

PUBLIC
AGENCY
RETIREMENT
SERVICES

PARS

TRUSTED SOLUTIONS. LASTING RESULTS.



KENSINGTON POLICE PROTECTION & COMMUNITY SERVICES DISTRICT

OPEB Prefunding and Pension Rate Stabilization Program (PRSP)

March 3, 2020

CONTACTS



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PARS 115 TRUST TEAM

Trust Administrator & Consultant



- Recordkeeping
- Sub-trust accounting
- Monitors plan compliance
- Processes contributions/disbursements
- Hands-on, dedicated support teams
- Coordinates all agency services

36

Years of Experience
(1984-2020)

1,400+

Plans under
Administration

900+

Public Agency
Clients

500K+

Plan Participants

\$4.1B

Assets under
Administration

Trustee



- 5th largest commercial bank and one of the nation's largest trustees for Section 115 trusts.
- Safeguard plan assets,
- Oversight protection as plan fiduciary
- Custodian of assets

157

Years of Experience
(1863-2020)

\$5.0T

Assets under
Administration

Investment Manager



- Investment sub-advisor to trustee U.S. Bank
- Investment policy assistance
- Uses open architecture
- Active and passive platform options
- Customized portfolios (with minimum asset level)

101

Years of Experience
(1919-2020)

\$17.4B

Assets under
Management

PARS 115 CLIENT LIST – BAY AREA (400+ TOTAL)

CITIES & TOWNS

City of Alameda
City of Brisbane
City of Burlingame
City of Cupertino
City of Daly City
City of Del Rey Oaks
City of Dublin
City of Emeryville
City of Gilroy
City of Half Moon Bay
City of Hercules
City of Livermore
City of Morgan Hill
City of Napa
City of Novato
City of Oakley
City of Orinda
City of Palo Alto
City of Piedmont
City of Pinole
City of Pittsburg
City of Pleasanton
City of Redwood City
City of Richmond
City of San Leandro
City of San Ramon
City of Santa Clara
City of Sausalito
City of Union City
Town of Atherton
Town of Colma
Town of Fairfax
Town of Los Altos Hills
Town of Los Gatos
Town of Ross
Town of San Anselmo
Town of Tiburon
Town of Woodside
Town of Yountville

COUNTIES

County of Contra Costa
County of Napa
County of Placer
County of Solano
County of Sutter

