

**Episcopal Diocese of Northern California  
Investment Fund**

**Fourth Quarter 2020**

**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 – December 2020

### **Economic and Investment Outlook**

An eventful fourth quarter capped off a tumultuous year. A resurgence of COVID-19 in the U.S. and Europe was outshined by vaccine approvals, a conclusion to the U.S. Presidential election, and an additional round of fiscal stimulus. Despite the unfortunate spike in COVID-19 cases, the global stock market continued its monumental comeback as hoped. On balance, upward pressure was applied to longer-term interest rates as investors recalibrated for higher inflation and growth expectations.

Vaccine approvals likely mark the beginning of the end of the pandemic. The conclusion of the COVID-19 pandemic is in sight, and investors can embrace a “glass half full” outlook even though the economy has not fully recovered yet. Belief in the efficacy of modern medicine and science, combined with unprecedented levels of globally coordinated monetary and fiscal support, has perpetuated optimistic sentiment in risk assets since the early days of the pandemic.

Most global equity and credit markets have fully recovered losses from the February/March downturn, and many also managed to post positive returns for the year—an improbable feat given the economic challenges created by the constraining countermeasures implemented to combat the spread of the virus.

### **Asset Class Commentary**

In the fourth quarter, the total portfolio (net of fees) outperformed its blended benchmark by 53 basis points. This continued the third quarter trend of improving performance, following a challenging first half of 2020.

Small Cap Equities (+31.4%) outperformed both Mid Cap Equities (+19.9%) and Large Cap Equities (+12.2%) in the fourth quarter. This reverses the earlier trend when Large Cap outperformed Mid Cap and Small Cap over prior periods (Small cap stocks tend to perform better seasonally November through February). Fixed Income performed well, with Investment Grade Taxable returning 0.7% for the quarter and 7.5% for the year. For U.S. styles, Growth outperformed Value across all market caps by 3000 to 3500+ basis points for the year. This extreme growth vs. value outperformance continues a dynamic that we have observed over the past decade.

### **Recent Activity**

During the quarter, we did some modest rebalancing within Large Cap equities, Alternatives, and Mid Cap/Small Cap.

# Investment Fund “A”

## Discussion Highlights Continued – December 2020

### Fund / Manager Commentary

#### **Equity**

Following equity portfolio underperformance in the third quarter, the Total Equity portfolio outperformed the MSCI All Country World Index (“ACWI”) by 174 basis points in the fourth quarter. Select Small Cap managers such as the Undiscovered Managers Behavioral Value Fund performed particularly well in the fourth quarter, returning 43.26% and beating the Russell 2000 Value Index by almost 1000 basis points in the quarter. The Small Cap Growth and Core managers (Victory RS and Delaware) also performed well in the quarter, returning 22.57% and 29.52%, respectively, though they underperformed their benchmarks. The HighMark Custom Fundamental Advantage Strategy outperformed its benchmark the S&P 500 by 65 basis points in the fourth quarter and 39 basis points for 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 fourth quarter, the combined Fixed Income allocation delivered a positive return (+2.24%), outperforming the Bloomberg Barclays Aggregate Bond Index (0.67%) by 157 basis points. The position in the PIMCO Income Fund (+4.46%) acted as the strongest contributor to performance in the quarter, though all of the other bond strategies also performed well, with the Dodge and Cox Income Fund, PIMCO Total Return Fund, PGIM Total Return Bond Fund and the Vanguard Short-Term Investment Grade Fund returning 2.48%, 1.06%, 2.38% and 0.98%, respectively. Over longer time periods (5- and 10- year), all fixed income managers (Dodge & Cox, PIMCO, PGIM, and Vanguard) have outperformed. We remain defensively positioned from a duration standpoint as longer-term bonds offer very little value, with the 10-year Treasury yielding around 1.00%.

#### **Alternatives**

The Alternatives portion of the portfolio outperformed its benchmark, the Wilshire Liquid Alternative Index, by 43 basis points in the fourth quarter of 2020. The AlphaSimplex Managed Futures Strategy continued to outperform, returning 7.79% in the fourth quarter. The Vanguard Real Estate ETF (now part of the Alternatives category) showed improved performance from the third quarter, returning 9.25% in the fourth quarter. AQR Style Premia and BlackRock Total Factor have been the main detractors. Given the diverse range of strategies within this 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. We believe that Alternatives remain a better source of returns relative to Fixed Income, with particular attractiveness given their profile of uncorrelated returns versus both equities and interest rates.

# Asset Allocation – Investment Fund A

## As of December 31, 2020

<b>Current Asset Allocation</b>	
<b>Equity</b>	<b>63.69%</b>
Large Cap Core	34.80%
Mid Cap Core	2.21%
Small Cap Core	2.77%
Small Cap Value	2.27%
Small Cap Growth	2.48%
International Core	5.16%
International Value	4.13%
International Growth	4.62%
Emerging Markets	5.25%
<b>Fixed Income</b>	<b>16.35%</b>
Govt/Corp Obligations	0.02%
Short-Term	3.00%
Intermediate-Term	10.04%
Multisector Bond	3.30%
<b>Alternatives</b>	<b>8.64%</b>
Global Macro	2.79%
Managed Futures	2.32%
Market Neutral	1.17%
Merger Arbitrage	0.84%
Multi Strategy	0.83%
Real Estate	0.70%
<b>Real Estate Loans</b>	<b>7.46%</b>
	7.46%
<b>Cash</b>	<b>3.86%</b>
	3.86%
<b>TOTAL</b>	<b>100.00%</b>

