Market Commentary
New Covenant Funds
Second Quarter 2020

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- The Office of the U.S. Trade Representative issued a notice in late June that it was considering imposing tariffs on about $3 billion in imports from the U.K., Germany, France and Spain.
- We believe that an ebb and flow of assorted concerns in the coming months will continue to spark volatility across financial markets. Such periods of instability are to be expected in any long-term investing plan; as such, SEI is just as prepared as always to navigate the current wave of deep uncertainty.

Economic Backdrop

Equities around the world spent much of the second quarter embracing the sharp rebound that began at the end of March. Shares were universally higher for the full quarter; although every major market besides China peaked in early June and failed to make new highs thereafter. Recoveries varied in size, and some markets had their best quarter in several years. U.S. shares had the highest quarterly performance since 1998 according to the S&P 500 Index.

Rates for U.S. Treasurys with the shortest and longest maturities increased during the full quarter, while the rates of those with maturities of 1-to-10 years declined. Across maturities, Treasury rates at the end of June were almost identical to those at the end of May, as the entire yield curve moved higher through early June before reversing. Gilt rates were lower across all maturities for the full three-month period. Short-to-intermediate-term rates ended near their lowest-ever rates, while long-term rates climbed throughout the quarter after bottoming in April (albeit returning only partway to their first-quarter finish). European government-bond rates nearly completed a round trip during the second quarter—falling in April, climbing in May, and falling back at the end of June to almost exactly where they concluded the first-quarter.

The West-Texas Intermediate (WTI) oil price plummeted below zero U.S. dollars per barrel in April for the first time in history as its futures contract for May delivery neared expiration. Subsequent contracts traded higher in light of a 23-nation agreement led by the U.S., Saudi Arabia and Russia to cut production by 10 million barrels per day—and the WTI oil price finished June at $39.27 per barrel. The gold spot price climbed throughout the second quarter to its highest level since 2012 amid unprecedented government spending and deep uncertainty about the economic outlook.

The Office of the U.S. Trade Representative issued a notice in late June that it was considering imposing tariffs on about $3 billion in imports from the U.K., Germany, France and Spain. The World Trade Organization approved $7.5 billion in U.S. tariffs on European products in late 2019, and may also approve retaliatory European tariffs on U.S. products.

U.S. borders were set to remain closed to Canada and Mexico until at least July 21 as part of the Trump administration's latest one-month extension, which began on 20 March. The United States–Mexico–Canada Agreement (USMCA) took effect on 1 July, officially replacing the North American Free Trade Agreement (NAFTA).

The EU re-opened its internal borders in mid-June and prepared to open for external travelers on July 1, yet with restrictions still applied to citizens of some outside countries (including the US). Several U.S. states reported an early-June surge in their respective COVID-19 infection rates after pushing to reverse their lockdowns earlier than other states. Texas also noted a string of record-high COVID-19-related hospitalizations at the time, prompting state officials to backpedal its re-opening plans; many other states saw a rising share of positive COVID-19 test results amid expanded overall testing. As a result, several Northeastern states that served as the country's original outbreak epicenter announced 14-day quarantines for visitors from U.S. states that were experiencing recent spikes. The first dedicated COVID-19 treatment—Remdesiver—came to market in late June.

The U.K. and EU struggled to establish their regulatory equivalence in a combined effort to grant mutual access to their financial markets after the Brexit transition period concludes at the end of 2020. The two sides failed to reach an agreement by the proposed June 30 deadline; while the U.K. said it is prepared to grant the EU access to U.K. financial markets, the EU stated that the U.K. has not provided sufficient information to complete its evaluation.

China passed a new national security law for Hong Kong in June, categorizing an array of subversive activities as criminal behavior and carrying sentences as steep as life imprisonment. The ruling also enables Beijing to supervise and intervene in the policing of these activities, as well as the final word on interpreting the law.

Several governments around the world condemned this development. U.K. Prime Minister Boris Johnson said Britain was considering a path to citizenship and relocation for British Nationals (Overseas) (a class of British nationality extended to Hong Kong residents prior to the 1997 handover). The U.S. imposed visa bans on several Chinese central government officials, to which Beijing responded with visa restrictions on Americans "who behave badly in Hong Kong affairs."

On a positive note, the head of China's Securities Regulatory Commission expressed willingness to cooperate on joint company inspections after the U.S. raised the prospect of barring Chinese companies from its financial market if they continued to block transparent audits. China also announced plans to accelerate purchases of U.S. agricultural goods to uphold its commitments to the phase-one trade deal.

In mid-June, Chinese and Indian soldiers skirmished (without firearms) along a disputed border ridge in the Himalayas. India reported at least 20 of its soldiers were killed in the fight, while China did not release information about casualties. At the end of the month, India retaliated by banning scores of mobile apps originating in China (several of which have been widely downloaded around the world).

