King County Investment Pool

Portfolio Review

Quarter Ended September 30, 2014

PFM Asset Management LLC

Presented by:

PFM Asset Management LLC

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Executive Summary

Purpose, Scope and Approach	• PFM Asset Management LLC ("PFM") prepared this report to update our ongoing analysis and to address any Investment Pool developments since our June 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 September 30, 2014, with reference to holdings in past periods. • The review encompasses all current investments in the County's Investment Pool.
Investment Program and Portfolio Review	• PFM reviewed the County's portfolio with respect to Investment Policy Compliance, Sector Allocation, Issuer Concentration, Credit Quality, Maturity Distribution, and Duration Distribution. • 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	• While the U.S. economy continued its recovery during the quarter, global unrest and uncertainty about future central bank policy—including actions of the Federal Reserve (Fed)—resulted in volatility in the bond and equity markets. • Second-quarter gross domestic product (GDP) rose at a revised annual rate of 4.6%, driven by increased consumption, inventories, exports, residential and nonresidential investment, and local government spending. The U.S. unemployment rate fell from 6.1% in June to 5.9% in September. While job growth has been impressive, wage growth has been weak and other measures such as the labor force participation rate and the number of part-time workers for economic reasons indicate lingering levels of underutilization. • The Federal Open Market Committee (FOMC) reaffirmed that its quantitative easing bond purchase program will end in October. At the same time, the FOMC released updated assessments of where individual participants judged the appropriate level for the federal funds rate at the end of the next few calendar years. Those assessments showed a surprisingly fast upward trajectory for short-term rates that are inconsistent with both Fed Chair Janet Yellen's public comments and persistently low current market rates.
Observations	• The portfolio is comprised of high quality securities. The majority of securities are either explicitly guaranteed or carry a high level of support by the U.S. Government (U.S. Treasury and Federal Agency) and/or possess a high level of liquidity (Washington State LGIP and bank deposits). • The County's Investment Pool balance (market value) of $5.09 billion experienced a net decrease of approximately $422 million over the quarter (from $5.52 billion at previous period end). Due to the seasonally large net cash outflow, the primary portfolio structure change experienced over the quarter was a reduction to overnight and ultra short-term investments, including short-term federal agencies ($354 million), repurchase agreements ($273 million), and the State LGIP ($25 million). • The County continued to add modestly to corporate issuer allocations over the quarter, by purchasing attractive yielding, high-quality commercial paper and corporate bank notes with maturities less than 12 months. High quality issuer purchases included Wells Fargo Bank, Bank of New York Mellon, Apple Inc., and Proctor & Gamble, each of which (1) is rated investment grade by S&P and Moodys and (2) offers a significant yield advantage relative to similar maturity Treasuries. • The County continues to balance (1) longer-dated US Treasury and federal agency purchases with large overnight allocations to the LGIP and bank deposits and attractive yielding short-term corporate issuers and (2) relative value among Treasury and federal agency securities along the yield curve where yield spreads warrant over/under-weights to each sector. In fact, the County's current allocation to US Treasuries ($2.0 billion), is near its highest absolute dollar amount since March 2011 and also represents a greater allocation than federal agencies in the portfolio since March 2011. • Primarily due to seasonally large net cash outflows, the WAM of the portfolio increased modestly to 454 days from 432 days on June 30th. • As of September 30th, the duration of the County Investment Pool is 1.42 years, a modest increase from a duration of 1.35 years on June 30th. • The County Pool appears to provide adequate liquidity, with 18.3% invested in a combination of the Washington State LGIP and bank deposits (overnight liquidity) and an additional 32.4% of the portfolio's holdings scheduled to mature within the next 12 months.

Investment Pool Portfolio Review

<u>Portfolio Review</u>

I. **Investment Policy Compliance**

II. **Sector Allocation**

- **U.S. Treasuries**
- **Federal Agencies**
- **Commercial Paper**
- **Repurchase Agreements**
- **LGIP and Cash Equivalents**

III. **Issuer Concentration**

IV. **Overall Credit Quality**

V. **Maturity and Duration Distribution**

I. Investment Policy Compliance – Investment Policy Summary

- The Investment Policy summary is based on the current Investment Policy for the County Investment Pool, dated September 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

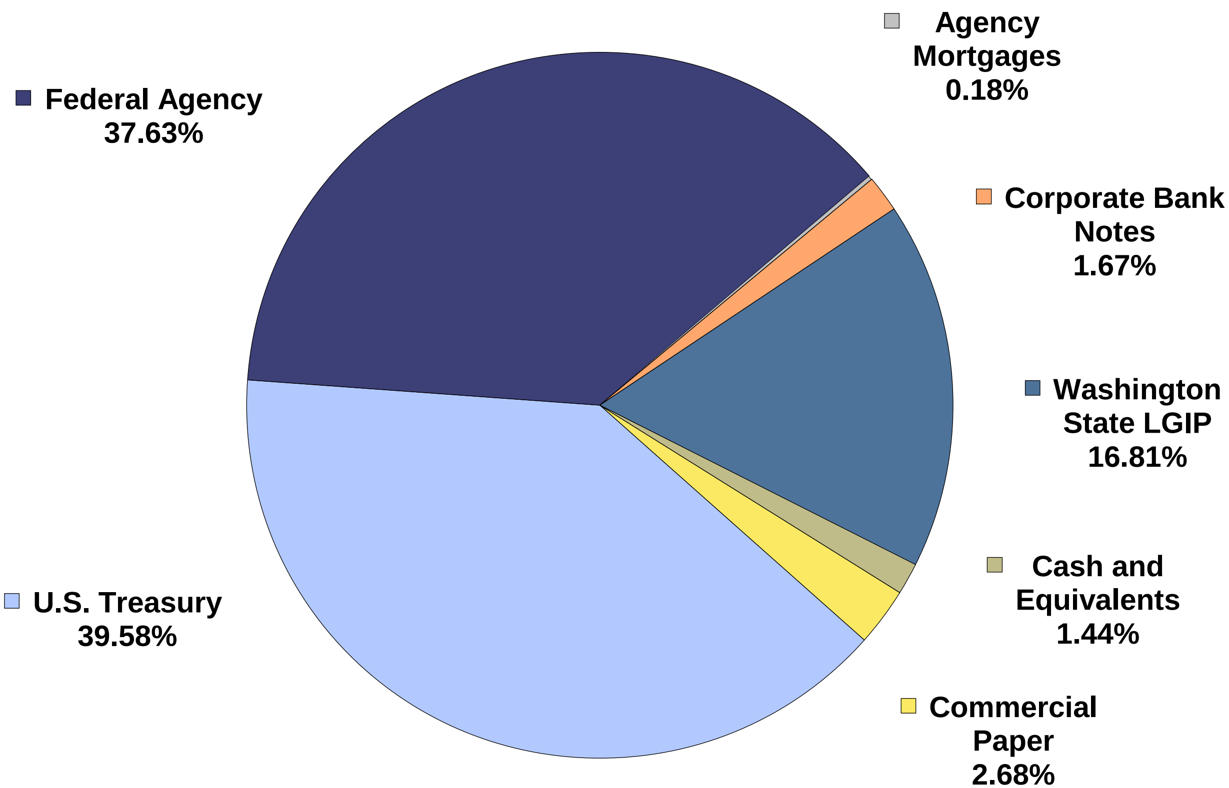
Topic	Observations
Sector Allocation	• All sector allocations fall within the limits set forth by the County's Investment Policy Statement. The Pool is predominantly invested in U.S. government securities which are either explicitly guaranteed or carry a high level of support by the U.S. government. • The County's Investment Pool balance (market value) experienced a net decrease of approximately $422 million over the quarter, following a $674 million increase from the prior quarter-end. • The seasonality of the County's quarter-end balances indicates a historically large balance decrease for the quarter-ended September. For example, over the past four years (including September 2014), the County's Pool balance has decreased, on average, by $398 million each quarter-ended September. • It appears that a large portion of the net outflow over the quarter was funded from federal agency and repurchase agreement allocations, as those balances decreased by approximately $354 million and $273 million over the quarter, respectively. Other sectors decreasing over the quarter included: State LGIP ($25 million), US Treasuries ($20 million), and federal agency mortgages ($0.6 million). • Sectors that experienced positive quarter-over-quarter increases were those allocated to credit-type instruments, including: commercial paper ($108 million), corporate bank notes ($85 million), and bank deposits ($56 million). • Further, the County's current allocation to US Treasuries ($2.0 billion), which remained relatively stable over the quarter, is near its highest absolute dollar amount since March 2011 and also represents a greater allocation than federal agencies in the portfolio since March 2011.
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 77% 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 (17%), which is not rated; however, 78% of the LGIP is invested in U.S. Treasuries or Federal Agencies. • The Pool also added to corporate allocations (both commercial paper and corporate bank notes) over the quarter, all of which are investment grade.
Maturity Distribution	• All maturities fall within the maturity limits set forth in the County's Investment Policy. • Approximately 51% of the County's assets mature in one year or less and approximately 35% of the portfolio will mature within the next six months.

