King County Investment Pool

Portfolio Review

Quarter Ended March 31, 2014

PFM Asset Management LLC

Presented by:

PFM Asset Management LLC

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Executive Summary

Purpose, Scope and Approach	• PFM Asset Management LLC (“PFM”) prepared this report to update our ongoing analysis and to address any Investment Pool developments since our December 2013 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 March 31, 2014, with reference to holdings in past periods. • The review encompasses all current investments in the County’s Investment Pool.
Investment Program and Portfolio Review	• PFM reviewed the County’s portfolio with respect to Investment Policy Compliance, Sector Allocation, Issuer Concentration, Credit Quality, Maturity Distribution, and Duration Distribution. • 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	• During a press conference after the March 18-19 meeting of the Federal Open Market Committee (FOMC), Fed Chair Janet Yellen commented that the federal funds target rate could rise as soon as six months after the Fed completed its bond-buying program. However, Ms. Yellen softened her message at the end of the quarter, stating that the Fed would remain accommodative for “some time” to help those who are currently unemployed. • The majority of FOMC participants indicated that 2015 is the appropriate time to begin increasing the federal funds target rate. • Interest rates continued to normalize from record lows. The Treasury yield curve became more humped, as intermediate-term maturity yields rose, while short-term rates remained low and longer-maturity yields fell modestly.
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 trend of increasing relative allocations to federal agency securities and reducing allocations to US Treasuries was reversed during the quarter. This quarter, the relative decrease in federal agency securities was the result of a net decrease in the sector to the tune of approximately $750 million. The converse is true for allocations to the US Treasury sector, as a net total of $494 million was added to the sector, focused in the 2-5 year maturity range, which benefits from recent increases in Treasury yields as a result of Fed bond purchasing tapering. • Seasonality of cash flows resulted in a net outflow in the County’s Investment Pool of $257 million over the quarter. For perspective, over the previous past four years during the first quarter, the County’s portfolio has averaged a net outflow of $250 million. Looking forward to historical second quarter activity, the Pool, on average over the last four years, incurs a net inflow of $370 million. • Periods of large net cash inflows provide the opportunity to invest a portion of new funds into slightly longer maturities at potentially higher yields and to align future maturities with future liabilities. During the quarter, the portfolio’s WAM increased (from 353 days to 415 days), the Pool was able to extend Treasury purchases, potentially positioning the portfolio for higher income over the near term. • To help balance the WAM of the portfolio and the Treasury maturity extensions taken-on during the quarter, the County Pool also increased allocations to overnight investments (including the State LGIP and repurchase agreements) from 23% to 25%. • As of March 31st, the duration of the County Investment Pool is 1.43 years, up from a duration of 1.28 years on December 31st. The modest increase in portfolio duration can be largely attributed to the increase in new US Treasury purchases made during the quarter as well as the County’s allocation to callable agencies becoming less likely to be called as a result of recent yield increases.

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

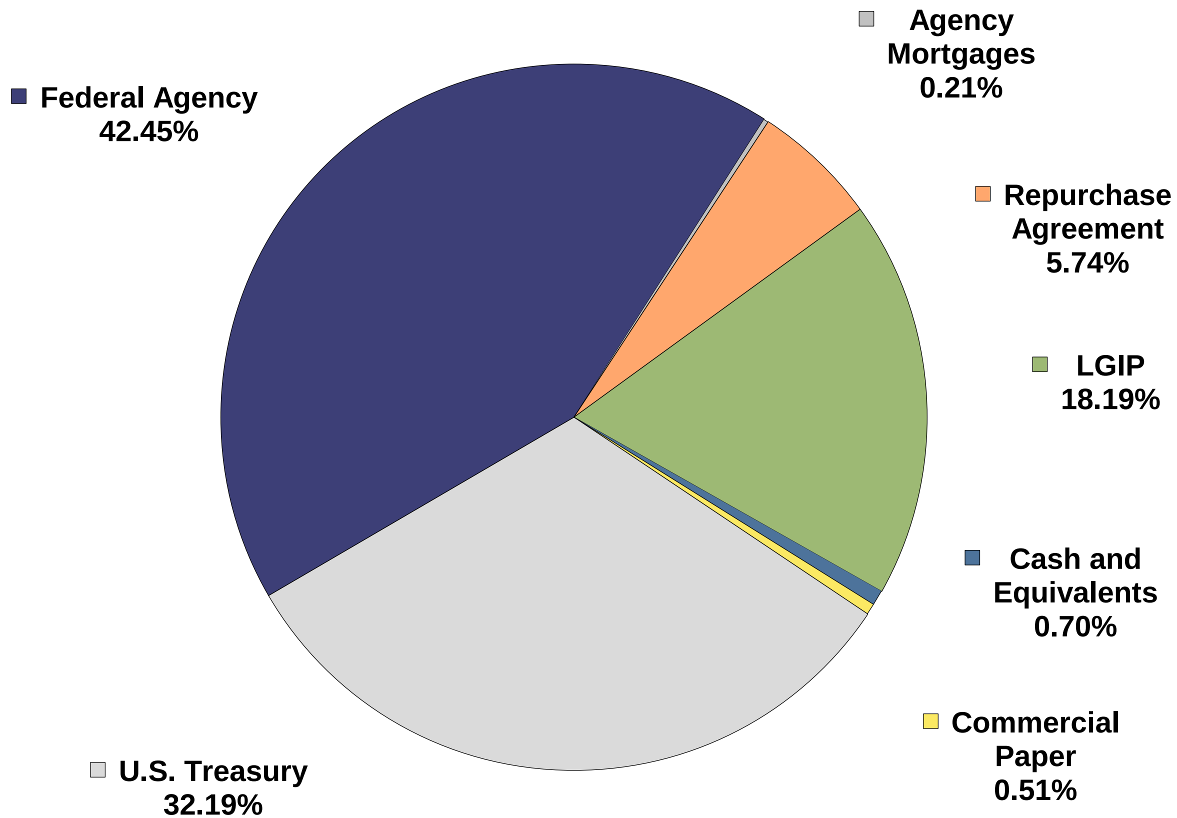
Topic	Observations
Sector Allocation	• All sector allocations fall within the limits set forth by the County's Investment Policy Statement. The Pool is predominantly invested in U.S. government securities which are either explicitly guaranteed or carry a high level of support by the U.S. government. • The largest change in the County's allocations over the quarter was a decrease to Federal Agency (non MBS) allocations from 55.0% to 42.5%, a net decrease totaling nearly $750 million. After reaching a two-year highmark allocation to the federal agency bullet sector of $2.8 billion for 4Q13, the County's allocations a saw reversal in this trend, as federal agency bullet allocations decreased by 12.5%. The allocation to US Treasuries increased 11.3% to 32.2%. • Additionally, after several quarters of minimal allocations to repurchase agreements and increasing allocations to bank deposits, the Pool also bucked this trend during 1Q14, as bank deposit allocations (-4.5%) appeared to be reallocated to repurchase agreements (+4.9%).
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, 70% of the LGIP is invested in U.S. Treasuries or Federal Agencies. • Similar to the County Pool, the LGIP also added to US Treasury (+5.5%) and repurchase agreements (+8.1%) allocations over the quarter, while decreasing allocations to federal agencies (-14.7%). • The County's cash equivalents (bank deposits) are collateralized by high quality securities. • The Pool also continued to hold the previously purchased, high-quality Proctor & Gamble commercial paper (rated A-1+ by Standard & Poor's and P-1 by Moodys) totaling approximately 0.50% 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 and bank deposits) to a US Treasury Note with a maturity date of December 31, 2018 (4.8 years). Approximately 60% of the County's assets mature in one year or less and approximately 50% 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	33,759,374	0.70%	✓	1 day	✓
Commercial Paper	24,740,066	0.51%	✓	86 days	✓
Repurchase Agreements	278,000,000	5.74%	✓	1 day	✓
LGIP	880,780,398	18.19%	✓	1 day	✓
Federal Agencies (non MBS)	2,055,163,123	42.45%	✓	4.15 years	✓
Agency Mortgages	10,280,102	0.21%	✓	4.36 years (WAL)	✓
Certificates of Deposit	0	0.00%	✓	N/A	✓
Municipal Bonds	0	0.00%	✓	N/A	✓
U.S. Treasury	1,558,537,560	32.19%	✓	4.76 years	✓

