Quarterly Portfolio Review
King County Investment Pool

July 31, 2008

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Executive Summary

Purpose, Scope and Approach	• This portfolio review report was conducted to address any Investment Pool developments since the PFM's April and early July reviews. • Our approach to this review included a detailed portfolio and investment policy compliance review. • Our analysis was based on the Pool's holdings as of July 31, 2008. • The review encompassed all investments in the County's pool, with the exception of the County's remaining Structured Investment Vehicle (SIV) holdings.
Investment Program and Portfolio Review	• PFM reviewed the County's portfolio with respect to Investment Policy Compliance, Sector Allocation, Credit Quality, and Maturity Structure. • With the exception of the County's SIV holdings, on the whole, the County's pool is sound. The vast majority of assets are of very high quality and pose minimal risk to principal. Where longer-term assets are held, they possess high investment grade quality ratings and an acceptable risk profile for a slightly longer-term fund. • In this report, we have made specific mention of recent developments in the Federal Agency sector as well as updated some of our commentary on the banking sector (regarding CDs).
Observations and Recommendations	• Portfolio is generally of high quality. • Liquidity appears to be more than adequate given the levels of cash and cash equivalents, Washington State LGIP holdings, and marketability of Agencies. • Credit exposure is well-diversified among sectors. The reintroduction of high quality corporate instruments would provide opportunity for additional diversification. • Despite recent concerns, the Agencies remain sound and are expected to be able to pay interest and principal. The level of exposure to Agencies is not a significant concern given their relative safety and newly announced support measures from the Federal Reserve and U.S. Treasury. • Recent portfolio changes, such as leveling the allocation to each agency, reduction in the regional/community CD allocation and decrease in the percentage allocated to any single issuer, should prove beneficial from a safety and credit quality perspective.

Interim Portfolio Review

I. Investment Policy Compliance

II. Risk Factors by sector

- Federal Agencies
- Non-Negotiable CDs
- Repurchase Agreements
- Money Market Funds
- Municipal Securities

III. Overall Credit Quality

IV. Maturity Breakdown

- Overall
- Sector

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

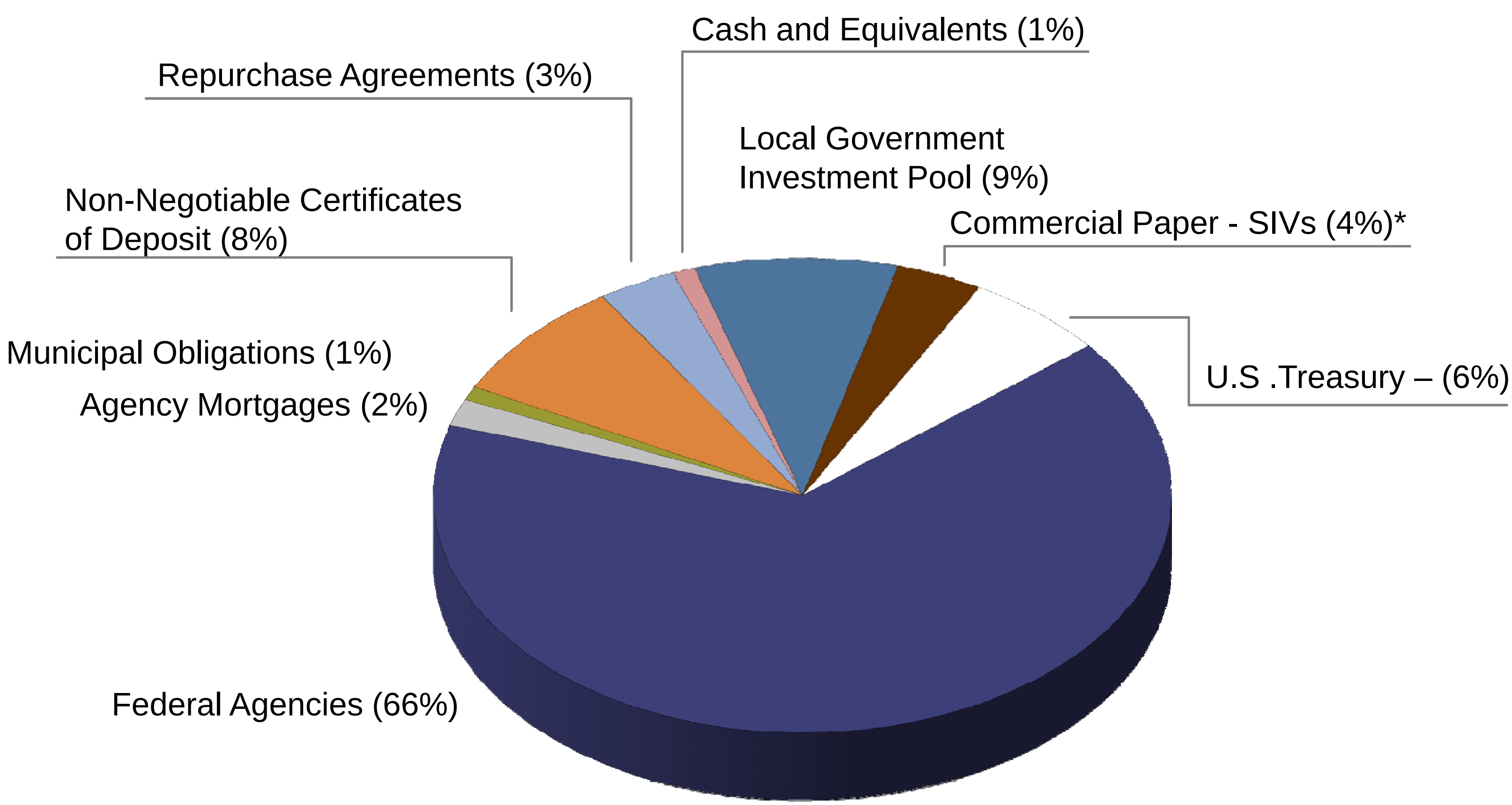
I. Investment Policy Compliance – County Investment Pool

