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## Form ADV Part 2A

March 30, 2017

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*This Form ADV Part 2A ("the Brochure") provides information about the qualifications and business practices of HighMark Capital Management, Inc. If you have any questions about the contents of this brochure, please contact us at 1-800-582-4734. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.*

*HighMark Capital Management, Inc. is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training.*

*Additional information about HighMark Capital Management, Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*

## Item 2: Material Changes

HighMark Capital Management, Inc. (“HighMark”) has not made any material changes to its Form ADV Part 2A (the “Brochure”) since its last update on March 29, 2016.

You may also request a free copy of the Brochure by calling 1-800-582-4734 or by visiting [www.highmarkcapital.com](http://www.highmarkcapital.com).

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## Item 4: Advisory Business

HighMark is a Securities and Exchange Commission (“SEC”) registered investment adviser and a wholly owned subsidiary of MUFG Union Bank, N.A. (“MUFG Union Bank”), a national bank regulated by the Comptroller of the Currency. HighMark and MUFG Union Bank’s ultimate parent company is Mitsubishi UFJ Financial Group, Inc. (“MUFG”), a Japanese-based financial institution. Please refer to Item 10: Other Financial Industry Activities and Affiliations, for additional information regarding HighMark’s affiliates.

Including its predecessor organizations, HighMark has been managing client assets since 1919, and has been registered as an investment adviser with the SEC since 1998. As of December 31, 2016, HighMark had \$16.3 billion assets under management, \$15.3 billion of these assets are managed on a discretionary basis, and almost \$1 billion are managed on a non-discretionary basis. As described below, HighMark provides certain investment models for use in third party models programs.

HighMark provides a variety of investment advisory services as described below.

### Managed Accounts

HighMark manages accounts for clients with which it has a direct investment management agreement (“direct accounts”) and also manages accounts for MUFG Union Bank, certain MUFG Union Bank affiliates and US Bank, National Association (“U.S. Bank”) under applicable investment advisory services agreements (“indirect accounts”). HighMark also manages institutional separate account portfolios for a wide variety of for-profit and nonprofit organizations, public agencies, public and private retirement plans, and personal trusts of all sizes. It also serves as sub-adviser for mutual funds, common trust funds, and collective investment funds. Services include some or all of the following:

- Assisting the client in developing and modifying investment objectives, guidelines and restrictions.
- Determining an appropriate investment strategy, including asset allocation, consistent with the investment objectives, guidelines and restrictions established by the client, and reviewing and periodically modifying the strategy through meetings and consultations with the client or its agent.
- Implementing the client’s investment strategy through the purchase and sale of securities and other financial instruments, the exercise of options, warrants, and subscription rights, and the investment and re-investment of cash balances for the account.
- Providing information and instructions to the client or its custodian (or trustee) so that transactions for the account are settled in an accurate and timely manner.
- Reconciling its records with those of the client or its custodian (or trustee) on a periodic basis.
- Reviewing the client’s overall accounts and monitoring individual instruments so that the overall portfolio remains consistent with the account’s investment strategy, as well as the client’s investment objectives, guidelines and restrictions.
- Furnishing reports to the client on a periodic basis concerning account activity and performance.

For certain clients, HighMark engages unaffiliated sub-advisers to assist it in providing its services, or to provide clients access to third party investment platforms, some of which include private equity or hedge fund investment options.

As a wholly owned subsidiary and the sub-adviser to MUFG Union Bank’s managed account business, HighMark is required to comply with MUFG Union Bank’s applicable compliance policies and procedures, which include reporting obligations that are not generally required by third party clients.

#### Sub-Advisory Services Provided to Non-Affiliated Parties

HighMark serves as a sub-adviser to Nationwide Fund Advisers with respect to certain funds in the Nationwide Mutual Fund trust and the Nationwide Variable Insurance Trust (collectively “Nationwide”) under sub-advisory agreements with Nationwide. Please see Item 5: Fees and Compensation for a listing of the funds and the fees paid to HighMark by Nationwide.

HighMark also has a sub-advisory agreement with U.S. Bank to sub-advise certain client accounts. In addition, HighMark sub-advises a collective investment fund for an unaffiliated trust company.

The range of services HighMark provides for these indirect accounts is similar to the services it provides to managed accounts, as described above. U.S. Bank and the trust company pay HighMark a fee to provide these investment advisory services, as described in the agreement between these entities and HighMark.

#### Sub-Advisory Services Provided to MUFG Union Bank

HighMark serves as a sub-adviser to MUFG Union Bank with respect to certain client accounts, including retirement plans, for which MUFG Union Bank acts as trustee or agent, pursuant to an agreement with MUFG Union Bank. MUFG Union Bank discloses to these indirect account clients that it has retained HighMark to provide investment advisory services with respect to these indirect accounts.

Depending on the size of the account, client investment objectives, guidelines, restrictions, and other circumstances, HighMark may invest some or all of the trust or agency assets in MUFG Union Bank’s collective investment funds, as described below; in mutual funds, including funds in which HighMark serves as sub-adviser; or in separately-managed accounts, which are available through an arrangement with SEI Investment Management Corporation.

