Portfolio Review Report on King County Investment Pool

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Executive Summary

Purpose, Scope and Approach	• Assist King County in the review and evaluation of the County's investment pool. • Add to the County's current understanding of the market, its portfolio's holdings, and offer preliminary recommendations for effectively meeting the County's and its investors' objectives. • Our approach to this phase of the project included a high-level portfolio and investment policy review. • The review encompassed all investments in the County's pool, with the exception of the County's Structured Investment Vehicle (SIV) holdings. Our process included a review of the Investment Policy Statement (IPS) and analysis of the County's portfolio holdings as of March 7, 2008 using standard industry products and our own proprietary tools.

Investment Program and Portfolio Review	• PFM reviewed the County's portfolio with respect to Investment Policy Compliance, Risk Factors by Sector, Credit Quality, Maturity Structure, and Principal Stability.
	• 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 generally possess high quality ratings and an acceptable risk profile for a slightly longer-term fund.
	• We have made specific observations (followed by recommendations where needed) with respect to:
	    – Each type of security held in the pool (credit quality, liquidity, etc.)
	    – Usage of certain security types
	    – Investment policy compliance with reference to similar purpose funds

Executive Summary

Conclusions and Recommendations	
Conclusions 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. • Prohibitions on Negotiable CDs and out of state CDs prevent broader diversification of risks. Tighter standards for CD issuers should be considered and are described in the CD section of the report. • Revise Investment Policy Statement to increase clarity – in looking at the special portfolio holdings report provided to PFM, it is not readily apparent which assets are considered liquid or core holdings. County staff later provided a standard report which contains the breakdown; we believe this has been and remains readily available information. • One Repurchase Agreement counterparty appeared on the March 7th holdings. Competitive shopping among the 6 approved counterparties may improve yield and flexibility (the County may already perform this function as a standard matter). • While Agency holdings represent a majority of assets in the portfolio, 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 high relative safety. • Monitor diversification of Agency holdings to avoid excessive exposure to any specific Agency. • Agency-issued Mortgage Backed Securities, while their market values are likely to be somewhat affected by broader credit market problems, are not exposed to subprime or Alt-A mortgages and are anticipated to continue to make their expected cash flows. • No additional portfolio holdings are impaired or in imminent danger of becoming impaired.
Potential Areas for Additional Examination	• Sufficiency of collateral support for in-state CDs. The County should seek to determine whether the level of collateralization for CDs under the State Public Deposit Protection Commission rules is sufficient for its level of comfort. • Investment processes review. PFM could, through interviews and observation, evaluate and make recommendations on the portfolio management processes employed by the County. • Time study of sector allocations. Examining sector allocations over time, in concert with changing spread levels, can help to determine if sector allocations are market driven. • Performance and risk-return tradeoffs. Benchmarking the performance of the County pool versus appropriate indices or competitive groups can assist with evaluation of the trade-offs between the extra performance provided by corporate instruments and the extra risk potential they possess. • Liquidity vs. core balances. A long term study of periodic balances and corresponding pool inflows and outflows can highlight the appropriate balances for the liquid and longer-term potions of the pool, and serve to ensure liquidity needs are effectively met.

Preliminary Portfolio Review

I. Investment Policy & Compliance
- Comparison to:
  - Other LGIP
  - Standard & Poor's Recommendations for Stable NAV and Fluctuating NAV Funds

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

V. Principal Stability / Stress Test

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 a 25-year Agency Mortgage holding; this security has a weighted average life of 3.3 years. However, the Pool holds a 9-year Agency Mortgage with a longer weighted average life of 4.0 years, as seen in the table below. The longest maturing Agency Note has a time to maturity of 4.7 years.

As of March 7, 2008

Security Type	Market Value($)	Allocation Percentage	Within Policy Limits	Max Maturity Held	Within Policy Limits
Cash Equivalents	144,498,718	3.65%	✓	1 day	✓
Commercial Paper*	198,827,521	5.03%	✓	N/A	N/A
Repurchase Agreements	203,000,000	5.13%	✓	18	✓
LGIP	356,894,503	9.02%	✓	1 day	✓
Federal Agencies	2,280,420,000	57.65%	✓	4.7 yrs	✓
Mortgages	82,897,021	2.10%	✓	4.0 yrs (WAL)	✓
Certificates of Deposit	625,000,000	15.80%	✓	243 days	✓
Municipal Bonds	63,810,000	1.61%	✓	3.3 years	✓

** Represents SIV holdings*

I. Comparison – California County Investment Pool Investment Policy

Type	Maximum Portfolio Allocation	Issuer Restrictions	Credit Ratings	Maturity Restrictions
Repurchase Agreement	40%	Repurchase Agreements (contracts) must be on file	Restricted to primary dealers on eligible dealer list	Max 180 days
Reverse Repurchase Agreement	10%		Restricted to primary dealers on eligible dealer list	Max 92 days
California State Local Government Investment Pool (LAIF)	0%	Not Authorized	Not Authorized	Not Authorized
U.S. Treasuries	100%	None	Not Applicable	Max 5 years
U.S. Agencies	75%	None	AAA	Max 5 years
Bankers' Acceptances	30%	Max $100 mm of any one issuer	Minimum A-1/P-1 (F-1 if Fitch rated)	180 days
Collateralized Certificates of Deposit	10%	As stipulated in Article 2, Section 53630 et al of the Calif. Government Code	See Section 53630 et al of the California Government Code	Max 1 year
Negotiable Certificates of Deposit	30%	Max $100 mm of any one issuer	Minimum A-1/P-1 (F-1 if Fitch rated)	Max 1 year
Commercial Paper	40%	Assets in excess of $500MM; max. 10% of Portfolio by any one issuer. If ABCP, issuer must have program-wide credit enhancements	Minimum A-1/P-1 (F-1 if Fitch rated)	Max 270 days
Municipal Bonds Issued by Agencies of the County	10%	Approval by Treasurer	AAA by at least 2 of the 3 ratings agencies	Max 5 years
Medium-Term Notes of U.S. Corporations	10% total; 5% max with a maturity of 12-18 months	Max $50mm of any one issuer	Minimum AA rating by 2 of the 3 ratings agencies	Max 18 months
Money Market Mutual Funds	15%	Must meet requirements of California Gov't code; registered with the SEC. No NAV adjustments; no front-end loads	AAA by at least 2 of 3 rating agencies	Immediate liquidity

