Episcopal Diocese of Northern California Investment Fund

Second Quarter 2021

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

Investment Fund "A"
Discussion Highlights – June 2021

Economic and Investment Outlook

Brushing aside mounting concerns about higher inflation and a more contagious Covid variant spreading around the world, investors bought assets of almost any stripe in the second quarter. For the fifth consecutive quarter, global equities marched higher as corporate earnings continued a strong recovery that outperformed already lofty expectations. In a bid to hedge potential inflation risk, asset classes like commodities and real estate have seen increasing demand this year leading to strong performance. Meanwhile, the bond market rallied throughout most of the second quarter and snapped its trend of rising interest rates that began last August.

Global equities closed the second quarter at record highs, capping off a strong first half of 2021. Bullish sentiment was buoyed by the accelerating pace of vaccine distribution, leading to further lifting of pandemic-related economic restrictions. Worry about elevated valuation levels stayed on the back burner as investors continued to find paltry yields offered in the bond market. U.S. stocks carried the torch in the second quarter, outperforming international equity markets.

Falling long-term interest rates also reflected the possibility of a premature moderation in fiscal and monetary stimulus. The rate on the bellwether 10-year Treasury note fell 30 basis points from 1.74 percent at the end of March to 1.44 percent by the end of June. A flattening of the yield curve, as measured by the spread between longer- and shorter-maturity bonds, and further compression in credit spreads helped the bond market post healthier returns in the second quarter after fighting a steepening curve over the prior ten months.

Asset Class Commentary

For the year-to-date period ending June 30th, the total portfolio (net of fees) outperformed its blended benchmark by 139 basis points. This outperformance continues the trend of improving performance observed in the third and fourth quarters of 2020, following a challenging first half of 2020.

Small Cap Equities (+17.5%) outperformed both Mid Cap Equities (+16.2%) and Large Cap Equities (+15.3%) in the first half of the year. This continues the same trend from the fourth quarter of 2020 and the first quarter of 2021 and marks a reversal from prior periods when Large Cap outperformed Mid Cap and Small Cap. Fixed Income struggled in the first half of the year, with Investment Grade Taxable returning -1.60%. For U.S. styles, Value outperformed Growth across all market caps by 400 to 1700+ basis points for the year-to-date period ending June 30th. While Value has outperformed Growth year-to-date, in the second quarter, sectors with more sensitivity to the strength of the economic cycle took a backseat to more secular growth-oriented areas. This pivot from the first quarter prompts questions regarding the sustainability of fiscal and monetary policy support.

Recent Activity

During the quarter, we added to existing positions in Real Estate (Vanguard) and Emerging Markets (Hartford Schroders) and did some modest rebalancing within the stock holdings.

Investment Fund "A"
Discussion Highlights Continued – June 2021

Fund / Manager Commentary

Equity

Following strong equity portfolio performance in the fourth quarter of 2020, the Total Equity portfolio continued this streak into 2021, outperforming the MSCI All Country World Index ("ACWI") by 107 basis points year-to-date. Select Small Cap managers such as the Undiscovered Managers Behavioral Value Fund performed particularly well, returning 27.85% and beating the Russell 2000 Value Index by 116 basis points in the first half of the year. The Small Cap Core manager (Delaware) also performed well, returning 18.15%, outperforming the Russell 2000 benchmark by 61 basis points. The Small Cap Growth manager (Victory RS) struggled, returning 0.44% and underperforming the Russell 2000 Growth benchmark by 854 basis points. The HighMark Custom Fundamental Advantage Strategy outperformed its benchmark the S&P 500 by 24 basis points in the first half of the year. 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 half of 2021, the combined Fixed Income allocation returned -0.33%, outperforming the Bloomberg Barclays Aggregate Bond Index (-1.60%) by 127 basis points. Fixed income managers struggled in the first half of the year, with three of the four intermediate-term bond funds posting negative returns (though each outperformed the Bloomberg Barclays Aggregate Bond Index). The short-term bond fund manager (Vanguard) outperformed its benchmark, the Bloomberg Barclays U.S. Government/Credit 1-3 Year Index by 21 basis points. Over longer time periods (1-, 3-, 5- and 10-year), all fixed income managers (Dodge & Cox, PIMCO, PGIM, and Vanguard) delivered positive returns and outperformed their respective benchmarks. We remain defensively positioned from a duration standpoint as longer-term bonds offer very little value, with the 10-year Treasury yielding below 1.5%.

Alternatives

The Alternatives portion of the portfolio outperformed its benchmark, the Wilshire Liquid Alternative Index, by almost 200 basis points for the year-to-date period ending June 30th. The Vanguard Real Estate ETF (now part of the Alternatives category) had continued strong performance, returning 21.37% year-to-date. Managed Futures strategies (AlphaSimplex and American Beacon AHL) also outperformed, returning 7.38% and 9.05%, respectively. The main detractors to performance included Western Asset Macro Opportunities (-1.51%), BlackRock Strategic Income Opps (1.30%) and BlackRock Event Driven Equity (2.60%).

While equity markets continue to offer the highest expected returns of all asset classes, this does not come without significant volatility. Corporate earnings expectations have already reset to reflect a fairly optimistic scenario and comparisons to prior periods are becoming more challenging. For this reason, we believe that the pace of appreciation in equity markets over the first half-year is unlikely to be maintained in the second half.

Given the diverse range of strategies within the Alternatives 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.

