

Colorado Core Fund

Full Rating Report

Pool Characteristics

Fitch Rating	AAAf/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 monies of its participants with an emphasis on limiting the risk of negative fair market valuations away from \$2.00 while maintaining high credit quality and adequate liquidity.

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 and the fund's offering documents, as well as additional standards set by Morgan Stanley.

Liquidity Management: The investment portfolio is structured 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 comprises monies deposited by Colorado local government entities that have executed a resolution to join the Colorado Surplus Asset Fund 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. Zephyr Group is responsible for fundamental analysis and security selection for the fund, while Morgan Stanley's fiduciary desk in New York is responsible for trade execution. The compliance department in New York 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.

Related Research

[Fitch Assigns First-Time Rating to Colorado Core LGIP \(January 2018\)](#)

Analysts

Alexandra Kelly
+1 646 582-4814
alexandra.kelly@fitchratings.com

Brian Knudsen
+1 646 582-4904
brian.knudsen@fitchratings.com

Operational Assessment

✓ Pass ● Attention Required X Fail

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.

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 3 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.

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 named by such members.
Control Framework	✓	Compliance controls are in place to ensure adherence with investment guidelines.

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.
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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 daily by third-party pricing providers to strike a shadow NAV.
Technology	✓	Appropriate and integrated portfolio management system.

Related Criteria

Global Bond Fund Rating Criteria
(August 2016)

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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