COMMUNITY CAPITAL MANAGEMENT
Impact Investing Since 1999

TODD COHEN
CHIEF INVESTMENT OFFICER

ANDY KAUFMAN
SENIOR PORTFOLIO MANAGER

ELLIOT GILFARB, CFA
SENIOR PORTFOLIO MANAGER

JULIE EGAN
PORTFOLIO MANAGER

ANDREW COWEN
PORTFOLIO MANAGER

THOMAS LOTT
PORTFOLIO MANAGER

DAVID SAND
CHIEF IMPACT STRATEGIST

JESSICA BOTELHO
DIRECTOR OF CRA AND IMPACT RESEARCH

Research Highlights

CCM Investment Team

MARKET COMMENTARY

Volatility awoke from hibernation across asset classes during the winter quarter. Equity volatility, measured by the VIX Index, skyrocketed from a near record low of 9.15 in January to a high above 37 in early February. By that time, the S&P 500 and Dow Jones Industrial Average ("Dow Jones") had already had more 1% daily moves than in all of 2017. Fixed income markets from the front to back end of the curve were not much calmer. The 3-month London Inter-Bank Offered Rate (LIBOR) spiked 62 basis points (1bp = 0.01%), nearly equaling its rise for all of 2017. Meanwhile, the 10-year US Treasury broke through yield ceilings in place since 2013 and high yield credit spreads rose above 350 basis points for the first time in over a year.

Given the selloff in bonds for most of the quarter, the Bloomberg Barclays Aggregate was down 1.46%. Longer duration bonds underperformed by a wider margin, with the Bloomberg Barclays U.S. Treasury Long sector down 3.29% for the quarter and Bloomberg Barclays U.S. Corporate Long sector down 4.05%. After touching historically low spreads in 2017, corporate bond spreads widened by 16 basis points during the quarter as investors became risk averse. The Bloomberg Barclays U.S. Corporate bond sector posted a negative return of 2.32% and was the worst performing subsector of the Index.

Despite the ferocious self-off in the equity markets, the S&P 500 and Dow Jones rallied back a bit toward the middle of February to the middle of March. The rally was short lived as the markets experienced another sell-off at the end of March due to a feared trade war between the U.S. and its trade partners. In addition, negative headline news on a few of the bigger names in the major indices pushed markets lower, leading the S&P 500 and Dow Jones to end the quarter down 0.76% and 1.96%, respectively.

The U.S. economy continued to strengthen during the quarter with the employment picture in the U.S. at the forefront. According to the jobs report from the Bureau of Labor Statistics, 239,000 and 313,000 jobs were added in January and February, respectively. The labor force participation rate, which has been stubbornly low, improved to 63%, indicating workers previously on the sidelines jumped back into the labor force. On the manufacturing side, the Purchasing Managers' Index (PMI), came in at 60.8 in February, showing continued strength in the manufacturing sector.

CRA Qualified Investment Fund

PORTFOLIO COMMENTARY

In the first quarter of 2018, the CRA Qualified Investment Fund CRA Shares (CRAIX), Institutional Shares (CRANX) and Retail Shares (CRATX) posted negative returns of 1.07%, 0.96% and 0.95%, respectively, on a net of fees basis.

The Fund's largest sector, agency commercial mortgage-backed securities (CMBS) was down 0.89%, underperforming the U.S. Government subsector return, which was down 0.73%. The higher income profile of the Fund's agency CMBS relative to U.S. Government and government-related securities helped relative returns; however, the Fund sector's longer duration (interest rate risk) hurt relative returns as rates rallied during the quarter.

The Fund's second largest sector, single family agency mortgage-backed securities, posted a negative return of 1.13% in the quarter, outperforming the U.S. MBS sector return, which posted a negative return of 1.20%. Slower prepayments and higher income were the main reason the Fund's sector outperformed on a relative basis.

The third major sector in the Fund, taxable municipal bonds, outperformed the U.S. Credit sector, posting a negative return of 0.24% compared to the sector's negative return of 1.36%. The Fund's taxable municipal bonds did not experience the spread widening that was displayed in the corporate bond market during the first quarter.

As of March 31, 2018, the Fund's Yield-to-Worst (YTW) is 3.37%, higher than the Benchmark's YTW of 2.99% and it exhibited 9% longer duration to the Benchmark. In addition, the Fund has a higher concentration in agency and government guaranteed securities to the Benchmark. The portfolio management team does not anticipate any changes to its current asset allocation weightings.

The benchmark for the CRA Qualified Investment Fund changed in February 2018 from the Bloomberg Barclays U.S. Aggregate Bond Index to the Bloomberg Barclays Intermediate U.S. Aggregate Index. The sector returns quoted are for the new benchmark.

CCM Alternative Income Fund

> **"As in nature, all is ebb and tide, all is wave motion, so it seems that in all branches of industry, alternating currents - electric wave motion - will have the sway."**
>
> \- NIKOLA TESLA

PORTFOLIO COMMENTARY

The CCM Alternative Income Fund ended the quarter with a 30-day SEC Yield of 6.04% (its highest yield to date) and was down 1.66% in the first quarter including 1.17% of dividends. We are happy with the Fund's yield, but we are not happy with the total return. Any loss is a bad loss regardless of the market environment.

