

Local Government
Investment Pool/U.S.
Credit Analysis

City of Oakland Operating Fund

Ratings

Security Class	Current Ratings
City of Oakland Operating Fund	AAA/V1+

Analysts

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Summary

The City of Oakland Operating Fund is rated ‘AAA/V1+’ by Fitch Ratings. The fund’s ‘AAA’ rating reflects the high credit quality of the portfolio assets, a conservative investment policy, and appropriate management oversight and operational capabilities. The fund’s ‘V1+’ volatility rating reflects low market risk and a capacity to return stable principal value meeting anticipated cash needs of the city and the Port of Oakland, even in adverse interest rate environments. Portfolio valuation reports are submitted to Fitch on a monthly basis.

Rating Considerations

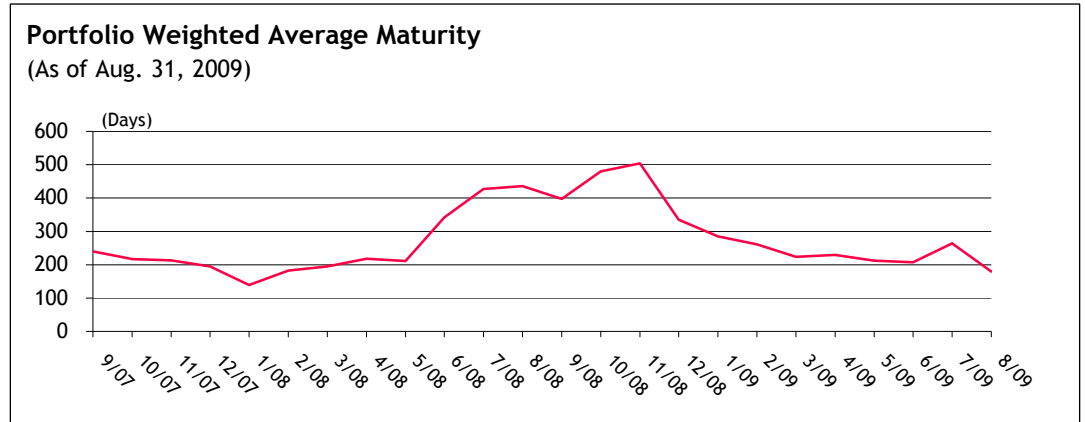
- The fund is invested mainly in U.S. government agency securities, as well as certificates of deposit insured by the Federal Deposit Insurance Corporation (FDIC) or overcollateralized by the U.S. government agency securities.
- Overnight liquidity is maintained by investing up to 20% of the fund’s assets in registered money market funds rated ‘AAA’ by Fitch or of comparable quality by other global rating agencies. In addition, the fund invests in the Local Agency Investment Fund (LAIF), which is a local government investment pool managed by the state of California’s treasurer. Exposure to LAIF is limited to \$40 million, or 18.5% of the fund’s assets, as of Aug. 31, 2009.
- The fund has an adequate level of liquidity resulting from the predictable nature of cash flows and portfolio asset maturity profile.
- The fund has appropriate management oversight and operational controls.

Overview

The city of Oakland is located in northern California. The City of Oakland Operating Fund is a surplus fund consisting of the unexpended fund balances of the city and Port of Oakland. As of Aug. 31, 2009, the fund had approximately \$216.3 million in assets. The fund is organized in accordance with the state of California Government Code Section 53607 and is not registered under federal law. The city’s treasurer is authorized by the City Council to manage the fund’s assets, pursuant to the city of Oakland’s investment policy.

The fund’s first and primary goal is the preservation of capital. Per the fund’s investment policy, investments shall be made with the aim of avoiding losses due to credit and market risk. The fund seeks to maintain an adequate level of liquidity to meet projected cash flow needs through maturing investments. The fund’s third objective is maximization of yield as is consistent with the primary goal.





Investment Practices

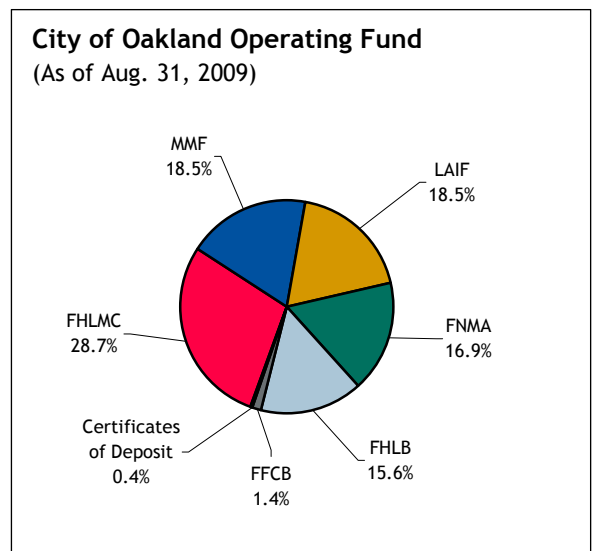
Portfolio Composition

The fund seeks to pursue its investment objectives by investing mainly in U.S. government agency securities, as well as certificates of deposit insured by the FDIC or overcollateralized by the U.S. government agency securities. Other investments permitted under the fund’s investment policy include direct bank obligations, such as certificates of deposit and bankers’ acceptances; commercial paper; corporate notes; repurchase agreements; money market mutual funds; and LAIF. Per the fund’s investment policy, permitted securities must be rated at least ‘A+/F1’ by Fitch or of a comparable credit quality by other global ratings agencies.

By its investment policy, the fund may invest in repurchase agreements with counterparties rated at least ‘A+/F1’ by Fitch or of a comparable credit quality by other global ratings agency and overcollateralized by at least 102%. Repurchase agreement collateral is restricted to the U.S. government agency securities. As of Aug. 31, 2009, the fund did not have any investments in repurchase agreements.

