

Virginia Local Government Investment Pool EM 'AAAf' Rating Affirmed; Fund Volatility Rating Raised To 'S1+'

November 22, 2021

NEW YORK (S&P Global Ratings) Nov. 22, 2021--S&P Global Ratings today affirmed its 'AAAf' fund credit quality rating (FCQR) and raised its fund volatility rating (FVR) to 'S1+' from 'S1' on the Virginia Local Government Investment Pool EM (LGIP EM) sponsored by Commonwealth of Virginia Department of the Treasury.

The 'AAAf' FCQR signifies that the credit quality of the Virginia Local Government Investment Pool EM's (LGIP EM) portfolio exposure is extremely strong. In our analysis, we 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. The final rating considers our qualitative assessment of management, which we have assessed as adequate. The qualitative assessment included 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 'S1+' FVR indicates that the fund exhibits extremely low volatility of monthly returns compared with a portfolio of short-duration government securities with a maturity of 12 months or less. The upgrade follows our assessment of the fund's total monthly returns. Previously, the FVR reflected the historical returns of a proxy fund, which was used at the time of the initial rating on July 2017. Given we now have 48 months of the LGIP EM total return data, our analysis of the LGIP EM's return volatility, in combination with our understanding of management's duration strategy of less than a year, we expect the LGIP EM to be in line with an 'S1+' rating as part of our forward-looking view.

We determined the FVR by assessing the historical volatility and dispersion of fund returns relative to reference indices. Then we evaluated portfolio risk, considering duration, credit exposures, liquidity, derivatives, leverage, foreign currency, and investment concentration. Given that these portfolio risk factors were consistent at an 'S1+' FVR, no adjustments were made to the preliminary FVR derived in our review of return volatility and dispersion. We used the adequate qualitative assessment to determine that no adjustment was required to the FVR. In determining the final FVR, we compared the fund with other funds that have a similar portfolio strategy and composition. 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.

PRIMARY CREDIT ANALYST

Joseph Zimbalist
New York
joseph.zimbalist
@spglobal.com

SECONDARY CONTACT

Michael Masih
New York
+ 1 (212) 438 1642
michael.masih
@spglobal.com

Virginia Local Government Investment Pool EM 'AAAf' Rating Affirmed; Fund Volatility Rating Raised To 'S1+'

The LGIP EM is sponsored by the Commonwealth of Virginia Department of the Treasury, which currently manages \$31 billion in assets under management. Based on its information statement, the LGIP EM's primary objectives in priority order are safety of principal, liquidity, and return on investment. The LGIP EM seeks to achieve its investment objective by investing its assets primarily in a diversified portfolio of U.S. government obligations, repurchase agreements collateralized by U.S. government agency, money market instruments, and corporate notes.

An 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 (for example, 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 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 the fund's base currency. FVRs are not globally comparable. FVRs reflect our expectation of the fund's future volatility of returns remaining consistent with its historical volatility of returns. They also reflect our view of the fund's sensitivity to interest rate risk, credit risk, and liquidity risk, as well as other factors that may affect returns, like use of derivatives and leverage, exposure to foreign currency risk, 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 FCQRs and FVRs.

Related Criteria

- Criteria | Financial Institutions | Fixed-Income Funds: Fund Volatility Ratings Methodology, June 26, 2017
- Criteria | Financial Institutions | Fixed-Income Funds: Fund Credit Quality Ratings Methodology, June 26, 2017
- Criteria | Financial Institutions | Fixed-Income Funds: Principal Stability Fund Rating Methodology, June 23, 2016

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.

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.