

OPEB Pre-Funding and Pension Rate Stabilization Program (PRSP) using 115 Trust



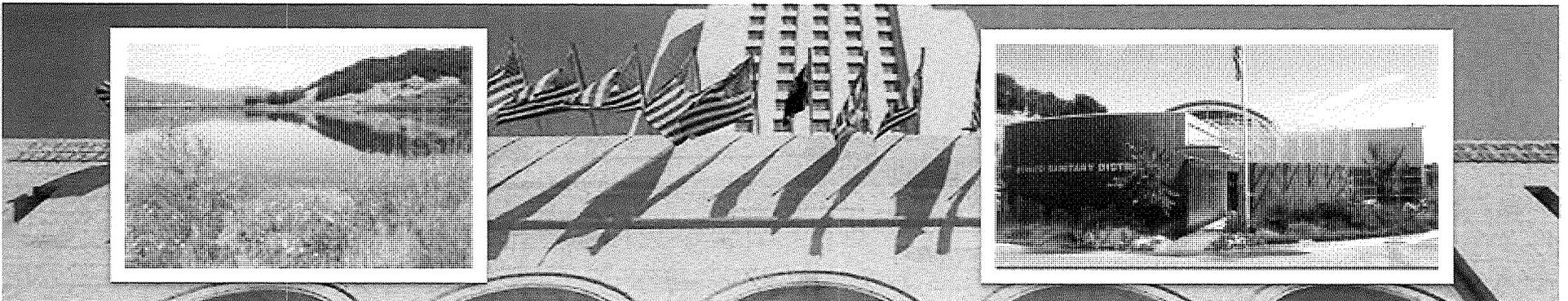
Novato Sanitary District

November 30, 2015

PUBLIC
AGENCY
RETIREMENT
SERVICES

PARS

TRUSTED SOLUTIONS. LASTING RESULTS.



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PARS

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Client Lists and References

OPEB/Pension Trust Team

	 		
Role	Trust Administrator and Consultant <ul style="list-style-type: none"> • Recordkeeping/Sub-trust accounting • Actuarial Coordination • Monitor Contributions/Process Disbursements • Monitor Plan Compliance • Ongoing Client Liaison • Pre-fund Pension Option – NEW! 	Trustee <ul style="list-style-type: none"> • Safeguard plan assets • Oversight protection <ul style="list-style-type: none"> • Plan Fiduciary • Custodian of assets 	Investment Manager <ul style="list-style-type: none"> • An investment sub-advisor to U.S. Bank <ul style="list-style-type: none"> • Open architecture • Investment policy assistance
Corporate Experience	31 years (1984 – 2015)	152 years (1863 – 2015)	96 years (1919 – 2015)
OPEB Experience	19 years	10 years	19 years
Number of plans under administration	1,400+ plans for 700+ public agencies		
Dollars under administration	More than \$1.8 billion	More than \$4 trillion	More than \$15 billion under management

More than 180 OPEB/Pension Clients

CITIES & TOWNS

Alameda	Hurst, TX
Allen, TX	Johnston, RI
Atherton	La Mesa – PENSION TOO
Bakersfield	La Verne
Barrington, RI	Lake Forest – PENSION TOO
Brea – PENSION TOO	Lakewood
Brisbane	Lincoln, RI
Camarillo	Livermore
Carver, MA	Mammoth Lakes
Central Falls, RI	Mansfield, TX
Charlestown, RI	Morgan Hill – PENSION TOO
Colma – PENSION TOO	N Kingston, RI
Commerce	N Richland Hills, TX
Conroe, TX	Norwalk
Coppell, TX	Novato
Coronado – PENSION TOO	Plainville, MA
Covina	Plympton, MA
Crescent City	Redding
Cupertino	Rialto
Duarte	Richardson, TX
East Providence, RI	Richmond
Eastham, MA	Rohnert Park – PENSION ONLY
Elk Grove	Rosemead
Euess, TX	Rowlett, TX
Fort Worth, TX	San Leandro
Fountain Valley	Santa Clara
Fullerton – PENSION TOO	Santa Clarita
Galt	Sausalito – PENSION TOO
Garland, TX	Scituate, RI
Glocester, RI	Solana Beach – PENSION TOO
Half Moon Bay	Southlake, TX
Haltom City, TX	Temple City
Healdsburg – PENSION ONLY	Tyler, TX
Hercules	Union City
Hermosa Beach	Wareham, MA

COUNTIES

Amador
Contra Costa
Harrison, TX
Humboldt – PENSION ONLY
Imperial
Inyo
Kern
Merced
Mono
Plumas
Plymouth, MA
San Benito
Shasta
Solano – PENSION TOO
Sonoma
Trinity
Yolo

SPECIAL DISTRICTS

Bodega Bay Public Utility District	Placer County Resource Conservation District
Calaveras County Water District	Rancho Murrieta Community Services District
California Joint Powers IA	Rowland Water District
California Joint Powers RMA	San Mateo County MVCD
Central Contra Costa Sanitary District	Santa Barbara County Law Library
Central Contra Costa Transit Authority	Santa Cruz Regional 9-1-1
Coachella Valley Water District	South Montebello Irrigation District
Coastside Fire Protection District	South Orange County Wastewater Authority
Contra Costa Mosquito & Vector Control District	South Placer Fire Protection District
Cotuit Fire District, MA	Southern Marin Fire Protection District
Crestline Village Water District	Superior Court of CA, County of Contra Costa
Delta Diablo	Superior Court of CA, County of Imperial
Desert Recreation District	Superior Court of CA, County of Inyo
Eastern Sierra Community Services District	Superior Court of CA, County of Kern – PENSION TOO
Fresno Irrigation District	Superior Court of CA, County of Marin
Fresno Metropolitan Flood Control District	Superior Court of CA, County of Merced
Glenn-Colusa Irrigation District	Superior Court of CA, County of Orange
Great Basin Unified Air Pollution Control District	Superior Court of CA, County of San Mateo
Hayward Area Recreation & Park District	Superior Court of CA, County of Shasta
Housing Authority of Florence, SC	Superior Court of CA, County of Siskiyou
Housing Authority of the County of Contra Costa	Superior Court of CA, County of Sonoma
Housing Authority of the County of San Bernardino	Tarrant Regional Water District, TX
Humboldt No. 1 Fire Protection District	Vallejo Sanitation & Flood Control District
Menlo Park Fire Protection District	Ventura Regional Sanitation District
Mesa Water District	Walnut Valley Water District
Metropolitan Transportation Commission	Wareham Fire District, MA
Mid-Peninsula Water District	West Barnstable Fire District, MA
Mojave Desert Air Quality Management District	West County Wastewater District
Montecito Fire Protection District	Western Riverside Council of Governments
Monterey Bay Unified Air Pollution Control Dist	
Moraga-Orinda Fire Protection District	
Municipal Water District of Orange County	
Northern Lancaster County Reg Police Dept, PA	
Orange County Vector Control District	
Orange County Water District	

More than 180 OPEB/Pension Clients

SCHOOL DISTRICTS

Auburn Union School District
Bass Lake Joint Union Elementary School District
Bellflower Unified School District
Beverly Hills Unified School District
Calistoga Joint Unified School District
Cape Cod Reg Vocational Tech High School District, MA
Corning Union Elementary School District
Cranston School District, RI
East Providence School District, RI
El Dorado Union High School District
Fowler Unified School District
John Swett Unified School District
Lemon Grove School District – PENSION TOO
Manteca Unified School District
Monomoy Regional School District, MA
Moreno Valley Unified School District

New Shoreham School District, RI
Ocean View School District – PENSION TOO
Ontario-Montclair School District
Red Bluff Joint Union High School District
Red Bluff Union Elementary School District
River Delta Unified School District
Riverdale Joint Union School District
San Bruno Park School District
San Marino Unified School District
Santa Rita Union School District
S Worcester Reg Vocational School District, MA
Trona Joint Unified School District
Twin Rivers Unified School District
Upper Cape Cod Reg Vocational Tech SD, MA
Visalia Unified School District
Whitman-Hanson Regional School District, MA

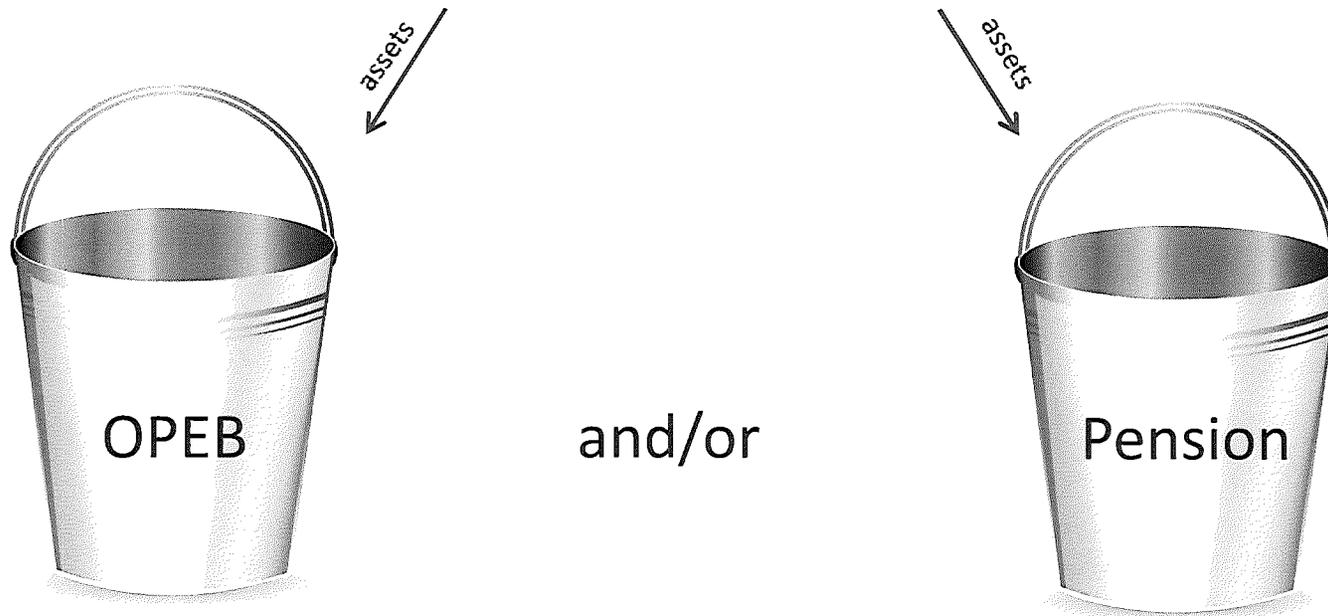
COMMUNITY COLLEGE DISTRICTS

Quincy College, MA
State Center Community College District
Yosemite Community College District

SPECIAL EDUCATION DISTRICT

INTELECOM
Valley Collaborative, MA

PARS IRS-Approved Combination 115 Trust



- Assets are sub-accounted for separately
- Pre-fund one now and the other later or not at all
- Can choose different investment risk tolerance levels for each
- Access OPEB account for OPEB expenses only; vice versa – pension assets for pension obligations only
- Assets (OPEB and Pension) will aggregate and reach lower fees on tiered schedule sooner – saving money!

Why Should Agencies Pre-fund OPEB?

- Greater rate of return which lowers your liabilities
- Contributions into trust are “assets” that offset liabilities on financial statements
- GASB 75 – OPEB liabilities go from footnote to line item in 2017
- GFOA recommends pre-funding OPEB and considers it “best practice” (January 2012)
- Credit rating companies look more favorably on agencies who adopt an Irrevocable Trust and pre-fund
 - At least 4 agencies have improved credit rating
 - Higher credit rating means lower borrowing costs
- Lower liabilities give an agency a chance to keep some form of retiree health benefit; higher liabilities might cause an agency to eliminate post-employment benefits
- OPEB assets are accessible to reimburse District for implicit subsidy (difference between the claims generated by retirees and the blended premium)
- Pre-funding has no downside other than market volatility (which is similar to pension)

HYPOTHETICAL

AGENCY'S BANK

General Fund

PARS OPEB/Pension Fund



10X
Potential
Earnings



Doesn't it make good fiscal sense to put some of your money into the OPEB/Pension Trust and lower your liabilities?

Past performance is not an indication of future results.

OPEB Actuarial Results

OPEB Actuarial Results

We have received the actuarial reports by North Bay Pensions dated August 27, 2015 with a valuation date as of July 1, 2015. In the tables below, we have summarized the results.

Demographic Study

Valuation Date: July 1, 2015	
Active Employees	11
Retirees	20
Total	31
Average Active Employee Age	51.5
Average Active Agency Service	14.6

OPEB Actuarial Results (cont.)

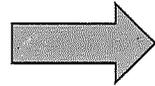
Financial Summary

Valuation Date: July 1, 2015	Pay-As-You-Go Discount Rate: 4.00%	Percent Change	Pre-Funding Discount Rate: 7.00%
Total Present Value of Projected Benefits	\$6,520,800	30%-36% ↓	???
Actuarial Accrued Liability (AAL)	\$6,313,211	30%-36% ↓	???
Actuarial Value of Assets	\$0	---	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$6,313,211	30%-36% ↓	???
Normal Cost	\$38,443		
Amortization of UAAL	\$414,063		
Annual Required Contribution (ARC)	\$452,506	30%-36% ↓	???
Annual Benefit Payments FY 2015-16 (Pay-as-you-Go)	\$182,025	---	\$182,025

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

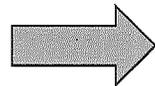
OPEB Funding Scenarios

1. Put in Full ARC



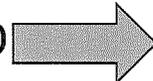
\$452,506

2. Put in Full ARC, then reimburse PAYGO at the End of Year



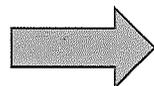
\$452,506 - \$182,025

3. Put in difference between ARC and PAYGO



\$270,481

4. Put in anything



???

Remember: *Something is always better than nothing!*

PARS Advantages

Advantages of Program

Why would we be a better choice than our competitors?

- **19 years** providing OPEB Trust Services (*versus 8 years*)
- **IRS-Approved** 115 Combination Trust – on multiple-employer basis for OPEB and/or pension (*versus no IRS approval for combination trust*)
- Streamlined Process – can implement in less than **1 week** (*versus 30 days minimum*)
- Agency receives **monthly** statements (*versus quarterly*)
- **30-day** termination with **no** fees (*versus 3-year minimum requiring Board approval*)

Advantages of Program

Why would we be a better choice than our competitors?

- **Local Control** on Actuarial Assumptions (*versus no control; must sync with June 30 of odd numbered years*)
- Option to **disburse directly to retiree** (*versus no option*)
- Can **subaccount** for different departments, bargaining groups or cost centers (*versus no option*)
- Can use **same 115 Trust** for pre-funding OPEB and pension obligations (*versus not available*)
- **Under 200 plan members**, may perform actuarial valuation every 3 years (*versus 2 years*)

Advantages of Program

Why would we be a better choice than our competitors?

