



The Beverly Hills City Council Liaison / Audit and Finance Committee will conduct a Special Meeting, at the following time and place, and will address the agenda listed below:

CITY HALL  
455 North Rexford Drive  
4th Floor Conference Room A  
Beverly Hills, CA 90210

Thursday, August 22, 2019  
4:00 p.m.

**AGENDA**

- 1) Public Comment
  - a. Members of the public will be given the opportunity to directly address the Committee on any item listed on the agenda.
- 2) Section 115 Trust Investment Strategies and Investment Committee
- 3) Pension Unfunded Liability Amortization Strategies
- 4) Adjournment

  
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Huma Ahmed, City Clerk

Posted: August 20, 2019

***A DETAILED LIAISON AGENDA PACKET IS AVAILABLE FOR REVIEW IN THE  
LIBRARY AND CITY CLERK'S OFFICE***



Pursuant to the Americans with Disabilities Act, the City of Beverly Hills will make reasonable efforts to accommodate persons with disabilities. If you require special assistance, please call (310) 285-1014 (voice) or (310) 285-6881 (TTY). Providing at least forty-eight (48) hours advance notice will help to ensure availability of services. City Hall, including Conference Room 4A, is wheelchair accessible.



## STAFF REPORT

**Meeting Date:** August 22, 2019

**To:** Finance and Audit Committee

**From:** Jeff S. Muir, Director of Finance  
Tatiana Szerwinski, Assistant Director of Finance

**Subject:** Section 115 Trust Investment Strategies and Investment Committee Members

**Attachments:**

1. PARS Investment Objectives with Expected Returns
2. Q2 2019 PARS Diversified Portfolio Summary – Conservative
3. Q2 2019 PARS Diversified Portfolio Summary – Moderately Conservative
4. Q2 2019 PARS Diversified Portfolio Summary – Moderate
5. Q2 2019 PARS Diversified Portfolio Summary – Balanced
6. Q2 2019 PARS Diversified Portfolio Summary – Capital Appreciation

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### INTRODUCTION

On April 2, 2019, the City Council approved funding of the City's Section 115 Trust to address unfunded pension and benefit ("OPEB") liabilities with \$81.7 million the City had set aside over a number of years (\$23 million for pension and \$58.7 million for OPEB). In order to help mitigate interest rate risks, the funds are being contributed to the trust in four monthly installments of \$20.425 million, with two remaining contributions to be made in September and October. The trust is administered by PARS, and through partnership with HighMark Capital Management, Inc. they provide investment management services for the trust. There are five pre-defined funding strategies for the trust ranging from conservative to more aggressive. Attachment 1 provides the PARS Investment Objectives with Expected Returns for each of the funds.

The City Council also approved the initial recommendation of investing into the actively managed Conservative portfolio, which provided the least volatility. The initial Section 115 Trust Investment Committee was established to be comprised of the City Treasurer, the members of the Audit and Finance Committee, the Director of Finance and the City Manager.

## DISCUSSION

PARS has provided updated fund summaries as of the quarter ending June 30, 2019 (Attachments 2 – 6). A summary of annualized total returns is reflected in the table below:

PASSIVE	Plans	Portfolio Target Mix		Approximate Net Annualized Returns as of 06/30/19 (based on \$81.7M in assets)			
		Equity	Fixed Income	1 Year	3 Years	5 Years	10 Years
	Conservative	15%	85%	6.76%	3.57%	3.21%	4.75%
	Moderately Conservative	30%	70%	6.99%	5.10%	4.16%	6.24%
	Moderate	50%	50%	6.77%	7.14%	5.18%	8.09%
	Balanced	60%	40%	6.55%	8.09%	5.65%	8.89%
ACTIVE	Conservative	15%	85%	7.22%	4.29%	3.60%	5.25%
	Moderately Conservative	30%	70%	7.01%	5.82%	4.34%	6.71%
	Moderate	50%	50%	6.94%	7.95%	5.43%	8.35%
	Balanced	60%	40%	6.82%	9.11%	5.92%	9.07%
	Capital Appreciation	75%	25%	6.61%	10.10%	6.62%	9.93%

Note: There is a capital appreciation passive index available, however, as there are not yet 10 years of actual return information on the passive strategy, HighMark has blended active returns with the passive strategy to develop a composite return.

The Committee should discuss and determine if any changes to the investment strategy are desired at this time. The OPEB portion of the trust is intended to be invested and held over a long time horizon (likely 30 to 50 years). A higher return over the long-term would allow more of the liability to be funded by investment earnings as opposed to direct City contributions. However, a higher mix of equities will also mean higher year-to-year volatility. If the City follows its practice of funding for OPEB, the unfunded liability should be fully amortized between 15 and 20 years from now.

Staff is recommending a more aggressive pay-down of the pension liability that would leverage the funds in the trust in the coming years. If this methodology is adopted, then a conservative fund that is more geared towards capital preservation would be warranted.

The staff report from April 2, 2019 also indicated the Section 115 Trust Investment Committee as defined was to be temporary, and would be replaced with a committee approved by City Council in the future. The Committee should discuss whether it would like to recommend the same or a different membership for City Council approval at this time.

## FISCAL IMPACT

The unfunded pension and OPEB liabilities are currently reflected on the City's financial statements. The funds in the Section 115 Trust for OPEB purposes will be an offset towards that liability starting with the financial statements as of June 30, 2020. The funds in the Section 115 Trust for pension purposes will not directly offset the pension liability due to governmental accounting rules, but will offset the total liabilities of the City. No additional funds from the City beyond current budgeting practices are being recommended at this time.

## RECOMMENDATION

Staff recommends that the City Council Audit and Finance Committee Liaisons, as members of the Section 115 Trust Investment Committee, review and provide direction on the investment strategy of the Section 115 Trust for Pension and OPEB and provide direction on the permanent membership of the Section 115 Trust Investment Committee.



