COMMUNITY CAPITAL MANAGEMENT

CCM Community Impact Bond Fund

Key Takeaways

- The Federal Reserve (the Fed) initiated its rate-cutting cycle with a 50-basis point reduction in September, with further cuts expected by year-end and into 2025.
- Bonds performed strongly, with the Bloomberg U.S. Aggregate Index up 5.2%, as falling Treasury yields and a steepening yield curve signaled reduced recession concerns.
- The U.S. economy remained resilient, supported by strong consumer spending despite 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 third quarter of 2024 saw continued strength in U.S. equity markets, coupled with a decline in U.S. Treasury yields. These moves were the result of adjustments in monetary policy expectations. The S&P 500 Index rose 5.9%, bolstered by sector rotation and robust corporate earnings. Value stocks outperformed growth, as investors favored small caps and cyclicals, with utilities and real estate investment trusts (REITs) leading the way, gaining 19.4% and 17.2%, respectively. Energy was the only sector to decline, as crude oil prices softened. Small-cap indices, such as the Russell 2000, also saw strong gains, rising 9.3%.

Bonds also performed well in the third quarter as the Bloomberg U.S. Aggregate Index increased 5.2%. This strong performance was a result of a decline in treasury yields due to slowing U.S. economic fundamentals and the Fed's faster-than-expected initiation of its rate-cutting cycle.

Treasury yields fell across the curve, with the 10-Year U.S. Treasury yield dropping 0.62%, from 4.4% to 3.78%. The yield curve steepened as short-term interest rates decreased more sharply than long-term ones, with the spread between the 10-Year and 2-Year U.S. Treasury turning positive for the first time since July 2022, increasing from -0.36% to 0.14%.

The U.S. economy showed some resilience amid mixed signals in the third quarter. Higher mortgage rates continued to pressure the housing sector, while manufacturing contracted. Nevertheless, consumer spending—a key growth driver—remained solid, offsetting weakness in other sectors and supporting overall growth. The labor market softened but remained relatively strong, with unemployment holding steady at 4.2%.

The Fed is expected to continue easing its policy. Following a 50-basis point cut in September, economists anticipate further rate cuts of 50 basis points by the end of 2024, with an additional 100 basis point cut in 2025. Fed Chair Jerome Powell expressed confidence that inflation is on track to meet the 2% target, allowing the Fed to shift its focus toward its mandate of maximum employment.

The economic outlook for the remainder of 2024 remains cautiously optimistic. Gross domestic product (GDP) is expected to grow around 2% in the fourth quarter, with core personal consumption expenditure (PCE) inflation forecasted to end the year at 2.7%. Economists are expecting further moderation in both growth and employment in 2025 as expectations for GDP growth and Core PCE currently stand at 1.8% and 2.2%, respectively. However, risks to the outlook for the U.S. remain. The recent slowdown in hiring in the U.S., the upcoming U.S. election, and rising geopolitical tensions could result in volatility for both equity and bond markets during the fourth quarter and into 2025.

Portfolio Contributors

- Underweight U.S. Treasuries
- Outperformance of CCM's Custom Agency Mortgage-Backed Security (MBS) pools
- Longer Duration

Portfolio Detractors

- Yield Curve Positioning
- Overweight Taxable Municipal Bonds
- Underweight Corporate Bonds, specifically BBB-Rated Bonds

Portfolio Commentary

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In the third quarter of 2024, the CCM Community Impact Bond Fund (the CIB Fund) CRA Shares (CRAIX), Institutional Shares (CRANX), and Retail Shares (CRATX) posted positive returns of 4.40%, 4.52%, and 4.43%, respectively, on a net-of-fees basis. The Intermediate component of the Bloomberg Aggregate Bond Index (the Benchmark) posted a positive return of 4.60%.

Duration and Yield Curve Positioning

Interest rates declined 37 basis points to 111 basis points across the U.S. Treasury yield curve during the quarter with the largest decrease in the shorter end of the curve. The CIB Fund's longer duration (averaging 4.53 years vs. 4.38 years) was a benefit but was offset by its yield curve positioning. The CIB Fund was overweight the 7+ year segment of the curve where rates declined the least and underweight the 1-3 year segment where rates declined the most.

Sector Allocation and Composition

All three major sectors of the Benchmark posted positive total returns with the U.S. Treasury, MBS, and corporate segments of the Benchmark up 3.97%, 5.53%, and 4.66%, respectively. The smaller sectors in the benchmark, agency commercial mortgage-backed securities (CMBS), non-agency asset-backed securities (ABS), and taxable municipal bonds delivered positive returns of 4.77%, 3.35%, and 4.35%, respectively. During the quarter, the CIB Fund's relative positioning was overall beneficial to returns. Its underweight to U.S. Treasuries (averaging 6.7% vs. 42.1%) was the largest contributor to relative returns because of the sector's underperformance. Another contributor was the CIB Fund being overweight MBS (averaging 33.0% vs. 30.9% in the Benchmark), which was the best-performing major bond market sector. Its custom MBS pools outperformed similar-duration MBS pools in the Benchmark because of its historically consistent prepayment speeds, particularly during periods of declining interest rates. Slightly offsetting this outperformance was the relative performance of the portfolio's taxable municipal and asset-backed bonds (specifically, solar bonds) where spreads slightly widened during the quarter. Also offsetting the outperformance was its underweight to corporate bonds, specifically lower quality BBB-rated bonds, which delivered the best returns of the investment grade corporate sector.

Positioning Changes

The CIB Fund's duration remained higher than that of the Benchmark during the quarter; however, with the upcoming election and the candidates' promises of additional (inflationary) government spending, we slightly reduced duration, ending the quarter 0.09 years higher than the Benchmark. We made minor shifts among and within the sectors due to our conviction in our holdings and their attractive relative value.

As of 09/30/24, the average annual returns for CRAIX for 1-year, 5-year, 10-year and since inception (08/30/1999) were 9.96%; -0.06%; -1.08%; and 3.14%. The average annual returns for CRANX for 1-year, 5-year, 10-year and since CRANX inception (03/2/07) were 10.47%; 0.39%; 1.54%; and 2.64%. The average annual returns for CRATX for the same periods were 10.20%; 0.04%; 1.19% and 2.29%. As of 09/30/24, the 30-Day SEC yield for the CRA Shares, Institutional Shares, and Retail Shares was 2.84%, 3.28%, and 2.93%, 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.