The County Connection

To: A&F Committee

From: Kathy Casenave
Director of Finance

Date: March 31, 2011

Reviewed By:

SUBJECT: PARS OPEB Trust Update

On June 24, 2010 CCCTA deposited $450,000 in the newly created Post-retirement Health Care Plan Trust. This represented two years of required contributions, FY 2009 & 2010.

Public Agency Retirement Services (PARS) is the trust administrator; Union Bank, through its subsidiary, HighMark Capital Management, is the investment manager.

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.

As of March 29, 2011 the trust assets were $475,045.72- a 5.57% increase for the nine months. The accompanying report shows the current holdings.

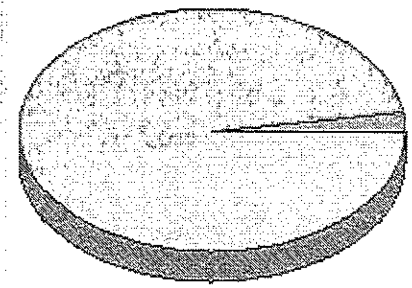
Also accompanying this memo is an analysis of the effects and consequences of Japan's earthquake, tsunami, and nuclear power plant, which our investment manager, Andrew Brown, requested that I forward to the committee.

UnionBank Asset Allocation - Reporting as of Trade Date

Account: 6746035400 - PARS/CCCTA PRHCP

As of: 29-Mar-2011

Asset Type	Market Value	% of Assets
Cash & Cash Equivalents	$12,167.95 USD	2.561%
Mutual Funds/ Commingled Funds	$462,877.77 USD	97.439%
Total Market Value	**$475,045.72 USD**	**100.000%**



UnionBank

Holdings - Reporting as of Trade Date
Account: 6746035400 - PARS/CCCTA PRHCP

As of: 29-Mar-2011

Pending Transactions Included

Asset Type	Asset Name	CUSIP	ISIN	Owning Account Number	Owning Account Name	Shares / Units	Price	Date Priced	Cost Basis	Market Value	Net Unrealized Gain/Loss
Mutual Funds/ Commingled Funds	ISHARES BARCLAYS AGGREGATE	464287226	US4642872265	6746035400	PARS/CCCTA PRHCP	2,179.0000	$105.0700 USD	29-Mar-2011	$234,056.76 USD	$228,947.53 USD	($5,109.23) USD
Mutual Funds/ Commingled Funds	ISHARES COHEN & STEERS REALTY FD	464287564	US4642875649	6746035400	PARS/CCCTA PRHCP	85.0000	$68.5700 USD	29-Mar-2011	$5,110.29 USD	$5,828.45 USD	$718.16 USD
Mutual Funds/ Commingled Funds	ISHARES MSCI EAFE INDEX	464287465	US4642874659	6746035400	PARS/CCCTA PRHCP	367.0000	$59.6600 USD	29-Mar-2011	$19,447.95 USD	$21,895.22 USD	$2,447.27 USD
Mutual Funds/ Commingled Funds	ISHARES RUSSELL MIDCAP GRWTH	464287481	US4642874816	6746035400	PARS/CCCTA PRHCP	99.0000	$60.2500 USD	29-Mar-2011	$4,562.14 USD	$5,964.75 USD	$1,402.61 USD
Mutual Funds/ Commingled Funds	ISHARES RUSSELL MIDCAP VALUE	464287473	US4642874733	6746035400	PARS/CCCTA PRHCP	250.0000	$47.6300 USD	29-Mar-2011	$9,794.23 USD	$11,907.50 USD	$2,113.27 USD
Mutual Funds/ Commingled Funds	ISHARES S&P 500 GROWTH INDEX	464287309	US4642873099	6746035400	PARS/CCCTA PRHCP	345.0000	$68.2800 USD	29-Mar-2011	$20,972.47 USD	$23,556.60 USD	$2,584.13 USD
Mutual Funds/ Commingled Funds	ISHARES S&P 500 INDEX FND	464287200	US4642872000	6746035400	PARS/CCCTA PRHCP	169.0000	$132.3300 USD	29-Mar-2011	$18,516.56 USD	$22,363.77 USD	$3,847.21 USD
Mutual Funds/ Commingled Funds	ISHARES S&P 500 VALUE INDEX	464287408	US4642874089	6746035400	PARS/CCCTA PRHCP	524.0000	$62.9800 USD	29-Mar-2011	$29,442.71 USD	$33,001.52 USD	$3,558.81 USD
Mutual Funds/ Commingled Funds	ISHARES S&P SMALLCAP 600 GROWTH FD	464287887	US4642878874	6746035400	PARS/CCCTA PRHCP	124.0000	$77.5280 USD	29-Mar-2011	$7,391.52 USD	$9,613.47 USD	$2,221.95 USD
Mutual Funds/ Commingled Funds	ISHARES S&P SMALLCAP 600 VAL FD	464287879	US4642878791	6746035400	PARS/CCCTA PRHCP	205.0000	$74.8600 USD	29-Mar-2011	$12,504.45 USD	$15,346.30 USD	$2,841.85 USD
Mutual Funds/ Commingled Funds	VANGUARD MSCI EMERGING MARKETS ETF	922042858	US9220428588	6746035400	PARS/CCCTA PRHCP	277.0000	$47.9800 USD	29-Mar-2011	$13,110.16 USD	$13,290.46 USD	$180.30 USD
Mutual Funds/ Commingled Funds	VNGRD ST TERM INVMT GRADE ADM #539	922031836		6746035400	PARS/CCCTA PRHCP	6,638.2650	$10.7200 USD	29-Mar-2011	$71,866.61 USD	$71,162.20 USD	($704.41) USD
Subtotals											
Mutual Funds/ Commingled Funds									$446,775.85 USD	$462,877.77 USD	$16,101.92 USD
Totals									$446,775.85 USD	$462,877.77 USD	$16,101.92 USD