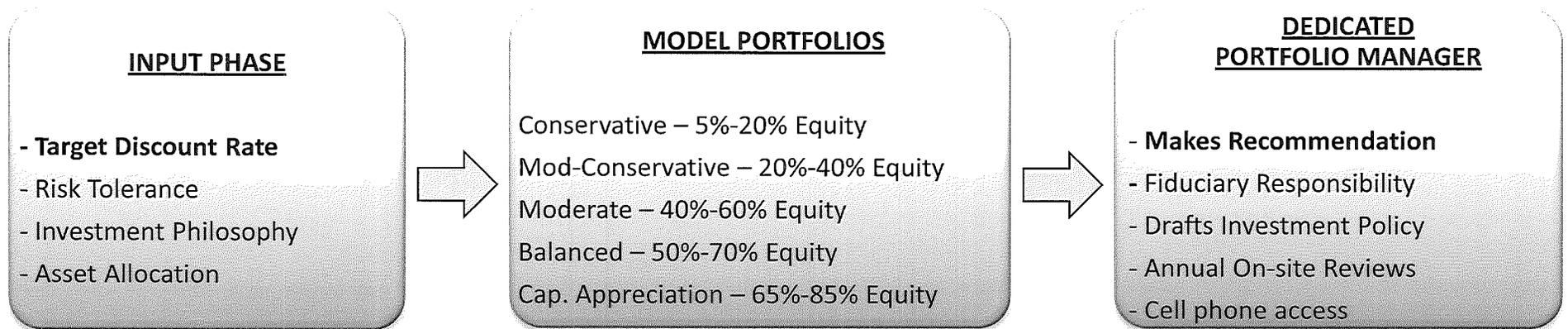
- **Greater** investment performance (see page 18)
- **Transparency of holdings** in investment portfolio (*individual holdings unknown*)
- HighMark **compliant with Global Investment Performance Standards (GIPS)** to ensure consistency of investment reporting (*compliance unknown*)
- **Flexible investment options** – active or passive; 5 model strategies or can customize (*versus 3 models only; no passive or custom options*)
- **Most conservative investment option** available – as little as 5% equity (*32% equity for strategy 3*)

Advantages of Program: Full Service

- Dedicated PARS Senior Consultant – Mitch Barker
 - Ensures superior client satisfaction
- Dedicated Client Services Coordinator (CSC) – Rachael Sanders
 - Customizes Administrator’s Handbook
 - Monitors contributions
 - Processes disbursements - to Retiree Medical Provider, Agency or retirees
 - Coordinates annual reviews
- Dedicated Investment Management Team – Andrew Brown, CFA, Senior Portfolio Manager
 - Will assist with Investment Policy Statement (*versus no IPS*)
 - Conducts periodic onsite reviews of performance & market conditions (*versus no on site review*)
 - Frequency determined by the Agency
 - Directly available by cell (*versus no cell access*)

Advantages of Program

Simple Investment Approach



Program Fees

OPEB/Pension

Pre-Funding Fee Schedule

Trust Administration/Consulting Fees

Company Name	Plan Set Up Fee	Ongoing
PARS	None	0.25% for assets under \$5 million 0.25% for assets \$5-10 million 0.20% for assets \$10-15 million 0.15% for assets \$15-50 million 0.10% for assets over \$50 million (\$300 monthly minimum) (WAIVED)

Discretionary Trustee/Investment Management Fees

Company Name	Plan Set Up Fee	Ongoing
U.S. Bank/HighMark Capital	None	<i>Ranges from 0.24% to 0.32% (at first tier for HighMark PLUS portfolios; depending on risk tolerance level; net after fee waivers)*</i> 0.35% for assets under \$5 million 0.25% for assets \$5—\$10 million 0.20% for assets \$10—\$15 million 0.15% for assets \$15—\$50 million 0.10% for assets over \$50 million

*Fees as of June 30, 2015. Subject to change due to rebalancing.

PARS does not receive any compensation from the investments or any commissions, back-end loads, or any other forms of compensation.

Net Performance/Fee Analysis

(as of September 30, 2015)

Over 1 Year				Over 3 Years				Over 5 Years			
PARS/HighMark		CaIPERS CERBT		PARS/HighMark		CaIPERS CERBT		PARS/HighMark		CaIPERS CERBT	
Capital App. Strategy	-1.44%	Strategy 1	-3.50%	Capital App. Strategy	7.75%	Strategy 1	5.54%	Capital App. Strategy	8.22%	Strategy 1	6.93%
Minus Weighted PARS Admin. Fee	(-) 0.25%	Minus Fees	(-) 0.10%	Minus Weighted PARS Admin. Fee	(-) 0.25%	Minus Fees	(-)0.10%	Minus Weighted PARS Admin. Fee	(-) 0.25%	Minus Fees	(-) 0.10%
Minus Weighted HM Inv. Mgmt. Fee*	(-) 0.32%			Minus Weighted HM Inv. Mgmt. Fee*	(-) 0.32%			Minus Weighted HM Inv. Mgmt. Fee*	(-) 0.32%		
Net Return	<u>-2.01%</u>	Net Return	-3.60%	Net Return	<u>7.18%</u>	Net Return	5.44%	Net Return	<u>7.65%</u>	Net Return	6.83%

*Fees as of September 30, 2015. Subject to change due to rebalancing.

*Past performance is not a guarantee of future results.

Pension Rate Stabilization Program (PRSP)

Pension Rate Stabilization Program (PRSP)

Section 115 Trust

- Section 115 Trust can be used by local governments to fund essential governmental functions (i.e., retiree healthcare, pension)
- Any income derived from a Section 115 Trust is tax exempt
- Trust should be setup as an irrevocable trust designed to pre-fund retirement plan obligations
- Once contributions are placed into trust, assets from the trust can only be used for retirement plan purposes:
 - reimburse District for CalPERS contributions
 - assets can be transferred to CalPERS at anytime for pension

Pre-Funding Pension/Background

- New GASB 68 requirements to disclose Net Pension Liability on financial statements – 2015
- Previously, only way to reduce CalPERS unfunded liability was to send additional contributions in excess of annual required contribution but they changed the amortization rules
- Trust assets can be transferred to CalPERS at District's direction, which can help offset future unexpected rate increases (i.e., pension rate stabilization)

Pension Actuarial Results

- In response to the lack of options, PARS developed a Section 115 Trust program to enable public agencies to pre-fund retirement obligations through a locally controlled trust
- As of June 30, 2013, Novato Sanitary District's CalPERS Miscellaneous pension plan is as follows:
 - **Actuarial Liability** - \$17.7 M
 - **Assets** – \$14.4 M
 - **Unfunded Liability** – \$3.3 M
 - **Funded Ratio** – 81.3%
 - **Total Employer Contribution Amount for FY 2014** (Misc.) – \$258,904

Pension Rate Stabilization Program

- PARS worked with Marcus Wu from Pillsbury Winthrop and Shaw to develop a Section 115 trust to pre-fund CalPERS obligations
- Favorable Private Letter Ruling (PLR) determination from the IRS received June 2015
- Sixteen (16) CA public agencies have adopted our program thus far:
 - City of Brea
 - City of Coronado
 - City of Fullerton
 - City of Healdsburg
 - City of La Mesa
 - City of Lake Forest
 - City of Morgan Hill
 - City of Rohnert Park
 - City of Sausalito
 - City of Solano Beach
 - Town of Colma
 - Superior Court of California – County of Kern
 - County of Humboldt
 - County of Solano
 - Lemon Grove SD
 - Ocean View SD

Advantages of Using a Separate Trust Fund

- **Complete Local Control over Assets** - Account can be accessed at anytime as long as it is used to pay the employer's pension obligation
- **Pension rate stabilization** - Assets can be transferred to CalPERS plan at the District's direction, which will reduce or eliminate large fluctuations in Employer contributions to CalPERS
- **Rainy Day Fund** - Emergency source of funds when Employer revenues are impaired based on economic or other conditions
- **Lower Costs** – 115 Trust can have lower overall administrative and investment management costs compared to the CalPERS pension program

Advantages of Using a Separate Trust Fund (cont.)

- **Lower Net Pension Liability (NPL)** - Contributions placed in an exclusive benefit trust reduces District's unfunded pension liability
- **Improved Credit Ratings** – Rating agencies may look favorably upon actions to reduce liabilities
- **Actuarially Sound Retirement System** - Provide integrity and security for the source of funding for retirement benefits

Investment Flexibility

- District maintains oversight of the investment manager and the portfolio's risk tolerance level
- Investment restrictions that apply to the general fund (CA Government Code 53601) are not applicable to assets held in an Irrevocable Section 115 Trust
- Assets held in an irrevocable trust can be invested per Government Code Section 53216.1
- Investment can be diversified and invested in a prudent fashion
- Investments can be tailored to the District's unique demographics
- Increased Risk Diversification

Which Agencies are Adopting the Pension Rate Stabilization Program?

(According to a leading California actuary)

- Agencies that are very concerned about reducing their CalPERS unfunded liability
- Agencies that are concerned about CalPERS having too much of their assets (i.e., putting all your eggs in one basket) without any input on risk tolerance level
- Agencies that are concerned about CalPERS contribution volatility
- Agencies that want to have the capability of pre-funding their OPEB and Pension Liabilities within the same Trust Program at the Agency's discretion

Implementation Steps

- 
- Step 1** Board of Directors authorizes establishment of a Pension Trust and appoints a Plan Administrator
 - Step 2** PARS provide legal documents for signature by Plan Administrator
 - Step 3** Develop investment policy and guidelines for Investment Manager
 - setting discount rate target
 - risk tolerance
 - Active or Passive; custom or model
 - prohibited investments outlined
 - Step 4** Board approves initial deposit to Trust Fund
 - Step 5** Develop policies and procedures for future annual contributions and/or disbursements
 - Step 6** Annual Review of Investment Performance

Summary –

Why Pre-fund Pension in a Separate Trust?

1. Local control of reserve funds
2. Potential for greater return than general fund
3. Lowers Net Pension Liability (NPL) for GASB 68 reporting—started in 2015
4. Helps offset pension rate increases or underperformance by CalPERS
5. Assets (OPEB and Pension) will aggregate and reach lower fees on tiered schedule sooner – saving money!
6. Can use these funds for pension obligations at anytime
7. Can choose less risky investment strategy than CalPERS
8. No downside to prefunding pension (other than market volatility)

HighMark Capital Management

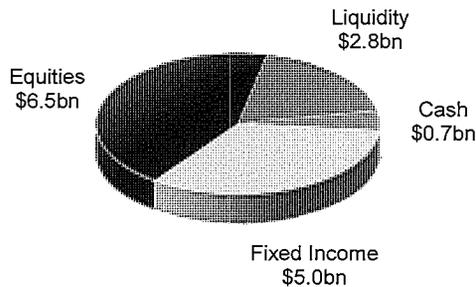
HighMark Capital Management

Investment Program Presentation

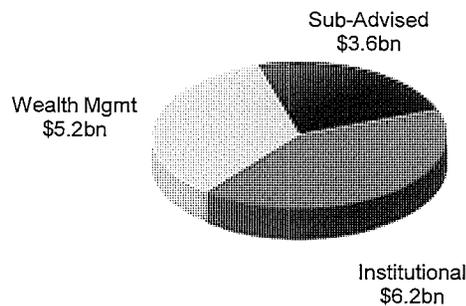
FIRM OVERVIEW

Assets Under Management as of 6/30/2015
\$15.0 Billion

Asset Class (\$B)



Client Base (\$B)

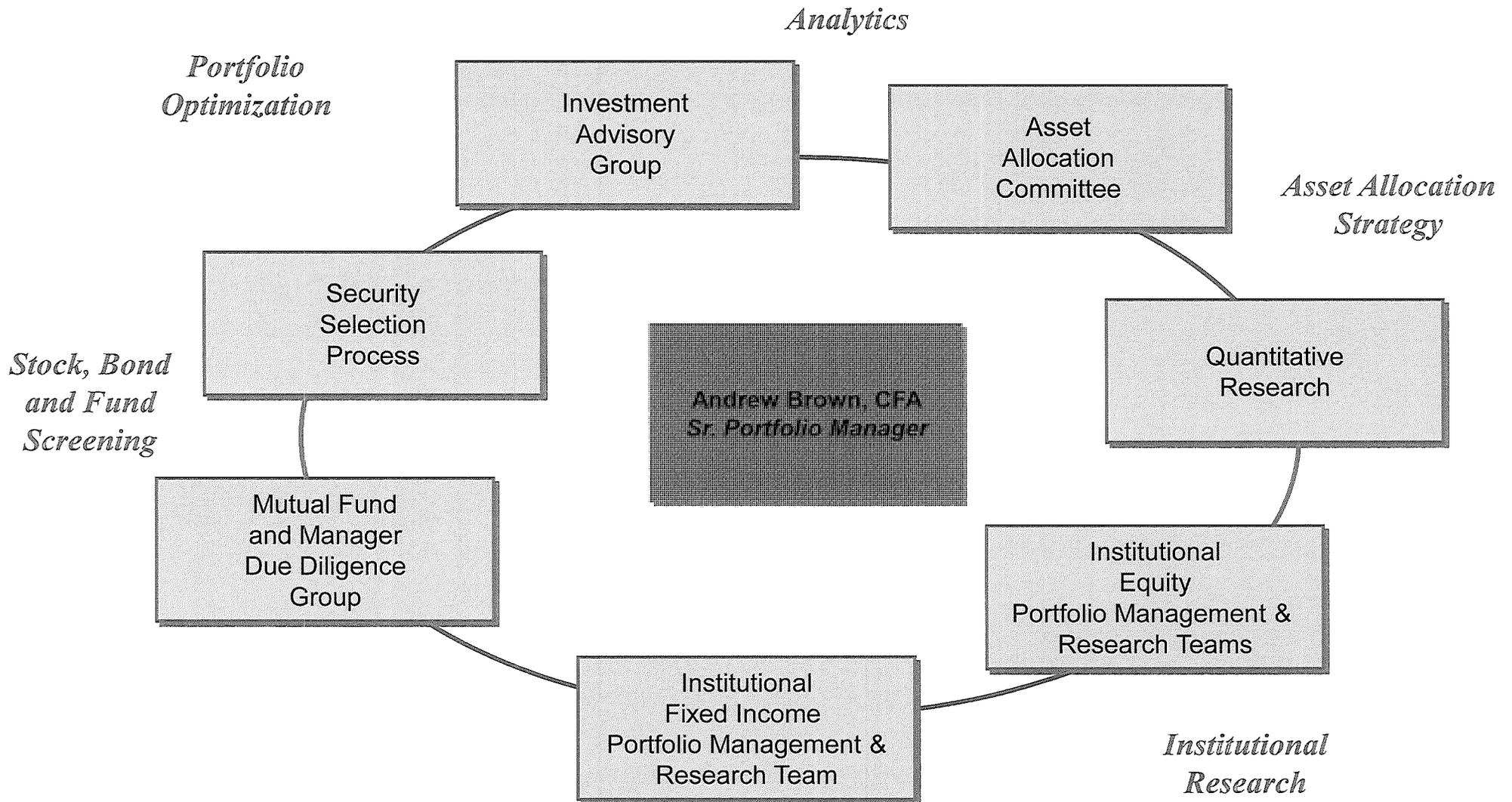


- With its predecessors, HighMark has been focused exclusively on investment management of client's assets since 1919.*
- Registered Investment Adviser with more than \$15.0 billion in assets under management.
- 53 investment professionals with an average of 22 years investment experience.
- 31 professionals hold the Chartered Financial Analyst® (CFA) designation.
- In-house investment research capabilities and access to top-tier investment managers.

*Including predecessor organizations. HighMark Capital Management, Inc., registered with the SEC as an investment adviser on August 7, 1998. All data as of June 30, 2015

OUR INVESTMENT CAPABILITIES

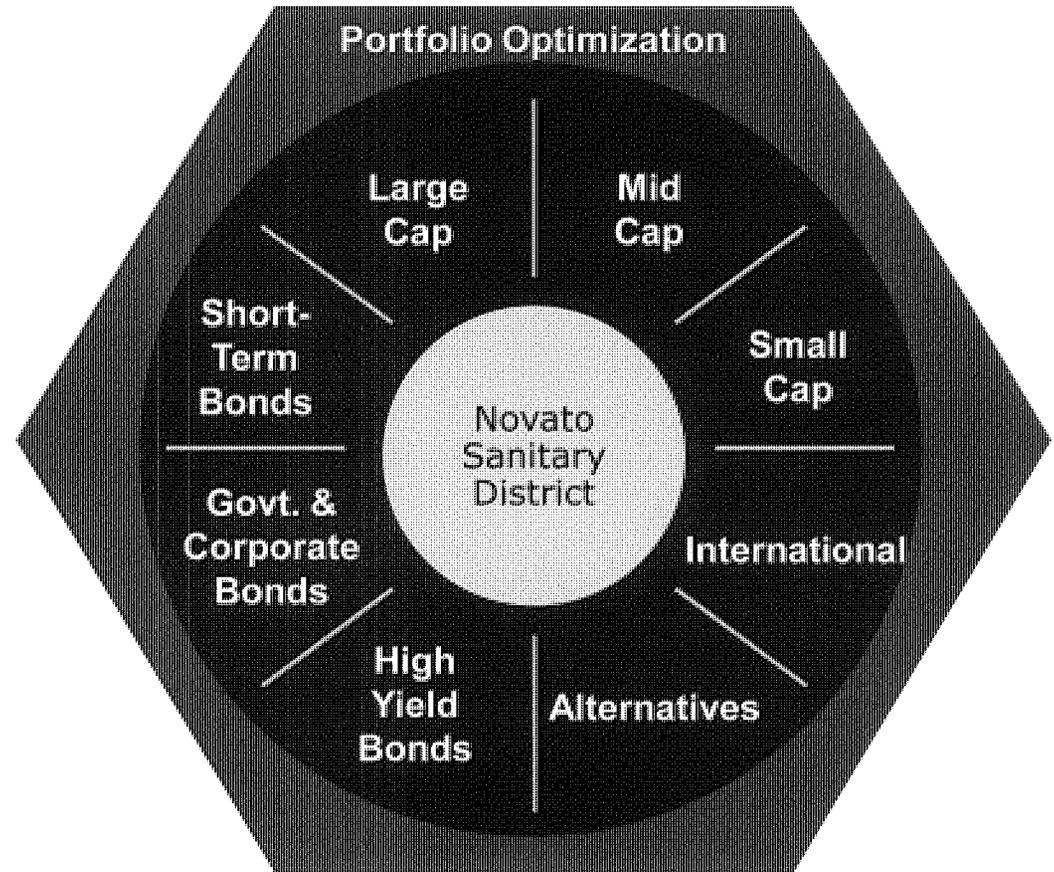
Our Senior Portfolio Managers are supported by deep investment resources and unique processes.



