King County Investment Pool

Portfolio Review

Quarter Ended June 30, 2017

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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 2017 review. Our approach included a detailed portfolio analysis and Investment Policy Compliance review, based on the County's Investment Policy, dated February 22, 2017. • Our analysis was based on the Investment Pool's holdings as of June 30, 2017, 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 very low risk to principal.
Market Recap	• For the second time this year, the Federal Open Market Committee (FOMC) raised the federal funds rate by 0.25%, setting a new target range of 1.00% to 1.25% for the overnight benchmark rate. The FOMC also released updated economic forecasts and a new "dot plot," which were largely unchanged. The Fed is still forecasting one more rate hike this year, although market-implied probabilities show only about a 50% chance of a hike in the second half of the year. • Perhaps just as important, the Fed announced plans to begin reducing the size of its balance sheet. They will start by not reinvesting up to $10 billion per month, escalating the amount every three months by an additional $10 billion each month until they reach $50 billion per month. • In the money market space, short-term Treasury yields rose, repricing to reflect the Fed's June rate hike. The yield spread offered by commercial paper and certificates of deposit tightened during the quarter to levels not seen since the Fed began raising rates in late-2015 as the effects of money market reform faded and conviction in future Fed policy faded. However, commercial paper and certificates of deposit spreads still offer modest incremental yield though security selection is more vital. • U.S. Treasury indexes posted positive returns in the second quarter. Returns for shorter indexes were generated mostly by income, offset by modest price depreciation as yields on shorter maturities increased. Returns on longer Treasury indexes were quite strong, benefitting from both income return and price appreciation from falling long-term rates and a flattening yield curve. • Federal agency yield spreads ground tighter during the quarter as demand continued to outpace supply. The sector modestly outperformed comparable term U.S. Treasuries for the fourth quarter in a row.
Observations	• The portfolio is of very high credit quality. The majority of securities (80%) 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). • Notable sector allocation shifts over the quarter included Federal Agencies (+1.53%) and U.S. Treasuries (+1.14%), with decreases made to commercial paper (-1.93) and cash & equivalents (-1.65). • The Pool maintained a defensive duration bias which is evidenced by the Pool ending at 93% of the benchmark's duration of 1.09 years. In anticipation of continued rising rates, a more defensive duration bias helps mitigate the adverse impact that potential interest rate increases may have on market value. • The County Pool appears to provide adequate liquidity, with 13% (or $912 million) invested in a combination of the State LGIP, bank deposits, and repurchase agreements (overnight) and an additional 4.5% of the portfolio's holdings scheduled to mature within the next 31 days. • In anticipation of the upcoming quarter, during the third quarters of the past five years, the average net <u>outflow</u> to the Pool was $294 million.

Investment Pool Portfolio Review

Portfolio Review

I. Investment Policy Compliance

II. Sector Allocation

- U.S. Treasuries
- Federal Agencies
- Commercial Paper
- Corporate Notes
- LGIP and Cash Equivalents

III. Issuer Concentration

IV. Overall Credit Quality

V. Maturity and Duration Distribution

Investment Policy Compliance – Investment Policy Summary

- The Investment Policy summary is based on the current Investment Policy for the County Investment Pool, dated February 22, 2017.

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 Corporate 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

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 Corporate 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% of total market value when combined with Corporate Notes. When combined with Banker's Acceptance, Certificates of Deposit, Term Repos (greater than overnight) and Corporate 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 3% per issuer in combined categories of commercial paper and corporate notes. 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 three highest credit rating categories by one major NRSRO. Rated in the highest short-term rating category by at least two major NRSROs. If the commercial paper is rated by more than two major NRSROs, it must have the highest rating from all of the organizations. State law requires that Commercial Paper be purchased only from dealers.	270 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

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

Type	Maximum Portfolio Allocation	Issuer Restrictions	Credit Ratings	Maturity Restrictions
Corporate Notes	25% of total market value when combined with commercial paper 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.	3% per issuer rated AA or better. 2% per issuer rated in broad single A category. Split ratings will take most conservative rating. Maximum 3% per issuer in combined categories of commercial paper and corporate notes. Maximum 5% per issuer applied across investment types.	Must be rated at least in the broad single A category or better. Broad single A category with a negative outlook may not be purchased.	5 years The maximum duration of the corporate notes portfolio shall not exceed 3 years.

<u>Additional Notes to the Investment Policy</u>

- 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.
- Major NRSRO is defined as Moody's and Standard & Poor's.
- Purchases prior to 9/15/16 are considered grandfathered in for issuer limit purposes and can be held to maturity.

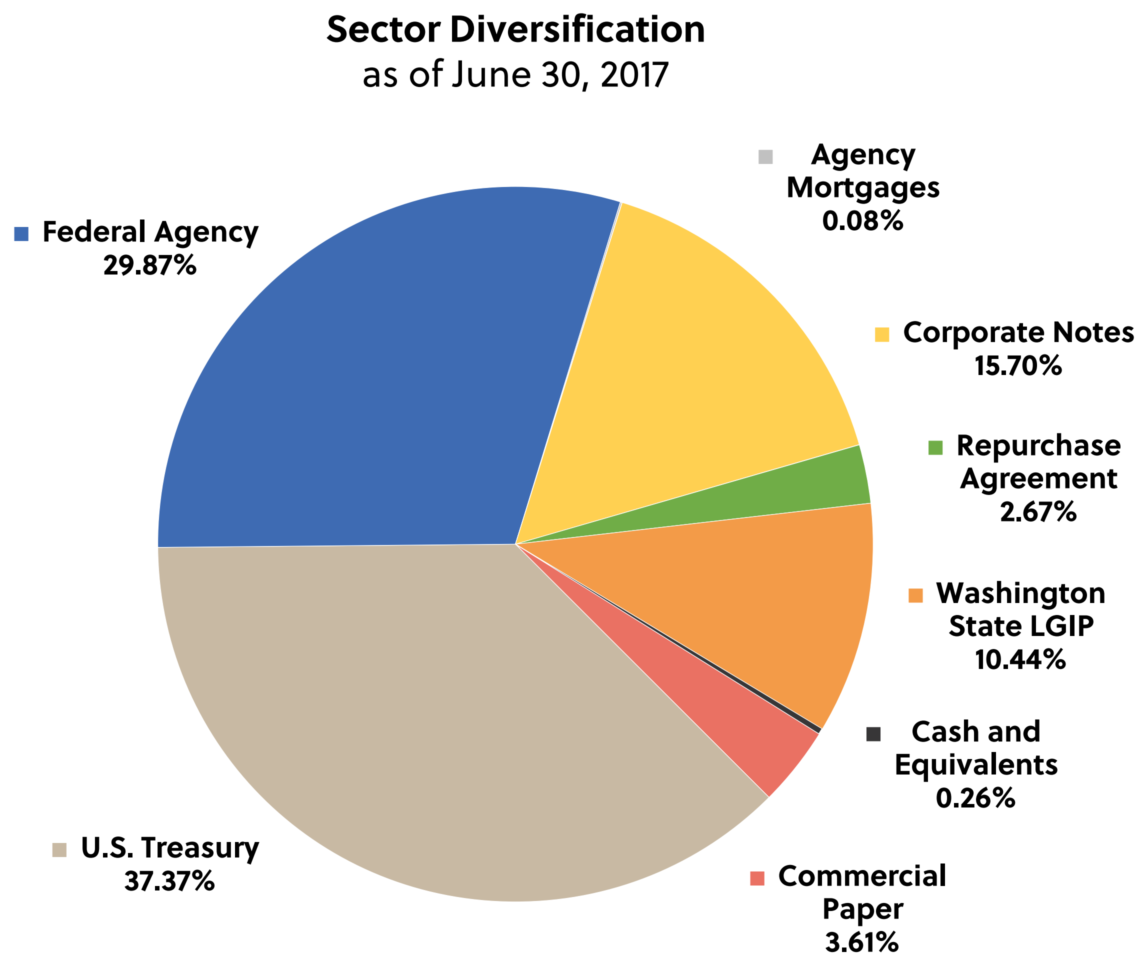
I. Investment Policy Compliance – County Investment Pool

