



PUBLIC
AGENCY
RETIREMENT
SERVICES

PARS

TRUSTED SOLUTIONS. LASTING RESULTS.

CITY OF EMERYVILLE

PARS Pension Rate Stabilization Program (PRSP)

March 6, 2018

PARS TRUST TEAM



Trust Administrator & Consultant

- Recordkeeping/sub-trust accounting
- Actuarial coordination
- Monitor contributions/process disbursements
- Monitor plan compliance
- Ongoing client liaison

Trustee

- Safeguard plan assets
- Oversight protection
- Plan fiduciary
- Custodian of assets

Investment Manager

- Investment sub-advisor to U.S. Bank
- Open architecture
- Investment strategy and asset allocation development
- Investment policy assistance

Corporate Experience

34 years (1984 – 2018)

155 years (1863 – 2018)

99 years (1919 – 2018)

Plans Under Administration

1,600+ plans, 850+ public agencies, 400,000+ participants

Dollars under Administration

Over \$2.6 billion

Over \$4 trillion

Over \$14.0 billion
under management

SECTION 115 TRUST

- Section 115 Trusts 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
- The PARS Trust received the first IRS Private Letter Ruling (PLR) in June 2015 to fund both OPEB and Pension Liabilities for a multiple-employer trust
- The PARS Trust is setup as a compliant, irrevocable Section 115 Trust to prefund employee benefit plan obligations
- Once contributions are placed into The PARS Trust, assets from the Trust can be used for specific benefit plan purposes including:
 - Reimbursing the City for retirement system contributions
 - Transferring assets directly to the retirement system
 - Paying plan expenses (actuarial valuation or audit)

WHY PREFUND PENSION OBLIGATIONS?

1

Complete Local Control over Assets

Pension Rate Stabilization Program provides an alternative to sending money directly to retirement system to address unfunded pension liabilities

2

Pension Rate Stabilization

Assets can be transferred to retirement system plan at the City's direction, which can reduce or eliminate large fluctuations in Employer contributions to retirement system

3

Rainy Day Fund

Emergency source of funds when Employer revenues are impaired based on economic or other conditions

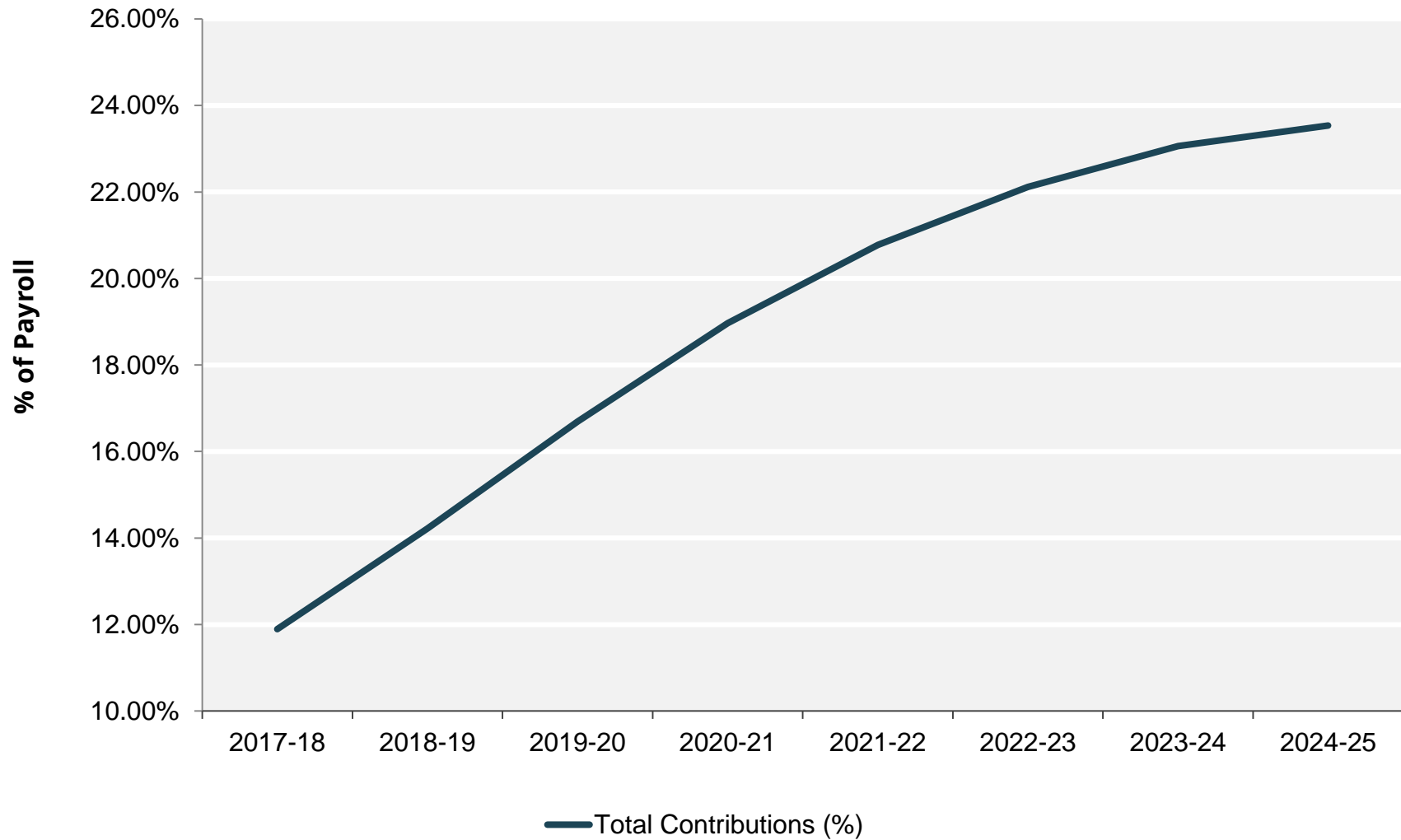
4

Diversified Investing

Potential for Greater Return than General Fund

PROJECTED EMPLOYER CONTRIBUTIONS (MISC.)