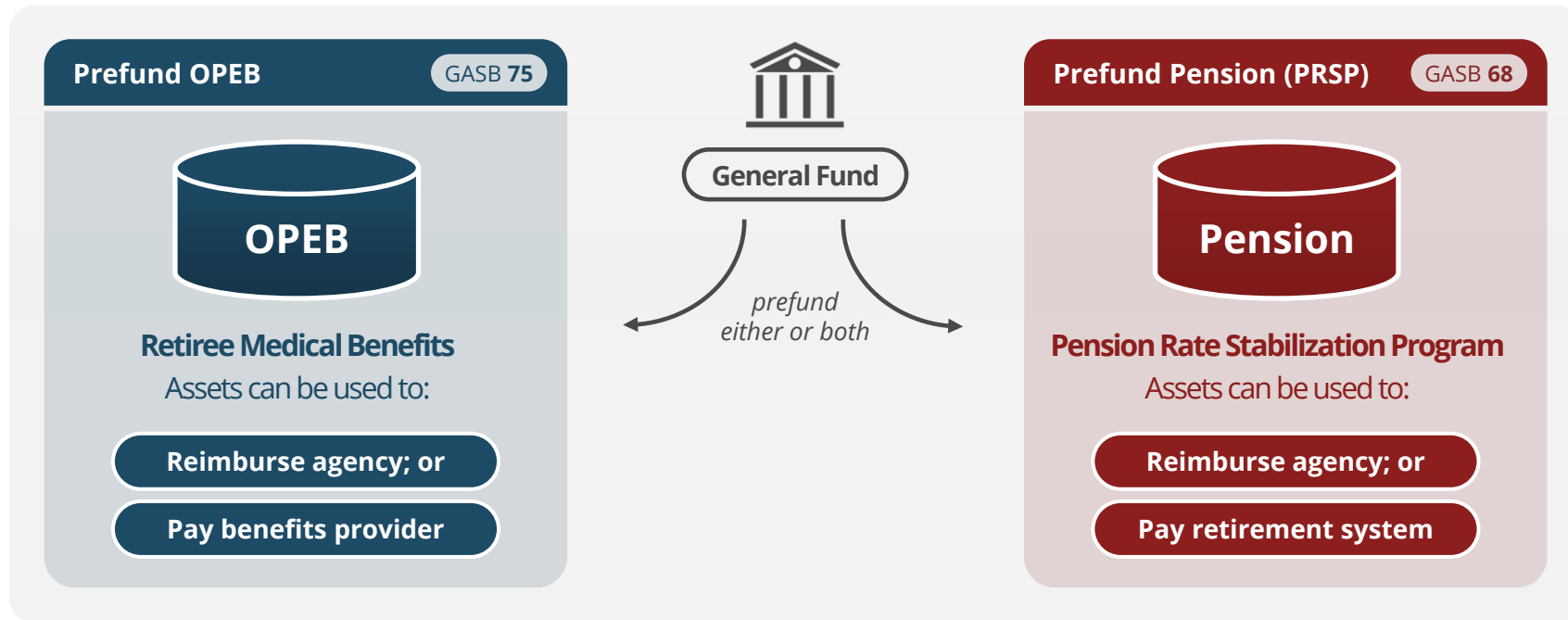
EDUCATIONAL DISTRICTS

Alisal Union School District
Calistoga Joint Unified School District
Campbell Union High School District
Hartnell Community College District
Marin Community College District
Napa Valley Unified School District
San Bruno Park School District
Santa Rita Union School District
West Valley-Mission Comm College District

SPECIAL DISTRICTS

Alameda County Mosquito Abatement District
California Joint Powers Risk Management Authority
Central Contra Costa Sanitary District
Central Contra Costa Transit Authority
Coastside Fire Protection District
Contra Costa County Employees' Retirement Assn
Contra Costa Mosquito & Vector Control District
Delta Diablo
East Bay Regional Park District
East Contra Costa Fire Protection District
Fort Ord Reuse Authority (FORA)
Hayward Area Recreation & Park District
Housing Authority of the County of Contra Costa
Menlo Park Fire Protection District
Midpeninsula Regional Open Space District
Mid-Peninsula Water District
Monterey Bay Unified APCD
Moraga-Orinda Fire Protection District
Napa County Mosquito Abatement District
Northern Salinas Valley Mosquito Abatement Dist
Novato Sanitary District
Pebble Beach Community Services District
San Mateo County Mosquito & Vector Control Dist
Sewer Authority Mid-Coastside
Southern Marin Fire Protection District
Superior Court of CA, County of Contra Costa
Superior Court of CA, County of Marin
Superior Court of CA, County of San Mateo
West Bay Sanitary District
West County Wastewater District

PARS IRS-APPROVED SECTION 115 TRUST



Subaccounts

OPEB and pension assets are individually sub-accounted, and can be divided by dept., bargaining group, or cost center



Financial Stability

Assets in the PARS Section 115 Combination Trust can be used to address unfunded liabilities.



Flexible Investing

Allows separate investment strategies for OPEB and pension subaccounts.



Anytime Access

Trust funds are available anytime; OPEB for OPEB and pension for pension.



Economies-of-Scale

OPEB and pension assets aggregate and reach lower fees on tiered schedule sooner – saving money!



No Set Up Cost or Minimums

No set-up costs, no minimum annual contribution amounts, and no fees until assets are added.

The

PARS PENSION RATE STABILIZATION PROGRAM

for prefunding pension obligations

WHAT IS A SECTION 115 TRUST?

- A Section 115 Trust can be used by local governments to fund essential governmental functions (i.e., retiree healthcare, pension)
- Any income derived from a Section 115 Trust is tax exempt
- Section 115 Trusts are irrevocable and designed to prefund retirement plan obligations
- Once contributions are placed into a Section 115 Trust, assets from the trust can only be used for retirement plan purposes:
 - reimburse Agency for retirement system contributions
 - assets can be transferred to retirement system at anytime for pension

BACKGROUND

- Since 2015, GASB 68 has required disclosing Net Pension Liability on financial statements as a line item on the balance sheet
- Before the concept of pension prefunding, the only way to reduce retirement system unfunded liabilities was to send additional contributions in excess of annual required employer contributions
- Pension trust prefunding assets can be transferred to the retirement system at the Agency's direction, which can help offset future rate increases (i.e., pension rate stabilization).

Upcoming CalPERS Changes

CalPERS has announced changes directly affecting unfunded liability amounts and employer contributions:

Lowered Discount Rate

7.5%
▼
7.0% CalPERS will be lowering the discount rate from 7.5% to 7.0% with a 3-year phase-in (in effect as of FY 2020-21)

Shortened Amortization Period

30 years
▼
20 years A new actuarial amortization policy for new liabilities, shortening the amortization period from 30 years to 20 years (as of FY 2021-22)



