CITY OF MANHATTAN BEACH
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AGENDA

1400 Highland Avenue | Manhattan Beach, CA 90266
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City Council Adjourned Regular Meeting

Adjourned Regular Meeting
Tuesday, September 13, 2016
6:00 PM
City Council Chambers

Mayor Tony D'Errico
Mayor Pro Tem David J. Lesser
Councilmember Amy Howorth
Councilmember Wayne Powell
Councilmember Mark Burton

Executive Team

Mark Danaj, City Manager
Quinn Barrow, City Attorney

Robert Espinosa, Fire Chief
Teresia Zadroga-Haase, Human Resources Director
Eve R. Irvine, Police Chief
Mark Leyman, Parks & Recreation Director
Bruce Moe, Finance Director
Sanford Taylor, Information Technology Director

Nadine Nader, Assistant City Manager
Raul Saenz, Interim Public Works Director
Liza Tamura, City Clerk
Marisa Lundstedt, Community Development Director

MISSION STATEMENT:

The City of Manhattan Beach is recognized for providing exemplary municipal services and contributing to the exceptional quality of life afforded to residents, businesses and visitors who enjoy living in and visiting California's safest beach community

MANHATTAN BEACH'S CITY COUNCIL WELCOMES YOU!

Your presence and participation contribute to good city government.

By your presence in the City Council Chambers, you are participating in the process of representative government. To encourage that participation, this agenda provides an early opportunity for public comments under "Public Comments," at which time speakers may comment on any within the subject matter jurisdiction of the City Council, including items on the agenda. In addition, speakers may comment during agenda items and during any public hearing after the public hearing on those items have been opened.

Copies of staff reports or other written documentation relating to each item of business referred to on this agenda are available for review on the City's website at www.citymb.info, the Police Department located at 420 15th Street, and are also on file in the Office of the City Clerk for public inspection. Any person who has any question concerning any agenda item may call the City Clerk's office at (310) 802 5056.

In compliance with the Americans With Disabilities Act, if you need special assistance to participate in this meeting, you should contact the Office of the City Clerk at (310) 802 5056 (voice) or (310) 546 3501 (TDD). Notification 36 hours prior to the meeting will enable the City to make reasonable arrangements to assure accessibility to this meeting. The City also provides closed captioning of all its Regular City Council Meetings for the hearing impaired.

BELOW ARE THE AGENDA ITEMS TO BE CONSIDERED.

A. CALL MEETING TO ORDER

B. PLEDGE TO THE FLAG

C. ROLL CALL

D. CERTIFICATION OF MEETING NOTICE AND AGENDA POSTING

I, Liza Tamura, City Clerk of the City of Manhattan Beach, California, state under penalty of perjury that this notice/agenda was posted on Wednesday, September 7, 2016, on the City's Website and on the bulletin boards of City Hall, Joslyn Community Center and Manhattan Heights.

E. PUBLIC COMMENTS (3 MINUTES PER PERSON PER ITEM, A MAXIMUM OF 6 MINUTES IF A SPEAKER WANTS TO COMMENT ON MORE THAN ONE ITEM)

Speakers may provide public comments on any matter that is within the subject matter jurisdiction of the City Council, including items on the agenda. The Mayor may determine whether an item is within the subject matter jurisdiction of the City Council. While all comments are welcome, the Brown Act does not allow City Council to take action on any item not on the agenda. Each speaker may speak for up to 3 minutes per matter, up to a total of 6 minutes if a speaker wants to comment on more than one matter.

Please complete the "Request to Address the City Council" card by filling out your name, city of residence, the item(s) you would like to offer public comment, and returning it to the City Clerk.

F. OLD BUSINESS

1. Update on CalPERS Investment Results for Fiscal Year 2015-2016; Impacts to the City's Pension Contribution Rates and Economic Forecasts (Finance Director Moe). 16-0410

RECEIVE REPORT

Attachments: Unfunded Pension Liability Projections
Projected Employer Contribution Rates and Amounts
Bartel Associates PowerPoint (Updated from May 2016)
Wall Street Journal Article
Los Angeles Times Editorial
CalPERS Press Report on FY 2015-2016 Investment Returns

G. NEW BUSINESS

2. Establishment of a Pension Stabilization Trust Fund (Finance Director Moe). RES 16-0053

ADOPT RESOLUTION NO. 16-0053; APPROPRIATE

Attachments: Resolution No. 16-0053
High Mark Investment Options
Unfunded Liabilities of Comparator Agencies
PARS Client List for Pension Stabilization Program

H. ADJOURNMENT

Agenda Date: 9/13/2016

TO:
Honorable Mayor and Members of the City Council

THROUGH:
Mark Danaj, City Manager

FROM:
Bruce Moe, Finance Director
Henry Mitzner, Controller

SUBJECT:
Update on CalPERS Investment Results for Fiscal Year 2015-2016; Impacts to the City's Pension Contribution Rates and Economic Forecasts (Finance Director Moe).
RECEIVE REPORT

RECOMMENDATION:
Staff recommends that the City Council receive a report on CalPERS' Fiscal year 2015-2016 investment results and the impacts on the City's pension contribution forecasts and budget.

FISCAL IMPLICATIONS:
Fiscal implications are described below.

BACKGROUND:
CalPERS reported its preliminary investment returns for FY 2015-2016 on July 18, 2016. The total return after expenses across all investment classes was 0.61%. This is below the actuarial assumed rate of return of 7.5%. Fiscal Year 2015-2016 results as well as prior years' results were as follows:

FY15/16	0.61%
FY14/15	2.4%
FY13/14	18.4%
FY12/13	12.5%
FY11/12	1.0%
FY10/11	20.7%

Historical annual performance (as of June 30, 2015) has been as follows:

Three Year Period	10.9%
Five Year Period	10.7%
Ten year Period	6.2%
Twenty Year Period	7.8%

Based on CalPERS' most recent results, the Mayor requested City Council hold a special study session to gather facts and understand possible implications of the 0.61% investment return, and to address the following questions:

1. What is the impact on our unfunded pension liability?
2. How does this impact our five year forecast?
3. If this creates a budgetary shortfall, where does the money come from?
4. What other impacts does, or might this, precipitate?

DISCUSSION:
CalPERS' return of 0.61% for Fiscal Year 2015-2016 falls below the 7.5% actuarially assumed rate of return. As such, it equates to underperformance of the goal by 6.89% for this particular fiscal year.

The CalPERS investment returns are a key factor in the employer contribution rates set by CalPERS. In its simplest form, to the extent earnings come in below the assumed 7.5%, employer rates are increased to make up for earnings that were not achieved but necessary to pay benefits. To the contrary, when earnings exceed the 7.5% threshold, rates may be reduced (or not raised) in recognition of the "excess" earnings. Recent CalPERS policy changes to reduce risk now apply "good year" (>7.5%) returns towards reductions in the discount rate with the goal of lowering it from 7.5% to 6.5% over time.

The following are answers to the questions posed above regarding the 0.61% return for FY 2015/2016:

1. **What is the impact on our unfunded pension liability?**

While CalPERS' valuation of unfunded liabilities for the year ended June 2016 will not be officially stated until the valuation report issued in October 2017, the independent actuary hired by the City, Bartel Associates, has provided projections.

Bartel Associate's first projections were issued in May 2016 during the budget process. Because CalPERS FY 2015-2016 results were unknown at the time, those projections conservatively assumed CalPERS would lose 3% for the year. With the FY 2015-2016 CalPERS results in, Bartel Associates has updated the projections to reflect the real return of +0.61%. This means the actual rate of return is 239 basis points (or 20%) higher than we had estimated in our budgeting calculations, since we assumed -3.0% when, in fact, the final rate of return was a slight gain of +0.61%.

Attachment #1 lists the unfunded liabilities projected in May 2016 as well as those updated in August 2016 with actual results. Because the FY 2015-2016 results were better than originally predicted, the updated unfunded liabilities are projected to be approximately 12% less than originally estimated by FY 2021-2022 ($89 million versus $101 million). As previously noted, these unfunded pension liabilities are due in part to the FY 2014/2015 return of 2.4% and various risk mitigation steps enacted by CalPERS.

2. **How does this impact our five year forecast?**

The City's five year forecast created for the FY 2016-2017 biennial budget used the May 2016 Bartel Associates projections, which have now been determined to be more conservative than the actual results for FY 2015-2016. Using the updated projections, the City will reduce estimated pension contributions by $1.35 million through FY 2021-2022, and $3.81 million through FY 2025-2026. See Attachment #2 for updated employer rate and pension contributions, including comparisons of the May 2016 and August 2016 projections.

3. **If this creates a budgetary shortfall, where does the money come from?**

No budget shortfall is created through these results because we assumed a -3.0% return while then actual rate of return was +0.61%. However, as noted in the last two years of budget cycles, pension costs will continue to rise as shown in Attachment #2.

4. **What other impacts does, or might this, precipitate?**

While CalPERS' results of 0.61% for FY 2015-2016 were better than the City projected, and therefore have positive impacts on the City's fiscal outlook, it was still below the assumed discount rate of 7.5%. Long term, the CalPERS discount rate is scheduled to be lowered to 6.5% over the next 20 years, this in an effort to mitigate contribution volatility. It is possible CalPERS will, over the next year or so, realign long term investment expectations with market realities, reducing the assumption further lower. However, if below par investment results continue, regardless of the discount rate, it will exacerbate unfunded liabilities and necessitate increased pension contributions by the City.

Pension Stabilization Trust Fund

In an effort to proactively address rising pension costs, the City Council is separately considering establishment of a Pension Stabilization Fund program. If approved, this tool will assist in smoothing annual pension contributions so as to balance rising rates against other important needs and services. This instrument, in conjunction with the effects of the Public Employee Pension Reform Act of 2012 (PEPRA) which lowers benefits for new CalPERS members, and risk mitigation strategies employed by CalPERS, in the long term will improve the funding ratios and reduce costs of providing pension benefits. The trust has the following benefits:

A Pension Rate Stabilization Fund (PRSF) has several benefits:

- The City maintains oversight of investment management and control over the risk tolerance level of the portfolio
- Assets can be accessed at any time to offset rate increases thereby stabilizing

on-going pension expenditures
- Assets held in the fund allow for greater investment flexibility and risk diversification compared to the City's general investments, and has greater earning potential
- Funds deposited into the trust offset the City's Net Pension Liability which is now reported on the City's balance sheet in accordance with Government Accounting Standards Board (GASB) Statement No. 68
- Depositing assets in a trust will be a positive development to Moody's and Standard and Poor's in the City maintaining Triple-A credit ratings from both of these entities

This item is also on the agenda for consideration.

PUBLIC OUTREACH/INTEREST:
After analysis, staff determined that public outreach was not required for this issue.

ENVIRONMENTAL REVIEW
Not required.

LEGAL REVIEW
The City Attorney has reviewed this report and determined that no legal analysis is necessary.

Attachments:
1. Unfunded Pension Liability Projections
2. Projected Employer Contribution Rates and Amounts
3. Bartel Associates PowerPoint (Updated from May 2016)
4. Wall Street Journal Article: <http://www.wsj.com/articles/calpers-reports-lowest-investment-gain-since-financial-crisis-1468862249>
5. Los Angeles Times Editorial: <http://www.latimes.com/opinion/editorials/la-ed-calpers-returns-20160726-snap-story.html>
6. CalPERS Press Report on FY 2015-2016 Investment Returns: <https://www.calpers.ca.gov/page/newsroom/calpers-news/2016/preliminary-investment-returns>

OTHER:

Video: CalPERS Chief Operating Investment Officer Offers Perspective About Investment Performance:

<https://www.youtube.com/watch?v=_L5D5LKI-b0>

Unfunded Liabilities Projections (in millions)

50% Confidence Level

Attachment #1

Miscellaneous	**2013-2014**	**2014-2015**	**2015-2016**	**2016/2017**	**2017/2018**	**2018/2019**	**2019/2020**	**2020/2021**	**2021/2022**
May-16	$ 14	$ 18	$ 26	$ 28	$ 29	$ 31	$ 32	$ 33	$ 33
Aug-16	$ 14	$ 18	$ 23	$ 25	$ 26	$ 28	$ 28	$ 29	$ 29
Change	$ -	$ -	$ (3)	$ (3)	$ (3)	$ (3)	$ (4)	$ (4)	$ (4)

Police	**2013-2014**	**2014-2015**	**2015-2016**	**2016/2017**	**2017/2018**	**2018/2019**	**2019/2020**	**2020/2021**	**2021/2022**
May-16	$ 21	$ 26	$ 36	$ 38	$ 40	$ 43	$ 44	$ 46	$ 46
Aug-16	$ 21	$ 26	$ 33	$ 35	$ 37	$ 39	$ 40	$ 41	$ 41
Change	$ -	$ -	$ (3)	$ (3)	$ (3)	$ (4)	$ (4)	$ (5)	$ (5)

Fire	**2013-2014**	**2014-2015**	**2015-2016**	**2016/2017**	**2017/2018**	**2018/2019**	**2019/2020**	**2020/2021**	**2021/2022**
May-16	$ 9	$ 11	$ 17	$ 18	$ 19	$ 21	$ 21	$ 22	$ 22
Aug-16	$ 9	$ 11	$ 15	$ 16	$ 17	$ 18	$ 19	$ 19	$ 19
Change	$ -	$ -	$ (2)	$ (2)	$ (2)	$ (3)	$ (2)	$ (3)	$ (3)

Totals	**2013-2014**	**2014-2015**	**2015-2016**	**2016/2017**	**2017/2018**	**2018/2019**	**2019/2020**	**2020/2021**	**2021/2022**
May-16	$ 44	$ 55	$ 79	$ 84	$ 88	$ 95	$ 97	$ 101	$ 101
Aug-16	$ 44	$ 55	$ 71	$ 76	$ 80	$ 85	$ 87	$ 89	$ 89
Change	$ -	$ -	$ (8)	$ (8)	$ (8)	$ (10)	$ (10)	$ (12)	$ (12)

Notes

May 2016 Figures based on estimated -3.0% return for FY 2015-2016 before year end results known

August 2016 figures based on real return of +0.61% for FY 2015-2016

Attachment #2

CalPERS Employer Projected Rates and Contributions
May 2016 (Est -3.0%) Vs. August 2016 (Actual 0.61%)
50% Confidence Level

Miscellaneous Plan	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025	2025/2026	Totals
May 2016	14.9%	16.8%	18.9%	20.0%	21.6%	22.9%	23.3%	23.7%	24.0%	
August 2016	14.9%	16.5%	18.2%	19.2%	20.5%	21.4%	22.0%	22.6%	22.8%	
Rate Change	0.0%	-0.3%	-0.7%	-0.8%	-1.1%	-1.5%	-1.3%	-1.1%	-1.2%	
% Change	0.0%	-1.8%	-3.7%	-4.0%	-5.1%	-6.6%	-5.6%	-4.6%	-5.0%	
Est. PERS Contributions - May	$ 2,167,000	$ 2,526,000	$ 2,926,000	$ 3,195,000	$ 3,545,000	$ 3,875,000	$ 4,052,000	$ 4,245,000	$ 4,434,000	$ 30,965,000
Est. PERS Contributions - Aug	$ 2,167,000	$ 2,478,000	$ 2,812,000	$ 3,056,000	$ 3,363,000	$ 3,625,000	$ 3,833,000	$ 4,050,000	$ 4,221,000	$ 29,605,000
Difference	$ -	$ (48,000)	$ (114,000)	$ (139,000)	$ (182,000)	$ (250,000)	$ (219,000)	$ (195,000)	$ (213,000)	$ (1,360,000)

Police Plan	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025	2025/2026	
May 2016	35.8%	40.3%	45.2%	48.0%	51.1%	53.8%	54.5%	55.4%	56.1%	
August 2016	35.8%	39.7%	43.7%	46.2%	48.9%	50.9%	52.0%	53.2%	53.8%	
Rate Change	0.0%	-0.6%	-1.5%	-1.8%	-2.2%	-2.9%	-2.5%	-2.2%	-2.3%	
% Change	0.0%	-1.5%	-3.3%	-3.7%	-4.3%	-5.4%	-4.6%	-4.0%	-4.1%	
Est. PERS Contributions - May	$ 3,033,000	$ 3,516,000	$ 4,057,000	$ 4,440,000	$ 4,873,000	$ 5,282,000	$ 5,511,000	$ 5,771,000	$ 6,019,000	$ 42,502,000
Est. PERS Contributions - Aug	$ 3,033,000	$ 3,459,000	$ 3,921,000	$ 4,274,000	$ 4,660,000	$ 4,992,000	$ 5,258,000	$ 5,537,000	$ 5,767,000	$ 40,901,000
Difference	$ -	$ (57,000)	$ (136,000)	$ (166,000)	$ (213,000)	$ (290,000)	$ (253,000)	$ (234,000)	$ (252,000)	$ (1,601,000)

Fire Plan	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025	2025/2026	
May 2016	28.7%	32.3%	36.3%	38.7%	41.4%	43.7%	44.3%	45.0%	45.6%	
August 2016	28.7%	31.7%	35.0%	37.2%	39.5%	41.2%	42.1%	43.0%	43.5%	
Rate Change	0.0%	-0.6%	-1.3%	-1.5%	-1.9%	-2.5%	-2.2%	-2.0%	-2.1%	
% Change	0.0%	-1.9%	-3.6%	-3.9%	-4.6%	-5.7%	-5.0%	-4.4%	-4.6%	
Est. PERS Contributions - May	$ 1,475,000	$ 1,713,000	$ 1,981,000	$ 2,176,000	$ 2,399,000	$ 2,608,000	$ 2,725,000	$ 2,848,000	$ 2,971,000	$ 20,896,000
Est. PERS Contributions - Aug	$ 1,475,000	$ 1,683,000	$ 1,910,000	$ 2,090,000	$ 2,286,000	$ 2,456,000	$ 2,587,000	$ 2,724,000	$ 2,836,000	$ 20,047,000
Difference	$ -	$ (30,000)	$ (71,000)	$ (86,000)	$ (113,000)	$ (152,000)	$ (138,000)	$ (124,000)	$ (135,000)	$ (849,000)

	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025	2025/2026	
Total Change Per Year - All Plans	$ -	$ (135,000)	$ (321,000)	$ (391,000)	$ (508,000)	$ (692,000)	$ (610,000)	$ (553,000)	$ (600,000)	$ (3,810,000)

	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025	2025/2026
Cumulative Reduction by Year (all Plans)	$ -	$ (135,000)	$ (456,000)	$ (847,000)	$ (1,355,000)	$ (2,047,000)	$ (2,657,000)	$ (3,210,000)	$ (3,810,000)

CITY OF MANHATTAN BEACH
MISCELLANEOUS AND SAFETY PLANS

BARTEL ASSOCIATES, LLC

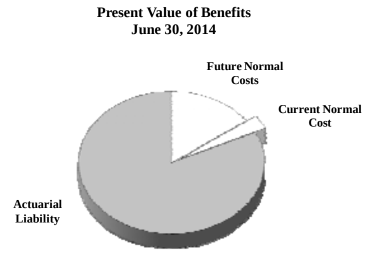
CalPERS Actuarial Issues – 6/30/14 Valuation
Preliminary Results

Presented by **John Bartel, President**
Prepared by Bianca Lin, Assistant Vice President
Wai Man Yam, Actuarial Analyst
Bartel Associates, LLC

September 6, 2016

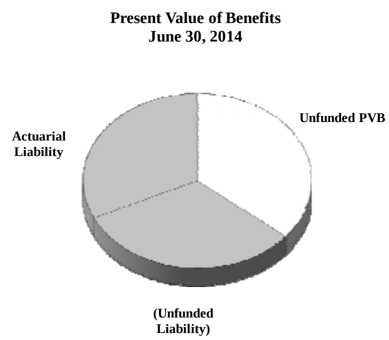
Agenda

DEFINITIONS



- **PVB - Present Value of all Projected Benefits:**
  - Discounted value (at valuation date - 6/30/14), of all future expected benefit payments based on various (actuarial) assumptions
- **Actuarial Liability:**
  - Discounted value (at valuation date) of benefits earned through valuation date [value of past service benefit]
  - Portion of PVB "earned" at measurement
- **Current Normal Cost:**
  - Portion of PVB allocated to (or "earned" during) current year
  - Value of employee and employer current service benefit

DEFINITIONS



- **Target-** Have money in the bank to cover Actuarial Liability (past service)
- **Unfunded Liability -** Money short of target <u>at valuation date</u>
- **Excess Assets / Surplus:**
  - Money over and above target <u>at that point in time</u>
  - Doesn't mean you're done contributing
- **Super Funded:**
  - Assets cover whole pie (PVB)
  - If everything goes exactly like PERS calculated, you'll never have to put another (employer or employee) dime in

CalPERS Changes

- Contribution policy changes:
  - No asset smoothing
  - 5-year ramp up
  - Included in 6/30/13 valuation (first impact 15/16 rates; full impact 19/20)
- Assumption changes:
  - Anticipate future mortality improvement
  - Other, less significant, changes
  - Included in 6/30/14 valuation (first impact 16/17 rates; full impact 20/21)
- Risk Pool changes
  - All Risk Pools combined into one Miscellaneous & one Safety
  - Collect payment on UAL as dollar amount, not as % of pay
  - Payments allocated to agencies based on liability & assets rather than payroll
  - Included in 6/30/13 valuation (impacts 15/16 rates)

CalPERS Changes

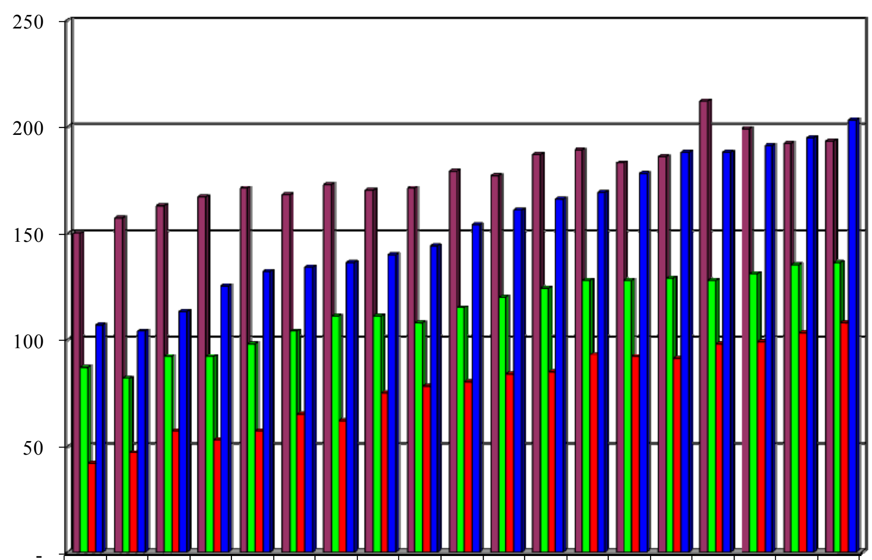
- Risk Mitigation Strategy
  - Move to more conservative investments over time
  - Only when investment return is better than expected
  - Lower discount rate in concert
  - Essentially use ≈50% of investment gains to pay for cost increases
  - Likely get to 6.5% over ≈ 20 years

SUMMARY OF DEMOGRAPHIC INFORMATION - MISCELLANEOUS

	1996	2003	2013	2014
Actives				
■ Counts	150	170	192	193
■ Average				
• Age	43	45	45	46
• City Service	7	9	11	11
• PERSable Wages	$39,100	$50,800	$64,400	$67,100
■ Total PERSable Wages (millions)	5.9	8.6	12.3	13.0
Receiving Payments				
■ Counts				
• Service		100	151	158
• Disablity		20	15	17
• Beneficiaries		20	29	28
• Total	107	140	195	203
■ Average Annual City Provided Benefit[1]				
• Service		$9,700	$18,400	$18,300
• Disability		4,400	4,600	4,200
• Service Retirements in last 5 years		8,900	27,900	26,200

[1] Average City provided pensions are based on City service & City benefit formula, and are not representative of benefits for long service employees.

