

Media Advisory

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Making Sense of Low Interest Rates and Quantitative Easing
New Covenant Income Fund Subadvisors Earnest Partners and Baird Advisors
Offer Bond Investing Insights

Jeffersonville, IN, December 7, 2010 — Quantitative easing round two. That's the name given to the Federal Reserve Bank's most recent effort to hold down long-term interest rates, stimulate economic growth, and cause investors to buy other assets such as stocks and corporate bonds. In early November, the Federal Reserve announced its commitment of \$600 billion to purchase Treasuries between now and June 2011. And it is not without controversy or ramifications for bond investors.

Direct government purchases in credit markets have resulted in higher bond prices and lower bond yields. At this time, the Treasury yield curve begins with the overnight Fed Funds target rate of zero to 0.25% and climbs to over 2.8% for 10-year Treasury securities. While this curve is steep in a historical context, absolute levels of interest rates remain low.

In early November, One Compass Advisors, the advisor to the New Covenant Income Fund, met with sub-advisors Earnest Partners and Baird Advisors to determine what it believes to be a prudent course of action in the current interest rate environment.

Said Paul H. Stropkay, CFA, Chief Investment Officer of One Compass Advisors, "Since the latter part of 2008, we have worked with Earnest Partners and Baird Advisors to improve the overall credit quality of the New Covenant Income Fund. We are pleased with the portfolio today from a credit quality perspective and we remain cognizant of interest rate risk, which has been exacerbated by government intervention in credit markets. Early this month, bond management staff from Earnest Partners and Baird Advisors presented facts and opinions that support the case for the strategy we've implemented for New Covenant Income Fund shareholders – a high-quality, intermediate duration, domestic bond portfolio."

Following are selected comments from Chris Fitze, CFA, Portfolio Manager with Earnest Partners and Mary Ellen Stanek, CFA, Chief Investment Officer of Baird Advisors:

Q. What impact have the Federal Reserve's purchases of Treasury and other securities had on the markets you invest in?

Fitze: The Federal Reserve continues to be a price setter in many markets. With their direct purchases of Treasuries, agencies, and agency single-family mortgages, in many cases they have forced investors out of those markets into other bond market sectors. In a way, their purchases provide direct support for the sectors they are buying and indirect support through the forced flow of funds to other sectors of the market.

Stanek: Consider the Fed's last quantitative easing effort in 2009 and early 2010. We believe spreads and prices on agency mortgage-backed securities reached unsustainable highs because the Government was in the market as a very significant buyer of these securities. By the time the program stopped on March 31, 2010, the Government had purchased \$1.3 trillion,

significantly impacting the supply/demand balance in the marketplace and driving prices to overvalued levels. As a result, we reduced our exposure to agency mortgage backed securities.

We are finding opportunities in other sectors of the high-quality bond market including corporate and selected senior classes of non-agency mortgage-backed and asset-backed securities. Though Treasuries have had strong absolute returns year to date through September 2010, we have been underweight this sector and have no regrets as Treasuries have been one of the worst performing sectors year to date to September 30. Virtually all non-US Treasury spread sector securities – corporate, asset backed and mortgages – have outperformed equal duration Treasuries.

As the Fed proceeds with new quantitative easing – which is getting mixed reactions in its initial stages – we will continue to adjust our relative weighting based on valuation and supply/demand factors.

Q. Strong bond returns and the desire for a safe haven have continued to fuel investor interest in bonds with bond fund cash flows outpacing stock funds. Any comments on the timing of investors' moves into bonds?

Fitze: The demand for the preservation of capital remains high, and the shift by individual investors might have more to do with changing demographics and risk tolerances than anything else. The baby boomer generation has a need for stable, income producing assets, and no matter how low rates are today, the bond market is generally one place where they can achieve that exposure.

Stanek: In 2009, ninety percent of experts thought interest rates would be higher in 2010. Only 6% expected them to be lower. In fact, the 10-year Treasury yield fell more than 100 basis points¹ resulting in a positive total return for a 10-year Treasury so far in 2010! We remain committed to our duration neutral strategy as the consensus is frequently wrong. We don't encourage bond investors to time the market either. Rather, we encourage investors to remember the reasons they own bonds in the first place.

Q. Are you concerned the Fed's efforts may lead to future inflation? How will this affect your investment approach?

Fitze: The Fed's efforts might lead to future inflation, but a little inflation might just not be a bad thing for the economy. If inflation brings stabilization to the housing market and spurs consumption today, the economy might be better off in the future.

