



Statement of Investment Policy
(Updated and Revised)

In Compliance with
The State of Illinois Public Funds Investment Act



Prepared by
Blue Rose Capital Advisors
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INVESTMENT POLICY SUMMARY

Investment Policy Summary

Policy Structure

The Investment Policy is divided into the following four sections: (I) Revenue Bond Funds and Accounts, (II) Certificate of Participation Funds and Accounts, (III) Operating Funds and Accounts, and (IV) Collateralization and Custodians. A key distinction is made regarding the nature of the University's funds that are subject to the Investment Policy. The Revenue Bond Funds and Accounts, established through the issuance of the Board's outstanding University Facilities System Revenue Bonds (the "Revenue Bonds"), and the Certificate of Participation Funds and Accounts, established through the issuance of the Board's outstanding Certificates of Participation (the "COPs"), are segregated from the University's other operating funds and accounts for investment policy purposes. Specific rules governing the use and investment of the University Facilities System (the "System") funds are established under the System Bond Resolution (the "Bond Resolution") and for COP funds under each respective Indenture of Trust (the "Indenture"). These specific rules, coupled with Federal arbitrage regulations that apply to the investment of tax-exempt bond proceeds, necessitate the development of specific policy statements for each System and Indenture fund and account, which are included in Sections I and II of the Investment Policy. These policy statements are drafted to be self-inclusive to give the practitioner a clear guide on how to invest each account with a minimum of cross referencing.

Section III of the Investment Policy focuses on the University's other Operating Funds and Accounts. These Non-System and Non-Indentured funds are derived from four sources: 1) Local Funds, 2) Tuition and Fees, 3) Federal Funds, and 4) State Appropriations, and are applied to the day-to-day operation of the University. Although there is some overlap between System funds and operating funds, they are to be accounted for separately and invested in accordance with their respective purposes. The investment of the day-to-day operating funds of the University is an exercise in cash management. To accommodate this perspective, Operating Funds are divided between a "Liquidity Pool" and a "Permanent Pool" for investment policy purposes. The policy for investing the Liquidity Pool is governed by the short-term application of these funds, while the policy for investing the Permanent Pool (i.e. operating funds to be held for one year or longer) is more flexible and directed toward enhancing return.

Specific Policy Guidelines

To comply with the scope outlined in Section 2.5 of the Investment Act (30 ILCS 235/2.5), the following investment considerations are addressed in the Investment Policy for each fund and account of the University, whether debt related or operating:

1. **Purpose and Investment Objective:** Identify the source of funds for the account, what the funds are to be used for and the timing of their application. State the investment objective taking into consideration the purpose of the account, its investment horizon, liquidity needs and return requirements.
2. **Authorized Investments:** Identify the type of investments that are permitted by law, Board resolution, Bond Resolution or Indenture for a specific account. In most instances for the University, authorized investments will be limited to securities permitted by Illinois law for investment of public funds.

3. **Maturity, Liquidity and Diversification:** The specific requirements and constraints of an account will impact the length of its investment, the predictability of applying funds within the account and the need to diversify investment holdings to mitigate either interest rate or credit risk.
4. **Selection and Execution:** Identify the individual(s), by title or position, responsible for making specific investment decisions and maintaining the accounts. The Treasurer of the Board is responsible for investment oversight, implementation of policy procedures, establishing internal controls to ensure proper execution and compliance with policy guidelines and to monitor and evaluate investment performance.
5. **Performance Measurement:** An evaluation criteria or a performance benchmark is suggested that is appropriate for the duration and risk profile of the account. The methodology for tracking returns and reporting to the Treasurer is established so that performance can be monitored and periodically reported to the Board. Performance measurement also serves as an internal control check for compliance with the Investment Policy.

Other Policy Resources

To better conceptualize the structure of the numerous Revenue Bond funds and accounts in Section I, Chart A is included in Appendix A depicting the purpose of each account and its order of priority in the flow of System funds. Given that University investments are primarily limited to legal investments permitted by the State of Illinois, Appendix B provides a description of investments permitted by the State. All University investments must comply with the University's custodial risk policy and University funds that are not invested in securities permitted by Illinois law but are held in depository accounts in excess of Federally insured amounts must be collateralized, all in accordance with the provisions outlined in Section IV ("Collateral and Custodians") of the Investment Policy. Collateralization requirements are equally applicable to uninvested and unsecured System, Indentured and operating funds.

INVESTMENT POLICY

Northeastern Illinois University

Investment Policy

The Northeastern Illinois University Investment Policy (the “Policy”) is established and articulated herein to provide clear guidance for the investing activities of Northeastern Illinois University (the “University”), in compliance with State of Illinois Public Funds Investment Act, as amended, 30 ILCS 235/1-7 (the “Act”). The scope of the Policy applies to the investment of all funds and accounts of the University, as established and governed by the Board of Trustees of Northeastern Illinois University (the “Board”). The guidelines of the Policy address for each University fund and account: A) the purpose of each fund/account and a statement of its related investment objective, B) authorized investments C) the maturity, liquidity and diversification requirements, D) the procedures for making and executing investment decisions, including the individuals (by title) so authorized, E) performance criteria or benchmark returns, and F) tracking and reporting requirements. This Policy designates the Treasurer of the Board as the “Chief Investment Officer” responsible for implementing the operating procedures and internal controls established hereunder and to monitor the continuing compliance therewith by University personnel. This Policy is effective January 1, 2000, as initially approved by the Board at its April 6, 2000, meeting, and updated and revised as of June 30, 2017. This Policy will be reviewed by the Board from time to time, and will be periodically updated and revised thereby to conform to the changing investment needs of the University.

