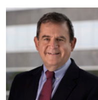
CROSSMARK GLOBAL INVESTMENTS

QUARTERLY UPDATE: 4Q 2021

SMA STRATEGY COMMENTARIES

ECONOMIC & MARKET Commentary



written by
Robert C. Doll, CFA® Chief Investment Officer

EQUITY MARKETS (INDEX TOTAL RETURN)	Q4 2021	2021
DJIA	7.87%	20.95%
S&P 500	11.03%	28.71%
NASDAQ	8.45%	22.18%
RUSSELL 2000	2.14%	14.82%
RUSSELL 1000 GROWTH	11.64%	27.60%
RUSSELL 1000 VALUE	7.77%	25.16%

S&P EQUITY SECTORS (INDEX TOTAL RETURN)	Q4 2021	2021
COMMUNICATION SERVICES	-0.01%	21.57%
CONSUMER DISCRETIONARY	12.84%	24.43%
CONSUMER STAPLES	13.31%	18.63%
ENERGY	7.97%	54.64%
FINANCIALS	4.57%	35.04%
HEALTHCARE	11.17%	26.13%
INDUSTRIALS	8.64%	21.12%
INFORMATION TECHNOLOGY	16.69%	34.53%
MATERIALS	15.20%	27.28%
REAL ESTATE	17.54%	46.19%
UTILITIES	12.93%	17.67%

Source: Morningstar Direct as of 12/31/21

Quarter in Review: 4Q2021

U.S. equities finished up in 2021 for a third straight year. The biggest tailwinds came from "pedal to the metal" monetary and fiscal policy. Earnings exceeded expectations by a record amount driven by strong revenue growth and further profit margin improvement. Additional stock market positives included strong consumer and corporate balance sheets, strong retail demand for stocks, and T.I.N.A. (there is no alternative!) and F.O.M.O. (fear of missing out) dynamics. Headwinds included the ongoing COVID pandemic and new variants, supply chain constraints, a significant increase in inflation, a Fed policy pivot, and stretched valuations.

The U.S. economy grew at a blistering pace with real GDP estimates at 5.5%, making it the strongest growth since 1984. Unemployment fell to 4.2% in November's report with average hourly earnings up 3.5% through 11 months. However, the CPI rose 6.8% over the last 12 months (with core inflation up 4.9%), the highest readings in nearly 40 years. Other economic measures such as industrial production, consumer confidence, ISM manufacturing and services, and housing were all strong.

Risk-taking was heavily incentivized by extreme monetary and fiscal reflation. For example, meme stocks captured headlines several times during the year as short squeezes created significant upside in some stocks with little overall market impact. These types of activities were amplified because consumers enjoyed record (more than $2 trillion) excess savings created by government transfer payments and reduced consumption in some COVID-impacted industries.

ECONOMIC & MARKET

Commentary (continued)

INTERNATIONAL EQUITY MARKETS (INDEX NET RETURN)	Q4 2021	2021
MSCI ACWI	6.68%	18.54%
MSCI ACWI EX U.S.	1.82%	7.82%
MSCI EAFE	2.69%	11.26%
MSCI EM	-1.31%	-2.54%

FIXED INCOME MARKETS (INDEX TOTAL RETURN)	Q4 2021	2021
BLOOMBERG U.S. AGGREGATE BOND	0.01%	-1.54%
BLOOMBERG U.S. CORP HIGH YIELD	0.71%	5.28%
BLOOMBERG U.S. GOV/CREDIT	0.18%	-1.75%
BLOOMBERG U.S. T-BILL 1-3 MONTH	0.01%	0.04%

ALTERNATIVES (INDEX TOTAL RETURN)	Q4 2021	2021
FTSE NAREIT (REAL ESTATE)	15.34%	40.02%
DJ COMMODITIES	2.93%	30.81%
RED ROCKS GLOBAL LISTED PRIVATE EQUITY	6.67%	27.96%
DB G10 CURRENCY FUTURES	-0.12%	4.15%

Source: Morningstar Direct as of 12/31/21

During the year, one of the most noteworthy developments was a substantial rise in inflation from the less than 2% annual rate that existed for about a decade to nearly 7%, the highest in about 40 years. Belatedly, the Fed admitted that inflation was not transitory and has accelerated its recently announced tapering program, preparing the way for rate hikes in 2022. Policymakers acted as if the economic cycle was fragile and ready to fall into recession even though the threat of deflation had long since ended.

Equities

Stocks hit many new highs during the course of 2021, mainly propelled by earnings growth exceeding expectations by amounts never seen before.

Within equities, growth outperformed value and large stocks outperformed small stocks. Energy and real estate were the best performing sectors; utilities and consumer staples, while still up double-digit percentages, were the worst-performing sectors.

International

The U.S. stock market outperformed almost every international market due to stronger earnings growth and earnings surprises. In 2021, the dollar rallied on the strength of the U.S. economy and the rise in interest rates attracting capital to the U.S.

