King County Investment Pool

Portfolio Review

Quarter Ended December 31, 2014

PFM Asset Management LLC

Presented by:

PFM Asset Management LLC

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Executive Summary

Purpose, Scope and Approach

- PFM Asset Management LLC ("PFM") prepared this report to update our ongoing analysis and to address any Investment Pool developments since our September 2014 review. Our approach included a detailed portfolio analysis and Investment Policy Compliance review, based on the County's Investment Policy, dated September 2013.
- Our analysis was based on the Investment Pool's holdings as of December 31, 2014, with reference to holdings in past periods.
- The review encompasses all current investments in the County's Investment Pool.

Investment Program and Portfolio Review

- PFM reviewed the County's portfolio with respect to Investment Policy Compliance, Sector Allocation, Issuer Concentration, Credit Quality, Maturity Distribution, and Duration Distribution.
- The County's Investment Pool appears to provide ample liquidity, is well diversified, and is of sound credit quality. All holdings are investment grade and pose minimal risk to principal.

Market Recap

- The fourth-quarter markets were characterized by heightened fixed income volatility and gross domestic product (GDP) growth of 5%, reflecting increases in personal consumption expenditures, exports, and federal, state, and local government spending, among other factors.
- The U.S. labor market continued to improve, as the unemployment rate fell from 5.9% in September to 5.6% in December. The business services, retail, transportation, healthcare, and manufacturing sectors all saw job gains. The Consumer Price Index, which measures inflation, fell 0.3% in November, marking its largest decline since December 2008. Lower oil prices were a major contributor to the falling prices.
- The Federal Open Market Committee (FOMC) rephrased its "considerable time" language in its statement released after its December meeting, saying that it would be "patient" when normalizing monetary policy after taking extraordinary steps to support economic recovery after the financial crisis.
- Fixed-income market performance for the quarter depended on both maturity and sector. Longer-duration investments (maturities greater than 3 years) were the strongest performers as they continued to benefit from falling long-term rates.

Observations

- The portfolio is comprised of high quality securities. The majority of securities (91%) are either explicitly guaranteed or carry a high level of support by the U.S. Government (U.S. Treasury and Federal Agency) and/or possess a high level of liquidity (Washington State LGIP and bank deposits).
- The County's Investment Pool balance (market value) of $5.29 billion experienced a net increase of approximately $201 million over the quarter (from $5.09 billion at previous period end).
- Sector allocation shifts over the quarter included **increases** to short-term federal agencies in the six to nine month maturity range ($440 million), repurchase agreements ($144 million), and high-quality corporate issuers ($113 million) and **decreases** to the State LGIP ($300 million) and US Treasuries ($176 million).
  - For the third consecutive quarter, the portfolio added funds to corporate issuers. These sectors now account for 6% of the total portfolio totaling $334 million compared to the quarter-ended September 30, 2013, when the County maintained 0% direct allocation to corporate issuers.
  - These investments add great value to the portfolio as their yields are noticeably higher relative to similar maturity government investment options and are all very high-quality and investment grade. Issuer and sector allocations are in line with Investment Policy guidelines.
- Over the past several quarters, the County's maturity structure strategy has primarily focused on balancing longer-dated US Treasury, federal agency, and corporate bank note purchases with large overnight allocations to the LGIP and attractive yielding short-term corporate issuers and agency discount notes.
  - The County's tactical allocations to maturities greater than three years has benefitted the portfolio relative to the benchmark as the performance of this maturity range has dominated their shorter-term counterparts over the past 12 months.
- As of December 31st, the duration of the County Investment Pool is 1.26 years, a decrease from a duration of 1.42 years on September 30th.
- In anticipation of the upcoming quarter, over the past four years, for the quarters ending March 31st, the average net outflow in the Pool was $193 million.
  - The County Pool appears to provide adequate liquidity, with 11.5% (or $610 million) invested in a combination of the Washington State LGIP and bank deposits (overnight liquidity) and an additional 44.3% (or $2.3 billion) of the portfolio's holdings scheduled to mature within the next 12 months.

Investment Pool Portfolio Review

Portfolio Review

I. **Investment Policy Compliance**

II. **Sector Allocation**

- **U.S. Treasuries**
- **Federal Agencies**
- **Commercial Paper**
- **Repurchase Agreements**
- **LGIP and Cash Equivalents**

III. **Issuer Concentration**

IV. **Overall Credit Quality**

V. **Maturity and Duration Distribution**

I. Investment Policy Compliance – Investment Policy Summary

- The Investment Policy summary is based on the current Investment Policy for the County Investment Pool, dated September 5, 2013.

Type	Maximum Portfolio Allocation	Issuer Restrictions	Credit Ratings	Maturity Restrictions
Repurchase Agreement	40%	5% per investment dealer; Firm must adopt a master repurchase agreement with the County. Maximum 5% per issuer applied across investment type.	Short-term credit ratings of at least A-1 / P-1 from at least 2 rating agencies. Must have a minimum asset and capital size of $25 billion in assets and $350 million in capital Collateral limited to U.S. Treasury and Agency securities.	60 days or less
Reverse Repurchase Agreement	20%	5% per investment dealer; Firm must adopt a master repurchase agreement with the County.	Short-term credit ratings of at least A-1 / P-1 from at least 2 rating agencies. Must have a minimum asset and capital size of $25 billion in assets.	6 months or less
Local Government Investment Pool ("LGIP")	25%	State of Washington LGIP	N/A	N/A
U.S. Treasuries	100%	None	N/A	Up to 5 years
U.S. Agencies	100% 20% Floating/Variable	35% exposure to any single Agency	Senior debt obligations issued by any government sponsored enterprise, agency or instrumentality of the United States, provided that such obligations are rated by S&P, Moody's, and Fitch at least as high as investments described under U.S. Treasuries. U.S. Agencies category includes Floating and Variable Rate Notes. The use of floating and variable rate notes (FRNs and VRNs) issued by Federal Agencies of the U.S. Government is allowable in the management of the Pool provided that the following criteria are met: 1) The final maturity (at the time of purchase) is no greater than two years; 2) The rate on the FRN/VRN resets no less frequently than quarterly; 3) The rate on the FRN/VRN resets with a frequency that produces a close tracking with money market rates; 4) The FRN/VRN is indexed to a money market rate such as Federal Funds, the 3-month Treasury Bill, LIBOR, or Prime Rate which correlates very highly with overall changes in money market rates even under wide swings in interest rates; 5) Any cap on the interest rate is at least 15.00% (1500 basis points) higher than the coupon at time of purchase.	Up to 5 years

I. Investment Policy Compliance – Investment Policy Summary (cont'd)

Type	Maximum Portfolio Allocation	Issuer Restrictions	Credit Ratings	Maturity Restrictions
Bankers' Acceptances	25%	2.5% of portfolio; secondary market purchases only. Maximum 5% per issuer applies across investment type.	Must carry highest ratings of any two nationally recognized rating agencies.	Up to 180 days
Certificates of Deposit	25%	2.5% of portfolio; must be a public depository in the State of Washington. Maximum 5% per issuer applies across investment type.	100% collateralization Moody's P-3, S&P A-3, or Fitch F-3 or better, and a Safe & Sound rating of 3 or better. No new deposits will be placed with institutions that are on credit watch or predictive indicator "negative." Those institutions not meeting the minimum credit requirements may receive deposits up to the FDIC or federally guaranteed amounts.	Up to 1 year
Commercial Paper	25%	2.5% of portfolio; secondary market purchases only. Maximum 5% per issuer applies across investment type.	Must carry highest ratings of any two nationally recognized rating agencies at time of purchase. Purchases with greater than 100 days maturity must have an issuer long-term rating of one of the two highest ratings of a nationally recognized rating agency. State law requires that Commercial Paper be purchased only from dealers.	180 days
General Obligation Municipal Bonds	20%	2.5%; bond issues by pool participants must be purchased on the secondary market only.	At time of purchase, bond must have one of the three highest credit ratings of a nationally recognized credit rating agency	5 years
Mortgage-Backed Securities	25%	Must be issued by Federal Agencies of the United States. Investments in MBS will count toward the total that can be invested on any one agency as described in U.S. Agencies above.	Must pass the Federal Financial Institutions Examination Council ("FFIEC") suitability test, which banks use to determine lowest risk securities. If rated by Fitch, must have rating between V1 and V5	5 year average life at time of purchase
Bank Notes	20%	2.5% of portfolio. Maximum 5% per issuer applies across investment type.	Bonds must be rated "A" or better by two nationally recognized rating agencies or guaranteed by an agency of the federal government	5 years

- When combined, Bankers' Acceptances, Certificates of Deposit, Commercial Paper, and Term Repos (greater than 7 days), and Bank Notes are not to exceed 50% of the Pool assets.
- The Pool will maintain an effective duration of less than 1.5 years.
- The portfolio will maintain at least 40% of its total value in securities having a maturity of 12 months or less.

