

Local Government  
Investment Pool/U.S.  
Credit Analysis

# Marin County Investment Pool

## Ratings

Security Class	Current Ratings
Marin County Investment Pool	AAA/V1+

## Analysts

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## Summary

The Marin County Investment Pool is a local government investment pool (LGIP), rated 'AAA/V1+' by Fitch Ratings. The pool's 'AAA' rating reflects the high credit quality of the portfolio assets, appropriate management oversight, and operational capabilities. The pool's 'V1+' volatility rating reflects low market risk and a capacity to return stable principal value to participants, as well as to meet anticipated cash flow needs, even in adverse interest rate environments. Portfolio valuation reports are submitted to Fitch on a monthly basis.

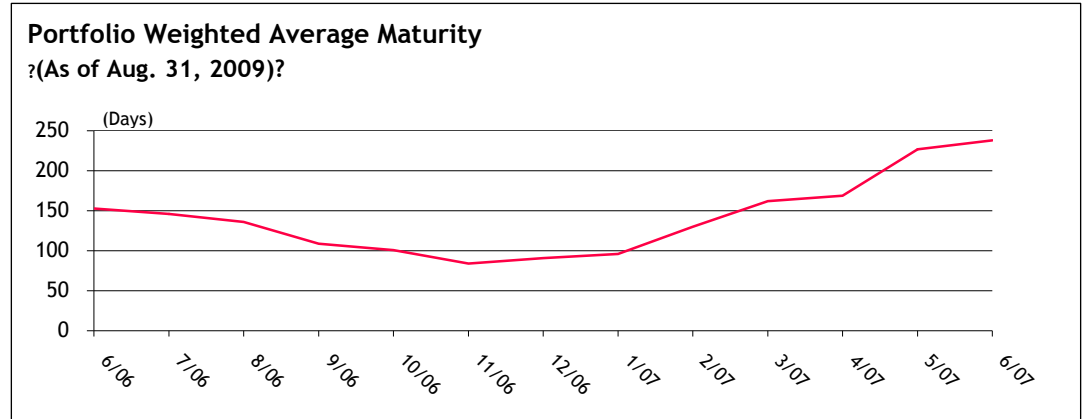
## Rating Considerations

- The credit quality of the pool's assets is high, as the portfolio is invested primarily in U.S. government agency securities.
- Overnight liquidity is maintained by investing in registered money market funds rated 'AAA' by Fitch or of comparable quality by other global rating agencies. By the pool's internal policy, money market funds approved for investment by the pool must only invest in U.S. government agency securities and repurchase agreements overcollateralized by such securities.
- The pool has an adequate level of liquidity resulting from the predictable nature of cash flows, and the portfolio asset maturity profile matches the scheduled cash outflow.
- The pool has appropriate management oversight and operational controls.

## Overview

The county of Marin is located in northern California. The Marin County Investment Pool is managed by the Marin County treasurer - tax collector on behalf of the pool participants. Participants are defined as Marin County; the Marin public school agency; Marin Community College; the Marin County office of education; districts under the control of the county board of supervisors; autonomous/independent districts, whose treasurer is the Marin County treasurer; and any other districts or agencies approved by the board of supervisors and the county treasurer, using Marin County as their fiscal agent. As of Aug. 31, 2009, the pool had \$702.6 million in assets under management.

The pool is organized and invested in accordance with the state of California Government Code Section 53600 and Section 53639 and is not registered under federal law. The pool's primary investment objective is preservation of capital. The pool's secondary objective is to maintain sufficient liquidity to enable participants to meet their operating requirements. The last objective of the pool is to obtain a rate of return consistent with the first two objectives.