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

II. Sector Allocation

Sector Diversification
as of March 31, 2014



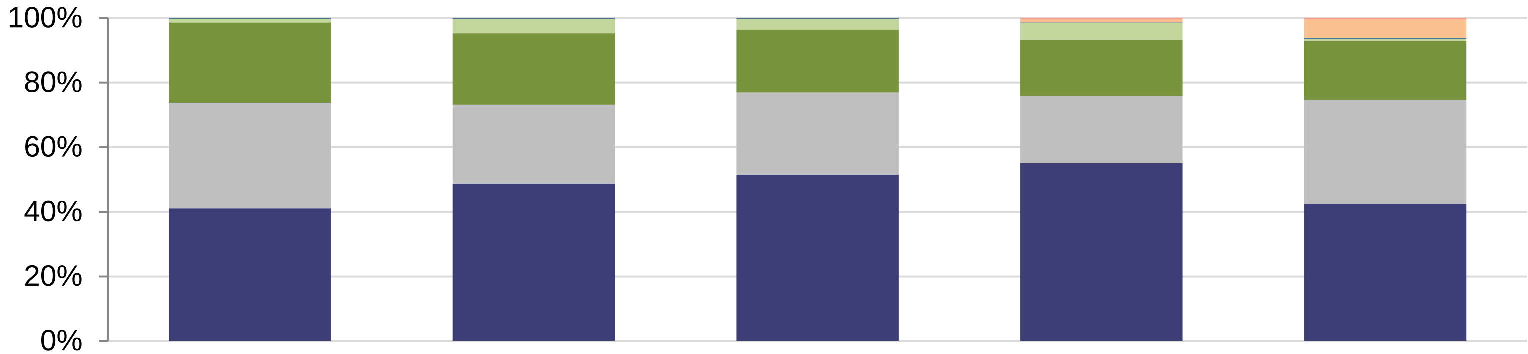
**Percentages may not total to 100% due to rounding.*

II. Changes in Portfolio Sector Allocation Over Past 12 Months

Changes in Sector Allocation

- The County's investment pool trend of increasing relative allocations to federal agency securities and reducing allocations to US Treasuries and the State LGIP was reversed during the quarter. This quarter, the relative decrease in federal agency securities was the result of a net decrease in the sector of approximately $750 million. The converse is true for allocations to the US Treasury sector, as a net total of $494 million was added to the sector, focused in the 2-5 year maturity range which targets the steeper portions of the yield curve.
  - As the Federal Reserve reinforced the continuance of Fed bond purchase tapering at their late-December 2013 meeting, the yields of US Treasury securities of maturities greater than 2 years increased relatively significantly through year-end and remained near their elevated levels through much of 1Q14.
- Also, after several quarters of zero balances in repurchase agreements, the County once again found value in this sector, as allocations increased to 5.7% of the Pool's assets over the quarter, while cash and equivalents (primarily bank deposits) fell by over 4% for the quarter.
  - Yields on overnight repurchase agreements have increased of late and, at 5 to 6 basis points in yield, a discount note would need to be purchased at approximately 3 months to match the yield on overnight repurchase agreements.

