

# 3Q 2019 Commentary

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## MARKET COMMENTARY

Similar to the previous two quarters, the U.S. economic growth rate continued to slow in the third quarter. However, it remained strong compared to the rest of the world. As expected, the Federal Reserve reduced the Federal Funds rate by 0.25 percent in July. With August economic data reinforcing the slower growth outlook, the Fed acted again in September with another 0.25 percent rate cut. Investors' newfound "lower for longer" economic growth and interest rate outlook, combined with the healthy year-to-date gains in stocks, helped to push capital away from the higher growth areas of the stock market and toward what may be perceived as the safety and yield of bonds and income-oriented stocks.

Equity markets bumped around during the third quarter with leadership shifting alongside the release of economic and corporate profit data. Overall, large cap stocks held up better than small cap stocks with the S&P 500 Index up 1.7 percent, and the Russell 2000 Index down 2.4 percent. Within the U.S. stock market, declining interest rates proved beneficial for high yield stocks and bank stocks whose net interest margins generally expand as short-term rates decline. This contributed to gains in the S&P U.S. REIT Index, which was up 7.46 percent, and the S&P Value Index, which was up 2.47 percent. In contrast to the second quarter, the S&P 500 Growth Index trailed the S&P U.S. REIT Index and the S&P Value Index, gaining only 0.72 percent as the lower outlook for growth could no longer justify lofty valuations and almost 20 percent year-to-date gains. With the exception of small cap stocks, valuations remained high relative to their 20-year averages. Additionally, corporate profit growth has moderated, creating little margin of safety if economic conditions worsen. In this environment, we believe that attention to both fundamentals and price becomes even more important when building a stock portfolio.

With the outlook for growth slowing, investment-grade bonds continued their prior three quarters' rally, particularly in the longer maturity segment of the market where investor demand was the greatest. The Bloomberg Barclays Aggregate Index rose 2.27 percent with long-dated U.S. Treasuries posting the best results of all investment-grade sectors, rising 7.92 percent, and long-dated corporates up 5.61 percent. Similar to the second quarter, the MBS sector, which comprises approximately 27 percent of the Bloomberg Barclays Aggregate Index, delivered a 1.37 percent return, lagging most other sectors as mortgage refinancing increased amidst declining interest rates. The corporate credit market appears richly priced as spreads are less than 25 percent of their late-2008 levels. More importantly, over half of the outstanding value of investment-grade corporate bonds now carries the lowest credit rating (BBB/Baa) within the investment-grade rating scale. This combination (high prices and declining fundamentals) can create more risk - so decisions around credit selection and overall allocation to corporate credit can become even more important.

# CRA Qualified Investment Fund

## PORTFOLIO COMMENTARY

In the third quarter of 2019, the CRA Qualified Investment Fund (the "Fund") CRA Shares (CRAIX), Institutional Shares (CRANX), and Retail Shares (CRATX) posted positive returns of 1.36 percent, 1.48 percent, and 1.39 percent, respectively, on a net of fees basis. The Intermediate component of the Bloomberg Barclays Aggregate Bond Index ("Benchmark") was up 1.38 percent.

The Fund's largest sector, agency mortgage-backed securities (MBS), was up 1.37 percent during the quarter which matched the benchmark's MBS sector return. The Fund's overweight exposure to 30-year MBS vs. the Benchmark (the Fund currently has no exposure to 15/20-year MBS while the Benchmark's sector exposure is 13 percent), a higher income profile, and a superior paydown return all positively contributed to relative returns for the quarter. The Fund had an underweight allocation to 3 percent coupons, which were the best performing mortgages during the quarter.

The agency commercial mortgage-backed securities (CMBS) sector was the best performing sector of the Fund, generating a 2.06 percent total return. Spread tightening across the project loan REMIC space, which accounts for over 50 percent of the sector's exposure, was the primary reason for the excess return. Income was also a key driver,

accounting for over one-third of total return. Additionally, the longer duration profile of Agency CMBS positively impacted returns.

The third largest sector in the Fund, taxable municipal bonds, was up 1.37 percent with a price return of 0.58 percent, while the income return was 0.81 percent. The sector's return was negatively impacted as spreads widened during the quarter.

The Benchmark's performance for the quarter was helped by its larger position in corporates, which was the best performing sector in the bond market during the quarter, generating a 1.74 percent total return and an excess return of 0.62 percent. Treasuries and mortgages also contributed to the benchmark's performance, up 1.18 percent and 1.37 percent, respectively.

As of September 30, 2019, the Fund's Yield-to-Worst (YTW) is 2.59 percent, higher than the benchmark's YTW of 2.11 percent, and it exhibited 4 percent longer duration, or interest rate risk, to the benchmark. The portfolio management team does not anticipate any changes to its current asset allocation weightings.

## 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 09/30/19, the average annual returns for CRAIX for 1-year, 5-year, 10-year and since inception (8/30/1999) were 7.03%; 2.23%; 2.53%; and 3.96%. The average annual returns for CRANX for 1-year, 5-year, 10-year and since CRANX inception (3/2/2007) were 7.52%; 2.70%; 2.99%; and 3.55%. The average annual returns for CRATX for the same periods were 7.14%; 2.36%; 2.64% and 3.20%. As of 09/30/19, the 30-Day SEC yield for the CRA Shares, Institutional Shares, and Retail Shares was 1.95%, 2.39%, and 2.04% 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 0.92%; 0.48% and 0.82% respectively.*

*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. There is no guarantee the investment objective or goals of the Fund will be achieved. Holdings are subject to change.*