Market Commentary

New Covenant Funds

Second Quarter 2019

- Stocks around most of the world continued their early-year rally into the second quarter before tumbling throughout May and then recovering to varying degrees in June. Government-bond rates moved lower over the three-month period.
- Trade negotiations between the U.S. and China deteriorated in early May, but were revived in late June as both sides agreed to return to the negotiating table.
- We think there is still life in the economic expansion, both in the U.S. and globally. If we're right, that means corporate profits should continue to expand and push global stock markets to higher levels in the months ahead.

Economic Backdrop

Stocks around most of the world continued their early-year rally before tumbling throughout May and then recovering to varying degrees in June. U.S. and Brazilian stocks were the only regions to record all-time highs, both surpassing their prior peaks in June. U.K. and European equities rallied, but fell short of reaching their late-April highs. Similarly, Japanese stocks jumped sharply at the end of the quarter without hitting their late-April peak. Mainland Chinese stocks also bounced back convincingly, more so than those in Hong Kong, but failed to recover fully.

Government-bond rates increased in the U.S., U.K. and Europe during April, but ultimately moved lower over the quarter as a whole. As for Treasurys, after briefly inverting in March, the 3-month-to-10-year spread once again turned negative in May—where it remained throughout the second quarter. This triggered concerns about the U.S. economy, as an inverted yield curve is commonly considered a reliable recession indicator.

Trade negotiations between the U.S. and China had promising momentum at the start of the quarter, but soon deteriorated in early May. The U.S. announced an escalation of existing tariffs on $200 billion of Chinese imports from 10% to 25%, and proposed expanding the scope of the 25% tariffs to an additional $300 billion of imports—prompting smaller retaliatory tariffs from China. However, the U.S. stalled the proposed tariffs in late June to entice Chinese President Xi Jinping to meet with President Donald Trump on the side-lines of a Group of 20 summit (an international forum for governments and central bank governors from 19 countries and the EU); the meeting produced a temporary truce as both sides agreed to return to the negotiating table.

After Theresa May announced her resignation in late May, a race opened for her role as U.K. Prime Minister and leader of the Conservative Party. The crowded candidate field quickly narrowed—pitting former Foreign Secretary Boris Johnson as widely favored over his successor Jeremy Hunt. Johnson has campaigned on an explicit willingness to depart the EU without a deal upon the October 31 deadline, but has made conflicting comments on the likelihood of this outcome. Jean-Claude Juncker, president of the European Commission, stated in June that the divorce deal established during May's tenure is not open for renegotiation despite the British leadership contest.

Central Banks

- The Federal Open Market Committee (FOMC) made no changes at its May or June meetings. However, its statement following the latter did not include its prior commitment to patience, and indicated increased uncertainty along with a less-positive assessment of economic fundamentals. The decision in June to hold rates provoked one dissenting vote—the first of Jerome Powell's tenure as Federal Reserve Chairman—in favor of cutting the federal funds rate.

- The Bank of England's Monetary Policy Committee made no changes at its May or June meetings. It maintained a preference for tighter monetary policy with the caveat that this stance could be upended by Brexit uncertainty, which it noted has increased.

- The European Central Bank (ECB) extended its commitment to retain low European benchmark rates (for refinance, deposit and marginal lending) through the first half of 2020, and said it will continue to reinvest the principal proceeds from its asset-purchase program for at least as long. ECB projections for overall economic growth and inflation were revised marginally higher for 2019, but lower for future years.

- The Bank of Japan made no changes at its April or June meetings, staying accommodative by maintaining a negative short-term policy rate and a rate of approximately zero on 10-year Japanese government bonds.

- The People's Bank of China undertook various efforts to balance the country's cooling economic growth and support the yuan's exchange rate—including providing liquidity to the financial system by renewing lending facilities, issuing reverse repurchase agreements, and conducting bill swaps. The China Banking and Insurance Regulatory Commission took control of the failing Baoshang Bank in late May, representing the first Chinese bank rescue in almost two decades; as a consequence, smaller banks were confronted with funding roadblocks and higher borrowing costs.