Sector Allocation March 2013 – March 2014



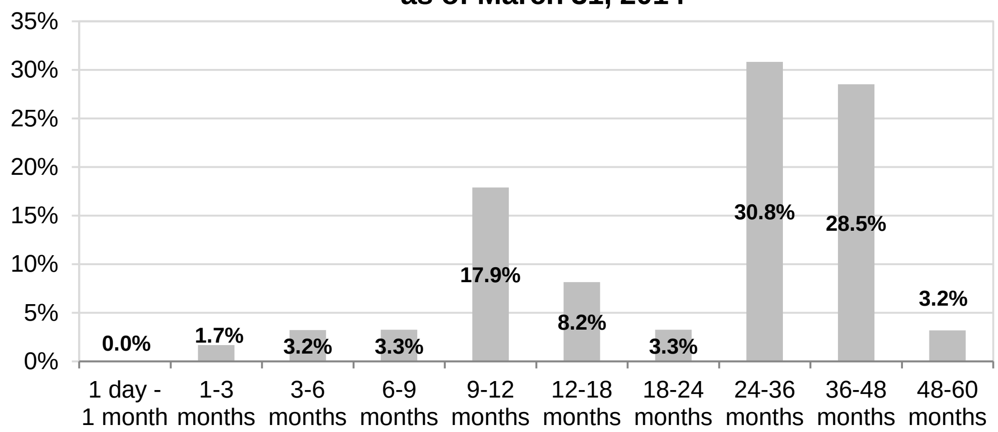
	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013	March 31, 2014
Federal Agencies	41.08%	48.74%	51.48%	54.99%	42.45%
U.S. Treasury	32.72%	24.46%	25.50%	20.89%	32.19%
Washington State LGIP	24.78%	22.09%	19.44%	17.35%	18.19%
Cash and Equivalents	1.07%	4.44%	3.32%	5.19%	0.70%
Agency Mortgages	0.35%	0.27%	0.26%	0.22%	0.21%
Municipal Notes	0.00%	0.00%	0.00%	0.00%	0.00%
Repurchase Agreements	0.00%	0.00%	0.00%	0.88%	5.74%
Commercial Paper	0.00%	0.00%	0.00%	0.49%	0.51%

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

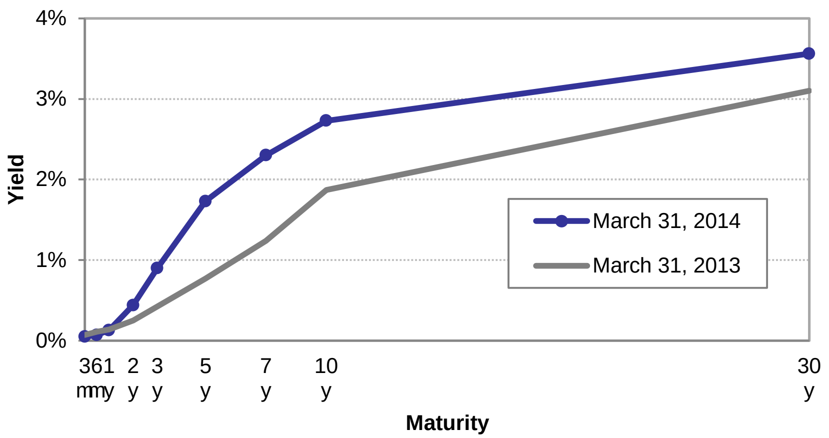
II. Sector Allocation – U.S. Treasury Securities

Topic	Observations
Observations	• As mentioned, the County's overall allocation to U.S. Treasuries increased to 32.2% of the total portfolio, compared to 20.9% at the end of the previous period. This percentage increase to the Treasury sector translates to a net increase of approximately $494 million. • It appears that the majority of this increase can be directly attributed to Treasury securities with remaining maturities in the 2 to 5 year maturity range. • The impact of Fed policy on fixed income yields during the quarter was most likely a primary driver of the large allocation change and the targeted new purchases in the steeper portions of the yield curve, specifically in US Treasury maturities greater than two years. • As a result, over the quarter the County's weighted average maturity (WAM) of its Treasury allocation increased from 687 days on December 31st to 799 days on March 31st. • 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 10% is invested in securities with remaining maturities of less than 9 months. • Meanwhile, intermediate- to longer-term maturity Treasuries (2 – 5 years) have incrementally higher value 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 (as shown in the chart below on the right). • The majority of the County's allocations to US Treasury securities is targeted to the steepest portions of the US Treasury yield curve.

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



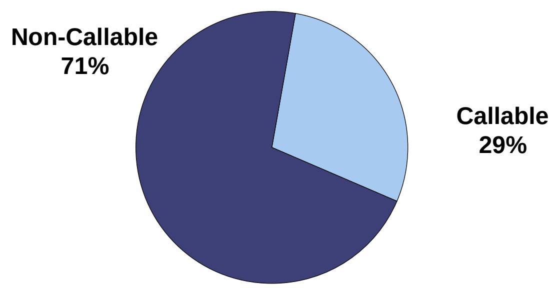
U.S. Treasury Yield Curve March 31, 2014 versus March 31, 2013



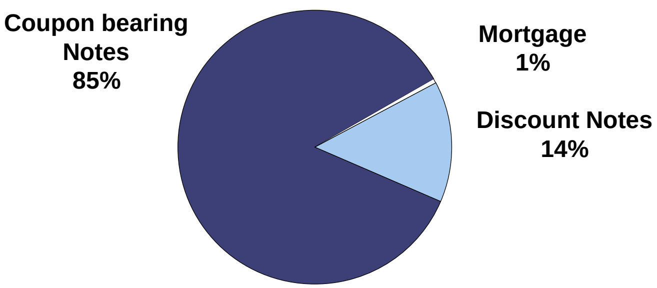
II. Sector Allocation – Federal Agencies

