



Item No. 4 Town of Atherton

FINANCE COMMITTEE STAFF REPORT

TO: FINANCE COMMITTEE

FROM: ROBERT BARRON III, FINANCE DIRECTOR

DATE: MAY 8, 2018

SUBJECT: REVIEW AND DISCUSS PENSION COSTS, HEAR A PRESENTATION FROM PARS ON THE PENSION RATE STABILIZATION PROGRAM; AND, IF APPROPRIATE, PROVIDE A RECOMMENDATION TO CITY COUNCIL

RECOMMENDATION

Review and discuss pension costs, hear a presentation from PARS on the Pension Rate Stabilization Program; and, if appropriate, provide a recommendation to City Council.

BACKGROUND

At September 2017 Finance Committee meeting, staff presented a brief review and discussion of the CalPERS Actuarial Reports, the latest as of June 30, 2016. The Committee asked for further, in depth conversation, to occur at a future meeting. Within the Reports provided to the Committee were projected Employer Contribution Rates through Fiscal Year 2022/23 and projections of the phased changes in the CalPERS Discount Rate from 7.5% to 7%.

Some items previously suggested that could be considered by the Town were:

- Consideration of additional contributions to CalPERS beyond the required Unfunded Actuarial Liability (UAL) Payment to lower our payroll normal costs. Additional contributions will have the effect of accelerating funding based on alternative amortization schedules in the valuation reports;
- Consideration of accumulation of reserves to establish an Internal Service Fund. Money within the Fund would be used to make singular significant contributions to CalPERS when the Town deems prudent;

Brief Review & Discuss Pension Cost & Rate Stabilization Fund

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- Consideration of establishment of an Irrevocable Supplemental Trust that can *only be used* to make payments directly to CalPERS;
- Consideration of setting a funding target for unfunded liabilities, similar to what was done with Other Post-Employment Benefits (OPEB); or continuation of “pay as you go” with CalPERS valuation reports.

In Fiscal Year 2011/2012 the Town established an IRS approved Section 115 Irrevocable Trust in order to comply with GASB 45. GASB 45 requires governments to actuarially calculate their total OPEB obligation and the annual required contribution (ARC) necessary to fund the obligation. The Irrevocable Trust was created to prefund the Town’s OPEB (Other Post-Employment Benefits) retiree health care costs for its employees.

Over the past few years, the City Council took significant steps to reduce the Town’s OPEB Liability. Since the opening of the Trust, the Town contributed \$5 Million and currently has a fund value of \$6.2 Million. ***One of the suggested items to consider to assist in paying down pension liabilities is establishing an Irrevocable Supplement Trust for Pensions.*** *Jennifer Meza of PARS is here to discuss a new pension rate stabilization trust program available for municipalities.*

FINDINGS

The CalPERS actuarial report, as of June 30, 2016, reflects the first changes in the discount rates. Beginning in FY 2018/19, the discount rate is reduced to 7.375%. The projected investment returns used for the 2016/17 actuarial was 7.375%. The actual investment return for CalPERS for FY 2016/17 was 11.2% and for Calendar Year 2017 CalPERS had a 15.7% investment return. Actual investment return from previous years will be updated in the next CalPERS actuarial reports.

Below is the FY 2018/19 unfunded liability payments due and future estimates.

CalPERS Employer Payment of Unfunded Liability	Unfunded Liability Payment FY 2018/19	Unfunded Liability Est. Payment FY 2019/20	Unfunded Liability Est. Payment FY 2020/21
Miscellaneous Employees	\$237,450	\$300,000	\$346,000
Public Safety Employees	\$627,361	\$777,000	\$888,000
Total Contribution	\$864,762	\$1,077,000	\$1,234,000

Each agency has an employer normal cost rate that it pays as a percentage of payroll. The current normal cost for FY 2015/16, FY 2016/17, FY 2017/18 and FY 2018/19 are listed below.

CalPERS Contribution Rates	Employer Required Contribution FY 2015/16	Employer Required Contribution FY 2016/17	Employer Required Contribution FY 2017/18	Employer Required Contribution FY 2018/19
Miscellaneous Employees	8.844%	9.055%	9.096%	9.635%
Public Safety Employees	20.230%	21.230%	21.418%	22.346%

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As discussed above, there are two components of the CalPERS contribution: the employer normal cost rate (NC) as a percentage of payroll; and the unfunded actuarial liability (UAL) payment. In FY 2015/16, CalPERS began collecting the employer contributions toward amortization of unfunded liabilities (UAL) as dollar amounts instead of through the contribution rate while each agency's employer normal cost contribution continued to be collected as a percentage of payroll.

The Town has contributed its normal cost and UAL payment consistently over the years. Below is a table illustrating the last five (5) fiscal years of CalPERS contributions:

CalPERS Contribution	Employer Required Contribution (NC) FY 2012/13	Employer Required Contribution (NC) FY 2013/14	Employer Required Contribution (NC) FY 2014/15	Employer Required Contribution (NC) FY 2015/16	Employer Required Contribution (NC) FY 2016/17
Miscellaneous Employees	\$232,478	\$184,808	\$195,111	\$157,046	\$158,938
Public Safety Employees	\$730,963	\$691,741	\$709,233	\$487,709	\$449,592
Total NC	\$963,441	\$876,550	\$904,345	\$644,755	\$608,530
CalPERS Other	Side Fund			UAL FY 2015/16	UAL FY 2016/17
Miscellaneous Employees	\$647,650			\$120,606	\$140,897
Public Safety Employees				\$337,907	\$388,638
Total UAL				\$458,513	\$529,535
TOTAL NC & UAL/OTHER	\$1,611,091	\$876,550	\$904,345	\$1,103,268	\$1,138,065

With the addition of the CalPERS discount rates changes there is anticipation the normal cost contribution rates will go up as well as the UAL payments. In FY 2020/21 the projected UAL payment is \$1,234,000 as CalPERS seeks to pay down the unfunded liability faster.

Value of Assets

Actuarial valuations of assets are based on the Market Value of Assets (MVA). This is used to illustrate the unfunded liability and the funded ratio.

