

King County Investment Pool

Portfolio Review

Quarter Ended June 30, 2016



PFM Asset Management LLC

Presented by:

PFM Asset Management LLC

John Molloy, CFA, Managing Director
Robert Cheddar, CFA, Managing Director

Executive Summary

Purpose, Scope and Approach

- PFM Asset Management LLC (“PFM”) prepared this report to update our ongoing analysis and to address any Investment Pool developments since our March 2016 review. Our approach included a detailed portfolio analysis and Investment Policy Compliance review, based on the County’s Investment Policy, dated September 2015.
- Our analysis was based on the Investment Pool’s holdings as of June 30, 2016, with reference to holdings in past periods.
- The review encompasses all current investments in the County’s Investment Pool.

Investment Program and Portfolio Review

- PFM reviewed the County’s portfolio with respect to Investment Policy Compliance, Sector Allocation, Issuer Concentration, Credit Quality, Maturity Distribution, and Duration Distribution.
- The County’s Investment Pool appears to provide ample liquidity, is well diversified, and is of sound credit quality. All holdings are investment grade and pose very low risk to principal.

Market Recap

- Brexit changed our outlook for the economy. While the long-term prospect of slow growth remains, volatility and uncertainty have infused all markets, with effects on spreads and valuations. The UK economy could see a recession, and already slow growth in the rest of Europe could decline further. In the U.S., growth could hold at the 2% level, but inflation could be pressured lower. The Fed should continue to be accommodative, and interest rates are likely to be lower for longer.
- Treasury yields ended the quarter significantly lower after the Federal Open Market Committee kept rates unchanged during the quarter, issuing a dovish tone, and the United Kingdom elected, surprisingly, to leave the European Union. The “Brexit” vote induced volatility and uncertainty, instigating a flight-to-safety trade into quarter-end.
- Corporate yield spreads continued to march tighter throughout the 2nd quarter as credit conditions improved from the 1st quarter slowdown in economic growth. The gradual increase in oil prices was the driving force behind sector spread tightening as energy firms recovered in lock step with oil prices. Following the Brexit vote, corporate yield spreads experienced a brief spike in yield spreads, but quickly retraced all of the widening by quarter-end.
- The volatility in rates during the month had little impact on the money market sector. Credit-based sectors – like commercial paper – continue to offer exceptional relative value vs. short-term Treasuries and agencies.

Observations

- The portfolio is of very high credit quality. The majority of securities (79%) are explicitly guaranteed or carry a high level of support by the U.S. Government (U.S. Treasury and Federal Agency) and/or possess overnight liquidity (Washington State LGIP, bank deposits, and repurchase agreements).
- The County’s Investment Pool balance (market value) as of June 30, 2016 was \$6.2 billion, a net increase of approximately \$462 million over the prior quarter end.
- Notable sector allocation shifts over the quarter included increases to Commercial Paper (4.61%), the Washington State LGIP (2.79%) and Federal Agencies (1.21%), and decreases to U.S. Treasuries (3.67%), Cash & Equivalents (2.20%) and Repurchase Agreements (2.04%).
 - The portfolio continued to increase allocations to corporate credit oriented investments. Corporate sectors now account for 21% of the overall portfolio totaling \$1.3 billion (up from 7% or \$445 million this time last year). These investments add value to the portfolio as their yields are higher relative to similar maturity government securities and all are investment grade.
- Over the past several quarters, the Pool has shifted its maturity strategy to reflect a more defensive stance. As of June 30, the duration of the County Investment Pool is 0.89 years, a modest decrease from a duration of 0.91 years on March 31st. Over the past several quarters, the Pool’s duration has gradually been shifted shorter, which reflects a more defensive posture, as noted above.
- In anticipation of the upcoming quarter, over the past four years, for the quarters ended September 30th, the average net **outflow** from the Pool was \$297 million.
- The County Pool appears to provide adequate liquidity, with 11% (or \$700 million) invested in a combination of the State LGIP, bank deposits, and repurchase agreements (overnight) and an additional 63% (or \$3.9 billion) of the portfolio’s holdings scheduled to mature within the next 12 months.

Investment Pool Portfolio Review

Portfolio Review

I. Investment Policy Compliance

II. Sector Allocation

- **U.S. Treasuries**
- **Federal Agencies**
- **Commercial Paper**
- **Corporate Bank Notes**
- **LGIP and Cash Equivalents**

III. Issuer Concentration

IV. Overall Credit Quality

V. Maturity and Duration Distribution

I. Investment Policy Compliance – Investment Policy Summary

- The Investment Policy summary is based on the current Investment Policy for the County Investment Pool, dated September 23, 2015.

Type	Maximum Portfolio Allocation	Issuer Restrictions	Credit Ratings	Maturity Restrictions
U.S. Treasuries	100%	None	N/A	Up to 5 years
U.S. Agencies	100%	35% exposure to any single Agency	Senior debt obligations issued by any government sponsored enterprise, agency or instrumentality of the United States.	Up to 5 years
Repurchase Agreement	100%	100% for repurchase agreements with the Federal Reserve Bank of New York 25% maximum exposure to any one repo counterparty. For the purposes of aggregating issuers across sectors, overnight repo counterparties are not included.	The counterparty must have: 1. A rating in the highest short-term credit rating category by at least one Nationally Recognized Statistical Rating Organization (NRSRO); and 2. A minimum asset and capital size of \$5 billion in assets and \$175 million in capital	60 days or less
Reverse Repurchase Agreement	20%	5% per investment dealer	1. rated in the highest short-term credit rating category by at least one NRSRO; and 2. a minimum asset and capital size of \$5 billion in assets and \$175 million in capital	6 months or less
Local Government Investment Pool ("LGIP")	25%	State of Washington LGIP	N/A	N/A
Bankers' Acceptances	25% When combined with Term Repos (greater than overnight), Certificates of Deposit, Commercial Paper and Bank Notes not to exceed 50% of the Pool assets.	Must be issued by a bank organized and operating in the U.S. Maximum 5% per issuer applied across investment types.	Rated in the highest short-term credit rating category by at least two NRSROs.	Up to 180 days

I. Investment Policy Compliance – Investment Policy Summary (cont'd)

Type	Maximum Portfolio Allocation	Issuer Restrictions	Credit Ratings	Maturity Restrictions
Certificates of Deposit	25% When combined with Banker's Acceptance, Term Repos (greater than overnight), Commercial Paper and Bank Notes not to exceed 50% of the Pool assets.	Must be a public depository in the State of Washington. Maximum 5% per issuer applied across investment types.	See RCW 39.58 of the state Code. If not 100% collateralized, must be rated in the highest short-term rating category by at least one NRSRO. Those institutions not meeting the 100% collateralization or minimum credit requirements may receive deposits up to the FDIC or federally guaranteed amounts.	Up to 1 year
Commercial Paper	25% When combined with Banker's Acceptance, Certificates of Deposit, Term Repos (greater than overnight) and Bank Notes not to exceed 50% of the Pool assets.	Secondary market purchases only. Must be issued by a bank or corporation organized and operating in the U.S. Maximum 5% per issuer applied across investment types.	Purchases with greater than 100 days maturity must have an issuer long-term rating in one of the three highest credit rating categories by one NRSRO. Rated in the highest short-term rating category by at least two NRSROs. If the commercial paper is rated by more than two NRSROs, it must have the highest rating from all of the organizations. State law requires that Commercial Paper be purchased only from dealers.	270 days
General Obligation Municipal Bonds	20%	5% of portfolio: bond issues by pool participants must be purchased on the secondary market only	Rated in at least the highest three long-term rating categories by at least one NRSRO.	5 years
Mortgage-Backed Securities	25%	Must be issued by Federal Agencies of the United States. Investments in MBS will count toward the total that can be invested in any one agency as described in U.S. Agencies above. Full faith and credit MBS are limited to 25%.	Senior debt obligations issued by any government sponsored enterprise, agency or instrumentality of the United States. The securities must pass the Federal Financial Institutions Examination Council ("FFIEC") suitability test, which banks use to determine lowest risk securities.	5 year average life at time of purchase

I. Investment Policy Compliance – Investment Policy Summary (cont'd)

Type	Maximum Portfolio Allocation	Issuer Restrictions	Credit Ratings	Maturity Restrictions
Bank Notes	20% When combined with Banker's Acceptance, Certificates of Deposit, Commercial Paper and Term Repos (greater than overnight) not to exceed 50% of the Pool assets.	Must be issued by a bank organized and operating in the U.S. Maximum 5% per issuer applied across investment types.	Rated in at least the highest three long-term rating categories by at least two NRSROs.	5 years

Additional Notes to the Investment Policy

- The Pool will maintain an effective duration of 1.5 years or less.
- The Pool will maintain at least 40% of its total value in securities having a remaining maturity of 12 months or less.
- Floating rate and variable rate securities are permitted subject to the following criteria:
 - 1) The rate on the FRN/VRN resets no less frequently than quarterly; and
 - 2) The FRN/VRN is indexed to a money market rate.

