CCM Alternative Income Fund (CCMNX) First Quarter 2017 Commentary

"I'm addicted to placebos."
-Steven Wright Dead-pan Comedian, Author, Academy Award Winner

The Community Capital Alternative Income Fund (CCMNX) started the year off well with a total return of 3.04% including 0.95% of distributed income. Our volatility trended down during the quarter as did our correlations to bond and equity indices. As of March 31st, the Fund's one year correlations to the S&P 500 TR Index and the Bloomberg Barclays U.S. Aggregate Bond TR Index were 0.25 and -0.24, respectively. We continue to believe a focus on low volatility income along with low correlations to traditional equity and bond markets can help investors succeed in such yield-starved, volatile environments.

We are particularly pleased with these results given longer-dated Treasury spreads tightened, which hurt us via our interest rate hedges (although widening swap spreads offset this factor to a degree). Fortunately, our corporate credit portfolio was strong throughout the quarter, particularly the floating rate investments.

On the equity side, stock indices (particularly the S&P 500) were up strongly led in part by technology names. This strength hurt us two-fold: first, our equity index shorts traded higher costing us money and second, we have very little technology exposure benefitting us in our long portfolio. Moreover, some of our larger, highest conviction positions underperformed during the quarter. Gains, however, were broad-based and came from both longs and shorts. Meanwhile, year-end earnings reported during the quarter were generally in our favor—long investments had positive earnings developments while shorts had negative. As long as fundamentals remain favorable, we are confident share performance will eventually follow.

While fundamentals as expressed by year-end earnings reports improved during the first quarter, it seems much market ebullience stems from the policies of the new U.S. presidential administration. Whereas the utterances and actions of central bankers were major determinants of asset prices since quantitative easing went global, tweets and press conferences of congressional leaders and the new president have become the latest market movers.

Being as assiduously apolitical as possible, some of the proposals being bandied about DC seem like they would benefit the economy. Simplification of the tax code, repatriation of the $2 trillion parked overseas and infrastructure spending (that wasn't wasted) seem like they would all be net positives to name a few. The markets are certainly enthusiastic. Entities that would benefit from the above mentioned programs and others have seen their securities skyrocket in value just on the hope that the campaign promises become law.

However, as President Trump is discovering, it can be a long haul taking a campaign slogan to an enacted piece of legislation. Even if enacted, these great proposals could be watered down from their initial pomp and circumstance. Let's also not forget that once passed, they may not have the impacts that have been priced in already. Over $4 trillion of quantitative easing by the U.S. Federal Reserve alone and years of near zero interest rates resulted in moribund GDP growth. The market still reacted to these ultimately placebic efforts by the Federal Reserve. With the Federal Reserve now in tightening mode, the market has switched its addiction from monetary to fiscal activity. As the QE high wears off, fiscal policy and subsequent earnings growth will need to be the next stimulant.

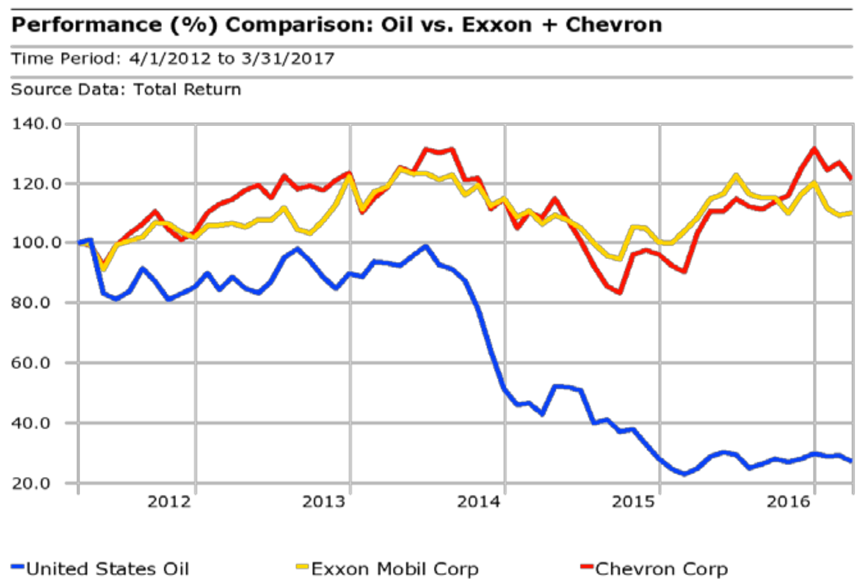
We are not making any major bets on the actions of the DC crowd. Our low net exposures and focus on low volatility income allows us to ignore most noise regardless of where it emanates. Macro issues usually only garner our attention when they result in the ability to pick up high quality yielding assets on the cheap. For example, the volatility in Treasuries since the election led to some wholesale liquidations of portfolios of assets viewed as interest rate sensitive. Preferred shares frequently are "perpetual" meaning they have no concrete maturity date. This perpetuity gives such preferred shares infinite duration meaning a rate rise could have deep price declines that might never improve since there is no final maturity. As rates rose post election and for parts of the first quarter, some preferred investors panicked and sold wholesale.