As of June 30, 2016 the MVA for Miscellaneous Employees is \$12,141,574 and the unfunded liability is \$4,364,480 (73.6% funded). For Public Safety Employees the MVA is \$27,292,457 with an unfunded liability of \$11,162,375 (71% funded). This results in a total unfunded liability of \$15,525,855.

A Pension Rate stabilization program can assist the Town in addressing pension liability concerns. Funds placed in the Trust can be accessed anytime and used to offset pension costs or to submit

Brief Review & Discuss Pension Cost & Rate Stabilization Fund

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additional payments to CalPERS. There is no cost to set and no fees until assets are added. Jennifer Meza from PARs is here to speak further on the program and its benefits.

The Committee can recommend the City Council adopt and enter into an agreement to participate in the PARs (Public Agency Retirement Services) Pension Rate Stabilization Trust Program.

FISCAL IMPACT

None

PUBLIC NOTICE

Public notification was achieved by posting the agenda, with this agenda item being listed, at least 72 hours prior to the meeting in print and electronically. Information about the project is also disseminated via the Town's electronic News Flash and Atherton Online. There are approximately 1,200 subscribers to the Town's electronic News Flash publications. Subscribers include residents as well as stakeholders – to include, but be not limited to, media outlets, school districts, Menlo Park Fire District, service providers (water, power, and sewer), and regional elected officials.

ATTACHMENTS

PARS Presentation Pension Rate Stabilization Fund (PRSP)



TOWN OF ATHERTON

Proposal for PARS Pension Rate Stabilization Program (PRSP)
May 8, 2018

PUBLIC
AGENCY
RETIREMENT
SERVICES

PARS

TRUSTED SOLUTIONS. LASTING RESULTS.

CONTACTS



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PARS TRUST TEAM



Trust Administrator & Consultant	Trustee	Investment Manager
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- Recordkeeping/sub-trust accounting
- Actuarial coordination
- Monitor contributions/process disbursements
- Monitor plan compliance
- Ongoing client liaison

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

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

Corporate Experience

34 years (1984 – 2018)

155 years (1863 – 2018)

99 years (1919 – 2018)

Plans Under Administration

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

Dollars under Administration

Over \$2.8 billion

Over \$4 trillion

Over \$13.8 billion under management



The

PARS PENSION RATE STABILIZATION PROGRAM

for prefunding pension obligations



PENSION FUNDING STATUS

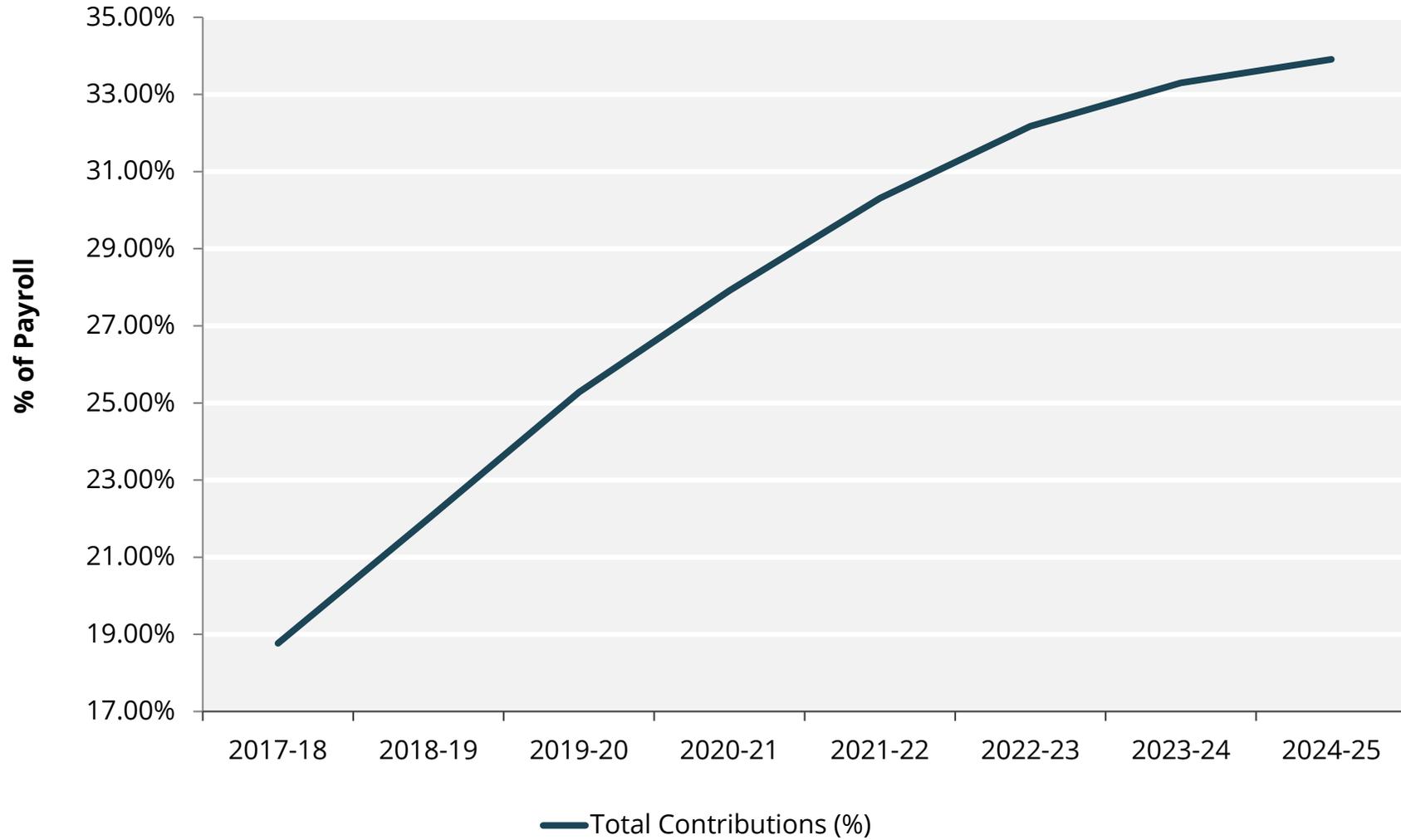
As of June 30, 2016, Town of Atherton’s CalPERS pension plan is funded as follows*:

Actuarial Liability	\$55.2 M
Assets	\$39.6 M
Unfunded Liability	\$15.6 M
Funded Ratio	71.8%
Employer Contribution Amount (FY 17-18)	\$1.4 M
Projected Employer Contribution Amount (FY 24-25)	\$2.8 M (101.8% ↑)

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

PROJECTED EMPLOYER CONTRIBUTIONS (MISC.)

