

**AGENDA ITEM 8.**

**APPROVAL OF CHANGE TO ILLINOIS DESIGNATED ACCOUNT PROGRAM (IDAPP)  
INVESTMENT POLICY**

# **ILLINOIS STUDENT ASSISTANCE COMMISSION - IDAPP STATEMENT OF INVESTMENT POLICY**

## **1 Background**

The Illinois Designated Account Purchase Program (“IDAPP”) of the Illinois Student Assistance Commission (the “Commission”) operates under the provisions of the Education Loan Purchase Program Law which is described in sections 125 through 170 of the Higher Education Student Assistance Act, 110 ILCS 947 (the “Act”). It was created to improve Illinois residents’ access to higher education by creating a secondary market for certain loans to reduce lender administrative costs, facilitate the early identification and treatment of delinquent loan accounts, and reduce potential student loan default losses to encourage commercial lenders to make student loans.

Pursuant to authority contained in section 145 of the Act, the Commission, by resolution, has the power to issue bonds (1) to make or acquire eligible loans, (2) to refund the bonds of the Commission, or (3) for a combination of such purposes. Proceeds from the sale of the bonds may be used for various purposes identified by the Act. Such purposes include (1) funding the reserves required under any bond issuance and investing them in accordance with the terms of the resolution and as the Commission from time to time may provide, in order to fulfill the stated public policy goal of encouraging student loan lending. Additional guidance and limitations with respect to the investment of funds is provided by Section 160 of the Act (Moneys of the Commission) and Section 2 (Authorized Investments) of the Public Funds Investment Act, 30 ILCS 235. Section 2.5 of the Public Funds Investment Act stipulates certain requirements for this investment policy.

## **2 Scope**

This Investment Policy applies to all funds held by IDAPP (IDAPP Funds), including without limitation, any proceeds of ISAC Debt, or escrowed funds held under any trust indenture or bond resolution. These IDAPP Funds are accounted for in IDAPP’s assets as shown on IDAPP’s annual financial statements.

## **3 Objectives**

The primary objectives, in priority order, of IDAPP’s investment activities shall be:

### **3.1 Safety**

Safety of principal is the foremost objective with respect to the investment of IDAPP Funds. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital.

### **3.2 Liquidity**

IDAPP’s investment portfolio should remain sufficiently liquid to enable the payment of all obligations as they come due.

### **3.3 Return**

The program shall seek a modest positive return subject to safety and liquidity objectives detailed above. Performance shall be evaluated in comparison to overnight Treasury repurchase agreements.

### **3.4 Simplicity and Low Cost**

IDAPP’s investment portfolio shall be designed to simplify administration of IDAPP’s investments to minimize operational risks and administrative costs.

## **4 Roles and Responsibilities of Fiduciaries**

#### **4.1 Standard of Care**

All fiduciaries to IDAPP Funds shall conduct their responsibilities with the care, skill, prudence, and diligence under the circumstances then prevailing which a prudent person familiar with these matters and acting in a like capacity would use in the conduct of an activity of like character and purpose. Fiduciaries, their employees, agents, and designees shall discharge their duties with respect to IDAPP Funds solely in the interest of the beneficiaries of IDAPP.

#### **4.2 Illinois Student Assistance Commission**

In this Investment Policy, the Commission refers to the governing fiduciaries appointed as commissioners to the Illinois Student Assistance Commission by the Governor with the advice and consent of the Senate in accordance with section 15 of the Higher Education Student Assistance Act, 110 ILCS 947/15. (In this document, the agency organization will be referred to as ISAC or the Agency.) The Commission has ultimate responsibility for the success and safety of the IDAPP program. Specific responsibilities of the Commission include, but are not limited to, the following.

1. Adopting a sound investment policy. The Policy may be reviewed, modified, and adopted by action of the Commission as necessary, but shall be adopted at least every three years.
2. Monitoring and evaluating the structure and performance of IDAPP Funds with an emphasis on ensuring the risk profile is consistent with Policy objectives.

#### **4.3 IDAPP Chief Investment Officer**

ISAC's Chief Investment Officer (CIO) will also serve as IDAPP's CIO unless otherwise specified by the ISAC Executive Director. Specific responsibilities of the CIO are as follows.

1. Investing funds in accordance with this Investment Policy.
2. Establishing the internal controls and written procedures for the operation of the investment program for IDAPP Funds.
3. Monitoring and evaluating applicable investment guidelines.
4. Protecting IDAPP Funds against fraud, error, misrepresentation by third parties and imprudent actions by employees and IDAPP Funds agents or delegates.

