STEWARDSHIP PARTNERS MARKET COMMENTARY

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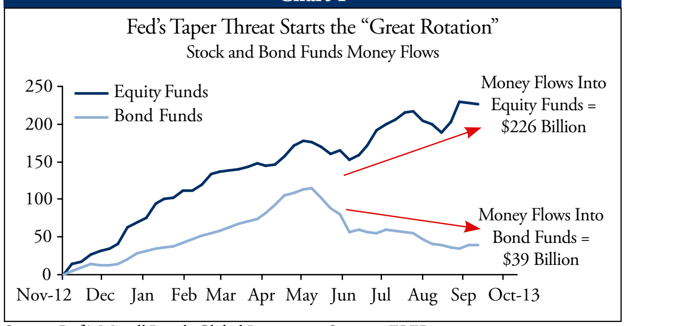
Authored by Howard J. "Rusty" Leonard, CFA
CEO and Chief Investment Officer, Stewardship Partners Investment Counsel, Inc.

The Great Rotation Into Equities From Bonds Has Started

"In his name the nations will put their hope ..." Matthew 12:21 (NIV)

As 2013 began, we were optimistic regarding the prospects for high equity returns being achieved during the upcoming year. We expected the global economic recovery to solidify and, fortunately, it has. In the US, economic growth seemed to be accelerating to the point where, at mid-year, Fed Chairman Bernanke indicated a desire to begin winding down his QE3 bond-buying stimulus program. While this plan has since been postponed, it was another indication excessive government intervention in the financial markets is finally waning. With angst over the Fiscal Cliff, tax increases and the sequester no longer impacting investor expectations, we believed the equity markets would respond favorably in 2013. Needless to say, with the onset of Obamacare, the Fed's decision to postpone tapering QE3, the unexpected government shutdown and drama surrounding the debt ceiling extension, we are clearly not yet as free of government meddling in the markets as we would prefer. Even so, most global equity markets have risen at an attractive rate in 2013. Supporting this positive move has not only been improving economic conditions and good corporate earnings performance, but also the "Great Rotation" we foresaw from bonds into stocks. Beginning in late 2012 and accelerating as 2013 progressed, investors increasingly aggressively began reversing the trend in place over the prior five years of selling equities (even as they rose significantly) and buying bonds (Chart 1). Once the Fed hinted at the possibility its massive bond buying program would be wound down, speculators and investors alike, knowing ugly returns on bonds were highly likely, looked to dump their bond holdings. While most bonds have suffered losses in 2013, most equity markets and sectors have risen significantly in value thanks to the rush of new demand coming from now frightened bond holders (Table 1).

Chart 1



Source: BofA Merrill Lynch Global Investment Strategy, EPFR

Table 1

3Q13 Total Returns

US Indices	3Q13	YTD
S&P 500	5.24%	19.79%
S&P 500 Value	3.84%	20.17%
S&P 500 Growth	6.60%	19.44%
NASDAQ	11.19%	26.12%
S&P 400 (Mid Cap)	7.54%	23.23%
S&P 600 (Small Cap)	10.73%	28.66%
Treasury Bonds	0.03%	-2.45%
High Grade Corp. Bonds	0.89%	-2.45%
Gold	7.64%	-20.68%
Global & International Indices		
MSCI World	8.18%	17.29%
MSCI EAFE	11.56%	16.14%
MSCI Euro	15.95%	16.76%
MSCI Far East	6.79%	20.47%
MSCI Japan	6.66%	24.31%
MSCI Emerging Markets	5.77%	-4.35%
US Economic Sectors		
Energy	5.15%	15.42%
Materials	10.30%	13.50%
Industrials	8.91%	23.92%
Consumer Discretionary	7.79%	29.12%
Consumer Staples	0.80%	16.08%
Health Care	6.82%	28.45%
Financials	2.87%	22.93%
Information Technology	6.62%	13.39%
Telecom	-4.40%	5.69%
Utilities	0.18%	10.13%