I. Investment Policy Compliance – County Investment Pool

Topic	Observations
Sector Allocation	<ul style="list-style-type: none"> All sector allocations fall within the limits set forth by the County's Investment Policy Statement. The Pool is predominantly invested in U.S. government securities which are either explicitly guaranteed or carry a high level of support by the U.S. government. The County's Investment Pool balance (market value) as of June 30, 2016 was \$6.2 billion and experienced a net increase of approximately \$462 million over the quarter. Over the quarter, sectors that experienced allocation percentage increases included: Commercial Paper (4.61%), the Washington State LGIP (2.79%) and Federal Agencies (1.21%). Sectors that experienced decreases in quarter-over-quarter allocation percentage changes included: U.S. Treasuries (3.67%), Cash & Equivalents (2.20%), Repurchase Agreements (2.04%), Corporate Bank Notes (0.70%) and Agency Mortgages (0.01%). The County continues to maintain a small allocation to agency mortgage backed securities, but has not purchased new agency MBS in several quarters.
Credit Quality	<ul style="list-style-type: none"> Securities held by the County are of very high quality and are within the limits set forth in the County Investment Policy. Approximately 67% of the County pool's assets are guaranteed or supported by the U.S. government. Further, approximately 9% is invested in the State LGIP, where 66% of the LGIP is invested directly in U.S. Treasuries or Federal Agencies. Additionally, considering the County pool's holdings of repurchase agreements and bank accounts collateralized by government securities**, the overall government-related credit quality exceeds 78%. Corporate allocations (both commercial paper and corporate bank notes) were slightly increased over the quarter to 21% of the portfolio, up from 8% this time last year; all securities are investment grade.
Maturity Distribution	<ul style="list-style-type: none"> All maturities fall within the maturity limits set forth in the County's Investment Policy. Approximately 63% of the Pool's assets mature in one year or less and approximately 31% of the portfolio is scheduled to mature within the next quarter.

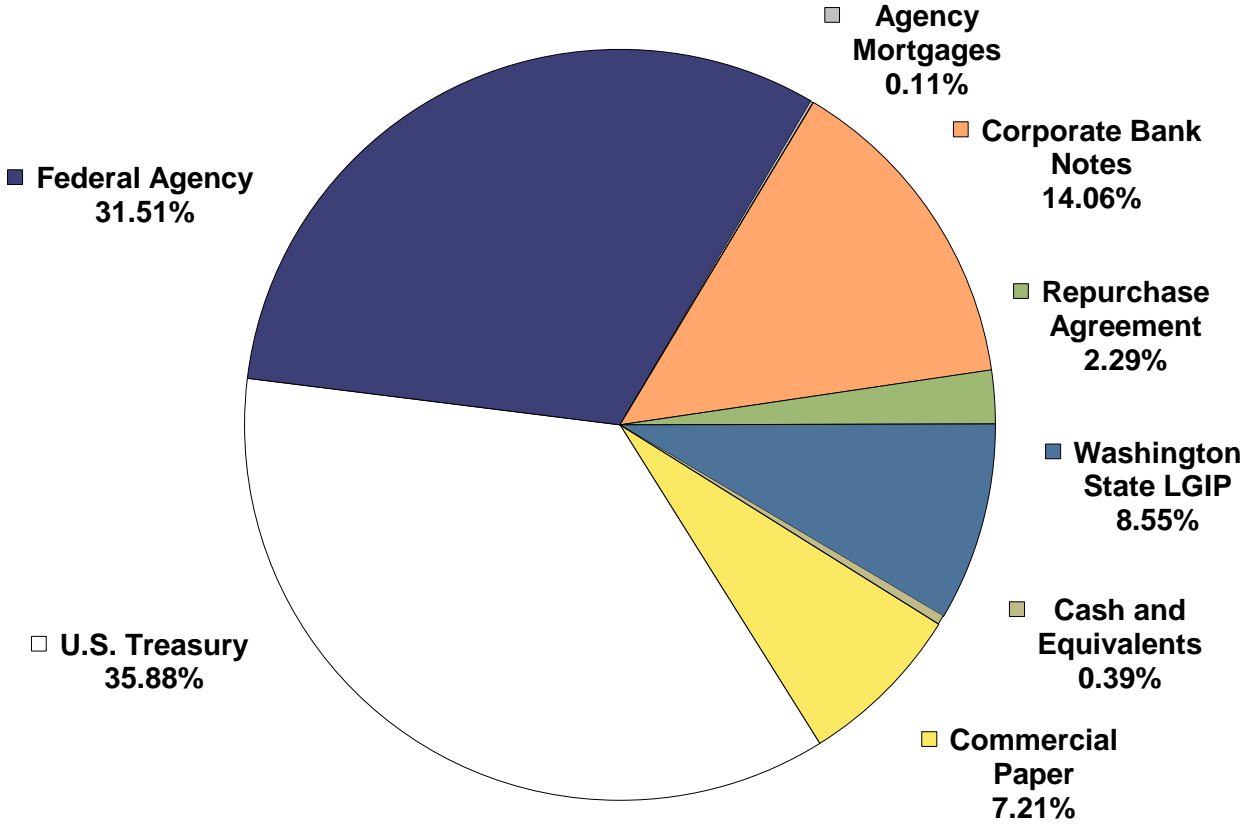
Security Type	Market Value(\$)	Allocation Percentage	Within Policy Limits	Max Maturity Held	Within Policy Limits
U.S. Treasury	2,236,830,800	35.88%	✓	3.92 years	✓
Federal Agency (non-MBS)	1,964,452,756	31.51%	✓	2.66 years	✓
Corporate Bank Notes	876,664,895	14.06%	✓	3.33 years	✓
Washington State LGIP	533,001,669	8.55%	✓	1 day	✓
Commercial Paper	449,308,542	7.21%	✓	207 days	✓
Repurchase Agreements	143,000,000	2.29%	✓	1 day	✓
Cash and Equivalents	24,140,791	0.39%	✓	1 day	✓
Agency Mortgages	6,691,036	0.11%	✓	3.37 years (WAL)	✓
Municipal Notes	0	0.00%	✓	n/a	✓
Certificates of Deposit	0	0.00%	✓	n/a	✓
TOTAL	\$6,234,090,489	100.00%			

*Percentages may not total to 100% due to rounding.

**Effective July 1, 2016, the Public Deposit Protection Commission collateralization requirement will be lowered from 100% to 50%.

