COMMUNITY CAPITAL MANAGEMENT
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TODD COHEN
CHIEF INVESTMENT OFFICER

ANDY KAUFMAN
SENIOR PORTFOLIO MANAGER

ELLIOT GILFARB, CFA
SENIOR PORTFOLIO MANAGER

JULIE EGAN
PORTFOLIO MANAGER

DAVID SAND
CHIEF IMPACT INVESTMENT STRATEGIST

JESSICA BOTELHO
DIRECTOR OF CRA AND IMPACT RESEARCH

Research Highlights

CCM Investment Team

MARKET COMMENTARY

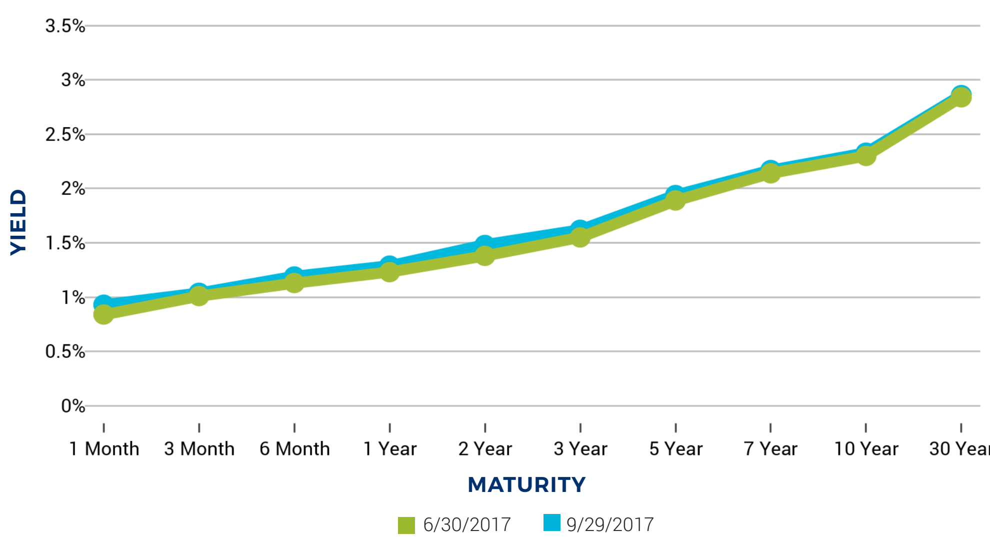
The fixed income markets broadly posted positive returns during the 3rd quarter, with the Bloomberg Barclays Aggregate Index returning 0.85%. Lower rated fixed income assets outperformed higher quality debt, as the need for yield and income continued. The Bloomberg Barclays US Corporate High Yield Index returned 1.98% for the quarter, outperforming the Bloomberg Barclays Agg which is composed of investment grade bonds. Investment grade corporate bonds, as measured by the Bloomberg Barclays US Corporate Index, returned 1.34% as corporate spreads tightened by 8 basis points; BAA rated debt in the Bloomberg Barclays Aggregate returned 1.63% versus AAA rated debt of 0.63%.[1]

A detractor to bond market returns was a flattening yield curve, driven mainly by the Federal Reserve's (the "Fed") remarks of another potential rate hike before year end. For the quarter, the 10-year and 30-year rates increased by 3 bps, with a greater increase in rates being seen on the shorter end of the curve (1-month to 3-year). As of quarter end, the 2-year yield was 1.47% and the 10-year yield was 2.33%.

The Fed announced it will start to reduce the size of its nearly $4.5 trillion balance sheet by scaling back the reinvestment of principal payments from agency debt, mortgage-backed securities, and Treasury securities held in the System Open Market Account. The systematic and gradual decrease in principal reinvestments is intended to smooth potential impacts on the fixed income markets.

Treasury Yield Curve

DATA 2Q 2017 and 3Q 2017 | SOURCE: BLOOMBERG



[1] Ratings are typically measured from Aaa (highest) to C (lowest).

