

To: Administration and Finance Committee

Date: March 2, 2016

From: Erick Cheung, Director of Finance

Reviewed by:

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**SUBJECT: PUBLIC AGENCY RETIREMENT SERVICES (PARS) OPEB Trust**

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Summary of Issues:

Andrew Brown, Vice President of Highmark Capital Management, will join us to discuss the investment performance of the trust and share some insights about the future of the markets.

The A&F Committee selected the Moderately Conservative Index PLUS investment option. The allocation for this option is 20-40% equity, 50-80% fixed income and 0-20% cash.

The balance in the trust as of June 30, 2015 was \$2,032,180.

The investment rate of return for FY 2015 was 1.88% but has averaged 5.95% over the last 5 years.

The previous actuarial valuation report used a 5.5% discount rate. We have contracted with Bickmore Risk Services to provide a new actuarial valuation report which should be completed by the next meeting.

# OPEB Prefunding Trust Program Client Review

## Central Contra Costa Transit Authority

March 2, 2016

PUBLIC  
AGENCY  
RETIREMENT  
SERVICES

# PARS

TRUSTED SOLUTIONS. LASTING RESULTS.



# Contacts

## PARS




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RACHAEL SANDERS, Supervisor, Client Services Coordinator  
[rsanders@pars.org](mailto:rsanders@pars.org); 800.540.6369 ext. 121

## HighMark Capital Management

ANDREW BROWN, CFA, Vice President, Senior Portfolio Manager  
[Andrew.brown@highmarkcapital.com](mailto:Andrew.brown@highmarkcapital.com); 415.705.7605

# OPEB Trust Team

			
Role	<b>Trust Administrator and Consultant</b> <ul style="list-style-type: none"> <li>• Recordkeeping/Sub-trust accounting</li> <li>• Actuarial Coordination</li> <li>• Monitor Contributions/ Process Disbursements</li> <li>• Monitor Plan Compliance</li> <li>• Ongoing Client Liaison</li> <li>• <b>Pre-fund Pension Option –</b></li> </ul>	<b>Trustee</b> <ul style="list-style-type: none"> <li>• Safeguard plan assets</li> <li>• Oversight protection                             <ul style="list-style-type: none"> <li>• Plan Fiduciary</li> </ul> </li> <li>• Custodian of assets</li> </ul>	<b>Investment Manager</b> <ul style="list-style-type: none"> <li>• An investment sub-advisor to U.S. Bank                             <ul style="list-style-type: none"> <li>• Open architecture</li> </ul> </li> <li>• Investment policy assistance</li> </ul>
Corporate Experience	32 years (1984 – 2016)	153 years (1863 – 2016)	97 years (1919 – 2015)
OPEB Experience	20 years	9 years	20 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 \$15.3 billion under management

