King County Investment Pool

Portfolio Review

Quarter Ended March 31, 2017

PFM Asset
Management LLC

One Keystone Plaza
North Front & Market Streets
Harrisburg, PA 17101

(717) 232-2723
pfm.com

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 2016 review. Our approach included a detailed portfolio analysis and Investment Policy Compliance review, based on the County's Investment Policy, dated September 2016. • Our analysis was based on the Investment Pool's holdings as of March 31, 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	• Interest rates on the short-end of the curve (under 5 years) ended the first quarter higher, reflecting the Fed's March rate hike, while medium to long-term yields declined amid subdued inflation expectations. During the quarter, yields remained range bound until entering an upward trend at the start of March in anticipation of the telegraphed Federal Open Market Committee (FOMC) March rate hike. Subsequently, yields declined amid the Committee's continued path of gradual tightening as well as due to doubt surrounding the ability of the Trump administration to enact bold pro-growth policies. • In the money market space, shorter-term Treasury yields rose as the expectation for a Fed rate hike at the March meeting gained certainty. Yields on commercial paper and certificates of deposit did not experience this increase as fund flows related to money market reform drove yields higher in the fourth quarter. However, yields on short-term credit instruments, continued to remain elevated and offer incremental yield. • U.S. Treasury indexes posted positive returns in the first quarter of the year, the first positive quarter since the second quarter of 2016. Returns were largely generated by incomes rather than prices as yields were little changed. • Federal agency yield spreads remained near historically tight levels throughout the quarter as the supply-demand imbalance continued. The sector outperformed comparable maturity Treasuries for the third quarter in a row. • Corporate yield spreads continued to tighten during the quarter, reaching multi-year lows, before drifting mildly wider at the end of March. The sector generated strong outperformance relative to comparable maturity Treasuries, the sector's sixth straight quarter of outperformance.
Observations	• The portfolio is of very high credit quality. The majority of securities (78%) 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 (+1.71%), Commercial Paper (+1.50%), and Corporate Notes (+0.52%), with a more significant decrease occurring in U.S. Treasuries (-3.55%). • The Pool maintained a defensive duration bias which is evidenced by the Pool ending at 93% of the benchmark's duration of 1.15 years, from 95% at the previous quarter-end. 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 14% (or $855 million) invested in a combination of the State LGIP, bank deposits, and repurchase agreements (overnight) and an additional 5.1% of the portfolio's holdings scheduled to mature within the next 31 days. • In anticipation of the upcoming quarter, during the second quarters of the past five years, the average net <u>inflow</u> to the Pool was $511 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 September 28, 2016.

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.

Additional Notes to the Investment Policy

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

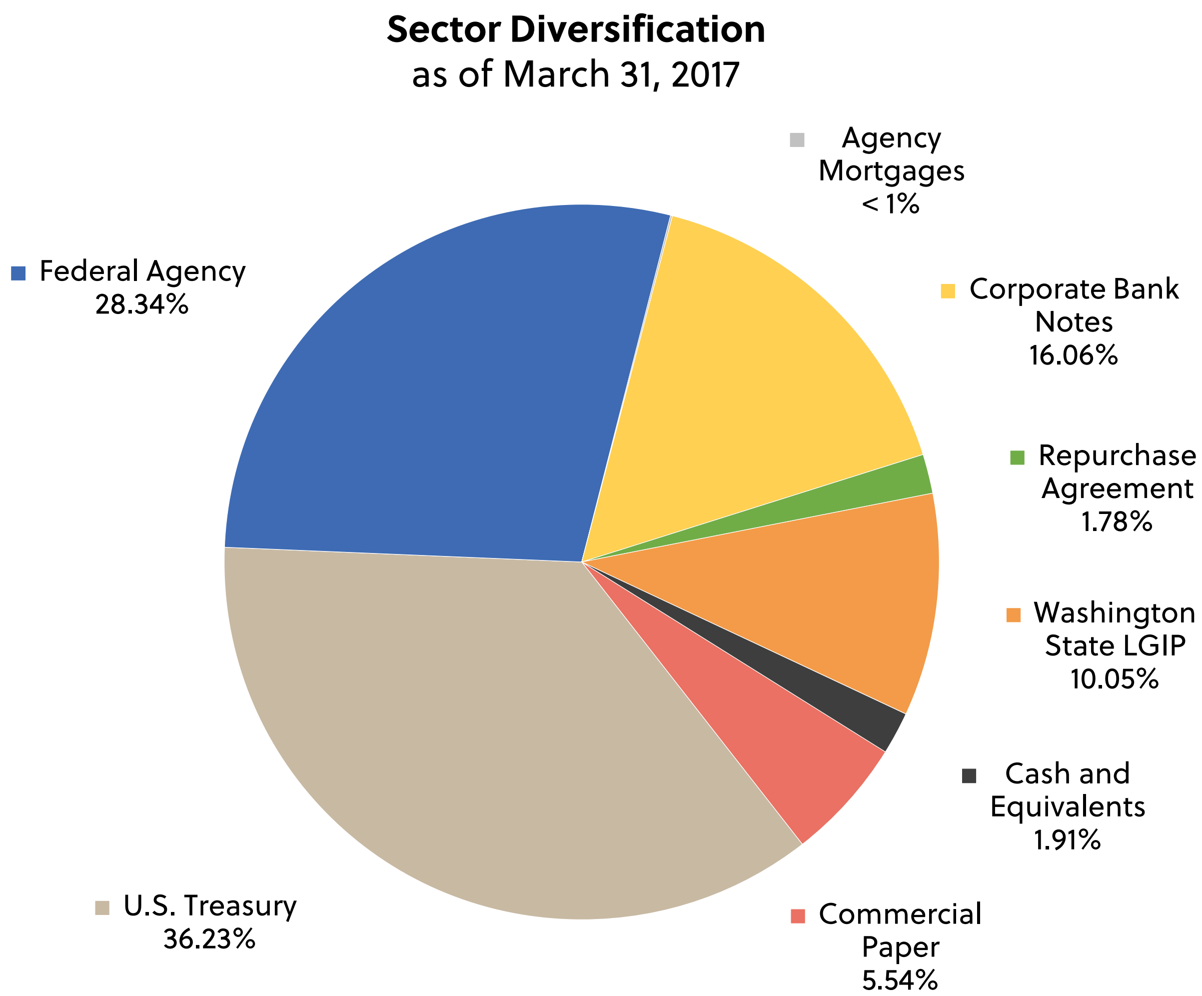
I. Investment Policy Compliance – County Investment Pool

