

Funds with a Mission

During the third quarter of 2011, capital markets were extraordinarily volatile. Indeed, the word uncertainty exhausted its welcome in the financial press. Variables including tax and healthcare policy changes, looming sovereign insolvency, new regulations, competitive devaluation of fiat currencies, and political posturing dominated headlines. Security prices around the globe demonstrated exaggerated reactions to news coverage of economic data points, commentary from central bankers, and dysfunctional political processes. This led to another flight to perceived safety, which caused the 10 Year Treasury Note to yield as little as 1.68% – a stunning fact. The Federal Reserve announced its plan to “twist” the yield curve by selling securities with short maturities and buying securities with long maturities. This intervention is expected to cause longer term interest rates to fall, thereby creating an incentive for homeowners to refinance yet again.

It is thought that the resulting lower monthly mortgage payments will bolster domestic housing prices and leave more cash in the hands of

consumers. The “twist” is also intended to cause short term rates to rise, which could provide real relief to savers who have had to adjust to a prolonged, low interest rate environment. It is hoped that rising short term rates may stimulate the moribund American consumer, as well. Equity investors are faced with a slow growth environment in the US and developed Europe. In general, and especially in this environment, we believe that a portfolio of companies possessing powerful competitive positions in their industries, when purchased at reasonable prices, will provide shareholders with attractive investment results over time. Evidence of powerful competitive positioning includes pricing power, high gross margins, free cash flow, and balance sheet strength.



*Paul H. Stropkay, CFA
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Average Annualized Total Return (as of 9/30/11)	1-Yr	5-Yr	10-Yr
New Covenant Growth Fund	-2.70	-2.57	2.23
S&P 500 Index	1.14	-1.18	2.82
80% S&P 500 / 20% MSCI ACWI ex. US	-1.24	-1.09	3.76
New Covenant Income Fund	3.55	2.65	3.49
Barclays Capital Inter Agg Index	4.22	6.16	5.30
New Covenant Balanced Growth Fund	-0.16	-0.35	2.91
60% S&P 500 / 40% Barclays Capital Intermediate Aggregate Bond Index	2.61	2.11	4.14
New Covenant Balanced Income Fund	1.19	0.83	3.17
35% S&P 500 / 65% Barclays Capital Intermediate Aggregate Bond Index	3.37	3.93	4.74

The Expense Ratio is based on the most recent prospectus: Growth Fund - 0.99%, Income Fund - 0.77%, Balanced Growth Fund - 1.05%; Balanced Income Fund - 0.98%.

The performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principle value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. Current performance of the fund may be lower or higher than the performance quoted. To obtain performance information for the most recent month end, please visit www.NewCovenantFunds.com or call 877-835-4531.

An investor should consider the fund's investment objectives, risks, and charges and expenses carefully before investing or sending money. This and other important information about the investment company can be found in the fund's prospectus. To obtain a prospectus, please call 877-835-4531 or visit www.NewCovenantFunds.com. Please read the prospectus carefully before investing.

In our selection of active equity managers as subadvisors to the New Covenant Funds, we emphasize firms that focus on these and other fundamental factors, rather than on more speculative factors like stock price momentum or frequent trading. Over a full economic cycle, we expect our active equity managers to outperform broad market indexes, particularly on a risk-adjusted basis.

Effects of low interest rate environment

In September, I attended a presentation by Dr. Neal M. Soss, managing director and chief economist of Credit Suisse. Dr. Soss shared a number of noteworthy observations, but one struck me as especially interesting. He said, “The longer this goes on, the longer it may have to.” Dr. Soss was referring to the low (and falling) interest rate environment. As relatively higher yielding assets have matured, financial institutions have had little choice but to reinvest in lower yielding assets. As Dr. Soss described, this process has reduced the “caloric intake” (interest income) of financial institutions. According to Dr. Soss, in the future, a period of rising interest rates combined with mark-to-market accounting rules could have a ruinous effect on perceived financial strength of many financial institutions. (Bond prices move in the opposite direction of interest rates.) With this in mind, we are pleased to maintain an intermediate duration bond portfolio focused on high quality securities, while seeking to avoid much of the volatility associated with long duration fixed income securities.

New Covenant Fund Performance

During the quarter, the S&P 500 Index fell 13.87% and the international MCSI ACWI Ex-US Index fell 19.78%. In this environment, the New Covenant Growth Fund declined 16.46% during the quarter, while the fund’s blended benchmark of the S&P 500 Index (80%) and the MSCI ACWI ex U.S. Index (20%) fell 15.06%. During the quarter, the fund’s core allocation lagged the S&P 500 Index. The core allocation of the fund, which is a passive, optimized SRI index mandate, is managed to a tracking error threshold of 75 basis points. Tracking error is the difference between the performance of a fund or mandate and the performance of its underlying index. This mandate’s relatively wide tracking error threshold is intended to minimize transaction costs for New Covenant Growth

Fund shareholders. Lagging results relative to the benchmarks can also be attributed to factors including off-benchmark allocations. For example, overweight allocations to a large capitalization domestic value stock portfolio and a mid-capitalization domestic growth stock portfolio generally underperformed the S&P 500, as well as the fund’s blended benchmark during the quarter. We maintain these and other off-benchmark capital allocations in an attempt to provide shareholders with superior risk-adjusted returns over time.

