STEWARDSHIP PARTNERS MARKET COMMENTARY

QUARTERLY COMMENTARY VOLUME 13 ISSUE 1 APRIL 2013

Authored by Howard J. "Rusty" Leonard, CFA
CEO and Chief Investment Officer, Stewardship Partners Investment Counsel, Inc.

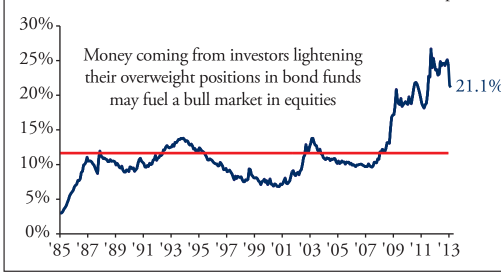
A Strange, Upside Down Bull Market to Start 2013

"You turn things upside down, as if the potter was thought to be like the clay!" Isaiah 29:16 (NIV)

Backed by our expectation money would begin reversing out of the Fed-stimulated, bubbly bond market, we were optimistic about the outlook for equities as the year began. Share prices did not disappoint as the S&P 500 jumped by over 10% in the first quarter. We remain hopeful the remainder of 2013 will yield even better results as the rotation from bonds to stocks appears to be just beginning (Chart 1). Should the trend continue, it could supply substantial buying power for stocks. With interest rates remaining near historically low levels, inflation in check and corporate earnings moving slowly higher, the potential that 2013 will be a very good year for equity investors, therefore, appears higher than normal. Still, it would be hard not to notice the rather unorthodox character of the market's move thus far. In a market which had become known for its "risk on, risk off" machinations, the first quarter of 2013 was more a "risk on, but not really" market. Normally, when shares rise by double digit amounts, the market leaders are the riskier shares with the defensive sectors left in the dust. In this case, roles were reversed and the defensive sectors were the leaders. Healthcare, Consumer Staples and Utilities were the top performing sectors while the normally red hot Technology sector came in last. Since 1988, the S&P 500 has enjoyed a double digit quarterly advance in 15 out of 101 quarterly periods. On only one other occasion besides this year's first quarter did the NASDAQ trail the S&P 500. The average return for all 15 such quarters was 13.4% for the S&P 500 and a whopping 20.0% for the NASDAQ. In this case, the NASDAQ rose only 8.5% versus the 10.6% advance in the S&P 500. Even more bizarre was the outright decline in the MSCI Emerging Markets Index of nearly 2% versus the S&P 500's big gain. That had never happened before. The average gain for the Emerging Markets Index over those 15 quarters was a superior 16.3%. Apparently, as investors began switching out of their excessive bond holdings, they favored stocks with the most bond-like characteristics - stable defensive growth and high dividend yields. With these stocks now looking expensive relative to growth and cyclical stocks, we suspect this upside down market action will revert to more normal behavior as the year progresses. If so, Stewardship Partners' portfolios will likely benefit.

Chart 1

The Switch From Bonds to Stocks May Have Begun
Bond Mutual Fund Assets as a % of NYSE Market Cap



Source: Strategas

Table 1

1Q13 Total Returns

US Indices	1Q13
S&P 500	10.61%
S&P 500 Value	11.97%
S&P 500 Growth	9.33%
NASDAQ	8.52%
S&P 400 (Mid Cap)	13.45%
S&P 600 (Small Cap)	11.81%
Treasury Bonds	-0.26%
High Grade Corp. Bonds	0.05%
Gold	-4.57%
Global & International Indices	
MSCI World	7.73%
MSCI EAFE	5.13%
MSCI Euro	-1.00%
MSCI Far East	9.96%
MSCI Japan	11.63%
MSCI Emerging Markets	-1.62%
US Economic Sectors	
Energy	10.17%
Materials	4.79%
Industrials	10.67%
Consumer Discretionary	12.15%
Consumer Staples	14.58%
Health Care	15.81%
Financials	11.42%
Information Technology	4.59%
Telecom	9.46%
Utilities	13.02%

Source: Bloomberg

Another reason we believe the financial markets will begin to behave more normally as the year progresses is our expectation that government efforts influencing the markets will begin to recede. In the US, the biggest fiscal issues seem largely behind us. Last minute negotiations turned the frightening prospect of the Fiscal Cliff into a much more tolerable Fiscal Slope. The issue of the sequester spending cuts looks to have been easily absorbed by the market, perhaps because many expect some sort of big budget deal to be negotiated which would limit the sequester cuts future impact. While there will be continuing political squabbles about the budget and debt, it appears the risk from government interference from legislative issues has fallen sharply. Additionally, various Fed officials have suggested its market intervention via QE3 may need to be dialed down before the end of 2013 due to the improving prospects for the economy. Globally, the markets were supported in the first quarter by the perception that the risk of financial calamity continues to fall. While the Cyprus scare upset that thinking late in the quarter, it turned out to be only a temporary issue. Japan, however, seriously ramped up its market intervention efforts thereby propping up its stock market.

The upside down nature of the markets in the first quarter was reflected in the performance of Stewardship Partners' portfolios. Defensive strategies, such as our Global Concentrated Dividend Yield portfolio, outperformed the indices while our growth portfolios trailed the market. These latter portfolios had a significant weighting in the cheaper, but lagging emerging markets and no weighting in the manipulated, but surging, Japanese market.

