



RATING ACTION COMMENTARY

Fitch Rates Georgia Fund 1 Local Government Investment Pool 'AAAf'/'S1'

Thu 17 Dec, 2020 - 4:37 PM ET

Fitch Ratings - New York - 17 Dec 2020: Fitch Ratings has assigned a 'AAAf' International Fund Credit Quality Rating (FCQR) and a 'S1' Fund Market Risk Sensitivity Rating (MRSR) to Georgia Fund 1, a local government investment pool managed by the Office of the State Treasurer (OST) of Georgia. As of Nov. 30, 2020, the pool had approximately \$22.6 billion in invested securities.

KEY RATING DRIVERS

The ratings reflects Fitch's review of the pool's investment and credit guidelines, credit quality, diversification, as well as the capabilities of the OST to manage the assets of 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.

The pool did not experience material credit deterioration or outflows during the coronavirus-driven market volatility, further supporting the assigned ratings.

Asset Credit Quality

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

As of the review date, the pool invested in direct U.S. Agency obligations, U.S. Treasury obligations, repurchase agreements backed by U.S. Treasury/agency debt and obligations of investment-grade corporations, money market funds, and FDIC-insured/collateralized bank deposits.

The pool's investment guidelines allow for deposits at banks participating in Georgia's Secured Deposit Program (SDP), which is a multibank contingent liability pledging pool established in the state of Georgia to protect public deposits. Varying levels of collateral are pledged to the State Treasurer of Georgia by participating banks and all members agree to contingent liability provisions to join the other banks in the program in covering losses to depositors that are not covered by FDIC insurance or the sale of collateral pledged to the program, based on each member's pro rata share of deposits covered by the program.

Fitch views the SDP as being of high credit quality with an expectation of low default risk for public deposits based on the eligible collateral requirements and the joint and several obligations from other participating banks, the majority of which are of a high credit quality.

All investments in Georgia Fund 1 are designed to comply with the investment policy statements set forth by the Georgia State Depository Board and the pool's governing documents. The primary objectives of the pool is the safety of capital, liquidity, investment income, and diversification.

Portfolio Sensitivity to Market Risks

The pool's Market Risk Sensitivity Factor (MRSF) of 0.13, as of Nov. 30, 2020, is 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 constrained to a maximum weighted average maturity (WAM) of 90 days, with a target WAM of 60 days. Eligible investments will be limited to a final stated maturity of 397

days for all investments excluding floating rate securities, which will be limited to a maximum stated final maturity of two years.

Participant Profile

The pool is offered by the State of Georgia to counties, municipalities, public colleges and universities, boards of education, special districts, state agencies, and other authorized entities.

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. A recent portfolio was used to complete the analysis for the assigned ratings.

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.

U.S. Government and Agencies on Negative Outlook

The revision of the United States' Rating Outlook to Negative from Stable in July 2020, has no immediate impact on the pool. A Negative Outlook does not impact Fitch's calculation of the WARF that is the primary driver of FCQR, nor does a Negative Outlook impact Fitch's calculation of the MRSF that is the primary driver of the MRSR. These dynamics also apply to the subsequent Rating Outlook revisions with respect to U.S. government sponsored entities.

However, if U.S. government and agency debt were subsequently downgraded to 'AA+' these securities would be assigned higher rating factors and market risk factors. Based on a review of a recent portfolio, a hypothetical downgrade of U.S. government and agency debt to 'AA+' would not lead to a change in the pool's rating, assuming no other changes to the current portfolio.

INVESTMENT MANAGER

The OST is responsible for the day-to-day management of the pool's assets and the accounting procedures. The investment policies have been established by the State

Depository Board of Georgia.

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 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 this rating were the public domain and the investment manager.

RATING ACTIONS

ENTITY/DEBT	RATING		
Georgia Fund 1	Fund Cr Qual Rtg	AAAf	New Rating
●	Sensitivity	S1	New Rating

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Additional information is available on www.fitchratings.com**APPLICABLE CRITERIA**[Bond Fund Rating Criteria \(pub. 22 Jul 2019\)](#)**ADDITIONAL DISCLOSURES**[Solicitation Status](#)[Endorsement Policy](#)

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Georgia Fund 1

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