Market Commentary

New Covenant Funds

Third Quarter 2018

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- The U.S. escalated its trade fight with China, while the North American Free Trade Agreement's (NAFTA) successor came into focus as the U.S. reached agreements with Mexico and Canada. Elsewhere, U.K. Prime Minister Theresa May declared that Brexit negotiations had reached an impasse.
- U.S. equities climbed throughout the third quarter, while U.K. equity shares fell somewhat and European shares were slightly positive during the period. Government bond yields climbed across all maturities in the U.S., U.K. and EU.
- Maintaining exposure to risk assets may feel uncomfortable at this point—yet we believe it's important for investors with long time horizons to know that mistiming entries and exits into and out of equities can be quite costly.

Economic Backdrop

The U.S. escalated its trade fight with China late in the third quarter, enacting tariffs of 10% on $200 billion of Chinese products and promising to increase them to 25% in the New Year. President Donald Trump pointed to an additional prospective $267 billion in Chinese products that could also be subjected to tariffs if China were to retaliate—which it did, although on a significantly smaller scale (applying tariffs of 5% to 10% on $60 billion of U.S. exports to China). China asked the World Trade Organization (WTO) to impose sanctions on the U.S. twice during the quarter in response to disputes dating back several years. NAFTA's successor came into focus during the third quarter—first when the U.S. and Mexico came to agreement in August, and then when the U.S. and Canada finally ironed out their differences in the last few hours of September. Now called the United States-Mexico-Canada Agreement (USMCA), the revised deal is expected to strengthen its predecessor's "made in North America" provisions and improve labor standards. The U.S. is projected to offer Canada and Mexico relief from automobile-related trade barriers as a result of the new agreement, although aluminum and steel tariffs will remain.

U.K. Prime Minister Theresa May declared that Brexit negotiations had reached an impasse by the second half of September. EU leaders rejected her so-called Chequers plan, which had become a rallying point for cabinet officials (besides those who resigned early in the third quarter in protest of the plan's "softness"). May reminded EU officials that she believes no deal is better than a bad deal; her government began planning for the growing probability of a "hard Brexit." She used an interview on the sidelines of a September United Nations summit to assert her ambition that, in the post-Brexit world, Britain will offer the lowest corporate taxes in the G-20 (the international forum for economic decision-making that comprises 19 countries plus the EU). U.K. and U.S. market regulators made a shared appeal to the EU in early September for deference in letting other countries monitor their qualifications for access to EU securities markets. The EU and Japan finalized a major trade deal early in the third quarter that eliminated most tariffs between the two trading partners; the U.S.-EU trade relationship warmed in July following a meeting between European Commission President Jean-Claude Juncker and President Trump.

The EU, Russia and China established a vehicle that can accommodate international banking with Iran. The system was developed to circumvent sanctions against Iran that were applied by the U.S. after the Trump administration withdrew from a multi-lateral nuclear accord. (The International Atomic Energy Agency has since said that Iran still complies with its responsibilities to the accord). Elsewhere, India took over a major infrastructure finance company at the end of the third quarter on the belief that it was at risk of failing and potentially destabilizing the financial system. The financing agreement between Argentina (South America's second largest economy) and the International Monetary Fund increased to $57 billion late in the third quarter. Argentina and Turkey both faced currency collapses during the third quarter when their respective domestic economic situations deteriorated amid less accommodative global financial conditions.

U.S. equities climbed throughout the third quarter, while Japanese shares finished higher after a late-quarter rally. U.K. equity shares fell a bit during the three-month period after partially recovering from an early September selloff; European shares were slightly positive after doing the same. Brazilian equities were positive for the third quarter, albeit below their early-August highs. Government bond yields climbed across all maturities in the U.S., U.K. and EU.

The Federal Open Market Committee increased the federal-funds rate at the end of the third quarter, as anticipated, for the third time in 2018. Expectations remained for one additional rate hike in December. The Bank of England's Monetary Policy Committee increased the bank rate by 0.25% in early August and then abstained from further action at its mid-September meeting. Governor Mark Carney announced that he will delay his departure from the central bank until

January 2020 in order to offer a measure of stability during the Brexit transition period. Neither the European Central Bank (ECB) nor the Bank of Japan announced new policy actions following their separate late-July and mid-September monetary-policy meetings.

