FitchRatings

RATING ACTION COMMENTARY

# Fitch Assigns 'AAAf' Rating to MNTrust's Term Series II

Tue 20 May, 2025 - 3:04 PM ET

Fitch Ratings - New York - 20 May 2025: Fitch Ratings has assigned a 'AAAf' International Fund Credit Quality Rating (FCQR) to the MNTrust Term Series II, managed by PMA Asset Management LLC (PMA).

Term Series II is part of MNTrust, a joint powers entity established in April 2006 under the laws of the State of Minnesota to be a comprehensive investment and cash management program for certain Minnesota governmental units.

Term Series II is a variable net asset value (NAV) vehicle, but Fitch's rating does not address NAV volatility. The rating reflects the overall credit profile and vulnerability to losses from defaults. The first Term Series II portfolio is expected to launch on or around May 21, 2025. Fitch used a representative model portfolio from PMA for the analysis and considered the investment policy and applicable Minnesota statutes.

## KEY RATING DRIVERS

The rating reflects Fitch's review of the Term Series II model portfolio, investment and credit guidelines, expected credit quality and diversification, and PMA's asset management capabilities. The 'AAAf' FCQR indicates the highest underlying credit quality (or lowest vulnerability to default). FCQRs do not address the probability of extraordinary liquidity management measures or the fund's redemption risk. Consistent with ratings assigned to other term series, local government investment pool (LGIP) products, Fitch is not assigning a market risk sensitivity rating (MRSR).

Portfolio Credit Quality

The main driver of the FCQR is the model portfolio's weighted average rating factor (WARF), which depends on the credit ratings of the securities and their remaining term to maturity, weighted by market value. The model portfolio's WARF of 0.17 falls below 0.3, corresponding to a WARF-implied FCQR of 'AAAf'.

Each series of Term Series II follows the general investment objective of MNTrust, which is to provide participants the highest possible investment yield while maintaining liquidity and preserving capital by investing only in instruments authorized by Minnesota laws that govern the investment of funds by governmental units. Permitted investments include obligations of the U.S. government and its agencies and instrumentalities, certificates of deposit, CP issued by U.S. corporations or their Canadian subsidiaries maturing within 270 days, repurchase agreements maturing within 90 days, time deposits that are fully insured by the FDIC, bankers' acceptances of U.S. banks and investments allowed by applicable law. Term Series II is not permitted to borrow money or incur indebtedness except for in limited and specific circumstances, and in such cases the borrowing period must not exceed one business day.

Maturity Profile

Term Series II consists of fixed-rate, fixed-term portfolios each with a maximum maturity term of two years. Participants can invest on pre-determined dates for terms ranging from 60 days to 397 days. Upon investment, participants select a redemption date with a projected net dividend rate specific to the date of investment and the planned redemption date.

After the launch of the initial Term Series II portfolio, additional Term Series II portfolios with successive maturity dates are expected. Each portfolio seeks to ensure the return of principal on each planned redemption date. However, the principal value may fluctuate before that date, with the value being greater or less than $1.00 per share.

Participant Profile

The MNTrust program, including Term Series II, is a joint powers entity established under the laws of the State of Minnesota designed specifically for certain Minnesota government units and is exclusively available to these entities. The expectation is that the majority of participants in Term Series II will be Minnesota school districts.

Stress Tests

Fitch conducted stress tests as outlined in its "Bond Fund Rating Criteria," including concentration and market-based stresses, to test the sensitivity of the Term Series II rating against potential changes in the portfolio's credit quality. There was no material deterioration in the WARF of the model portfolio as a result of these stressed scenarios, supporting Fitch's view that the model portfolio's credit quality is consistent with criteria guidelines at the assigned rating level.

Fitch conducted additional stress tests beyond those outlined in its criteria to test the portfolio's WARF resiliency, applying greater credit factors to the portfolio holdings. Three tests included a hypothetical two-notch downgrade to the largest issuers, and one extended the model portfolio's duration closer to the policy limit permitted. There was no material deterioration in the WARF across these scenarios, supporting Fitch's view that the model portfolio's credit quality meets the criteria guidelines for the assigned rating level.

Portfolio Composition

As of the initial analysis, 71% of the market value of the Term Series II's model portfolio was allocated to commercial paper maturing within 270 days and 29% was invested in certificates of deposit.

Derivatives

Term Series II is not permitted to 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 Fitch's criteria.

## INVESTMENT MANAGER

The portfolio is managed by PMA Asset Management, LLC (PMA), a subsidiary of Prudent Man Advisors, LLC. PMA has been registered with the SEC under the Investment Advisers Act of 1940 since its founding in 2002 and specializes in serving the needs of LGIPs, insurance companies, schools, cities, counties, non-profits, self-insurers and financial entities.

On Oct. 29, 2024 it was announced that Prudent Man Advisors, LLC and Public Trust Advisors, LLC (PTA) would merge to form a combined firm offering investment services to public entities, including local government investment pools, nationwide. As of this analysis, Fitch rates four LGIPs managed by PTA. On Mar. 19, 2025 it was announced the new combined firm will be named PTMA Financial Solutions, but PMA and PTA continue to operate as individual, registered investment advisors in the interim. As of December 31, 2024, the combined firm had $121.9 billion in assets under management and advisement.

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

## RATING SENSITIVITIES

### Factors that Could, Individually or Collectively, Lead to 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.

### 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 Ratings criteria.

## SOURCES OF INFORMATION

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

## 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 |
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| MNTrust - Term Series II | Fund Cr Qual Rtg | AAAf | New Rating |

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VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

## PARTICIPATION STATUS

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## APPLICABLE CRITERIA

Bond Fund Rating Criteria (pub. 16 Aug 2022)

## ADDITIONAL DISCLOSURES

Solicitation Status

Endorsement Policy

## ENDORSEMENT STATUS

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| MNTrust - Term Series II | - |

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