

**Episcopal Diocese of Northern California
Investment Fund**

Fourth Quarter 2021

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

Investment Fund “A”

Discussion Highlights – December 2021

Economic and Investment Outlook

U.S. equities, as measured by the S&P 500 Index, ended the year on a record high. We believe that corporate earnings growth rates will remain positive in 2022, but rising rates might put a damper on stock valuations and earnings-per-share growth. Similar to prior record equity market peaks, we expect 2022 to be marked by more moderate advances.

Fiscal stimulus uncertainty, particularly the on-again, off-again Build Back Better legislation, could continue to perplex markets in 2022 as will the ongoing pandemic. The knock-on effects of a more hawkish Fed may be another headwind as rate hikes are often seen as negative for stocks.

As global central banks let the air out of ballooning balance sheets, volatility across asset classes might increase, but we expect above-average global economic momentum to continue despite the headwinds of the pandemic and an overly-stimulated global economy.

The continuing rise of positive COVID-19 infections as the Omicron variant spreads is akin to two steps forward, one step back and represents an additional headwind to risk asset performance. But reports indicate that Omicron’s less deadly effects on those vaccinated may help bring us closer to herd immunity and the end of the worst of the pandemic.

Equity valuations will be scrutinized and we anticipate a shift from the growth names that dominated 2021’s 28.7% total return for the S&P 500 to more cyclically-sensitive stocks that underperformed during the pandemic, including small capitalization value and international equities.

Asset Class Commentary

For the one-year period ending December 31st, the total portfolio (net of fees) outperformed its blended benchmark by nearly 200 basis points. This outperformance continues the trend of improving performance that began in the third and fourth quarters of 2020, following a challenging first half of 2020.

Large Cap Equities (+28.7%) outperformed both Mid Cap Equities (+22.6%) and Small Cap Equities (+14.8%) for the year. 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 struggled in 2021, with Investment Grade Taxable returning -1.54%. For U.S. styles, Small Cap Value and Mid Cap Value outperformed Small Cap Growth and Mid Cap Growth by 1500 to 2500+ basis points for the one-year period ending December 31st. This is in contrast with Large Cap performance, where Growth (+27.6%) outperformed Value (+25.2%), yet both styles lagged Blend (+28.7%).

Recent Activity

In the fourth quarter, we reduced equities overall and rebalanced within the various stocks and funds. We also added to fixed income and alternatives including Floating Rate Notes and Tactical Opportunities.

Investment Fund “A”

Discussion Highlights Continued – December 2021

Fund / Manager Commentary

Equity

The Total Equity portfolio outperformed the MSCI All Country World Index (“ACWI”) by 50 basis points in 2021. Select Small Cap managers such as the Undiscovered Managers Behavioral Value Fund performed particularly well, returning 34.50% and beating the Russell 2000 Value Index by 623 basis points for the year. The Small Cap Core manager (Delaware) also performed well, returning 23.35%, outperforming the Russell 2000 benchmark by 853 basis points. The Small Cap Growth manager (Victory RS) struggled during this time period, returning -10.74% and underperforming the Russell 2000 Growth benchmark by 1357 basis points. The HighMark Custom Fundamental Advantage Strategy modestly underperformed its benchmark the S&P 500 by 71 basis points in 2021. Despite this recent underperformance, we continue to view this allocation 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.

Fixed Income

For the one-year period ending December 31st, the combined Fixed Income allocation returned -0.06%, outperforming the Bloomberg Aggregate Bond Index (-1.54%) by 148 basis points. All four intermediate-term bond funds outperformed the Bloomberg Aggregate Bond Index. The short-term bond fund manager (Vanguard) also outperformed its benchmark, the Bloomberg U.S. Government/Credit 1-3 Year Index by 14 basis points. Over longer time periods (3-, 5- and 10-year), all fixed income managers (Dodge & Cox, PIMCO, PGIM, and Vanguard) delivered positive returns and outperformed their respective benchmarks. We remain defensively positioned from a duration standpoint as longer-term bonds offer very little value, with the 10-year Treasury yielding below 2%.

Alternatives

The Alternatives portion of the portfolio outperformed its benchmark, the Wilshire Liquid Alternative Index, by 541 basis points in 2021. The Vanguard Real Estate ETF (now part of the Alternatives category) and BlackRock Total Factor had continued strong performance, returning 40.38% and 16.73%, respectively for the year. Managed Futures strategies (American Beacon AHL and AlphaSimplex) also performed well, returning 5.12% and 3.63%, respectively. The main detractors to performance included Western Asset Macro Opportunities (-0.45%), BlackRock Event Driven Equity (+1.94%) and BlackRock Strategic Income Opps (+1.06%).

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 low correlation to equities and bonds.

