Market Commentary

New Covenant Funds

August 2021

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- Investor risk appetite increased in most corners of the world during August as equities delivered strong performance in developed and emerging markets alike.
- The summer wave of COVID-19 cases appeared to peak beginning in mid-August. The U.S. reached a 61% partial vaccination rate for its population.
- As vaccination rates slow in the developed world, more shots are becoming available to the rest of the world. We expect a rolling reopening of the global economy that will extend well into 2022.

Economic Backdrop

Investor risk appetite increased in most corners of the world during August. Equities delivered strong performance in developed and emerging markets alike, led by Japan and the U.S. within the major economies. European and U.K. shares also posted healthy returns, while China and Hong Kong were slightly down for the month. Globally, the financials sector was the top performer, while materials lagged with a modest decline.

Bonds were mostly a bit lower—aside from higher-risk segments like high-yield and emerging-market debt—as rates increased around the world. Short- to medium-term rates trailed the advance across the gilt yield curve, while they led the climb in eurozone government bonds. Intermediate-term U.S. Treasury rates rose by more than short- and long-term rates.

The U.S. dollar strengthened (according to the DXY Index), peaking in mid-August before giving back a majority of the month's advance. Prices were down across West-Texas Intermediate and Brent crude oil in August as OPEC+ (the Organization of the Petroleum Exporting Countries led by Saudi Arabia, plus Russia) continued to ramp up production.

Inflation-sensitive assets were subdued during the month. The Bloomberg Commodity Index registered a small loss in U.S. dollar terms, and the decline in U.S. Treasury Inflation Protected Securities (TIPS) essentially matched the slide in U.S. Treasurys of comparable maturities.

The summer wave of COVID-19 cases appeared to peak beginning in mid-August, led by the U.S. in terms of both new reported cases and daily deaths. Cases were growing at the fastest rate in Montenegro, Georgia, Kosovo and Israel in late August. Regions contending with at- and near-peak cases were spread across the Western Pacific, the Balkans and the Greater Middle East, as well as the Caribbean and neighboring countries.

Portugal caught up to the United Arab Emirates' lead on the share of their respective populations that had received at least one dose of COVID-19 vaccine (both around 85% at the end of August). The U.K. surpassed 70% of its population, while the U.S. approached 61%. South Korea was administering more vaccine doses per capita than any other country in late August.

France instituted the required use of the EU's digital health certificate beginning in early August for patrons to verify their COVID-19 vaccination status to gain access to restaurants, various modes of public transit, sports events, and other public gathering places. Italy also adopted the EU's certificate-based verification method during the month, although on a more limited basis, while Germany's certificate programme varied according to regional infection rates.

The German federal election, which concludes in late September, headed toward an increasingly clear outcome in the race to succeed Chancellor Angela Merkel. The Social Democrats (SPD)—led by Olaf Scholz, the current vice chancellor and finance minister—carved out a polling lead over Merkel's CDU/CSU, its current and traditional senior governing coalition partner.

The EU recommended limiting travel by Americans at the end of August as cases rose stateside, although it yielded the actual decision to member states, which mostly planned to remain open to U.S. tourists.

The Infrastructure Investment and Jobs Act—a plan negotiated by a bipartisan group of U.S. senators that would direct $1 trillion (and $550 billion in new spending) toward infrastructure projects over a five-year period—slipped off the front pages as August progressed. Scheduled congressional summer recesses and a near-universal occupation with the strained U.S. withdrawal from Afghanistan dominated priorities in Washington, DC. The final end-of-August departure of U.S. military troops concluded 20 years of military operations—the longest war in U.S. history—which culminated a decade ago with 100,000 troops stationed in Afghanistan.

