

REPORT ON THE
Intermediate Term INVESTMENT FUND
For The Fiscal Year Ended June 30, 2022



PREPARED FOR THE
STATE FUNDING BOARD

November 28, 2022

PREPARED BY
TREASURY DEPARTMENT
Investment Operations DIVISION

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TENNESSEE TREASURY DEPARTMENT
Intermediate Term Investment Fund Report
For the fiscal year ended June 30, 2022

I. COMPLIANCE WITH INVESTMENT POLICY

The investment policy for the Intermediate Term Investment Fund (ITIF) is set by the State Funding Board. The board is composed of the Governor, Commissioner of Finance and Administration, Comptroller of the Treasury, Secretary of State, and State Treasurer. The investment objective for the ITIF is to offer a longer-term investment option for the State and any entity that is eligible to invest in the LGIP. Returns of a fund with a longer-term investment horizon are expected to outperform liquidity funds such as the SPIF, but there are risks associated with longer term investments. If interest rates increase, the value of investments will decline. Investors should consider the risks involved, including the lack of liquidity provided from a fund such as the ITIF, before making a decision to participate.

Portfolio Composition

The ITIF was launched on July 22, 2013, when the first participant invested \$200 million. There is only one participant as of June 30, 2022. Investment policy permits investments in US Government and Agency securities, repurchase agreements, prime commercial paper, prime banker's acceptances, and the State Pooled Investment Fund (as a source of liquidity or uninvested idle cash, if necessary). During the fiscal year, investments were only made in government agency securities with idle cash invested in the SPIF. The average composition during the year ended June 30, 2022, was 99% US Treasuries and US agencies and 1.00% idle cash in the SPIF.

Maturity

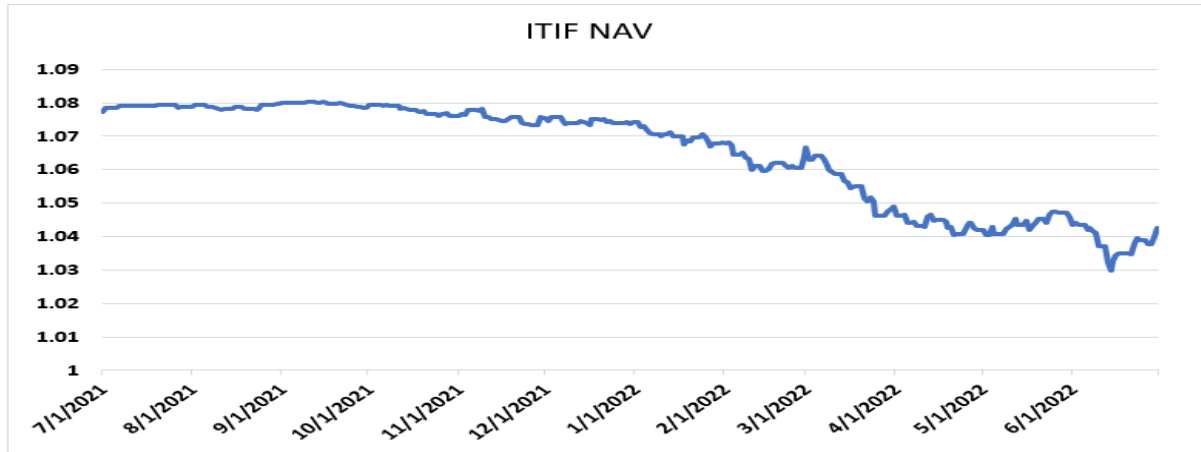
The objective of the ITIF is to take advantage of the expected additional return from investing farther out on the yield curve. The Investment Policy permits investments up to five years with an average maturity of three years. The weighted average maturity (WAM) of the ITIF began the year at 2.64 years and ended the year at 2.04 years. During the year, the WAM ranged from 2.04 years to 2.74 years. During FY 2022, there were rate changes by the FOMC. The rate at the beginning of the year was 0.00% to 0.25% and increased to 1.50% to 1.75% as of June 30, 2022. The FOMC began increasing the rate to the current level at the March 16, 2022 meeting in order to meet its objective of lowering inflation.

