New Covenant Funds

May 2022

- Global equities were practically unchanged in aggregate for May as a decline through the first half of the month was masked by a powerful recovery rally toward the end of the period.
- Shorter- and longer-term U.S. Treasury rates increased, while rates declined on Treasurys with maturities of 2 to 10 years.
- Volatile environments provide an opportunity for active managers to review exposures in an effort to weed out likely losers from winners.

Economic Backdrop

Global equities were practically unchanged in aggregate for May as a decline through the first half of the month was masked by a powerful recovery rally toward the end of the period. Emerging-market shares performed in line with developed markets, but a top-down perspective fails to capture the wide range of regional performances.

Latin American equities generally had the greatest concentration of strong gains in May, with Chile, Colombia, Brazil, and Mexico delivering the top-four country-level performances. The broader Middle East was well-represented among May's poorest performers: the United Arab Emirates, Egypt, Saudi Arabia, Turkey, and Qatar earned five of the month's seven largest losses (Pakistan and Hungary had the first and second steepest drops, respectively).

Among major markets, Hong Kong shares led with a strong gain, and U.K. and Japanese equities also performed quite well. Mainland Chinese shares generated a healthy positive return, while European shares were modestly positive and U.S. shares were moderately negative.

Shorter- and longer-term U.S. Treasury rates increased, while rates declined on Treasurys with maturities of 2 to 10 years. U.K. and eurozone government-bond yields increased across the yield curve, with longer-term bond rates rising by more than those with shorter terms.

Local-currency emerging-market debt was the best-performing fixed-interest segment in May as the U.S. dollar's nearly yearlong ascent (measured by the U.S. Dollar Index) appeared to crest in mid-May before retreating through the end of the month. Most other fixed-interest asset classes were also positive besides inflation-indexed securities.

Commodity prices continued to climb in May. West-Texas Intermediate and Brent crude oil prices gained 9.5% and 7.9%, respectively, and natural gas prices increased by 10.7%. The EU prepared to impose additional sanctions on Russian oil imports as May concluded, and planned to ban insurance providers from covering tanker ships transporting Russian oil to anywhere in the world.

Russia's aggression against Ukraine has also resulted in sanctions on Russian wheat; this, along with Russia's blockade of Ukrainian ports pushed importers of the food staple further into crisis as the two nations accounted for nearly 30% of global wheat exports in recent years.

Wheat prices advanced by 3% for the full month, but temporarily climbed by more than 20% in mid-May after India—the world's second largest wheat producer—compounded the supply shortage by imposing a wheat export ban as a heatwave threatened output.

United Nations efforts to broker a compromise between Russia and Western powers—which would allow critical Russian fertilizer exports if Russia gives way on Ukrainian ports—received a cool reception by Moscow in late May as it pushed for broader relief from sanctions.

The U.K. signed formal declarations of mutual defense with Finland and Sweden in early May. Shortly thereafter, both Scandinavian countries applied for NATO membership. Their applications—which require unanimous approval by current members—were met with resistance by Turkey; the NATO member demanded that Finland and Sweden both cease support for the Kurdistan Workers Party (PKK) and resume arms exports to Turkey.

In late May, the U.S. prepared a defense-assistance package for Ukraine valued at $700 million. The package included mobile long-range artillery rocket systems, the first time the U.S. has provided these weapons to Ukraine. This development invited Russia's ire, although President Joe Biden assured the Kremlin that the rockets would not be used to target Russian territory. Earlier in May, Biden signed a $40 billion bill passed by Congress for new assistance to Ukraine.

Shanghai's residents counted down to midnight on the last night of May as the city of 25 million people prepared to emerge from a zero-COVID-19 lockdown that lasted roughly two months. Restaurant dining will remain closed beyond June 1, and residents are required to take a PCR test every 72 hours. Beijing's shorter and less-restrictive lockdown measures also eased as May concluded. The lockdowns, while an apparent success in drastically reducing new COVID-19 cases, took a steep economic toll and aggravated existing supply-chain weaknesses.

