King County Investment Pool

Portfolio Review

Quarter Ended June 30, 2015

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 2015 review. Our approach included a detailed portfolio analysis and Investment Policy Compliance review, based on the County's Investment Policy, dated June 2015. • Our analysis was based on the Investment Pool's holdings as of June 30, 2015, 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	• Throughout the quarter, improving U.S. economic conditions contrasted with global economic uncertainty, particularly the deteriorating negotiations between Greece and its international creditors, which came to a vital impasse at the end of the quarter. • Market participants continued to weigh the impact that adverse global economic conditions would have on the interest rate setting policies of the Federal Open Market Committee (FOMC). • For the first quarter of 2015, gross domestic product (GDP) declined by 0.2%. While estimates initially reflected a larger decline, increases in consumer spending and inventories contributed to the upward revision. Meanwhile, the labor market and housing sectors continued to improve. • The FOMC kept the federal funds target rate unchanged for the quarter. While the FOMC's statement left open the possibility of an interest rate increase in the latter half of 2015, this policy decision will depend on labor market conditions and inflation expectations. • Treasury yields reacted differently across the curve: shorter yields nudged higher, while longer yields increased more noticeably resulting in a steeper curve.

Observations	• The portfolio is of very high credit quality. The majority of securities (92%) are explicitly guaranteed or carry a high level of support by the U.S. Government (U.S. Treasury and Federal Agency) and/or possess overnight liquidity (Washington State LGIP, bank deposits, and repurchase agreements).
	• The County's Investment Pool balance (market value) as of June 30, 2015 was $5.7 billion and experienced a net increase of approximately $588 million over the quarter, following a $228 million decrease from the prior quarter-end.
	• Notable sector allocation shifts over the quarter included **increases** to federal agencies ($446 million), corporate bank notes ($158 million), and Treasuries ($88 million) and **decreases** to bank deposits ($55 million) and repurchase agreements ($44 million).
	   – For the fourth consecutive quarter, the portfolio added funds to corporate bank note issuers. This sector now accounts for 7.0% of the overall portfolio totaling $395 million. These investments add great value to the portfolio as their yields are noticeably higher relative to similar maturity government investment options and are all investment grade. The weighted average maturity of these investments is 2.0 years and the weighted average yield is 1.18%. For perspective, the yield on a 2-year Treasury note is 0.65%.
	• Over the past several quarters, the Pool has shifted maturity strategy to reflect a more defensive duration bias in anticipation of the first fed rate hike expected to occur within the relatively near-term. In order to do so, the Pool has removed excess overnight liquidity and reallocated those investments to attractive-yielding 3 to 12 month securities, while simultaneously shortening longer investments from targets in the "3-4 Year" range to the "1-3 Year" range.
	• As of June 30th, the duration of the County Investment Pool is 1.07 years, a slight decrease from a duration of 1.14 years on March 31st. Over the past four quarters, the Pool's duration has gradually been shifted shorter, which appears to reflect a more defensive posture as the potential for the first fed overnight rate hike in over five years looms, as noted above.
	• In anticipation of the upcoming quarter, over the past five years, for the quarters ended September 30th, the average net **outflow** in the Pool was $308 million.
	   – The County Pool appears to provide adequate liquidity, with 10.4% (or $586 million) invested in a combination of the State LGIP, bank deposits, and repurchase agreements (overnight) and an additional 47% (or $2.7 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
- Corporate Bank Notes
- 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 June 24, 2015.

Type	Maximum Portfolio Allocation	Issuer Restrictions	Credit Ratings	Maturity Restrictions
U.S. Treasuries	100%	None	N/A	Up to 5 years
U.S. Agencies	100%	35% exposure to any single Agency	Senior debt obligations issued by any government sponsored enterprise, agency or instrumentality of the United States.	Up to 5 years
Repurchase Agreement	100%	100% for repurchase agreements with the Federal Reserve Bank of New York 25% maximum exposure to any one repo counterparty. For the purposes of aggregating issuers across sectors, overnight repo counterparties are not included.	The counterparty must have: 1. A rating in the highest short-term credit rating category by at least one Nationally Recognized Statistical Rating Organization (NRSRO); and 2. A minimum asset and capital size of $5 billion in assets and $175 million in capital	60 days or less
Reverse Repurchase Agreement	20%	5% per investment dealer	1. rated in the highest short-term credit rating category by at least one NRSRO; and 2. a minimum asset and capital size of $5 billion in assets and $175 million in capital	6 months or less
Local Government Investment Pool ("LGIP")	25%	State of Washington LGIP	N/A	N/A
Bankers' Acceptances	25% When combined with Term Repos (greater than overnight), Certificates of Deposit, Commercial Paper and Bank Notes not to exceed 50% of the Pool assets.	Must be issued by a bank organized and operating in the U.S. Maximum 5% per issuer applied across investment types.	Rated in the highest short-term credit rating category by at least two NRSROs.	Up to 180 days

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

Type	Maximum Portfolio Allocation	Issuer Restrictions	Credit Ratings	Maturity Restrictions
Certificates of Deposit	25% When combined with Banker's Acceptance, Term Repos (greater than overnight), Commercial Paper and Bank Notes not to exceed 50% of the Pool assets.	Must be a public depository in the State of Washington. Maximum 5% per issuer applied across investment types.	See RCW 39.58 of the state Code. If not 100% collateralized, must be rated in the highest short-term rating category by at least one NRSRO. Those institutions not meeting the 100% collateralization or minimum credit requirements may receive deposits up to the FDIC or federally guaranteed amounts.	Up to 1 year
Commercial Paper	25% When combined with Banker's Acceptance, Certificates of Deposit, Term Repos (greater than overnight) and Bank Notes not to exceed 50% of the Pool assets.	Secondary market purchases only. Must be issued by a bank or corporation organized and operating in the U.S. Maximum 5% per issuer applied across investment types.	Purchases with greater than 100 days maturity must have an issuer long-term rating in one of the two highest credit rating categories by one NRSRO. Rated in the highest short-term rating category by at least two NRSROs. If the commercial paper is rated by more than two NRSROs, it must have the highest rating from all of the organizations. State law requires that Commercial Paper be purchased only from dealers.	180 days
General Obligation Municipal Bonds	20%	5% of portfolio: bond issues by pool participants must be purchased on the secondary market only	Rated in at least the highest three long-term rating categories by at least one NRSRO.	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 in any one agency as described in U.S. Agencies above. Full faith and credit MBS are limited to 25%.	Senior debt obligations issued by any government sponsored enterprise, agency or instrumentality of the United States. The securities must pass the Federal Financial Institutions Examination Council ("FFIEC") suitability test, which banks use to determine lowest risk securities.	5 year average life at time of purchase

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

Type	Maximum Portfolio Allocation	Issuer Restrictions	Credit Ratings	Maturity Restrictions
Bank Notes	20% When combined with Banker's Acceptance, Certificates of Deposit, Commercial Paper and Term Repos (greater than overnight) not to exceed 50% of the Pool assets.	Must be issued by a bank organized and operating in the U.S. Maximum 5% per issuer applied across investment types.	Rated in at least the highest three long-term rating categories by at least two NRSROs.	5 years

Additional Notes to the Investment Policy

- The Pool will maintain an effective duration of 1.5 years or less.
- The Pool will maintain at least 40% of its total value in securities having a remaining maturity of 12 months or less.
- Floating rate and variable rate securities are permitted subject to the following criteria:
    1) The rate on the FRN/VRN resets no less frequently than quarterly; and
    2) The FRN/VRN is indexed to a money market rate.

