

**Episcopal Diocese of Northern California
Investment Fund**

First Quarter 2023

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

Investment Fund “A”

Discussion Highlights – March 31, 2023

Economic and Investment Outlook

Asset prices remain volatile following 2022’s gyrations that saw both stocks and bonds simultaneously decline in value over a calendar year for the first time since stock and bond index measurement began. The current capital market environment includes questions about financial sector health, global interest rate policy and economic trajectory. Investors await answers to these questions, but we expect more waiting for definitive answers and likely more volatility ahead.

Our overall view remains that the confluence of higher interest rates inside a resilient yet gradually slowing economic landscape will lead to a tougher corporate profit backdrop. That said, we anticipate a more shallow dip in corporate and consumer activity, shaped by how high central bank target interest rates ascend to thwart inflationary pressures and how long those rates remain elevated. Higher interest rates pressure asset prices, consumer and business demand, and as we have witnessed with recent banking sector casualties, elevated interest rates can adversely impact functioning within select institutions.

If we see less credit extension and tighter financial conditions, economic growth impulses may further decline, hampering consumer and business activity. We anticipate the Federal Reserve and other major central banks to remain steadfast in their attempts to thwart inflation through higher interest rates, the current financial sector issues to remain contained and for economic growth to weaken but not to a point of a prolonged recession, per our U.S. Bank Economics group’s forecast. Investors tend to overshoot with optimism and pessimism, and we expect opportunities to emerge as answers evolve in coming quarters.

Asset Class Commentary

In the first quarter of 2023, the total portfolio (net of fees) underperformed its blended benchmark by 80 basis points (4.23% vs 5.03%). For the one-year period, the total portfolio (net of fees) outperformed the blended benchmark by 90 basis points (-4.35% vs. -5.25%). This one-year outperformance continues to extend over 2-, 3- and 5-year time periods as well. The active asset allocation and manager selection were the primary drivers.

Large Cap Equities (+7.5%) outperformed both Mid Cap Equities (+4.1%) and Small Cap Equities (+2.7%) in 2022. Fixed Income has performed well thus far in 2023, with Investment Grade Taxable returning 2.96% for the quarter. For U.S. styles, Growth strongly outperformed Value across all capitalization levels. Large Cap Growth outperformed Large Cap Value by 1340 basis points; Mid Cap Growth outperformed Mid Cap Value by 780 basis points; and Small Cap Growth outperformed Small Cap Value by 680 basis points.

Recent Portfolio Activity

In the first quarter, we added to positions in Fixed Income, including Dodge & Cox Income, iShares MBS ETF, and Vanguard Long-Term Investment-Grade. We trimmed some positions in Alternatives, including American Beacon, AlphaSimplex, BlackRock Event Driven (eliminated position) and BlackRock Strategic Income Opps. We also added a new Large Cap Value fund position, the Vanguard Value Trust and added to existing positions in Small Cap and Emerging/International.

Investment Fund “A”

Discussion Highlights – March 31, 2023

Fund / Manager Commentary

Equity

The Total Equity portfolio underperformed the MSCI All Country World Index (“ACWI”) by 66 basis points in the first quarter of 2023 and outperformed for the one-year period by 221 basis points. During the first quarter, select Small Cap managers such as the iShares MSCI KLD 400 Social ETF performed best, returning 9.09%, outperforming the Russell 2000 Index by over 600 basis points. The Small Cap Core manager (Delaware) returned 2.48%, though underperformed the Russell 2000 benchmark by 26 basis points. The Vanguard Small-Cap Growth ETF returned 8.19%, outperforming the Russell 2000 Growth benchmark by over 200 basis points. The HighMark Custom Fundamental Advantage Strategy (FADVAN) outperformed its benchmark the S&P 500 by 6 basis points in the first quarter. We continue to view the allocation to FADVAN as an important part of the overall portfolio, particularly given the strong fundamentals and the demonstrated benefits of active management during more volatile market periods.

