

**Portfolio Breakdown**

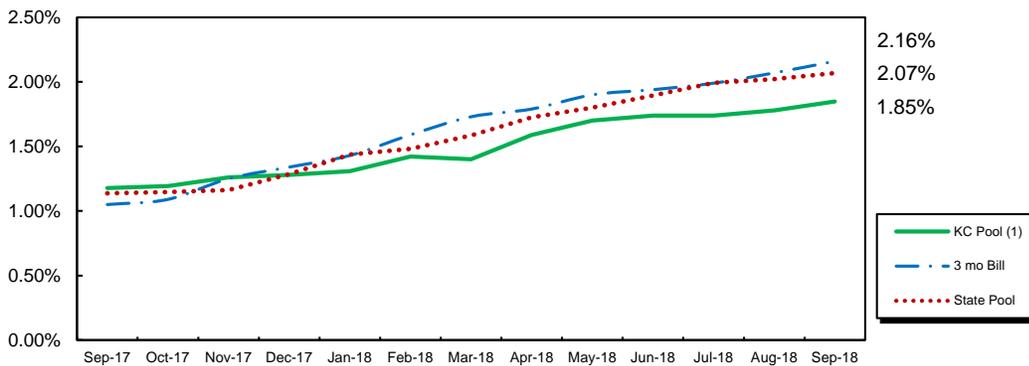
The following is a breakdown of the Investment Pool holdings for September 2018

	Average (\$000)	% of Portfolio
Governmental Agencies	2,235,794	32.5%
Commercial Paper	166,727	2.4%
Taxable Municipal Securities	-	0.0%
Bankers Acceptances	-	0.0%
Corporate Notes	997,587	14.5%
U.S. Agency Mortgage-backed Securities	4,080	0.1%
Repurchase Agreements (Repos)	152,067	2.2%
Treasury Securities	2,640,759	38.4%
Certificates of Deposit & Overnight Deposits	-	0.0%
Local Government Investment Pool (LGIP)	686,469	10.0%
Reverse Repurchase Agreements	-	0.0%
<b>Total</b>	<b>\$6,883,483</b>	<b>100%</b>

\*Average Pool Effective Duration: 1.02 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 September 30, 2018**

Net Assets <sup>(2)</sup>	\$7,098,926,689.50
Net Assets Consist of:	
Participant units outstanding (\$1.00 par)	\$7,151,661,108.10
Undistributed and unrealized gains(losses)	(\$52,734,418.60)
Net Assets	\$7,098,926,689.50
Net asset value at fair value price per share ( <small>\$7,098,926,689.50 divided by 7,151,661,108.10 units</small> )	\$0.9926

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

**Investment Pool Comments:**

**Asset Allocation:** The average dollars allocated to the LGIP and to corporate notes increased during September, while the allocation to commercial paper, government agencies, and U.S. Treasury securities decreased. The pool's allocation to highly-rated U.S. Treasuries and government agencies represented 71% of the pool's investments.

**Pool Asset Size & Return:** At month-end, the pool's balance was about \$7.1 billion, which was an increase of \$130 million from the prior month. There is typically a decrease in the pool's balance during September, but a \$223 million bond sale by a pool participant helped to push the pool's balance up. The pool's distribution yield increased to 1.85%, which was an increase of 7 basis points from August.

**Market Value & Duration:** The market value of the pool decreased by \$7.3 million between August and September due to rising interest rates. Interest rates began increasing after strong employment data was released on September 7. The unemployment rate dropped to 3.9%, and even more importantly, average hourly earnings increased much more than expected. This convinced the markets that the Fed would raise their target interest rate by 25 basis points at its September 26 meeting, and also increased the likelihood that increases would occur at its future meetings. The Fed did raise its rate, and by month-end interest rates in the 2 to 3 year section of the yield curve had increased by 19 basis points. Finally, the pool's duration ended the month at 1.02 years, which was nearly the same as the prior month's ending duration of 1.03 years.

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

**Impaired Pool Holdings Report  
 9/30/2018**

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
VFNC Trust/Victoria Finance (2)	Restructured	5,858,234.86	3,964,916.00	1,893,318.86
<b>Total</b>		<b>6,645,737.00</b>	<b>4,472,666.00</b>	<b>2,173,071.00</b>

Fair Value Ratio	0.6730
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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 September totaled \$64,226.50. Including all receipts to date, brings the cash recovery rate on the original Victoria investment to 89%. 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 September to the last estimated price (52.1) 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.

We still expect future "tail" payments from the Cheyne security, and it is likely that Cheyne will make at least one distribution in 2018. When we determine that no further payments are probable from the impaired securities, any remaining unrealized losses will be distributed.