

**REPORT ON THE
STATE POOLED 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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	Stress Test Results June 30, 2022	Attachment

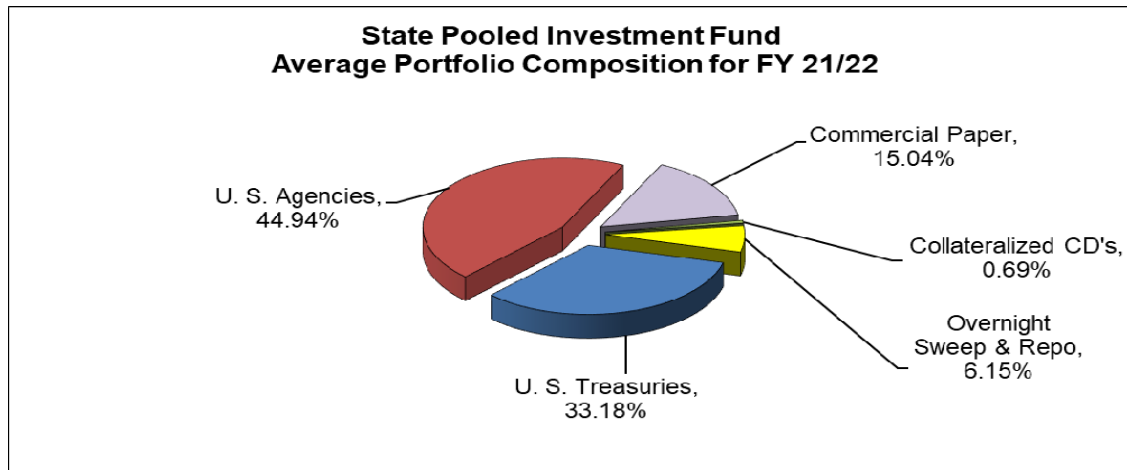
TENNESSEE TREASURY DEPARTMENT
State Pooled Investment Fund Report
For the fiscal year ended June 30, 2022

I. INVESTMENT POLICY

The investment policy for the State Pooled Investment Fund 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 Treasurer. The investment objective for the state pooled investment fund is to obtain the highest available return on investments consistent with the preservation of principal, while maintaining sufficient liquidity for state expenditures and other withdrawals from the state pooled investment fund. On April 7, 2016, the State Funding Board voted to adopt an Investment Policy that is in compliance with GASB Statement 79 in order to maintain a fund that could operate at a stable dollar.

