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

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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.

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