



Nonprofit Risk Management Center of Leesburg, Va., has been retained to conduct a review of BFFI's programs and services.



Investment Perspective

FROM BROTHERS FOUNDATION FUNDS

OCTOBER 2015

MARKETS AND THE ECONOMY

Lingering concerns over slumping economies around the globe, their impact on corporate profits, and uncertainty over the timing of the Fed's plan to raise interest rates contributed to the S&P 500 Index falling 2.5 percent in September — 6.4 percent during the third quarter. The Federal Reserve kept short-term interest rates unchanged citing worries about a weak global economy, low inflation, and unstable financial markets. September's unemployment rate of 5.1 percent was unchanged from August as hiring slowed, manufacturing and energy sectors lost jobs, and the labor participation rate dropped. Sales of new homes rose 5.7 percent in August. Recent stock market turbulence did not deter consumer confidence, which rose 1.7 points in September from August. The bond market, as measured by the Barclays Capital Government/Credit Index, edged up 0.7 percent in September — up 1.2 percent during the third quarter.

New evidence of China's stubborn economic slowdown emerged as its manufacturing index contracted in August compared with July. Nevertheless, retail sales in China increased 10.8 percent in August from a year earlier. Driven by lower energy costs, eurozone inflation fell 0.1 percent on an annual basis in September. Eurozone jobless rate was unchanged at 11 percent in August. Japan's consumer prices contracted 0.1 percent in August from a year earlier. Japan's economy shrank an annualized 1.2 percent in the second quarter, less than the initial estimate of a 1.6 percent contraction. The Bank of England signaled it is on course to begin slowly raising its benchmark lending rate early next year. Standard & Poor's Ratings Services downgraded Brazil's sovereign debt by one notch to BB+, which is junk territory, due to the country's political challenges in balancing its budget. International equities, as measured by the MSCI EAFE Index, tumbled 5.1 percent in September; they fell 10.2 percent during the third quarter.

NEW INDEX FUND NOW AVAILABLE

The Domestic Stock Large Cap Core Index Fund is now available to Brethren Foundation Funds clients. The stocks included in the portfolio of this new investment option match those of its benchmark, the S&P 500 Index, minus the companies that are not in compliance with BFFI's socially responsible investing guidelines. Accordingly, the Domestic Stock Large Cap Core Index Fund is managed in a manner consistent with Church of the Brethren values as expressed by Annual Conference statements.

The new Index Fund, which will be managed by Capstone Asset Management of Houston, Texas, can be included in the Tactical Funds and will be included in the Domestic Stock Fund and the Balanced Fund.



Additional information about this new investment option is provided in the document that accompanies this issue of *Investment Perspective*.

EXTERNAL PROGRAM REVIEW COMMISSIONED

Nonprofit Risk Management Center of Leesburg, Va., has been retained to conduct a review of BFFI's programs and services. As part of the project, primary contacts for all organizational clients are being invited



to complete a client satisfaction survey. The surveys have been distributed electronically, where possible, and via regular mail, if necessary, directly from NRMC. Responses will be anonymous and compiled into a client satisfaction profile. All clients are encouraged to complete the survey and provide useful feedback to BFFI.

Please contact Steve Mason, director of Brethren Foundation, if you have questions or comments.



All periods longer than one year are annualized.

