

# King County Investment Pool

## Portfolio Review

Quarter Ended  
March 31, 2022  
717.232.2723

**pfmam.com**

*PFM Asset Management LLC*

*NOT FDIC INSURED : NO BANK GUARANTEE : MAY LOSE VALUE*

# Executive Summary

<b>Purpose, Scope and Approach</b>	<ul style="list-style-type: none"><li>• PFM Asset Management LLC (“PFM”) prepared this report to update our ongoing analysis and to address any Investment Pool developments since our December 2021 review. Our approach included a detailed portfolio analysis and Investment Policy review, based on the County’s Investment Policy, dated July 26, 2017.</li><li>• Our analysis was based on the Investment Pool’s holdings as of March 31, 2022, with reference to holdings in past periods.</li><li>• The review encompasses all current investments in the County’s Investment Pool.</li></ul>
<b>Investment Program and Portfolio Review</b>	<ul style="list-style-type: none"><li>• PFM reviewed the County’s portfolio with respect to Investment Policy Compliance, Sector Allocation, Issuer Concentration, Credit Quality, Maturity Distribution, and Duration Distribution.</li><li>• 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.</li></ul>
<b>Market Recap</b>	<ul style="list-style-type: none"><li>• U.S. economic conditions are characterized by:<ul style="list-style-type: none"><li>• A strong labor market</li><li>• Inflation at a 40-year high</li><li>• Depressed consumer confidence</li></ul></li><li>• The Federal Reserve is tightening monetary policy<ul style="list-style-type: none"><li>• Initiated the first of what will be many rate hikes in 2022</li><li>• Balance sheet reduction likely to start soon</li></ul></li><li>• U.S. Treasury yield curve has partially inverted<ul style="list-style-type: none"><li>• Yield on 2-year Treasury notes rose above the 10-year Treasury</li><li>• One early, but imperfect warning sign for a future recession</li></ul></li><li>• Invasion of Ukraine impacted the economic landscape<ul style="list-style-type: none"><li>• Commodity prices soared, especially energy</li><li>• Created significant geopolitical uncertainty</li><li>• Triggered market volatility</li></ul></li></ul>
<b>Observations</b>	<ul style="list-style-type: none"><li>• The portfolio is of very high credit quality. The majority of securities (84%) are explicitly guaranteed or carry a high level of support by the U.S. Government (U.S. Treasury, federal agency and U.S. instrumentalities) and/or possess overnight liquidity (Washington State LGIP, bank deposits, and repurchase agreements).</li><li>• The County maintained broad issuer diversification during the quarter.</li><li>• The Portfolio’s duration over the quarter was 91% of the benchmark’s duration.</li><li>• The County Pool appears to provide adequate liquidity, with 12% (or \$972.4 million) invested in a combination of the State LGIP, bank deposits, and repurchase agreements (overnight) and 28% of the portfolio invested in U.S. Treasuries.</li></ul>



# Portfolio Review

## **I. Investment Policy Summary**

## **II. Sector Allocation**

- U.S. Treasuries
- Federal Agencies
- Supranational Agencies
- Commercial Paper
- Corporate Notes
- Repurchase Agreements
- LGIP and Cash Equivalents

## **III. Issuer Concentration**

## **IV. Overall Credit Quality**

## **V. Maturity and Duration Distribution**



# Investment Policy Summary

- ▶ The Investment Policy summary is based on the current Investment Policy for the County Investment Pool, dated July 26, 2017.

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 Agreements – Top Tier Rating (A-1 or P1)	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) or possess a guarantee by an entity with such a rating; and 2. A minimum asset and capital size of \$5 billion in assets and \$175 million in capital	60 days or less
Repurchase Agreements – Second Tier Rating (A-2 or P-2)	10%	5% maximum exposure to any one repo counterparty. For the purposes of aggregating issuers across sectors, overnight repo counterparties shall NOT be included.	1. A rating in the second highest short-term credit rating category by at least one Nationally Recognized Statistical Rating Organization (NRSRO) or possesses a guarantee by an entity with such a rating; and 2. A minimum asset and capital size of \$5 billion in assets and \$175 million in capital	Overnight only
Reverse Repurchase Agreement	20%	5% per investment dealer	1. Rated in the highest short-term credit rating category by at least one NRSRO or possesses a guarantee by an entity with such a rating; 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

# Investment Policy Summary (cont'd)

Type	Maximum Portfolio Allocation	Issuer Restrictions	Credit Ratings	Maturity Restrictions
<b>Bankers' Acceptances</b>	<p>25%</p> <p>When combined with Term Repos (greater than overnight), Certificates of Deposit, Commercial Paper and Corporate Notes not to exceed 50% of the Pool assets.</p>	<p>Must be issued by a bank organized and operating in the U.S.</p> <p>Maximum 5% per issuer applied across investment types.</p>	<p>Rated in the highest short-term credit rating category by at least two NRSROs.</p>	<p>Up to 180 days</p>
<b>Certificates of Deposit</b>	<p>25%</p> <p>When combined with Banker's Acceptance, Term Repos (greater than overnight), Commercial Paper and Corporate Notes not to exceed 50% of the Pool assets.</p>	<p>Must be a public depository in the State of Washington.</p> <p>Maximum 5% per issuer applied across investment types.</p>	<p>See RCW 39.58 of the state Code.</p> <p>If not 100% collateralized, must be rated in the highest short-term rating category by at least one NRSRO.</p> <p>Those institutions not meeting the 100% collateralization or minimum credit requirements may receive deposits up to the FDIC or federally guaranteed amounts.</p>	<p>Up to 1 year</p>
<b>Commercial Paper</b>	<p>25% of total market value when combined with Corporate Notes.</p> <p>When combined with Banker's Acceptance, Certificates of Deposit, Term Repos (greater than overnight) and Corporate Notes not to exceed 50% of the Pool assets.</p>	<p>Secondary market purchases only.</p> <p>Must be issued by a bank or corporation organized and operating in the U.S.</p> <p>Maximum 3% per issuer in combined categories of commercial paper and corporate notes.</p> <p>Maximum 5% per issuer applied across investment types.</p>	<p>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 major NRSRO.</p> <p>Rated in the highest short-term rating category by at least two major NRSROs. If the commercial paper is rated by more than two major NRSROs, it must have the highest rating from all of the organizations.</p> <p>State law requires that Commercial Paper be purchased only from dealers.</p>	<p>270 days</p>
<b>General Obligation Municipal Bonds</b>	<p>20%</p>	<p>5% of portfolio: bond issues by pool participants must be purchased on the secondary market only</p>	<p>Rated in at least the highest three long-term rating categories by at least one NRSRO.</p>	<p>5 years</p>

# Investment Policy Summary (cont'd)

Type	Maximum Portfolio Allocation	Issuer Restrictions	Credit Ratings	Maturity Restrictions
<b>Mortgage-Backed Securities</b>	25%	<p>Must be issued by Federal Agencies of the United States.</p> <p>Investments in MBS will count toward the total that can be invested in any one agency as described in U.S. Agencies above.</p> <p>Full faith and credit MBS are limited to 25%.</p>	<p>Senior debt obligations issued by any government sponsored enterprise, agency or instrumentality of the United States.</p> <p>The securities must pass the Federal Financial Institutions Examination Council ("FFIEC") suitability test, which banks use to determine lowest risk securities.</p>	5 year average life at time of purchase
<b>Corporate Notes</b>	<p>25% of total market value when combined with commercial paper</p> <p>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.</p>	<p>3% per issuer rated AA or better.</p> <p>2% per issuer rated in broad single A category.</p> <p>Split ratings will take most conservative rating.</p> <p>Maximum 3% per issuer in combined categories of commercial paper and corporate notes.</p> <p>Maximum 5% per issuer applied across investment types.</p>	<p>Must be rated at least in the broad single A category or better.</p> <p>Broad single A category with a negative outlook may not be purchased.</p>	<p>5 years</p> <p>The maximum duration of the corporate notes portfolio shall not exceed 3 years.</p>

## 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.
- Major NRSRO is defined as Moody's and Standard & Poor's.
- Purchases prior to 9/15/16 are considered grandfathered in for issuer limit purposes and can be held to maturity.

