

## MARKET REVIEW

Halfway through 2017, the political agenda of the 2016 election has all but faded. Market impacting measures such as tax reform and de-regulation have stalled, and through most of the second quarter, the accompanied reflation trade continued to reverse. At this point, expectations for the Republican agenda are non-existent.

More importantly, trends in economic activity moved towards another mini-cycle of moderating growth. Large cap, stable, growth stocks led markets as interest rates trended downward with the 10-year U.S. Treasury reaching a low of 2.13% on June 14<sup>th</sup>. The last two weeks of the quarter showed some life. Propped up by a rise in overseas bond rates, domestic interest rates rose closing the quarter at 2.3%. The resulting reflationary trade reversed the trends of the last six months, and gave life to small caps and value.

Technology and healthcare led sector performance as the leading segment for stable growth. Dragged down by falling oil prices, the energy sector lagged.

## PORTFOLIO POSITIONING

The portfolio continues to have a slight overweight to momentum stocks, as is typical for our strategy. We do not see risks in momentum at this juncture. While valuation of momentum stocks is high, volatility in their returns are not.

The portfolio management team is optimistic about the potential for value-added returns to the strategy going forward. A continuation of the reflationary trends of the last few weeks of the quarter lead to a broader range of returns across stocks, increasing opportunities for our process to add value.

## PRODUCT OVERVIEW

The Large Cap Core Equity strategy seeks to outperform the Russell 1000 Index by constructing a diversified portfolio using an investment process that combines analysis of economic and market forces; individual stock analysis and risk management; and efficient strategy implementation and trading. The core of our process is knowledge - based investing which uses signals from the activity of unique market participants to assess potential company appreciation.

## TOP FIVE CONTRIBUTORS (%)

Security	Avg. Weight	Portfolio Impact
Abbott Labs	2.52	0.29
Mid-America Apartment	2.33	0.15
General Dynamic Corp.	2.53	0.14
Johnson & Johnson	3.51	0.13
CSX Corp	1.00	0.13

## TOP FIVE DETRACTORS (%)

Security	Avg. Weight	Portfolio Impact
Wesco International Inc.	0.93	(0.26)
General Electric Co.	2.76	(0.15)
Booz Allen Hamilton Hldg	1.99	(0.15)
Cisco Systems	2.44	(0.12)
Discover Financial Svcs	1.09	(0.10)

## REPRESENTATIVE BUYS AND SELLS

Bought	Sector
Hilton Worldwide Holdings	Consumer Discretionary
Atmos Energy Corp.	Utilities
Facebook Inc.	Information Technology

Sold	Sector
Booz Allen Hamilton Hldgs	Information Technology
Envision Healthcare Corp.	Health Care
Nike Inc.	Consumer Discretionary

## LARGE CAP CORE INVESTMENT MANAGEMENT TEAM

Derek Izuel, CFA  
Chief Equity Officer

- Investment experience since 1991
- Tenure with HighMark since 2008
- MBA – University of Michigan
- BA – Computer Science, University of California, Berkeley

Yanping Li, Ph.D.  
Senior Equity Research Analyst/ Portfolio Manager

- Investment experience since 2008
- Tenure with HighMark since 2011
- PhD – Applied Physics, Cornell University
- MS – Financial Engineering, University of California, Berkeley
- MA – Physics, Brandeis University

Richard Ren, Ph.D., CFA  
Senior Equity Research Analyst

- Investment experience since 2007
- Tenure with HighMark since 2014
- PhD – Chemical Physics & Statistical Analysis, University of California, Los Angeles
- MBA – University of California, Berkeley
- BS – Industrial Automation, Zhejiang University

Justin Sheetz, CFA  
Equity Research Analyst

- Investment experience since 1997
- Tenure with HighMark since 2014
- BA – International Studies, Colby College
- MS – Computational Finance and Risk Management, University of Washington

Angela Shen  
Quantitative Equity Analyst

- Investment experience since 1992
- Tenure with HighMark since 1992
- BA – Statistics, University of California, Berkeley

Todd Mackedanz  
Head of Equity Trading

- Investment experience since 2001
- Tenure with HighMark since 2014
- BS – Finance, Montana State University

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Current and future portfolio holdings are subject to change and risk. There is no guarantee that the securities listed will remain in or out of the portfolio. The discussion of the strategy's holdings is not intended as a recommendation to buy, hold or sell any of these securities. Past performance is no indication of future results. The information provided herein represents the opinion of the manager of the market environment at a specific point in time and should not be relied upon as research or investment advice. Information presented for Top Contributors and Detractors is based on a representative account within the Large Cap Core Equity Composite, and on a trade date basis. As of June 30, 2017 the composite consists of equal to or less than five accounts, and composite represents 11.54% of the total firm assets. The minimum portfolio size for inclusion in the composite is \$3 million.

The benchmark for this composite is Russell 1000 Index. Prior to 11/30/2014, the benchmark for Large Cap Core Equity was the S&P 500. The change was made effective 12/1/2014 to more closely reflect the composite's strategy.

The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000® Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. Benchmark returns do not reflect the deduction of advisory fees, custody fees, transaction costs, or other investment expenses. The benchmark returns assume the reinvestment of dividends and other earnings. An investor cannot invest directly in an unmanaged index. Specific securities identified and described 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 and discussed were or will be profitable. Please call (800) 582-4734 or write to [highmark.capital@highmarkcapital.com](mailto:highmark.capital@highmarkcapital.com) to obtain the calculation methodology for contributors and detractors and a list of every holding's contribution to the overall representative account's performance during the quarter.

## HIGHMARK CAPITAL MANAGEMENT

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