QUARTERLY MARKET COMMENTARY | JUNE 2023

New Covenant Funds.

Global equity markets put up big scores in both the second quarter and the first half of 2023, amid periods of volatility. Markets were buoyed by a sharp rally in technology stocks, investors' optimism regarding generally favorable economic data, as well as the resolution of the politically charged debt-ceiling standoff in the U.S. These positive contributors offset concerns about tighter central bank monetary policy and the stability of U.S. regional banks. Global fixed-income assets saw mixed performance over the quarter. U.S. Treasury yields rose across the curve, most notably in the short and intermediate segments. SEI does not dispute the fact that inflation will continue to decelerate, especially given the current weakness in energy and goods prices. We maintain our view that inflation pressures will remain persistent in labor-intensive service industries, at least until some slack opens up in the labor markets and spending by households fades more dramatically.

Economic backdrop

Global equity markets put up big scores in both the second quarter and the first half of 2023, amid periods of volatility. Markets were buoyed by a sharp rally in technology stocks, investors' optimism regarding generally favorable economic data, as well as the resolution of the politically charged debt-ceiling standoff in the U.S. These positive contributors offset concerns about tighter central bank monetary policy and the stability of regional banks. Developed markets outperformed emerging markets during the quarter.

North America was the top-performing region among developed markets for the quarter due primarily to strength in the U.S. Pacific ex Japan was the primary market laggard due to weakness in New Zealand and Singapore. Eastern Europe led the emerging markets, benefiting mainly from strong performance in Hungary, Poland, and Greece. Latin America also performed well during the period. Conversely, emerging markets in the Far East posted negative returns, hampered by a downturn in China amid investors' worries about relatively weak economic data.[1]

President Joe Biden and Kevin McCarthy, Speaker of the U.S. House of Representatives, reached an agreement on raising the $31.4 trillion debt ceiling during the last week of May. Both the U.S. House of Representatives and the Senate passed the legislation—the

[1] All equity market performance statements are based on the MSCI All-Country World Index (ACWI).

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Fiscal Responsibility Act—by wide margins, with strong support from Republicans and Democrats. The bill suspends the debt ceiling through January 1, 2025, maintains non-military spending close to current levels for the 2024 fiscal year, which begins in October, and implements a 1% cap on increases in non-military spending for the 2025 fiscal year. The fast-track approval of the legislation, which Biden subsequently signed into law, enabled the government to avoid a potential default on its debt on June 5, the "X-date" on which Treasury Secretary Janet Yellen had warned that the U.S. would no longer be able to meet its financial obligations.

The U.S. Federal Reserve (Fed) maintained the federal-funds rate in a range of 5.00% to 5.25% following its meeting in mid-June. During an appearance before the U.S. House of Representatives Committee on Financial Services the following week, Fed Chair Jerome Powell stated, "Nearly all [Federal Open Market Committee] participants expect that it will be appropriate to raise interest rates somewhat further by the end of the year…We will continue to make our decisions meeting by meeting, based on the totality of incoming data and their implications for the outlook for economic activity and inflation, as well as the balance of risks. We remain committed to bringing inflation back down to our 2 percent goal and to keeping longer-term inflation expectations well anchored."

Powell attended the Banco de Espana Fourth Conference on Financial Stability in Madrid, Spain, toward the end of June to discuss the instability in the U.S. banking sector earlier this year. The Fed chair commented, "The banking system remains sound and resilient, deposit flows have stabilized, and strains have eased." He acknowledged that the failures of several regional banks "were painful reminders that we cannot predict all of the stresses that will inevitably come with time and chance. We therefore must not grow complacent about the financial system's resilience."

U.S. regional bank stocks continued to experience significant volatility during the second quarter, and ended the period with notable losses. The KBW Regional Banking Index, which tracks the performance of publicly traded U.S. regional banks and thrifts, fell 6.7% in the second quarter, and was down more than 27% for the year to date.