I. Investment Policy Compliance – County Investment Pool

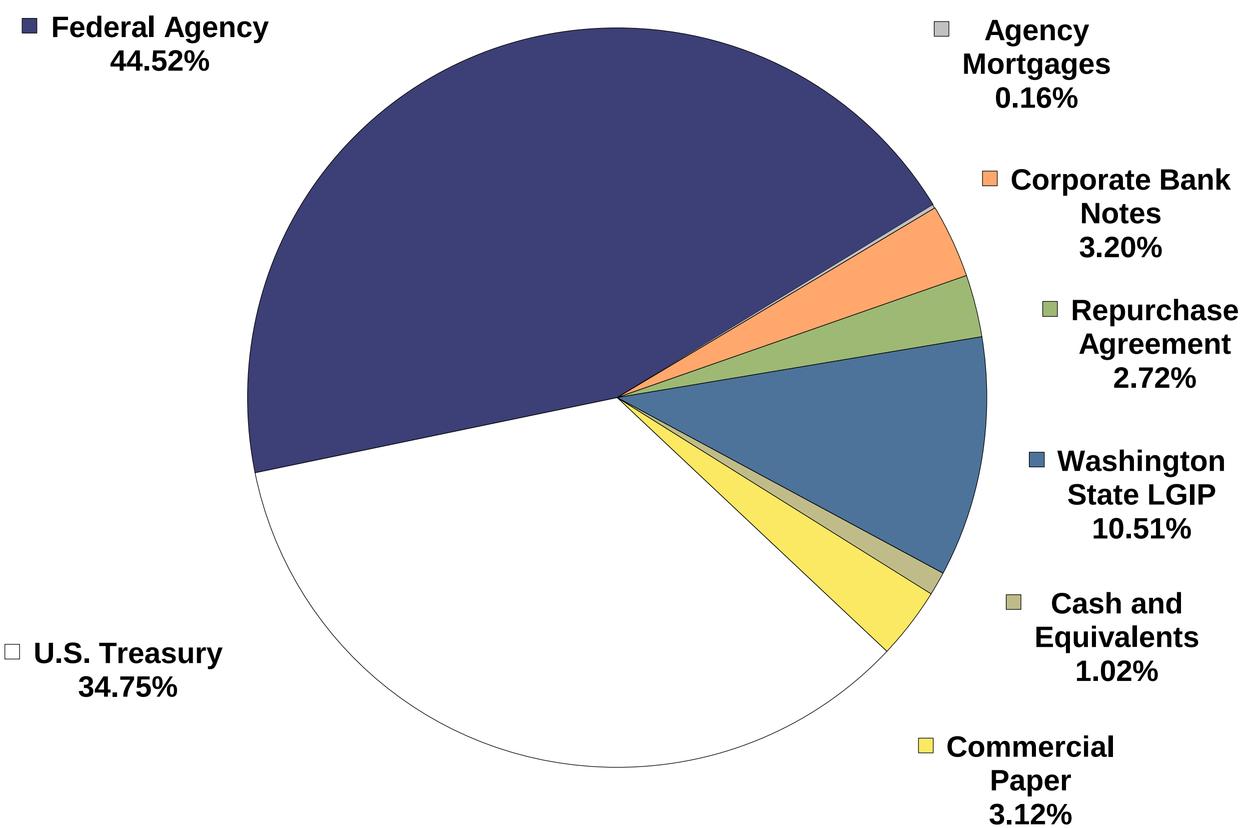
Topic	Observations
Sector Allocation	• All sector allocations fall within the limits set forth by the County's Investment Policy Statement. The Pool is predominantly invested in U.S. government securities which are either explicitly guaranteed or carry a high level of support by the U.S. government. • The County's Investment Pool balance (market value) as of December 31, 2014 was $5.3 billion and experienced a net increase of approximately $201 million over the quarter, following a $422 million decrease from the prior quarter-end. – The seasonality of the County's balances indicates a historical balance increase for the quarter-ended December. For example, over the past four years (including December 2014), the County's Pool balance has increased, on average, by $295 million each quarter-ended December. • Over the quarter, sectors that experienced balance increases, included: federal agency non-MBS ($440 million), repurchase agreements ($144 million), corporate bank notes ($84 million), and commercial paper ($28 million). • Sectors that experienced reductions in quarter-over-quarter balances were primarily those to non-credit related investments, a shift from the previous quarter trend, including: Washington State LGIP ($300 million), US Treasuries ($176 million), cash and equivalents ($19 million). • The County continues to maintain a small tactical allocation to agency mortgage backed securities, but has not purchased new agency MBS in several quarters. As a result, agency MBS balances continue to naturally decline as principal paydowns are received every month. On average, over the past four quarters, federal agency MBS paydowns have totaled $590,000 per quarter.
Credit Quality	• Securities held by the County are of very high quality and are within the limits set forth in the County Investment Policy. • Approximately 80% of the County's assets are guaranteed or supported by the U.S. government. The remaining assets are primarily invested in the Washington State LGIP (11%), which is not rated; however, 88% of the LGIP is invested in U.S. Treasuries or Federal Agencies. • Corporate allocations (both commercial paper and corporate bank notes) were increased for the third consecutive quarter; all are investment grade.
Maturity Distribution	• All maturities fall within the maturity limits set forth in the County's Investment Policy. • Approximately 56% of the Pool's assets mature in one year or less and approximately 26% of the portfolio is scheduled to mature within the next quarter.

Security Type	Market Value($)	Allocation Percentage	Within Policy Limits	Max Maturity Held	Within Policy Limits
Cash Equivalents	53,898,376	1.02%	✓	1 day	✓
Commercial Paper	164,988,459	3.12%	✓	29 days	✓
Repurchase Agreements	144,000,000	2.72%	✓	2 days	✓
LGIP	556,390,880	10.51%	✓	1 day	✓
Federal Agencies (non MBS)	2,357,489,087	44.52%	✓	3.40 years	✓
Agency Mortgages	8,629,268	0.16%	✓	3.88 years (WAL)	✓
Certificates of Deposit	-	-	✓	N/A	✓
Corporate Bank Notes	169,535,939	3.20%	✓	4.83 years	✓
Municipal Bonds	-	-	✓	N/A	✓
U.S. Treasury	1,839,864,150	34.75%	✓	4.00 years	✓

