



Investment Perspective

FROM BRETHERN FOUNDATION

FEBRUARY 2014

MARKETS AND THE ECONOMY

Despite encouraging fourth quarter earnings reports, the S&P 500 Index declined 3.5 percent in January as concerns about the global economy (especially emerging markets) drove domestic investors from equities to the safety of U.S. government securities. Citing strengthening economic data, the Federal Reserve voted to taper asset purchases by an additional \$10 billion per month and maintain current short-term rates. Fueled by consumer spending and exports, GDP grew at an annual rate of 3.2 percent in the fourth quarter, down from the annual rate of 4.1 percent in the third quarter. Hiring numbers were lackluster in December; however, the jobless rate still fell to 6.7 percent because of a decline in labor force participation. Sales of existing homes increased 1 percent in December over November, while sales of new homes dropped 7 percent in December from November. The bond market, as measured by the Barclays Capital Government/Credit Index, increased 1.5 percent in January.

Eurozone annual inflation declined to 0.7 percent in January, down from 0.8 percent in December and falling further below the European Central Bank's annualized target of just under 2 percent. The European Central Bank had previously pledged to aggressively combat signs of weakening inflation. The Bank of England held steady on its key lending rate; remaining unchanged at 0.5 percent. For 2013, China's GDP grew 7.7 percent, matching 2012's rate. Japan's core consumer price index climbed 1.3 percent in December from a year earlier and was up 0.4 percent for the entire year — its first annual rise in five years. The Bank of Japan has targeted a 2 percent annual rate of inflation to overcome deflationary pressures. Japan's unemployment rate fell from 4 percent in November to 3.7 percent in December, the lowest rate since December 2007. International equities, as measured by the MSCI EAFE Index, declined 4 percent during January.

BRETHERN FOUNDATION SELECTS NEW DOMESTIC LARGE-CAP CORE MANAGER

Cornerstone Investment Partners LLC has been selected to serve as Brethren Foundation's domestic large-cap core investment manager. The Atlanta-based registered investment adviser began managing the assets of BFI's Domestic Stock Core Fund in mid-December. Cornerstone is an independent, employee-owned firm specializing in large-cap equities with approximately \$8.2 billion in assets under management as of Dec. 31. Founded in August 2001, the company has grown to serve more than 80 clients, ranging from corporate clients to public entities to foundations and endowments.

Like the managers for BFI's other separately managed investment options, Cornerstone oversees a custom portfolio for BFI that complies with BFI's *Investment Guidelines*, including the socially responsible investing screens that are based on positions established by the Church of the Brethren Annual Conference.

Cornerstone's asset management will affect the Domestic Stock Core Fund and two other strategic investment options that hold a position in the Domestic Stock Core Fund: the Domestic Stock Fund (34 percent) and the Balanced Fund (20 percent). Four tactical funds may also hold a position in the Domestic Stock Core Fund: Aggressive Growth, Growth, Income and Growth, and Income.

Cornerstone replaces Boston Common Asset Management, which was unable to meet BFI's performance expectations.

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

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All periods longer than one year are annualized.