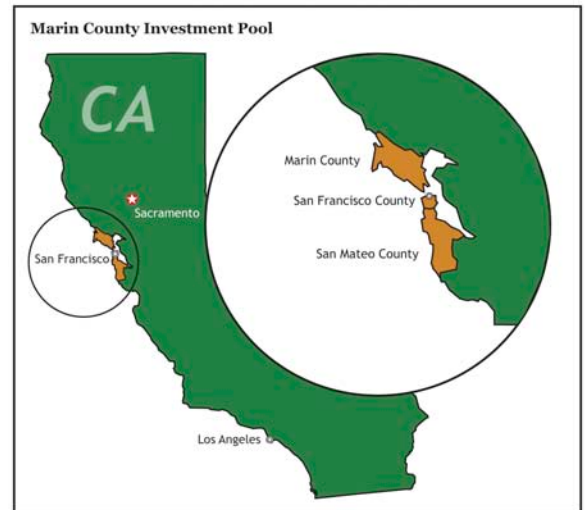


**Investment Practices**

**Composition**

The pool seeks to pursue its investment objectives by investing in a diversified portfolio of high-quality debt securities rated at least ‘A/F1’ by Fitch or of a comparable credit quality by other global rating agencies. Permitted investments include U.S. Treasury and government agency securities and state of California bonds, as well as registered warrants, bankers’ acceptances, commercial paper, negotiable certificates of deposit, time deposits, medium-term notes, shares of money market funds, repurchase agreements, and the Local Agency Investment Fund (LAIF). LAIF is the California state investment pool, managed by the state treasurer’s office.

As of Aug. 31, 2009, approximately 92% of the pool’s total assets were invested in U.S. government agency securities, while 8% were invested in other money market funds. Holdings of LAIF accounted for only 0.03% of the pool’s total assets.

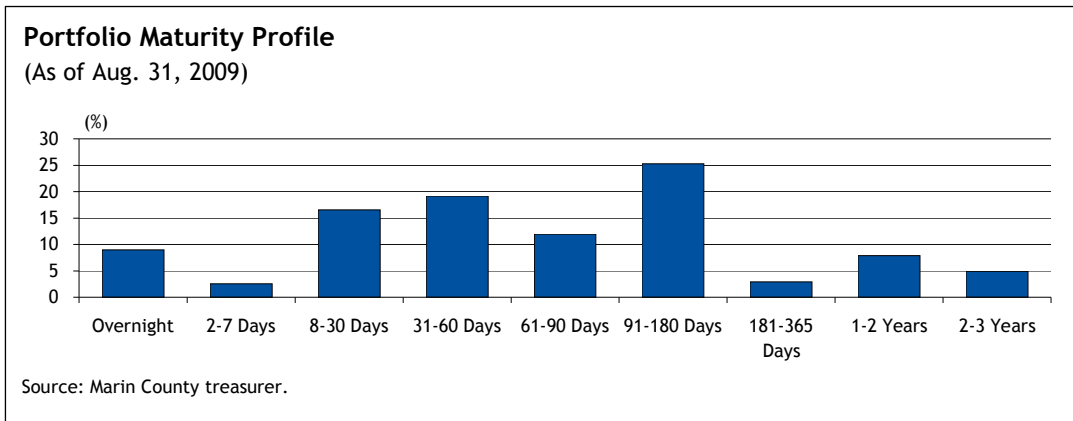


**Market Risk**

The weighted average maturity (WAM) of securities held in the portfolio was approximately 151 days at Aug. 31, 2009. WAM is a measure of a portfolio’s sensitivity to changing interest rates. As of that same date, approximately 84% of the pool’s total assets were invested in securities with maturities of one year or less. By policy, the pool must maintain an average maturity of less than 18 months and is not allowed to purchase securities with maturities greater than two years. However, the treasurer may authorize the purchase of U.S. government agency obligations with final maturities of five years or less.

The current WAM of the pool is significantly longer than what Fitch traditionally deems consistent with a ‘V1+’ volatility rating assigned to LGIPs managed within the parameters of money market funds governed by Rule 2a-7 under the Investment Company Act of 1940,

as amended. That said, what mitigates the potential liquidity risk for the Marin County Investment Pool is that the portfolio has historically benefited from highly predictable cash outflow needs of the pool’s participants. The pool’s anticipated redemptions include payroll and benefit payments, accounts payable, debt services, and other planned expenditures. Furthermore, no withdrawals from the pool can be made for the purposes of investing those funds outside the pool without prior approval of the Marin County treasurer. An approval can be given as long as such a withdrawal does not negatively affect the interests of other participants. A notice of withdrawal is required to be made in writing at least 10 days prior to the proposed withdrawal date.