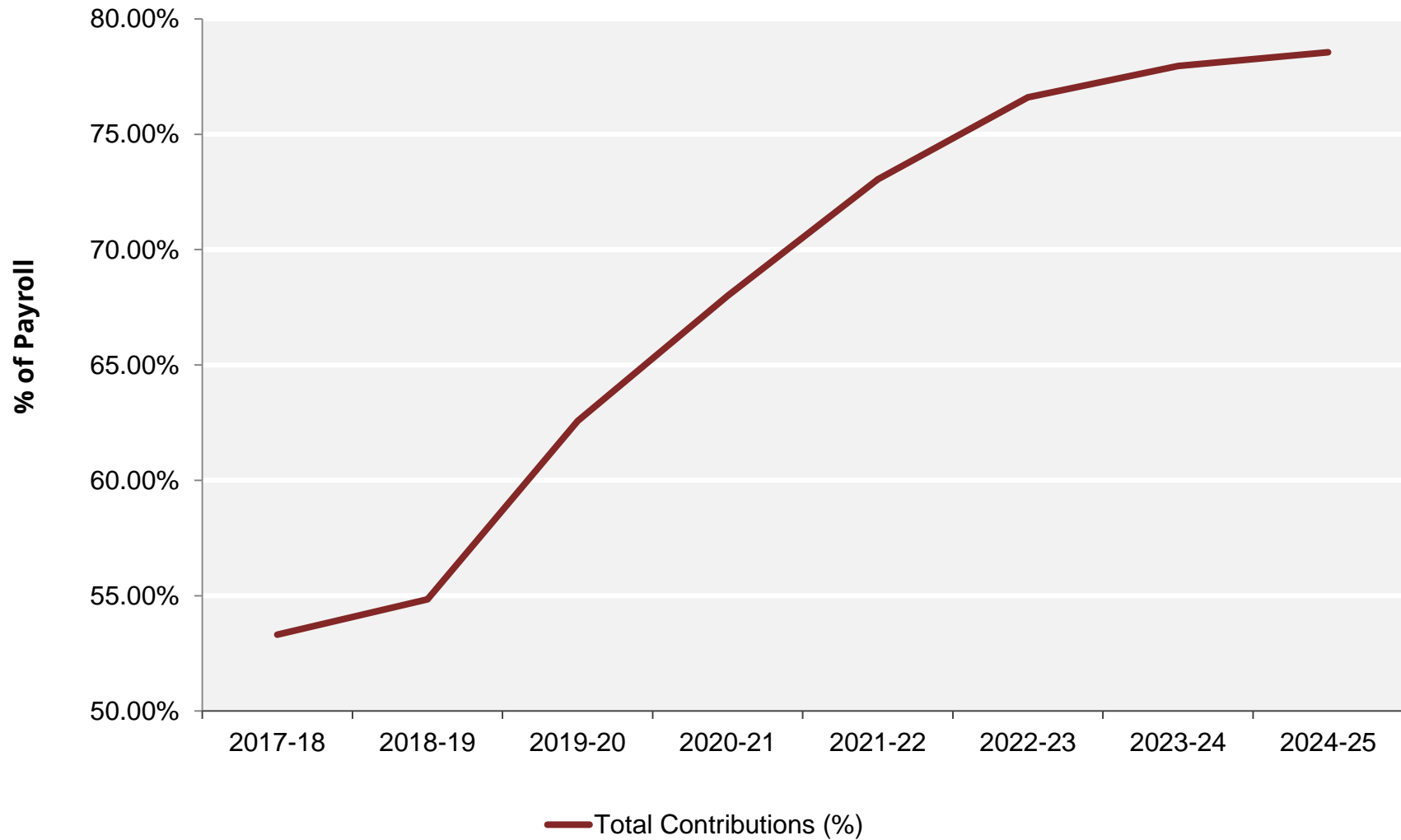
Projected misc. contributions increase from \$1.0M to \$2.4M* (141.2% ↑)



* Data from Agency's 2016-17 CalPERS actuarial valuation

PROJECTED EMPLOYER CONTRIBUTIONS (SAFETY)

Projected safety contributions increase from \$2.4M to \$5.1M* (114.8% ↑)



SAMPLE FUNDING POLICIES

1

Contribute 50% of a given year's realized year end surplus to address pension liability

SOLANA BEACH & ALAMEDA

2

Contribute amount equal to annual PERS employer contribution (\$6 million) in order to allow full access to trust assets at all times

BREA

3

Contribute \$4 million to stabilize PERS employer misc. Rates to 28% and safety rates to 44% through FY 23-24

HEALDSBURG

4

"One equals five plan" - Contribute \$1 million per year for 5 years based on premise that every contribution will save taxpayers \$5 million over 25 years

HUNTINGTON BEACH

5

Contribute Employer contribution equal to the 2.8% discount rate (as opposed to the standard 7.5% rate), with difference going into the Section 115 Trust

