



Pension Perspective

FROM BRETHREN PENSION PLAN

JULY 2010

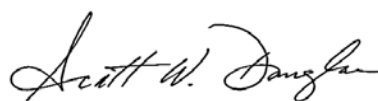
Dear Pension Plan participant,

Given the challenging and uncertain times in which we currently live, hearing good news is a welcome change, and I'd like to reiterate the good news our actuary passed on to Brethren Pension Plan in March. The Retirement Benefits Fund — that part of our Pension Plan that currently pays out monthly benefits to over 1,500 Plan members — finished 2009 in better shape than when the year started! Our intervention — the reduction of current and future benefit payments — as well as excellent market performance has moved the RBF to 77 percent funded status, which is up from its Jan. 1, 2009, funding level of 68 percent.

While we are pleased with this development, the good news needs to be tempered with the fact that the RBF is still underfunded, and the markets are anything but predictable. In 2009, for example, the S&P 500 saw returns of approximately 26.5 percent for the year; however, by the end of June 2010, that same index was down 6.7 percent for the year. Even with favorable ongoing investment performance, it will take some time to return the RBF to 100 percent funded status, and that is our first goal — to return the annuity program to health so that we are able to distribute richer benefits.

The types of investments used in the RBF are conventional stocks and bonds — the vast majority of which are U.S. securities. However, the portfolio also includes some international stocks — approximately 9 percent. It is also important to note where the RBF is *not* invested. For example, the RBF has no share in hedge or private equity funds. The use of leveraged investments is expressly forbidden. BBT staff members, in collaboration with the BBT Board of Directors and Investment Committee, have developed thoughtful and conservative investment guidelines that allow our money managers to pursue time-tested strategies that often earn returns better than the market average while keeping risk at appropriate levels. All of this is accomplished while employing socially responsible investing screens for our actively managed funds, so that your retirement investments do not support industries destructive of the earth or humanity.

The annuity program is an important feature of your Pension Plan. It is capable of providing you with a meaningful income throughout your retirement years; however, just how meaningful your Pension income will be depends in large part on how much you are saving right now. I encourage you to learn more about how the Church of the Brethren Pension Plan works — especially the annuity program and how much you will need for retirement. There is a dedicated and capable team of BBT staff that is ready to help you work toward securing your financial future in retirement, and that also is good news.



Scott Douglas

Director of Brethren Pension Plan and Employee Financial Services

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NEW PENSION ALLOCATION OPTIONS EXPLAINED

If you are one of Brethren Pension Plan's many members who asked for more investment options, consider your request granted. At its November, April, and July meetings, the BBT Board approved recommendations to add six new investment options to Brethren Pension Plan and to enable members to pursue those investment styles. What do you need to know about these new options, which are slated to go into effect in 2010? Read on to learn more, and then consult with your financial adviser before allocating your money to these funds. Please note that BBT cannot offer financial planning advice.

What are the six new investment options?

- **Treasury Inflation-Protected Securities Fund** — TIPS provide protection against inflation. The principal of this type of security increases with inflation and decreases with deflation, as measured by the Consumer Price Index. When it matures, you are paid the adjusted principal or original principal, whichever is greater.
- **Emerging Markets Stock Fund** — This stock fund only invests in companies from developing countries like Brazil, China, Russia, India, and South Korea. These markets tend to be less stable and present greater risk than domestic equities, but have the potential for high returns.
- **Commodities-Based Fund** — This fund invests in a broad array of commodities.
- **Real Estate Investment Trust Fund** — The REIT fund invests in real estate, either through properties or mortgages. Typically, REITs offer investors high yields, but with a substantial amount of risk.
- **High Yield Bond Fund** — Because High Yield Bond Funds invest in bonds with lower credit ratings than the Plan's Bond Fund, the risk of default (and losses) is high, but with that comes the possibility of higher returns.
- **Treasury-Free Bond Fund** — Currently, the Bond Fund may invest in U.S. Treasuries. This option mirrors the Bond Fund, but excludes Treasuries from its portfolio.

The first five funds will start as mutual funds. BBT cannot apply its socially responsible investing criteria to them until there is enough money allocated to them to become actively managed. Additionally, you will need to sign a waiver before you may allocate money to those five funds.

Does Brethren Pension Plan recommend that I allocate money to these funds?

BBT added these funds as a direct response to requests from members and employer groups. These funds offer expanded options for allocation, but also present a considerable amount of risk. If you wish to use these funds, you will need to sign a waiver. Make sure you understand what you are purchasing before you buy — BBT strongly recommends consulting with an investment expert.

What new changes are in store for the Common Stock Fund?

