# MONTECITO FIRE PROTECTION DISTRICT
# AGENDA FOR THE SPECIAL MEETING
# OF THE BOARD OF DIRECTORS

Montecito Fire Protection District Headquarters
595 San Ysidro Road
Santa Barbara, California

August 23, 2018 at 2:00 p.m.

Agenda items may be taken out of the order shown.

1. Public comment: Any person may address the Board at this time on any non-agenda matter that is within the subject matter jurisdiction of the Montecito Fire Protection District. (30 minutes total time allotted for this discussion.)

2. TIME CERTAIN: 2:00 Receive presentation from PARS/Highmark representatives regarding the Fire District's post-retirement plan trust. (Strategic Plan Goal 9)

3. Staff update regarding Federal Emergency Management Agency - Public Assistance Program 4353-DR-CA, December 2017 California Wildfires & Debris Flows. (Strategic Plan Goal 9)

    a. Staff Report presented by Battalion Chief Briner.

4. Approve the first reading by title only of Ordinance No. 2018-01 of the Montecito Fire Protection District amending Section 6 of Montecito Fire Protection District Ordinance No. 2016-01. (Strategic Plan Goal 2.1)

5. Approval of Minutes of the July 23, 2018 Regular Meeting.

6. Fire Chief's report.

7. Board of Director's report.

8. Suggestions from Directors for items other than regular agenda items to be included for the September 24, 2018 Regular Board meeting.

<u>Adjournment</u>

This agenda posted pursuant to the provisions of the Government Code commencing at Section 54950. The date of the posting is August 20, 2018.

MONTECITO FIRE PROTECTION DISTRICT

Note: In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the District office at 969-7762. Notification at least 48 hours prior to the meeting will enable the District to make reasonable arrangements.

Materials related to an item on this agenda submitted to the Board of Directors after distribution of the agenda packet are available for public inspection in the Montecito Fire Protection District's office located at 595 San Ysidro Road during normal business hours.

# Agenda Item #2


# MONTECITO FIRE PROTECTION DISTRICT

PUBLIC AGENCY RETIREMENT SERVICES | PARS

TRUSTED SOLUTIONS. LASTING RESULTS.

OPEB Prefunding Trust Program &
Pension Rate Stabilization Program (PRSP) Client Review
August 23, 2018

# CONTACTS

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# PARS TRUST TEAM

| PARS (Public Agency Retirement Services) | U.S. Bank | HighMark Capital Management |
|---|---|---|
| **Trust Administrator & Consultant** | **Trustee** | **Investment Manager** |
| • Recordkeeping/account valuations<br>• Monitors contributions<br>• Processes distributions<br>• Handles all agency/participant inquiries<br>• Monitor plan compliance | • Safeguards plan assets<br>• Oversight protection<br>• Plan fiduciary<br>• Custodian of assets | • An investment sub-advisor to U.S. Bank<br>• Manages plan investments according to established policy<br>• Uses open architecture<br>• Active and passive options |

## Corporate Experience

| | | |
|---|---|---|
| **34 years** (1984 – 2018) | **155 years** (1863 – 2018) | **99 years** (1919 – 2018) |

## Plans Under Administration

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

## Dollars under Administration

| | | |
|---|---|---|
| Over $3.0 billion | Over $4 trillion | Over $14.0 billion under management |

# SUMMARY OF AGENCY'S PLAN – OPEB

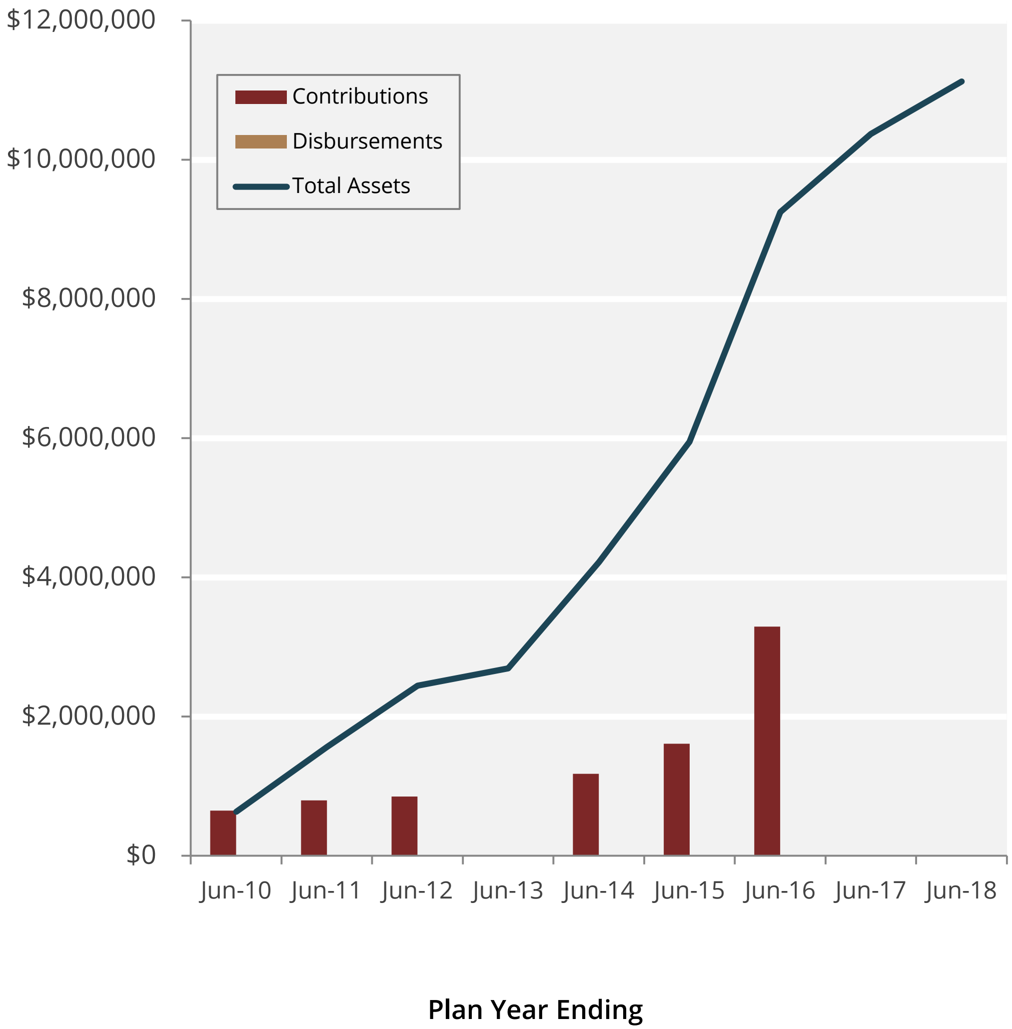
| | |
|---|---|
| **Plan Type:** | IRC Section 115 Irrevocable Exclusive Benefit Trust |
| **Trustee Approach:** | Discretionary |
| **Plan Effective Date:** | October 19, 2009 |
| **Plan Administrator:** | Fire Chief |
| **Current Investment Strategy:** | Balanced HighMark Plus (Active) Strategy; Individual Account |

## AS OF JUNE 30, 2018:

| | |
|---|---|
| **Initial Contribution:** | January 2010: $650,000 |
| **Additional Contributions:** | $7,725,803 |
| **Total Contributions:** | $8,375,803 |
| **Disbursements:** | $0 |
| **Total Investment Earnings:** | $2,956,602 |
| **Account Balance:** | $11,123,664 |

# SUMMARY OF AGENCY'S PLAN – OPEB

## CONTRIBUTIONS, DISBURSEMENTS, AND TOTAL ASSETS AS OF JUNE 30, 2018:




| Year | Contributions | Disbursements | Total Assets |
|---|---|---|---|
| Jun-10* | $650,000 | $0 | $633,471 |
| Jun-11 | $796,000 | $0 | $1,559,356 |
| Jun-12 | $849,899 | $0 | $2,443,688 |
| Jun-13 | $0 | $0 | $2,690,912 |
| Jun-14 | $1,175,856 | $0 | $4,217,056 |
| Jun-15 | $1,610,136 | $0 | $5,946,091 |
| Jun-16 | $3,293,912 | $0 | $9,247,387 |
| Jun-17 | $0 | $0 | $10,372,284 |
| Jun-18 | $0 | $0 | $11,123,664 |

*Plan Year Ending June 2010 is based on 6 months of activity.*

PUBLIC AGENCY RETIREMENT SERVICES PARS
TRUSTED SOLUTIONS. LASTING RESULTS.

# SUMMARY OF AGENCY'S PLAN – PENSION

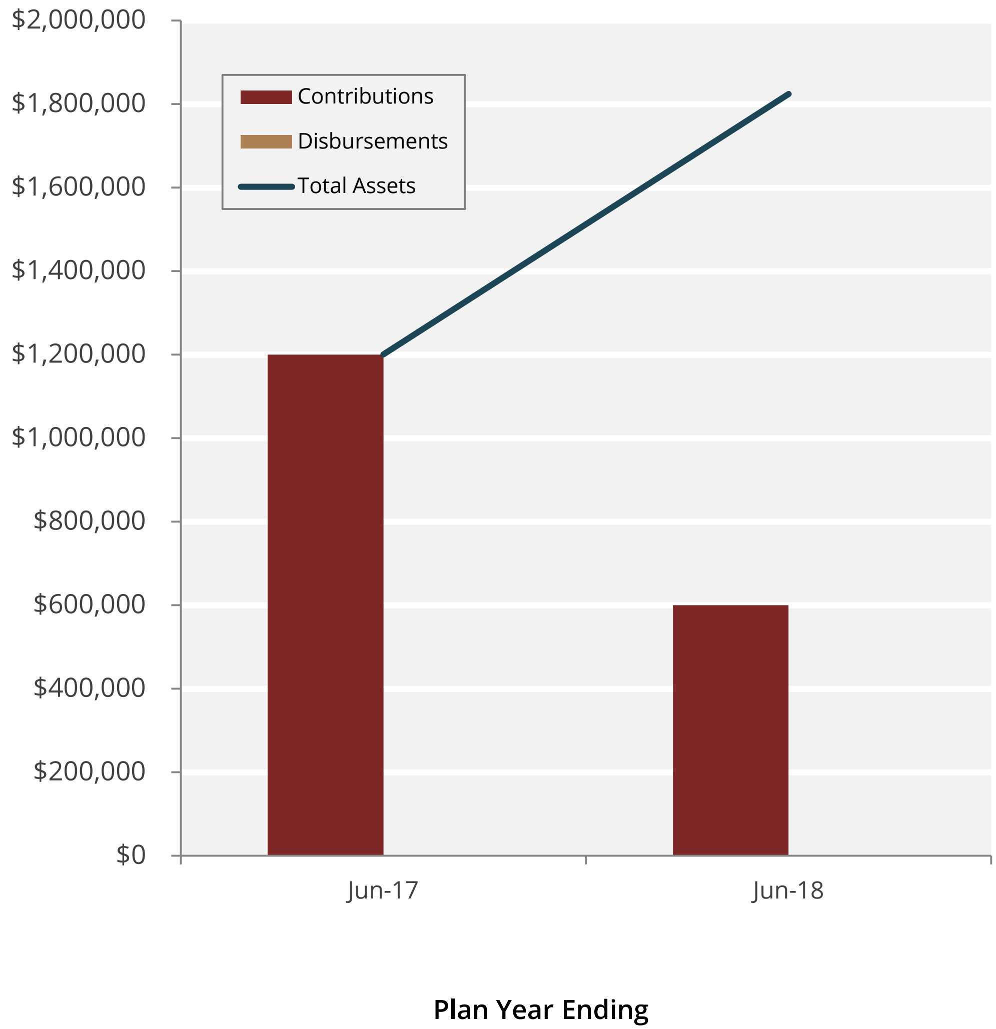
| | |
|---|---|
| **Plan Type:** | IRC Section 115 Irrevocable Exclusive Benefit Trust |
| **Trustee Approach:** | Discretionary |
| **Plan Effective Date:** | May 22, 2017 |
| **Plan Administrator:** | Fire Chief |
| **Plan Contact:** | District Accountant |
| **Current Investment Strategy:** | Moderately Conservative HighMark Plus (Active); Individual Account |

## AS OF JUNE 30, 2018:

| | |
|---|---|
| **Initial Contribution:** | June 2017 $1,200,000 |
| **Additional Contributions:** | $600,000 |
| **Total Contributions:** | $1,800,000 |
| **Disbursements:** | $0 |
| **Total Investment Earnings:** | $30,665 |
| **Account Balance:** | $1,823,878 |

# SUMMARY OF AGENCY'S PLAN – PENSION

## CONTRIBUTIONS, DISBURSEMENTS, AND TOTAL ASSETS AS OF JUNE 30, 2018:




| Year | Contributions | Disbursements | Total Assets |
|---|---|---|---|
| Jun-17* | $1,200,000 | $0 | $1,200,026 |
| Jun-18 | $600,000 | $0 | $1,823,878 |