SERVICES OFFERED

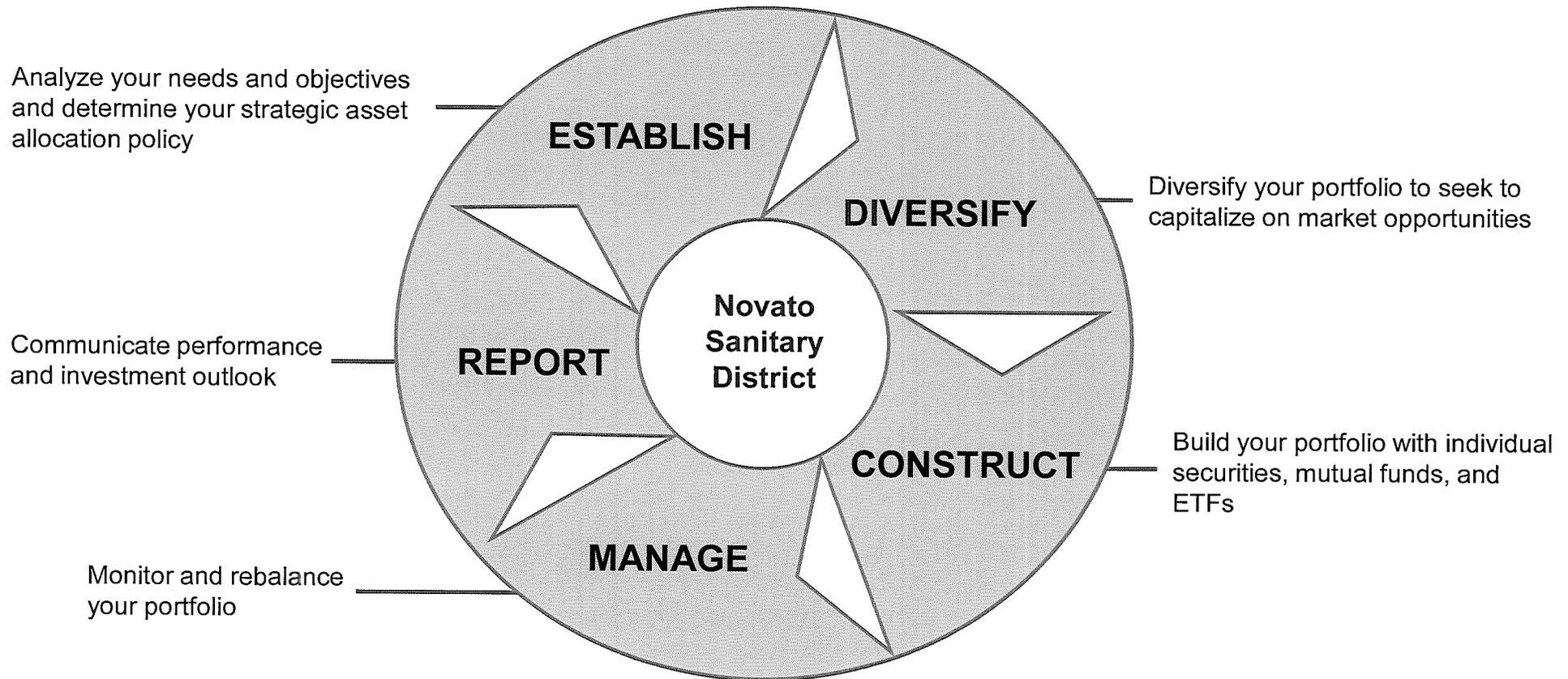
Key Features:

- Assistance with Investment Policy Statement
- Strategic and tactical asset allocation
- Diversified portfolio of holdings; flexible investment options that include access to individual securities, mutual funds, and index-based securities
- Access to rigorously screened, top tier money managers
- Comprehensive investment reporting



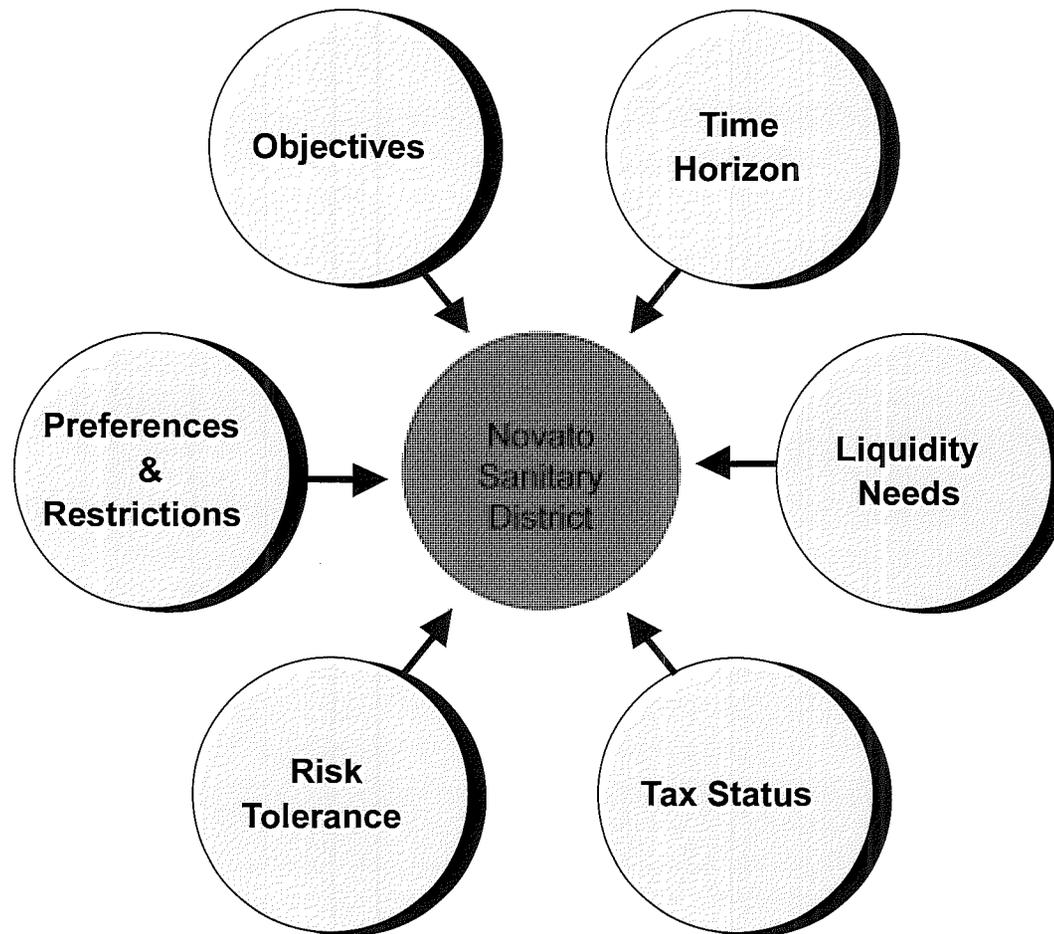
OUR FIVE-STEP RELATIONSHIP PROCESS

HighMark dedicates itself to meeting the investment expectations of each client and delivering value at every step of the investment relationship.

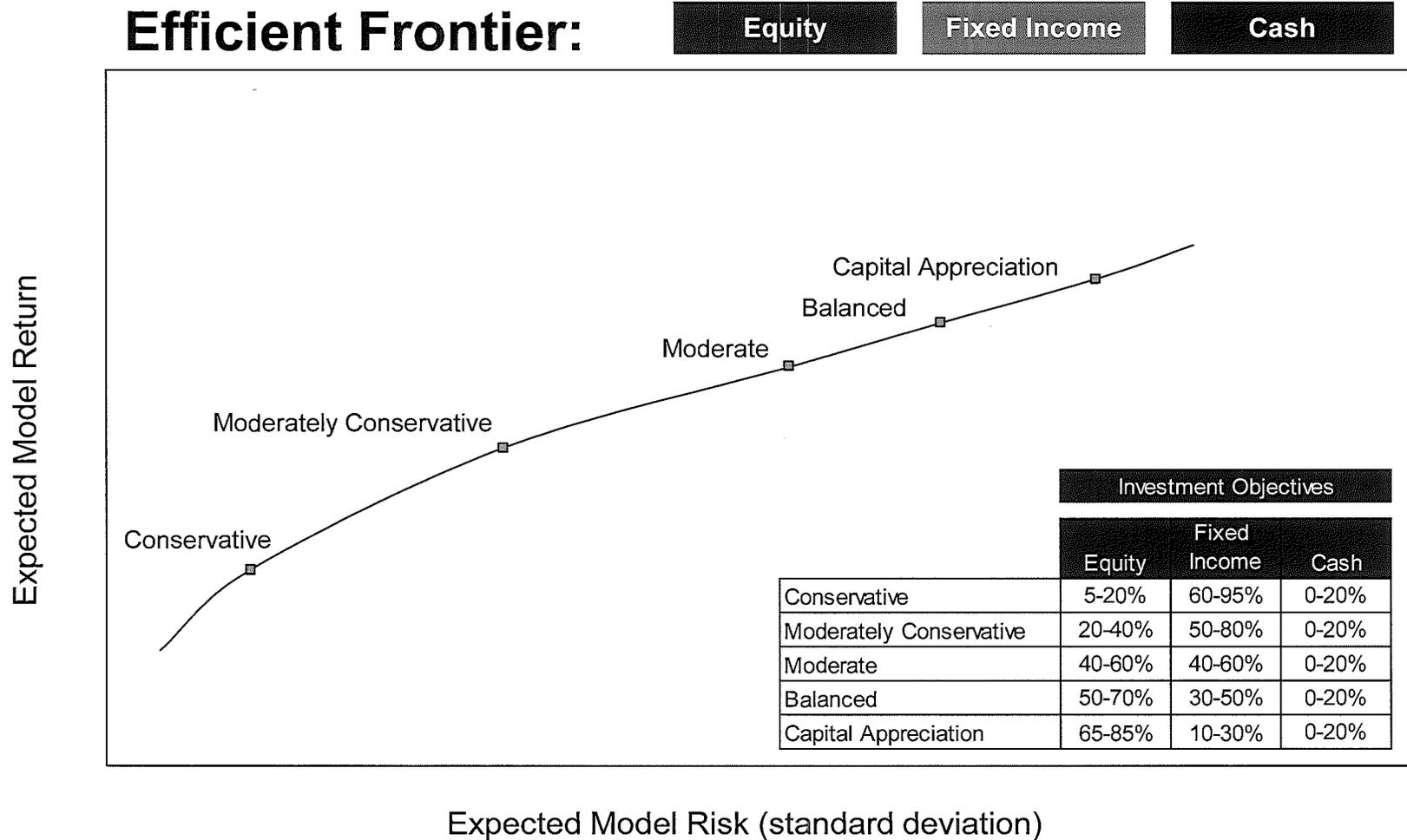


1. ESTABLISH: ANALYZE YOUR NEEDS AND OBJECTIVES

Every client is unique. We customize investment strategies to each client's specific situation and needs.



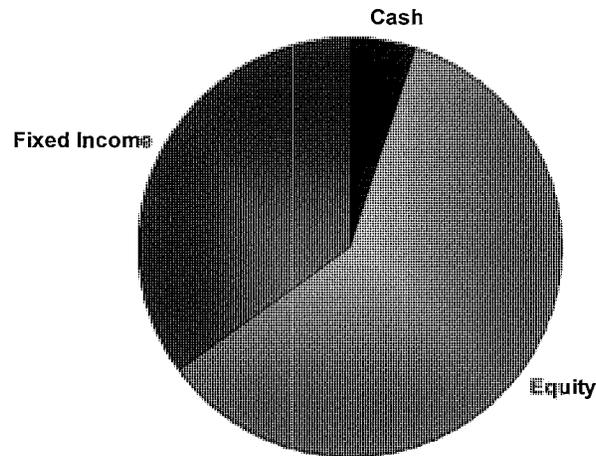
1. ESTABLISH: DETERMINE YOUR STRATEGIC ASSET ALLOCATION STRATEGY



Each Investment Objective is a hypothetical construct only and does not reflect actual investment decisions or recommendations. Past performance is no indication of future results. Please refer to page entitled 'Disclosures' at the back of this presentation for more information.

2. DIVERSIFY: TACTICAL ASSET ALLOCATION

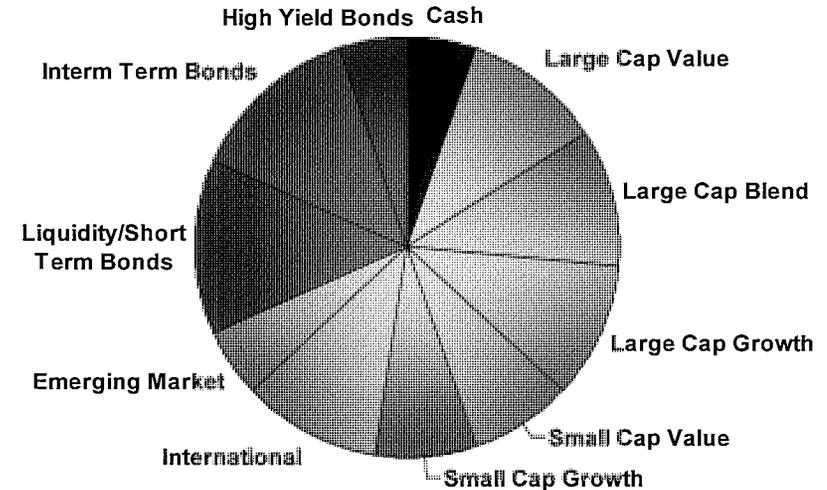
Strategic Asset Allocation



Strategic Asset Allocation is the foundation of portfolio management.

