

Monitoring The Effect Of Market Volatility On Local Government Investment Pool Ratings

May 19, 2020

Key Takeaways

- We have not taken any rating actions on local government investment pools (LGIPs) as a result of the recent COVID-19-induced market volatility, because these pools' metrics have remained within our expectations for the current ratings.
- An important measure we consider is whether a pool has maintained a net asset value (NAV) price per share of \$1.00, and so far the LGIPs have done so.
- During the flight to quality in March, LGIPs experienced fewer outflows relative to prime money market funds, largely because the investor base tends to be more stable.
- We expect managers of LGIPs to maintain their conservative approach; however, redemptions could rise if market conditions deteriorate.

Local government investment pools (LGIPs) rated by S&P Global Ratings have managed to navigate through the recent COVID-19-related market volatility, which peaked during the week of March 16, 2020. All pools have remained within the S&P Global Ratings' key rating factors, and therefore we have not taken any actions so far on pools we rate under our principal stability fund ratings (PSFR) criteria. (For more information, see "So Far, Funds Are Maintaining Stable Net Asset Values Amid Increased Redemptions And Liquidity Pressures, published on March 25, 2020.)

LGIPs Exhibit Principal Stability

The key factor we consider when rating funds under our PSFR criteria is the ability for a fund to maintain a stable net asset value (NAV) price per share of \$1.00. From our receipt of weekly surveillance data and our interactions with pool providers, we've observed that all our rated LGIPs have exhibited marked-to-market NAVs above 0.9975, the lowest deviation point for the 'AAAm' rating. In fact, rated pools have remained above 0.999 on average. Out of the 63 pools rated under our PSFR criteria, the highest NAV observed during the volatile week of March 16 was 1.0018, and the lowest was 0.9985 (see chart 1).