HighMark also serves as a sub-adviser to MUFG Union Bank with respect to certain collective investment funds maintained by MUFG Union Bank for investment by its personal trust accounts for which MUFG Union Bank acts as trustee. Collective investment funds are commingled trust funds created to facilitate the investment management of individual fiduciary accounts for which MUFG Union Bank has investment responsibility. The assets of such accounts are combined into one or more investment funds, each with its own specific investment strategy. Although similar in some respects to mutual funds, collective investment funds are administered by banks under applicable banking law and are not registered under the Investment Company Act of 1940. HighMark may use its investment discretion to place the assets of a MUFG Union Bank trust account in a MUFG Union Bank managed collective investment fund.

MUFG Union Bank pays HighMark a portion of the fees it receives as compensation for these sub-advisory services, as described in the agreement between MUFG Union Bank and HighMark. The range of services HighMark provides for these accounts is similar to the services it provides to managed accounts, as described above.

#### HighMark Models

HighMark has an arrangement with MUFG Union Bank Personal Trust and Estate Services to provide investment advisory services to clients of MUFG Union Bank Personal Trust. Depending on the portfolio market value, as well as investment needs and objectives, HighMark may use its investment models in managing the client’s assets. Generally, the models cover a range of investment strategies from income to capital appreciation. HighMark offers these investment models to clients through MUFG Union Bank’s Personal Trust’s platform. MUFG Union Bank pays a fee to HighMark based on assets under management.

HighMark also has a non-exclusive licensing arrangement with Envestnet Asset Management, Inc., and its legal affiliates (collectively, “Envestnet”) to provide various investment models (“HighMark Models”) for use in Envestnet’s Third Party Models Program. Under the arrangement with Envestnet, HighMark is responsible for constructing and maintaining each model, while Envestnet is responsible for implementing and executing all trade orders for each Envestnet client based on the respective investment models. The HighMark Models are accessed through the Envestnet platform.

HighMark pays Envestnet a one-time set up fee for the construction and installation of each model on its platform. HighMark, as the model provider, earns a fee paid by Envestnet pursuant to the model licensing agreement between HighMark and Envestnet. UnionBanc Investment Services, LLC (“UBIS”), a subsidiary of MUFG Union Bank and a registered broker dealer and investment adviser, may utilize the aforementioned HighMark Models in providing advisory services to its clients. Please consult Envestnet Asset Management’s Form ADV, Part 2A for a detailed description of the Third Party Models Program. A copy of the ADV may be obtained by visiting [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

#### Consulting Services

HighMark provides investment consulting services, including supplying investment research and information, on a non-discretionary basis. These services consist of providing sample model portfolios, investment strategies, general overviews of certain securities markets, or similar services. HighMark also assists MUFG Union Bank in the evaluation of sub-advisers retained or proposed to be retained by MUFG Union Bank in connection with MUFG Union Bank’s trust or agency account business and their securities selection process.

Fees for consulting services are negotiated in each case based on the nature and complexity of the services to be provided. Such fees may be fixed or based on a percentage of the assets subject to the consulting arrangement and such fees are generally payable upon provision of the services.

## **Item 5: Fees and Compensation**

Fees are generally charged as a percentage of assets under management as described in the investment advisory agreement between HighMark and the client. Fees may be negotiated on a relationship basis.

In addition to the investment advisory fee, it is possible that clients would pay other fees related to the management of their account depending on the type of account and investment such as, brokerage, trading, custody, transfer agent, fund accounting and administration, 12b-1, shareholder servicing and investment management fees associated with any third-party fund. Please see Item 12: Brokerage Practices.

The fee tables below reflect annual fee schedules for advisory services only. When clients contract for additional services such as custody, trust, or agency services with MUFG Union Bank or other entities, the fees paid for such arrangements may vary from than those shown below.

The current HighMark account annual fee schedules for direct accounts are set out below.

Customized Investment Management Fee schedule: Multi-Assets and Specialized Accounts

- 0.85% on the first \$10 million
- 0.75% on the next \$15 million
- 0.65% on the next \$25 million
- 0.50% on amounts over \$50 million

Fixed Income Fee Schedule: Liquidity/Cash Management Accounts

- 0.15% on the first \$10 million
- 0.12% on the next \$10 million
- 0.10% on amounts over \$20 million

Fixed Income Fee Schedule: Short Term Fixed Income Accounts

- 0.30% on the first \$10 million
- 0.25% on the next \$15 million
- 0.20% on the next \$25 million
- 0.15% on the next \$50 million
- 0.10% on amounts over \$100 million

Fixed Income Fee Schedule: Core Fixed Income Accounts

- 0.50% on the first \$10 million
- 0.35% on the next \$15 million
- 0.30% on the next \$25 million
- 0.25% on the next \$50 million
- 0.20% on amounts over \$100 million

Fixed Income Fee Schedule: Municipal Accounts

- 0.50% on the first \$10 million
- 0.35% on the next \$15 million
- 0.30% on the next \$25 million
- 0.25% on the next \$50 million
- 0.20% on amounts over \$100 million

Equity Fee Schedule: U.S. Large Cap Fundamental Accounts

- 0.75% on the first \$10 million
- 0.60% on the next \$15 million
- 0.50% on the next \$25 million
- 0.45% on amounts over \$50 million

Equity Fee Schedule: U.S. Large Cap Disciplined Equity Accounts

- 0.65% on the first \$10 million
- 0.50% on the next \$15 million
- 0.40% on the next \$25 million
- 0.35% on amounts over \$50 million

Equity Fee Schedule: U.S. Small Cap Accounts

- 0.90% on the first \$10 million
- 0.70% on the next \$15 million
- 0.65% on the next \$25 million
- 0.60% on amounts over \$50 million

Equity Fee Schedule: U.S. Micro Cap Accounts

- 1.05% on the first \$10 million
- 1.00% on the next \$15 million
- 0.95% on the next \$25 million
- 0.90% on amounts over \$50 million

Equity Fee Schedule: Fundamental Advantage and Dividend Advantage Model Portfolios

- 0.55% on the first \$10 million
- 0.45% on the next \$15 million
- 0.40% on the next \$25 million
- 0.35% on amounts over \$50 million

HighMark requires a minimum annual fee of \$10,000 for managed account investment management services. In certain circumstances, the minimum fee may be negotiable.

