



OFFICE OF THE CITY TREASURER
MELISSA CONYEARS-ERVIN • TREASURER • CITY OF CHICAGO

MEMORANDUM

To: The Honorable Jason Ervin
Chairman, Committee on the Budget and Government Operations

From: Melissa Conyears-Ervin
Treasurer
Office of the City Treasurer

CC: Elizabeth Beatty
Mayor's Office of Intergovernmental Affairs

Date: **November 8, 2023**

Re: Request for Information from Annual Appropriation Committee Hearing

ID#: 28-01

The following information is provided in response to questions posed at our department's hearing on October 27, 2023 to discuss the proposed 2024 budget.

Alderman Conway asked for the City's investment policy.

Please see attachment.

As always, please let me know if you have any further questions.

The Municipal Code of Chicago (the “Municipal Code”) authorizes the City Treasurer to invest funds of the City of Chicago (the “City”) in certain authorized classes of securities. All persons involved in the investment of public funds in the Office of the City Treasurer (the “Office”) must comply with the Municipal Code provisions relating to the deposit and investment of public funds. The purpose of this Statement of Investment Policy and Guidelines (the “Policy”) is to establish cash management and investment guidelines for the Office. This Policy has been prepared in accordance with the Public Funds Investment Act (30 ILCS 235 / 2.5) and the Municipal Code (2-32-515).

I. POLICY

The Office is responsible for the management of daily receipt and investment of cash and related accounting operations. The City Treasurer is the Chief Investment Officer of the City and investments may be directed by the City Treasurer, her designee, or outside professional fund managers, in accordance with this Policy. It is the policy of the City Treasurer to invest all funds under the Office’s control in a manner that provides the highest investment return using authorized instruments while meeting the City’s daily cash flow demands in conformance with the Municipal Code.

II. SCOPE OF POLICY

This Policy applies to all investments held within the Office and made on behalf of the City Treasurer with the exception of certain Bond Funds for which the City may specifically authorize other allowable investments consistent with applicable bond ordinance, trust indenture, the Municipal Code or State law.

III. OBJECTIVES

The primary objective in the investment of City funds under control of the City Treasurer is to ensure the safety of principal, while managing liquidity requirements of debt service and other financial obligations of the City, using authorized investment instruments providing the highest risk-adjusted investment return, while promoting economic development in the City.

- 1. Safety:** The safety of principal is the foremost objective of the investment activities. City investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the portfolio. To attain this objective, diversification is required to ensure that the City Treasurer prudently manages market, interest rate and credit risk. Each investment purchase shall be limited to those defined as eligible under the Municipal Code.

2. **Liquidity:** The investment portfolio shall remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated. Except as otherwise authorized by the Municipal Code or other applicable law, all investments shall be fully payable as to principal and interest within 30 years from the date of settlement as determined on the date of purchase.
3. **Return on Investments:** The investment portfolio shall be designed to obtain the highest available risk-adjusted return, considering the City Treasurer's investment risk constraints and cash flow needs.
4. **Economic Development and local considerations:** The City Treasurer will seek to promote economic development in the City through various programs that provide incentives for community reinvestment and financial assistance.

IV. PRUDENCE

To accomplish the objectives of the City Treasurer, all authorized persons engaged in the investment process will perform their duties responsibly in accordance with the following standard:

“Investments shall be made with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the City and the Board of Education of the City, Policemen's Annuity and Benefit Fund, Firemen's Annuity and Benefit Fund, Municipal Employees' Annuity and Benefit Fund, and Laborers' and Retirement Board Employee's Annuity and Benefit Fund (“Depositors”), that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of like character and with like aims, to safeguard the principal and maintain the liquidity needs of the City and the Depositors.”

The standard of prudence to be used by the Office's investment officers shall be the “prudent investor” standard and shall be applied in the context of managing an overall portfolio. Investment officers shall: (i) act in accordance with written procedures and this Policy, (ii) exercise due diligence, (iii) prepare all reports in a timely fashion, and (iv) exercise appropriate action to control adverse developments.

V. OPERATIONAL GUIDELINES

1. **Particular Fund Investments:** The Municipal Code requires that any investment earnings of a particular segregate fund be credited to that fund. Principal and interest shall be credited to the particular segregate fund so invested. The City Treasurer may transfer ownership of any security

purchased with monies of a particular fund to another fund managed by the City Treasurer. The buying fund shall pay the selling fund the amount of the principal and accrued interest up to the date of the transfer of ownership of such security.