Table of Contents:

STEWARDSHIP PARTNERS MARKET COMMENTARY

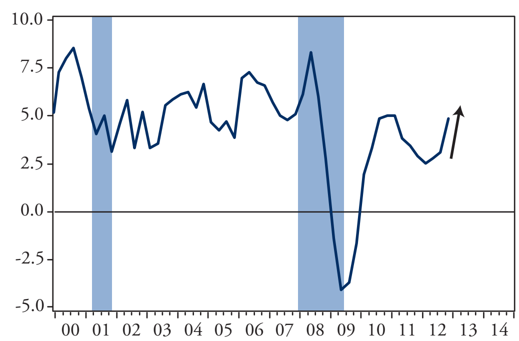
Growing Stability Within a Fundamentally Unstable Global Economy

"Be diligent in these matters … so that everyone may see your progress." 1 Timothy 4:15 (NIV)

Chart 2

Stronger Consumer Income Growth Supports Continued Economic Expansion

% Change in Disposable Personal Income



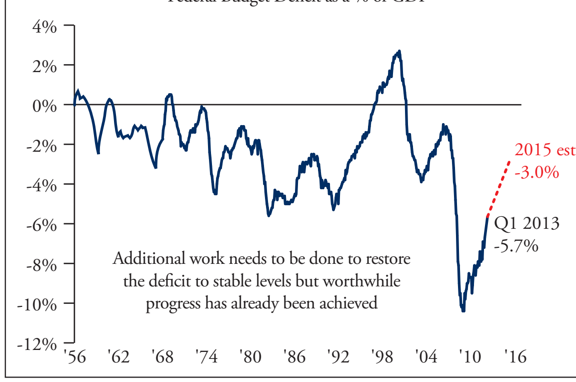
Source: Bureau of Economic Analysis, Strategas

The US economy continues to impress under difficult conditions. Despite the substantial uncertainty at the end of 2012 because of the Fiscal Cliff, which caused businessman to hesitate before spending, the economy has nevertheless moved forward at a slow, steady pace. Higher Social Security taxes have also not yet slowed consumer spending as car and housing sales have reached new multi-year highs. Disposable personal income growth remains at nearly 5% (Chart 2), which is clearly supportive of further growth in consumer spending if it can be maintained. Spending cuts related to the sequester, however, are sure to slow second half economic growth by about 0.5%. Still, this economy seems intent upon growing and overcoming all the obstacles thrown in its way. With the US economy accounting for about 25% of global economic activity, its continued expansion will also help other regions, such as Europe, recover from recession.

Chart 3

Significant Improvement in US Budget Deficit

Federal Budget Deficit as a % of GDP



Source: Strategas, Goldman Sachs

The slow, steady growth in the US economy is also aiding in the significant improvement being seen in the annual federal budget deficit. Many states have also seen their budgets return to surpluses recently. Between some spending cuts that were agreed to back in 2011, tax increases implemented at the start of this year and now additional spending cuts related to the sequester, the annual federal budget deficit has continued its recent improvement and now stands at 5.7% of GDP. While still higher than anyone should desire, it is climbing quickly in the right direction (Chart 3). As a result of this, as well as expected further improvement in the years to come (much of that related to the sequester and the expectation of continued economic growth), the projected total net federal debt as a percent of GDP has also stabilized (Chart 4). This has been a key development for the financial markets as this stabilization greatly reduces the chances of the US facing a fiscal disaster. Unfortunately, it is possible a "grand bargain" on the federal budget could potentially undermine this progress. At the moment, however, the possibility of both sides agreeing to further tax increases and entitlement cuts, while simultaneously setting aside the sequester spending cuts, seems low. Accordingly, the progress made on the budget deficit and long-term debt projections as a percent of GDP may be preserved.

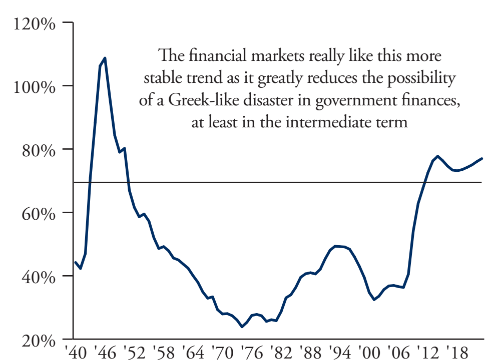
The progress on US economic growth, budget deficit and long term debt projections are all helped fuel the market's recent good performance. Even so, investors should not get carried away with optimism just yet. While the US economic situation has clearly been moving towards stabilization, it has a long way to go before achieving that goal. Moreover, the global economic picture remains in a fundamentally unstable place. The recent disturbance emanating from tiny Cyprus highlights how wobbly the global economy remains. Despite the hundreds of billions in aid being disbursed around the world to ward off another financial contagion in recent years, European officials were oddly reticent to fork over just another $7 billion needed to fully address Cyprus' banking bailout needs, thereby setting off fears of a renewed financial crisis in Europe. In the end, the crisis was avoided by the Cypriot government seizing uninsured bank deposits to meet the need for the $7 billion. This sent shockwaves through the world as investors for the first time had to contemplate the possibility this could happen to them. As a result, should economic and financial conditions continue to worsen in Southern European countries, the chance of a run on the banks has increased substantially. There is little doubt mattresses in Southern Europe are already looking a bit firmer. Of course, a full blown bank run could lead to catastrophic consequences for the entire European banking system and potentially the entire world's financial system as well. Hopefully, such an outcome will be avoided as the increasing stability we have witnessed recently continues to expand. Indeed, it probably will never happen, but miniscule Cyprus highlighted once again the disturbing fact we are still investing in an

