

Local Government Investment Pools: 2Q19

Quarterly Growth in Assets: Both Fitch Ratings' Local Government Investment Pool (LGIP) indices saw modest increases in assets during 2Q19. Inflows during the period were likely due to additional cash receipts from seasonal tax collections. On a year-over-year basis, assets in the Fitch Liquidity LGIP Index and Fitch Short Term LGIP Index increased 16% and 9%, respectively, to \$172 billion and \$78 billion.

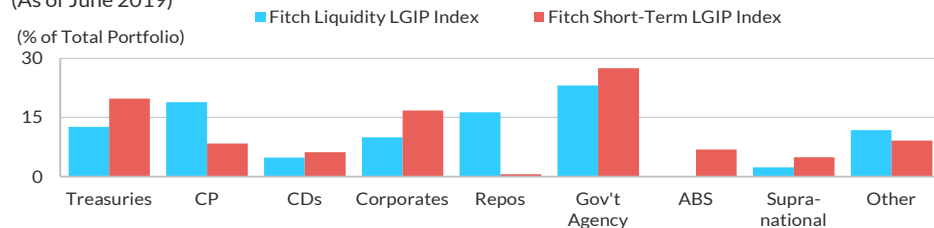
Net Yields Decrease; Duration Extended: Yields in the short-term markets fell across the curve during the second quarter due to global growth concerns, U.S./China trade war uncertainty, and an expected interest rate cut by the Federal Reserve. As a result, LGIP net yields fell slightly during the period, by 5 to 6 basis points for both Fitch indices, a reversal from several years of a steady upward trend. As a result of expectations for low interest rates, LGIPs in Fitch's Short-Term Index slightly extended duration to sustain yields. Duration stood at 1.02 years at 2Q19, up from 0.97 years at 1Q19. The weighted average maturity (WAM) for the Fitch Liquidity LGIP Index remained steady at 42 days.

Continued Tax Revenue Stability: Fitch's latest "Sector Briefing: Local Governments" report published in August highlighted the stability of property tax trends in the near term, given upward price trends for homes coupled with limited near-term pressure to lower tax rates. Additionally, sales and income tax revenues will likely continue to grow, especially as more states enact wider ranging internet sales taxes on retailers that conduct business in regions without having a physical presence. The expected increase in tax revenue should support continued growth in LGIP assets.


GFOA Best Practices/Advisories: The updated September Government Finance Officers Association best practices guidelines published for managing LGIPs recommended maintaining at least 100% collateral against deposits or using federal agency letters of credit in lieu of securities and basing cash forecasts on a minimum 12-month rolling period.


LGIP Weighted Average Sector Allocation

(As of June 2019)

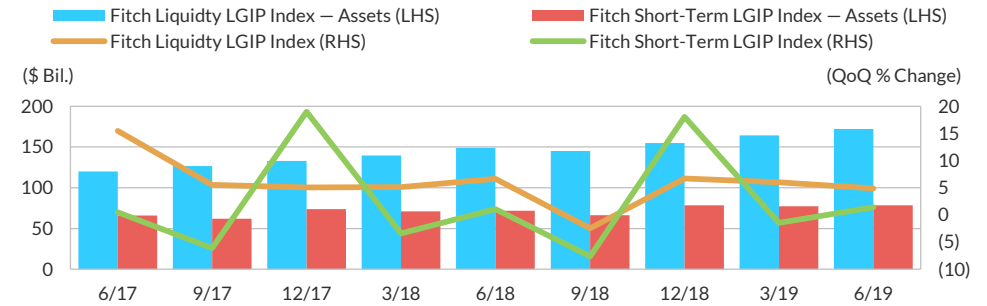


Note: "Other" category includes bank deposits, money market funds, municipal securities, among other sectors.
Source: Fitch Ratings.

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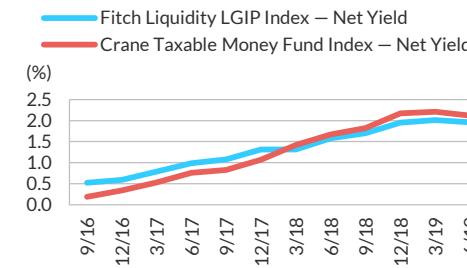
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Total Assets



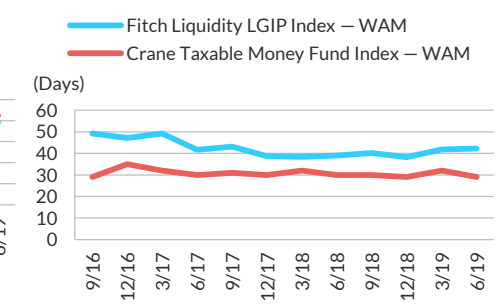
Source: Fitch Ratings.

