

**Portfolio Breakdown**

The following is a breakdown of the Investment Pool holdings for September 2011

	Average (\$000)	% of Portfolio
U.S. Agency Securities	2,177,615	49.3%
Commercial Paper	-	0.0%
Taxable Municipal Securities	-	0.0%
Bankers Acceptances	-	0.0%
U.S. Agency Mortgage-backed Securities	25,345	0.6%
Repurchase Agreements	36,333	0.8%
Treasury Securities	1,386,175	31.4%
Certificates of Deposit & Overnight Deposits	-	0.0%
Local Government Investment Pool	794,171	18.0%
Reverse Repurchase Agreements	-	0.0%
<b>Total</b>	<b>\$4,419,639</b>	<b>100%</b>

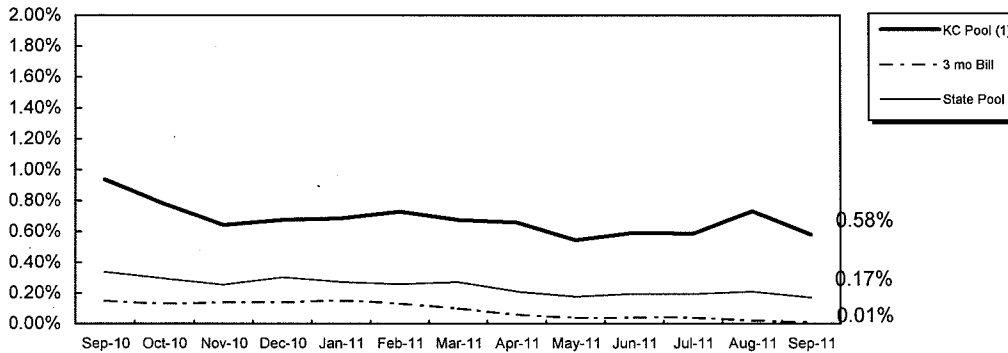
\*Average Pool Effective Duration: 0.72 Years

\*Duration is a measure of the length of the portfolio's expected cash flows and is a better measure of average portfolio life than maturity.

**King County Pool Rating**

In January 2008, the rating of the King County investment pool was temporarily suspended by Standard & Poor's pending further information being available on the outcome of restructuring proposals associated with each impaired investment. Three of four restructurings were completed in 2008 and the fourth was completed in September of 2009. The County will reevaluate the decision regarding pursuit of a new pool rating after it establishes a credit review process and completes the installation of the new investment system software. This is expected to occur in the first half of 2012.

**Investment Pool Performance (before Pool fees)**



(1) King County pool distribution rate has not been adjusted for realized losses from impaired commercial paper investments.

**Pool Net Asset Fair Value on September 30, 2011**

Net Assets <sup>(2)</sup>	\$4,457,220,045.59
Net Assets Consist of:	
Participant units outstanding (\$1.00 par)	\$4,444,312,589.51
Undistributed and unrealized gains(losses)	\$12,907,456.08
<b>Net Assets</b>	<b>\$4,457,220,045.59</b>
Net asset value at fair value price per share ( $\$4,457,220,045.59$ divided by $\$4,444,312,589.51$ units)	<b>\$1.0029</b>

(2) Excludes impaired assets that have been separated into a separate pool.

**Investment Pool Comments:** Over 80 percent of the pool's assets continue to be invested in either U.S. Treasury or agency securities, and there was not much change in the pool's asset allocation from the prior month. The pool's balance decreased slightly from August, but this is normal since expenditures are typically higher than revenues during this time of the year. The pool's yield decreased to 0.58% from 0.73% for August, a difference of 15 basis points. This was expected because August's yield benefited from a one time gain that resulted when a bond was called. September's yield was more inline with June and July's yield.

The minutes from the Fed meeting in September showed that there was still significant concern about slow economic growth and elevated unemployment levels. To address these conditions the Fed announced that it would buy \$400 billion of long-term securities and sell the same amount of short-term securities (aka, "Operation Twist"). They stated that this should help lower long-term interest rates and make broader financial conditions more accommodative. They also retained the statement that they expected inflation to be subdued and that they expected the federal funds rate to be at exceptionally low levels until at least mid-2013.

