

STATEMENT OF INVESTMENT POLICY



**OFFICE OF THE TREASURER
CHICAGO TRANSIT AUTHORITY**

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STATEMENT OF INVESTMENT POLICY

(Last Amended – May 8, 2019)

1.0 SCOPE

As required by the Public Funds Investment Act (the “Act”), this Chicago Transit Authority (hereinafter referred to as “CTA” or “Authority”) Investment Policy (the “Investment Policy”) governs the investment of all of the Authority's funds. This Investment Policy does not apply to the Retirement Plan for CTA Employees, the Retiree Healthcare Trust, the trustee Supplemental Retirement Plan, the CTA's Section 457 Deferred Compensation Plan or the CTA's Section 401K Plan.

Every investment shall be made with preservation of capital as the primary and overriding concern. Each investment transaction shall be made in a manner that ensures that risk of loss of capital, whether from credit or market risk, is minimized. All participants in the investment process shall act responsibly as custodians of the public's trust. Any transaction that might jeopardize the availability of funds for the Authority's operations shall be avoided.

The investment portfolio shall be structured to provide sufficient liquidity to pay the Authority's obligations as they come due. Investment maturity dates and marketability of the investments must be coordinated with the Treasurer's forecast of cash flow needs of the Authority.

Investments shall be made seeking the highest return on investments consistent with: 1) preservation of capital, 2) anticipated cash flow needs, 3) prudent investment principles, and 4) the restrictions contained in the Act and this Investment Policy.

2.0 AUTHORIZED INVESTMENTS AND DIVERSIFICATION OF PORTFOLIO

A. AUTHORIZED INVESTMENTS. Funds of the Authority may only be invested in the following investments (“Authorized Investments”), subject to all limitations and restrictions specified in the Act

1) bonds, notes, certificates of indebtedness, treasury bills or other securities 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 agencies¹ and instrumentalities;

¹ “Agencies” include (i) the federal land banks, federal intermediate credit banks, banks for cooperative, federal farm credit banks, or any other entity authorized to issue debt obligations under the Farm Credit Act of 1971 (12 U.S.C. 2001 et seq.) and Acts amendatory thereto; (ii) the federal home loan banks and the federal home loan mortgage corporation; and (iii) any other agency created by an Act of Congress.

3) interest-bearing savings accounts, interest-bearing certificates of deposit, or interest-bearing time deposits or other investments constituting direct obligations of any bank, as defined by the Illinois Banking Act²; provided that; (i) any such bank must be insured by the Federal Deposit Insurance Corporation ("FDIC") and (ii) no more than 33.33% of the maximum portfolio percentage amount allowed by the chart in Section 2B of this Investment Policy for investment in Certificates of Deposit may be invested in Certificates of Deposit of a single issuer of such Certificates;

4) obligations, including, but not limited to commercial paper, of corporations ("Corporate Obligations"), organized in the United States with assets exceeding \$500,000,000 at the time of purchase, provided that: (i) such obligations are rated at the time of purchase at the highest classification for short-term obligations and one of the three highest classifications for long-term obligations established by at least two standard rating services and which mature no later than 3 years from the date of purchase, (ii) such purchases do not exceed 10% of the corporation's outstanding obligations, (iii) no more than one-third of the Authority's funds may be invested in short term obligations of corporations and (iv) no more than 25% of the maximum portfolio percentage allowed by the chart in Section 2B of this Investment Policy for all Corporate Obligations may be invested in Corporate Obligations of a single issuer;

5) Mutual Funds which invest exclusively in U.S. government obligations and Agencies, as specified in the Act;

6) A Public Treasurers' Investment Pool created under Section 17 of the State Treasurer Act (15 ILCS 505/17);

7) Repurchase Agreements, for securities which are Authorized Investments, subject to all of the requirements of the Act and further provided that: i) the securities shall be held by a custodial bank authorized by the Chicago Transit Board pursuant to a written custodial agreement and ii) each repurchase transaction must be entered into under the terms of a master repurchase agreement in a form authorized by the Chicago Transit Board; and

8) Interest-bearing 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. The bonds shall be registered in the name of the Authority or held under a custodial agreement at a bank. The bonds shall be rated, at the time of purchase, within the four highest classifications no lower than 'A' category by at least two accredited rating agencies with nationally recognized expertise in rating bonds of states and their political subdivisions. The maturity of the bonds authorized by this subsection (8) shall, at the time of purchase, not exceed 5 years; provided that a longer maturity is authorized if the Authority has a put option on the bonds to demand early repayment on the bonds within

² 205 ILCS 5/1 et seq.