**Percentages may not total to 100% due to rounding.*

II. Sector Allocation

Sector Diversification
as of December 31, 2014



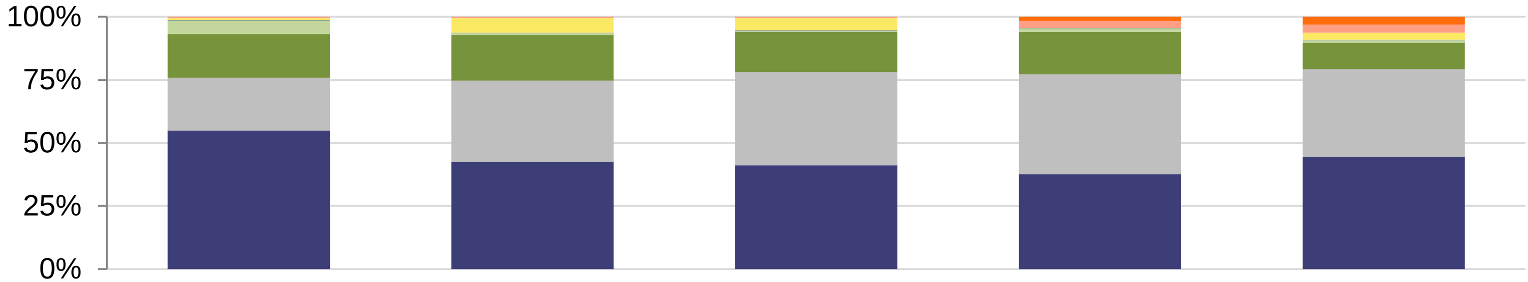
**Percentages may not total to 100% due to rounding.*

II. Changes in Portfolio Sector Allocation Over Past 12 Months

Changes in Sector Allocation

- The County's investment pool generally maintained consistent percentage allocations over the quarter, with the largest allocation shift being a 7% increase to federal agencies and an aggregate decrease to both US Treasuries and the State LGIP totaling approximately 11%.
  - Over the past several quarters, the County's investment pool shifted allocations away from federal agencies and into US Treasuries; however, this trend changed during the quarter-ended December 31, 2014 as the County increased allocations to federal agency discount notes to capitalize on the increase in yields.
    - For the most recent quarter, US Treasury allocations were decreased by 5%, while agencies were increased 7%.
    - For the previous three quarters, agency allocations declined from 55%, to 43%, 41%, and 38%, respectively (17% total) as US Treasury allocations increased from 21%, to 32%, 37%, and 40%, respectively, over that same period (19% total).
- The portfolio's allocation to the State LGIP declined modestly over the quarter to 11% of the portfolio ($556 million), but continues to be the pool's primary liquidity vehicle. LGIP allocations have remained relatively consistent over the past 5 years, with State LGIP balances ranging from 11% to 25% of the portfolio ($490 million to $1.1 billion).
- For the third consecutive quarter, the portfolio added funds to corporate issuers, as commercial paper and corporate bank notes were increased by 0.5% and 1.5%, respectively. These sectors now account for 6% of the overall portfolio totaling $334 million.
  - Since the quarter-ended September 30, 2013, when the County maintained 0% direct allocation to corporate issuers, the County investment pool has since methodically and selectively increased allocations to high-quality corporate issuers (both commercial paper and corporate bank notes).
  - These investments add value to the portfolio as their yields are noticeably higher relative to similar maturity government investment options.

Sector Allocation December 2013 – December 2014



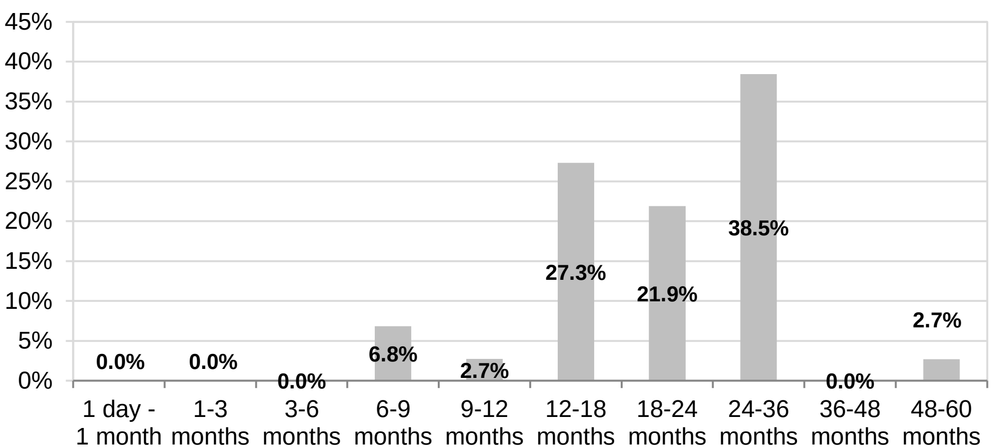
	December 31, 2013	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
Federal Agencies	54.99%	42.45%	41.17%	37.63%	44.52%
U.S. Treasury	20.89%	32.19%	36.91%	39.58%	34.75%
Washington State LGIP	17.35%	18.19%	15.97%	16.81%	10.51%
Cash and Equivalents	5.19%	0.70%	0.31%	1.44%	1.02%
Agency Mortgages	0.22%	0.21%	0.18%	0.18%	0.16%
Municipal Notes	-	-	-	-	-
Repurchase Agreements	0.88%	5.74%	4.95%	-	2.72%
Commercial Paper	0.49%	0.51%	0.51%	2.68%	3.12%
Corporate Bank Notes	-	-	-	1.67%	3.20%

**Percentages may not total to 100% due to rounding.*

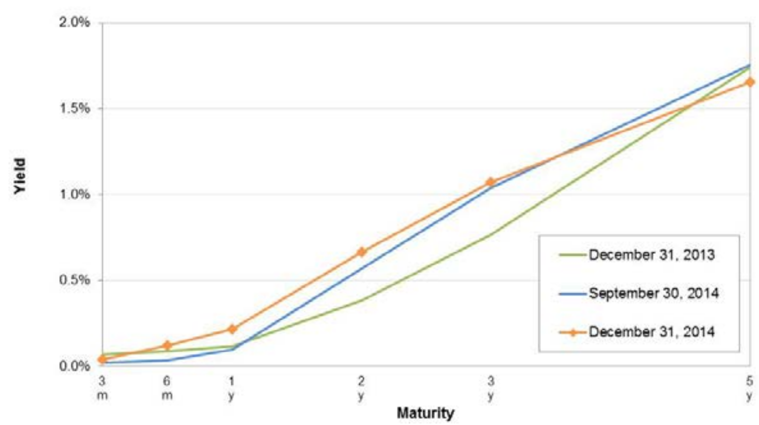
II. Sector Allocation – U.S. Treasury Securities

Topic	Observations
Observations	• The County's overall allocation to U.S. Treasuries decreased over quarter to 34.8% of the total portfolio, compared to 39.6% at the end of the previous period. – Over the quarter, the County appeared to have held previously purchased Treasury securities with maturities greater than 2 years, as these investments had been targeted to the steep portions of the yield curve and continue to add value to the portfolio as they roll-down the yield curve. – Meanwhile, for Treasury securities with remaining maturities less than 6 months (approximately 9% of the portfolio or $177 million at the previous quarter-end), the County appeared to have sold these shorter-term Treasuries. Proceeds may have been utilized to reinvest in more attractive short-term investment options, including: agency discount notes or commercial paper, both of which add incremental yields relative to similar maturity Treasuries. • As a result of allowing the majority of Treasury holdings to naturally shorten in maturity, the County's weighted average maturity (WAM) of its Treasury allocation decreased over the quarter by 38 days, from 701 days on September 30th to 663 days on December 31st. – It is observed that the change in WAM of 38 days was modestly muted due to the sale of the shorter-term Treasury holdings. If no Treasuries would have been sold during the quarter, the WAM of outstanding Treasury allocations would have decreased closer to 90 days (or 3 months). • The chart below, on the left, illustrates the current maturity distribution of the County's allocations to US Treasuries and the chart on the right illustrates the current shape of the US Treasury yield curve, compared to the yield curve six months ago and one year ago. – Of the County's Treasury allocations, only 10% is allocated to maturities less than 12 months (versus 15% last quarter). – This low allocation to shorter-term Treasuries reflects the combination of (1) the Federal Reserve's current near zero interest rate policy and the effect it has had driving shorter-term US Treasury securities to very low levels and (2) the noticeable increase in value of agency discount notes relative to Treasuries of similar maturity, over the past quarter. – Meanwhile, 90% of Treasury allocations are positioned with maturities in the 1 to 5 year maturity range. The bulk of the County's Treasury allocations remain targeted to the most attractive portions of the US Treasury yield curve, the 1 to 5 year range.