II. Sector Allocation

Sector Diversification
as of June 30, 2016



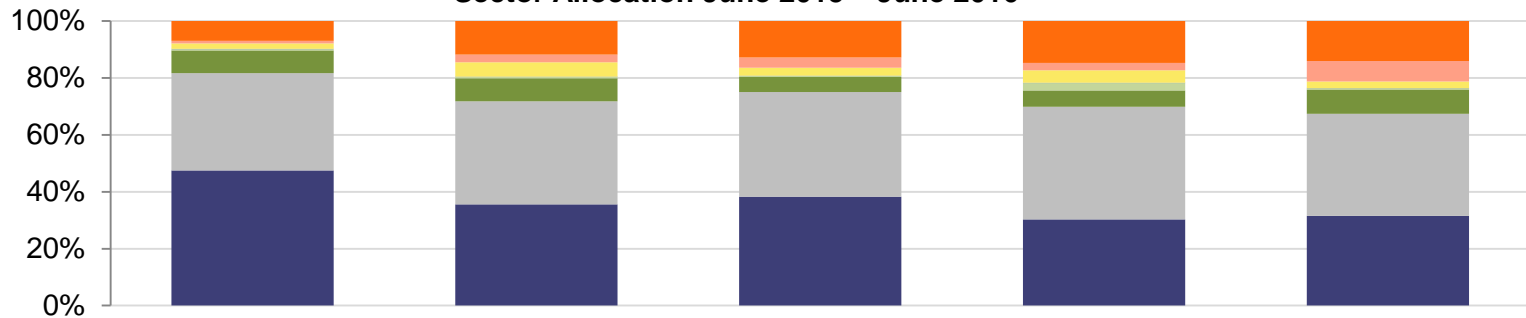
**Percentages may not total to 100% due to rounding.*

II. Changes in Portfolio Sector Allocation over Past 12 Months

Changes in Sector Allocation

- The County's investment pool increased percentage allocations to Commercial Paper (4.61%), the Washington State LGIP (2.79%), and Federal Agencies (1.21%), while decreases occurred in U.S. Treasuries (3.67%), Cash and Equivalents (2.20%), Repurchase Agreements (2.04%), Corporate Notes (0.70%), and Agency Mortgages (0.01%).
- **Federal Agencies** Federal agency allocations remained below U.S. Treasury allocations in the second quarter. Approximately \$425 million of agency holdings matured or were sold during the quarter and the proceeds were reinvested into additional Agency securities. The majority of current agency allocations are focused in the 6 to 9 month range.
- **U.S. Treasuries** U.S. Treasury allocations decreased by \$45 million over the quarter. Treasury purchases that were made during the quarter were targeted in the 1.5-year to 3-year maturity range.
- **Corporate Bank Notes** The portfolio maintained allocations to corporate bank notes over the quarter. This sector accounts for 14.1% of the overall portfolio totaling \$877 million (compared to 14.8%, or \$852 million, last quarter).
- **Commercial Paper** The portfolio currently owns four commercial paper issuers totaling \$449 million (or 7.2% of the total portfolio), representing an increase of \$299 million over the quarter.
- **Washington State LGIP** Balances invested in the State LGIP increased over the quarter by approximately \$200 million, and continued to serve as the Pool's primary liquidity vehicle. This sector accounts for 8.6% of the overall portfolio.
- **Repurchase Agreements and Bank Deposits** Allocations to repurchase agreements decreased by \$107 million over the quarter and accounted for 2.3% of the total portfolio. Bank deposits were decreased by approximately \$125 million over the quarter to \$24 million (or to 0.39% of the total portfolio).

Sector Allocation June 2015 – June 2016



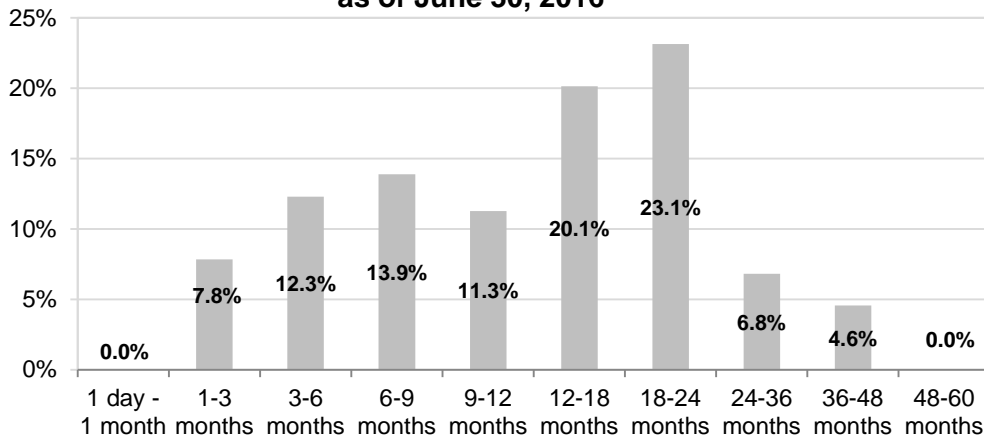
	June 30, 2015	September 30, 2015	December 31, 2015	March 31, 2016	June 30, 2016
Federal Agencies	47.45%	35.54%	38.30%	30.30%	31.51%
U.S. Treasury	34.17%	36.22%	36.70%	39.55%	35.88%
Washington State LGIP	8.08%	8.14%	5.36%	5.76%	8.55%
Cash and Equivalents	0.38%	0.40%	0.35%	2.58%	0.39%
Agency Mortgages	0.14%	0.13%	0.11%	0.12%	0.11%
Municipal Notes	0.00%	0.00%	0.00%	0.00%	0.00%
Repurchase Agreements	1.91%	5.08%	2.82%	4.33%	2.29%
Commercial Paper	0.88%	2.67%	3.58%	2.60%	7.21%
Corporate Bank Notes	6.99%	11.81%	12.78%	14.76%	14.06%

*Percentages may not total to 100% due to rounding.

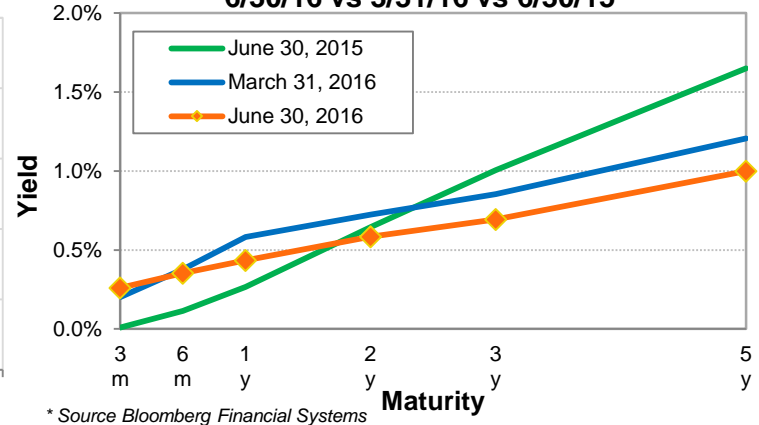
II. Sector Allocation – U.S. Treasury Securities

Topic	Observations
Observations	<ul style="list-style-type: none"> The County's balances held in U.S. Treasuries decreased by \$46.0 million over the quarter and now represent nearly 36% of the total portfolio (down 4% from previous quarter-end). <ul style="list-style-type: none"> Over the quarter, it appears the Pool targeted approximately \$202 million in new U.S. Treasury notes with maturities in the 1.5- to 2.0-years and 2.5- to 3.0-year maturity range. Treasury yields moved lower in the second quarter largely in response to a dismal May Employment Report and moved even lower after the Brexit vote shocked investors. As a result, investors sought safe haven Treasuries, pushing their yields lower across much of the curve. <ul style="list-style-type: none"> As shown in the chart on the right below, over the past 12 months, U.S. Treasury yields on maturities in the 3-month to 1.5-year area of the yield curve have increased. Most of this change is due to the Fed rate hike in December. However, with maturities in the 3-month to 1.5 year area remaining elevated and intermediate (up to seven years) and longer (over seven years) maturities falling substantially, the yield curve flattened significantly in the second quarter. The majority of the Pool's Treasury investments (\$1.2 billion, or 55% of all Treasury holdings) have remaining maturities of greater than one year and are positioned in the steeper portions of the U.S. Treasury yield curve. Allocations to Treasury holdings with maturities less than one year decreased a total of 1.0% over the quarter, as the County has increased allocations to modestly longer-term Treasuries. The County's weighted average maturity (WAM) of its Treasury allocation decreased over the quarter by 8 days, from 472 days on March 31st, to 464 days on June 30th. The chart below, on the left, illustrates the current maturity distribution of the County's allocations to U.S. Treasuries and the chart on the right illustrates the current shape of the US Treasury yield curve, compared to the yield curve three months ago and one year ago. <ul style="list-style-type: none"> Of the County's Treasury allocations, 45% is allocated to maturities less than 12 months (versus 44% last quarter). As liquidity permits and new investment opportunities become available, these short-term US Treasury holdings (less than 12 months) are ideal to trade for (1) longer-term Treasury or corporate bank note investments targeted to the steepest portions of the yield curve and/or (2) higher-yielding, similar-maturity investments in other sectors, such as federal agencies, commercial paper, or short-term corporate bank notes.

