COMMUNITY CAPITAL MANAGEMENT
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Research Highlights

CCM Investment Team

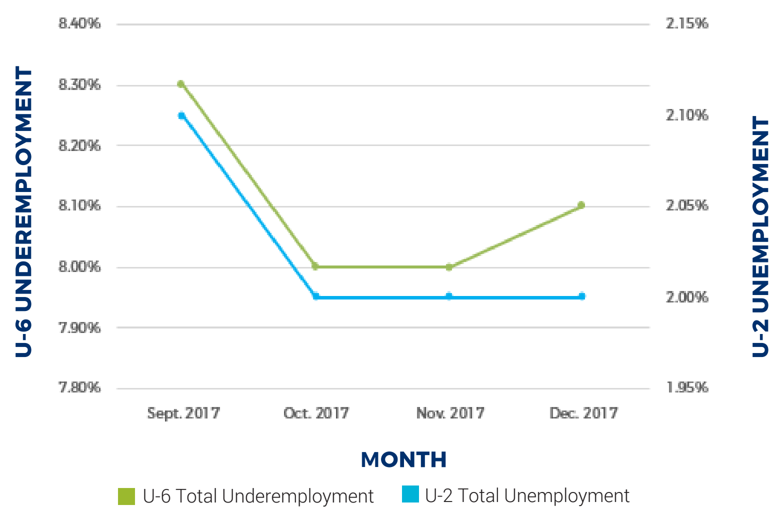
MARKET COMMENTARY

While monetary policy has taken center stage for years, it was fiscal policy that defined the fourth quarter of 2017. The successful passage of the Tax Cuts and Jobs Act, which will cut business taxes and change the individual tax codes starting in 2018, was well received by the market and drove interest rates higher as well as equities.

Focusing on the performance and narrative within the fixed income market, the Bloomberg Barclays U.S. Aggregate Bond Index finished the quarter with a positive 0.39% return led by the corporate bond sector. Despite corporate bond spreads starting the quarter at the tightest levels in over a decade, the sector continued to experience strong demand from investors pushing prices higher and spreads tighter. The government bond sector, which is mainly comprised of U.S. Treasury bonds, had a positive 0.05% return, with longer duration U.S. government bonds posting positive quarterly returns while short to intermediate duration bonds posting negative returns. The main driver to the mixed performance within the government bond sector was the Federal Reserve raising the fed funds rates another 25 bps, to 1.5%, causing shorter term securities to drop in price.

Treasury Yield Curve
DATA 3Q 2017 and 4Q 2017 | SOURCE: BLOOMBERG

Total Unemployment/Underemployment
DATA 3Q 2017 and 4Q 2017 | SOURCE: BUREAU OF LABOR STATISTICS



Equity markets in the U.S. proved resilient in their climb to record highs. The S&P 500 posted a return of 6.64% led by the technology and consumer discretionary sectors. The Dow Jones Industrial Average recorded even better returns posting gains of 10.96% during the quarter. The positive returns were fueled by the passage of the new U.S. tax bill which will cut the corporate tax rate to 21% from a previous rate of 35%. Other factors contributing to returns were stronger company fundamentals, growth in earnings, and a U.S. economy which has picked up momentum this year as indicated by multiple economic indicators.

The U.S. economy appears to be on solid footing with GDP greater than 3%. In addition to growth, the job market continued to improve with the unemployment rate, as measured by the Bureau of Labor Statistics, dropping to 4.1% in October and November.

4Q 2017 Commentary

CRA Qualified Investment Fund

PORTFOLIO COMMENTARY

In the fourth quarter of 2017, the CRA Qualified Investment Fund CRA Shares (CRAIX), Institutional Shares (CRANX) and Retail Shares (CRATX) returned -0.12%, 0.08% and -0.10%, respectively, on a net of fees basis, underperforming the Bloomberg Barclays U.S. Aggregate Bond Index ("Benchmark") return of 0.39%.

The Fund's largest sector, agency commercial mortgage-backed securities (CMBS) returned -0.10%, underperforming the U.S. Government / Government-related subsector return of 0.06%. The higher income profile of the Fund's agency CMBS relative to U.S. Government and government-related securities helped relative returns; however, the composite sector lacks exposure to the long end of the curve, which rallied during the quarter.

The Fund's second largest sector, single family agency mortgage-backed securities, returned 0.23% in the quarter, outperforming the U.S. MBS sector return of 0.15%. The sector's slower prepayments were the main reason the sector outperformed on a relative basis.

The third major sector in the Fund, taxable municipal bonds, underperformed the U.S. Corporate/Muni sector, returning 0.36% compared to 1.15%. The Fund's taxable municipal profile being higher credit quality, lower income, and having less exposure to the long end of the curve, all contributed to the relative underperformance.

As of December 31, 2017, the Fund's Yield-to-Worst (YTW) is 2.91%, higher than the Benchmark's YTW of 2.71% and it exhibited 22% shorter duration (interest rate risk) to the Benchmark. We feel the Fund is fundamentally well positioned given its lower duration compared to the Benchmark and its higher concentration in agency and government guaranteed securities. The portfolio management team does not anticipate any changes to its current asset allocation weightings.