Chart 4

US Debt to GDP Ratio Finally Stabilizing

Economic Growth, Tax Increases and Sequester Spending Cuts Have All Helped

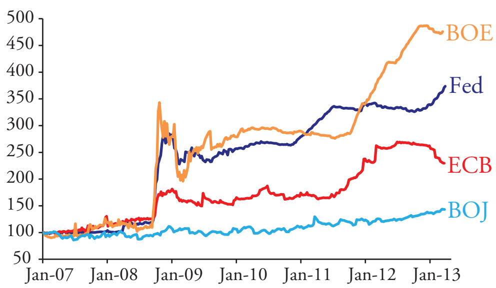
Net Federal Debt as a % of GDP



Source: CBO Forecasts, Strategas

Chart 5

The US and the UK Have Relied More Heavily on QE
ECB and BOJ Lag Behind in QE Efforts
Assets on Central Bank Balance Sheets
(Indexed to 100 in January 2007, Local Currency)



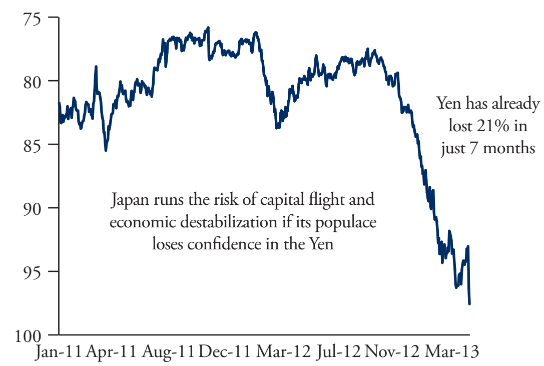
Source: Strategas

unstable global environment. All the progress made since the Great Recession could quickly be undone by even a seemingly small decision that would trigger a collapse in confidence, ultimately leaving the world in a much worse place.

One of the most important tools used to bring about stability since the crash has been massive purchases of bonds by the world's central banks. Using this quantitative easing (QE) tool, banks have forced real (inflation adjusted) interest rates into negative territory and liquefied investors. Both consequences of QE have proven helpful in restoring order in the financial markets and increasing investor confidence at a time when such confidence was sorely needed. As can be seen in Chart 5 the Fed and the Bank of England (BOE) have been particularly aggressive in utilizing QE since 2009. Not surprisingly, they have seen the best economic recoveries. The European Central Bank (ECB) has been less enthusiastic in its implementation of QE but has also employed other tools to help stabilize the banking system and the value of the Euro. Japan had, until recently, been the most reticent to employ QE but now has adopted perhaps the most aggressive QE plan of any central bank. Adjusted for the size of the US economy, it is essentially about 2.5x larger than the current QE3 in the US. Additionally, the Bank of Japan (BOJ) is buying not only bonds but REITs and ETFs. Given the sharp drop in the value of the Yen (Chart 6) that has been a consequence of this plan, some wonder if Japan's QE could ultimately prove destabilizing. We will be observing the trends closely as they develop. Of greatest concern is the potential for capital flight from Japan should its citizens lose confidence in their currency. For now, however, the global economy continues to march towards a more stable place even while remaining at significant risk to an unpleasant turn of events.

Chart 6

Yen Gets Crushed as BOJ Begins to Catch Up on QE
BOJ Launches Massive QE Program to Defeat Deflation and Weaken Yen
Value of the Yen versus the US Dollar



Source: Strategas

An Unexpected Blessing for the US – Rising Oil and Gas Production

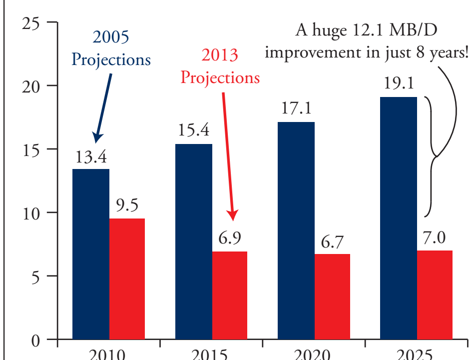
"The blessing of the Lord brings wealth, without painful toil for it." Proverbs 10:22 (NIV)

Human nature naturally gravitates towards a focus on risk. Despite some positive trends leading us towards a more stable investment climate, it is hard not to notice we remain in a fundamentally unstable global economic situation. Not only could Europe still stumble into another systemic financial crisis, but dishonest data may one day expose China's purportedly strong economy as a fraud and Japan's economy might soon reap the consequences of its huge debt. Then there are the geopolitical concerns such as Iran's unrelenting quest for a nuclear bomb and North Korea's bizarre and bellicose statements about using its nuclear capability. While there are always risks for investors to contemplate, the potential for deep and lasting economic difficulties from the current dangers are greater than normal.

It would be unwise, however, to be completely transfixed by these potential perils which will likely never materialize in full, while simultaneously ignoring the many significant promising developments also dotting the investment horizon. Perhaps one of the most notable of these has been the renaissance of the US energy industry brought about partly by the introduction of fracking technology. While many have justly bemoaned the consistent lack of a sensible federal energy policy in the US over the last four decades, the free market has apparently once again proven its superiority. Even now, government policies supported by the Obama administration heavily prioritize the environment over much needed new energy sources. Despite these constraints, oil and gas production in the US has boomed in recent years. Chart 7 highlights the massive improvement in projected oil imports seen since 2005 as a result of the recent rapid increases in US oil production in North Dakota and elsewhere. In 2005, forecasts suggested the US would need to import over 19 million barrels of oil per day by 2025. Current projections indicate the US import need will now only be 7 million barrels per day, almost half the level of oil imports in 2010. This number may decline further if oil exploration efforts continue to have success. Coupled

