

Local Government
Investment Pool/U.S.
Credit Analysis

San Luis Obispo County Treasury Investment Pool

Ratings

Security Class	Current Ratings
San Luis Obispo County Treasury Investment Pool	AAA/V1+

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Summary

The San Luis Obispo County Treasury Investment Pool, a local government investment pool (LGIP), is rated 'AAA/V1+' by Fitch Ratings. The pool's 'AAA' rating reflects the credit quality and diversification of the underlying assets and appropriate management and operational capabilities. The pool's 'V1+' volatility rating reflects low market risk and a strong capacity to return stable principal value to participants, as well as to meet anticipated cash flow requirements, even in an adverse interest rate environment. Portfolio valuation reports are submitted to Fitch on a monthly basis. As of Aug. 31, 2009, the pool had approximately \$497.6 million in assets.

Rating Considerations

- The pool invests primarily in U.S. Treasury bills, notes, and other securities backed by the full faith and credit of the U.S. government and repurchase agreements backed by such securities. The pool also invests in local agency obligations and the Local Agency Investment Fund (LAIF) managed by the state of California treasurer's office.
- The LGIP has a predominantly captive participant base that includes the county, school districts, and other special districts.
- Sufficient liquidity is available to meet projected cash needs of the pool's participants.
- Management oversight and operational controls are consistent with the assigned ratings.

Overview

San Luis Obispo County is located in Southern California. The San Luis Obispo County Treasury Investment Pool is managed by the San Luis Obispo County Treasurer-Tax Collector on behalf of pool participants, which include the county, school districts, and other special districts. The pool's primary investment objectives are: the safety and preservation of capital; liquidity sufficient to meet scheduled cash flow needs; yield, subject to safety, liquidity, and competitive pricing requirements; and compliance with both California and federal laws.

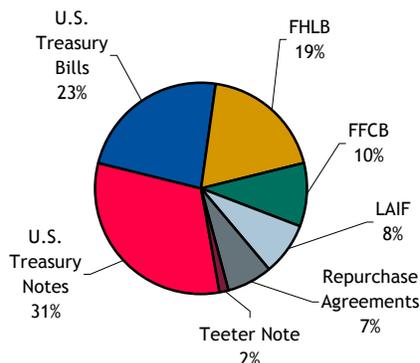
Investment Practices

Composition
The pool seeks to pursue its investment objectives by investing in a diverse portfolio of high-quality securities rated at least 'A/F1' by Fitch or of a comparable credit quality by other global rating agencies. Permitted investments include U.S. Treasury bills, notes, U.S. government agency securities,



Portfolio Composition

(As of Aug. 31, 2009)



Note: Numbers may not add to 100% due to rounding.
Source: Company reports.

commercial paper, bankers' acceptances, repurchase agreements, and LAIF. LAIF is an LGIP with an average maturity of less than one year, offering participants daily liquidity. The pool also invests in securities issued by the local agencies of San Luis Obispo County.

By its investment policy, the pool is permitted to enter into repurchase agreements with counterparties rated at least 'A/F1' by Fitch or of a comparable credit quality by other global rating agencies and overcollateralized by at least 102%. Permitted repurchase agreements are backed by U.S. Treasury and government agency securities. As of Aug. 31, 2009, the pool had 6.7% of its portfolio invested in repurchase agreements. As of that same date, the pool held 8.1% of its total assets in LAIF and 83.7% in U.S. Treasury bills and notes and securities issued by the Federal Home Loan Bank (FHLB) and the Federal Farm Credit Bank (FFCB).