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, 2017 was \$6.8 billion and it experienced a net increase of approximately \$598 million over the quarter. • Over the quarter, sectors that experienced allocation percentage increases included: Federal Agencies (+1.53%), U.S. Treasuries (+1.14%), Repurchase Agreements (+0.88%), and the Washington State LGIP (+0.39%). All sectors experiencing an increase over the quarter still remain within applicable policy limits. • Sectors that experienced decreases in quarter-over-quarter allocation percentages included: in Commercial Paper (-1.93%), Cash and Equivalents (-1.65%), and Corporate Bank Notes (-0.36%).
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 67% of the County pool's assets are guaranteed or supported by the U.S. government. Furthermore, over 10% is invested in the State LGIP, where 61% of the LGIP is invested directly in U.S. Treasuries or Federal Agencies. Additionally, considering the County pool's holdings of repurchase agreements and bank accounts collateralized by government securities, the overall government-related credit quality exceeds 80%. • Corporate allocations (both commercial paper and corporate notes) decreased over the quarter to approximately 19% of the portfolio, down from 22% on March 31, 2017, and all securities are investment grade. Allocations to the corporates continue to be below the maximum allocation limit of 25% when combined with commercial paper. • Total allocations of corporates, commercial paper, and repurchase agreements also do not exceed the 50% allocation limit set forth in the County's Investment Policy, and ended the quarter at just 22%.
Maturity Distribution	• All maturities fall within the limits set forth in the County's Investment Policy. • Approximately 57% of the Pool's assets mature in one year or less, well above the minimum of 40% that is mandated by the Investment Policy.

Security Type	Market Value($)	Allocation Percentage	Within Policy Limits	Max Maturity Held	Within Policy Limits
U.S. Treasury	2,548,807,360	37.37%	✓	3.59 years	✓
Federal Agency (non-MBS)	2,037,071,535	29.87%	✓	2.70 years	✓
Corporate Notes	1,070,495,063	15.70%	✓	4.11 years	✓
Washington State LGIP	712,239,468	10.44%	✓	1 day	✓
Commercial Paper	245,965,890	3.61%	✓	224 days	✓
Repurchase Agreements	182,000,000	2.67%	✓	1 day	✓
Cash and Equivalents	18,052,513	0.26%	✓	1 day	✓
Agency Mortgages	5,524,142	0.08%	✓	3.54 years (WAL)	✓
TOTAL	**\$6,820,155,971**	**100.00%**			

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

II. Sector Allocation

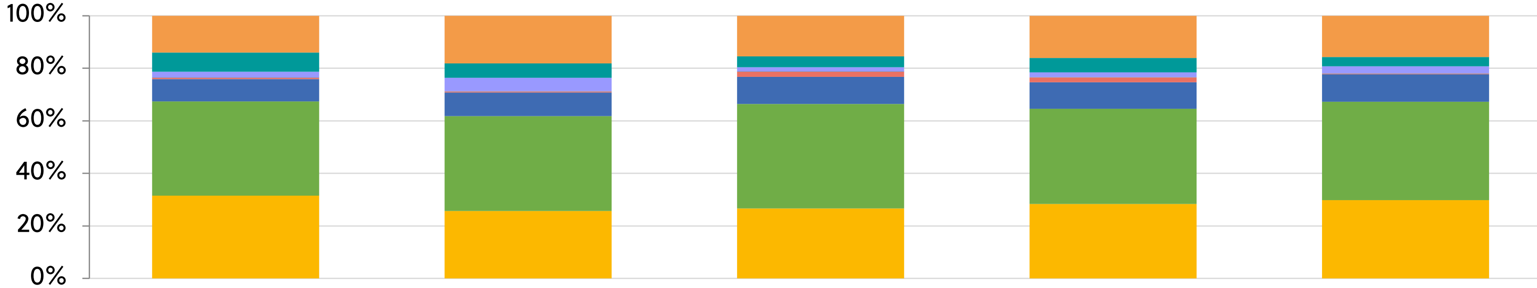


Percentages may not total to 100% due to rounding.

II. Changes in Portfolio Sector Allocation over the Past 12 Months

Changes in Sector Allocation

- The County's investment pool increased percentage allocations to Federal Agencies (+1.53%), U.S. Treasuries (+1.14%), Repurchase Agreements (+0.88%), and the Washington State LGIP (+0.39%), while decreases occurred in U.S. Treasuries (-3.55%), the Washington State LGIP (-0.22%), and Cash & Equivalents (-0.11%).
- <u>U.S. Treasuries</u> U.S. Treasury allocations increased by $295 million over the quarter. Although there were about $100 million of U.S. Treasuries maturing or being sold, additional investments of about $298 million were made to this sector over the quarter.
- <u>Federal Agencies</u> Federal agency allocations remained below U.S. Treasury allocations for the sixth consecutive quarter. Approximately $149 million of agency holdings matured during the quarter, offset by $422 million in agency reinvestments.
- <u>Corporate Notes</u> The portfolio decreased allocations to corporate notes over the quarter, now accounting for 15.7% of the overall portfolio totaling approximately $1.1 million.
- <u>Commercial Paper</u> The portfolio currently holds three commercial paper issuers totaling $246 million (or 3.6% of the total portfolio), representing a decrease of $99 million over the quarter.
- <u>Washington State LGIP</u> Balances invested in the State LGIP increased over the quarter by approximately $87 million, and continued to serve as the Pool's primary liquidity vehicle. This sector accounts for 10.4% of the overall portfolio.
- <u>Repurchase Agreements and Bank Deposits</u> Allocations to repurchase agreements increased by 182 million over the quarter and accounted for 2.7% of the total portfolio. Bank deposits decreased by approximately $100 million over the quarter to $18 million (or to 0.26% of the total portfolio).