- 2. Government Fund Accounting:** The City financial record-keeping system is operated and maintained on a fund accounting basis. A fund is an independent fiscal accounting entity with a separate set of accounting records to record cash and investment activities. Funds are either segregate or aggregate, as determined by law, special regulation or contractual agreement. The Comptroller shall determine the classification of Funds in either segregate or aggregate category and the City Treasurer's records are prepared accordingly. Funds classified as "segregate" by the Comptroller require that separate accounts be established related to all financial resources, investment and payment requirements. Generally, these segregate funds represent financial resources employed for specified governmental projects and are for restricted use. The Office must maintain a cash and investment record of the segregated accounts and have monies available to pay obligations under segregate funds when due. Generally, debt service payments and investments are made through the trust accounts provided for these funds and coordinated by the Office. All other receipts and cash not allocated by law or contractual agreement and used to pay the City's general operating expenses are pooled for investment and classified as aggregate funds. The City Treasurer shall disburse the operating funds daily to cover warrants issued by the City Comptroller. The Corporate (General) fund is the aggregate major operating fund of the City. All general tax revenues and ordinary receipts are aggregated into this fund. Disbursements are based on spending plans of the City departments and include items such as employee payroll, health benefit costs and operating expenditures.
- 3. Competitive Bidding:** Investment transactions made by the Office, bids/quotes and markups or discounts need to be consistent with prevailing institutional trades at the time of each transaction and are to be compared to market quotations for the same type and maturity investment on the Bloomberg independent market quotation information service or a comparable service available in the Office. In certain exigent circumstances, the Office need not solicit competitive bids. The guiding principle with choosing any bid for any investment transaction made by the Office is the quality of the bid and the assurance that the bidder can complete the investment transaction.

4. **Sale of Securities:** Section 2-32-580 of the Municipal Code provides that:
“The comptroller and City Treasurer may sell a security prior to maturity at such price that the comptroller and City Treasurer shall deem advisable including at, above or below the book price of the security when in the determination of the comptroller and City Treasurer the sale of the security is necessary to: (1) ensure sufficient amount of money on hand when the balance of cash in the City treasury has for any reason become less than the amount necessary for immediate use; (2) enhance the overall portfolio yield; (3) minimize further erosion and loss of investment principal; or (4) minimize the City’s exposure to market and credit risks. The City Treasurer shall cooperate with the comptroller in the cancellation and reissue of tax warrants sold in such a way that no duplication thereof shall take place.”

5. **Especially Segregate Funds:** In accordance with the Guide to Equitable Sharing funds issued by the U.S. Department of Justice and the U.S. Department of the Treasury, the Chicago Police Department's Department of Treasury Equitable Sharing Funds and the Department of Justice's Equitable Sharing funds will not be subject to losses from investment accounts. To this end, the only eligible authorize investments for these funds are that described in Section VIII, Item 13 of this Policy.

VI. ETHICS AND CONFLICT OF INTEREST

It is the policy of the Office and in compliance with Section 2-156-080 of the Municipal Code that no person acting on behalf of the investment function in the Office shall, in any manner, have any direct interest in any investments in which the Office is authorized to invest; or receive in any manner, compensation of any kind, from any investments from the sellers, sponsors or managers of such investments. Investment officers and other staff involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. The City’s Governmental Ethics Ordinance, Chapter 2-156 and State law limit the gifts that employees, officials, their spouses, and /or their minor children can accept from persons who have an interest in City business.

VII. AUTHORIZED BROKER/DEALERS AND QUALIFIED INSTITUTIONS

The City Treasurer will maintain a list of broker/dealers authorized to provide investment services in the City. In addition, a list will be maintained of approved financial institutions authorized to provide investment services other than brokerage or asset sales to the City. No public deposits shall be made except in Municipal Depositories approved by City Council. The Treasurer's Office shall not hold deposits that constitute more than 10% of any single approved Municipal Depository or financial institution's total deposits.

Depositories: Section 2-32-400 of the Municipal Code allows only regularly organized state or national banks insured by the Federal Deposit Insurance Corporation ("FDIC") and federal and state savings and loan associations insured by Savings Association Insurance Fund of the FDIC to be designated as possible Municipal Depositories. Depository institutions should be economically viable and have practices that would not impair the safety of investments.

Broker/Dealer: The Office has a Request for Information (RFI) questionnaire to facilitate qualification of each broker/dealer interested in working with the City investments. The Office evaluates interested broker/dealers based on criteria set by the City Treasurer, including the firm's prior experience, financial stability, and other requirements deemed necessary by the Office, the Municipal Code or other applicable government agencies. The Office on an annual basis notifies brokers/dealers of their approval in writing. The City Treasurer maintains relationships with qualified members of the broker/dealer community who understand the permitted investment constraints and goals of the Office. No broker/dealer or financial institution may present investments to the City Treasurer unless it has signed a sworn certification serving as an affidavit that the institution understands the eligible investment securities that can be purchased for the City. Only broker/dealers with offices located in the City are used to transact business for the City investment accounts.