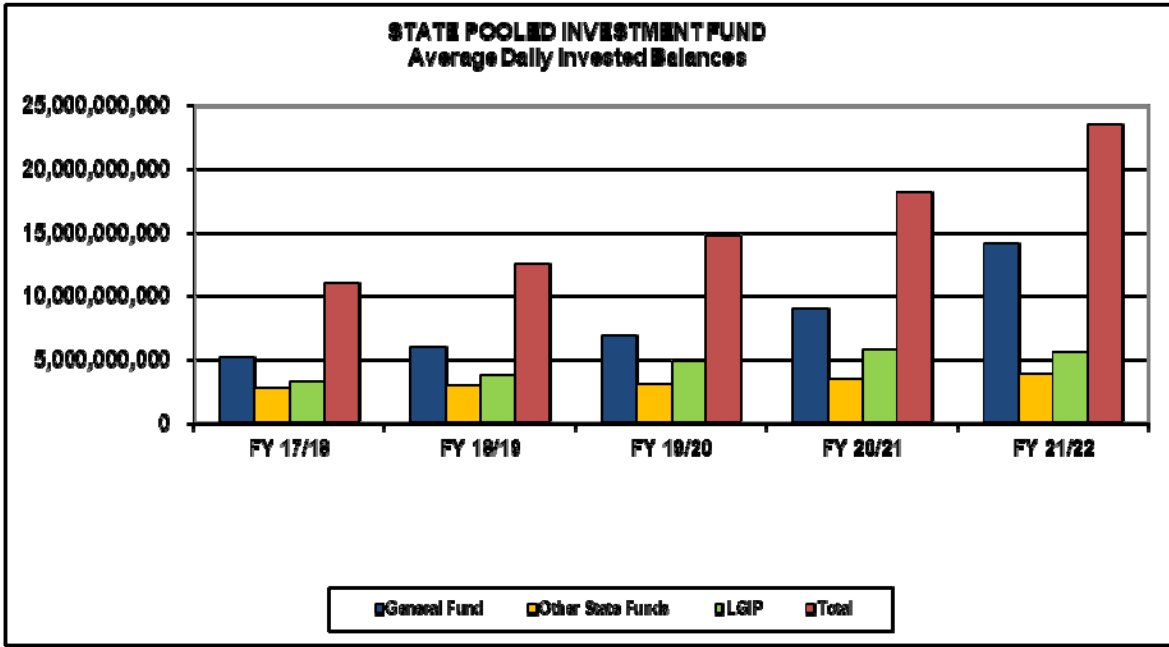
II. Portfolio Composition

The State Pooled Investment Fund had a monthly average of \$23.5 billion invested for the fiscal year ended June 30, 2022. The following chart shows the composition of the average portfolio.



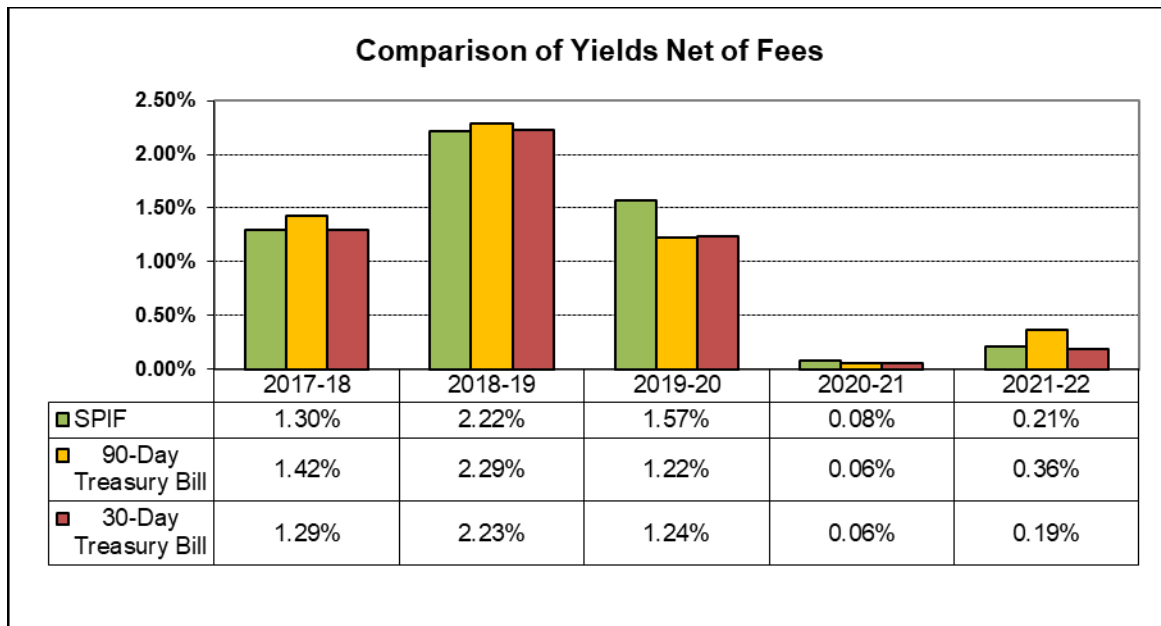
Stimulus funds resulting from the pandemic decreased the demand for State Funds from our banking partners. The average investment in Commercial Paper increased from 8.25% in FY 20/21 to 15.04% in FY 2021/2022. Repurchase agreements were added back to the portfolio in 2018 to increase overnight liquidity. Agency exposure, including floating rate securities, has decreased and Commercial Paper exposure has increased to take advantage of more attractive yields in a strong economy and a rising yield environment.

