



**ANNUAL INVESTMENT REPORT**  
**FISCAL YEAR ENDING JUNE 30, 2024**

**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, 2024. 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**

**F**or the fiscal year ending June 30, 2024, I am pleased to report that the investment pool managed by the Bloom Township Treasurer's Office generated \$20,100,000 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 4.0% and 5.4%.

As investments from previous years continue to mature and new revenues are invested into this more favorable interest rate market, the yield on the pooled portfolio continues to rise. At the end of December 2024, the current yield on the pooled investments was up to 3.90% and with the portfolio priced at a discount to par of \$98.20, the yield to worst was approximately 4.52%.

## **INTEREST RATE MOVEMENT AND ECONOMIC OUTLOOK**

**T**he short-term interest rate environment which is the primary area of the yield curve that affects interest earnings for our school districts is primarily driven by adjustments made by 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. Their assessment considers a wide range of data, including measures of labor market conditions, indicators of inflation pressures and 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 by 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 by raising interest rates to slow down economic growth, which in turn will decrease demand for products and services and 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 high inflation or economic recession.

While the Federal Reserve was very quiet from 2009 through 2015, they have been quite active since. Between 2015 and December 2018, the Federal Reserve, sensing that economic growth could finally be achieved without the aid of historically low rates, raised short-term interest rates nine times. Then in a dramatic reversal in 2019, the Federal Reserve lowered rates three times with the stated objective of continuing to strengthen economic growth in the United States during a period of low inflation. By all accounts, the policy was effective, and several economic indices showed significant economic improvement.

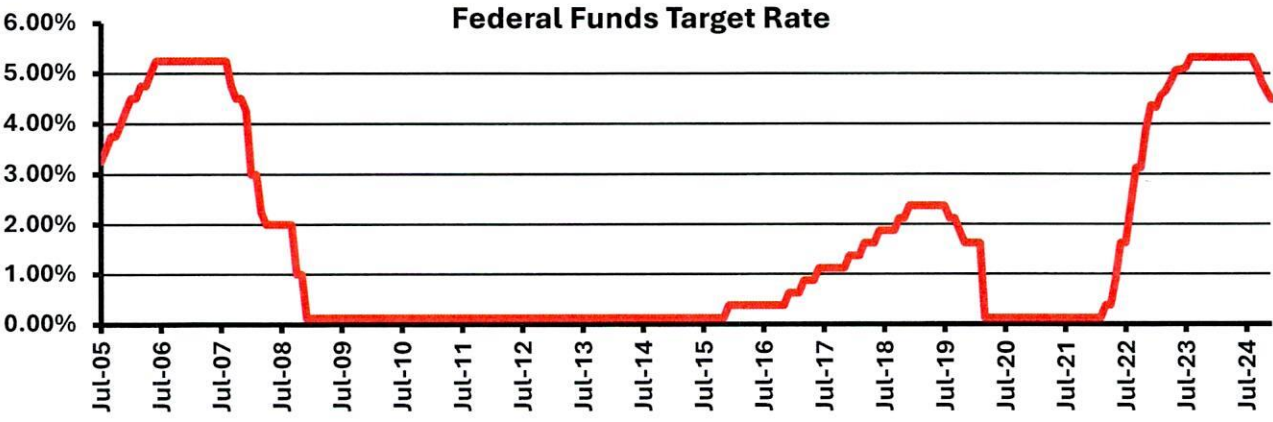
Then came COVID in early 2020 and economic growth came to a grinding halt. In response to the economic shutdown, the Federal Reserve slashed the Federal Funds rate all the way down to a historically low level of 0.25%. In responding to these actions, Chairman Powell stated "...we have lowered interest 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 mission of attacking inflation. Between March 2022 and July 2023, the Federal Reserve raised its fed funds target rate eleven times, increasing the rate from 0.25% to 5.50%.

