CRA Qualified Investment Fund (CRAIX/CRANX/CRATX)

Fourth Quarter 2016 | Commentary

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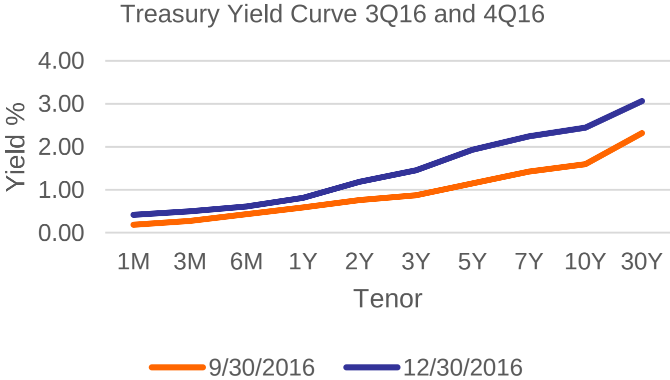
Market Commentary

The defining event in the fourth quarter of 2016 was the surprising result of the US presidential race. Donald Trump completed one of the most improbable political runs in U.S. history, and the outcome provided the catalyst for major market shifts during the quarter. From the beginning of the quarter through Election Day, the S&P 500 Index was down roughly 1%. After a big volatile swing on election night, the index had a positive run through the end of the year. When all was said and done, the equity index closed up roughly 70 points on the quarter, just off of its new all-time high set on December 13. Volatility, as measure by the VIX, remained notably low as the contract price never closed above 16 (historical median is approximately 16) from the day after the election through the end of the year, and hit a 2016 low on December 20.

The bond markets also had a strong reaction to the election results, although in the opposite direction. After an uneventful October in the Treasury market, the 30-year Treasury Bond dropped in value by over 4% in the two days following the election. The selloff continued through the end of the year with the total decline finishing at more than 10.5% in the fourth quarter. The 10-year Treasury Note had similar price action in the quarter. Adding more fuel to the bond market fire, the Federal Reserve raised its benchmark interest rate by 25 basis points in December, a move which was largely expected by the market. Overall, yields increased at all key rates across the curve, with the largest effects in the middle to longer tenors.

Commodity and currency markets were mixed during the quarter. Energy had large swings in the quarter but both Oil and Natural Gas ended the year with material gains. Metals were mixed with Copper showing strength in spite of weakness in Gold, Silver, and Platinum. Soft commodities lacked consistent direction in the quarter while still displaying decent price movement. The US Dollar rose significantly in the quarter while most other currencies generally declined. Notable drops included large moves in the Japanese Yen, Euro, and Mexican Peso.



Source: Bloomberg

Portfolio Commentary

In the fourth quarter of 2016, the CRA Qualified Investment Fund CRA Shares (CRAIX), Institutional Shares (CRANX) and Retail Shares (CRATX) returned -2.52%, -2.50% and -2.50%, respectively, on a net of fees basis, outperforming the Bloomberg Barclays U.S. Aggregate Bond Index ("Benchmark") return of -2.98%.

The Fund's largest sector, multifamily agency mortgage-backed securities (MFMBS; 35.8% of the Fund) returned -2.91%, outperforming the U.S. Government subsector return of -3.72%. The higher income profile, shorter duration, and product spread tightening, all positively impacted relative performance

The Fund's second largest sector, single family agency mortgage-based securities (SFMBS; 32.5% of the Fund), returned -2.07% in the quarter, underperforming the U.S. MBS sector return of -1.98%. The sector exhibited slower prepayments while generating higher income relative to the Benchmark MBS sector. However, those benefits were offset by the relative underperformance of the 30 year pools which the fund has greater exposure, relative to the 15 year pools which the benchmark has greater exposure.

The third major sector in the Fund, taxable municipal bonds (21.3% of the Fund), outperformed the U.S. Credit sector, returning -2.11% compared to -2.97%. Municipal spreads tightened by more than corporate spreads which had a positive effect on performance. The lower income profile (Yield to Worst of 2.89% vs. 3.29%) negatively impacted relative returns but was offset by the lower duration during the rate sell off.

As of December 31, 2016 the Fund's yield-to-worst (YTW) is 2.86%, which once again is above the Benchmark's YTW of 2.61%. We feel the Fund is fundamentally well positioned given its lower duration (interest rate risk) compared to the benchmark and its higher concentration in agency and government guaranteed securities. The portfolio management team does not anticipate any changes to its current asset allocation weightings.

Vix: VIX is the ticker symbol for the Chicago Board Options Exchange Volatility Index, which shows the market's expectation of 30-day volatility.

As of 12/31/16, the average annual returns for CRAIX for 1-year, 5-year, 10-year and since inception (8/30/1999) were 0.62%; 1.37%; 3.30%; and 4.15%. The average annual returns for CRANX for 1-year, 5-year, 10-year and since CRANX inception (3/2/2007) were 0.98%; 1.81%; 3.73%; and 3.63%. The average annual returns for CRATX for the same periods were 0.73%; 1.48%; 3.38% and 3.28%. As of 12/31/16, the 30-Day SEC yield for the CRA Shares, Institutional Shares, and Retail Shares was 1.89%, 2.32%, and 1.99% respectively. Performance for CRANX and CRATX prior to 3/31/07 is that of CRAIX.

The annual operating expenses for the CRA Shares, Institutional Shares, and Retail Shares is 0.91%; 0.46% and 0.81% respectively. Performance quoted is past performance. Past performance does not guarantee future results. Current performance may be lower or higher than the performance data quoted. An investor's investment return and principal value will fluctuate, so that your shares when redeemed may be worth more or less than your initial cost. For most recent month-end performance, call 877-272-1977.

This material must be preceded or accompanied by a current prospectus. Please read it carefully before investing.

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