

# San Luis Obispo County Treasury Investment Pool

## Full Rating Report



### Pool Features

Inception Date	May 1983
Pool Type	LGIP
Investment Advisor	San Luis Obispo County Auditor-Controller-Treasurer-Tax Collector-Public Administrator
Custodian	Union Bank
Investor Composition	99.5% Captive Participants
Administrator	Union Bank
Assets	\$638,000,000

### Key Rating Drivers

**High Quality Credit Portfolio:** The San Luis Obispo County Treasury Investment Pool invests primarily in U.S. government and agency securities, repurchase agreements backed by such securities, high quality securities rated at least 'A/F1', and the Local Agency Investment Fund (LAIF), a local government investment pool managed by California's Pooled Money Investment Board.

**Low Sensitivity to Market Risk:** The maturity profile of the portfolio is intended to largely match the participants' anticipated operating expenses. Market risk is mitigated by the duration of the pool, which typically is two years or less, as well as the predictable nature of the cash outflows of the passive participant base.

**Stable Depositor Base:** The stability of cash flow projections is supported by the pool's stable depositor base since all pool participants are required to maintain funds in the county pool. Requests by mandatory participants to withdraw funds for purposes other than normal cash flow needs are subject to the consent of the county treasurer in accordance with California government code.

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

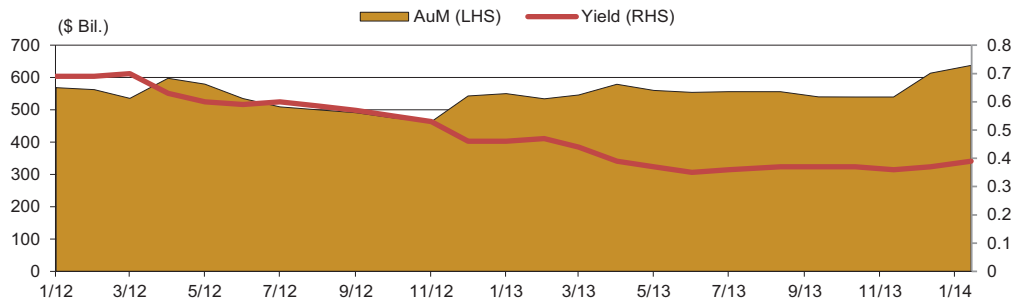
**Robust Management Decreases Operational Risk:** The pool's oversight and operational controls are consistent with the assigned ratings. A treasury oversight committee composed of representatives of pool participants and the public reviews the pool on a regular basis. The pool's assets are segregated from other county assets at Union Bank, N.A., the pool's custodian. Additionally, the pool is subject to quarterly and annual audits from external auditors.

**Industry Standard Administration and Systems:** The San Luis Obispo County Auditor-Controller-Treasurer-Tax Collector-Public Administrator'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

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### Assets Under Management and Yield



Source: Fitch.

### Rating Rationale

The San Luis Obispo County Treasury 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's evaluation of the pool also reflects the management and operational capabilities of the San Luis Obispo County Auditor-Controller-Treasurer-Tax Collector-Public Administrator's office and the legal and regulatory framework under which the investment portfolio operates. As of Jan. 31, 2014, the pool had approximately \$638 million in assets. For the year ended Dec. 31, 2013, this fund had a gross return of 036%. The return net of fees was 0.19% for the same period. Pool valuation reports are submitted to Fitch on a monthly basis.

### Organizational Overview

San Luis Obispo County is located in Southern California. The San Luis Obispo County Treasury Investment Pool is managed by the San Luis Obispo County Auditor-Controller-Treasurer-Tax Collector-Public Administrator, James P. Erb, on behalf of pool participants, which include the county, school districts, and special districts.

Erb has previously worked for the Auditor-Controller's department for more than 24 years and has worked in or managed every aspect of the department's operations. On July 9, 2013 the County Board of Supervisors voted to consolidate the elected offices of the Auditor-Controller and the Treasurer-Tax Collector-Public Administrator. The consolidation became effective Aug. 12, 2013. Erb led the implemented County's Enterprise Resource Planning system that included a cash management module as well as accounting and human resources/payroll. Erb is active in the California Association of County Treasurer-Tax Collectors. Erb worked for the Los Angeles County Auditor-Controller prior to moving to San Luis Obispo. As the County Treasurer, he serves as ex officio trustee in the San Luis Obispo County Pension Trust board of trustees. Erb is running unopposed in the June 3, 2014 primary election.

Other key members of the investment team include the Assistant Auditor-Controller-Treasurer-Tax Collector-Public Administrator, two division managers, the treasury investment manager, and one financial analyst. These members all have the authority to give written and oral instructions to purchase and sell authorized investments on behalf of San Luis Obispo County. Members of the investment team report to Erb.

