King County Investment Pool

Portfolio Review

Quarter Ended June 30, 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 March 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 June 30, 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. • As with previous reports, 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 U.S. economy contracted by almost 3% in the first quarter of the year, impacted in large part by severe winter weather, but early indicators point to a stronger second quarter. The labor markets continued to progress in June creating 288,000 new jobs and surpassing the pre-recession peak in payroll numbers; unemployment rate fell to 6.1%. • The Federal Reserve noted that growth in economic activity had picked up recently, after having slowed sharply during the winter and , as a result, the FOMC announced a further reduction in its bond-purchasing program, now down to $35 billion a month. The next FOMC meeting is July 29th and 30th. • After declining through April and May, US Treasury yields for short and intermediate maturities rose in June, as improving economic data points to a stronger second quarter. Longer maturities were less impacted relative to their shorter-term counterparts.
Observations	• The portfolio is comprised of high quality securities. The majority of securities 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, bank deposits). • The County’s Investment Pool balance (market value) experienced a net increase of approximately $674 million over the quarter. Of the approximately $674 million balance increase, approximately two-thirds of that increase was allocated to US Treasury securities ($477 million) and the majority of the remaining balance allocated to Federal Agency securities ($215 million). Commercial Paper allocations were also increased modestly ($3 million). Minor allocation declines were experienced in Cash and Equivalents ($17 million) and Repurchase Agreements ($5 million). • Overnight cash balance (cash equivalents and State LGIP) allocations modestly declined over the quarter, but their absolute dollar balances were relatively unchanged at approximately $898 million versus $914 million for the previous quarter-end, which maintains ample liquidity for the County’s upcoming net outflow period historically experienced in September quarter-end. On average, over the past five years, the County Pool has experienced a net balance decrease of $280 million for September quarter-ends. • During seasonal periods of historically large net balance increases, the County’s portfolio benefits from the ability to utilize a portion of cash influx to reinvestment and lock-in yields of longer-dated securities aligned to future cash flow periods. The County performed a majority of maturity extensions over the previous quarter-ended March 31st in an anticipation of higher available cash balances historically experienced in June quarter-ends. Due to this strategy, the WAM of the portfolio was maintained and relatively unchanged over the quarter at 432 days (versus 435 days on March 31st) as the County captured the value in both (1) the opportunity to extend maturities as a result of seasonality and (2) increased Treasury yield levels as a result of Fed maintenance of bond purchase tapering. • As of June 30th, the duration of the County Investment Pool is 1.35 years, down only modestly from a duration of 1.43 years on March 31st. The minor decrease in portfolio duration can be attributed to the increase in new federal agency security purchases made during the quarter targeted to maturities in the 6- to 18-month maturity range, while US Treasury purchases targeted in the 1.5 to 3 years portion of the yield curve helped balance shorter agency purchases and buoy the County’s overall duration near 1.4 years.

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 30, 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.

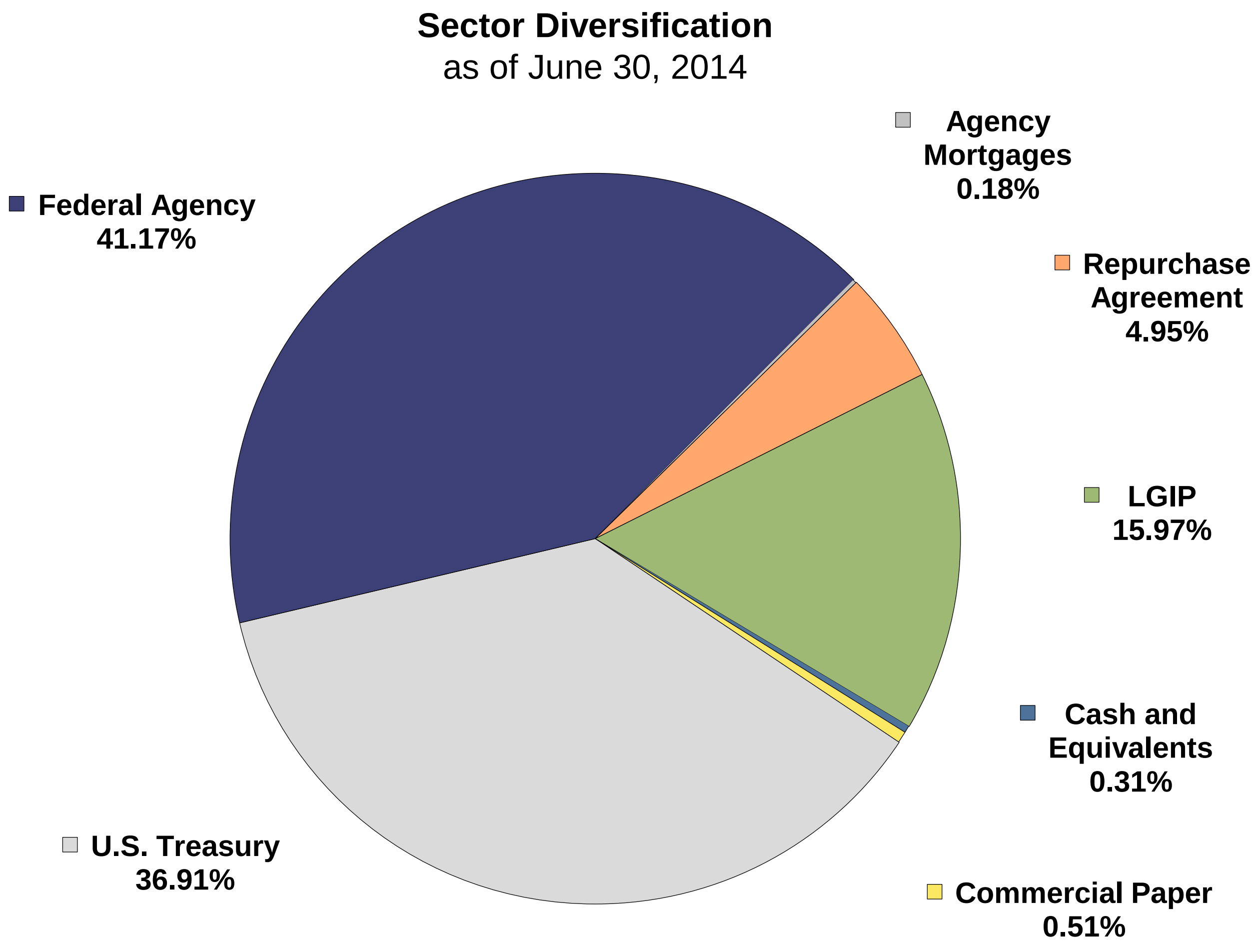
I. Investment Policy Compliance – County Investment Pool

