

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

Financial Audit  
For the Years Ended June 30, 2023 and 2022

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, 2023 and 2022**

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**State of Illinois  
Office of the Treasurer**

**The Illinois Funds  
Financial Audit  
For the Year Ended June 30, 2023**

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**Office of the Treasurer's Officials**

Treasurer	Honorable Michael W. Frerichs
Chief of Staff	Mr. G. Allen Mayer
Chief Banking Officer	Ms. Elizabeth Turner
Chief Fiscal Officer	Ms. Deborah Miller
Chief Investment Officer	Mr. Joseph Aguilar
General Counsel & Ethics Officer	Ms. Laura Duque
Executive Inspector General for the Illinois State Treasurer	Ms. Heather Stone
Chief Internal Auditor	Ms. Leighann Manning
Director of Fiscal Operations	Mr. Wes Howerton
Director of Illinois Funds	Mr. Thomas Gary
Director of IPTIP (Illinois Public Treasurer's Investment Pool) Investments	Mr. Jack Weisenborn

**Office of the Treasurer's Offices**

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

Executive Office  
State Capitol  
219 State House  
Springfield, Illinois 62706

Operational Divisions  
Marine Bank Building  
1 East Old State Capitol Plaza  
Springfield, Illinois 62701

Chicago Office Legal/Programmatic  
State Treasurer's Office  
555 W. Monroe, 14<sup>th</sup> Floor  
Chicago, IL 60661

## **FINANCIAL STATEMENT REPORT**

**State of Illinois  
Office of the Treasurer**

**The Illinois Funds  
Financial Audit  
For the Years Ended June 30, 2023 and 2022**

**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, 2023 and 2022.

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

**Summary of Findings**

<u>Number of</u>	<u>Current Report</u>	<u>Prior Report</u>
Findings	2	2
Repeated Findings	2	1
Prior Recommendations Implemented or Not Repeated	0	0

**SCHEDULE OF FINDINGS**

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
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**CURRENT FINDINGS**

2023-001	65	2023/2020	Inadequate Internal Controls Related To Review of Financial Statements	Material Weakness
2023-002	66	2023/2022	Inadequate Internal Controls Related to Review of Service Providers	Significant Deficiency

**Exit Conference**

The Office waived an exit conference in a correspondence from Leighann Manning, Chief Internal Auditor, on June 25, 2024.

## **INDEPENDENT AUDITOR'S REPORT**

## Independent Auditor's Report

The Honorable Frank J. Mautino  
Auditor General  
State of Illinois

### Report on the Audit of the Financial Statements

#### ***Opinion***

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of The Illinois Funds, as defined in Note 1, a fiduciary (investment trust) fund of the State of Illinois, Office of the Treasurer, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of The Illinois Funds, as defined in Note 1, of the State of Illinois, Office of the Treasurer, as of June 30, 2023 and 2022, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Office of the Treasurer, and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Emphasis of Matter***

As discussed in Note 1, the financial statements of the Illinois Funds are intended to present the financial position and the changes in financial position of only that portion of the Office of the Treasurer that is attributable to the transactions of The Illinois Funds, available to external participants. They 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, 2023 and 2022, and 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.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for purpose of expressing an opinion on the effectiveness of the Office of the Treasurer's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***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.

### ***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the financial statements of The Illinois Funds of the State of Illinois, Office of the Treasurer, as defined in Note 1. The Supplementary Information (pages 21 - 29) as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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.



### **Other Information**

Management is responsible for the other information included in the annual report. The Other Information (pages 30 – 62) as listed in the table of contents does not include the financial statements of The Illinois Funds of the State of Illinois, Office of the Treasurer, as defined in Note 1 and our auditor’s report thereon. Our opinion on the financial statements of The Illinois Funds of the State of Illinois, Office of the Treasurer, as defined in Note 1, do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2024, 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 and compliance.

**SIGNED ORIGINAL ON FILE**

Crowe LLP

Oak Brook, Illinois  
July 15, 2024

## **BASIC FINANCIAL STATEMENTS**

**State of Illinois  
Office of the Treasurer**

**The Illinois Funds  
Statements of Fiduciary Net Position  
June 30, 2023 and 2022**

	2023	2022
<b>Assets</b>		
<b>Cash and Cash Equivalents</b>		
Cash	\$ 4,099	\$ -
Repurchase agreements, including accrued interest of \$113,099 and \$23,383 in 2023 and 2022, respectively	806,977,577	555,239,398
Commercial paper, net of unaccreted discount of \$1,523,194 and \$1,024,705 in 2023 and 2022, respectively	373,358,456	798,524,795
U.S. Treasury Bills, net of unaccreted discount of \$0 and \$23,208 in 2023 and 2022, respectively	-	42,685,716
U.S. Treasury Notes, net of unaccreted discount of \$60,205 and \$6,093 in 2023 and 2022, respectively	351,649,953	21,348,370
Money market mutual funds, net of unamortized premium of \$323,645 and \$464,391, in 2023 and 2022 respectively	1,642,732,433	1,375,150,883
U.S. agency obligations		
Federal Farm Credit Bureau Debentures, net of unaccreted discount of \$0 and \$0 in 2023 and 2022 and unamortized premium of \$0 and \$196,171 in 2023 and 2022, respectively	-	128,750,033
Federal Home Loan Bank Debentures, net of unaccreted discount of \$0 and \$55,388 in 2023 and 2022, respectively	-	53,330,767
Corporate Bonds, net of unaccreted discount of \$1,956,223 in 2023 and unamortized premium of \$75,046 in 2022, respectively	425,175,488	227,911,556
Supranational Notes, net of unaccreted discount of \$0 and unaccreted discount of \$98,697 in 2023 and 2022, respectively	-	197,157,168
Total cash and cash equivalents	3,599,898,006	3,400,098,686
<b>Deposits and investments</b>		
Commercial paper, net of unaccreted discount of \$13,857,995 and \$8,509,002 in 2023 and 2022, respectively	867,755,236	1,213,585,511
U.S. Treasury Bills, net of unaccreted discount of \$2,249,279 and \$95,496 in 2023 and 2022, respectively	390,838,544	85,322,353
U.S. Treasury Notes, net of unamortized premium of \$35,492 and \$129,980 in 2023 and 2022, respectively	62,031,006	128,256,753
U.S. agency obligations		
Federal Home Loan Bank Debentures, net of unaccreted discount of \$565,377 and \$241,211 in 2023 and 2022, respectively	755,340,437	48,874,052

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, 2023 and 2022**

	2023	2022
<b>Assets (Continued)</b>		
U.S. agency obligations (Continued)		
Federal Farm Credit Bureau Debentures, net of unaccreted net discount of \$0 and \$433,303 in 2023 and 2022 and unamortized premium of \$57,932 and \$18,199 in 2023 and 2022, respectively	\$ 367,864,001	\$ 442,689,984
Federal National Mortgage Association Debentures	103,444,164	-
Certificates of Deposit, net of accreted discount of \$141,514 and \$0 in 2023 and 2022, respectively	152,466,764	-
Supranational Notes, net of unamortized premium of \$0 and \$670,453 in 2023 and 2022 and net of accreted discount of \$868,481 and \$305,452 in 2023 and 2022, respectively	167,140,151	436,907,864
Corporate Bonds, net of unaccreted discount of \$3,084,228 and \$0 in 2023 and 2022 and net of unamortized premium of \$0 and \$101,758 in 2023 and 2022, respectively	1,439,291,540	1,097,772,422
Total deposits and investments	4,306,171,843	3,453,408,939
Accrued interest receivable	35,645,186	13,554,686
Total assets	\$ 7,941,715,035	\$ 6,867,062,311
<b>Liabilities and Net Position</b>		
Accrued liabilities		
Bank custodial fees	\$ 156,139	\$ 134,727
State management fees	467,093	406,801
Total liabilities	623,232	541,528
Net position held in trust for pool participants	\$ 7,941,091,803	\$ 6,866,520,783
The pricing of shares		
Participant shares outstanding (\$1.00 par, unlimited shares authorized)	7,941,091,803	6,866,520,783
Participant net position value, offering and redemption price per share	\$ 1.00	\$ 1.00

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, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Additions		
Investment income		
Investment earnings	\$ 294,913,935	\$ 22,358,437
Investment expenses		
Bank custodial fees	1,752,150	1,309,301
State management fees	3,719,601	2,453,794
Total investment expenses	<u>5,471,751</u>	<u>3,763,095</u>
Net investment income	<u>289,442,184</u>	<u>18,595,342</u>
Dividends to participants from net investment income	(289,442,184)	(18,595,342)
Share transactions (dollar amounts and number of shares are the same)		
Subscriptions	15,345,076,644	14,668,517,004
Reinvestments	284,010,750	15,187,912
Redemptions	<u>(14,554,516,374)</u>	<u>(12,916,450,350)</u>
Change in net position and shares resulting from share transactions	1,074,571,020	1,767,254,566
Net position, beginning of year	<u>6,866,520,783</u>	<u>5,099,266,217</u>
Net position, end of year	<u>\$ 7,941,091,803</u>	<u>\$ 6,866,520,783</u>

The accompanying notes are an integral part of these statements.

**State of Illinois  
Office of the Treasurer**

**The Illinois Funds  
Notes to the Financial Statements  
For the Years Ended June 30, 2023 and 2022**

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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 Annual Comprehensive 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 Annual Comprehensive Financial Report as an investment trust fund. The Illinois Funds Program 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 non-component-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 external participants, and the changes in net position. The internal portion of The Illinois Funds is included in the various funds in the Illinois Annual Comprehensive 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, 2023 and 2022**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

Certificates of deposit with financial institutions are stated at cost plus accrued interest, which represents current value. Certificates of deposit may be subject to certain withdrawal restrictions. It is the intent of management to hold the time deposits to maturity.

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, excluding prime money market 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. Prime money market funds are stated at amortized cost, which excludes accrued interest and includes accretion of discounts and amortization of premiums.

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.

Corporate bonds are stated at amortized cost, which excludes accrued interest and includes accretion of discounts and amortization of premiums. Corporate bonds utilize the straight-line method of amortization of accretion. It is the intent of management to hold corporate bonds to maturity.

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 participant deposits, excluding assets of the State of Illinois, including late deposits held in an overnight investment account as of June 30, 2023 and 2022.

**State of Illinois  
Office of the Treasurer**

**The Illinois Funds  
Notes to the Financial Statements  
For the Years Ended June 30, 2023 and 2022**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

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.

**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.



**State of Illinois  
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**The Illinois Funds  
Notes to the Financial Statements  
For the Years Ended June 30, 2023 and 2022**

**Note 2. Deposits and Investments (Continued)**

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

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

The following table summarizes The Illinois Funds' investments within the fair value hierarchy at June 30, 2023:

<b>Type</b>	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Repurchase Agreements	\$ 806,864,478	\$ -	\$ 806,864,478	\$ -
Commercial Paper	1,241,046,701	-	1,241,046,701	-
Money Market Mutual Funds	1,642,468,574	1,642,468,574	-	-
United States Treasury Bills	390,907,013	-	390,907,013	-
United States Treasury Notes	413,813,689	-	413,813,689	-
Federal Home Loan Bank Debentures	753,769,065	-	753,769,065	-
Federal National Mortgage Association Debentures	103,089,143	-	103,089,143	-
Federal Farm Credit Bureau Debentures	367,763,854	-	367,763,854	-
Supranational Notes	167,082,269	-	167,082,269	-
Certificates of Deposit	151,787,718	-	151,787,718	-
Corporate Bonds	1,861,332,974	-	1,861,332,974	-
	<b>\$ 7,899,925,478</b>	<b>\$ 1,642,468,574</b>	<b>\$ 6,257,456,904</b>	<b>\$ -</b>

**State of Illinois  
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**The Illinois Funds  
Notes to the Financial Statements  
For the Years Ended June 30, 2023 and 2022**

**Note 2. Deposits and Investments (Continued)**

The following table summarizes The Illinois Funds' investments within the fair value hierarchy at June 30, 2022:

Type	Fair Value	Level 1	Level 2	Level 3
Repurchase Agreements	\$ 555,239,398	\$ -	\$ 555,239,398	\$ -
Commercial Paper	2,009,994,149	-	2,009,994,149	-
Money Market Mutual Funds	1,374,655,014	1,374,655,014	-	-
United States Treasury Bills	127,930,312	-	127,930,312	-
United States Treasury Notes	149,460,735	-	149,460,735	-
Federal Home Loan Bank Debentures	102,100,638	-	102,100,638	-
Federal Farm Credit Bureau Debentures	571,154,038	-	571,154,038	-
Supranational Notes	633,133,393	-	633,133,393	-
Corporate Bonds	1,317,701,672	-	1,317,701,672	-
	<u>\$ 6,841,369,349</u>	<u>\$ 1,374,655,014</u>	<u>\$ 5,466,714,335</u>	<u>\$ -</u>

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 and AAAMmf from Fitch. 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 and AAAMmf by Fitch.