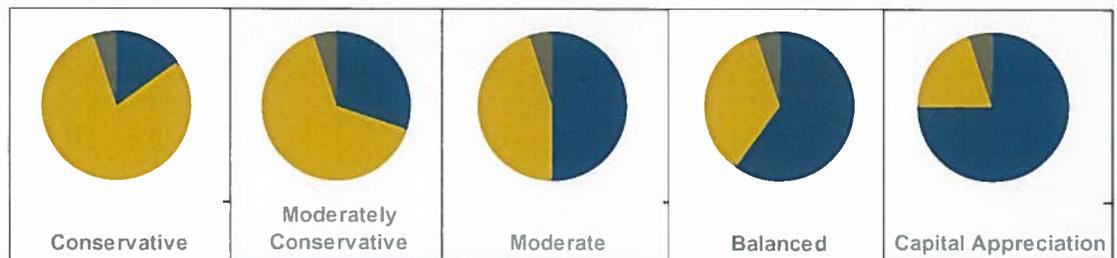
Jeff S. Muir

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Approved By

## PARS Investment Objectives

### PARS Investment Objectives



	Conservative	Moderately Conservative	Moderate	Balanced	Capital Appreciation
<b>Equity</b>	<b>15.00%</b>	<b>30.00%</b>	<b>50.00%</b>	<b>60.00%</b>	<b>75.00%</b>
Large Cap Core	7.50%	15.50%	26.50%	32.00%	39.50%
Mid Cap Core	1.50%	3.00%	5.00%	6.00%	7.50%
Small Cap Core	2.50%	4.50%	7.50%	9.00%	10.50%
Real Estate	0.50%	1.00%	1.75%	2.00%	2.00%
International	2.00%	4.00%	6.00%	7.00%	10.25%
Emerging Markets	1.00%	2.00%	3.25%	4.00%	5.25%
<b>Fixed Income</b>	<b>80.00%</b>	<b>65.00%</b>	<b>45.00%</b>	<b>35.00%</b>	<b>20.00%</b>
Short Term Bond	25.75%	14.00%	10.00%	6.75%	3.00%
Intermediate Term Bond	52.25%	49.25%	33.50%	27.00%	16.00%
High Yield	2.00%	1.75%	1.50%	1.25%	1.00%
<b>Cash</b>	<b>5.00%</b>	<b>5.00%</b>	<b>5.00%</b>	<b>5.00%</b>	<b>5.00%</b>
Expected Return	5.15%	5.82%	6.51%	6.82%	7.21%
Expected Standard Deviation	3.51%	4.72%	7.62%	9.28%	11.85%

The above information is for illustrative purposes only, and is not intended to provide investment recommendations as to which securities to buy or sell, or when to buy or sell securities. Each Sample Portfolio is a hypothetical portfolio only and does not reflect actual investment decisions or recommendations, and does not represent actual trading or actual portfolio performance. An actual client's portfolio construction and performance may vary depending on the client's investment needs, objectives, restrictions, and market conditions. Asset allocation ranges and performance for each investment objective may also vary depending on the prevailing market conditions. Past performance is no indication of future results. For institutional investor use only. Data as of May 2019.

\*Expected Returns are based on 30-year returns for various asset classes. Please see disclosure page for additional details on Expected Return and Expected Standard Deviation.

Source: Factset

## Disclosures

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Each strategy represented as a Sample Portfolio is a hypothetical portfolio only and does not reflect actual investment decisions or recommendations. It is solely for illustrative purposes and is subject to change at any time. It is not intended to represent a specific investment. It does not reflect the liquidity constraints of actual investing or the impact that material economic and market factors may have on an investment adviser's decision-making. Investors cannot invest in the Sample Portfolio and actual investment results may differ materially. An account could incur losses as well as gains. The Sample Portfolio does not reflect the deduction of advisory fees, brokerage, commissions, or any other actual client expenses, which would reduce investor returns. The sample portfolio does not always reflect the potential impact of active management, excluding those investments that are only available from an active manager. Advisory fees are described in Form ADV, Part 2A and are available upon request.

A Sample Portfolio's expected return (comprised of capital appreciation and income/dividends) is calculated the following way:

1. The expected return of each asset class in a given Sample Portfolio is determined through a combination of historical rates of returns, valuation projections, and economic expectations. Expected rates of return are provided by HighMark proprietary research which incorporates Wilshire Associates Incorporated assumptions. Expected rates of return are developed and annually reviewed by HighMark's Asset Allocation Committee.
2. With 30-year forecasts for U.S. Treasuries, Wilshire's ten year forecast for U.S. Treasuries is used as the assumed return for the first ten years of the 30-year period. Over the following twenty years (years 11-30), Wilshire's ULT forecast is used as the assumed return for U.S. Treasuries. The resulting combination of the assumed return on U.S. Government bonds over the two periods becomes HighMark's 30-year forecast subject to rounding. All other taxable fixed income asset classes are derived from the expected return on U.S. Treasuries plus a credit or term premium consistent with those of the ten year forecasts.
3. With 30-year forecasts for global equity, Wilshire's ten year forecast for global equity is used as the assumed return for the first ten years of the 30-year period. Over the following twenty years (years 11-30), Wilshire's ULT forecast is used as the assumed return for global equities. The return on cash over this period is derived from the 10 and 30-year cash assumptions. The resulting combination of the assumed global equity returns over the two periods becomes HighMark's 30-year forecast subject to rounding.
4. Returns reflect the reinvestment of dividends, interests, and other distributions.
5. An expected return for the Sample Portfolio is then calculated by weighting the returns for each asset class according to the exposure as determined by HighMark's current strategic allocation.

Expected returns generated are before taxes and any fees. The standard deviation for an asset class represents its possible divergence of the actual return for an asset class from its expected return. It is a statistical measure of the potential magnitude of volatility of an asset class from its expected return. The range of returns may be higher or lower than those predicted by expected standard deviation.

In certain sub asset classes where Wilshire does not provide a discrete 10-year return forecast, HighMark supplements Wilshire's 10-year expected returns with its proprietary methodology which is based on various market and economic factors some of which are described below. To obtain a full copy of the methodology please contact [hcasalesupport@unionbank.com](mailto:hcasalesupport@unionbank.com).

- US Equities – Expected returns at sub asset class level are determined by starting with Wilshire Broad Market 10 year forecast and interpolating into sub asset class returns by referencing Wilshire 5000 index data.
- Municipal Bonds – HighMark determines expected returns by assuming there will be historical return discounts for municipal bonds relative to U.S. Treasuries.
- Alternative Investments - Expected total return forecasts for alternative investments begin with the forecast for the return on cash over the respective time-horizon and adjusting for estimating the Sharpe ratio (excess return / standard deviation) of each alternative strategy based on the observed long-term performance of a representative strategy specific hedge fund peer group index.

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, and public and private retirement plans. 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.

