



Fitch Affirms San Bernardino County Investment Pool at 'AAA/V1' [Ratings](#) [Endorsement Policy](#)

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Fitch Ratings-New York-21 February 2012: Fitch Ratings affirms the 'AAA/V1' fund credit and volatility rating assigned to the San Bernardino County Investment Pool, a local government investment pool managed by the San Bernardino County Treasurer's Office on behalf of the county, local school districts and other special districts. As of Dec. 31, 2011, the pool had approximately \$4.4 billion in assets under management.

KEY RATING DRIVERS:

The rating affirmation follows Fitch's annual review of the pool. The affirmation of the pool's 'AAA' credit rating reflects the pool's lowest vulnerability to losses as a result of defaults in its portfolio and is based on the actual and prospective average credit quality of the pool's investments.

The main drivers for the credit rating affirmation are:

- The pool's overall credit quality and diversification;
- Sufficient portfolio liquidity relative to shareholder composition;
- Investment capabilities of San Bernardino County Treasurer's Office, as the pool's manager.

The affirmation of the fund volatility rating is based on the stability of the market risk profile, as reflected by duration.

The 'V1' fund volatility rating reflects the pool's low market risk and capacity to return stable principal value to meet anticipated cash flow requirements, even in adverse interest rate environments.

INVESTMENT OBJECTIVES:

The San Bernardino County Investment Pool's primary investment objective is to safeguard investment principal. The secondary objective is to maintain sufficient liquidity to ensure that funds are available to meet daily cash flow requirements. The third consideration is to achieve a reasonable rate of return or yields consistent with the first two objectives.

CREDIT QUALITY AND DIVERSIFICATION:

Per its statement of investment policy, the pool must be invested in securities rated at least 'AA/F1' by Fitch or equivalent.

The pool invests in U.S. Treasury and government agency securities, U.S. money market funds and other money market instruments including commercial paper, certificates of deposit bankers' acceptances and corporate medium-term notes. As of Dec. 31, 2011, approximately 58% of the fund was invested in securities issued or guaranteed by the U.S. government, 24% was in bank certificates of deposit, 10% was in short-term obligations of financial and non-financial corporations, 5% was allocated to domestic money market funds, 2% in repurchase agreements and 1% in corporate notes/bonds. As of the same date, the weighted average credit quality of the fund, as measured by Fitch's weighted average rating factor (WARF), was 0.151, which is in line with Fitch's 'AAA' fund credit rating criteria guidelines.

ASSET MATURITY AND POOL LIQUIDITY:

As of that same date, the pool's modified adjusted duration stood at 0.8 years and the weighted average maturity to reset date (WAMr) and weighted average final maturity (WAMf) were 0.73 and 0.88 years, respectively. WAMf reflects the asset number of days to the final maturity of all portfolio assets and measures potential exposure to changes in credit spread.

The pool is permitted by its statement of investment policy to increase the weighted average duration-to-maturity up to 1.5 years. The final maturity of certain holdings such as obligations of the U.S. Treasury and government agencies can be as long as five years. Liquidity risk introduced by owning long-duration assets is mitigated by the highly predictable nature of the pool's cash outflows. Additionally, per its investment policy the pool must hold at least 40% of its portfolio in securities maturing within 12 months.

The pool is comprised almost entirely of monies held by the San Bernardino County Treasurer on behalf of school districts, community college districts, and certain special districts within the county. The captive nature of the investor base allows the pool to invest in maturity-matching eligible securities. In addition, the pool maintains a portion of its net assets in overnight investments such as U.S. money market funds. As of Dec. 31, 2011, 5% of the pool's portfolio assets matured overnight.

RATING SENSITIVITY AND SURVEILLANCE

The assigned fund credit rating and fund volatility rating may be sensitive to material changes in the credit quality or market risk profiles of the pool. A material adverse deviation from Fitch guidelines for any key rating driver could cause the ratings to be changed by Fitch.

For example, a material decrease in portfolio credit quality could result in the fund credit rating being lowered, while a material increase in portfolio duration could result in the fund volatility rating being lowered. Due to the significant investments in U.S. Treasury and agency securities, the pool's ratings are sensitive to the credit quality of the U.S. government.

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. The pool is subject to quarterly review and annual audit by an external auditor. 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 website. The San Bernardino County Treasurer's Office provides Fitch with monthly surveillance information, including details of the portfolios' holdings, such as credit quality, market value and duration of the individual securities.

For additional information about Fitch bond fund rating guidelines, please review the criteria referenced below, which can be found on Fitch's website.

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Additional information is available at www.fitchratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

The sources of information used to assess this rating were the public domain and San Bernardino County Investment Pool.

Applicable Criteria and Related Research:

--'Global Bond Fund Rating Criteria', dated Aug. 16, 2011;
--'Local Gov't Pools' Ratings Weather Volatile Environment', dated Aug. 23, 2011;
--'Local Gov't Investment Pool Ratings Not Affected by U.S. Negative Outlook', dated Dec. 13, 2011.

Applicable Criteria and Related Research:

[Global Bond Fund Rating Criteria](#)

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