MEMBERS INCLUDED IN VALUATION - MISCELLANEOUS

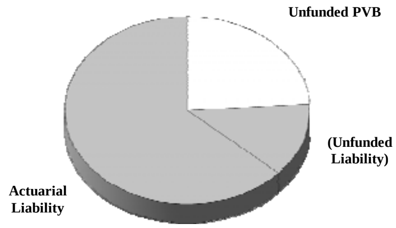


	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Active	150	157	163	167	171	168	173	170	171	179	177	187	189	183	186	212	199	192	193
Transfers	87	82	92	92	98	104	111	111	108	115	120	124	128	128	129	128	131	135	136
Vested Terminations	42	47	57	53	57	65	62	75	78	80	84	85	93	92	91	98	99	103	108
Receiving Payments	107	104	113	125	132	134	136	140	144	154	161	166	169	178	188	188	191	195	203

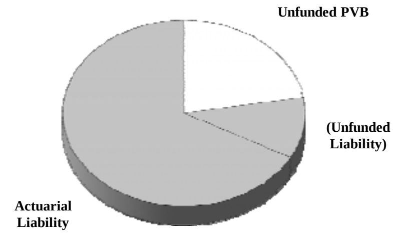
Note: Missing City's June 30, 2007 & 2008 CalPERS reports.

FUNDED STATUS - MISCELLANEOUS

Present Value of Benefits
June 30, 2013



Present Value of Benefits
June 30, 2014

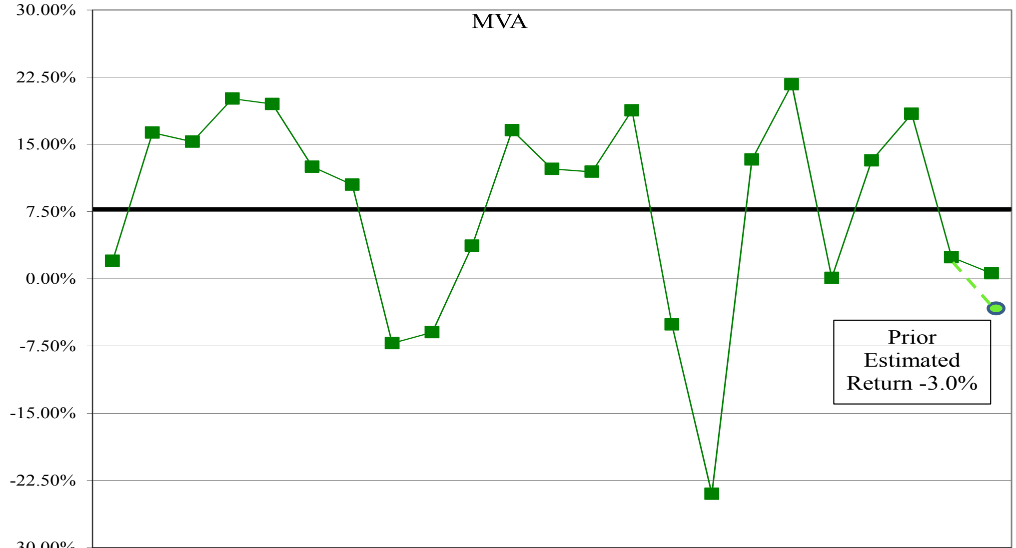


June 30, 2013		June 30, 2014
$ 33,800,000	**Active AAL**	$ 37,500,000
34,600,000	**Retiree AAL**	38,300,000
9,000,000	**Inactive AAL**	9,700,000
77,400,000	**Total AAL**	85,500,000
61,800,000	**Market Asset Value**	72,000,000
(15,600,000)	**(Unfunded Liability)**	(13,500,000)

FUNDED STATUS - MISCELLANEOUS

- What happened between 6/30/13 and 6/30/14?
  - Unfunded Liability (Increase)/Decrease ≈ $2.0 million
- Reasons for Unfunded Liability increase
  - Asset gain/(loss): ≈ $6.1 million
  - Assumption Change gain/(loss): ≈ $(3.7) million
  - Actuarial gain/(loss): ≈ $0.2 million
    - Average Salary $64,400 → $67,100
    - Number of Actives 192 → 193
    - Number of Inactives 238 → 244
    - Number of Retirees 195 → 203
  - Other gain/(loss): ≈ $(0.6) million
    - Contributions
    - Other (expected)

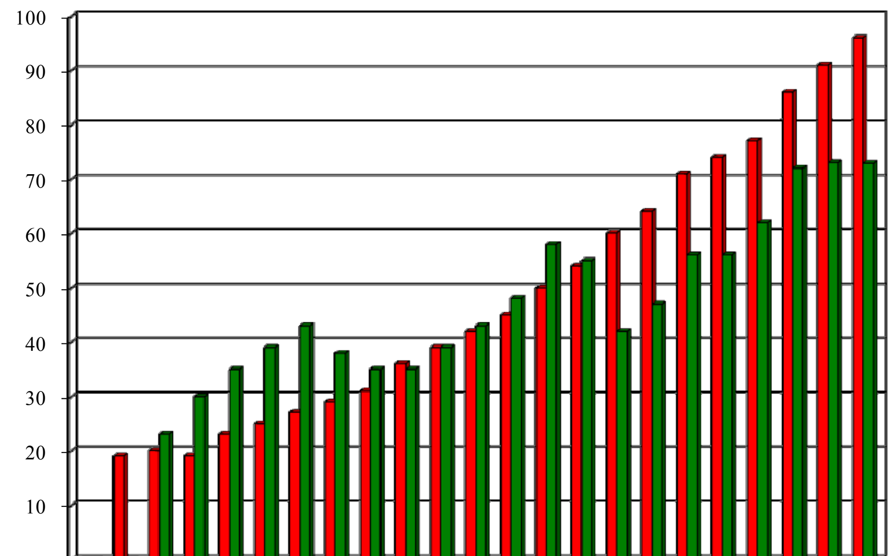
INVESTMENT RETURN - MISCELLANEOUS



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
MVA	2.0%	16.3%	15.3%	20.1%	19.5%	12.5%	10.5%	-7.2%	-6.0%	3.7%	16.6%	12.3%	11.9%	18.8%	-5.1%	-24.0	13.3%	21.7%	0.1%	13.2%	18.4%	2.4%	0.6%

Above assumes contributions, payments, etc. received evenly throughout year.
Prior estimated return based on actual CalPERS investment return through 1/31/16 and 7.5% annualized return for remaining 5 months.

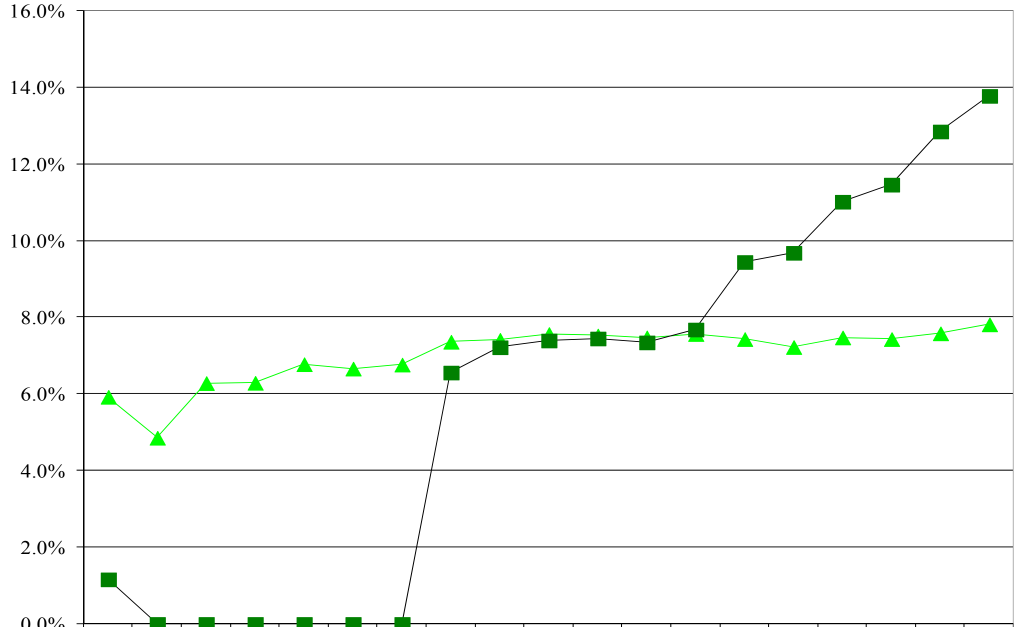
FUNDED STATUS (MILLIONS) - MISCELLANEOUS



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Actuarial Liability	-	19	20	19	23	25	27	29	31	36	39	42	45	50	54	60	64	71	74	77	86	91	96
Market Asset Value	-	-	23	30	35	39	43	38	35	35	39	43	48	58	55	42	47	56	56	62	72	73	73

6/30/15 & 6/30/16 funded status estimated

CONTRIBUTION RATES - MISCELLANEOUS



	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17
ER Normal Cost	5.9%	4.9%	6.3%	6.3%	6.8%	6.7%	6.8%	7.4%	7.4%	7.6%	7.5%	7.5%	7.6%	7.4%	7.2%	7.5%	7.4%	7.6%	7.8%
Total ER Cont Rate	1.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	6.6%	7.2%	7.4%	7.4%	7.3%	7.7%	9.4%	9.7%	11.0%	11.5%	12.8%	13.8%

CONTRIBUTION RATES - MISCELLANEOUS

	6/30/13 2015/2016	6/30/14 2016/2017
■ Total Normal Cost	14.6%	14.8%
■ Employee Normal Cost	7.0%	6.9%
■ Employer Normal Cost	7.6%	7.8%
■ Amortization Bases	5.3%	6.0%
■ Total Employer Contribution Rate	12.8%	13.8%
■ Amortization Period	Multiple	Multiple

■ What Happened from 6/30/13 to 6/30/14:

- 2015/16 Rate 12.8%
- Asset Method Change (2nd Year) 0.9%
- Assumption Change (1st Year) 0.9%
- (Gains)/Losses (0.8%)
- 2016/17 Rate 13.8%

CONTRIBUTION PROJECTIONS - MISCELLANEOUS

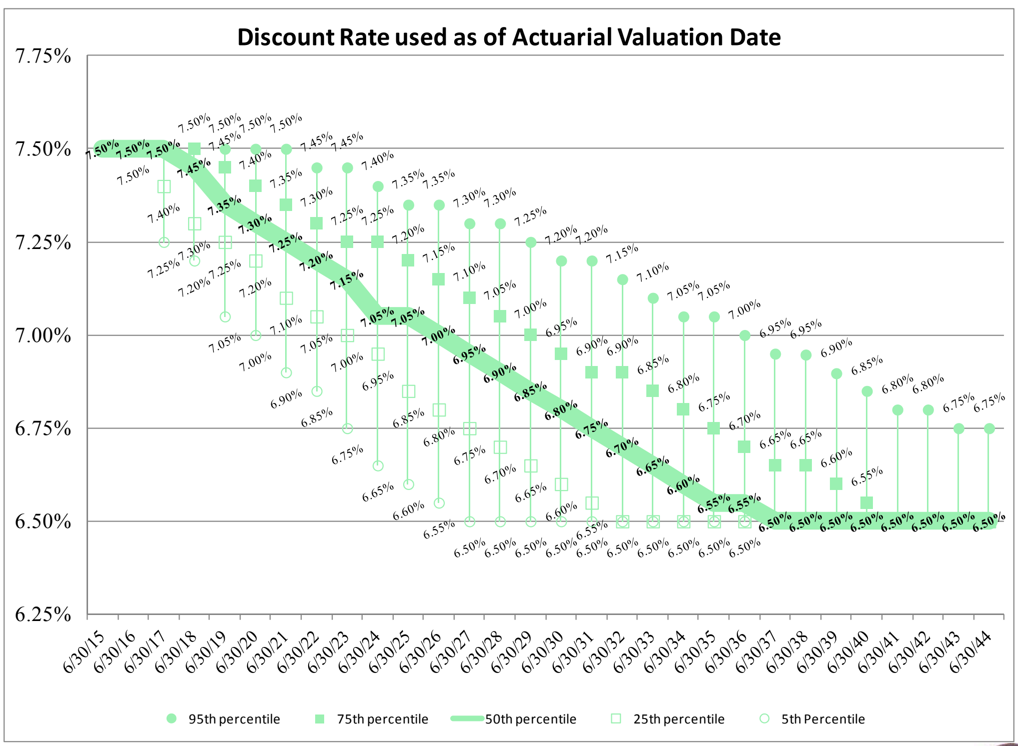
- Market Value Investment Return:
  - June 30, 2015 — 2.4%[2]
  - June 30, 2016 — 0.6%[3]
  - Future returns based on stochastic analysis using 1,000 trials

Single Year Returns at	25th Percentile	50th Percentile	75th Percentile
7.5% Investment Mix	**0.6%**	**7.5%**	**15.3%**
6.5% Investment Mix	**1.3%**	**6.5%**	**11.9%**

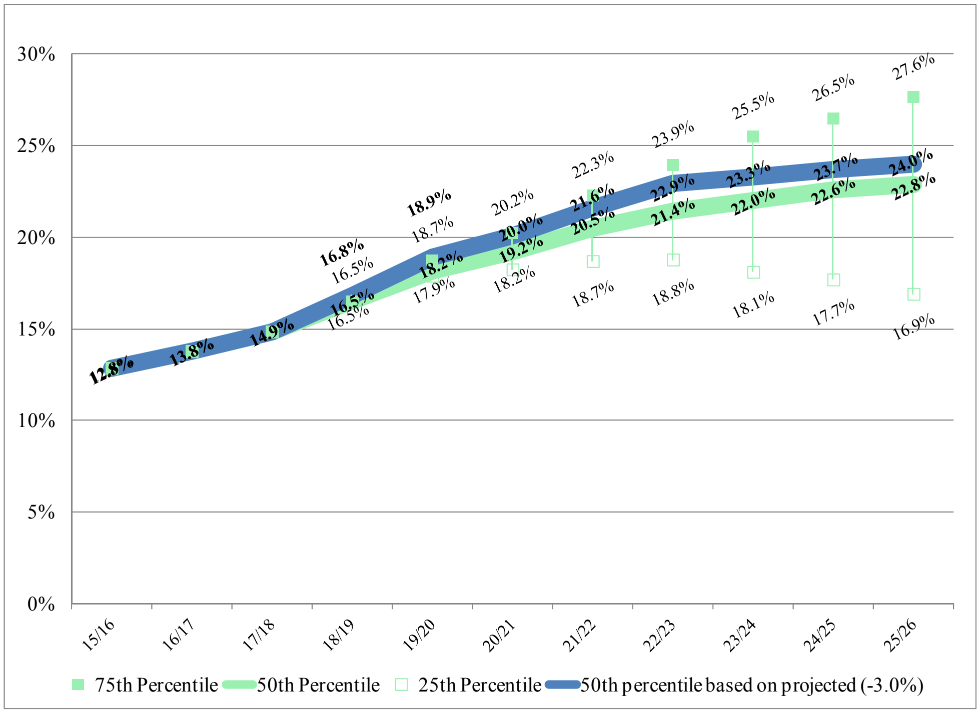
- No Other: Gains/Losses, Method/Assumption Changes, Benefit Improvements
- Excludes Employer Paid Member Contributions (EPMC)
- New hire assumptions:
  - Assumes 35% of 2013 new hires will be Classic Members (2.0%@55) and 65% will be New Members with PEPRA benefits.
  - Assumes Classic Members will decrease from 35% to 0% of new hires over 20 years.

2 Based on CalPERS CAFR.
3 Based on CalPERS press release on 7/18/16, preliminary investment return of 0.61%.

CONTRIBUTION PROJECTIONS - MISCELLANEOUS

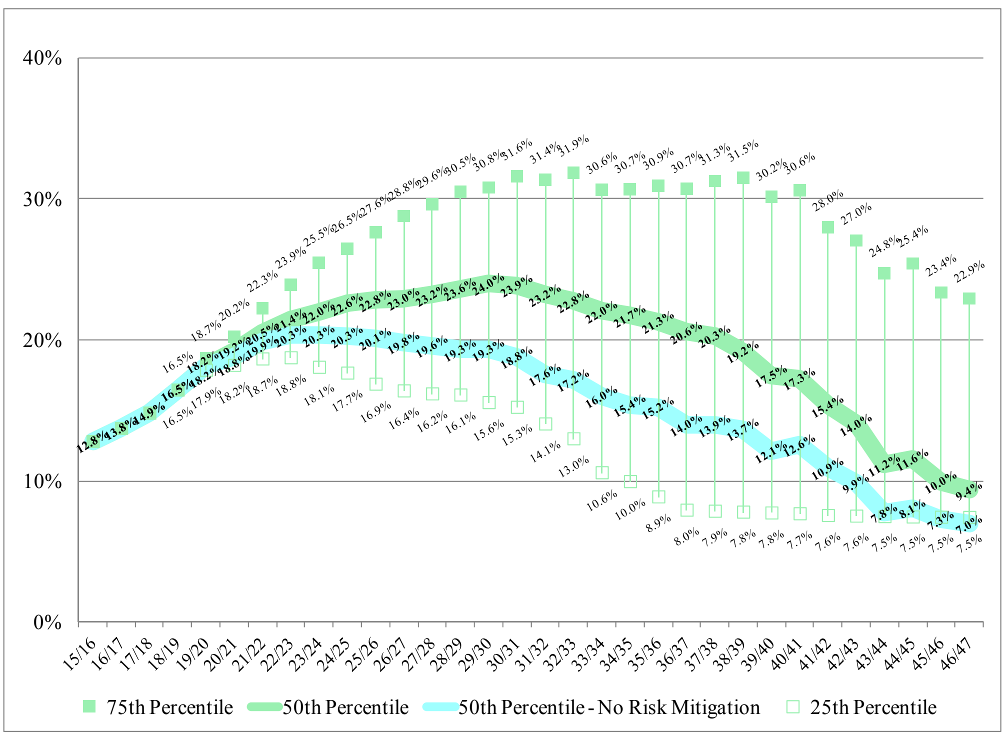


CONTRIBUTION PROJECTIONS - MISCELLANEOUS



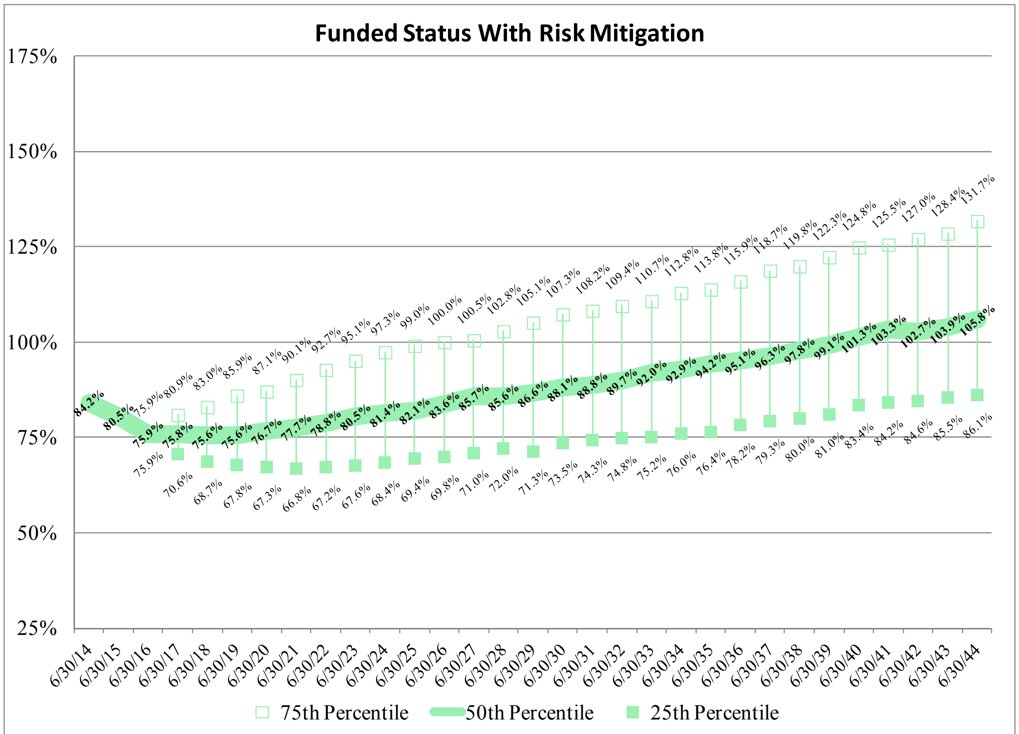
September 6, 2016 15

CONTRIBUTION PROJECTIONS - MISCELLANEOUS



September 6, 2016 16

FUNDED STATUS - MISCELLANEOUS



FUNDED STATUS - MISCELLANEOUS

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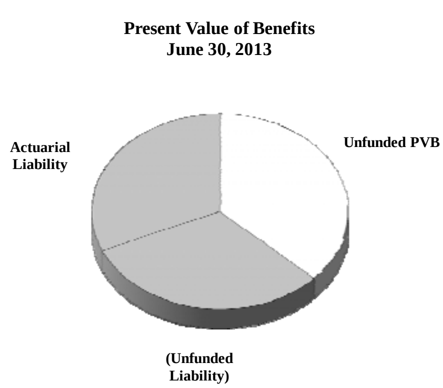
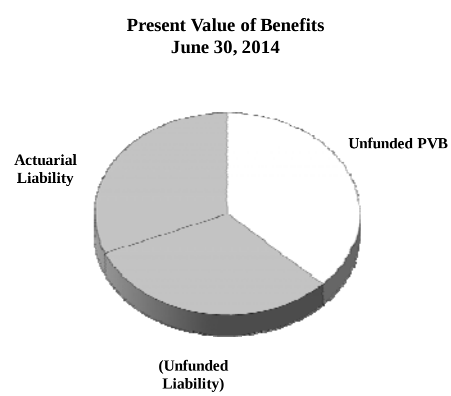
SUMMARY OF DEMOGRAPHIC INFORMATION – POLICE SAFETY