PRIMARY CREDIT ANALYST

Michael Masih
New York
(1) 212-438-1642
michael.masih
@spglobal.com

SECONDARY CONTACT

Guyna G Johnson
Chicago
(1) 312-233-7008
guyna.johnson
@spglobal.com

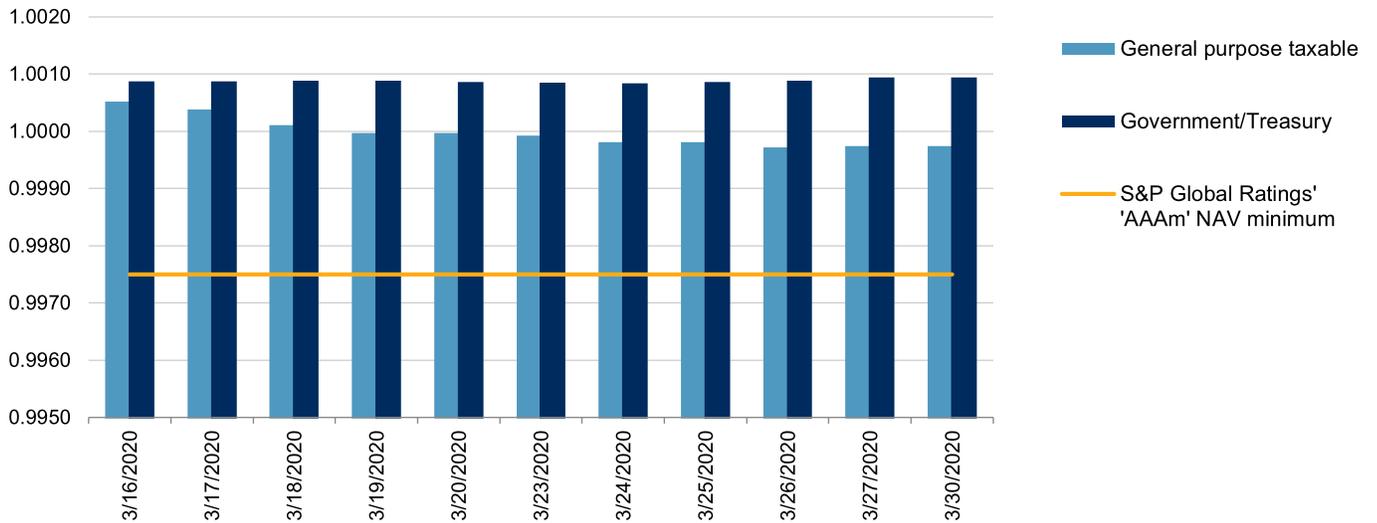
CONTRIBUTORS

Michael Mango
Centennial
+ 303 721 4181
michael.mango1
@spglobal.com

Andrea Valverde
New York
andrea.valverde1
@spglobal.com

Chart 1

Average NAVs Of 'AAAm' Rated LGIPs



Source: S&P Global Ratings.

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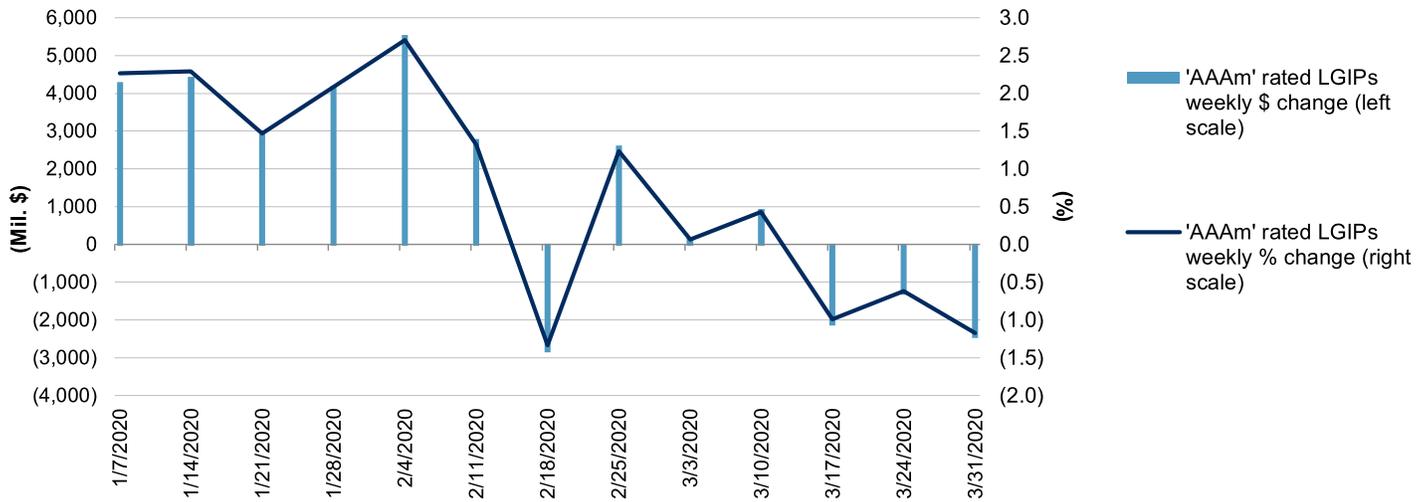
LGIP Flows Stay Balanced

The March 2020 liquidity event in the money market industry was primarily the result of a flight to quality, during which the rush to government securities left little demand for high-quality corporate money market instruments, in particular commercial paper, thereby freezing short-term credit markets. This episode placed stress on prime institutional money market fund (MMF) NAVs, which experienced outflows totaling \$116 billion, representing a 23% decline during this period. LGIPs we rate did not experience the same level of redemption activity in proportion to prime MMFs and, as a result, were generally able to avoid material deterioration to their NAVs, credit quality, average maturity, issuer diversification, or liquidity objectives. According to our asset flow data during the first quarter, particularly for the month of March, LGIPs we rate under our PSFR criteria experienced \$3.7 billion in outflows, making up 1.75% of rated pool assets.