The University funds and accounts subject to this Policy are divided into three general areas: I) Revenue Bond funds and accounts, II) Certificate of Participation (or Indentured) funds and accounts, and III) Operating funds and accounts. This division represents a rational distinction of the University’s funds and accounts based on purpose, function and governance. These general areas may be added to or deducted over time as the University’s profile of funds and accounts changes.

I. Revenue Bond Funds and Accounts

Pursuant to the Board’s issuance of University Facilities System Revenue Bonds, originating with the Board’s issuance of \$3,075,000 University Facilities Revenue Bonds, Series 1973, the University established various funds and accounts under the Bond Resolution for these revenue bond issues. Funds held in these accounts are for the security of the bondholders, for the operations and reserves of the University Facilities System, or for the Project Funds of the related financings. In each case, specific rules for the investment of these funds are dictated by the governing Resolutions and tax laws under which the bonds are issued. Because of these specific rules and the Federal arbitrage regulations that are unique to these funds, these funds need to be segregated from the balance of the University’s funds for investment policy purposes. The original Bond Resolution has been supplemented from time to time and was formally amended and restated effective December 26, 2014.

The University Facilities System Revenue Fund (the “Revenue Fund”)

Purpose and Investment Objective: The purpose of the Revenue Fund is to collect and deposit the Gross Revenues of the University Facilities, as received. Current operating and maintenance expenses of the System will be payable from the Revenue Fund as the same become due and payable. The Revenue Fund will also make the required semiannual transfers to the Bond Fund and annual transfers to the

Operation and Maintenance Account, Repair and Replacement Reserve Account, the Non-Instructional Facilities (Development) Reserve Account and the Equipment Reserve Account. A “Flow of Funds Chart” for all funds and accounts of the System is attached hereto as Chart A in Appendix A. The Revenue Fund effectively serves as the operating account for System Revenues and should be kept sufficiently liquid and secure to make timely daily, semiannual and annual transfers. The investment objective is to obtain a high short-term yield while maintaining sufficient liquidity to make the anticipated transfers. Annually, at the end of the Fiscal Year, moneys sufficient to pay operation and maintenance expenses for the next 30 days may be retained in the Revenue Fund.

Authorized Investments: Investments in the Revenue Fund (prior to transfer to any sub-accounts) are limited to those securities permitted by the laws of the State of Illinois for the investment of public funds and must mature, or be redeemable at the University’s request, prior to when such funds are needed for expenditure. A description of State permitted investments is attached hereto as Appendix B. In addition, uninvested funds held by a depository in excess of the Federally insured amount, must be collateralized in accordance with the terms in Section IV herein.

Maturity, Liquidity and Diversification: Daily liquidity without market risk is required to meet the cash flow needs of the Revenue Fund. Diversification is only a consideration for spreading the credit risk of specific investments. If the investments in the Revenue Fund are sufficiently collateralized (i.e. for bank account balances over \$250,000), then diversification is not a requirement.

Selection and Execution: The Director of Financial Affairs/Controller will be responsible for investing the Revenue Fund. Since daily liquidity without market risk is required, investment is limited to money market funds or other overnight or demand deposit investments. The University should compare the money market returns offered by its depositories with returns on other money market options, such as the Illinois Funds (IF).

Evaluation Criteria or Benchmark: Given the money market nature of the Revenue Fund, the Ready Assets Government Liquidity Fund (formerly the Merrill Lynch Ready Assets Trust) can serve as an appropriate performance benchmark. Investment returns will be tracked monthly and reported quarterly to the Treasurer.

The Operation and Maintenance Account (the “O & M Account”)

Purpose and Investment Objective: The O & M Account serves as a reserve account for funds sufficient to pay one month of operating and maintenance expenses. The investment objective of this Account is to maximize return while maintaining sufficient liquidity to fund any unexpected need to pay operating and maintenance expenses.

Authorized Investments: Investments in the O & M Account are limited to those securities permitted by the laws of the State of Illinois for the investment of public funds and must be sufficiently liquid to be redeemable at the University’s request prior to when such funds are needed for expenditure. A description of State permitted investments is attached hereto as Appendix B. In addition, uninvested funds held by a depository in excess of the Federally insured amount must be collateralized in accordance with the terms in Section IV herein.

Maturity, Liquidity and Diversification: Liquidity is a consideration to the extent that funds need to be readily available to supplement available funds of the Revenue funds or meet unexpected System operating expenses as they arise. Diversification is only a consideration for spreading the credit risk of specific investments. If the investments in the O & M Account are sufficiently collateralized (i.e. for bank account balances over \$250,000), then diversification is not a requirement.

Selection and Execution: The Director of Financial Affairs/Controller will be responsible for investing the O & M Account. The O & M Account may be invested in a low risk money market fund to be readily available to meet unanticipated System operating and maintenance expenses. The O & M Account may also be invested in Treasury securities, maturing in one year or less, if it is determined the System will be unlikely to use the operating reserves in the O & M account over the next year.

Evaluation Criteria or Benchmark: Given the money market nature of the O & M Account, the Ready Assets Government Liquidity Fund can serve as an appropriate performance benchmark. Investment returns will be tracked monthly and reported quarterly to the Treasurer.

The Bond Account (the “Bond Account”)

Purpose and Investment Objective: The Bond Account receives periodic deposits equal to upcoming principal and interest payments of outstanding System bond issues. The Bond Account may include subaccounts for individual System bonds. Such funds are subsequently paid out on each January 1 (interest only) and July 1 (principal and interest) on the respective bond issues. If deposits are made within a few days of a debt service payment date, the investment objective is limited to any positive investment return. If deposits are made substantially before a debt service payment, the investment objective for the Bond Account becomes to invest such funds in the highest yielding Treasury securities that mature no later than the next December 31 or June 30 debt service payment date.