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) experienced a net increase of approximately $674 million over the quarter. • Seasonality of the County's quarter-end balances indicates a historically large balance increase for the quarter-ended June. For example, over the past five years (including June 2014), the County's Pool balance has increased, on average, by $431 million each quarter-ended June. In fact, this most recent quarter-ended June 2014 represents the largest quarter-over-quarter increase in balance ($674 million) dating back to at least March 2008. • Of the approximately $674 million balance increase, approximately two-thirds of that increase was allocated to US Treasury securities ($477 million) and the majority of the remaining balance allocated to Federal Agency securities ($215 million). Commercial Paper allocations were also increased modestly ($3 million). Minor allocation declines were experienced in Cash Equivalents ($17 million) and Repurchase Agreements ($5 million). • Further, the County's current allocation to US Treasuries ($2.0 billion) is at its highest absolute dollar amount since March 2011.
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 three-fourths 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, which is not rated; however, 78% of the LGIP is invested in U.S. Treasuries or Federal Agencies. • The County's Cash Equivalents (bank deposits) are collateralized by high quality securities. • The Pool also continued to maintain allocations to high-quality Proctor & Gamble commercial paper (rated A-1+ by Standard & Poor's and P-1 by Moodys) totaling approximately 0.51% of the total portfolio.
Maturity Distribution	• All maturities fall within the maturity limits set forth in the County's Investment Policy. Maturities range from 1-day (the Washington State LGIP, bank deposits, and repurchase agreements) to a US Treasury Note with a maturity date of December 31, 2018 (4.5 years). Approximately 53% of the County's assets mature in one year or less and approximately 42% of the portfolio will mature within the next six months.

Security Type	Market Value($)	Allocation Percentage	Within Policy Limits	Max Maturity Held	Within Policy Limits
Cash Equivalents	17,020,029	0.31%	✓	1 day	✓
Commercial Paper	28,097,869	0.51%	✓	22 days	✓
Repurchase Agreements	273,000,000	4.95%	✓	1 day	✓
LGIP	880,985,384	15.97%	✓	1 day	✓
Federal Agencies (non MBS)	2,270,666,394	41.17%	✓	3.90 years	✓
Agency Mortgages	9,840,943	0.18%	✓	4.25 years (WAL)	✓
Certificates of Deposit	0	0.00%	✓	N/A	✓
Municipal Bonds	0	0.00%	✓	N/A	✓
U.S. Treasury	2,035,672,500	36.91%	✓	4.51 years	✓

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

II. Sector Allocation



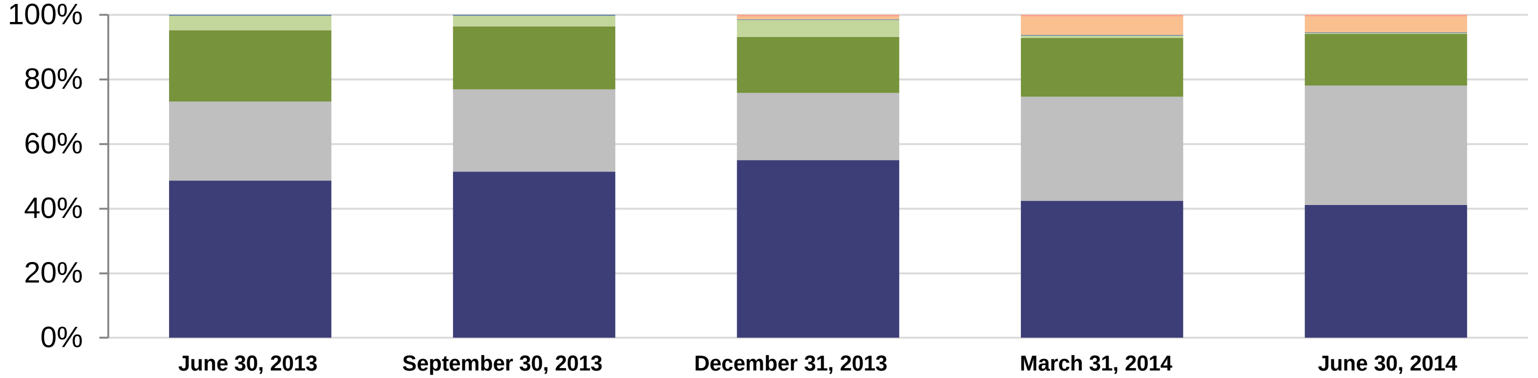
**Percentages may not total to 100% due to rounding.*

II. Changes in Portfolio Sector Allocation Over Past 12 Months

Changes in Sector Allocation

- The County's investment pool generally maintained percentage allocations relatively consistent over the quarter.
  - The large seasonal net balance increase for the quarter afforded the County the opportunity to increase allocations to fixed-rate investments, including US Treasury and Federal Agency securities (approximately +3% over the quarter in aggregate), while modestly underweighting overnight cash vehicles such as allocations to Cash Equivalents (-0.4%) and the State LGIP (-2.2%).
  - Most notably, US Treasury allocations have been consistently on the rise over the past three quarters increasing from 20% in December 2013 to 32% in March 2014 to 37% on June 2014.
- While overnight cash balance (Cash and LGIP) allocations modestly declined over the quarter, their absolute dollar balances were relatively unchanged at approximately $898 million versus $914 million for the previous quarter-end, which maintains ample liquidity for the County's upcoming net outflow period historically experienced in September quarter-end.
  - On average, over the past five years, the County Pool has experienced a net balance decrease of $280 million for September quarter-ends.
- After several quarters of zero balances in repurchase agreements, the County has found value in this sector for the second consecutive quarter, as allocations were maintained at approximately 5% of the Pool's assets over the quarter.