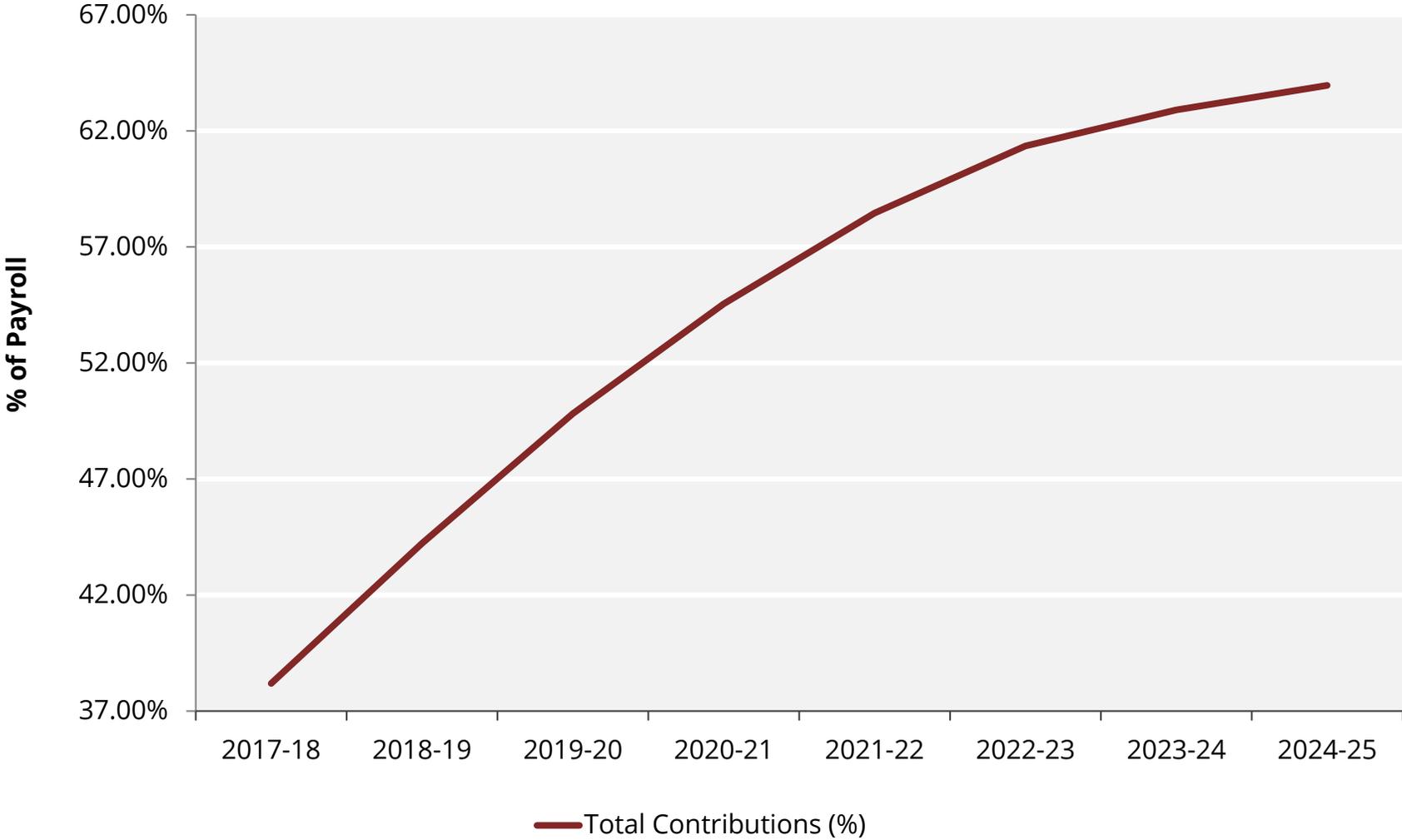
Projected misc. contributions increase from \$345.6K to \$751.9K* (117.6% ↑)