Topic	Observations
Structure	• Non-Callable 71% • Callable 29% • Discount Notes 14% • Coupon bearing Notes 85% • Agency Mortgage 1%
Diversification	• Freddie Mac (FHLMC) 28% • Federal Home Loan Bank (FHLB) 31% • Fannie Mae (FNMA) 26% • Federal Farm Credit Bank (FFCB) 15% • Freddie Mac Mortgage-Backed (FHR) 0% • Fannie Mae Mortgage-Backed (FNR) 1%
Conclusions	• The County's Federal Agency allocation continues to be well diversified among the four major issuers and among security structures. • As mentioned, Federal Agency allocations decreased over the quarter by nearly $750 million or 12.5%. This appears to be largely due to Treasury/agency spread tightening and, in some cases, agencies having yields below comparable Treasury securities. Nevertheless, allocations to the federal agency sector remain the largest portion of the County's portfolio, totaling approximately $2.1 billion or 42.5% of the total portfolio. • Despite the large reduction of federal agency exposure over the quarter, allocations within the federal agency sector remained relatively unchanged. That is, the ratio of non-callable to callable securities remained similar over the quarter (71%/29% current versus 73%/27% previously). • The same relatively constant agency structure distribution can be said as well, with coupons (including both bullet and callable) and discount notes remaining near their current allocations of 85% and 14%, respectively. • The primary difference in the County's federal agency allocations during the quarter, from a structural and/or issuer perspective, is a relative allocation increase of 2% to 3% to Freddie Mac and Federal Farm Credit and a decrease in Federal Home Loan Bank allocations of approximately 4%. These changes, albeit minor, appear to be the result of sales, maturities, or calls in specific securities, versus new purchases or reinvestments back into the agency sector. • The County Pool's only remaining allocation to Agency mortgages is in Fannie Mae pools, totaling approximately $10.3 million.

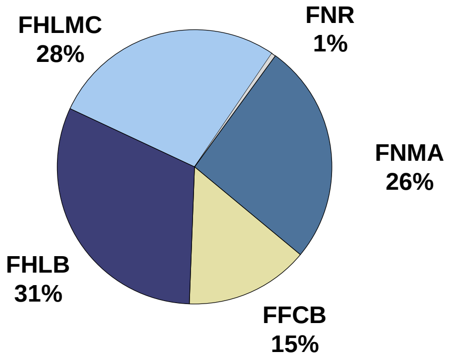
Callable vs. Non-Callable
as of March 31, 2014



Structure Distribution
as of March 31, 2014



Issuer Diversification
as of March 31, 2014

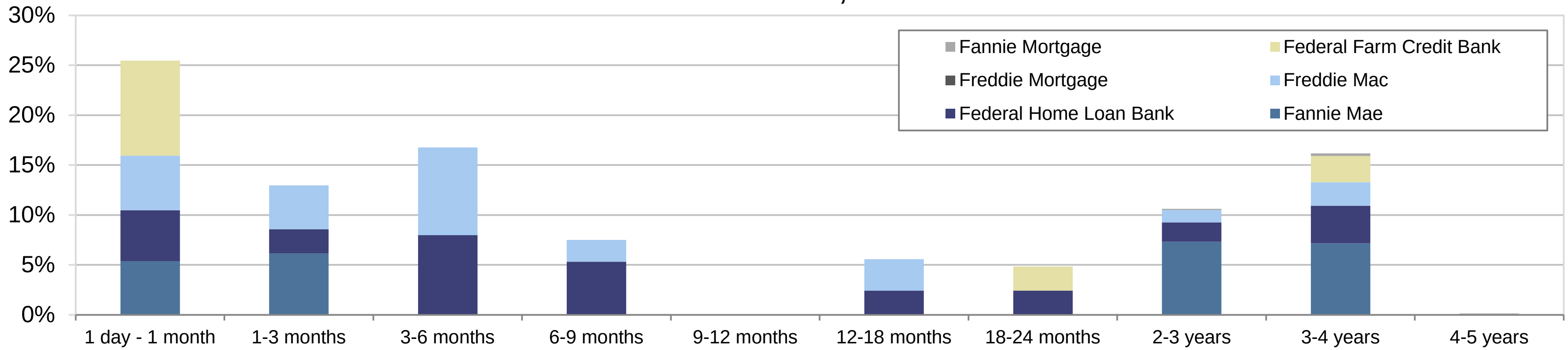


**All calculations above are based on total cash equivalents exposure, not overall Portfolio.*
***Percentages may not total to 100% due to rounding.*

II. Sector Allocation – Federal Agencies

Topic	Observations
Maturity Distribution	• The County's Federal Agency maturity distribution falls within the limits set forth by its Investment Policy Statement. • Federal Agency securities are diversified between maturities of less than one month to 4.2 years (viewing callable securities to their call dates). Weighted average life for mortgage-backed Federal Agencies ranges from 2.4 years to 4.4 years. • As mentioned, the Pool's allocation to federal agencies was reduced during the quarter. While the security structure and issuer distribution remained relatively constant over the quarter, the agency maturity distribution experienced more noticeable changes. • Over the quarter, the County's weighted average maturity (WAM) of Federal Agency allocations increased approximately 60 days, from 358 days on December 31st to 415 days on March 31st. – The County's federal agency allocations declined (or were reduced) by approximately $750 million during the quarter. – The large net outflow was primarily the result of maturities, called securities, or sales during the quarter. In fact, it appears that the County purchased no new agency securities during 1Q14. – The WAM of the County's federal agency portfolio increased due to the "natural" lengthening of the federal agency portfolio or more shorter term agencies maturing and being called or sold compared to the County's positions in agencies with maturities greater than two years. • The County's Federal Agency maturity distribution takes on somewhat of a "barbelled" structure, which is an effective strategy in the current market when balancing liquidity and incremental yields.