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**The Illinois Funds  
Notes to the Financial Statements  
For the Years Ended June 30, 2023 and 2022**

**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, 2023 and 2022 is as follows:

**Summary of Investments at June 30, 2023:**

Type	Carrying Amount	Fair Value	Face / Par Principal Amount	Range of Interest Yields	Range of Maturity Dates
Repurchase Agreements	\$ 806,977,577	\$ 806,864,478	\$ 806,864,478	5.100-5.151%	7/5/2023
Commercial Paper	1,241,113,692	1,241,046,701	1,256,494,881	4.056-5.982%	7/6/23-8/21/23
Money Market Mutual Funds	1,642,732,433	1,642,468,574	1,642,408,788	NA	NA
United States Treasury Bills	390,838,544	390,907,013	393,087,823	4.755-5.277%	7/13/23-10/26/23
United States Treasury Notes	413,680,959	413,813,689	413,776,656	5.282-5.559%	7/1/23-7/4/23
Corporate Bonds	1,864,467,028	1,861,332,974	1,869,507,479	2.017-9.676%	7/1/23-7/30/24
Certificates of Deposit	152,466,764	151,787,718	152,608,278	5.252-5.655%	7/1/23-10/31/23
Federal Home Loan Bank Debentures	755,340,437	753,769,065	755,905,814	2.383-5.684%	7/3/23-6/28/24
Federal National Mortgage Association Debentures	103,444,164	103,089,143	103,444,164	5.016-5.142%	12/28/23-2/9/24
Federal Farm Credit Bureau Debentures	367,864,001	367,763,854	367,806,069	4.877-5.251%	7/1/23-12/28/23
Supranational Notes	167,140,151	167,082,269	168,008,632	4.030-5.195%	7/1/23-9/25/23
	<u>\$ 7,906,065,750</u>	<u>\$ 7,899,925,478</u>	<u>\$ 7,929,913,062</u>		

**Summary of Investments at June 30, 2022:**

Type	Carrying Amount	Fair Value	Face / Par Principal Amount	Range of Interest Yields	Range of Maturity Dates
Repurchase Agreements	\$ 555,239,398	\$ 555,239,398	\$ 555,216,015	1.521-1.561%	7/1/2022
Commercial Paper	2,012,110,306	2,009,994,149	2,021,644,013	0.253-3.569%	7/1/22-4/3/23
Money Market Mutual Funds	1,375,150,883	1,374,655,014	1,374,686,492	NA	NA
United States Treasury Bills	128,008,069	127,930,312	128,126,773	0.527-0.973%	7/26/22-9/22/22
United States Treasury Notes	149,605,123	149,460,735	149,481,236	0.658-1.723%	7/1/22-10/31/22
Corporate Bonds	1,325,683,978	1,317,701,672	1,320,035,899	0.154-3.599%	7/1/22-7/28/23
Federal Home Loan Bank Debentures	102,204,819	102,100,638	102,501,418	0.963-2.190%	7/1/22-5/22/23
Federal Farm Credit Bureau Debentures	571,440,017	571,154,038	571,658,950	0.423-2.190%	7/1/22-5/18/23
Supranational Notes	634,065,032	633,133,393	633,798,728	0.244-1.926%	7/1/22-1/24/23
	<u>\$ 6,853,507,625</u>	<u>\$ 6,841,369,349</u>	<u>\$ 6,857,149,524</u>		

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

**State of Illinois  
Office of the Treasurer**

**The Illinois Funds  
Notes to the Financial Statements  
For the Years Ended June 30, 2023 and 2022**

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**Note 2. Deposits and Investments (Continued)**

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.

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 \$806,864,478 and \$555,216,015 as of June 30, 2023 and 2022, respectively. The fair value, including accrued interest, of the underlying securities to be resold based on commitments under the repurchase agreements was \$824,906,178 and \$572,872,496 as of June 30, 2023 and 2022, 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  
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**The Illinois Funds  
Notes to the Financial Statements  
For the Years Ended June 30, 2023 and 2022**

**Note 2. Deposits and Investments (Continued)**

Investments: The Illinois Funds had the following investments, stated at carrying value, and maturities as of June 30, 2023 and 2022. (Amounts are in thousands.)

	2023					2022				
	Thirty Days or Less	Thirty One to Ninety Days	Ninety One Days to One Year	One Year or More	Total	Thirty Days or Less	Thirty One to Ninety Days	Ninety One Days to One Year	One Year or More	Total
Repurchase agreements	\$ 806,978	\$ -	\$ -	\$ -	\$ 806,978	\$ 555,239	\$ -	\$ -	\$ -	\$ 555,239
Commercial paper	503,676	350,627	386,811	-	1,241,114	746,202	641,372	624,536	-	2,012,110
Supranational notes	66,484	100,657	-	-	167,141	275,388	247,337	111,340	-	634,065
Corporate bonds	1,041,142	479,026	333,955	10,344	1,864,467	404,127	227,041	681,703	12,813	1,325,684
Certificates of deposit	90,389	10,344	51,733	-	152,466	-	-	-	-	-
U.S. Treasury bills	165,059	185,101	40,678	-	390,838	64,028	63,980	-	-	128,008
U.S. Treasury notes	413,681	-	-	-	413,681	21,348	64,099	64,158	-	149,605
U.S. agency obligations	481,619	78,026	667,004	-	1,226,649	573,959	53,308	46,378	-	673,645
<b>Subtotal</b>	<b>\$ 3,569,028</b>	<b>\$ 1,203,781</b>	<b>\$ 1,480,181</b>	<b>\$ 10,344</b>	<b>6,263,334</b>	<b>\$ 2,640,291</b>	<b>\$ 1,297,137</b>	<b>\$ 1,528,115</b>	<b>\$ 12,813</b>	<b>5,478,356</b>
Treasury-only money market mutual funds					1,642,732					1,375,151
<b>Investments</b>					<b>\$ 7,906,066</b>					<b>\$ 6,853,507</b>

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, 2023, The Illinois Funds' investments in U.S. Agencies, including collateral for repurchase agreements were rated AA+ by Standard & Poor's Ratings and F2 by Fitch and the Supranational Notes that were rated AAA by Standard & Poor's and F1+ by Fitch. The Illinois Funds' investments in commercial paper were rated P-1 by Moody's Investors Service, A-1+ or A-1 by Standard & Poor's Ratings, and either F1 or F1+ by Fitch except L'Oreal, National Sec Clearing Corp, and Toronto Dominion Holdings USA that were not rated by Fitch and except ones issued by El Du Pont De Nemours which were rated A-2 and P-2. Commercial Paper issued by HSBC USA Inc was rated A-2 by Standard & Poors. The Illinois Funds investments in Corporate Bonds were rated as A-1 and A-1+ by Standard & Poor's, P-1 by Moody's Investors Services, and either F1 or F1+ by Fitch except for that were not rated by Fitch and except for ones issued by Fifth Third Bancorp, Keybank National Association, PNC Financial Services and Citigroup that were rated A-2 and P-2 and American Express Co, Bank of America, Goldman Sachs Group, JP Morgan Chase & Co, Truist Financial Corp, and Wells Fargo & Co were all rated A-2 by Standard & Poors and Rockwell Automation Inc which was rated P-2. The Illinois Funds' investments in money market mutual funds were rated Aaa by Moody's Investors Service, AAAM by Standard & Poor's Ratings and AAAMmf by Fitch.

As of June 30, 2022, The Illinois Funds' investments in U.S. Agencies, including collateral for repurchase agreements were rated AA+, A1 and A2 by Standard and Poor's Ratings and F1 and F1+ by Fitch and the Supranational Notes that were rated AAA by Standard and Poor's and F1+ by Fitch. The Illinois Funds' investments in commercial paper were rated P-1 by Moody's Investors Service, A-1+ and A-1 by Standard & Poor's Ratings, and either F1 or F1+ by Fitch except Apple, John Deere Cap Corp, L'Oreal, National Sec Clearing Corp, Pepsico, Roche, and Toronto Dominion Holdings USA that were not rated by Fitch and except ones issued by Citigroup, El Du Pont De Nemours, Union Pacific, and Verizon Communications which were rated A-2 and P-2 and Stanley Black & Decker that was rated P-2 by Moody's Investor Services.

**State of Illinois  
Office of the Treasurer**

**The Illinois Funds  
Notes to the Financial Statements  
For the Years Ended June 30, 2023 and 2022**

**Note 2. Deposits and Investments (Continued)**

Commercial Paper issued by HSBC USA Inc was rated A-2 by Standard & Poor's. The Illinois Funds Investments in Corporate Bonds were rated as A-1+ and A-1 by Standard & Poor's, P-1 by Moody's Investor Services, and either F1 or F1+ by Fitch except for Chevron, BNY Mellon Corp, Bristol Myers Squibb Co, John Deere Cap Corp, Exxon Mobil, and Paccar that were not rated by Fitch and except for ones issued by PNC Financial Services and Citigroup that were rated A-2 and P-2 and American Express Co, Bank of America, Goldman Sachs Group, JP Morgan Chase & Co, Truist Financial Group and Wells Fargo & Co were all rated A-2 by Standard & Poor's. Corporate Bonds issued by United Health was rated P-2 by Moody's. The Illinois Funds' investments in money market mutual funds were rated Aaa by Moody's Investor Service, AAAM by Standard and Poor's Ratings, and AAAMmf and AAAMmf by Fitch.

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, 2023 and 2022. (Amounts are in thousands.)

	2023		2022	
	Carrying Value	% of Total Investments	Carrying Value	% of Total Investments
U.S. Agency				
FFCB Notes	\$ -	-	\$ 1,337,987	8.34
FHLB Notes	1,825,479	9.55	-	-
US Treasury Notes	999,769	5.23	-	-
Repurchase Agreements				
Bank of Nova Scotia*	1,000,140	5.23	-	-

\*Issuer total exceeds 5% for all investment types although 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, 2023 and 2022**

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**Note 4. Administrative Fees**

To administer The Illinois Funds, the Treasurer has established a division titled “The Illinois Funds’ Administrative Office.” This division had 20 and 18 average full time equivalent employees for the years ended June 30, 2023, and 2022, 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 2023 and 2022.

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

	2023	2022
Fees received	\$ 14,299,000	\$ 11,753,000
Expenditures	9,484,000	5,285,000

**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 2023 and 2022, 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, 2023 and 2022, was approximately \$11,251,000 and \$6,583,000, respectively.

**State of Illinois  
Office of the Treasurer**

**The Illinois Funds  
Notes to the Financial Statements  
For the Years Ended June 30, 2023 and 2022**

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**Note 5. Related Parties (Continued)**

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

	<u>2023</u>	<u>2022</u>
Total number of participants	1,547	1,545
Number of State of Illinois participants	27	28
Balance of State of Illinois investments	\$ 11,249,820,659	\$ 9,212,457,565

\*These amounts reflect the amount available to the State of Illinois for expenditure, not including any amount of interest due to the State.

**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.

**Note 7. COVID-19 Impact**

On March 11, 2022, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. The COVID-19 pandemic continues to impact domestic and global financial markets. As a result, economic uncertainties continue, which could negatively impact the fair market value of investments held by the Illinois Funds. Other financial implications could occur though potential impact is unknown at this time. No adjustments or provisions were made in these financial statements related to COVID-19.



## **SUPPLEMENTARY INFORMATION**

**State of Illinois  
Office of the Treasurer**

**The Illinois Funds  
Portfolio of Investments – Internal and External  
June 30, 2023**

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	Execution Date	Interest Rate	Maturity Date	Face Amount	Fair Value
Repurchase Agreements					
BANK OF MONTREAL	6/30/2023	5.110%	7/5/2023	\$ 400,000,000	\$ 400,056,000
BANK OF NOVA SCOTIA	6/30/2023	5.100%	7/5/2023	1,000,000,000	1,000,139,722
DAIWA	6/30/2023	5.151%	7/5/2023	<u>550,000,000</u>	<u>550,077,611</u>
Total Repurchase Agreements				<u>\$ 1,950,000,000</u>	<u>\$ 1,950,273,333</u>

