



Investment Perspective

FROM BROTHERS FOUNDATION FUNDS

JANUARY 2017

MARKETS AND THE ECONOMY

After dropping nearly 9.0 percent during the first two months of the year, the S&P 500 Index ended on a strong note, rising 2.0 percent in December, 3.8 percent for the quarter, and 12.0 percent for the year. The Federal Reserve raised the federal funds target rate by a quarter percentage point to between 0.50 percent and 0.75 percent. GDP growth in the third quarter was revised up to a 3.5 percent annual rate from a prior estimate of 3.2 percent due to business investment and personal consumption. The bond market, as measured by the Bloomberg Barclays Government/Credit Index, was up 0.2 percent in December, down 3.4 percent for the quarter, and up 3.0 percent for the year.

Citing continuing concerns about low inflation and sluggish economic growth, the European Central Bank extended its monetary stimulus until the end of 2017. Against a Brexit backdrop, Britain's GDP growth during the third quarter was revised to 0.6 percent, up from an initial estimate of 0.5 percent during the quarter; service sector growth was the main driver. Japan's economy in the third quarter expanded at a slower pace than initially estimated, revised down to an annualized pace of 1.3 percent from an initial estimate of 2.2 percent. International equities, as measured by the MSCI EAFE Index, were up 3.4 percent in December, down 0.7 percent for the quarter, and up 1.0 percent for the year.

It should be noted that though BFFI will use a new name to refer to its socially responsible investing, the actual funds have not changed and are invested just as they have been. ... BVI is simply SRI the Brethren way.

A NEW NAME FOR “SOCIALLY RESPONSIBLE INVESTING”

At its November meeting, the BFFI Board voted to discontinue its use of the term “socially responsible investing” when referring to BFFI's investment screens, and begin using the more precise designation of “Brethren Values Investing.” This new terminology, or “BVI,” will now be used in place of “socially responsible investing” or “SRI” as the identifier of BFFI's social screening.

Socially responsible investing has long been a centerpiece of BFFI's investment program, as all assets under management are invested, whenever possible, in a manner that is consistent with the positions of the Church of the Brethren as expressed in Annual Conference statements.

The reason behind this change is that there is no specific definition or single term to describe SRI. For example, a Google search of the meaning of SRI produces multiple results, such as community investing, ethical investing, green investing, impact investing, mission-related investing, responsible investing, socially responsible investing, sustainable investing, or values-based investing.

Accordingly, using the term “SRI” to describe BFFI's investment approach can be an unintended source of confusion because of its many meanings, and requires interpretation to distinguish it from the other forms of SRI. Phrases such as “investing in a Brethren way” or “Brethren values” are essential to characterize BFFI's SRI activities.

It should be noted that though BFFI will use a new name to refer to its socially responsible investing, the actual funds have not changed and are invested just as they have been. Perhaps the best way to think of this new approach is — BVI is simply SRI the Brethren way.



