



PUBLIC  
AGENCY  
RETIREMENT  
SERVICES

**PARS**

TRUSTED SOLUTIONS. LASTING RESULTS.

# COUNTY OF CONTRA COSTA

OPEB Pre-Funding Trust Program Client Review

February 2018

# CONTACTS

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**Executive Vice President**  
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**Director, Senior Portfolio Manager**  
(415) 705-7605  
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**Senior Manager, Consulting**  
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rsanders@pars.org

# PARS TRUST TEAM

## Trust Administrator & Consultant



- Recordkeeping
- Sub-trust accounting
- Monitors plan compliance
- Processes contributions/disbursements
- Hands-on, dedicated support teams
- Coordinates all agency services

34

Years of Experience  
(1984-2018)

1,400+

Plans under  
Administration

900+

Public Agency  
Clients

500K+

Plan Participants

\$4.0B

Assets under  
Administration

## Trustee



- 5th largest commercial bank and one of the nation's largest trustees for Section 115 trusts.
- Safeguard plan assets,
- Oversight protection as plan fiduciary
- Custodian of assets

155

Years of Experience  
(1863-2018)

\$5.0T

Assets under  
Administration

## Investment Manager



- Investment sub-advisor to trustee U.S. Bank
- Investment policy assistance
- Uses open architecture
- Active and passive platform options
- Customized portfolios (with minimum asset level)

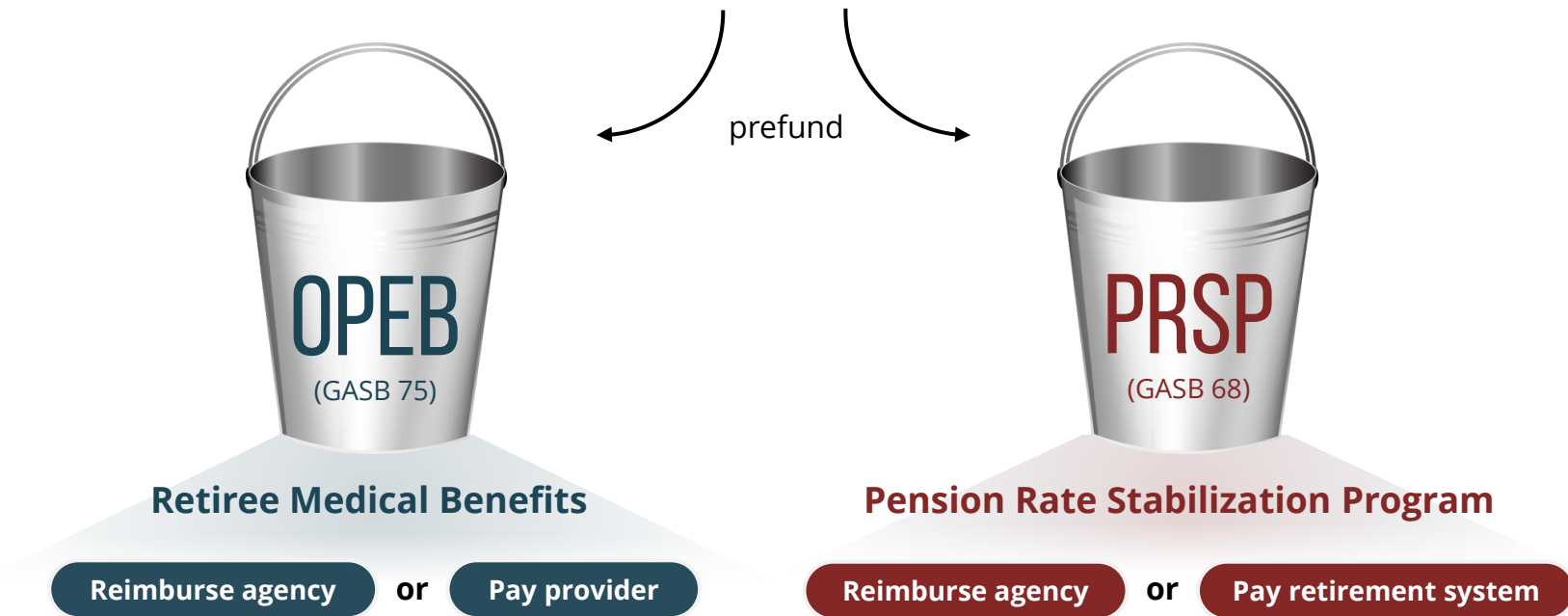
99

Years of Experience  
(1919-2018)

\$16.4B

Assets under  
Management

# THE PARS IRS-APPROVED COMBINATION 115 TRUST



## Subaccounts

OPEB and pension assets are individually sub-accounted, and can be divided by dept., bargaining group, or cost center



## Financial Stability

Assets in the PARS Section 115 Combination Trust can be used to address unfunded liabilities.



## Flexible

Allows separate investment strategies for OPEB and pension subaccounts.



## Anytime Access

Trust funds are available anytime; OPEB for OPEB and pension for pension.



## Economies-of-Scale

OPEB and pension assets aggregate and reach lower fees on tiered schedule sooner – saving money!



## No Set Up Cost or Minimums

No set-up costs, no minimum annual contribution amounts, and no fees until assets are added.

# SUMMARY OF AGENCY'S OPEB PLAN

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<b>Plan Type:</b>	IRC Section 115 Irrevocable Exclusive Benefit Trust
<b>Trustee Approach:</b>	Discretionary
<b>Plan Effective Date:</b>	January 1, 2011
<b>Plan Administrator:</b>	County Treasurer/Tax Collector
<b>Current Investment Strategy:</b>	Custom Strategy; Individual Account

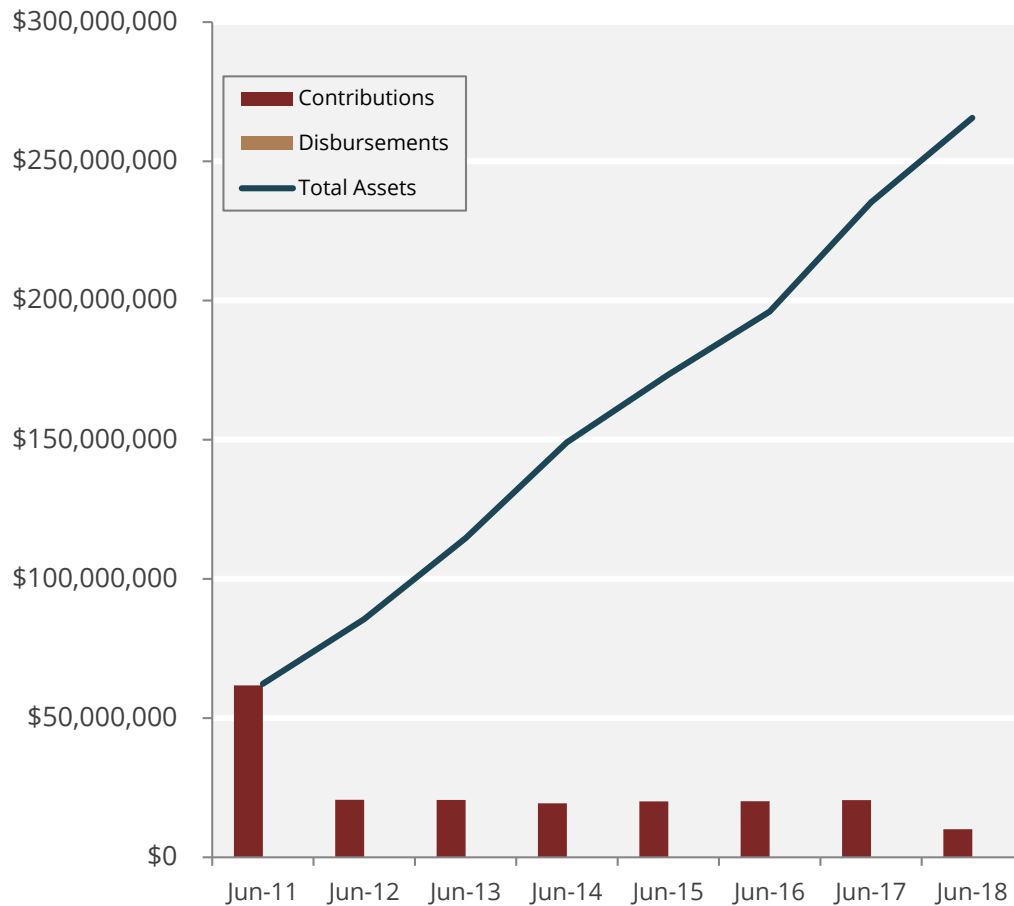
## AS OF JANUARY 31, 2018:

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<b>Initial Contribution:</b>	January 2011: \$51,070,366
<b>Additional Contributions:</b>	\$141,959,372
<b>Total Contributions:</b>	\$193,029,738
<b>Disbursements:</b>	\$0
<b>Total Investment Earnings:</b>	\$74,666,103
<b>Account Balance:</b>	\$265,584,258

# SUMMARY OF AGENCY'S OPEB PLAN

## CONTRIBUTIONS, DISBURSEMENTS, AND TOTAL ASSETS AS OF JANUARY 31, 2018:



Year	Contributions	Disbursements	Total Assets
Jun-11*	\$61,698,777	\$0	\$62,297,373
Jun-12	\$20,606,199	\$0	\$85,491,338
Jun-13	\$20,596,635	\$0	\$114,599,118
Jun-14	\$19,373,129	\$0	\$149,031,810
Jun-15	\$20,039,999	\$0	\$173,307,950
Jun-16	\$20,139,999	\$0	\$195,976,424
Jun-17	\$20,535,000	\$0	\$235,215,781
Jun-18**	\$10,040,000	\$0	\$265,584,258

Plan Year Ending

\*Plan Year Ending June 2011 is based on 6 months of activity.  
 \*\*Plan Year Ending June 2018 is based on 7 months of activity.

# OPEB ACTUARIAL RESULTS

- We have received the actuarial report by Milliman, Inc. dated October 18, 2016 with a valuation date as of January 1, 2016. In the table below, we have summarized the results.

Demographic Study   Valuation Date: January 1, 2016	
<b>Actives</b>	8,645
<b>Retirees</b>	6,396
<b>Total</b>	15,041
<b>Average Active Age</b>	45.25
<b>Average Active Agency Service</b>	10.04

# OPEB ACTUARIAL RESULTS

	Valuation Date: January 1, 2016 Discount Rate: 5.70%
Actuarial Accrued Liability (AAL)	\$939,053,000
Actuarial Value of Assets	\$174,724,000
Unfunded AAL	\$764,329,000
Funded Ratio (%)	18.6%
Normal Cost	\$29,032,000
Annual Benefit Payments (Pay-as-you-Go)	\$56,044,000

**Rule of thumb:** For every one percent increase in the discount rate, the unfunded liability is lowered by 10-12%.



# ADMINISTRATIVE REVIEW

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- 1 Future contributions
- 2 Future disbursement requests/options
- 3 Agency's future actuarial valuation for GASB 45/75 compliance  
Next valuation due: January 2018
- 4 GASB 75 updates – effective for fiscal years beginning after June 15, 2017
- 5 Investment Guidelines Document – Signed
- 6 Client funding policy
- 7 Pension Rate Stabilization Program (PRSP)
- 8 Client Feedback
- 9 GASB 74/75 Compliance
- 10 Employer Website – Now Available

# GASB 74/75 REPORTING

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- **To assist our public agency clients with GASB 74/75, PARS will be providing the following:**
  - An individual trust statement of each agency's plan assets that shows a reconciliation of assets held at the beginning of the fiscal year through the end of the fiscal year, breaking out the appropriate plan contributions, benefit payments, expenses, and investment earnings
  - Year-end audited financial statements of the Trust as a whole including Schedule of Changes in Fiduciary Net Position by Employer completed by White Nelson Diehl Evans that is intended to be compliant with GASB 74/75 requirements.
  - Supporting SOC 1-Type 2 report on the controls over the calculation and allocation of additions and deductions to employer accounts within the Trust
  - Investment allocation data and information on investment policies including target asset allocations and allowable asset class allocation ranges
- PARS Auditors have determined that participating plans should be considered an agent multiple-employer defined benefit OPEB plan (agent OPEB plan) as defined under GASB

## PARS DIVERSIFIED PORTFOLIOS CONSERVATIVE

Q4 2017

### WHY THE PARS DIVERSIFIED CONSERVATIVE PORTFOLIO?

#### Comprehensive Investment Solution

HighMark® Capital Management, Inc.'s (HighMark) diversified investment portfolios are designed to balance return expectations with risk tolerance. Key features include: sophisticated asset allocation and optimization techniques, four layers of diversification (asset class, style, manager, and security), access to rigorously screened, top tier money managers, flexible investment options, and experienced investment management.

#### Rigorous Manager Due Diligence

Our manager review committee utilizes a rigorous screening process that searches for investment managers and styles that have not only produced above-average returns within acceptable risk parameters, but have the resources and commitment to continue to deliver these results. We have set high standards for our investment managers and funds. This is a highly specialized, time consuming approach dedicated to one goal: competitive and consistent performance.

#### Flexible Investment Options

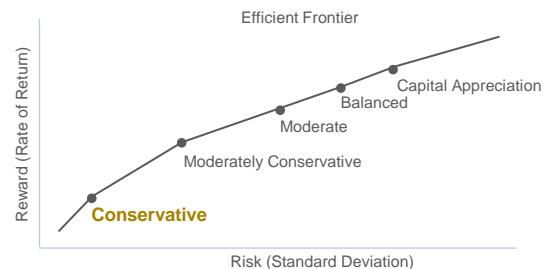
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation approach.

#### Risk Management

The portfolio is constructed to control risk through four layers of diversification – asset classes (cash, fixed income, equity), investment styles (large cap, small cap, international, value, growth), managers and securities. Disciplined mutual fund selection and monitoring process helps to drive return potential while reducing portfolio risk.

### INVESTMENT OBJECTIVE

To provide a consistent level of inflation-protected income over the long-term. The major portion of the assets will be fixed income related. Equity securities are utilized to provide inflation protection.