By the end of September it appeared Operation Twist had some impact because long-term rates had fallen, while rates in the 2 to 3 year area increased somewhat. This increase in short-term rates lowered the pool's unrealized gain by about \$3.4 million from the prior month. However, this also allowed us to invest funds in the 2 to 3 year sector at slightly higher rates than had been present before. Investing more funds in the 2 to 3 year sector increased the pool's duration slightly. It moved up to 0.72 years from 0.66 years.

We are continuing to invest the pool's assets in securities that have the support of the Federal government. We also continue to consult regularly with our investment consultant, PFM, and they concur with our current strategy. King County also remains committed to sharing information with pool members about investment holdings. Please call the Treasury Operations number at 206-296-7326 if you have questions or need additional information. Pool's web page: <http://www.kingcounty.gov/operations/Finance/Treasury/InvestmentPool.aspx>

**Impaired Pool Holdings Report  
 9/30/2011**

Commercial Paper Issuer	Status	Current Book Value	Estimated Fair Value	Fair Value Adjustment
Mainsail II (1)	Restructured	3,022,926.58	782,000.00	2,240,926.58
Cheyne Finance (1)	Restructured	787,502.14	507,750.00	279,752.14
Rhinebridge (1)	Restructured	1,885,308.88	1,134,600.00	750,708.89
VFNC Trust/Victoria Finance (2)	Restructured	25,818,202.10	13,506,820.03	12,311,382.07
<b>Total</b>		<b>31,513,939.70</b>	<b>15,931,170.03</b>	<b>15,582,769.68</b>

Fair Value Ratio	0.5055
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(1) These amounts are related to cash that was retained for DTC indemnifications and other reserves. It could be as long as 2014 before these "tail" amounts are returned to investors, and it is possible that the amount recovered may be less than the estimate.

(2) Victoria Finance's restructuring was completed during September 2009. The name of the restructured entity is VFNC Trust, and the new entity will continue to make monthly principal and interest payments. The *Estimated Fair Value* amount is based on a market price from a single dealer and the county expects to recover more than this "liquidation" price by receiving regular monthly payments over the coming years.

**Impaired Pool Comments:**

The majority of the amount remaining in the impaired pool is associated with VFNC Trust (Victoria). VFNC Trust continues to make monthly cash distributions. The monthly distribution for September totaled \$337,510.89 including all receipts to date brings the cash recovery rate on the original Victoria investment to 51%. Monthly distributions will continue for as long as the underlying securities in the trust continue to pay, and we expect the monthly distributions to continue for at least 5 years.

We do not foresee distributing any realized losses until it is apparent that no further cash flows will be forthcoming. The market for this type of asset is illiquid and accurate pricing is difficult to obtain. Adding the cash recoveries through September to the month-end dealer price (50) for the VFNC Trust security results in an estimated recovery rate to senior investors of about 77%, but the actual recovery rate will depend on the size and duration of the future monthly cash distributions from VFNC Trust. At the time of Victoria's restructuring the County's financial advisory estimated that by participating in the exchange offer that the overall recovery rate could be between 50 to 76 percent, and potentially higher.

The County has entered into class action lawsuits that seek the recovery of funds associated with Cheyne Finance and Rhinebridge. The County is being represented by Robbins Geller Rudman & Dowd LLP, a San Diego based securities litigation firm. The law firm is working on a contingency fee basis which means fees and costs associated with the lawsuit are based on settlements or recoveries achieved. If certified by the judge as a class action, then attorney fees and reasonable costs will be authorized by court order and paid for from the total settlement. The County has also entered into a lawsuit that seeks the recovery of funds associated with Mainsail II and Victoria Finance, and is being represented by Scott, Douglass & McConnico, L.L.P.

The King County Executive Finance Committee approved bifurcation of the investment pool as of September 1, 2008. This separated the impaired investments into their own pool distinct pool from the main pool of performing investments. The reasons for bifurcating the pool were to: (1) ensure the yield on the performing assets is not negatively impacted by the impaired investments; (2) enhance transparency about the value of the performing pool and the impaired pool; (3) ease the implementation of the restructuring processes for the impaired investments; and (4) expedite the restoration of the Standard & Poor's rating for the performing pool.

Within the impaired pool, future "tail" payments from Cheyne, Rhinebridge and Mainsail are still possible. Until we determine that no further payments are probable, no further realized losses will be distributed.