COMMUNITY CAPITAL MANAGEMENT
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4Q 2018 Commentary

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MARKET COMMENTARY

If nothing else, the fourth quarter proved redeeming for disciplined asset allocators who were finally rewarded for rebalancing their clients' portfolios. Investment-grade bonds reversed course and posted positive results while stocks fell broadly. Despite U.S. economic growth indicators remaining strong, concerns grew about negative trends overseas, particularly in China and Europe, causing equity market sentiment to abruptly flip and end the upward momentum that persisted in the prior two quarters.

Commodities quickly responded to the news, particularly oil prices, which plummeted almost 40% from their October peak. The S&P 500 Index lost over 13%, more-than erasing the impressive gains posted in the first nine months of the year. In classic "risk-off" fashion, the money headed into U.S. Treasuries, pushing the 10-year yield down from its 7-year high in early November of 3.24%, to not far from where it started the year at 2.69%. The Bloomberg Barclays Aggregate Bond Index rose 1.64%, partially offsetting the price declines from earlier in the year. With income proving the reliable contributor to total return, the Index avoided a negative year, posting a flat, yet positive .01% return for 2018.

From the start of the year until early November, yields had increased by 60-100 basis points across the yield curve. In the fourth quarter, the combination of these higher yields and the slightest hint of a potential U.S. economic slowdown was enough to shift the risk/reward equation toward bonds, driving yields down to levels not seen since January. Dynamics within the bond market were also pointing to a cautious outlook. The yield curve was mostly flat coming into the fourth quarter so when the Federal Reserve showed no interest in listening to the signals coming from the equity markets and stated their intentions to move forward with their fourth planned Fed Funds rate rise of the year, the yield curve inverted and the 1-year Treasury yield ended the year higher than the 7-year yield. While investors sought the safety of bonds, they demanded more yield to take on risk, causing spreads to widen across most sectors of the bond market, particularly in lower quality corporate bonds where the BBB segment of the Bloomberg Barclays Aggregate Bond Index declined by 0.9% and the Barclays U.S. Corporate High Yield Index declined by just over 4.5%. Municipal bonds, which remained relatively insulated from the wild swings that Exchange-Traded Funds (ETFs) and quantitative trading have gifted the equity and bond markets, posted an impressive 1.69% return for the quarter.

While the equity markets were down overall for the quarter, the volatility seems to be the bigger story. The October sell-off was severe, but seemingly rational as investors focused their selling on the expensive stocks in cyclical areas of the market that are most vulnerable to slowing global growth. November saw positive results, particularly in the more defensive and less expensive areas of the market. December's grand finale was hardly a holiday bonus. Stocks were sold in an indiscriminate fashion, reminiscent of what we have seen in other periods of massive deleveraging with wild daily swings up until the last trading day of the year. On a brighter note, many of the active managers who led the way in the first nine months of the year maintained their leadership despite the wholesale market sell-off. And with seemingly lower valuations and pricing inefficiencies that so often follow such periods of de-risking, those successful active managers can further expand their 2018 leadership as markets recover.

CRA Qualified Investment Fund

PORTFOLIO COMMENTARY

In the fourth quarter of 2018, the CRA Qualified Investment Fund CRA Shares (CRAIX), Institutional Shares (CRANX) and Retail Shares (CRATX) posted positive returns of 1.59%, 1.71%, and 1.62%, respectively, on a net-of-fees basis. The Intermediate component of the Bloomberg Barclays Aggregate Bond Index ("Benchmark") was up 1.80%

The Fund' largest sector, agency commercial mortgage-backed securities (CMBS), was up 1.89%. On a stand-alone basis, the sector contributed 27 basis points of income return – the Fund generated a total income return of 82 bps. Swap rates rallied across most of the curve and outperformed their Treasury counterparts, which helped relative returns to other agency sectors in the Benchmark. Unfortunately, spreads widened on our Ginnie Mae Project Loan real estate mortgage investment conduit (REMIC) positions.

The Fund's second largest sector, agency mortgage-backed securities (MBS), was up 2.06% during the quarter, underperforming the Benchmark's U.S. MBS sector return of 2.08%. The Fund's MBS generated 6 bps in additional income to the Benchmark. Unfortunately, the relative price return was negative given our underweight allocation to 3% and 3.5% coupons, which were the best performing bonds in the MBS sector during the quarter. Moreover, the Fund generated slightly faster prepayments, which negatively impacted returns.

The third largest sector in the Fund, taxable municipal bonds, was up 1.60%. Most of the performance came from the price return given the rally across the Treasury curve, while income contributed 82 basis points out of the 1.60% total return. Spreads widened across our pass-through municipals having a negative impact to price returns, while paydowns across the pass-through municipals also had a negative impact to performance.

The Benchmark was up 1.80% in December. Treasuries were the best performing major sector in the bond market during the quarter, generating a 2.24% total return. As mentioned above, the MBS sector of the Benchmark was up 2.08% while corporate bonds were only up 0.58% as spreads widened in the space.

As of December 31, 2018, the Fund's Yield-to-Worst (YTW) is 3.47%, higher than the Benchmark's YTW of 3.13% and it exhibited eleven percent longer duration (interest rate risk) to the Benchmark. The portfolio management team does not anticipate any changes to its current asset allocation weightings.