### ASSET ALLOCATION — CONSERVATIVE PORTFOLIO

	Strategic Range	Policy	Tactical
Equity	5 – 20%	15%	15%
Fixed Income	60 – 95%	80%	79%
Cash	0 – 20%	5%	6%

### ANNUALIZED TOTAL RETURNS (Gross of Investment Management Fees, but Net of Embedded Fund Fees)

#### HighMark Plus (Active)

Current Quarter*	1.17%
Blended Benchmark**	1.00%
Year To Date	6.73%
Blended Benchmark	5.24%
1 Year	6.73%
Blended Benchmark	5.24%
3 Year	3.70%
Blended Benchmark	3.13%
5 Year	3.73%
Blended Benchmark	3.46%
10 Year	4.28%
Blended Benchmark	3.74%

#### Index Plus (Passive)

Current Quarter*	1.08%
Blended Benchmark**	1.00%
Year To Date	5.52%
Blended Benchmark	5.24%
1 Year	5.52%
Blended Benchmark	5.24%
3 Year	3.09%
Blended Benchmark	3.13%
5 Year	3.39%
Blended Benchmark	3.46%
10 Year	3.75%
Blended Benchmark	3.74%

\* Returns less than 1-year are not annualized. \*\*Breakdown for Blended Benchmark: 7.5% S&P500, 1.5% Russell Mid Cap, 2.5% Russell 2000, 1% MSCI EM FREE, 2% MSCI EAFE, 52.25% BC US Agg, 25.75% ML 1-3 Yr US Corp/Govt, 2% US High Yield Master II, 0.5% Wilshire REIT, and 5% Citi 1 Mth T-Bill. Prior to October 2012, the blended benchmarks were 12% S&P 500; 1% Russell 2000, 2% MSCI EAFE, 40% ML 1-3 Year Corp./Govt, 40% BC Agg, 5% Citi 1 Mth T-Bill. Prior to April 2007, the blended benchmarks were 15% S&P 500, 40% ML 1-3Yr Corp/Govt, 40% BC Agg, and 5% Citi 1 Mth T-Bill.

### ANNUAL RETURNS

#### HighMark Plus (Active)

2008	-9.04%
2009	15.59%
2010	8.68%
2011	2.19%
2012	8.45%
2013	3.69%
2014	3.88%
2015	0.29%
2016	4.18%
2017	6.73%

#### Index Plus (Passive)

2008	-6.70%
2009	10.49%
2010	7.67%
2011	3.70%
2012	6.22%
2013	3.40%
2014	4.32%
2015	0.06%
2016	3.75%
2017	5.52%

### PORTFOLIO FACTS

#### HighMark Plus (Active)

Inception Date	07/2004
No of Funds in Portfolio	19

#### Index Plus (Passive)

Inception Date	07/2004
No of Funds in Portfolio	13

## HOLDINGS

### HighMark Plus (Active)

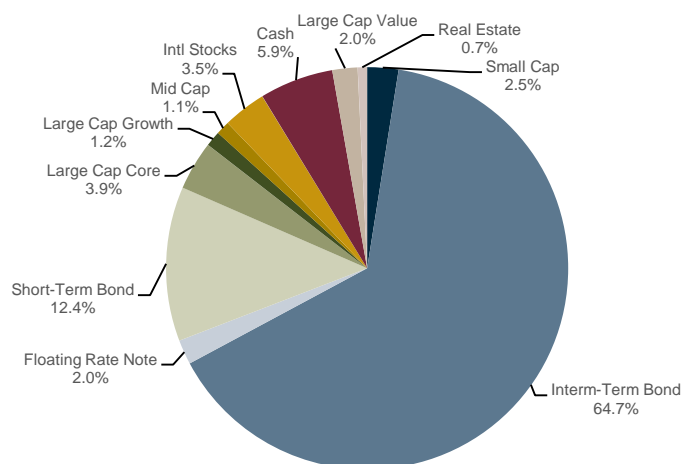
Columbia Contrarian Core Z  
Vanguard Growth & Income Adm  
Dodge & Cox Stock Fund  
Harbor Capital Appreciation  
T. Rowe Price Growth Stock  
iShares Russell Mid-Cap ETF  
Vanguard REIT ETF  
Undiscovered Managers Behavioral Value  
T. Rowe Price New Horizons  
Nationwide Bailard International Equities  
Dodge & Cox International Stock  
MFS International Growth I  
Hartford Schroders Emerging Markets Eq  
Vanguard Short-Term Invest-Grade Adm  
PIMCO Total Return  
Prudential Total Return  
Nationwide Loomis Bond  
Eaton Vance Floating Rate & High Income  
First American Government Obligations Z

### Index Plus (Passive)

iShares Core S&P 500 ETF  
iShares S&P 500/Value  
iShares S&P 500/Growth  
iShares Russell Mid-Cap ETF  
Vanguard REIT ETF  
iShares Russell 2000 Value  
iShares Russell 2000 Growth  
iShares MSCI EAFE  
Vanguard FTSE Emerging Markets ETF  
Vanguard Short-Term Invest-Grade Adm  
iShares Core U.S. Aggregate  
PowerShares Senior Loan  
First American Government Obligations Z

*Holdings are subject to change at the discretion of the investment manager.*

## STYLE



The performance records shown represent size-weighted composites of tax exempt accounts that meet the following criteria: Composites are managed by HighMark's HighMark Capital Advisors (HCA) with full investment authority according to the PARS Conservative active and passive objectives and do not have equity concentration of 25% or more in one common stock security.

The adviser to the PARS portfolios is US Bank, and HighMark serves as sub-adviser to US Bank to manage these portfolios. US Bank may charge clients as much as 0.60% annual management fee based on a sliding scale. As of December 31, 2017, the blended rate is 0.58%. US Bank pays HighMark 60% of the annual management fee for assets sub-advised by HighMark under its sub-advisory agreement with US Bank. The 36 basis points paid to HighMark, as well as other expenses that may be incurred in the management of the portfolio, will reduce the portfolio returns. Assuming an investment for five years, a 5% annual total return, and an annual sub-advisory fee rate of 0.36% deducted from the assets at market at the end of each year, a 10 million initial value would grow to \$12.54 million after fees (Net-of-Fees) and \$12.76 million before fees (Gross-of-Fees). Additional information regarding the firm's policies and procedures for calculating and reporting performance results is available upon request. In Q1 2010, the PARS Composite definition was changed from \$750,000 minimum to no minimum. Performance results are calculated and presented in U.S. dollars and do not reflect the deduction of investment advisory fees, custody fees, or taxes but do reflect the deduction of trading expenses. Returns are calculated based on trade-date accounting.

Blended benchmarks represent HighMark's strategic allocations between equity, fixed income, and cash and are rebalanced monthly. Benchmark returns do not reflect the deduction of advisory fees or other expenses of investing but assumes the reinvestment of dividends and other earnings. An investor cannot invest directly in an index. The unmanaged S&P 500 Index is representative of the performance of large companies in the U.S. stock market. The MSCI EAFE Index is a free float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Free Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The US High Yield Master II Index tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. Wilshire REIT index measures U.S. publicly traded Real Estate Investment Trusts. The unmanaged Bloomberg Barclays Capital (BC) U.S. Aggregate Bond Index is generally representative of the U.S. taxable bond market as a whole. The Merrill Lynch (ML) 1-3 Year U.S. Corporate & Government Index tracks the bond performance of The ML U.S. Corporate & Government Index, with a remaining term to final maturity less than 3 years. The unmanaged Citigroup 1-Month Treasury Bill Index tracks the yield of the 1-month U.S. Treasury Bill.

HighMark Capital Management, Inc. (HighMark), an SEC-registered investment adviser, is a wholly owned subsidiary of MUFG Union Bank, N.A. (MUB). HighMark manages institutional separate account portfolios for a wide variety of for-profit and nonprofit organizations, public agencies, public and private retirement plans, and personal trusts of all sizes. It may also serve as sub-adviser for mutual funds, common trust funds, and collective investment funds. MUB, a subsidiary of MUFG Americas Holdings Corporation, provides certain services to HighMark and is compensated for these services. Past performance does not guarantee future results. Individual account management and construction will vary depending on each client's investment needs and objectives. **Investments employing HighMark strategies are NOT insured by the FDIC or by any other Federal Government Agency, are NOT Bank deposits, are NOT guaranteed by the Bank or any Bank affiliate, and MAY lose value, including possible loss of principal.**

## HIGHMARK CAPITAL MANAGEMENT

350 California Street  
Suite 1600  
San Francisco, CA 94104  
800-582-4734

[www.highmarkcapital.com](http://www.highmarkcapital.com)

### ABOUT THE ADVISER

HighMark® Capital Management, Inc. (HighMark) has over 90 years (including predecessor organizations) of institutional money management experience with more than \$14.0 billion in assets under management. HighMark has a long term disciplined approach to money management and currently manages assets for a wide array of clients.