SAUSALITO

6

Maintains a 15% general fund reserve and is targeting to make contributions over and above that threshold into the Trust

REDWOOD CITY

7

Earmarked a portion of a recently approved local sales tax measure to be set aside for unfunded pension liabilities

FOUNTAIN VALLEY

8

Using one-time revenue source plus on-going savings from CalPERS unfunded liability pre-payment

PASADENA & WEST COVINA

9

Using one-time revenue source and lowering the minimum General Fund Reserve level from 30% to 20%

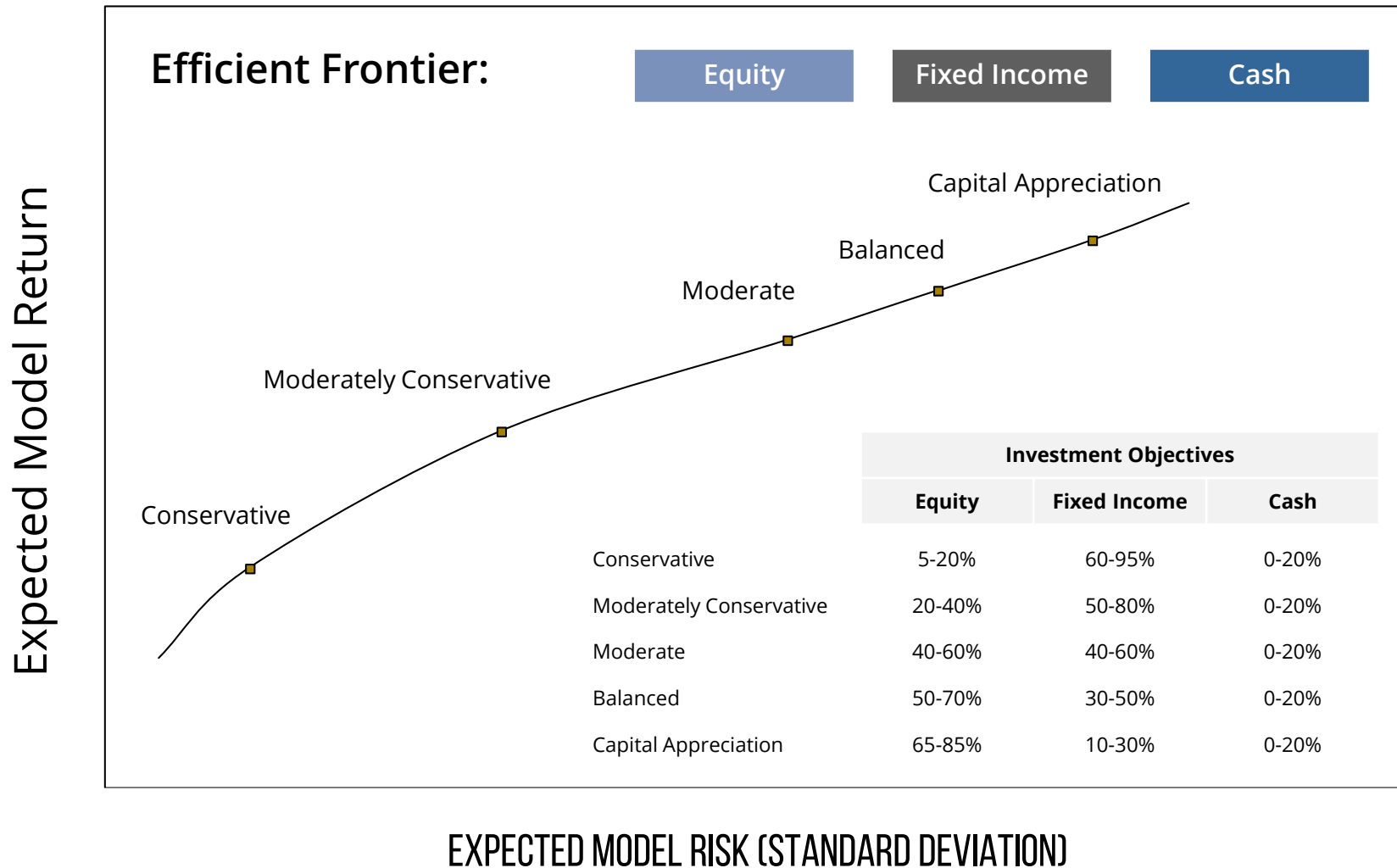
GLENDALE

INVESTMENT FLEXIBILITY

- City 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 The PARS Section 115 Irrevocable Trust
- Assets held in the Trust can be diversified unlike assets held within the general fund
- Assets held in The PARS Section 115 Irrevocable Trust can be invested per Government Code Section 53216 and 53620
- Investments can be diversified and invested in a prudent fashion
- Investments can be tailored to the City's unique demographics and needs
- Increased risk diversification

INVESTMENT STRATEGIES

PARS ASSET ALLOCATION STRATEGIES



HIGHMARK CAPITAL MANAGEMENT RETURNS

RETURNS AS OF DECEMBER 31, 2017

	Equity (%)	1 Year	3 Years	5 Years	10 Years
Capital Appreciation	65-85%	16.72%	8.20%	10.08%	---
Balanced	50-70%	15.46%	7.25%	8.54%	5.74%
Moderate	40-60%	13.19%	6.46%	7.42%	5.45%
Moderately Conservative	20-40%	9.56%	4.87%	5.26%	4.93%
Conservative	5-20%	6.73%	3.70%	3.73%	4.28%

** Past performance does not guarantee future results*

PROGRAM FEES

Trust Administration/Consulting Fees



Plan Set-Up Fee:

None

Ongoing Fees:

0.25%	for assets \$0-10 million
0.20%	for assets \$10-15 million
0.15%	for assets \$15-50 million
0.10%	for assets over \$50 million

Discretionary Trustee/Investment Management Fees*



Plan Set-Up Fee:

None

Ongoing Fees:

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

* Trustee provides fee waivers ranging from 0.01% to 0.02% of plan assets depending on utilization of certain mutual funds in the portfolio

STEPS TO IMPLEMENTATION

1

City Council authorizes establishment of The PARS Trust and appoints a Plan Administrator

2

PARS provides legal documents for signature by Plan Administrator

3

City develops investment policy and guidelines for Investment Manager

4

Council approves initial deposit to The PARS Trust

5

Cities develop policies & procedures for future annual contributions and/or disbursements

6

PARS conducts an annual client services review

PARS Investment Program

About HighMark Capital Management, Inc.

LONGEVITY

Managing assets for clients
since **1919***

TALENT

52 investment professionals
30 professionals hold the Chartered
Financial Analyst® (CFA) designation
22 years average industry experience

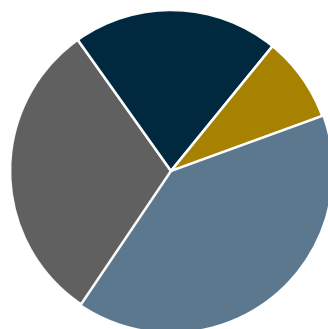
STABILITY

Investment boutique structure
headquartered in San Francisco
backed by global strength within
MUFG Union Bank, N.A. and
Mitsubishi UFJ Financial Group

ASSETS UNDER MANAGEMENT

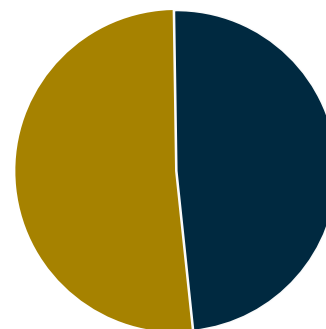
\$14.0 billion as of 12/31/2017

Asset Class



- Equity \$5.6 billion
- Fixed Income \$4.3 billion
- Liquidity \$2.9 billion
- Cash \$1.2 billion

Client Base



- Institutional \$7.2 billion
- Wealth Mgmt \$6.8 billion

* Includes predecessor organizations. HighMark Capital Management, Inc. registered with the SEC as an investment adviser on August 7, 1998.

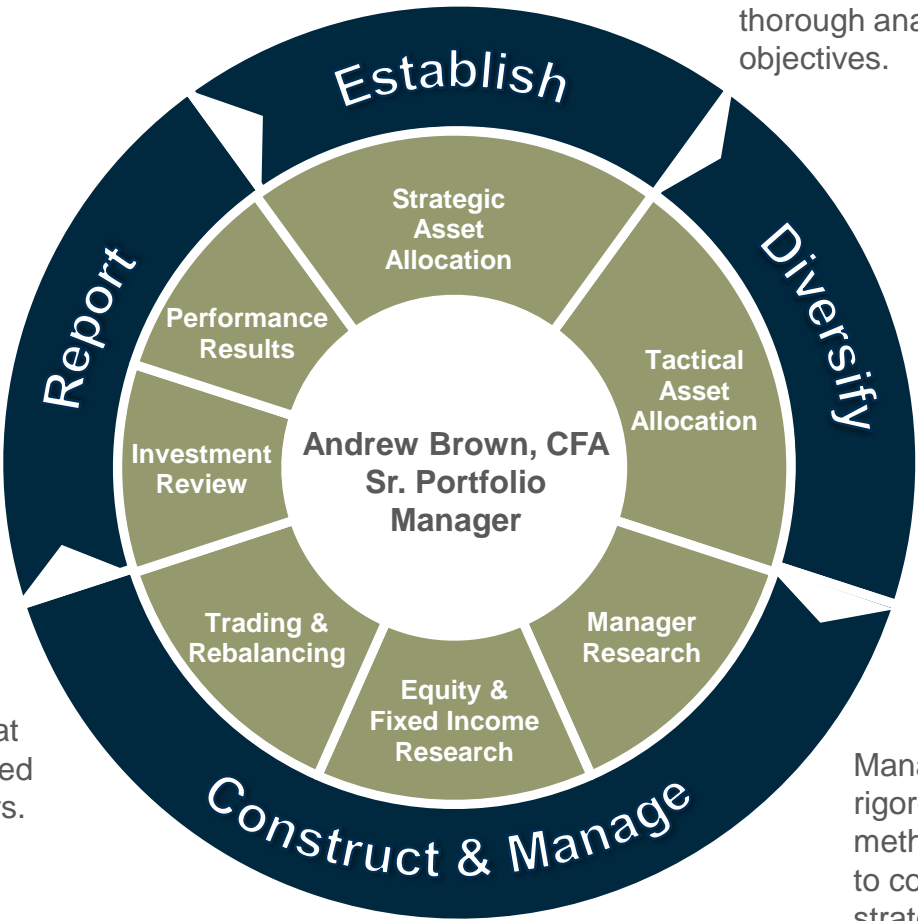
Disciplined Investment Process

Your Plan's Portfolio Manager is supported by deep investment resources and unique processes.

Your portfolio's strategic asset allocation policy is established in your Investment Guidelines Document (IGD) after a thorough analysis of your needs and objectives.