- Optimizes the long-term allocation of your portfolio across key asset classes
- Aligned with your individual goals and objectives
- Rooted in empirical observations supported by financial, economic, and investment theory

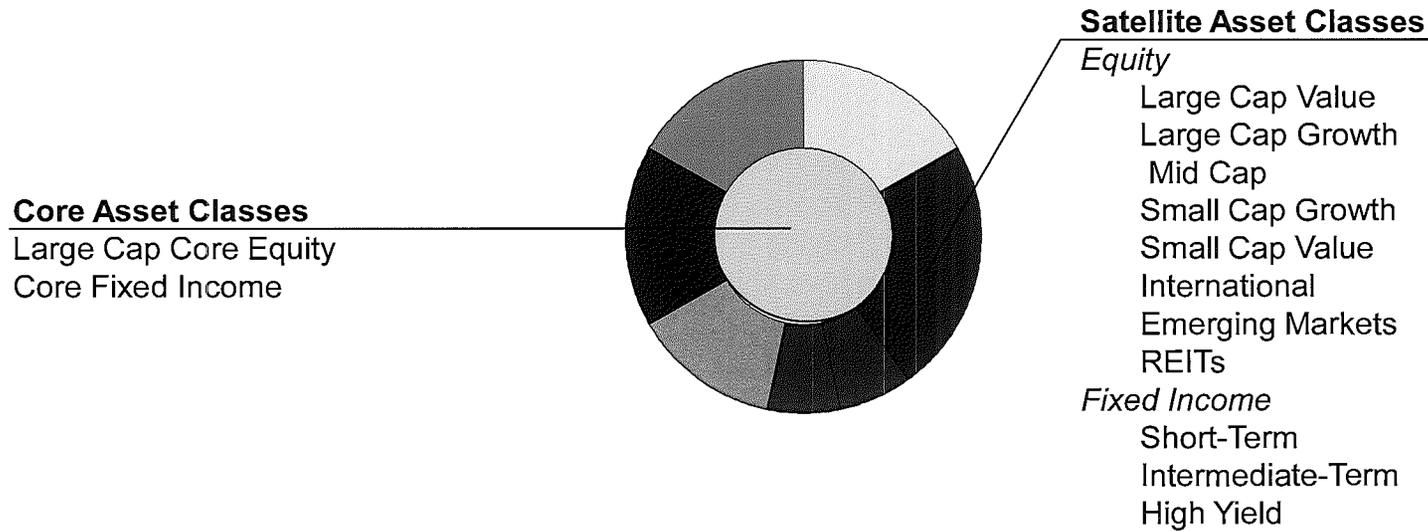
Tactical Asset Allocation



Tactical Asset Allocation exploits opportunities frequently overlooked as sources for excess return.

- Logical extension of Strategic Asset Allocation
- Skews the direction, size, expected value, and duration of the portfolio
- Sector selection, style rotation, and currency inputs identify opportunities to achieve additional return above strategic asset allocation

2. DIVERSIFY: TACTICAL ALLOCATION WITHIN ASSET CLASSES



Advantages of Tactical Asset Allocation:

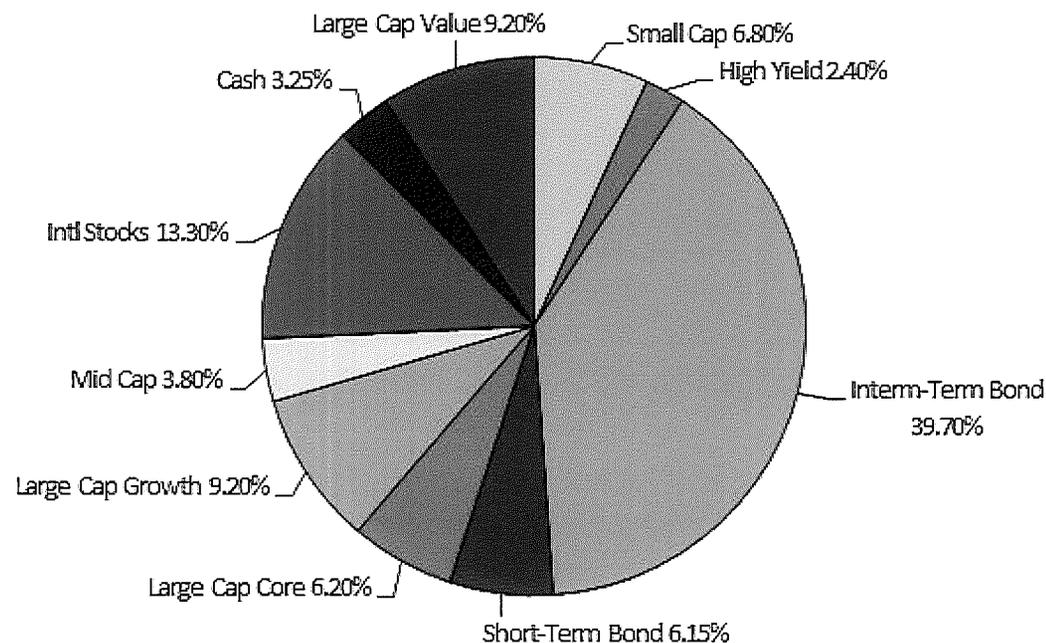
- Asset class, style, sector, and country differentials are regularly large
- Opportunities persist due to misguided behavioral tendencies
- Fundamental factors can identify opportunities to enhance returns
- Disciplined investment strategies can exploit these opportunities
- Serves as a logical extension of strategic asset allocation

3. CONSTRUCT YOUR PORTFOLIO: SAMPLE PORTFOLIO

Moderate Objective

Strategic Ranges	
Equity	40-60%
Fixed Income	40-60%
Cash	0-20%
Tactical Allocation	
Equity	48.50%
Fixed Income	48.25%
Cash	3.25%

Asset Allocation	
Equity	
Large Cap Core	6.20%
Large Cap Value	9.20%
Large Cap Growth	9.20%
Mid Cap Value	1.90%
Mid Cap Growth	1.90%
Small Cap Value	3.40%
Small Cap Growth	3.40%
International	7.60%
Tactical - Europe	2.80%
Emerging Markets	2.90%
Fixed Income	
Interm-Term	39.70%
Short-Term	6.15%
High Yield	2.40%
Cash	
	3.25%



*Each strategy represented in the Sample Portfolio is a hypothetical construct only and does not reflect actual investment decisions or recommendations. Past performance is no indication of future results. Please refer to page entitled 'Disclosures' at the back of this presentation for more information. Data is as of 7.31.2015.

3. CONSTRUCT YOUR PORTFOLIO: SAMPLE PORTFOLIO

	PARS Moderate	Ticker	Actively Managed Mutual Funds Fund Name
Equity	<60% equity		
Large Cap Core	6.20%	SMGIX	Columbia Contrarian Core Z
Large Cap Value	4.90%	LSGIX	Loomis Sayles Value Y
	4.30%	DODGX	Dodge & Cox Stock
Large Cap Growth	4.60%	HACAX	Harbor Capital Appreciation Instl
	4.60%	PRGFX	T. Rowe Price Growth Stock
Mid Cap Value	1.90%	TIMVX	TIAA-CREF Mid-Cap Value Inst.
Mid Cap Growth	1.90%	IYMIX	Ivy Mid Cap Growth I
Small Cap Value	3.40%	NSVAX	Columbia Small Cap Value II Z
Small Cap Growth	3.40%	PRNHX	T. Rowe Price New Horizons
International	3.80%	NWHNX	Nationwide Bailard International Equities Fund
	1.90%	DODFX	Dodge & Cox International Stock
	1.90%	MQGIX	MFS International Growth I
Tactical - Europe	2.80%	FEZ	SPDR EURO STOXX 50 ETF
Emerging Markets	2.90%	SEMNX	Schroder Emerging Market Equity Inv
	48.50%		
Fixed Income			
Short Term Bond	6.15%	VFSUX	Vanguard Short-Term Investment-Grade Adm
Interm Term Bond	19.85%	PTTRX	PIMCO Total Return Instl
	19.85%	NWJXX	Nationwide HighMark Bond Fund
High-Yield	2.40%	PHIYX	PIMCO High Yield Instl
	48.25%		
Cash	3.25%	FPZXX	First American Prime Obligation Z
TOTAL	100.00%		

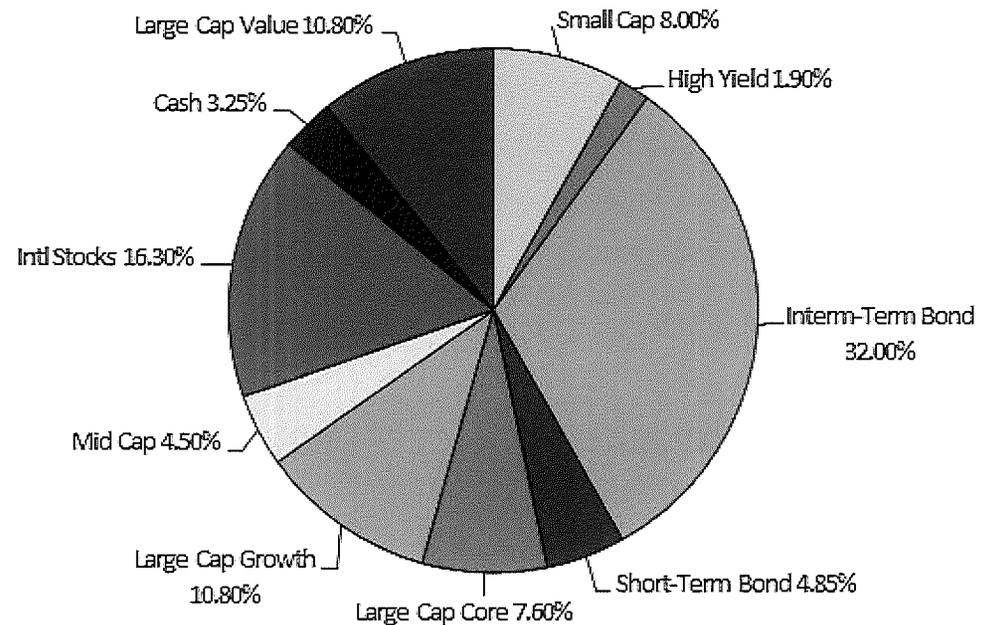
Securities shown here may change from time to time, at the discretion of HighMark. Please refer to page entitled 'Disclosures' at the back of this presentation for more information.

3. CONSTRUCT YOUR PORTFOLIO: SAMPLE PORTFOLIO

Balanced Objective

Strategic Ranges	
Equity	50-70%
Fixed Income	30-50%
Cash	0-20%
Tactical Allocation	
Equity	58.00%
Fixed Income	38.75%
Cash	3.25%

Asset Allocation	
Equity	
Large Cap Core	7.60%
Large Cap Value	10.80%
Large Cap Growth	10.80%
Mid Cap Value	2.25%
Mid Cap Growth	2.25%
Small Cap Value	4.00%
Small Cap Growth	4.00%
International	9.10%
Tactical - Europe	3.50%
Emerging Markets	3.70%
Fixed Income	
Interm-Term	32.00%
Short-Term	4.85%
High Yield	1.90%
Cash	
	3.25%



*Each strategy represented in the Sample Portfolio is a hypothetical construct only and does not reflect actual investment decisions or recommendations. Past performance is no indication of future results. Please refer to page entitled 'Disclosures' at the back of this presentation for more information. Data is as of 7.31.2015.

3. CONSTRUCT YOUR PORTFOLIO: SAMPLE PORTFOLIO

	PARS Balanced	Ticker	Actively Managed Mutual Funds Fund Name
Equity	50-70% equity		
Large Cap Core	7.60%	SMGIX	Columbia Contrarian Core Z
Large Cap Value	5.70%	LSGIX	Loomis Sayles Value Y
	5.10%	DODGX	Dodge & Cox Stock
Large Cap Growth	5.40%	HACAX	Harbor Capital Appreciation Instl
	5.40%	PRGFX	T. Rowe Price Growth Stock
Mid Cap Value	2.25%	TIMVX	TIAA-CREF Mid-Cap Value Inst.
Mid Cap Growth	2.25%	IYMIX	Ivy Mid Cap Growth I
Small Cap Value	4.00%	NSVAX	Columbia Small Cap Value II Z
Small Cap Growth	4.00%	PRNHX	T. Rowe Price New Horizons
International	4.50%	NWHNX	Nationwide Bailard International Equities Fund
	2.30%	DODFX	Dodge & Cox International Stock
	2.30%	MQGIX	MFS International Growth I
Tactical - Europe	3.50%	FEZ	SPDR EURO STOXX 50 ETF
Emerging Markets	<u>3.70%</u>	SEMNX	Schroder Emerging Market Equity Inv
	58.00%		
Fixed Income			
Short Term Bond	4.85%	VFSUX	Vanguard Short-Term Investment-Grade Adm
Interm Term Bond	16.00%	PTTRX	PIMCO Total Return Instl
	16.00%	NWJJX	Nationwide HighMark Bond Fund
High-Yield	<u>1.90%</u>	PHIYX	PIMCO High Yield Instl
	38.75%		
Cash	3.25%	FPZXX	First American Prime Obligation Z
TOTAL	100.00%		

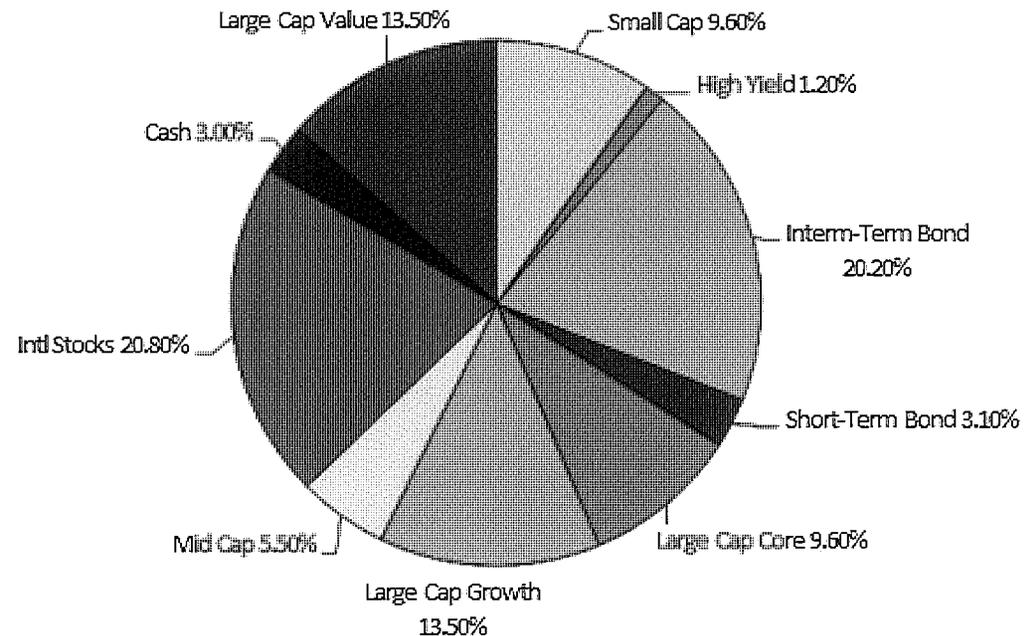
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3. CONSTRUCT YOUR PORTFOLIO: SAMPLE PORTFOLIO

Capital Appreciation Objective

Strategic Ranges	
Equity	65-85%
Fixed Income	10-30%
Cash	0-20%
Tactical Allocation	
Equity	72.50%
Fixed Income	24.50%
Cash	3.00%

Asset Allocation	
Equity	
Large Cap Core	9.60%
Large Cap Value	13.50%
Large Cap Growth	13.50%
Mid Cap Value	2.75%
Mid Cap Growth	2.75%
Small Cap Value	4.80%
Small Cap Growth	4.80%
International	11.50%
Tactical - Europe	4.50%
Emerging Markets	4.80%
Fixed Income	
Interm-Term	20.20%
Short-Term	3.10%
High Yield	1.20%
Cash	
	3.00%



**Each strategy represented in the Sample Portfolio is a hypothetical construct only and does not reflect actual investment decisions or recommendations. Past performance is no indication of future results. Please refer to page entitled 'Disclosures' at the back of this presentation for more information. Data is as of 7.31.2015.*

3. CONSTRUCT YOUR PORTFOLIO: SAMPLE PORTFOLIO

	PARS Capital Appreciation	Ticker	Actively Managed Mutual Funds Fund Name
Equity	65-85% equity		
Large Cap Core	9.60%	SMGIX	Columbia Contrarian Core Z
Large Cap Value	7.30%	LSGIX	Loomis Sayles Value Y
	6.20%	DODGX	Dodge & Cox Stock
Large Cap Growth	6.75%	HACAX	Harbor Capital Appreciation Instl
	6.75%	PRGFX	T. Rowe Price Growth Stock
Mid Cap Value	2.75%	TIMVX	TIAA-CREF Mid-Cap Value Inst.
Mid Cap Growth	2.75%	IYMIX	Ivy Mid Cap Growth I
Small Cap Value	4.80%	NSVAX	Columbia Small Cap Value II Z
Small Cap Growth	4.80%	PRNHX	T. Rowe Price New Horizons
International	5.70%	NWHNX	Nationwide Bailard International Equities Fund
	2.90%	DODFX	Dodge & Cox International Stock
	2.90%	MQGIX	MFS International Growth I
Tactical - Europe	4.50%	FEZ	SPDR EURO STOXX 50 ETF
Emerging Markets	<u>4.80%</u>	SEMNX	Schroder Emerging Market Equity Inv
	72.50%		
Fixed Income			
Short Term Bond	3.10%	VFSUX	Vanguard Short-Term Investment-Grade Adm
Interm Term Bond	10.10%	PTTRX	PIMCO Total Return Instl
	10.10%	NWJXX	Nationwide HighMark Bond Fund
High-Yield	<u>1.20%</u>	PHIYX	PIMCO High Yield Instl
	24.50%		
Cash	3.00%	FPZXX	First American Prime Obligation Z
TOTAL	100.00%		

Securities shown here may change from time to time, at the discretion of HighMark. Please refer to page entitled 'Disclosures' at the back of this presentation for more information.