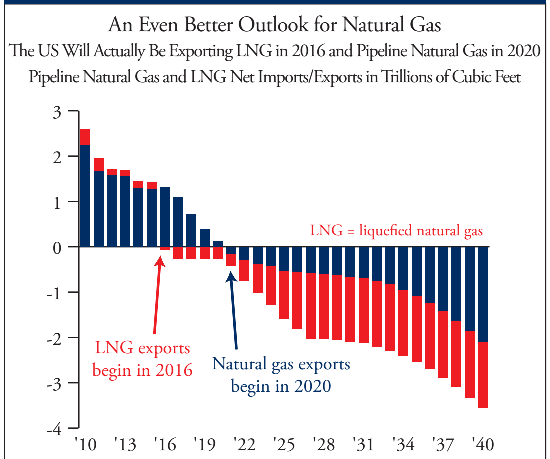
Chart 7

Need for Imported Oil Collapses as US Oil Production Jumps
A Comparison of 2005 and 2013 Projections for US Oil Imports
EIA, MB/D



Source: EIA, Strategas

Chart 8



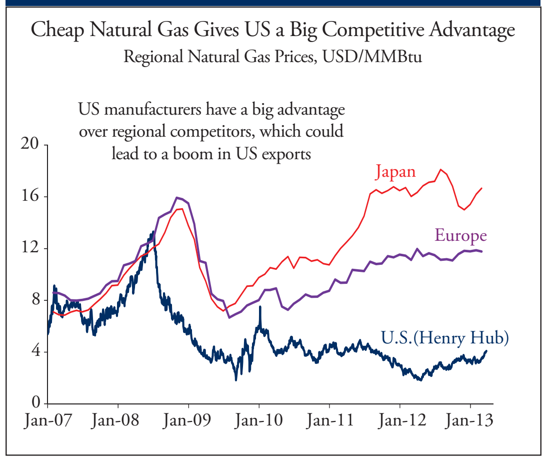
Source: EIA, Strategas

with the possibility this smaller level of imports will come from Canada and other sources more stable than the Middle East, the US economy's risk to disruption in oil supplies may all but vanish in the years ahead.

But it is not just oil. The situation with US natural gas production is even better. By just 2016, the US is expected to become a net exporter of liquefied natural gas (LNG) and a net exporter of pipeline natural gas by 2020 (Chart 8). Fracking technology has led to dramatic natural gas production gains in Western Pennsylvania, Ohio and elsewhere. As with oil, this huge and unanticipated turnaround in natural gas production has been and will continue to be a blessing for the US economy for years to come. Employment and economic activity in the regions where this energy boom is taking place have benefitted greatly. Already, North Dakota has one of the highest per capita incomes of any state in the Union. You can be sure the sales of pickup trucks and hunting equipment are booming there and in Western Pennsylvania!

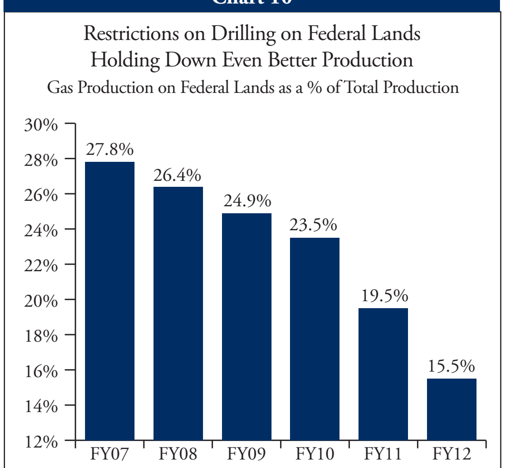
The benefits of this US energy boom are not limited to the areas where production growth is greatest. The whole country will be blessed by this development. For example, the US trade deficit is aided greatly from these trends. Lower oil imports and gas exports translate into a stronger dollar as well. Indeed, US exports of manufactured goods utilizing natural gas in the production process will likely increase due to the competitive advantage low US natural gas costs give US companies versus European and Japanese competitors (Chart 9). Homeowners utilizing natural gas for heating and cooling will also have additional spending power freed up as the abundant gas supplies in the US promise to keep natural gas prices low. This dramatic turnaround in US energy production is a huge positive for the future of the US economy that should not be forgotten in the midst of other economic concerns.

Chart 9



Source: Strategas

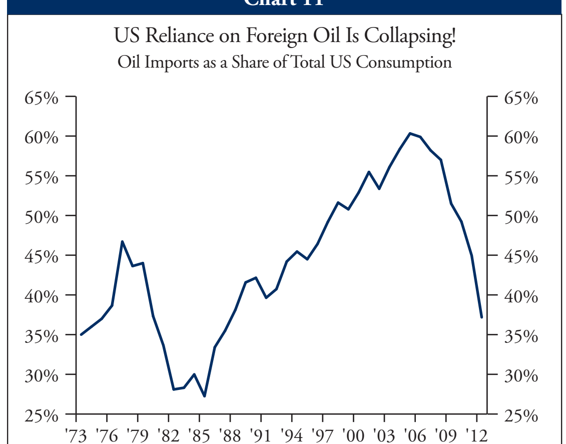
Chart 10



Source: CRS, ONRR, Strategas

The benefits to the US economy could even extend to helping the US government reduce its debt burden. During the crisis in Cyprus, it was rumored Russia was willing to buy natural gas fields from the country in order to help it meet its obligations. It is possible the US could also sell rights to the oil and natural gas reserves on federal lands to reduce its debt as well. The press often only speaks about the national debt while forgetting to look at the other side of the federal government's balance sheet – the national assets. As seen in Chart 10, natural gas production from federal land has dropped sharply in recent years due to rapid growth in production on private land and the government's effort to restrict drilling on federal land. Estimates indicate almost 30% of all US natural gas reserves are under federal land. We suspect selling access to these reserves could one day be a surprising source of cash which hopefully would be utilized at least in part to reduce the US's indebtedness. If only there was a way of hiding this money from the politicians!