**Plan Year Ending June 2017 is based on 1 months of activity*

# PARS: Montecito Fire Protection District
# August 23, 2018

**Presented by**
**Salvatore Milazzo, CFA**

HighMark® CAPITAL MANAGEMENT

## Selected Period Performance
## Aggregate Montecito FPD
## MFPD OPEB Aggregate
## Period Ending: 07/31/2018

| | 3 Months | Year to Date (7 Months) | 1 Year | 3 Years | 5 Years | 102 Months |
|---|---|---|---|---|---|---|
| Cash & Equivalents | .43 | .87 | 1.26 | .64 | .39 | .25 |
| *Lipper Money Market Funds Index* | *.41* | *.81* | *1.18* | *.54* | *.32* | *.19* |
| | | | | | | |
| Total Fixed Income | .68 | -1.32 | -.33 | 1.83 | 2.26 | 3.27 |
| *BBG Barclays US Aggregate Bd Index (USD)* | *.61* | *-1.59* | *-.80* | *1.49* | *2.25* | *3.02* |
| | | | | | | |
| Total Equities | 4.79 | 4.93 | 13.83 | 10.30 | 10.79 | 12.20 |
| *MSCI EAFE Index (Net)* | *-1.07* | *-.36* | *6.40* | *5.03* | *5.86* | *6.39* |
| *MSCI EM Free Index (Net USD)* | *-5.52* | *-4.61* | *4.36* | *8.94* | *5.25* | *4.32* |
| *Russell 2000 Index (USD)* | *8.69* | *9.54* | *18.73* | *12.04* | *11.33* | *14.30* |
| *Russell Midcap Index* | *5.54* | *4.90* | *13.45* | *10.21* | *11.51* | *14.48* |
| *S&P 500 Composite Index* | *6.87* | *6.47* | *16.24* | *12.52* | *13.12* | *14.38* |
| | | | | | | |
| Total Managed Portfolio | 3.19 | 2.46 | 8.04 | 6.89 | 7.12 | 8.12 |

Plan changed from Moderate to Balanced objective on 2/4/2014 Portfolio Inception: 02/01/2010

Returns are gross of account level investment advisory fees and net of any fees, including fees to manage mutual fund or exchange traded fund holdings. Returns for periods over one year are annualized. The information presented has been obtained from sources believed to be accurate and reliable. Past performance is not indicative of future returns. Securities are not FDIC insured, have no bank guarantee, and may lose value.

# ASSET ALLOCATION PARS/PRHCP BALANCED HM PLUS

## As of August 16, 2018

| Asset Class | Ticker | Fund Name | Weight |
|---|---|---|---|
| **Equity** | | ***Range: 40%-60%*** | **50.71%** |
| Large Cap Core | SMGIX | Columbia Contrarian Core Cl Z | 4.25% |
| | VGIAX | Vanguard Growth & Income Adm | 10.91% |
| Large Cap Value | DODGX | Dodge & Cox Stock Fund | 6.89% |
| Large Cap Growth | HNACX | Harbor Capital Appreciation Retirement | 2.49% |
| | PRUFX | T. Rowe Price Growth Stock I | 2.49% |
| Mid Cap Core | IWR | iShares Russell MidCap Index Fund | 4.02% |
| Small Cap Value | UBVLX | Undiscovered Mgrs Behavioral Value Inst | 4.89% |
| Small Cap Growth | PRJIX | T. Rowe Price New Horizons I | 3.75% |
| International Core | NWHMX | Nationwide Bailard Intl Equities I | 2.61% |
| International Value | DODFX | Dodge & Cox International Stock Fund | 1.90% |
| International Growth | MGRDX | MFS® International Growth I | 1.91% |
| Emerging Markets | HHHYX | Hartford Schroders Emerging Mkts Eq Y | 3.20% |
| Real Estate | VNQ | Vanguard REIT ETF | 1.40% |
| **Fixed Income** | | ***Range: 40%-60%*** | **46.20%** |
| Short-Term | VFSUX | Vanguard Short-Term Corp Adm Fund | 7.83% |
| Intermediate-Term | PTTRX | PIMCO Total Return Instl Fund | 12.80% |
| | PTRQX | Prudential Total Return Bond Fund Class Q | 12.78% |
| | DBLFX | Doubleline Core Fixed Income Fund | 12.78% |
| **Cash** | | ***Range: 0%-20%*** | **3.09%** |
| | FGZXX | First American Government Oblig Z | 3.09% |
| **TOTAL** | | | **100.00%** |

# Selected Period Performance
## PARS/MONTECITO FPD 115P - PENSION
## Account ID: -501
## Period Ending: 07/31/2018

| | 3 Months | Year to Date (7 Months) | 1 Year | Inception to Date 07/01/2017 |
|---|---|---|---|---|
| Cash & Equivalents | .42 | .86 | 1.25 | 1.20 |
| *Lipper Money Market Funds Index* | *.41* | *.81* | *1.18* | *1.14* |
| | | | | |
| Total Fixed Income | .57 | -1.38 | -.48 | -.03 |
| *BBG Barclays US Aggregate Bd Index (USD)* | *.61* | *-1.59* | *-.80* | *-.34* |
| | | | | |
| Total Equities | 4.66 | 4.61 | 13.27 | 13.36 |
| *MSCI EAFE Index (Net)* | *-1.07* | *-.36* | *6.40* | *8.71* |
| *MSCI EM Free Index (Net USD)* | *-5.52* | *-4.61* | *4.36* | *9.73* |
| *Russell 2000 Index (USD)* | *8.69* | *9.54* | *18.73* | *17.98* |
| *Russell Midcap Index* | *5.54* | *4.90* | *13.45* | *13.88* |
| *S&P 500 Composite Index* | *6.87* | *6.47* | *16.24* | *17.08* |
| | | | | |
| Total Managed Portfolio | 1.82 | .73 | 3.57 | 3.58 |

Returns are gross of account level investment advisory fees and net of any fees including fees to manage mutual fund or exchange traded fund holdings. Returns for periods over one year are annualized. The information presented has been obtained from sources believed to be accurate and reliable. Past performance is not indicative of future returns. Securities are not FDIC insured have no bank guarantee and may lose value.

# ASSET ALLOCATION PARS - MFPD 115P - PENSION - MODERATELY CONSERVATIVE

## As of August 16, 2018

| Asset Class | Ticker | Fund Name | Weight |
|---|---|---|---|
| **Equity** | | ***Range: 20%-40%*** | **30.88%** |
| Large Cap Core | SMGIX | Columbia Contrarian Core Cl Z | 2.46% |
| | VGIAX | Vanguard Growth & Income Adm | 6.31% |
| Large Cap Value | DODGX | Dodge & Cox Stock Fund | 3.89% |
| Large Cap Growth | HNACX | Harbor Capital Appreciation Retirement | 1.40% |
| | PRUFX | T. Rowe Price Growth Stock I | 1.41% |
| Mid Cap Core | IWR | iShares Russell MidCap Index Fund | 2.29% |
| Small Cap Value | UBVLX | Undiscovered Mgrs Behavioral Value Inst | 3.07% |
| Small Cap Growth | PRJIX | T. Rowe Price New Horizons I | 2.42% |
| International Core | NWHMX | Nationwide Bailard Intl Equities I | 2.07% |
| International Value | DODFX | Dodge & Cox International Stock Fund | 1.35% |
| International Growth | MGRDX | MFS® International Growth I | 1.45% |
| Emerging Markets | HHHYX | Hartford Schroders Emerging Mkts Eq Y | 1.91% |
| Real Estate | VNQ | Vanguard REIT ETF | 0.85% |
| **Fixed Income** | | ***Range: 50%-80%*** | **65.25%** |
| Short-Term | VFSUX | Vanguard Short-Term Corp Adm Fund | 11.79% |
| Intermediate-Term | PTTRX | PIMCO Total Return Instl Fund | 17.85% |
| | PTRQX | Prudential Total Return Bond Fund Class Q | 17.83% |
| | DBLFX | Doubleline Core Fixed Income Fund | 17.77% |
| **Cash** | | ***Range: 0%-20%*** | **3.87%** |
| | FGZXX | First American Government Oblig Z | 3.87% |
| **TOTAL** | | | **100.00%** |

# FUND PERFORMANCE

## PARS: Montecito Fire Protection District

## For Period Ending July 31, 2018

| Fund Name | 1-Month Return | 3-Month Return | Year-to-Date | 1-Year Return | 3-Year Return | 5-Year Return | 10-Year Return |
|---|---|---|---|---|---|---|---|
| **LARGE CAP EQUITY FUNDS** | | | | | | | |
| Columbia Contrarian Core Inst | 4.25 | 6.36 | 3.48 | 11.12 | 10.48 | 12.06 | 11.09 |
| Vanguard Growth & Income Adm | 3.67 | 6.92 | 6.66 | 16.99 | 12.42 | 13.18 | 10.33 |
| Dodge & Cox Stock | 4.59 | 6.71 | 5.60 | 14.91 | 12.20 | 12.63 | 10.09 |
| T. Rowe Price Growth Stock I | 1.59 | 6.25 | 11.75 | 20.89 | 14.47 | 16.77 | 12.73 |
| Harbor Capital Appreciation Retirement | 1.09 | 6.16 | 12.20 | 24.16 | 14.15 | 16.98 | 12.75 |
| **S&P 500 TR USD** | **3.72** | **6.87** | **6.47** | **16.24** | **12.52** | **13.12** | **10.67** |
| **MID CAP EQUITY FUNDS** | | | | | | | |
| iShares Russell Mid-Cap ETF | 2.48 | 5.49 | 4.79 | 13.28 | 10.02 | 11.32 | 10.62 |
| **SMALL CAP EQUITY FUNDS** | | | | | | | |
| Undiscovered Managers Behavioral Val L | 2.10 | 6.86 | 5.78 | 15.17 | 12.31 | 12.21 | 14.06 |
| **Russell 2000 Value TR USD** | **1.77** | **8.34** | **7.31** | **14.37** | **12.92** | **10.19** | **9.52** |
| T. Rowe Price New Horizons I | 1.40 | 10.47 | 16.68 | 27.86 | 16.39 | 16.31 | 16.03 |
| **Russell 2000 Growth TR USD** | **1.72** | **8.97** | **11.58** | **22.91** | **11.08** | **12.38** | **11.17** |
| **REAL ESTATE FUNDS** | | | | | | | |
| Vanguard Real Estate ETF | 0.74 | 8.71 | 0.73 | 1.76 | 5.85 | 7.89 | 7.75 |

| Fund Name | 1-Month Return | 3-Month Return | Year-to-Date | 1-Year Return | 3-Year Return | 5-Year Return | 10-Year Return |
|---|---|---|---|---|---|---|---|
| **INTERNATIONAL EQUITY FUNDS** | | | | | | | |
| Nationwide Bailard Intl Eqs R6 | 1.19 | -4.93 | -4.83 | 0.83 | 2.74 | 5.70 | 2.96 |
| Dodge & Cox International Stock | 4.81 | -1.98 | -2.68 | 0.92 | 4.25 | 5.57 | 4.34 |
| T. Rowe Price New Horizons I | 1.40 | 10.47 | 16.68 | 27.86 | 16.39 | 16.31 | 16.03 |
| MFS® International Growth R6 | 2.78 | 3.23 | 3.97 | 13.39 | 9.74 | 7.92 | 5.97 |
| **MSCI EAFE NR USD** | **2.46** | **-1.07** | **-0.36** | **6.40** | **5.03** | **5.86** | **3.43** |
| Hartford Schroders Emerging Mkts Eq Y | 2.17 | -4.14 | -4.02 | 6.53 | 10.67 | 5.88 | 3.66 |
| **MSCI EM Free** | **2.20** | **-5.52** | **-4.61** | **4.36** | **8.94** | **5.25** | **2.87** |
| **BOND FUNDS** | | | | | | | |
| Vanguard Short-Term Investment-Grade Adm | 0.14 | 0.60 | -0.17 | 0.00 | 1.58 | 1.77 | 2.84 |
| DoubleLine Core Fixed Income I | 0.19 | 0.69 | -0.74 | 0.22 | 2.26 | 3.16 | -- |
| PGIM Total Return Bond R6 | 0.19 | 0.52 | -1.69 | 0.14 | 2.91 | 3.62 | 5.81 |
| PIMCO Total Return Instl | 0.22 | 0.68 | -1.49 | -0.48 | 1.77 | 2.43 | 4.86 |
| **BBgBarc US Agg Bond TR USD** | **0.02** | **0.61** | **-1.59** | **-0.80** | **1.49** | **2.25** | **3.73** |

*Source: SEI Investments, Morningstar Investments*

*Returns less than one year are not annualized. Past performance is no indication of future results. The information presented has been obtained from sources believed to be accurate and reliable. Securities are not FDIC insured, have no bank guarantee and may lose value.*

# Economic and Market Perspectives
# Q3 2018

HIGHMARK®
CAPITAL MANAGEMENT

Account Name: PARS/PRHCP BALANCED HM PLUS

*As of: July 31, 2018*

Account ID: 6746019207

HighMark® CAPITAL MANAGEMENT

## Economic and Market Perspectives
## Q3 2018

### Introduction

After a tumultuous first quarter, investors found themselves adjusting to the shifting cross currents in global financial markets as the second quarter unfolded. Trade tensions took center stage, while worries about another wave of populism in Europe clouded investor optimism over domestic tax reform. Meanwhile, the Federal Reserve ("Fed") pressed on with its campaign to raise short-term interest rates and even suggested it might pick up its pace, albeit modestly.