III. Average Daily Balances



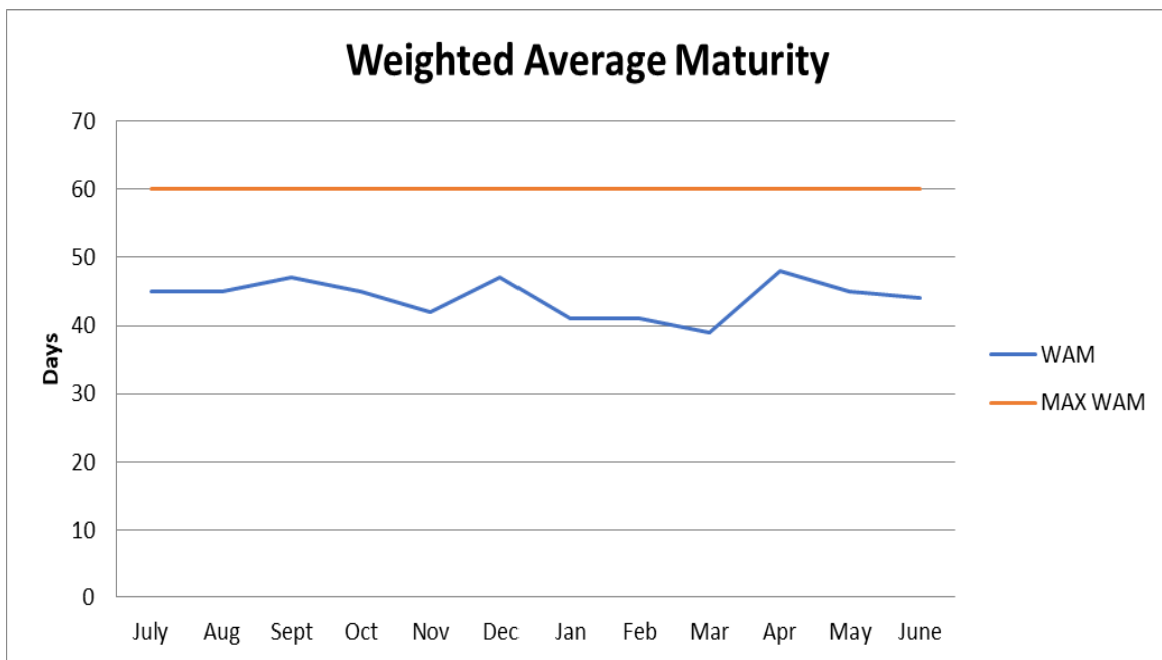
IV. Performance

The chart below shows how the SPIF has performed over the last 5 years as compared to the 30-and 90-day US Treasury Bills.



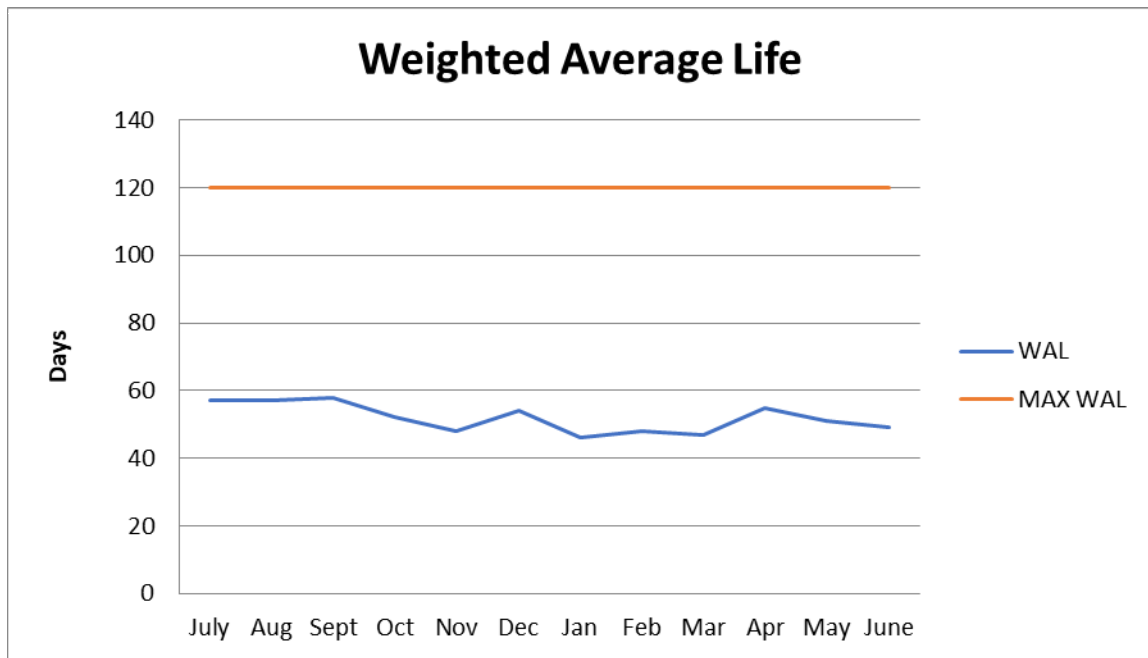
V. Weighted Average Maturity (WAM)