Chart 11



Source: EIA, Strategas

The press is quick to report bad news but slow to acknowledge good news such as this remarkable turnaround in US energy fortunes, even though the improving trends have been in place for several years. With oil imports as a percent of US oil consumption falling rapidly from the scary level of 60% 8 years ago (Chart 11), there should be a degree of rejoicing going on in the US. From both a security and economic perspective, this turn of events is highly significant and should help the nation address its debt, deficit, employment and trade balance issues all while strengthening the value of the US dollar. Coupled with increased conservation efforts, the US energy situation has rarely looked better.

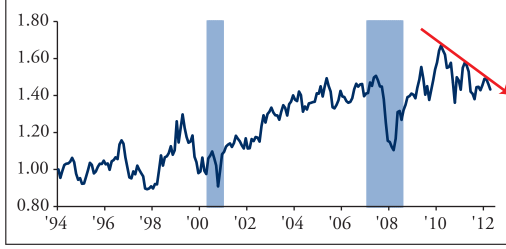
How Long Will the Market Remain Upside Down?

"How long will you love delusions ..." Psalm 4:2b (NIV)

The improving US economy coupled with benefits from favorable developments in the energy patch suggests the upside-down market rally we saw in 2013's first quarter may return to a more normal bull market where cyclical shares lead the way while defensive sectors lag. If the prospects for an extended recovery in economic growth and corporate earnings improve, investors should be more willing to invest in the cyclical sectors of the market. We suspect this is the most likely path ahead as current doubts about the durability of the economic expansion are gradually overcome. Nevertheless, we acknowledge it would not take much to upset such a favorable scenario given the still unstable global economic environment. The instability in the global economic system has been with us for some time. Therefore, it is not surprising the market has tended to favor defensive stocks, not just in the last quarter, but actually since late 2009 (Chart 12). Economic growth during this period has been tenuous at best, influenced greatly by a variety of government interventions and always at risk of faltering into a recession or worse. We are now sensing, however, greater inherent strength in economic activity. This is an economy that wants to grow and we suspect, more often than not, economic reports may surprise on the upside in 2013. First quarter GDP growth, for example, is likely to come in greater than 3% and could even hit as high as 4%. While we do not expect such growth levels to be maintained during the remainder of the year due primarily to sequester-related spending cuts, we believe the risk to economic forecasts is more on the upside than the downside. As investors begin to have greater faith in the economy, cyclical shares should outperform defensive stocks.

Chart 12

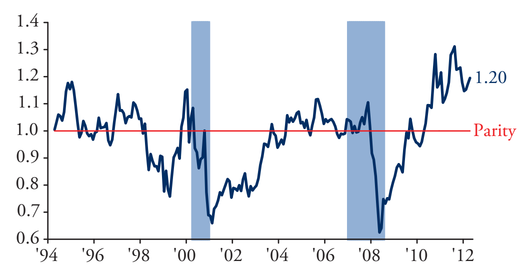
An Upside Down Bull Market - Defensive Stocks Lead the Way
S&P 500 Cyclical Sectors Performance Relative to Defensive Sectors



Source: Strategas

Chart 13

Defensive Stocks No Longer a Bargain
Ratio of S&P 500 Defensive Sector P/E to Cyclical Sector P/E



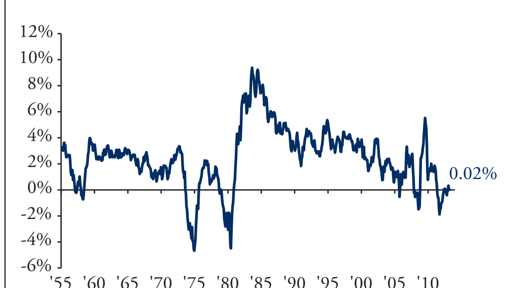
Source: Strategas

Another reason the upside down market may turn right-side up as the year progresses can be found in the stretched valuations of defensive equities. Chart 13 indicates the unusually high level of defensive stock's P/E ratios relative to those of cyclical stocks. It seems unlikely that this relationship will become much more extended. Many defensive sector P/Es are now well above the 15 year average relative P/E. It may be a bit more difficult making money in defensive stocks in the next three years than it has been in the past three as these relationships revert towards their mean.

Even if defensive stocks begin to underperform cyclical shares, this does not mean investors in such shares should expect declining share prices. Our view is 2013 could turn out to be a very good year for share prices and most stocks may see substantial gains. We certainly don't believe stocks will rise in a straight line throughout the year, as they did during the first quarter, but if the global economy keeps trending towards greater stability equities should do quite well. Moreover, the significant amounts of money still hiding in bonds and getting a low or negative return after inflation (Chart 14) is going to be looking for better returns sooner rather than later. These will likely be found in stocks. We believe there is a chance money could flood out of bonds and into equities creating a very strong, maybe even too strong, bull market in equities.