The BBT Board also approved Brethren Pension Plan to offer each of the five investment strategies that comprise the Common Stock Fund as its own allocation option. The Common Stock Fund will still be available to Pension Plan members. The chart below describes each of these investment styles:

| Style | Equity description | Percentage of Common Stock Fund |
|------------------|--|---------------------------------|
| Large Cap Core | Companies worth \$10 billion or more that demonstrate steady growth. | 25% |
| Large Cap Growth | Companies that historically achieve 15 percent or more in return on equity. | 25% |
| Mid Cap Value | \$2-10 billion companies that are undervalued compared with their performance. | 25% |
| International | Only non-U.S. companies. | 15% |
| Small Cap | Companies worth between \$300 million and \$2 billion. | 10% |

MARKETS AND THE ECONOMY

The second quarter of 2010 ended as one of the worst in recent history, as international and domestic equity markets continued on their steep declines in May and June. The equity markets reacted to sovereign debt concerns, and a flight to quality and lower valuations reflected an increasing possibility of a domestic and even worldwide double-dip recession. A worsening employment picture in the U.S. and lower international manufacturing output and consumption raised concerns about the possibility of a return to a slow-growth economic scenario or worse. A common theme heard now is that the longer the period of time it takes before a sustained recovery occurs and improves employment, the greater the risk of a recession returning — and with it lower stock values.

Bonds were one of the best-performing asset classes during the quarter. The continued flight to quality widened the spread between U.S. Treasury bond yields and corporate and other asset-backed securities. An increasing number of people believe that this lower-return environment will be the norm for the short to intermediate term.

BOARD MEETINGS CLARIFY VISION FOR PENSION PLAN

Several initiatives pursued by staff were presented to the BBT Board at its November, April, and July meetings. In addition to adding six new investment options and unbundling the Common Stock Fund (see page 2), the Board also discussed the following —

Plan design study begins. Despite the confidence that the BBT Board and staff have with regard to the long-term future of the Pension Plan, both groups feel certain that a thorough study conducted by an external consulting firm would strengthen the already robust plan. As new regulatory requirements have been implemented, the Pension team is motivated to keep the Plan in compliance and meet the needs of Pension participants by continuing to offer a product that serves people in the best possible way.

The Plan design study, which is being conducted by Hewitt Associates, is comprised of two phases. In Phase 1, which is currently underway, Brethren Pension Plan is being studied and compared with similar plans; this phase will involve input from constituents and is expected to be completed by the end of the year. Phase 2, the implementation period during which enhancements approved by the Board will be made, is expected to begin in 2011. Check for information in future editions of *Pension Perspective*.

Daily valuations delayed for Pension funds.

The BBT Board approved the shift to daily updates of fund values for Brethren Pension Plan — also known as daily valuations. However, the implementation of this recommendation won't begin until the Plan study and subsequent enhancements occur.

Currently, your Pension account is updated monthly; your most up-to-date total can be found using the Web portal system or by contacting Member Services Representative Lori Domich at 800-746-1505, ext. 365, or ldomich_bbt@brethren.org.

Pension grant renewed by the Board through December 2011. In July, the BBT Board approved extending the Annuity Benefit Reduction Assistance Program until the end of 2011. Grant recipients need to reapply before Sept. 1, 2010, to avoid interruption of payments. Further information will be mailed to all eligible applicants, including those not yet receiving grant funds.

MANAGE YOUR ACCOUNT ONLINE

Do you like to bank, pay your bills, and monitor your personal investments online? Now you can add retirement planning to that list. Click on **Pension** at www.brethrenbenefittrust.org to



John Carroll, manager of Pension operations, monitors his account.

check your account balance, transfer units from one fund to another, and change investment elections. Having difficulty logging in? Call the office at **800-746-1505** for help.

Quarterly Fund Performance Report

for the period ending June 30, 2010

All Pension investment funds must meet socially responsible investment guidelines.

Performance Report

| FUNDS (Net of Investment Fees) | BENCHMARKS (Gross) | |
|---|---|--|
| Common Stock Fund: Rate of Return Current quarter (10.4%) Year to date (6.4%) Five years 0.9% | S&P 500: Rate of Return Current quarter (11.4%) Year to date (6.7%) Five years (0.8%) | |
| Balanced Fund: Rate of Return Current quarter (4.8%) Year to date (1.5%) Five years 2.9% | Blended Balanced Index: Rate of Return Current quarter (5.4%) Year to date (1.7%) Five years 2.0% | |
| Bond Fund: Rate of Return Current quarter 3.6% Year to date 5.6% Five years 5.2% | Barclays Capital Gov/Credit: Rate of Return Current quarter 3.9% Year to date 5.5% Five years 5.3% | |
| Short-Term Fund: Rate of Return Current quarter 0.0% Year to date 0.1% Five years 2.4% | Custom Short-Term: Rate of Return Current quarter 0.1% Year to date 0.2% Five years 2.6% | |
| Community Development Investment Fund: Rate of Return Current quarter (1.1%)* Year to date 0.4%* Five years 1.7%* *Interest accrues on a quarterly basis. This ministry-focused fund does not have a benchmark. | Consumer Price Index: The CPI is an indicator of inflation. It is not a benchmark for the CDIF. Current quarter 0.0% Year to date 1.0% Five years 2.3% | |

Five-year returns are annualized.