**State of Illinois  
Office of the Treasurer**

**The Illinois Funds  
Portfolio of Investments – Internal and External (Continued)  
June 30, 2023**

	Execution Date	Effective Yield	Maturity Date	Fair Value	Carrying Value
<b>Commercial Paper</b>					
ABN AMRO FDS USA LLC CP	04/06/23	5.181%	07/06/23	\$ 49,979,000	\$ 49,964,514
ABN AMRO FDS USA LLC CP	04/10/23	5.171%	07/10/23	24,975,500	24,968,125
ABN AMRO FDS USA LLC CP	01/18/23	4.998%	07/17/23	24,950,250	24,945,222
ABN AMRO FDS USA LLC CP	06/20/23	5.445%	09/18/23	54,361,450	54,351,871
BANK AMER SECS INC	04/11/23	5.313%	09/12/23	49,464,500	49,468,722
BANK AMER SECS INC	04/11/23	5.303%	10/13/23	49,214,000	49,244,556
BANK AMER SECS INC	04/14/23	5.303%	11/14/23	48,948,500	49,012,111
CANIBC	06/29/23	5.587%	02/01/24	48,269,500	48,354,653
CANIBC	06/16/23	5.597%	03/12/24	47,944,500	48,045,000
CANIBC	06/20/23	5.642%	03/15/24	95,840,000	96,011,750
CANIBC	06/23/23	5.688%	03/18/24	47,895,500	47,966,375
CANIBC	10/20/22	5.080%	07/17/23	49,900,500	49,888,667
CATERPILLAR FINL SVCS CORP	06/22/23	5.181%	07/19/23	99,772,000	99,744,500
DEERE JOHN CAP CORP	06/16/23	5.293%	09/01/23	148,677,000	148,651,500
EIDP INC	04/17/23	5.434%	07/06/23	40,982,780	40,969,478
EIDP INC	04/03/23	5.556%	07/07/23	49,972,000	49,954,333
EIDP INC	05/02/23	5.414%	07/24/23	49,850,500	49,829,417
EIDP INC	05/22/23	5.475%	07/25/23	39,874,800	39,856,000
EIDP INC	05/24/23	5.505%	08/07/23	19,897,200	19,888,383
EIDP INC	06/05/23	5.688%	09/05/23	44,565,750	44,537,175
EIDP INC	06/06/23	5.698%	09/18/23	49,419,500	49,383,361
EIDP INC	05/04/23	5.657%	10/02/23	98,597,000	98,558,587
EIDP INC	06/07/23	5.627%	10/24/23	49,129,000	49,113,542
EIDP INC	05/25/23	5.728%	12/01/23	45,870,590	45,871,412
EIDP INC	06/01/23	5.820%	12/07/23	48,750,500	48,732,417
HSBC USA INC	04/25/23	5.734%	01/16/24	24,208,000	24,218,510
HSBC USA INC	05/23/23	5.728%	02/16/24	48,147,500	48,195,139
HSBC USA INC	05/26/23	5.901%	02/20/24	48,115,000	48,108,500
HSBC USA INC	06/09/23	5.982%	06/07/24	47,237,500	47,197,500
HSBC USA INC	07/14/22	4.157%	07/13/23	24,964,500	24,965,833
HSBC USA INC	11/14/22	5.456%	07/14/23	89,859,600	89,825,114
HSBC USA INC	04/10/23	5.222%	07/27/23	63,632,271	63,612,513
HSBC USA INC	08/03/22	4.056%	08/01/23	34,855,800	34,879,444
HSBC USA INC	12/02/22	5.688%	09/01/23	49,559,000	49,516,917
HSBC USA INC	10/11/22	5.333%	10/10/23	39,389,600	39,409,711
ING US FUNDING LLC	12/22/22	5.080%	07/20/23	99,758,000	99,735,583
ING US FUNDING LLC	01/05/23	5.069%	08/03/23	49,772,000	49,770,833
ING US FUNDING LLC	05/24/23	5.374%	08/24/23	49,618,000	49,602,500
ING US FUNDING LLC	06/20/23	5.533%	12/12/23	97,422,000	97,513,806
KOCH INDUSTRIES INC	06/06/23	5.252%	07/14/23	49,922,000	49,906,472
KOCH INDUSTRIES INC	06/20/23	5.242%	08/17/23	49,669,500	49,662,514
L'OREAL	01/13/23	4.836%	07/13/23	63,709,404	63,698,558
LOUIS VUITTON MOET HENNESSY	01/12/23	4.983%	07/10/23	45,954,920	45,943,475
LOUIS VUITTON MOET HENNESSY	02/22/23	5.029%	09/08/23	49,494,500	49,524,667
NATL SEC CLEARING CORP	06/06/23	5.191%	07/05/23	149,958,000	149,914,667
NATL SEC CLEARING CORP	06/16/23	5.201%	07/17/23	199,602,000	199,544,000
TORONTO DOMINION HLDGS USA INC	05/01/23	5.252%	08/29/23	49,581,000	49,575,528
TORONTO DOMINION HLDGS USA INC	12/07/22	5.181%	09/05/23	49,517,500	49,531,583
TORONTO DOMINION HLDGS USA INC	11/22/22	5.313%	09/22/23	49,389,000	49,395,944
TORONTO DOMINION HLDGS USA INC	04/10/23	5.232%	10/10/23	49,237,000	49,276,167
TOYOTA MOTOR CORP	02/21/23	5.151%	08/21/23	49,640,000	49,640,167
Total Commercial Paper				<u>\$ 2,999,315,415</u>	<u>\$ 2,999,477,316</u>

**State of Illinois  
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**The Illinois Funds  
Portfolio of Investments – Internal and External (Continued)  
June 30, 2023**

	Fair Value	Carrying Value
<b>Money Market Mutual Funds</b>		
BLACKROCK LIQUIDITY TEMPFUND INST	\$ 594,231,160	\$ 594,466,947
DWS ESG LIQ FUND/INST SHARES	7,301,831	7,303,631
FED/HERMES INSTIT PRIME OBLIG/INST	352,884,030	353,021,976
FIRST AMER INSTIT PRIME OBLIG/CL Z	3,416,413	3,416,295
GOLDMAN SACHS FS GOVT FD/DRXHML	176,055,441	176,055,440
INVESCO GOVT & AGENCY PORT/INSTIT	966,233,643	966,233,643
JPMORGAN PRIME MMF/ACADEMY	560,747,891	560,953,507
MORGAN STANLEY ILF/GOVT/INST	458,945,540	458,945,540
MORGAN STANLEY ILF/MMP/CASTLEOAK	589,350,917	589,407,571
NORTHERN INST US GOVT SELECT/WCS	19,783,327	19,783,327
STATE STREET INST US GOVT MMF/PREM	172,848,392	172,848,392
WESTERN ASSET INST GOVT RES/INST	67,658,252	67,658,252
	<u>\$ 3,969,456,837</u>	<u>3,970,094,521</u>
Total Money Market Mutual Funds		

**State of Illinois  
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**The Illinois Funds  
Portfolio of Investments – Internal and External (Continued)  
June 30, 2023**

	Execution Date	Effective Yield	Maturity Date	Fair Value	Carrying Value
<b>United States Treasury Obligations</b>					
<b>U.S. Treasury Bills</b>					
Treasury Bills	01/17/23	4.755%	07/13/23	\$ 49,930,500	\$ 49,921,833
Treasury Bills	04/27/23	5.069%	07/27/23	99,666,000	99,638,889
Treasury Bills	05/04/23	5.171%	08/03/23	199,120,000	199,065,000
Treasury Bills	02/16/23	4.867%	08/17/23	99,355,000	99,373,333
Treasury Bills	02/23/23	4.958%	08/24/23	49,626,000	49,633,250
Treasury Bills	04/20/23	5.007%	07/20/23	249,410,000	249,348,458
Treasury Bills	05/23/22	5.277%	10/26/23	98,339,000	98,308,375
Treasury Bills	04/25/23	5.090%	08/22/23	99,283,000	99,274,889
Total U.S. Treasury Bills				<u>\$ 944,729,500</u>	<u>\$ 944,564,027</u>
<b>U.S. Treasury Notes</b>					
Treasury Notes	05/12/23	5.559%	07/04/23	\$ 850,025,500	\$ 849,854,500
Treasury Notes	05/26/22	5.282%	07/01/23	49,977,000	49,992,864
Treasury Notes	12/20/22	5.543%	07/01/23	100,087,000	99,921,360
Total U.S. Treasury Notes				<u>\$ 1,000,089,500</u>	<u>\$ 999,768,724</u>
<b>Supranational Notes</b>					
European Invt Bk	10/11/22	4.252%	08/15/23	\$ 39,929,701	\$ 39,970,230
European Invt Bk	03/04/22	5.195%	07/01/23	11,009,900	11,015,239
European Invt Bk	03/20/23	4.938%	07/20/23	99,758,000	99,742,972
European Invt Bk	03/22/23	4.917%	09/18/23	98,839,000	98,935,696
International Bk for Recon & Dev	01/18/23	4.664%	07/14/23	49,926,500	49,916,944
International Bk for Recon & Dev	05/01/23	5.240%	09/25/23	49,427,500	49,408,153
International Fin Corp	09/20/22	4.030%	07/31/23	54,907,600	54,948,856
Total Supranational Notes				<u>\$ 403,798,201</u>	<u>\$ 403,938,090</u>

**State of Illinois  
Office of the Treasurer**

**The Illinois Funds  
Portfolio of Investments – Internal and External (Continued)  
June 30, 2023**

	Execution Date	Effective Yield	Maturity Date	Fair Value	Carrying Value
<b>Corporate Bonds</b>					
American Express Corp	09/29/22	4.648%	07/03/23	\$ 12,387,000	\$ 12,386,377
American Express Corp	09/29/22	6.042%	07/03/23	18,669,000	18,669,097
American Express Corp	02/01/23	5.547%	07/01/23	14,208,482	14,211,151
American Express Corp	06/26/23	5.489%	05/03/24	36,833,692	36,878,544
Bank of America Corp	06/14/23	5.727%	01/22/24	39,056,229	39,074,314
Bank of America Corp	06/22/23	5.675%	07/01/23	90,582,921	90,594,772
Bank of America Corp	03/27/23	4.757%	07/24/23	41,460,297	41,474,452
Bank of America Corp	01/20/23	5.069%	07/20/23	49,985,000	50,000,000
Bank of America Corp	02/28/23	5.699%	07/28/23	49,509,500	50,000,000
Capital One Financial Corp	02/15/23	5.394%	01/29/24	26,105,440	26,243,309
Caterpillar Financial Services	12/22/22	4.804%	11/24/23	13,406,445	13,441,408
Citigroup Global Markets Holdings Inc	06/30/23	5.692%	07/30/24	24,949,250	25,000,000
Citigroup Global Markets Holdings Inc	06/10/22	5.840%	07/01/23	49,999,500	50,000,000
Citigroup Global Markets Holdings Inc	06/17/22	4.714%	07/17/23	24,987,750	25,000,000
Citigroup Global Markets Holdings Inc	06/24/22	4.929%	07/24/23	49,985,500	50,000,000
Citigroup Global Markets Holdings Inc	06/30/22	4.584%	07/28/23	29,940,000	30,000,000
Citigroup Global Markets Holdings Inc	08/30/22	5.099%	07/30/23	49,904,000	50,000,000
Citigroup Global Markets Holdings Inc	10/27/22	4.918%	07/27/23	49,893,500	50,000,000
Citigroup Global Markets Holdings Inc	11/07/22	4.818%	07/07/23	49,788,500	50,000,000
Citigroup Global Markets Holdings Inc	10/31/22	5.048%	07/31/23	49,846,000	50,000,000
Citigroup Global Markets Holdings Inc	11/14/22	4.968%	07/14/23	49,841,500	50,000,000
Citigroup Global Markets Holdings Inc	12/01/22	5.129%	07/01/23	49,804,500	50,000,000
Citigroup Global Markets Holdings Inc	01/19/23	5.444%	07/19/23	99,766,000	100,000,000
Citigroup Global Markets Holdings Inc	03/03/23	5.830%	09/03/23	49,955,800	50,000,000
Citigroup Global Markets Holdings Inc	03/03/23	6.083%	09/03/23	49,943,850	50,000,000
Citigroup Global Markets Holdings Inc	01/23/23	5.272%	07/23/23	49,983,500	50,000,000
Citigroup Global Markets Holdings Inc	05/12/23	6.641%	11/12/23	49,862,000	50,000,000
Fifth Third Bancorp	01/12/23	5.405%	01/16/24	43,759,266	44,152,196
Fifth Third Bancorp	05/15/23	6.973%	01/25/24	85,832,440	85,681,899
Goldman Sachs Group Inc	04/17/23	6.307%	08/29/23	54,333,325	54,269,941
Goldman Sachs Group Inc	01/03/23	5.127%	12/06/23	58,072,169	58,208,935
Goldman Sachs Group Inc	06/21/22	4.965%	07/21/23	49,952,500	50,000,000
Goldman Sachs Group Inc	07/06/22	4.821%	07/06/23	49,995,000	50,000,000
Goldman Sachs Group Inc	07/29/22	4.033%	08/30/23	24,771,500	25,000,000
Goldman Sachs Group Inc	08/01/22	5.322%	07/30/23	24,950,500	25,000,000
Goldman Sachs Group Inc	02/27/23	6.083%	08/27/23	149,892,000	150,000,000
Goldman Sachs Group Inc	03/07/23	6.083%	09/07/23	100,016,000	100,000,000
Goldman Sachs Group Inc	03/10/23	6.185%	09/10/23	49,948,500	50,000,000
Goldman Sachs Group Inc	03/13/23	6.185%	09/13/23	49,946,500	50,000,000
Goldman Sachs Group Inc	03/29/23	6.337%	09/29/23	49,941,000	50,000,000
Goldman Sachs Group Inc	04/14/23	6.337%	10/05/23	99,767,000	100,000,000
Goldman Sachs Group Inc	05/30/23	6.641%	11/30/23	49,939,000	50,000,000
Goldman Sachs Group Inc	06/27/23	6.844%	07/27/23	24,976,250	25,000,000
JPMorgan Chase Financial	07/25/22	4.766%	08/25/23	49,943,500	50,000,000
JPMorgan Chase Financial	08/12/22	5.067%	07/12/23	49,912,000	50,000,000
JPMorgan Chase Financial	08/17/22	5.190%	07/17/23	49,925,500	50,000,000
JPMorgan Chase Financial	08/04/22	4.326%	08/04/23	24,951,750	25,000,000
JPMorgan Chase Financial	08/24/22	5.030%	07/24/23	24,944,500	25,000,000
JPMorgan Chase Financial	08/22/22	5.320%	07/22/23	49,919,000	50,000,000
JPMorgan Chase Financial	09/07/22	4.846%	07/06/23	49,886,500	50,000,000
JPMorgan Chase Financial	09/20/22	4.835%	07/20/23	49,887,500	50,000,000
JPMorgan Chase Financial	10/22/22	4.937%	07/20/23	49,942,500	50,000,000
JPMorgan Chase Financial	12/21/22	5.066%	09/21/23	74,729,250	75,000,000
JPMorgan Chase Financial	12/19/22	4.937%	07/19/23	49,777,500	50,000,000
JPMorgan Chase Financial	12/19/22	5.038%	07/19/23	49,886,000	50,000,000
JPMorgan Chase Financial	01/31/23	6.083%	07/31/23	49,968,500	50,000,000
JPMorgan Chase Financial	01/19/23	6.083%	07/19/23	49,986,000	50,000,000
JPMorgan Chase Financial	02/03/23	6.083%	08/03/23	49,985,000	50,000,000
JPMorgan Chase Financial	03/08/23	6.083%	07/08/23	50,000,000	50,000,000
JPMorgan Chase Financial	06/12/23	7.351%	09/12/23	69,965,000	70,000,000
Keybank National Association	05/15/23	7.025%	07/01/23	182,851,791	184,170,185
Keybank National Association	05/05/23	6.277%	07/01/23	54,213,931	54,806,982
Keybank National Association	05/22/23	9.676%	07/01/23	63,228,914	62,293,880
Microsoft Corp	10/03/22	2.017%	08/08/23	13,877,939	13,919,000
Mitsubishi UFJ Financial Group Inc	10/04/22	5.023%	07/26/23	21,743,479	21,753,646
Morgan Stanley	06/13/23	5.822%	07/01/23	146,490,186	146,509,714
Morgan Stanley	06/30/23	5.718%	07/01/23	382,599,848	382,798,372
Morgan Stanley	02/03/23	5.246%	07/05/23	49,783,000	50,000,000
Morgan Stanley	03/09/23	6.083%	08/09/23	49,847,950	50,000,000
Nestle Holdings Inc	12/21/22	4.970%	09/24/23	37,556,342	37,658,023
PNC Financial Services Group Inc	06/09/23	6.172%	01/23/24	13,772,395	13,777,652
PNC Bank NA	01/19/23	3.831%	07/25/23	25,118,304	25,151,000
Rockwell Automation Inc	12/15/22	4.967%	08/15/23	10,021,449	10,021,662
Suntrust Bank	06/15/23	5.694%	04/01/24	177,133,040	177,674,731
3M Company	01/13/23	5.836%	08/14/23	63,624,168	63,544,566
Toyota Motor Cr Corp	06/16/23	5.491%	07/01/23	6,308,190	6,311,454
Toyota Motor Cr Corp	06/26/23	5.633%	07/01/23	50,069,000	50,062,915
US Bank National Association	04/27/23	3.420%	07/24/23	24,966,250	25,000,000
US Bancorp	05/18/23	5.989%	01/30/24	5,744,228	5,752,954
Wells Fargo & Co	03/08/23	5.233%	01/16/24	56,001,696	56,203,207
Wells Fargo & Co	01/17/23	4.168%	08/15/23	83,089,957	83,278,089
<b>Total Corporate Bonds</b>				<b>\$ 4,498,400,163</b>	<b>\$ 4,505,974,427</b>