Sector Allocation June 2013 – June 2014



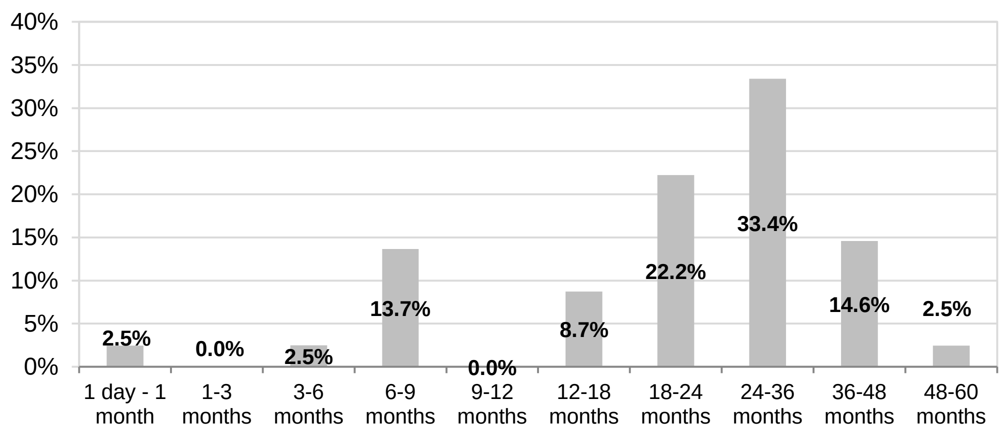
	June 30, 2013	September 30, 2013	December 31, 2013	March 31, 2014	June 30, 2014
Federal Agencies	48.74%	51.48%	54.99%	42.45%	41.17%
U.S. Treasury	24.46%	25.50%	20.89%	32.19%	36.91%
Washington State LGIP	22.09%	19.44%	17.35%	18.19%	15.97%
Cash and Equivalents	4.44%	3.32%	5.19%	0.70%	0.31%
Agency Mortgages	0.27%	0.26%	0.22%	0.21%	0.18%
Municipal Notes	-	-	-	-	-
Repurchase Agreements	-	-	0.88%	5.74%	4.95%
Commercial Paper	-	-	0.49%	0.51%	0.51%

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

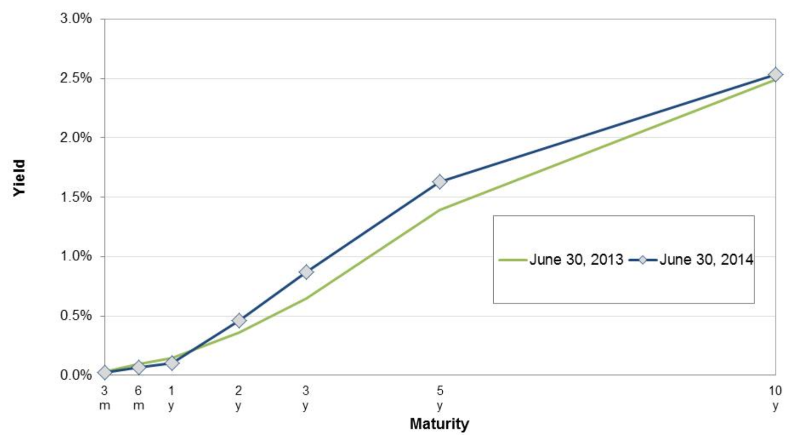
II. Sector Allocation – U.S. Treasury Securities

Topic	Observations
Observations	• As mentioned, the County's overall allocation to U.S. Treasuries increased to 36.9% of the total portfolio, compared to 32.2% at the end of the previous period. This percentage increase to the Treasury sector translates to a net increase of approximately $477 million. • The County's allocation to US Treasuries is now at its highest level ($2.0 billion) dating back to March 2011. • It appears that the majority of this increase can be directly attributed to securities with remaining maturities in the 1.5 to 3 year maturity range. This portion of the yield curve (as illustrated in the chart below), has experienced a very noticeable increase in yield relative to US Treasury levels one year ago on June 30, 2013. – The combination of Federal Reserve monthly bond purchase tapering and steadily improving US economic activity (despite 1Q14 GDP decrease), has pushed US Treasury yields (on maturities greater than one year) gradually and consistently higher over the past several months, increasing the value and attractiveness of US Treasury notes in the 1.5 to 5 year maturity range. • The County's weighted average maturity (WAM) of its Treasury allocation was maintained near two years over the quarter, with the WAM decreasing only modestly (80 days) from 799 days on March 31st to 719 days on June 30th. • As mentioned in prior reports, interest rates for short-term Treasuries (1 year or less) continue to trade in a low, tight range, primarily as a result of Federal Reserve's (Fed) overnight interest rate target range of 0% to 0.25%. There is little value currently available in this space, as other investment options, most notably money market funds, LGIPs, and short-term credit securities offer value relative to Treasuries with maturities in the 0 to 9 month space. – Of the County's allocation to US Treasuries, less than 20% is invested in securities with remaining maturities of less than 12 months. • Meanwhile, intermediate- to longer-term maturity Treasuries (2-5 years) have incrementally higher value (as shown in the chart below on the right) as the steepness of the Treasury yield curve in these maturities continues to steepen (becoming more attractive) as Fed bond purchase tapering is reinforced at each meeting. • The majority of the County's allocations to US Treasury securities continue to target the steepest portions of the US Treasury yield curve.

U.S. Treasury Maturity Distribution as of June 30, 2014



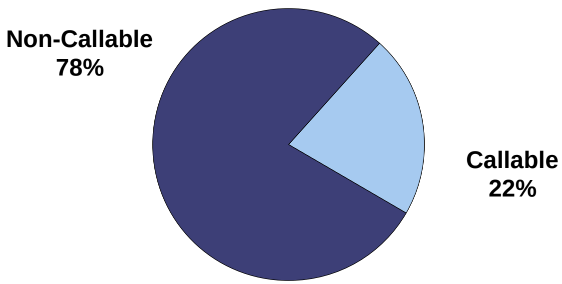
U.S. Treasury Yield Curve June 30, 2014 versus June 30, 2013



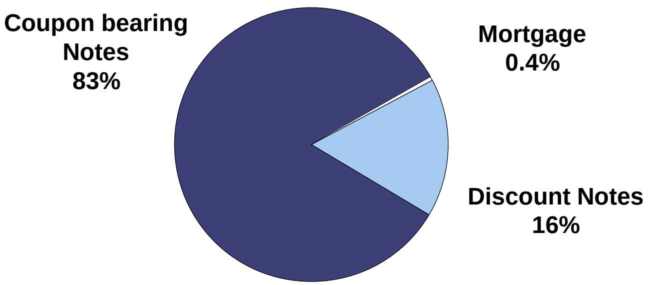
II. Sector Allocation – Federal Agencies