# Plan Overview

**Type of Plan:** IRC Section 115 Irrevocable Exclusive Benefit Trust

**Trustee Approach:** Discretionary

**Plan Effective Date:** March 18, 2010

**Plan Administrator:** Rick Ramacier, General Manager

**Current Investment Strategy:** Moderately Conservative: Index Plus (Individual Account)

- Selected 6/17/2010

**As of 12/31/2015:**

**Initial Contribution:** June, 2010- \$450,000

**Additional Contributions:** \$1,369,000

**Total Contributions:** \$1,819,000

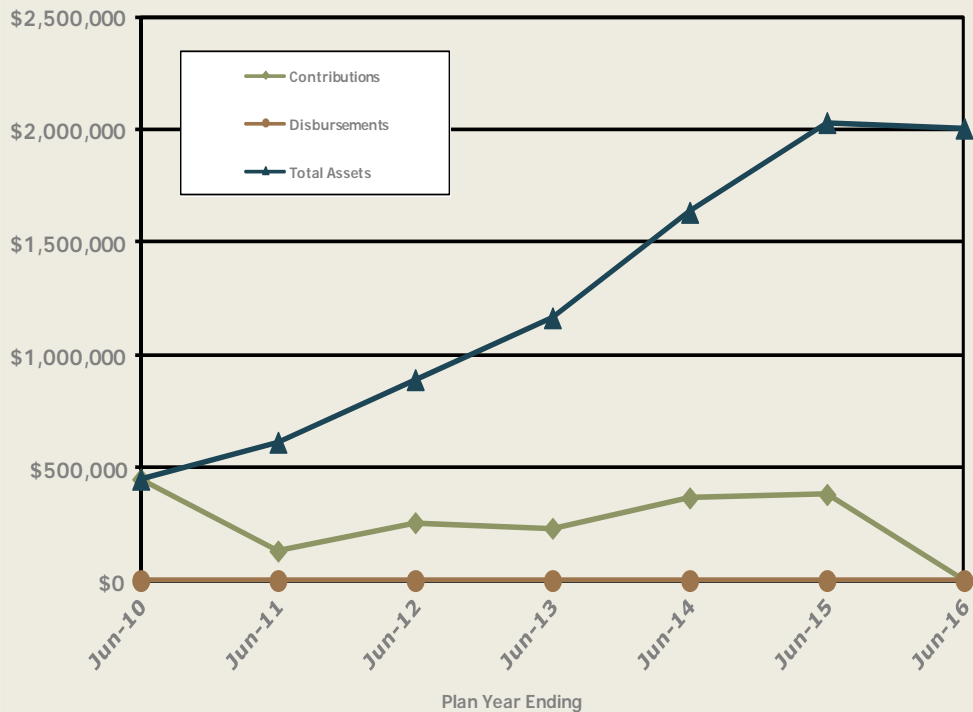
**Disbursements:** \$0

**Total Investment Earnings:** \$232,510

**Account Balance:** \$2,007,595

# Summary of the Plan Activity

Central Contra Costa Transit Authority  
Total Assets, Contributions & Disbursements



Plan Y/E	Contributions	Disbursements	Total Assets
Jun -10	\$450,000	\$0	\$450,004
Jun -11	\$131,000	\$0	\$613,708
Jun -12	\$257,000	\$0	\$891,590
Jun -13	\$232,000	\$0	\$1,165,830
Jun -14	\$367,000	\$0	\$1,634,255
Jun -15	\$382,000	\$0	\$2,032,180
Jun -16†	\$0	\$0	\$2,007,595

†Plan Year Ending June 2016 is based on 6 months of activity through 12/31/2015

# Actuarial Results

We have received the actuarial reports prepared by Bickmore on April 3, 2014 with a valuation date of July 1, 2013. In the tables below, we have summarized the results.

## Demographic Study

	July 1, 2009 Valuation	July 1, 2013 Valuation
<b>Active Employees</b>	261	233
<b>Retirees</b>	24	38
<b>Total</b>	285	271
<b>Average Active Employee Age</b>	50.30	52.1
<b>Average Active Employee City Service</b>	12.8	14.5

# Actuarial Results (continued)

	July 1, 2009 5.00% Discount Rate Assumption (Pay-as-you-go Scenario)	July 1, 2013 5.50% Discount Rate Assumption (Pre-Funding Scenario)
Actuarial Present Value of Projected Benefits (APVPB)	Not Provided	\$7,339,213
Actuarial Accrued Liability (AAL)	\$6,552,083	\$5,875,942
Actuarial Value of Assets	\$0	\$1,165,830
Unfunded Actuarial Accrued Liability (UAAL)	\$6,354,532	\$4,710,112
Normal Cost	\$154,458	\$227,211
Amortization of UAAL	\$211,818	\$234,113
Annual Required Contribution (ARC)	\$366,276	\$486,697



**PARS: CCCTA**

**Fourth Quarter 2015**

**Presented by  
Andrew Brown, CFA**

# DISCUSSION HIGHLIGHTS – CCCTA

## Investment objective – Moderately Conservative HighMark Index Plus

### Asset Allocation: CCCTA (As of 2-24-2016)

- Allocation Target – 28.5% stocks (20-40% range), 68.5% bonds (50-80% range), 3% cash (0-20% range)
- Large cap 15%, mid-cap 2.25%, small cap 4.5%, international 6.25%, real estate 0.5%

### Performance: CCCTA

(as of 12-31-2015) gross of investment management fees, net of fund fees

- Year to date: 1.08%
- 1-Year: -0.27%
- Inception to date (7/1/2010) 5.16%
- Bonds – high yield impact
- Stocks
  - Domestic markets – Value/Growth
  - International markets – Emerging markets hurting

### 12-Month Changes

- Overweight to Value (August)
- Under weight to stocks (January 16)
- Real Estate – October addition

### Outlook 2015

- Worries – Fed, China, Oil
- GDP est. 2.3% in 2016
- Unemployment 4.9% in 2016
- Fed Funds 1% in 2016
- 10-Year treasury 2.7%