Authorized Investments: Investments in the Bond Account are limited to those securities permitted by the laws of the State of Illinois for the investment of public funds and must mature, or be redeemable at the University’s request, prior to when such funds are needed for expenditure. A description of State permitted investments is attached hereto as Appendix B. In addition, uninvested funds held by a depository in excess of the Federally insured amount must be collateralized in accordance with the terms in Section IV herein.

Maturity, Liquidity and Diversification: The maximum maturity for investments in the Bond Account is six months and, in any event, may not be later than the next date on which principal or interest is due. Liquidity is only necessary to the extent the fund will be available for the “sum certain” and specific timing of the Bond Account payout requirements (i.e. debt service payments). If the investments in the Bond Account are sufficiently collateralized (i.e. for bank account balances over \$250,000), then diversification is not a requirement.

Selection and Execution: The Director of Financial Affairs/Controller will be responsible for directing the investment of the Bond Account. Since daily liquidity without market risk is required for deposits within a few days of a debt service payment, investment is limited to money market funds or other overnight or demand deposit investments. If deposits are made to the Bond Account substantially before a debt service payment, the Bond Account may also be invested in Treasury securities, maturing in 6 months or less, provided the Treasury securities mature no later than the next debt service payment date. Treasury securities are to be purchased at market levels by soliciting competitive offerings for each Treasury security purchased and delivered to the Bond Account. The University should establish an efficient system for periodically purchasing Treasury securities at market levels.

Evaluation Criteria or Benchmark: Given the anticipated short duration of deposits in the Bond Fund, the Ready Assets Government Liquidity Fund can serve as an appropriate performance benchmark. If deposits are invested in Treasury securities for longer periods, 90-Day Treasury Bills can also serve as an appropriate performance benchmark. Investment returns for the Bond Fund will be tracked monthly and reported quarterly to the Treasurer.

The Repair and Replacement Reserve Account (the “R & R Reserve”)

Purpose and Investment Objective: The Repair and Replacement Reserve Account is to accumulate funds sufficient to pay the cost of extraordinary maintenance or repairs, renewals and replacements in the System, including the cost of acquisition and installation of equipment and furnishings, that are not paid as an ordinary or normal operation and maintenance expense. On an annual basis, funds remaining in the Revenue Fund may be transferred to the R & R Reserve by the Treasurer by an amount approved by the Board for credit to a repair and replacement reserve. The maximum amount which may be accumulated in such Account shall not exceed 5% of the cost of the facilities constituting the System, plus either i) 10% of the historical cost of the parking lots which are part of the System or ii) 100% of the estimated cost of resurfacing any one existing parking lot which is part of the System, or such larger amounts and percentages as may be determined by the Board from time to time. The investment objective of this Account is to maximize return while maintaining sufficient liquidity in authorized investments to meet unexpected expenditures. If and when the R & R Reserve balance exceeds reasonably expected future expenditures, then the surplus balance can be invested for a longer duration.

Authorized Investments: Investments in the R & R Reserve are limited to those securities permitted by the laws of the State of Illinois for the investment of public funds and must be sufficiently liquid to be redeemable at the University’s request prior to when such funds are needed for expenditure. A description of State permitted investments is attached hereto as Appendix B. In addition, uninvested funds held by a depository in excess of the Federally insured amount, must be collateralized in accordance with the terms in Section IV herein.

Maturity, Liquidity and Diversification: The R & R Reserve is not subject to a maximum maturity except to the extent prohibited by Illinois law. Liquidity is a consideration to the extent that funds need to be readily available to meet unexpected extraordinary maintenance and repair expenditures as they arise. If the investments in the R & R Reserve are sufficiently collateralized (i.e. for bank account balances over \$250,000), then diversification is not a requirement.

Selection and Execution: The Director of Financial Affairs/Controller will be responsible for directing the investment of the R & R Reserve. Since this account is not pledged to an outstanding bond issue and is not composed of bond proceeds, there is no arbitrage constraint upon what the R & R Reserve can earn. The R & R Account may be invested in a money market fund to be readily available to meet unanticipated extraordinary maintenance or repairs. The R & R Account may also be invested in Treasury securities, maturing in one year or less, if it is determined the System will be unlikely to use a portion of the available funds over the next year. The selection of securities will be dictated by the estimated timing of the planned purchases and can be acquired directly by the University or through its depository.

Evaluation Criteria or Benchmark: The R & R Reserve Account is difficult to benchmark as a whole because it depends upon the allocation of funds to short and long term investments. Given the current emphasis to use the account exclusively to meet extraordinary System expenditures, the Ready Assets Government Liquidity Fund can serve as the performance benchmark for an account invested primarily in a Treasury money market fund. The appropriate performance benchmark should be revisited if the emphasis of this account changes. Investment returns for the R & R Reserve will be tracked monthly and reported quarterly to the Treasurer.

The Non-Instructional Facilities (Development) Reserve Account (the “Development Reserve”)

Purpose and Investment Objective: The purpose of the Non-Instructional Facilities (Development) Reserve Account is to accumulate funds at the direction of the Board to be spent on new space or construction in, or an addition to, a facility constituting part of the System, and on real estate contiguous thereto. Such funded improvements and additions must be consistent with the purpose and mission of the existing facility. Any deposits to Development Reserve will occur on or before the Close of the Fiscal Year and, as the Treasurer so directs, will come from surplus funds remaining in the Revenue Fund. Since the funds in the Development Reserve are earmarked for specific improvements, the objective for investing these funds is to maximize yield within the timing of their expenditure.

Authorized Investments: Investments in the Development Reserve are limited to those securities permitted by the laws of the State of Illinois for the investment of public funds and must mature, or be redeemable at the University’s request, prior to when such funds are expected to be needed for expenditure. A list of State permitted investments is attached hereto as Appendix B. In addition, uninvested funds held by a depository in excess of the Federally insured amount, must be collateralized in accordance with the terms in Section IV herein.

