

**Episcopal Diocese of Northern California  
Investment Fund**

**Fourth 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 – December 2022

### Economic and Investment Outlook

Investors found nowhere to hide in 2022: it was the worst year for equities since the Great Financial Crisis of 2008 and bonds recorded their lowest annual return since 1976. January 3, 2022 saw the S&P 500 index hit a record high capping a rally that began when Barack Obama was still president. But the first day of trading in 2022 was actually the end of over a decade-long stock market rally with the S&P 500 rising more than 800 percent since the first quarter of 2009.

Diversification, the investors’ ally, proved ineffective as the dominant market narrative broke down; namely that low inflation, low interest rates and unprecedented government intervention in markets and the economy would continue ad-infinitum and carry no consequences or tradeoffs. The fact that diversifying between bonds and equities did little to protect investor portfolios is symptomatic of just how unnatural market conditions were in 2022. Looking under the hood, investors were simultaneously hit by demand and supply shocks that sparked runaway inflation. Markets mistook inorganic “sugar-high” COVID-era fiscal and monetary stimulus for real demand and extrapolated trends inappropriately into risk asset valuations making them highly vulnerable to a reset after equity markets rallied in 2020 and 2021 and bond yields reached multi-decade lows.

2022 saw markets recalibrate and re-price risk assets with concerns mounting as to whether a more hawkish Federal Reserve (Fed) had the potential for a policy mistake: overtightening just as growth stalls and driving the economy into recession. To fight against inflation at its highest point since 1983, the Fed would rather trigger a shallow recession now versus a deeper one later despite the potential for collateral damage to the economy and markets.

We believe we are currently in the eye of the hurricane. Exiting the eye will likely result in more turbulence ahead for financial assets. 2022 saw the first phase of the storm revolving around inflation, interest rates and asset valuation compression from peak levels. For 2023, unfortunately, the second phase might be about higher unemployment, declining corporate profits and falling economic output, which can be a challenging investment backdrop. We do see opportunities emerging following some of this downside potential in capital markets, rewarding patient investors during a year likely to be rife with change.

### Asset Class Commentary

In 2022, the total portfolio (net of fees) outperformed its blended benchmark by 224 basis points (-12.22% vs -14.46%). This strong outperformance continues to extend over every time period during this very difficult period. The active asset allocation and manager selection were the primary drivers.

Mid Cap Equities (-17.3%) outperformed both Large Cap Equities (-18.1%) and Small Cap Equities (-20.4%) in 2022. Fixed Income continued to struggle in 2022, with Investment Grade Taxable returning -13.01% for the year. For U.S. styles, Value continued to strongly outperform Growth across all capitalization levels. Large Cap Value outperformed Large Cap Growth by 2160 basis points; Mid Cap Value outperformed Mid Cap Growth by 1470 basis points; and Small Cap Value outperformed Small Cap Growth by 1190 basis points.

### Recent Portfolio Activity

In the fourth quarter, we added positions in Fixed Income, including DoubleLine Core Fixed Income, iShares MBS ETF, PIMCO Low Duration, and Vanguard Long-Term Investment-Grade. This increases the overall Fixed Income allocation to 25.11%, up from 20.54% at the end of the third quarter of 2022.

# Investment Fund “A”

## Discussion Highlights – December 2022

### Fund / Manager Commentary

#### Equity

The Total Equity portfolio outperformed the MSCI All Country World Index (“ACWI”) by 256 basis points in 2022. Select Small Cap managers such as the Undiscovered Managers Behavioral Value Fund performed best, returning -1.10% and beating the Russell 2000 Value Index by 1338 basis points for the year. The Small Cap Core manager (Delaware) returned -19.22%, though outperformed the Russell 2000 benchmark by 464 basis points. The Vanguard Small-Cap Growth ETF returned -28.40%, underperforming the Russell 2000 Growth benchmark by 204 basis points. The HighMark Custom Fundamental Advantage Strategy (FADVAN) outperformed its benchmark the S&P 500 by 163 basis points. 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, four of the five managers (Dodge & Cox International, Vanguard FTSE Developed Markets ETF, Domini Impact International Equity and iShares ESG Aware MSCI EAFE ETF) underperformed their respective benchmarks, while MFS International Growth outperformed. For Emerging Markets Equity, both managers (Hartford Schroders and iShares ESG Aware MSCI EM ETF) underperformed the benchmark the MSCI Emerging Markets Index.

