

Investment Perspective

FROM BRETHERN FOUNDATION FUNDS

January 2019



Brethren Values Investing guidelines, based on the positions of Annual Conference, address defense contracts, firearms and other weapons, abortion, gambling, tobacco, pornography, alcohol, human rights (including slavery and child labor), and environmental regulations.



MARKETS AND THE ECONOMY

Market volatility tied to concerns about a slowing global economy, trade policy tensions, and interest rate increases contributed to the S&P 500 Index declining 9 percent in December. The Index declined 13.5 percent during the fourth quarter, down 4.4 percent for the year. Citing a “very healthy economy,” the Federal Reserve Bank raised its benchmark interest rates 25 basis points to a range of 2.25 percent to 2.5 percent. Consumer incomes rose 0.2 percent in November, up 4.2 percent in the past year. Consumer spending rose 0.4 percent in November, up 4.7 percent versus last year. Led by non-store retailers, retail sales rose 0.2 percent in November, up 4.2 percent versus last year. The unemployment rate remained unchanged at 3.7 percent. The bond market, as measured by the Bloomberg Barclays U.S. Government/Credit Bond Index, increased 1.9 percent in December, rose 1.5 percent during the fourth quarter, and was down 0.4 percent for the year.

Citing an uncertain outlook for the U.K. economy, and signs of hushed global growth, the Bank of England held its benchmark interest rates steady at 0.75 percent. Struggling with muted price growth, and cautious over trade conflicts, the Bank of Japan left its short-term interest rates unchanged at minus 0.1 percent, and its target for 10-year Japanese government bond yields at around zero. The European Central Bank ended its bond buying program, a part of its monetary stimulus, while keeping its key interest rates unchanged. The initial estimate of economic growth in the eurozone during the third quarter was lowered from 0.7 percent to 0.6 percent; farming, construction, and services were down more than initially estimated. Canada’s jobless rate dropped to 5.6 percent in November, down from 5.8 percent in the previous month. International equities, as measured by the MSCI EAFE Index, declined 4.6 percent during December, dropped 12.5 percent during the fourth quarter, and was down 13.8 percent for the year.

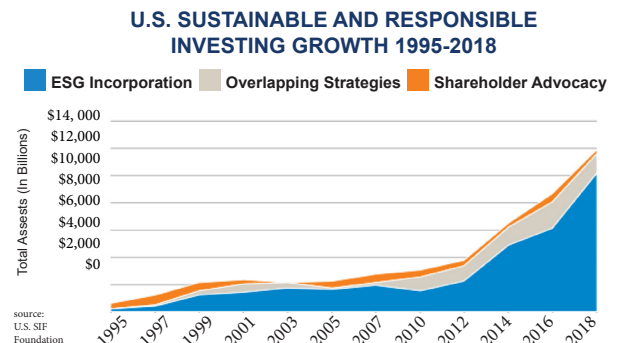
SOCIALLY RESPONSIBLE INVESTING IMPORTANT TO U.S. INVESTORS

The U.S. SIF Foundation’s 2018 biennial Report on US Sustainable, Responsible and Impact Investing Trends, released on Oct. 31, 2018, found that sustainable, responsible, and impact investing (SRI) assets accounted for \$12.0 trillion — or one in four dollars — of the \$46.6 trillion in total assets under professional management in the United States at the beginning of 2018. This represents a 38 percent increase from \$8.7 trillion in 2016.

According to the report, the top issues for asset managers and their institutional investor clients are climate change/carbon, tobacco, conflict risk (terrorist or repressive regimes), human rights, and transparency/anti-corruption.

Brethren Values Investing guidelines, which are based on the positions of Annual Conference, address some of these top issues as well as others that are significant to the Church of the Brethren: defense contracts, firearms and other weapons, abortion, gambling, tobacco, pornography, alcohol, human rights (including slavery and child labor), and environmental regulations.

SRI assets in the United States continue to increase at a rate (38 percent since 2016) that is faster than the growth in professionally managed assets in the United States (16 percent since 2016). United States investors are increasingly embracing SRI investing — a value that has always been central to the BFFI investing strategy — while also seeking a strong financial return.