The weighted average maturity (WAM) measures investment time horizons – the time when investments become due and payable – in the case of the SPIF, days weighted to reflect the dollar size of individual investments. GASB Statement 79 allows the use of certain maturity shortening features to be utilized when measuring the WAM such as interest rate resets. The SPIF holds floating-rate securities issued by various US government agencies that typically have maturities of less than 397 days but have indexed interest rates that reset each month. The use of those securities provides a level of protection against changes in interest rates as well as reduces the WAM of the SPIF portfolio. In order to maintain compliance with GASB Statement 79 requirements, the WAM of a portfolio cannot exceed 60 days. The chart below shows the WAM of the SPIF portfolio during the year.



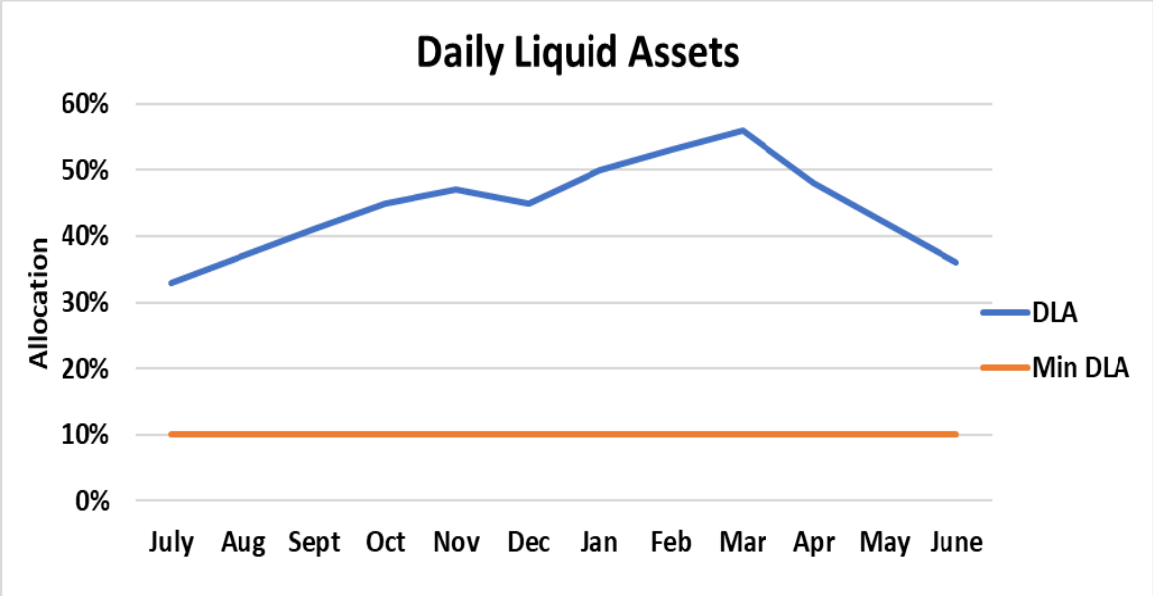
VI. Weighted Average Life (WAL)