Central Banks

- At its early May meeting, the Federal Open Market Committee (FOMC) increased the federal-funds rate by 0.50%—the first hike of its size since 2000—to a 0.75%-to-1% range. The FOMC also announced plans to reduce its balance sheet in June, allowing Treasurys and mortgages to run off (that is, mature without being replaced) at maximum respective paces of $60 billion and $35 billion per month.

- The Bank of England's (BoE) Monetary Policy Committee (MPC) voted to increase the bank rate by 0.25% for the fourth consecutive time at its May meeting, pushing the benchmark rate to 1.0%, its highest level in 13 years. It also began to reduce its balance sheet by ceasing to reinvest proceeds from its asset-purchase program and commencing corporate bond sales.

- The European Central Bank (ECB) did not hold a monetary policy meeting in May. Following its mid-April meeting, the central bank restated its commitment to winding down its Asset Purchase Programme—set to conclude in the third quarter following monthly net purchases of €40 billion (euro) in April, €30 billion in May, and €20 billion in June.

- The Bank of Japan (BOJ) did not hold a monetary policy meeting in May after redoubling its commitment to loose policy at its late-April meeting. Its short-term interest rate remained at -0.1%, and the 10-year Japanese government-bond (JGB) yield target held near 0%. The central bank offered unlimited purchases of 10-year JGBs at 0.25% in order to keep its yield within BOJ's acceptable range.

Index Data (May 2022)

- The Dow Jones Industrial Average increased by 0.33%.
- The S&P 500 Index inched higher by 0.18%.
- The NASDAQ Composite Index decreased by 1.93%.
- The MSCI ACWI (Net), used to gauge global equity performance, widened by 0.12%.
- The Bloomberg Global Aggregate Index, which represents global bond markets, advanced by 0.27%.
- The Chicago Board Options Exchange Volatility Index, a measure of implied volatility in the S&P 500 Index also known as the "fear index", fell from 33.40 to 26.19.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, inflated from $104.69 a barrel at the end of April to $114.67 on the last day in May.
- The U.S. dollar ended the month at $1.26 against sterling, $1.07 versus the euro and at 128.68 yen.

Portfolio Review

Results in the Growth Fund were modestly negative during the month. The environmental, social and governance screen (ESG) led to an unfavorable underweight to energy stocks. The Growth Fund's underweight to low-quality stocks contributed. Stock selection within consumer staples, financials and health care enhanced returns. The Growth Fund's allocation to value was also favorable.

During the quarter, the Income Fund suffered from an underweight to non-corporate bonds and an overweight to the long-term segment of the U.S. Treasury yield curve. Other detractors included an overweight to asset-backed securities (ABS) and commercial mortgage-backed securities (MBS); an underweight to agency MBS; an underweight to taxable municipals bonds; a small allocation to non-U.S.-dollar currencies; and a higher-quality bias within commercial mortgage-backed securities (MBS). The Fund gained on an overweight to corporate bonds. Other contributors included selection within financials, energy and industrials. Western Asset Management suffered modestly due to its long duration posture and overweight to the long-term segment of the U.S. Treasury yield curve. However, corporate credit exposure was positive. Off-benchmark allocations to non-U.S. dollar-denominated currencies hurt. An underweight to agency MBS detracted, as did an overweight to ABS and CMBS. Income Research & Management benefited from an overweight to corporate bonds. However, an overweight to and poor selection in ABS and commercial MBS anchored returns. IRM's underweight to agency MBS further detracted.

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. Inflation expectations are higher in the short term and 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 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 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.

This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding the Funds or any stock in particular, nor should it be construed as a recommendation to purchase or sell a security, including futures contracts. There is no assurance as of the date of this material that the securities mentioned remain in or out of New Covenant Funds.

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**