4Q 2017 Commentary

CCM Alternative Income Fund

PORTFOLIO COMMENTARY

The CCM Alternative Income Fund finished the year on a decent note returning 1.04% and distributing 1.20% for the quarter, bringing the year total return to 5.01% and distributions to 4.60%.

We are modestly content with these returns. The Fund exceeded the Bloomberg Barclays Aggregate's return by 1.47%, while maintaining a negative correlation to interest rates. Our fixed income portfolio posted excellent returns with exceptionally low volatility. The long/short dividend equity component returned positive returns despite the difficult backdrop of growth equities outperforming value by substantial margins yet again.

We remain concerned by high valuations and low yields across asset classes. In light of the near constant rise and flattening of the U.S. Treasury yield curve, we would expect some questioning of yields (or lack thereof) of certain investments, especially if one cares about risk.

2017 might well go down, however, as one of the most risk insensitive years ever. From credit spreads to equity earnings multiples, the traditional measures of risk/reward seem to have fallen by the wayside particularly for large index components. At the farthest end of the greedy risk taking spectrum, with Bitcoin and other "cryptocurrencies", we believe we are witnessing a bubble that will be discussed for centuries to come with all of the hindsight wisdom now associated with $10 per dozen tulip bulbs.

> **“The only two things you can truly depend upon are gravity and greed.”**
>
> \- JACK PALANCE

We have mentioned our misgivings with the high price/low yield of many risk assets ad nauseam. We might not have put it in the best historical context though. A major outgrowth of the rise of quantitative investing is the term factor based investing, which is another way of grouping investments that exhibit similar traits.

We believe free cash flow to be gravitational in nature. You go long enough and eventually it exerts itself in the ultimate value of things. It should come as no surprise therefore that the biggest driver of North American equity performance over long periods has been free cash flow yield.[1] You can see proof below.

15 Year Data[2]

North America | Settings
Q Spreads | Pure Factor Returns
Sector: All Sectors | Horizon: 15 Year | Return Calculation: Q Spread (Q1

	Style	Factor Name	What Worked	Strength	Avg Ret	Trend	Sharpe
	All	<Filter>	All				
1)	Value	FCF/EV LTM	Higher	100	75 bp		1.00
2)	Sentiment	EPS FY1 Revision% - 1W	Higher	95	43 bp		1.05
3)	Value	FCF Yield LTM	Higher	91	64 bp		0.84
4)	Sentiment	EPS FY1 Revision% - 1M	Higher	91	52 bp		0.94
5)	Value	[illegible]	Higher	87	76 bp		0.78
6)	Sentiment	Dispersion - Sales FY1	Lower	86	-47 bp		-0.65
7)	Value	Sales/Price LTM	Higher	86	84 bp		0.77
8)	Value	EBITDA/EV LTM	Higher	86	83 bp		0.79
9)	Leverage	FCF/Debt LTM	Higher	85	58 bp		0.79

10 Year Data[2]

North America | Settings
Q Spreads | Pure Factor Returns
Sector: All Sectors | Horizon: 10 Year | Return Calculation: Q Spread (Q1

	Style	Factor Name	What Worked	Strength	Avg Ret	Trend	Sharpe
	All	<Filter>	All				
1)	Value	FCF Yield LTM	Higher	100	66 bp		0.90
2)	Sentiment	Dispersion - Sales FY1	Lower	100	-65 bp		-0.81
3)	Sentiment	EPS FY1 Revision% - 1W	Higher	99	47 bp		1.21
4)	Value	FCF/EV LTM	Higher	94	67 bp		0.93
5)	Sentiment	EPS Surp-#Pos of 20 Q[illegible]	Higher	94	41 bp		0.52
6)	Sentiment	Dispersion - Sales FQ1	Lower	93	-66 bp		-0.91
7)	Growth	Share Count Chg % (1Y)	Lower	93	-55 bp		-0.84
8)	Sentiment	EPS FQ1 Revision% - 1W	Higher	91	38 bp		0.97
9)	Profitability	CapEx/Sales LTM	Lower	89	-68 bp		-0.77
10)	Leverage	FCF/Debt LTM	Higher	88	57 bp		0.75
11)	Value	E/P LTM	Higher	86	64 bp		0.81

There are shorter periods of time though, when such concrete factors such as cash flow give way to flimsier metrics. Sales growth, momentum, or “sentiment” factors can have brief moments in the sun.

Proof of this dynamic is evident below where no cash flow metric is a top ten factor in the past year.