Fund Performance Report

for the period ending Sept. 30, 2015

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	0.1%	0.1%	0.3%	0.4%	0.6%	2.0%
Merrill Lynch 6-Month Treasury Bill Index ¹	0.1%	0.1%	0.2%	0.2%	0.2%	1.3%
COMMUNITY DEVELOPMENT						
Community Development Investment Fund²	0.1%	0.4%	1.3%	1.9%	2.1%	2.5%
No Benchmark	—	—	—	—	—	—
FIXED INCOME						
Bond Core Fund	0.7%	1.1%	0.8%	1.8%	3.4%	5.1%
Barclays Capital U.S. Government/Credit Bond Index	0.7%	1.2%	0.9%	1.6%	3.1%	4.6%
Bond Fund	0.8%	1.0%	0.5%	1.8%	3.3%	5.1%
Barclays Capital U.S. Government/Credit Bond Index	0.7%	1.2%	0.9%	1.6%	3.1%	4.6%
Treasury Inflation-Protected Securities Fund³	(1.2)%	(1.7)%	(1.1)%	(2.6)%	—	—
Barclays Capital U.S. TIPS Index	(0.6)%	(1.1)%	(0.8)%	(1.8)%	—	—
Bank Loans Fund^{3,4}	—	—	—	—	—	—
S&P/LSTA U.S. Leveraged Loan 100 Index	—	—	—	—	—	—
High Yield Bond Fund³	(2.4)%	(4.4)%	(1.0)%	4.1%	5.9%	—
Barclays Capital U.S. Corporate High Yield Bond Index	(2.6)%	(4.9)%	(2.5)%	3.5%	6.1%	—
Global Aggregate Fixed Income Fund^{3,4}	—	—	—	—	—	—
Barclays Capital Global Aggregate Bond Index	—	—	—	—	—	—
DOMESTIC EQUITY						
Domestic Stock Core Fund	(5.1)%	(12.5)%	(19.1)%	4.9%	7.4%	4.6%
S&P 500 Index	(2.5)%	(6.4)%	(5.3)%	12.4%	13.3%	6.8%
Domestic Stock Mid Cap Fund	(7.1)%	(10.4)%	(7.5)%	16.3%	17.2%	—
Russell Midcap Index	(3.6)%	(8.0)%	(5.8)%	13.9%	13.4%	—
Domestic Stock Growth Fund	(2.4)%	(5.6)%	2.4%	12.4%	—	—
Russell 1000 Growth Index	(2.5)%	(5.3)%	(1.5)%	13.6%	—	—
Domestic Stock Fund	(4.9)%	(9.5)%	(8.4)%	11.2%	12.3%	7.4%
S&P 500 Index	(2.5)%	(6.4)%	(5.3)%	12.4%	13.3%	6.8%
Small Cap Fund	(3.0)%	(8.4)%	(6.1)%	9.7%	12.8%	8.8%
Russell 2000 Index	(4.9)%	(11.9)%	(7.7)%	11.0%	11.7%	6.5%
INTERNATIONAL EQUITY						
International Stock Core Fund	(5.5)%	(12.5)%	(7.6)%	3.1%	3.2%	2.7%
MSCI EAFE Index	(5.1)%	(10.2)%	(5.3)%	5.6%	4.0%	3.0%
Emerging Markets Stock Fund³	(5.5)%	(19.9)%	(19.8)%	(7.9)%	(6.7)%	—
MSCI Emerging Markets Index	(3.0)%	(17.9)%	(15.5)%	(5.3)%	(3.6)%	—
ALTERNATIVE INVESTMENTS						
Commodities-Based Fund³	(3.2)%	(15.3)%	(18.7)%	(18.8)%	(9.9)%	—
Bloomberg Commodity Total Return Index	(3.4)%	(14.5)%	(15.8)%	(16.0)%	(8.9)%	—
Public Real Estate Fund³	(1.2)%	(2.6)%	(7.3)%	4.5%	—	—
S&P Developed Property Index	1.1%	(2.0)%	(3.6)%	7.6%	—	—
Multi-Strategy Hedge Fund^{3,4}	—	—	—	—	—	—
60% S&P 500 Index/40% Barclays Capital U.S. Aggregate Bond Index	—	—	—	—	—	—
Global Inflation Protection Fund⁵	(4.2)%	(9.1)%	(7.4)%	—	—	—
CPI + 5%	0.3%	1.4%	4.7%	—	—	—
EQUITY AND FIXED INCOME						
Balanced Fund	(2.6)%	(5.3)%	(4.7)%	7.5%	9.0%	6.8%
Blended Balanced Index ⁶	(1.2)%	(3.4)%	(2.7)%	8.1%	9.3%	6.2%
TACTICAL FUNDS (additional fees apply)						
Conservative Fund^{3,4}	—	—	—	—	—	—
Blended Conservative Index	—	—	—	—	—	—
Income Fund³	(1.9)%	(4.5)%	(5.0)%	—	—	—
Blended Income Index	(0.9)%	(2.3)%	(1.5)%	—	—	—
SRI Income Fund⁴	—	—	—	—	—	—
Blended SRI Income Index	—	—	—	—	—	—
Income & Growth Fund³	(3.1)%	(7.7)%	(7.8)%	—	—	—
Blended Income & Growth Index	(1.9)%	(5.0)%	(3.3)%	—	—	—
SRI Income & Growth Fund	(2.6)%	(6.2)%	—	—	—	—
Blended SRI Income & Growth Index	(1.7)%	(4.0)%	—	—	—	—
Growth Fund³	(3.7)%	(9.1)%	(8.8)%	—	—	—
Blended Growth Index	(2.2)%	(5.9)%	(4.0)%	—	—	—
SRI Growth Fund	(3.3)%	(7.8)%	(7.0)%	—	—	—
Blended SRI Growth Index	(2.4)%	(5.6)%	(3.3)%	—	—	—
Aggressive Growth Fund³	(4.2)%	(10.7)%	(10.4)%	—	—	—
Blended Aggressive Growth Index	(2.7)%	(7.5)%	(5.4)%	—	—	—
SRI Aggressive Growth Fund⁴	—	—	—	—	—	—
Blended SRI Aggressive Growth Index	—	—	—	—	—	—
U.S. INFLATION						
Consumer Price Index (August 2015)⁵	(0.1)%	0.2%	0.9%	1.1%	1.8%	2.0%