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Chart 2

Q1 2020 'AAAm' Rated LGIP Net Asset Flows



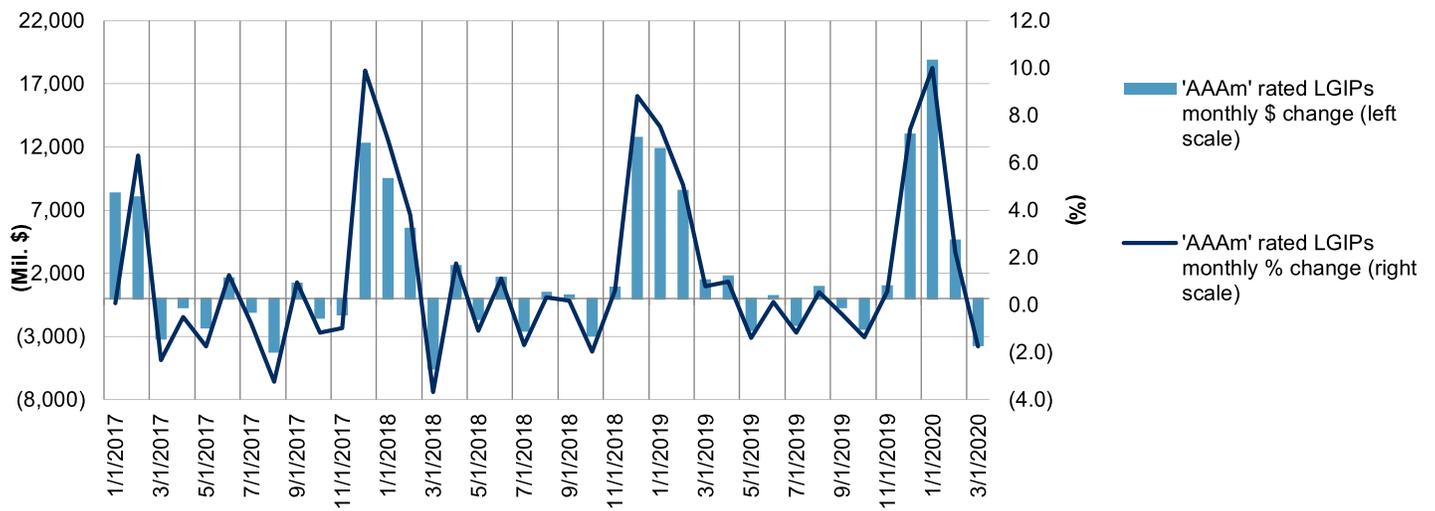
Source: S&P Global Ratings.

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Interestingly, when observing this flow data over a longer time horizon, March 2020 flows are largely consistent with historical cyclical for our rated LGIPs. Based on 36 months of historical asset-flow data, LGIPs typically gain assets in November and December and subsequently experience outflows in February and March, which is mainly caused by seasonal tax revenue. Given March 2020 outflows were in line with historical patterns, we believe that the asset-flow activity was generally isolated from the recent market volatility.

Chart 3

Historical Monthly Net Asset Flows--'AAAm' Rated LGIPs



Source: S&P Global Ratings.
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LGIP Participants Have Held Steady

Market turmoil can create a challenging environment for investment managers to fulfil many redemption requests over a sustained period, because they first seek to sell the fund's most liquid assets (e.g., U.S. Treasuries), leaving behind holdings of lesser liquid securities, which may have increased vulnerability to price instability. In a period of persistent redemption activity, a fund may need to sell these remaining assets in a dislocated market, leading to accelerated pressures on the fund's NAV.

As such, in our qualitative review, we believe an essential factor in managing liquidity is the investment manager's assessment of the underlying shareholder base and their process and philosophy in determining appropriate liquidity levels in the event that unexpected redemptions occur. LGIP shareholders, also known as pool participants, are typically composed of state and local governments, cities, counties, school districts, and other public entities whose cash flow patterns are generally tied to recurring events like tax payments and receipts, debt service, and payrolls, to name a few. The predictable nature of these flows is beneficial to LGIP investment managers when determining a pool's investment strategy and securing appropriate levels of liquidity to meet expected and unexpected flows.