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

Fund Performance Report

for the period ending December 31, 2018



All periods longer than one year are annualized.

Performance Report

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%	0.5%	1.6%	1.0%	0.7%	1.0%
<i>ICE BofAML 6-Month Treasury Bill Index¹</i>	0.2%	0.6%	1.9%	1.2%	0.8%	0.5%
COMMUNITY DEVELOPMENT						
Community Development Investment Fund²	0.1%	0.4%	1.7%	1.6%	1.7%	2.1%
<i>No Benchmark</i>	—	—	—	—	—	—
FIXED INCOME						
Bond Core Fund	1.8%	1.4%	(0.5)%	2.3%	2.7%	4.5%
<i>Bloomberg Barclays U.S. Government/Credit Bond Index</i>	1.9%	1.5%	(0.4)%	2.2%	2.5%	3.5%
Bond Fund	1.5%	0.9%	(0.9)%	2.5%	2.8%	4.6%
<i>Bloomberg Barclays U.S. Government/Credit Bond Index</i>	1.9%	1.5%	(0.4)%	2.2%	2.5%	3.5%
Treasury Inflation-Protected Securities Fund³	0.5%	(0.7)%	(1.3)%	2.9%	1.9%	—
<i>Bloomberg Barclays U.S. Treasury Inflation-Linked Bond Index</i>	0.5%	(0.4)%	(1.3)%	2.1%	1.7%	—
Bank Loans Fund³	(2.4)%	(3.3)%	0.8%	—	—	—
<i>S&P/LSTA U.S. Leveraged Loan 100 Index</i>	(3.2)%	(4.4)%	(0.6)%	—	—	—
High Yield Bond Fund³	(2.6)%	(5.6)%	(4.5)%	5.9%	3.4%	—
<i>Bloomberg Barclays U.S. Corporate High Yield Bond Index</i>	(2.1)%	(4.5)%	(2.1)%	7.2%	3.8%	—
Global Aggregate Fixed Income Fund^{3,4}	—	—	—	—	—	—
<i>Bloomberg Barclays Global Aggregate Index</i>	—	—	—	—	—	—
DOMESTIC EQUITY						
Domestic Stock Large Cap Core Fund	(9.4)%	(14.9)%	(8.8)%	6.2%	1.3%	8.3%
<i>S&P 500 Index</i>	(9.0)%	(13.5)%	(4.4)%	9.3%	8.5%	13.1%
Domestic Stock Large Cap Core Index Fund⁵	(8.6)%	(12.8)%	(3.7)%	—	—	—
<i>S&P 500 Index</i>	(9.0)%	(13.5)%	(4.4)%	—	—	—
Domestic Stock Mid Cap Fund	(10.2)%	(20.9)%	(23.8)%	(2.0)%	0.6%	—
<i>Russell Midcap Index</i>	(9.9)%	(15.4)%	(9.1)%	7.0%	6.3%	—
Domestic Stock Growth Fund	(8.4)%	(15.6)%	(1.2)%	7.9%	7.0%	—
<i>Russell 1000 Growth Index</i>	(8.6)%	(15.9)%	(1.5)%	11.1%	10.4%	—
Domestic Stock Fund	(9.2)%	(16.8)%	(10.8)%	4.5%	3.4%	11.1%
<i>S&P 500 Index</i>	(9.0)%	(13.5)%	(4.4)%	9.3%	8.5%	13.1%
Small Cap Fund	(10.2)%	(14.9)%	(0.8)%	16.3%	11.3%	16.4%
<i>Russell 2000 Index</i>	(11.9)%	(20.2)%	(11.0)%	7.4%	4.4%	12.0%
INTERNATIONAL EQUITY						
International Stock Core Fund	(5.7)%	(13.2)%	(13.4)%	3.0%	0.2%	6.0%
<i>MSCI EAFE Index</i>	(4.9)%	(12.5)%	(13.8)%	2.9%	0.5%	6.3%
Emerging Markets Stock Fund³	(2.6)%	(6.8)%	(11.9)%	12.0%	1.8%	—
<i>MSCI Emerging Markets Index</i>	(2.7)%	(7.5)%	(14.6)%	9.2%	1.6%	—
ALTERNATIVE INVESTMENTS						
Commodities-Based Fund³	(6.2)%	(10.9)%	(13.7)%	0.1%	(9.9)%	—
