



Investment Perspective

FROM BRETHREN FOUNDATION FUNDS

AUGUST 2017

MARKETS AND THE ECONOMY

The S&P 500 Index rose for the ninth month in a row, closing at the end of July with a 2.1 percent gain. The GDP increased at a 2.6 percent annual rate in the second quarter of 2017, according to the advance estimate, which is up from the first quarter rate of 1.2 percent due to strong performances in personal consumption, nonresidential investment, and trade. The Federal Reserve elected to leave the target range for federal funds unchanged in July largely due to inflation lagging below the Fed's target rate. Personal income did not change and personal consumption expenditures increased by 0.1 percent in June. The markets and the economy have largely ignored current government activity. The bond market, as measured by the Bloomberg Barclays U.S. Government/Credit Bond Index, rose 0.4 percent in July.

The Eurozone economy grew at a 2.1 percent annual pace in the second quarter of 2017, marking the 17th consecutive quarter of growth. The Eurozone unemployment rate dropped to 9.1 percent, the lowest rate since February 2009. At 3.9 percent, Germany has the lowest unemployment rate in the Eurozone. With growth prospects improving, the European Central Bank may be ready to tighten monetary policy before year-end. In Japan, business confidence was near a five-year high, while inflation remains subdued at 0.4 percent despite a tight labor market. China's GDP grew at a 6.9 percent annual rate in the second quarter, topping expectations. International equities, as measured by the MSCI EAFE Index, rose 2.9 percent in July.

REBALANCING: DISCIPLINE VS. OPPORTUNISM

Rebalancing is the exercise of reallocating assets from one type of investment to another to put a portfolio back in line with its set strategy. Everyone charged with the responsibility of managing the investment of assets for themselves or others should consider the importance of rebalancing those assets periodically. Assets are initially allocated based on an investment strategy that takes into consideration such factors as risk tolerance and the time horizon for use of the assets. A conservative investment strategy will seek to protect principal but provide limited opportunities for income generation or asset appreciation, while an aggressive strategy will seek higher yields but risk low returns or even losses over the short term. Typically, an investment portfolio will include a mixture of conservative and aggressive investment options.

As the markets ebb and flow over time, some investment options will perform better than others, causing the investment portfolio to drift from its original proportions. At such times, it can be tempting to let the portfolio remain "unbalanced," especially when the overall portfolio is performing well. Rebalancing ensures that a portfolio does not become riskier than is comfortable for the investor, and helps protect the positive gains of good performance.

Rebalancing can be made according to a schedule, or when the portfolio reaches a specified level of imbalance. Rebalancing on a schedule automates the process and ensures that the portfolio is in line with a strategy or policy on a regular basis. Experts do not agree on the proper frequency for calendar-driven rebalancing, except to say that monthly rebalancing is too frequent. Rebalancing only when the portfolio achieves a certain level of imbalance generally requires less frequent asset reallocation; however, it requires more active attention to the portfolio by the investor and exposes the portfolio to more risk. Portfolio rebalancing is an important discipline for everyone responsible for invested assets. Acceptable parameters should be established for the management of each portfolio and should include instructions on the rebalancing of the assets.



Portfolio rebalancing is an important discipline for everyone responsible for invested assets.

Please contact Steve Mason, Director of Brethren Foundation, with comments or questions.

Fund Performance Report

for the period ending July 31, 2017



All periods longer than one year are annualized.

