

# CCM Community Impact Bond Fund<sup>1</sup>

## Key Takeaways

- Stocks and bonds both declined during the quarter as concerns grew over the negative impacts of higher interest rates.
- The Federal Reserve (Fed) continued its attempts to curtail inflation, raising rates in July, and signaling potential future rate hikes after a temporary “pause” in September.
- Even the technology sector was not immune to the threat of higher interest rates as investor enthusiasm over artificial intelligence (AI) technology was displaced by the reality of higher borrowing costs.

## Share Classes

	Ticker	Inception	Expense Ratio
CRA	CRAIX	8/30/99	0.89
Institutional	CRANX	3/2/07	0.44
Retail	CRATX	3/2/07	0.79

## Portfolio Managers

### Andy Kaufman

Chief Investment Officer  
Senior Portfolio Manager  
Industry Start Date: 2004  
CCM Portfolio Manager Since 2015

### Elliot Gilfarb, CFA

Head of Fixed Income  
Senior Portfolio Manager  
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

### Shonali Pal

Junior Portfolio Manager  
Industry Start Date: 2014  
CCM Portfolio Manager Since 2022

## Market Commentary

Despite a tempering labor market and shrinking savings levels, consumer spending remained high during the quarter. Most investors were surprised because they entered the quarter believing that the restrictive effects of continued federal funds rate increases and the pull-back of government support in the post-pandemic era would cause a slowdown. Against this backdrop, the Fed saw little evidence that its prior rate hikes were having enough of an effect and continued raising the federal funds target rate in July by 0.25% to a 22-year high range of 5.25% to 5.50%. Even though the Fed held rates steady in September, it indicated that the door is open to even more increases should inflation not decline further.

In fixed income, investors grew increasingly concerned about the resilience of the consumer, the messaging coming from the Fed’s comments, and the potential for higher interest rates. Bond prices declined across the yield curve and interest rates rose between 12 and 107 basis points, resulting in a 3.23% loss for the Bloomberg Aggregate Index. In contrast to previous quarters, the yield curve steepened as investors no longer saw a path to lower rates in the future and demanded a higher premium for lending out longer. While the yield curve remains inverted, the spread between the 2- and 10- year U.S. Treasury yield narrowed to 85 basis points from its 106 level at the beginning of the quarter. Spread movements were mixed during the quarter, with investors showing more concern about the potential for higher interest rates than about a declining economy. Mortgage-backed security (MBS) spreads widened the most, particularly in the lower coupon pools as investors demanded more compensation for the extension risk associated with holding MBS at coupon levels that are far below the current level of mortgage interest rates. Investment-grade corporate spreads were mixed — spreads narrowed in longer maturity securities and yields ended the quarter ranging from 5.30% for AAA-rated securities to 6.48% for those rated BBB. Investors sought higher spreads for corporate bonds of intermediate maturity, particularly for the lower-yielding, higher-quality corporates where the potential for higher interest rates has a larger impact on total future returns. High yield bonds continued to follow the path of stocks, with spreads starting to widen in September as fears of sustained high interest rates raised doubts about below investment-grade companies’ ability to comfortably cover the corresponding higher costs of borrowing.

In equities, stock prices advanced in July as investors showed the same enthusiasm as earlier in the year. The S&P 500 Index reached its year-to-date high in July, up 20% from where it started the year. However, this enthusiasm began to wane as U.S. Treasury rates rose and concerns grew that rates would remain higher for longer than originally anticipated. The reversal in enthusiasm in August and September resulted in the S&P 500 Index giving back all its July gains and finishing the third quarter down 3.3%. Except for the energy and communication service sectors, all major sectors of the S&P 500 Index declined during the quarter as the prospects of sustained higher interest rates weighed on future expectations. Even the technology sector was not immune. Last quarter’s AI euphoria halted as investors were faced with the reality of higher interest rates and their costly impacts on both business investment and future spending. The worst-performing sector in the S&P 500 Index was real estate, which was down 9.5% for the quarter. Higher interest rates had already been pressuring these stocks, but with evidence of tighter credit conditions growing and earlier hopes for interest rate declines waning, prices were just too high for the expected decline in revenues and profits in a sector that is so heavily influenced by credit conditions. Valuations across the stock market, as measured by price-to-forward earnings expectations, are now slightly lower after the recent price declines, with larger-cap growth companies remaining the highest. Despite the double-digit declines in some of the largest index stocks, the top 10 stocks in the index now represent 32% of its capitalization, a record high. With lofty expectations for growth supporting these current valuations and capital markets that have made borrowing even more expensive, the risks to passive investing in this top-heavy S&P 500 Index have only grown higher.

