Q&A | SEPTEMBER 2026

# New Covenant Funds.

Capital markets review and funds positioning.

**The New Covenant Funds offer exposure to domestic equity and bond markets and are managed in accordance with Presbyterian Social Witness principles, as well as Environmental, Social and Governance standards.**

## Markets overview

Global markets delivered strong gains during the first half of 2026, supported by resilient economic growth, solid corporate earnings, and continued investor enthusiasm around artificial intelligence and technology-related spending. U.S. equities advanced despite periods of volatility, with leadership broadening beyond large-cap technology as small-cap and value stocks gained momentum during the second quarter. International developed markets also posted strong results, benefiting from improving economic conditions and easing energy-related pressures, while emerging markets were among the best performing regions year-to-date. Year-to-date through June 30, 2026, the S&P 500 Index gained roughly 10%, developed international and emerging market equities returned 9.4% and 23.9%, respectively.

Fixed income results lagged equities, as persistent inflation and changing rate expectations kept bond markets volatile. Broad U.S. investment-grade bonds produced only modest gains of 0.62% as measured by the Bloomberg U.S. Aggregate Index, while the Bloomberg Global Aggregate Bond Index marginally declined -0.21%, reflecting the challenging environment for interest rate-sensitive assets.

## Q&A

### *How did the U.S. equity market change in the first half of 2026 relative to the market environment experienced in 2025 and what did that mean for the Growth Fund?*

The Growth Fund provides exposure to both large-cap and small-cap stocks. In the first half of 2026, small-cap stocks represented by the Russell 2000 Index gained over 22%, while large-cap stocks represented by the Russell 1000 Index gained just over 10%. This contrasts with 2025, a year in which large-cap stocks represented by the Russell 1000 Index gained over 17% but small-cap stocks represented by the Russell 2000 Index gained less than 13% for the year. The differences in market-cap leadership in 2026 relative to 2025 demonstrate the benefit of diversification provided by the Growth Fund.

### *Credit spreads remained near historically tight levels over the first half of the year. What drove this, and how is the Income Fund positioned amid tight spread levels?*

Corporate credit spreads traded in narrow range during the first half of 2026, despite heightened geopolitical risk, a supply shock to energy markets, and record issuance primarily to fund AI data center capital expenditures. Credit spreads ended at 74 basis points, four basis points tighter year-to-date. Demand remains robust as several of the firms issuing debt are higher investment-grade rated technology related companies that until 2026 had more limited debt outstanding and investors have been adding as the new issuance has come with a concession.

The Fund has maintained an underweight to corporate credit based on tight historical valuations but did reduce the underweight in March following the onset of hostilities between the U.S. and Iran. The underweight subtracted during the first half of the year as corporates outperformed Treasury bonds. Selection was additive, especially within financials. An overweight to higher quality sectors like Agency MBS enhanced performance along with an overweight to ABS and CMBS which benefitted from a resilient consumer and rebounding commercial real estate market.

### *In the first half of 2026, the outlook for Federal Reserve rate cuts shifted to possible Federal Reserve rate increases. As a result, short-term rates increased marginally and the 2-30 year portion of the yield curve flattened. Have these dynamics changed the Income Fund's yield curve and duration positioning?*

During the first half of 2026, the yield curve flattened as the outlook for Fed policy changed from pricing additional rate cuts to rate hikes. As a result, two-year UST yields rose in a larger magnitude than long-term yields, especially with several Fed members indicated concerns about persistent inflation and new Federal Reserve chairman, Kevin Warsh statement after the June Fed meeting that price stability is the Fed's primary goal with stable labor markets. The Fund's slightly longer duration and overweight to the front-end of the yield curve detracted from performance. While the overweight at the front remains, managers have been focusing on intermediate maturities, avoiding the longer-end of the yield curve based on persistent inflation and issuance concerns.

### *How do Presbyterian Social Witness principles and ESG standards factor into the New Covenant Funds?*

The New Covenant Funds make investment decisions that are consistent with the social-witness principles adopted by the General Assembly of the Presbyterian Church (U.S.A.). These policies influence where the Funds invest, as well as where they do not invest. In addition, companies held by the New Covenant Funds generally rank above their industry peers on independent environmental, social, and governance (ESG) research and ratings providers' ESG assessments. This means that the companies score better than peers in their ESG practices. which are three categories used to evaluate how a company manages risks, responsibilities, and business practices beyond traditional financial measures.