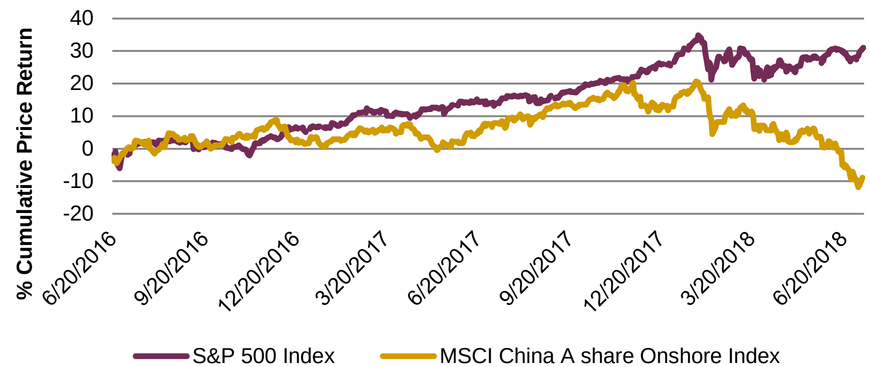
The shining bright spot of the second quarter was a robust corporate earnings season that handily beat analyst expectations. For the first quarter, earnings per share for the S&P 500 Index had increased nearly 25% year-over-year– the best performance since the third quarter of 2010, according to Factset. Investors took comfort in the expectation that domestic firms would use the windfall to fund equity-market friendly activity including share buybacks, increased capital expenditures and mergers and acquisitions.

Positive corporate earnings news and generally strong domestic economic data helped U.S. stock prices to recover lost ground from the first quarter. Looking to avoid exposure to the most trade-sensitive companies globally, investors favored shares of smaller companies with secular growth characteristics while shunning emerging market names[1].

Within fixed income markets, yields moved higher as the bellwether 10-year Treasury Note crossed the 3% mark in May for the first time since 2013. As the quarter closed out, long-term yields fell and the yield curve flattened, fueling fears of dimming economic growth. Most notably, investment-grade credit spreads widened from historically tight levels on concerns of growing leverage in the corporate sector. Indicative of the thirst for corporate debt, AT&T became the world's most indebted company with $180 billion in total debt after completing its acquisition of Time Warner.

Overseas, China remains an area to watch closely, both given its influence on the global economy and the ongoing structural challenges it faces. A growing rift with the U.S. on trade complicates the developing nation's cyclical picture, causing investors to flee the local equity market; which, until recently, had been tracking the U.S. stock market closely, as illustrated in the chart below.

**Parting Ways**




**Source:** Bloomberg

### Economic Highlights

**U.S. Growth:** The domestic economy grew at an annualized rate of 2% in the first quarter. The lackluster growth was consistent with trends for first-quarter readings of the past several years despite fiscal stimulus. Economists are forecasting an acceleration of growth in the second quarter[2].

**Inflation:** May's Core Consumer Price Expenditure Index, the Fed's preferred measure of inflation that excludes the costs of volatile food and energy prices, hit 2% for the first time since April 2012. Rising energy prices pushed May's headline inflation reading, the Consumer Price Index, to 2.8% - its fastest pace since February 2012[3].

[1] Morningstar. In the second quarter, the Russell 2000 Index outperformed the MSCI Emerging Markets Index.
[2] BEA.gov
[3] U.S. Bureau of Labor Statistics

**Account Name: PARS/PRHCP BALANCED HM PLUS**

***As of: July 31, 2018*** **Account ID: 6746019207**

HIGHMARK® CAPITAL MANAGEMENT

**Fed Funds:** In June, the Fed increased its short-term borrowing rate for the second time this year by 0.25% to 1.75% - 2.0%. The monetary policy setting body expects to hike rates an additional two more times before the end of the year, according to its survey of voting members known as the "dot plot."

**Employment:** Through June, the U.S. economy averaged 215,000 new jobs per month. Meanwhile, the unemployment rate ticked up to 4.0% from 3.8% in June, but this reflected good news as workforce participation has rallied after hitting a low of 62.3% in 2015. Wage growth has picked up modestly but remains tame at 2.7%, quelling fears of a meaningful acceleration in broader inflation[3].

**Housing:** Higher mortgage rates have yet to slow the housing market with low inventory continuing to support healthy price appreciation. In April, home prices rose by 6.4% over the prior 12 months according to the S&P Case-Schiller National Home Price Index.

**Corporate Earnings:** According to Factset, S&P 500 earnings grew by 25% in the first quarter as companies began reaping the benefits of tax reform. Consensus estimates for the second quarter call for a 20% increase in earnings with an 8.8% growth rate on top line revenue. A continued rebound in energy sector earnings has also contributed to strong results overall.

**Consumer Confidence:** Trade tensions and rising fuel prices weighed on consumer expectations, putting modest downward pressure on the Conference Board's Consumer Confidence Index. The index level stood at 126.4 in June, off its 14-year high of 130.0 in February.

**Energy:** Oil prices continued to rally as OPEC supply constraints and depleting inventories pushed West Texas Intermediate Crude up during the quarter to $74 per barrel - a level not seen since late 2014[4]. At the end of the quarter, the national average for a gallon of regular gasoline was $2.85 versus $2.45 at the beginning of the year[5].

**Market Returns as of June 30, 2018**

| | % Total Return | | | | | |
|---|---|---|---|---|---|---|
| *As of 6/30/2018* | **Q2 2018** | **YTD 2018** | **1-Year** | **3-Year** | **5-Year** | **10-Year** |
| S&P 500 | 3.4 | 2.7 | 14.4 | 11.9 | 13.4 | 10.2 |
| MSCI EAFE | -1.2 | -2.8 | 6.8 | 4.9 | 6.4 | 2.8 |
| MSCI Emerging Markets | -8.0 | -6.7 | 8.2 | 5.6 | 5.0 | 2.3 |
| Bloomberg Barclays US Aggregate Bond | -0.2 | -1.6 | -0.4 | 1.7 | 2.3 | 3.7 |
| ICE BofA ML US Treasury Bills | 0.5 | 0.8 | 1.3 | 0.7 | 0.4 | 0.4 |
| Bloomberg Commodity | 0.4 | 0.0 | 7.4 | -4.5 | -6.4 | -9.0 |

**Source:** Morningstar Direct
Periods greater than one year are annualized.

**Sizing up a Standoff**

As the cloud of a looming trade war continued to hang ominously over global financial markets during the second quarter, investor sentiment swung with every headline. Escalating threats of tariffs and other protectionist measures between the U.S. and its major trading partners were unwelcome offsets to a domestic fiscal stimulus package that was only starting to work its way through the economy. A brewing element of uncertainty sent investors into the areas of the market most immune from global trade strife.

To be sure, the timing of the Trump administration's all-encompassing trade offensive was no coincidence. With tax reform blowing a strengthening wind at the back of the American economy, the President felt he would now be in a better bargaining position to reset what his administration views as unbalanced trading terms and practices.

America's largest trading partners -- China, the EU, Mexico and Canada -- now find themselves simultaneously confronted by an unhappy customer. China, in particular, finds itself in President Trump's crosshairs not only for its substantially large trade surplus with the U.S., but also for a pattern of trade abuses that includes systematic intellectual property theft.

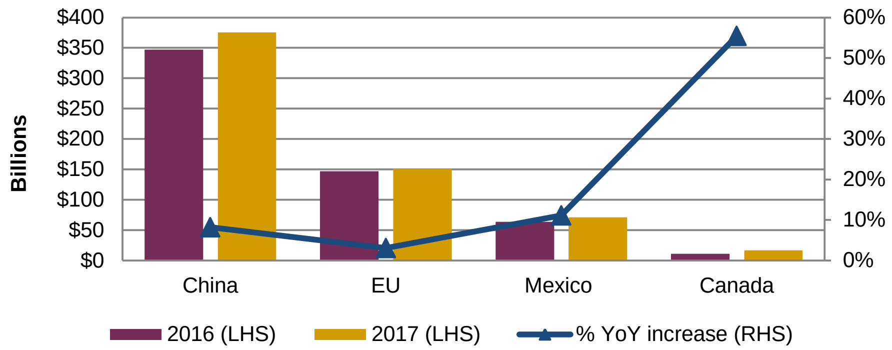
4 Federal Reserve Bank of St. Louis
5 EIA.gov

**As of: July 31, 2018**

**Account Name: PARS/PRHCP BALANCED HM PLUS**

**Account ID: 6746019207**

**U.S. Merchandise Trade Deficit**




**Source:** United States Census Bureau

In addition to the steel and aluminum import tariffs announced during the first quarter, President Trump included $50 billion worth of products from China to be subject to a 25% tariff, most of which are scheduled to take effect early in the third quarter. In response to a Chinese announcement of retaliatory tariffs, President Trump has asked the United States Trade Representative, Robert Lighthizer, to identify an additional $200 billion of Chinese imports for a 10% tariff. As the retaliation intensified, further salvos included a proposal for restrictions on Chinese investment in U.S. companies. There seemed almost no end in sight to the exchanges.

Such aggressive tactics on multiple fronts comes with the potential for both high risk and uncertain reward. As we noted in last quarter's Perspectives, protectionist policies are often lose–lose propositions. History has proven that the intention of protecting domestic industries is typically not achieved and the result causes significant, unintended harm to the economy. Could this time be different? To answer this question, it is important to first understand the administration's end game.

A key distinction in comparing current trade tensions and past periods of protectionism is the motivation behind such actions. Typically, governments have used tariffs as direct mechanisms to protect domestic industries from international competition. In this instance, however, tariffs and other measures are intended as leverage to remove existing barriers between America and its trading partners.

Peter Navarro, the administration's Director of Trade and Industrial Policy, framed the President's perspective succinctly by saying, "We're already in a trade war with China. The problem is we've not been fighting back Trump, through tariffs, wants to call a truce."

In other words, from the administration's perspective, President Trump's trade strategy is a means to an end to level the playing field. For example, during a tense G7 summit in early June, President Trump unexpectedly offered a fully free trade agreement to the leaders of the other six major countries. "No tariffs, no barriers, that's the way it should be," he said. Of course, such a resolution is much easier said than done, so it was no surprise that the President didn't find any willing takers on the spot. Perhaps the President was bluffing, but the offer did serve to reinforce his intentions.

The good news is that all indications point to the desire for negotiated settlements. Offers have been made, but no agreement has been reached with any country and negotiations remain ongoing. W-what then will each side be willing to settle for, and, perhaps more importantly, how far will this go? Both questions have no clear answer at this point. What is clear is that President Trump's conviction on this issue runs deep and he is unlikely to settle for symbolic concessions to win a political victory as many have anticipated. That's the bad news. We shouldn't expect any side to capitulate without a fight.

Such a proposition is clearly unsettling to global financial markets that crave certainty. There is no way to accurately predict the timing of an outcome that boils down to a test of political wills. On a positive note, some trading partners have already offered concessions. However, nothing yet has met the threshold of acceptability for the Trump administration. Until this happens, we expect elevated levels of volatility to persist across all asset classes and currencies.

Signs of progress will continue to be "risk-on" catalysts for investors, while further deterioration of the possibility for compromise will jeopardize the underpinnings of the global economic expansion and possibly cause a full blown global recession.

Ultimately, markets will not care about the motivation behind the tariffs if they are implemented for a protracted period of time. Even if a compromise is eventually reached significant economic damage can be done to all parties. Motivations only matter in the context of understanding the possibility of potential outcomes. While we acknowledge that no side wants to feel the pain of a trade war, the risks that all sides are digging in appear to be rising -- most recently with President Trump's call for increased tariffs on European auto imports, a step quickly countered with reciprocal threats by the EU.

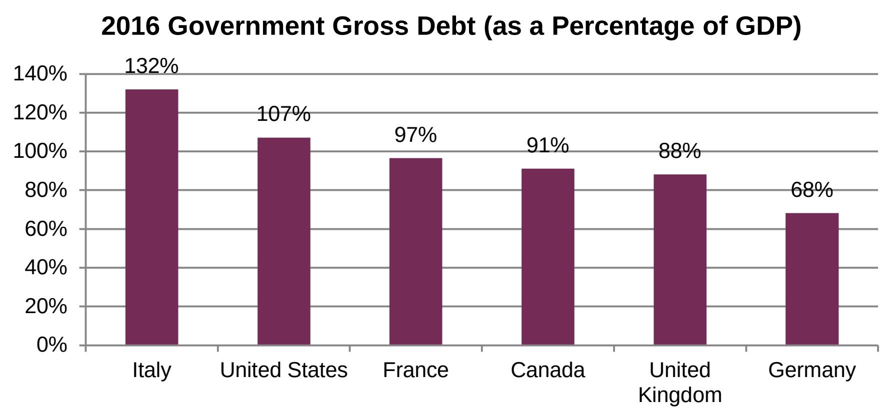
There is no denying that the investment implications of the standoff are significant and largely binary. Sorting through the game theory, our base case assumption is that rational thought will prevail and agreements are reached before irreversible damage is done. However, we cannot rule out the worst- case scenario, as those odds appear to be rising, and we advise investors not to stray far from their strategic asset allocation policy in the hope that their risk-on bets can time favorable equity market bounces.