LGIP participants are typically a relatively stable investor base when compared with shareholders of registered MMFs, who may be apt to move more quickly in times of stress. In some instances, pool participants may invest their cash balances within an LGIP while disclosing known withdrawal dates to investment managers in advance. With foreseeable flow information in hand, investment managers of certain rated LGIPs may choose to follow a type of matched-book strategy of establishing maturity dates of investments in short-term money market instruments with anticipated liabilities. Additionally, some state statutes require mandatory participation from

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their local government investor base, leading to further stability of assets through these captive accounts.

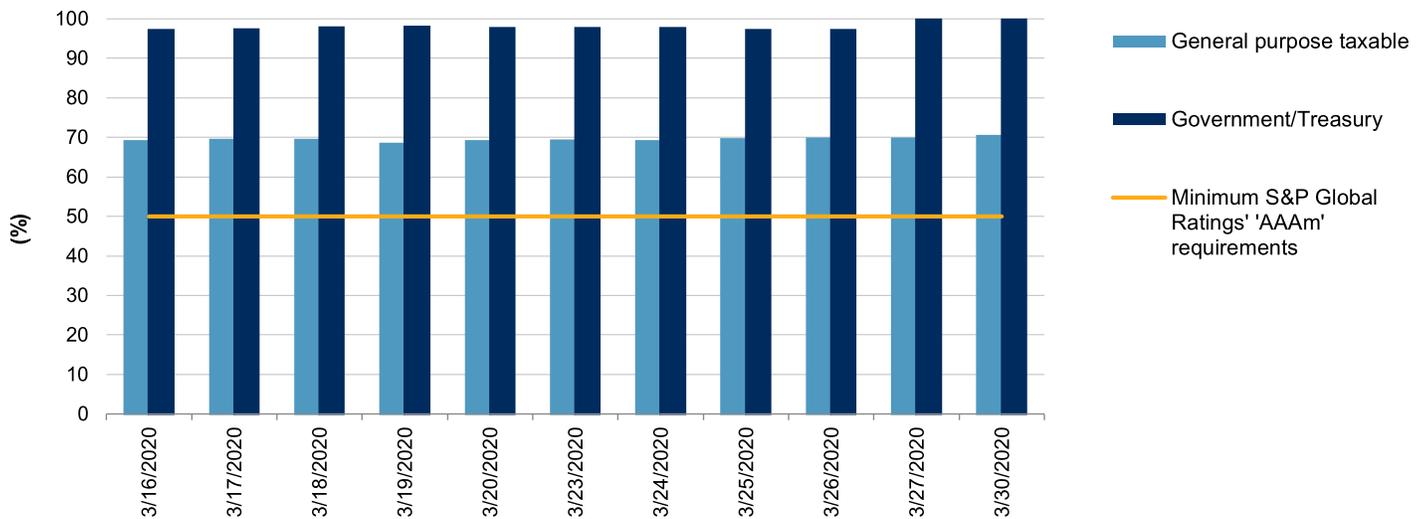
Pools Are Exposed To High-Quality Liquid Investments

Additional factors that support NAV stability include exposure to high-quality investments and the limitations on a portfolio's weighted average maturity (WAM). 'AAAm' rated funds are consistent with the PSFR criteria when the fund maintains a minimum of 50% of total fund assets in securities rated 'A-1+' and a maximum WAM of 60 days. The 50% 'A-1+' threshold reflects our view that higher-rated assets indicate higher price stability, and we believe the 60 day average maturity threshold is a key mitigant of interest rate risks within a rated fund.

The credit quality of LGIP investments during the recent market volatility were well in excess of our 50% minimum threshold for assets we rate 'A-1+'. On average, pools categorized as "general purpose taxable" (i.e., those that are able to invest in corporate credit) held 69% of total assets in 'A-1+' rated securities and "Government/Treasury" pools held 98% in 'A-1+' securities (see chart 4).

