



ANNUAL INVESTMENT REPORT
FISCAL YEAR ENDING JUNE 30, 2020

Luciano Panici, Jr., President
Alice Peterson, Vice-President
Thomas Planera II, Secretary
Robert Grossi, Treasurer

"An investment in education always pays the best interest."
Benjamin Franklin

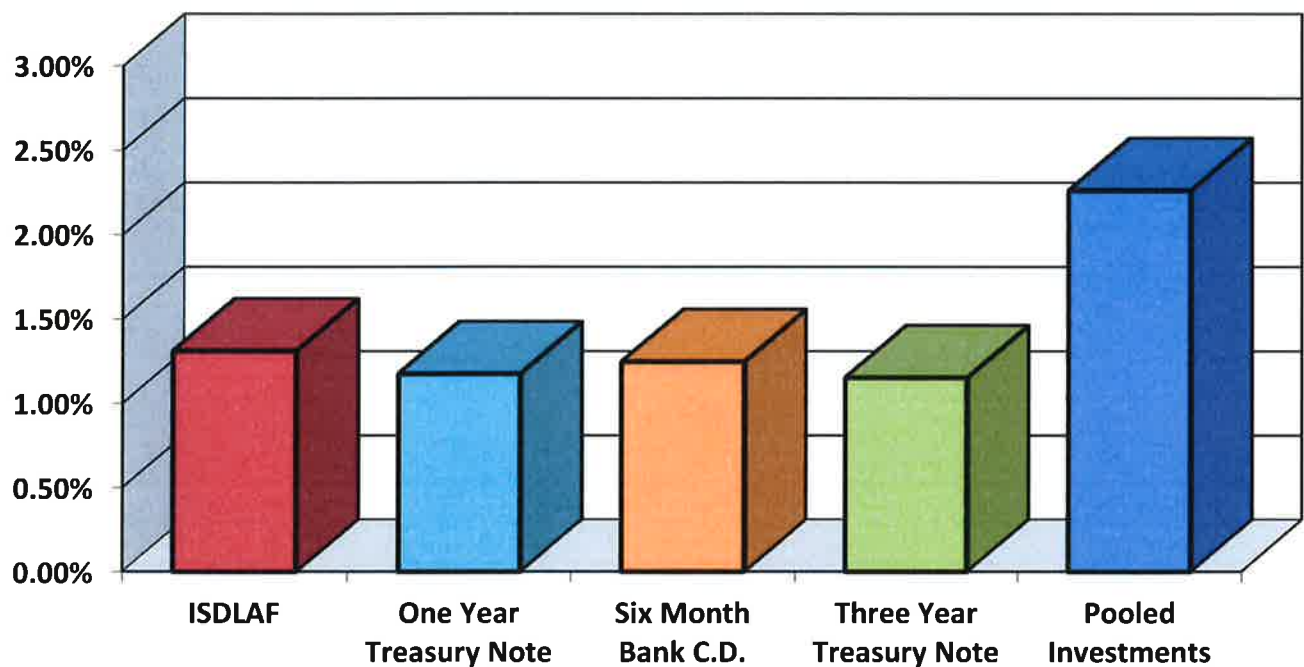
INTRODUCTION

The purpose of this report is to provide information to the administration and the board of education of the school districts and agencies that are serviced by the Bloom Township Trustees of Schools related to their funds for which we serve as custodian. All school districts and agencies that receive this report have their fund balances invested in a pooled portfolio, which consists of the fund balances of all the entities. Each entity owns a portion of the pool based on their level of cash as a percentage of the entire cash being managed in the pool. There are many benefits to this investment structure such as greater diversification, better liquidity and higher, more stable interest rates. Interest from the pooled funds is distributed to the districts based on their percentage of the fund.

The following report is divided into four sections. The first section will summarize the pooled fund's performance for the fiscal year ending June 30, 2020. The second section will provide a review of interest rate movement during the fiscal year and provide our economic outlook. The third section will discuss our current investment strategy and the positioning of the investment portfolio as it relates to market conditions. The final section describes the general investment policy of the Bloom Township School Treasurer's Office.