Security Type	Market Value($)	Allocation Percentage	Within Policy Limits	Max Maturity Held	Within Policy Limits
Cash Equivalents	73,416,173	1.44%	✓	1 day	✓
Commercial Paper	136,436,232	2.68%	✓	107 days	✓
Repurchase Agreements	0	0.00%	✓	N/A	✓
LGIP	856,198,480	16.81%	✓	1 day	✓
Federal Agencies (non MBS)	1,916,659,884	37.63%	✓	3.65 years	✓
Agency Mortgages	9,199,424	0.18%	✓	4.22 years (WAL)	✓
Certificates of Deposit	0	0.00%	✓	N/A	✓
Corporate Bank Notes	85,276,482	1.67%	✓	293 days	✓
Municipal Bonds	0	0.00%	✓	N/A	✓
U.S. Treasury	2,015,924,800	39.58%	✓	4.25 years	✓

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

II. Sector Allocation

Sector Diversification
as of September 30, 2014



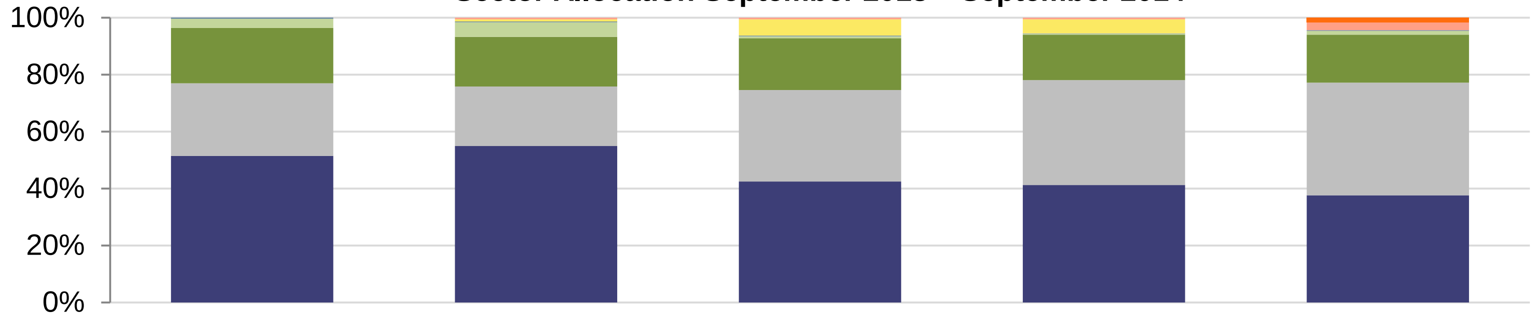
**Percentages may not total to 100% due to rounding.*

II. Changes in Portfolio Sector Allocation Over Past 12 Months

Changes in Sector Allocation

- The County's investment pool generally maintained consistent percentage allocations over the quarter.
  - The seasonal net balance decrease for the quarter was mainly funded by short-term federal agency securities and repurchase agreements.
    - At quarter-end, repurchase agreement allocations had been reduced to zero, the first 0% allocation since September 30, 2013.
    - Federal agency allocations were reduced for the third consecutive quarter; while, conversely, US Treasury allocations increased for the third consecutive quarter.
  - Agency sector reductions may be impacted by two primary factors (1) agency discount notes offer a modest yield advantage relative to US Treasury securities in the 0-12 month maturity range; hence, in large net outflow periods the pool typically experiences larger decreases to the federal agency sector due to discount note maturities utilized to fund seasonal net cash outflows and (2) the yield spread between federal agency and US Treasury securities with maturities beyond 12 months are near all-time low levels; hence, Treasuries in that portion of the curve are preferred.
- The portfolio's allocation to the State LGIP continues to be its primary liquidity, as LGIP allocations have remained relatively consistent over the past 5 years, with State LGIP balances ranging from 11% to 25% of the portfolio over that period ($490 million to $1.1 billion).
- The portfolio added funds to corporate issuers over the quarter as commercial paper and corporate bank notes were increased by 2.1% and 1.7%, respectively.
  - This is the first quarter in over 5 years that the portfolio added allocations to short-term corporate bank notes (all with maturities less than 12 months).