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## PARS DIVERSIFIED PORTFOLIOS CONSERVATIVE

Q2 2019

### 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

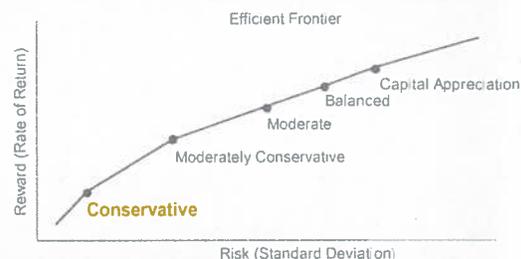
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation 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%	16%
Fixed Income	60 – 95%	80%	78%
Cash	0 – 20%	5%	6%

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

#### HighMark Plus Composite (Active)

Current Quarter*	2.98%
Blended Benchmark*, **	2.67%
Year To Date*	7.72%
Blended Benchmark*, **	6.80%
1 Year	7.22%
Blended Benchmark**	6.62%
3 Year	4.29%
Blended Benchmark**	3.77%
5 Year	3.60%
Blended Benchmark**	3.38%
10 Year	5.25%
Blended Benchmark**	4.39%

#### Index Plus Composite (Passive)

Current Quarter*	2.62%
Blended Benchmark*, **	2.67%
Year To Date*	7.01%
Blended Benchmark*, **	6.80%
1 Year	6.76%
Blended Benchmark**	6.62%
3 Year	3.57%
Blended Benchmark**	3.77%
5 Year	3.21%
Blended Benchmark**	3.38%
10 Year	4.75%
Blended Benchmark**	4.39%

\* Returns less than one year are not annualized. \*\* Breakdown for Blended Benchmark: From 10/1/2012 - Present 7.5% S&P 500, 1.5% Russell Mid Cap, 2.5% Russell 2000, 1% MSCI EM (net), 2% MSCI EAFE (net), 52.25% BBG Barclays US Agg, 25.75% ICE BofAML 1-3 Yr US Corp Govt, 2% ICE BofAML US High Yield Master II, 0.5% Wilshire REIT, and 5% FTSE 1 Mth T-Bill. From 4/1/2007 - 9/30/2012 the blended benchmark was 12% S&P 500, 1% Russell 2000, 2% MSCI EAFE (net), 40% ICE BofAML 1-3 Year Corp Govt, 40% BBG Barclays US Agg, 5% FTSE 1 Mth T-Bill. Prior to April 2007, the blended benchmark was 15% S&P 500, 40% ICE BofAML 1-3 Yr Corp Govt, 40% BBG Barclays US Agg, and 5% FTSE 1 Mth T-Bill.

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

#### HighMark Plus Composite (Active)

2008	-9.04%
2009	15.59%
2010	8.65%
2011	2.19%
2012	8.45%
2013	3.69%
2014	3.88%
2015	0.29%
2016	4.18%
2017	6.73%
2018	-1.35%

#### Index Plus Composite (Passive)

2008	-6.70%
2009	10.49%
2010	7.67%
2011	3.70%
2012	6.22%
2013	3.40%
2014	4.32%
2015	0.06%
2016	3.75%
2017	5.52%
2018	-1.09%

### PORTFOLIO FACTS

#### HighMark Plus (Active)

Composite Inception Date	07/2004
No of Holdings in Portfolio	18

#### Index Plus (Passive)

Composite Inception Date	07/2004
No of Holdings in Portfolio	12

## HOLDINGS

### HighMark Plus (Active)

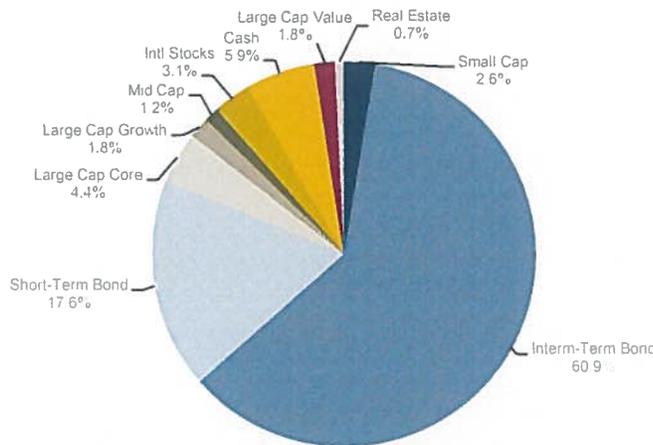
Columbia Contrarian Core I3  
 Vanguard Growth & Income Adm  
 Dodge & Cox Stock Fund  
 Harbor Capital Appreciation - Retirement  
 T. Rowe Price Growth Stock - I  
 iShares Russell Mid-Cap ETF  
 Vanguard Real Estate ETF  
 Undiscovered Managers Behavioral Value-R6  
 Victory RS Small Cap Growth - R6  
 DFA Large Cap International Portfolio  
 Dodge & Cox International Stock  
 MFS International Growth - R6  
 Hartford Schroders Emerging Markets Eq  
 Vanguard Short-Term Invest-Grade Adm  
 PIMCO Total Return Fund - Inst  
 PGIM Total Return Bond - R6  
 DoubleLine Core Fixed Income - I  
 First American Government Obligations Z

### Index Plus (Passive)

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

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

## STYLE



The performance records shown represent size-weighted composites of tax exempt accounts that meet the following criteria. Accounts are managed by HighMark's Portfolio Management Group (PMG) with full investment authority according to the PARS Conservative active and passive objectives.

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. 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 0.36% paid to HighMark, as well as other expenses that may be incurred in the management of the portfolio, will reduce the portfolio's 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 the end of each year, a \$10 million initial value would grow to \$12.53 million after fees (Net-of-Fees) and \$12.76 million before fees (Gross-of-Fees). Gross returns are presented before management and custodial fees but after all trading expenses and reflect the reinvestment of dividends and other income. A client's return will be reduced by the advisory fees and other expenses it may incur as a client. Additional information regarding the firm's policies and procedures for calculating and reporting performance results is available upon request. 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 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 ICE BofAML US High Yield Master II Index tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. Wilshire REIT index measures U.S. publicly traded Real Estate Investment Trusts. The unmanaged Bloomberg Barclays U.S. Aggregate Bond Index is generally representative of the U.S. taxable bond market as a whole. The ICE BofAML 1-3 Year U.S. Corporate & Government Index tracks the bond performance of the ICE BofAML U.S. Corporate & Government Index, with a remaining term to final maturity less than 3 years. The unmanaged FTSE 1-Month Treasury Bill Index tracks the yield of the 1-month U.S. Treasury Bill.