Equity markets continued to trend higher with positive returns in all three months for the quarter, with the S&P 500 posting a 4.48% total return. The S&P 500 experienced nine new highs during third quarter, driven mainly by stronger than expected earnings numbers and a surprise in revenue forecast beats versus Wall Street consensus. Small cap stocks, as measured by the Russell 2000 Index, returned 5.68% in the quarter. Global equity markets posted positive returns with the MSCI Emerging Market Index up 8.04% and MSCI Europe index up 6.49%.

Fundamental economic data released during the quarter was mixed as the United States experienced two major hurricanes in Texas and Florida. Damages are expected to be significant and short-term effects to economic activity, labor markets and business and consumer behavior should be strained. Consumer Price Index (CPI) continued to be below the Federal Reserve's 2% benchmark at 1.9% yearly change as of August 2017. The Unemployment rate improved to 4.3% in July and increased slightly to 4.4% in August. The Labor Department job's report surprised many in July with 209,000 jobs added, while the month of August underwhelmed adding only 156,000 jobs vs. the estimated 180,000. Durable goods new orders were up 5% year-over-year (y-o-y) compared to a 2.2% y-o-y increase last August.

3Q 2017 Commentary

Core Fixed Income Composite

PORTFOLIO COMMENTARY

In the third quarter of 2017, the Composite returned 0.72% (gross of fees) and 0.64% (net of fees), underperforming the Bloomberg Barclays U.S. Aggregate Bond Index ("Benchmark") return of 0.85%.

The Composite's largest sector, agency commercial mortgage-backed securities (CMBS), returned 0.62%, outperforming the U.S. Government subsector return of 0.38%. The higher income profile of the Fund's agency CMBS relative to U.S. Government securities, coupled with product spread tightening, were the main contributors to the outperformance.

The Composite's second largest sector, single family agency mortgage-backed securities, returned 1.02% in the quarter, outperforming the U.S. MBS sector return of 0.96%. The sector's slower prepayments and allocation to 30-year 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 Composite, taxable municipal bonds, underperformed the U.S. Credit sector, returning 1.22% compared to 1.37%. The Fund's taxable municipal profile of shorter duration, higher credit quality, and lower income, were the main reason for the relative underperformance given the continued rally in riskier assets.

The Composite's risk/return data continues to exhibit a superior profile compared to the benchmark. For the 5-year period ending September 30, 2017, the Composite's standard deviation (volatility of monthly returns) is 2.40% versus the benchmark's standard deviation of 2.84%. The Composite's Beta and Alpha is 0.81 and 0.33%, respectively.

As of September 30, 2017, the Composite's Yield-to-Worst (YTW) is 2.83%, above the Benchmark's YTW of 2.55%. We feel the Composite is fundamentally well positioned given its lower duration (interest rate risk) 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.

Disclosures

Data sources: Barclay's Live, Bloomberg PORT, and eVestment Alliance

CCM is an investment adviser registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940.

Bonds and bond funds are subject to interest rate risk and will decline in value as interest rates rise. Past performance does not guarantee future results. This performance report should not be construed as a recommendation to purchase or sell any securities held in composite accounts. Market conditions can vary widely over time and can result in a loss of portfolio value. The results portrayed included the reinvestment of dividends, interests and other earnings. The index information presented herein does not reflect the impact of fees; you cannot invest directly in an index.

Gross returns in this presentation do not include effect of management fees. If included, returns would be lower. Gross returns will be reduced by management fees. For example, a 1% annual fee from an account with a ten-year annualized growth rate of 10% will produce a net result of 8.95%. Actual performance results may vary from this example. Sector attribution is presented on a gross only basis and does not reflect the deduction of management fees. For a more detailed description of fees and expenses, see Form ADV Part 2A.

As of 9/30/17, the average annual gross returns for the Intermediate Fixed Income Composite for 1-year, 5-year, 10-year and since inception (8/30/99) were 0.50%; 2.00%; 4.20%; and 5.10%. As of 9/30/17, the average annual net returns for the Intermediate Fixed Income Composite for 1-year, 5-year, 10-year and since inception (8/30/99) were 0.01%; 1.65%; 3.86%; and 4.68%.