I. Investment Policy Compliance – County Investment Pool

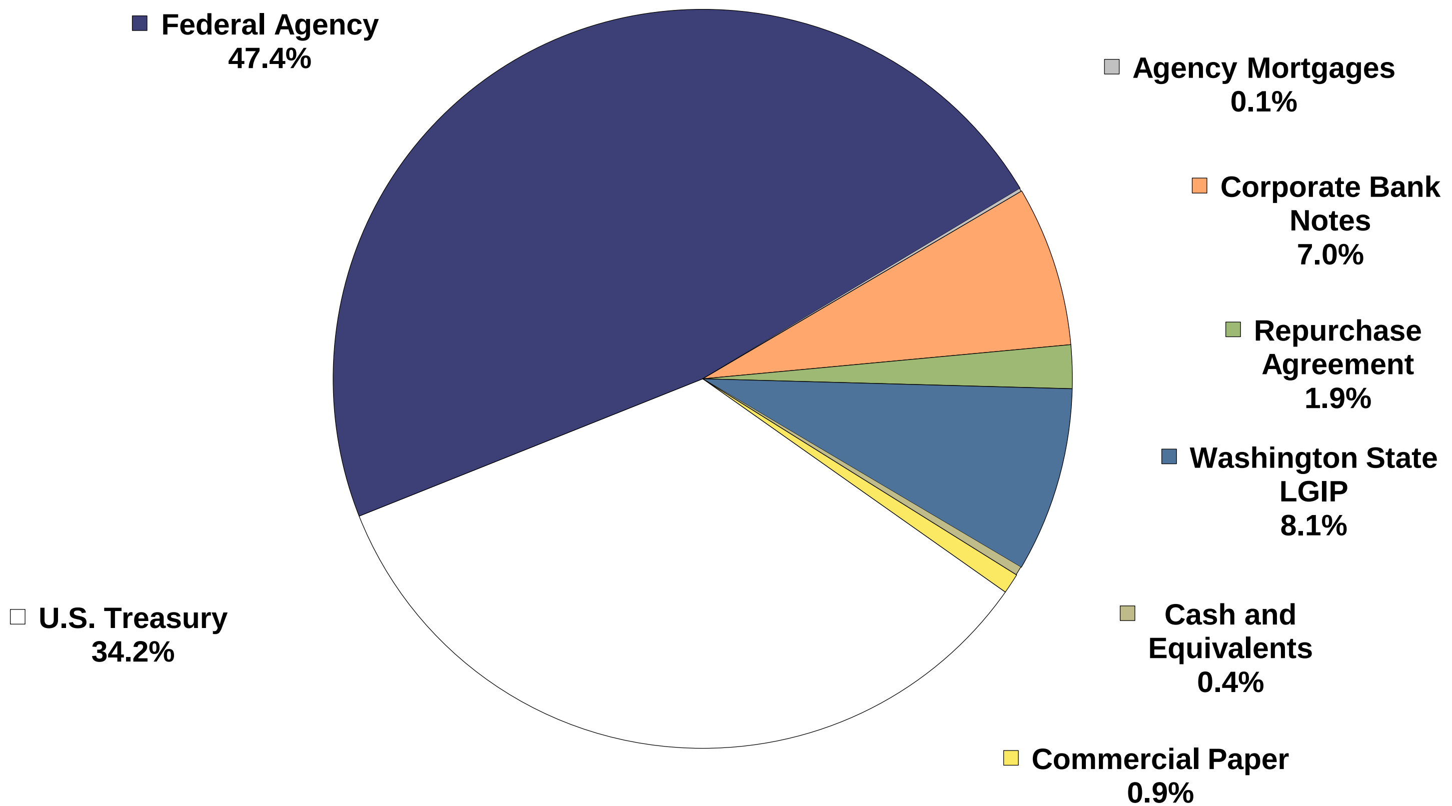
Topic	Observations
Sector Allocation	• All sector allocations fall within the limits set forth by the County's Investment Policy Statement. The Pool is predominantly invested in U.S. government securities which are either explicitly guaranteed or carry a high level of support by the U.S. government. • The County's Investment Pool balance (market value) as of June 30, 2015 was $5.7 billion and experienced a net increase of approximately $588 million over the quarter, following a $228 million decrease from the prior quarter-end. – The seasonality of the County's balances indicates a historical balance increase for the quarter-ended June. For example, over the past five years (including June 2015), the County's Pool balance has increased, on average, by $473 million each quarter-ended June. • Over the quarter, sectors that experienced balance increases, included: federal agencies ($446 million), corporate bank notes ($157 million), US Treasuries ($88 million), and the State LGIP ($176,000). • Sectors that experienced decreases in quarter-over-quarter balances, included: bank deposits ($54 million), repurchase agreements ($44 million), commercial paper ($5 million), and agency mortgages ($452,000). • The County continues to maintain a small tactical allocation to agency mortgage backed securities, but has not purchased new agency MBS in several quarters. On average, over the past four quarters, federal agency MBS paydowns have totaled $478,000 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 82% 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 (8%), which is not rated; however, 69% of the LGIP is invested in U.S. Treasuries or Federal Agencies. • Corporate allocations (both commercial paper and corporate bank notes) were increased over the quarter to nearly 7.9% of the portfolio from 5.8% at previous quarter-end; all are investment grade.
Maturity Distribution	• All maturities fall within the maturity limits set forth in the County's Investment Policy. • Approximately 57% of the Pool's assets mature in one year or less and approximately 24% 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	21,514,641	0.38%	✓	1 day	✓
Commercial Paper	49,995,396	0.88%	✓	24 days	✓
Repurchase Agreements	108,000,000	1.91%	✓	1 day	✓
LGIP	456,724,246	8.08%	✓	1 day	✓
Federal Agencies (non MBS)	2,683,475,505	47.45%	✓	2.90 years	✓
Agency Mortgages	7,928,108	0.14%	✓	4.17 years (WAL)	✓
Certificates of Deposit	0	0.00%	✓	N/A	✓
Corporate Bank Notes	395,261,363	6.99%	✓	4.33 years	✓
Municipal Bonds	0	0.00%	✓	N/A	✓
U.S. Treasury	1,932,669,800	34.17%	✓	3.51 years	✓