Asset Allocation – Investment Fund A

As of December 31, 2021

Current Asset Allocation	
Equity	60.26%
Large Cap Core	33.36%
Mid Cap Core	0.63%
Small Cap Core	3.00%
Small Cap Value	2.96%
Small Cap Growth	1.97%
International Core	5.46%
International Value	4.35%
International Growth	4.27%
Emerging Markets	4.26%
Fixed Income	17.99%
Govt/Corp Obligations	0.01%
Short-Term	2.67%
Intermediate-Term	10.01%
Floating Rate Notes	2.35%
Multisector Bond	2.96%
Alternatives	8.72%
Global Macro	1.13%
Managed Futures	1.99%
Market Neutral	1.04%
Merger Arbitrage	1.00%
Multi Strategy	1.19%
Real Estate	2.36%
Real Estate Loans	8.25%
	8.25%
Cash	4.78%
	4.78%
TOTAL	100.00%

Weighted Embedded Expense Ratio 0.33

Target vs. Current Asset Allocation (as of December 31, 2021)

Investment Fund “A” Value: \$31,957,001

<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%	33.36%	Overweight given strong fundamentals within the U.S.
US Small-Mid Cap	5-15%	10%	8.56%	Modest underweight given higher beta.
International Developed	10-20%	15%	14.08%	Neutral weight but will be moving to overweight given relatively attractive valuations.
Emerging Markets	0-10%	5%	4.26%	Neutral weight given ongoing concerns about China.
Fixed Income	10-30%	13%	17.99%	Maintain underweight to traditional bonds with tactical overweight position to Multi-Strategies.
Alternatives & REITS	0-15%	5%	8.72%	Continued overweight to Alternatives given low correlation to fixed income and equities.
Real Estate Loans	15-33%	17%	8.25%	Maintaining position at this time.
Cash	0-10%	5%	4.78%	Will re-deploy opportunistically with larger market pullbacks.

Selected Period Performance
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12/31/2021

	Year to Date (1 Year)	2 Years	3 Years	5 Years	10 Years	Inception to Date 01/01/1988
Cash Equivalents	.02	.19	.82	.98	.53	2.92
<i>FTSE 3 Month T-Bill Index</i>	<i>.05</i>	<i>.31</i>	<i>.96</i>	<i>1.11</i>	<i>.60</i>	<i>2.93</i>
Total Fixed Income	-.06	3.62	5.15	4.26	3.53	5.88
<i>Bloomberg US Aggregate Bd Index</i>	<i>-1.54</i>	<i>2.88</i>	<i>4.79</i>	<i>3.57</i>	<i>2.90</i>	<i>6.03</i>
Total Equities	19.04	17.93	21.52	14.83	12.90	10.24
<i>MSCI AC World Index</i>	<i>18.54</i>	<i>17.39</i>	<i>20.38</i>	<i>14.40</i>	<i>11.85</i>	
Total Managed Portfolio	13.86	13.38	15.85	11.15	10.11	8.54
Total Account Net of Fees	12.91	12.39	14.55	10.15	9.03	8.21
<i>IF Benchmark***</i>	<i>12.72</i>	<i>12.59</i>	<i>15.13</i>	<i>10.74</i>	<i>9.55</i>	
<i>IF Benchmark****</i>	<i>10.99</i>	<i>11.94</i>	<i>14.30</i>	<i>10.18</i>		
<i>MS Mod Allocation Avg</i>	<i>13.91</i>	<i>12.67</i>	<i>14.70</i>	<i>9.97</i>	<i>8.88</i>	
Standard Deviation				10.19		
<i>IF Benchmark***</i>				<i>9.94</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: December 31, 2021

Performance Report

	Market Value	Year to Date (1 Year)	2 Years	3 Years	5 Years	10 Years	Inception to Date 05/01/2008
Cash Equivalents	13,833	.02	.19	.82	.98	.52	.56
FTSE 3 Month T-Bill Index		.05	.31	.96	1.11	.60	.54
Total Fixed Income	480,941	-.39	3.37	5.08	4.01	3.51	
Bloomberg 1-3 Yr US Govt/Credit Index		-.47	1.41	2.28	1.85	1.39	1.82
Bloomberg Intmtdt US Govt/Cred		-1.44	2.42	3.86	2.91	2.38	3.18
Total Managed Portfolio	494,967	-.46	3.20	4.78	3.58	3.11	3.47

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.



As of: December 31, 2021

Performance Report

	Market Value	Year to Date (1 Year)	2 Years	3 Years	5 Years	10 Years	Inception to Date 05/01/2008
Cash Equivalents	309,691	.02	.19	.82	.98	.53	
FTSE 3 Month T-Bill Index		.05	.31	.96	1.11	.60	.54
Total Managed Portfolio	309,691	.02	.19	.82	.98	.53	.53

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As of: December 31, 2021

Performance Report

	Market Value	3 Months	Inception to Date 07/01/2021
Cash & Equivalents	12,684	.01	.01
FTSE 3 Month T-Bill Index		.01	.02
Total Fixed Income	34,424	-.01	-.35
Bloomberg US Aggregate Bd Index (USD)		.01	.06
Total Equities	73,002	8.00	6.86
MSCI AC World Index (Net)		6.68	5.55
MSCI EAFE Index (Net)		2.69	2.24
MSCI EM Free Index (Net USD)		-1.31	-9.30
Russell 2000 Index (USD)		2.14	-2.31
S&P 500 Composite Index		11.03	11.67
Total Managed Portfolio	120,110	3.99	3.65

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