### Plan Goals and Objectives

## Selected Period Performance

### PARS/CCCTA PRHCP

Account 6746035400

Period Ending: 12/31/2015

Sector	3 Months	Year to Date (1 Year)	3 Years	5 Years	Inception to Date (66 Months)
Cash Equivalents	.02	.04	.03	.03	.03
<i>iMoneyNet, Inc. Taxable</i>	<i>.01</i>	<i>.02</i>	<i>.02</i>	<i>.02</i>	<i>.02</i>
Total Fixed Income	-.54	.21	1.28	2.85	2.74
<i>BC US Aggregate Bd Index</i>	<i>-.57</i>	<i>.55</i>	<i>1.44</i>	<i>3.25</i>	<i>3.16</i>
Total Equities	4.86	-1.99	10.37	8.99	12.84
Large Cap Funds	6.81	.74	14.62	12.22	15.54
<i>S&amp;P 500 Composite Index</i>	<i>7.04</i>	<i>1.38</i>	<i>15.13</i>	<i>12.57</i>	<i>15.68</i>
Mid Cap Funds	3.44	-2.87	13.65	11.17	15.29
<i>Russell Midcap Index</i>	<i>3.62</i>	<i>-2.44</i>	<i>14.18</i>	<i>11.44</i>	<i>15.43</i>
Small Cap Funds	3.28	-4.99	12.33	10.80	14.99
<i>Russell 2000 Index</i>	<i>3.59</i>	<i>-4.41</i>	<i>11.65</i>	<i>9.19</i>	<i>13.51</i>
International Equities	2.50	-4.95	-.82	-.32	4.01
<i>MSCI EAFE Index</i>	<i>4.71</i>	<i>-.81</i>	<i>5.01</i>	<i>3.60</i>	<i>7.42</i>
<i>MSCI EM Free Index</i>	<i>.66</i>	<i>-14.92</i>	<i>-6.76</i>	<i>-4.81</i>	<i>-.18</i>
Total Managed Portfolio	1.08	-.27	3.85	4.72	5.16

**Account Inception: 07/01/2010**

Returns are gross of account level investment advisory fees and net of any fees, including fees to manage mutual fund or exchange traded fund holdings. Returns for periods over one year are annualized. The information presented has been obtained from sources believed to be accurate and reliable. Past performance is not indicative of future returns. Securities are not FDIC insured, have no bank guarantee, and may lose value.

# ASSET ALLOCATION

As of December 31, 2015

Current Asset Allocation		Investment Vehicle		
<b>Equity</b>		<b>29.80%</b>	<b>Range: 20%-40%</b>	<b>597,985</b>
Large Cap Core	IVV	3.56%	iShares S&P 500 Index Fund	71,500
Large Cap Value	IVE	7.06%	iShares S&P 500 Value Fund	141,737
Large Cap Growth	IVW	4.18%	iShares S&P 500 Growth Fund	83,955
Mid Cap Value	IWS	1.37%	iShares Russell MidCap Value Fund	27,395
Small Cap Growth	IWO	1.80%	iShares R2000 Growth Fund	36,074
Mid Cap Growth	IWP	0.80%	iShares Russell MidCap Growth Fund	15,994
Small Cap Value	IWN	3.01%	iShares Russell 2000 Value Fund	60,497
International Core	EFA	4.66%	iShares MSCI EAFE Index Fund	93,482
Tactical - Europe	FEZ	1.68%	SPDR EURO STOXX 50 ETF	33,638
Emerging Markets	VWO	1.18%	Vanguard FTSE Emerging Markets Fund	23,747
Real Estate	VNQ	0.50%	Vanguard REIT ETF	9,966
<b>Fixed Income</b>		<b>67.29%</b>	<b>Range: 50%-80%</b>	<b>1,350,418</b>
Short-Term	VFSUX	8.56%	Vanguard Short-Term Corp Adm Fund	171,859
Intermediate-Term	AGG	56.98%	iShares Barclays Aggregate Bond Fund	1,143,394
High Yield	JNK	1.75%	SPDR Barclays Capital High Yield Bond	35,165
<b>Cash</b>		<b>2.91%</b>	<b>Range: 0%-20%</b>	<b>58,375</b>
	FPZXX	2.91%	First American Prime Obligations Fund	58,375
<b>TOTAL</b>		<b>100.00%</b>		<b>2,006,777</b>

# CCCTA

For Period Ending December 31, 2015

## LARGE CAP EQUITY FUNDS

Fund Name	Inception	1-Month Return	3-Month Return	Year-to-Date	1-Year Return	3-Year Return	5-Year Return	10-Year Return
iShares S&P 500 Growth Index		-1.53	7.81	5.33	5.33	16.96	13.85	8.52
iShares S&P 500 Index Fnd		-1.58	7.03	1.34	1.34	15.06	12.50	7.25
iShares S&P 500 Value Index		-1.69	6.01	-3.24	-3.24	12.64	10.77	5.65

## MID CAP EQUITY FUNDS

iShares Russell Midcap Growth	(2/10)	-2.28	4.07	-0.39	-0.39	14.64	11.33	7.95
iShares Russell Midcap Value	(2/10)	-3.11	3.09	-4.93	-4.93	13.15	11.02	7.43

## SMALL CAP EQUITY FUNDS

iShares Russell 2000 Growth Fund		-5.28	2.90	-7.53	-7.53	8.95	7.55	5.46
iShares Russell 2000 Growth		-4.76	4.40	-1.19	-1.19	14.43	10.80	7.99