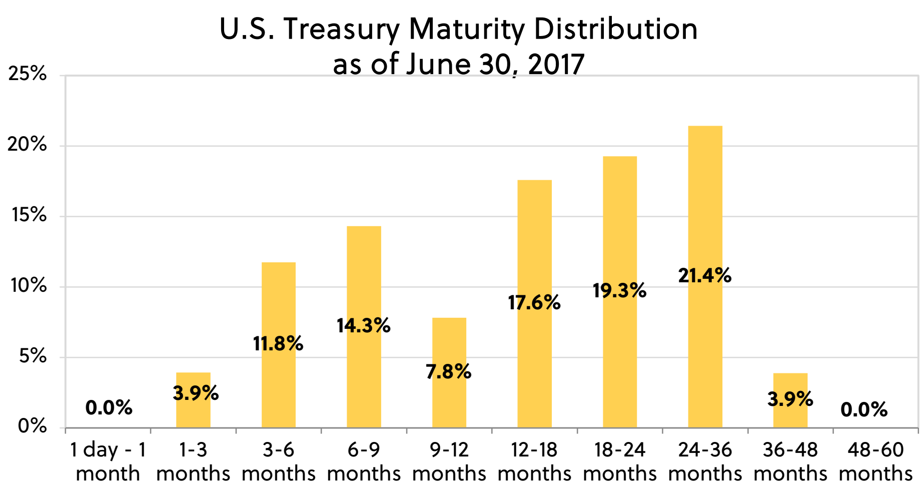


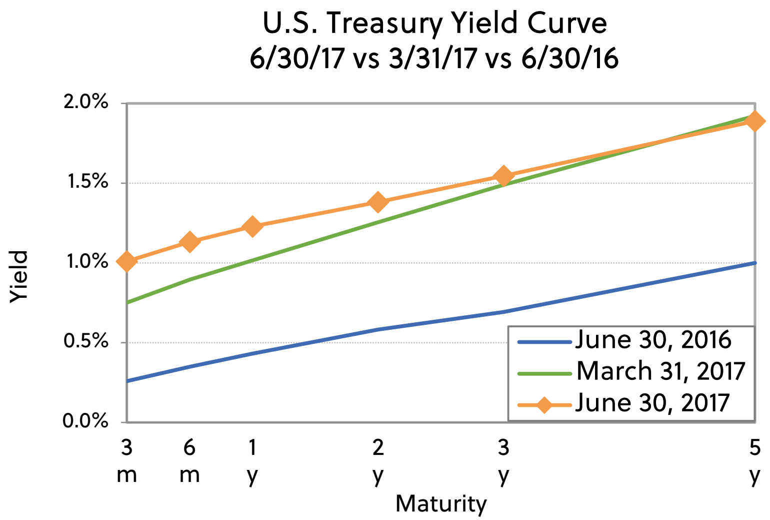
	June 30, 2016	September 30, 2016	December 31, 2016	March 31, 2017	June 30, 2017
U.S. Treasury	35.88%	36.08%	39.78%	36.23%	37.37%
Federal Agencies	31.51%	25.72%	26.63%	28.34%	29.87%
Washington State LGIP	8.55%	8.96%	10.28%	10.05%	10.44%
Cash and Equivalents	0.39%	0.43%	2.02%	1.91%	0.26%
Agency Mortgages	0.11%	0.11%	0.10%	0.09%	0.08%
Repurchase Agreements	2.29%	5.14%	1.62%	1.78%	2.67%
Commercial Paper	7.21%	5.45%	4.04%	5.54%	3.61%
Corporate Notes	14.06%	18.12%	15.53%	16.06%	15.70%

**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 $295 million over the quarter, up to 37.7% of the total portfolio. – Over the quarter, it appears the Pool targeted approximately $298 million in new U.S. Treasury notes maturing in the 2- to 3- year range. – Treasury yields diverged during the second quarter as short-term yields moved higher, pricing in the Fed's June rate hike, while medium to long-term yields declined amid muted inflation, fading prospects for policy enactment, and the global search for yield given low sovereign yields internationally. o The deviation in yields led to significant flattening in the yield curve, retracing all steepening that took place at the end of 2016 following the U.S. presidential election. – The majority of the Pool's Treasury investments ($1.6 billion, or 62.2% of all Treasury holdings) have remaining maturities of greater than one year and are positioned in the steeper portions of the U.S. Treasury yield curve. • The County's weighted average maturity (WAM) of its Treasury allocation decreased over the quarter by 7 days, from 539 days on March 31st, to 532 days on June 30th. • The chart below, on the left, illustrates the current maturity distribution of the County's allocations to U.S. Treasuries and the chart on the right illustrates the current shape of the U.S. Treasury yield curve, compared to the yield curve three months ago and one year ago. – Of the County's Treasury allocations, 37.8% is allocated to maturities less than 12 months (versus 40.6% last quarter).



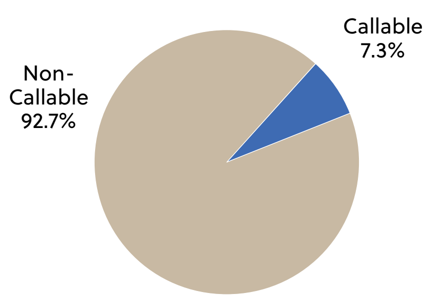


** Source Bloomberg Financial Systems*

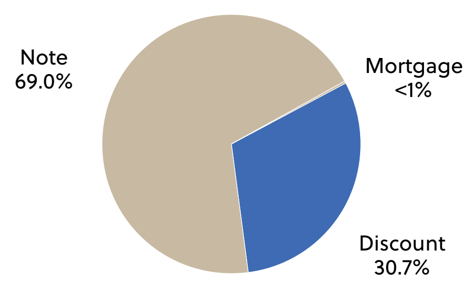
II. Sector Allocation – Federal Agencies

