King County Investment Pool

Portfolio Review

Quarter Ended March 31, 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 December 2014 review. Our approach included a detailed portfolio analysis and Investment Policy Compliance review, based on the County's Investment Policy, dated September 2013. • Our analysis was based on the Investment Pool's holdings as of March 31, 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	• U.S. fourth quarter GDP was revised down to 2.2%; solid consumer spending helped offset declines in business investment, exports, and government spending and the unemployment rate held steady at 5.5% over March as the U.S. labor market added just 126,000 jobs, well below expectations, and breaking a twelve month streak of monthly job growth of over 200,000. • Inflation remains muted and well below the Fed's target level of 2%. • Macroeconomic conditions in the U.S. moderated throughout the quarter evidenced by lackluster economic data, Greek-inspired geopolitical uncertainty, and a FOMC that indicated a tendency for lower rates throughout the period. • The market reacted with a Treasury rally that sent yields across the curve generally lower; the impact being greater on longer maturities which continued to reflect persistently low inflation expectations. As a result, intermediate-term fixed income portfolios (1 to 5 year maturities) generated their highest quarterly returns in nearly four years.

Observations	• The portfolio is of very high credit quality. The majority of securities (94%) 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 March 31, 2015 was $5.1 billion and experienced a net decrease of approximately $228 million over the quarter, following a $202 million increase from the prior quarter-end.
	• Notable sector allocation shifts over the quarter included **increases** to corporate bank notes ($68 million), bank deposits ($22 million), and repurchase agreements ($8 million) and **decreases** to federal agencies ($120 million), commercial paper ($110 million), and the State LGIP ($100 million).
	    – For the third consecutive quarter, the portfolio added funds to corporate bank note issuers. This sector now accounts for 4.7% of the overall portfolio totaling $238 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 very high-quality and investment grade. The weighted average maturity of these investments is 1.88 years and the weighted average yield is 1.05%. For perspective, the yield on a 3-year Treasury note is less than 1%.
	• The County's maturity structure strategy over the quarter targeted slightly longer maturities on the short-end (3 to 9 months) and slightly shorter maturities on the long-end (1 to 3 years). Comparatively, this represented a modest shift from previous quarters, where a more pronounced barbell was maintained (higher balances in overnight and 3 to 5 year investments).
	• As of March 31st, the duration of the County Investment Pool is 1.14 years, a decrease from a duration of 1.26 years on December 31st. Over the past three 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.
	• In anticipation of the upcoming quarter, over the past five years, for the quarters ending June 30th, the average net **inflow** in the Pool was $431 million.
	    – The County Pool appears to provide adequate liquidity, with 13.5% (or $685 million) invested in a combination of the State LGIP, bank deposits, and repurchase agreements (overnight) and an additional 42.2% (or $2.1 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 September 5, 2013.

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

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

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

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

I. Investment Policy Compliance – County Investment Pool

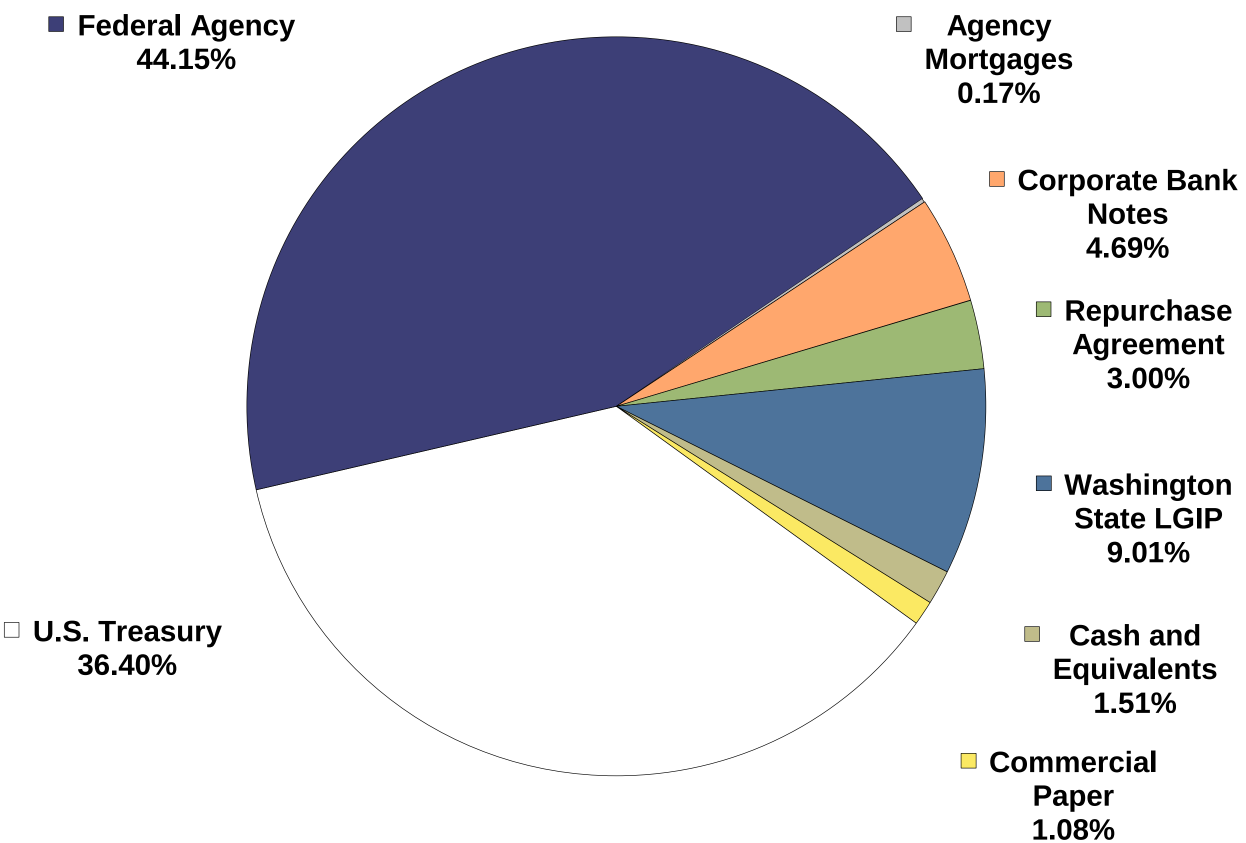
Topic	Observations
Sector Allocation	• All sector allocations fall within the limits set forth by the County's Investment Policy Statement. The Pool is predominantly invested in U.S. government securities which are either explicitly guaranteed or carry a high level of support by the U.S. government. • The County's Investment Pool balance (market value) as of March 31, 2015 was $5.1 billion and experienced a net decrease of approximately $228 million over the quarter, following a $202 million increase from the prior quarter-end. – The seasonality of the County's balances indicates a historical balance decrease for the quarter-ended March. For example, over the past five years (including March 2015), the County's Pool balance has decreased, on average, by $200 million each quarter-ended March. • Over the quarter, sectors that experienced balance increases, included: corporate bank notes ($68 million), cash and equivalents ($22 million), repurchase agreements ($8 million), and US Treasuries ($4 million). • Sectors that experienced decreases in quarter-over-quarter balances were primarily those to short-term investment vehicles, most likely utilized to fund the quarter's net cash outflows, including: federal agencies ($120 million, of which $170 million was related to reduction in discount note holdings), commercial paper ($110 million), and Washington State LGIP ($100 million). • The County continues to maintain a small tactical allocation to agency mortgage backed securities, but has not purchased new agency MBS in several quarters. On average, over the past four quarters, federal agency MBS paydowns have totaled $475,000 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 81% 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 (9%), which is not rated; however, 58% of the LGIP is invested in U.S. Treasuries or Federal Agencies. • Corporate allocations (both commercial paper and corporate bank notes) were maintained near 5% of the total portfolio; all are investment grade.
Maturity Distribution	• All maturities fall within the maturity limits set forth in the County's Investment Policy. • Approximately 56% of the Pool's assets mature in one year or less and approximately 25% 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	76,397,964	1.51%	✓	1 day	✓
Commercial Paper	54,978,493	1.08%	✓	86 days	✓
Repurchase Agreements	152,000,000	3.00%	✓	1 day	✓
LGIP	456,551,805	9.01%	✓	1 day	✓
Federal Agencies (non MBS)	2,237,067,536	44.15%	✓	3.15 years	✓
Agency Mortgages	8,380,217	0.17%	✓	4.00 years (WAL)	✓
Certificates of Deposit	-	-	✓	N/A	✓
Corporate Bank Notes	237,573,857	4.69%	✓	4.58 years	✓
Municipal Bonds	-	-	✓	N/A	✓
U.S. Treasury	1,844,278,600	36.40%	✓	3.76 years	✓