U.S. Treasury Maturity Distribution as of December 31, 2014



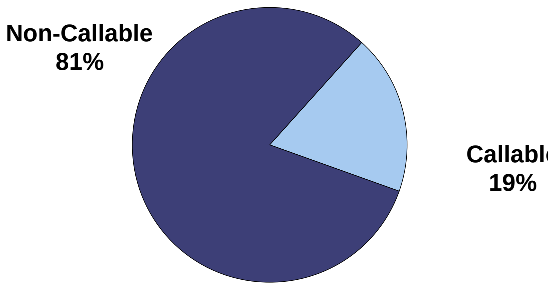
U.S. Treasury Yield Curve 12/31/14 vs 09/30/14 vs 12/31/13



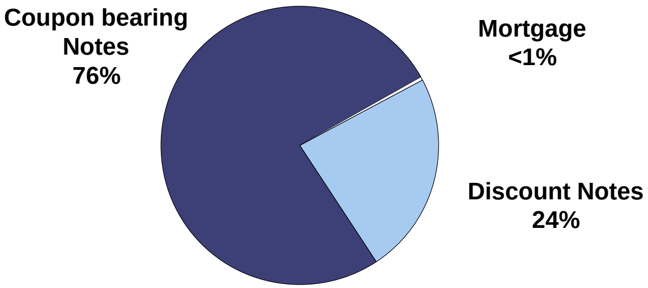
II. Sector Allocation – Federal Agencies

Topic	Observations			
Structure *(as % of Federal Agency Allocations)*	• Non-Callable • Callable	81% 19%	• Discount Notes • Coupon bearing Notes • Agency Mortgage	24% 76% <1%
Diversification *(as % of Federal Agency Allocations)*	• Freddie Mac (FHLMC) • Federal Home Loan Bank (FHLB) • Fannie Mae (FNMA)	25% 30% 29%	• Federal Farm Credit Bank (FFCB) • Freddie Mac Mortgage-Backed (FHR) • Fannie Mae Mortgage-Backed (FNR)	16% 0% <1%
Conclusions	• The County's Federal Agency allocation continues to be well diversified among the four major issuers and among security structures. • Federal Agency allocations increased by $440 million over the quarter, primarily due to the County capitalizing on the increased value available in short-term discount notes relative to Treasury securities of similar maturity. – In fact, of the new federal agency securities held in the portfolio as of December 31, 2014 (when compared to the previous quarter), all new agencies had remaining maturities less than 13 months. • From a security structure standpoint (the ratio of non-callable to callable securities), the trend of declining callable securities continued over the quarter, as callable allocations declined to 19% of agency holdings versus 22% at the previous quarter-end. • As mentioned, the majority of new agency allocations were targeted to attractive yielding short-term discount notes. As a result, the ratio of coupon-bearing notes to discount notes shifted noticeably over the quarter, from 85%/14% previously to 76%/24% currently. – Discount note allocations increased by approximately $380 million. • The County Pool's only remaining allocation to agency mortgages is in Fannie Mae pools, totaling approximately $8.6 million, which continue to paydown principal (on average $590,000 per quarter over the past year) and naturally reduce the County's allocation to agency mortgages.			

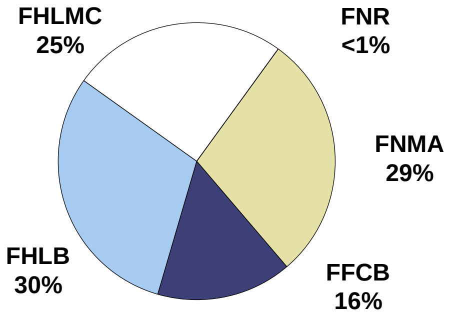
Callable vs. Non-Callable as of December 31, 2014



Structure Distribution as of December 31, 2014



Issuer Diversification as of December 31, 2014

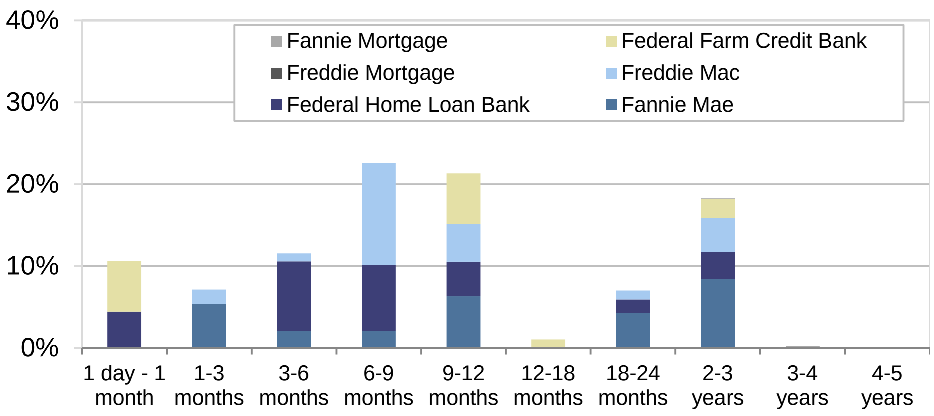


**All calculations above are based on total cash equivalents exposure, not overall Portfolio.*
***Percentages may not total to 100% due to rounding.*

II. Sector Allocation – Federal Agencies

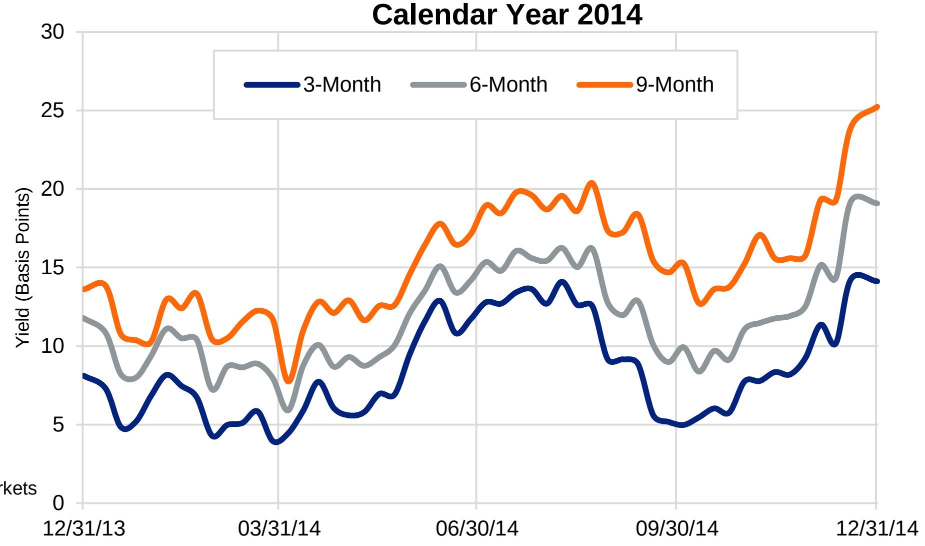
Topic	Observations
Maturity Distribution	• The County's Federal Agency maturity distribution falls within the limits set forth by its Investment Policy Statement. • Over the quarter, the County's weighted average maturity (WAM) of Federal Agency allocations decreased by approximately 109 days, from 478 days on September 30th to 369 days on December 31st. – It is observed that the County's addition of approximately $380 million of new agency discount notes was the primary driver of the decrease in agency WAM. The majority of these purchases were in the 6 to 13 month maturity range, which aligns to the recent increase in yields of federal agency discount notes during the fourth quarter, as shown on the chart below on the right. – As of December 31, 2014, the portfolio maintained 73% allocation to agencies with maturities less than 12 months, compared to the previous quarter-end total of 58%, an increase of 15%. – The overweight of shorter-term federal agencies can be attributed to the combination of (1) an increase in the incremental yield available in agency discount notes relative to similar duration US Treasury securities and (2) tight yield spreads between agency and Treasury securities of similar maturity beyond 2 years. That is, yields of 2-year agencies and Treasuries are relatively close and in these instances, the US Treasury security is typically preferred. – Further, it also appears that a portion of the County's allocations to callable agency securities have past their call date and are now no longer callable. So, for agencies in the 18 month to 3 year maturity bucket, a portion of those is attributed to callable securities that passed their call date and were not necessarily bullet agency securities that had been targeted to that range.