Funds (Net of Investment Fees) Benchmarks (Gross)	Current Month	Three Months	Year-to- Date	Three Years	Five Years	Ten Years
SHORT-TERM						
Short-Term Fund	0.2%	0.2%	0.5%	0.4%	0.5%	1.2%
Merrill Lynch 6-Month Treasury Bill Index ¹	0.1%	0.3%	0.5%	0.5%	0.4%	0.5%
COMMUNITY DEVELOPMENT						
Community Development Investment Fund ²	0.1%	0.4%	0.9%	1.6%	1.8%	2.3%
No Benchmark	—	—	—	—	—	—
FIXED INCOME						
Bond Core Fund	0.4%	1.3%	3.2%	2.9%	2.4%	5.0%
Bloomberg Barclays U.S. Government/Credit Bond Index	0.4%	1.3%	3.1%	2.8%	2.0%	4.5%
Bond Fund	0.5%	1.7%	3.6%	3.1%	2.6%	5.1%
Bloomberg Barclays U.S. Government/Credit Bond Index	0.4%	1.3%	3.1%	2.8%	2.0%	4.5%
Treasury Inflation-Protected Securities Fund ³	0.3%	(0.3)%	4.8%	1.4%	0.1%	—
Bloomberg Barclays U.S. Treasury Inflation-Linked Bond Index	0.4%	(0.5)%	1.3%	0.8%	0.0%	—
Bank Loans Fund ^{3,4}	—	—	—	—	—	—
S&P/LSTA U.S. Leveraged Loan 100 Index	—	—	—	—	—	—
High Yield Bond Fund ³	1.2%	2.0%	5.9%	5.0%	6.8%	—
Bloomberg Barclays U.S. Corporate High Yield Bond Index	1.1%	2.1%	6.1%	5.3%	6.7%	—
Global Aggregate Fixed Income Fund ^{3,4}	—	—	—	—	—	—
Bloomberg Barclays Global Aggregate Index	—	—	—	—	—	—
DOMESTIC EQUITY						
Domestic Stock Large Cap Core Fund	1.9%	3.6%	10.0%	1.5%	8.4%	4.6%
S&P 500 Index	2.1%	4.1%	11.6%	10.9%	14.8%	7.7%
Domestic Stock Large Cap Core Index Fund ⁵	2.0%	4.0%	11.2%	—	—	—
S&P 500 Index	2.1%	4.1%	11.6%	—	—	—
Domestic Stock Mid Cap Fund	1.8%	3.4%	15.3%	5.9%	15.1%	—
Russell Midcap Index	1.5%	3.4%	9.6%	9.3%	15.0%	—
Domestic Stock Growth Fund	1.5%	4.6%	11.6%	8.8%	12.8%	—
Russell 1000 Growth Index	2.7%	5.0%	17.0%	12.7%	15.6%	—
Domestic Stock Fund	1.8%	4.0%	12.5%	5.8%	12.4%	7.4%
S&P 500 Index	2.1%	4.1%	11.6%	10.9%	14.8%	7.7%
Small Cap Fund	1.8%	6.6%	15.1%	14.3%	15.4%	11.2%
Russell 2000 Index	0.7%	2.1%	5.8%	9.9%	14.2%	7.8%
INTERNATIONAL EQUITY						
International Stock Core Fund	3.2%	7.6%	20.8%	3.6%	8.3%	1.9%
MSCI EAFE Index	2.9%	6.5%	17.1%	2.8%	9.1%	1.5%
Emerging Markets Stock Fund ³	5.4%	7.0%	23.3%	1.4%	4.8%	—
MSCI Emerging Markets Index	6.0%	10.2%	25.5%	2.4%	4.8%	—
ALTERNATIVE INVESTMENTS						
Commodities-Based Fund ³	4.4%	0.8%	(3.0)%	(13.7)%	(11.3)%	—
Bloomberg Commodity Total Return Index	2.3%	0.7%	(3.1)%	(12.7)%	(10.0)%	—
Public Real Estate Fund ³	1.4%	2.8%	6.7%	1.6%	5.4%	—
S&P Developed Property Index	2.0%	4.3%	8.8%	5.7%	8.8%	—
Multi-Strategy Hedge Fund ^{3,4}	—	—	—	—	—	—
60% S&P 500 Index/40% Bloomberg Barclays U.S. Aggregate Bond Index	—	—	—	—	—	—
Global Inflation Protection Fund ³	1.9%	3.4%	11.6%	—	—	—
Bloomberg Barclays U.S. TIPS 1-10 Year Index + 2%	0.7%	0.2%	2.3%	—	—	—
EQUITY AND FIXED INCOME						
Balanced Fund	1.2%	3.1%	8.9%	4.8%	8.5%	6.9%
Blended Balanced Index ⁷	1.4%	3.0%	8.1%	7.7%	9.7%	6.8%
TACTICAL FUNDS (additional fees apply)						
Conservative Fund ³	0.2%	0.4%	0.8%	—	—	—
Blended Conservative Index	0.1%	0.4%	0.7%	—	—	—
Income Fund ³	1.2%	2.9%	7.9%	3.0%	—	—
Blended Income Index	1.2%	2.8%	7.0%	4.1%	—	—
BVI Income Fund ⁴	—	—	—	—	—	—
Blended SRI Income Index	—	—	—	—	—	—
Income & Growth Fund ³	1.9%	3.8%	10.9%	4.0%	—	—
Blended Income & Growth Index	1.7%	3.6%	9.4%	5.0%	—	—
BVI Income & Growth Fund	1.5%	3.7%	10.2%	—	—	—
Blended SRI Income & Growth Index	1.7%	3.6%	9.3%	—	—	—
Growth Fund ³	2.2%	4.4%	12.6%	4.2%	—	—
Blended Growth Index	2.0%	4.1%	10.5%	5.3%	—	—
BVI Growth Fund	1.8%	4.5%	12.3%	—	—	—
Blended SRI Growth Index	2.1%	4.3%	11.0%	—	—	—
Aggressive Growth Fund ³	2.4%	4.8%	13.8%	3.8%	—	—
Blended Aggressive Growth Index	2.1%	4.3%	11.3%	5.7%	—	—
BVI Aggressive Growth Fund ⁴	—	—	—	—	—	—
Blended SRI Aggressive Growth Index	—	—	—	—	—	—
U.S. INFLATION						
Consumer Price Index (June 2017) ⁶	0.1%	0.5%	1.5%	0.9%	1.3%	1.6%

Performance Report

¹ Changed May 1, 2009. 10-year blended with 90-day Treasury Bill. ² CDIF interest accrues on a daily basis. ³ These investment funds may not meet socially responsible investing guidelines because they are invested in mutual funds. All other investment funds must meet socially responsible investing guidelines. ⁴ No assets invested in this fund. ⁵ Expected to match benchmark gross of fees. Typically, will not match benchmark net of fees and due to required cash position. ⁶ Most recent data available. CPI data are from the Consumer Price Index for All Urban Consumers. All items are not seasonally weighted. ⁷ Weighted average of the S&P 500 Index (60 percent) and the Barclays U.S. Capital Government/Credit Bond Index (40 percent).