Liquidity

This fund is not designed to provide liquidity. As a result, the fund will not maintain a significant position in cash equivalent securities for the sole purpose of providing liquidity. Investors are encouraged to only invest funds that are not going to be needed for short-term liquidity purposes. Withdrawals are limited to the first working day of each quarter as long as notice is provided at least 30 days prior to the withdrawal date.

II. PORTFOLIO PERFORMANCE

For the period July 22, 2013 thru June 30, 2022, the Intermediate Term Investment Fund has had a market value increase of 4.25%. During fiscal year 2022, the fund decreased in value by 3.29% net of expenses. During the same period, the SPIF returned 0.21% and the Vanguard Short Term Federal Fund (VSGBX) returned -4.37%. During the fiscal year 2022, the net asset value (NAV) ranged from 1.080302 on September 15, 2021 to a low of 1.02981 on June 14, 2022. The graph below demonstrates the daily change in net asset value during the year.



III. INVESTMENT POLICY REVIEW

No Investment Policy changes were made during the current fiscal year. The fund has operated as planned and there have been no material and significant concerns. Currently, we are not aware of any market regulations that could impact the fund.

IV. INVESTMENT PLAN

While the safety and liquidity offered by money market funds outweigh the risks of investing in funds with longer maturities, investors without the need for short-term liquidity can benefit from investing in the Intermediate Term Investment Fund (ITIF). The main risk associated with investing in the ITIF is interest rate risk. The investment policy of the fund attempts to minimize the risks by limiting investments to securities with little credit risk and by limiting deposits and withdrawals to the first business day of each quarter and requiring a 30-day notice before a withdrawal can be made. Rising interest rates can have a negative impact on performance, while declining rates can increase the market value of securities held in a portfolio. Staff will continue to monitor the movement in interest rates as well as other market conditions that could impact the fund and make changes as needed to maintain a competitive investment option for public entities across the State.

V. COST OF ADMINISTRATION

The cost to operate the ITIF are minimal due to the efficiencies gained by utilizing many of the same resources used to manage other funds within Treasury. The costs of operations are funded from a 0.05%, or 5 basis point charge for assets invested. Most commercial funds charge substantially more than 0.05%. Also, the costs of operations include more than investment management. The 0.05% finances:

- General administration
- Software and hardware support and maintenance
- Accounting and recordkeeping
- Support costs such as internal audit, equipment, office space, etc.

PORTFOLIO AT JUNE 30, 2022

| INTERMEDIATE TERM INVESTMENT FUND | | | | | | | | | | | |
|-----------------------------------|-------------|------------|-------------|----------------|-----------|---------------|--------------|-------------|-------|-----------------|----------------------|
| June 30, 2022 | | | | | | | | | | | |
| SECURITY-DESCRIPTION | Sec-Id | Trade Date | Settle Date | Purchase Price | Maturity | Position-Size | Accrd-Income | Mkt - Price | Rate | Yield | Market-Value |
| US TREAS BILL | 912796S67 | 3/24/2022 | 3/25/2022 | 99.7300 | 8/4/2022 | 5,320,000.00 | - | 99.730 | 0.745 | 0.745 | 5,314,148.00 |
| FHLB | 3130ALLD4 | 3/3/2021 | 3/17/2021 | 100.0000 | 3/17/2026 | 6,750,000.00 | 17,062.50 | 92.882 | 0.875 | 0.875 | 6,286,597.50 |
| | | | | | | | | | | Security MV | 11,600,745.50 |
| | | | | | | | | | | Cash | 73,970.50 |
| | | | | | | | | | | Total MV | 11,674,716.00 |
| | | | | | | | | | | Nav | 1.04 |
| Current Yield to Maturity | 0.815% | | | | | | | | | | |
| Quarterly Change in Mkt Value | (74,696.42) | | | | | | | | | | |
| Weighted Average Maturity | 2.04 years | | | | | | | | | | |