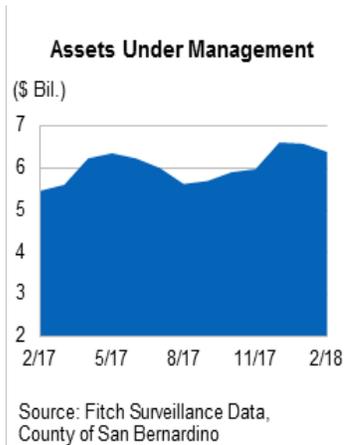


# San Bernardino County Investment Pool

## Full Rating Report

### Pool Characteristics

Fitch Rating	AAA/S1
Inception Date	Circa 1941
Investment Advisor	San Bernardino County Auditor - Controller
Assets (\$Bil.)	6.4



### 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, commercial paper (CP) and certificates of deposit from highly rated financial institutions. The 'AAA' rating reflects the very low aggregate credit risk of the portfolio.

**Very Low Sensitivity to Market Risk:** The portfolio is managed to meet anticipated withdrawals and redemptions. Market risk is mitigated by the low duration of the pool, which typically is two years or less, as well as the predictable nature of the cash outflows of the largely captive participant base. The 'S1' rating reflects the expected high stability of net assets.

**Stable Investor Base:** The pool is managed on behalf of the participants, which are largely captive in nature and include San Bernardino County (the county), school districts, first five children and families commission, fire protection district, county service areas, recreation and park districts, and other special districts. The stability of cash flow projections is supported by the pool's stable depositor base.

**Strong Portfolio Management and Stable Performance:** The San Bernardino County Auditor-Controller/Treasurer/Tax Collector has an extensive track record of management of this pool. Stability and diversification of underlying assets, as well as stable performance, substantiate this fact.

**Robust Management Decreases Operational Risk:** Oversight and operational controls are consistent with the assigned ratings. A treasury oversight committee comprising pool participant representatives and county residents reviews the pool on a regular basis. The pool's assets are segregated from other county assets at the pool's custodian. PFM, a third-party adviser, provides pool management with market information, portfolio review and investment idea generation.

**Industry Standard Administration and Systems:** The San Bernardino County Auditor-Controller/Treasurer/Tax Collector's office uses appropriate systems for investment, administration, portfolio management and trading. Operations processes provide decision-making tools for risk analysis and investment allocation tools.

### Analysts

Brian Jarmakowicz  
+1 646 582-4586  
[brian.jarmakowicz@fitchratings.com](mailto:brian.jarmakowicz@fitchratings.com)

Domenic Bussanich  
+1 646 582-4874  
[domenic.bussanich@fitchratings.com](mailto:domenic.bussanich@fitchratings.com)

**Rating Rationale**

The San Bernardino County Investment Pool is rated ‘AAAf’/‘S1’ by Fitch. The ‘AAAf’ Fund Credit Quality Rating reflects the portfolio’s vulnerability to losses as a result of defaults in its bond holdings and is based on the actual and prospective average credit quality of the portfolio’s investments. The ‘S1’ Fund Market Risk Sensitivity Rating reflects the relative sensitivity of a portfolio’s net asset value to assumed changes in credit spreads and interest rates, as well as certain other market risk parameters, taking into account the effects of leverage, where applicable.

Fitch Ratings’ evaluation of the pool also considers the management and operational capabilities of the 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.

**Organizational Overview**

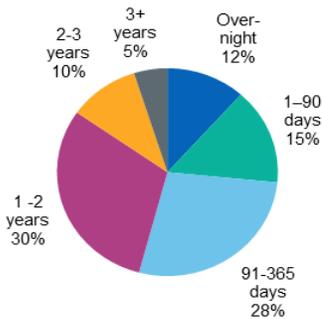
The county is located in Southern California. The pool is managed by the San Bernardino County Auditor-Controller/Treasurer/Tax Collector’s office staff on behalf of the pool participants.

Oscar Valdez was appointed to the vacated elected position of Auditor-Controller/Treasurer/Tax Collector by the San Bernardino County Board of Supervisors on Feb. 17, 2016. Prior to his appointment, he served as the San Bernardino County Assistant Auditor-Controller/Treasurer/Tax Collector and was responsible for the management and oversight of the Auditor, Controller, Disbursements and Treasurer divisions for the county. The appointment of Mr. Valdez reflects the pool’s continuity of process and organizational stability.

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 PFM and the county’s treasury oversight committee, and is approved by the board of supervisors. The pool’s management is very transparent. The county treasurer’s office posts on its website the current investment policy, the list of pre-approved issuers and the most recent monthly portfolio holdings. 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 portfolio analytics, market trend information and investment idea generation. PFM provides independent financial and investment advisory to various entities, including county investment pools. Calls and strategy meetings are conducted with PFM, and the pool utilizes credit research and cash flow projections provided to management by PFM on an ongoing basis. Additionally, pool investments are monitored by PFM.

