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.

Core Fixed Income Composite

PORTFOLIO COMMENTARY

In the second quarter of 2018, the Core Fixed Income Composite was flat (gross of fees) and down 0.08% (net of fees). The Intermediate component of the Bloomberg Barclays Aggregate Bond Index ("Benchmark") was up 0.09%

The Composite's largest sector, agency commercial mortgage-backed securities (MBS), posted a negative return of 0.20%. The main detractors to total return this quarter was the rate sell-off across the curve and spread widening in the sector.

The Composite's second largest sector, single-family agency MBS, returned 0.22% in the quarter, slightly underperforming the Benchmark's U.S. MBS sector return of 0.24%. The sector's higher income profile benefitted relative returns. 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 Composite, taxable municipal bonds, posted a negative return of 0.14%, 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 Composite'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 (4.61 vs. 4.34). The higher income profile contributed seven basis points to relative returns while the Composite's curve exposure positively affected returns given the underweight exposure to the middle part of the curve, which saw the largest rate increases during the quarter. The portfolio management team does not anticipate any changes to its current asset allocation weightings.

As of 6/30/18, the average annual gross returns for the Core Fixed Income Composite for 1-year, 5-year, 10-year and since inception (8/30/99) were 0.14%, 1.70%, 2.33% and 3.71%. As of 6/30/18, the average annual net returns for the Core Fixed Income Composite for the same time periods were -0.16%, 1.39%, 2.01% and 3.40%.