I. Investment Philosophy

Pursuant to Board of Trustees’ policy and Board Treasurer’s function, it shall be the policy of Northern Illinois University to manage the university's cash and investments for the use and benefit of the university in a manner that will:

A. preserve and maintain the real purchasing power of the principal

B. assure an optimal flow of cash to meet university obligations

C. produce a yield which, when compared to current marketplace, would be described as acceptable by conservative investment managers while maintaining consistency with applicable State Statutes, and/or bond indentures.

II. Safety

The safety of principal is the primary objective of the university's investment program. The university's Investment and Cash Management Policy provides for diversification among permissible investments while:

A. Managing market changes

B. Minimizing interest rate risk

C. Mitigating credit risk

D. Managing concentration of credit risk

E. Safeguarding custodial credit risk

F. Controlling foreign currency risk

Interest rate risk is the risk that a change in interest rate will adversely affect the fair value of an investment. The university mitigates interest rate risk by maintaining adequate cash or cash equivalent balances that are consistent with expected cash flows of the university, thus minimizing risk associated with changes in market value and/or interest rate fluctuation. It is prudent to establish a diversified portfolio with instruments that vary by issuer; by type of security; and by maturity date.

Credit Risk represents a loss due to the failure of a security issuer to fulfill its obligation to make interest and/or principal payments in accordance with required dates. By limiting investments to only those authorized by the Illinois Public Funds Investment Act (30 ILCS 235), the university’s exposure to credit risk is mitigated. For example, short-term obligations of corporations organized in the United States that meet the following criteria at the time of purchase: 1) rated at one of 3 highest classifications as determined by at least two standard rating services, 2) to mature in 180 days or less, 3) such purchases do not exceed 10% of the corporations’ outstanding obligations, and 4) no more than one-third of the university’s funds may be invested in short-term obligations of corporations.

Concentration of credit risk is managed with diversification of investments, held at any one time, in the university’s portfolio. The risk of loss due to having a significant portion of university resources invested in a single issuer is minimized and controlled by limitations as set forth in this investment policy.
Custodial Credit Risk or the risk of loss due to a financial institution or counterparty failing, in that, the university would not receive the full value of its deposits held by such party. In accordance with the Illinois Public Funds Investment Act (30 ILCS 235), public funds on deposit, not covered by FDIC insurance, require pledged securities to be placed by financial institutions or counterparty. Collateral agreements are to provide for a third party custodian to hold such pledged securities. To mitigate custodial credit risk, all pledged securities on behalf of the university are held in an account in the name of Northern Illinois University.

Foreign currency risk or investments exposed to currency rate fluctuation are controlled by adherence to the Illinois Public Funds Investment Act (30 ILCS 235).

III. Advisors

The university at its discretion may utilize the services of external advisors to assist in the management of investments. The choice of advisors shall be determined by the Investment Committee appointed by the President. This committee shall include, but not be limited to, the Vice President for Administration and Finance, the Associate Vice President for Finance and Budget, the Controller, and the Director of Treasury Operations (non-voting).

IV. Limitations

Consistent with State Law and Board of Trustees Policy:

A. Foreign investments are prohibited.

B. Collateralization of Accounts.

Whenever such funds retained by a State university or the Board of Trustees in its own treasury are deposited with a bank or savings and loan association and the amount of the deposit exceeds the amount of federal deposit insurance coverage, a bond or pledged securities shall be obtained. The State Finance Act limits the types of securities the State Treasurer may accept for amounts not insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation. The market value of the bond or pledged securities shall at all times be equal to or greater than the uninsured portion of the deposit. (30 ILCS 105/6a-1a)

C. With authorization from the Investment Committee, the Associate Vice President for Finance and Budget may specify investment criteria that are more restrictive than those of this policy.

V. Authorized Investments

A. Board of Trustees

1. Regulations

The Board of Trustees Regulations §V.D.3. allow the combining of funds of the same category or classification in a single account with an authorized depository as long as the university's books and records reflect the amount in each fund so deposited and the charges against each fund.

Any amount of such deposits in excess of the amount reasonably necessary to meet the anticipated expenses of such funds may be invested in any investment permitted by the laws of the State of Illinois for the investment of public funds unless otherwise restricted by a bond or other legal covenant.