Asset Allocation – Investment Fund A
As of June 30, 2021

Current Asset Allocation	
Equity	**64.34%**
Large Cap Core	33.92%
Mid Cap Core	1.44%
Small Cap Core	3.03%
Small Cap Value	3.11%
Small Cap Growth	2.37%
International Core	5.28%
International Value	4.77%
International Growth	4.62%
Emerging Markets	5.80%
Fixed Income	**16.48%**
Govt/Corp Obligations	0.02%
Short-Term	2.76%
Intermediate-Term	9.23%
Floating Rate Notes	1.43%
Multisector Bond	3.05%
Alternatives	**8.00%**
Global Macro	1.03%
Managed Futures	2.32%
Market Neutral	1.09%
Merger Arbitrage	1.05%
Multi Strategy	0.89%
Real Estate	1.62%
Real Estate Loans	**8.82%**
	8.82%
Cash	**2.36%**
	2.36%
TOTAL	**100.00%**

Weighted Embedded Expense Ratio 0.35

Target vs. Current Asset Allocation (as of June 30, 2021)
Investment Fund "A" Value: $31,425,847

Asset Class	% Portfolio Weighting			Rationale
	Range	Target	Current Portfolio	
US Large Cap	25-35%	30%	33.92%	Overweight given strong fundamentals within the U.S.
US Small-Mid Cap	5-15%	10%	9.95%	Reduced to neutral given the higher volatility and valuations
International Developed	10-20%	15%	14.67%	Neutral but moving to OW given attractive relative valuation
Emerging Markets	0-10%	5%	5.80%	Overweight but moving to neutral given higher volatility and stronger dollar
Fixed Income	10-30%	13%	16.48%	Maintain underweight to traditional bonds with tactical overweight position to Multi-Strategies.
Alternatives & REITS	0-15%	5%	8.00%	Continued overweight to Alternatives given low correlation to fixed income and equities.
Real Estate Loans	15-33%	17%	8.82%	Maintaining position at this time.
Cash	0-10%	5%	2.36%	Will re-deploy opportunistically with larger market pullbacks.

Selected Period Performance
EPISCOPAL DIOCESE ~A~ IAS
Period Ending: 6/30/2021

	Year to Date (6 Months)	1 Year	2 Years	3 Years	5 Years	10 Years	Inception to Date 01/01/1988
Cash Equivalents	.01	.03	.65	1.15	1.00	.53	2.97
FTSE 3 Month T-Bill Index	***.03***	***.08***	***.82***	***1.31***	***1.14***	***.60***	***2.98***
Total Fixed Income	-.33	3.68	4.65	5.52	4.42	3.79	5.96
BBG Barclays US Aggregate Bd Index	***-1.60***	***-.33***	***4.10***	***5.34***	***3.03***	***3.39***	***6.12***
Total Equities	13.37	41.48	20.26	15.59	15.29	11.68	10.24
MSCI AC World Index	***12.30***	***39.26***	***19.25***	***14.57***	***14.61***	***9.90***	
Total Managed Portfolio	9.68	28.95	15.00	11.97	11.39	9.28	8.55
Total Account Net of Fees	9.00	26.77	13.79	10.96	10.31	8.30	8.22
IF Benchmark*	***8.48***	***25.69***	***14.07***	***11.52***	***10.83***	***8.68***	
IF Benchmark**	***7.61***	***24.46***	***13.65***	***11.03***	***10.48***		
MS Mod Allocation Avg	***9.55***	***26.62***	***13.77***	***11.01***	***10.00***	***7.96***	
Standard Deviation					9.91		
IF Benchmark*					***9.78***		

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.

Account Name: EPISCOPAL DIOCESE ~B~ BOND FUND

As of: June 30, 2021

HIGHMARK® CAPITAL MANAGEMENT

Performance Report

	Market Value	Year to Date (6 Months)	1 Year	2 Years	3 Years	5 Years	10 Years	Inception to Date 05/01/2008
Cash Equivalents	**58,831**	**.01**	**.03**	**.65**	**1.14**	**1.00**	**.52**	**.58**
FTSE 3 Month T-Bill Index		.03	.08	.82	1.31	1.14	.60	.55
Total Fixed Income	**509,049**	**-.40**	**3.24**	**4.57**	**5.50**	**4.14**	**3.63**	
BBG Barclays 1-3 Yr US Govt/Credit Index		.00	.44	2.31	2.96	1.88	1.49	1.92
BBG Barclays Intmdt US Govt/Cred		-.90	.19	3.60	4.70	2.63	2.76	3.34
Total Managed Portfolio	**567,880**	**-.44**	**3.09**	**4.37**	**5.21**	**3.64**	**3.23**	**3.61**
Total Account Net of Fees	**567,880**	**-.44**	**3.09**	**4.37**	**5.21**	**3.64**	**3.23**	**3.61**

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. 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: June 30, 2021

Performance Report

	Market Value	Year to Date (6 Months)	1 Year	2 Years	3 Years	5 Years	10 Years	Inception to Date 05/01/2008
Cash Equivalents	**309,660**	**.01**	**.03**	**.65**	**1.14**	**1.01**	**.53**	
FTSE 3 Month T-Bill Index		.03	.08	.82	1.31	1.14	.60	.55
Total Managed Portfolio	**309,660**	**.01**	**.03**	**.65**	**1.15**	**1.01**	**.53**	**.55**
Total Account Net of Fees	**309,660**	**.01**	**.03**	**.65**	**1.15**	**1.01**	**.53**	**.56**