New Covenant Funds

November 2022

- Most equity markets ended November in positive territory for the second consecutive month, with emerging markets outperforming their developed-market counterparts.[1] Stocks globally received a major boost on the last day of the period given news that the U.S. Federal Reserve will likely begin slowing the pace of interest-rate hikes in December.
- Fixed-income asset classes generally saw modest gains over the month as interest rates moved lower (yields and prices have an inverse relationship).
- While the collective effort of major central banks to tame inflation may prove successful, a global recession may still occur—with Europe and the U.K. more vulnerable than the U.S. to a downturn.

Economic Backdrop

Most equity markets finished November in positive territory following a strong rally during the previous month. Emerging-market stocks outperformed their developed-market counterparts, led by mainland Chinese equities.[2] Regionally, emerging markets in Asia and Europe generated the world's strongest equity returns in November, while the Asia-Pacific region also performed well.[3] North America lagged as U.S. stocks posted relatively smaller gains.[4]

Yields on U.S. Treasury securities with maturities of two years or greater fell in November (yields and prices have an inverse relationship). However, the 2-to-10-year yield curve remained inverted (short-term rates exceed long-term yields) and widened by 0.29% to 0.70%. U.K. gilt yields declined in the intermediate and long segments of the curve; they moved modestly lower for maturities of less than three years. Eurozone government bond rates decreased for all maturities of five years or greater, while yields rose for maturities of four years or less—thereby inverting the 2-to-10-year curve.

Fixed-income asset classes posted gains in November as intermediate- and long-term interest rates moved lower. U.S. investment-grade corporate bonds led the rally as investors turned to high-quality securities; mortgage-backed securities (MBS) and U.S. Treasurys—the most rate-sensitive areas of the market—also garnered positive returns.[5]

Regarding the commodities market, Brent and West Texas Intermediate crude-oil spot prices were down in November by 6.3% and 6.9%, respectively, on fears that China may reinstate COVID-19 restrictions and trigger a decline in demand for oil in that country. The NYMEX natural gas price rose by 9.0% amid concerns that existing supply constraints caused by Russia's ongoing aggression toward Ukraine will intensify once the colder winter weather sparks a surge in demand. Wheat prices decreased by 9.8% as Russia agreed to renew a deal brokered with the United Nations (UN), Ukraine, and Turkey that allows for the shipment of Ukrainian grain through the Black Sea, alleviating concerns about an international food shortage.[6]

Rishi Sunak faced his first domestic crisis as U.K. prime minister and Conservative Party leader just weeks after succeeding Liz Truss in late October, when tens of thousands of health care workers employed by the National Health Service (NHS) voted for industrial action. The Royal College of Nursing (RCN) trade union announced that nurses plan to strike on December 15 and 20—the union's first such action in its century-long existence—over compensation, working conditions, and patient safety. This came as the U.K. government failed to meet their demands for pay increases of 5% over inflation (which surpassed 11% in October).[7,8] Members of trade unions that represent ambulance workers—including

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[1] According to the MSCI Emerging Markets and MSCI ACWI Indexes.
[2] According to the MSCI China Index.
[3] According to the MSCI EM Europe and MSCI EM Asia Indexes.
[4] According to the MSCI North America and MSCI USA Indexes.
[5] According to data from FactSet and Lipper.
[6] According to market data from The Wall Street Journal.
[7] "Up to 100,000 nurses across England, Wales, N. Ireland to strike – union," Reuters, 29 November 2022.
[8] According to the UK Office of National Statistics. October 2022.

emergency call handlers, technicians, and paramedics—voted to strike over similar issues.[9] Negotiations with the unions have proven especially challenging given that U.K. Chancellor Jeremy Hunt is seeking to reduce the government's £55 billion (roughly US$66 billion) deficit through drastic spending cuts. Under the current fiscal austerity plan, a gross domestic product (GDP) growth rate of 2% would result in savings of approximately £23 billion (about US$27.6 billion) for the U.K. government by the 2027-to-2028 fiscal year.[10]

Ukraine's military regained control of the southern city of Kherson as Russian Defense Mnister Sergei Shoigu ordered his troops to retreat from what had been sole regional Ukrainian regional capital that Moscow held since invading earlier this year. This is a major setback for Russian dictator Vladimir Putin.

