

Investment Process Explained

Financial Services for Faithful Stewards

The Brethren in Christ Foundation (formerly The Jacob Engle Foundation) was incorporated on September 27, 1972 to provide financial services to BIC congregations and agencies by giving them the ability to pool their funds at a central location to be managed by the Foundation and to provide charitable giving and stewardship opportunities and services for individual church members. In addition, the Foundation manages a \$45 million Brotherhood Loan Fund that, through debt obligation offerings to members, raises funds to makes loans to pastors, churches and agencies.

The Trust Fund of the Brethren in Christ Foundation (BICF) currently manages approximately \$25 million of constituents' funds that are primarily invested in various Common Trust Fund investment options and Life Income Funds offered by BICF. These funds consist of various Brethren in Christ Church agencies' and congregations' investments, charitable remainder trusts, charitable gift annuities and gift deposits (donor advised funds).

Models for Asset Allocation and Risk Tolerance

Understanding that each investor and donor has different tolerances for investment risk and different purposes for their investments and donations, and since we believe that broad allocation to various asset classes (equities, bonds, and cash) primarily determines investment returns, we look to our Investment Policy Statement to define the asset allocation of each of the Common Trust Fund (CTF) models. We offer five Common Trust Fund investment models to accommodate the various risk/reward profiles of our constituents. These investment models are the CTF Growth with Income, CTF Balanced, CTF Conservative, CTF Fixed Income and the CTF Money Market. We also provide a risk tolerance questionnaire tool to help and assist our constituents in selecting the proper Common Trust Fund for their needs.

These models are offered in both Total Market Common Trust Funds and Socially Responsible Investment Common Trust Funds. With our Total Market options, we do not intentionally apply social screens, but rather, select investments and construct models that attempt to provide an optimal risk/reward return. With our Socially Responsible Investment options, we offer funds that seek to invest in companies whose products and services benefit society and screen out those engaging in business activity that conflicts with our stated core values. Investment return, while sometimes reduced, should not be the primary reason to invest in a SRI Common Trust Fund. Each of these Common Trust Funds are managed in accordance to the Brethren in Christ Foundation Investment Policy Statement.

Constructing the Common Trust Fund Models

Mutual fund selection is the centerpiece of our Common Trust Funds. We use *Morningstar Advisor Workstation* as the primary research tool to select the individual mutual funds. For a fund to be considered as a holding of one of our Common Trust Funds, we examine the fund's one-year, three-year and five-year percentile rank within its Morningstar Category. A fund must be in the top third of its category, except for the one-year percentile rank that is a 50 or less, to be considered for selection. Additionally, we only consider funds that have a positive alpha. A positive alpha measures and indicates the value added by a portfolio manager. We also prefer proven, stable funds that have at least five years of history and current manager tenure of five years. Further, because we believe that paying loads for a fund is detrimental to a fund's performance, we prefer to use only no-load funds. We would not exclude a load fund if, by aggregation, we exceed breakpoints and effectively have a no-load fund.

These screens are applied to the large-cap, mid-cap, small-cap equity categories, the international category and also to various bond fund classifications. When the screening is complete, we have a master list of funds to consider as possible candidates for inclusion in the Common Trust Fund models. From this list, further analysis is applied such as reviewing equity style (growth, blend, value), sector allocation, beta, downside capture ratio, upside capture ration, bond quality, duration and maturity, and expense ratios. Individual funds are then selected and tested for inclusion in the composition of a Common Trust Fund model.

Managing the Common Trust Fund Models

Various tools are used in managing and monitoring our Common Trust Funds and underlying mutual funds. One of these tools is *Fund Mojo*. *Fund Mojo* uses eight factors and weights these factors to come up with a *Fund Mojo Score* which is a letter grade from A+ to E and also a Mojo Master score which is the highest rating. *Fund Mojo's* philosophy is that performance needs to be accomplished by the same fund manager on a consistent basis. Further, performance needs to be accomplished under reasonable volatility. Additionally, *Fund Mojo* reports fund manager changes during the last three months. This is an important tracking mechanism since we believe that a change in fund management warrants a fund to be placed on a watch list to be monitored by the investment committee. Finally, *Fund Mojo* is concerned about fund safety. Per *Fund Mojo*: while there is great upside to be accomplished, top investors stay in the game because they don't lose money over difficult times. *Fund Mojo* weights the fund's ability to survive a bear market and not to lose a lot of money over a three year downturn.

Additionally, we use *Morningstar's* online *Portfolio Tracker* as another means to measure and monitor how each of our Common Trust Fund investment options are doing. Through *Portfolio Tracker*, we receive alerts when any news or changes occur in any of the mutual funds that are part of a model. It is also updated daily so that we can monitor daily performance of each of the Common Trust Fund models. Further, all of the investment activity of each of the Common Trust Fund investment models is entered in *Schwab Performance Technologies Portfolio Center* which we use to calculate and measure each of the Common Trust Fund's total returns.

Finally, all of the work done by Brethren in Christ Foundation staff is brought before the Foundation's Investment Advisory Committee for their input and critique. This is a volunteer committee made up of Christian individuals who work in the investment and finance industry and who sacrificially and unbiasedly give their time to assist the Foundation in the management of its investments. For them, we are greatly appreciative!

Validating a Value-Added Process

By being able to apply our screening, researching and selecting process to a broad base of mutual funds, coupled with the experienced critique and review of our Investment Advisory Committee, we believe that we provide you with a value-added process that provides well-constructed, unbiased investment choices that will produce risk-adjusted investment returns that will exceed benchmark calculations.

Additionally, investors desiring assistance in selecting from the Common Trust Fund investment options, or perhaps needing an individually tailored and managed account consisting of mutual funds, have access to our Investment Advisory Committee at one of its regular meetings to discuss the specific objectives for the funds to be invested.

In all of these details, our motto "***Financial Services for Faithful Steward***" reminds us of our stewardship responsibility in managing the funds that God has provided for you and you have entrusted to us.