## INTERNATIONAL EQUITY FUNDS

iShares MSCI EAFE Index		-1.37	4.62	-0.90	-0.90	4.89	3.50	2.93
Vanguard FTSE Emerging Markets ETF	(3/11)	-2.45	-0.33	-15.35	-15.35	-6.82	-4.80	3.39
SPDR Euro Stoxx 50 ETF	(6/14)	-4.07	2.83	-4.26	-4.26	3.79	2.40	1.65

## REAL ESTATE FUNDS

Vanguard REIT ETF	(10/15)	1.80	7.02	2.37	2.37	10.96	11.79	7.56
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## BOND FUNDS

iShares Barclays Aggregate Bond		-0.34	-0.61	0.48	0.48	1.40	3.13	4.36
Vanguard Short-Term Investment-Grade Adm		-0.36	-0.28	1.13	1.13	1.36	2.13	3.56
SPDR Barclays High Yield Bond		-3.15	-3.05	-7.22	-7.22	-0.21	3.53	--

Source: SEI Investments, Morningstar Investments

Returns less than one year are not annualized. Past performance is no indication of future results. The information presented has been obtained from sources believed to be accurate and reliable. Securities are not FDIC insured, have no bank guarantee and may lose value.

# Administrative Review

- ✓ Future Anticipated Contributions
- ✓ Future Anticipated Disbursement Requests - Options
- ✓ Agency's future actuarial valuation for GASB 45 compliance- July 1, 2015
- ✓ Investment Guidelines Document- Completed May, 2014
- ✓ Prefunding Policy
- ✓ Use of 115 Trust for Pension Obligations – New!
- ✓ Client Feedback – Questions?

## PARS DIVERSIFIED PORTFOLIOS CONSERVATIVE

Q4 2015

### 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

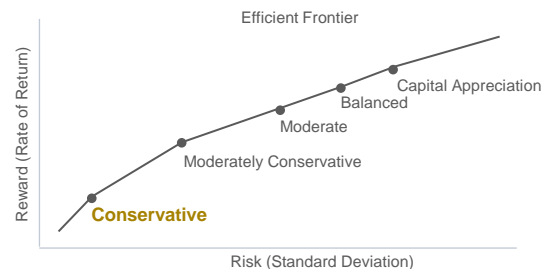
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation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

Current Quarter*	0.39%
Blended Benchmark**	0.39%
Year To Date*	0.29%
Blended Benchmark*	0.31%
1 Year	0.29%
Blended Benchmark	0.31%
3 Year	2.61%
Blended Benchmark	2.73%
5 Year	3.67%
Blended Benchmark	3.39%
10 Year	4.48%
Blended Benchmark	4.08%

#### Index Plus (Passive)

Current Quarter*	0.32%
Blended Benchmark**	0.39%
Year To Date*	0.06%
Blended Benchmark*	0.31%
1 Year	0.06%
Blended Benchmark	0.31%
3 Year	2.58%
Blended Benchmark	2.73%
5 Year	3.52%
Blended Benchmark	3.39%
10 Year	4.15%
Blended Benchmark	4.08%

\* 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)

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

#### Index Plus (Passive)

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

### PORTFOLIO FACTS

#### HighMark Plus (Active)

Inception Date	07/2004
No of Funds in Portfolio	20

#### Index Plus (Passive)

Inception Date	07/2004
No of Funds in Portfolio	15

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)

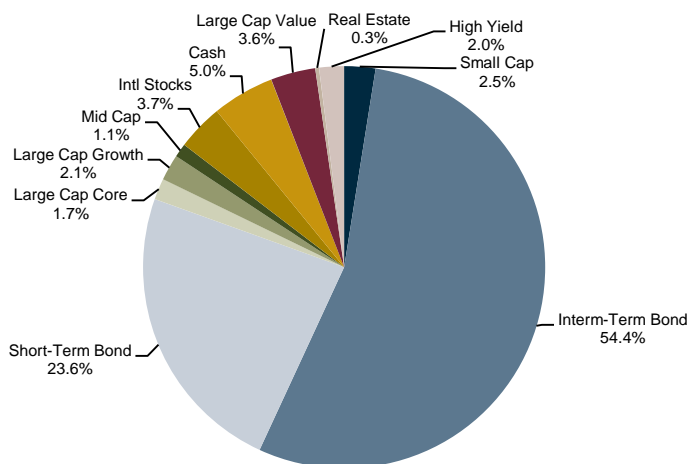
Columbia Contrarian Core Z  
T. Rowe Price Growth Stock  
Columbia Small Cap Value II Z  
T. Rowe Price New Horizons  
Nationwide Bailard International Equities  
Nationwide HighMark Bond  
Vanguard Short-Term Invest-Grade Adm  
Loomis Sayles Value Y  
PIMCO Total Return  
Dodge & Cox International Stock  
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  
Nuveen Real Estate Securities I

