COMMUNITY CAPITAL MANAGEMENT
Impact Investing Since 1999

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Research Highlights

CCM Investment Team

MARKET COMMENTARY

The equity markets continued their rally, generating positive returns in each month of the second quarter. In total, the S&P 500 posted a 3.09% total return for the quarter and closed at an all-time high in the month of June. The rally in equities was led by strong corporate earnings despite mixed economic data.

As anticipated, the Federal Reserve raised the targeted Federal Funds rate to 1% to 1.25% in June. Despite the rate hike, the yield curve flattened, leaving longer term interest rates lower, while shorter term rates increased. The Bloomberg Barclays U.S. Aggregate posted a 1.45% return led by the Corporate Investment Grade sector which returned 2.54% for the quarter. With yields dropping on the long end of the yield curve, longer duration securities outperformed. In addition, spreads on corporate bonds tightened in, contributing to the sector's outperformance.

Commodity and currency markets were mixed during the quarter. Despite an extension from OPEC members to continue production cuts, crude prices continued to decline down 10.88% during the quarter (as measured by West Texas Intermediate or WTI). The U.S. Dollar had mixed performance against a basket of major currencies, while precious metals were down, with spot gold down 0.61% and spot silver down 8.94%.

Treasury Yield Curve

DATA 1Q 2017 and 2Q 2017 | SOURCE: BLOOMBERG

2Q 2017 Commentary

CRA Qualified Investment Fund

PORTFOLIO COMMENTARY

In the second quarter of 2017, the CRA Qualified Investment Fund CRA Shares (CRAIX), Institutional Shares (CRANX) and Retail Shares (CRATX) returned 1.10%, 1.31% and 1.13%, respectively, on a net of fees basis, underperforming the Bloomberg Barclays U.S. Aggregate Bond Index ("Benchmark") return of 1.45%.

The Fund's largest sector, agency commercial mortgage-backed securities (CMBS) returned 1.34%, outperforming the U.S. Government subsector return of 1.17%. The outperformance of swaps relative to U.S. Treasuries (agency CMBS are priced off swaps) coupled with product spread tightening were the main contributors to the outperformance.

The Fund's second largest sector, single family agency mortgage-backed securities, returned 1.08% in the quarter, outperforming the U.S. MBS sector return of 0.87%. The sector's slower prepayments and greater allocation to 30-year conventional MBS, which was the best performing sub-type during the quarter, were the two main reasons the sector outperformed on a relative basis.

The third major sector in the Fund, taxable municipal bonds, underperformed the U.S. Credit sector, returning 1.71% compared to 2.35%. The Fund's taxable municipal profile of shorter duration, higher credit quality, and lower income, along with corporate spread tightening (compared to the Fund's muni spread widening) were the two main reasons for the relative underperformance.

As of June 30, 2017, the Fund's Yield-to-Worst (YTW) is 2.82% above the Benchmark's YTW of 2.55% and it exhibited 17% shorter duration (interest rate risk) to the Benchmark. We feel the Fund is fundamentally well positioned given its lower duration compared to the Benchmark and its higher concentration in agency and government guaranteed securities. The portfolio management team does not anticipate any changes to its current asset allocation weightings.

2Q 2017 Commentary

CCM Alternative Income Fund

PORTFOLIO COMMENTARY

The Community Capital Alternative Income Fund (CCMNX) returned -0.77% during the second quarter including 1.38% of dividends. Year-to-date, the Fund returned 2.25% with 2.35% of distributed income.

We were not happy with the second quarter as we are never happy with any drawdown. Our fixed income portfolio, including both our taxable municipals and our corporate credit, generated stable income but little price improvement. Unfortunately, our equity portfolio gave up some of the first quarter's gains.

We are now quite accustomed to growth shares outperforming value shares and those growth shares driving equity indices.[1] We look to make money with that backdrop as we did in the first quarter. A more difficult backdrop, however, is when that outperformance involves value equities trading down while growth equities surge higher as they did in April and May. In those months, we found the Fund's long investments remained flat or traded down even in the face of positive fundamental performance while growth shares continued to drive index shorts against us. That trend reversed a little in June allowing for some recovery of losses, but not all.