Sector Allocation September 2013 – September 2014



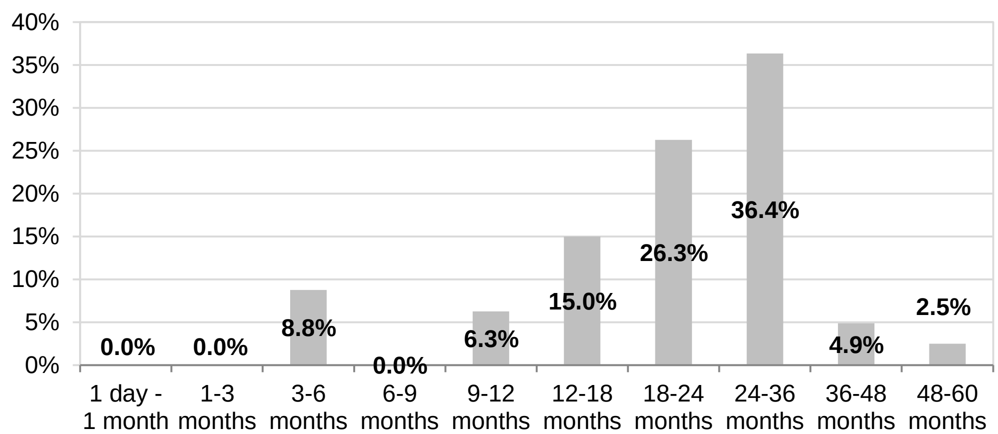
	September 30, 2013	December 31, 2013	March 31, 2014	June 30, 2014	September 30, 2014
Federal Agencies	51.48%	54.99%	42.45%	41.17%	37.63%
U.S. Treasury	25.50%	20.89%	32.19%	36.91%	39.58%
Washington State LGIP	19.44%	17.35%	18.19%	15.97%	16.81%
Cash and Equivalents	3.32%	5.19%	0.70%	0.31%	1.44%
Agency Mortgages	0.26%	0.22%	0.21%	0.18%	0.18%
Municipal Notes	-	-	-	-	-
Repurchase Agreements	-	0.88%	5.74%	4.95%	-
Commercial Paper	-	0.49%	0.51%	0.51%	2.68%
Corporate Bank Notes	-	-	-	-	1.67%

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

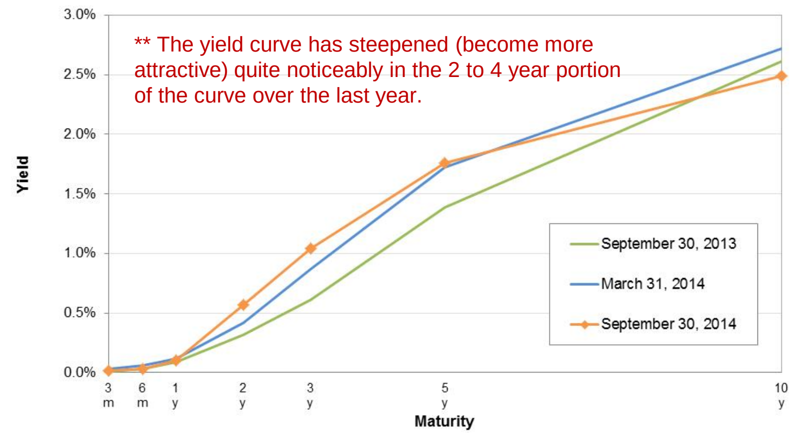
II. Sector Allocation – U.S. Treasury Securities

Topic	Observations
Observations	• The County's overall allocation to U.S. Treasuries increased for the third consecutive quarter to 39.6% of the total portfolio, compared to 36.9% at the end of the previous period. – Although allocation percentages increased, due to the seasonally large net outflow during the quarter a portion of that outflow was funded with US Treasury allocations and as a result the dollar allocations to the Treasury sector experienced a modest net decrease of approximately $19.7 million. • The County's allocation to US Treasuries remained relatively unchanged over the quarter, with balances still approximately $2.0 billion. This allocation remains near its highest level since March 2011 and this quarter marks the first quarter since March 2011 that US Treasury allocations outweighed those to agencies. • The County's weighted average maturity (WAM) of its Treasury allocation was maintained near two years over the quarter, with the WAM decreasing only modestly (18 days) from 719 days on June 30th to 701 days on September 30th. – It is observed that despite the seasonally large net cash outflow during the quarter, there appeared to be an effort to maintain US Treasury allocations as well as specific maturity targets within the US Treasury space. – That is, in light of the large cash flows over the previous two quarters, the County's allocation to US Treasuries has been maintained at a historically high allocation (relative to the overall portfolio) and at a targeted 700 to 730 day WAM. • The chart on the left below 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, only 15% is allocated to maturities less than 12 months. This low allocation to shorter-term Treasuries reflects the Federal Reserve's current near zero interest policy and the effect it has had driving shorter-term US Treasury securities to very low levels. – Meanwhile, 68% of Treasury allocations are positioned with maturities in the 1.5 to 4 year maturity range, compared to 70% at previous quarter-end. This indicates a resolve to maintain allocations in the steepest portions of the US Treasury yield curve.

U.S. Treasury Maturity Distribution as of September 30, 2014



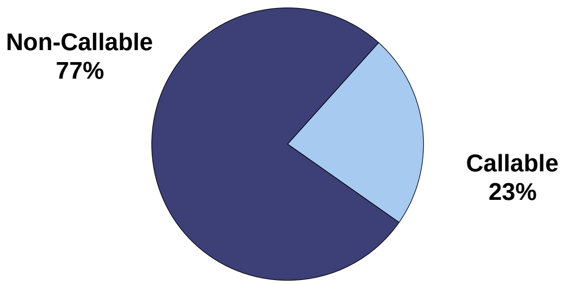
U.S. Treasury Yield Curve 9/30/14 vs 3/31/14 vs 9/30/13



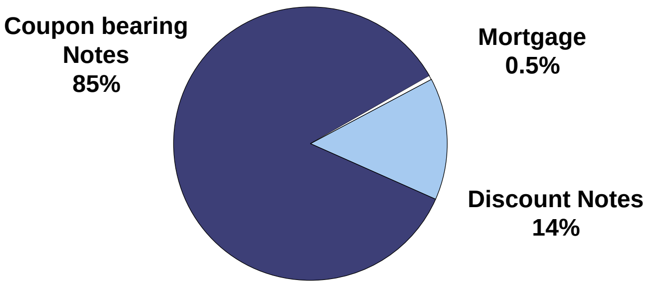
II. Sector Allocation – Federal Agencies