### 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  
Vanguard REIT 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 December 31, 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 MUFG Union Bank, N.A. (MUB). HighMark manages institutional separate account portfolios for a wide variety of for-profit and nonprofit organizations, public agencies, public and private retirement plans, and personal trusts of all sizes. It may also serve as sub-adviser for mutual funds, common trust funds, and collective investment funds. MUB, a subsidiary of MUFG Americas Holdings Corporation, provides certain services to HighMark and is compensated for these services. Past performance does not guarantee future results. Individual account management and construction will vary depending on each client's investment needs and objectives. **Investments employing HighMark strategies are NOT insured by the FDIC or by any other Federal Government Agency, are NOT Bank deposits, are NOT guaranteed by the Bank or any Bank affiliate, and MAY lose value, including possible loss of principal.**

## HIGHMARK CAPITAL MANAGEMENT

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### ABOUT THE ADVISER

HighMark® Capital Management, Inc. (HighMark) has over 90 years (including predecessor organizations) of institutional money management experience with more than \$15.1 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

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

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

#### J. Keith Stribling, CFA®

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

#### Christiane Tsuda

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

#### Anne Wimmer, CFA®

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

#### Asset Allocation Committee

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

#### Manager Review Group

Number of Members: 8  
Average Years of Experience: 20  
Average Tenure (Years): 7



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

Q4 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.

**Rigorous Manager Due Diligence**

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

**Flexible Investment Options**

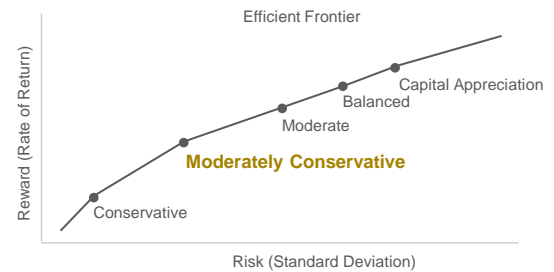
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation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

**Risk Management**

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

**INVESTMENT OBJECTIVE**

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



**ASSET ALLOCATION — MODERATELY CONSERVATIVE PORTFOLIO**

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

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

HighMark Plus (Active)		Index Plus (Passive)	
Current Quarter*	1.31%	Current Quarter*	1.10%
Blended Benchmark**	1.30%	Blended Benchmark**	1.30%
Year To Date*	0.32%	Year To Date*	-0.18%
Blended Benchmark*	0.14%	Blended Benchmark*	0.14%
1 Year	0.32%	1 Year	-0.18%
Blended Benchmark	0.14%	Blended Benchmark	0.14%
3 Year	3.97%	3 Year	3.95%
Blended Benchmark	4.35%	Blended Benchmark	4.35%
5 Year	4.86%	5 Year	4.65%
Blended Benchmark	4.83%	Blended Benchmark	4.83%
10 Year	4.92%	10 Year	4.63%
Blended Benchmark	4.69%	Blended Benchmark	4.69%

\* 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%
2015	0.32%	2015	-0.18%

**PORTFOLIO FACTS**

HighMark Plus (Active)		Index Plus (Passive)	
Inception Data	08/2004	Inception Data	05/2005
No of Funds in Portfolio	20	No of Funds in Portfolio	15

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)

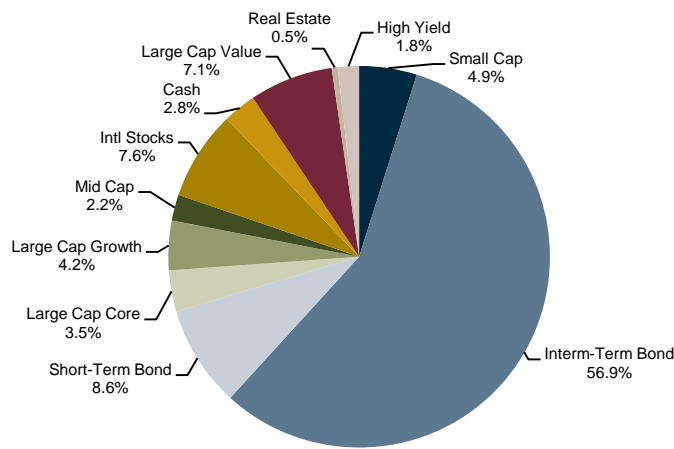
Columbia Contrarian Core Z  
T. Rowe Price Growth Stock  
Columbia Small Cap Value II Z  
T. Rowe Price New Horizons  
Nationwide Bailard International Equities  
Nationwide HighMark Bond  
Vanguard Short-Term Invest-Grade Adm  
Loomis Sayles Value Y  
PIMCO Total Return  
Dodge & Cox International Stock  
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  
Nuveen Real Estate Securities I

### 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  
Vanguard REIT 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.

