METROPOLITAN WATER RECLAMATION DISTRICT
OF GREATER CHICAGO

INVESTMENT POLICY

Adopted 12/16/99
Revised 4/12/01
Revised 7/8/10
Revised 11/15/18
Revised 12/19/19
Revised 3/20/25

PREAMBLE

The District, as a non-home rule unit of the State, shall adhere to the Illinois Public Funds Investment Act (30 ILCS 235). It shall further be the policy of the District that all public funds available and not restricted by immediate need be invested in investment securities to maximize return without sacrifice of safety or necessary liquidity.

I. Scope

This policy applies to the investment of monies in Capital Funds for construction, operating funds, and debt service funds of the Metropolitan Water Reclamation District of Greater Chicago (the "District").

II. General Objectives

The primary objectives of investment activities, in priority order, shall be safety, liquidity, and yield:

1. Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

a. Credit Risk

The District will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

i. Limiting investments to the safest types of securities.

ii. Pre-qualifying through size, reputation, experience, and history, the financial institutions, broker/dealers, intermediaries, and advisers with which the District will consider doing business.

iii. Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

iv. Collateralization of investments when appropriate with United States Government Securities or Irrevocable Letters of Credit issued by the Federal Home Loan Bank (FHLB) at 105% or 102% of market value, respectively, excluding the amount insured by the FDIC.

b. Interest Rate Risk

The District will minimize the risk that the market value of securities in the portfolio will fall due to changes in market interest rates by:

i. Structuring the investment portfolio so that sufficient securities mature to meet cash requirements for ongoing operations, construction, and debt service, thereby avoiding the need to sell securities on the open market prior to maturity in order to meet current cash needs.

ii. Investing operating, construction, and debt service funds needed for expenditure within thirty days in short-term securities, interest-bearing savings accounts, money market mutual funds, the Illinois Trust Local Government Investment Pool (LGIP) program, the Illinois State Treasurers' Illinois Funds LGIP program, and such similar investment pools as may be authorized by the Illinois State Legislature.

iii. Longer term investment of funds not needed within thirty days, to meet general dates of projected future expenditure needs, in securities, both interest-bearing and discount obligations of the United States Government and its agencies created by Acts of Congress; Commercial Paper up to a maximum of 270 days; Bank Certificates of Deposit collateralized by United States Government securities or Irrevocable Letters of Credit issued by the Federal Home Loan Bank (FHLB) at 105% or 102% of market value, respectively, excluding the amount insured by the FDIC; Corporate Notes rated at one of the three highest classifications by two accredited national rating agencies; Municipal Bonds of state and local governments rated as investment grade by two accredited national rating agencies; and Certificate of Deposit Account Registry Service (CDARS) investments.

2. *Liquidity*

The investment portfolio shall be kept sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with estimated cash needs (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should comprise, to a sufficient degree, securities with active secondary or resale markets (dynamic liquidity). A portion of the portfolio also may be placed in money market mutual funds, state or local government investment pools, or interest-bearing accounts, which offer same-day liquidity for short-term funds.

3. *Yield*

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, considering investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity, with the following exceptions:

a. A security with declining credit may be sold prior to its stated maturity in order to minimize loss of principal.
b. A security exchange through sale and purchase that would improve the quality, yield, or target duration in the portfolio, or secure a profit at sale without sacrifice of safety and with a net gain in interest income realized.
c. Liquidity needs of the portfolio require that the security be sold.
d. When required to comply with provisions of laws, regulations, grants, and contracts including, but not limited to IRS regulations, federal and state statutes, grant agreements, and bond indentures.

4. *Sustainability*

The District shall regularly consider material, relevant, and decision-useful sustainability factors, within the bounds of financial and fiduciary prudence, in evaluating investment decisions, to improve risk-adjusted return and to encourage sustainable practices among issuers.

a. The District shall consider both sustainability and financial factors in its investment plans and decisions. Sustainability factors include but are not limited to:
    i. Environmental factors such as greenhouse gas emissions, resource management, waste and hazardous materials management, and other ecological impacts;
    ii. Social capital factors such as human rights, customer privacy, data security, and community relations;
    iii. Corporate governance and leadership factors such as risk management, regulatory and legal compliance, organizational leadership, employment practices, shareholder rights, and ethical conduct;
    iv. Human capital factors such as fair labor practices, responsible contractor and bidder policies, employee health and safety, and diversity and inclusion; and
    v. Business model and innovation factors that reflect an ability to plan and forecast opportunities and risks, such as strategic business planning, supply chain management, and practices that address the physical impacts of climate change.
b. To mitigate portfolio risk, the District will invest funds in securities deemed to be highly sustainable.
c. To encourage sustainable practices, the District will invest funds in securities deemed to be highly and moderately sustainable when risk and yield factors are considered comparable.
d. The District will continue to utilize its existing stringent evaluation methods and benchmarks; all investments must meet these evaluation requirements regardless of sustainability ratings.