The Fund continued to experience headwinds within its equity long/short sleeve with growth equities (a component of the Fund's shorts) outperforming value (the Fund's long strategy) by over 5%. On the fixed income side, credit spreads widened over 50 basis points, 10-year US Treasury yields increased 28 basis points, and the 3-month London Inter-Bank Offered Rate (LIBOR) spiked 62 basis points.

On the bright side, the Fund performed well during the last five weeks of the quarter as equity market volatility spiked and value outperformed growth. Our hedges largely helped the portfolio as treasury yields spiked throughout the quarter and when equity markets turned down in February and March.

Most of the quarter's loss was from two announcements from otherwise stable cash flow growing companies. The new management team of Macquarie Infrastructure (MIC), an investment held since 2013, surprised the market by guiding to slightly lower cash flow for 2018 and cutting their dividend for 2018 by 30% on the same day they announced a higher Q4 2017 dividend than Q3.

A few weeks later, under pressure from an activist investor, the former corporate parent of NRG Yieldco (NYLD), sold its 45% stake in the company well below market levels to a private equity firm. That transaction depressed the shares of NYLD and PEGI, another renewable energy company, causing a similar loss to the portfolio as MIC.

We re-underwrote our thesis on Macquarie from the bottom up after the dividend cut and subsequent stock drop. We determined that the messaging by the old CEO had been bad, but the fundamental story is largely intact. We believe the long-term prospects are still favorable and the dividend yield was 10.8% at quarter end. However, we take management reliability seriously and the new regime needs to prove itself so we derisked the position to around 1% of the portfolio.

NYLD's management had little to do with the discounted stake sale to the private equity firm, who we assume in turn expect a higher return than the dividend. PEGI shares, meanwhile, were mostly collateral damage. At 7% and 9.75% yields, respectively, with clean balance sheets and clear growth runways, we think NYLD and PEGI are good income investments for the Fund.

While equity and credit markets began the year at a blistering pace, they mostly finished the quarter in less of a speculative bubble fashion. CCMNX, in turn, logged positive returns for the last 5 weeks of the quarter. Perhaps most important to us, the speculative fervor that dominated markets last year, seemed to have peaked in January. A poster child for some of this insanity is Bitcoin, which we mentioned in our previous letter.

Some pundits are quick to blame headlines on tariffs or government threats to large technology companies for recent market "pain". We counter that valuations hit maximum heights (spreads maximum tights) just as central banks started draining liquidity in earnest. Moreover, short-dated interest rates, which we wrote about the prior two quarters, barreled through 2% during the quarter.

Markets are frequently forward looking, but sometimes inertia (or the flow of money) is so strong they miss the ground shifting underneath their feet. Perhaps the unrelenting rise of LIBOR is part of that shifting ground. Perhaps quantitative tightening by the Federal Reserve from nominal levels to $12 billion per month this month is another component. Perhaps the end of the European Central Bank's insane negative interest rate experiment is yet another. While we respect the negative impacts of trade disruptions, to date they are all still speculative and rather small in potential. They pale in size compared to the money flows changing direction at central banks.

Cash flows, yields, and valuation have been largely ignored even as hyper-accommodative monetary policy was ending. Now that monetary policy is in reverse, we hope traditional fundamental measures of risk and return stage a comeback regardless of what happens to equity and bond markets.

Important Information

As of 3/31/18, the average annual returns for CRAIX for 1-year, 5-year, 10-year and since inception (8/30/1999) were 0.55%; 0.88%; 2.65%; and 3.93%. The average annual returns for CRANX for 1-year, 5-year, 10-year and since CRANX inception (3/2/2007) were 1.11%; 1.33%; 3.11%; and 3.38%. The average annual returns for CRATX for the same periods were 0.75%; 1.00%; 2.76% and 3.03%. As of 3/31/18, the 30-Day SEC yield for the CRA Shares, Institutional Shares, and Retail Shares was 1.98%, 2.42%, and 2.07% respectively. As of 3/31/18, CCMNX one-year performance is 0.22% and since inception (5/31/13) is 2.28%. As of 3/31/18, the unsubsidized 30-day yield for CCMNX is 5.91%. 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 0.90%; 0.45% and 0.80% respectively. For CCMNX, performance reflects fee waivers, which if not in effect, would have decreased performance. The total annual fund operating expenses is 2.85%. 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 1.40%. The net expense ratio, which is the amount the investor pays, is 2.74%. Waivers are contractual and in effect until 9/30/19.

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. The Funds are distributed by SEI Investments Distribution Co., which is not affiliated with Community Capital Management, Inc.

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.

VIX Index: The CBOE Volatility Index, known by its ticker symbol VIX, is a popular measure of the stock market's expectation of volatility implied by S&P 500 index options, calculated and published by the Chicago Board Options Exchange.

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.

The top 10 holdings for CCMNX as of 3/31/18 are: FHA 023-9846 ST. Francis (5.72%), SEB 5 3/4 11/29/49 (3.61%), BAC 8 PERP (3.58%), Starwood Property Trust I (3.12%), Independence Realty Trust (2.87%), Pattern Energy Group Inc. (2.83%), Washoe Hwy-BABS (2.82%), Enercare Inc. (2.73%), HSBC 5 5/8 12/29/49 (2.71%), and JPM 7.9 PERP (2.70%).
Holdings are subject to change. Current and future holdings are subject to risk.