Market Risk

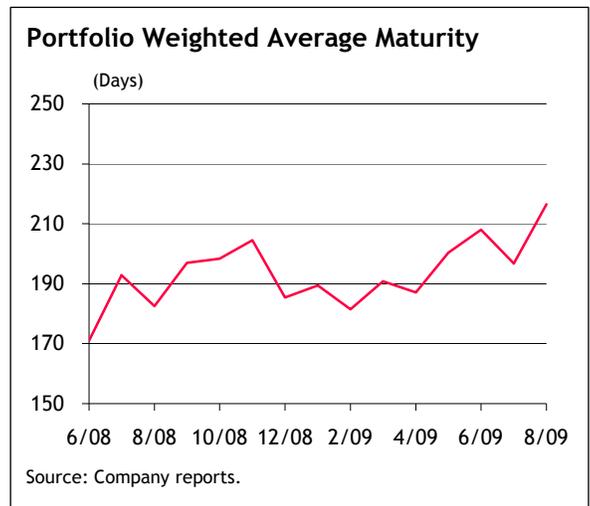
The weighted average maturity (WAM) of securities held in the portfolio was approximately 216 days as of Aug. 31, 2009. In the past 12 months, the pool's WAM ranged from 181–216 days. WAM is a measure of a portfolio's sensitivity to changing interest rates. By policy, the pool maintains a WAM of less than three years.

Both the current and maximum WAM of the portfolio are significantly longer than what Fitch traditionally deems consistent with a 'V1+' volatility rating assigned to LGIPs managed within the parameters of money market funds governed by

Rule 2a-7 under the Investment Company Act of 1940, as amended. However, what mitigates the potential liquidity risk for the San Luis Obispo County Treasury Investment Pool is that the portfolio has historically benefited from highly predictable cash outflow needs. Currently, the pool consists mostly of sales and property tax revenues and other monies of the pool's captive participants. The pool's anticipated redemptions include payroll and benefit payments, accounts payable, debt services, and other planned expenditures of the pool's depositors. Should portfolio parameters change or volatility of outflows increase, this could adversely affect the portfolio's ratings.

As of Aug. 31, 2009, 84% of the pool's total assets were invested in securities with maturities of one year or less. The pool manages its portfolio so that securities mature to meet cash flow requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. The pool also seeks to maintain additional liquidity in marketable securities to assist in meeting unanticipated cash requirements. Normally, assets invested in repurchase agreements and LAIF are available daily. As of Aug. 31, 2009, the pool had 14.8% of its total assets in daily investments.

The pool is prohibited by its investment policy from purchasing any structured notes or derivatives that may create inappropriate market risk exposure. Such instruments include inverse floaters, range notes, or mortgage-derived, interest-only strips and any security that could result in zero interest accrual if held to maturity.



The pool may invest in the county’s Teeter Plan note program, which allows the county to receive advanced funding against delinquent property tax receipts. The program is structured to benefit pool participants, mainly school districts that rely on timely property tax collection. Fitch views the pool’s allocation in the county’s Teeter Plan note program as appropriate given that the program is fully reimbursed, including delinquent principal and penalties, upon property foreclosure or other debt resolution. Further mitigating concentration risk, the pool allocates only a small percentage of its total assets in the Teeter Plan note program. As of Aug. 31, 2009, approximately 1.5% of the portfolio was invested in a Teeter Plan note.