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

II. Sector Allocation

Sector Diversification
as of March 31, 2015



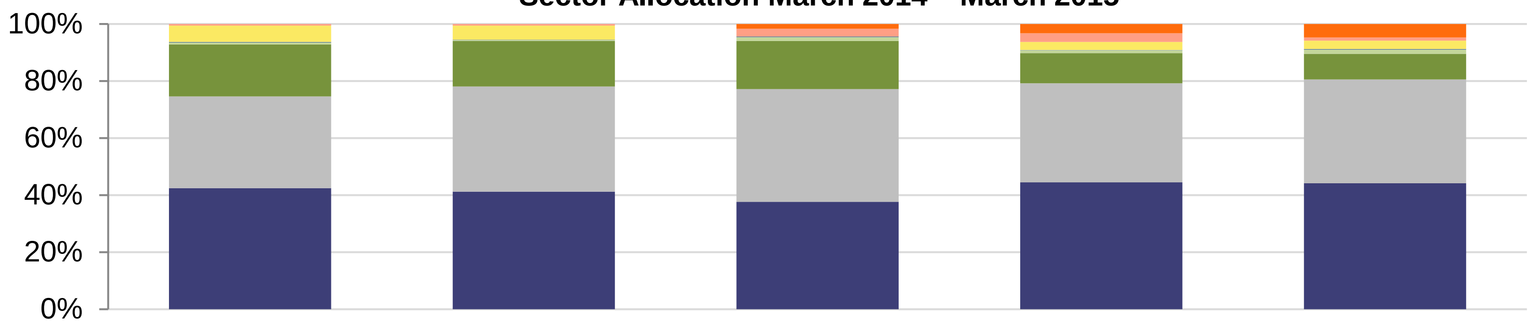
**Percentages may not total to 100% due to rounding.*

II. Changes in Portfolio Sector Allocation Over Past 12 Months

Changes in Sector Allocation

- The County's investment pool generally maintained consistent percentage allocations over the quarter, with no sector representing an increase or decrease over the quarter of greater than 2%.
- **Federal Agencies.** After increasing federal agency allocations over the previous quarter due to elevated discount note yield levels, the County Pool appeared to have utilized a large portion of previously purchased discount notes to help fund the quarter's net cash outflows. Over the quarter, agency discount note allocations were reduced to $381 million from $556 million at previous quarter-end.
- **US Treasury.** US Treasury allocations remained relatively constant over the quarter, and were one of the few sectors that experienced a net increase in allocation (+ $4 million or + 1.7%).
- **Corporate Bank Notes.** For the third consecutive quarter, the portfolio added funds to corporate bank notes. The past three quarters experienced increases to the corporate bank note sector of $85 million, $84 million, and $68 million. This sector now accounts for 4.7% of the overall portfolio totaling $238 million (compared to $0 on June 30, 2014).
- **Commercial Paper.** After adding to commercial paper allocations over the previous three quarters, the County Pool appears to have utilized a portion of these balances ($110 million) over the quarter to help fund net cash outflows. This sector now accounts for 1.1% of the overall portfolio totaling $55 million.
- **Washington State LGIP.** This sector has now experienced a net balance decrease of $424 million over the past three quarters; however, continues to serve as the Pool's primary liquidity vehicle. This sector now accounts for 9% of the overall portfolio totaling $457 million, the lowest balance total for this sector in six years.
- **Repurchase Agreements and Cash and Equivalents.** As opposed to the LGIP, this sector has experienced a net balance increase over the past two quarters totaling $155 million (both repurchase agreements and bank deposits). These sectors now account for 4.5% of the overall portfolio totaling $228 million.