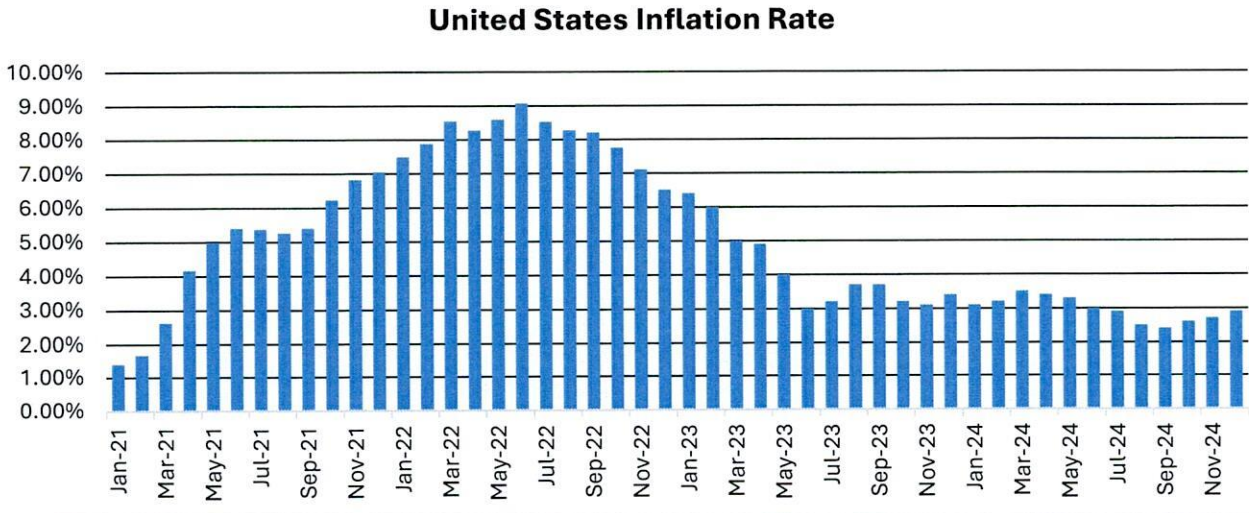
As inflation concerns began to wane, the Federal Reserve changed policy direction again with the belief that it could begin lowering rates in an attempt to stimulate the economy without triggering price pressures. From September 2024 through December 2024 the Federal Reserve lowered rates three times (0.50% in September, 0.25% in November and 0.25% in December).

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

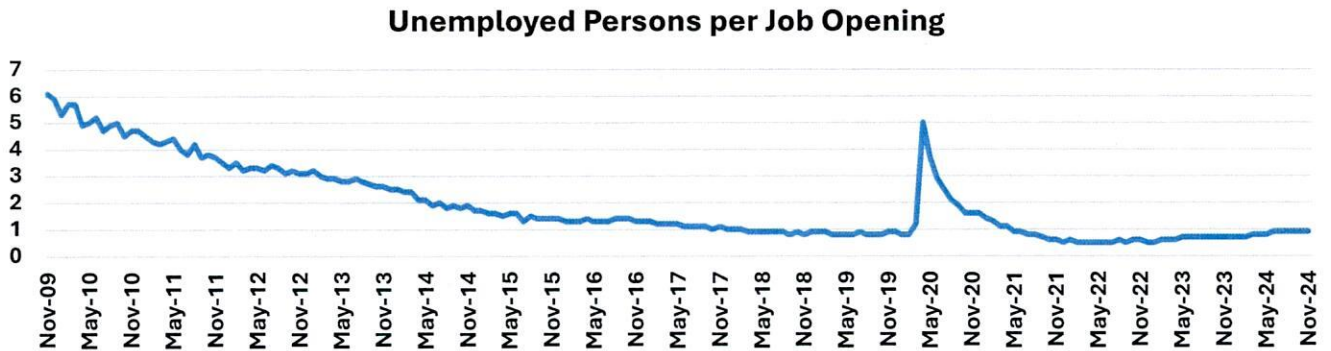


As of this report, it appears that the series of future rate declines, which were anticipated to continue at a robust pace in 2025, may be less than anticipated. In a statement issued after the December 2024 FOMC meeting, the Fed indicated that current economic data requires a policy balancing act. “Recent indicators suggest that economic activity has continued to expand at a solid pace (2.8% in 2024’s third quarter). Since earlier in the year, labor market conditions have generally eased, and the unemployment rate has moved up but remains low (4.2% in November 2024). Inflation has made progress...but remains somewhat elevated (Personal Consumption Expenditures at 2.5% in November 2024).” In his own comments, Powell stated that given the Fed’s recently initiated rate cuts, “our policy stance is now significantly less restrictive. We can therefore be more cautious as we consider further adjustments to our policy rate.”

