Market Commentary

New Covenant Funds

Fourth Quarter 2018

- The final quarter of 2018 hosted precipitous declines in stock markets around the globe, which settled into full-year losses.
- Government bonds led fixed-income performance in the three-month period, while riskier segments like high-yield bonds had the sharpest descent, consistent with a flight-to-safety environment.
- As painful as 2018 was for risk assets, their gyrations were not outside the norm. We see another important risk-on opportunity developing in equities and elsewhere.

Economic Backdrop

The final quarter of 2018 hosted precipitous declines in stock markets around the globe, exceeding the corrections of the first quarter and erasing the recoveries that followed during the second and third quarters in some parts of the world, to settle into full-year losses. Three-month period began with swift and sharp selloffs, followed by a comparatively flat November overall in most regions; the final month of the quarter saw many markets hit with losses that were more severe than those experienced in October.

Government bonds led fixed-income performance, while riskier segments like high-yield bonds had the sharpest losses, consistent with a flight-to-safety environment. Sovereign yields fell in the U.K. and Europe during the fourth quarter, while the U.S. Treasury yield curve continued to flatten as short-term rates increased and longer-term rates fell; intermediate-term segments of the U.S. yield curve inverted at the beginning of December and broadened through the end of the year. Commodity prices generally tumbled during the fourth quarter, with West-Texas Intermediate crude-oil prices falling by 38%.

U.S. elections in early November produced a partial shift in power away from Republicans and toward Democrats in Congress and statehouses across the country. The new balance of authority in Congress should substantially limit the ability of President Donald Trump and Republicans to pass meaningful legislation; it also enhances the investigatory powers available to Democrats, thereby adding to political risk for the Trump administration. The U.S.-China trade relationship began the fourth quarter on a downbeat, with President Trump threatening to expand tariffs to essentially all of China's imports. The situation improved after the countries' leaders conducted a trade-focused meeting on the sidelines of the early-December G20 summit, agreeing to delay punitive actions and producing a three-month roadmap toward more substantive progress.

EU leaders agreed to terms of the U.K.'s divorce in November, establishing a set of domestic challenges for Prime Minister Theresa May given the absence of parliamentary majority support. December was an especially eventful month, with the European Court of Justice ruling the U.K. could unilaterally halt Brexit by revoking Article 50; Prime Minister May's survival of a no-confidence vote brought about by a subset of her Conservative colleagues (in part by promising to stand down before the next election scheduled for 2022); and a growing chorus of politicians calling for a second referendum. Details of no-deal Brexit contingency plans also began to trickle out on both sides of the English Channel near year-end, addressing subjects ranging from travel to trade, financial services and more.

Elsewhere, German Chancellor Angela Merkel did not seek re-election as leader of the Christian Democratic Union (CDU) party in December after poor turnout in regional elections, leaving Annegret Kramp-Karrenbauer (who was installed as the party's general secretary by Merkel in early 2018) to win the leadership in a vote for continuity. This outcome means that Chancellor Merkel may be able to serve the remainder of her term as head of government through 2021. France was stricken by anti-establishment riots during most of the fourth quarter that were seemingly triggered by the perceived injustice of President Emmanuel Macron's tax policy; the French president attempted to appease protesters in December with concessions that included cutting taxes for pensioners, increasing wages for underprivileged workers and reversing planned fuel-tax hikes. The Italian coalition government passed a budget at the end of December that retained some promised working-class relief after initial drafts were rejected by the EU for unacceptably large deficits.

The Federal Open Market Committee increased the federal-funds rate in mid-December—the fourth time in 2018—while softening its projections for future rate increases. The European Central Bank (ECB) unsurprisingly announced and issued the final net purchase of bonds as part of its quantitative-easing program in mid-December. Guidance reassured that benchmark rates will remain unchanged as long as needed to achieve the ECB's inflation goal, and that its expanded balance sheet will not begin to shrink until after it begins raising rates. The Bank of England and Bank of Japan's respective monetary policy groups each convened twice during the quarter, and neither introduced new policy actions.

