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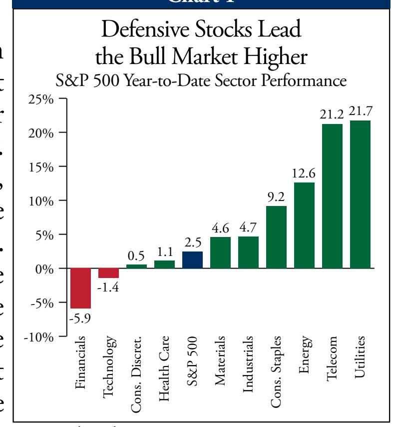
Despite Excessive Brexit Fears, Stocks and Bonds Move to Record Highs

"As long as he sought the Lord, God gave him success." 2 Chronicles 26:5b

We are pleased to report Stewardship Partners once again turned in very good investment performance in the second quarter with nearly all of our actively managed portfolios exceeding their benchmarks, in most cases by a considerable margin. We are truly thankful to the Lord for these good results. When combined with our impressive returns in the first quarter of 2016, Stewardship Partners clients are off to a very strong start to the year. While the second quarter investing environment was far less challenging than the highly tumultuous first quarter, as share prices moved in a relatively narrow channel during the second quarter, England's surprise decision to leave the European Union, the so-called "Brexit", did lead to a burst of financial market volatility right at the quarter's end. In fact, had it not been for a strong upside move in just the last two days of June, most major indices would have declined for the quarter. Even with that last minute surge higher, the NASDAQ and developed markets outside the US still posted small losses (Table 1). Shortly following the quarter's close, the S&P 500 actually hit an all-time closing high and the current bull market in US equity prices is now the second longest ever. Yet, this bull market has been described as the most hated one ever as it has struggled for over a year to reach new highs. Moreover, the push higher was not led by speculative growth stocks, as is typical, but by those shares which normally perform well in more difficult market environments, such as utility and telecom stocks (Chart 1). Financial stocks have been the worst performers so far this year, which is also not a good sign. Bond yields continued to decline during the quarter as extreme central bank policies (mostly outside the US) intended to thwart persistent deflationary tendencies in the global economy sent the US 10 year governement bond to a new record low shortly after the quarter's close as well. While volatility in stock and bond indices was not significant as both have moved rather methodically towards new highs recently, the Brexit decision led to some of the most extreme moves in currency values in history. The second quarter ended with a lot of unnecessary financial market consternation over Brexit, but it was still a good quarter for many investors and a very good one for Stewardship Partners clients.

Chart 1



Source: Bloomberg

Table 1

2Q16 Total Returns

US Indices	2Q16	YTD	5y ann
S&P 500	2.5%	3.8%	12.1%
S&P 500 Value	4.0%	6.2%	11.2%
S&P 500 Growth	1.0%	1.5%	12.9%
NASDAQ	-0.2%	-2.7%	13.2%
S&P 400 (Mid Cap)	4.0%	7.9%	10.5%
S&P 600 (Small Cap)	3.5%	6.2%	11.2%
Treasury Bonds	2.2%	5.7%	3.7%
High Grade Corp. Bonds	3.5%	7.6%	5.4%
High Yield Corp. Bonds	5.9%	9.3%	5.7%
Gold	7.3%	24.6%	-2.5%
Global & International Indices			
MSCI World	1.0%	0.7%	6.6%
MSCI EAFE	-1.5%	-4.4%	1.7%
MSCI Euro	-5.0%	-7.4%	-1.0%
MSCI Far East	1.0%	-4.4%	4.0%
MSCI Japan	1.0%	-5.6%	4.2%
MSCI Emerging Markets	0.7%	6.4%	-3.8%
US Economic Sectors			
Energy	11.6%	16.1%	0.8%
Materials	3.7%	7.5%	5.8%
Industrials	1.4%	6.5%	11.2%
Consumer Discretionary	-0.9%	0.7%	16.1%
Consumer Staples	4.6%	10.5%	15.0%
Health Care	6.3%	0.4%	17.3%
Financials	2.1%	-3.0%	10.5%
Information Technology	-2.8%	-0.3%	13.4%
Telecom	7.1%	24.8%	11.7%
Utilities	6.8%	23.4%	13.8%

Source: Bloomberg

Even as US equities recently climbed to new highs, investors generally remain uneasy. In addition to concerns about severe distortions in the financial markets caused by the world's central banks, investors remain justifiably wary of the potential for the Chinese economy to finally come undone and are becoming increasingly alarmed by some unsettling trends in the European banking system. Unlike Brexit, where the immediate and perhaps even long term economic impact will be much less than the news media has suggested, these potential sources of global economic peril could have very impactful negative consequences on the financial markets. Unfortunately, it is certainly not easy to determine if or when these threats may transition to actual problems with which investors will need to contend. Also adding to investor angst is the outcome fo the US elections which for many is contest between a very bad and an awful candidate. In addition to the presidential election, the Senate is up for grabs and some even believe the House could fall from Republican control, although this seems unlikely. With a backdrop of increasing race-related violence and rapid social change which has our nation moving farther and farther away from the Word of God, the situation for investors seeking to honor the Lord with the wealth he has given them stewardship responsibility over is unsettling to say the least.

Fortunately, due to Stewardship Partners' very good performmance so far in 2016, we have the luxury of reducing risk in our portfolios. We remained hedged in our tactical portfolios and carried high cash balances in our standard portfolios during the second quarter. Good stock selection results allowed us to outperform the indices despite this lower risk posture. As we move further into the seasonally weakest period for equities, we are likely to maintain our low risk approach. We believe we own a number of interesting stocks that may continue to provide good returns for our portfolios even while we take little market risk overall.

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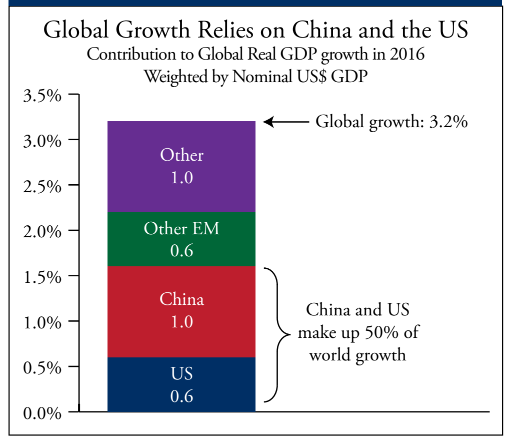
The Global Economy Is Growing Slowly, but Threats Remain

"We made slow headway for many days and had difficulty ..." Acts 27:78

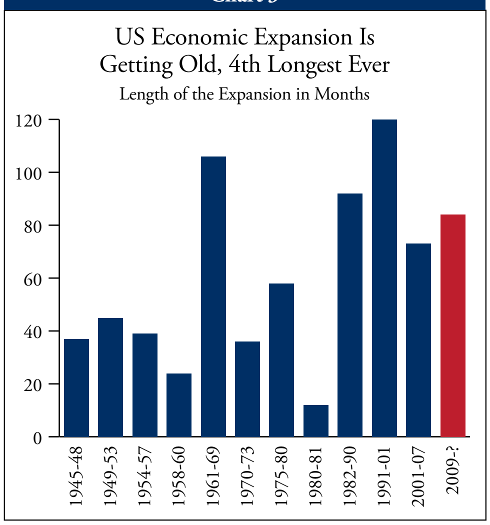
Global economic growth is primarily dependent on just two countries – China and the US. Europe and Japan have become such slow growing regions that the contribution to global growth is low relative to the significant size of those combined economies. In 2016, it is estimated China and the US will generate half of the world's growth (Chart 2). Accordingly, as global investors we are very interested in the economic prospects of these two nations in particular as these will drive sales growth and impact corporate profitability. Moreover, the pace of economic growth in these nations also meaningfully impacts future inflation, interest rates and central bank policies around the world. As we seek to obtain the best possible investment outcome for our clients, we know our chances of success improves if we are able to forecast the direction and pace of growth in the US and China reasonably accurately. Such forecasts are much, much easier to have confidence in when dealing with the US given the high quality of the data at our disposal. China's economy, on the other hand, is difficult to predict given the poor data series and government efforts to distort economic data.

