

Local Government
Investment Pools
(LGIPs)/US
Credit Analysis

San Bernardino County Investment Pool

Summary

San Bernardino County Investment Pool is a local government investment pool rated 'AAA/V1+' by Fitch. 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 adverse interest rate environments. As of October 31, 2008, the pool had approximately USD4.23bn under management. Portfolio valuation reports are submitted to Fitch Ratings monthly.

Rating Considerations

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

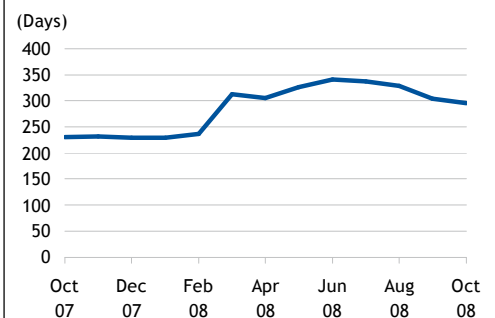
Overview

The San Bernardino County Investment Pool is managed by the San Bernardino County Treasurer and staff on behalf of the pool participants, which include the county, school districts, and special districts. Mandatory participants in the pool constitute approximately 98% of the pool's total assets under management. 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 funds meet daily cash flow requirements. The third consideration is to achieve a reasonable rate of return or yield consistent with these objectives.

Investment Practices

The pool pursues 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. The list of pre-approved securities currently includes U.S. Treasury and government agency securities, commercial paper, negotiable certificates of deposit, money market funds, and repurchase agreements with counterparties rated at least 'A/F1' by Fitch or of a comparable quality quality by other global rating agencies. The pool's investment policy statement does not permit the purchase any derivatives or structured notes.

Portfolio Weighted Average Maturity



Source: County of San Bernardino

Ratings

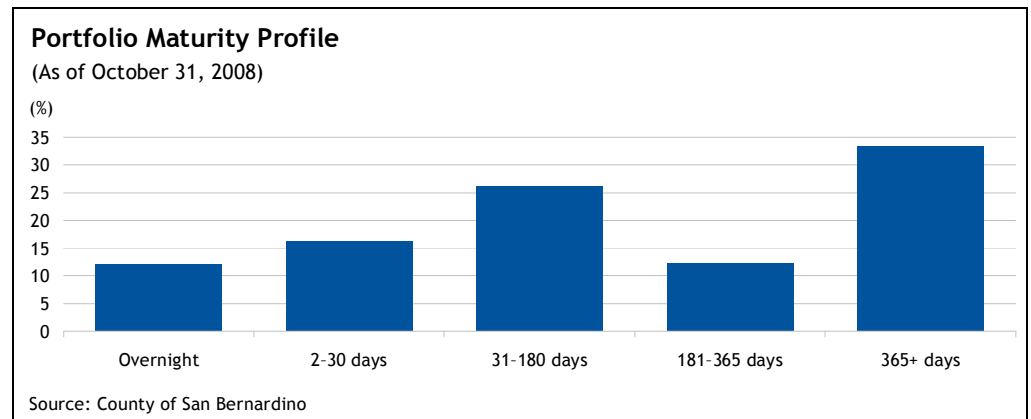
San Bernardino County Investment Pool AAA/V1+

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On October 31, 2008, the weighted-average maturity (WAM) of all portfolio securities was 296 days, and the effective duration was 0.73 years. WAM and effective duration are measures of a portfolio's sensitivity to changing interest rates and other market conditions. By its investment policy statement, the pool must maintain an effective duration of less than 18 months and keep at least 40% of the portfolio in securities with maturities of 12 months or less. As of October 31, 2008, the pool's investments in securities maturing within 12 month accounted for 66.6% of its total assets.



As is the case with many LGIPs rated by Fitch, both the current and maximum WAM of the fund are significantly longer than what Fitch traditionally deems consistent with a 'V1+' volatility rating. That said, what mitigates the potential liquidity risk for such funds is that, unlike money market funds governed by the Rule 2a-7 under the Investment Company Act of 1940, as amended, which limit their WAM to 90 days, LGIPs have historically benefited from much more stable depositor bases with highly predictable cash outflow needs. As mentioned previously, approximately 98% of participants in San Bernardino County Investment Pool are captive. Should investor composition change or volatility of outflows increase, this could adversely affect the fund's ratings in the future.

In accordance with its investment policy statement and California Government Code, the pool retains the ability to enter into reverse repurchase agreements, as needed, to meet short-term cash flow requirements. However, the pool has not utilized reverse repurchase agreements and has no plans to engage in other means of leveraging in the foreseeable future.

Liquidity

Pool cash flow needs are forecast 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, since approximately 98% of participants are required to maintain funds in the county pool. Those include the County's school districts, trial courts, recreation and park districts, libraries, landfills and other special districts.

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. The pool's maturity profile is consistent with the cash flow needs of its participants. 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 October 31, 2008, 12% of the pool's portfolio assets matured overnight.

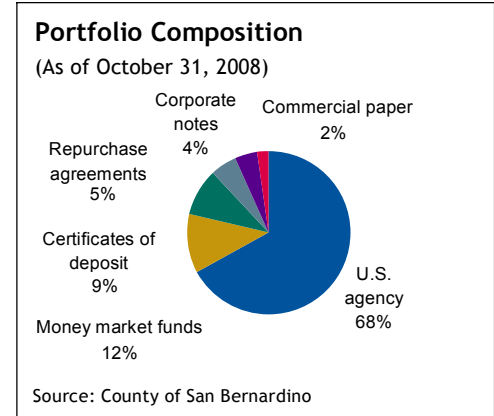
Credit Risk and Diversification

The pool limits its credit risk by investing a substantial part of its portfolio in U.S. government agency securities. As of October 31, 2008, 68% the pool’s portfolio was invested in securities issued by U.S. government agencies, 12% was in domestic money market funds, 9% was in bank certificates of deposit, 6% was in short-term obligations of financial and non-financial corporations rated at least ‘AA/F1’ or of a comparable credit quality by other global rating agencies, and 5% was in repurchase agreements. Repurchase agreements are entered into only with counterparties rated at least ‘A/F1’ by Fitch or of a comparable credit quality by other global rating agencies.

The pool also has the ability to invest in securities rated as low as ‘A/F1’, although as of October 31, 2008, such securities represented only 11% of the portfolio.

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 quarterly basis. Annually, the pool is subject to an external audit. The pool’s current investment policy, the list of pre-approved issuers and the most recent monthly portfolio holdings list 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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