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Research Highlights

CCM Investment Team

MARKET COMMENTARY

While monetary policy has taken center stage for years, it was fiscal policy that defined the fourth quarter of 2017. The successful passage of the Tax Cuts and Jobs Act, which will cut business taxes and change the individual tax codes starting in 2018, was well received by the market and drove interest rates higher as well as equities.

Focusing on the performance and narrative within the fixed income market, the Bloomberg Barclays U.S. Aggregate Bond Index finished the quarter with a positive 0.39% return led by the corporate bond sector. Despite corporate bond spreads starting the quarter at the tightest levels in over a decade, the sector continued to experience strong demand from investors pushing prices higher and spreads tighter. The government bond sector, which is mainly comprised of U.S. Treasury bonds, had a positive 0.05% return, with longer duration U.S. government bonds posting positive quarterly returns while short to intermediate duration bonds posting negative returns. The main driver to the mixed performance within the government bond sector was the Federal Reserve raising the fed funds rates another 25 bps, to 1.5%, causing shorter term securities to drop in price.

Treasury Yield Curve

DATA 3Q 2017 and 4Q 2017 | SOURCE: BLOOMBERG



Total Unemployment/Underemployment

DATA 3Q 2017 and 4Q 2017 | SOURCE: BUREAU OF LABOR STATISTICS



Equity markets in the U.S. proved resilient in their climb to record highs. The S&P 500 posted a return of 6.64% led by the technology and consumer discretionary sectors. The Dow Jones Industrial Average recorded even better returns posting gains of 10.96% during the quarter. The positive returns were fueled by the passage of the new U.S. tax bill which will cut the corporate tax rate to 21% from a previous rate of 35%. Other factors contributing to returns were stronger company fundamentals, growth in earnings, and a U.S. economy which has picked up momentum this year as indicated by multiple economic indicators.

The U.S. economy appears to be on solid footing with GDP greater than 3%. In addition to growth, the job market continued to improve with the unemployment rate, as measured by the Bureau of Labor Statistics, dropping to 4.1% in October and November.

4Q 2017 Commentary

Core Fixed Income Composite

PORTFOLIO COMMENTARY

In the fourth quarter of 2017, the Composite returned 0.13% (gross of fees) and 0.06% (net of fees), underperforming the Bloomberg Barclays U.S. Aggregate Bond Index ("Benchmark") return of 0.39%.

The Composite's largest sector, agency commercial mortgage-backed securities (CMBS), returned -0.07%, underperforming the U.S. Government/Government Related subsector return of 0.06%. The higher income profile of the Fund's agency CMBS relative to U.S. Government securities helped relative returns; however, the composite sector lacks exposure to the long end of the curve, which rallied during the quarter.

The Composite's second largest sector, single family agency mortgage-backed securities, returned 0.23% in the quarter, outperforming the U.S. MBS sector return of 0.15%. The sector's slower prepayments were the main reason the sector outperformed on a relative basis.

The third major sector in the Composite, taxable municipal bonds, underperformed the U.S. Corporate/Muni sector, returning

0.38% compared to 1.15%. The Composite's taxable municipal profile being higher credit quality, lower income, and having less exposure to the long end of the curve, all contributed to the relative underperformance.

The Composite's risk/return data continues to exhibit a higher profile compared to the benchmark. For the 5-year period ending December 31, 2017, the Composite's standard deviation (volatility of monthly returns) is 2.39% versus the benchmark's standard deviation of 2.85%. The Composite's Beta and Alpha is 0.80 and 0.35%, respectively.

As of December 31, 2017, the Composite's Yield-to-Worst (YTW) is 2.93%, above the Benchmark's YTW of 2.71%. 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.

Important Information

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 12/31/17, the average annual gross returns for the Core Fixed Income Composite for 1-year, 5-year, 10-year and since inception (8/30/99) were 3.09%; 2.01%; 3.92%; and 5.04%. As of 12/31/17, the average annual net returns for the Core Fixed Income Composite for 1-year, 5-year, 10-year and since inception (8/30/99) were 2.60%; 1.66%; 3.58%; and 4.63%.

The Dow Jones Industrial Average® (The Dow®), is a price-weighted measure of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.