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Investment Perspective

FROM BRETHREN FOUNDATION

NOVEMBER 2013

MARKETS AND THE ECONOMY

Despite a partial government shutdown and debt-ceiling crisis in the first half of the month and continued political wrangling over budget and policy issues, the S&P 500 hit a record high in October, gaining 4.6 percent and rising 25.3 percent year-to-date. Consumer prices rose 1.2 percent in September from a year earlier — well below the Federal Reserve's target rate of 2 percent — motivating the Fed to keep its bond-buying program intact. A majority of companies in the S&P reported third quarter earnings results in October that modestly beat estimates, although on lowered expectations. Industrial production and durable goods orders grew stronger than expected in the month. The unemployment rate in September ticked down to 7.2 percent from August's 7.3 percent, this time due to more people finding work rather than leaving the work force. The bond market, as measured by the Barclays Capital Government/Credit Index, increased 0.9 percent in October but is down 1.5 percent since the beginning of the year.

The annual inflation rate in the eurozone dropped sharply to 0.7 percent in October from 1.1 percent in September, well below the European Central Bank's target of just under 2 percent. This sparked deflation fears for Europe's fragile recovery. The region's unemployment rate was flat at 12.2 percent. The U.K economy grew 0.8 percent in the third quarter, the fastest in three years, with support across all sectors of the economy. China's third quarter GDP grew 7.8 percent year over year, up from 7.5 percent in the second quarter. Japan's industrial output rose 1.5 percent in September over the previous month, and retail sales climbed 3.1 percent from the year before. International equities, as measured by the MSCI EAFE, increased 3.4 percent during October and are up 20.5 percent for the year-to-date period.

BFI LAUNCHES NEW TACTICAL INVESTMENT OPTIONS

Brethren Foundation launched five Tactical Funds in October for clients who are willing to pay an extra fee to have their assets actively managed by an investment adviser in one of five unique investment styles. These Tactical Funds use BFI's 19 existing investment options (known as Strategic Funds) within asset allocation ranges established by BFI's Board. The style of each Tactical Fund is indicated by its name – Aggressive Growth, Growth, Income and Growth, Income, and Conservative. The investment adviser has discretion regarding investment strategies for each tactical investment option and may actively manage each Tactical Fund within the parameters established by the BFI Board.

An additional fee will be charged on assets invested in BFI's Tactical Funds by the investment adviser. This fee, which cannot be higher than 0.25 percent per year, is based on all BFI client assets invested in the Tactical Funds. As total client assets under tactical management grow, the annual fee for those assets will decline (possibly to less than 0.1 percent of assets under tactical management). The investment adviser anticipates that investment performance will improve by more than the fees charged.

Clients should note that the five Tactical Funds may use any of BFI's 19 Strategic Funds, including funds that have access to U.S. Treasuries and funds that don't have sufficient assets for separate management and are currently invested in mutual funds. Therefore, the Tactical Funds may not comply with BFI's socially responsible investing guidelines.

Additional information about the Tactical Funds is provided in the document that accompanies this issue of *Investment Perspective*.

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



All periods longer than one year are annualized.