Topic	Observations			
Structure *(as % of Federal Agency Allocations)*	• Non-Callable • Callable	78% 22%	• Discount Notes • Coupon bearing Notes • Agency Mortgage	16% 83% <1%
Diversification *(as % of Federal Agency Allocations)*	• Freddie Mac (FHLMC) • Federal Home Loan Bank (FHLB) • Fannie Mae (FNMA)	27% 39% 19%	• Federal Farm Credit Bank (FFCB) • Freddie Mac Mortgage-Backed (FHR) • Fannie Mae Mortgage-Backed (FNR)	15% 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 $215 million over the quarter; however, due to a more significant portion of the net balance increase being allocated to US Treasury securities, the County's percentage allocation to federal agency securities actually fell approximately 1.4%. • As mentioned in previous reports, the recent trend of shifting allocations to Treasuries relative to federal agencies could be largely due to Treasury/agency spreads at historically very tight levels and, in some cases, agencies having yields below comparable Treasury securities. – Nevertheless, allocations to the federal agency sector still remain the largest portion of the County's portfolio, totaling approximately $2.3 billion or 41.2% of the total portfolio. – The difference in dollars allocated to agencies relative to US Treasuries is $234 million. This amount represents the smallest difference between the two sectors in the County's portfolio since March 2011 (at that time Treasuries outweighed Agencies in the portfolio 46%/32%). • From a security structure standpoint, the ratio of non-callable to callable securities shifted noticeably in favor of non-callable structures over the quarter, from 71%/29% previously to 78%22% currently. No other significant federal agency allocation changes occurred over the quarter. • The County Pool's only remaining allocation to Agency mortgages is in Fannie Mae pools, totaling approximately $9.8 million.			

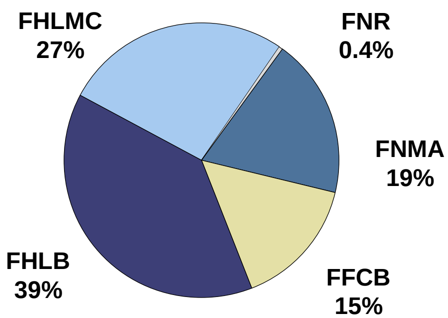
Callable vs. Non-Callable
as of June 30, 2014



Structure Distribution
as of June 30, 2014



Issuer Diversification
as of June 30, 2014



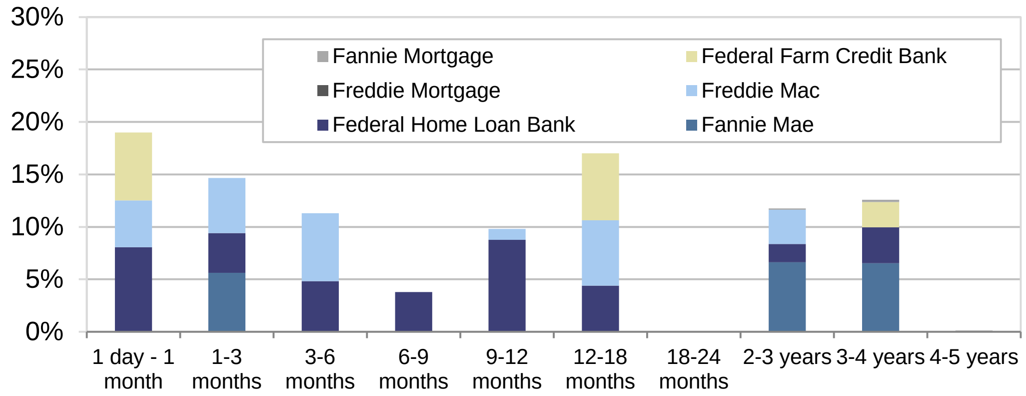
**All calculations above are based on total cash equivalents exposure, not overall Portfolio.*
***Percentages may not total to 100% due to rounding.*

II. Sector Allocation – Federal Agencies

Topic	Observations

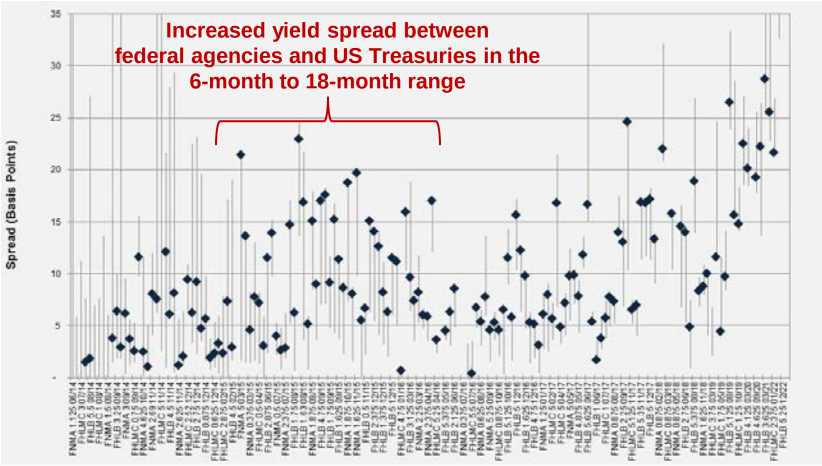
Maturity Distribution	• The County's Federal Agency maturity distribution falls within the limits set forth by its Investment Policy Statement.
	• Federal Agency securities are diversified between maturities of less than two weeks to 3.9 years (viewing callable securities to their call dates). Weighted average life for mortgage-backed Federal Agencies ranges from 2.5 years to 4.3 years.
	• Over the quarter, the County's weighted average maturity (WAM) of Federal Agency allocations was relatively unchanged, decreasing slightly by approximately 13 days, from 416 days on March 31st to 403 days on June 30th.
	• As mentioned, the Pool's allocation to federal agencies experienced a net increase of approximately $215 million over the quarter. Despite the unchanged WAM of the County's federal agency holdings over the quarter, the combination of new purchases and natural shortening of agency holdings as they approach maturity resulted in noticeable changes to the County's agency maturity distribution.
	  – The County's March 31st agency maturity distribution was more pronouncedly "barbelled" with concentrated allocations in the "2 to 4 year" and "1 day to 3 month" ranges, and relatively smaller balances in the "6 month to 18 month" maturity ranges.
	  – By June 30th, the agency maturity distribution shifted shorter, as new agencies appeared to be targeted in the "6 month to 18 month" range, while agency allocations in other maturity ranges were generally maintained, but not increased, over the quarter.
	  – The shift in targeted agency maturities can largely be attributed to the additional value found in US Treasuries in the "2 to 4 year" range. Because this maturity range was targeted with the more attractive option available in the US Treasury sector, new agency allocations were focused in the more attractive area of the federal agency curve, or the "6 to 18 month" space.

