Market Commentary

New Covenant Funds

Third Quarter 2020

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- Global equity markets delivered another quarter of outsized gains, moving further from the March 2020 lows as the economic recovery that took hold in the second quarter persisted throughout the summer.
- COVID-19 infections peaked among U.S. residents in late July and continued to fall through mid-September, before rising once again by quarter's end.
- We sense that the next few months of what has already been an eventful year could prove critical to the future course of the global economy and financial markets.

Economic Backdrop

Global equity markets delivered another quarter of outsized gains, moving further from the March 2020 lows as the economic recovery that took hold in the second quarter continued throughout the summer.

U.S. stocks climbed steadily for the first two months of the quarter until peaking at the start of September and mostly declining for the remainder of the period. European equities moved higher over the full quarter with relative consistency, while U.K. stocks were flat in July, higher in August and flat again in September (finishing lower in sterling but higher in U.S. dollars). Japanese stocks advanced for the majority of the third quarter, while Chinese equities jumped in early July and finished the quarter with strong performance. Hong Kong stocks also started July in a rally, but finished the third quarter on a downbeat after selling off in September.

Short-to-intermediate-term U.S. Treasury rates declined and long-term rates increased, resulting in a steeper yield curve. U.K. government-bond rates increased across most maturities during the third quarter. Eurozone government-bond rates generally decreased, although shorter-term rates were mixed in both markets. The U.S. dollar continued to decline versus a broad trade-weighted basket of foreign currencies throughout most of the third quarter before beginning to recover in a mid-September reversal.

The number of people infected with COVID-19 in European countries continued to rise throughout the third quarter after having reached low points in June and July. Spain saw the earliest resurgence and ended the period with a greater percentage of its population infected than that of any other country in the region, followed first by France and then the U.K. Upticks in Italy and Germany have been much more subdued. Meanwhile, the percent of infected U.S. residents peaked in late July—nearly matching the high point Spain would reach two months later—and continued to fall through mid-September before rising once again by quarter's end.

U.S. companies announced a large wave of layoffs for workers that had been furloughed earlier in the year as the quarter concluded. Employers in the worst-affected industries—airlines, travel accommodation, sports, entertainment, retail and education—have generally run short of resources after depleting the Paycheck Protection Program loans that were helping to support workforce retention. Prospects for additional fiscal stimulus dimmed amid election-season politics, with Democrats and Republicans holding firm on their respective funding demands. However, the Congress did pass a resolution on the last day of the third quarter to continue funding the federal government through mid-December, avoiding a government shutdown.

U.K. Prime Minister Boris Johnson announced in late September new restrictions in England on pubs and restaurants, transportation, and group gatherings as COVID-19 cases in the U.K. climbed to their highest levels since the spring. At the end of the same month, the U.K. House of Commons voted for passage of an internal market bill that contradicts the Brexit divorce agreement. Johnson argued that the powers granted by the bill would allow the U.K. to override EU attempts to shut down trade between Northern Ireland and other parts of the U.K. An amendment to the bill would require the government to gain parliamentary approval for any changes to commitments in the divorce agreement, representing a concession on the government's behalf. Nevertheless, the EU announced it would pursue legal remedy given the bill's contradictions with the Brexit agreement, even as trade negotiations continued.

Japan's ruling Liberal Democratic Party selected Yoshihide Suga to succeed Prime Minister Shinzo Abe, who resigned during the quarter due to health issues. Elsewhere in Asia, China-Taiwan tensions flared around a high-level U.S.

government official's visit to Taiwan; China was angered by what it saw as one of its territories assuming sovereignty by inappropriately conducting international diplomacy. Chinese planes made a show of force to coincide with the visit, prompting Taiwan to quickly mobilize its military jets. The island's government had previously condemned nearby Chinese military drills as provocations. In Beijing, a military spokesman accused Taiwan's ruling Democratic Progressive Party of "collusion" with the U.S., and said the U.S. is trying to "use Taiwan to control China."

The foreign ministries of China and India issued a joint statement in September declaring their intent to deescalate a territorial conflict that began in the spring along their Himalayan border.

U.S. technology company Oracle and retailer Walmart won a joint bid in September to serve as trusted technology partners of TikTok's U.S. operations and, in order to appease U.S. national security concerns, gain full access to TikTok's source code. However, under the current proposal, Chinese parent company ByteDance will retain an 80% stake despite the Trump administration having sought majority ownership for the U.S. companies. A U.S. judge temporarily blocked an executive order signed by Trump to ban downloads and updates for TikTok and other popular Chinese apps beginning in September.

The Trump administration announced in September that it would not pursue a 10% tariff on U.S. imports of Canadian aluminum previously announced in August, as trade is now expected to normalize in the coming months following high import levels earlier in 2020.