SUMMARY OF INVESTMENT PERFORMANCE

For the fiscal year ending June 30, 2020, I am pleased to report that the investment pool managed by the Bloom Township Treasurer's Office generated \$13,177,000 in interest earnings to the school districts serviced by this office. Real estate tax revenues and state and federal revenues received during the fiscal year were generally placed in investments yielding between 0.50% and 2.20%. With an average investment portfolio size of \$568,000,000 (pooled investment portfolio plus money markets), the cash basis rate of return to the school districts was 2.32%. The return is a combination of interest earned on the pooled investment portfolio, interest earned in money market funds and changes in market value. The average monthly yield of the pooled investment portfolio for the fiscal year was 2.26%. The following graph compares the average monthly yield on the pooled funds with the average monthly yield of other investments available in the market during this same period:



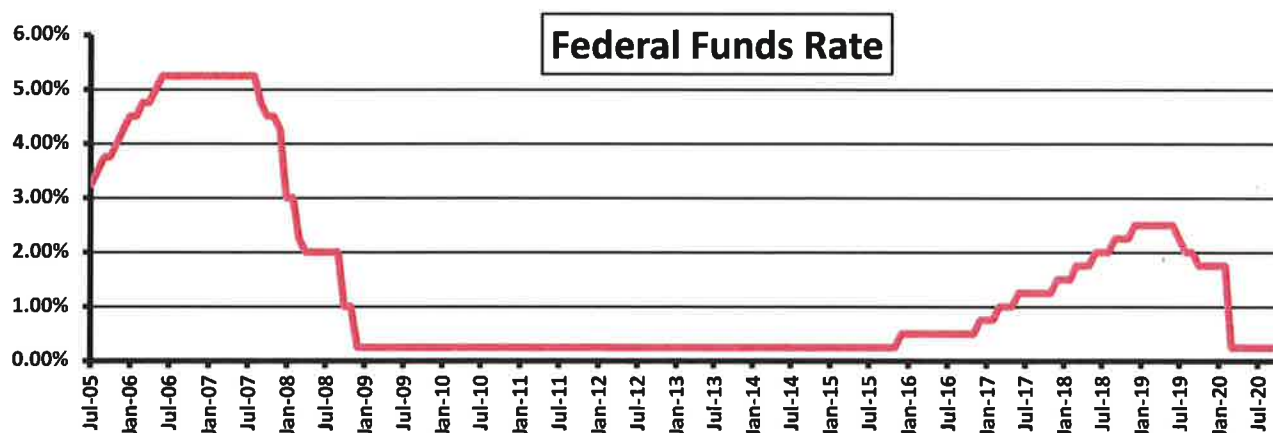
The average monthly yield from the Illinois School District Liquid Asset Fund for the same time period was 1.31%, the one-year Treasury bill was 1.17%, the six-month Certificate of Deposit averaged 1.25%, and the three-year Treasury note averaged 1.15%.

INTEREST RATE MOVEMENT AND ECONOMIC OUTLOOK

Between December 2015 and December 2018, the Federal Reserve raised short-term interest rates nine times bringing, the Fed Funds rate up to 2.50%. Then in a dramatic reversal, the Federal Reserve lowered rates in one-quarter of one percent intervals three times: in July, August and October of 2019 down to 1.75% with the stated objective of continuing to strengthen economic growth in the USA. By all accounts, the policy was effective, and several economic indices showed significant improvement. Then came COVID and with it, all economic growth came to a grinding halt. In response to the economic shutdown, the Federal Reserve slashed the Federal Funds rate by .50% on March 2, 2020 and an additional 1% on March 15, 2020, bringing the rate back to its historically low level of 0.25%. In all, the Federal Reserve decreased rates five times during the 2020 fiscal year.

The statutory mandate of the Federal Open Market Committee ("FOMC") is to foster maximum employment and price stability. At this point in time, the FOMC is looking for maximum employment and two percent inflation. In determining the timing and size of future adjustments, the Committee assesses realized and expected economic conditions relative to its objectives. This assessment takes into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments.