4. MANAGE: RISK MANAGEMENT

- Experienced Portfolio Management Team
 - Andrew Brown, CFA
 - Skilled at aligning client objectives with investment strategies
 - Upfront and regular dialogue with a local portfolio manager ensures strategy is consistent with risk profile and investment objectives
- Disciplined investment process and research methodology
 - Quantitative analysis and modeling supports asset allocation decisions
 - Non-index investments have clear buy/sell process
 - Fundamental stock review
 - Credit monitoring
 - Rigorous mutual fund selection and monitoring approach
- Structured portfolio management methodology
 - Periodic rebalancing back to target to prevent asset allocation and style drift
 - Objectives-based solutions
 - Automated compliance module identifies deviations from guidelines

5. REPORT: RESPONSIVE AND PROACTIVE CLIENT COMMUNICATION

HighMark's dedicated investment team continuously seeks to add value to our relationship with your organization.

- Integrated client service program established with PARS over the last 18 years
- We have a tradition of interactive client service to maintain a strong relationship
- Local portfolio manager
- You benefit from face-to-face meetings and scheduled conference calls with your client service team and portfolio management team
- You receive regular communications in a variety of formats
 - Account holdings and transactions
 - Quarterly performance evaluation reports
 - Investment outlook and economic updates

CRITICAL PERFORMANCE DECISIONS

← Areas where HighMark adds value →

Investment Strategy & Planning

- Objective Based Strategy
- Customized
- Flexible
- Monitored
- Rebalanced
- Unique Client Considerations

Strategic & Tactical Asset Allocation Decisions

- Stocks vs. Bonds
- Domestic vs. International
- Large vs. Small Capitalization Equities
- Value vs. Growth Equity Styles
- Short vs. Long Term Bonds

Portfolio Construction Decisions

- Active vs. Passive Management
- Sector Selection
- Security Selection
- Manager Selection

DISCLOSURES

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.**

This unaudited information is approved for one-on-one presentations only and is not intended for reproduction or distribution or to provide specific investment advice to any individual. Individual account management and construction will vary depending on each client's investment needs and objectives.

Unless otherwise specified, performance shown for individual mutual funds are net of expense ratios, which includes fees charged by ETFs or funds, but gross of HighMark's overall investment management fee to the account. HighMark and its affiliates do not receive compensation for the use of any non-proprietary fund.

Some information provided herein was obtained from third party sources deemed to be reliable; HighMark and its affiliates make no representations or warranties with respect to the timeliness, accuracy, or completeness of the information provided. Any information provided is subject to change without notice.

Each strategy represented in the Sample Portfolios are a hypothetical construct only and does not reflect actual investment decisions or recommendations. It does not reflect the liquidity constraints of actual fund investing or the impact that material economic and market factors may have on an investment adviser's decision-making. Investors cannot invest in the Sample or Alternative Portfolio and actual investment results may differ materially. The Sample Portfolios do not reflect the deduction of advisory fees, brokerage, commissions, or any other actual client expenses, which would reduce investor returns. Advisory fees are described in the Form ADV, Part 2A and are available upon request. The portfolios do not reflect the reinvestment of dividends, distributions, and other earnings.

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HighMark Capital Management, Inc.
 Composite Performance Presentation
 PARS Tax Exempt Moderate HighMark Plus Composite
 January 1, 2005 through December 31, 2014

Year	Gross-of-Fees Return (%)	Net-of-Fees Return (%)	Benchmark Return (%)	Internal Dispersion (%)	Number of Portfolios	As of December 31		
						Total Composite Assets (\$M)	% of Firm Assets	Total Firm Assets (\$B)
2014	4.84	4.46	6.95	0.23	20	253.18	1.66%	15.27
2013	13.06	12.66	13.06	0.97	20	265.51	1.83%	14.53
2012	12.25	11.85	10.27	0.79	18	226.43	1.29%	17.50
2011	0.55	0.18	3.09	0.65	15	191.09	1.22%	15.65
2010	12.42	12.02	10.23	1.14	12	127.66	0.77%	16.68
2009	21.47	21.04	16.01	2.34	11	73.96	0.44%	16.82
2008	-22.88	-23.16	-18.41	1.28	7	24.86	0.15%	17.01
2007	5.88	5.50	6.16	n/a	6	25.15	0.12%	21.22
2006	8.83	8.44	9.99	n/a	<6	7.27	0.04%	20.20
2005	6.08	5.70	3.66	n/a	<6	0.68	0.00%	19.22

HighMark Capital Management, Inc. ("HighMark") claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Highmark has been independently verified for the period January 1, 2003 through December 31, 2011. The verification report is available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

HighMark, a wholly owned subsidiary of MUFG Union Bank, N.A., is a registered investment adviser. The firm's list of composite descriptions is available upon request. All returns are expressed in U.S. dollars.

The PARS Tax Exempt Moderate Highmark Plus Composite includes all institutional portfolios invested in actively managed mutual funds. The strategy is to provide current income and moderate capital appreciation. Under normal conditions, allocation ranges are: Equity 40%-60%, Fixed Income 40%-60%, and Cash 0%-20%. The composite was created in April 2009.

Effective 10/1/12, the benchmark changed to 26.5% S&P 500 Index, 7.5% Russell 2000 Index, 6% MSCI EAFE Index, 5% Russell MidCap Index, 3.25% MSCI EM Free Index, 33.5% Barclays Capital Aggregate Bond Index, 10% Merrill Lynch 1-3 Year Corporate/Government Index, 1.5% Merrill Lynch US High Yield Master II Index, 1.75% Wilshire REIT Index, and 5% Citigroup 1 Month T-Bill Index, rebalanced monthly. Prior to 10/1/12, the benchmark was 43% S&P 500 Index, 2% Russell 2000 Index, 5% MSCI EAFE Index, 15% Merrill Lynch 1-3 Year Corporate/Government Index, 30% Barclays Capital Aggregate Bond Index, and 5% Citigroup 1 Month T-Bill Index, rebalanced monthly. The index was changed to reflect added strategy investments in Mid Cap and REITs. Benchmark returns do not reflect the deduction of advisory fees, custody fees, transaction costs, or other expenses of investing. Total benchmark returns assume the reinvestment of dividends and other earnings. An investor cannot invest directly in an index. Prior to April 2007, the blended benchmark for the PARS Tax Exempt Moderate HighMark Plus Composite was as follows: 50% S&P 500 Index, 15% Merrill Lynch 1-3 Year Corporate/Government Index, 30% Barclays Capital Aggregate Bond Index, and 5% Citigroup 1 Month T-Bill Index, rebalanced monthly. Beginning April 2007, MSCI EAFE Index and Russell Index were added to the blended benchmarks due to enhancements in the investment process which were designed to increase diversification through exposure to small cap and international equities.

Gross returns are presented before management and custodial fees but after all trading expenses and reflect the reinvestment of dividends and other income. Net returns are net of model investment management fees in effect for the respective time period and are derived using the maximum fixed fee rate. A client's return will be reduced by the advisory fees and other expenses it may incur as a client. Fees charged are at the discretion of HighMark and U.S. Bank, N.A.; investment advisory fees are described in Part 2 of HighMark's Form ADV, which is available upon request.

The standard management fee is 0.36%. Standard management fees do not include any platform, administration, or other distribution fees that client may pay in addition to the management fees.

The internal dispersion of annual returns is measured by the equal-weighted standard deviation of portfolio returns included in the composite for the full year. For the years with less than or equal to 5 portfolios, the calculation of internal dispersion is not a meaningful statistical measure. The three year annualized ex-post standard deviation measures the variability of the composite (using gross returns) and the benchmark for the 36 month period ended as of 12/31/11: Composite: 11.02 Benchmark: 9.79, 12/31/12: Composite 9.21 Benchmark: 7.56, 12/31/13: Composite: 7.50 Benchmark: 6.20, and 12/31/14: Composite: 5.47 Benchmark: 4.99. HighMark's policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

Past performance does not guarantee future results. Securities investments involve risk, including the possible loss of the principal amount invested. Investments are not deposits of the adviser's parent or any of the adviser's affiliates, and are NOT FDIC insured.

HighMark Capital Management, Inc.
 Composite Performance Presentation
 PARS Tax Exempt Balanced HighMark Plus Composite
 January 1, 2007 through December 31, 2014

Year	Gross-of-Fees Return (%)	Net-of-Fees Return (%)	Benchmark Return (%)	Internal Dispersion (%)	Number of Portfolios	As of December 31		
						Total Composite Assets (\$M)	% of Firm Assets	Total Firm Assets (\$B)
2014	4.70	4.33	7.52	0.68	21	159.33	1.04%	15.27
2013	16.61	16.19	16.07	0.64	15	121.82	0.84%	14.53
2012	13.25	12.85	11.86	0.25	12	88.73	0.51%	17.50
2011	-0.46	-0.82	2.91	0.45	8	71.39	0.46%	15.65
2010	14.11	13.71	11.49	n/a	6	54.05	0.32%	16.68
2009	21.36	20.93	18.36	n/a	<6	36.57	0.22%	16.82
2008	-25.72	-25.99	-22.53	n/a	7	14.64	0.09%	17.01
2007	5.41	5.03	5.96	n/a	<6	11.33	0.05%	21.22

HighMark Capital Management, Inc. ("HighMark") claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Highmark has been independently verified for the period January 1, 2003 through December 31, 2011. The verification report is available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

HighMark, a wholly owned subsidiary of MUFG Union Bank, N.A., is a registered investment adviser. The firm's list of composite descriptions is available upon request. All returns are expressed in U.S. dollars.

The PARS Tax Exempt Moderately Aggressive HighMark Plus Composite includes all institutional portfolios invested in actively managed mutual funds. The strategy is to provide growth of principal and income. Under normal conditions, allocation ranges are: Equity 50%-70%, Fixed Income 30%-50%, and Cash 0%-20%. The composite was created in April 2009. The composite name was changed from PARS Tax Exempt Moderately Aggressive HighMark Plus to PARS Tax Exempt Balanced HighMark Plus in May 2013.

Effective 10/1/12, the benchmark changed to 32.0% S&P 500 Index, 9.0% Russell 2000 Index, 7.0% MSCI EAFE Index, 6.0% Russell MidCap Index, 4.0% MSCI EM Free Index, 27.0% Barclays Capital Aggregate Bond Index, 6.75% Merrill Lynch 1-3 Year Corporate/Government Index, 1.25% Merrill Lynch US High Yield Master II Index, 2.0% Wilshire REIT Index, and 5% Citigroup 1 Month T-Bill Index, rebalanced monthly. Prior to 10/1/12, the benchmark was 51% S&P 500 Index, 3% Russell 2000 Index, 6% MSCI EAFE Index, 5% Merrill Lynch 1-3 Year Corporate/Government Index, 30% Barclays Capital Aggregate Bond Index, and 5% Citigroup 1 Month T-Bill Index, rebalanced monthly. The index was changed to reflect added strategy investments in Mid Cap and REITs. Benchmark returns do not reflect the deduction of advisory fees, custody fees, transaction costs, or other expenses of investing. Total benchmark returns assume the reinvestment of dividends and other earnings. An investor cannot invest directly in an index. Prior to April 2007, the blended benchmark for the PARS Tax Exempt Moderately Aggressive Highmark Plus Composite was as follows: 60% S&P 500 Index, 5% Merrill Lynch 1-3 Year Corporate/Government Index, 30% Barclays Capital Aggregate Bond Index, and 5% Citigroup 1 Month T-Bill Index, rebalanced monthly. Beginning April 2007, MSCI EAFE Index and Russell Index were added to the blended benchmarks due to enhancements in the investment process which were designed to increase diversification through exposure to small cap and international equities.

Gross returns are presented before management and custodial fees but after all trading expenses and reflect the reinvestment of dividends and other income. Net returns are net of model investment management fees in effect for the respective time period and are derived using the maximum fixed fee rate. A client's return will be reduced by the advisory fees and other expenses it may incur as a client. Fees charged are at the discretion of HighMark and U.S. Bank, N.A.; investment advisory fees are described in Part 2 of HighMark's Form ADV, which is available upon request.

The standard management fee is 0.36%. Standard management fees do not include any platform, administration, or other distribution fees that client may pay in addition to the management fees.

The internal dispersion of annual returns is measured by the equal-weighted standard deviation of portfolio returns included in the composite for the full year. For the years with less than or equal to 5 portfolios, the calculation of internal dispersion is not a meaningful statistical measure. The three year annualized ex-post standard deviation measures the variability of the composite (using gross returns) and the benchmark for the 36 month period ended as of 12/31/11: Composite: 12.57 Benchmark: 11.70, 12/31/12: Composite: 10.90 Benchmark: 9.16, 12/31/13: Composite: 8.88 Benchmark: 7.41, and 12/31/14: Composite: 6.34 Benchmark: 5.87. HighMark's policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

Past performance does not guarantee future results. Securities investments involve risk, including the possible loss of the principal amount invested. Investments are not deposits of the adviser's parent or any of the adviser's affiliates, and are NOT FDIC insured.

HighMark Capital Management, Inc.
 Composite Performance Presentation
 PARS Tax Exempt Capital Appreciation HighMark Plus Composite
 January 1, 2009 through December 31, 2014

Year	Gross-of-Fees Return (%)	Net-of-Fees Return (%)	Benchmark Return (%)	Internal Dispersion (%)	Number of Portfolios	As of December 31		
						Total Composite Assets (\$M)	% of Firm Assets	Total Firm Assets (\$B)
2014	6.05	5.67	7.89	n/a	<6	1.15	0.01%	15.27
2013	20.33	19.90	20.62	n/a	<6	26.76	0.18%	14.53
2012	13.87	13.46	13.38	n/a	<6	21.85	0.12%	17.50
2011	-1.35	-1.70	-0.25	n/a	<6	17.87	0.11%	15.65
2010	12.95	12.54	14.63	n/a	<6	14.36	0.09%	16.68
2009	23.77	23.34	25.79	n/a	<6	11.30	0.07%	16.82

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HighMark, a wholly owned subsidiary of MUFG Union Bank, N.A., is a registered investment adviser. The firm's list of composite descriptions is available upon request. All returns are expressed in U.S. dollars.

The PARS Tax Exempt Capital Appreciation HighMark Plus Composite includes all institutional portfolios invested mainly in actively managed mutual funds. The strategy is to provide growth of principal. Under normal conditions, allocation ranges are: Equity 65%-85%, Fixed Income 10%-30%, and Cash 0%-20%. The composite was created in May 2013.

The benchmark is 39.5% S&P 500 Index, 10.5% Russell 2000 Index, 10.25% MSCI EAFE Index, 7.5% Russell MidCap Index, 5.25% MSCI EM Free Index, 16% Barclays Capital Aggregate Bond Index, 3% Merrill Lynch 1-3 Year Corporate/Government Index, 1% Merrill Lynch US High Yield Master II Index, 2% Wilshire REIT Index, 5% Citigroup 1 Month T-Bill Index, rebalanced monthly. Benchmark returns do not reflect the deduction of advisory fees, custody fees, transaction costs, or other expenses of investing. Total benchmark returns assume the reinvestment of dividends and other earnings. An investor cannot invest directly in an index.

Gross returns are presented before management and custodial fees but after all trading expenses and reflect the reinvestment of dividends and other income. Net returns are net of model investment management fees in effect for the respective time period and are derived using the maximum fixed fee rate. A client's return will be reduced by the advisory fees and other expenses it may incur as a client. Fees charged are at the discretion of HighMark and U.S. Bank, N.A.; investment advisory fees are described in Part 2 of HighMark's Form ADV, which is available upon request.