Chart 2



Source: Deutsche Bank Research

Chart 3

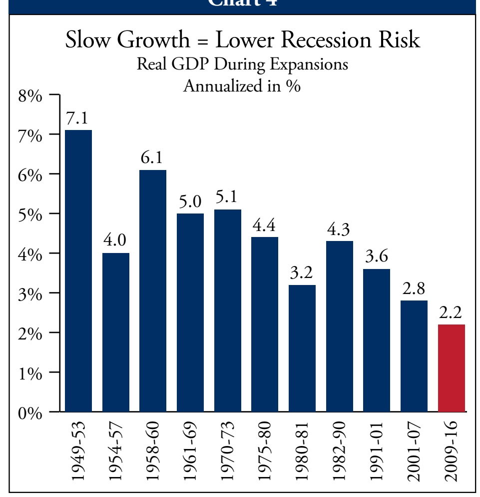


Source: Bloomberg

One of the first observations needed to be made about US economic prospects is the current expansion has been ongoing for quite a while. It is now the fourth longest US economic recovery ever (Chart 3). This alone suggests heightened caution about its ability to continue to grow without having to endure at least a short recessionary setback for much longer. Some other indicators of a prospective recession are also starting to flash early warning lights, not the least of which is the continued flattening of the yield curve. The yield curve is the difference between short and long term interest rates and as these rates become more similar, the yield curve "flattens". A flat yield curve has been one of the more accurate indicators of an impending recession in the past. Still, the yield curve would need to flatten further to cause real worry and the curve itself is being unusually influenced by the prevalence of negative interest rates in other parts of the world.

One reason we may not be facing an imminent US recession is the historically slow pace of US economic growth during the current expansion (Chart 4). Under these slower growth conditions, the economy is less likely to become unbalanced in such a way that might trigger a recession. Moreover, US banks have guarded their balance sheets better than in the past during this recovery following the devastating losses banks faced in the Great Recession. So, with few segments of the US economy appearing to be overheating at this time, it seems the US economic recovery should be able to continue to grow, if still slowly, in the quarters ahead.

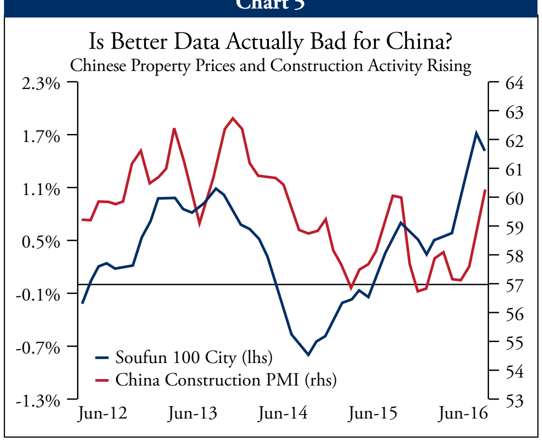
Chart 4



Source: Pension Partners

Continued economic growth in China's economy, however, is far less certain. Chinese policy makers have taken any number of actions to prop the debt laden economy up, but it seems they may be running out of tools and time to keep the economy from stumbling. At the same time, these policymakers have proven to be very capable in the past in helping the Chinese economy avoid a full blown recession even though its economic expansion has been very unbalanced. Unfortunately, their actions may mean the ultimate correction in the economy may be harder and swifter than many believe. Recently, we have seen a sharp recovery in the Chinese housing market based in part on government programs meant to encourage greater activity in the sector. Rising prices in the housing market have helped encourage additional construction activity as well (Chart 5). While this is helpful in the short term, it is likely only adding to the already excessive housing stock in China. Plans have recently emerged for the government to bail out ten of the largest state-owned companies. These companies are highly inefficient and should be scaled back significantly. Instead, to avoid politically unacceptable unemployment, the government will continue to subsidize these company's inefficient operations. At some point, China will have to "pay the piper" and its economy could suddenly fall in a seemingly uncontrolled fashion. Moreover, we sense we may be moving closer to that point and continued weakness in the Chinese currency may be indicating more trouble

Chart 5

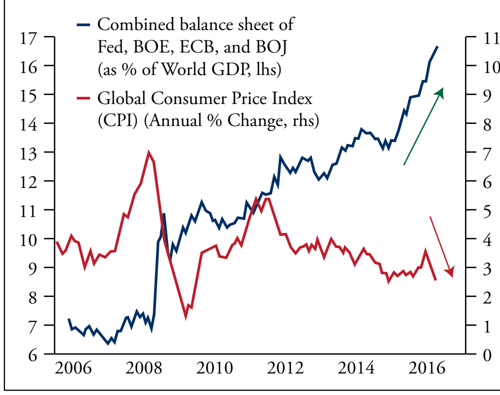


on the horizon. For now, however, China's economy is still the single largest contributor to global economic growth. We are paying very close attention to any sign this may cease to be the case.

Chart 6

Extraordinary Efforts Fail to Halt Inflation's Slide

Central Bank Assets Explode Higher vs. Falling Global CPI



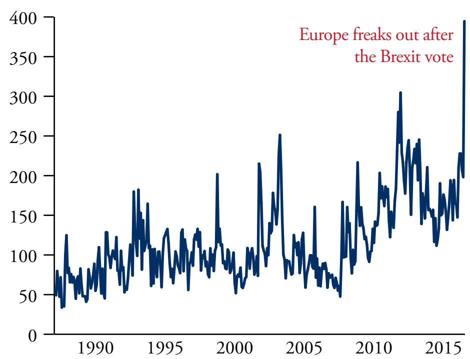
Source: Thomson Datastream

China's massive labor force and overbuilding of steel and other industrial and infrastructure projects have also helped keep global inflation rates quite low for a long period of time. With the onset of the Great Recession, however, low inflation soon turned into a deflationary threat like that the global economy has not encountered in decades. To help ward off this deflationary beast, the world's central banks have all resorted to extraordinary policy measures in recent years. Notable among these activities has been the use of central bank balance sheets to buy financial instruments, primarily government bonds, in order to reduce interest rates and stimulate growth and inflation. While modest growth has been attained, government policymakers are still struggling to keep deflation at bay. Chart 6 highlights the very rapid expansion in central bank balance sheets and that policy's surprising inability to fully reign in the deflationary forces. More recently, we have even seen interest rates on US government bonds falling even when strong economic reports are issued, a very unusual development which indicates the markets are ignoring signs of economic strength and potential inflation while staying focused on the deflation threat. If these trends persist and the US bond market is accurately predicting a deflationary period ahead, the financial markets will almost certainly suffer. We think this outcome can still be avoided but central banks are running out of tools to combat the deflationary beast for much longer. Solid economic growth from the US and China is needed to put this issue behind us.

Chart 7

Post-Brexit Uncertainty Will Weigh on European Growth

European Economic Policy Uncertainty Index



Source: FRED

We noted earlier that we do not expect the ramifications from Brexit to be very significant to the global economy. Individual sectors may be negatively impacted, such as financial services, but we believe the broader impacts many have forecasted are unlikely to come to pass. In the short run, however, economic growth in Europe is likely to suffer a little simply due to the uncertainty created by Brexit. Chart 7 indicates business uncertainty about economic policy in a post Brexit Europe spiked higher. This will likely shave a little off of near term economic growth in Europe as companies likely delayed decisions about new facilities or hiring staff until they had a better handle on the fallout from this move. While unfortunate, we strongly suspect this uncertainty will diminish greatly in the months ahead as the mostly benign consequences of Brexit become more apparent. Europe's banking system, however, is starting to become an issue yet again and that may keep uncertainty at high levels for a while longer.