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 March 31, 2017 was $6.2 billion and it experienced a net increase of approximately $47 million over the quarter. • Over the quarter, sectors that experienced allocation percentage increases included: Federal Agencies (+1.71%), Commercial Paper (+1.50%), Corporate Notes (+0.52%), and Repurchase Agreements (+0.16%). • Sectors that experienced decreases in quarter-over-quarter allocation percentages included: in U.S. Treasuries (-3.55%), the Washington State LGIP (-0.22%), and Cash & Equivalents (-0.11%).
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 65% of the County pool's assets are guaranteed or supported by the U.S. government. Further, approximately 10% is invested in the State LGIP, where 72% 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 78%. • Corporate allocations (both commercial paper and corporate notes) increased over the quarter to approximately 22% of the portfolio, up from 20% on December 30, 2016, and all securities are investment grade.
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 and approximately 24% of the portfolio is scheduled to mature within the next quarter.

Security Type	Market Value($)	Allocation Percentage	Within Policy Limits	Max Maturity Held	Within Policy Limits
U.S. Treasury	2,254,241,940	36.23%	✓	3.17 years	✓
Federal Agency (non-MBS)	1,763,129,783	28.34%	✓	2.63 years	✓
Corporate Notes	998,997,221	16.06%	✓	2.93 years	✓
Washington State LGIP	625,418,994	10.05%	✓	1 day	✓
Commercial Paper	344,590,655	5.54%	✓	132 days	✓
Cash and Equivalents	118,859,248	1.91%	✓	1 day	✓
Repurchase Agreements	111,000,000	1.78%	✓	1 day	✓
Agency Mortgages	5,818,288	0.09%	✓	3.52 years (WAL)	✓
TOTAL	**$6,222,056,127**	**100.00%**			

**Percentages may not total to 100% due to rounding.*
***Effective July 1, 2016, the Public Deposit Protection Commission collateralization requirement were lowered from 100% to 50%.*

II. Sector Allocation

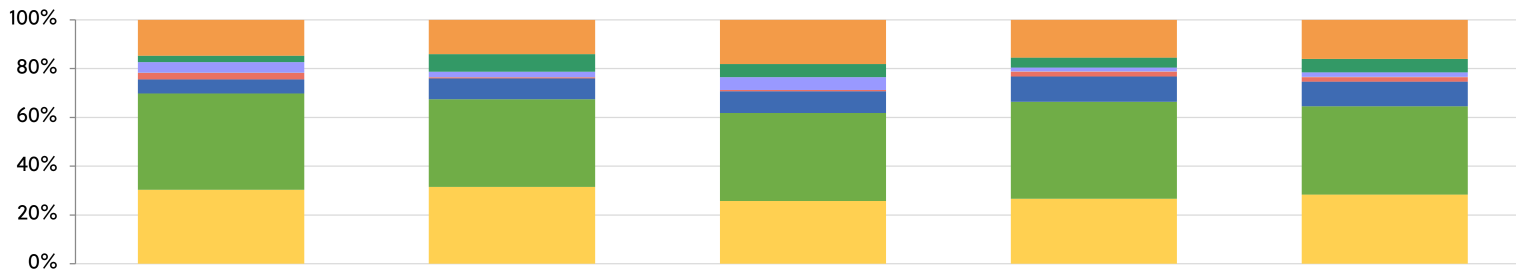


**Percentages may not total to 100% due to rounding.*

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 (+1.71%), Commercial Paper (+1.50%), Corporate Notes (+0.52%), and Repurchase Agreements (+0.16%), while decreases occurred in U.S. Treasuries (-3.55%), the Washington State LGIP (-0.22%), and Cash & Equivalents (-0.11%).
- Federal Agencies Federal agency allocations remained below U.S. Treasury allocations for the fifth consecutive quarter. Approximately $340 million of agency holdings matured during the quarter, offset by $458 million in agency reinvestments.
- U.S. Treasuries U.S. Treasury allocations decreased by $202 million over the quarter. Although there were about $301 million of U.S. Treasuries maturing or being sold, only a third of those proceeds were reinvested into this sector over the quarter, targeting the 3-year maturity range.
- Corporate Notes The portfolio increased allocations to corporate notes over the quarter, following a decrease the previous quarter. This sector accounts for 16.1% of the overall portfolio totaling $999 million (compared to 15.5%, or $959 million, last quarter).
- Commercial Paper The portfolio currently holds five commercial paper issuers totaling $345 million (or 5.5% of the total portfolio), representing a increase of $95 million over the quarter.
- Washington State LGIP Balances invested in the State LGIP slightly decreased over the quarter by approximately $9 million, and continued to serve as the Pool's primary liquidity vehicle. This sector accounts for 10.1% of the overall portfolio.
- Repurchase Agreements and Bank Deposits Allocations to repurchase agreements increased by $11 million over the quarter and accounted for 1.8% of the total portfolio. Bank deposits decreased by approximately $6 million over the quarter to $119 million (or to 1.9% of the total portfolio).

