Quarterly Portfolio Review
King County Investment Pool

September 30, 2010

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PFM Asset Management LLC

Executive Summary

Purpose, Scope and Approach	• PFM Asset Management LLC ("PFM") prepared this report to update our analysis and to address any Investment Pool developments since PFM's previous formal review in June 2010. • Our approach included a detailed portfolio analysis and investment policy compliance review. • Our analysis was based on the Investment Pool's holdings as September 30, 2010, 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 Allocation, Credit Quality, and Maturity Structure. • The County's Investment Pool appears to provide ample liquidity, is well diversified, and is of sound credit quality. Corporate exposure is effectively managed, and all assets are investment grade, rated at least A-1, and pose minimal risk to principal.
Observations and Recommendations	• The Pool appears to provide adequate liquidity. Over three-fourths of the Pool's holdings are scheduled to mature in the next 12 months. Further, over one-fourth of all assets have maturities between one and thirty-one days, up from 15% on June 30th. • The portfolio possesses high credit quality. All securities are either guaranteed by the U.S. Government, fully collateralized, and/or rated at or near the highest credit category by Standard & Poor's. • The Pool's credit exposure continues to be limited. Corporate exposure continued to fall over the quarter as one certificate of deposit matured. Corporate exposure is limited to a small amount of ultra-short term certificates of deposit held with one large bank and an overnight repurchase agreement held with one large financial counterparty. The certificates of deposit have a very short WAM of only five days. • Over 80% of the Pool's holdings are either explicitly guaranteed (U.S. Treasury) or implicitly supported (federal agency) by the U.S. government. If the securities held in the Washington State LGIP are taken into account, to which the Pool has allocated 11% of its holdings, this number increases to 91% of the Pool's holdings. • Potential market risk (sensitivity to changes in interest rates) has changed slightly over the past quarter as the total portfolio's weighted average maturity ("WAM") was extended by 16 days, from 261 days on June 30th to 277 days on September 30th. This level of market risk is consistent with the objectives of the County's Pool and other investment programs with similar objectives, and is in keeping with the County's cash flow expectations. The addition of intermediate-term U.S. Treasury and federal agency securities helped to push the quarter-ending WAM slightly higher versus the previous quarter.

Portfolio Review

I. Investment Policy Compliance

II. Sector Allocation

- Federal Agencies
- U.S. Treasuries
- Non-Negotiable CDs
- LGIP and Cash Equivalents
- Repurchase Agreements
- Municipal Securities

III. Issuer Concentration

IV. Overall Credit Quality

V. Maturity Distribution

I. Investment Policy Compliance – Investment Policy Summary

Type	Maximum Portfolio Allocation	Issuer Restrictions	Credit Ratings	Maturity Restrictions
Repurchase Agreement	40%	10% per investment dealer; Firm must adopt a master repurchase agreement with the County		60 days or less
Reverse Repurchase Agreement	20% of the total balance of the Investment Pool at any one time	Firm must adopt a master repurchase agreement with the County		180 days or less
Local Government Investment Pool ("LGIP")	Not addressed in policy	State of Washington LGIP		N/A
U.S. Treasuries	100%	None		Up to 5 years
U.S. Agencies	75%	None		Up to 5 years
Bankers' Acceptances	40%	10%	Any BA purchase must be issued by any of the top 50 world banks in terms of assets as listed by American Banker or by approved domestic banks	Up to 180 days
Certificates of Deposit	20%	7.5% Must be a public depository in the State of Washington		Up to 5 years
Commercial Paper	25%	5% per name per Portfolio	Must carry highest ratings of any two nationally recognized rating agencies at time of purchase	180 days
Municipal Bonds	20%	5%	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	25%	Must be issued by Federal Agencies of the United States	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%	5%	Bonds must be rated "A" or better by two nationally recognized rating agencies or guaranteed by an agency of the federal government	5 years