The adviser to the PARS portfolios is US Bank, and HighMark serves as sub-adviser to US Bank to manage these portfolios. US Bank may charge clients as much as 0.60% annual management fee based on a sliding scale. As of December 31, 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 MUFJ 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 MUFJ Americas Holdings Corporation, provides certain services to HighMark and is compensated for these services. Past performance does not guarantee future results. Individual account management and construction will vary depending on each client's investment needs and objectives. **Investments employing HighMark strategies are NOT insured by the FDIC or by any other Federal Government Agency, are NOT Bank deposits, are NOT guaranteed by the Bank or any Bank affiliate, and MAY lose value, including possible loss of principal.**

## HIGHMARK CAPITAL MANAGEMENT

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

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

### ABOUT THE ADVISER

HighMark® Capital Management, Inc. (HighMark) has over 90 years (including predecessor organizations) of institutional money management experience with more than \$15.1 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

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

Senior Portfolio Manager

Investment Experience: since 2004

HighMark Tenure: since 2014

Education: BA, Colgate University

#### J. Keith Stribling, CFA®

Senior Portfolio Manager

Investment Experience: since 1985

HighMark Tenure: since 1995

Education: BA, Stetson University

#### Christiane Tsuda

Senior Portfolio Manager

Investment Experience: since 1987

HighMark Tenure: since 2010

Education: BA, International Christian University, Tokyo

#### Anne Wimmer, CFA®

Senior Portfolio Manager

Investment Experience: since 1987

HighMark Tenure: since 2007

Education: BA, University of California, Santa Barbara

#### Asset Allocation Committee

Number of Members: 16

Average Years of Experience: 24

Average Tenure (Years): 12

#### Manager Review Group

Number of Members: 8

Average Years of Experience: 20

Average Tenure (Years): 7

## WHY THE PARS DIVERSIFIED MODERATE PORTFOLIO?

### Comprehensive Investment Solution

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

### Rigorous Manager Due Diligence

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

### Flexible Investment Options

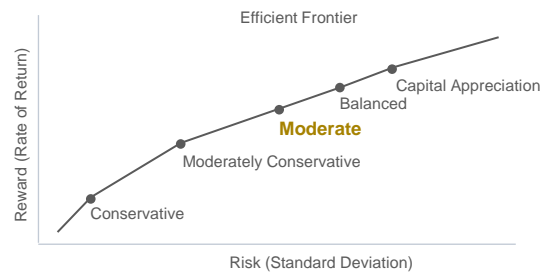
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation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

Current Quarter*	2.23%
Blended Benchmark**	2.52%
Year To Date*	0.14%
Blended Benchmark*	-0.12%
1 Year	0.14%
Blended Benchmark	-0.12%
3 Year	5.88%
Blended Benchmark	6.49%
5 Year	6.02%
Blended Benchmark	6.53%
10 Year	4.98%
Blended Benchmark	5.27%

### Index Plus (Passive)

Current Quarter*	2.11%
Blended Benchmark**	2.52%
Year To Date*	-0.52%
Blended Benchmark*	-0.12%
1 Year	-0.52%
Blended Benchmark	-0.12%
3 Year	5.86%
Blended Benchmark	6.49%
5 Year	6.12%
Blended Benchmark	6.53%
Inception To Date (116-Mos.)	4.97%
Blended Benchmark	5.17%

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

## ANNUAL RETURNS

### HighMark Plus (Active)

2008	-22.88%
2009	21.47%
2010	12.42%
2011	0.55%
2012	12.25%
2013	13.06%
2014	4.84%
2015	0.14%

### Index Plus (Passive)

2008	-18.14%
2009	16.05%
2010	11.77%
2011	2.29%
2012	10.91%
2013	12.79%
2014	5.72%
2015	-0.52%

