



Investment Perspective

FROM BROTHERS FOUNDATION

AUGUST 2014

MARKETS AND THE ECONOMY

U.S. stocks had hit record highs into late July but geopolitical unrest, new signs of trouble in the European economy, and the prospect of the Federal Reserve dialing back on its accommodative monetary policy sooner than expected contributed to erasing gains and driving the S&P 500 Index to a negative return of 1.4 percent in July. U.S. economic activity rebounded in the second quarter as the gross domestic product rose at annual rate of 4 percent after contracting 2.1 percent in the first quarter. While an influx of job seekers increased the unemployment rate to 6.2 percent in July, broader economic gains prompted businesses across wide swaths of the labor market to hire more workers. The CPI showed little sign of inflation gaining traction with June's reading of a year-over-year increase of 2.1 percent. The bond market, as measured by the Barclays Capital Government/Credit Index, was down slightly, 0.1 percent, in July.

Targeted stimulus measures by China's central bank contributed to stronger fixed asset investment, industrial output, and China's economy growing by 7.5 percent in the second quarter from a year ago. The European Central Bank left its monetary policies intact while inflation in the Eurozone continues to slide; the annual inflation rate was just 0.4 percent in July, down from 0.5 percent in June and far below the ECB's target of just under 2 percent. The jobless rate in the Eurozone fell to 11.5 percent in June from 11.6 percent in May. The United Kingdom's GDP advanced 0.8 percent during the second quarter; matching first quarter growth. Japan's manufacturing activity during July expanded at a slower pace from June. Concerns about the potential economic impact on the Eurozone of economic sanctions against Russia were a backdrop as international equities, as measured by the MSCI EAFE Index, declined 2.0 percent in July.

The new SRI
Tactical Funds
can only use
BFI's existing
investment
options that
comply with
BFI's SRI
guidelines ...

BFI EXPANDS TACTICAL INVESTMENT OPTIONS TO INCLUDE SOCIALLY RESPONSIBLE INVESTING SCREENING

Brethren Foundation is launching four new socially screened Tactical Funds in August so that the benefits of tactically managed investments are available for clients who want their invested assets to be in compliance with Brethren values as expressed by Annual Conference statements.

The new SRI Tactical Funds can only use BFI's existing investment options (known as Strategic Funds) that comply with BFI's SRI guidelines within asset allocation ranges established by BFI's Board. The style of each SRI Tactical Fund is indicated by its name — Aggressive Growth, Growth, Income and Growth, and Income. The investment adviser has discretion regarding investment strategies for these new SRI Tactical Funds, as well as for the other five non-SRI-compliant Tactical Funds that were launched in October 2013, and may actively manage each Tactical Fund within the parameters established by the BFI Board.

An additional fee will be charged by the investment adviser on assets invested in any of BFI's nine Tactical Funds. This fee is based on all client assets under the investment adviser's management, and as the total assets under the investment adviser's management grow, the annual fee will decline. Currently the additional annual fee is approximately 0.11 percent or 11 basis points. The investment adviser anticipates that long-term investment performance will improve by more than the additional fees charged.

Additional information about all Tactical Funds offered by BFI is provided in the document that accompanies this issue of *Investment Perspective*.

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





All periods longer than one year are annualized.

