

**Episcopal Diocese of Northern California
Investment Fund**

Third Quarter 2022

**Sean McGuinn, CFA
Managing Director & Portfolio Management Executive**

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

Investment Fund “A”

Discussion Highlights – October 2022

Economic and Investment Outlook

Equity markets retreated into bear market territory in the third quarter as recession seemed ever more likely and consumers began to retrench. Meanwhile, fixed income assets appeared increasingly attractive when structured into a portfolio aligned with investors’ tax-status and risk tolerance.

Stock investors continued to flee the market—the S&P 500 and tech-heavy Nasdaq have now recorded three straight down quarters for the first time since 2009. After an overly-enthusiastic June rally that reflected misplaced optimism the Federal Reserve (Fed) could engineer a soft landing and avoid recession, investors reversed direction to reprice in the Fed’s aggressive normalization away from rock bottom rates. Markets continued to absorb the impacts—reduced consumer savings and spending being one—of the end of fiscal stimulus. It appears that Goldilocks has left the building and the Fed, shifting from engineering economic growth, now must manage recessionary conditions.

It is not surprising that equity markets have retreated—the S&P 500’s 28.7% return in 2021 represented unsustainable conditions resulting from low rates and the inescapable laws of mean reversion are finally taking hold. But markets are late to the game at repricing a recession and are still holding at long-term averages. We anticipate future volatility as prices reset below long-term averages in acknowledgement of weakening corporate demand and cost fundamentals.

Asset Class Commentary

For the year-to-date period ending September 30th, the total portfolio (net of fees) outperformed its blended benchmark by 251 bps. This strong outperformance now extends over the past three years during this very difficult and volatile period.

Large Cap Equities (-23.9%) modestly outperformed both Mid Cap Equities (-24.3%) and Small Cap Equities (-25.1%) 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 has largely outperformed equities in 2022, with Investment Grade Taxable returning -14.61% year-to-date. For U.S. styles, Value continued to outperform Growth across all capitalization levels. Large Cap Value outperformed Large Cap Growth by 1290 bps; Mid Cap Value outperformed Mid Cap Growth by 1110 bps; and Small Cap Value outperformed Small Cap Growth by 820 bps.

Recent Portfolio Activity

We sold out of the position in the Floating Rate Note Fund given ongoing concerns about spreads widening in a recessionary environment. We also did some modest rebalancing within Large Cap equities, reduced REITs, and sold out of the Western Asset Macro Fund within Alternatives.

Investment Fund “A”

Discussion Highlights Continued – October 2022

Fund / Manager Commentary

Equity

The Total Equity portfolio outperformed the MSCI All Country World Index (“ACWI”) by 185 bps for the year-to-date period. Select Small Cap managers such as the Undiscovered Managers Behavioral Value Fund performed best, returning -13.07% and beating the Russell 2000 Value Index by 805 basis points for the period. The Small Cap Core manager (Delaware) returned -21.52%, though outperformed the Russell 2000 benchmark by 358 basis points. The Small Cap Growth manager (Victory RS) struggled during this time period, returning -37.21% and underperforming the Russell 2000 Growth benchmark by almost 800 bps. The HighMark Custom Fundamental Advantage Strategy (FADVAN) outperformed its benchmark the S&P 500 by 81 bps 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, two of the five managers (Dodge & Cox International and MFS International Growth) outperformed their benchmarks by 144 and 741 basis points, respectively. For Emerging Markets Equity, both managers (Hartford Schrodgers and iShares ESG Aware MSCI EM ETF) underperformed the benchmark the MSCI Emerging Markets Index.

Fixed Income

In the first nine months of 2022, the combined Fixed Income allocation returned -12.02%, outperforming the Bloomberg U.S. Aggregate Bond Index (-14.61%) by 259 bps. 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 281 bps. We have been increasing the bond exposure given the significant increase in yields. The focus will be on high quality with a barbell approach.

Alternatives

The Alternatives portion of the portfolio outperformed its benchmark, the Wilshire Liquid Alternative Index, by 76 bps for the year-to-date period. Managed Futures strategies (AlphaSimplex and American Beacon AHL) performed particularly well, returning 47.69% and 23.93%, respectively. Major detractors included Vanguard Real Estate ETF (-29.25%), Western Asset Macro Opportunities (-24.31%), and Loomis Sayles Strategic Alpha (-9.97%). The Alternatives portion of the portfolio has strongly outperformed over the longer term, including 1-, 2-, 3- and 5-year periods.