PENSION FUNDING STATUS

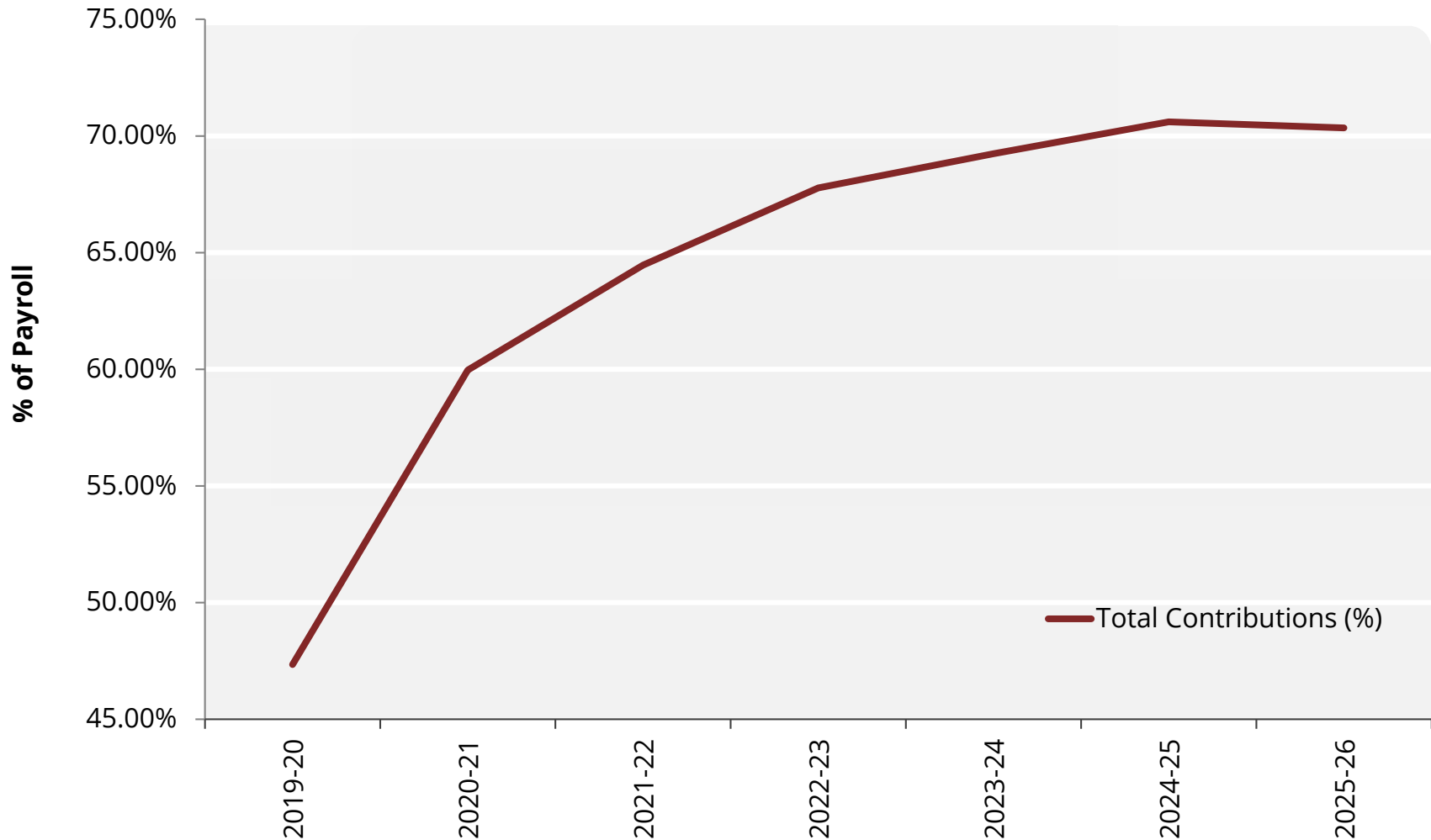
As of June 30, 2018, Kensington Police Protection and Community Service District’s plan is funded as follows*:

Actuarial Liability	\$14.9 M
Assets	\$10.7 M
Unfunded Liability	\$4.3 M
Funded Ratio	71.4%
Employer Contribution Amount (FY 19-20)	\$453.4 K
Projected Employer Contribution Amount (FY 25-26)	\$599.9 M (32.3% ↑)

* Data through 2025-26 from Agency’s latest CalPERS actuarial valuation.

PROJECTED EMPLOYER CONTRIBUTIONS (SAFETY)

Projected safety contributions increase from \$453.4K to \$599.9K* (32.3% ↑)



* Data through 2025-26 from Agency's latest CalPERS actuarial valuation.

WHY PREFUND PENSION OBLIGATIONS?