### ABOUT THE PORTFOLIO MANAGEMENT TEAM

#### Andrew Brown, CFA®

Senior Portfolio Manager  
Investment Experience: since 1994  
HighMark Tenure: since 1997  
Education: MBA, University of Southern California; BA, University of Southern California

#### Salvatore "Tory" Milazzo III, CFA®

Senior Portfolio Manager  
Investment Experience: since 2004  
HighMark Tenure: since 2014  
Education: BA, Colgate University

#### J. Keith Stribling, CFA®

Senior Portfolio Manager  
Investment Experience: since 1985  
HighMark Tenure: since 1995  
Education: BA, Stetson University

#### Christiane Tsuda

Senior Portfolio Manager  
Investment Experience: since 1987  
HighMark Tenure: since 2010  
Education: BA, International Christian University, Tokyo

#### Anne Wimmer, CFA®

Senior Portfolio Manager  
Investment Experience: since 1987  
HighMark Tenure: since 2007  
Education: BA, University of California, Santa Barbara

#### Randy Yurchak, CFA®

Senior Portfolio Manager  
Investment Experience: since 2002  
HighMark Tenure: since 2017  
Education: MBA, Arizona State University; BS, University of Washington

### Asset Allocation Committee

Number of Members: 16  
Average Years of Experience: 26  
Average Tenure (Years): 13

### Manager Review Group

Number of Members: 7  
Average Years of Experience: 20  
Average Tenure (Years): 7

**PARS DIVERSIFIED PORTFOLIOS**  
**MODERATELY CONSERVATIVE**

Q4 2017

**WHY THE PARS DIVERSIFIED MODERATELY CONSERVATIVE PORTFOLIO?**

**Comprehensive Investment Solution**

HighMark® Capital Management, Inc.'s (HighMark) diversified investment portfolios are designed to balance return expectations with risk tolerance. Key features include: sophisticated asset allocation and optimization techniques, four layers of diversification (asset class, style, manager, and security), access to rigorously screened, top tier money managers, flexible investment options, and experienced investment management.

**Rigorous Manager Due Diligence**

Our manager review committee utilizes a rigorous screening process that searches for investment managers and styles that have not only produced above-average returns within acceptable risk parameters, but have the resources and commitment to continue to deliver these results. We have set high standards for our investment managers and funds. This is a highly specialized, time consuming approach dedicated to one goal: competitive and consistent performance.

**Flexible Investment Options**

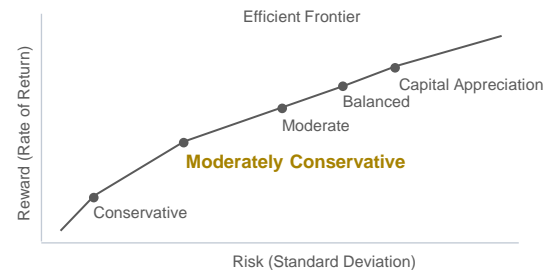
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation approach.

**Risk Management**

The portfolio is constructed to control risk through four layers of diversification – asset classes (cash, fixed income, equity), investment styles (large cap, small cap, international, value, growth), managers and securities. Disciplined mutual fund selection and monitoring process helps to drive return potential while reducing portfolio risk.

**INVESTMENT OBJECTIVE**

To provide current income and moderate capital appreciation. The major portion of the assets is committed to income-producing securities. Market fluctuations should be expected.



**ASSET ALLOCATION — MODERATELY CONSERVATIVE PORTFOLIO**

	Strategic Range	Policy	Tactical
Equity	20 - 40%	30%	30%
Fixed Income	50 - 80%	65%	67%
Cash	0 - 20%	5%	3%

**ANNUALIZED TOTAL RETURNS** (Gross of Investment Management Fees, but Net of Embedded Fund Fees)

HighMark Plus (Active)		Index Plus (Passive)	
Current Quarter*	1.94%	Current Quarter*	1.83%
Blended Benchmark**	1.87%	Blended Benchmark**	1.87%
Year To Date	9.56%	Year To Date	8.08%
Blended Benchmark	8.11%	Blended Benchmark	8.11%
1 Year	9.56%	1 Year	8.08%
Blended Benchmark	8.11%	Blended Benchmark	8.11%
3 Year	4.87%	3 Year	4.38%
Blended Benchmark	4.51%	Blended Benchmark	4.51%
5 Year	5.26%	5 Year	5.06%
Blended Benchmark	5.31%	Blended Benchmark	5.31%
10 Year	4.93%	10 Year	4.40%
Blended Benchmark	4.63%	Blended Benchmark	4.63%

\* Returns less than 1-year are not annualized. \*\*Breakdown for Blended Benchmark: 15.5% S&P500, 3% Russell Mid Cap, 4.5% Russell 2000, 2% MSCI EM FREE, 4% MSCI EAFE, 49.25% BC US Agg, 14% ML 1-3 Yr US Corp/Gov't, 1.75% US High Yield Master II, 1% Wilshire REIT, and 5% Citi 1 Mth T-Bill. Prior to October 2012, the blended benchmarks were 25% S&P 500; 1.5% Russell 2000, 3.5% MSCI EAFE, 25% ML 1-3 Year Corp./Govt, 40% BC Agg, 5% Citi 1 Mth T-Bill. Prior to April 2007, the blended benchmarks were 30% S&P 500, 25% ML 1-3Yr Corp/Gov, 40% BC Agg, and 5% Citi 1 Mth T-Bill.

**ANNUAL RETURNS**

HighMark Plus (Active)		Index Plus (Passive)	
2008	-15.37%	2008	-12.40%
2009	18.71%	2009	11.92%
2010	10.46%	2010	9.72%
2011	1.75%	2011	3.24%
2012	10.88%	2012	8.24%
2013	7.30%	2013	6.78%
2014	4.41%	2014	5.40%
2015	0.32%	2015	-0.18%
2016	4.93%	2016	5.42%
2017	9.56%	2017	8.08%

**PORTFOLIO FACTS**

HighMark Plus (Active)		Index Plus (Passive)	
Inception Date	08/2004	Inception Date	05/2005
No of Funds in Portfolio	19	No of Funds in Portfolio	13