The weighted average life (WAL) measures the average length of time that each dollar of principal remains unpaid without taking into account the maturity shortening features used in calculating the weighted average maturity. In other words, the WAL is the stated maturity of each security within the portfolio. In order to maintain compliance with GASB Statement 79 requirements, the WAL of a portfolio cannot exceed 120 days. The chart below shows the WAL of the SPIF portfolio during the year. At no point during FY2022 did the WAL exceed the 120 day limit. The WAL is trending lower due to fewer investments in floating rate securities as a result of decreased issuance and reduced attractiveness as an investment.



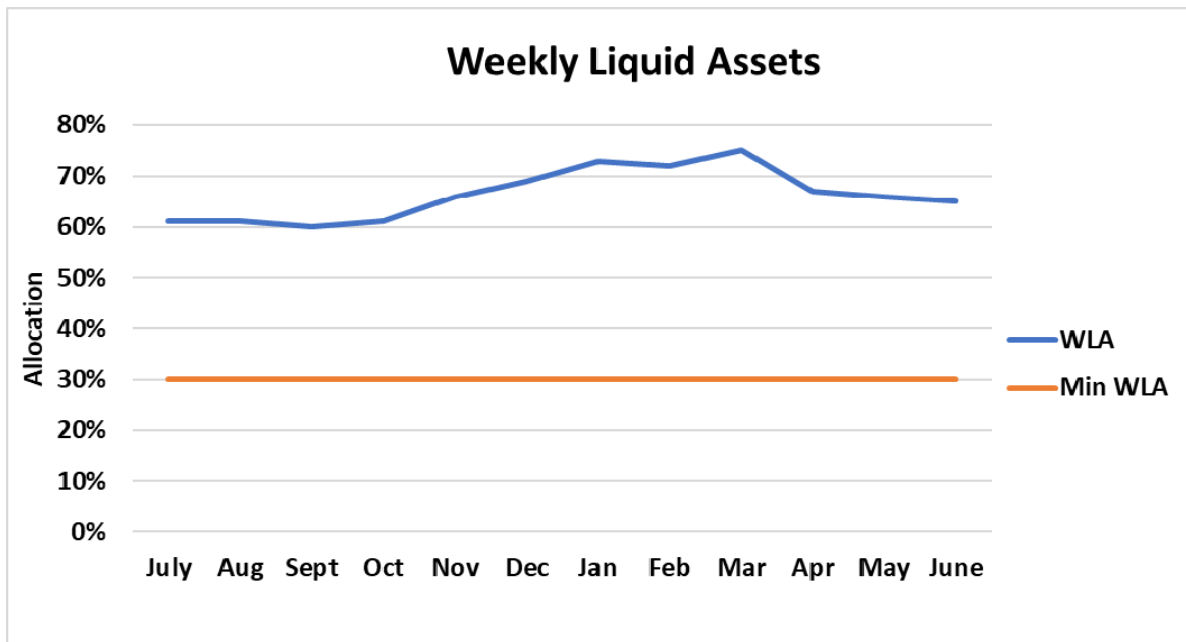
VII. Daily Liquid Assets

In order to provide for reasonably foreseeable redemptions, or withdrawals, GASB Statement 79 requires that a portfolio maintain at least 10.00% of the portfolio in securities that are defined as daily liquid securities. Examples of daily liquid securities include cash, demand deposits at banks, certificates of deposit that are scheduled to mature the next business day, direct obligations of the US government, and any other security that has a stated maturity date of the next business day. Below is a chart showing the daily liquidity of the SPIF during the year.



