BREMEN TOWNSHIP
TRUSTEES OF SCHOOLS

ANNUAL INVESTMENT REPORT
FISCAL YEAR ENDING JUNE 30, 2022

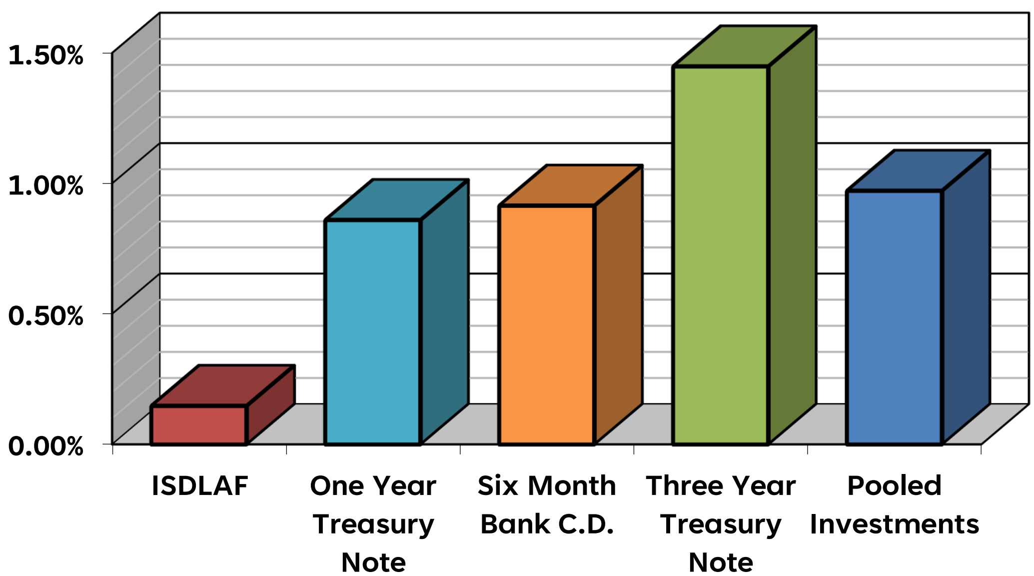
INTRODUCTION

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 Bremen 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, 2022. 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 Bremen Township School Treasurer's Office.

SUMMARY OF INVESTMENT PERFORMANCE

For the fiscal year ending June 30, 2022, I am pleased to report that the investment pool managed by the Bremen Township Treasurer's Office generated $693,000 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 2.50%. With an average investment portfolio size of $102,000,000 (pooled investment portfolio plus money markets), the cash basis rate of return to the school districts was 0.39%. 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 0.97%. 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 0.15%, the one-year Treasury bill was 0.86%, the six-month Certificate of Deposit averaged 0.91%, and the three-year Treasury note averaged 1.45%.

INTEREST RATE MOVEMENT AND ECONOMIC OUTLOOK

The factors that affect the short-term interest rate environment and which, in turn, affect interest earnings for our school districts begins with events or forces that are perceived to have undesirable impacts on either the labor market or inflation. The entity that monitors these forces is a committee within the Federal Reserve called the Federal Open Market Committee ("FOMC"). The statutory mandate of this committee is to foster maximum employment and price stability. This assessment considers 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.

Essentially, if the Federal Reserve believes that the economy needs to be stimulated to create more jobs, it will take action such as lowering interest rates to encourage individuals and businesses to borrow money and subsequently increase spending to stimulate economic growth. If the Federal Reserve believes that inflation or anticipated inflation is excessive, it will take action such as raising interest rates to slow down economic growth, which in turn will decrease demand for products and services, which will likely bring down inflation. These decisions require a delicate balance of the two objectives of maximum employment and price stability. Action to stimulate economic growth may create inflationary pressures and action taken to bring down inflation will likely slow economic growth. Thus, these decisions must be made carefully as they could trigger the consequences of uncontrollable inflation or an economic recession.