Regular investment & performance reports, as well as contact with your account portfolio manager, helps to keep you informed.

We typically invest in share classes that offer the lowest expense ratio available for that fund, which is typically reserved for larger institutional investors.



Asset Allocation Committee (AAC) employs a multi-factor approach to establish long-term strategic asset allocation ranges as well as provide tactical diversification guidelines in an effort to capitalize on short-term market opportunities.

Manager Research Group utilizes rigorous due diligence methodologies to provide access to competitive externally managed strategies and index-based funds.

Establish: Analyze Your Plan's Needs and Objectives

Your Plan's needs and objectives drive the selection of an investment strategy, which is governed by your Investment Guidelines Document.

Objectives

What is the primary purpose of the Plan's investment portfolio? How much growth is needed to meet the Plan's objectives?

Risk Tolerance

How much risk can the Plan accept in order to meet Plan objectives?

Liquidity and Cash Flows

How much of the portfolio should be made available to meet the Plan's cash flow requirements?

Time Horizon

How much time does the Plan have to meet objectives or what events may trigger a change to the Plan's investment portfolio?

Constraints

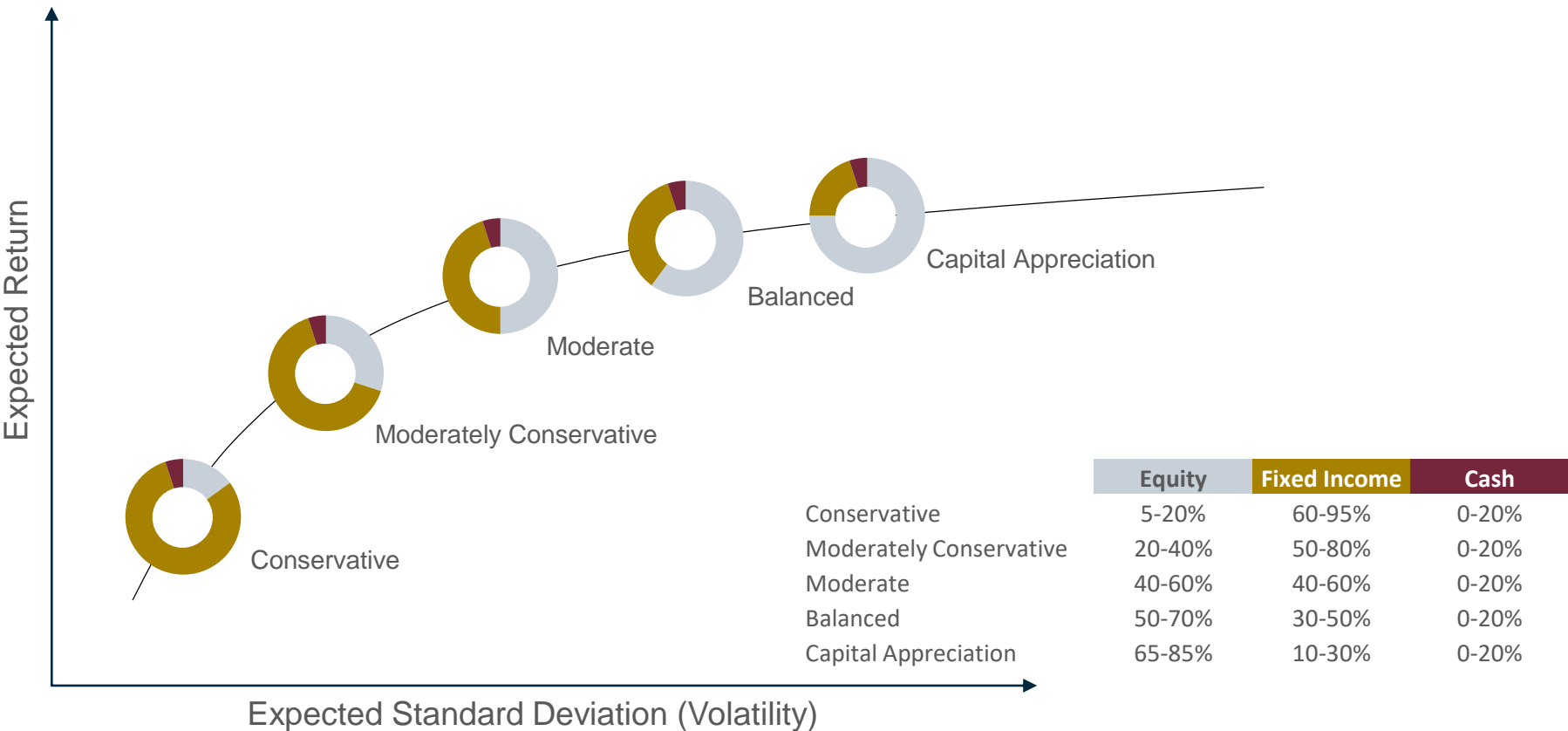
Are there any regulatory or other limitations as to how the Plan's assets can be invested?

Other Considerations

What is the current funding status of the Plan?