Fund Performance Report

for the period ending July 31, 2014

| 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 <i>Merrill Lynch 6-Month Treasury Bill Index</i> ¹ | 0.0% | 0.0% | 0.1% | 0.6% | 0.9% | 2.2% |
| | 0.0% | 0.0% | 0.1% | 0.2% | 0.3% | 1.6% |
| COMMUNITY DEVELOPMENT | | | | | | |
| Community Development Investment Fund ² <i>No Benchmark</i> | 0.2% | 0.4% | 1.1% | 2.1% | 2.3% | 2.7% |
| | — | — | — | — | — | — |
| FIXED INCOME | | | | | | |
| Bond Core Fund <i>Barclays Capital U.S. Government/Credit Bond Index</i> | (0.1)% | 1.1% | 4.2% | 3.7% | 5.5% | 5.3% |
| | (0.1)% | 1.0% | 3.8% | 3.4% | 4.7% | 4.8% |
| Bond Fund <i>Barclays Capital U.S. Government/Credit Bond Index</i> | (0.1)% | 1.3% | 4.5% | 3.7% | 5.6% | 5.4% |
| | (0.1)% | 1.0% | 3.8% | 3.4% | 4.7% | 4.8% |
| Treasury Inflation-Protected Securities Fund ³ <i>Barclays Capital U.S. TIPS Index</i> | 0.0% | 2.7% | 5.5% | 1.9% | — | — |
| | 0.0% | 2.5% | 5.9% | 2.3% | — | — |
| Bank Loans Fund ^{3,4} <i>S&P/LSTA U.S. Leveraged Loan 100 Index</i> | — | — | — | — | — | — |
| | — | — | — | — | — | — |
| High Yield Bond Fund ³ <i>Barclays Capital U.S. Corporate High Yield Bond Index</i> | (0.7)% | 1.1% | 4.9% | 8.6% | — | — |
| | (1.3)% | 0.4% | 4.1% | 8.6% | — | — |
| Global Aggregate Fixed Income Fund ^{3,4} <i>Barclays Capital Global Aggregate Bond Index</i> | — | — | — | — | — | — |
| | — | — | — | — | — | — |
| DOMESTIC EQUITY | | | | | | |
| Domestic Stock Core Fund <i>S&P 500 Index</i> | (0.3)% | 2.4% | 3.0% | 14.3% | 14.0% | 7.6% |
| | (1.4)% | 3.0% | 5.7% | 16.8% | 16.8% | 8.0% |
| Domestic Stock Mid Cap Fund <i>Russell Midcap Index</i> | (3.9)% | 2.0% | 6.4% | 21.3% | — | — |
| | (3.0)% | 2.5% | 5.5% | 16.4% | — | — |
| Domestic Stock Growth Fund <i>Russell 1000 Growth Index</i> | (2.2)% | 3.3% | 2.8% | 14.0% | — | — |
| | (1.5)% | 3.5% | 4.7% | 16.1% | — | — |
| Domestic Stock Fund <i>S&P 500 Index</i> | (2.1)% | 2.6% | 4.1% | 16.5% | 17.0% | 9.3% |
| | (1.4)% | 3.0% | 5.7% | 16.8% | 16.8% | 8.0% |
| Small Cap Fund <i>Russell 2000 Index</i> | (2.4)% | 2.5% | (1.5)% | 12.3% | 18.0% | 10.7% |
| | (6.1)% | (0.3)% | (3.1)% | 13.6% | 16.6% | 8.8% |
| INTERNATIONAL EQUITY | | | | | | |
| International Stock Core Fund <i>MSCI EAFE Index</i> | (1.8)% | (0.2)% | (0.3)% | 6.5% | 8.8% | 6.7% |
| | (2.0)% | 0.8% | 3.1% | 8.5% | 9.9% | 7.6% |
| Emerging Markets Stock Fund ³ <i>MSCI Emerging Markets Index</i> | 3.7% | 10.1% | 10.2% | (1.7)% | — | — |
| | 2.0% | 8.5% | 8.5% | 0.7% | — | — |
| ALTERNATIVE INVESTMENTS | | | | | | |
| Commodities-Based Fund ³ <i>Dow Jones UBS Commodity Index</i> | (5.8)% | (6.2)% | 2.9% | (6.7)% | — | — |
| | (5.0)% | (7.2)% | 1.7% | (7.7)% | — | — |
| Public Real Estate Fund ³ <i>S&P Developed Property Index</i> | 0.9% | 6.7% | 13.0% | 8.0% | — | — |
| | 0.3% | 5.5% | 12.7% | 10.8% | — | — |
| 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 ^{3,4} <i>Consumer Price Index + 5%</i> ⁵ | — | — | — | — | — | — |
| | — | — | — | — | — | — |
| EQUITY AND FIXED INCOME | | | | | | |
| Balanced Fund <i>Blended Balanced Index</i> ⁶ | (1.3)% | 2.1% | 4.2% | 11.6% | 12.7% | 8.1% |
| | (0.9)% | 2.2% | 5.0% | 11.5% | 12.1% | 7.0% |
| TACTICAL FUNDS (additional fees apply) | | | | | | |
| Conservative Fund ^{3,4} <i>Blended Conservative Index</i> | — | — | — | — | — | — |
| | — | — | — | — | — | — |
| Income Fund ^{3,4} <i>Blended Income Index</i> | (0.2)% | — | — | — | — | — |
| | (0.6)% | — | — | — | — | — |
| Income & Growth Fund ³ <i>Blended Income & Growth Index</i> | (0.4)% | 2.5% | 4.2% | — | — | — |
| | (1.2)% | 2.0% | 4.5% | — | — | — |
| Growth Fund ³ <i>Blended Growth Index</i> | (0.5)% | 2.6% | 4.0% | — | — | — |
| | (1.4)% | 2.1% | 4.4% | — | — | — |
| Aggressive Growth Fund ³ <i>Blended Aggressive Growth Index</i> | (0.4)% | 3.0% | 4.5% | — | — | — |
| | (1.6)% | 2.0% | 4.3% | — | — | — |
| U.S. INFLATION | | | | | | |
| Consumer Price Index (June 2014) ⁵ | 0.2% | 0.8% | 2.2% | 1.8% | 2.0% | 2.3% |