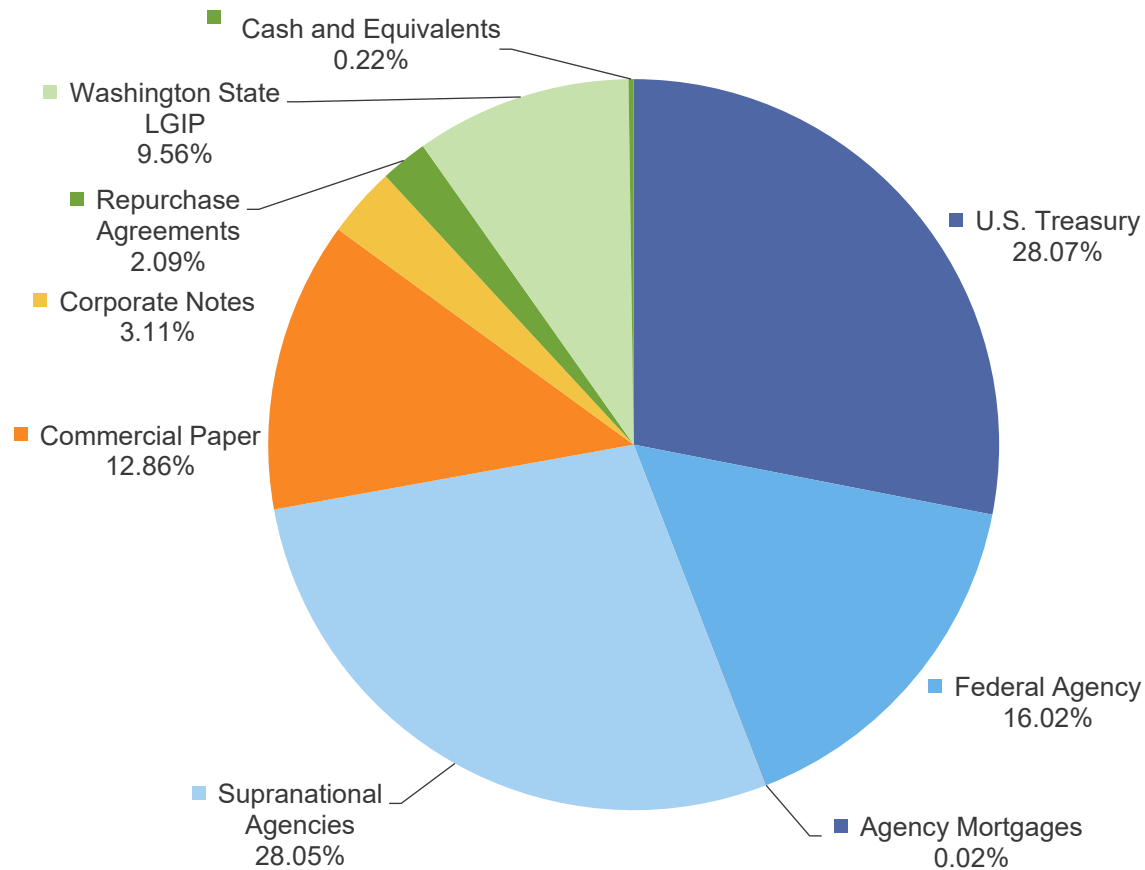
# Investment Policy Review

Topic	Observations
<b>Sector Allocation</b>	<ul style="list-style-type: none"> <li>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.</li> <li>The County's Investment Pool balance (market value) as of March 31, 2022, was \$8.2 billion, a decrease of \$0.5 billion from last quarter.</li> <li>The County's Investment Pool decreased percentage allocations to the Supranationals (-5.30%), U.S. Treasuries (-1.76%), and Repurchase Agreements (-1.21%)</li> <li>Over the quarter, allocations increased in the following sectors: Commercial Paper (+5.04%), Federal Agencies (3.03%), %, Cash and Equivalents (+0.14%), and Corporate Notes (0.05%).</li> <li>All sectors remain within applicable policy limits.</li> </ul>
<b>Credit Quality</b>	<ul style="list-style-type: none"> <li>Approximately 72% of the County pool's assets are directly guaranteed or supported by the U.S. government and roughly 8% of the assets are indirectly guaranteed via a portion of the State LGIP allocation and its underlying investments. Considering the County pool's holdings of repurchase agreements and bank accounts collateralized by government securities, the overall government-related credit quality is about 80%.</li> <li>Combined corporate allocations (both commercial paper and corporate notes) increased to 15.97% of the portfolio from 10.88% last quarter, and all securities remain investment grade. Combined allocations to corporate notes and commercial paper continue to be below the maximum allocation limit of 25%.</li> <li>Total allocations to corporate related issues also do not exceed the 50% allocation limit set forth in the County's Investment Policy.</li> </ul>
<b>Maturity Distribution</b>	<ul style="list-style-type: none"> <li>All maturities fall within the limits set forth in the County's Investment Policy.</li> <li>Approximately 57% of the Pool's assets mature in one year or less, above the minimum of 40% that is mandated by the Investment Policy.</li> </ul>

Security Type	Market Value(\$)	Allocation Percentage	Within Policy Limits	Max Maturity Held	Within Policy Limits
U.S. Treasury	\$2,299,303,465	28.07%	✓	3.00 years	✓
Supranational Agencies	\$2,297,491,478	28.05%	✓	4.06 years	✓
Corporate Notes	\$254,780,098	3.11%	✓	3.86 years	✓
Federal Agency	\$1,312,006,815	16.02%	✓	3.02 years	✓
Washington State LGIP	\$783,078,587	9.56%	✓	1 day	✓
Repurchase Agreement	\$171,000,000	2.09%	✓	1 day	✓
Commercial Paper	\$1,053,397,602	12.86%	✓	245 days	✓
Cash and Equivalents	\$18,301,231	0.22%	✓	1 day	✓
Agency Mortgages	\$1,799,579	0.02%	✓	2.92 years (WAL)	✓
<b>TOTAL</b>	<b>\$8,191,158,855</b>	<b>100.00%</b>			

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

## Sector Diversification as of March 31, 2022



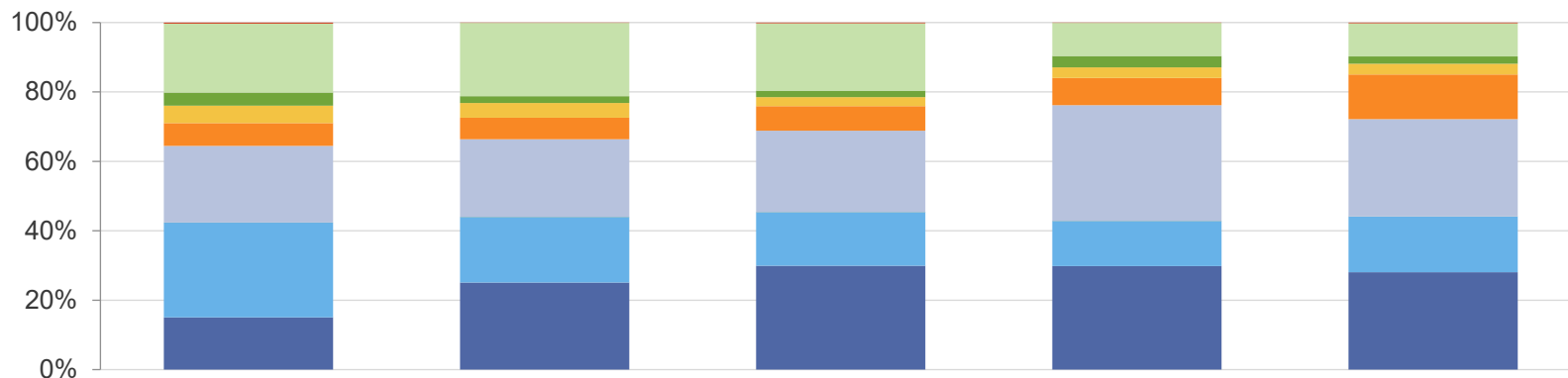
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# Changes In Portfolio Sector Allocation over the Past 12 Months

