# CCM Alternative Income Fund

## About CCM

Community Capital Management, LLC (CCM) was founded in 1998 and is a pioneer in impact and ESG investing. The firm believes a fully integrated portfolio, one that includes impact and environmental, social and governance (ESG) factors, can deliver strong financial performance while simultaneously having positive long-term economic and sustainable outcomes. CCM provides impact and ESG investing solutions coupled with customized reporting to clients on the positive impact outcomes of their investments.

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| **Firm Assets** | $4 Billion |
| **Impact and ESG Experience** | 23 Years |
| **Impact and ESG Initiatives**[1] | $13.5 Billion Invested Nationwide |

## Key Takeaways

- Both the stock market and bond market remained volatile during the quarter.
- The Federal Reserve (the Fed) continued its attempts to curtail inflation, raising interest rates twice and signaling its intent to remain vigilant.
- Credit spreads, while remaining relatively stable during the quarter, are still at levels that would indicate an economic downturn.

## Market Commentary

The third quarter of 2022 remained volatile in both the stock market and bond market. Stocks partially rebounded in July after a difficult second quarter; however, they declined broadly in August and September. The third quarter's 4.88% decline in the S&P 500 Index brought total year-to-date (YTD) losses to 23.9%. With inflation continuing to spook fixed income investors, the bond market posted another negative return for the quarter with the Bloomberg Aggregate Index down 4.75%, making the 14.6% YTD decline the worst drawdown in the Index's 26-year history.

Despite lower inflation expectations going into the third quarter, investors were caught off guard in July when the consumer price index (CPI) rose yet again, up 9.1%, the fastest annual pace since November 1981. However, with the second quarter gross domestic product (GDP) posting another quarter of real economic decline, investors became hopeful that the Fed's actions to curtail inflation, including another 0.75% increase in the federal funds rate in July, were starting to take effect, thus minimizing ongoing aggressive action. This positive sentiment, which buoyed both equity and bond prices during July, was short lived. Inflation failed to materially decline, and economic activity appeared to recover, contributing to another 0.75% increase in the fed funds rate in September and a precipitous decline in stock and bond prices. The broad impact that U.S. interest rate policy has on the global economy combined with inflation and higher interest rates outside of the U.S. negatively impacted economic growth overseas. This led to a flight to the U.S. dollar, which strengthened relative to most currencies. Exacerbating uncertainty were geopolitical fears, including the ongoing Russia/Ukraine war and reduced energy supply to Europe as the northern hemisphere enters its coldest months.

In fixed income, investors remain concerned about the eroding effects of higher inflation and the prospect of even higher interest rates, albeit to a much lesser extent than in the second quarter. Bond mutual funds saw a total of $64 billion in net negative flows from the start of the quarter through Sept 21, bringing the total outflows YTD close to $360 billion, according to estimates from the Investment Company Institute. In fixed income, despite the economic uncertainty from rising interest rates and high inflation, the Bloomberg U.S. High Yield Index held up better than investment grade bonds, declining a mere 0.65% vs. the 5.06% decline in the Bloomberg U.S. Corporate Index. Corporate spreads remain at levels not far from those in mid-2020 when the economy was contracting in the early days of the pandemic. With higher-than-normal spread levels and a further inversion of the yield curve during the quarter, bond investors continue to price in the expectation that economic growth will decline.

In equities, losses were widespread across the globe, particularly outside of the U.S. The MSCI EAFE Index declined by 3% and the MSCI Emerging Markets Index declined by 11.6%, with China getting hit the hardest as the effects of higher interest rates took their toll on the economy and company earnings. Only two of the major market sectors in the S&P 500 Index, energy and consumer discretionary, posted positive returns. The interest rate-sensitive real estate and communications services sectors were the hardest hit, declining 11.0% and 12.7%, respectively. Investors remain skeptical around the outlook for earnings, driving price-to-earnings multiples for all but the largest growth stocks even further below their longer-term averages. While higher costs and the fear of declining revenues are weighing on the minds of stock investors, valuations in certain companies and segments of the market look cheap, even after adjusting for worst case scenarios.

[1] *Impact numbers are approximate figures*

## About the Fund

The Fund's investment objective is to seek to provide (1) a high level of current income consistent with the preservation of capital and (2) reduced correlation to conventional stock and bond markets while considering environmental, social and governance (ESG) factors.

## Portfolio Managers

**Andy Kaufman**
Chief Investment Officer
*Industry Start Date: 2004*
*CCM Portfolio Manager Since 2015*

**Elliot Gilfarb, CFA**
Head of Fixed Income
*Industry Start Date: 2005*
*CCM Portfolio Manager Since 2012*

**Miriam Legrand**
Director of Credit Research / Portfolio Manager
*Industry Start Date: 2001*
*CCM Portfolio Manager Since 2022*

**Thomas Lott**
Portfolio Manager
*Industry Start Date: 1999*
*CCM Portfolio Manager Since 2013*

**Alex Alario, CFA**
Portfolio Manager
*Industry Start Date: 1999*
*CCM Portfolio Manager Since 2013*

**Daniel Caballero**
Junior Portfolio Manager
*Industry Start Date: 2019*
*CCM Portfolio Manager Since 2022*

## Portfolio Commentary

The CCM Alternative Income Fund (the Fund) posted a negative return of 2.10% in the third quarter (net of fees) and had a 30-day SEC Yield of 4.15% at quarter-end. Macroeconomic factors dominated financial markets throughout the third quarter. Commodities reversed course and declined precipitously from their May highs. However, shifting consumer spending habits and excess savings continued to push inflation higher in the third quarter.