Fixed Income

In other markets, almost all Treasury securities lost money in 2021 as interest rates crept higher. We saw the highest inflation rate in almost 40 years and a rise in the 10-year Treasury yields to above 1.75%. Most corporate and high yield bonds outperformed Treasuries.

Alternatives

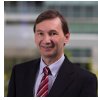
Oil prices climbed more than 50% in 2021 with copper up more than 25%. Gold and silver prices fell modestly.

Outlook

2022 is looking to be more challenging for investors, as the Fed and other central banks progressively unwind accommodative policy in response to the ongoing economic recovery/expansion and elevated inflation readings. While economic and earnings growth are likely to be good, a "too-high" inflation backdrop and rising real interest rates suggest less positive and more volatile conditions for investors than have prevailed since the pandemic lows.

Separately Managed Account

GLOBAL EQUITY INCOME
Commentary



written by
John Wolf, Managing Director

Global Equity Income Top 10 Model Holdings [1]

McDonald's Corp.	2.6%
NetApp, Inc.	2.4%
Texas Instruments, Inc.	2.3%
Quest Diagnostics, Inc.	2.3%
Paychex, Inc.	2.2%
HP, Inc.	2.2%
Cigna Corp.	2.2%
Taiwan Semiconductor Mfg Co.	2.2%
Abbott Labs	2.0%
Analog Devices, Inc.	2.0%

% of Total Portfolio: 22.4%

Markets and Performance

Performance for the various global equity markets posted solid positive results for the fourth quarter. The Global Equity Income benchmarks (the S&P Global 1200 Index and the S&P 500 Index) ended the quarter with returns of 8.06% and 11.03%, respectively. Dividend stocks overall underperformed the general equity market. For global dividend index comparison purposes, the MSCI World High Dividend Yield Index returned 7.01%. The Global Equity Income model portfolio returned 7.18% slightly outperforming the MSCI World High Dividend Yield Index and underperforming the S&P Global 1200 Index for the quarter.

Positive and Negative Contributors to Performance

Positive relative performance for the quarter was led by HP, Inc. (2.2% of total net assets), with shares climbing 38.61% on reported results that were above analyst estimates. Commercial demand for PCs continues to rebound, and management reiterated their expectations of improving Chromebook demand. Printing revenue and margin also exceeded estimates, boosting confidence in management's ability to meet or exceed fiscal 2022 year expectations. Supply chain issues continue to impact PCs, but actions taken by the company have begun to alleviate the problems. Shares of Silicon Motion Technology Corp. (1.4% of total net assets), a Hong Kong-based semiconductor manufacturer, rose 38.75% on strong demand for its high-performance microcontrollers used in flash storage devices. Increased PC sales from the online learning and work from home environment fueled momentum through the third quarter. The company has been a top performer in the industry for the year, and it has increased efforts to reward shareholders through increased dividends and share repurchases.

Negative contributors to relative performance included Grifols, S.A. (1.2% of total net assets). The Spain-based biotechnology company produces plasma derivatives and therapeutics. Shares declined 23.13% as margins seem to be impacted by the higher cost of plasma due to increased donor compensation and the absorption of fixed costs. Plasma costs are expected to return to a more normal level as plasma collection volume continues to grow. Despite these cost pressures, the Diagnostic, Hospital, and Bio Supplies divisions continue to report strong growth. Shares of ViacomCBS Inc. (1.1% of total net assets) dropped 22.99% during the quarter as the company decided to invest heavily in its streaming service. This is expected to weigh on profit margins. The company also faces significant competition from Netflix and Disney+. Despite these headwinds, the company has a solid cable network portfolio that continues to be a major growth driver. Showtime, BET, Comedy Central, and Nickelodeon are expected to be key revenue producers, and the addition of Pluto TV should provide additional growth.

Looking Ahead

The pandemic has increased market volatility during the quarter, particularly as the most recent COVID variant caused lockdowns in Europe once again. Inflation continues to be problematic, with the outlook being unclear. However, supply issues are expected to ease during the coming year. Company earnings appear to be strong overall, but the growth rate is beginning to slow as the economic reopening effect fades. Estimated earnings growth for 2022 is projected to be strongest in the consumer discretionary and industrials sectors, with hotels, restaurants, and leisure leading the way. Growth-style stocks again outperformed for the fourth quarter, but conditions are becoming more favorable for a style rotation to value and dividend income stocks as we enter 2022.

[1] Model Portfolios are based on a hypothetical account managed during the current quarter. Actual characteristics and income may differ materially from model. As of 12/31/2021.

