COMMUNITY CAPITAL MANAGEMENT

# 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]** | $13.8 Billion Invested Nationwide |

## Key Takeaways

- Both stock and bond markets continued to be volatile during the quarter as the effects of higher interest rates and inflation continued to weigh on economic growth.
- The Federal Reserve (Fed) continued its attempts to curtail inflation, raising interest rates by 0.75% in November and 0.50% in December.
- Credit spreads declined, particularly in the lower credit quality segments of the bond market, highlighting improved investor sentiment and a lower probability of a severe recession.

## Market Commentary

The fourth quarter of 2022 was overall positive in the capital markets, ending a volatile year. Major stock market indices posted mostly positive returns during the quarter even with meaningful volatility and performance dispersion among individual stocks and sectors. Optimism returned to the capital markets in October and November as investors grew more confident that the Fed would start to pare back some of its more aggressive tightening measures. Despite a lower federal funds rate increase in mid-December, the surprisingly stronger third quarter gross domestic product (GDP) increase spooked some investors, reducing their prior confidence that the Fed might curtail its actions, and both stock and credit markets declined during the month. The quarter; however, ended higher with the S&P 500 Index gaining 7.6% and the Russell 2000 up 6.2%. Interest rates moved inconsistently across the yield curve with significant moves higher in the under 2-year segment, slight declines in the belly of the curve, and slight increases in the over 10-year segment. The bond market overall posted its only positive quarterly gain of the year with the Bloomberg Aggregate Index climbing 1.87%. Despite signs of a slowing economy and further inversion of the yield curve, investors overall appear unconcerned about a potential recession given the quarterly gains in stocks and in credit, where the Bloomberg U.S. High yield Index rose by 4.20%. Announcements of job losses toward the end of the quarter, combined with evidence that real wage declines are starting to take their toll on the consumer, all indicate that the economy is set to slow, and inflation to continue its slow progression lower. The real question from here is whether the Fed will be able to orchestrate a "soft landing" where it aptly accomplishes its dual mandate of lowering inflation without causing significant damage to employment.

In fixed income, the large and frequent interest rate moves during the quarter were indicative of the bond market's lack of clarity. Core inflation (as measured by the Core Consumer Price Index) remained stubbornly high in September with its year-over-year increase being the highest in over 40 years. The 10-year U.S. Treasury yield hit a high of 4.25% in October, a yield not seen since late 2007. While the 10-year U.S. Treasury yield ended the quarter at 3.88%, just slightly higher than its level at the end of September, rates at the front end of the curve continued to rise as inflation expectations remain high. Investor appetite for credit was not consistent across the credit sectors during the quarter. Even with stronger balance sheets of municipalities and their corresponding ability to better weather an economic downturn, taxable municipal bonds underperformed corporate bonds, with the Bloomberg Taxable Municipal Bond Index delivering a 1.45% return and the Bloomberg U.S. Corporate Index up 3.63%. Despite a potential economic slowdown and higher interest rates on the long end of the yield curve, longer duration, lower-quality investment-grade corporates were the best performers with the long BBB-segment of the corporate index up 6.05% during the quarter. Credit spreads overall are still slightly wider than where they started the year even with the quarter's positive performance in these sectors.

In equities, major market indices across the globe were higher during the quarter, helping to offset the significant losses that occurred in the third quarter. The gains, however, were not consistent across the sectors, particularly in the U.S. where the consumer discretionary sector of the S&P 500 Index declined another 10.2%, losing 37.0% for the year. The expectations for profitability in the energy sector continued to rise with the energy component of the S&P 500 Index posting a 22.8% return for the quarter and an impressive 65.7% return for the year. Investors continued to shy away from the larger and pricier technology names, which comprise a disproportionately large weight in the index as profits for many of these companies have already started to slow amidst higher costs. With real wages declining and consumer spending expected to slow, the higher revenues that had supported some of the declining profit margins may soon also go down, leaving little excitement for investors who want to be compensated for expensive stocks. Amidst a period of transition where the effects of inflation and a slowing economy will test both the profit and revenue outlooks for many companies, the environment looks attractive for price-conscious, fundamental active investment managers.

[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) returned 2.7% in the fourth quarter (net of fees) and had a 30-day SEC Yield of 4.9% at quarter-end. For the calendar year 2022, the Fund was down 3.3%, outperforming the Bloomberg U.S. Aggregate Bond Index (the Agg) and the S&P 500 Index by 10% and 15%, respectively.

For one of the worst years on record for stocks and bonds, the Fund held up well, outpacing many traditional income asset classes such as the Agg, preferred equities, high yield bonds, investment-grade bonds, and long-term Treasuries. The Fund's defensive strategy also allowed it to significantly outperform traditional equity indices, such as the S&P 500 Index, by a wide margin.

The fourth quarter of 2022 saw a slight reversal of what happened in the third quarter. Inflation surprised to the downside and China slowly began to move away from zero-COVID policies that had been in place since the onset of the pandemic. Energy commodities fell during the quarter, driven by weakening ISM data and a warmer-than-expected start to winter in Europe. Equity investors seem eager to invest as the Fed's aggressive rate hike campaign shifts into smaller rate increases or ends altogether. Equities recovered some of their losses as the S&P 500 Index finished the quarter up 7%. Month-over-month Core PCE fell back to levels near the Fed's target of 2%. Recent CPI data appears to have confirmed this trend in Europe as well.

The U.S. Treasury market reflected the belief that the Fed would be less aggressive until Fed Chair Jerome Powell came out equally as hawkish as he had been in prior meetings. The 10-Year U.S. Treasury yield declined from 3.8% at the start of the quarter to as low as 3.4% prior to the December 14 meeting. Yields rose on the 10-year through the end of 2022 and finished the year at 3.9%. However, after falling 22% year to date through October, the Agg finally seemed to find a bottom. Last year turned out to be one of the worst years for bonds on record.

The Fed's hawkish actions and rhetoric with respect to raising rates until inflation is under control poses risks to the U.S. economy. Leading economic indicators (LEI) have been falling for five months in a row, suggesting that a recession is on the horizon. The New York Fed's recession probability model has exceeded levels that have historically always preceded an economic downturn. Additionally, the yield curve is deeply inverted, historically a strong recession signal. With most signs pointing to a downturn, the bigger question perhaps is the duration and magnitude of a recession in 2023.

Given the deteriorating outlook, the portfolio management team has positioned the Fund to be defensive and to capture some of the benefits of a decline in interest rates that typically occurs during weak economic times. Equity exposure is still at low levels by the Fund's historical standards. Generally, given the strength of corporate and consumer balance sheets, the team expects that if a recession is to occur, it will be shallow and relatively short-lived. The Fed also could have room to become more accommodative as inflation continues to fall.

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 outsized returns in the future.

*As of 12/31/2022, CCMNX one-year, five-year, and since inception (5/31/13) performance was -3.31%, 1.82%, and 2.28%, respectively. As of 12/31/22, the 30-Day SEC yield and the unsubsidized 30-Day yield for CCMNX are both 4.91%. 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 12/31/2022 are: FHA 023-98146 ST. FRANCIS (7.48%), WASHOE HWY-BABS (3.69%), USDA GRAND PRA 12/1/2047 (3.59%), USDA RYZE (3.27%), NEXTERA ENERGY P (2.90%), MIAMI SPL OBLIG-CAP A (2.64%), UNILEVER PLC-ADR (2.24%), NEW JERSEY EDA-A2-TXB (2.24%), MONDELEZ INTER-A (2.23%), and WP CAREY INC (2.18%). Holdings are subject to change. Current and future holdings are subject to risk.*