## HOLDINGS

### HighMark Plus (Active)

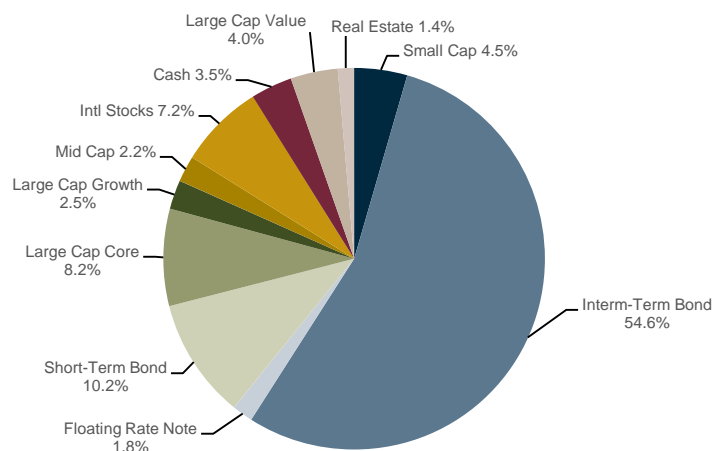
Columbia Contrarian Core Z  
Vanguard Growth & Income Adm  
Dodge & Cox Stock Fund  
Harbor Capital Appreciation  
T. Rowe Price Growth Stock  
iShares Russell Mid-Cap ETF  
Vanguard REIT ETF  
Undiscovered Managers Behavioral Value  
T. Rowe Price New Horizons  
Nationwide Baidard International Equities  
Dodge & Cox International Stock  
MFS International Growth I  
Hartford Schroders Emerging Markets Eq  
Vanguard Short-Term Invest-Grade Adm  
PIMCO Total Return  
Prudential Total Return  
Nationwide Loomis Bond  
Eaton Vance Floating Rate & High Income  
First American Government Obligations Z

### Index Plus (Passive)

iShares Core S&P 500 ETF  
iShares S&P 500/Value  
iShares S&P 500/Growth  
iShares Russell Mid-Cap ETF  
Vanguard REIT ETF  
iShares Russell 2000 Value  
iShares Russell 2000 Growth  
iShares MSCI EAFE  
Vanguard FTSE Emerging Markets ETF  
Vanguard Short-Term Invest-Grade Adm  
iShares Core U.S. Aggregate  
PowerShares Senior Loan  
First American Government Obligations Z

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## STYLE



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Blended benchmarks represent HighMark's strategic allocations between equity, fixed income, and cash and are rebalanced monthly. Benchmark returns do not reflect the deduction of advisory fees or other expenses of investing but assumes the reinvestment of dividends and other earnings. An investor cannot invest directly in an index. The unmanaged S&P 500 Index is representative of the performance of large companies in the U.S. stock market. The MSCI EAFE Index is a free float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Free Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The US High Yield Master II Index tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. Wilshire REIT index measures U.S. publicly traded Real Estate Investment Trusts. The unmanaged Bloomberg Barclays Capital (BC) U.S. Aggregate Bond Index is generally representative of the U.S. taxable bond market as a whole. The Merrill Lynch (ML) 1-3 Year U.S. Corporate & Government Index tracks the bond performance of The ML U.S. Corporate & Government Index, with a remaining term to final maturity less than 3 years. The unmanaged Citigroup 1-Month Treasury Bill Index tracks the yield of the 1-month U.S. Treasury Bill.

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## HIGHMARK CAPITAL MANAGEMENT

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[www.highmarkcapital.com](http://www.highmarkcapital.com)

### ABOUT THE ADVISER

HighMark® Capital Management, Inc. (HighMark) has over 90 years (including predecessor organizations) of institutional money management experience with more than \$14.0 billion in assets under management. HighMark has a long term disciplined approach to money management and currently manages assets for a wide array of clients.

### ABOUT THE PORTFOLIO MANAGEMENT TEAM

#### Andrew Brown, CFA®

Senior Portfolio Manager  
Investment Experience: since 1994  
HighMark Tenure: since 1997  
Education: MBA, University of Southern California; BA, University of Southern California

#### Salvatore "Tory" Milazzo III, CFA®

Senior Portfolio Manager  
Investment Experience: since 2004  
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Education: BA, Colgate University

#### J. Keith Stribling, CFA®

Senior Portfolio Manager  
Investment Experience: since 1985  
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Education: BA, Stetson University

#### Christiane Tsuda

Senior Portfolio Manager  
Investment Experience: since 1987  
HighMark Tenure: since 2010  
Education: BA, International Christian University, Tokyo

#### Anne Wimmer, CFA®

Senior Portfolio Manager  
Investment Experience: since 1987  
HighMark Tenure: since 2007  
Education: BA, University of California, Santa Barbara

#### Randy Yurchak, CFA®

Senior Portfolio Manager  
Investment Experience: since 2002  
HighMark Tenure: since 2017  
Education: MBA, Arizona State University; BS, University of Washington

### Asset Allocation Committee

Number of Members: 16  
Average Years of Experience: 26  
Average Tenure (Years): 13

### Manager Review Group

Number of Members: 7  
Average Years of Experience: 20  
Average Tenure (Years): 7

**PARS DIVERSIFIED PORTFOLIOS**  
**MODERATE**

Q4 2017

**WHY THE PARS DIVERSIFIED MODERATE PORTFOLIO?**

**Comprehensive Investment Solution**

HighMark® Capital Management, Inc.'s (HighMark) diversified investment portfolios are designed to balance return expectations with risk tolerance. Key features include: sophisticated asset allocation and optimization techniques, four layers of diversification (asset class, style, manager, and security), access to rigorously screened, top tier money managers, flexible investment options, and experienced investment management.

**Rigorous Manager Due Diligence**

Our manager review committee utilizes a rigorous screening process that searches for investment managers and styles that have not only produced above-average returns within acceptable risk parameters, but have the resources and commitment to continue to deliver these results. We have set high standards for our investment managers and funds. This is a highly specialized, time consuming approach dedicated to one goal: competitive and consistent performance.

**Flexible Investment Options**

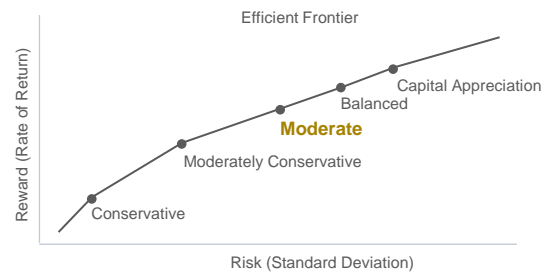
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**Risk Management**

The portfolio is constructed to control risk through four layers of diversification – asset classes (cash, fixed income, equity), investment styles (large cap, small cap, international, value, growth), managers and securities. Disciplined mutual fund selection and monitoring process helps to drive return potential while reducing portfolio risk.

**INVESTMENT OBJECTIVE**

To provide growth of principal and income. It is expected that dividend and interest income will comprise a significant portion of total return, although growth through capital appreciation is equally important.



**ASSET ALLOCATION — MODERATE PORTFOLIO**

	Strategic Range	Policy	Tactical
Equity	40 - 60%	50%	50%
Fixed Income	40 - 60%	45%	47%
Cash	0 - 20%	5%	3%

**ANNUALIZED TOTAL RETURNS** (Gross of Investment Management Fees, but Net of Embedded Fund Fees)

HighMark Plus (Active)		Index Plus (Passive)	
Current Quarter*	2.97%	Current Quarter*	2.86%
Blended Benchmark**	2.95%	Blended Benchmark**	2.95%
Year To Date	13.19%	Year To Date	11.59%
Blended Benchmark	11.65%	Blended Benchmark	11.65%
1 Year	13.19%	1 Year	11.59%
Blended Benchmark	11.65%	Blended Benchmark	11.65%
3 Year	6.46%	3 Year	5.98%
Blended Benchmark	6.20%	Blended Benchmark	6.20%
5 Year	7.42%	5 Year	7.26%
Blended Benchmark	7.69%	Blended Benchmark	7.69%
10 Year	5.45%	10 Year	5.51%
Blended Benchmark	5.56%	Blended Benchmark	5.56%

\* Returns less than 1-year are not annualized. \*\*Breakdown for Blended Benchmark: 26.5% S&P500, 5% Russell Mid Cap, 7.5% Russell 2000, 3.25% MSCI EM FREE, 6% MSCI EAFE, 33.50% BC US Agg, 10% ML 1-3 Yr US Corp/Gov't, 1.50% US High Yield Master II, 1.75% Wilshire REIT, and 5% Citi 1 Mth T-Bill. Prior to October 2012, the blended benchmarks were 43% S&P 500; 2% Russell 2000, 5% MSCI EAFE, 15% ML 1-3 Year Corp./Govt, 30% BC Agg, 5% Citi 1 Mth T-Bill. Prior to April 2007, the blended benchmarks were 50% S&P 500, 15% ML 1-3Yr Corp/Gov, 30% BC Agg, and 5% Citi 1 Mth T-Bill.