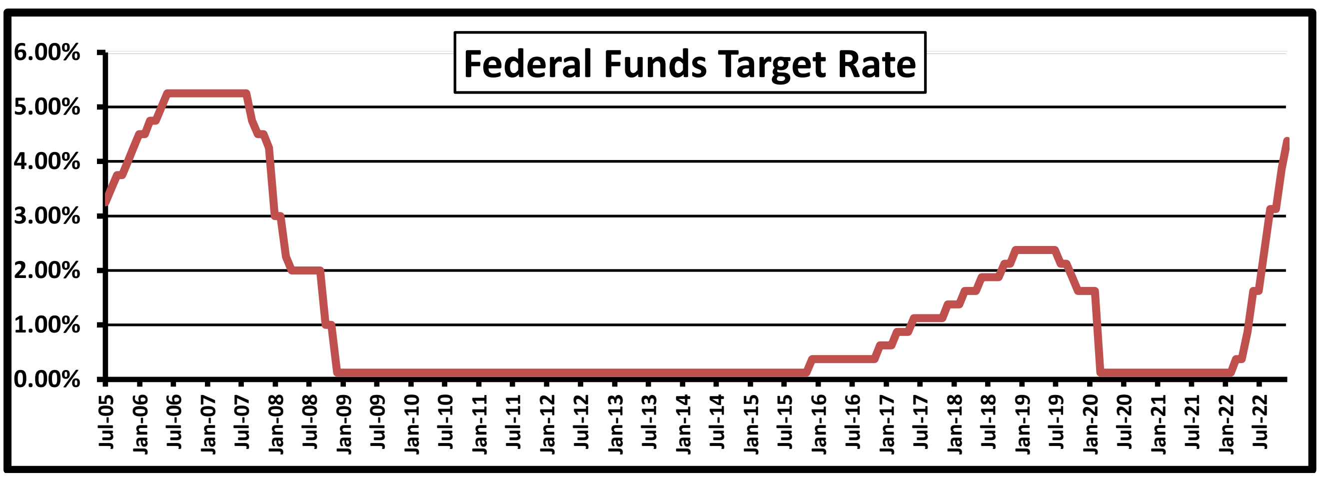
While the Federal Reserve was very quiet from 2009 through 2015, they have been quite active since. Between December 2015 and December 2018, the Federal Reserve, sensing that economic growth could finally be achieved without the aid of historically low lending rates, raised short-term interest rates nine times. This action ultimately increased the Fed Funds rate to 2.50%. Then in a dramatic reversal, with pressure from then-President Trump to accelerate economic growth during a period of low inflation, 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 in early 2020, 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 0.5% on March 2, 2020 and an additional 1.0% on March 15, 2020, bringing the rate back to its historically low level of 0.25%. 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."

The FOMC maintained this position for nearly twenty months as it monitored the economic collapse caused by COVID and then the subsequent economic recovery, as the world began to "normalize". What the Fed got wrong was its initial assessment on price stability, which began creeping into the inflation figures beginning in the Spring of 2021. After being in denial earlier, the Federal Reserve subsequently recognized that the rise in inflation was not transitory and required major attention.