## Changes in Sector Allocation

- The portfolio increased exposure to Commercial Paper (+5.04%), Federal Agencies (3.03%), Cash and Equivalents (+0.14%), and Corporate Notes (0.05%), and Washington State LGIP (+0.01%), while decreasing allocations to Supranational Agencies (-5.30%), U.S. Treasuries (-1.76%), and Repurchase Agreements (-1.21%).
- **U.S. Treasuries** During the fourth quarter, exposure to U.S. Treasuries reduced modestly from 29.83% to 28.07%. It continues to remain below the 30% to 40% allocation range that existed prior to the pandemic.
- **Federal Agencies** Federal agency allocations, excluding supranationals and mortgage securities, increased by 3.03% over the period.
- **Corporate Notes** The allocation to corporate notes edged up over the quarter by 0.05%, continuing the upward trend from last quarter.
- **Commercial Paper** Commercial paper increased over the period from 7.82% to 12.86% of the portfolio.
- **Washington State LGIP** Balances invested in the State LGIP decreased modestly from 9.55% of the portfolio to 9.56%
- **Repurchase Agreements** The portfolio's allocation to repurchase agreements decreased from 3.30% to 2.09% of the portfolio.



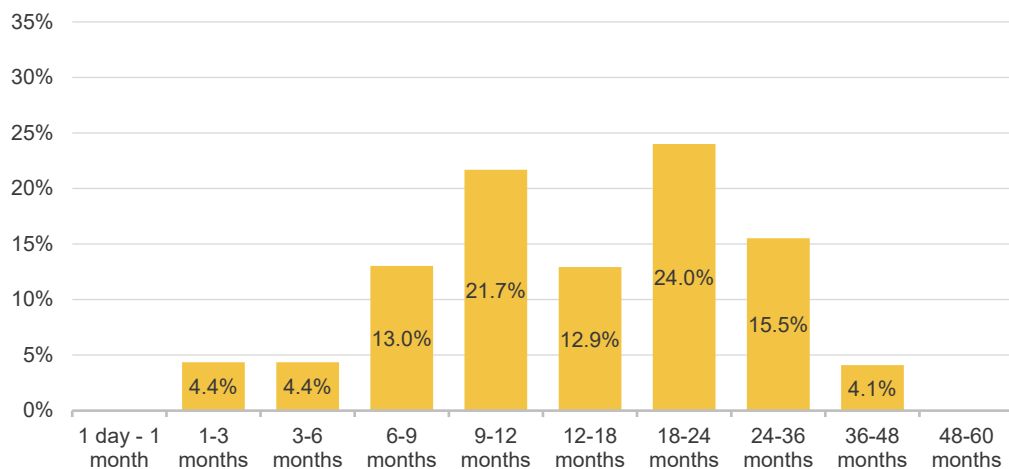
	December 31, 2020	March 31, 2021	June 30, 2021	September 30, 2021	March 31, 2022
U.S. Treasury	15.06%	25.07%	29.92%	29.83%	28.07%
Federal Agencies	27.29%	18.92%	15.45%	12.98%	16.02%
Agency Mortgages	0.03%	0.03%	0.03%	0.02%	0.02%
Supranational Agencies	22.07%	22.34%	23.43%	33.35%	28.05%
Commercial Paper	6.58%	6.22%	7.07%	7.82%	12.86%
Corporate Notes	5.00%	4.22%	2.63%	3.06%	3.11%
Repurchase Agreements	3.81%	1.99%	1.84%	3.30%	2.09%
Washington State LGIP	19.84%	21.10%	19.41%	9.55%	9.56%
Cash and Equivalents	0.31%	0.11%	0.23%	0.08%	0.22%

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

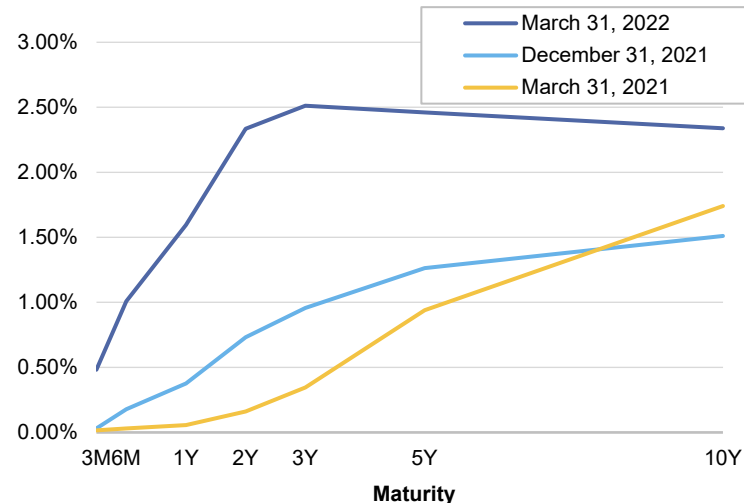
## II. Sector Allocation – U.S. Treasury Securities

Topic	Observations
Observations	<ul style="list-style-type: none"> <li>The County's balances held in U.S. Treasuries decreased slightly from 29.83% of the total portfolio to 28.07%.</li> <li>The U.S. Treasury yield curve steepened and inverted, due to speculations of accelerated Fed's rate hikes, offloading of their balance sheet, high inflation, along with the fears of recession due to tightening policy and Russia-Ukraine war. Short-term rates remain anchored near rock-bottom lows by current overnight target rate policy.             <ul style="list-style-type: none"> <li>The 10-year Treasury yield increased 84 basis points (0.84%), while the 2-year yield rose 157 bps (1.57%).</li> </ul> </li> <li>Approximately 44% of all Treasury holdings have remaining maturities of one year or less.</li> <li>The weighted average maturity (WAM) of the County's Treasury allocation continued to decrease over the quarter from 628 days to 547 days as a result of previously held securities rolling down and no new purchases.</li> <li>The chart on the left below displays the current maturity distribution of the County's allocations to U.S. Treasuries while the chart on the right compares the current shape of the Treasury yield curve to the curve last quarter, and the yield curve one year ago. The County's Treasury holdings favor the intermediate-term securities. As the short end of the yield curve have risen significantly beyond the 1-year mark, shorter-term Treasuries begin to offer greater value.</li> </ul>

**U.S. Treasury Maturity Distribution**  
as of March 31, 2022



**U.S. Treasury Yield Curve**  
12/31/21 vs 3/31/22 vs 3/31/21

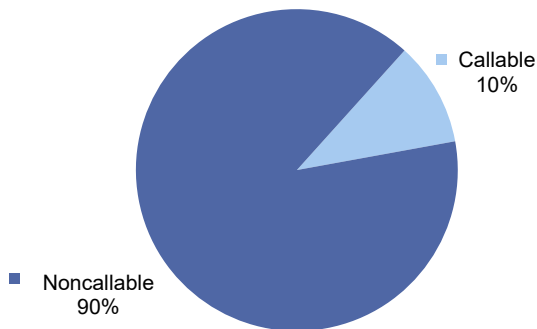


\*Percentages may not total to 100% due to rounding.