**Maturity Distribution**  
(As of Feb. 28, 2018)



Source: County of San Bernardino

**Pool’s Objectives and Investment Practices**

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.

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, asset-backed securities 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 or any other investment that could result in zero interest if held to maturity. 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. 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.

Portfolio performance is monitored daily by the treasurer and monthly by third-party analysis, which includes security pricing, evaluation and a total return measurement.

#### Related Criteria

Global Bond Fund Rating Criteria  
(August 2016)

### Asset Credit Quality/Diversification

The pool seeks to limit its credit risk by investing a substantial part of its portfolio in U.S. government-backed securities. As of Feb. 28, 2018, 40.0% of the pool's portfolio was invested in securities issued by U.S. government agencies, 14.0% was in short-term obligations of financial and nonfinancial corporations (including commercial paper holdings), 19.0% was in negotiable certificates of deposit, 18.0% was in U.S. Treasuries, and < 1.0% was in domestic money market funds rated 'AAAmf' by Fitch or equivalent. 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'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 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.

Based on the portfolio credit quality and maturity profile, Fitch calculated the weighted-average rating factor of the fund to be consistent with an 'AAA' fund credit rating.

### 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 pool has historically benefited from highly predictable cash outflow needs of the pool's participants. The stability of cash flow projections is based on the pool's composition, as many participants are captive in nature and

thereby required to maintain funds in the county pool. The pool is not soliciting nor accepting any voluntary participants, which should contribute to cash flow stability.

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 may invest a portion of its portfolio in repurchase agreements, although it does not currently do so, FDIC-insured deposit accounts, JPA Investment Pools and U.S.-registered money market funds.

### **Duration Management**

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 Fitch's most recent review, the pool has met these guidelines.

In an effort to manage liquidity risk conservatively, 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. As of the most recent review, the pool held greater than \$400 million in securities maturing overnight and greater than 50% of the total assets in securities with maturities less than one year.

## Operational Assessment

✓ Pass

### Service Providers

Investment Advisor ✓ Office of the Auditor-Controller/Treasurer/Tax Collector of the County of San Bernardino.

Stability in Service Providers ✓ Unchanged.

Control Framework ✓ Compliance controls are in place to ensure adherence with investment guidelines.

Custodian ✓ Wells Fargo.

### Regulation and Governance

Governance ✓ The California Legislature declares that local agencies, including school districts, should participate in reviewing the policies that guide the investment of local pools. The legislature further declares that the creation of county treasury oversight committees promotes the public interest by involving depositors in the management of their funds. Specifically, the treasury oversight committee meets to:

- Review the annual investment policy statement and any subsequent changes prior to submission to the board of supervisors for review and adoption.
- Review the treasurer's investment portfolio reports and the portfolio's compliance with the law and the investment policy.
- Cause an annual audit to be conducted on the portfolio.
- The committee shall receive a copy of every audit report. All meetings of the committee are to be open to the public and subject to the Ralph M. Brown Act.

### Operations

Pricing Responsibility ✓ Investments are carried at book value and marked to market at least monthly. The investment policy states that when possible, competitive pricing should be obtained.

Technology ✓ Appropriate portfolio management system used that incorporates pre-trade compliance analytics.

Back-Office Reconciliations ✓ Portfolio income is reconciled daily against cash receipts and quarterly, prior to distributions. Portfolio performance is monitored on a daily basis

● Attention required

x Fail

### Investments

Investment Objective ✓ The 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 these objectives.

Composition ✓ Permitted investments include securities issued by the U.S. Treasury and government agencies, commercial paper, asset-backed commercial paper, asset-backed securities, bankers' acceptances, certificates of deposit, corporate medium-term notes, repurchase agreements, reverse repurchase agreements and money market funds.

Liquidity Management ✓ The duration-to-maturity shall not exceed 1.50. To provide sufficient liquidity to meet daily expenditure requirements for the following 12 months, the portfolio shall maintain at least 40% of its par value in securities having a maturity of 12 months or less.

Withdrawal Requirements ✓ 30-day written notice and receipt of an approval from the county's treasurer that the withdrawal will not adversely affect the interests of other depositors in the county. The request should state the amount, date of transfer, where investment and/or deposit is to be made and the reason for the request.

### Disclosure and Transparency

Clear Strategy Representation ✓ The fund has a broad mandate and its investment policy is posted on the county's website.

Level of Disclosure ✓ Good level of transparency: website (<http://www.sbcounty.gov/atc/>) contains financial reports, investment policy and information on other policies pertinent to pool management.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT [WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2018 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.