**ANNUAL RETURNS**

HighMark Plus (Active)		Index Plus (Passive)	
2008	-22.88%	2008	-18.14%
2009	21.47%	2009	16.05%
2010	12.42%	2010	11.77%
2011	0.55%	2011	2.29%
2012	12.25%	2012	10.91%
2013	13.06%	2013	12.79%
2014	4.84%	2014	5.72%
2015	0.14%	2015	-0.52%
2016	6.44%	2016	7.23%
2017	13.19%	2017	11.59%

**PORTFOLIO FACTS**

HighMark Plus (Active)		Index Plus (Passive)	
Inception Date	10/2004	Inception Date	05/2006
No of Funds in Portfolio	19	No of Funds in Portfolio	13

## HOLDINGS

### HighMark Plus (Active)

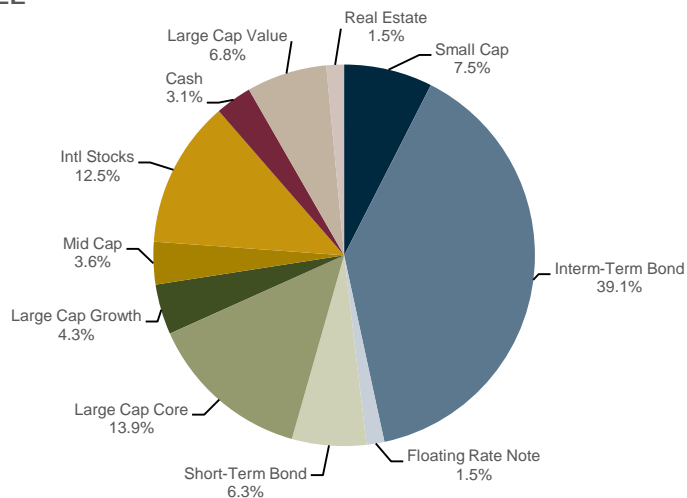
Columbia Contrarian Core Z  
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Dodge & Cox International Stock  
MFS International Growth I  
Hartford Schroders Emerging Markets Eq  
Vanguard Short-Term Invest-Grade Adm  
PIMCO Total Return  
Prudential Total Return  
Nationwide Loomis Bond  
Eaton Vance Floating Rate & High Income  
First American Government Obligations Z

### Index Plus (Passive)

iShares Core S&P 500 ETF  
iShares S&P 500/Value  
iShares S&P 500/Growth  
iShares Russell Mid-Cap ETF  
Vanguard REIT ETF  
iShares Russell 2000 Value  
iShares Russell 2000 Growth  
iShares MSCI EAFE  
Vanguard FTSE Emerging Markets ETF  
Vanguard Short-Term Invest-Grade Adm  
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*Holdings are subject to change at the discretion of the investment manager.*

## STYLE



The performance records shown represent size-weighted composites of tax exempt accounts that meet the following criteria: Composites are managed by HighMark's HighMark Capital Advisors (HCA) with full investment authority according to the PARS Moderate active and passive objectives and do not have equity concentration of 25% or more in one common stock security.

The adviser to the PARS portfolios is US Bank, and HighMark serves as sub-adviser to US Bank to manage these portfolios. US Bank may charge clients as much as 0.60% annual management fee based on a sliding scale. As of December 31, 2017, the blended rate is 0.58%. US Bank pays HighMark 60% of the annual management fee for assets sub-advised by HighMark under its sub-advisory agreement with US Bank. The 36 basis points paid to HighMark, as well as other expenses that may be incurred in the management of the portfolio, will reduce the portfolio returns. Assuming an investment for five years, a 5% annual total return, and an annual sub-advisory fee rate of 0.36% deducted from the assets at market at the end of each year, a 10 million initial value would grow to \$12.54 million after fees (Net-of-Fees) and \$12.76 million before fees (Gross-of-Fees). Additional information regarding the firm's policies and procedures for calculating and reporting performance results is available upon request. In Q1 2010, the PARS Composite definition was changed from \$750,000 minimum to no minimum. Performance results are calculated and presented in U.S. dollars and do not reflect the deduction of investment advisory fees, custody fees, or taxes but do reflect the deduction of trading expenses. Returns are calculated based on trade-date accounting.

Blended benchmarks represent HighMark's strategic allocations between equity, fixed income, and cash and are rebalanced monthly. Benchmark returns do not reflect the deduction of advisory fees or other expenses of investing but assumes the reinvestment of dividends and other earnings. An investor cannot invest directly in an index. The unmanaged S&P 500 Index is representative of the performance of large companies in the U.S. stock market. The MSCI EAFE Index is a free float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Free Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The US High Yield Master II Index tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. Wilshire REIT index measures U.S. publicly traded Real Estate Investment Trusts. The unmanaged Bloomberg Barclays Capital (BC) U.S. Aggregate Bond Index is generally representative of the U.S. taxable bond market as a whole. The Merrill Lynch (ML) 1-3 Year U.S. Corporate & Government Index tracks the bond performance of The ML U.S. Corporate & Government Index, with a remaining term to final maturity less than 3 years. The unmanaged Citigroup 1-Month Treasury Bill Index tracks the yield of the 1-month U.S. Treasury Bill.

HighMark Capital Management, Inc. (HighMark), an SEC-registered investment adviser, is a wholly owned subsidiary of MUFG Union Bank, N.A. (MUB). HighMark manages institutional separate account portfolios for a wide variety of for-profit and nonprofit organizations, public agencies, public and private retirement plans, and personal trusts of all sizes. It may also serve as sub-adviser for mutual funds, common trust funds, and collective investment funds. MUB, a subsidiary of MUFG Americas Holdings Corporation, provides certain services to HighMark and is compensated for these services. Past performance does not guarantee future results. Individual account management and construction will vary depending on each client's investment needs and objectives. **Investments employing HighMark strategies are NOT insured by the FDIC or by any other Federal Government Agency, are NOT Bank deposits, are NOT guaranteed by the Bank or any Bank affiliate, and MAY lose value, including possible loss of principal.**

## HIGHMARK CAPITAL MANAGEMENT

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Average Years of Experience: 26

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**PARS DIVERSIFIED PORTFOLIOS**  
**BALANCED**

Q4 2017

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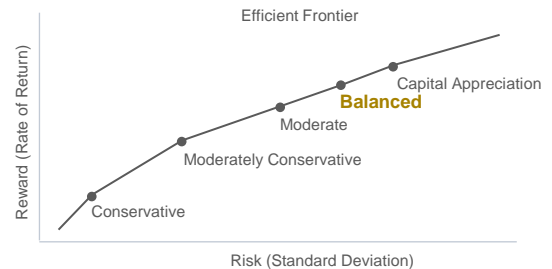
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The portfolio is constructed to control risk through four layers of diversification – asset classes (cash, fixed income, equity), investment styles (large cap, small cap, international, value, growth), managers and securities. Disciplined mutual fund selection and monitoring process helps to drive return potential while reducing portfolio risk.