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## HIGHMARK CAPITAL MANAGEMENT

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

### ABOUT THE ADVISER

HighMark® Capital Management, Inc. (HighMark) has nearly 100 years (including predecessor organizations) of institutional money management experience with \$7.7 billion in assets under management and \$8.3 billion in assets under advisement\*. HighMark has a long term disciplined approach to money management and currently manages assets for a wide array of clients.

### ABOUT THE PORTFOLIO MANAGEMENT TEAM

#### Andrew Brown, CFA®

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

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

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

#### J. Keith Stribling, CFA®

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

#### Christiane Tsuda

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

#### Anne Wimmer, CFA®

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

#### Randy Yurchak, CFA®

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

#### Asset Allocation Committee

Number of Members: 16  
 Average Years of Experience: 28  
 Average Tenure (Years): 15

#### Manager Review Group

Number of Members: 7  
 Average Years of Experience: 19  
 Average Tenure (Years): 7

\*Assets under management ("AUM") include assets for which HighMark provides continuous and regular supervisory and management services. Assets under advisement ("AUA") include assets for which HighMark provides certain investment advisory services (including, but not limited to, investment research and strategies) for client assets of its parent company, MUFG Union Bank, N.A.

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

Q2 2019

**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**

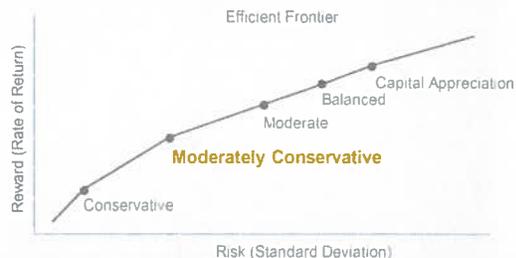
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation 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, with capital appreciation as a secondary objective. 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%	31%
Fixed Income	50 - 80%	65%	66%
Cash	0 - 20%	5%	3%

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

**HighMark Plus Composite (Active)**

Current Quarter*	3.10%
Blended Benchmark**, **	2.97%
Year To Date*	9.37%
Blended Benchmark**, **	8.90%
1 Year	7.01%
Blended Benchmark**	6.97%
3 Year	5.82%
Blended Benchmark**	5.40%
5 Year	4.34%
Blended Benchmark**	4.40%
10 Year	6.71%
Blended Benchmark**	6.11%

**Index Plus Composite (Passive)**

Current Quarter*	2.83%
Blended Benchmark**, **	2.97%
Year To Date*	8.98%
Blended Benchmark**, **	8.90%
1 Year	6.99%
Blended Benchmark**	6.97%
3 Year	5.10%
Blended Benchmark**	5.40%
5 Year	4.16%
Blended Benchmark**	4.40%
10 Year	6.24%
Blended Benchmark**	6.11%

\* Returns less than one year are not annualized. \*\*Breakdown for Blended Benchmark: From 10/1/2012 - Present: 15.5% S&P 500, 3% Russell Mid Cap, 4.5% Russell 2000, 2% MSCI EM (net), 4% MSCI EAFE (net), 49.25% BBG Barclays US Agg, 14% ICE BofAML 1-3Yr US Corp/Govt, 1.75% ICE BofAML US High Yield Master II, 1% Wilshire REIT, and 5% FTSE 1 Mth T-Bill. From 4/1/2007 - 9/30/2012 the blended benchmark was 25% S&P 500, 1.5% Russell 2000, 3.5% MSCI EAFE (net), 25% ICE BofAML 1-3 Year Corp./Govt, 40% BBG Barclays US Agg, 5% FTSE 1 Mth T-Bill. Prior to April 2007, the blended benchmark was 30% S&P 500, 25% ICE BofAML 1-3Yr Corp/Gov, 40% BBG Barclays US Agg, and 5% FTSE 1 Mth T-Bill.

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

**HighMark Plus Composite (Active)**

2008	-15.37%
2009	18.71%
2010	10.46%
2011	1.75%
2012	10.88%
2013	7.30%
2014	4.41%
2015	0.32%
2016	4.94%
2017	9.56%
2018	-2.60%

**Index Plus Composite (Passive)**

2008	-12.40%
2009	11.92%
2010	9.72%
2011	3.24%
2012	8.24%
2013	6.78%
2014	5.40%
2015	-0.18%
2016	5.42%
2017	8.08%
2018	-2.33%

**PORTFOLIO FACTS**

**HighMark Plus (Active)**

Composite Inception Date	08/2004
No of Holdings in Portfolio	18

**Index Plus (Passive)**

Composite Inception Date	05/2005
No of Holdings in Portfolio	12

## HOLDINGS

### HighMark Plus (Active)

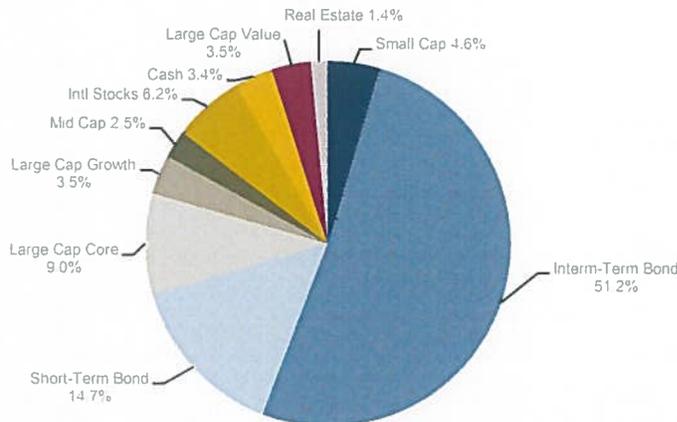
Columbia Contrarian Core I3  
 Vanguard Growth & Income Adm  
 Dodge & Cox Stock Fund  
 Harbor Capital Appreciation - Retirement  
 T. Rowe Price Growth Stock - I  
 iShares Russell Mid-Cap ETF  
 Vanguard Real Estate ETF  
 Undiscovered Managers Behavioral Value-R6  
 Victory RS Small Cap Growth - R6  
 DFA Large Cap International Portfolio  
 Dodge & Cox International Stock  
 MFS International Growth - R6  
 Hartford Schroders Emerging Markets Eq  
 Vanguard Short-Term Invest-Grade Adm  
 PIMCO Total Return Fund - Inst  
 PGIM Total Return Bond - R6  
 DoubleLine Core Fixed Income - I  
 First American Government Obligations Z

### Index Plus (Passive)

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

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

## STYLE



The performance records shown represent a size-weighted composite of tax-exempt accounts that meet the following criteria. Accounts are managed by HighMark's Portfolio Management Group (PMG) with full investment authority according to the PARS Moderately Conservative active and passive objectives.