Chart 4

'A-1+' Rated Exposure Within 'AAAm' Rated LGIPS



Source: S&P Global Ratings.

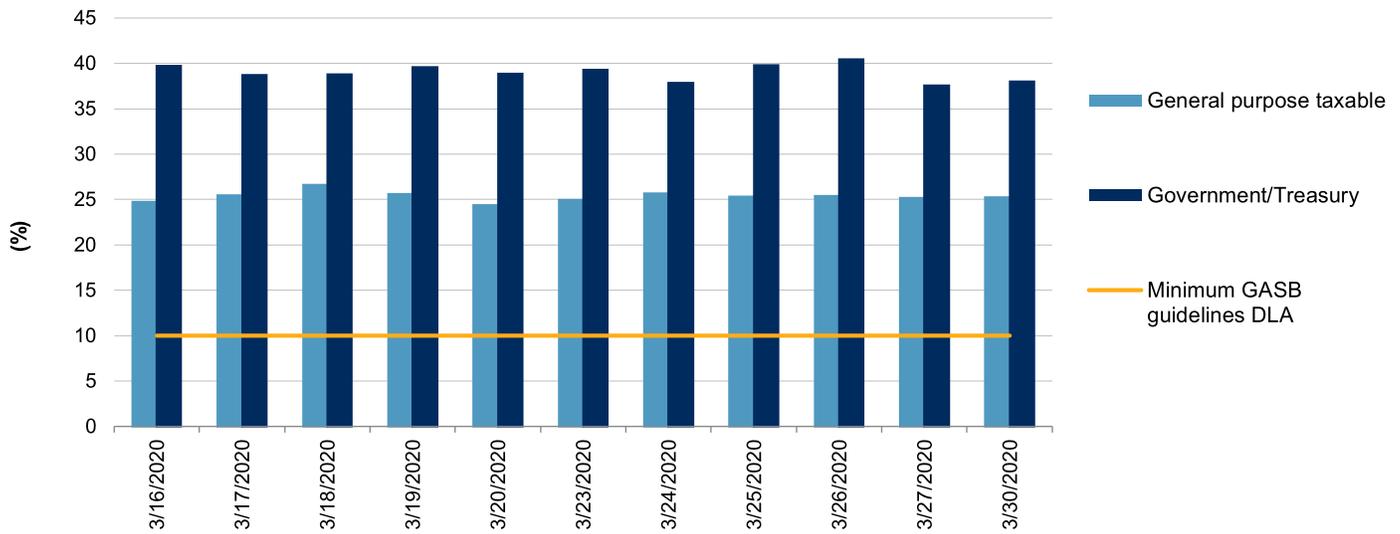
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Certain LGIPs maintain daily and weekly liquidity minimums according to guidelines issued under Governmental Accounting Standards Board (GASB) 79, which allows LGIPs to price their portfolios using amortized cost if certain underlying conditions are met. One of these guidelines requires that pools hold a minimum of 10% assets with daily liquidity and 30% assets with weekly liquidity. Pools we rate, on average, managed in excess of the 10% and 30% levels during the weeks of March 16 and March 23, respectively. (see charts 5 and 6).

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Chart 5

'AAAm' Rated LGIPs - Daily Liquid Assets (DLA)