Sector Allocation March 2014 – March 2015



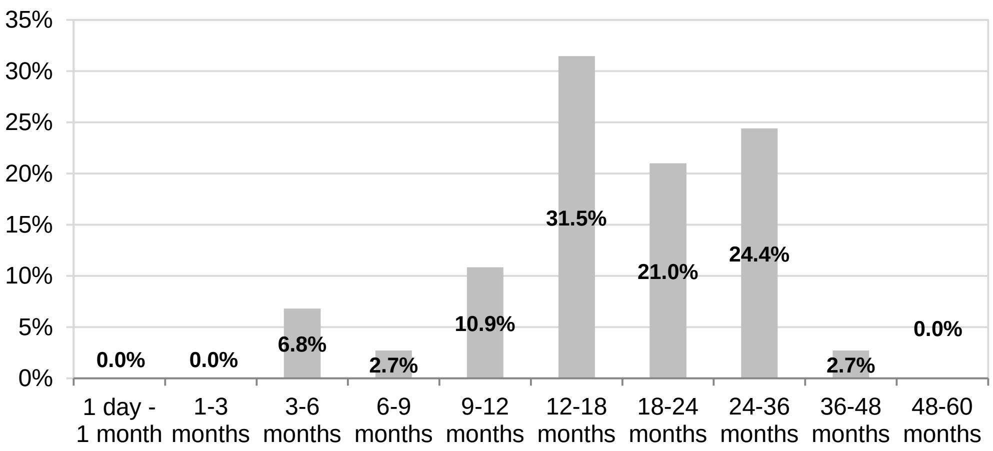
	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014	March 31, 2015
Federal Agencies	42.45%	41.17%	37.63%	44.52%	44.15%
U.S. Treasury	32.19%	36.91%	39.58%	34.75%	36.40%
Washington State LGIP	18.19%	15.97%	16.81%	10.51%	9.01%
Cash and Equivalents	0.70%	0.31%	1.44%	1.02%	1.51%
Agency Mortgages	0.21%	0.18%	0.18%	0.16%	0.17%
Municipal Notes	-	-	-	-	-
Repurchase Agreements	5.74%	4.95%	-	2.72%	3.00%
Commercial Paper	0.51%	0.51%	2.68%	3.12%	1.08%
Corporate Bank Notes	-	-	1.67%	3.20%	4.69%

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

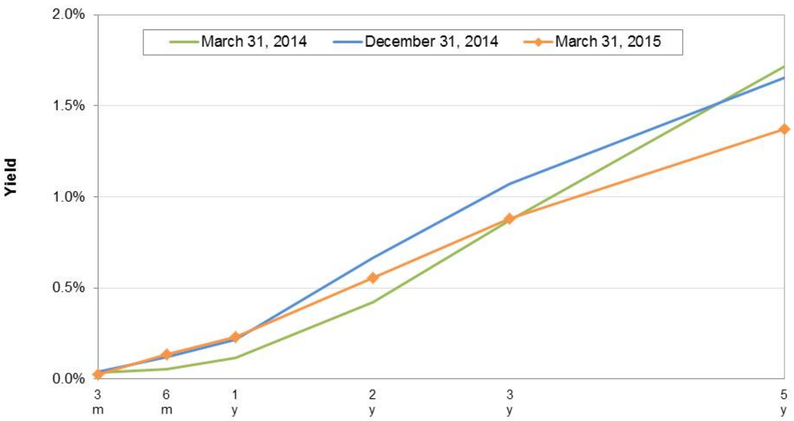
II. Sector Allocation – U.S. Treasury Securities

Topic	Observations
Observations	• The County's overall allocation to U.S. Treasuries increased modestly over quarter to 36.4% of the total portfolio, compared to 34.8% at previous quarter-end. – Over the quarter, the County appeared to have held previously purchased Treasury securities. – The majority of the Pool's Treasury investments ($1.5 billion, 80% of Treasury holdings, and 30% 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 nearly one full quarter or 90 days, from 663 days on December 31st to 574 days on March 31st. • 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, 20% is allocated to maturities less than 12 months (versus 10% 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 2-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. – This low allocation to shorter-term Treasuries reflects the combination of (1) the Federal Reserve's current near zero interest rate policy and the effect it has had driving shorter-term US Treasury securities to very low levels, (2) the relatively flat shape of the Treasury yield curve for maturities less than 12 months, and (3) the current value of other short-term investment options relative to Treasuries of similar maturity.

U.S. Treasury Maturity Distribution as of March 31, 2015



U.S. Treasury Yield Curve 03/31/15 vs 12/31/14 vs 03/31/14



** Source Bloomberg Financial Systems*

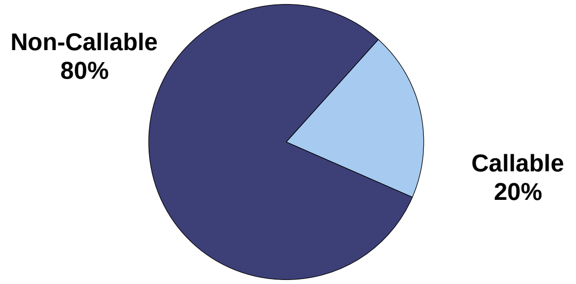
II. Sector Allocation – Federal Agencies

Topic	Observations			
Structure *(as % of Federal Agency Allocations)*	• Non-Callable	80%	• Discount Notes	17%
	• Callable	20%	• Coupon bearing Notes	83%
			• Agency Mortgage	<1%
Diversification *(as % of Federal Agency Allocations)*	• Freddie Mac (FHLMC)	26%	• Federal Farm Credit Bank (FFCB)	17%
	• Federal Home Loan Bank (FHLB)	29%	• Freddie Mac Mortgage-Backed (FHR)	0%
	• Fannie Mae (FNMA)	28%	• Fannie Mae Mortgage-Backed (FNR)	<1%