U.S. Treasury Maturity Distribution as of June 30, 2016



U.S. Treasury Yield Curve 6/30/16 vs 3/31/16 vs 6/30/15

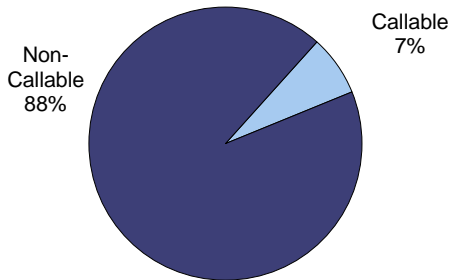


* Source Bloomberg Financial Systems

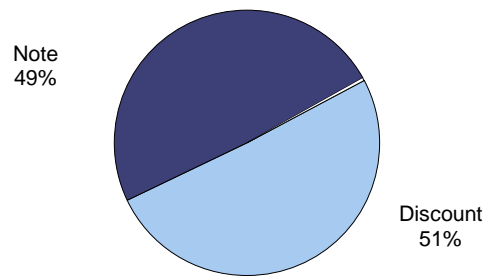
II. Sector Allocation – Federal Agencies

Topic	Observations			
Structure (as % of Federal Agency Allocations)	• Non-Callable	93%	• Discount Notes	51%
	• Callable	7%	• Coupon bearing Notes	49%
			• Agency Mortgage	<1%
Diversification (as % of Federal Agency Allocations)	• Freddie Mac (FHLMC)	19%	• Federal Farm Credit Bank (FFCB)	43%
	• Federal Home Loan Bank (FHLB)	17%	• Freddie Mac Mortgage-Backed (FHR)	0%
	• Fannie Mae (FNMA)	20%	• Fannie Mae Mortgage-Backed (FNR)	<1%
Conclusions	<ul style="list-style-type: none"> The County's Federal Agency allocation continues to be well diversified among the four major issuers and among security structures. All issuer allocations fall within the issuer guidelines set forth in the County's investment policy (max per agency issuer 35%). Federal Agency allocations increased by \$216 million over the quarter. The increase was due mainly to \$639 million in new Agency purchases, paired with \$425 million in maturities. From a security structure standpoint (the ratio of non-callable to callable securities), callable securities continued to increase over the quarter, as callable allocations increased to 7% of agency holdings, up from 5% last quarter. <ul style="list-style-type: none"> In the past quarter, a portion of the Pool's callable securities passed their call date. New Agency Note purchases during the quarter were both callable and non-callable. Despite the modest increase in callable agencies, the County's overall allocation to callable agencies remains near its lowest allocation since December 2010. The County Pool's only remaining allocation to agency mortgages is in Fannie Mae pools, totaling approximately \$7.0 million. 			

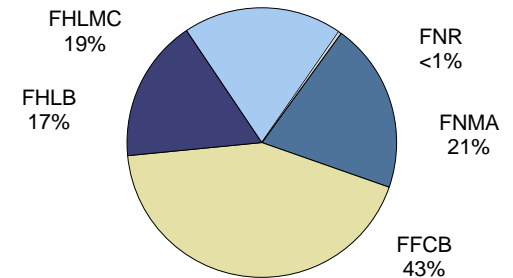
Callable vs. Non-Callable as of June 30, 2016



Structure Distribution as of June 30, 2016



Issuer Diversification as of June 30, 2016



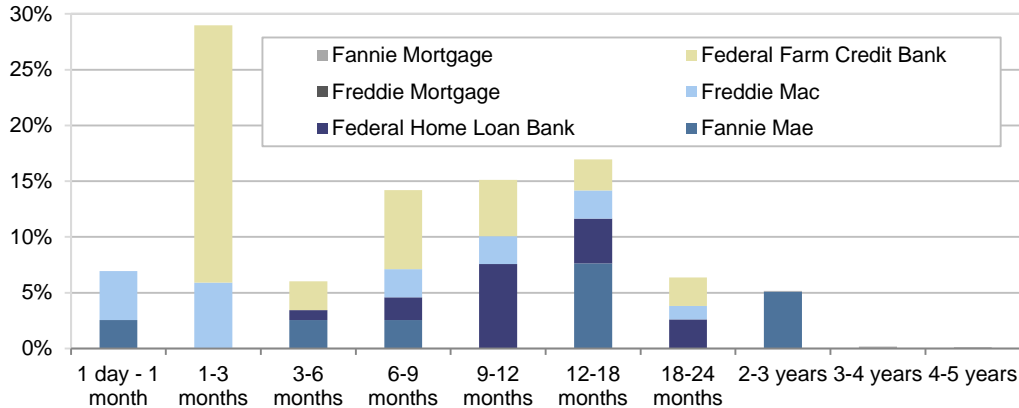
*All calculations above are based on total cash equivalents exposure, not overall Portfolio.

**Percentages may not total to 100% due to rounding.

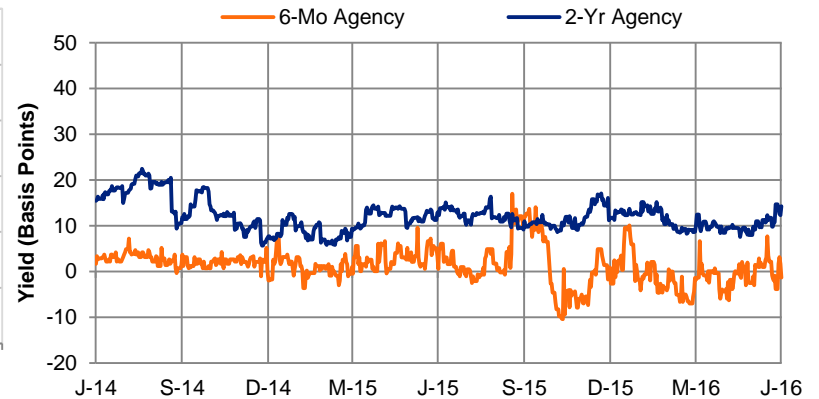
II. Sector Allocation – Federal Agencies

Topic	Observations
Maturity Distribution	<ul style="list-style-type: none"> The County's Federal Agency maturity distribution falls within the limits set forth by the Investment Policy Statement. Over the quarter, the County's weighted average maturity (WAM) of Federal Agency holdings increased by 30 days, from 244 days on March 31st to 274 days on June 30th. <ul style="list-style-type: none"> It appears that approximately \$425 million in agency securities were either called, sold, or matured during the quarter and the proceeds were reinvested in more Agency securities. As of June 30, 2016, 71% of agency allocations were invested in maturities less than 12 months and 42% in maturities less than 6 months. Comparatively, 45% of U.S. Treasury allocations were invested in maturities less than 12 months and 20% in maturities less than 6 months. Conversely, while 29% of agency allocations were invested beyond 1 year, 55% of Treasury allocations were invested beyond 1 year. This "short/long" relationship between Treasuries and agencies illustrates the cross-sector value along the yield curve. <ul style="list-style-type: none"> The overweight to shorter-term agencies can be attributed to the combination of: <ol style="list-style-type: none"> targeted purchase of additional short-term agencies when yield spreads between comparable agency and Treasury securities increased, as was the case in the beginning of the quarter and towards the end of the quarter (as depicted in the graph on the right), and relatively tight yield spreads between agency and Treasury securities of similar maturity beyond 2 years. That is, yields of 2-year agencies and Treasuries are relatively close, and in these instances, the U.S. Treasury security is typically preferred.