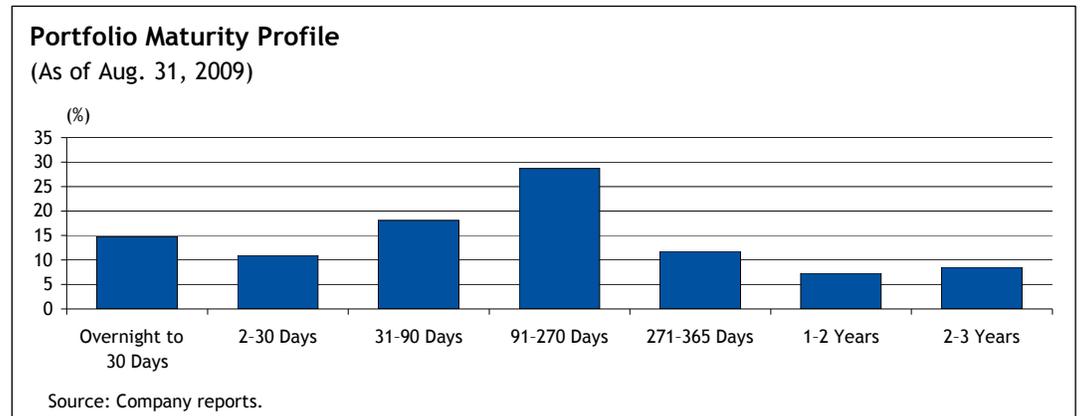
Leverage

The use of reverse repurchase agreements in any form is specifically prohibited by the county treasurer’s investment policies. All securities bought by the pool are either discount notes or fixed-coupon notes.

Liquid Management

The pool’s liquidity profile is based on the composition of its participants and their scheduled liquidity needs. Each month, pool cash flows are forecast for the ensuing 12 months on the basis of the prior year’s cash flows, which are then updated to include any identifiable changes in the forecast period. The stability of cash flow projections stems from the captive nature of the participant base, since all pool participants are required to maintain funds in the county pool. Further mitigating liquidity risk to the pool, requests by mandatory participants to withdraw funds for purposes other than normal cash flow needs are subject to an advance notice and consent of the county treasurer, in accordance with California government code. An advance notice must be submitted to the Treasurer at least 20 calendar days prior to the withdrawal date for an amount of \$5 million or higher and at least 10 calendar days prior to the withdrawal date for an amount under \$5 million.

The pool seeks to manage its maturity profile through its cash flow matching and short-maturity investment strategies to ensure sufficient liquidity to meet anticipated cash outflows. Investments in overnight repurchase agreements provide additional sources of liquidity to meet cash needs. As of Aug. 31, 2009, approximately 14.8% of the portfolio was held in securities maturing overnight, and an additional 11% of the portfolio was held in investments with maturities of 30 days or less. Furthermore, as of the same date, the pool held 83.7% of total assets in U.S. government securities that are expected to demonstrate secondary market liquidity even during periods of market stress.



Credit Quality

On Aug. 31, 2009, 54.9% of the portfolio was invested in U.S. Treasury bills and notes, and an additional 28.8% was invested in securities issued by the FHLB and the FFCB. The balance of the pool was invested in overnight instruments, such as repurchase agreements and LAIF. Any other eligible money market instruments must be rated at least 'A/F1' by Fitch or of a comparable credit quality by other global credit rating agencies, except LAIF, which is not rated by any rating agencies. Investment guidelines also require that all bankers' acceptances and commercial paper be rated by at least two global credit rating organizations. Moreover, the pool restricts concentrations in any one issuer to minimize exposure. Repurchase agreements are entered into only with highly rated counterparties and are fully collateralized with U.S. government securities.

In accordance with California government code, a treasury oversight committee, composed of representatives of pool participants and the public, reviews the pool's investment practices and policies at least annually. Additionally, the pool is subject to quarterly internal audits from the county auditor's office and an annual external audit. The Bank of New York Mellon serves as custodian for the pool's assets.

Organization

The San Luis Obispo County Treasury Investment Pool is managed by the San Luis Obispo County Treasurer-Tax Collector on behalf of the county and its constituents. Frank L. Freitas, a Certified Public Accountant, the San Luis Obispo County Treasurer, Tax Collector, and Public Administrator, is responsible for overseeing the pool's investments and operations.

Freitas focuses on improvement of the department's systems and operations, including technologies to enhance efficiency and transparency of the investment process and the treasurer's office operations in general. These programs include a Treasury Investment Program, tax sale systems, and a public access online "tax look up" and payment system. Freitas is a 1969 graduate of Cal Poly, San Luis Obispo, where he earned his bachelors degree in business administration with a concentration in accounting.

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