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Investment Perspective

FROM BRETHREN FOUNDATION FUNDS

AUGUST 2016

MARKETS AND THE ECONOMY

The S&P 500 Index had a strong start to the third quarter, rising 3.7 percent in July. Second quarter real GDP grew at an annual rate of 1.2 percent; consumer spending was the largest contributor while reduced business investment produced the largest drag. Citing continuing concerns about inflation and a weak global economic outlook, the Federal Reserve left the federal funds rate unchanged. The housing sector continued to demonstrate strong fundamentals. Existing home sales continued to show strength in June, increasing 1.1 percent, up 3 percent versus a year ago. The Consumer Price Index increased 0.2 percent in June, up 1 percent from a year ago. Strong non-store sales drove a 0.6 percent increase in retail sales in June, up 2.7 percent from a year earlier. The bond market, as measured by the Barclays Capital Government/Credit Index, increased 0.8 percent in July.

The Eurozone's second quarter GDP grew at a 1.2 percent annual rate, down from the previous quarter's annualized rate of 2.2 percent. In France, Eurozone's second biggest economy, GDP was flat. Eurozone's unemployment rate also remained flat at 10.1 percent in June. The Central Bank of Japan chose not to expand its bond purchasing program or cut negative interest rates even lower, but launched an assessment of the effectiveness of its stimulus policies. Through a rise in government spending and an abundant supply of credit, China's second quarter GDP remained steady with first quarter results, at a 6.7 percent annualized growth rate. The Bank of England loosened bank capital requirements to support lending and maintained its benchmark interest rate at 0.5 percent. The bank will wait for more data on the economy's health before deciding on any new stimulus measures on the heels of Brexit. International equities, as measured by the MSCI EAFE Index, increased 5.1 percent in July.

SOCIALLY RESPONSIBLE INVESTING AND PERFORMANCE

Brethren Foundation Funds seeks to provide competitive performance for client assets through investments based on denominational positions on various social issues. This means that certain companies that could otherwise be available to the investment managers are screened out of BFFI's portfolios, because they are in conflict with Brethren values as expressed by Church of the Brethren Annual Conference statements.

BFFI staff members are frequently asked whether these social screens have a negative impact on performance. Being aware of this concern, BFFI staff members regularly ask the investment managers serving the actively managed funds whether social screens impact the performance of those portfolios. Some managers have reported that the timing of money moving into and out of the portfolio has a greater impact on performance than BFFI's social screens. All of the managers indicate that the BFFI social screens can have an impact on performance that is most noticeable in the short term, where the BFFI portfolio sometimes outperforms and sometimes underperforms the managers' unscreened core portfolios. Over the long term, however, the managers affirm that BFFI's portfolios and the unscreened core portfolios tend to perform very similarly. Based on investment manager feedback, BFFI affirms that its invested assets do not experience a long-term performance impact, positive or negative, due to its socially responsible investing screens.

NOTE: Both performance expectations and compliance with BFFI social screens are equally important components of BFFI's investment program. Investment managers have lost their opportunity to serve BFFI because they have not succeeded in achieving one or the other of those expectations.

