New Covenant Funds

August 2022

- Summer break ended early for the equity market as the rally that started in June began to cool by mid-August. Market watchers attributed the reversal to the Federal Reserve reaffirming its commitment to overcoming high inflation despite anticipated economic pain.
- The bond market's early-summer rebound faltered even sooner in August as interest rates climbed around the world (yields and prices have an inverse relationship).
- There is no denying that rising interest rates slow economic growth. But the timeline remains to be determined since changes in monetary policy affect the economy with a long and variable lag.

Economic Backdrop

Summer break ended early for the equity market as the rally that started in June began to cool by mid-August. Stocks then began a concerted selloff that lasted through the end of the month. Developed-market equities led the slide; while emerging-market shares followed a similar path, they ended August essentially flat due to a milder decline.

Market watchers attributed the rally's reversal to signaling from the Federal Reserve (Fed) that it remains committed to overcoming high inflation despite anticipated economic pain. The Fed's annual Jackson Hole conference for central bankers once again served as a forum to deliver a forceful message on its priorities. Fed Chair Jerome Powell opened the conference by explaining that lower growth and softer labor markets will likely be the unfortunate costs of hiking rates to fight inflation, and that expectations for a premature pivot to looser policy will probably be disappointed.

European shares tumbled harder than other developed-market regions in August, departing from a recent pattern of U.S.-led market action. U.K. shares also declined significantly, while the U.S. and Hong Kong fared less poorly. Japanese equities suffered the mildest slide among major developed markets. Mainland Chinese shares were slightly positive.

The bond market's early-summer rebound, which began at roughly the same time as the bounce in equities, faltered at the start of August as interest rates climbed around the world (yields and prices have an inverse relationship). Government bond rates rose across the yield curve in the U.S., U.K., and eurozone during August, with shorter-term rates outpacing longer-term rates on the upside. The greater move in shorter-term rates lengthened the inversions (that is, when shorter-term rates are higher than longer-term rates) along the Treasury and U.K. gilt yield curves.

Government bonds from developed markets outside of the U.S. were the worst performers in fixed income for the month—trampled by rising rates combined with the accelerating (near-relentless) climb in the U.S. dollar (measured by the U.S. Dollar Index). Local-currency denominated emerging-market debt had the bond market's mildest loss for the month.

The Bloomberg Commodity Index was barely changed for the full month, with a mere 0.16% decline that masked much sharper moves by individual commodity prices. West-Texas and Brent Intermediate crude oil spot prices dropped in August by 9.93% and 8.68%, respectively, while natural gas prices jumped by 11.30%. Wheat prices climbed by 3.10%.

The Group of 7 (G7) set a price cap on Russian oil at the beginning of September, enforced by refusing to allow or underwrite maritime transportation at prices above the threshold. More than 90% of seaborne shipping is insured by G7 member countries, and the U.K. serves an outsized role in the insurance trade.

The threat to Europe's access to natural gas increased as Russia's Gazprom closed the Nord Stream 1 pipeline at the end of August for maintenance, and then announced in early September that it would remain closed for longer than initially projected.

Ukraine mounted a counteroffensive in late August that targeted the region around Kherson, which is in the southern part of the country that has been occupied by Russia since shortly after its invasion.

Russia announced joint military drills with China, India, and other nations taking place in its far east and the Sea of Japan during early September. The exercises will include more than 50,000 troops and 60 warships.

Central Banks

- The Federal Open Market Committee (FOMC) did not meet in August after increasing 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 August (and then $60 billion and $35 billion per month, respectively, in September).

- At its early August meeting, the Bank of England's (BoE) Monetary Policy Committee hiked its benchmark rate by 0.50% to 1.75%, the largest individual increase in 27 years.

- The European Central Bank (ECB) did not hold a meeting on monetary policy during August. At its July meeting, the ECB increased its three benchmark rates by 0.50% rather than the expected 0.25% hikes for the first time in 11 years. At the same meeting, the ECB approved the establishment of a Transmission Protection Instrument (TPI) to ensure the smooth transmission 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 Japan (BOJ) did not convene a monetary policy meeting in August but remained committed to its loose-policy orientation 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 (August 2022)

- The Dow Jones Industrial Average decreased by 3.72%.
- The S&P 500 Index moved lower by 4.08%.
- The NASDAQ Composite Index slumped by 4.53%.
- The MSCI ACWI (Net), used to gauge global equity performance, diminished by 3.68%.
- The Bloomberg Global Aggregate Index, which represents global bond markets, deteriorated by 3.95%.
- The Chicago Board Options Exchange Volatility Index, a measure of implied volatility in the S&P 500 Index also known as the "fear index", widened from 21.33 to 25.87.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, deflated from $98.62 a barrel at the end of July to $88.83 on the last day in August.
- The U.S. dollar ended the month at $1.16 against sterling, $1.01 versus the euro and at 138.95 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 industrials stocks. Meanwhile, an overweight to financials was beneficial. 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 utilities contributed. The Growth Fund's allocation to value was also favorable.

During the quarter, the Income Fund gained 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 non-agency MBS benefited performance. The Fund's overweight to commercial mortgage-backed securities (CMBS) and corporate bonds boosted performance. Security selection within financials detracted, while selection within industrials and energy contributed. A small allocation to non-U.S.-dollar currencies and a higher-quality bias within CMBS aided returns. Income Research & Management gained from an overweight to corporate bonds, CMBS and ABS. IRM's underweight to agency MBS further contributed. Western Asset Management suffered due to its long duration posture, while an overweight to the long-term segment of the U.S. Treasury yield curve boosted performance. Corporate credit exposure was positive. Off-benchmark allocations to non-U.S. dollar-denominated currencies aided returns. An underweight to agency MBS contributed, 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 Commodities Index is a broadly diversified commodity-price index that tracks prices of futures contracts on physical commodities on the commodity markets. The Index is designed to minimize concentration in any one commodity or sector.

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.

The Funds seek to invest consistent with social-witness principles established by the General Assembly of the Presbyterian Church (U.S.A.) (the "Presbyterian Principles"), as reflected in Guidelines put forth by the Committee on Mission Responsibility Through Investing (the "Committee"). The Funds seek to avoid investing in companies involved in tobacco, alcohol, and gambling, along with for-profit prisons, and some companies related to weapons production, antipersonnel and mines, handguns and assault weapons. In addition, at times a company involved in serious human rights violations may also be screened. The Funds may also screen companies for other reasons when deemed appropriate to implement the Presbyterian Principles. The Funds may choose not to purchase, or may sell, otherwise profitable investments in companies which have been identified as being in conflict with its established social-witness principles. This means that the Funds may underperform other similar mutual funds that do not consider social-witness principles in their investing.

The Funds' Sub-Advisers will also consider environmental, social, and governance (“ESG”) criteria in the selection of securities for the Funds' portfolios. Each Sub-Adviser has the ability to consider its own ESG criteria based on its own ESG methodologies and assessments or those of third-party providers. The consideration of such ESG criteria as part of the decision-making process may result in the selection of individual securities that are not in the Funds' benchmark, or the overweighting or underweight of individual securities relative to the benchmark.

Sustainalytics, a Morningstar Company, is a leading independent ESG and corporate governance research, ratings and analytics firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 25 years, the firm has been developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world’s leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. For more information, visit www.sustainalytics.com

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**