

**Episcopal Diocese of Northern California  
Investment Fund**

**First Quarter 2021**

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*HighMark Capital Management, Inc. is a subsidiary of MUFG Union Bank, N.A.*

# Investment Fund “A”

## Discussion Highlights – March 2021

### Economic and Investment Outlook

Fueled by another massive dose of fiscal stimulus for the second consecutive quarter and the ongoing deployment of vaccines, the economic flame appears likely to continue burning hot in 2021. President Biden’s \$1.9 trillion American Rescue Plan effectively supersized the already enormous fiscal support initially pumped into the domestic economy in response to the impact of the pandemic.

While 9.7 million Americans continue to be unemployed, nearly 4 million more than pre-pandemic levels, the job market recovery continues with solid momentum. Nonfarm payrolls rose by 916,000 in March--the most since October 2019--while new unemployment claims declined at the fastest rate since the pandemic began and unemployment edged down to 6% at quarter-end.

Equity markets continued to cheer progress towards putting the pandemic in the rearview mirror with the large cap S&P 500 index gaining 6.2% year-to-date. While equity markets embraced fiscal stimulus-induced economic progress, bond markets recoiled as inflation and growth expectations reset, sending interest rates higher. The bellwether 10-year Treasury yield reached 1.74% at quarter end nearly doubling its level at the start of the year.

### Asset Class Commentary

In the first quarter, the total portfolio (net of fees) outperformed its blended benchmark by 105 basis points. This continued the trend of improving performance observed in the third and fourth quarters of 2020, following a challenging first half of 2020.

Small Cap Equities (+12.7%) outperformed both Mid Cap Equities (+8.1%) and Large Cap Equities (+6.2%) in the first quarter. This continues the same trend from the fourth quarter of 2020 and marks a reversal from prior periods when Large Cap outperformed Mid Cap and Small Cap. Fixed Income struggled in the first quarter, with Investment Grade Taxable returning -3.4%. Only the most credit-sensitive sectors of the fixed income market were able to overcome the headwinds of rising interest rates to post positive returns for the quarter. For U.S. styles, Value is now outperforming Growth across all market caps by 1000 to 1600+ basis points for the year-to-date period ending March 31st. This value vs. growth outperformance reverses the prior dynamic that we observed during the past decade.

### Recent Activity

During the quarter, we sold out of the Eaton Vance Global Macro Fund given the recent acquisition and potential conflict of interest. We initiated a position in the Credit Suisse Floating Rate Note Fund and increased exposure to REITs. In addition, we did some modest rebalancing within the stock holdings.

# Investment Fund “A”

## Discussion Highlights Continued – March 2021

### Fund / Manager Commentary

#### **Equity**

Following strong equity portfolio performance in the fourth quarter of 2020, the Total Equity portfolio continued this streak into the first quarter, outperforming the MSCI All Country World Index (“ACWI”) by 184 basis points. Select Small Cap managers such as the Undiscovered Managers Behavioral Value Fund performed particularly well, returning 22.72% and beating the Russell 2000 Value Index by almost 155 basis points in the first quarter. The Small Cap Core manager (Delaware) also performed well in the quarter, returning 13.03%, outperforming the Russell 2000 benchmark by 33 basis points. The Small Cap Growth manager (Victory RS) struggled, returning -2.56% and underperforming the Russell 2000 Growth benchmark by 744 basis points. The HighMark Custom Fundamental Advantage Strategy outperformed its benchmark the S&P 500 by 66 basis points in the first quarter. We continue to view this allocation as an important part of the overall portfolio, particularly given the demonstrated benefits of active management during more volatile market periods.

#### **Fixed Income**

In the first quarter, the combined Fixed Income allocation returned -2.26%, outperforming the Bloomberg Barclays Aggregate Bond Index (-3.37%) by 111 basis points. Fixed income managers struggled in the first quarter, with all posting negative returns. However, over longer time periods (5- and 10- year), all fixed income managers (Dodge & Cox, PIMCO, PGIM, and Vanguard) have outperformed. We remain defensively positioned from a duration standpoint as longer-term bonds offer very little value, with the 10-year Treasury yielding around 1.7%.

#### **Alternatives**

The Alternatives portion of the portfolio underperformed its benchmark, the Wilshire Liquid Alternative Index, by 41 basis points in the first quarter. Managed Futures strategies (AlphaSimplex and American Beacon AHL) outperformed, returning 4.76% and 5.88%, respectively. The Vanguard Real Estate ETF (now part of the Alternatives category) had continued strong performance, returning 8.69% in the first quarter. The main detractors to performance included Western Asset Macro Opportunities (-8.58%), BlackRock Strategic Income Opps (0.22%) and BlackRock Event Driven Equity (0.70%). Given the diverse range of strategies within this asset class, there may be deviations to the index. In accordance with its objective, the Alternatives portion is comprised of diversifying strategies with minimal correlation to equities and interest rates. Based on our analysis of each Alternative fund’s annual return range along with actual historical results, the calendar year returns of each fund have been within expectations and have exhibited low correlation to equities and bonds. We believe that Alternatives remain a better source of returns relative to Fixed Income, with particular attractiveness given their profile of uncorrelated returns versus both equities and interest rates.

