

ISRAEL IMPACT COMMENTARY | QUARTERLY UPDATE: 3Q 2022

Separately Managed Account



written by
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Top 10 Crossmark Israel Impact Model Account Holdings¹

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

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All Investments are subject to risks, including the possible loss of principal. Past performance does not guarantee future results. The Israel Impact strategy may not achieve its objective 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).

The strategy's 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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