

## RATING ACTION COMMENTARY

# Fitch Affirms San Luis Obispo County Treasury Investment Pool at 'AAAf'/'S1'

Wed 09 Sep, 2020 - 4:39 PM ET

Fitch Ratings - New York - 09 Sep 2020: Fitch Ratings has affirmed San Luis Obispo County Treasury Investment Pool's International Fund Credit Quality Rating (FCQR) and Fund Market Risk Sensitivity Rating at 'AAAf'/'S1'.

The ratings reflect Fitch's review of the fund's investment and credit guidelines, the portfolio's credit quality and diversification. The 'AAAf' FCQR indicates the highest underlying credit quality (or lowest vulnerability to default). The 'S1' rating indicates a very low sensitivity to market risk.

## KEY RATING DRIVERS

### Asset Credit Quality

The main driver of the fund credit rating is the high credit quality of the portfolio. The pool's investment objectives are safety and preservation of capital; liquidity sufficient to meet all operating requirements; yield, subject to safety, liquidity and competitive pricing requirements; and compliance with California and federal law.

As of the review date, the pool primarily invested in Public Investment Money Market Accounts (PIMMAs), direct agencies, and government securities. Other permissible securities include money market obligations such as CP, certificates of deposit (CDs), bankers' acceptances, repurchase agreements, and medium-term notes.

The pool's weighted average rating factor (WARF) is in line with Fitch's 'AAAf' rating criteria of 0.3 or less. WARF is a risk-weighted measure of a portfolio of assets that accounts for the portfolio's credit quality and maturity profile.

### Portfolio Sensitivity to Market Risks

Market risk is mitigated by the pool's cash flow matching investment strategies, as well as the high allocation to government and agency securities. As of the review date, the pool's duration corresponds to a 'S1' fund sensitivity rating.

### Coronavirus Impact

The coronavirus-driven heightened market volatility in 1Q20 did not have a material impact on the pool, as the portfolio's credit quality remained high. The pool's rating could be adversely affected in the event of meaningful portfolio credit deterioration in the future.

### U.S. Government and Agencies on Negative Outlook

The recent revision of the United States' Rating Outlook to Negative from Stable has no immediate impact on the pool. A Negative Outlook does not impact Fitch's calculation of the WARF that is the primary driver of FCQR, nor does a Negative Outlook impact Fitch's calculation of the Market Risk Sensitivity Factor (MRSF) that is the primary driver of the Market Risk Sensitivity Ratings (MRSR). These dynamics also apply to the subsequent Rating Outlook revisions with respect to U.S. government sponsored entities.

However, if U.S. government and agency debt were subsequently downgraded to 'AA+', this could impact LGIP ratings, as these securities would be assigned higher rating factors and market risk factors. Based on a review of recent surveillance reports, a hypothetical downgrade of U.S. government and agency debt to 'AA+' would not impact the pool, assuming no changes to the current portfolio.

## **INVESTMENT MANAGER**

The San Luis Obispo County Auditor-Controller-Treasurer-Tax Collector manages the pool. There is also an external oversight committee (County Treasury Oversight Committee [CTOC]) comprised of county officials, school district officials and public members. The CTOC reviews and approves the County Treasurer's annual Investment Policy prior to its submission to the County Board of Supervisors for review and adoption.

## **RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to positive rating action/upgrade:

Positive rating actions are not applicable as the assigned ratings are the highest ratings outcomes under Fitch's Bond Fund Ratings criteria.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

The ratings are sensitive to material changes in the credit quality or market risk profiles of the fund. A material decrease in portfolio credit quality could result in the FCQRs being lowered. A material increase in portfolio duration could result in the fund market risk sensitivity ratings being lowered.

Fitch conducted stress tests as outlined in its rating criteria to test the sensitivity of the fund's ratings against potential changes in the portfolios' credit quality.

Fitch receives monthly fund portfolio holdings information including credit quality, market value and duration of the individual securities to conduct surveillance against the Bond Fund Rating criteria. For additional information about Fitch bond fund ratings criteria, please review the criteria referenced below, which can be found on Fitch's website.

## **BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to

'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [<https://www.fitchratings.com/site/re/10111579>]

## SOURCES OF INFORMATION

The sources of information used to assess this rating were the public domain and the San Luis Obispo County Auditor-Controller-Treasurer-Tax Collector.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
San Luis Obispo County Treasury Investment Pool	Fund Cr Qual Rtg	AAAf	Affirmed	AAAf
●	Sensitivity	S1	Affirmed	S1

[VIEW ADDITIONAL RATING DETAILS](#)

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Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)**APPLICABLE CRITERIA**[Bond Fund Rating Criteria \(pub. 21 Jul 2019\)](#)**ADDITIONAL DISCLOSURES**[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

San Luis Obispo County Treasury Investment Pool

EU Endorsed

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