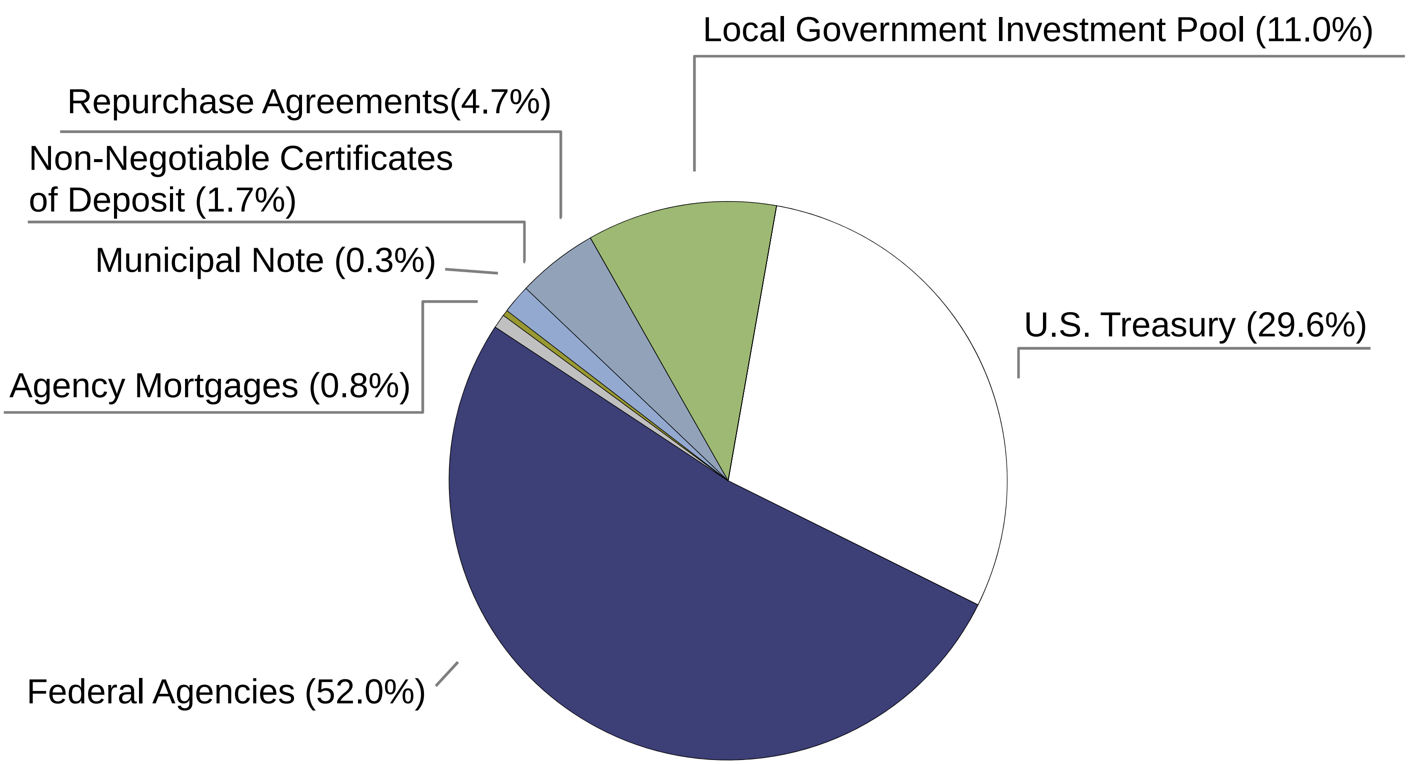
I. Investment Policy Compliance – County Investment Pool

Topic	Observations
Sector Allocation	• The County's holdings are well diversified among investment sectors permitted by its investment policy statement. All sectors fall well within the limits set forth by the County's investment policy statement. The County increased its allocation to the federal agency sector, from 44% on June 30th to 52% on September 30th. In doing so, the County reduced its holdings in U.S. Treasury securities by approximately 10%, from 39% on June 30th to 30% on September 30th.
Credit Quality	• Securities held by the County are of very high quality. A majority of securities are rated AAA or A-1+ and are guaranteed or supported by the U.S. government. Approximately 83% of holdings fall into this category, the same as June 30th. The remaining holdings are allocated to the Washington State LGIP (11%) and a small amount of certificates of deposit, which are to mature in the first few days of October.
Maturity Distribution	• The County's holdings are diversified among different maturities. All maturities fall within the limits set forth by the County's Investment Policy Statement. The longest maturity is a $5 million FNMA mortgage backed security, with a 4.6 year weighted average life.

Security Type	Market Value($)	Allocation Percentage	Within Policy Limits	Max Maturity Held	Within Policy Limits
Cash Equivalents	0	0.00%	✓	N/A	✓
Commercial Paper	0	0.00%	✓	N/A	✓
Repurchase Agreements	210,000,000	4.68%	✓	1 day	✓
LGIP	492,808,666	10.99%	✓	1 day	✓
Federal Agencies	2,328,871,000	51.95%	✓	3 years	✓
Agency Mortgages	36,475,653	0.81%	✓	4.6 years (WAL)	✓
Certificates of Deposit	75,000,000	1.67%	✓	8 days	✓
Municipal Bonds	15,000,000	0.33%	✓	1 year	✓
U.S. Treasury	1,325,000,000	29.56%	✓	4 years	✓

II. Sector Allocation

Sector Diversification
as of September 30, 2010



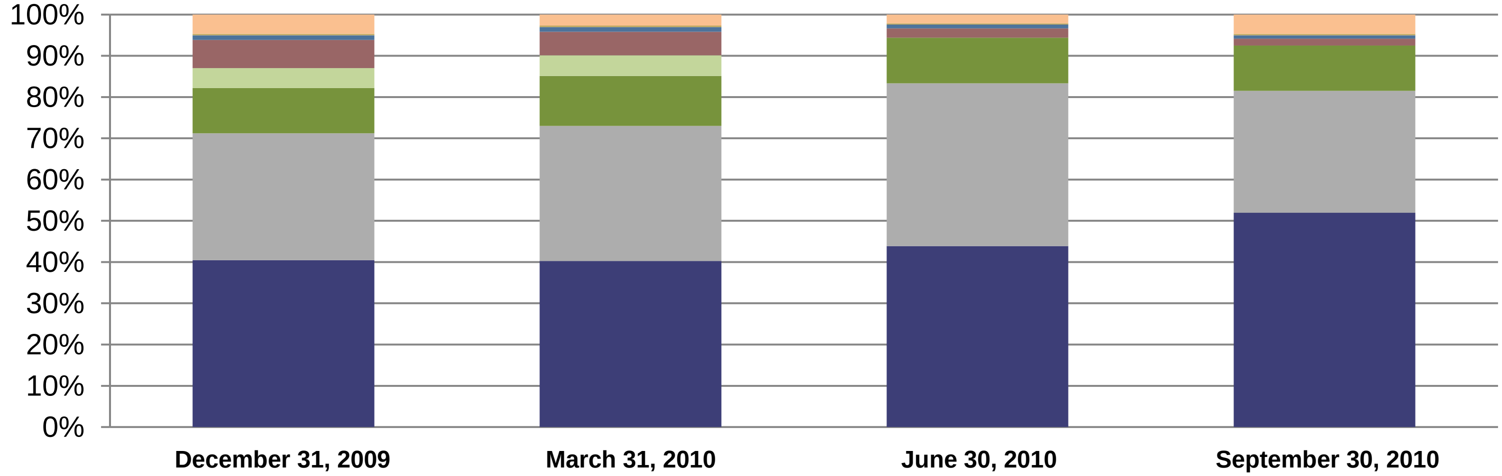
**Percentages may not add to 100.0% due to rounding.*