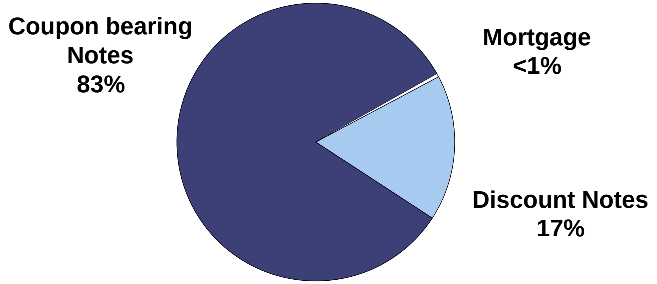
Conclusions

- The County's Federal Agency allocation continues to be well diversified among the four major issuers and among security structures. All issuer allocations fall within the issuer guidelines set forth in the County's investment policy (max per agency issuer 35%).
- Federal Agency allocations decreased by $120 million over the quarter, primarily due to the County utilizing a large portion of previously purchased federal agency discount notes ($170 million) to help fund the quarter's net cash outflows.
- From a security structure standpoint (the ratio of non-callable to callable securities), the trend of declining callable securities halted modestly over the quarter, as callable allocations held relatively steady near 20% of agency holdings versus 19% at the previous quarter-end.
  - Callable agency securities experienced a modest increase in relative value over the quarter, primarily the result of increased volatility of Treasury and agency yields, and more specifically, the yield spreads between the two sectors. Value in the sector is also largely tied to the call structure of the individual security and the frequency at which it is available to be called. Generally, the more frequent, the less attractive.
- As mentioned, a large portion of previously purchased short-term discount notes were utilized to help fund cash flows during the quarter. As a result, the ratio of coupon-bearing notes to discount notes shifted noticeably over the quarter, from 76%/24% previously to 83%/17% currently.
- The County Pool's only remaining allocation to agency mortgages is in Fannie Mae pools, totaling approximately $8.6 million, which continue to paydown principal (on average $475,000 per quarter over the past year) and naturally reduce the County's allocation to agency mortgages.

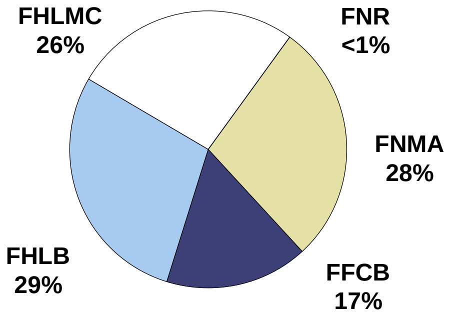
Callable vs. Non-Callable
as of March 31, 2015



Structure Distribution
as of March 31, 2015



Issuer Diversification
as of March 31, 2015

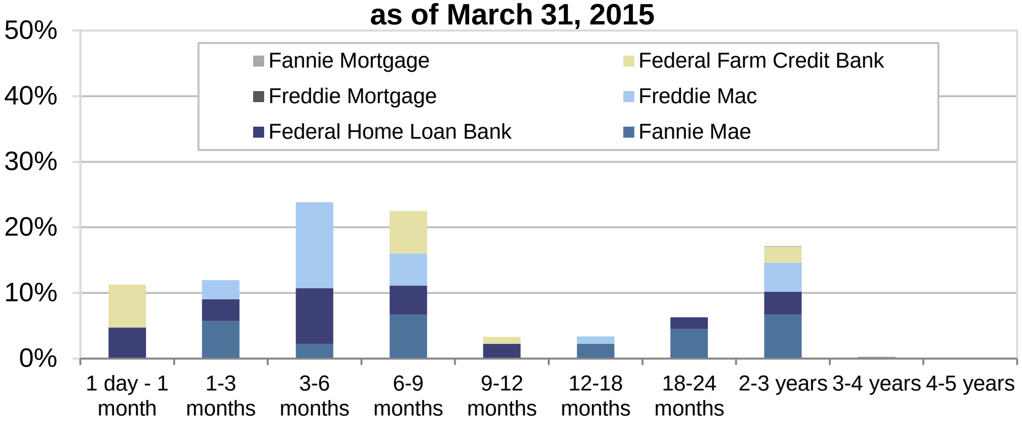


**All calculations above are based on total cash equivalents exposure, not overall Portfolio.*
***Percentages may not total to 100% due to rounding.*

II. Sector Allocation – Federal Agencies

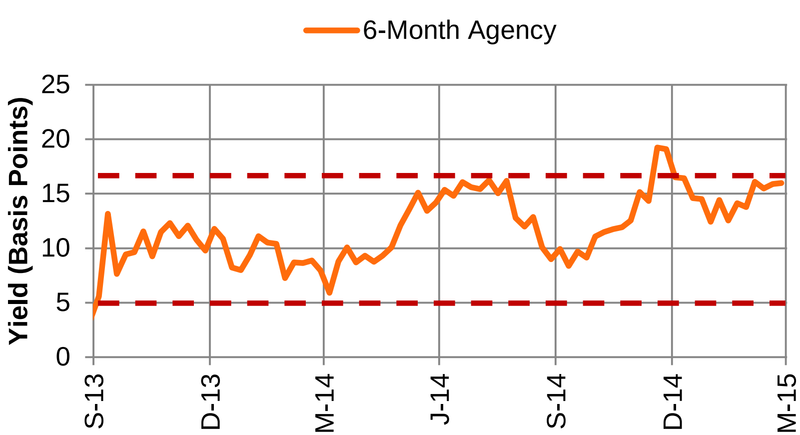
Topic	Observations
Maturity Distribution	• The County's Federal Agency maturity distribution falls within the limits set forth by its Investment Policy Statement. • Over the quarter, the County's weighted average maturity (WAM) of Federal Agency allocations decreased by approximately 53 days, from 369 days on December 31st to 316 days on March 31st. – Similar to the US Treasury sector, the majority of previously purchased federal agency holdings were held over the quarter and continued to roll-down the yield curve as they naturally shortened in maturity. – It appears that the County sold a portion of previously purchased short-term (less than three months) discount notes ($170 million), to help fund the quarter's net cash outflow. This activity partially balanced the natural decline in federal agency WAM over the quarter. – As of March 31, 2015, the portfolio maintained 73% allocation to agencies with maturities less than 12 months, 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 ($142 million) passing their call date and becoming no longer callable continued over the quarter. The average maturity of these holdings is now 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 March 31, 2015



- 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.