Federal Agency Maturity Distribution by Name as of June 30, 2016



6-Month and 2-Year Federal Agency Yield Spreads Past 24 Months



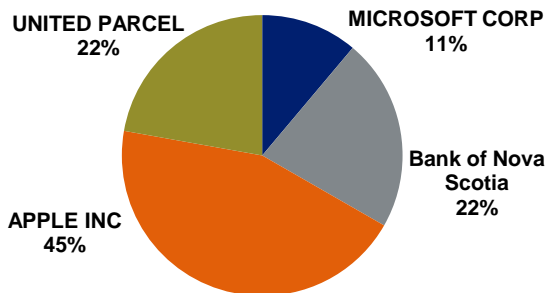
- Agency Mortgage maturities are calculated as average life. Average life data taken from Bloomberg Financial Markets
- Callable securities are shown to their next call date.
- All other Agency maturities are calculated as days to maturity.

* Source Bloomberg Financial Systems

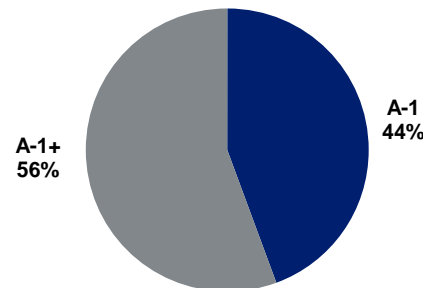
II. Sector Allocation – Commercial Paper

	Observations
Issuer Diversification	<ul style="list-style-type: none"> The County's allocations to commercial paper increased over the quarter, by approximately \$299 million, and now account for 7.2% of the total portfolio, up from 2.6% at the end of the first quarter. The portfolio now owns commercial paper of four issuers: Apple Inc., Bank of Nova Scotia, Microsoft, and United Parcel Service. \$150 million of maturities in previously held issuers over the quarter allowed for the entire \$150 million and an additional \$149 million to be reinvested into Bank of Nova Scotia, Microsoft, and other similarly rated issuers, Apple Inc. and United Parcel Service Inc. It appears the County continues to regularly reinvest the proceeds of commercial paper maturities into new commercial paper issues. <ul style="list-style-type: none"> “Rolling” short-term commercial paper is an attractive investment strategy relative to most other ultra short-term permitted investment options in the current fixed income market. All allocations fall within the permitted investment guidelines of 5% per issuer and 25% maximum to the sector.
Credit Distribution	<ul style="list-style-type: none"> Standard & Poor's rates the short-term credit of Apple Inc. and Microsoft as A-1+ and Bank of Nova Scotia and United Parcel Service as A-1. Moody's rates the short-term credit of all of the County's CP issuers as P-1.
Conclusions	<ul style="list-style-type: none"> Commercial paper provides the County an opportunity and an investment outlet to access non-bank, corporate debt (industrial, technology, etc.), as the county's IPS limits corporate note exposure to banks. High-quality commercial paper has offered a noticeable yield advantage relative to similar maturity Treasury and agency securities over the past several years. This yield advantage of commercial paper is even more pronounced at longer maturities. As a result, the County's portfolio may benefit from additional allocations to other high-quality commercial paper issuers. The commercial paper yield curve is steepest in maturities beyond three months (chart on far right).

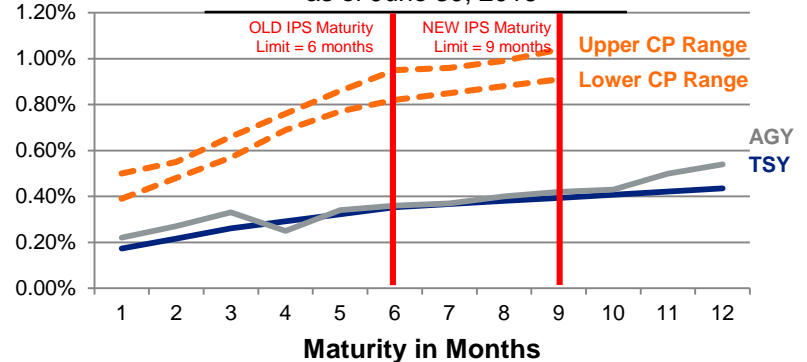
Issuer Distribution
as of June 30, 2016



Credit Distribution
as of June 30, 2016



Current Short-Term Yields
as of June 30, 2016



* Source Bloomberg Financial Systems

*All calculations above are based on total commercial paper exposure, not overall Portfolio.

**Percentages may not total to 100% due to rounding.

II. Sector Allocation – Corporate Bank Notes

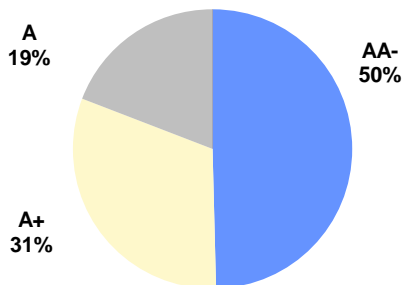
	Observations
Issuer Diversification	<ul style="list-style-type: none"> The County maintained allocations over the quarter to high-quality corporate bank notes. This sector accounts for 14.1% of the overall portfolio totaling \$877 million, an increase of \$25 million over the quarter. The portfolio's corporate bank note allocations include nine issuers (compared to ten issuers at the previous quarter-end), as seen in the table below, left. JP Morgan Chase holdings matured over the quarter and reinvestments were made in PNC Bank. Of the County's allocations to corporate bank notes, \$141 million (or 7% of corporate bank notes, down from 29% at previous quarter end) is allocated to callable structures; however, all of the callable corporate holdings have a "next call date" that is approximately one month before their respective final maturity. As a result, the callable structures of these investments will have minimal impact on maturity and duration management of the overall portfolio. When viewing the County's corporate bank note holdings to the next call date, the weighted average maturity of these investments is 1.4 years. Of the County's total allocation to this sector, 52% is allocated to maturities beyond 1 year. All allocations fall within the permitted investment guidelines of 5% per issuer (please refer to following pages) and 20% maximum to the sector.

Credit Distribution	Bank of America	Bank of Montreal	Bank of Nova Scotia	PNC Bank	Royal Bank of Canada	Toronto Dominion Bank	US Bank	Wells Fargo Bank	Canadian Imperial Bank
S&P Short	A-1	A-1	A-1	A-1	A-1+	A-1+	A-1+	A-1+	A-1
S&P Long	A+	A+	A+	A	AA-	AA-	AA-	AA-	A+
Moody's Short	P-1	P-1	P-1	P-1	P-1	P-1	P-1	P-1	P-1
Moody's Long	A1	Aa3	Aa3	Aa2	Aa3	Aa1	Aa1	Aa1	Aa3

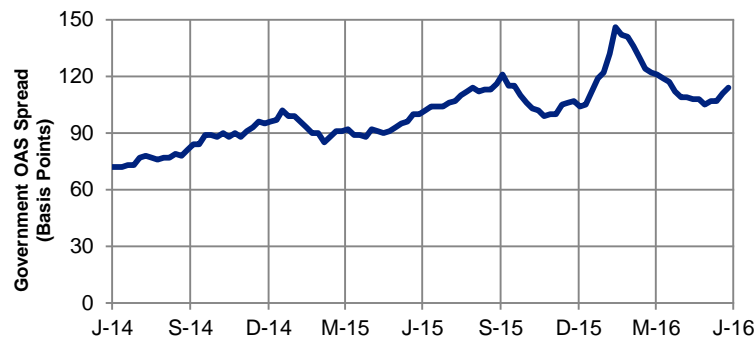
Issuer Distribution
as of June 30, 2016

Issuer	% of Corporates	% of Portfolio
PNC Bank	19%	2.7%
Royal Bank of Canada	18%	2.6%
Toronto Dominion	15%	2.0%
US Bank	14%	2.0%
Bank of America	14%	1.9%
Bank of Nova Scotia	11%	1.5%
Bank of Montreal	6%	0.8%
Wells Fargo	2%	0.3%
Canadian Imperial Bank	1%	0.2%

Credit Distribution (S&P)*
as of June 30, 2016



1-5 Year Financial Corporate/Treasury Yield Spreads
June 2014 through June 2016



* "Credit Distribution" calculations above are based on total Corporate Bank Note exposure, not overall Portfolio.