**State of Illinois  
Office of the Treasurer**

**The Illinois Funds  
Portfolio of Investments – Internal and External (Continued)  
June 30, 2023**

	Execution Date	Effective Yield	Maturity Date	Fair Value	Carrying Value
United States Agency Obligations					
Federal Home Loan Bank Debentures					
Federal Home Loan Bank Debentures	03/21/23	2.383%	07/05/23	\$ 49,991,000	\$ 50,000,000
Federal Home Loan Bank Debentures	09/28/22	3.277%	07/28/23	12,823,163	12,845,000
Federal Home Loan Bank Debentures	12/22/22	4.959%	09/22/23	49,941,500	50,000,000
Federal Home Loan Bank Debentures	12/29/22	5.136%	12/29/23	49,862,000	50,000,000
Federal Home Loan Bank Debentures	12/08/22	4.870%	07/06/23	99,995,000	100,000,000
Federal Home Loan Bank Debentures	12/28/22	5.026%	12/28/23	49,868,500	50,000,000
Federal Home Loan Bank Debentures	12/30/22	4.996%	12/28/23	49,832,500	50,000,000
Federal Home Loan Bank Debentures	01/17/23	5.052%	01/17/24	99,639,000	100,000,000
Federal Home Loan Bank Debentures	01/05/23	5.036%	12/28/23	49,841,500	50,000,000
Federal Home Loan Bank Debentures	01/24/23	5.193%	01/24/24	99,644,000	100,000,000
Federal Home Loan Bank Debentures	01/30/23	5.243%	01/30/24	49,826,500	50,000,000
Federal Home Loan Bank Debentures	01/30/23	5.041%	01/26/24	99,595,000	100,000,000
Federal Home Loan Bank Debentures	02/09/23	5.122%	02/09/24	49,797,000	50,000,000
Federal Home Loan Bank Debentures	02/03/23	4.907%	07/28/23	74,969,250	75,000,000
Federal Home Loan Bank Debentures	03/15/23	5.207%	04/15/24	49,782,000	50,000,000
Federal Home Loan Bank Debentures	03/27/23	5.455%	04/26/24	74,757,000	75,000,000
Federal Home Loan Bank Debentures	03/20/23	5.455%	04/19/24	49,852,000	50,000,000
Federal Home Loan Bank Debentures	03/23/23	5.525%	04/23/24	49,858,000	50,000,000
Federal Home Loan Bank Debentures	03/08/23	5.192%	09/01/23	88,944,820	88,994,077
Federal Home Loan Bank Debentures	04/03/23	5.684%	07/03/23	49,896,500	50,000,000
Federal Home Loan Bank Debentures	05/08/23	5.306%	05/22/24	149,328,000	150,000,000
Federal Home Loan Bank Debentures	06/14/23	5.555%	06/14/24	50,041,000	50,000,000
Federal Home Loan Bank Debentures	06/21/23	5.505%	06/21/24	99,942,000	100,000,000
Federal Home Loan Bank Debentures	06/28/23	5.535%	06/28/24	99,976,000	100,000,000
Federal Home Loan Bank Debentures	03/14/23	5.004%	07/05/23	49,986,500	49,972,583
Federal Home Loan Bank Debentures	02/22/22	4.988%	09/01/23	49,590,500	49,576,333
Federal Home Loan Bank Debentures	02/22/23	4.917%	09/29/23	74,100,750	74,090,625
Total Federal Home Loan Bank Debentures				\$ 1,821,680,983	\$ 1,825,478,618
Federal Farm Credit Bank Debentures					
Federal Farm Credit Bank Debentures	09/01/21	5.171%	07/01/23	\$ 49,998,000	\$ 50,000,000
Federal Farm Credit Bank Debentures	07/13/21	5.196%	07/01/23	199,998,000	199,998,601
Federal Farm Credit Bank Debentures	01/03/23	4.877%	12/28/23	62,670,415	62,900,000
Federal Farm Credit Bank Debentures	01/18/22	5.181%	07/01/23	50,000,000	50,000,000
Federal Farm Credit Bank Debentures	05/24/22	5.207%	07/01/23	200,112,000	200,139,089
Federal Farm Credit Bank Debentures	03/04/22	5.168%	07/01/23	100,000,000	100,000,000
Federal Farm Credit Bank Debentures	03/08/22	5.176%	07/01/23	100,026,000	100,000,000
Federal Farm Credit Bank Debentures	10/25/22	5.251%	07/01/23	50,001,500	50,002,317
Federal Farm Credit Bank Debentures	05/09/22	5.191%	07/01/23	15,993,760	16,000,000
Federal Farm Credit Bank Debentures	04/20/22	5.176%	07/01/23	9,995,800	10,000,000
Federal Farm Credit Bank Debentures	04/19/22	5.201%	07/01/23	50,002,500	50,000,000
Total Federal Farm Credit Bank Debentures				\$ 888,797,975	\$ 889,040,007
Federal National Mortgage Association Debentures					
Federal National Mortgage Association Debentures	12/28/22	5.016%	12/28/23	\$ 99,732,000	\$ 100,000,000
Federal National Mortgage Association Debentures	01/26/23	5.142%	01/26/24	49,836,000	50,000,000
Federal National Mortgage Association Debentures	02/09/23	5.041%	02/09/24	99,574,000	100,000,000
Total Federal National Mortgage Association Debentures				\$ 249,142,000	\$ 250,000,000
Certificates of Deposit					
Bank of America NA	06/22/23	5.536%	10/20/23	\$ 75,020,250	\$ 75,027,608
Truist Bank	03/15/23	5.655%	07/01/23	216,883,649	218,449,770
Truist Bank	02/14/23	5.252%	10/31/23	49,930,000	50,000,000
Truist Bank	03/29/23	5.340%	07/31/23	25,001,000	24,998,615
Total Certificates of Deposit				\$ 366,834,899	\$ 368,475,993

**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, 2023  
(Expressed in thousands)**

CONDENSED STATEMENT OF FIDUCIARY NET POSITION BY INVESTOR TYPE  
June 30, 2023

	Total	Internal	External
<b>Assets</b>			
Cash equivalents	\$ 8,700,099	\$ 5,100,201	\$ 3,599,898
Deposits and investments	10,406,996	6,100,824	4,306,172
Interest receivable	86,141	50,496	35,645
	19,193,236	11,251,521	7,941,715
<b>Liabilities</b>			
Bank custodial fees	377	221	156
State management fees	1,129	662	467
Net position	<u>\$ 19,191,730</u>	<u>\$ 11,250,638</u>	<u>\$ 7,941,092</u>

CONDENSED STATEMENT OF CHANGES IN FIDUCIARY  
NET POSITION BY INVESTOR TYPE  
For the Year Ended June 30, 2023

	Total	Internal	External
Subscriptions and reinvestments	\$ 36,410,985	\$ 20,781,897	\$ 15,629,088
Investment earnings	712,737	417,823	294,914
Investment expense	(13,224)	(7,752)	(5,472)
Redemptions	(33,296,739)	(18,742,222)	(14,554,517)
Dividends to participants	(699,513)	(410,071)	(289,442)
Change in net position and shares	3,114,246	2,039,675	1,074,571
Beginning net position	16,077,484	9,210,963	6,866,521
Ending net position	<u>\$ 19,191,730</u>	<u>\$ 11,250,638</u>	<u>\$ 7,941,092</u>



**State of Illinois  
Office of the Treasurer**

**The Illinois Funds  
Statement of Fiduciary Net Position – Internal and External  
June 30, 2023**

	External	Internal	Total
<b>Assets</b>			
Cash equivalents			
Cash	\$ 4,099	\$ 5,806	\$ 9,905
Repurchase agreements	806,977,577	1,143,295,756	1,950,273,333
Commercial paper	373,358,456	528,960,346	902,318,802
U.S. Treasury Bills	-	-	-
U.S. Treasury Notes	351,649,953	498,204,547	849,854,500
Money market mutual funds	1,642,732,433	2,327,362,088	3,970,094,521
U.S. agency obligations	-	-	-
Federal Farm Credit Bureau Debentures	-	-	-
Federal Home Loan Bank Debentures	-	-	-
Corporate Bonds	425,175,488	602,372,786	1,027,548,274
Supranational Notes	-	-	-
Total cash equivalents	3,599,898,006	5,100,201,329	8,700,099,335
Deposits and investments			
Commercial paper	867,755,236	1,229,403,278	2,097,158,514
U.S. Treasury Bills	390,838,544	553,725,483	944,564,027
U.S. Treasury Notes	62,031,006	87,883,218	149,914,224
U.S. agency obligations	-	-	-
Federal Home Loan Bank Debentures	755,340,437	1,070,138,181	1,825,478,618
Federal Farm Credit Bureau Debentures	367,864,001	521,176,006	889,040,007
Federal National Mortgage Association Debentures	103,444,164	146,555,836	250,000,000
Supranational Notes	167,140,151	236,797,938	403,938,089
Certificates of Deposit	152,466,764	216,009,229	368,475,993
Corporate Bonds	1,439,291,540	2,039,134,613	3,478,426,153
Total deposits and investments	4,306,171,843	6,100,823,782	10,406,995,625
Accrued interest receivable	35,645,186	50,495,912	86,141,098
Total assets	<u>\$ 7,941,715,035</u>	<u>\$ 11,251,521,023</u>	<u>\$ 19,193,236,058</u>
<b>Liabilities and Net Position</b>			
Accrued liabilities			
Bank custodial fees	\$ 156,139	\$ 221,190	\$ 377,329
State management fees	467,093	661,696	1,128,789
Total liabilities	623,232	882,886	1,506,118
Net position held in trust for pool participants	<u>\$ 7,941,091,803</u>	<u>\$ 11,250,638,137</u>	<u>\$ 19,191,729,940</u>
The pricing of shares			
Participant shares outstanding (\$1.00 par, unlimited shares authorized)	7,941,091,803	11,250,638,137	19,191,729,940
Participant net position value, offering and redemption price per share	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>

**State of Illinois  
Office of the Treasurer**

**The Illinois Funds  
Statement of Changes in Fiduciary Net Position – Internal and External  
For the Year Ended June 30, 2023**

	External	Internal	Total
Additions			
Investment income			
Investment earnings	\$ 294,913,935	\$ 417,823,071	\$ 712,737,006
Investment expenses			
Bank custodial fees	1,752,150	2,482,381	4,234,531
State management fees	3,719,601	5,269,792	8,989,393
Total investment expenses	5,471,751	7,752,173	13,223,924
Net investment income	289,442,184	410,070,898	699,513,082
Dividends to participants from net investment income	(289,442,184)	(410,070,898)	(699,513,082)
Share transactions (dollar amounts and number of shares are the same)			
Subscriptions	15,345,076,644	20,379,521,284	35,724,597,928
Reinvestments	284,010,750	402,375,846	686,386,596
Redemptions	(14,554,516,374)	(18,742,222,196)	(33,296,738,570)
Change in net position and shares resulting from share transactions	1,074,571,020	2,039,674,934	3,114,245,954
Net position, beginning of year	6,866,520,783	9,210,963,203	16,077,483,986
Net position, end of year	\$ 7,941,091,803	\$ 11,250,638,137	\$ 19,191,729,940

## **OTHER INFORMATION**

**The Illinois Funds  
Local Government Investment Pool Investment Policy Statement  
(Effective December 2022)  
(Unaudited)**

**State of Illinois  
Office of the Treasurer**

**The Illinois Funds  
Local Government Investment Pool Investment Policy Statement  
(Effective December 2022)  
(Unaudited)**

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## **1.0 POLICY**

The Office of the Illinois State Treasurer (“Treasurer”) is authorized 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 Illinois Public Treasurer’s Investment Pool is a local government investment pool known as “The Illinois Funds.” Under this Illinois Funds Local Government Investment Pool Investment Policy Statement (“Policy”), The Illinois Funds are invested in a manner that (a) provides safety to the principal investment, (b) meets the daily cash flow demands of participants, and (c) seeks the highest investment return, using authorized instruments in accordance with all State statutes governing the investment of public funds. The Illinois Funds operates in a manner consistent with Securities and Exchange Commission Rule 2a-7 (17 CFR § 270.2a-7).