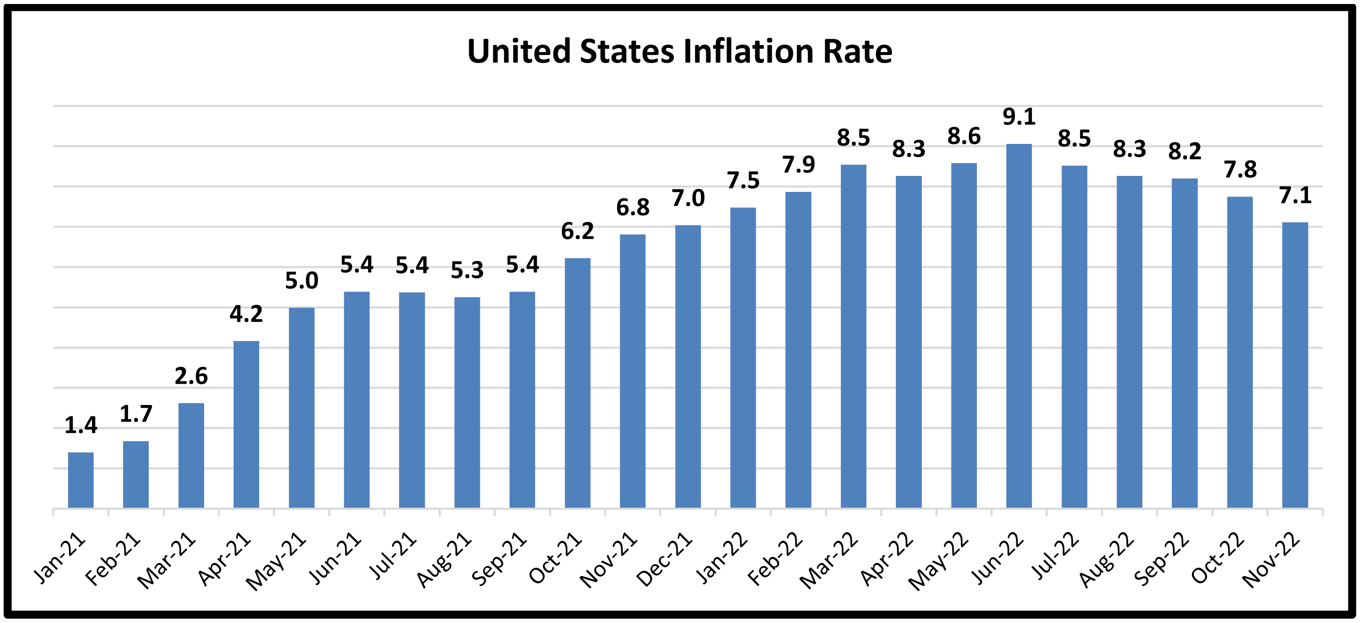
In November 2021, after inflation soared above 6%, the FOMC flipped their monetary stance with the sole mission of attacking inflation. Between March 2022 and December 2022, the Federal Reserve raised its fed funds target rate seven times, increasing the rate from 0.25% to 4.50%.