For clients' assets custodied at MUFG Union Bank, clients generally choose to deduct fees from assets or receive a bill for fees incurred. For those clients' assets custodied outside of MUFG Union Bank, clients will be invoiced. Fees are paid in arrears and clients have the option to pay fees monthly or quarterly.

Fees are prorated for the billing period at the beginning or end of a client relationship. The method of fee calculations is disclosed to clients in their investment advisory agreements. For other accounts described under Item 4: Advisory Business, HighMark receives a fee for providing investment advisory services, as described in the agreement between HighMark and the respective party.

Based on investment advice provided by HighMark, MUFG Union Bank as discretionary trustee or agent may place a MUFG Union Bank client's assets in a fund sub-advised by HighMark. Because HighMark is paid an advisory fee by the sub-advised fund with respect to those assets, MUFG Union Bank credits each MUFG Union Bank managed account for those assets an amount equal to the sub-advisory fee which HighMark receives. If a client account for which MUFG Union Bank acts as discretionary trustee or agent, is invested in a fund sub-advised by HighMark, that account generally will purchase the institutional shares of the sub-advised fund that do not carry a sales load or Rule 12b-1 fee.

HighMark may recommend that a non-discretionary client invest in a fund that is sub-advised by HighMark. If the non-discretionary client chooses to invest in the sub-advised fund, the client will generally not receive any fee waivers or reductions. It is possible that such a client could select a class of shares of a sub-advised fund that charges both a sales load and a Rule 12b-1 fee. In that event, the client will, in essence, pay advisory fees at two levels, that is, a separate advisory fee paid to HighMark by the client, and the advisory fee that is paid to HighMark by the sub-advised fund. HighMark will also charge a fee for rebalancing non-discretionary assets invested in certain third-party investment platforms.



## **Sub-Advised Funds**

The table below shows the fees received by HighMark as sub-adviser to Nationwide.

| <b>Sub-Advised Funds</b>   | <b>Fee Received (Annual Rate) †</b>   |
|--|---|
| Nationwide HighMark Bond Fund  | 0.15% on Sub-adviser Assets up to \$250 million;<br>0.125% on Sub-adviser Assets of \$250 million and more but less than \$1 billion;<br>0.10% on Sub-adviser Assets of \$1 billion and more                            |
| Nationwide HighMark California Intermediate Tax-Free Bond Fund<br>Nationwide HighMark National Intermediate Tax-Free Bond Fund | 0.25% on all Sub-adviser Assets   |
| Nationwide HighMark Short Term Bond Fund   | 0.10% on Sub-adviser Assets up to \$500 million;<br>0.0975% on Sub-adviser Assets of \$500 million and more but less than \$1 billion;<br>0.0925% on Sub-adviser Assets of \$1 billion and more                         |
| Nationwide HighMark Large Cap Core Equity Fund   | 0.27% on all Sub-adviser Assets   |
| Nationwide HighMark Small Cap Core Fund  | 0.475% on all Sub-adviser Assets  |
| NVIT Nationwide Fund   | 0.25% on Aggregate Sub-adviser Assets†† up to \$250 million;<br>0.20% on Aggregate Sub-adviser Assets†† of \$250 and more but less than \$1 billion;<br>0.18% on Aggregate Sub-adviser Assets†† of \$1 billion and more |
| Nationwide Fund  | 0.25% on Aggregate Sub-adviser Assets†† up to \$250 million;<br>0.20% on Aggregate Sub-adviser Assets†† of \$250 and more but less than \$1 billion;<br>0.18% on Aggregate Sub-adviser Assets†† of \$1 billion and more |

†Fee is based on Sub-adviser Assets, which are that portion of the assets of a Fund that the investment adviser to such Fund allocates and puts under the control of HighMark as the sub-adviser.

†† The term "Aggregate Sub-adviser Assets" means the aggregate amount resulting from the combination of Sub-adviser Assets of the Nationwide Fund together with Sub-adviser Assets of the NVIT Nationwide Fund, a series of Nationwide Variable Insurance Trust.

HighMark sold its mutual fund sponsorship business to Nationwide in the fall of 2013. HCM received additional compensation from Nationwide in the fall of 2016 based on the total amount of assets at that time and based on certain Nationwide Funds, including assets held in accounts advised or sub-advised by HCM, connected to that transaction.

Portfolio managers receive a salary from HighMark and participate in the MUFG Union Bank's incentive compensation plan, which is an annual plan that pays a bonus.

## Item 6: Performance-Based Fees and Side-By-Side Management

Generally, performance-based fee structures create a potential conflict of interest by creating incentives regarding portfolio investments that could compromise the independent judgment of the investment adviser. Although there are currently none, it is possible that HighMark might enter into performance-based fee arrangements to the extent permitted by applicable law. If HighMark had performance-based fee arrangements, they could vary depending on the client's needs and individual circumstances.