## **2.0 INVESTMENT POLICY COMMITTEE**

The Treasurer has formed and regularly convenes the Investment Policy Committee. The Investment Policy Committee is chaired by the Treasurer and include the following members of the Treasurer’s staff: Chief of Staff, Chief Financial Products Officer, Chief Banking Officer, Chief Fiscal Officer, Chief Investment Officer, Chief Legislative and Policy Officer, General Counsel, Director of State Investments, Director of State Banking, Director of Investment Analysis and Due Diligence, Director of Fiscal Operations, Director of Illinois Public Treasurer’s Investment Pool (“IPTIP”) Investments, Director of ePAY and The Illinois Funds, Director of Portfolio and Risk Analytics, Director of Corporate Engagement & Investment Operations, State Investments - Portfolio Management Officer, and anyone else deemed appropriate by the Treasurer.

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

## **3.0 OBJECTIVE**

The primary objective in the investment of The Illinois Funds is to ensure the safety of principal.. In addition, the Treasurer aims to manage liquidity for payment of the State’s financial obligations and provide the highest return on investment, using authorized instruments, while prudently exercising sustainable stewardship in its investment decision-making.

### **3.1 SAFETY**

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

### **3.2 LIQUIDITY**

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

**State of Illinois  
Office of the Treasurer**

**The Illinois Funds  
Local Government Investment Pool Investment Policy Statement  
(Effective December 2022)  
(Unaudited)**

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### **3.3 RETURN ON INVESTMENT**

The investment portfolio shall be designed to obtain the highest available risk-adjusted return. The Treasurer shall seek to obtain the highest available return, using authorized investments during budgetary and economic cycles as required by this Policy.

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

### **3.4 SUSTAINABILITY**

The Treasurer seeks to invest all funds under its control in a manner that provides the highest risk-adjusted investment return using authorized instruments. Pursuant to the Illinois Sustainable Investing Act (30 ILCS 238/1 et seq.), the Treasurer shall prudently integrate sustainability factors into its investment decision-making, investment analysis, portfolio construction, risk management, due diligence, and investment ownership “to maximize anticipated financial returns, minimize projected risk, more effectively execute its fiduciary duty, and contribute to a more just, accountable and sustainable State of Illinois.” 30 ILCS 238/5(b). As such, consistent with achieving the Treasurer’s foremost investment objectives set forth herein, the Treasurer and its agents shall prudently integrate sustainability factors into its investment processes.

The sustainability analysis adds an additional layer of rigor to the fundamental analytical approach and helps assess the reliability of future cash flows and debt repayments. Similar to financial accounting, sustainability analysis has both confirmatory and predictive value, and thus can be used to evaluate past performance, future planning, and decision-making. As a complement to financial accounting, sustainability analysis provides a more complete view of an investment fund or the portfolio company’s performance on material factors likely to impact either the investment fund or the portfolio company’s performance long-term value.

Sustainability factors that may have an adverse or positive financial impact on investment performance may include, but are not limited to, the following:

- a) Corporate governance and leadership factors, such as the independence of corporate boards and auditors, the expertise and competence of corporate boards and executives, systemic risk management practices, executive compensation structures, transparency and reporting, leadership diversity, regulatory and legal compliance, shareholder rights, and ethical conduct.
- b) Environmental factors such as greenhouse gas emissions, air quality, energy management, water and wastewater management, waste and hazardous materials management, and ecological impacts.
- c) Social capital factors such as customers, local communities, the public, and/or government, social capital factors, which may include, but are not limited to, human rights, customer welfare, customer privacy, data security, access and affordability, selling practices and product labeling, community reinvestment, and community relations.

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d) Human capital factors such as labor practices, responsible contractor and responsible bidder policies, employee health and safety, employee engagement, diversity and inclusion, and incentives and compensation.

e) Business model and innovation factors such as supply chain management, materials sourcing and efficiency, business model resilience, product design and life cycle management, and physical impacts of climate change.

The Treasurer shall develop policy guidelines for internal and external investment managers to integrate material sustainability risks with respect to their investment decision-making regarding financial products, investment funds, companies, and public agency or governmental unit to the extent the Treasurer is responsible for the investment performance of such entities. The policy guidelines for such investment managers for integrating sustainability factors shall be reviewed and updated a minimum of every two (2) years to ensure responsiveness to changing economic conditions and related factors.

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

The investment staff executing the investments ("Authorized Investment Officers") 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'. 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.

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

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

The security brokers/dealers shall be selected according to their credit worthiness and their financial significance in the State, which shall be measured in terms of the location of the broker/dealer's corporate office, or the extent to which the broker/dealer has a large labor or economic impact on the State. The approved broker/dealers may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 17 CFR § 240.15C3-1 (Net Capital Requirements for Brokers or Dealers).

No monies may be deposited in any financial institution until the Treasurer's investment staff have conducted a safety and soundness review of the financial institution by consulting various bank rating services. If the financial institution has not yet been rated by the bank rating services, the institution may be eligible for a deposit that at maturity will not exceed \$250,000. The amount and duration of deposits shall be based on the safety and soundness review, in accordance with guidelines established by the Investment Policy Committee and the diversification limits set forth in Section 11.0 of this Policy. No public deposit may be made, except in a qualified state depository in accordance with the Deposit of State Moneys Act (15 ILCS 520/1 et seq.).

All brokers/dealers interested in becoming qualified parties for investment transactions must supply the Treasurer's Authorized Investment Officers any documents requested by the Treasurer, including but not limited to the following:

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- 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 account authorization agreement;
- d) Proof of US National and State of Illinois registration;
- e) Completed Counterparty Questionnaire;
- f) Certification of notice and acknowledgment of this Policy; and
- g) Any other documentation deemed necessary by the Treasurer.

If approved, a broker/dealer will be placed on Treasurer's authorized list of approved Broker/Dealers. An annual review of the financial condition and registration of qualified parties will be conducted by the Treasurer's Authorized Investment Staff. More frequent reviews may be conducted if warranted.

#### **5.1 EXTERNAL INVESTMENT CONSULTANTS**

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

#### **5.2 PREFERENCE FOR BROKER/DEALERS OWNED BY MINORITIES, WOMEN, MILITARY VETERANS, AND PERSONS WITH DISABILITIES**

Pursuant to 15 ILCS 505/30, it shall be the aspirational goal of the Treasurer to use businesses owned by or under the control of qualified veterans of the armed forces of the United States, qualified service-disabled veterans, minority persons, women, or persons with a disability ("MWVD Persons") for not less than twenty-five percent (25%) of the total dollar of purchases of investment securities, including, but not limited to, the use of broker/dealers. Beginning with fiscal year 2019, and at least annually thereafter, the Treasurer shall measure and report its utilization of broker/dealers owned or under the control of MWVD Persons. The report shall be published on the Treasurer's official website.

The terms "minority person", "woman", "person with a disability", "minority-owned business", "women-owned business", "business owned by a person with a disability", and "control" have the meanings provided in Section 1 of the Business Enterprise for Minorities, Women, and Persons with Disabilities Act (30 ILCS 575/1 et seq.). The terms "veteran", "qualified veteran-owned small business", "qualified service-disabled veteran-owned small business", "qualified service-disabled veteran", and "armed forces of the United States" have the meanings provided in Article 1 of the Illinois Procurement Code (30 ILCS 500/1 et seq.).

To the greatest extent feasible within the bounds of financial and fiduciary prudence, the Treasurer's policy is to mitigate any barriers to the full participation in investment transactions afforded via the investment program by actively identifying and considering for hire brokers/dealers that provide proof of ownership or control by MWVD Persons. 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.



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**5.3 PREFERENCE FOR BROKER/DEALERS HEADQUARTERED IN ILLINOIS**

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

Beginning with fiscal year 2019, and at least annually thereafter, the Treasurer shall measure and report its utilization of broker/dealers with headquarters located in the State of Illinois. The report shall be published on the Treasurer's official website.

**6.0 AUTHORIZED AND SUITABLE INVESTMENTS**

The Treasurer's investments are subject to the parameters as set forth in the Deposit of State Moneys Act (15 ILCS 520/22.5) and the Public Funds Investment Act (30 ILCS 235/2). Additionally, the Treasurer may also choose to create policies and procedures that further clarify the State's authorize investments. The established parameters are, as follows:

- a) Federally guaranteed obligations that receive the full faith and credit of the United States of America ("United States") as to principal and interest;
- b) Obligations of agencies of the United States as originally issued by the agencies. For purposes of this Section, the term "agencies of the United States" includes the following: federal land banks, federal intermediate credit banks, banks for cooperatives, federal farm credit banks, or any other entity authorized to issue debt obligations under the Farm Credit Act of 1971 as amended, the federal home loan banks and the federal home loan mortgage corporation, and any other agency created or supported through an Act of Congress; additionally, the Treasurer has determined that all such agencies are issuing debt in United States dollar-denominated;
- c) Obligations of instrumentalities of the United States, as originally issued by the instrumentalities. For the purposes of this section, the term "instrumentalities of the United States" is an instrumentality created or supported through an Act of Congress and issues United States dollar-denominated debt;
- d) Obligations of a foreign government other than the Republic of Sudan that are guaranteed by the full faith and credit of that government as to principal and interest and rated at one (1) of the three (3) highest classifications established by at least two (2) standard rating services (upper medium grade for a long-term rating of A- and above 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 twenty-five (25) years immediately before the time of acquiring those obligations;
- e) Interest-bearing bonds, issued by counties or municipal corporations of the State of Illinois. Additionally, the Treasurer has determined that the purchased bonds may be either taxable or tax-exempt under federal law. The bonds shall be registered in the name of the State of Illinois or held under a custodial agreement at a financial institution. The bonds shall be rated at the time of purchase at one (1) of the three (3) highest classifications established by at least one (1) standard rating service with nationally recognized expertise in rating bonds of states and their political subdivisions, (upper medium grade for the long-term

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rating of A- and above or equivalent). The maturity or pre-refunded date(s) of the bonds authorized by this subsection shall, at the time of purchase, not exceed ten (10) years. Notwithstanding the foregoing, a longer maturity is authorized, if the State of Illinois has a put option to tender the bonds within ten (10) years from the date of purchase;

- f) Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986(15 U.S.C. § 78o-5), as amended, and as interpreted by its regulations;
- g) Short-term obligations of either corporations or limited liability companies organized in the United States with assets exceeding \$500,000,000, and rated at the time of purchase at one (1) of the two (2) highest classifications established by at least two (2) standard rating services, (short-term rating of A-2 and above or equivalent). In order to comply with the Fitch money market fund guidelines, the short-term rating must be F1 and above. If a Fitch rating is not available, the lower of the public long-term ratings from Standard & Poor's ("S&P") or Moody's may be applied. At the time of purchase, the maturity or pre-refunded date(s) shall not exceed three hundred and ninety-seven (397) days to maturity;
- h) Long-term 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, (upper medium grade for a long-term rating of A- and above or equivalent for notes maturing within thirteen (13) months or less). In order to comply with the Fitch money market fund guidelines, the short-term rating must be F1 and above. If a Fitch rating is not available, the lower of the public long-term ratings from S&P or Moody's may be applied. At the time of purchase, the maturity or pre-refunded date(s) shall not exceed three hundred and ninety-seven (397) days to maturity. For corporations who maintains only a long-term rating issued with Moody's, S&P, or Fitch, securities may be purchased and remain in compliance with Fitch criteria using either (a) the short-term equivalent of a long-term rating issued by Fitch; or (b) in the absence of a Fitch rating, the short-term equivalent of a long-term rating issued by Moody's or S&P, whichever is lower;
- i) Money market mutual funds registered under the Investment Company Act of 1940. 15 U.S.C. §80a-1;
- j) Securities in accordance with the Federal Financial Institution Examination Council guidelines only if the securities are collateralized at a level sufficient to assure the safety of the securities, taking into account market value fluctuation and set forth in a Securities Lending Agreement between the Treasurer and financial institution ("Treasurer's Agent"). The securities may be collateralized by cash or securities collateral acceptable under Sections 11 and 11.1 of the Deposit of State Moneys Act;
- k) 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.; and
- l) Dividend-bearing share accounts, share certificate accounts, or class of share accounts of a credit union chartered under the laws of the State of Illinois or the United States that maintains its principal office in the State of Illinois.