II. Changes in Portfolio Sector Allocation Over Past 12 Months

Changes in Sector Allocations

- The most notable change in allocations is an increase in federal agency securities and a commensurate decrease in U.S. Treasury securities. With the recent sharp decline in market yields, especially among those securities within two years of maturity, this change in allocation may add value without adding undue risk given the forecast for low rates for an extended period of time.
- The County continued to decrease its corporate exposure, which has been concentrated among collateralized non-negotiable certificates of deposit held with Bank of America. One Bank of America certificate of deposit matured near the end of September. Importantly, the County's exposure to CDs will reach 0% by October 8th if no other CDs are added, as the three remaining CDs will mature by this date. The County also holds a repurchase agreement with Credit Suisse.
- Federal agency mortgage-backed securities continue to pay down, evidenced by the continued decline in the County's allocation to these securities. Less than one percent of holdings are allocated to this sector, down from 1.4% on September 30, 2009.

Sector Allocation December 2009 – September 2010

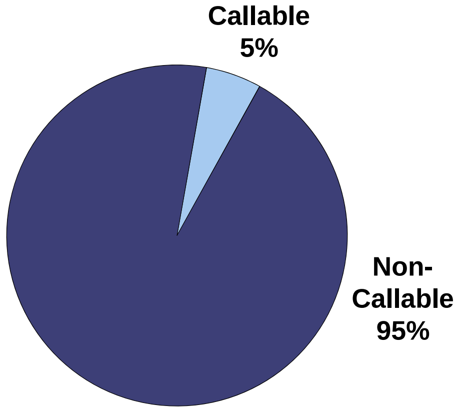


	December 31, 2009	March 31, 2010	June 30, 2010	September 30, 2010
Federal Agencies	41.96%	40.28%	43.90%	51.95%
U.S. Treasury	31.92%	32.72%	39.42%	29.56%
Washington State LGIP	11.39%	12.12%	11.09%	10.99%
Cash and Equivalents	4.99%	4.99%	0.00%	0.00%
Certificates of Deposit	7.11%	5.72%	2.25%	1.67%
Agency Mortgages	1.16%	1.14%	0.91%	0.81%
Municipal Notes	0.35%	0.37%	0.34%	0.33%
Repurchase Agreements	1.11%	2.66%	2.09%	4.68%

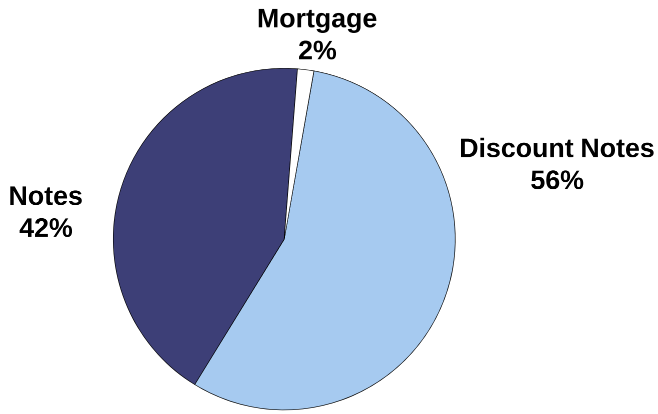
II. Sector Allocation – Federal Agencies

Topic	Observations			
Structure	• Non-Callable	95%	• Discount Notes	56%
	• Callable	5%	• Notes	42%
			• Agency Mortgage	2%
Diversification	• Freddie Mac (FHLMC)	30%	• Federal Farm Credit Bank (FFCB)	11%
	• Federal Home Loan Bank (FHLB)	16%	• Freddie Mac Mortgage-Backed (FHR)	<1%
	• Fannie Mae (FNMA)	42%	• Fannie Mae Mortgage-Backed (FNR)	1%
Conclusions	• The County's federal agency allocation is diversified among the four major issuers. Approximately $220 million of federal agency securities matured or were sold during the quarter. The County added an additional $375 million allocation to this sector from June 30th. By the end of the quarter, the County had added approximately $600 million in new federal agency holdings to the portfolio. • The County has maintained its allocation to callable federal agency securities (5% as of September 30th versus 4% on June 30th). However, half of this allocation has been called away as of October 5th. The County purchased one 3-year callable federal agency note during the quarter, which has a 1-year no call period. Callable federal agency securities in this range are adding incremental yield over comparable federal agency bullets, due to their attractive yields and high probability of being called. • Mortgage-backed securities continued to pay down additional principal over the quarter. Total interest and principal payments over the quarter totaled approximately $4 million.			