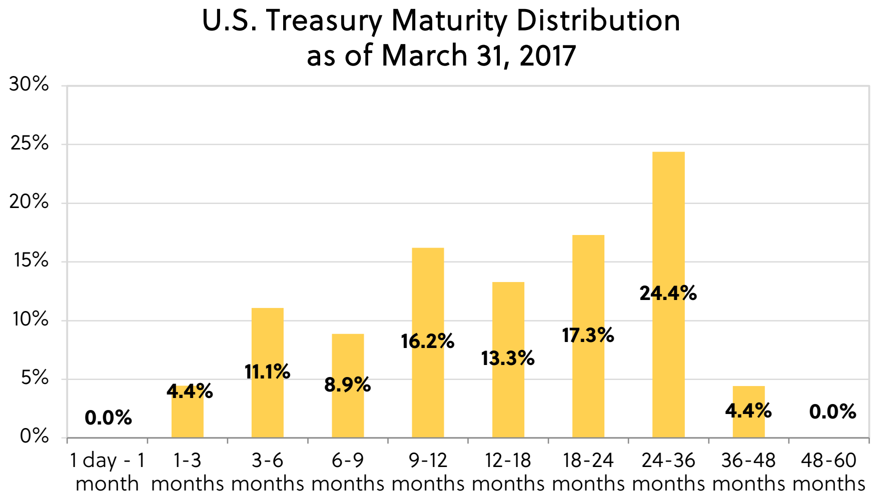


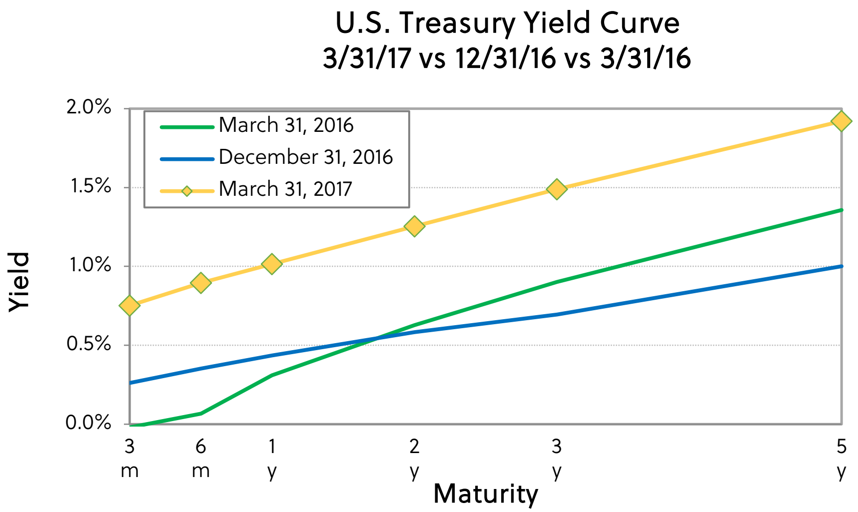
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016	March 31, 2017
Federal Agencies	30.30%	31.51%	25.72%	26.63%	28.34%
U.S. Treasury	39.55%	35.88%	36.08%	39.78%	36.23%
Washington State LGIP	5.76%	8.55%	8.96%	10.28%	10.05%
Cash and Equivalents	2.58%	0.39%	0.43%	2.02%	1.91%
Agency Mortgages	0.12%	0.11%	0.11%	0.10%	0.09%
Repurchase Agreements	4.33%	2.29%	5.14%	1.62%	1.78%
Commercial Paper	2.60%	7.21%	5.45%	4.04%	5.54%
Corporate Notes	14.76%	14.06%	18.12%	15.53%	16.06%

**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 decreased by $202 million over the quarter, down to 36.2% of the total portfolio. — Over the quarter, it appears the Pool targeted approximately $100 million in one new U.S. Treasury note maturing in 3 years. — Yields remained within a narrow range through the first couple months before rising strongly in anticipation of the March FOMC rate hike as Fed officials made a concerted effort to telegraph expectations. o Yields on the short-end of the curve ended the quarter higher, reflecting the rate hike, while long-term yields declined alongside future inflation expectations. — The majority of the Pool's Treasury investments ($1.3 billion, or 59.4% of all Treasury holdings, down from $1.6 billion, or 65.4% last quarter) 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 slightly decreased over the quarter by 6 days, from 545 days on December 31st, to 539 days on March 31st. • 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, 40.6% is allocated to maturities less than 12 months (versus 34.6% last quarter).



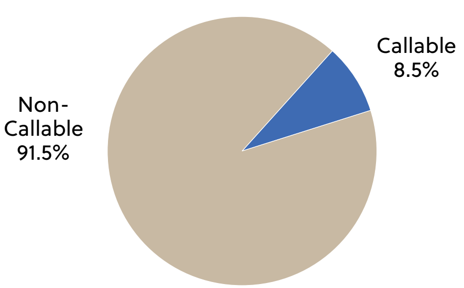


** Source Bloomberg Financial Systems*

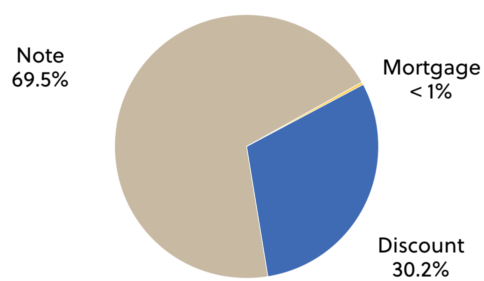
II. Sector Allocation – Federal Agencies

Topic	Observations	
Structure *(as % of Federal Agency Allocations)*	• Non-Callable 91.5% • Callable 8.5%	• Discount Notes 30.2% • Coupon bearing Notes 69.5% • Agency Mortgage <1%
Diversification *(as % of Federal Agency Allocations)*	• Freddie Mac (FHLMC) 30.8% • Federal Home Loan Bank (FHLB) 13.5% • Fannie Mae (FNMA) 22.5%	• Federal Farm Credit Bank (FFCB) 32.8% • 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 $119 million over the quarter. The increase was due to $458 million in new Agency purchases, paired with $340 million in maturities. • From a security structure standpoint (the ratio of non-callable to callable securities), callable securities decreased for the second consecutive quarter, to 8% of agency holdings, down from 9% last quarter and 13% in the third 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 the next few months. – 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 $5.8 million.	