	2009	2011	2013	2014
Actives				
■ Counts	63	59	58	62
■ Average PERSable Wages	$71,600	$121,500	$120,500	$121,300
■ Total PERSable Wages (millions)	4.5	7.2	7.0	7.5
Inactive Counts				
■ Transferred	23	17	15	15
■ Separated	3	9	10	13
■ Retired	63	104	110	107

FUNDED STATUS – POLICE SAFETY





June 30, 2013		June 30, 2014
	Active AAL	$ 35,100,000
	Retiree AAL	69,100,000
	Inactive AAL	1,600,000
$ 97,300,000	**Total AAL**	105,800,000
75,500,000	**Market Asset Value**	85,200,000
(21,800,000)	**(Unfunded Liability)**	(20,600,000)

CONTRIBUTION RATES – POLICE SAFETY

	6/30/13 Valuation 2015/2016 Contribution Rates Total[4]	Tier 1 3%@50	PEPRA 2.7%@57
■ Required Employer Contribution			
● Risk Pool's Base Employer Normal Cost	17.6%	17.6%	12.25%
● Class 1 Benefits			
☐ FAC1	1.0%	1.0%	0.0%
☐ PRSA	1.7%	1.7%	0.0%
● Pool's Expected EE Contribution	9.0%	9.0%	12.25%
● Plan's Employee Contribution Rate	(9.0%)	(9.0%)	(12.25%)
● Risk Pool's Payment on Amort Bases	13.2%	13.2%	0.0%
● Amortization of Side Fund	0.0%	0.0%	0.0%
● EE Cost Sharing	(3.0%)	(3.0%)	0.0%
● **Total ER Contribution**	**30.5%**	**30.5%**	**12.25%**
● **Total ER Contribution $ (in 000's)**	**$ 2,328**		

[4] Weighting of total contribution projection based on estimated projected classic and PEPRA payrolls

CONTRIBUTION RATES – POLICE SAFETY

	6/30/14 Valuation 2016/2017 Contribution Rates Total[5]	Tier 1 3%@50	PEPRA 2.7%@57
■ Required Employer Contribution			
● Risk Pool's Base Employer Normal Cost	18.4%	18.4%	11.8%
● Class 1 Benefits			
☐ FAC1	1.1%	1.1%	0.0%
☐ PRSA	1.7%	1.7%	1.5%
● Pool's Expected EE Contribution	9.0%	9.0%	11.8%
● Plan's Employee Contribution Rate	(9.0%)	(9.0%)	(12.3%)
● Risk Pool's Payment on AmortBases	14.7%	14.7%	0.0%
● Amortization of Side Fund	0.0%	0.0%	0.0%
● EE Cost Sharing	(3.0%)	(3.0%)	0.0%
● **Total ER Contribution**	**33.0%**	**33.0%**	**12.8%**
● **Total ER Contribution $ (in 000's)**	**$2,709**		

[5] Weighting of total contribution projection based on estimated projected classic and PEPRA payrolls

CONTRIBUTION RATES – POLICE SAFETY

	6/30/13	6/30/14
■ Valuation	6/30/13	6/30/14
■ Contribution Year	2015/16	2016/17
■ Required Employer Contribution		
● Risk Pool's Net Employer Normal Cost	17.6%	18.4%
● Final Average Compensation (1-Year)	1.0%	1.1%
● Post-Retirement Survivor Allowance	1.7%	1.7%
● **Total Normal Cost**	**20.2%**	**21.2%**
● Risk Pool's Payment on Amortization Bases	13.3%	14.7%
● Total Employer Contribution	33.5%	36.0%
● Employee Cost Sharing[6]	(3.0%)	(3.0%)
● **Net Employer Contributions**	**30.5%**	**33.0%**
● **Net Employer Contribution $**	**$2,328**	**$2,709**

- What Happened from 6/30/13 to 6/30/14:

● 2015/16 Rate	30.5%
● Asset Method (2nd year)	2.0%
● Assumption Change (1st year)	2.4%
● Payroll Increase More Than Expected	(0.7%)
● (Gains)/Losses	(1.2%)
● 2016/17 Rate	33.0%

[6] 3% for Tier 1 employees.

CONTRIBUTION RATES – POLICE SAFETY

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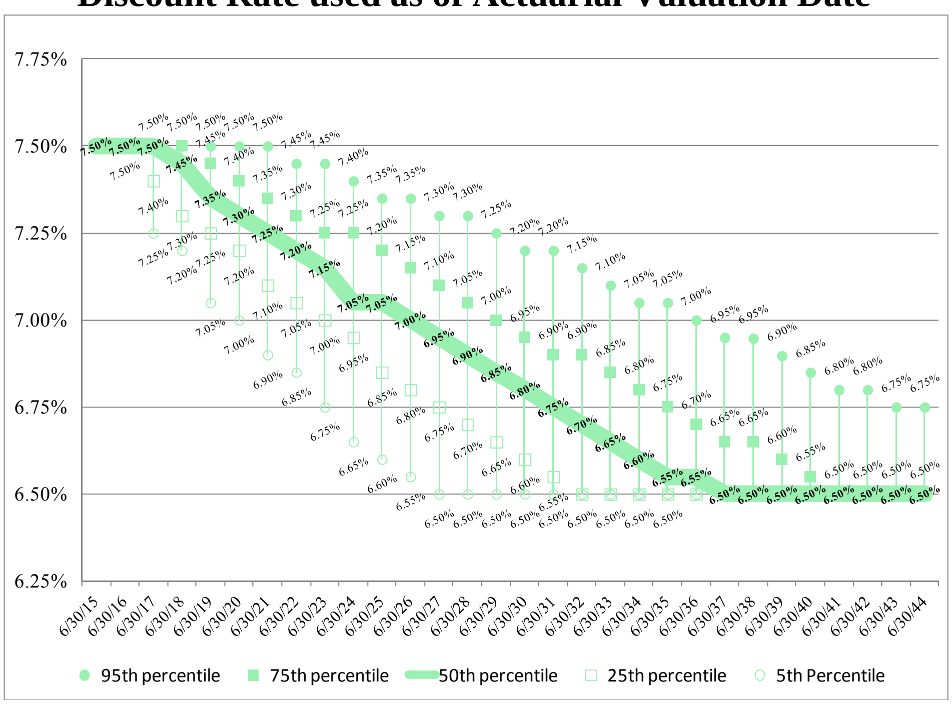
- Market Value Investment Return:
  - June 30, 2015 — 2.4%[7]
  - June 30, 2016 — 0.6%[8]
  - Future returns based on stochastic analysis using 1,000 trials

Single Year Returns at	25th Percentile	50th Percentile	75th Percentile
● 7.5% Investment Mix	**0.6%**	**7.5%**	**15.3%**
● 6.5% Investment Mix	**1.3%**	**6.5%**	**11.9%**

- No Other: Gains/Losses, Method/Assumption Changes, Benefit Improvements
- Excludes Employer Paid Member Contributions (EPMC)
- New hire assumptions:
  - Assumes 60% of 2013 new hires will be Classic Members (3%@50) and 40% will be New Members with PEPRA benefits.
  - Assumes Classic Members will decrease from 60% to 0% of new hires over 10 years.

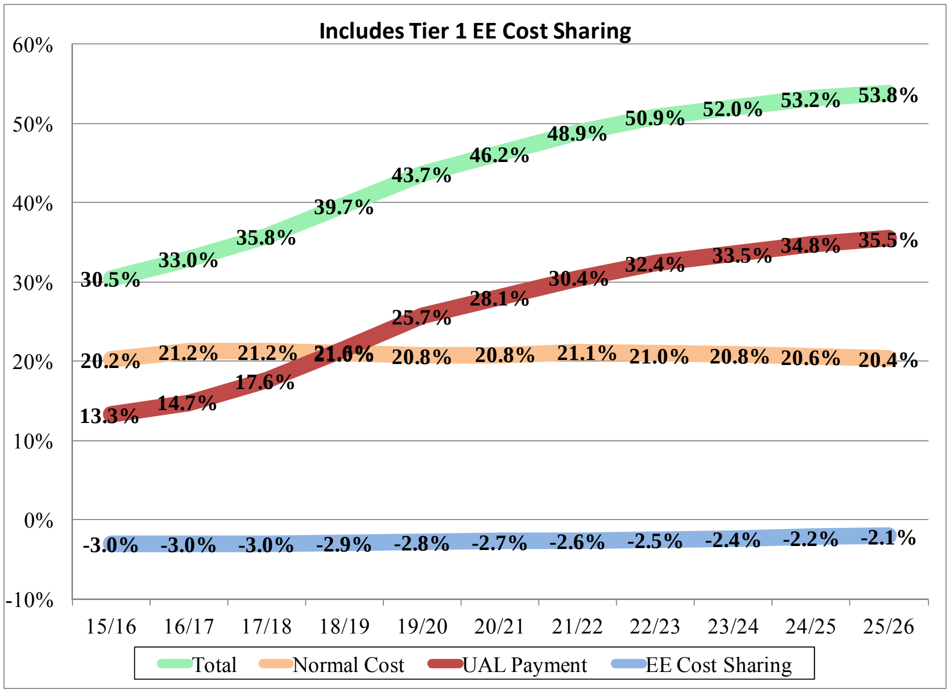
[7] Based on CalPERS CAFR.
[8] June Based on CalPERS press release on 7/18/16, preliminary investment return of 0.61%.

Discount Rate used as of Actuarial Valuation Date



CONTRIBUTION PROJECTIONS - POLICE SAFETY

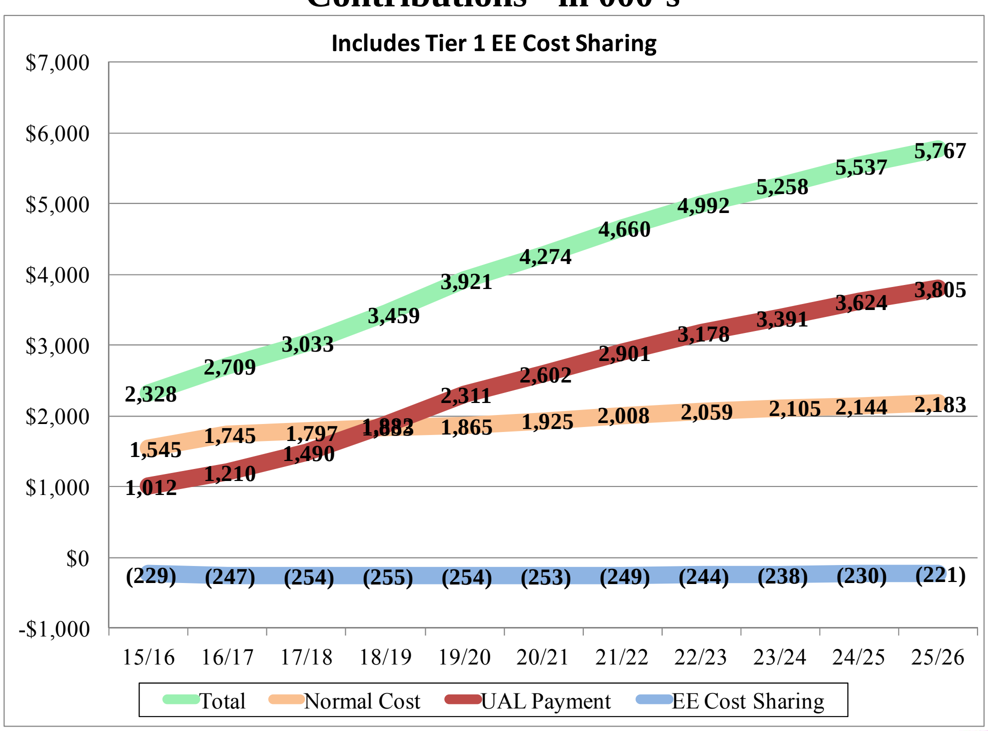
Contributions - %



September 6, 2016 27

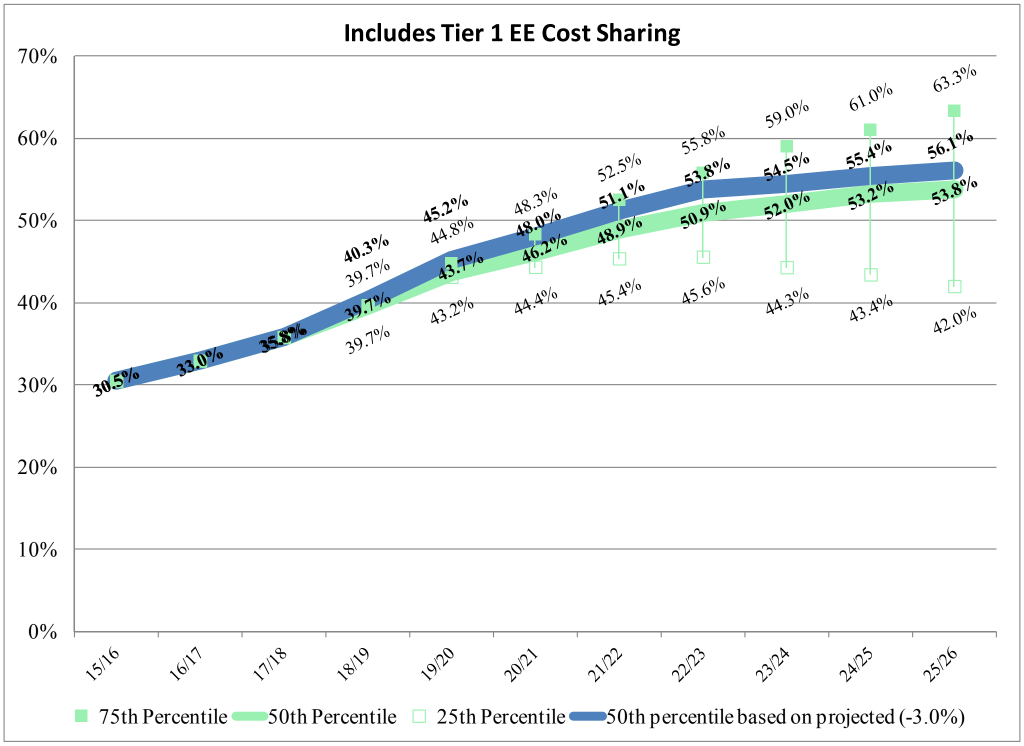
CONTRIBUTION PROJECTIONS - POLICE SAFETY

Contributions - in 000's



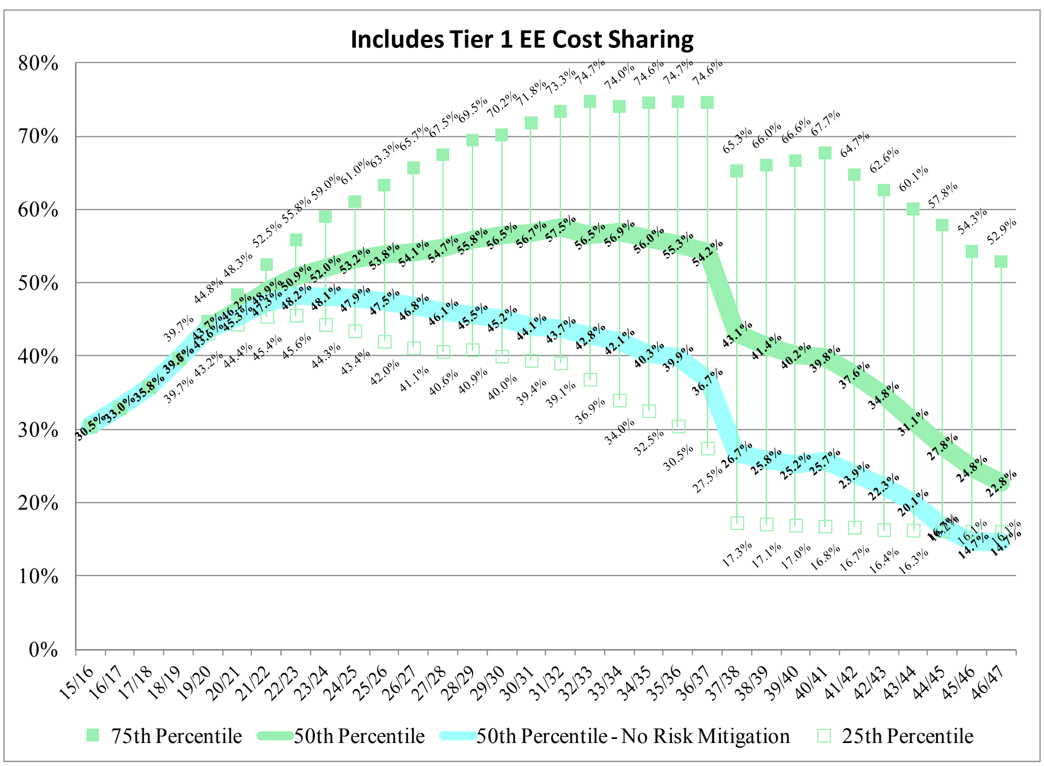
September 6, 2016 28

Contribution Projections - Police Safety



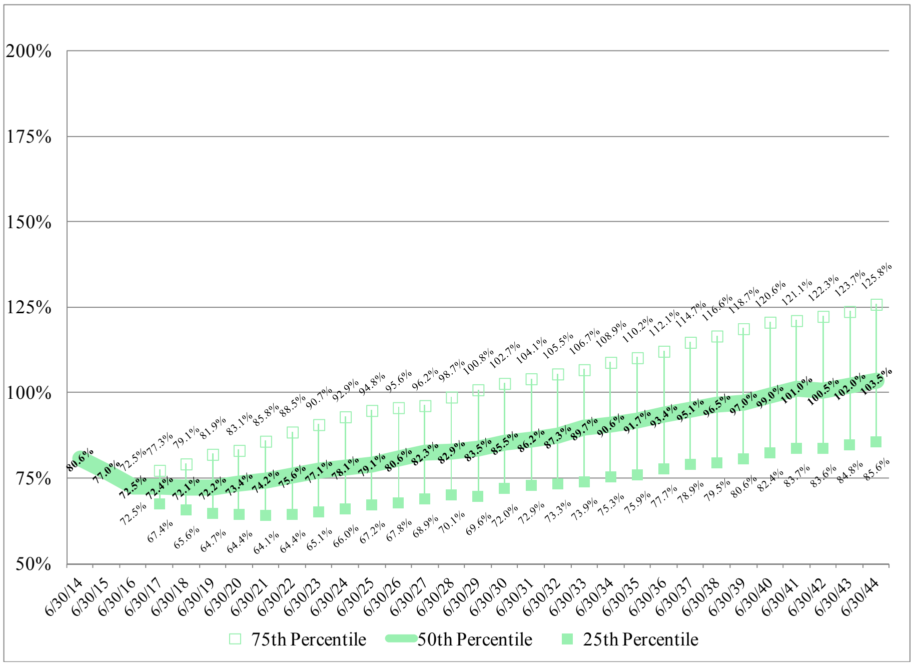
September 6, 2016 29

Contribution Projections - Police Safety



September 6, 2016 30

Funded Status - With Risk Mitigation



FUNDED STATUS – POLICE SAFETY

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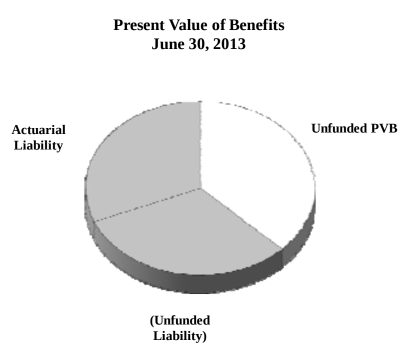
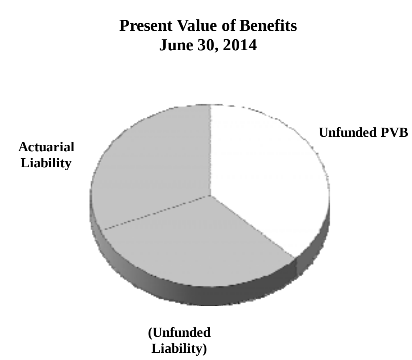
SUMMARY OF DEMOGRAPHIC INFORMATION – FIRE SAFETY