Maturity, Liquidity and Diversification: The maturity of investments in the Development Reserve should match the anticipated dates for expenditure, similar to a project account, without any specific maximum maturity constraint. Liquidity is not an issue as long as the maturity of the investments coincide with the anticipated draw requirements. Diversification is only a consideration for spreading the credit risk of specific investments. If the investments in the Development Reserve are sufficiently collateralized (i.e. for bank account balances over \$250,000), then diversification is not a requirement.

Selection and Execution: The Director of Financial Affairs/Controller will be responsible for directing the investment of the Development Reserve. Since this Account is not pledged to an outstanding bond issue and is not composed of bond proceeds, there is no arbitrage constraint upon Development Reserve earnings. The Development Reserve can be established and held by a depository of the University’s choice. The selection of securities will be dictated by the timing of the planned improvements and can be acquired directly by the University or through its depository.

Evaluation Criteria or Benchmark: The appropriate benchmark of the Development Reserve will depend upon the length of time to complete the planned improvement. Given the uncertain timing of planned improvements to be funded by this account, the return on the Development Reserve over time should exceed that of a money market fund. Accordingly, the Ready Assets Government Liquidity Fund can serve as an appropriate benchmark. Investment returns for the Development Reserve will be tracked quarterly and reported quarterly to the Treasurer.

The Equipment Reserve Account (the “Equipment Reserve”)

Purpose and Investment Objective: The purpose of the Equipment Reserve Account is to accumulate funds at the direction of the Board to be spent on moveable equipment to be installed in facilities constituting the System. Deposits to this Account will occur on or before the Close of the Fiscal Year and, as the Treasurer directs, will come from surplus funds remaining in the Revenue Fund at that time. The maximum amount which may be accumulated in the Equipment Reserve may not exceed 20% of the book value of the movable equipment of the System. Since the funds in the Equipment Reserve are

earmarked for specific equipment purchases, the objective for investing these funds is to maximize yield within the time frame of these purchases.

Authorized Investments: Investments in the Equipment Reserve are limited to those securities permitted by the laws of the State of Illinois for the investment of public funds and must mature, or be redeemable at the University's request, prior to when such funds are needed for expenditure. A description of State permitted investments is attached hereto as Appendix B. In addition, uninvested funds held by a depository in excess of the Federally insured amount, must be collateralized in accordance with the terms in Section IV herein.

Maturity, Liquidity and Diversification: The maturity of investments in the Equipment Reserve should match the anticipated purchase dates of the moveable equipment. Liquidity is not an issue as long as the maturity of the investments coincide with these expenditures. Diversification is only a consideration for spreading the credit risk of specific investments. If the investments in the Development Reserve are sufficiently collateralized (i.e. for bank account balances over \$250,000), then diversification is not a requirement.

Selection and Execution: The Director of Financial Affairs/Controller will be responsible for directing the investment of the Equipment Reserve. Since this account is not pledged to an outstanding bond issue and is not composed of bond proceeds, there is no arbitrage constraint upon what the Equipment Reserve can earn. The Equipment Reserve can be established and held by a depository of the University's choice. The selection of securities will be dictated by the timing of the planned purchases and can be acquired directly by the University or through its depository.

Evaluation Criteria or Benchmark: The appropriate benchmark of the Equipment Reserve will depend upon the length of time to complete the planned purchases. Given the uncertain timing of planned purchases from this account, the return on the Equipment Reserve over time should exceed that of a money market fund. Accordingly, the Ready Assets Government Liquidity Fund can serve as an appropriate performance benchmark. Investment returns for the Equipment Reserve will be tracked quarterly and reported quarterly to the Treasurer.

System Bond Project Acquisition and Construction Fund (the "Project Fund")

Purpose and Investment Objective: The proceeds of System bonds issued to fund acquisition and construction projects are to be deposited in a separate Project Acquisition and Construction Fund account. Earnings on the Project Fund are to be retained within the Project Fund and applied to the related project or, upon completion of the project, any remaining balance in the Project Fund may be deposited to a subaccount of the related Bond Account and applied only to debt service on the related bonds. The investment objective will depend on the length and liquidity requirements of the project draws, with a maximum investment return ceiling equal to the bond yield.

Authorized Investments: Investments in the Project Fund are limited to those securities permitted by the laws of the State of Illinois for the investment of public funds. A description of State permitted investments is attached hereto as Appendix B. In addition, uninvested funds held by a depository in excess of the Federally insured amount, must be collateralized in accordance with the terms in Section IV herein.

Maturity, Liquidity and Diversification: The maturity of investments in the Project Fund should match the anticipated draw schedule of the related project or be redeemable at the University's request upon making project draws. Liquidity without penalty is important for the investments, mutual funds or depository that the Project Funds are held in. Diversification is only a consideration for spreading the credit risk of specific unsecured investments. Investments other than U.S. Treasury and Agency Securities,

ITF Pool, and insured or collateralized deposits, must be adequately diversified so that any one credit does not represent more than 10% of the Project Fund.

Selection and Execution: The Director of Financial Affairs/Controller will be responsible for directing the investment of the Project Fund. The Project Fund can be established and held by a depository of the University's choice. The selection of securities will be determined by balancing the need for liquidity and ease of reinvestment with maximizing return within a short investment horizon.

Evaluation Criteria or Benchmark: The appropriate benchmark of the Project Fund will depend on the anticipated duration of the investment of funds. A short and/or highly liquid project acquisition and construction period may warrant a money market fund benchmark such as the Ready Assets Government Liquidity Fund. Longer investment periods may consider using the bond yield of the System bond issue as an appropriate benchmark. Any earnings in excess of the bond yield would need to be rebated to the Federal government. Investment returns for the Project Fund will be tracked monthly and reported quarterly to the Treasurer until the completion of the related project.

