

San Bernardino County Investment Pool

Full Rating Report



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 'V1' rating reflects the expected high stability of total returns and/or changes in net assets.

Stable Investor Base: The San Bernardino County Investment Pool is managed on behalf of the pool participants, which are largely captive in nature and include the county, school districts, trial courts, recreation and park districts, libraries, landfills 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 composed of pool participant representatives and county residents review the pool on a regular basis. The pool's assets are segregated from other county assets at the pool's custodian. Pool management utilizes the services of Public Financial Information, Inc. (PFM), a third-party adviser that provides them 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 decisionmaking tools for risk analysis and investment-allocation tools.

Pool Features

Inception Date	Circa 1940
Pool Type	LGIP
Investment Advisor	San Bernardino County Auditor-Controller
Custodian	The Bank of New York
Investor Composition	96% Captive Participants
Administrator	Bank of New York
Assets	\$4,200,000,000

Portfolio Assets Under Management



Source: County of San Bernardino.

Analysts

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Rating Rationale

The San Bernardino County Investment Pool is rated 'AAA/V1'. The 'AAA' fund credit rating reflects the investment 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 'V1' fund volatility rating reflects the relative sensitivity of the investment portfolio's net asset value to assumed changes in credit spreads and interest rates as well as certain other market risk parameters.

Fitch Ratings' evaluation of the San Bernardino County Investment 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 June 30, 2014, the pool had approximately \$4.2 billion under management.

Organizational Overview

Managed by the San Bernardino County auditor-controller/treasurer/tax collector for its 96% captive participants.

San Bernardino County is located in Southern California. The San Bernardino County Investment 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 treasurer/tax collector for the county of San Bernardino. Walker has served as San Bernardino County auditor-controller since December 1998, following his election in June 1998. He was re-elected in 2002 and in 2006. He also served as county clerk and recorder from 1998–2010. 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. Walker was re-elected in June 2014.

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, the county's treasury oversight committee and is approved by the board of supervisors. The 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 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 portfolio analytics, market trend information and investment idea generation. 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.

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.

Related Criteria

[Global Bond Fund Rating Criteria \(August 2013\)](#)

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.

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.

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.

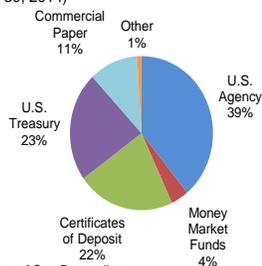
The pool's investment policy does not permit the purchase of any derivatives or structured notes. Restricted investments include inverse floaters, range notes, interest-only strips that are derived from a pool of mortgages and any other investment that could result in zero interest if held to maturity. 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 June 30, 2014, 38.6% of the pool's portfolio was invested in securities issued by U.S. government agencies, 10.7% was in short-term obligations of financial and nonfinancial corporations, including commercial paper holdings, 22.3% was in negotiable certificates of deposit, 23.1% was in U.S. Treasuries and 4.1% 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.

Portfolio Composition
(As of June 30, 2014)



Source: County of San Bernardino.

The fund invests 62% in U.S. Treasury and government agency securities, with the balance in high quality securities including certificates of deposit and commercial paper.

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 June 30, 2014, 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 June 30, 2014, securities maturing in 13 months or less of their stated maturities represented approximately 53.2% of the pool's portfolio.

Rating Distribution and Minimum Ratings

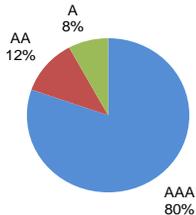
In evaluating LGIPs, Fitch also considers the pool's minimum-asset ratings as well as the extent to which the pool may undertake a bar-belled investment strategy. As of June 30, 2014, 80% of the pool consisted of long-term assets rated 'AAA.' The remainder of the pool consisted of assets rated 'A-' or higher, in accordance with the pool investment policy. The minimum ratings and absence of a bar-belled 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 single nongovernment security holding accounted for 2.04% of total assets as of June 30, 2014.

High credit quality. The portfolio is invested entirely in 'AAA' rated securities and 53% of the portfolio matures in 13 months or less.