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 Most recent data available. CPI data are from the Consumer Price Index for All Urban Consumers: All Items and are not seasonally adjusted. ⁶ Weighted average of the S&P 500 Index (60 percent) and the Barclays U.S. Capital Government/Credit Bond Index (40 percent).

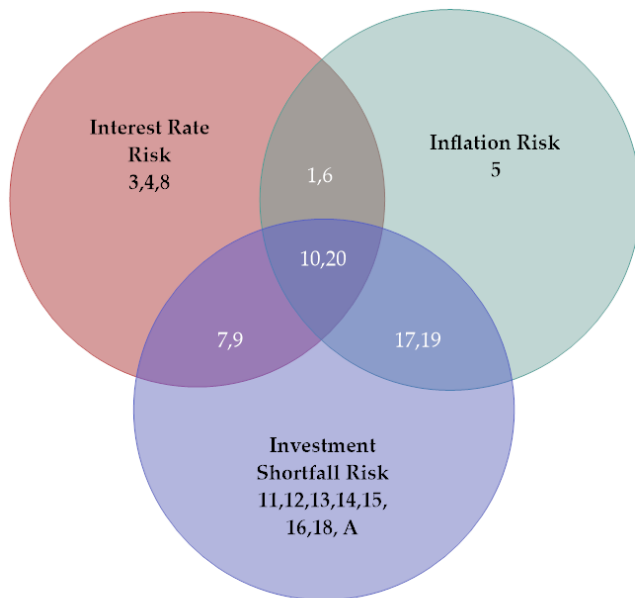


New Strategic Investment Option

October 1, 2015

Brethren Foundation Funds New Strategic Investment Option

Brethren Foundation Funds is introducing a new strategic investment option that provides a lower cost, less volatile index-based investment option that is compliant with Brethren Foundation Funds’ socially responsible investing guidelines: the **Domestic Stock Large Cap Core Index Fund**. This new fund is an additional option to address Investment Shortfall Risk, as depicted on the following chart.



Current Investment Options

1. Short-Term
2. Community Development Investment(Not On Chart)
3. Bond Core
4. Bond
5. Treasury Inflation-Protected Securities
6. Bank Loans
7. High Yield Bond
8. Global Aggregate Fixed Income
9. Balanced
10. Multi-Strategy Hedge
11. Domestic Stock Mid Cap
12. Domestic Stock
13. Domestic Stock Core
14. Domestic Stock Growth
15. Small Cap
16. International Stock Core
17. Public Real Estate
18. Emerging Markets Stock
19. Commodities-Based
20. Global Inflation Protection

New Investment Option

- A. Domestic Large Cap Core Index

What is an index fund?

An index fund is an investment fund (usually a mutual fund or exchange-traded fund) that attempts to replicate the movements of an index of a specific financial market. It is managed with a set of rules that is held constant, regardless of market conditions, and has the goal of matching the performance of the benchmark index as closely as possible.

The Domestic Stock Large Cap Core Index Fund is designed to track the performance of the S&P 500 Index, a well-known benchmark for domestic (U.S.) stocks.

How is BFFI’s fund different?

The Domestic Stock Large Cap Core Index Fund will be screened against BFFI’s socially responsible investing (SRI) guidelines. At inception, the manager of the new fund flagged 35

companies (approximately seven percent of the total) for exclusion from the portfolio. The excluded companies represent approximately nine percent of the market value of the S&P 500 Index.

After removing the excluded stocks, the manager uses a computer model to reweight the remaining stocks to track key characteristics (e.g., price to earnings, price to book value, dividend yield, return on equity, and sector weights) of the S&P 500 Index, in order to minimize the tracking error of BFFI's new fund from its benchmark.

Since the composition of the S&P 500 Index can change at any time, the BFFI fund manager will check the companies against BFFI's SRI screens and then reweight the remaining stocks on a quarterly basis.