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. 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 0.36% paid to HighMark, as well as other expenses that may be incurred in the management of the portfolio, will reduce the portfolio's 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 \$12.53 million after fees (Net-of-Fees) and \$12.76 million before fees (Gross-of-Fees). Gross returns are presented before management and custodial fees but after all trading expenses and reflect the reinvestment of dividends and other income. A client's return will be reduced by the advisory fees and other expenses it may incur as a client. Additional information regarding the firm's policies and procedures for calculating and reporting performance results is available upon request. 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 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 ICE BofAML US High Yield Master II Index tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. Wilshire REIT Index measures U.S. publicly traded Real Estate Investment Trusts. The unmanaged Bloomberg Barclays U.S. Aggregate Bond Index is generally representative of the U.S. taxable bond market as a whole. The ICE BofAML 1-3 Year U.S. Corporate & Government Index tracks the bond performance of the ICE BofAML U.S. Corporate & Government Index with a remaining term to final maturity less than 3 years. The unmanaged FTSE 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 and public and private retirement plans. MUB, a subsidiary of MUFG Americas Holdings Corporation, provides certain services to HighMark and is compensated for these services. Past performance does not guarantee future results. Individual account management and construction will vary depending on each client's investment needs and objectives. Investments employing HighMark strategies are NOT insured by the FDIC or by any other Federal Government Agency, are NOT Bank deposits, are NOT guaranteed by the Bank or any Bank affiliate, and MAY lose value, including possible loss of principal.

## HIGHMARK CAPITAL MANAGEMENT

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

### ABOUT THE ADVISER

HighMark® Capital Management, Inc. (HighMark) has nearly 100 years (including predecessor organizations) of institutional money management experience with \$7.7 billion in assets under management and \$8.3 billion in assets under advisement\*. HighMark has a long term disciplined approach to money management and currently manages assets for a wide array of clients.

### ABOUT THE PORTFOLIO MANAGEMENT TEAM

#### Andrew Brown, CFA®

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

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

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

#### J. Keith Stribling, CFA®

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

#### Christiane Tsuda

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

#### Anne Wimmer, CFA®

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

#### Randy Yurchak, CFA®

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

#### Asset Allocation Committee

Number of Members: 16  
 Average Years of Experience: 28  
 Average Tenure (Years): 15

#### Manager Review Group

Number of Members: 7  
 Average Years of Experience: 19  
 Average Tenure (Years): 7

\*Assets under management ("AUM") include assets for which HighMark provides continuous and regular supervisory and management services. Assets under advisement ("AUA") include assets for which HighMark provides certain investment advisory services (including, but not limited to, investment research and strategies) for client assets of its parent company, MUFG Union Bank, N.A.

PARS DIVERSIFIED PORTFOLIOS  
**MODERATE**

Q2 2019

**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**

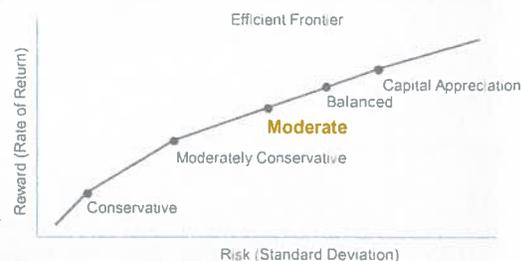
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation 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 current income and moderate capital appreciation. 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%	51%
Fixed Income	40 - 60%	45%	46%
Cash	0 - 20%	5%	3%

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

**HighMark Plus Composite (Active)**

Current Quarter*	3.23%
Blended Benchmark*,**	3.16%
Year To Date*	11.74%
Blended Benchmark*,**	11.35%
1 Year	6.94%
Blended Benchmark**	6.95%
3 Year	7.95%
Blended Benchmark**	7.52%
5 Year	5.43%
Blended Benchmark**	5.62%
10 Year	8.35%
Blended Benchmark**	8.18%

**Index Plus Composite (Passive)**

Current Quarter*	2.95%
Blended Benchmark*,**	3.16%
Year To Date*	11.36%
Blended Benchmark*,**	11.35%
1 Year	6.77%
Blended Benchmark**	6.95%
3 Year	7.14%
Blended Benchmark**	7.52%
5 Year	5.18%
Blended Benchmark**	5.62%
10 Year	8.09%
Blended Benchmark**	8.18%

\*Returns less than one year are not annualized. \*\*Breakdown for Blended Benchmark: From 10/1/2012 - Present: 26.5% S&P500, 5% Russell Mid Cap, 7.5% Russell 2000, 3.25% MSCI EM (net), 6% MSCI EAFE (net), 33.50% BBG Barclays US Agg, 10% ICE BofAML 1-3 Yr US Corp/Govt, 1.50% ICE BofAML US High Yield Master II, 1.75% Wishire REIT, and 5% FTSE 1 Mth T-Bill. From 4/1/2007 - 9/30/2012 the blended benchmark was 43% S&P 500, 2% Russell 2000, 5% MSCI EAFE (net), 15% ICE BofAML 1-3 Year Corp. Govt, 30% BBG Barclays US Agg, 5% FTSE 1 Mth T-Bill. Prior to April 2007, the blended benchmark was 50% S&P 500, 15% ICE BofAML 1-3Yr Corp/Govt, 30% BBG Barclays US Agg, and 5% FTSE 1 Mth T-Bill.

