



Investment Perspective

FROM BRETHREN FOUNDATION FUNDS

APRIL 2015

MARKETS AND THE ECONOMY

Concerns about the impact of a stronger dollar on the profits of large U.S.-based, multinational corporations contributed to the S&P 500 Index declining 1.6 percent in March; however, it was up 1 percent for the first quarter. The Federal Reserve dropped from its policy statement an assurance that it would be “patient” before moving interest rates higher, and outlined a measured approach to rate increases. Existing home sales rose 1.2 percent in February compared with a month earlier; the overall housing market is confronting headwinds from rising prices, stagnant wages, and shrinking inventory. Winter weather contributed to consumer spending inching up a seasonally adjusted 0.1 percent in February from the prior month; consumers are not spending, as evidenced by retail sales falling 0.6 percent, and the personal savings rate climbing to 5.8 percent. The bond market, as measured by the Barclays Capital Government/Credit Index, rose 0.5 percent in March, up 1.8 percent during the first quarter.

The European Central Bank launched its massive bond-buying program in an effort to rekindle economic growth and inflation in the stagnant Eurozone. In contrast to the Eurozone’s tepid recovery, Britain’s economy expanded 2.6 percent in 2014. The Bank of England indicated interest rates in the U.K. may rise more slowly if inflation remains restrained; annual inflation was 0.3 percent in the U.K. in January. A drop in global oil prices drove Japan’s core consumer price index to 0.0 percent in February from a year earlier, far from the central bank’s target of 2 percent. Japan’s industrial output slid 3.4 percent in February from the previous month. Brazil’s jobless rate rose to 5.9 percent in February from January. Factory activity rose in March, slightly improving China’s manufacturing sector. International equities, as measured by the MSCI EAFE Index, declined 1.4 percent in March, up 5 percent for the quarter.

SOCIALLY RESPONSIBLE INVESTING AND PERFORMANCE

Should clients worry that socially responsible investing puts them at a disadvantage? Brethren Foundation Funds Inc. seeks to provide competitive performance for client assets through investments based on denominational positions as expressed by Annual Conference statements. Some companies are screened out of BFFI’s portfolios because they are in conflict with Brethren values, and clients are wise to question whether screening out these companies has an impact on the performance of BFFI funds.

To address whether social screens impact the performance of client portfolios, staff regularly consults with investment managers overseeing BFFI funds that are actively managed according to BFFI investment guidelines. The indication is that BFFI social screens can have the most noticeable impact in the short term. Although the BFFI portfolio sometimes underperforms or outperforms the investment managers’ unscreened core portfolios in the short term, BFFI’s portfolios and their unscreened core portfolios tend to perform very similarly over the long term. Some managers have even reported that the timing of money flowing into and out of the portfolio has a greater impact on performance than BFFI’s social screens. Based on investment manager assessment, BFFI’s invested assets do not experience any long-term performance impact as a result of its socially responsible investing screens.

Both investment performance and compliance with social screens are equally important components of BFFI’s investment program. Investment managers who have not fulfilled one or the other of those expectations have lost their opportunity to service BFFI funds. BFFI is diligent in its attention to both Brethren values and performance.

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

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All periods longer than one year are annualized.