Topic	Observations
Sector Allocation	• All sectors are within the County's Investment Policy limits. Certificates of Deposit holdings are within 5% of the Policy limits while repurchase agreements are well below the 40% limit as set forth by the County's policy.
Credit Analysis	• Aside from the Commercial Paper (SIV) holdings that are in default, all other securities in the County's Investment Pool are in compliance with the County's Investment Policy per credit ratings.
Maturity Distribution	• Maturity distributions all fall within the County's Investment Policy Statement. The longest maturity for all securities is an Agency Mortgage with an average life of 4.0 years, noted in the table below. The longest maturing Agency Note has a time to maturity of 4.3 years.

Security Type	Market Value($)	Allocation Percentage	Within Policy Limits	Max Maturity Held	Within Policy Limits
Cash Equivalents	39,640,840	0.98%	✓	1 day	✓
Commercial Paper*	152,794,065	3.77%	✓	N/A	N/A
Repurchase Agreements	139,000,000	3.43%	✓	1 day	✓
LGIP	360,100,658	8.88%	✓	1 day	✓
Federal Agencies	2,664,308,000	65.70%	✓	4.3 years	✓
Mortgages	74,474,416	1.84%	✓	4.0 years	✓
Certificates of Deposit	336,825,000	8.31%	✓	3.2 months	✓
Municipal Bonds	37,860,000	0.93%	✓	2.9 years	✓
U.S. Treasury	250,000,000	6.17%	✓	1.8 years	✓

** Represents SIV holdings*

Sector Diversification
as of July 31, 2008

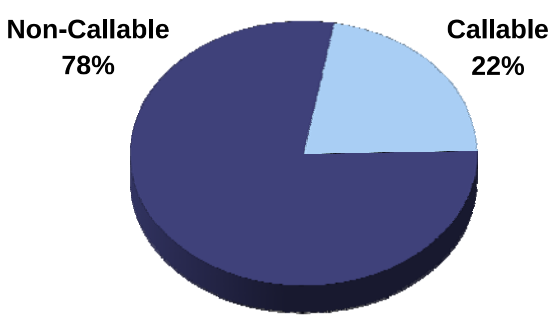


** Will not be examined in this report*

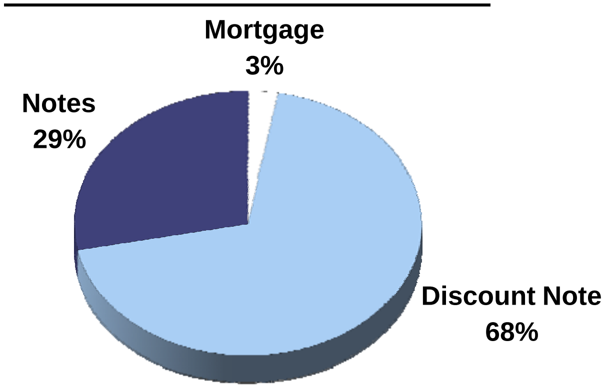
II. Risk Factors by Sector – Federal Agencies

Topic	Observations
Structure	• Non-Callable 78.2% • Callable 21.8% • Discount Note 69.1% • Notes 28.2% • Agency Mortgage 2.7%
Diversification	• Freddie Mac (FHLMC) 33.4% • Federal Home Loan Bank (FHLB) 31.3% • Fannie Mae (FNMA) 33.8% • FNR (Mortgages) 1.3% • FHR (Mortgages) 0.2%
Conclusions	• No issues or anticipated problems with these holdings. We have included additional details on the current state of the Federal Agencies, specifically Fannie Mae and Freddie Mac, later in the report.