VIII. Weekly Liquid Assets

The SPIF must also maintain a portfolio that has at least 30.00% invested in weekly liquid assets. Examples of weekly liquid assets that might be held in the SPIF are cash, demand deposits or certificates of deposit that mature within 5 business days, direct obligations of the US government, all securities that mature within 5 business days, and securities that are US government securities but not direct obligations of the US government that are issued at a discount and mature within 60 days. Below is a chart that shows the level of weekly liquid assets held during the year by the SPIF.



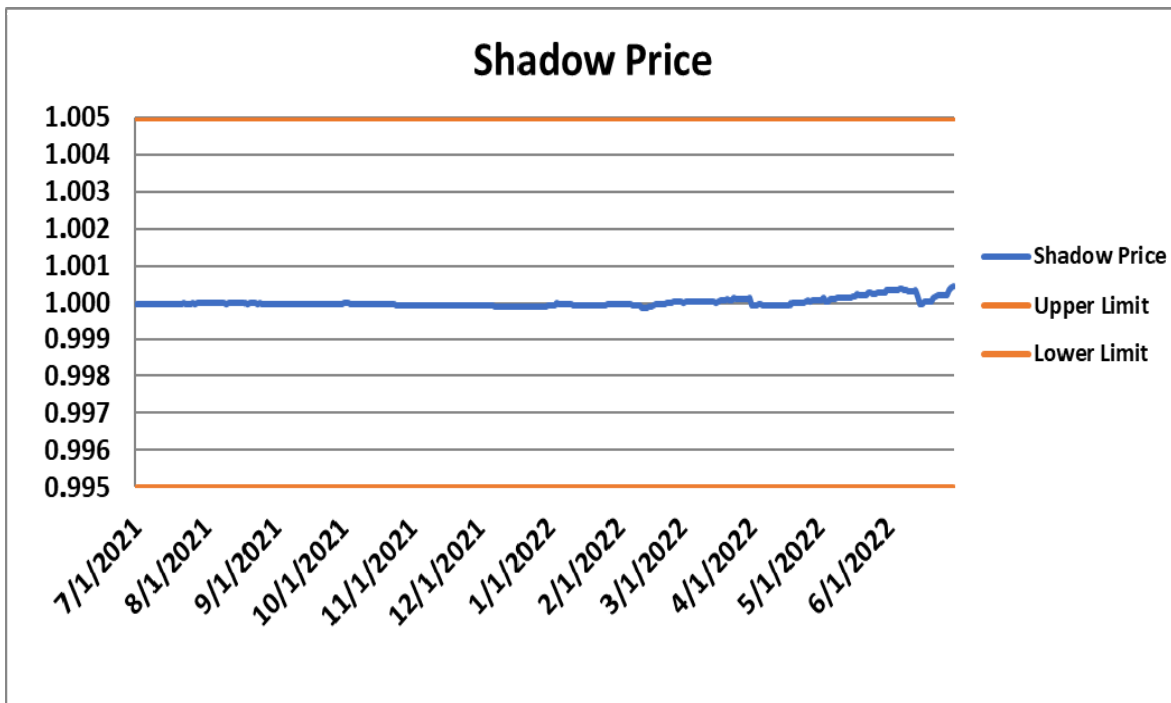
IX. Credit Quality and Diversification

During FY 2021/2022, the SPIF held direct and indirect obligations of the US government that were all rated AAA/Aa+. None of the commercial paper held by the SPIF was rated below A1/P1. Further, holdings of individual commercial paper issuers were limited to less than 5.00% of the total value of the SPIF portfolio, in accordance with GASB Statement 79.

X. Shadow Pricing

The shadow price is the net asset value per share of the fund calculated using total investments measured at fair value as of the calculation date. GASB Statement 79 requires that a fund calculate the shadow price at least one time each month, no sooner than 5 days before the last day of the month and no later than the last working day of each month. The SPIF calculates the shadow price daily. In order for a fund to be considered a stable dollar fund, the shadow price must be between \$0.995 to \$1.005 at all times. If a fund ever has a shadow price outside those parameters, the fund is considered to have “broken the buck”.

The chart below shows the daily shadow price of the SPIF throughout the year.