As we have said ad nauseam, we are confident that if we get the fundamentals right and invest at attractive relative and absolute yields, our portfolio will perform quite well over time. Lately, and particularly this year, we have seen valuations remain rather stagnant for value equities whereas those of growth continue to march ever higher. The following charts illustrate how this valuation gap is close to its highs of the past 15 years with an increase this calendar year.

> **"Affairs are easier of entrance than of exit; and it is but common prudence to see our way out before we venture in."**
>
> \- AESOP

[1] *As measured by the S&P 500 Growth Index (up 8.52%) and the S&P Value Index (up 3.28%).*

Price/Earnings Premium of S&P 500 Growth Index vs. S&P 500 Value Index

DATA AS OF 6/30/17 | SOURCE: BLOOMBERG

Perhaps more important, while growth shares have outperformed their "value" brethren, they have also outperformed their own earnings.

Share Price of S&P Growth Index (Green Line) vs. Earnings/Share (Yellow Line)

DATA AS OF 6/30/17 | SOURCE: BLOOMBERG

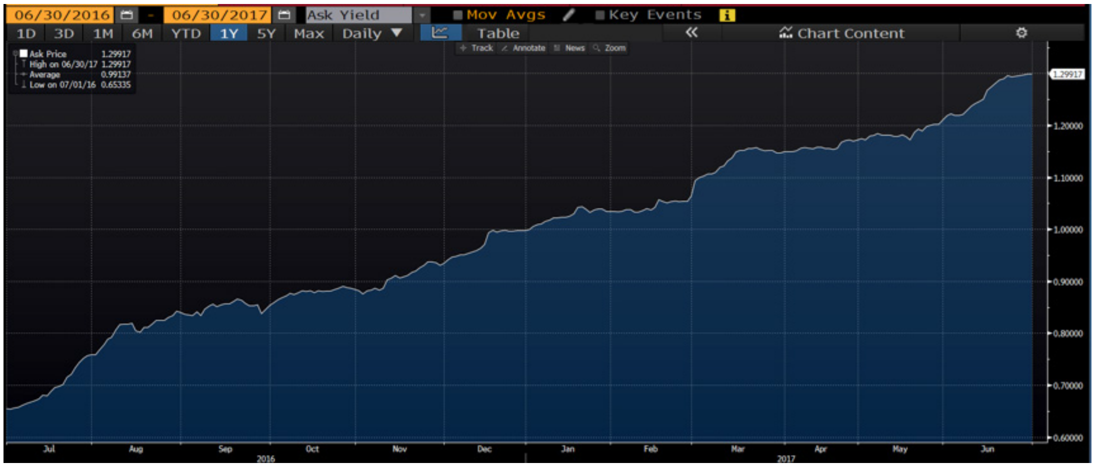
Since the beginning of 2014 when the two lines above crossed, earnings per share of the growth index have grown 14.4% while the share price has appreciated 38.5%. Earnings growth lagging the price appreciation has been particularly acute this calendar year, 3.7% vs 12.4%, respectively.

There are several possible reasons for this multiple expansion: fund flows into Exchange-Traded Funds (ETF's) and other valuation-agnostic passive investing vehicles; expectations of future profit growth; and new products or paradigm shifts. Strangely, however, low interest rates and accommodative U.S. monetary policy are never far behind as cited reasons for the markets' rise and high multiples.

We say "strangely" because both of those parties seem poised to end. While many pundits point to the rally in 10-year Treasury yield back below 2.4% during the second quarter, they seem to ignore that 3-month London Interbank Offered Rate (LIBOR) has risen steadily all year to 1.3% at quarter end.

3-month LIBOR

DATA FROM 6/30/16 - 6/30/17 | SOURCE: BLOOMBERG



Moreover, the U.S. Federal Reserve is now openly discussing timing and pace of shrinking its balance sheet. We have pointed out in the past the relatively tight correlation between the U.S. Federal Reserve balance sheet and the S&P 500. Again, there has been a disconnect particularly this calendar year.