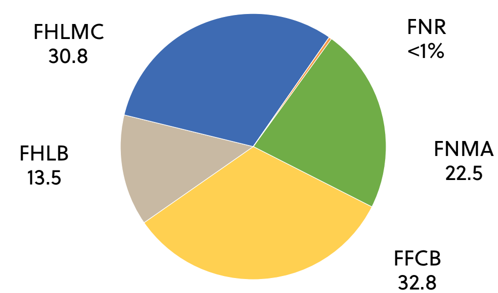
Callable vs. Non-Callable
as of March 31, 2017



Structure Distribution
as of March 31, 2017



Issuer Diversification
as of March 31, 2017

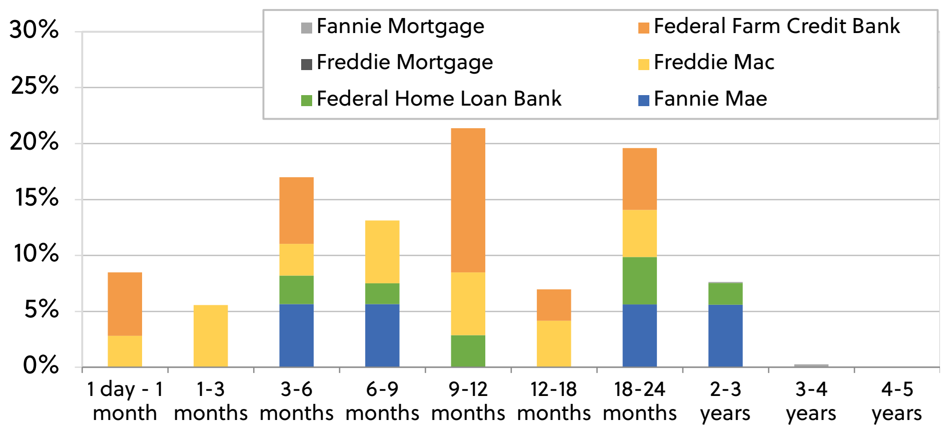


**All calculations above are based on total cash equivalents exposure, not overall Portfolio.*
***Percentages may not total to 100% due to rounding.*

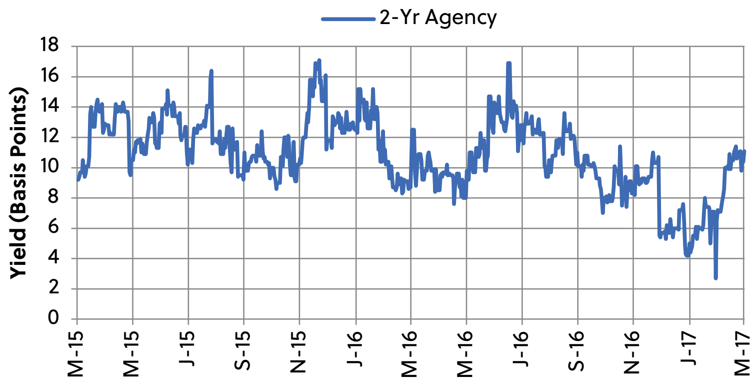
II. Sector Allocation – Federal Agencies

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 6 days, from 362 days on December 31st to 356 days on March 31st. – The County prefers short-term federal agencies and longer-term U.S. Treasuries. This is evident by, as of March 31, 2017, 66% of agency allocations being invested in maturities less than 12 months, versus 41% 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 34% of agency allocations were invested beyond 1 year, 59% 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 March 31, 2017



2-Year Federal Agency Yield Spreads
Past 24 Months



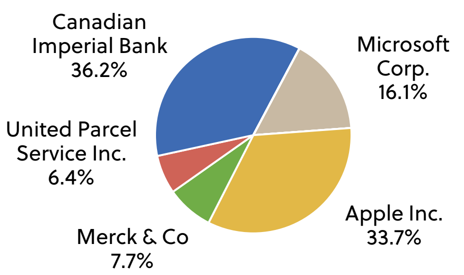
** Source Bloomberg Financial Systems*

- *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.*

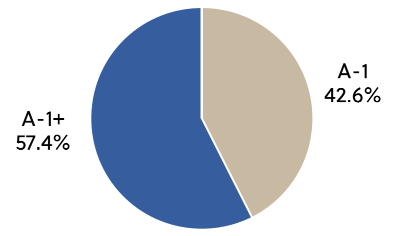
II. Sector Allocation – Commercial Paper

Topic	Observations
Issuer Diversification	• The County's allocations to commercial paper increased over the quarter, by approximately $95 million, and now account for 5.5% of the total portfolio, up from 4.0% at the end of the fourth quarter. • The portfolio now owns commercial paper of five issuers: Microsoft and Apple Inc., which were also held during the fourth quarter, and Canadian Imperial Bank, United Parcel Service, and Merck & Co, which were all added in the first quarter. • 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 short-term permitted investment options in the current fixed income market. • The current investment policy changed permitted investment guidelines to 3% per issuer and 25% maximum to the sector, when combined with corporate notes. Also, there is a maximum allowable issuer allocation of 5% across all investment types. All current allocations meet the guidelines set within the Investment policy.
Credit Distribution	• Standard & Poor's rates the short-term credit of Microsoft, Apple Inc., and Merck & Co as A-1+, and Canadian Imperial Bank and United Parcel Service Inc. 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. As a result, the County's portfolio may benefit from additional allocations to other high-quality commercial paper issuers. The commercial paper yield curve is steepest in maturities beyond three months (chart on far right). • 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.