Establish: Determine your Strategic Asset Allocation Strategy

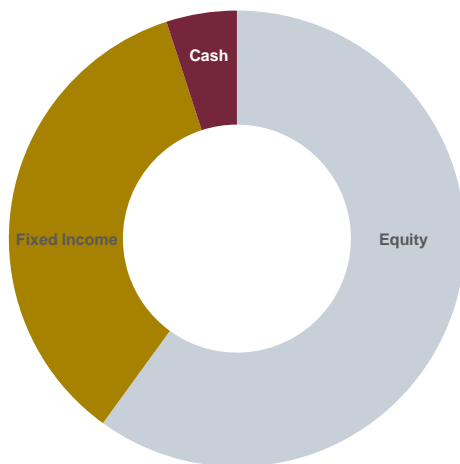
Efficient frontier of portfolios with varying ranges of equities and fixed income



Each Investment Objective reflects the associated PARS Diversified Portfolio as of 12/31/2017. A client's portfolio construction may vary depending on the client's investment needs, objectives, and restrictions as well as the prevailing market conditions at the time of investment.

Diversify: Tactical Asset Allocation

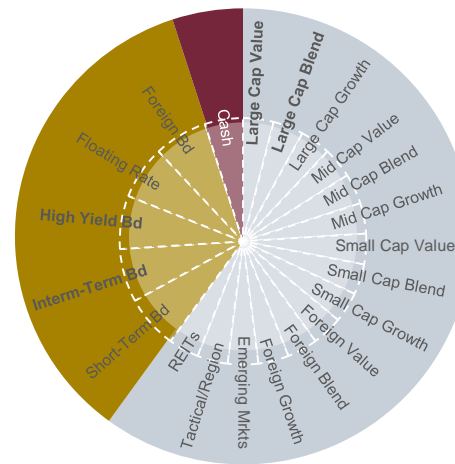
Strategic Asset Allocation



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

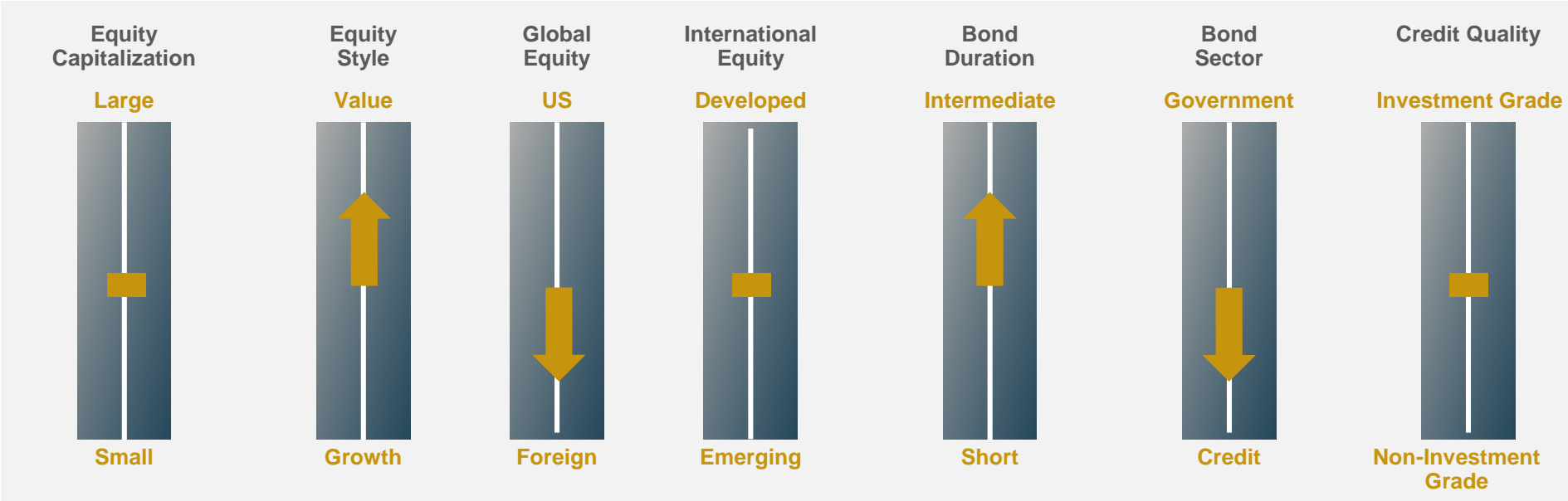
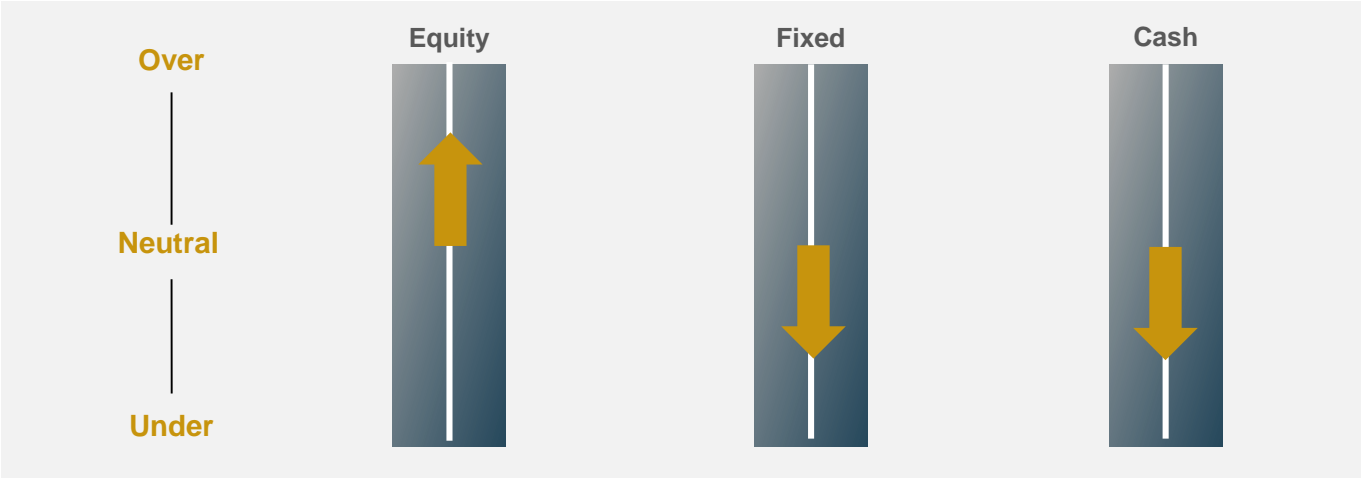


Tactical Asset Allocation exploits opportunities frequently overlooked as sources for excess return.