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

**HighMark Plus Composite (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%
2016	6.45%
2017	13.19%
2018	-4.03%

**Index Plus Composite (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%
2016	7.23%
2017	11.59%
2018	-4.03%

**PORTFOLIO FACTS**

**HighMark Plus (Active)**

Composite Inception Date	10/2004
No of Holdings in Portfolio	18

**Index Plus (Passive)**

Composite Inception Date	05/2006
No of Holdings in Portfolio	12

## HOLDINGS

### HighMark Plus (Active)

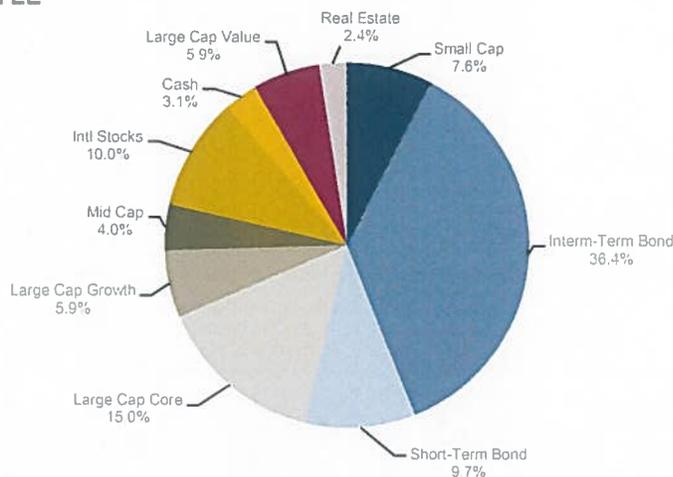
Columbia Contrarian Core I3  
 Vanguard Growth & Income Adm  
 Dodge & Cox Stock Fund  
 Harbor Capital Appreciation - Retirement  
 T. Rowe Price Growth Stock - I  
 iShares Russell Mid-Cap ETF  
 Vanguard Real Estate ETF  
 Undiscovered Managers Behavioral Value-R6  
 Victory RS Small Cap Growth - R6  
 DFA Large Cap International Portfolio  
 Dodge & Cox International Stock  
 MFS International Growth - R6  
 Hartford Schroders Emerging Markets Eq  
 Vanguard Short-Term Invest-Grade Adm  
 PIMCO Total Return Fund - Inst  
 PGIM Total Return Bond - R6  
 DoubleLine Core Fixed Income - I  
 First American Government Obligations Z

### Index Plus (Passive)

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

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

## STYLE



The performance records shown represent size-weighted composites of tax exempt accounts that meet the following criteria. Accounts are managed by HighMark's Portfolio Management Group (PMG) with full investment authority according to the PARS Moderate active and passive objectives.

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

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## HIGHMARK CAPITAL MANAGEMENT

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

### ABOUT THE ADVISER

HighMark® Capital Management, Inc. (HighMark) has nearly 100 years (including predecessor organizations) of institutional money management experience with \$7.7 billion in assets under management and \$8.3 billion in assets under advisement\*. HighMark has a long term disciplined approach to money management and currently manages assets for a wide array of clients.

### ABOUT THE PORTFOLIO MANAGEMENT TEAM

#### Andrew Brown, CFA®

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

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

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

#### J. Keith Stribling, CFA®

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

#### Christiane Tsuda

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

#### Anne Wimmer, CFA®

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

#### Randy Yurchak, CFA®

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

#### Asset Allocation Committee

Number of Members: 16  
 Average Years of Experience: 28  
 Average Tenure (Years): 15

#### Manager Review Group

Number of Members: 7  
 Average Years of Experience: 19  
 Average Tenure (Years): 7

\*Assets under management ("AUM") include assets for which HighMark provides continuous and regular supervisory and management services. Assets under advisement ("AUA") include assets for which HighMark provides certain investment advisory services (including, but not limited to, investment research and strategies) for client assets of its parent company, MUFG Union Bank, N.A.

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

Q2 2019

**WHY THE PARS DIVERSIFIED BALANCED PORTFOLIO?**

**Comprehensive Investment Solution**

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

**Rigorous Manager Due Diligence**

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

**Flexible Investment Options**

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

**Risk Management**

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

**INVESTMENT OBJECTIVE**

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



**ASSET ALLOCATION — BALANCED PORTFOLIO**

	Strategic Range	Policy	Tactical
Equity	50 – 70%	60%	61%
Fixed Income	30 – 50%	35%	36%
Cash	0 – 20%	5%	3%

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

**ANNUALIZED TOTAL RETURNS**

**HighMark Plus Composite (Active)**

Current Quarter*	3.30%
Blended Benchmark*, **	3.26%
Year To Date*	13.04%
Blended Benchmark*, **	12.59%
1 Year	6.82%
Blended Benchmark**	6.90%
3 Year	9.11%
Blended Benchmark**	8.58%
5 Year	5.92%
Blended Benchmark**	6.22%
10 Year	9.07%
Blended Benchmark**	9.28%

**Index Plus Composite (Passive)**

Current Quarter*	3.04%
Blended Benchmark*, **	3.26%
Year To Date*	12.53%
Blended Benchmark*, **	12.59%
1 Year	6.55%
Blended Benchmark**	6.90%
3 Year	8.09%
Blended Benchmark**	8.58%
5 Year	5.65%
Blended Benchmark**	6.22%
10 Year	8.89%
Blended Benchmark**	9.28%

\* Returns less than one year are not annualized. \*\*Breakdown for Blended Benchmark: From 10/1/2012 – Present: 32% S&P500 6% Russell Mid Cap, 9% Russell 2000, 4% MSCI EM (net), 7% MSCI EAFE (net), 27% BBG Barclays US Agg, 6.75% ICE BofAML 1-3 Yr US Corp/Govt, 1.25% ICE BofAML US High Yield Master II, 2% Wilshire REIT, and 5% FTSE 1 Mth T-Bill. From 4/1/2007 – 9/30/2012: the blended benchmark was 51% S&P 500; 3% Russell 2000, 6% MSCI EAFE (net), 5% ICE BofAML 1-3 Year Corp Govt, 30% BBG Barclays US Agg, 5% FTSE 1 Mth T-Bill. Prior to April 2007: the blended benchmark was 60% S&P 500, 5% ICE BofAML 1-3Yr Corp/Govt, 30% BBG Barclays US Agg, and 5% FTSE 1 Mth T-Bill.

**ANNUAL RETURNS**

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

**HighMark Plus Composite (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%
2016	6.81%
2017	15.46%
2018	-4.88%

**Index Plus Composite (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%
2016	8.25%
2017	13.39%
2018	-5.05%

**PORTFOLIO FACTS**

**HighMark Plus (Active)**

Composite Inception Date	10/2006
No of Holdings in Portfolio	18

**Index Plus (Passive)**

Composite Inception Date	10/2007
No of Holdings in Portfolio	12

## HOLDINGS

### HighMark Plus (Active)

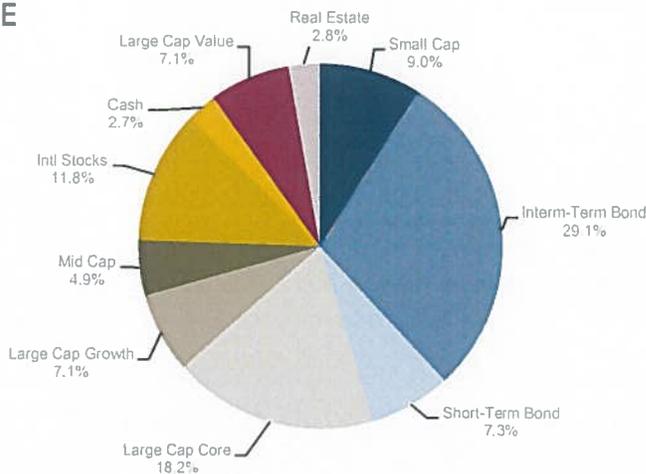
Columbia Contrarian Core I3  
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 PGIM Total Return Bond - R6  
 DoubleLine Core Fixed Income - I  
 First American Government Obligations Z

### Index Plus (Passive)

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

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

## STYLE



The performance records shown represent size-weighted composites of tax exempt accounts that meet the following criteria. Accounts are managed by HighMark's Portfolio Management Group (PMG) with full investment authority according to the PARS Balanced active and passive objectives.