In the event of a conflict between the regulations and the requirements of specific bond resolutions, the latter shall govern.
All funds not required to be paid into the State Treasury shall be deposited in banks authorized by the Board of Trustees to serve as depositories.

Each year the university shall file with the Board of Trustees a report of beginning balances, withdrawals, and ending balances for all bank accounts. In addition, a statement of investment policy shall be filed annually with the report on depositories.

2. Bond Funds and Other Debt Instruments

The Resolutions authorizing the issuance of revenue bonds and other debt instruments may place restrictions on the investment of these funds. The maturity of investments purchased should be aligned with drawdown and/or use of funds schedules. The investments are limited to those permitted by resolution or meet the requirements of this investment policy.

Consistent with Federal compliance requirements, the Director of Treasury Operations is responsible for monitoring arbitrage rebate calculations and transmitting any necessary filings with IRS.

3. Fund Depositories

a. University accounts shall be held in the name of Northern Illinois University.

b. Banking activities will be conducted in a manner that is in compliance with State Statute and Board of Trustees regulations.

c. The Board Treasurer is authorized to designate depositories at such locations that require local banking services away from the Northern Illinois University main campus. Consistent with Board of Trustees regulations all new depository relationships require specific board approval.

d. The Board Treasurer is authorized to delegate signature authority for a single specific purpose bank and/or investment account. The delegation involves university departments and/or agency relationships within the university.

B. State of Illinois - Investment of Public Funds (30 ILCS 235)

1. The State of Illinois authorizes investments in instruments guaranteed by the full faith and credit of the United States of America as to principal and interest.

2. The State of Illinois authorizes investments in bonds, notes, debentures, or other similar obligations of the United States of America or its agencies.

For the purpose of defining permitted investments, the term "agencies of the United States of America" include:

a. federal land banks, federal intermediate credit banks, banks for cooperative, federal farm credit banks, or any other entity authorized to issue debt obligations under the Farm Credit Act of 1971 (12 U.S.C 2001 et seq.) and Acts amendatory thereto;

b. federal home loan banks and the federal home loan mortgage corporation; and

c. any other agency created by Act of Congress.
3. The State of Illinois authorizes investments in interest-bearing savings accounts, certificates of deposit or time deposits or any other investments constituting direct obligations of any bank as defined by the Illinois Banking Act.

4. The State of Illinois authorizes investments in short-term obligations of corporations organized in the United States with assets exceeding $500,000,000 if
   a. such obligations are rated at the time of purchase at one of the three highest classifications established by at least two standard rating services
   b. the maturity is not later than 180 days from the date of purchase
   c. such purchases do not exceed 10% of the corporation's outstanding obligations, and
   d. no more than one-third of the public agency's funds may be invested in short-term obligations of corporations.

5. The State of Illinois authorizes investments in money market mutual funds registered under the Investment Company Act of 1940, as from time to time amended. The portfolio is limited to those obligations described in V.B.1 and 2 above and to agreements to repurchase such obligations.

6. The State of Illinois authorizes investments only in banks which are insured by the Federal Deposit Insurance Corporation.

7. The State of Illinois authorizes investments in short-term discount obligations of the Federal National Mortgage Association or in shares or other forms of securities legally issuable by savings and loan associations which are incorporated under the laws of Illinois or any other state or under the laws of the United States.
   a. Investments may be made only in those savings and loan associations which are insured by the Federal Savings and Loan Insurance Corporation.
   b. Securities may be purchased at the offering or market price at the time of purchase.
   c. Securities shall mature or be redeemable on a date or dates prior to the time when invested funds will be required for expenditure by the university.

8. The State of Illinois authorizes investment of funds with a credit union chartered under the laws of the State of Illinois or the United States, provided the principal office of the credit union must be located within the State of Illinois and the investments must be in accounts which are insured by applicable law.

9. The State of Illinois authorizes investment of funds in a Public Treasurers’ Investment Pool, commonly known as Illinois Funds, created under Section 17 of the State Treasurer’s Act, 15 ILCS 505/17.
   Any public agency may also invest any public funds in a fund managed, operated and administered by a bank.

