



Investment Perspective

FROM BRETHREN FOUNDATION

SEPTEMBER 2014

MARKETS AND THE ECONOMY

Despite mixed economic indicators and deepening geopolitical tumult, the S&P 500 Index advanced 4 percent in July. Robust corporate profits, more business investment, and stronger consumer spending on durable goods influenced a revision of the second quarter GDP from an annualized rate of 4 percent up to 4.2 percent. CPI rose 2 percent from a year earlier, and while hiring has been strong over the past six months, average hourly earnings remain in line with overall inflation, having risen 2 percent. Household spending declined 0.1 percent in July, suggesting that consumers remain squeezed by the tepid wage growth. Vehicle production drove a 0.4 percent increase in U.S. industrial production for July over June. Sales of previously owned homes increased 2.4 percent from June, with price increases decelerating. The bond market, as measured by the Barclays Capital Government/Credit Index, rose 1.2 percent in August.

With the threat of deflation spreading to healthier economies in the eurozone, inflation slowed in August to 0.3 percent from 0.4 percent in July. Germany's GDP shrank 0.2 percent in the second quarter, Italy's economy contracted at an annualized rate of 0.8 percent, slipping back into its third recession since 2008, and Russia ordered bans on the imports of food, farm products, and raw materials from the nations that imposed sanctions. All of this underscores the fragility of the eurozone, the world's second largest economy.

Japan's sales tax increase in April contributed towards a plunge in consumer spending at an annualized rate of 18.7 percent during the second quarter, and its GDP shrank at an annualized rate of 6.8 percent from the prior quarter. The U.K. central bank expressed reluctance to raise short-term interest rates. China's manufacturing sector showed a broad-based decline in August, causing questions of continued sluggishness in the economy to resurface. International equities, as measured by the MSCI EAFE Index, declined 0.2 percent in August.

BRETHREN FOUNDATION INCREASES SAFETY OF CLIENT ASSETS

Brethren Foundation announces the creation of Brethren Foundation Funds Inc., a new 501(c)(3) tax exempt corporation affiliated with BFI to hold all organizational (including congregational) client assets.

This new organizational structure will separate organizational client assets from the obligations and liabilities of BFI and its deferred gift program. "Although we believe that we currently offer a safe platform for invested assets and the risk to organizational client assets is low, we also believe this is an opportunity to provide an additional layer of protection for these assets," said Steve Mason, director of BFI.

Functionally, everything will continue to operate as it has. The same staff will support the same investment program with the same investment options and the same program features. After the transition period and with the exception of being branded "Brethren Foundation Funds Inc.," this program enhancement will be invisible to clients.

A process, which has been developed with the guidance of legal counsel to be as simple as possible, will be initiated soon to move all organizational client assets from BFI to BFFI. A representative of each organizational client, who is currently authorized to initiate transactions on behalf of the client, will be required to complete a short form giving approval for this move. Direct communication between BFI and the primary contact for each organizational client will begin soon; please watch for more information on this in the very near future.

All deferred gift accounts (charitable gift annuities, charitable trusts, and charitable gift funds) will remain with BFI, and BFI will serve as the third-party administrator for BFFI.

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



Brethren
Foundation
announces the
creation of
Brethren
Foundation
Funds Inc.





All periods longer than one year are annualized.

