

**Episcopal Diocese of Northern California
Investment Fund**

Second Quarter 2022

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

Investment Fund “A”

Discussion Highlights – June 2022

Economic and Investment Outlook

The government’s massive fiscal stimulus response to the COVID pandemic, \$5 trillion over the 12-month period ending March 2021, along with the Fed’s aggressive series of rate cuts in the first quarter of 2020, unleashed a stampede into risk assets, ranging from stocks to high yield bonds.

Now, the economic pendulum is swinging back. Near-zero rates distorted the cost of capital and fiscal interventions prompted excess consumer demand. This combination of events has sparked today’s soaring inflation – creating a monetary “beast” that the Fed’s recent and abrupt about-face hopes to tame.

- We view the unwinding of fiscal injections and monetary stimulus as a corrective change from the “sugar high” of pandemic-era support which led to unsustainable consumer demand, corporate profits and risk asset returns. Over the last two years, the Fed has acted as both referee and player but now resumes its traditional role as market referee.
- The inflation genie released from its bottle shows few signs of being tamed. Supply chain disruptions, shipping challenges and labor shortages continue to fuel price hikes.
- While there are signs U.S. consumers are tightening their wallets after a spending spree, the war in Ukraine as well as Chinese plant closures continue to boost commodity and consumer durable prices.

Asset Class Commentary

In the first half of 2022, the total portfolio (net of fees) outperformed its blended benchmark by almost 200 basis points. This strong outperformance extends the trend of improving performance that began in the third and fourth quarters of 2020 (after a challenging first half of the year) and continued into 2021.

Large Cap Equities (-20%) outperformed both Mid Cap Equities (-21.6%) and Small Cap Equities (-23.4%) for the year-to-date period. This Large Cap outperformance represents a continued reversal of a prior trend from the fourth quarter of 2020 and the first quarter of 2021 and marks something of a return to prior periods when Large Cap outperformed both Mid Cap and Small Cap. Fixed Income continued to struggle in 2022, with Investment Grade Taxable returning -10.35% year-to-date. For U.S. styles, Value strongly outperformed Growth across all capitalization levels. Large Cap Value outperformed Large Cap Growth by 1520 basis points; Mid Cap Value outperformed Mid Cap Growth by 1480 basis points; and Small Cap Value outperformed Small Cap Growth by 1220 basis points.

Recent Portfolio Activity

Reduced position in Floating Rate Note Fund given concerns about spreads widening in a recessionary environment. We also did some modest rebalancing within Large Cap equities.

Investment Fund “A”

Discussion Highlights Continued – June 2022

Fund / Manager Commentary

Equity

The Total Equity portfolio outperformed the MSCI All Country World Index (“ACWI”) by 145 basis points in the first half of the year. Select Small Cap managers such as the Undiscovered Managers Behavioral Value Fund performed best, returning -7.91% and beating the Russell 2000 Value Index by almost 1000 basis points for the period. The Small Cap Core manager (Delaware) returned -19.22%, though outperformed the Russell 2000 benchmark by 421 basis points. The Small Cap Growth manager (Victory RS) struggled during this time period, returning -36.97% and underperforming the Russell 2000 Growth benchmark by 752 basis points. The HighMark Custom Fundamental Advantage Strategy (FADVAN) outperformed its benchmark the S&P 500 by 60 basis points year to date. 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, four of the five managers (Dodge & Cox International, MFS International Growth, Vanguard FTSE Developed Markets ETF, and iShares ESG Aware MSCI EAFE ETF) either outperformed or performed in line with their respective benchmarks, while Domini Impact International Equity underperformed. For Emerging Markets Equity, both managers (Hartford Schroders and iShares ESG Aware MSCI EM ETF) underperformed the benchmark the MSCI Emerging Markets Index.

Fixed Income

In the first six months of 2022, the combined Fixed Income allocation returned -9.06%, outperforming the Bloomberg U.S. Aggregate Bond Index (-10.35%) by 129 basis points. Two of the six intermediate-term bond funds (Dodge & Cox Income and PIMCO Income) outperformed the Bloomberg U.S. Aggregate Bond Index. The short-term bond fund manager (Vanguard) underperformed its benchmark, the Bloomberg U.S. Government/Credit 1-3 Year Index by 247 basis points. We remain defensively positioned from a duration standpoint.

Alternatives

The Alternatives portion of the portfolio underperformed its benchmark, the Wilshire Liquid Alternative Index, by 58 basis points in the first half of 2022. Managed Futures strategies (AlphaSimplex and American Beacon AHL) performed well, returning 37.13% and 13.73%, respectively. Major detractors included Western Asset Macro Opportunities (-23.09%), BlackRock Total Factor (-11.71%) and Vanguard Real Estate (-20.52%). Despite this recent underperformance, the Alternatives portion of the portfolio has outperformed by nearly 250 bps over the past one year period.

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 continued low correlation to equities and bonds.

