



Investment Perspective

FROM BRETHERN FOUNDATION FUNDS

SEPTEMBER 2015

MARKETS AND THE ECONOMY

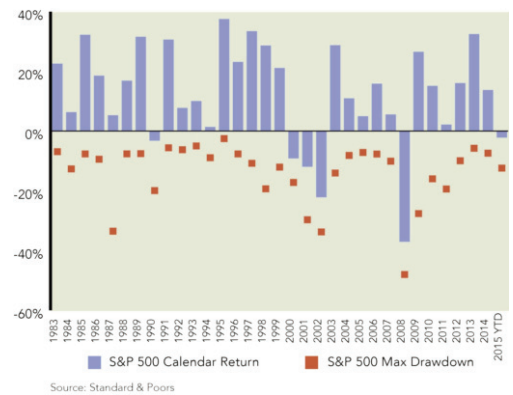
The interconnectedness of the global economy and the world's financial markets cannot be denied. Wild gyrations in global stock prices, tripped by intensified concerns about the pace of global growth, in particular the deepening effects of China's slowdown, and questions about whether the Federal Reserve will lift interest rates in September, drove the S&P 500 Index down 6 percent in August; all 10 S&P 500 Index sectors fell at least 3 percent. U.S. GDP grew at a 3.7 percent annual rate in the second quarter; faster than the initial estimate of a 2.3 percent growth rate. The unemployment rate held steady at 5.3 percent in July; however, the labor force participation rate was unchanged, matching the lowest reading since 1977. U.S. housing starts in July rose 0.2 percent from a month earlier, due largely to single-family homes. Existing home sales rose 2 percent in July from the prior month. The bond market, as measured by the Barclays Capital Government/Credit Index, fell 0.2 percent.

In a bold attempt to stimulate its economy, China devalued its currency, cut its benchmark interest rate to 4.6 percent from 4.85 percent, reduced the amount of money banks need to hold in reserve, and in the process sparked heightened concerns that the world's number two economy may be slowing faster than expected. France's GDP was flat while Germany posted a lukewarm expansion; GDP in the Eurozone slowed to 0.3 percent in the second quarter from 0.4 percent in the first quarter. A slump in private consumption, and overseas demand for Japanese goods contributed to Japan's second quarter GDP contracting 1.6 percent on an annualized basis. A sharp drop in industrial production, a stagnant construction sector, and retreating retail sales contributed to Brazil's GDP contracting 1.9 percent in the second quarter over the previous quarter. International equities, as measured by the MSCI EAFE Index, plummeted 7.4 percent in August.

The pace and magnitude of the market drop came as a shock to many and left investors pondering how they should react to this swift downdraft.

IT'S THAT TIME OF YEAR AGAIN...

Between August 17th and 25th, the U.S. equity market — as represented by the S&P 500 Index — declined 11 percent. The pace and magnitude of the market drop came as a shock to many and left investors pondering how they should react to this swift downdraft. While some may be looking to underlying fundamentals or economic data for guidance, one could simply point to history as an indicator. This week's chart looks at the maximum intra-year drawdown for the S&P 500 Index over the last 30 years.



While this recent decline is notable, it is not unusual for the market to experience a significant intra-year drawdown. Over the last 30 years, returns for the S&P 500 have only been negative five times. However, 15 of these 30 years have featured max intra-year drawdowns greater than 10 percent, with 10 of those years actually posting a gain for the year. In other words, the S&P 500 has shown resiliency over the long term, and the recent 12.4 percent drawdown for 2015 does not automatically translate to a negative year for U.S. equity investments. In fact, the latter part of the month brought an impressive rebound in the markets, and when markets closed on August 31st, the S&P 500 index was down only 4.2 percent for the year.

Source: Marquette Associates, Aug. 28, 2015. Reprinted and updated with permission.

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





All periods longer than one year are annualized.

