New Covenant Funds

July 2022

- The selloff that shaped the first half of 2022 came to a halt as equities and fixed-income asset classes rallied, recovering at an accelerating pace as the end of July approached.
- Equity performance patterns reversed during July, with U.S. stocks leading major markets. European stocks had a large one-month gain, while U.K. stocks trailed but nevertheless benefitted from a large rebound.
- There is no denying that rising interest rates will slow economic growth. But changes in monetary policy affect the economy with a long and variable lag. While the financial strength of businesses and households is likely to ebb, the starting point is a very high one.

Economic Backdrop

The selloff that shaped the first half of 2022 came to a halt as equities and fixed-income asset classes rallied in July. Stocks and bonds moved sideways during the first half of the month after climbing off a bottom in mid-June, and then recovered at an accelerating pace as the end of July approached.

Data showing softening economic activity counterintuitively provided investors with a confidence boost, as slower growth and milder inflation would likely mean that central banks won't need to increase rates as much as feared, thereby keeping a lid on borrowing costs.

Equity performance patterns reversed, with U.S. stocks leading major markets after delivering one of the second quarter's worst performances. Japan also had a large one-month gain, as did Europe; U.K. stocks trailed these markets, but nevertheless benefitted from a large rebound in July. Emerging-market equities, meanwhile, generated a small loss as China's second-quarter rebound faltered.

Growth-oriented stocks outpaced their value-oriented counterparts during the month, although the difference was considerably greater within large-cap equities than in small caps.

Short-term U.S. Treasury rates increased, while medium-to-long term rates fell, resulting in a flatter curve that also grew more inverted (that is, when shorter-term rates are higher than longer-term rates). U.K. and eurozone government bond rates fell across most maturities in July, with the steepest declines in the medium-to-long-term segment of the yield curve.

The U.S. dollar ended the month slightly higher than where it began (measured by the U.S. Dollar Index), after its 13-month climb began to reverse in mid-July.

High-yield bonds were the best-performing fixed-income asset class in July in keeping with the resurgent appetite for risk. Most other segments of the bond market were also positive given the general decline in rates (yields and prices have an inverse relationship).

Commodity-price movements were mixed in July. The Bloomberg Commodity Index advanced by 4.08%, but Brent and West-Texas Intermediate crude oil prices slid 6.75% and 4.64%, respectively, and wheat prices fell by 8.63%. Natural gas prices, meanwhile, increased by 52.69% for the full month.

Europe's pipeline-supplied natural gas came under renewed threat at the end of July as Russia cut deliveries to 20% of capacity for the Nord Stream 1 pipeline. The threat of undersupply inhibits Europe's ability to stockpile gas for the high-consumption winter months. EU nations have voluntarily agreed to reduce gas usage by 15% until March 2023 as a partial remedy.

Ukraine's Minister of Infrastructure declared that the "…first grain ship since Russian aggression has left port" on August 1 after the countries struck a UN-Turkey brokered agreement in late July. The ship carried corn destined for Lebanon;

approximately 22 million tons of grain that have been awaiting shipment for months may now be transported along agreed-upon safe corridors. Sanctions on Russian grain and fertilizer exports have also been loosened as part of the deal.

U.K. Prime Minister Boris Johnson announced in early July his intention to resign once the Conservative Party elects a new leader. The succession race has boiled down to Liz Truss, the current Foreign Secretary, and Rishi Sunak, the recent Chancellor of the Exchequer. Truss appeared to have the edge at the end of July.

Mario Draghi resigned as Italy's Prime Minister in late July as a confidence vote revealed that he no longer had the backing of the coalition underpinning his national unity government. Elections are scheduled for late September.

The U.S. Congress passed legislation in late July to appropriate $50 billion toward domestic development of semiconductor chip manufacturing and advanced technological research. Semiconductor scarcity has cascaded into an array of supply shortages; the industry's concentration—with an overwhelming majority of production originating in Taiwan—is viewed as a national security risk given China's claim to the territory. President Joe Biden signed the legislation into law on August 2.

Chinese and U.S. military posturing escalated in the vicinity of Taiwan toward the end of July as Nancy Pelosi, the Speaker of the House of Representatives (one of the two deliberative bodies that comprise the U.S. Congress), prepared to visit the territory in addition to Japan, South Korea, Malaysia, and Singapore. Pelosi has been critical of China's authoritarian rule and human-rights record for several decades.

Central Banks

- The Federal Reserve's (Fed) Federal Open Market Committee (FOMC) increased the federal-funds rate by 0.75% toward the end of July—the second hike of its size in this tightening cycle—bringing the benchmark rate to a range between 2.25% and 2.50%. The central bank has also begun to reduce its balance sheet, allowing Treasurys and mortgages to run off (that is, mature without being replaced) at maximum respective paces of $30 billion and $17.5 billion per month in July and August (and rising in September to $60 billion and $35 billion per month, respectively).

- The European Central Bank (ECB) increased its three benchmark rates by 0.50% at its July meeting for the first time in 11 years, surprising investors who were expecting hikes of 0.25%. At the same meeting, the ECB approved the establishment of a Transmission Protection Instrument (TPI) to ensure the smooth transition of monetary policy normalization across eurozone countries. According to the ECB, the TPI "can be activated to counter unwarranted, disorderly market dynamics" by making "secondary market purchases of securities issued in jurisdictions experiencing a deterioration in financing conditions."

- The Bank of England's (BoE) Monetary Policy Committee (MPC) did not hold a meeting in July after increasing the bank rate to 1.25% in June and redeeming about £3.2 billion in balance sheet assets during July. At its early August meeting, the MPC was expected to hike its benchmark rate by 0.50%, to 1.75%, which would represent the largest individual rate increase in 27 years.

- The Bank of Japan (BOJ) remained committed to loose policy at its July 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 continued to offer purchases of 10-year JGBs at 0.25% in order to keep its yield within the BOJ's acceptable range.

Index Data (July 2022)

- The Dow Jones Industrial Average increased by 6.82%.
- The S&P 500 Index moved higher by 9.22%.
- The NASDAQ Composite Index jumped by 12.39%.
- The MSCI ACWI (Net), used to gauge global equity performance, widened by 6.98%.
- The Bloomberg Global Aggregate Index, which represents global bond markets, advanced by 2.13%.
- 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 28.71 to 21.33.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, inflated from $105.76 a barrel at the end of June to $98.62 on the last day in July.
- The U.S. dollar ended the month at $1.22 against sterling, $1.02 versus the euro and at 133.24 yen.

Portfolio Review

Results in the Growth Fund were modestly positive during the month. The environmental, social and governance screen (ESG) led to a favorable underweight to energy stocks. The Growth Fund's allocation to small and midcap stocks along with an underweight to low-quality stocks enhanced performance. 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 yield curve positioning due to an overweight to the long-term segment of the U.S. Treasury yield curve. An underweight to agency mortgage-backed securities (MBS), overweight to asset-backed securities (ABS) and allocation to agency MBS hurt performance. The Fund's overweight to commercial mortgage-backed securities (CMBS) and corporate bonds boosted performance. However, security selection within corporate bonds was negative. A small allocation to non-U.S.-dollar currencies and a higher-quality bias within CMBS aided returns. Income Research & Management suffered from poor security selection within corporate bonds, meanwhile an overweight to corporate bonds was a tailwind. However, an overweight to and poor selection in ABS anchored returns. IRM's underweight to agency MBS further detracted. 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 aided returns. An underweight to agency MBS detracted, as did an overweight to ABS.

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**