1. Complete Local Control over Assets

Agency has complete control over assets, including contributions, disbursements and the timing, amount, and risk tolerance level of investments

2. Pension Rate Stabilization

Assets can be transferred to the retirement system at the Agency's direction, potentially reducing/eliminating large fluctuations in employer contribution amounts

3. Rainy Day Fund

Emergency source of funds when employer revenues are strained in difficult budgetary or economic times

4. Diversified Investing

The PARS Trust allows for investment flexibility and offers the potential for assets to earn greater returns than the general fund

INVESTMENT FLEXIBILITY

- Agency maintains oversight of the investment manager and the portfolio's risk tolerance level
- Investment restrictions that apply to the general fund (CA Government Code 53601) are not applicable to assets held in The PARS Section 115 Irrevocable Trust
- Assets held in The PARS Section 115 Irrevocable Trust can be invested per Government Code Sections 53216 (Pension) and 53620 (OPEB)
- Investments can be diversified and invested in a prudent fashion
- Investments can be tailored to the Agency's unique demographics and needs
- Increased risk diversification



Diversified Investing

Assets held in The PARS Section 115 Irrevocable Trust can be diversely invested in a prudent fashion per Government Code Sections 53216 (Pension) and 53620 (OPEB).

GOV § 53216 (Pension)

GOV § 53620 (OPEB)



SIMPLE INVESTMENT APPROACH

1. Input Phase

- Target discount rate
- Risk tolerance
- Investment philosophy
- Asset allocation
- Timing on use of funds

2. Model Portfolios

Strategy	Equity
Capital Appreciation	65-85%
Balanced	50-70%
Moderate	40-60%
Moderately Conservative	20-40%
Conservative	5-20%

3. Portfolio Manager

- Makes recommendation
- Fiduciary responsibility
- Drafts investment policy
- Annual on-site reviews
- Cell phone access

HIGHMARK CAPITAL MANAGEMENT RETURNS

ACTIVE RETURNS AS OF DECEMBER 31, 2019

Strategy	Equity (%)	1 Year	3 Years	5 Years	10 Years
Capital Appreciation	65-85%	22.62%	10.46%	7.90%	9.00%
Balanced	50-70%	19.85%	9.59%	7.06%	8.25%
Moderate	40-60%	17.71%	8.54%	6.39%	7.44%
Moderately Conservative	20-40%	13.73%	6.67%	5.02%	5.96%
Conservative	5-20%	11.05%	5.35%	4.08%	4.71%

** Past performance does not guarantee future results*

PROGRAM FEES

As of December 31, 2019

Trust Administration/Consulting Fees*



Plan Set-Up Fee:

None

Ongoing Fees:

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

Discretionary Trustee/Investment Management Fees**



Plan Set-Up Fee:

None

Ongoing Fees:

0.35%	for assets under \$5 million
0.25%	for assets \$5-10 million
0.20%	for assets \$10-15 million
0.15%	for assets \$15-50 million
0.10%	for assets over \$50 million

* PARS does not receive any compensation from the investments or any commissions, back-end loads, or any other forms of compensation.

** Subject to change due to rebalancing.

SAMPLE FUNDING POLICIES

1. Contribute 50% of a given year's realized year end surplus to address pension liability
2. Contribute full amount of annual PERS employer cont., allowing anytime access to trust assets
3. Contribute funds to stabilize PERS employer Misc. and Safety rates through FY 23-24
4. "One equals five plan" - \$1M contribution for 5 years will save taxpayers \$5M over 25 years
5. Contribute Employer contribution equal to the 2.8% discount rate (as opposed to the standard 7.5% rate), with difference going into the Section 115 Trust
6. Maintain a 15% general fund reserve and target add'l cont. over and above that threshold
7. Earmark a portion of a local sales tax to be set aside for unfunded pension liabilities
8. Use ongoing savings from prepaying CalPERS unfunded liability vs. higher monthly payments
9. Use one-time revenue source & lower the minimum General Fund Reserve level (30% → 20%)

KEY PROGRAM ADVANTAGES

1. IRS-approved trust structure which protects the Agency from Day 1 of prefunding
2. Market pioneer and leader with over 200 PRSP client agencies in California
3. Low cost prefunding solution with economies-of-scale and low investment fees
4. No start-up costs
5. No minimum annual contribution amounts or minimum annual fees
6. No fees charged until assets are in trust
7. No trading fees
8. No termination fees or restrictions
9. True, historical return information over 1, 3, 5 and 10 year periods – not hypotheticals
10. Five active or passive risk tolerance portfolios in addition to a custom portfolio option

The

PARS OPEB TRUST PROGRAM

for prefunding Other Post-Employment Benefits

OPEB ACTUARIAL RESULTS

Data from 2018 CAFR Valuation Date: June 30, 2016	Prefunding Discount Rate: 7.28%
Actuarial Accrued Liability (AAL)	\$4,099,539
Actuarial Value of Assets	\$843,504
Unfunded Actuarial Accrued Liability (UAAL)	\$3,256,035
Funded Ratio (%)	20.58%
Actuarially Determined Contribution (ADC) for FY 2017-18	\$404,577
Annual Benefit Payments (Pay-as-you-Go) for FY 2017-18	\$142,894

Rule of thumb: For every one percent increase in the discount rate, the unfunded liability is lowered by 10-12%.

