

Steward Select Bond Fund

Commentary | Quarterly update: 4Q 2023

Institutional shares



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Steward Select Bond Fund	
Ticker	SEACX
Inception date	10/1/2004
Prospectus dated	8/28/2023
Prospectus expense ratio	0.74%
Primary benchmark	Bloomberg U.S. Govt/Credit Index

Top 10 holdings (%)	
Qualcomm, Inc.	2.19
L3Harris Technologies, Inc.	1.70
Comcast Corp.	1.60
Adobe, Inc.	1.59
Valero Energy Corp.	1.55
Nike, Inc.	1.48
Federal Home Loan Mortgage Corp.	1.31
Home Depot, Inc.	1.19
Cigna Group	1.12
Government of The United States of America	1.09
Total % of portfolio	14.82

Markets and performance

Last quarter we discussed how volatility would continue throughout the end of the year, as uncertainty remained as to what the exact path forward for not only the Federal Reserve, but all central banks, would be. We saw yields move higher and the U.S. 10-year Treasury yield hit 5.0% at the end of October as equity markets hit lows for the year. There were concerns over increased treasury issuance, interest expense reaching high levels, sticky inflation and geopolitical issues, just to name a few. However, at the latest FOMC meeting in December, the markets interpreted comments by Chair Powell as a defined pivot and the doves were let loose. The determination that interest rate hikes were done and a belief in around six interest rate cuts in 2024 led yields dramatically lower while stocks rocketed higher. Yields dropped to, in our opinion, a very oversold position, as we did not believe that the Fed would cut rates as much as was being priced in to the market. Although that narrative has now found its way to the forefront in the new year, yields remained below 3.9% to end 2023.

Positive and negative contributors to performance

In an environment of steeply falling yields, Steward Select Bond Fund underperformed the Bloomberg Capital Government/Credit Index for the quarter ending Dec. 31, 2023, returning 5.05% and 6.63%, respectively. December proved to be an unusual month, with 10-year yields dropping over 100 basis points and reversing the outperformance of the fund in the last two weeks of the year. While duration had been one of the best positive contributors to outperformance for the first three quarters of the year, the duration positioning during the month of December was the largest drag on performance for both the quarter and the year, resulting in the fund returning 5.54% as compared to 5.72% for the benchmark for the year 2023. All other factors – allocation within the fund, security selection, yield curve placement and the income effect – were all positive contributors to relative performance for the fund. The preferred and taxable muni allocations were the best performing sectors on an absolute basis but are a small component of the overall fund. The corporate allocation was the next best performing sector and contributed significantly to the overall positive return of the fund for the quarter and the year.

Looking ahead

We have seen in the early days of 2024 that the oversold condition in yields has begun to correct, as the market reprices, with fewer rate-cut expectations from the Federal Reserve. This has driven yields higher and back over the 4.0% level for the U.S. 10-year treasury, which is a positive turn with our short-to-neutral duration positioning. We will continue to focus on income for the fund while investing in investment-grade securities, with an overall strategy duration close to or moving towards neutral as compared to the benchmark. Our four-step investment process of focusing on duration, yield curve placement, sector and security selection allows us to evaluate the economy and participate in opportunistic trades as appropriate.

Performance (%)	QTD	YTD	1-year	3-year	5-year	10-year
Steward Select Bond Fund	5.05	5.54	5.54	-2.92	0.54	1.15
Bloomberg U.S. Govt/Credit Index	6.63	5.72	5.72	-3.53	1.41	1.97

Index returns shown assume the reinvestment of all dividends and distributions. An investment cannot be made directly in an index. Past performance is no guarantee of future results. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. The Fund's current performance may be lower or higher than quoted. Before investing in a mutual fund, you should read the fund's prospectus carefully and consider the fund's investment objectives, risks, charges, and expenses. The prospectus contains this and other information about the fund. To obtain Fund performance as of the most recent month-end or to obtain a copy of the Steward Funds' prospectus free of charge, call Crossmark Distributors at 888.845.6910.

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The Fund may not achieve its objective if the managers' expectations regarding particular securities or markets are not met. Fixed income investments generally involve three principal risks—interest rate risk, credit risk, and liquidity risk. Prices of fixed-income securities rise and fall in response to interest rate changes (interest rate risk). Generally, when interest rates rise, prices of fixed-income securities fall. The longer the duration of the security, the more sensitive the security is to this risk. There is also a risk that the issuer of a note or bond will be unable to pay agreed interest payments and may be unable to repay the principal upon maturity (credit risk). Lower-rated bonds, and bonds with longer final maturities, generally have higher credit risks. As interest rates rise and/or the credit risk associated with a particular issuer changes, bonds held within a portfolio may become difficult to liquidate without realizing a loss (liquidity risk).

The Fund's values-based screening policies exclude certain securities issuers from the universe of otherwise available investments. As a result, the Fund may not achieve the same level of performance as it otherwise would have in the absence of the screening process. If the Fund has invested in a company that is later discovered to be in violation of one or more screening criteria and liquidation of an investment in that company is required, selling the securities at issue could result in a loss to the Fund. Further, the Fund's values-based screening policies may prevent the Fund from participating in an otherwise suitable investment opportunity.

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