COVERED CALL INCOME
Commentary

Separately Managed Account

written by
Paul Townsen, Managing Director – Head of Trading & Investment Operations

Covered Call Income Top 10 Model Holdings [1]

Applied Materials, Inc.	4.5%
Micron Technology, Inc.	4.5%
Morgan Stanley	3.8%
Bank America Corp.	3.8%
Cisco Systems, Inc.	3.6%
Apple, Inc.	3.4%
Starbucks Corp.	3.4%
Oracle Systems Corp.	3.3%
Nike, Inc.	3.2%
Waste Management, Inc.	3.2%

% of Total Portfolio: 36.7%

[1] Model Portfolios are based on a hypothetical account managed during the current quarter. Actual characteristics and income may differ materially from model. As of 12/31/2021.

Markets and Performance

The major averages posted double-digit gains for 2021 as the global economy began its recovery from the 2020 COVID lockdowns. More specifically, the S&P 500 Index hit new all-time highs during the fourth quarter as the benchmark posted its third straight positive year (the Dow and Nasdaq indexes are also on three-year winning streaks). The strong corporate earnings rebound that began in 2020 and continued support from the Fed have been credited with supporting this strong rally in 2021 and (so far) into the new year. However, different COVID variants began to spring up during the second half of the year (most notably Omicron), increasing market volatility. The Covered Call Income Strategy took advantage of the volatility during the quarter, most notably the last few weeks of November, leading the model portfolio to generate over 3.00% in income between the premiums generated from the sale of covered call options and dividends paid during the quarter.

Positive and Negative Contributors to Performance

The model portfolio recorded a solid quarter, buoyed by particularly robust results in December, but slightly underperformed the primary benchmark (the CBOE S&P 500 BuyWrite Index – BXM) during the fourth quarter of 2021, returning 6.70% versus 6.98%, respectively. Last quarter, the S&P 500 sectors that led the way were consumer discretionary, energy and utilities with healthcare, industrials and communication Services lagging. Each sector, however, produced positive returns for the quarter. The Strategy implements a sector-neutral approach, which provided a boost to overall performance. Several positive contributors to return during the quarter were Applied Materials (4.5% of total net assets), Micron Technology (4.5% of total net assets), DR Horton Inc. (3.1% of total net assets), and CVS Corp. (3.0% of total net assets). Stocks that were negative contributors to performance were Activision Blizzard (2.5% of total net assets), Delta Airlines (2.2% of total net assets), and Medtronic Inc (3.0% of total net assets). For the second quarter in a row, not owing Amazon due to price constraints worked in the Strategy's favor.

Looking Ahead

As we put 2021 behind us and turn the focus to 2022, many investors and strategists expect tougher conditions as the Fed begins tapering its pandemic monetary policy and continues to face persistent inflation issues. Solid economic and earnings growth will likely continue to be a tailwind for stocks, with rising rates and inflation posing some formidable headwinds. We expect this will produce an increase in volatility that the Strategy will exploit by looking for trading opportunities on the option overlay, maximizing income, and reducing as much inherent risk as possible.

LARGE CAP CORE UNSCREENED

Separately Managed Account

(Formerly Large Cap Core Growth)

Commentary

written by

Robert C. Doll, CFA® Chief Investment Officer

Large Cap Core Unscreened Top 10 Model Holdings [1]

Holding	%
Microsoft Corp.	7.9%
Apple, Inc.	7.2%
Alphabet Class C	5.7%
UnitedHealth Group, Inc.	3.2%
JP Morgan Chase & Co.	2.7%
Ford Motor Co.	2.5%
Abbott Labs	2.4%
Mastercard, Inc.	2.4%
Abbvie, Inc.	2.4%
Home Depot, Inc.	2.2%

% of Total Portfolio: 38.6%

Markets and Performance

U.S. equities were up in 2021 for a third straight year. The most significant tailwinds came from "pedal to the metal" monetary and fiscal policies. Earnings exceeded expectations by a record amount driven by solid revenue growth and further profit margin improvement. Additional stock market positives included strong consumer and corporate balance sheets, strong retail demand for stocks, and T.I.N.A. (there is no alternative!) and F.O.M.O. (fear of missing out) dynamics. Headwinds included the ongoing pandemic and new variants, supply chain constraints, a significant increase in inflation, a Fed policy pivot, and stretched valuations. The U.S. economy grew at the fastest pace since 1984, with real GDP estimates at 5.5%. In the November report, unemployment fell to 4.2%, with average hourly earnings up 3.5% through eleven months. However, the CPI rose 6.8% over the last twelve months (with core inflation up 4.9%), the highest readings in nearly 40 years. Other economic measures such as industrial production, consumer confidence, ISM manufacturing and services, and housing were strong. Within equities, growth outperformed value, and large stocks outperformed small. The Large Cap Core Unscreened model portfolio benefited from a focus on value, returning 11.94% in the fourth quarter, outperforming its benchmark (Russell 1000 Index) by 217 basis points.