Topic	Observations	
Structure *(as % of Federal Agency Allocations)*	• Non-Callable 92.7% • Callable 7.3%	• Discount Notes 30.7% • Coupon bearing Notes 69.0% • Agency Mortgage <1%
Diversification *(as % of Federal Agency Allocations)*	• Freddie Mac (FHLMC) 30.6% • Federal Home Loan Bank (FHLB) 16.6% • Fannie Mae (FNMA) 19.5%	• Federal Farm Credit Bank (FFCB) 33.0% • Freddie Mac Mortgage-Backed (FHR) 0% • Fannie Mae Mortgage-Backed (FNR) <1%
Conclusions	• The County's federal agency allocation continues to be well diversified. All issuer allocations fall within the issuer guidelines set forth among the four major issuers and among security structures in the County's investment policy (max per agency issuer 35%). • Federal agency allocations increased by $273 million over the quarter. The increase was due to $422 million in new Agency purchases, paired with $149 million in maturities. • From a security structure standpoint (the ratio of non-callable to callable securities), callable securities decreased for the third consecutive quarter, to 7% of agency holdings, down from 8% last quarter and 9% in the fourth quarter of 2016. — In the past quarter, the three holdings that experienced a call date, were not called, but now have their next call dates in July and September. — New agency note purchases during the quarter were all non-callable. • The County Pool's only remaining allocation to agency mortgages is in Fannie Mae pools, totaling approximately $5.5 million.	

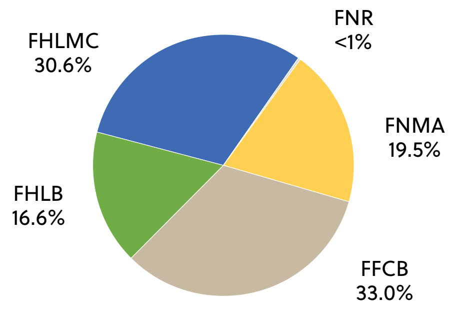
Callable vs. Non-Callable
as of June 30, 2017



Structure Distribution
as of June 30, 2017



Issuer Diversification
as of June 30, 2017

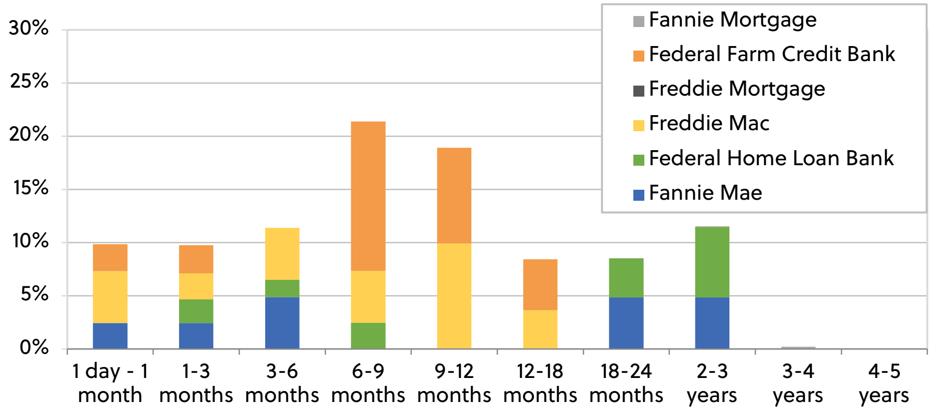


All calculations above are based on total cash equivalents exposure, not overall Portfolio.
***Percentages may not total to 100% due to rounding.*

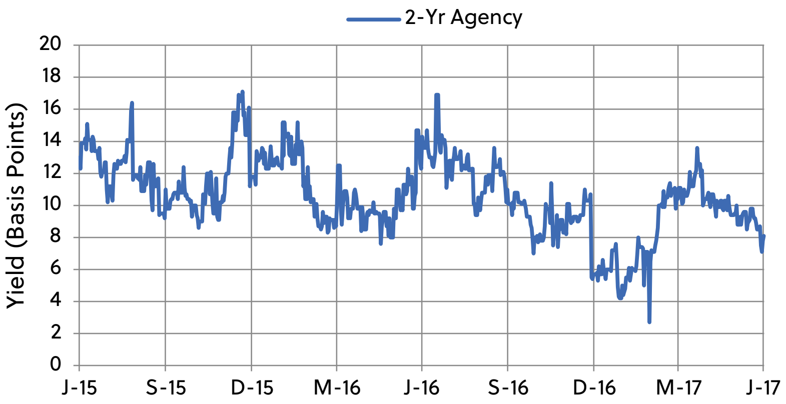
II. Sector Allocation – Federal Agencies

Topic	Observations
Maturity Distribution	• The County's federal agency maturity distribution falls within the limits set forth by the Investment Policy Statement. • Over the quarter, the County's weighted average maturity (WAM) of federal agency holdings decreased by 25 days, from 356 days on March 31st to 331 days on June 30th. – The County prefers short-term federal agencies and longer-term U.S. Treasuries. This is evident by, as of June 30, 2017, 71% of agency allocations being invested in maturities less than 12 months, versus 38% of U.S. Treasury allocations. Of the agency and U.S. Treasury allocations invested in maturities under a year, 31% of federal agency allocations and 16% of U.S. Treasury allocations were invested in maturities less than 6 months. – Conversely, while 29% of agency allocations were invested beyond 1 year, 62% of Treasury allocations were invested beyond 1 year. This "short/long" relationship between Treasuries and agencies illustrates the cross-sector value along the yield curve. o The overweight to shorter-term agencies can be attributed to the combination of: (1) Previously purchased longer-term agencies being held and naturally drifting shorter, and (2) Targeting purchases of longer-term Treasuries due to the relatively 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 U.S. Treasury security is typically preferred for this area of the yield curve.