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

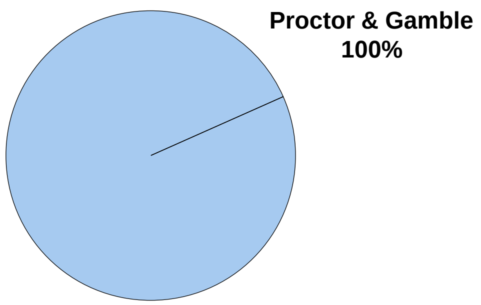


- Agency Mortgage maturities are calculated as average life. Average life data taken from Bloomberg Financial Markets
- Callable securities are shown to their next call date.
- All other Agency maturities are calculated as days to maturity.

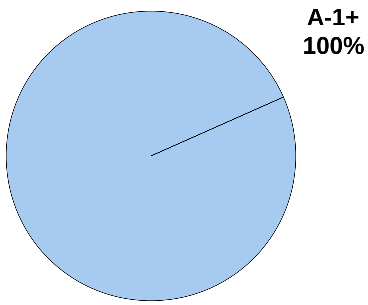
II. Sector Allocation – Commercial Paper

	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 $25 million. • It appears that the County reinvested the proceeds of a Proctor & Gamble commercial paper maturity during the quarter (late March), in a new Proctor & Gamble commercial paper issue scheduled to mature in late June. • 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 10 basis points. For perspective (and as show 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 6 to 7 months, versus the 3-month Proctor & Gamble issue.

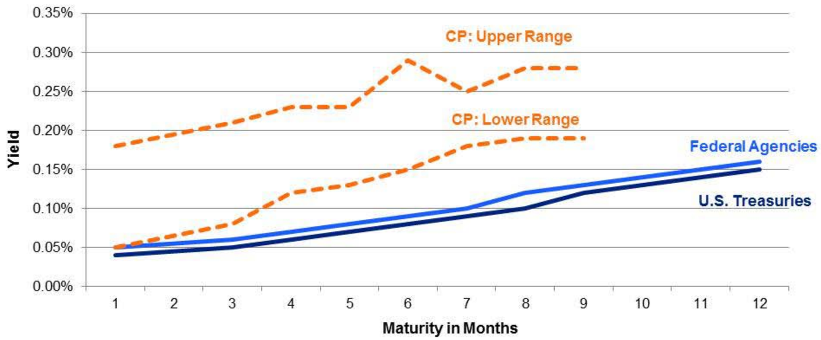
Issuer Distribution
as of March 31, 2014



Credit Distribution
as of March 31, 2014



Current Short-Term Yields
as of March 31, 2014

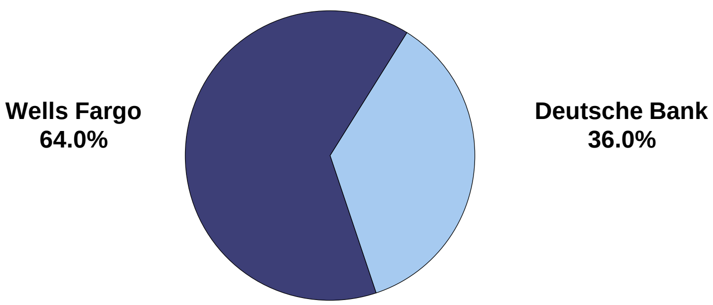


**All calculations above are based on total commercial paper exposure, not overall Portfolio.*
***Percentages may not total to 100% due to rounding.*

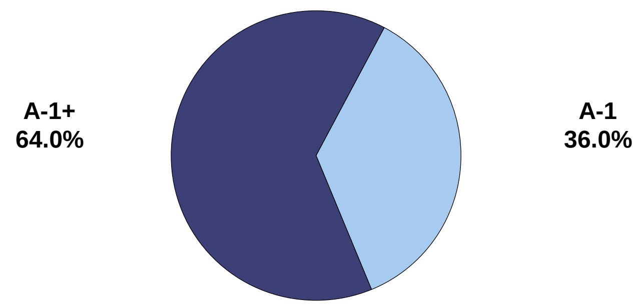
II. Sector Allocation – Repurchase Agreements

	Observations
Issuer Diversification	• The County added to tri-party repurchase agreement exposure over the quarter, increasing overall allocation to 5.7% of the total portfolio, up from 0.9% at the previous quarter-end. • The portfolio now owns tri-party repurchase agreements with Wells Fargo ($178 million) and Deutsche Bank ($100 million). • 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 5 to 15 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 8 and 12 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 Distribution
as of March 31, 2014



Credit Distribution
as of March 31, 2014

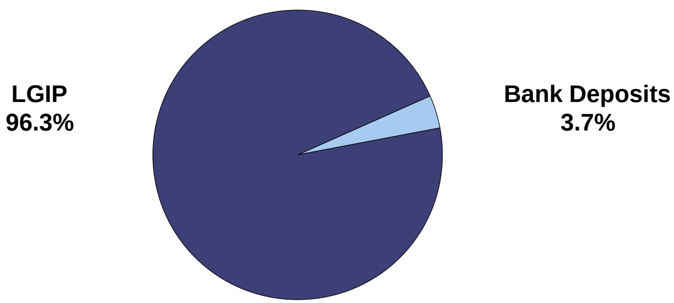


**All calculations above are based on total repurchase agreement exposure, not overall Portfolio.*
***Percentages may not total to 100% due to rounding.*
**** Deutsche Bank and Wells Fargo maintain short-term credit ratings of A-1 and A-1+ by S&P, respectively; however, the ultimate quality of the repurchase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

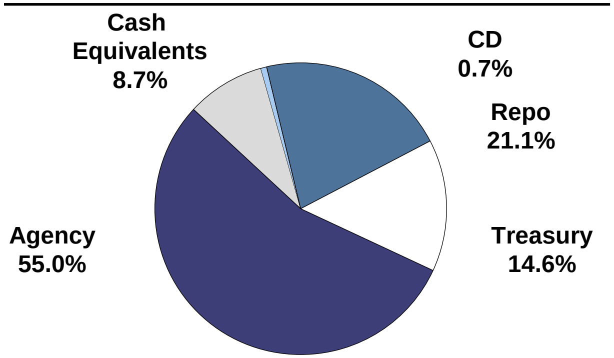
II. Sector Allocation – LGIPs and Cash Equivalents