Source: Bloomberg

Even though the equity markets have had good returns in 2013, the year has hardly developed in a normal fashion. In the first quarter we witnessed what we labeled the "upside down" market where defensive stocks lead the market to a very strong start. This was largely reversed during the early part of the second quarter as the markets normalized following the nearly unprecedented first quarter results. Then the Fed upended the markets in June by announcing the impending end of QE3. The normally more challenging third quarter actually turned out to be a very strong period for shares as the overreaction to the Fed's initial QE3 comments was reversed. Then the Fed caught the markets off guard when it announced in September it planned to continue with QE3 for a while longer. Each of these unusual/unexpected developments made it difficult for money managers, particularly those focused on short term trading. Hedge funds have again turned in very low returns in 2013 and quantitative trading systems have also struggled. A further oddity in 2013 has been the miserable performance of emerging market stocks. Normally, emerging markets stocks would be among the leading sectors of the market when share prices are rising fast around the world. In 2013, however, the emerging markets index has actually fallen by over 4%. Moreover, despite a global rebound in real estate prices, real estate equities have suffered. Adding to this weirdness, the best performing major market in 2013 has rather ridiculously been Japan, where the economy continues to struggle and the fiscal condition of the nation remains very ugly. 2013 has been a profitable but strange year.

Stewardship Partners' US Small-Mid Cap portfolio soundly surpassed the index in the third quarter, but our overweight in the oddly underperforming emerging markets and our underweight in Europe and Japan held our results back in our global portfolios.

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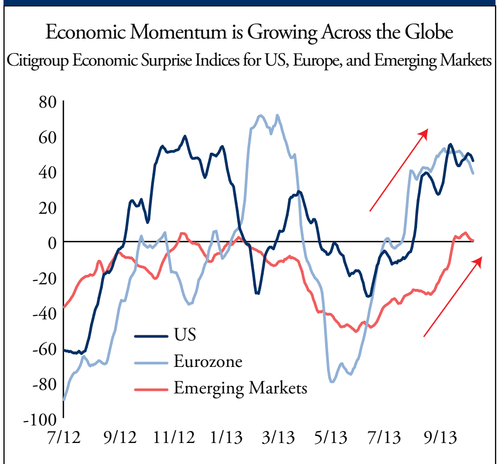
Encouraging Signs of Improved Global Growth

"Therefore encourage one another and build each other up ..." 1 Thessalonians 5:11 (NIV)

Chart 2

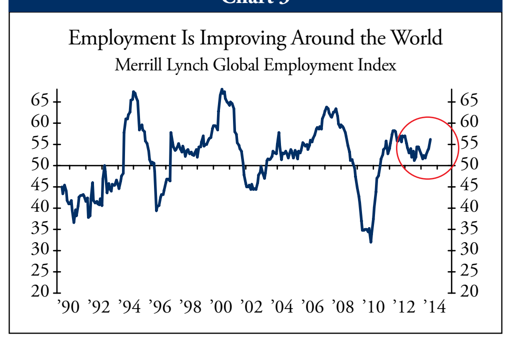


Source: Bloomberg, JP Morgan

Mid-September marked the five year anniversary of the beginning of the 2008 crash. Knowing the depths to which the global economy could have fallen had policymakers made the wrong choices at that time, we cannot help but be grateful a far worse outcome for the world was avoided. In 2011, we again found ourselves at the edge of a global economic abyss when Europe's failing banking system came within days or maybe even hours of triggering another global systemic financial collapse. Last minute actions by the European Central Bank (ECB) helped avoid another calamity which surely would have been worse than that experienced in 2008. While we should be thankful we did not have to endure a more disastrous outcome, the economic recovery over the last five years has been tepid and uneven at best, even with massive government interventions helping to support economic activity. The Fed's announcement in June the economy had strengthened enough to consider reducing its extraordinary stimulus known as QE3, and then its unexpected reversal of that decision in September, highlights how difficult it has been for the economy to return to a normal and self-sustaining growth path. Chart 2 highlights, however, recent improvement in economic momentum seen across the globe. While progress has been slow and unsteady over the last five years, it once again appears the global economy may be close to the point where its need for extraordinary government intervention is receding.