Federal Agency Maturity Distribution by Name
as of June 30, 2017



2-Year Federal Agency Yield Spreads
Past 24 Months



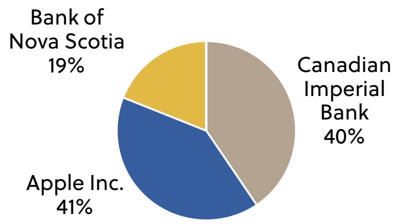
** Source Bloomberg Financial Systems*

- *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.*

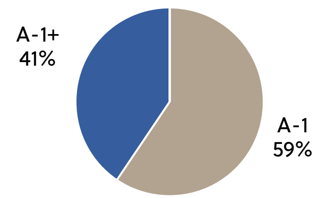
II. Sector Allocation – Commercial Paper

Topic	Observations
Issuer Diversification	• The County's allocations to commercial paper decreased over the quarter, by approximately $99 million, and now account for 3.6% of the total portfolio, down from 5.5% at the end of the first quarter. • The portfolio now owns commercial paper of three issuers: Apple Inc. and Canadian Imperial Bank, which were also held during the first quarter, and Bank of Nova Scotia, which was added in the second quarter. • Yield spreads on commercial paper relative to U.S. Treasuries or Federal Agencies continue to narrow from their exceptionally wide levels of late 2016 and early 2017. The incremental yield offered is now modest but commercial paper continues to outperform compared to similar term Treasuries. – "Rolling" short-term commercial paper is an attractive investment strategy relative to most other short-term permitted investment options in the current fixed income market. • All current allocations meet the guidelines set within the Investment policy.
Credit Distribution	• Standard & Poor's rates the short-term credit of Apple Inc. as A-1+, and Canadian Imperial Bank and Bank of Nova Scotia as A-1. • Moody's rates the short-term credit of all of the County's CP issuers as P-1.
Conclusions	• High-quality commercial paper has offered a noticeable yield advantage relative to similar maturity Treasury and agency securities over the past several years. This yield advantage of commercial paper is even more pronounced at longer maturities and has grown with regulatory changes to money market mutual funds. With the tightening of yield spreads compared to Treasuries, as well as the expected reduction to the Fed's balance sheet holdings later this year, the commercial paper sector may not continue to be as valuable. • Utilizing short term commercial paper helps the County to offset the purchasing of longer term securities while still maintaining a short duration position. These commercial paper investments generally offer greater yields than other short term securities and overnight investments.

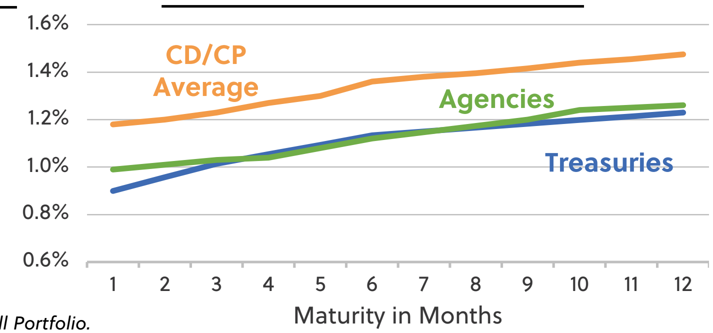
Issuer Distribution
as of June 30, 2017



Credit Distribution
as of June 30, 2017



Current Short-Term Yields
as of June 30, 2017



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

* Source Bloomberg Financial Systems

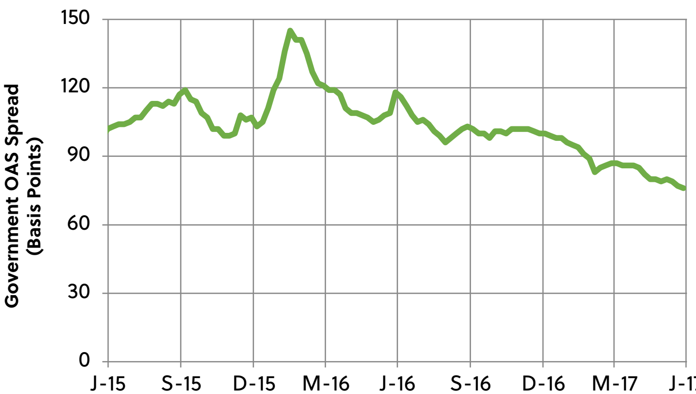
II. Sector Allocation – Corporate Notes

Topic	Observations
Issuer Diversification	• The County decreased allocations over the quarter to high-quality corporate notes. This sector accounts for 15.7% of the overall portfolio totaling approximately $1.1 million. • Of the County's allocations to corporate notes, $366 million is allocated to callable structures; however, all of the callable corporate holdings have a "next call date" that is approximately one month before their respective final maturity. As a result, 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 note holdings to the next call date, the weighted average maturity of these investments is 1.5 years. • Of the County's total allocation to this sector, 71% is allocated to maturities beyond 1 year. • On May 10, 2017 Moody's Investors Service downgraded the long-term credit ratings of six Canadian banks and their affiliates (highlighted below), reflecting Moody's expectation of a more challenging operating environment for banks in Canada for the rest of 2017 and thereafter, which could lead to deterioration in their asset quality and an increase sensitivity to external shocks. ** — Permitted investment guidelines are restricted to 2% per issuer rated in broad single A category, putting Royal Bank of Canada just slightly over the policy limit per the new Moody's downgrade. — However, since all RBC notes were purchased prior to 9/15/16, they are grandfathered for purposes of issuer limits and can be held to maturity.

Credit & Issuer Distribution	S&P Short	S&P Long	Moody's Short	Moody's Long	% of Corporate Holdings	% of Portfolio
US Bank	A-1+	AA-	P-1	Aa1	13.87%	2.18%
Royal Bank of Canada	A-1+	AA-	P-1	A1	13.04%	2.05%
Microsoft Corp.	A-1+	AAA	P-1	Aaa	11.16%	1.75%
Toronto Dominion Bank	A-1+	AA-	P-1	Aa2	9.77%	1.53%
Wells Fargo Bank	A-1+	AA-	P-1	Aa1	8.86%	1.39%
Bank of Montreal	A-1	A+	P-1	A1	8.49%	1.33%
Bank of Nova Scotia	A-1	A+	P-1	A1	6.55%	1.03%
Walt Disney Co	A-1	A+	P-1	A2	4.86%	0.76%
PNC Bank	A-1	A	P-1	Aa2	4.69%	0.74%
Bank of America	A-1	A+	P-1	A1	4.21%	0.66%
JP Morgan Chase	A-1	A+	P-1	Aa2	3.99%	0.63%
Apple Inc.	A-1+	AA+	P-1	Aa1	3.17%	0.50%
Canadian Imperial Bank	A-1	A+	P-1	A1	2.78%	0.44%
Colgate-Palmolive Co	A-1+	AA-	P-1	Aa3	2.70%	0.42%
Proctor & Gamble Co	A-1+	AA-	P-1	Aa3	1.87%	0.29%

Percentages may not total to 100% due to rounding.
***Source Moody's*

1-5 Year Financial Corporate/Treasury Yield Spreads
June 2015 through June 2017

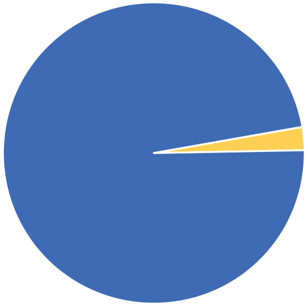


* *Source Bloomberg Financial Systems*

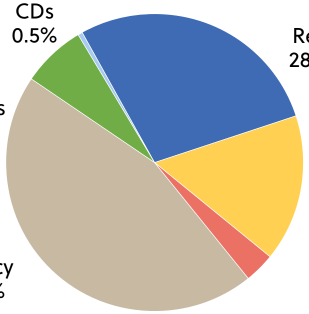
II. Sector Allocation – LGIPs and Cash Equivalents

