COMMUNITY CAPITAL MANAGEMENT

CCM AFFORDABLE HOUSING MBS ETF (OWNS)

Key Takeaways

- The Federal Reserve (the Fed) initiated its rate-cutting cycle with a 50-basis point reduction in September, with further cuts expected by year-end and into 2025.
- Bonds performed strongly, with the Bloomberg U.S. Aggregate Index up 5.2%, as falling Treasury yields and a steepening yield curve signaled reduced recession concerns.
- The U.S. economy remained resilient, supported by strong consumer spending despite weaknesses in housing and manufacturing.

Portfolio Managers

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

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

Jessica Botelho
Co-Chief Impact Strategist
Portfolio Manager
Industry Start Date: 2006
Portfolio Manager Since 2021

Shonali Pal
Portfolio Manager
Industry Start Date: 2014
Portfolio Manager Since 2022

Market Commentary

The third quarter of 2024 saw continued strength in U.S. equity markets, coupled with a decline in U.S. Treasury yields. These moves were the result of adjustments in monetary policy expectations. The S&P 500 Index rose 5.9%, bolstered by sector rotation and robust corporate earnings. Value stocks outperformed growth, as investors favored small caps and cyclicals, with utilities and real estate investment trusts (REITs) leading the way, gaining 19.4% and 17.2%, respectively. Energy was the only sector to decline, as crude oil prices softened. Small-cap indices, such as the Russell 2000, also saw strong gains, rising 9.3%.

Bonds also performed well in the third quarter as the Bloomberg U.S. Aggregate Index increased 5.2%. This strong performance was a result of a decline in treasury yields due to slowing U.S. economic fundamentals and the Fed's faster-than-expected initiation of its rate-cutting cycle.

Treasury yields fell across the curve, with the 10-Year U.S. Treasury yield dropping 0.62%, from 4.4% to 3.78%. The yield curve steepened as short-term interest rates decreased more sharply than long-term ones, with the spread between the 10-Year and 2-Year U.S. Treasury turning positive for the first time since July 2022, increasing from -0.36% to 0.14%.

The U.S. economy showed some resilience amid mixed signals in the third quarter. Higher mortgage rates continued to pressure the housing sector, while manufacturing contracted. Nevertheless, consumer spending—a key growth driver—remained solid, offsetting weakness in other sectors and supporting overall growth. The labor market softened but remained relatively strong, with unemployment holding steady at 4.2%.

The Fed is expected to continue easing its policy. Following a 50-basis point cut in September, economists anticipate further rate cuts of 50 basis points by the end of 2024, with an additional 100 basis point cut in 2025. Fed Chair Jerome Powell expressed confidence that inflation is on track to meet the 2% target, allowing the Fed to shift its focus toward its mandate of maximum employment.

The economic outlook for the remainder of 2024 remains cautiously optimistic. Gross domestic product (GDP) is expected to grow around 2% in the fourth quarter, with core personal consumption expenditure (PCE) inflation forecasted to end the year at 2.7%. Economists are expecting further moderation in both growth and employment in 2025 as expectations for GDP growth and Core PCE currently stand at 1.8% and 2.2%, respectively. However, risks to the outlook for the U.S. remain. The recent slowdown in hiring in the U.S., the upcoming U.S. election, and rising geopolitical tensions could result in volatility for both equity and bond markets during the fourth quarter and into 2025.

Portfolio Contributors

- Outperformance of CCM's Custom Agency Mortgage-Backed Security (MBS) Pools
- Underweight 15- and 20-Year MBS Pools

Portfolio Detractors

- Underweight Lower Coupon MBS Pools

Portfolio Commentary

In the third quarter of 2024, the CCM Affordable Housing ETF (ticker: OWNS) posted a positive return of 5.62% net of fees. The Bloomberg U.S. MBS Index (the Benchmark) posted a positive return of 5.53%.

Interest rates declined by 37 basis points to 111 basis points across the U.S. Treasury yield curve during the quarter with the largest decreases in the shorter end of the curve. During the quarter, OWNS held a similar duration to the Benchmark (both averaging 5.78 years), yet was overweight 30-year MBS pools (which averaged 95% vs. 90% in the Benchmark). This positioning was beneficial to relative returns because of declining interest rates.

OWNS's coupon stack allocation was a slight detractor to relative returns as investors preferred lower coupon mortgage pools where prepayments are typically lower when rates decline. This detractor was offset by OWNS' custom impact pools, which have historically outperformed generic pools when interest rates decline because of their consistent prepayment characteristics.

Given our outlook for continued declining interest rates, we reduced OWNS' underweighting to lower coupon mortgage pools (3.5% coupon and lower). We funded those purchases by reducing our exposure to pools along the remainder of the coupon stack, particularly 4% and 5.5% pools, where OWNS had been overweight.

As of 09/30/24 the average annual gross returns for the CCM Affordable Housing MBS ETF for 1-year and since inception (7/26/21) were 11.90% and -1.26% and the average annual net returns for the Impact CCM Affordable Housing MBS ETF for the same time periods were 11.95% and -1.23%.

As of 09/30/24 the gross and net expense ratios for the CCM Affordable Housing MBS ETF were 0.51% and 0.30%, respectively. Community Capital Management LLC has contractually agreed to limit the total annual operating expenses (exclusive of fees paid by the Fund pursuant to its distribution plan under Rule 12b-1 under the Investment Company Act of 1940, as amended, taxes, brokerage commissions and other transaction costs, interest payments, acquired fund fees and expenses, extraordinary expenses and dividend expenses on short sales) of the Fund to 0.30%. Waivers are contractual and in effect until October 31, 2024. This contract may not be terminated without the action or consent of the Fund's Board of Trustees.

Data sources: Barclays Live, Bloomberg PORT, and eVestment Alliance.

Performance results presented are net of fees and represent total return. Performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will either be suitable or profitable for an investment portfolio. Performance reports contained herein should not be construed as a recommendation to purchase or sell any particular securities. Market conditions can vary widely over time and can result in a loss of portfolio value. The results portrayed included the reinvestment of dividends, interest and other earnings. Any index information provided herein does not reflect the impact of fees; you cannot invest directly in an index. Performance for periods greater than 1-year are annualized.

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This material must be preceded or accompanied by a current prospectus. Investors should read it carefully before investing or sending money.

Investing involves risk, including the possible loss of principal. Shares of any ETF are bought and sold at market price (not NAV), may trade at a discount or premium to NAV and are not individually redeemed from the Fund. Brokerage commissions will reduce returns. The market price returns are based on the official closing price of an ETF share or, if the official closing price isn't available, the midpoint between the national best bid and national best offer ("NBBO") as of the time the ETF calculates current NAV per share. NAVs are calculated using prices as of (4:00 PM Eastern Time).

Bonds and bond funds are subject to interest rate risk and will decline in value as interest rates rise. Mortgage-backed securities are subject to prepayment and extension risk and therefore react differently to changes in interest rates than other bonds. Small movements in interest rates may quickly and significantly reduce the value of certain mortgage-backed securities. This fund is non-diversified. As an actively managed Fund, it does not seek to replicate a specified index.

The Fund is distributed by SEI Investments Distribution Co. (SIDCO), which is not affiliated with Community Capital Management.