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

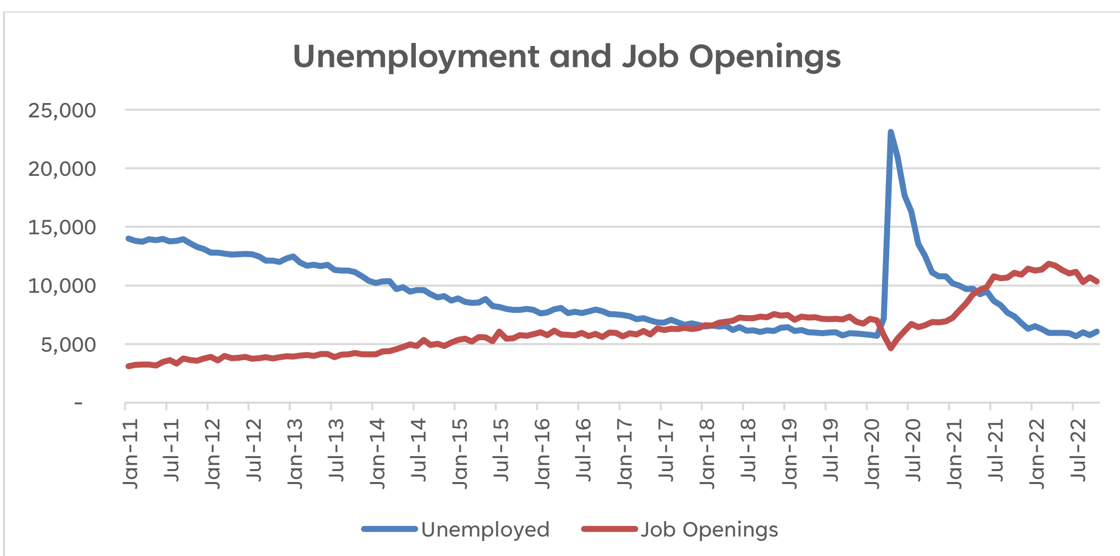


Thus far, it appears that initial rate hikes may not have been enough to reverse inflation because the sources of inflation also involve supply chain bottlenecks and fiscal spending, which are two areas that the Federal Reserve doesn't control. However, there are indications that inflation may have peaked in June of 2022 and be on the decline. The extent and certainty of the decline is still unknown.

The following graph reflects the monthly inflation rate in the United States since January 2021:



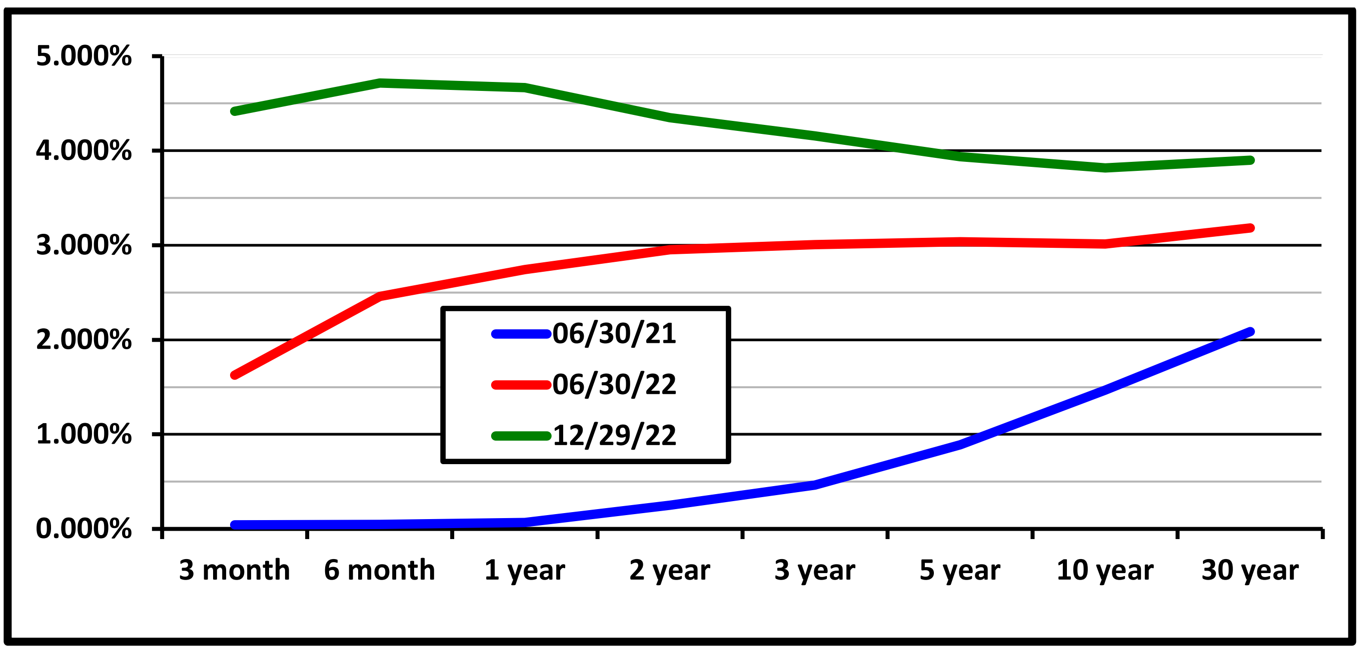
One major concern regarding long-term inflation is labor wages, which have risen steadily and are now approaching 4%. One of the most interesting and alarming graphs I have seen compares the number of people who are unemployed with the number of job openings. Note in the following graph that job openings have exceeded the number of unemployed workers in our Country ever since the post-COVID economic rebound.



