	07/31/18	14,977,350	14,982,125
Farm Credit Discount Notes	11/02/17	1.405%	08/03/18	9,982,900	9,987,258
Farm Credit Discount Notes	09/12/17	1.265%	08/21/18	19,946,600	19,964,583
Farm Credit Discount Notes	11/14/17	1.564%	11/06/18	24,821,000	24,863,111
Farm Credit Discount Notes	05/09/18	2.084%	11/27/18	24,791,250	24,786,847
Farm Credit Discount Notes	06/04/18	2.124%	12/12/18	19,812,600	19,808,667
Farm Credit Discount Notes	06/12/18	2.175%	12/24/18	19,798,800	19,789,778
Farm Credit Discount Notes	11/21/17	1.525%	07/16/18	9,992,700	9,993,708
Farm Credit Discount Notes	09/15/17	1.254%	07/25/18	24,970,250	24,979,333
Total Farm Credit Discount Notes				\$ 292,013,270	\$ 292,086,165

State of Illinois
Office of the Treasurer

The Illinois Funds
Portfolio of Investments (Continued)
June 30, 2018

	Execution Date	Effective Yield	Maturity Date	Fair Value	Carrying Value
Federal Home Loan Bank Debentures					
Federal Home Loan Bank Notes	09/06/16	2.253%	09/06/18	\$ 25,009,750	\$ 25,000,000
Federal Home Loan Bank Notes	02/14/17	2.172%	08/14/18	20,007,800	20,000,000
Federal Home Loan Bank Notes	04/26/17	2.001%	07/26/18	24,998,750	25,000,000
Federal Home Loan Bank Notes	06/23/17	2.039%	07/23/18	10,000,700	10,000,000
Federal Home Loan Bank Notes	07/11/17	2.209%	07/11/18	15,017,250	15,000,000
Federal Home Loan Bank Notes	09/20/17	1.260%	07/27/18	19,989,600	19,999,585
Federal Home Loan Bank Notes	08/04/17	1.961%	07/04/18	12,501,875	12,500,000
Federal Home Loan Bank Notes	08/08/17	1.998%	07/08/18	25,008,750	25,000,000
Federal Home Loan Bank Notes	09/06/17	1.250%	09/05/18	14,380,704	14,400,000
Federal Home Loan Bank Notes	09/11/17	1.250%	09/11/18	18,971,880	19,000,000
Federal Home Loan Bank Notes	09/21/17	1.289%	09/17/18	14,976,000	14,998,298
Federal Home Loan Bank Notes	09/20/17	1.242%	09/20/18	14,974,650	14,998,079
Federal Home Loan Bank Notes	09/27/17	1.330%	09/27/18	14,974,950	15,000,000
Federal Home Loan Bank Notes	01/12/18	1.981%	07/12/18	15,000,600	15,000,000
Federal Home Loan Bank Notes	01/30/18	2.021%	07/28/18	24,998,250	25,000,000
Federal Home Loan Bank Notes	04/23/18	2.050%	07/23/18	14,999,700	15,000,000
Federal Home Loan Bank Notes	06/07/18	2.339%	06/06/19	8,987,940	8,992,682
Total Federal Home Loan Bank Debentures				\$ 294,799,149	\$ 294,888,644

**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, 2018
(Expressed in thousands)**

CONDENSED STATEMENT OF FIDUCIARY NET POSITION BY INVESTOR TYPE
June 30, 2018

	Total	Internal	External
Assets			
Cash equivalents	\$ 2,444,357	\$ 919,315	\$ 1,525,042
Deposits and investments	3,122,333	1,174,298	1,948,035
Interest receivable	4,398	1,654	2,744
	<u>5,571,088</u>	<u>2,095,267</u>	<u>3,475,821</u>
Liabilities			
Bank custodial fees	345	130	215
State management fees	235	88	147
	<u>5,570,508</u>	<u>2,095,049</u>	<u>3,475,459</u>
Net position	<u>\$ 5,570,508</u>	<u>\$ 2,095,049</u>	<u>\$ 3,475,459</u>

CONDENSED STATEMENT OF CHANGES IN FIDUCIARY
NET POSITION BY INVESTOR TYPE
For the Year Ended June 30, 2018

	Total	Internal	External
Subscriptions and reinvestments	\$ 25,764,910	\$ 11,213,550	\$ 14,551,360
Investment earnings	80,643	29,187	51,456
Investment expense	(4,770)	(1,794)	(2,976)
Redemptions	(24,852,332)	(10,802,791)	(14,049,541)
Dividends to participants	(75,873)	(26,437)	(49,436)
	<u>912,578</u>	<u>411,715</u>	<u>500,863</u>
Change in net position and shares	912,578	411,715	500,863
Beginning net position	<u>4,657,930</u>	<u>1,683,334</u>	<u>2,974,596</u>
Ending net position	<u>\$ 5,570,508</u>	<u>\$ 2,095,049</u>	<u>\$ 3,475,459</u>

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

**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.

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

**State of Illinois
Office of the Treasurer**

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

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 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

**State of Illinois
Office of the Treasurer**

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

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;
- b) Bonds, notes, debentures, or similar obligations of the United States or its agencies;

**State of Illinois
Office of the Treasurer**

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

- 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.