	Underlying Investments	Rating (Short-Term: S&P/ Moody's/Fitch)	Observations
Washington State LGIP	• Federal Agencies 54.95% • U.S. Treasuries 14.62% • Cash Equivalents 8.69% • Certificates of Deposit 0.66% • Repurchase Agreements 21.08% *As of March 31, 2014*	• N/A	• The County currently has allocated $880 million to the Washington State LGIP (the "LGIP"), down $3 million from the previous period. • Over the quarter, the LGIP increased allocations to US Treasuries (+5.5%) and repurchase agreements (+8.1%), while federal agencies were reduced by 14.7%. This was similar to the County's allocation shifts during the quarter. • The larger increase in repurchase agreements in the State LGIP was primarily attributed to Term Repurchase Agreements, which were increased $1.6 billion over the quarter.
Cash Equivalents	• State LGIP 96.31% • U.S. Bank 3.32% • Key Bank 0.30% • Bank of America 0.07% *As of March 31, 2014*	• U.S. Bank: A-1+/P-1/F1+ • Key Bank: A-2/P-2/F-1 • Bank of America: A-1/P-2/F-1	• The County's deposit accounts at U.S. Bank, Key Bank, and Bank of America are FDIC-insured up to FDIC limits, and are 100% collateralized by the Public Deposit Protection Commission. • Over the quarter, the County reduced bank deposits by approximately $230 million, primarily observed in the US Bank account, and reallocated to a combination of a Deutsche Bank tri-party repurchase agreement ($100 million) and a Wells Fargo tri-party repurchase agreement ($178 million).

Cash Equivalents Distribution as of March 31, 2014



Washington State LGIP Sector Distribution as of March 31, 2014

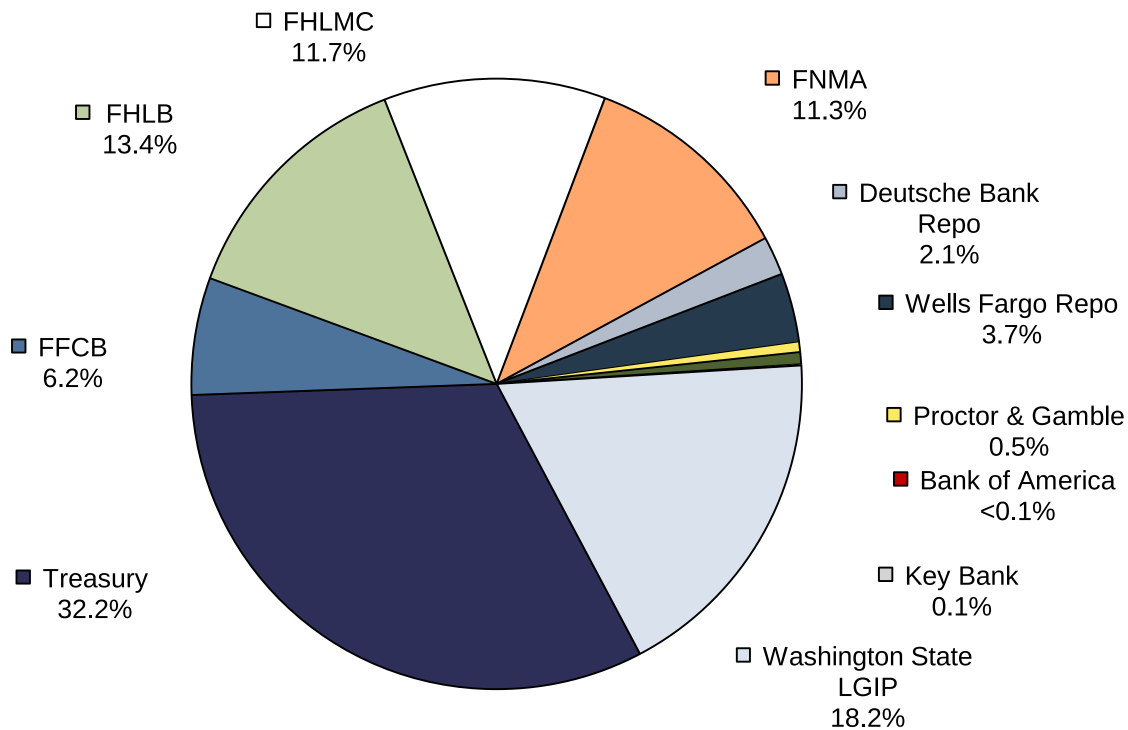


**All calculations above are based on total cash equivalents exposure, not overall Portfolio.*
***Percentages may not total to 100% due to rounding.*

III. Issuer Concentration

Issuer Exposure

- The County has continued to diversify holdings by issuer, as is evidenced in the chart below. The County has allocated holdings among twelve (12) individual issuers.
- Approximately 75% of the portfolio is allocated directly to U.S. government guaranteed or government supported entities.
- The majority of the remaining 25% of assets (23.9%) 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 87.5%.
- New issuers added to the portfolio during the quarter include a $178 million investment in a Wells Fargo tri-party repurchase agreement.



