Investment Perspective

FROM BRETHREN FOUNDATION FUNDS

October 2019

Markets and the Economy

The S&P 500 Index rose 1.9 percent in September, with a similar rise of 1.7 percent during the third quarter, and is up 20.6 percent since the beginning of the year. Paychecks continued to rise in August, while spending growth downshifted. Personal income rose 0.4 percent in August and is up 4.6 percent in the past year. Spending rose 0.1 percent in August and is up 3.7 percent in the past year; the strongest contribution to growth was due primarily to cars and recreational vehicles. Real GDP growth during the second quarter was unrevised, coming in at a 2 percent annual rate. Retail sales increased 0.4 percent in August, up 4.1 percent versus a year ago. The increase in sales in August was led by autos and non-store retailers. The bond market, as measured by the Bloomberg Barclays U.S. Government/Credit Bond Index, declined 0.8 percent in September, but rose 2.6 percent during the third quarter and is up 9.7 percent since the beginning of the year.

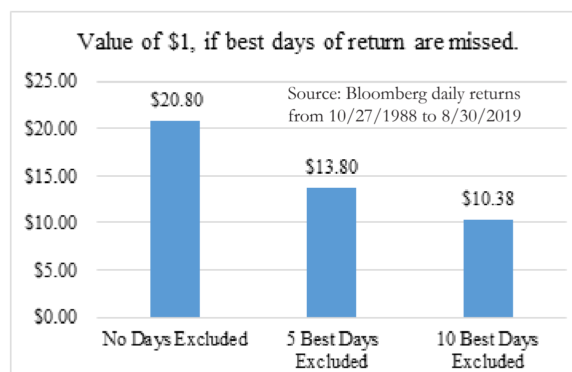
The European Central Bank cut its key interest rate by 0.1 percent to -0.5 percent, and relaunched an asset purchase program in an effort to boost the eurozone economy. Germany, Europe's largest economy, shrank 0.1 percent during the second quarter compared with the previous quarter; this contraction in industrial production was due to trade tensions. Retail sales in China rose 7.5 percent in August from a year earlier, down slightly from the 7.6 percent year-over-year gain in July. In an effort to boost growth and reduce unemployment, Brazil's central bank cut its benchmark interest rate from 6 percent to 5.5 percent. The Bank of Japan hinted it may ease monetary policy at its next meeting. Canada's annual inflation rate increased 1.9 percent year-over-year in August, down from July's year-over-year increase of 2 percent. International equities, as measured by the MSCI EAFE Index, rose 2.9 percent in September, declined 1.1 percent during the third quarter, but are up 12.8 percent since the beginning of the year.

Reducing equity exposure in anticipation of a market downturn requires close-to-perfect timing

The Difficulty of Timing the Stock Market

Some investors may be tempted to try to "time" the market in order to enhance returns in times of market volatility or to avoid exposure on days of anticipated losses in the equity market.

Reducing equity exposure in anticipation of a market downturn requires close-to-perfect timing on the front end (reducing equity exposure) and on the back end (renewing equity exposure). The cost of getting this timing wrong can be dramatic, especially if some of the days that funds are on the sidelines end up being some of the strongest days of market returns on record. The chart illustrates the dramatic shortfall that can emerge if investors are out of the market on notably high returning days in the market. If $1 was invested in October of 1988 and simply left alone, it was worth $20.80 on Aug. 31, 2019. However, if out of a sample of 7,777 days, only the five or 10 best days of return were missed as a result of not being invested in the S&P 500, the investment would be worth $13.80 and $10.38, respectively. These data suggest that it is better to keep funds fully invested in the market rather than try to guess the timing of the market in anticipation of corrections and subsequent recoveries.



Source: Marquette Associates, Oct. 13, 2016 and Aug. 23, 2019. Adapted with permission.

Please contact Steve Mason, director of Brethren Foundation, if you have questions or comments.

