

State of Tennessee
Department of Treasury
Intermediate-term Investment Fund
Disclosure Statement

Purpose:

The Intermediate-Term Investment Fund ("Fund") was created by the State Funding Board ("Board") pursuant to Tenn. Code Ann. §9-4-608, upon determining that a need existed for a longer term investment fund for funds in the custody of the State Treasurer Pursuant to Tenn. Code Ann. §9-4-608(a), "[u]pon determining that such a need exists, the state funding board may, by resolution duly adopted, create an intermediate-term investment fund as an additional investment vehicle for money in the custody of any department or agency of the state which is required by court order, contract, state or federal law or federal regulation to receive interest on invested funds." Further, Tenn. Code Ann. §9-4-608(h) provides, in pertinent part, the following: "t]he county legislative body shall determine whether a need exists for a longer-term investment for funds in the custody of the county trustee. Upon determining that such a need exists, the county legislative body may, by resolution duly adopted, authorize the county trustee to invest county funds in the state intermediate-term investment fund, notwithstanding §5-8-301. The resolution shall contain a disclosure statement as the treasurer shall periodically require. County investments in the state intermediate-term investment fund shall be administered by the county trustee within the guidelines established."

The Fund shall be administered by the State Treasurer within the guidelines established by the Board.

Objectives:

The Fund shall provide an option for a longer-term investment as an alternative to the State Pooled Investment Fund (which includes the Local Government Investment Pool ("LGIP"). The State Pooled Investment Fund ("SPIF") is a short-term investment option. Shares in the Fund ("Shares") are securities, but the Shares have not been registered with or approved by the United States Securities and Exchange Commission or any state securities commission. Accordingly, there will be no market for the sale of the Shares and the only method of disposing of the Shares is through redemption by the Fund. All securities purchased by the Fund shall belong jointly to the Participants in the Fund who shall share capital gains, income, and losses on such securities pro rata as determined by the number of Shares owned. Because of the longer-term nature of investments in this Fund, Participants may make a limited number of purchases of Shares and redemptions from the Fund. The investment policy for this Fund requires that it purchase securities described in the section titled "Authorized Investment Instruments," and with a goal of achieving a superior level of total return at a reasonable level

of risk measured over a longer-term investment horizon. The Treasurer, through the Treasury Department staff, shall strive to achieve the investment objectives through active management of the portfolio.

Participant Application:

The Fund is an investment vehicle for all eligible state and local governmental entities that wish to participate, collectively referred to as "Participants." Should a state or local governmental entity wish to participate in the Fund, it may submit a completed application provided by the Treasury Department. An applicant shall become a Participant in the Fund upon approval of such application and the purchase of Shares. Each application should identify the contact person(s) authorized to conduct transactions and request statements. An application may be obtained from Tim McClure, Director of Cash Management, Treasury Department, 502 Deaderick Street, Nashville, Tennessee 37243, (615) 532-1166. The application must be approved by the Treasury Department and must contain a valid Local Government Investment Pool ("LGIP") account number for contributions and redemptions. Each Participant is responsible for notifying the Treasury Department of any changes to the list of authorized persons or any changes in the Participant's bank or account number.

Authorized Investment Instruments:

Pursuant to Tenn. Code Ann. §9-4-602, the Board authorized the following as permitted investment instruments for the Fund:

1. bonds, notes and treasury bills of the United States or other obligations guaranteed as to principal and interest by the United States or any of its agencies;
2. obligations guaranteed as to principal and interest by the federal home loan mortgage corporation, federal national mortgage association, student loan marketing association and other United States government-sponsored corporations;
3. repurchase agreements for obligations of the United States or its agencies;
4. prime commercial paper that is rated in the highest category by at least two nationally recognized commercial paper rating services;
5. prime bankers' acceptances that are eligible for purchase by the Federal Reserve system.

Maturity:

The maximum amount of time from the acquisition date of a security to its maturity date shall not exceed five (5) years, meaning that a security may not be purchased by the Fund that has a remaining life of over five (5) years. The dollar weighted average maturity of the Fund assets shall not exceed three (3) years.

Risks:

All securities purchased by the Fund shall belong jointly to the Participants who shall share capital gains, income, and losses pro rata. An investment in the Fund is not an investment in a

money market fund or bank account, which are typically investments with lower-risk and lower-yield. An investment in this Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation, the State of Tennessee or any other government agency. Because an investment in the Fund is of a higher-risk than other possible investments, such as a FDIC insured bank account or the SPIF, a Participant could lose all or part of its investment in the Fund. The performance of this Fund depends on the value of its underlying securities. The value of the Fund's underlying securities and the Fund's total return may fluctuate within a wide range and that fluctuation may result from some or all of the following risks:

Interest Rate Risk: Market Value Risk- The risk that the Fund's investments may be affected by changes in interest rates. The rise and fall in interest rates may make the price (i.e., market value) of the underlying security fluctuate and, therefore, affect the value of the Fund's investments. As a result, the value of Shares in the Fund will also fluctuate with the value of the underlying assets. This will affect both the price received on redemption of Shares and also the value at which the Shares will be reported on the books of the Participant for financial reporting purposes.

Income Risk- Because there may be some fluctuation in market interest rates, the amount of income generated by the Fund may fluctuate as well.