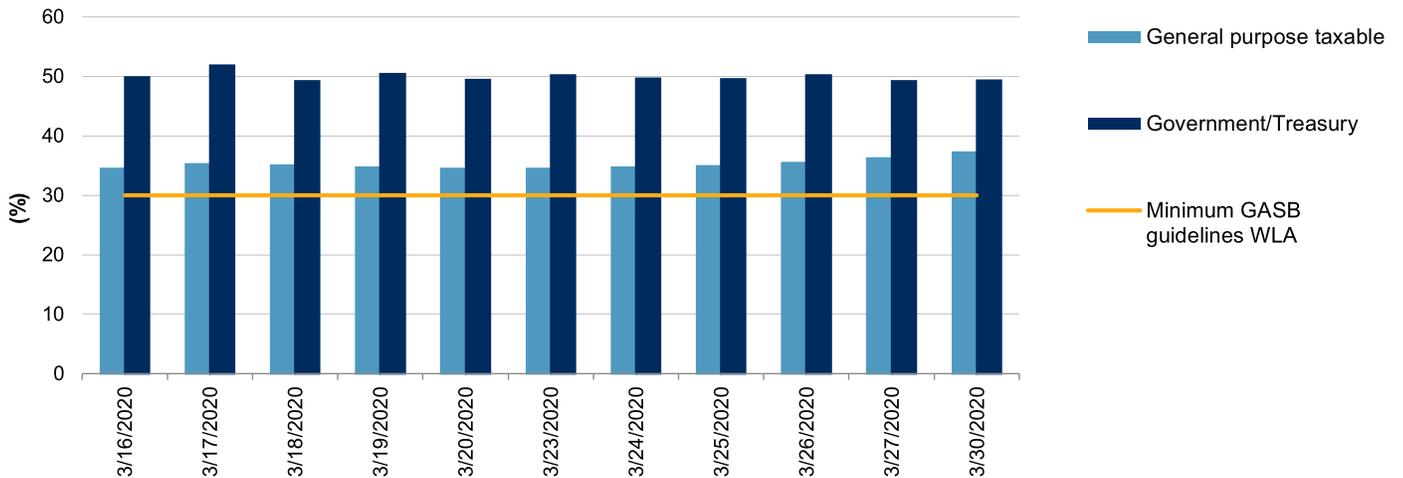


Source: S&P Global Ratings.

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Chart 6

'AAAm' Rated LGIPs--Weekly Liquid Assets (WLA)



Source: S&P Global Ratings.

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Despite Enduring The Recent Wave Of Volatility, LGIPs Still Face Risks

Because of the uncertainty of renewed volatility in the short-term markets, we remain vigilant in our monitoring of LGIPs. Although pools we rate did not experience a deterioration of key rating factors during the recent market stress, we recognize that local governments may focus their efforts on funding and facilitating ongoing measures to mitigate COVID-19-related downturns. Redemptions from LGIPs could increase if market conditions do not improve.

Based on our discussions with investment managers of LGIPs, we expect pools to maintain their investment profiles by focusing on high-credit-quality and liquid investments. In the weeks and months ahead, we expect a continuation of the conservative approach, with the possibility of further restrictions on less-liquid securities.

Types Of Pool Ratings

We first began rating fixed-income LGIPs in 1992, and we currently maintain public ratings on 85 LGIPs from 28 states. Of this amount, 63 of these pools are rated on our PSFR scale. The total assets of pools we rated at the end of March 2020 were \$333 billion, of which \$216 billion is rated under our PSFR scale.

Surveillance Of Pool Ratings

Our pool rating process has provided for and will continue to provide for the weekly review of all LGIPs rated under our PSFR criteria. This review includes an evaluation of cash-flow activity, asset allocation, maturity distribution, NAVs, credit quality, and all portfolio holdings. We evaluate this information to maintain current assessments of each pool's credit and market risk. If a specific event occurs that we believe might affect our opinion of the pool's ability to maintain a stable NAV, we review the event promptly with the investment manager. Fund analysts maintain an open dialogue with pool management teams throughout the year, and we conduct annual, generally on-site, management review meetings for all rated pools.

During volatile market conditions, we typically enhance our standard surveillance to ensure funds are maintaining the relevant fund metrics. Enhanced surveillance, which may include daily interactions with the fund sponsors or investment advisors, is fundamental to our rating process during periods of market volatility.

