

# Investment Perspective

FROM BRETHREN FOUNDATION FUNDS

June 2020

## MARKETS AND THE ECONOMY

Optimism over more areas of the economy opening up and massive synchronized stimuli contributed to the S&P 500 Index advancing 4.8 percent during May. The April unemployment rate catapulted to 14.7 percent from 4.4 percent in March, wiping out decades of job gains in a single month. Personal income rose 10.5 percent in April, and is up 11.7 percent in the past year. Personal consumption declined 13.6 percent in April, down 16.9 percent in the past year. Real GDP growth during the first quarter was revised down to a minus 5.0 percent annual rate from a prior estimate of minus 4.8 percent. Retail sales declined 16.4 percent in April, down 21.6 percent versus a year ago. As oil prices touched negative territory and gasoline prices plummeted 20.6 percent, the Consumer Price Index declined 0.7 percent in April, up 0.3 percent from a year ago. The bond market, as measured by the Bloomberg Barclays U.S. Government/Credit Bond Index, increased 0.6 percent in May.

China, the first country hit by the coronavirus, showed signs of economic recovery; industrial output during April was up 3.9 percent from a year earlier. Germany fell into recession during the first quarter; GDP shrank at an annualized rate of 8.6 percent. The European Union proposed a massive \$2 trillion fiscal injection to lift the region from its economic slump, which included issuing centrally backed bonds for the first time. Canada's economy fell at an annualized rate of 8.2 percent during the first quarter, consumer spending having collapsed due to coronavirus-induced shutdowns. During the first quarter, Brazil's GDP shrank 0.3 percent compared with the same time last year. India's economy, for the fiscal year ending March 31, grew 4.2 percent, the weakest in 11 years. Mexico's economic output during the first quarter declined 1.4 percent compared with the same period a year ago. Mexico's central bank cut interest rates from 6 percent down to 5.5 percent. International equities, as measured by the MSCI EAFE Index, increased 4.4 percent in May.

## THE DOMESTIC STOCK LARGE CAP CORE FUND IS CLOSED

The Brethren Foundation Funds Board decided, during its April meeting, to eliminate the Domestic Stock Large Cap Core (DSLCC) Fund and move all assets to the Domestic Stock Large Cap Core Index (DSLCCI) Fund. This change was accomplished in May.

During the fourteen years that BFFI offered the DSLCC Fund, the active managers struggled to meet expectations of outperforming the benchmark, the S&P 500 Index. Three different managers have served this account over the years and the Board was faced with making a fourth change due to the current manager's inability to meet BFFI's performance expectations. During the examination of alternatives, the Board considered the following:

- The domestic large cap space is very efficient, which makes it difficult for active managers to consistently outperform the S&P 500 Index;
- Nearly five years ago, BFFI opened an index fund in the domestic large cap core space, which complies with Brethren Values Investing guidelines;
- The DSLCCI Fund's holdings mirror the holdings of the S&P 500 Index to the extent possible to comply with BVI guidelines;
- The DSLCCI Fund performance consistently tracks the S&P 500 Index performance in compliance with BFFI investment guidelines;
- The DSLCCI Fund consistently outperformed the DSLCC Fund over all longer time periods; and
- The investment management fees for the DSLCCI Fund ( $\approx 20$  bps) are lower than for the DSLCC Fund ( $\approx 52$  bps).

All investment options with exposure to the DSLCC Fund (i.e., Domestic Stock Fund, Balanced Fund, and Tactical Funds) had that exposure transferred to the DSLCCI Fund in May.

