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Florida Treasury Investment Pool Fund Credit Quality Rating Raised To 'AA-f', Fund Volatility Rating Affirmed At 'S2'

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NEW YORK (S&P Global Ratings) Dec. 11, 2018--S&P Global Ratings today said it raised its fund credit quality rating (FCQR) on the Florida Treasury Investment Pool to 'AA-f' from 'A+f'. At the same time, we affirmed our 'S2' fund volatility rating (FVR). The rating actions follow our annual review of the pool under our FCQR and FVR criteria (see "Fund Credit Quality Ratings Methodology" and "Fund Volatility Ratings Methodology," published on June 26, 2017).

The 'AA-f' FCQR signifies that the credit quality of the pool's exposure is very strong. In our analysis, we first determined a preliminary FCQR through our quantitative assessment of a fund's portfolio credit risk via our fund credit quality matrix. The assessment reflects the weighted average credit risk of the portfolio of investments.

In determining the final FCQR, we compared the Florida Treasury Investment 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. Our comparable ratings analysis resulted in an adjustment to the intermediate FCQR. We are able to make this adjustment based on our combined qualitative assessment ranges between adequate and strong of the investment adviser, the Florida Bureau of Funds Management, Division of Treasury, and the pool's external investment managers that oversee subaccounts within the intermediate and long duration pools. In our opinion, these external managers are all industry-recognized leaders within their respective asset classes. The final rating result is an FCQR upgrade to 'AA-f' from 'A+f'.

The qualitative assessment entailed a review of the investment manager's management and organization, risk management and compliance, credit culture, and credit research. The portfolio risk assessment focused on four indicators: counterparty risk, concentration risk, liquidity, and fund credit score cushion (the proximity of the preliminary FCQR to a fund rating threshold).

The 'S2' FVR signifies that the fund exhibits low to moderate volatility of returns comparable to a portfolio of short- to medium-duration government securities, typically maturing within three to seven years and denominated in the base currency of the fund. 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 that these portfolio risk factors were consistent at an 'S2' FVR, no adjustments were made to the preliminary FVR derived in our review of return volatility and dispersion. We then used the adequate qualitative assessment to determine that no adjustment was required to the FVR.

In determining the final FVR, we compared the Florida Treasury Investment 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 comparable ratings analysis did not result in any adjustment in determining the final FVR.

The Treasury Investment Pool is made up of eight collective investment portfolios/programs, which are managed by the Florida Division of Treasury. The Treasury manages monies belonging to state agencies and other entities created by Florida State Constitution or law. Collectively, these Treasury investment portfolios/programs are referred to as the investment pool.

The Treasury's principal investment management objectives are to provide liquidity, preserve principal, and provide incremental income. To achieve the objective, Florida statutes establish the allowable investments for funds within the Treasury. The portfolio is generally invested in high quality fixed income instruments, which typically comprise investments such as U.S. Treasuries, agencies, commercial paper, corporate bonds, municipals, and asset-backed securities.

An S&P Global Ratings' 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 S&P Global Ratings' 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 a fund's base currency. FVRs are not globally comparable. FVRs reflect our expectation of a fund's future volatility of returns to remain consistent with its historical volatility of returns. FVRs reflect S&P Global Ratings' view of a 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 Credit Quality Ratings Methodology, June 26, 2017
- Criteria - Financial Institutions - Fixed-Income Funds: Fund Volatility 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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.