	2001	2011	2013	2014
Actives				
■ Counts	30	27	30	30
■ Average PERSable Wages	$82,300	$144,400	$145,300	$152,443
■ Total PERSable Wages (millions)	2.5	3.9	4.4	4.6
Inactive Counts				
■ Transferred	11	5	5	4
■ Separated	1	4	3	3
■ Retired	41	54	51	50

FUNDED STATUS – FIRE SAFETY





June 30, 2013		June 30, 2014
	Active AAL	$ 25,000,000
	Retiree AAL	27,000,000
	Inactive AAL	1,400,000
$ 48,900,000	**Total AAL**	53,400,000
39,400,000	**Market Asset Value**	44,900,000
(9,500,000)	**(Unfunded Liability)**	(8,500,000)

CONTRIBUTION PROJECTIONS - FIRE SAFETY

	6/30/13 Valuation 2015/2016 Contribution Rates		
	Total[9]	Tier 1 3%@55	PEPRA 2.7%@57
■ Required Employer Contribution			
● Risk Pool's Base Employer Normal Cost	15.6%	15.6%	12.25%
● Class 1 Benefits			
☐ FAC1	0.9%	0.9%	0.00%
☐ PRSA	1.7%	1.7%	0.00%
● Pool's Expected EE Contribution	9.0%	9.0%	12.25%
● Plan's Employee Contribution Rate	(9.0%)	(9.0%)	(12.25%)
● Risk Pool's Payment on Amort Bases	8.8%	8.8%	0.0%
● Amortization of Side Fund	0.0%	0.0%	0.0%
● EE Cost Sharing	(3.0%)	(3.0%)	0.0%
● **Total ER Contribution**	**24.0%**	**24.0%**	**12.25%**
● **Total ER Contribution $ (in 000's)**	**$ 1,143**		

[9] Weighting of total contribution projection based on estimated projected classic and PEPRA payrolls

CONTRIBUTION PROJECTIONS - FIRE SAFETY

	6/30/14 Valuation 2016/2017 Contribution Rates		
	Total[10]	Tier 1 3%@55	PEPRA 2.7%@57
■ Required Employer Contribution			
● Risk Pool's Base Employer Normal Cost	16.7%	16.7%	12.25%
● Class 1 Benefits			
☐ FAC1	1.0%	1.0%	0.00%
☐ PRSA	1.6%	1.6%	0.00%
● Pool's Expected EE Contribution	9.0%	9.0%	12.25%
● Plan's Employee Contribution Rate	(9.0%)	(9.0%)	(12.25%)
● Risk Pool's Payment on Amort Bases	10.2%	10.2%	0.0%
● Amortization of Side Fund	0.0%	0.0%	0.0%
● EE Cost Sharing	(3.0%)	(3.0%)	0.0%
● **Total ER Contribution**	**26.5%**	**26.5%**	**12.25%**
● **Total ER Contribution $ (in 000's)**	**$ 1,325**		

[10] Weighting of total contribution projection based on estimated projected classic and PEPRA payrolls

CONTRIBUTION PROJECTIONS - FIRE SAFETY

	6/30/13	6/30/14
■ Valuation	**6/30/13**	**6/30/14**
■ Contribution Year	**2015/16**	**2016/17**
■ Required Employer Contribution		
● Risk Pool's Net Employer Normal Cost	15.6%	16.7%
● Final Average Compensation (1-Year)	0.9%	1.0%
● Post-Retirement Survivor Allowance	1.7%	1.6%
● **Total Normal Cost**	**18.2%**	**19.3%**
● Risk Pool's Payment on Amortization Bases	8.8%	10.2%
● Total Employer Contribution	27.0%	29.5%
● Employee Cost Sharing[11]	(3.0%)	(3.0%)
● **Net Employer Contributions**	**24.0%**	**26.5%**
● **Net Employer Contribution $**	**$1,143**	**$1,325**

■ What Happened from 6/30/13 to 6/30/14:

● 2015/16 Rate	24.0%
● Asset Method (2nd year)	1.6%
● Assumption Change (1st year)	2.2%
● (Gains)/Losses	(1.3%)
● 2016/17 Rate	26.5%

[11] 3% for Tier 1 employees.

CONTRIBUTION PROJECTIONS - FIRE SAFETY

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CONTRIBUTION PROJECTIONS - FIRE SAFETY

- Market Value Investment Return:
  - June 30, 2015 — 2.4%[12]
  - June 30, 2016 — 0.6%[13]
  - Future returns based on stochastic analysis using 1,000 trials

Single Year Returns at	25th Percentile	50th Percentile	75th Percentile
7.5% Investment Mix	**0.6%**	**7.5%**	**15.3%**
6.5% Investment Mix	**1.3%**	**6.5%**	**11.9%**

- No Other: Gains/Losses, Method/Assumption Changes, Benefit Improvements
- Excludes Employer Paid Member Contributions (EPMC)
- New hire assumptions:
  - Assumes 50% of 2013 new hires will be Classic Members (3%@55) and 50% will be New Members with PEPRA benefits.
  - Assumes Classic Members will decrease from 50% to 0% of new hires over 10 years.

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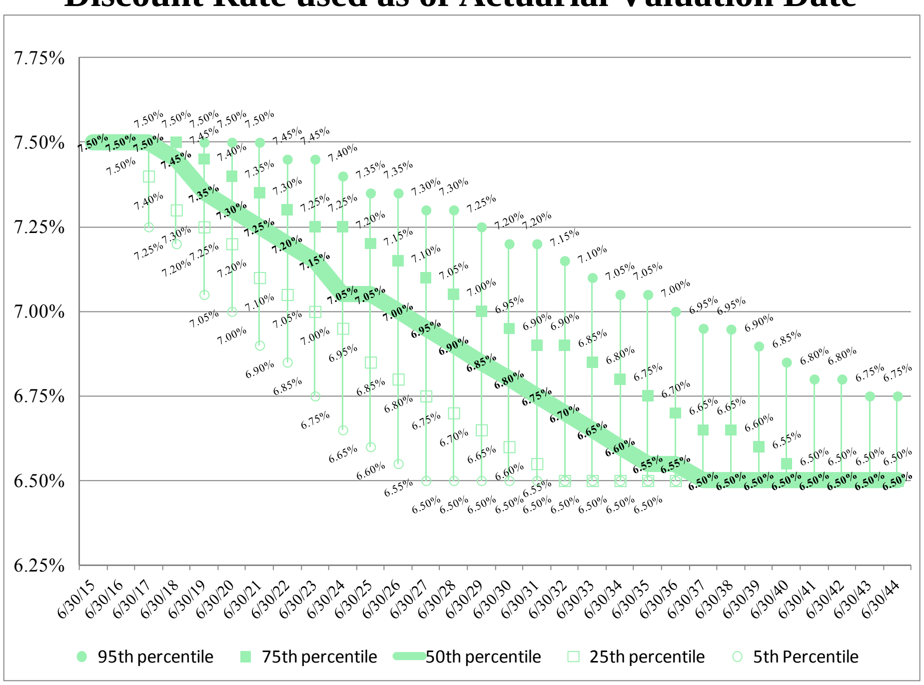
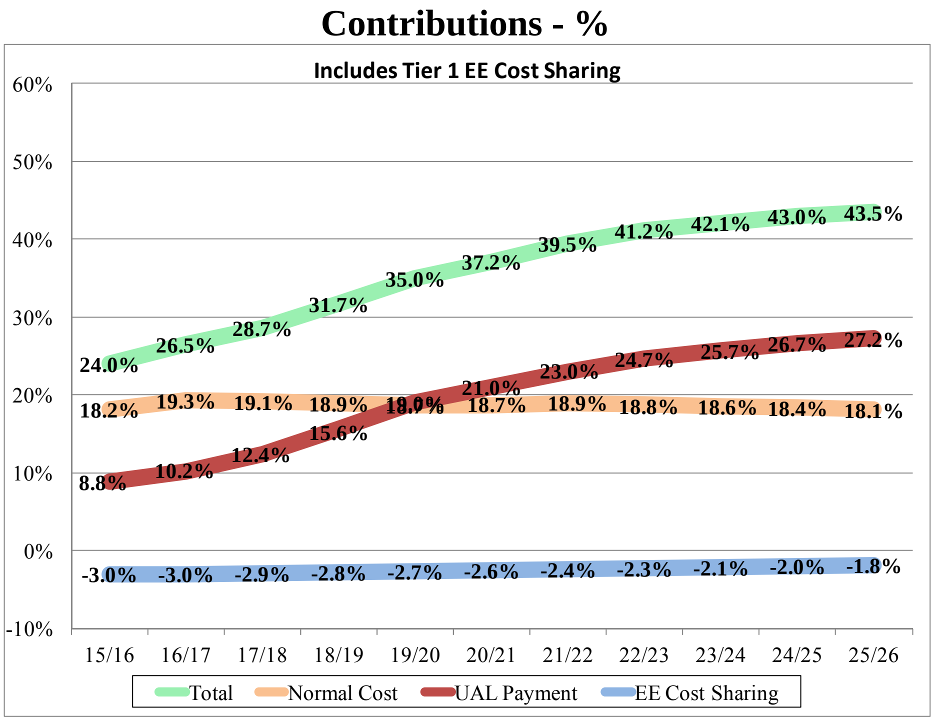
12 Based on CalPERS CAFR.
13 Based on CalPERS press release on 7/18/16, preliminary investment return of 0.61%.

CONTRIBUTION PROJECTIONS - FIRE SAFETY

Discount Rate used as of Actuarial Valuation Date



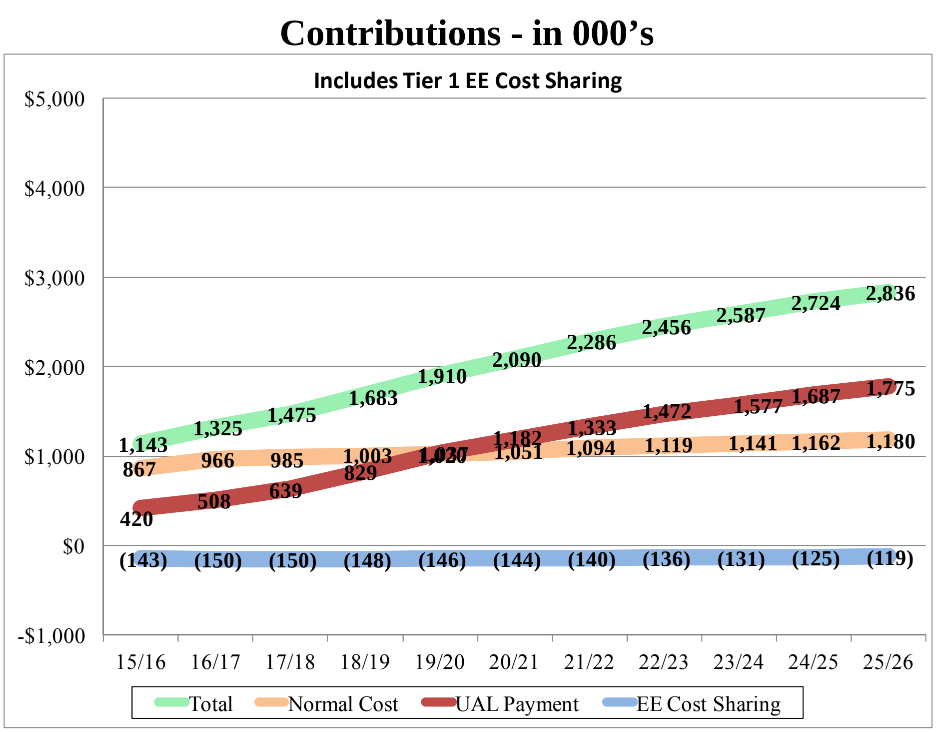
CONTRIBUTION PROJECTIONS - FIRE SAFETY



September 6, 2016

41

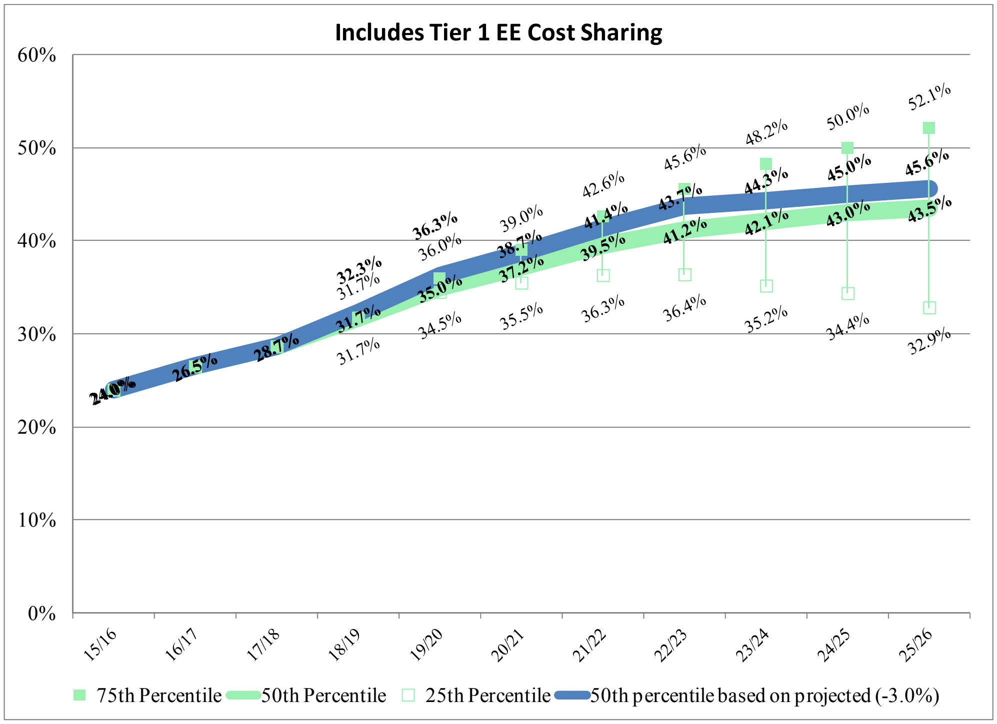
CONTRIBUTION PROJECTIONS – FIRE SAFETY



September 6, 2016

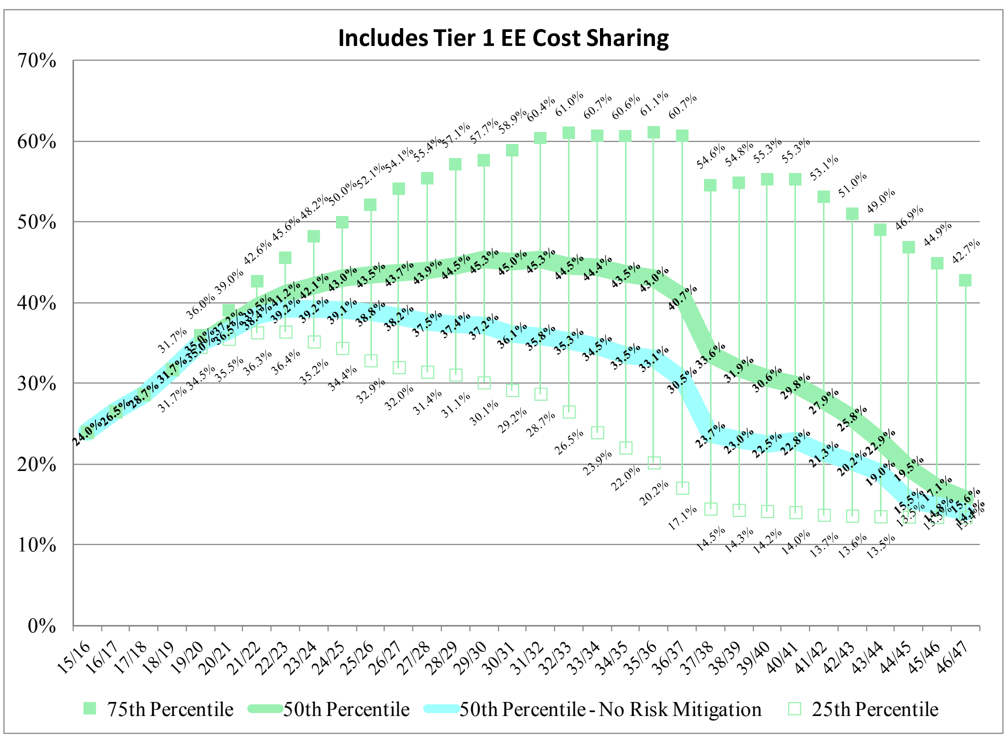
42

CONTRIBUTION PROJECTIONS – FIRE SAFETY



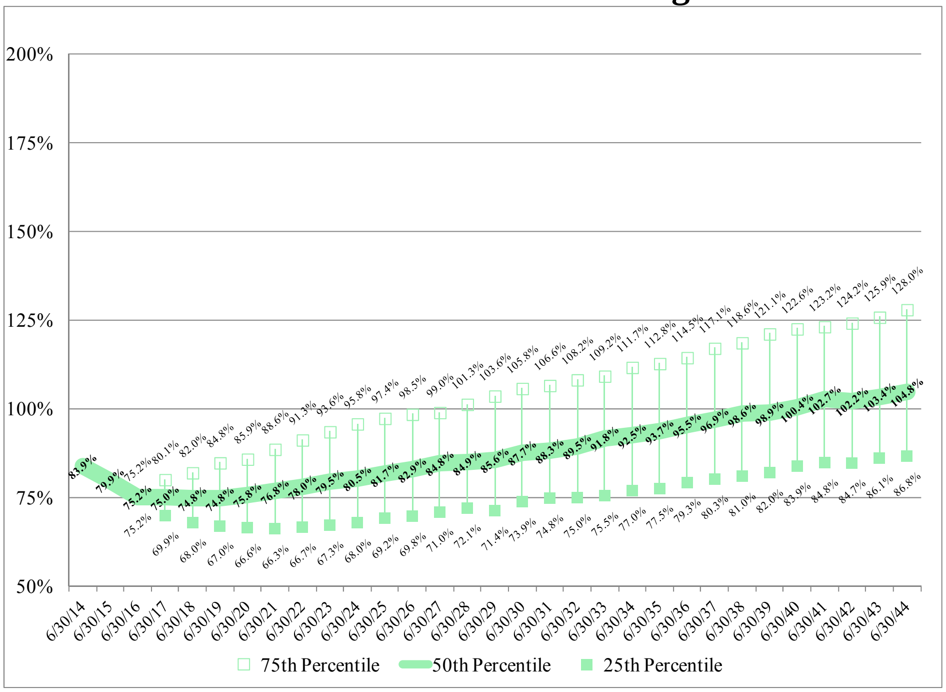
September 6, 2016 43

CONTRIBUTION PROJECTIONS – FIRE SAFETY



September 6, 2016 44

Funded Status - With Risk Mitigation



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APPENDICES – CONTRIBUTION PROJECTION TABLE

($000s)

Confidence Level	Miscellaneous Plan Projected Contributions Based on Final (0.6%) 6/30/2016 Inv. Return										
	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
75%	1,737	1,951	2,167	2,478	2,898	3,226	3,656	4,046	4,440	4,751	5,108
50%	1,737	1,951	2,167	2,478	2,812	3,056	3,363	3,625	3,833	4,050	4,221
25%	1,737	1,951	2,167	2,478	2,769	2,908	3,070	3,176	3,154	3,175	3,125

Confidence Level	Miscellaneous Plan Projected Contributions Based on Projected (-3.0%) 6/30/2016 Inv. Return										
	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
75%	1,737	1,951	2,167	2,559	3,016	3,392	3,865	4,319	4,694	5,012	5,348
50%	1,737	1,951	2,167	2,526	2,926	3,195	3,545	3,875	4,052	4,245	4,434
25%	1,737	1,951	2,167	2,489	2,835	3,018	3,249	3,397	3,402	3,440	3,497

