

# CCM Alternative Income Fund

## About the Fund

The Fund seeks to provide a total return generated primarily from income and secondarily from capital appreciation. The Fund invests in a portfolio of well-researched securities across multiple asset classes and hedges the portfolio's stock and bond market-related risk. Security selection focuses on relative value and incorporates a multi-dimensional approach to assessing impact. For investment-grade bonds, the team looks for positively impactful use of proceeds. For stocks, the team considers environmental, social, and governance factors.

## Portfolio Managers

### Andy Kaufman

Chief Investment Officer

Industry Start Date: 2004

CCM Portfolio Manager Since 2015

### David Sand

Chief Impact Strategist

Industry Start Date: 1981

CCM Portfolio Manager Since 2015

### Elliot Gilfarb, CFA

Head of Fixed Income

Industry Start Date: 2005

CCM Portfolio Manager Since 2012

### Andrew Cowen

Head of Equities

Industry Start Date: 2000

CCM Portfolio Manager Since 2013

### Thomas Lott

Portfolio Manager

Industry Start Date: 1999

CCM Portfolio Manager Since 2013

## Key Takeaways

- The proliferation of COVID-19 vaccinations and continued fiscal stimulus provided investors the needed confidence to drive equity markets even higher.
- Interest rates rose as expectations for economic growth and inflation took hold.
- Equities were broadly higher, with the stocks of smaller-capitalization companies posting the best returns amidst an expected rebound in the hardest-hit areas of the economy.

## Market Commentary

Similar to the first quarter of 2020, the first quarter of 2021 was defined by COVID-19. But instead of lockdowns and an exponential spread of the virus, the quarter ended with a record vaccine rollout where over 590 million doses have been administered worldwide. The quarter also delivered a new U.S. president, another infusion of COVID-19 relief stimulus, and a \$2.3 trillion government spending proposal focused on job creation and infrastructure. Consumer confidence, spending, and income all increased as the prospect of normalcy and "life after COVID-19" becomes closer in sight. The enthusiasm extended to the stock market with the S&P 500 Index posting a new high, more than recovering from the precipitous 34% drop that occurred during the first quarter of last year. Between continued government spending and the pent-up demand for a recovery from COVID-19-related losses last year, inflation expectations grew, contributing to a sell-off in the bond market. Yields on U.S. Treasuries experienced a swift move higher, with the 10-year Treasury note ending the quarter at 1.74% (0.81% higher than where it started the quarter).

In fixed income, the Bloomberg Barclays U.S. Aggregate Index (the Index) posted a negative quarterly return of 3.37%, the largest negative quarterly return since 1981. With the speed of the vaccination rollout and corresponding expectations for improving economic conditions, yields rose beyond previous consensus expectations. While most segments of the Index declined, U.S. Treasuries posted the worst results with the long-dated segment of the sector declining by 13.51%. Amidst an improving economic outlook, spreads narrowed across most sectors, particularly in segments of the mortgage-backed securities (MBS) sector where rising interest rates put a halt to the record-setting home refinancing wave of the prior nine months. Despite spreads narrowing in the corporate bond sector, the corporate segment of the Index still declined 4.65%. The amount of long-term investment grade corporate debt outstanding reached a record high, contributing to the overall sector's average maturity of 12 years, and thus its increased interest rate sensitivity. The debate around the level of future inflation has become fierce and is expected to continue as investors weigh the inflationary effects of increased government spending against the potential deflationary effects of higher taxes. This should lead to continued volatility in the level of rates and provide opportunities for bond managers who are active in managing portfolio duration and yield curve exposures.

In equities, the gains were widespread and impressive. Stocks of the smallest publicly traded companies were the best performers with the Russell Microcap Index and Russell 2000 Value Index posting gains of 23.9% and 21.2%, respectively. The rebound in the previously most beaten-down areas of the market has been remarkable with the demand for services, such as travel and entertainment, bidding up stock prices of commodities and cyclical industries. The energy sector was the best performer in the S&P 500 Index posting a quarterly return of 30.9% and trailing return of 116% since the lows in March 2020. The financial sector was the second-best performer in the S&P 500 Index, with a return of 16% as the earnings prospects for larger banks grew amidst a steepening yield curve. The returns for individual stocks in each sector most negatively impacted by COVID-19 has been a swift and extreme recovery; however, the impact on their future earnings and operations is still uncertain. Many stocks benefited from the lifestyle changes that accompanied the virus and carry valuations that assume a "new normal." Amidst this backdrop, there should be ample opportunities for active investment managers who are responsive to the post-COVID-19 economy shift and its impact on companies and sectors.