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 September 30, 2022)

Investment Fund “A” Value: \$26,480,337

<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%	30.38%	Neutral given stronger fundamentals relative to Int'l and Small Cap.
US Small-Mid Cap	5-15%	10%	8.36%	Underweight given higher beta but eventually moving to neutral over coming months.
International Developed	10-20%	15%	12.91%	Underweight given concerns about contagion from Russia-Ukraine war.
Emerging Markets	0-10%	5%	3.62%	Underweight given ongoing concerns about China.
Fixed Income	10-30%	13%	20.54%	Moving to an overweight position given the rise in interest rates this year.
Alternatives & REITS	0-15%	5%	8.61%	Moving to neutral given the higher expected returns from bonds.
Real Estate Loans	15-33%	17%	9.31%	Maintaining position at this time.
Cash	0-10%	5%	6.27%	Will re-deploy opportunistically with larger stock and bond market pullbacks.

Selected Period Performance
EPISCOPAL DIOCESE ~A~ IAS
Account 6746041200
Period Ending: 9/30/2022

	Year to Date (9 Months)	1 Year	2 Years	3 Years	5 Years	10 Years	Inception to Date 01/01/1988
Cash Equivalents	.62	.62	.32	.47	1.00	.59	2.88
<i>FTSE 3 Month T-Bill Index</i>	<i>.62</i>	<i>.63</i>	<i>.35</i>	<i>.57</i>	<i>1.13</i>	<i>.66</i>	<i>2.89</i>
Total Fixed Income	-12.02	-12.05	-5.19	-1.60	.71	1.67	5.36
<i>Bloomberg US Aggregate Bd Index</i>	<i>-14.61</i>	<i>-14.60</i>	<i>-8.00</i>	<i>-3.26</i>	<i>-.27</i>	<i>.89</i>	<i>5.42</i>
Total Equities	-23.78	-18.37	2.77	4.91	5.39	8.27	9.15
<i>MSCI AC World Index</i>	<i>-25.63</i>	<i>-20.66</i>	<i>.55</i>	<i>3.75</i>	<i>4.44</i>	<i>7.28</i>	
Total Managed Portfolio	-18.54	-14.27	1.83	3.55	4.15	6.51	7.71
Total Account Net of Fees	-17.37	-13.24	1.76	3.28	3.77	5.77	7.43
<i>IF Benchmark***</i>	<i>-20.84</i>	<i>-17.19</i>	<i>-.62</i>	<i>1.95</i>	<i>3.51</i>	<i>5.93</i>	
<i>IF Benchmark****</i>	<i>-19.88</i>	<i>-16.78</i>	<i>-.89</i>	<i>1.98</i>	<i>3.28</i>		
<i>MS Mod Allocation Avg</i>	<i>-18.54</i>	<i>-14.69</i>	<i>1.10</i>	<i>2.80</i>	<i>3.65</i>	<i>5.61</i>	
Standard Deviation					11.63		
<i>IF Benchmark***</i>					<i>12.01</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.

	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	17,368	.62	.62	.32	.47	1.00	.58	.57
FTSE 3 Month T-Bill Index		.62	.63	.35	.57	1.13	.66	.55
Total Fixed Income	359,297	-13.15	-13.35	-6.07	-2.28	.25	1.43	
Bloomberg US Aggregate Bd Index (USD)		-14.61	-14.60	-8.00	-3.26	-.27	.89	2.50
Total Managed Portfolio	376,664	-12.72	-12.92	-5.89	-2.23	.18	1.18	2.32
Total Account Net of Fees	376,664	-13.02	-13.22	-6.05	-2.34	.11	1.15	2.29

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 (9 Months)	1 Year	2 Years	3 Years	5 Years	10 Years	Inception to Date 05/01/2008
Cash Equivalents	3,702,964	.62	.63	.33	.47	1.00	.59	
FTSE 3 Month T-Bill Index		.62	.63	.35	.57	1.13	.66	.55
Total Managed Portfolio	3,702,964	.60	.61	.32	.46	1.00	.59	.54
Total Account Net of Fees	3,702,964	.01	.01	.02	.27	.88	.53	.51

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 (9 Months)	1 Year	Inception to Date 07/01/2021
Cash Equivalents	7,503	.62	.62	.50
FTSE 3 Month T-Bill Index		.62	.63	.51
Total Fixed Income	29,733	-15.89	-15.90	-13.17
Bloomberg US Aggregate Bd Index (USD)		-14.61	-14.60	-11.82
Large Cap Funds	35,406	-26.21	-18.12	-15.14
Small Cap Funds	7,207	-23.20	-20.32	-18.81
International Equities	12,971	-29.54	-27.37	-24.18
Total Equities	55,584	-26.65	-20.79	-17.71
MSCI AC World Index (Net)		-25.63	-20.66	-17.60
MSCI EAFE Index (Gross)		-26.76	-24.75	-20.57
MSCI EM Free Index (Net USD)		-27.16	-28.11	-28.22
Russell 2000 Index (USD)		-25.10	-23.50	-22.12
S&P 500 Composite Index		-23.87	-15.47	-12.18
Total Managed Portfolio	92,820	-21.67	-18.55	-15.35
Total Account Net of Fees	102,462	-21.53	-18.39	-15.22

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.