VIII. AUTHORIZED INVESTMENTS

The following items define the authorized investment types, the City Treasurer has subject to the provisions of Section 2-32-520 of the Municipal Code:

1. Debt obligations issued by the City of Chicago.
2. General Obligations of the United States, United States Government Agencies or Instrumentality, or other United State Government Sponsored Enterprises.
3. Debt Obligations of any state of the United States, and any other political or governmental subdivision of any state of the United States, rated, at the time of purchase, no less than A-, or equivalent rating, by at least two accredited rating agencies, or have an equivalent credit enhancement instead of a second rating. Investments authorized by this item shall
 - a) not exceed 30% of the total portfolio, as calculated with proforma data for the date of settlement available on the date of purchase; and
 - b) be limited to no more than 5% of the total portfolio invested in any one issuer, as calculated with proforma data for the date of settlement available on the date of purchase.
4. US Dollar Denominated General Obligations of Foreign Sovereignities and US Dollar Denominated Obligations of Agencies implicitly or explicitly backed by Foreign Sovereignities rated, at the time of purchase, no less than A-, or equivalent rating, by at least two accredited rating agencies. Investments authorized by this item shall:
 - a) not exceed 10% of the total portfolio, as calculated with proforma data for the date of settlement available on the date of purchase; and
 - b) be limited to no more than 2% of the total portfolio invested in any one issuer, as calculated with proforma data for the date of settlement available on the date of purchase.
5. Commercial Paper rated, at the time of purchase, in the two highest categories, by at least two accredited ratings agencies. Investments authorized by this item shall
 - a) not mature more than 270 days from the date of settlement; and
 - b) be limited to no more than 3% of the total portfolio invested in any one issuer, as calculated with proforma data for the date of settlement available on the date of purchase.
6. Bonds of companies with assets exceeding \$500,000,000, issued in US dollars, that, at the time of purchase, are rated as investment grade by at least two accredited ratings agencies. Investments authorized by this item shall

- a) not exceed 25% of the total portfolio, as calculated with proforma data for the date of settlement available on the date of purchase;
 - b) be limited to no more than 35% in any one market sector; and
 - c) be limited to no more than 2% of the total portfolio invested in any one issuer, as calculated with proforma data for the date of settlement available on the date of purchase.
7. Non-Agency Structured Investment Vehicles (Receivable-Backed, Asset-Backed, Mortgage-Backed, or Pass Through Securities backed by contracts to receive cash flows), rated, at the time of purchase, no less than A-, or equivalent rating, by at least two accredited rating agencies. Investments authorized by this item shall
 - a) be limited to no more than 2% of the total portfolio invested in any one issuance, as calculated with proforma data for the date of settlement available on the date of purchase.
8. Structured Investment Vehicles backed or guaranteed by US Government Sponsored Enterprises or the United States Government.
9. Supranational debt instruments of international institutions established or chartered by multiple countries or other international institutions, rated, at the time of purchase, no less than A-, or equivalent rating, by at least two accredited rating agencies, or have an equivalent credit enhancement instead of a second rating. Investments authorized by this item shall
 - a) not exceed 10% of the total portfolio, as calculated with proforma data for the date of settlement available on the date of purchase; and
 - b) be limited to 5% of the total portfolio invested in any one issuer, as calculated with proforma data for the date of settlement available on the date of purchase.
10. Money Market Mutual Funds regulated by and in good standing with the SEC; rated AAA, or equivalent rating, by at least two accredited ratings agencies; whose investment objectives include the maintenance of a stable net asset value of \$1 for each share (not having a floating NAV).
11. Non-interest-bearing accounts established in a national or state bank, or a federal or state savings and loan association, when, in the determination of the Treasurer, the placement of such funds is used as compensating balances to offset fees for financial services.
12. Reverse Repurchase Agreement (“the agreement”) given that all follow conditions are met:
 - a) the agreement is transacted with Primary Dealers and financial institutions with whom the City has a valid on file a master agreement;
 - b) the agreement is fully collateralized as described in Section XI of this document;

