

Portfolio Breakdown

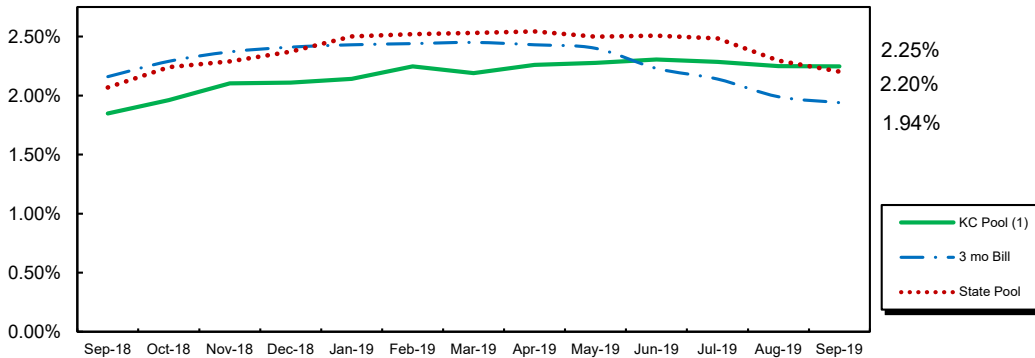
The following is a breakdown of the Investment Pool holdings for September 2019

| | Average (\$000) | % of Portfolio |
|--|--------------------|----------------|
| Governmental Agencies | 1,676,435 | 24.7% |
| Commercial Paper | 206,331 | 3.0% |
| Taxable Municipal Securities | - | 0.0% |
| Bankers Acceptances | - | 0.0% |
| Corporate Notes | 1,080,314 | 15.9% |
| U.S. Agency Mortgage-backed Securities | 3,437 | 0.1% |
| Repurchase Agreements (Repos) | 133,100 | 2.0% |
| Treasury Securities | 2,889,331 | 42.6% |
| Certificates of Deposit & Overnight Deposits | - | 0.0% |
| Local Government Investment Pool (LGIP) | 794,818 | 11.7% |
| Reverse Repurchase Agreements | - | 0.0% |
| Total | \$6,783,766 | 100% |

*Average Pool Effective Duration: 0.93 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, 2019

| | |
|--|---------------------------|
| Net Assets ⁽²⁾ | \$6,916,720,310.21 |
| Net Assets Consist of: | |
| Participant units outstanding (\$1.00 par) | \$6,880,912,506.05 |
| Undistributed and unrealized gains(losses) | \$35,807,804.16 |
| Net Assets | <u>\$6,916,720,310.21</u> |
| Net asset value at fair value price per share ($\$6,916,720,310.21$ divided by $6,880,912,506.05$ units) | <u>\$1.0052</u> |

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

Investment Pool Comments:

Asset Allocation: The average dollars allocated to U.S. Treasuries, commercial paper, and repurchase agreements increased during September, while the allocation to corporate notes, government agencies, and the LGIP decreased. The pool's allocation to highly-rated U.S. Treasuries and government agencies represented 67% of the pool's investments.

Pool Asset Size & Return: At month-end, the pool's balance was \$6.9 billion, which was a small decrease from the prior month's ending balance. The pool's distribution yield was 2.25%, which was the same rate paid in August.

Market Value & Duration: Interest rates in the 2 to 5-year portion of the yield curve rose by 12 to 16 basis points during September, which caused the pool's unrealized gain to decrease from \$44 million to \$36 million. The increase in longer rates was attributed to easing trade-related tensions between the U.S. and China. A large amount of corporate debt was also issued during the month, and this increase in supply also contributed to the increase in longer rates. While rates beyond 1 year increased, rates under a year fell as much as 23 basis points. This decrease resulted from the Fed's decision to cut its target rate by 25 basis points at its September 18 meeting. Finally, the pool's duration ended the month at 0.93 years, which was down from 0.96 years at the end of August.

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
 9/30/2019**

| Commercial Paper Issuer | Status | Current Book Value | Estimated Fair Value | Fair Value Adjustment |
|---------------------------------|--------------|---------------------|----------------------|-----------------------|
| Cheyne Finance (1) | Restructured | 41,185.37 | 28,829.76 | 12,355.61 |
| VFNC Trust/Victoria Finance (2) | Restructured | 4,661,741.55 | 3,162,248.00 | 1,499,493.55 |
| Total | | 4,702,926.92 | 3,191,077.76 | 1,511,849.16 |

| | |
|-------------------------|---------------|
| Fair Value Ratio | 0.6785 |
|-------------------------|---------------|

(1) The Current Book Value represents the County's estimated maximum recovery from the cash being retained by the Receivers. When the Receivership is liquidated, the County is estimating that its recovery will be 70% of the cash in the program. This estimate is based off the recovery from the liquidation of the Rhinebridge program. The liquidation could occur by 2020.

(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 \$29,669.50. Including all receipts to date, brings the cash recovery rate on the original Victoria investment to 91%. 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 August to the last estimated price as of the end of September \$48 for the VFNC Trust security results in an estimated recovery rate to senior investors of about 97%, 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. When we determine that no further payments are probable from the impaired securities, any remaining unrealized losses will be distributed.

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; and (3) ease the implementation of the restructuring processes for the impaired investments.