Fitch Liquidity LGIP Index – Net Yield



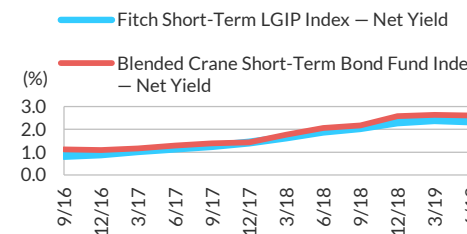
Note: Data reflect average 7-day net yields, or if not available, 30-day yields utilized.
Source: Fitch Ratings, Crane Data.

Fitch Liquidity LGIP Index – WAM



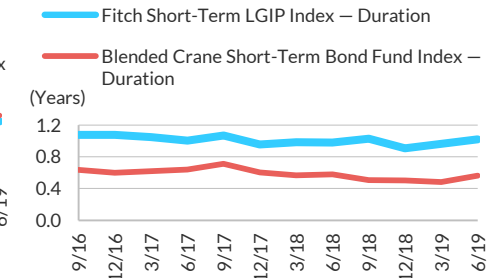
Source: Fitch Ratings, Crane Data.

Fitch Short-Term LGIP Index – Net Yield



Note: Data reflect average 30-day net yields, or if not available, 7-day yields utilized.
Source: Fitch Ratings, Crane Data.

Fitch Short-Term LGIP Index – Duration



Source: Fitch Ratings, Crane Data.

Summary Statistics

	June 2019	March 2019	QoQ Change
Fitch Liquidity LGIP Index			
Total Assets (\$ Bil.)	172.1	164.2	7.9
Average Fund Size (\$ Bil.)	10.8	10.3	0.5
Average WAM (Days)	42	42	0
Crane Taxable Institutional Money Fund Average – WAM (Days)	29	32	(3)
Average Net Yield (%)	1.96	2.01	(0.05)
Crane Taxable Institutional Money Fund Average – Net Yield (%)	2.12	2.21	(0.09)
Fitch Short-Term LGIP Index			
Total Assets (\$ Bil.)	78.3	77.2	1.1
Average Fund Size (\$ Bil.)	6.5	6.4	0.1
Average Duration (Years)	1.02	0.97	0.05
Blended Crane Short-Term Bond Fund Index – Duration (Years)	0.56	0.48	0.08
Average Net Yield (%)	2.34	2.41	(0.07)
Blended Crane Short-Term Bond Fund Index – Net Yield (%)	2.60	2.63	(0.03)

Note: Blended Crane Short-Term Bond Fund Index is a weighted average of the Crane Ultrashort Index and Crane Conservative Ultrashort Index.

Source: Fitch Ratings, Crane Data.

Weighted Average Sector Allocation

(%)	Treasuries	Commercial Paper	Certificates of Deposit	Corporates	Repurchase Agreements	Government Agency	ABS	Supranational	Other
Fitch Liquidity LGIP Index									
June 2019	12.6	18.9	4.8	10.0	16.3	23.1	0.1	2.3	11.8
March 2019	12.0	21.2	4.9	8.9	14.5	23.7	0.1	2.7	11.9
QoQ Change	0.6	(2.3)	(0.1)	1.1	1.8	(0.6)	0.0	(0.4)	(0.1)
Fitch Short-Term LGIP Index									
June 2019	19.8	8.4	6.2	16.8	0.6	27.5	6.8	4.9	9.1
March 2019	22.0	9.9	6.9	16.5	0.5	26.0	6.3	4.6	7.4
QoQ Change	(2.2)	(1.5)	(0.7)	0.3	0.1	1.5	0.5	0.3	1.7

Note: Not all LGIPs disclose the same data on a consistent basis. Fitch used data available at the time to construct the indices.

Source: Fitch Ratings.

Index Construction Methodology

Fitch Liquidity LGIP Index: The LGIPs comprising the Fitch Liquidity LGIP Index resemble money market funds that adhere to Rule 2a-7 of the 1940 Act. These LGIPs seek to operate with a stable net asset value (NAV) and follow most, although not all, of the Securities and Exchange Commission's (SEC) regulations applicable to money market funds (such as maturity restrictions). The LGIPs included in this index invest in high credit quality securities and aim to maintain a WAM of less than 60 days and a weighted average life of less than 120 days. Fitch constructed the index using information made available through LGIP public reporting.

Fitch Short-Term LGIP Index: The LGIPs comprising the Fitch Short-Term LGIP Index are comparable to SEC regulated short-term bond funds. These strategies will typically have longer maturities, higher yields and sometimes lower credit quality than the liquidity LGIPs, although this differs by pool. The LGIPs included in the Fitch Short-Term LGIP Index operate with variable NAVs and maintain durations in the range of approximately one to three years. Fitch constructed the index using information made available through LGIP public reporting.

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