Positive and Negative Contributors to Performance

As noted, the Large Cap Core Unscreened Strategy continues to be re-positioned less towards growth and more towards value. This view paid off in the fourth quarter and resulted in the Strategy soundly beating its benchmark. The largest positive contributors to performance included Ford (2.5% of total net assets), UnitedHealth (3.2% of total net assets), AbbVie (2.4% of total net assets), Anthem (2.0% of total net assets), Microsoft (7.9% of total net assets), and Lennar (1.7% of total net assets). Negative contributors included Capital One Financial (1.7% of total net assets), Charter Communications (1.3% of total net assets), and L3Harris Technologies (2.0% of total net assets).

Looking Ahead

It will be difficult for companies to sustain year-end 2021 profitability levels as revenue growth slows in the coming quarters. That said, some of the headwinds to margins from moderating top-line growth could be offset by declining shipping and raw materials input costs, as bottlenecks begin to gradually ease in response to stepped-up efforts by policymakers to resolve logistical logjams. Sectors with relatively higher labor intensity and/or facing heightened competitive pressures will remain at greater risk of margin compression. However, significant erosion in aggregate net profit margins is unlikely if nominal economic growth remains moderately strong and keeps corporate revenues expanding at a healthy pace.
The environment of rising interest rates and cyclical tailwinds has created significant stock selection opportunities. Our beta model remains modestly positive, although the decline in the growth rate of the money supply will likely cause the Strategy to become more cautious in the months to come. We continue to be a trimmer of expensive (high P/E) growth names while recycling the proceeds into cheaper, more cyclically oriented, value names. We begin 2022 with healthcare providers, software companies, and banks representing our largest industry weights.

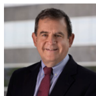
[1] Model Portfolios are based on a hypothetical account managed during the current quarter. Actual characteristics and income may differ materially from model. As of 12/31/2021.

LARGE CAP EQUITY STRATEGIES

Separately Managed Accounts

(Large Cap Core, Large Cap Growth, and Large Cap Value)

Commentary



written by

Robert C. Doll, CFA® Chief Investment Officer

Markets and Performance

U.S. equities were up in 2021 for a third straight year. The most significant tailwinds came from "pedal to the metal" monetary and fiscal policies. Earnings exceeded expectations by a record amount driven by solid revenue growth and further profit margin improvement. Additional stock market positives included strong consumer and corporate balance sheets, strong retail demand for stocks, and T.I.N.A. (there is no alternative!) and F.O.M.O. (fear of missing out) dynamics. Headwinds included the ongoing pandemic and new variants, supply chain constraints, a significant increase in inflation, a Fed policy pivot, and stretched valuations. The U.S. economy grew at the fastest pace since 1984, with real G.D.P. estimates at 5.5%. In the November report, unemployment fell to 4.2%, with average hourly earnings up 3.5% through eleven months. However, the C.P.I. rose 6.8% over the last twelve months (with core inflation up 4.9%), the highest readings in nearly 40 years. Other economic measures such as industrial production, consumer confidence, I.S.M. manufacturing and services, and housing were strong. Within equities, growth outperformed value, and large stocks outperformed small. Large Cap Equity SMA stratgies celebrated their first half birthday late in 2021. The Large Cap Core, Large Cap Value, and Large Cap Growth model portfolios were up 11.07%, 6.17%, and 11.24%, respectively in the fourth quarter.

Positive and Negative Contributors to Performance

These strategies benefitted from exposure to less expensive cyclical names that performed well particularly during the last part of the quarter. This was aided by stock selection especially in technology and financials. Consumer discretionary stock selection was a modest drag on performance.

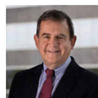
Looking Ahead

It will be difficult for companies to sustain year-end 2021 profitability levels as revenue growth slows in the coming quarters. That said, some of the headwinds to margins from moderating top-line growth could be offset by declining shipping and raw materials input costs, as bottlenecks begin to gradually ease in response to stepped-up efforts by policymakers to resolve logistical logjams. Sectors with relatively higher labor intensity and/or facing heightened competitive pressures will remain at greater risk of margin compression. However, significant erosion in aggregate net profit margins is unlikely if nominal economic growth remains moderately strong and keeps corporate revenues expanding at a healthy pace.
The environment of rising interest rates and cyclical tailwinds has created significant stock selection opportunities. Our beta model remains modestly positive, although the decline in the growth rate of the money supply will likely cause the Strategies to become more cautious in the months to come. We are positioned for a cyclical and value-oriented market, anticipating good economic growth and rising interest rates. Financials (especially banks and insurance) and technology (both software and services) are our largest sector bets.