I. Investment Policy Statements Side by Side – Maximum Portfolio Allocation

Type	King County	California County
Repurchase Agreement	40%	40%
Reverse Repurchase Agreement	20% of the total balance of the investment pool at any one time	10%
Local Government Investment Pool ("LGIP")	No limit specified in Policy	0%
U.S. Treasuries	100%	100%
U.S. Agencies	75%	75%
Bankers' Acceptances	40%	30%
Collateralized Certificates of Deposit	20%	10%
Negotiable Certificates of Deposit	Not Applicable	30%
Commercial Paper	25%	40%
Municipal Bonds	20%	10% (Must be issued by Agency of the County)
Mortgage-Backed	25%	Not specifically addressed in policy
Medium-Term Notes of U.S. Corporations	Not permitted by state law	10% total; 5% max with a maturity of 12-18 months
Bank Notes	20%	Not specifically addressed in Policy
Money Market Mutual Funds	Not specified in County policy; state law limits investment to arbitrage restricted funds	15%

I. Investment Policy Statements Side by Side – Credit Ratings

Type	King County	California County
Repurchase Agreement	Firm must adopt a master repurchase agreement with the County	Restricted to primary dealers on eligible dealer list
Reverse Repurchase Agreement	Firm must adopt a master repurchase agreement with the County	Restricted to primary dealers on eligible dealer list
Local Government Investment Pool (“LGIP”)		Not Authorized
U.S. Treasuries	Not Applicable	Not Applicable
U.S. Agencies		AAA
Bankers’ Acceptances	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	Minimum A-1/P-1 (F-1 if Fitch rated)
Collateralized Certificates of Deposit	See RCW 39.58 of the state Code; quarterly IDC ratings determine amount of investment permissible	See Section 53630 et al of the California Government Code
Negotiable Certificates of Deposit	Not permitted by state law	Minimum A-1/P-1 (F-1 if Fitch rated)
Commercial Paper	Must carry highest ratings of any two nationally recognized rating agencies at the time of purchase	Minimum A-1/P-1 (F-1 if Fitch rated)
Municipal Bonds	At time of purchase, bond must have one of the three highest credit ratings of a nationally recognized credit rating agency	Not specifically addressed in policy
Mortgage-Backed	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	AAA by at least 2 of the 3 ratings agencies
Medium-Term Notes of U.S. Corporations	Not permitted by state law	Minimum AA rating by 2 of the 3 ratings agencies
Bank Notes	Bonds must be rated “A” or better by two nationally recognized rating agencies or guaranteed by an agency of the federal government	Not specifically addressed in policy
Money Market Mutual Funds	Not specified in County policy; state law limits investment to arbitrage restricted funds	AAA by at least 2 of 3 rating agencies

I. Investment Policy Statements Side by Side – Maturity Restrictions

Type	King County	California County
Repurchase Agreement	60 days or less	Max 180 days
Reverse Repurchase Agreement	180 days or less	Max 92 days
Local Government Investment Pool ("LGIP")	Not specified in County policy	Not Authorized
U.S. Treasuries	Up to 5 years	Max 5 years
U.S. Agencies	Up to 5 years	Max 5 years
Bankers' Acceptances	Up to 180 days	180 days
Collateralized Certificates of Deposit	Up to 5 years	Max 1 year
Negotiable Certificates of Deposit	Not Applicable	Max 1 year
Commercial Paper	180 days	Max 270 days
Municipal Bonds	5 years	Not specifically addressed in policy
Mortgage-Backed	5 year average life at time of purchase	Max 5 years
Medium-Term Notes of U.S. Corporations	Not permitted by state law	Max 18 months
Bank Notes	5 years	Not specifically addressed in policy
Money Market Mutual Funds	Not specified in County policy; state law limits investment to arbitrage restricted funds	Immediate liquidity