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

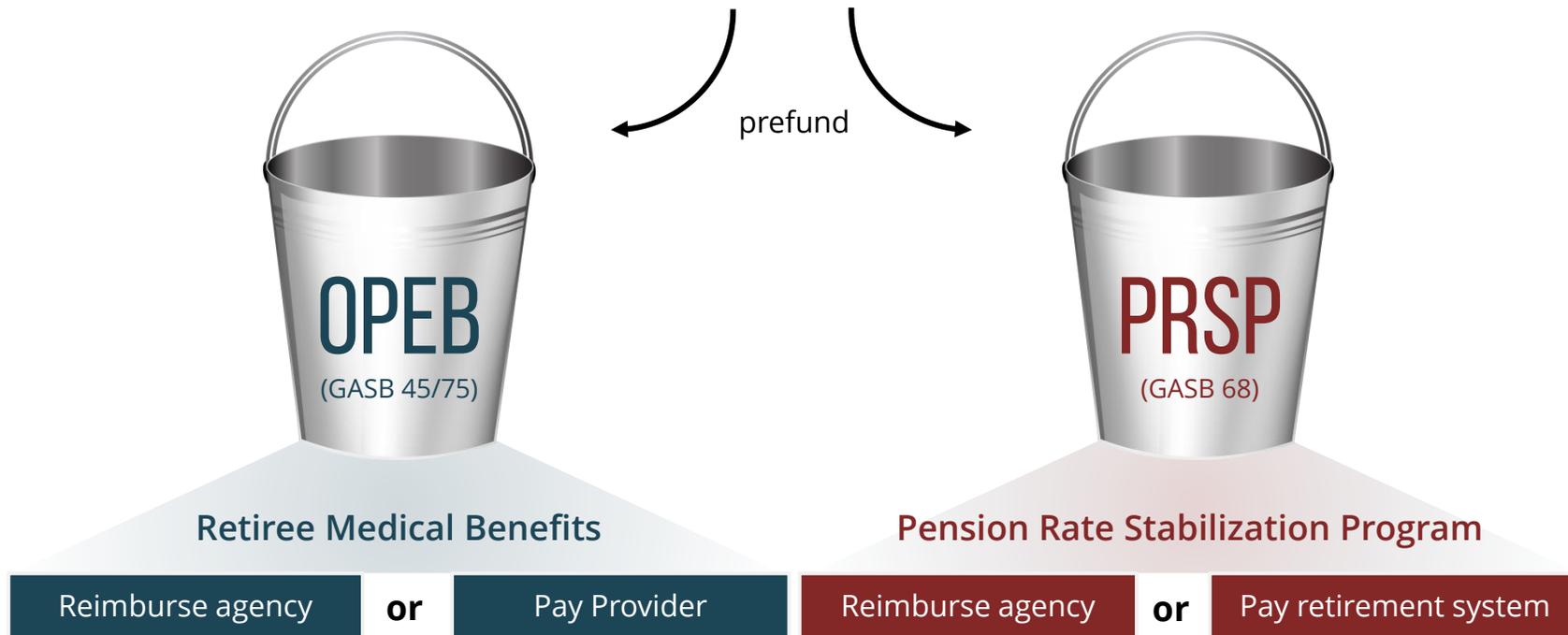
PROJECTED EMPLOYER CONTRIBUTIONS (SAFETY)

Projected safety contributions increase from \$1.0M to \$2.0M* (96.5% ↑)



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

THE PARS IRS-APPROVED COMBINATION 115 TRUST



- Assets are sub-accounted for separately
- Prefund one now and the other later
- Addresses unfunded liabilities
- Can choose different investment risk tolerance levels for each

- Can access funds at anytime; OPEB for OPEB and pension for pension
- Assets (OPEB and Pension) aggregate and reach lower fees on tiered schedule sooner – saving money!
- No cost to set up; no fees until assets are added

PARS CLIENT LIST – PRSP (145)

UPDATED: MAY 2018

CITIES & TOWNS

Alameda	Healdsburg	Redwood City
Bell Gardens	Hercules	Rohnert Park
Beverly Hills	Huntington Beach	Rolling Hills
Brea	La Mesa	San Ramon
Brisbane	Lake Forest	Santa Ana
Burlingame	Lodi	Santa Clara
Capitola	Los Altos Hills	Sausalito
Chino Hills	Los Gatos	Solana Beach
Colma	Manhattan Beach	Stanton
Corcoran	Morgan Hill	Stockton
Coronado	Napa	Thousand Oaks
Cudahy	National City	Tiburon
Cypress	Norwalk	Tustin
Daly City	Oakley	Union City
Dublin	Oroville	Upland
El Centro	Palmdale	Vallejo
El Segundo	Palo Alto	Villa Park
Emeryville	Pasadena	West Covina
Escondido	Pico Rivera	West Sacramento
Fountain Valley	Piedmont	Westminster
Fullerton	Pleasanton	Yountville
Glendale	Port Hueneme	Yuba City
Half Moon Bay	Rancho Cucamonga	Yucca Valley

COUNTIES

Calaveras	Placer	Solano
Humboldt	Plumas	Sutter
Kings	Riverside	Tulare
Lassen	San Benito	
Nevada	Siskiyou	

SPECIAL DISTRICTS

Alameda County MAD	Montecito Fire Protection District
Central Contra Costa Sanitary District	Monterey Bay Air Resources District
Delta Diablo (Sanitation District)	Moraga-Orinda Fire Protection District
East Bay Regional Park District	Municipal Water District of Orange County
East Orange County Water District	Napa County MAD
El Dorado Hills County Water District	Nevada County Consolidated FD
Fallbrook Public Utility District	Novato Sanitary District
Goleta West Sanitary District	Rancho Cucamonga Fire PD
Great Basin Unified APCD	South Coast Water District
Housing Authority of the County of Santa Cruz	Southern Marin Fire Protection District
Humboldt Bay Municipal Water District	Superior Court of CA - County of Kern
Mesa Water District	Sweetwater Springs Water District
Midpeninsula Regional Open Space District	Three Valleys Municipal Water District
Midpeninsula Water District	Twentynine Palms Water District
Mojave Desert AQMD	West Bay Sanitary District
	Yorba Linda Water District

EDUCATION DISTRICTS

Citrus CCD	Coronado USD
Coast CCD	Cotati-Rohnert Park USD
Grossmont-Cuyamaca CCD	Fontana USD
Hartnell CCD	Hermosa Beach City SD
Marin CCD	Hesperia Unified SD
Pasadena CCD	Lakeside Union SD
San Bernardino CCD	Lemon Grove SD
San Luis Obispo CCD (Cuesta College)	Natomas USD
Victor Valley CCD	Ocean View SD
Yosemite CCD	Ontario-Montclair SD
Alta Loma Unified School District	Placer Union HSD
Bass Lake Joint Union ESD	River Delta USD
Beverly Hills USD	San Marino USD
Calistoga Joint USD	Santa Rita Union SD
Campbell Union HSD	Visalia USD
Corning Union ESD	Whittier City SD

WHY PREFUND PENSION OBLIGATIONS?

1

Complete Local Control over Assets

Town has complete control over contributions and disbursements; timing, amount, and risk tolerance level

2

Pension Rate Stabilization

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

3

Rainy Day Fund

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

4

Diversified Investing/Potential for Greater Return than General Fund

Can choose risk tolerance level for Town's unique needs

HIGHMARK CAPITAL MANAGEMENT

About HighMark Capital Management, Inc.