EQUITY MARKET NEUTRAL

Commentary

Separately Managed Account



written by

Robert C. Doll, CFA® Chief Investment Officer

Equity Market Neutral 10 Long Model Holdings [1]

Holding	Weight
Cirrus Logic, Inc.	1.2%
Intuit, Inc.	1.2%
Gartner Group, Inc.	1.2%
CVS Caremark Corp.	1.2%
Prologis, Inc.	1.2%
CBRE Group, Inc.	1.2%
Anthem, Inc.	1.2%
Jones Lang LaSalle, Inc.	1.2%
Brunswick Corp.	1.1%
Intel Corp.	1.1%

% of Total Portfolio: 11.8%

10 Short Model Holdings [1]

Holding	Weight
Boeing Co.	-1.1%
RPM, Inc.	-1.1%
Madison Square Garden Co.	-1.1%
Upstart Holdings, Inc.	-1.1%
Atmos Energy Corp.	-1.1%
Tripadvisor Inc.	-1.1%
Medical Properties Trust, Inc.	-1.1%
TransDigm Group, Inc.	-1.1%
Penn National Gaming, Inc.	-1.1%
OGE Energy Corp.	-1.1%

% of Total Portfolio: -11.0%

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Markets and Performance

U.S. equities were up in 2021 for a third straight year. The most significant tailwinds came from "pedal to the metal" monetary and fiscal policies. Earnings exceeded expectations by a record amount driven by solid revenue growth and further profit margin improvement. Additional stock market positives included strong consumer and corporate balance sheets, strong retail demand for stocks, and T.I.N.A. (there is no alternative!) and F.O.M.O. (fear of missing out) dynamics. Headwinds included the ongoing pandemic and new variants, supply chain constraints, a significant increase in inflation, a Fed policy pivot, and stretched valuations. The U.S. economy grew at the fastest pace since 1984, with real GDP estimates at 5.5%. In the November report, unemployment fell to 4.2%, with average hourly earnings up 3.5% through eleven months. However, the CPI rose 6.8% over the last twelve months (with core inflation up 4.9%), the highest readings in nearly 40 years. Other economic measures such as industrial production, consumer confidence, ISM manufacturing and services, and housing were strong. Within equities, growth outperformed value, and large stocks outperformed small. The Equity Market Neutral Strategy has had an excellent start. Commencing on June 30, the model portfolio returned 11.54%, outperforming its benchmark (90-day T-bills) by 11.52%.

Positive and Negative Contributors to Performance

We will attempt to add value on both the long and short sides of the strategy and believe so far, we have succeeded. The model portfolio had a strong start, with the short side of the portfolio contributing more than 200 basis points of return and the long side more than 100 basis points of return in the first six weeks of existence. In particular, healthcare, technology, and REITs added value on the long side, and consumer discretionary, technology, industrials, and healthcare contributed on the short side. While both longs and shorts have aided performance, the largest contributor has been severe underperformance of high price/earnings, fundamental mixed, and weaker, shorted names.

Looking Ahead

It will be difficult for companies to sustain year-end 2021 profitability levels as revenue growth slows in the coming quarters. That said, some of the headwinds to margins from moderating top-line growth could be offset by declining shipping and raw materials input costs, as bottlenecks begin to gradually ease in response to stepped-up efforts by policymakers to resolve logistical logjams. Sectors with relatively higher labor intensity and/or facing heightened competitive pressures will remain at greater risk of margin compression. However, significant erosion in aggregate net profit margins is unlikely if nominal economic growth remains moderately strong and keeps corporate revenues expanding at a healthy pace. The environment of rising interest rates and cyclical tailwinds has created significant stock selection opportunities. Our beta model remains modestly positive, although the decline in the growth rate of the money supply will likely cause the Strategy to become more cautious in the months to come.

SMALL CAP GROWTH

Commentary

Separately Managed Account

written by

Brent Lium, CFA® Managing Director – Head of Equity Investments

Small Cap Growth Top 10 Model Holdings [1]

Holding	%
National Storage Affiliates, Inc.	2.6%
DigitalBridge Group, Inc.	2.2%
Federal Agricultural Mtg Corp.	2.2%
Qualys, Inc.	2.0%
Clearway Energy, Inc.	1.8%
Sensient Technologies Corp.	1.8%
TechTarget, Inc.	1.7%
Simpson Manufacturing Co.	1.7%
Choice Hotels International, Inc.	1.7%
Fulton Financial Corp.	1.6%

% of Total Portfolio: 19.3%

Markets and Performance

The small cap market was somewhat volatile during the fourth quarter of 2021. At one point in November, small cap stocks were up almost 10%, only to fade and finish the quarter up a little more than 2%. The market retreated on Omicron fears and a less dovish Federal Reserve meeting. The Small Cap Growth model portfolio returned 2.52% for the fourth quarter of 2021, outperforming the Russell 2000 by 40 basis points.

Positive and Negative Contributors to Performance

The top contributors to the outperformance of the model portfolio during the period were National Storage (2.6% of total net assets), up 32.01%, Trupanion (1.3% of total net assets), up 69.99%, and DigitalBridge (2.2% of total net assets), up 9.75%. National Storage, a self-storage real estate investment trust (REIT), and DigitalBridge, a REIT focused on digital infrastructure like data centers, performed well because each is viewed as a good inflation hedges. REITs typically can raise rents to offset inflation, while debt payments (one of their biggest costs) don't increase as fast. Trupanion, a leading pet health insurance company, announced a partnership with Chewy.com to launch exclusive pet insurance products to Chewy.com's 20+ million members.