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



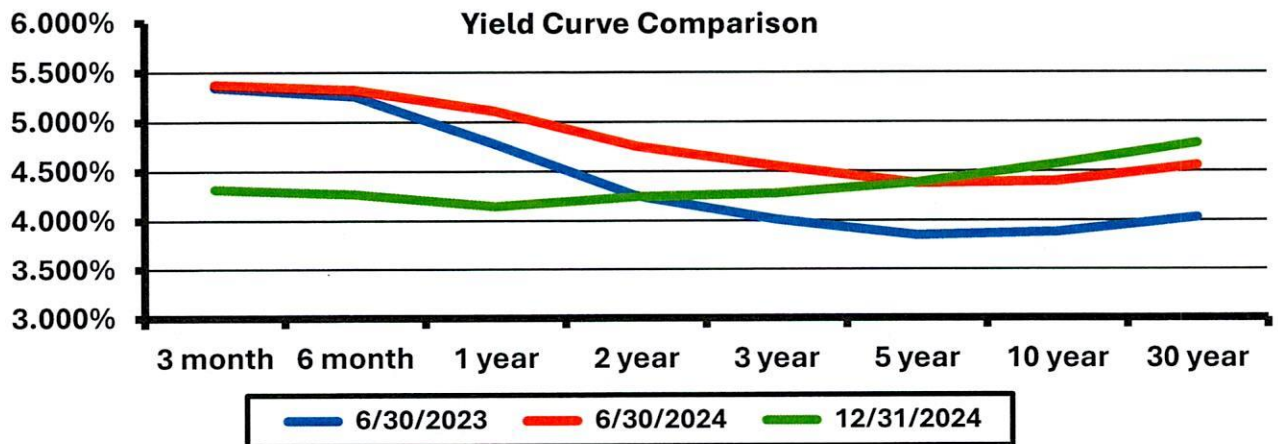
One major concern regarding long-term inflation is labor wages, which had risen steadily along with overall inflation. One of the most interesting graphs I have seen compares the number of people who are unemployed per job opening. When the index is below one it signifies that there are less than one unemployed person per job opening. In fact, as of November 2024, there were eight million job openings and only 6.8 million unemployed workers. The spike in mid-2020 was due to the COVID economic shutdown.



Between June 2023 and June 2024, the short-term interest rate market remained steady as the Federal Reserve indicated no change in its rate policy. However, the market began anticipating an increased likelihood of future interest rates declines as inflation began to soften. Consequently, short-term rate levels decreased during this time period. Longer-term rates, however, have reversed rather quickly since June 2024.

While shorter-term bond yields have declined significantly since 2023, yields on longer-term bonds are trending higher as 2024 ends. Investors appear focused less on recent Federal Reserve interest rate cuts and more on continued solid economic data and inflation trends. Yields on the benchmark 10-year U.S. Treasury, which in mid-September dropped to 3.63%, have risen over 1% and topped 4.70%.

The following graph compares the yield curve on June 30, 2024, to the yield curve on June 30, 2023, and the yield curve on December 31, 2024.



As we ponder future interest rate levels, there are unforeseen economic and non-economic events that will impact interest rate direction. Changes in leadership in Washington D.C., the uncertain labor market, perceived inflationary trends and global conflicts will all impact the markets in some manner.

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 versus other market indices. This is primarily due to the fact that the pooled fund portfolio is not static, but rather very fluid as investments are rapidly maturing and new funds in the form of real estate taxes revenues and State and Federal revenues regularly refresh the portfolio.

We receive in excess of \$800 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**

**S**ince 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.

At the time of this report, the Federal Reserve is indicating the likelihood of two rate cuts in 2025, down from the prior indication of four cuts. Chairman Powell noted that the slower pace of cuts for next year reflects both the higher inflation readings we've had this year and the expectation that inflation will be higher than they had previously anticipated. In addition, the December 2024 meeting showed a marked shift in policymakers' views on inflation risks, with most now seeing those risks as weighted to the upside. However, Powell noted on a couple of occasions that "the story of why inflation should be coming down is still intact."

With a backdrop of the yield curve being relatively flat we will look to extend the duration of the portfolio only slightly with the recognition that the strategy could pivot if inflation again heats up and the Federal Reserve does not continue with its current plan to lower rates in 2025.

In addition, we continue to look at relative value among the investment vehicle options available to us. We currently are focusing on purchasing 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**

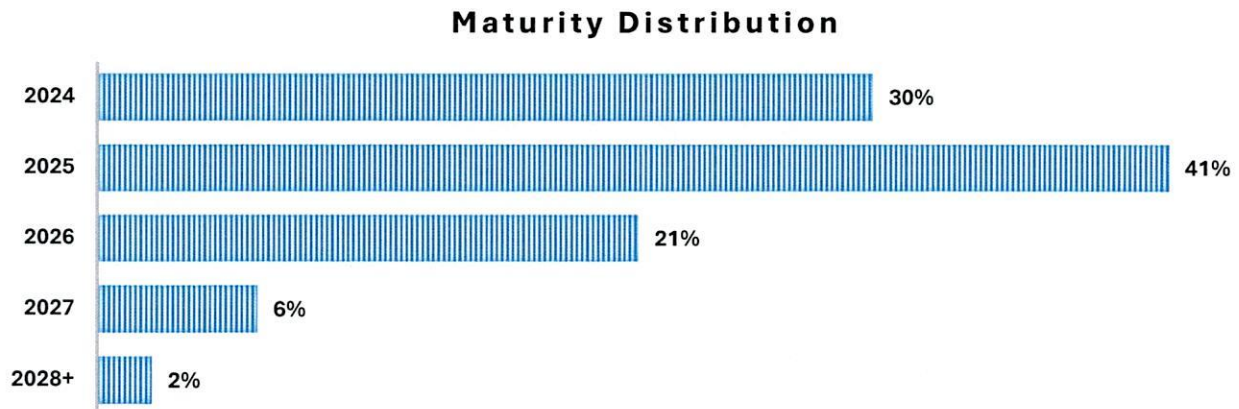
**W**ith inflationary trends and economic growth uncertain, the challenge facing all fixed-income managers is whether or not to lock into longer-term investment options in the event that longer-term rates begin to decrease or to stay more liquid if the belief is that longer-term rates will become more attractive in the future. Clearly President Trump has indicated a desire for the Federal Reserve to aggressively lower rates to stimulate economic growth. If successful, this may drive shorter rates down. However, if the market anticipates a heated economy and the risk of future inflation, we may see longer-term rates rising, producing a more traditional rising yield curve.