Rating Composition
(%)



Liquidity risk mitigated by the captive nature of the participants.

Top 10 Holdings

(As of June 30, 2014)

Security	%	Security	%
Money Market Fund	2.04	FNMA	1.22
Money Market Fund	2.02	U.S. Treasury	1.19
Freddie	1.31	U.S. Treasury	1.19
Freddie	1.23	U.S. Treasury	1.19
FNMA	1.22	U.S. Treasury	1.19

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 96% 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

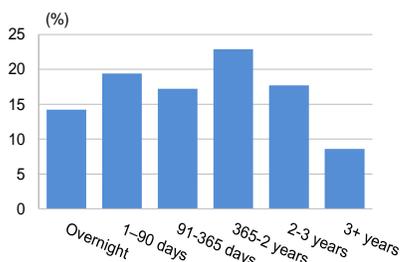
accordance with the California government code. To meet the scheduled cash flow needs, the pool invests a portion of its portfolio in repurchase agreements and U.S.-registered money market funds. As of June 30, 2014, 14% of the pool's portfolio assets matured overnight.

Duration Management

Short duration. The fund's duration is currently 434 days, or 1.2 years.

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 June 30, 2014, the pool's investment in securities maturing within 12 months accounted for 51% of its total assets.

Portfolio Maturity Profile
(As of June 30, 2014)

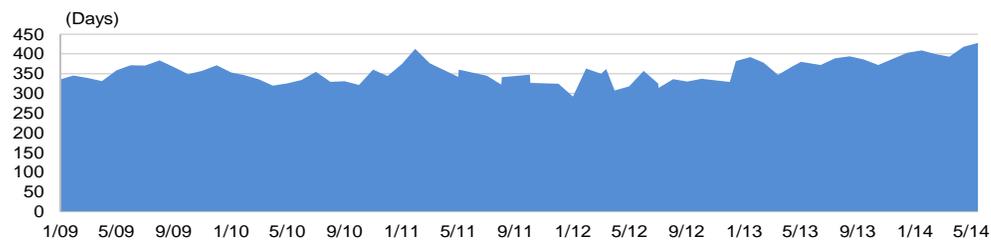


Source: County of San Bernardino.

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. The pool seeks to maintain \$300 million in securities maturing overnight and targets \$75 million–\$100 million in securities maturing within seven days. The pool has also 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.

As of June 30, 2014, the weighted-average maturity (WAM) of all portfolio securities was 434 days. The WAM reflects the asset weighted-average number of 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 407 days and the effective duration was 1.1 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 372–428 days.

Portfolio Weighted-Average Final Maturity



Source: County of San Bernardino.

Operational Assessment

✓ Pass

● Attention required

x Fail

Service Providers		Investments	
Custodian	✓ The Bank of New York	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.
Investment Advisor	✓ Office of the Auditor-Controller/Treasurer/Tax Collector of the County of San Bernardino	Composition	✓ Permitted investments include securities issued by the U.S. Treasury and government agencies, commercial paper, asset-backed commercial paper, bankers' acceptances, certificates of deposit, corporate medium-term notes, repurchase agreements, reverse repurchase agreements and money market funds.
Auditors	✓ In accordance with the California government code, an investment oversight committee performs an annual audit. Additionally, all investments are audited on a quarterly basis by PFM as advisor and Nigro & Nigro, PC as external auditor.	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.
Stability in Service Providers	✓ Unchanged	Withdrawal Requirements	✓ Thirty-day written notice and receive an approval of 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.
Regulation and Governance		Disclosure and Transparency	
Governance	✓ The California state 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: <ul style="list-style-type: none"> 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 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. 	Clear Strategy Representation	✓ The fund has a broad mandate, but investment policy is posted on the county's website.
Control Framework	✓ Compliance controls are in place to ensure adherence with investment guidelines.	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.
Operations			
Pricing Responsibility	✓ Investments are carried at book value and marked to market at least monthly. All securities purchased must have at least one bid.		
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 by the treasurer and monthly by a third party (Public Funds Management).		

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