I. Investment Policy Statements – Standard & Poor's Recommendations

Criteria	AAAm-rated Stable Net Asset Value (NAV) Pool	AAAf-rated Bond Fund or Variable Net Asset Value (NAV) Pool with S1 (low) volatility rating
Credit Quality	Securities that are on S&P's Credit watch list with negative outlooks should be limited to maturities of 30 days or less	Invest mainly in assets rated in the top 2 categories (AAA, AA) with limited exposure to A-rated instruments. Total exposure to non-S&P rated instruments should be limited to 25% of the total portfolio, with no more than 5% in any one issuer.
Counterparty Criteria	All counterparties should be rated A-1 or A-1+; For AAAm-rated funds, the following applies: • The aggregate amount of repos (regardless of rating) with maturities greater than 7 days may not exceed 10% of a fund's total assets. • Repos with any A-1 issuer are limited to no more than 25% of a fund's total assets • Repos with maturities beyond O/N and less than or equal to 7 days with any issuer of A-1+ are limited to no more than 25% of a fund's total assets • Repos with maturities beyond O/N and less than equal to 7 days with any A-1 issuer are limited to no more than 10% of a fund's total assets.	Long-term transactions (one year or longer) – AA or better Short-term transactions (less than one year) – A-2 or better for overnight, A-1 or better for longer than overnight
Weighted Average Maturity (WAM) or Duration	WAM of AAAm funds limited to 60 days or less	Portfolio must possess an aggregate level of risk that is less than or equal to that of a portfolio made up of government securities maturing within 1-3 years
Diversification	No single issuer should represent more than 5% of fund assets. • If mitigating circumstances are present, a single issuer can represent up to 10% of a fund's assets if the securities mature within 90 days (excluding AAA rated government issues)	Not specifically addressed
Government Agency Concentration	No more than 1/3 of a fund's assets should be invested with any one government agency	Not specifically addressed
Variable Rate Notes (VRNs); Floating Rate Notes (FRNs)	To reduce the risk of variable or floating rate notes not adjusting in tandem with money market rates, a variable or floating rate note should be able to withstand a 3% move in rates without causing its value to deviate significantly. For a AAAm-rated fund, the following applies: • Limit the remaining maturity of VRNs and FRNs to 2 years	Not specifically addressed
Investing in other Money Market Funds	Rated funds are to invest only in other funds with the same S&P rating. Maximum exposure should be limited to 25%	Not specifically addressed

Source: www2.standardandpoors.com

I. Investment Policies – Conclusions and Recommendations

Topic	Observations
Conclusions and Recommendations	**The County's investment policy shares similar characteristics with other LGIP Investment Policy Statements and a combination of Standard and Poor's recommendations regarding AAAm- and AAAf-rated Pools** • The County is more restrictive in its maximum percentage permitted in Commercial Paper than most "Prime" funds and versus the California pool used in our example, as well as the Standard & Poor's criteria. • The County may wish to adopt the following changes to its Policy: – Add issuer restrictions of 5% to each Corporate security category, including Certificates of Deposit and Bankers' Acceptances – Issuer concentration should also be viewed across categories for additional risk management. – For example, holding 4% of assets in "ABC Bank" CDs and 2.5% of assets in Commercial Paper from the same bank would exceed the 5% limitation and the County should determine if it will permit this. – Set a per agency limit high enough to allow adequate flexibility for investing. 30% – 35% would be relatively typical maximums. – Adopt a minimum credit rating standard for repurchase agreement counter parties. – Given the difficulties facing the banking industry, additional criteria related to the approval of banks for CD placement may be warranted. Elements such as consistent credit ratings, being publicly traded, daily access to information, availability of bank staff to the County should be considered. Additional consideration should be given to reducing the permitted maturity for CDs issued by banks with somewhat lower quality.

Sector Diversification
as of March 7, 2008

Cash and Equivalents (4%)
- Credit quality
- Liquidity

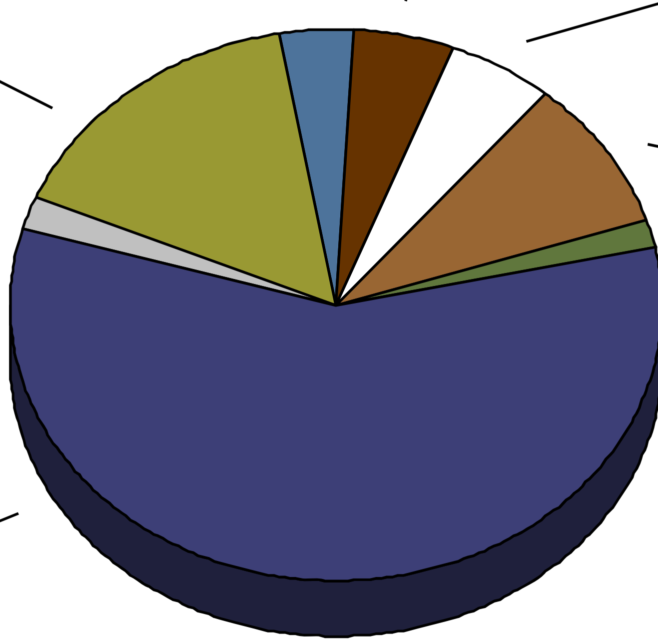
Commercial Paper - SIVs (5%)*
- Credit Quality
- Liquidity

Non-Negotiable Certificates of Deposit (16%)
- Credit quality
- Liquidity
- Collateral

Repurchase Agreements (5%)
- Counterparty risk
- Collateral sufficiency

Local Government Investment Pool (9%)
- Underlying investments
- Fund rating
- Advisor/sponsor

Agency Mortgages (2%)
- Liquidity
- Collateral
- Credit Quality



Municipal Obligations (2%)
- Credit quality
- Liquidity

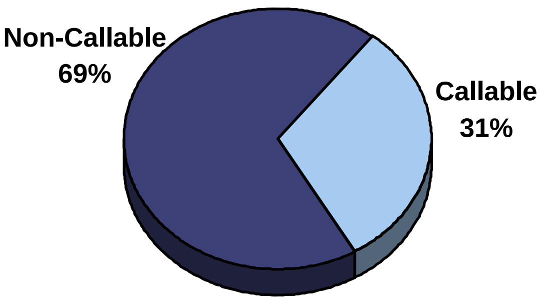
Federal Agencies (58%)
- Structure
- Diversification