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

II. Sector Allocation

Sector Diversification
as of June 30, 2015



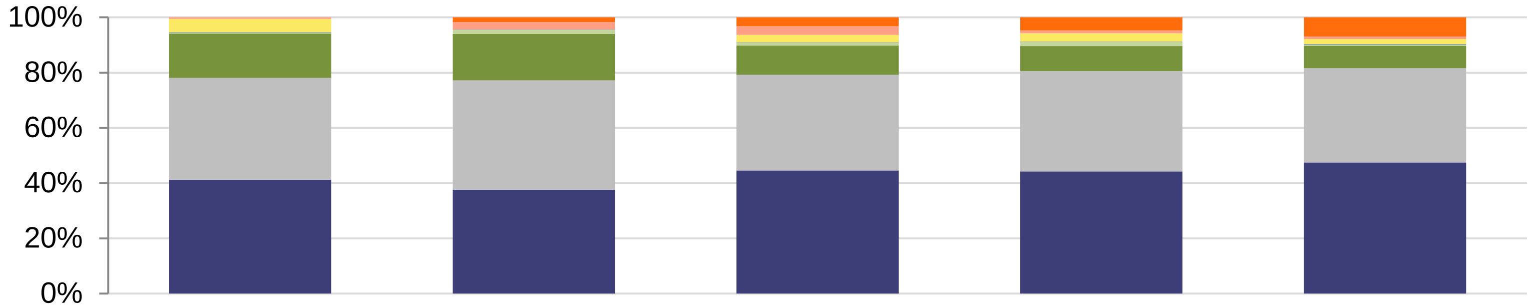
**Percentages may not total to 100% due to rounding.*

II. Changes in Portfolio Sector Allocation Over Past 12 Months

Changes in Sector Allocation

- The County's investment pool increased percentage allocations to federal agencies (+3.3%) and corporate bank notes (+2.3%) over the quarter, while all other sectors accounted for decreased percentage allocations.
- **Federal Agencies.** At 47.5% of the overall portfolio, federal agencies account for largest allocation in the County Pool and are currently at the sector's highest percentage allocation since December 2013. A majority of the seasonally large net balance increase experienced over the quarter was utilized to increase agency allocations by approximately $446 million, with the bulk of new purchases being concentrated in short-term discount notes in the 3-9 month maturity range.
- **US Treasury.** US Treasury allocations were increased by $88 million over the quarter (on a relative basis allocations decreased by 2.2% of the total portfolio). New purchases in the Treasury sector appeared to have been focused in the 1 to 1.5-year maturity range and 2.5-year maturities.
- **Corporate Bank Notes.** For the fourth consecutive quarter, the portfolio added funds to corporate bank notes. The past four quarters experienced net increases to the corporate bank note sector of $85 million, $84 million, $68 million, and $157 million. This sector now accounts for 7.0% of the overall portfolio totaling $395 million (compared to $0 one year ago).
- **Commercial Paper.** The portfolio currently owns one commercial paper issuer totaling $50 million (less than 1% of the total portfolio). This is a decline from previous quarters where the portfolio had owned multiple issuers totaling approximately 2.5% to 3% of the total portfolio.
- **Washington State LGIP.** Balances invested in the State LGIP remained relatively consistent over the quarter, near $450 million, and continues to serve as the Pool's primary liquidity vehicle. This sector now accounts for 8% of the overall portfolio.
- **Repurchase Agreements and Cash and Equivalents.** These sectors experienced a net balance decrease over the quarter totaling $99 million (both repurchase agreements and bank deposits combined). These sectors now account for 2.3% of the overall portfolio totaling $130 million.

Sector Allocation June 2014 – June 2015



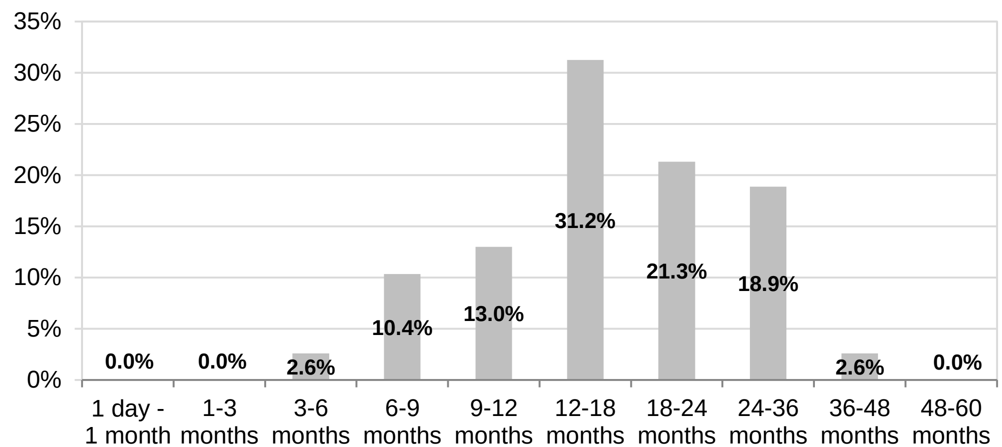
	June 30, 2014	September 30, 2014	December 31, 2014	March 31, 2015	June 30, 2015
Federal Agencies	41.17%	37.63%	44.52%	44.15%	47.45%
U.S. Treasury	36.91%	39.58%	34.75%	36.40%	34.17%
Washington State LGIP	15.97%	16.81%	10.51%	9.01%	8.08%
Cash and Equivalents	0.31%	1.44%	1.02%	1.51%	0.38%
Agency Mortgages	0.18%	0.18%	0.16%	0.17%	0.14%
Municipal Notes	-	-	-	-	-
Repurchase Agreements	4.95%	-	2.72%	3.00%	1.91%
Commercial Paper	0.51%	2.68%	3.12%	1.08%	0.88%
Corporate Bank Notes	-	1.67%	3.20%	4.69%	6.99%

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

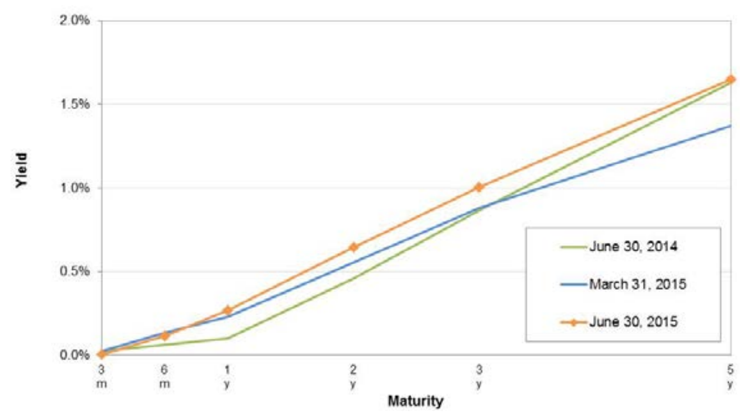
II. Sector Allocation – U.S. Treasury Securities

Topic	Observations
Observations	• The County's balances held in U.S. Treasuries increased by $88 million over the quarter; however, as a percentage of the total Pool, Treasury allocations declined slightly over quarter to 34.2% of the total portfolio, compared to 36.4% at previous quarter-end. – Over the quarter, it appears the Pool traded short-term US Treasury notes with less than 6 months remaining to maturity in favor of US Treasury notes targeted to the steeper portions of the yield curve: 1.5 years and 2.5 years. – As shown in the chart on the right below, the Treasury yield curve steepened over the quarter as longer maturity yields increased more significantly relative to their shorter-term counterparts. The Pool appears to have taken advantage of this steepening of the yield curve by selling a portion of those securities that rolled to the flatter area of the yield curve (0 to 12 months) and purchasing new securities in the now steeper areas (1 to 3 years). – The majority of the Pool's Treasury investments ($1.4 billion, 74% of Treasury holdings, and 25% of the overall portfolio) have remaining maturities of greater than one year and are positioned in the steeper portions of the US Treasury yield curve. • 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 46 days, from 574 days on March 31st to 528 days on June 30th. • 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, 26% is allocated to maturities less than 12 months (versus 20% last quarter). This increase is the result of roll-down over the quarter as these securities naturally approached maturity. As liquidity permits and new investment opportunities become available, these short-term US Treasury holdings (less than 12 months) are ideal to trade for (1) longer-term, 1- to 3-year, more attractive-yielding investments and/or (2) higher-yielding, similar-maturity investments in other sectors, such as federal agencies, commercial paper, or short-term corporate bank notes.