**Geopolitical Challenges & Equity Markets**

**Italy**

Political uncertainty in Italy caused volatility in global equity markets in May, with interest rates and spreads also spiking, threatening any potential rebound in growth and introducing new risks to the region. While representing less than one percent of world equity markets, Italy is worth watching as it is a highly indebted country and any aggressive moves to leave the Euro currency or threats of debt cancellation could carry contagion risks for both the region and the world.

As shown in the chart below, Italy's Debt to GDP percentage is among the highest in the developed world, and nearly double that of Germany.




**Source:** International Monetary Fund, World Economic Outlook Database, April 2018

Governing has historically proven to be difficult in Italy, with 65 governments since the end of the Second World War. The 66th Italian government was recently formed with the extreme populist groups Five Star Movement and The League gaining control. Both parties have been vocal about leaving the Euro and the alliance is an unlikely combination of the extreme left-wing Five Star Movement and The League which represents the extreme right wing in Italy.

The popularity of extremist parties from both sides of the political spectrum results from over 20 years of subpar economic growth. Productivity growth and upward mobility have been dismal and Italy continues to lose export market share largely due to being uncompetitive in global markets. The coalition's agenda centers on cutting taxes, increasing deficit spending, reversing pension reforms, and cancelling outstanding Government debt, though recently much of this rhetoric has been dialed down.

Equity markets have seemingly recovered from the negative muscle memory of the European Debt Crisis of nearly a decade ago and today Europe is better equipped to handle potential disruptions from Italy's new government. The EU's economy is in stronger financial shape now versus 2011 and is at a better point in the growth cycle. Additionally, Europe's banking system is more financially sound and liquid than in the past, and financial institutions are subject to much more frequent stress tests by regulators. As a result, capital buffers in the banking system are double 2011's levels and can likely better absorb loan losses if Italy defaults on its debt.

Finally, the European Central Bank (ECB) has taken an aggressive stance in reminding markets that it will do "whatever it takes" to stabilize financial conditions. This is not mere posturing, as the ECB has many tools at its disposal including forward guidance, quantitative easing, zero interest rate policies, the European Stability Mechanism, and Outright Monetary Transactions.

We expect a collision course between Italy and its EU partners over spending and tax flexibility, and the potential for Italy to exit the Euro or the Eurozone is not an improbable event. In the event that it would occur, it would be much more painful for Italy than the United Kingdom's exit from the EU following the "Brexit" vote: the dual advantages of its own Pound currency and Central Bank would make the UK transition easier than in Italy where a monetary divorce would be far murkier.

While monetary separation might be smoother for the UK than for Italy, "Brexit" remains a source of considerable uncertainty as the deadline rapidly approaches. We believe that equity markets potentially misprice and underappreciate the challenges faced by the UK, as many issues and uncertainties remain and need to be sorted out.

**Account Name: PARS/PRHCP BALANCED HM PLUS**

***As of: July 31, 2018*** **Account ID: 6746019207**

**North Korea**

While the meeting of President Trump and North Korean leader Kim Jong-un was indeed a historic event, it failed to generate any noticeable market reaction. Even South Korean markets did not respond significantly to the news. The big takeaway is that the U.S. received nothing more than a broad commitment to begin a process. This "commitment" is not binding, and no specific details were released.

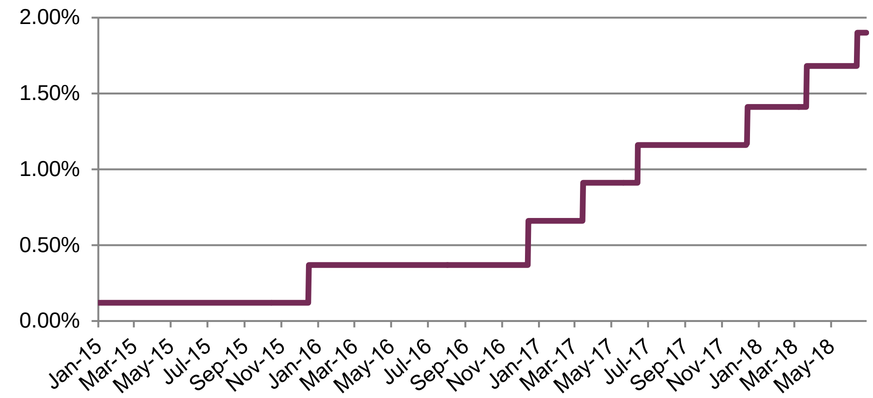
Markets seemed to mostly ignore the contentious saber rattling between the two leaders before the summit, and their lack of interest continued as the summit was seen as mere propaganda until concrete commitments and details emerge. Without question, however, the summit was generally positive for markets given the potential for de-escalating tensions between the two countries and their allies as well as the overall reduction of geopolitical risk.

Pressure from China and significant U.S. sanctions on financial institutions doing business with North Korea provided a key impetus for talks. However, sanctions remain in place and the U.S. military's commitment to the region is unchanged. Our outlook is that it is too early in the process to claim any real or meaningful victory from the summit. North Korea has been unreliable and has not followed through on promises made in the past. The market remains skeptical that negotiations will be different this time.

**Fed Stays on Track**

June's Federal Open Market Committee ("FOMC") meeting saw members raise the Federal Funds Rate to a range of 1.75% to 2%.The 2% upper bound is a notable milestone, as the last time the benchmark rate hit 2% was late in the summer of 2008 as the economy entered the Great Recession. The most recent rate hike, in our opinion, signals the beginning of the end of monetary policy required to see the U.S. through the recession and a definitive return to a more "normal" monetary policy.

**U.S. Federal Funds Effective Rate**




**Source:** Federal Reserve Bank of New York

In contrast to the dovish tone of May's FOMC meeting, the statement released after the June 12 to 13 meeting was slightly more hawkish than expected. The statement stressed continuing an accommodative monetary policy and cited revised forecasts of strengthening growth and inflation closing in on Fed target of 2%. During the remainder of 2018, the Fed's median projection is to raise rates twice more for a total of four for the year—one hike more than the three that were expected at the beginning of 2018.

The punchbowl is nearing overflow, with tight labor markets and strengthening GDP figures leading some to believe the Fed may need to slow the party with an additional hike before New Year's Day. When he was appointed, Chairman Powell's straightforward style of communicating with Fed watchers was seen as a positive development. Balancing an economy firing on all cylinders with concerns of overheating will require both nuance and plain speaking.

**Account Name: PARS/PRHCP BALANCED HM PLUS**

***As of: July 31, 2018*** **Account ID: 6746019207**

HIGHMARK® CAPITAL MANAGEMENT

**Conclusion**

Investors today find themselves in the midst of a painful but expected global normalizing process. Many of the headlines we see today are symptoms of a larger, underlying cause. Interest rates, inflation, volatility, and asset prices are recalibrating after nearly a decade of unprecedented government intervention in markets. While seemingly every asset class performed well during global Quantitative Easing, going forward macro fundamentals and appropriate valuations will drive market prices.

We will be watching several key indicators which may point a direction through the fog of the current investment environment. These include U.S. Dollar strength, inflationary pressures at home, changes in the domestic yield curve, and the ongoing battle between populist protectionism and free market orthodoxy around the world.

The rising tide that lifted all boats during this past expansion is now cresting, making the selection of individual boats much more important. Volatility and asset class performance dispersion have also returned to the markets, creating a fertile ground for active management. Investors will need to be highly discriminating in this climate and should avoid taking unnecessary risks without adequate compensation.

**Economic and Market Perspectives**
**Q3 2018**

David Wines, President & Chief Executive Officer
James St. Aubin, Managing Director and Head of Investment Strategy
Todd Lowenstein, Managing Director and Chief Equity Strategist

For more information, speak to your relationship manager or visit us at unionbank.com/theprivatebank

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HIGHMARK®
CAPITAL MANAGEMENT

PARS DIVERSIFIED PORTFOLIOS

# CONSERVATIVE

Q2 2018

## WHY THE PARS DIVERSIFIED CONSERVATIVE PORTFOLIO?

### Comprehensive Investment Solution

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

### Rigorous Manager Due Diligence

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

### Flexible Investment Options

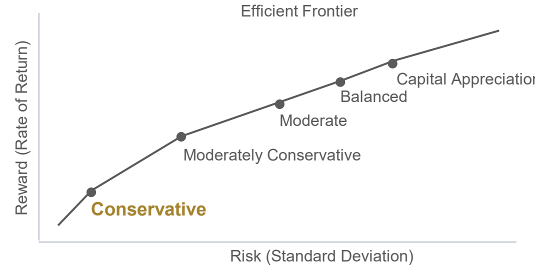
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation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

### Risk Management

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

## INVESTMENT OBJECTIVE

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




## ASSET ALLOCATION — CONSERVATIVE PORTFOLIO

| | Strategic Range | Policy | Tactical |
|---|---|---|---|
| Equity | 5 – 20% | 15% | 16% |
| Fixed Income | 60 – 95% | 80% | 78% |
| Cash | 0 – 20% | 5% | 6% |

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

HighMark Plus (Active)

| | |
|---|---|
| Current Quarter* | 0.14% |
| *Blended Benchmark*** | *0.47%* |
| Year To Date | -0.89% |
| *Blended Benchmark* | *-0.43%* |
| 1 Year | 1.88% |
| *Blended Benchmark* | *1.88%* |
| 3 Year | 3.04% |
| *Blended Benchmark* | *2.78%* |
| 5 Year | 3.51% |
| *Blended Benchmark* | *3.30%* |
| 10 Year | 4.29% |
| *Blended Benchmark* | *3.73%* |

Index Plus (Passive)

| | |
|---|---|
| Current Quarter* | 0.31% |
| *Blended Benchmark*** | *0.47%* |
| Year To Date | -0.86% |
| *Blended Benchmark* | *-0.43%* |
| 1 Year | 1.48% |
| *Blended Benchmark* | *1.88%* |
| 3 Year | 2.65% |
| *Blended Benchmark* | *2.78%* |
| 5 Year | 3.18% |
| *Blended Benchmark* | *3.30%* |
| 10 Year | 3.77% |
| *Blended Benchmark* | *3.73%* |

* 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% |
| 2016 | 4.18% |
| 2017 | 6.73% |

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% |
| 2016 | 3.75% |
| 2017 | 5.52% |

## PORTFOLIO FACTS

HighMark Plus (Active)

| | |
|---|---|
| Inception Data | 07/2004 |
| No of Funds in Portfolio | 18 |

Index Plus (Passive)

| | |
|---|---|
| Inception Data | 07/2004 |
| No of Funds in Portfolio | 12 |

## HOLDINGS

**HighMark Plus (Active)**

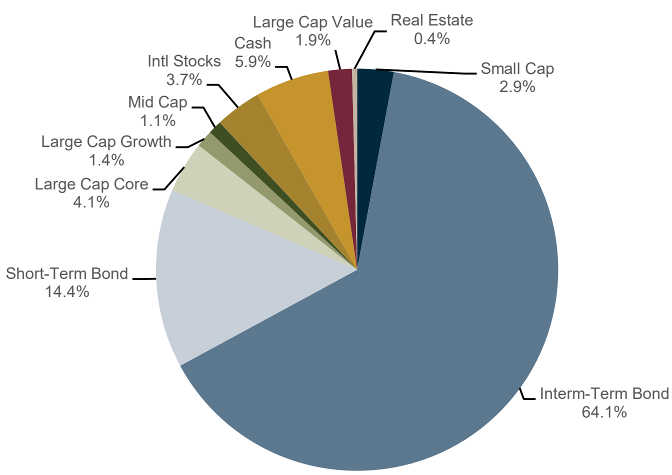
Columbia Contrarian Core Z
Vanguard Growth & Income Adm
Dodge & Cox Stock Fund
Harbor Capital Appreciation
T. Rowe Price Growth Stock
iShares Russell Mid-Cap ETF
Vanguard REIT ETF
Undiscovered Managers Behavioral Value
T. Rowe Price New Horizons
Nationwide Bailard International Equities
Dodge & Cox International Stock
MFS International Growth I
Hartford Schroders Emerging Markets Eq
Vanguard Short-Term Invest-Grade Adm
PIMCO Total Return
Prudential Total Return
DoubleLine Core Fixed Income
First American Government Obligations Z

**Index Plus (Passive)**

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

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

## STYLE




The performance records shown represent size-weighted composites of tax exempt accounts that meet the following criteria: 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, 2018, 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). Gross returns are presented before management and custodial fees but after all trading expenses and reflect the reinvestment of dividends and other income. Client's return will be reduced by the advisory fees and other expenses it may incur as a client. Additional information regarding the firm's policies and procedures for calculating and reporting performance results is available upon request. 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 Bloomberg 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, and public and private retirement plans. MUB, a subsidiary of MUFG Americas Holdings Corporation, provides certain services to HighMark and is compensated for these services. Past performance does not guarantee future results. Individual account management and construction will vary depending on each client's investment needs and objectives. **Investments employing HighMark strategies are NOT insured by the FDIC or by any other Federal Government Agency, are NOT Bank deposits, are NOT guaranteed by the Bank or any Bank affiliate, and MAY lose value, including possible loss of principal.**

**HIGHMARK CAPITAL MANAGEMENT**

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**ABOUT THE ADVISER**
HighMark® Capital Management, Inc. (HighMark) has nearly 100 years (including predecessor organizations) of institutional money management experience with more than $7.1 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