Fund Performance Report

for the period ending Jan. 31, 2014

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%	0.1%	0.7%	1.2%	2.2%
<i>Merrill Lynch 6-Month Treasury Bill Index</i> ¹	0.0%	0.1%	0.0%	0.2%	0.3%	1.7%
COMMUNITY DEVELOPMENT						
Community Development Investment Fund ²	0.2%	0.5%	0.2%	2.2%	2.4%	2.7%
<i>No Benchmark</i>	—	—	—	—	—	—
FIXED INCOME						
Bond Core Fund	1.7%	0.9%	1.7%	4.4%	6.7%	5.1%
<i>Barclays Capital U.S. Government/Credit Bond Index</i>	1.5%	0.6%	1.5%	4.1%	5.0%	4.6%
Bond Fund	1.7%	1.0%	1.7%	4.4%	6.8%	5.1%
<i>Barclays Capital U.S. Government/Credit Bond Index</i>	1.5%	0.6%	1.5%	4.1%	5.0%	4.6%
Treasury Inflation-Protected Securities Fund ³	1.7%	(2.0)%	1.7%	3.2%	—	—
<i>Barclays Capital U.S. TIPS Index</i>	2.0%	(0.6)%	2.0%	4.2%	—	—
Bank Loans Fund ^{3,4}	—	—	—	—	—	—
<i>S&P/LSTA U.S. Leveraged Loan 100 Index</i>	—	—	—	—	—	—
High Yield Bond Fund ³	0.8%	1.7%	0.8%	8.3%	—	—
<i>Barclays Capital U.S. Corporate High Yield Bond Index</i>	0.7%	1.8%	0.7%	8.8%	—	—
Global Aggregate Fixed Income Fund ^{3,4}	—	—	—	—	—	—
<i>Barclays Capital Global Aggregate Bond Index</i>	—	—	—	—	—	—
DOMESTIC EQUITY						
Domestic Stock Core Fund	(6.5)%	(0.7)%	(6.5)%	10.8%	15.6%	6.4%
<i>S&P 500 Index</i>	(3.5)%	2.0%	(3.5)%	13.9%	19.2%	6.8%
Domestic Stock Mid Cap Fund	(1.2)%	7.7%	(1.2)%	20.5%	—	—
<i>Russell Midcap Index</i>	(2.0)%	2.7%	(2.0)%	14.3%	—	—
Domestic Stock Growth Fund	(3.6)%	1.1%	(3.6)%	12.6%	—	—
<i>Russell 1000 Growth Index</i>	(2.9)%	2.7%	(2.9)%	14.4%	—	—
Domestic Stock Fund	(3.8)%	2.6%	(3.8)%	14.6%	19.2%	8.3%
<i>S&P 500 Index</i>	(3.5)%	2.0%	(3.5)%	13.9%	19.2%	6.8%
Small Cap Fund	(4.8)%	(0.3)%	(4.8)%	13.9%	22.7%	10.9%
<i>Russell 2000 Index</i>	(2.8)%	3.1%	(2.8)%	14.7%	22.3%	8.3%
INTERNATIONAL EQUITY						
International Stock Core Fund	(5.1)%	(2.3)%	(5.1)%	5.4%	13.6%	6.1%
<i>MSCI EAFE Index</i>	(4.0)%	(1.8)%	(4.0)%	6.4%	14.4%	6.8%
Emerging Markets Stock Fund ³	(6.4)%	(10.0)%	(6.4)%	(6.3)%	—	—
<i>MSCI Emerging Markets Index</i>	(6.5)%	(9.2)%	(6.5)%	(3.0)%	—	—
ALTERNATIVES						
Commodities-Based Fund ³	(0.4)%	(1.8)%	(0.4)%	(7.1)%	—	—
<i>Dow Jones UBS Commodity Index</i>	0.3%	0.7%	0.3%	(8.3)%	—	—
Public Real Estate Fund ³	(0.9)%	(3.7)%	(0.9)%	—	—	—
<i>S&P Developed Property Index</i>	(0.5)%	(3.4)%	(0.5)%	—	—	—
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	(1.6)%	2.1%	(1.6)%	10.8%	14.5%	7.4%
<i>Blended Balanced Index</i> ⁵	(1.5)%	1.5%	(1.5)%	10.1%	13.7%	6.2%
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	(2.3)%	(0.6)	(2.3)	—	—	—
<i>Blended Income & Growth Index</i>	(1.4)%	0.4	(1.4)	—	—	—
Growth Fund ³	(3.0)%	(0.8)	(3.0)	—	—	—
<i>Blended Growth Index</i>	(1.9)%	0.4	(1.9)	—	—	—
Aggressive Growth Fund ³	(3.5)%	(1.4)	(3.5)	—	—	—
<i>Blended Aggressive Growth Index</i>	(2.4)%	0.1	(2.4)	—	—	—
U.S. INFLATION						
Consumer Price Index (December 2013) ⁶	0.0%	(0.5)%	1.4%	2.1%	2.1%	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 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.