

**Local Government
Investment Pool/Full
Rating Report****San Bernardino County Investment
Pool****Ratings**

San Bernardino County
Investment Pool AAA/V1

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Related Research

- *Global Bond Fund Rating Criteria, Feb. 10, 2010*
- *Global Bond Fund Rating Criteria (Short-Term Bond Fund Addendum), March 22, 2010*

Summary

San Bernardino County Investment Pool is a California-based local government investment pool (LGIP) rated 'AAA/V1' by Fitch Ratings. The pool's 'AAA' fund credit rating reflects the pool's vulnerability to losses as a result of defaults in its bond portfolio and is based on the actual and prospective average credit quality of the pool's investments. The pool's 'V1' fund volatility rating reflects the relative sensitivity of the pool's net asset value to assumed changes in credit spreads and interest rates as well as certain other market risk parameters. Fitch's evaluation of San Bernardino County Investment Pool also considers the management and operational capabilities of the San Bernardino County Treasurer and the legal and regulatory framework under which the pool operates. Portfolio valuation reports are submitted to Fitch on a monthly basis. As of Feb. 28, 2010, the pool had approximately \$4.65 billion under management.

On March 18, 2010, Fitch completed a sector review of all rated LGIPs, following the publication of updated rating criteria on Feb. 10, 2010. As part of this review, the fund credit rating assigned to San Bernardino County Investment Pool was affirmed at 'AAA', and the fund volatility rating assigned to the pool was revised to 'V1' from 'V1+'. The revision of the fund volatility rating was solely a result of Fitch eliminating the 'V1+' rating from its fund volatility rating scale. The revision of the fund volatility rating scale does not reflect any change in the market or liquidity risk of the pool.

Rating Considerations

- The pool invests primarily in U.S. government obligations, corporate debt securities rated at least 'A/F1' by Fitch or of a comparable quality by other global ratings agencies, and obligations of issuers located in the County of San Bernardino collateralized by 'AAA' rated securities.
- The pool has a predominantly captive participant base that includes the county's school districts, trial courts, recreation and park districts, libraries, landfills, and other special districts.
- Liquidity is actively managed to meet projected cash needs of the pool's participants.
- Management oversight and operational controls are consistent with the assigned ratings.

Overview

San Bernardino County is located in southern California. The San Bernardino County Investment Pool is managed by the San Bernardino County Auditor-Controller/Recorder/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. The pool's primary investment objective is to safeguard investment principal. The secondary objective is to maintain sufficient liquidity to insure that funds are available to meet daily cash flow requirements. The tertiary objective is to achieve a reasonable rate of return or yield consistent with these objectives.

Pool Investment Practices

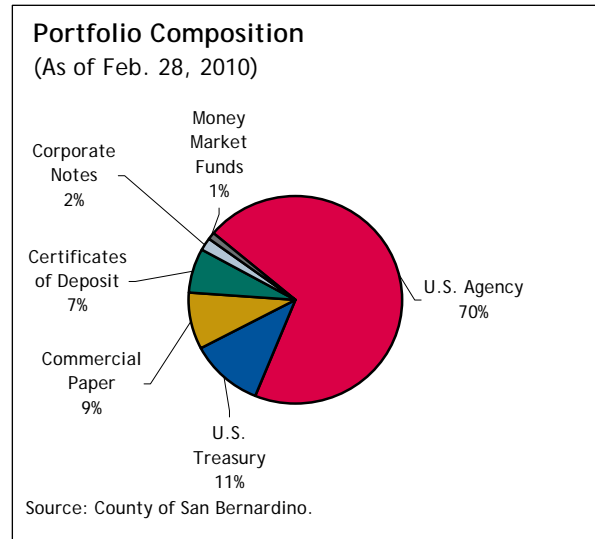
The pool seeks to pursue its investment objectives by investing in a diversified portfolio of high-quality securities authorized under the California Government Code and as further restricted by the pool’s investment policy statement. Permitted investments include U.S. Treasury and government agency securities, commercial paper, 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 of a comparable quality by other global rating agencies. 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.

The pool’s investment policy statement 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, or any other investment that could result in zero interest if held to maturity. Additionally, mutual bond funds that do not maintain a constant net asset value and illiquid investments that lack a readily available market for trading 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 percent 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 Feb. 28, 2010, 70.0% of the pool’s portfolio was invested in securities issued by U.S. government agencies, 11.9% was in short-term obligations of financial and nonfinancial corporations, including commercial paper holdings, 10.9% was in U.S. Treasuries, 6.5% was in bank certificates of deposit, and 0.7% was in domestic money market funds rated ‘AAAmmf’ by Fitch or of a comparable quality by other global rating agencies. The pool’s investments in corporate securities are rated at least ‘AA/F1+’ or of a comparable credit quality by other global rating agencies. The pool did not have any investments in repurchase agreements as of this date. 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 the security.

Weighted Average Rating Factor

Based on the pool's portfolio credit quality and maturity profile as of Feb. 28, 2010, Fitch calculated the weighted average rating factor to be consistent with a 'AAA' fund credit rating. This analysis includes a reduction of the credit factors for securities maturing within 13 months, in recognition of the lower default probability of such securities relative to longer-dated securities.