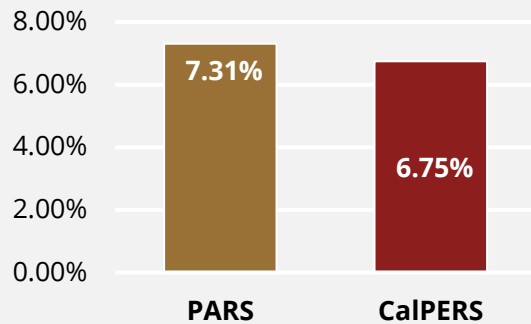
Note: \$1,500,776 in CalPERS CERBT assets as of June 30, 2019

PROGRAM ADVANTAGES



Greater Net Performance

PARS has greater returns, net of all fees. As of December 31, 2019, 5-Year Net Returns for the Capital Appreciation strategy are 7.31%, compared to 6.75% from CalPERS CERBT Strategy 1.



Dedicated Portfolio Manager

PARS offers a dedicated portfolio manager with onsite reviews, investment policy assistance, and cell phone access. CalPERS CERBT has no direct contact.

Greater Investment Flexibility

PARS offers 5 investment risk tolerance levels across both active and index platforms, as well as custom portfolios.

CalPERS offers 3 models only, and offers no choice of active, passive, or custom portfolios.

Greater Reimbursements

PARS can reimburse up to 2 years of OPEB expenses. CalPERS CERBT allows reimbursements for the current year only.

Complete Operating Transparency

HighMark Capital Management discloses individual holdings and their percentages by asset class – offering clients full transparency. CalPERS does not disclose individual holdings.

PARS conducts an annual SOC-1 audit of internal organizational controls, which is sent out to all client agencies. CalPERS does not offer an audit of their internal organizational processes.

Combination Trust (OPEB & Pension), Offering Economies-of-Scale and Lower Fees

The PARS Section 115 Combination Trust is capable of prefunding OPEB and/or pension. Using one portfolio manager brings economies-of-scale, efficiencies, and lower fees due to our tiered fee schedule. CalPERS doesn't offer a combination trust capable of prefunding OPEB and pension in the same trust.

PROGRAM ADVANTAGES: FULL SERVICE

1. Dedicated PARS Senior Consultant

- Ensures superior client satisfaction

2. Dedicated PARS Client Services Coordinator

- Customizes *Administrator's Handbook*
- Monitors contributions
- Processes disbursements to retiree medical provider, Agency, or retirees (stipend)
- Coordinates annual reviews and addresses all client concerns

3. Dedicated Investment Management Team

- Assists with Investment Policy Statement (versus no IPS from CalPERS)
- Conducts periodic onsite reviews of performance & market conditions (versus no on-site review)
- Frequency determined by the Agency
- Directly available by cell phone (versus no personal cell access)

NET PERFORMANCE FEE ANALYSIS

As of December 31, 2019

Over 1 Year

Over 3 Years

Over 5 Years

PARS/HIGHMARK	
Capital Appreciation (22% Fixed Income)	22.62%
minus weighted PARS administration fee	(-) 0.25%
minus weighted HighMark investment management fee	(-) 0.34%
1-Year Net Return	22.03%

PARS/HIGHMARK	
Capital Appreciation (22% Fixed Income)	10.46%
minus weighted PARS administration fee	(-) 0.25%
minus weighted HighMark investment management fee	(-) 0.34%
3-Year Net Return	9.87%

PARS/HIGHMARK	
Capital Appreciation (22% Fixed Income)	7.90%
minus weighted PARS administration fee	(-) 0.25%
minus weighted HighMark investment management fee	(-) 0.34%
5-Year Net Return	7.31%

CALPERS CERBT	
Strategy 1 (25% Fixed Income)	21.71%
minus fees	(-) 0.10%
1-Year Net Return	21.61%

CALPERS CERBT	
Strategy 1 (25% Fixed Income)	9.76%
minus fees	(-) 0.10%
3-Year Net Return	9.66%

CALPERS CERBT	
Strategy 1 (25% Fixed Income)	6.84%
minus fees	(-) 0.10%
5-Year Net Return	6.75%

* Subject to change due to rebalancing; fees are based on assets under \$5 million; past performance does not guarantee future results

PARS Investment Program

Q4 2019

About HighMark Capital Management, Inc.

