

**Episcopal Diocese of Northern California
Investment Fund**

Third Quarter 2023

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HighMark Capital Management, Inc.

Investment Fund “A”

Discussion Highlights – September 30, 2023

Economic and Investment Outlook

The U.S. economy continues to grow modestly despite persistent inflation and continued rate hikes. In the second quarter, the Gross Domestic Product (GDP) grew at an annualized rate of 2.1%, in line with 2023 growth estimates by the Federal Reserve (Fed) of 2.1%. This is below global growth estimates of 3.0%, which have been buoyed by emerging markets and developing economies at 4.0% expected growth in 2023.

The domestic labor market continues to cool as the unemployment rate has risen to 3.8% in August and the number of job openings to unemployed ratio fell to 1.51, down from its high of 2.0 in 2022 but not yet closing in on the goal of 1.00.

The pressures of inflation remained visible in the third quarter with headline inflation (as measured by CPI) increasing 3.7% year over year in August, up from 3.0% at the end of the second quarter, however the less volatile core reading (which excludes food and energy prices) shows continued cooling at an annualized 4.3% in August, its slowest pace since September 2021.

After a pause in rate hikes in June, the third quarter brought one more rate hike in July as the resiliency of economic activity in the U.S. prompted the Fed to raise the target for the federal funds rate by 25-basis points. Looking forward, the median FOMC member expected Fed Funds rate for 2024 and 2025 were each raised to 5.125% and 3.875% with increased expectations of a ‘higher-for-longer’ policy.

Over the quarter, extreme market concentration continued to play a factor for large cap stocks, as evidenced by the underperformance of the S&P 500 Equal Weight index versus the S&P 500 market cap-weighted index. According to FactSet Earnings Insight (as of September 29, 2023), the expected year-over-year earnings growth rate for S&P 500 for Q3 is -0.1%. If expectations become reality, it will be the fourth consecutive quarterly decline for the index. As of the end of the quarter, the S&P 500 P/E ratio was 20.96, below its 5-year average of 21.74. By comparison, the S&P 600, which represents small cap stocks, had a P/E ratio of 14.52, well below its 5-year average of 17.22.

Asset Class Commentary

In the third quarter, the total portfolio (net of fees) outperformed its blended benchmark by 30 basis points (-2.82% vs. -3.12%). On a year-to-date basis, the total portfolio (net of fees) underperformed its blended benchmark by 23 basis points (5.09% vs 5.32%). Over longer time periods (2-, 3-, and 5-year), the total portfolio (net of fees) has continued to have strong performance, outperforming the blended benchmark by 184, 169, and 61 basis points, respectively. Active asset allocation and manager selection were the primary drivers of these returns.

Large Cap Equities (+13.1%) outperformed both Mid Cap Equities (+3.9%) and Small Cap Equities (+2.5%) during the year-to-date period ending September 30th. For Fixed Income, Investment Grade Taxable returned -1.21% year-to-date. For U.S. styles, Growth continued to strongly outperform Value across all capitalization levels. Large Cap Growth outperformed Large Cap Value by 2320 basis points; Mid Cap Growth outperformed Mid Cap Value by 1040 basis points; and Small Cap Growth outperformed Small Cap Value by 570 basis points.

Recent Portfolio Activity

We increased the fixed income position by adding to the active bond funds and also increased weights to Mid Cap, Developed Int'l, and Emerging Markets to reduce the equity underweights. There was also a modest rebalance within the U.S. Large Cap stocks.

Investment Fund “A”

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Fund / Manager Commentary

Equity

The Total Equity portfolio underperformed the MSCI All Country World Index (“ACWI”) by 21 basis points in the third quarter and by 74 basis points year-to-date. For the year-to-date period ended September 30th, the HighMark Custom Fundamental Advantage Strategy (FADVAN) performed best, returning 14.62%, outperforming its benchmark the S&P 500 by 155 basis points. FADVAN also outperformed the S&P 500 in the third quarter, returning -2.66% vs. the -3.27% return for the index. 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. Select Small Cap managers such as the iShares MSCI KLD 400 Social ETF also posted strong returns, returning 14.46% on a year-to-date basis and outperforming its benchmark the Russell 2000 Index by almost 1200 basis points.

