COMMUNITY CAPITAL MANAGEMENT

# CCM Core Impact Equity Fund*

## 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 Date | Expense Ratio |
|---|---|---|---|
| Institutional | QAGIX | 1/1/18 | 1.70 |
| Advisor | QUAGX | 1/1/18 | 1.95 |

## Portfolio Managers

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

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

**Alex Alario, CFA**
Portfolio Manager
*Industry Start Date: 2015*
*CCM Portfolio Manager Since 2020*

## 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[2] and interest rates rose between 12 and 107 basis points[3], resulting in a 3.23% loss for the Bloomberg Aggregate Index[4]. 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[5] 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.

## Investment Objective

The CCM Core Impact Equity Fund (the Fund) seeks to provide long-term growth of capital.

## Why Invest

The Fund seeks long-term growth of capital by investing in a portfolio of mid- and large-cap companies where earnings growth is expected to compound. The research process focuses on identifying companies with sustainable business models that are developed and executed by experienced and shareholder-aligned management teams and which include environmental, social, and governance (ESG) related factors in their assessment of opportunities and risks.

## Portfolio Commentary

The CCM Core Impact Equity Fund Institutional Share Class (ticker: QAGIX) was down 3.19% (net-of-fees) in the third quarter of 2023. Its benchmark, the S&P 500 Fossil Fuel Free Index, was down 3.27% in the quarter.

Year to date, the Fed has raised interest rates another 100 basis points, with one more raise likely in the fourth quarter. While inflationary pressures began to ease for most of 2023, increasing oil prices, elevated geopolitical risks, and dysfunction in the U.S. government have pushed yields on Treasuries to highs not seen since 2007. This impacted equities in the quarter.

We continue to focus on high-quality businesses, which led the Fund to outperform in 2022, but the moves higher in large cap and in higher beta/more speculative stocks has shifted money out of our more conservative names on a year-to-date basis. While there are no immediate signs of a downturn emerging in 2023, the Conference Board's leading economic indicators continue to forecast a recession. A dramatic tightening of lending standards since the banking crisis in March will likely add to economic weakness. With consumer price index (CPI) data still showing signs of inflation, the market remains nervous in the face of a hawkish Fed and a potential downturn in the economy. This is especially true as excess pandemic consumer savings are almost depleted.

Unemployment rates have already started to creep higher, but only moderately, and wage growth more than inflation continues to support consumer spending. Barring an external financial shock, we are not expecting a deep recession as the Fed likely will have finished raising rates by year end. While the Fund has reduced some of its overweight cyclical and financial names given elevated global macro concerns, we remain bullish on many equities that already are pricing in a downturn.

Looking to 2024, election years tend to be good for stocks. While the breadth of the rally has been minimal this year, with AI hype and unprofitable tech leading, the Fund holds a diversified portfolio of reasonably priced growth equities that should do well in a rising yield world. With recession odds climbing, the Fund has also been adding to healthcare stocks and non-cyclicals that have lagged this year. Utilities are the worst performing industry to date, with many bargains out there. These are fewer cyclical companies that tend to outperform in an economic downturn.

*Inception date as of January 1, 2018. The funds may experience negative performance. Past performance does not guarantee future results. The fund recently experienced significant negative short-term performance due to market volatility associated with the COVID-19 pandemic.*

*As of 09/30/23, the average annual returns for the CCM Core Impact Equity Fund's Institutional Shares for 1-year, 3-year, 5-year, and since inception were 17.04%, 7.56%, 8.24%, and 8.95%.*

***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. Returns over one year are annualized.***

*The top 10 holdings as of 09/30/23 are: Microsoft Corp (6.83%); Alphabet Inc – Class A (3.82%); Global Payments Inc (3.53%); Alphabet Inc – Class C (3.37%); Quanta Services Inc (3.34%); Taiwan Semiconductor Manufacturing Co (2.94%); FleetCor Technologies Inc (2.84%); Humana Inc (2.75%); TD SYNNEX Corp (2.60%); Mondelez International Inc (2.53%). Holdings are subject to change.*

*[1]Impact numbers are approximate figures. [2]A yield curve is a line that plots yields, or interest rates, of bonds that have equal credit quality but differing maturity dates. [3]Basis point is one hundredth of 1 percentage point. [3]Bloomberg Aggregate Bond Index is a broad-based fixed-income index used by bond traders and the managers of mutual funds and exchange-traded funds (ETFs) as a benchmark to measure their relative performance. [4]The S&P 500® Index is a widely recognized, unmanaged index consisting of the approximately 500 largest companies in the United States as measured by market capitalization.*

Important Information

There is no guarantee that a strategy will be successful. Mutual fund investing involves risk including the possible loss of principal. Common stock risks include the financial risk or selecting individual companies that do not perform as anticipated, the risk that the stock markets in which the Fund invests may experience periods of turbulence and instability, and the general risk that domestic and global economies may go through period of decline and cyclical change. 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 S&P Fossil Free Index is designed to measure the performance of companies in the S&P 500 that do not own fossil fuel reserves.

The S&P 500® Total Return Index is a widely recognized, unmanaged index consisting of the approximately 500 largest companies in the United States as measured by market capitalization. You cannot invest directly in an index.

*Consider a fund's investment objectives, risks, charges, and expenses carefully before investing. The Statutory, and where available, the Summary Prospectuses contain this and other important information and are available for download at www.ccminvests.com or by calling 800.220.8888. Read carefully before investing.*

Source: Fund data provided by Quaker Investment Trust. CCM is an investment adviser registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940.

The CCM Funds are distributed by Foreside Fund Services, LLC.

*Effective October 28, 2020, the Fund's name changed from Quaker Impact Growth Fund to CCM Core Impact Equity Fund.

**Effective January 1, 2022, the Fund's benchmark changed to the S&P Fossil Free Index