LGIPs Rated Under Our PSFR Criteria

(As of April 30, 2020)

Pool name	Rating	Rating date	Pool managed by	State
Alaska Municipal League Investment Pool	AAAm	5/6/2009	Nongovernment entity	AK
California Asset Management Trust/Cash Reserve Portfolio	AAAm	3/28/1995	Nongovernment entity	CA
CalTRUST Liquidity Fund	AAAm	7/26/2018	Nongovernment entity	CA
Orange County Educational Money Market Fund	AAAm	12/1/2008	Government entity	CA
Orange County Money Market Fund	AAAm	12/1/2008	Government entity	CA
Colorado Local Government Liquid Asset Trust (COLOTRUST PLUS+)	AAAm	4/24/1996	Nongovernment entity	CO

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LGIPs Rated Under Our PSFR Criteria (cont.)

(As of April 30, 2020)

Pool name	Rating	Rating date	Pool managed by	State
Colorado Local Government Liquid Asset Trust (COLOTRUST PRIME)	AAAm	11/16/1992	Nongovernment entity	CO
Colorado Statewide Investment Pool - CSIP Liquid Portfolio	AAAm	5/19/2017	Nongovernment entity	CO
Colorado Surplus Asset Fund Trust (CSAFE)	AAAm	11/13/1995	Nongovernment entity	CO
Connecticut State Treasurer's Short-Term Investment Fund	AAAm	1/2/1996	Government entity	CT
FL SAFE Stable NAV Fund	AAAm	12/20/2007	Nongovernment entity	FL
Florida Cooperative Liquid Assets Securities	AAAm	4/21/2015	Nongovernment entity	FL
Florida PRIME	AAAm	12/21/2007	Nongovernment entity	FL
Florida Public Assets for Liquidity Management - FL PALM Portfolio	AAAm	10/4/2010	Nongovernment entity	FL
Florida Short Term Asset Reserve Government Fund	AAAm	6/6/2019	Nongovernment entity	FL
Florida Short Term Asset Reserve Prime Fund	AAAm	6/6/2019	Nongovernment entity	FL
Iowa Public Agency Investment Trust - Diversified Portfolio	AAAm	6/1/2016	Nongovernment entity	IA
Iowa Schools Joint Investment Trust	AAAm	5/26/2011	Nongovernment entity	IA
Illinois Funds - Money Market Fund (The)	AAAm	10/9/1996	Government entity	IL
Illinois Public Reserves Investment Management Trust (IPRIME)	AAAm	1/15/2019	Nongovernment entity	IL
Illinois School District Liquid Asset Fund Plus - Liquid Class	AAAm	11/13/1997	Nongovernment entity	IL
Illinois School District Liquid Asset Fund Plus - Max Class	AAAm	11/13/1997	Nongovernment entity	IL
Illinois Trust - Illinois Portfolio	AAAm	10/30/2002	Nongovernment entity	IL
Louisiana Asset Management Pool	AAAm	4/11/1995	Nongovernment entity	LA
Massachusetts Development Finance Agency Short Term Asset Reserve Fund	AAAm	10/8/1991	Nongovernment entity	MA
Maryland Local Government Investment Pool	AAAm	4/18/2000	Nongovernment entity	MD
Michigan Cooperative Liquid Assets Securities System	AAAm	3/10/2009	Nongovernment entity	MI
Michigan Liquid Asset Fund Plus	AAAm	11/13/1997	Nongovernment entity	MI
Minnesota School District Liquid Asset Fund	AAAm	4/20/2001	Nongovernment entity	MN
MNTrust - Investment Shares	AAAm	2/1/2011	Nongovernment entity	MN
Missouri Securities Investment Program -Liquid Series	AAAm	11/13/1997	Nongovernment entity	MO
North Carolina Capital Management Trust - Government Portfolio	AAAm	10/21/1998	Nongovernment entity	NC
Nebraska Liquid Asset Fund	AAAm	11/13/1997	Nongovernment entity	NE
New Hampshire Public Deposit Investment Pool	AAAm	2/3/2011	Nongovernment entity	NH
New Jersey Asset & Rebate Management Program/Joint Account	AAAm	2/13/1991	Nongovernment entity	NJ
New Mexico Local Government Investment Pool	AAAm	8/14/2006	Government entity	NM
New York Cooperative Liquid Assets Securities System	AAAm	3/10/2009	Nongovernment entity	NY
New York Liquid Asset Fund - MAX Portfolio	AAAm	5/4/1998	Nongovernment entity	NY

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LGIPs Rated Under Our PSFR Criteria (cont.)

