COMMUNITY CAPITAL MANAGEMENT

# CCM Community Impact Bond Fund

## Key Takeaways

- Both stock and bond prices increased during the quarter as investors gained confidence in the outlook for lower interest rates, lower inflation, and a stable economy.
- The Federal Reserve (Fed) left the federal funds rate unchanged during the quarter, indicating its willingness for 2024 reductions.
- The compensation for taking credit risk has declined, particularly in lower credit-quality bonds.

## 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**
Portfolio Manager
*Industry Start Date: 2014*
*CCM Portfolio Manager Since 2022*

## Market Commentary

The capital markets ended 2023 on a positive note with major U.S. market indices rising during the fourth quarter. The S&P 500 Index posted a total return of 11.7% and the Bloomberg Aggregate Bond Index (the Index) rose 6.8%. The quarter was not, however, without volatility as interest rates rose once again in October, with the 10-year U.S. Treasury yield breaching 5%, a level not seen since 2007. This sell-off in U.S. Treasuries sent both stock and bond prices falling as investors grew concerned about the negative impact of high interest rates on the economy and on corporate earnings. In November, investor sentiment quickly recovered when employment and manufacturing data suggested that the economy was cooling, alleviating fears that the Fed would continue its path of interest rate increases.

The U.S. Treasury also helped to fuel the rally by indicating its borrowing needs were lower than originally planned, thus lessening some of the concerns that had contributed to the earlier sell-off in the bond market. This upward momentum continued through December as the Fed's preferred inflation measure, the personal consumptions expenditures (PCE) index, declined in November, the first month since April 2020 where prices did not increase. With inflation in decline and the Fed signaling it may reverse course next year and lower the federal funds rate, investors finally gained the confidence they had been seeking since the start of 2023.

In fixed income, bond investors continued to react swiftly and sharply to every new datapoint, sending interest rates on a roller coaster ride that ultimately resulted in lower yields across most of the yield curve, particularly in the 2- through 30-year segment of the curve where yields ended between 0.67% and 0.79% lower than where they started the quarter. After slightly widening in October, spreads narrowed meaningfully in both November and December, suggesting that investors were less concerned about a hard economic landing and higher interest rates than earlier in the year. There was a wide dispersion of returns among and within the different sectors of the bond market. Longer duration and lower credit quality bonds performed the best and the U.S. Treasury segment of the Index performed the worst, up 5.66%. The corporate segment of the Index posted the highest returns, up 8.5%, with 10+ year maturity bonds up 14.01% vs. the 1- through 3-year segment up 3.1% amidst investors' willingness to take on higher interest rates and credit risk. After record declines in the previous one-and-a-half years, the mortgage-backed securities (MBS) segment of the Index posted a 7.5% return during the quarter, the second highest quarterly return since its 1989 inception into the Index. Returns within MBS were highest in the lowest coupon mortgages as investors grew less concerned about extension risk given the outlook for declining interest rates. While the returns for the quarter suggested that investors have reembraced the bond market, spread levels are still well below their historical averages, particularly in lower credit quality bonds, leaving little compensation for what could be a period of economic uncertainty and risk-asset volatility.

In equities, stock prices advanced broadly during the quarter, with smaller companies leading the way, particularly those more economically sensitive companies whose earnings have been impacted by weak revenue growth and higher borrowing costs. The Russell 2000 Index and Russell Microcap Index led the way, up 14.04% and 16.06%, respectively. For the first time since last year, the equal-weighted S&P 500 Index outperformed the capitalization-weighted index with returns of 11.9% vs. 11.7% as investors shifted their focus from big technology companies that had dominated the market's performance in the first three quarters of 2023 to a broader list of stocks expected to benefit from better valuations and earnings prospects amidst an outlook for lower interest rates.

As of year-end, the top 10 stocks in the S&P 500 Index represented a record 32.1% of its capitalization, yet only represented 23.2% of its trailing 12-month earnings. The valuation dispersion remains even wider with the top 10 posting a forward price-to-earnings ratio of 26.9x vs 17.1x for the remaining stocks. The combination of these factors has further increased risks for passive investments in the top-heavy S&P 500 Index. While its relative risk increases the opportunities for outperformance for astute active equity managers, its dominance in investors' portfolios increases its potential impact on the economy should one or more of these large companies disappoint.