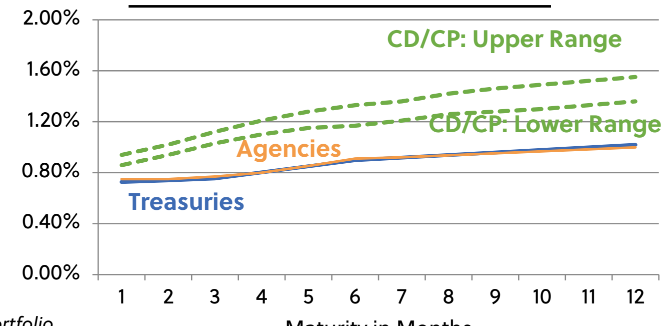
Issuer Distribution
as of March 31, 2017



Credit Distribution
as of March 31, 2017



Current Short-Term Yields
as of March 31, 2017



* Source Bloomberg Financial Systems

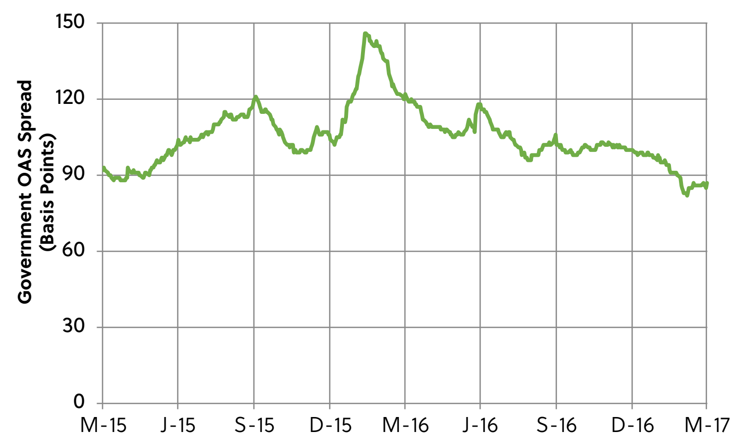
**All calculations above are based on total cash equivalents exposure, not overall Portfolio.*
***Percentages may not total to 100% due to rounding.*

II. Sector Allocation – Corporate Notes

Topic	Observations
Issuer Diversification	• The County increased allocations over the quarter to high-quality corporate notes. This sector accounts for 16.1% of the overall portfolio totaling $999 million, an increase of $40 million over the quarter. • The portfolio's corporate note allocations include fifteen issuers, as seen in the table below. • Of the County's allocations to corporate notes, $287 million (or 29% of corporate notes, down from 31% at previous quarter end) 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 1.6 years. • Of the County's total allocation to this sector, 72% is allocated to maturities beyond 1 year. • Permitted investment guidelines are now restricted to: 3% per issuer rated AA or better, 2% per issuer rated in broad single A category and 25% maximum to the sector, when combined with commercial paper. Also, there is a maximum allowable issuer allocation of 3% per issuer with combined with commercial paper and 5% across all investment types.

Credit & Issuer Distribution	S&P Short	S&P Long	Moody's Short	Moody's Long	% of Corporate Holdings	% of Portfolio
Royal Bank of Canada	A-1+	AA-	P-1	Aa3	15.45%	2.48%
US Bank	A-1+	AA-	P-1	Aa1	14.85%	2.38%
Toronto Dominion Bank	A-1+	AA-	P-1	Aa1	12.29%	1.97%
Wells Fargo Bank	A-1+	AA-	P-1	Aa1	9.48%	1.52%
Bank of Montreal	A-1	A+	P-1	Aa3	9.10%	1.46%
Bank of Nova Scotia	A-1	A+	P-1	Aa3	7.02%	1.13%
Walt Disney Co	A-1	A	P-1	A2	5.20%	0.84%
PNC Bank	A-1	A	P-1	Aa2	5.02%	0.81%
Bank of America	A-1	A	P-1	A1	4.51%	0.72%
JP Morgan Chase	A-1	A+	P-1	Aa2	4.27%	0.69%
Microsoft Corp.	A-1+	AAA	P-1	Aaa	3.52%	0.56%
Canadian Imperial Bank	A-1	A+	P-1	Aa3	2.98%	0.48%
Colgate-Palmolive Co	A-1+	AA-	P-1	Aa3	2.90%	0.47%
Proctor & Gamble Co	A-1+	AA-	P-1	Aa3	2.01%	0.32%
Apple Inc.	A-1+	AA+	P-1	Aa1	1.40%	0.22%

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



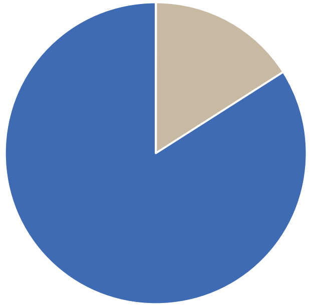
* "Credit & Issuer Distribution" calculations above are based on total Corporate Note exposure, not overall Portfolio.
**Percentages may not total to 100% due to rounding.

* Source Bloomberg Financial Systems

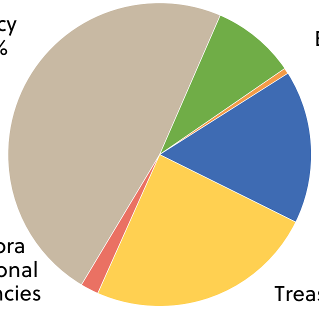
II. Sector Allocation – LGIPs and Cash Equivalents

	Underlying Investments	Rating (Short-Term: S&P/ Moody's/Fitch)	Observations
Washington State LGIP	• Federal Agencies 47.9% • U.S. Treasuries 24.4% • Cash Equivalents 8.9% • Certificates of Deposit 0.6% • Repurchase Agreements 16.3% • Supra National Agencies 1.9% *As of March 31, 2017*	• N/A	• The County currently has allocated $625 million to the Washington State LGIP, which is a slight decrease of approximately $9 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 federal agency discount notes approximately 8.1%, while Repurchase Agreements decreased 8.2%. Every other sector experienced 1-2% changes in percentage allocations over the quarter.
Cash Equivalents	• State LGIP 84.0% • U.S. Bank 15.4% • 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. Effective July 1, 2016, the Public Deposit Protection Commission collateralization requirement was lowered to 50%. • The County decreased allocations to bank deposits by approximately $6 million over the quarter to $119 million. The U.S. Bank account now represents over 96% of the Pool's bank deposit allocations (Key Bank 4% and Bank of America <1%). • 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 March 31, 2017



