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Tax Collector
Public Administrator
SAN LUIS OBISPO COUNTY

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TO: DAVID EDGE, COUNTY ADMINISTRATIVE OFFICER

FROM: FRANK L. FREITAS, TREASURER-TAX COLLECTOR-PUBLIC ADMINISTRATOR

DATE: OCTOBER 15, 2008 Frank L Freitas

RE: STATUS OF SAN LUIS OBISPO COUNTY TREASURY COMBINED INVESTMENT POOL

This memo is in response to the current financial difficulties affecting a large number of institutions both governmental and private. These difficulties have affected the earnings on the County Treasury Investment Pool (Pool), but not the amount invested. The investments in the Pool are safe and accessible. Investment earnings in the near future are expected to decline, and the long term outlook is uncertain.

The Pool has retained the FITCH AAA/V1+ rating for quality and liquidity. (Copy attached) The Pool currently consists of approximately 71% of U.S. Treasury Bills and Notes which are backed by the full faith and credit of the U.S. Government. The Pool also includes approximately 20% of Federal Agency notes which are AAA rated securities. The balance of the portfolio consists of highly rated short term investments. The Pool does not have exposure to investments that would be considered "at risk."

The County Treasurer has tri-party repurchase agreements (Repo) with both Lehman and Merrill Lynch (Merrill) but has not invested in Lehman Repo since November 2007. The Merrill Repo is 3% of the portfolio as of 10/14/08. The Repo is used to meet short term funding needs of Pool participants. The Repo balance fluctuates as funds are needed for cash flow.

The Merrill Repo is a secure and safe investment for the following reasons:

- Merrill Repo is collateralized with 102% market value of qualifying securities.
- The collateral is held in a County account with a third party safekeeping bank.
- The County Treasury has the right to the collateral upon failure of any Repo agreement.

The following table lists the investment instruments and their carrying value as of October 14, 2008:

Instrument	Carrying Value	Percentage
Bankers' Acceptances	$14,344,800.30	3.13
Farm Credit	85,613,603.28	18.67
FHLB	6,052,587.64	1.32
LAIF	5,001,000.00	1.09
Repo	14,052,805.47	3.07
T-Bills	116,175,340.97	25.33
T-Notes	210,786,091.64	45.97
Teeter Note	6,531,389.95	1.42
TOTAL	$458,557,619.25	100.00

The County Treasury continues to monitor the credit quality risk and other risks of all investments in the Pool. It continues to maintain its conservative and prudent investment objectives, which (in the order of priority) are safety, liquidity, and yield, while maintaining compliance with federal, state, and local laws and regulations.

Current interest rates have declined to new lows. It is difficult to predict the duration of the current investment market. However, it is anticipated that significantly lower interest income will be earned this fiscal year.

Please direct questions to Donna Morris, Assistant Treasurer at 805.781.5888.

CC Pool Participants,
Gere Sibbach, County Auditor/Controller,
Board of Supervisors

Local Government Investment Pool
Credit Analysis

San Luis Obispo County Treasury Investment Pool

Ratings

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

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Summary

- The San Luis Obispo County Investment Pool, a local government investment pool with approximately USD521.7m 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 Ratings 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 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, as well as a 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 and its school districts and other special districts.

The pool's primary investment objectives are: the 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.

San Luis Obispo County

Source: Fitch

Investment Practices

Composition

The pool pursues its investment objective by investing in a diverse portfolio of high-quality securities. Permitted investments include US Treasury notes and bills, US agency securities, commercial paper, bankers' acceptances, repurchase agreements, and the Local Agency Investment Fund (LAIF), the California state investment pool (managed by the state treasurer's office). 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.

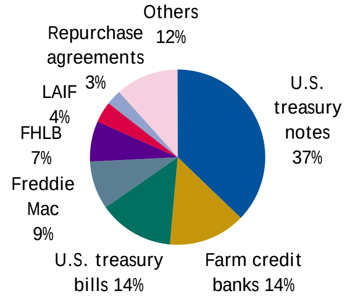
Market Risk

The pool's WAM of securities held in the portfolio was approximately 198 days at March 31, 2008, and in the past 12 months, the pool's WAM ranged from 196–232 days. WAM is a measure of a portfolio's sensitivity to changing interest rates.

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 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.

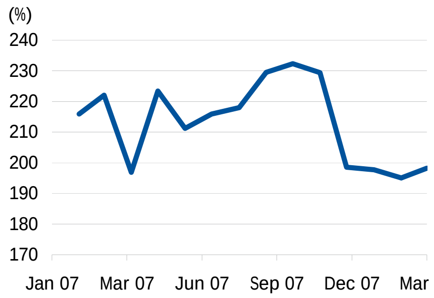
Portfolio Composition

(As of March 31, 2008)



Others include Fannie Mae, Bankers acceptances
Source: Company reports

Historical Average Portfolio Maturity



Source: Company reports

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. There were no Teeter Plan notes in the portfolio as of March 31, 2008.

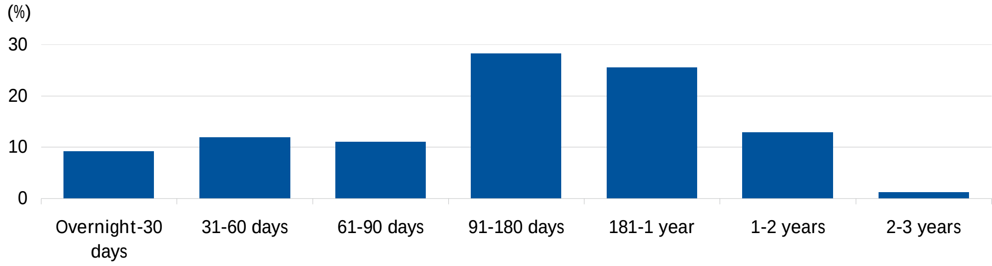
Liquidity

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 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 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 March 2008, approximately

9.23% of the portfolio was held in securities maturing overnight to thirty days.

Portfolio Maturity Profile
(As of March 31, 2008)



Source: Company reports

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 it diversifies across issuers and sectors. On March 31, 2008, approximately 51.08% of the portfolio was invested in US Treasury securities. The balance of the pool was invested in securities issued by highly rated entities. Eligible money market instruments must be rated 'F1', 'F1+' or the equivalent by another nationally recognized statistical rating organization (NRSRO). Investment guidelines also require that all bankers' acceptances and commercial paper be rated by at least two NRSROs. 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 US 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 Mellon serves as custodian for the pool's assets.