COMMUNITY CAPITAL MANAGEMENT

CCM AFFORDABLE HOUSING MBS ETF (OWNS)

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.

Portfolio Managers

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

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

Jessica Botelho
Co-Chief Impact Strategist
Portfolio Manager
Industry Start Date: 2006
Portfolio Manager Since 2021

Shonali Pal
Portfolio Manager
Industry Start Date: 2014
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 15-Year MBS Pools
- Underweight to Lower Coupon 30-Year Conventional Mortgage-Backed Security (MBS) Pools
- Overweight to Higher Coupon 30-Year Conventional MBS Pools

Portfolio Detractors

- Underweight to Ginnie Mae MBS pools

Portfolio Commentary

Portfolio Commentary
In the fourth quarter of 2024, the CCM Affordable Housing ETF (the Fund) was down 3.17%, net-of-fees. The Bloomberg U.S. MBS Index (the Benchmark) was down 3.16%.

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.

During the quarter, the Fund maintained a neutral duration position relative to the Benchmark, resulting in no effect on relative performance.

Sector Allocation and Composition
During the quarter, the Fund was overweight in 30-year MBS, averaging 91.4% of the portfolio compared with 88.2% in the Benchmark while underweight 15- and 20-year MBS. The underweight position in 15-year MBS modestly enhanced relative performance as spreads widened during the quarter.

The Fund's allocation within the 30-year conventional (Fannie Mae or Freddie Mac) MBS coupon stack contributed positively to relative returns. Its underweight in lower coupon MBS (1.5% to 3.5%) and overweight in higher coupon MBS combined with an increase in interest rates during the quarter resulted in lower coupon mortgages underperforming, which was a benefit to performance. Additionally, its 30-year conventional MBS specified pools outperformed those in the Benchmark, further enhancing relative performance.

These positive contributions were partially offset by the Fund's limited exposure to 30-year MBS issued by Ginnie Mae (2.4% of the portfolio vs. 23.3% in the Benchmark). During the quarter, spreads on 30-year Ginnie Mae mortgages tightened, leading to their outperformance relative to conventional MBS..

Positioning Changes
Considering our outlook for rates to potentially move higher, we reduced the Fund's exposure to 2.0% coupon mortgage pools during the quarter. We reinvested these proceeds by increasing the Fund's exposure to 5.5% coupon mortgages, which we believe offer the best relative value within the Fund's investable universe.

As of 12/31/24 the average annual gross returns for the CCM Affordable Housing MBS ETF for 1-year and since inception (7/26/21) were 1.67% and 2.01% and the average annual net returns for the Impact CCM Affordable Housing MBS ETF for the same time periods were 1.49% and 2.09%.

As of 12/31/24 the gross and net expense ratios for the CCM Affordable Housing MBS ETF were 0.57% and 0.30%, respectively. Community Capital Management LLC has contractually agreed to limit the total annual operating expenses (exclusive of fees paid by the Fund pursuant to its distribution plan under Rule 12b-1 under the Investment Company Act of 1940, as amended, taxes, brokerage commissions and other transaction costs, interest payments, acquired fund fees and expenses, extraordinary expenses and dividend expenses on short sales) of the Fund to 0.30%. Waivers are contractual and in effect until October 31, 2025. This contract may not be terminated without the action or consent of the Fund's Board of Trustees.

Data sources: Barclays Live, Bloomberg PORT, and eVestment Alliance.

Performance results presented are net of fees and represent total return. Performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will either be suitable or profitable for an investment portfolio. Performance reports contained herein should not be construed as a recommendation to purchase or sell any particular securities. Market conditions can vary widely over time and can result in a loss of portfolio value. The results portrayed included the reinvestment of dividends, interest and other earnings. Any index information provided herein does not reflect the impact of fees; you cannot invest directly in an index. Performance for periods greater than 1-year are annualized.

This strategy involves impact and ESG risk. CCM may select or exclude securities of certain companies for reasons other than performance and, as a result, the strategy may underperform other strategies 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 CCM will reflect beliefs or values of any particular investor.

This material must be preceded or accompanied by a current prospectus. Investors should read it carefully before investing or sending money.

Investing involves risk, including the possible loss of principal. Shares of any ETF are bought and sold at market price (not NAV), may trade at a discount or premium to NAV and are not individually redeemed from the Fund. Brokerage commissions will reduce returns. The market price returns are based on the official closing price of an ETF share or, if the official closing price isn't available, the midpoint between the national best bid and national best offer ("NBBO") as of the time the ETF calculates current NAV per share. NAVs are calculated using prices as of (4:00 PM Eastern Time).

Bonds and bond funds are subject to interest rate risk and will decline in value as interest rates rise. Mortgage-backed securities are subject to prepayment and extension risk and therefore react differently to changes in interest rates than other bonds. Small movements in interest rates may quickly and significantly reduce the value of certain mortgage-backed securities. This fund is non-diversified. As an actively managed Fund, it does not seek to replicate a specified index.

The Fund is distributed by SEI Investments Distribution Co. (SIDCO), which is not affiliated with Community Capital Management.