San Luis Obispo County Investment Pool

Jennifer F. Williams
(212) 908-0773
jwilliams@fitchibca.com

Steve M. Lee
(212) 908-0734
smlee@fitchibca.com

John L. Schiavetta, CFA
(212) 908-0619
jschiavetta@fitchibca.com

Rating
San Luis Obispo County
Investment Pool . . . . AAA/V1+

Issuer Contact
Frank L. Freitas
Treasurer-Tax Collector
(805) 781-5843

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.

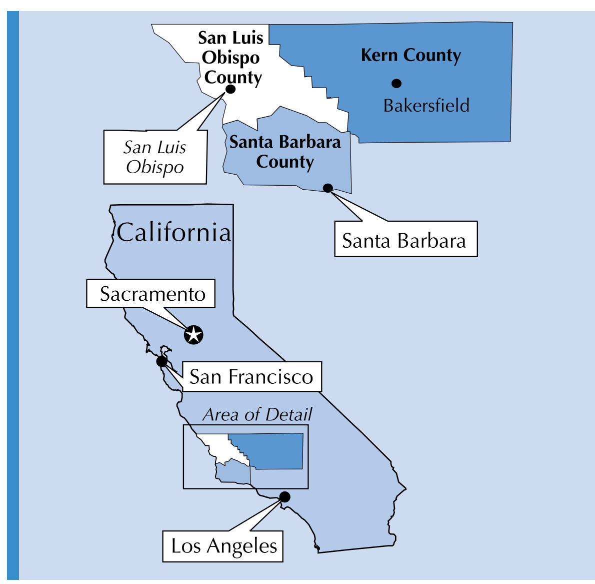
Overview

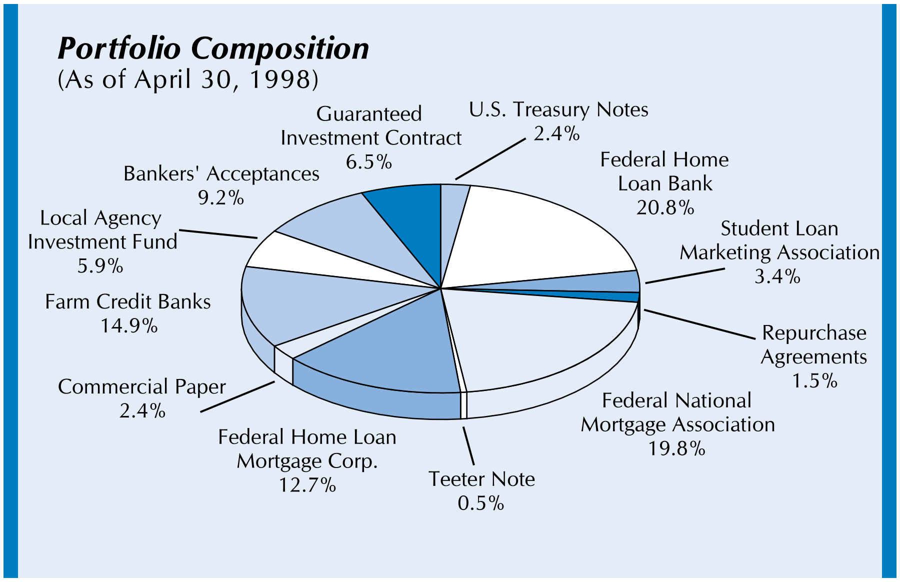
The San Luis Obispo County Investment Pool is managed by the San Luis Obispo County treasurer on behalf of the pool participants, which include the county, school districts, and other special districts. The pool's primary investment objectives are: safety and preservation of capital; liquidity sufficient 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-





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.

Market Risk

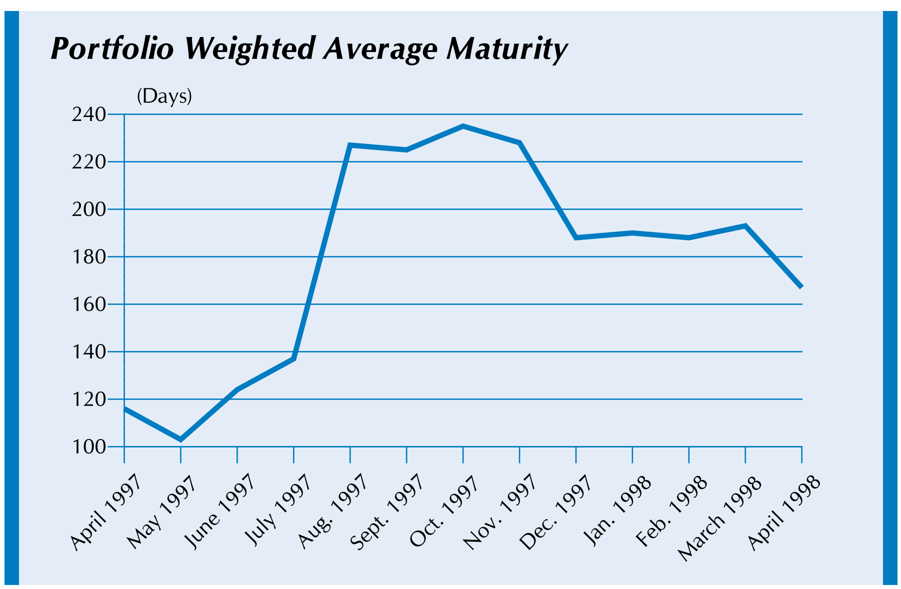
The pool's WAM of securities held in the portfolio was approximately 167 days at April 30, 1998, and, in the past 12 months, the pool's WAM has ranged between 103–235 days. WAM is a measure of a portfolio's sensitivity to changing interest rates *(see chart at right)*. The pool currently holds only securities 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 market 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 discount notes or fixed-coupon notes, except for an investment in a Teeter note.

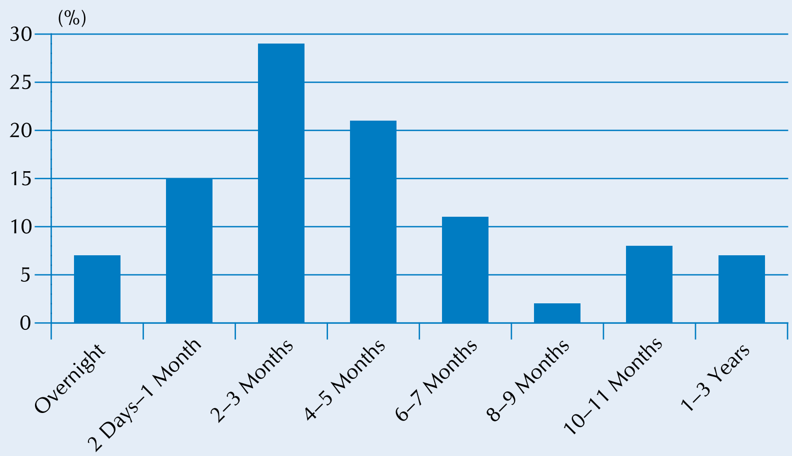
The pool may invest in the county's Teeter Plan note program, which allows the county to receive advanced funding against delinquent property tax receipts. The WAM of Teeter Plan notes will be somewhat shorter than their final maturity since the county pays a portion of the note balance as delinquent 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.

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 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 securities 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.