# Asset Allocation – Investment Fund A

## As of March 31, 2021

<b>Current Asset Allocation</b>	
<b>Equity</b>	<b>63.77%</b>
Large Cap Core	32.91%
Mid Cap Core	2.30%
Small Cap Core	3.02%
Small Cap Value	3.11%
Small Cap Growth	2.39%
International Core	5.18%
International Value	4.75%
International Growth	4.50%
Emerging Markets	5.61%
<b>Fixed Income</b>	<b>16.46%</b>
Govt/Corp Obligations	0.02%
Short-Term	2.87%
Intermediate-Term	9.44%
Floating Rate Notes	0.99%
Multisector Bond	3.14%
<b>Alternatives</b>	<b>7.66%</b>
Global Macro	1.00%
Managed Futures	2.35%
Market Neutral	1.13%
Merger Arbitrage	1.08%
Multi Strategy	0.89%
Real Estate	1.22%
<b>Real Estate Loans</b>	<b>8.66%</b>
	8.66%
<b>Cash</b>	<b>3.44%</b>
	3.44%
<b>TOTAL</b>	<b>100.00%</b>

Weighted Embedded Expense Ratio 0.38

# Target vs. Current Asset Allocation (as of March 31, 2021)

Investment Fund “A” Value: \$30,160,718

<u>Asset Class</u>	<u>% Portfolio Weighting</u>			<u>Rationale</u>
	<u>Range</u>	<u>Target</u>	<u>Current Portfolio</u>	
<b>US Large Cap</b>	25-35%	30%	32.91%	Overweight given strong fundamentals within the US
<b>US Small-Mid Cap</b>	5-15%	10%	10.82%	Modest overweight given improving market breadth and fundamentals.
<b>International Developed</b>	10-20%	15%	14.43%	Modest underweight given weaker economic outlook within Europe.
<b>Emerging Markets</b>	0-10%	5%	5.61%	Moving to overweight given improving fundamentals and weaker dollar.
<b>Fixed Income</b>	10-30%	13%	16.46%	Maintain underweight to traditional bonds with tactical overweight position to Multi-Strategies.
<b>Alternatives &amp; REITS</b>	0-15%	5%	7.66%	Continued overweight to Alternatives given low correlation to fixed income and equities.
<b>Real Estate Loans</b>	15-33%	17%	8.66%	Maintaining position at this time.
<b>Cash</b>	0-10%	5%	3.44%	Will re-deploy opportunistically with larger market pullbacks.

**Selected Period Performance**  
**EPISCOPAL DIOCESE ~A~ IAS**  
 Period Ending: 3/31/2021

	Year to Date (3 Months)	1 Year	2 Years	3 Years	5 Years	10 Years	Inception to Date 01/01/1988
Cash Equivalents	.01	.06	.93	1.28	1.02	.53	2.99
<i>FTSE 3 Month T-Bill Index</i>	<i>.02</i>	<i>.21</i>	<i>1.12</i>	<i>1.45</i>	<i>1.15</i>	<i>.60</i>	<i>3.00</i>
Total Fixed Income	-2.26	7.33	5.04	4.76	4.44	3.79	5.95
<i>BBG Barclays US Aggregate Bd Index</i>	<i>-3.37</i>	<i>.71</i>	<i>4.74</i>	<i>4.65</i>	<i>3.10</i>	<i>3.44</i>	<i>6.11</i>
Total Equities	6.41	60.74	18.70	13.59	14.20	10.99	10.11
<i>MSCI AC World Index</i>	<i>4.57</i>	<i>54.60</i>	<i>17.13</i>	<i>12.07</i>	<i>13.21</i>	<i>9.14</i>	
Total Managed Portfolio	4.14	40.12	13.86	10.13	10.61	8.77	8.45
Total Account Net of Fees	3.86	36.82	12.71	9.25	9.56	7.81	8.13
<i>IF Benchmark***</i>	<i>3.14</i>	<i>35.38</i>	<i>13.04</i>	<i>10.25</i>	<i>10.16</i>	<i>8.23</i>	
<i>IF Benchmark****</i>	<i>2.81</i>	<i>34.14</i>	<i>12.86</i>	<i>9.77</i>	<i>9.65</i>		
<i>MS Mod Allocation Avg</i>	<i>4.18</i>	<i>36.13</i>	<i>12.58</i>	<i>9.58</i>	<i>9.38</i>	<i>7.46</i>	
Standard Deviation					9.86		
<i>IF Benchmark***</i>					<i>9.73</i>		