Topic	Observations			
Structure *(as % of Federal Agency Allocations)*	• Non-Callable • Callable	77% 23%	• Discount Notes • Coupon bearing Notes • Agency Mortgage	14% 85% <1%
Diversification *(as % of Federal Agency Allocations)*	• Freddie Mac (FHLMC) • Federal Home Loan Bank (FHLB) • Fannie Mae (FNMA)	25% 32% 25%	• Federal Farm Credit Bank (FFCB) • Freddie Mac Mortgage-Backed (FHR) • Fannie Mae Mortgage-Backed (FNR)	18% 0% <1%
Conclusions	• The County's Federal Agency allocation continues to be well diversified among the four major issuers and among security structures. • Federal Agency allocations decreased by $354 million over the quarter, primarily due to the seasonally large net cash outflow during the quarter. • As mentioned in previous reports, the recent trend of shifting allocations to Treasuries relative to federal agencies could be largely due to Treasury/agency spreads at historically very tight levels and, in some cases, agencies having yields below comparable Treasury securities. – This quarter-end marks the first quarter-end since March 2011 that US Treasury allocations outweighed allocations to the federal agency sector (39.6% US Treasury versus 37.6% federal agency). • From a security structure standpoint, the ratio of non-callable to callable securities remained relatively unchanged over the quarter, from 78%/22% previously to 77%/23% currently. • Similarly, the ratio of coupon-bearing notes to discount notes to mortgages remained relatively unchanged over the quarter, from 83%/16%/0.4% previously to 85%/14%/0.5% currently. The slight shift away from discount notes is most likely due to the funding of the County's seasonally large net cash outflow period, and utilizing short-term agency discount notes to provide the bulk of immediate funding. • The County Pool's only remaining allocation to agency mortgages is in Fannie Mae pools, totaling approximately $9.2 million, which continue to paydown principal and naturally reduce the County's allocation to agency mortgages.			

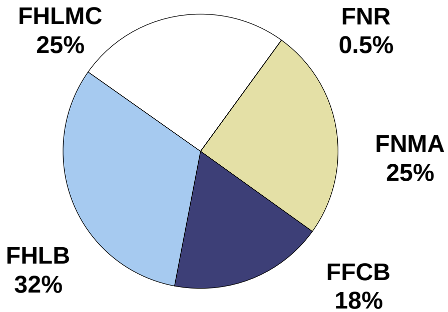
Callable vs. Non-Callable as of September 30, 2014



Structure Distribution as of September 30, 2014



Issuer Diversification as of September 30, 2014

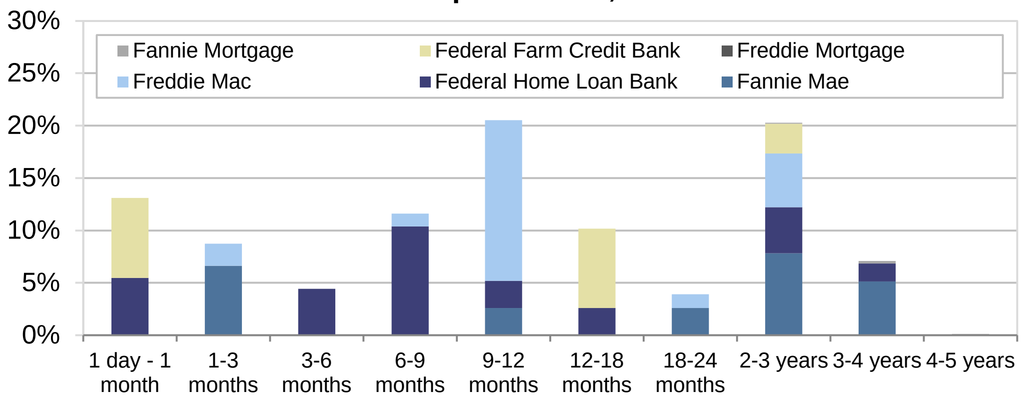


**All calculations above are based on total cash equivalents exposure, not overall Portfolio.*
***Percentages may not total to 100% due to rounding.*

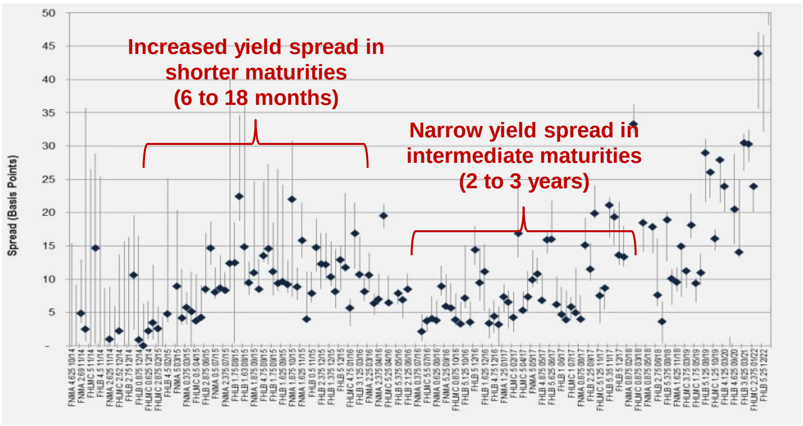
II. Sector Allocation – Federal Agencies

Topic	Observations
Maturity Distribution	• The County's Federal Agency maturity distribution falls within the limits set forth by its Investment Policy Statement. • Over the quarter, the County's weighted average maturity (WAM) of Federal Agency allocations increased modestly by approximately 75 days, from 403 days on June 30th to 478 days on September 30th. – It is observed that the primary driver of the increase in agency WAM is the reduction in shorter-term agency maturities (to fund the seasonally large net outflow) relative to longer-dated maturities, the majority of which remained in the portfolio. – That is, as of current quarter-end the portfolio maintained 26% allocation to agencies with maturities less than 6 months, compared to the previous quarter-end total of 45% with maturities less than 6 months. – Conversely, for agency allocations with maturities greater than 12 months, the change over the quarter was minimal: 41% previously versus 42% currently. – The County's allocation to the 2-3 year maturity range increased over the quarter from 12% previously to 20% currently. However, it is observed that this increase appears to be the result of callable agency securities not being called and passing their call date, in essence becoming no longer callable. When this occurs, the expected maturity of these securities increases noticeably from the expected call date to the final maturity. – The bulk of new federal agency purchases during the quarter appeared to have been purchased to the 9 to 18 month maturity range, which aligns to the value available in the federal agency yield curve relative to US Treasuries of similar maturity, as shown in the chart on the right.

Federal Agency Maturity Distribution by Name as of September 30, 2014



Federal Agency Spreads Relative to US Treasuries as of October 6, 2014

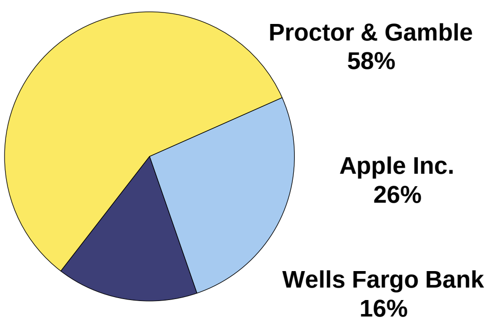


- Agency Mortgage maturities are calculated as average life. Average life data taken from Bloomberg Financial Markets
- Callable securities are shown to their next call date.
- All other Agency maturities are calculated as days to maturity.