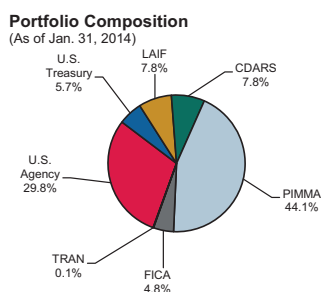
### Pool's Objective and Investment Practices

The pool's investment objectives are: safety and preservation of capital; liquidity sufficient to meet all operating requirements; yield subject to safety, liquidity, and competitive pricing requirements; and compliance with California and federal law. The pool pursues its investment objectives by investing in a diverse portfolio of high-quality securities.

Permitted investments include:

- U.S. Treasury securities.
- Other obligations that, by their terms, are backed by the full faith and credit of the U.S. government.
- Securities issued by U.S. agencies and government-sponsored enterprises.
- Registered California state warrants or any local agency in California.

Managed by the San Luis Obispo County Auditor-Controller-Treasurer-Tax Collector-Public Administrator for its 99.5% captive participants.



Source: Fitch.

### Related Research

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

- Money market obligations including commercial paper, certificates of deposit, bankers' acceptances, repurchase agreements, and medium-term notes.
- Certificate of Deposit Account Registry Service (CDARS), LAIF, Federally Insured Cash Account (FICA), and Public Investment Money Market Accounts (PIMMAs).

The pool may invest in the county's Teeter Plan note program that allows the county to receive advanced funding against delinquent property tax receipts. As of Jan. 31, 2014, the portfolio held no money in a Teeter Plan note.

The pool keeps a majority of its overnight funds in PIMMAs that consist of interest-bearing bank deposits 110% overcollateralized by the U.S. Treasury, government agency securities, and letters of credit from the Federal Home Loan Bank of San Francisco. The deposits are held by various banks, while all collateral securities pledged to a pool are segregated and held by The Bank of New York Mellon (AA-/F1+/Stable) and Union Bank N.A. (A/F1/Stable) in line with the requirements of California state law for all public funds deposits.

PIMMA accounts are considered depository accounts and not investments per California Government Code (GC) Section 53631. From an asset quality and liquidity perspective, Fitch views these assets as similar in nature to stand-alone collateralized bank deposits in which the high quality of the pledged asset type and ratings of the custodial banks are taken into consideration.

The pool's investments in the CDARS program, authorized by California GC Section 53635.8, are groups of individual CDs of less than \$250,000 each that are fully FDIC insured and placed through a network participating bank. CDARS operates as a private entity that assists in the placement of CDs. By its investment policy, the pool may invest in repurchase agreements with counterparties rated at least 'A+/F1' by Fitch or equivalent and overcollateralized by at least 102%. Repurchase agreement collateral is restricted to U.S. Treasury and government agency securities. As of Jan. 31, 2014 the pool did not hold any repurchase agreements.

The pool does not purchase any floating-rate notes, structured notes, or derivatives that may create inappropriate market risk exposure. The pool takes a conservative view of leverage as the use of reverse repurchase agreements in any form is specifically prohibited by the county treasurer. All securities bought by the pool are either discount notes or fixed-coupon notes except for an investment in a Teeter Plan note.

### Asset Credit Quality

As of Jan. 31, 2014, the pool invested approximately 44.1% in PIMMA, 35.4% of its total assets in U.S. Treasury and government agency securities, 7.8% in LAIF, 7.9% in CDARS, and 4.7% in FICA. LAIF is a high quality, diversified investment pool with an average maturity of less than one year, offering participants daily liquidity.

PIMMAs are interest-bearing active bank accounts, which by California code are considered depository accounts, not investments. However, because these accounts are part of the County's investment pool, they are treated as investments for reporting purposes. PIMMAs are fully liquid and collateralized by eligible securities as per California code. As per the pool's investment policy, the pool can hold a total maximum of 60% PIMMAs in the pool and at most 20% per issuer.

As of the end of January 2014, LAIF had \$20.8 billion in assets under management according to its public disclosure. LAIF funds are not commingled with the state's cash or in any way available for state use. Fitch does not rate LAIF; however, Fitch views it as being managed in a manner generally consistent with other Fitch-rated local government

The fund invests 35% in U.S. Treasury and government agency securities, with the balance in high quality securities insured under the FDIC program.

investment pools operating in the state of California in terms of asset credit quality, issuer diversification, investor diversification, and liquidity management.