The standard management fee is 0.36%. Standard management fees do not include any platform, administration, or other distribution fees that client may pay in addition to the management fees.

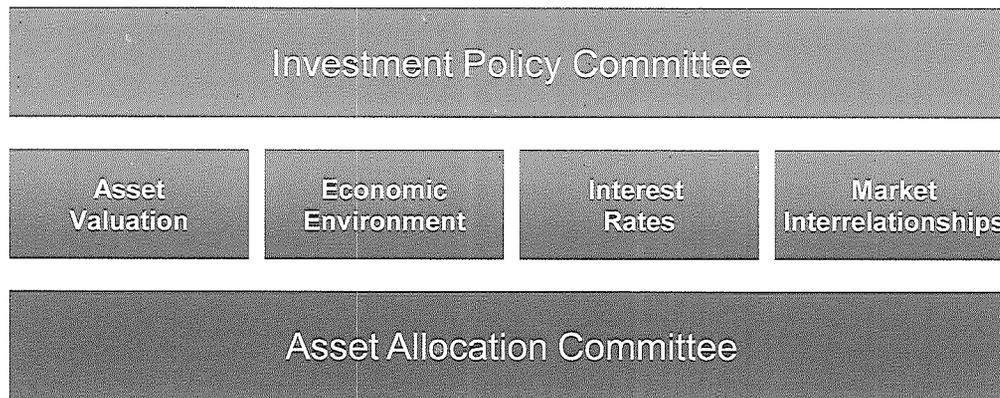
The internal dispersion of annual returns is measured by the equal-weighted standard deviation of portfolio returns included in the composite for the full year. For the years with less than or equal to 5 portfolios, the calculation of internal dispersion is not a meaningful statistical measure. The three year annualized ex-post standard deviation measures the variability of the composite (using gross returns) and the benchmark for the 36 month period ended as of 12/31/11: Composite: 15.26 Benchmark: 15.70, 12/31/12: Composite: 12.60 Benchmark: 12.47, 12/31/13: Composite: 10.21 Benchmark: 10.11, and 12/31/14: Composite: 7.41 Benchmark: 7.48. HighMark's policies or valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

Past performance does not guarantee future results. Securities investments involve risk, including the possible loss of the principal amount invested. Investments are not deposits of the adviser's parent or any of the adviser's affiliates, and are NOT FDIC insured.

ADDITIONAL INFORMATION

ASSET ALLOCATION COMMITTEE

Seek to identify investment opportunities using fundamental indicators to enhance returns over time through active asset allocation and investment selection without significantly increasing risk



Investment Professionals

15

Investment Experience

26 years average

Tenure with Firm

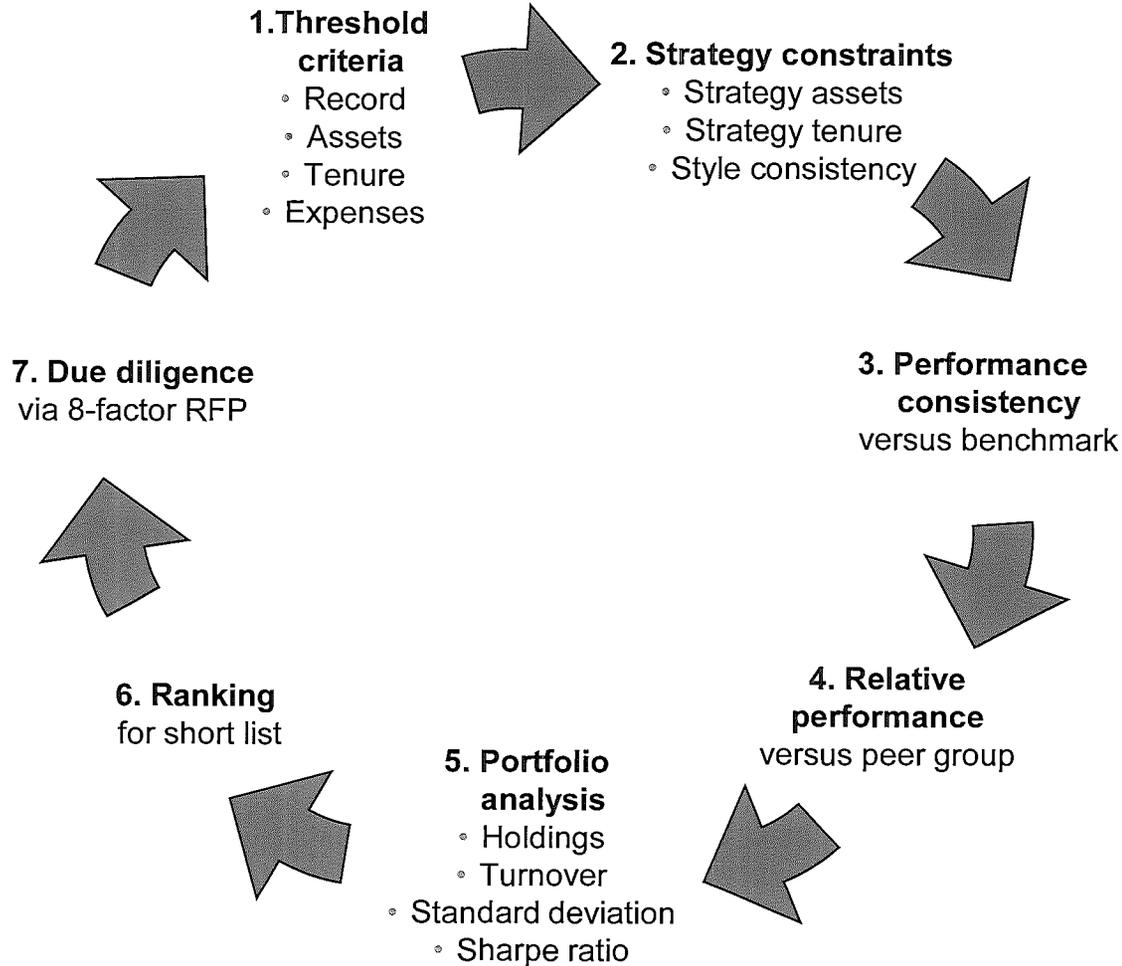
14 years average

Multi-disciplinary Group

Equity, Bond, Quantitative

MANAGER DUE DILIGENCE

HighMark uses a disciplined process with seven separate screens to identify, select, and monitor managers for specific investment mandates.



INVESTMENT BIOGRAPHY



Andrew Brown, CFA, Director and Senior Portfolio Manager

Andrew Brown joined HighMark Capital Management, the investment management subsidiary of MUFG Union Bank, N.A., in November of 1997. As Senior Portfolio Manager, Andrew is responsible for managing investment portfolios on behalf of high net worth investors, trusts, retirement plans, foundations, and not-for-profit organizations. In addition, he is a member of HighMark's Manager Review Committee (MRC). Andrew began his career in the investment management industry in 1994. Prior to joining HighMark, Andrew's work experience includes three years as a Japanese Equity Specialist at Wako Securities (America). His duties there included designing and implementing a marketing program to sell Japanese stocks to institutional investors. He also performed securities analysis for Japanese equities and made buy/sell recommendations on Nikkei 225 and OTC equities.

Andrew received a Bachelor of Arts degree in International Relations, concentrating in Asia-Politics/Economy, from the University of Southern California, and a Master's degree in Business Administration with an emphasis in Finance/Marketing from the University of Southern California. In addition, Andrew is a CFA charterholder.

Additional Information

SAMPLE AGENCY
PARS OPEB Trust Program

Monthly Account Report for the Period
mm/dd/yyyy to mm/dd/yyyy

Plan Administrator
Title
Agency
Address
City, State Zip

Account Summary

Source	Beginning Balance as of mm/dd/yyyy	Contributions	Earnings	Expenses*	Distributions	Transfers	Ending Balance as of mm/dd/yyyy
Employer Contribution	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Totals	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Investment Selection

Sample Investment Strategy

Investment Objective

Investment Description

Investment Return

1-Month	3-Months	1-Year	Annualized Return			Plan's Inception Date
			3-Years	5-Years	10-Years	
1.00%	2.00%	3.00%	4.00%	5.00%	6.00%	6/15/2011

Information as provided by US Bank, Trustee for PARS; Not FDIC Insured; No Bank Guarantee; May Lose Value

Past performance does not guarantee future results. Performance returns may not reflect the deduction of applicable fees, which could reduce returns. Information is deemed reliable but may be subject to change.

Investment Return: Annualized rate of return is the return on an investment over a period other than one year multiplied or divided to give a comparable one-year return.

*Expenses are inclusive of Trust Administration, Trustee and Investment Management fees

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

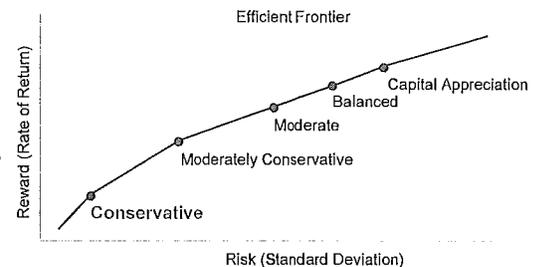
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation 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%	80%
Cash	0 – 20%	5%	5%

ANNUALIZED TOTAL RETURNS

(Gross of Investment Management Fees, but Net of Embedded Fund Fees)

HighMark Plus (Active)		Index Plus (Passive)	
Current Quarter*	-1.11%	Current Quarter*	-0.68%
Blended Benchmark**	-0.67%	Blended Benchmark**	-0.67%
Year To Date*	-0.09%	Year To Date*	-0.26%
Blended Benchmark*	-0.09%	Blended Benchmark*	-0.09%
1 Year	1.04%	1 Year	0.95%
Blended Benchmark	1.52%	Blended Benchmark	1.52%
3 Year	2.84%	3 Year	2.67%
Blended Benchmark	2.76%	Blended Benchmark	2.76%
5 Year	3.91%	5 Year	3.73%
Blended Benchmark	3.52%	Blended Benchmark	3.52%
10 Year	4.59%	10 Year	4.22%
Blended Benchmark	4.13%	Blended Benchmark	4.13%

* 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/Gov't, 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./Gov't, 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/Gov, 40% BC Agg, and 5% Citi 1 Mth T-Bill.

ANNUAL RETURNS

HighMark Plus (Active)		Index Plus (Passive)	
2008	-9.04%	2008	-6.70%
2009	15.59%	2009	10.49%
2010	8.68%	2010	7.67%
2011	2.19%	2011	3.70%
2012	8.45%	2012	6.22%
2013	3.69%	2013	3.40%
2014	3.88%	2014	4.32%

PORTFOLIO FACTS

HighMark Plus (Active)		Index Plus (Passive)	
Inception Date	07/2004	Inception Date	07/2004
No of Funds in Portfolio	19	No of Funds in Portfolio	14

A newly funded account enters a composite after three full months of management and is removed from a composite at the end of the last full month that the account is consistent with the criteria of the composite. Terminated accounts are included in the historical results of a composite through the last full month prior to closing. Composites may include accounts invested in domestic (U.S.) or international (non-U.S.) individual securities, funds, or a combination thereof. Account exclusions based on equity security concentrations are applied quarterly. Employing a construction methodology different from the above could lead to different results.

SAMPLE HOLDINGS

HighMark Plus (Active)

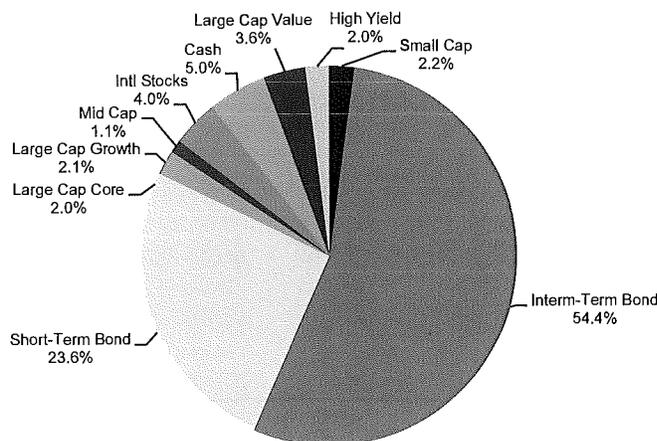
Columbia Contrarian Core Z
T. Rowe Price Growth Stock
Columbia Small Cap Value II Z
T. Rowe Price New Horizons
Nationwide Bailard International Equities
Nationwide HighMark Bond
Vanguard Short-Term Invest-Grade Adm
Loomis Sayles Value Y
PIMCO Total Return
Dodge & Cox International Stock
MFS International Growth I
First American Prime Obligation Z
TIAA-CREF Mid Cap Value
Ivy Mid Cap Growth
Harbor Capital Appreciation
Schroder Emerging Market Equity
Dodge & Cox Stock
SPDR Euro Stoxx 50 ETF
PIMCO High Yield

Index Plus (Passive)

iShares S&P 500
iShares S&P 500/Value
iShares S&P 500/Growth
iShares Russell 2000 Value
iShares Russell 2000 Growth
iShares MSCI EAFE
iShares Russell Midcap Value
iShares Russell Midcap Growth
iShares Barclays Aggregate Bond
Vanguard Short-Term Invest-Grade Adm
First American Prime Obligation Z
SPDR Euro Stoxx 50 ETF
SPDR Barclays High Yield Bond ETF
Vanguard FTSE Emerging Markets ETF

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 September 30, 2015, 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 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 MUFU 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 MUFU 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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800-582-4734

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 \$14.3 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

Andrew Bates, CFA®

Portfolio Manager

Investment Experience: since 2008

HighMark Tenure: since 2015

Education: BS, University of Colorado

Kevin Churchill, CFA®, CFP®

Senior Portfolio Manager

Investment Experience: since 1996

HighMark Tenure: since 2012

Education: MS, Seattle University; BS, University of Puget Sound

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

Matthew Webber, CFA®

Senior Portfolio Manager

Investment Experience: since 1995

HighMark Tenure: since 2011

Education: BA, University of California, Santa Barbara

Anne Wimmer, CFA®

Senior Portfolio Manager

Investment Experience: since 1987

HighMark Tenure: since 2007

Education: BA, University of California, Santa Barbara

Asset Allocation Committee

Number of Members: 16

Average Years of Experience: 24

Average Tenure (Years): 12

Manager Review Group

Number of Members: 9

Average Years of Experience: 22

Average Tenure (Years): 8

PARS DIVERSIFIED PORTFOLIOS
MODERATELY CONSERVATIVE

Q3 2015

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.

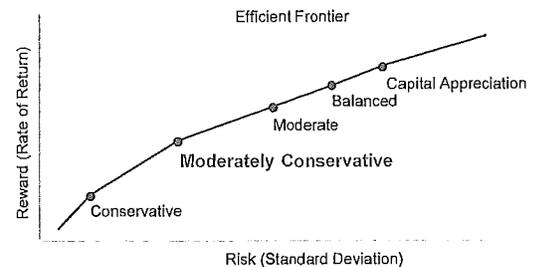
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Our manager review committee utilizes a rigorous screening process that searches for investment managers and styles that have not only produced above-average returns within acceptable risk parameters, but have the resources and commitment to continue 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*	-2.37%	Current Quarter*	-1.98%
Blended Benchmark**	-1.99%	Blended Benchmark**	-1.99%
Year To Date*	-0.97%	Year To Date*	-1.27%
Blended Benchmark*	-1.14%	Blended Benchmark*	-1.14%
1 Year	0.35%	1 Year	0.47%
Blended Benchmark	1.00%	Blended Benchmark	1.00%
3 Year	3.98%	3 Year	3.87%
Blended Benchmark	4.14%	Blended Benchmark	4.14%
5 Year	5.26%	5 Year	5.04%
Blended Benchmark	5.09%	Blended Benchmark	5.09%
10 Year	5.00%	10 Year	4.64%
Blended Benchmark	4.67%	Blended Benchmark	4.67%

* 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./Gov't, 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%

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	14

A newly funded account enters a composite after three full months of management and is removed from a composite at the end of the last full month that the account is consistent with the criteria of the composite. Terminated accounts are included in the historical results of a composite through the last full month prior to closing. Composites may include accounts invested in domestic (U.S.) or international (non-U.S.) individual securities, funds, or a combination thereof. Account exclusions based on equity security concentrations are applied quarterly. Employing a construction methodology different from the above could lead to different results.