- c) the agreement has a term not exceeding 90 days from the date of settlement;
 - d) the maturity of the investment acquired with the proceeds of the agreement does not exceed the expiration date of the agreement; and
 - e) investments authorized by this item do not exceed 5% of the total portfolio, as calculated with proforma data for the date of settlement available on the date of purchase.
13. Certificates of Deposit of Municipal Depositories collateralized as described in Section XI of this document.
 14. Bankers' Acceptance of banks whose senior obligations, at the time of purchase, are rated at least AA-, or equivalent rating, by at least two accredited ratings agencies.
 15. Tax-exempt securities exempt from federal arbitrage provisions applicable to investments of proceeds of the City's tax-exempt debt obligations.
 16. Interests in the Chicago Community Catalyst Fund ("CCCF") as established by Section 2-32-622 of the Municipal Code.
 17. Any other suitable investment instrument permitted by state laws governing municipal investments or City municipal code, subject to the reasonable exercise of prudence in investing public funds.
 18. Pertaining only to the investment of bond proceeds held by trustees, any other suitable investment instrument permitted by each fund's related bond indenture.

(1) For the purposes of this subsection, the following definitions shall apply:

"Item" shall mean: section defining individual investment class allowed, identified by single number in the list above.

(2) Commencing in 2019, in each year, Eligible Funds may be transferred to the CCCF from time to time, provided that the aggregate amount of such transfers during a year shall not exceed the Annual Limit for such year.

IX. INVESTMENT RESTRICTIONS

Except as provided in section VIII, neither the Comptroller nor Treasurer shall have authority, without the approval of the City Council, to (i) invest in financial agreements whose returns are linked to or derived from the performance of some underlying asset such as bonds, currencies or commodities products, or (ii) borrow against or otherwise obligate City investments, other than for purposes of a security lending transaction conducted under section 2-32-575 of the Municipal Code.

The Office of the City Treasurer shall not invest in securities or other obligations of the companies that, at the time of purchase, are included in the Carbon Divestment Exclusion List adopted by the Office of the City Treasurer. The Carbon Divestment Exclusion List identifies the top coal, oil, and gas reserve owners, ranked by the potential carbon emissions embedded in their reserves. The Carbon Divestment Exclusion List shall be updated annually by screening all issuers that have an available value for total potential carbon emission as proxied by carbon fuels reserves owned by the company. If an asset already held in the City's portfolio is subsequently added to the list, the Treasurer shall divest the asset within 90 days of the updated list being adopted.

X. MINIMUM CREDIT QUALITY

Exclusive of investments made pursuant to Section 2-32-520(r) of the Municipal Code, the total holdings across all funds held by the Treasurer shall have no less than an overall average rating of AA or equivalent rating without regard to any refinement or gradation of rating category by numerical modifier or otherwise on a quarterly basis. The average will be determined on a pro-rata basis utilizing at least one of the available ratings from an accredited rating agency.

XI. COLLATERALIZATION

In order to protect the City public fund deposits, depository institutions are to maintain collateral pledges on City deposits and certificates of deposit during the term of the deposit. During the length of their term, certificates of deposit and deposits in banks or savings and loan associations designated as Municipal Depositories which are insured by federal deposit insurance; provided that any amount of the deposit in excess of, if available, the federal deposit insurance, shall be either:

1. Fully collateralized at least 100% by a combination of bonds, notes, or other securities constituting the direct and general obligation of any agency or instrumentality of the United States, of any US State, or any political subdivision of a US State, which are rated at least AA, or equivalent rating, by at least two accredited ratings agencies and maintaining such rating during the term of such investments.

2. Secured by a corporate surety bond issued by an insurance company licensed to do business in Illinois and having a claims-paying rating in the top rating category as rated by a nationally recognized statistical rating organization and maintaining such rating during the term of such investment.
3. Fully collateralized at least 100% by an irrevocable letter of credit issued in favor of the City of Chicago by the Federal Home Loan Bank, provided that the Federal Home Loan Bank's short-term debt obligations are rated in the highest rating category by at least one accredited ratings agency throughout the term deposit.

Repurchase Agreements must be collateralized in an amount of 102% of market value of principal and accrued interest. Collateral pledged for Repurchase Agreements shall be marked to market at least weekly during the term of the agreement. Additional collateral will be required when the ratio falls below the level required.

The collateral required to secure City funds must be held in safekeeping and pursuant to collateral agreements which would prohibit release or substitution of pledged assets without proper written notification and authorization of the City Treasurer.

XII. SAFEKEEPING AND CUSTODY

All securities and collateral will be held by a third-party custodian designated by the City Treasurer and evidenced by safekeeping receipts. Safekeeping will be documented by a written agreement, in the form of a safekeeping agreement, trust agreement, escrow agreement or custody agreement.

XIII. DIVERSIFICATION

A variety of financial instruments and maturities, properly balanced, will help to ensure liquidity and reduce risk or interest rate volatility and loss of principal. Diversifying investments and maturities will avoid incurring unreasonable risks in the investment portfolio regarding specific security types, issuers or individual financial institutions.