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. 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 0.36% paid to HighMark, as well as other expenses that may be incurred in the management of the portfolio, will reduce the portfolio's 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 \$12.53 million after fees (Net-of-Fees) and \$12.76 million before fees (Gross-of-Fees). Gross returns are presented before management and custodial fees but after all trading expenses and reflect the reinvestment of dividends and other income. A client's return will be reduced by the advisory fees and other expenses it may incur as a client. Additional information regarding the firm's policies and procedures for calculating and reporting performance results is available upon request. 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 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 ICE BofAML US High Yield Master II Index tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. Wilshire REIT index measures U.S. publicly traded Real Estate Investment Trusts. The unmanaged Bloomberg Barclays U.S. Aggregate Bond Index is generally representative of the U.S. taxable bond market as a whole. The ICE BofAML 1-3 Year U.S. Corporate & Government Index tracks the bond performance of the ICE BofAML U.S. Corporate & Government Index, with a remaining term to final maturity less than 3 years. The unmanaged FTSE 1-Month Treasury Bill Index tracks the yield of the 1-month U.S. Treasury Bill.

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### Asset Allocation Committee

Number of Members: 16  
 Average Years of Experience: 28  
 Average Tenure (Years): 15

### Manager Review Group

Number of Members: 7  
 Average Years of Experience: 19  
 Average Tenure (Years): 7

\*Assets under management ("AUM") include assets for which HighMark provides continuous and regular supervisory and management services. Assets under advisement ("AUA") include assets for which HighMark provides certain investment advisory services (including, but not limited to, investment research and strategies) for client assets of its parent company, MUFG Union Bank, N.A.

**PARS DIVERSIFIED PORTFOLIOS**  
**CAPITAL APPRECIATION**

Q2 2019

**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**

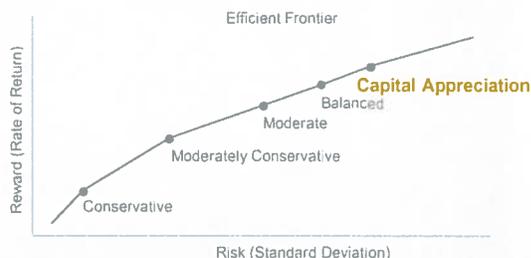
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation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

To provide 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%	76%
Fixed Income	10 - 30%	20%	22%
Cash	0 - 20%	5%	2%

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

**Consolidated Composite**

Current Quarter*	3.32%
Blended Benchmark*,**	3.37%
Year To Date*	14.55%
Blended Benchmark*,**	14.34%
1 Year	6.61%
Blended Benchmark**	6.65%
3 Year	10.10%
Blended Benchmark**	10.10%
5 Year	6.62%
Blended Benchmark**	6.94%
10 Year	9.93%
Blended Benchmark**	10.66%

\* Returns less than one 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 (net), 10.25% MSCI EAFE (net), 16% BBG Barclays US Agg, 3% ICE BofAML 1-3 Yr US Corp/Govt, 1% ICE BofAML US High Yield Master II, 2% Wilshire REIT, and 5% FTSE 1 Mth T-Bill

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

**Consolidated Composite**

2008	N/A
2009	23.77%
2010	12.95%
2011	-1.35%
2012	13.87%
2013	20.33%
2014	6.05%
2015	-0.27%
2016	8.81%
2017	16.72%
2018	-5.82%

**PORTFOLIO FACTS**

**Consolidated Composite**

Composite Inception Date	01/2009
No of Holdings in Portfolio	18

## HOLDINGS

### HighMark Plus (Active)

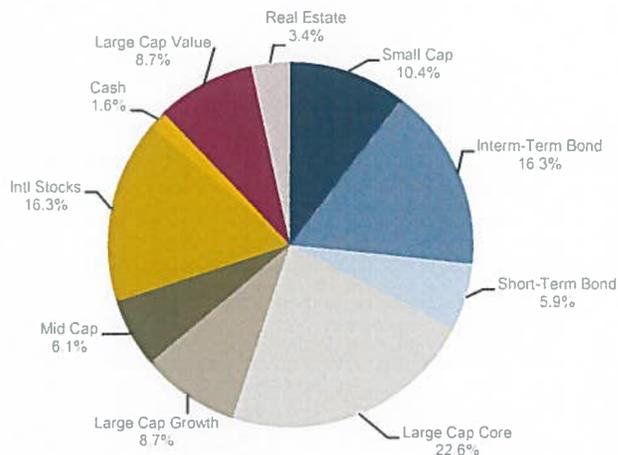
Columbia Contrarian Core I3  
 Vanguard Growth & Income Adm  
 Dodge & Cox Stock Fund  
 Harbor Capital Appreciation - Retirement  
 T. Rowe Price Growth Stock - I  
 iShares Russell Mid-Cap ETF  
 Vanguard Real Estate ETF  
 Undiscovered Managers Behavioral Value-R6  
 Victory RS Small Cap Growth - R6  
 DFA Large Cap International Portfolio  
 Dodge & Cox International Stock  
 MFS International Growth - R6  
 Hartford Schrodgers Emerging Markets Eq  
 Vanguard Short-Term Invest-Grade Adm  
 PIMCO Total Return Fund - Inst  
 PGIM Total Return Bond - R6  
 DoubleLine Core Fixed Income - I  
 First American Government Obligations Z

### Index Plus (Passive)

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

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

## STYLE



The performance records shown represent a size-weighted composite of tax exempt accounts that meet the following criteria: Accounts are managed by HighMark's Portfolio Management Group (PMG) with full investment authority according to the PARS Capital Appreciation active and passive objectives.