Federal Agency Maturity Distribution by Name as of December 31, 2014



- Agency Mortgage maturities are calculated as average life. Average life data taken from Bloomberg Financial Markets
- Callable securities are shown to their next call date.
- All other Agency maturities are calculated as days to maturity.

Federal Agency Discount Note Yields Calendar Year 2014



II. Sector Allocation – Commercial Paper

Observations

Issuer Diversification

- The County increased allocations to commercial paper over the quarter, by approximately 0.4% or $29 million.
- The portfolio now owns two commercial paper issuers, including: Proctor & Gamble and Apple Inc., both of which were owned as of previous quarter-end.
- The County previously owned commercial paper of Wells Fargo Bank NA, but allowed that security to mature during the quarter and opted to purchase Wells Fargo Corporate Bank Notes in place of Wells Fargo commercial paper.
- It appears the County continues to regularly reinvest the proceeds of commercial paper maturities into new commercial paper issues.
  - "Rolling" short-term commercial paper is an attractive investment strategy relative to most other ultra short-term permitted investment options in the current fixed income markets.
  - Over the quarter, allocations to Apple Inc. ($36 million) remained constant, but allocations to Proctor & Gamble commercial paper were increased to $129 million from $79 million at the previous quarter-end.
- All allocations fall within the permitted investment guidelines of 2.5% per issuer and 25% maximum to the sector.

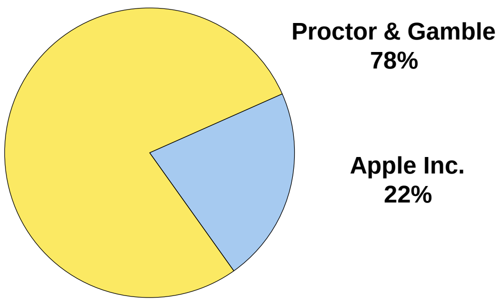
Credit Distribution

- Standard & Poor's rates the short-term credit of Proctor & Gamble and Apple Inc. as A-1+.
- Moodys rates the short-term credit of Proctor & Gamble and Apple Inc. as P-1.

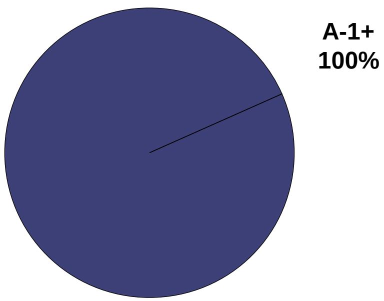
Conclusions

- High-quality commercial paper has offered noticeable yield advantage relative to similar maturity Treasury and federal agency securities. As of December 31, 2014, the County's commercial paper investments have a weighted average yield of approximately 0.12% and a WAM of 18 days.
- High-quality commercial paper continues to offer incremental yields relative to similar maturity short-term Treasury and agency securities. As a result, the County's portfolio may benefit from additional allocations to other high-quality commercial paper issuers. The commercial paper yield curve continues to be steeper in the 6 to 9 month range, relative to the 1 to 6 month range (chart on far right).

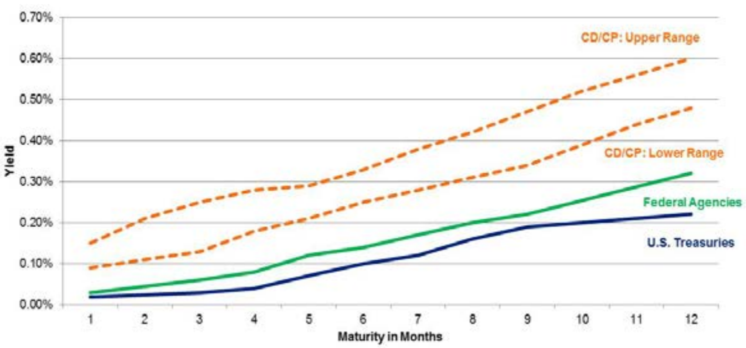
Issuer Distribution
as of December 31, 2014



Credit Distribution
as of December 31, 2014



Current Short-Term Yields
as of December 31, 2014

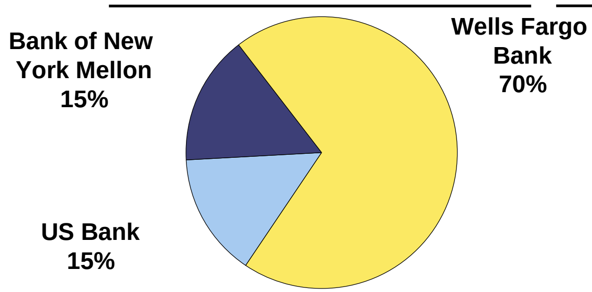


**All calculations above are based on total commercial paper exposure, not overall Portfolio.*
***Percentages may not total to 100% due to rounding.*

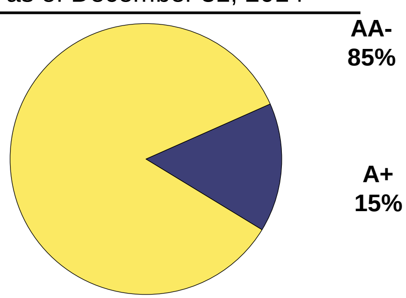
II. Sector Allocation – Corporate Bank Notes

	Observations
Issuer Diversification	• For the second consecutive quarter, the County added allocations to high-quality corporate bank notes. Last quarter was the first time new corporate notes were added to the portfolio in over 5 years. • The portfolio now owns three different corporate note issuers, including: Wells Fargo Bank NA ($118 million), Bank of New York Mellon ($26 million), and US Bank NA Cincinnati ($25 million). • As of December 31, 2014, allocations to corporate bank notes represent 3.2% of the total portfolio. • The County added two new bank note investments to the portfolio during the quarter totaling $46 million: a 4.5-year US Bank note with a current yield of 2.1% and a 1.4-year Wells Fargo Bank note with a current yield of 0.9%, both of which offer excellent yield advantage relative to Treasuries of similar maturity. • All allocations fall within the permitted investment guidelines of 2.5% per issuer (and 5% at the aggregated issuer level across all sectors, please refer to following pages) and 20% maximum to the sector.
Credit Distribution	• S&P ratings (long-term and short-term): – Bank of New York Mellon (A+ and A-1); Wells Fargo Bank NA (AA- and A-1+); and US Bank NA Cincinnati (AA- and A-1+). • Moodys ratings (long-term and short-term): – Bank of New York Mellon (A1 and P-1); Wells Fargo Bank NA (Aa3 and P-1); and US Bank NA Cincinnati (Aa3 and P-1). • All ratings are investment grade, very high quality, and fall within the credit guidelines in the County's IPS.
Conclusions	• Similar to the value of high-quality commercial paper, high quality corporate bank notes offer increased levels of yield relative to US Treasury and federal agency securities of similar maturity, across the majority of the yield curve. • The County's current corporate bank notes have a weighted average yield of approximately 0.64% and a WAM of 405 days (or 1.1 years). • For perspective, to match the yield of the County's corporate bank note purchases, a US Treasury note would need to be purchased at a maturity of approximately 3 years. • The County's portfolio may benefit from additional allocations to other high-quality corporate bank note issuers. As shown in the chart on the right, high quality financial corporates have offered significant yield advantage relative to US Treasury notes of similar maturity.