There are currently over 10 million unfilled jobs. This is referred to as the employment gap. This employment gap has affected every facet of American life during 2021. Every service consumer has felt it, in restaurant waits, hotel service declines, home good backorders and especially in the hiring of skilled tradesmen for any kind of construction or repair project. The labor disruptions materially affect the US economy and have generated inflationary pressure in the labor market and will likely continue to move through price levels and keep inflationary pressures historically high for the near future.

As a result of the Federal Reserve raising rates, the yield curve has shifted upward significantly from its levels that existed on June 30, 2021. In fact, since the Fed's decision to flip their monetary stance at their November 2021 meeting, interest rates have risen at the fastest pace in history.

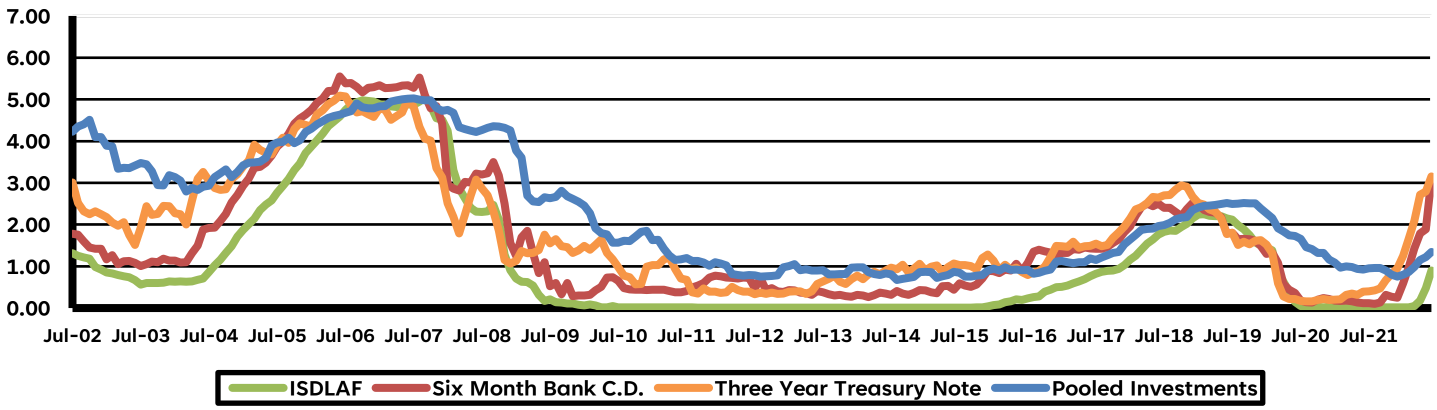
The following graph compares the yield curve on June 30, 2021, to the yield curve on June 30, 2022, and the yield curve as of the date of this report (December 29, 2022).



From June 30, 2021 to December 29, 2022, the yield on U.S. Treasury securities throughout the yield curve have increased dramatically, with the greatest increases impacting maturities of three years and less. The yields from three months through three years rose on average in excess of 4%. On the longer end of the yield curve, the yield increase from June 30, 2021 to December 29, 2022 was around 2%.

As we ponder interest rate levels in 2022, there are both unforeseen economic and non-economic events that could produce great volatility and uncertainty in both our economy and our fixed income markets. 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 investment portfolio, 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 $300 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) interest rates rising at the fastest pace in history; (2) 83% of our portfolio maturing in 2022 and 2023, and (3) the prospects of the Federal Reserve slowing its policy on increasing rates, we will look to extend our duration by locking into higher yielding investments out into the 2–5-year maturity range. This allows us to lock into higher yields without risking cash flow needs.

