

## Virginia Treasury LGIP Extended Maturity Portfolio Assigned 'AAAf/S1' Ratings

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CHICAGO (S&P Global Ratings) July 20, 2017--S&P Global Ratings today said it assigned its 'AAAf' fund credit quality rating (FCQR) and 'S1' fund volatility rating (FVR) on the newly created Virginia Treasury LGIP Extended Maturity Portfolio.

The fund's investment objectives are to provide participants, which are public entities, an alternative fluctuating net asset value (NAV) investment vehicle to the Virginia Treasury LGIP, currently rated 'AAAm' by S&P Global Ratings based on its principal stability fund rating scale. The Virginia Treasury LGIP Extended Maturity Portfolio is structured to provide participants, in order of priority, safety, liquidity, and return on investment. The fund seeks to achieve its investment objectives by managing credit and interest rate risks while investing in an actively managed portfolio consisting primarily of investment-grade fixed-income securities.

The 'AAAf' FCQR signifies that the credit quality of the fund's portfolio exposure is extremely strong. When assigning the 'AAAf' rating, we first determined a preliminary FCQR through our quantitative assessment of the credit risk of the fund's model portfolio. The assessment reflects the weighted average credit risk of the portfolio of investments.

The qualitative assessment entailed a review of Virginia Treasury's management and organization, risk management and compliance, credit culture, and credit research functions. 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). We view the investment manager as adequate and the portfolio risk assessment as neutral, and, as such, the final FCQR did not differ from our preliminary assessment.

The 'S1' FVR signifies that the fund exhibits low volatility of returns comparable to a portfolio of short-duration government securities, typically maturing within one to three years and denominated in the base currency of the fund. We determined the preliminary FVR by assessing the historical volatility and dispersion of the fund's designated benchmark's returns relative to reference indices. Under our portfolio risk assessment, we reviewed the fund's investment policies around duration, credit exposures, liquidity, derivatives, leverage, foreign currency, and investment concentration. We did not make any adjustment to the FVR derived as a result of the factors considered in our portfolio risk assessment. Finally, our management assessment and comparable rating analysis determine that no adjustment was required to the FVR.

In determining the final FCQR and FVR, we compared the Virginia Treasury LGIP Extended Maturity Portfolio with other funds that have similar management, portfolio strategy, and composition. Here we performed a holistic review of the fund's portfolio credit quality, risk characteristics, and management's strengths and weaknesses relative to its peers. The comparable rating analysis did not result in any adjustment to the final FCQR and FVR.

The ratings reflect the credit quality of the fund's portfolio of investments, which consist of high-quality, short-term, U.S. dollar-denominated fixed-income instruments. These include obligations of U.S. banks and financial institutions, U.S. corporate obligations, U.S. government securities, municipal securities, repurchase agreements, shares of the Virginia Treasury LGIP, and sovereign governments and companies securities that are fully guaranteed by such sovereign government, paying a fixed, variable, or floating interest rate. We understand that the fund's investment guidelines, as described in its prospectus, indicate the fund will invest at least 100% of its net assets, determined at the time of purchase, in high-quality, short-term, U.S. dollar-denominated fixed-income instruments. The fund will be limited to investment-grade assets, primarily high-quality names rated at least 'AA' or 'A-1' and above. The fund's duration target is expected to be 1-1.5 years.

Virginia Treasury administers the LGIP Program Portfolios for public entities. The Virginia LGIP Pool Program consists of two internally, professionally managed portfolios that comply with the Investment of Public Funds Act, namely the Virginia Treasury LGIP Extended Maturity Portfolio and the Virginia Treasury LGIP. The investment portfolios are managed by the Investment Division of the State Treasurer's office. Manju S. Ganeriwala is the State Treasurer. As of June 30, 2017, Virginia Treasury has more than \$9 billion in assets under management. JPMorgan Chase Bank is the custodian, and U.S. Bancorp Fund Services LLC is the transfer agent for the portfolio.

An FCQR 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 NAVs. 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 (e.g., 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 a fund's future volatility of returns to remain consistent with its historical volatility of returns. FVRs reflect our view of a fund's sensitivity to interest rate risk, credit risk, and liquidity risk, as well as other factors that may affect returns, such as use of derivatives, use of leverage, exposure to foreign currency risk, and 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 fund credit quality and volatility ratings.

#### 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

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [www.spcapitaliq.com](http://www.spcapitaliq.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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