<i>Bloomberg Commodity Total Return Index</i>	(6.9)%	(9.4)%	(11.2)%	0.3%	(8.8)%	—
Public Real Estate Fund³	(5.3)%	(5.1)%	(6.4)%	1.0%	2.9%	—
<i>S&P Developed Property Index</i>	(5.1)%	(5.5)%	(6.1)%	3.9%	5.4%	—
Multi-Strategy Hedge Fund^{3,4}	—	—	—	—	—	—
<i>60% S&P 500 Index/40% Bloomberg Barclays U.S. Aggregate Bond Index</i>	—	—	—	—	—	—
Global Inflation Protection Fund³	(1.5)%	(3.6)%	(5.1)%	7.9%	—	—
<i>Bloomberg Barclays U.S. TIPS 1-10 Year Index + 2%</i>	0.6%	0.4%	1.7%	3.9%	—	—
EQUITY AND FIXED INCOME						
Balanced Fund	(4.7)%	(9.7)%	(6.5)%	3.9%	3.4%	8.8%
<i>Blended Balanced Index⁶</i>	(4.7)%	(7.6)%	(2.5)%	6.6%	6.2%	9.4%
TACTICAL FUNDS (additional fees apply)						
Conservative Fund^{3,4}	—	—	—	—	—	—
<i>Blended Conservative Index</i>	—	—	—	—	—	—
Income Fund³	(2.2)%	(5.2)%	(4.3)%	3.9%	—	—
<i>Blended Income Index</i>	(1.3)%	(3.6)%	(3.4)%	3.9%	—	—
BVI Income Fund	(1.9)%	(5.0)%	(5.0)%	—	—	—
<i>Blended SRI Income Index</i>	(1.7)%	(4.3)%	(3.9)%	—	—	—
Income & Growth Fund³	(3.5)%	(7.3)%	(5.9)%	5.7%	3.0%	—
<i>Blended Income & Growth Index</i>	(3.1)%	(6.5)%	(5.1)%	4.9%	3.8%	—
BVI Income & Growth Fund	(3.6)%	(7.6)%	(6.2)%	4.4%	—	—
<i>Blended SRI Income & Growth Index</i>	(3.0)%	(6.5)%	(5.2)%	4.8%	—	—
Growth Fund³	(4.4)%	(8.7)%	(6.9)%	6.1%	3.0%	—
<i>Blended Growth Index</i>	(4.0)%	(7.9)%	(6.0)%	5.3%	4.0%	—
BVI Growth Fund	(4.9)%	(9.7)%	(7.4)%	4.9%	—	—
<i>Blended SRI Growth Index</i>	(4.4)%	(8.6)%	(6.6)%	5.4%	—	—
Aggressive Growth Fund³	(5.1)%	(9.7)%	(7.5)%	6.7%	2.8%	—
<i>Blended Aggressive Growth Index</i>	(4.6)%	(8.8)%	(6.5)%	5.8%	4.2%	—
BVI Aggressive Growth Fund	(6.6)%	(12.2)%	(9.2)%	—	—	—
<i>Blended SRI Aggressive Growth Index</i>	(5.7)%	(10.7)%	(8.0)%	—	—	—
U.S. INFLATION						
Consumer Price Index (November 2018)⁷	(0.3)%	0.0%	2.2%	2.0%	1.6%	1.7%

¹Changed May 1, 2009. ²10-year blended with 90-day Treasury Bill. ³CDIF interest accrues on a daily basis. ⁴These investment funds may not meet Brethren Values Investing guidelines because they are invested in mutual funds. All other investment funds must meet Brethren Values Investing guidelines. ⁵No assets invested in this fund. ⁶Expected to match benchmark gross of fees. Typically, will not match benchmark net of fees and due to required cash position. ⁷Weighted average of the S&P 500 Index (60 percent) and the Bloomberg Barclays U.S. Capital Government/Credit Bond Index (40 percent). ⁸Most recent data available. CPI data are from the Consumer Price Index for All Urban Consumers. All items are not seasonally weighted.