



## **RATING ACTION COMMENTARY**

# **Fitch Assigns 'AAAf' Rating to MAGIC Term Portfolio**

Fri 27 Oct, 2023 - 5:19 PM ET

Fitch Ratings - New York - 27 Oct 2023: Fitch Ratings has assigned a 'AAAf' International Fund Credit Quality Rating (FCQR) to the Minnesota Association of Governments Investing for Counties - MAGIC Term Portfolio, managed by PFM Asset Management LLC (PFMAM).

The MAGIC Term Portfolio is a series of fixed-rate, fixed-term portfolios with a maximum term of one year. Individual series will terminate within two years of their inception. The program is designed to match the cash flow requirements of investors with the cash flows from the MAGIC Term Portfolio.

The MAGIC Term Portfolio is part of the Minnesota Association of Governments Investing for Counties program established in 1990 in accordance with the provisions of the Minnesota Joint Powers Act. The program is governed by a Board composed of auditors, treasurers, finance officers, and commissioners of Minnesota counties that are participants in the MAGIC Fund.

The MAGIC Term Portfolio is a variable net asset value (NAV) vehicle although the ratings assigned do not speak to the volatility of the NAV. Fitch's rating addresses the overall credit profile and vulnerability to losses as a result of defaults. Fitch used series holdings as of Sept. 30, 2023 to complete the analysis for the assigned rating. At the time of the rating analysis, two series were reviewed, MAGIC Term June 2024 and MAGIC Term June 2025.

## **KEY RATING DRIVERS**

The rating reflects Fitch's review of the MAGIC Term Portfolio's investment and credit guidelines, expected credit quality and diversification, as well as the capabilities of PFMAM to manage the assets of the portfolio. The 'AAAf' FCQR indicates the highest underlying credit quality (or lowest vulnerability to default).

## Asset Credit Quality

The main driver of the FCQR is the high credit quality and relatively short-term maturity profile of the series reviewed. The MAGIC Term Portfolio's June 2024 and June 2025 series weighted average rating factors (WARF) were 0.10 and 0.17, respectively, in line with Fitch's 'AAAF' rating criteria of 0.3 or less. WARF is a risk-weighted measure of a portfolio of assets that accounts for the portfolio's credit quality and maturity profile.

Each series of the MAGIC Term Portfolio can invest exclusively in securities consistent with permitted investments for a local government investment pool by applicable Minnesota statutes, including obligations of the U.S. government agencies and instrumentalities, state and local government obligations, repurchase agreements, obligations of financial institutions, commercial paper, negotiable certificates of deposit and other investment vehicles.

The primary objective of the MAGIC Term Portfolio is to produce the highest earnings consistent with maintaining principal at maturity and meeting the redemption schedule.

## Maturity Profile

The MAGIC Term Portfolio is a fixed rate investment that offers terms from 60 days to one year, and is designed to match the cash flow requirements of investors with the cash flows from the MAGIC Term Portfolio. Multiple series of the MAGIC Term Portfolio are created with staggered maturity dates and series-specific termination dates.

Each series of the MAGIC Term Portfolio seeks to assure the return of principal on the planned maturity date, although principal value may fluctuate prior to that date, and therefore may be greater or less than \$1.00 a share.

## Participant Profile

The MAGIC Term Portfolio is offered to Minnesota counties and instrumentalities of counties that have enacted a resolution to join and completed the necessary documentation.

## Stress Tests

Fitch conducted stress tests as outlined in its rating criteria to test the sensitivity of the rating to potential changes in the portfolio's credit quality. The stress scenarios included assuming downgrades to the largest underlying issuers.

After running the portfolio through the stressed scenarios, there was no material deterioration in the underlying scores that support the pool's assigned FCQR. Fitch views the term portfolio's credit quality and maturity profile as consistent with the assigned rating level.

## PORTFOLIO COMPOSITION

As of end-September 2023, 55% of the market value for both the MAGIC Term Portfolio's June 2024 and June 2025 series was allocated to commercial paper maturing within one year. The remaining 45% of the portfolios was invested in direct obligations of U.S. government agencies and certificates of deposit. The portfolios did not utilize any leverage as of the review date.

## DERIVATIVES

Neither of the MAGIC Term Portfolio June 2024 or June 2025 series currently use derivatives for hedging or speculative purposes.

## SURVEILLANCE

Fitch expects to receive 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 portfolio is managed by PFMAM, a subsidiary of U.S. Bancorp Asset Management, Inc. PFMAM is registered with the SEC under the Investment Advisers Act of 1940 and specializes in creating investment strategies and managing funds for public sector, not-for-profit and other institutional clients. The firm is based in Harrisburg, Pennsylvania, and has more than 40 years of experience in managing public sector portfolios. As of June 30, 2023, PFMAM had approximately \$214.9 billion in total assets under management and advisement.

Fitch views the investment management capabilities, resource commitment, operational controls, compliance and oversight processes of the investment advisor as appropriate for the assigned rating and investment strategy.

## RATING SENSITIVITIES

Factors that could, individually or collectively, lead to a positive rating action/upgrade:

A positive rating action is not applicable as the assigned rating is the highest rating outcome under Fitch's Bond Fund Ratings criteria.

Factors that could, individually or collectively, lead to a negative rating action/downgrade:

A material decrease in portfolio credit quality and/or a material increase in portfolio duration could result in the series' WARFs to exceed 0.30, which could result in the FCQR being lowered. However, Fitch perceives this as unlikely in the near term absent significant credit migration, or a change in the fund's investment strategy.

## SOURCES OF INFORMATION

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

## RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕		
MAGIC Term Portfolio	Fund Cr Qual Rtg	AAAf	New Rating

[VIEW ADDITIONAL RATING DETAILS](#)

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## **APPLICABLE CRITERIA**

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

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## **ENDORSEMENT STATUS**

MAGIC Term Portfolio

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