

Fund and Asset Managers
Credit Analysis

City of Oakland, California
Operating Fund

Rating

City of Oakland, California
Operating Fund..... AAA/V1+

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■ Summary

The City of Oakland, California Operating Fund (the fund), a local government investment pool with approximately \$215 million in assets, is rated 'AAA'/'V1+' by Fitch. Investment pools rated 'AAA' meet the highest credit quality standards for underlying assets, diversification, management and operational capabilities. The pool's 'V1+' volatility rating reflects low market risk and a strong capacity to return stable principal values to participants, even in severely adverse interest rate environments. Portfolio valuation reports are submitted to Fitch monthly.

■ Rating Considerations

- Conservative investment policies and practices, as evidenced by tight maturity limits and avoidance of volatile derivative securities; the use of leverage for cash management purposes only; and high standards for credit quality and diversification.
- High degree of liquidity, resulting from the maturity profile and composition of pool participants, and strong ability to forecast ongoing cash requirements.
- Solid management oversight and operational controls.

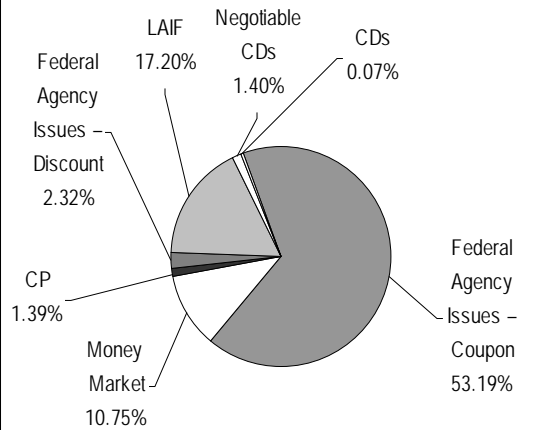
■ Overview

The fund is composed of a pool of unexpended cash balances of all city funds and funds held for the city's retirement systems and the Port of Oakland. The pool is managed by Oakland's Treasury Manager



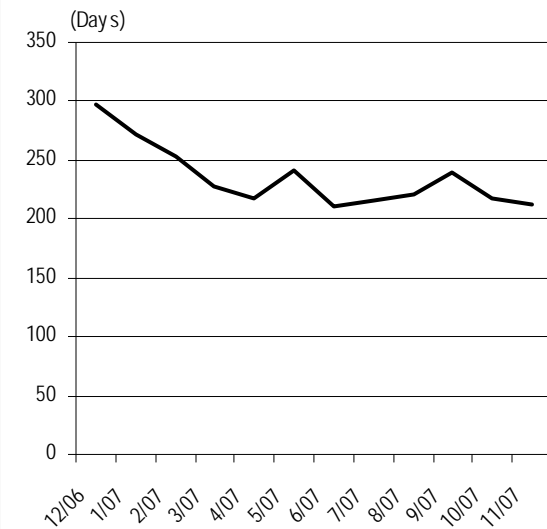
Portfolio Composition

(As of Oct. 31, 2007)



CP – Commercial paper. LAIF – Local Agency Investment Fund. CDs – Certificates of deposit. Note: Numbers may not add to 100% due to rounding.
Source: City of Oakland.

Portfolio Weighted-Average Maturity



Source: City of Oakland.

on behalf of the city and the port. The pool’s investment objectives include preservation of capital, maintenance of adequate liquidity, diversification of portfolio risks, and maximization of yield consistent with safety, liquidity and diversity.

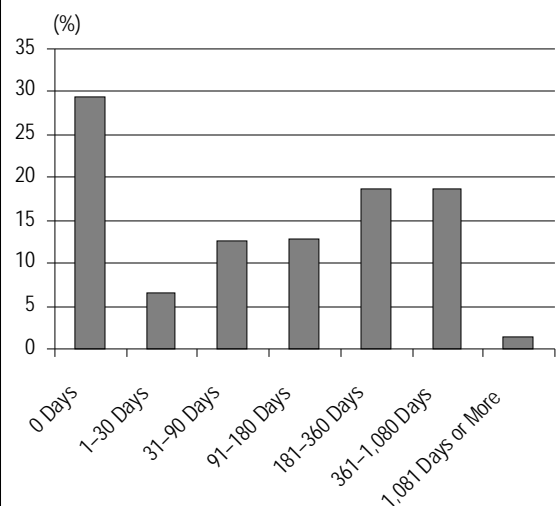
Investment Practices

The fund pursues its investment objective by investing in a diversified portfolio of high-quality securities, including US Treasuries (subject to prior approval

by the city council), US agency securities, commercial paper, bankers’ acceptances, repurchase agreements, the Local Agency Investment Fund (LAIF), money market mutual funds, certificates of deposit, medium-term notes and investment agreements. LAIF is the state investment pool of California, managed by the State Treasurer’s Office, which invests in a high-quality diversified portfolio and offers participants daily liquidity.

Portfolio Maturity Profile

(As of Oct. 31, 2007)



Source: City of Oakland.

The fund has a clear policy on derivatives and floating-rate securities that restricts investment in structured notes and other volatile securities. Callable step-up and floating-rate securities tied to a short-term index are considered suitable investments. However, by policy, the fund is expressly prohibited from investing in capped and range floaters (floating-rate notes tied to long-term or lagged indexes, such as the Cost of Funds Index), inverse floaters and leveraged floaters. The fund’s weighted-average maturity (WAM) of securities held in the portfolio was approximately 213 days at Oct. 31, 2007. WAM is a measure of a portfolio’s sensitivity to changing interest rates. By policy, the fund must maintain a WAM of 540 days or less. In addition, the maximum maturity for any single investment is five years. The pool seldom uses reverse repurchase agreements and does not enter into securities-lending programs. Reverse repurchase agreements are used only when required to meet short-term cash flow requirements.

■ Liquidity

Pool cash flows are forecast each month for the following one-year period on the basis of the prior year's cash flows, which are updated to include any identifiable changes in the forecast period. The stability of cash flow projections is bolstered by the fund's composition, since all participants are required to maintain funds in the pool, as set forth in the city's charter. The fund conservatively manages its maturity profile by maintaining a significant portion of the portfolio in overnight and short-term securities to ensure a high degree of liquidity to meet cash outflows. Moreover, investments in LAIF and money market funds provide additional sources of daily liquidity. As of Oct. 31, 2007, more than 35% of the fund's portfolio assets matured within 30 days.

■ Credit Risk and Diversification

The fund takes a conservative view toward credit risk by virtue of its investment practices, diversification standards and operational controls. It invests only in securities from highly rated entities and diversifies across issuers. Repurchase agreements are entered into only with highly rated counterparties and are fully collateralized with US agency securities. As of Oct. 31, 2007, approximately 79% of the portfolio was invested in 'AAA' quality US agency securities and money market funds. The fund's custodian, Wells Fargo Bank, holds investments on its behalf.

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