II. Certificates of Participation Funds and Accounts

Pursuant to the Board's issuance of Certificates of Participation, the University may establish various funds and accounts under an Indenture of Trust for the purposes of each Certificate financing. Funds held in these accounts are for the security of the certificateholders, for paying the Certificates and for funding the improvements for which the Certificates were issued. Because of these specific rules under the Indenture that govern the investment and application of these funds and the Federal arbitrage regulations that apply to proceeds of a tax-exempt financing, these funds need to be segregated from the balance of the University's funds for investment policy purposes.

The Installment Payment Fund

Purpose and Investment Objective: The purpose of the Installment Payment Fund is to receive Installment Payments from the University to pay the debt service on the related outstanding COPs. Such Installment Payments are to be made no later than the business day before each interest and/or principal payment is payable on each outstanding Certificate issue. The Installment Payments, together with any Additional Payments, Prepayments, transfers from the Acquisition Fund and any other moneys required to be deposited therein pursuant to the Purchase Contract or the Indenture, shall be held for the sole purposes of paying the principal of and interest on the Certificates as the same become due and payable. The Installment Payment Fund shall be held by the Trustee and be invested at the direction of the University. Given the relatively short holding period of funds in the Installment Payment Fund, often as short as one day, any positive investment return is the objective. Any earnings will be held within the Installment Payment Fund and credited against future required deposits.

Authorized Investments: Investments in the Installment Payment Fund are limited to securities permitted by the laws of the State of Illinois for the investment of public funds and must mature, or be redeemable at the University's request, prior to when such funds are needed for expenditure. A description of State permitted investments is attached hereto as Appendix B. In addition, uninvested funds held by a depository in excess of the Federally insured amount, must be collateralized in accordance with the terms in Section IV herein.

Maturity, Liquidity and Diversification: Immediate liquidity without market risk is required given the overnight nature of most of the investing for this Fund. Diversification is only a consideration

for spreading the credit risk of specific investments. If the investments in the Installment Payment Fund are sufficiently insured or collateralized (i.e. for bank account balances over \$250,000) or held in Treasury, Agency, money market or the ITF Pool, then further diversification is not a requirement.

Selection and Execution: The Director of Financial Affairs/Controller is responsible for investing the Installment Payment Fund. Since daily liquidity without market risk is required, investment is limited to money market funds, other overnight or demand deposit investments or Treasury or Agency securities that mature on or before the date such funds are needed.

Evaluation Criteria or Benchmark: Given the overnight nature of the investments in the Installment Payment Fund, the Ready Assets Government Liquidity Fund can serve as an appropriate performance benchmark, although any positive return remains the investment objective. Investment returns will be tracked quarterly and reported quarterly to the Treasurer.

The Certificate Acquisition Fund (the “Acquisition Fund”)

Purpose and Investment Objective: The Acquisition Fund of a Certificate issue is funded by proceeds of the related Certificates of Participation for the purpose of funding project acquisition and construction. Earnings on the Acquisition Fund are to be retained within the Fund and applied to the Improvements or, upon completion of the Improvements, any remaining balance in the Acquisition Fund will be transferred to the related Installment Payment Fund and applied to debt service on the related Certificates. The investment objective will depend on the length and liquidity requirements of the project draws, with an investment return ceiling equal to the certificate yield.

Authorized Investments: Pursuant to the Indenture, investments in the Acquisition Fund are limited to securities permitted by the laws of the State of Illinois for the investment of public funds. A description of State permitted investments is attached hereto as Appendix B. In addition, uninvested funds held by a depository in excess of the Federally insured amount, must be collateralized in accordance with the terms in Section IV herein.

Maturity, Liquidity and Diversification: The maturity of investments in the Acquisition Fund should match the anticipated draw schedule of the Improvements or be redeemable at the University’s request upon making project draws. Liquidity without penalty is important for the investments, money market funds or the depository that the certificate proceeds are held in due to the uncertain timing of project draws. Diversification is only a consideration for spreading the credit risk of specific unsecured investments. Investments other than U.S. Treasury and Agency Securities, ITF Pool, and insured or collateralized deposits must be adequately diversified so that any one credit does not represent more than 10% of the Acquisition Fund.

Selection and Execution: The Director of Financial Affairs/Controller will be responsible for directing the investment of the Acquisition Fund. The Acquisition Fund can be established and held by a depository of the University’s choice, with the University serving as agent for the Trustee. The selection of securities will be determined by balancing the need for return versus liquidity and for making project draws.

Evaluation Criteria or Benchmark: The appropriate benchmark of the Acquisition Fund will depend on the anticipated duration of the investment of funds. A short and/or highly liquid project acquisition and construction period may warrant a money market fund benchmark such as the Ready Assets Government Liquidity Fund. Longer investment periods may consider using the certificate yield of the certificate issue as an appropriate benchmark. Any earnings in excess of the certificate yield would

need to be rebated to the federal government. Investment returns for the Acquisition Fund will be tracked quarterly and reported quarterly to the Treasurer until the completion of the Improvements.

III. Operating Funds and Accounts

The University has numerous funds and accounts through which it conducts its ongoing operations. Such Operating funds and accounts should be segregated from the Revenue Bond funds and accounts and Indentured funds and accounts, described under Sections I and II herein, even to the extent that funds held under the Bond Resolution will include “operating funds” of the System. This segregation will not only apply to the establishment of a separate investment policy for Non-System operating funds but also that System and Non-System operating funds will not be commingled for investment purposes, although such funds may be invested in common instruments with their respective shares clearly distinguished.

Non-System and Non-Indentured funds and accounts of the University are driven by moneys received from four distinct sources: 1) Local Funds which are moneys derived outside of the direct academic degree granting activity, 2) Tuition and Fees received from students, 3) Federal Funds which consist of grants and contracts received directly from the federal government, and 4) State Funds which are vouchered by the University for direct payment to vendors, employees or others. Although each of these sources of funding has unique timing and procedural characteristics, the operating funds they provide can be pooled for investment purposes. The pooling of operating funds simplifies the investment process for the University by providing continuity, investment flexibility and efficient administration.