HighMark®
CAPITAL MANAGEMENT

INVESTMENT INSIGHTS **MARCH 16, 2011**

EFFECTS AND CONSEQUENCES OF JAPAN'S TOHOKU EARTHQUAKE AND TSUNAMI

The 9.0 Tohoku Earthquake on March 11, 2011 triggered a massive tsunami reaching as high as 10 meters or 33 feet, tragically affecting the northeastern coast of Honshu, Japan. It is impossible to put in words how significant this geologic event was, between the devastation of the earthquake on land and the coastal flooding from the tsunami, but it is the combined effect that was so devastating to the region. To compound the tragedy, the tsunami slammed into the Fukushima Nuclear Power Plant, located on the coast, knocking out back-up generators and causing temperatures within the reactors to rise significantly, as water circulation was crippled. However, as compared to the highly populated region affected by the 1995 Kobe Earthquake, this region is more remote. It is too early to forecast losses and rebuilding costs, or the full extent of damage, but estimates range from 1.5-2.0 times the $120 billion loss experienced from the Kobe earthquake.

Uncertainty about the ability to completely shut-down and stabilize fuel storage pools at the Fukushima Nuclear Facility has been in question for several days. Increased radioactivity from the site has hampered efforts to cool the reactors. The uncertainty has unnerved equity investors, who had already discounted an increased probability of Japan tipping into recession again. We expect the concern about rising radioactivity levels, periodic fires and explosions at the site, and uncertainty about whether the emergency shut-down will be successful will moderate over the next week. Attempts to relieve increasing pressure within containment vessels have released radioactive gases that are being detected in the region, but Fukushima is more than 250 miles from Tokyo. It is not unusual in such circumstances for capital markets to overreact, discounting the worst-case scenario. Investors seeking to take advantage of a much cheaper Japanese equity market will have to be patient and should expect significant volatility for awhile longer.

Japan will experience various residual short-term and longer-term effects on its economy and capital markets. The impact of this event is significant in the near-term, but we believe will lift the global economy modestly in the longer-run, including Japan. We should expect to see evidence of a slowdown in the near-term during March-June, but a subsequent pick-up in activity should be expected in the second half that could offset or even exceed the transitional shortfall. A broader impact will be felt worldwide through currency and trade. Secondary effects on growth and inflation are transmitting more quickly now than ever before around the world. History would suggest that Japan could actually recover more quickly than expected from the earthquake, given the acceleration in global activity and much improved financial strength of Japanese banks. However, rapid recovery will come at a cost of a substantially increased debt burden, expected to exceed 226% Debt/GDP this year and more than double America's uncomfortable ratio, making likely even higher tax rates. The following are four likely local and global financial and economic effects we expect to be observed.

<u>Weakening Japanese economic growth near-term, but stronger growth longer-term:</u>

1. Expect a transitory slowdown in industrial production over the short-term with rolling production stoppages, due to electricity outages, supply chain disruptions, and fuel shortages.
2. In a country known for efficient supply chains and lean inventories, material shortages and transportation bottlenecks will likely develop in unexpected places that slow manufacturing over the next couple of months. Conditions will improve with time--production outages from semiconductor and memory manufacturing to food production, mining and refining, for example, will be transitory.

concern, but a catastrophic event on the order of Chernobyl is unlikely, given the design of these reactors and their containment structures. Extremely dire scenarios are conceivable, but not probable.

Fukushima is comprised of six containment units with a combined output of 4,700 MW. Units 1, 2 & 3, totaling 2,000 MW of capacity, have been damaged, including collapse of the external structures. These units became operational between March 1971 and March 1976. Given the damage and the fact that Units 1-3 were operating at or near the end of their initial life expectancy, these units are unlikely to return to service. Construction was expected to begin in April 2011 on two additional units at Fukushima, adding 2,700 MW. Japan's 54 reactors provide 46,102 MW of capacity or 30% of the country's electricity. Thus, the loss of the three troubled reactors represents about 1.3% of Japan's total electricity production capacity. Any shortfall in capacity will need to be made up by increasing demand for coal and, to a greater extent, LNG.

Japan is unlikely to abandon plans for new construction of additional power plants, we believe, given the long-term strategic importance of nuclear power. However, existing nuclear plant designs may be reviewed, locations re-evaluated, and start dates pushed back. Other countries have already taken action to review or delay their programs for new construction of nuclear facilities, including Switzerland, Germany, and even China, who has the most aggressive construction plan globally.