Federal Agency Maturity Distribution by Name as of June 30, 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.

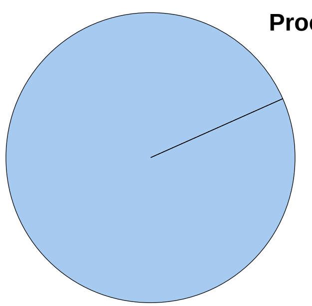
Federal Agency Spreads Relative to US Treasuries as of June 26, 2014



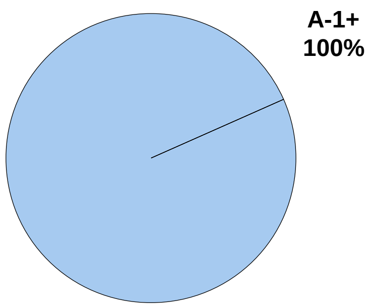
II. Sector Allocation – Commercial Paper

	Observations
Issuer Diversification	• The County maintained allocations to commercial paper totaling approximately 0.51% of the total portfolio over the quarter. • The portfolio owns one commercial paper issuer, Proctor & Gamble, in the amount of approximately $28 million. • It appears that, regularly, the County continues to reinvest the proceeds of a Proctor & Gamble commercial paper maturity (originally purchased in the quarter-ended December 2013) in a new Proctor & Gamble commercial paper issue. While the original purchased maturity term is unknown, it appears that the reinvested maturities are targeted to a one month term. – "Rolling" short-term commercial paper is an attractive investment strategy relative to most other ultra short-term permitted investment options. • The purchase previously made in 4Q13, represented the first time the County invested in commercial paper since at least 2008. • The allocation falls within the permitted investment guidelines of 2.5% per issuer and 25% maximum to the sector.
Credit Distribution	• Standard & Poor's rates Proctor & Gamble's short-term issuer credit as A-1+, the highest short-term rating available.
Conclusions	• Over the past several quarters, high-quality commercial paper has offered noticeable yield advantage relative to similar maturity Treasury and federal agency securities. The County's currently owned commercial paper investment has a yield of approximately 8 basis points and scheduled to mature July 22, 2014. • For perspective (and as shown in the chart below on the right), to match the yield of the County's commercial paper purchase, an agency discount note would need to be purchased at a maturity of 5 to 7 months. • Short-term US Treasury and federal agencies remain near zero levels, largely due to Federal Reserve overnight target rate policy. • As a result, the County's portfolio may benefit from additional, small, tactical allocations to other high-quality commercial paper issuers. • Further, the commercial paper yield curve is much steeper in the 6 to 9 month range, relative to the 1 to 6 month range (chart on far right).

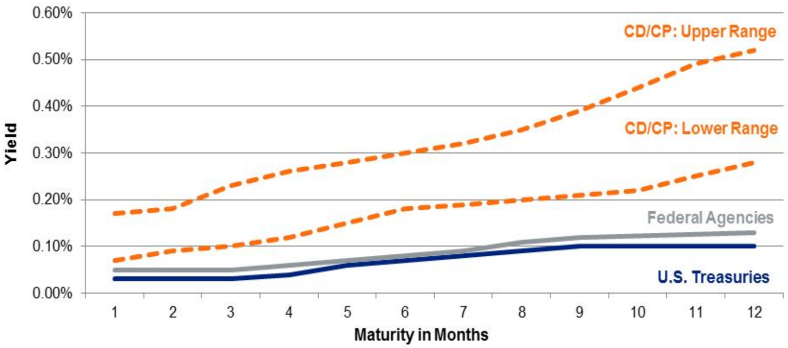
Issuer Distribution
as of June 30, 2014



Credit Distribution
as of June 30, 2014



Current Short-Term Yields
as of June 30, 2014

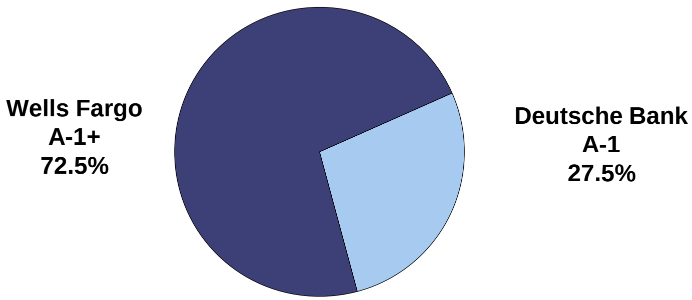


**All calculations above are based on total commercial paper exposure, not overall Portfolio.*
***Percentages may not total to 100% due to rounding.*

II. Sector Allocation – Repurchase Agreements

	Observations
Issuer Diversification	• After several quarters of zero balance allocations to repurchase agreements, the County maintained tri-party repurchase agreement exposure near 5%, but decreasing by $5 million over the quarter (or from 5.7% of the total portfolio on March 31st to 5.0% by June 30th). • The portfolio now owns tri-party repurchase agreements with Wells Fargo Bank ($198 million, up $20 million from previous quarter-end) and Deutsche Bank ($75 million, down $25 million from previous quarter-end). • Both allocations fall within the permitted investment guidelines of 5% per issuer and 40% maximum to the sector.
Credit Distribution	• Standard & Poor's rates Wells Fargo's short-term issuer credit as A-1+ and Deutsche Bank's short-term issuer credit as A-1, both in the top two tiers for available short-term credit ratings. • While each issuer maintains very high-quality ratings from S&P, the ultimate quality of the repurchase agreement depends on the underlying collateral.
Conclusions	• Over quarter, repurchase agreements experienced a modest uptick in yield and value, and traded in a range of 6 to 18 basis points, depending on the underlying collateral of the agreement. • The County appears to have purchased the Wells Fargo and Deutsche Bank tri-party repurchase agreements at yields of 9 and 15 basis points respectively. Each investment, relative to previous quarter-end holdings and yields, increased approximately 1 and 3 basis points, respectively. – For perspective, a federal agency discount note would need to be purchased with a maturity of approximately 6 to 10 months to match the yields of the currently owned overnight repurchase agreements.