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

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

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

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

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

**Asset Allocation Committee**
Number of Members: 16
Average Years of Experience: 27
Average Tenure (Years): 14

**Manager Review Group**
Number of Members: 7
Average Years of Experience: 18
Average Tenure (Years): 6

HIGHMARK®
CAPITAL MANAGEMENT

PARS DIVERSIFIED PORTFOLIOS

# MODERATELY CONSERVATIVE

Q2 2018

## WHY THE PARS DIVERSIFIED MODERATELY CONSERVATIVE PORTFOLIO?

**Comprehensive Investment Solution**

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

**Rigorous Manager Due Diligence**

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

**Flexible Investment Options**

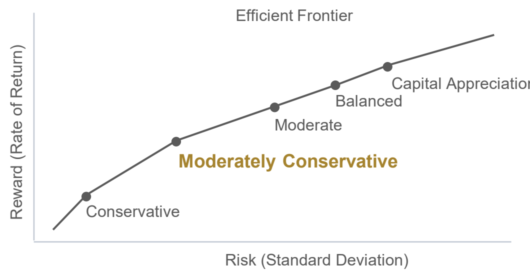
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation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

**Risk Management**

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

## INVESTMENT OBJECTIVE

To provide current income 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% | 31% |
| Fixed Income | 50 - 80% | 65% | 66% |
| Cash | 0 - 20% | 5% | 3% |

## ANNUALIZED TOTAL RETURNS

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

HighMark Plus (Active)

| | |
|---|---|
| Current Quarter* | 0.46% |
| *Blended Benchmark*** | *0.85%* |
| Year To Date | -0.46% |
| *Blended Benchmark* | *-0.09%* |
| 1 Year | 3.80% |
| *Blended Benchmark* | *3.75%* |
| 3 Year | 4.22% |
| *Blended Benchmark* | *4.17%* |
| 5 Year | 4.84% |
| *Blended Benchmark* | *4.86%* |
| 10 Year | 5.16% |
| *Blended Benchmark* | *4.88%* |

Index Plus (Passive)

| | |
|---|---|
| Current Quarter* | 0.62% |
| *Blended Benchmark*** | *0.85%* |
| Year To Date | -0.51% |
| *Blended Benchmark* | *-0.09%* |
| 1 Year | 3.23% |
| *Blended Benchmark* | *3.75%* |
| 3 Year | 3.96% |
| *Blended Benchmark* | *4.17%* |
| 5 Year | 4.62% |
| *Blended Benchmark* | *4.86%* |
| 10 Year | 4.70% |
| *Blended Benchmark* | *4.88%* |

* 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% |
| 2016 | 4.93% |
| 2017 | 9.56% |

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% |
| 2016 | 5.42% |
| 2017 | 8.08% |

## PORTFOLIO FACTS

HighMark Plus (Active)

| | |
|---|---|
| Inception Data | 08/2004 |
| No of Funds in Portfolio | 18 |

Index Plus (Passive)

| | |
|---|---|
| Inception Data | 05/2005 |
| No of Funds in Portfolio | 12 |

## HOLDINGS

**HighMark Plus (Active)**

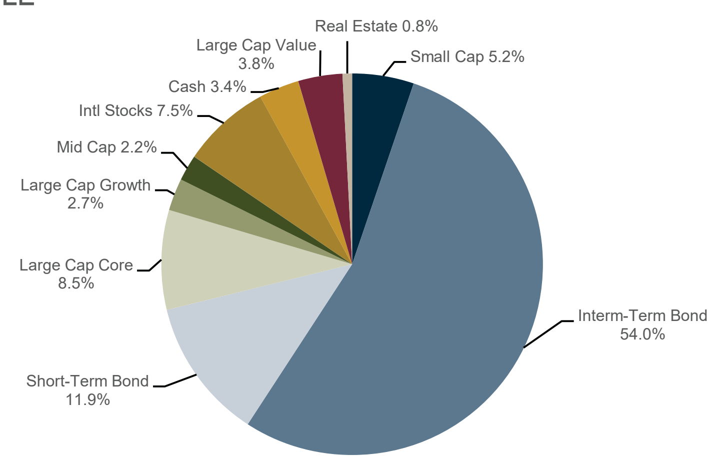
Columbia Contrarian Core Z
Vanguard Growth & Income Adm
Dodge & Cox Stock Fund
Harbor Capital Appreciation
T. Rowe Price Growth Stock
iShares Russell Mid-Cap ETF
Vanguard REIT ETF
Undiscovered Managers Behavioral Value
T. Rowe Price New Horizons
Nationwide Bailard International Equities
Dodge & Cox International Stock
MFS International Growth I
Hartford Schroders Emerging Markets Eq
Vanguard Short-Term Invest-Grade Adm
PIMCO Total Return
Prudential Total Return
DoubleLine Core Fixed Income
First American Government Obligations Z

**Index Plus (Passive)**

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

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

## STYLE




The performance records shown represent size-weighted composites of tax exempt accounts that meet the following criteria: 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, 2018, 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). Gross returns are presented before management and custodial fees but after all trading expenses and reflect the reinvestment of dividends and other income. Client's return will be reduced by the advisory fees and other expenses it may incur as a client. Additional information regarding the firm's policies and procedures for calculating and reporting performance results is available upon request. 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 Bloomberg 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, and public and private retirement plans. MUB, a subsidiary of MUFG Americas Holdings Corporation, provides certain services to HighMark and is compensated for these services. Past performance does not guarantee future results. Individual account management and construction will vary depending on each client's investment needs and objectives. **Investments employing HighMark strategies are NOT insured by the FDIC or by any other Federal Government Agency, are NOT Bank deposits, are NOT guaranteed by the Bank or any Bank affiliate, and MAY lose value, including possible loss of principal.**

**HIGHMARK CAPITAL MANAGEMENT**

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

www.highmarkcapital.com

**ABOUT THE ADVISER**
HighMark® Capital Management, Inc. (HighMark) has nearly 100 years (including predecessor organizations) of institutional money management experience with more than $7.1 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

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

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

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

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

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

**Asset Allocation Committee**
Number of Members: 16
Average Years of Experience: 27
Average Tenure (Years): 14

**Manager Review Group**
Number of Members: 7
Average Years of Experience: 18
Average Tenure (Years): 6

HIGHMARK®
CAPITAL MANAGEMENT

PARS DIVERSIFIED PORTFOLIOS

# MODERATE

Q2 2018

## 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**

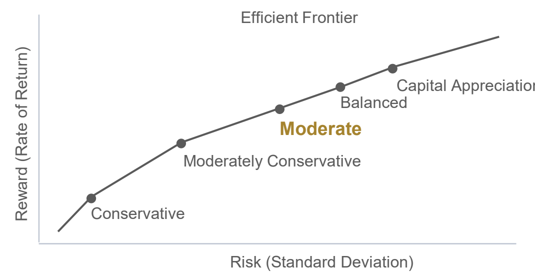
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation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

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

HighMark Plus (Active)

| | |
|---|---|
| Current Quarter* | 1.01% |
| *Blended Benchmark*** | *1.45%* |
| Year To Date | 0.27% |
| *Blended Benchmark* | *0.60%* |
| 1 Year | 6.42% |
| *Blended Benchmark* | *6.40%* |
| 3 Year | 5.82% |
| *Blended Benchmark* | *5.96%* |
| 5 Year | 6.59% |
| *Blended Benchmark* | *6.84%* |
| 10 Year | 6.02% |
| *Blended Benchmark* | *6.18%* |

Index Plus (Passive)

| | |
|---|---|
| Current Quarter* | 1.13% |
| *Blended Benchmark*** | *1.45%* |
| Year To Date | 0.09% |
| *Blended Benchmark* | *0.60%* |
| 1 Year | 5.77% |
| *Blended Benchmark* | *6.40%* |
| 3 Year | 5.56% |
| *Blended Benchmark* | *5.96%* |
| 5 Year | 6.36% |
| *Blended Benchmark* | *6.84%* |
| 10 Year | 5.98% |
| *Blended Benchmark* | *6.18%* |

* 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% |
| 2016 | 6.44% |
| 2017 | 13.19% |

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% |
| 2016 | 7.23% |
| 2017 | 11.59% |

## PORTFOLIO FACTS

HighMark Plus (Active)

| | |
|---|---|
| Inception Data | 10/2004 |
| No of Funds in Portfolio | 18 |

Index Plus (Passive)

| | |
|---|---|
| Inception Data | 05/2006 |
| No of Funds in Portfolio | 12 |

## HOLDINGS

**HighMark Plus (Active)**

Columbia Contrarian Core Z
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Dodge & Cox Stock Fund
Harbor Capital Appreciation
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iShares Russell Mid-Cap ETF
Vanguard REIT ETF
Undiscovered Managers Behavioral Value
T. Rowe Price New Horizons
Nationwide Bailard International Equities
Dodge & Cox International Stock
MFS International Growth I
Hartford Schroders Emerging Markets Eq
Vanguard Short-Term Invest-Grade Adm
PIMCO Total Return
Prudential Total Return
DoubleLine Core Fixed Income
First American Government Obligations Z

**Index Plus (Passive)**

iShares Core S&P 500 ETF
iShares S&P 500/Value
iShares S&P 500/Growth
iShares Russell Mid-Cap ETF
Vanguard REIT ETF
iShares Russell 2000 Value
iShares Russell 2000 Growth
iShares MSCI EAFE
Vanguard FTSE Emerging Markets ETF
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First American Government Obligations Z

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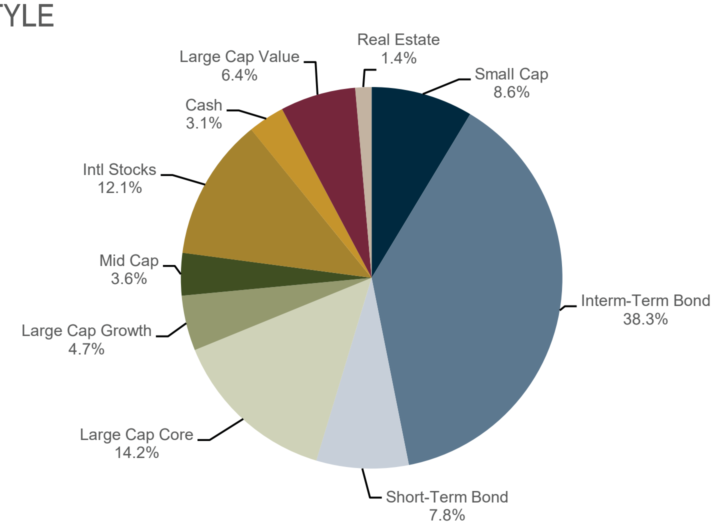
## STYLE

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

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

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

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

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

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

**Asset Allocation Committee**
Number of Members: 16
Average Years of Experience: 27
Average Tenure (Years): 14

**Manager Review Group**
Number of Members: 7
Average Years of Experience: 18
Average Tenure (Years): 6

HIGHMARK® CAPITAL MANAGEMENT

PARS DIVERSIFIED PORTFOLIOS

# BALANCED

Q2 2018

## WHY THE PARS DIVERSIFIED BALANCED PORTFOLIO?

**Comprehensive Investment Solution**

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

**Rigorous Manager Due Diligence**

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

**Flexible Investment Options**

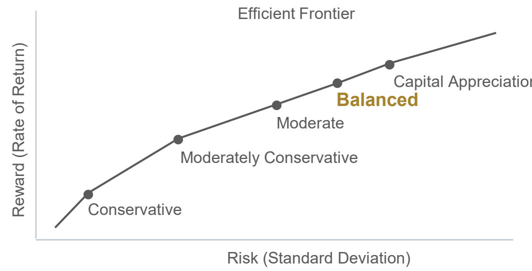
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation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

**Risk Management**

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

## INVESTMENT OBJECTIVE

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




## ASSET ALLOCATION — BALANCED PORTFOLIO

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

## ANNUALIZED TOTAL RETURNS

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

| HighMark Plus (Active) | | Index Plus (Passive) | |
|---|---|---|---|
| Current Quarter* | 1.28% | Current Quarter* | 1.32% |
| *Blended Benchmark*** | *1.74%* | *Blended Benchmark*** | *1.74%* |
| Year To Date | 0.66% | Year To Date | 0.27% |
| *Blended Benchmark* | *0.92%* | *Blended Benchmark* | *0.92%* |
| 1 Year | 7.93% | 1 Year | 6.93% |
| *Blended Benchmark* | *7.75%* | *Blended Benchmark* | *7.75%* |
| 3 Year | 6.58% | 3 Year | 6.35% |
| *Blended Benchmark* | *6.85%* | *Blended Benchmark* | *6.85%* |
| 5 Year | 7.47% | 5 Year | 7.25% |
| *Blended Benchmark* | *7.84%* | *Blended Benchmark* | *7.84%* |
| 10 Year | 6.46% | 10 Year | 6.41% |
| *Blended Benchmark* | *6.88%* | *Blended Benchmark* | *6.88%* |