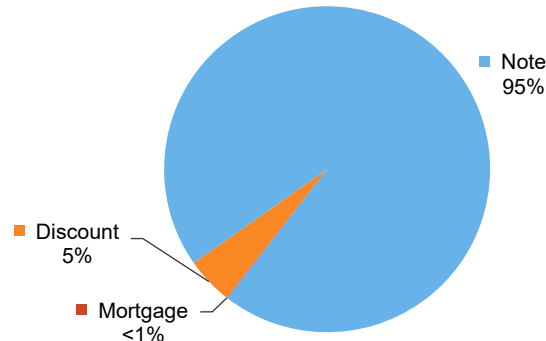
## II. Sector Allocation – Federal Agencies

Topic	Observations			
<b>Structure (as % of Federal Agency Allocations)</b>	• Non-Callable	89.5%	• Coupon Bearing Notes	95.3%
	• Callable	10.5%	• Discount Notes	4.7%
<b>Diversification (as % of Federal Agency Allocations)</b>	• Federal Farm Credit Bank (FFCB)***	10.6%	• Fannie Mae (FNMA)***	5.3%
	• Freddie Mac (FHLMC)	11.5%	• Fannie Mae Mortgage-Backed (FNR)	< 0.1%
	• Federal Home Loan Bank (FHLB)***	8.9%		
	• Supranational Agencies***	63.6%		
<b>Conclusions</b>	<ul style="list-style-type: none"> <li>• The County's federal agency holdings continue to be well diversified by issuer. All issuer allocations fall within the issuer guidelines and security structures in the County's Investment Policy (max per agency issuer 35%).</li> <li>• The percentage of the portfolio invested in federal agencies, excluding supranationals and mortgage securities, increased by 3.03% in the quarter from 12.98% to 16.02%. Within this federal agency allocation, the portion of callable securities increased from 9.6% to 10.5% in this quarter.</li> <li>• All supranational agency holdings are below the 35% issuer limit and represent approximately 28% of the entire portfolio.</li> <li>• The County Pool's only allocation to agency mortgages is in Fannie Mae pools, totaling approximately 0.02% of the total portfolio.</li> </ul>			

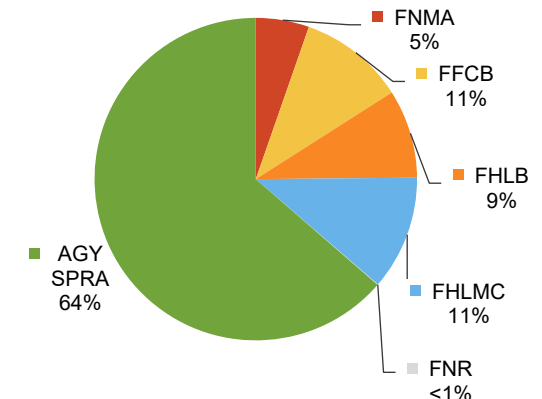
**Callable vs. Non-Callable**  
as of March 31, 2022



**Structure Distribution**  
as of March 31, 2022



**Issuer Diversification**  
as of March 31, 2022



\*All calculations above are based on total federal agency exposure, not overall Portfolio.

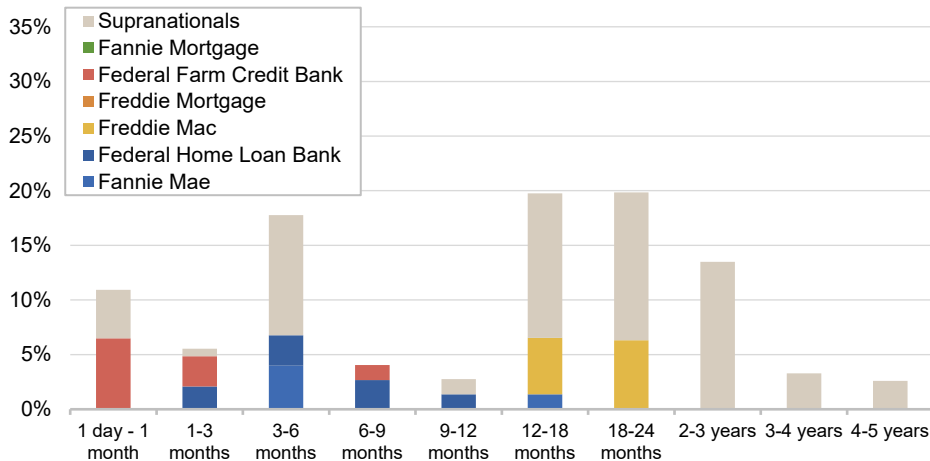
\*\*Percentages may not total to 100% due to rounding.

\*\*\*Includes discount notes

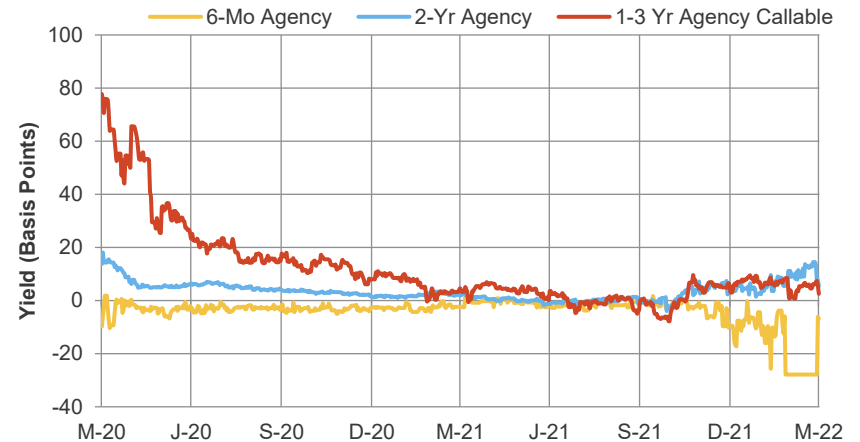
## II. Sector Allocation – Federal Agencies

Topic	Observations
<b>Maturity Distribution</b>	<ul style="list-style-type: none"> <li>The County's federal agency maturity distribution falls within the limits set forth by the Investment Policy Statement.</li> <li>Over the quarter, the weighted average maturity (WAM) of the County's federal agency holdings, including supranationals, decreased from 483 days on December 31<sup>st</sup> to 461 days on March 31<sup>st</sup>.</li> <li>The portfolio purchased about \$25 million in supranational securities this quarter, with a single issuer. There were also purchases of about \$176 million of Federal Agencies with a single issuer. <ul style="list-style-type: none"> <li>There were very limited opportunities in this quarter to add to the supranational sector as supranational debt issuance lagged projections. When available, new issue opportunities remained the best entry point.</li> <li>Federal Agency spreads are expected to remain tight and trade range-bound for the remainder of the year. Net issuance supply is expected to remain light for the year which will likely limit buying opportunities. Spreads on callable structures have widened but given their extension risk, are not recommended.</li> </ul> </li> </ul>

**Federal Agency Maturity Distribution by Name**  
as of March 31, 2022



**Federal Agency Yield Spreads to Treasuries**  
Past 24 Months



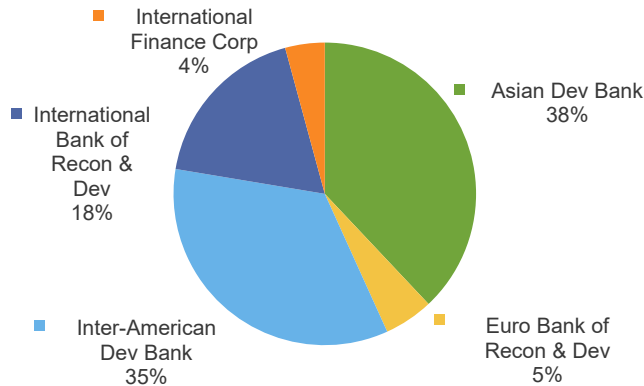
\* Source Bloomberg Financial Systems

- 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.
- Constant yields of the 6-month agency index were assumed from 2/25/22 to 3/29/22 due to lack of data in Bloomberg.