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

**State of Illinois
Office of the Treasurer**

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

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.

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**

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

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.
- 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;

**State of Illinois
Office of the Treasurer**

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

- 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 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;

**State of Illinois
Office of the Treasurer**

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

- 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;
 - 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.

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

**State of Illinois
Office of the Treasurer**

**The 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.

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;

**State of Illinois
Office of the Treasurer**

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

- 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.*).

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

**State of Illinois
Office of the Treasurer**

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

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;
- 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

**State of Illinois
Office of the Treasurer**

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

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;
- 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

**State of Illinois
Office of the Treasurer**

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

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.

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

**State of Illinois
Office of the Treasurer**

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

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;
 - 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

**State of Illinois
Office of the Treasurer**

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

- 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;
- 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.

**State of Illinois
Office of the Treasurer**

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

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.

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

**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.

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

**State of Illinois
Office of the Treasurer**

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

- 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 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).

**State of Illinois
Office of the Treasurer**

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

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.

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);

**State of Illinois
Office of the Treasurer**

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

- 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); and
- i) Suitable securities in The Illinois Funds Money Market Funds portfolio may be lent in accordance with the Federal Financial Institution Examination Council Guidelines.
- 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

**State of Illinois
Office of the Treasurer**

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

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;
- 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.

**State of Illinois
Office of the Treasurer**

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

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.

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;

**State of Illinois
Office of the Treasurer**

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

- 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.

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;

**State of Illinois
Office of the Treasurer**

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

- d) Any change in investment policy adopted during the quarter; and
- e) The average 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 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.

Other Information
The Illinois Funds Money Market Fund
Investment Policy
(Unaudited)
(Effective June 2015 through November 2016)

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Money Market Fund Investment Policy
(Effective June 2015 through November 2016)
(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 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 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. 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 Money Market Fund properly manages market, interest rate and credit risk.

2.2 LIQUIDITY:

The investment portfolio shall remain sufficiently liquid to enable the 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 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.

3.0 ETHICS AND CONFLICTS OF INTEREST:

Authorized investment staff and employees in policy-making positions for the 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 Money Market Fund's portfolio. In addition, such individuals shall subordinate their personal investment transactions to those of the Money Market Fund, particularly with regard to the time of purchase and sales.

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Money Market Fund Investment Policy
(Effective June 2015 through November 2016)
(Unaudited)**

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 \$100,000. 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.*).

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. They 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 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 Questionnaire;
- f) Certification of notice and knowledge of this Policy; and
- g) Any other documentation determined necessary by the Treasurer.

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

An annual review of the financial condition and registration of qualified 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 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);

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Money Market Fund Investment Policy
(Effective June 2015 through November 2016)
(Unaudited)**

- 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) Short-term obligations of corporations organized in the United States with assets exceeding \$500,000,000 if (i) such obligations are rated at the time of purchase at one of the two highest classifications established by at least two standard rating services and that mature not later than 180 days from the date of purchase, (ii) such purchases do not exceed 10% of the corporation's outstanding obligations, and (iii) no more than one-third of the public agency's funds may be invested in short-term obligations of corporations and (iv) the corporation is not a forbidden entity as defined in Section 22.6 of the Deposit of State Moneys Act (15 ILCS 520/22.6); Public Funds Investment Act (30 ILCS 235/2) and Deposit of State Moneys Act (15 ILCS 520/22.5);
- 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) Bonds, notes, debentures, or similar obligations of a foreign government, other than the Republic of Sudan (effective Jan 27, 2006), that are guaranteed by the full faith and credit of that government as to principal and interest, but only if the foreign government has not defaulted and has met its payment obligations for a period of at least 25 years immediately before the acquisition of those obligations; Deposit of State Moneys Act (15 ILCS 520/22.5);
- 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); and
- i) Suitable securities in the Money Market Funds portfolio may be lent in accordance with the Federal Financial Institution Examination Council Guidelines.

6.0 INVESTMENT RESTRICTIONS:

The following restrictions will apply to all 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

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Money Market Fund Investment Policy
(Effective June 2015 through November 2016)
(Unaudited)**

Agreement adopted by the Treasurer;

- c) There will be no investments in mortgage-backed securities of any kind;
- d) There will be no investments in asset-backed securities of any kind;
- e) Certificates of deposit may not be purchased from the Money Market Fund's custodial institution or any of its subcontractors;
- f) Investments in Bankers' Acceptances of any kind are prohibited; and
- g) 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.