Credit Risk- A government or company that issues a security may not or cannot be able to repay the principal or pay interest when due which could result in a loss to the Fund. The risk tends to increase as an issuer's credit rating declines. The Fund may invest in securities rated "investment grade" at the time of purchase; however, the rating on some securities purchased may fall below "investment grade." The Fund may continue to hold securities downgraded below "investment grade" at the discretion of the portfolio manager.

Portfolio Selection- The portfolio manager's judgment about the market or interest rates, credit quality or value of a particular security, or the market trends affecting a particular security may be incorrect and cause the value of the Fund to decline.

Prepayment Risk- The issuer of a security may attempt to redeem or prepay principal prior to the stated maturity date. This may occur as interest rates fall and an issuer lowers its borrowing costs by prepaying obligations carrying higher interest rates. Holders of the securities, such as the Fund, will not be able to take advantage of any price appreciation above the call price and also must replace those securities with securities with lower yields, which may, in turn, cause the value of the Fund to decline.

Structured Securities- Structured securities may contain embedded derivative components such as call options, which allow the issuer to redeem a security early for any reason. The early call option embedded in the structured securities may cause the securities to perform differently than expected affecting the value of the Fund.

Withdrawal/Liquidity Risk- Participants in the Fund are advised to only invest monies in this fund that are not needed for short term liquidity because the daily value of the fund will be priced to market and could have significant price volatility. If Participants redeem shares (withdraw funds) when the market

is depressed they will incur losses that would not likely occur if sufficient funds were held for liquidity in the SPIF or other similar short-term investments. As the Fund will not maintain a significant position in cash equivalent investments, a Participant who desires to redeem shares (withdraw funds) may not be able to receive funds until sufficient liquidity is achieved by the Fund.

Deposits and Redemptions:

In order to establish an efficient and diversified fund, the Treasury Department must receive at least fifty million dollars (\$50,000,000.00) in total deposits from Participants into the Fund before the Fund begins to invest in securities. Should the market value of total assets of the Fund be below fifty million (\$50,000,000.00) at any time, then the Board may authorize a termination of the Fund (see "Termination of Fund" below). Participants may purchase Shares in the Fund for any length of time; however, the minimum and maximum amount of Shares that may be purchased and the minimum and maximum amount of Shares that may be redeemed from the Fund at any one time may be limited. Purchases of Shares and redemptions from the Fund shall be limited to the first business day of each month and redemptions shall require thirty (30) days' written notice to the Fund administrator. The Board may establish penalties for redemptions made without the required notice. Should the amount of Shares purchased and redeemed be limited, updated guidelines will be posted on the Tennessee Department of Treasury website of those limits.. A Participant in the Fund may not be able to redeem its Shares in the Fund at the same value at which the shares were purchased. The State of Tennessee, the FDIC or any other state or federal agency does not guarantee that a Participant will receive the value of its investment or interest thereon upon redemption of its Shares. Also See Corrective Action paragraph below.

Participant Accounts:

The Treasurer shall maintain a separate account for each Participant designated by the Participant's name and a Participant number. Individual transactions and totals of all investments belonging to each Participant shall be recorded in the accounts. The Department will not distribute income or capital gains from the Fund. The value of each Participant's holdings will be reflected in the net asset value of the total Shares outstanding. Participants will be able to redeem Shares at the net asset value for each share calculated at the time of redemption.

Statements:

The Treasury Department shall provide each Participant with monthly statements, which shall show the change in investments for the preceding month. The Department shall also post the Fund's net asset value from the previous day's close of business on the Department's website and post a holdings report at least monthly on the Department's website.

Corrective Action:

The Treasurer may take such corrective actions, including but not limited to the following, that the Treasurer determines in his discretion are in the best interests of the participants in the Fund, are necessary and appropriate in consideration of market conditions or other factors

(including, but not limited to regulatory or accounting requirements), subject to and in compliance with applicable laws and rules:

1. restricting or suspend the sale and redemption of Shares, in such amounts and upon such time restrictions as the Treasurer deems necessary and appropriate;
2. selling securities in the Fund prior to maturity to realize capital gains or losses or to shorten average Fund maturity;
3. withholding earnings otherwise payable to participants;
4. making special capital distributions;
5. redeeming Shares in kind;
6. establishing a net asset value per share by using available market quotations;
7. increasing, reducing, suspending or deferring the imposition of the fee to administer the Fund; or
8. terminating the Fund.

Such actions and the reasons therefor shall be reported to the Board and participants in the Fund to their last known email addresses of record and shall also be posted to the website of the State Treasurer as soon as reasonably possible.

Termination of Fund:

If the Board determines that the Fund will be terminated, the Treasurer shall issue a written notice within sixty (60) days from the Board's determination to terminate, with notice of such termination communicated to the Fund's participants and the Board to their last known email addresses of record, and posted to the website of the State Treasurer as soon as reasonably possible. The Treasurer may terminate the Fund immediately, pursuant to Corrective Action (above), with notice of such termination communicated to the Fund's participants and the Board, to their last known email addresses of record, and posted to the website of the State Treasurer as soon as reasonably possible

Administrative Fee:

The Treasurer shall establish a revolving account that is under the Treasurer's custody in order to defray the administrative costs associated with the Fund. The Treasurer shall deduct a reasonable charge for administering the Fund from each Participant's pro rata earnings through the Fund which sum shall be deposited and expended through the revolving account; however, the Treasurer may increase reduce, suspend or defer the imposition of the fee to administer the Fund when he determines that it is necessary and appropriate.