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

Fund Performance Report

for the period ending July 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
SHORT-TERM						
Short-Term Fund	0.0%	0.2%	0.4%	0.3%	0.5%	1.7%
<i>Merrill Lynch 6-Month Treasury Bill Index</i> ¹	0.0%	0.2%	0.4%	0.3%	0.3%	1.0%
COMMUNITY DEVELOPMENT						
Community Development Investment Fund ²	0.1%	0.4%	0.9%	1.8%	1.9%	2.4%
<i>No Benchmark</i>	—	—	—	—	—	—
FIXED INCOME						
Bond Core Fund	0.9%	3.1%	7.2%	4.6%	4.1%	5.7%
<i>Barclays Capital U.S. Government/Credit Bond Index</i>	0.8%	3.0%	7.1%	4.4%	3.9%	5.2%
Bond Fund	1.0%	3.1%	7.5%	4.7%	4.1%	5.7%
<i>Barclays Capital U.S. Government/Credit Bond Index</i>	0.8%	3.0%	7.1%	4.4%	3.9%	5.2%
Treasury Inflation-Protected Securities Fund ³	0.7%	2.0%	7.0%	1.7%	1.6%	—
<i>Barclays Capital U.S. TIPS Index</i>	0.9%	2.2%	7.2%	2.4%	2.0%	—
Bank Loans Fund ^{3,4}	—	—	—	—	—	—
<i>S&P/LSTA U.S. Leveraged Loan 100 Index</i>	—	—	—	—	—	—
High Yield Bond Fund ³	2.4%	3.6%	9.2%	4.2%	5.9%	—
<i>Barclays Capital U.S. Corporate High Yield Bond Index</i>	2.7%	4.3%	12.0%	4.5%	6.2%	—
Global Aggregate Fixed Income Fund ^{3,4}	—	—	—	—	—	—
<i>Barclays Capital Global Aggregate Bond Index</i>	—	—	—	—	—	—
DOMESTIC EQUITY						
Domestic Stock Large Cap Core Fund	3.7%	5.2%	3.7%	1.5%	6.1%	4.8%
<i>S&P 500 Index</i>	3.7%	5.8%	7.7%	11.2%	13.4%	7.7%
Domestic Stock Large Cap Core Index Fund ⁵	3.8%	5.6%	—	—	—	—
<i>S&P 500 Index</i>	3.7%	5.8%	—	—	—	—
Domestic Stock Mid Cap Fund	5.5%	3.4%	1.4%	8.7%	13.2%	—
<i>Russell Midcap Index</i>	4.6%	6.8%	10.3%	10.4%	12.7%	—
Domestic Stock Growth Fund	2.6%	5.0%	5.4%	9.7%	11.2%	—
<i>Russell 1000 Growth Index</i>	4.7%	6.3%	6.1%	12.9%	13.6%	—
Domestic Stock Fund	3.9%	4.7%	4.0%	7.0%	10.4%	8.0%
<i>S&P 500 Index</i>	3.7%	5.8%	7.7%	11.2%	13.4%	7.7%
Small Cap Fund	1.2%	3.4%	9.0%	9.4%	11.3%	10.1%
<i>Russell 2000 Index</i>	6.0%	8.3%	8.3%	6.7%	10.4%	7.2%
INTERNATIONAL EQUITY						
International Stock Core Fund	4.0%	0.3%	0.7%	1.1%	2.4%	2.0%
<i>MSCI EAFE Index</i>	5.1%	0.6%	0.4%	2.0%	3.0%	2.0%
Emerging Markets Stock Fund ³	7.3%	4.4%	16.7%	(1.5)%	(4.8)%	—
<i>MSCI Emerging Markets Index</i>	5.0%	5.2%	11.8%	(0.3)%	(2.7)%	—
ALTERNATIVE INVESTMENTS						
Commodities-Based Fund ³	(6.2)%	(1.1)%	9.2%	(13.5)%	(12.6)%	—
<i>Bloomberg Commodity Total Return Index</i>	(5.1)%	(1.4)%	7.5%	(12.5)%	(12.3)%	—
Public Real Estate Fund ³	4.7%	6.2%	9.8%	7.0%	6.6%	—
<i>S&P Developed Property Index</i>	4.9%	8.7%	14.9%	10.6%	10.0%	—
Multi-Strategy Hedge Fund ^{3,4}	—	—	—	—	—	—
<i>60% S&P 500 Index/40% Barclays Capital U.S. Aggregate Bond Index</i>	—	—	—	—	—	—
Global Inflation Protection Fund ³	2.7%	3.0%	15.5%	—	—	—
<i>CPI + 5%</i> ⁶	0.7%	2.5%	4.5%	—	—	—
EQUITY AND FIXED INCOME						
Balanced Fund	2.7%	4.0%	5.4%	6.3%	8.1%	7.4%
<i>Blended Balanced Index</i> ⁷	2.5%	4.7%	7.5%	8.6%	9.7%	7.0%
TACTICAL FUNDS (additional fees apply)						
Conservative Fund ³	0.2%	0.4%	—	—	—	—
<i>Blended Conservative Index</i>	0.1%	0.4%	—	—	—	—
Income Fund ³	2.2%	2.6%	5.7%	—	—	—
<i>Blended Income Index</i>	2.0%	3.3%	6.7%	—	—	—
SRI Income Fund ⁴	—	—	—	—	—	—
<i>Blended SRI Income Index</i>	—	—	—	—	—	—
Income & Growth Fund ³	3.0%	3.1%	6.5%	—	—	—
<i>Blended Income & Growth Index</i>	2.7%	3.4%	6.3%	—	—	—
SRI Income & Growth Fund	2.6%	3.1%	5.4%	—	—	—
<i>Blended SRI Income & Growth Index</i>	2.7%	3.5%	6.4%	—	—	—
Growth Fund ³	3.4%	3.0%	6.3%	—	—	—
<i>Blended Growth Index</i>	3.1%	3.5%	6.1%	—	—	—
SRI Growth Fund	3.0%	2.9%	4.7%	—	—	—
<i>Blended SRI Growth Index</i>	3.3%	3.6%	6.2%	—	—	—
Aggressive Growth Fund ³	3.8%	3.1%	6.3%	—	—	—
<i>Blended Aggressive Growth Index</i>	3.3%	3.5%	5.9%	—	—	—
SRI Aggressive Growth Fund ⁴	—	—	—	—	—	—
<i>Blended SRI Aggressive Growth Index</i>	—	—	—	—	—	—
U.S. INFLATION						
Consumer Price Index (June 2016) ⁶	0.3%	1.2%	1.6%	1.1%	1.3%	1.7%

Performance Report

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