- 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.

Diversify: Tactical Asset Allocation

What are we favoring today in PARS Diversified Portfolios?



Construct Your Plan's Portfolio: PARS Diversified Portfolios – Tactical Allocation

					
	Conservative	Moderately Conservative	Moderate	Balanced	Capital Appreciation
Equity	5-20%	20-40%	40-60%	50-70%	65-85%
<i>Current Tactical</i>	15.00%	30.00%	50.00%	60.00%	75.00%
Large Cap Blend	3.94%	8.23%	13.86%	16.40%	20.92%
Large Cap Value	2.03%	4.00%	6.80%	8.00%	10.02%
Large Cap Growth	1.23%	2.47%	4.26%	5.00%	6.16%
Mid Cap Blend	1.10%	2.20%	3.60%	4.50%	5.50%
Mid Cap Value	0.00%	0.00%	0.00%	0.00%	0.00%
Real Estate	0.75%	1.38%	1.50%	1.63%	1.75%
Small Cap Value	1.38%	2.50%	4.17%	5.00%	5.88%
Small Cap Growth	1.12%	2.00%	3.33%	4.00%	4.62%
International	2.68%	5.30%	9.23%	11.48%	14.90%
Tactical - Europe	0.00%	0.00%	0.00%	0.00%	0.00%
Emerging Markets	0.78%	1.93%	3.25%	4.00%	5.25%
Fixed Income	60-95%	50-80%	40-60%	30-50%	10-30%
<i>Current Tactical</i>	79.06%	66.50%	46.92%	37.31%	22.81%
Short Term Bond	12.40%	10.19%	6.31%	4.50%	4.00%
Intermediate Term Bond	64.66%	54.56%	39.11%	31.56%	17.81%
Floating Rate Note	2.00%	1.75%	1.50%	1.25%	1.00%
Cash	0-20%	0-20%	0-20%	0-20%	0-20%
<i>Current Tactical</i>	5.94%	3.50%	3.08%	2.69%	2.19%
TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%

Each Investment Objective reflects the associated PARS Diversified Portfolio as of 12/31/2017. A client's portfolio construction may vary depending on the client's investment needs, objectives, and restrictions as well as the prevailing market conditions at the time of investment.

Construct Your Plan's Portfolio: PARS Diversified Portfolios – Active v. Passive

	HighMark Plus (Active)		Index Plus (Passive)	
Equity	Ticker	Fund Name	Ticker	Fund Name
Large Cap Blend	SMGIX	Columbia Contrarian Core Z	IVV	iShares Core S&P 500
Large Cap Blend	VGIAX	Vanguard Growth & Income Adm		
Large Cap Value	DODGX	Dodge & Cox Stock	IVE	iShares S&P 500 Value
Large Cap Growth	HNACX	Harbor Capital Appreciation Ret	IVW	iShares S&P 500 Growth
Large Cap Growth	PRUFX	T. Rowe Price Growth Stock I		
Mid Cap Blend	IWR	iShares Russell Mid-Cap	IWR	iShares Russell Mid-Cap
Real Estate	VNQ	Vanguard REIT ETS	VNQ	Vanguard REIT ETF
Small Cap Value	UBVLX	Undiscovered Managers Behavioral Val L	IWN	iShares Russell 2000 Value
Small Cap Growth	PRJIX	T. Rowe Price New Horizons I	IWO	iShares Russell 2000 Growth
International	NWHMX	Nationwide Bailard Intl Eqs Instl		
International	DODFX	Dodge & Cox International Stock		
International	MQGIX	MFS International Growth I	EFA	iShares MSCI EAFE
Emerging Markets	HHHYX	Hartford Schroders Emerging Mkts Eq I	VWO	Vanguard FTSE Emerging Markets ETF
Fixed Income	Ticker	Fund Name	Ticker	Fund Name
Short Term Bond	VFSUX	Vanguard Short-Term Investment-Grade Adm	VFSUX	Vanguard Short-Term Investment-Grade Adm
Intermediate Term Bond	PTTRX	PIMCO Total Return Instl	AGG	iShares Core US Aggregate Bond
Intermediate Term Bond	PTRQX	Prudential Total Return Bond Q		
Intermediate Term Bond	NWJJX	Nationwide Loomis Bond InSvc		
Floating Rate Note	EIFHX	Eaton Vance Floating-Rate & Hi Inc Inst	BKLN	PowerShares Senior Loan ETF
Cash				
Characteristics				
Fund Manager Dependency		Higher dependency on portfolio manager skill		Tracks index, thus little-to-no dependency on portfolio manager skill
Opportunity to Outperform Index		Opportunity to outperform index		Typically performs below index after fees
Costs		Higher expense ratios due to portfolio manager skill		Lower expense ratio due to little dependency on portfolio manager skill or opportunity for outperformance

Each Investment Objective reflects the associated PARS Diversified Portfolio as of 12/31/2017. A client's portfolio construction may vary depending on the client's investment needs, objectives, and restrictions as well as the prevailing market conditions at the time of investment. Specific securities identified above do not represent all of the securities purchased, sold or recommended for advisory clients, and you should not assume that investments in the securities identified in this presentation were or will be profitable.

