

Portfolio Breakdown

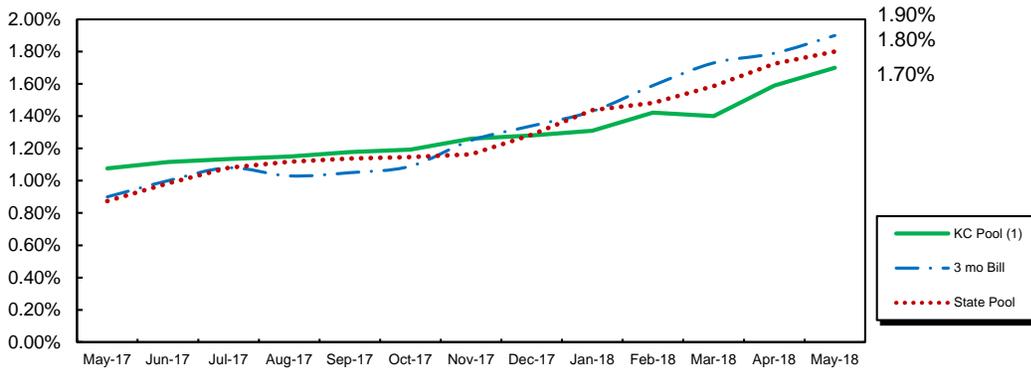
The following is a breakdown of the Investment Pool holdings for May 2018

	Average (\$000)	% of Portfolio
Governmental Agencies	2,930,207	36.9%
Commercial Paper	590,499	7.4%
Taxable Municipal Securities	-	0.0%
Bankers Acceptances	-	0.0%
Corporate Notes	999,702	12.6%
U.S. Agency Mortgage-backed Securities	4,373	0.1%
Repurchase Agreements (Repos)	207,742	2.6%
Treasury Securities	2,626,566	33.1%
Certificates of Deposit & Overnight Deposits	-	0.0%
Local Government Investment Pool (LGIP)	586,612	7.4%
Reverse Repurchase Agreements	-	0.0%
Total	\$7,945,702	100%

*Average Pool Effective Duration: 1.09 Years

*Duration is a better measure of interest rate sensitivity than average portfolio maturity.

Investment Pool Performance (before Pool fees)



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

Pool Net Asset Fair Value on May 31, 2018

Net Assets ⁽²⁾	\$7,422,604,373.19
Net Assets Consist of:	
Participant units outstanding (\$1.00 par)	\$7,469,704,668.87
Undistributed and unrealized gains(losses)	(\$47,100,295.68)
Net Assets	<u>\$7,422,604,373.19</u>
Net asset value at fair value price per share	
(\$7,422,604,373.19 divided by \$7,469,704,668.87 units)	<u>\$0.9937</u>

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

Investment Pool Comments:

Asset Allocation: The dollars allocated to government agencies, commercial paper, and U.S. Treasury securities increased significantly during May, while the allocation to the remaining sectors was little changed. The pool's allocation to highly-rated U.S. Treasuries and government agencies represented 70% of the pool's investments.

Pool Asset Size & Return: At month-end the pool's balance was \$7.5 billion, which was an decrease of \$621 million from the prior month. This decrease was primarily due to the \$625 million that was sent to the State of Washington for their portion of the property taxes that King County collected on their behalf. The pool's distribution yield rose to 1.70%, which was a significant increase over April's rate of 1.59%. As expected, the Fed did increase their target rate by 25 basis points at its June 13 meeting, and they also signaled at least two more rate increases are likely in 2018.

Market Value & Duration: The market value of the pool increased by \$10 million between April and May. Interest rates decreased by 1 to 8 basis points in the 1 to 3 year portion on the yield curve, and this caused an improvement in the pool's market value. We continued to add higher yielding securities in the 6 month to 3 year area; and this. This action, combined with the reduction of the pool's balance, moved the pool's duration to 1.09 years, while also improving the pool's yield.

We remain committed to sharing information with pool members, so if you have any questions, email us at investment.pool@kingcounty.gov

**Impaired Pool Holdings Report
5/31/2018**

Commercial Paper Issuer	Status	Current Book Value	Estimated Fair Value	Fair Value Adjustment
Cheyne Finance (1)	Restructured	787,502.14	507,750.00	279,752.14
Rhinebridge (1)	Restructured	84,407.60	84,407.60	-
VFNC Trust/Victoria Finance (2)	Restructured	6,282,757.47	4,271,780.00	2,010,977.47
Total		7,154,667.21	4,863,937.60	2,290,729.61

Fair Value Ratio	0.6798
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(1) These amounts are related to cash that was retained for DTC indemnifications and other reserves. It could be sometime in 2018 or 2019 before these "tail" amounts are returned to investors, and it is possible that the amount recovered may be less than the estimate.

(2) Victoria Finance's restructuring was completed during September 2009. The name of the restructured entity is VFNC Trust, and the new entity will continue to make monthly principal and interest payments. The *Estimated Fair Value* amount is based on market prices of the underlying securities that are held by VFNC Trust. These prices are provided by the Collateral Agent and the County expects to recover more than this estimated price by receiving regular monthly payments over the coming years.

Impaired Pool Comments:

The majority of the amount remaining in the impaired pool is associated with VFNC Trust (Victoria). VFNC Trust continues to make monthly cash distributions. The monthly distribution for May totaled \$139,186.06. Including all receipts to date, brings the cash recovery rate on the original Victoria investment to 88%. Monthly distributions will continue for as long as the underlying securities in the trust continue to pay, and we expect the monthly distributions to continue for at least 5 to 10 years.

We do not foresee distributing any realized losses until it is apparent that no further cash flows will be forthcoming. The market for this type of asset is illiquid and accurate pricing is difficult to obtain. Adding the cash recoveries through May to the last estimated price (53.5) for the VFNC Trust security results in an estimated recovery rate to senior investors of about 96%, but the actual recovery rate will depend on the size and duration of the future monthly cash distributions from VFNC Trust. At the time of Victoria's restructuring the County's financial advisory estimated that by participating in the exchange offer that the overall recovery rate could be between 50 to 76 percent, and potentially higher.

The County settled all lawsuits involving the securities held in the impaired pool, and all the parties involved in these lawsuits have reached a mutually acceptable resolution by way of a negotiated settlement that will avoid protracted litigation, there was no admission of liability, and all sides are satisfied with this resolution

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

Within the impaired pool, future "tail" payments from Cheyne and Rhinebridge are still possible. We expect Rhinebridge to make one final small payment in 2018, and it is likely that Cheyne will also make at least one distribution in 2018. When we determine that no further payments are probable from these impaired securities, any remaining unrealized losses will be distributed.