New Covenant Funds

October 2022

- Equities rallied in October around most of the globe, with a sizeable gain for developed-market shares and a loss for emerging markets.[1]
- Fixed-income asset classes remained under pressure during the month as interest rates continued to rise (yields and prices have an inverse relationship).
- A global recession is on the horizon, with Europe and the U.K. more vulnerable to a downturn than the U.S. in the months immediately ahead.

Economic Backdrop

Equities around most of the globe moved higher in October after hitting a fresh bear-market bottom in the first half of the month on a selloff that began in August. The rally was uneven, with a sizeable gain for developed-market shares and a loss for emerging markets due to an abysmal performance by mainland Chinese equities.[1]

Eastern European stocks outpaced other regions for the month, while Latin American equities also performed well. U.S. equities edged out Europe as a whole with a large advance; Europe, in turn, was followed by the U.K. and then Japan at a distance. Hong Kong shares tumbled by double digits, but not as deeply as they did in mainland China.

U.S. Treasury yields climbed across the entire curve, most markedly at the short end, lengthening an inversion. Gilt yields declined sharply at shorter maturities and were slightly higher at the long end during October, flattening what had become an inverted curve. Eurozone government-bond rates increased across all maturities through about 25 years and declined thereafter.

Fixed-income asset classes remained under pressure in the month as rates continued to rise (yields and prices have an inverse relationship). U.S. high-yield bonds benefited as risk assets rallied, while the most rate-sensitive areas of the market—mortgage-backed securities, U.S. Treasurys, and investment-grade corporates—delivered sizeable losses.[2]

Commodity prices were mixed during October. Brent and West-Texas Intermediate crude oil spot prices climbed by 9.01% and 8.86%, respectively, while natural gas prices slid by 2.36%. Wheat prices finished only 4.26% lower for the full month despite having plummeted by more than 10% late in the period; the recovery—driven by Russia's threat to back out of a Ukrainian grain-shipping deal—proved brief as prices tumbled back again at the beginning of November.[3]

Liz Truss resigned as U.K. prime minister in late October after the disastrous reception of her fiscal program sent gilt and sterling markets reeling, collapsing her support within the Conservative Party. Her departure cleared the way for Rishi Sunak, who ascended as Conservative leader and prime minister near the end of the month.

In China, Xi Jinping began his third five-year term as general secretary of the Communist Party in late October—breaking precedent for 10-year term limits and neglecting to name a clear successor to the Politburo Standing Committee. Xi's retention of the Party leadership ensures he will continue to serve as president of the People's Republic of China for another five years.

Russia resumed mass bombardment of Ukraine with missiles and drones in October as gains from Ukraine's counteroffensive mounted along its southern and eastern fronts. Ukraine claimed that the attacks, which appeared to target electricity infrastructure, took out roughly one-third of the country's power stations and led to rolling blackouts.

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[1] According to the MSCI ACWI Index

[2] According to data from FactSet and Lipper

[3] According to market data from The Wall Street Journal

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Central Banks

- The Federal Open Market Committee (FOMC) increased the federal-funds rate by 0.75% at the beginning of November—the fourth consecutive increase of its size—making the target range 3.75% to 4.00%. The central bank also settled into an accelerated pace of balance-sheet reduction starting in September, allowing Treasury and mortgage holdings to mature without being replaced at maximum respective monthly paces of $60 billion and $35 billion.

- The Bank of England's (BOE) Monetary Policy Committee did not meet in October after hiking its benchmark rate by 0.50% in both August and September, bringing the bank rate to 2.25%. In late September, the BOE announced a temporary bond-buying program to help ease concerns about financial stability as long-term rates skyrocketed in response to the new government's mini-budget.[4]

- The European Central Bank (ECB) increased all three of its benchmark rates by 0.75% each at its late-October meeting, its second straight hike of that magnitude. The central bank also announced in late October that the applicable rates for its third targeted longer-term refinancing operation, or TLTRO III, would align with its deposit facility rate beginning 23 November. The lending facility was originally established to foster credit availability but has essentially enabled bank subsidies as interest rates have risen, prompting the ECB's action.

- The Bank of Japan's (BOJ) short-term interest rate remained -0.1%, and the 10-year Japanese government-bond (JGB) yield target held near 0% at the central bank's late-October meeting. The BOJ continued to offer purchases of 10-year JGBs at 0.25% in order to keep yields within its acceptable range. In September, the central bank was compelled to intervene in currency markets for the first time since 1998 to limit the yen's slide.[5]

Index Data (October 2022)

- The Dow Jones Industrial Average increased by 14.07%.
- The S&P 500 Index advanced by 8.10%.
- The NASDAQ Composite Index gained 3.94%.
- The MSCI ACWI (Net), used to gauge global equity performance, slumped by 6.03%.
- The Bloomberg Global Aggregate Index, which represents global bond markets, deteriorated by 0.69%.
- The Chicago Board Options Exchange Volatility Index, a measure of implied volatility in the S&P 500 Index also known as the "fear index", tumbled from 31.62 to 25.88.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, increased from $79.49 a barrel at the end of September to $86.53 on the last day in October.
- The U.S. dollar ended the month at $1.15 against sterling, $0.99 versus the euro and at 148.74 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 allocation to information technology stocks. An underweight to industrials and overweight to financials was also beneficial. The Growth Fund's allocation to small and midcap stocks along with an underweight to low-quality stocks enhanced performance. Stock selection within energy was robust. The Growth Fund's allocation to value was also favorable. Security selection as notably weak within communication servies.

During the month, a slightly longer duration posture anchored performance. Other detractors included an overweight to agency mortgage-backed securities (MBS), an allocation to non-agency MBS, an overweight commercial mortgage-backed securities (CMBS) and an overweight to asset-backed securities (ABS). Selection within higher-quality credit cards and auto securitizations and a higher-quality bias within commercial mortgage-backed securities also hurt returns. The Fund benefited from an overweight to corporate bonds. An underweight to non-corporate bonds and taxable municipal bonds 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. An underweight to agency MBS contributed, while an overweight to ABS and CMBS hampered returns. Income Research & Management gained from an overweight to corporate bonds. However, IRM's overweight to CMBS and ABS detracted. IRM's underweight to agency MBS further dragged performance.

[4] "Bank of England announces gilt market operation." Bank of England. 28 September 2022.
[5] "Japan Intervenes to Support Yen for the First Time Since 1998." Bloomberg. 22 September 2022.

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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.

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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**