

## Fund Credit Quality Rating On CalTRUST Medium-Term Fund Raised To 'AA-f'; Fund Volatility Rating Affirmed At 'S1'

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NEW YORK (S&P Global Ratings) Dec. 12, 2018--S&P Global Ratings today said it raised its fund credit quality rating (FCQR) on the CalTRUST Medium-Term Fund to 'AA-f' from 'A+f'. At the same time, we affirmed our 'S1' fund volatility rating (FVR). The rating actions follow our annual review of the fund under our FCQR and FVR criteria (see "Fund Credit Quality Ratings Methodology" and "Fund Volatility Ratings Methodology," published on June 26, 2017).

The 'AA-f' FCQR signifies that the credit quality of the fund's exposure is very strong. In our analysis, we first determine 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 did not differ from our preliminary assessment given our strong qualitative assessment of the fund's investment manager, Blackrock Financial Management Inc. We upgraded the FCQR as management has focused on higher-quality assets in the fund, which have improved the overall credit quality of the fund. The final rating result is an FCQR upgrade to 'AA-f' from 'A+f'.

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 FVR by assessing the historical volatility and dispersion of fund returns relative to reference indices. Next, we evaluated

portfolio risk, taking into account duration, credit exposures, liquidity, derivatives, leverage, foreign currency, and investment concentration. Given the determination 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.

The qualitative assessment entailed 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). In determining the final FCQR and FVR, we performed a comparable rating analysis on the assessed funds with other funds that have similar portfolio strategy and composition and formed a holistic view of the fund's portfolio credit quality and characteristics relative to its peers. The comparative rating analysis did not result in any adjustment to either FCQR or FVR ratings.

BlackRock Inc. is an industry-leading investment advisory firm with a global reach managing approximately \$1.7 trillion in fixed-income assets. The firm's breadth and depth is comprised of more than 400 fixed-income professionals with a global trading execution platform providing deep market access and best-in-class risk analytics. The Short Duration team managing the CalTRUST Funds makes use of the full scope of BlackRock's resources.

Investment Trust of California is doing business as CalTRUST, a Joint Powers Agency Authority created by local public agencies for local public agencies in California to pool their assets and invest these local agency funds such as operating reserves and bond proceeds for investment purposes. Any California public agency may participate in the Trust, including the state, counties, cities, and special districts. Funds from all participants are pooled in each of the accounts. Participants receive units in the Trust and designated shares for the particular accounts in which they invest.

Following the investment policy direction established by the Board of Trustees, the primary objective of the investment manager is to safeguard the principal. The secondary objective shall be to meet the liquidity needs of the participants, and the third objective shall be to maximize the yield in a manner consistent with the first two objectives. The objective of the investment policy is to obtain the best possible return commensurate with the degree of risk that participants are willing to assume in obtaining such return. The CalTRUST Medium-Term Fund seeks to attain as high a level of current income consistent with the preservation of principal. In order to achieve the objective, the funds will be invested in only fixed-income-oriented investments permitted in accordance with Sections 53601 and 53635 of the California Government Code. The CalTRUST Medium-Term Fund will have a target portfolio duration of one and a half to three and a half years.

An S&P Global Ratings' 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's 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 S&P Global Ratings' 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 a fund's base currency. FVRs are not globally comparable. FVRs reflect our expectation that a fund's future volatility of returns will remain consistent with its historical volatility of returns. FVRs reflect S&P Global Ratings' 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 Credit Quality Ratings Methodology, June 26, 2017
- Criteria - Financial Institutions - Fixed-Income Funds: Fund Volatility 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.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on 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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