Confidence Level	Police Safety Plan Projected Contributions (w cost sharing) Based on Final (0.6%) 6/30/2016 Inv. Return										
	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
75%	2,328	2,709	3,033	3,459	4,022	4,472	5,003	5,479	5,966	6,356	6,793
50%	2,328	2,709	3,033	3,459	3,921	4,274	4,660	4,992	5,258	5,537	5,767
25%	2,328	2,709	3,033	3,459	3,876	4,105	4,326	4,475	4,480	4,524	4,507

Confidence Level	Police Safety Plan Projected Contributions (w cost sharing) Based on Projected (-3.0%) 6/30/2016 Inv. Return										
	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
75%	2,328	2,709	3,033	3,555	4,162	4,670	5,244	5,799	6,256	6,666	7,071
50%	2,328	2,709	3,033	3,516	4,057	4,440	4,873	5,282	5,511	5,771	6,019
25%	2,328	2,709	3,033	3,472	3,951	4,236	4,526	4,728	4,765	4,831	4,929

Confidence Level	Fire Safety Plan Projected Contributions (w cost sharing) Based on Final (0.6%) 6/30/2016 Inv. Return										
	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
75%	1,143	1,325	1,475	1,683	1,964	2,195	2,469	2,718	2,965	3,164	3,398
50%	1,143	1,325	1,475	1,683	1,910	2,090	2,286	2,456	2,587	2,724	2,836
25%	1,143	1,325	1,475	1,683	1,885	1,998	2,104	2,172	2,163	2,177	2,142

Confidence Level	Fire Safety Plan Projected Contributions (w cost sharing) Based on Projected (-3.0%) 6/30/2016 Inv. Return										
	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
75%	1,143	1,325	1,475	1,734	2,037	2,298	2,600	2,887	3,126	3,330	3,545
50%	1,143	1,325	1,475	1,713	1,981	2,176	2,399	2,608	2,725	2,848	2,971
25%	1,143	1,325	1,475	1,690	1,925	2,067	2,215	2,309	2,312	2,340	2,367

APPENDICES – UNFUNDED LIABILITY TABLE

In Millions $

Confidence Level	Miscellaneous Plan Projected Unfunded Liability Based on Final (0.6%) 6/30/2016 Inv. Return								
	6/30/14	6/30/15	6/30/16	6/30/17	6/30/18	6/30/19	6/30/20	6/30/21	6/30/22
50%	14	18	23	25	26	28	28	29	29

Confidence Level	Miscellaneous Plan Projected Unfunded Liability Based on Projected (-3.0%) 6/30/2016 Inv. Return								
	6/30/14	6/30/15	6/30/16	6/30/17	6/30/18	6/30/19	6/30/20	6/30/21	6/30/22
50%	14	18	26	28	29	31	32	33	33

Confidence Level	Police Safety Plan Projected Unfunded Liability Based on Final (0.6%) 6/30/2016 Inv. Return								
	6/30/14	6/30/15	6/30/16	6/30/17	6/30/18	6/30/19	6/30/20	6/30/21	6/30/22
50%	21	26	33	35	37	39	40	41	41

Confidence Level	Police Safety Plan Projected Unfunded Liability Based on Projected (-3.0%) 6/30/2016 Inv. Return								
	6/30/14	6/30/15	6/30/16	6/30/17	6/30/18	6/30/19	6/30/20	6/30/21	6/30/22
50%	21	26	36	38	40	43	44	46	46

Confidence Level	Fire Safety Plan Projected Unfunded Liability Based on Final (0.6%) 6/30/2016 Inv. Return								
	6/30/14	6/30/15	6/30/16	6/30/17	6/30/18	6/30/19	6/30/20	6/30/21	6/30/22
50%	9	11	15	16	17	18	19	19	19

Confidence Level	Fire Safety Plan Projected Unfunded Liability Based on Projected (-3.0%) 6/30/2016 Inv. Return								
	6/30/14	6/30/15	6/30/16	6/30/17	6/30/18	6/30/19	6/30/20	6/30/21	6/30/22
50%	9	11	17	18	19	21	21	22	22

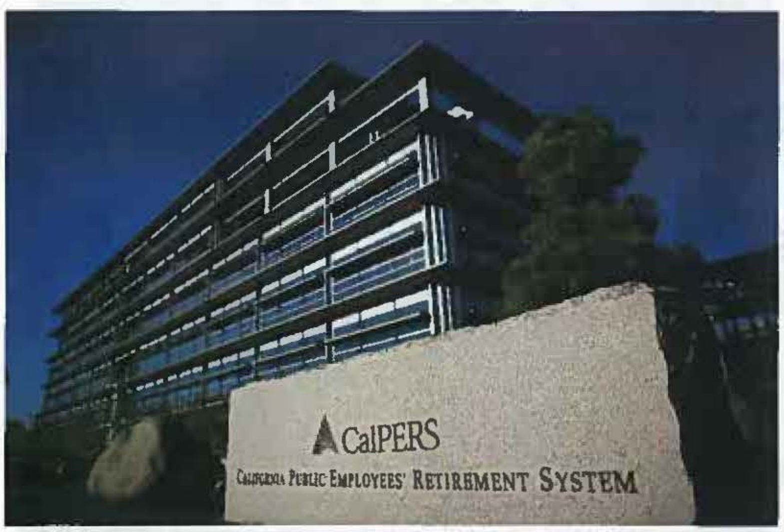
THE WALL STREET JOURNAL.

http://www.wsj.com/articles/calpers-reports-lowest-investment-gain-since-financial-crisis-1468862249

BUSINESS | EARNINGS

Calpers Reports Lowest Investment Gain Since Financial Crisis

Pension fund, for second straight year, failed to hit its internal investment target



Ted Eliopoulos, chief investment officer of Calpers, says the fund is reviewing its asset allocation and current target. *PHOTO: MAX WHITTAKER/REUTERS*

By TIMOTHY W. MARTIN
July 18, 2016 1:17 p.m. ET

The largest U.S. public pension posted its lowest annual gain since the last financial crisis due to heavy losses in stocks.

The California Public Employees' Retirement System, or Calpers, said it earned 0.6% on its investments for the fiscal year ended June 30, according to a Monday news release.

It was the second straight year Calpers failed to hit its internal investment target of 7.5%. Workers or local governments often must contribute more when pension funds fail to generate expected returns. Calpers oversees retirement benefits for 1.7 million public-sector workers.

Calpers' annual results are watched closely in the investment world. It is considered a bellwether for U.S. public pensions because of its size and investment approach. Many pensions currently are struggling because of a sustained period of low interest rates.

"This is a challenging time to invest," Ted Eliopoulos, Calpers' chief investment officer, said in the release.

The last time Calpers lost money was during fiscal 2009 when the fund's holdings fell 24.8%.

The giant California plan ended 2016 with roughly $295 billion in assets, and more than half of those funds are invested with publicly traded stocks. Those investments declined 3.4%, though the performance beat internal targets.

Fixed income produced the largest returns at 9.3%, though the results under performed Calpers' benchmark. The California retirement giant's private-equity portfolio posted returns of 1.7%.

Real estate holdings returned 7.1%, but that was below Calpers' internal target by more than 5.6 percentage points.

Write to Timothy W. Martin at timothy.martin@wsj.com

Editorial Another bad year for CalPERS

Pension fund CalPERS provides benefits to 1.8 million employees and retirees of the state government, cities and other local agencies. (Los Angeles Times)

By **The Times Editorial Board**

JULY 27, 2016, 5:00 AM

The $300-billion California Public Employees' Retirement System this month reported its worst investment returns in almost a decade: 0.6%. Bad years come and go, just like good years, and large pension funds count on time healing the deepest wounds. But this particular bad year pushed CalPERS' long-term average into dangerous waters, which suggests it's time for the fund to rethink — again — just how well it expects its investments to perform in the coming decades.

It's not a mere accounting exercise. The assumptions CalPERS makes about its returns affect taxpayers and beneficiaries in at least two important ways. The more conservative CalPERS' assumptions are, the more employers and workers have to contribute to the fund to cover the projected cost of pension benefits. (And in this case, "employers" translates to state and local governments, or taxpayers.) But the higher the expected rate of return, the more aggressively CalPERS has to invest to meet its goals, and thus the greater the volatility and the risk of losses.

> **"**
>
> **The good times almost certainly will roll again, but the question is whether there will be enough ... to fill in the craters left by years like the last two.**

CalPERS' situation is not unusual. Governmental pension funds across the country are being buffeted by poorer-than-expected investment performance. According to a national tracking service, the long-term returns for public pension funds are expected to hit their lowest mark since the service started gathering data in 2000, the Wall Street Journal reported Tuesday.

The results, combined with trends in the global economy, point to a new normal for pension-fund investors — one with less potential for the rapid growth of yore and more risk of wild investment swings.

CalPERS is responsible for the retiree pension and health benefits for 1.8 million current and former employees on the payrolls of the state and 3,000 local governments (but not those serving Los Angeles city or county) and school districts. Its funding comes from three main sources: about 13% from public employees, 22% from state and local governments and 65% from investment returns. The employees' contributions are set by contract (and guided by state law), so the main variables are the contributions from state and local employers and the amount earned by the fund's investments.

To determine how much state and local governments have to contribute to CalPERS — and by extension, how much less they have available for other priorities — the fund estimates how much it expects its investments to earn in the coming years. It's current assumption is 7.5%. That didn't seem so unreasonable last year, when the fund was averaging 7.8% a year over a 20-year period. But after its second consecutive bust, its 20-year average is down to a little over 7%, and its unfunded liability — the gap between how much it has on hand and how much it needs to cover future retirement benefits — is expected to be around $130 billion, an increase of nearly 40% over the previous year.

Granted, one reason for the abysmal results this year was that the stock market plunged in response to "Brexit" right at the end of CalPERS' fiscal year. Nevertheless, there are plenty of economists arguing that the underpinnings of investment growth are weaker now than in past decades. Productivity increases have slowed in the U.S., and the economy is growing about half as fast as it did in the 1990s. Even emerging economies around the world are growing more slowly. Meanwhile, central banks in the U.S., Europe and other industrialized nations have kept interest rates low in the face of low inflation, which has dragged down returns on such safe investments as blue-chip public bonds.

In the short term, at least, it's politically easier for CalPERS to continue counting on big returns than investing more conservatively and requiring state and local governments to pay more of the pension costs. In the long term, though, CalPERS may find itself digging a deeper hole, necessitating a much sharper increase in state and local payments when the day of reckoning arrives.

The good times almost certainly will roll again, but the question is whether there will be enough of those good years to fill in the craters left by years like the last two. It would be better for state and local governments to start grappling with the higher cost of lower pension-fund returns now, rather than waiting until more drastic and painful steps are forced upon them.

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CalPERS

CalPERS Reports Preliminary 2015-16 Fiscal Year Investment Returns

July 18, 2016

Communications & Stakeholder Relations
(916) 795-3991
Brad W. Pacheco, Deputy Executive Officer
Wayne Davis, Chief, Office of Public Affairs
Contact: Joe DeAnda, Information Officer
newsroom@calpers.ca.gov

News media availability with CIO and senior team at 12:35 PT

SACRAMENTO, CA - The California Public Employees' Retirement System (CalPERS) today reported a preliminary 0.61 percent net return on investments for the 12-month period that ended June 30, 2016. CalPERS assets at the end of the fiscal year stood at more than $295 billion and today stands at $302 billion.

CalPERS achieved the positive net return despite volatile financial markets and challenging global economic conditions. Key to the return was the diversification of the Fund's portfolio, especially CalPERS' fixed income and infrastructure investments.

Fixed Income earned a 9.29 percent return, nearly matching its benchmark. Infrastructure delivered an 8.98 percent return, outperforming its benchmark by 4.02 percentage points, or 402 basis points. A basis point is one one-hundredth of a percentage point.

The CalPERS Private Equity program also bested its benchmark by 253 basis points, earning 1.70 percent.

"Positive performance in a year of turbulent financial markets is an accomplishment that we are proud of," said Ted Eliopoulos, CalPERS Chief Investment Officer. "Over half of our portfolio is in equities, so returns are largely driven by stock markets. But more than anything, the returns show the value of diversification and the importance of sticking to your long-term investment plan, despite outside circumstances."

"This is a challenging time to invest, but we'll continue to focus on our mission of managing the CalPERS investment portfolio in a cost-effective, transparent, and risk-aware manner in order to generate returns for our members and employers," Eliopoulos continued.

For the second year in a row, international markets dampened CalPERS' Global Equity returns. However, the program still managed to outperform its benchmark by 58 basis points, earning negative 3.38 percent. The Real Estate program generated a 7.06 percent return, underperforming its benchmark by 557 basis points. The primary drivers of relative underperformance were the non-core programs, including realized losses on the final disposition of legacy assets in the Opportunistic program.

"It's important to remember that CalPERS is a long-term investor, and our focus is the success and sustainability of our system over multiple generations," said Henry Jones, Chair of CalPERS Investment Committee. "We will continue to examine the portfolio and our asset allocation, and will use the next Asset Liability Management process, starting in early 2017, to ensure that we are best positioned for the future market climate."

Today's announcement includes asset class performance as follows:

	Net Rate of Return	Versus Indexes
Public Equity	-3.38%	58 bps
Private Equity	1.70%	253 bps
Fixed Income	9.29%	(2) bps
Real Assets	5.99%	(516) bps

	Net Rate of Return	Versus Indexes
Real Estate	7.06%	(557) bps
Infrastructure	8.98%	402 bps
Forestland	-9.56%	(1,246) bps
Liquidity	0.36%	17 bps
Inflation Assets	-3.64%	147 bps

Returns for real estate, private equity and some components of the inflation assets reflect market values through March 31, 2016.

CalPERS 2015-16 Fiscal Year investment performance will be calculated based on audited figures and will be reflected in contribution levels for the State of California and school districts in Fiscal Year 2017-18, and for contracting cities, counties, and special districts in Fiscal Year 2018-19.

The ending value of the CalPERS fund is based on several factors and not investment performance alone. Contributions made to CalPERS from employers and employees, monthly payments made to retirees, and the performance of its investments, among other factors, all influence the ending total value of the Fund.

The Board has taken many steps to sustain the Fund as part of CalPERS' Asset Liability Management Review Cycle (PDF) that takes a holistic and integrated view of our assets and liabilities.

News Media Availability Today

Today the Pension Fund will hold news media availability at 12:35 p.m., PT, with its Chief Investment Officer and senior investment management team to discuss earnings for the 2015-16 Fiscal Year. To participate, call the toll-free number (866) 844-9416 from the U.S., using the pass code "CalPERS" for call leader Wayne Davis. International callers may call (203) 369-5026.

For more than eight decades, CalPERS has built retirement and health security for state, school, and public agency members who invest their lifework in public service. Our pension fund serves more than 1.8 million members in the CalPERS retirement system and administers benefits for more than 1.4 million members and their families in our health program, making us the largest defined-benefit public pension in the U.S. CalPERS' total fund market value currently stands at approximately $302 billion. For more information, visit www.calpers.ca.gov.

CalPERS Announces Positive Investment Returns Despite Volatility

0:30

Agenda Date: 9/13/2016

TO:
Honorable Mayor and Members of the City Council

THROUGH:
Mark Danaj, City Manager

FROM:
Bruce Moe, Finance Director

SUBJECT:
Establishment of a Pension Stabilization Trust Fund (Finance Director Moe).
ADOPT RESOLUTION NO. 16-0053; APPROPRIATE

RECOMMENDATION:
Staff recommends that the City Council: a) adopt Resolution No. 16-0053 establishing a Pension Rate Stabilization Trust Fund Administered by Public Agency Retirement Services (PARS) ; b) Appoint the City Manager as the City's Plan Administrator; c) Authorize the City Manager to negotiate and execute the final documents of the Trust; d) appropriate $780,000 from unreserved General Fund moneys and authorize the transfer of those funds to the Pension Rate Stabilization Trust Fund; e) authorize the transfer of $500,000 in budgeted General Funds to the Pension Rate Stabilization Trust Fund, and f) assign responsibility and authority to the Finance Subcommittee to develop an investment policy and guidelines, and direct investments in the trust.

FISCAL IMPLICATIONS:
The recommended initial funding of the Pension Rate Stabilization Fund is $1.28 million: $500,000 from budgeted funds in FY 2016-2017, and $780,000 (to be appropriated) in transfer fee proceeds from the sale of the Marriott Hotel in FY 2015-2016.

BACKGROUND:
The City of Manhattan Beach has been a leader in proactively addressing pension issues in recent years. Examples include issuing Pension Obligation Bonds (POBs) in 2007 to payoff "side funds" in the City's CalPERS safety pension plans, saving $433,000 (the POBs were paid off in 2015); negotiating employee pickup of the employee share of the total pension contribution; and instituting employee cost sharing of the employer rate for safety employees. In 2008, the City also fully pre-funded its Other Post Employment Benefits (OPEB) liabilities for retiree medical (valued at $6.4 million at that time), for which the City is currently overfunded by $3.6 million.

Despite these steps, pension costs continue to rise for a number of reasons. CalPERS has made changes to actuarial assumptions including projected reductions in the investment rate of return, as well as increased life expectancy. These, and to a degree, the lower than expected rates of return over the past two years by CalPERS, are leading to increased pension contribution rates and growing unfunded liabilities. It is important to note that the rates paid by the City include a component to pay off the unfunded liabilities; as a result those unfunded liabilities are being addressed over time. It is equally significant that CalPERS has recognized that the assumed rate of return (discount rate) of 7.5% is not sustainable in the long term, and therefore has implemented a plan to reduce the discount rate to 6.5% over time to better reflect expected future returns.

The most recent CalPERS actuarial valuation reports (valued as of June 2014) indicated that the City has $44 million of unfunded pension liabilities. Recent projections by the City's independent Actuary indicate that, given those actuarial changes at CalPERS and recent investment returns, unfunded liabilities may grow to $89 million by FY 2020-2021. Pension contribution rates as a percentage of payroll may also climb 50% to 121% over the next five years depending upon the discount rate utilized.

As part of the adoption of the FY 2016-2017 budget, and in an effort to proactively address rising pension costs and associated unfunded liabilities, City Council directed that a Pension Rate Stabilization Fund (PRSF) be established. Further, Council allocated $500,000 towards the PRSF.

DISCUSSION:

Until recently, the only option available for the City to reduce unfunded pension liabilities was to submit additional discretionary payments to CalPERS above and beyond the required contributions. However, those funds, once on deposit, are subject to the same market volatility risk as the other funds invested with CalPERS. There is now an alternative in the form of depositing funds into an irrevocable trust established specifically for pension rate stabilization purposes.

A Pension Rate Stabilization Fund (PRSF) has several benefits:

- The City maintains oversight of investment management and control over the risk tolerance level of the portfolio
- Assets can be accessed to offset unexpected rate increases thereby stabilizing on-going pension expenditures
- Assets held in the fund allow for greater investment flexibility and risk diversification compared to the City's general investments
- Funds deposited into the trust offset the City's Net Pension Liability which is now reported on the City's balance sheet in accordance with Government Accounting Standards Board (GASB) Statement No. 68
- Depositing assets in a trust will be a positive development to Moody's and Standard and Poor's in the City maintaining Triple-A credit ratings from both of these entities

It is important to note that any funds deposited in the trust fund may only be used for pension costs and cannot be recaptured for other uses. However, use of funds may reduce reliance on existing unrestricted funds freeing those moneys for other uses.

The concept of the fund is that the City would deposit funds into the account and invest those moneys in instruments that have the potential to earn greater returns than can be achieved under the City's existing investment policies and State law for general public funds. State law provides the framework for public funds investment in such trust funds. The principal and earnings may then be contributed to any one of the City's three CalPERS plans (Police, Fire, Miscellaneous) at the City's discretion. For example, the funds can be used as a buffer to reduce the impacts of large rate fluctuations in Employer rates from substandard investment returns.

Funding

The adopted FY 2016-2017 budget includes $500,000 in the General Fund to be deposited into the trust account once it is established. Additionally, staff recommends that funds totaling $780,000 realized from the sale (transfer) of the Marriott Hotel in FY 2015-2016 (which is currently included in the FY 2016-2017 unreserved General Fund balance) be appropriated and included in the initial funding of the account, bringing the total seed money to $1.28 million. Aside from the $500,000 annual contribution now in place, additional future contributions will be directed by the City Council, and may include year-end surpluses and other one-time receipts.

Staff, in coordination with the Finance Subcommittee, will return to City Council in the future with a discussion on amending the City's Financial Policies in order to include guidelines on funding this pension trust.

Public Agency Retirement Services (PARS)

Section 115 Irrevocable Trusts have been in existence for many years. In the past several years, they have they been adopted as a mechanism for pre-funding public agencies' OPEB liabilities (which the City did in 2008 through a CalPERS sponsored plan). Most recently, they have become a popular tool for pre-funding pension liabilities as a method to address unfunded liabilities and large variances in annual pension contribution rates.

The number of administrators offering Pension Rate Stabilization Trusts is limited since this is a fairly new financial adaptation of Section 115 irrevocable trusts. Two main entities have entered the marketplace: Public Agency Retirement Services (PARS) and Public Financial Management (PFM).