Placement on the yield curve is primarily made for us by the timing of new revenues coming into the portfolio matched against the timing of when interest rates began to move up or down. Going forward, as tax revenues flow into our accounts, we expect to first achieve our cash flow objectives and then make investments decisions as the data presents itself.

On June 30, 2024, the expected maturity of the portfolio was reduced to take advantage of higher short-term rates and to match anticipated cash flow needs with consideration of locking into a slightly longer duration in the event that rates began to decline.



The graph below reflects the maturity distribution by calendar year. Note that 71% of the portfolio will mature by the end of 2025.



Not only is diversification of maturities essential to the performance of the pool, but 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 approximately 400 different investments that are monitored regularly.

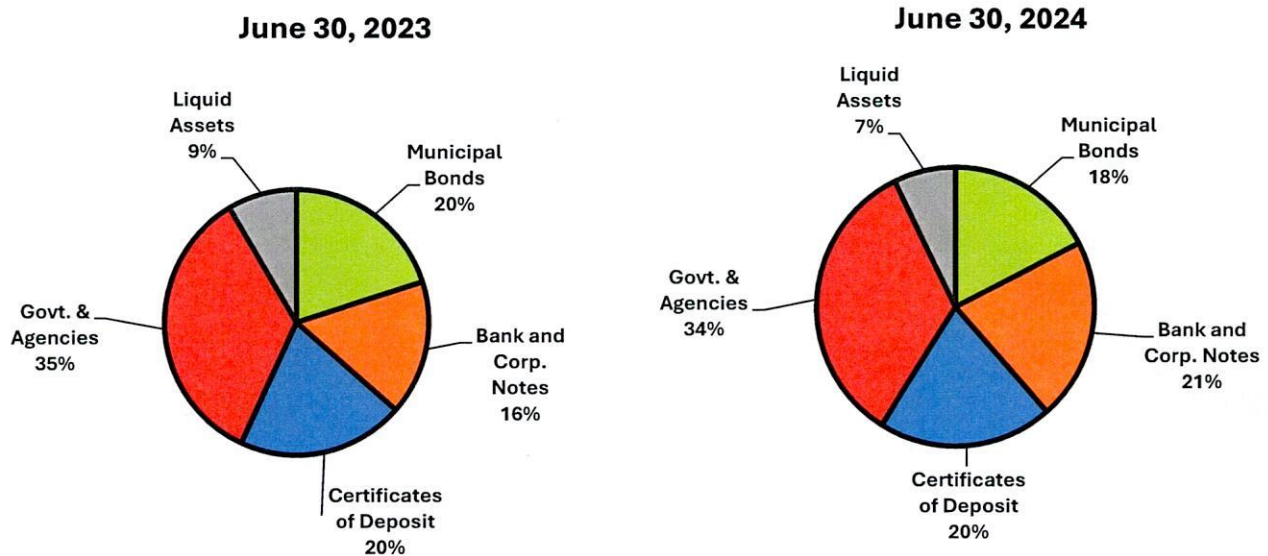
There are six major categories of investments in the pool:

- 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 composition of the pooled funds portfolio remained relatively constant. The most significant change was a slight shift into bank and corporate notes (16% versus 21%).

The following pie charts reflects the investment composite of the pooled funds as of June 30, 2024 as compared to June 30, 2023:



## 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

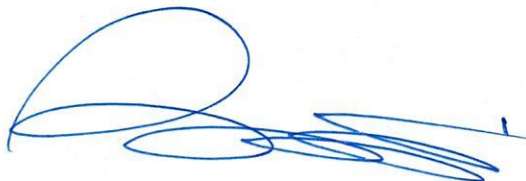
There were two major objectives I had when preparing this report. The first objective was to provide an update to the administration and board members on the investment performance of the districts' funds during the fiscal year ending June 30, 2024. The second objective was to provide a partial list 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 32 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 \$208 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 cash basis returns to increase slightly in FY 2025 as our existing portfolio continues to rapidly mature and as new revenues flow into our investment accounts.

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 G. Grossi  
Bloom Township School Treasurer