### How did the screens affect the Growth Fund's performance in the first half of 2026?

There were offsetting results from the screens and ESG tilting in the Growth Fund during the first half of 2026. The underweight to the energy sector detracted, but the Fund's holdings within the industrials sector outperformed relative to the index holdings in the sector.

For example, while the fund missed out on Exxon Mobil Corporation's return of over 15% due to the screens, the Fund benefited from a return of over 35% from W.W. Grainger, Inc. in the industrial sector during the first half of 2026. Although the Fund had a larger-than-benchmark weight in Microsoft, and Microsoft declined during the first half of 2026, this headwind was offset by the benefit from an above-benchmark weight in KLA Corporation which outperformed during the first half of 2026.

### *What catalysts or risks could drive U.S. equity market performance in the second half of 2026?*

The large-cap equity market is more concentrated than normal, which makes diversification especially important. Additionally, many of the larger capitalization companies have had higher than normal profit margins recently and the stock prices may be vulnerable if profit margins don't continue to expand.

There is significant uncertainty related to war in the Middle East, rising commodity prices, interest rates, and ongoing trade negotiations. The current situation reminds us that appropriate allocation based on risk tolerance, as well as discipline to maintain consistency, is always important.

### *What is the outlook for the bond market for the second half of 2026?*

For the second half of 2026, the outlook for bonds appears more constructive than it did at the start of the year, although returns are likely to remain moderate rather than exceptional. The most important driver will be the path of inflation and Federal Reserve policy. Inflation has moderated from its recent peaks but remains above the Fed's target, leading policymakers to maintain a cautious stance. The longer-term direction of rates will continue to be driven primarily by inflation, Federal Reserve policy, fiscal deficits, and Treasury issuance rather than recent technical buyback activity alone.

# Closing perspective

We remain constructive on the global economy and risk assets, but a resilient growth backdrop, persistent inflation, and elevated rate volatility warrant greater selectivity. Solid earnings continue to support equities, with opportunities broadening beyond mega-cap growth toward value, quality, emerging markets, and the infrastructure supporting AI; however, elevated valuations leave less room for disappointment. Capital markets are entering a more complex phase characterized by resilient economic growth and persistent inflation pressures. The cycle is becoming more inflation-sensitive, more rate-volatility-sensitive, and more dependent on physical bottlenecks than on pure financial liquidity. The correct framing is not recession versus expansion; it is whether growth remains strong enough to support earnings without forcing real yields, term premia, and the dollar high enough to compress valuations. Our higher inflation bias remains in place as the lasting effects of the Iran war are likely to linger even with a resolution.

The New Covenant Funds' sustainable investment strategy, driven by the shared faith, values, and integrity of the Presbyterian Church, holds importance over the longer term. We believe ethical investing can contribute to better outcomes not only for investments, but also for society and the planet.

#### INDEX DEFINITIONS AND GLOSSARY OF TERMS

For a listing of index definitions and glossary of terms, visit:
**https://www.seic.com/ent/imu-communications-financial-glossary**.

## IMPORTANT INFORMATION

**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.**

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.

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SEI Investments Management Corporation (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 (SEI). For those New Covenant Funds which employ the "manager of managers" structure, SIMC has the 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.

Diversification may not protect against market risk. There are risks involved with investing, including loss of principal. Current and future portfolio holdings are subject to risks as well. There can be no guarantee that risk will be managed successfully.

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.

In addition to the normal risks associated with equity investing, international investments may involve risk of capital loss from unfavorable fluctuation in currency values, from difference 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.

The Growth Fund is subject to tracking error risk or the risk that the Fund's performance may vary substantially from the performance of the Index it tracks. The Fund may invest in derivatives, which are often more volatile than other investments and may magnify the Fund's gains or losses.

The Funds seek to invest consistent with social-witness principles established by the General Assembly of the Presbyterian Church (U.S.A.), as reflected in guidelines put forth by the Committee on Mission Responsibility Through Investing. 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 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 their established social-witness principles. This means that the Funds may underperform other similar mutual funds that do not consider social-witness or ESG principles in their investing.

**Not FDIC Insured    No Bank Guarantee    May Lose Value**