

Liquidity Management Fact Sheet

Q3 2017

INVESTMENT PHILOSOPHY

We believe that safety, liquidity, and yield are the most important drivers of our liquidity management strategy. We seek to maximize after-tax income while preserving principal and maintaining liquidity.

INVESTMENT PHILOSOPHY



1. Fundamental Economic Analysis. Our Asset Allocation Committee conducts fundamental analysis of global economic indicators and fiscal and monetary policy. A strategic focus is placed on the leading indicators that have historically provided insights into the business cycle and potential changes in Federal Reserve policy. Our goal is to ensure that your portfolio is carefully positioned within a macroeconomic framework.

2. Market and Credit Analysis. We identify the most attractive securities among diverse asset classes and market sectors to enhance portfolio diversification and yield. We conduct in-depth yield curve and sector analysis as well as historical spread volatility and excess return trends. Finally, our research team analyzes the creditworthiness of new security candidates and existing securities on regular basis.

3. Portfolio Construction. In building a diversified and customized portfolio tailored to client's stated objectives and liquidity needs, our team seeks to diversify across multiple industries and security types. Portfolios are periodically repositioned to seek opportunities arising from changes in interest rates, the yield curve and sector spreads.

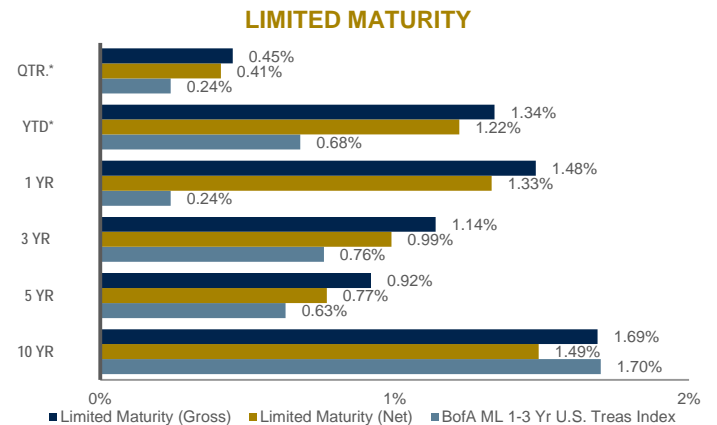
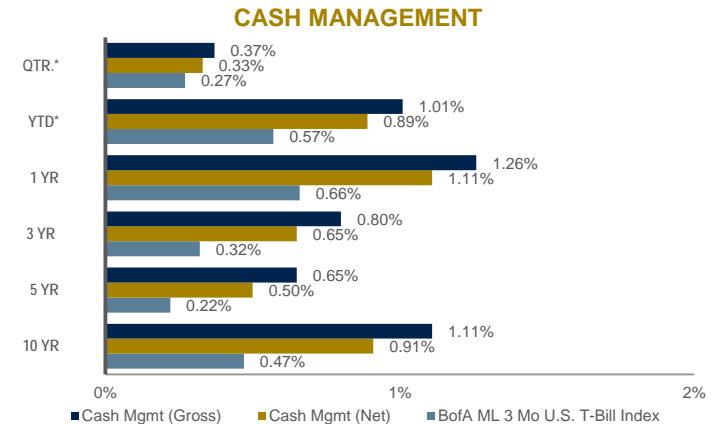
Risk Management

Our overarching goal is to ensure risk is managed and minimized through portfolio diversification, the monitoring of portfolio holdings and interest rate sensitivity analysis. Comprehensive performance measurement, compliance tools and constant adherence to client investment guidelines allow us to manage risk consistent with client expectations.

