COMMUNITY CAPITAL MANAGEMENT
Impact Investing Since 1999

TODD COHEN
CHIEF INVESTMENT OFFICER

KRISTIN FAFARD, CFA
CHIEF INVESTMENT STRATEGIST

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

Mounting uncertainties and risks increased volatility during the second quarter, with aggressive trade policy between the U.S. and its trading partners dominating the headlines. Adding to the volatility was strife in Europe both within various countries (i.e., Italian politics) and between various European Union countries (i.e., immigration reform), a slowdown in global growth, and tighter central bank policies provided uncertainty for fixed income and equity markets.

Corporate bonds were the worst performing sector in the fixed income space, down 0.98% during the quarter. Not too long ago, corporate bonds had touched all-time tights in spreads, signaling the sector was an overcrowded trade. It is expected that over the next four years, over $4 trillion in corporate debt will mature, creating a cause for concern in the corporate space.

The Federal Reserve (The Fed) raised the fed funds rate another 0.25%, pushing the rate to 2%. The 2-year U.S. Treasury rate ended the quarter up six basis points, while the 10- and 30-year rates ended up eleven basis points and one basis point, respectively. The Fed continued their signaling of one, or possibly two, more rate hikes before year end.

Equity markets were up 3.4% in the second quarter, led by energy, technology, and growth shares. However, in small cap stocks, value outperformed growth modestly. Earnings season finished off strong, recording a 26.7% year-over-year growth in earnings for Q1 2018. A record number in share buybacks also seemed to support the market despite the political turbulence that shook up markets for most of the quarter.

Continued signs of strength were evident in the second quarter within the U.S. economy. Inflation, as measured by the Consumer Price Index (CPI), crept up in May to a 2.8% year-over-year increase, above the Fed’s target inflation of 2%. Manufacturing continued to chug along as manufacturing activity, as measured by Purchasing Manager Index (PMI), has shown continued strength for 22 consecutive months. A strong U.S. dollar has had a negative effect on emerging market countries, as their currencies weakened and stressed their dollar denominated debt. In addition to the currency and debt problems, financial and political troubles surfaced in Latin America throughout the quarter, scaring investors away from the region. Strife within European countries over various policies disrupted an upward trending growth trajectory for the Eurozone. Eurozone growth hit the slowest mark in 18 months during the quarter.

CRA Qualified Investment Fund

PORTFOLIO COMMENTARY

In the second quarter of 2018, the CRA Qualified Investment Fund CRA Shares (CRAIX), Institutional Shares (CRANX), and Retail Shares (CRATX) posted negative returns of 0.21%, 0.20% and 0.28%, respectively, on a net of fees basis. The Intermediate component of the Bloomberg Barclays Aggregate Bond Index ("Benchmark") was up 0.09%

The Fund's largest sector, agency commercial mortgage-backed securities (MBS), posted a negative return of 0.17%. The main detractors to total return this quarter was the rate sell-off across the curve and spread widening in the sector.

The Fund's second largest sector, single-family agency MBS, returned 0.26% in the quarter, outperforming the Benchmark's U.S. MBS sector return of 0.24%. The sector's higher income profile and coupon selection were the two main reasons the sector outperformed on a relative basis. The portfolio was underweight Ginnie Mae MBS to conventional MBS (Fannie Mae/Freddie Mac) which had a negative impact to returns.

The third largest sector in the Fund, taxable municipal bonds, posted a negative return of 0.16%, primarily a result of the sell-off in rates. Spreads also negatively impacted returns as they widened during the quarter.

The benchmark's largest contribution to returns came from the MBS sector at 0.08%. The Intermediate Corporate bond sector posted a negative return of 0.10% as spreads widened by eight basis points and reached levels we have not seen since the first quarter of 2017. The last major sector in the benchmark, Intermediate Government, generated a 0.06% total return. With the lack of exposure to spread product, the Intermediate Government sector was able to generate positive performance.

As of June 30, 2018, the Fund's Yield-to-Worst (YTW) is 3.57%, higher than the Benchmark's YTW of 3.17% and it exhibited six percent longer duration (interest rate risk) to the Benchmark (4.60 vs. 4.34). 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.

As of 6/30/18, the average annual returns for CRAIX for 1-year, 5-year, 10-year and since inception (8/30/1999) were -0.75%; 1.40%; 2.75%; and 3.86%. The average annual returns for CRANX for 1-year, 5-year, 10-year and since CRANX inception (3/2/2007) were -0.40%; 1.83%; 3.20%; and 3.29%. The average annual returns for CRATX for the same periods were -0.65%; 1.50%; 2.85% and 2.93%. As of 6/30/18, the 30-Day SEC yield for the CRA Shares, Institutional Shares, and Retail Shares was 2.08%, 2.53%, and 2.18% respectively. As of 6/30/18, CCMNX one-year, five-year, and since inception (5/31/13) performance was 3.95%, 2.57%, and 2.75%, 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 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.