#### Fixed Income

In 2022, the combined Fixed Income allocation returned -10.01%, outperforming the Bloomberg U.S. Aggregate Bond Index (-13.01%) by 300 basis points. The intermediate-term and multi-strategy bond funds (Dodge & Cox Income, DoubleLine Core Fixed Income, and PIMCO Income) and outperformed the Bloomberg U.S. Aggregate Bond 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 230 basis points in 2022. Managed Futures strategies (AlphaSimplex and American Beacon AHL) continued to perform well, returning 35.93% and 16.93%, respectively. The most significant detractor was the Vanguard Real Estate ETF (-26.20%). Despite this recent underperformance, the Alternatives portion of the portfolio has outperformed over the past two- and three-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 December 31, 2022

### Current Asset Allocation

<b>Equity</b>	<b>55.98%</b>
Large Cap Core	29.32%
Mid Cap Core	0.83%
Small Cap Core	3.55%
Small Cap Value	3.00%
Small Cap Growth	1.89%
International Core	5.42%
International Value	4.42%
International Growth	3.93%
Emerging Markets	3.62%
<b>Fixed Income</b>	<b>25.11%</b>
Govt/Corp Obligations	1.34%
Short-Term	3.82%
Intermediate-Term	14.81%
Long-Term Bond	1.50%
Mortgage Backed Securities	0.78%
Multisector Bond	2.86%
<b>Alternatives</b>	<b>5.16%</b>
Managed Futures	2.08%
Market Neutral	0.88%
Merger Arbitrage	0.77%
Real Estate	1.44%
<b>Real Estate Loans</b>	<b>8.42%</b>
	8.42%
<b>Cash</b>	<b>5.33%</b>
	5.33%
<b>TOTAL</b>	<b>100.00%</b>

Weighted Embedded Expense Ratio 0.28

# Target vs. Current Asset Allocation (as of December 31, 2022)

Investment Fund “A” Value: \$28,654,480

<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%	29.32%	Underweight given the attractive valuations of Int'l and Emerging Markets.
<b>US Small-Mid Cap</b>	5-15%	10%	9.26%	Modest underweight but moving to neutral.
<b>International Developed</b>	10-20%	15%	13.77%	Modest underweight but moving to an overweight given lower risk of a China re-opening, weakening dollar, and very attractive relative valuations.
<b>Emerging Markets</b>	0-10%	5%	3.62%	Underweight but moving to neutral given China re-opening and weakening dollar.
<b>Fixed Income</b>	10-30%	13%	25.11%	Overweight bonds given attractive yields. Emphasis on the short end of the curve and a barbell approach.
<b>Alternatives &amp; REITS</b>	0-15%	5%	5.16%	Maintaining neutral but possible move to underweight given attractive expected returns elsewhere.
<b>Real Estate Loans</b>	15-33%	17%	8.42%	Maintaining position at this time.
<b>Cash</b>	0-10%	5%	5.33%	Will re-deploy opportunistically with larger stock and bond market pullbacks.

**Selected Period Performance**  
**EPISCOPAL DIOCESE ~A~ IAS**  
**Period Ending: 12/31/2022**

	<b>3 Months</b>	<b>Year to Date (1 Year)</b>	<b>2 Years</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>	<b>Inception to Date 01/01/1988</b>
Cash Equivalents	.86	1.48	.75	.62	1.13	.67	2.88
<i>FTSE 3 Month T-Bill Index</i>	<i>.87</i>	<i>1.50</i>	<i>.77</i>	<i>.71</i>	<i>1.25</i>	<i>.74</i>	<i>2.89</i>
Total Fixed Income	2.29	-10.01	-5.17	-1.13	1.01	1.85	5.39
<i>Bloomberg US Aggregate Bd Index</i>	<i>1.87</i>	<i>-13.01</i>	<i>-7.45</i>	<i>-2.71</i>	<i>.02</i>	<i>1.06</i>	<i>5.43</i>
Total Equities	10.47	-15.80	.11	5.41	6.47	9.23	9.39
<i>MSCI AC World Index</i>	<i>9.76</i>	<i>-18.36</i>	<i>-1.63</i>	<i>4.00</i>	<i>5.23</i>	<i>7.98</i>	
Total Managed Portfolio	7.02	-12.82	-.37	3.87	4.76	7.13	7.86
Total Account Net of Fees	6.24	-12.22	-.45	3.50	4.29	6.34	7.56
<i>IF Benchmark***</i>	<i>6.91</i>	<i>-15.37</i>	<i>-2.33</i>	<i>2.37</i>	<i>4.17</i>	<i>6.48</i>	
<i>IF Benchmark****</i>	<i>6.76</i>	<i>-14.46</i>	<i>-2.56</i>	<i>2.34</i>	<i>3.92</i>		
<i>MS Mod Allocation Avg</i>	<i>5.77</i>	<i>-13.84</i>	<i>-.93</i>	<i>3.03</i>	<i>4.13</i>	<i>6.08</i>	
Standard Deviation					12.01		
<i>IF Benchmark***</i>					<i>12.42</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.