1 Year Data[2]

North America | Settings
Q Spreads | Pure Factor Returns
Sector: All Sectors | Horizon: 1 Year | Return Calculation: Q Spread (Q1

	Style	Factor Name	What Worked	Strength	Avg Ret	Trend	Sharpe
	All	<Filter>	All				
1)	Momentum	Total Return (5Y)	Higher	100	158 bp		2.93
2)	Growth	Sales Gr LTM %	Higher	92	128 bp		2.80
3)	Profitability	ROE (LTM-5Yr)	Higher	91	108 bp		2.51
4)	Sentiment	Dispersion - Sales FY1	Lower	91	-100 bp		-2.69
5)	Growth	Sales LQ Gr % (YOY)	Higher	91	110 bp		3.06
6)	Leverage	Cash/Assets LF	Higher	90	132 bp		2.38
7)	Profitability	ROE LTM	Higher	87	97 bp		2.15
8)	Growth	Sales Gr Diff (LTM-5Y)	Higher	86	81 bp		2.30
9)	Growth	Sales Gr-#Pos of 20 Qtrs	Higher	83	68 bp		2.54
10)	Sentiment	Dispersion - Sales FQ1	Lower	82	-105 bp		-2.49
11)	Profitability	CapEx/Sales LTM	Lower	81	-86 bp		-2.36

[1] As defined in this case by FCF/EV (free cash flow divided by Enterprise Value, where free cash flow is Operating Cash Flow – Capital Expenditure) and FCF Yield (free cash flow as a percentage of market value of equity, where free cash flow is Operating Cash Flow – Capital Expenditure).

[2] Data as of 1/13/18 representing factors impacting North American equities compiled by Bloomberg. LTM = Last Twelve Month. Sharpe ratio is defined as the average monthly returns divided by standard deviation.

In fact, last year, the free cash flow factors that drove returns for the 10 year and 15 year periods cited above fell to 149th place!

Indeed, it seems an overarching factor in risk assets over the past year and especially since start of the year has been fear of missing out (FOMO). The rise of some securities, particularly large components of indexes that have attracted cash, has been stunning. The main fear seems to be not owning enough of something that attracts investors and seems to go up every day. If one looks closely though, there are some cracks.

We mentioned in the last letter that we wondered whether a rise in shorter dated interest rates could change the dialogue in some corners in the investment world. Specifically, would a 2% yield in the two-year treasury make people question holding certain investments? We are seeing that answer right now.

A few days ago, the two-year treasury yield crossed 2%. This level is by no means some ominous, irreversible crossing of a Rubicon. However, some things such as longer duration fixed income and stocks that are viewed by some as bond proxies (utilities, REITs, consumer staples) have underperformed shorter duration, higher yield fixed income and U.S. equity indices respectively since the beginning of the fourth quarter.

If rates continue their trajectory we would expect this trend to continue or accelerate. After all, the risk/reward of a 3% dividend yield or long-term bond yield is questionable when one can earn 2% virtually risk free if holding the two-year treasury note to maturity. An even larger issue might arise if broadly higher interest rates cause investors to begin valuing investments with higher discount rates.

We believe we have positioned the CCMNX portfolio well for a higher interest rate environment. The Fund has run a small negative correlation to the Bloomberg Barclays Aggregate since inception. We own a lot of investments that should benefit or be relatively unaffected from higher short-term interest rates. Additionally, we have sought to hedge the interest rate exposure of our longer duration assets. At the same time, the Fund's 30-Day SEC yield ended 2017 at 5.84% (the unsubsidized 30-day yield was 5.69%). As we have seen, over the short term anything can happen. The value of free cash flow can be ignored temporarily in lieu of extreme greed or irrational fear. But it can't be suppressed forever, much like valuations cannot expand infinitely. Something eventually brings everyone and everything back to earth.

Important Information

As of 12/31/17, the average annual returns for CRAIX for 1-year, 5-year, 10-year and since inception (8/30/1999) were 2.17%; 1.05%; 2.94%; and 4.04%. The average annual returns for CRANX for 1-year, 5-year, 10-year and since CRANX inception (3/2/2007) were 2.73%; 1.51%; 3.40%; and 3.55%. The average annual returns for CRATX for the same periods were 2.27%; 1.16%; 3.04% and 3.19%. As of 12/31/17, the 30-Day SEC yield for the CRA Shares, Institutional Shares, and Retail Shares was 1.97%, 2.42%, and 2.08% respectively. As of 12/31/17, CCMNX one-year performance is 5.01% and since inception (5/31/13) is 2.78%. 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. The annual operating expenses for the CRA Qualified Investment Fund's CRA Shares, Institutional Shares, and Retail Shares is 0.91%; 0.46% and 0.81% respectively. For CCMNX, performance reflects fee waivers, which if not in effect, would have decreased performance. The total annual fund operating expenses is 3.10%. 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%. The net expense ratio, which is the amount the investor pays, is 2.94%. Waivers are contractual and in effect until 9/30/18.

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.

This material must be preceded or accompanied by the current Fund prospectuses. Please read them carefully before investing.

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Investing involves risk, including possible loss of principal. Bonds and bond funds will decrease in value as interest rates rise. The CRA Qualified Investment 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. The CCM Alternative Income 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 Funds will be achieved.

The Dow Jones Industrial Average® (The Dow®), is a price-weighted measure of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.