For International Equity, three of the five managers (Dodge & Cox International, Vanguard FTSE Developed Markets ETF, and iShares ESG Aware MSCI EAFE ETF) outperformed their respective benchmarks, while MFS International Growth and Domini Impact International Equity underperformed. For Emerging Markets Equity, two of the three managers (Hartford Schrodgers and iShares ESG Aware MSCI EM ETF) outperformed the benchmark, the MSCI Emerging Markets Index, whereas Vanguard FTSE Emerging Markets ETF underperformed the benchmark.

Fixed Income

In the first quarter of 2023, the combined Fixed Income allocation performed in-line with the Bloomberg U.S. Aggregate Bond Index and outperformed for the one-year period by 183 basis points. In the first quarter, six of the ten intermediate-term bond funds outperformed the Bloomberg U.S. Aggregate Bond Index and the short-term bond fund outperformed the Bloomberg U.S. Government/Credit 1-3 Year Index. We remain defensively positioned from a duration and credit standpoint.

Alternatives

The Alternatives portion of the portfolio underperformed its benchmark, the Wilshire Liquid Alternative Index, by 344 basis points in the first quarter and by 463 basis points for the one-year period. In a reversal of a prior trend, Managed Futures strategies (AlphaSimplex and American Beacon AHL) underperformed, returning -8.83% and -3.65%, respectively. The Vanguard Real Estate ETF and the BlackRock Strategic Income Opps performed well, returning 1.77% and 1.54%, respectively.

Given the diverse range of strategies within the Alternatives asset class, there may be deviations to the index. The Alternatives portion is comprised of diversifying strategies with minimal correlation to equities and interest rates. However, REITS are included in our Alternative classification and they have a high correlation to equities. This can cause large deviations to the Index in the near-term which was the case over the past 12 months. The Absolute Return strategies have performed well and have outperformed the benchmark over most time periods.

Asset Allocation – Investment Fund A

As of March 31, 2023

Current Asset Allocation	
Equity	56.78%
Large Cap Core	28.76%
Large Cap Value	0.67%
Mid Cap Core	0.79%
Small Cap Core	3.36%
Small Cap Value	2.89%
Small Cap Growth	1.97%
International Core	5.68%
International Value	4.34%
International Growth	4.28%
Emerging Markets	4.04%
Fixed Income	24.77%
Govt/Corp Obligations	1.26%
Short-Term	3.57%
Intermediate-Term	14.12%
Long-Term Bond	1.62%
Mortgage Backed Securities	1.53%
Multisector Bond	2.67%
Alternatives	3.49%
Managed Futures	1.51%
Market Neutral	0.64%
Real Estate	1.34%
Real Estate Loans	7.65%
	7.65%
Cash	7.32%
	7.32%
TOTAL	100.00%

Weighted Embedded Expense Ratio 0.26

Target vs. Current Asset Allocation (as of March 31, 2023)

Investment Fund “A” Value: \$31,018,804

<u>Asset Class</u>	<u>% Portfolio Weighting</u>			<u>Rationale</u>
	<u>Range</u>	<u>Target</u>	<u>Current Portfolio</u>	
US Large Cap	25-35%	30%	29.43%	Modest underweight driven by overall equity underweight and International valuations are more attractive.
US Small-Mid Cap	5-15%	10%	9.01%	Modest underweight but moving to neutral on a larger market pullback.
International Developed	10-20%	15%	14.30%	Modest underweight but moving to an overweight given lower risk of a China re-opening, weakening dollar, and very attractive relative valuations.
Emerging Markets	0-10%	5%	4.04%	Underweight but moving to neutral given China re-opening and weakening dollar.
Fixed Income	10-30%	13%	24.77%	Overweight bonds given attractive yields.
Alternatives & REITS	0-15%	5%	3.49%	Underweight driven by attractive yields in fixed income and cash.
Real Estate Loans	15-33%	17%	7.65%	Maintaining position at this time.
Cash	0-10%	5%	7.32%	Will re-deploy opportunistically with larger stock pullbacks.