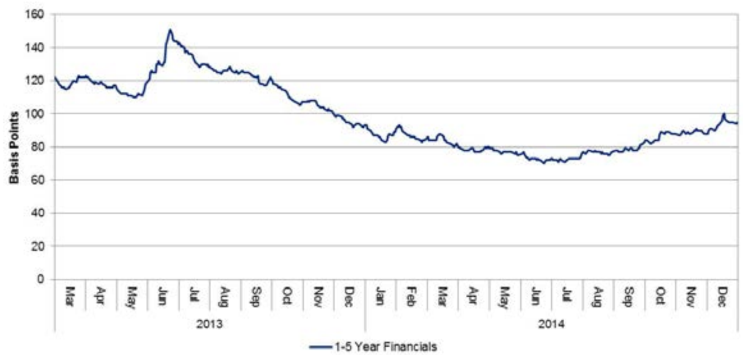
Issuer Distribution
as of December 31, 2014



Credit Distribution
as of December 31, 2014



1-5 Year Financials/Treasuries Yield Spreads
March 2013 through December 2014

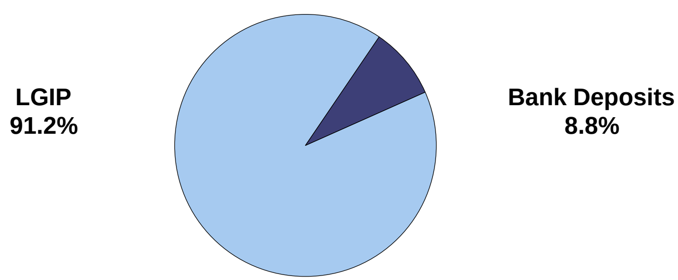


**All calculations above are based on total commercial paper exposure, not overall Portfolio.*
***Percentages may not total to 100% due to rounding.*

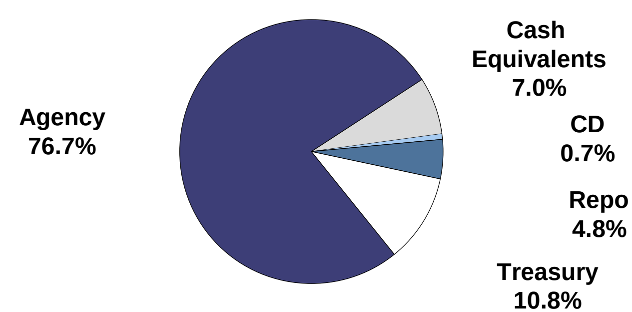
II. Sector Allocation – LGIPs and Cash Equivalents

ny	Underlying Investments	Rating (Short-Term: S&P/ Moody's/Fitch)	Observations
Washington State LGIP	• Federal Agencies 76.7% • U.S. Treasuries 10.8% • Cash Equivalents 7.0% • Certificates of Deposit 0.7% • Repurchase Agreements 4.8% *As of December 31, 2014*	• N/A	• The County currently has allocated $556 million to the Washington State LGIP, down over the quarter, approximately $300 million. Despite the seasonal inflow during the quarter, it is observed this reallocation of assets may be largely attributed to the increased yield and attractiveness of short-term agency discount notes during the quarter. • The County's allocation to the State LGIP continues to serve as the primary overnight liquidity vehicle for the portfolio. • Over the quarter, the State LGIP increased allocations to agencies (7.4%) and US Treasuries (2.1%), while decreasing bank deposits (6.8%) and repurchase agreements (2.7%). • Both the County pool and the State LGIP reduced allocations to overnight investments, while increasing allocations to short-term government securities, which had increased in yield markedly during the quarter.
Cash Equivalents	• State LGIP 91.2% • U.S. Bank 8.1% • Key Bank 0.6% • Bank of America 0.1% *As of December 31, 2014*	• U.S. Bank: A-1+/P-1/F1+ • Key Bank: A-2/P-2/F-1 • Bank of America: A-1/P-2/F-1	• The County's deposit accounts at U.S. Bank, Key Bank, and Bank of America are FDIC-insured up to FDIC limits, and are 100% collateralized by the Public Deposit Protection Commission. • The County decreased allocations to bank deposits by approximately $19.5 million. • Additionally, while the County pool is limited to FDIC-insured CDs issued by banks in the State of Washington, there may be an opportunity to add small allocations to FDIC-insured CDs, as this sector has and continues to provide incremental yield advantages relative to many shorter-term investment options of similar maturity.

Cash Equivalents Distribution as of December 31, 2014



Washington State LGIP Sector Distribution as of December 31, 2014



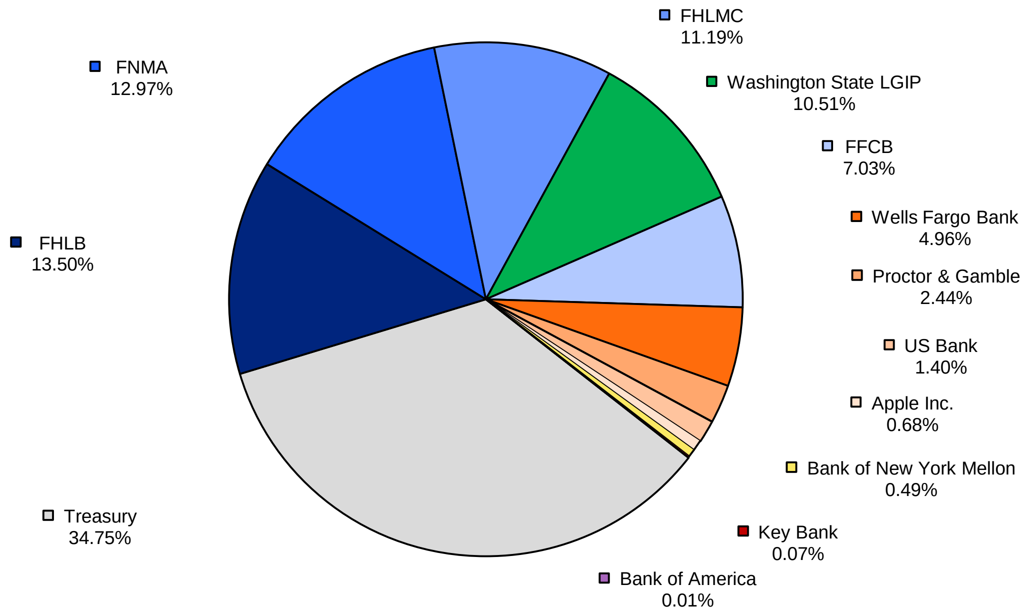
**All calculations above are based on total cash equivalents exposure, not overall Portfolio.*
***Percentages may not total to 100% due to rounding.*

III. Issuer Concentration

Issuer Exposure

- The County has continued to diversify holdings by issuer, as is evidenced in the chart below.
- The County has allocated holdings among thirteen (13) individual issuers.
- Approximately 79.4% of the portfolio is allocated directly to U.S. government guaranteed or government supported entities.
- Just under half of the remaining 21.6% of assets are allocated to the Washington State LGIP (10.5%).
- When including the Pool's indirect exposure to issuers through its holdings in the Washington State LGIP, the Pool's allocation to securities issued by U.S. government or government supported entities would increase to 88.6%.
- The County did not add any new corporate issuers to the portfolio over the quarter, but did maintain allocations to: Apple Inc., Proctor & Gamble, Wells Fargo Bank NA, Bank of New York Mellon, US Bank NA Cincinnati, Key Bank, and Bank of America.
- Each of the seven (7) corporate issuers the County owns in the portfolio (including the three (3) banks that hold the County's bank deposits) falls within the 5% corporate issuer limit when aggregated among all sectors, as shown in the charts below.
  - Wells Fargo Bank holdings, when aggregated across corporate bank notes and bank deposits, total 4.96% of the total portfolio.