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

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**The DSLCCI Fund performance consistently tracks the S&P 500 Index performance in compliance with BFFI investment guidelines.**



# Fund Performance Report

for the period ending May 31, 2020

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
<b>SHORT-TERM</b>						
<b>Short-Term Fund</b>	0.1%	0.4%	0.7%	1.6%	1.2%	0.9%
<i>ICE BofAML 6-Month Treasury Bill Index</i>	0.0%	0.5%	0.9%	2.0%	1.4%	0.8%
<b>COMMUNITY DEVELOPMENT</b>						
<b>Community Development Investment Fund</b> <sup>1</sup>	0.2%	0.5%	0.9%	1.9%	1.8%	2.0%
<i>No Benchmark</i>	—	—	—	—	—	—
<b>FIXED INCOME</b>						
<b>Bond Core Fund</b>	1.0%	1.7%	6.7%	5.7%	4.5%	4.5%
<i>Bloomberg Barclays U.S. Government/Credit Bond Index</i>	0.6%	1.7%	6.3%	5.6%	4.3%	4.2%
<b>Bond Fund</b>	0.7%	0.6%	5.5%	5.5%	4.5%	4.5%
<i>Bloomberg Barclays U.S. Government/Credit Bond Index</i>	0.6%	1.7%	6.3%	5.6%	4.3%	4.2%
<b>Treasury Inflation-Protected Securities Fund</b> <sup>2</sup>	(0.2)%	2.1%	5.0%	4.2%	3.7%	—
<i>Bloomberg Barclays U.S. Treasury Inflation-Linked Bond Index</i>	0.3%	1.3%	4.8%	4.3%	3.3%	—
<b>Bank Loans Fund</b> <sup>3</sup>	2.9%	(6.0)%	(5.8)%	—	—	—
<i>S&amp;P/LSTA U.S. Leveraged Loan 100 Index</i>	3.4%	(2.1)%	(3.7)%	—	—	—
<b>High Yield Bond Fund</b> <sup>2</sup>	4.6%	(2.5)%	(3.4)%	2.9%	4.0%	—
<i>Bloomberg Barclays U.S. Corporate High Yield Bond Index</i>	4.4%	(3.4)%	(4.7)%	3.0%	4.3%	—
<b>Global Aggregate Fixed Income Fund</b> <sup>2,3</sup>	—	—	—	—	—	—
<i>Bloomberg Barclays Global Aggregate Index</i>	—	—	—	—	—	—
<b>DOMESTIC EQUITY</b>						
<b>Domestic Stock Large Cap Core Index Fund</b> <sup>4</sup>	5.0%	3.9%	(4.5)%	10.3%	—	—
<i>S&amp;P 500 Index</i>	4.8%	3.6%	(5.0)%	10.2%	—	—
<b>Domestic Stock Mid Cap Fund</b>	5.4%	(1.7)%	(11.4)%	0.3%	0.7%	—
<i>Russell Midcap Index</i>	7.0%	(1.5)%	(10.7)%	5.5%	5.9%	—
<b>Domestic Stock Growth Fund</b>	6.9%	8.3%	0.8%	12.0%	9.6%	—
<i>Russell 1000 Growth Index</i>	6.7%	10.5%	5.2%	17.2%	14.5%	—
<b>Domestic Stock Fund</b>	5.8%	3.3%	(5.3)%	7.0%	5.5%	10.8%
<i>S&amp;P 500 Index</i>	4.8%	3.6%	(5.0)%	10.2%	9.9%	13.2%
<b>Small Cap Fund</b>	8.1%	6.4%	(2.5)%	17.7%	16.2%	15.9%
<i>Russell 2000 Index</i>	6.5%	(5.2)%	(15.9)%	2.0%	3.7%	9.2%
<b>INTERNATIONAL EQUITY</b>						
<b>International Stock Core Fund</b>	6.6%	0.3%	(8.2)%	2.6%	2.6%	6.0%
<i>MSCI EAFE Index</i>	4.4%	(3.7)%	(14.3)%	(0.4)%	0.8%	5.3%
<b>Emerging Markets Stock Fund</b> <sup>2</sup>	(0.7)%	(13.0)%	(23.7)%	(5.8)%	(1.9)%	—
<i>MSCI Emerging Markets Index</i>	0.8%	(6.9)%	(16.0)%	(0.2)%	0.9%	—
<b>ALTERNATIVE INVESTMENTS</b>						
