

RATING ACTION COMMENTARY

Fitch Assigns First-Time Rating to Texas Fixed Income Trust Government Pool

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Fitch Ratings - New York - 26 Jun 2020: Fitch Ratings has assigned an 'AAAmmf' rating to the Texas Fixed Income Trust (TX-FIT) Government Pool. The pool is established pursuant to Texas' state code as an authorized local government investment and is held in trust under U.S. Fixed Income Trust (US-FIT), a Delaware statutory trust. Water Walker Investments (WWI) serves as the pool's investment advisor.

The pool under US-FIT is established as an authorized investment for local government participants in the state of Texas. The TX-FIT Government Pool investment strategy focuses on investing in U.S. Treasury and agency debt, reverse repurchase agreements backed by such debt, money market funds (MMFs) that invest in U.S. government obligations and FDIC-insured deposits. The TX-FIT Government Pool seeks to maintain a stable NAV of \$1.00.

The fund's custodian, U.S. Bank National Association, calculates the pool's NAV using third-party supplied, mark-to-market pricing with internal validation and monitoring.

The TX-FIT Government Pool was launched in January 2020. A portfolio as of June 2020 was used to complete the analysis for the assigned rating.

KEY RATING DRIVERS

The 'AAAmmf' rating assigned to the TX-FIT Government Pool indicates an extremely strong capacity to achieve the investment objective of preserving principal and providing liquidity through limiting credit, market, and liquidity risk.

Asset Credit Quality

The fund is expected to invest only in high quality assets, including direct U.S. Treasuries and Agencies, reverse repurchase agreements backed by U.S. Treasuries and Agencies, money market funds investing in U.S. Treasuries and Agencies, and bank deposits benefiting from FDIC insurance.

Investments in the pool are designed to comply with the investment policy statement set forth by the governing body of Texas. The pool was organized under Chapter 2256 to provide local government entities access to investment vehicles focused on the safety and preservation of principal, liquidity and commensurate investment income.

Maturity Profile

The TX-FIT Government Pool seeks to limit interest rate and spread risk by maintaining a weighted average maturity (WAM) and a weighted average life (WAL) below 60 days and 120 days, respectively, consistent with Fitch's 'AAAmmf' criteria.

Liquidity Profile

The TX-FIT Government Pool seeks to maintain sufficient levels of daily and weekly liquidity to meet investors' redemption requests. Specifically, the pool invests at least 10% of total assets in securities offering daily liquidity and at least 30% of total assets in securities providing weekly liquidity.

PARTICIPANT PROFILE

The portfolio will comprise moneys deposited by Texas local government, public and other eligible entities. At the time of the rating, the pool had only one participant. WWI aims to structure the portfolio in such a manner as to provide sufficient liquidity to pay expected redemptions.

INVESTMENT MANAGER

WWI serves as investment advisor to the fund. WWI is a registered investment manager specializing in asset management and investment advisory services for government entities. WWI was established in 2000 and launched its first LGIP in 2012. The firm's experience extends to managing 1940 Act registered funds prior to focusing on LGIPs. Fundamental analysis, security selection and trade execution for the funds is the responsibility of WWI. The compliance provider engaged by the investment advisor, Fit Compliance, as well as the US-FIT Board of Trustees, provide oversight of the pools.

Fitch views the investment management capabilities, resource commitment, operational controls, compliance and oversight processes of the pool's investment manager as supportive of the assigned ratings and investment strategies.

US Bank Global Fund Services serves as the administrator for the fund and conducts all routine business of the US-FIT. The administrator will calculate the NAV for the TX-FIT Government Pool as of the conclusion of each business day.

The portfolio is subject to annual financial statement audit by CliftonLarsonAllen, an independent U.S. accounting and advisory firm.

RATING SENSITIVITIES

The rating is sensitive to material changes in the credit quality or market risk profiles of the funds.

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

The assigned rating is the highest rating outcome under the money market fund rating criteria.

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

A material decrease in portfolio credit quality that adversely impacts the Portfolio Credit Factor exceeding 1.50x on a sustained basis would and result in the MMF rating being lowered.

A material increase in portfolio duration that results in a breach of the weighted average maturity limitations, the WAM exceeding 60 days or the WAL exceeding 120 days on a sustained basis could adversely affect the assigned MMF rating.

Fitch receives bi-weekly fund portfolio holdings information including credit quality, market value and duration of the individual securities to conduct surveillance against the Money Market Fund Rating criteria. For additional information about Fitch money market fund ratings criteria, please review the criteria referenced below, which can be found on Fitch's website.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

CRITERIA VARIATION

Fitch's analysis of the TX-FIT Government Pool included a variation from Fitch's criteria, "Money Market Fund Rating Criteria", as it relates to the fund's investments in FDIC insured deposits, either directly or through structured deposit programs (specifically Interfinancial Network's Insured Cash Sweep program). Under Fitch's

criteria, most or all of the insured bank deposits would not meet the minimum 'F1' rating threshold for 'AAAmf' ratings on a stand-alone basis, and therefore Fitch is solely relying on the FDIC insurance provided on these deposits to form our credit and liquidity assessment of these exposures. However, the statutory requirements associated with the FDIC resolution of a deposit institution do not explicitly state a timeline for such resolution. In practice, most FDIC bank resolutions happen over a weekend, although there have been some instances in the data Fitch reviewed where resolution took two business days. Fitch's MMF criteria do not specify a limit on FDIC insured deposits at an 'AAAmf' rating. However, given the potential for FDIC resolutions to take longer than historically observed, the rating assigned to TX-FIT incorporates an assumption of up to 50% exposure to such assets, and provided that the fund otherwise satisfies its 10% daily and 30% weekly liquidity levels with other assets, including U.S. treasury and money market fund exposures.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

RATING ACTIONS

ENTITY/DEBT	RATING		
Texas Fixed Income Trust Government Pool	MMF	AAAmf	New Rating

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APPLICABLE CRITERIA

[Money Market Fund Rating Criteria \(pub. 23 Apr 2020\)](#)

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Texas Fixed Income Trust Government Pool

EU Endorsed

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