This section shall apply only to new investments and shall not include Certificates of Deposit (CDs).

III. Standards of Care

1. *Prudence*

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. The Treasurer and treasury staff, when acting in accordance with written procedures and this investment 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 the sale of such securities are carried out in accordance with the terms of this policy.

Investments shall be made with such judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

2. *Ethics and Conflicts of Interest*

The Treasurer, treasury staff, and any other employees, including the Board of Commissioners, involved in the investment process shall abstain from any personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. They may have no financial interest, direct or indirect, in any financial institution designated as a depository for District funds. They shall further disclose to the District's Board of Commissioners any personal financial/investment positions that could relate to the performance of the District's investment portfolio. They shall abstain from undertaking any personal investment transactions with the same individuals with whom business is conducted on behalf of the District.

3. *Delegation of Authority*

Authority to manage the investment program is granted to the Treasurer and derived from Illinois Statute 70 ILCS, 2605/4.1a., Duties of Treasurer. Ultimate responsibility for the operation of the investment program lies with the Treasurer, but day-to-day operations and investment decisions are hereby delegated to the Accounting Manager and any directed staff who shall act in accordance with the established written procedures and internal controls for the operation of the investment program consistent with this investment policy. The Assistant Treasurer shall monitor all ongoing investment activity, assess markets, provide guidance consultation, and keep the Treasurer informed of market conditions and investment objectives. Written investment procedures should include references to safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer and Assistant Treasurer. The Assistant Treasurer shall be responsible for all transactions undertaken by the Accounting Manager and staff, and shall, with the Treasurer's input and approval, establish a system of internal controls to regulate the activities of subordinate staff employees.

IV. Safekeeping and Custody

1. *Authorized Financial Dealers and Institutions*

   a. A list will be maintained of financial institutions and broker/dealers authorized to provide investment services. Depository investments will be limited to banks, savings and loan associations, and credit unions, which meet the following criteria:
      i. Banks and Savings and Loan associations must be insured by the Deposit Insurance Fund (DIF) of the FDIC. Credit unions must be insured by the National Credit Union Share Insurance Fund (NCUSIF).
      ii. Each depository institution must have a "Satisfactory" or "Outstanding" Community Reinvestment Act rating record of meeting the credit needs of its entire community.

   b. The District will not have funds on deposit with any depository in an amount that would exceed seventy-five percent (75%) of the institution's capital stock or net worth.

   c. Authorized and suitable investments may be purchased from eligible broker/dealers based upon their creditworthiness as follows:
      i. All broker/dealers must qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).
      ii. Broker/dealers must provide quarterly financial reporting as requested and inform the District of any turnover in officers within the organization.
      iii. All broker/dealers must provide a copy of current State of Illinois registration and Certificate of Good Standing.
      iv. All broker/dealers must provide disclosure of the firm used to clear trades with the District; this firm is subject to review and rejection by the District.

   d. All financial institutions and broker/dealers who desire to become and remain qualified and eligible for investment transactions must fulfill the following requirements as appropriate:
      i. Provide audited financial statements.
      ii. Must have been in operation for at least one (1) year.
      iii. Banks must submit for review the four most recent Quarterly Reports of Condition and Income ("Call Reports") as filed with the appropriate Federal and/or State oversight agency.
      iv. Brokers must submit for District review the Quarterly "Focus Report, Form X-17A-5," as filed with the appropriate Federal oversight agency.
      v. Certification of Minority-owned (MBE), Women-owned (WBE), or Veteran-owned (VBE) Business Enterprise status to be qualified as such.

vi. Certification of having read and understood, and agreement to comply with, the District's investment policy.

vii. Provide any additional information as requested by the District.

e. An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the Assistant Treasurer.

2. *Internal Controls*

The Treasurer and Assistant Treasurer are responsible for establishing a written program of internal controls designed to ensure that the financial investment assets of the District are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the direct and indirect cost of a control should not exceed the benefits likely to be derived, and 2) the valuation of costs and benefits requires estimates and judgments by management.

As part of the statutorily required annual financial audit of the District, a review of investment operations shall be conducted to assure compliance with policies and procedures.

The internal controls shall address the following:

a. Control of collusion
b. Separation of transaction activity from accounting and recordkeeping activities
c. Custodial safekeeping
d. Avoidance of physical delivery securities
e. Clear delegation of authority to subordinate staff members
f. Written confirmation of transactions for investments and wire transfers
g. Development of wire transfer agreements with banks and third-party custodians

3. *Delivery vs. Payment*

All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities will be held by a third-party custodian and evidenced by safekeeping receipts.

