

## RATING ACTION COMMENTARY

# Fitch Assigns 'AAAf' Rating to California CLASS -- Enhanced Cash Fund.

Thu 09 Jun, 2022 - 4:01 PM ET

Fitch Ratings - New York - 09 Jun 2022: Fitch Ratings has assigned a 'AAAf' International Fund Credit Quality Rating (FCQR) and a 'S1' Fund Market Risk Sensitivity Rating (MRSR) to the soon-to-be-launched California Cooperative Liquid Assets Securities System (California CLASS) - Enhanced Cash Fund. The pool will be established pursuant to the California CLASS Joint Powers Agreement in accordance with the California state regulatory requirements. The California CLASS program will be supervised by a Board of Trustees comprised of eligible local government participants of the program. Public Trust Advisors, LLC (PTA) will serve as the investment advisor and administrator for the pool.

The pool will be a variable NAV vehicle, although the ratings assigned do not speak to the volatility of the NAV.

The pool is not yet launched and Fitch used a representative proxy portfolio to complete the analysis for the assigned ratings.

## KEY RATING DRIVERS

The ratings reflect Fitch's review of the pool's investment and credit guidelines, expected credit quality and diversification, as well as the capabilities of PTA to manage the assets of

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the pool. The 'AAAf' FCQR indicates the highest underlying credit quality (or lowest vulnerability to default). The 'S1' MRSR indicates a very low sensitivity to market risk.

### Asset Credit Quality

The main driver of the FCQR is the expected high credit quality of the portfolio. The proxy portfolio's weighted average rating factor (WARF) was 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.

The pool is expected to invest in direct obligations of the U.S. government and its agencies, commercial paper and asset-backed commercial paper, repurchase agreements backed by U.S. government and agency obligations, negotiable certificates of deposit, money market funds, obligations of the state of California, obligations of local agencies in the state of California, registered treasury notes or bonds of any of the other 49 states, bankers' acceptances, corporate notes, asset-backed securities, and U.S. dollar denominated senior unsecured obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation or Inter-American Development Bank.

All investments within the pool are expected to comply with the investment policy statement set forth by the Board of Trustees and to adhere to state guidelines. The primary objectives of the pool are the safety of capital, liquidity, and investment income.

### Portfolio Sensitivity to Market Risks

The proxy portfolio's Market Risk Sensitivity Factor (MRSF) was in line with Fitch's 'S1' rating criteria of 2.0 or less. 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.

### Maturity Profile

The pool is expected to maintain a weighted average maturity between six months and one and a quarter years, consistent with Fitch's 'AAAf' criteria.

## PARTICIPANT PROFILE

The portfolio will comprise moneys deposited by California local government, public, and other eligible entities. Based on discussions with the advisor, Fitch expects that elevated levels of liquidity will be maintained until California CLASS' investor base ramps up over time.

## **SURVEILLANCE**

Fitch expects to receive 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.

Fitch conducted stress tests as outlined in its rating criteria to test the sensitivity of the fund's ratings against potential changes in the portfolio's credit quality. After running the proxy portfolio through the stressed scenarios, there was no material deterioration in the underlying scores that support the fund's assigned FCQR and MRSR. Fitch views the fund's credit quality and level of market risk as consistent with the assigned rating levels.

## **INVESTMENT MANAGER**

The pool will be managed by Public Trust, a registered investment advisor that specializes in managing and servicing public sector portfolios. The firm was founded in 2011 and is headquartered in Denver, CO. As of March 31, 2022, the firm had approximately \$55 billion in assets under management and administration.

Fitch views the investment management capabilities, resource commitment, operational controls, compliance and oversight processes of the pool's investment manager as appropriate for the assigned ratings and investment strategy.

## **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 or increase in security maturities

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

## SOURCES OF INFORMATION

The sources of information used to assess these ratings were the public domain and the investment manager.

## RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕		
California CLASS - Enhanced Cash Fund	Fund Cr Qual Rtg	AAAf	New Rating
	Sensitivity	S1	New Rating

[VIEW ADDITIONAL RATING DETAILS](#)

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## **APPLICABLE CRITERIA**

[Bond Fund Rating Criteria \(pub. 22 Jul 2019\)](#)

## **ADDITIONAL DISCLOSURES**

[Solicitation Status](#)

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## **ENDORSEMENT STATUS**

California CLASS - Enhanced Cash Fund

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