San Bernardino County Investment Pool

Full Rating Report

Ratings

Security Class	Current Ratings
San Bernardino County Investment Pool	AAA/V1

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Key Rating Drivers

High Credit Quality Portfolio: The San Bernardino County Investment Pool (the pool) invests primarily in U.S. Treasury and government agency securities, CP and certificates of deposits from highly rated financial institutions.

Low Sensitivity to Market Risk: The portfolio is managed to meet anticipated withdrawals and redemptions. Market risk is mitigated by the high credit quality and liquid nature of the investments as well as the low duration.

Stable Investor Base: The pool is managed on behalf of the pool participants, which are captive in nature and include the county, school districts, trial courts, recreation and park districts, libraries, landfills and other special districts.

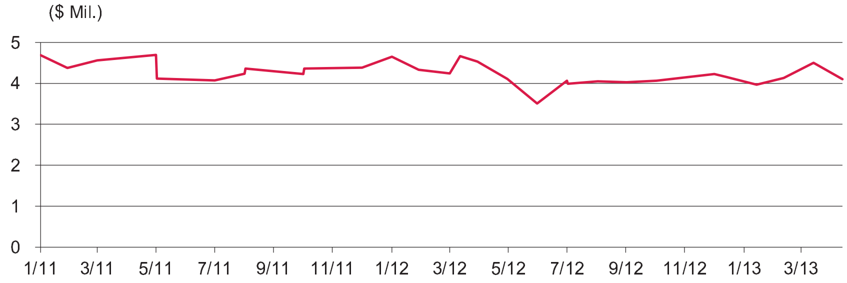
Appropriate Portfolio Management and Oversight: Portfolio oversight and operational controls are consistent with the 'AAA/V1' ratings. The pool is managed by the San Bernardino County auditor-controller/treasurer/tax collector on behalf of the county and its constituents.

Rating Sensitivities

Changes in Portfolio Composition: The ratings may be sensitive to material changes in the composition, credit quality or liquidity profile of the portfolio. A materially adverse deviation from Fitch Ratings' guidelines for any key rating driver could cause ratings to be lowered. For example, a material decrease in portfolio credit quality could result in the fund credit ratings being lowered, while a material increase in portfolio duration could result in fund volatility ratings being lowered.

Changes in U.S. Financial Condition: Given the pool's investment mandate of investing primarily in U.S. Treasury and government agency securities, the ratings may also be sensitive to materially adverse changes in the U.S. government's financial condition and that of the broader U.S. economy.

Portfolio Assets Under Management



Source: County of San Bernadino.

Rating Rationale

San Bernardino County Investment Pool is a California-based local government investment pool (LGIP) rated 'AAA/V1' by Fitch, reflecting the high credit quality of portfolio assets and the low sensitivity to market risk.

Pools with 'AAA' fund credit ratings meet specific credit quality standards for portfolio assets while maintaining appropriate portfolio diversification and demonstrating appropriate investment management and operational capabilities. The 'AAA' fund credit rating indicates the lowest vulnerability to losses as a result of asset defaults and is based on the actual and prospective average credit quality of the pool's investment 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 'V1' fund volatility rating reflects the sensitivity of the fund's net asset value (NAV) to changes in broad market risk factors, including spreads, interest rates and certain other parameters. 'V1' fund volatility ratings are considered to have low sensitivity to market risk.

Fitch's evaluation of pool also considers the management and operational capabilities of the San Bernardino County treasurer's office and the legal and regulatory framework under which the pool operates. Portfolio valuation reports are submitted to Fitch on a monthly basis. As of May 31, 2013, the pool had approximately $4.1 billion under management.

Organizational Overview

San Bernardino County is located in Southern California. The pool is managed by the San Bernardino County auditor-controller/treasurer/tax collector's office staff on behalf of the pool participants, which include the county, school districts, trial courts, recreation and park districts, libraries, landfills and other special districts.

Larry Walker is the auditor-controller/treasurer/tax collector for the county of San Bernardino. Walker has served as San Bernardino County auditor-controller/treasurer/tax collector since December 1998, following his election in June 1998. He was reelected in 2002 and in 2006. He also served as county clerk and recorder from 1998 to 2010. In February 2010, the offices of the auditor-controller and the treasurer/tax collector were consolidated into a single entity in an effort to increase efficiency. In June 2010, Walker was elected to the newly created office of auditor-controller/treasurer/tax collector. On Jan. 1, 2011, the recorder and county clerk functions were transferred to the county assessor, completing the consolidation.

The pool is subject to an external audit on both a quarterly and annual basis. The pool's investment policy is reviewed on an annual basis by Public Financial Management, Inc. (PFM), the county's treasury oversight committee, and is approved by the board of supervisors. The current investment policy, the list of preapproved issuers and the most recent monthly portfolio holdings are posted on the county treasurer office's website at www.mytaxcollector.com. The pool also operates under a system of internal controls that include policies on separation of duties, safekeeping, wire transfers and banking-related activities.