## Item 7: Types of Clients

HighMark provides investment advice to individuals, high net worth individuals, investment companies, pension and profit sharing plans, pooled investment vehicles, charitable organizations, corporations, state and municipal government entities, corporate employee benefit plans, public agencies, foundations and endowments, Taft-Hartley plans, hospital and religious organizations, treasury departments and trusts and family enterprises.

HighMark generally requires a minimum account size of \$250,000 for individual clients, \$3 million for non-individual or trust accounts and \$10 million for liquidity accounts. HighMark may lower the minimum account size in its sole discretion.

## Item 8: Methods of Analysis, Investment Strategies and Risk of Loss

### Methods of Analysis

HighMark equity professionals combine fundamental, quantitative, and econometric analyses to build diversified equity portfolios that aim to outperform respective benchmarks. Different style strategies focus on different criteria. The Fundamental team seeks companies with double digit growth rates that have sustainable competitive advantages. The Core team uses information-based analyses to identify companies with positive upside potential. All managers consider the risks involved in their holdings and how such risk might affect the total portfolio.

HighMark's fixed income investment professionals perform intensive market and credit research to identify high-quality issues. To minimize volatility in client portfolios, HighMark carefully manages interest rate and credit risk and repositions portfolios it deems appropriate to take advantage of opportunities arising from changes in interest rates, the yield curve and sector spreads. HighMark strives to avoid securities that are leveraged with respect to interest rate or prepayment risk.

HighMark's cash management specialists utilize extensive analysis of market sectors and individual issues to enhance diversification and reduce portfolio volatility. HighMark invests in a wide range of investment grade domestic and foreign dollar-denominated securities according to each client's specific liquidity needs.

### Investment Strategies

HighMark provides a range of style-specific strategies using both internal and external managers. HighMark's approach is a disciplined, consistent process to actively manage portfolios including equity, fixed income, liquidity management and multi-asset strategies.

Equity strategies include U.S. Large Cap Fundamental research-based strategies including Value, Relative Dividend Yield, Fundamental Advantage, Dividend Advantage and Large Cap Growth, as well as U.S. Disciplined-based strategies including Large Cap, Small Cap and Microcap. HighMark also employs fixed income strategies in the areas of Core, Intermediate Term, Investment Grade Corporates, Short Term, National Tax-Free and California Tax-Free. For management of institutions' cash and excess working capital, HighMark offers both domestic and non-U.S. liquidity strategies invested principally in money market instruments. Multi-asset strategies include a variety of risk/return balanced portfolios and Custom Investment Management. HighMark offers other strategies through third-party sub-adviser relationships.

### Risk of Loss

Investments in HighMark strategies are not bank deposits, are not guaranteed by any agency of the U.S. government, and involve risk, including the possible loss of principal, a risk that clients should be prepared to bear.

Investment performance can also be affected by other risks such as:

- *Market Risk:* The risk of a security's market value declining, especially rapidly and unpredictably for short or extended periods. These fluctuations may cause a security to be worth less than the price the investor originally paid for it. Market risk can affect a single issuer, sector or the market as a whole.
- *Liquidity Risk:* The risk that a security is difficult or impossible to sell at the time and price the seller wishes. The seller may have to accept a lower price for the security, sell other securities instead, or forego a more attractive investment opportunity.
- *Credit Risk:* The risk that the issuer of a security, or the counterparty to a contract, will default or otherwise become unable to honor a financial obligation. Generally speaking, the lower a security's credit rating, the higher its credit risks. If a security's credit rating is downgraded, its price tends to decline sharply, especially as it becomes more probable that the issuer will default.
- *Interest Rate Risk:* The risk that debt prices overall will decline over short or long periods due to rising interest rates. Interest rate risk usually is modest for shorter-term securities, moderate for intermediate-term securities, and high for longer-term securities. A change in a central bank's monetary policy or improving economic conditions may result in an increase in interest rates. Rising interest rates could decrease liquidity in the fixed income securities markets, making it more difficult to sell fixed income securities. In addition, decreased market liquidity also could make it more difficult to value a fixed income security.
- *Counterparty Risk:* The risk that the counterparty to a repurchase agreement or reverse repurchase agreement will not fulfill its obligation which would cause the income and the value of the investment to decline.
- *Foreign Risk:* Compared with investing in the United States, investing in foreign markets involves a greater degree and variety of risks including the possibility of delayed settlements, currency controls, adverse economic developments, and higher overall transaction costs. In addition, fluctuations in the U.S. dollar's value could erode or reverse gains from investments denominated in foreign currencies or widen losses. Exchange rate fluctuations also could impair an issuer's ability to repay U.S. dollar denominated debt, increasing credit risk of such debt. Finally, the value of foreign securities could be affected by incomplete or inaccurate financial

information, smaller and less liquid securities markets, social upheavals or political actions ranging from tax code changes to significant governmental restructuring or collapse.