(As of April 30, 2020)

Pool name	Rating	Rating date	Pool managed by	State
State Treasury Asset Reserve of Ohio (STAR OHIO)	AAAm	7/10/1995	Government entity	OH
Pennsylvania INVEST Community Pool	AAAm	8/26/1999	Government entity	PA
Pennsylvania INVEST Daily	AAAm	2/8/1996	Government entity	PA
Pennsylvania Local Government Investment Trust/PLGIT Portfolio	AAAm	11/21/1997	Nongovernment entity	PA
Pennsylvania Local Government Investment Trust/PLGIT/ARM Portfolio	AAAm	11/21/1997	Nongovernment entity	PA
Pennsylvania Local Government Investment Trust/PLGIT/PRIME	AAAm	6/14/2013	Nongovernment entity	PA
Pennsylvania School District Liquid Asset Fund - Government Transparency Series	AAAm	7/8/2016	Nongovernment entity	PA
Pennsylvania School District Liquid Asset Fund - Max Series	AAAm	11/13/1997	Nongovernment entity	PA
Local Government Investment Cooperative	AAAm	2/8/2006	Nongovernment entity	TX
Lone Star Investment Pool - Corporate Overnight Fund	AAAm	8/21/1995	Nongovernment entity	TX
Lone Star Investment Pool - Government Overnight Fund	AAAm	8/21/1995	Nongovernment entity	TX
Texas Class Government	AAAm	11/29/2016	Nongovernment entity	TX
Texas Cooperative Liquid Assets Securities System	AAAm	3/10/2009	Nongovernment entity	TX
Texas Short Term Asset Reserve (TexSTAR) Cash Reserve Fund	AAAm	4/8/2002	Nongovernment entity	TX
TexasTERM Local Government Investment Pool/TexasDAILY Portfolio	AAAm	9/20/2001	Nongovernment entity	TX
TEXPOOL	AAAm	3/28/1995	Nongovernment entity	TX
TEXPOOL Prime	AAAm	12/9/2002	Nongovernment entity	TX
VACo/VML Virginia Investment Pool (VIP) Stable NAV Liquidity Pool	AAAm	10/27/2016	Government entity	VA
Virginia Local Government Investment Pool	AAAm	6/15/2005	Government entity	VA
Virginia State Non-Arbitrage Program – SNAP Fund (“SNAP Fund”)	AAAm	11/10/2016	Nongovernment entity	VA
Wisconsin Investment Series Cooperative-Cash Management Series	AAAm	12/16/2008	Nongovernment entity	WI
Wisconsin Investment Series Cooperative-Investment Series	AAAm	12/16/2008	Nongovernment entity	WI
West Virginia Government Money Market Pool	AAAm	8/9/2007	Nongovernment entity	WV
West Virginia Money Market Pool	AAAm	8/9/2007	Nongovernment entity	WV
Wyoming Government Investment Fund Liquid Asset Series	AAAm	3/15/2007	Nongovernment entity	WY

Government entity--City, county, state. Nongovernment entity--private firm/subadvised.

Related Criteria

- Principal Stability Fund Rating Methodology, June 23, 2016

Related Research

- So Far, Funds Are Maintaining Stable Net Asset Values Amid Increased Redemptions And Liquidity Pressures, March 25, 2020
- How Liquidity Risk Factors Into Money Market Fund Ratings, June 21, 2016

This report does not constitute a rating action.

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