For the year-to-date period, three of the five International Equity managers (Vanguard FTSE Developed Markets ETF, Domini Impact International Equity and iShares ESG Aware MSCI EM ETF) underperformed their benchmark, the MSCI EAFE by 115, 21, and 37 basis points, respectively. Dodge & Cox International Growth and MFS International Growth underperformed their benchmarks by 66 and 62 basis points, respectively. One of the three Emerging Markets managers (Vanguard FTSE Emerging Markets) outperformed the benchmark, the MSCI Emerging Markets Index by 72 basis points, whereas Hartford Schroders Emerging Markets and iShares ESG Aware underperformed.

Fixed Income

For the year-to-date period, the combined Fixed Income allocation strongly outperformed the Bloomberg U.S. Aggregate Bond Index by 161 basis points. During this time, eight 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 279 basis points in the third quarter and by 533 basis points year-to-date. Managed futures funds, which had strong performance in 2022, mostly pulled back in 2023, with Virtus AlphaSimplex (-3.78%) and American Beacon AHL (-1.25%) both underperforming during this period. The BlackRock Strategic Income Opps performed well, returning 1.74% year-to-date and the Vanguard Real Estate ETF underperformed, returning -5.40%.

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. 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.

Asset Allocation – Investment Fund A

As of September 30, 2023

Current Asset Allocation

| | |
|----------------------------|----------------|
| Equity | 57.53% |
| Large Cap Core | 29.85% |
| Large Cap Value | 1.31% |
| Mid Cap Core | 1.21% |
| Small Cap Core | 2.40% |
| Small Cap Value | 2.46% |
| Small Cap Growth | 1.91% |
| International Core | 5.52% |
| International Value | 4.37% |
| International Growth | 3.98% |
| Emerging Markets | 4.54% |
| Fixed Income | 26.98% |
| Govt/Corp Obligations | 1.18% |
| Short-Term | 3.45% |
| Intermediate-Term | 16.71% |
| Long-Term Bond | 1.41% |
| Mortgage Backed Securities | 1.68% |
| Multisector Bond | 2.55% |
| Alternatives | 2.72% |
| Managed Futures | 1.27% |
| Market Neutral | 0.62% |
| Real Estate | 0.84% |
| Real Estate Loans | 7.66% |
| | 7.66% |
| Cash | 5.11% |
| | 5.11% |
| TOTAL | 100.00% |

Weighted Embedded Expense Ratio 0.25

Target vs. Current Asset Allocation (as of September 30, 2023)

Investment Fund “A” Value: \$31,702,599

| <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% | 31.15% | Modest overweight given U.S. outperformance but will be moving to neutral given rich valuations. |
| US Small-Mid Cap | 5-15% | 10% | 7.97% | Underweight but moving to neutral on a larger market pullback. Cheaper valuations. |
| International Developed | 10-20% | 15% | 13.86% | Underweight but moving to an overweight given attractive relative valuations. |
| Emerging Markets | 0-10% | 5% | 4.54% | Modest underweight but moving to neutral given more attractive valuations. |
| Fixed Income | 10-30% | 13% | 26.98% | Overweight bonds given attractive yields. |
| Alternatives & REITS | 0-15% | 5% | 2.72% | Underweight driven by more attractive yields in fixed income and cash. |
| Real Estate Loans | 15-33% | 17% | 7.66% | Maintaining present position. |
| Cash | 0-10% | 5% | 5.11% | Will re-deploy opportunistically with larger stock pullbacks. |

Selected Period Performance
EPISCOPAL DIOCESE ~A~ IAS
Account **041200**
Period Ending: 9/30/2023

