Episcopal Diocese of Northern California Investment Fund

Third Quarter 2019

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

Investment Fund "A"
Discussion Highlights – November 2019

Economic and Investment Outlook

Unlike the first half of 2019, an unusual situation that saw stocks and bonds rally in unison, global financial markets took many twists and turns in the third quarter. Equity markets rallied in July only to sell off in August under increasing trade policy uncertainty and a Federal Reserve (Fed) announcement that was not as dovish as investors desired.

Following a brief thawing of trade tensions, September saw equity markets claw back the lost gains and the S&P 500 index finished the third quarter up 1.7%. But bonds sold off aggressively to begin the month after better-than-expected economic data challenged the recessionary narrative triggered by a flattening yield curve. Despite a brief spike in early September, the yield on the bellwether 10-year Treasury Note fell 34 basis points to 1.66% over the course of the quarter - a continuation of a persistent downtrend that began in mid-November 2018 when the yield hit a seven-year high-water mark of 3.24%.

In keeping with the Fed's dovish pivot in January that helped spur equity markets, the Federal Open Market Committee (FOMC) cut the Fed Funds rate twice in the third quarter. Chairman Powell attempted to manage investor's expectations by characterizing the easing as a precautionary "mid-cycle adjustment."

On the manufacturing front, activity indicators are fading under the weight of unresolved trade tensions. Manufacturing weakness was particularly evident in the global economies more export-oriented than the U.S. -- like Germany where manufacturing PMIs hit their lowest levels in over 10 years. Facing increasing risks that the eurozone economy may fall into recession, the European Central Bank pushed rates further into negative territory from minus 0.4 percent to minus 0.5 percent, the first interest rate cut since 2016, and indicated that it was running out of tools to stimulate the European economy.

Despite U.S. trade policy uncertainty weighing heavily on global manufacturing output, the more service sector-oriented U.S. economy remained relatively resilient during the third quarter with employment growth slowing, but still healthy. September's non-farm payroll report, a closely watched barometer of economic health, served to temper fears of a broader slowdown as the jobless rate fell to 3.5% - its lowest level since December 1969. With the U.S. manufacturing sector under stress, and consumer spending helping to keep the domestic economy expanding, investors keep a close watch on monthly consumer confidence surveys. One such measure, The Conference Board's Consumer Confidence Index remains at healthy levels, though September's reading was the lowest in nine months due to "the escalation of trade and tariff tensions in late August," according to The Conference Board's release.

Asset Class Commentary

Overall portfolio performance was positive across the board in the first nine months of 2019, with only Fixed Income, Large Cap and Mid Cap Funds underperforming their benchmarks. Mid Cap Equities (+21.9%) continued to outperform both Large Cap Equities (+20.5%) and Small Cap Equities (+14.2%) for the year-to-date time period. Fixed Income also performed well, with Investment Grade Taxable returning 8.2% in the first nine months of 2019. For U.S. styles, Growth outperformed Value across market caps by 250 to 500-plus basis points in the first nine months of 2019, continuing a dynamic we have observed the past decade.

Recent Activity

During the quarter, we reduced our position in the AQR Style Premia Alternative Fund by almost 20 percent. The Fund has underperformed both its benchmark and peer group. There were also periodic investments in fixed income and equities throughout August and September as a result of the large addition on August 9th.

Investment Fund "A"
Discussion Highlights Continued – November 2019

Fund / Manager Commentary

Equity

The Total Equity portfolio strongly outperformed the MSCI All Country World Index by 228 basis points in the first nine months of 2019. Equity performance lagged that of the benchmark in 2018 mainly due to the portfolio's lack of exposure to high growth technology stocks, which dominated for most of the year. This trend reversed in the first quarter and continued into the second and third quarters, with strong performance across equity market caps (Small and Large) and regions (Domestic, International and Emerging Markets). Small Cap managers performed particularly well in the first nine months of 2019, with the Victory RS Small Cap Growth Fund, Delaware Small Cap Core, and Undiscovered Managers Behavioral Value Fund, beating their benchmarks by 662, 318, and 214 basis points respectively. The HighMark Custom Fundamental Advantage Strategy also outperformed during this time period, returning 22.24% vs. 20.55% vs. its benchmark, the S&P 500 Index. This outperformance demonstrates the benefits of active management during more volatile market periods. We continue to expect active management to add value given the higher levels of volatility in the market and the normalization of interest rates.