** Will not be examined in this report*

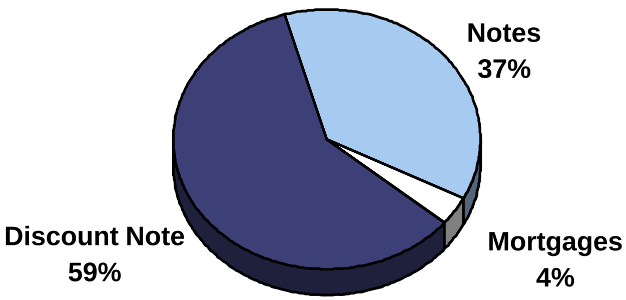
II. Risk Factors by Sector – Federal Agencies

Topic	Observations
Structure	• Non-Callable 68.9% • Callable 31.1% • Discount Note 59.5% • Notes 37.0% • Agency Mortgage 3.5%
Diversification	• Freddie Mac (FHLMC) 22.9% • Federal Home Loan Bank (FHLB) 34.1% • Fannie Mae (FNMA) 41.0% • FNR (Mortgages) 1.7% • FHR (Mortgages) 0.3%
Conclusions	• No issues or anticipated problems with these holdings. • Monitor percent allocation per issuer. Set a per agency limit high enough to allow adequate flexibility for investing. 30% - 35% is a typical maximum per agency issuer. • While 4% of all Agencies are mortgages, we anticipate no problems with cash flows from this sector.

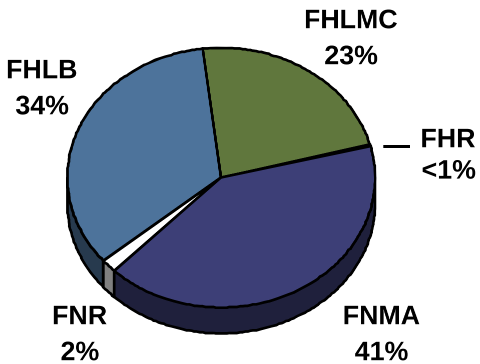
Callable vs. Non-Callable
as of March 7, 2008



Structure Distribution
as of March 7, 2008



Issuer Diversification
as of March 7, 2008



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

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 Mortgage Corporation (SLMA or Sallie Mae) • Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac)

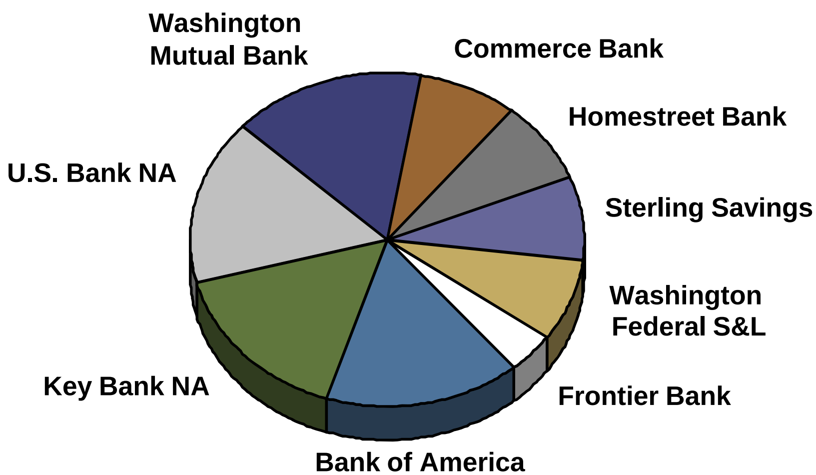
II. Risk Factors by Sector – Federal Agencies (cont'd.)

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.
Quality of mortgage portfolios	• Agency mortgage portfolios are 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.
Capital cushion	• Despite fourth quarter losses both Freddie Mac and Fannie Mae were able to increase their capital cushions over the 30% cushion mandated by OFHEO at the time: – Fannie Mae reported core capital of $45.4 billion at the end of 2007 compared to $42.0 billion at the end of 2006. – Core capital at Freddie Mac was $37.9 billion at the end of 2007 compared to $35.3 at the end of 2006.
Capital position	• Management at both companies has taken action to strengthen their capital position: – Fannie Mae was able to raise an additional $7.9 billion in capital during the fourth quarter of 2007. – Freddie Mac was able to raise $6 billion of capital during the same period. • Both companies have also cut their dividend, further enhancing their capital position.
Access to capital markets	• The agencies benefit from preferential access to the capital markets and are 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. • 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.
OFHEO oversight	• The regulatory oversight from OFHEO provides significant comfort to agency debt investors. • Recently OFHEO has demonstrated confidence in the companies by reducing their capital cushions from 20% to 30%. This will allow the companies to purchase additional mortgages in the market increasing their ability to generate profits.

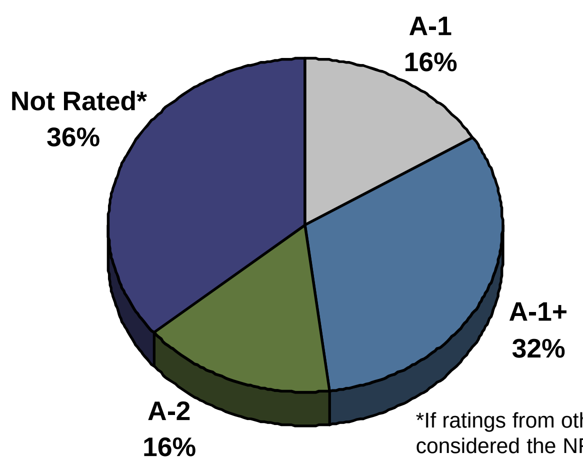
II. Risk Factors by Sector – Non-Negotiable Certificates of Deposit