The performance of global fixed-income assets was mixed over the second quarter. High-yield bonds recorded positive returns and were the top performers within the U.S. market for the period. [2] Corporate bonds, mortgage-backed securities (MBS) and U.S. Treasurys ended the quarter in negative territory.[3] U.S. Treasury yields moved sharply higher across the curve during the quarter. Between late April and late May, yields on 1-month U.S. Treasury bills (T-bills) with maturities close to the U.S. government's "X-date" of June 5 for the default on its financial obligations climbed 167 basis points (1.67%) to 6.02%–the highest level since the introduction of the 1-month T-bill in July 2001[4]—before tumbling to 5.28% over the last two days of the month following the announcement of a potential agreement on raising the debt ceiling. The yield on the 1-month T-bill ended the quarter at 5.24%. Investors had demanded higher yields as compensation for the additional risk that the U.S. government could default on its debt in early June. The yields on 2-, 3-, 5-, and 10-year Treasury notes climbed 0.81%, 0.68%, 0.53%, and 0.33%, respectively, over the second quarter. The spread between 10- and 2-year notes widened from -0.58% to -1.06% during the three-month period, further inverting the yield curve.

Global commodity prices moved lower during the second quarter. The West Texas Intermediate (WTI) crude-oil spot price and the Brent crude oil price fell 6.6% and 5.6%, respectively, in U.S. dollar terms, hampered by investors' concerns about waning demand for oil. The 25.1% rise in the New York Mercantile Exchange (NYMEX) natural gas price for the quarter was attributable to investors' expectations that a hot summer season and the possibility of hurricanes in the U.S. will boost demand. Wheat prices were down 6.0% over the quarter, as Ukraine and Russia renewed an agreement that allows the shipment of Ukrainian grain through the Black Sea, increasing supply. The wheat price rallied briefly in late June after the Wagner Group, a Russian paramilitary organization that had been fighting in Ukraine on behalf of the Russian government, organized a short-lived mutiny against Russian President Vladimir Putin's regime. The group occupied Rostov-On-Don in southern Russia, a significant command center for the Russian government's invasion of Ukraine. The wheat price subsequently fell near the end of the month when the Wagner Group's leader, Yevgeny Prigozhin, agreed to be exiled to Belarus, and the mercenaries retreated from Rostov-On-Don.[5] The gold spot price declined 2.9% during the quarter, hampered by the Fed's outlook for more interest-rate hikes in the near future; the resolution of debt ceiling in the U.S., which reduced demand for the precious metal as a "safe-haven" asset; and U.S. dollar strength.[6]

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2 According to the ICE BofA U.S. High Yield Constrained Index.
3 According to the ICE BofA U.S. Corporate, S&P U.S. Mortgage-Backed Securities, and ICE BofA U.S. Treasury indexes.
4 Source: U.S. Department of the Treasury. June 30, 2023.
5 According to market data from The Wall Street Journal.
6 "Gold on track for worst week since Feb on hawkish Fed." Reuters. June 23, 2023.

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Central banks

- The Fed maintained the federal-funds rate in a range of 5.00% to 5.25% following its meeting in mid-June. In a statement announcing the pause, the Federal Open Market Committee (FOMC) commented, “Tighter credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation…Holding the target range steady at this meeting allows the Committee to assess additional information and its implications for monetary policy.”

- The Fed’s so-called dot plot of economic projections, released in June, indicated a median federal-funds rate of 5.6% at the end of 2023, up from its previous estimate of 5.1% issued in March, implying that the central bank could implement two more 0.25% rate increases in the coming months. The Fed also raised its estimate for personal-consumption-expenditures (PCE) price inflation by 0.3% to an annual rate of 3.6% as of the end of this year. The PCE price index is the Fed’s preferred gauge of inflation, as it tracks the change in prices paid by or on behalf of consumers for a more comprehensive set of goods and services than that of the CPI.

- In a split 7-2 vote, the Bank of England (BOE) raised its benchmark rate by 0.50% to 5.00% on June 21. The BOE’s Monetary Policy Committee (MPC) expects U.K. GDP to tick up 0.25% in the second quarter of this year. However, it anticipates that there will be a modest increase in underlying economic output in the second half of 2023. Additionally, the MPC projects that the U.K.’s inflation rate, as measured by the consumer-price index, will fall significantly over the remainder of this year attributable mainly to lower energy costs. The central bank anticipates that core inflation, which excludes volatile food and energy prices, will decline later this year due to lower costs in the supply chain. Additionally, the MPC believes that food-price inflation will decelerate over the next several months.