LONGEVITY

Managing assets for clients since **1919***

TALENT

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

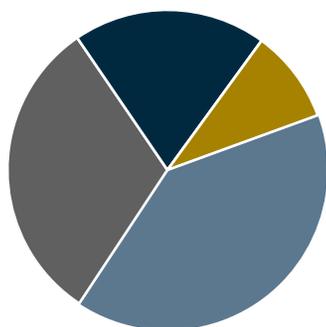
STABILITY

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

ASSETS UNDER MANAGEMENT

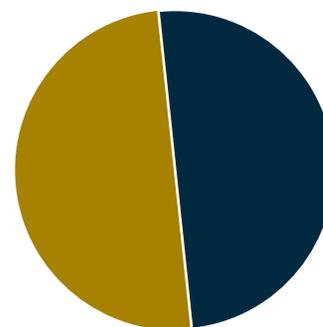
\$13.8 billion as of 3/31/2018

Asset Class



- Equity \$5.5 billion
- Fixed Income \$4.3 billion
- Liquidity \$2.7 billion
- Cash \$1.3 billion

Client Base



- Institutional \$6.9 billion
- Wealth Mgmt \$6.9 billion

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



SIMPLE INVESTMENT APPROACH

1. Input Phase

- Target Discount Rate
- Risk Tolerance
- Investment Philosophy
- Asset Allocation
- Timing on use of funds



2. Model Portfolios

- Cap. Appreciation – 65%-85% Equity
- Balanced – 50%-70% Equity
- Moderate – 40%-60% Equity
- Mod-Conservative – 20%-40% Equity
- Conservative – 5%-20% Equity

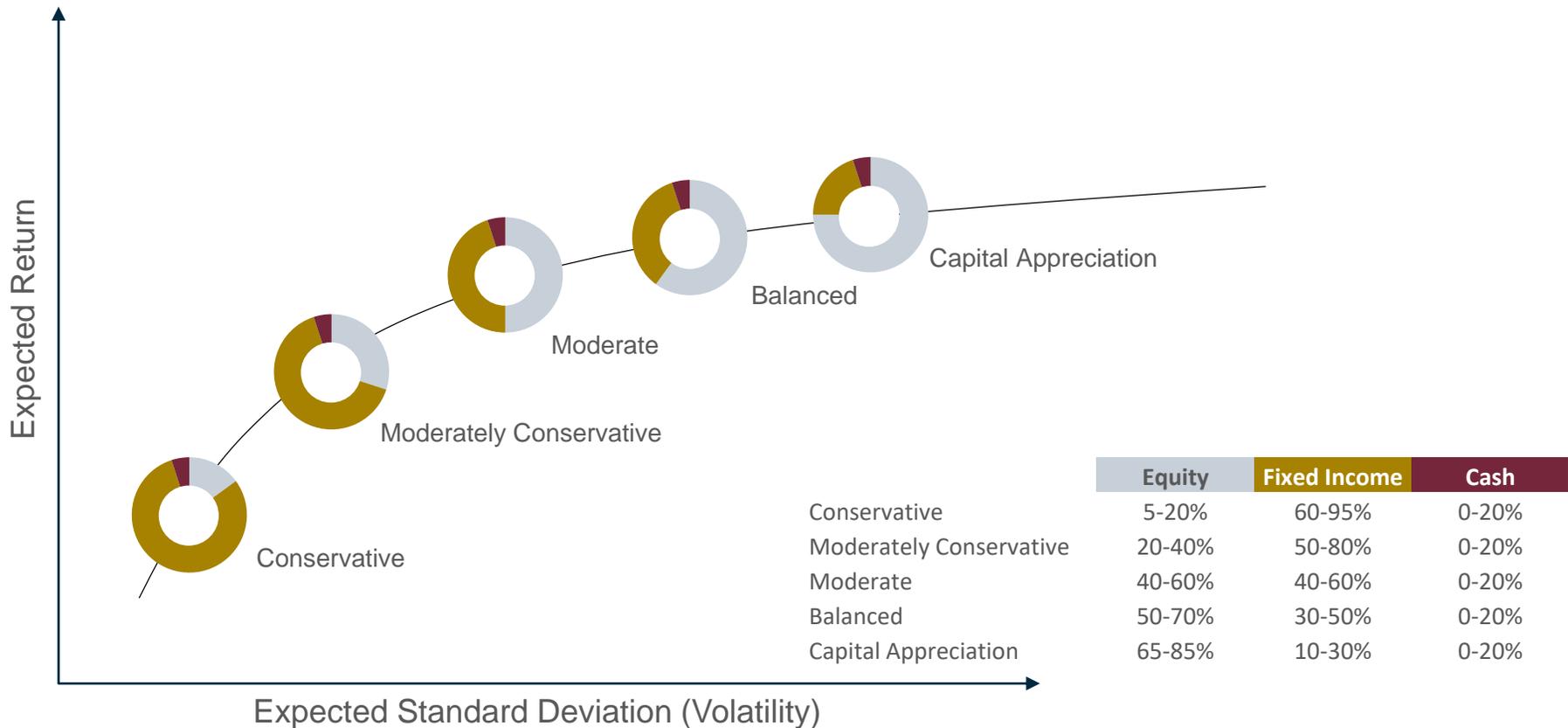


3. Dedicated Portfolio Manager

- Makes Recommendation
- Fiduciary Responsibility
- Drafts Investment Policy
- Annual On-site Reviews
- Cell phone access

Establish: Determine your Strategic Asset Allocation Strategy

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



Each Investment Objective reflects the associated PARS Diversified Portfolio as of 9/30/2017. A client's portfolio construction may vary depending on the client's investment needs, objectives, and restrictions as well as the prevailing market conditions at the time of investment.

