Illinois Metropolitan
Investment Fund

UPDATE

Investing together for our communities

IMET UPDATE

Issued January 2018

HAPPY NEW YEAR – START THE YEAR OFF RIGHT!

Start the year on the right foot - plan to attend IMET's upcoming annual meeting. IMET's 22nd annual meeting is scheduled for Tuesday March 20, 2018 from 9 am to 12:30 pm at Harry Caray's at the Westin Hotel, Lombard, Illinois.

DO NOT FORGET IMET'S ARBITRAGE REBATE CALCULATION SERVICES

ARCS are available to all participants with IMET funds subject to arbitrage rebate. IMET offers **ARCS** through **BNY Mellon.** Participants benefit from special pricing, and under certain conditions, participants enjoy ARCS at **NO** charge. BNY Mellon is a premier provider of arbitrage rebate calculation services. The firm stands behind the accuracy of its calculations, and agrees to cover any penalties and interest associated with a proven error and to pay costs of defending its calculations in the event of an IRS examination.

ECONOMIC UPDATE

Economic growth was solid in the fourth quarter 2017 as activity was supported by strong global growth, a pick-up in business investment and an improvement in housing activity. The unemployment rate hit a new cycle low; and financial conditions remained easy while inflation stayed subdued, enabling the Fed to deliver on its expectation to raise rates three times this year. For now, JP Morgan's view remains consistent with the Fed's projections – growth will remain strong, inflation will stay contained and the Fed will remain on a gradual path towards normalized real yields.

The Federal Reserve raised rates by 25 basis points to 1.25%-1.50% at its December meeting and reiterated its positive assessment of the labor market and the U.S. economy. The committee expects three rate hikes in 2018, two in 2019 and slightly less than two in 2020. During the quarter, the European Central Bank also announced its intention to reduce the pace of quantitative easing from €60 billion to €30 billion per month starting in 2018.

The flattening bias of the Treasury curve that persisted all year continued into the fourth quarter, with the spread between the two- and ten-year Treasury yields narrowing to 52 basis points, the lowest level since the crisis. The short end of the curve continues to move higher in step with Fed rate hikes while the long end has been anchored by demand and inflation.

SOFIA'S SPOT

Protecting Your Bank Deposits

Bank deposits are considered amongst the safest in terms of principal risk for public sector funds. Typically, public funds are protected through Federal Deposit Insurance Corporation coverage, collateralization through high quality marketable securities, or support of a Letter of Credit.

FDIC Insurance

One of the most common methods of securitizing public-sector funds is to keep deposits below the FDIC limit. Time and savings deposits, demand deposits held at a bank within your state are insured for up to $250,000 for the combined total of deposits at that bank. This includes certificates of deposit (CDs), savings deposits, Negotiable Order of Withdrawal (NOW) accounts, and money market accounts.

National Credit Union Share Insurance Fund Insurance

Like the FDIC, the NCUSIF provides all members of federally insured credit unions with $250,000 in coverage for their accounts. Also, like the FDIC, the NCUSIF is backed by the full faith and credit of the U.S. government.

(continued)

Collateral

For governments with deposits in excess of FDIC limits, many banks are willing to collateralize public deposits through the pledging of securities. Keep the following in mind when obtaining collateral from your bank:

- The pledge agreement should:
    - be in writing
    - was approved by the board of directors of the bank or its loan committee and
    - have been, continuously, from the time of its execution, an official record.
- The pledged collateral should:
    - comply with the government's investment policy or state statute, whichever is more restrictive
    - be held at an independent third-party.
- Any substitutions of collateral should meet the requirements of the collateral agreement
- Reporting should come directly from the custodian, preferably monthly

Letters of Credit

In addition to the common means of securing deposits with collateral, some banks may enter into an Irrevocable Letter of Credit with an institution, such as the Federal Home Loan Bank of Chicago, in which they name the government as beneficiary. In this case, were the bank to fail, procedures are in place to draw down funds under the letter of credit.

Other Mechanisms

Other banks have programs to spread funds amongst several banks or institutions to ensure that they are all covered by FDIC coverage.

Insurance

Promontory Interfinancial Network, American Deposit Management, and Wintrust are firms that offer tools that may make sense for certain governments.

State coverage

In the State of Wisconsin, coverage above the FDIC coverage is provided by the Public Deposit Guarantee Fund. Coverage under state law is limited to $400,000. Other states may offer similar protection.

Your Own Due Diligence - Know Your Banks

Have a due diligence in process in place to evaluate the banks in which you place your public deposits.

Call and Uniform Bank Performance Reports, are available in a timely fashion on the FDIC website, **https://www.fdic.gov/bank/statistical/**. As well, **IDC Financial Publishing** and **Bauer Financial** both rate and/or rank banks throughout the country for a modest fee or for free.

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Illinois Metropolitan Investment Fund

IMET 1-3 Year Fund Performance

12/31/2017	Net 1-3 Year Fund Returns*	Gross 1-3 Year Fund Returns*	Barclays 1-3 Yr. Govt Index
Month	0.01	0.03	0.01
Latest 1 yr.	0.27	0.55	0.45
Since Inception**	3.12	3.43	3.42
Yield to Maturity	1.93	1.93	1.90
Wtd. Avg. Mat.	1.91 yrs	1.91 yrs	1.98 yrs
Duration	1.84	1.84	1.93

* IMET returns are calculated based on beginning period and ending period NAVs.

** Since Inception returns are calculated from July 1996 through the most recent month end.

IMET Convenience Fund Performance

12/31/2017	IMET Convenience Fund	S&P GIP Index*, **	Illinois Funds
Month	0.11	0.10	0.10
Avg. Daily Yield for Month	1.29	0.97	1.19
Latest 1 yr.	1.04	0.59	0.50
Wtd. Avg. Maturity	**153 days**	**77 days**	**54 days**

* The IMET Convenience Fund was established in September 2003.

****** S&P GIP Index GOVT rate as disclosed is the 7-day net yield.