Will Europe's Banks Start Yet Another Financial Crisis?

"For hardship does not spring from the soil, nor does trouble sprout from the ground." Job 5:6

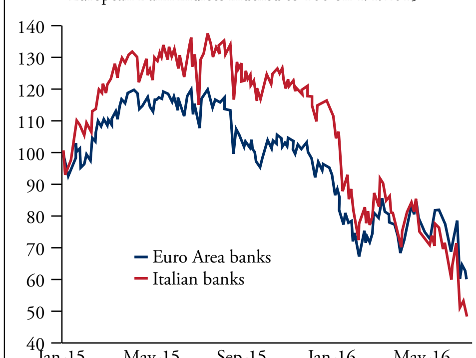
When it comes to banks, the markets usually sniff out trouble well before it shows up in the financial statements. In the US, the banking stocks have been the worst performing sector so far in 2016, but the decline in US bank share prices has been small so far. While the largest US banks are a black box containing unknown derivative exposures which could erupt into problems on very short notice, the fact remains that since the Great Recession, US banks have made great strides in restoring strong balance sheets. There is no longer a solvency issue with US banks. In Europe, however, banks stocks have been hit hard so far in 2016 (Chart 8), an indication that trouble is once again at hand in the European banking system. In the recent past attention has mainly focused on Greek banks as it was assumed Spanish, Portuguese, Italian and Irish banks had overcome liquidity and solvency issues stemming from the Great Recession. Unfortunately, Italian banks are the primary source of the latest problems but, due to their significant size, they are dragging down the share prices of all of Europe's banks. Italian bank share prices are down roughly 50% from the start of the year as the scope of their non-performing loan problems has come into greater focus. But all European banks have fallen by around 35% in 2016 due to the possibility of a contagion effect as well as problems in some German and other banks. Amazingly, the Brexit crisis impacted European bank shares more negatively than any other event in recent history, including Lehman's collapse in 2011 and the previous EU banking crisis in 2011 (Chart 9). This highlights how sensitive the situation is at this time. Investors are clearly concerned an episode like Brexit might be enough to upend the European banking system via its linkages to the still weak Italian banks. What is also remarkable is that so little progress has been made in to restore the health of Italian banks in particular since the Great Recession and the EU banking crisis at the end of 2011. As seen in Chart 10, European bank shares are down about 80% from their pre-crisis highs and have never really recovered much at all. Given the critical

Chart 8

European Bank Stocks Warning Investors?

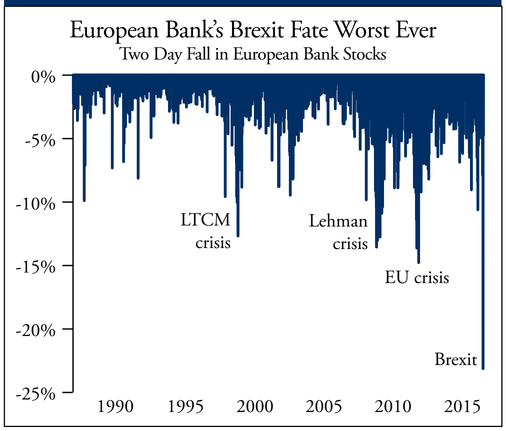
European Bank Stocks Cratering in 2016

European Bank Indices indexed to 100 on 1/1/2015



Source: Bloomberg, IIF

Chart 9

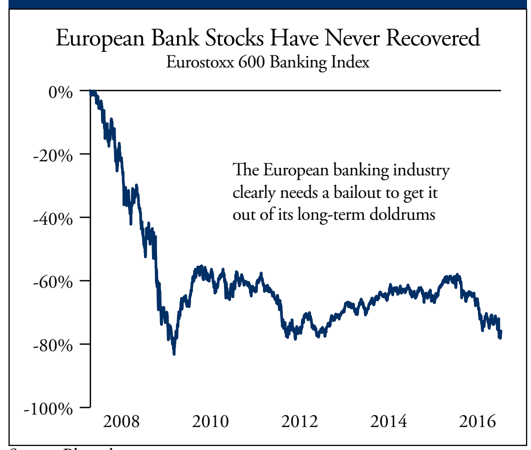


Source: Bloomberg

importance of the banking system to a properly functioning economy, especially in Europe where banks bear more of the corporate financing burden than do the financial markets, it is inconceivable these problems remain after so many years.

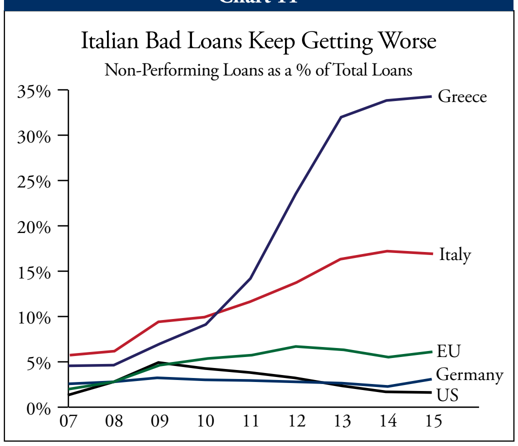
Indeed, the difficulties not only remain but have actually been allowed to get worse in recent years. Italian non-performing loans have risen from around 12% at the European crisis peak in 2011 to roughly 17% currently (Chart 11). That this increase in bad loans was allowed to continue reflects poorly on the European Central Bank (ECB) and the government policymakers generally. Now, the situation has become quite dire and the solutions required to fix it are all the more painful to all involved. Naturally, no one wants to put up additional funds to help cover over $400 billion of bad loans in the Italian banking system. There are reserves against about 60% of the most doubtful loans (roughly $225 billion) already but, in the end, some form of public bailout will be required. Deutsche Bank's economist has already called for a $150 billion Europe-wide bailout fund and the Bank of England is expected to provide some aid for stressed property funds. Some remedial plans have already been put into action in Italy, but they will almost certainly prove insufficient to put this problem behind both the country and the EU.

Chart 10



Source: Bloomberg

Chart 11



Source: World Bank, European Banking Authority, FactSet

One of the problems with fashioning a solution to Italy's bad debt problems is issuing new equity will be hugely dilutive to current shareholders. As can be seen in Table 2, nonperforming loans are substantially greater than the shareholders equity of two of the six largest Italian banks and represents too large a percentage of the remaining four as well. Moreover, the share prices of these six banks are, not surprisingly, trading at significant discounts to the accounting-based shareholder's equity value. If these banks tried to issue new shares at such low current bank share prices to clean up the bad loan problems it would wipe out current shareholders stakes via enormous dilution. Because of all the vested interests in the Italian banking sector and government, which are often tightly interwoven, it may be difficult to find a solution that does not disenfranchise Italian and EU taxpayers as well as depositors who might have their money effectively confiscated in a "bail-in" rather than a government led bail-out. Because of the complexities of the situation, a quick resolution has not yet been orchestrated. Of course, the longer the problem lingers, the greater the chance of it escalating into a force which could cause all financial markets to weaken.

For now, we remain hopeful this very large bad debt problem will remain contained and will not result in any financial contagion to the European and/or global financial systems. Still, we remain wary as this is a problem that should have been resolved much, much earlier and there are clearly forces at work trying very hard to avoid being the ones suffering as a result of whatever rescue package is ultimately put together. Should policymakers continue to dither away, making little real progress, another unexpected shock to the financial system like Brexit could trigger more widespread trouble investors around the globe would come to regret. Given the situation is reaching a crisis level, we expect the ECB will be able to at least cobble together some plan that will, at a minimum, "kick the can down the road" yet again. Nevertheless, this is one of the reasons our portfolios remain cautiously positioned.