LONGEVITY

Managing assets for clients since **1919***

TALENT

45 investment professionals
26 professionals hold the Chartered Financial Analyst® (CFA) designation
23 years average industry experience

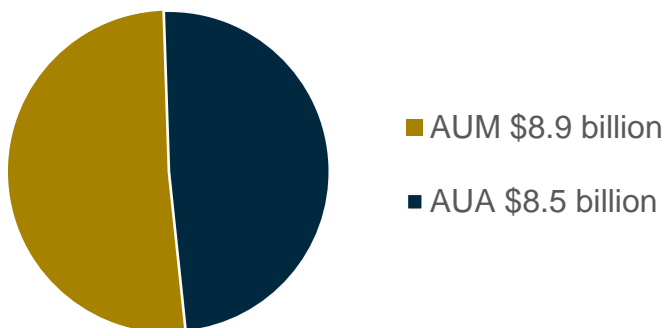
STABILITY

Investment boutique structure headquartered in San Francisco backed by global strength within MUFG Union Bank, N.A.

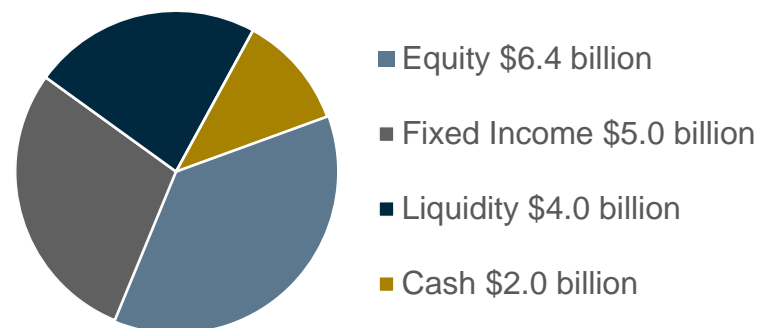
ASSETS UNDER MANAGEMENT AND ADVISEMENT**

\$17.4 billion as of 12/31/2019

Client Base



Asset Class



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

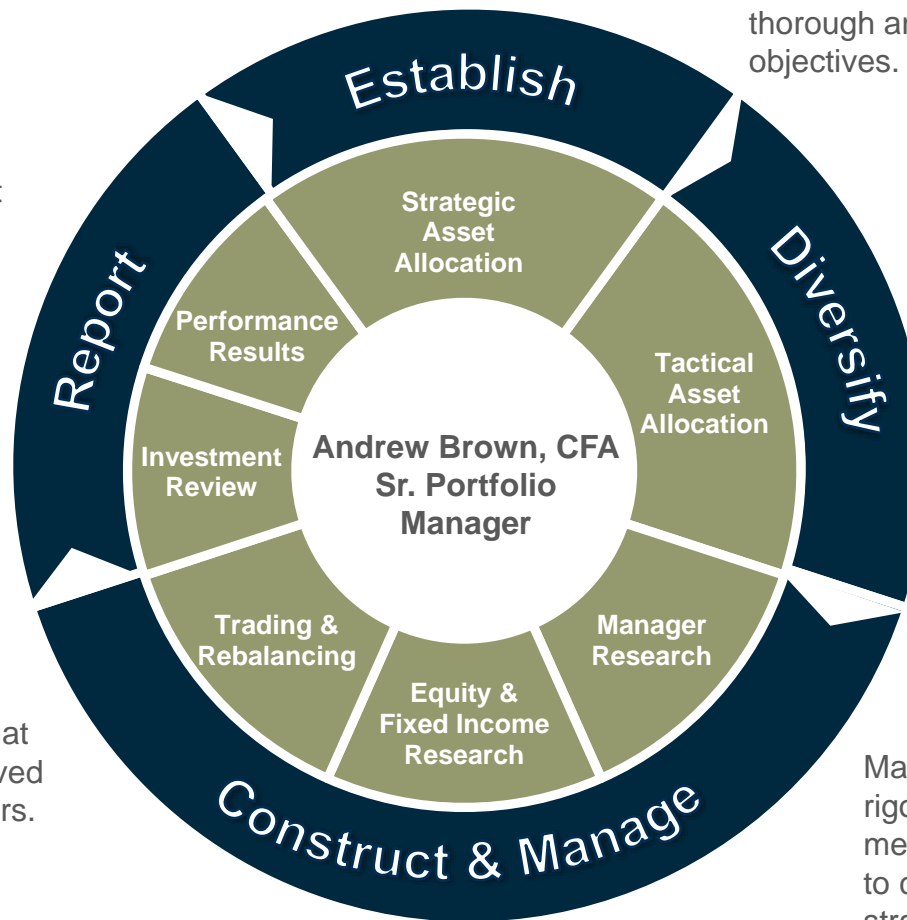
**Assets under management ("AUM") include assets for which HighMark provides continuous and regular supervisory and management services. Assets under advisement ("AUA") include assets for which HighMark provides certain investment advisory services (including, but not limited to, investment research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

