

## **RATING ACTION COMMENTARY**

# **Fitch Affirms California CLASS Enhanced Cash at 'AAAf'/'S1'**

Thu 01 Aug, 2024 - 4:40 PM ET

Fitch Ratings - New York - 01 Aug 2024: Fitch Ratings has affirmed California CLASS Enhanced Cash Fund's International Fund Credit Quality Rating (FCQR) and Fund Market Risk Sensitivity Rating (MRSR) at 'AAAf'/'S1'.

Fitch used portfolio holdings as of March 31, 2024 to complete the analysis for the rating action.

## **KEY RATING DRIVERS**

The ratings reflect Fitch's review of the portfolio's investment and credit guidelines, credit quality and diversification, as well as the capabilities of Public Trust Advisors, LLC to manage the assets of the fund. 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.

### **Portfolio Credit Quality**

Per Fitch's Bond Fund Rating Criteria, the fund's weighted average rating factor (WARF) is the primary driver of the FCQR. A fund's WARF is a function of the credit ratings of the securities held in the fund's portfolio and their remaining term to maturity, weighted by market value. The fund's WARF of 0.00 as of March 31, 2024 is less than 0.3 and therefore is in line with a WARF-implied FCQR of 'AAAf'.

### **Market Risk Sensitivity**

The fund's MRSR is primarily based on the portfolio's market risk factor (MRF). A portfolio's MRF is calculated by combining the portfolio interest rate duration and risk-adjusted

spread duration of the securities in the portfolio, and adjusting for the effect of any leverage. The higher the portfolio's MRF then the higher the sensitivity to interest rate, spread and other market risk variables. As of March 31, 2024, the MRF of the fund's portfolio was 1.0, which is less than 2.0 and therefore is in line with a MRSR of 'S1'. The fund's 'S1' MRSR indicates very low sensitivity to market risk. At the time of Fitch's analysis, the fund did not employ leverage or any derivatives.

### Maturity Profile

The maturity profile of the pool is managed to meet anticipated cash flow needs of the pool's participants. The pool generally maintains a portion of its assets in daily liquidity provided by government money market funds. The planned nature of the pool's cash flows is a significant mitigant to the liquidity risk in the portfolio.

### Participant Profile

The fund is comprised of California public agencies with the ability to invest their respective treasury's funds.

### Stress Tests

Fitch conducted stress tests as outlined in its "Bond Fund Rating Criteria," including concentration and market-based stresses, to test the sensitivity of the fund's rating against potential changes in the portfolio's credit quality. There was no material deterioration in the WARF or MRF of the portfolio as a result of these stressed scenarios, supporting Fitch's view that the portfolio's credit quality is consistent with the assigned rating level.

Furthermore, Fitch conducted additional stress tests that went beyond the stress tests outlined in its Bond Fund Rating Criteria, applying greater credit and spread risk factors to the portfolio holdings. Two of these additional stress tests included a hypothetical three-notch downgrade to the largest issuers in the portfolio and a hypothetical one-notch downgrade to all issuers on the lower cusp of a rating category (e.g., downgrading all issuers currently rated 'AA-' to 'A+' and downgrading all issuers currently rated 'A-' to 'BBB+', etc.). These scenarios were run to further test the resiliency of the portfolio's WARF and MRF. The fund passed both tests at the assigned rating level.

### Portfolio Composition

Fitch deems the overall portfolio quality to be sound and concentrations are managed prudently. As of March 31, 2024, 100% of the market value of the pool was allocated to cash or money market funds. Fitch views the underlying holdings as diversified on a look-through basis, given the money market fund holds no more than 10% exposure to any individual issuer, per its investment policy statement. Exposures in the fund must also be rated 'A'/F1', or higher. Fitch's analysis also included a review of the money market fund's portfolio, as of March 31, 2024. California CLASS - Enhanced Cash is expected to diversify into assets consistent with its investment policy and stated investment strategy once an appropriate scale of AUM is achieved.

## Derivatives

The fund's investment policy statement (IPS) does not include derivatives among its permitted investments.

## Surveillance

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.

## **INVESTMENT MANAGER**

The pool is managed by Public Trust Advisors, LLC, a registered investment advisor founded in 2011 that specializes in managing and servicing public sector portfolios. As of March 28, 2024, Public Trust Advisors, LLC manages over US \$88 billion.

Fitch views the investment management capabilities, resources, operational controls, compliance and oversight processes of the investment advisor as appropriate for the assigned ratings and investment strategy.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

--The ratings are sensitive to material changes in the credit quality and maturity profile of the fund. A material decrease in portfolio credit quality or increase in security maturities could result in the FCQR being lowered if the pool's resulting WARF exceeds 0.3 and/or the MRSR being lowered if the pool's MRF exceeds 2.0. However, Fitch perceives this as

unlikely in the near term absent significant credit migration, or a change in the fund's investment strategy.

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

--A positive rating action is not applicable as the assigned ratings are the highest rating outcomes under Fitch's Bond Fund Ratings criteria.

### **SOURCES OF INFORMATION**

The sources of information used to assess this rating were the public domain and the investment manager.

### **RATING ACTIONS**

| <b>ENTITY / DEBT</b> ⚡                   | <b>RATING</b> ⚡                      | <b>PRIOR</b> ⚡ |
|--|--------------------------------------|----------------|
| California CLASS -<br>Enhanced Cash Fund | Fund Cr Qual Rtg    AAAf    Affirmed | AAAf           |
|  | Sensitivity    S1    Affirmed        | S1             |

[VIEW ADDITIONAL RATING DETAILS](#)

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## **APPLICABLE CRITERIA**

[Bond Fund Rating Criteria \(pub. 16 Aug 2022\)](#)

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## **ENDORSEMENT STATUS**

California CLASS - Enhanced Cash Fund

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