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## **7.0 INVESTMENT RESTRICTIONS**

The following investment restrictions apply to The Illinois Funds:

- a) Any investments not authorized by this investment policy or applicable law are prohibited;
- b) Repurchase agreements may only be executed with approved financial institutions or broker/dealers that meet the Treasurer's standards, which include mutual execution of a Master Repurchase Agreement adopted by the Treasurer;
- c) Investments in derivative products and leveraging of assets through reverse repurchase agreements are prohibited;
- d) All qualified repurchase agreement dealers, commercial paper issuers, and 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 dealer must have a significant economic presence in the State of Illinois as determined by the Treasurer;
- e) 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;
- f) 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. 40 ILCS 5/1-110.16;
- g) Asset-backed securities and mortgage back securities, except as repurchase agreement collateral, are prohibited;
- h) Investments in bankers' acceptances of any kind are prohibited; and
- i) Certificates of deposit may not be purchased from The Illinois Funds' custodial institution or any of its subcontractors.
- j) Investments in any sovereign debt or government-backed securities issued by the Russian Federation, and/or the Republic of Belarus; any investment instrument that is issued by an entity, bank or financial institution that is domiciled in or has its principal place of business located in the Russian Federation or the Republic of Belarus; and/or any investment instrument issued by an entity, bank or financial institution that is subject to Russian Harmful Foreign Activities Sanctions as defined under Section 1-110.16 of the Illinois Pension Code are prohibited.

## **7.1 OPERATIONAL REQUIREMENTS**

Pursuant to Securities and Exchange Commission Rule 2a-7 (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

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- b) Annually complete a checklist that clarifies the intention of the Treasurer to operate The Illinois Funds as a Securities and Exchange Commission Rule 2a-7-like fund.

### **8.0 RATINGS CRITERIA**

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

### **9.0 COLLATERALIZATION**

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. The Treasurer may take possession of and title to any securities held as collateral until the Treasurer determines such collateral may be disposed.

### **10.0 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.

### **11.0 DIVERSIFICATION**

In general, the primary purpose of diversification is to control credit and market risk. The Illinois Funds will be diversified to mitigate the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. 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 6.0 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 time deposits that constitute more than ten percent (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 ten percent (10%) of the corporation’s or the limited liability company’s outstanding obligations;
- d) The Illinois Funds shall not hold obligations of a municipality’s bonds that exceed ten percent (10%) of the municipality’s outstanding obligations;

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- e) The Illinois Funds shall not be invested in more than ten percent (10%) of each prime money market fund's assets (including all share classes) at any given time;
- f) The Illinois Funds 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 fifty percent (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. No more than one-third (33%) of the total portfolio assets shall be invested in short-term obligations of corporations or limited liability companies as defined by Section 6.0(g) of this Policy;
  - iii. No more than ten percent (10%) of the total portfolio assets shall be invested in short-term obligations of any one corporation or limited liability company as defined by Section 6.0(g) of this Policy;
  - iv. No more than twenty (20%) of the total portfolio assets shall be invested in long-term obligations of corporations or limited liability companies as defined by Section 6.0(h) of this Policy;
  - v. No more than ten percent (10%) of the total portfolio assets shall be invested in long-term obligations of any one corporation or limited liability company as defined by Section 6.0(h) of this Policy;
  - vi. No more than ten percent (10%) of the total portfolio assets shall be invested in municipal securities issued by counties or municipal corporations of the State of Illinois as defined by Section 6.0(e) of this Policy;
  - vii. No more than three (3%) of the total portfolio assets shall be invested in any single issuer of municipal securities issued by counties or municipal corporations of the State of Illinois as defined by Section 6.0(e) of this Policy;
  - viii. The Illinois Funds shall invest a minimum of seventy-five percent (75%) of its assets in authorized investments of less than one (1) year maturity. No investment shall exceed two (2) years maturity.

## **12.0 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 of The Illinois Funds on the Treasurer's official website.

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**13.0 ASSET ALLOCATION**

The Treasurer shall approve asset allocation among investment categories authorized under Section 6.0 of this Policy.

**14.0 COMPETITIVE BIDDING**

Authorized Investment Officers shall obtain competitive bids from at least three (3) broker/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 6(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.

**15.0 LIABILITY**

Authorized Investment Officers, 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.

**16.0 REPORTING**

Reports shall be made available quarterly by the Director of IPTIP Investments to the Treasurer, the Chief Banking Officer and The Illinois Funds participants. The quarterly report shall contain the following:

- a) The total amount of funds;
- b) The current and historic performance of The Illinois Funds as compared to the established benchmark;
- c) The asset allocation for the investments;
- d) Any circumstances resulting in a deviation from the standards established in Section 11.0 of this Policy;
- e) Any change in investment policy adopted during the quarter; and
- f) The weighted average number of days to maturity.

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

**17.0 EXCEPTIONS**

The Chief Banking Officer may issue exceptions to this Policy provided that they do not conflict with applicable State statutes governing the use and investment of the State Investments portfolio including, but

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not limited to, the State Treasurer Act, the Treasurer as Custodian of Funds Act, the Deposit of State Moneys Act, the Securities Safekeeping Act, and any other applicable statutes and it is reasonably assured that deviating from this Policy is in the best interest of participants.

**18.0 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.

**19.0 STATUTORY REFERENCES**

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

**20.0 AMENDMENTS**

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

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## **1.0 POLICY**

The Office of the Illinois State Treasurer (“Treasurer”) is authorized 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 Illinois Public Treasurer’s Investment Pool is a local government investment pool known as “The Illinois Funds.” Under this Illinois Funds Local Government Investment Pool Investment Policy Statement (“Policy”), the Treasurer’s policy is to invest the pooled funds of local and State public agencies in The Illinois Funds in a manner that (a) provide safety to the principal investment, (b) meets the daily cash flow demands of participants, and (c) seeks the highest investment return, using authorized instruments in accordance with all State statutes governing the investment of public funds. The Illinois Funds operates in a manner consistent with Securities and Exchange Commission Rule 2a-7 (17 CFR § 270.2a-7).

## **2.0 INVESTMENT POLICY COMMITTEE**

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

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

## **3.0 OBJECTIVE**

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

### **3.1 SAFETY**

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

### **3.2 LIQUIDITY**

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

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### **3.3 RETURN ON INVESTMENT**

The investment portfolio shall be designed to obtain the highest available risk-adjusted return. The Treasurer shall seek to obtain the highest available return, using authorized investments during budgetary and economic cycles as required by this Policy.

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

### **3.4 SUSTAINABILITY**

The Treasurer seeks to invest all funds under its control in a manner that provides the highest risk-adjusted investment return using authorized instruments. Pursuant to the Illinois Sustainable Investing Act (30 ILCS 238/1 et seq.), the Treasurer shall prudently integrate sustainability factors into its investment decision-making, investment analysis, portfolio construction, risk management, due diligence, and investment ownership to maximize anticipated financial returns, minimize projected risk, and more effectively execute its fiduciary duty. As such, consistent with achieving the foremost investment objectives of the Treasurer set forth herein, the Treasurer and its agents shall prudently integrate sustainability factors into its investment processes.

The sustainability analysis adds an additional layer of rigor to the fundamental analytical approach and helps assess the reliability of future cash flows and debt repayments. Similar to financial accounting, sustainability accounting has both confirmatory and predictive value, thus, it can be used to evaluate past performance, future planning, and decision-making. As a complement to financial accounting, it provides a more complete view of an investment fund or portfolio company's performance on material factors likely to impact its long-term value.

Sustainability factors may include, but are not limited to, the following:

- a) Corporate governance and leadership factors, such as the independence of boards and auditors, the expertise and competence of corporate boards and executives, systemic risk management practices, executive compensation structures, transparency and reporting, leadership diversity, regulatory and legal compliance, shareholder rights, and ethical conduct.
- b) Environmental factors that may have an adverse or positive financial impact on investment performance, such as greenhouse gas emissions, air quality, energy management, water and wastewater management, waste and hazardous materials management, and ecological impacts.
- c) Social capital factors that may have an adverse or positive impact on customers, local communities, the public, and/or government, which may impact investment performance. Social capital factors may include human rights, customer welfare, customer privacy, data security, access and affordability, selling practices and product labeling, community reinvestment, and community relations.
- d) Human capital factors that recognize that the workforce is an important asset to delivering long-term value, including factors such as labor practices, responsible contractor and responsible bidder policies, employee health and safety, employee engagement, diversity and inclusion, and incentives and compensation.

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- e) Business model and innovation factors that reflect an ability to plan and forecast opportunities and risks, and whether a company can create long-term shareholder value, including factors such as supply chain management, materials sourcing and efficiency, business model resilience, product design and life cycle management, and physical impacts of climate change.

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

The Illinois Funds' investment officers shall identify and select authorized investment options that meet the Treasurer's criteria for sustainable investing opportunities and risk parameters and fall within the framework of the investment objectives.

#### **4.0 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.

#### **5.0 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.

The security brokers/dealers shall be selected according to their credit worthiness and their financial significance in the State, which shall be measured in terms of the location of the broker/dealer's corporate office, or the extent to which the broker/dealer has a large labor or economic impact on the State. The approved broker/dealers may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 17 CFR § 15c3-1 (Net Capital Requirements for Brokers or Dealers).

No monies may be deposited in any financial institution until the Treasurer's investment staff 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 11.0 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.).

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:

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- 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 account authorization agreement;
- d) Proof of National and State of Illinois registration;
- e) Completed Counterparty Questionnaire;
- f) Certification of notice and acknowledgment of this Policy; and
- g) Any other documentation deemed necessary by the Treasurer.

If approved, a broker/dealer will be placed on a list of qualified parties for investment transactions. An annual review of the financial condition and registration of qualified parties will be conducted by the Treasurer's authorized investment staff. More frequent reviews may be conducted if warranted.

#### **5.1 EXTERNAL INVESTMENT CONSULTANTS**

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

#### **5.2 PREFERENCE FOR BROKER/DEALERS OWNED BY MINORITIES, WOMEN, MILITARY VETERANS, AND PERSONS WITH DISABILITIES**

Pursuant to 15 ILCS 505/30, it shall be the aspirational goal of the Treasurer to use businesses owned by, or under the control of, qualified veterans of the armed forces of the United States, qualified service-disabled veterans, minority persons, women, or persons with a disability for not less than 25% of the total dollar of purchases of investment securities, including, but not limited to, the use of broker/dealers. Beginning with fiscal year 2019, and at least annually thereafter, the Treasurer shall measure and report its utilization of broker/dealers owned or under the control of qualified veterans of the armed forces of the United States, qualified service-disabled veterans, minority persons, women, or persons with a disability. The report shall be published on the Treasurer's official website.

The terms "minority person," "woman," "person with a disability," "minority-owned business," "women-owned business," "business owned by a person with a disability," and "control" have the meanings provided in Section 1 of the Business Enterprise for Minorities, Women, and Persons with Disabilities Act (30 ILCS 575/1 et seq.). The terms "veteran," "qualified veteran-owned small business," "qualified service-disabled veteran-owned small business," "qualified service-disabled veteran," and "armed forces of the United States" have the meanings provided in Article 1 of the Illinois Procurement Code (30 ILCS 500/1 et seq.).

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

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**5.3 PREFERENCE FOR BROKER/DEALERS HEADQUARTERED IN ILLINOIS**

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

Beginning with fiscal year 2019, and at least annually thereafter, the Treasurer shall measure and report its utilization of broker/dealers with headquarters located in the State of Illinois. The report shall be published on the Treasurer's official website.

