CROSSMARK
GLOBAL INVESTMENTS

ISRAEL IMPACT

COMMENTARY | QUARTERLY UPDATE: 3Q 2022

Separately Managed Account

written by

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Top 10 Crossmark Israel Impact Model Account Holdings[1]	
Apple, Inc.	7.4%
Microsoft Corp.	6.3%
Alphabet Class A	4.2%
Amazon.com, Inc.	3.4%
Berkshire Hathaway, Inc.	2.6%
Coca Cola Co.	2.3%
Johnson & Johnson	2.3%
Tesla Motors, Inc.	2.3%
Chevron Corp.	2.3%
Procter & Gamble	2.2%
Total % of Portfolio	**35.3%**

Markets and Performance

For the three months ended September 30, 2022, the Israel Impact model portfolio (the Model) underperformed its benchmark (the S&P 500 Index) by -1.60% returning -6.49% and -4.89%, respectively. 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 of estimated tracking error (also called “Active Risk”) to the benchmark on an annual basis. As of September 30, 2022, the model portfolio was sitting at +/- 175 bps of “Active Risk”, which is the higher end of the target range. We’ll be the first to admit that outperformance is always better than underperformance (even for an indexed-type product) and the model’s actual realized tracking error YTD through September 2022 (-198 bps) is less than ideal – not to mention, slightly higher than our target “Active Risk” band.

Positive and Negative Contributors to Performance

It was once again a rough quarter for the model portfolio, for the stock market, for bonds, for basically everything except cash. However, there were positive contributors to performance based on allocation. Sectors contributing the most to relative quarterly performance against the S&P 500 were real estate (underweight) with the addition of the our first real estate company (SPG), materials (underweight), and health care (overweight). Sectors detracting most from relative performance were communication services (overweight), financials (underweight), and technology (overweight).

Equity holdings contributing the most to relative quarterly performance were Regeneron (REGN, 1.2% of average total net assets), Walmart (WMT, 1.5% of total net assets), and Chevron (CVX, 2.3% of total net assets). Equity holdings detracting the most from relative performance were Verizon (VZ, 1.2% of total net assets), AT&T (T, 0.9% of total net assets) and FedEx (FDX, 0.4% of total net assets).

The model portfolio continues to be most underweight utilities, real estate, and energy. We recently made some changes to the portfolio holdings in early August – dropping names with waning involvement in Israel like AbbVie (ABBV), Danaher (DHR), and Pfizer (PFE) and adding companies with more recent and material engagements like Kraft-Heinz (KHC) (0.4% of total net assets), Mastercard (MA) (1.1% of total net assets), YUM Brands (YUM) (0.8% of total net assets), and Simon Property Group (SPG) (0.6% of total net assets). All-in, the portfolio went from 105 names to 99 names currently. With continued volatility in the markets, we are actively considering further changes to right-size the portfolio for the uncertain times ahead.

[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 9/30/2022.

Looking Ahead

As a reminder, the Israel Impact model portfolio is a thematic indexed product that provides U.S. Large Cap equity exposure and a risk/return profile similar to that of its U.S. Large Cap benchmark. What differentiates Israel Impact from other U.S. Large Cap indexed portfolios is that we only 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 things like direct investment, local partnerships, research & development, private acquisitions, and/or ongoing employment. We've partnered with a 3rd party research firm in Tel Aviv to assist us on an ongoing basis in sourcing publicly traded U.S. companies that meet the above Israeli engagement criteria. We also do our own due diligence to corroborate and verify the 3rd party's findings, while conducting our own internal research on prospective company additions and deletions to the portfolio. As it relates to portfolio construction, we leverage the same exact fundamental multi-factor risk model and optimization processes that we've used to manage custom institutional equity indexation portfolios and indexed mutual fund portfolios at Crossmark for the past 30 years.

Our Firm

Crossmark Global Investments is a faith-based firm that creates, manages, and distributes values-based investment strategies that equip financial intermediaries and their clients to align their wealth with their passions and convictions. For over 30 years, the firm has delivered uniquely constructed products based on its proprietary, disciplined, and repeatable process. Founded in 1987, the firm is headquartered in Houston, Texas. For more information visit: www.crossmarkglobal.com.

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