¹ Changed May 1, 2009. 5-year and 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 not seasonally adjusted. ⁶ Weighted average of the S&P 500 Index (60 percent) and the Barclays Capital U.S. Government/Credit Bond Index (40 percent).



New SRI Tactical Investment Options

August 1, 2014

Brethren Foundation New SRI Tactical Investment Options

Brethren Foundation is launching four socially screened tactical investment options in August. These funds provide constituent organizations (clients) with the opportunity to have the asset allocation of their investment portfolios actively managed, investing in the strategic investment options offered by BFI that are in compliance with Brethren values as expressed by Annual Conference statements.

These four new SRI Tactical Funds are in addition to the five Tactical Funds, launched in October 2013. The original five funds can use all BFI strategic investment options whether they are SRI compliant or not. With the addition of the new SRI Tactical Funds, a total of nine Tactical Funds are available to BFI clients.

What are Tactical Funds?

Tactical Funds are BFI Funds whose assets are invested in a mix of BFI Strategic Funds according to asset allocation targets set by an investment adviser within asset allocation ranges established by the BFI Board. These asset allocation targets can be changed at any time by the investment adviser in response to current or expected market conditions as long as the targets remain within the Board-approved ranges. Because BFI Tactical Funds are actively managed by the investment adviser, an additional fee is charged to BFI clients for assets invested in BFI Tactical Funds.

Strategic Funds, in comparison, are the current BFI investment options (e.g., Domestic Stock Fund, Bond Core Fund, and Balanced Fund) whose assets are invested with investment managers or in mutual funds selected by the BFI Board.

Tactical Funds are blended investment funds that are fully invested in various BFI Strategic Funds. The Tactical Funds are managed to address client questions like —

- How do we decide which Strategic Funds we should use?
- Are there better or worse times to use certain funds?
- How often should we rebalance our portfolio?

How are SRI Tactical Funds different from other Tactical Funds?

