

STATE OF TENNESSEE



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MEMO

Date: April 13, 2021

To: All Participants of the LGIP

Subject: Correction of Annualized Rates by month for the State Pooled Investment Fund (SPIF)/Local Government Investment Pool (LGIP)

The Tennessee Department of Treasury has discovered an error in previously posted investment rates earned by the State Pooled Investment Fund and the Local Government Investment Pool. The interest rate posting error affected the accuracy of the earnings rate calculation applied to the LGIP participants' monthly earnings allocation process for the months of July 2020 through February 2021.

Treasury implemented an automated process for posting the accrual rates for floating rate securities in the SPIF portfolio. During the implementation of this new process, floating rate security interest rates, within the total portfolio, were not updated monthly by the automated process. As a result, floating rate securities were not adjusted monthly to the correct rates. Income accruals on these floating rate securities were inadvertently overstated, resulting in the incorrect calculation of the portfolio's monthly yield and overstated earnings being posted to the LGIP accounts.

The following table contains the monthly rates incorrectly credited to the LGIP participants' accounts, and the corrected rates for each month. The stated rates are net of the 4 basis points (0.04%) administrative fee.

| <u>Month</u> | <u>Net Rate Credited</u> | <u>Corrected Net Rate*</u> |
|----------------------------|--------------------------|----------------------------|
| July 2020 | 0.31% | 0.17% |
| August 2020 | 0.27% | 0.14% |
| September 2020 | 0.25% | 0.12% |
| October 2020 | 0.21% | 0.11% |
| November 2020 | 0.19% | 0.10% |
| December 2020 | 0.16% | 0.09% |
| January 2021 | 0.14% | 0.07% |
| February 2021 | 0.10% | 0.05% |
| Cumulative Net Rate | 0.136% | 0.071% |

*The cumulative correction to earnings credits is 0.065%.

The overstated earnings amounts will not be deducted from individual LGIP participant accounts; but instead, the cost of the overstated earnings credited to accounts will be covered by utilizing the LGIP portion of the SPIF Administrative Revolving Account. Please note that the LGIP account balances and account statements for July 2020 through February 2021 will not be changed and will continue to reflect the original stated monthly earnings rates. However, the corrected monthly earnings rates now posted online reflect the actual investment performance of the SPIF/LGIP.