Issuing Bank	Short-Term Credit Rating	Max Maturity (days)	Total Par Value
Bank of America NA	A-1+/P-1/F1+	87	$100,000,000
Key Bank NA	A-1/P-1/F1	87	$100,000,000
U.S. Bank NA	A-1+/P-1/F1+	95	$100,000,000
Washington Mutual Bank	A-2/P-2/F2	187	$100,000,000
Commerce Bank	F1	63	$50,000,000
Homestreet Bank	NR/NR/NR	243	$50,000,000
Sterling Savings Bank	NR/NR/F3	196	$50,000,000
Washington Federal S&L	NR/NR/F1	217	$50,000,000
Frontier Bank	NR/NR/NR	63	$25,000,000
Conclusion	▪ Prohibition on negotiable CDs and out of state banks prevents broader diversification of risks. ▪ Care should be taken to update qualifying data on banks (capital levels) to ensure assets invested do not exceed limits. ▪ As of March 7, the County had a hold on additional purchases of Washington Mutual CDs, with which we concurred. The County subsequently exited all WAMU CDs on March 14 due to its deteriorating credit picture.		

Issuer Diversification
as of March 7, 2008



Credit Distribution (by S&P rating)
as of March 7, 2008



*If ratings from other rating agencies are considered the NR portion drops to 12%.

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

Type of bank	Observations and Conclusions
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. 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.
Publicly Held Community Banks • Sterling Savings Bank • Washington Federal S&L • Frontier	The three 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. Based on the large par value purchases that King County normally transacts (greater than $1mm), we recommend that the County increase its 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.

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

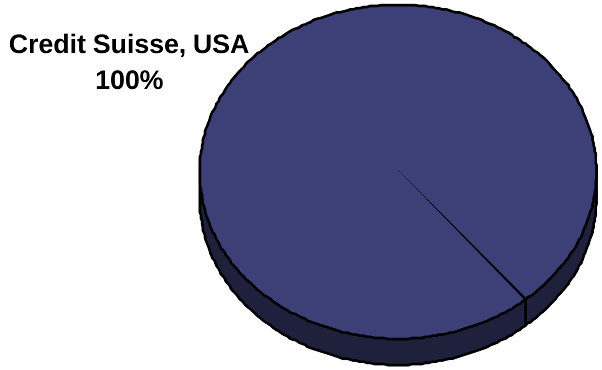
Type of bank	Observations and Conclusions
Privately Held Community Banks • Homestreet Bank • Commerce Bank*	Based on the large par value purchases that King County normally transacts (greater than $1mm), we recommend that the County, should it desire to continue to purchase CDs from privately held community 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, 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.

*Commerce Bank is a subsidiary of Zion's Bancorporation.

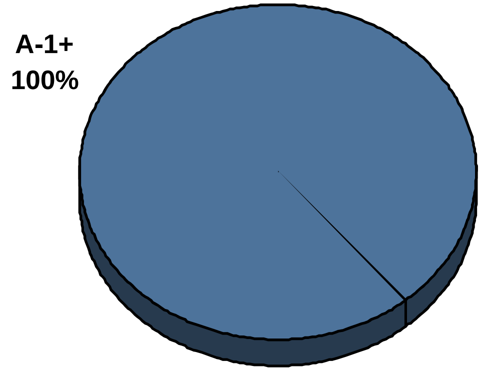
II. Risk Factors by Sector – Repurchase Agreements

	Counter-Party Risk	Collateral Sufficiency
Description	• The risk to each party of a contract that the counterparty will not live up to its contractual obligations. • In general, counterparty risk can be reduced by having an organization with extremely good credit act as an intermediary (custodian) between the two parties.	• Collateral sufficiency refers to the collateral underlying repo agreements. Repo documents usually dictate the percentage of collateral that must be committed by the counterparty to a repo agreement.
Observation	• As of the date received, the only Repurchase Agreement counterparty used was Credit Suisse. • Credit Suisse, USA is a highly rated broker/dealer. • The County advises that it maintains master repurchase agreements with 5 other counterparties.	• The County monitors collateral on a daily basis and limits collateral to Treasury and Agency securities. • Substitutions are permitted.
Conclusion	• The County executes repo agreements with a highly rated counterparty. We see little risk in Credit Suisse as a counterparty. • The County may benefit from competitively shopping with more than one counterparty (better rates, early and late bidding). Our review of the pool's holdings was based on one day; the County may regularly engage competitive shopping for repo.	• The County should continue to limit collateral to only Treasury and Federal Agency securities. • 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 March 7, 2008