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## STAFF REPORT

**Meeting Date:** August 22, 2019  
**To:** Finance and Audit Committee  
**From:** Jeff S. Muir, Director of Finance  
Tatiana Szerwinski, Assistant Director of Finance  
**Subject:** Pension Unfunded Liability Amortization Strategies  
**Attachments:** 1. Amortization Schedule

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### INTRODUCTION

The City has received its most recent actuarial valuations from CalPERS as of June 30, 2018 for its Miscellaneous and Safety plans. These reports have fully recognized the reduction of the discount rate to 7.0%. Currently the Unfunded Accrued Liability ("UAL") figures are as follows:

Miscellaneous	\$107.6M
<u>Safety</u>	<u>\$173.2M</u>
Total	\$280.8M

The current combined amortization schedule to pay down the UAL extends to 2043. If the City made the required annual payments it would pay approximately \$540 million over this period, with over \$255 million being interest (CalPERS uses its discount rate of 7% as the interest rate).

Based on recommendations from the Blue Ribbon Committee on Unfunded Liabilities, during the Fiscal Year 2019-20 budget process the City Council authorized an additional \$5 million towards pension funding. This \$5 million is assumed to continue in the General Fund Forecast.

### DISCUSSION

Staff has determined that by leveraging the additional \$5 million per year and the \$23 million placed in the Section 115 Trust for pension purposes (in addition to the existing required amortization payments), the City could commit to paying off the unfunded liability for the Miscellaneous Plan in 10 years, and the Safety Plan in 15 years. This would result in nearly \$97 million in gross savings versus the current amortization schedule (assuming no changes to CalPERS assumptions, expected returns, and discount rate).

Staff will make a presentation with this item to further illustrate this scenario.

**FISCAL IMPACT**

The strategy presented for accelerating the amortization of the unfunded pension liability would not require additional financial commitment beyond what the City Council has already authorized and could result in \$97 million in gross savings (assuming no changes to CalPERS assumptions, expected returns, and discount rate).

**RECOMMENDATION**

Staff recommends that the City Council Audit and Finance Committee Liaisons review and provide direction on the accelerated amortization of the pension unfunded liability.



Jeff S. Muir

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Approved By

Combined Amortization Schedules for Miscellaneous and Safety Employees

For Valuation Dated June 30, 2018

Date	Current		20-year		15-year		20-year Payment Less Current Payment	15-year Payment Less Current Payment	Additional Budgeted Pension Contributions	Additional needed from 115 Trust	3% Trust Running Balance
	Balance	Payment	Balance	Payment	Balance	Payment					
6/30/2020	\$ 286,064,050	\$ 20,663,078	\$ 286,064,050	\$ 22,914,657	\$ 286,064,050	\$ 29,379,610	\$ 2,251,579	\$ 8,716,532	\$ 5,000,000	\$ 3,716,532	\$ 19,973,468
6/30/2021	284,714,480	22,908,359	282,385,429	23,544,809	275,698,029	30,187,549	636,450	7,279,190	5,000,000	2,279,190	18,293,482
6/30/2022	280,947,902	24,846,379	277,797,468	24,192,292	263,770,648	31,017,707	-654,087	6,171,328	5,000,000	1,171,328	17,670,959
6/30/2023	274,912,962	26,034,796	272,218,590	24,857,580	250,149,629	31,870,694	-1,177,216	5,835,898	5,000,000	835,898	17,365,189
6/30/2024	267,226,268	27,423,447	265,561,010	25,541,163	234,692,802	32,747,137	-1,882,284	5,323,690	5,000,000	323,690	17,562,455
6/30/2025	257,565,072	26,078,675	257,730,296	26,243,545	217,247,396	33,647,684	164,870	7,569,009	5,000,000	2,569,009	15,520,320
6/30/2026	248,618,632	26,898,622	248,624,883	26,965,243	197,649,278	34,572,995	66,621	7,674,373	5,000,000	2,674,373	13,311,556
6/30/2027	238,197,784	27,638,335	238,135,561	27,706,787	175,722,144	35,523,752	68,452	7,885,417	5,000,000	2,885,417	10,825,486
6/30/2028	226,282,314	28,398,384	226,144,926	28,468,723	151,276,639	36,500,655	70,339	8,102,271	5,000,000	3,102,271	8,047,979
6/30/2029	212,746,556	29,179,341	212,526,794	29,251,613	124,109,433	37,504,424	72,272	8,325,083	5,000,000	3,325,083	4,964,336
6/30/2030	197,455,469	29,981,772	197,145,566	30,056,033	94,002,216	21,054,780	74,261	8,926,992	5,000,000		
6/30/2031	180,263,966	28,260,138	179,855,553	30,882,574	78,803,137	21,633,787	2,622,436	-6,626,351	5,000,000		
6/30/2032	163,649,930	27,821,741	160,500,259	31,731,845	61,941,193	22,228,716	3,910,104	-5,593,025	5,000,000		
6/30/2033	146,326,388	25,623,813	138,911,602	32,604,470	43,283,514	22,840,006	6,980,657	-2,783,807	5,000,000		
6/30/2034	130,063,757	24,679,731	114,909,087	33,501,093	22,687,474	23,468,106	8,821,362	-1,211,625	5,000,000		
6/30/2035	113,639,308	23,203,382	88,298,923	19,777,347	0	0	-3,426,035	-23,203,382			
6/30/2036	97,592,297	20,603,044	74,022,001	20,321,224	0	0	-281,820	-20,603,044			
6/30/2037	83,111,803	19,176,033	58,183,103	20,880,058	0	0	1,704,025	-19,176,033			
6/30/2038	69,093,787	17,654,953	40,657,421	21,454,259	0	0	3,799,306	-17,654,953			
6/30/2039	55,667,929	16,515,700	21,310,982	22,044,251	0	0	5,528,551	-16,515,700			
6/30/2040	42,480,706	16,747,684	0	0	0	0	-16,747,684	-16,747,684			
6/30/2041	28,130,417	12,321,185	0	0	0	0	-12,321,185	-12,321,185			
6/30/2042	17,354,414	9,727,502	0	0	0	0	-9,727,502	-9,727,502			
6/30/2043	8,507,015	8,799,725	0	0	0	0	-8,799,725	-8,799,725			
<b>Total</b>		\$ 541,185,819		\$ 522,939,566		\$ 444,177,602	\$ (18,246,253)	\$ (97,008,217)	\$ 75,000,000	\$ 22,882,791	\$ 4,964,336
Interest Paid		\$ 255,121,769		\$ 236,875,516		\$ 158,113,552					
Estimated Savings		\$ -		\$ 18,246,253		\$ 97,008,217					