Selected Period Performance
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Period Ending: 3/31/2023

	Year to Date (3 Months)	1 Year	2 Years	3 Years	5 Years	10 Years	Inception to Date 01/01/1988
Cash Equivalents	1.06	2.54	1.28	.87	1.28	.78	2.89
<i>FTSE 3 Month T-Bill Index</i>	<i>1.12</i>	<i>2.61</i>	<i>1.33</i>	<i>.95</i>	<i>1.40</i>	<i>.85</i>	<i>2.91</i>
Total Fixed Income	2.96	-2.95	-2.67	.56	1.72	2.07	5.44
<i>Bloomberg US Aggregate Bd Index</i>	<i>2.96</i>	<i>-4.78</i>	<i>-4.47</i>	<i>-2.77</i>	<i>.91</i>	<i>1.36</i>	<i>5.48</i>
Total Equities	6.65	-5.23	.23	17.32	8.05	9.15	9.52
<i>MSCI AC World Index</i>	<i>7.31</i>	<i>-7.44</i>	<i>-.35</i>	<i>15.36</i>	<i>6.93</i>	<i>8.06</i>	
Total Managed Portfolio	4.73	-4.28	-.08	11.84	5.92	7.01	7.94
Total Account Net of Fees	4.23	-4.35	-.27	10.82	5.34	6.23	7.64
<i>IF Benchmark***</i>	<i>5.08</i>	<i>-6.07</i>	<i>-1.41</i>	<i>9.58</i>	<i>5.43</i>	<i>6.44</i>	
<i>IF Benchmark****</i>	<i>5.03</i>	<i>-5.25</i>	<i>-1.51</i>	<i>9.17</i>	<i>5.11</i>		
Standard Deviation					12.06		
<i>IF Benchmark***</i>					<i>12.61</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% Bloomberg US Aggregate Bd Index, 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% Bloomberg US Aggregate Bd Index, 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.

EPISCOPAL DIOCESE ~B~ BOND FUND
Performance Report

As of: March 31, 2023

	Market Value	Year to Date (3 Months)	1 Year	2 Years	3 Years	5 Years	10 Years	Inception to Date 05/01/2008
Cash Equivalents	36,474	1.05	2.55	1.28	.87	1.28	.78	.68
FTSE 3 Month T-Bill Index		1.12	2.61	1.33	.95	1.40	.85	.67
Total Fixed Income	358,877	3.13	-3.67	-3.36	-.16	1.39	1.79	
Bloomberg US Aggregate Bd Index (USD)		2.96	-4.78	-4.47	-2.77	.91	1.36	2.74
Total Managed Portfolio	395,351	2.95	-3.50	-3.28	-.19	1.28	1.53	2.59
Total Account Net of Fees	395,351	2.84	-3.94	-3.55	-.38	1.17	1.47	2.55

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. An investor cannot invest directly in unmanaged indices. 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.

**EPISCOPAL DIOCESE ~C~ CASH FUND
Performance Report**

As of: March 31, 2023

	Market Value	Year to Date (3 Months)	1 Year	2 Years	3 Years	5 Years	10 Years	Inception to Date 05/01/2008
Cash Equivalents	1,483,737	1.04	2.53	1.27	.86	1.27	.78	
FTSE 3 Month T-Bill Index		1.12	2.61	1.33	.95	1.40	.85	.67
Total Managed Portfolio	1,483,737	1.05	2.53	1.27	.86	1.27	.78	.65
Total Account Net of Fees	1,483,737	.97	2.02	.89	.61	1.12	.70	.61

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. An investor cannot invest directly in unmanaged indices. 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.

	Market Value	Year to Date (3 Months)	1 Year	Inception to Date 07/01/2021
Cash & Equivalents	30,910	1.06	2.55	1.46
FTSE 3 Month T-Bill Index		1.12	2.61	1.51
Total Fixed Income	31,149	3.02	-6.02	-7.24
Bloomberg US Aggregate Bd Index (USD)		2.96	-4.78	-6.07
Total Equities	62,410	7.42	-7.48	-4.35
MSCI AC World Index (Net)		7.31	-7.44	-4.38
MSCI EAFE Index (Gross)		8.62	-.86	-2.52
MSCI EM Free Index (Net USD)		3.96	-10.70	-14.94
Russell 2000 Index (USD)		2.74	-11.61	-12.06
S&P 500 Composite Index		7.50	-7.73	-.97
Total Managed Portfolio	124,469	5.69	-6.27	-4.98
Total Account Net of Fees	133,357	4.51	-8.23	-6.18

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