Fixed Income

The combined Fixed Income allocation delivered a positive return (+7.34%), though underperformed the Bloomberg Barclays Aggregate Bond index (+8.52%) in the first nine months of the year. The PIMCO Income Fund (+5.39%) acted as a detractor, whereas the PGIM Total Return Bond Fund continued its strong performance, returning 10.74% for the year-to-date period. Longer term (3-,5-, and 10-year periods), all of the fixed income managers (Dodge & Cox, PIMCO, and PGIM) have outperformed the Bloomberg Barclays Aggregate Bond index. We continue to be defensively positioned from a duration standpoint and remain focused on reducing credit risk.

Alternatives

The Alternatives portion of the portfolio outperformed its benchmark, the Wilshire Liquid Alternative Index, by 105 basis points in the first nine months of 2019. 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 continue to view Alternatives as a better source of returns relative to Fixed Income, with particular attractiveness given their profile of uncorrelated returns versus both equities and interest rates.

Investment Fund Portfolio Commentary

The Total Account (Net of Fees) was in line with the custom benchmark and modestly underperformed the peer group (-43 basis points) in the first nine months of 2019. This was primarily driven by the larger cash weighting and the loans. More recent underperformance in 2018 is dragging down longer-term outperformance relative to both the benchmark and the peer group. Referencing page 9 of the enclosed presentation, the Total Managed Portfolio (excluding loans) has had very strong performance in 2019 and has outperformed the past 5 out of 8 calendar periods. We continue to believe that active management will be rewarded in the current environment of higher equity and interest rate volatility.

Asset Allocation – Investment Fund A
As of September 30, 2019

Current Asset Allocation	
Equity	**58.28%**
Large Cap Core	31.83%
Mid Cap Core	2.34%
Small Cap Core	2.26%
Small Cap Value	2.36%
Small Cap Growth	2.18%
International Core	4.62%
International Value	3.99%
International Growth	4.38%
Emerging Markets	3.81%
Real Estate	0.52%
Fixed Income	**16.47%**
Govt/Corp Obligations	0.05%
Short-Term	3.22%
Intermediate-Term	9.41%
Multisector Bond	3.80%
Alternatives	**9.77%**
Global Macro	4.03%
Managed Futures	3.53%
Merger Arbitrage	0.99%
Multi Strategy	1.22%
Real Estate Loans	**8.25%**
	8.25%
Cash	**7.23%**
	7.23%
TOTAL	**100.00%**

Weighted Embedded Expense Ratio 0.41%

Target vs. Current Asset Allocation (as of September 30, 2019)
Investment Fund "A" Value: $24,918,414

Asset Class	% Portfolio Weighting			Rationale
	Range	Target	Current Portfolio	
US Large Cap	25-35%	30%	31.83%	Modest overweight given relatively stronger fundamentals versus other equity classes.
US Small-Mid Cap	5-15%	10%	9.13%	Maintain slight under weight due to valuations and high beta.
International Developed	10-20%	15%	12.99%	Continued underweight due to concerns about slowing global growth and European/Brexit risks.
Emerging Markets	0-10%	5%	3.81%	Modest underweight given slowing global growth, trade war, and dollar strength.
Fixed Income	10-30%	13%	16.47%	Maintain neutral weight to traditional bonds with tactical overweight position to Multi-Strategies.
Alternatives & REITS	0-15%	5%	10.29%	Continued overweight to Alternatives given low correlation to fixed income and equities.
Real Estate Loans	15-33%	17%	8.25%	Maintaining underweight position at this time.
Cash	0-10%	5%	7.23%	Large recent addition. Focus on risk management. Will re-deploy opportunistically given cautious stance.