5 years from the date of purchase. These securities shall show on their face that they are fully payable as to principal and interest, where applicable, if any, within five years from the date of purchase.

The Authorized Investments listed above are in addition to those investments authorized by Section 16 of the Metropolitan Transit Authority Act (70 ILCS 3605 et seq.)

B. DIVERSIFICATION OF PORTFOLIO

In addition to the other restrictions regarding Authorized Investments contained in this Investment Policy, the Act, and other CTA ordinances and bylaws, the portfolio of Authorized Investments shall be diversified among the different types of Authorized Investments in order to avoid incurring unreasonable risks inherent in over-investing in any specific investments, in accordance with the maximum levels stated in the table set forth below.

CTA - MAXIMUM INVESTMENT LEVEL		
Instrument	Term	Portfolio Mix
U.S. Treasuries	3 Years	100.00%
Repurchase Agreements	330 Days	33.33%
Certificates of Deposit	365 Days	30.0%
Corporate Obligations	3 Years	33.33%
Government Money Market Funds	n.a.	50.0%
U.S. Government Agencies	5 Years	75.0%
Municipal Bonds (Callable)	5 Years	25.0%
Investment Pool - Illinois Fund	n.a.	25.0%

3.0 STANDARD OF CARE

The standard of care requires that investments shall be made using the judgment and care, under the circumstances then prevailing, that 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 the capital as well as the probable income to be derived. The prudent person rule shall be applied in the context of managing the overall portfolio.

The adoption of this standard of care by the Authority does not grant any authority to invest Authority funds in any investments which are not specifically listed as authorized by this Investment Policy and the Public Funds Investment Act.

4.0 TREASURER AND INVESTMENT PROCEDURES AND GUIDELINES

The Authority’s Treasurer, pursuant to Section 10 of the Authority's Bylaws, has “general charge of the financial affairs of the Authority.” The Treasurer is appointed by

the Chicago Transit Board. In addition to the Treasurer's other duties set forth in the Authority's Bylaws, this Investment Policy, and such other duties as may be established by the Chicago Transit Board from time to time, the Treasurer, the Assistant Treasurer and/or the Treasurer's designees are authorized for and on behalf of the Authority to enter into transactions for Authorized Investments in accordance with the terms of this Investment Policy and to:

- A. Purchase or sell for immediate or future delivery, Authorized Investments, as described in this Investment Policy;
- B. Deliver and deposit with the Authority's duly authorized custodial financial institution for safekeeping and custody any and all securities; and
- C. To withdraw, receive and issue instructions for the handling, transfer, registration, sale, substitution, exchange and delivery of any securities being held for and on behalf of the Authority by the Authority's duly authorized custodial financial institution.

The Chairman, the Treasurer, or any duly appointed Assistant Treasurer, or such designees as they shall name in writing, are authorized to endorse for negotiation any and all negotiable instruments payable to the Authority.

The Chairman, Treasurer or Assistant Treasurer, or such designees as they shall name in writing, are authorized to issue written, telephonic, electronic or oral instructions to transfer for investment purposes funds of the Authority on deposit at its duly authorized depository institutions by wire or otherwise, provided that such transfers are confirmed by the Treasurer or Assistant Treasurer or their designees on behalf of the Authority.

The Chairman, Treasurer or Assistant Treasurer are authorized to enter into such agreements with said depository institutions with respect to any such transfers as are necessary and appropriate, and in accordance with all applicable laws and this Investment Policy.