Washington State LGIP Sector Distribution
as of March 31, 2017



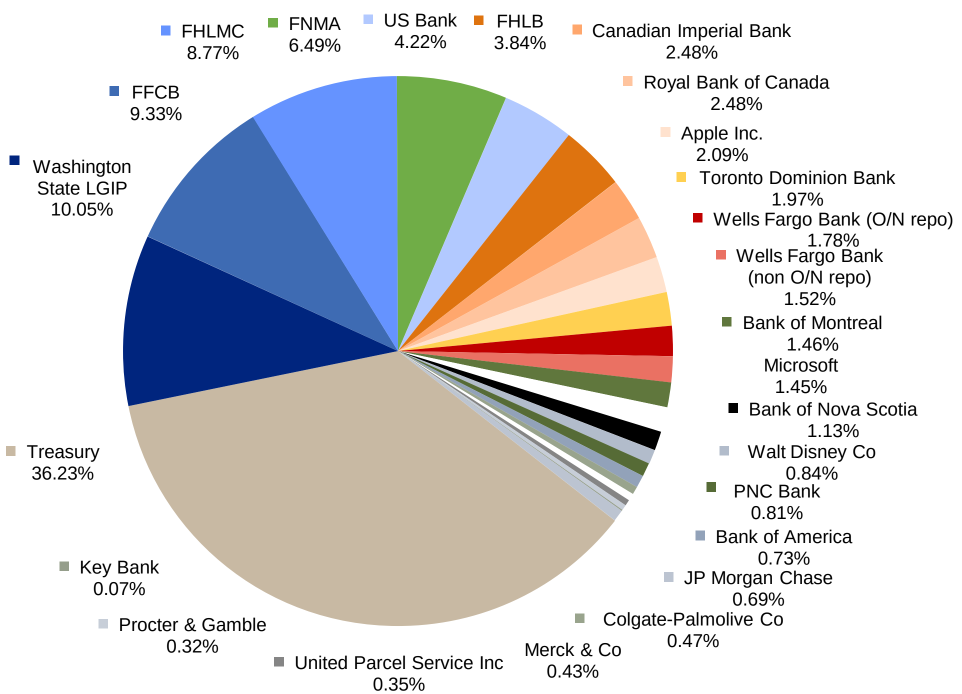
**All calculations above are based on total cash equivalents exposure, not overall Portfolio.*
***Percentages may not total to 100% due to rounding.*

III. Issuer Concentration

Issuer Exposure

- The County continues to maintain a well-diversified portfolio by issuer, as is evidenced by the chart below.
- Approximately 65% of the portfolio is allocated directly to U.S. government guaranteed or government supported entities.
- Of the remaining 35% 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 21% 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 the maturity of a commercial paper issuer in the portfolio, Bank of Nova Scotia., the County reinvested into three new CP issuers, United Parcel Service, Inc., Merck & Co, and Canadian Imperial Bank.
- Six new Corporate Note issuers were also added over the quarter, including Walt Disney Co., Apple Inc., Microsoft, JP Morgan Chase, Colgate-Palmolive Co., and Procter & Gamble.

Issuer Distribution	Value	Percentage	Issuer Limit
Treasury	2,254,241,940	36.23%	100%
Washington State LGIP	625,418,994	10.05%	25%
FFCB	580,742,782	9.33%	35%
FHLMC	545,436,305	8.77%	35%
FNMA	403,567,788	6.49%	35%
US Bank	262,820,282	4.22%	5%
FHLB	239,201,195	3.84%	35%
Canadian Imperial Bank	154,415,522	2.48%	5%
Royal Bank of Canada	154,386,050	2.48%	5%
Apple Inc.	129,994,172	2.09%	5%
Toronto Dominion Bank	122,777,926	1.97%	5%
Wells Fargo Bank (O/N repo)	111,000,000	1.78%	25%
Wells Fargo Bank (non O/N repo)	94,751,800	1.52%	5%
Bank of Montreal	90,869,515	1.46%	5%
Microsoft	90,477,949	1.45%	5%
Bank of Nova Scotia	70,141,200	1.13%	5%
Walt Disney Co	51,982,540	0.84%	5%
PNC Bank	50,140,200	0.81%	5%
Bank of America	45,250,370	0.73%	5%
JP Morgan Chase	42,695,256	0.69%	5%
Colgate-Palmolive Co	28,957,246	0.47%	5%
Merck & Co	26,568,080	0.43%	5%
United Parcel Service Inc	21,964,959	0.35%	5%
Procter & Gamble	20,108,000	0.32%	5%
Key Bank	4,146,057	0.07%	5%
Total	$6,222,056,127	100.00%	



Percentages may not add to 100% due to rounding.