The chart reflects the very close range of the SPIF valuation during FY2022. The red lines at the top and bottom of the chart shows the upper and lower limits permitted in the valuation. The lowest valuation for the SPIF during the year was \$0.999868 per share on February 11, 2022. The highest valuation for the SPIF was \$1.000440 per share on June 30, 2022.

XI. Stress Testing

At month's end, the SPIF is stress tested utilizing a model developed by S&P. The model considers the balance of the fund, weighted average maturity, weighted average life, shadow price, credit spread, and percent of total credit excluding US government and agencies. Based upon the information entered, the model then considers the effect on the fund if the 10 largest shareholders were to redeem their shares in one day, considers the impact of a redemption in one day of the largest 5day historical redemption, and the impact of both events occurring on the same day. The model then measures the impact if on the same day there was a movement in interest rates to determine how much stress the fund can handle before the fund has a variance in value greater than one half of 1.00%, or "breaking the buck".

During each month of FY2022, the SPIF was capable of handling the impact of the above-described events. without breaking the buck. In fact, in most cases the SPIF could handle the combined redemption events and a change in interest rates of 250 basis points or greater without breaking the buck. This is due to the conservative credit position and enhanced liquidity of the portfolio. (The actual stress test as of June 30, 2022, is attached to the end of this document.)

XII. Investment Policy Review

During FY2022 staff recommended changes to the SPIF investment policy with the intent of providing additional clarity. Changes included updates to the shadow price definition, stable net asset value definition, frequency of portfolio diversification testing, and clarifies the actions to be taken and timeframes to complete the remediation of issues considered a deviation from investment criteria. Further, language was added to clarify the responsibilities of the Chief Investment Officer (CIO) and Treasury Compliance. Lastly, the policy was updated to increase the allowable investment in commercial paper per issuer from \$250 million to \$350 million.

XIII. Investment Strategy

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. Staff will continue to maintain a diversified portfolio of CDs, bank deposits, US Government obligations, and commercial paper. The yield curve, actions taken by the Federal Reserve Bank, regulatory changes, and other market conditions will be considered when managing the asset mix and average maturity of the portfolio. The SPIF remains a safe investment for state funds and monies invested by local government officials. There has been no loss of funds due to credit exposure and no liquidity concerns.

XIV. Cost of Administration

Treasury reduced the administrative fee charged to SPIF and LGIP participants by one basis point. This change was effective June 2021. Based on the amount of current assets collectively in the SPIF and LGIP, and its anticipated balance at the end of the 2022 fiscal year, Treasury determined the cost to administer the program could adequately be covered by three basis points, or 0.03%, as opposed to the prior fee of four basis points, or 0.04%. The reduction in fees is temporary and will continue to be evaluated on an ongoing basis.

The fee covers the total cost of program management, including:

- Investment of portfolio
- Maintenance of collateral
- Collateral pool administration
- Cash concentration
- Bank reconciliations and resolution of reconciling items
- LGIP program
- Warrant reconciliation
- Accounting and recordkeeping
- Support cost such as internal audit, payroll, personnel, etc.

Any future changes to the administrative fee for the SPIF/LGIP will be communicated in advance.

Principal Stability Fund Rating Sensitivity Matrix

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WAM (R)	44
WAM (F)	49
Shares Outstanding:	29,031,344,810.27
Total Fund Assets:	29,031,344,810.27
Market Value (NAV):	1.000440
Credit Spread Movement (bps):	34
% Total Credit (Non Gov't) Securities (of portfolio)	15%
% Corporate Floaters (of portfolio)	0%

