

Colorado Core Fund

High Quality Credit Portfolio: The Colorado Core Fund invests in highly rated securities including U.S. Treasury and U.S. Government Agency securities, commercial paper and corporate bonds. Other securities permitted by the fund's investment policy include municipal securities, repurchase agreements and shares in certain money market funds. Investments in the portfolio are designed to comply with all Colorado state statutes, the fund's offering documents, as well as additional standards set by Morgan Stanley.

Liquidity Management: The investment portfolio is structured in such a manner as to provide sufficient liquidity to pay expected redemptions, although Fitch's rating does not specifically address the fund's ability to meet redemptions. The fund's investment guidelines state that it shall maintain overnight and five business day liquidity at 5% and 10%, respectively.

Investor Base: The portfolio is managed by Morgan Stanley, acting through its Zephyr Group, on behalf of the portfolio's participants. The portfolio is comprised of monies deposited by Colorado local government entities that have executed a resolution to join the trust.

Low Sensitivity to Market Risk: The Colorado Core Fund is designed for the investment of short to intermediate term cash flows that are expected to occur over an entity's budgetary cycle. The fund seeks to maintain a constant net asset value (NAV) and will have a weighted average maturity of 180 days or less. Market risk is mitigated by the duration of the fund as well as the relatively predictable nature of the cash flows of the participant base. The ratings assigned to the fund do not specifically address the ability of the manager to maintain a constant NAV.

Capable Investment Advisor: The portfolio is managed by Morgan Stanley, acting through its Zephyr Group. The Zephyr Group is an institutional portfolio management team specializing in fixed income management for government entities. Zephyr Group's 25 years' experience in this space includes Portfolio Management and Institutional Sales & Trading coverage of many of the most active government managers in the Rocky Mountain and Denver Metropolitan regions.

Oversight Decreases Operational Risk: Portfolio oversight and operational controls are consistent with the assigned rating. The designees of the participants are vested with the authority to elect the Trustees. Fundamental analysis and security selection for the fund are the responsibility of the Zephyr Group while Morgan Stanley's Advisory Desk in New York is responsible for trade execution. The compliance department also provides oversight of the fund. LT Trust serves as the administrator for the fund, and the portfolio is subject to annual financial statement audits by BKD, LLP.

Industry Standard Administration and Systems: Morgan Stanley uses appropriate systems for investment, administration, portfolio management, and trading. Processes provide decision-making tools for risk analysis and investment allocation tools.

Rating Rationale: Colorado Core Fund is rated 'AAAf/S1' by Fitch. The 'AAAf' Fund Credit Quality Rating reflects the investment portfolio's vulnerability to losses as a result of defaults in its bond holdings and is based on the actual and expected credit quality of the portfolio's investments. The 'S1' Fund Market Risk Sensitivity Rating reflects the relative sensitivity of the portfolio's total return and NAV to changes in interest rates and credit spread. Fitch's evaluation of the portfolio also considered the management and operational capabilities of Morgan Stanley and the legal and regulatory framework under which the portfolio operates.

Pool Characteristics

Rating Type	Rating
Fund Credit Quality Rating	AAAf
Fund Market Risk Sensativity Rating	S1
Investment Advisor	Morgan Stanley Consulting Group, acting through its Zephyr Group
Objective	The fund is an ultra-short duration, enhanced cash fund intended for short to intermediate term surplus moneys of its participants with an emphasis placed on limiting the risk of negative fair market valuations away from \$2.00 while maintaining high credit quality and adequate liquidity.

Source: Fitch Ratings

Applicable Criteria

[Global Bond Fund Rating Criteria \(July 2019\)](#)

Related Research

[Fitch Affirms Colorado Core LGIP at 'AAAf'/'S1' \(Sep 2019\)](#)

Analysts

Brian Jarmakowicz, CFA
+1 646 582 4586
brian.jarmakowicz@fitchratings.com

Peter Gargiulo
+1 212 612 7762
peter.gargiulo@fitchratings.com

Operational Assessment

Service Providers		
Investment Manager	✓	Morgan Stanley, acting through its Zephyr Group
Auditor	✓	The portfolio is subject to an annual external financial audit performed by an independent certified public accounting firm. BKD, LLP currently serves as the independent auditor of the portfolio.
Regulation and Governance		
Governance	✓	The trust is governed by a board of trustees composed of members that are selected from among the designees or other local officials empowered to invest the funds of local government entities, and any other independent and unaffiliated trustees names by such members.
Control Framework	✓	Compliance controls are in place to ensure adherence with investment guidelines.
Operations		
Pricing Responsibility	✓	U.S. Bank National Association serves as the custodian of the trust. U.S. Bank also processes trades upon receipt of authorized and proper instructions within the applicable deadline. The securities in the portfolio are priced on a daily basis by third party pricing providers in order to strike shadow NAV.
Technology	✓	Appropriate and integrated portfolio management system.
Investments		
Composition	✓	The fund invests in highly rated securities including U.S. Treasury and U.S. Government Agency securities, commercial paper and corporate bonds. Other securities permitted by the fund's investment policy include municipal securities, repurchase agreements and shares in certain money market funds.
Maturity	✓	The trust will only acquire a security or other investment if the investment has a remaining maturity of three years or less. The fund will maintain a weighted average maturity of 180 days or less and a weighted average life of 365 days or less.
Disclosure and Transparency		
Level of Disclosure	✓	Good level of transparency: the program's website contains financial reports, investment policy and information on other policies pertinent to portfolio management. The trust publishes its fair market valuation daily and its holdings monthly.

Note: ✓ = Pass. ● = Attention Required. ✗ = Fail.

Source: Fitch Ratings, Colorado Core Fund.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

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