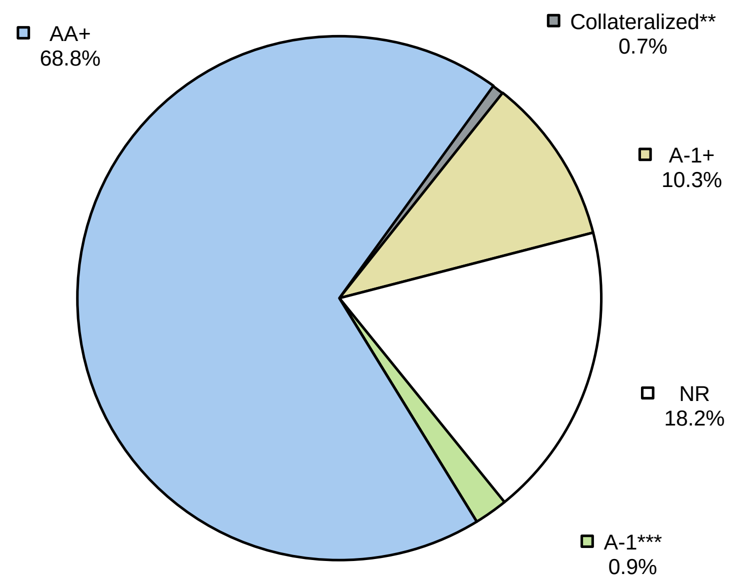
**Percentages may not add to 100% due to rounding.*

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 in early March, into a new Proctor & Gamble CP purchase scheduled to mature on June 25, 2014.
  - 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 added to its repurchase agreement allocation with a purchase of a Wells Fargo tri-party repurchase agreement. Wells Fargo 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, 4.0% 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 0.7% 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 18.2% 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 March 31, 2014

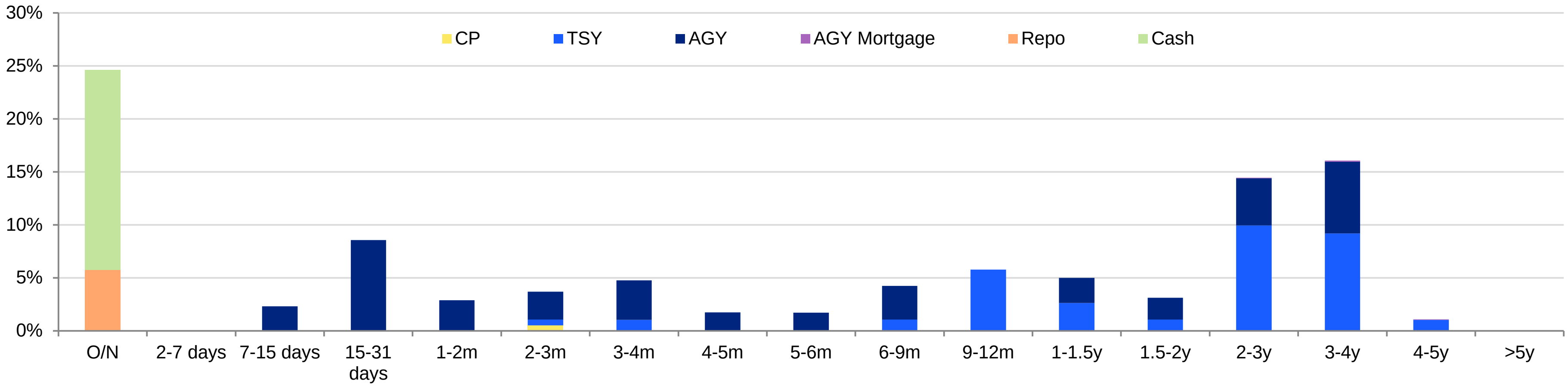


*Ratings by S&P; Percentages may not add to 100% due to rounding.
**Bank ratings of the depositories for the collateralized securities are given on page 11.
*** Deutsche Bank and Wells Fargo maintain short-term credit ratings of A-1 and A-1+ by S&P, respectively; however, the ultimate quality of the 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 – 60% of the portfolio – are scheduled to mature or be called within the next twelve months. This percentage is only modestly lower from 67% at the end of the fourth quarter. The minor decline can almost entirely be attributed to the modest maturity extension during the quarter related to the reinvestment of short-term agency maturities and calls into US Treasury maturities targeted to the 2-5 year portion of the yield curve. • The County continues to balance longer-dated Treasury and Federal Agency purchases with large overnight allocations to the LGIP, bank deposits, and repurchase agreements. – Further, due to this strategy, the WAM of the portfolio increased quite noticeably over the quarter to 435 days (versus 353 days on December 31st) as the County captured the value in increased Treasury yield levels as a result of Fed maintenance of bond purchase tapering. – As a result, the portfolio continues to take on a "barbelled" structure, which seeks to balance short-term liquidity with the value in the steeper portions of the yield curve, notably maturities beyond two years. • 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 25% (up from 23% on 12/31/13) invested in a combination of the Washington State LGIP and bank deposits (overnight liquidity), an additional 17% (up from 9% on 12/31/13) of the portfolio's holdings are scheduled to mature within the next thirty-one days. • The increase to the ultra-short end of the County's maturity ladder helped balance the modest maturity extensions taken-on during the quarter.