In addition, we continue to look at relative value among the investment vehicle options available to us. We currently are focusing on purchasing Treasury and government agencies as well as bank and corporate notes. 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.

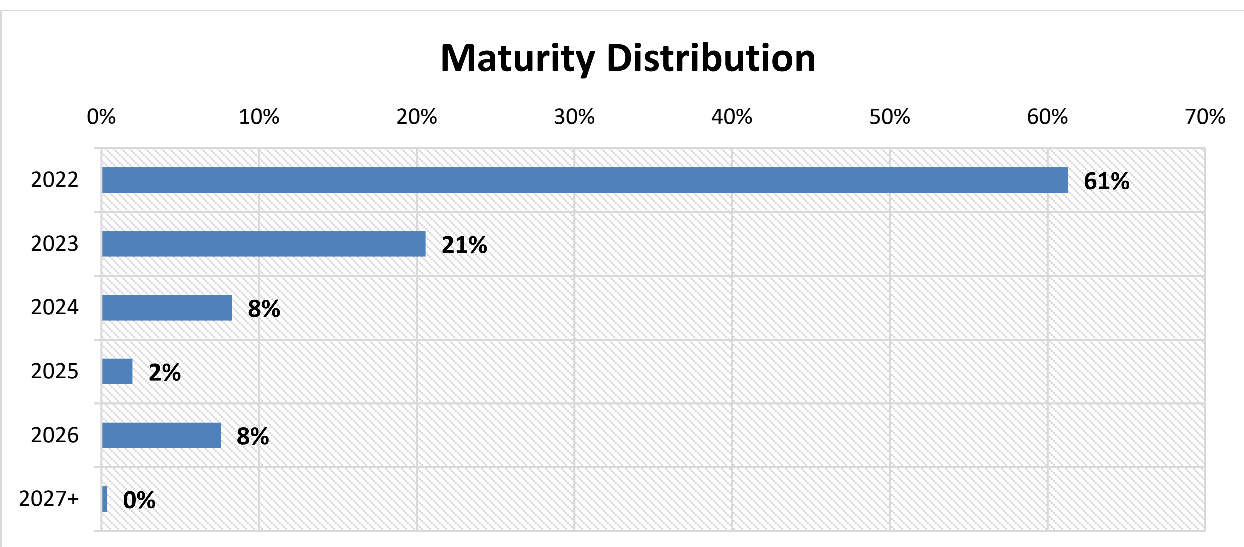
While risk in the credit markets seems to have diminished, we still respect the uncertainty that exists in the near future and are concerned about the possible effects of unforeseen events on our economy and our fixed income markets. We will continue to strongly weigh all investment decisions towards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

CURRENT PORTFOLIO

During this historic rise in interest rates, the challenge facing all fixed-income managers is whether to lock into longer-term, higher yielding investment options with recognition that greater investment opportunities will be available as rates continue to rise or should the money manager stay more liquid and wait to lock into longer term, even higher yields at a future date.

This decision was partially made for us by the timing of new revenues coming into the portfolio matched against the timing of when interest rates began to soar. The delay in Cook County taxes did not provide significant opportunity to lock into longer-term rates. On the positive side, however, money market rates increased dramatically, and with a relatively flat yield curve, the rate differential between money market rates and other investment options was not significant. Going forward, as tax revenues begin to flow into our accounts, we expect to lock into current rates by extending maturities beyond liquid investments.

On June 30, 2022, the expected maturity of the portfolio was laddered with consideration of rising interest rate levels, anticipated cash flow needs and anticipated new revenues coming into the portfolio. The graph below reflects the maturity distribution by calendar year. Note that over 3/4ths of the portfolio will mature by the end of 2023.



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 Bremen Township consists of over 125 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 Bremen Township Trustees of Schools service 9 entities, the fund is covered for up to $2,250,000 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.