As of Aug. 31, 2009, the pool invested approximately 62.6% of its total assets in U.S. government agency securities, 18.5% in money market funds, 18.5% in LAIF, and 0.4% in collateralized certificates of deposit.

The fund’s investment policy permits investments in government agency callable step-up and floating-rate securities tied to a short-term index. Securities tied to long-term or lagged indexes, such as the Cost of Funds Index, or residual interest securities are not eligible for portfolio investments. The fund may enter into reverse-repurchase agreements with broker/dealers for purposes of temporary borrowing to meet unanticipated cash outflow. No such agreements have been used during the past year.

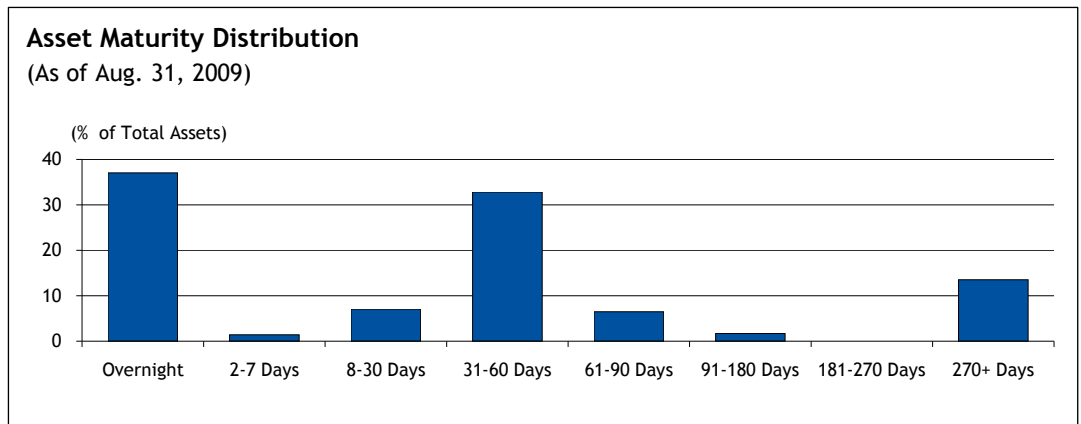


Market Risk

The weighted-average maturity (WAM) of securities held in the portfolio was approximately 165 days as of Aug. 31, 2009. WAM is a measure of a portfolio’s sensitivity to changing interest rates. By policy, the fund must maintain a WAM of less than 540 days or 1.5 years, with no single asset maturity in excess of five years. As of that same date, approximately 86% of the pool’s total assets were invested in securities having maturities of one year or less.

Both the current and maximum WAM of the fund are significantly longer than what Fitch traditionally deems consistent with a ‘V1+’ volatility rating assigned to local government investment funds 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 City of Oakland Operating Fund is that the portfolio has historically benefited from highly predictable cash outflow needs of the city and port, which are the only two captive participants of the fund. The pool’s anticipated redemptions include payroll and benefit payments, accounts payable, debt services, and other planned expenditures. Furthermore, the city’s treasurer has some ability to control cash outflows by delaying projects or lowering other expenses, if warranted.

By its investment policy, the fund is prohibited from investments in structured notes, inverse floaters, range notes, and interest-only strips derived from a pool of mortgages.



Leverage

The fund does not currently engage in reverse-repurchase agreements, although reverse-repurchase agreements are approved under the pool’s investment policy. The ability to use reverse-repurchase agreements is retained only as a source of liquidity due to unanticipated cash flow requirements. The fund did not make use of the program during the past year. By the fund’s investment policy, reverse-repurchase agreements are limited to 20% of the portfolio’s total assets and must have a maturity of 92 days or less.

Liquid Management

The fund’s cash flows are forecast by the city of Oakland’s treasurer’s office each month for the following one-year period. The basis for this forecast is the prior year’s cash flows, with additional consideration given to identifiable changes in the forecast period. The historically observed stability of cash outflows is based on the fund’s composition, which has no other participants but the city, port, and redevelopment agency. By the fund’s

policy, cash needs to meet cash disbursements and payroll must be covered through maturing investments. Cash flow projections are an integral part of the overall cash management responsibilities of the treasurer's office.

The fund meets its liquidity needs by investing in maturity-matching eligible securities. In addition, the fund maintains a portion of its net assets in overnight investments, such as money market funds and LAIF, to provide additional sources of liquidity to meet daily cash outflows. As of Aug. 31, 2009, 45.5% of the fund's portfolio assets matured within 30 days. Finally, the pool maintains a significant position (approximately 62.6% of total assets) in the U.S. government agency securities that are expected to demonstrate secondary market liquidity even during periods of market stress.

Credit Quality

The fund manages its credit risk exposure by investing mainly in the U.S. government agency securities. Other permitted investments must be rated at least 'A+/F1' by Fitch or of a comparable credit quality by other global rating agencies. The fund's investment policy mandates a sufficient level of diversification with maximum exposure to a single corporate issuer not exceeding 5%, with the exception of investments in the U.S. government agency securities, money market funds, and LAIF. Repurchase agreements are entered into only with highly rated counterparties and must be fully collateralized by the U.S. government securities. As of Aug. 31, 2009, 92% of the portfolio was invested in 'AAA' quality U.S. agency securities and money market funds. The fund's custodian, Wells Fargo Bank, holds investments on its behalf.

An investment oversight committee composed of representatives of the City Council and the public, reviews the pool's investment practices and policies on an annual basis. The committee is required to initiate the performance of an annual audit to ensure compliance with established investment policies.

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