7.0 COLLATERALIZATION:

All 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 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.

9.0 DIVERSIFICATION:

The primary purpose of diversification in general is to control credit and market risk. The 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 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 Money Market Fund assets, The Money Market Fund portfolio will observe the following diversification limits, at the time of purchase:

The 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;

The Money Market Fund will invest no more than 5% of its total assets in securities issued by any single Commercial Paper Issuer (calculated at the time of purchase);

- a) A maximum of 1/3 of the portfolio may be invested in direct Commercial Paper Obligations not to exceed 180 days to maturity at time of purchase;
- b) A maximum of 25% of total assets may be invested in any approved AAAM Money Market Fund;
- c) The Money Market Fund will seek to achieve diversification in the portfolio by reasonably

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Money Market Fund Investment Policy
(Effective June 2015 through November 2016)
(Unaudited)**

distributing investments within authorized investment categories, and with issuers and brokers/dealers;

- d) The Money Market Fund shall at no time hold certificates of deposit constituting more than 10% of any single financial institution's total deposits; and
- e) The 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.

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 Money Market Fund.

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

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

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Money Market Fund Investment Policy
(Effective June 2015 through November 2016)
(Unaudited)**

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

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, 2018, and the related notes to the financial statements, which collectively comprise The Illinois Funds financial statements, and have issued our report thereon dated January 10, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Illinois, Office of the Treasurer's internal control over financial reporting (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. 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control of The Illinois Funds 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 2018-001 that we consider to be a significant deficiency.

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*.

Office of the Treasurer's Response to Findings

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

Crowe LLP

Springfield, Illinois
January 10, 2019

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Schedule of Findings
For the Years Ended June 30, 2018 and 2017**

2018-001 **Finding** (Lack of Adequate Controls over the Review of External Service Provider)

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

The Office utilized an external service provider as the custodian of the Illinois Funds Program and an external service provider as a payment processor for the E-Pay program. As of June 30, 2018, the net position held in trust for pool participants was \$5.6 Billion.

During testing, the auditors noted:

- Office personnel obtained and reviewed the Service Organization Control (SOC) report for one business group of the custodian of the Illinois Funds Program, but did not obtain all SOC reports to cover all significant services provided by the custodian.
- The Office did not perform procedures to review and monitor the internal controls of the payment processor external service provider.

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 the IL Funds SOC reporting issue was due to oversight. Additionally, the Office stated they believed the payment processor was having a SOC report completed and also found assurance in the processor's review of their subservice organizations.

In the prior year, we noted the Office did not obtain or review subservice organization SOC reports. In the current year, significant subservice organization SOC reports were reviewed by the Office.

Without having reviewed all SOC reports, the Office had no assurance the external service providers' internal controls are adequate to ensure proper accounting and safekeeping of assets. (Finding Code No. 2018-001, 2017-002)

Recommendation

We recommend the Office establish an internal control process to timely request, review and document the review of all SOC reports from its service providers when reports are issued. If SOC reports are not available, other procedures should be performed by the Office to ensure internal controls at the external service provider are adequate.

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Schedule of Findings
For the Years Ended June 30, 2018 and 2017**

Office Response

The Treasurer's Office accepts the recommendation. However, the Office had not reviewed or obtained the Fund Accounting SOC report previously from the custodian bank because it was not provided to us upon our request to review pertinent SOC reports related to our contract. We have now obtained the Fund Accounting SOC report that is not included in the Mutual Fund Transfer Agent Transaction Processing System SOC report. This SOC covers fair valuation of securities, noncustodial cash and position reconciliation and offline processing for certain asset types. Regarding the SOC2 report from the payment processor, management requested this several times starting in December 2017. At that time the processor's Chief Operating Officer indicated a SOC2 would be provided to the Illinois State Treasurer in 2018. At the end of the fiscal year, the processor provided memos of their review of sub-contractor SOC1 reports and a memo indicating they would complete a SOC2 by year end. The processor was then acquired by another company in October 2018. As a result, the processor did not complete a SOC2 report and now has plans to roll under their new parent company's SOC1 report in 2019.

**State of Illinois
Office of the Treasurer**

**The Illinois Funds
Prior Finding Not Repeated
For the Years Ended June 30, 2018 and 2017**

A. Finding – Inadequate Internal Controls over Financial Statement Reporting

In the prior year, we noted the Treasurer did not properly evaluate and report a section of the deposit and investment note disclosure as money market mutual funds were not properly disclosed in the GASB Statement No. 72 leveling disclosure.

In the current year, we noted the Treasurer properly evaluated and disclosed its investment within its GASB Statement No. 72 leveling disclosure. (Finding Code No. 2017-001)