Central Banks

- The U.S. Federal Open Market Committee (FOMC) maintained its monetary-policy path throughout the second quarter—providing assurances in early June that it would not raise the federal funds rate for the foreseeable future and that it would maintain quantitative easing via purchases of Treasurys and mortgage-backed securities (MBS). The FOMC began purchasing corporate bonds during the second quarter via programs that it established as part of its pandemic response. The Federal Reserve (Fed) ordered banks to cut dividends and halt stock buybacks following stress tests on the prospect of an extended economic downturn resulting in a higher rate of loan defaults.

- The Bank of England's (BoE) Monetary Policy Committee held the Bank Rate at 0.1%, during the second quarter; following its mid-June meeting, the central bank announced that it would expand its stock of asset purchases (from an initial £200 billion increase announced in March) by another £100 billion to £745 billion.

- The European Central Bank (ECB) held its benchmark rates unchanged during the second quarter. It unveiled the pandemic emergency longer-term refinancing operations (PELTROs) in April to help facilitate proper functioning of money markets; in early June, it also announced the expansion of its Pandemic Emergency Purchase Programme (PEPP), which is designed to facilitate asset purchases, by €600 billion to a total of €1.35 trillion.

- The Bank of Japan (BOJ) held course following its mid-June meeting, maintaining its short-term rate and its target rate for the 10-year Japanese government bond. However, it did share an expectation to inject ¥110 trillion into the Japanese economy to offset the COVID-19 health crisis.

Index Data for Second Quarter 2020

- The Dow Jones Industrial Average surged by 18.51%.
- The S&P 500 Index lifted by 20.54%.
- The NASDAQ Composite Index jumped by 30.95%.
- The MSCI ACWI (Net), used to gauge global equity performance, increased by 19.22%.
- The Bloomberg Barclays Global Aggregate Index, which represents global bond markets, inflated by 3.32%.
- The Chicago Board Options Exchange Volatility Index, a measure of implied volatility in the S&P 500 Index that is also known as the "fear index," decelerated, moving from 53.54 to 30.43.
- WTI Cushing crude-oil prices, a key indicator of movements in the oil market, gained from $20.48 a barrel on the last day in March to $39.27 on June 30.
- The U.S. dollar moved to $1.24 versus sterling, $1.12 against the euro and 107.93 yen.

Portfolio Review

The Growth Fund benefited from its environmental, social and governance screen (ESG), which led to underweights to the struggling tobacco and defense industries. While the ESG screen tends to overweight the information technology sector (which saw positive results for the quarter), the favorable overweight to the sector was not enough to overcome the negative effects of security selection.

The Income Fund benefited from an overweight to asset-backed securities (ABS) and higher-quality commercial mortgage-backed securities (CMBS) during the quarter; exposure to non-agency mortgage-backed securities (MBS), which continued their rebound after the first quarter's liquidity-induced sell-off; an overweight to agency MBS, particularly selection within specified pools; an overweight to corporate credit as spreads tightened during the quarter; and selection within industrials and financials (banks).The Income Fund's overweight to 30-year U.S. Treasury bonds detracted as yields rose during the quarter. Duration positioning throughout the quarter was in line with the benchmark and had little impact on relative performance. Western Asset Management gained on an overweight to credit sectors as spreads tightened over the quarter. An overweight to energy and financials helped. Off-benchmark allocations to non-U.S.-dollar denominated securities contributed modestly. An overweight to agency MBS was beneficial, as was an allocation to non-agency MBS. An overweight to the long-term segment of the U.S. Treasury yield curve detracted modestly as 30-year Treasury yields rose. Income Research & Management's overweight to investment-grade credit contributed as yield spreads between corporate and government bonds tightened (as interest rates on corporate bonds fell, their prices rose.) Selection within and an overweight to the financials sector helped. Overweights to ABS and CMBS were beneficial as markets recovered from the forced selling that happened during the market decline in March. While an overweight to taxable municipal bonds was a modest contributor, an underweight to government bonds detracted slightly. Security selection within industrials also hurt.

Manager Positioning and Opportunities

The Growth Fund employs a passive strategy designed to track the performance of the Russell 3000 Index, which represents the largest 3,000 U.S. companies and approximately 98% of the investable U.S. equity market, subject to such variation as may arise as a result of implementation of the social witness principles of the General Assembly of the Presbyterian Church (U.S.A.).