- *Reinvestment Risk:* The risk that the proceeds, dividends, or interest generated from an investment are reinvested in a security that offers a lower rate of return compared to the returns generated by the original investment.
- *Non-diversification Risk:* The risk involved with excessive exposure to securities in any one issuer, industry or sector.
- *Alternative Investment Risk:* Alternative mutual funds and other managers that employ alternative investment strategies primarily invest in non-traditional asset classes and implement speculative investment techniques. Alternative investments often offer investment return characteristics that are not correlated to traditional investments, but also present greater and/or unique risks to investors. Such risks include: loss of all or a substantial portion of the investment due to leveraging, short selling or other speculative practices; management risk; lack of liquidity; restrictions on transferring interests; higher or excessive volatility; absence of information for valuations and pricing; less transparency on underlying investments, complex tax structures and delays in tax reporting; less regulation; and potentially higher fees than traditional investments.
- *Management Risk:* The risk that a strategy or investment technique used by HighMark may fail to produce the intended result or achieve its investment objective.
- *Tax Risk:* The risk of unfavorable tax consequences to a client that could result from the administration of a client account pursuant to the advisory services described in this Brochure.

## Item 9: Disciplinary Information

HighMark has not been involved in legal or disciplinary events that are material to its advisory business or the integrity of its management.

## Item 10: Other Financial Industry Activities and Affiliations

### Material Related Party Arrangements

As noted in Item 4: Advisory Business, HighMark is a wholly owned subsidiary of MUFG Union Bank. MUFG Union Bank is a principal subsidiary of MUFG Americas Holding Corporation (“MUAH”), a bank holding company regulated by the Federal Reserve Board. MUAH is wholly owned by The Bank of Tokyo-Mitsubishi UFJ, Ltd. (“BTMU”), headquartered in Tokyo, Japan. BTMU, in turn, is a wholly owned subsidiary of Mitsubishi UFJ Financial Group, Inc. (“MUFG”).

HighMark’s ultimate parent company, MUFG, beneficially owns 23.3% of the common stock of Morgan Stanley as of December 31, 2016, and is also represented by two seats on Morgan Stanley’s Board of Directors. Morgan Stanley is the parent company of several registered broker-dealers, among other businesses. If HighMark manages your account, the fact of MUFG’s beneficial ownership interest in Morgan Stanley may limit HighMark ability to purchase an interest in a Morgan Stanley-sponsored or advised asset or use Morgan Stanley brokerage services for your account, without your written consent,

and, in some cases, will wholly prevent such purchases and/or the use of Morgan Stanley brokerage services.

All employees of HighMark including its board of directors are also employees of MUFG Union Bank. The employees of HighMark generally perform work for HighMark only. MUFG Union Bank provides a variety of administrative services to HighMark, including, but not limited to, human resources, legal and accounting services.

MUFG Union Bank serves as the custodian for many of the accounts for which HighMark provides advisory services. In addition, MUFG Union Bank may refer clients to HighMark for advisory services; and HighMark may refer clients to MUFG Union Bank for banking services.

MUFG Union Bank has a SEC-registered broker-dealer subsidiary, UBIS, which is also an SEC registered investment adviser. Both HighMark and UBIS are under the common control of MUFG Union Bank. HighMark currently has no arrangements with UBIS to provide broker-dealer or advisory services to HighMark or its advisory clients. UBIS may refer a client to HighMark for advisory services.

## **Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### Personal Transactions in Recommended Securities

HighMark generally does not buy or sell securities that it recommends to clients. HighMark's related persons may however, transact or hold securities that are or have been recommended by HighMark to its clients.

HighMark has adopted a Code of Ethics for all employees in accordance with Rule 204A-1 of the Investment Advisers Act of 1940 and Rule 17j-1 of the Investment Company Act of 1940 which describes standards for business conduct, fiduciary duty to clients and rules surrounding personal securities transactions. HighMark's officers and directors, and certain employees are required to report certain personal securities transactions and holdings. These personal securities transactions may raise potential conflicts with the interests of HighMark clients. The Code of Ethics mitigates potential conflicts of interest by requiring, among other things, prior approval of certain securities transactions and a holding period for sub-advised funds. The Code of Ethics also requires regular employee certification and reporting and outlines disciplinary actions for exceptions. All Code of Ethics exceptions are reported to HighMark's Board of Directors and to the Board of any sub-advised funds. A copy of HighMark's Code of Ethics is available upon request by calling 1-800-582-4734.

### Principal Transactions

HighMark does not, as principal, buy securities from or sell securities to its clients. HighMark also does not use its investment discretion to direct or authorize securities transactions between its related persons and its clients except in accordance with HighMark policy, and to the extent permitted by law. Certain related persons of HighMark, such as BTMU, MUFG Union Bank, and UBIS, from time to time, may buy securities from or sell securities to HighMark's clients in connection with their own separate relationship with HCM's clients. These activities of HighMark's related parties are not connected to HighMark's advisory business. The related persons engage in these activities in a manner that is consistent with customary commercial practice and applicable federal and state regulations.

### Agency Transactions

HighMark does not process securities transactions for compensation as broker or agent for its clients. HighMark also does not use its investment discretion to direct or authorize client securities transactions in which a related person is a broker or agent except in accordance with HighMark policy, and to the extent permitted by law. Certain related persons of HighMark, such as BTMU, MUFG Union Bank and UBIS, from time to time, may effect securities transactions for compensation as broker or agent for clients of HighMark or their counterparties in connection with their own separate relationships with such clients or other persons. These activities are not connected to HighMark's advisory business except to the extent those such clients or other persons invest in a fund sub-advised by HighMark. The related persons engage in these activities in a manner that is consistent with customary commercial practice and applicable federal and state regulations.