The following graph reflects movement in the Federal Funds Target Rate since July 2005:

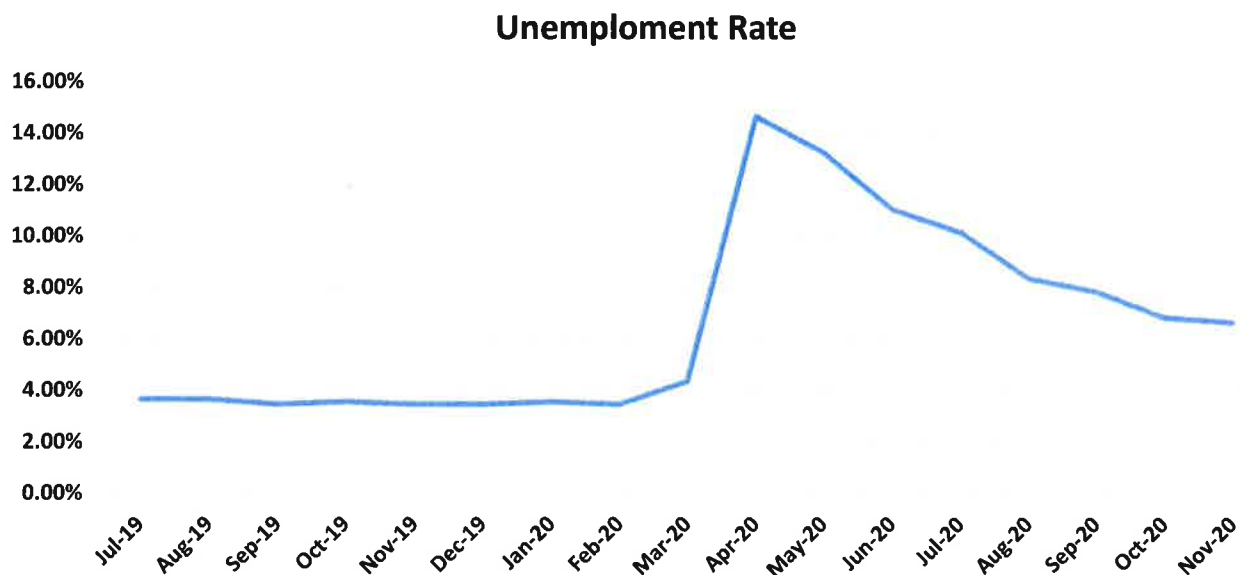


Statements made and action taken by the Federal Reserve primarily impact short and intermediate term rates, and subsequently the yield on our pooled investments. It is therefore relevant to monitor and assess both action and inaction taken by this body.

In an effort to mitigate the effects of a global pandemic on our economy, the Federal Reserve acted swiftly and boldly to the pending crisis. In addition to dramatically lowering interest rates, the Federal Reserve rolled out a variety of programs, throwing lifelines to individuals, corporations, states and other municipalities through its special facilities and programs. As a result of the Fed's steep interest rate cuts and bond buying program, interest rates dropped dramatically to near zero for all fixed asset classes.

In responding to these actions, Chairman Powell stated "...we have lowered interest rates to near zero in order to bring down borrowing costs. We have also committed to keeping rates at this low level until we are confident that the economy has weathered the storm and is on track to achieve our maximum-employment and price-stability goals."

Perhaps the most glaring effect of COVID on the economy is reflected in the unemployment figures. The following chart reflects the monthly unemployment rates from January 2019 through November 2020:

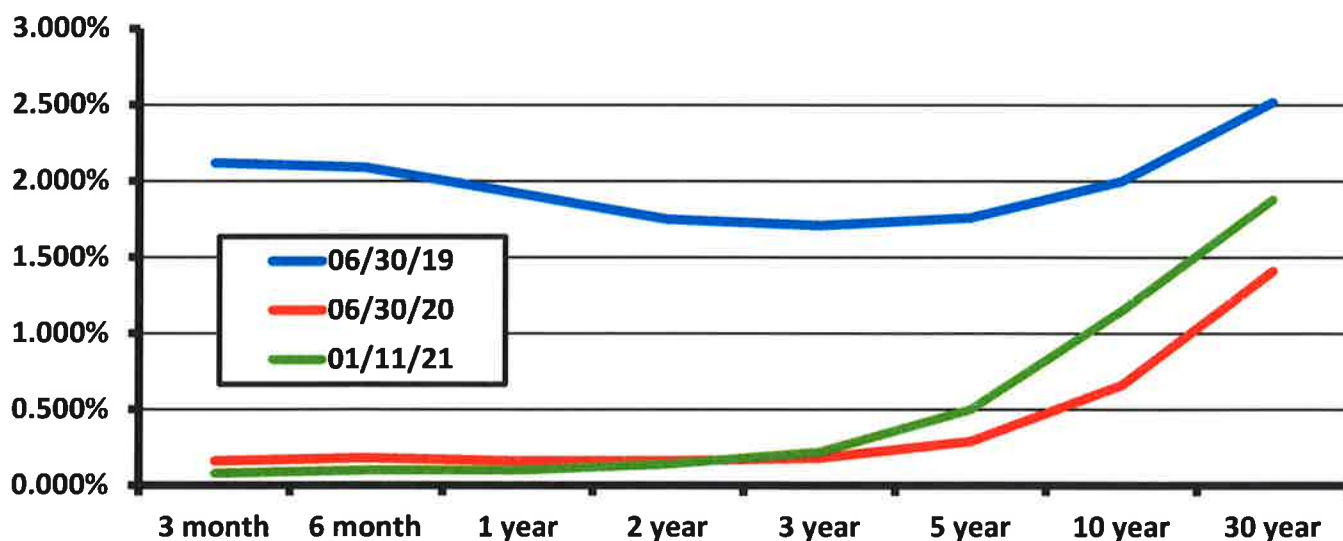


The above chart illustrates that prior to COVID, unemployment was at historically low levels. Then once COVID hit and states mandatorily closed businesses, an additional 10% of the workforce became unemployed almost instantaneously. Since the initial economic shutdown, most states have opened up somewhat and consequently unemployment rates have trended downward each month since April 2020. The unemployment rate, however, remains above pre-COVID levels and the Federal Reserve will likely maintain policies that attempt to stimulate the economy until at least the time that unemployment rates get back to pre-COVID levels.

Even under an optimistic scenario for the distribution of a vaccine, most economists don't expect any major policy change from the Fed for the next several years. It will take time for the economy to rebound to pre-pandemic levels. The economy has only recovered about two-thirds of the gross domestic product (GDP) growth that it lost during the downturn and is still growing at a rate well below its potential. Consequently, inflation is not likely to be a risk until economic growth closes the gap by reaching its potential and exceeding it for a period of time. Under the Fed's new guidelines, it will not begin to tighten policy until inflation actually goes above its 2% target for a sustained period of time. Most economists doubt those conditions will be met until sometime in 2022 or later. Currently, the market expects the Fed to keep interest rates on hold until at least the end of 2023.

As a result of this expectation, the yield curve out as far as the three-five-year area of the curve continues to hover at painfully low levels (0.01 - 0.20%). There is some upward slope in the yield curve beyond five years with an expectation that the economy will be gaining momentum in 2021. On January 11, 2020, the most watched part of the yield curve, which measures the gap between yields on two- and ten-year Treasury notes reached its widest level since May 2017 at nearly one percent.

The following graph compares the yield curve on June 30, 2020 to the yield curve on June 30, 2019 and the yield curve as of the date of this report (January 11, 2021).



From June 30, 2019 to January 11, 2020, the yield on U.S. Treasury securities maturing on the shortest end of the curve experienced the greatest declines. The three-month yields decreased from 2.12% to 0.08% and the five-year yields decreased from 1.76% to 0.50%. On the longer end of the curve, the drops were significant but less extreme. The ten-year yields decreased from 2.00% to 1.15% and the thirty-year yields decreased from 2.52% to 1.88%.

It is not so difficult to understand what is occurring at the short end of the yield curve which the Fed exercises direct control. What's going on at the long end of the curve gets complicated. This is the part of the yield curve that is more influenced by investor's expectations, including market sentiment and inflation expectations. The current yield curve reflects the expectations that the economy will gain momentum from its current levels.

Putting the change in interest rates over the past few years in perspective, the following summarizes the approximate short-term rates available in the marketplace for investing second installment real estate tax collections:

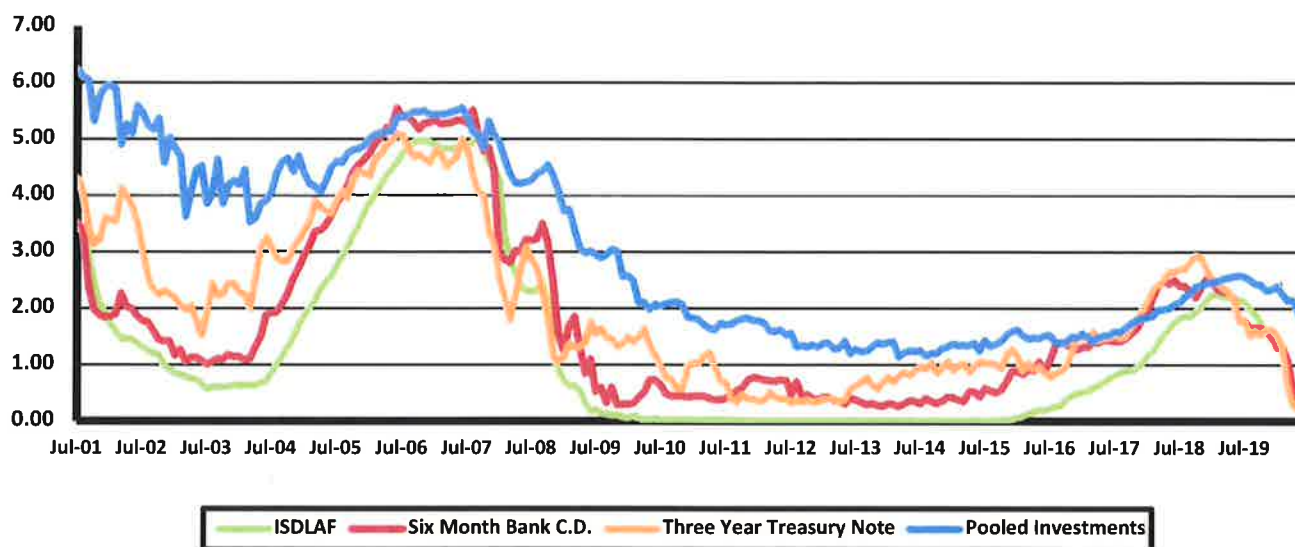
	<u>Investment Rates</u>		<u>Investment Rates</u>
Fall 2006	4.80% - 5.40%	Fall 2014	0.01% - 0.10%
Fall 2007	3.80% - 4.50%	Fall 2015	0.01% - 0.10%
Fall 2008	1.00% - 3.00%	Fall 2016	0.10% - 0.30%
Fall 2009	0.10% - 0.80%	Fall 2017	0.75% - 1.25%
Fall 2010	0.02% - 0.40%	Fall 2018	1.80% - 2.10%
Fall 2011	0.02% - 0.20%	Fall 2019	1.80% - 2.20%
Fall 2012	0.01% - 0.15%	Fall 2020	0.02% - 0.20%
Fall 2013	0.01% - 0.10%		

As we look into 2021, there are events that will certainly change the trajectory of the economy to some degree. Many experts believe that with the likelihood of vaccines for the coronavirus becoming widely available by mid-year, the economy could get a boost if the increased vaccination rates translate into easing of the economic lockdown in those states which remain fairly restricted. We are also expecting a rather large fiscal relief package that may also have a positive impact on economic growth. Finally, with the advent of the Biden era, tax policy, infrastructure packages, changes to regulation and trade deals all may have an impact on economic growth perhaps both positively and negatively.

There exists great uncertainty, however, on what the economic recovery will exactly look like due to the extraordinary economic circumstances created by the pandemic. Huge segments of the small business and service sector have been wiped out and will have to be rebuilt. The future of commercial real estate has been fundamentally changed as business have adopted to work-from-home arrangements. Residential real estate is undergoing a massive boom as new home building trends, living preferences and Americans leaving cities have reshaped the industry. Travel, hospitality, energy and retail sectors have all been upended.

It is important to recognize, however, that while markets constantly change and interest rates have moved rather dramatically over the past several years, the yield on the pooled funds investment portfolio has remained relatively stable.

The following graph illustrates interest rate patterns on pooled funds and other investment vehicles since 2001 and illustrates the relative stability of our funds both in times of decreasing and increasing interest rate periods:



In analyzing the relative stability of the weighted average yield of the pooled investments it is important to note that this is not a stagnant portfolio where rising and falling interest rates have no benefit to our pool holders. We receive in excess of \$500 million in revenues annually into the pooled funds. While our core portfolio is affected adversely by rising interest rates, this same rise in rates provides us the opportunity to invest new funds at higher rates of interest. The reverse is true in times of declining rates. While the value of our portfolio rises in a declining interest rate environment, new revenues are invested at lower rate levels, driving down the yields but the core portfolio buffers the decline. As a result, our returns are generally less volatile during both rising and decreasing rate periods.