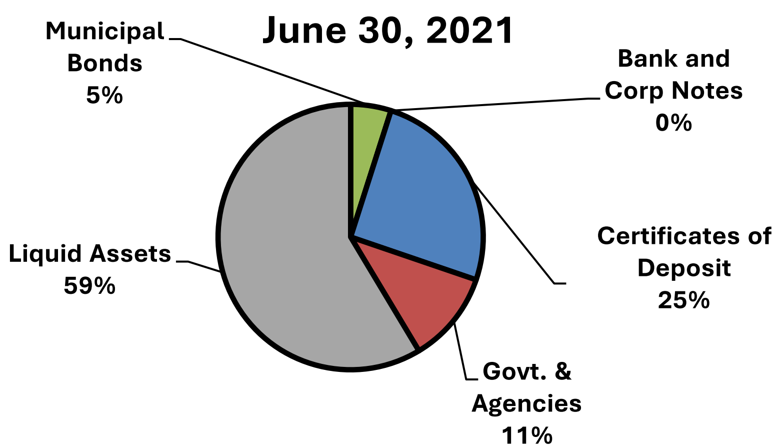
4) Government and Government Agency Guaranteed and Collateralized Obligations - These are investments, which are guaranteed by the United States Government or its agencies.

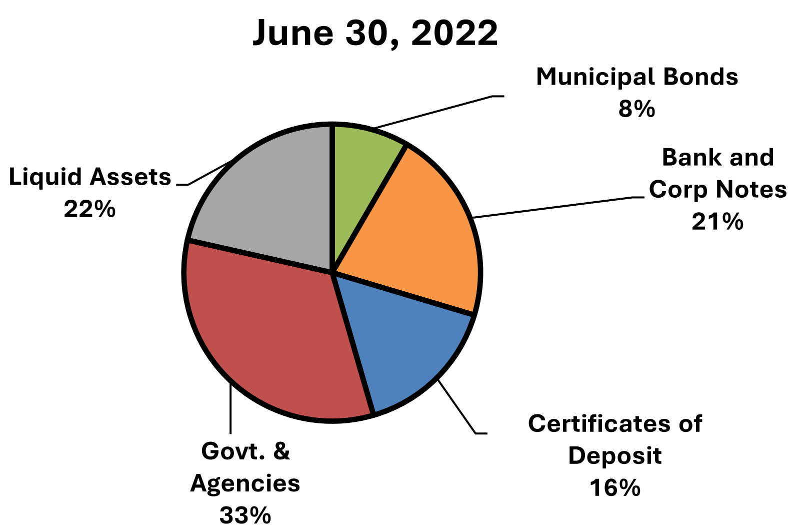
5) Municipal Bonds - Bonds issued by a city or other local government, or their agencies. Municipal bonds may be general obligations of the issuer or secured by specified revenues.

6) Liquid Assets – Money market accounts in which funds are immediately assessable to the Districts.

During the fiscal year, we increased the percentage of funds invested in bank and corporate notes from 0% to 21%. Government and government agencies investments increased from 11% to 33% during this fiscal year. Consequently, we decreased our liquid position from 59% of the portfolio to 21% of the portfolio and our position in certificates of deposit decreased from 25% of the portfolio down to 16% of the portfolio. All of this was done with the intention to diversify the types of investments in our portfolio.

The following pie charts reflects the investment composite of the pooled funds as of June 30, 2022 as compared to June 30, 2021:





INVESTMENT POLICY

The following is a list of various policies, which are followed by the Bremen 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.

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 $2,250,000. (9 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, 2022. 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 27 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 $77 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 increase in FY 2023 as our existing portfolio continues to rapidly mature and as new revenues flow into our investment accounts. However, at this time, I expect that most of the rate increases will be realized during FY 2024.

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.

Robert A. Grossi
Bremen Township School Treasurer