As leaders have argued about who should foot the bill for rescuing the Italian banks, Italian officials have taken to highlighting the risks in Deutsche Bank's portfolio as a weapon to gain more EU and IECB money for the Italian banking system. Indeed, Deutsche Bank's stock price has been very weak as well recently, down nearly 50% in 2016 and 88% since its peak in 2007. Like most banks, we cannot really know what problems might be lurking on Deutsche Bank's immense balance sheet, but we do know it is one of the biggest owners of financial derivatives in the world. The IMF recently stated that Deutsche Bank is the world's biggest source of systemic financial risk and the bank's US division just failed the Fed's most recent stress test. We also know there has been heavy management turnover in recent years, which is a good indication the bank has suffered losses outsiders have not been fully informed about. It announced the layoffs of 9,000 employees late last year and is ceasing operations in 10 countries. We hope Germany would not allow Deutsche Bank to deteriorate like the Italian banks but there is clearly smoke at Deutsche Bank and we will be keeping a close watch to see if there is really a fire there as well.

Table 2

Italian Banks Need Rescuing

Bad Loans Dwarf Market Cap of Big Italians Banks

Eur Bn (1Q16)	Gross NPLs	Net NPLs	Shareholders Equity	Net NPLs as % of Shareholders Equity
UniCredit	79.0	38.1	50.4	75.6%
Intesa	62.6	33.1	49.5	66.9%
Monte Paschi	47.2	24.1	9.7	248.5%
Banco Popolare	20.6	13.6	8.1	167.9%
UBI	13.5	9.7	9.9	98.0%
BPM	6.0	3.6	4.7	76.6%
Total/avg.	**228.9**	**122.2**	**132.3**	**122.3%**

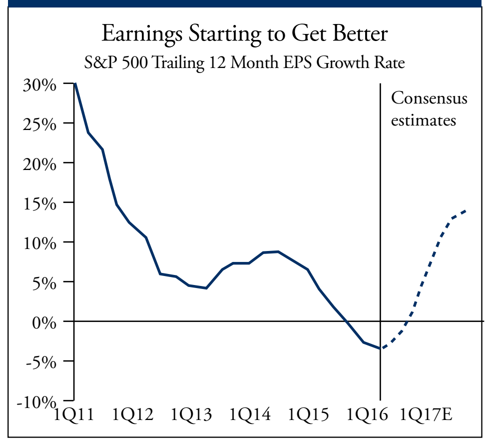
Source: Bloomberg

Earnings Looking Better but the Election Clouds the Outlook

"The end of a matter is better than its beginning, and patience is better than pride." Ecclesiastes 7:8

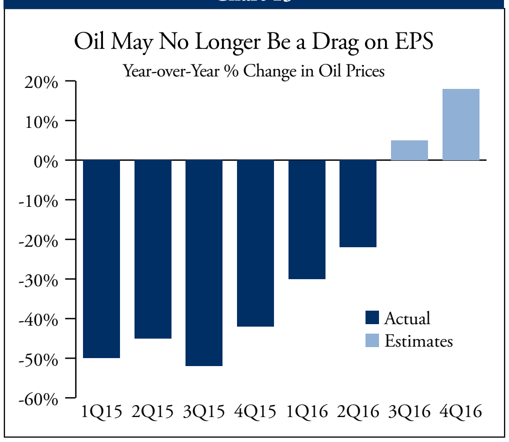
Just as things are starting to look ugly again in Europe, there are signs of improvement in the US. For several quarters, the sales and earnings of S&P 500 have been declining, primarily due to the travail of oil-related companies in the index. As a result, the market has gone sideways for more than a year and that time period contained two very nasty dips in share prices as well. Now, however, the prospects for future earnings are finally beginning to turn higher. The US PMI manufacturing index has historically been tightly correlated with S&P 500 earnings and it has turned higher recently. As highlighted in Chart 12, the consensus earnings forecast for the S&P 500 has it returning to positive growth in 2017. Moreover, the consensus expectation is for earnings to be rising at double digit rates in 2017. Typically, the consensus proves to be too optimistic but we would still expect positive earnings growth in 2017 for the S&P 500, perhaps in the 7-9% range.

Chart 12



Source: Thomson Financial, S&P, Morgan Stanley Research

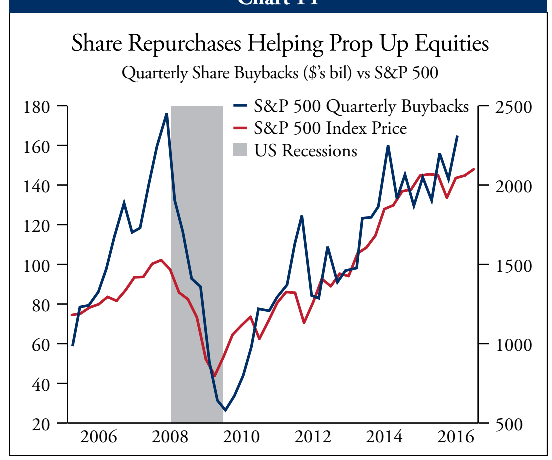
Chart 13



Source: LPL Research, FactSet

That will be a welcome turn of events if it comes to pass. As the market struggled over the last year and one half to make any real progress, weak earnings was the primary reason why meaningful and lasting appreciation was not possible. As we have demonstrated in past Quarterly Commentaries, sharp declines in net income in the energy sector was the primary force behind the weak S&P 500 earnings trends. Outside of the energy sector, earnings were able to continue to increase, but only slowly. With oil prices now much higher than at the beginning of the year, that pressure on the S&P 500 earnings is vanishing and oil may be a positive force for not only third quarter financial results but also beyond that as well (Chart 13). While the oil market is notoriously volatile and oil prices could easily turn lower before rising again, some positive signs of a more lasting recovery are occurring. Most notably, the number of oil rigs being utilized has risen in four of the last five weeks. It is still early, but the sub-$30 oil prices seen at the beginning of 2016 may have been the bottom. If so, this should also ease pressure on US banks as bankruptcies in the oil field slow.

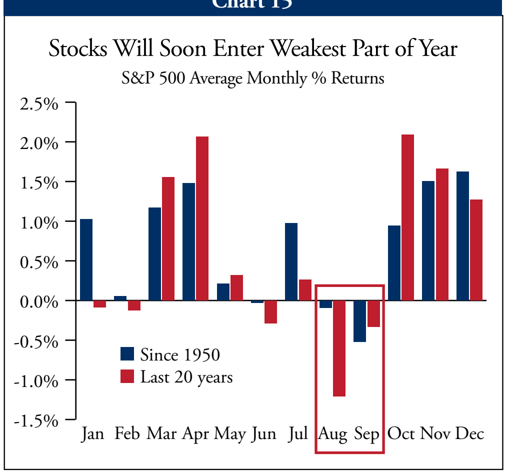
Chart 14



Source: FactSet

One of the oddities of the current market has been the proliferation of sellers. Mutual fund statistics show net outflows from equities on a pretty significant scale for quite a while. Foreigners have also been sizable sellers of US stocks in recent quarters as Middle Eastern oil producers and other nations look to bring money home to cover budget deficits. The one consistent buyer of US equities has been the companies themselves. Without this very sizable source of demand for stocks, there is little question the market would have fallen much harder over the last eighteen months. Now, share repurchases are reaching the level last seen just before the 2008 crash (Chart 14), This is not necessarily a big concern investors, but it does highlight there is considerable potential downside to this source of demand for stocks.