* 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) | | Index Plus (Passive) | |
|---|---|---|---|
| 2008 | -25.72% | 2008 | -23.22% |
| 2009 | 21.36% | 2009 | 17.62% |
| 2010 | 14.11% | 2010 | 12.76% |
| 2011 | -0.46% | 2011 | 1.60% |
| 2012 | 13.25% | 2012 | 11.93% |
| 2013 | 16.61% | 2013 | 15.63% |
| 2014 | 4.70% | 2014 | 6.08% |
| 2015 | 0.04% | 2015 | -0.81% |
| 2016 | 6.82% | 2016 | 8.26% |
| 2017 | 15.46% | 2017 | 13.39% |

## PORTFOLIO FACTS

| HighMark Plus (Active) | | Index Plus (Passive) | |
|---|---|---|---|
| Inception Data | 10/2006 | Inception Data | 10/2007 |
| No of Funds in Portfolio | 18 | No of Funds in Portfolio | 12 |

## HOLDINGS

**HighMark Plus (Active)**

Columbia Contrarian Core Z
Vanguard Growth & Income Adm
Dodge & Cox Stock Fund
Harbor Capital Appreciation
T. Rowe Price Growth Stock
iShares Russell Mid-Cap ETF
Vanguard REIT ETF
Undiscovered Managers Behavioral Value
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Vanguard Short-Term Invest-Grade Adm
PIMCO Total Return
Prudential Total Return
DoubleLine Core Fixed Income
First American Government Obligations Z

**Index Plus (Passive)**

iShares Core S&P 500 ETF
iShares S&P 500/Value
iShares S&P 500/Growth
iShares Russell Mid-Cap ETF
Vanguard REIT ETF
iShares Russell 2000 Value
iShares Russell 2000 Growth
iShares MSCI EAFE
Vanguard FTSE Emerging Markets ETF
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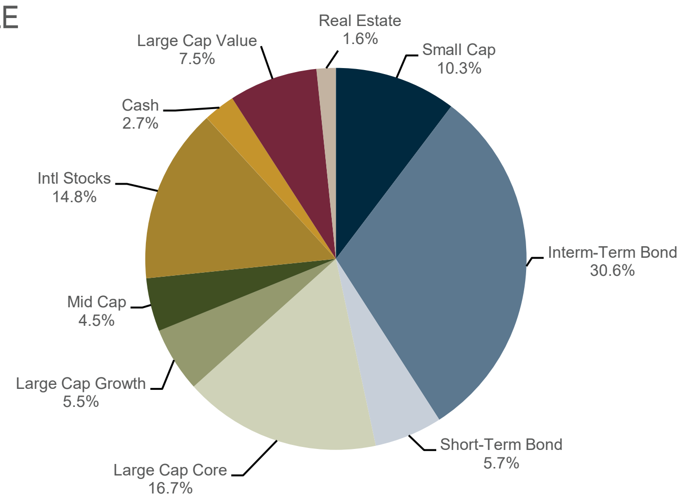
*Holdings are subject to change at the discretion of the investment manager.*

## 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 Balanced active and passive objectives and do not have equity concentration of 25% or more in one common stock security.

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, 2018, 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). Gross returns are presented before management and custodial fees but after all trading expenses and reflect the reinvestment of dividends and other income. Client's return will be reduced by the advisory fees and other expenses it may incur as a client. Additional information regarding the firm's policies and procedures for calculating and reporting performance results is available upon request. 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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800-582-4734

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Education: BA, International Christian University, Tokyo

**Anne Wimmer, CFA®**
Senior Portfolio Manager
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Education: BA, University of California, Santa Barbara

**Randy Yurchak, CFA®**
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**Manager Review Group**
Number of Members: 7
Average Years of Experience: 18
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HIGHMARK®
CAPITAL MANAGEMENT

PARS DIVERSIFIED PORTFOLIOS

# CAPITAL APPRECIATION

Q2 2018

## 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

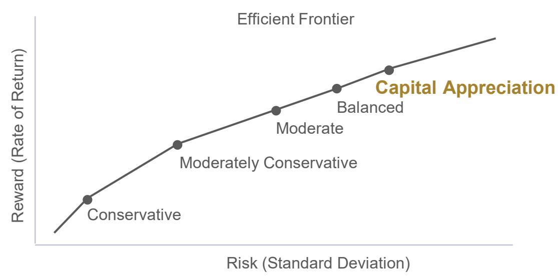
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation 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% | 76% |
| Fixed Income | 10 - 30% | 20% | 22% |
| Cash | 0 - 20% | 5% | 2% |

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

| | |
|---|---|
| Current Quarter* | 1.61% |
| *Blended Benchmark*** | *2.03%* |
| Year To Date | 1.22% |
| *Blended Benchmark* | *1.26%* |
| 1 Year | 9.66% |
| *Blended Benchmark* | *9.65%* |
| 3 Year | 7.64% |
| *Blended Benchmark* | *8.04%* |
| 5 Year | 9.00% |
| *Blended Benchmark* | *9.19%* |
| Inception to Date (114-Mos.) | 10.44% |
| *Blended Benchmark* | *11.14%* |

* 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% |
| 2016 | 8.81% |
| 2017 | 16.72% |

## PORTFOLIO FACTS

| HighMark Plus (Active) | | Index Plus (Passive) | |
|---|---|---|---|
| Inception Data | 01/2009 | Inception Data | N/A |
| No of Funds in Portfolio | 18 | No of Funds in Portfolio | 12 |

## HOLDINGS

**HighMark Plus (Active)**

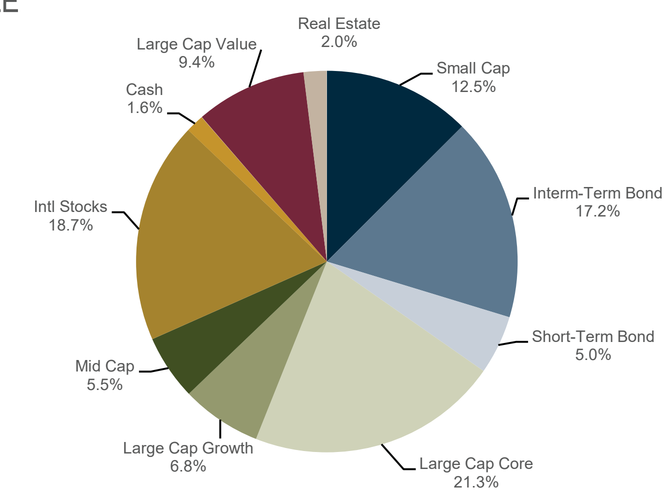
Columbia Contrarian Core Z
Vanguard Growth & Income Adm
Dodge & Cox Stock Fund
Harbor Capital Appreciation
T. Rowe Price Growth Stock
iShares Russell Mid-Cap ETF
Vanguard REIT ETF
Undiscovered Managers Behavioral Value
T. Rowe Price New Horizons
Nationwide Bailard International Equities
Dodge & Cox International Stock
MFS International Growth I
Hartford Schroders Emerging Markets Eq
Vanguard Short-Term Invest-Grade Adm
PIMCO Total Return
Prudential Total Return
DoubleLine Core Fixed Income
First American Government Obligations Z

**Index Plus (Passive)**

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

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

## STYLE

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# Agenda Item #3

# STAFF REPORT

**Prepared for:** Montecito Fire Protection District Board of Directors
**Prepared by:** Chief Hickman, Fire Chief
**Date:** August 23, 2018
**Topic:** Federal Emergency Management Agency - Public Assistance Program 4353-DR-CA, December 2017 California Wildfires & Debris Flows

## Summary

The District's request for Public Assistance (PA) for the December 2017 California Wildfires and subsequent Debris Flow event was approved by the Federal Emergency Management Agency (FEMA) on March 26th, 2018. The District is currently participating in the FEMA PA Process and is requesting reimbursement for costs directly attributed to the Thomas Fire and Debris Flow disasters that were incurred during the incident period. The Incident period began on December 4, 2017 and is still open.

The FEMA PA process incorporates both the federal and state reimbursement processes. FEMA PA reimburses 75% of eligible expenses and the California Disaster Assistance Act (CDAA) will reimburse 75% of the remaining 25% (18.75%), leaving the District with a cost-share of 6.25%.

## Background

The Thomas Fire began on Monday, December 4, 2017 near Steckel Park in Santa Paula and moved into the Montecito front-country on December 15th. The fire was fully contained on January 12, 2018.

On December 7, 2017, Governor Brown proclaimed a State of Emergency in Santa Barbara County as a result of the Thomas Fire. On December 20, 2017, the Governor requested a declaration for Public Assistance, including direct Federal assistance for four counties and Hazard Mitigation statewide.

On January 2, 2018, President Trump declared that a major disaster existed in the State of California. This declaration made Public Assistance, including direct Federal assistance requested by the Governor available to state and eligible local governments on a cost-sharing basis for emergency work and the repair or replacement of facilities damaged by the wildfires in Santa Barbara County. This declaration also made Hazard Mitigation Grant Program assistance requested by the Governor available for hazard mitigation measures statewide.

At approximately 3:30 am on the morning of January 9, 2018 a strong low-pressure system brought heavy rain to the areas in Montecito previously affected by the Thomas Fire causing several major debris flows. Subsequent to the Debris Flow disaster on January 9, FEMA combined the Thomas Fire and Debris Flow events into one disaster: *4353-DR-CA, December 2017 California Wildfires & Debris Flows.*

On February 16, 2018, I was assigned to perform the FEMA PA process for the Montecito Fire District. This involves identifying damaged facilities, creating project worksheets in conjunction with FEMA representatives for each project, providing documentation and support for all expenditures submitted for reimbursement and ensuring the necessary work is properly completed.

## Discussion

The District has five separate projects currently at various stages in the Public Assistance reimbursement process.

1. **District generator (approximately $50,000)**
   A cost for the District generator has not been submitted as it is pending a completed RFP which is being handled by a project manager concurrently with the station 1 roof project. As soon as the RFP process is complete, actual costs for the generator will be submitted.

2. **District housing (unknown – depends on insurance reimbursement amount)**
   Costs associated with the District housing have also not been submitted, since we are waiting on the insurance process to be complete before we can finalize the actual cost to the District.

3. **RAWS (approximately $20,000)**
   The RAWS project has been submitted, reviewed, and approved by the Central Recovery Center (CRC) in Texas and will be sent to the state for dispersal of funds.

4. **Emergency Protective Measures (approximately $5,000,000)**
   This is by far our largest project totaling approximately $5,000,000, which includes $3,000,000 related to the Thomas Fire cost apportionment and $2,000,000 in Extraordinary Staffing and Support costs for the Thomas Fire, Debris Flow and Pre-positions 1 & 3. Emergency Protective Measures expenditures have been submitted to the CRC for review. This review process is estimated to be complete within the next 4-6 weeks.

5. **Donated Resources (approximately $200,000)**
   Any donated resources that are received and used for emergency services during the event period can be used to offset the District's cost-share amount. This project has been submitted to the CRC and is currently being reviewed.

## Conclusion

The unknown final costs of the generator and the District housing, as well as the fact that the Emergency Protective Measures and Donated Resources projects are currently in review, make it difficult to determine an exact final cost to the District. Assuming that the expenses submitted are deemed eligible and the estimates for the generator and housing are accurate, the final cost to the District will be approximately $350,000 excluding the offset for Donated Resources.

Once a project has been through the CRC review in Texas, it is submitted to the state for reimbursement. Generally it takes the state approximately 6-8 weeks to process and disperse the reimbursement of funds. Per our FEMA Project Manager, the District should receive the majority, if not the entire, reimbursement of funds within the 2018 calendar year.

## Strategic Plan Reference

Strategic Plan Goal #9: Ensure Financial Accountability and Transparency

# Agenda Item #4

**ORDINANCE NO. 2018-__**

**AN ORDINANCE OF THE GOVERNING BOARD OF THE MONTECITO FIRE PROTECTION DISTRICT AMENDING SECTION 6 OF MONTECITO FIRE PROTECTION DISTRICT ORDINANCE NO. 2016-01.**

WHEREAS, the Montecito Fire Protection District operates under the provisions of California's Fire Protection District Law of 1987, wherein the State Legislature declared that the local provision of fire protection services, rescue services, emergency medical services, hazardous material emergency response services and other services relating to the protection of lives and property is critical to the public peace, health and safety of the State of California and that local control over the types, levels and availability of these services is a long-standing tradition in California; and

WHEREAS, the State Legislature has also declared that its intent is to provide broad statutory authority for local fire protection districts, encouraging local officials to adopt powers and procedures set forth in the Fire Protection District Law of 1987 to meet their own circumstances and responsibilities; and

WHEREAS, on November 28th, 2016, pursuant to Health and Safety Code section 13869.7, the Governing Board of the Montecito Fire Protection District adopted Ordinance No. 2016-01, which made certain amendments to the building standards relating to fire and panic safety that are more stringent than those building standards adopted by the State Fire Marshall and contained in the California Building Standards Code, including amendments to Section R313 and Appendix J of the California Residential Code; and

WHEREAS, as of the date Ordinance No. 2016-01 was adopted by the Governing Board of the Montecito Fire Protection District, Section 10-2.2.2. of the Santa Barbara County Code adopted Appendix J of the 2013 California Residential Code by reference; and

WHEREAS, on December 13th, 2016, the Board of Supervisors of the County of Santa Barbara adopted County of Santa Barbara Ordinance No. 4987, which adopted by reference the 2016 California Residential Code, but did not adopt Appendix J thereof; and

WHEREAS, on January 10th, 2017, the Board of Supervisors of the County of Santa Barbara voted to ratify Montecito Fire Protection District Ordinance No. 2016-01, including the amendments to Appendix J of the California Residential Code therein; and

WHEREAS, in order to ensure the applicability of Appendix J of the California Residential Code, as amended by Ordinance No. 2016-01, within the Montecito Fire Protection District, the Governing Board of the Montecito Fire Protection District hereby desires to amend Ordinance No. 2016-01 in order to adopt Appendix J of the California Residential Code by reference and to add related amendments to Section R313; and

WHEREAS, Health and Safety Code Section 13869.7 provides that any such amendment must be ratified by the city or county where such ordinance will apply.