U.S. Treasury Maturity Distribution as of June 30, 2015



U.S. Treasury Yield Curve 06/30/15 vs 03/31/15 vs 06/30/14

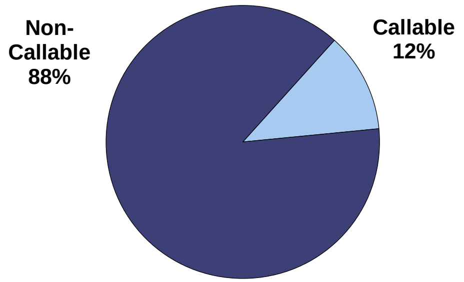


** Source Bloomberg Financial Systems*

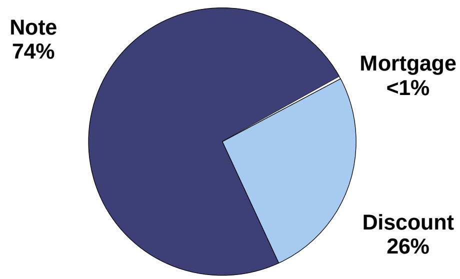
II. Sector Allocation – Federal Agencies

Topic	Observations			
Structure *(as % of Federal Agency Allocations)*	• Non-Callable • Callable	88% 12%	• Discount Notes • Coupon bearing Notes • Agency Mortgage	26% 74% <1%
Diversification *(as % of Federal Agency Allocations)*	• Freddie Mac (FHLMC) • Federal Home Loan Bank (FHLB) • Fannie Mae (FNMA)	18% 35% 27%	• Federal Farm Credit Bank (FFCB) • Freddie Mac Mortgage-Backed (FHR) • Fannie Mae Mortgage-Backed (FNR)	20% 0% <1%
Conclusions	• The County's Federal Agency allocation continues to be well diversified among the four major issuers and among security structures. All issuer allocations fall within the issuer guidelines set forth in the County's investment policy (max per agency issuer 35%). • Federal Agency allocations increased by $446 million over the quarter, primarily due to the County utilizing a large portion of the June quarter-end large net balance increase to purchase federal agency discount notes targeted to maturities in the 3 to 9-month maturity range. • From a security structure standpoint (the ratio of non-callable to callable securities), the trend of declining callable securities continued quite noticeably over the quarter, as callable allocations decreased to 12% of agency holdings versus 20% at the previous quarter-end. – Generally, increased yields over the quarter decreased the likelihood that callable securities would be called. As a result, a portion of the Pool's callable securities that passed their call date and are now no longer callable attributed to the portfolio's decline in callable securities. • As mentioned, a large portion of net cash inflows during the quarter were utilized to purchase short-term discount notes. As a result, the ratio of coupon-bearing notes to discount notes shifted noticeably over the quarter, from 83%/17% previously to 74%/26% currently. • The County Pool's only remaining allocation to agency mortgages is in Fannie Mae pools, totaling approximately $7.9 million, which continue to paydown principal (on average $478,000 per quarter over the past year) and naturally reduce the County's allocation to agency mortgages.			

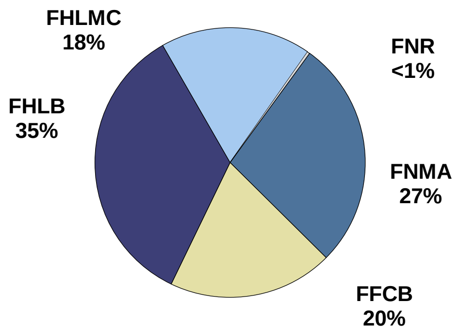
Callable vs. Non-Callable
as of June 30, 2015



Structure Distribution
as of June 30, 2015



Issuer Diversification
as of June 30, 2015

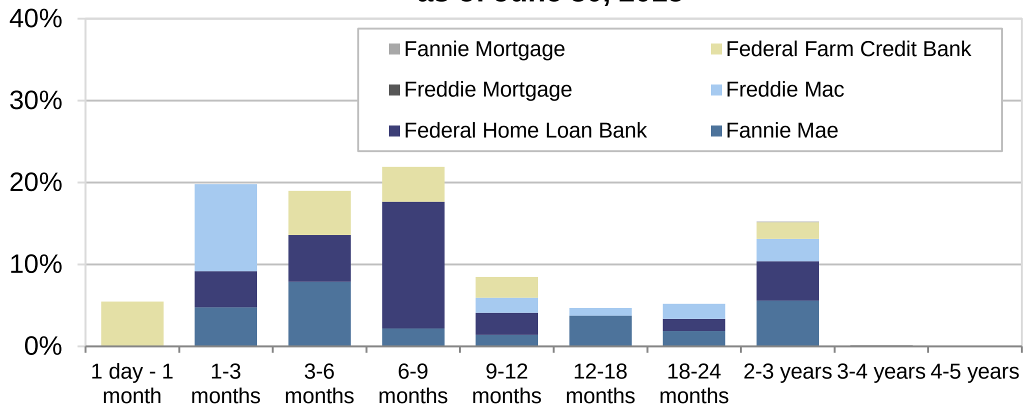


**All calculations above are based on total cash equivalents exposure, not overall Portfolio.*
***Percentages may not total to 100% due to rounding.*

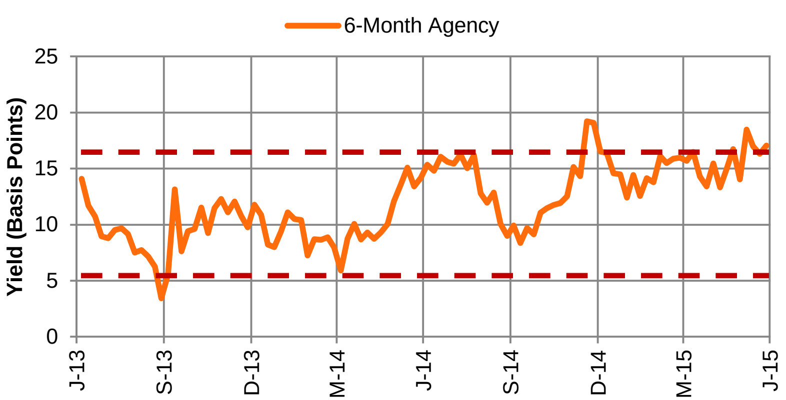
II. Sector Allocation – Federal Agencies