In order to maintain maximum efficiency in the ongoing management of the funds and securities of the Authority, which are from time to time deposited in banking and financial institutions, the Chairman, Treasurer and Vice Chairman of the Authority are authorized and directed to take any and all actions including the execution of any and all documents, and the Secretary of the Chicago Transit Board is hereby authorized and directed to attest to any and all documents, in order to comply with the rules and regulations, instructions and procedures of such financial institutions whenever required, and as required to comply with the Act and this Investment Policy.

Before financial assets of the CTA are invested or reinvested, or portfolio investments are sold, interest rate quotations from qualified institutions shall be solicited orally or in writing by the Treasurer or the Treasurer's designees. If a specific maturity

date is required for cash flow purposes, interest rate quotations shall be requested for instruments that meet the maturity requirement.

Interest rate quotations shall be requested by the Treasurer or the Treasurer's designees from at least three qualified institutions for a range of alternative combinations of maturities, terms and instruments. A quotation may be accepted if it provides the most competitive rate of return within the required maturity or term and if it is in compliance with the other requirements of this Investment Policy, the Act, and any other applicable CTA ordinances, bylaws and written administrative procedures. Written records shall be kept by the CTA of the quotations given and the quotations accepted.

5.0 REGISTRATION, SAFEKEEPING, CUSTODIAL ACCOUNTS, AND COLLATERAL

A. Collateral Requirements

Whenever funds of the Authority are to be deposited in a financial institution in an amount which causes the total amount of the Authority's funds deposited with such Institution to exceed the amount which is protected by the Federal Deposit Insurance Corporation (the "FDIC"), the Treasurer shall require that all of the Authority's deposits which exceed the amount insured by the FDIC shall be collateralized, at the rate of 102% of such deposit, by: bonds, notes, certificates of indebtedness, Treasury bills or other securities which are guaranteed by the full faith and credit of the United States of America as to principal and interest or, at the rate of 110% of such deposit, by: bonds, notes, debentures or other similar obligations of Agencies of the United States of America (as defined in the Authorized Investments section of this Investment Policy).

B. Custodial Safekeeping

Whenever the Authority purchases investment securities (including, without limiting the generality of the foregoing, bonds, notes, certificates, bills, and debentures), regardless of whether such investment securities are in paper or book-entry form, the investment securities shall be held by a custodial bank appointed by the Chicago Transit Board and pursuant to a written custodial agreement.

Whenever the Authority enters into repurchase agreements for investment securities, the investment securities (including, without limiting the generality of the foregoing, bonds, notes, certificates, bills, and debentures), regardless of whether such investment securities are in paper or book-entry form, shall be held by a custodial bank appointed by the Chicago Transit Board and pursuant to a written custodial agreement.

C. Registration

In accordance with Section 3 of the Act, whenever Authorized Investments purchased by the Authority are issuable to a designated payee or to the order of a designated payee, then the Authority shall be so designated, and further, if such

Authorized Investments are purchased with money taken from a particular fund of the Authority, the name of the fund shall be added to that of the Authority. If any such Authorized Investments are registerable, either as to principal or interest, or both, then such Authorized Investments shall be so registered in the name of the Authority, and in the name of the fund to which they are to be credited.

6.0 INTERNAL CONTROLS AND OPERATIONAL PROCEDURES

There shall be established a system of internal controls and written operational procedures designed to prevent losses of funds that might arise from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the Authority (the "Internal Controls"). The Internal Controls shall be reviewed annually by the Authority's independent auditor. The Authority's Treasurer shall be responsible for establishing and implementing the Internal Controls and written operational procedures of the Authority's investment program.

7.0 REVIEW OF INVESTMENT PORTFOLIO; REPORTS AND PERFORMANCE MEASURES

A. Daily Activity Reports and Monitoring

The CTA Treasurer shall require either the CTA Treasury Department staff or other CTA staff as designated by the Treasurer to generate daily activity reports for all CTA funds for management purposes. These daily activity reports shall indicate the balance of all funds, disbursements, deposits, investment transactions, investments held and such other information as the Treasurer deems necessary. The contents of the portfolio, available markets, and the relative value of competing instruments shall be monitored on a daily basis, and the portfolio mix shall be adjusted as necessary and practical to conform to the requirements of this Investment Policy.