- The European Central Bank (ECB) increased its benchmark interest rate by 0.25% to 4.00% following its meeting on June 15. In a statement announcing the rate hike, the ECB’s Governing Council noted, “Indicators of underlying price pressures remain strong, although some show tentative signs of softening. Staff have revised up their projections for inflation excluding energy and food, especially for this year and next year, owing to past upward surprises and the implications of the robust labour market for the speed of disinflation.”

- The Bank of Japan (BOJ) left its benchmark interest rate unchanged at -0.1% at its meeting on June 15. The central bank noted that it will “will purchase a necessary amount of Japanese government bonds (JGBs) without setting an upper limit so that 10-year JGB yields will remain at around zero percent.” Additionally, the BOJ indicated that it will maintain its yield control program, allowing 10-year JGB yields to fluctuate in the range of around +0.5% to -0.5% from the 0% target.

Index data (Second quarter 2023)

- The Dow Jones Industrial Average increased by 3.97%.
- The S&P 500 Index rose by 8.74%.
- The NASDAQ Composite Index increased by 13.05%.
- The MSCI ACWI (Net), used to gauge global equity performance, appreciated by 6.18%.
- The Bloomberg Global Aggregate Index, which represents global bond markets, decreased by 1.53%.
- The Chicago Board Options Exchange Volatility Index, a measure of implied volatility in the S&P 500 Index also known as the “fear index”, retreated from 18.70 in March to 13.59.
- WTI Cushing crude oil prices, a key indicator of movements in the oil market, fell from $75.67 a barrel at the end of March to $70.64 on the last day in June.
- The U.S. dollar ended the quarter at $1.27 against sterling, $1.09 versus the euro, and at 144.54 yen.

Portfolio review

In an environment where stocks generally produced positive returns, the Growth Fund produced a positive return similar to that of its benchmark during the quarter. Information technology, telecommunications services, and consumer discretionary sectors were the best performers over the quarter. Traditional value sectors such as energy and utilities lagged other sectors for the period. An underweight to the energy sector was beneficial but an overweight to the food products industry detracted.

During the quarter, the Income Fund benefited from an overweight to 30-year U.S. Treasurys with the yield curve flattening. An overweight to corporate bonds enhanced returns; a small overweight to industrials was additive, as was an overweight to banks,

concentrated in large money center banks. Allocations to agency mortgage-backed securities (MBS), non-agency mortgages, asset-backed securities (ABS), and commercial mortgage-backed securities (CMBS) contributed. Allocations to non-agency CMBS detracted. An underweight to taxable municipals added. Western Asset Management's overweights to corporate bonds, especially industrials and banks, agency MBS, and asset-backed securities (ABS), particularly AAA CLOs, all contributed. An overweight to CMBS was additive though selection detracted. An allocation to non-agency mortgages added as they continued their rebound from underperformance in March. A longer duration posture subtracted with yields rising, while an overweight to 30-year bonds added with the yield curve flattening. Income Research & Management's overweight to corporate bonds, especially financials, along with selection within money center banks enhanced performance. Selection within capital goods and consumer cyclical added as well. An overweight to CMBS added along with selection in bonds at the top of the capital structure. Selection in specified agency MBS pools contributed. An underweight to non-corporates subtracted.

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.).

The Income Fund's allocations changed modestly over the quarter, most notably an overweight to agency MBS, which increased in late March and has increased modestly since. Managers have been selectively adding to corporate positioning in financials and, to a lesser extent, industrials and paring back in issuers whose valuations are ahead of fundamentals. The Fund remained overweight ABS, corporate bonds, and CMBS as well. Duration remained neutral with an overweight to the long-end of the yield curve. As two-year Treasury yields moved higher in reaction to repricing from the Fed, managers may begin adding in the 2-5 year segment of the yield curve. Overall, the managers remain defensive and will use periods of volatility to add attractively priced securities to portfolio. We anticipate that heightened volatility will likely remain, as tightening lending conditions, slower growth, and recession risks continue to be priced into 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

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.

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.

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 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.

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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.

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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.

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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.

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- May Lose Value

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