Short-Term Federal Agency Yields Past 18 Months

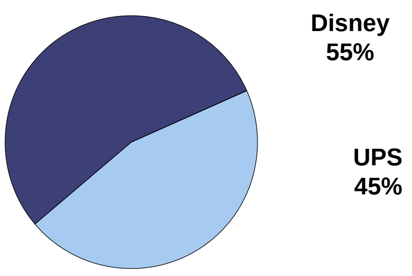


** Source Bloomberg Financial Systems*

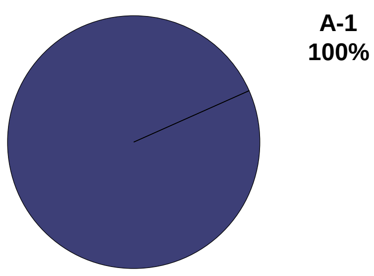
II. Sector Allocation – Commercial Paper

	Observations
Issuer Diversification	• The County allocations to commercial paper decreased over the quarter, by approximately $110 million. The decline in allocation to this sector appears to be primarily the result of utilizing these funds to help fund the quarter's large net cash outflow. • Despite, the decline in allocation, this sector still accounts for 1% of the overall portfolio totaling $55 million. 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. • The portfolio now owns two commercial paper issuers, including: Walt Disney Co. and United Parcel Service, both are new issuers previously not held. • 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 2.5% per issuer and 25% maximum to the sector.
Credit Distribution	• Standard & Poor's rates the short-term credit of Disney and UPS as A-1. • Moodys rates the short-term credit of Disney and UPS as P-1.
Conclusions	• High-quality commercial paper has offered noticeable yield advantage relative to similar maturity Treasury and federal agency securities over the past several years. As of March 31, 2015, the County's commercial paper investments have a weighted average yield of approximately 0.12% and a WAM of 75 days. For perspective, a comparative short-term Treasury/agency security at 75 days yielded approximately 5 to 9 basis points, as of March 31, 2015. • High-quality commercial paper continues to offer incremental yields relative to similar maturity short-term Treasury and agency securities. As a result, the County's portfolio may benefit from additional allocations to other high-quality commercial paper issuers. The commercial paper yield curve is steeper in maturities beyond four months (chart on far right).

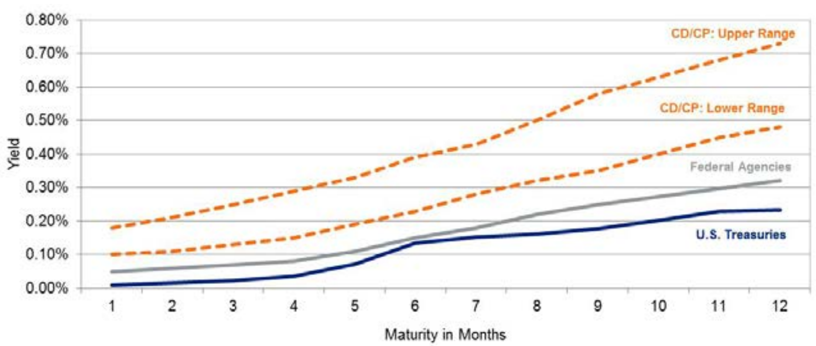
Issuer Distribution
as of March 31, 2015



Credit Distribution
as of March 31, 2015



Current Short-Term Yields
as of March 31, 2015



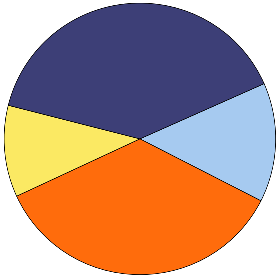
All calculations above are based on total commercial paper exposure, not overall Portfolio.
***Percentages may not total to 100% due to rounding.*

** Source Bloomberg Financial Systems*

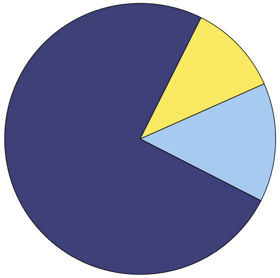
II. Sector Allocation – Corporate Bank Notes

	Observations
Issuer Diversification	• After owning zero corporate bank notes prior to 2Q14, the County now has added allocations to high-quality corporate bank notes for the third consecutive quarter. This sector now accounts for 4.7% of the overall portfolio totaling $238 million. • The portfolio's corporate bank note allocations are concentrated in the financial/banking sector and include four issuers: Wells Fargo Bank NA ($93 million or 1.8% of the total portfolio), US Bank ($84 million or 1.7%), Bank of America ($34 million or 0.7%), and Bank of New York Mellon ($26 million or 0.5%). • Of the County's total allocations to corporate bank notes, $84 million (or 36% of corporate bank notes) is allocated to callable securities; however, of the four individual callable corporate bank note holdings, each has a "next call date" that does not occur until 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 anticipated call date, the weighted average maturity of these investments is 1.88 years and the weighted average yield is 1.05%. For perspective, the yield on a 3-year Treasury note is less than 1%. • Of the County's total allocation to this sector, 65% is allocated to maturities less than 2 years and 19% to maturities beyond 4 years. • All allocations fall within the permitted investment guidelines of 2.5% per issuer (and 5% at the aggregated issuer level across all sectors, please refer to following pages) and 20% maximum to the sector.
Credit Distribution	• S&P ratings (long-term and short-term): – Bank of America (A and A-1); Bank of New York Mellon (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 (A2 and P-1); Bank of New York Mellon (A1 and P-1); US Bank (Aa3 and P-1); Wells Fargo Bank (Aa3 and P-1) • All ratings are investment grade, very high quality, and fall within the credit guidelines in the County's IPS.
Conclusions	• Similar to the value of high-quality commercial paper, high quality corporate bank notes offer increased levels of yield relative to US Treasury and federal agency securities of similar maturity, across the majority of the yield curve. • The County's portfolio may benefit from additional allocations to other high-quality corporate bank note issuers. As shown in the chart on the right, high quality financial corporates have offered significant yield advantage relative to US Treasury notes of similar maturity.