Fund Performance Report

for the period ending Aug. 31, 2015

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	0.0%	0.0%	0.2%	0.4%	0.6%	2.0%
Merrill Lynch 6-Month Treasury Bill Index ¹	0.0%	0.0%	0.1%	0.2%	0.2%	1.3%
COMMUNITY DEVELOPMENT						
Community Development Investment Fund ²	0.1%	0.4%	1.1%	1.9%	2.1%	2.6%
No Benchmark	—	—	—	—	—	—
FIXED INCOME						
Bond Core Fund	(0.3)%	(0.8)%	0.1%	1.7%	3.3%	4.9%
Barclays Capital U.S. Government/Credit Bond Index	(0.2)%	(0.7)%	0.2%	1.4%	3.0%	4.4%
Bond Fund	(0.3)%	(1.0)%	(0.2)%	1.7%	3.3%	4.9%
Barclays Capital U.S. Government/Credit Bond Index	(0.2)%	(0.7)%	0.2%	1.4%	3.0%	4.4%
Treasury Inflation-Protected Securities Fund ³	(0.5)%	(1.0)%	0.1%	(2.0)%	—	—
Barclays Capital U.S. TIPS Index	(0.8)%	(1.5)%	(0.2)%	(1.5)%	—	—
Bank Loans Fund ^{3,4}	—	—	—	—	—	—
S&P/LSTA U.S. Leveraged Loan 100 Index	—	—	—	—	—	—
High Yield Bond Fund ³	(1.7)%	(3.4)%	1.5%	5.5%	6.8%	—
Barclays Capital U.S. Corporate High Yield Bond Index	(1.7)%	(3.8)%	0.2%	4.9%	7.3%	—
Global Aggregate Fixed Income Fund ^{3,4}	—	—	—	—	—	—
Barclays Capital Global Aggregate Bond Index	—	—	—	—	—	—
DOMESTIC EQUITY						
Domestic Stock Core Fund	(5.7)%	(10.7)%	(14.8)%	7.6%	10.3%	5.2%
S&P 500 Index	(6.0)%	(5.9)%	(2.9)%	14.3%	15.9%	7.2%
Domestic Stock Mid Cap Fund	(4.6)%	(5.8)%	(0.4)%	20.1%	—	—
Russell Midcap Index	(5.3)%	(6.5)%	(2.3)%	16.1%	—	—
Domestic Stock Growth Fund	(5.0)%	(3.3)%	5.0%	14.3%	—	—
Russell 1000 Growth Index	(6.1)%	(4.6)%	1.0%	15.3%	—	—
Domestic Stock Fund	(5.1)%	(6.7)%	(3.7)%	13.9%	15.6%	7.9%
S&P 500 Index	(6.0)%	(5.9)%	(2.9)%	14.3%	15.9%	7.2%
Small Cap Fund	(5.7)%	(4.3)%	(3.2)%	11.9%	15.7%	9.2%
Russell 2000 Index	(6.3)%	(6.7)%	(3.0)%	14.1%	15.5%	7.1%
INTERNATIONAL EQUITY						
International Stock Core Fund	(8.0)%	(10.3)%	(2.2)%	6.2%	6.1%	3.7%
MSCI EAFE Index	(7.4)%	(8.1)%	(0.2)%	8.5%	7.0%	4.0%
Emerging Markets Stock Fund ³	(8.8)%	(19.8)%	(15.2)%	(3.9)%	(4.1)%	—
MSCI Emerging Markets Index	(9.0)%	(17.5)%	(12.9)%	(2.4)%	(0.9)%	—
ALTERNATIVE INVESTMENTS						
Commodities-Based Fund ³	(4.6)%	(11.7)%	(16.1)%	(17.3)%	(8.0)%	—
Bloomberg Commodity Total Return Index	(0.9)%	(9.9)%	(12.8)%	(14.6)%	(7.0)%	—
Public Real Estate Fund ³	(4.0)%	(6.7)%	(6.2)%	5.8%	—	—
S&P Developed Property Index	(6.0)%	(7.1)%	(4.7)%	7.8%	—	—
Multi-Strategy Hedge Fund ^{3,4}	—	—	—	—	—	—
60% S&P 500 Index/40% Barclays Capital U.S. Aggregate Bond Index	—	—	—	—	—	—
Global Inflation Protection Fund	(4.0)%	(7.1)%	(3.3)%	—	—	—
CPI + 5% ⁵	0.4%	2.2%	4.3%	—	—	—
EQUITY AND FIXED INCOME						
Balanced Fund	(3.2)%	(4.4)%	(2.2)%	9.1%	10.8%	7.1%
Blended Balanced Index ⁶	(3.7)%	(3.8)%	(1.5)%	9.1%	10.8%	6.3%
TACTICAL FUNDS (additional fees apply)						
Conservative Fund ^{3,4}	—	—	—	—	—	—
Blended Conservative Index	—	—	—	—	—	—
Income Fund ³	(2.7)%	(4.6)%	(3.1)%	—	—	—
Blended Income Index	(2.5)%	(3.1)%	(0.7)%	—	—	—
SRI Income Fund ⁴	—	—	—	—	—	—
Blended SRI Income Index	—	—	—	—	—	—
Income & Growth Fund ³	(4.2)%	(6.9)%	(4.8)%	—	—	—
Blended Income & Growth Index	(4.0)%	(4.8)%	(1.5)%	—	—	—
SRI Income & Growth Fund ⁴	(3.8)%	(5.3)%	—	—	—	—
Blended SRI Income & Growth Index	(3.5)%	(3.9)%	—	—	—	—
Growth Fund ³	(4.8)%	(7.8)%	(5.3)%	—	—	—
Blended Growth Index	(4.6)%	(5.4)%	(1.8)%	—	—	—
SRI Growth Fund	(4.7)%	(6.4)%	(3.9)%	—	—	—
Blended SRI Growth Index	(4.5)%	(4.8)%	(0.9)%	—	—	—
Aggressive Growth Fund ³	(5.6)%	(9.1)%	(6.4)%	—	—	—
Blended Aggressive Growth Index	(5.1)%	(6.5)%	(2.8)%	—	—	—
SRI Aggressive Growth Fund ⁴	—	—	—	—	—	—
Blended SRI Aggressive Growth Index	—	—	—	—	—	—
U.S. INFLATION						
Consumer Price Index (July 2015) ⁵	0.0%	0.9%	1.0%	1.1%	1.7%	1.8%

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).