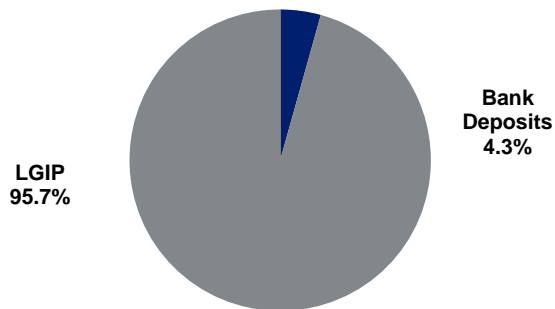
**Percentages may not total to 100% due to rounding.

* Source Bloomberg Financial Systems

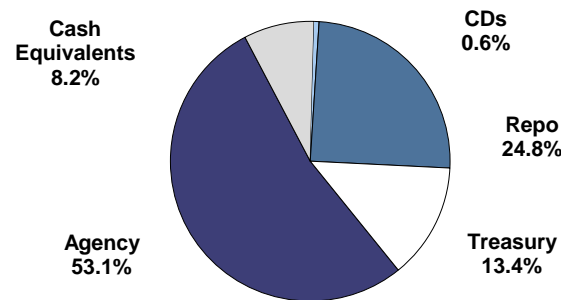
II. Sector Allocation – LGIPs and Cash Equivalents

	Underlying Investments	Rating (Short-Term: S&P/Moody's/Fitch)	Observations
Washington State LGIP	<ul style="list-style-type: none"> Federal Agencies 53.1% U.S. Treasuries 13.4% Cash Equivalents 8.2% Certificates of Deposit 0.6% Repurchase Agreements 24.8% <i>As of June 30, 2016</i>	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> The County currently has allocated \$533 million to the Washington State LGIP, which is an increase of approximately \$201 million over the previous quarter. The County's allocation to the State LGIP continues to serve as the primary overnight liquidity vehicle for the portfolio. The State LGIP increased federal agency discount notes approximately 27.9%, while most other sectors experienced modest decreases in percentage allocations over the quarter with Repurchase Agreements decreasing the most at a 18.1% decrease.
Cash Equivalents	<ul style="list-style-type: none"> State LGIP 95.7% U.S. Bank 3.0% Key Bank 1.0% Bank of America 0.3% 	<ul style="list-style-type: none"> <u>U.S. Bank:</u> A-1+/P-1/F1+ <u>Key Bank:</u> A-2/P-2/F-1 <u>Bank of America:</u> A-1/P-2/F-1 	<ul style="list-style-type: none"> The County's deposit accounts at U.S. Bank, Key Bank, and Bank of America are FDIC-insured up to FDIC limits, and are 100% collateralized by the Public Deposit Protection Commission. Effective July 1, 2016, the Public Deposit Protection Commission collateralization requirement will be lowered to 50%. The County decreased allocations to bank deposits by approximately \$125 million over the quarter to \$24.1 million. The U.S. Bank account now represents over 69% of the Pool's bank deposit allocations (Key Bank 23% and Bank of America 8%). Additionally, while the County pool is limited to CDs issued by banks in the State of Washington, there still may be an opportunity to add small allocations to CDs, as this sector continues to provide incremental yield advantages relative to many shorter-term investment options of similar maturity.

Cash Equivalents Distribution as of June 30, 2016



Washington State LGIP Sector Distribution as of June 30, 2016



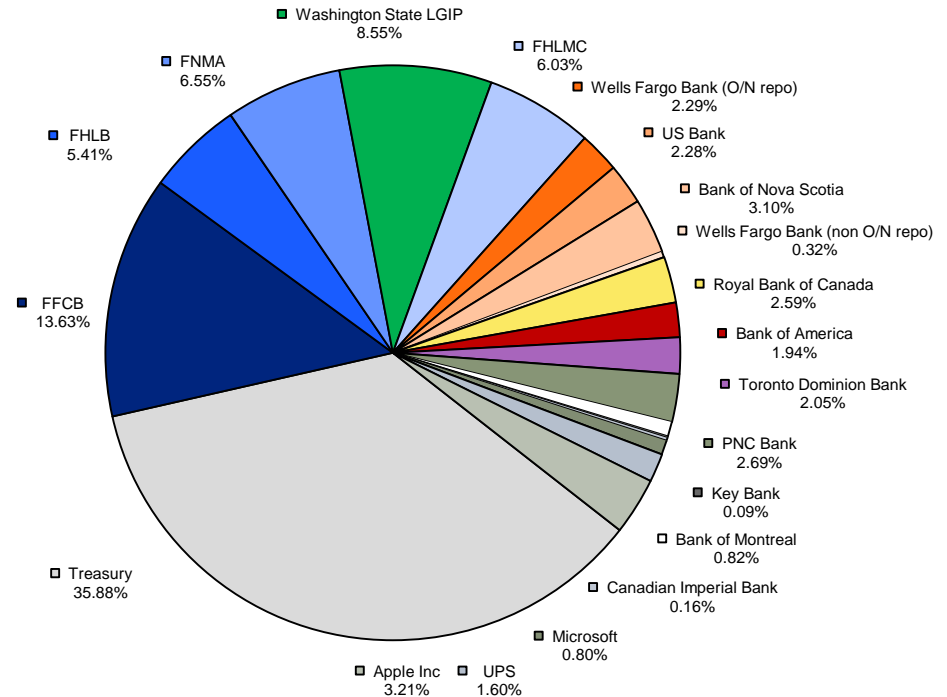
*All calculations above are based on total cash equivalents exposure, not overall Portfolio.
 **Percentages may not total to 100% due to rounding.

III. Issuer Concentration

Issuer Exposure

- The County continues to maintain a well-diversified portfolio by issuer, as is evidenced by the chart below.
- Approximately 68% of the portfolio is allocated directly to U.S. government guaranteed or government supported entities.
- Of the remaining 32% of the portfolio, 15% is allocated to ultra short-term or overnight investment vehicles, including the State LGIP, repurchase agreements, and bank deposits. The remaining 17% is allocated to credit issuers, including commercial paper and corporate bank notes.
- When including the Pool's indirect exposure to issuers through its holdings in the Washington State LGIP, the Pool's allocation to securities issued by U.S. government or government supported entities would increase to 79%.
- The County added two new commercial paper issuers to the portfolio over the quarter, UPS and Apple Inc., with 1.6% and 3.2% of total pool assets, respectively.
- Each of the corporate issuers in the portfolio (including the County's bank deposits) falls within the 5% corporate issuer limit when aggregated among all sectors, as shown in the charts below.

Issuer Distribution	Value	Percentage	Issuer Limit
Treasury	2,236,830,800	35.88%	100%
FFCB	849,458,772	13.63%	35%
Washington State LGIP	533,001,669	8.55%	25%
FNMA	408,167,536	6.55%	35%
FHLMC	376,156,102	6.03%	35%
FHLB	337,361,382	5.41%	35%
Apple Inc	199,972,667	3.21%	5%
Bank of Nova Scotia	193,384,702	3.10%	5%
PNC Bank	167,806,139	2.69%	5%
Royal Bank of Canada	161,727,608	2.59%	5%
Wells Fargo Bank (O/N repo)	143,000,000	2.29%	25%
US Bank	141,857,477	2.28%	5%
Toronto Dominion Bank	127,652,562	2.05%	5%
Bank of America	120,837,853	1.94%	5%
UPS	99,732,250	1.60%	5%
Bank of Montreal	51,342,879	0.82%	5%
Microsoft	49,969,250	0.80%	5%
Wells Fargo Bank (non O/N repo)	20,170,200	0.32%	5%
Canadian Imperial Bank	10,002,600	0.16%	5%
Key Bank	5,658,041	0.09%	5%
Total	\$6,234,090,489	100.00%	



*Percentages may not add to 100% due to rounding.

