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Market Intelligence

CASE STUDY

An investment management firm streamlines municipal surveillance and climate risk assessment

THE CLIENT:

Investment Management firm

USERS:

Credit Risk Team

Portfolio Managers

This firm oversees a suite of U.S. Public Finance mutual funds with $950 million assets under management. Growth in assets put strong pressure on the credit team for new investment originations and surveillance for existing holdings. Their credit models were not re-calibrated in several years, leading to inefficient manual overrides for new investments. For surveillance, the data collection and spreading were mostly manual, leading to an inefficient process. The emergence of climate risk as a key investment criterion added an additional challenge. Meanwhile, the company was under pressure to keep staffing levels at or near current levels. Given the importance of these challenges, the company was interested in upgrading its credit and climate workflow processes. By working with S&P Global Market Intelligence (Market Intelligence), the company achieved its goals:

- Streamline its credit and climate data collection, and credit scoring process.
- Understand the creditworthiness of their municipal investments by using a CUSIP-driven credit scoring model.
- Better understand the impact of climate risk and potential economic loss from natural hazards.
- Maintain existing staffing levels and focus the incremental efficiency gains on growing their business.

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Pain Points

The Investment team was looking for incremental changes to enhance their workflow. Business was growing, but they wanted to keep staffing at current levels. Their challenges included:

- **Cumbersome surveillance process:** The process the company used to conduct annual reviews of their investments was manual and time consuming.

- **Lacked an understanding of climate risk:** The company did not have the data or process to assess the impact of climate or physical risk for its municipal investments.

- **Internal credit models were not annually recalibrated:** Since the company's credit models were not annually recalibrated and updated, they were not reflective of the current rating agency methodology. Consequently, they were generating credit results that had material credit scores different than the public ratings. This resulted in time consuming manual overrides.

- **Insufficient data coverage:** The company was spending more time trying to obtain and spread the necessary data than it was conducting the analysis.

- **Gaps or lack of expertise for certain public finance segments:** The company did not pursue certain public finance segments given they did not have the credit expertise for those areas and did not have the appropriate segment specific credit models (e.g., higher education, healthcare, housing, general obligation, transportation, water & sewer).

The company's Public Finance team evaluated the Market Intelligence's Public Finance Automated Scoring Tool (PFAST) and felt this solution would address its needs.

> The process the company used to conduct annual reviews of their investments was **manual** and **time consuming**.

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The Solution

Market Intelligence recommended PFAST, an Excel-based suite of Credit Assessment Scorecards that is both an automated credit scoring and data solution enabling users to:

Assign credit scores to the vast majority of the company's municipal investments

PFAST offers broad Public Finance sector coverage, including:

- **General Obligation** issuers or states, cities, counties, school districts and special purpose districts

- **Water and Sewer** utilities

- **Not-for Profit Health Care** including health care systems and hospitals

- **Not-for-Profit Higher Education** including private and public/state institutions

- **Transportation** including airports, mass transit, toll roads, bridges, and tunnels

- **Housing** including single- and multi- family agencies

Understand climate risks of investments

Understanding an investment's susceptibility to 18 different natural hazards and potential economic loss from those natural disasters will help you better and more proactively manage your clients. PFAST also includes a quantitatively based summary environmental/social score for every municipal entity where data is available.

Differentiate your firm from your competitors by providing credit and climate insights

PFAST provides credit and climate findings that can be used in your analyses. Leverage our ability to create local, regional, and national benchmarks given our vast database of both rated and unrated issuers.

Automate the spreading and credit scoring for nearly all general obligation, water & sewer entities and S&P Global rated, healthcare, higher- education and airport obligors

Market Intelligence has collected at least three years of financial and economic data for all general obligation issuers, water & sewer obligors and all S&P Global rated, healthcare, higher education, and airports. Data and credit scoring is fully automated by simply using an identifier (CUSIP or S&P Capital IQ ID).

Monitor your portfolio credit quality in minutes

By simply inputting a CUSIP or S&P Capital IQ ID, a user can generate overall risk scores for your complete public finance customer portfolio.

Conduct scenario analysis

Simple to use functionality for conducting "what-if" scenario analysis (e.g., impact of new debt on their credit score) for your investments as they prepare for new debt issuances.

Key Benefits

The PFAST provides an automated credit scoring tool for all U.S. cities, counties, school districts, special purpose districts and water & sewer utilities. A similar approach is also available for the major rated revenue bond segments. Key benefits include:

- **Broad scope of application** with sector-specific credit scorecards and data for General Obligation and Revenue Bonds including Water and Sewer, Not-For-Profit Healthcare, Not-For-Profit Higher Education, Transportation and Housing.

- **Climate Risk data and scores** that identifies the susceptibility and potential economic from 18 different natural hazards fully mapped to every U.S. county.

- **Methodology transparency** of the Scorecard including all risk factors, weights, benchmarks, and scoring algorithms.

- **Training and ongoing analytical assistance** to help groups understand the range of available capabilities and continue to get the most out of the solutions.

- **Quickly get up to speed** in public finance credit analysis with our easy-to-use Scorecard User Guides and 24/7/365 support from our global customer support team.

- **Validation support** through annual technical documentation that explains Scorecard methodology and testing.

- **Extensive coverage and continually growing database** of municipal entities financials and economic data.

Learn more about the Public Finance Automated Scoring Tool (PFAST) here.

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