



Brethren Foundation seeks to provide competitive performance for client assets through investments based on denominational positions on various social issues.



Investment Perspective

FROM BRETHREN FOUNDATION

AUGUST 2013

MARKETS AND THE ECONOMY

The S&P 500 advanced 5.1 percent in July and is up 19.6 percent year-to-date. The economy grew at a 1.7 percent annual rate in the second quarter, up from the first quarter's revised 1.1 percent growth rate. The consumer price index increased 0.2 percent in June and is up 1.7 percent year-over-year. Against the backdrop of moderate GDP growth and low inflation, the Federal Reserve said it would maintain its accommodative monetary policy. Sales of existing homes fell 1.2 percent in June from May but are still up 15.2 percent from June 2012. U.S auto sales rose 9.2 percent in June over a year earlier — the strongest rate in more than five years. The bond market, as measured by the Barclays Capital Government/Credit Index, increased 0.2 percent in July but is down 2.5 percent since the beginning of the year.

The Bank of England left its benchmark interest rate at 0.5 percent and announced no new stimulus measures. Renewed euro-crisis concerns arose last month, in part from worries over Portugal's financial health and political stability. China's second quarter GDP slowed to 7.5 percent in the second quarter compared with a year earlier, down from the 7.7 percent growth posted in the first quarter. China's industrial output rose 8.9 percent in June from a year earlier, but it was lower than May's 9.2 percent growth. At the end of July, Chinese officials unveiled a "mini stimulus" to boost its sluggish economy. Japanese consumer prices rose 0.4 percent in June over the same month a year earlier — the first increase in more than a year and by the largest amount in nearly five years. International equities, as measured by the MSCI EAFE, increased 5.3 percent during July and are up 10 percent for the year.

SOCIALLY RESPONSIBLE INVESTING AND PERFORMANCE

Brethren Foundation 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 be available to the investment managers are screened out of BFI's portfolios because they are in conflict with Brethren values as expressed by Annual Conference statements. Does screening out these companies have an impact on the long-term performance of BFI funds?

BFI staff members are frequently asked whether these social screens have a negative impact on performance. Being aware of this concern, BFI staff members regularly ask the investment managers serving our actively managed funds whether social screens impact the performance of those portfolios. They indicate that the BFI social screens can have an impact on performance that is most noticeable in the short term; while the BFI portfolio sometimes underperforms and sometimes outperforms the investment managers' unscreened core portfolios, over the long term, BFI's portfolios and their unscreened core portfolios tend to perform very similarly. Some managers have reported that the timing of money into and out of the portfolio has a greater impact on performance than BFI's social screens. Therefore, it is reasonable to conclude that BFI's invested assets do not experience a long-term impact due to its socially responsible investing screens.

Both performance expectations and compliance with BFI social screens are equally important components of BFI's investment program; in fact, investment managers have lost their opportunity to serve BFI 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, 2013



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%	0.7%	0.3%	0.9%	1.5%	2.3%
<i>Merrill Lynch 6-Month Treasury Bill Index</i> ¹	0.0%	0.1%	0.1%	0.2%	0.3%	1.7%
COMMUNITY DEVELOPMENT						
Community Development Investment Fund ²	0.2%	0.6%	1.3%	2.3%	2.6%	2.8%
<i>No Benchmark</i>	N/A	N/A	N/A	N/A	N/A	N/A
FIXED INCOME						
Bond Core Fund	0.2%	(2.7)%	(2.4)%	3.9%	6.4%	5.4%
<i>Barclays Capital U.S. Government/Credit Bond Index</i>	0.2%	(3.5)%	(2.5)%	3.6%	5.3%	4.9%
Bond Fund	0.3%	(2.9)%	(2.6)%	3.9%	6.4%	5.5%
<i>Barclays Capital U.S. Government/Credit Bond Index</i>	0.2%	(3.5)%	(2.5)%	3.6%	5.3%	4.9%
Treasury Inflation-Protected Securities Fund ³	0.5%	(7.8)%	(7.9)%	N/A	N/A	N/A
<i>Barclays Capital U.S. TIPS Index</i>	0.7%	(7.1)%	(6.7)%	N/A	N/A	N/A
High Yield Bond Fund ³	2.4%	(0.9)%	4.0%	N/A	N/A	N/A
<i>Barclays Capital U.S. Corporate High Yield Bond Index</i>	1.9%	(1.4)%	3.3%	N/A	N/A	N/A
DOMESTIC EQUITY						
Domestic Stock Core Fund	5.3%	7.3%	17.8%	13.6%	5.5%	7.2%
<i>S&P 500 Index</i>	5.1%	6.1%	19.6%	17.7%	8.3%	7.6%
Domestic Stock Value Fund	5.5%	9.9%	22.0%	N/A	N/A	N/A
<i>Russell 1000 Value Index</i>	5.4%	7.2%	22.2%	N/A	N/A	N/A
Domestic Stock Growth Fund	4.9%	8.3%	17.7%	N/A	N/A	N/A
<i>Russell 1000 Growth Index</i>	5.3%	5.2%	17.7%	N/A	N/A	N/A
Domestic Stock Fund	5.2%	8.5%	19.2%	18.1%	8.5%	9.0%
<i>S&P 500 Index</i>	5.1%	6.1%	19.6%	17.7%	8.3%	7.6%
Small Cap Fund	4.9%	9.1%	17.1%	18.9%	12.9%	N/A
<i>Russell 2000 Index</i>	7.0%	10.7%	24.0%	18.7%	9.5%	N/A
INTERNATIONAL EQUITY						
International Stock Core Fund	4.5%	0.1%	9.5%	8.4%	1.9%	7.9%
<i>MSCI EAFE Index</i>	5.3%	(0.8)%	10.0%	9.1%	1.5%	8.5%
Emerging Markets Stock Fund ³	3.4%	(8.1)%	(7.7)%	N/A	N/A	N/A
<i>MSCI Emerging Markets Index</i>	1.1%	(7.7)%	(8.4)%	N/A	N/A	N/A
ALTERNATIVES						
Commodities-Based Fund ³	0.7%	(12.5)%	(15.3)%	N/A	N/A	N/A
<i>Dow Jones UBS Commodity Index</i>	1.4%	(5.6)%	(9.3)%	N/A	N/A	N/A
Public Real Estate Fund ³	2.3%	(7.5)%	3.5%	N/A	N/A	N/A
<i>S&P Developed Property Index</i>	1.2%	(9.1)%	4.4%	N/A	N/A	N/A
EQUITY AND FIXED INCOME						
Balanced Fund	3.3%	3.9%	10.1%	12.6%	8.2%	8.0%
<i>Blended Balanced Index</i> ⁴	3.1%	2.2%	10.4%	12.2%	7.5%	6.8%
U.S. INFLATION						
Consumer Price Index (June 2013) ⁵	0.2%	0.3%	1.7%	2.4%	1.3%	2.4%

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 Weighted average of the S&P 500 Index (60 percent) and the Barclays U.S. Capital Government/Credit Bond Index (40 percent). ⁵ Most recent data available. CPI data are not seasonally adjusted.