

Arizona LGIP Pool 5 'AAAf/S1+' Fund Ratings Affirmed

Primary Credit Analyst:

Peter L Rizzo, New York (1) 212-438-5059; peter.rizzo@spglobal.com

Secondary Contact:

Joseph Giarratano, New York (212) 438-8942; joseph.giarratano@spglobal.com

NEW YORK (S&P Global Ratings) Sept. 18, 2017--S&P Global Ratings today said it affirmed its 'AAAf' fund credit quality rating (FCQR) and 'S1+' fund volatility rating (FVR) on the Arizona LGIP Pool 5. The affirmation follows our review of the fund under our revised FCQR and FVR criteria (see "Fund Credit Quality Ratings Methodology," and "Fund Volatility Ratings Methodology," published June 26, 2017). At the same time, we removed the regulatory identifier "UCO" (under criteria observation) from the ratings. The ratings were designated UCO on June 26, 2017, in conjunction with the criteria published on the same date.

The State Treasurer serves as the chief banker and investment officer for the state, overseeing more than \$13 billion in assets. The investment division of the State Treasurer's Office of the State of Arizona is responsible for day-to-day management of the state's pooled investment funds and for all research. There are two distinct layers of oversight for the investment division--the investment risk management committee (IRMC) and the state board of investment (SBOI). The IRMC oversees the investment decisions and activities under the direction of the Treasurer. The SBOI reviews the investment of state monies, serves as trustee of the permanent land trust funds, and approves the State Treasurer's Office investment policy. State Street is the custodian for pool assets.

Arizona LGIP Pool 5 is commonly referred to as the local government investment pool (LGIP). State and local governments are predominant investors. Pool 5 provides short-term investment services for a wide array of public entities

and is generally used for liquid cash equivalent needs for public entities. The investment objective of Arizona LGIP Pool 5 is to maintain the safety of principal, maintain liquidity to meet cash flow needs, and provide competitive investment returns. In an effort to accomplish its objectives, the pool invests in diversified pool of high-quality fixed-income assets, including top-grade corporate debt, commercial paper, and U.S. government and agency securities. The final maturity of any fixed-rate security shall not exceed 18 months and the final maturity of any variable-rate security shall not exceed two years. The dollar weighted average portfolio maturity is managed to 90 day or less.

The 'AAAf' FCQR signifies that the credit quality of the fund's portfolio exposure is extremely strong. When assigning the 'AAAf' rating, we first determined a preliminary FCQR through a quantitative assessment of a fund's portfolio risk. Our assessment reflects the weighted average credit risk of the portfolio of investments. The final FCQR did not differ from the preliminary FCQR given our assessment of the qualitative components of the investment office of the Arizona State Treasurer as adequate and the assessment of the portfolio risk as neutral.

The 'S1+' FVR signifies that the fund exhibits extremely low volatility of returns comparable to a portfolio of short-duration government securities representing the highest-quality fixed-income instruments available in each country or currency zone with a maturity of 12 months or less. We determined the FVR by assessing the historical volatility and dispersion of fund returns relative to reference indices. Next, we evaluated portfolio risk, taking into account duration, credit exposures, liquidity, derivatives, leverage, foreign currency, and investment concentration. Given the determination the portfolio risk factors were consistent with the rating, we made no adjustment based on return volatility and dispersion. We then used the adequate assessment of the qualitative components to determine no adjustment was required to the FVR.

In determining the final FCQRs and FVRs, we performed a comparable rating analysis on the pool with other funds that have similar portfolio strategy and composition. Here, we focused on a holistic view of the fund's portfolio credit quality and characteristics relative to its peers. The comparative rating analysis did not result in any adjustment to the rating to determine the final FCQR or FVR.

An FCQR, also known as a "bond fund rating," is a forward-looking opinion about the overall credit quality of a fixed-income investment fund. FCQRs, identified by the 'f' suffix, are assigned to fixed-income funds, actively or passively managed, typically exhibiting variable net asset values. The ratings reflect the credit risks of the portfolio investments, the level of the fund's counterparty risk, and the risk of the fund's management ability and willingness to maintain current fund credit quality. Unlike traditional credit ratings (e.g., issuer credit ratings), an FCQR does not address a fund's ability to meet payment obligations and is not a commentary on yield levels.

An FVR is a forward-looking opinion about a fixed-income investment fund's volatility of returns relative to that of a "reference index" denominated in the base currency of the fund. A reference index is composed of government securities associated with the fund's base currency. FVRs are not globally comparable. FVRs reflect our expectation of the fund's future volatility of returns to remain consistent with its historical volatility of returns. FVRs reflect S&P Global Ratings' view of the fund's sensitivity to interest rate risk, credit risk, and liquidity risk, as well as other factors that may affect returns such as use of derivatives, use of leverage, exposure to foreign currency risk and investment concentration, and fund management. Different symbology is used to distinguish FVRs from S&P Global Ratings' traditional issue or issuer credit ratings. We do so because FVRs do not reflect creditworthiness, but rather our view of a fund's volatility of returns.

We review pertinent fund information and portfolio reports monthly as part of our surveillance process of our fund credit quality and volatility ratings.

RELATED CRITERIA

- Criteria - Financial Institutions - Fixed-Income Funds: Fund Volatility Ratings Methodology, June 26, 2017
- Criteria - Financial Institutions - Fixed-Income Funds: Fund Credit Quality Ratings Methodology, June 26, 2017

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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