NOW, THEREFORE, the Governing Board of the Montecito Fire Protection District ordains as follows:

Section 1. Section 6 of Ordinance No. 2016-01 is hereby amended to read as follows:

"Section 6. Amendments Made in the California Residential Code. The California Residential Code is amended and changed as follows:

(a) Chapter 3, Section R313, Automatic Fire Sprinkler Systems is amended as follows:

1. Section R313.1, Exception, is deleted in its entirety and replaced with the following:

a. "Any existing townhouse for which an application for building permits is filed or required to be filed with the County of Santa Barbara for any addition or alteration that meets the following two requirements shall be required to install automatic fire sprinkler systems throughout the entire ~~townhouse~~structure:

i. Consists of a total floor area of 3,500 square feet or more; and

ii. The aggregate ~~structural~~ alteration and/or addition for which an application for building permits is required to be filed with the County of Santa Barbara is greater than 1,000 square feet in gross floor area. For purposes of defining "aggregate ~~structural~~ alteration and/or addition" all work that has been permitted by the County of Santa Barbara and constructed on or after October 16, 1991, shall be included in this determination.

b. Any existing townhouse which consists of a total floor area of less than 3,500 square feet for which an application for building permits is filed or is required to be filed with the County of Santa Barbara for any addition or alteration that exceeds 50% of the existing square footage of the building floor area shall be required to install automatic fire sprinklers throughout the entire structure.

~~b.~~c. Application. The provisions of this Section shall be applicable within the District's jurisdiction. If any part of this Section is in conflict with any other part, the more restrictive provision shall be controlling."

2. Section R313.2, Exception, is deleted in its entirety and replaced with the following:

a. "Any existing one- and two-family dwellings for which an application for building permits is filed or required to be filed with the County of Santa Barbara for any addition or alteration that meets the following two requirements shall be required to install automatic fire sprinkler systems throughout the entire structure~~townhouse~~:

i. Consists of a total floor area of 3,500 square feet or more; and

ii. The aggregate ~~structural~~ alteration and/or addition for which an application for building permits is required to be filed with the County of Santa Barbara is greater than 1,000 square feet in gross floor area. For purposes of defining "aggregate ~~structural~~ alteration and/or addition" all work that has been permitted by the County of Santa Barbara and constructed on or after October 16, 1991, shall be included in this determination.

b. Any existing one- and two-family dwellings for which an application for building permits is filed or is required to be filed with the County of Santa Barbara for any addition or alteration that exceeds 50% of the existing square footage of the building floor area shall be required to install automatic fire sprinklers throughout the entire structure.

~~b.~~c. Application. The provisions of this Section shall be applicable within the District's jurisdiction. If any part of this Section is in conflict with any other part, the more restrictive provision shall be controlling."

3. Section R313.3.1.2, Exceptions (1) and (4) are deleted.

(b) Appendix J, Existing Buildings and Structures, is adopted in its entirety and amended as follows:

1. Section AJ501.3, Extensive Alterations, is amended to read:

"Where the total area of all of the work areas included in an alteration exceeds 50 percent of the area of the dwelling unit, the work shall be considered to be a reconstruction and shall comply with the requirements of these provisions for reconstruction work and section AJ501.9."

2. Section AJ501.9, Automatic Fire Sprinkler Systems, is added to read:

"Any existing dwelling unit for which an application for building permits is filed or required to be filed with the County of Santa Barbara for any alteration that meets requirements of Section AJ501.3 for extensive alterations shall be required to install automatic fire sprinkler systems throughout the dwelling unit." "

Section 2. Findings.

The Board of Directors ("Board") of the Montecito Fire Protection District ("District"), following due consideration, hereby finds and determines that all the amendments, deletions, and additions to the foregoing Codes are reasonably necessary due to local climatic, geological, and topographical conditions existing in the District. The District hereby finds and declares that:

The area within which the District is located regularly experiences strong, hot, dusty, and down canyon winds referred to locally as “Santa Anas” or “Sundowners.”

Such wind conditions increase fire danger by significantly contributing to the spread and intensity of fires, and significantly increase the difficulty of effective fire suppression within the District.

If a fire involving a single structure cannot be immediately extinguished, such wind conditions can rapidly spread flames to adjacent structures, significantly endangering lives and/or millions of dollars in property value.

Such winds can spread existing flames from a structure or natural fuel to structures and natural fuel significant distances away, even jumping over fire breaks and freeways, resulting in significant property damage and/or loss of life.

Much of the jurisdiction of the District is within heavy brush and chaparral.

It is generally known to take about 25 years to build up extremely dangerous combustible brush conditions, and the District contains areas where combustible flora has built up for 50 to 100 years.

The District is in an area prone to extensive drought conditions, significantly increasing the already natural combustibility of the chaparral, brush and ornamental shrubbery in the District.

Such fuels can rapidly transform a small manageable fire into an uncontrollable conflagration, compromising the lives and safety of District personnel and residents.

The reduction of such fuels provides a direct correlation to the safety of the lives and property within the District, and will substantially reduce the risk of injury or death to District personnel.

The District is geographically situated such that extreme solar exposure (south, southwest, and west facing slopes) continually results in critically low live fuel moisture levels, further rendering most brush, chaparral and ornamental shrubbery highly combustible.

Due to these conditions even non-structural fires can pose a massive threat to the lives and structures located in the District.

The District is located in close proximity to several active earthquake faults.

During and after an earthquake, there is a high potential for fires and other emergencies threatening the lives of District residents, generally requiring the commitment of all available resources.

Geographic and topographic conditions delay response times for fire apparatus (these conditions include remote structures; narrow, winding roads which hamper the access of modern fire suppression apparatus; and extremely sloping roads which tend to slow fire apparatus response).

Water can be in short supply in the District, and fires in areas with structures with noncombustible roofing typically consume far lesser quantities of water than those not complying with the Ordinance, allowing greater fire suppression coverage, and preventing unnecessary loss of life and/or property within the District.

U.S. Highway 101 traverses the District, and is a transportation route for hazardous materials and some traffic accidents on Highway 101 require the presence of all available fire apparatus, leaving the District with fewer resources to combat structural fires elsewhere in the District.

The Union Pacific Railroad line also traverses the District, and a train accident or derailment could immediately deplete the District's resources, limiting the District's ability to furnish fire protection for the balance of the District.

The Montecito Fire Protection District is in the mutual aid plan and is committed to supply personnel and equipment for serious fires outside the District and which can reduce the personnel and equipment available for response to possible emergencies within the District.

Further, in many instances because of the extra hazardous conditions, a defensible space protection zone around buildings and structures of only one hundred feet is not sufficient to provide for tenable wildland firefighting operations around such buildings and structures. These conditions are common upon lands within the District that are located within the Montecito Resource Management Zone as designated by the County of Santa Barbara. Such areas are generally rural areas with slopes exceeding 40% and are covered with old age class chaparral and dense vegetation, creating conditions that are dangerous to fire fighters.

The Governing Board expressly finds and declares that the findings contained herein provide the basis for the amendment, deletions, and additions to the Code contained in this Ordinance.

<u>Section 3.</u> <u>Severability.</u>

If any article, section, subsection, sentence, clause, phrase or word of this Ordinance is for any reason held to be unconstitutional or invalid, such holding shall not affect the validity of the remaining portions of this Ordinance. The Board hereby declares that it would have passed this Ordinance and each article, section, subsection, sentence, clause, phrase or word thereof irrespective of the fact that any one or more articles, sections, subsections, sentences, clauses, phrases or words may be unconstitutional or invalid.

<u>Section 4.</u> <u>Effective Date and Publication.</u>

(a) <u>Effective Date.</u> This Ordinance was introduced for first reading on _________, 2018, and passed on _________, 2018, and shall take effect 30 days after final passage.

(b) Publication. In accordance with Government Code section 25124, this Ordinance shall be published once, with the names of the members of the Board voting for and against it in a newspaper of general circulation in the District within 15 days after its adoption.

PASSED, APPROVED AND ADOPTED by the Governing Board of the MONTECITO FIRE PROTECTION DISTRICT on this ___ day of _______, 2018, by the following vote:

AYES:

NAYS:

ABSTAIN:

ABSENT:

______________________________
John Abraham Powell, President

ATTEST:

____________________
Michael Lee, Secretary

STATE OF CALIFORNIA )
) ss.
COUNTY OF SANTA BARBARA )

I, Michael Lee, Secretary of the Governing Board of the Montecito Fire Protection District, DO HEREBY CERTIFY that the above and foregoing is a full, true and correct copy of Ordinance No. 2018-__ of said District, adopted at a regular meeting of the Governing Board, held on the ____, day of ______, 2018, at which meeting a quorum of the Governing Board was present and acting throughout, and that the same has not been amended or repealed.

DATED: This ___ day of ___________, 2018.

___________________________________
Michael Lee, Secretary

# ORDINANCE NO. 2018-01

## AN ORDINANCE OF THE GOVERNING BOARD OF THE MONTECITO FIRE PROTECTION DISTRICT AMENDING SECTION 6 OF MONTECITO FIRE PROTECTION DISTRICT ORDINANCE NO. 2016-01.

WHEREAS, the Montecito Fire Protection District operates under the provisions of California's Fire Protection District Law of 1987, wherein the State Legislature declared that the local provision of fire protection services, rescue services, emergency medical services, hazardous material emergency response services and other services relating to the protection of lives and property is critical to the public peace, health and safety of the State of California and that local control over the types, levels and availability of these services is a long-standing tradition in California; and

WHEREAS, the State Legislature has also declared that its intent is to provide broad statutory authority for local fire protection districts, encouraging local officials to adopt powers and procedures set forth in the Fire Protection District Law of 1987 to meet their own circumstances and responsibilities; and

WHEREAS, on November 28th, 2016, pursuant to Health and Safety Code section 13869.7, the Governing Board of the Montecito Fire Protection District adopted Ordinance No. 2016-01, which made certain amendments to the building standards relating to fire and panic safety that are more stringent than those building standards adopted by the State Fire Marshall and contained in the California Building Standards Code, including amendments to Section R313 and Appendix J of the California Residential Code; and

WHEREAS, as of the date Ordinance No. 2016-01 was adopted by the Governing Board of the Montecito Fire Protection District, Section 10-2.2.2. of the Santa Barbara County Code adopted Appendix J of the 2013 California Residential Code by reference; and

WHEREAS, on December 13th, 2016, the Board of Supervisors of the County of Santa Barbara adopted County of Santa Barbara Ordinance No. 4987, which adopted by reference the 2016 California Residential Code, but did not adopt Appendix J thereof; and

WHEREAS, on January 10th, 2017, the Board of Supervisors of the County of Santa Barbara voted to ratify Montecito Fire Protection District Ordinance No. 2016-01, including the amendments to Appendix J of the California Residential Code therein; and

WHEREAS, in order to ensure the applicability of Appendix J of the California Residential Code, as amended by Ordinance No. 2016-01, within the Montecito Fire Protection District, the Governing Board of the Montecito Fire Protection District hereby desires to amend Ordinance No. 2016-01 in order to adopt Appendix J of the California Residential Code by reference and to add related amendments to Section R313; and

WHEREAS, Health and Safety Code Section 13869.7 provides that any such amendment must be ratified by the city or county where such ordinance will apply.

NOW, THEREFORE, the Governing Board of the Montecito Fire Protection District ordains as follows:

<u>Section 1</u>. Section 6 of Ordinance No. 2016-01 is hereby amended to read as follows:

"<u>Section 6</u>. <u>Amendments Made in the California Residential Code.</u> The California Residential Code is amended and changed as follows:

(a) Chapter 3, Section R313, Automatic Fire Sprinkler Systems is amended as follows:

1. Section R313.1, <u>Exception</u>, is deleted in its entirety and replaced with the following:

a. "Any existing townhouse for which an application for building permits is filed or required to be filed with the County of Santa Barbara for any addition or alteration that meets the following two requirements shall be required to install automatic fire sprinkler systems throughout the entire structure:

i. Consists of a total floor area of 3,500 square feet or more; and

ii. The aggregate alteration and/or addition for which an application for building permits is required to be filed with the County of Santa Barbara is greater than 1,000 square feet in gross floor area. For purposes of defining "aggregate alteration and/or addition" all work that has been permitted by the County of Santa Barbara and constructed on or after October 16, 1991, shall be included in this determination.

b. Any existing townhouse which consists of a total floor area of less than 3,500 square feet for which an application for building permits is filed or is required to be filed with the County of Santa Barbara for any addition or alteration that exceeds 50% of the existing square footage of the building floor area shall be required to install automatic fire sprinklers throughout the entire structure.

c. <u>Application</u>. The provisions of this Section shall be applicable within the District's jurisdiction. If any part of this Section is in conflict with any other part, the more restrictive provision shall be controlling."