SAMPLE HOLDINGS

HighMark Plus (Active)

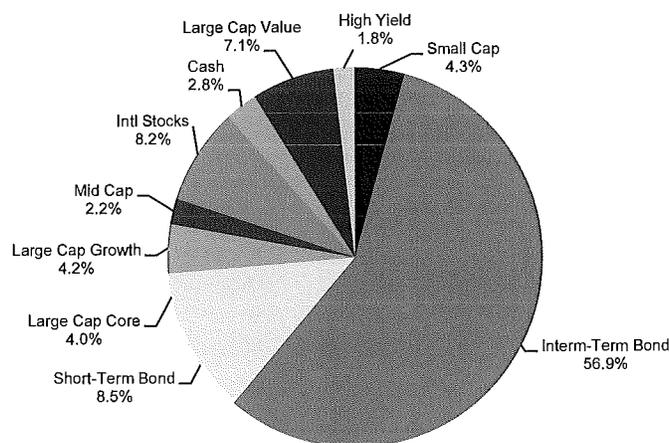
Columbia Contrarian Core Z
T. Rowe Price Growth Stock
Columbia Small Cap Value II Z
T. Rowe Price New Horizons
Nationwide Bailard International Equities
Nationwide HighMark Bond
Vanguard Short-Term Invest-Grade Adm
Loomis Sayles Value Y
PIMCO Total Return
Dodge & Cox International Stock
MFS International Growth I
First American Prime Obligation Z
TIAA-CREF Mid Cap Value
Ivy Mid Cap Growth
Harbor Capital Appreciation
Schroder Emerging Market Equity
Dodge & Cox Stock
SPDR Euro Stoxx 50 ETF
PIMCO High Yield

Index Plus (Passive)

iShares S&P 500
iShares S&P 500/Value
iShares S&P 500/Growth
iShares Russell 2000 Value
iShares Russell 2000 Growth
iShares MSCI EAFE
iShares Russell Midcap Value
iShares Russell Midcap Growth
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Vanguard Short-Term Invest-Grade Adm
First American Prime Obligation Z
SPDR Euro Stoxx 50 ETF
SPDR Barclays High Yield Bond ETF
Vanguard FTSE Emerging Markets ETF

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 Moderately Conservative active and passive objectives and do not have equity concentration of 25% or more in one common stock security.

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HIGHMARK CAPITAL MANAGEMENT

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ABOUT THE ADVISER

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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

Andrew Bates, CFA®

Portfolio Manager
Investment Experience: since 2008
HighMark Tenure: since 2015
Education: BS, University of Colorado

Kevin Churchill, CFA®, CFP®

Senior Portfolio Manager
Investment Experience: since 1996
HighMark Tenure: since 2012
Education: MS, Seattle University; BS, University of Puget Sound

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

Matthew Webber, CFA®

Senior Portfolio Manager
Investment Experience: since 1995
HighMark Tenure: since 2011
Education: BA, University of California, Santa Barbara

Anne Wimmer, CFA®

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

Asset Allocation Committee

Number of Members: 16
Average Years of Experience: 24
Average Tenure (Years): 12

Manager Review Group

Number of Members: 9
Average Years of Experience: 22
Average Tenure (Years): 8

WHY THE PARS DIVERSIFIED MODERATE PORTFOLIO?

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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.

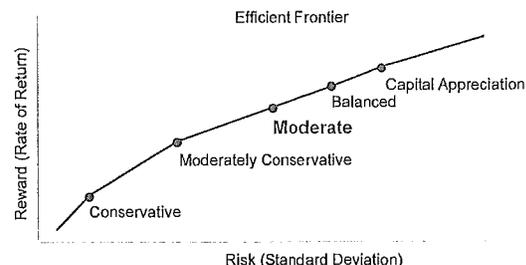
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In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment 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 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*	-4.07%	Current Quarter*	-3.81%
Blended Benchmark**	-3.83%	Blended Benchmark**	-3.83%
Year To Date*	-2.05%	Year To Date*	-2.57%
Blended Benchmark*	-2.58%	Blended Benchmark*	-2.58%
1 Year	-0.42%	1 Year	-0.53%
Blended Benchmark	0.15%	Blended Benchmark	0.15%
3 Year	5.49%	3 Year	5.50%
Blended Benchmark	5.94%	Blended Benchmark	5.94%
5 Year	6.71%	5 Year	6.78%
Blended Benchmark	7.01%	Blended Benchmark	7.01%
10 Year	4.97%	Inception To Date (113-Mos.)	4.87%
Blended Benchmark	5.16%	Blended Benchmark	5.03%

* 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./Gov't, 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%

PORTFOLIO FACTS

HighMark Plus (Active)		Index Plus (Passive)	
Inception Data	10/2004	Inception Data	05/2006
No of Funds in Portfolio	19	No of Funds in Portfolio	14

A newly funded account enters a composite after three full months of management and is removed from a composite at the end of the last full month that the account is consistent with the criteria of the composite. Terminated accounts are included in the historical results of a composite through the last full month prior to closing. Composites may include accounts invested in domestic (U.S.) or international (non-U.S.) individual securities, funds, or a combination thereof. Account exclusions based on equity security concentrations are applied quarterly. Employing a construction methodology different from the above could lead to different results.

SAMPLE HOLDINGS

HighMark Plus (Active)

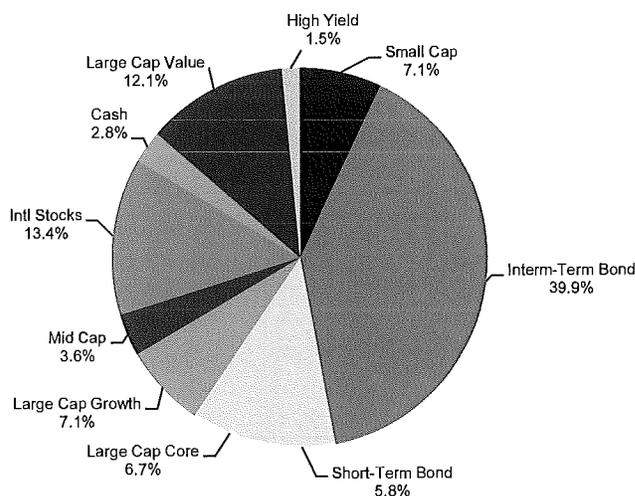
Columbia Contrarian Core Z
T. Rowe Price Growth Stock
Columbia Small Cap Value II Z
T. Rowe Price New Horizons
Nationwide Bailard International Equities
Nationwide HighMark Bond
Vanguard Short-Term Invest-Grade Adm
Loomis Sayles Value Y
PIMCO Total Return
Dodge & Cox International Stock
MFS International Growth I
First American Prime Obligation Z
TIAA-CREF Mid Cap Value
Ivy Mid Cap Growth
Harbor Capital Appreciation
Schroder Emerging Market Equity
Dodge & Cox Stock
SPDR Euro Stoxx 50 ETF
PIMCO High Yield

Index Plus (Passive)

iShares S&P 500
iShares S&P 500/Value
iShares S&P 500/Growth
iShares Russell 2000 Value
iShares Russell 2000 Growth
iShares MSCI EAFE
iShares Russell Midcap Value
iShares Russell Midcap Growth
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Holdings are subject to change at the discretion of the investment manager.

STYLE



HIGHMARK CAPITAL MANAGEMENT

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Suite 1600
San Francisco, CA 94104
800-582-4734

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ABOUT THE ADVISER

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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

Andrew Bates, CFA®

Portfolio Manager
Investment Experience: since 2008
HighMark Tenure: since 2015
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Kevin Churchill, CFA®, CFP®

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Education: MS, Seattle University; BS, University of Puget Sound

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

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Education: BA, International Christian University, Tokyo

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Education: BA, University of California, Santa Barbara

Anne Wimmer, CFA®

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

Asset Allocation Committee

Number of Members: 16
Average Years of Experience: 24
Average Tenure (Years): 12

Manager Review Group

Number of Members: 9
Average Years of Experience: 22
Average Tenure (Years): 8

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.

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**WHY THE PARS DIVERSIFIED
BALANCED 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

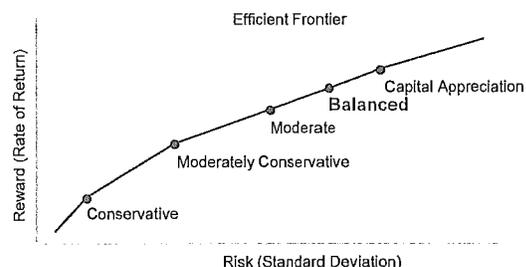
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation 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 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*	-4.98%	Current Quarter*	-4.81%
Blended Benchmark**	-4.76%	Blended Benchmark**	-4.76%
Year To Date*	-2.53%	Year To Date*	-3.39%
Blended Benchmark*	-3.31%	Blended Benchmark*	-3.31%
1 Year	-0.88%	1 Year	-1.19%
Blended Benchmark	-0.28%	Blended Benchmark	-0.28%
3 Year	6.50%	3 Year	6.27%
Blended Benchmark	6.83%	Blended Benchmark	6.83%
5 Year	7.46%	5 Year	7.48%
Blended Benchmark	8.02%	Blended Benchmark	8.02%
Inception to Date (108-Mos.)	4.59%	Inception to Date (96-Mos.)	3.83%
Blended Benchmark	5.15%	Blended Benchmark	4.36%

* 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./Gov't, 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%

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	14

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HighMark Plus (Active)

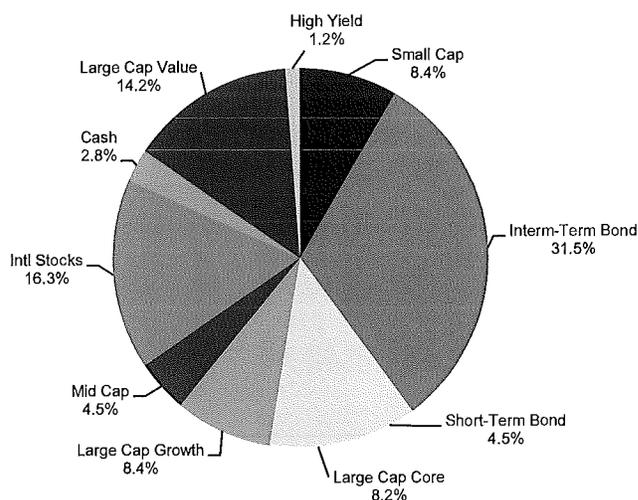
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Index Plus (Passive)

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Number of Members: 9
Average Years of Experience: 22
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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 September 30, 2015, 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**

Q3 2015

**WHY THE PARS DIVERSIFIED
CAPITAL APPRECIATION 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.

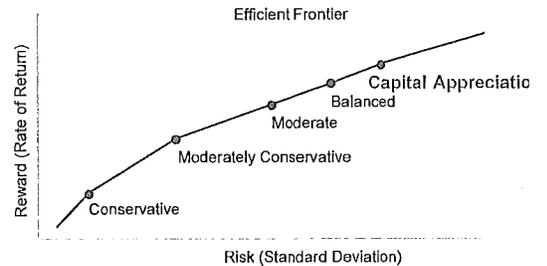
Rigorous Manager Due Diligence
Our manager review committee utilizes a rigorous screening process that searches for investment managers and styles that have not only produced above-average returns within acceptable risk parameters, but have the resources and commitment to continue to deliver these results. 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

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%	22%
Cash	0 - 20%	5%	3%

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

Current Quarter*	-6.24%
Blended Benchmark**	-6.23%
Year To Date*	-3.63%
Blended Benchmark*	-4.45%
1 Year	-1.44%
Blended Benchmark	-1.23%
3 Year	7.75%
Blended Benchmark	8.01%
5 Year	8.22%
Blended Benchmark	8.70%
Inception to Date (81-Mos.)	10.24%
Blended Benchmark	11.04%

* 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/Govt, 1% US High Yield Master II, 2% Wilshire REIT, and 5% Citi 1 Mtn 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%

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	14

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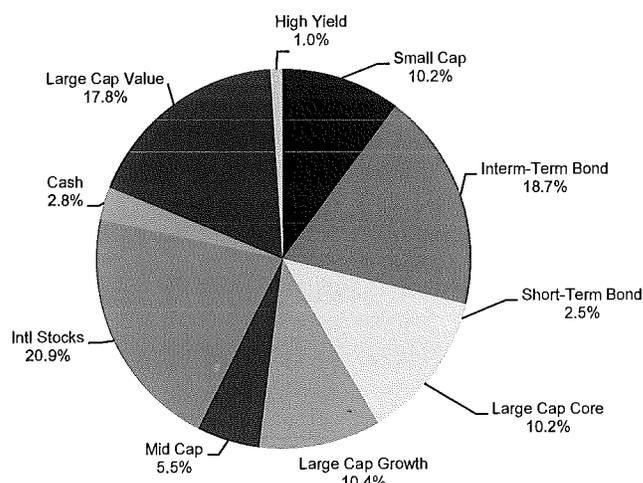
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Investment Experience: since 1996

HighMark Tenure: since 2012

Education: MS, Seattle University; BS, University of Puget Sound

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

Matthew Webber, CFA®

Senior Portfolio Manager

Investment Experience: since 1995

HighMark Tenure: since 2011

Education: BA, University of California, Santa Barbara

Anne Wimmer, CFA®

Senior Portfolio Manager

Investment Experience: since 1987

HighMark Tenure: since 2007

Education: BA, University of California, Santa Barbara

Asset Allocation Committee

Number of Members: 16

Average Years of Experience: 24

Average Tenure (Years): 12

Manager Review Group

Number of Members: 9

Average Years of Experience: 22

Average Tenure (Years): 8



THE CITY OF
NOVATO
CALIFORNIA

75 Rowland Way #200
Novato, CA 94945-3232
(415) 899-8900
FAX (415) 899-8213
www.novato.org

STAFF REPORT

MEETING

DATE: May 14, 2013

TO: City Council

FROM: Cathy Capriola, Assistant City Manager
Brian Cochran, Finance Manager
Carla Hansen, Management Analyst I

SUBJECT: ESTABLISHMENT OF TRUST FUND WITH PUBLIC AGENCY
RETIREMENT SERVICES (PARS) FOR POST EMPLOYMENT BENEFITS

REQUEST

Consider adopting a resolution authorizing the establishment of Other Post Employment Benefit (OPEB) Trust with Public Agency Retirement Services (PARS), authorize \$140,000 be deposited in the Trust, and authorize the City Treasurer to serve as the Plan Administrator.

RECOMMENDATION

Adopt the resolution.

DISCUSSION

Background

The City of Novato pays only one post employment benefit to its retirees – health care. The City purchases its health care for its employees through CalPERS. CalPERS requires that cities provide access to their retirees and public agencies can determine the amount of financial contribution provided to retirees. Novato provides the minimum contribution which is \$115 per month. This allows Novato retirees to maintain access to PERS' health care programs and the additional cost is borne by the retiree.

Under GASB Statement 45, the City is required to actuarially calculate its total Other Post Employment Benefit (OPEB) obligation and the annual amount necessary to fund the obligation called the Annual Required Contribution (ARC). The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover the cost each year and amortize any unfunded actuarial liabilities over a period of 28 years.

The most recent actuarial report, completed by Bartel Associates, showed, as of January 2010,

Novato City Council Agenda Staff Report Date: _____ File No. _____

the City's unfunded liability was \$ 2.7 million purely on a "pay as you go" basis.

Additionally, Bartel calculated a "pre-funding" scenario, assuming that the City began to put some money aside into an irrevocable trust. The monies in the trust, per GASB 45, can be counted against our calculated OPEB liability for financial reporting purposes. Furthermore, those funds can be invested in more aggressive investments otherwise not allowed under the City's investment policy or State code. Under this type of funding scenario, the OPEB liability was actuarially calculated to be \$1.8 million. Bartel will be providing an updated actuarial report in late May 2013.