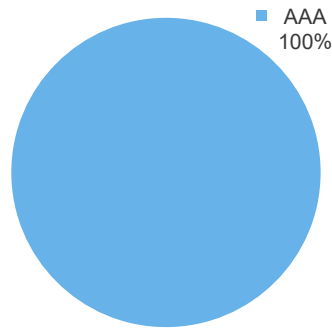
# II. Sector Allocation – Supranational Agencies

Topic	Observations
<b>Credit Distribution</b>	<ul style="list-style-type: none"> <li>Based on the holdings as of March 31<sup>st</sup>, five supranational securities will mature over the next quarter.</li> <li>The County maintained exposure to five supranational issuers.                             <ul style="list-style-type: none"> <li>The U.S. is the largest country from a shareholder perspective for all five supranational issuers (co-largest with Japan for the Asian Development Bank), meaning the U.S. has the largest decision-making power, and these securities are considered to have been issued by federal instrumentalities.</li> </ul> </li> <li>By continuing to invest in this sector, the County is able to diversify the portfolio and add to its high credit quality, while also capturing additional yield over federal agency and Treasury securities.                             <ul style="list-style-type: none"> <li>The portfolio's allocation to supranational agencies is relatively balanced across maturities, with some emphasis in the 1-3 year range. Approximately 72% having a remaining maturity of over 1 year.</li> </ul> </li> </ul>
<b>Spread to Agency Rates</b>	<ul style="list-style-type: none"> <li>The chart on the right shows the spread between supranational agencies and federal agency securities.                             <ul style="list-style-type: none"> <li>Spreads compared to Treasuries and agencies continue to remain range-bound, although the sector continues to present a reasonable incremental yield to other government securities if new issues can be accessed.</li> </ul> </li> </ul>

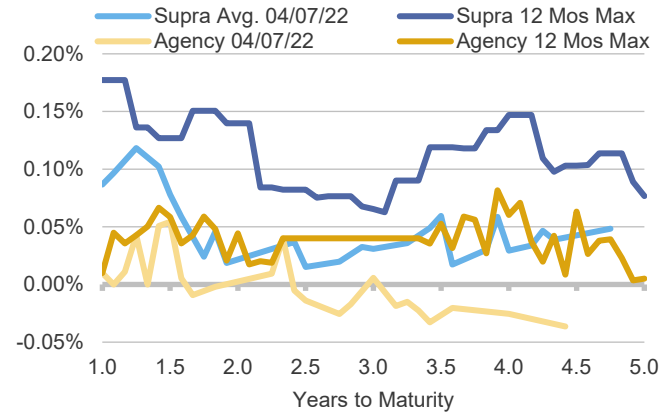
**Issuer Distribution**  
as of March 31, 2022



**Credit Distribution**  
as of March 31, 2022



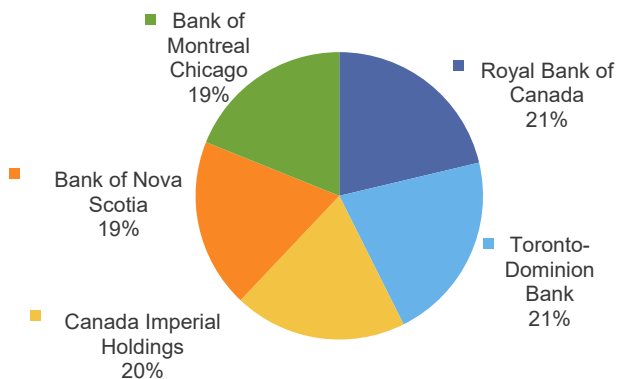
**Supranational Agency vs. Federal Agency Yield Spreads**



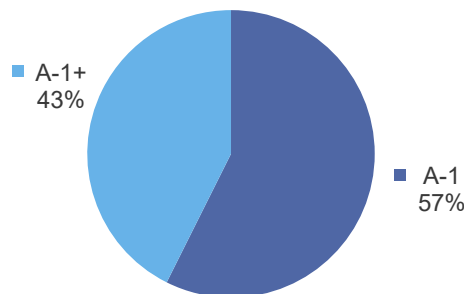
## II. Sector Allocation – Commercial Paper

Topic	Observations
<b>Issuer Diversification</b>	<ul style="list-style-type: none"> <li>The County's allocation to commercial paper increased by 5.04% over the quarter, ending the period at 12.86% of the total portfolio.</li> <li>The portfolio holds commercial paper from Toronto-Dominion Bank, the Royal Bank of Canada, Canada Imperial Bank, Bank of Nova Scotia and Bank of Montreal Chicago.</li> <li>Commercial Paper offers attractive relative value to comparable-maturity Treasuries and agencies, with the spreads being wider further out the curve.</li> <li>With attractive spreads further out on the yield curve, commercial paper continues to provide incremental returns while allowing the County to tap into a broader universe of issuers compared to the alternative of U.S. T-Bills and federal agency discount notes.</li> </ul>
<b>Credit Distribution</b>	<ul style="list-style-type: none"> <li>Standard &amp; Poor's rates the short-term credit of Royal Bank of Canada and Toronto-Dominion as A-1+, and Bank of Nova Scotia, Bank of Montreal Chicago and Canada Imperial Bank as A-1.</li> </ul>
<b>Conclusions</b>	<ul style="list-style-type: none"> <li>From an overall portfolio duration perspective, utilizing short term commercial paper helps the County to offset the purchasing of longer term securities. These commercial paper investments have historically offered greater yields than other short term securities and overnight investments.</li> </ul>

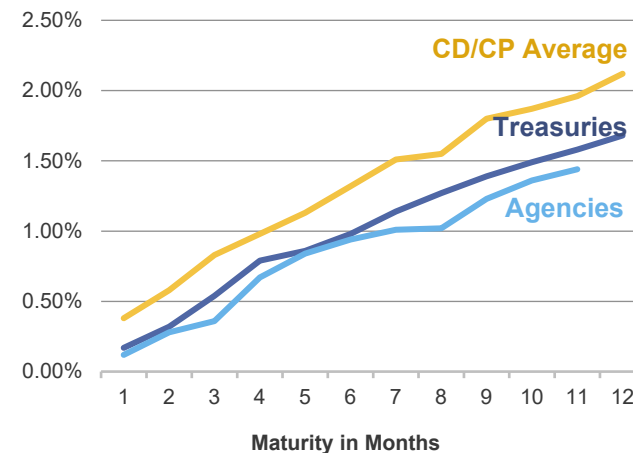
**Issuer Distribution**  
as of March 31, 2022



**Credit Distribution**  
as of March 31, 2022



**Current Short-Term Yields**  
as of March 31, 2022

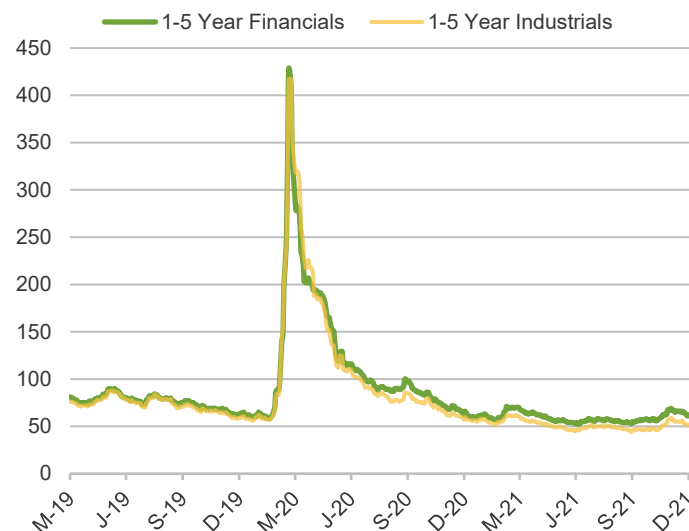


## II. Sector Allocation – Corporate Notes

Topic	Observations
<b>Maturity Distribution</b>	<ul style="list-style-type: none"> <li>The County's exposure to corporate notes increased modestly by 0.05% over the quarter, from 3.06% to 3.11%. To end the period, the Pool's corporate note holdings were from high quality issuers, with 66% of it's corporate notes carrying a rating of at least AA- by S&amp;P.               <ul style="list-style-type: none"> <li>– Callable corporate notes made up 40% of the County's corporate sleeve, with all call dates being about a month before maturity.</li> <li>– All corporate notes mature within 4 years and the weighted average maturity of the corporate note portion of the portfolio is 0.94 years.</li> <li>– The graph on the right below shows the spread for financial corporates and industrial corporates when compared to similar-maturity Treasuries. Investment grade corporate bond spreads remained lower in the quarter. Financials, which make up a large portion of the County's corporate holdings, closed the quarter slightly wider than industrials.</li> <li>– Strong economic recovery, continued dialing back of supportive monetary policy, lower supply, and strong global demand for U.S. credit might widen spreads for the corporate sector.</li> </ul> </li> </ul>