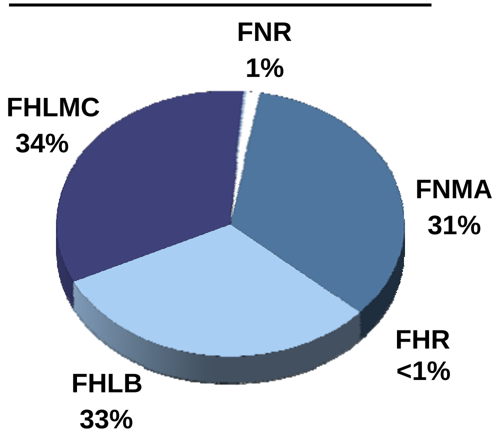
Callable vs. Non-Callable
as of July 31, 2008



Structure Distribution
as of July 31, 2008



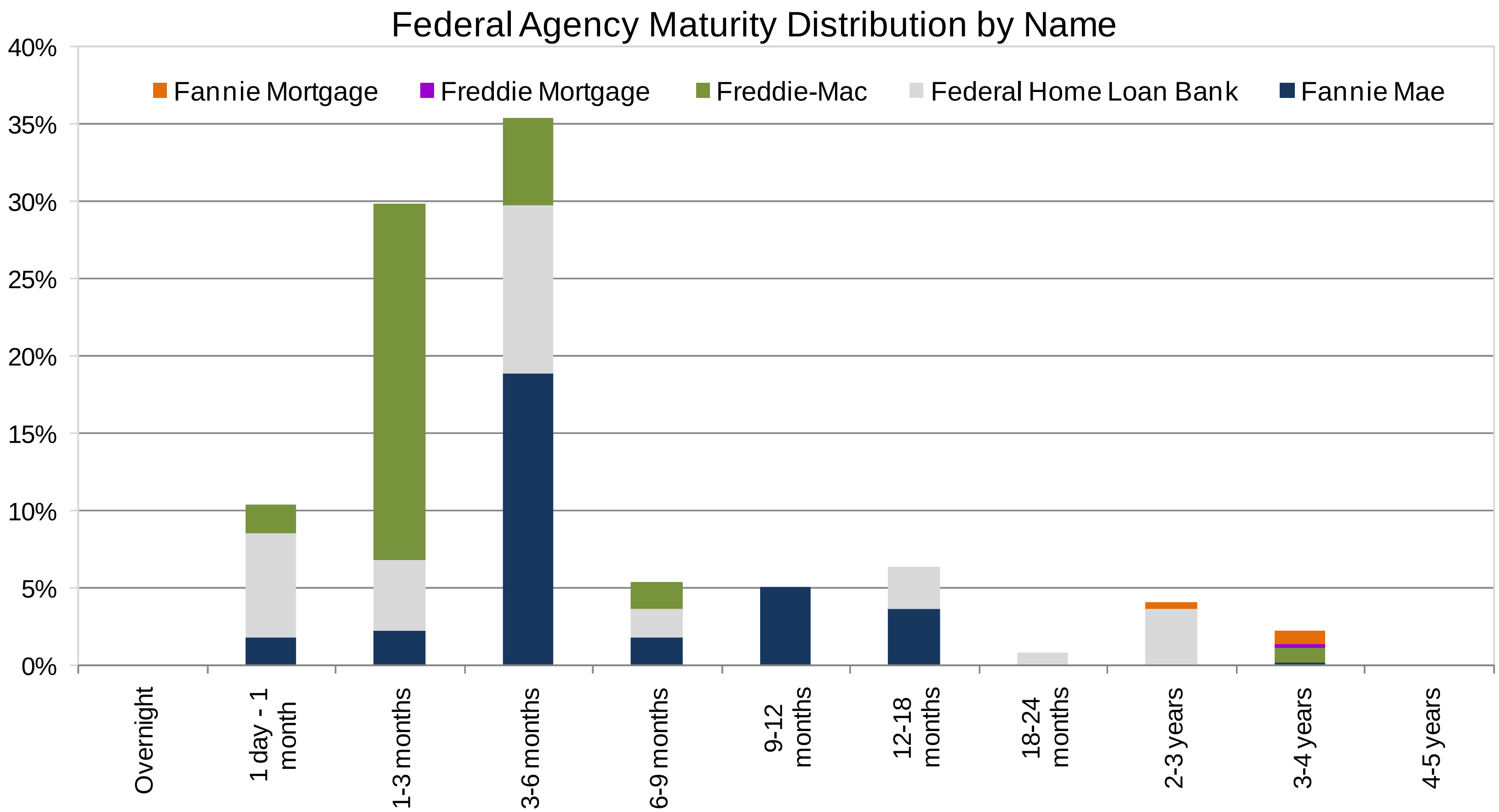
Issuer Diversification
as of July 31, 2008



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

II. Risk Factors by Sector – Federal Agencies

Topic	Observations
Maturity Distribution	• Maturity distributions all fall within the County's Investment Policy Statement. The longest maturity for all securities is an Agency Mortgage with an average life of 4.0 years, as seen in the table below. The longest maturing Agency Note has a time to maturity of 4.3 years. • Agency holdings are well diversified by issuer and maturity as well as simply by issuer.



- 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. Risk Factors by Sector – Federal Agencies (cont'd.)

