

## RATING ACTION COMMENTARY

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

Thu 25 Aug, 2022 - 4:38 PM ET

Fitch Ratings - New York - 25 Aug 2022: Fitch Ratings has affirmed the International Fund Credit Quality Rating (FCQR) and Fund Market Risk Sensitivity Rating on the San Luis Obispo County Treasury Investment Pool at 'AAAf'/'S1'.

## KEY RATING DRIVERS

The ratings reflect Fitch's review of the pool's investment and credit guidelines, and 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. FCQRs and MRSRs do not opine on the probability of extraordinary liquidity management measures being applied, nor the redemption risk of the fund.

### Asset Credit Quality

The main driver of the fund credit rating is the high credit quality of the portfolio. As per the pool's investment policy, the 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 invested in direct Public Investment Money Market Accounts (PIMMAs), direct agencies and government securities. Other permissible securities include money market obligations such as CP, certificates of deposit, 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. 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

The pool's Market Risk Sensitivity Factor (MRSF) is in line with Fitch's 'S1' rating criteria. A portfolio's market risk factor is calculated by combining the portfolio interest rate duration and risk-adjusted spread duration of the securities in the portfolio, and adjusting the result for the effect of any leverage.

### Surveillance

Due to the pool's exposure to U.S. government and agency debt, part of the stress tests included a one notch downgrade from 'AAA' to 'AA+'. 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.

Fitch views the team's investment advisory capabilities, resource commitment, operational controls, corporate governance, and compliance procedures as consistent with the ratings assigned to the fund.

## **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 FCQR being lowered. Meanwhile, a material increase in portfolio duration could result in the MRSR 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.

## 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.

## 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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**APPLICABLE CRITERIA**

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## **ENDORSEMENT STATUS**

San Luis Obispo County Treasury Investment Pool

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