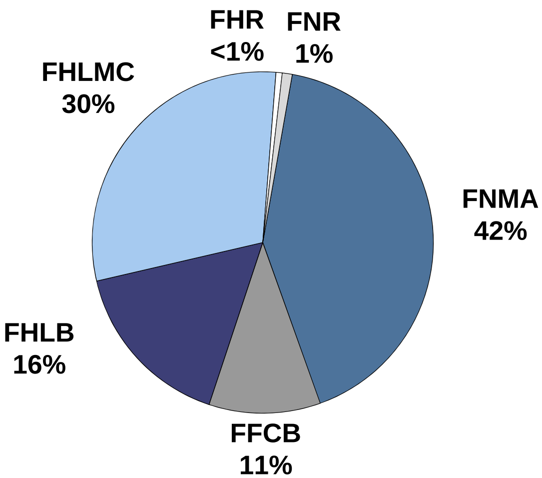
Callable vs. Non-Callable as September 30, 2010



Structure Distribution as of September 30, 2010



Issuer Diversification as of September 30, 2010

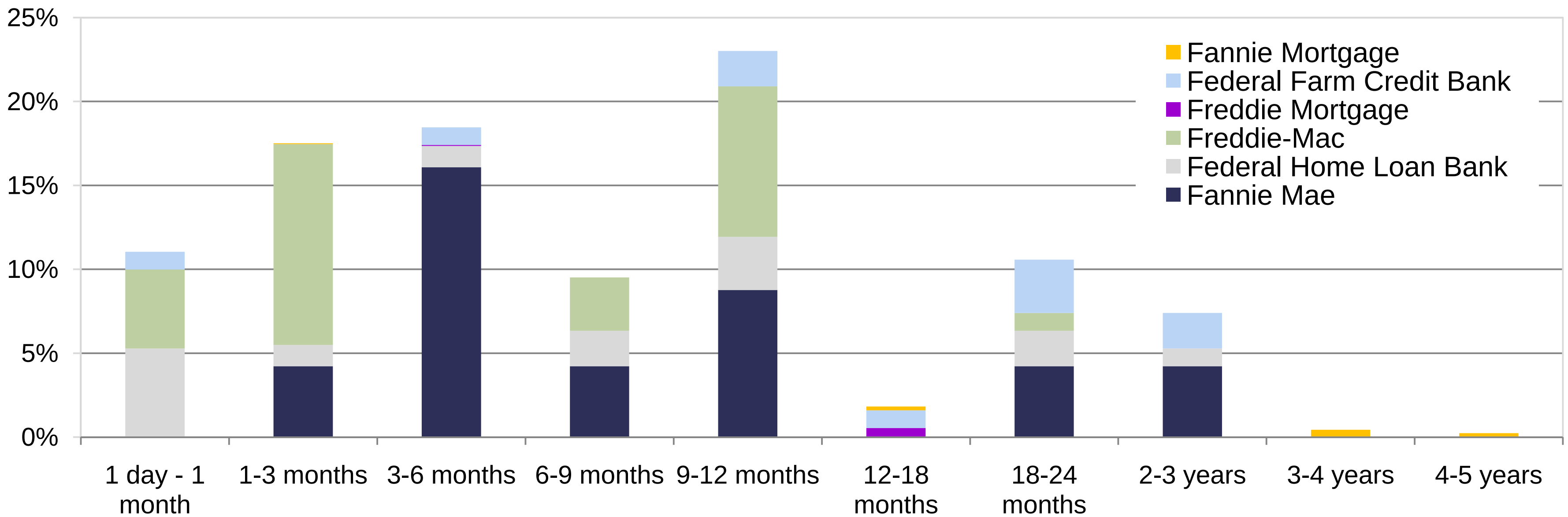


** All calculations above are based on total Agency exposure, not overall Portfolio*

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. • Bulleted and callable federal agency securities are diversified between maturities of one day and three years. The weighted average life of mortgage-backed federal agency securities range from 0.2 to 4.6 years. The average weighted average life of the mortgage-backed sector is 2.4 years. • The County increased its holdings in short-term federal agency securities (those maturing between one day and one year). Eighty percent (80%) of the County's federal agency holdings are set to mature in the next 12 months (using the weighted average life as the maturity for mortgage-backed securities). As of June 30th, approximately 76% of securities fell into the short-term category. • Overall, the aggregate federal agency holdings drifted to a slightly shorter overall maturity over the quarter, ending September 30th at 285 days compared to 302 days at June 30th.