### MUFG's Investment in Morgan Stanley

Please see Item 10: Other Financial Industry Activities and Affiliations which discusses MUFG's investment in Morgan Stanley. Although HighMark does not consider this investment an arrangement that is material to its advisory business, this indirect affiliation prevents HighMark from effecting certain broker transactions with Morgan Stanley on behalf of certain client accounts. Where permitted by law, HighMark may use Morgan Stanley in connection with certain brokerage transactions on an agency or principal basis.

### Interest in Client Recommendations

Generally, HighMark does not recommend to clients that they buy or sell securities or investment products in which HighMark has a financial interest. HighMark, however, purchases for clients shares of mutual funds or collective investment funds sub-advised by HighMark, and from which HighMark receives a sub-advisory fee. Please see Item 5: Fees and Compensation for a description of the effect such purchases will have on advisory fees paid by clients.

One or more MUFG Union Bank affiliates may invest its employees' retirement plans in certain funds sub-advised by HighMark or use some of the sub-advised funds as an investment option in its participant directed retirement plans. To the extent that HighMark receives an advisory fee from the sub-advised fund(s), HighMark could be considered to indirectly benefit from the recommendations and investments made by MUFG Union Bank.

UBIS receives Rule 12b-1 or other fees in connection with its sales of shares of Nationwide Mutual Funds to UBIS clients. It is possible that MUFG Union Bank could also receive such fees in accounts for which it has no investment discretion.

HighMark may also recommend to clients securities in which HighMark's related persons have a financial interest. HighMark considers that the range of the potential holdings of HighMark's related persons, and the range of the potential issuers to whom HighMark's related persons provide banking, custodial, brokerage and other services, is such that it would be inadvisable to exclude these securities from consideration for a client's portfolio solely because of these potential conflicts of interest. HighMark makes portfolio transaction decisions or recommendations independently and not based on the interests of any related person.

HighMark may also engage in cross transactions, most likely in a format where client accounts are matched to provide liquidity and avoid brokerage fees. These are broker-less and non-principal transactions and there is no compensation earned by HighMark. There may be nominal transaction processing fees involved in cross transactions. Cross transactions are done in compliance with applicable rules and procedures.



HighMark may purchase or recommend securities for clients issued by other clients. HighMark receives no additional compensation in this situation

## **Item 12: Brokerage Practices**

HighMark provides investment advice to clients on both a discretionary and non-discretionary basis, depending upon clients' wishes. For more information about the advisory services offered by HighMark, please refer to Item 4: Advisory Business.

Most clients authorize HighMark to use broker-dealers selected by HighMark, and to pay commission rates negotiated by HighMark with the broker-dealer. HighMark however, may, agree to take written direction from a client to use a broker-dealer selected by the client. Please see discussion below about "Client Directed Brokerage."

### Client Directed Brokerage

HighMark may accept a client's written request for client directed brokerage by executing a transaction with the broker-dealer selected by the client, which may or may not be a broker-dealer used by HighMark for other trades in the same security during that period. In accordance with client directed brokerage instructions, the brokerage transactions may result in higher commissions, greater spreads, or less favorable net prices than would be the case if HighMark were authorized to select the broker-dealer. Client directed brokerage may not, in all cases, result in the best execution of securities transactions for the client. Clients acknowledge the possibility of paying higher commission rates and not obtaining best execution when they enter into their agreement with HighMark. HighMark may limit the extent to which it will agree to client directed brokerage.

Although HighMark has no brokerage commission recapture program, from time to time, certain clients may direct HighMark to a certain broker as part of their participation in such a program. Where a client directs the use of a particular broker-dealer, HighMark may be unable to achieve most favorable execution of client transactions and the client may pay more in execution fees than if HighMark was permitted to choose the executing broker-dealer. In such cases, HighMark may not be able to determine the terms of how an order will be handled with such broker-dealer and may not be able to freely negotiate commission rates. In addition, HighMark may not be able to aggregate the client's orders with other client orders, even to reduce transaction costs. As a result, a client's direction that HighMark use a particular broker-dealer may cause a client to pay higher commissions or receive less favorable net prices than would be the case if HighMark were given discretion to choose the broker-dealer through which to execute the transaction for the client's account.

### Broker Selection

In selecting a broker-dealer for a transaction, HighMark endeavors to choose the broker-dealer most capable of providing the services necessary to obtain best execution of the transaction. HighMark maintains a list of approved broker-dealers from which its traders select a broker-dealer for a particular transaction. HighMark's Investment Policy committee ("IPC"), a committee composed of HighMark's Chief Equity Officer and Chief Fixed Income Officer and other senior investment personnel reviews and determines the approved broker-dealers list at least once a year. Broker-dealers are evaluated on various criteria, including the commissions charged, as well as the reliability, integrity, and financial condition of the firm, the timeliness and accuracy of trade execution skills, operational and settlement capabilities, and any research services or products offered. HighMark does not commit a specific amount of business to any broker-dealer, but does set an overall target based on what is required to gain the best arrangement of services, products, and best execution of client transactions. Actual brokerage business directed to any broker-dealer may not reach or may exceed the target. HighMark does not place brokerage orders for a

client with UBIS, or with any other affiliate of HighMark, except in accordance with HighMark's policy, and to the extent permitted by law.

On a continuing basis, HighMark seeks to determine what levels of commission rates are reasonable for specific transactions. Consideration is given to factors including historical commission rates, market commission rates (based on publicly available information), the size and complexity of the transaction, the type and level of business done with a firm over a period of time, and the extent to which the broker-dealer has capital at risk in the transaction.