Fund Performance Report

for the period ending Aug. 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	0.0%	0.0%	0.2%	0.6%	0.9%	2.1%
<i>Merrill Lynch 6-Month Treasury Bill Index¹</i>	0.0%	0.0%	0.1%	0.2%	0.2%	1.6%
COMMUNITY DEVELOPMENT						
Community Development Investment Fund²	0.2%	0.4%	1.2%	2.1%	2.3%	2.7%
<i>No Benchmark</i>	—	—	—	—	—	—
FIXED INCOME						
Bond Core Fund	1.1%	1.0%	5.4%	3.9%	5.4%	5.3%
<i>Barclays Capital U.S. Government/Credit Bond Index</i>	1.2%	1.1%	5.1%	3.2%	4.7%	4.7%
Bond Core	1.1%	1.1%	5.7%	3.9%	5.5%	5.3%
<i>Barclays Capital U.S. Government/Credit Bond Index</i>	1.2%	1.1%	5.1%	3.2%	4.7%	4.7%
Treasury Inflation-Protected Securities Fund³	0.6%	0.7%	6.2%	1.4%	—	—
<i>Barclays Capital U.S. TIPS Index</i>	0.4%	0.8%	6.3%	2.1%	—	—
Bank Loans Fund^{3,4}	—	—	—	—	—	—
<i>S&P/LSTA U.S. Leveraged Loan 100 Index</i>	—	—	—	—	—	—
High Yield Bond Fund³	0.7%	0.8%	5.6%	10.8%	—	—
<i>Barclays Capital U.S. Corporate High Yield Bond Index</i>	1.6%	1.1%	5.7%	10.6%	—	—
Global Aggregate Fixed Income Fund^{3,4}	—	—	—	—	—	—
<i>Barclays Capital Global Aggregate Bond Index</i>	—	—	—	—	—	—
DOMESTIC EQUITY						
Domestic Stock Core Fund	2.9%	3.9%	5.9%	17.7%	14.4%	7.8%
<i>S&P 500 Index</i>	4.0%	4.7%	9.9%	20.6%	16.9%	8.4%
Domestic Stock Mid Cap Fund	6.0%	5.5%	12.8%	27.7%	—	—
<i>Russell Midcap Index</i>	4.8%	5.1%	10.6%	21.0%	—	—
Domestic Stock Growth Fund	3.9%	4.9%	6.8%	17.4%	—	—
<i>Russell 1000 Growth Index</i>	4.6%	5.0%	9.5%	20.0%	—	—
Domestic Stock Fund	4.2%	4.8%	8.5%	20.9%	17.8%	9.7%
<i>S&P 500 Index</i>	4.0%	4.7%	9.9%	20.6%	16.9%	8.4%
Small Cap Fund	2.9%	5.0%	1.4%	14.7%	18.2%	11.1%
<i>Russell 2000 Index</i>	5.0%	3.9%	1.8%	19.0%	17.0%	9.4%
INTERNATIONAL EQUITY						
International Stock Core Fund	0.5%	(1.3)%	0.2%	9.6%	8.8%	6.7%
<i>MSCI EAFE Index</i>	(0.2)%	(1.1)%	2.9%	11.9%	8.7%	7.5%
Emerging Markets Stock Fund³	0.6%	5.6%	10.9%	4.4%	—	—
<i>MSCI Emerging Markets Index</i>	2.3%	7.2%	11.0%	4.7%	—	—
ALTERNATIVE INVESTMENTS						
Commodities-Based Fund³	(1.8)%	(6.3)%	1.1%	(6.9)%	—	—
<i>Dow Jones UBS Commodity Index</i>	(1.1)%	(5.4)%	0.7%	(8.3)%	—	—
Public Real Estate Fund³	(0.6)%	2.5%	12.3%	10.5%	—	—
<i>S&P Developed Property Index</i>	1.4%	3.3%	14.2%	13.6%	—	—
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	—	—	—	—	—	—
<i>CPI + 5%⁵</i>	—	—	—	—	—	—
EQUITY AND FIXED INCOME						
Balanced Fund	3.0%	3.3%	7.3%	14.1%	13.1%	8.3%
<i>Blended Balanced Index⁶</i>	2.9%	3.2%	8.0%	13.6%	12.1%	7.2%
TACTICAL FUNDS (additional fees apply)						
Conservative Fund^{3,4}	—	—	—	—	—	—
<i>Blended Conservative Index</i>	—	—	—	—	—	—
Income Fund³	0.8%	—	—	—	—	—
<i>Blended Income Index</i>	1.5%	—	—	—	—	—
SRI Income Fund⁴	—	—	—	—	—	—
<i>Blended SRI Income Index</i>	—	—	—	—	—	—
Income & Growth Fund³	1.6%	2.3%	5.9%	—	—	—
<i>Blended Income & Growth Index</i>	2.2%	2.4%	6.8%	—	—	—
SRI Income & Growth Fund⁴	—	—	—	—	—	—
<i>Blended SRI Income & Growth Index</i>	—	—	—	—	—	—
Growth Fund³	1.7%	2.4%	5.7%	—	—	—
<i>Blended Growth Index</i>	2.4%	2.6%	6.9%	—	—	—
SRI Growth Fund⁴	—	—	—	—	—	—
<i>Blended SRI Growth Index</i>	—	—	—	—	—	—
Aggressive Growth Fund³	1.6%	2.5%	6.1%	—	—	—
<i>Blended Aggressive Growth Index</i>	2.3%	2.5%	6.7%	—	—	—
SRI Aggressive Growth Fund⁴	—	—	—	—	—	—
<i>Blended SRI Aggressive Growth Index</i>	—	—	—	—	—	—
U.S. INFLATION						
Consumer Price Index (July 2014)⁵	(0.1)%	0.5%	2.1%	1.6%	1.9%	2.1%

Performance Report

¹ Changed May 1, 2009. 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 from the All U.S. Urban Consumers Chained CPI Index and are not seasonally adjusted. ⁶ Weighted average of the S&P 500 Index (60 percent) and the Barclays U.S. Capital Government/Credit Bond Index (40 percent).