While both are clearly capable and experienced in Section 115 trust administration, staff believes PARS is best suited to meet the City's needs for the following reasons:

- PARS is the leader in this marketplace having established 41 public agency PRSF trusts, including 18 cities
- PARS has a track record of being a leading provider of public retirement services. For example, the City has received excellent service from PARS in providing part time employees with the legally required retirement plan (this is an acceptable and lower cost alternative to Social Security)
- PARS's asset management costs are marginally lower than PFM's (all-in costs for administration, management, trustee and advisory fees of .60% versus .715%)

- The PARS program has been established as a multiple employer trust so that public agencies regardless of size can join the program to receive the necessary economies of scale to minimize administrative fees.

Portfolio Management

PARS has partnered with US Bank to serve as Trustee, and with its sub-advisor High Mark Capital Management to provide investment management services for the program. Under the PARS Pension Rate Stabilization fund, the City maintains oversight of the investment manager and the portfolio's risk level to mitigate undue risk. Several options exist for the portfolio management:

1. The City can utilize the Administrator's (PARS) subadvisor, High Mark, to handle the investments on a preset basis. The City would select one of five preset options (Attachment #2) from active or passive (i.e., index funds) investments with High Mark determining the actual investments utilized. With this scenario, the City has the ability to influence the risk level and investment approach, but do not select specific investments (e.g., investing in a specific equity). For new plans that have not accumulated much by way of assets, this is generally the preferred route.

2. Once the asset levels are larger (e.g., over $ 5 million), it would be possible to work with High Mark on a more customized basis (for example, The City may guide High Mark to purchase individual bonds rather than bond mutual funds). Also, once customized, the City can develop a strategy that is different than the 5 preset options which could include more alternative investments.

3. As a third approach, the City could hire a separate investment advisor. In this capacity, US Bank would serve as Directed Trustee and would be custodian of the assets. High Mark would not be involved at all. The City's investment advisor would manage the investments based on City direction and would be separately compensated. The issue to note is that at small asset levels, investment advisors may not be that interested until assets reach a more sizable level. As a result, some PARS agencies are taking the approach of working with High Mark until assets reach a more significant level and then may decide at a later point in time whether or not to use a different manager.

Staff recommends that the City Council assign responsibility and authority to the Finance Subcommittee to develop an investment policy for the trust, and direct investment decisions for the fund (e.g., Conservative, Moderately Conservative, Moderate, etc.) or another alternative listed above as deemed appropriate by the Finance Subcommittee. This is similar to the role of the Finance Subcommittee with regard to the City's other investments. Further, staff will recommend to the Finance Subcommittee that initially the City utilize High Mark as the investment advisor utilizing one of the five preset options. However, advisory services for these investments may be changed at any time as deemed desirable.

Council Questions

City Council had a number of questions regarding the pension fund program during the August 16, 2016 meeting. Those questions, and associated answers, are provided below.

1. Describe the trust fund for retiree medical and how it works

In 2008, the City established a Section 115 Trust Fund for the purpose of prefunding the City's "Other Post Employment Benefits" (OPEB). The OPEB trust is administered by the CalPERS' California Employers' Benefit Trust (CERBT). The funds are invested in one of three options available; the Finance Subcommittee selected the mid-level risk option (as opposed to the lowest risk or highest risk).

The City's OPEB liabilities in this fund stem from two retiree medical benefit programs: a) a stipend of between $250 and $400 per month depending upon the labor group and certain minimum service years, which terminates when the retired employee reaches age 65 or Medicare eligible, and b) the CalPERS requirement that any agency participating in the Public Employee Medical and Hospital Care Act (PEMHCA) medical insurance program, as the City does, must provide employees and retirees with a certain minimum contribution. Currently, that amount of $125 per month, subject to annual adjustment. Thirty-six percent ($2.1 million) of the City's accrued liabilities relate to the City's stipend while the CalPERS PEMHCA requirement accounts for 64% ($3.8 million).

The funds in the trust may only be used for OPEB related costs. Mechanically speaking, the City pays out the stipend to retirees monthly and seeks reimbursement from the trust at the end of the fiscal year. For FY 2015-2016, the OPEB reimbursement from the trust totaled $288,888.

The OPEB trust fund is currently funded over 160% of actuarially accrued liabilities. In dollars, assets total $9.5 million while accrued liabilities total $5.9 million, leaving $3.6 million in surplus assets. This cushion will allow the City to forego the normal scheduled contributions $285,793 for FY 2016-2017.

2. Describe how investing in the Pension Stabilization Fund reduces the pension liability and controls long-term risk

The main purpose of the Pension Stabilization Fund is to provide a cushion and smoothing against rapidly rising pension contribution rates. By design, the City deposits funds into the trust, invests at returns greater than achievable for General investments the City makes under State law, and then uses the program funds to reduce outgoing cash flow for pension costs, allowing City funds to be used for other needs as appropriate or desirable. This reduces pension costs through the ability to achieve greater investment results compared to the standard investments the City makes. In addition, assets in the Pension Stabilization Fund will directly reduce the City's Net Pension Liabilities on its financial statements whereas assets in the General Fund cannot directly offset pension liabilities.

The annual total pension payments to CalPERS include a component that is applied to unfunded liabilities. As a result, any trust funds we use to pay pension costs also help address unfunded liabilities. Further, if deemed financially prudent, trust funds may be used to accelerate pay down of unfunded liabilities with CalPERS. However, it is important to note that once additional unfunded liability payments are sent to CalPERS, they are comingled with standard Pension Fund investments, and thus are subject to the same risk as the entire CalPERS investment pool since the funds are no longer in the City's control. This may result in gains or losses which mirror the risk the City is already exposed to through the pension plan.

Because the stabilization program funds are controlled by the City, long term risk may be improved compared to the CalPERS portfolio. This will be dependent upon the investment policies and risk profile the City selects. Investment choices will include conservative to growth oriented portfolios, each with varying risk factors and corresponding expectations for rates of return.

3. What are the thoughts regarding guidelines and a distribution plan for the fund? Will there be benchmarks? What are we trying to accomplish for each department?

The recommendation is that the City Council assign responsibility to the Finance Subcommittee to develop policies on investment, sources and uses of funding. The policies may be reviewed and approved by the full City Council if so directed.

Other cities have varying funding policies. For example, Solana Beach contributes 50% of year-end surpluses to the pension stabilization fund. City of Sausalito contributes the difference between the required CalPERS contributions utilizing the current 7.5% discount rate, and a 2.8% discount rate. Finally, the City of Healdsburg set a maximum employer rate for the groups (Miscellaneous, Police, Fire) with the pension fund being utilized when employer contribution costs exceed stated levels.

Benchmarks may be established as a barometer of success. The options provided by High Mark (the initial recommended investment management advisory service) include benchmarks in their materials (Attachment #2), as do most advisory firms.

The goals for this fund are not set by department. Rather, the objective is to smooth impacts of rising pension contributions so as to not cause rapid negative impacts to other services. This would be done on a citywide basis.

4. How are other jurisdictions using similar funds?

In addition to the smoothing described above, other public agencies are using the funds to primarily accomplish the following:

- Help create new revenue sources from Trust Investment earnings to provide structural balance (i.e., helps revenue growth rate equal expenditure growth rate). (Town of Colma)
- Trust Assets act as a direct offset to Net Pension Liabilities under GASB 68 (City of Brea)
- Trust Assets act as a hedge against PERS investment risk (City of Upland)

5. How are other jurisdictions addressing the same problem? Do they have a similar fund? How has it worked for them?

Forty-one public agencies in the state of California have established similar Section 115 trusts with PARS. These other public agencies include counties, school districts, a community college district and special districts in addition to the 18 cities that have already adopted the same trust program under consideration by the City. The same benefits and advantages of the trust are also present for these other jurisdictions.

The concept of this program is relatively new, having only been established for a little more than a year. These liabilities that are being addressed are long-term liabilities that will take many years to correct, so the ultimate success of the program will depend on a variety of factors including the ability to fund the trust, the overall investment returns of the City-controlled trust, and the actual plan experience of the underlying retirement system (i.e., CalPERS).

To provide an example of how other jurisdictions are investing plan assets, here is a breakdown of those that 41 agencies that have already adopted the program:

Investment Strategy Type / % of Agencies in Strategy	
Conservative (15% Equities)	10%
Moderately Conservative (30% Equities)	32%
Moderate (50% Equities)	24%
Balanced (60% Equities)	29%
Capital Appreciation (75% Equities)	5%

6. What is our current annual payment and what percentage will our contribution to the fund be of that number?

The City's Fiscal Year 2016-2017 contribution is estimated to be $6.2 million. The City Council has directed that $500,000 per year be deposited in the fund. That equates to 8% of FY 16-17 contributions. If City Council approves the staff recommendation to include the $780,000 from the Marriott sale, the total contribution of $1.28 million equates to 20.6%.

7. Are there additional policies needed for the City in association with this fund? What existing state laws are there and do we need to be augmenting them?

Please see #3 above. Existing state laws do provide additional flexibility with respect to plan investments compared to the City's current investment guidelines. The City (Finance Subcommittee) would work with the investment advisors to develop an Investment Guideline Document (IGD) with respect to assets held in the trust.

8. Timeline for developing those financial policies, if necessary.

If City Council accepts the staff recommendation to utilize the Finance Subcommittee to develop policies (including the Investment Guidelines Document), staff anticipates that policies would be prepared within 30-45 days.

9. Are there any reference guides from John Bartel on these issues?

According to Mr. Bartel, there are no reference guides on this topic at this time. However, Bartel and Associates commonly recommend the establishment of a pension stabilization fund as a more meaningful actions a jurisdiction can take to smooth future rate increases.

10. Will this limit our risk more or less than PERS? Compare the two risks.

This will reduce our exposure to the risks associated with CalPERS' aggressive style of investments, which are currently geared to attain 7.5% returns. CalPERS uses a diversified portfolio that has many different asset classes. For example, pension funds are invested in real estate, equities (stocks), bonds, and corporate debt. Investments in a City controlled trust can potentially be invested more conservatively than CalPERS, which can reduce the overall investment risk to the City. Please see Attachment #2 which includes investment options.

11. Compare and contrast this fund with what was done before

Generally speaking, the City has made only the required contributions as calculated by CalPERS each year. With the exception of a one-time payment to CalPERS in the 1990s used to pay down unfunded liabilities, and the issuance of pension obligation bonds in 2008 to payoff liability side funds in the safety pools, no additional payments have been made. However, please note that all regular, required payments to CalPERS include a component to pay down unfunded pension liabilities.

In FY 2003-2004, in the face of rising pension costs, the City established a Pension Stabilization reserve within the General Fund. This reserve was funded with one time moneys totaling $2,024,505 realized from a utility cost allocation study. Pension contribution increases totaling $2.2 million were expected in FY 2003-2004 and FY 2004-2005. The reserve was ultimately used in FY 2005-2006 ($680K), with the balance ($1.3 million) utilized in FY 2006-2007.

This new pension stabilization fund will act in much the same way the 2003-2004 reserve was intended, except that the City will have the ability to reduce pension costs through higher investment earnings potential than can currently be achieved with general City investments. Funds may be drawn to stabilize annual pension payments so that substantial increases can be eased into operational expenditure budgets and reduce immediate impacts on service levels.

12. How does this limit our risk with the volatility of PERS?

See #10 above.

13. Compare the annual payments and financial commitments of this fund vs. CalPERS

There are no financial commitments or annual minimum payments required for the trust fund. It can be determined on an ad-hoc basis by the City Council, or through a policy approved by the City Council. Conversely, CalPERS requires certain minimum payments each year to fund the normal cost of pensions as well as unfunded liabilities. The Pension Stabilization program's major requirement is that the funds may be used only for pension costs, and that reimbursements cannot exceed more than one year's worth of actual pension costs, which currently exceeds $6 million. For example, if the City did contribute $1.28 million to the fund, the City would have immediate access to request a distribution of that original contribution since it is well below the City's current annual pension costs.

14. How does it compare to the cushion that is already included by Finance in the annual budgets?

Aside from any *budgeted* General Fund surplus amount (such as the $416,425 in FY 2016-2017) there is no budgeted cushion per se. Salaries and benefits are generally budgeted with a vacancy factor (4% in FY 2016-2017) in recognition of the fact that all positions are not filled 100% of the year. This factor applies to CalPERS contributions, which are budgeted at 96% of estimated cost.

Budget aside, the City typically generates year-end General Fund surpluses (e.g., revenues in excess of expenditures) which may be directed to the fund either through policies or on an ad-hoc basis by the City Council.

15. What other jurisdictions have similar pension liabilities? How are they addressing them? Which ones are using PARS?

Attachment #3 includes unfunded liabilities as a percentage of payroll for comparator agencies (these were provided by Bartel Associates earlier this year). Attachment #4 lists PARS' clients utilizing the Pension Stabilization Reserve Fund program. PARS has 18 cities and 23 public agencies in the state of California using the pension fund method. Other agencies may be addressing unfunded liabilities by issuing pension obligation bonds (interest arbitrage between CalPERS and borrowing rate), borrowing from other agency funds that may have sufficient working capital, reducing the amortization period with CalPERS (reduces interest expense but increases payment amounts), or using one time money to reduce unfunded liabilities with CalPERS.

16. Can the funds be used for OPEB liabilities as well?

No. While one trust fund may be established for both OPEB and pension stabilization purposes, funding must be used for the purpose intended at the time of deposit.

17. What will the process be for accessing the pension stabilization funds?

A written request to the trust administrator will be submitted with direction on whether the requested funds are to be refunded to the City after incurring the expense, or paid directly to CalPERS to satisfy the required contribution or payment.

18. What impact on the existing funds and process will the new Pension Stabilization program fund have?

The pension stabilization funds will reduce reliance on on-going resources through increased earnings potential above that level achievable with the City's general investments.

CONCLUSION:

In an effort to proactively address the City's unfunded pension liabilities, as well as projected contribution rate increases, the City Council directed staff to establish an irrevocable Pension Rate Stabilization Trust Fund, and seed it with $500,000 in FY 2016-2017 budgeted funds. Staff recommends that proceeds from the Marriott Hotel sale totaling $780,000 also be deposited in the fund as an appropriate use of one time moneys, bringing the total deposit to $1.28 million.

In order to complete the process, staff recommends that the City Council: a) adopt Resolution No. 16-0053 establishing a Pension Rate Stabilization Trust Fund Administered by Public Agency Retirement Services (PARS) ; b) Appoint the City Manager as the City's Plan Administrator; c) Authorize the City Manager to negotiate and execute the final documents of the Trust; d) appropriate $780,000 from unreserved General Fund moneys and authorize the transfer of those funds to the Pension Rate Stabilization Trust Fund; e) authorize the transfer of $500,000 in budgeted General Funds to the Pension Rate Stabilization Trust Fund, and f) assign responsibility and authority to the Finance Subcommittee to develop an investment policy and direct investments in the fund.

PUBLIC OUTREACH/INTEREST:

None.

ENVIRONMENTAL REVIEW

Not Applicable

LEGAL REVIEW

The City Attorney's office has reviewed the trust documents and has generally approved as to form. Minor modifications recommended will be addressed with PARS through the City Manager's requested authority prior to execution if City Council approves the trust.

Attachments:

1. Resolution No. 16-0053
2. High Mark Investment Options
3. Unfunded Liabilities of Comparator Agencies
4. PARS Client List for Pension Stabilization Program

RESOLUTION NO. 16-0053

RESOLUTION OF THE MANHATTAN BEACH
CITY COUNCIL APPROVING THE ADOPTION OF THE
PUBLIC AGENCIES POST-EMPLOYMENT BENEFITS TRUST
ADMINISTERED BY PUBLIC AGENCY RETIREMENT SERVICES (PARS)

WHEREAS PARS has made available the PARS Public Agencies Post-Employment Benefits Trust (the "Program") for the purpose of pre-funding pension obligations and/or OPEB obligations; and

WHEREAS the City is eligible to participate in the Program, a tax-exempt trust performing an essential governmental function within the meaning of Section 115 of the Internal Revenue Code, as amended, and the Regulations issued there under, and is a tax-exempt trust under the relevant statutory provisions of the State of California; and

WHEREAS the City's adoption and operation of the Program has no effect on any current or former employee's entitlement to post-employment benefits; and

WHEREAS the terms and conditions of post-employment benefit entitlement, if any, are governed by contracts separate from and independent of the Program; and

WHEREAS the City's funding of the Program does not, and is not intended to, create any new vested right to any benefit nor strengthen any existing vested right; and

WHEREAS the City reserves the right to make contributions, if any, to the Program.

NOW THEREFORE, BE IT RESOLVED THAT:

1. The City Council hereby adopts the PARS Public Agencies Post-Employment Benefits Trust, effective September 1, 2016; and

2. The City Council hereby appoints the City Manager, or his/her successor or his/her designee as the City's Plan Administrator for the Program; and

3. The City's Plan Administrator is hereby authorized to execute the PARS legal and administrative documents on behalf of the City and to take whatever additional actions are necessary to maintain the City's participation in the Program and to maintain compliance of any relevant regulation issued or as may be issued; therefore, authorizing him/her to take whatever additional actions are required to administer the City's Program.

Ayes:
Noes:
Absent:
Abstain:

____
TONY D'ERRICO
Mayor, City of Manhattan Beach, California

ATTEST:

____

LIZA TAMURA
City Clerk

HIGHMARK® CAPITAL MANAGEMENT

PARS DIVERSIFIED PORTFOLIOS

CONSERVATIVE

Q2 2016

WHY THE PARS DIVERSIFIED CONSERVATIVE PORTFOLIO?

Comprehensive Investment Solution

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

Rigorous Manager Due Diligence

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

Flexible Investment Options

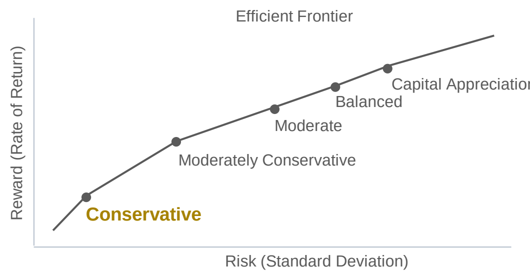
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation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

Risk Management

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

INVESTMENT OBJECTIVE

To provide a consistent level of inflation-protected income over the long-term. The major portion of the assets will be fixed income related. Equity securities are utilized to provide inflation protection.



ASSET ALLOCATION — CONSERVATIVE PORTFOLIO

	Strategic Range	Policy	Tactical
Equity	5 – 20%	15%	15%
Fixed Income	60 – 95%	80%	79%
Cash	0 – 20%	5%	6%

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

HighMark Plus (Active)

Current Quarter*	2.13%
*Blended Benchmark***	*1.78%*
Year To Date*	4.16%
*Blended Benchmark**	*3.89%*
1 Year	3.40%
Blended Benchmark	*3.59%*
3 Year	3.95%
Blended Benchmark	*3.92%*
5 Year	3.94%
Blended Benchmark	*3.69%*
10 Year	4.81%
Blended Benchmark	*4.40%*

Index Plus (Passive)

Current Quarter*	1.99%
*Blended Benchmark***	*1.78%*
Year To Date*	4.30%
*Blended Benchmark**	*3.89%*
1 Year	3.93%
Blended Benchmark	*3.59%*
3 Year	3.96%
Blended Benchmark	*3.92%*
5 Year	3.87%
Blended Benchmark	*3.69%*
10 Year	4.44%
Blended Benchmark	*4.40%*

* Returns less than 1-year are not annualized. **Breakdown for Blended Benchmark: 7.5% S&P500, 1.5% Russell Mid Cap, 2.5% Russell 2000, 1% MSCI EM FREE, 2% MSCI EAFE, 52.25% BC US Agg, 25.75% ML 1-3 Yr US Corp/Gov't, 2% US High Yield Master II, 0.5% Wilshire REIT, and 5% Citi 1 Mth T-Bill. Prior to October 2012, the blended benchmarks were 12% S&P 500; 1% Russell 2000, 2% MSCI EAFE, 40% ML 1-3 Year Corp./Govt, 40% BC Agg, 5% Citi 1 Mth T-Bill. Prior to April 2007, the blended benchmarks were 15% S&P 500, 40% ML 1-3Yr Corp/Gov, 40% BC Agg, and 5% Citi 1 Mth T-Bill.

ANNUAL RETURNS

HighMark Plus (Active)

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

Index Plus (Passive)

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

PORTFOLIO FACTS

HighMark Plus (Active)

Inception Data	07/2004
No of Funds in Portfolio	19

Index Plus (Passive)

Inception Data	07/2004
No of Funds in Portfolio	13

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

SAMPLE HOLDINGS

HighMark Plus (Active)

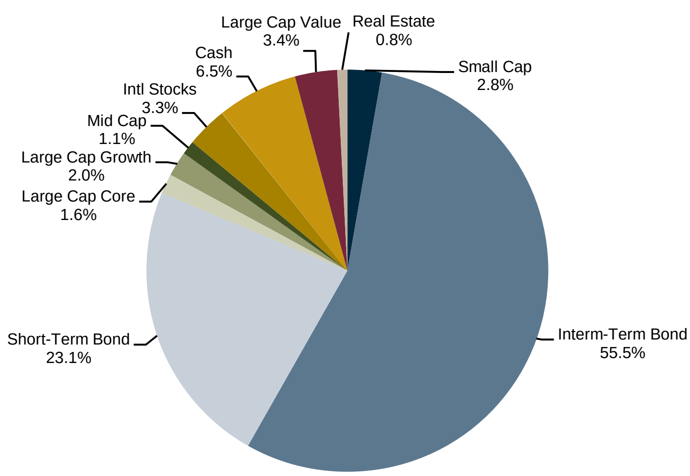
Columbia Contrarian Core Z
T. Rowe Price Growth Stock
Columbia Small Cap Value II Z
T. Rowe Price New Horizons
Nationwide Bailard International Equities
Nationwide HighMark Bond
Vanguard Short-Term Invest-Grade Adm
Loomis Sayles Value Y
PIMCO Total Return
Dodge & Cox International Stock
MFS International Growth I
First American Prime Obligation Z
Prudential Total Return
iShares Russell Mid-Cap ETF
iShares Russell Mid-Cap Value
Harbor Capital Appreciation
Schroder Emerging Market Equity
Dodge & Cox Stock
Nuveen Real Estate Securities I

Index Plus (Passive)

iShares S&P 500
iShares S&P 500/Value
iShares S&P 500/Growth
iShares Russell 2000 Value
iShares Russell 2000 Growth
iShares MSCI EAFE
iShares Russell Mid-Cap ETF
iShares Russell Mid-Cap Value
iShares Barclays Aggregate Bond
Vanguard Short-Term Invest-Grade Adm
First American Prime Obligation Z
Vanguard FTSE Emerging Markets ETF
Vanguard REIT ETF

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

STYLE



The performance records shown represent size-weighted composites of tax exempt accounts that meet the following criteria: Composites are managed by HighMark's HighMark Capital Advisors (HCA) with full investment authority according to the PARS Conservative active and passive objectives and do not have equity concentration of 25% or more in one common stock security.