## About CCM

Community Capital Management, Inc. (CCM) was founded in 1998 and is a pioneer in impact and ESG investing. The firm believes a fully integrated portfolio, one that includes impact and environmental, social and governance (ESG) factors, can deliver strong financial performance while simultaneously having positive long-term economic and sustainable outcomes. CCM provides impact and ESG investing solutions coupled with customized reporting to clients on the positive impact outcomes of their investments. For more information, please call 877-272-1977 or visit: [www.ccminvests.com](http://www.ccminvests.com).

<b>Firm Assets</b>	\$3.4 Billion
<b>Impact and ESG Experience</b>	21 Years
<b>Impact and ESG Initiatives<sup>1</sup></b>	\$11.1 Billion Invested Nationwide

## Portfolio Contributors

- REITs
- Interest rate shorts/hedges
- Preferred Shares

## Portfolio Detractors

- Small-cap index shorts
- Volatility shorts

## Portfolio Commentary

The CCM Alternative Income Fund (CCMNX) posted a return of 8.24% in the first quarter with a 30-day SEC Yield of 5.32%. Steadily higher interest rates driven by fiscal stimulus and continued monetary accommodation on top of indications of the economy reopening led higher rates, higher commodity prices, and a market rotation out of COVID-19 beneficiaries to companies tied to cyclical upticks. Many yielding investments (a primary focus of the portfolio) continued their Q4 2020 uptrend. Similar to last quarter, many of these securities performed extremely well in the first quarter to the point where we believed they had reached their full value and exited a number of positions. We might not catch the top, but one has to appreciate tight spreads and negative convexity. While we are constructive on the economy and expect a continued rotation into the beneficial cyclical names, spreads have gotten even tighter so we must sharpen our focus to those pockets of value that remain.

As we indicated last quarter, the Federal Reserve (Fed) has explicitly acknowledged inflation is a welcome development. The resultant steeper yield curve married with an improving economy and higher inflation has positively impacted the portfolio in numerous ways. Valuations of companies whose profits remain in the out years have repriced, and we expect that continue. Meanwhile, current and steady cash flows are more appreciated. We expect a change in tax policy to have incremental implications on the markets. Companies with more tax advantaged structures, many of which have been decidedly out of vogue the past few years, could see strong demand, while multiples of those who benefitted from the corporate tax reduction might see multiples compress. The rest of the year promises to bring a flood of economic, societal, and political developments. Hopefully, such an environment also brings continued opportunities for idiosyncratic investment themes.

As of 03/31/2021, CCMNX one-year, five-year, and since inception (5/31/13) performance was 32.72%, 3.06%, and 2.21%, respectively. As of 03/31/21, the 30-Day SEC yield and the unsubsidized 30-Day yield for CCMNX are both 5.32%. 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 Advisor has contractually agreed to waive fees and reimburse expenses until September 30, 2021 so that Total Annual Fund Operating Expenses After Waivers and Expense Reimbursements will not exceed 1.85% of the Fund's average daily net assets. The Advisor may not recoup waived fees and reimbursed expenses. 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.

**Risk Considerations:** Investing involves risk, including possible loss of principal. 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.

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.

The top 10 holdings for CCMNX as of 03/31/2021 are: MET 9 1/4 04/08/38 (9.25%), WASHOE HWY-BABS (7.97%), FHR 2106 S IO (7.94%), MIAMI SPL OBLIG-CAP A (7.50%), FHA PL 034-35272 (6.95%), TUOLUMNE WIND-B-TUOLU (6.92%), BEDFORD PK VLG-B-TXBL (6.57%), FHA 023-98146 ST. FRANCIS (6.51%), AURA 2019-5B (6.50%), GNR 2010-68 SD IO (6.47%). Holdings are subject to change. Current and future holdings are subject to risk.