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 Feb. 28, 2010, the pool consisted entirely of long-term assets rated 'AAA' and short-term assets rated 'F1' (or equivalent) or higher. The minimum ratings and absence of a bar-belled investment strategy are viewed as consistent with the 'AAA' fund credit rating assigned to the pool.

Diversification

Excluding the pool's exposure to U.S. government and agency exposures, the pool is highly diversified by issuer, with the largest issuer representing 3.42% of the portfolio as of Feb. 28, 2010.

Liquidity Management

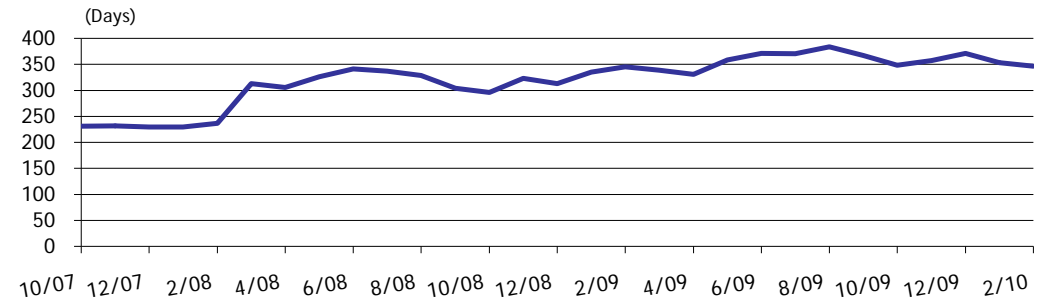
Pool cash flow needs are forecast by the treasurer's office staff on the basis of the prior year's cash flows, which are updated to include any identifiable changes in the forecast period. The stability of cash flow projections is based on the pool's composition, as approximately 98% of participants are captive in nature and thereby required to maintain funds in the county pool.

Requests by participants to withdraw funds for purposes other than normal cash flow needs are subject to the consent of the county treasurer in accordance with the California Government Code. In addition, the pool maintains a portion of its net assets in overnight investments such as repurchase agreements and U.S.-registered money market funds. As of Feb. 28, 2010, 9% of the pool's portfolio assets matured overnight.

As of Feb. 28, 2010, the weighted-average maturity to reset (WAMr) of all portfolio securities was 327 days. The WAMr 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 pools' sensitivity to changes in short-term interest rates. As of the same date, the weighted average final maturity (WAMf) was 346 days, and the effective duration was 0.94 years. The WAMf 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 WAMf ranged from 331–383 days.

By its investment policy statement, the pool must maintain an effective duration of less than 18 months and invest at least 40% of the portfolio in securities with maturities of 12 months or less. As of Feb. 28, 2010, the pool's investment in securities maturing within 12 months accounted for 55.4% of its total assets. Additionally, as of Feb. 28, 2010 approximately 19.6% of the portfolio's securities were callable at the pool's option.

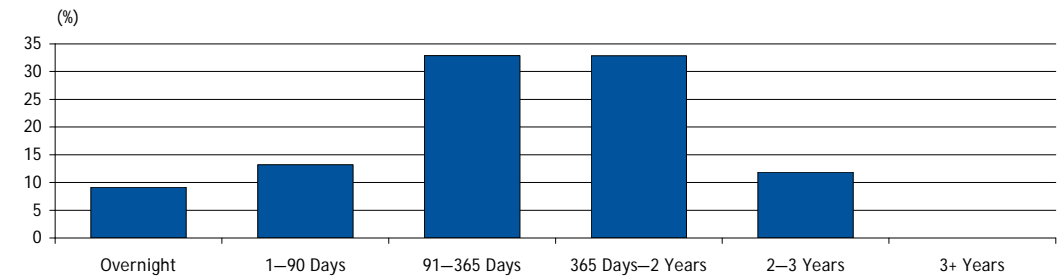
Portfolio Weighted Average Final Maturity



Source: County of San Bernardino.

Portfolio Maturity Profile

(As of Feb. 28, 2010)



Source: County of San Bernardino.

Organizational Overview

The San Bernardino County Investment Pool is managed by the San Bernardino County Auditor-Controller/Recorder/Treasurer/Tax Collector on behalf of the county and its constituents. Larry Walker is the Auditor-Controller/Recorder/Treasurer/Tax Collector for the county of San Bernardino. Mr. Walker has served as San Bernardino County Auditor-Controller/Recorder since December 1998, following his election in June 1998. He was re-elected in 2002. He also serves as county clerk, by appointment of the board of supervisors. As of Feb. 25, 2010, the offices of the auditor-controller/recorder and the treasurer-tax collector have been consolidated into a single entity.

The pool is subject to an external audit annually. The pool's current investment policy, the list of pre-approved issuers, and the most recent monthly portfolio holdings are posted on the county treasurer office's Web site. The pool's custodian, The Bank of New York Co., Inc., holds all investments and collateral (excluding collateralized certificates of deposit) in constructive possession on behalf of the pool.

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