**6.0 AUTHORIZED AND SUITABLE INVESTMENTS**

The following investments are authorized, pursuant to the Deposit of State Moneys Act (15 ILCS 520/22.5) and the Public Funds Investment Act (30 ILCS 235/2):

- a) Federally guaranteed obligations that receive the full faith and credit of the United States of America ("United States") as to principal and interest;
- b) Obligations of agencies of the United States as originally issued by the agencies. For purposes of this Section, the term "agencies of the United States" includes the following: federal land banks, federal intermediate credit banks, banks for cooperatives, federal farm credit banks, or any other entity authorized to issue debt obligations under the Farm Credit Act of 1971 as amended, the federal home loan banks and the federal home loan mortgage corporation, and any other agency created or supported through an Act of Congress and issues United States dollar-denominated debt;
- c) Obligations of instrumentalities of the United States, as originally issued by the instrumentalities. For the purposes of this section, the term "instrumentalities of the United States" is an instrumentality created or supported through an Act of Congress and issues United States dollar-denominated debt;
- d) Obligations of a foreign government that are guaranteed by the full faith and credit of that government as to principal and interest and rated at one (1) of the three (3) highest classifications established by at least two (2) standard rating services (upper medium grade for a long-term rating of A- and above 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 twenty-five (25) years prior to the time of acquiring those obligations;
- e) Interest-bearing bonds, issued by counties or municipal corporations of the State of Illinois, whether the interest earned thereon is taxable or tax-exempt under federal law. The bonds shall be registered in the name of the State of Illinois or held under a custodial agreement at a financial institution. The bonds shall be rated at the time of purchase at one (1) of the three (3) highest classifications established by at least one (1) standard rating service with nationally recognized expertise in rating bonds of states and their political subdivisions, (upper medium grade for the long-term rating of A- and above or equivalent). The maturity or pre-refunded date(s) of the bonds authorized by this subsection shall, at the time of purchase, not exceed ten (10) years. Notwithstanding the foregoing, a longer maturity is authorized, if the State of Illinois has a put option to tender the bonds within ten (10) years from the date of purchase;

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- f) Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986. 15 U.S.C. § 78o-5;
- g) Short-term obligations of either corporations or limited liability companies organized in the United States with assets exceeding \$500,000,000 and rated at the time of purchase at one (1) of the two (2) highest classifications established by at least two (2) standard rating services, (short-term rating of A-2 and above or equivalent). In order to comply with the Fitch money market fund guidelines, the short-term rating must be F2 and above. If a Fitch rating is not available, the lower of the public long-term ratings from S&P or Moody's may be applied. At the time of purchase, the maturity or pre-refunded date(s) shall not exceed three hundred and ninety seven (397) days to maturity;
- h) Long-term 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, (upper medium grade for a long-term rating of A- and above or equivalent). In order to comply with the Fitch money market fund guidelines, the short-term rating must be F2 and above. If a Fitch rating is not available, the lower of the public long-term ratings from S&P or Moody's may be applied. At the time of purchase, the maturity or pre-refunded date(s) shall not exceed three hundred and ninety seven (397) days to maturity;
- i) Money market mutual funds registered under the Investment Company Act of 1940. 15 U.S.C. §80a-1;
- j) Securities in accordance with the Federal Financial Institution Examination Council guidelines only if the securities are collateralized at a satisfactory level to assure the safety of the securities, taking into account market value fluctuation and set forth in a Securities Lending Agreement between the Treasurer and the Treasurer's Agent. The securities may be collateralized by cash or collateral acceptable under Sections 11 and 11.1 of the Deposit of State Moneys Act;
- k) 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.; and
- l) Dividend-bearing share accounts, share certificate accounts, or class of share accounts of a credit union chartered under the laws of the State of Illinois or the United States that maintains its principal office in the State of Illinois.

## **7.0 INVESTMENT RESTRICTIONS**

The following investment restrictions apply to The Illinois Funds portfolio:

- a) Any investments not authorized by this investment policy or applicable law are prohibited;
- b) Repurchase agreements may only be executed with approved financial institutions or broker/dealers that meet the Treasurer's standards, which include mutual execution of a Master Repurchase Agreement adopted by the Treasurer;
- c) Investments in derivative products and leveraging of assets through reverse repurchase agreements are prohibited;

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- d) All qualified repurchase agreement dealers, commercial paper issuers, and 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 dealer must have a significant economic presence in the State of Illinois as determined by the Treasurer;
- e) 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;
- f) 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. 40 ILCS 5/1-110.16;
- g) Asset-backed securities and mortgage back securities, except as repurchase agreement collateral, are prohibited;
- h) Investments in bankers' acceptances of any kind are prohibited; and
- i) Certificates of deposit may not be purchased from The Illinois Funds' custodial institution or any of its subcontractors.

#### **7.1 OPERATIONAL REQUIREMENTS**

Pursuant to Securities and Exchange Commission Rule 2a-7 (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 2a-7-like fund.

#### **8.0 RATINGS CRITERIA**

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

#### **9.0 COLLATERALIZATION**

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. The Treasurer may take possession and title to any securities held as collateral and hold such securities until it is prudent to dispose of them.

#### **10.0 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

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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.

### **11.0 DIVERSIFICATION**

In general, the primary purpose of diversification is to control credit and market risk. The Illinois Funds portfolio will be diversified to mitigate the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. 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 6.0 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 time deposits that constitute more than ten percent (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 ten percent (10%) of the corporation's or the limited liability company's outstanding obligations;
- d) The Illinois Funds shall not hold obligations of a municipality's bonds that exceed ten percent (10%) of the municipality's outstanding obligations;
- e) The Illinois Funds shall not be invested in more than ten percent (10%) of each prime money market fund's assets (including all share classes) at any given time;
- f) 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 fifty percent (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. No more than one-third (33%) of the total portfolio assets shall be invested in short-term obligations of corporations or limited liability companies as defined by Section 6.0(g) of this Policy;
  - iii. No more than ten percent (10%) of the total portfolio assets shall be invested in short-term obligations of any one corporation or limited liability company as defined by Section 6.0(g) of this Policy;
  - iv. No more than twenty (20%) of the total portfolio assets shall be invested in long-term obligations of corporations or limited liability companies as defined by Section 6.0(h) of this Policy;



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- v. No more than ten percent (10%) of the total portfolio assets shall be invested in long-term obligations of any one corporation or limited liability company as defined by Section 6.0(h) of this Policy;
- vi. No more than ten percent (10%) of the total portfolio assets shall be invested in municipal securities issued by counties or municipal corporations of the State of Illinois as defined by Section 6.0(e) of this Policy;
- vii. No more than three (3%) of the total portfolio assets shall be invested in any single issuer of municipal securities issued by counties or municipal corporations of the State of Illinois as defined by Section 6.0(e) of this Policy;
- viii. If invested in more than three (3) prime money market funds, then no more than twenty-five percent (25%) of the portfolio's investments to prime money market funds may be placed with any one (1) prime money market fund option; and
- ix. The Illinois Funds shall invest a minimum of seventy-five percent (75%) of its assets in authorized investments of less than one (1) year maturity. No investment shall exceed two (2) years maturity.

#### **12.0 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 of The Illinois Funds on the Treasurer's official website.

#### **13.0 ASSET ALLOCATION**

The Treasurer shall approve asset allocation among investment categories authorized under Section 6.0 of this Policy.

#### **14.0 COMPETITIVE BIDDING**

Authorized investment staff shall obtain competitive bids from at least three (3) broker/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 6(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.

#### **15.0 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

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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.

#### **16.0 REPORTING**

Reports shall be made available quarterly by the Director of IPTIP Investments to the Treasurer, the Chief Investment Officer and The Illinois Funds participants. The quarterly report shall contain the following:

- a) The total amount of funds;
- b) The current and historic performance of The Illinois Funds as compared to the established benchmark;
- c) The asset allocation for the investments;
- d) Any circumstances resulting in a deviation from the standards established in Section 11.0 of this Policy;
- e) Any change in investment policy adopted during the quarter; and
- f) The weighted average number of days to maturity.

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

#### **17.0 EXCEPTIONS**

The Deputy Treasurer & Chief Investment Officer may issue exceptions to this Policy provided that they do not conflict with applicable State statutes governing the use and investment of the State Investments portfolio including, but not limited to, the State Treasurer Act, the Treasurer as Custodian of Funds Act, the Deposit of State Moneys Act, the Securities Safekeeping Act, and any other applicable statutes and it is reasonably assured that deviating from this Policy is in the best interest of participants.

#### **18.0 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;

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- 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.

**19.0 STATUTORY REFERENCES**

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

**20.0 AMENDMENTS**

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

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## **1.0 POLICY**

The Office of the Illinois State Treasurer (“Treasurer”) is authorized 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 Illinois Public Treasurer’s Investment Pool is a local government investment pool known as “The Illinois Funds.” Under this 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. The Illinois Funds operates in a manner consistent with Securities and Exchange Commission Rule 2a-7 (17 CFR § 270.2a-7).

## **2.0 INVESTMENT POLICY COMMITTEE**

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

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

## **3.0 OBJECTIVE**

The safety of principle is the primary objective in the investment of funds within The Illinois Funds. In addition, it is the Treasurer’s objective to manage liquidity for payment of the State’s financial obligations and provide the highest investment return, using authorized instruments, while prudently exercising sustainable stewardship in its investment decision-making.

### **3.1 SAFETY**

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

### **3.2 LIQUIDITY**

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

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### **3.3 RETURN ON INVESTMENT**

The investment portfolio shall be designed to obtain the highest available risk-adjusted return. The Treasurer shall seek to obtain the highest available return, using authorized investments during budgetary and economic cycles as required by this Policy.

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

### **3.4 SUSTAINABILITY**

The Treasurer seeks to invest all funds under its control in a manner that provides the highest risk-adjusted investment return using authorized instruments. Pursuant to the Illinois Sustainable Investing Act (30 ILCS 238/1 et seq.), the Treasurer shall prudently integrate sustainability factors into its investment decision-making, investment analysis, portfolio construction, risk management, due diligence and investment ownership in order to maximize anticipated financial returns, minimize projected risk, to more effectively execute its fiduciary duty. As such, consistent with achieving the foremost investment objectives of the Treasurer set forth herein, the Treasurer and its agents shall prudently integrate sustainability factors into its investment processes.

The sustainability analysis adds an additional layer of rigor to the fundamental analytical approach and helps assess the reliability of future cash flows and debt repayments. Similar to financial accounting, sustainability accounting has both confirmatory and predictive value, thus, it can be used to evaluate past performance, future planning, and decision-making. As a complement to financial accounting, it provides a more complete view of an investment fund or portfolio company's performance on material factors likely to impact its long-term value.

Sustainability factors may include, but are not limited to, the following:

- a) Corporate governance and leadership factors, such as the independence of boards and auditors, the expertise and competence of corporate boards and executives, systemic risk management practices, executive compensation structures, transparency and reporting, leadership diversity, regulatory and legal compliance, shareholder rights, and ethical conduct.
- b) Environmental factors that may have an adverse or positive financial impact on investment performance, such as greenhouse gas emissions, air quality, energy management, water and wastewater management, waste and hazardous materials management, and ecological impacts.
- c) Social capital factors that impact relationships with key outside parties, such as customers, local communities, the public, and the government, which may impact investment performance. Social capital factors include human rights, customer welfare, customer privacy, data security, access and affordability, selling practices and product labeling, community reinvestment, and community relations.
- d) Human capital factors that recognize that the workforce is an important asset to delivering long-term value, including factors such as labor practices, responsible contractor and responsible bidder policies, employee health and safety, employee engagement, diversity and inclusion, and incentives and compensation.

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- e) Business model and innovation factors that reflect an ability to plan and forecast opportunities and risks, and whether a company can create long-term shareholder value, including factors such as supply chain management, materials sourcing and efficiency, business model resilience, product design and life cycle management, and physical impacts of climate change.

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

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No monies may be deposited in any financial institution until the Treasurer's investment staff 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 11.0 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.).

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- c) A signed copy of the Treasurer's account authorization agreement;
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- f) Certification of notice and acknowledgment of this Policy; and
- g) Any other documentation deemed necessary by the Treasurer.

If approved, a broker/dealer will be placed on a list of qualified parties for investment transactions. An annual review of the financial condition and registration of qualified parties will be conducted by the Treasurer's authorized investment staff. More frequent reviews may be conducted if warranted.

#### **5.1 EXTERNAL INVESTMENT CONSULTANTS**

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

#### **5.2 PREFERENCE FOR BROKER/DEALERS OWNED BY MINORITIES, WOMEN, MILITARY VETERANS, AND PERSONS WITH DISABILITIES**

Pursuant to 15 ILCS 505/30, it shall be the aspirational goal of the Treasurer to use businesses owned by, or under the control of, qualified veterans of the armed forces of the United States, qualified service-disabled veterans, minority persons, women, or persons with a disability for not less than 25% of the total dollar of purchases of investment securities, including, but not limited to, the use of broker/dealers. Beginning with fiscal year 2019, and at least annually thereafter, the Treasurer shall measure and report its utilization of broker/dealers owned or under the control of qualified veterans of the armed forces of the United States, qualified service-disabled veterans, minority persons, women, or persons with a disability. The report shall be published on the Treasurer's official website.

The terms "minority person," "woman," "person with a disability," "minority-owned business," "women-owned business," "business owned by a person with a disability," and "control" have the meanings provided in Section 1 of the Business Enterprise for Minorities, Women, and Persons with Disabilities Act (30 ILCS 575/1 et seq.). The terms "veteran," "qualified veteran-owned small business," "qualified service-disabled veteran-owned small business," "qualified service-disabled veteran," and "armed forces of the United States" have the meanings provided in Article 1 of the Illinois Procurement Code (30 ILCS 500/1 et seq.).

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



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**5.3 PREFERENCE FOR BROKER/DEALERS HEADQUARTERED IN ILLINOIS**

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

Beginning with fiscal year 2019, and at least annually thereafter, the Treasurer shall measure and report its utilization of broker/dealers with headquarters located in the State of Illinois. The report shall be published on the Treasurer's official website.