Fund Performance Report

for the period ending March 31, 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	0.0%	0.1%	0.1%	0.5%	0.7%	2.1%
Merrill Lynch 6-Month Treasury Bill Index ¹	0.0%	0.0%	0.0%	0.2%	0.2%	1.5%
COMMUNITY DEVELOPMENT						
Community Development Investment Fund ²	0.1%	0.4%	0.4%	2.0%	2.2%	2.6%
No Benchmark	—	—	—	—	—	—
FIXED INCOME						
Bond Core Fund	0.5%	1.9%	1.9%	3.8%	5.2%	5.4%
Barclays Capital U.S. Government/Credit Bond Index	0.5%	1.8%	1.8%	3.4%	4.8%	5.0%
Bond Fund	0.4%	1.7%	1.7%	3.9%	5.3%	5.4%
Barclays Capital U.S. Government/Credit Bond Index	0.5%	1.8%	1.8%	3.4%	4.8%	5.0%
Treasury Inflation-Protected Securities Fund ³	(0.2)%	1.5%	1.5%	(0.3)%	—	—
Barclays Capital U.S. TIPS Index	(0.5)%	1.4%	1.4%	0.6%	—	—
Bank Loans Fund ^{3,4}	—	—	—	—	—	—
S&P/LSTA U.S. Leveraged Loan 100 Index	—	—	—	—	—	—
High Yield Bond Fund ³	(0.2)%	3.1%	3.1%	7.7%	—	—
Barclays Capital U.S. Corporate High Yield Bond Index	(0.5)%	2.5%	2.5%	7.5%	—	—
Global Aggregate Fixed Income Fund ^{3,4}	—	—	—	—	—	—
Barclays Capital Global Aggregate Bond Index	—	—	—	—	—	—
DOMESTIC EQUITY						
Domestic Stock Core Fund	(3.5)%	(5.8)%	(5.8)%	11.4%	10.0%	6.7%
S&P 500 Index	(1.6)%	1.0%	1.0%	16.1%	14.5%	8.0%
Domestic Stock Mid Cap Fund	(1.4)%	2.5%	2.5%	21.8%	—	—
Russell Midcap Index	(0.3)%	3.6%	3.6%	17.9%	—	—
Domestic Stock Growth Fund	0.6%	4.9%	4.9%	13.9%	—	—
Russell 1000 Growth Index	(1.1)%	3.8%	3.8%	16.3%	—	—
Domestic Stock Fund	(1.4)%	0.4%	0.4%	15.7%	14.4%	8.8%
S&P 500 Index	(1.6)%	1.0%	1.0%	16.1%	14.5%	8.0%
Small Cap Fund	1.7%	3.6%	3.6%	12.8%	15.6%	11.0%
Russell 2000 Index	1.7%	4.3%	4.3%	16.3%	14.6%	8.8%
INTERNATIONAL EQUITY						
International Stock Core Fund	(1.0)%	5.0%	5.0%	7.0%	5.8%	4.7%
MSCI EAFE Index	(1.4)%	5.0%	5.0%	9.5%	6.6%	5.4%
Emerging Markets Stock Fund ³	(2.5)%	0.1%	0.1%	(1.6)%	—	—
MSCI Emerging Markets Index	(1.4)%	2.3%	2.3%	0.7%	—	—
ALTERNATIVE INVESTMENTS						
Commodities-Based Fund ³	(3.7)%	(5.8)%	(5.8)%	(12.1)%	—	—
Bloomberg Commodity Total Return Index	(5.1)%	(5.9)%	(5.9)%	(11.5)%	—	—
Public Real Estate Fund ³	1.2%	4.1%	4.1%	10.4%	—	—
S&P Developed Property Index	0.2%	4.8%	4.8%	13.5%	—	—
Multi-Strategy Hedge Fund ^{3,4}	—	—	—	—	—	—
60% S&P 500 Index/40% Barclays Capital U.S. Aggregate Bond Index	—	—	—	—	—	—
Global Inflation Protection Fund	(1.4)%	2.8%	2.8%	—	—	—
CPI + 5% ⁵	0.9%	0.5%	0.5%	—	—	—
EQUITY AND FIXED INCOME						
Balanced Fund	(0.7)%	1.0%	1.0%	11.0%	11.0%	7.8%
Blended Balanced Index ⁶	(0.7)%	1.4%	1.4%	11.0%	10.8%	7.1%
TACTICAL FUNDS (additional fees apply)						
Conservative Fund ^{3,4}	—	—	—	—	—	—
Blended Conservative Index	—	—	—	—	—	—
Income Fund ³	(0.4)%	1.2%	1.2%	—	—	—
Blended Income Index	(0.3)%	2.1%	2.1%	—	—	—
SRI Income Fund ⁴	—	—	—	—	—	—
Blended SRI Income Index	—	—	—	—	—	—
Income & Growth Fund ³	(0.9)%	0.9%	0.9%	—	—	—
Blended Income & Growth Index	(0.5)%	2.5%	2.5%	—	—	—
SRI Income & Growth Fund ⁴	—	—	—	—	—	—
Blended SRI Income & Growth Index	—	—	—	—	—	—
Growth Fund ³	(1.1)%	1.0%	1.0%	—	—	—
Blended Growth Index	(0.6)%	2.6%	2.6%	—	—	—
SRI Growth Fund	(0.8)%	1.2%	1.2%	—	—	—
Blended SRI Growth Index	(0.4)%	3.0%	3.0%	—	—	—
Aggressive Growth Fund ³	(1.4)%	0.6%	0.6%	—	—	—
Blended Aggressive Growth Index	(0.9)%	2.3%	2.3%	—	—	—
SRI Aggressive Growth Fund ⁴	—	—	—	—	—	—
Blended SRI Aggressive Growth Index	—	—	—	—	—	—
U.S. INFLATION						
Consumer Price Index (February 2015) ⁵	0.5%	(0.8)%	(0.8)%	0.8%	1.4%	1.8%

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 All U.S. Urban Consumers Chained CPI Index 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).