**Source: SEI Investments**

Returns are gross of account level investment advisory fees and net of any fees, including fees to manage mutual fund or exchange traded fund holdings. Returns for periods over one year are annualized. The information presented has been obtained from sources believed to be accurate and reliable. Past performance is not indicative of future returns. Securities are not FDIC insured, have no bank guarantee, and may lose value. \* The Total Managed Portfolio is gross of fees and excludes the Real Estate Loans. The investment managements fees are approximately 0.23%. \*\*The Total Account Net of Fees includes the Real Estate Loans (which are managed by the Diocese). \*\*\*IF Benchmark: 30% S&P 500, 10% Russell 2000, 15% MSCI EAFE, 5% MSCI EM Free, 5% NAREIT, 30% Barclay's Aggregate Bond, 5% FTSE 3 Month T-Bill Index. Benchmark was created and became applicable at the two year period. \*\*\*\*IF Benchmark 2: 30% S&P 500, 10% Russell 2000, 15% MSCI EAFE, 5% MSCI EM Free, 5% Wilshire Liquid Alternative, 30% Barclay's Aggregate Bond, 5% FTSE 1 Month T-Bill Index. Benchmark was created and became applicable on 5/01/2016. Due to the change in the investment guidelines to allow for more equities, asset classes, and manager discretion these benchmarks will become a more appropriate comparison. The MSCI AC World Index is becoming a more appropriate benchmark for stock portfolios that include U.S., International, and Emerging Market exposure since the index has representation in all three areas.



As of: March 31, 2021

Performance Report

	Market Value	Year to Date (3 Months)	1 Year	2 Years	3 Years	5 Years	10 Years	Inception to Date 05/01/2008
<b>Cash Equivalents</b>	<b>25,659</b>	<b>.01</b>	<b>.06</b>	<b>.93</b>	<b>1.27</b>	<b>1.02</b>	<b>.52</b>	<b>.59</b>
FTSE 3 Month T-Bill Index		.02	.21	1.12	1.45	1.15	.60	.56
<b>Total Fixed Income</b>	<b>502,165</b>	<b>-2.36</b>	<b>6.59</b>	<b>5.00</b>	<b>4.69</b>	<b>4.17</b>	<b>3.58</b>	
BBG Barclays 1-3 Yr US Govt/Credit Index		-.04	1.57	3.04	3.04	2.00	1.57	1.96
BBG Barclays Intmtd US Govt/Cred		-1.86	2.01	4.42	4.36	2.75	2.88	3.33
<b>Total Managed Portfolio</b>	<b>527,823</b>	<b>-2.30</b>	<b>6.29</b>	<b>4.74</b>	<b>4.44</b>	<b>3.65</b>	<b>3.17</b>	<b>3.52</b>
<b>Total Account Net of Fees</b>	<b>527,823</b>	<b>-2.30</b>	<b>6.29</b>	<b>4.74</b>	<b>4.44</b>	<b>3.65</b>	<b>3.17</b>	<b>3.52</b>

Returns are gross of fees not including account level advisory fees unless otherwise stated. Gross returns are presented before management and custodial fees but after all trading expenses, embedded and reflect the reinvestment of dividends and other income. Net returns are net of investment management fees in effect for the respective time period. Returns for periods over one year are annualized. The information presented has been obtained from sources believed to be accurate and reliable. Past performance is not indicative of future returns. Securities are not FDIC insured have no bank guarantee and may lose value.

Account Name: EPISCOPAL DIOCESE ~C~ CASH FUND



As of: March 31, 2021

## Performance Report

	Market Value	Year to Date (3 Months)	1 Year	2 Years	3 Years	5 Years	10 Years	Inception to Date 05/01/2008
<b>Cash Equivalents</b>	<b>321,641</b>	<b>.01</b>	<b>.06</b>	<b>.94</b>	<b>1.28</b>	<b>1.02</b>	<b>.53</b>	
FTSE 3 Month T-Bill Index		.02	.21	1.12	1.45	1.15	.60	.56
<b>Total Managed Portfolio</b>	<b>321,641</b>	<b>.01</b>	<b>.06</b>	<b>.94</b>	<b>1.28</b>	<b>1.02</b>	<b>.53</b>	<b>.56</b>
<b>Total Account Net of Fees</b>	<b>321,641</b>	<b>.01</b>	<b>.06</b>	<b>.94</b>	<b>1.28</b>	<b>1.02</b>	<b>.53</b>	<b>.57</b>

Returns are gross of fees not including account level advisory fees unless otherwise stated. Gross returns are presented before management and custodial fees but after all trading expenses, embedded and reflect the reinvestment of dividends and other income. Net returns are net of investment management fees in effect for the respective time period. Returns for periods over one year are annualized. The information presented has been obtained from sources believed to be accurate and reliable. Past performance is not indicative of future returns. Securities are not FDIC insured have no bank guarantee and may lose value.