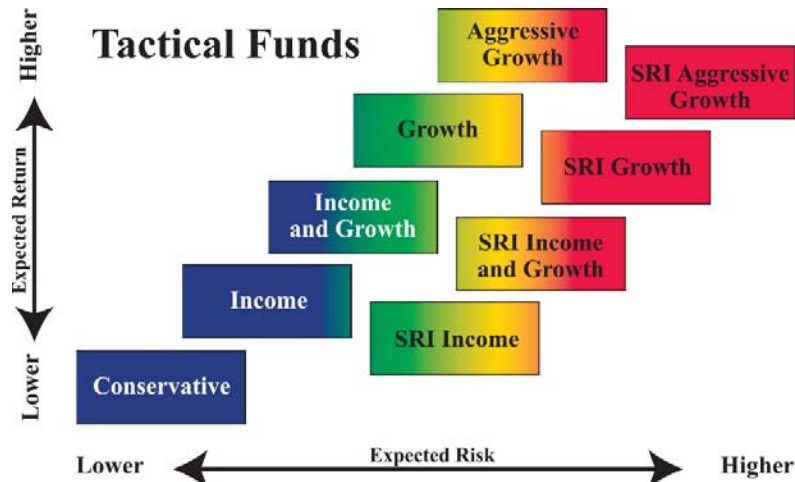
SRI Tactical Funds can only be invested in Strategic Funds that are in compliance with BFI's socially responsible investing guidelines. All other BFI investment options are excluded by action of the Board from the SRI Tactical Funds.

The chart on the next page lists the nine BFI Tactical Funds across the top and the BFI Strategic Funds down the left. The chart reveals which Strategic Funds may be included in each Tactical Fund. Notice that the SRI Tactical Funds cannot hold a position in any of the Strategic Funds that are not compliant with BFI's SRI guidelines.

| | Conservative | Income | Income and Growth | Growth | Aggressive | SRI Income | SRI Income and Growth | SRI Growth | SRI Aggressive |
|-----------------------------------|--------------|--------|-------------------|--------|------------|------------|-----------------------|------------|----------------|
| Short-Term Fund | ● | ○ | ○ | ○ | ○ | | ○ | ○ | ○ |
| Bond Core Fund* | ○ | ● | ● | ● | ○ | | | | |
| Bond Fund | | | | | | ● | ● | ● | ○ |
| TIPS Fund* | ○ | ○ | ○ | ○ | ○ | | | | |
| Bank Loans Fund* | ○ | ○ | ○ | ○ | ○ | | | | |
| High Yield Bond Fund* | ○ | ○ | ○ | ○ | ○ | | | | |
| Global Aggregate Fixed Fund* | ○ | ○ | ○ | ○ | ○ | | | | |
| Multi-Strategy Hedge Fund* | | | ○ | ○ | ○ | | | | |
| Domestic Stock Mid Cap Fund | | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Domestic Stock Core Fund | | ○ | ● | ● | ● | ○ | ○ | ● | ● |
| Domestic Stock Growth Fund | | ○ | ○ | ○ | ○ | | ○ | ○ | ○ |
| Small Cap Fund | | | ○ | ○ | ○ | | ○ | ○ | ○ |
| International Stock Core Fund | | ○ | ● | ● | ● | ○ | ● | ● | ● |
| Public Real Estate Fund* | | ○ | ○ | ○ | ○ | | | | |
| Emerging Markets Fund* | | | ○ | ○ | ○ | | | | |
| Commodities-Based Fund* | | | ○ | ○ | ○ | | | | |
| Global Inflation Protection Fund* | | | ○ | ○ | ○ | | | | |

- Required
 - Permitted
 - Not Permitted
- * Non SRI Fund

The nine Tactical Funds allow for a range of risk and return profiles. The chart below shows the nine Tactical Funds and the relationship between expected return and risk. The risk of the SRI Tactical Funds is slightly higher and the expected return slightly lower than that of the similarly named Tactical Fund that is not compliant with BFI's SRI guidelines. The primary reason for this difference is that the SRI Tactical Funds are less diversified than the other Tactical Funds.



Detailed information about the Tactical Funds is available in the *2014 Information Statement*. Copies are available upon request. Clients who manage their accounts via the client portal also have access to the *2014 Information Statement* via the client portal.

How do the Tactical Funds differ from the Balanced Fund?