To a large extent, the investment policy for University operations is an exercise in cash management. Operating funds that are expected to be expended within one year are to be concentrated into secure “money market” type instruments for the purposes of this “Liquidity Pool.” Permanent operating funds that are not expected to be spent within the year, but rather to be carried forward from year to year, will be invested in longer maturing instruments to earn a higher return. This “Permanent Pool” of longer maturing investments will experience some variation in market value as general market conditions change. Such price variation is acceptable for the Permanent Pool since these investments are not expected to be needed for liquidity. This bi-furcation in the investment of pooled operating funds will allow the University to meet its day- to-day obligations while enhancing its overall return on its Operating funds. Chart B in Appendix A represents the structure of this investment strategy for the University’s Non-System and Non-Indentured Operating funds and accounts.

The Liquidity Pool

Purpose and Investment Objective: The Purpose of the Liquidity Pool is to have funds on hand that are readily available to meet the day-to-day operations of the University. Since the Liquidity Pool is to be disbursed within the year, the investment objective is to enhance short-term return while providing staggered availability of funds within the year ranging from daily liquidity to monthly and semiannual liquidity. The extent of the staggering will be driven by the predictability of seasonal expenditures throughout the course of year. Without such predictability, the bias will be toward daily liquidity.

Authorized Investments: The investments in the Liquidity Pool are limited to those securities permitted by the laws of the State of Illinois for the investment of public funds and must mature, or be redeemable at the University’s request, prior to when such funds are needed for expenditure. A description of State permitted investments is attached hereto as Appendix B. The “Sweep Account” will be held by a depository and will be additionally collateralized, as provided in Section IV herein. The portion of the

Sweep Account which is designated as “pegged” for incremental earnings purposes must be a general obligation of the depository and is subject to the collateral requirements.

Maturity, Liquidity and Diversification: No investments longer than one year are permitted and no investments other than money market funds are allowed, unless the maturity of such other instrument is in advance of the date that such funds are expected to be expended. Investments subject to collateralization do not need to be further diversified. Funds invested in other “Money Market Alternatives” are subject to further diversification warranted by the credit quality of the investments contained in that segment of the Liquidity Pool.

Selection and Execution: The Director of Financial Affairs/Controller will be responsible for investing the Liquidity Pool. The unpegged portion of the Sweep Account will be invested in a government security money market fund sponsored by the depository. The pegged portion of the Sweep Account was initially set at \$1.4 million, subject to periodic review and modification by the Treasurer. Incremental earnings derived from the pegged portion will be sized and applied to offset bank fees on a monthly basis. For consolidation purposes, the Money Market Alternatives portion of the Liquidity Pool will be limited to the ITF pool, subject to periodic review by the Treasurer.

Evaluation Criteria or Benchmark: Given the day-to-day requirements of the Liquidity Pool, a money market instrument, such as the Ready Assets Government Liquidity Fund, can serve as an appropriate performance benchmark. Investment returns of the Liquidity Pool will be tracked monthly and reported quarterly to the Treasurer.

The Permanent Pool

Purpose and Investment Objective: The Purpose of the Permanent Pool is to capture operating funds, if any, that are not expected to be expended within the current year. The investment objective for the Permanent Pool is to enhance the return on operating funds by invested in secure fixed income investments with longer durations than the Liquidity Pool (i.e. over one year). The extent of duration lengthening will depend upon market conditions and expectations as well as the potential applications of Permanent Pool funds beyond one year.

Authorized Investments: Investments in the Permanent Pool are limited to those securities permitted by the laws of the State of Illinois for the investment of public funds and must mature, or be redeemable at the University’s request, prior to when such funds are needed for expenditure. A description of State permitted investments is attached hereto as Appendix B. The Permanent Pool is to be invested in permitted, high quality fixed income investments, rated “A” or better by Moody’s Investors Service or by Standard and Poor’s Corporation, for which there exists an established secondary market in the event the securities need to be sold and applied to operations of the University.

Maturity, Liquidity and Diversification: Maturities of Permanent Pool investments may not exceed five years and the investments must have sufficient liquidity to be sold in an established market without interest penalty. Permanent Pool investments, other than U.S. Treasury and Agency securities, ITF Pool, and insured or collateralized deposits, must be adequately diversified so that any one credit does not represent more than 10% of the market value of the Permanent Pool.

Selection and Execution: The Director of Financial Affairs/Controller will be responsible for investing the Permanent Pool. Securities will be purchased competitively in the open market or efficiently at competitive market prices through a depository of the University. The duration of the Permanent Pool is at the discretion of the Treasurer, who will in turn communicate preferences and constraints to the designated purchasing agent above, subject to periodic reassessment by the Treasurer

Evaluation Criteria or Benchmark: Given the duration of one year or longer for the investments held in the Permanent Pool, the Barclays one to three-year investment grade debt index (or comparable index) will serve as the performance benchmark. Investment returns of the Permanent Pool will be tracked quarterly and reported quarterly to the Treasurer.

IV. Collateralization and Custodians

To safeguard the University from the custodial credit risk, the following collateralization procedures for those investments and depository accounts in excess of Federally insured amounts and that require collateral, in accordance with this Investment Policy, will apply:

1. At all times in order to meet the objective of safety of capital, the Treasurer will require deposits in excess of the Federally insured amount to be collateralized to the extent of One Hundred Percent (100%) and evidenced by an approved written agreement.
2. Eligible collateral instruments and collateral rates (market value divided by deposit) are as follows:
 - a) Negotiable obligations of the United States Government; = 100%
 - b) Negotiable obligations of any agency or instrumentality of the United States Government backed by the full faith and credit of the United States Government; = 100%
 - c) Negotiable obligations of the State of Illinois which are rated A or better by Moodys' or Standard and Poor's; = 100%
3. Maturity of acceptable collateral shall not exceed 120 months.
4. The ratio of fair market value of collateral to the amount of funds secured shall be reviewed weekly and additional collateral will be requested when the ratio declines below the level required.
5. Safekeeping of Collateral

Third party safekeeping is required for all collateral. To accomplish this the securities will be held at a safekeeping depository as approved from time to time by the Treasurer.