The adviser to the PARS portfolios is US Bank, and HighMark serves as sub-adviser to US Bank to manage these portfolios. US Bank may charge clients as much as 0.60% annual management fee based on a sliding scale. As of June 30, 2016, the blended rate is 0.58%. US Bank pays HighMark 60% of the annual management fee for assets sub-advised by HighMark under its sub-advisory agreement with US Bank. The 36 basis points paid to HighMark, as well as other expenses that may be incurred in the management of the portfolio, will reduce the portfolio returns. Assuming an investment for five years, a 5% annual total return, and an annual sub-advisory fee rate of 0.36% deducted from the assets at market at the end of each year, a 10 million initial value would grow to $12.54 million after fees (Net-of-Fees) and $12.76 million before fees (Gross-of-Fees). Additional information regarding the firm's policies and procedures for calculating and reporting performance results is available upon request. In Q1 2010, the PARS Composite definition was changed from $750,000 minimum to no minimum. Performance results are calculated and presented in U.S. dollars and do not reflect the deduction of investment advisory fees, custody fees, or taxes but do reflect the deduction of trading expenses. Returns are calculated based on trade-date accounting.

Blended benchmarks represent HighMark's strategic allocations between equity, fixed income, and cash and are rebalanced monthly. Benchmark returns do not reflect the deduction of advisory fees or other expenses of investing but assumes the reinvestment of dividends and other earnings. An investor cannot invest directly in an index. The unmanaged S&P 500 Index is representative of the performance of large companies in the U.S. stock market. The MSCI EAFE Index is a free float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Free Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The US High Yield Master II Index tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. Wilshire REIT index measures U.S. publicly traded Real Estate Investment Trusts. The unmanaged Barclays Capital (BC) U.S. Aggregate Bond Index is generally representative of the U.S. taxable bond market as a whole. The Merrill Lynch (ML) 1-3 Year U.S. Corporate & Government Index tracks the bond performance of The ML U.S. Corporate & Government Index, with a remaining term to final maturity less than 3 years. The unmanaged Citigroup 1-Month Treasury Bill Index tracks the yield of the 1-month U.S. Treasury Bill.

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

HIGHMARK CAPITAL MANAGEMENT

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

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ABOUT THE ADVISER

HighMark® Capital Management, Inc. (HighMark) has over 90 years (including predecessor organizations) of institutional money management experience with more than $14.9 billion in assets under management. HighMark has a long term disciplined approach to money management and currently manages assets for a wide array of clients.

ABOUT THE PORTFOLIO MANAGEMENT TEAM

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

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

Salvatore "Tory" Milazzo III, CFA®
Senior Portfolio Manager
Investment Experience: since 2004
HighMark Tenure: since 2014
Education: BA, Colgate University

J. Keith Stribling, CFA ®
Senior Portfolio Manager
Investment Experience: since 1985
HighMark Tenure: since 1995
Education: BA, Stetson University

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

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

Asset Allocation Committee
Number of Members: 16
Average Years of Experience: 25
Average Tenure (Years): 12

Manager Review Group
Number of Members: 8
Average Years of Experience: 18
Average Tenure (Years): 6

HIGHMARK®
CAPITAL MANAGEMENT

PARS DIVERSIFIED PORTFOLIOS

MODERATELY CONSERVATIVE

Q2 2016

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.

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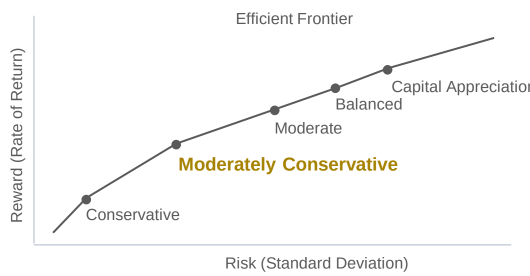
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation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

Risk Management

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

INVESTMENT OBJECTIVE

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



ASSET ALLOCATION — MODERATELY CONSERVATIVE PORTFOLIO

	Strategic Range	Policy	Tactical
Equity	20 - 40%	30%	30%
Fixed Income	50 - 80%	65%	66%
Cash	0 - 20%	5%	4%

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

HighMark Plus (Active)

Current Quarter*	2.10%
*Blended Benchmark***	*1.95%*
Year To Date*	3.41%
*Blended Benchmark**	*4.02%*
1 Year	2.28%
Blended Benchmark	*3.27%*
3 Year	4.60%
Blended Benchmark	*5.02%*
5 Year	4.79%
Blended Benchmark	*5.00%*
10 Year	5.18%
Blended Benchmark	*5.01%*

Index Plus (Passive)

Current Quarter*	2.23%
*Blended Benchmark***	*1.95%*
Year To Date*	4.46%
*Blended Benchmark**	*4.02%*
1 Year	3.53%
Blended Benchmark	*3.27%*
3 Year	4.93%
Blended Benchmark	*5.02%*
5 Year	4.91%
Blended Benchmark	*5.00%*
10 Year	4.85%
Blended Benchmark	*5.01%*

* Returns less than 1-year are not annualized. **Breakdown for Blended Benchmark: 15.5% S&P500, 3% Russell Mid Cap, 4.5% Russell 2000, 2% MSCI EM FREE, 4% MSCI EAFE, 49.25% BC US Agg, 14% ML 1-3 Yr US Corp/Gov't, 1.75% US High Yield Master II, 1% Wilshire REIT, and 5% Citi 1 Mth T-Bill. Prior to October 2012, the blended benchmarks were 25% S&P 500; 1.5% Russell 2000, 3.5% MSCI EAFE, 25% ML 1-3 Year Corp./Govt, 40% BC Agg, 5% Citi 1 Mth T-Bill. Prior to April 2007, the blended benchmarks were 30% S&P 500, 25% ML 1-3Yr Corp/Gov, 40% BC Agg, and 5% Citi 1 Mth T-Bill.

ANNUAL RETURNS

HighMark Plus (Active)

2008	-15.37%
2009	18.71%
2010	10.46%
2011	1.75%
2012	10.88%
2013	7.30%
2014	4.41%
2015	0.32%

Index Plus (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%

PORTFOLIO FACTS

HighMark Plus (Active)

Inception Data	08/2004
No of Funds in Portfolio	19

Index Plus (Passive)

Inception Data	05/2005
No of Funds in Portfolio	13

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

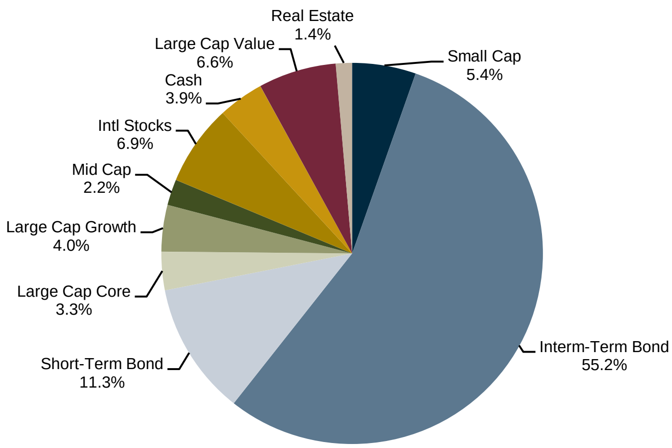
SAMPLE HOLDINGS

HighMark Plus (Active)
Columbia Contrarian Core Z
T. Rowe Price Growth Stock
Columbia Small Cap Value II Z
T. Rowe Price New Horizons
Nationwide Bailard International Equities
Nationwide HighMark Bond
Vanguard Short-Term Invest-Grade Adm
Loomis Sayles Value Y
PIMCO Total Return
Dodge & Cox International Stock
MFS International Growth I
First American Prime Obligation Z
Prudential Total Return
iShares Russell Mid-Cap ETF
iShares Russell Mid-Cap Value
Harbor Capital Appreciation
Schroder Emerging Market Equity
Dodge & Cox Stock
Nuveen Real Estate Securities I

Index Plus (Passive)
iShares S&P 500
iShares S&P 500/Value
iShares S&P 500/Growth
iShares Russell 2000 Value
iShares Russell 2000 Growth
iShares MSCI EAFE
iShares Russell Mid-Cap ETF
iShares Russell Mid-Cap Value
iShares Barclays Aggregate Bond
Vanguard Short-Term Invest-Grade Adm
First American Prime Obligation Z
Vanguard FTSE Emerging Markets ETF
Vanguard REIT ETF

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

STYLE



The performance records shown represent size-weighted composites of tax exempt accounts that meet the following criteria: Composites are managed by HighMark's HighMark Capital Advisors (HCA) with full investment authority according to the PARS Moderately Conservative active and passive objectives and do not have equity concentration of 25% or more in one common stock security.

The adviser to the PARS portfolios is US Bank, and HighMark serves as sub-adviser to US Bank to manage these portfolios. US Bank may charge clients as much as 0.60% annual management fee based on a sliding scale. As of June 30, 2016, the blended rate is 0.58%. US Bank pays HighMark 60% of the annual management fee for assets sub-advised by HighMark under its sub-advisory agreement with US Bank. The 36 basis points paid to HighMark, as well as other expenses that may be incurred in the management of the portfolio, will reduce the portfolio returns. Assuming an investment for five years, a 5% annual total return, and an annual sub-advisory fee rate of 0.36% deducted from the assets at market at the end of each year, a 10 million initial value would grow to $12.54 million after fees (Net-of-Fees) and $12.76 million before fees (Gross-of-Fees). Additional information regarding the firm's policies and procedures for calculating and reporting performance results is available upon request. In Q1 2010, the PARS Composite definition was changed from $750,000 minimum to no minimum. Performance results are calculated and presented in U.S. dollars and do not reflect the deduction of investment advisory fees, custody fees, or taxes but do reflect the deduction of trading expenses. Returns are calculated based on trade-date accounting.

Blended benchmarks represent HighMark's strategic allocations between equity, fixed income, and cash and are rebalanced monthly. Benchmark returns do not reflect the deduction of advisory fees or other expenses of investing but assumes the reinvestment of dividends and other earnings. An investor cannot invest directly in an index. The unmanaged S&P 500 Index is representative of the performance of large companies in the U.S. stock market. The MSCI EAFE Index is a free float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Free Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The US High Yield Master II Index tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. Wilshire REIT index measures U.S. publicly traded Real Estate Investment Trusts. The unmanaged Barclays Capital (BC) U.S. Aggregate Bond Index is generally representative of the U.S. taxable bond market as a whole. The Merrill Lynch (ML) 1-3 Year U.S. Corporate & Government Index tracks the bond performance of The ML U.S. Corporate & Government Index, with a remaining term to final maturity less than 3 years. The unmanaged Citigroup 1-Month Treasury Bill Index tracks the yield of the 1-month U.S. Treasury Bill.

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ABOUT THE PORTFOLIO MANAGEMENT TEAM

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

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

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

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

Asset Allocation Committee
Number of Members: 16
Average Years of Experience: 25
Average Tenure (Years): 12

Manager Review Group
Number of Members: 8
Average Years of Experience: 18
Average Tenure (Years): 6

HighMark® CAPITAL MANAGEMENT

PARS DIVERSIFIED PORTFOLIOS
MODERATE

Q2 2016

WHY THE PARS DIVERSIFIED MODERATE PORTFOLIO?

Comprehensive Investment Solution

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

Rigorous Manager Due Diligence

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

Flexible Investment Options

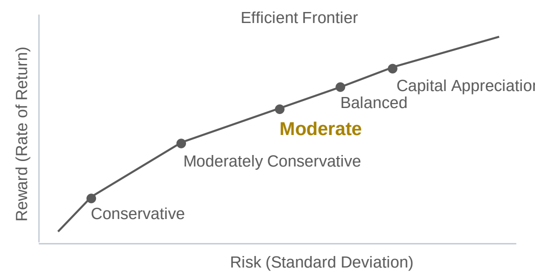
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation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

Risk Management

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

INVESTMENT OBJECTIVE

To provide growth of principal and income. It is expected that dividend and interest income will comprise a significant portion of total return, although growth through capital appreciation is equally important.



ASSET ALLOCATION — MODERATE PORTFOLIO

	Strategic Range	Policy	Tactical
Equity	40 - 60%	50%	49%
Fixed Income	40 - 60%	45%	47%
Cash	0 - 20%	5%	4%

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

HighMark Plus (Active)

Current Quarter*	2.01%
*Blended Benchmark***	*2.04%*
Year To Date*	2.69%
*Blended Benchmark**	*3.81%*
1 Year	0.71%
Blended Benchmark	*2.36%*
3 Year	5.36%
Blended Benchmark	*6.20%*
5 Year	5.76%
Blended Benchmark	*6.50%*
10 Year	5.16%
Blended Benchmark	*5.29%*

Index Plus (Passive)

Current Quarter*	2.30%
*Blended Benchmark***	*2.04%*
Year To Date*	3.97%
*Blended Benchmark**	*3.81%*
1 Year	2.11%
Blended Benchmark	*2.36%*
3 Year	5.72%
Blended Benchmark	*6.20%*
5 Year	6.08%
Blended Benchmark	*6.50%*
10 Year	5.45%
Blended Benchmark	*5.29%*

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

ANNUAL RETURNS

HighMark Plus (Active)

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

Index Plus (Passive)

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

PORTFOLIO FACTS

HighMark Plus (Active)

Inception Data	10/2004
No of Funds in Portfolio	19

Index Plus (Passive)

Inception Data	05/2006
No of Funds in Portfolio	13

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

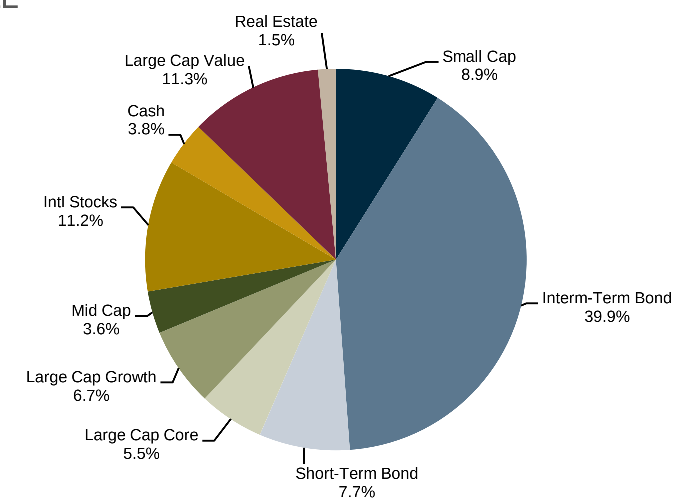
SAMPLE HOLDINGS

HighMark Plus (Active)
Columbia Contrarian Core Z
T. Rowe Price Growth Stock
Columbia Small Cap Value II Z
T. Rowe Price New Horizons
Nationwide Bailard International Equities
Nationwide HighMark Bond
Vanguard Short-Term Invest-Grade Adm
Loomis Sayles Value Y
PIMCO Total Return
Dodge & Cox International Stock
MFS International Growth I
First American Prime Obligation Z
Prudential Total Return
iShares Russell Mid-Cap ETF
iShares Russell Mid-Cap Value
Harbor Capital Appreciation
Schroder Emerging Market Equity
Dodge & Cox Stock
Nuveen Real Estate Securities I

Index Plus (Passive)
iShares S&P 500
iShares S&P 500/Value
iShares S&P 500/Growth
iShares Russell 2000 Value
iShares Russell 2000 Growth
iShares MSCI EAFE
iShares Russell Mid-Cap ETF
iShares Russell Mid-Cap Value
iShares Barclays Aggregate Bond
Vanguard Short-Term Invest-Grade Adm
First American Prime Obligation Z
Vanguard FTSE Emerging Markets ETF
Vanguard REIT ETF

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

STYLE



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Asset Allocation Committee
Number of Members: 16
Average Years of Experience: 25
Average Tenure (Years): 12

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Number of Members: 8
Average Years of Experience: 18
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HighMark® CAPITAL MANAGEMENT

PARS DIVERSIFIED PORTFOLIOS

BALANCED

Q2 2016

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

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Flexible Investment Options

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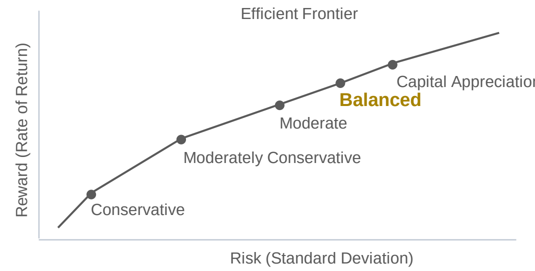
Risk Management

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

INVESTMENT OBJECTIVE

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



ASSET ALLOCATION — BALANCED PORTFOLIO

	Strategic Range	Policy	Tactical
Equity	50 – 70%	60%	58%
Fixed Income	30 – 50%	35%	38%
Cash	0 – 20%	5%	4%

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

HighMark Plus (Active)

Current Quarter*	1.93%
*Blended Benchmark***	*2.08%*
Year To Date*	2.11%
*Blended Benchmark**	*3.71%*
1 Year	-0.41%
Blended Benchmark	*1.87%*
3 Year	5.66%
Blended Benchmark	*6.79%*
5 Year	6.14%
Blended Benchmark	*7.30%*
Inception to Date (117 Mos.)	4.73%
Blended Benchmark	*5.47%*

Index Plus (Passive)

Current Quarter*	2.36%
*Blended Benchmark***	*q2.08%*
Year To Date*	3.84%
*Blended Benchmark**	*3.71%*
1 Year	1.49%
Blended Benchmark	*1.87%*
3 Year	6.18%
Blended Benchmark	*6.79%*
5 Year	6.56%
Blended Benchmark	*7.30%*
Inception to Date (105-Mos.)	4.25%
Blended Benchmark	*4.78%*

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

ANNUAL RETURNS

HighMark Plus (Active)

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

Index Plus (Passive)

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

PORTFOLIO FACTS

HighMark Plus (Active)

Inception Data	10/2006
No of Funds in Portfolio	19

Index Plus (Passive)

Inception Data	10/2007
No of Funds in Portfolio	13

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

SAMPLE HOLDINGS

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Loomis Sayles Value Y
PIMCO Total Return
Dodge & Cox International Stock
MFS International Growth I
First American Prime Obligation Z
Prudential Total Return
iShares Russell Mid-Cap ETF
iShares Russell Mid-Cap Value
Harbor Capital Appreciation
Schroder Emerging Market Equity
Dodge & Cox Stock
Nuveen Real Estate Securities I

Index Plus (Passive)

iShares S&P 500
iShares S&P 500/Value
iShares S&P 500/Growth
iShares Russell 2000 Value
iShares Russell 2000 Growth
iShares MSCI EAFE
iShares Russell Mid-Cap ETF
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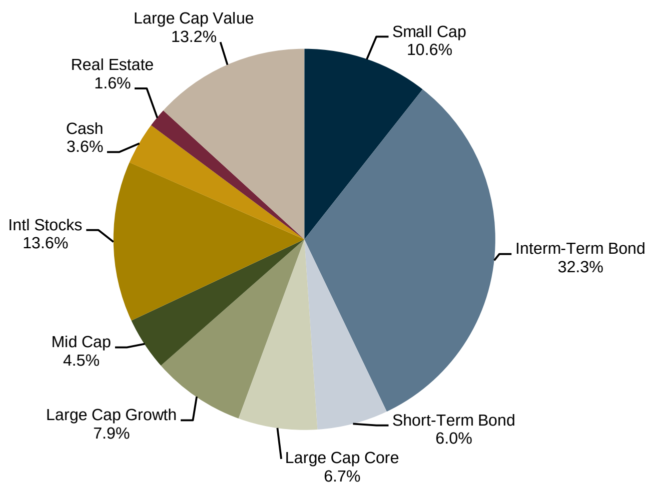

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The composite name has been changed from PARS Balanced/Moderately Aggressive to PARS Balanced on 5/1/2013. The adviser to the PARS portfolios is US Bank, and HighMark serves as sub-adviser to US Bank to manage these portfolios. US Bank may charge clients as much as 0.60% annual management fee based on a sliding scale. As of June 30, 2016, the blended rate is 0.58%. US Bank pays HighMark 60% of the annual management fee for assets sub-advised by HighMark under its sub-advisory agreement with US Bank. The 36 basis points paid to HighMark, as well as other expenses that may be incurred in the management of the portfolio, will reduce the portfolio returns. Assuming an investment for five years, a 5% annual total return, and an annual sub-advisory fee rate of 0.36% deducted from the assets at market at the end of each year, a 10 million initial value would grow to $12.54 million after fees (Net-of-Fees) and $12.76 million before fees (Gross-of-Fees). Additional information regarding the firm's policies and procedures for calculating and reporting performance results is available upon request. In Q1 2010, the PARS Composite definition was changed from $750,000 minimum to no minimum. Performance results are calculated and presented in U.S. dollars and do not reflect the deduction of investment advisory fees, custody fees, or taxes but do reflect the deduction of trading expenses. Returns are calculated based on trade-date accounting.