Economic Data

- Growth in the U.S. manufacturing and services sectors slowed sharply in the beginning of the second quarter before maintaining a modest expansion later in the period. Personal income growth outpaced consumer spending through April and May; the U.S. unemployment rate declined to 3.6% in April and held steady in May. Overall economic growth registered an annualized 3.1% rate during the first quarter.

- The U.K. services sector accelerated out of a contraction early in the second quarter and with increased speed in May. Manufacturing conditions moved in the opposite direction, starting the period moderately expanding before deteriorating to a standstill in May and ultimately contracting in June. The U.K. claimant count, which measures the number of people claiming unemployment, edged upward to 3.1% in May after holding firm at 3.0% in the prior month. Overall, U.K. economic growth accelerated in the first quarter to a rate of 0.5% from 0.2% in the prior quarter; the year-over-year pace also increased during the first quarter, to 1.8% from 1.4% in the final three-month period of 2018.

- Eurozone manufacturing activity contracted throughout the second quarter as output steadily declined and new orders continued to drop. Meanwhile, services growth remained moderate for the duration of the second quarter. The European unemployment rate moved lower through the first two months of the period, settling at 7.5% in May. The eurozone economy expanded by 0.4% during the first quarter, doubling the rate of growth in the prior quarter; year-over-year growth increased to 1.2%.

Index Data for Second Quarter

- The Dow Jones Industrial Average increased by 3.21%.
- The S&P 500 Index heightened by 4.30%.
- The NASDAQ Composite Index picked up by 3.87%.
- The MSCI AC World Index (Net), used to gauge global equity performance, accelerated by 3.61%.
- The Bloomberg Barclays Global Aggregate Index, which represents global bond markets, improved by 3.29%.
- 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," edged higher, moving from 13.71 to 15.08.
- WTI Cushing crude-oil prices, a key indicator of movements in the oil market, loosened from $60.14 a barrel on the last day in March to $58.47 on June 30.
- The U.S. dollar moved to $1.27 versus sterling, $1.14 against the euro and 107.74 yen.

Portfolio Review

The Growth Fund underperformed the Russell 1000 Index in the second quarter. Its environmental, social and governance (ESG) tilt created overweights to energy and healthcare, both of which underperformed the index during the quarter. The tobacco screen within consumer staples was beneficial. Coho Partners saw a performance drag from an overweight to health care and an underweight to information technology. Weak security selection within consumer staples, financials and industrials also detracted. Parametric Portfolio Associates' passive mandate's ESG tilt within information technology and consumer discretionary detracted. Fred Alger Management benefited from an underweight to energy and overweight to information technology.

The Income Fund outperformed the Bloomberg Barclays Intermediate Aggregate Bond Index for the second quarter. An overweight to 30-year bonds helped performance as yields declined (prices and yields have an inverse relationship). An overweight to corporate credit was also beneficial as holdings in the industrials, financials and utilities sectors generated excess returns. The Income Fund's overweight to agency mortgages detracted. While the growth rate in housing price appreciation has moderated, it is still advancing, buffered by low inventories and advancing wages enabling non-agency mortgage bonds to outperform. The Income Fund's allocation to non-agency mortgages was also additive. Overweights to asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS) contributed as the high-quality risk/return profile of both sectors attracted demand. A slightly longer duration posture also helped as yields declined. Western Asset Management benefited from an overweight to corporate bonds versus Treasurys, an overweight to the 30-

year segment of the yield curve and longer duration positioning. Income Research and Management's overweight to investment-grade credit contributed, as did an overweight to ABS.

Manager Positioning and Opportunities

During the quarter, Coho Partners, Fred Alger Management and Brandywine Global Investment Management were removed from the Growth Fund as it switched from active to mostly passive while retaining the social screen and ESG tilt.

With bond prices rising and interest rates falling notably year-to-date, the Income Fund's underlying investment managers have been letting the average duration of the portfolio's holdings drift closer to neutral (the benchmark's duration). Accordingly, the Fund's duration ended the period in line with its benchmark index while maintaining an overweight to the long end of the yield curve. In the current low-growth, low-inflation environment, the Fund is likely to remain overweight corporate bonds while adjusting duration and positioning on the yield curve to changes in the market.

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.

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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***