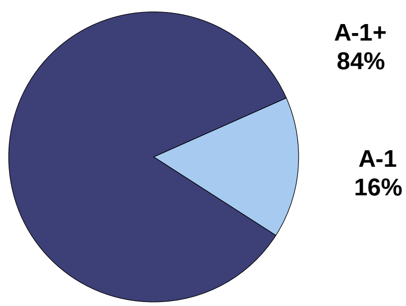
II. Sector Allocation – Commercial Paper

	Observations
Issuer Diversification	• The County increased allocations to commercial paper over the quarter, by approximately 2.1% or $108 million. • The portfolio previously owned allocations to Proctor & Gamble, which were increased over the quarter. • The portfolio also added two new issuers to the portfolio during the quarter: Apple Inc. and Wells Fargo Bank. • In previous quarters, it appeared the County had regularly reinvested the proceeds of Proctor & Gamble commercial paper maturities into new Proctor & Gamble 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 and it appears that the County increased allocations and issuers (Apple and Wells Fargo) to this commercial paper strategy for the quarter. • 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 25% maximum to the sector.
Credit Distribution	• Standard & Poor's rates the short-term credit of Proctor & Gamble and Apple Inc. as A-1+. • Standard & Poor's rates Wells Fargo Company short-term credit as A-1.
Conclusions	• High-quality commercial paper has offered noticeable yield advantage relative to similar maturity Treasury and federal agency securities. The County's commercial paper investments have a weighted average yield of approximately 0.14% and a WAM of 90 days (or 3 months). • For perspective (and as shown in the chart below on the right), to match the yield of the County's commercial paper allocations, an agency discount note would need to be purchased at a maturity of 8 to 10 months. • Short-term US Treasury and federal agencies remain near zero levels, largely due to Federal Reserve overnight target rate policy. As a result, the County's portfolio may benefit from additional tactical allocations to other high-quality commercial paper issuers. The commercial paper yield curve continues to be steeper in the 6 to 9 month range, relative to the 1 to 6 month range (chart on far right).

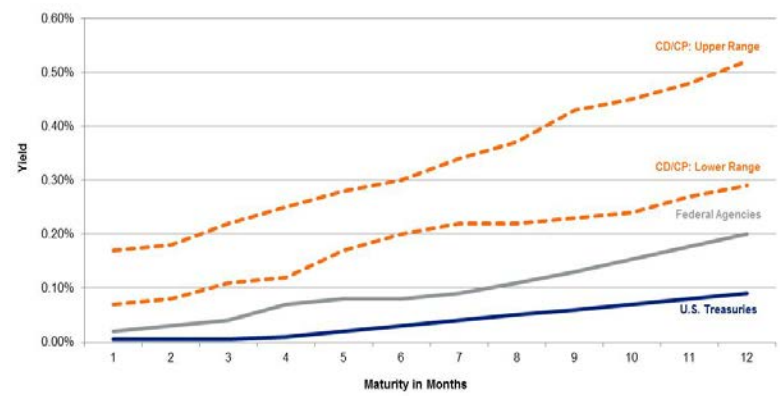
Issuer Distribution
as of September 30, 2014



Credit Distribution
as of September 30, 2014



Current Short-Term Yields
as of September 30, 2014

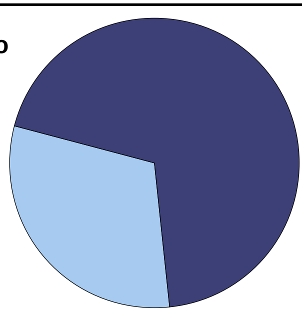


**All calculations above are based on total commercial paper exposure, not overall Portfolio.*
***Percentages may not total to 100% due to rounding.*

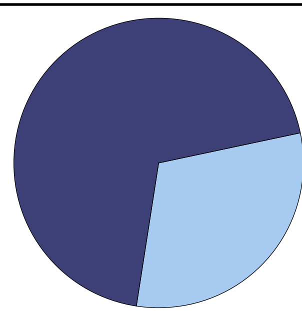
II. Sector Allocation – Corporate Bank Notes

	Observations
Issuer Diversification	• In the quarter, the County added allocations to high-quality corporate bank notes for the first time in over 5 years. • New issuers purchased during the quarter included: Wells Fargo Bank NA ($59 million) and Bank of New York Mellon ($26 million). • In total, the new allocations to corporate bank notes represent 1.7% of the portfolio. • Each new corporate bank note investment was purchased with a maturity less than 12 months. • 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	• Standard & Poor's rates Bank of New York Mellon long-term issuer credit as A+ and short-term issuer credit as A-1. • Standard & Poor's rates Wells Fargo Bank NA long-term issuer credit as AA- and short-term issuer credit as A-1+. • Both 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 incremental yield relative to US Treasury and federal agency securities of similar maturity. • The County's corporate bank notes have a weighted average yield of approximately 0.28% and a WAM of 227 days (or 9 months). • For perspective, to match the yield of the County's corporate bank note purchases, a federal agency note would need to be purchased at a maturity of approximately 1.5 to 2 years. • Due to the risk adjusted yield advantage currently available in high quality corporate bank notes relative to similar maturity federal agency and US Treasury securities, the County's portfolio may benefit from additional, tactical 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.

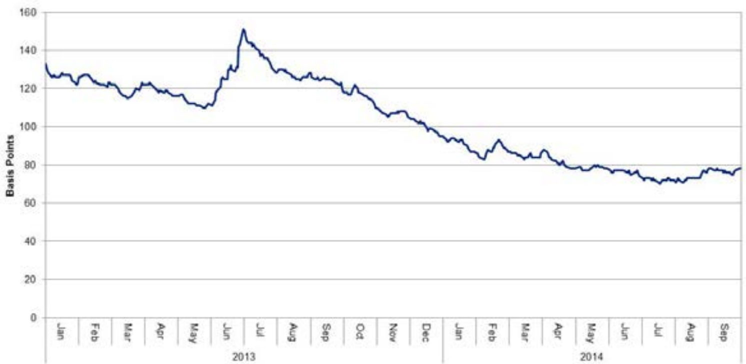
Issuer Distribution
as of September 30, 2014



Credit Distribution
as of September 30, 2014



1-5 Year Financials/Treasuries Yield Spreads
Jan 2013 through Sep 2014

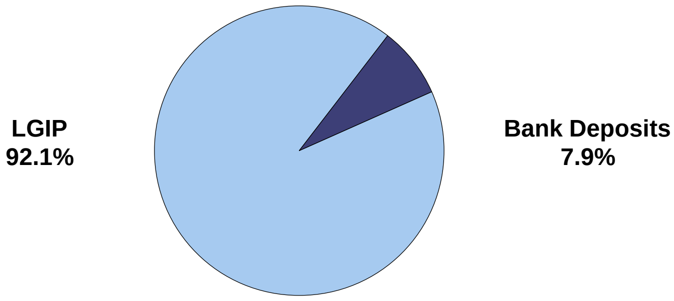


**All calculations above are based on total commercial paper exposure, not overall Portfolio.*
***Percentages may not total to 100% due to rounding.*