<sup>1</sup>Effective 3/1/21, the Fund’s name changed from CRA Qualified Investment Fund to CCM Community Impact Bond Fund <sup>2</sup>Impact numbers are approximate figures

## Portfolio Contributors

- Underweight lower coupon agency MBS
- Overweight asset-backed securities (ABS)
- Overweight taxable municipal bonds

## Portfolio Detractors

- Underweight AAA-rated and BBB-rated corporate bonds
- Underweight 15-year and 20-year MBS pools
- Exposure to lower coupon agency CMBS

## Portfolio Commentary

In the third quarter of 2023, the CCM Community Impact Bond Fund (the Fund) CRA Shares (CRAIX), Institutional Shares (CRANX), and Retail Shares (CRATX) posted negative returns of 2.47%, 2.37%, and 2.45%, respectively, on a net-of-fees basis. The Intermediate component of the Bloomberg Aggregate Bond Index (the Benchmark) posted a negative return of 1.89%.

Interest rates rose between 12 and 107 basis points across the U.S. Treasury yield curve during the quarter, and in contrast to previous quarters, the yield curve steepened as investors acknowledged the likelihood of sustained higher interest rates. Against this shift, the Fund's underweight to the short end of the curve and overweight to the long end negatively impacted relative returns.

The three major sectors of the Benchmark posted negative returns during the quarter with agency MBS, U.S. Treasuries, and corporates declining 4.05%, 0.81%, and 0.96% respectively. Except for ABS and taxable municipal bonds, spreads rose in most of the other Benchmark sectors as investors sought higher compensation for bonds in an environment of higher interest rates and borrowing costs. The Fund's underweight to U.S. Treasuries and overweight to agency CMBS were both headwinds as agency CMBS continued to underperform due to lower demand from banks and investor preference for higher coupons found in new issue securities. The Fund's exposure to taxable municipal bonds (which averaged 11.4% of the Fund vs. less than 0.2% of the Benchmark) was a benefit as this segment of the portfolio declined by a mere 0.17%.

The Fund's higher quality corporate bond portfolio underperformed the corporate bonds in the Benchmark by 0.50%. Its underweight to AAA-rated and BBB-rated credit quality segments of the market (which delivered negative returns of 0.60% and 0.80%, respectively) and overweight to single-A rated and AA-rated credit quality segments (which delivered negative returns of 1.14% and 0.93%, respectively) were both headwinds. The Fund's MBS underperformed the MBS sector of the Benchmark by 0.19% due to it being underweight 15-year and 20-year conventional pools, which outperformed 30-year pools by 2.67% and 0.81%, respectively. This underperformance was a result of their lower duration during a period of rising interest rates. Partially offsetting this was the Fund being underweight to lower coupon pools, which underperformed because of the potential for extension.

Despite its September decision to maintain the federal funds rate, the Fed has stated its expectations for continued inflation and has left the door open for more interest rate hikes. With the realization that interest rates may follow a higher path, and a path that may be driven by both technical and fundamental factors, we reduced our duration during the quarter, moving from 0.13 years higher than the Benchmark to 0.01 years higher by the end of the quarter. This repositioning was mostly performed through the sale of some of our 10-year U.S. Treasuries and a slight reduction in our MBS exposure where we reduced our lower coupon mortgages further.

As of 09/30/23, the average annual returns for CRAIX for 1-year, 5-year, 10-year and since inception (8/30/1999) were -0.59%; -0.60%; 0.37%; and 2.87%. The average annual returns for CRANX for 1-year, 5-year, 10-year and since CRANX inception (3/2/2007) were -0.14%; -0.15%; 0.81%; and 2.19%. The average annual returns for CRATX for the same periods were -0.60%; -0.52%; 0.46% and 1.83%. As of 09/30/23, the 30-Day SEC yield for the CRA Shares, Institutional Shares, and Retail Shares was 2.95%, 3.40%, and 3.05%, 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 888-272-0007. The annual operating expenses for the CRA Qualified Investment Fund's CRA Shares, Institutional Shares, and Retail Shares is 0.89%; 0.44% and 0.79%, respectively.

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. Bonds and bond funds will decrease in value as interest rates rise. The CCM Community Impact Bond 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. There is no guarantee the investment objective or goals of the Fund 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.