

San Luis Obispo County Investment Pool

Rating

San Luis Obispo County
Investment Pool..... AAA/V-1+

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Summary

The San Luis Obispo County Investment Pool, a local government investment pool with approximately \$291 million in assets, is rated 'AAA/V-1+'. Investment pools rated 'AAA' meet the highest credit quality standards for underlying assets, diversification, management, and operational capabilities. The pool's 'V-1+' volatility rating reflects low market risk and a strong capacity to return stable principal values to participants even in severely adverse interest rate environments. Portfolio valuation reports are submitted to Fitch monthly.

Rating Considerations

- Very low exposure to market risk, by virtue of conservative investment policies and practices, including tight weighted average maturity (WAM) limits and avoidance of floating-rate and structured notes, other derivative securities, and leverage.
- High standards for credit quality and diversification of assets.
- High degree of liquidity resulting from maturity profile and composition of pool participants. Strong ability to forecast ongoing cash requirements and meet these requirements through portfolio security maturities and overnight liquidity.
- Solid management oversight and operational controls.

Overview

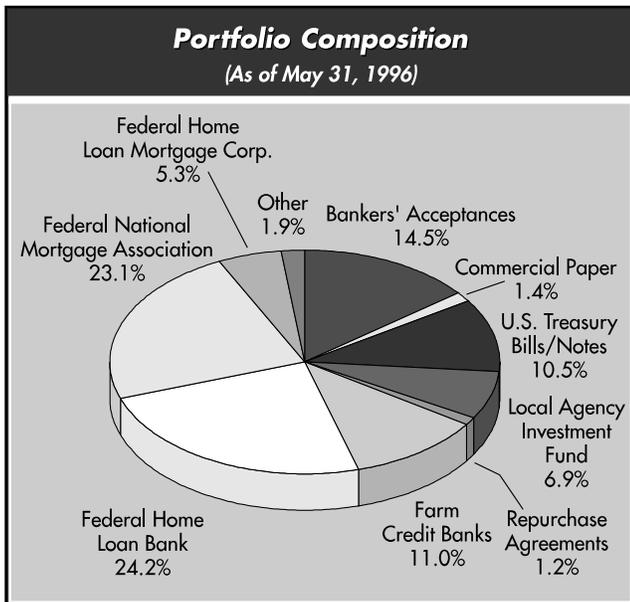
The San Luis Obispo County Investment Pool is managed by the San Luis Obispo County treasurer on behalf of the pool participants, which include the

June 17, 1996

county, school districts, and other special districts. The pool's primary investment objectives are: safety and preservation of capital; liquidity sufficient to meet all operating requirements; yield subject to meeting safety, liquidity, and competitive pricing requirements; and compliance with California and federal law.

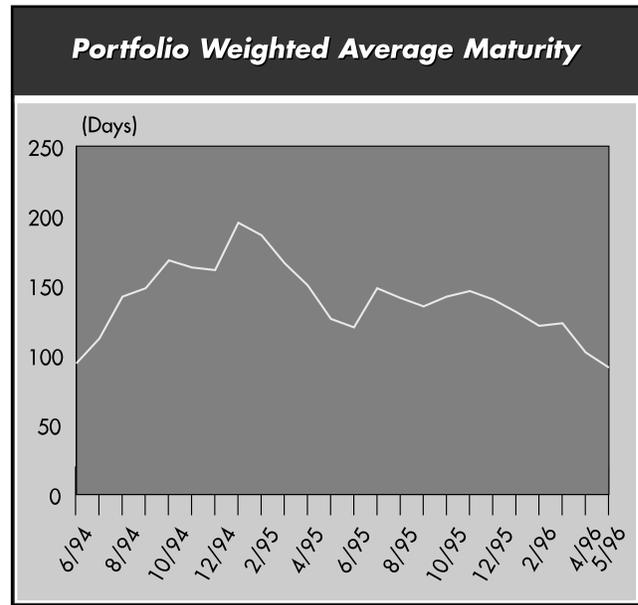
Investment Practices

Composition: The pool pursues its investment objective by investing in a diverse portfolio of high-quality securities, including U.S. Treasury notes and bills, U.S. agency securities, commercial paper, bankers' acceptances, and repurchase agreements. The pool also invests approximately \$20 million in the Local Agency Investment Fund (LAIF), the California state investment pool managed by the state treasurer's office. LAIF is a high-quality, diverse investment pool with an average maturity of less than one year, offering participants daily liquidity. The pool also has the ability to purchase notes issued by the county. Currently, approximately 1.2% of pool assets are invested in the



county's Teeter Plan note program, which has a final maturity of June 21, 1996. Teeter notes allow the county to receive advance funding against delinquent property tax receipts. In addition, the pool sets conservative diversification guidelines by security type (see *Portfolio Composition chart above*).