The worst contributors to performance of the model portfolio during the period were Reata Pharmaceuticals (0.2% of total net assets), down 73.79%, NeoGenomics (1.0% of total net assets), down 29.27%, and HealthyEquity (1.2% of total net assets), down 31.69%. Reata, a biotech company, held a meeting with the FDA on one of its drug candidates. Reports suggested the FDA might not approve the drug in February as the market had expected. NeoGenomics, a genetic testing company, had a disappointing quarter and lowered expectations for revenue growth for the year. HealthEquity, a leader in account services for HSA, FSA, and 401k plans, provided lower than expected revenue growth rates for 2022, which disappointed investors.

Looking Ahead

We expect the market to be more volatile as we move past the COVID-19 recovery phase. In our opinion, the economy should remain strong but will slow relative to the recovery pace. A slowing economy combined with the Fed moving into a less accommodative phase (and eventually a tightening phase) will likely create a volatile market. That makes it more important to focus on our key investment pillars of companies – visible and durable growth trends, proven business models, and healthy balance sheets.

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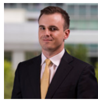
ISRAEL IMPACT
Commentary

Separately Managed Account



written by
Ryan Caylor, CFA® Portfolio Manager – Head of Research

Israel Impact Top 10 Model Holdings [1]

Apple, Inc.	7.1%
Microsoft Corp.	6.7%
Alphabet Class A	4.7%
Amazon.com, Inc.	3.8%
Berkshire Hathaway, Inc.	2.4%
Facebook, Inc.	2.3%
Tesla Motors, Inc.	2.2%
Nvidia Corp.	2.1%
JP Morgan Chase & Co.	2.1%
Procter & Gamble	2.0%

% of Total Portfolio: 35.4%

[1] Model Portfolios are based on a hypothetical account managed during the current quarter. Actual characteristics and income may differ materially from model. As of 12/31/2021.

Markets and Performance

For the fourth quarter of 2021, the total return for the Israel Impact model portfolio was 9.73%, trailing its benchmark (the S&P 500 Index) by -1.29%. For the calendar year 2021, the returned 27.53% vs. 28.68% for the S&P 500, representing -115 basis points (bps) of tracking error relative to the benchmark. Given the current composition of the S&P 500, we target a range between +/-140 bps to +/-180 bps of estimated tracking error on an annual basis. While we'll be the first to admit that outperformance is always better than underperformance (even for an indexed-type product), the Model's 2021 actual tracking error (-115 bps) was well within our expected target range.

Positive and Negative Contributors to Performance

As a strategy refresher, the Israel Impact Strategy is a thematic indexed product that provides U.S. Large Cap equity exposure and a risk/return profile similar to its U.S. Large Cap benchmark. To do this, we invest in U.S. companies that are proactively and positively engaged with the Israeli economy. Positive engagement must be recent and/or ongoing and includes direct investment, local partnerships, research and development, private acquisitions, and/or continued employment. We have partnered with a third-party research firm in Tel Aviv to assist on an ongoing basis in identifying publicly traded U.S. companies that meet the above Israeli engagement criteria. We also conduct our internal research to corroborate and verify external research while conducting our internal due diligence on prospective company additions and deletions to the portfolio.

Ever since Tesla was added to the S&P 500 Index in December 2020, one of the biggest drivers of tracking error for the portfolio (both positive and negative) has been the absence of Tesla in the portfolio. At the time of joining the benchmark, Tesla did not meet our strict criteria for inclusion. While the company was planning to enter the Israeli Electric Vehicle (E.V.) and EV-charging station market, we were in "sit and wait" mode. By the time the fourth quarter of 2021 came around, Tesla had already delivered 5,280 Model-3 EVs to Israeli consumers, representing a 60% market share of all E.V. sales in Israel through November 2021. Additionally, sales of Tesla's Model Y crossover E.V. will likely begin in Israel in the first quarter of 2022. Furthermore, by November 2021, Tesla had already put six Superchargers (very quick E.V. charging stations) into service throughout Israel, with six more under construction and expected to go into service in the first half of 2022.

By early December, while Tesla was not yet added to the list of eligible companies compiled by our third-party research provider, it became nearly impossible to deny the materiality of Tesla's engagement with the Israeli economy. As such, we added TSLA to the portfolio (at an equal weighting relative to our benchmark, as of 12/31/21 was 2.2% of total net assets) during the first week of December. Doing so also allowed us to drop nine less-engaged names from the model (bringing the total portfolio holdings to 103), which reduced estimated tracking error from +/- 180 bps (the top of our target range) to +/- 145 bps (close to the low end of our target range).

Looking Ahead

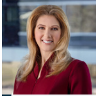
As always, we will continue to closely monitor the portfolio holdings and benchmark holdings to ensure we provide the strongest subset of U.S. companies involved in the Israeli economy as possible.