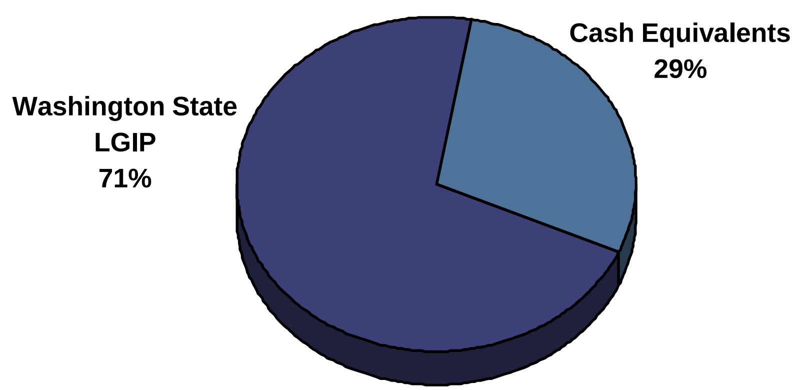
Credit Distribution
as of March 7, 2008



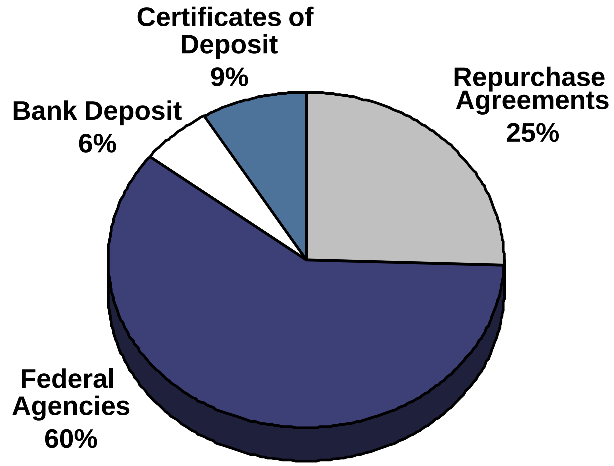
II. Risk Factors by Sector – LGIPs and Cash Equivalents

	Underlying Investments	Rating	Observations
Washington State LGIP	• Federal Agencies 60.1% • Repurchase Agreements 25.5% • Certificates of Deposit 8.7% • Bank Deposit 5.7%	• N/A	• LGIP sector allocation is relatively similar to the County's portfolio so the County's strategic allocation decisions have not been significantly disrupted. • 60%+ Agency allocation of the LGIP raises the County pool exposure to 65% Agency overall. • If holdings can be obtained, it would be valuable to check whether there is significant overlap in issuers that would push exposures beyond the County's level of comfort.
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	• With 4% ($144 million) of portfolio assets in the Key Bank savings account along with the $100 million Key Bank CDs, Key Bank exposure is over 6% of total portfolio assets. • We recommend limiting exposure to any corporate issuer to 5%.

Issuer Distribution
as of March 7, 2008



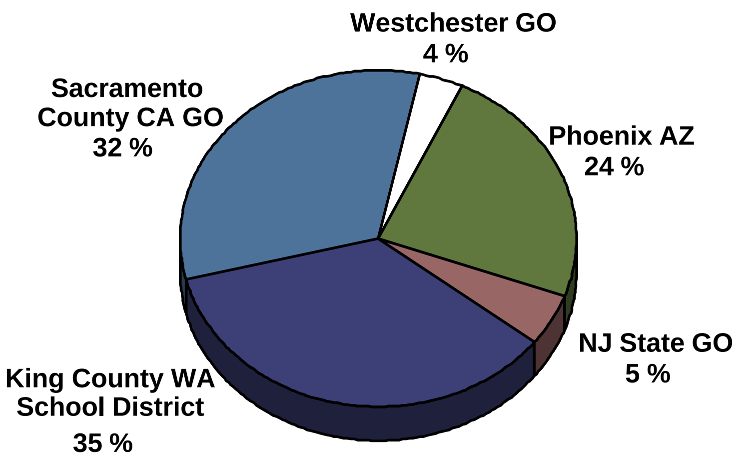
Washington State LGIP
Sector Distribution
as of February 29, 2008



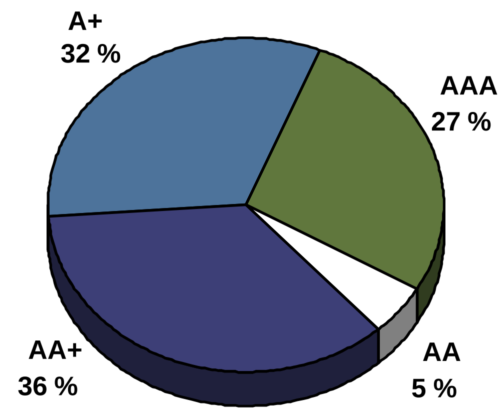
II. Risk Factors by Sector – Municipal Bonds

	Observations
Issuer Diversification	• King County's $63.8 million municipal bond holdings are well diversified among five names. • The overall allocation towards municipal bonds of 2% is well within the IPS limits. • No single issue approached the portfolio's 5% limit per name. The King County School District Bond, the largest current municipal holding, makes up roughly 0.60% of the overall King County Portfolio. • The maximum maturity of the portfolio's municipal bond holdings is a AAA-rated 39-month Phoenix Arizona GO bond that matures in July 2011.
Credit Distribution	• Credit ratings among the municipal bond holdings fall within the IPS restriction regarding muni credit ratings - at time of purchase, municipal bonds must have one of the three highest credit ratings of a nationally recognized credit rating agency.

Issuer Distribution
as of March 7, 2008



Credit Distribution
as of March 7, 2008



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

Issuer	Underlying Credit Rating of Issuer	Credit Rating of Bonds	Insurance Provider	Insurance Provider Rating
King County, Washington School District 001 Limited General Obligation	AA	Aa1/AA+	Full faith and credit of the Washington State School District Credit Enhancement Program	N/A
New Jersey State Unlimited General Obligation	Aa3/AA	Aa3/AA	N/A	N/A
Phoenix, Arizona Unlimited General Obligation	Aa1/AAA	Aa1/AAA	N/A	N/A
Sacramento County CA Pension Obligation Bond	A2/A+	A2/A+/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 April 23, 2008