Chart 14

Bonds Are Nearly Guaranteed to Lose Money After Inflation
Real Yield on US Treasury Bond



Source: Strategas

Table 2

There Is Room for P/E Ratios to Expand
S&P 500 P/E Implied by Various Models

Strategas P/E Model *(w/ interest rates & CPI)*	19.8x
Strategas P/E Model *(assuming 4% 10Y Treasury)*	18.7x
Rule of 20 *(20- Inflation Rate)*	18.0x
Average Model P/E	**18.8x**
Current Actual P/E	***16.0x***
Potential Upside in S&P 500 From P/E Expansion	17.7%

Source: Strategas

As investors deem the investing environment to be growing safer, the bubble-like valuations on bonds compared to the reasonable valuations on equities will also inspire many to make the switch. Table 2 highlights the potential upside in share prices which could come from P/E multiple expansion toward the levels various models suggest are justifiable under current conditions. Much as we believe there is upside risk in the economy, we believe the same is true for share prices.

STEWARDSHIP PARTNERS MARKET COMMENTARY

Despite Challenges, a Right Side Up Market Advance Seems Likely

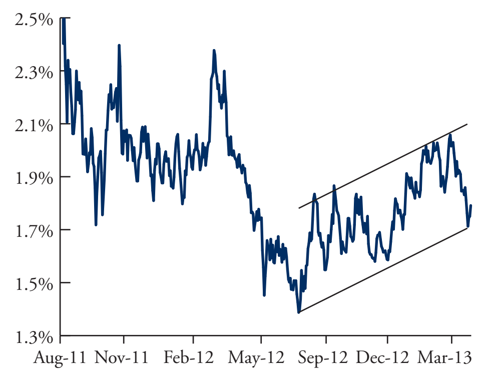
"The Lord knows how to rescue the godly from trials." 2 Peter 2:9 (NIV)

Upside risk in both the economy and the stock market may not be readily apparent in the second quarter. Historically, the second quarter of the year is the second best quarter for US stocks, after the fourth quarter. In the last few years, however, the second quarter has seen the market decline each time. With the tax increases and sequester spending cuts both working to slow economic growth, it would not be surprising to see the market struggle again in the second quarter this year. Not only does the market need to digest its very good first quarter performance, it also may be faced with a spurt of sketchier economic reports. Second quarter economic growth is almost certain to slow from the 3-4% rate seen in the first quarter, which could lead to investors to get temporarily and unnecessarily worried about the possibility of a deeper downturn. It could also keep the bias towards defensive stocks going a bit longer. Additionally, there are always small turns of events that threaten to become larger issues given the improving, but still unstable global economic situation. Recently, a Portuguese court made a ruling undoing austerity measures. Normally, this would not even be noticed by the markets, but some will worry it will set off a spate of backsliding among the Southern European nations which could undermine the uneasy calm in Europe. Japan's hyper-aggressive QE could set in motion a destabilizing capital flight. Similar such issues are sure to regularly arise as nations struggle to regain their economic footing within a still unbalanced situation. If dealt with properly, however, none should cause permanent harm to the global economy or the global financial markets.

Chart 15

Rising Treasury Yield Indicates Receding Global Risk

Yield on the US 10-Year Treasury Bond Is Off its Historic Lows



Source: Strategas

Chart 16

Companies Still Producing Historically High Profits

Corporate Profits as a % of GDP

Source: Strategas

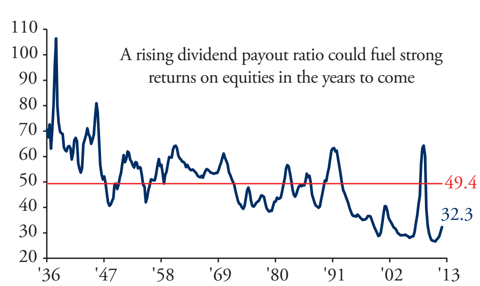
Fortunately, the US appears to be in better economic shape than other regions in the world. The US banking system has been set right as well and is now helping to finance economic growth again. The improvements seen in both the US and global economy, coupled with a receding risk of another global systemic financial collapse, are evident in the slowly rising yield of the 10 year US Treasury bond (Chart 15). As the need for safety diminishes, the yield on this bond should continue to rise. Its higher yield is mirrored by falling yields on 10 year Spanish and Italian government debt. The rising yield on the US 10 year bond also comes in the face of continued Fed purchases of US Treasury and mortgage securities which are meant to hold yields down. Absent those market distorting purchases, the yield would likely be even higher thereby signaling even greater healing and growing confidence in the global economic recovery.

While the US recovery has been weak relative to past recoveries, it is clear a relapse into financial calamity or recession is now far less likely to emanate from our shores. We are concerned, however, that the full introduction of Obamacare at the beginning of 2014 could threaten the recovery. Converting the healthcare system to Obamacare is a monumental undertaking fraught with major execution risks. It is hard to imagine it will all go off without some major glitches. Confusion reigns even now about the impact on businesses and consumers. That confusion could lead to an unexpected slowdown in spending by both parties as the new law is implemented. At this point we suspect at least portions of the new law will not end up going into effect on time simply because the government will not be ready to fulfill its role. This could lead to even greater confusion. On the other hand, it may stretch out the costs of Obamacare over a longer period and have a positive impact on the budget deficit. No matter what happens, Obamacare may be a huge issue for the markets at the end of 2013 and might hold down market gains from what they would otherwise have been.

Chart 17

High Profits and Low Payout Ratios Suggest Growing Dividends

S&P 500 Dividend Payout Ratio Well Below Long-Term Average



Source: Strategas

Over the longer term, we believe equities could be well placed for further gains. Corporate profitability remains high (Chart 16) and the potential for dividend payout ratios to rise to more normal levels (Chart 17) should help drive share prices higher over time. Many hurdles need to be overcome, not the least of which is a credible long-term plan to deal with entitlement spending, but we suspect enough progress will be made in the years ahead so that share prices can continue to advance.