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

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

Each Investment Objective reflects the associated PARS Diversified Portfolio as of 3/31/2018. A client's portfolio construction may vary depending on the client's investment needs, objectives, and restrictions as well as the prevailing market conditions at the time of investment. Specific securities identified above do not represent all of the securities purchased, sold or recommended for advisory clients, and you should not assume that investments in the securities identified in this presentation were or will be profitable.

HIGHMARK CAPITAL MANAGEMENT RETURNS

RETURNS AS OF MARCH 31, 2018

	Equity (%)	1 Year	3 Years	5 Years
Capital Appreciation	65-85%	11.28%	7.18%	8.77%
Balanced	50-70%	9.98%	6.11%	7.22%
Moderate	40-60%	8.34%	5.37%	6.28%
Moderately Conservative	20-40%	5.73%	3.83%	4.47%
Conservative	5-20%	3.69%	2.72%	3.17%

** Past performance does not guarantee future results*

PROGRAM FEES

Trust Administration/Consulting Fees*



Plan Set-Up Fee:

None

Ongoing Fees:

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

Discretionary Trustee/Investment Management Fees*



Plan Set-Up Fee:

None

Ongoing Fees:

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

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

** Fees as of March 31, 2018. Subject to change due to rebalancing.

KEY PROGRAM ADVANTAGES

- 1 IRS-approved trust structure which protects the Town from Day 1 of prefunding
- 2 Market pioneer and leader with over 140 PRSP client agencies in California
- 3 Low cost prefunding solution with economies of scale and low investment fees
- 4 No start-up costs
- 5 No minimum annual fees
- 6 No fees charged until assets are in trust
- 7 No trading fees
- 8 No termination fees or restrictions
- 9 True, historical return information over 1, 3, 5 and 10 year periods – not composites
- 10 Five (5) risk tolerance portfolios that can be either actively or passively managed in addition to a customized portfolio option

PARS DIVERSIFIED PORTFOLIOS
CONSERVATIVE

Q1 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

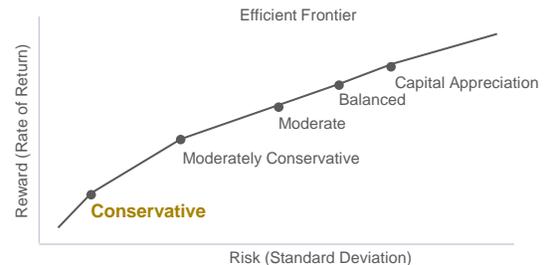
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation 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*	-1.02%
Blended Benchmark**	-0.89%
Year To Date	-1.02%
Blended Benchmark	-0.89%
1 Year	3.69%
Blended Benchmark	2.83%
3 Year	2.72%
Blended Benchmark	2.33%
5 Year	3.17%
Blended Benchmark	2.99%
10 Year	4.23%
Blended Benchmark	3.59%

Index Plus (Passive)

Current Quarter*	-1.17%
Blended Benchmark**	-0.89%
Year To Date	-1.17%
Blended Benchmark	-0.89%
1 Year	2.81%
Blended Benchmark	2.83%
3 Year	2.19%
Blended Benchmark	2.33%
5 Year	2.84%
Blended Benchmark	2.99%
10 Year	3.66%
Blended Benchmark	3.59%

* 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./Gov't, 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 Date	07/2004
No of Funds in Portfolio	19

Index Plus (Passive)

Inception Date	07/2004
No of Funds in Portfolio	12

HOLDINGS

HighMark Plus (Active)

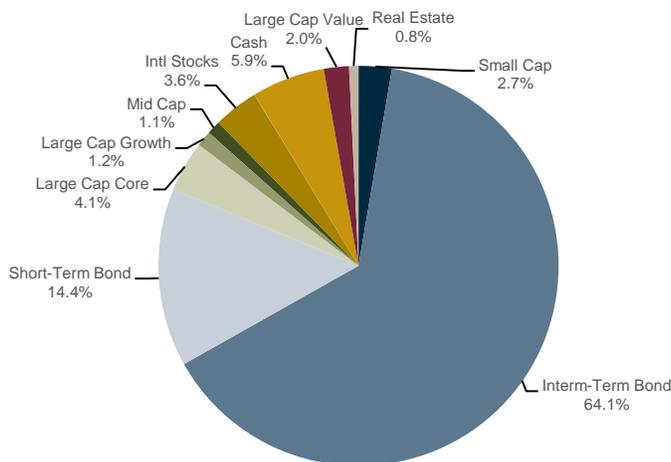
Columbia Contrarian Core Z
Vanguard Growth & Income Adm
Dodge & Cox Stock Fund
Harbor Capital Appreciation
T. Rowe Price Growth Stock
iShares Russell Mid-Cap ETF
Vanguard REIT ETF
Undiscovered Managers Behavioral Value
T. Rowe Price New Horizons
Nationwide Bailard International Equities
Dodge & Cox International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

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Blended benchmarks represent HighMark's strategic allocations between equity, fixed income, and cash and are rebalanced monthly. Benchmark returns do not reflect the deduction of advisory fees or other expenses of investing but assumes the reinvestment of dividends and other earnings. An investor cannot invest directly in an index. The unmanaged S&P 500 Index is representative of the performance of large companies in the U.S. stock market. The MSCI EAFE Index is a free float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets 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.