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

Issuer	Observations
King County, Washington School District 001 Limited General Obligation	• The King County Washington School District Bonds are limited general obligations further backed by the Washington State School District Credit Enhancement Program. • The local economy has a good base with 30% of jobs coming from the government and education sector and additional presence from the financial services, manufacturing, shipping, and high tech sectors. The labor force continues to grow and unemployment is a very strong 3.7%. • The structure of the bond security is a limited general obligation. The full taxing power of the district can be used to pay debt service. However, the taxing power of the district is capped as a percentage of the total value of assessed value real estate in the district and could conceivably limit the ability of the district to make payment on the bonds. For this reason the underlying rating given to the district by S&P is AA. Freddie Mac, however reports that home prices are still rising in the Seattle metropolitan statistical area. The solid home prices, along the generally strong economy, combine to minimize this concern. • The bonds are also backed by the Washington State School District Credit Enhancement Program which pledges the full faith and credit and unlimited taxing power of the State of Washington to pay debt service. This program lends the State's credit rating of Aa1/AA+ to the bonds. • The Aa1 maps to AAA on Moody's global scale. • **The risk in King County Washington School district's debt obligations is minimal.**
New Jersey State Unlimited General Obligation	• The New Jersey State Bonds are refunding bonds with "Double Barrel" payment protection. • The bond documents specify that the revenue from any projects related to the original bond issue go first to payment of principal and interest on the bonds and then if specified revenue and debt service reserves are insufficient to make payment on the bonds then the full faith and credit of the state is pledged to pay the debt. This structure provides highest security to the bond holder. • New Jersey is a wealthy state with a high per capita income and gross state product. The economy has a solid higher education and scientific backbone and diverse economic makeup, which includes pharmaceutical, telecom, shipping, and tourism. Payrolls have sustained modest growth and unemployment is at 4.8%, slightly below the national average of 5.1% A current budget deficit and already high personal tax burden may be limiting the state's ratings at the Aa3/AA level. • The Aa3 maps to AAA on the Moody's global scale (which measures compares credit default risk of municipals to similarly rated corporate securities). • **The risk of New Jersey's debt obligations is minimal.**

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

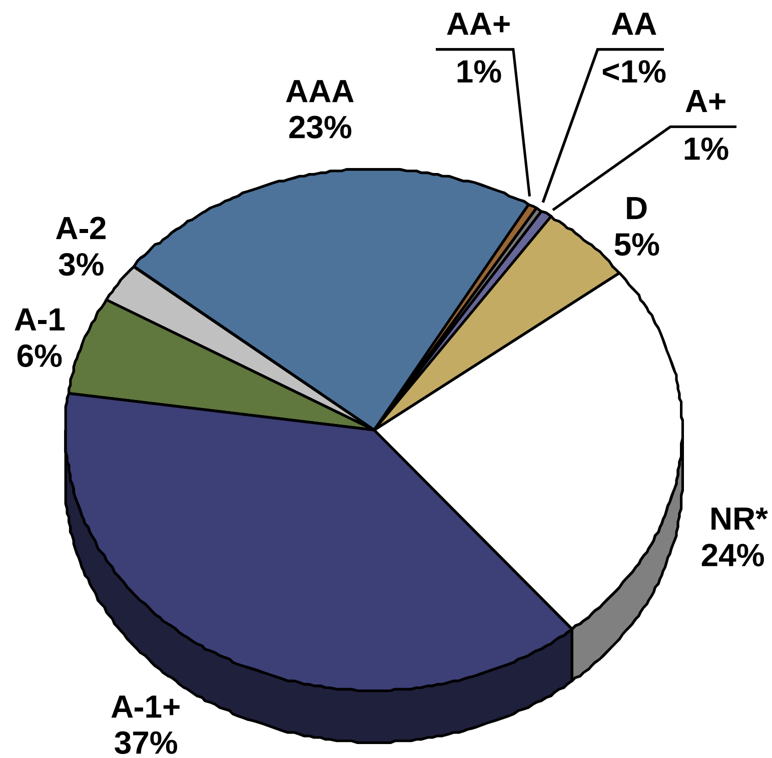
Issuer	Observations
Phoenix, Arizona Unlimited General Obligation	• Phoenix Arizona has benefited from changing demographics within the US, making it one of the fastest growing cities in the country. • The economy is well diversified with thriving education and research, high-tech, telecom, and tourism 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 just suffered a wave of downgrades to both their insured rating and their underlying rating. • The bonds' ratings currently stand at A2/A+/BBB with an A2/A+ underlying. 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; although there may be some further downside risk to the ratings, the short maturity of August 08 should mitigate price volatility.**
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.**

III. Credit Quality

County Investment Pool Credit Analysis

- 66% of the County's Pool investments are in the highest rating category by Standard and Poor's.
- Another 24% 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 5% allocation to SIVs, the remaining securities carry high investment grade ratings.
- Overall, the portfolio is generally high quality.