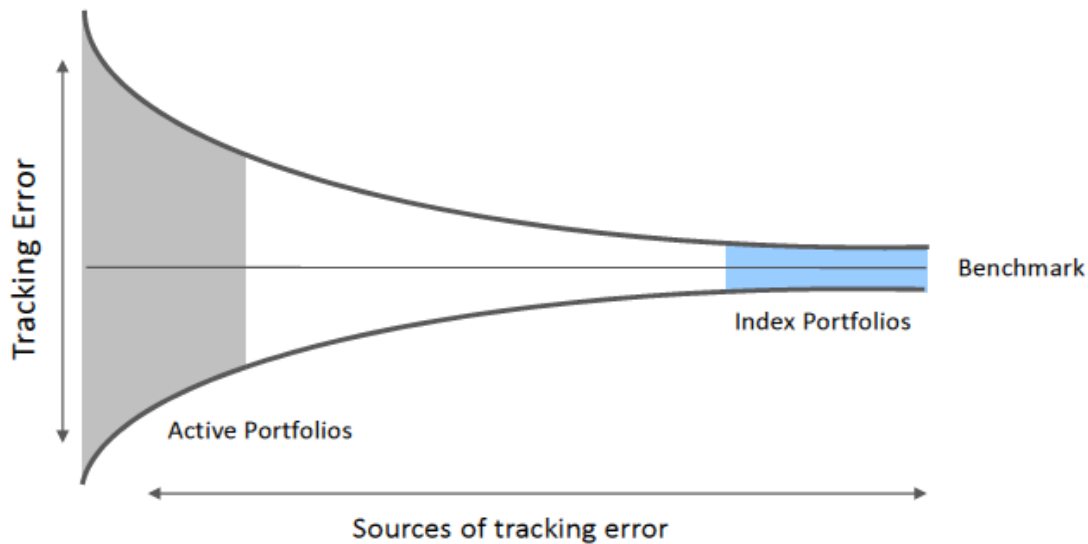
What is "tracking" or "tracking error?"

No index fund can perfectly match the performance of its benchmark. Performance can be better or worse than the benchmark index and is determined by a measure called "tracking" or "tracking error."

An investment option can attempt to track an index by trying to hold all of the securities in the benchmark index in the same proportions as the index. Another method to track an index includes statistically sampling the market and holding "representative" securities. Many index funds rely on a computer model that does this statistical sampling with little or no human input in the decision as to which stocks are purchased or sold and are thus subject to a form of passive management. The Domestic Stock Large Cap Core Index Fund is a hybrid of both of these methods. The Fund holds all the securities in the S&P 500 Index, except those excluded by SRI screens, and it uses statistical sampling to create similar performance using the remaining securities.

Since index funds aim to match the returns of a benchmark index, both under- and over-performance compared to that of the index is considered a "tracking error." The chart below shows that tracking error is the highest for active managers who hope to add value, or alpha, relative to the benchmark index. The chart also lists the primary reasons for tracking error within index funds.

Tracking error



- Transaction costs
- Contributions / Withdrawals
- Changes in Index composition
- Portfolio size
- No cash in benchmark index
- Restricted securities

What is the expected tracking error of the new fund relative to the S&P 500?

The expected tracking error of the Domestic Stock Large Cap Core Index Fund is plus or minus 0.33 percent, according to the investment manager. In the chart above, the blue area represents that expected tracking error, the range above and below the line showing the performance of the benchmark, the S&P 500 Index.