2. Section R313.2, <u>Exception</u>, is deleted in its entirety and replaced with the following:

a. "Any existing one- and two-family dwellings for which an application for building permits is filed or required to be filed with the County of Santa Barbara for any addition or alteration that meets the following two requirements shall be required to install automatic fire sprinkler systems throughout the entire structure:

i. Consists of a total floor area of 3,500 square feet or more; and

ii. The aggregate alteration and/or addition for which an application for building permits is required to be filed with the County of Santa Barbara is greater than 1,000 square feet in gross floor area. For purposes of defining "aggregate alteration and/or addition" all work that has been permitted by the County of Santa Barbara and constructed on or after October 16, 1991, shall be included in this determination.

b. Any existing one- and two-family dwellings for which an application for building permits is filed or is required to be filed with the County of Santa Barbara for any addition or alteration that exceeds 50% of the existing square footage of the building floor area shall be required to install automatic fire sprinklers throughout the entire structure.

c. <u>Application</u>. The provisions of this Section shall be applicable within the District's jurisdiction. If any part of this Section is in conflict with any other part, the more restrictive provision shall be controlling."

3. <u>Section R313.3.1.2, Exceptions (1) and (4) are deleted.</u>

(b) Appendix J, Existing Buildings and Structures, is adopted in its entirety and amended as follows:

1. Section AJ501.3, Extensive Alterations, is amended to read:

"Where the total area of all of the work areas included in an alteration exceeds 50 percent of the area of the dwelling unit, the work shall be considered to be a reconstruction and shall comply with the requirements of these provisions for reconstruction work and section AJ501.9."

2. Section AJ501.9, Automatic Fire Sprinkler Systems, is added to read:

"Any existing dwelling unit for which an application for building permits is filed or required to be filed with the County of Santa Barbara for any alteration that meets requirements of Section AJ501.3 for extensive alterations shall be required to install automatic fire sprinkler systems throughout the dwelling unit." "

<u>Section 2.</u> <u>Findings.</u>

The Board of Directors ("Board") of the Montecito Fire Protection District ("District"), following due consideration, hereby finds and determines that all the amendments, deletions, and additions to the foregoing Codes are reasonably necessary due to local climatic, geological, and topographical conditions existing in the District. The District hereby finds and declares that:

The area within which the District is located regularly experiences strong, hot, dusty, and down canyon winds referred to locally as “Santa Anas” or “Sundowners.”

Such wind conditions increase fire danger by significantly contributing to the spread and intensity of fires, and significantly increase the difficulty of effective fire suppression within the District.

If a fire involving a single structure cannot be immediately extinguished, such wind conditions can rapidly spread flames to adjacent structures, significantly endangering lives and/or millions of dollars in property value.

Such winds can spread existing flames from a structure or natural fuel to structures and natural fuel significant distances away, even jumping over fire breaks and freeways, resulting in significant property damage and/or loss of life.

Much of the jurisdiction of the District is within heavy brush and chaparral.

It is generally known to take about 25 years to build up extremely dangerous combustible brush conditions, and the District contains areas where combustible flora has built up for 50 to 100 years.

The District is in an area prone to extensive drought conditions, significantly increasing the already natural combustibility of the chaparral, brush and ornamental shrubbery in the District.

Such fuels can rapidly transform a small manageable fire into an uncontrollable conflagration, compromising the lives and safety of District personnel and residents.

The reduction of such fuels provides a direct correlation to the safety of the lives and property within the District, and will substantially reduce the risk of injury or death to District personnel.

The District is geographically situated such that extreme solar exposure (south, southwest, and west facing slopes) continually results in critically low live fuel moisture levels, further rendering most brush, chaparral and ornamental shrubbery highly combustible.

Due to these conditions even non-structural fires can pose a massive threat to the lives and structures located in the District.

The District is located in close proximity to several active earthquake faults.

During and after an earthquake, there is a high potential for fires and other emergencies threatening the lives of District residents, generally requiring the commitment of all available resources.

Geographic and topographic conditions delay response times for fire apparatus (these conditions include remote structures; narrow, winding roads which hamper the access of modern fire suppression apparatus; and extremely sloping roads which tend to slow fire apparatus response).

Water can be in short supply in the District, and fires in areas with structures with noncombustible roofing typically consume far lesser quantities of water than those not complying with the Ordinance, allowing greater fire suppression coverage, and preventing unnecessary loss of life and/or property within the District.

U.S. Highway 101 traverses the District, and is a transportation route for hazardous materials and some traffic accidents on Highway 101 require the presence of all available fire apparatus, leaving the District with fewer resources to combat structural fires elsewhere in the District.

The Union Pacific Railroad line also traverses the District, and a train accident or derailment could immediately deplete the District's resources, limiting the District's ability to furnish fire protection for the balance of the District.

The Montecito Fire Protection District is in the mutual aid plan and is committed to supply personnel and equipment for serious fires outside the District and which can reduce the personnel and equipment available for response to possible emergencies within the District.

Further, in many instances because of the extra hazardous conditions, a defensible space protection zone around buildings and structures of only one hundred feet is not sufficient to provide for tenable wildland firefighting operations around such buildings and structures. These conditions are common upon lands within the District that are located within the Montecito Resource Management Zone as designated by the County of Santa Barbara. Such areas are generally rural areas with slopes exceeding 40% and are covered with old age class chaparral and dense vegetation, creating conditions that are dangerous to fire fighters.

The Governing Board expressly finds and declares that the findings contained herein provide the basis for the amendment, deletions, and additions to the Code contained in this Ordinance.

<u>Section 3.</u> <u>Severability.</u>

If any article, section, subsection, sentence, clause, phrase or word of this Ordinance is for any reason held to be unconstitutional or invalid, such holding shall not affect the validity of the remaining portions of this Ordinance. The Board hereby declares that it would have passed this Ordinance and each article, section, subsection, sentence, clause, phrase or word thereof irrespective of the fact that any one or more articles, sections, subsections, sentences, clauses, phrases or words may be unconstitutional or invalid.

<u>Section 4.</u> <u>Effective Date and Publication.</u>

(a) <u>Effective Date.</u> This Ordinance was introduced for first reading on _________, 2018, and passed on _________, 2018, and shall take effect 30 days after final passage.

(b) Publication. In accordance with Government Code section 25124, this Ordinance shall be published once, with the names of the members of the Board voting for and against it in a newspaper of general circulation in the District within 15 days after its adoption.

PASSED, APPROVED AND ADOPTED by the Governing Board of the MONTECITO FIRE PROTECTION DISTRICT on this ___ day of _______, 2018, by the following vote:

AYES:

NAYS:

ABSTAIN:

ABSENT:

_________________________________
John Abraham Powell, President

ATTEST:

_______________________
Michael Lee, Secretary

STATE OF CALIFORNIA )
) ss.
COUNTY OF SANTA BARBARA )

I, Michael Lee, Secretary of the Governing Board of the Montecito Fire Protection District, DO HEREBY CERTIFY that the above and foregoing is a full, true and correct copy of Ordinance No. 2018-__ of said District, adopted at a regular meeting of the Governing Board, held on the ____, day of ______, 2018, at which meeting a quorum of the Governing Board was present and acting throughout, and that the same has not been amended or repealed.

DATED: This ___ day of ___________, 2018.

_________________________________
Michael Lee, Secretary

# Agenda Item #5

MINUTES OF THE REGULAR MEETING OF THE BOARD OF DIRECTORS OF THE MONTECITO FIRE PROTECTION DISTRICT

Held at Fire District Headquarters, 595 San Ysidro Road July 23 2018 at 2:00 p.m.

Director Powell called the meeting to order at 2:00 p.m.

**Present:** Director Powell, Director van Duinwyk, Director Lee, Director Easton. Chief Hickman and District Counsel Susan Basham were also present.

**Absent:** Director Venable

1. **Public comment: Any person may address the Board at this time on any non-agenda matter that is within the subject matter jurisdiction of the Montecito Fire Protection District. (30 minutes total time allotted for this discussion.)**

   There were no public comments at this meeting. The Board moved to agenda item 5.

2. **Staff update regarding preparation and planning for upcoming winter season. (Strategic Plan Goal 3)**

   Division Chief Taylor provided a review of the Operational Area Plan specifically, the Thomas Fire and 1/9 Debris Flow Recovery Strategic Plan. He also provided an update regarding the Incident Management Team, as well as the Department's current pre-attack plan.

3. **Motion to authorize Fire Chief to enter into an agreement with Edge Technologies, LLC, in the amount of $61,452.08, for the installation of a secure microwave back-up system. (Strategic Plan Goal 6.2)**

   a. **Staff report presented by Chief Hickman.**

      Division Chief Taylor provided information regarding the microwave back-up system. Motion made by Director van Duinwyk, seconded by Director Easton and unanimously passed to authorize the Fire Chief to enter into an agreement with Edge Technologies, LLC, for the installation of a secure microwave back-up system.

4. **Motion to reject all current bids associated with the roof underlayment replacement project and authorize the Fire Chief to solicit an RFP for a Project Management Company to oversee both the removal & replacement of the roof underlayment system, the backup power system at Fire Station 1, and construction/repair of 1255 and 1257 East Valley Road. (Strategic Plan Goal 6)**

a. **Staff report presented by Chief Hickman.**

Battalion Chief Chapman provided information regarding the request for proposals for a Project Management Company to oversee both the removal & replacement of the roof underlayment system, the backup power system at Fire Station 1, and construction/repair of 1255 East Valley Road and 1257 East Valley Road. Motion made by Director Easton, seconded by Director van Duinwyk and unanimously passed to reject all bids associated with the Roof Underlayment Replacement Project and authorize the Fire Chief to solicit an RFP for a Project Management Company.

5. **Consider modification of Policy 1013, Standards of Conduct and Behavior. (Strategic Plan Goal 7.2)**

Chief Hickman provided background information regarding policy 1013, Standards of Conduct and Behavior. After thorough discussion, the Board determined to rescind the previous direction to the Fire Chief, and maintain the current language of policy 1013. Motion to maintain the original language of policy 1013 made by Director Lee, seconded by Director Easton and unanimously passed.

6. **Consider creation of an ad-hoc committee to identify levels of authority and roles/responsibilities for Board of Directors and Fire Chief. (Strategic Plan Goal 7.2)**

Chief Hickman provided information regarding the necessity to develop an ad-hoc committee to identify levels of authority and roles/responsibilities for Board of Directors and Fire Chief. Motion to create an ad-hoc committee and appoint Directors Easton and van Duinwyk as the committee members made by Director Lee, seconded by Director Powell and unanimously passed. The Board returned to agenda item 2.

7. **Consider approval of June 2018 financial statements. (Strategic Plan Goal 9.1)**

District Accountant, Araceli Nahas provided a report regarding financial statements ending June 2018. Motion made by Director Lee, seconded by Director van Duinwyk and unanimously passed to approve the June 2018 financial statements.

8. **Review Financial Summary Staff Report for fiscal year 2017-18. (Strategic Plan Goal 9.1)**

District Accountant, Araceli Nahas reviewed the Financial Summary Staff Report for fiscal year 2017-18.

9. **Approval of Minutes of the June 12, 2018 Special Meeting.**

Motion to approve the minutes of the June 12, 2018 Special meeting made by Director van Duinwyk, seconded by Director Lee and the motion carried. Director Easton abstained from the vote.

10. **Approval of Minutes of the June 25, 2018 Regular Meeting.**

Motion to approve the minutes of the June 25, 2018 Regular meeting made by Director Lee, seconded by Director van Duinwyk and the motion carried. Director Easton abstained from the vote.

**11. Fire Chief's report.**

Chief Hickman stated that on September 14, the District would host a significant event, the inauguration of a U. S. Postal Service stamp in recognition of first responders throughout the nation. The Chief stated that staff might have a report next month as it relates to State and Federal reimbursement related to the two incidents. Chief Hickman stated that there were 1,300 people served at the pancake breakfast, probably the largest event to date. The Chief mentioned that he would be out of the country on vacation for ten days. He added that the Board could reach him via cell, and the District would be in the very capable hands of Division Chief Taylor.

**12. Board of Director's report.**

Director Easton stated she attended the joint academy graduation ceremony.

**13. Suggestions from Directors for items other than regular agenda items to be included for the August 23, 2018 Special Board meeting.**

Director Easton stated she would contact the Montecito Association regarding the Red Flag Warning signs presentation. The Board moved into closed session at 4:07 p.m.

**14. Closed Session**

**a. Consideration of possible amendment to extend the expiration date of Tolling Agreement with the Petan Company and Palmer G. Jackson.**

The Board reported out of closed session at 4:15 p.m. The Board President reported that, in closed session, the Board approved Amendment Number Two to Tolling Agreement, extending an existing tolling agreement with the Petan Company effective through August 22, 2019, and authorized Chief Hickman to execute the document on behalf of the District.

Meeting Adjourned at 4:16 p.m.

President John Abraham Powell

Secretary Michael Lee