FIRM BACKGROUND

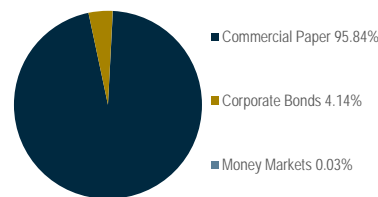
- Founded in 1919 as part of Union Bank in San Francisco
- \$16.6 billion in assets under management
- Stable and experienced 52-member investment team
- Over 100 clients from all institutional segments

COMPOSITE PERFORMANCE (periods under one year are not annualized)

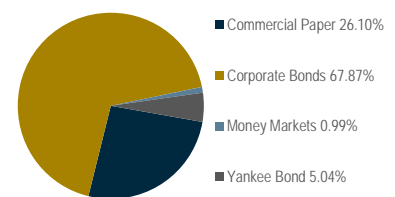


SECTOR WEIGHTINGS

CASH MANAGEMENT

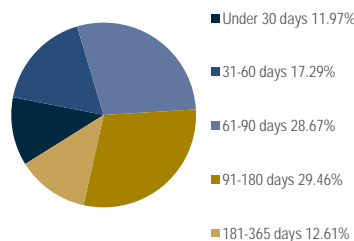


LIMITED MATURITY

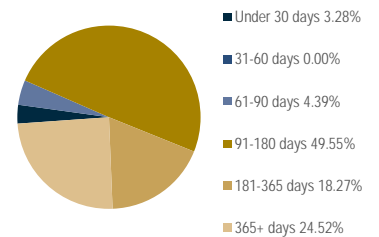


PORTFOLIO MATURITY

CASH MANAGEMENT



LIMITED MATURITY



HighMark® Capital Management Perspectives and Commentary

Overview

Storms, both natural and man-made, were not enough to slow down global equity markets during the third quarter. Solid corporate earnings and encouraging economic data helped investors shrug off worries about the impact of major hurricane damage and escalating tensions between the U.S. and North Korea. Continued strength in a now globally synchronized growth cycle has reinforced equity markets' resilience to adverse events that might otherwise pose a threat to seemingly solid economic momentum.

The domestic economy, though not growing as fast as during prior cycles, also shows little signs of slowing down. Accommodative financial conditions continue to perpetuate steady economic growth amidst a backdrop of low inflation and unemployment, creating an environment supportive of equity-risk taking. A lack of competitive returns offered by bonds and cash further fueled a 'buy the dip' mentality that persisted in the stock market despite some absolute valuation measures indicating richness.

The bond market has struggled to find such a definitive direction this year. Long-term bond yields fell for most of the quarter until an abrupt pivot in early September when investors were surprised by healthier than expected headline inflation. The Federal Reserve's (Fed) decision to officially implement its well-telegraphed plan to shrink its balance sheet, along with some hawkish comments from Chairwoman Yellen, have also added upward pressure to rates late in the quarter.

As of the end of the quarter, the yield-to-maturity on the 10-year U.S. Treasury Note (2.33%) settled just 11 basis points lower than where it started the year, but up 30 basis points from levels traded in early September. On the shorter end of the yield curve, interest rates found more upward direction with the yield on the 2-year Treasury Note (1.47%) breaking out to new cycle highs at the close of the quarter.

As discussed in last quarter's Perspectives, the Fed finds itself in a pickle. On the one hand, the monetary policy-making body is eager to wean its influence on financial markets and the economy, while on the other, it must remain concerned about the impact of withdrawing monetary stimulus amid stubbornly low inflation. A less noisy measure of inflation that the Fed claims to focus most on, the core personal consumption expenditures (PCE) index, increased by just 1.3% in August – a level not seen since October 2015 and well below the Fed's stated 2% target.

Economic Highlights

U.S. Growth: The domestic economy grew at a robust 3.1% rate in the second quarter. Accelerating corporate profits and business spending helped drive growth to its fastest pace in two years. We expect third quarter growth to slow, in part due to the impact from hurricanes Irma and Maria.

Inflation: After showing signs of softening in June, the Consumer Price Index (CPI) reaccelerated in August to 1.9%. Hurricane damage should bring temporary upward pressure on prices in the coming months. However, excluding food and energy, price growth has remained weak.

Employment: Hurricanes Irma and Harvey put a halt to seven years of job growth in September. An estimated 33,000 U.S. jobs were lost during the month, most notably from the restaurant industry. September's Employment Situation report was an expected temporary outlier, as July (+138,000) and August (+169,000) job growth remained largely consistent with longer term trends. Despite the setback in job growth, wage growth ticked up to an annualized rate of 2.9% in September.