Fund Performance Report

for the period ending Oct. 31, 2013

Performance Report

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%	0.1%	0.4%	0.8%	1.5%	2.2%
<i>Merrill Lynch 6-Month Treasury Bill Index</i> ¹	0.0%	0.0%	0.2%	0.2%	0.3%	1.7%
COMMUNITY DEVELOPMENT						
Community Development Investment Fund ²	0.2%	0.5%	1.8%	2.2%	2.5%	2.8%
<i>No Benchmark</i>	—	—	—	—	—	—
FIXED INCOME						
Bond Core Fund	0.7%	0.8%	(1.6)%	3.5%	8.2%	5.2%
<i>Barclays Capital U.S. Government/Credit Bond Index</i>	(0.3)%	1.3%	(1.8)%	3.4%	5.5%	4.7%
Bond Fund	0.8%	0.9%	(1.8)%	3.5%	8.3%	5.3%
<i>Barclays Capital U.S. Government/Credit Bond Index</i>	(0.3)%	1.3%	(1.8)%	3.4%	5.5%	4.7%
Treasury Inflation-Protected Securities Fund ³	0.8%	1.1%	(7.0)%	2.9%	—	—
<i>Barclays Capital U.S. TIPS Index</i>	(1.1)%	0.9%	(7.2)%	3.3%	—	—
Bank Loans Fund ^{3,4}	—	—	—	—	—	—
<i>CSFB Leveraged Loan Index</i>	—	—	—	—	—	—
High Yield Bond Fund ³	2.2%	2.7%	6.9%	8.6%	—	—
<i>Barclays Capital U.S. Corporate High Yield Bond Index</i>	0.5%	0.4%	6.9%	9.8%	—	—
Global Aggregate Fixed Income Fund ^{3,4}	—	—	—	—	—	—
<i>Barclays Capital Global Aggregate Bond Index</i>	—	—	—	—	—	—
DOMESTIC EQUITY						
Domestic Stock Core Fund	4.5%	6.4%	25.4%	13.9%	13.2%	7.2%
<i>S&P 500 Index</i>	3.1%	11.2%	29.1%	17.7%	17.6%	7.7%
Domestic Stock Value Fund	4.4%	6.2%	29.6%	22.5%	—	—
<i>Russell 1000 Value Index</i>	2.8%	10.0%	29.3%	18.1%	164%	80%
Domestic Stock Growth Fund	4.9%	6.6%	25.5%	—	—	—
<i>Russell 1000 Growth Index</i>	2.8%	12.2%	29.8%	—	—	—
Domestic Stock Fund	4.6%	6.4%	26.8%	17.3%	16.5%	8.9%
<i>S&P 500 Index</i>	3.1%	11.2%	29.1%	17.7%	17.6%	7.7%
Small Cap Fund	1.5%	5.4%	23.4%	18.3%	20.0%	—
<i>Russell 2000 Index</i>	4.0%	13.4%	36.1%	17.9%	21.0%	—
INTERNATIONAL EQUITY						
International Stock Core Fund	2.7%	8.1%	18.4%	8.1%	12.1%	7.4%
<i>MSCI EAFE Index</i>	0.8%	11.9%	21.5%	11.0%	14.0%	8.0%
Emerging Markets Stock Fund ³	4.0%	9.6%	1.2%	(2.6)%	—	—
<i>MSCI Emerging Markets Index</i>	(1.5)%	10.1%	(0.8)%	1.0%	—	—
ALTERNATIVES						
Commodities-Based Fund ³	(0.9)%	1.7%	(10.6)%	(5.3)%	—	—
<i>Dow Jones UBS Commodity Index</i>	(0.8)%	(4.8)%	(9.9)%	(5.2)%	—	—
Public Real Estate Fund ³	1.1%	2.3%	5.9%	—	—	—
<i>S&P Developed Property Index</i>	(3.3)%	5.5%	5.5%	—	—	—
Multi-Strategy Hedge Fund ^{3,4}	—	—	—	—	—	—
<i>60% S&P 500 Index/40% Barclays Capital U.S. Aggregate Bond Index</i>	—	—	—	—	—	—
EQUITY AND FIXED INCOME						
Balanced Fund	3.1%	4.2%	15.9%	12.0%	13.0%	6.8%
<i>Blended Balanced Index</i> ⁵	1.7%	7.2%	15.9%	12.0%	13.0%	6.8%
TACTICAL FUNDS (additional fees apply)						
Conservative Fund ^{3,4}	—	—	—	—	—	—
<i>Blended Conservative Index</i>	—	—	—	—	—	—
Income Fund ^{3,4}	—	—	—	—	—	—
<i>Blended Income Index</i>	—	—	—	—	—	—
Income & Growth Fund ³	—	—	—	—	—	—
<i>Blended Income & Growth Index</i>	—	—	—	—	—	—
Growth Fund ³	—	—	—	—	—	—
<i>Blended Growth Index</i>	—	—	—	—	—	—
Aggressive Growth Fund ³	—	—	—	—	—	—
<i>Blended Aggressive Growth Index</i>	—	—	—	—	—	—
U.S. INFLATION						
Consumer Price Index (September 2013) ⁶	(0.3)%	(0.1)%	1.6%	2.2%	1.5%	2.4%

¹ Changed May 1, 2009. 3-year, 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 No assets invested in this fund. ⁵ Weighted average of the S&P 500 Index (60 percent) and the Barclays U.S. Capital Government/Credit Bond Index (40 percent). ⁶ Most recent data available. CPI data are not seasonally adjusted.



New Tactical Investment Options

November 1, 2013

Brethren Foundation New Investment Options

Brethren Foundation launched five new tactical investment options during October that provide its constituent organizations (clients) with the opportunity to have the asset allocation of their investment portfolios actively managed using the strategic investment options offered by BFI.

What are Tactical Funds?

Tactical Funds are BFI Funds whose assets are invested in a mix of BFI Strategic Funds according to asset allocation targets set by an investment adviser within asset allocation ranges established by the BFI Board. Because BFI Tactical Funds are actively managed by the investment adviser, an additional fee is charged to BFI clients for assets invested in BFI Tactical Funds.

Strategic Funds, in comparison, are the current BFI investment options (e.g., Domestic Stock Fund, Bond Core Fund, and Balanced Fund) whose assets are invested with investment managers or in mutual funds selected by the BFI Board.

Tactical Funds are blended investment funds that are fully invested in various BFI Strategic Funds. The Tactical Funds are managed to address client questions like —

- How do we decide which Strategic Funds we should use?
- Are there better or worse times to use certain funds?
- How often should we rebalance our portfolio?

The chart below lists the five Tactical Funds across the top and the Strategic Funds in which each Tactical Fund may invest along the left.