Chart 15



Source: Bloomberg

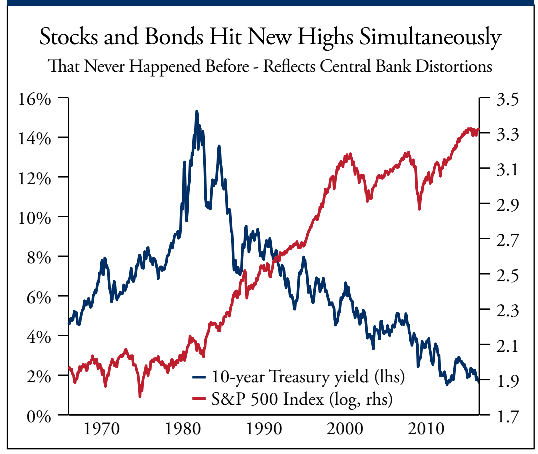
From a very short term perspective, the history of stock prices suggests caution. July is the only month in the May through September period that has typically shown any significant market strength but August and September are normally the seasonally weakest of the year (Chart 15). In election years, however, the third quarter of the year is actually the best quarter in all four years of the electoral cycle, with an average gain of 5%! As we all know, this has been one of the strangest elections ever, so we are not sure the historical norms will fully apply this time. Given the widespread dissatisfaction with both party's candidates, it is hard to see the upcoming election as something leading to increased investor confidence and hope in the future. Normally, the market benefits from the reduction of uncertainty as the candidates are chosen by their respective parties and polls indicate the likely outcome. In 2016, however, the political conventions may increase uncertainty and concern is likely to linger about the ramifications of either candidate winning up to and beyond the election. As a result of the uniqueness of this election and the very sharp differences of opinion among the electorate, we do not feel confident past trends are relevant.

Good YTD Returns Gives Us the Luxury of Remaining Cautious

"One who is wise is cautious … but a fool is reckless and careless." Proverbs 14:16

As we strive to position our clients' portfolios for the second half of the year, we find ourselves in an advantageous spot. Having already had a good year in just the first six months, we are not inclined to take a lot of risk over the rest of 2016. Furthermore, with another possible European banking scare looming and the strangest US election in memory just ahead, not to mention the ever-looming potential for the bursting of the Chinese economic bubble, there are good reasons to be cautious. At the same time, however, US corporate earnings looked poised to rebound and it would be unusual for equities to perform poorly in the face of better earnings.

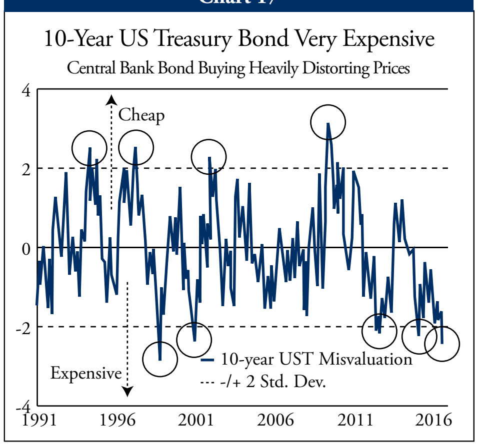
Chart 16



Source: Bloomberg, FRED

When looking at what the markets are telling us, it is quite a confusing story. Never before have both the stock and bond markets hit new highs simutaneously (Chart 16). This largely reflects the distortions in the bond markets caused by the central banks, but it is defintely disconcerting as those distortions will need to be reversed at some point. Additionally, defensive stocks like utilities, telecoms, REIT's and gold have all been soaring as the market finally broke through to a new high, which is just the opposite of normal. With European banking stocks telling us there is real trouble in that sector, it hardly seems like a time when stocks should be hitting new highs. The confusing messages from the markets is certainly not bullish and, in fact, raises more questions than it answers.

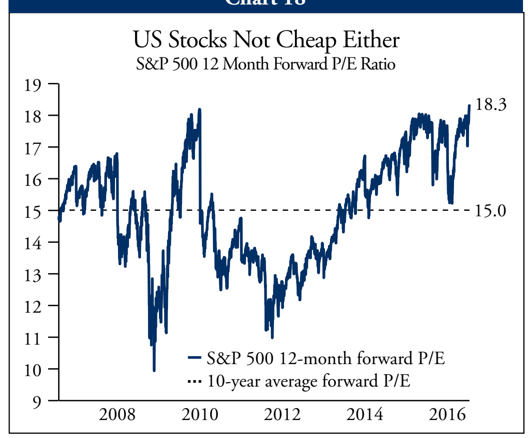
Chart 17



Source: Goldman Sachs

One of the old trusted adages in the stock market is that when the bond market and stock market disagree, the bond market is more often right. Right now, the bond market is telling investors there is a rush towards safety. Concern is building the world's central banks have reached the limit of their ability to keep the global economy from choking on the record amount of debt created across the globe. Should the markets come to believe this more broadly, equities will certainly get hit. At the same time, because of both these concerns and central bank buying of bonds to such a large extent that over $13 trillion are now selling at negative interest rates, US Treasuries are selling at a Point of Maximum Optimism (Chart 17). If the central banks lose the confidence of investors, bonds could also suffer steep declines. If both stocks and bonds could reach record highs simultaneously, they can also both fall at the same time too.

Chart 18



Source: FactSet

And since stocks are hitting record highs, it should come as no surprise equity valuations are above normal levels (Chart 18). Low interest rates have certainly helped inflate the price-earnings ratio as has the lower level of earnings in recent quarters. Needless to say, should another banking crisis in Europe come to fruition or if central banks lose their magical powers in the eyes of investors, the current above average price-earnings ratio is telling us there considerable downside in equities. If the S&P 500's price-earnings ratio fell to the low of near 11x it reached twice in the last ten years, a roughly 30% fall in share prices could occur. One thing is for sure, this is not a point of maximum pessimism for US equities so caution would be advisable even if there were not some credible risks on the investment horizon.

Table 3

Could Stocks Be About to Rise Further?
Returns After S&P 500 Hits a New High in Over a Year
Average Performance between 1950 and 2016

	1 month	3 months	6 months	1 year	2 years
Median Return	2.5%	5.1%	10.8%	13.9%	17.7%
# Positive	9	10	11	12	12
# Negative	3	2	1	0	0

Source: J. Lyons Fund Management

But stocks may shake off these concerns and continue to move higher. As seen in Table 3, stocks have always advanced further one and two years after hitting a new high for the first time in over a year. So while we continue to remain cautiously positioned in our clients' portfolios, and may get even more so in the weeks ahead, we recognize we should not ignore compelling data like this either. If stocks continue to rally from here, we do not want to miss such a move.

We at Stewardship Partners continue to be grateful for the opportunity to serve your investment needs. Please do not hesitate to contact us if you have any questions or if we can be of assistance.

Biblically Responsible Investing (BRI) – Investing as Jesus Would

"Blessed are they that maintain justice, who constantly do what is right." Psalm 106:3

Stewardship Partners, founded in 2000, is a leader in the field of investing with a Christian perspective, a form of Socially Responsible Investing (SRI) known as Biblically Responsible Investing (BRI). Rusty Leonard, CFA, Stewardship Partners' founder and CEO, practiced this investment philosophy while managing over $3 billion of assets as a portfolio manager during his decade of service with the Templeton organization. He also had the privilege of working directly with world-renowned global mutual fund manager, Sir John Templeton. **By employing a BRI approach to investing, Stewardship Partners seeks to achieve long-term capital gains through ownership in securities of companies that are a blessing to mankind. Conversely, we seek to avoid profiting from owning companies engaged in sinful activities which bring physical and spiritual loss to our fellow man. Our heart's desire is to do no harm to our fellow man in the process of being the best possible guardians of the wealth the Lord has given us stewardship over.** Simply put, a "what would Jesus do" approach to portfolio management is what we seek for our clients.