Issuer Distribution	Value	Percentage
Treasury	1,839,864,150	34.75%
FHLB	714,580,883	13.50%
FNMA	686,566,526	12.97%
FHLMC	592,666,627	11.19%
Washington State LGIP	556,390,880	10.51%
FFCB	372,304,319	7.03%
Wells Fargo Bank NA	262,540,351	4.96%
Proctor & Gamble	128,990,558	2.44%
US Bank NA Cincinnati	74,235,566	1.40%
Apple Inc.	35,997,900	0.68%
Bank of New York Mellon	26,076,588	0.49%
Key Bank	3,923,864	0.07%
Bank of America	657,946	0.01%
Total	**5,294,796,159**	**100.00%**



**Percentages may not add to 100% due to rounding.*
** For the purposes of totaling issuer concentration, Wells Fargo Bank NA and Wells Fargo Company were aggregated. It is noted however that each issuer maintains separately rated issuer credits.*

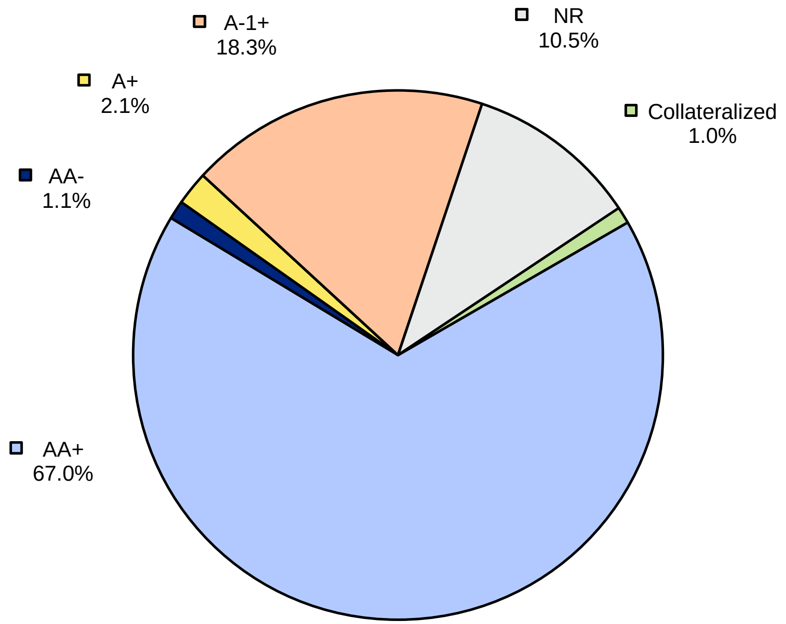
IV. Overall Credit Quality

County Investment Pool Credit Analysis

- The County Pool's overall average credit rating remains very strong and is primarily concentrated in U.S. government guaranteed and/or supported securities which maintain a long-term credit rating of AA+ by Standard & Poor's and federal agency discount notes, which maintain a short-term credit rating of A-1+ by S&P.
- During the quarter, the County added to its direct corporate exposure by increasing allocations to Wells Fargo Bank (bank notes and bank deposits), Proctor & Gamble (commercial paper), and US Bank (bank note and bank deposits).
  - Proctor & Gamble short-term credit rating of A-1+ by S&P and P-1 by Moodys.
  - Wells Fargo Bank NA long-term credit rating of AA- by S&P and Aa3 by Moodys.
  - US Bank NA Cincinnati long-term credit rating of AA- by S&P and Aa3 by Moodys.
- Allocations were maintained to Apple Inc. (commercial paper), Bank of New York Mellon (bank notes), Key Bank (bank deposits), and Bank of America (bank deposits).
  - Apple Inc. short-term credit rating of A-1+ by S&P and P-1 by Moodys.
  - Bank of New York Mellon long-term credit rating of A+ by S&P and A1 by Moodys.
- Further, indirect corporate exposure also comes through the County's investment in the Washington LGIP. Through the LGIP, 0.6% of the County's total portfolio is allocated indirectly to corporate securities (repurchase agreements and certificates of deposit).
  - The collateralization of the corporate securities held by the LGIP minimizes any credit risk.
- The County has slight corporate exposure through its 1.0% allocation to bank deposits. However, these deposits are 100% collateralized by U.S. Treasury and Federal Agency securities, as the County's deposits are covered by the Public Deposit Protection Commission.
- The 10.5% NR allocation represents the County's investment in the Washington State LGIP, which is not currently rated by any ratings agency.
- PFM has no concerns regarding the Pool's current credit distribution.

Credit Distribution*

as of December 31, 2014

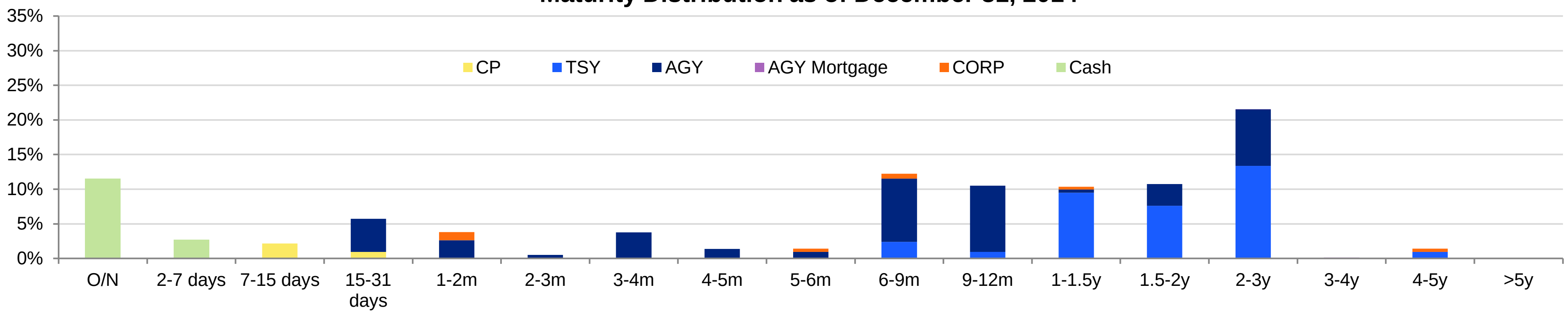


*Ratings by S&P; Percentages may not add to 100% due to rounding.
**Bank ratings of the depositories for the collateralized securities are given on page 13.

V. Maturity Distribution

Maturity Distribution	Observations
Weighted Average Maturity (“WAM”)	• The County continues to diversify holdings across its permitted maturity range, as seen in the chart below. • A majority of the holdings – 56% of the portfolio – are scheduled to mature or have a call date within the next twelve months. This percentage is 5% higher relative to the end of the previous quarter. • It appears the County’s maturity strategies over the past several quarters have included (1) balancing longer-dated US Treasury, federal agency, and corporate bank note purchases with large overnight allocations to the LGIP and attractive yielding short-term corporate issuers and agency discount notes and (2) targeting relative value among Treasury and federal agency securities along the yield curve where yield spreads warrant over/under-weights to each sector. • Over the quarter, the WAM of the portfolio shortened to 409 days from 454 days at previous quarter-end. – The decline in portfolio WAM can primarily be attributed to the combination of (1) holding the majority of previously purchased longer-term securities and allowing them to naturally shorten in maturity and (2) focusing new purchases during the quarter in short-term federal agency discount notes with maturities in the 6 to 9 month maturity range. – The County’s allocation to securities in the 6 to 12 month range increased to 23% from 16% at previous quarter-end. • The overnight State LGIP continues to offer attractive value relative to other short-term Treasury and agency securities in the 0 to 3 month space and high-quality, short-term corporate issuers offer significant value relative to similar maturity government securities in the 0 to 12 month space.
Liquidity	• The County Pool appears to provide adequate liquidity, both in terms of final maturities and the sectors in which the Pool has invested. In addition to the 11.5% invested in a combination of the Washington State LGIP and bank deposits (overnight liquidity), an additional 10.6% of the portfolio’s holdings are scheduled to mature within the next thirty-one days. • Based on historical cash flow patterns, the Pool would expect a decrease in funds for the first quarter. On average, over the past four years, the County has experienced an average net cash outflow of $193 million in quarters ended March 31st.