Disciplined Investment Process

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

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

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



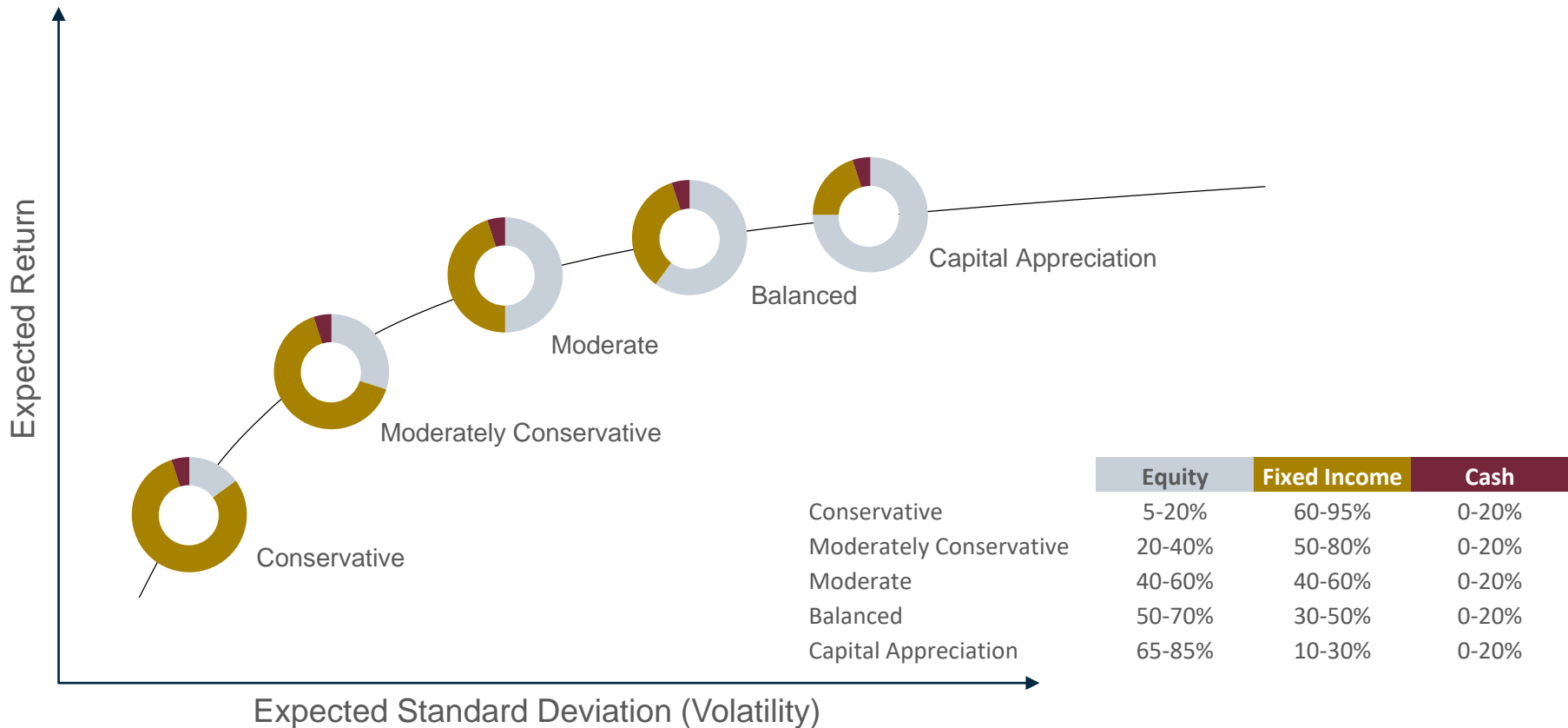
Asset Allocation Committee (AAC) employs a multi-factor approach to establish long-term strategic asset allocation ranges as well as provide tactical diversification guidelines in an effort to capitalize on short-term market opportunities.

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

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

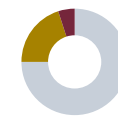
Establish: Determine your Strategic Asset Allocation Strategy

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



Each Investment Objective reflects the associated PARS Diversified Portfolio as of 12/31/2019. A client's portfolio construction may vary depending on the client's investment needs, objectives, and restrictions as well as the prevailing market conditions at the time of investment.