Topic	General Characteristics of Different Agency Debt Structures
Callable Note	• Maturity – 1 day to 30 years • Specific Call restriction which grants option to the issuer to redeem prior to maturity • Coupon bearing; uncollateralized • Yield is typically quoted on a government bond equivalent yield basis • Typically rated AAA
Noncallable Note	• Maturity – 1 day to 30 years • Not callable • Coupon bearing; uncollateralized • Yield is typically quoted on a government bond equivalent yield basis • Typically rated AAA
Discount Note	• Maturity – 1 day to 1 year • Not callable • Non-coupon bearing – offered for sale at a discount from Par value • Yield is quoted on a money market or discount basis • Typically rated AAA • Most commonly used in short-term portfolios such as money market pools
Examples of Common Agency Issuers	• Federal Farm Credit Banks (FFCB) • Federal National Mortgage Association (FNMA or Fannie Mae) • Federal Home Loan Bank (FHLB) • Government National Mortgage Association (GNMA or Ginnie Mae) • Student Loan Marketing Corporation (SLMA or Sallie Mae) (few remaining government backed issues) • Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac)

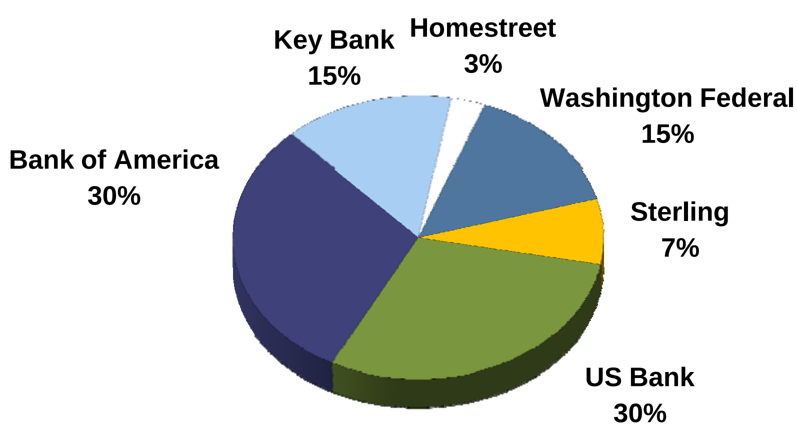
II. Risk Factors by Sector – Federal Agencies (cont'd.)

Topic	Comments on Agency Credit Concerns
Conclusion	With a majority of pool assets invested in Federal Agency instruments, we understand the County's concern for the credit standing, and ultimately the safety of these investments. • We view Fannie Mae, Freddie Mac, and Federal Home Loan Bank debt as a suitable investment for any public agency. This opinion is based on the following:
Recent Federal action	• With the passage and signing of the recent Housing Recovery bill Fannie Mae and Freddie Mac have additional government support in place to bolster their activities. Specifically the bill and other measures include: • The Federal Reserve may lend directly to Fannie Mae and Freddie Mac at the primary credit rate (now 2.25%) that it makes available to investment banks. This lending facility would be in place for 18 months, but could be extended if needed. • The GSEs' line of credit to the Treasury which now totals \$2.25 billion has been increased as much as \$300 billion. This line would be used to provide liquidity to the agencies if needed. • The Treasury is now permitted to make direct equity investments in the two GSEs in unlimited amounts if necessary. • The Federal Reserve will assume a "consultative role" in regulating the agencies. • The Treasury also will offer a temporary large line of credit to the Federal Home Loan Banks.
Quality of mortgage portfolios	• Agency mortgage portfolios remain well diversified and historically have experienced significantly lower credit losses than bank portfolios. • It is likely that both Fannie Mae and Freddie Mac will experience further losses, but those losses are likely to be much lower than other financial institutions.
Access to capital markets	• The agencies benefit from preferential access to the capital markets and are generally able to borrow at substantial discounts when compared other financial institutions. As a result the agencies pay a much lower cost to fund their operations. Recently, spreads on agency debt have risen well above historic levels. • In addition, the pool of potential investors for agency debt is very large and diverse. Both companies have had no difficulty in accessing capital markets.

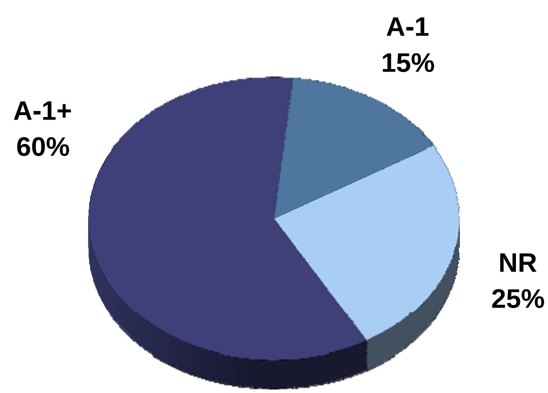
II. Risk Factors by Sector – Non-Negotiable Certificates of Deposit

Issuing Bank	Short-Term Credit Rating	Max Maturity (days)	Total Par Value
Bank of America NA	A-1+/P-1/F1+	35	$101,825,000
Key Bank NA	A-1/P-1/F1	20	$50,000,000
U.S. Bank NA	A-1+/P-1/F1+	42	$100,000,000
Homestreet Bank	NR/NR/NR	97	$10,000,000
Sterling Savings Bank	NR/NR/F3	50	$25,000,000
Washington Federal S&L	NR/NR/F1	71	$50,000,000
Conclusion	▪ Continuing care should be taken to update qualifying data on banks (capital levels) to ensure assets invested do not exceed limits. ▪ With the exception of the early exit from the WAMU CDs on March 14, all other CDs have matured as scheduled reducing the Pool's overall CD exposure by nearly 50% and increasing its relative credit quality. The passage of time has helped to reduce the Pool's exposure to the ongoing uncertainty regarding regional and community banks. We view this as a positive development and encourage the County to continue making any new CD investments with the highly rated larger national corporate banks. ▪ Given the ongoing turmoil in the banking area, specifically as it relates to regional and community banks, the County should ensure it employs an increased level of scrutiny of any such bank investments.		

