COMMUNITY CAPITAL MANAGEMENT

CCM Community Impact Bond Fund

Key Takeaways

- The S&P 500 Index rose 2.1% in the fourth quarter, bringing its annual return for 2024 to 23.3%, with technology stocks leading gains and energy lagging.
- The Bloomberg U.S. Aggregate Bond Index fell 3.1% as longer-term Treasury yields rose, driven by strong economic data and anticipated fiscal stimulus.
- The U.S. economy showed resilience in the fourth quarter, with strong consumer spending offsetting weaknesses in housing and manufacturing.

Share Classes

	Ticker	Inception	Expense Ratio
CRA	CRAIX	8/30/99	0.87
Institutional	CRANX	3/2/07	0.42
Retail	CRATX	3/2/07	0.77

Portfolio Managers

Andy Kaufman
Chief Investment Officer
Senior Portfolio Manager
Industry Start Date: 2004
CCM Portfolio Manager Since 2015

Elliot Gilfarb, CFA
Head of Fixed Income
Senior Portfolio Manager
Industry Start Date: 2005
CCM Portfolio Manager Since 2012

Miriam Legrand
Director of Credit Research
Portfolio Manager
Industry Start Date: 2001
CCM Portfolio Manager Since 2022

Shonali Pal
Portfolio Manager
Industry Start Date: 2014
CCM Portfolio Manager Since 2022

Market Commentary

The fourth quarter of 2024 saw continued strength in U.S. equity markets, though the pace of gains moderated compared with earlier in the year. Despite robust overall performance following the election, which increased expectations for pro-growth policies, investor sentiment turned cautious in December as concerns over economic deceleration and inflation came to the forefront.

The S&P 500 Index rose 2.1% during the quarter, bringing its annual total return for 2024 to 23.3%. Technology stocks led gains due to continued excitement over advancements in artificial intelligence, while energy and material sectors lagged amid declining commodity prices. This shift in sentiment underscored the broader market's growing focus on macroeconomic conditions, which also played a pivotal role in shaping bond market performance during the quarter.

The bond market experienced volatility throughout the quarter, reflecting shifting monetary and fiscal policy expectations. The Bloomberg U.S. Aggregate Bond Index declined 3.1%, as longer-term Treasury yields rose despite the Federal Reserve (the Fed) cutting rates by 100 basis points since September. Stronger-than-expected economic data, the Fed's updated forward-rate path, and anticipated fiscal stimulus drove the 10-year U.S. Treasury yield up from 3.78% at the end of the third quarter to 4.57% by year-end. The yield curve steepened further, with the spread between the 10-year and 2-year U.S. Treasury increasing from 13 to 33 basis points.

The U.S. economy demonstrated resilience in the fourth quarter, with consumer spending continuing to offset weaknesses in housing and manufacturing. Job creation slowed but remained positive, reflecting a labor market that is softening but still supportive of growth. Economists are forecasting slower growth in 2025, driven by tightening financial conditions and softening labor markets. Still, robust consumer spending is expected to remain a key pillar of economic activity, supported by wage gains and moderating inflation.

Inflation, as measured by the Personal Consumption Expenditures Core Price Index (Core PCE), ticked up slightly in the fourth quarter and remained above the Fed's 2% target. Inflation is anticipated to moderate further in 2025, with Core PCE inflation expected to average around 2.5%. This trajectory suggests that while price pressures are easing, the Fed will likely maintain a cautious approach to additional rate cuts to ensure inflation trends downward.

Looking ahead, the economic outlook remains relatively optimistic, supported by potential tax and regulatory reforms, solid consumer balance sheets, and easing inflationary pressures. However, geopolitical tensions and domestic policy uncertainties could contribute to increased market volatility in the months ahead.

Portfolio Contributors

- Underweight U.S. Treasuries
- Overweight Taxable Municipals
- Overweight to 5.5% and 6.5% Coupon Mortgage-Backed Securities (MBS)

Portfolio Detractors

- Yield Curve Positioning
- Overweight to Ginnie Mae Project Loan (GNPL) Real Estate Mortgage Investment Conduits (REMICs) (a Subsector of Agency Commercial Mortgage-Backed Securities (CMBS))
- Underweight Corporate Bonds

Portfolio Commentary

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In the fourth quarter of 2024, the CCM Community Impact Bond (CIB) Fund (the Fund) CRA Shares (CRAIX), Institutional Shares (CRANX), and Retail Shares (CRATX) were all down 2.28%, 2.18%, and 2.26%, respectively, net of fees. The Intermediate component of the Bloomberg Aggregate Bond Index (the Benchmark) was down 2.07%.