XIV. INTERNAL CONTROLS

The City Treasurer, as the Chief Investment Officer, shall maintain a system of internal controls and written operational procedures that shall be documented. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by authorized investment officers.

In addition, the City Treasurer shall establish a system of internal controls to ensure that staff positions and functional duties are adequately segregated for separation of duties between the investment and accounting operations. These controls shall be tested and reviewed periodically by external auditors during the audit.

XV. TRAINING

Those persons under the supervision of the Treasurer who are authorized to execute investment transactions shall attend at least one investment training session within twelve (12) months after assuming their duties and shall receive not less than ten (10) hours of instruction relating to investment responsibilities during a two-year period that begins on the first day of the City's fiscal year following the initial ten (10) hours of instruction and consists of the two consecutive fiscal years after that date. The Treasurer is authorized to engage an independent third party with no preexisting contractual relationship with the Office to provide this training, which shall include education in investment controls, security risks, market risks, diversification of investment portfolio and compliance with applicable laws. Any failure to comply with section 2-32-615 of the Municipal Code shall not invalidate any investment transaction undertaken by any person under the supervision of the Treasurer.

XVI. PERFORMANCE EVALUATION

The City Treasurer will utilize the average three-month US Treasury Bill return or other appropriate benchmarks to determine whether market average yields are being achieved.

XVII. TREASURER'S REVIEWS AND REPORTS RESERVED.

1. The Treasurer shall conduct a review at least on a monthly basis of the current total holdings across all funds, including: cash positions, mark to market valuations, credit quality for each security, and additional compliance issues.
2. The Treasurer shall, on or before the first day of February of each year, submit a report to the City council that details the performance of the total holdings across all funds held by the Treasurer's office, including asset allocation, cash position and overall credit quality as of December 31 of the preceding year.
3. The Treasurer shall, on or before the first day of February of each year, submit a report to the City council on the written investment policy for compliance as of December 31 of the preceding year, and present any recommendations for changes.

4. The Treasurer shall, on or before the first day of February of each year, provide the updated Carbon Divestment Exclusion List to the City council's Committee on Finance, indicating any changes, or whether there have been no changes to the list.

XVIII. PERIODIC REVIEW

An annual independent audit and review of the Office's books and records will be performed to evaluate the nature of overall portfolio investment activities and to verify invested funds. The independent audit review will also examine procedures and written guidelines and established internal control mechanisms to ensure compliance with the objectives of this Policy.

XIX. MINORITY-OWNED FINANCIAL INSTITUTIONS

When investing or depositing public funds, each custodian for the City Treasurer shall, to the extent permitted by the Public Funds Investment Act (30 ILCS 235) and by the lawful and reasonable performance of his or her custodial duties, invest or deposit such funds with or in minority-owned financial institutions within the City. It shall be the aspirational goal of the Treasurer to execute investment transaction through broker-dealers qualified as 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 annual investment transactions.

XX. HUMAN RIGHTS

It is the policy of the City Treasurer and in compliance with Section 2-160-030 of the Municipal Code that discrimination on the basis of race, color, religion, age, national origin, gender, sexual orientation, ancestry, disability, marital status, parental status, source of income or military discharge status will not be tolerated.

XXI. SUSTAINABILITY FACTORS

Sustainability factors shall be integrated into the City Treasurer's investment decision-making, investment analysis, portfolio construction, due diligence, and investment ownership in order to maximize anticipated financial returns, minimize projected risk, and more effectively execute the office's fiduciary duty. Sustainability factors, as defined under the Illinois Sustainable Investing Act, 30 ILCS 238/1 et seq., are factors that may have a material and relevant financial impact on the safety or performance of an investment, and which are complementary to financial factors and financial accounting.

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

1. 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.
2. 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.
3. Social capital factors that impact relationships with key outside parties, which may impact investment performance 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.
4. 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.
5. 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.

Sustainability factors may be analyzed in a variety of ways, including, but not limited to:

1. Direct financial impacts and risks.
2. Legal, regulatory, and policy impacts and risks
3. Against industry norms, best practices, and competitive drivers.
4. Stakeholder engagement.

XXII. POLICY ADOPTION AND AMENDMENT

This Policy may be reviewed from time to time and amended by the City Treasurer and shall be consistent with the provisions of the Municipal Code pertaining to

investments. Copies of the written policy and any amendments thereto shall be kept on file with the City Clerk and the comptroller, and shall be submitted annually, or if amended, no later than 30 days after such amendment, to the Chairman of the City Council on finance and the chief investment officer.