Financial markets continue to have unprecedented volatility. Yields on the 10-Year U.S. Treasury continued to move significantly higher, rising to 3.8% from 3.0% by the end of September. The Bloomberg Barclays Global Aggregate Index had another volatile quarter, finishing down 6.9%. Equities also struggled. While a brief short-covering rally occurred in August, that rally was short-lived, and the S&P 500 Index finished the quarter down another 5.28%. The S&P 500 Index fell 23.9% during the first nine months of 2022, which has only been topped by five other calendar years: three years during the Great Depression, 1974, and 2008.

Overall, the Fund held up relatively well in a challenging environment for financial assets. Investors are still dealing with consequences of the Fed being behind the curve on inflation on top of numerous geopolitical risks.

Many drivers of inflation appear close to peaking if they haven't already peaked. During the third quarter, upward changes in indices of a variety of goods and services began to moderate or even fall. Supply chains appear to be finally getting back to normal and inventories are building. There is probably no better example of normalizing supply chains than the decline in container rates from China to the U.S. West Coast. After peaking at nearly $20,000 per Forty Equipment Unit (FEU) at the end of 2021, the Freightos China to U.S. West Coast Index has fallen approximately 76% YTD to just $3,441 per FEU at the end of the third quarter.

The Fed seems to have no intention of slowing down monetary tightening. While several data points signal declining prices, core personal consumption expenditure (PCE) and core consumer price index (CPI) remain stubbornly above the Fed's target. Perhaps this is in part due to lags in CPI and PCE data from the methodologies used to calculate these indices.

The persistently high inflation indices caused the Fed to raise rates 75 basis points in September and amped up its hawkish rhetoric. Powell recently said that higher rates will "bring some pain" to consumers. The Fed's summary of economic projections indicates the committee expects unemployment to increase to 4.4% by year-end 2023 from 3.5% today. It's looking more likely that the efforts to curb inflation are likely to put the U.S. into a recession.

Given the Fed's hawkishness, the portfolio management team has positioned the Fund with the expectation that there is further downside in equity markets and bond market volatility will continue. The most notable move within the portfolio has been that equity exposure has been reduced and the proceeds have been redeployed into short duration investment grade corporate bonds. Despite the opportunities we are seeing in individual stocks, we believe there are better risk/reward opportunities in high-quality, low duration credit. The rise in short-term rates has made corporate bond yields attractive versus historical levels. Simultaneously, the high credit quality and low duration of the bonds in the Fund should result in a lower and more desirable level of volatility than equities. While we expect that the Fund will still participate in equity market upside, the uncertain outlook warrants a reduction in risk via asset class allocation.

As always, the portfolio management team remains diligent in achieving the goals of the Fund while seeking opportunities to generate investor returns through asset class exposure, sector allocation, and security selection. While the team remains highly focused on protecting capital in the current environment, bear markets tend to present opportunities to generate attractive returns in the future, and we will seek to take advantage of that situation if it does arise.

*As of 09/30/2022, CCMNX one-year, five-year, and since inception (5/31/13) performance was -1.04%, 1.50%, and 2.05%, respectively. As of 09/30/22, the 30-Day SEC yield and the unsubsidized 30-Day yield for CCMNX are both 4.15%. 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 888-272-0007. For CCMNX, performance reflects fee waivers, which if not in effect, would have decreased performance. The Advisor has contractually agreed to waive fees and reimburse expenses until September 30, 2023 so that Total Annual Fund Operating Expenses will not exceed 1.85% of the Fund's average daily net assets attributable to Institutional Shares If at any time the Fund's Total Annual Fund Operating Expenses for a year is less than 1.85%, the Advisor may recoup any waived or reimbursed amounts from the Fund within three years from the date on which such waiver or reimbursement was made by the Advisor, provided such reimbursement does not cause the Fund to exceed the expense limitations that were in effect at the time of the waiver or reimbursement.*

*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.*

*Risk Considerations: Investing involves risk, including possible loss of principal. 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.*

*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, LLC.*

*This fund involves impact and ESG Risk. The Adviser may select or exclude securities of certain companies for reasons other than performance and, as a result, the Fund may underperform other funds that do not use an impact and ESG screening process. Impact and ESG investing is qualitative and subjective by nature. There is no guarantee that impact and ESG criteria used by the Adviser will reflect beliefs or values of any particular investor.*

*The top 10 holdings for CCMNX as of 09/30/2022 are: FHA 023-98146 ST. FRANCIS (7.03%), ENVIVA PARTNERS LP (3.61%), WASHOE HWY-BABS (3.46%), USDA GRAND PRA 12/1/2047 (3.33%), USDA RYZE (3.06%), NEXTERA ENERGY (2.80%), GLOBAL X COV CAL (2.62%), MIAMI SPL OBLIG-CAP A (2.51%), NEW JERSEY EDA-A2-TXB (2.11%), UNILEVER PLC-ADR (2.11%). Holdings are subject to change. Current and future holdings are subject to risk.*