Credit & Issuer Distribution	S&P Short	S&P Long	Moody's Short	Moody's Long	% of Corporate Holdings	% of Portfolio
Apple Inc.	A-1+	AA+	P-1	Aaa	36.7%	1.1%
Canadian Imperial Bank	A-1	A+	P-1	Aa2	6.6%	0.2%
Honeywell International	A-1	A	P-1	A2	6.0%	0.2%
Bank of Montreal	A-1	A+	P-1	Aa2	9.9%	0.3%
Bank of Nova Scotia	A-1	A+	P-1	Aa2	9.3%	0.3%
Procter & Gamble Co	A-1+	AA-	P-1	Aa3	17.7%	0.6%
US Bank	A-1+	AA-	P-1	A1	13.8%	0.4%

**Corporate/Treasury Yield Spreads**  
March 2019 through March 2022 (in basis points)



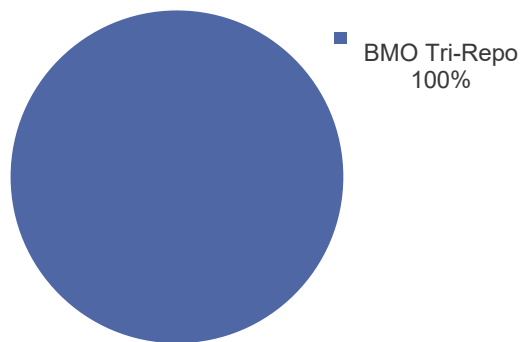
\*Source: Bloomberg Financial Systems as of 4/12/2022

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

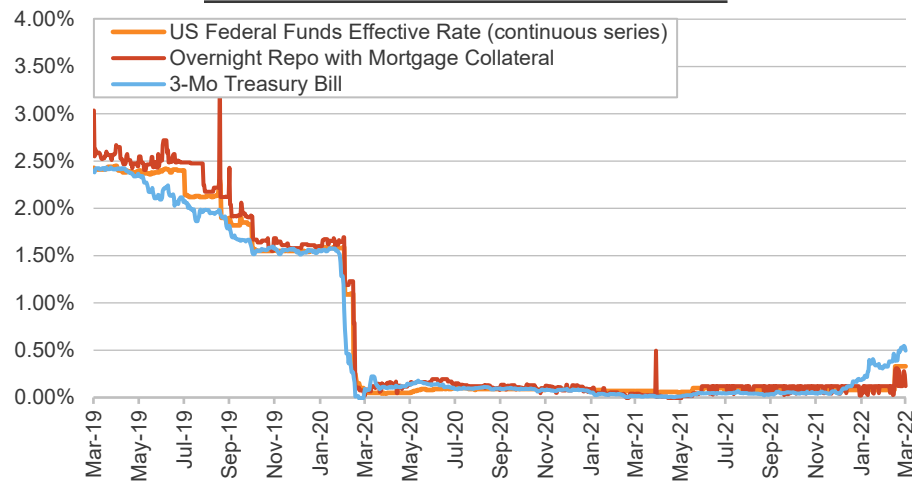
## II. Sector Allocation – Repurchase Agreements

Topic	Observations
<b>Issuer Diversification</b>	<ul style="list-style-type: none"> <li>The County decreased its tri-party repurchase agreement allocation over the quarter, with 2.09% of the portfolio allocated to the sector at quarter-end, compared to 3.30% as of December 31, 2021.</li> <li>At the end of the quarter, the portfolio utilized one repurchase agreement provider, BMO Capital Markets, with an allocation of \$171 million.</li> <li>This allocation falls within the permitted investment guidelines of 25% per issuer and 100% maximum to the sector.</li> </ul>
<b>Credit Distribution</b>	<ul style="list-style-type: none"> <li>Standard &amp; Poor's rates BMO's short-term issuer credit as A-1.</li> <li>While this issuer has a high-quality rating from S&amp;P, the ultimate quality of the repurchase agreement depends on the underlying collateral.</li> </ul>
<b>Conclusions</b>	<ul style="list-style-type: none"> <li>As of March 31, 2022, the repurchase agreement sector's weighted-average yield was 0.08%, higher than the last quarter. Yields for overnight repurchase agreements remained near zero, lower than short-term Treasuries, as the Fed funds target rate increased by 0.25%.</li> </ul>

**Issuer/Credit Distribution**  
as of March 31, 2022



**Short-Term Yields**  
March 2019 through March 2022

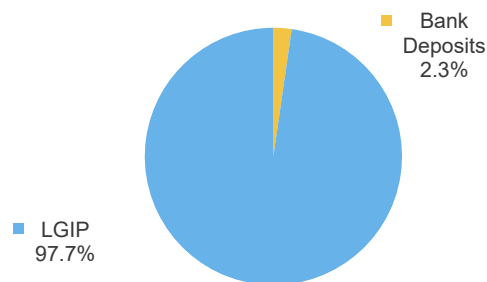




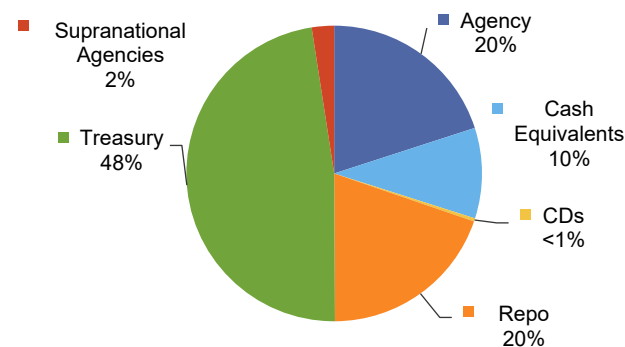
## II. Sector Allocation – LGIPs & Cash Equivalents

	Underlying Investments	Rating (Short-Term: S&P/ Moody's/Fitch)	Observations
<b>Washington State LGIP</b>	<ul style="list-style-type: none"> <li>U.S. Treasuries 47.6%</li> <li>Federal Agencies 20.0%</li> <li>Supranational Agencies 2.4%</li> <li>Repurchase Agreements 19.7%</li> <li>Certificates of Deposit 0.3%</li> <li>Cash Equivalents 9.9%</li> </ul> <i>As of March 31, 2022</i>	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>The County currently has allocated about \$783 million to the Washington State LGIP, a slight decrease from last quarter's \$833 billion figure.</li> <li>The County's allocation to the State LGIP continues to serve as the primary source of overnight liquidity for the portfolio.</li> <li>During the quarter, the State LGIP increased its exposure to Repo (+13.3%) and Supranationals (+1.5%), while it decreased U.S. Treasuries (-13.9%), Agencies (-0.7%), CDs (-0.1%) and cash and cash equivalents (-0.1%).</li> </ul>
<b>Cash Equivalents</b>	<ul style="list-style-type: none"> <li>State LGIP 97.7%</li> <li>U.S. Bank 2.18%</li> <li>Key Bank 0.06%</li> <li>Bank of America 0.04%</li> </ul>	<ul style="list-style-type: none"> <li><u>U.S. Bank:</u> A-1+/P-1/F1+</li> <li><u>Key Bank:</u> A-2/P-2/F1</li> <li><u>Bank of America:</u> A-1/P-1/F1</li> </ul>	<ul style="list-style-type: none"> <li>The County's deposit accounts at U.S. Bank, Key Bank, and Bank of America are FDIC-insured up to FDIC limits and are collateralized by the Public Deposit Protection Commission.</li> <li>The portfolio's cash equivalents holdings increased over the quarter, from 0.08% to 0.22% of the total portfolio.</li> </ul>

**Cash Equivalents Distribution**  
as of March 31, 2022



**Washington State LGIP Sector Distribution**  
as of March 31, 2022



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

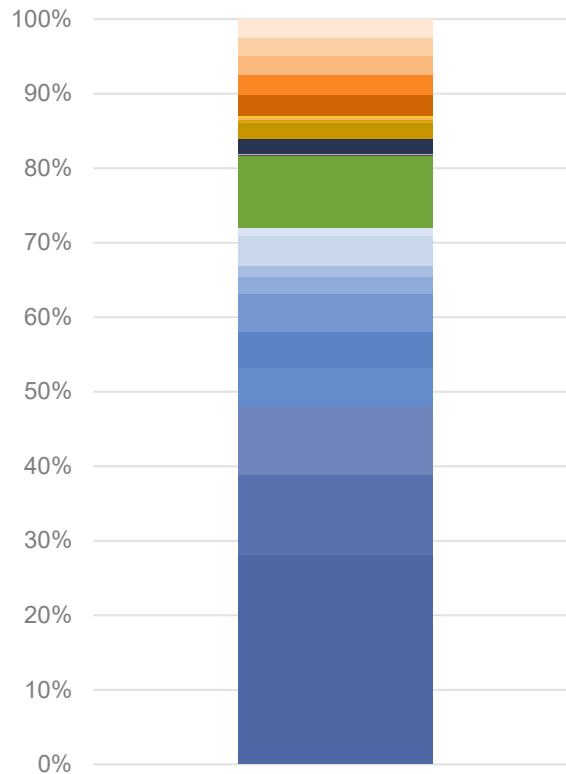
\*\*Percentages may not total to 100% due to rounding.