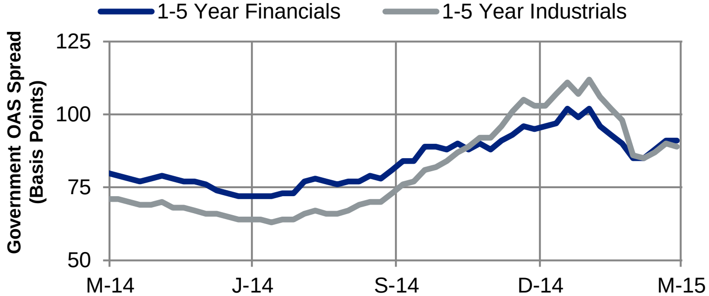
Issuer Distribution
as of March 31, 2015



Credit Distribution
as of March 31, 2015



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



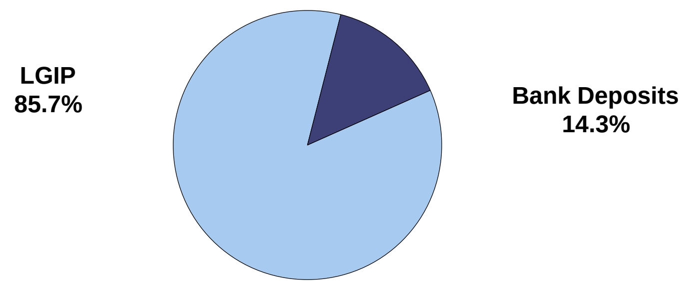
**All calculations above are based on total commercial paper exposure, not overall Portfolio.*
***Percentages may not total to 100% due to rounding.*

** Source Bloomberg Financial Systems*

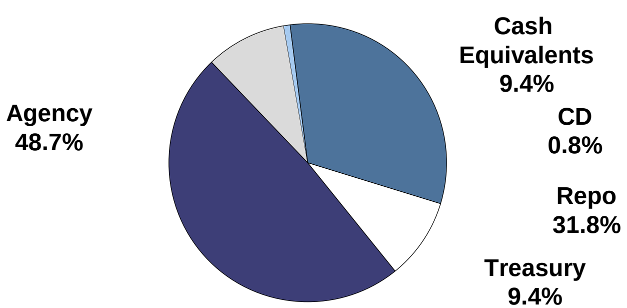
II. Sector Allocation – LGIPs and Cash Equivalents

	Underlying Investments	Rating (Short-Term: S&P/ Moody's/Fitch)	Observations
Washington State LGIP	• Federal Agencies 48.7% • U.S. Treasuries 9.4% • Cash Equivalents 9.4% • Certificates of Deposit 0.8% • Repurchase Agreements 31.8% *As of March 31, 2015*	• N/A	• The County currently has allocated $456 million to the Washington State LGIP, down over the quarter, approximately $100 million. This marks the third consecutive quarter that the Pool's allocation has declined. In fact, over the past two years ending March 31, 2015, the Pool's allocation to the State LGIP has experienced a net decrease of $665 million. • 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 to ultra short-term investment vehicles over the quarter, the State LGIP also increased allocations to bank deposits (2%) and repurchase agreements (27%), while decreasing agency discount notes (30%).
Cash Equivalents	• State LGIP 85.7% • U.S. Bank 13.9% • Key Bank 0.3% • Bank of America 0.2% *As of March 31, 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 increased allocations to bank deposits by approximately $22.5 million; the majority of the increase being allocated to the US Bank deposit account. • 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 March 31, 2015



Washington State LGIP Sector Distribution as of March 31, 2015



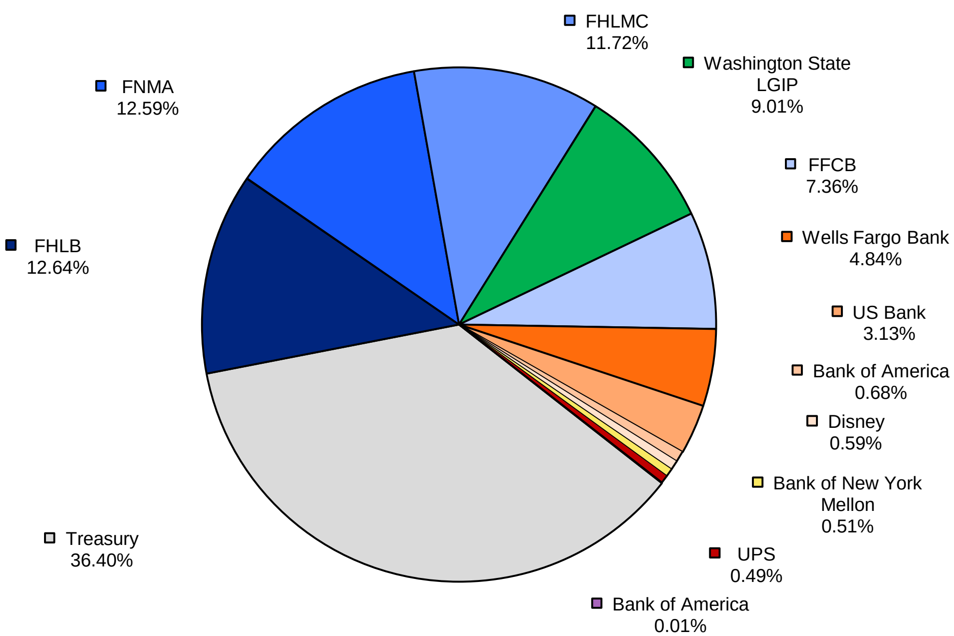
**All calculations above are based on total cash equivalents exposure, not overall Portfolio.*
***Percentages may not total to 100% due to rounding.*

III. Issuer Concentration

Issuer Exposure

- The County continues to maintain a well-diversified portfolio by issuer, as is evidenced in the chart below.
- The County has allocated holdings among thirteen (13) individual issuers.
- Approximately 81% of the portfolio is allocated directly to U.S. government guaranteed or government supported entities.
- Of the remaining 19% of the portfolio, nearly 14% is allocated to ultra short-term or overnight investment vehicles, including the State LGIP, repurchase agreements, and cash equivalents. The remaining 5% 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 86%.
- The County added two new corporate issuers to the portfolio over the quarter, including: Disney and UPS. Allocations to Proctor & Gamble and Apple Inc. were removed over the quarter.
- Each of the seven (7) corporate issuers the County owns in the portfolio (including the three (3) banks that hold the County's bank deposits) falls within the 5% corporate issuer limit when aggregated among all sectors, as shown in the charts below.