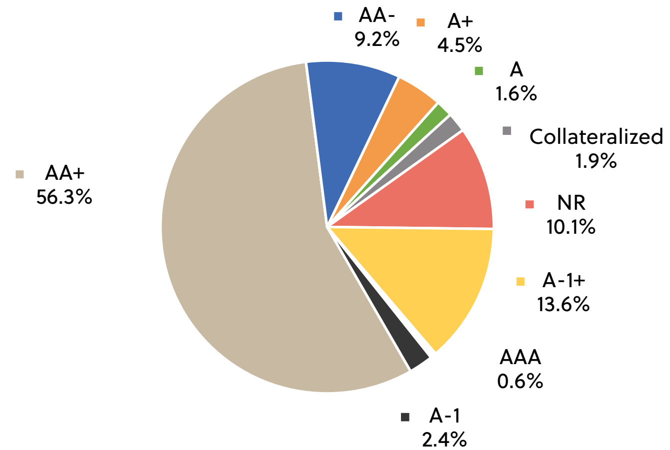
** For the purposes of totaling issuer concentration, issuers are aggregated across all sector types. It is noted however that issuers across sector types may maintain separately rated issuer credits.*

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. This accounts for a total of 78.4% of the portfolio.
- The County increased its credit exposure through commercial paper and corporate notes by approximately $135 million over the quarter, or 2.0% compared to the fourth quarter, ending at approximately 21.6% of the portfolio.
  - Commercial paper now accounts for 5.5% of the entire portfolio, while corporate notes account for 16.1%.
- Allocations were maintained to corporate notes for Bank of America, U.S. Bank, Wells Fargo, PNC Bank, Royal Bank of Canada, Toronto Dominion Bank, Bank of Nova Scotia, Canadian Imperial bank, and Bank of Montreal and commercial paper allocations were maintained for Microsoft and Apple Inc.
  - Six new issuers were added to the corporate note allocations, including Apple Inc., Colgate-Palmolive Co., JP Morgan Chase, Walt Disney Co., Proctor & Gamble, and Microsoft, with an average rating of A.
  - Three new commercial paper issuers were added throughout the quarter, Canadian Imperial Bank, United Parcel Service Inc., and Merck & Co, 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.
- The County has modest additional corporate exposure through its 1.9% allocation to bank deposits.
  - Effective July 1, 2016, the Public Deposit Protection Commission collateralization requirement was lowered to 50%.
- The 10.1% 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, 1.6% of the County's Pool is allocated indirectly to corporate securities (repurchase agreements and certificates of deposit).

Total Pool Credit Distribution*
as of March 31, 2017



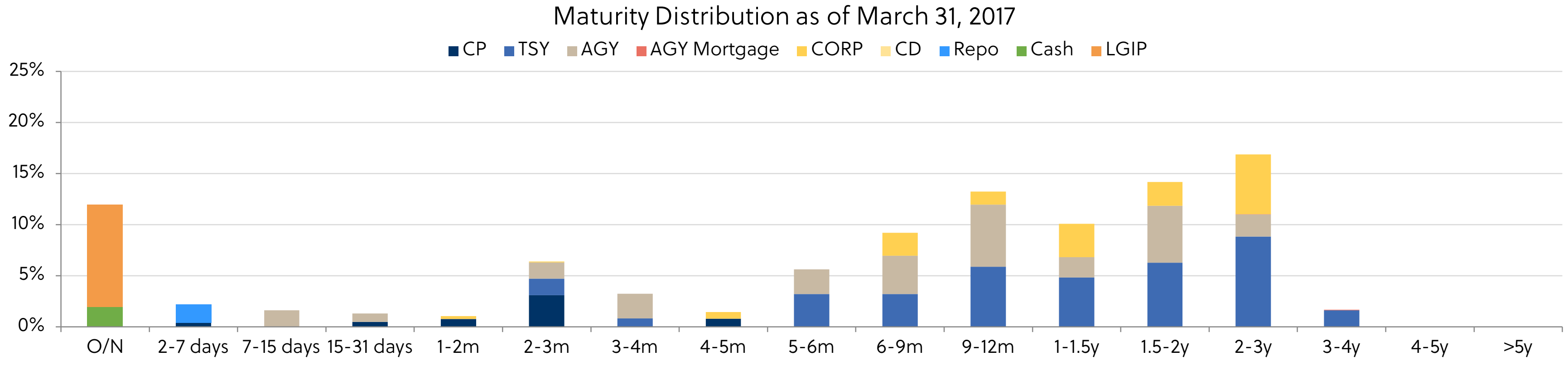
Corporate/CP Issuer Ratings Table
as of March 31, 2017

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	Aa3
US Bank	Corp	A-1+	AA-	P-1	Aa1
Toronto Dominion Bank	Corp	A-1+	AA-	P-1	Aa1
Wells Fargo Bank	Corp	A-1+	AA-	P-1	Aa1
Bank of Montreal	Corp	A-1	A+	P-1	Aa3
Bank of Nova Scotia	Corp	A-1	A+	P-1	Aa3
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/CP	A-1+	AAA	P-1	Aaa
Canadian Imperial Bank	Corp/CP	A-1	A+	P-1	Aa3
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
Merck & Co	CP	A-1+	AA	P-1	A1
United Parcel Service Inc.	CP	A-1	A+	P-1	A1

**Ratings by S&P; percentages may not add to 100% due to rounding.*
***Bank ratings of the depositories can be found on page 15.*