Weighted Embedded Expense Ratio 0.38

# Target vs. Current Asset Allocation (as of December 31, 2020)

Investment Fund “A” Value: \$29,118,203

<u>Asset Class</u>	<u>% Portfolio Weighting</u>			<u>Rationale</u>
	<u>Range</u>	<u>Target</u>	<u>Current Portfolio</u>	
<b>US Large Cap</b>	25-35%	30%	34.80%	Reducing overweight given richer valuations versus other equity classes.
<b>US Small-Mid Cap</b>	5-15%	10%	9.73%	Moved to a neutral weight given improving market breadth and fundamentals.
<b>International Developed</b>	10-20%	15%	13.91%	Modest underweight given weaker economic outlook within Europe.
<b>Emerging Markets</b>	0-10%	5%	5.25%	Moving to overweight given improving fundamentals and weaker dollar.
<b>Fixed Income</b>	10-30%	13%	16.35%	Maintain neutral weight to traditional bonds with tactical overweight position to Multi-Strategies.
<b>Alternatives &amp; REITS</b>	0-15%	5%	8.64%	Continued overweight to Alternatives given low correlation to fixed income and equities.
<b>Real Estate Loans</b>	15-33%	17%	7.46%	Maintaining position at this time.
<b>Cash</b>	0-10%	5%	3.86%	Will re-deploy opportunistically with larger market pullbacks.

**Selected Period Performance**  
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**Period Ending: 12/31/2020**

	3 Months	Year to Date (1 Year)	1 Year	3 Years	5 Years	10 Years	Inception to Date 01/01/1988
Cash Equivalents	.01	.36	.36	1.38	1.03	.53	3.01
<i>FTSE 3 Month T-Bill Index</i>	<i>.02</i>	<i>.58</i>	<i>.58</i>	<i>1.56</i>	<i>1.16</i>	<i>.60</i>	<i>3.02</i>
Total Fixed Income	2.24	7.45	7.45	5.35	5.27	4.08	6.07
<i>BBG Barclays US Aggregate Bd Index</i>	<i>.67</i>	<i>7.51</i>	<i>7.51</i>	<i>5.34</i>	<i>4.44</i>	<i>3.84</i>	<i>6.27</i>
Total Equities	16.42	16.84	16.84	10.93	12.83	10.86	9.98
<i>MSCI AC World Index</i>	<i>14.68</i>	<i>16.25</i>	<i>16.25</i>	<i>10.06</i>	<i>12.26</i>	<i>9.13</i>	
Total Managed Portfolio	11.80	12.90	12.90	8.33	9.82	8.73	8.38
Total Account Net of Fees	10.99	11.87	11.87	7.58	8.84	7.73	8.07
<i>IF Benchmark***</i>	<i>10.69</i>	<i>12.47</i>	<i>12.47</i>	<i>8.74</i>	<i>9.79</i>	<i>8.29</i>	
<i>IF Benchmark****</i>	<i>10.46</i>	<i>12.89</i>	<i>12.89</i>	<i>8.47</i>			
<i>MS Mod Allocation Avg</i>	<i>10.16</i>	<i>11.44</i>	<i>11.44</i>	<i>7.64</i>	<i>8.68</i>	<i>7.43</i>	
Standard Deviation					10.22		
<i>IF Benchmark***</i>					<i>10.12</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% 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.



As of: December 31, 2020

Performance Report

	Market Value	3 Months	Year to Date (1 Year)	1 Year	3 Years	5 Years	10 Years	Inception to Date 05/01/2008
<b>Cash Equivalents</b>	<b>14,790</b>	<b>.01</b>	<b>.36</b>	<b>.36</b>	<b>1.38</b>	<b>1.03</b>	<b>.52</b>	<b>.60</b>
FTSE 3 Month T-Bill Index		.02	.58	.58	1.56	1.16	.60	.57
<b>Total Fixed Income</b>	<b>525,483</b>	<b>1.99</b>	<b>7.28</b>	<b>7.28</b>	<b>5.18</b>	<b>5.06</b>	<b>3.93</b>	
BBG Barclays 1-3 Yr US Govt/Credit Index		.21	3.33	3.33	2.98	2.21	1.60	2.00
BBG Barclays Intmtd US Govt/Cred		.48	6.43	6.43	4.67	3.64	3.11	3.55
<b>Total Managed Portfolio</b>	<b>540,273</b>	<b>1.96</b>	<b>6.99</b>	<b>6.99</b>	<b>4.92</b>	<b>4.46</b>	<b>3.49</b>	<b>3.79</b>
<b>Total Account Net of Fees</b>	<b>540,273</b>	<b>1.96</b>	<b>6.99</b>	<b>6.99</b>	<b>4.92</b>	<b>4.46</b>	<b>3.49</b>	<b>3.79</b>

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.



As of: December 31, 2020

Performance Report

	Market Value	3 Months	Year to Date (1 Year)	1 Year	3 Years	5 Years	10 Years	Inception to Date 05/01/2008
<b>Cash Equivalents</b>	<b>323,135</b>	<b>.01</b>	<b>.37</b>	<b>.37</b>	<b>1.38</b>	<b>1.03</b>	<b>.53</b>	
FTSE 3 Month T-Bill Index		.02	.58	.58	1.56	1.16	.60	.57
<b>Total Managed Portfolio</b>	<b>323,135</b>	<b>.01</b>	<b>.37</b>	<b>.37</b>	<b>1.38</b>	<b>1.03</b>	<b>.53</b>	<b>.57</b>
<b>Total Account Net of Fees</b>	<b>323,135</b>	<b>.01</b>	<b>.37</b>	<b>.37</b>	<b>1.38</b>	<b>1.03</b>	<b>.53</b>	<b>.58</b>

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