Issuer Distribution	Value	Percentage	IPS Issuer Limit
Treasury	1,844,278,600	36.40%	**None**
FHLB	640,633,568	12.64%	**35%**
FNMA	638,124,837	12.59%	**35%**
FHLMC	593,653,681	11.72%	**35%**
Washington State LGIP	456,551,805	9.01%	**25%**
FFCB	373,035,666	7.36%	**35%**
Wells Fargo Bank	245,484,889	4.84%	**5%**
US Bank	158,699,373	3.13%	**5%**
Bank of America	34,499,909	0.68%	**5%**
Disney	29,986,542	0.59%	**5%**
Bank of New York Mellon	25,928,829	0.51%	**5%**
UPS	24,991,952	0.49%	**5%**
Key Bank	1,358,820	0.03%	**5%**
Total	**5,067,228,472**	**100.00%**	



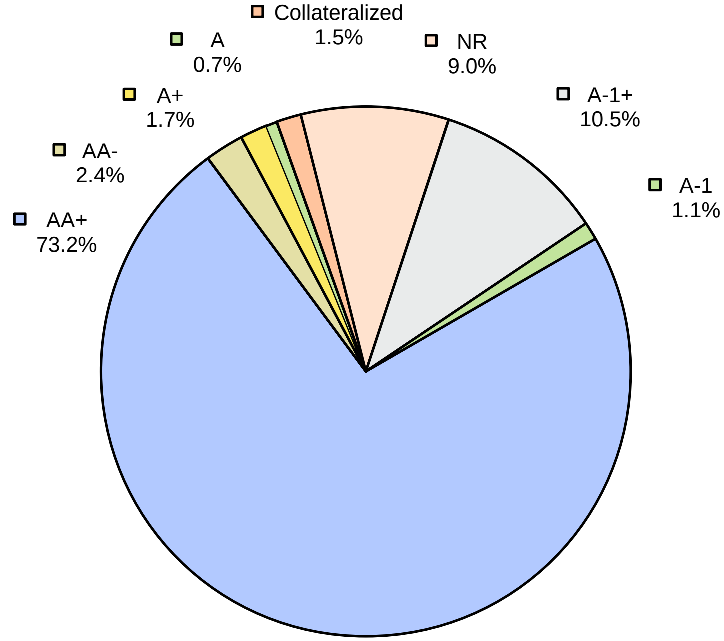
**Percentages may not add to 100% due to rounding.*
** For the purposes of totaling issuer concentration, issuers are aggregated across all sector types. It is noted however that issuers across sector types may maintain separately rated issuer credits.*

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 additional corporate issuers to the portfolio, both commercial paper issues, including Disney ($30 million or 0.6% of the total portfolio) and UPS ($25 million or 0.5%).
  - Disney short-term credit rating of A-1 by S&P and P-1 by Moodys.
  - UPS short-term credit rating of A-1 by S&P and P-1 by Moodys.
- Allocations were maintained to Bank of New York Mellon (bank notes), 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 A2 by Moodys.
  - Bank of New York Mellon 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 Aa3 by Moodys.
- The County has additional corporate exposure through its 1.5% 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, 2.9% 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 9.0% NR allocation represents the County's investment in the Washington State LGIP, which is not currently rated by any ratings agency.
- PFM has no concerns regarding the Pool's current credit distribution.

Credit Distribution*
as of March 31, 2015

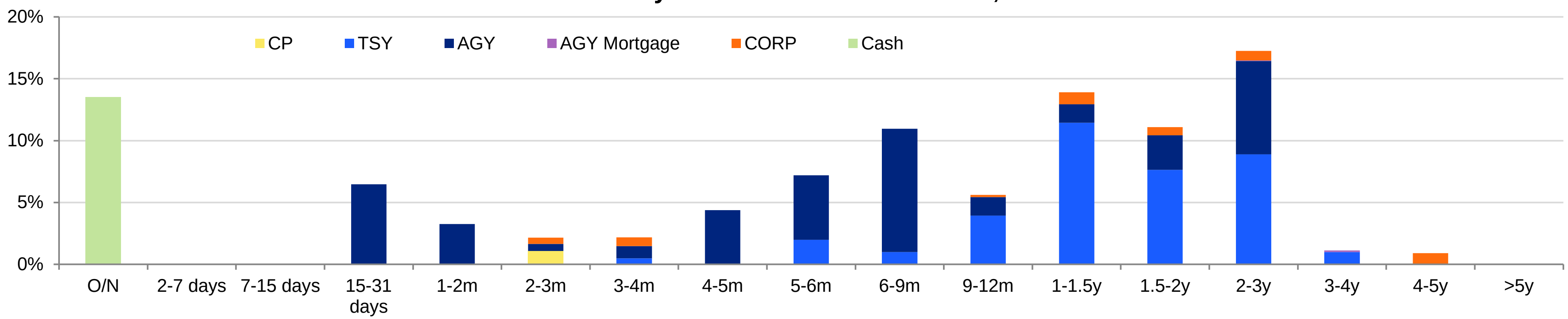


*Ratings by S&P; Percentages may not add to 100% due to rounding.
**Bank ratings of the depositories for the collateralized securities are given on page 13.

V. Maturity Distribution

Maturity Distribution	Observations
Weighted Average Maturity ("WAM")	• The County continues to diversify holdings across its permitted maturity range, as seen in the chart below. • A majority of the holdings – 56% of the portfolio – are scheduled to mature or have a call date within the next twelve months. This percentage is 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 to 382 days from 409 days at previous quarter-end. – The decline in portfolio WAM can primarily be attributed to holding the majority of previously purchased longer-term securities and allowing them to naturally shorten in maturity.
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 13.5% invested in a combination of the Washington State LGIP, bank deposits, and repurchase agreements (overnight liquidity), an additional 5.5% 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 an increase in funds for the second quarter. On average, over the past five years, the County has experienced an average net cash inflow of $431 million in quarters ended June 30th.