For each transaction, HighMark's trading desk determines which broker-dealer on the approved list can provide the best execution of a specific transaction. Consideration is given to various factors including consistency of quality execution, general order flow, market-making skills, ability or willingness to commit capital and provide liquidity, and sales trading and coverage skills. HighMark's policy does allow the use of a broker-dealer not on the approved list when HighMark deems it will be able to achieve best execution. Trades with brokers not on the approved list are reported to HighMark's Client Commissions Committee at its next meeting with an explanation as to why a broker not on the approved list was selected to provide best execution.

HighMark may effect transactions through an electronic crossing network ("ECN") in an attempt to find liquidity per price improvement not available through traditional trading methods. In selecting among market makers, and non-market makers or ECNs, HighMark generally seeks to select those it believes to be actively and effectively trading the security being purchased or sold. HighMark may select an ECN offered by a provider of services to HighMark and any sub-advised funds in addition to ECNs offered by other vendors.

In some cases, HighMark aggregates as a block transaction multiple transaction orders that are received at about the same time. HighMark's policy is to engage in block transactions in a fair and equitable manner to all participating clients, so that the price of the securities purchased or sold of all participating clients will be the average share price for the block transaction with commissions and costs shared among the participating clients on a pro-rata basis. There can be no assurance, however, that any particular investment will be proportionally allocated among clients, or that the allocation process will achieve the same results for each client. HighMark does not receive additional compensation for aggregating orders in block transactions. HighMark believes that the use of block transactions may prevent the transaction of one client from affecting the purchase or sale price of a transaction for another client, and that the use of block transactions may enable HighMark, on average and over time, to obtain enhanced execution and lower brokerage commissions.

#### Client Commissions

HighMark may process securities transactions that result in a client paying an amount of commission in excess of the amount of commission another broker would have charged. In selecting such broker-dealer, HighMark will make a good faith determination that the amount of commission is reasonable in relation to the value of the brokerage services, research and investment information, viewed in terms of either the specific transaction or HighMark's overall responsibility to the accounts for which it exercises investment discretion.

In processing client brokerage transactions through broker-dealers, HighMark may receive from such broker-dealers, at no direct cost, certain investment information and research services, including conferences, research reports, oral advice, or data regarding particular companies, industries, or general market or economic conditions. To the extent legally allowed, certain of such services include the use of or delivery of quotation or computer systems whose software components are provided to HighMark as part of the services.



In any case in which information and other services can be used for both research and non-research purposes, HighMark will make an appropriate good faith allocation of those uses and will pay directly for that portion of the services to be used for non-research purposes.

HighMark uses investment information and research services that it receives from broker-dealers to evaluate securities and formulate investment recommendations for both discretionary and non-discretionary clients. These recommendations, as well as HighMark's analyses and the information and research services used to formulate recommendations, may be made available to HighMark's affiliates and all of HighMark's clients and are used by HighMark in providing services to all of its clients. A client account may pay commissions to a broker-dealer which supplies research services not utilized by the account. Non-discretionary clients for whom HighMark does not ordinarily place brokerage orders may benefit from such investment information, even though such information was generated through commission paid by other clients.

The procedure to determine the allocation amounts includes an evaluation by HighMark's traders of the broker-dealers' execution capability, and an evaluation by a committee of HighMark's equity advisory personnel of the quality and usefulness of the broker-dealers' research. The minutes of this committee are then reviewed and approved by HighMark's IPC. No absolute dollar amounts are required to be met, and in no case will an order be placed if the broker-dealer is not believed to be able to provide best execution of a particular transaction in light of all the factors HighMark considers. HighMark does endeavor to direct sufficient orders to such broker-dealers to ensure continued receipt of research services that HighMark believes are useful to all HighMark accounts. Substantial portions of brokerage commissions are paid to broker-dealers who supply investment information and research services to HighMark.

At HighMark's discretion, HighMark can choose to trade on an execution-only basis for a particular transaction or client account.

#### Initial Public Offerings

From time to time, HighMark may be offered securities in an initial public offering ("IPO") and HighMark will determine in its sole discretion whether to accept any such offer. Generally, HighMark does not accept offers to participate in IPOs. In the event that HighMark accepts an offer of IPO securities, HighMark's policy is to allocate the securities proportionally, based on asset value, among client portfolios for which the securities are deemed suitable. Suitability will be determined by HighMark's portfolio managers based on a number of factors, including but not limited to, investment goals, existing securities in the portfolio available cash and purchasing power, portfolio investment restrictions, and the subjective judgments of the portfolio managers. A small IPO offering may be allocated only to one client portfolio, if HighMark determines in its sole discretion that allocation among more than one portfolio would be inefficient for client accounts. While generally based on objective criteria, HighMark does not make IPO allocations based on strict, mathematical formulas. HighMark's allocation of any specific IPO offering may not result in proportional allocation across all its client portfolios. HighMark however, will treat all client portfolios fairly and will not give preferences to any particular client or type of clients when allocating IPOs.

HighMark may occasionally purchase securities for a client in an initial or secondary offering in which an affiliate is a syndicate member, which may create an indirect benefit to the affiliate. In such event, HighMark will purchase the security from a syndicate member that is not an affiliate and under procedures designed to minimize conflicts of interest.