U.S. services growth moderated through July and August, albeit at healthy levels, and slowed further in preliminary reports for September. Non-manufacturing sector activity fell in July from red-hot levels and reaccelerated in August. Manufacturing growth jumped to start the quarter, retreated in August, and recovered during September. Consumer confidence climbed to its highest level in 18 years during the third quarter; jobless claims continued to trend downward, attaining new 50-year lows along the way. Overall economic growth increased by an annualized 4.2% in the second quarter, up from 2.2% in the first quarter.

U.K. services sector growth slowed notably to start the quarter, but partially recovered in August. Manufacturing activity recovered in September after bordering on slow-growth territory in August. The claimant-count unemployment rate edged up to 2.6% in August. The unemployment rate for the May-to-July period held firm at 4%, and average year-over-year earnings growth increased from 2.4% to 2.6% for the same three months. Overall economic growth maintained a pace of 0.4% for the second quarter, yet slid to 1.2% year over year from the first quarter.

European manufacturing growth levelled off to start the third quarter, yet dipped at the end of the period; services growth slowed to start before partially recovering in September. The eurozone unemployment rate continued to edge lower through the quarter, finishing August at 8.1%. The final reading of broad second-quarter economic growth registered 0.4% (in line with the first quarter) and 2.1% year over year (down from 2.5% in the prior quarter).

Index Data for Third Quarter

- The Dow Jones Industrial Average climbed 9.63%.
- The S&P 500 Index increased by 7.71%.
- The NASDAQ Composite Index surged by 7.41%.
- The MSCI AC World Index (Net), used to gauge global equity performance, improved by 4.28%.
- The Bloomberg Barclays Global Aggregate Index, which represents global bond markets, slid by 0.92%.
- The Chicago Board Options Exchange Volatility Index, a measure of implied volatility in the S&P 500 Index that is also known as the “fear index,” decreased, moving from 16.09 to 12.12.
- WTI Cushing crude-oil prices, a key indicator of movements in the oil market, dipped from $74.15 a barrel on the last day in June to $73.25 on September 30.
- The U.S. dollar edged up in September at $1.30 versus sterling, $1.16 against the euro and 113.59 yen.

Portfolio Review

The Growth Fund performed poorly during the quarter, as every manager struggled. An underweight to technology detracted, as did an overweight to and weak selection within energy and poor selection within consumer staples. Brandywine Global Investment Management detracted due to the headwinds to value and poor stock selection. Blackrock Investment Management struggled due to poor stock selection, especially in the newly-created communication services sector, as well as in the information technology sector. During the quarter, the Global Industry Classification Standard (GICS) sector classification was modified, resulting in the creation of a new sector and significant changes in sector membership for many of the largest U.S. companies.

The Income Fund outperformed the Bloomberg Barclays U.S. Aggregate Bond Index during the third quarter as all spread sectors outperformed comparable Treasury bonds. Its yield-curve-flattening bias enhanced returns as short-term yields rose in greater magnitude than long-term yields. Corporate credit spreads narrowed during the quarter; the Income Fund’s overweight to corporate bonds contributed, with industrials, financials and utilities all generating excess returns. Agency mortgages outperformed during the quarter. The Income Fund’s slightly overweight position was additive. Overweights to asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS) were beneficial as the high-quality risk/return profile of both sectors attracted demand; a slightly longer duration posture detracted due to rising yields. Western Asset Management Company benefited from strong issue selection in the corporate and non-corporate bond sectors and non-agency mortgages. A yield-curve-flattening bias also helped.
Income Research & Management’s overweight to credit contributed.

Manager Positioning and Opportunities

The Growth Fund was underweight technology stocks, which remained too expensive for value managers and too volatile for stability managers. It was overweight energy, as value managers view the sector as undervalued in anticipation of higher oil prices. Stability managers owned the biggest integrated oil players, which are the most stable energy companies. The Fund increased its underweight to technology; a number of holdings within the sector were assigned to other areas of the market under the GICS reclassification. It had a lower market-capitalization profile than its benchmark, driven by the more significant underweight to technology.

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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.

Glossary

Duration is a measure of a security's price sensitivity to changes in interest rates. Specifically, duration measures the potential change in value of a bond that would result from a 1% change in interest rates. The shorter the duration of a bond, the less its price will potentially change as interest rates go up or down; conversely, the longer the duration of a bond, the more its price will potentially change.

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 Barclays 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 FTSE/Russell 1000 Index includes 1000 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. large-cap equity market.

The Bloomberg Barclays 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.

The Bloomberg Barclays U.S. Aggregate Bond Index is a benchmark index composed of U.S. securities in Treasury, government-related, corporate, and securitized sectors. It includes securities that are of investment-grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $250 million.

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. 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. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume.

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***