Israel normalized relations with the United Arab Emirates and Bahrain in early September in a US-brokered agreement that is expected to result in the mutual establishment of embassies and increased regional trade between the U.S. allies.

The EU imposed sanctions on a "substantial number" of Belarusian officials in response to fraud and violence associated with the August 9 election victory that awarded President Alexander Lukashenko his sixth term after 26 years in power. EU leaders declared that the election—which Lukashenko was said to have won with 80% of the vote despite large, ongoing protests—would need to be rerun as it was "neither free nor fair."

Armenia and Azerbaijan renewed a long-simmering conflict centered on control of the Nagorno-Karabakh region. Beginning in July, Armenia announced joint defense programs with Russia—which Azerbaijan countered via military exercises with Turkey. Both sides accused the other of employing fighters from other regional conflict zones. By the end of September, skirmishes yielded to outright battles during which Armenia claimed Turkey shot down an Armenian fighter jet in Armenian airspace.

Central Banks

- The Federal Open Market Committee (FOMC) kept the federal-funds rate near zero during the third quarter. During July, the Federal Reserve (Fed) Board of Governors announced extensions of temporary U.S. dollar-liquidity-swap and repurchase-agreement facilities with other central banks through March 2021. In August, the FOMC introduced a new average inflation target that would allow above-target inflation following periods of below-target inflation. This change indicates that the FOMC will likely let the U.S. economy run hotter than in the past before taking policy action to temper growth. At the end of September, the Fed announced it would extend an order through the fourth quarter of 2020 for large banks to cut dividends and halt stock buybacks given expectations for a higher rate of loan defaults.

- The Bank of England's (BoE) Monetary Policy Committee held the Bank Rate at 0.1% throughout the third quarter after announcing at the end of the second quarter that it would expand its stock of asset purchases to £745 billion. Committee members have debated the implications of employing a negative interest rate at recent meetings.

- The European Central Bank (ECB) held its benchmark rates unchanged during the third quarter. ECB President Christine Lagarde expressed an expectation that the central bank's Pandemic Emergency Purchase Programme (PEPP)—which was granted a higher ceiling for asset purchases in June that totaled €1.35 trillion—would need to be fully employed given the current outlook.

- The Bank of Japan (BOJ) held course throughout the third quarter. Notably, newly elected Prime Minister Suga has expressed a desire to see more Japanese bank mergers on the belief that it is a crowded marketplace.

Index Data for Third Quarter 2020

- The Dow Jones Industrial Average surged by 8.22%.
- The S&P 500 Index lifted by 8.93%.
- The NASDAQ Composite Index jumped by 11.24%.
- The MSCI ACWI (Net), used to gauge global equity performance, increased by 8.13%.
- The Bloomberg Barclays Global Aggregate Index, which represents global bond markets, inflated by 2.66%.
- 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 30.43 to 26.37.
- WTI Cushing crude-oil prices, a key indicator of movements in the oil market, gained from $39.27 a barrel on the last day in June to $40.22 on September 30.
- The U.S. dollar moved to $1.29 versus sterling, $1.17 against the euro and 105.44 yen.

Portfolio Review

The Growth Fund was challenged by its environmental, social and governance screen (ESG), which led to weak selection within health care and communication services during the quarter. The ESG screen resulted in a favorable underweight to industrials (aerospace and defense).

During the quarter, the Income Fund benefited from a duration underweight versus the benchmark as yields rose; a favorable overweight to and selection within corporate bonds (industrials and banks); an underweight to agency mortgage-backed securities (MBS); an overweight to non-agency MBS; an overweight to asset-backed securities (ABS); and a higher-quality bias within commercial MBS (CMBS). An overweight to the long-term segment of the U.S. Treasury yield curve detracted as long-term yields rose during the quarter. Western Asset Management gained on an overweight to corporate bonds (energy and financials) as spreads tightened over the quarter. Allocations to both agency MBS and non-agency MBS were beneficial. An overweight to the long-term segment of the U.S. Treasury yield curve detracted as 30-year Treasury yields rose. Income Research & Management's overweight to investment-grade bonds 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, as did selection within industrials. Overweights to ABS and CMBS were beneficial as markets recovered from the forced selling that happened during the market decline in March. An underweight to and selection in agency MBS helped. While an overweight to taxable municipal bonds was a modest contributor, an underweight to non-municipals detracted slightly.

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 reduced its agency MBS overweight to neutral versus the benchmark. The Income Fund's duration positioning ended the quarter slightly underweight the 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. Debt 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.

Financial Glossary:

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.

Index Glossary:

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.

Important Information

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**