Federal Agency Maturity Distribution by Name
as of September 30, 2010

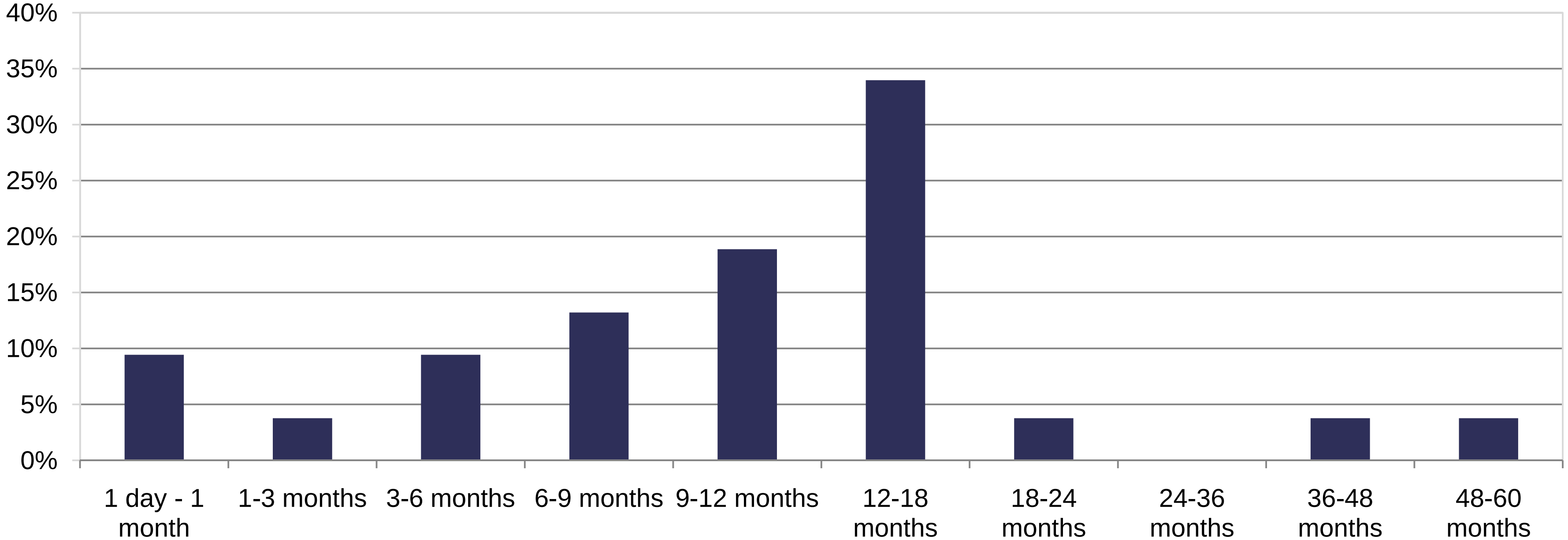


- Agency Mortgage maturities are calculated as average life. Average life data taken from Bloomberg Financial Markets
- All other Agency maturities are calculated as days to maturity

II. Sector Allocation – U.S. Treasury Securities

Topic	Observations
Observations	• The County's U.S. Treasury holdings are allocated to maturities between 0-18 months, with approximately 90% of U.S. Treasury securities within this range. • During the quarter, the County added new Treasury holdings at maturities of 6 months, one year, and at 40 and 49 months. The securities purchased beyond three years make up about 7.5% of the overall U.S. Treasury holdings and 2.2% of the aggregate portfolio. • By historical standards, the yield curve remains steep. With this, purchases of a small amount of high quality U.S. Treasury securities in the 3-4 year range can add value due to the yield pickup and balance provided with a significant allocation to shorter-term securities. With ultra-low market rates, securities in the 3-5 year range are adding considerable yield advantages over money market securities. Considering the broad diversification of the current overall portfolio, small purchases like this add very little overall risk to the portfolio. • Adding these intermediate-term U.S. Treasury securities did, however, push the weighted average maturity of the U.S. Treasury portfolio from 296 days at June 30th to 409 days on September 30th.

U.S. Treasury Maturity Distribution
as of September 30, 2010



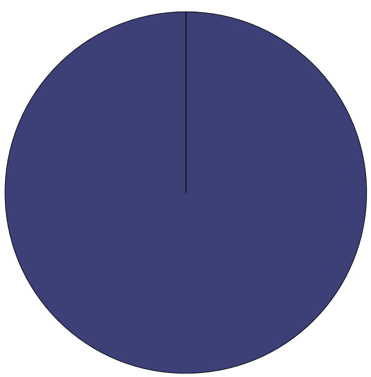
**Source data: Bloomberg*

II. Sector Allocation – Non-Negotiable Certificates of Deposit

Issuing Bank	Short-Term Credit Rating	Max Maturity (days)	Total Par Value
Bank of America NA	A-1/P-1/F1+	8	$75,000,000
Conclusion	• By September 30th, the County's allocation to certificates of deposit had narrowed to $75 million. During the quarter, a $25 million Bank of America CD yielding 0.55% matured. • The County is left with a small portfolio of ultra-short term CDs – the lowest allocation to this sector since PFM began providing analysis for the County's portfolio. The overall weighted average maturity of the County's holdings in this sector is 5 days – all securities are set to mature by October 8, 2010. • One hundred percent (100%) of CDs are held with Bank of America. Holdings with this issuer are in compliance with the County's investment policy statement. • Considering current market rates, we are seeing good value in short-term certificates of deposit, provided that purchases meet specific liquidity needs.		

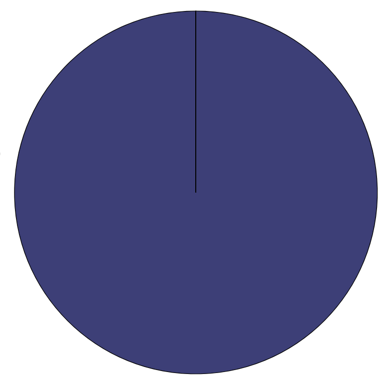
Issuer Diversification
as of September 30, 2010

Bank of America
100%



Credit Distribution (S&P)
as of September 30, 2010

A-1
100%

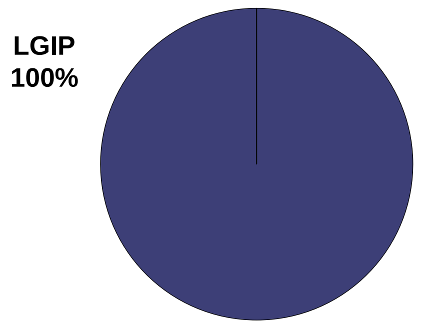


** All calculations above are based on total CD exposure, not overall Portfolio*

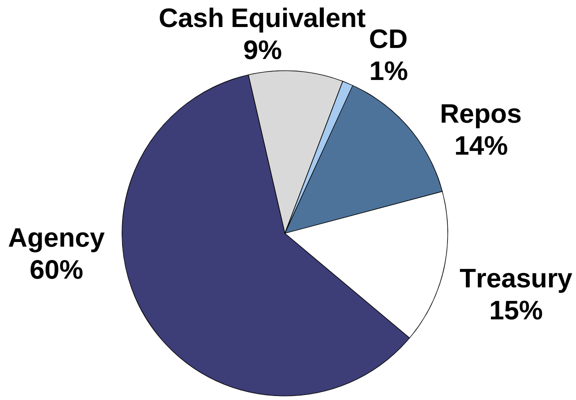
II. Sector Allocation – LGIPs and Cash Equivalents