Issuer/Credit Distribution
as of June 30, 2014



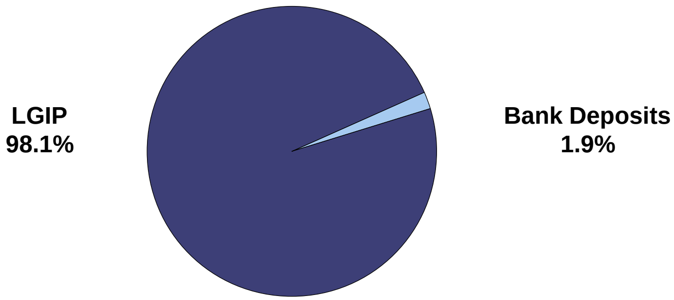
Short-Term Yields
June 2013 through June 2014

All calculations above are based on total repurchase agreement exposure, not overall Portfolio.
***Percentages may not total to 100% due to rounding.*
**** Deutsche Bank and Wells Fargo maintain short-term credit ratings of A-1 and A-1+ by S&P, respectively; however, the ultimate quality of the repurchase agreement depends on the underlying collateral.*

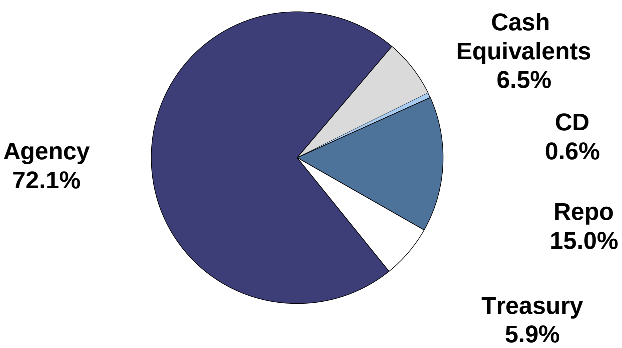
II. Sector Allocation – LGIPs and Cash Equivalents

	Underlying Investments	Rating (Short-Term: S&P/ Moody's/Fitch)	Observations
Washington State LGIP	• Federal Agencies 72.07% • U.S. Treasuries 5.92% • Cash Equivalents 6.46% • Certificates of Deposit 0.55% • Repurchase Agreements 15.00% *As of June 30, 2014*	• N/A	• The County currently has allocated $881 million to the Washington State LGIP, relatively unchanged from the previous period. • The County's allocation to the State LGIP continues to serve as the primary overnight liquidity vehicle for the portfolio. • Most notably over the quarter, the LGIP increased allocation to federal agency discount notes quite significantly (+20.5%), while decreasing most other asset classes. Those sectors experiencing the largest decline over the quarter were repurchase agreements (-6.0%) and US Treasuries (-8.7%). • It can be noted that the State LGIP is not permitted to purchase maturities beyond 397 days, hence the low allocation to US Treasuries and increased exposure to agency discount notes.
Cash Equivalents	• State LGIP 98.10% • U.S. Bank 1.64% • Key Bank 0.20% • Bank of America 0.06% *As of June 30, 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. • Over the quarter, the County reduced bank deposits by approximately $16.7 million. • It appears of late the County has targeted smaller balances in overnight bank accounts and has sought to reallocate this cash into the State LGIP, repurchase agreements, and/or high-quality commercial paper.

Cash Equivalents Distribution as of June 30, 2014



Washington State LGIP Sector Distribution as of June 30, 2014

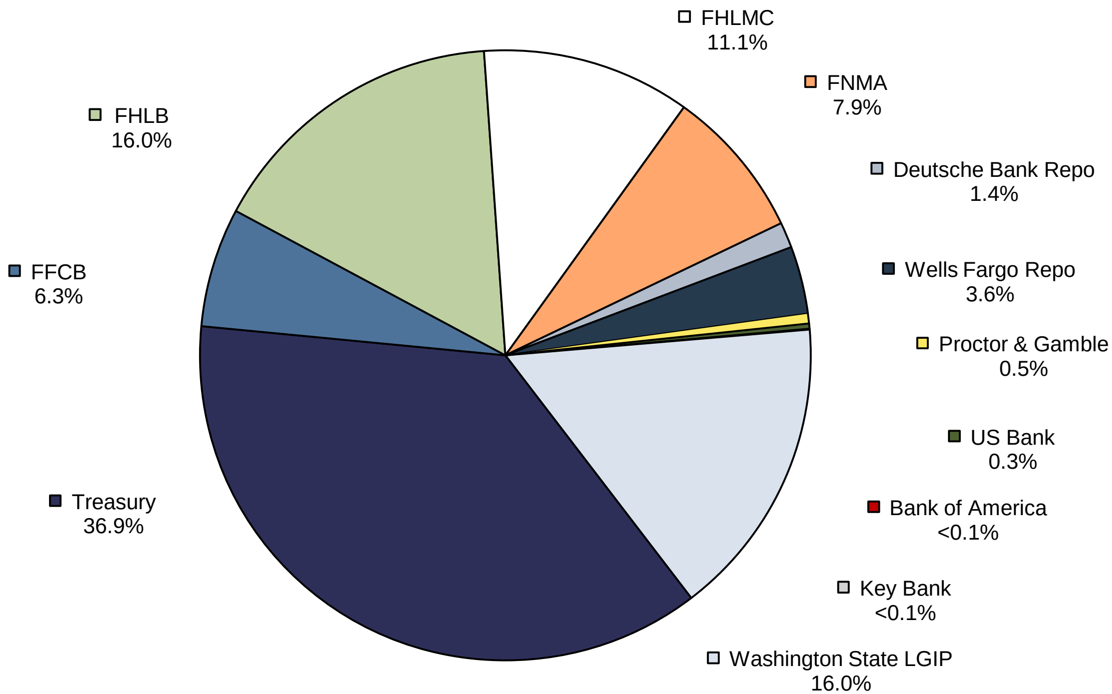


**All calculations above are based on total cash equivalents exposure, not overall Portfolio.*
***Percentages may not total to 100% due to rounding.*

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 twelve (12) individual issuers.
- Approximately 78.3% of the portfolio is allocated directly to U.S. government guaranteed or government supported entities.
- The majority of the remaining 21.7% of assets (20.9%) are allocated to the Washington State LGIP and repurchase agreements. Both types of investments provide overnight liquidity.
- 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 90.7%.
- No new issuers were added to the portfolio during the quarter.