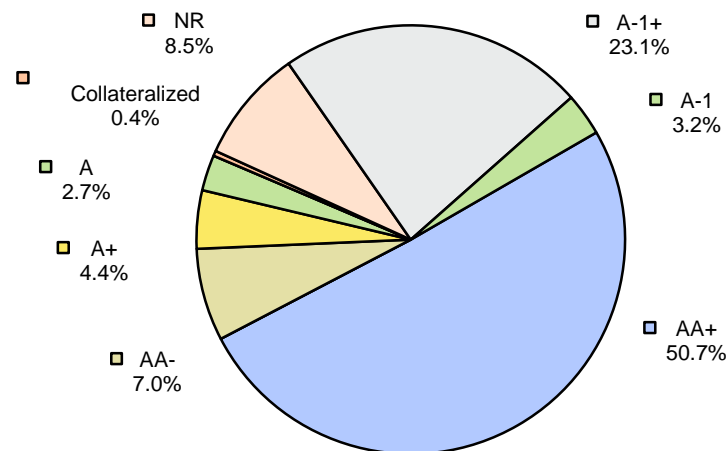
* For the purposes of totaling issuer concentration, issuers are aggregated across all sector types. It is noted however that issuers across sector types may maintain separately rated issuer credits.

IV. Overall Credit Quality

County Investment Pool Credit Analysis

- The County Pool's overall average credit rating remains very strong and is primarily concentrated in U.S. government guaranteed and/or supported securities which maintain a long-term credit rating of AA+ by Standard & Poor's and federal agency discount notes, which maintain a short-term credit rating of A-1+ by S&P.
- The County added to its commercial paper exposure with the addition of Apple Inc. to its list of issuers (\$200 million or 3.21% of the total portfolio), rated A-1+ by S&P and Aa1 by Moody's and United Parcel Service Inc. (\$100 million or 1.60%), rated A+ by S&P and Aa3 by Moody's.
- Allocations were maintained to bank notes for Bank of America, U.S. Bank, Wells Fargo, PNC Bank, Royal Bank of Canada, Toronto Dominion Bank, Bank of Nova Scotia, Canadian Imperial bank, and Bank of Montreal and commercial paper allocations were maintained for Bank of Nova Scotia and Microsoft.
 - Corporate bank note allocations held throughout the quarter have ratings of A/A1 or higher.
 - Commercial paper allocations that were maintained are all rated A-1/P-1 or higher.
- The County has modest additional corporate exposure through its 0.4% allocation to bank deposits.
 - These deposits are 100% collateralized by U.S. Treasury and Federal Agency securities, as the County's deposits are covered by the Public Deposit Protection Commission. Effective July 1, 2016, the Public Deposit Protection Commission collateralization requirement will be lowered to 50%.
- The 8.5% NR allocation represents the County's investment in the Washington State LGIP, which is not currently rated by any ratings agency.
- The County's investment in the Washington LGIP includes indirect corporate exposure:
 - Through the LGIP, 2.2% of the County's Pool is allocated indirectly to corporate securities (repurchase agreements and certificates of deposit).
 - The collateralization of the securities held by the LGIP minimizes any credit risk.
- PFM has no concerns regarding the Pool's current credit distribution.

Credit Distribution* as of June 30, 2016



Issuer Ratings Table (Corp/CP) as of June 30, 2016

Issuer Distribution	Sectors Invested	S&P Short	S&P Long	Moody's Short	Moody's Long
Bank of America	Corp	A-1	A+	P-1	A1
Bank of Montreal	Corp	A-1	A+	P-1	Aa3
Bank of Nova Scotia	Corp/CP	A-1	A+	P-1	Aa3
PNC Bank	Corp	A-1	A	P-1	Aa2
Royal Bank of Canada	Corp	A-1+	AA-	P-1	Aa3
Toronto Dominion Bank	Corp	A-1+	AA-	P-1	Aa1
US Bank	Corp	A-1+	AA-	P-1	Aa1
Wells Fargo Bank	Corp	A-1+	AA-	P-1	Aa1
Microsoft	CP	A-1+	AAA	P-1	Aaa
Canadian Imperial Bank	Corp	A-1	A+	P-1	Aa3
Apple Inc.	CP	A-1+	AA+	P-1	Aa1
United Parcel Service Inc.	CP	A-1	A+	P-1	Aa3

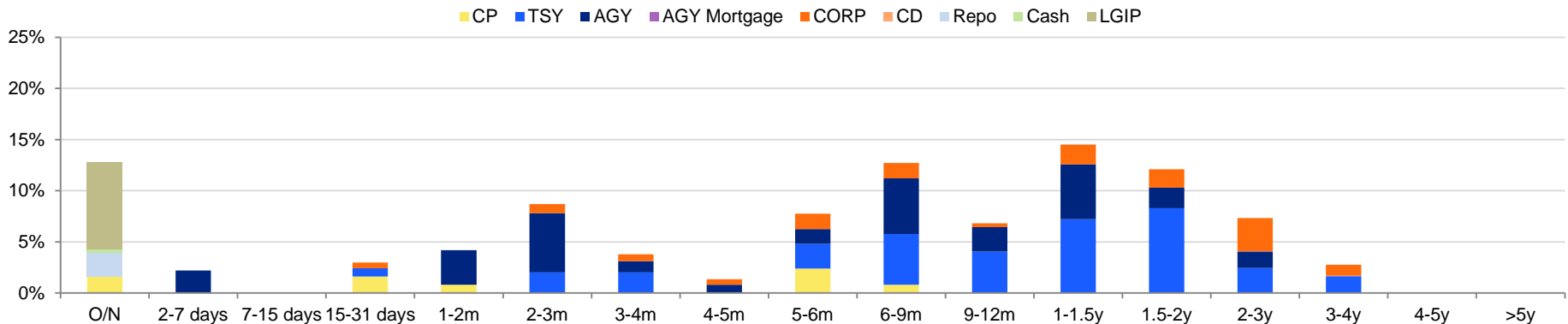
*Ratings by S&P; percentages may not add to 100% due to rounding.

**Bank ratings of the depositories for the collateralized securities are given on page 14.

V. Maturity Distribution

Maturity Distribution	Observations
Weighted Average Maturity (“WAM”)	<ul style="list-style-type: none"> The County continues to diversify holdings across its permitted maturity range, as seen in the chart below. A majority of the holdings – 63% of the portfolio – are scheduled to mature or have a call date within the next twelve months. This percentage is in line with the previous quarter-end. It appears the County’s maturity strategies over the past several quarters have included: <ul style="list-style-type: none"> Allowing previously purchased, longer-dated U.S. Treasury, federal agency, and corporate bank note investments to naturally shorten in maturity and roll-down the yield curve, Reallocate a portion of overnight investments into higher-yielding, short-term investment vehicles, including: commercial paper, corporate bank notes, and agency discount notes, Target duration extensions in the following spaces: <ul style="list-style-type: none"> U.S. Treasuries in the 18-month to 2-year range and the 2.5-year to 3-year range. Over the quarter, the WAM of the portfolio shortened to 330 days from 336 days at previous quarter-end. <ul style="list-style-type: none"> The decline in portfolio WAM can primarily be attributed to holding the majority of previously purchased longer-term securities and allowing them to naturally shorten in maturity and targeting shorter term U.S. Treasury reinvestments.
Liquidity	<ul style="list-style-type: none"> The County Pool appears to provide adequate liquidity, both in terms of final maturities and the sectors in which the Pool has invested. In addition to the 11.2% (or \$700 million) invested in a combination of the Washington State LGIP, bank deposits, and repurchase agreements (overnight liquidity), an additional 5.2% of the portfolio’s holdings are scheduled to mature within the next thirty-one days. Based on historical cash flow patterns, the Pool would expect a decrease in funds during the third quarter. On average, over the past four years, the County has experienced an average net cash outflow of \$297 million in quarters ended September 30th.