<b>Commodities-Based Fund</b> <sup>2</sup>	6.8%	(12.0)%	(21.4)%	(7.2)%	(7.6)%	—
<i>Bloomberg Commodity Total Return Index</i>	4.3%	(10.4)%	(21.2)%	(6.9)%	(7.8)%	—
<b>Public Real Estate Fund</b> <sup>2</sup>	1.2%	(14.1)%	(16.7)%	(0.2)%	(0.1)%	—
<i>S&amp;P Developed Property Index</i>	0.7%	(15.2)%	(21.3)%	(0.9)%	1.3%	—
<b>Multi-Strategy Hedge Fund</b> <sup>2,3</sup>	—	—	—	—	—	—
<i>60% S&amp;P 500 Index/40% Bloomberg Barclays U.S. Aggregate Bond Index</i>	—	—	—	—	—	—
<b>Global Inflation Protection Fund</b> <sup>2</sup>	2.8%	(4.9)%	(7.4)%	1.0%	2.9%	—
<i>Bloomberg Barclays U.S. TIPS 1-10 Year Index + 2%</i>	0.8%	1.3%	3.8%	5.4%	4.7%	—
<b>EQUITY AND FIXED INCOME</b>						
<b>Balanced Fund</b>	3.9%	3.2%	0.0%	7.1%	5.6%	8.6%
<i>Blended Balanced Index</i> <sup>5</sup>	3.1%	3.1%	(0.2)%	8.7%	7.9%	9.8%
<b>TACTICAL FUNDS (additional fees apply)</b>						
<b>Conservative Fund</b> <sup>2,3</sup>	—	—	—	—	—	—
<i>Blended Conservative Index</i>	—	—	—	—	—	—
<b>Income Fund</b> <sup>2</sup>	2.8%	1.4%	0.5%	5.4%	4.5%	—
<i>Blended Income Index</i>	1.9%	1.4%	1.0%	5.8%	4.9%	—
<b>BVI Income Fund</b>	2.8%	1.3%	0.6%	—	—	—
<i>Blended SRI Income Index</i>	2.1%	1.3%	0.3%	—	—	—
<b>Income &amp; Growth Fund</b> <sup>2</sup>	3.6%	0.4%	(3.1)%	5.0%	4.6%	—
<i>Blended Income &amp; Growth Index</i>	2.7%	1.0%	(2.2)%	5.7%	5.2%	—
<b>BVI Income &amp; Growth Fund</b>	3.6%	1.6%	(1.2)%	6.0%	5.1%	—
<i>Blended SRI Income &amp; Growth Index</i>	2.7%	1.0%	(2.1)%	5.7%	5.1%	—
<b>Growth Fund</b> <sup>2</sup>	4.1%	0.0%	(5.1)%	4.7%	4.4%	—
<i>Blended Growth Index</i>	3.0%	0.8%	(3.7)%	5.7%	5.3%	—
<b>BVI Growth Fund</b>	4.5%	2.0%	(2.8)%	6.3%	5.5%	—
<i>Blended SRI Growth Index</i>	3.2%	0.7%	(4.4)%	5.6%	5.2%	—
<b>Aggressive Growth Fund</b> <sup>2</sup>	4.5%	(0.4)%	(6.4)%	4.4%	4.2%	—
<i>Blended Aggressive Growth Index</i>	3.3%	0.7%	(4.8)%	5.6%	5.4%	—
<b>BVI Aggressive Growth Fund</b>	5.2%	2.1%	(4.7)%	—	—	—
<i>Blended SRI Aggressive Growth Index</i>	3.8%	0.4%	(6.8)%	—	—	—
<b>U.S. INFLATION</b>						
<b>Consumer Price Index (April 2020)</b> <sup>6</sup>	(0.7)%	(0.6)%	(0.3)%	1.6%	1.6%	1.6%

<sup>1</sup>CDIF interest accrues on a daily basis. <sup>2</sup>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. <sup>3</sup>No assets invested in this fund. <sup>4</sup>Expected to match benchmark gross of fees. Typically, will not match benchmark net of fees and due to required cash position. <sup>5</sup>Weighted average of the S&P 500 Index (60 percent) and the Bloomberg Barclays U.S. Capital Government/Credit Bond Index (40 percent). <sup>6</sup>Most recent data available. CPI data are from the Consumer Price Index for All Urban Consumers. All items are not seasonally weighted.