# III. Issuer Concentration

## Issuer Exposure

- The County maintains a well-diversified portfolio by issuer, as shown in the tables and graph below.
- More than 72% of the portfolio is allocated directly to U.S. government guaranteed or government supported entities.
- Of the remaining 28% of the portfolio, about 12% is allocated to ultra short-term or overnight investment vehicles, including the State LGIP, repurchase agreements, and bank deposits. The remaining 16% is allocated to credit issuers, including commercial paper and corporate notes.

<b>U.S. Treasury (100% Limit)</b>	<b>28.07%</b>
<b>Agency Issuers</b>	<b>Percentage (35% Limit)</b>
Asian Dev Bank	10.65%
Inter-American Dev Bk	9.34%
Intn'l Bk of Recon & Dev	5.09%
FFCB	4.69%
FHLMC	5.06%
FNMA	2.38%
Euro Bk of Recon & Dev	1.47%
FHLB	3.92%
International Finance Corp	1.19%
<b>Washington State LGIP (25% Limit)</b>	<b>9.56%</b>
<b>Overnight Deposits</b>	<b>Percentage (No Limit)</b>
US Bank	0.21%
Bank of America	0.006%
Key Bank	0.004%
<b>Repo Issuers</b>	<b>Percentage (25% Limit)</b>
BMO Capital Markets Corp	2.09%



<b>Corporate Issuers</b>	<b>Percentage (5% Limit)</b>
Apple Inc	1.14%
Procter & Gamble Co	0.55%
US Bank	0.43%
Honeywell International	0.19%
Canadian Imperial Bank	0.21%
Bank of Montreal	0.31%
Bank of Nova Scotia	0.29%

<b>CP Issuers</b>	<b>Percentage (5% Limit)</b>
Toronto Dominion (CP)	2.74%
Royal Bank of Canada (CP)	2.74%
Bank of Nova Scotia (CP)	2.45%
Canadian Imperial Bank (CP)	2.50%
Bank of Montreal	2.43%

Percentages may not add to 100% due to rounding.

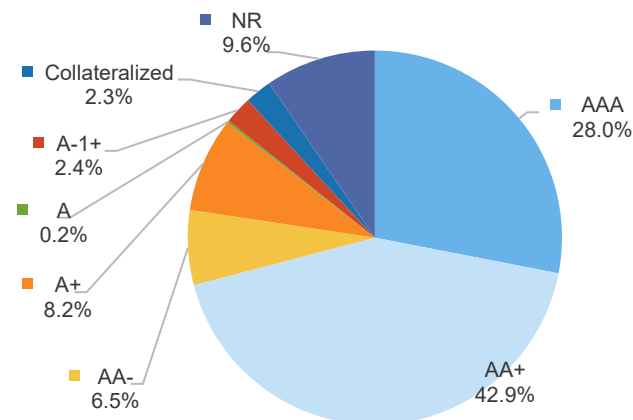
\* For the purposes of totaling issuer concentration, issuers are aggregated across all sector types. It is noted however that issuers across sector types may maintain separately rated issuer credits.

# IV. Overall Credit Quality

## County Investment Pool Credit Analysis

- The County Pool's overall average credit position 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 notes, which maintain a short-term credit rating of A-1+ by S&P.
- The County also maintained its holdings of supranational agencies, which are rated AAA.
- The County increased its credit exposure through commercial paper and corporate notes over the quarter, ending at 15.97% of the portfolio, compared to 10.88% last quarter.
  - Commercial paper accounts for 12.86% of the entire portfolio, while corporate notes account for 3.11%.
- Corporate note allocations held throughout the quarter have ratings of A or higher.
  - Commercial paper allocations are all rated A-1/P-1 or higher.
- The 9.6% 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, 1.91% of the County's Pool is allocated indirectly to corporate securities (repurchase agreements and certificates of deposit).

**Total Pool Credit Distribution\***  
as of March 31, 2022



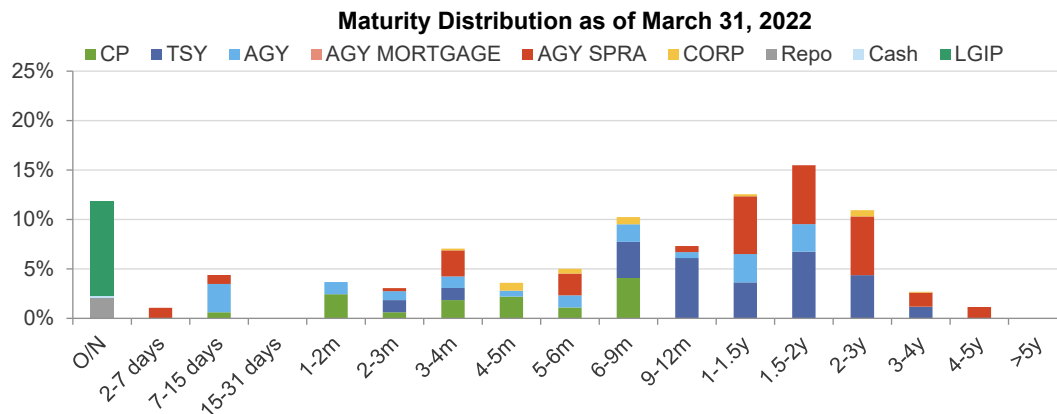
**Corporate/CP Issuer Ratings Table**  
as of March 31, 2022

Issuer Distribution	Sectors Invested	S&P Short*	S&P Long*	Moody's Short**	Moody's Long**
Apple Inc	Corp	A-1+	AA+	P-1	Aaa
Bank of Nova Scotia	Corp/CP	A-1	A+	P-1	Aa2
Canadian Imperial Bank	Corp/CP	A-1	A+	P-1	Aa2
Honeywell International	Corp	A-1	A	P-1	A2
Procter & Gamble Co/The	Corp	A-1+	AA-	P-1	Aa3
Royal Bank of Canada	CP	A-1+	AA-	P-1	Aa1
Toronto-Dominion Bank	CP	A-1+	AA-	P-1	Aa2
US Bank	Corp	A-1+	AA-	P-1	A1
Bank of Montreal	Corp/CP	A-1	A+	P-1	Aa2

Source: Bloomberg Financial Services as of 4/12/2022

# V. Maturity Distribution

Maturity Distribution	Observations
<b>Weighted Average Maturity (“WAM”)</b>	<ul style="list-style-type: none"> <li>The County continues to invest across its permitted maturity range, as seen in the chart below.</li> <li>About 57% of the portfolio holdings are scheduled to mature within the next twelve months, an 8% increase from the previous quarter-end and well above the 40% mandated by the investment policy.</li> <li>It appears the County’s maturity strategies over the past several quarters have included:               <ul style="list-style-type: none"> <li>Continuing to allow previously purchased, longer-dated U.S. Treasury investments to naturally shorten in maturity and roll-down the yield curve.</li> <li>Targeting purchases in the following spaces:                   <ul style="list-style-type: none"> <li>Increasing allocation to Commercial Paper to take advantage of the rising near-term yields.</li> <li>Letting Supranational securities mature without repurchasing new ones.</li> </ul> </li> <li>The WAM of the portfolio ended the quarter at 377 days, down from the 432 days at previous quarter-end.</li> <li>The decrease in portfolio WAM can primarily be attributed to the continued roll down of longer-dated U.S. Treasuries and Agencies.</li> </ul> </li> </ul>
<b>Liquidity</b>	<ul style="list-style-type: none"> <li>The County Pool appears to provide adequate liquidity, both in terms of final maturities and the sectors in which the portfolio has invested. In addition to the 12% of the portfolio invested in a combination of the Washington State LGIP, bank deposits, and repurchase agreements (overnight liquidity), another 17% of the portfolio’s holdings are scheduled to mature within the next thirty-one days.</li> </ul>