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

Fund Performance Report

for the period ending Dec. 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%	0.1%	0.5%	0.3%	0.7%	1.5%
<i>Merrill Lynch 6-Month Treasury Bill Index</i> ¹	0.0%	0.1%	0.7%	0.3%	0.3%	0.8%
COMMUNITY DEVELOPMENT						
Community Development Investment Fund ²	0.1%	0.4%	1.6%	1.7%	1.9%	2.4%
<i>No Benchmark</i>	—	—	—	—	—	—
FIXED INCOME						
Bond Core Fund	0.2%	(3.3)%	3.4%	3.2%	2.8%	4.9%
<i>Bloomberg Barclays U.S. Government/Credit Bond Index</i>	0.2%	(3.4)%	3.0%	3.0%	2.3%	4.4%
Bond Fund	(0.1)%	(3.2)%	3.8%	3.4%	2.9%	4.9%
<i>Bloomberg Barclays U.S. Government/Credit Bond Index</i>	0.2%	(3.4)%	3.0%	3.0%	2.3%	4.4%
Treasury Inflation-Protected Securities Fund ³	(0.5)%	(3.1)%	4.3%	1.7%	0.2%	—
<i>Bloomberg Barclays U.S. TIPS Index</i>	(0.1)%	(2.4)%	4.7%	2.3%	0.9%	—
Bank Loans Fund ^{3,4}	—	—	—	—	—	—
<i>S&P/LSTA U.S. Leveraged Loan 100 Index</i>	—	—	—	—	—	—
High Yield Bond Fund ³	2.3%	2.6%	14.8%	4.6%	7.4%	—
<i>Bloomberg Barclays U.S. Corporate High Yield Bond Index</i>	1.8%	1.8%	17.1%	4.7%	7.4%	—
Global Aggregate Fixed Income Fund ^{3,4}	—	—	—	—	—	—
<i>Bloomberg Barclays Global Aggregate Bond Index</i>	—	—	—	—	—	—
DOMESTIC EQUITY						
Domestic Stock Large Cap Core Fund	1.8%	4.5%	9.9%	(0.7)%	8.4%	4.2%
<i>S&P 500 Index</i>	2.0%	3.8%	12.0%	8.9%	14.7%	6.9%
Domestic Stock Large Cap Core Index Fund ⁵	2.0%	3.4%	—	—	—	—
<i>S&P 500 Index</i>	2.0%	3.8%	—	—	—	—
Domestic Stock Mid Cap Fund	0.9%	(1.8)%	0.4%	3.1%	15.0%	—
<i>Russell Midcap Index</i>	1.1%	3.2%	13.8%	7.9%	14.7%	—
Domestic Stock Growth Fund	0.1%	0.1%	6.1%	5.9%	12.3%	—
<i>Russell 1000 Growth Index</i>	1.2%	1.0%	7.1%	8.6%	14.5%	—
Domestic Stock Fund	1.0%	0.8%	5.6%	3.1%	12.1%	6.9%
<i>S&P 500 Index</i>	2.0%	3.8%	12.0%	8.9%	14.7%	6.9%
Small Cap Fund	1.2%	6.1%	17.6%	8.5%	13.2%	9.5%
<i>Russell 2000 Index</i>	2.8%	8.8%	21.3%	6.7%	14.5%	7.1%
INTERNATIONAL EQUITY						
International Stock Core Fund	2.2%	(3.9)%	(0.6)%	(2.8)%	5.2%	0.6%
<i>MSCI EAFE Index</i>	3.4%	(0.7)%	1.0%	(1.6)%	6.5%	0.7%
Emerging Markets Stock Fund ³	0.7%	(1.0)%	19.5%	(2.4)%	1.2%	—
<i>MSCI Emerging Markets Index</i>	0.2%	(4.2)%	11.2%	(2.6)%	1.3%	—
ALTERNATIVE INVESTMENTS						
Commodities-Based Fund ³	4.4%	2.7%	15.4%	(12.0)%	(9.2)%	—
<i>Bloomberg Commodity Total Return Index</i>	1.8%	2.7%	11.8%	(11.3)%	(9.0)%	—
Public Real Estate Fund ³	1.1%	(7.1)%	(1.0)%	3.5%	6.9%	—
<i>S&P Developed Property Index</i>	2.7%	(5.0)%	5.4%	7.0%	10.8%	—
Multi-Strategy Hedge Fund ^{3,4}	—	—	—	—	—	—
<i>60% S&P 500 Index/40% Bloomberg Barclays U.S. Aggregate Bond Index</i>	—	—	—	—	—	—
Global Inflation Protection Fund ³	(0.4)%	(2.6)%	14.5%	—	—	—
<i>CPI + 5%</i> ⁶	0.3%	1.4%	6.8%	—	—	—
EQUITY AND FIXED INCOME						
Balanced Fund	0.6%	(0.9)%	4.9%	3.3%	8.6%	6.5%
<i>Blended Balanced Index</i> ⁷	1.3%	0.9%	8.5%	6.7%	9.7%	6.2%
TACTICAL FUNDS (additional fees apply)						
Conservative Fund ³	0.1%	(0.2)%	—	—	—	—
<i>Blended Conservative Index</i>	0.1%	(0.2)%	—	—	—	—
Income Fund ³	1.2%	(1.3)%	5.3%	—	—	—
<i>Blended Income Index</i>	0.9%	(1.8)%	4.9%	—	—	—
SRI Income Fund ⁴	—	—	—	—	—	—
<i>Blended SRI Income Index</i>	—	—	—	—	—	—
Income & Growth Fund ³	1.3%	(0.2)%	7.7%	1.8%	—	—
<i>Blended Income & Growth Index</i>	1.3%	(0.6)%	6.0%	3.4%	—	—
SRI Income & Growth Fund	1.0%	(1.2)%	5.0%	—	—	—
<i>Blended SRI Income & Growth Index</i>	1.3%	(0.9)%	5.8%	—	—	—
Growth Fund ³	1.4%	(0.1)%	7.8%	1.5%	—	—
<i>Blended Growth Index</i>	1.5%	(0.2)%	6.5%	3.4%	—	—
SRI Growth Fund	1.3%	(0.9)%	4.9%	—	—	—
<i>Blended SRI Growth Index</i>	1.6%	(0.2)%	6.5%	—	—	—
Aggressive Growth Fund ³	1.5%	0.2%	8.4%	0.9%	—	—
<i>Blended Aggressive Growth Index</i>	1.6%	0.3%	7.0%	3.6%	—	—
SRI Aggressive Growth Fund ⁴	—	—	—	—	—	—
<i>Blended SRI Aggressive Growth Index</i>	—	—	—	—	—	—
U.S. INFLATION						
Consumer Price Index (November 2016) ⁶	(0.2)%	0.2%	1.7%	1.2%	1.3%	1.8%

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).