TAXABLE FIXED INCOME

Separately Managed Accounts

(Core Fixed Income, Corporate Fixed Income, Current Income Portfolio, Intermediate Fixed Income and Income Opportunities)

Commentary



written by
Victoria Fernandez, CFA® Chief Market Strategist

Markets and Performance

Over the last two quarters, we believed that growth and increased inflation expectations would push the longer end of the yield curve higher, matching or slightly surpassing the high of the year back on March 31 when the U.S. 10-year Treasury yield closed at 1.74%. We neared that level in October with a close of around 1.70%, but otherwise, it has been mostly a downward trend for yields further out the Treasury curve from the March level. Although no one explanation is provided, a combination of new COVID variants, concern over global growth, negative global sovereign yields, and periods of short covering on Treasury notes all added to the push longer-term yields lower. With the change in expectation that the Federal Reserve would end tapering sooner than expected, and rate hikes might begin as soon as the first quarter of 2022, shorter-term yields pushed higher. This resulted in a much flatter curve than investors anticipated for this part of the market cycle. For the year 2021, although sprinkled with volatility, the 10-year Treasury yield moved from 0.91% on January 4 to 1.51% on December 31. With this backdrop, all but one of the taxable fixed income model portfolios continued to outperform their respective indexes year-to-date, with mixed performance across the model portfolios for the quarter due to yield volatility.

Positive and Negative Contributors to Performance

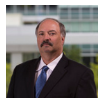
In December, we saw 10-year Treasury yields move higher by 11 basis points. This favored our more conservative approach of a shorter duration positioning within the strategies. The two most consistent positive contributors to performance for all taxable fixed income model portfolios were the effects of duration and income. As yields moved higher late in the quarter, the overall shorter duration positioning worked as a positive contributor to model performance compared to the Index. Just as we witnessed in previous quarters this year, the Treasury allocation for our strategies had a much shorter duration than the Treasury allocation of the indexes. This was the most significant positive contributor to performance. Our overweight to the corporate allocation and the addition of fixed-rate preferreds in some strategies provided a higher level of income generation to the model portfolios compared to the indexes. The income component of total return was one of the most prominent positive contributors for the model portfolios. The negative contributor most consistent across the taxable model portfolios was the yield curve effect. With the Federal Reserve (and other central banks around the world) laying out plans to quicken tapering and raise rates in 2022, the short end of the curve rose dramatically while the longer end of the curve remained more stagnant. This flattening of the yield curve driven by the shorter maturities was a drag on performance for many model portfolios, especially the Corporate Fixed Income model portfolio – the only strategy to lag its benchmark in 2021.

Looking Ahead

As described in our CIO, Bob Doll's Annual 10 Predictions, we anticipate that yields will continue to trend higher to start 2022. In our opinion, the long end of the curve has been mispriced for some time. With volatility predicted to dominate the next few quarters, we need to focus on quality and interest-rate sensitivity for our taxable strategies. Therefore, a shorter duration and investment-grade focus remain appropriate for the near term. As yields approach the 2.0% level (which is getting near the Federal Reserve's terminal rate), our duration positioning will shift to neutral versus the benchmarks.

MUNICIPAL FIXED INCOME
Commentary

Separately Managed Account



written by
Patrick Garboden, Sr. Portfolio Manager

Markets and Performance

Municipal bonds held relatively stable as the U.S. Treasury market sold off at year-end, driving yields on benchmark 10-year tax-exempt debt to the highest level since late March 2021. This move jolted the calm that had cushioned the $4 trillion municipal market for most of the third quarter. After the September Federal Reserve meeting, the breakout in yields led to speculation that policymakers could begin tapering bond purchases in 2022 and raise short-term Fed Funds rates by late 2023. According to Bloomberg, state and local debt maturing in 10 years yielded 67.80% of Treasuries at year-end, compared with 73.20% at the end of the third quarter of 2021. Tax-exempt municipal bonds outperformed all other fixed-income sectors during 2021.

Positive and Negative Contributors to Performance

The Crossmark Municipal Fixed Income model portfolio returned 0.25% for the quarter ending December 31, versus 0.20% for the Bloomberg Quality Intermediate Municipal Bond Index. For the calendar year, the model portfolio returned 0.76% versus 0.33% for the Bloomberg Quality Intermediate Municipal Index. Investing in high-quality credit with a premium coupon positively contributed to the model portfolio's performance because lower-coupon bonds in the Index declined more than premium coupon bonds held in the model due to municipal bond rates moving slightly lower during the fourth quarter. The shorter duration positioning of the Strategy was also a positive contributor to performance last quarter, as concern grew about inflation not being as transitory as expected and the FOMC bond purchase tapering announcement. Investors remained increasingly defensive in the news-heavy quarter. However, the short duration positioning was a slight negative during the fourth quarter as cash flows into municipal bond mutual funds and ETF portfolios supported longer duration municipal bond pricing. Airport and transportation sectors continued to positively contribute to performance as spreads narrowed.

