

RATING ACTION COMMENTARY

Fitch Affirms Florida Public Assets for Liquidity Management - FL PALM Term Series at 'AAAF'

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Fitch Ratings - New York - 01 Aug 2024: Fitch Ratings has affirmed the Florida Public Assets for Liquidity Management - FL PALM Term Series' (FL PALM Term Series) International Fund Credit Quality Rating (FCQR) at 'AAAF'. The FCQR is applicable to each series created under FL PALM Term Series.

The FL PALM Term Series is a series of fixed-rate, fixed-term portfolios with a maximum term of two years and a maximum maturity of one year for underlying holdings. FL PALM Term Series is designed to meet the cash flow requirements of investors with the cash flows from the portfolios.

The FL PALM Term Series is part of the Florida Public Assets for Liquidity Management (FL PALM) Trust, established in 2010 in accordance to the laws of the state of Florida. The Trust is governed by a board composed of school board members, superintendents, public agency officials, and an advisory committee of senior finance officers from member districts and public agencies.

The FL PALM Term Series is a variable net asset value (NAV) vehicle although the rating assigned by Fitch does 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 March 31, 2024 to complete the analysis for the affirmation. At the time of the rating analysis, two series were reviewed, FL PALM Term June 2024 and FL

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The rating reflects Fitch's review of the FL PALM Term Series' investment and credit guidelines, each series' credit quality and diversification, as well as the capabilities of PFM Asset Management LLC (PFMAM) to manage the assets of the term portfolio. The 'AAAF' FCQR indicates the highest underlying credit quality (or lowest vulnerability to default). FCQRs do not opine on the probability of extraordinary liquidity management measures being applied, nor the redemption risk of the fund.

Portfolio Credit Quality

The main driver of the FCQR is each series' weighted average rating factor (WARF). A portfolio's WARF is a function of the credit ratings of the securities held in the portfolio and their remaining term to maturity, weighted by market value. As of March 31, 2024, the FL PALM Term June 2024 and June 2025 series' WARFs were 0.05 and 0.15, respectively, which are less than 0.3 and therefore align with criteria guidelines for WARF at the assigned rating level.

Maturity Profile

Each series of the FL PALM Term Series is a fixed rate investment with a maximum two-year term from inception. Underlying holdings in each series may have maturities ranging from 60 days to one year. Multiple series of the FL PALM Term Series are created with staggered maturity dates and series-specific termination dates.

Each series of the FL PALM Term Series 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 FL PALM Term Series is offered exclusively to Florida school districts, political subdivisions of state and instrumentalities of political subdivisions of the state of Florida.

Stress Tests

Fitch conducted stress tests as outlined in its Bond Fund Rating Criteria, including

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scenarios, supporting Fitch's view that the portfolios' credit quality is consistent with criteria guidelines at the assigned rating level.

Furthermore, Fitch conducted additional stress tests that went beyond the stress tests outlined in its Bond Fund Rating Criteria, applying greater credit and spread risk factors to the portfolio holdings. Two of these additional stress tests included a hypothetical three-notch downgrade to the largest issuers in the portfolio and a hypothetical one-notch downgrade to all issuers on the lower cusp of a rating category (e.g., downgrading all issuers currently rated 'AA-' to 'A+' and downgrading all issuers currently rated 'A-' to 'BBB+', etc.). These scenarios were run to further test the resiliency of the portfolios' WARF. Although the FL PALM Term Series breached the three-notch downgrade test at the assigned rating level, Fitch believes the breach does not negatively impact the rating because the agency deems this level of negative migration to be unlikely in the current environment, particularly given the active management of the FL PALM Term Series and, in most circumstances, the stable outlooks of issuers captured in Fitch's testing.

Portfolio Composition

Fitch deems the overall portfolio quality to be sound and concentrations are managed prudently. As of March 31, 2024, 84% of the June 2024 and 82% of the June 2025 series' market value was allocated to commercial paper within one year. The remainder of the portfolios were invested in U.S. Treasuries, 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 FL PALM Term June 2024 or June 2025 series currently use derivatives for hedging or speculative purposes.

Surveillance

Fitch receives 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.

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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 March 31, 2024, PFMAM had approximately \$244.8 billion in total assets under management and advisement.

FL PALM Term Series are subject to an annual compliance audit performed by an external auditor.

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 Negative Rating Action/Downgrade

--The rating is sensitive to material changes in the credit quality and maturity profiles of the series. A material decrease in portfolio credit quality or increase in security maturities could result in the FCQR being lowered if a series' resulting WARF exceeds 0.3. However, Fitch perceives this as unlikely in the near term absent significant credit migration, or a change in the series' investment strategy.

Factors that Could, Individually or Collectively, Lead to 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 Rating Criteria.

SOURCES OF INFORMATION

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

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

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ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Florida Public Assets for Liquidity Management - FL PALM Term Series	Fund Cr Qual Rtg	AAAf	Affirmed	AAAf

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

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

ADDITIONAL DISCLOSURES

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Florida Public Assets for Liquidity Management - FL PALM Term Series -

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