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 (NIV)

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 (NIV)

Below you will find an example of both a company exhibiting exemplary attributes, Deere, and one we avoid, Johnson & Johnson. Deere is a holding in some of our Stewardship Partners portfolios while we actively avoid ownership in Johnson & Johnson 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 – Deere – Excelling at Good Corporate Citizenship

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

Deere & Co. was founded in John Deere's blacksmith shop in 1837. The company's first product was a plow and by 1874 more than 50,000 plows were being sold annually. By 1900, the company's revenues had risen to $2 million. It was not until 1918 that Deere began selling tractors, which quickly dominated its sales. By 1973, the company's sales had topped $2 billion as the company added both consumer products and industrial equipment to its product mix. During the late 1990s, Deere's overseas sales alone topped $3 billion as the company expanded its reach beyond the US shores to a growing global economy. In 2012, the 175th anniversary of Deere's founding, the company sales reached more than $36 billion with more than half of those sales coming from the US and Canada. The company currently employs nearly 67,000 people across the world. Deere's record of growth and profitability is impressive, but it has not always been easy to achieve. The company has had to survive multiple wars, economic depressions and occasional labor strife among many other challenges any company that has survived 175 would face. Highlighting the company's charitable approach was its policy to continue to serve struggling farmers who could not pay their bills during the Great Depression. This act of kindness helped cement long-term relationships with farmers which ultimately helped propel the company's impressive growth. Now, the company is targeting global sales of $50 billion by 2018, a target that seems attainable given the quality products it produces, its legendary distribution system and its heritage of treating its customers with respect and integrity.

While we at Stewardship Partners are impressed by Deere's nearly two centuries of business success, we are even more drawn to how the company has accomplished this while building a sterling global reputation for integrity, quality, commitment and innovation. The company's corporate governance efforts are impressive with comprehensive codes of conduct not only for employees but also for Deere's suppliers. Deere's Guiding Principles have a focus on creating mutually beneficial relationships with customers, employees and suppliers. Additionally, the company states its commitment to making meaningful contributions to the communities it serves as well as society at large. Numerous awards have been given to Deere over the years including being voted among the most ethical companies in the world and consistently being named as one top corporate citizens by CRO (Corporate Responsibility Officers) magazine. Fortune magazine recently included Deere on its 50 Most Admired Companies list. Being recognized in these ways highlights how companies generating significant wealth for shareholders by taking full advantage of our capitalistic economic system can simultaneously be a blessing to the many constituencies the company serves beyond shareholders. In our current culture, the view that companies are a selfish and evil force may be growing, Deere and many other companies as well, operate in a way which undermines such arguments. Given our Biblically Responsible Investment (BRI) approach, these are just the type of companies Stewardship Partners is drawn to when it seeks the best long-term investment candidates for our clients' portfolios.

Among the various constituencies Deere serves, its employees rank at the top of its list. Deere's dedication to its staff is evident in the many programs the company implements on their behalf, which are too extensive to cover in this short report. Deere has more than 100 career advisors who are company employees additionally trained to assist other workers in assessing and improving their career growth at the company. Employees have access to self-assessment tools as well as coaches and mentors and can post their resumes on an internal job search system. Benefits for Deere's personnel are as comprehensive as any we have seen. The company's "pay for performance" approach means workers have a competitive base salary coupled with impressive bonus potential. A variety of retirement and savings plans are available including a 401(k) plan with a 2.5% match from the company, a pension plan and a stock purchase plan. Deere also offers a wide array of medical and dental insurance options that are very flexible, including Health Savings Accounts and Dependent Care Flexible Spending Accounts. Full tuition reimbursement is available as are attractive short-term and long-term disability insurance. Life insurance, wellness programs and flexible work time are also benefits Deere workers enjoy. While Deere welcomes employees from all backgrounds, it has been one of the few major companies that have not aggressively promoted homosexuality.

Like most other aspects of its operations, Deere excels in its philanthropic work. Its focus areas are education, world hunger, community betterment and disaster relief. Of note to Stewardship Partners clients is the company's support for Christian charities, something most other multinational companies often shy away from. Included in these are sizable grants to Christian ministry Opportunity International which operates microfinance lending in impoverished areas of the world and its sponsorship of Wheaton College's hunger program. Moreover, the company has an impressive track record with employee safety in its manufacturing facilities. Deere is regularly recognized for its leadership in employee safety and some of its factories have gone years without anyone losing time due to a workplace injury. Furthermore, the company's environmental impact continues to be reduced as a result of comprehensive efforts to lessen its ecological footprint in both manufacturing and product design. The company has made worthwhile progress in reducing water usage and emitting greenhouse gases, among other environmental metrics in recent years. It has established a Green Technology division to assist its various business units in more efficiently adopting ecologically-friendly advances.

Deere's good works are, of course, no guarantee of long-term investment success. As Biblically Responsible Investors, however, the company's commitment to excellent stewardship and its impressive treatment of its employees 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 that we can be proud to own!

The Bad – Johnson & Johnson – Abortion and Homosexuality

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

Much like Deere, Johnson & Johnson is a company that has produced both quality products and great financial returns to shareholders since the 1800s. In so many ways, it is a company that we wish we could own for our clients at Stewardship Partners. It treats its employees very well, is generous and mindful of the environment. Indeed, like Deere, it has been named to Fortune magazine's Most Admired Companies list. Unfortunately, we feel constrained from investing in Johnson & Johnson's stock due to its deep involvement in the abortion industry. While sales of abortion related drugs do not make up a large portion of this huge company's overall sales, its products are used to facilitate the taking of innocent children's lives. Additionally, the company used $225,000 of shareholder money to donate to a non-profit group that provides abortion services in the third world. Johnson & Johnson also makes extensive use of embryonic stem cells in a variety of research projects it is engaged in. As a result of this extensive exposure to abortion, Johnson & Johnson's stock is screened out of the list of potential investments we would consider for our clients. As shareholders, we would be profiting from these activities and we simply cannot imagine our investing would honor the Lord if we invested in Johnson & Johnson's stock. Sadly, because of how well-run this company is and the lack of implementation of BRI among Christian investors, many Christians will find it in their portfolios either directly or indirectly through a mutual fund they own.