Below are just some of the issues of concern to Stewardship Partners and the specific sinful activities that fall into each category:

1. **We desire *justice and mercy for the defenseless* so we seek to avoid companies involved in:**
   - Abortion
   - Life destroying or distorting scientific research
   - Human rights issues such as religious persecution, terrorism and political oppression

2. **We desire *justice and mercy for the poor* so we seek to avoid companies involved in:**
   - Greed-based marketing techniques
   - Discrimination and unjust labor practices
   - Any abuses of the poor, children and/or the elderly

3. **We have *compassion for those addicted and/or engaged in sinful lifestyles* so we seek to avoid companies involved in:**
   - Alcohol, Gambling and Tobacco
   - Pornography
   - Homosexuality (those companies deemed to be the most active supporters)

4. **We desire to *protect marriage and the family* so we seek to avoid companies involved in:**
   - Entertainment that seeks to destroy biblically-based attitudes
   - Efforts to promote lifestyles the Bible indicates are sinful

Additionally, we favor companies that clearly embrace:
- Honesty, Compassion, Diligence, Prudence and Creativity
- Support for quality products at fair prices and constructive stakeholder relations
- Support for a sustainable and healthy environment
- Support for charitable giving
- Support for the Jewish people and the state of Israel

We obtain information on both the objectionable practices and the exemplary attributes of corporations from our affiliate **The Biblically Responsible Investing Institute** (www.BRIInstitute.com). We believe BRII gives Stewardship Partners the most comprehensive database of BRI information that currently exists and utilize much of it to realize our goal of investing in a manner that most honors our Lord. Equipped with this information, we are then prepared to make as strong an effort as possible to build investment portfolios which best reflect our clients' biblically-based Christian worldview.

Like all people, all companies are sinners. Therefore, we attempt to use the BRI information at our disposal to eliminate the worst offenders from our portfolios. At times, this is easy. For example, a company involved in making drugs used in the abortion process will always be excluded from our portfolios. In many cases, however, we need to utilize judgment, such as when a company has operations in a country that is a known violator of human rights. The type and size of that exposure, among other considerations, are taken into account before eliminating the company from our portfolios. When judgments must be made we are guided by the principal of trying to do what we believe Jesus would do if He were making the decision.

For a more in depth study of the topic of Biblically Responsible Investing (BRI), please see our paper entitled "The Scriptural Basis for Biblically Responsible Investing".

BRI in Action – Comparing Good and Bad Corporate Behavior

"Love must be sincere. Hate what is evil; cling to what is good." Romans 12:9

Below you will find an example of both a company exhibiting exemplary attributes, Bristol-Myers Squibb, and one we avoid, Target. Bristol-Myers Squibb is a holding in some of our Stewardship Partners portfolios while we actively avoid ownership in Target in order not to be co-owners in enterprises engaged in or supportive of activities which are harmful to our fellow man and our Lord's creation. **We believe, in the long run, both countries and companies that best align their activities with biblical principles will achieve the greatest success.**

The Good – Bristol-Myers Squibb – Outstanding Corporate Citizen

"Instruct them to do good, to be rich in good works, to be generous." 1 Timothy 6:18a

Bristol Myers traces its founding to 1858 when Edward Squibb founded his company in New York City. More than three decades later, William Bristol and John Myers jointly formed Bristol-Myers. Just over 100 years later, the two organizations, by this time both now major pharmaceutical companies, merged in 1989. Now, twenty-seven years after that merger, Bristol-Myers Squibb is one of the world's largest biopharmaceutical companies registering $16.6 billion in sales in 2015 and spending over $4 billion on research and development of critical new drugs. The company has 30 offices housing more than 28,000 employees in ten different countries. Bristol-Myers Squibb defines its mission as follows: "To discover, develop and deliver innovative medicines that help patients prevail over serious diseases". The company has been very successful at achieving this mission. In the last seven years its highly regarded research and development team has produced twelve new drugs, an unusually productive result. It medicines help millions of people as they battle such serious diseases as cancer, cardiovascular disease, hepatitis B and hepatitis C, HIV/AIDS and, rheumatoid arthritis. There can be little doubt Bristol-Myers Squibb has saved or greatly enhanced millions of lives throughout the globe in its 158 years of existence. A major reason for the company's recent success has been its focus on innovation in its corporate culture. It drives that innovation by combining the reach and resources of its status as a huge pharmaceutical company with the entrepreneurial spirit and agility of a growing biotech company. It supplements its innovation by growing its knowledge base through sensible business alliances, partnerships and acquisitions. These types of transactions not only build on the company's already established areas of expertise, but also reach into new areas of research, most recently into genetically defined diseases and fibrotic diseases. The company's best-selling drug, which accounts for $1.9 billion in sales, treats moderate to severe rheumatoid arthritis by reducing pain and limiting joint damage. Its second largest drug treats both atrial fibrillation and blood clots. Moreover, the company has achieved its many medical breakthroughs and successes while rewarding shareholders with both significant capital appreciation and more than 75 consecutive years of dividend payments.

Undoubtedly, a cornerstone of Bristol-Myers Squibb's long term success has been its dedication to running its business with a high level of integrity. The company states the following in this regard: "To our patients and customers, employees, global communities, shareholders, environment and other stakeholders, we promise to act on our belief that the priceless ingredient of every product is the integrity of its maker. We operate with effective governance and high standards of ethical behavior. We seek transparency and dialogue with our stakeholders to improve our understanding of their needs. We take our commitment to economic, social and environmental sustainability seriously, and extend this expectation to our partners and suppliers." That comprehensive statement is backed up in a variety of ways, including its Standards of Business Conduct and Ethics which it has titled "Principles of Integrity". It starts by emphasizing the importance of the keeping the patient's needs at the center of all they do and it emphasizes doing this by its commitment to conducting clinical trials with uncompromised integrity and by abiding by all applicable laws. The company also highlights in this document the absolute requirement to promptly report all adverse events with any of the company's products. This is clearly in line with the company's commitment to keep patients first and to maintain the highest level of business ethics. In addition to the very comprehensive policies listed in the company's general Standards of Business Conduct and Ethics, Bristol-Myers Squibb also maintains more specific such policies for third parties working with the firm, for its board of directors and for it senior financial officers. It is quite apparent the company takes its integrity as seriously as it claims to and that it seeks to inculcate a culture of compliance to these policies in all the company's activities.

As a pharmaceutical company, Bristol-Myers Squibb recognizes its "assets" walk out the door of their facilities each day. First and foremost, it provides it workers with opportunities to perform very meaningful work which will make a huge difference in the lives of many, many people who might otherwise die of their diseases or at least live a life constrained by poor health. In the intense world of pharmaceutical research, where the stakes are often very high for both the patients and the Bristol-Myers Squibb employees trying to serve those patients, the company does all it can to make life easier for its employees. In addition to the normal health insurance coverages, the company also allows for flexible work schedules and offers employee seminars on the topic of maintaining a proper balance between work and other areas of the employee's life. Counseling and referrals to professional advisors in the areas of addictions, financial assistance, legal issues and emotional well-being are also available to the firm's staff. On-site fitness centers are located at many of the company's facilities where there is access to group exercise classes, individual physical fitness training as well as masseuses. Nurses are also located at many company facilities and medical benefits are also made available to retirees. Bristol-Myers Squibb also provides coverage for the cost of drugs and most Bristol-Myers Squibb brands are provided free of charge to employees. The company also provides exceptional benefits to help its staff deal with family issues including four weeks of paid leave for workers who are adopting a child and one week of paid leave for those who are becoming foster parents of a child. Several company facilities have their own childcare centers and the company offers financial assistance for such care as well. Employees are also given anywhere from 3 to 6 weeks of vacation annually, nine fixed holidays and 4 floating holidays and can be granted extended leaves of absence to deal with a variety of complex situations that inevitably crop up in many people's lives. A very generous matching program is in place for the company's 401(k) plan and the company awards 50 scholarships each year for full time undergraduate study. Bristol-Myers Squibb also will reimburse an employee for 75% of the cost of college courses which benefit both the employee and the company. Moreover, the company has special programs to encourage the employment of military veterans and the disabled. Clearly, this company knows how to take care of its staff and its superior profitability gives it the flexibility to do so in a very comprehensive fashion.