**6.0 AUTHORIZED AND SUITABLE INVESTMENTS**

The following investments are authorized, pursuant to the Deposit of State Moneys Act (15 ILCS 520/22.5) and the Public Funds Investment Act (30 ILCS 235/2):

- a) Federally guaranteed obligations that receive the full faith and credit of the United States of America ("United States") as to principal and interest;
- b) Obligations of agencies of the United States as originally issued by the agencies. For purposes of this Section, the term "agencies of the United States" includes the following: federal land banks, federal intermediate credit banks, banks for cooperatives, federal farm credit banks, or any other entity authorized to issue debt obligations under the Farm Credit Act of 1971 as amended, the federal home loan banks and the federal home loan mortgage corporation, and any other agency created or supported through an Act of Congress and issues United States dollar-denominated debt;
- c) Obligations of instrumentalities of the United States, as originally issued by the instrumentalities. For the purposes of this section, the term "instrumentalities of the United States" is an instrumentality created or supported through an Act of Congress and issues United States dollar-denominated debt;
- d) Obligations of a foreign government that are guaranteed by the full faith and credit of that government as to principal and interest and rated at one (1) of the three (3) highest classifications established by at least two (2) standard rating services (upper medium grade for a long-term rating of A- and above 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 twenty-five (25) years prior to the time of acquiring those obligations;
- e) Interest-bearing bonds, issued by counties or municipal corporations of the State of Illinois, whether the interest earned thereon is taxable or tax-exempt under federal law. The bonds shall be registered in the name of the State of Illinois or held under a custodial agreement at a financial institution. The bonds shall be rated at the time of purchase at one (1) of the three (3) highest classifications established by at least one (1) standard rating service with nationally recognized expertise in rating bonds of states and their political subdivisions, (upper medium grade for the long-term rating of A- and above or equivalent). The maturity or pre-refunded date(s) of the bonds authorized by this subsection shall, at the time of purchase, not exceed ten (10) years. Notwithstanding the foregoing, a longer maturity is authorized, if the State of Illinois has a put option to tender the bonds within ten (10) years from the date of purchase;

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- f) Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986. 15 U.S.C. § 78o-5;
- g) Short-term obligations of either corporations or limited liability companies organized in the United States with assets exceeding \$500,000,000 and rated at the time of purchase at one (1) of the two (2) highest classifications established by at least two (2) standard rating services, (short-term rating of A-2 and above or equivalent). In order to comply with the S&P money market fund guidelines, the short-term rating must be A-1 and above. At the time of purchase, the maturity or pre-refunded date(s) shall not exceed two hundred and seventy (270) days to maturity;
- h) Long-term 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, (upper medium grade for a long-term rating of A- and above or equivalent). At the time of purchase, the maturity or pre-refunded date(s) shall not exceed two (2) years;
- i) Money market mutual funds registered under the Investment Company Act of 1940. 15 U.S.C. §80a-1;
- j) Securities in accordance with the Federal Financial Institution Examination Council guidelines only if the securities are collateralized at a satisfactory level to assure the safety of the securities, taking into account market value fluctuation and set forth in a Securities Lending Agreement between the Treasurer and the Treasurer's Agent. The securities may be collateralized by cash or collateral acceptable under Sections 11 and 11.1 of the Deposit of State Moneys Act;
- k) 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.; and
- l) Dividend-bearing share accounts, share certificate accounts, or class of share accounts of a credit union chartered under the laws of the State of Illinois or the United States that maintains its principal office in the State of Illinois.

## **7.0 INVESTMENT RESTRICTIONS**

The following investment restrictions apply to The Illinois Funds portfolio:

- a) Any investments not authorized by this investment policy or applicable law are prohibited;
- b) Repurchase agreements may only be executed with approved financial institutions or broker/dealers that meet the Treasurer's standards, which include mutual execution of a Master Repurchase Agreement adopted by the Treasurer;
- c) Investments in derivative products and leveraging of assets through reverse repurchase agreements are prohibited;
- d) All qualified repurchase agreement dealers, commercial paper issuers, and corporate bond issuers must have a corporate headquarters, corporate office, or operating location in the State of Illinois

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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;

- e) 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;
- f) 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. 40 ILCS 5/1-110.16;
- g) Asset-backed securities and mortgage-backed securities of any kind are prohibited;
- h) Investments in bankers' acceptances of any kind are prohibited; and
- i) Certificates of deposit may not be purchased from The Illinois Funds' custodial institution or any of its subcontractors.

#### **7.1 OPERATIONAL REQUIREMENTS**

Pursuant to Securities and Exchange Commission Rule 2a-7 (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 2a-7-like fund.

#### **8.0 RATINGS CRITERIA**

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

#### **9.0 COLLATERALIZATION**

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. The Treasurer may take possession and title to any securities held as collateral and hold such securities until it is prudent to dispose of them.

#### **10.0 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.

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**11.0 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 6.0 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 time deposits that constitute 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 Illinois Funds shall not hold obligations of a municipality's bonds that exceed 10% of the municipality's outstanding obligations;
- e) The Illinois Funds shall not be invested in more than 10% of each prime money market fund's assets (including all share classes) at any given time;
- f) 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. No more than 33% of the total portfolio assets shall be invested in short-term obligations of corporations or limited liability companies as defined by Section 6.0(g) of this Policy;
  - iii. No more than 5% of the total portfolio assets shall be invested in short-term obligations of any one corporation or limited liability company as defined by Section 6.0(g) of this Policy;
  - iv. No more than 20% of the total portfolio assets shall be invested in long-term obligations of corporations or limited liability companies as defined by Section 6.0(h) of this Policy;
  - v. No more than 5% of the total portfolio assets shall be invested in long-term obligations of any one corporation or limited liability company as defined by Section 6.0(h) of this Policy;
  - vi. No more than 10% of the total portfolio assets shall be invested in municipal securities issued by counties or municipal corporations of the State of Illinois as defined by Section 6.0(e) of this Policy;

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- vii. No more than 3% of the total portfolio assets shall be invested in any single issuer of municipal securities issued by counties or municipal corporations of the State of Illinois as defined by Section 6.0(e) of this Policy;
- viii. If invested in more than 3 prime money market funds, then no more than 33% of the portfolio's investments to prime money market funds may be placed with any one prime money market fund option; and
- ix. 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.

#### **12.0 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 of The Illinois Funds on the Treasurer's official website.

#### **13.0 ASSET ALLOCATION**

The Treasurer shall approve asset allocation among investment categories authorized under Section 6.0 of this Policy.

#### **14.0 COMPETITIVE BIDDING**

Authorized investment staff shall obtain competitive bids from at least three (3) broker/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 6(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.

#### **15.0 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.

#### **16.0 REPORTING**

Reports shall be made available quarterly by the Director of IPTIP Investments to the Treasurer, the Chief Investment Officer and The Illinois Funds participants. The quarterly report shall contain the following:

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- a) The total amount of funds;
- b) The current and historic performance of The Illinois Funds as compared to the established benchmark;
- c) The asset allocation for the investments;
- d) Any circumstances resulting in a deviation from the standards established in Section 11.0 of this Policy;
- e) Any change in investment policy adopted during the quarter; and
- f) The weighted average number of days to maturity.

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

#### **17.0 EXCEPTIONS**

The Deputy Treasurer & Chief Investment Officer may issue exceptions to this Policy provided that they do not conflict with applicable State statutes governing the use and investment of the State Investments portfolio including, but not limited to, the State Treasurer Act, the Treasurer as Custodian of Funds Act, the Deposit of State Moneys Act, the Securities Safekeeping Act, and any other applicable statutes and it is reasonably assured that deviating from this Policy is in the best interest of participants.

#### **18.0 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.

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**19.0 STATUTORY REFERENCES**

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

**20.0 AMENDMENTS**

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

**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 defined in Note 1 of the financial statements, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Illinois Funds financial statements, and we have issued our report thereon dated July 15, 2024.

**Report on 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 as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Office of the Treasurer's internal control of The Illinois Funds. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Office of the Treasurer's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings as items 2023-001 and 2023-002, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

*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. We consider the deficiency described in the accompanying Schedule of Findings as item 2023-001 to be a material weakness.

*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. We consider the deficiency described in the accompanying Schedule of Findings as item 2023-002 to be a significant deficiency.

## **Report on 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 financial statements. 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 Responses to the Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the State of Illinois, Office of the Treasurer's responses to the findings identified in our audit and described in the accompanying Schedule of Findings. The State of Illinois, Office of the Treasurer's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

## **Purpose of this Report**

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

**SIGNED ORIGINAL ON FILE**

Crowe LLP

Oak Brook, Illinois  
July 15, 2024

## **SCHEDULE OF FINDINGS**

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**The Illinois Funds  
Schedule of Findings – Current Findings  
For the Years Ended June 30, 2023 and 2022**

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**2023-001**      **Finding** (Inadequate Internal Controls Related to Review of Financial Statements)

The Office of the Treasurer (Office) had inadequate internal controls over the Office's Illinois Funds Program financial statement preparation and review process.

During preparation of the financial statements, the Office incorrectly accounted for cancelled, un-executed purchases as redemptions. The cancelled purchases should have been netted with purchase transactions. This error led to the overstatement of both subscriptions and redemptions on the Statements of Changes in Fiduciary Net Position by \$170,421,701.

The Office corrected the error noted above within the year-end financial statements.

Concepts Statement No. 1 of the Governmental Accounting Standards Board, *Objectives of Financial Reporting* (GASBCS 1, paragraph 64), states, "Financial reporting should be reliable; that is, the information presented should be verifiable and free from bias and should faithfully represent what it purports to represent. To be reliable, financial reporting needs to be comprehensive." This would include identifying inaccurate gross-up of transaction activity in the financial statements. In addition, 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. Strong management controls, due diligence and fiduciary responsibility require procedures to include proper checks and balances and adequate supervision to ensure proper financial reporting.

The Office stated that the cancelled purchases were included in redemptions due to oversight because the mechanics of cancelled purchases operate similarly to a redemption by negatively affecting a participant's account.

Failure to maintain adequate internal controls over the financial reporting process led to the misstatement of subscriptions and redemptions in the financial statements. (Finding Code No. 2023-001, 2022-001, 2021-001, 2020-001)

**Recommendation**

We recommend the Office improve controls over the financial reporting process of the Illinois Funds Program by verifying that cancelled, un-executed purchases are not recorded at gross amounts within the financial statements.

**Office Response**

The Office accepts the recommendation and will implement additional controls over the reporting and review process of the Illinois Funds financial statements.

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Schedule of Findings – Current Findings  
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**2023-002**      **Finding** (Inadequate Internal Controls Related to Review of Service Providers)

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

The Office utilized service providers as the custodian of the Illinois Funds Program and as payment processors for the E-Pay program. As of June 30, 2023, the net position held in trust for pool participants, internal and external, was \$19,191,730,000. The Office did not establish an adequate process to monitor its service and subservice providers. The following issues were identified during testing:

- One of three (33%) significant System and Organization Control (SOC) reports was not reviewed for the Illinois Funds Program. In addition, the SOC report was not provided timely to the auditors, as it was provided 222 days after the original request due date.
- One SOC report for the Illinois Funds Program included a qualified opinion related to inadequate controls precluding operating effectiveness of certain applicable controls. The Office's SOC report review did not address the qualified opinion.
- The Office did not establish adequate controls to review significant subservice organizations related to the Illinois Funds Program. There was no evidence the Office was collecting, tracking and maintaining the appropriate SOC reports for all significant subservice organizations.
  - Due to one of three (33%) SOC reports not being provided to the auditors, the population of significant subservice organizations could not be determined. The auditors were unable to determine the Office reviewed the subservice organization SOC reports.
  - The Office provided two lists of significant service and subservice organizations. The list for the Illinois Funds Program did not list any subservice organizations. The list for the E-Pay Program listed the Illinois Funds service organization with three significant subservice organizations.
  - The Office provided its review of one significant subservice organization for the Illinois Funds within its service organization review; however, the wording for the subservice organization review had not been updated from the prior fiscal year report review.
- The Office did not establish adequate controls to review significant service and subservice providers related to the E-Pay program. The population of E-Pay program payment processors identified three significant service providers and nine significant subservice providers. Two of three (67%) significant service organizations, including the same report identified above for the Illinois Funds Program, were not reviewed. In addition, the Office obtained a SOC 3 report for one of its service organizations but did not review the report. Nine of nine (100%) significant subservice organizations' SOC reports were not reviewed.

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.

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**The Illinois Funds  
Schedule of Findings – Current Findings  
For the Years Ended June 30, 2023 and 2022**

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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.

The Security and Privacy Controls for Information Systems and Organizations (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology (NIST), Maintenance and System and Service Acquisition sections, requires entities outsourcing their information technology environment or operations to obtain assurance over the entities' internal controls related to the service provided. Such assurance may be obtained via System and Organization Control report or independent reviews.

The Office attributed the finding to staffing issues.

Without having identified and reviewed all service and subservice organization controls timely, the Office has no assurance the external service providers' internal controls were adequate to ensure proper accounting and safekeeping of assets and data. (Finding Code No. 2023-002, 2022-002)

**Recommendation**

We recommend the Office establish an internal control process to document if a review of controls is required. Additionally, we recommend the Office:

- Obtain and review SOC reports or perform independent reviews of internal controls associated with outsourced systems at least annually.
- Either obtain and review SOC reports for subservice organizations or perform alternative procedures to satisfy itself that the existence of the subservice organization would not impact its internal control environment.
- Document its review of the SOC reports in a timely manner, reviewing all significant issues with subservice organizations to ascertain if corrective action plans exist and when they will be implemented, identifying any impacts to the Office, and any compensating controls.

**Office Response**

Management accepts the findings and has implemented further procedures to the SOC report review process to confirm that the audit findings are not repeated.