The pool engages PFM to provide additional analysis and recommendations. PFM provides independent financial and investment advisory to various entities, including county investment pools. Frequent calls and strategy meetings are conducted with PFM, and the pool utilizes credit research and cash flow projections provided to them by PFM on a consistent and ongoing basis. Additionally, all pool investments are monitored on a daily basis by PFM, and PFM reviews the investment guidelines and policy on an annual basis.

Related Criteria

Global Bond Fund Rating Criteria (August 2012)

The pool's custodian, The Bank of New York Mellon Trust Co., Inc., holds all investments and collateral (excluding collateralized certificates of deposit) in constructive possession on behalf of the pool.

The 'AAA/V1' fund credit and volatility ratings assigned to the pool remain unaffected by the city of San Bernardino filing bankruptcy on July 11, 2012. The city does not participate in the pool. The captive nature of the investor base allows the pool to invest in longer-dated maturity-matching eligible securities and immunizes large-scheduled cash outflows such as payroll. Nonetheless, the pool manages liquidity risk conservatively. The pool seeks to maintain $300 million in securities maturing overnight and targets $75 million–$100 million in securities maturing within seven days. As of May 31, 2013, the pool had 16% of its portfolio in overnight securities.

Pool Investment Objectives

The pool's primary investment objective is to safeguard investment principal. The secondary objective is to maintain sufficient liquidity to meet daily cash flow requirements. The tertiary objective is to achieve a reasonable rate of return or yield consistent with these objectives.

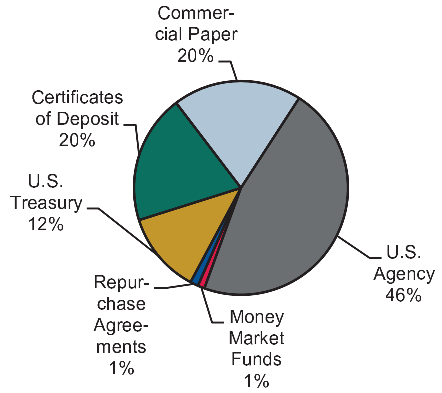
Moneys deposited in the pool by participants represent an individual interest in all assets and investments in the pool based on the amount deposited. Portfolio income is reconciled daily against cash receipts and quarterly prior to the distribution of earnings among those entities sharing in pooled fund investment income. All investment income is to be distributed pro rata based on each participant's average daily cash balance for the calendar quarter.

Portfolio Investment Practices

The pool seeks to pursue its investment objectives by investing in a diversified portfolio of high-quality securities authorized under sections 53600 and 53630 of the California government code and as further restricted by the pool's investment policy statement. Permitted investments include U.S. Treasury and government agency securities, commercial paper (including asset-backed commercial paper), negotiable certificates of deposit and money market funds. By its investment policy, the pool is permitted to enter into repurchase agreements with counterparties rated at least 'A/F1' by Fitch or equivalent. The repurchase agreements must be backed by U.S. Treasury and government securities, overcollateralized by at least 102%, and marked to market at least once a week by an independent third party or custodial bank acting under contract to the county.

The pool's investment policy does not permit the purchase of any derivatives or structured notes. Restricted investments include inverse floaters, range notes, interest-only strips that are derived from a pool of mortgages and any other investment that could result in zero interest if held to maturity.

Portfolio Composition
(As of May 31, 2013)



Source: County of San Bernadino.
Note: Numbers may not add to 100% due to rounding.

Additionally, mutual bond funds that do not maintain a constant NAV and illiquid investments that lack a readily available market for trading, including private placement bonds/notes, funding agreements, master notes and loan participations, are prohibited by the pool's investment policy statement.

In accordance with its investment policy statement and California government code, the pool retains the ability to enter into reverse repurchase agreements and securities lending, as needed, to meet short-term cash flow requirements. However, the pool has not utilized reverse repurchase agreements or securities lending and has indicated that it does not plan to engage in other means of leveraging in the foreseeable future. The pool is permitted to enter into such agreements so long as the total value does not exceed 10% of the base value of the portfolio and the terms of the agreements are within 92 calendar days.

Asset Credit Quality

The pool seeks to limit its credit risk by investing a substantial part of its portfolio in U.S. government agency securities. As of May 31, 2013, 46.4% of the pool's portfolio was invested in securities issued by U.S. government agencies, 19.5% was in short-term obligations of financial and nonfinancial corporations, including commercial paper holdings, 19.5% was in negotiable certificates of deposit, 12.3% was in U.S. Treasuries, 1.1% was in domestic money market funds rated 'AAAmmf' by Fitch or equivalent and 1.2% was invested in repurchase agreements. The pool's investments in corporate securities are rated at least 'A–/F1' or of a comparable credit quality by other global rating agencies.

The pool monitors the investments in the portfolio such that in the event of a downgrade of a security, the treasurer is promptly notified. In the event of a downgrade below the minimum credit ratings, the security is evaluated on a case-by-case basis to determine whether to hold or dispose of it.