Foreign Exchange: The U.S. dollar continued its decline during the quarter from its cyclical peak at the end of last year. Year-to-date through the end of September, the U.S. Dollar Index has fallen by 8.4%. A weaker dollar should act as a tailwind for corporate profits and exports.

Corporate Earnings: Second quarter earnings for S&P 500 companies increased 12.3% with a robust 5% top line revenue growth. Further, 73% of companies beat consensus analyst estimates. A significant rebound in Energy sector earnings helped drive the overall market higher.

Energy: Oil prices rallied during the quarter after hitting a bottom in late June. West Texas Intermediate Crude closed the quarter at \$51.58 per barrel after beginning the quarter at \$46.04. Gasoline prices rose even more dramatically after refining capacity was taken offline due to storm damage. AAA National Average Gasoline price closed the third quarter at \$2.56 per gallon, up from \$2.23 to start the quarter, a 15% increase.

Conclusion

By most measures, the global economy today is at its strongest point since the beginning of the financial crisis. In concert with low real and nominal interest rates orchestrated by central banks, such economic tranquility is music to investors' ears and reflected by healthy asset price appreciation over the past 12 to 18 months. However, an environment of low interest rates, narrow credit spreads and elevated equity market valuations lowers future upside return potential from stocks and bonds. As a result, past historical returns for major asset classes are unlikely to be matched or exceeded going forward.

With major central banks seeking to pull back monetary policy accommodation as the global economy firms up, investors must not become complacent. Although recent market behavior has heavily discounted the likelihood of such an outcome, hitting an air pocket in the economy is never out of the question. When indications of a slowdown eventually emerge, seemingly insatiable appetites for equity market risk may change at a moment's notice. Therefore, it is especially important that we remind ourselves during periods of general calm that staying focused on long-term goals and strategic asset allocation policy is the key to riding out any storm that could eventually rattle markets.

¹ U.S. Department of Commerce ³ Bloomberg

² U.S. Bureau of Labor Statistics ⁴ Reuters

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All expressions of opinion are subject to change without notice in reaction to shifting market, economic or political conditions.

Information presented under Sectors, and Maturity is based on a representative account within the Cash Management and Limited Maturity composites, and on a trade-date basis. As of September 30, 2017, the Cash Management composite consists of ten accounts, and represents 5.15% of the total firm assets. The minimum portfolio size for inclusion in the composite is \$10 million. As of September 30, 2017, the Limited Maturity composite consists of equal to or less than five accounts, and represents 3.67% of the total firm assets. The minimum portfolio size for inclusion in the composite is \$10 million. The benchmark for the Cash Management and Limited Maturity composites are the Bank of America (BoFA) Merrill Lynch (ML) 3-Month U.S. Treasury Bill Index and the BoFA ML 1-3 Year U.S. Treasury Index, respectively. The benchmarks are used for comparative purposes only and is provided to represent the market conditions during the period shown. The ML 3-Month U.S. Treasury Bill Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month, the issue is sold and rolled into a newly selected issue. The issue selected at each month-end rebalancing is the outstanding T Bill that matures closest to, but not beyond 3 months from the rebalancing date. The BoFA ML 1-3 Year U.S. Treasury Index is a subset of The BoFA Merrill Lynch U.S. Treasury Index including all securities with a remaining term to final maturity less than 3 years. The BoFA Merrill Lynch U.S. Treasury Index tracks the performance of U.S. dollar denominated sovereign debt publicly issued by the U.S. government in its domestic market. 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 either the BoFA ML 3-Month U.S. Treasury Bill Index or the BoFA ML 1-3 Year U.S. Treasury Index. Gross returns are presented before management and custodial fees but after all trading expenses and reflect the reinvestment of interests and other income. Client's return will be reduced by the advisory fees and other expenses it may incur as a client. Fees charged are at the discretion of HighMark and MUB; investment advisory fees are described in HighMark's Form ADV Part 2, which is available upon request.

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