## Item 13: Review of Accounts

### Account Review Process

Investment strategies, risk characteristics and performance are set and reviewed regularly by HighMark's IPC. HighMark's portfolio managers then review direct accounts on an ongoing basis to assess the appropriateness of client investments relative to the investment strategy and in accordance with the client's specific investment objective, guidelines and restrictions for the account. HighMark Operations routinely reviews direct account custodian reconciliations. For indirect accounts, annual review and oversight is performed by the appropriate personnel and/or committees at MUFG Union Bank and U.S. Bank.

### Trade Errors

It is HighMark's policy to ensure trading errors are handled and corrected in a timely manner in the best interests of the client affected by the error. All trade errors should be corrected within a reasonable period of time following discovery of the error. HighMark will not use commissions from client accounts to correct trade errors. It is the strict policy of HighMark that HighMark employees are not permitted to make payments to clients or to client accounts.

### Reports to Clients

HighMark issues periodic reports to direct clients, which include transaction summaries, portfolio valuation, and performance data. These reports often include information compiled by others including MUFG Union Bank and U.S. Bank. MUFG Union Bank provides periodic reports to its trust and agency account clients. The information provided by MUFG Union Bank in these reports is similar to the information included in HighMark's periodic reports described above.

## Item 14: Client Referrals and Other Compensation

HighMark or its related persons may from time to time receive some economic benefit from non-clients, such as a broker-dealer, in connection with giving advice to clients. See Item 12, Brokerage Practices.

### Compensation for Client Referrals to MUFG Union Bank and Relationship Management of Clients

#### Participating in MUFG Union Bank Services

MUFG Union Bank generally compensates certain employees and employees of its affiliates, such as UBIS and HighMark, when clients they refer to MUFG Union Bank establish an account, relationship or service. In addition, MUFG Union Bank generally pays certain MUFG Union Bank employees and employees of MUFG Union Bank's affiliates compensation for providing relationship management services that facilitate the coordination of the review, recommendation and integration of suitable products and services of MUFG Union Bank and its affiliates, including UBIS and HighMark, that are relevant to the client's overall financial situation. Such compensation can vary depending on the account, relationship or service.

#### Other Referral Arrangements

In addition, from time to time, HighMark and its related persons may also enter into cash referral arrangements with related and unrelated persons in accordance with Rule 206(4)-3 of the Investment Advisers Act of 1940, and compensate referrals with respect to such activities in accordance with Rule 206(4)-3 or other applicable regulations. The amounts of such fees are individually negotiated.

## **Item 15: Custody**

The custodian of each client account (either MUFG Union Bank or a client-directed custodian) sends a periodic statement of the account to the client on at least a quarterly basis. HighMark recommends that each client should compare the security positions shown on the investment statement they receive from HighMark to those shown on the statement they receive from the applicable custodian. Differences in reported security positions may exist because investment statements are presented on a trade date basis and custodial statement are often shown on a settlement date basis. Differences in the reported security values may exist due to the timing of posting of accrued but uncollected income and/or the use of differing valuation sources and methods by HighMark and the custodian.

## **Item 16: Investment Discretion**

Clients who have their agreements directly with HighMark grant discretionary authority to HighMark at the outset of an advisory relationship when they execute the HighMark Advisory Services Agreement. At such time, the client communicates the investment parameters, including limitations, restrictions, asset allocation requirements, and/or market capitalization thresholds that apply; any desire to invest only in socially responsible companies; and any other client-defined investment specifications.

With respect to the indirect accounts for which MUFG Union Bank acts as trustee or agent, the terms of the governing trust instrument or MUFG Union Bank's agreement with each client provides MUFG Union Bank the authority to exercise investment discretion. HighMark and MUFG Union Bank have a separate agreement that describes the obligations for investment advisory services that HighMark performs on behalf of MUFG Union Bank with respect to such MUFG Union Bank clients.

## **Item 17: Voting Client Securities**

HighMark's clients have the option to vote their proxies themselves or to authorize HighMark to vote such proxies on their behalf. Most clients authorize HighMark to vote proxies for securities held in the client's account. HighMark has established policies for voting these proxies in the interests of the clients.

For other portfolios, HighMark retains ISS Governance Services ("ISS"), an independent proxy voting service, as its agent. HighMark delegates to ISS the authority to vote the proxies according to ISS' policies, subject to monitoring and review by HighMark. HighMark reserves the right to withdraw any proxy from ISS and vote the proxy with review and approval by the IPC. HighMark will withdraw a proposed proxy vote from ISS in the event that HCM determines that the proposed vote by ISS would not be consistent with HighMark's fiduciary duty to one or more of its clients.

HighMark has written policies and procedures in place to address any situation where there is a conflict of interest between HighMark and a client. Before HighMark votes a proxy, the IPC will take steps to determine if HighMark has a conflict of interest in voting the proxy. If the IPC finds that a material conflict exists, either HighMark or MUFG Union Bank will retain an independent fiduciary to vote the proxy, depending on whether the client or MUFG Union Bank has engaged MUFG Union Bank for its investment advisory services.

The majority of the proxy voting records for HighMark are maintained by ISS. HighMark will make proxy voting records available to client as required by law. Clients may obtain a copy of HighMark's proxy voting policies and procedures and/or proxy voting records for their account by calling 1-800-582-4734.

## **Item 18: Financial Information**

HighMark is not aware of any financial condition that is reasonably likely to impair its ability to meet contractual commitments. HighMark has not been the subject of a bankruptcy petition.