U.S. manufacturing growth eased considerably yet still ended 2018 at solid levels. Services sector growth was unchanged, remaining in expansion territory at the end of the year. U.K. services growth re-accelerated slightly in December after coming perilously close to contractionary conditions in November; manufacturing activity followed a similar pattern, but at relatively healthier levels. Eurozone business activity softened into year-end, with the services sector slowing toward no-growth territory in December and slow-growth manufacturing conditions holding firm.

Index Data for Fourth Quarter

- The Dow Jones Industrial Average plummeted by 11.31%.
- The S&P 500 Index declined by 13.52%.
- The NASDAQ Composite Index dropped by 17.29%.
- The MSCI AC World Index (Net), used to gauge global equity performance, contracted by 12.75%.
- The Bloomberg Barclays Global Aggregate Index, which represents global bond markets, improved by 1.20%.
- 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," advanced, moving from 12.12 to 25.42.
- WTI Cushing crude-oil prices, a key indicator of movements in the oil market, dipped from $73.25 a barrel on the last day in September to $45.41 on December 31.
- The U.S. dollar dipped lower at $1.28 versus sterling, $1.13 against the euro and 113.55 yen.

Portfolio Review

The Growth Fund performed in line with the Russell 1000 Index in the fourth quarter. An underweight to and stock selection within the expensive information technology sector contributed. An overweight to and selection within healthcare, one of the better values among the more stable segments of the market, was also beneficial. Overweights to energy, and selection within financials detracted. At the factor level, an overweight to profitability (companies with high rates of return on capital), which came via healthcare holdings, enhanced returns. An overweight to volatility detracted; in the flight to quality environment, the lowest-volatility stocks (such as utilities) performed significantly better than moderate-volatility stocks. Coho Partners benefited from an overweight to and selection within healthcare. Brandywine Global Investment Management detracted due to an overweight to and negative selection within energy; overweights to cyclical stocks and underweights to low-volatility stocks also hurt. While BlackRock Investment Management's performance was in line with its benchmark, that index lagged the Growth Fund's benchmark.

The Income Fund slightly lagged the Bloomberg Barclays U.S. Aggregate Bond Index during the quarter. An overweight to financials (banks) detracted as they underperformed with the broad sell-off in risk assets. An overweight to commercial mortgage-backed securities (CMBS) also hurt. The Fund's overweight to BBB rated bonds, which offer a compelling yield advantage and help diversify risk, detracted. The Income Fund's yield-curve positioning enhanced returns as short-term yields declined in a greater magnitude than long-term yields. Its duration, which started slightly long and drifted with the rally in interest rates, was beneficial. Western Asset Management's allocations to high-yield bonds and bank loans hurt performance. Income Research & Management's overweight to investment-grade corporate bonds detracted as spreads widened; an overweight to asset-backed securities (ABS) also hurt.

Manager Positioning and Opportunities

The Growth Fund was overweight consumer discretionary; managers are emphasizing company-specific opportunities within this diverse sector. It was overweight energy, which managers believe to be an undervalued sector with improved cash flow generation. It decreased the underweight to information technology as valuations became more reasonable during the quarter's selloff. It was underweight the biggest of the large-cap stocks; manager believe the active management opportunity is greater when selecting among stocks that aren't as widely followed and researched. Passive exposure represented half of the Growth Fund's allocation.

The Income Fund had an off-benchmark overweight to non-agency mortgage-backed securities (MBS), which still trade at attractive spreads. We believe that continued employment and income growth should be supportive of housing sector and performance of these bonds. It was overweight credit (primarily investment-grade), as credit sectors offer better relative value, although valuations are not as cheap as before. It was also overweight securitized debt, with a longer-term overweight due to relative value between securitized assets and Treasurys and agency mortgage-backed securities.

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***