Maturity Distribution as of March 31, 2014

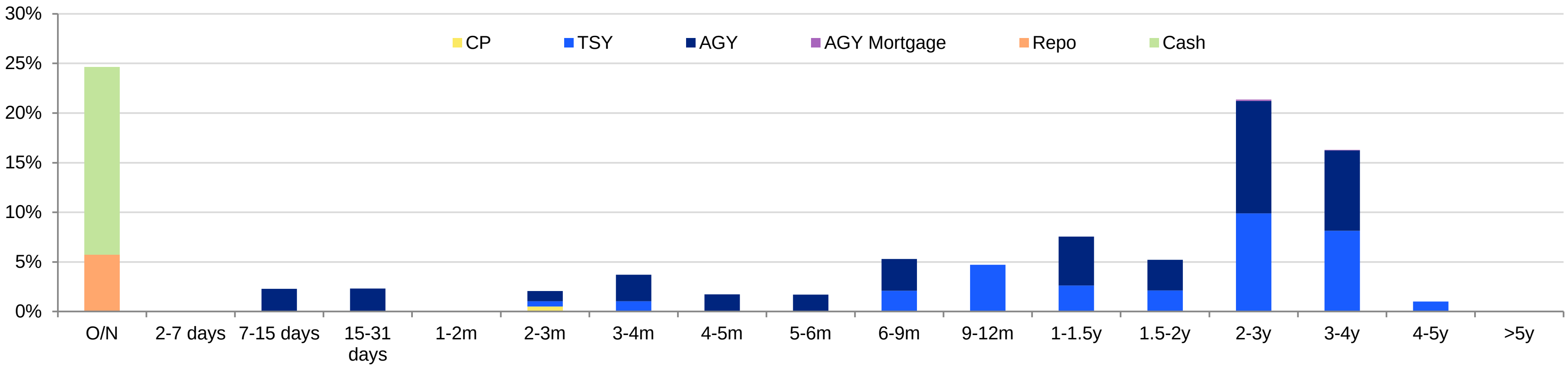


- Agency Mortgage maturities are calculated as average life. Average life data taken from Bloomberg Financial Markets
- Callable securities shown to their call date.
- All other security maturities are calculated as days to maturity. WA LGIP is considered to have a one day maturity.

V. Duration Distribution

Duration Distribution	Observations
Definition	• Duration is a measure of the sensitivity of the value of principal of an investment to a change in interest rates. For example, the value of a portfolio with a higher duration is more sensitive to interest rate increases and decreases. • Duration is 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 March 31st, the duration of the County Investment Pool is 1.43 years, up from a duration of 1.28 years on December 31st. – The increase in portfolio duration can be attributed to the increase in new US Treasury purchases made during the quarter targeted to maturities in the 2-5 year maturity range. – When comparing the weighted average duration of the aggregate portfolio to the WAM of the portfolio it is observed that the duration (1.43 years) exceeds the WAM (1.19 years) by approximately 0.27 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 (2.26 years) to the WAM of callable securities (0.16 years), it is observed that the weighted duration exceeds the WAM quite markedly. – However, when viewing callable securities to their anticipated call date (that is, a security with a price over 100 would be called and a price of less than 100 would not be called), the WAM of callable securities increases notably from 0.16 years to 2.85 years, and the WAM of the overall portfolio would lengthen to 1.52 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 March 31, 2014



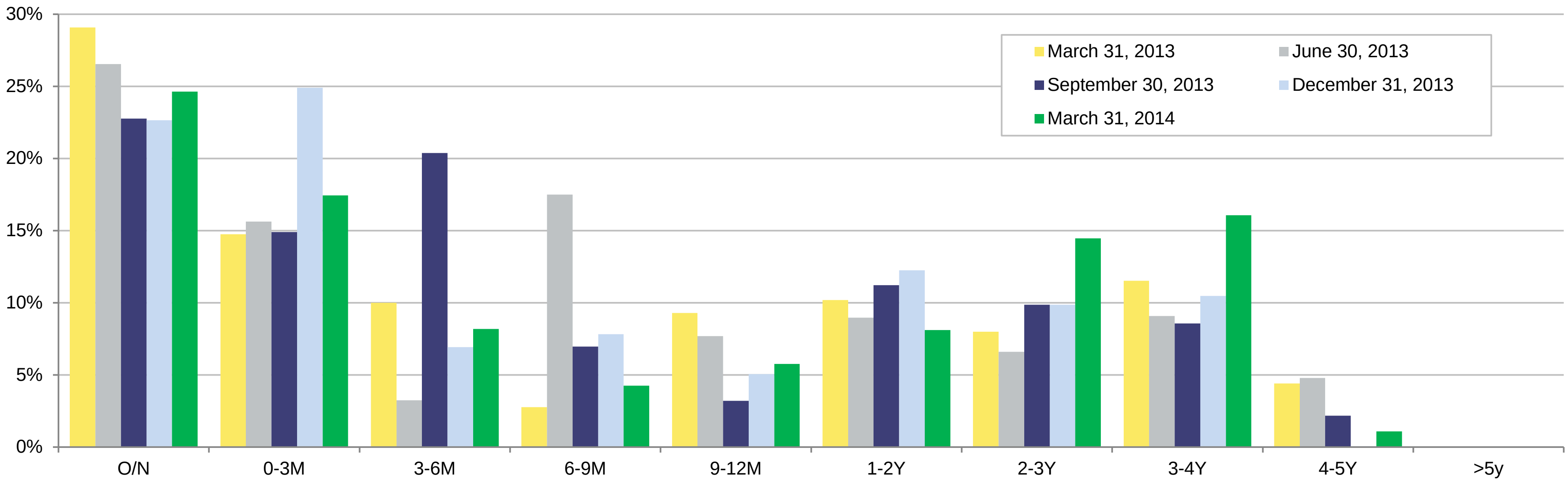
- Agency Mortgage durations are shown as effective duration taken from Bloomberg Financial Markets.
- Duration for Federal Agency Discount Notes and Repurchase Agreements are calculated as days to maturity. WA LGIP and bank deposits considered to have a one day duration.
- All other security durations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

V. Changes in Portfolio Maturity Distribution

Changes in Portfolio Maturity Distribution

- Securities are well diversified by maturity, and range from overnight to nearly five years in maturity (viewing callable securities to their call dates and mortgage securities on an average life basis).
- 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.
  - 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.
- During the quarter-ended March 31st, the primary driver behind maturity distribution changes was the reallocation of short-term federal agency proceeds into the steeper portions of the US Treasury yield curve.
  - Over the past three years, for the quarters ending March 31st, the average net outflow in the Investment Pool was $193 million.
  - However, looking forward, the average net inflow during quarters ending June 30th, over the past four years, was $370 million.

Maturity Distribution March 31, 2013 to March 31, 2014



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

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