Maturity Distribution as of December 31, 2014

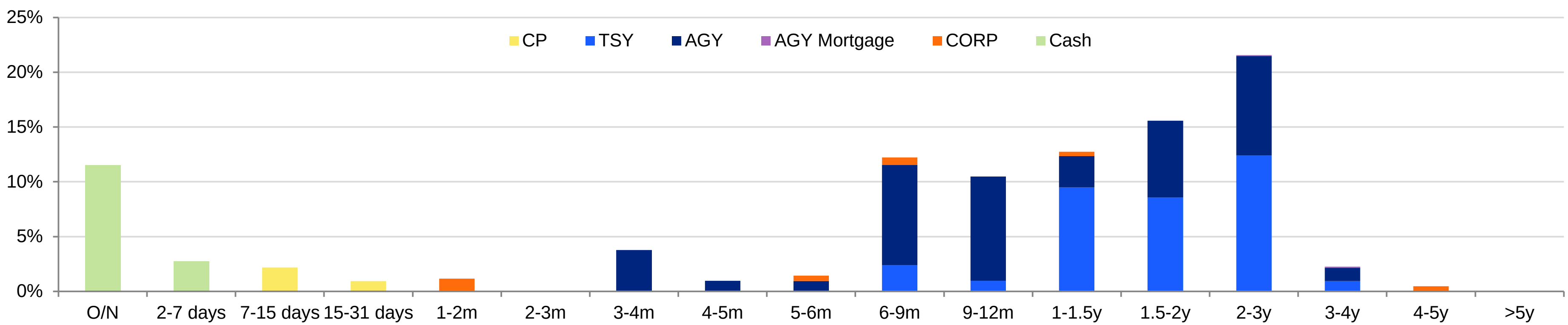


- Agency Mortgage maturities are calculated as average life. Average life data taken from Bloomberg Financial Markets
- Callable securities shown to their call date.
- All other security maturities are calculated as days to maturity. WA LGIP is considered to have a one day maturity.

V. Duration Distribution

Duration Distribution	Observations
Definition	• Duration is a measure of the sensitivity of the value of principal of an investment to a change in interest rates. For example, the value of a portfolio with a higher duration is more sensitive to interest rate increases and decreases. • Duration is often quoted in years and is commonly used as a measure of the market risk of a security or portfolio. Duration can be derived in a number of ways; please refer to the notes at the bottom of this page for details.
Duration	• As of December 31st, the duration of the County Investment Pool is 1.26 years, a decrease from a duration of 1.42 years on September 30th. – The decrease in portfolio duration can be attributed to the combination of (1) the natural shortening of previously purchased securities and (2) new federal agency discount notes targeted to 6 to 9 month maturities totaling approximately $440 million. – When comparing the weighted average duration of the aggregate portfolio to the WAM of the portfolio, it is observed that the duration (1.26 years) exceeds the WAM (1.12 years) by approximately 0.14 years. – While this difference in duration and WAM has been narrowing over the past several quarters (due to declining overall allocations to callable agencies), the difference is still observable and is primarily attributed to the County’s allocations to callable federal agency securities. – For example, when viewing the comparison of weighted average duration of callable securities (2.13 years) to the WAM of callable securities calculated to their next call date (0.36 years), the weighted duration exceeds the WAM quite markedly. – However, when viewing callable securities to their anticipated call date (that is, a security with a price over 100 would be called and a price of less than 100 would not be called), the WAM of callable securities increases notably from 0.36 years to 2.78 years, and the WAM of the overall portfolio would lengthen to 1.33 years. – The rationale behind the difference is that the recent increase in fixed income yields over the past several quarters has reduced the likelihood that callable securities will be called. That is, as yields increase and prices decrease, the likelihood that a callable security gets called at its next call date decreases. Hence, the duration of callable securities increases.

Duration Distribution as of December 31, 2014



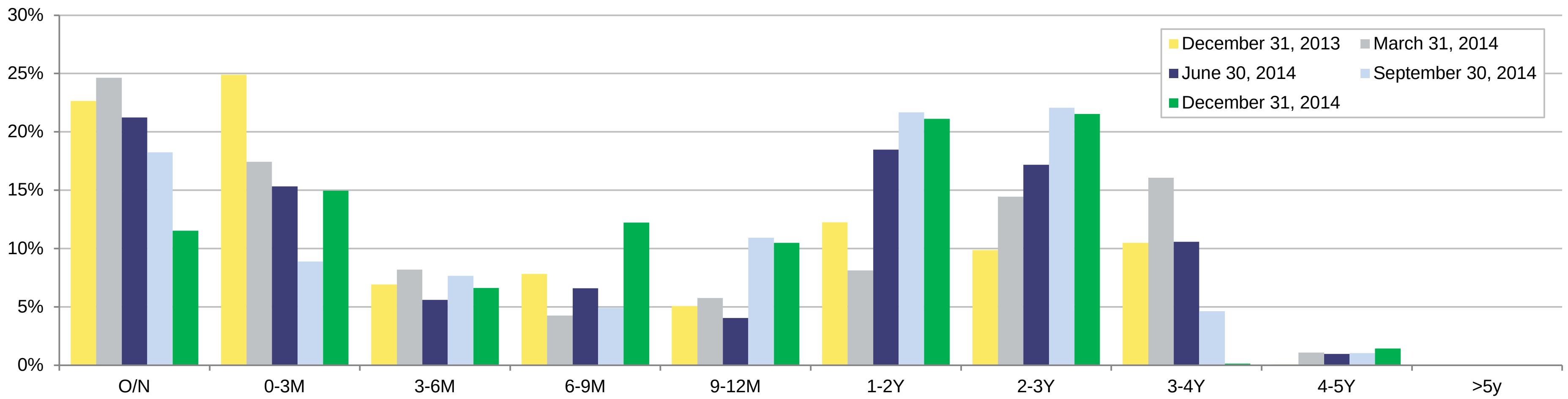
• Agency Mortgage durations are shown as effective duration taken from Bloomberg Financial Markets.
• Duration for Federal Agency Discount Notes and Repurchase Agreements are calculated as days to maturity. WA LGIP and bank deposits considered to have a one day duration.
• All other security durations are calculated as effective duration as given by Bloomberg Financial Markets.

V. Changes in Portfolio Maturity Distribution

Changes in Portfolio Maturity Distribution

- Securities are well diversified by maturity, and range from overnight to nearly five years in maturity (viewing callable securities to their call dates and mortgage securities on an average life basis).
- When viewing the current maturity distribution (dark green bars) in relation to previous periods, a few primary observations are noted:
  - Approximately 2 to 3 quarters ago, the County targeted tactical allocations to the very steep "3-4 Year" maturity range, and over the past few quarters those securities have been held, rolling down the yield curve and naturally shortening in duration.
    - This strategy has benefitted the portfolio relative to the County's blended benchmark longer-term component (60% Bank of America/Merrill Lynch 1-3 Year Treasury Index), as the performance of securities with maturities greater than 3 years have dominated their shorter-term counterparts over the past 12 months.
    - For example, the Bank of America/Merrill Lynch 1-5 Year Treasury Index generated a total return of 1.24% over the past 12 months ended December 31, 2014 versus the 1-3 Year Treasury Index return of 0.62% over that same period.
  - Increased yields during the quarter of short-term federal agency discount notes (notably 6 to 9 month maturities) provided the County the opportunity to modestly extend shorter-term maturities (overnight to 3 months) and add incremental income to the portfolio and value relative to the benchmark.
    - For example, the County's blended benchmark contains a short-term component (40% 90-Day Treasury Bill Index) and the yield difference between a 9-month agency and a 3-month agency as of December 31, 2014 was 0.16%.
- Seasonality of cash flows is critical to maturity distribution and liquidity management and the following is a snapshot of the historical cash flow averages for upcoming quarters.
  - Over the past four years, for the quarters ending March 31st, the average net **outflow** in the Investment Pool was $193 million.
  - Over the past four years, for the quarters ending June 30th, the average net **inflow** in the Investment Pool was $443 million.

Maturity Distribution December 31, 2013 to December 31, 2014



- Agency Mortgage maturities are calculated as average life. Average life data taken from Bloomberg Financial Markets
- Callable securities shown to their call date.
- All other security maturities are calculated as days to maturity. WA LGIP is considered to have a one day maturity.

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