

Local Government Investment Pool/U.S. Full Rating Report

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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Related Research

Applicable Criteria

- *Global Bond Fund Rating Criteria, Feb. 10, 2010*
- *Global Bond Fund Rating Criteria (Short-Term Bond Fund Addendum), March 22, 2010*

Summary

The San Luis Obispo County Treasury Investment Pool is rated 'AAA/V1' by Fitch Ratings, reflecting the credit quality of the portfolio assets and the low sensitivity to market risk. The pool is managed and administered solely for the benefit of San Luis Obispo County by the San Luis Obispo County treasurer-tax collector.

The pool's 'AAA' fund credit rating reflects the pool's vulnerability to losses as a result of defaults, and is based on the actual and prospective average credit quality of the pool's invested portfolio. As such, the pool is expected to maintain a weighted-average portfolio rating of 'AAA', taking into account certain adjustments for the reduced credit risk of short-term securities. The pool's 'V1' fund volatility rating reflects low market risk and a capacity to return stable principal value to meet anticipated cash flow requirements, even in adverse interest rate environments. Portfolio valuation reports are submitted to Fitch on a monthly basis.

On March 18, 2010, Fitch completed a sector review of all rated Local Government Investment Pools (LGIPs) and public investment portfolios, following the publication of updated rating criteria on Feb. 10, 2010. As part of this review, the fund credit rating assigned to the pool was affirmed at 'AAA', and the fund volatility rating assigned to the portfolio was revised to 'V1' from 'V1+'. The revision of the fund volatility rating was solely a result of Fitch eliminating the 'V1+' rating from its fund volatility rating scale. The revision of the fund volatility rating scale did not reflect any change in the market or liquidity risk of the portfolio.

Rating Considerations

- Credit quality of the portfolio is consistent with an 'AAA' fund credit rating. While the pool is permitted, per its investment policy, to invest in securities rated at least 'A-/F1' or equivalent, the pool has historically focused its investment strategy on 'AAA' rated government and agency securities. The pool may also invest in repurchase agreements provided they are overcollateralized by at least 102% with the U.S. Treasury securities.
- The pool has a predominantly captive participant base that includes the county, school districts, and other special districts.
- Management oversight and operational controls are consistent with the assigned ratings.

Overview

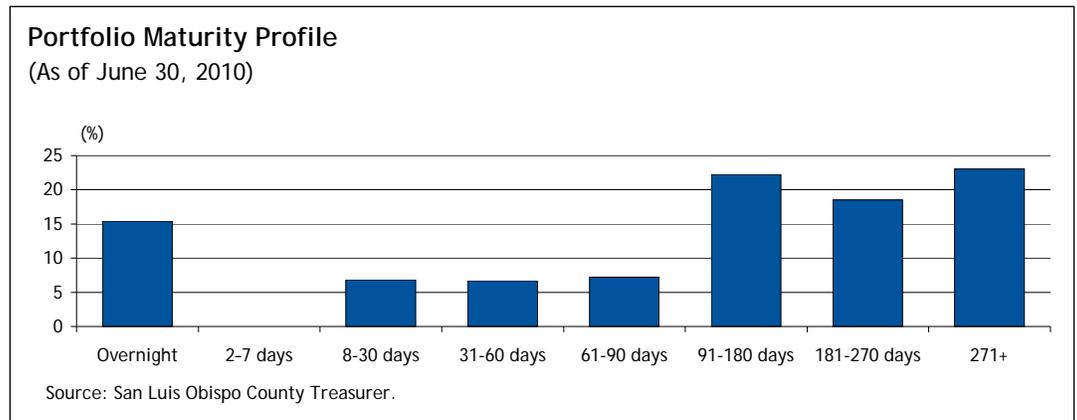
San Luis Obispo County is located in Southern California. The San Luis Obispo County Treasury Investment Pool is managed by the San Luis Obispo County treasurer-tax collector on behalf of pool participants, which include the county, school districts, and other special districts. The pool's primary investment 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

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, commercial paper, bankers' acceptances, repurchase agreements, and the Local Agency Investment Fund (LAIF). LAIF is a local government investment pool managed by California's Pooled Money Investment Board, which is headed by the state treasurer and includes the state's controller and director of finance. The pool maintains an average maturity of less than one year and offers 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.