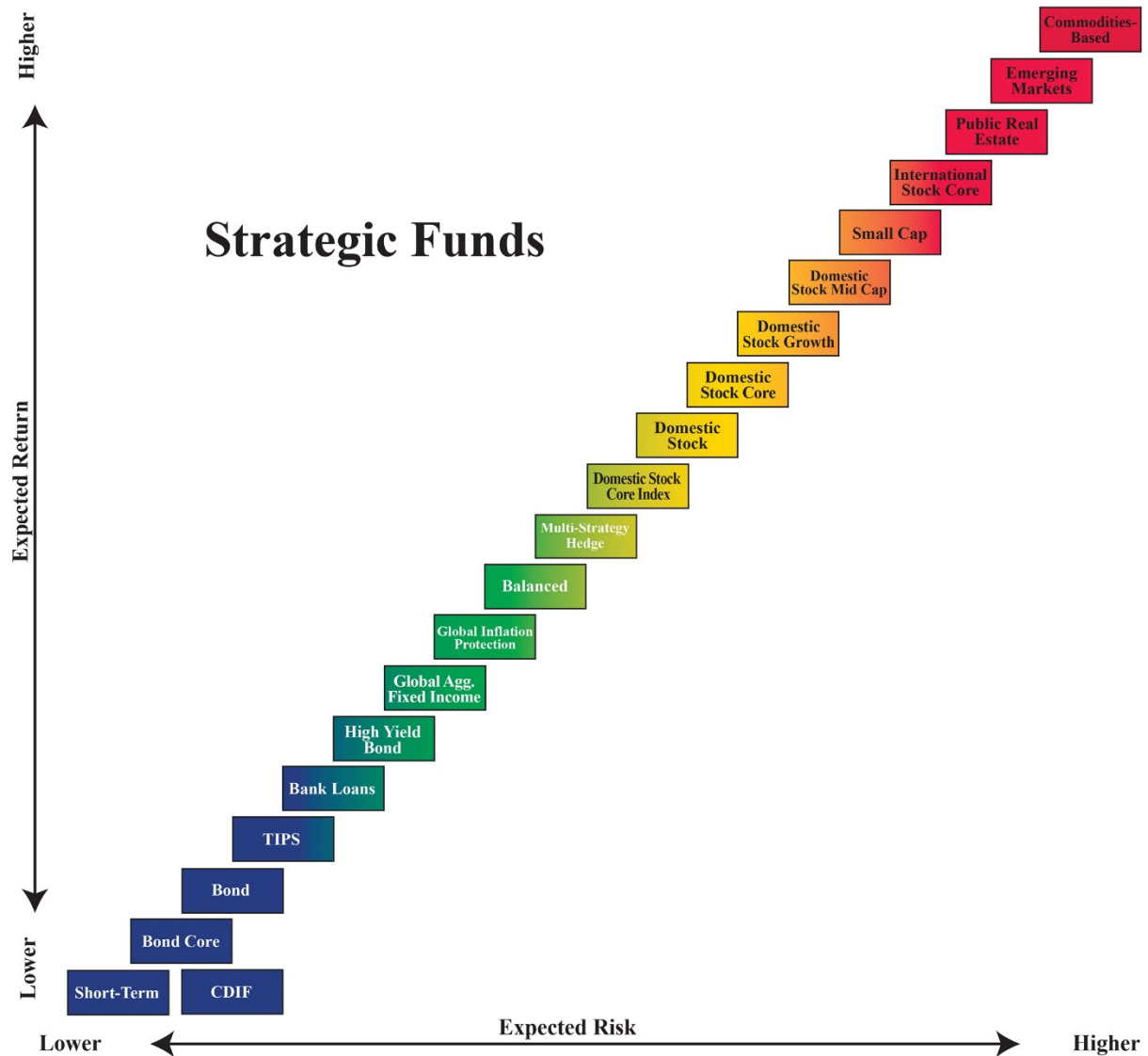
How is the new index fund different from the Domestic Stock Core Fund?

The Domestic Stock Core Fund also uses the S&P 500 Index as its benchmark, but rather than track the index, its mandate is “to exceed by not less than 1 percent per annum (gross) the performance of the S&P 500 Index ...”

The Domestic Stock Core Fund typically holds 30-40 stocks compared to the index fund’s holdings of approximately 465 stocks (500 stocks minus the 35 screened out for SRI reasons).

The Domestic Stock Core Fund is actively managed and the chart illustrates that active management has greater volatility around the performance of the benchmark (gray shading) than the index fund (blue shading).

The Domestic Stock Core Fund has a higher possible return than the Domestic Stock Large Cap Core Index Fund, but it also has a higher risk of underperforming the benchmark. The following illustration provides a visual representation of the risk/return expectations of the new index fund relative to all other strategic investment options offered by BFFI.



Another difference between the new index fund and the Domestic Stock Core Fund is that the index fund expenses are lower. The expenses of the Domestic Stock Core Fund are approximately 0.46 percent per year, and the expenses for the Domestic Stock Large Cap Core Index Fund are approximately 0.23 percent per year.

Contact Information

Steve Mason
Director
smason@cobbt.org
847-622-3369 (direct)
847-313-5900 (cell)

Steve Lipinski
Manager of Operations
slipinski@cobbt.org
847-622-3377 (direct)

1505 Dundee Ave.
Elgin, IL 60120
888-311-6530 (toll-free)
847-695-0200 (main number)
847-742-0135 (fax)
www.brethrenfoundationfunds.org

Disclosure

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