

Fitch Affirms City of Oakland Operating Fund at 'AAA/V1'

Fitch Ratings—New York—17 March 2011: Fitch Ratings affirms the 'AAA/V1' ratings assigned to City of Oakland Operating Fund, a local government investment pool managed by the Treasury Division of the City of Oakland.

The main drivers of the fund's credit rating affirmation are the high credit quality and diversification of the portfolio's assets and the capabilities of the office of the Treasury Division of the City of Oakland as pool manager. The fund's 'AAA' fund credit rating reflects the fund's vulnerability to losses as a result of defaults based on the actual and prospective average credit quality of the fund's invested portfolio. As such, the pool is expected to maintain a weighted average portfolio rating of 'AAA', taking into account certain adjustments for the reduced credit risk of short-term securities.

The main drivers of the fund's volatility rating affirmation are the stability of the fund's market risk profile, as reflected by the short-dated nature of the portfolio, the high allocation to government agency securities, as well as appropriate levels of liquidity relative to expected cash outflows. The fund's 'V1' fund volatility rating reflects low market risk and a capacity to return stable principal value to meet anticipated cash flow requirements, even in adverse interest rate environments.

The fund's primary objective 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's second objective is to maintain an adequate level of liquidity to meet projected cash flow needs through maturing investments. The third objective is maximization of yield as is consistent with the primary and secondary goals. 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 the Local Agency Investment

Fund (LAIF). LAIF is a local government investment pool managed by California's Pooled Money Investment Board, which is headed by the state treasurer and includes the state's controller and director of finance. 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 rating 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 agencies and overcollateralized by at least 102%. Repurchase agreement collateral is restricted to U.S. government agency securities. As of Jan. 31, 2011, the fund did not have any investments in repurchase agreements.

As of Jan. 31, 2011, the portfolio was comprised of 59% U.S. government agency securities, 19% money market funds, 16% LAIF, 4% commercial paper and 2% certificates of deposit. As of Jan. 31, 2011, the weighted average credit quality of the fund, as measured by Fitch's weighted average rating factor (WARF), was 0.10, which is consistent with 'AAA' guidelines published in Fitch's criteria.

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. The portfolio has historically benefited from highly predictable cash outflow needs and, at present, is comprised of sales and property tax revenues, licensing fees, transportation taxes and various other taxes. Furthermore, the City of Oakland is the primary participant in the portfolio. The portfolio's anticipated redemptions include payroll and benefit payments, accounts payable, debt services and other planned expenditures of the city. As of Jan. 31, 2011, 38% of the portfolio's assets matured overnight. Given the short-dated nature of the portfolio, along with the high allocation to government agency securities (which receive a 0.00 spread factor under Fitch's analytical framework for determining fund volatility ratings), the market risk of the portfolio is viewed as consistent with a 'V1' fund volatility rating.

The City of Oakland Operating Fund is a surplus fund consisting of the unexpended fund balances of the city and the Port of Oakland. As of Jan. 31, 2011, the fund had approximately \$305 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 ratings may be sensitive to material changes in the credit quality or market risk profiles of the fund. A material adverse deviation from Fitch guidelines for any key rating driver could cause the rating to be lowered by Fitch. For example, should portfolio parameters change or volatility of outflows increase, this could adversely affect the portfolio's fund credit and/or fund volatility ratings. For additional information about Fitch closed-end fund ratings guidelines, please review the criteria referenced below, which can be found on Fitch's website.

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The sources of information used to assess these ratings were the public domain and the Treasury Division of the City of Oakland, CA.

Applicable Criteria and Related Research:

--'Global Bond Fund Rating Criteria', dated Feb. 10, 2010;
--'Global Bond Fund Rating Criteria - Short-Term Bond Fund
Addendum', dated March 22, 2010.

Applicable Criteria and Related Research:

Global Bond Fund Rating Criteria
Global Bond Fund Rating Criteria - Short-Term Bond Fund
Addendum