U.S. Federal Reserve Balance Sheet (white line, right axis) vs. S&P 500 Index (yellow line, left axis)

DATA FROM 6/30/12 - 6/30/17 | SOURCE: BLOOMBERG

Other central banks are still easing but at least are also discussing the process for ending their manipulations. Already, the negative yields we bemoaned in the past have steadily disappeared worldwide except for Switzerland. To the extent people are expecting longer dates U.S. rates to be anchored by other central banks, that thesis might be tenuous.

In any event, shorter-term rates such as LIBOR seem to have marched higher regardless of what longer-term rates do. Curiously, though, several investment opportunities such as commercial mortgage Real Estate Investment Trusts (REITs) and fixed-to-floating preferred shares, that typically benefit from higher short-term rates, have not rallied. We have been increasing our holdings of these securities and enjoyed their generous yields as well as their credit and rate risk perspectives.

CONCLUSION

We think the remainder of 2017 could be quite eventful. It is possible that at some point in the next few months, we see the U.S. Federal Reserve, the European Central Bank, and the Bank of Japan either exiting quantitative easing policies or discussing the timing of such. It is not a forgone conclusion that shrinking central bank balance sheets (or at least cessation of growth) will lead inexorably to higher long-term rates but it is a good guess.

We are curious what level of interest rates makes investors reconsider holding various asset classes at historically high prices. Even if the U.S. 10-year Treasury cannot hold above 2.50%, do minds change if T-bills' yield exceeds 1.5% or the 2-year Treasury approaches 2%? Surely there are levels where attitudes towards risk change and exits matter.

Disclosures

Index returns do not reflect any fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

As of 6/30/17, the average annual returns for CRAIX for 1-year, 5-year, 10-year and since inception (8/30/1999) were -0.84%; 1.22%; 3.40%; and 4.13%. The average annual returns for CRANX for 1-year, 5-year, 10-year and since CRANX inception (3/2/2007) were -0.40%; 1.68%; 3.86%; and 3.65%. The average annual returns for CRATX for the same periods were -0.84%; 1.33%; 3.49% and 3.29%. As of 6/30/17, the 30-Day SEC yield for the CRA Shares, Institutional Shares, and Retail Shares was 2.02%, 2.47%, and 2.12% respectively. As of 6/30/17, CCMNX one-year performance is 5.62% and since inception (5/31/13) is 2.45%. Performance quoted is past performance and does not guarantee future results. Current performance may be lower or higher than the performance data quoted. An investor's investment return and principal value will fluctuate so that your shares, when redeemed, may be worth more or less than your initial cost. To obtain the most recent month-end performance, call 877-272-1977. The annual operating expenses for the CRA Qualified Investment Fund's CRA Shares, Institutional Shares, and Retail Shares is 0.91%; 0.46% and 0.81% respectively. For CCMNX, performance reflects fee waivers, which if not in effect, would have decreased performance. The total annual fund operating expenses is 2.83%. The net expense ratio is 2.76%. The total annual operating expense after fee waivers and expense reimbursements (other than acquired fund fees and expenses and dividend expense and prime broker fees on securities sold short) is 1.60%. Waivers are contractual and in effect until 9/30/17.

This material must be preceded or accompanied by the current Fund prospectuses. Please read them carefully before investing.

The Funds' are distributed by SEI Investments Distribution Co., which is not affiliated with Community Capital Management, Inc.

Investing involves risk, including possible loss of principal. Bonds and bond funds will decrease in value as interest rates rise. The CRA Qualified Investment Fund is not diversified. High yield bonds involve greater risks of default or downgrade and are more volatile than investment grade securities, due to the speculative nature of their investments. The CCM Alternative Income Fund uses investment techniques that are different from the risks ordinarily associated with equity investments. Such techniques and strategies include hedging risks, merger arbitrage risks, derivative risks, short sale risks, leverage risks, commodities risk, and foreign investment risks, which may increase volatility and may increase costs and lower performance. Commodities can be highly volatile and the use of leverage may accelerate the velocity of potential losses. There is no guarantee the investment objective or goals of the Funds' will be achieved.

S&P 500 Growth Index/S&P 500 Value Index: S&P Dow Jones Indices measures growth stocks using three factors: sales growth, the ratio of earnings change to price, and momentum. S&P Style Indices divide the complete market capitalization of each parent index into growth and value segments. Constituents are drawn from the S&P 500®.