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Number of Members: 8
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HIGHMARK®
CAPITAL MANAGEMENT

PARS DIVERSIFIED PORTFOLIOS

CAPITAL APPRECIATION

Q2 2016

WHY THE PARS DIVERSIFIED CAPITAL APPRECIATION PORTFOLIO?

Comprehensive Investment Solution

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

Rigorous Manager Due Diligence

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

Flexible Investment Options

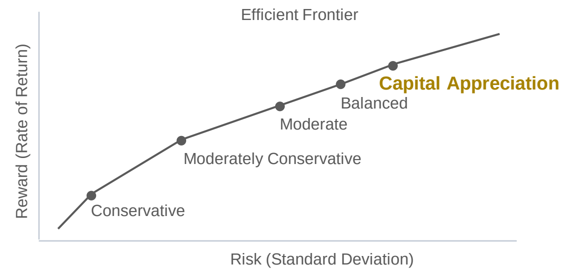
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation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

Risk Management

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

INVESTMENT OBJECTIVE

The primary goal of the Capital Appreciation objective is growth of principal. The major portion of the assets are invested in equity securities and market fluctuations are expected.



ASSET ALLOCATION — CAPITAL APPRECIATION PORTFOLIO

	Strategic Range	Policy	Tactical
Equity	65 - 85%	75%	72%
Fixed Income	10 - 30%	20%	24%
Cash	0 - 20%	5%	4%

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

Current Quarter*	2.11%
*Blended Benchmark***	*2.05%*
Year To Date*	2.66%
*Blended Benchmark**	*3.35%*
1 Year	-039%
Blended Benchmark	*0.80%*
3 Year	7.11%
Blended Benchmark	*7.45%*
5 Year	6.94%
Blended Benchmark	*7.57%*
Inception to Date (90-Mos.)	10.06%
Blended Benchmark	*10.95%*

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

ANNUAL RETURNS

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

PORTFOLIO FACTS

HighMark Plus (Active)		Index Plus (Passive)	
Inception Data	01/2009	Inception Data	N/A
No of Funds in Portfolio	19	No of Funds in Portfolio	13

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

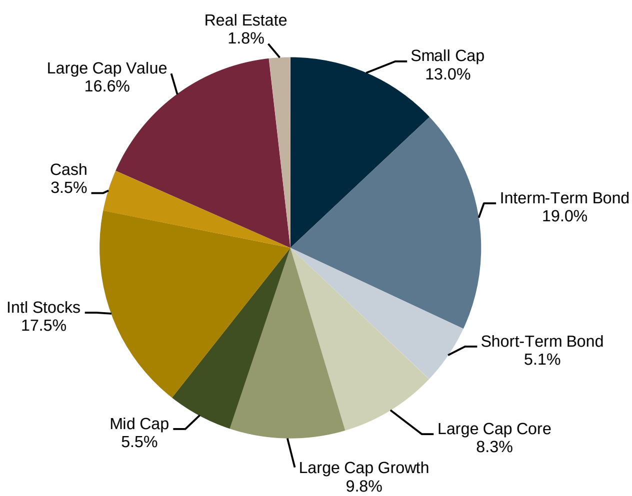
SAMPLE HOLDINGS

HighMark Plus (Active)
- Columbia Contrarian Core Z
- T. Rowe Price Growth Stock
- Columbia Small Cap Value II Z
- T. Rowe Price New Horizons
- Nationwide Bailard International Equities
- Nationwide HighMark Bond
- Vanguard Short-Term Invest-Grade Adm
- Loomis Sayles Value Y
- PIMCO Total Return
- Dodge & Cox International Stock
- MFS International Growth I
- First American Prime Obligation Z
- Prudential Total Return
- iShares Russell Mid-Cap ETF
- iShares Russell Mid-Cap Value
- Harbor Capital Appreciation
- Schroder Emerging Market Equity
- Dodge & Cox Stock
- Nuveen Real Estate Securities I

Index Plus (Passive)
- iShares S&P 500
- iShares S&P 500/Value
- iShares S&P 500/Growth
- iShares Russell 2000 Value
- iShares Russell 2000 Growth
- iShares MSCI EAFE
- iShares Russell Mid-Cap ETF
- iShares Russell Mid-Cap Value
- iShares Barclays Aggregate Bond
- Vanguard Short-Term Invest-Grade Adm
- First American Prime Obligation Z
- Vanguard FTSE Emerging Markets ETF
- Vanguard REIT ETF

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

STYLE



The performance records shown represent size-weighted composites of tax exempt accounts that meet the following criteria: Composites are managed by HighMark's HighMark Capital Advisors (HCA) with full investment authority according to the PARS Capital Appreciation active and passive objectives and do not have equity concentration of 25% or more in one common stock security.

The adviser to the PARS portfolios is US Bank, and HighMark serves as sub-adviser to US Bank to manage these portfolios. US Bank may charge clients as much as 0.60% annual management fee based on a sliding scale. As of June 30, 2016, the blended rate is 0.58%. US Bank pays HighMark 60% of the annual management fee for assets sub-advised by HighMark under its sub-advisory agreement with US Bank. The 36 basis points paid to HighMark, as well as other expenses that may be incurred in the management of the portfolio, will reduce the portfolio returns. Assuming an investment for five years, a 5% annual total return, and an annual sub-advisory fee rate of 0.36% deducted from the assets at market at the end of each year, a 10 million initial value would grow to $12.54 million after fees (Net-of-Fees) and $12.76 million before fees (Gross-of-Fees). Additional information regarding the firm's policies and procedures for calculating and reporting performance results is available upon request. In Q1 2010, the PARS Composite definition was changed from $750,000 minimum to no minimum. Performance results are calculated and presented in U.S. dollars and do not reflect the deduction of investment advisory fees, custody fees, or taxes but do reflect the deduction of trading expenses. Returns are calculated based on trade-date accounting.

Blended benchmarks represent HighMark's strategic allocations between equity, fixed income, and cash and are rebalanced monthly. Benchmark returns do not reflect the deduction of advisory fees or other expenses of investing but assumes the reinvestment of dividends and other earnings. An investor cannot invest directly in an index. The unmanaged S&P 500 Index is representative of the performance of large companies in the U.S. stock market. The MSCI EAFE Index is a free float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Free Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The US High Yield Master II Index tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. Wilshire REIT index measures U.S. publicly traded Real Estate Investment Trusts. The unmanaged Barclays Capital (BC) U.S. Aggregate Bond Index is generally representative of the U.S. taxable bond market as a whole. The Merrill Lynch (ML) 1-3 Year U.S. Corporate & Government Index tracks the bond performance of The ML U.S. Corporate & Government Index, with a remaining term to final maturity less than 3 years. The unmanaged Citigroup 1-Month Treasury Bill Index tracks the yield of the 1-month U.S. Treasury Bill.

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

HIGHMARK CAPITAL MANAGEMENT

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ABOUT THE ADVISER
HighMark® Capital Management, Inc. (HighMark) has over 90 years (including predecessor organizations) of institutional money management experience with more than $14.9 billion in assets under management. HighMark has a long term disciplined approach to money management and currently manages assets for a wide array of clients.

ABOUT THE PORTFOLIO MANAGEMENT TEAM

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

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

Salvatore "Tory" Milazzo III, CFA®
Senior Portfolio Manager
Investment Experience: since 2004
HighMark Tenure: since 2014
Education: BA, Colgate University

J. Keith Stribling, CFA®
Senior Portfolio Manager
Investment Experience: since 1985
HighMark Tenure: since 1995
Education: BA, Stetson University

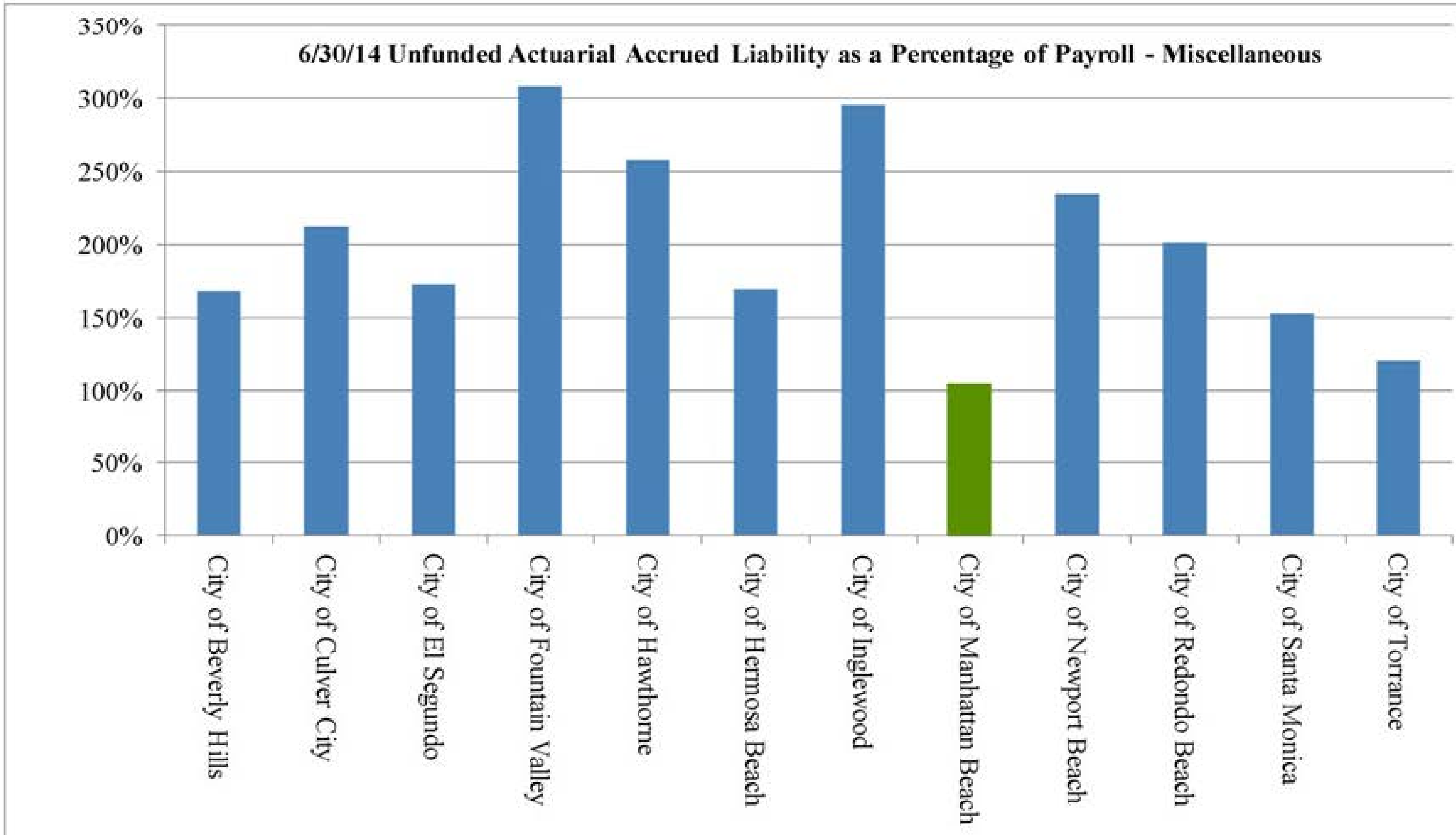
Christiane Tsuda
Senior Portfolio Manager
Investment Experience: since 1987
HighMark Tenure: since 2010
Education: BA, International Christian University, Tokyo

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

Asset Allocation Committee
Number of Members: 16
Average Years of Experience: 25
Average Tenure (Years): 12

Manager Review Group
Number of Members: 8
Average Years of Experience: 18
Average Tenure (Years): 6

AGENCY COMPARISON



*All results taken from most recently available CalPERS 6/30/14 valuation reports.

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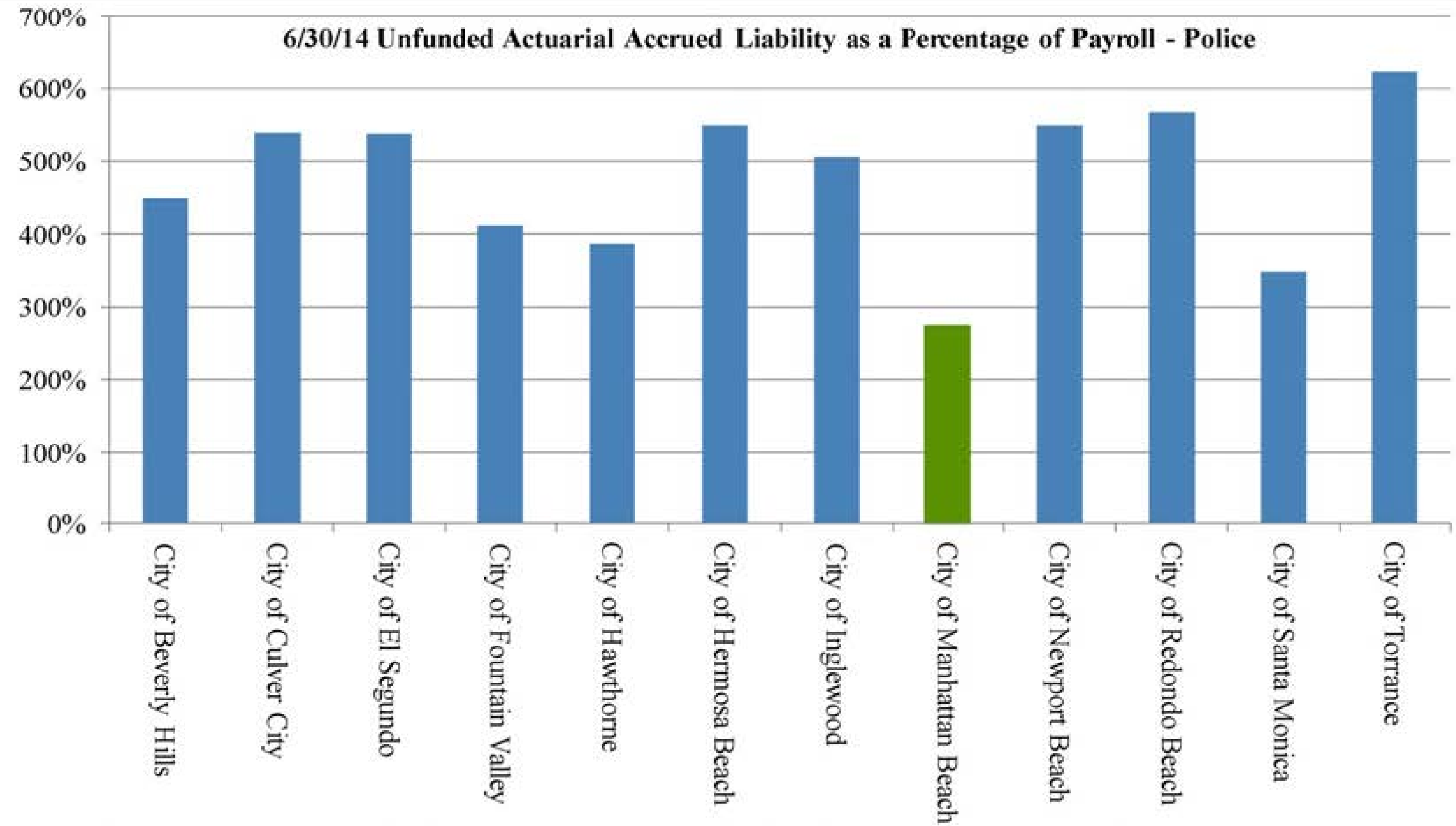

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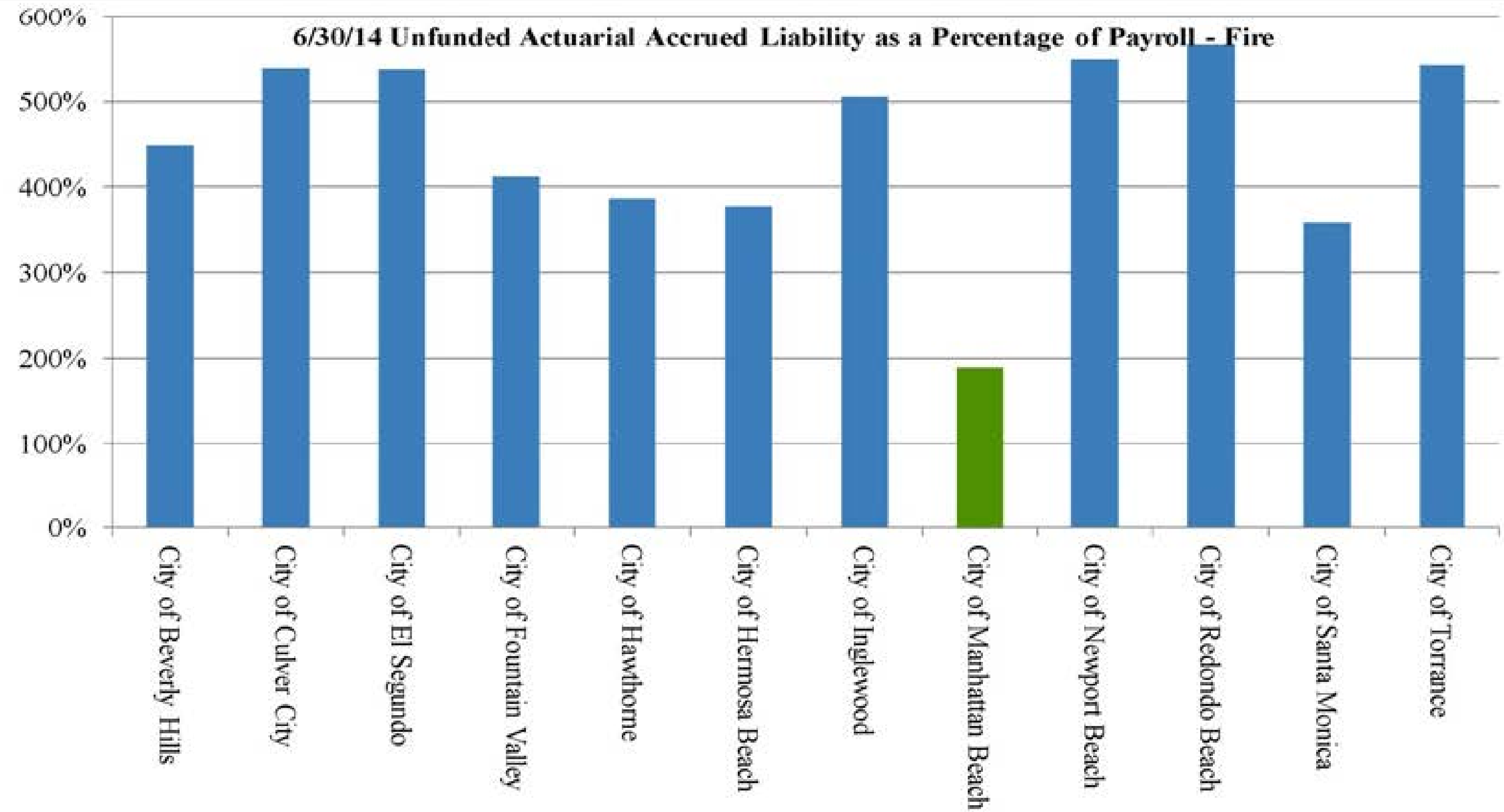
AGENCY COMPARISON



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May 23, 2016 49

Pension Rate Stabilization Program (**PRSP**)

- PARS worked with Marcus Wu from Pillsbury Winthrop and Shaw to develop a Section 115 trust to pre-fund retirement system obligations exclusively for California
- Favorable Private Letter Ruling (PLR) determination from the IRS received June 2015
- Forty-one (41) CA public agencies have adopted our program thus far:

Cities & Towns

City of Bell Gardens
City of Brea
City of Coronado
City of Fullerton
City of Healdsburg
City of Huntington Beach
City of La Mesa
City of Lake Forest
City of Morgan Hill
City of Napa
City of Rancho Cucamonga
City of Rohnert Park
City of Santa Ana
City of Sausalito
City of Solana Beach
City of Upland
Town of Colma
Town of Tiburon

Educational Districts

Grossmont-Cuyamaca CCD
Hartnell CCD
Victor Valley CCD
Yosemite CCD
Calistoga Joint USD
Hesperia Unified SD
Lakeside Union SD
Lemon Grove SD
Natomas USD
Ocean View SD
Ontario-Montclair SD
Placer Union SD
Whittier City SD

Counties

County of Humboldt
County of San Benito
County of Solano
County of Sutter

Special Districts

Delta Diablo (Sanitation District)
Great Basin Unified APCD
Rancho Cucamonga Fire PD
Superior Court of CA - County of Kern
Twentynine Palms Water District
West Bay Sanitary District

Updated: August 2016