#### **4.4 ISAC Chief Financial Officer**

The Chief Financial Officer of ISAC shall provide quarterly written reports of investment activities to the Executive Director and the Commission. The reports shall include information regarding securities in the portfolio by class or type, book value, income earned, and market value as of the report date.

### **5 Authorized Investments**

Investment of IDAPP Funds is limited to those investments authorized by Section 2 of the Public Funds Investment Act, 30 ILCS 235/2, as may be further restricted by this Investment Policy. Authorized investments include the following:

#### **5.1 Guaranteed United States Obligations**

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.

#### **5.2 Non-guaranteed United States Obligations**

Bonds, notes, debentures, or other similar obligations of the United States of America, its agencies, and its instrumentalities.

#### **5.3 Savings Accounts and Certificates of Deposit**

Interest-bearing savings accounts, interest-bearing certificates of deposit, or interest-bearing time deposits or any other investments constituting direct obligations of any bank as defined by the Illinois Banking Act, 205 ILCS 5/1, et seq.

#### **5.4 Short-Term Corporate Obligations**

Short term obligations of corporations organized in the United States with assets exceeding \$500,000,000 if all of the following criteria are met: (i) such obligations are rated at the time of purchase at one of the three highest classifications established by at least two SEC registered Nationally Recognized Statistical Rating Organizations (NRSRO) and which mature no later than 180 days from the date of purchase; (ii) such purchases do not exceed 10% of the corporation's outstanding obligations; and (iii) such purchases represent no more than one third (1/3) of IDAPP Funds total investment portfolio.

#### **5.5 Money Market Mutual Funds**

Money market mutual funds registered under the Investment Company Act of 1940, 15 USC 80a-1, et seq., provided that the portfolio of investments of any such money market mutual fund is limited to obligations described in 5.1 and/or 5.2 (U.S. Obligations) of this Section.

#### **5.6 Public Treasurers Investment Pool**

A Public Treasurers' Investment Pool created under Section 17 of the State Treasurer Act, 15 ILCS 505.

#### **5.7 Bank Funds**

A fund managed, operated, and administered by a bank, subsidiary of a bank, or subsidiary of a bank holding company or use the services of such an entity to hold and invest or advise regarding the investment of any IDAPP Funds.

#### **6 Diversification**

IDAPP will diversify its investments by security type and institution. With the exception of obligations backed by the full faith and credit of the United States of America or investments fully collateralized by these obligations, no more than 5% of IDAPP's total investment portfolio shall be invested in the obligations of a single issuer.

#### **7 Internal Controls**

The Chief ~~Financial Investment~~ Officer shall establish a system of internal controls, which shall be documented and shall be designed to prevent losses of IDAPP Funds arising from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees.

#### **8 Ethics and Conflicts of Interest**

The Commission and its members, employees and any other persons authorized to make or influence investment decisions must (1) comply with all obligations and requirements of ISAC's Ethics Policy, applicable provisions of the State Officials and Employees Ethics Act and all other applicable laws pertaining to ethics, prohibited acts or gift bans and (2) refrain from personal business activity that could potentially conflict with proper execution of this Investment Policy or impair their ability to make impartial decisions.

Under no circumstances shall a participant in the investment process receive any type of financial gain, either directly or indirectly, from the investment of any Program funds. Any real or perceived conflict of interest shall be reported, in writing, to the CIO and Ethics Officer, who will jointly decide the appropriate steps to be taken under the circumstances, including whether or not to notify the Commission of the actual or perceived conflict at its next scheduled meeting.

#### **9 Authorized Financial Dealers and Institutions**

IDAPP Funds may be invested with federal and state financial institutions, or any of their subsidiaries, (provided such institutions have been authorized to conduct business in the State of Illinois and have been specifically approved by ISAC to receive and hold IDAPP Funds). Commission approval may be granted

only if the selection complies with applicable state law, including, without limitation, the Public Funds Investment Act.

#### **10 Collateralization**

Collateralization will be required on cash deposits in any institution to the extent the deposit is not fully insured by the Federal Deposit Insurance Corporation or National Credit Unions Administration or other approved share insurer. In order to accommodate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest. The type of investments which may be pledged as collateral shall be limited to cash and any classes of securities authorized by Section 6(d) of the Public Funds Investment Act, 30 ILCS 235. Evidence of the pledge of collateral (safekeeping receipt) must be supplied to IDAPP.

#### **11 Safekeeping and Custody**

All securities transactions entered into by IDAPP shall be conducted on a delivery-versus-payment (DVP) basis.

#### **12 Investment Policy Adoption**

The IDAPP Investment Policy document was originally adopted by the Commission on November 15, 2006 and subsequently approved with revisions by the Commission on November 21, 2008, January 24, 2013, [November 18, 2015](#), [December 6, 2018](#) and [April 4, 2019](#).