Issuer Diversification
as of July 31, 2008



Credit Distribution (S&P)
as of July 31, 2008



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

II. Risk Factors by Sector – Non-Negotiable Certificates of Deposit

	Observations and Conclusions
Overall Banking Industry	• Smaller and Community banks are still under enormous pressure as a group. We view this sector as the one that may have the most risk for investors not covered by FDIC insurance. • For the year to date, there have been nine bank failures, with the most recent one – Columbian Bank and Trust of Topeka, Kansas – occurring on August 22nd. • On August 26th the FDIC announced that their "problem list" of banks had increased 30% to 117. The Office of Thrift Supervision, the regulator for the savings and loan industry, also announced on August 27th that it has increased it "problem thrift" list 42% from 12 to 17 from the first to the second quarter, accounting for 2.1% of all thrifts it supervises. • FDIC has also indicated that it may need to take a loan from the Treasury to meet liquidity needs related to additional bank failures.
Large Corporate Banks • Bank of America NA • US Bank NA • Key Bank NA	Given the size and quality of these banks, the County should have a relatively high degree of comfort in these CD holdings. Key Bank is the smallest of the three and yet is likely big enough to find investors/support if it were to have difficulty. Key was not an underwriter of CDOs or other currently distressed securities so we have a reasonable level of comfort. This CD also matured on August 20th. Going forward the County should be confident in purchasing CDs from the largest banks, provided there is sufficient available public information, based on the following: • Consistent ratings agency information - the County should invest in CDs from banks with high ratings from 2 major ratings agencies • Big banks can more-easily withstand economic uncertainties; the Fed will most likely offer help to these banks over smaller banks in rough economic periods • Future purchases of CDs should be diversified into other large corporate banks similar in size and credit quality to Bank of America and US Bank. We would also be comfortable with rolling maturities in these two banks.

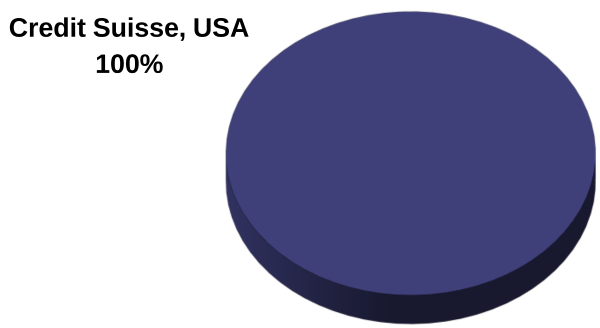
II. Risk Factors by Sector – Non-Negotiable Certificates of Deposit

Type of bank	Observations and Conclusions
Publicly Held Community Banks • Sterling Savings Bank • Washington Federal S&L	The two banks currently represented in this category appear not to have any significant problems. Each has, however, lost a considerable amount of market value (stock price). They continue to be profitable and pay their dividends. As recommended in our April report, we recommend that the County continue with a heightened level of scrutiny of smaller publicly held community banks based on the following: • In the current market environment, it is less likely that the Fed will be able to help smaller community banks from failing if they realize large losses. There is a market expectation that community banks could be the hardest hit of banking institutions. • Inconsistent ratings agencies information – most smaller public banks are not well-followed by analysts, therefore information regarding these companies is often sparse, and bad news is often highly unexpected. • Investing in smaller public community banks increases the uncertainty of unforeseen risks. • Additional scrutiny of banks in this category could include: ensuring there is access to daily, detailed information and news; and that at least two rating agencies rate the banks. • An additional strategy that the County may wish to employ is limiting the maturity of CDs from these banks and timing maturities to earning reports.
Privately Held Community Banks • Homestreet Bank	As in our April report, we recommend that the County, should it desire to purchase CDs from privately held community banks, institute a detailed credit review and approval process with each bank under consideration including face-to-face meetings and frequent access to detailed financial information. These changes to the County's processes are warranted based on the following: • The level of uncertainty is highest with privately held banks. While they may be well-run, sound institutions, and under normal market circumstances investments with these banks may pose no issue; however, in the current environment the uncertainty is great. • It is difficult, if not impossible, to acquire a significant amounts of and timely information about these banks. This makes it equally as difficult to judge the quality of securities issued by these organizations. • As with publicly held community banks, it is less likely that the Fed will be able to help smaller community banks from failing if they realize large losses.