| | Year to Date (9 Months) | 1 Year | 2 Years | 3 Years | 5 Years | 10 Years | Inception to Date 01/01/1988 |
|--|-------------------------------|--------------|--------------|--------------|--------------|-------------|------------------------------------|
| Cash Equivalents | 3.61 | 4.49 | 2.54 | 1.69 | 1.61 | 1.03 | 2.92 |
| <i>FTSE 3 Month T-Bill Index</i> | 3.80 | 4.71 | 2.65 | 1.78 | 1.74 | 1.12 | 2.94 |
| Total Equities | 9.32 | 20.77 | -.71 | 8.45 | 7.38 | 8.68 | 9.46 |
| <i>MSCI AC World Index</i> | 10.06 | 20.80 | -2.10 | 6.89 | 6.46 | 7.56 | |
| Total Fixed Income | .40 | 2.70 | -4.96 | -2.63 | 1.16 | 1.98 | 5.29 |
| <i>Bloomberg US Aggregate Bd Index</i> | -1.21 | .64 | -7.29 | -5.21 | .10 | 1.13 | 5.28 |
| Total Managed Portfolio | 5.73 | 13.15 | -1.51 | 5.47 | 5.41 | 6.55 | 7.86 |
| Total Account Net of Fees | 5.09 | 11.73 | -1.42 | 5.06 | 4.94 | 5.87 | 7.56 |
| <i>IF Benchmark***</i> | 4.99 | 12.24 | -3.59 | 3.50 | 4.47 | 5.97 | |
| <i>IF Benchmark****</i> | 5.32 | 12.44 | -3.26 | 3.37 | 4.33 | | |
| Standard Deviation | | | | | 12.31 | | |
| <i>IF Benchmark***</i> | | | | | 12.93 | | |

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 (**025500)**
Performance Report

As of: September 30, 2023



| | 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 | 41,997 | 3.61 | 4.51 | 2.55 | 1.70 | 1.61 | 1.03 | .82 |
| FTSE 3 Month T-Bill Index | | 3.80 | 4.71 | 2.65 | 1.78 | 1.74 | 1.12 | .82 |
| Total Fixed Income | 343,499 | .25 | 2.46 | -5.78 | -3.31 | .81 | 1.65 | |
| Bloomberg US Aggregate Bd Index (USD) | | -1.21 | .64 | -7.29 | -5.21 | .10 | 1.13 | 2.38 |
| Total Managed Portfolio | 385,496 | .63 | 2.83 | -5.37 | -3.07 | .81 | 1.41 | 2.35 |
| Total Account Net of Fees | 385,496 | .30 | 2.38 | -5.74 | -3.32 | .65 | 1.33 | 2.30 |

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 | 329,740 | 3.57 | 4.45 | 2.52 | 1.68 | 1.60 | 1.02 | |
| FTSE 3 Month T-Bill Index | | 3.80 | 4.71 | 2.65 | 1.78 | 1.74 | 1.12 | .82 |
| Total Managed Portfolio | 329,740 | 3.61 | 4.50 | 2.54 | 1.69 | 1.61 | 1.03 | .79 |
| Total Account Net of Fees | 329,740 | 3.22 | 4.03 | 2.00 | 1.34 | 1.40 | .92 | .74 |

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| | Market Value | Year to Date (9 Months) | 1 Year | 2 Years | Inception to Date 07/01/2021 |
|---------------------------------------|----------------|-------------------------------|--------------|--------------|------------------------------------|
| Cash Equivalents | 12,568 | 3.60 | 4.49 | 2.54 | 2.26 |
| FTSE 3 Month T-Bill Index | | 3.80 | 4.71 | 2.65 | 2.36 |
| Total Fixed Income | 39,480 | -1.14 | .40 | -8.11 | -7.39 |
| Bloomberg US Aggregate Bd Index (USD) | | -1.21 | .64 | -7.29 | -6.49 |
| Large Cap Funds | 47,336 | 12.63 | 21.56 | -.23 | -.44 |
| Small Cap Funds | 7,939 | 3.42 | 11.35 | -5.81 | -6.57 |
| International Equities | 16,163 | 5.73 | 22.80 | -5.56 | -6.06 |
| Total Equities | 71,437 | 9.71 | 20.55 | -2.28 | -2.49 |
| MSCI AC World Index (Net) | | 10.06 | 20.80 | -2.10 | -2.33 |
| MSCI EAFE Index (Gross) | | 7.59 | 26.31 | -2.51 | -2.38 |
| MSCI EM Free Index (Net USD) | | 1.82 | 11.70 | -10.39 | -12.63 |
| Russell 2000 Index (USD) | | 2.54 | 8.93 | -8.71 | -9.59 |
| S&P 500 Composite Index | | 13.07 | 21.62 | 1.39 | 1.50 |
| Total Managed Portfolio | 123,484 | 5.72 | 12.65 | -4.21 | -3.89 |
| Total Account Net of Fees | 133,612 | 3.54 | 9.00 | -5.57 | -5.10 |

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