Credit Distribution*
as of March 7, 2008

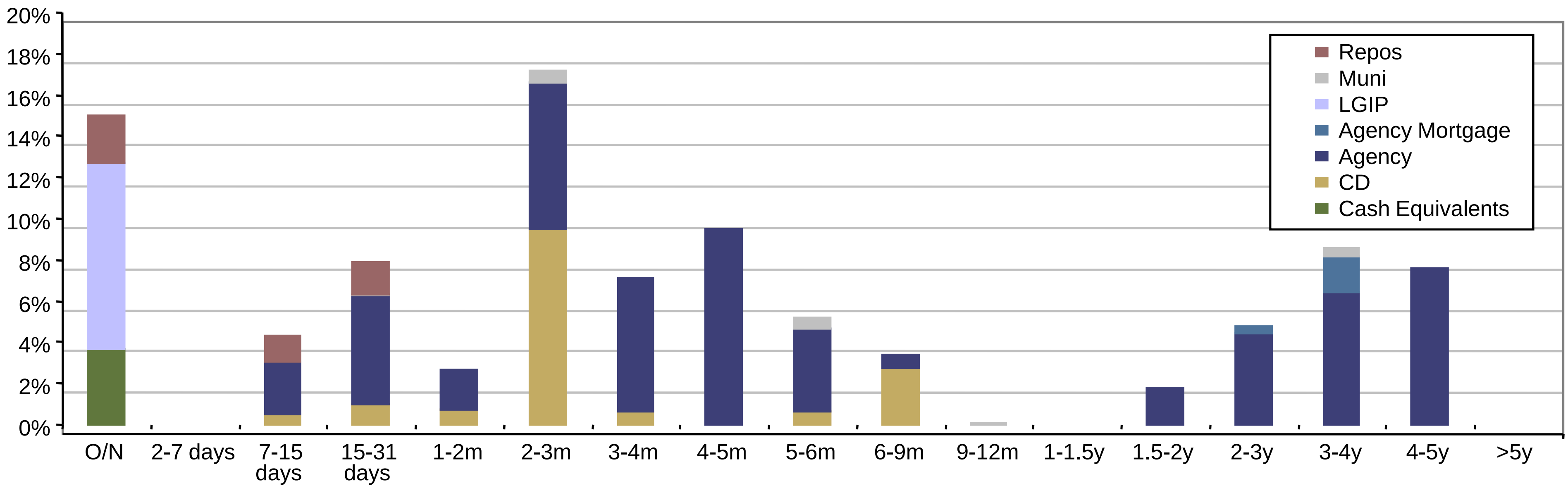


*Ratings for chart by S&P. When ratings from other agencies are considered, the overall Not Rated ("NR") portion declines to 11%.

IV. Maturity Distribution

Maturity Distribution*	Observations
Weighted Average Maturity ("WAM")	• The overall weighted average maturity ("WAM") of the portfolio is 169 days (viewing callable securities to their call dates and mortgage securities on a weighted average life basis) • If securities with maturity longer than one year are excluded, the remaining "short" portfolio has a weighted average maturity of 71 days (excluding SIVs).
Liquidity	• The portfolio maintains reasonable liquidity with 15% invested in "overnight" liquid vehicles such as the Washington State LGIP and Repurchase Agreements. • 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.

Maturity Distribution as of March 7, 2008



*SIVs not included in maturity analysis; WaMu CDs are included in the above graph.

IV. Principal Stability – Stress Test

County Investment Pool

- With 24% of the pool invested in securities with maturity longer that 1 year, the overall portfolio's value would almost certainly experience fluctuations in value greater than those desired for a portfolio where principal stability was the primary objective – see table below left. We understand that the overall portfolio is not specifically managed for principal stability (i.e. $1.00/Share NAV) but provide this table as illustration of the potential value changes for various interest rate scenarios.
- When the longer dated securities are excluded from the pool's holdings, the remaining assets have sufficient flexibility to withstand swings in interest rates of up to at least 100 basis points (1%) up or down and maintain a pool share price (NAV) of $1.00.

NAV Stress Test on Total Pool Holdings (Excluding SIVs)

		Interest Rate Change (in basis points)						
WAM	439	+100	+50	+25	0	-25	-50	-100
NAV	1.007	0.99534	1.00140	1.00443	1.00745	1.01048	1.01351	1.01957
Other Weighted Average Maturities	1 day	1.00743	1.00744	1.00745	1.00745	1.00746	1.00747	1.00748
	7 days	1.00726	1.00736	1.00741	1.00745	1.00750	1.00755	1.00765
	15 days	1.00704	1.00725	1.00735	1.00745	1.00756	1.00766	1.00787
	30 days	1.00663	1.00704	1.00725	1.00745	1.00766	1.00787	1.00828
	45 days	1.00621	1.00683	1.00714	1.00745	1.00776	1.00807	1.00870
	60 days	1.00580	1.00663	1.00704	1.00745	1.00787	1.00828	1.00911
	90 days	1.00497	1.00621	1.00683	1.00745	1.00807	1.00870	1.00994
	180 days	1.00249	1.00497	1.00621	1.00745	1.00870	1.00994	1.01242
	365 days	0.99738	1.00242	1.00494	1.00745	1.00997	1.01249	1.01753

NAV Stress Test on Pool Holdings Maturing in Less Than One Year (Excluding SIVs)

		Interest Rate Change (in basis points)						
WAM	71	+100	+50	+25	0	-25	-50	-100
NAV	1.002	0.99967	1.00065	1.00113	1.00162	1.00211	1.00259	1.00357
Other Weighted Average Maturities	1 day	1.00159	1.00161	1.00161	1.00162	1.00163	1.00163	1.00165
	7 days	1.00143	1.00152	1.00157	1.00162	1.00167	1.00172	1.00181
	15 days	1.00121	1.00141	1.00152	1.00162	1.00172	1.00183	1.00203
	30 days	1.00080	1.00121	1.00141	1.00162	1.00183	1.00203	1.00244
	45 days	1.00038	1.00100	1.00131	1.00162	1.00193	1.00224	1.00285
	60 days	0.99997	1.00080	1.00121	1.00162	1.00203	1.00244	1.00327
	90 days	0.99915	1.00038	1.00100	1.00162	1.00224	1.00285	1.00409
	180 days	0.99668	0.99915	1.00038	1.00162	1.00285	1.00409	1.00656
	365 days	0.99160	0.99661	0.99912	1.00162	1.00412	1.00663	1.01164

NAV and WAM are derived from pool holdings as of March 31, 2008