

ILLINOIS METROPOLITAN INVESTMENT FUND

INVESTMENT POLICY SEPTEMBER 2000

The Illinois Metropolitan Investment Fund (“*IMET*” or “*Fund*”) is an actively managed investment fund for Illinois local governments.

1.0 POLICY

It is the policy of IMET to invest public funds of Illinois governments in a manner which seeks to provide the best return while pursuing the preservation of capital. IMET is designed as an investment vehicle for funds not required to be spent immediately and available for investment in securities with maturities and returns generally greater than those for money market instruments. IMET will conform to Illinois state statutes governing the investment of public funds.

2.0 FUNDS

Monies invested in this Fund will be those of participating Illinois governments whose treasurers become members of the Fund. Any funds that an Illinois government can invest in under Illinois statutes are eligible for investment in IMET. This is an intermediate investment fund, however, and short-term cash monies which are needed for immediate liquidity demands will not be encouraged to be invested in this Fund.

Section 3.1-35-50 of the Municipal Code provides, *inter alia*, that each official custodian of municipal funds, in addition to municipal treasurers, may jointly invest, with other official custodians of municipal funds, the funds of the respective municipality, intergovernmental risk management entity, self-insurance pool, waste management agency, or other intergovernmental entity composed solely of participating municipalities in accordance with the laws of the State of Illinois.

3.0 PRUDENCE

The standard of prudence to be used for all investment activities shall be the following “prudent person” standards, as stated below, and shall be applied while conducting all investment transactions.

Investments shall be made with judgement 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 preservation of their capital as well as the probable income to be derived.

4.0 OBJECTIVE

This actively managed portfolio will be invested in certain fixed income securities and cash equivalents. In summary, the investment objectives of IMET are:

A. Preservation of Principal: Preservation of principal is the foremost objective of IMET. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

B. Liquidity: IMET will seek to remain sufficiently liquid to allow for withdrawals by Fund members with five business days notice of that withdrawal to the Fund, and will otherwise remain sufficiently liquid in accordance with prudent fund management.

C. Return on Investment: IMET's assets will be invested with the objective of obtaining an appropriate market rate of return in relation to the prevailing monetary environment. See also "Performance Standards" herein.

5.0 DELEGATION OF AUTHORITY

The Board of Trustees of IMET (the "*Board*") seeks to employ an investment advisor who possesses superior capabilities in the management of assets of the Council of Governments' governmental bodies. The Board further requires the investment advisor selected and working on its behalf to meet the following set of conditions.

A. To take in its discretion actions which in its best professional judgement are in the best interests of IMET, in accordance with this Investment Policy and the Investment Circular distributed by the Fund, to meet IMET investment objectives. Such actions include but are not limited to (A) the allocation of funds among alternative types of investments; (B) specific investment opportunities regarding the acquisition, retention or disposition of investments; and (C) the recommendation of the addition, deletion or modification of authorized investments.

B. To execute all investment transactions on behalf of the Fund at the best net price, utilizing such brokers and dealers as they deem appropriate to obtain the best execution capabilities and/or valuable information with respect to the economy and the affairs of corporations at the lowest cost to the Fund.

C. Additional responsibilities as detailed in each investment advisor's agreement with the Board.

6.0 ETHICS AND CONFLICTS OF INTEREST

Officers and employees of the Fund 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. Employees and investment officials shall disclose to the IMET chairperson any material financial interests in financial institutions that conduct

business with IMET, and they shall further disclose any large personal financial/investment positions that could be related to the performance of IMET, particularly with regard to the time of purchases and sales.

7.0 AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Board will maintain a list of financial institutions authorized to provide investment advisor, administrative, and distributive investment services. The advisor will make investments only in those investments specifically authorized in the Public Investment Act of the State of Illinois (30 ILCS 235/1) (the "*Investment Act*"). The administrator shall perform its duties in conformance with the Declaration of Trust, By-Laws, and Investment Circular of the Fund. The distributor shall be competent and fully qualified under federal and state securities laws and the rules and regulations of the Comptroller of the Currency or the National Association of Securities Dealers, as applicable, to engage in marketing and sales efforts.

A current audited financial statement is required to be on file for each financial institution which provides the above mentioned services.

8.0 AUTHORIZED AND SUITABLE INVESTMENTS

All investments shall be made in compliance with the Investment Act, including, without limitation, the definition of "agency" contained therein. In seeking to achieve its investment objective, the Fund intends to invest under normal market conditions at least fifty percent (50%) in (i) obligations issued or secured by the U.S. Government and/or its agencies and/or (ii) money market mutual funds that are permitted investments under the Investment Act. In extraordinary circumstances, such as when the investment advisor believes that market conditions indicate that the Fund should adopt a temporary defensive position, the Fund may invest up to one hundred percent (100%) in cash and/or such money market mutual funds.

The Fund portfolio is restricted to a maximum dollar weighted average maturity of five years or less, under normal conditions. The net asset value will fluctuate on a daily basis according to the change in market value of its underlying portfolio obligations.

The following are additional investment restrictions:

(i) All fixed income securities (other than obligations of the U.S. or its agencies) at the time of purchase shall be rated at the highest rating classification established by at least two standard rating services (without regard to any refinement or gradation of rating category by numerical modifier or otherwise). However, issues that are reclassified after purchase so that they are no longer at the highest classifications established by at least two standard rating services may be sold by the advisor to the Fund after the date of the security's reclassification or held to maturity, in either case based on the investment advisor's discretion.