By its investment policy, the pool is prohibited from investments in derivatives, such as inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages or any securities bearing a rate of interest that is not known at the time of purchase.

**Leverage**

To meet liquidity targets and minimize exposure to interest rate changes, the pool uses a laddered investment strategy to maintain liquidity and distribute investments across a short maturity spectrum. The pool also employs a cash flow-matching investment strategy to structure investment maturities to coincide with conservative expectations of draws on the portfolio.

Under the pool’s investment policies, the use of reverse repurchase agreements or securities lending programs is not permitted.

**Liquidity Management**

The maturity profile of the pool is managed to meet anticipated cash flow needs of the pool’s participants. Investments are generally matched to scheduled cash outflows, using historical cash flow assumptions. Voluntary participants constituted approximately 19.5% of the pool’s assets at Aug. 31, 2009, with the balance of invested funds coming from Marin County and other mandatory participants.

The pool has daily access to its investments in money market funds and LAIF to meet daily withdrawal requirements and cash outflows. As of Aug. 31, 2009, approximately 28% of the portfolio’s assets had a maturity of 30 days or less. In addition, the pool maintains a significant position in U.S. government agency securities, which is expected to demonstrate secondary market liquidity even during periods of market stress.

**Credit Quality**

Under the pool’s investment policies, the pool portfolio invests only in securities issued by entities rated at least ‘A/F1’ by Fitch or of comparable quality by other global rating agencies and diversifies across issuers.

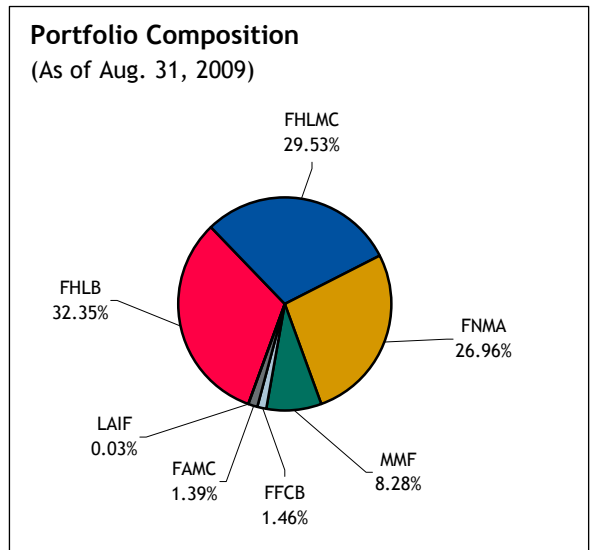
As of Aug. 31, 2009, approximately 92% of the portfolio was invested in U.S. government agency securities. The pool restricts concentrations in any one issuer (other than the U.S. government and its agencies) to a maximum of 5% of total assets to minimize single-issuer exposure. Repurchase agreements are entered into only with counterparties rated at least ‘A/F1’ by Fitch or of comparable quality by other global rating agencies and are 102% collateralized by U.S. government securities. As of Aug. 31, 2009, the pool did not have any investments in repurchase agreements.

The pool is subject to quarterly internal audits by the county auditor’s office. The pool is also subject to an annual external audit. Wells Fargo Institutional Trust Services, Wells Fargo Bank, N.A., acts as the safekeeping agent for the pool’s assets.

**Organization**

The Marin County Investment Pool is managed by the Marin County treasurer - tax collector’s office investment staff. Michael J. Smith, Marin County’s treasurer - tax collector, has overall responsibility for overseeing the pool’s investments and operations.

The pool’s investment policies are reviewed periodically by the treasury oversight committee consisting of representatives from Marin County, the superintendent of schools’ office, and school and special districts.



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