Bristol-Myers Squibb's generosity extends well beyond its own employees. The company makes extensive efforts to help those in need all around the world through the Bristol-Myers Squibb Foundation. Its efforts have been recognized numerous times but most notably by the number 1 ranking it has received by Corporate Responsibility Magazine on three separate occasions, in 2009, 2012 and 2014. No other company has ever achieved this ranking three times and Bristol-Myers Squibb has been in the top ten in this ranking in each of the last six years. In 2015, the Foundation's 125 separate programs impacted the lives of just over 1 million people around the world. While the programs are obviously too numerous to fully describe here, these efforts seek to promote health equity among the poor and to promote improved health outcomes for those communities which are disproportionately impacted by cancer, HIV, Hepatitis B and C and type 2 diabetes. Additionally, the company has programs that specifically reach out to military veterans struggling with mental health issues and seeking to help military families deal with the complications of life that hit them when a family member is deployed on a military mission. In 2013, the company provided $620 million worth of free medicine to 107,000 people in the US as well as $66 million of free medicine that was distributed outside the US through a variety of charities including several Christian-based mission organizations. The company also supplied nearly $200 million in free medications to the US Veterans Administration that was used to help treat 200,000 veterans. Bristol-Myers Squibb's extensive charitable activities are very, very compelling and have blessed literally millions of people around the world.

Bristol-Myers Squibb's good works, while numerous, are of course, no guarantee of long-term investment success. As Biblically Responsible Investors, however, the company's commitment to being an exemplary corporate citizen as well as its outstanding treatment of its employees and commendable charitable efforts, allows us to know we are shareholders in a company seeking to be a blessing to all. While no company, like no person, is perfect, this is clearly a company which seeks to benefit all it comes into contact with and one we can be proud to own!

The Bad – Target – Aggressively Promoting Harmful Behavior

"Things that cause people to sin are bound to come, but woe to that person through who they come." Luke 17:1

Target, one of the world's leading retailers with 1,792 stores, describes itself in this manner: "an upscale discount retailer that provides high-quality, on-trend merchandise at attractive prices in clean, spacious and guest-friendly stores". Most people would agree with this self-description but the last portion of it - "guest friendly stores" – has been called into question by a recent policy change. Target's recent declaration that its restrooms and changing facilities would accommodate transgendered individuals left many customers of the company dismayed. It is really not much of a surprise Target would be one of the leading corporate sponsors of efforts to grant those who reject their God-given gender new privileges as the company has also been at the forefront of promoting the sin of homosexuality for years, thereby earning the Biblically Responsible Investing Institute's "Most Active" rating for the support of such causes in the past. When political and religious liberals triumphed both in court and in public opinion on gay marriage and other related issues, it was natural for the coalition that fought for these causes to look for another cause to push forward. Target, as part of that coalition, was more than happy to push transgendered rights through its operations even if this caused discomfort to many of its customers. Already, a man claiming to be a woman has been arrested for attempting to photograph a woman in a Target dressing room. Clearly, this customer of Target did not find the store to be "guest friendly". While our heart goes out to those who are struggling with their sexual identity, we know affirming them as different from how the Lord created them is not in their best interests. Target's intentions are well-meaning but misguided. They are not offering real help to these people and are instead promoting sin in their lives and our culture.

Excluding Target from our list of potential investments is not a difficult decision. As BRI investors seeking to please and honor our Lord, we naturally look elsewhere to achieve investment success as we do not want to be associated with a company using shareholder resources in a manner the Bible defines as sinful and which can have a negative impact on individuals and society in general.

Our Ultimate Goal – Funding the Lord's Work

"Therefore go and make disciples of all nations." Matthew 28:19a

It is our hope that Stewardship Partners' ability to create an abundance for you will help you to share with those who are in need and assist in fulfilling the Great Commission. Our non-profit ministry affiliate, Wall Watchers, provides a free service to help you educate yourself about the many wonderful Christian giving opportunities available to wise donors. We invite you to join the thousands of visitors to our ministry's website at www.MinistryWatch.com, as best we can tell, the Internet's top site for donors to Christian ministries to gather critical information about the ministries they are considering supporting. The site contains a variety of helpful information about hundreds of the largest US-based Christian ministries including ministries statements of faith, the history of the ministry, program accomplishments, ministry financial statements and financial efficiency ratings. Please feel free to utilize this free resource as you seek to be a wise and effective donor to Christian ministries. We would be pleased to help you bless God's people who are in need, and clients of Stewardship Partners have access to further resources from MinistryWatch.com. It is our sincere desire to see Christians leading the way in giving generously, wisely and effectively so that the Lord's work on earth can be completed and many can be both blessed and saved.

Featured Ministry – Ravi Zacharias International Ministries (RZIM)

"He said to them, 'Go into all the world and preach the gospel to all creation.'" Mark 16:15

Ravi Zacharias is one of the world's most respected Christian teachers and intellectuals. His outstanding ministry was founded in 1984 and has grown over the decades to the point where is now global in scope. This global reach is indicative of his life. He was born in India, grew up in a nominally Anglican home there, tried to take his life at age 17, was saved by reading the Gospel of John, moved to Canada at age 20 where he attained seminary degrees and then spent the early part of his career in overseas missions work in Southeast Asia with the Christian and Missionary Alliance church. Sensing a critical need in the Christian community for stronger Christian apologetics, he then steered his ministry in that direction. Subsequently, he has authored 30 books and has become a leading speaker at international Christian gatherings. The mission statement for the ministry sums up its objectives very clearly: "The primary mission of Ravi Zacharias International Ministries is to reach and challenge those who shape the ideas of a culture with the credibility of the Gospel of Jesus Christ. Distinctive in its strong evangelistic and apologetic foundation, the ministry of RZIM is intended to touch both the heart and the intellect of the thinkers and influencers of society through the support of the visionary leadership of Ravi Zacharias".

The ministry describes their vision in this way: "Our vision is to build a team with a fivefold thrust of evangelism, apologetics, spiritual disciplines, training, and humanitarian support so that the mandate of I Peter 3:15 might be fulfilled: to set apart Christ in our hearts as Lord and always be prepared to give a reason for the hope that is within us, with gentleness and respect, all for the glory of God". True to this vision, RZIM has utilized Ravi Zacharias' communication skills to seek to address the many big questions believers and non-believers regularly wrestle utilizing sound, biblically-based doctrine. Many of Ravi's and others' teachings can be found on the RZIM YouTube channel for free at https://www.youtube.com/user/rzimmedia. RZIM's blog is available for free in written or podcast format as well as several other teaching outlets entitled, "A Slice of Infinity" and "Just Thinking". In July 2016, ministry representatives will be speaking at eight different churches around the US and Ravi will be addressing a large Christian gathering called "Together 2016" on the Mall in Washington, DC. Also during July 2016, the ministry will have representatives teaching at seven churches in Asia, five in India and four in Europe. Each month similar activities are going on throughout the world. The ministry sends out its representatives throughout the world to empower Christians and reach out to the lost with sound, scripturally-based and defensible instruction. Millions of Christians from around the world have been blessed by the excellent teaching of RZIM.