**INVESTMENT OBJECTIVE**

To provide growth of principal and income. While dividend and interest income are an important component of the objective's total return, it is expected that capital appreciation will comprise a larger portion of the total return.



**ASSET ALLOCATION — BALANCED PORTFOLIO**

	Strategic Range	Policy	Tactical
Equity	50 – 70%	60%	60%
Fixed Income	30 – 50%	35%	37%
Cash	0 – 20%	5%	3%

**ANNUALIZED TOTAL RETURNS** (Gross of Investment Management Fees, but Net of Embedded Fund Fees)

HighMark Plus (Active)		Index Plus (Passive)	
Current Quarter*	3.49%	Current Quarter*	3.37%
Blended Benchmark**	3.51%	Blended Benchmark**	3.51%
Year To Date	15.46%	Year To Date	13.39%
Blended Benchmark	13.54%	Blended Benchmark	13.54%
1 Year	15.46%	1 Year	13.39%
Blended Benchmark	13.54%	Blended Benchmark	13.54%
3 Year	7.25%	3 Year	6.78%
Blended Benchmark	7.06%	Blended Benchmark	7.06%
5 Year	8.54%	5 Year	8.35%
Blended Benchmark	8.89%	Blended Benchmark	8.89%
10 Year	5.74%	10 Year	5.63%
Blended Benchmark	6.06%	Blended Benchmark	6.06%

\* Returns less than 1-year are not annualized. \*\*Breakdown for Blended Benchmark: 32% S&P500, 6% Russell Mid Cap, 9% Russell 2000, 4% MSCI EM FREE, 7% MSCI EAFE, 27% BC US Agg, 6.75% ML 1-3 Yr US Corp/Gov't, 1.25% US High Yield Master II, 2% Wilshire REIT, and 5% Citi 1 Mth T-Bill. Prior to October 2012, the blended benchmarks were 51% S&P 500; 3% Russell 2000, 6% MSCI EAFE, 5% ML 1-3 Year Corp./Govt, 30% BC Agg, 5% Citi 1 Mth T-Bill. Prior to April 2007, the blended benchmarks were 60% S&P 500, 5% ML 1-3Yr Corp/Gov, 30% BC Agg, and 5% Citi 1 Mth T-Bill.

**ANNUAL RETURNS**

HighMark Plus (Active)		Index Plus (Passive)	
2008	-25.72%	2008	-23.22%
2009	21.36%	2009	17.62%
2010	14.11%	2010	12.76%
2011	-0.46%	2011	1.60%
2012	13.25%	2012	11.93%
2013	16.61%	2013	15.63%
2014	4.70%	2014	6.08%
2015	0.04%	2015	-0.81%
2016	6.82%	2016	8.26%
2017	15.46%	2017	13.39%

**PORTFOLIO FACTS**

HighMark Plus (Active)		Index Plus (Passive)	
Inception Data	10/2006	Inception Data	10/2007
No of Funds in Portfolio	19	No of Funds in Portfolio	13

## HOLDINGS

### HighMark Plus (Active)

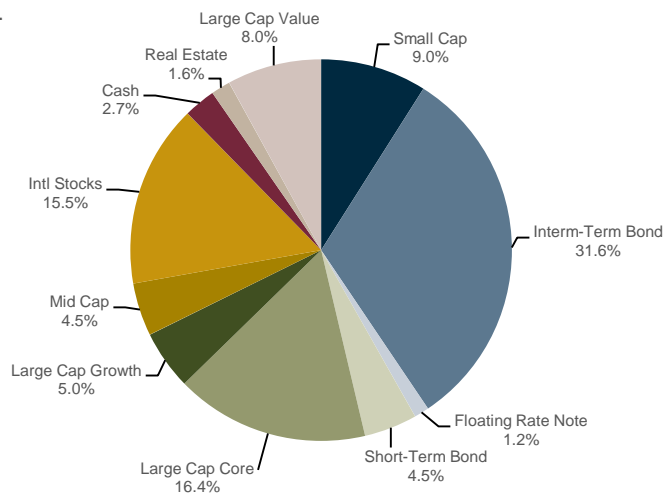
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## STYLE



The performance records shown represent size-weighted composites of tax exempt accounts that meet the following criteria: Composites are managed by HighMark's HighMark Capital Advisors (HCA) with full investment authority according to the PARS Balanced active and passive objectives and do not have equity concentration of 25% or more in one common stock security.

The composite name has been changed from PARS Balanced/Moderately Aggressive to PARS Balanced on 5/1/2013. The adviser to the PARS portfolios is US Bank, and HighMark serves as sub-adviser to US Bank to manage these portfolios. US Bank may charge clients as much as 0.60% annual management fee based on a sliding scale. As of December 31, 2017, the blended rate is 0.58%. US Bank pays HighMark 60% of the annual management fee for assets sub-advised by HighMark under its sub-advisory agreement with US Bank. The 36 basis points paid to HighMark, as well as other expenses that may be incurred in the management of the portfolio, will reduce the portfolio returns. Assuming an investment for five years, a 5% annual total return, and an annual sub-advisory fee rate of 0.36% deducted from the assets at market at the end of each year, a 10 million initial value would grow to \$12.54 million after fees (Net-of-Fees) and \$12.76 million before fees (Gross-of-Fees). Additional information regarding the firm's policies and procedures for calculating and reporting performance results is available upon request. In Q1 2010, the PARS Composite definition was changed from \$750,000 minimum to no minimum. Performance results are calculated and presented in U.S. dollars and do not reflect the deduction of investment advisory fees, custody fees, or taxes but do reflect the deduction of trading expenses. Returns are calculated based on trade-date accounting.

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## PARS DIVERSIFIED PORTFOLIOS CAPITAL APPRECIATION

Q4 2017

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#### Comprehensive Investment Solution

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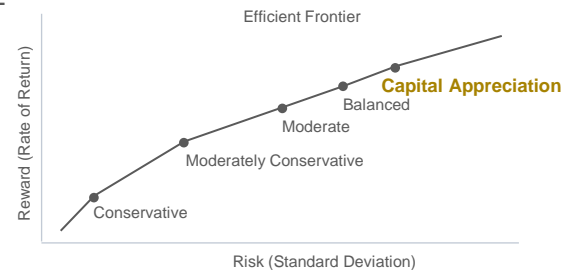
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### INVESTMENT OBJECTIVE

The primary goal of the Capital Appreciation objective is growth of principal. The major portion of the assets are invested in equity securities and market fluctuations are expected.



### ASSET ALLOCATION — CAPITAL APPRECIATION PORTFOLIO

	Strategic Range	Policy	Tactical
Equity	65 - 85%	75%	75%
Fixed Income	10 - 30%	20%	23%
Cash	0 - 20%	5%	2%

### ANNUALIZED TOTAL RETURNS (Gross of Investment Management Fees, but Net of Embedded Fund Fees)

Current Quarter*	4.16%
Blended Benchmark**	4.34%
Year To Date	16.72%
Blended Benchmark	16.55%
1 Year	16.72%
Blended Benchmark	16.55%
3 Year	8.20%
Blended Benchmark	8.27%
5 Year	10.08%
Blended Benchmark	10.56%
Inception to Date (108-Mos.)	10.90%
Blended Benchmark	11.64%

\* Returns less than 1-year are not annualized. \*\*Breakdown for Blended Benchmark: 39.5% S&P500, 7.5% Russell Mid Cap, 10.5% Russell 2000, 5.25% MSCI EM FREE, 10.25% MSCI EAFE, 16% BC US Agg, 3% ML 1-3 Yr US Corp/Gov't, 1% US High Yield Master II, 2% Wilshire REIT, and 5% Citi 1 Mth T-Bill.