B. Monthly Portfolio Review

Every month the CTA Treasurer shall require either the CTA Treasury Department staff or other CTA staff as designated by the Treasurer to prepare for the Treasurer's review an investment summary which addresses: 1) the investment portfolio, 2) the effectiveness of the portfolio in meeting the CTA's need for safety of its investments, 3) liquidity, 4) rate of return, 5) diversification, 6) general performance and 7) such other matters as the Treasurer may require.

C. Quarterly Reports and Performance Measures

The Treasurer shall submit quarterly reports of investment activities to the Chairman and members of the Chicago Transit Board. Such quarterly reports shall include data on overall portfolio performance and shall also include information on the investments in the portfolio by: 1) type; 2) issuer; 3) credit rating at time of purchase; 4) interest rate; 5) maturity; 6) book value; 7) income earned; and 8) current market value.

The investment portfolio shall be managed in a manner to attain a competitive market rate of return throughout budgetary and economic cycles while preserving and protecting capital in the overall portfolio. The Authority's investment portfolio shall be planned with the objective of regularly exceeding the rolling average return on three-month U.S. Treasury bills. Each Quarterly Report shall compare the performance of the Authority's investment portfolio to the three-month U.S. Treasury bill benchmark and/or other appropriate benchmark(s).

D. Annual Report

The Treasurer shall prepare an inventory and account of all bonds and securities owned by the Authority, on an annual basis, as required by Section 10 of the Chicago Transit Authority's Bylaws, as amended from time to time.

8.0 SELECTION OF INVESTMENT ADVISORS, MONEY MANAGERS, AND FINANCIAL INSTITUTIONS, AND MINORITY AND WOMEN-OWNED BUSINESSES

A. General Requirements

1) Definitions

a. Financial Institution

For purposes of this Investment Policy, a "Financial Institution" is: 1) a bank depository; 2) a bank which issues certificates of deposit; 3) any person or entity (whether a bank or a broker/dealer) which enters into a security repurchase transaction with the Authority; 4) a custodian of securities or funds; or 5) any person or entity which sells Authorized Investments to the Authority (whether a bank or a broker/dealer).

b. Investment Advisor

For purposes of this Investment Policy an "Investment Advisor" is a person or entity with which the Authority enters into a contract to provide professional investment advice to the Authority.

c. Money Manager

For purposes of this Investment Policy a "Money Manager" is a person or entity with which the Authority enters into a contract to select and manage Authorized Investments for the Authority.

2) All Financial Institutions, Investment Advisors and Money Managers utilized by the Authority must:

a. Be licensed to do business in the State of Illinois;

- b. Provide written certification that the institution's supervising investment officer has reviewed and agrees to comply with the Act and the Investment Policy. Certification must be in place prior to acceptance of funds or engaging in investment transactions with CTA.) In addition, the supervising officer shall agree to exercise due diligence in monitoring the activities of the officers and subordinate staff members engaged in transactions with the CTA;
- c. Have staff that is trained in the precautions appropriate to public-sector investments;
- d. Agree to disclose potential conflicts or risks to public funds that might arise out of business transactions between the firm/depository and the CTA; and
- e. Agree to undertake reasonable efforts to preclude imprudent transactions involving the CTA's funds.

B. Selection of Financial Institutions

Every five years the Authority shall follow a Letters of Interest and Qualifications ("LIQ") process and issue Requests for Letters of Interest and Qualifications ("Request for LIQs") for institutions that may be interested in acting as Financial Institutions, other than a custodial bank, for the Authority. All Financial Institutions evaluated and qualified through the LIQ process shall be submitted to the Chicago Transit Board for its approval.