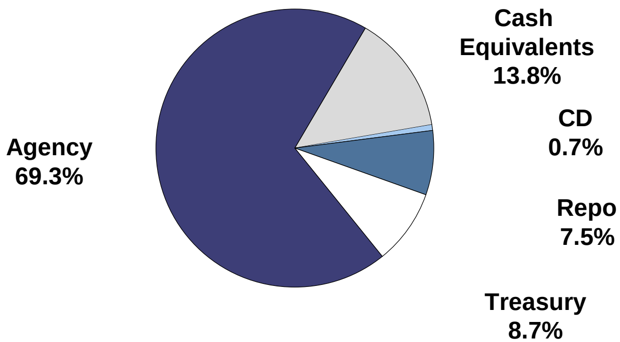
II. Sector Allocation – LGIPs and Cash Equivalents

	Underlying Investments	Rating (Short-Term: S&P/ Moody's/Fitch)	Observations
Washington State LGIP	• Federal Agencies 69.3% • U.S. Treasuries 8.7% • Cash Equivalents 13.8% • Certificates of Deposit 0.7% • Repurchase Agreements 7.5% *As of September 30, 2014*	• N/A	• The County currently has allocated $856 million to the Washington State LGIP, down modestly over the quarter, approximately $25 million, most likely as a result of funding the seasonally large net cash outflow. • The County's allocation to the State LGIP continues to serve as the primary overnight liquidity vehicle for the portfolio. • Most notably over the quarter, the LGIP decreased allocations to federal agencies (2.8%) and repurchase agreements (7.5%), while increasing US Treasuries (2.8%) and bank deposits (7.4%). • The allocation changes by the State LGIP were similar to those by the County's Pool: increases to Treasuries and bank investments and decreases to repurchase agreements and federal agencies.
Cash Equivalents	• State LGIP 92.1% • U.S. Bank 6.7% • Key Bank 0.8% • Bank of America 0.4% *As of September 30, 2014*	• U.S. Bank: A-1+/P-1/F1+ • Key Bank: A-2/P-2/F-1 • Bank of America: A-1/P-2/F-1	• The County's deposit accounts at U.S. Bank, Key Bank, and Bank of America are FDIC-insured up to FDIC limits, and are 100% collateralized by the Public Deposit Protection Commission. • Over the quarter, the County increased allocations to bank deposits by approximately $56.4 million, most notably to US Bank.

Cash Equivalents Distribution as of September 30, 2014



Washington State LGIP Sector Distribution as of September 30, 2014



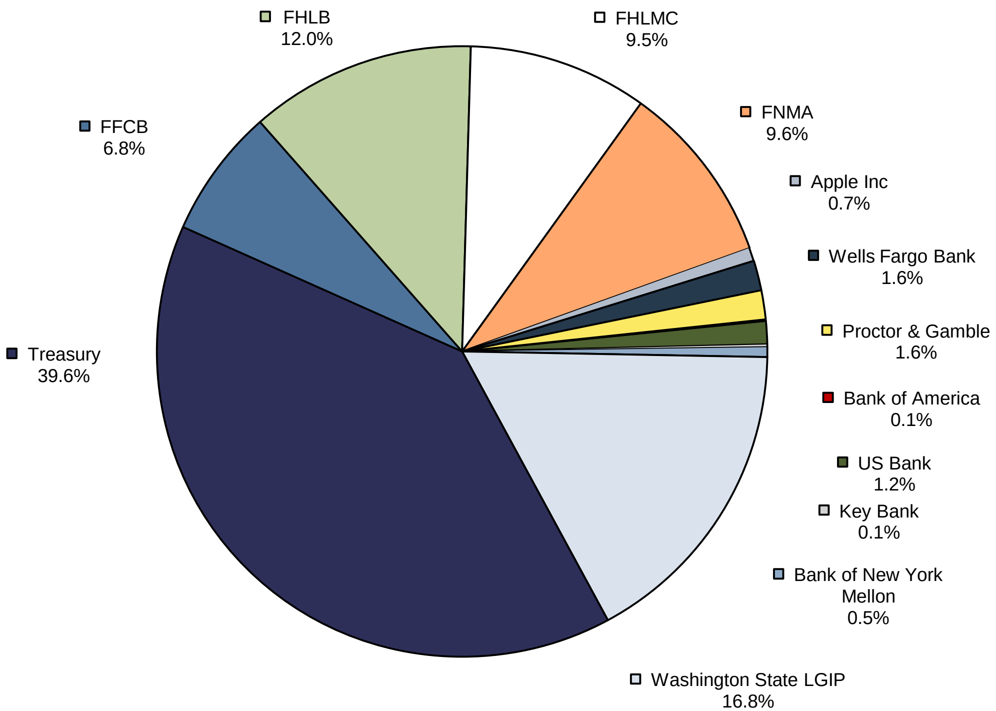
**All calculations above are based on total cash equivalents exposure, not overall Portfolio.*
***Percentages may not total to 100% due to rounding.*

III. Issuer Concentration

Issuer Exposure

- The County has continued to diversify holdings by issuer, as is evidenced in the chart below.
- The County has allocated holdings among thirteen (13) individual issuers.
- Approximately 77.4% of the portfolio is allocated directly to U.S. government guaranteed or government supported entities.
- The majority of the remaining 22.6% of assets are allocated to the Washington State LGIP (16.8%).
- 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 90.5%.
- The County added new corporate issues to the portfolio during the quarter, including: Apple Inc., Wells Fargo Bank, and Bank of New York Mellon, while also maintaining allocations to Proctor & Gamble, US Bank, Key Bank, and Bank of America.
- 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
US Treasury	$2,015,924,800	39.6%
Washington State LGIP	856,198,480	16.8%
FHLB	608,707,639	12.0%
FNMA	486,713,494	9.6%
FHLMC	482,988,473	9.5%
FFCB	347,449,702	6.8%
Wells Fargo Bank*	80,517,397	1.6%
Proctor & Gamble	78,957,071	1.6%
US Bank	62,349,948	1.2%
Apple Inc	35,979,860	0.7%
Bank of New York Mellon	26,258,386	0.5%
Bank of America	4,010,948	0.1%
Key Bank	7,055,277	0.1%
Total	**$5,093,111,475**	**100.0%**