	Underlying Investments	Rating	Observations
Washington State LGIP	• Federal Agencies 60.29% • U.S. Treasuries 15.25% • Cash Equivalents 9.38% • Certificates of Deposit 1.06% • Repurchase Agreements 14.03% *As of September 30, 2010*	• N/A	• The County currently has allocated approximately 12% of its portfolio to the Washington State LGIP, which we categorize as an overnight investment. • Compared to its June 30th holdings, the Washington State LGIP shifted its sector allocation away from repurchase agreements and toward U.S. Treasury securities. • As of September 30th, the State LGIP had invested 14% of holdings in repurchase agreements, versus 30% on June 30th. U.S. Treasury security holdings increased, from 2% to over 15% by September 30th. • The LGIP's federal agency allocation ended the quarter at 60%, very similar to last quarter. Adding this indirect allocation to agency debt to the County's current direct allocation (53%) brings the County's total exposure to the federal agency sector to 59% – well within limits defined in the County's investment policy statement.

Issuer Distribution
as of September 30, 2010



Washington State LGIP
Sector Distribution
as of September 30, 2010

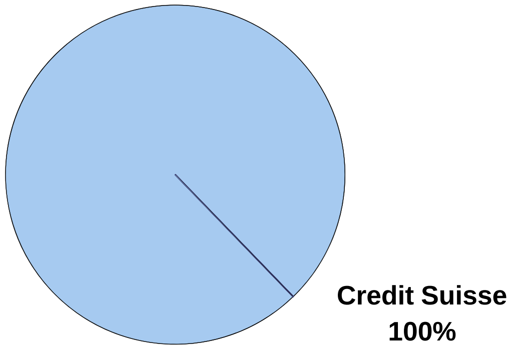


** All calculations above are based on total cash equivalents exposure, not overall Portfolio*

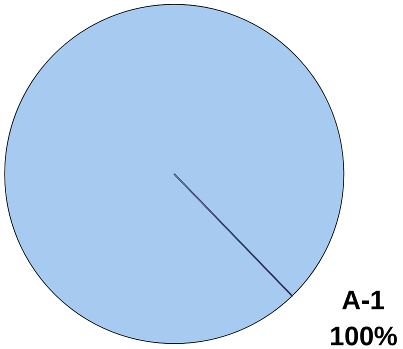
II. Sector Allocation – Repurchase Agreements

	Observations
Issuer Diversification	• The Pool holds one repurchase agreement from Credit Suisse in the amount of $210 million. • This overnight security makes up approximately 4.7% of the Pool's overall holdings. • The Credit Suisse repo falls within the County's Investment Policy restrictions of 10% per issuer and 40% portfolio allocation.
Credit Distribution	• There have been no credit ratings changes for Credit Suisse, USA Inc. among any of the three major ratings agencies over the past quarter. Ratings and Outlooks of the three major ratings agencies are as follows: Agency / Short-Term Rating / Outlook Standard & Poor's / A-1 / Stable Moody's / P-1 / Negative Fitch / F1+ / Negative
Conclusion	• Overnight repurchase agreements remain an appropriate means for the Pool to provide daily/overnight liquidity. • Overnight repurchase agreements are an attractive alternative to short-term U.S. Treasury and federal agency securities. • Recently, due to the European debt crisis, yields on repurchase agreements have risen. Depending on the timing of the investment, whether or not the investment was made at beginning, middle, or end of quarter, these agreements have provided between 5-20 basis points of incremental yield over comparable U.S. Treasury and federal agency securities.

Issuer Distribution as of September 30, 2010



Credit Distribution as of September 30, 2010

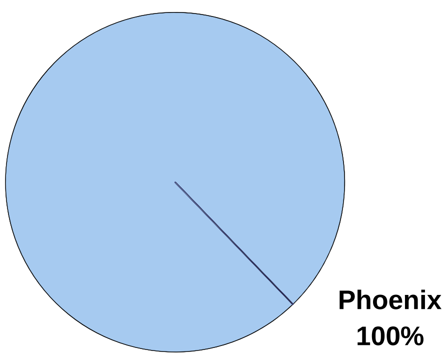


** All calculations above are based on total repo exposure, not overall Portfolio*

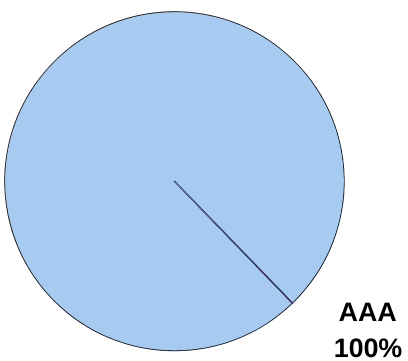
II. Sector Allocation – Municipal Bonds

	Observations
Issuer Diversification	• The County continues to hold one municipal obligation, a City of Phoenix General Obligation bond maturing in July 2011. • There have been no changes in the credit rating of the Phoenix issue, which is rated AAA by Standard & Poor's and Aa1 by Moody's. • The County Pool's total current municipal allocation is minimal, $15 million; this makes up about 0.3% of the aggregate portfolio.
Credit Distribution	• As with previous quarters, we see no adverse credit issues with the Phoenix, AZ bonds. This issue continues to carry AAA/Aa1 long term credit rating from Standard and Poor's and Moody's.
Conclusion	• The Phoenix, AZ issue represents minimal credit risk. • The security remains eligible as a permitted investment for tax exempt money market funds as its remaining maturity is within 397 days. There continues to be a significant demand among tax exempt money market funds for short-term high quality assets such as this, and the security's money market eligibility should help pricing performance during the year. • Depending on when the security was originally purchased, it may be carrying significant unrealized gains. The County should continue monitoring the pricing on this security for reinvestment options.