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Fund Performance Report for the period ending September 30, 2019

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	0.1%	0.5%	1.7%	1.4%	1.0%	0.9%
ICE BofAML 6-Month Treasury Bill Index	*0.2%*	*0.6%*	*2.0%*	*1.7%*	*1.2%*	*0.7%*
COMMUNITY DEVELOPMENT						
Community Development Investment Fund [1]	0.2%	0.5%	1.6%	1.8%	1.7%	2.0%
No Benchmark	—	—	—	—	—	—
FIXED INCOME						
Bond Core Fund	(0.8)%	2.6%	10.0%	3.3%	3.7%	4.4%
Bloomberg Barclays U.S. Government/Credit Bond Index	*(0.8)%*	*2.6%*	*9.7%*	*3.2%*	*3.6%*	*3.9%*
Bond Fund	(0.7)%	2.7%	10.7%	3.6%	4.0%	4.5%
Bloomberg Barclays U.S. Government/Credit Bond Index	*(0.8)%*	*2.6%*	*9.7%*	*3.2%*	*3.6%*	*3.9%*
Treasury Inflation-Protected Securities Fund [2]	(1.6)%	1.3%	7.6%	2.9%	2.7%	—
Bloomberg Barclays U.S. Treasury Inflation-Linked Bond Index	*(1.4)%*	*1.3%*	*7.6%*	*2.2%*	*2.4%*	—
Bank Loans Fund [2]	0.3%	0.8%	5.8%	—	—	—
S&P/LSTA U.S. Leveraged Loan 100 Index	*0.7%*	*1.3%*	*8.2%*	—	—	—
High Yield Bond Fund [2]	0.1%	1.1%	11.7%	5.8%	5.1%	—
Bloomberg Barclays U.S. Corporate High Yield Bond Index	*0.4%*	*1.3%*	*11.4%*	*6.1%*	*5.4%*	—
Global Aggregate Fixed Income Fund [2,3]	—	—	—	—	—	—
Bloomberg Barclays Global Aggregate Index	—	—	—	—	—	—
DOMESTIC EQUITY						
Domestic Stock Large Cap Core Fund	2.5%	1.4%	18.9%	10.7%	4.1%	8.4%
S&P 500 Index	*1.9%*	*1.7%*	*20.6%*	*13.4%*	*10.8%*	*13.2%*
Domestic Stock Large Cap Core Index Fund [4]	1.9%	1.7%	20.0%	13.1%	—	—
S&P 500 Index	*1.9%*	*1.7%*	*20.6%*	*13.4%*	—	—
Domestic Stock Mid Cap Fund	3.4%	1.3%	28.1%	5.7%	3.9%	—
Russell Midcap Index	*2.0%*	*0.5%*	*21.9%*	*10.7%*	*9.1%*	—
Domestic Stock Growth Fund	0.6%	1.2%	18.2%	11.8%	10.1%	—
Russell 1000 Growth Index	*0.0%*	*1.5%*	*23.3%*	*16.9%*	*13.4%*	—
Domestic Stock Fund	2.1%	1.3%	21.9%	9.9%	6.6%	11.1%
S&P 500 Index	*1.9%*	*1.7%*	*20.6%*	*13.4%*	*10.8%*	*13.2%*
Small Cap Fund	0.8%	2.9%	31.3%	23.0%	18.0%	16.9%
Russell 2000 Index	*2.1%*	*(2.4)%*	*14.2%*	*8.2%*	*8.2%*	*11.2%*
INTERNATIONAL EQUITY						
International Stock Core Fund	2.2%	(1.6)%	12.7%	6.0%	3.4%	5.0%
MSCI EAFE Index	*2.9%*	*(1.1)%*	*12.8%*	*6.5%*	*3.3%*	*4.9%*
Emerging Markets Stock Fund [2]	2.4%	(8.3)%	(1.2)%	4.7%	1.1%	—
MSCI Emerging Markets Index	*1.9%*	*(4.2)%*	*5.9%*	*6.0%*	*2.3%*	—
ALTERNATIVE INVESTMENTS						
Commodities-Based Fund [2]	0.6%	(2.8)%	5.6%	(1.9)%	(8.0)%	—