Central Banks

- The Federal Open Market Committee (FOMC) also held no formal monetary policy meeting during August. Federal Reserve (Fed) Chairman Jerome Powell spoke at the Federal Reserve Bank of Kansas City's annual economic symposium in Jackson Hole—a historical platform for sharing significant evolutions in the central bank's outlook and policy actions—to reinforce that the FOMC could begin to taper, or reduce, asset purchases this year. The FOMC currently purchases $80 billion in U.S. Treasurys and $40 billion in agency mortgage-backed securities per month.

- The Bank of England's (BOE) Monetary Policy Committee (MPC) voted in early August to maintain its policy path: the bank rate remained 0.1% and the maximum allowance for asset purchases was unchanged at £895 billion.

- The European Central Bank (ECB) did not convene a meeting on monetary policy during August. During July, however, the central bank unveiled the results of a strategy review in which it adopted a symmetric inflation target of 2% over the medium-term (meaning that it views deviations above or below its target as undesirable) and an acknowledgement that it anticipates fluctuations over shorter time frames.

- The Bank of Japan (BOJ) had an August holiday from monetary policy meetings as well. It had shared details in mid-July about its green loan initiative, including extending 0% interest-rate credit to banks for their "green" lending efforts, waiving punitive negative interest rates for associated bank reserve requirements, and allowing foreign-currency bonds issued by Japanese companies to be eligible for the programme.

Index Data (August 2021)

- The Dow Jones Industrial Average advanced by 1.50%.
- The S&P 500 Index jumped by 3.04%.
- The NASDAQ Composite Index fell by 4.08%.
- The MSCI ACWI (Net), used to gauge global equity performance, inflated by 2.50%.
- The Bloomberg Barclays Global Aggregate Index, which represents global bond markets, diminished by 0.42%.
- The Chicago Board Options Exchange Volatility Index, a measure of implied volatility in the S&P 500 Index also known as the "fear index", decreased from 18.2 to 16.4.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, reduced from $73.95 a barrel at the end of July to $68.50 on the last day in August.
- The U.S. dollar ended August at $1.38 against sterling, $1.18 versus the euro and at 110.00 yen.

Portfolio Review

The Growth Fund outperformed its benchmark during the month. The environmental, social and governance screen (ESG) had a positive impact in August. The allocation communication services and financials boosted returns.

The Income Fund performed in line with its benchmark during August. An overweight to investment grade credit and an overweight to industrials hurt performance. Other detractors included duration positioning and an underweight to non-corporates. An overweight to commercial mortgage-backed securities (MBS) and selection within financials (banking) and industrials boosted returns. An underweight to agency MBS also contributed. Western Asset Management suffered from an overweight to credit sectors (industrials) and long duration positioning. Western's allocation to non-agency MBS and underweights to agency MBS helped returns. An overweight to ABS and CMBS also contributed. Security selection within industrials and financials also aided returns. Income Research & Management suffered from an overweight to corporates and investment grade credit. Selection within industrials and financials helped. An overweight to and strong selection in ABS and commercial MBS contributed as markets continued to gradually recover. An overweight to commercial mortgage-backed securities (MBS) and underweight to agency MBS also enhanced returns.

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.).

Fixed-income markets have signaled improved growth prospects on the tail of higher interest rates in addition to increased stimulus and infrastructure spending that should result in higher deficits and more U.S. Treasury issuance. Inflation expectations are higher in the short term than in the long term. Inflation expectations have risen above the Fed's target and rest at their highest levels in over a decade. We share the Federal Reserve's sentiment that higher short-term inflation will likely be transitory. Securitized sectors remain attractive in our view, especially agency mortgage-backed securities. The Income Fund's duration positioning began the quarter slightly neutral the benchmark, but ended the period slightly underweight. 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. It was overweight corporate bonds as managers viewed them as a better relative value despite higher prices than last year. Within the long-term overweight to securitized sectors, commercial MBS and ABS were the largest allocations while the agency MBS allocation was close to that of the benchmark. An overweight to off-benchmark non-agency MBS remained as the sector continued to trade at attractive spreads.

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**