## PORTFOLIO FACTS

### HighMark Plus (Active)

Inception Data	10/2004
No of Funds in Portfolio	20

### Index Plus (Passive)

Inception Data	05/2006
No of Funds in Portfolio	15

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## SAMPLE HOLDINGS

### HighMark Plus (Active)

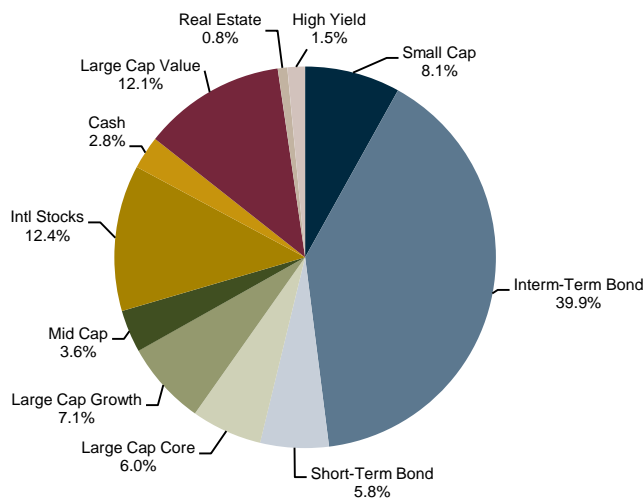
Columbia Contrarian Core Z  
 T. Rowe Price Growth Stock  
 Columbia Small Cap Value II Z  
 T. Rowe Price New Horizons  
 Nationwide Baird International Equities  
 Nationwide HighMark Bond  
 Vanguard Short-Term Invest-Grade Adm  
 Loomis Sayles Value Y  
 PIMCO Total Return  
 Dodge & Cox International 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  
 Nuveen Real Estate Securities I

### 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  
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## STYLE



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## HIGHMARK CAPITAL MANAGEMENT

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Senior Portfolio Manager

Investment Experience: since 1994

HighMark Tenure: since 1997

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

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Investment Experience: since 2008

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Investment Experience: since 2004

HighMark Tenure: since 2014

Education: BA, Colgate University

#### J. Keith Stribling, CFA®

Senior Portfolio Manager

Investment Experience: since 1985

HighMark Tenure: since 1995

Education: BA, Stetson University

#### Christiane Tsuda

Senior Portfolio Manager

Investment Experience: since 1987

HighMark Tenure: since 2010

Education: BA, International Christian University, Tokyo

#### Anne Wimmer, CFA®

Senior Portfolio Manager

Investment Experience: since 1987

HighMark Tenure: since 2007

Education: BA, University of California, Santa Barbara

#### Asset Allocation Committee

Number of Members: 16

Average Years of Experience: 24

Average Tenure (Years): 12

#### Manager Review Group

Number of Members: 8

Average Years of Experience: 20

Average Tenure (Years): 7

## 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

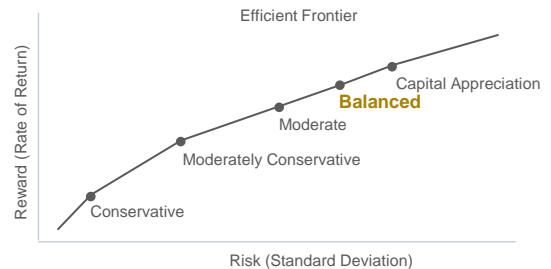
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### Risk Management

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

## INVESTMENT OBJECTIVE

To provide growth of principal and income. 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)

Current Quarter*	2.64%
Blended Benchmark**	3.13%
Year To Date*	0.04%
Blended Benchmark*	-0.29%
1 Year	0.04%
Blended Benchmark	-0.29%
3 Year	6.90%
Blended Benchmark	7.55%
5 Year	6.61%
Blended Benchmark	7.45%
Inception to Date (111-Mos.)	4.76%
Blended Benchmark	5.36%

### Index Plus (Passive)

Current Quarter*	2.67%
Blended Benchmark**	3.13%
Year To Date*	-0.81%
Blended Benchmark*	-0.29%
1 Year	-0.81%
Blended Benchmark	-0.29%
3 Year	6.75%
Blended Benchmark	7.55%
5 Year	6.71%
Blended Benchmark	7.45%
Inception to Date (99-Mos.)	4.04%
Blended Benchmark	4.62%

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

## ANNUAL RETURNS

### HighMark Plus (Active)

2008	-25.72%
2009	21.36%
2010	14.11%
2011	-0.46%
2012	13.25%
2013	16.61%
2014	4.70%
2015	0.04%

### Index Plus (Passive)

2008	-23.22%
2009	17.62%
2010	12.76%
2011	1.60%
2012	11.93%
2013	15.63%
2014	6.08%
2015	-0.81%

## PORTFOLIO FACTS

### HighMark Plus (Active)

Inception Data	10/2006
No of Funds in Portfolio	20

### Index Plus (Passive)

Inception Data	10/2007
No of Funds in Portfolio	15

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)