Weighted Average Rating Factor

Based on the portfolio credit quality and maturity profile as of May 31, 2013, Fitch calculated the weighted average rating factor of the fund to be consistent with an 'AAA' fund credit rating. Fitch's rating factors are scaled to reflect the probability of default curve, which means lower credit quality investments have a greater impact on the final weighted average rating factor. This analysis includes a reduction of the credit factors for securities in the portfolio that mature within 13 months, in recognition of the lower default probability of such securities relative to longer-dated securities. As of May 31, 2013, securities maturing in 13 months or less of their stated maturities represented approximately 63.3% of the pool's portfolio.

Rating Distribution and Minimum Ratings

In evaluating LGIPs, Fitch also considers the pool's minimum asset ratings as well as the extent to which the pool may undertake a bar-belled investment strategy. As of May 31, 2013, 61% of the pool consisted of long-term assets rated 'AAA.' The remainder of the pool consisted of assets rated 'A–' or higher, in accordance with the pool investment policy. The minimum ratings and absence of a barbelled investment strategy are viewed as consistent with the 'AAA' fund credit rating assigned to the pool.

Diversification

The pool's portfolio is invested mainly 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.

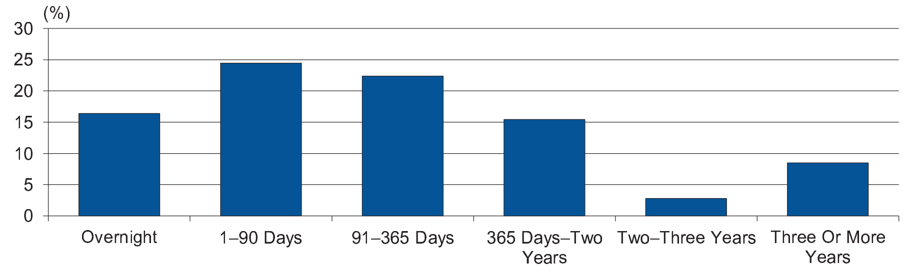
The fund's largest aggregated exposure to a nongovernment entity accounted for 4.64% of total assets as of May 31, 2013.

Liquidity Management

Pool cash flow needs are forecast by the treasurer's office staff on the basis of the prior year's cash flows and are updated to include any identifiable changes in the forecast period. Cash inflows are invested to match projected cash needs, which consist of payroll and benefits, county projects and debt service. The stability of cash flow projections is based on the pool's composition, as approximately 95% of participants are captive in nature and thereby required to maintain funds in the county pool. The pool is not currently soliciting nor accepting any voluntary participants.

Requests by participants to withdraw funds outside scheduled cash needs must be made in writing, with 30 days' notice, and are subject to the consent of the county treasurer in accordance with the California government code. To meet the scheduled cash flow needs, the pool invests a portion of its portfolio in repurchase agreements and U.S.-registered money market funds. As of May 31, 2013, 16% of the pool's portfolio assets matured overnight.

Portfolio Maturity Profile
(As of May 31, 2013)

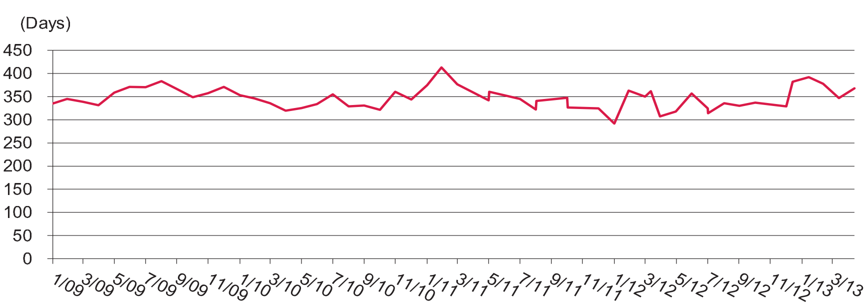


Source: County of San Bernadino.

By its investment policy statement, the pool must maintain a duration to maturity of less than 18 months and invest at least 40% of the portfolio in securities with maturities of 12 months or less. As of May 31, 2013, the pool's investment in securities maturing within 12 months accounted for 63% of its total assets. Additionally, as of that same date, approximately 6.63% of the portfolio's holdings were invested in callable securities.

Within the past three years, the pool adjusted its cash need projections to include an increase in the daily liquidity buffer that covers all cash inflows due to the county from the state of California. The pool has increased its internal target of securities maturing within one year to 50%. To date, the pool has not liquidated any securities to meet redemption needs.

Portfolio Weighted Average Final Maturity



Source: County of San Bernadino.

As of May 31, 2013, the weighted average maturity (WAM) of all portfolio securities was 354 days. The WAM reflects the asset weighted average number of the days to final maturities of fixed-rate portfolio securities or reset dates of the floating-rate securities. This calculation is an indicator of the pool's sensitivity to changes in short-term interest rates. As of the same date, the weighted average life (WAL) was 368 days, and the effective duration was 1.01 years. The WAL 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. In the past 12 months, the pool's WAL ranged from 314–392 days.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.