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 slightly by 17 days, from 316 days on March 31st to 299 days on June 30th. – It appears that the County utilized a large portion the quarter's net balance increase to purchase new federal agency securities in the 3 to 12 month maturity range. – As the second quarter is historically the largest seasonal cash inflow period for the Pool, the quarter typically affords the opportunity to ladder short-term maturities over the next 12 month period to align maturities to upcoming known cash outflow dates and lock-in incrementally higher yields in slightly longer-term agency securities. – As of June 30, 2015, the portfolio maintained 75% allocation to agencies with maturities less than 12 months, relatively unchanged compared to the previous quarter-end total of 73%. – The overweight of shorter-term federal agencies can be attributed to the combination of (1) elevated agency discount note yields relative to similar duration US Treasury securities (as shown in the chart on the right, short-term discount note yields remain near the top end of their recent trading ranges) 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. – The trend of a portion of the County's allocations to callable agency securities passing their call date and becoming no longer callable continued over the quarter (currently $165 million, up from $142 million last quarter). The average maturity of these holdings is 1.8 years. So, for agencies in the one to three 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 June 30, 2015



Short-Term Federal Agency Yields Past 18 Months



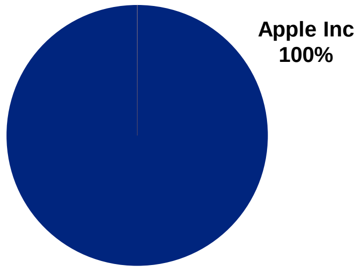
- Agency Mortgage maturities are calculated as average life. Average life data taken from Bloomberg Financial Markets
- Callable securities are shown to their next call date.
- All other Agency maturities are calculated as days to maturity.

** Source Bloomberg Financial Systems*

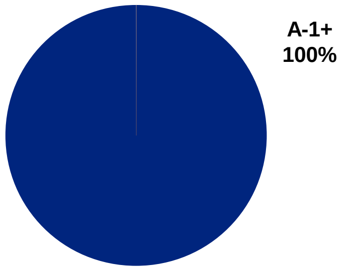
II. Sector Allocation – Commercial Paper

	Observations
Issuer Diversification	• The County allocations to commercial paper decreased over the quarter, by approximately $5 million. • This sector now accounts for less than 1% of the overall portfolio totaling $50 million. • During the quarter two commercial paper maturities ($25 million UPS and $30 million Disney) were reinvested in Apple Inc. commercial paper scheduled to mature in mid-July. • The portfolio now owns one commercial paper issuer, Apple Inc. • Over the past several quarters, the County appears to have maintained a resolve to include high-quality, attractive-yielding, commercial paper issues in the portfolio, a change from the prior periods where commercial paper was not utilized. • 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. • All allocations fall within the permitted investment guidelines of 5% per issuer and 25% maximum to the sector.
Credit Distribution	• Standard & Poor's rates the short-term credit of Apple Inc. as A-1+. • Moodys rates the short-term credit of Apple Inc. as P-1.
Conclusions	• High-quality commercial paper has offered noticeable yield advantage relative to similar maturity Treasury and agency securities over the past several years. As of June 30, 2015, the County's commercial paper investments have a weighted average yield of approximately 9 basis points and a WAM of 21 days. For perspective, a comparative short-term Treasury/agency security less than one month yielded approximately 1 to 3 basis points, as of June 30, 2015. • This yield advantage of commercial paper is even more pronounced at longer maturities. As a result, the County's portfolio may benefit from additional allocations to other high-quality commercial paper issuers. The commercial paper yield curve is steepest in maturities beyond three months (chart on far right).

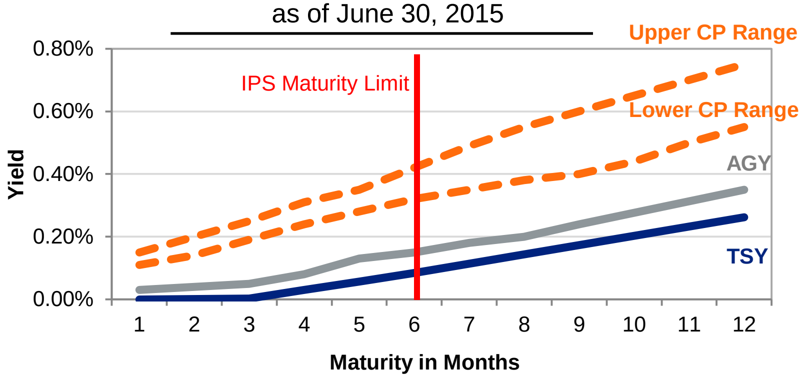
Issuer Distribution
as of June 30, 2015



Credit Distribution
as of June 30, 2015



Current Short-Term Yields
as of June 30, 2015



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

** Source Bloomberg Financial Systems*

II. Sector Allocation – Corporate Bank Notes

Observations

Issuer Diversification

- The County has added allocations to high-quality corporate bank notes for the fourth consecutive quarter. This sector now accounts for 7.0% of the overall portfolio totaling $395 million.
- The portfolio’s corporate bank note allocations include four issuers: US Bank ($124 million or 2.2% of the total portfolio), Bank of America ($119 million or 2.1%), Wells Fargo Bank ($103 million or 1.8%), and PNC Bank ($50 million or 0.9%).
- Of the County’s allocations to corporate bank notes, $174 million (or 44% of corporate bank notes, up from 36% at previous quarter end) is allocated to callable structures; however, all of the callable corporate holdings have a “next call date” that is only one month before their respective final maturity. Ultimately, the callable structures of these investments will have minimal impact on maturity and duration management of the overall portfolio.
- When viewing the County’s corporate bank note holdings to the next call date, the weighted average maturity of these investments is 2.0 years and the weighted average yield is 1.18%. For perspective, the yield on a 2-year Treasury note is less than 0.65%.
- Of the County’s total allocation to this sector, 50% is allocated to maturities less than 2 years and 11% to maturities beyond 4 years.
- All allocations fall within the permitted investment guidelines of 5% per issuer (please refer to following pages) and 20% maximum to the sector.

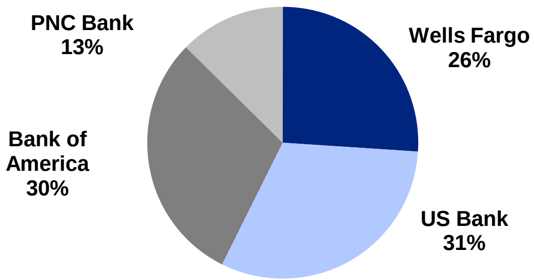
Credit Distribution

- All ratings are investment grade and fall within the credit guidelines in the County’s IPS
- S&P ratings (long-term and short-term):
  - Bank of America (A and A-1); PNC Bank (A and A-1); US Bank (AA- and A-1+); Wells Fargo Bank (AA- and A-1+)
- Moodys ratings (long-term and short-term):
  - Bank of America (A1 and P-1); PNC Bank (Aa3 and P-1); US Bank (Aa3 and P-1); Wells Fargo Bank (Aa1 and P-1).