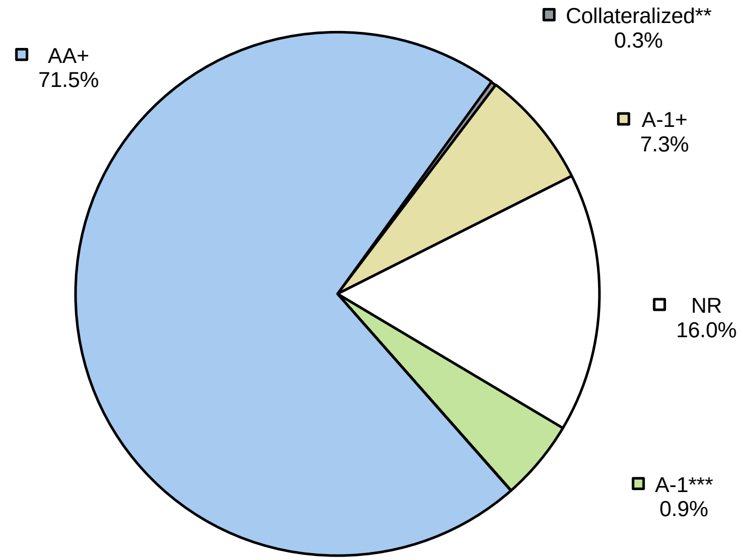
**Percentages may not add to 100% due to rounding.*

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 maintained its direct corporate exposure by reinvesting a Proctor & Gamble commercial paper maturity, into a new Proctor & Gamble CP purchase scheduled to mature on July 22, 2014.
  - As mentioned previously, high-quality commercial paper securities offer additional value in the current market relative to a majority of other short-term fixed income investment options, where quality supply exists.
  - Proctor & Gamble maintains a short-term credit rating of A-1+ by S&P and P-1 by Moodys.
- The County also maintained repurchase agreement allocations with Wells Fargo and Deutsche Bank tri-party repurchase agreements.
  - Wells Fargo maintains a short-term credit rating of A-1+ by S&P and Deutsche Bank maintains a short-term credit rating of A-1 by S&P; however, the ultimate quality of the repurchase agreement depends on the underlying collateral.
- Further, indirect corporate exposure comes through the County's investment in the Washington LGIP. Through the LGIP, 2.5% 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 also has some slight corporate exposure through its 0.3% 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 16.0% 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 June 30, 2014

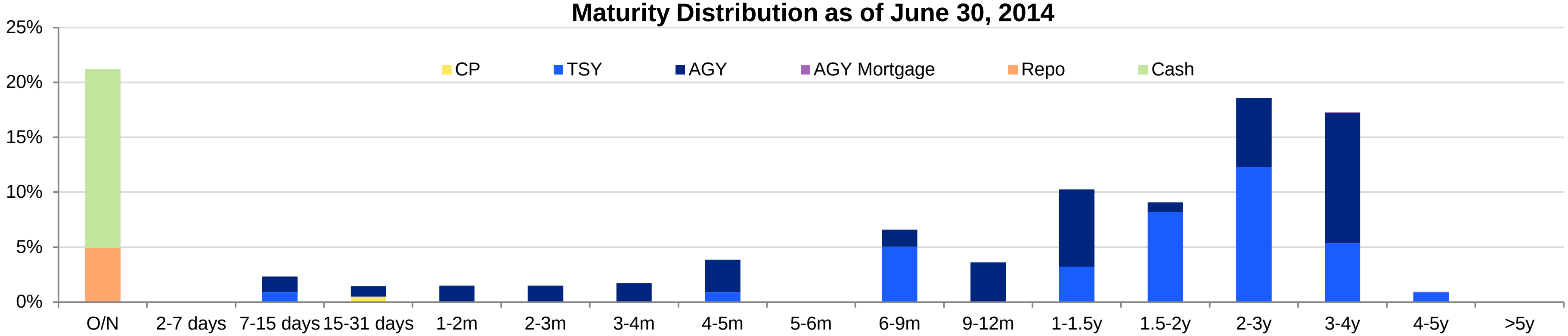


*Ratings by S&P; Percentages may not add to 100% due to rounding.
**Bank ratings of the depositories for the collateralized securities are given on page 11.
*** Deutsche Bank and Wells Fargo maintain short-term credit ratings of A-1 and A-1+ by S&P, respectively; however, the ultimate quality of the repurchase agreement depends on the underlying collateral.

V. Maturity Distribution

Maturity Distribution	Observations
Weighted Average Maturity ("WAM")	• The County continues to diversify holdings among numerous maturity buckets, as seen in the chart below. • A majority of the holdings – 53% of the portfolio – are scheduled to mature or be called within the next twelve months. This percentage is only modestly lower from 60% at the end of the previous quarter. • The County continues to balance (1) longer-dated US Treasury and federal agency purchases with large overnight allocations to the LGIP, bank deposits, and repurchase agreements and (2) relative value among Treasury and federal agency securities along the yield curve where yield spreads warrant over/under-weights to each sector. • During seasonal periods of historically large net balance increases, the County's portfolio benefits from the ability to utilize a portion of cash influx to reinvestment and lock-in yields of longer-dated securities aligned to future cash flow periods. – The County performed a majority of maturity extensions over the previous quarter-ended March 31st (from 353 days in December 2013 to 435 days in March 2014) in an anticipation of higher available cash balances historically experienced in June quarter-ends. – Due to this strategy, the WAM of the portfolio was maintained and relatively unchanged over the quarter at 432 days (versus 435 days on March 31st) as the County captured the value in both (1) the opportunity to extend maturities as a result of seasonality and (2) increased Treasury yield levels as a result of Fed maintenance of bond purchase tapering. • Overnight LGIP, repo, and bank deposits continue to offer attractive value relative to other ultra short-term investment options, most notably Treasury and agency securities in the 0 to 3 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 21.2% invested in a combination of the Washington State LGIP, bank deposits, and repurchase agreements (overnight liquidity), an additional 9.2% of the portfolio's holdings are scheduled to mature within the next thirty-one days. • High-quality commercial may help add incremental earnings to the County's portfolio relative to similar maturity US Treasury and federal agency securities in the 1- to 9-month maturity range.