10. Except for repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986 and subject to the provisions of said Act and the regulations issued thereunder, the State of Illinois does not permit public agencies to purchase or invest in instruments which constitute repurchase agreements, and no financial institution may enter into such an agreement with or on behalf of any public agency unless the instruments and the transaction meet the following requirements:
a. The securities, unless registered or inscribed in the name of the public agency, are purchased through banks or trust companies authorized to do business in the State of Illinois.

b. An authorized public employee or officer, after ascertaining which firm will give the most favorable rate of interest, directs the custodial bank to "purchase" specified securities from a designated institution. The "custodial bank" is the bank or trust company, or agency of government, which acts for the public agency in connection with repurchase agreements involving the investment of funds by the public agency. The State Treasurer may act as custodial bank for public agencies executing repurchase agreements. To the extent the Treasurer acts in this capacity, he/she is hereby authorized to pass through to such public agencies any charges assessed by the Federal Reserve Bank.

c. A custodial bank must be a member bank of the Federal Reserve System or maintain accounts with member banks. All transfers of book-entry securities must be accomplished on a Reserve Bank's computer records through a member bank of the Federal Reserve System. These securities must be credited to the public agency on the records of the custodial bank and the transaction must be confirmed in writing to the public agency by the custodial bank.

d. Trading partners shall be limited to banks or trust companies authorized to do business in the State of Illinois or to registered primary reporting dealers.

e. The security interest must be perfected.

f. The public agency enters into a written master repurchase agreement which outlines the basic responsibilities and liabilities of both buyer and seller.

g. Agreements shall be for periods of 330 days or less.

h. The authorized public employee or officer of the public agency informs the custodial bank in writing of the maturity details of the repurchase agreement.

i. The custodial bank must take delivery of and maintain the securities in its custody for the account of the public agency and confirm the transaction in writing to the public agency. The Custodial Undertaking shall provide that the custodian takes possession of the securities exclusively for the public agency; that the securities are free of any claims against the trading partner; and any claims by the custodian are subordinate to the public agency's claims to rights to those securities.

j. The obligations purchased by a public agency may only be sold or presented for redemption or payment by the fiscal agent bank or trust company holding the obligations upon the written instruction of the public agency, public employee or officer authorized to make such investments.

k. The custodial bank shall be liable to the public agency for any monetary loss suffered by the public agency due to the failure of the custodial bank to take and maintain possession of such securities.

VI. Management of Cash and Investments

A. Except as provided herein, the Director of Treasury Operations, under the direction of the Associate Vice President for Finance and Budget or the Investment Committee, shall be authorized to serve as the Chief Investment Officer on behalf of the university. The Director of Treasury Operations will develop procedures necessary to administer the Investment and Cash Management Policy.
B. The Director of Treasury Operations will establish written operational procedures and will develop internal controls appropriate to address loss prevention measures and regulate the activities of subordinate university staff.

VII. Disbursements and Transfers

There shall be a requirement for two designated individuals to authorize transactions related to investment settlements and/or cash transfers. Assigned employees may be delegated authority to initiate appropriate transfers of university investment assets and funds provided suitable safeguards and security considerations are followed in conducting such transactions.

VIII. Accountability and Reporting

A. The Associate Vice President for Finance and Budget shall be accountable to the Investment Committee for implementing this policy.

B. The Director of Treasury Operations shall make reports on the status of investments and cash management to the Committee at intervals established by the Investment Committee.

C. The Associate Vice President for Finance and Budget will review investment data with the Treasurer of the Board of Trustees at intervals established by the Investment Committee.

D. The Investment Committee will report quarterly to the Board of Trustees and the university President concerning the status and results of investment activity. At a minimum, the reports shall include information regarding securities held in the portfolio by class or type, income earned, book value, and market value as of the report date.

E. The Director of Treasury Operations will make available online information concerning investment of public funds in accordance with the State of Illinois Finance Act (30 ILCS 237) – Accountability for the Investment of Public Funds Act.

IX. Ethics and Conflicts of Interest

In accordance with Northern Illinois University Board of Trustees regulations, all employees are responsible for compliance with applicable state and federal laws, university policies, and including the State Officials and Employees Ethics Act.

University employees involved in the investment process shall refrain from any actions and/or activity that would be in conflict with the proper execution of the investment program.

X. Adoption and/or Modification of Investment Policy

A. The Investment and Cash Management Policy and revisions shall be approved by the Northern Illinois University Board of Trustees.

B. The Investment and Cash Management Policy shall be made available upon request to the general public.