	Underlying Investments	Rating (Short-Term: S&P/ Moody's/Fitch)	Observations
Washington State LGIP	• Federal Agencies 45.3% • U.S. Treasuries 16.0% • Cash Equivalents 6.9% • Certificates of Deposit 0.5% • Repurchase Agreements 28.0% • Supra National Agencies 3.3% *As of June 30, 2017*	• N/A	• The County currently has allocated $712 million to the Washington State LGIP, which is an increase of approximately $87 million over the previous quarter. • The County's allocation to the State LGIP continues to serve as the primary overnight liquidity vehicle for the portfolio. • The State LGIP increased repurchase agreements by approximately 11.7%, while U.S. Treasuries decreased by 8.4% and Federal Agencies by 2.6%. CDs, supra national agencies and cash equivalents experienced 1-2% changes in percentage allocations over the quarter.
Cash Equivalents	• State LGIP 97.5% • U.S. Bank 2.0% • Key Bank 0.5% • Bank of America 0.1%	• 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 collateralized by the Public Deposit Protection Commission. • The County decreased allocations to bank deposits by approximately $101 million over the quarter, down to $18 million. The U.S. Bank account represents 80% of the Pool's bank deposit allocations (Key Bank 17% and Bank of America 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 continues to provide incremental yield advantages relative to many shorter-term investment options of similar maturity.

Cash Equivalents Distribution
as of June 30, 2017



Washington State LGIP Sector Distribution
as of June 30, 2017

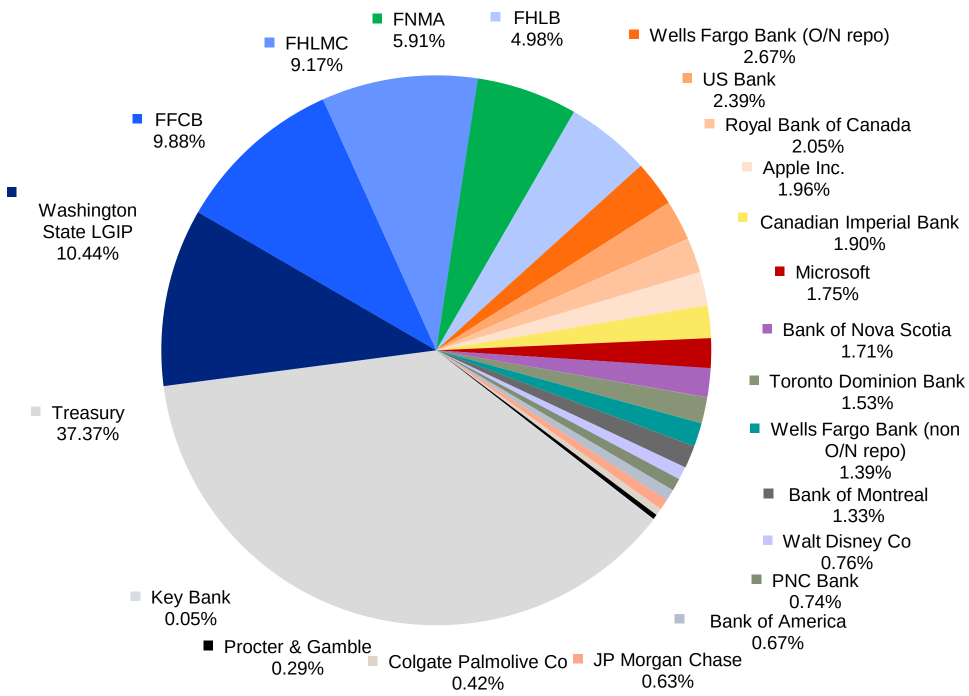


**All calculations above are based on total cash equivalents exposure, not overall Portfolio.*
***Percentages may not total to 100% due to rounding.*

III. Issuer Concentration

Issuer Exposure	
	• The County continues to maintain a well-diversified portfolio by issuer, as is evidenced by the chart below. • Approximately 67% of the portfolio is allocated directly to U.S. government guaranteed or government supported entities. • Of the remaining 33% of the portfolio, 14% is allocated to ultra short-term or overnight investment vehicles, including the State LGIP, repurchase agreements, and bank deposits. The remaining 19% is allocated to credit issuers, including commercial paper and corporate 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 78%. • With a few maturities of commercial paper in the portfolio, the County invested in one new CP issuer, Bank of Nova Scotia, which has been an issuer consistently used by the County in the past. There were no new corporate note issuers this quarter.

Issuer Distribution	Value	Percentage	Issuer Limit
Treasury	2,548,807,360	37.37%	100%
Washington State LGIP	712,239,468	10.44%	25%
FFCB	673,836,295	9.88%	35%
FHLMC	625,568,735	9.17%	35%
FNMA	403,383,142	5.91%	35%
FHLB	339,807,505	4.98%	35%
Wells Fargo Bank (O/N repo)	182,000,000	2.67%	25%
US Bank	162,838,199	2.39%	5%
Royal Bank of Canada	139,562,200	2.05%	5%
Apple Inc.	133,650,853	1.96%	5%
Canadian Imperial Bank	129,383,450	1.90%	5%
Microsoft	119,482,865	1.75%	5%
Bank of Nova Scotia	116,688,790	1.71%	5%
Toronto Dominion Bank	104,583,973	1.53%	5%
Wells Fargo Bank (non O/N repo)	94,868,100	1.39%	5%
Bank of Montreal	90,868,624	1.33%	5%
Walt Disney Co	51,992,040	0.76%	5%
PNC Bank	50,214,300	0.74%	5%
Bank of America	45,608,564	0.67%	5%
JP Morgan Chase	42,678,518	0.63%	5%
Colgate Palmolive Co	28,929,334	0.42%	5%
Procter & Gamble	20,036,400	0.29%	5%
Key Bank	3,127,257	0.05%	5%
Total	$6,820,155,971	100.00%	