**EPISCOPAL DIOCESE ~B~ BOND FUND**  
**Performance Report**

**As of: December 31, 2022**



	<b>Market Value</b>	<b>3 Months</b>	<b>Year to Date (1 Year)</b>	<b>2 Years</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>	<b>Inception to Date 05/01/2008</b>
<b>Cash Equivalents</b>	<b>32,871</b>	<b>.87</b>	<b>1.49</b>	<b>.75</b>	<b>.62</b>	<b>1.13</b>	<b>.67</b>	<b>.62</b>
FTSE 3 Month T-Bill Index		.87	1.50	.77	.71	1.25	.74	.60
<b>Total Fixed Income</b>	<b>351,577</b>	<b>2.20</b>	<b>-11.24</b>	<b>-5.97</b>	<b>-1.75</b>	<b>.57</b>	<b>1.53</b>	
Bloomberg US Aggregate Bd Index (USD)		1.87	-13.01	-7.45	-2.71	.02	1.06	2.59
<b>Total Managed Portfolio</b>	<b>384,448</b>	<b>2.19</b>	<b>-10.81</b>	<b>-5.78</b>	<b>-1.70</b>	<b>.50</b>	<b>1.29</b>	<b>2.43</b>
<b>Total Account Net of Fees</b>	<b>384,448</b>	<b>2.07</b>	<b>-11.22</b>	<b>-6.00</b>	<b>-1.85</b>	<b>.41</b>	<b>1.24</b>	<b>2.39</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. 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.

**EPISCOPAL DIOCESE ~C~ CASH FUND**  
**Performance Report**

**As of: December 31, 2022**



	Market Value	3 Months	Year to Date (1 Year)	2 Years	3 Years	5 Years	10 Years	Inception to Date 05/01/2008
<b>Cash Equivalents</b>	<b>2,601,089</b>	<b>.85</b>	<b>1.48</b>	<b>.75</b>	<b>.62</b>	<b>1.13</b>	<b>.67</b>	
FTSE 3 Month T-Bill Index		.87	1.50	.77	.71	1.25	.74	.60
<b>Total Managed Portfolio</b>	<b>2,601,089</b>	<b>.86</b>	<b>1.47</b>	<b>.74</b>	<b>.62</b>	<b>1.12</b>	<b>.67</b>	<b>.59</b>
<b>Total Account Net of Fees</b>	<b>2,601,089</b>	<b>.78</b>	<b>.79</b>	<b>.40</b>	<b>.39</b>	<b>.99</b>	<b>.60</b>	<b>.56</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. 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.



	<b>Market Value</b>	<b>3 Months</b>	<b>Year to Date (1 Year)</b>	<b>Inception to Date 07/01/2021</b>
<b>Cash Equivalents</b>	<b>10,457</b>	<b>.86</b>	<b>1.49</b>	<b>.99</b>
FTSE 3 Month T-Bill Index		.87	1.50	1.01
<b>Total Fixed Income</b>	<b>29,743</b>	<b>1.55</b>	<b>-14.59</b>	<b>-10.19</b>
Bloomberg US Aggregate Bd Index (USD)		1.87	-13.01	-8.83
<b>Large Cap Funds</b>	<b>35,585</b>	<b>7.93</b>	<b>-20.36</b>	<b>-8.24</b>
<b>Small Cap Funds</b>	<b>7,727</b>	<b>7.67</b>	<b>-17.31</b>	<b>-11.70</b>
<b>International Equities</b>	<b>14,912</b>	<b>16.14</b>	<b>-18.17</b>	<b>-12.27</b>
<b>Total Equities</b>	<b>58,225</b>	<b>9.89</b>	<b>-19.40</b>	<b>-9.48</b>
MSCI AC World Index (Net)		9.76	-18.36	-9.45
MSCI EAFE Index (Gross)		17.40	-14.01	-8.15
MSCI EM Free Index (Net USD)		9.70	-20.09	-19.31
Russell 2000 Index (USD)		6.23	-20.44	-15.47
S&P 500 Composite Index		7.56	-18.11	-5.79
<b>Total Managed Portfolio</b>	<b>98,425</b>	<b>6.56</b>	<b>-16.53</b>	<b>-9.20</b>
<b>Total Account Net of Fees</b>	<b>107,729</b>	<b>5.20</b>	<b>-17.46</b>	<b>-9.87</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. 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.