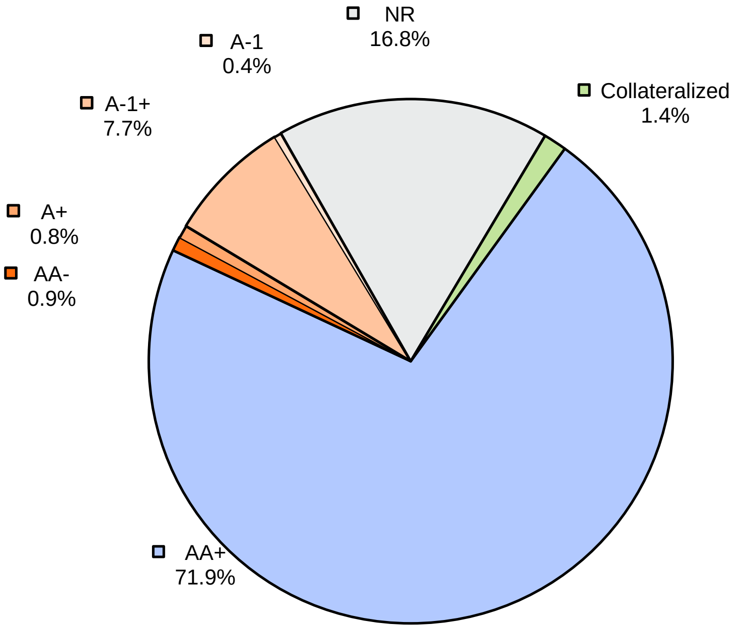
**Percentages may not add to 100% due to rounding.*
** For the purposes of totaling issuer concentration, Wells Fargo Bank NA and Wells Fargo Company were aggregated. It is noted however that each issuer maintains separately rated issuer credits.*

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 to its direct corporate exposure by reinvesting a Proctor & Gamble commercial paper maturity, into a new Proctor & Gamble CP purchase as well as adding Bank of New York Mellon (bank note), Wells Fargo Bank (bank note and commercial paper), and Apple Inc (commercial paper).
  - Proctor & Gamble and Apple Inc. maintain short-term credit ratings of A-1+ by S&P and P-1 by Moodys.
  - Wells Fargo Bank Co. maintains a short-term credit rating of A-1 by S&P and P-1 by Moodys.
  - Wells Fargo Bank NA maintains a long-term credit rating of AA- by S&P and Aa3 by Moodys.
  - Bank of New York Mellon maintains a long-term credit rating of A+ by S&P and A1 by Moodys.
- Further, indirect corporate exposure comes through the County's investment in the Washington LGIP. Through the LGIP, 1.4% of the County's total portfolio is allocated indirectly to corporate securities (repurchase agreements and certificates of deposit).
  - The collateralization of the corporate securities held by the LGIP minimizes any credit risk.
- The County also has some slight corporate exposure through its 1.4% allocation to bank deposits. However, these deposits are 100% collateralized by U.S. Treasury and Federal Agency securities, as the County's deposits are covered by the Public Deposit Protection Commission.
- The 16.8% 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 September 30, 2014

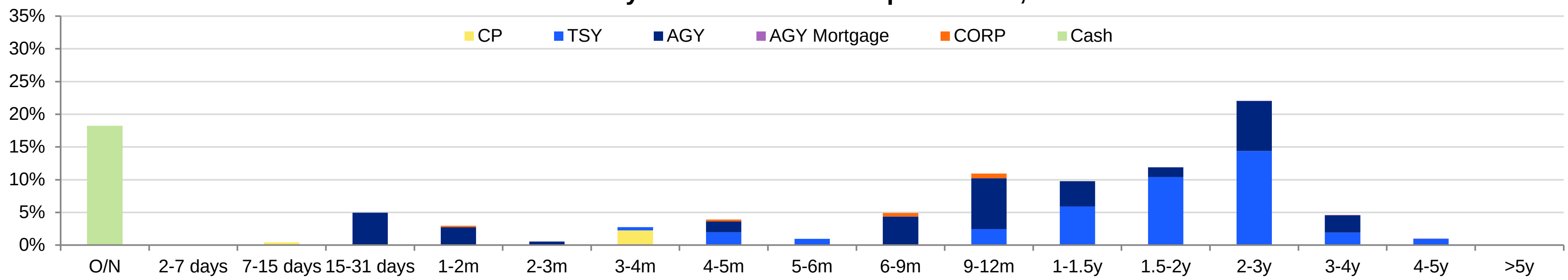


*Ratings by S&P; Percentages may not add to 100% due to rounding.
**Bank ratings of the depositories for the collateralized securities are given on page 13.

V. Maturity Distribution

Maturity Distribution	Observations
Weighted Average Maturity ("WAM")	• The County continues to diversify holdings among numerous maturity buckets, as seen in the chart below. • A majority of the holdings – 51% of the portfolio – are scheduled to mature or have a call date within the next twelve months. This percentage is only modestly lower from 53% at the end of the previous quarter. • The County continues to balance (1) longer-dated US Treasury and federal agency purchases with large overnight allocations to the LGIP and bank deposits and attractive yielding short-term corporate issuers and (2) relative value among Treasury and federal agency securities along the yield curve where yield spreads warrant over/under-weights to each sector. • During seasonal periods of historically large net balance decreases, the County's portfolio typically experiences an increase in WAM, as the portfolio liquidity requirements are usually funded from shorter-term investments, maturities, and cash held in bank deposits and the State LGIP. As a result, the portfolio's WAM is likely to increase as these shorter-term securities are removed from the portfolio. – The County's allocations to overnight investments, most notably repurchase agreements and the State LGIP, declined as a result of funding liquidity needs during the quarter. – Due to seasonally large net cash outflow, the WAM of the portfolio increased modestly to 454 days from 432 days on June 30th. – The County was able to balance the natural WAM-lengthening impact that spending overnight dollars has on a portfolio by targeting new purchases in the 6 to 18 month maturity range. • Overnight LGIP and bank deposits continue to offer attractive value relative to other short-term Treasury and agency securities in the 0 to 3 month space and high-quality, short-term corporate issuers offer significant value relative to similar maturity government securities in the 0 to 12 month space.
Liquidity	• The County Pool appears to provide adequate liquidity, both in terms of final maturities and the sectors in which the Pool has invested. In addition to the 18.3% invested in a combination of the Washington State LGIP and bank deposits (overnight liquidity), an additional 5.4% of the portfolio's holdings are scheduled to mature within the next thirty-one days. • Based on historical cash flow patterns, the Pool would expect an increase in funds for the fourth quarter. On average over the past four years the County has experienced a net cash inflow in quarters ended December 31st totaling $298 million.