### ANNUAL RETURNS

2008	N/A%
2009	23.77%
2010	12.95%
2011	-1.35%
2012	13.87%
2013	20.33%
2014	6.05%
2015	-0.27%
2016	8.81%
2017	16.72%

### PORTFOLIO FACTS

HighMark Plus (Active)		Index Plus (Passive)	
Inception Data	01/2009	Inception Data	N/A
No of Funds in Portfolio	19	No of Funds in Portfolio	13

## HOLDINGS

### HighMark Plus (Active)

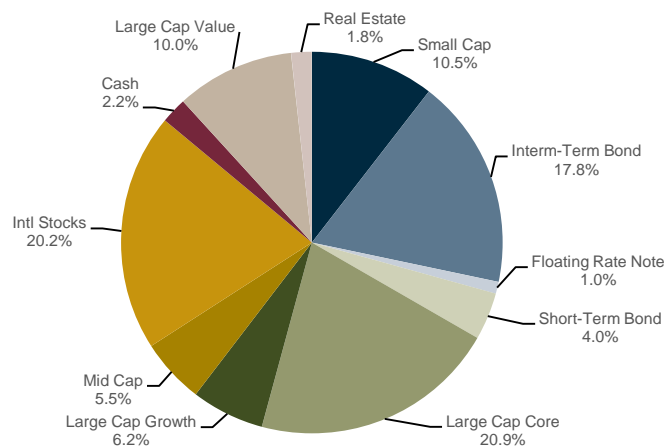
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MFS International Growth I  
Hartford Schroders Emerging Markets Eq  
Vanguard Short-Term Invest-Grade Adm  
PIMCO Total Return  
Prudential Total Return  
Nationwide Loomis Bond  
Eaton Vance Floating Rate & High Income  
First American Government Obligations Z

### Index Plus (Passive)

iShares Core S&P 500 ETF  
iShares S&P 500/Value  
iShares S&P 500/Growth  
iShares Russell Mid-Cap ETF  
Vanguard REIT ETF  
iShares Russell 2000 Value  
iShares Russell 2000 Growth  
iShares MSCI EAFE  
Vanguard FTSE Emerging Markets ETF  
Vanguard Short-Term Invest-Grade Adm  
iShares Core U.S. Aggregate  
PowerShares Senior Loan  
First American Government Obligations Z

*Holdings are subject to change at the discretion of the investment manager.*

## STYLE



The performance records shown represent size-weighted composites of tax exempt accounts that meet the following criteria: Composites are managed by HighMark's HighMark Capital Advisors (HCA) with full investment authority according to the PARS Capital Appreciation active and passive objectives and do not have equity concentration of 25% or more in one common stock security.

The adviser to the PARS portfolios is US Bank, and HighMark serves as sub-adviser to US Bank to manage these portfolios. US Bank may charge clients as much as 0.60% annual management fee based on a sliding scale. As of December 31, 2017, the blended rate is 0.58%. US Bank pays HighMark 60% of the annual management fee for assets sub-advised by HighMark under its sub-advisory agreement with US Bank. The 36 basis points paid to HighMark, as well as other expenses that may be incurred in the management of the portfolio, will reduce the portfolio returns. Assuming an investment for five years, a 5% annual total return, and an annual sub-advisory fee rate of 0.36% deducted from the assets at market at the end of each year, a 10 million initial value would grow to \$12.54 million after fees (Net-of-Fees) and \$12.76 million before fees (Gross-of-Fees). Additional information regarding the firm's policies and procedures for calculating and reporting performance results is available upon request. In Q1 2010, the PARS Composite definition was changed from \$750,000 minimum to no minimum. Performance results are calculated and presented in U.S. dollars and do not reflect the deduction of investment advisory fees, custody fees, or taxes but do reflect the deduction of trading expenses. Returns are calculated based on trade-date accounting.

Blended benchmarks represent HighMark's strategic allocations between equity, fixed income, and cash and are rebalanced monthly. Benchmark returns do not reflect the deduction of advisory fees or other expenses of investing but assumes the reinvestment of dividends and other earnings. An investor cannot invest directly in an index. The unmanaged S&P 500 Index is representative of the performance of large companies in the U.S. stock market. The MSCI EAFE Index is a free float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Free Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The US High Yield Master II Index tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. Wilshire REIT index measures U.S. publicly traded Real Estate Investment Trusts. The unmanaged Bloomberg Barclays Capital (BC) U.S. Aggregate Bond Index is generally representative of the U.S. taxable bond market as a whole. The Merrill Lynch (ML) 1-3 Year U.S. Corporate & Government Index tracks the bond performance of The ML U.S. Corporate & Government Index, with a remaining term to final maturity less than 3 years. The unmanaged Citigroup 1-Month Treasury Bill Index tracks the yield of the 1-month U.S. Treasury Bill.

HighMark Capital Management, Inc. (HighMark), an SEC-registered investment adviser, is a wholly owned subsidiary of MUFG Union Bank, N.A. (MUB). HighMark manages institutional separate account portfolios for a wide variety of for-profit and nonprofit organizations, public agencies, public and private retirement plans, and personal trusts of all sizes. It may also serve as sub-adviser for mutual funds, common trust funds, and collective investment funds. MUB, a subsidiary of MUFG Americas Holdings Corporation, provides certain services to HighMark and is compensated for these services. Past performance does not guarantee future results. Individual account management and construction will vary depending on each client's investment needs and objectives. **Investments employing HighMark strategies are NOT insured by the FDIC or by any other Federal Government Agency, are NOT Bank deposits, are NOT guaranteed by the Bank or any Bank affiliate, and MAY lose value, including possible loss of principal.**

## HIGHMARK CAPITAL MANAGEMENT

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### ABOUT THE ADVISER

HighMark® Capital Management, Inc. (HighMark) has over 90 years (including predecessor organizations) of institutional money management experience with more than \$14.0 billion in assets under management. HighMark has a long term disciplined approach to money management and currently manages assets for a wide array of clients.

### ABOUT THE PORTFOLIO MANAGEMENT TEAM

#### Andrew Brown, CFA®

Senior Portfolio Manager

Investment Experience: since 1994

HighMark Tenure: since 1997

Education: MBA, University of Southern California; BA, University of Southern California

#### Salvatore "Tory" Milazzo III, CFA®

Senior Portfolio Manager

Investment Experience: since 2004

HighMark Tenure: since 2014

Education: BA, Colgate University

#### J. Keith Stribling, CFA®

Senior Portfolio Manager

Investment Experience: since 1985

HighMark Tenure: since 1995

Education: BA, Stetson University

#### Christiane Tsuda

Senior Portfolio Manager

Investment Experience: since 1987

HighMark Tenure: since 2010

Education: BA, International Christian University, Tokyo

#### Anne Wimmer, CFA®

Senior Portfolio Manager

Investment Experience: since 1987

HighMark Tenure: since 2007

Education: BA, University of California, Santa Barbara

#### Randy Yurchak, CFA®

Senior Portfolio Manager

Investment Experience: since 2002

HighMark Tenure: since 2017

Education: MBA, Arizona State University;

BS, University of Washington

### Asset Allocation Committee

Number of Members: 16

Average Years of Experience: 26

Average Tenure (Years): 13

### Manager Review Group

Number of Members: 7

Average Years of Experience: 20

Average Tenure (Years): 7