(ii) Mortgage pass-through securities must be issued by an agency of the United States government. There are three major types of such agency pass-throughs, guaranteed by

three organizations: Government National Mortgage Association (“*Ginnie Mae*”), Federal Home Loan Mortgage Corporation (“*Freddie Mac*”), and Federal National Mortgage Association (“*Fannie Mae*”). Pass-through securities or collateralized mortgage obligations of Fannie Mae are not permitted investments under Illinois law. In addition, privately structured and issued mortgage pass-through securities or collateralized mortgage obligations are not permitted investments.

(iii) All investments are required to be made in compliance with the Investment Act, including, without limitation, the definition of “agency” contained therein.

The following transactions are prohibited in the portfolio managed by the investment advisor.

1. Reverse repurchase agreements.
2. Common or preferred stocks.
3. Futures and options.
4. Margin purchases or intentional use of leverage.
5. Private or direct placements.
6. Commodities.
7. Direct ownership of real estate or mortgages.
8. Non-U.S. dollar denominated securities.
9. Stripped mortgage backed securities (*i.e.*, interest-only (IO) and principal-only (PO) securities).
10. Convertible notes or bonds.
11. Purchase, participation, or other direct interest in gas, oil, or other mineral exploration or development programs.
12. Collateralized mortgage obligations.
13. Lending of Fund securities.
14. Structured notes—however, the Portfolio may invest in Federal government agency securities whose coupon rates are scheduled to “step up” (*i.e.* increase) one or more times before they mature.
15. Investments not allowed under the Investment Act.

The advisor shall indemnify and make whole the Fund and its shareholders for any losses incurred by the Fund as a result of the advisor's own or any Sub-advisor's gross negligence or its failure to comply with the provisions of the Investment Act as those provisions are communicated to the investment advisor in writing by IMET or by IMET's Legal counsel.

10.0 SAFEKEEPING AND CUSTODY

Securities purchased for IMET, as well as collateral for repurchase agreements, shall be delivered against payment and held in a custodial safekeeping account with the trust department of a bank acting as custodian. The bank will be designated by the Board and all transactions will be evidenced by safekeeping receipts or confirmations.

11.0 DIVERSIFICATION

Fixed income securities in the Fund will have the following characteristics:

a. United States Treasury, agency and agency mortgage pass-through securities may be used without limitation and under normal market conditions such obligations, along with money market mutual funds that are permitted investments under the Investment Act, will constitute at least 50% of the portfolio

b. Commercial paper investment, pursuant to Illinois law, must mature within 180 days from date of purchase and cannot exceed 10% of the corporation's total commercial paper. The Fund will have no more than one-third of its monies invested in commercial paper.

c. At no time may the portfolio own more than 5% of the outstanding amount of any one fixed income issue (other than securities of the United States Government or its agencies) or have more than 7% of its total assets invested in the securities (including cash equivalents) of any permissible fixed income issuer without prior notification and approval of the Board.

12.0 MATURITIES

Portfolio duration is to be maintained within 25% of that of the Lehman Brothers 1-3 Year Government Bond index under normal conditions; *provided, however*, that the portfolio's dollar weighted average maturity will not exceed five years under normal conditions. Individual securities may have remaining maturities of greater than five years, but in any event not greater than ten years from the date of the Fund's purchase thereof. The remaining life of any agency mortgage pass-through security will be determined based on the weighted average life of the security.

13.0 INTERNAL CONTROL

The advisor shall establish a system of internal controls, which shall be documented in writing. The control shall be annually reviewed by their auditor and shall be designed to prevent losses of public

funds arising from failure to comply with the provisions of the Investment Act, fraud, employee error, misrepresentation by third parties or imprudent actions by employees and officers of the firm. The advisor shall at all times have in place a fidelity bond or bonds covering the actions of its employees and officers relating to fraud, theft, dishonesty, and other willful acts which may result in the loss of Fund assets. Such bond or bonds shall be maintained in amounts not less than \$5,000,000 per occurrence and \$10,000,000 in the annual aggregate, covering its duties. The advisor will also maintain a fidelity bond against employee theft, dishonesty, and related risks, and covering its duties in an amount not less than \$10,000,000 in the annual aggregate.

14.0 PERFORMANCE STANDARDS

IMET's investment strategy is targeted active management. The performance objective for this portfolio is to meet or exceed the Lehman Brothers 1-3 Year Government Bond Index (the benchmark) prior to payment of Fund expenses.

15.0 REPORTING

The advisor shall report to the Board at least quarterly on:

- a. Performance as compared to the benchmark.
- b. Asset allocation and duration as compared to the benchmark.
- c. Any deviation from the guidelines herein established.
- d. Significant changes in the portfolio under their management during the quarter.
- e. Economic and investment outlook for the near and long term.
- f. Monthly purchase and sale transactions.
- g. Any change in key personnel.

16.0 INVESTMENT POLICY ADOPTION

IMET's investment policy shall be adopted by resolution of the Board. The policy shall be reviewed annually by the Board and any modifications made thereto must be approved by the Board.