Chinese President Xi Jinping's administration faced anti-government demonstrations across the country in response to its zero-tolerance policy regarding COVID-19. Local police forces moved quickly to diffuse the protests, which China's National Health Commission (NHC) blamed on local governments; a spokesperson for the NHC stated that some local authorities "take a one-size-fits-all approach, and take excessive policy steps that have neglected the demands of the public."[11] Xi's administration announced an initiative to accelerate vaccinations for elderly citizens in an effort to ease the COVID-19-induced restrictions.

In Latin America, Luiz Inácio Lula da Silva (Lula) of the progressive Workers' Party won Brazil's presidential election by a narrow margin over the conservative incumbent, President Jair Bolsonaro. Lula previously served two terms as Brazil's president from 2003 to 2011.

Central banks

- In early November, the Federal Open Market Committee implemented another 0.75% increase in the federal-funds rate—bringing it to a range of 3.75% to 4.0%, which will result in higher borrowing costs for consumers and businesses. Fed Chair Jerome Powell indicated at the end of the month that he believes the central bank will likely begin to slow the pace of interest-rate hikes in mid-December as recent data point to easing inflation. However, he also said there remains uncertainty with regard to inflation and that "History cautions strongly against prematurely loosening policy."[12]
- The Bank of England's (BOE) Monetary Policy Committee raised its benchmark interest rate by 0.75% to 3.0% in early November, yet cited the need to reduce the U.K.'s historically high inflation rate. The BOE also noted, "The labor market remains tight and there have been continuing signs of firmer inflation in domestic prices and wages that could indicate greater persistence."[13]
- The European Central Bank's (ECB) applicable rates for its third targeted longer-term refinancing operation (TLTRO III,) aligned with its deposit-facility rate on November 23. 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 (BOJ) did not meet in November. At its meeting in late October, the central bank maintained its short-term interest rate at -0.1%, and the 10-year Japanese government-bond (JGB) yield target held near 0%. The BOJ has continued to offer purchases of 10-year JGBs at 0.25% in an effort to keep yields within its acceptable range.

Index Data (November 2022)

- The Dow Jones Industrial Average increased by 6.04%.
- The S&P 500 Index advanced by 5.59%.
- The NASDAQ Composite Index gained 4.51%.
- The MSCI ACWI (Net), used to gauge global equity performance, accelerated by 7.76%.
- The Bloomberg Global Aggregate Index, which represents global bond markets, increased by 4.71%.
- 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 25.88 to 20.58.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, decreased from $86.53 a barrel at the end of October to $80.55 on the last day in November.
- The U.S. dollar ended the month at $1.19 against sterling, $1.03 versus the euro and at 139.54 yen.

[9] "Ambulance workers vote to strike in England," Financial Times, 29 November 2022.
[10] According to the Financial Times. 10 November 2022.
[11] "China blames local officials for outbreaks as Beijing sticks to zero-COVID plan," Financial Times, 29 November 2022.
[12] "Jay Powell signals Fed will slow pace of rate rises next month," Financial Times, 30 November 2022.
[13] "Monetary Policy Summary, November 2022." Bank of England. 2 November 2022.

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 favorable. The Growth Fund's allocation to value and small-to midcap stocks along with an underweight to low-quality stocks enhanced performance. Stock selection within materials was robust. Security selection was notably weak within energy and consumer discretionary.

During the month, a slightly longer duration posture and overweight to the long-term segment of the yield curve assisted outperformance. Other contributed included an overweight commercial mortgage-backed securities (CMBS) along with selection within higher-quality credit cards and auto securitizations and a higher-quality bias within CMBS. The Fund benefited from an overweight to corporate bonds. Detractors included an overweight to agency mortgage-backed securities (MBS), an allocation to non-agency MBS, and an overweight to asset-backed securities (ABS). An underweight to non-corporate bonds and taxable municipal bonds detracted. An allocation to non-dollar currencies had a limited impact on performance during the month. Western Asset Management gained due to its long duration posture and an overweight to the long-term segment of the U.S. Treasury yield curve. Corporate credit exposure was positive. A slight overweight to agency MBS and exposure to non-agency MBS contributed. Income Research & Management gained from an overweight to corporate bonds. IRM's underweight to agency MBS aided performance. However, IRM's overweight to CMBS and ABS detracted.

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.

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**