Asset Allocation Recommendations

Given our view of the effects of this earthquake and tsunami, we believe investors should hold any existing Japanese equity positions, but avoid Japanese bonds and consider hedging yen exposure. In fact, we slightly increased our international developed market exposure today in some portfolios, which includes Japanese equity exposure, and will consider further narrowing the current HighMark recommended underweight exposure over the next week. Overall, we remain overweight equities, tilted in favor of the U.S., while still favoring small-cap stocks, in particular. We expect global economic conditions to be slightly more volatile, but growth may be even a little stronger than we had otherwise expected due to increased spending on clean-up and rebuilding in Japan. We believe there will be a boost to imports from North America, China, Australia, Philippines and Indonesia, while increased demand for raw materials and energy needs could bolster global inflation concerns.

The effects of this tragedy have been felt personally by many employees throughout the BTMU and MUFG family, given the widespread effects throughout Japan and number of people it touched, particularly for those working and living in or near the affected areas. Our sympathies and prayers are for those family members, friends and colleagues injured or lost in this terrible natural disaster.

---

3. We expect clean-up and rebuilding will more than offset any production shortfall observed, boosting growth and employment. Government financing for rebuilding is expected, as well as direct investment in damaged infrastructure.
4. Industries most adversely affected include insurance (losses, but also rising premiums) and utilities, while benefitting construction, durable goods (i.e., cars, appliances, etc.), and finance.
5. Imports should be expected to increase faster than exports, reducing Japan's trade surplus.
6. Japan will not likely slip back into recession. History suggests that after most natural disasters, confidence returns with exceptional government spending. Our initial estimates suggest 0.0-0.3% reduction to 2011 real GDP to 1%, but reconstruction will be additive in 2012 by 0.5% or more.

Higher inflation risk and greater debt burden for Japan:

1. Electricity, gasoline, and other commodities are being rationed, but prices are certain to rise with increased demand from reconstruction. Electric capacity loss was modest (1.3%), but should increase Liquefied Natural Gas (LNG) demand.
2. Monetary stimulus expected to be significant and persist to ensure sufficient liquidity.
3. Increased spending boosts debt issuance for the second largest bond market in the world.
4. Japan still enjoys very low borrowing costs, so financing reconstruction should be manageable, but investors will likely seek a higher risk premium reflected in Japanese bond yields.

Rebound in stock prices, higher bond yields and weaker yen in Japan:

1. History suggests the stock market also will recover relatively quickly from this event, particularly given such favorable Japanese equity valuations and low interest rates.
2. Profit margins will likely be squeezed by higher energy and commodity costs, as well as rising wages, higher transportation costs, and interest expense. Growth in earnings for Japan could slow more than in other regions given input cost pressures.
3. Bank of Japan injected Y20 Trillion ($250B) in monetary liquidity, while the current asset purchase program of buying government bonds, ETFs and REITs was doubled to Y10 Trillion.
4. Outlook for capital markets and declining trade surplus, as well as other factors, will drive yen toward 90 Y/$ by 2012. The Bank of Japan will likely intervene if yen moves much below 80.
5. Japan's nominal holdings in U.S. Treasuries probably will decline, but this will have minimal currency effect versus trade, inflation risk, and international diversification trends. Effect of yen repatriation will be more modest than investors seem to be anticipating.
6. Comparing conditions during the aftermath of the Kobe earthquake in 1995, the current economy is much stronger, banks are better capitalized, and equity valuations are more compelling. Investor confidence in the Nikkei's recovery was undermined further by the downfall of Barings, after rogue trader Nick Leeson revealed losses in the selloff triggered by the Kobe earthquake.
7. Greatest investor uncertainties seem to be related to cooling off and stabilizing the damaged nuclear reactors and mitigating the loss of electricity generation capacity. Breaching reactor containment at Fukushima is unlikely, but plant access is difficult given widespread damage to roads and rail, lack of reliable power and water supply, and increasing radiation levels.

Stronger global growth, greater inflation risk, higher interest rates/bond yields expected:

1. Increasing exports to Japan from North America, China, Australia, and others will bolster their respective growth. We are maintaining our forecast of approximately 4.5% global real GDP.
2. Increased Japanese debt issuance has the potential to crowd out issuance in other countries, reinforcing higher global bond yields.
3. Demand for resources facilitating rebuilding increase upward pressure on prices and wages.

Impact on Electricity Generation/Nuclear Power

Japan imports 80% of its energy needs and relies on nuclear power for a significant share of its electricity generation. The epicenter of the earthquake was just 110 miles from the severely damaged Fukushima Nuclear Power Facility. Back-up generators used to circulate water failed when the tsunami swept across the facility. Fuel rods were exposed and water levels for cooling were difficult to maintain without sufficient electric power and use of the primary pumps. The next few days are critical in completing the shut-down of the units that were on-line when the earthquake struck, as well as cooling the fuel storage facilities. Radiation releases to relieve pressure and intermittent fires are a