CURRENT INVESTMENT STRATEGY

Since a significant percentage of the funds received by this office during the fiscal year must be invested to meet short-term cash flow needs, interest rate direction is not the primary factor in investment decisions. It is important, however, to consider current interest rate conditions, the yield curve and interest rate trends in determining the overall desired duration of the portfolio.

With a backdrop of (1) historically low interest rate levels out at least five years on the yield curve; (2) money market yields at almost zero percent and (3) the prospects of an accelerating economy that may produce increasing interest rate levels out in the longer end of

the yield curve, our primary investment duration target has been in the six-month to three-year range. This allows us to earn yields greater than money market funds yet also allows us sufficient liquidity in the future to capitalize on rising interest rate levels.

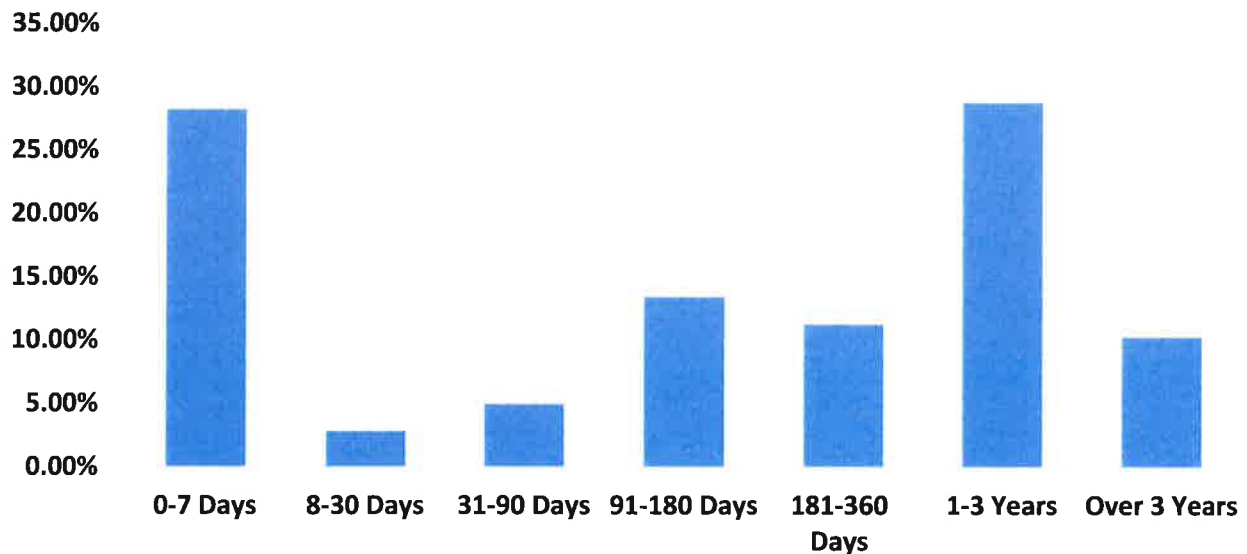
In addition, we continue to look at value amongst the investment vehicle options available to us. We currently are focusing on purchasing commercial paper, bank and corporate notes and short-term taxable municipal bonds. We are also active players in the direct purchase of municipal bonds from other school districts and municipalities in Illinois. These strategies have allowed the portfolio to maintain yields above the levels that exist in money market accounts and traditional short-term investments without compromising the objectives of the fund.

While risk in the credit markets seems to have diminished, we still respect the uncertainty that exists in the near future and are concerned about the possible effects of unforeseen events on our economy and our fixed income markets. We will continue to strongly weigh all investment decisions towards maximum safety and liquidity.

CURRENT PORTFOLIO

Over the past year, we have been investing in an interest rate environment that was characterized by rapidly declining interest rates that brought rate levels down to flat unattractive rate levels throughout the area yield curve where we normally invest funds. We remain in a rate environment in which there is little current value in extending the duration of the portfolio due to the flat yield curve. Consequently, with the exception of value purchases in the one- to three-year maturity range, new money into the portfolio was primarily placed in shorter maturities to meet cash flow needs.