Asset Allocation – Investment Fund A

As of June 30, 2022

Current Asset Allocation

Equity	56.45%
Large Cap Core	30.65%
Mid Cap Core	0.82%
Small Cap Core	2.78%
Small Cap Value	3.13%
Small Cap Growth	1.51%
International Core	5.19%
International Value	4.49%
International Growth	3.95%
Emerging Markets	3.92%
Fixed Income	19.98%
Govt/Corp Obligations	0.01%
Short-Term	3.29%
Intermediate-Term	10.92%
Floating Rate Notes	2.74%
Multisector Bond	3.02%
Alternatives	9.44%
Global Macro	1.03%
Managed Futures	2.77%
Market Neutral	1.35%
Merger Arbitrage	1.13%
Multi Strategy	1.04%
Real Estate	2.13%
Real Estate Loans	9.04%
	9.04%
Cash	5.08%
	5.08%
TOTAL	100.00%

Weighted Embedded Expense Ratio 0.33

Target vs. Current Asset Allocation (as of June 30, 2022)

Investment Fund “A” Value: \$27,840,288

<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%	30.65%	Neutral given stronger fundamentals relative to Int'l and Small Cap.
US Small-Mid Cap	5-15%	10%	8.24%	Underweight given higher beta but eventually moving to neutral over coming months.
International Developed	10-20%	15%	13.63%	Underweight given concerns about contagion from Russia-Ukraine war.
Emerging Markets	0-10%	5%	3.92%	Underweight given ongoing concerns about China.
Fixed Income	10-30%	13%	19.98%	Reducing underweight to traditional bonds with tactical overweight position to Multi-Strategies.
Alternatives & REITS	0-15%	5%	9.44%	Continued overweight to Alternatives given low correlation to fixed income and equities.
Real Estate Loans	15-33%	17%	9.04%	Maintaining position at this time.
Cash	0-10%	5%	5.08%	Will re-deploy opportunistically with larger stock and bond market pullbacks.

Selected Period Performance
EPISCOPAL DIOCESE ~A~ IAS
Account 6746041200
Period Ending: 6/30/2022

	Year to Date (6 Months)	1 Year	2 Years	3 Years	5 Years	10 Years	Inception to Date 01/01/1988
Cash Equivalents	.15	.16	.10	.49	.95	.54	2.89
<i>FTSE 3 Month T-Bill Index</i>	<i>.17</i>	<i>.19</i>	<i>.14</i>	<i>.61</i>	<i>1.09</i>	<i>.62</i>	<i>2.90</i>
Total Fixed Income	-9.06	-8.83	-2.77	-.05	1.64	2.24	5.50
<i>Bloomberg US Aggregate Bd Index</i>	<i>-10.35</i>	<i>-10.29</i>	<i>-5.44</i>	<i>-.93</i>	<i>.88</i>	<i>1.54</i>	<i>5.61</i>
Total Equities	-18.73	-14.67	9.87	7.26	7.86	9.59	9.42
<i>MSCI AC World Index</i>	<i>-20.18</i>	<i>-15.75</i>	<i>8.32</i>	<i>6.21</i>	<i>7.00</i>	<i>8.76</i>	
Total Account Net of Fees	-13.67	-10.57	6.47	5.01	5.45	6.76	7.63
<i>IF Benchmark ***</i>	<i>-16.19</i>	<i>-12.92</i>	<i>4.62</i>	<i>4.25</i>	<i>5.41</i>	<i>7.00</i>	
<i>IF Benchmark ****</i>	<i>-15.59</i>	<i>-12.94</i>	<i>4.09</i>	<i>3.99</i>	<i>5.07</i>		
<i>MS Mod Allocation Avg</i>	<i>-14.75</i>	<i>-11.35</i>	<i>5.95</i>	<i>4.69</i>	<i>5.23</i>	<i>6.56</i>	
Standard Deviation					11.02		
<i>IF Benchmark ***</i>					<i>11.09</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.



As of: June 30, 2022

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	10,972	.15	.16	.09	.49	.95	.54	.55
FTSE 3 Month T-Bill Index		.17	.19	.14	.61	1.09	.62	.53
Total Fixed Income	379,575	-9.90	-9.89	-3.55	-.49	1.22	2.06	
Bloomberg US Aggregate Bd Index (USD)		-10.35	-10.29	-5.44	-.93	.88	1.54	2.90
Total Managed Portfolio	390,547	-9.61	-9.63	-3.48	-.53	1.09	1.77	2.61
Total Account Net of Fees	390,547	-9.82	-9.84	-3.59	-.60	1.04	1.75	2.59

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.

Account Name: EPISCOPAL DIOCESE ~C~ CASH FUND

As of: June 30, 2022

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	3,671,116	.15	.16	.10	.49	.95	.54	
FTSE 3 Month T-Bill Index		.17	.19	.14	.61	1.09	.62	.53
Total Managed Portfolio	3,671,116	.13	.14	.09	.48	.95	.54	.52
Total Account Net of Fees	3,671,116	-.39	-.38	-.17	.31	.85	.49	.49

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As of: June 30, 2022

Performance Report

	Market Value	Year to Date (6 Months)	1 Year	Inception to Date 07/01/2021
Cash & Equivalents	7,677	.15	.16	.16
FTSE 3 Month T-Bill Index		.17	.19	.19
Total Fixed Income	31,394	-11.72	-12.03	-12.03
Bloomberg US Aggregate Bd Index (USD)		-10.35	-10.29	-10.29
Total Equities	59,733	-21.41	-16.02	-16.02
MSCI AC World Index (Net)		-20.18	-15.75	-15.75
MSCI EAFE Index (Gross)		-19.25	-17.33	-17.33
MSCI EM Free Index (Net USD)		-17.63	-25.28	-25.28
Russell 2000 Index (USD)		-23.43	-25.20	-25.20
S&P 500 Composite Index		-19.96	-10.62	-10.62
Total Managed Portfolio	98,804	-17.07	-14.04	-14.04
Total Account Net of Fees	108,627	-16.81	-13.75	-13.75

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