Maturity Distribution as of June 30, 2016

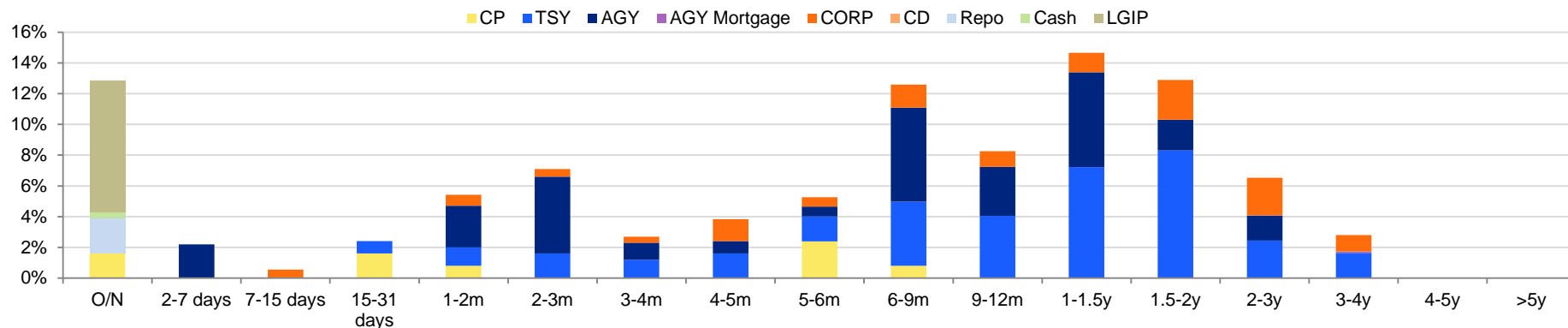


- Agency Mortgage maturities are calculated as average life. Average life data taken from Bloomberg Financial Markets
- Callable securities shown to their call date.
- All other security maturities are calculated as days to maturity. WA LGIP is considered to have a one day maturity.

V. Duration Distribution

Duration Distribution	Observations
Definition	<ul style="list-style-type: none"> Duration is a measure of the sensitivity of the value of principal of an investment to a change in interest rates. For example, the value of a portfolio with a higher duration is more sensitive to interest rate increases and decreases. Duration is often quoted in years and is commonly used as a measure of the market risk of a security or portfolio. Duration can be derived in a number of ways; please refer to the notes at the bottom of this page for details.
Duration	<ul style="list-style-type: none"> The portfolio's weighted average duration is within the IPS guidelines (no greater than 1.5 years). As of June 30th, the duration of the County Investment Pool was 0.89 years, a modest decrease from a duration of 0.91 years on March 31st. Over the past four quarters, the Pool's duration has gradually been shifted shorter (2Q15 1.07 years, 3Q15 0.98 years, 4Q15 0.93 years, 1Q16 0.91 years, 2Q16 0.89 years), which appears to reflect a defensive posture with awareness of the general outlook for gradual increases in interest rates. <ul style="list-style-type: none"> The decrease in portfolio duration can also be attributed to a natural shortening of a majority of previously purchased securities. When comparing the weighted average duration of the aggregate portfolio to the WAM of the portfolio, it is observed that the duration (0.89 years) and the WAM (0.90 years) are virtually the same. This difference in duration and WAM has narrowed to near zero over the past several quarters (largely due to declining overall allocations to callable agencies). Dating back 24 months, the spread between the portfolio's duration and WAM has decreased consistently from 0.27 years on March 31, 2014. For performance and duration comparison purposes, the portfolio is measured against a blended benchmark consisting of 40% Bank of America Merrill Lynch 3-Month Treasury Index and 60% Bank of America Merrill Lynch 1-3 Year Treasury & Agency Index. <ul style="list-style-type: none"> Over the past several quarters, the County portfolio has shifted to a more defensive bias and as of June 30th was 75% of the benchmark. In anticipation of rising rates, a more defensive duration bias helps mitigate the adverse impact that potential interest rate increases may have on market value.

Duration Distribution as of June 30, 2016



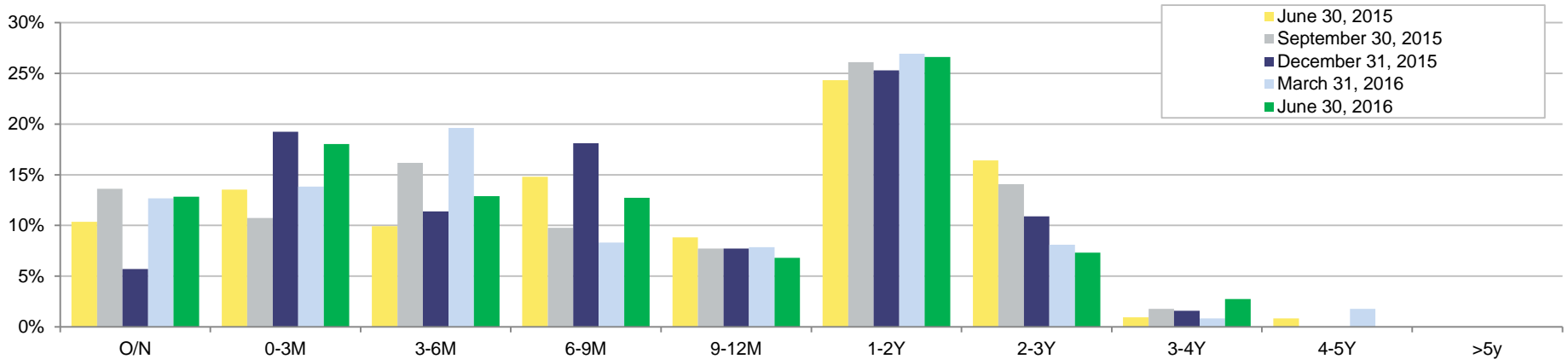
- Agency Mortgage durations are shown as effective duration taken from Bloomberg Financial Markets.
- Duration for Federal Agency Discount Notes and Repurchase Agreements are calculated as days to maturity. WA LGIP and bank deposits considered to have a one day duration.
- All other security durations are calculated as effective duration as given by Bloomberg Financial Markets.

V. Changes in Portfolio Maturity Distribution

Changes in Portfolio Maturity Distribution

- When viewing the current maturity distribution (dark green bars) in relation to previous periods, a few primary observations are noted:
 - Approximately 12 months ago, the County targeted tactical allocations to the very steep “2-3 Year” maturity range (16% of the portfolio as of 2Q15 versus 7% as of 2Q16), and over the past few quarters those securities have been held, rolling down the yield curve, and naturally shortening in duration to the “1-2 Year” maturity range.
 - The County’s previous tactical allocations to the “3-4 Year” and “4-5 Year” maturity range benefited the portfolio. Over the 12-month period ending March 30, 2016, 1-5 Year Treasuries outperformed 1-3 Year Treasuries by approximately 112 basis points.
 - With expectations for potential interest rate hikes, the portfolio appeared to be positioned with less emphasis on securities in longer durations to help protect market values against a rising interest rate environment.
 - As of June 30, 2016, 18% and 27% of the portfolio is positioned in the 0 to 3 month and 1 to 2 year area of the curve, representing a balance of defensive duration posture and steep yield curve positioning (maturities beyond 1 year).
 - The increase in allocations in the 0 to 3 month and 1 to 2 year maturity ranges, appear to be a result of continued purchases of new credit issues including high-quality commercial paper and increasing allocations to U.S. Treasuries.
 - As noted above, overnight allocations appear to have increased over the quarter, however, they are generally in-line with prior quarters. Removing excess liquidity from overnight investment vehicles and aligning short-term maturities to future cash flow dates helps to maximize interest earnings in the current low, short-term interest rate environment and provides for opportunity to reinvest at potentially higher yields, as rates continue to rise.
- Seasonality of cash flows is critical to maturity distribution and liquidity management and the following is a snapshot of the historical cash flow averages for upcoming quarters.
 - Over the past seven years, for the quarters ending September 30, the average net **outflow** to the Investment Pool was \$253 million.
 - Over the past seven years, for the quarters ending December 31, the average net **inflow** to the Investment Pool was \$339 million.

Maturity Distribution June 30, 2015 to June 30, 2016



- Agency Mortgage maturities are calculated as average life. Average life data taken from Bloomberg Financial Markets
- Callable securities shown to their call date.
- All other security maturities are calculated as days to maturity. WA LGIP is considered to have a one day maturity.

Disclaimer

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