

**Portfolio Breakdown**

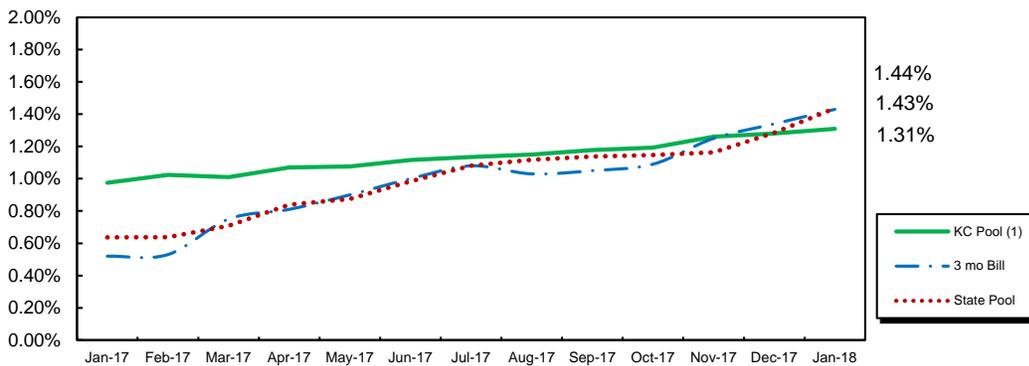
The following is a breakdown of the Investment Pool holdings for January 2018

	Average (\$000)	% of Portfolio
Governmental Agencies	2,174,182	33.0%
Commercial Paper	308,912	4.7%
Taxable Municipal Securities	-	0.0%
Bankers Acceptances	-	0.0%
Corporate Notes	1,032,734	15.7%
U.S. Agency Mortgage-backed Securities	4,707	0.1%
Repurchase Agreements (Repos)	173,677	2.6%
Treasury Securities	2,477,027	37.6%
Certificates of Deposit & Overnight Deposits	-	0.0%
Local Government Investment Pool (LGIP)	415,650	6.3%
Reverse Repurchase Agreements	-	0.0%
<b>Total</b>	<b>\$6,586,890</b>	<b>100%</b>

\*Average Pool Effective Duration: 1.03 Years

\*Duration is a better measure of interest rate sensitivity than average portfolio maturity.

**Investment Pool Performance (before Pool fees)**



(1) King County pool distribution rate has not been adjusted for realized losses (or recoveries) from impaired commercial paper investments.

**Pool Net Asset Fair Value on January 31, 2018**

Net Assets <sup>(2)</sup>	\$6,504,898,263.81
Net Assets Consist of:	
Participant units outstanding (\$1.00 par)	\$6,550,145,520.13
Undistributed and unrealized gains(losses)	(\$45,247,256.32)
<b>Net Assets</b>	<b>\$6,504,898,263.81</b>
Net asset value at fair value price per share (\$6,504,898,263.81 divided by 6,550,145,520.13 units)	<b>\$0.9931</b>

(2) Excludes impaired assets that have been separated into a separate pool.

**Investment Pool Comments:**

**Asset Allocation:** The percentage allocated to the various security types in January did not change much from December's levels, and the pool continued to hold over 70% of its assets in highly-rated U.S. government and agency securities.

**Pool Asset Size & Return:** The pool's balance decreased by \$382 million from December's level. The size of this decrease is normal for January since debt service payments are typically the third highest of the year. Debt service accounted for \$140 million of the balance decrease, with the remainder due to other normal expenditures like payrolls. The pool's distribution yield was 1.31%, which was 3 basis points better than December's rate of 1.28%. The pool rate has been higher than the State pool's rate and the 3-month T-bill rate for nearly 10 years, but recently the pool's rate has dropped slightly below these rates. The reason for this is that the Fed has been raising their target rate regularly since December 2016. Since the pool's duration is closer to one year, it is normal for the pool rate to lag somewhat behind shorter duration investments like the State pool and T-bills during periods when the Fed is consistently raising rates.

**Market Value & Duration:** The market value of the pool decreased by \$11.7 million between December and January. This was due to interest rates increasing along the yield curve by 15 to 30 bps during the month. Stronger economic numbers and a recent pick up in inflation has the markets expecting the Fed to increase rates three more times in 2018, and so rates have been moving higher lately.

We remain committed to sharing information with pool members, so if you have any questions, email us at [investment.pool@kingcounty.gov](mailto:investment.pool@kingcounty.gov)

**Impaired Pool Holdings Report  
1/31/2018**

Commercial Paper Issuer	Status	Current Book Value	Estimated Fair Value	Fair Value Adjustment
Cheyne Finance (1)	Restructured	787,502.14	507,750.00	279,752.14
Rhinebridge (1)	Restructured	84,407.60	84,407.60	-
VFNC Trust/Victoria Finance (2)	Restructured	6,952,629.80	4,715,694.00	2,236,935.80
<b>Total</b>		<b>7,824,539.54</b>	<b>5,307,851.60</b>	<b>2,516,687.94</b>

Fair Value Ratio	0.6784
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(1) These amounts are related to cash that was retained for DTC indemnifications and other reserves. It could be sometime in 2018 or 2019 before these "tail" amounts are returned to investors, and it is possible that the amount recovered may be less than the estimate.

(2) Victoria Finance's restructuring was completed during September 2009. The name of the restructured entity is VFNC Trust, and the new entity will continue to make monthly principal and interest payments. The *Estimated Fair Value* amount is based on market prices of the underlying securities that are held by VFNC Trust. These prices are provided by the Collateral Agent and the County expects to recover more than this estimated price by receiving regular monthly payments over the coming years.

**Impaired Pool Comments:**

The majority of the amount remaining in the impaired pool is associated with VFNC Trust (Victoria). VFNC Trust continues to make monthly cash distributions. The monthly distribution for January totaled \$148,515.22. Including all receipts to date, brings the cash recovery rate on the original Victoria investment to 87%. Monthly distributions will continue for as long as the underlying securities in the trust continue to pay, and we expect the monthly distributions to continue for at least 5 to 10 years.

We do not foresee distributing any realized losses until it is apparent that no further cash flows will be forthcoming. The market for this type of asset is illiquid and accurate pricing is difficult to obtain. Adding the cash recoveries through January to the last estimated price (54.8) for the VFNC Trust security results in an estimated recovery rate to senior investors of about 96%, but the actual recovery rate will depend on the size and duration of the future monthly cash distributions from VFNC Trust. At the time of Victoria's restructuring the County's financial advisory estimated that by participating in the exchange offer that the overall recovery rate could be between 50 to 76 percent, and potentially higher.

The County settled all lawsuits involving the securities held in the impaired pool, and all the parties involved in these lawsuits have reached a mutually acceptable resolution by way of a negotiated settlement that will avoid protracted litigation, there was no admission of liability, and all sides are satisfied with this resolution

The King County Executive Finance Committee approved bifurcation of the investment pool as of September 1, 2008. This separated the impaired investments into their own pool distinct pool from the main pool of performing investments. The reasons for bifurcating the pool were to: (1) ensure the yield on the performing assets is not negatively impacted by the impaired investments; (2) enhance transparency about the value of the performing pool and the impaired pool; (3) ease the implementation of the restructuring processes for the impaired investments; and (4) expedite the restoration of the Standard & Poor's rating for the performing pool.

Within the impaired pool, future "tail" payments from Cheyne and Rhinebridge are still possible. We expect Rhinebridge to make one final small payment in 2018, and it is likely that Cheyne will also make at least one distribution in 2018. When we determine that no further payments are probable from these impaired securities, any remaining unrealized losses will be distributed.