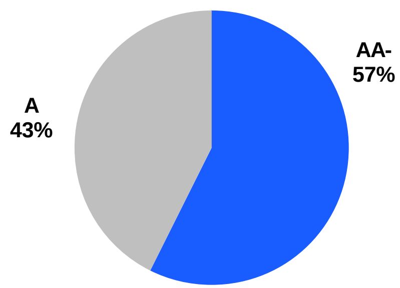
Conclusions

- 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 portfolio may benefit from additional allocations to high-quality corporate bank note issuers. As shown in the chart on the right, over the past 12 months, high quality financial corporates have offered significant yield advantage (70 to 100 basis points) relative to US Treasury notes of similar maturity.

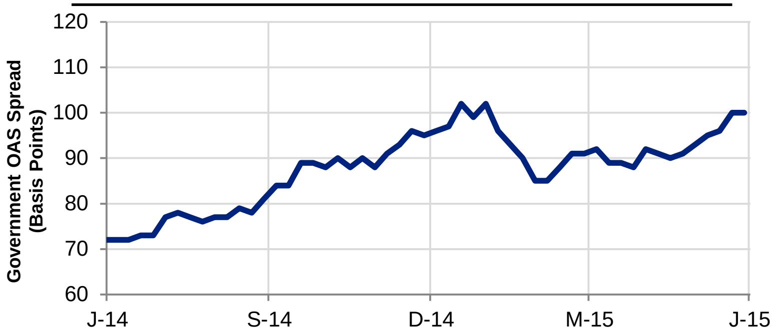
Issuer Distribution
as of June 30, 2015



Credit Distribution
as of June 30, 2015



1-5 Year Financial Corporate/Treasury Yield Spreads
June 2014 through June 2015



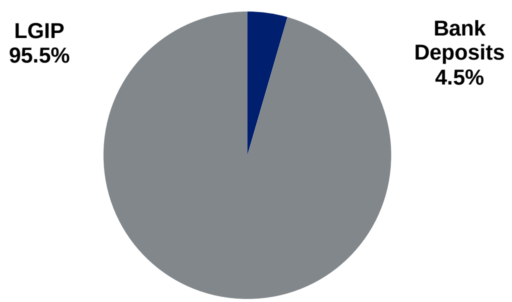
** Source Bloomberg Financial Systems*

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

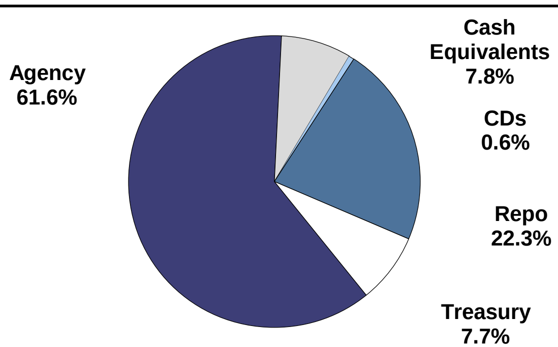
II. Sector Allocation – LGIPs and Cash Equivalents

	Underlying Investments	Rating (Short-Term: S&P/ Moody's/Fitch)	Observations
Washington State LGIP	• Federal Agencies 61.6% • U.S. Treasuries 7.7% • Cash Equivalents 7.8% • Certificates of Deposit 0.6% • Repurchase Agreements 22.3% *As of June 30, 2015*	• N/A	• The County currently has allocated $457 million to the Washington State LGIP, unchanged over the quarter. • Despite the gradual decrease in LGIP balance over the past two years, the County's allocation to the State LGIP continues to serve as the primary overnight liquidity vehicle for the portfolio. • Similar to the County Pool's allocation changes over the quarter, the State LGIP also increased federal agency discount notes quite significantly (+15%), while most other sectors experienced decreases in percentage allocations over the quarter with repurchase agreements leading the way at 9.5% decrease.
Cash Equivalents	• State LGIP 95.5% • U.S. Bank 1.8% • Key Bank 2.5% • Bank of America 0.1% *As of June 30, 2015*	• 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 $54 million over the quarter to $21 million. The Key Bank account now accounts for over 56% of the Pool's bank deposit allocations, the US Bank account 41%, and US Bank 3%. • Additionally, while the County pool is limited to CDs issued by banks in the State of Washington, there still may be an opportunity to add small allocations to 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 June 30, 2015



Washington State LGIP Sector Distribution as of June 30, 2015



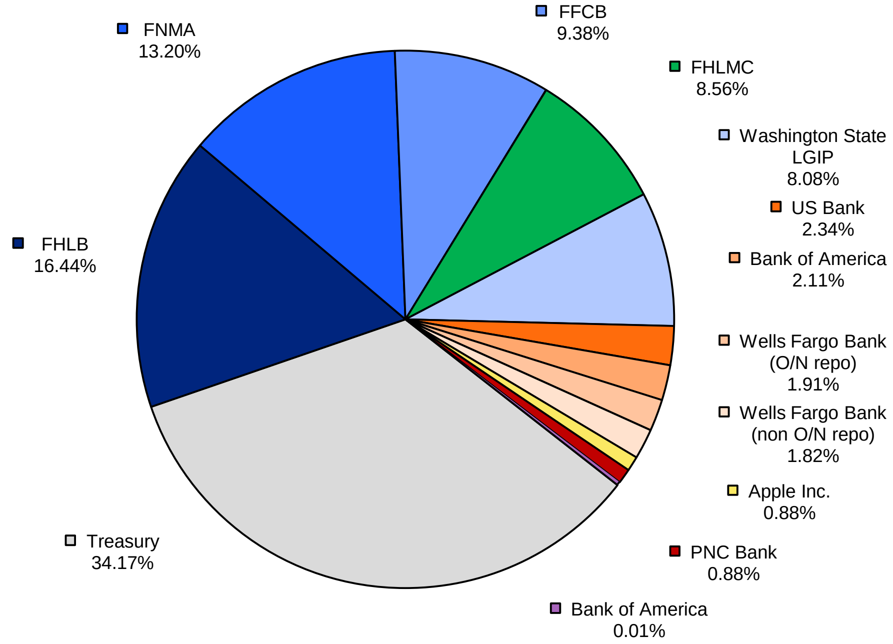
**All calculations above are based on total cash equivalents exposure, not overall Portfolio.*
***Percentages may not total to 100% due to rounding.*

III. Issuer Concentration

Issuer Exposure

- The County continues to maintain a well-diversified portfolio by issuer, as is evidenced in the chart below.
- Approximately 82% of the portfolio is allocated directly to U.S. government guaranteed or government supported entities.
- Of the remaining 18% of the portfolio, 10% is allocated to ultra short-term or overnight investment vehicles, including the State LGIP, repurchase agreements, and bank deposits. The remaining 8% is allocated to credit issuers, including commercial paper and corporate bank notes.
- 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 87%.
- The County added two new corporate issuers to the portfolio over the quarter, including: Apple Inc. (CP) and PNC Bank (Bank Note). Allocations to Disney, UPS, and Bank of New York Mellon were removed over the quarter.
- Each of the corporate issuers the County owns in the portfolio (including the County's bank deposits) falls within the 5% corporate issuer limit when aggregated among all sectors, as shown in the charts below.