On June 30, 2020, the expected maturity of the portfolio was laddered with consideration of the yield curve, anticipated cash flow needs and anticipated new revenues coming into the portfolio. For example, it is not critical to have maturities coming due in August and September, because that is the time that significant new real estate tax revenues come into the portfolio to cover payrolls and bills coming due in those months.



Not only is diversification of maturities essential to the performance of the pool, but also diversification of investment types is equally important. Diversification not only minimizes the risk in the pool but also allows us the ability to consider the entire investment arena in determining which investments will maximize yields while emphasizing safety. The Pooled Funds of Bloom Township consists of over 390 different investments that are monitored regularly.

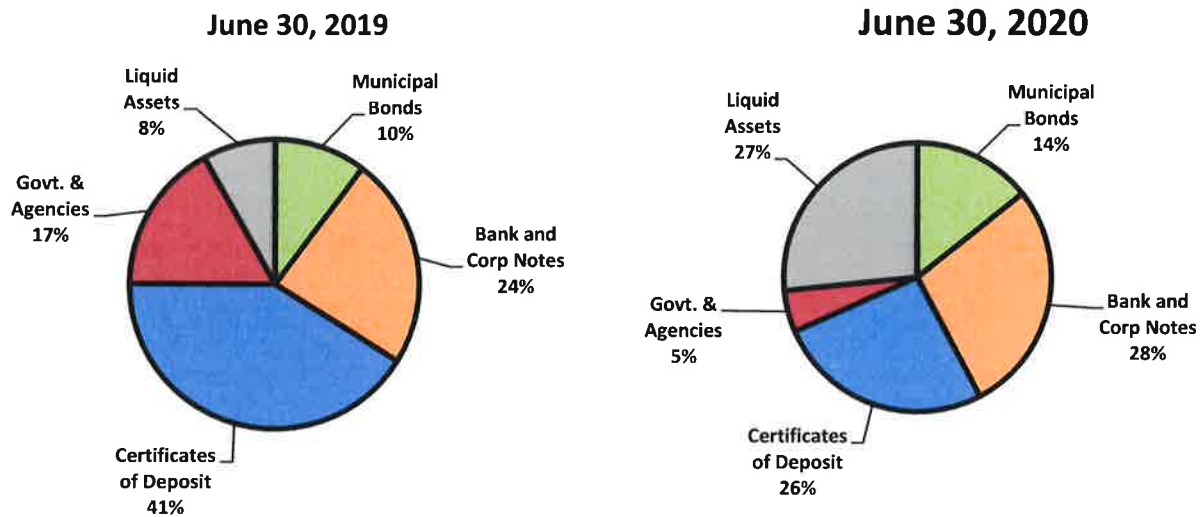
There are six major categories of investments in the pool:

- 1) **Certificates of Deposit** - These are direct obligations of a United States bank that are fully insured by the FDIC up to \$250,000 per entity for which this office serves as custodian of funds. Since the Bloom Township Trustees of Schools service 18 entities, the fund is covered for up to \$4,500,000 per banking institution.
- 2) **Commercial Paper** - Commercial paper is a direct obligation of United States corporations having more than \$500 million in assets. The maturity of such obligations must be under 180 days. The corporations must also be rated in one of the three highest categories by the major rating agencies.
- 3) **Bank and Corporate Notes** - Bank notes are direct obligations of United States banks which are members of the FDIC. The banks must achieve size and profitability requirements in order to be eligible for investment. Corporate Notes are direct obligations of large U. S. Corporations that meet the stringent criteria established in the Illinois Public Funds Investment Act.

- 4) Government and Government Agency Guaranteed and Collateralized Obligations - These are investments, which are guaranteed by the United States Government or its agencies.
- 5) Municipal Bonds - Bonds issued by a city or other local government, or their agencies. Municipal bonds may be general obligations of the issuer or secured by specified revenues.
- 6) Liquid Assets – Money market accounts in which funds are immediately assessable to the Districts.

During the fiscal year the greatest value in investment type available in the marketplace was in bank and corporate notes and municipal bonds, while Cd's became a less attractive investment option as banks lost their demand for money due to the economic crisis. Consequently, we increased our position in bank notes, corporate notes from 24% of the portfolio to 28% of the portfolio and our position in municipal bonds from 10% to 14%. At the same time, we decreased our position in certificates of deposit from 41% of the portfolio down to 26% of the portfolio.