Looking Ahead

According to Federal Reserve data, municipal bond mutual funds now hold an unprecedented 24% of outstanding debt compared with 16% five years ago. Yet the amount of municipal debt held by brokers and dealers has shrunk to $12.1 billion, a 26% drop from 2019. Volatility could increase in 2022 depending on FOMC rate hike decisions, new issuance from a more robust municipal sector, and potential shifts in mutual fund ownership of municipal bonds. Should increasing volatility return to the sector, there could be opportunities to acquire municipal bonds at favorable levels. We continue to find value in the secondary municipal market with bonds rated A or better by Moody's, Standard & Poor's, or Fitch at the time of purchase and involved with essential services like water, sewer, power, streets, highways, public education, and general obligations. Our Strategy focuses on maturities in the seven to 20-year range with call features between 2024 and 2030. The Strategy will continue to utilize shorter duration positioning than the benchmark index, focusing on higher-quality municipalities.

Our Firm

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All Investments are subject to risks, including the possible loss of principal. Past performance does not guarantee future results. The Strategies may not achieve their objectives if the managers' expectations regarding particular securities or markets are not met.

Equity investments generally involve two principal risks—market risk and selection risk. The value of equity securities will rise and fall in response to general market and/or economic conditions (equity market risk). The value of any individual equity security will rise and fall in response to the market's perception of the issuer's revenues, earnings, balance sheet, credit worthiness, business plan, and overall perception of the viability of the issuer's business (selection risk).

Investments in securities of issuers in foreign countries involves additional risks not associated with domestic investments. These risks include, but are not limited to: (1) political and financial instability; (2) currency exchange rate fluctuations; (3) greater price volatility and less liquidity in particular securities and in certain foreign markets; (4) lack of uniform accounting, auditing, and financial reporting standards; (5) less government regulation and supervision of some foreign stock exchanges, brokers and listed companies; (6) delays in transaction settlement in certain foreign markets; (7) less availability of information; and (8) imposition of foreign withholding or other taxes.

Options are not suitable for every investor. Writing call options to generate income and to potentially hedge against market declines by generating option premiums involves risk. These risks include, but are not limited to, potential losses if equity markets or an individual equity security do not move as expected, and the potential for greater losses than if these techniques had not been used. If the market price of a security increases, a call option written against that security limits the gain that can be realized. And, there are significant differences between the securities and options markets that could result in an imperfect correlation between these markets, causing a given transaction not to achieve its objectives.

The Equity Market Neutral Strategy also exposes the investor to short sale risk. An investor's account would incur a loss as a result of a short sale if the price of the security sold short increases in value between the date of the short sale and the date on which the account purchases the security to replace the borrowed security. In addition, the securities sold short may have to be returned to the lender on short notice, which may result in the account having to buy the securities sold short at an unfavorable price to close out a short position. If this occurs, any anticipated gain to the account may be reduced or eliminated, or the short sale may result in a loss.

Small-cap investments may be subject to smaller companies risk. Stocks of smaller, less seasoned companies are generally subject to greater price fluctuations, less liquidity, higher transaction costs, and higher investment risk than those of larger, more seasoned issuers. Smaller companies may have limited product lines, markets, or financial resources, and they may be dependent on a limited management group or lack substantial capital reserves or an established performance record. There is generally less publicly available information about such companies than for larger, more established companies.

Fixed income investments generally involve three principal risks—interest rate risk, credit risk, and liquidity risk. Prices of fixed-income securities rise and fall in response to interest rate changes (interest rate risk). Generally, when interest rates rise, prices of fixed-income securities fall. The longer the duration of the security, the more sensitive the security is to this risk. There is also a risk that the issuer of a note or bond will be unable to pay agreed interest payments and may be unable to repay the principal upon maturity (credit risk). Lower-rated bonds, and bonds with longer final maturities, generally have higher credit risks. As interest rates rise and/or the credit risk associated with a particular issuer changes, bonds held within a portfolio may become difficult to liquidate without realizing a loss (liquidity risk). Many municipal bonds also include call features that allow the issuer to call the bonds—repaying the principal before maturity—usually done in the context of a refinancing transaction if/when interest rates fall. When a bond is called, the holder does not incur a loss, but cash received from the call must be re-deployed, generally in a less favorable interest rate environment (call risk).

Some strategies incorporate values-based screening policies which exclude certain securities issuers from the universe of otherwise available investments. As a result, the strategy may not achieve the same level of performance as it otherwise would have in the absence of the screening process. If the strategy has invested in a company that is later discovered to be in violation of one or more screening criteria and liquidation of an investment in that company is required, selling the securities at issue could result in a loss to the strategy. Further, the strategy's values-based screening policies may prevent the strategy from participating in an otherwise suitable investment opportunity. With respect to Equity Market Neutral, the values-based screening policies apply only to long positions.

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