FILL IN/ADJUST AREAS SHADED GREEN TO RUN SCENARIOS

June 30, 2022

Total \$ Loss: \$0
Total \$ Gain: \$12,773,792

Basis Point Shift	Selected Shareholders	Largest Redemption over 5 consecutive business days							Gain (Loss)
250	0.997151	0.997053	0.996233	0.997070	0.997224	0.997363	0.997489	0.997803 (76,551,549)	
225	0.997477	0.997390	0.996664	0.997405	0.997542	0.997665	0.997776	0.998054 (67,802,377)	
200	0.997802	0.997727	0.997094	0.997740	0.997859	0.997966	0.998063	0.998305 (59,053,204)	
175	0.998128	0.998064	0.997525	0.998075	0.998176	0.998267	0.998350	0.998556 (50,304,032)	
150	0.998453	0.998401	0.997955	0.998410	0.998493	0.998569	0.998637	0.998807 (41,554,859)	
125	0.998779	0.998737	0.998386	0.998744	0.998811	0.998870	0.998924	0.999058 (32,805,687)	
100	0.999105	0.999074	0.998816	0.999079	0.999128	0.999171	0.999211	0.999309 (24,056,514)	
75	0.999430	0.999411	0.999247	0.999414	0.999445	0.999473	0.999498	0.999561 (15,307,342)	
50	0.999756	0.999748	0.999677	0.999749	0.999762	0.999774	0.999785	0.999812 (6,558,170)	
25	1.000082	1.000084	1.000108	1.000084	1.000079	1.000075	1.000072	1.000063 2,191,003	
0	1.000407	1.000421	1.000538	1.000419	1.000397	1.000377	1.000359	1.000314 10,940,175	
-25	1.000733	1.000758	1.000969	1.000754	1.000714	1.000678	1.000646	1.000565 19,689,348	
-50	1.001058	1.001095	1.001399	1.001088	1.001031	1.000980	1.000933	1.000816 28,438,520	
-75	1.001384	1.001431	1.001830	1.001423	1.001348	1.001281	1.001220	1.001067 37,187,692	
-100	1.001710	1.001768	1.002260	1.001758	1.001666	1.001582	1.001507	1.001319 45,936,865	
-125	1.002035	1.002105	1.002691	1.002093	1.001983	1.001884	1.001794	1.001570 54,686,037	
-150	1.002361	1.002442	1.003122	1.002428	1.002300	1.002185	1.002081	1.001821 63,435,210	
-175	1.002687	1.002778	1.003552	1.002763	1.002617	1.002486	1.002368	1.002072 72,184,382	
-200	1.003012	1.003115	1.003983	1.003098	1.002935	1.002788	1.002655	1.002323 80,933,554	
-225	1.003338	1.003452	1.004413	1.003432	1.003252	1.003089	1.002942	1.002574 89,682,727	
-250	1.003663	1.003789	1.004844	1.003767	1.003569	1.003391	1.003229	1.002825 98,431,899	

Redemptions/Subscriptions	-7%	-11%	-30%	-10%	-5%	0%	5%	20%
Shares Outstanding	26,868,913,746	25,980,150,471	20,321,941,367	26,128,210,329	27,579,777,570	29,031,344,810	30,482,912,051	34,837,613,772

Shift Upon NAV = NAV - (WAM/365) * (Bp/10,000)
Dilution Upon NAV = (NAV + Change) / (1+ Change)

Top 10 Shareholders		% of Fund	Stress Redemption
CITY OF KNOXVILLE	455,726,526.98	1.57%	Yes
METRO NASHVILLE	383,288,717.50	1.32%	Yes
TENNESSEE BOARD OF REGENTS	199,392,982.40	0.69%	Yes
EAST TENNESSEE STATE UNIVERSITY	187,926,020.12	0.65%	Yes
GENERAL ACCOUNT	176,037,531.91	0.61%	Yes
MAURY COUNTY	169,635,498.67	0.58%	Yes
SHELBY COUNTY TRUSTEE	163,676,889.77	0.56%	Yes
2020A BOND ISSUE	151,102,957.96	0.52%	Yes
TENNESSEE TECH UNIVERSITY	139,025,023.92	0.48%	Yes
AMERICAN RESCUE PLAN ACT	136,618,914.61	0.47%	Yes
Stress Top 10	\$ 2,162,431,063.84	7.45%	Yes
Total Fund Assets	\$ 29,031,344,810.27	100%	2,162,431,063.84

Largest Five Day Redemption (%)	10.51%
	03/28-04/02/05

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