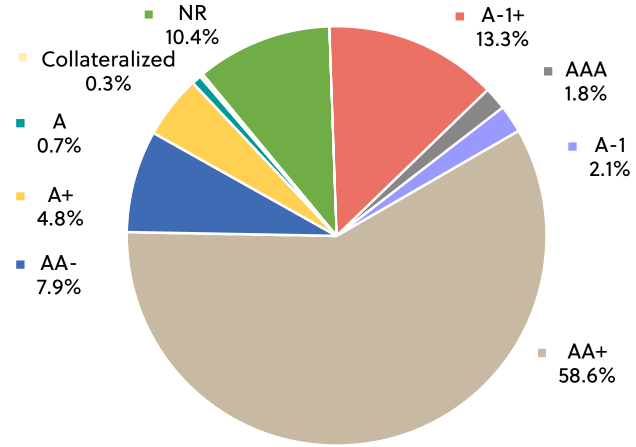
Percentages may not add to 100% due to rounding.
** For the purposes of totaling issuer concentration, issuers are aggregated across all sector types. It is noted however that issuers across sector types may maintain separately rated issuer credits.*

IV. Overall Credit Quality

County Investment Pool Credit Analysis

- The County Pool's overall average credit position 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.
- The County decreased its credit exposure through commercial paper and corporate notes by approximately $27 million over the quarter, ending at approximately 19.3% of the portfolio.
  - Commercial paper now accounts for 3.6% of the entire portfolio, while corporate notes account for 15.7%.
- Allocations were maintained to corporate notes for all previously held issuers and commercial paper allocations were maintained for Canadian Imperial Bank and Apple Inc.
  - One new commercial paper issuer was added throughout the quarter, Bank of Nova Scotia, with an average rating of A+.
  - Corporate note allocations held throughout the quarter have ratings of A/A1 or higher.
  - Commercial paper allocations are all rated A-1/P-1 or higher.
- On May 10, 2017 Moody's Investors Service downgraded the long-term credit ratings of six Canadian banks and their affiliates (highlighted below), reflecting Moody's expectation of a more challenging operating environment for banks in Canada for the rest of 2017 and thereafter, which could lead to deterioration in their asset quality and an increase sensitivity to external shocks. **
  - Permitted investment guidelines are restricted to 2% per issuer rated in broad single A category, putting Royal Bank of Canada just slightly over the policy limit per the new Moody's downgrade.
  - However, since all RBC notes were purchased prior to 9/15/16, they are grandfathered for purposes of issuer limits and can be held to maturity.
- The 10.4% NR allocation represents the County's investment in the Washington State LGIP, which is not currently rated by any ratings agency.
- The County's investment in the Washington LGIP includes indirect corporate exposure:
  - Through the LGIP, 3.0% of the County's Pool is allocated indirectly to corporate securities (repurchase agreements and certificates of deposit).

Total Pool Credit Distribution*
as of June 30, 2017



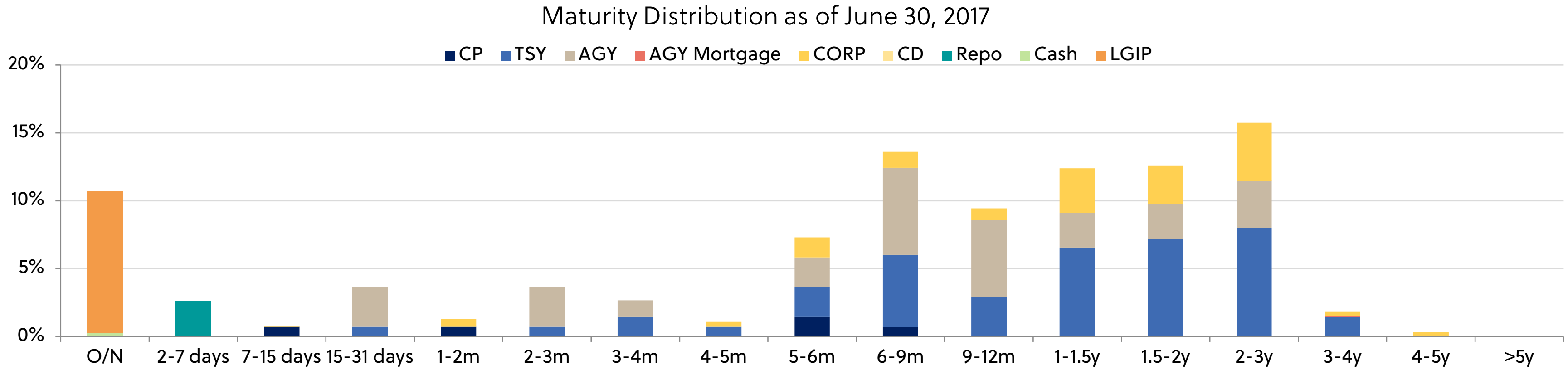
Corporate/CP Issuer Ratings Table
as of June 30, 2017

Issuer Distribution	Sectors Invested	S&P Short	S&P Long	Moody's Short	Moody's Long
Royal Bank of Canada	Corp	A-1+	AA-	P-1	A1
US Bank	Corp	A-1+	AA-	P-1	Aa1
Toronto Dominion Bank	Corp	A-1+	AA-	P-1	Aa2
Wells Fargo Bank	Corp	A-1+	AA-	P-1	Aa1
Bank of Montreal	Corp	A-1	A+	P-1	A1
Bank of Nova Scotia	Corp/CP	A-1	A+	P-1	A1
Walt Disney Co	Corp	A-1	A+	P-1	A2
PNC Bank	Corp	A-1	A	P-1	Aa2
Bank of America	Corp	A-1	A+	P-1	A1
JP Morgan Chase	Corp	A-1	A+	P-1	Aa2
Microsoft Corp.	Corp	A-1+	AAA	P-1	Aaa
Canadian Imperial Bank	Corp/CP	A-1	A+	P-1	A1
Colgate-Palmolive Co	Corp	A-1+	AA-	P-1	Aa3
Proctor & Gamble Co	Corp	A-1+	AA-	P-1	Aa3
Apple Inc.	Corp/CP	A-1+	AA+	P-1	Aa1

*Ratings by S&P; percentages may not add to 100% due to rounding.
** Source Moody's

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, in line with the previous quarter-end and well above the 40% mandated by the investment policy. • It appears the County's maturity strategies over the past several quarters have included: – Allowing previously purchased, longer-dated U.S. Treasury, federal agency, and corporate bank note investments to naturally shorten in maturity and roll-down the yield curve. – Targeting purchases in the following spaces: o Agency Notes in the 9-month maturity range, where allocations increased by 8% over the quarter. o U.S. Treasuries in the 2- to 3-year maturity range. • The WAM of the portfolio ended the first quarter at 390 days, slightly down from 392 days at previous quarter-end. – The reduction in portfolio WAM can primarily be attributed to short-term agency purchases, along with increases in repurchase agreements.
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 13.4% (or $912 million) invested in a combination of the Washington State LGIP, bank deposits, and repurchase agreements (overnight liquidity), an additional 4.5% 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 during the third quarter of 2017. On average, over the past five years, the County has experienced an average net cash outflow of $294 million in quarters ended September 30.