The Treasurer may review the LIQ pool on an annual basis. If the Treasurer determines that additional qualified firms not currently in a pool are available, the LIQ process may be repeated to solicit additional firms to add to the pool. In such case, firms that are already in a pool will not be required to resubmit. Following the LIQ process, an ordinance will be submitted to the Board amending the previously approved pool. Such firms will only be added to a pool for the remaining balance of the term of the pool.

The Request for LIQs shall require the interested Financial Institutions to submit, with their LIQ responses, the following documents (where applicable):

- 1) Its most current audited financial statements which indicate that the Financial Institution is in compliance with generally accepted accounting principles, and that its financial statements present fairly, in all material respects, the financial position of the Financial Institution without qualification;
- 2) Its most recent Consolidated Report of Conditions ("call report");
- 3) Its current statements which have been furnished to the Commissioner of Banks and Trust Companies or to the Controller of the Currency. The Financial Institution must

also agree to provide to the Authority all future statements which it must furnish to the Commissioner of Banks and Trust Companies or to the Controller of the Currency;

- 4) The appropriate regulatory agency's evaluation of the Financial Institution's record of meeting the credit needs of its entire community, including low and moderate-income neighborhoods pursuant to the Community Reinvestment Act of 1977.³ The overall results of the evaluation must indicate a satisfactory record of meeting community needs; and
- 5) Such other pertinent information as the Treasurer deems appropriate.

After the effective date of this Investment Policy, selection of any custodial bank shall be pursuant to an RFP selection process. Any contract for custodial bank services shall be submitted to the Chicago Transit Board for its approval.

C. Selection of Investment Advisors and Money Managers

The selection of professional Investment Advisors and/or Money Managers, when needed, shall be pursuant to an LIQ or Request for Proposal ("RFP") procurement process, as appropriate, which procurement process shall be conducted in accordance with applicable Authority requirements regarding the procurement of professional services. The Treasurer shall establish the criteria used to evaluate the LIQ or RFP responses. All Investment Advisors and/or Money Managers evaluated and qualified through such LIQ or RFP procurement process shall be submitted to the Chicago Transit Board for its approval.

All contracts for Investment Advisors and Money Managers must include provisions which require compliance with the requirements of this Investment Policy. Such contracts shall also provide that only Authorized Investments may be purchased, and all such Authorized Investments must be registered in the name of the Authority and be held by an Authority-approved custodial bank. Such contracts shall also set forth any applicable investment limitations and procedures which are in addition to the limitations stated in this Investment Policy. Such contracts shall also include such information reporting requirements as the Treasurer may require.

D. Minority and Women-Owned Financial Institutions, Money Managers, and Investment Advisors

In addition to the requirements stated hereinabove under "A. General Requirements" and "C. Selection of Investment Advisors and Money Managers," Minority and Women-Owned investment advisors and money managers must be approved by the Authority's DBE/EEO/Contract Compliance Department as minority-owned or women-owned Money Managers and Investment Advisors.

³ 12 U.S.C.A. § 2901 et. seq.

The Treasurer shall encourage participation by minority- and women-owned Financial Institutions, Money Managers and Investment Advisors in the Authority's financial transactions. Furthermore, as required by 49 CFR Part 26, Section 26.27, the Authority shall thoroughly investigate the full extent of services offered by financial institutions owned and controlled by socially and economically disadvantaged individuals in its community and will make reasonable efforts to use these institutions. The Authority will also encourage its prime contractors to use such institutions.

9.0 ETHICS AND CONFLICTS OF INTEREST

The Authority's policies, rules, and requirements regarding ethics and conflicts of interest are stated in the CTA Ethics Ordinance. (CTA Ordinance No. 011-73, as may be amended from time to time, also known as the Chicago Transit Authority Code of Ethics.) Such Authority policies, rules, and requirements regarding ethics and conflicts of interest are in addition to the statutory prohibitions specified in the Act and any other Illinois laws.

10.0 AUTHORIZATION

This Investment Policy has been authorized by Chicago Transit Board Ordinance 019-44.