Maturity Distribution as of June 30, 2014

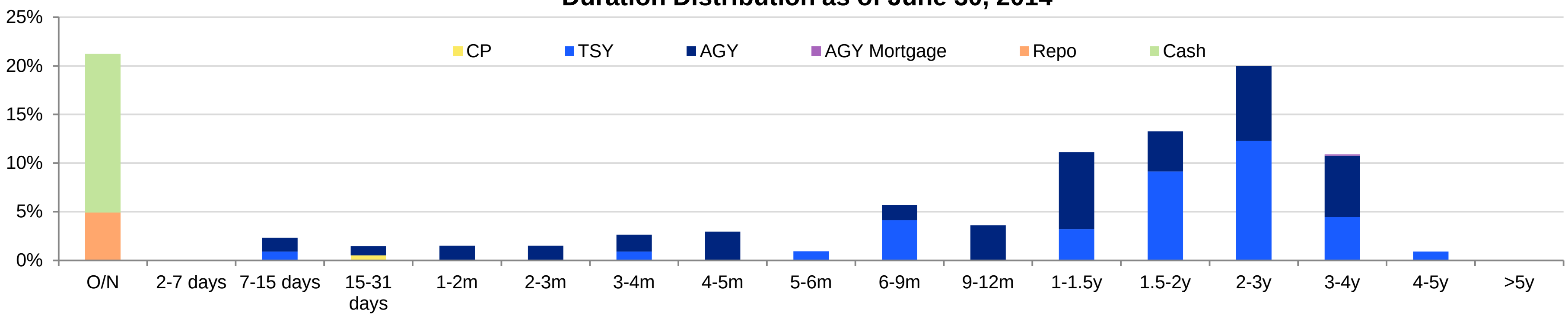


- Agency Mortgage maturities are calculated as average life. Average life data taken from Bloomberg Financial Markets
- Callable securities shown to their call date.
- All other security maturities are calculated as days to maturity. WA LGIP is considered to have a one day maturity.

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 measured in years and is commonly used as a measure of market risk. 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 June 30th, the duration of the County Investment Pool is 1.35 years, down only modestly from a duration of 1.43 years on March 31st. – The minor decrease in portfolio duration can be attributed to the increase in new federal agency security purchases made during the quarter targeted to maturities in the 6- to 18-month maturity range. Meanwhile, US Treasury purchases targeted in the 1.5 to 3 year portion of the yield curve helped balance shorter agency purchases and buoy the County's overall duration near 1.4 years. – When comparing the weighted average duration of the aggregate portfolio to the WAM of the portfolio, it is observed that the duration (1.35 years) exceeds the WAM (1.18 years) by approximately 0.17 years. – The majority, if not all, of the difference can be attributed to the County's allocations to callable federal agency securities. When viewing the comparison of weighted average duration of callable securities (2.10 years) to the WAM of callable securities (0.13 years), it is observed that the weighted duration exceeds the WAM quite markedly. o It can be noted that this difference has decreased quite noticeably over the past several quarters as allocations to federal agency callable securities have decreased. – 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 0.13 years to 3.16 years, and the WAM of the overall portfolio would lengthen to 1.46 years. – The rationale behind the difference is that the recent increase in fixed income yields over the past few 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 June 30, 2014



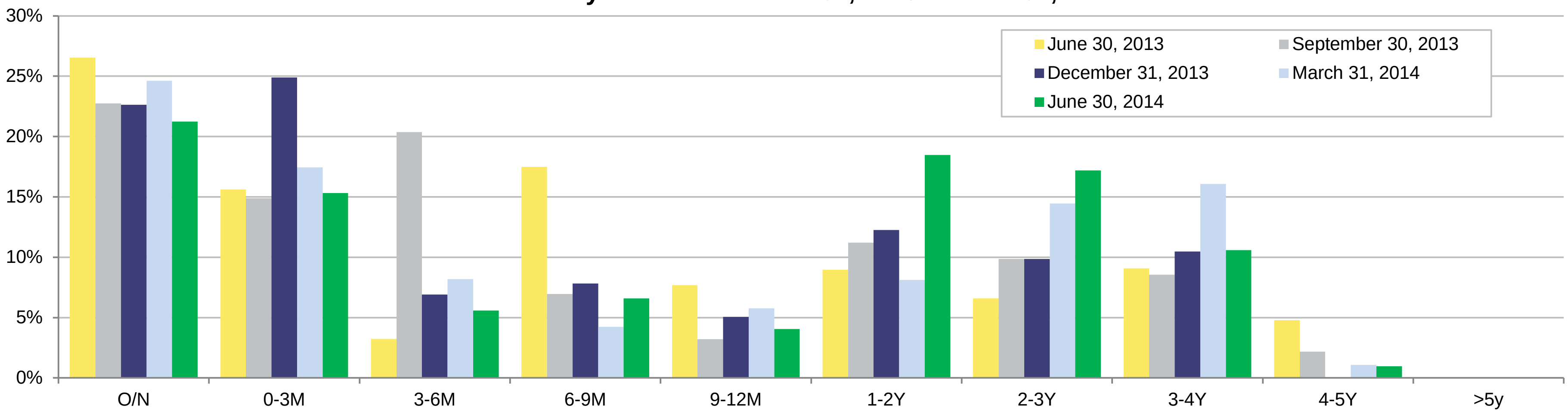
- Agency Mortgage durations are shown as effective duration taken from Bloomberg Financial Markets.
- Duration for Federal Agency Discount Notes and Repurchase Agreements are calculated as days to maturity. WA LGIP and bank deposits considered to have a one day duration.
- All other security durations 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).
- As mentioned previously, when viewing the current maturity distribution (dark green bars) in relation to the past four quarter-ending portfolio structures, it is quite visible the apparent shift to a more well-defined barbelled maturity structure: concentrated allocations in the short-end (O/N to 0-3M) and longer-end (1-2Y, 2-3Y, and 3-4Y) and smaller allocations in the middle-maturity ranges (3-6M, 6-9M, and 9-12M).
  - In the current market environment, striking a balance between liquidity and longer-term investments continues to be important, as the cost of liquidity is near an all-time high as the Federal Reserve continues to pressure short-term yields to near zero as a result of its overnight target rate policy. Further, this policy is not expected to change until the middle of 2015.
  - As noted previously, the County may be able to add value and incremental interest earnings to the portfolio through additional allocations to high-quality commercial paper issuers in the 3 to 9 month maturity range.
- Seasonality of cash flows is critical to maturity distribution and liquidity management. That is, in high net inflow periods, the County is afforded the ability to use excess cash influx to lock-in longer-dated, potentially higher yielding, fixed income securities aligned to future cash flow dates. The converse is true for high net outflow periods, where reinvestment opportunities may not be as plentiful (as cash is required to fund expected larger outflows). Looking at upcoming quarters:
  - Over the past four years, for the quarters ending September 30th, the average net outflow in the Investment Pool was $280 million.
  - Over the past four years, for the quarters ending December 31st, the average net inflow in the Investment Pool was $298 million.

Maturity Distribution June 30, 2013 to June 30, 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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