Selected Period Performance
EPISCOPAL DIOCESE ~A~ IAS
Period Ending: 9/30/2019

Actual returns are shown in black. Benchmark returns are shown in orange.

	Year to Date (9 Months)	1 Year	2 Years	3 Years	5 Years	10 Years	Inception to Date 01/01/1988
Cash Equivalents	1.67	2.20	1.81	1.40	.89	.47	3.11
FTSE 3 Month T-Bill Index	*1.78*	*2.36*	*1.97*	*1.52*	*.96*	*.52*	*3.11*
Total Fixed Income	7.34	8.24	4.27	4.22	3.91	3.99	6.04
BBG Barclays US Aggregate Bd Index	*8.52*	*10.30*	*4.38*	*2.92*	*3.38*	*3.75*	*6.28*
Total Equities	18.48	2.39	6.13	10.27	8.08	10.16	9.56
MSCI AC World Index	*16.20*	*1.38*	*5.49*	*9.71*	*6.65*	*8.35*	
Total Managed Portfolio	14.08	3.58	5.06	7.87	6.41	8.27	8.11
Total Account Net of Fees	12.73	3.16	4.51	6.99	5.69	7.20	7.84
*IF Benchmark******	*14.01*	*4.64*	*5.89*	*7.81*	*6.60*	*8.14*	
*IF Benchmark*********	*12.83*	*3.67*	*5.26*	*7.36*			
MS Mod Allocation Avg	*13.16*	*3.40*	*4.95*	*6.80*	*5.42*	*7.33*	
Standard Deviation					7.77		
*IF Benchmark******					*7.47*		

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: September 30, 2019

Performance Report

	Market Value	Year to Date (9 Months)	1 Year	2 Years	3 Years	5 Years	10 Years	Inception to Date 05/01/2008
Cash Equivalents	**15,136**	**1.66**	**2.20**	**1.80**	**1.39**	**.88**	**.47**	**.60**
FTSE 3 Month T-Bill Index		1.78	2.36	1.97	1.52	.96	.52	.55
Total Fixed Income	**525,119**	**7.97**	**8.92**	**4.16**	**3.96**	**3.70**	**3.97**	
BBG Barclays 1-3 Yr US Govt/Credit Index		3.42	4.64	2.40	1.82	1.59	1.52	1.88
BBG Barclays Intmdt US Govt/Cred		6.41	8.17	3.50	2.40	2.68	3.05	3.35
Total Managed Portfolio	**540,255**	**7.44**	**8.33**	**3.91**	**3.31**	**3.10**	**3.12**	**3.54**
Total Account Net of Fees	**540,255**	**7.44**	**8.33**	**3.91**	**3.31**	**3.10**	**3.12**	**3.54**

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.

Account Name: EPISCOPAL DIOCESE ~C~ CASH FUND

HIGHMARK® CAPITAL MANAGEMENT

As of: September 30, 2019

Performance Report

	Market Value	Year to Date (9 Months)	1 Year	2 Years	3 Years	5 Years	10 Years	Inception to Date 05/01/2008
Cash Equivalents	**377,154**	**1.67**	**2.20**	**1.81**	**1.40**	**.89**	**.47**	
FTSE 3 Month T-Bill Index		1.78	2.36	1.97	1.52	.96	.52	.55
Total Managed Portfolio	**377,154**	**1.67**	**2.21**	**1.81**	**1.40**	**.89**	**.45**	**.56**
Total Account Net of Fees	**377,154**	**1.67**	**2.21**	**1.81**	**1.40**	**.89**	**.45**	**.58**

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