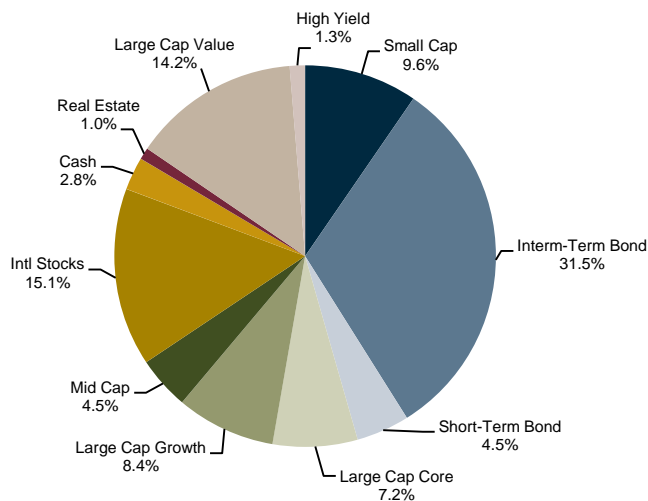
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Vanguard Short-Term Invest-Grade Adm  
Loomis Sayles Value Y  
PIMCO Total Return  
Dodge & Cox International Stock  
MFS International Growth I  
First American Prime Obligation Z  
TIAA-CREF Mid Cap Value  
Ivy Mid Cap Growth  
Harbor Capital Appreciation  
Schroder Emerging Market Equity  
Dodge & Cox Stock  
SPDR Euro Stoxx 50 ETF  
PIMCO High Yield  
Nuveen Real Estate Securities I

### Index Plus (Passive)

iShares S&P 500  
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iShares S&P 500/Growth  
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iShares MSCI EAFE  
iShares Russell Midcap Value  
iShares Russell Midcap Growth  
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First American Prime Obligation Z  
SPDR Euro Stoxx 50 ETF  
SPDR Barclays High Yield Bond ETF  
Vanguard FTSE Emerging Markets ETF  
Vanguard REIT 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 Balanced active and passive objectives and do not have equity concentration of 25% or more in one common stock security.

The composite name has been changed from PARS Balanced/Moderately Aggressive to PARS Balanced on 5/1/2013. The adviser to the PARS portfolios is US Bank, and HighMark serves as sub-adviser to US Bank to manage these portfolios. US Bank may charge clients as much as 0.60% annual management fee based on a sliding scale. As of December 31, 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.

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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

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### Asset Allocation Committee

Number of Members: 16

Average Years of Experience: 24

Average Tenure (Years): 12

### Manager Review Group

Number of Members: 8

Average Years of Experience: 20

Average Tenure (Years): 7

**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**

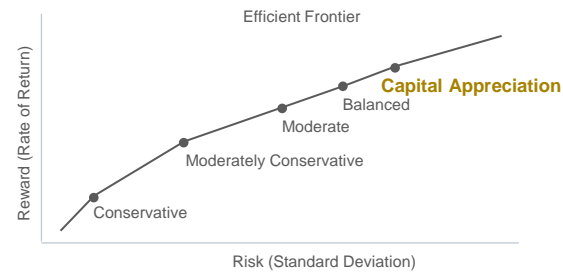
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation 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*	3.49%
Blended Benchmark**	4.01%
Year To Date*	-0.27%
Blended Benchmark*	-0.62%
1 Year	-0.27%
Blended Benchmark	-0.62%
3 Year	8.37%
Blended Benchmark	8.95%
5 Year	7.41%
Blended Benchmark	7.90%
Inception to Date (84-Mos.)	10.40%
Blended Benchmark	11.25%

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

**ANNUAL RETURNS**

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

**PORTFOLIO FACTS**

HighMark Plus (Active)		Index Plus (Passive)	
Inception Data	01/2009	Inception Data	N/A
No of Funds in Portfolio	20	No of Funds in Portfolio	15

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)

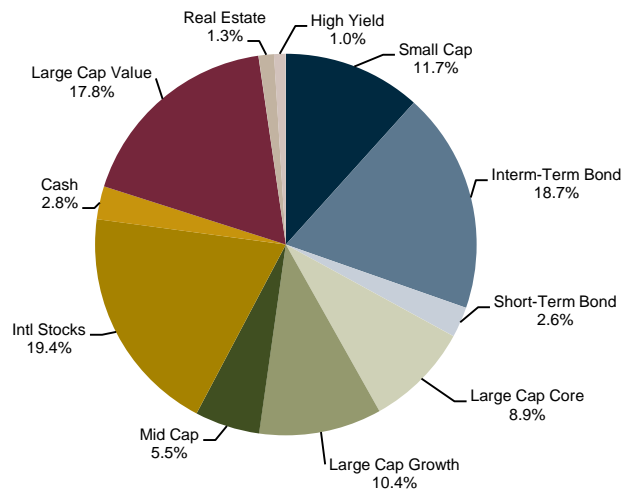
Columbia Contrarian Core Z  
T. Rowe Price Growth Stock  
Columbia Small Cap Value II Z  
T. Rowe Price New Horizons  
Nationwide Bailard International Equities  
Nationwide HighMark Bond  
Vanguard Short-Term Invest-Grade Adm  
Loomis Sayles Value Y  
PIMCO Total Return  
Dodge & Cox International Stock  
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  
Nuveen Real Estate Securities I

### 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  
Vanguard REIT ETF

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