In the quarter, the Barclays Intermediate Aggregate Bond Index rose 2.30%, while the New Covenant Income Fund provided shareholders with a total return of 1.82%. Extraordinary demand for US Treasury securities and widening of credit spreads (the yield differential between Treasury securities and non-Treasury securities) were the primary sources of benchmark lagging results during the quarter. The New Covenant Income Fund maintained overweight allocations to spread sector securities including corporate bonds and commercial mortgage backed securities and an underweight allocation to Treasury securities at the end of the quarter. While this portfolio positioning may continue to experience price volatility, we will still continue focusing on yield advantage relative to the benchmark.

For the quarter, the New Covenant Balanced Growth Fund returned -9.89%, whereas its benchmark of S&P 500 Index (60% weighting) blended with the Barclays Capital Intermediate Aggregate Bond Index (40% weighting) returned -7.61% for the same period. The New Covenant Balanced Income Fund returned -5.39% during the quarter. For this Fund, the benchmark is a blend of 35% for the S&P 500 and 65% for the same Barclays index, which returned -3.56% for the same period.

Socially Responsible Investing

With respect to Socially Responsible Investing (SRI), I recently attended the Mission Responsibility Through Investment (MRTI) committee meeting. As you’ll recall, MRTI is a ministry of the Presbyterian Church (U.S.A.) with representatives from investing agencies, advocacy groups, and the General Assembly Mission Council. The mission of MRTI has been determined by mandate of the General Assembly, and

the committee's recommendations provide socially responsible guidance for the New Covenant Funds. New Covenant Funds pursue socially responsible investing through proxy voting, filing and co-filing shareholder resolutions, and (in a few cases) excluding certain companies and industries from the investment universe. MRTI also pursues corporate engagement in an effort to express social witness principles in substantive ways. During the meeting, MRTI leadership described its completed and pending work in a variety of areas. Examples include environmental performance disclosures, coastal wetlands restoration, drilling and extraction safety, predatory lending, usurious transaction fees, executive compensation, human rights, child labor, human trafficking, and violence in video games. The adoption of basic principles against child prostitution by a major airline and hotel chain were notable recent successes. In addition, a number of ballot items went to vote or were withdrawn after corporations agree to comply with certain requests. We look forward to providing New Covenant Fund shareholders with additional

insight into our socially responsible investment mandate over the coming quarters.

As always, thank you for your continued support. We are grateful for the opportunity to serve you and appreciate the magnitude of our responsibility as stewards of your capital.

Sincerely,



Paul H. Stropkay, CFA
Chief Investment Officer, New Covenant Trust Company

Opinions expressed are those of the Advisor and are subject to change, not guaranteed, and should be considered investment advice.

Mutual fund investing involves risk. Principal loss is possible. Investments in bonds are subject to interest rate, credit, and inflation risk. Foreign investing involves additional risks, including currency fluctuations and political uncertainty. Stocks of companies in emerging markets are generally more risky than stocks of companies in developed countries. Prices of mid-and small-cap stocks often fluctuate more than those of large-company stocks. While U.S. Treasury or government agency securities provide substantial protection against credit risk, they do not protect investors against price changes due to changing interest rates. Fluctuations in price, especially for longer-term bonds in environments of changing interest rates, should be anticipated. Investments in asset backed and mortgage backed Securities include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. The fund may also use options and future contracts, which have the risks of unlimited losses of the underlying holdings due to unanticipated market movements and failure to correctly predict the direction of securities prices, interest rates and currency exchange rates. The investment in options is not suitable for all investors. Investment by the Fund in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. For a more complete description of these risks, please consult the prospectus.

The Funds' social policy may cause it to make or avoid investments for social reasons when it may be disadvantageous to do so.

Diversification does not assure a profit nor protect against loss in a declining market.

Fund holdings and sector allocations are subject to change at any time and should not be considered a recommendation to buy or sell any security.

The Standard & Poor's 500 Index (S&P 500) is an unmanaged, capitalization weighted index that measures the performance of 500 large-capitalization stocks representing all major industries. The MSCI All Country World Index ex-US is an equity index that includes both emerging and developed world markets and is designed to provide a broad measure of stock performance throughout the world, with the exception of U.S.-based companies. It is not possible to invest directly in an index. Barclays Capital U.S. Intermediate Aggregate Bond Index is an unmanaged index of U.S. Bonds which include reinvestment of any earnings. It is widely used to measure the overall performance of the U.S. bond market. Free Cash Flow represents the cash a company is able to generate after paying out the money required to maintain or expand its business. A basis point equals 0.01%.

New Covenant Funds are advised by One Compass Advisors, a subsidiary of the Presbyterian Foundation. The New Covenant Funds are distributed by Quasar Distributors, LLC.