During the quarter, the Income Fund increased its overweight to the industrials sector. The overweight to agency MBS was reduced. The Income Fund's duration positioning ended the quarter neutral to its benchmark, but remained overweight the long-term segment of the U.S. Treasury yield curve. Duration is a measure of risk in bond investing and indicates how price-sensitive a bond is to changes in interest rates. A long (overweight) duration stance indicates the portfolio duration is higher than that of the benchmark whereas a short (underweight) duration stance indicates a lower duration. Duration is measured in years and securities with longer durations are more sensitive to interest-rate changes. With yields near historic lows, the Fund's managers are likely to stay close to neutral until volatility subsides. The Income Fund was overweight corporate bonds. Credit allocations will likely increase incrementally, depending on the path of the COVID-19 pandemic and resulting economic recovery. Managers are expected to adjust duration and yield-curve positioning in response to changes in the market. They are pursuing a "follow the Fed" approach in adding to positions within investment-grade credit and agency MBS, as those are the two initial areas that the Fed has supported.

The New Covenant Balanced Growth Fund invests about 60% of its assets in the Growth Fund and 40% in the Income Fund. The New Covenant Balanced Income Fund invests about 35% of its assets in the Growth Fund and about 65% in the Income Fund.

Glossary

Duration is a measure of a security's price sensitivity to changes in interest rates. Specifically, duration measures the potential change in value of a bond that would result from a 1% change in interest rates. The shorter the duration of a bond, the less its price will potentially change as interest rates go up or down; conversely, the longer the duration of a bond, the more its price will potentially change.

Federal-funds rate: The federal-funds rate is the interest rate at which a depository institution lends immediately-available funds (balances at the U.S. Federal Reserve) to another depository institution overnight in the U.S.

Quantitative easing: Quantitative easing refers to expansionary efforts by central banks to help increase the supply of money in the economy.

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and NASDAQ.

The S&P 500 Index is an unmanaged, market-capitalization weighted index that consists of the 500 largest publicly traded U.S. companies and is considered representative of the broad U.S. stock market

The NASDAQ Composite Index is an unmanaged, market-capitalization weighted index that consists of all securities listed on the NASDAQ exchange. It is often used to gauge performance of global technology stocks.

The MSCI All Country World Index is a market-capitalization-weighted index composed of over 2,000 companies, and is representative of the market structure of 48 developed and emerging-market countries in North and South America, Europe, Africa and the Pacific Rim. The Index is calculated with net dividends reinvested in U.S. dollars.

The Bloomberg Barclays Global Aggregate Bond Index (formerly Lehman Brothers Global Aggregate Index), an unmanaged market-capitalization-weighted benchmark, tracks the performance of investment-grade fixed-income securities denominated in 13 currencies. The Index reflects reinvestment of all distributions and changes in market prices.

The Chicago Board Options Exchange Volatility Index (VIX) tracks the expected volatility in the S&P 500 Index over the next 30 days. A higher number indicates greater volatility.
The Russell 3000 Index includes 3000 of the largest U.S. equity securities based on market cap and current index membership; it is used to measure the activity of the U.S. equity market.

The Bloomberg Barclays Intermediate U.S. Aggregate Bond Index is an unmanaged benchmark index composed of U.S. securities in Treasury, government-related, corporate, and securitized sectors with remaining maturities of less than 10 years.

The performance data quoted represents past performance. Past performance 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 and current performance may be lower or higher than the performance quoted. For performance data current to the most recent month end, please call 1-877-835-4531.

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For those New Covenant Funds which employ the "manager of managers" structure, SEI Investments Management Corporation (SIMC) has ultimate responsibility for the investment performance of the Funds due to its responsibility to oversee the sub-advisers and recommend their hiring, termination and replacement. SIMC is the adviser to the New Covenant Funds, which are distributed by SEI Investments Distribution Co. (SIDCO). SIMC and SIDCO are wholly owned subsidiaries of SEI Investments Company.

To determine if the Fund(s) are an appropriate investment for you, carefully consider the investment objectives, risk factors and charges and expenses before investing. This and other information can be found in the Fund's prospectus, and if available, the summary prospectus, which can be obtained by calling 1-877-835-4531. Read the prospectus carefully before investing.

There are risks involved with investing, including loss of principal. Current and future portfolio holdings are subject to risks as well. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. Narrowly focused investments and smaller companies typically exhibit higher volatility. Bonds and bond funds will decrease in value as interest rates rise. 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. Mortgage-backed securities are affected by, among other things, interest rate changes and the possibility of prepayment of the underlying mortgage loans. Mortgage backed securities are also subject to the risk that underlying borrowers will be unable to meet their obligations.

Diversification may not protect against market risk. There is no assurance the objectives discussed will be met. Past performance does not guarantee future results Index returns are for illustrative purposes only and do not represent actual portfolio performance. Index returns do not reflect any management fees, transaction costs or expenses. One cannot invest directly in an index.

- ***Not FDIC Insured***
- ***No Bank Guarantee***
- ***May Lose Value***