V. Maturity Distribution

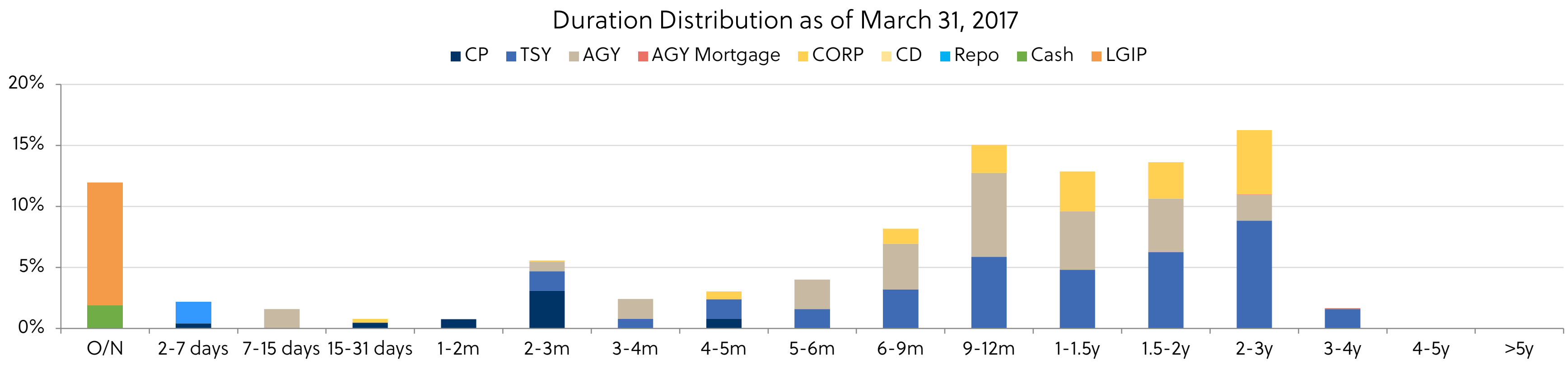
Maturity Distribution	Observations
Weighted Average Maturity ("WAM")	• The County continues to diversify holdings across its permitted maturity range, as seen in the chart below. • A majority of the holdings – 57% of the portfolio – are scheduled to mature or have a call date within the next twelve months, higher than the previous quarter-end at 54% 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, – Tactically targeting duration extensions in the following spaces: o Agency Notes in the 18- to 24- month maturity range, where allocations increased by 9% over the quarter. o Corporate Notes in the 1- to 2-year maturity range. • The WAM of the portfolio ended the first quarter at 392 days, slightly down from 399 days at previous quarter-end. – The reduction in portfolio WAM can primarily be attributed to short-term agency purchases, along with increases in short-term credit securities.
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 13.8% (or $855 million) invested in a combination of the Washington State LGIP, bank deposits, and repurchase agreements (overnight liquidity), an additional 5.1% 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 during the second quarter of 2017. On average, over the past five years, the County has experienced an average net cash inflow of $511 million in quarters ended June 30.



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. 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 March 31st, the duration of the County Investment Pool was 1.07 years, a slight decrease from the previous quarter which ended at 1.09 years. This increase is in contrast to previous quarters when the pool's duration had been gradually shifting shorter, until the third quarter of 2016 when the duration began to reverse this trend, increasing quarter-over-quarter. – The decrease in portfolio duration can be attributed to purchases of securities in the 0- to 2-year 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 1.15 years. This is a modest decrease from 95% of the benchmark's duration at the end of the fourth quarter of 2016. – 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.

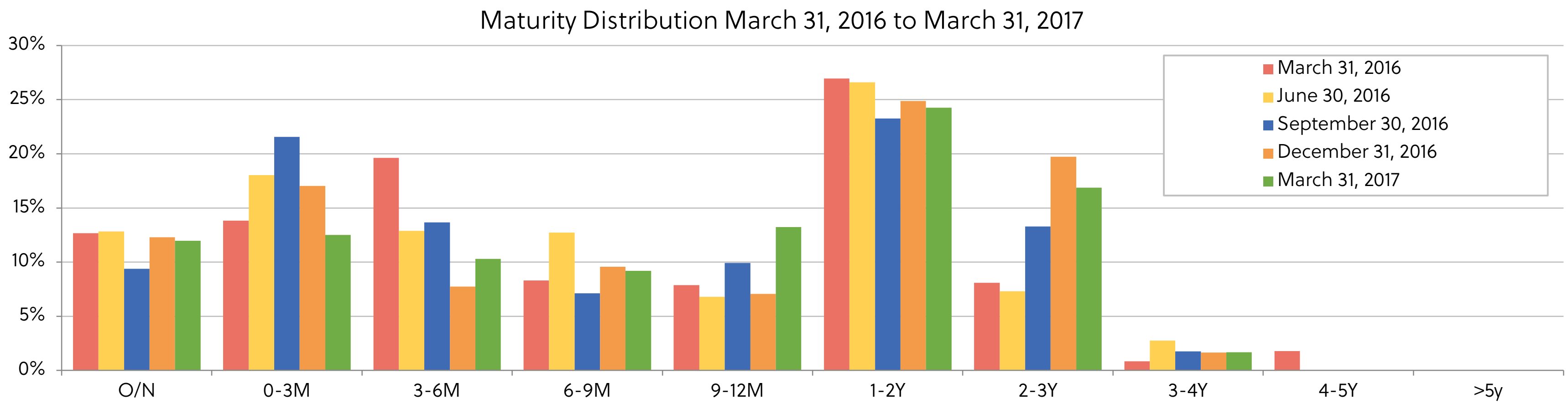


Agency Mortgage durations are shown as effective duration taken from Bloomberg Financial Markets.
Duration for Federal Agency Discount Notes and Repurchase Agreements are calculated as days to maturity. WA LGIP and bank deposits considered to have a one day duration.
All other security durations are 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 3- to 6-month and 9- to 12-month portion of the yield curve during the first quarter of 2017.
  - Compared to 12 months ago, the County continues to target investments in the 1- to 2-year portion of the curve and appears to be shifting slightly longer into the 2- to 3-year area of the curve, 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 3- to 6-month and 9- to 12- month maturity ranges are due to increases in both, short-term federal agency and credit purchases.
  - Overnight allocations appeared to have held steady over the quarter. With the second quarter historically resulting in a net inflow, liquidity became less of a priority.
  - The portfolio targeted the 3- to 6-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 June 30, the average net <u>inflow</u> to the Investment Pool was $511 million.
  - Over the past five years, for the quarters ending September 30, the average net <u>outflow</u> from the Investment Pool was $294 million.



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.

Disclaimer

This material is based on information obtained from sources generally believed to be reliable and available to the public, however PFM Asset Management LLC cannot guarantee its accuracy, completeness or suitability. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. All statements as to what will or may happen under certain circumstances are based on assumptions, some but not all of which are noted in the presentation. Assumptions may or may not be proven correct as actual events occur, and results may depend on events outside of your or our control. Changes in assumptions may have a material effect on results. Past performance does not necessarily reflect and is not a guaranty of future results. The information contained in this presentation is not an offer to purchase or sell any securities.