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



	Conservative	Moderately Conservative	Moderate	Balanced	Capital Appreciation
Equity	5-20%	20-40%	40-60%	50-70%	65-85%
<i>Current Tactical</i>	15.00%	30.00%	50.00%	60.00%	75.00%
Large Cap Blend	4.26%	8.66%	14.79%	18.00%	22.38%
Large Cap Value	1.90%	3.92%	6.67%	8.00%	9.80%
Large Cap Growth	1.40%	2.92%	5.00%	6.00%	7.30%
Mid Cap Blend	1.18%	2.35%	3.85%	4.70%	5.87%
Mid Cap Value	0.00%	0.00%	0.00%	0.00%	0.00%
Real Estate	0.97%	1.69%	2.84%	3.30%	4.07%
Small Cap Value	1.25%	2.29%	3.79%	4.50%	5.18%
Small Cap Growth	1.25%	2.29%	3.79%	4.50%	5.18%
International	1.80%	3.85%	5.95%	7.00%	10.08%
Tactical - Europe	0.00%	0.00%	0.00%	0.00%	0.00%
Emerging Markets	1.00%	2.02%	3.32%	4.00%	5.14%
Fixed Income	60-95%	50-80%	40-60%	30-50%	10-30%
<i>Current Tactical</i>	81.25%	66.85%	47.60%	38.00%	23.74%
Short Term Bond	16.75%	12.15%	8.80%	6.00%	2.64%
Intermediate Term Bond	64.50%	54.70%	38.80%	32.00%	21.10%
Floating Rate Note	0.00%	0.00%	0.00%	0.00%	0.00%
Cash	0-20%	0-20%	0-20%	0-20%	0-20%
<i>Current Tactical</i>	3.75%	3.15%	2.40%	2.00%	1.26%
TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%

Each Investment Objective reflects the associated PARS Diversified Portfolio as of 12/31/2019. A client's portfolio construction may vary depending on the client's investment needs, objectives, and restrictions as well as the prevailing market conditions at the time of investment.

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

	HighMark Plus (Active)		Index Plus (Passive)	
Equity	Ticker	Fund Name	Ticker	Fund Name
Large Cap Blend	COFYX	Columbia Contrarian Core I3	IVV	iShares Core S&P 500 ETF
Large Cap Blend	VGIAX	Vanguard Growth & Income Adm		
Large Cap Value	DODGX	Dodge & Cox Stock	IVE	iShares S&P 500 Value ETF
Large Cap Value	IVE	iShares S&P 500 Value ETF		
Large Cap Growth	HNACX	Harbor Capital Appreciation Ret	IVW	iShares S&P 500 Growth ETF
Large Cap Growth	PRUFX	T. Rowe Price Growth Stock I		
Mid Cap Blend	IWR	iShares Russell Mid-Cap ETF	IWR	iShares Russell Mid-Cap ETF
Real Estate	VNQ	Vanguard Real Estate ETF	VNQ	Vanguard Real Estate ETF
Small Cap Value	UBVFX	Undiscovered Managers Behavioral Val R6	IWN	iShares Russell 2000 Value ETF
Small Cap Growth	RSEJX	Victory RS Small Cap Growth R6	IWO	iShares Russell 2000 Growth ETF
International	DFALX	DFA Large Cap International Portfolio		
International	DODFX	Dodge & Cox International Stock		
International	MGRDX	MFS International Growth R6	EFA	iShares MSCI EAFE ETF
Emerging Markets	HHHYX	Hartford Schroders Emerging Mkts Eq Y	VWO	Vanguard FTSE Emerging Markets ETF
Fixed Income	Ticker	Fund Name	Ticker	Fund Name
Short Term Bond	VFSUX	Vanguard Short-Term Investment-Grade Adm	VFSUX	Vanguard Short-Term Investment-Grade Adm
Intermediate Term Bond	PTTRX	PIMCO Total Return Instl	AGG	iShares Core U.S. Aggregate Bond
Intermediate Term Bond	PTRQX	PGIM Total Return Bond Q		
Intermediate Term Bond	DBLFX	DoubleLine Core Fixed Income I		
Cash				
Characteristics				
Fund Manager Dependency		Higher dependency on portfolio manager skill		Tracks index, thus little-to-no dependency on portfolio manager skill
Opportunity to Outperform Index		Opportunity to outperform index		Typically performs below index after fees
Costs		Higher expense ratios due to portfolio manager skill		Lower expense ratio due to little dependency on portfolio manager skill or opportunity for outperformance

Each Investment Objective reflects the associated PARS Diversified Portfolio as of 12/31/2019. A client's portfolio construction may vary depending on the client's investment needs, objectives, and restrictions as well as the prevailing market conditions at the time of investment. Specific securities identified above do not represent all of the securities purchased, sold or recommended for advisory clients, and you should not assume that investments in the securities identified in this presentation were or will be profitable.

Report: Responsive and Proactive Client Communication

HighMark's dedicated investment team continuously seeks to add value to our relationship with your organization.

- Integrated client service program established with PARS over the last 23 years
- We have a tradition of interactive client service to maintain a strong relationship delivered by local portfolio managers
- You benefit from face-to-face meetings and scheduled conference calls with your client service team and portfolio management team
- You receive regular communications in a variety of formats
 - Account holdings and transactions
 - Quarterly performance evaluation reports
 - Investment outlook and economic updates



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Director
Sr. Portfolio Manager
Northern California



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



Hoddy Fritz
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Business
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Christiane Tsuda
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