Issuer Distribution	Value	Percentage	Issuer Limit
Treasury	1,932,669,800	34.17%	**100%**
FHLB	930,022,225	16.44%	**35%**
FNMA	746,516,733	13.20%	**35%**
FFCB	530,761,178	9.38%	**35%**
FHLMC	484,103,478	8.56%	**35%**
Washington State LGIP	456,724,246	8.08%	**25%**
US Bank	132,577,855	2.34%	**5%**
Bank of America	119,307,352	2.11%	**5%**
Wells Fargo Bank (O/N repo)	108,000,000	1.91%	**25%**
Wells Fargo Bank (non O/N repo)	102,911,350	1.82%	**5%**
Apple Inc.	49,995,396	0.88%	**5%**
PNC Bank	49,904,244	0.88%	**5%**
Key Bank	12,075,202	0.21%	**5%**
Total	**5,655,569,059**	**100.00%**	



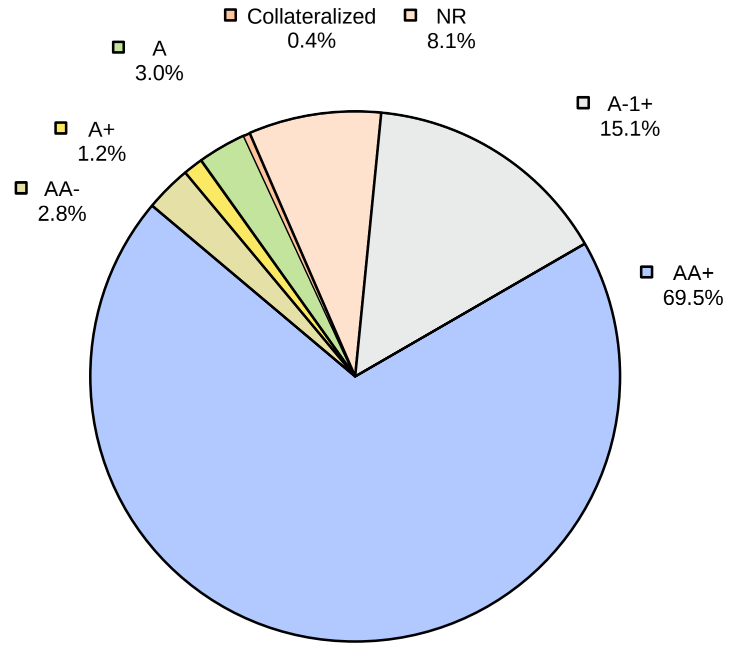
**Percentages may not add to 100% due to rounding.*
** For the purposes of totaling issuer concentration, issuers are aggregated across all sector types. It is noted however that issuers across sector types may maintain separately rated issuer credits.*

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 corporate issuers to the portfolio, including Apple Inc. ($50 million or 0.9% of the total portfolio) and PNC Bank ($50 million or 0.9%).
  - Apple Inc. short-term credit rating of A-1+ by S&P and P-1 by Moodys.
  - PNC Bank long-term credit rating of A by S&P and Aa3 by Moodys.
- Allocations were maintained to Bank of America (bank notes), US Bank (bank notes), and Wells Fargo (bank notes).
  - Bank of America long-term credit rating of A by S&P and A1 by Moodys.
  - US Bank long-term credit rating of AA- by S&P and Aa3 by Moodys.
  - Wells Fargo long-term credit rating of AA- by S&P and Aa1 by Moodys.
- The County has additional corporate exposure through its 0.4% 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.
- Further, indirect corporate exposure also comes through the County's investment in the Washington LGIP. Through the LGIP, 1.9% of the County's Pool 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 8.1% 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, 2015

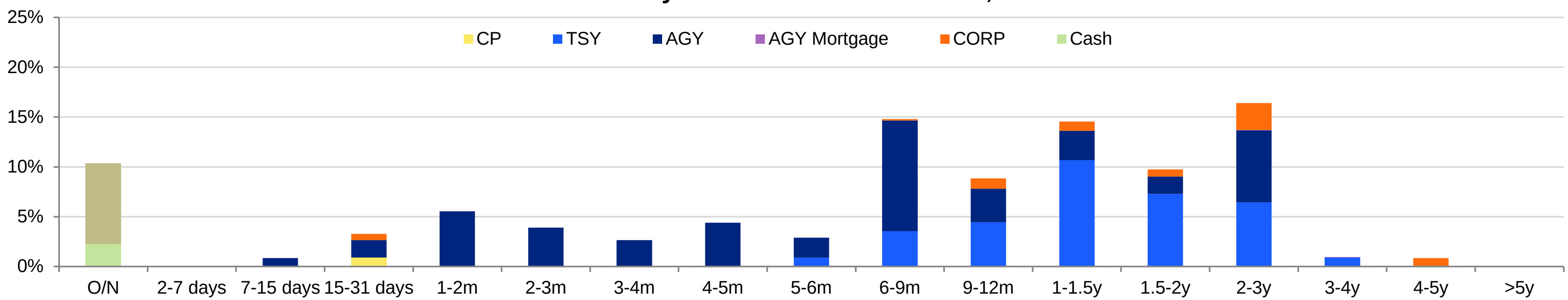


*Ratings by S&P; Percentages may not add to 100% due to rounding.
**Bank ratings of the depositories for the collateralized securities are given on page 14.

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 – 57% of the portfolio – are scheduled to mature or have a call date within the next twelve months. This percentage is unchanged relative to the end of the previous quarter. • It appears the County's maturity strategies over the past several quarters have included (1) allowing previously purchased, longer-dated US Treasury, federal agency, and corporate bank note investments to naturally shorten in maturity and roll-down the yield curve, and (2) reallocate a portion of overnight investments into higher-yielding, short-term investment vehicles, including: commercial paper, corporate bank notes, and agency discount notes. • This strategy represents a modest shift from previous quarters, where a more pronounced barbell was maintained (higher balances in overnight and 3 to 5 year investments). Comparatively, maturity strategy of late appears to target slightly longer maturities on the short-end (3 to 9 months) and slightly shorter maturities on the long-end (1 to 3 years). A barbell structure nonetheless, but less pronounced relative to recent quarters. • Over the quarter, the WAM of the portfolio shortened slightly to 373 days from 382 days at previous quarter-end. – The Pool was able maintain consistent WAM over the quarter by balancing naturally shortening maturities with reallocating $100 million of overnight investments (repurchase agreements and bank deposits) into slightly longer maturities.
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 10.4% (or $586 million) invested in a combination of the Washington State LGIP, bank deposits, and repurchase agreements (overnight liquidity), an additional 4% 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 third quarter. On average, over the past five years, the County has experienced an average net cash outflow of $309 million in quarters ended September 30th.