Bloomberg Commodity Total Return Index	*1.2%*	*(1.8)%*	*3.1%*	*(1.5)%*	*(7.3)%*	—
Public Real Estate Fund [2]	1.5%	3.8%	16.9%	4.1%	5.0%	—
S&P Developed Property Index	*2.5%*	*4.9%*	*20.4%*	*6.7%*	*7.9%*	—
Multi-Strategy Hedge Fund [2,3]	—	—	—	—	—	—
60% S&P 500 Index/40% Bloomberg Barclays U.S. Aggregate Bond Index	—	—	—	—	—	—
Global Inflation Protection Fund [2]	1.4%	(0.5)%	7.9%	4.9%	3.5%	—
Bloomberg Barclays U.S. TIPS 1-10 Year Index + 2%	*(0.7)%*	*1.1%*	*7.4%*	*4.0%*	*4.0%*	—
EQUITY AND FIXED INCOME						
Balanced Fund	0.9%	1.9%	17.5%	7.6%	5.7%	8.7%
Blended Balanced Index [5]	*0.8%*	*2.1%*	*16.4%*	*9.4%*	*8.1%*	*9.7%*
TACTICAL FUNDS (additional fees apply)						
Conservative Fund [2,3]	—	—	—	—	—	—
Blended Conservative Index	—	—	—	—	—	—
Income Fund [2]	0.4%	1.5%	12.3%	5.7%	4.2%	—
Blended Income Index	*0.2%*	*1.7%*	*12.2%*	*5.6%*	*4.8%*	—
BVI Income Fund	0.4%	1.6%	12.9%	—	—	—
Blended SRI Income Index	*0.4%*	*1.6%*	*12.5%*	—	—	—
Income & Growth Fund [2]	1.0%	0.5%	12.5%	7.2%	4.8%	—
Blended Income & Growth Index	*0.8%*	*1.1%*	*13.4%*	*7.1%*	*5.6%*	—
BVI Income & Growth Fund	0.8%	1.5%	15.0%	7.2%	—	—
Blended SRI Income & Growth Index	*0.8%*	*1.2%*	*13.5%*	*6.9%*	—	—
Growth Fund [2]	1.3%	0.0%	12.7%	7.7%	5.0%	—
Blended Growth Index	*1.1%*	*0.9%*	*14.0%*	*7.7%*	*5.9%*	—
BVI Growth Fund	1.2%	1.1%	16.2%	8.3%	—	—
Blended SRI Growth Index	*1.2%*	*0.8%*	*14.4%*	*7.9%*	—	—
Aggressive Growth Fund [2]	1.5%	(0.5)%	12.8%	8.2%	4.8%	—
Blended Aggressive Growth Index	*1.3%*	*0.6%*	*14.2%*	*8.2%*	*6.2%*	—
BVI Aggressive Growth Fund	1.7%	0.7%	17.5%	—	—	—
Blended SRI Aggressive Growth Index	*1.7%*	*0.4%*	*15.3%*	—	—	—
U.S INFLATION						
Consumer Price Index (August 2019) [6]	0.0%	0.2%	1.8%	2.1%	1.5%	1.7%

[1]CDIF interest accrues on a daily basis. [2]These investment funds may not meet Brethren Values Investing guidelines because they are invested in mutual funds. All other investment funds must meet Brethren Values Investing guidelines. [3] No assets invested in this fund. [4]Expected to match benchmark gross of fees. Typically, will not match benchmark net of fees and due to required cash position. [5]Weighted average of the S&P 500 Index (60 percent) and the Bloomberg Barclays U.S. Capital Government/Credit Bond Index (40 percent). [6]Most recent data available. CPI data are from the Consumer Price Index for All Urban Consumers. All items are not seasonally weighted.