Duration and Yield Curve Positioning

During the quarter, the Fed lowered the federal funds rate by 50 basis points, leading to a decline in short-term interest rates (less than one year) by 15 to 54 basis points. In contrast, yields across the remainder of the curve increased. The belly of the curve (three to seven years) experienced a rise of 72 to 84 basis points, while the long end of the curve (10+ years) saw yields climb by 66 to 80 basis points.

Heading into the fourth quarter, the Fund's duration had been reduced but remained longer than that of the Benchmark throughout the period, averaging 4.50 years compared with the Benchmark's 4.41 years. Relative to the Benchmark, the Fund held less exposure to the three-year segment of the curve and more exposure to the seven- and 10-year segments. This positioning, combined with the larger rate increases in the seven- and 10-year parts of the curve compared to the three-year, resulted in duration and curve positioning detracting six basis points from performance.

Sector Allocation and Composition

All three major sectors of the Benchmark posted negative total returns with the U.S. Treasury, MBS, and corporate segments of the Benchmark down 1.70%, 3.16%, and 1.40%, respectively. Smaller sectors in the Benchmark, agency CMBS, non-agency ABS, and taxable municipals, were also down: 2.18%, 0.05%, and 1.54%, respectively.

The Fund's sector positioning positively impacted returns during the quarter. Its underweight allocation to U.S. Treasuries (averaging 5.7% vs. 42.7%) contributed to relative performance as spreads across most sectors tightened, leading to a positive excess return for the Index compared to zero for U.S. Treasuries. Similarly, the Fund's overweight allocation to taxable municipals (averaging 12.8% vs. 0.1%) added to performance, benefiting from a 10-basis-point tightening in taxable municipal spreads within the Benchmark, which generated an excess return above the Benchmark. Additionally, the Fund's overweight to 30-year 5.5% and 6.5% coupon MBS was beneficial to performance as spread tightening in these higher-coupon securities resulted in a greater excess return compared to lower coupon 30-year MBS.

These positive contributors were offset by the Fund's holdings in GNPL REMICs and its positioning in corporate bonds. During the quarter, spreads on the Fund's GNPL REMIC holdings widened by 32 basis points, causing the subsector to underperform relative to the Benchmark's agency CMBS sector. Additionally, the Fund's underweight allocation to corporate bonds detracted from performance as intermediate corporate bonds tightened by 9 basis points, generating an excess return for the sector that outpaced the Benchmark's overall excess return. The underweight to BBB-rated corporate bonds further detracted from returns as this subsector outperformed higher-rated bonds during the quarter.

Positioning Changes

Considering our cautious outlook on inflation and the potential for higher rates, the Fund's duration was reduced during the quarter, ending near the Benchmark's duration (4.51 years vs. 4.47 years). Given that our outlook remained largely unchanged throughout the quarter, adjustments to the Fund's sector and sub-sector allocations were minimal.

As of 12/31/24, the average annual returns for CRAIX for 1-year, 5-year, 10-year and since inception (08/30/1999) were 1.97%; -0.54%; 0.70%; and 3.02%. The average annual returns for CRANX for 1-year, 5-year, 10-year and since CRANX inception (03/2/07) were 2.54%; -0.09%; 1.16%; and 2.47%. The average annual returns for CRATX for the same periods were 2.18%; -0.42%; 0.81% and 2.12%. As of 12/31/24, the 30-Day SEC yield for the CRA Shares, Institutional Shares, and Retail Shares was 3.00%, 3.45%, and 3.10%, 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 888-272-0007. The annual operating expenses for the CRA Qualified Investment Fund's CRA Shares, Institutional Shares, and Retail Shares is 0.89%; 0.44% and 0.79%, 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.

Risk Considerations: Investing involves risk, including possible loss of principal. Bonds and bond funds will decrease in value as interest rates rise. The CCM Community Impact Bond 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.

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, LLC.

This fund involves impact and ESG Risk. The Adviser may select or exclude securities of certain companies for reasons other than performance and, as a result, the Fund may underperform other funds that do not use an impact and ESG screening process. Impact and ESG investing is qualitative and subjective by nature. There is no guarantee that impact and ESG criteria used by the Adviser will reflect beliefs or values of any particular investor.