	Conservative	Income	Income and Growth	Growth	Aggressive
Short-Term Fund	●	○	○	○	○
Bond Core Fund	○	●	●	●	○
TIPS Fund*	○	○	○	○	○
Bank Loans Fund*	○	○	○	○	○
High Yield Bond Fund*	○	○	○	○	○
Global Aggregate Fixed Fund*	○	○	○	○	○
Multi-Strategy Hedge Fund*			○	○	○
Domestic Stock Value Fund		○	○	○	○
Domestic Stock Core Fund		○	●	●	●
Domestic Stock Growth Fund		○	○	○	○
Small Cap Fund			○	○	○
International Stock Core Fund		○	●	●	●
Public Real Estate Fund*		○	○	○	○
Emerging Markets Fund*			○	○	○
Commodities-Based Fund*			○	○	○



Required

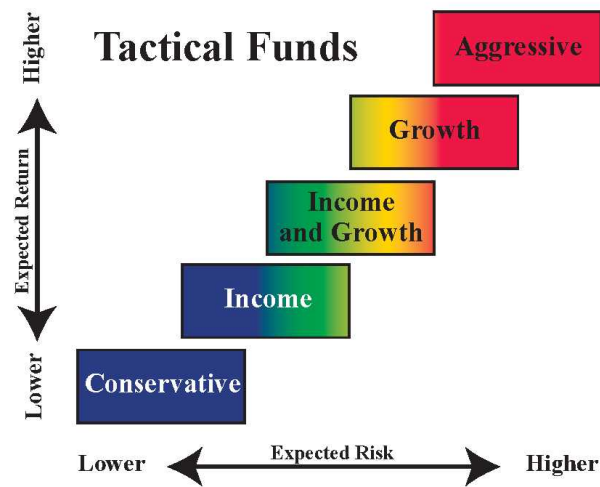


Permitted



Not Permitted

The five Tactical Funds allow for a range of risk and return profiles. The chart below shows the five Tactical Funds and the relationship between expected return and risk.



Detailed information about the Tactical Funds is available in the 2013 *Information Statement*. Copies are available upon request.

How do the Tactical Funds differ from the Balanced Fund?

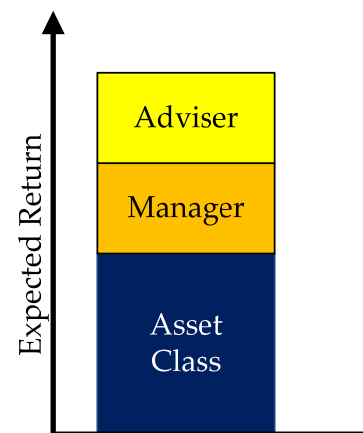
The Balanced Fund is a Strategic Fund that is invested in the Domestic Stock Fund and the Bond Fund. Although the Balanced Fund allows a range of between 30 percent and 70 percent in the Domestic Stock Fund and the Bond Fund, historically, the fund has been invested 60 percent in the Domestic Stock Fund and 40 percent in the Bond Fund and rebalanced on a fixed schedule.

The Tactical Funds may invest in a wider range of Strategic Funds, as indicated above, and which Strategic Funds and how much is invested in those Strategic Funds, within the limits of policy, are at the discretion of the investment adviser of the Tactical Funds. Changes can occur when the adviser deems it important, rather than on a specific schedule, as is true for the Balanced Fund.

The Tactical Funds use a tactical asset allocation model — a dynamic investment strategy that actively adjusts a portfolio's asset allocation, with the goal being to improve the risk-adjusted returns of passive management or strategic investing.

What are the expected benefits?

The chart to the right illustrates that the Tactical Funds are expected to provide additional return over the return provided by the Strategic Funds, which is the sum of the asset class return and the manager return.



The Tactical Funds, once selected, relieve organizations from the duty of managing asset allocation and rebalancing on a meeting-to-meeting basis. The organization's duty remains in selecting and monitoring the Tactical Funds.

What are the additional risks?

Any investment strategy that diverges from a stated benchmark for the purpose of enhancing performance is taking some measure of investment risk, as it could fail in its attempt. In addition,

these funds may invest in certain Strategic Funds that traditionally have not been used by BFI clients. While there is an expectation that inclusion of additional asset classes should lower the long-term risk of the portfolio, the short-term return could vary from historic client benchmarks.

Do Tactical Funds comply with BFI’s socially responsible investing guidelines?

The Tactical Funds may invest in Strategic Funds that may not comply with BFI’s socially responsible investing guidelines; therefore, the Tactical Funds may not comply with BFI’s socially responsible investing guidelines.

What are the additional expenses?

The Tactical Funds have an additional level of expense over and above the expenses of the Strategic Funds in which they are invested. The additional fee, which is charged directly to the client account on a quarterly basis, is based on the total BFI client assets invested in any of the Tactical Funds. Following is the fee schedule for assets invested in Tactical Funds –

Account Size	Annual Service Fee, Percent of Assets
First \$10,000,000	0.250% or 25.0 basis points
From \$10,000,000 to \$20,000,000	0.125% or 12.5 basis points
From \$20,000,000 to \$50,000,000	0.075% or 7.5 basis points
Over \$50,000,000	0.050% or 5.0 basis points

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Disclosure

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