The following pie charts reflects the investment composite of the pooled funds as of June 30, 2020 as compared to June 30, 2019:



INVESTMENT POLICY

The following is a list of various policies, which are followed by the Bloom Township Treasurer's Office when implementing its investment decisions:

MAXIMIZING INTEREST REVENUES

- I. In order to maximize interest revenues on the funds received by this office, it is essential that all revenues earn interest as soon as this office receives them. During the past three years we have streamlined our communications with the county, the state and the brokers we deal with to ensure that funds due to the districts are received promptly by our banks. We have increased the use of wiring funds wherever possible rather than dealing with checks, which greatly reduce interest earnings. At the same time, we have established agreements with the banks that service our office to allow us to earn interest on the funds on the same day that a wire is received.
- II. Through the pooling of the revenues of twenty school districts/school agencies serviced by this office, we have the ability to invest in \$1,000,000+ blocks. This allows the districts' funds to be invested in investment types that may not otherwise be available in smaller lot sizes. Also, investing in \$1,000,000 lots often gives us greater liquidity than if investing in smaller sizes.
- III. The Treasurer's Office works with several different brokers who have access to investments throughout the country. This allows for more thorough investment decisions to be made.
- IV. The Treasurer's Office has established relationships with a large amount of trading desks which contact this office if a seller of an investment desires to liquidate an odd-lot (small size) investment. Odd-lot investments tend to offer higher yields because they are less liquid. Due to the fact that the trading desks already have a buyer for these investments, they will offer them at higher yields to this office, taking less spread out of the transaction.
- V. Although local banks may offer rates which are slightly lower than rates offered by other institutions, consideration is given to those local institutions which provide needed assistance to our Districts. This includes banks, which lend Districts funds in times of financial hardship, as well as those banks, which provide scholarships and loans to the students of this community.

VI. The Treasurer's Office consistently updates cash flow projections to allow pooled funds to be invested at higher yields for the longest duration possible. The balance in the Liquid Asset Fund is targeted to be below 6% of the total pool.

VII. The Treasurer closely monitors the investment and economic arena working with both fundamental and technical analysts in order to determine when investments should be purchased and sold as well as to determine the desired weighted average maturity of the portfolio.

MINIMIZING RISK

I. All funds invested by the Treasurer's Office are invested pursuant to the Public Funds Act of the Illinois Revised Statutes and all legislation, which has affected such Act.

II. When Certificates of Deposits are purchased by this office, an effort is made to ensure that the purchase is within the aggregated FDIC insurance limits of this office, which is \$4,500,000. (18 entities x \$250,000 FDIC insurance amount)

SUMMARY

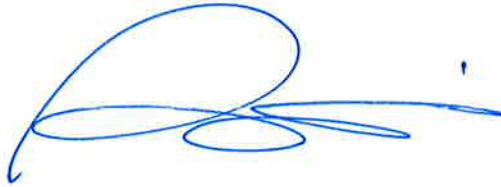
There were two major objectives I had when preparing this report. The first objective was to provide an update to the administration and board members on the investment performance of the districts' funds during the fiscal year ending June 30, 2020. The second objective was to provide a partial list of the strategies, procedures and policies used by this office in order to ensure maximum investment performance of these funds.

We have been annually reporting our fund performance to the school districts we service for the past 29 years. In each of these years, we have performed well compared to all major financial indices we track. During that time, we have returned in excess of \$160 million in interest earnings to the school districts we service. We take the responsibility of managing your district's funds seriously and know that the partnership we have developed over the years, combined with the inherent value of a pooled funds system and the consolidation of fiscal services, has provided benefits to the taxpayers we all service.

In projecting interest earnings for the upcoming fiscal year, I expect returns to be significantly below FY 2019 for two primary reasons: (1) Interest rates, and consequently reinvestment rates, are now at near historic low levels; and (2) investments that were purchased during a higher interest rate environment have generally been called or matured over the past few years.

I would appreciate any suggestions or comments the districts may have. This report will continue to be produced annually. If at any time during the year information pertaining to the investment portfolio is desired, it will gladly be provided.

I thank you for letting us serve your district.

A handwritten signature in blue ink, consisting of a large, stylized 'R' followed by several horizontal strokes.

Robert G. Grossi
Bloom Township School Treasurer