V. Suitable and Authorized Investments

1. Investment Types

Funds shall be invested in such securities as authorized by the Illinois Public Funds Investment Act. The following investments will be permitted under this policy but may be further restricted for additional safety at the discretion of the Treasurer of the District:

a. Bonds, notes, certificates of indebtedness, treasury bills, or other securities now or hereafter issued, which are guaranteed by the full faith and credit of the United States of America as to principal and interest.

b. Bonds, notes, debentures, or other similar obligations of the United States of America or any of the following agencies:
   i. the Farm Credit System Banks, including renamed banks and merged banks now known as Farm Credit Banks due to restructuring of the Farm Credit System pursuant to the Agricultural Credit Act of 1987, or any other entity authorized to issue debt obligations under Agricultural Credit Act of 1987 and Acts amendatory thereto (12 U.S.C. 2001 et seq.);
   ii. the Federal Home Loan Banks (FHLB);
   iii. the Federal Home Loan Mortgage Corporation (FHLMC); and
   iv. any other agency created by an act of Congress.

c. 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 or interest-bearing share certificates guaranteed or insured by the NCUSIF.

d. Obligations of corporations organized in the United States with assets exceeding $500,000,000 if:
   i. Short-term obligations (Commercial Paper) are rated at the time of purchase at the highest classification (A1/P1/F1) as established by at least two nationally recognized statistical rating organizations, and which mature no later than 270 days from the date of purchase;
   ii. Corporate Notes rated at one of the three highest classifications (AAA/AA/A) as established by at least two nationally recognized rating agencies, and which mature no later than three years from the date of purchase;
   iii. such purchases do not exceed 10% in aggregate of the issuer corporation's outstanding obligations; and
   iv. no more than one-third (33%) of the District's funds in aggregate may be invested in such short-term corporate obligations.

e. Money market mutual funds registered under the Investment Company Act of 1940, provided that the portfolio of any such money market mutual fund is limited to obligations described in points (a) and (b) above, and to agreements to repurchase such obligations.

f. Short-term discount obligations defined as Federal National Mortgage Association (FNMA), Federal Home Loan Discount Note (FHDN), Freddie Mac Corporation Discount Note (FMCDN), Federal Farm Credit Banks Discount Notes (FCDN and FFCB), Federal Home Loan Bank (FHLB), and Federal Home Loan Mortgage Corporation (FHLMC).

g. The Illinois Trust Local Government Investment Pool (LGIP) program, the Illinois State Treasurer's Illinois Funds LGIP program, and such similar investment pools as may be authorized by the Illinois Public Funds Investment Act.

h. Repurchase Agreements of U.S. Government securities with banks, trust companies, or registered primary reporting dealers authorized to do business in the State of Illinois, for a period up to a maximum of 180 days. A third-party custodial institution must be established to hold such securities for the benefit of the District for the duration of the specific agreement.

i. Municipal Bonds of any county, township, city, village, incorporated town, municipal corporation, or school district, of the State of Illinois, of any other state, or of any political subdivision or agency of the State of Illinois or of any other state, whether the interest earned thereon is taxable or tax-exempt under federal law. At the time of purchase, the bonds must be rated by at least two nationally recognized rating agencies as "investment grade," which is defined as a rating within the four highest general classifications established by each agency.

2. *Collateralization*

Acceptable collateral securities must be such securities as are authorized for investment by the District or as further limited and defined from time to time by the Treasurer. Certain secure letters of credit can be acceptable collateral as determined by the Treasurer.

Amounts over the FDIC limit invested in certificates of deposit, time deposits, operating bank accounts or repurchase agreements must be collateralized with United States Government Securities or Irrevocable Letters of Credit issued by the Federal Home Loan Bank (FHLB) at 105% or 102% of market value, respectively.

The value of the pledged collateral should be marked to market and reported monthly, or more frequently depending on its volatility. Any shortfall requires deposit of the necessary value of additional collateral securities as quickly as possible.

All investment collateral will be held in safekeeping by a third-party custodial institution as designated by the Treasurer, in the District's name, and maintained at the required levels for the investment type.

VI. Investment Parameters

1. *Diversification*

   a. The investments shall be diversified by limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities) by incorporating the following guidelines:
      i. Corporate obligations (commercial paper and corporate notes) held may not exceed one-third (33%) of the District's portfolio.
      ii. Generally no more than twenty percent (20%) of funds invested in commercial paper and corporate notes may be in the obligation of any one entity. In situations where the District determines divestiture of this asset class is necessary to protect the valuation, safety, or liquidity of the portfolio, the holding of some securities through maturity may be deemed the prudent action. In such a case, the amount in the portfolio may temporarily exceed the 20% limit until remaining securities mature.
      iii. Certificates of Deposit held may not constitute more than ten percent (10%) of the total deposits of the issuing institution.

   b. Due to inherent difficulties in accurately forecasting cash flow, a portion of the portfolio may be invested in readily available money market funds such as the Illinois Trust, Illinois Funds LGIP programs, or any other domestic money market mutual fund regulated by and in good standing with the Securities and Exchange Commission, provided that such money market fund's portfolios are limited to authorized investments (e.g., interest-bearing accounts, overnight repurchase agreements, or commercial paper) to ensure that appropriate liquidity is maintained in order to meet ongoing daily obligations.