Included in this sell off were preferred shares with near term call dates, which if not called, start floating at London Inner-Bank Offering Rate (LIBOR) plus a spread. This "yield to call" paper has been a consistent favorite of ours as they offer above-average yields for what we frequently find to be below-average risk – two of our primary objectives. We added several of these securities during the quarter.

Another facet of the recent interest rate spike is similar to the phenomenon we saw in the 2014-15 energy meltdown: namely the largest market cap members are viewed as the safest because of their size and therefore attract a "flight to quality". These blessed names also receive share price support by virtue of their large percentage representation in sector ETFs. As money enters these passive products, these companies' shares are bought regardless of valuation. In fact, perversely, the higher their valuation and therefore the larger their market caps and percentage of the ETF, the more passive money is invested in them. We can think of no other explanation for large energy companies like Exxon and Chevron* to be trading close to all time highs when their main product is less than half its recent peak and profits are off similar amounts.

**As of 3/31/17, Chevron (CVX) represents -1.25% of the Fund, and Exxon(XOM) represents -2.02%. Holdings are subject to change. Current and future holdings are subject to risk.*

Chart Idea: Price of Oil vs. Exxon + Chevron



In the interest rate sensitive field, we see similar a phenomenon playing out in certain REITS and utilities. Companies whose organic revenue and earnings are down remain at elevated prices while smaller, but in our opinion better-positioned companies feel the wallop of the exogenous factor like interest rates. Once again, we are viewing this development as an opportunity. We found a handful of companies in very similar industries, trading at vastly different valuations and dividend yields, so much so that just the net difference in dividends should allow for a nicely profitable position for us without any valuation spread narrowing.

We exit the first quarter slightly of two minds. First, we are heartened by what appears to be a steady improvement in the U.S. economy. We have a number of investments we see having leveraged potential benefits to continued economic progress. On the other hand, we see many asset classes and specific securities that entered the election at elevated levels thanks to monetary largess and catapulted to even higher levels on expectations of fiscal or policy relief and therefore earnings growth. The monetary stimulus wave seems headed back to sea and many people have priced in other government actions in its wake. Should that fail to materialize, we fear that might be a bitter pill for the markets to swallow. With such uncertainty, it appears that downside risks are increasing and the desire for capital preservation strategies could return.

As of 3/31/17, CCMNX one-year performance is 3.04% and since inception (5/31/13) is 2.82%. 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. Performance reflects fee waivers, which if not in effect, would have decreased performance. The total annual fund operating expenses is 2.83%. The net expense ratio is 2.76%. The total annual operating expense after fee waivers and expense reimbursements (other than acquired fund fees and expenses and dividend expense and prime broker fees on securities sold short) is 1.60%. Waivers are contractual and in effect until 9/30/17.

Carefully consider the Fund's investment objectives, risks, and charges and expenses. This and other information can be found in the Fund's prospectus which can be obtained by calling 866- 202-3573. Please read it carefully before investing.

The Fund is distributed by SEI Investments Distribution Co., which is not affiliated with Community Capital Management or Badge Investment Partners.

Investing involves risk, including possible loss of principal. Bonds and bond funds will decrease in value as interest rates rise. 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. The 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 fund will be achieved.