Safekeeping will be documented by an approved written agreement. Substitution, exchange or release of securities held in safekeeping may be done upon two (2) days prior written notice to the Treasurer.

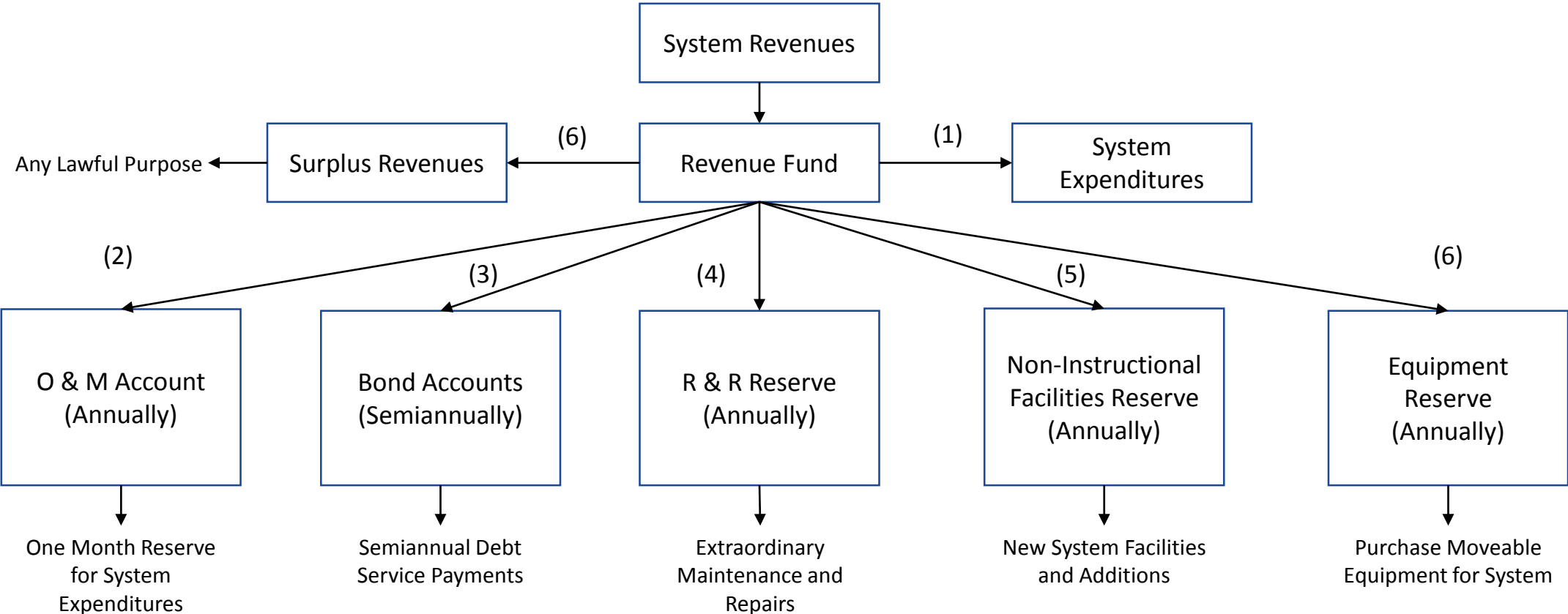
When collateral is extended, the Treasurer should receive a copy of the financial institution's board minutes, indicating the board of director's approval.

In addition to the requirements above, the University shall maintain custodial relationships for the holding of its investments that qualify as Category 1 or 2, as defined by GASB Statement No. 3 for the measuring and managing custodial risk. For Category 1 the investments held are insured or registered, with the securities held in the University's name. For Category 2 the investments held may be uninsured and unregistered, but the securities must be held by the broker's or dealer's trust department or agent in the University's name.