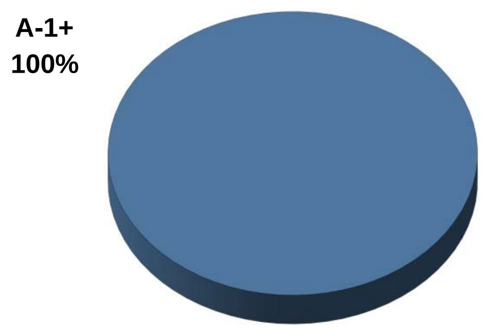
II. Risk Factors by Sector – Repurchase Agreements

	Counter-Party Risk	Collateral Sufficiency
Observation	• As of July 31st, the only Repurchase Agreement counterparty used was Credit Suisse. • Credit Suisse, USA is a highly rated broker/dealer.	• The County monitors collateral on a daily basis and limits collateral to Treasury and Agency securities. • Substitutions are permitted.
Conclusion	• We see little risk in Credit Suisse as a counterparty. • The County advised us in April that it had recently completed legal agreements expanding the number of counterparties.	• The County should continue to permit only Treasury and Federal Agency collateral. • The County should continue to monitor the market value of collateral on a daily basis to ensure the committed amount and type is sufficient.

Issuer Distribution
as of July 31, 2008



Credit Distribution
as of July 31, 2008

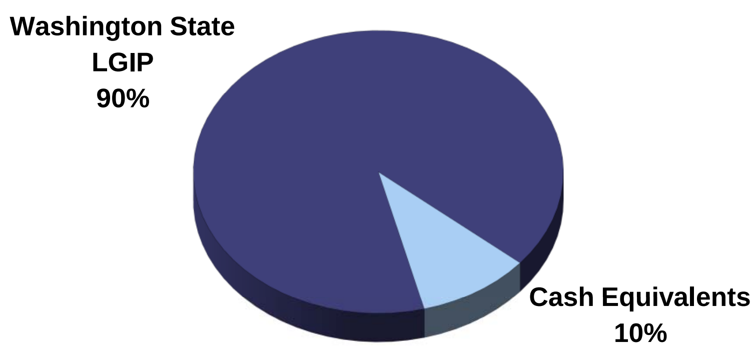


** All calculations above are based on total Repo exposure, not overall Portfolio*

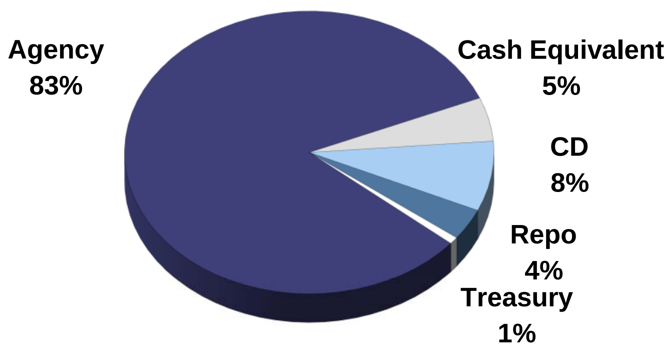
II. Risk Factors by Sector – LGIPs and Cash Equivalents

	Underlying Investments	Rating	Observations
Washington State LGIP	• Federal Agencies 82.4% • Repurchase Agreements 2.7% • Certificates of Deposit 9.2% • Cash Equivalents 5.7% • U.S. Treasuries 0.0%	• N/A	• 83% Agency allocation of the State LGIP raises the County pool exposure from 68% (including 2% mortgages) to 75% Agency overall.
Key Bank, NA Overnight Savings Account	• N/A	• A-1 short-term by S & P • P-1 short-term by Moody's • F1 short-term by Fitch	• The County currently has a current overall allocation of 2.2% ($89.6 million) to Key Bank, including the $39 million savings account and a $50 million Key Bank CD. • This falls within our recommendation of limiting exposure to any corporate issuer to 5%.

Issuer Distribution
as of July 31, 2008



Washington State LGIP
Sector Distribution
as of July 31, 2008

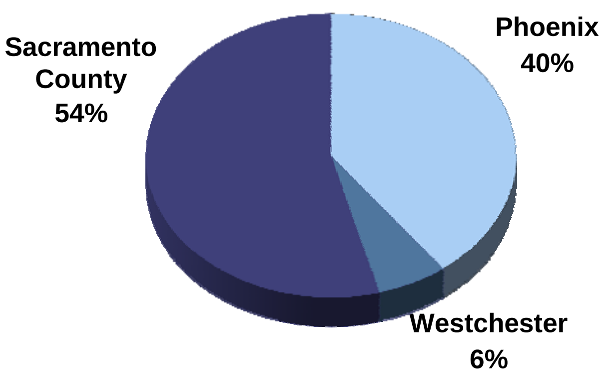


** All calculations above are based on total cash equivalentsexposure, not overall Portfolio*

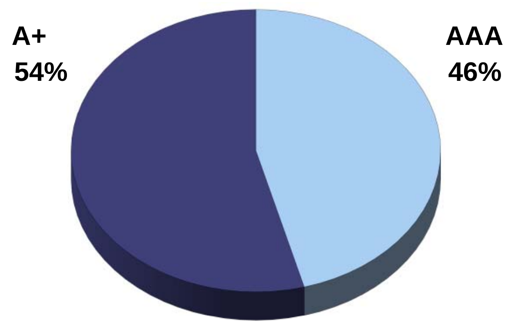
II. Risk Factors by Sector – Municipal Bonds