Maturity Distribution as of March 31, 2015

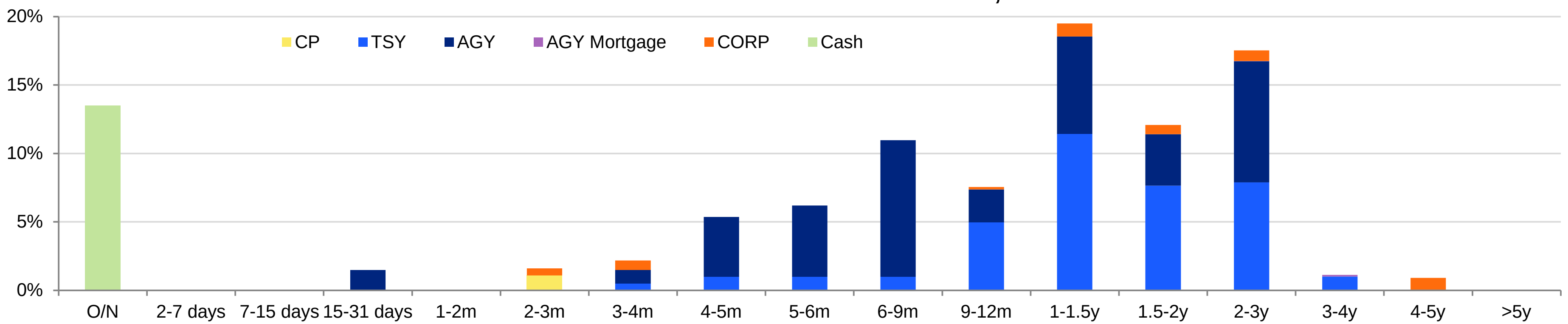


- Agency Mortgage maturities are calculated as average life. Average life data taken from Bloomberg Financial Markets
- Callable securities shown to their call date.
- All other security maturities are calculated as days to maturity. WA LGIP is considered to have a one day maturity.

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 March 31st, the duration of the County Investment Pool is 1.14 years, a decrease from a duration of 1.26 years on December 31st. Over the past three quarters, the Pool's duration has gradually been shifted shorter (3Q14 1.42 years, 4Q14 1.26 years, 1Q15 1.14 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 be attributed largely 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 (1.14 years) exceeds the WAM (1.05 years) by approximately 0.09 years. – While this difference in duration and WAM has been narrowing over the past several quarters (due to declining overall allocations to callable agencies), the difference is still observable and is primarily attributed to the County's allocations to callable federal agency securities. – For example, when viewing the comparison of weighted average duration of callable securities (1.73 years) to the WAM of callable securities calculated to their next call date (0.66 years), the weighted duration exceeds the WAM quite markedly. – However, when viewing callable securities to their anticipated call date (that is, a security with a price over 100 would be called and a price of less than 100 would not be called), the WAM of callable securities increases notably from 0.66 years to 1.72 years, and the WAM of the overall portfolio would lengthen to 1.16 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 March 31, 2015



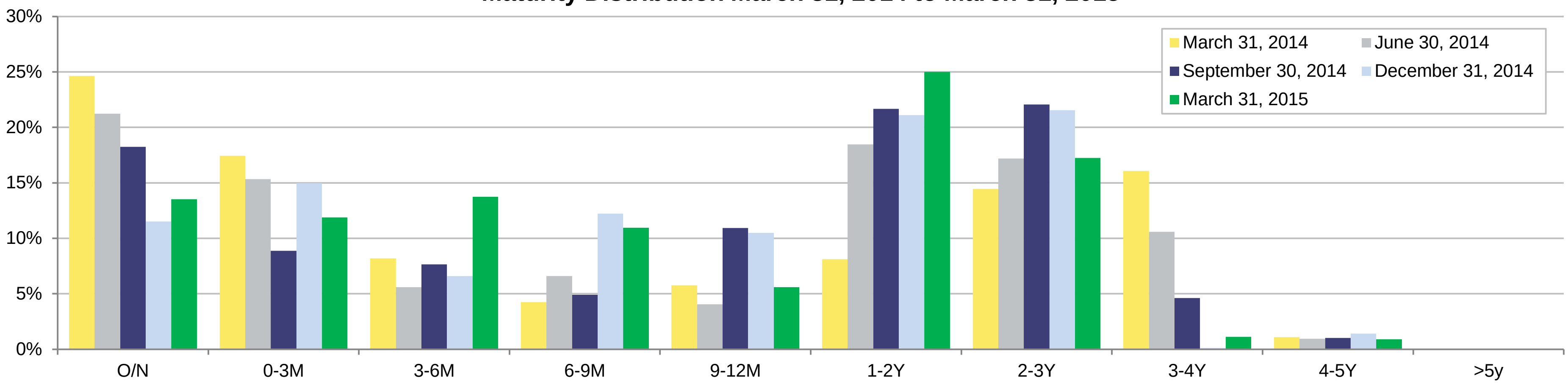
- Agency Mortgage durations are shown as effective duration taken from Bloomberg Financial Markets.
- Duration for Federal Agency Discount Notes and Repurchase Agreements are calculated as days to maturity. WA LGIP and bank deposits considered to have a one day duration.
- All other security durations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

V. Changes in Portfolio Maturity Distribution

Changes in Portfolio Maturity Distribution

- Securities are well diversified by maturity, and range from overnight to nearly five years in maturity (viewing callable securities to their call dates and mortgage securities on an average life basis).
- When viewing the current maturity distribution (dark green bars) in relation to previous periods, a few primary observations are noted:
  - Approximately 12 months ago, the County targeted tactical allocations to the very steep "3-4 Year" maturity range (16% 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 "2-3 Year" maturity range.
  - 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 March 31, 2015, 42% 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 increased allocations to the 3 to 9 month maturity ranges, largely due to new credit issue purchases, including high-quality commercial paper and short-term corporate bank notes. These sectors continue to offer incremental yield advantage relative to similar maturity Treasuries and agencies.
  - Meanwhile, overnight allocations appear to have been gradually reduced and reallocated to slightly longer short-term investment vehicles, as noted above. 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 June 30th, the average net **inflow** in the Investment Pool was $431 million.
  - Over the past five years, for the quarters ending September 30th, the average net **outflow** in the Investment Pool was $309 million.

Maturity Distribution March 31, 2014 to March 31, 2015



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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.

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