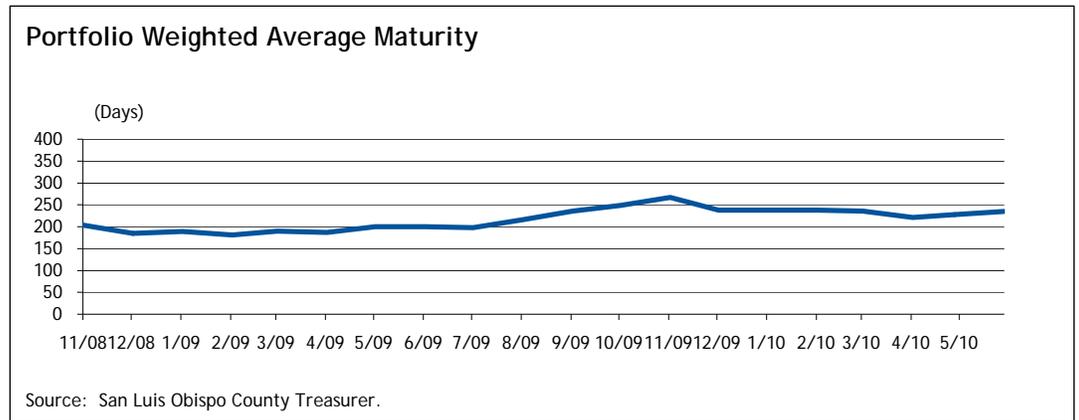
Liquidity Management

The pool's liquidity profile is based on the composition of its participants and their scheduled liquidity needs. Each month, pool cash flows are forecasted 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 amounts 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 and LAIF provide additional sources of liquidity to meet cash needs. As of June 30, 2010, approximately 15% of the portfolio was held in securities maturing overnight, and an additional 6% of the portfolio was held in investments with maturities of 30 days or less. Furthermore,

as of the same date, the pool held 51% of total assets in U.S. Treasury securities that are expected to demonstrate secondary market liquidity even during periods of market stress.

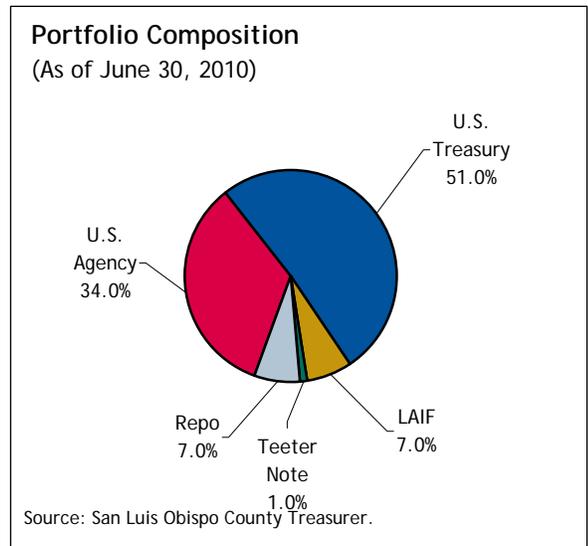
As of June 30, 2010, the weighted average final maturity (WAMf) of all portfolio securities was 235 days. The WAMf reflects the asset-weighted average number of days to the final maturity of all portfolio assets and measures potential exposure to changes in credit spreads.



Credit Quality

As of June 30, 2010 51% of the portfolio was invested in U.S. Treasury bills and notes, and an additional 33% was invested in securities issued by the Federal Home Loan Bank (FHLB) and the Federal Farm Credit Bank (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.

LAIF is a local government investment pool with assets under management of \$69 billion as of June 30, 2010. LAIF funds are not co-mingled with the state's cash or in any way available for state use. Fitch does not rate LAIF; however, Fitch views it as being managed in a manner generally consistent with other Fitch-rated local government investment pools operating in the State of California, in terms of asset credit quality, issuer diversification, investor diversification and liquidity management. In order to maintain investor diversification, LAIF limits the maximum size of a single depositor's account to \$50 million, which equates to approximately 9% based on June 30, 2010 assets under management. Aside from this limit, any amount of eligible bond proceeds



could be invested in LAIF. As of June 30, 2010, San Luis Obispo County Treasury Investment Pool had a total of \$40 million in LAIF. Fitch generally views investments in LAIF by other rated entities of less than or equal to 15% as consistent with 'AAA/V1' ratings, particularly if such investments serve as the sole or primary source of overnight liquidity. Higher levels of exposure to LAIF may be viewed as consistent with 'AAA/V1' ratings, provided that such additional investment does not serve as the sole or primary source of the portfolio's overnight liquidity.

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.

Weighted Average Rating Factor

Based on the portfolio credit quality and maturity profile as of June 30, 2010, Fitch calculated the weighted average rating factor to be consistent with an 'AAA' fund credit rating. This analysis includes a reduction of the credit factors for securities maturing within 13 months, in recognition of the lower default probability of such securities relative to longer-dated securities.

Rating Distribution and Minimum Ratings

In evaluating LGIPs, Fitch also considers the portfolio's minimum asset ratings as well as the extent to which the portfolio may undertake a bar-belled investment strategy. As of June 30, 2010, the portfolio consisted entirely of long-term assets rated 'AAA' and short-term assets rated 'F1' (or equivalent) or higher. The minimum ratings and absence of a bar-belled investment strategy are viewed as consistent with the 'AAA' fund credit rating assigned to the portfolio.

Diversification

The pool is highly concentrated in U.S. government and agency securities, which are not viewed as posing concentration risk given the high credit quality and liquidity of such holdings. As of June 30, 2010, the portfolio held 51% of its total assets in U.S. Treasury bills or notes, 17% of its total assets in securities issued by the FHLB, and 16% of its total assets in securities issued by the FFCB.

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 is a 1969 graduate of Cal Poly, San Luis Obispo, where he earned his bachelors degree in business administration with a concentration in accounting.

The pool has recently increased its focus on improving 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.

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