Looking ahead, we are monitoring some key factors where meaningful changes could have an impact on our positioning. Strong employment and positive real wages have kept consumer spending strong; however, growing credit and an uptick in delinquencies show consumer vulnerability, should labor market conditions weaken across a broader segment of the economy. U.S. Treasury supply will continue to grow, and inflation increasing is not yet out of the picture, both of which could contribute to higher interest rates. Geopolitical factors have not meaningfully impacted our economy or pricing of assets; however, this could change abruptly so we remain attentive to their potential to disrupt.

Learn more about our impact and ESG strategies at www.ccminvests.com

## Portfolio Contributors

- Overweight agency mortgage-backed securities (MBS)
- Overweight credit
- Longer duration

## Portfolio Detractors

- Underweight BBB-rated corporate bonds
- Underweight the 2- through 5-year segment of the yield curve
- Underweight lower coupon agency MBS pools

## Portfolio Commentary

In the fourth quarter of 2023, the CCM Community Impact Bond Fund (the Fund) CRA Shares (CRAIX), Institutional Shares (CRANX), and Retail Shares (CRATX) posted positive returns of 5.37%, 5.39%, and 5.41%, respectively, on a net-of-fees basis. The Intermediate component of the Bloomberg Aggregate Bond Index (the Benchmark) posted a positive return of 5.50%.

Interest rates declined across the U.S. Treasury yield curve during the quarter with the largest declines in 2- and 3-year notes where yields for both declined by 79 basis points. Alongside this shift, the benefit of the Fund's slight overweight to duration (averaging 4.59 years vs. 4.54 years) was offset by its underweight to the 2- through 5-year part of the curve where yields declined the most.

The three major sectors of the Benchmark posted strong returns during the quarter with agency MBS, U.S. Treasuries, and corporates up 7.48%, 3.99%, and 5.86%, respectively. Spreads decreased across all Benchmark sectors as investors became more comfortable taking on risk in an environment of declining inflation, declining interest rates, and a stable outlook for the economy. The Fund's slight overweight to agency MBS (averaging 33.1% vs. the 31.7% in the Benchmark), overweight to credit (averaging 28.4% vs. 20.8% in the Benchmark) and underweight to U.S. Treasuries (averaging 6.6% vs. 40.5% in the Benchmark) were all beneficial.

The Fund's higher-quality corporate bond portfolio underperformed corporate bonds in the Benchmark by 0.38%, mostly due to its underweight (<1% vs. 9.6% in the Benchmark) to BBB-rated bonds, which delivered a total return of 6.21%. The Fund's agency MBS benefited from its underweight to 15-year and 20-year mortgage pools; however, it was not enough to offset the headwind of the Fund's underweight to the lowest coupon mortgage pools, which were the best-performing segment of the Benchmark's MBS exposure. As such, the MBS segment of the Fund underperformed the agency MBS sector of the Benchmark by 0.37%.

The Fund had a few shifts during the quarter. A few name changes occurred within the corporate bond segment of the Fund, with the net effect being a 1% increase in the Fund's exposure and a slightly longer corporate duration. This change was consistent with the portfolio management team's positive outlook for high-quality credit and stabilization of interest rates. In the agency commercial mortgage-backed securities (CMBS) segment of the portfolio, the shifts resulted in a slight increase in the sector's average coupon and a 1% decrease in its overall exposure. Between price appreciation and reinvestment, the Fund's agency MBS exposure increased from 32.8% to 33.2% during the quarter.

*As of 12/31/23, the average annual returns for CRAIX for 1-year, 5-year, 10-year and since inception (8/30/1999) were -4.00; -0.13%; 0.97%; and 3.06%. The average annual returns for CRANX for 1-year, 5-year, 10-year and since CRANX inception (3/2/2007) were 4.37%; 0.56%; 1.42%; and 2.47%. The average annual returns for CRATX for the same periods were 4.00%; 0.21%; 1.07% and 2.12%. As of 12/31/23, the 30-Day SEC yield for the CRA Shares, Institutional Shares, and Retail Shares was 2.82%, 3.26%, and 2.92%, 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.*