To maintain investor diversification, LAIF limits the maximum size of a single depositor's account to \$50 million, which equates to approximately 7.8% based on the San Luis Obispo County Treasury Investment Pool's Jan. 31, 2014 assets under management. Aside from this limit, any amount of eligible bond proceeds could be invested in LAIF. As of Jan. 31, 2014, the San Luis Obispo County Treasury Investment Pool had a total of \$50 million in LAIF.

Fitch generally views investments in LAIF by other rated entities of less than or equal to 15% as consistent with 'AAA/V1' ratings, particularly if such investments serve as the sole or primary source of overnight liquidity. Higher levels of exposure to LAIF may be viewed as consistent with 'AAA/V1' ratings, provided that such additional investment does not serve as the sole or primary source of the portfolio's overnight liquidity.

### **Weighted Average Rating Factor**

Based on the portfolio credit quality and maturity profile as of Jan. 31, 2014, the pool's weighted average rating factor (WARF) was consistent with an 'AAA' fund credit rating. The credit factors for portfolio securities maturing within 13 months were reduced in recognition of the lower default probability of such securities relative to longer dated securities. As of Jan. 31, approximately 81.3% of the portfolio matures within 13 months.

In calculating a fund's WARF, Fitch applies higher credit rating factors for 'AAA' securities with Negative Rating Outlooks versus 'AAA' securities with Stable Rating Outlooks. While Fitch's placement of the U.S. long-term Rating Watch on Negative on Oct. 15, 2013 marginally increased the WARF for the portfolio, the WARF remains consistent with an 'AAA' fund credit rating.

### **Rating Distribution and Minimum Ratings**

In evaluating the investment portfolio, Fitch also considered its minimum asset ratings as well as the extent to which it may undertake a bar-belled investment strategy. The investment portfolio consisted largely of long-term assets rated 'AAA' and short-term assets rated at least 'F1' or equivalent. The minimum ratings and absence of a bar-belled investment strategy are viewed as consistent with the 'AAA' credit rating assigned to the fund.

### **Diversification**

The investment portfolio invests a portion of its portfolio in U.S. Treasury and government agency securities. Fitch believes that a concentration risk of such investments is limited given the high credit quality and liquidity. However, the rating on the pool may be sensitive to any negative rating actions with respect to the U.S. government. While the pool also maintains material exposure to LAIF and its PIMMA depository accounts, Fitch acknowledges that these investments are both composed of many different underlying obligors, thereby mitigating concentration risk.

High credit quality. The portfolio is invested entirely in 'AAA' rated securities, and 81% of the portfolio matures in 13 months or less.

## Top 10 Holdings

(As of Jan. 31, 2014)

Security	% Security	Security	%
PIMMA – Rabobank	15.68	PIMMA – Pacific Western Bank	3.92
LAIF	7.84	PIMMA – Pacific Western Bank	3.92
PIMMA – Bank of the West	7.68	PIMMA – Pacific Western Bank	3.14
PIMMA – East West Bank	5.80	PIMMA – Citizens Business Bank	3.14
FICA	4.70	CDARS	7.85

Liquidity risk mitigated by the captive nature of the participants.

## Liquidity Management

The pool's liquidity profile is based on the composition of its participants and their scheduled basis of the prior year's cash flows, which are then updated to include any identifiable changes in the forecast period. The stability of cash flow projections stems from the captive nature of the participant base, since all pool participants are required to maintain funds in the county pool.

Further mitigating liquidity risk to the pool, requests by mandatory participants to withdraw funds for purposes other than normal cash flow needs, are subject to advance notice and consent by the county treasurer in accordance with California government code. Advance notice must be submitted to the treasurer at least 20 calendar days prior to the withdrawal date for an amount of \$5 million or higher and at least 10 calendar days prior to the withdrawal date for amounts under \$5 million.

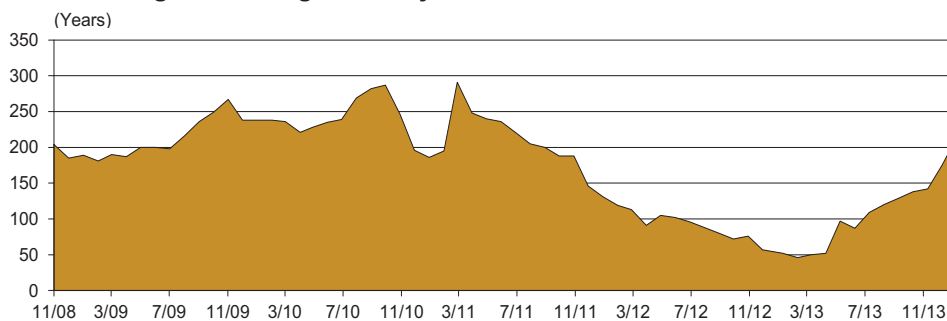
## Duration Management

Short duration. The fund's duration is currently 215 days, or 0.6 years.