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 delivered by local portfolio managers
- 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



Andrew Brown, CFA
Director
Sr. Portfolio Manager
Northern California



Keith Stribling, CFA
Vice President
Sr. Portfolio Manager
Orange County



Hoddy Fritz
Director
Business
Development
Southern California



Christiane Tsuda
Vice President
Sr. Portfolio Manager
San Diego



Fred Hurst
Director
Business
Development
Northern California



Anne Wimmer, CFA
Director
Sr. Portfolio Manager
Los Angeles



Tory Milazzo, CFA
Vice President
Sr. Portfolio Manager
Central Coast



Randy Yurchak, CFA
Vice President
Sr. Portfolio Manager
Northern California

Summary

Strength and Longevity

- After 98 years* of experience, we remain dedicated to helping our clients meet their investment goals and objectives;
- With more than 18 years of partnership with PARS, we remain firmly committed to investing in the business.
- Our unique market position and ownership structure provides the resources, talent, and product breadth of a large parent organization combined with the agility, flexibility, and responsiveness of a boutique investment advisor.

Disciplined Investment Process

- Proprietary strategic asset allocation process forms the foundation of portfolio;
- Tactical asset allocation exploits potential market opportunities;
- Rigorous manager due diligence provides access to competitive externally managed strategies;
- Rebalancing strategies helps to ensure the portfolio is aligned with goals and objectives.

Flexible Investment Options

5 Investment Objectives

- Conservative
- Moderately Conservative
- Moderate
- Balanced
- Capital Appreciation

2 Implementation Strategies

- HighMark Plus (Active)
- Index Plus (Passive)

* Includes predecessor organizations. HighMark Capital Management, Inc. registered with the SEC as an investment adviser on August 7, 1998.

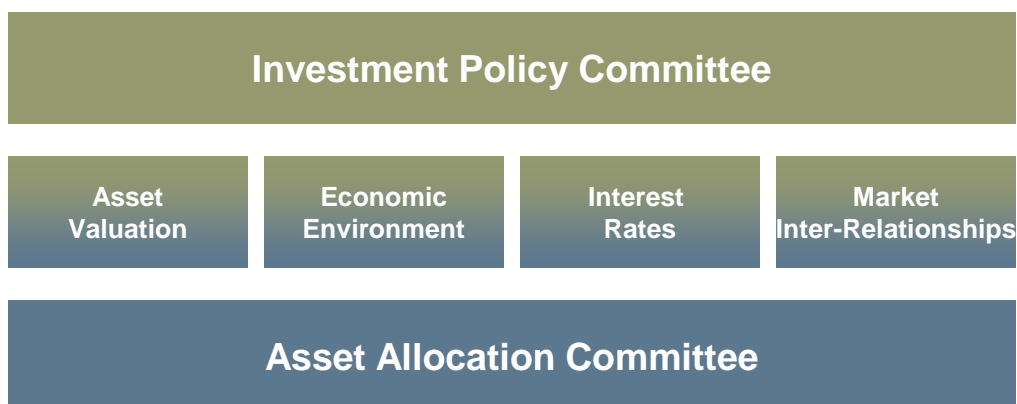
Disclosures

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. MUB is an indirect subsidiary of Mitsubishi UFJ Financial Group. Past performance does not guarantee future results. Individual account management and construction will vary depending on each client's investment needs and objectives. Specific securities identified in this presentation do not represent all of the securities purchased, sold or recommended for advisory clients, and you should not assume that investments in the securities identified in this presentation were or will be profitable. **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.**

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

16

Investment Experience

26 years average

Tenure with Firm

13 years average

Multi-disciplinary Group

Equity, Bond, Quantitative

Manager Research

Our manager due diligence process optimizes our diversification strategy while harnessing both internal and external investment expertise.

Research-Based	Manager / Vehicle Selection	Monitoring	Portfolio-Centric
<ul style="list-style-type: none">• Manager Research Group (MRG) represents a team of experienced and highly qualified manager research professionals<ul style="list-style-type: none">• 7 members• 20 years average experience• 7 years average tenure• MRG conducts proprietary due diligence and monitoring of managers, platforms, and independent research experts	<ul style="list-style-type: none">• We go beyond performance and category ranking to assess sustainability of competitive advantages• In-depth quantitative and fundamental research focuses on people, philosophy, and process• Access to a broad universe of mutual funds and ETFs helps to select the most appropriate vehicle while assessing associated expenses and costs	<ul style="list-style-type: none">• Ongoing monitoring of over 150 funds• Focus on spotting red flags that can threaten a successful manager's track record• Emphasize understanding the key drivers of returns and markets where they are most effective• Regular site visits and manager calls to monitor firm and process changes	<ul style="list-style-type: none">• Select strategies best suited to portfolio's risk and return objectives• Careful review and regular affirmation of portfolio goals, objectives, risk tolerance, time horizon, and liquidity needs• Understand how the strategies within a portfolio can complement each other• Construct portfolios using strategies designed to help boost risk-adjusted returns

CONTACTS



DENNIS YU

Executive Vice President



dyu@pars.org



(800) 540-6369 ext. 104



ANDREW BROWN

Senior Portfolio Manager



andrew.brown@highmarkcapital.com



(415) 705-7605