CROSSMARK GLOBAL INVESTMENTS

QUARTERLY UPDATE: 1Q 2022
ISRAEL IMPACT
COMMENTARY

Separately Managed Account

written by
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Israel Impact
Top 10 Model Holdings[1]

Holding	%
Apple, Inc.	7.3%
Microsoft Corp.	6.4%
Alphabet Class A	4.7%
Amazon.com, Inc.	3.9%
Berkshire Hathaway, Inc.	2.9%
Tesla Motors, Inc.	2.4%
Johnson & Johnson	2.0%
Procter & Gamble	2.0%
NVIDIA Corp.	2.0%
JP Morgan Chase & Co.	1.9%
Total % of Portfolio	**35.5%**

[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 3/31/2022.

Markets and Performance

For the three months ended March 31, 2022, the total return for the Israel Impact model portfolio (the model) was -5.05%, trailing its benchmark (the S&P 500 Index) by -0.447%. Given the current composition of the S&P 500 Index, and using our Barra U.S. Long Term multi-factor risk model, we target a range between +/-140 to +/-180 basis points (bps) of estimated tracking error (also called "Active Risk") to the benchmark on an annual basis. At quarter end, the model portfolio was sitting right at +/- 150 bps of Active Risk. While we'll be the first to admit that outperformance is always better than underperformance (even for an indexed-type product) the model portfolio's actual realized tracking error in the first quarter (-44.7 bps), if annualized, was a bit more than we would like, but still within our expected target range.

Positive and Negative Contributors to Performance

Usually this would be cause for, at minimum, a rebalance and re-optimization of the portfolio and a fresh reconsideration of the candidates for inclusion to the investible universe. However, when looking at the sector performance of the S&P 500, one would notice that just 2 sectors had positive performance in Q1 2022: Energy and Utilities. And unfortunately, these two sectors represent the most underweight sectors in the portfolio. As such, Energy and Utilities detracted a combined -90 basis points from relative performance this quarter, equivalent to two times the realized tracking error for the quarter (-44.7 bps). As explained below, this reality will continue to be a "bug" of the Strategy when Energy/Utilities outperform, but a "feature" when these sectors underperform the broader benchmark.

Utilities – Given the geographical constraints to a U.S. utility's rate base means that there is unlikely to be material investment by U.S. utilities in Israel on a go-forward basis. But not impossible.

Energy – The bigger potential headwind is in Energy, however, should the Russian invasion of Ukraine spur the energy crisis / commodity super-cycle that some are warning about. The model portfolio owns the only Energy company with material, recent (and ongoing) involvement in Israel: Chevron (1.7% of model net assets) which returned 40.2% in Q1. While Chevron is a Top 10 holding in terms of Active overweight (+0.9%) relative to the Benchmark and the biggest contributor to both absolute and relative performance this quarter, the fact remains that the portfolio is still ~220 bps underweight the Energy sector as a whole. If we were to bump up our Chevron holding by +220 bps so that the model is equal weight the Energy sector, the Active Risk of the model portfolio would decrease some. But, we would then be materially transforming the underlying composition of the "Active Risk" of the portfolio by transferring risk away from industry risk and toward idiosyncratic single-stock selection risk. And that would not be prudent from a portfolio and risk management perspective for this Strategy.

Looking Ahead
As such, unless more U.S. large cap energy and utility companies decide to invest in Israel (and they definitely should!), the energy and utility under-exposure of the model portfolio will likely be a drag on relative performance ("bug") when Energy and Utilities outperform. However, the inverse would likely also be true when Energy and Utilities underperform the broader S&P 500 ("feature").

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