Market Risk: The pool's WAM of securities held in the portfolio was approximately 91 days at May 31, 1996 and, in the last 12 months, the pool's WAM has ranged from 90–150 days. WAM is a measure of a portfolio's sensitivity to changing interest rates (see *Portfolio Weighted*



Average Maturity chart above). The pool seeks to maintain an average duration under 200 days and does not purchase securities with more than one year to maturity.

The pool maintains a conservative investment strategy that structures the 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 maintains additional liquidity in marketable securities to assist in meeting unanticipated cash requirements. With the exception of LAIF, which offers daily liquidity, all securities bought by the pool are either discount notes or fixed-coupon notes. The pool does not purchase any floating-rate notes or other structured notes or derivatives that may create inappropriate market risk exposure. The pool takes a conservative view toward leverage, as the use of reverse repurchase agreements in any form is specifically prohibited by the county treasurer.

Liquidity

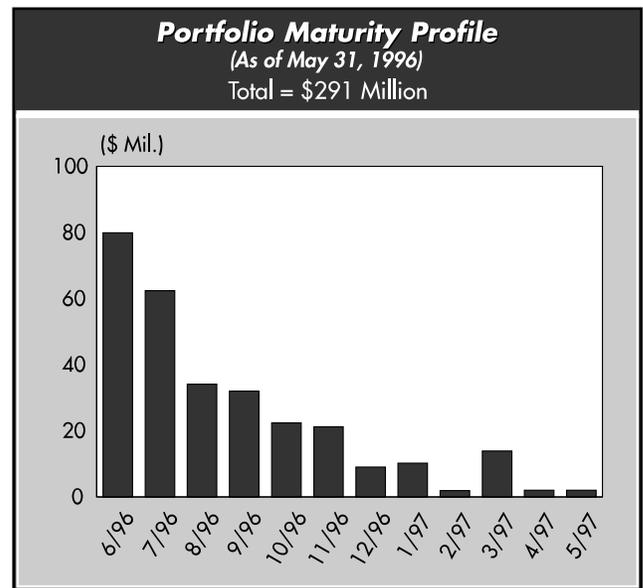
Each month, pool cash flows are forecast for the ensuing 12-month period on the basis of the prior year's cash flows, which are updated to include any identifiable changes in the forecast period. The stability of cash flow projections is bolstered by the pool's composition, since all pool participants are required to maintain funds in the county pool. Requests by mandatory participants to withdraw funds for purposes other than normal cash flow purposes are subject to the consent of the county treasurer in accordance with California government code.

The pool conservatively manages its maturity profile through its cash flow matching and short maturity invest-

ment strategies to ensure a high degree of liquidity to meet anticipated and unanticipated cash outflows. Moreover, investments in short-term repurchase agreements and LAIF provide an additional source of daily liquidity. As of May 31, 1996, approximately 9% of the portfolio was invested in LAIF and securities with overnight maturities, while an additional 18% of the portfolio matured in two to 30 days (see *Portfolio Maturity Profile* chart at right).

Credit Quality

The pool takes a conservative view toward credit risk by virtue of its investment practices, diversification standards, operational controls, and management oversight. The pool invests only in securities issued by highly rated entities and diversifies across issuers and sectors. Approximately 75% of the portfolio on May 31, 1996 was invested in 'AAA' quality U.S. Treasury and agency securities. The balance of the pool was invested primarily in several money market securities issued by highly rated entities. Eligible money market instruments must be rated 'F-1' or 'F-1+' (or the equivalent by another Nationally Recognized Statistical Rating Organization). Moreover, the pool restricts concentrations in any one issuer to minimize exposure. Repurchase agreements are entered into 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, reviews the pool's investment practices and policies on a regular basis. Additionally, the pool is subject to quarterly internal audits from the county auditor's office. The pool is subject to an external audit annually. The Bank of New York serves as custodian for the pool's assets.

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