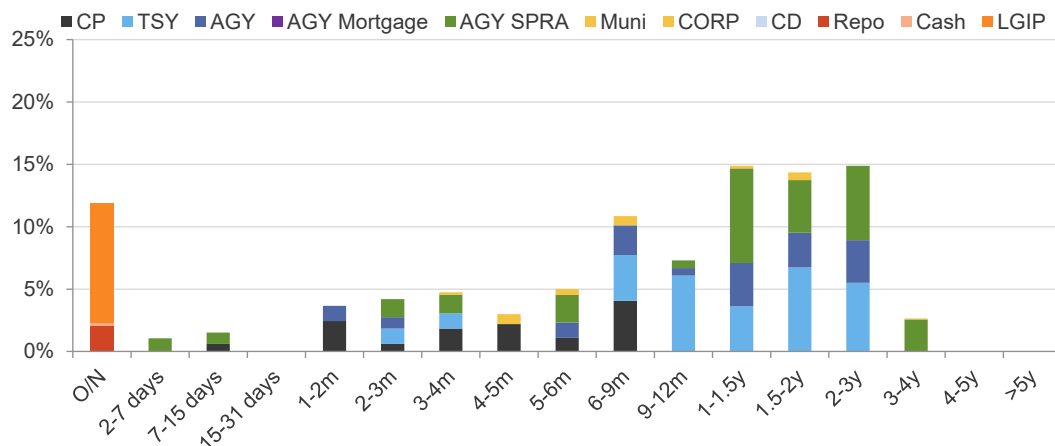
Contribution to Maturity		
Sector	3/31/22	12/31/21
Supranational Agencies	159.16	181.32
Cash	0.00	0.00
Corporate Notes	10.70	13.05
Commercial Paper	16.82	7.38
Federal Agencies	40.30	42.69
The Washington State LGIP	0.10	0.10
Agency Mortgages	0.23	0.25
Repurchase Agreements	0.02	0.10
US Treasuries	149.78	187.30
<b>Maturity:</b>	<b>377 days</b>	<b>432 days</b>

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

# V. Duration Distribution

Duration Distribution	Observations
<b>Definition</b>	<ul style="list-style-type: none"> <li>Duration is a measure of the sensitivity of the value of principal of an investment to a change in interest rates. The value of a portfolio with a higher duration is more sensitive to interest rate increases and decreases.</li> <li>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.</li> </ul>
<b>Duration</b>	<ul style="list-style-type: none"> <li>The portfolio's weighted average duration is within the IPS guidelines (no greater than 1.5 years).</li> <li>As of March 31, the duration of the County Investment Pool was 1.11 years, a decrease from the previous quarter which ended at 1.26 years.                             <ul style="list-style-type: none"> <li>The decrease in portfolio duration was driven by the rolldown of U.S. Treasuries and Agencies with 1.5-2.5 Years remaining in maturity.</li> <li>The portfolio is measured against a blended benchmark consisting of 40% ICE Bank of America Merrill Lynch 3-Month Treasury Index and 60% ICE Bank of America Merrill Lynch 1-3 Year Treasury &amp; Agency Index.</li> <li>The overall portfolio duration decreased and the benchmark duration remained the same over the quarter. Compared to the benchmark, the portfolio's duration decreased from 103% to 91% of the benchmark duration for the period ending March 31.</li> </ul> </li> </ul>

**Duration Distribution as of March 31, 2022**



Contribution to Duration		
Sector	3/31/22	12/31/21
Supranational Agencies	0.42	0.49
Cash	0.00	0.00
Corporate Notes	0.03	0.03
Commercial Paper	0.05	0.02
Federal Agencies	0.21	0.21
The Washington State LGIP	0.00	0.00
Agency Mortgages	0.00	0.00
Repurchase Agreements	0.00	0.00
US Treasuries	0.40	0.50
<b>Duration:</b>	<b>1.11 years</b>	<b>1.26 years</b>

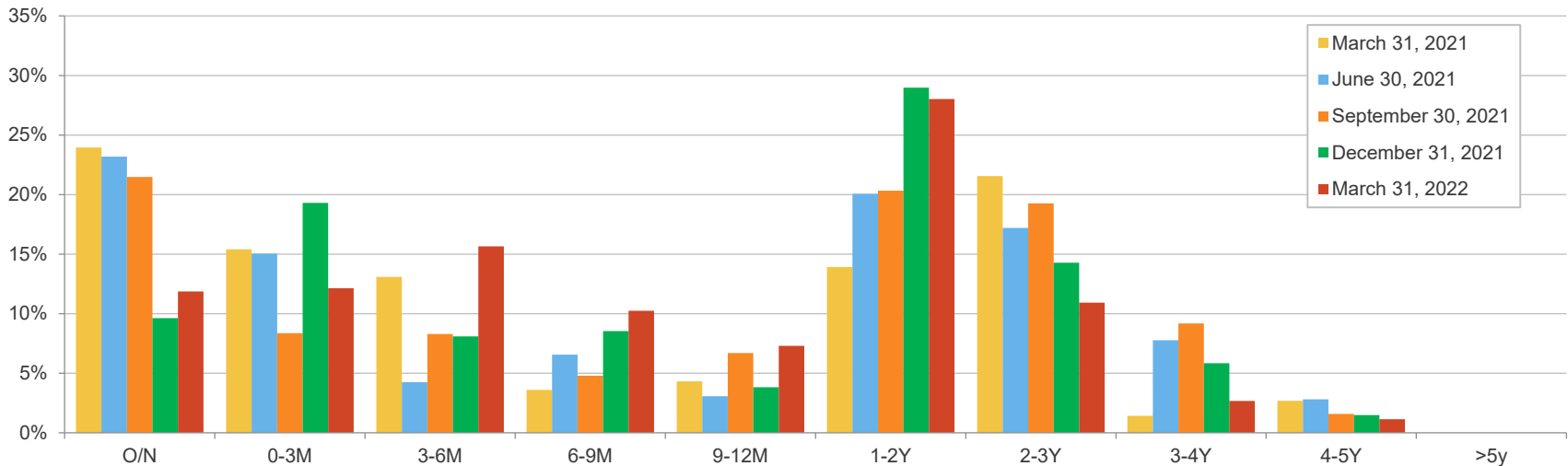
Agency Mortgage durations are shown as effective duration taken from Bloomberg Financial Markets.  
 Duration for Federal Agency Discount Notes and Repurchase Agreements are calculated as days to maturity.  
 WA LGIP and bank deposits considered to have a one day duration.  
 All other security durations 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 (red bars) in relation to previous periods, a few primary observations are noted:
  - It appears the County targeted an overall portfolio contraction during the quarter, as seen by the reduced allocations in the 2-to-3 year and 3-to-4 year maturity buckets.
    - Decreases in these portions of the curve are due to the natural roll-down of originally longer-dated U.S. Treasuries and Agencies.
- Compared to the fourth quarter, the yield curve is steeper in the 1-2 year space. Therefore, the relative value in the 1-2 year space is higher than 3-5 year space.
  - Locking in the higher yields in the 1-2 year area of the curve and finding relative value within sectors may allow the portfolio to benefit from incremental income even as short-term interest rates are expected to rise further in the near future.

**Maturity Distribution March 31, 2021 to March 31, 2022**



Agency Mortgage maturities are reported 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.

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