

## **RATING ACTION COMMENTARY**

### **Fitch Assigns 'AAAf'/'S1' Ratings to the Orange County Treasurer's Pool**

Wed 01 Nov, 2023 - 4:56 PM ET

Fitch Ratings - New York - 01 Nov 2023: Fitch Ratings has assigned a 'AAAf' Fund Credit Quality Rating (FCQR) and 'S1' Fund Market Risk Sensitivity Rating (MRSR) to the Orange County Treasurer's Pool (OCTP). The Orange County Treasurer is the fiduciary of the public funds in the OCTP and is delegated the responsibility for investing these funds by the Orange County Board of Supervisors (Board). The Board approves the annual Investment Policy Statements (IPS) that govern the investment funds in the OCTP.

Fitch used portfolio holdings as of Sept. 30, 2023 to complete the analysis for the assigned rating.

#### **KEY RATING DRIVERS**

The ratings reflect Fitch's review of the portfolio's investment and credit guidelines, expected credit quality and diversification, as well as the capabilities of the Orange County Treasurer to manage the assets of the OCTP. The 'AAAf' FCQR indicates the highest underlying credit quality (or lowest vulnerability to default). The 'S1' rating indicates a very low sensitivity to market risk.

#### Portfolio Credit Quality

Per Fitch's Bond Fund Rating Criteria, the fund's weighted average rating factor (WARF) is the primary driver of the FCQR. A fund's WARF is a function of the credit ratings of the securities held in the fund's portfolio and their remaining term to maturity, weighted by market value. The fund's WARF of 0.08 as of Sept. 30, 2023 is less than 0.3 and therefore is in line with a WARF-implied FCQR of 'AAAf'.

#### Market Risk Sensitivity

## Derivatives

The IPS prohibits the OCTP from investing in derivatives.

## SURVEILLANCE

Fitch expects to receive 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.

## INVESTMENT MANAGER

The Orange County Treasurer is responsible for investment of the OCTP and is assisted by an internal team of investment professionals. There is also a Treasury Oversight Committee (TOC), which was established by the Board, and is comprised of seven members; the Auditor-Controller, the County Executive Officer, the Superintendent of Schools and four members of the public of whom a majority have finance expertise.

The TOC reviews the proposed IPS annually prior to Board approval.

The pool is subject to an annual compliance audit performed by an external auditor.

Fitch views the investment management capabilities, resources, operational controls, compliance and oversight processes of the investment advisor as appropriate for the assigned ratings and investment strategy.

## RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--A positive rating action is not applicable as the assigned ratings are the highest rating 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 and maturity profile of the fund. A material decrease in portfolio credit quality or increase in security maturities could result in the FCQR being lowered if the pool's resulting WARF exceeds 0.3 and/or the MRSR being lowered if the pool's MRF exceeds 2.0. However, Fitch perceives this as

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## **PARTICIPATION STATUS**

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

## **APPLICABLE CRITERIA**

Bond Fund Rating Criteria (pub. 16 Aug 2022)

## **ADDITIONAL DISCLOSURES**

Solicitation Status

Endorsement Policy

## **ENDORSEMENT STATUS**

Orange County Treasurer's Pool

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<https://www.fitchratings.com/understandingcreditratings>. In addition, the following

<https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions

for each rating scale and rating categories, including definitions relating to default. ESMA

and the FCA are required to publish historical default rates in a central repository in

accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European

verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at <https://www.fitchratings.com/site/re/10238496>

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