As part of the FY 12/13 budget, the City Council approved a strategy to begin fully funding the City's annual required OPEB contribution. Pre-funding OPEB obligations can enable the City to make long-term investments to mitigate obligations and over time reduce the total cost of providing benefits. Establishing an irrevocable trust fund has the benefit of generating tax exempt investment earnings which will provide additional resources for funding future retiree health liabilities.

Analysis of OPEB Trust Providers

Staff researched options to create a trust for the City's other post employment benefits to set aside assets and prefund obligations.

Staff researched three OPEB trust providers:

1. Public Agency Retirement Services (PARS)
2. CalPERS- California Employers Retiree Benefit Trust Fund (CERBT)
3. ICMA-RC Employer Investment Program

The three providers were compared on the following factors:

1. Whether the 115 trust operated was in compliance with the Internal Revenue Code and had received a favorable private letter ruling by the IRS;
2. Whether or not the City retained fiduciary responsibility or the responsibility was transferred to the trustee;
3. The amount of investment control retained by the City;
4. The cost (investment costs/consulting/management fees) and;
5. The termination provisions.

Staff is recommending PARS as the OPEB trust provider. PARS is a trust administrator based in Orange County, partnered with U.S. Bank as trustee and subadvisor HighMark Capital Management for investment management.

The recommendation is based on the following factors

- PARS's trust is in compliance with the Internal Revenue Code and received a favorable private letter ruling letter from the IRS.
- The fiduciary responsibility and liability would be transferred to U.S. Bank as discretionary trustee (U.S. Bank). This is important as staff will have input on the portfolio but won't have the responsibility of making the investments choices.
- The City retains investment control with input on asset allocation, risk tolerance, and

discount rate for the OPEB investments. The investment manager will execute the strategy based on input from the City.

- A high level of professionalism and customer service according to reference checks.
- The City will pay ongoing trust administration/ consulting fees starting at 25 basis points for assets under \$5 million. Investment management fees are no more than 35 basis points, but actual fees will depend on the type of investments contained in the City's portfolio.

Investment Strategy

PARS offers eight active and passive investment options ranging from conservative to moderately aggressive. In determining the best investment option for the City, staff will consider both risk and long-term return on investment potential and will meet with the Senior Portfolio Manager of HighMark Capital Management to obtain recommendation after adoption. Staff recommends the City Treasurer, serve as the City's OPEB plan administrator. As plan administrator, the City Treasurer will execute the Trust's legal documents on behalf of the City, take whatever additional actions necessary to maintain the City's participation in the Trust and maintain compliance with any relevant regulation issued or required by the PARS plan. Consistent with the investment of all other City funds, the City Treasurer, in consultation with PARS and other City staff, will ultimately make the decision about which portfolio and investment options to choose for the City's OPEB trust.

FISCAL IMPACT

In FY 12/13, as part of an OPEB funding strategy, the City Council authorized staff to set aside \$140,000 which will cover the pre-funding requirement as outlined in the actuarial valuation. The annual cost to the City (at this pre-funding level) is estimated at \$3,600, plus investment management fees. However, this cost can be absorbed in the rate of return earned on the deposited funds. The City will receive an updated actuarial study to determine the current OPEB obligations before funds are deposited into the irrevocable trust. Once the Trust is established, the City Council can determine the amount and frequency of additional contributions into the Trust.

ALTERNATIVES

Do not authorize establishment of OPEB Trust with PARS.

ATTACHMENTS

1. Resolution establishing an IRC section 115 irrevocable trust to prefund OPEB costs



Meeting Date: August 3, 2015

Agenda Item No: 8.A.

Prepared By: Heather Ippoliti, Assistant City Manager

REQUEST FOR CITY COUNCIL ACTION

SUBJECT:

Authorize participation in the Public Agencies Post-Employment Benefits Trust Program to be administered by Public Agency Retirement Services (PARS) with U.S. Bank as trustee, appointing the City Manager as the Plan Administrator, authorizing the City Manager to negotiate and execute the documents to implement the program, and creating a Council sub-committee to develop the related investment policy.

STRATEGIC INITIATIVE:

Fiscal Responsibility

RECOMMENDED ACTION(S):

Adopt Resolution authorizing participation in the Public Agencies Post-Employment Benefits Trust Program to be administered by Public Agency Retirement Services (PARS) with U.S. Bank as trustee, appointing the City Manager as the Plan Administrator and authorizing him to negotiate and execute the documents to implement the program, and creating a Council sub-committee to develop the related investment policy.

BACKGROUND:

In 2012, the Government Accounting Standards Board (GASB) issued Statement No. 68, Accounting and Financial Reporting for Pensions. GASB 68 requires that governmental employers that sponsor Defined Benefit plans (i.e., California Public Employees Retirement System (PERS)) must recognize a net pension liability, also known as an unfunded actuarial accrued liability (UAAL) on their balance sheet. This is the difference between the City's total pension liability (actuarial accrued liability) and actual plan assets. GASB 68 will become effective for fiscal years starting after June 15, 2014.

CalPERS has also significantly changed the methodology for calculating the City's Annual Required Contributions (ARC) in regards to amortizing the UAAL.

Until recently, the City's only option for reducing the UAAL was to commit additional funds to CalPERS. Unfortunately, these additional funds would be subject to the same market volatility risk as the CalPERS investment policy target of 7.5%, and are not accessible to the City for other CalPERS pension expenses.

DISCUSSION/ANALYSIS:

A recent private letter ruling received from the IRS established that public agencies or municipalities could create a separate trust to "pre-fund" its PERS unfunded liability. This would provide the City with an alternative to sending funds to PERS and will provide greater City local control over assets and portfolio management.

The City engaged the services of John Bartel, President of the actuarial consulting firm, Bartel and Associates, LLC to evaluate the PERS actuarial issues facing the City. Mr. Bartel presented his firm's findings to the City Council on April 21 and his recommendations on June 1, 2015 (report attached as Exhibit A).

Expected benefits offered by a separate retirement funding trust include:

Pension volatility mitigation-contributions from the trust can be transferred to PERS at the City's discretion to offset fluctuations in the required annual contributions impacted by PERS investment returns. As shown on page 2 of Exhibit A, PERS investment returns have fluctuated dramatically over the last 20 years. Last week PERS stakeholders were notified via email that the preliminary one year investment performance for FY 14-15 showed a return of only 2.4 percent. Although PERS has achieved returns over the past three and five years of 10.9 and 10.7 percent, respectively, cities throughout California were negatively impacted during the period when their 10 year returns averaged only 3.4 percent. To mitigate this potential going forward, the proposed trust and funding plan have been structured to level contribution rates to the following:

- Miscellaneous-28% through FY 23-24
- Safety-44%

Trust assets can be accessed anytime to fund the City's pension obligations and defray reasonable expenses associated therewith.

- Investment flexibility with Section 115 Trust compared to restrictions on general fund investments (Govt. Code 53216.1)
- Investment security with Section 115 Trust compared to CalPERS investment management, risk appetite and portfolio allocation
- Investments can be tailored to the City's unique demographics
- Oversight and local control of fund management selection and monitoring of performance

An investment policy for trust assets also needs to be developed. Staff recommends that a Council subcommittee be formed to work with PARS to create the policy, which will then be brought forward to the full Council for consideration and adoption at a future meeting.

ENVIRONMENTAL ANALYSIS:

Pursuant to Title 14, the California Code of Regulations, Section 15302(C) of the California Environmental Quality Act (CEQA) guidelines, approval of this resolution is an administrative activity of the City that will not result in direct or indirect physical changes to the environment.

FISCAL IMPACT:

Cash Impact:

Establishing the Pension Trust Fund has no direct cash impact. Funding the Trust Fund will have a cash impact as funds must be withdrawn from existing accounts and transferred to the irrevocable trust account. As part of the FY 15-16 Budget Adoption process, Council authorized the following contributions to the trust:

General Fund	\$1,500,000.	Miscellaneous Employees
General Fund	1,000,000.	Safety Employees
Streets Fund	93,017.	Miscellaneous Employees
Water Fund	279,040.	Miscellaneous Employees
Wastewater Fund	336,044.	Miscellaneous Employees
Drainage Fund	73,045.	Miscellaneous Employees
Electric Fund	479,929.	Miscellaneous Employees
Community Services Fund	238,925.	Miscellaneous Employees
Total	\$4,000,000	

Financial Statement Impact:

The actual financial statement impact of the amount of GASB 68 UAAL is not known at the present time, as CalPERS is still working on current valuations

ALTERNATIVES:

Council may choose to not adopt the resolution and to not authorize participation in the program.

ATTACHMENTS:

- | | Description |
|---|--|
| □ | <u>Resolution</u> |
| □ | <u>Exhibit A - Bartle Associates Report 6_1_15</u> |

Internal Revenue Service

Department of the Treasury
Washington, DC 20224

Index Number: 115.00-00

Third Party Communication: None
Date of Communication: Not Applicable

U.S. Bank National Association
c/o Susan Hughes, Vice President
3121 Michelson Drive (Suite 300)
Irvine, CA 92612

Person To Contact:
Robin J. Ehrenberg, ID No. 1000219292
Telephone Number:
(202) 317-5800

Refer Reply To:
CC:TEGE:EOEG:EO3
PLR-146796-14
Date: June 5, 2015

Legend

- Trust = Public Agencies Post-Employment Benefits Trust
- Trust Agreement = Public Agencies Post-Employment Benefits Trust Agreement
- Trustee = U.S. Bank National Association

Dear Ms. Hughes:

This letter responds to a letter from your authorized representative dated December 22, 2014, requesting rulings that (1) the Trust's income is excludable from gross income under section 115 of the Internal Revenue Code (IRC) and (2) the Trust is not required to file annual federal income tax returns under IRC section 6012(a)(4). The Trust represents the facts as follows:

FACTS

The Trust is a multiple employer trust established to enable public-agency employers to fund post-retirement employee benefits. Each participating employer must be a public agency that is a state, political subdivision of a state, or an entity the income of which is excludable from gross income under IRC section 115. The employer's governing body must authorize in writing the adoption of the Trust and the employer must execute the adoption agreement, which approves the Trust's administrator and provides that the agency adopts and agrees to be bound by the Trust Agreement. In the adoption agreement, the employer elects to fund obligations to provide benefits under a post-employment health care plan and contribute to a defined-benefit pension plan maintained by the employer that is qualified under IRC section 401(a). The employer may elect to fund either or both obligations.

The Trust Agreement provides that assets are held by the Trust for the exclusive purpose of funding participating employers' benefit obligations and defraying the reasonable expenses of the Trust. The Trust's assets may not be used for any other purpose. Each employer's contributions to the Trust, together with any allocable investment earnings and losses, are held in a separate account for that employer. Assets allocated to satisfy an employer's health and welfare benefit obligation or the employer's pension obligation may only be used for purposes of satisfying that particular obligation. The assets held in an employer's account are not available to pay any obligations incurred by any other employer.

The employers appoint the Trustee and the Trust's administrator and may remove the Trustee or the administrator by a two-thirds vote of all employers. The employers may amend the Trust Agreement with the approval of two-thirds of all employers then participating in the Trust. The employers may terminate the Trust by unanimous agreement of all employers.

Upon termination of the Trust, any assets remaining in an employer's account, after satisfaction of benefit and the Trust's obligations are returned to the employer to the extent permitted by law and consistent with the requirements of IRC section 115.

LAW AND ANALYSIS

Issue 1 - IRC section 115(1)

IRC section 115(1) provides that gross income does not include income derived from any public utility or the exercise of any essential governmental function and accruing to a state or any political subdivision thereof.

Rev. Rul. 77-261, 1977-2 C.B. 45, holds that income generated by an investment fund that is established by a state to hold revenues in excess of the amounts needed to meet current expenses is excludable from gross income under IRC section 115(1), because such investment constitutes an essential governmental function. The ruling explains that the statutory exclusion is intended to extend not to the income of a state or municipality resulting from its own participation in activities, but rather to the income of an entity engaged in the operation of a public utility or the performance of some governmental function that accrues to either a state or political subdivision of a state. The ruling points out that it may be assumed that Congress did not desire in any way to restrict a state's participation in enterprises that might be useful in carrying out projects that are desirable from the standpoint of a state government and that are within the ambit of a sovereign to conduct.

Rev. Rul. 90-74, 1990-2 C.B. 34, holds that the income of an organization formed, funded, and operated by political subdivisions to pool various risks (e.g., casualty, public liability, workers' compensation, and employees' health) is excludable from gross income under IRC section 115(1), because the organization is performing an essential governmental function. The revenue ruling states that the income of such an organization is excludable from gross income so long as private interests do not participate in the organization or benefit more than incidentally from the organization. The benefit to the employees of the insurance coverage obtained by the member political subdivisions was deemed incidental to the public benefit.

Through the Trust, participating public agency employers fund health and welfare and pension obligations for retired employees. Each of the Trust's participating employers is required to be a state, political subdivision of a state or an entity the income of which is excludable from gross income under IRC section 115. Providing health, welfare and pension benefits to current and former employees constitutes the performance of an essential government function within the meaning of IRC section 115(1). See Rev. Rul. 90-74 and Rev. Rul. 77-261.

The Trust's income accrues to its participating employers, all of which are political subdivisions of a state or entities the income of which is excludable from gross income under IRC section 115. No private interests will participate in, or benefit from, the operation of Trust, other than as providers of goods or services. The benefit to employees is incidental to the public benefit. See Rev. Rul. 90-74.

In no event, including dissolution, will the Trust's assets be distributed or revert to any entity that is not a state, a political subdivision of a state, or entity the income of which is excludable from its gross income by application of IRC section 115(1).

Issue 2- IRC section 6012(a)(4)

Section 301.7701-1(b) of the Procedure and Administration Regulations (Regulations) provides that the classification of organizations that are recognized as separate entities is determined under sections 301.7701-2, 301.7701-3, and 301.7701-4, unless a provision of the IRC provides for special treatment of that organization.

Section 301.7701-4(a) of the Regulations provides that, in general, an arrangement will be treated as if it can be shown that the purpose of the arrangement is to vest in trustees responsibility for the protection and conservation of property for beneficiaries who cannot share in the discharge of this responsibility and, therefore, are not associates in a joint enterprise for the conduct of business for profit.

The Trust enables public-agency employers to set aside funds to be used to satisfy each employer's separate pension and health and welfare benefit obligations. The

Trustee is charged with the responsibility of the protection and conservation of the Trust property for the benefit of the beneficiaries of the Trust. The beneficiaries of the Trust cannot share in the discharge of the Trustee's responsibility for the protection and conservation of property and, therefore, are not associates in a joint enterprise for the conduct of business for profit. IRC section 6012(a)(4) provides that every trust having for the taxable year any taxable income or having gross income of \$600 or more, regardless of the amount of taxable income, shall make returns with respect to income taxes under Subtitle A.

Based solely on the facts and representations submitted by the Trust, we conclude that:

1. Because the income of the Trust derives from the exercise of an essential governmental function and will accrue to a state or a political subdivision thereof, the Trust's income is excludable from gross income under IRC section 115(1).
2. The Trust is classified as a trust within the meaning of IRC section 7701(a) and section 301.7701-4(a) of the Regulations. Because Trust's income is excludable from gross income under IRC section 115, the Trust is not required by IRC section 6012(a)(4) to file an annual income tax return.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter. This ruling concerns only the federal tax treatment of the Trust's income and may not be cited or relied upon by any taxpayer, including the Trust, employers participating in the Trust, and any recipients of benefits paid under the terms of the Trust, as to any matter relating to the taxation of accident or health contributions or benefits.

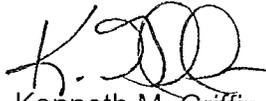
This ruling is directed only to the taxpayer who requested it. IRC section 6110(k)(3) provides that it may not be used or cited as precedent.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling.

The rulings contained in this letter are based upon information and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

Sincerely,

A handwritten signature in black ink, appearing to read 'K. Griffin', with a stylized flourish at the end.

Kenneth M. Griffin
Branch Chief, Exempt Organizations Branch 3
(Tax Exempt and Government Entities)

cc: Marcus Wu
Pillsbury Winthrop Shaw Pittman LLP
12255 El Camino Real, Suite 300
San Diego, CA 92130-4088

Paul Marmolejo
Director, Office of Federal, State and Local Governments
SE:T:GE:FSL