2. *Maximum Maturities*

   To the greatest extent possible, the District shall attempt to match its investment maturities to anticipated cash flow requirements. Unless matched to a specific cash flow, the District will not directly invest in securities maturing more than five (5) years from the date of purchase. Any intent to invest in securities with maturities exceeding five (5) years from the date of purchase shall be disclosed in writing to the Board of Commissioners of the District.

3. *Pooling of Funds*

Except for cash in any restricted or special Funds, the District may consolidate available cash balances from the various Funds in joint investment when advantageous in order to maximize investment earnings. In such investment, investment income earned will be allocated to the various participating Funds based on the investment amount percentage of each fund to total investment.

VII. Reporting and Performance Measures

1. *Reports*

   a. Reports Required by Statute – The Treasurer shall prepare for the Board of Commissioners a monthly report of investment interest income by major fund, detail of investments purchased by fund, and any other reports as may from time to time be required under the statutes and presented as agenda items at regularly scheduled Board Meetings.

   b. Preparation of Other Reports – The Treasurer shall provide to the Board of Commissioners any such other reports of Treasury activities as the Board may request.

2. *Performance Standards*

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return for like-maturity horizons during a market/economic environment of stable interest rates. The ending quarterly investment inventory should bear an average interest rate comparable to or higher than the 90-day Treasury bill rate for the end of that quarter.

3. *Marking to Market*

The market value of the portfolio shall be calculated at least quarterly, and a statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that review of the investment portfolio in terms of value and price volatility has been performed consistent with the GFOA Recommended Practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools." In defining market value, considerations should be given to the Governmental Accounting Standards Board Statement No. 72, "Fair Value Measurement and Application."

VIII. Policy Considerations

1. *Exemption*

Any investment held at the time of passage of this policy that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided for in this policy.

2. *Amendments*

This policy shall be amended as and when deemed necessary. Any changes initiated must be approved by the Treasurer and the Board of Commissioners.

POLICY ADOPTION AND AMENDMENT

This amended policy shall be effective March 20, 2025, upon approval of the Board of Commissioners, and be amended from time to time as necessary.

IN WITNESS WHEREOF, the Board of Commissioners of the Metropolitan Water Reclamation District of Greater Chicago executed this Declaration by their respective duly authorized officers, as of the date first hereinabove mentioned.

THE METROPOLITAN WATER RECLAMATION DISTRICT OF GREATER CHICAGO

BY: ______________________

MARCELINO GARCIA
Chairman, Committee on Finance

BY: ______________________

STEVEN J. LUX
Treasurer

BY: ______________________

JACQUELINE TORRES
Clerk/Director of Finance

BY: ______________________

JOHN P. MURRAY
Acting Executive Director

ATTESTED TO BY:

____

JACQUELINE TORRES
Clerk/Director of Finance

APPROVED AS TO FORM AND LEGALITY:

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ELLEN AVERY
Deputy General Counsel

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SUSAN T. MORAKALIS
General Counsel

METROPOLITAN WATER RECLAMATION DISTRICT OF GREATER CHICAGO

Summary of Investment Policy Revisions 2025

PREAMBLE

Non-Home Rule

Added non-home rule unit of the State language as reason to adhere to the Illinois Public Funds Investment Act (ILPFIA)

SECTION IV – SAFEKEEPING AND CUSTODY

1. Authorized Financial Dealers and Institutions

a.i. Deposit Insurance Fund (DIF). Updated Banking Insurance Fund to Deposit Insurance Fund of the FDIC per Federal Deposit Insurance Act of 2005.

a.ii. Community Reinvestment Act (CRA). Updated CRA language to reflect new requirement to meet credit needs of entire community per CRA Final Rule, eff. 4/1/24.

SECTION V – SUITABLE AND AUTHORIZED INVESTMENTS

1. Investment Types

d.i. & 1.d.ii. Nationally Recognized Statistical Rating Organizations (NRSROs). Replaced accredited national rating agencies with nationally recognized statistical rating organizations.

i. NRSROs and keep requirement for at least two ratings for municipal bond investments.

2. Collateralization

Reworded collateral requirements to be consistent throughout the IPS vis-à-vis collateral required above the FDIC insurance limit.
Monthly review and reporting of pledged collateral (instead of bi-weekly) per GFOA best practices, more frequent review depending on collateral price volatility.