



BFFI staff, counsel, and Board work diligently with their investment managers to mitigate these market forces and provide strong returns on investments.



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# Investment Perspective

FROM BROTHERS FOUNDATION FUNDS

SEPTEMBER 2016

## MARKETS AND THE ECONOMY

Despite a record high during the month, the S&P 500 Index generated a tepid 0.1 percent increase for the entire month of August. Payrolls grew respectably in August, but the unemployment rate held steady at 4.9 percent as the labor force grew. Average hourly earnings rose 0.1 percent in August and are up 2.4 percent versus a year ago. Real GDP was revised slightly lower for the second quarter to 1.1 percent annualized growth versus the original reading of 1.2 percent. Consumers started the third quarter on a quiet note as July retail sales were little changed from June. A tight supply and rising prices contributed to existing home sales declining 3.2 percent in July from the previous month, down 1.6 percent from a year ago. The bond market, as measured by the Barclays Capital Government/Credit Index, decreased 0.2 percent in August.

In an effort to cushion the economy from the effects of the Brexit vote, the Bank of England unveiled a comprehensive stimulus package including cutting its benchmark interest rate from 0.5 percent to 0.25 percent, renewing its bond-buying program, and issuing ultra-cheap loans to spur lending. While Germany's economy grew faster than expected, Italy was flat. Eurozone GDP grew at a 0.3 percent annualized rate during the second quarter, slower than 0.6 percent annualized rate during first quarter. Falling exports and weak corporate investment contributed to Japan's economy registering a 0.2 percent annualized increase in the second quarter, down from 2 percent annualized growth during the prior quarter. Conflicting signals were released surrounding the state of manufacturing activity in China. One report focusing on state-owned companies revealed a slip into negative territory, while a separate report of private firms reflects a rise into expansionary territory. International equities, as measured by the MSCI EAFE Index, ticked up 0.1 percent in August.

## DOMESTIC EQUITY MANAGERS CHALLENGED TO BEAT BENCHMARKS

Most active managers in the U.S. equity market are underperforming their benchmarks. According to the SPIVA® U.S. Scorecard, a semi-annual S&P Dow Jones Indices tool which measures the performance of actively managed funds, 66.1 percent of domestic large cap managers underperformed the S&P 500 in 2015 and 84.2 percent trailed the benchmark for the five-year period ending on Dec. 31, 2015. Mid and small cap domestic managers had similar experiences. This pattern of underperforming the benchmark has persisted in the first half of 2016 for the domestic equity asset classes; the worst year since 2003, according to Bank of America Merrill Lynch data.

Outperforming the benchmark is especially difficult during a bull market where stock value is typically driven more by passive managers who are simply attempting to match benchmark performance than by active managers who make decisions based on valuation of the companies. With the current bull market being the second longest in American history (2,732 days at the end of August), the pressure on active domestic equity managers has been in place for a long time.

Domestic equity managers serving Brethren Foundation Funds investment options have these challenges, but BFFI staff, counsel, and Board work diligently with their investment managers to mitigate these market forces and provide strong returns on investments. One of the ways we addressed this was to introduce a new index fund in the past year as a practical option for our customers during this historically challenging investment era.