The pool seeks to manage its maturity profile through its cash flow matching and short-maturity investment strategies to ensure sufficient liquidity to meet anticipated cash outflows. Investments in PIMMA and LAIF provide additional sources of liquidity to meet cash needs.

As of Jan. 31, 2014, approximately 56% of the portfolio was held in securities maturing overnight and an additional 2.4% of the portfolio was held in investments with maturities of 30 days or less. Furthermore, as of the same date, the pool held 16.6% of total assets in U.S. Treasury and agency securities that are expected to demonstrate secondary market liquidity even during periods of market stress.

## Portfolio Weighted Average Maturity: Investment Pool

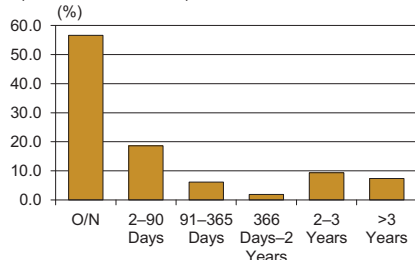


Source: Fitch.

As of Jan. 31, 2014, the weighted average life of securities held in the fund was approximately 215 days, and the effective duration was 0.6 year, according to Fitch's calculations and based on information provided to Fitch by the county of San Luis Obispo. WAMf is the asset weighted average number of days to the final maturity of all portfolio assets and measures sensitivity to changing credit spreads.

## Portfolio Maturity Profile

(As of Jan. 31, 2014)



Source: Fitch Ratings.

## Operational Assessment

	✓ Pass	● Attention required	x Fail
<b>Service providers</b>			
Custodian	✓ Union Bank		
Investment Advisor	✓ San Luis Obispo County Auditor-Controller-Treasurer-Tax Collector-Public Administrator		
Administrator	✓ Union Bank		
Auditors	✓ The legislature declares that the creation of county treasury oversight committees promotes the public interest by involving depositors in the management of their funds. The committee reviews the investment policy and any changes to it, monitors the portfolio and compliance with the policy, and provides an annual compliance audit by external auditors. The external auditors also perform a quarterly cash audit of the county treasury to confirm compliance with federal, state and local laws.		
Stability in Service Providers	✓ Unchanged		
<b>Regulation and Governance</b>			
Governance	✓ California Government Code		
Control Framework	✓ Compliance controls are in place to ensure adherence with investment guidelines.		
<b>Operations</b>			
Pricing Responsibility	✓ Marked to market at least monthly by the pools' custodian Union Bank. The treasurer's office uses pricing service supplied by the custodian bank.		
Technology	✓ Bloomberg, Treasury Investment Management System.		
Back-Office Reconciliations	✓ Portfolio income is reconciled daily against cash receipts and quarterly, prior to distributions.		
<b>Investments</b>			
Investment Objective	✓ The pool's primary investment objectives are: the safety and preservation of capital; liquidity sufficient to meet scheduled cash flow needs; yield, subject to safety, liquidity, and competitive pricing requirements; and compliance with both California and federal laws.		
Composition	✓ The fund may invest up to 100% in the U.S. Treasury (notes/bonds/bills) and government agency securities and may also invest in commercial paper, local agency obligations, registered sales and state warrants, bonds, notes, warrants, federal agency of GSE obligations, bankers' acceptances, CDs, collateralized CD, negotiable CDs, repurchase agreements, MMFs, pledged funds, notes/bonds, mortgage pass-through securities, LAIF, PIMMAs.		
Liquidity Management	✓ Daily subscription and redemptions.		
Withdrawal Requirements	✓ Requests by mandatory participants to withdraw funds for purposes other than normal cash flow needs are subject to an advance notice and consent of the county treasurer, in accordance with California government code. An advance notice must be submitted to the treasurer at least 20 calendar days prior to the withdrawal date for an amount of \$5 million or higher and at least 10 calendar days prior to the withdrawal date for an amount under \$5 million.		
<b>Disclosure and Transparency</b>			
Clear Strategy Representation	✓ The fund has a broad mandate but investment policy is posted on website.		
Level of Disclosure	✓ Adequate level of transparency: website ( <a href="http://www.slocounty.ca.gov/tax/treasurerserv.htm">http://www.slocounty.ca.gov/tax/treasurerserv.htm</a> ) contains the investment policy, and quarterly investment reports.		

GSEs – Government-sponsored entities. CD – Certificate of deposit. MMFs – Money market funds. LAIF – Local Agency Investment Fund. PIMMA – Public investment money market accounts.

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