Issuer Distribution
as of September 30, 2010



Credit Distribution
as of September 30, 2010

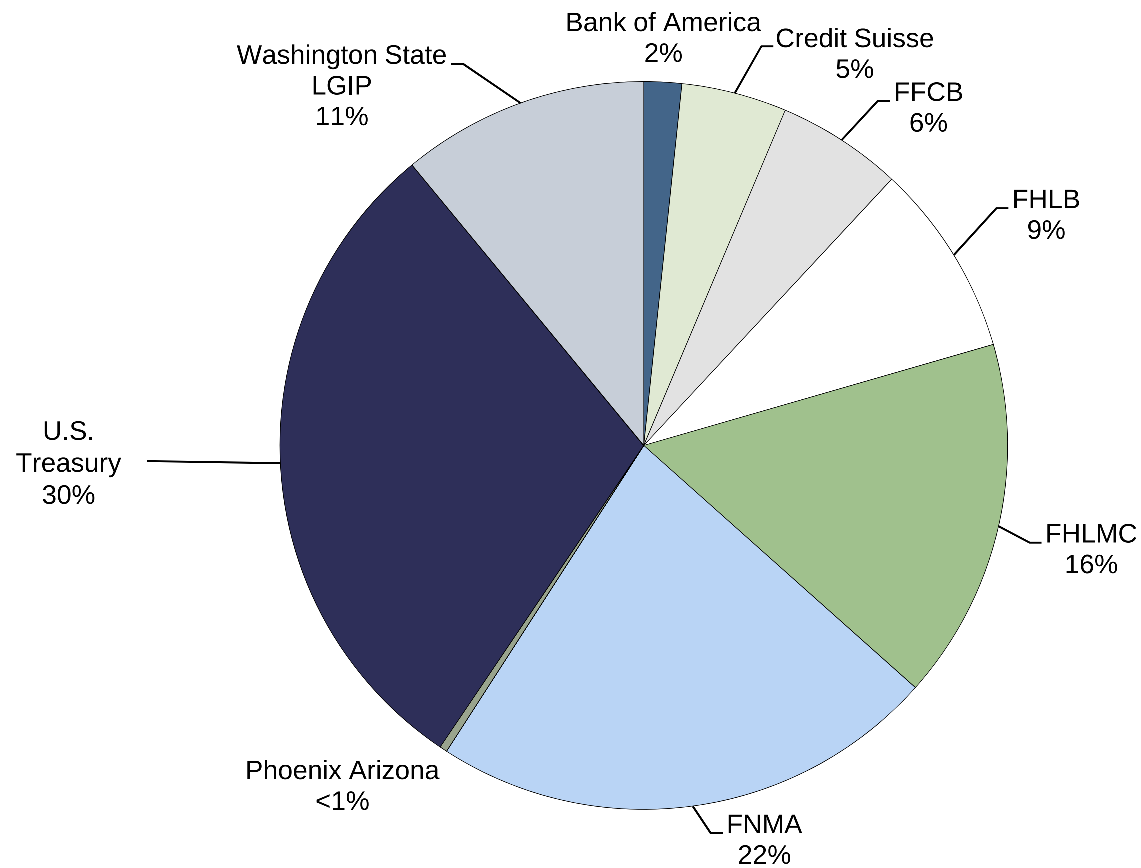


** All calculations above are based on total muni exposure, not overall Portfolio*

III. Issuer Concentration

Issuer Exposure

- The County has continued to diversify holdings by issuer. Approximately 82% of the portfolio is allocated directly to U.S. government guaranteed or government supported entities. By including the Pool's indirect exposure to these entities through its holdings in the Washington State LGIP, this percentage increases to nearly 91%.
- Remaining assets are allocated among the Washington State LGIP (overnight liquidity), two highly rated corporations (these securities mature within eight days), and a small holding in a short-term municipal note.
- The weighted average maturity of corporate holdings (overnight repurchase agreement and certificates of deposit) ended the quarter at two days.



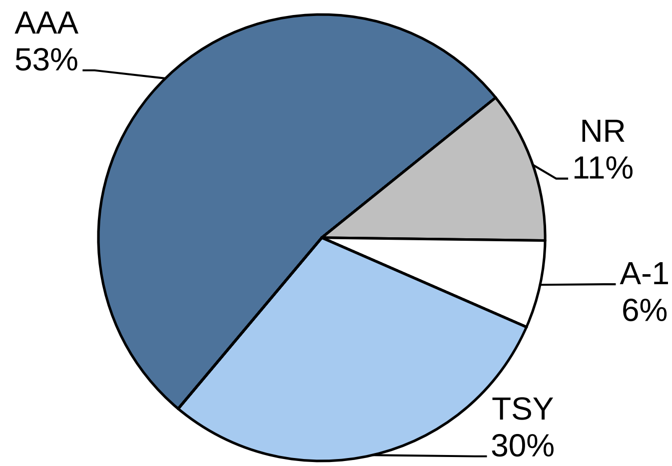
**Percentages may not add to 100.0% due to rounding.*

IV. Overall Credit Quality

County Investment Pool Credit Analysis

- The County Pool's overall average credit rating continues to strengthen. This quarter represents the lowest amount of corporate exposure since PFM began analyzing the portfolio in 2008.
- PFM has no concerns regarding the Pool's current credit distribution.
- As of the current quarter, over 82% of holdings are either guaranteed or supported by the U.S. government. Even among corporate issuers rated A-1 by Standard & Poor's, these securities are ultra-short and are scheduled to mature between one and eight days.
- By the end of the first week of the new quarter, the remaining certificates of deposit will have matured. With this, all else equal, the overall corporate allocation will have fallen below 5%.