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Asset Allocation Committee

Number of Members: 16
Average Years of Experience: 27
Average Tenure (Years): 14

Manager Review Group

Number of Members: 6
Average Years of Experience: 19
Average Tenure (Years): 7

PARS DIVERSIFIED PORTFOLIOS
MODERATELY CONSERVATIVE

Q1 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

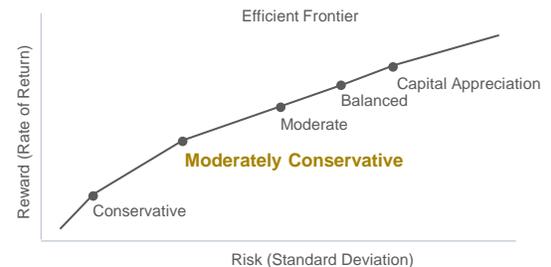
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Risk Management

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

INVESTMENT OBJECTIVE

To provide 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)		Index Plus (Passive)	
Current Quarter*	-0.91%	Current Quarter*	-1.13%
Blended Benchmark**	-0.93%	Blended Benchmark**	-0.93%
Year To Date	-0.91%	Year To Date	-1.13%
Blended Benchmark	-0.93%	Blended Benchmark	-0.93%
1 Year	5.73%	1 Year	4.61%
Blended Benchmark	4.78%	Blended Benchmark	4.78%
3 Year	3.83%	3 Year	3.39%
Blended Benchmark	3.59%	Blended Benchmark	3.59%
5 Year	4.47%	5 Year	4.26%
Blended Benchmark	4.53%	Blended Benchmark	4.53%
10 Year	5.06%	10 Year	4.50%
Blended Benchmark	4.67%	Blended Benchmark	4.67%

* 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)		Index Plus (Passive)	
2008	-15.37%	2008	-12.40%
2009	18.71%	2009	11.92%
2010	10.46%	2010	9.72%
2011	1.75%	2011	3.24%
2012	10.88%	2012	8.24%
2013	7.30%	2013	6.78%
2014	4.41%	2014	5.40%
2015	0.32%	2015	-0.18%
2016	4.93%	2016	5.42%
2017	9.56%	2017	8.08%

PORTFOLIO FACTS

HighMark Plus (Active)		Index Plus (Passive)	
Inception Date	08/2004	Inception Date	05/2005
No of Funds in Portfolio	19	No of Funds in Portfolio	12

HOLDINGS

HighMark Plus (Active)

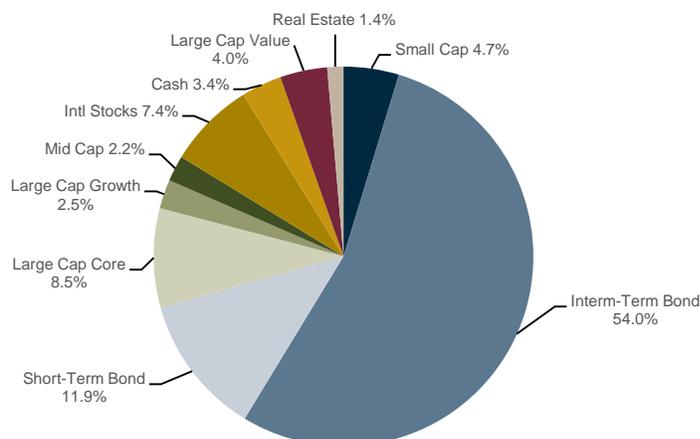
Columbia Contrarian Core Z
Vanguard Growth & Income Adm
Dodge & Cox Stock Fund
Harbor Capital Appreciation
T. Rowe Price Growth Stock
iShares Russell Mid-Cap ETF
Vanguard REIT ETF
Undiscovered Managers Behavioral Value
T. Rowe Price New Horizons
Nationwide Bailard International Equities
Dodge & Cox International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

Q1 2018

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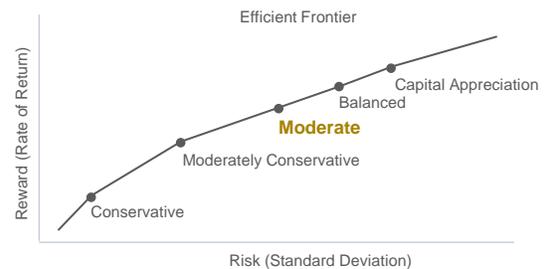
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INVESTMENT OBJECTIVE

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)		Index Plus (Passive)	
Current Quarter*	-0.73%	Current Quarter*	-1.02%
Blended Benchmark**	-0.84%	Blended Benchmark**	-0.84%
Year To Date	-0.73%	Year To Date	-1.02%
Blended Benchmark	-0.84%	Blended Benchmark	-0.84%
1 Year	8.34%	1 Year	7.15%
Blended Benchmark	7.29%	Blended Benchmark	7.29%
3 Year	5.37%	3 Year	4.92%
Blended Benchmark	5.23%	Blended Benchmark	5.23%
5 Year	6.28%	5 Year	6.07%
Blended Benchmark	6.52%	Blended Benchmark	6.52%
10 Year	5.87%	10 Year	5.68%
Blended Benchmark	5.86%	Blended Benchmark	5.86%

* 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)		Index Plus (Passive)	
2008	-22.88%	2008	-18.14%
2009	21.47%	2009	16.05%
2010	12.42%	2010	11.77%
2011	0.55%	2011	2.29%
2012	12.25%	2012	10.91%
2013	13.06%	2013	12.79%
2014	4.84%	2014	5.72%
2015	0.14%	2015	-0.52%
2016	6.44%	2016	7.23%
2017	13.19%	2017	11.59%

PORTFOLIO FACTS

HighMark Plus (Active)		Index Plus (Passive)	
Inception Date	10/2004	Inception Date	05/2006
No of Funds in Portfolio	19	No of Funds in Portfolio	12

HOLDINGS

HighMark Plus (Active)

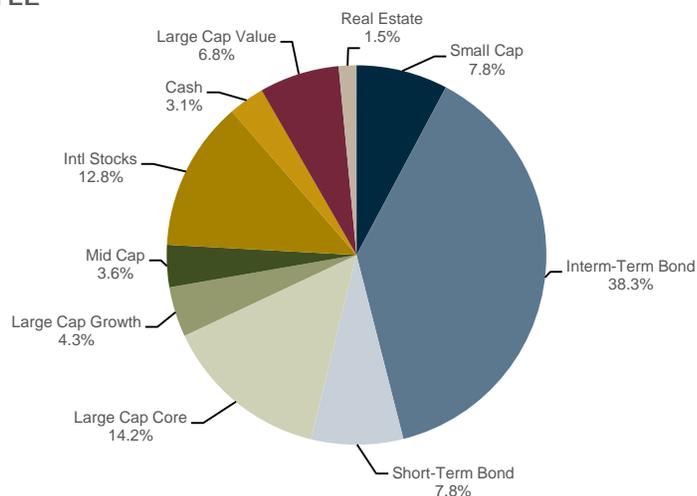
Columbia Contrarian Core Z
Vanguard Growth & Income Adm
Dodge & Cox Stock Fund
Harbor Capital Appreciation
T. Rowe Price Growth Stock
iShares Russell Mid-Cap ETF
Vanguard REIT ETF
Undiscovered Managers Behavioral Value
T. Rowe Price New Horizons
Nationwide Bailard International Equities
Dodge & Cox International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