	Observations
Issuer Diversification	• King County's $37.9 million municipal bond holdings are diversified among three names. • The overall allocation towards municipal bonds of less than 1% is well within the IPS limits. • No single issue approached the portfolio's 5% limit per name. • The maximum maturity of the portfolio's municipal bond holdings is a AAA-rated Phoenix Arizona GO bond that matures in July 2011. • While reflected in the charts below, the Sacramento County Bonds matured on August 15, 2008.
Credit Distribution	• The municipal bond holdings carry investment grade long term credit rating from Standard and Poor's, Moodys, and Fitch. There has been no change in the long term credit ratings for these issuers since our April 24th report with the exception of Fitch's BBB rating on the Sacramento County Bonds being withdrawn on July 31st. The August 15th maturity of this issue, raises the overall credit profile of the Pool's municipal holdings.

Issuer Distribution
as of July 31, 2008



Credit Distribution
as of July 31, 2008



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

II. Risk Factors by Sector – Municipal Bonds (cont'd.)

Issuer	Underlying Credit Rating of Issuer	Credit Rating of Bonds	Insurance Provider	Insurance Provider Rating
Phoenix, Arizona Unlimited General Obligation	Aa1/AAA	Aa1/AAA	N/A	N/A
Sacramento County CA Pension Obligation Bond*	A2/A+	A2/A+/Withdrawn(was BBB)	FGIC	Baa3/BB/BBB
Westchester County, New York Unlimited General Obligation	Aaa/AAA/AA+	Aaa/AAA/AA+	N/A	N/A

Ratings as of August 27, 2008. Sacramento County Bonds matured August 15, 2008.

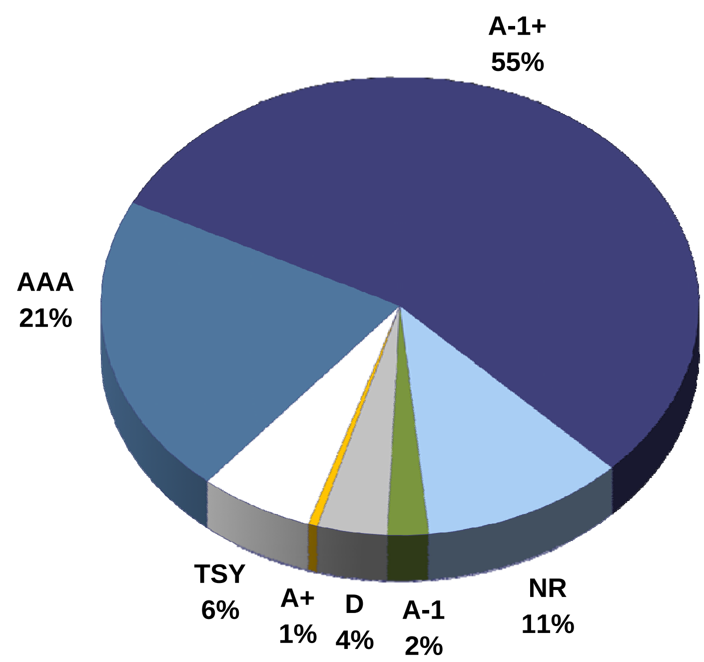
II. Risk Factors by Sector – Municipal Bonds (cont'd.)

Issuer	Observations
Phoenix, Arizona Unlimited General Obligation	• Phoenix Arizona has benefited from changing demographics within the US, making it one of the fastest growing cities in the country. • The economy is well diversified with thriving education and research, high-tech, telecom, and tourism industries. Also, they are positioned in what may become the "Persian Gulf of alternative energy", with great prospects for wind and solar power generation. Payroll growth continues to be strong and the unemployment rate is 4.1%. • The bonds are rated Aa1/AAA and there are no watches on the ratings. • **The debt obligations of the City of Phoenix Arizona represent minimal risk.**
Sacramento County CA Pension Obligation Bond	• The Sacramento County CA Pension Obligation Revenue bonds have suffered a wave of downgrades to both their insured rating and their underlying rating. • The bonds' ratings currently stand at A2/A+/ with an A2/A+ underlying. Fitch's BBB rating for the issue has been withdrawn since the bond insurer FGIC's ratings are now Baa3/BB/BBB, lower than the underlying ratings of Sacramento County. • Sacramento County, while being the seat of California's state government should benefit from a stable base of government employment, has actually felt the boom and bust cycle over the last few years that the state has experienced. During the boom times the county made spending commitments, and now has a high per capita debt burden, that is causing budget pressure during the current slowdown. The reduced revenue from property taxes due to the housing slowdown and sales tax slowdown have both contributed to revenue shortfalls. • The state's economic cycles move quickly and county spending to encourage retail center growth should increase sales tax revenue in the future. • **The bonds of Sacramento County should represent low risk; the short maturity of August 15, 2008 should mitigate price volatility. (As of this writing, the security has matured).**
Westchester County, New York Unlimited General Obligation	• Westchester County New York is comprised of suburban communities with commuters traveling to both New York City and Greenwich and Stamford CT. • The county includes some of the wealthiest zip codes in the US. While there may be some concentration of risk based around a slowdown in the financial markets, the county has not yet felt any pressure. • The bonds are rated Aaa/AAA/AA+ and Fitch, the only rating agency to not have a AAA rating on them put a positive outlook on the bonds in October 2006. • **The debt obligations of Westchester County have minimal risk.**