While the actions of the Fed have certainly caused some volatility in the fixed income markets, they have not impacted the way in which we approach each investment. We continue to implement our bottom-up process looking to build a high-quality portfolio that has the potential to perform in any market environment.

Stanek: We believe deflation is more of the near term concern. We monitor a number of the same inflation indicators the Fed watches to measure core inflation. Core consumer and producer prices have continued to move down and have shown few indications of inflation. The sharp recession reduced inflationary pressures. In this tepid recovery, we haven't seen upward pressure on prices. Instead, there continues to be slack in labor markets and excess global capacity. While rates should eventually move up, we do not expect worrisome inflationary

pressures to build over the next several quarters and continue to believe rates will stay lower longer than people expect.

It is virtually impossible to forecast when the Fed will increase rates, how swift or protracted its actions will be, and what the exact impact will be on bond returns. We don't bet on interest rates. As a duration neutral manager, we historically have matched our duration to the relevant benchmark. For the New Covenant Income Fund, the benchmark is the Barclays Capital Intermediate Aggregate Bond Index².

Q. Please share any additional advice you have for bond investors wanting to navigate the low yield environment and attempting to avoid undue risk.

Fitze: Yes, yields are low today and the preservation of capital is critically important. It is always difficult to earn back capital losses in the bond market and even more so with today's low yields. For that reason, our focus continues to be on managing a high-quality portfolio with securities that do not need the support of the Federal Reserve or Treasury Department through open market purchases. We want to choose investments that can stand on their own merit through an entire market cycle. Rising interest rates provide an opportunity as well as a risk with the opportunity that investors can reinvest at higher rates.

Stanek: We do know that bonds play an important role in investors' portfolios – lower overall portfolio volatility, providing income, diversification, or some combination thereof. In prior periods of rising interest rates, increases in yield more than offset decreases in price. To be sure, there will be periods of negative price movements when total returns may be somewhat muted; however, these concerns do not trump the importance of a strategic allocation to bonds in a portfolio.

About Earnest Partners and Baird Advisors

EARNEST Partners is an independent, employee-owned asset management firm currently advising more than \$17 billion in assets for clients around the world. EARNEST Partners manages portfolios for more than 300 institutional clients.

Baird Advisors manages more than \$15 billion in nationally recognized bond funds and separately-managed portfolios for institutional investors, employing a structured risk-controlled approach seeking to consistently outperform industry benchmarks over full market cycles.

About New Covenant Funds

New Covenant Funds is a family of faith-based mutual funds sponsored by the Presbyterian Foundation. In addition to the New Covenant Growth Fund, there are four other New Covenant Funds: New Covenant Income Fund, two balanced funds -New Covenant Balanced Growth and New Covenant Balanced Income Funds (each comprised of distinct allocations of New Covenant Growth and New Covenant Income Fund), and a money market fund, New Covenant Treasury Obligations Fund. For more information about New Covenant Funds, visit www.newcovenantfunds.com.

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1. A basis point is 1/100 of a percent or 0.01%.

2. The Barclays Capital U.S. Intermediate Aggregate Bond Index (formerly known as the Lehman 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. It is not possible to invest directly in this index.

The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling 877-835-4531 or by visiting www.newcovenantfunds.com. Read it carefully before investing.

Mutual fund investing involves risk. Principal loss is possible. Bond Funds will tend to experience smaller fluctuations in value than stock funds. Fluctuations in price, especially for longer term bonds in environments of changing interest rates, should be anticipated. Asset-backed and mortgage-backed securities are generally subject to higher prepayment risks than other types of debt securities, which can limit the potential for gain in a declining interest rate environment and increase the potential for loss in a rising interest rate environment. Mortgage-backed securities may also be structured so that they are particularly sensitive to interest rates. A high rate of defaults on mortgages held by a mortgage pool may limit the pool's ability to make payments to the fund if the fund holds securities that are subordinate to other interest in the same mortgage pool; the risk of such defaults is generally higher in mortgage pools that include subprime mortgages. Other principal risks associated with securities in the Income Fund are the following: Interest Rate Risk, Call Risk, Credit Risk, Put and Call Option Risk, Foreign Securities Risk, Options and Futures Risk, Government Securities Risk and Rebalancing Risk. For a more complete description of these risks, please consult the prospectus. Diversification does not assure a profit or protect against loss in a declining market.

An investment in the new Covenant Treasury Obligations Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the Fund.

Past performance does not guarantee future results. Index performance is not indicative of Fund Performance. Standardized performance for the Funds may be obtained by calling 877-835-4531 or by visiting www.newcovenantfunds.com.

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