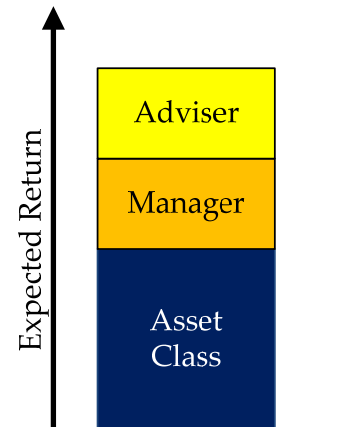
The Balanced Fund is a SRI-compliant Strategic Fund that is invested in the Domestic Stock Fund and the Bond Fund. Although the Balanced Fund allows a range of between 30 percent and 70 percent in the Domestic Stock Fund and the Bond Fund, historically, the fund has been invested 60 percent in the Domestic Stock Fund and 40 percent in the Bond Fund and rebalanced on a fixed schedule.

The Tactical Funds may invest in a wider or different array of Strategic Funds, as indicated above, and how much is invested in each of those Strategic Funds, within the limits of policy, are at the discretion of the investment adviser of the Tactical Funds. The Balanced Fund is readjusted monthly, while changes in Tactical Funds occur when the adviser deems it important.

The Tactical Funds use a tactical asset allocation model — a dynamic investment strategy that actively adjusts a portfolio's asset allocation, with the goal being to improve the risk-adjusted returns of passive management or strategic investing.

What are the expected benefits?

The chart to the right illustrates that the Tactical Funds are expected to provide additional return over the return provided by the Strategic Funds, which is the sum of the asset class return and the manager return.



The Tactical Funds, once selected, relieve organizations from the duty of managing asset allocation and rebalancing on a meeting-to-meeting basis. The organization's duty remains in selecting and monitoring the Tactical Funds.

What are the additional risks?

Any investment strategy that diverges from a stated benchmark for the purpose of enhancing performance is taking some measure of investment risk, as the investment strategy could fail in its attempt. In addition, the Tactical Funds may invest in Strategic Funds that BFI clients might not use if they were designing their own asset allocation. Although there is an expectation that inclusion of additional or different asset classes should lower the long-term risk of the portfolio, the short-term performance could vary from historic client benchmarks.

Do Tactical Funds comply with BFI's socially responsible investing guidelines?

Five of the nine Tactical Funds may invest in Strategic Funds that may not comply with BFI's socially responsible investing guidelines; therefore, those Tactical Funds may not comply with BFI's socially responsible investing guidelines. The four SRI Tactical Funds do comply with

BFI's socially responsible investing guidelines because, by BFI Board action, they only may invest in Strategic Funds that do comply with BFI's socially responsible investing guidelines.

What are the additional expenses?

The Tactical Funds have an additional level of expense over and above the expenses of the Strategic Funds in which they are invested. The additional fee, which is charged directly to the client account on a quarterly basis, is based on the total of all clients' assets under management of the investment adviser (assets invested in Tactical Funds and those invested in the Pension Plan's Target Date Funds). Following is the fee schedule for assets invested with the investment adviser —

| Account Size | Annual Service Fee, Percent of Assets |
|-----------------------------------|--|
| First \$10,000,000 | 0.250% or 25.0 basis points |
| From \$10,000,000 to \$20,000,000 | 0.125% or 12.5 basis points |
| From \$20,000,000 to \$50,000,000 | 0.075% or 7.5 basis points |
| Over \$50,000,000 | 0.050% or 5.0 basis points |

Currently, the additional fee is approximately 11 basis points per year and the investment adviser expects that performance will be enhanced, in the long term, in excess of the additional fee. As more clients use Tactical Funds and Pension Plan Target Date Funds, this annual fee will scale down.

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.bbtfoundation.org

Disclosure

These comments and information are for reference and benchmarking purposes. Consult the 2014 Information Statement for further description of each offering. Consult a qualified capital market professional for capital market advice. The analysis is based on information which the author believes is reliable, but no warranty, expressed or implied, is granted. The material presented is of a general nature and does not constitute the provision of investment or economic advice to any person, or a recommendation to buy or sell any security or adopt any investment strategy. Opinions and forecasts expressed herein are subject to change without notice. Information is not guaranteed as to its accuracy.