Credit Distribution*
as of September 30, 2010

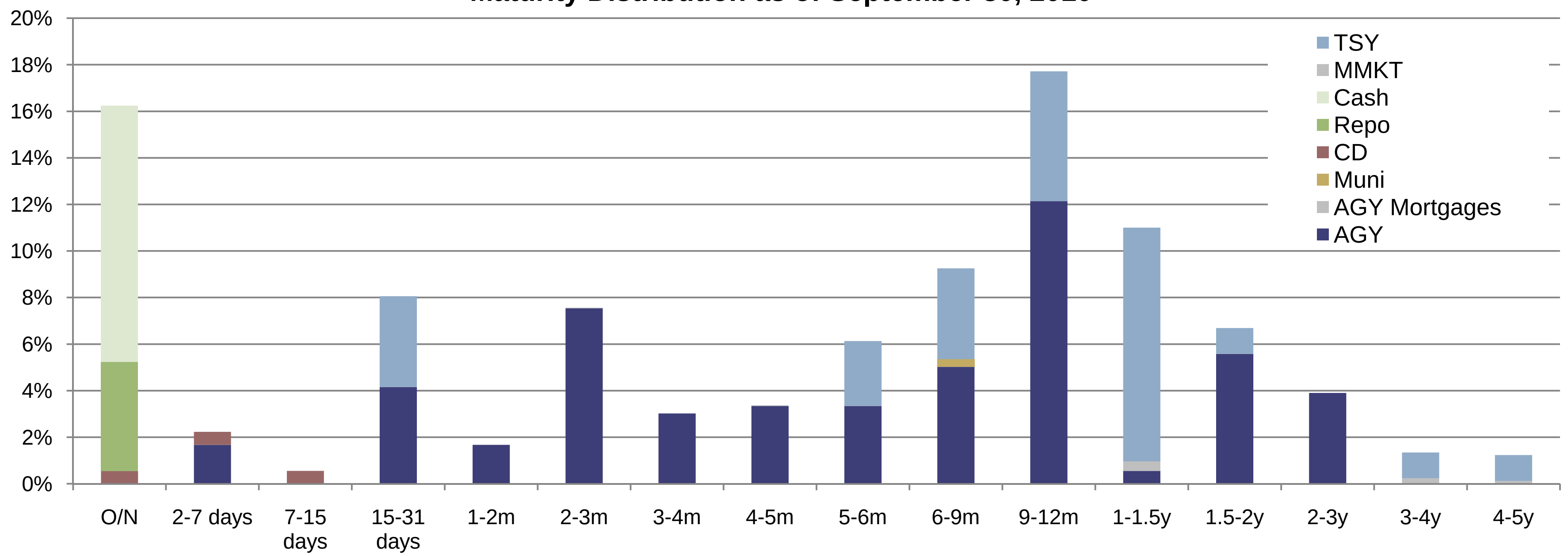


*Ratings by S&P

V. Maturity Distribution

Maturity Distribution	Observations
Weighted Average Maturity ("WAM")	• With the addition of some intermediate-term U.S. Treasury and federal agency securities, the overall weighted average maturity ("WAM") of the portfolio has increased from 261 days on June 30th to 277 days at the end of September (viewing callable securities to their call dates and mortgage securities on an average life basis). • If securities with maturities longer than one year are excluded, the remaining "short" portfolio has a weighted average maturity of 112 days, up slightly from 94 days on June 30th. Adding additional U.S. Treasury and federal agency securities in the 6-12 month range helped to increase this figure. • As with last quarter, even though WAMs are slightly higher than the previous quarter, this level of market risk is consistent with the objectives of the County's Pool, and others with similar objectives, and is in keeping with the County's cash flow expectations.
Liquidity	• The County Pool appears to provide adequate liquidity, both in terms of final maturities and the sectors in which the Pool has invested. Twenty-seven percent (27%) of the portfolio's holdings are scheduled to mature within the next thirty one days.

Maturity Distribution as of September 30, 2010



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

V. Changes in Portfolio Maturity Distribution

Changes in Portfolio Maturity Distribution	• Securities are well diversified by maturity, and range from overnight to four years in maturity (using the weighted average life calculation for mortgage backed federal agency securities). • Compared to last quarter, the County allocated funds away from the 3-6 month maturity bucket. The County increased its allocation to securities in the 9-12 month and 2-5 year maturity buckets. In turn, the County's WAM increased slightly over the quarter to 277 days at quarter end. With the current steep yield curve and ultra-low yields on short-term securities, this re-allocation can add value due to higher yields on high quality intermediate-term securities without adding undue risk given the forecast for low rates for an extended period of time. • Even with an allocation of proceeds to securities that mature between 2-5 years, the structure of the Pool continues to display a high level of liquidity. Approximately 76% of the portfolio is set to mature in the next 12 months. • Thirty-six percent (36%) of funds carry final maturities of three months or less. This is up from June 30th, where 28% of funds were to mature in three months.