Maturity Distribution as of June 30, 2015

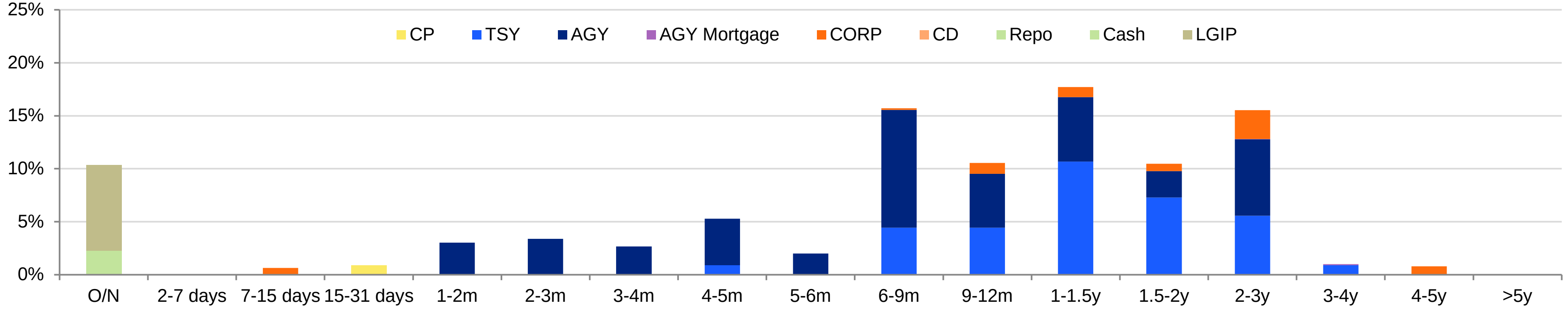


- Agency Mortgage maturities are calculated as average life. Average life data taken from Bloomberg Financial Markets
- Callable securities shown to their call date.
- All other security maturities are calculated as days to maturity. WA LGIP is considered to have a one day maturity.

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 June 30th, the duration of the County Investment Pool is 1.07 years, only a slight decrease from a duration of 1.14 years on March 31st. Over the past four quarters, the Pool's duration has gradually been shifted shorter (3Q14 1.42 years, 4Q14 1.26 years, 1Q15 1.14 years, 2Q15 1.07 years), which appears to reflect a defensive posture as the potential for the first fed overnight rate hike in over five years looms. – The decrease in portfolio duration can also be attributed to a natural shortening of a majority of previously purchased securities. – When comparing the weighted average duration of the aggregate portfolio to the WAM of the portfolio, it is observed that the duration (1.07 years) exceeds the WAM (1.02 years) by 0.05 years. – While this difference in duration and WAM has been narrowing significantly 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 (1.79 years) to the WAM of callable securities calculated to their next call date (1.04 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 1.04 years to 1.96 years, and the WAM of the overall portfolio would lengthen to 1.10 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 June 30, 2015

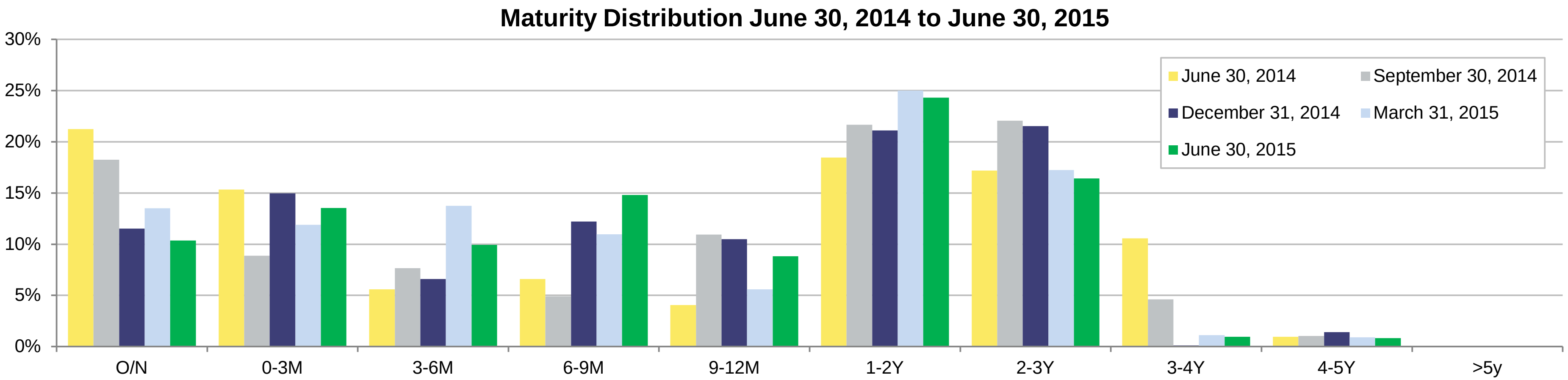


- Agency Mortgage durations are shown as effective duration taken from Bloomberg Financial Markets.
- Duration for Federal Agency Discount Notes and Repurchase Agreements are calculated as days to maturity. WA LGIP and bank deposits considered to have a one day duration.
- All other security durations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

V. Changes in Portfolio Maturity Distribution

Changes in Portfolio Maturity Distribution

- When viewing the current maturity distribution (dark green bars) in relation to previous periods, a few primary observations are noted:
  - Approximately 12 months ago, the County targeted tactical allocations to the very steep "3-4 Year" maturity range (11% of the portfolio), and over the past few quarters those securities have been held, rolling down the yield curve and naturally shortening in duration to the "1-2 Year" maturity range.
  - The County's previous tactical allocations to the "3-4 Year" maturity range benefited the portfolio. Over the 12-month period ending June 30, 2014, 1-5 Year Treasuries outperformed 1-3 Year Treasuries by approximately 50 basis points.
  - With the prospect of rising interest rates looming based on Fed expectations for the first overnight fed rate hike, the portfolio appears to have been positioned with less emphasis on securities in longer durations to help protect market values against the potential rising interest rates.
  - As of June 30, 2015, 41% of the portfolio is positioned in the 1 to 3 year area of the curve, representing a balance of defensive duration posture and steep yield curve positioning (maturities beyond 1 year).
  - Compared to prior quarters, the County has both continuously decreased overnight allocations and increased allocations to the 3 to 12 month maturity ranges, largely due to new credit issue purchases, including high-quality commercial paper and short-term corporate bank notes and increased value in federal agency discount notes. These sectors continue to offer incremental yield advantage relative to similar maturity Treasuries.
  - As noted above, overnight allocations appear to have been gradually reduced. Removing excess liquidity from overnight investment vehicles and aligning short-term maturities to future cash flow dates helps to maximize interest earnings in the current low, short-term interest rate environment.
- 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 five years, for the quarters ending September 30th, the average net **outflow** in the Investment Pool was $309 million.
  - Over the past five years, for the quarters ending December 31st, the average net **inflow** in the Investment Pool was $279 million.



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- 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.

Disclaimer

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