Maturity Distribution as of September 30, 2014

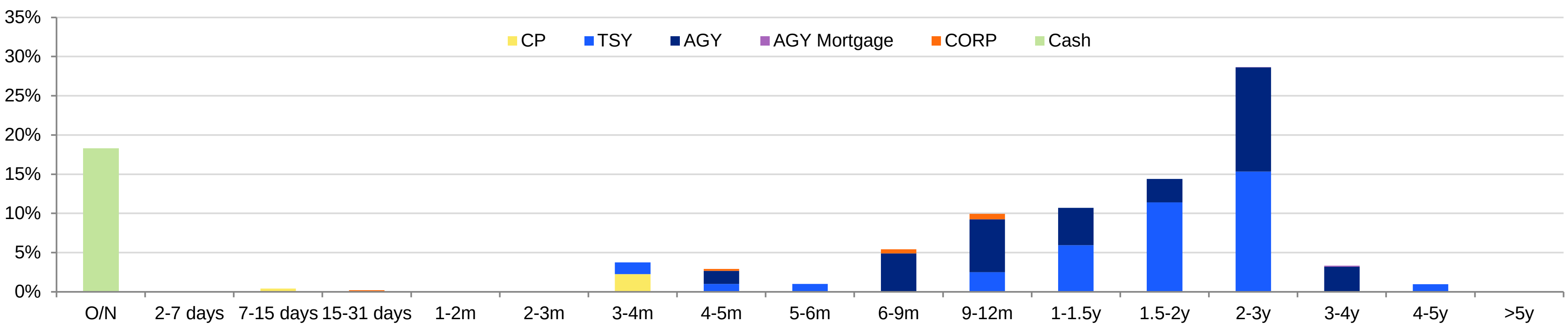


- Agency Mortgage maturities are calculated as average life. Average life data taken from Bloomberg Financial Markets
- Callable securities shown to their call date.
- All other security maturities are calculated as days to maturity. WA LGIP is considered to have a one day maturity.

V. Duration Distribution

Duration Distribution	Observations
Definition	• Duration is a measure of the sensitivity of the value of principal of an investment to a change in interest rates. For example, the value of a portfolio with a higher duration is more sensitive to interest rate increases and decreases. • Duration is measured in years and is commonly used as a measure of market risk. Duration can be derived in a number of ways; please refer to the notes at the bottom of this page for details.
Duration	• As of September 30th, the duration of the County Investment Pool is 1.42 years, a modest increase from a duration of 1.35 years on June 30th. – The increase in portfolio duration can be attributed to the combination of (1) the decrease in overnight and ultra short-term securities and (2) the increased duration of a portion of the County's callable federal agency securities that passed their call date and are now valued to final maturity. – When comparing the weighted average duration of the aggregate portfolio to the WAM of the portfolio, it is observed that the duration (1.42 years) exceeds the WAM (1.25 years) by approximately 0.17 years. – The majority, if not all, of the difference can be attributed to the County's allocations to callable federal agency securities. When viewing the comparison of weighted average duration of callable securities (2.37 years) to the WAM of callable securities calculated to their next call date (0.12 years), it is observed that the weighted duration exceeds the WAM quite markedly. – However, when viewing callable securities to their anticipated call date (that is, a security with a price over 100 would be called and a price of less than 100 would not be called), the WAM of callable securities increases notably from 0.12 years to 2.92 years, and the WAM of the overall portfolio would lengthen to 1.49 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 September 30, 2014



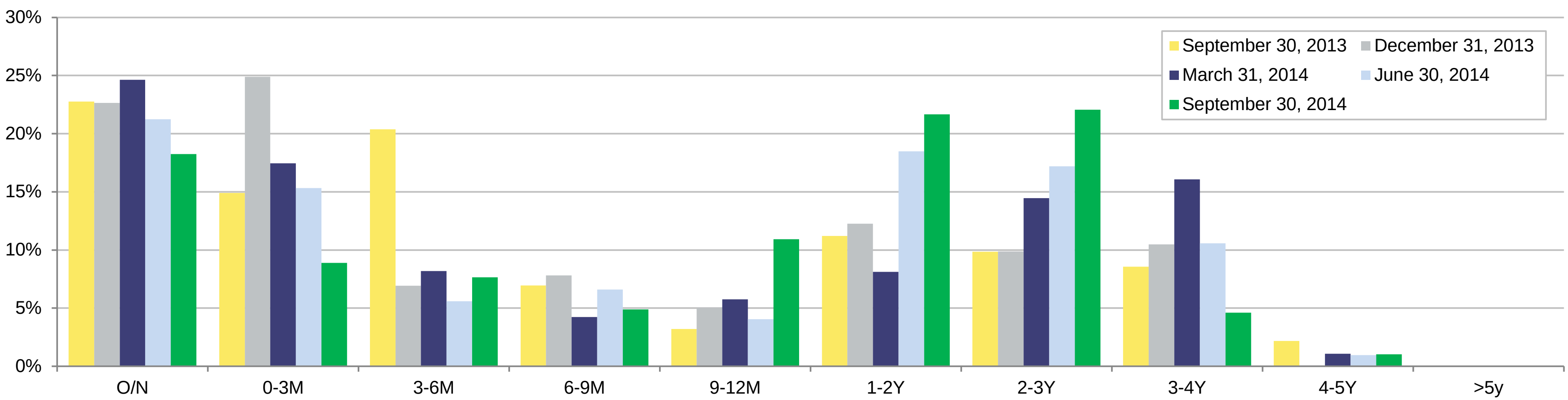
- Agency Mortgage durations are shown as effective duration taken from Bloomberg Financial Markets.
- Duration for Federal Agency Discount Notes and Repurchase Agreements are calculated as days to maturity. WA LGIP and bank deposits considered to have a one day duration.
- All other security durations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

V. Changes in Portfolio Maturity Distribution

Changes in Portfolio Maturity Distribution

- Securities are well diversified by maturity, and range from overnight to nearly five years in maturity (viewing callable securities to their call dates and mortgage securities on an average life basis).
- When viewing the current maturity distribution (dark green bars) in relation to previous periods, a few primary observations are noted:
  - As the yield curve has steepened quite significantly over the past year, the County's portfolio has adjusted accordingly to take advantage of the higher yields available in the steeper portions of the yield curve, most notably the 1 to 4 year maturity range.
  - The County has balanced higher concentrations in the 1-4 year portion of the yield curve, with attractive overnight investment options (LGIP and bank deposits) relative to similar ultra short-term Treasury and federal agency investment options. For perspective, over the past 8 quarters (or 2 years), the County has maintained an average allocation to overnight balances of 23%. For the prior four year period, the County's average allocation to overnight investments was 18%.
  - In the current market environment, striking a balance between liquidity and longer-term investments continues to be important, with the cost of liquidity near an all-time high as the Federal Reserve continues to pressure short-term yields to near zero. Further, this policy is not expected to change until the middle of 2015.
- Seasonality of cash flows is critical to maturity distribution and liquidity management. That is, in high net inflow periods, the County is afforded the ability to use excess cash influx to lock-in longer-dated, potentially higher yielding, fixed income securities aligned to future cash flow dates. The converse is true for high net outflow periods, where reinvestment opportunities may not be as plentiful (as cash is required to fund expected larger outflows). Looking at upcoming quarters:
  - Over the past four years, for the quarters ending December 31st, the average net **inflow** in the Investment Pool was $298 million.
  - Over the past four years, for the quarters ending March 31st, the average net **outflow** in the Investment Pool was $193 million.

Maturity Distribution September 30, 2013 to September 30, 2014



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

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