As of 12/31/18, the average annual returns for CRAIX for 1-year, 5-year, 10-year and since inception (8/30/1999) were 0.10%; 1.82%; 2.52%; and 3.83%. The average annual returns for CRANX for 1-year, 5-year, 10-year and since CRANX inception (3/2/2007) were 0.56%; 2.28%; 2.99%; and 3.29%. The average annual returns for CRATX for the same periods were 0.30%; 1.95%; 2.63% and 2.94%. As of 12/31/18, the 30-Day SEC yield for the CRA Shares, Institutional Shares, and Retail Shares was 2.19%, 2.63%, and 2.28% respectively. 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.

CCM Alternative Income Fund

> “Sometimes, when you cage the beast, the beast gets angry.”
>
> \- WOLVERINE created by STAN LEE

PORTFOLIO COMMENTARY

The Community Capital Management Alternative Income Fund (CCMNX) had a loss of 4.27% in the fourth quarter resulting in a negative return of 0.32% for 2018, including distributions of 1.25%.

The fourth quarter was a tumultuous period ending a chaotic year in financial markets. Almost all asset classes save U.S. Treasuries, Gold, and few others saw declines. Even equity indices could not withstand the pressure as they have in years past as some large cap tech stocks fell quite hard.

The CCMNX portfolio seemed to largely outperform other markets for most of the quarter as our hedged approach may have helped to offset weakness in the portfolio, which seemed to be predominately market-related. However, dramatic selling in the last two weeks of the year, particularly in spread-sensitive securities such as high yield bonds, bank loans, preferred shares and – to our modest surprise – utilities and real estate investment trusts (REITS), overwhelmed hedges and caused about 2% of losses for the portfolio.

We say “modest surprise” only because some of these hardest hit investments may be our most defensive ones based on either valuation or industry, or in many cases both. If anything were to hurt the relative attractiveness of these holdings, it would be rising U.S. Treasury rates. But treasury rates fell across the curve in December. Thus, we are left to assume some investors got stuck with margin calls or other forced-selling events, causing them to sell stocks that could easily be sold or hadn’t already experienced heavy losses.

Fortunately, while we find losses at any time mildly annoying – to say the least – we were never worried about permanent impairment of anything in the portfolio. And although we saw some signs of lost momentum in the broader U.S. economy from early 2017’s rather torrid pace, the fundamental backdrop behind the Fund’s long portfolio investments remained quite favorable at year-end. Balance sheets of those investments seem strong and cash flows may not only be robust, they are projected to grow solidly for the foreseeable future in most macroeconomic scenarios.

There was also a bright spot to Q4’s turbulence – large redemptions from ETF’s led to forced selling across portfolios. As a result, we could acquire what we view as high-quality investments at lower prices, where the coupons alone seem to provide extremely acceptable total returns.

That is not to say we are sanguine about markets in general and have loaded up on risk. Despite some large-cap tech high flyers falling as much as 40% from their highs, one is hard-pressed to call them “cheap”. Similarly, we did not delve deeply into high yield or bank loans. We imagine the recent losses in these two normally staid asset classes came as a surprise to many people, but not us.

Years of what may be considered deterioration in credit quality and spread may have created a caged beast of asymmetric risk across much of fixed income. If lost momentum in GDP growth turns into lack of growth, credit deterioration will likely follow in which case the beast might get angry. In that scenario, December’s losses may only be a precursor to a worse environment for most of fixed income. Even the great Stan Lee might have been hard-pressed to create a superhero with the power to fight that menace.

Important Information

The benchmark for the CRA Qualified Investment Fund changed in February 2018 from the Bloomberg Barclays U.S. Aggregate Bond Index to the Bloomberg Barclays Intermediate U.S. Aggregate Index. The sector returns quoted are for the new benchmark.

As of 12/31/18, CCMNX one-year, five-year, and since inception (5/31/13) performance was -0.32%, 2.01%, and 2.22%, respectively. As of 12/31/18, the 30-Day SEC yield and the unsubsidized 30-Day yield for CCMNX are both 6.02% 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. For CCMNX, performance reflects fee waivers, which if not in effect, would have decreased performance. The total annual fund operating expenses is 2.58%. The net expense ratio is 2.44% which is the amount the investor would pay. 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 1.40%. Waivers are contractual and in effect until 9/30/19.

Data sources: Barclays 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.

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. Holdings are subject to change.

The top 10 holdings for CCMNX as of 12/31/18 are: FHA 023-98146 ST. FRANCIS (5.28%), SEB 5 3/4 11/29/49 (3.24%), C 5 7/8 PERP (3.21%), INDEPENDENCE REALTY TRUST (3.18%), JPM 7.9 PERP(3.01%), STARWOOD PROPERTY TRUST I (2.95%), PGIM GLOBAL SH DUR HI YLD(02.87%), AIRCASTLE LTD (2.65%), WASHOE HWY-BABS (2.64%), USDA GRAND PRA 12/1/2047 (2.36%). Holdings are subject to change. Current and future holdings are subject to risk.