CCM Alternative Income Fund

> **"You will never receive your destination if you stop and throw stones at every dog that barks."**
>
> \- WINSTON CHURCHILL

PORTFOLIO COMMENTARY

The Community Capital Alternative Income Fund returned 2.92% during the second quarter including 1.31% of distributions. These figures bring the year-to-date return to 1.21% including 2.47% of distributions.

We are generally pleased with the quarter's returns on both an absolute and relative basis. The backdrop of various markets remained somewhat unfavorable to the strategy: credit spreads widened and major equity indices' continued to trade higher driven by growth (primarily large-cap tech) over value.

Fortunately, there were a number of pockets of strength in the portfolio on both the long and short sides. Gains in the portfolio primarily stemmed from many long value equity positions. In some cases, we simply recovered losses suffered in the first quarter. In many cases though, some stocks broke out of a three- to four-year rut where earnings, cash flows, balance sheets, and even dividends improved dramatically, but the stocks suffered multiple compression rather than appreciation.

Patience has its virtues and eventually its rewards. The major drags on the portfolio were index hedges in the equity portfolio and general weakness in the preferred portfolio on spread weakness, much of which was localized to European bank AT1's.[1]

Earnings season once again was mostly overwhelmingly favorable. Simply put, the economy is very firm, as are earnings, not counting the direct benefits of the corporate tax reduction. We see high capacity utilization and commensurate pricing power as well as high returns on invested capital in numerous industries. Outlooks appear extremely promising with many long-anticipated structural developments playing out over the next few years.

Therefore, it is no surprise to us to see signs of inflation in multiple corners. For example, truck driver employment has skyrocketed lately and there are still upwards of 60,000 job openings remaining unfilled. As a result, trucking companies are offering new drivers five-figure signing bonuses and experienced drivers can earn upwards of $100,000.[2] Combine high driver pay with higher fuel costs due to higher oil prices and transportation costs have increased markedly.[3] Fewer things reverberate through the entire economy more than higher shipping costs for goods.

Inflation signs are not limited to these transport issues either. The U.S. Personal Consumption Expenditure Core Index (PCE core), a favored statistic of the U.S. Federal Reserve (the Fed) for measuring inflation, hit two percent on June 30. While this number is somewhat volatile and there have been spikes before that fell back, breaching two percent for the first time since 2012 is noteworthy.

In short, the economy is experiencing strong growth by almost all appearances we can see, which begs two questions. First, if growth is not in short supply, why do many growth companies maintain such multiple premiums over value companies? Second, with economic growth well established, and inflation starting to assert itself in earnest, why do interest rates remain at low levels by any historical measure except the past 10 years?

As in every situation, there are innumerable macro reasons that pundits postulate for current market conditions. Most seem like yapping Chihuahuas to us in the face of robust earnings outlooks and pricing power by cyclical and non-cyclical companies alike. Moreover, a seismic monetary shift has just occurred. Starting the first week of July, the Fed will be reducing its balance sheet by $40 billion while the European Central Bank (ECB) will increase its balance sheet by $30 billion. Therefore, there will be net Fed and ECB monetary tightening for the first time since the 2008 financial crisis. It seems odd to us, therefore, that the U.S. Treasury curve notably flattened during the quarter.

We cannot nor do we believe anyone else can truly explain the recent cap on long-term rates or the continued dynamic of growth equity outperformance over value equity. Perhaps trade tensions and various political hotspots are holding things down temporarily. We do believe though that unless the economy weakens soon, tension is building for something to change. Valuation disparities are too large and interest rate curves are too flat for the given climate.

[1] https://www.euromoney.com/article/b12kqjlwvsz26k/at1-capitalcoco-bonds-what-you-should-know
[2] https://www.washingtonpost.com/news/wonk/wp/2018/05/28/america-has-a-massive-truck-driver-shortage-heres-why-few-want-an-80000-job/?noredirect=on&utm_term=.bf381d26ce97
https://www.foxbusiness.com/features/truck-driver-shortage-heres-how-much-drivers-are-paid
[3] https://www.bloomberg.com/news/articles/2018-07-11/soaring-cost-of-trucking-is-threatening-to-stoke-u-s-i

Important Information

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.

As of 6/30/18, CCMNX one-year, five-year, and since inception (5/31/13) performance was 3.95%, 2.57%, and 2.75%, 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 877-272-1977. 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 net expense ratio is 2.74% which is the amount the investor would pay. 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%. 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. 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. Holdings are subject to change. Current and future holdings are subject to risk.