

RATING ACTION COMMENTARY**Fitch Affirms the Orange County Treasurer's Pool at 'AAAf'/'S1'**

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Fitch Ratings - New York - 01 Aug 2024: Fitch Ratings has affirmed the International Fund Credit Quality Rating (FCQR) and Fund Market Risk Sensitivity Rating (MRSR) assigned to the Orange County Treasurer's Pool (OCTP) at 'AAAf'/'S1'.

Fitch used portfolio holdings as of March 31, 2024 to complete the analysis for the rating action.

KEY RATING DRIVERS

The ratings reflect Fitch's review of the portfolio's investment and credit guidelines, credit quality and diversification, as well as the capabilities of the Orange County Treasurer to manage the assets of the fund. 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. FCQRs and MRSRs do not opine on the probability of extraordinary liquidity management measures being applied, nor the redemption risk of the fund.

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 0.11 as of March 31, 2024 is less than 0.3 and therefore, is in line with criteria guidelines for WARF at the assigned rating level.

Market Risk Sensitivity

The fund's MRSR is primarily based on the portfolio's market risk factor (MRF). A portfolio's MRF is calculated by combining the portfolio interest rate duration and risk-adjusted spread duration of the securities in the portfolio, and adjusting for the effect of any leverage. The higher the portfolio's MRF then the higher the sensitivity to interest rate, spread and other market risk variables. As of March 31, 2024, the MRF of the fund's portfolio was 1.02, which is less than 2.0 and therefore aligns with criteria guidelines for a MRSR of 'S1'.

The fund's market risk is mitigated by the duration of the pool, which is limited to a maximum duration of 1.5 years. The fund's 'S1' MRSR indicates very low sensitivity to market risk. At the time of Fitch's analysis, the fund did not employ leverage or any derivatives.

Maturity Profile

The maturity profile of the pool is managed to meet anticipated cash flow needs of the pool's participants. The pool generally maintains a portion of its assets in daily liquidity provided by government money market funds. The planned nature of the pool's cash flows is a significant mitigant to the liquidity risk in the portfolio.

Participant Profile

The fund is comprised primarily of money deposited by mandatory participants such as public funds of the County of Orange and School and Community College Districts. The fund also includes a small percentage of voluntary participants such as various Orange County cities and other districts.

Stress Tests

Fitch conducted stress tests as outlined in its "Bond Fund Rating Criteria," including concentration and market-based stresses, to test the sensitivity of the fund's rating against potential changes in the portfolio's credit quality. There was no material deterioration in the WARF or MRF of the portfolio as a result of these stressed scenarios, supporting Fitch's view that the portfolio's credit quality is consistent with criteria guidelines at the assigned rating level.

Furthermore, Fitch conducted additional stress tests that went beyond the stress tests outlined in its Bond Fund Rating Criteria, applying greater credit and spread risk factors to the portfolio holdings. Two of these additional stress tests included a hypothetical three-notch downgrade to the largest issuers in the portfolio and a hypothetical one-notch downgrade to all issuers on the lower cusp of a rating category (e.g., downgrading all issuers currently rated 'AA-' to 'A+' and downgrading all issuers currently rated 'A-' to 'BBB+', etc.). These scenarios were run to further test the resiliency of the portfolio's WARF and MRF.

Although the fund breached the three-notch downgrade test at the assigned rating level, Fitch believes the breach does not negatively impact the rating because the agency deems this level of negative migration to be unlikely in the current environment, particularly given the active management of the fund and, in most circumstances, the Stable Outlooks of issuers captured in Fitch's testing.

Portfolio Composition

Fitch deems the overall portfolio quality to be sound and concentrations are managed prudently. As of March 31, 2024, 56% of the market value of the pool was allocated to U.S. Treasuries or direct obligations of U.S. government agencies maturing within one year and 3% was allocated to money market funds. The remaining 41% was allocated to U.S. Treasuries or direct obligations of U.S. government agencies with maturities greater than one year.

Derivatives

The fund's investment policy statement (IPS) prohibits the fund from investing in derivatives.

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".

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 the following 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 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 a downgrade of the FCQR if the pool's resulting WARF exceeds 0.3 and/or downgrade of the MRSR if the pool's MRF exceeds 2.0. However, Fitch believes this is unlikely in the near term absent significant credit migration, or a change in the fund's investment strategy.

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".

SOURCES OF INFORMATION

The sources of information used to assess this rating were the public domain and the investment manager.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Orange County Treasurer's Pool	Fund Cr Qual Rtg AAAf Affirmed	AAAf
	Sensitivity S1 Affirmed	S1

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Bond Fund Rating Criteria \(pub. 16 Aug 2022\)](#)

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Orange County Treasurer's Pool

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