RZIM's efforts to bring the message of gospel to the world have been well-orchestrated and effective. Moreover, it has managed the financial affairs of its ministry well, achieving a three star rating from MinistryWatch.com for financial efficiency. Taking together its good stewardship of donor resources and its effective ministry, RZIM is worthy of your consideration for financial support.

The Christian Ministry Marketplace – Helping Donors Give Wisely

"A generous man will prosper, he who refreshes others will himself be refreshed." Proverbs 11:25

Much like the stock market provides for a sensible and efficient allocation of capital in our economy, the rise of a Christian Ministry Marketplace is providing donors with a myriad of helpful resources to maximize the impact and joy of giving to the work of the Lord. As donors begin to take their giving as seriously as their investing, they will find the assistance offered by the groups listed below to be invaluable. By utilizing these resources, donors are not only likely to make better personal giving decisions, but are also contributing to the growth in the marketplace itself. By so doing, they are helping to lay a foundation for wiser giving for all who follow in their footsteps. Accordingly, we encourage donors to investigate how these groups might help you to give more wisely, achieve a greater impact and create increased joy for both yourself and receivers of your gifts.

The Christian Ministry Marketplace
Resources for Christian Donors

WHY
to give to Christian ministries?

Teaching on Stewardship:

- Crown (crown.org)
- Eternal Perspectives (epm.org)
- Generous Giving (generousgiving.org)
- Global Generosity Movement (generositymovement.org)
- The Steward's Way (thestewardsway.org)
- The Gathering (thegathering.org)
- MaximumGenerosity.org (maximumgenerosity.org)
- Stewardship Ministries (stewardshipministries.org)

HOW
to give with a discerning mind?

Professional Advisors:

- Kingdom Advisors (kingdomadvisors.org)
- National Association of Christian Financial Consultants (nacfc.org)
- WaterStone (waterstone.org)
- National Christian Foundation (nationalchristian.com)

Donor Advisors:

- Excellence in Giving (excellenceingiving.com)
- Calvin Edwards & Company (calvinedwardscompany.com)
- E Six-Thirteen (esixthirteen.com)

WHERE
to invest in kingdom ministries?

Ministry Research:

- ECFA (ecfa.org)
- MinistryWatch.com (ministrywatch.com)
- Acton Institute (acton.org/public-policy/effective-compassion)
- Intelligent Philanthropy (intelligentphilanthropy.com)

Ministry Mutual Funds:

- National Christian Foundation (nationalchristian.com)
- Strategic Resource Group (srginc.org)
- Sovereign's Wealth Fund (kingdomimpactfund.com)

Featured Ministry Marketplace Participant – Crown Financial Ministries

"You will be made rich in every way so that you can be generous on every occasion." 2 Corinthians 9:11

Strategic Resource Group (SRG) was founded by Paul Schultheis in order to help high capacity Christian donors make the maximum impact with their giving in one of the neediest regions of the globe. SRG's focus is principally on the Middle East and North Africa and it has become one of the largest funders of Christian ministry in this area. It has extensive knowledge of meaningful giving opportunities found in this region and the key players needed to make a charitable Christian project successful. SRG then builds partnerships with donors who have the capacity to fund such opportunities at a high level over multiple years. SRG utilizes a ministry mutual fund model which helps donors target their giving while benefitting from the extensive regional expertise of SRG's portfolio management staff. The excellence of SRG's due diligence efforts in carefully vetting ministry partners is unsurpassed in any region of the world and seeks to assure the eternal impact of their giving is maximized to the greatest extent possible. SRG also funds Strategic Planning Institutes where ministries learn how to both build organizational capacity and collaborate with other ministries to achieve strategic Kingdom objectives. Now with more than two decades of experience in the region, SRG has garnered the extensive experience needed to successfully navigate the Gospel of Jesus Christ through this most troubled area of the world. Moreover, the organization's business model is quite unique with donors effectively running the ministry through both operational and board positions. Close collaboration with those donors who are not part of the board or management team is achieved through ministry gatherings where ministry leaders from the Middle East brief SRG's donors on the most important needs at this time. SRG has had a significant focus on evangelism and discipleship in the past and more recently has reached out to help those who have been displaced by conflict with material aid as well as spiritual assistance.

There can be little question that the Middle East is a worthwhile target for SRG's and its donor partners' efforts. Despite the reputation for being among the most difficult mission fields, the Middle East is in many ways ripe to hear the good news of the Gospel. Increasingly, there are reports of the Lord working to soften the hearts of disillusioned Muslims so that many are now more receptive to the gospel than in the past. Indeed there have been increasing reports of Muslims giving their lives to Jesus in Iran, Egypt and other locations in the Middle East. For those with a heart for the Middle East, becoming a partner with SRG is perhaps the most impactful way to participate in this move of the Spirit as well as improve the effectiveness of your giving. For more information, please contact Rusty Leonard at Stewardship Partners. Rusty has proudly served as a board member for SRG since 2008 and has seen first-hand the capabilities of this ministry.

Knowing Jesus Christ as Your Lord and Savior

While most of those reading this will have already established a personal relationship with Jesus as their Lord and Savior, it is very likely that many have not. If you are someone who has not yet turned your life over to your Creator, we would have failed you miserably if we presented only information relating to your investments yet did not share with you the most important information of all: truths which have eternal significance for your soul and that will have an overwhelmingly positive impact on your life on this earth.

The gospel message is a simple one, far less complicated than the global impact of rising oil prices or the effect of a revaluation of the Chinese currency. For most people, the first part of it is easy to relate to – you are a sinner. If you are anything like the rest of us (and you are) more often than you probably would like to admit, you either do, say or think something that is clearly wrong and which you are ashamed of. "But what's the big deal", you might say. "If everyone has this problem with sin, can't we all just accept the fact and try our best to get along?"

Well, on this earth, that is exactly what we try to do. We forgive one another's faults and press on with life. From an eternal perspective, however, there remains a problem. Our Creator, who loves us with a love that can only be described as extravagant, has prepared an eternal home for us that He very much desires to share with us. Unfortunately, in our sinful state, we are unable to enter into heaven, which is by its very nature perfect. Desperate not to be separated from us for an eternity, our God devised the only possible solution – a divine exchange. He sent His very own son, who was perfect and thus without sin, as a sacrifice to pay the penalty for our sins. In this exchange, Jesus bore, through His death, all of our sins, so that we in turn could receive all the glory that was due to Him. He was made sinful while we were made perfect and, in our now perfect state, we are able to enter into the eternal home our Lord has prepared for us.

What then gives each of us access to participate in this divine exchange? By responding to this incredible demonstration of extravagant love by our God through an amazing act of your own. As you let the realization of just what your Lord has done for you filter through your heart, mind and soul, you will unavoidably desire to humbly come before Him, acknowledging that it was your sin that led to His sacrifice and recognize His Lordship in your life. And with this step of faith, the divine exchange is completed in your life, and along with it, the assurance of eternal life with a Lord whose love for you knows no bounds. If you have not done so already, we encourage you to take this time to contemplate the issue of your eternal destination and to take that step of faith that will make all the difference in your life, both now and eternally. Based on my experience and the experience of literally millions of others throughout history, it is the most satisfying, enriching and worthwhile choice you will ever make. Years of wonderfully inspiring spiritual growth await you and, if the Bible ever seemed confusing to you in the past, you will now find its wisdom leaping off the pages and into your heart.

If we at Stewardship Partners can be of any assistance to you in this all important matter of your eternal destiny, please do not hesitate to contact us. Like Jesus, we also greatly desire to share an eternal heavenly home with you!

STEWARDSHIP PARTNERS

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