County Investment Pool Credit Analysis

- 82% of the County's Pool investments are in the highest rating category by Standard and Poor's.
- Another 11% of the County's investments are not rated. These include, however, CDs with some state backing and the well-diversified Washington State LGIP. On the whole, these holdings are relatively safe.
- With the exception of the 4% of assets (at par) remaining in SIVs, the remaining securities carry high investment grade ratings.
- Overall, the portfolio is generally high quality.

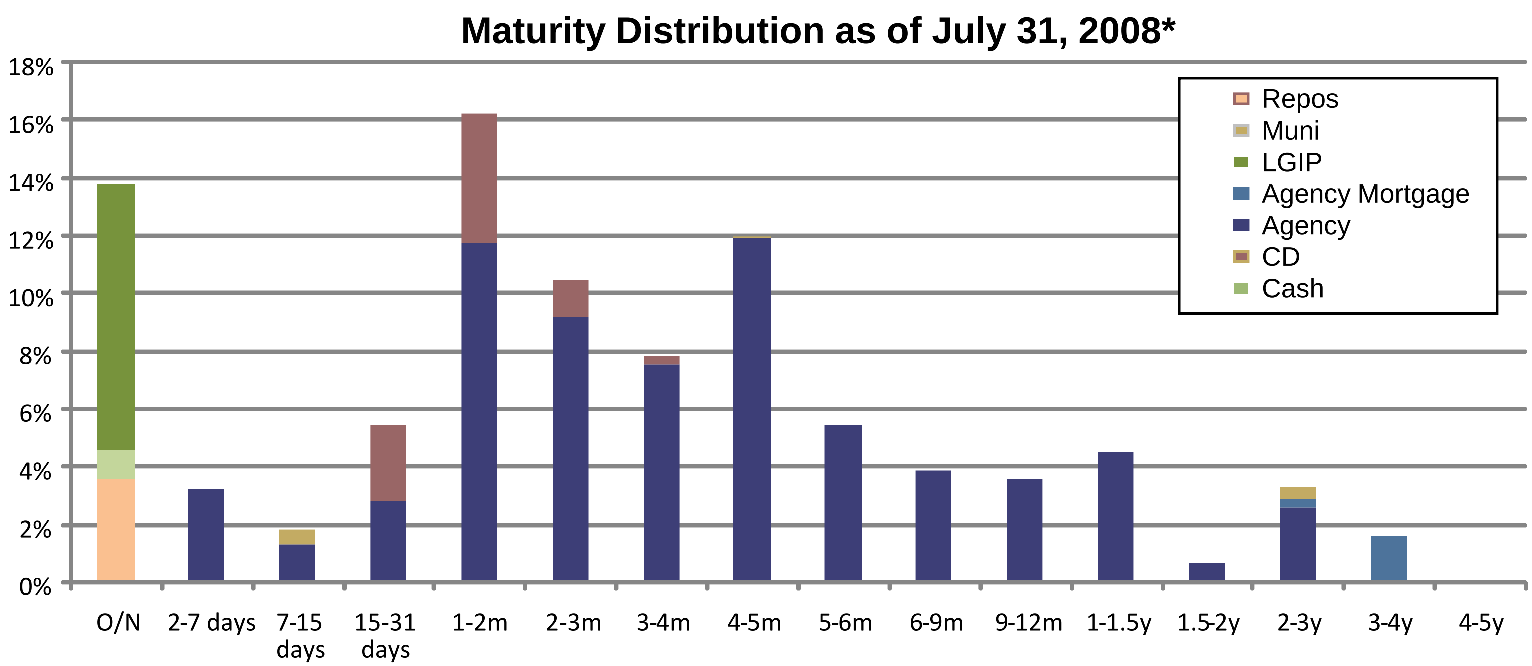
Credit Distribution*
as of July 31, 2008



*Ratings by S&P

IV. Maturity Distribution

Maturity Distribution*	Observations
Weighted Average Maturity ("WAM")	• The overall weighted average maturity ("WAM") of the portfolio is 165 days (viewing callable securities to their call dates and mortgage securities on an average life basis) • If securities with maturity longer than one year are excluded, the remaining "short" portfolio has a weighted average maturity of 69 days (excluding SIVs).
Liquidity	• The portfolio maintains reasonable liquidity with 14% invested in "overnight" liquid vehicles, such as the Washington State LGIP and Repurchase Agreements. Over 25% of the portfolio matures in 31 days and under. • Additional analysis would be required to determine if the allocation between shorter and longer maturity securities is appropriate. Detailed history of pool balances, inflows and outflows would be needed.



- 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.

*SIVs not included in maturity analysis