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

# Fund Performance Report

for the period ending Aug. 31, 2016



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
<b>SHORT-TERM</b>						
<b>Short-Term Fund</b>	0.0%	0.2%	0.4%	0.3%	0.5%	1.6%
Merrill Lynch 6-Month Treasury Bill Index <sup>1</sup>	0.0%	0.2%	0.5%	0.3%	0.2%	1.0%
<b>COMMUNITY DEVELOPMENT</b>						
<b>Community Development Investment Fund <sup>2</sup></b>	0.1%	0.4%	1.1%	1.8%	1.9%	2.4%
No Benchmark	—	—	—	—	—	—
<b>FIXED INCOME</b>						
<b>Bond Core Fund</b>	(0.1)%	2.9%	7.1%	4.7%	4.0%	5.5%
Barclays Capital U.S. Government/Credit Bond Index	(0.2)%	2.8%	6.9%	4.5%	3.5%	5.0%
<b>Bond Fund</b>	0.0%	3.1%	7.5%	4.9%	4.0%	5.5%
Barclays Capital U.S. Government/Credit Bond Index	(0.2)%	2.8%	6.9%	4.5%	3.5%	5.0%
<b>Treasury Inflation-Protected Securities Fund <sup>3</sup></b>	(0.2)%	2.4%	6.8%	1.9%	1.1%	—
Barclays Capital U.S. TIPS Index	(0.4)%	2.5%	6.7%	2.7%	1.8%	—
<b>Bank Loans Fund <sup>3,4</sup></b>	—	—	—	—	—	—
S&P/LSTA U.S. Leveraged Loan 100 Index	—	—	—	—	—	—
<b>High Yield Bond Fund <sup>3</sup></b>	1.9%	4.9%	11.3%	5.1%	7.4%	—
Barclays Capital U.S. Corporate High Yield Bond Index	2.1%	5.8%	14.3%	5.4%	7.5%	—
<b>Global Aggregate Fixed Income Fund <sup>3,4</sup></b>	—	—	—	—	—	—
Barclays Capital Global Aggregate Bond Index	—	—	—	—	—	—
<b>DOMESTIC EQUITY</b>						
<b>Domestic Stock Large Cap Core Fund</b>	1.0%	5.1%	4.7%	2.3%	7.5%	4.6%
S&P 500 Index	0.1%	4.1%	7.8%	12.3%	14.7%	7.5%
<b>Domestic Stock Large Cap Core Index Fund <sup>5</sup></b>	0.2%	4.1%	—	—	—	—
S&P 500 Index	0.1%	4.1%	—	—	—	—
<b>Domestic Stock Mid Cap Fund</b>	0.8%	3.2%	2.2%	9.8%	15.6%	—
Russell Midcap Index	(0.2)%	4.8%	10.0%	11.3%	14.3%	—
<b>Domestic Stock Growth Fund</b>	(0.3)%	1.6%	5.1%	10.5%	12.2%	—
Russell 1000 Growth Index	(0.5)%	3.8%	5.6%	13.3%	14.7%	—
<b>Domestic Stock Fund</b>	0.4%	3.2%	4.4%	8.0%	12.0%	7.7%
S&P 500 Index	0.1%	4.1%	7.8%	12.3%	14.7%	7.5%
<b>Small Cap Fund</b>	1.4%	2.8%	10.6%	10.4%	12.3%	9.9%
Russell 2000 Index	1.8%	7.8%	10.2%	8.5%	12.9%	7.0%
<b>INTERNATIONAL EQUITY</b>						
<b>International Stock Core Fund</b>	1.1%	1.5%	1.8%	1.9%	4.3%	1.8%
MSCI EAFE Index	0.1%	1.6%	0.5%	2.5%	5.0%	1.7%
<b>Emerging Markets Stock Fund <sup>3</sup></b>	2.7%	14.3%	19.9%	0.5%	(0.9)%	—
MSCI Emerging Markets Index	2.5%	11.9%	14.5%	1.1%	(0.4)%	—
<b>ALTERNATIVE INVESTMENTS</b>						
<b>Commodities-Based Fund <sup>3</sup></b>	0.4%	(1.0)%	9.7%	(14.5)%	(12.4)%	—
Bloomberg Commodity Total Return Index	(1.8)%	(2.9)%	5.6%	(14.0)%	(12.8)%	—
<b>Public Real Estate Fund <sup>3</sup></b>	(2.0)%	4.9%	7.6%	8.0%	7.7%	—
S&P Developed Property Index	(2.7)%	5.7%	11.7%	11.2%	10.8%	—
<b>Multi-Strategy Hedge Fund <sup>3,4</sup></b>	—	—	—	—	—	—
60% S&P 500 Index/40% Barclays Capital U.S. Aggregate Bond Index	—	—	—	—	—	—
<b>Global Inflation Protection Fund <sup>3</sup></b>	0.9%	6.1%	16.5%	—	—	—
CPI + 5% <sup>6</sup>	0.2%	1.8%	4.7%	—	—	—
<b>EQUITY AND FIXED INCOME</b>						
<b>Balanced Fund</b>	0.2%	3.1%	5.7%	6.9%	9.0%	7.2%
Blended Balanced Index <sup>7</sup>	0.0%	3.6%	7.5%	9.3%	10.3%	6.8%
<b>TACTICAL FUNDS (additional fees apply)</b>						
<b>Conservative Fund <sup>3</sup></b>	0.0%	0.5%	—	—	—	—
Blended Conservative Index	0.0%	0.4%	—	—	—	—
<b>Income Fund <sup>3</sup></b>	0.5%	2.9%	6.3%	—	—	—
Blended Income Index	0.0%	3.3%	6.7%	—	—	—
<b>SRI Income Fund <sup>4</sup></b>	—	—	—	—	—	—
Blended SRI Income Index	—	—	—	—	—	—
<b>Income &amp; Growth Fund <sup>3</sup></b>	0.8%	3.9%	7.4%	—	—	—
Blended Income & Growth Index	0.1%	3.5%	6.4%	—	—	—
<b>SRI Income &amp; Growth Fund</b>	0.5%	3.0%	5.9%	—	—	—
Blended SRI Income & Growth Index	0.1%	3.5%	6.5%	—	—	—
<b>Growth Fund <sup>3</sup></b>	1.0%	4.1%	7.3%	—	—	—
Blended Growth Index	0.2%	3.6%	6.3%	—	—	—
<b>SRI Growth Fund</b>	0.6%	2.8%	5.3%	—	—	—
Blended SRI Growth Index	0.2%	3.7%	6.4%	—	—	—
<b>Aggressive Growth Fund <sup>3</sup></b>	1.1%	4.4%	7.5%	—	—	—
Blended Aggressive Growth Index	0.2%	3.6%	6.1%	—	—	—
<b>SRI Aggressive Growth Fund <sup>4</sup></b>	—	—	—	—	—	—
Blended SRI Aggressive Growth Index	—	—	—	—	—	—
<b>U.S. INFLATION</b>						
<b>Consumer Price Index (July 2016) <sup>6</sup></b>	(0.2)%	0.6%	1.4%	1.0%	1.3%	1.7%

Performance Report

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