Our concerns about Johnson & Johnson, however, are not limited to its significant exposure to the abortion industry. The company is also on the BRI Institute's list of Most Active Corporate Supporters of Homosexuality. This is a list of the thirty or so companies which are most aggressively promoting the sin of homosexuality.

Excluding Johnson & Johnson 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 which 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 (NIV)

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 – Opportunity International – Providing Hope

"For I have not hesitated to proclaim to you the whole will of God." Acts 20:27 (NIV)

Given Deere & Co.'s financial assistance to Opportunity International, we thought it would be an appropriate ministry to highlight. Opportunity is a Christian microfinance ministry currently serving the poor in twenty countries. Founded in 1971 by two businessmen from the US and Australia, the ministry seeks to help alleviate extreme poverty by providing small loans to those seeking a hand up rather than a hand out. Time has shown these microloans, often as little as $60, can transform lives without creating dependency. As these loans help family incomes rise, children typically receive better nutrition and education, thereby setting in place a foundation for even more impactful long-term success for the communities Opportunity serves. Opportunity not only provides loans but also offers savings accounts and insurance.

Opportunity has over 4 million clients and 2.8 million outstanding loans. The size of the ministry's loan portfolio is currently $515 million and 93% of the loans are made to women. Typically, this is the result of between 10 and 30 women entrepreneurs coming together in what is known as a "trust group". This group guarantees the loans made to each other, an innovative approach which allows more people to access credit and has resulted in 95% of the loans being repaid. Additionally, the ministry safeguards savings of $108 million for 1.1 million individuals. The average balance in these savings accounts is just $99. The ministry now operates thirteen regulated financial institutions, including nine banks. Opportunity's insurance arm has 2.3 million policies outstanding with the policies offering coverage for health, life and crop failure. Some policies can cost as little as $1.50 per month. MicroEnsure, Opportunity's insurance operation, was founded in 2002 and now serves the poor in five countries. A grant from the Bill & Melinda Gates Foundation was recently received to help expand this ministry effort into more countries in the years ahead.

Opportunity International has clearly had a significant beneficial impact on those suffering from extreme poverty since its founding more than 40 years ago. It has been an innovator in delivering financial services to the poor so they might pull themselves out of poverty and avoid dependency. Additionally, the ministry effectively utilizes the financial resources donors entrust to it as reflected by the Three Star Financial Efficiency Rating earned from MinistryWatch.com. Opportunity International is worthy of consideration for your 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 (NIV)

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)
- Sound Mind Investing (soundmindinvesting.com)
- 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)
- Kardia (kardiaplanning.com)

WHERE
to invest in kingdom ministries?

Ministry Research:

- ECFA (ecfa.org)
- MinistryWatch.com (ministrywatch.com)
- Samaritan's Guide (acton.org/cec/guide/)
- Intelligent Philanthropy (intelligentphilanthropy.com)

Ministry Mutual Funds:

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

Featured Ministry Marketplace Participant – Maximum Generosity

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

Maximum Generosity is the name of the ministry founded by Brian Kluth. Brian was senior pastor at the First Evangelical Free Church in Colorado Springs for the decade ending in 2009. During his tenure at the church, his insightful and helpful teaching on generosity began to take hold outside the local church community. In view of the success of his generosity teachings, his church decided it should commission him as a Generosity Minister at Large to the Body of Christ. Accordingly, Brian has devoted himself full time to the generosity ministry and he has reaped a great harvest. He has already travelled to over 50 countries to minister about generosity. His website – www.Kluth.org – contains seemingly endless teaching and information regarding Christian-inspired generosity, including generosity humor. Included among these teachings are helpful devotionals constructed for use in churches and small groups. Over half a million of these devotionals have been sold to date and they have been translated into 40 different languages. Kluth's e-newsletter is distributed to 22,000 Christian leaders in over 150 countries and his radio program focusing on uplifting stories of generosity is heard on 200 stations. Brian has also been quoted in almost every major US newspaper and interviewed on most national television stations. His annual "State of the Plate" research study on the trends being seen in giving to churches is responsible for much the media attention his ministry receives. His latest research shows there are over 10 million people in the US who tithe, their total giving amounts to over $50 billion and these Christian tithers are remarkably better off than Christian non-tithers over a variety of categories studied. This annual research study is partially funded by the ECFA, Christianity Today magazine and the Evangelical Christian Credit Union. Kluth has served as president of the Christian Stewardship Association and has received the "General William Booth" award for philanthropy given annually by the Australian Salvation Army. Kluth was the first non-Australian and first non-mega donor to receive this award as the Salvation Army desired to highlight his sacrificial service to the Kingdom via his extensive work on the topic of Christian generosity. We urge readers to consider availing themselves of Brian's excellent ministry and generosity materials in both their churches and homes.

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

Stewardship Partners Investment Counsel, Inc.
PO Box 157 Matthews, NC 28106-0157
Phone: (800) 930-6949 Fax: (800) 930-6949

E-mail: cgoddard@stewardshippartners.com
Website: www.stewardshippartners.com