

San Luis Obispo County Investment Pool

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Rating

San Luis Obispo County
Investment Pool AAA/V1+

Issuer Contact

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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 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 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 (*see Portfolio Composition chart, page 2*). Permitted investments include U.S. Treasury notes and bills, U.S. agency securities, com-

Summary

The San Luis Obispo County Investment Pool, a local government investment pool with approximately \$337 million in assets, is rated 'AAA/V1+'. Investment pools rated 'AAA' meet the highest credit quality standards for underlying assets, diversification, management, and operational capabilities. The pool's 'V1+' 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 IBCA monthly.

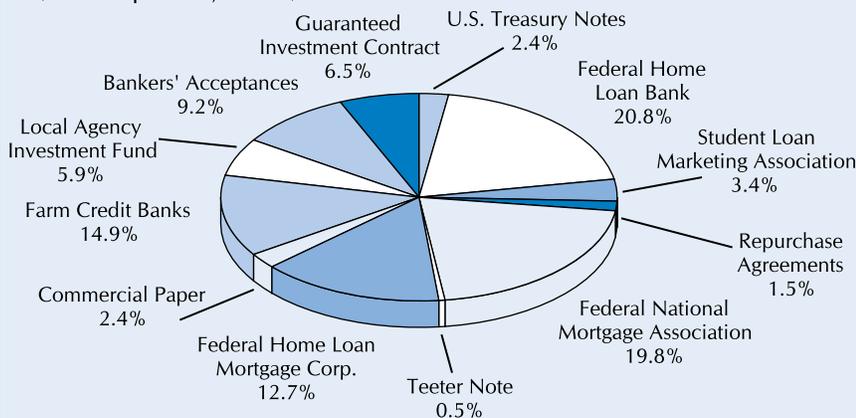
Rating Considerations

- 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.



Portfolio Composition

(As of April 30, 1998)



discount notes or fixed-coupon notes, except for an investment in a Teeter note.

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 WAM of Teeter Plan notes will be somewhat shorter than their final maturity since the county pays a portion of the note balance as delinquent property tax payments are received. The coupon of the Teeter Plan notes resets quarterly off the then-current one-year U.S. Treasury bill yield plus 15 basis points. This floating-rate structure mitigates the pool's exposure to rising interest rates. As of April 30, 1998, the portfolio held less than 0.5% in a Teeter note that matures in June 1998.

mercial paper, bankers' acceptances, repurchase agreements, and the Local Agency Investment Fund (LAIF), the California state investment pool managed by the state treasurer's office. The LAIF is a high-quality, diversified investment pool with an average maturity of less than one year, offering participants daily liquidity. In addition, the county pool sets conservative diversification guidelines by security type.

ket prior to maturity. The pool also maintains additional liquidity in marketable securities to assist in meeting unanticipated cash requirements. 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 of leverage, as the use of reverse repurchase agreements in any form is specifically prohibited by the county treasurer. All securities bought by the pool are either

Market Risk

The pool's WAM of securities held in the portfolio was approximately 167 days at April 30, 1998, and, in the past 12 months, the pool's WAM has ranged between 103–235 days. WAM is a measure of a portfolio's sensitivity to changing interest rates (see chart at right). The pool currently holds only securities with one year or less to maturity, except for a guaranteed investment contract issued by an 'AAA' rated entity that matures in February 2001.

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 mar-

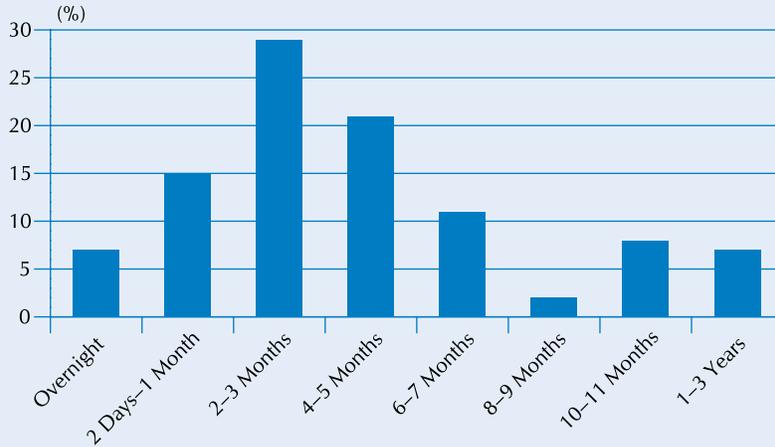
Liquidity

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

Portfolio Weighted Average Maturity



Portfolio Maturity Profile
(As of April 30, 1998)



to maintain funds in the county pool. Requests by mandatory participants to withdraw funds for purposes other than normal cash flow needs 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 investment strategies to ensure a high degree

of liquidity to meet anticipated and unanticipated cash outflows. As of April 30, 1998, approximately 22% of the portfolio matures within one month (*see chart above*).

■ **Credit Quality**

The pool takes a conservative view of credit risk by virtue of its investment practices, diversification standards, operational controls, and management oversight. The pool invests only in secu-

rities issued by highly rated entities and diversifies across issuers and sectors. Approximately 74% of the portfolio on April 30, 1998 was invested in ‘AAA’ quality U.S. Treasury and agency securities. The balance of the pool was invested in several money market securities issued by highly rated entities. Eligible money market instruments must be rated ‘F1’ or ‘F1+’ (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 and the public, 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 and an annual external audit. The Bank of New York Co., Inc. serves as custodian for the pool’s assets.

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Fitch IBCA mutual fund volatility ratings are an opinion as to the relative sensitivity of the total return (including price) of a fund's shares to a broad array of assumed changes in (where relevant) interest rates, mortgage prepayment speeds, liquidity of the portfolio, spreads, currency exchange rates, and other market conditions. Volatility ratings are expressed on a scale of 'V1+' (least volatile) through 'V10' (most volatile). The 'V1+' rating is assigned only to money market funds or local government investment pools that should not experience loss of principal value to shareholders or participants even in severely adverse interest rate environments. Volatility ratings, however, do not predict the direction or magnitude of changes in such market conditions and, therefore, do not predict whether, or the extent to which, any particular bond fund will perform favorably or adversely in the future.

Also, the total returns of bond funds with the same volatility ratings but dissimilar portfolio securities may move in different directions and magnitudes under the same market conditions. For example, while both a high-yield bond fund, which is sensitive primarily to changes in credit risk, and an international bond fund, which is sensitive primarily to changes in currency exchange rates, might have 'V6' ratings, they are likely to perform differently under the same market conditions. The price of one can increase while that of the other can decrease, or each might increase or decrease in different magnitudes. Moreover, a fund with a 'V6' rating might increase in price, while a fund with a 'V3' rating might decrease in price. Nevertheless, a fund with a lower risk volatility rating is likely to exhibit less total return sensitivity than a fund with a higher risk volatility rating across a broad and varied range of market conditions.

Investors should understand that funds with any volatility rating other than a 'V1+' may experience losses in the event of adverse changes in market conditions. Moreover, these ratings do not constitute a recommendation to purchase, sell, or hold any securities or funds, as they do not comment on the adequacy of the price paid for any security or fund or the suitability of any security or fund for any investor. Fitch IBCA's mutual fund volatility ratings are based on information provided to Fitch IBCA by sources deemed to be reliable. However, Fitch IBCA does not verify the accuracy of this underlying information. Due to the relative efficiency of electronic publishing and distribution, Fitch IBCA Research may be available to electronic subscribers up to three days earlier than print subscribers.