APPENDICES

Appendix A

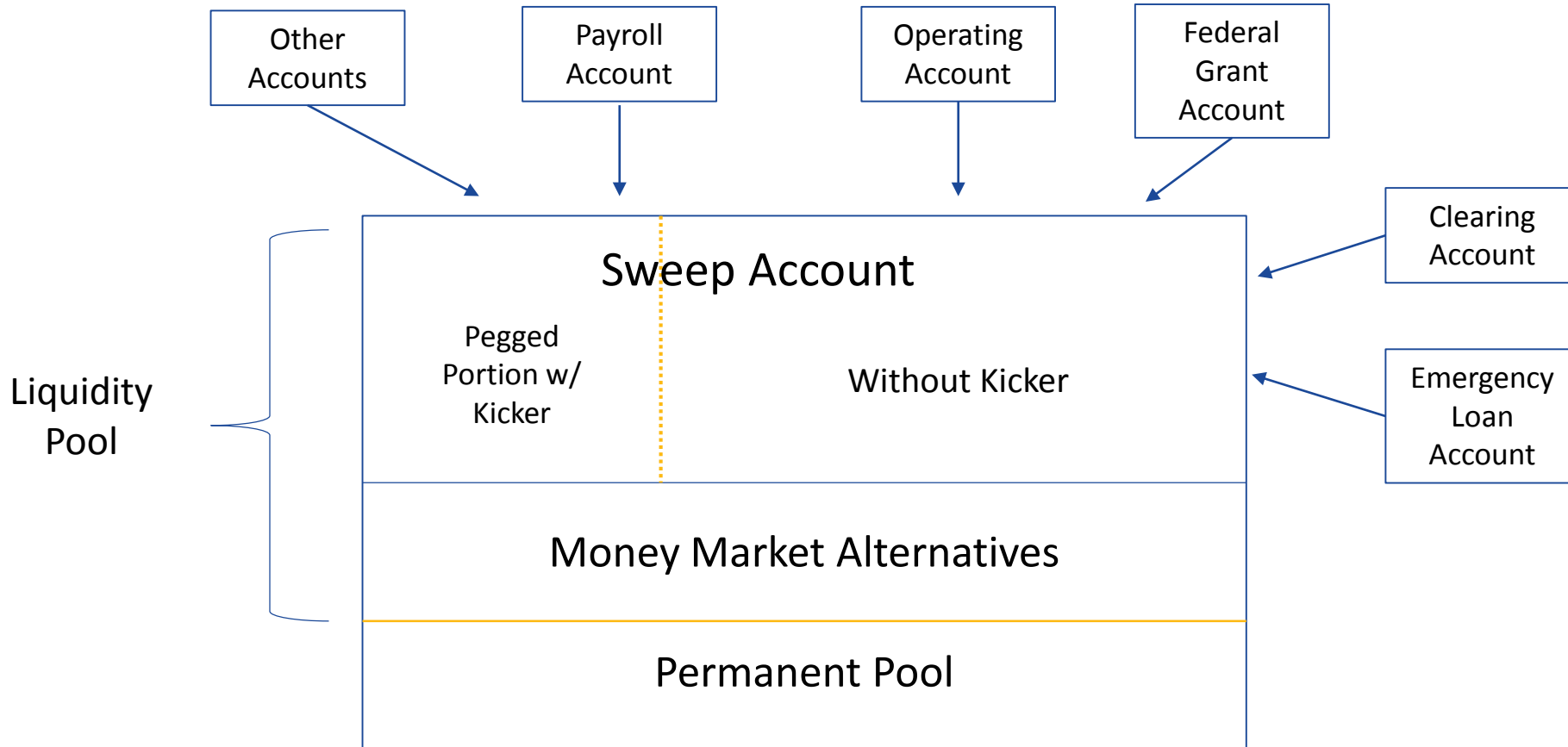
Chart A Flow of Funds of the University Facilities System



Appendix A

Chart B

Investment of Non-System Operating Funds



Appendix B

Permitted Investments of the Public Funds Investment Act of the State of Illinois

General Categories of Permitted Investments

The Public Funds Investment Act of the State of Illinois (the “Investment Act”) (30 ILCS 235/1 et seq.) provides that a “public agency” in Illinois may only invest in the following five basic categories of investments. Public universities in Illinois are considered to be public agencies.

1. 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.
2. Bonds, notes, debentures, or other similar obligations of the United States of America or its agencies. Agencies of the United States of America is defined by section (c) of the Investment Act to include:
 - i. the 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 (12 U.S.C. 2001 et seq.) and acts amendatory thereto;
 - ii. the Federal Home Loan Banks and the Federal Home Loan Mortgage Corporation; and
 - iii. any other agency created by Act of Congress.
3. Interest-bearing savings accounts, interest-bearing certificates of deposit or interest-bearing time deposits or any other investments constituting direct obligation of any bank as defined by the Illinois Banking Act which are FDIC insured.
4. Short term obligations of corporations organized in the United States with assets exceeding \$500,000,000 if:
 - i. such obligation are rated at the time of purchase at one of the 3 highest classifications established by at least 2 standard rating services and which mature not later than 180 days from the date of purchase;
 - ii. such purchases do not exceed 10% of the corporation’s outstanding obligations; and
 - iii. no more than one-third of the university’s funds may be invested in short term obligations of corporations.
5. 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 paragraphs (1) or (2) above and to agreements to repurchase such obligations.

Other Permitted Investments

In addition, the Investment Act permits investing in the following securities:

- A. Short term discount obligations of the Federal National Mortgage Association.
- B. Shares in or other forms of securities legally issuable by savings banks or savings and loan associations incorporated under the laws of the State of Illinois or any other state or under the

law of the United States. Investments may be made only in those banks or savings and loan associations the shares, or investment certificates of which are insured by the Federal Deposit Insurance Corporation ¹.

- C. 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 laws of the United States; provided, however, the principal office of any such credit union must be located within the State of Illinois and the accounts must be insured in accordance with applicable law.
- D. Section (g) of the Investment Act allows purchase or investment in repurchase agreements of Government Securities having the meaning set out in the federal Government Securities Act of 1986. Such Government Securities include ²:
 - i. Securities which are direct obligations of, or obligations guaranteed as to principal or interest by, the United States of America;
 - ii. Securities which are issued by or guaranteed by a corporation in which the United States has a direct or indirect interest and which are designated by the Secretary of the Treasury for exemption;
 - iii. Securities issued by any corporation, the securities of which are designated by the statute as exempt securities within the meaning of the laws administered by the Securities and Exchange Commission.
- E. The Illinois Funds (IF), created under Section 17 of the State Treasurer Act (15 ILCS 505/17).
- F. A Fund managed, operated and administered by a bank, subsidiary of a bank, or subsidiary of a bank holding company.

¹ Securities referenced in (A) and (B) so purchased shall mature or be redeemable on a date or dates prior to the time when, in the judgment of such governing authority as to the time when any public funds will be required for expenditure. The expressed judgement if any such governing authority as to the time when any public funds will be required for expenditure or be redeemable is final and conclusive

² The Investment Act requires repurchase contract to be entered into with an Illinois bank acting as principal in the transaction, unless the underlying security which is the subject of the repurchase agreement is registered in the name of the public unit.