Index Plus (Passive)

iShares Core S&P 500 ETF
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iShares S&P 500/Growth
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Vanguard REIT ETF
iShares Russell 2000 Value
iShares Russell 2000 Growth
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PARS DIVERSIFIED PORTFOLIOS
BALANCED

Q1 2018

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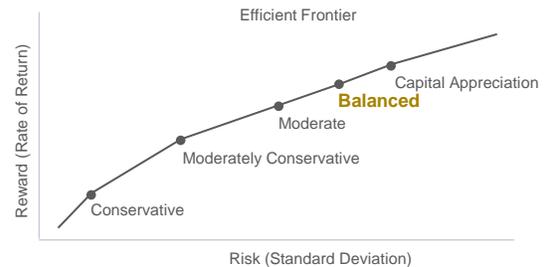
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INVESTMENT OBJECTIVE

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*	-0.61%	Current Quarter*	-1.04%
Blended Benchmark**	-0.81%	Blended Benchmark**	-0.81%
Year To Date	-0.61%	Year To Date	-1.04%
Blended Benchmark	-0.81%	Blended Benchmark	-0.81%
1 Year	9.98%	1 Year	8.35%
Blended Benchmark	8.59%	Blended Benchmark	8.59%
3 Year	6.11%	3 Year	5.69%
Blended Benchmark	6.05%	Blended Benchmark	6.05%
5 Year	7.22%	5 Year	6.97%
Blended Benchmark	7.52%	Blended Benchmark	7.52%
10 Year	6.27%	10 Year	6.10%
Blended Benchmark	6.51%	Blended Benchmark	6.51%

* 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	19	No of Funds in Portfolio	12

HOLDINGS

HighMark Plus (Active)

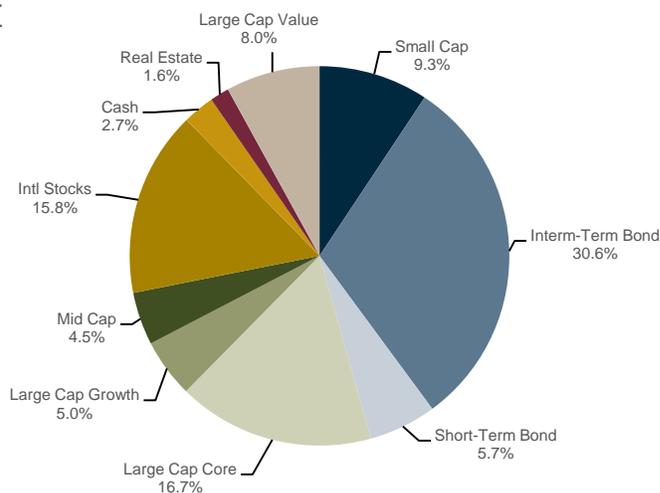
Columbia Contrarian Core Z
Vanguard Growth & Income Adm
Dodge & Cox Stock Fund
Harbor Capital Appreciation
T. Rowe Price Growth Stock
iShares Russell Mid-Cap ETF
Vanguard REIT ETF
Undiscovered Managers Behavioral Value
T. Rowe Price New Horizons
Nationwide Bailard International Equities
Dodge & Cox International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

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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 March 31, 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). 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.

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ABOUT THE ADVISER

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

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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: 6
Average Years of Experience: 19
Average Tenure (Years): 7

PARS DIVERSIFIED PORTFOLIOS CAPITAL APPRECIATION

Q1 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

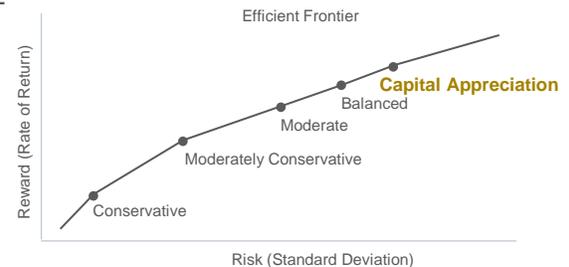
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation 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*	-0.38%
Blended Benchmark**	-0.75%
Year To Date	-0.38%
Blended Benchmark	-0.75%
1 Year	11.28%
Blended Benchmark	10.65%
3 Year	7.18%
Blended Benchmark	7.22%
5 Year	8.77%
Blended Benchmark	8.91%
Inception to Date (111-Mos.)	10.55%
Blended Benchmark	11.22%

* 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	19	No of Funds in Portfolio	12

HOLDINGS

HighMark Plus (Active)

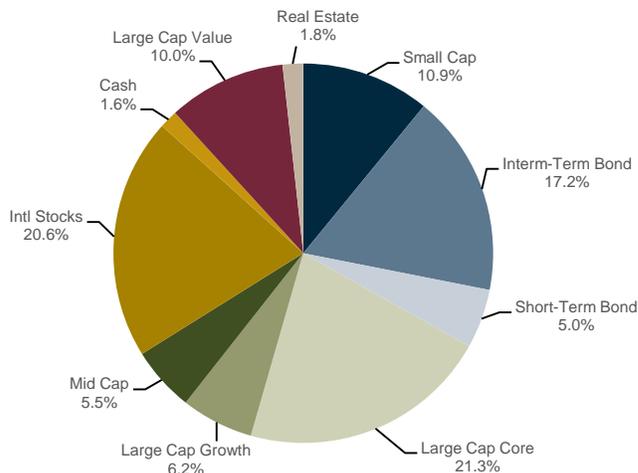
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