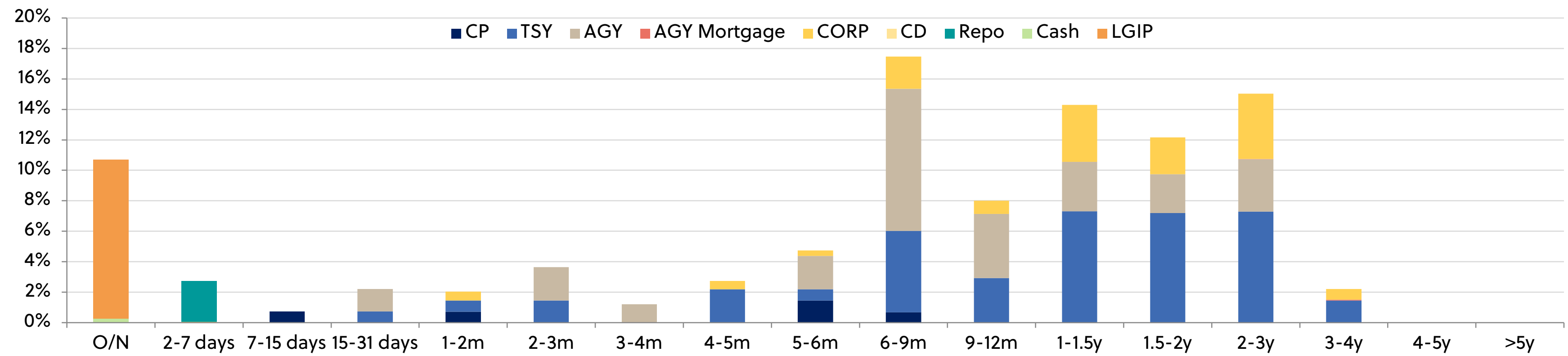


Agency Mortgage maturities are reported as average life. Average life data taken from Bloomberg Financial Markets
Callable securities shown to their call date.
All other security maturities are reported as days to maturity. WA LGIP is considered to have a one day maturity.

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. 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	• The portfolio's weighted average duration is within the IPS guidelines (no greater than 1.5 years). • As of June 30th, the duration of the County Investment Pool was 1.06 years, a slight decrease from the previous quarter which ended at 1.07 years. – The decrease in portfolio duration can be attributed to purchases of securities in the 0- to 9-month maturity range. • For performance and duration comparison purposes, the portfolio is measured against a blended benchmark consisting of 40% Bank of America Merrill Lynch 3-Month Treasury Index and 60% Bank of America Merrill Lynch 1-3 Year Treasury & Agency Index. – The Pool still maintains a defensive duration bias which is evident by the Pool ending at 93% of the benchmark's duration of 1.09 years, in line with the previous quarter. – In anticipation of continued rising rates, a more defensive duration bias helps mitigate the adverse impact that potential interest rate increases may have on market value.

Duration Distribution as of June 30, 2017

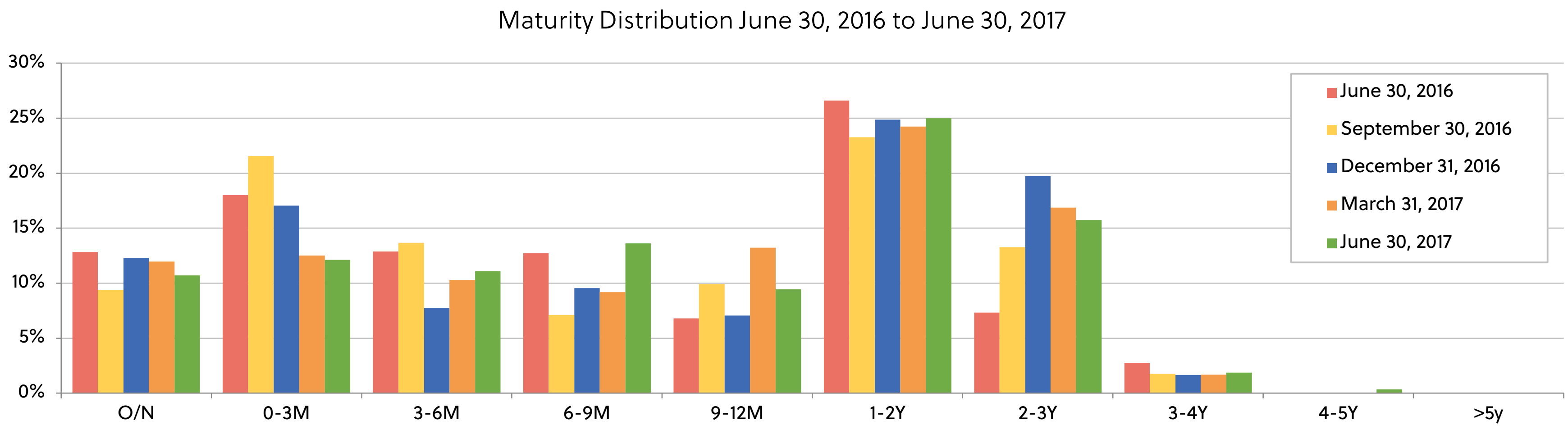


Agency Mortgage durations are shown as effective duration taken from Bloomberg Financial Markets.
Duration for Federal Agency Discount Notes and Repurchase Agreements are calculated as days to maturity. WA LGIP and bank deposits considered to have a one day duration.
All other security durations are 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 (green bars) in relation to previous periods, a few primary observations are noted:
  - It appears the County targeted increased allocations in the 6- to 9-month portion of the yield curve during the second quarter of 2017.
  - Compared to 12 months ago, the County has shifted from shorter-term investments such as the 0- to 3-month range to target longer-term investments specifically the 2- to 3-year range, shown below.
    - Targeting these areas of the curve could offer additional income potential and roll-down opportunities, which add value in a rising rate environment.
    - The increase in allocations to the 6- to 9-month and 2- to 3-year maturity ranges are due to increases in both, short-term federal agency purchases and longer-term U.S. Treasury purchases.
  - Overnight allocations appeared to have held steady over the quarter.
  - The portfolio targeted the 0- to 9-month maturity range, most likely in anticipation of the historical liquidity need in the third quarter.
- 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 30, the average net outflow to the Investment Pool was $294 million.
  - Over the past five years, for the quarters ending December 31, the average net inflow from the Investment Pool was $357 million.



Agency Mortgage maturities are reported 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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