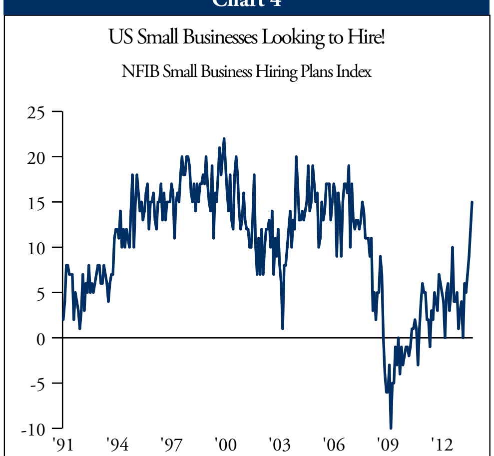
Several factors lead us to believe the global economy may finally be finding its footing thereby providing a base off which a longer, faster expansion could be forthcoming, even as government assistance slowly fades away. Foremost among these factors is the positive trends in employment evident throughout the world (Chart 3). The recent spike higher in employment data from most countries is indicative of a global economy that is now poised to grow more rapidly. Job growth forms the foundation needed for improvement in the key housing and auto markets as well as consumer spending generally. Since consumer spending remains by far the largest portion of GNP, a healthy consumer is required for healthy, lasting, government intervention-free economic growth. Employment gains in the US have been mostly slow and steady but outside the US employment is recovering more quickly. It may not be much longer before the job gains in the US start accelerating as well.

Chart 3



Source: BofA Merrill Lynch Global Quantitative Strategy, MSCI, IBES, Bloomberg, OECD, IMF

Chart 4



Source: BofA Merrill Lynch Global Investment Strategy, Bloomberg

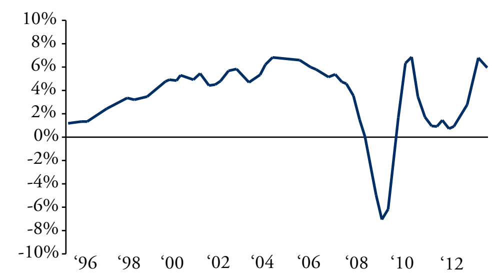
One reason to be particularly hopeful about faster future job growth in the US is the growing evidence small US businesses are increasing looking to hire new staff. Chart 4 indicates there has been a sharp surge in hiring intentions recently among smaller businesses, which have typically been the true engine of employment growth in the US. This spike indicates growing optimism about the US economy as well as rising access to financing by small businesses as the banking system continues to return to a more normal level of lending. If these intentions translate into actual job creation, this will be a big step forward for the US economy. In the short term, the employment impact of the US government shutdown and debt limit drama as well as Obamacare's impact may hinder a more rapid employment recovery, but an improved outlook among small business owners is an important step towards improved economic growth and overall health.

Another factor suggesting better economic growth lies ahead is the recovery in the global real estate markets. As indicated in Chart 5, real estate prices have been rebounding strongly recently throughout the world. To some degree, this reflects a measure of inflation pressures in some emerging market nations. Nevertheless, the rebound in housing prices is another measure of an increasingly healthy global economy. Not only is the recovery in employment around the world helping people finance home buying but healthier banking systems are also allowing the financing to be made available to support such a recovery in home prices. The greater the value of one's

Chart 5

Global Real Estate Prices Rising Fast

Global Home Price Index, Weighted Year-over-Year % Change



Source: Bloomberg, Knight Frank

home, the wealthier one feels. The global equity market advance in 2013 is also contributing to improved consumer net worth. Greater wealth generally leads to higher spending and more risk taking. Perhaps some of the growth in hiring intentions among small businesses reflects an increase in new small businesses being formed as the economic recovery finally takes root throughout the world. In the US, the bond markets initial overreaction to the Fed's hinting it would soon stop its bond buying led to a significant jump in mortgage rates. Undoubtedly, this slowed the renaissance in the global housing market for a time. Nevertheless, mortgage interest rates still are at historically low levels and there is no reason to believe the global housing market will be anything more than temporarily sidetracked by the rise in mortgage rates.

Improving global employment and rising housing prices are strong indicators of an improving economic situation. If the recent progress on these fronts can be enhanced, the global economy will likely enter into a virtuous cycle of increased wealth creation which could continue for a considerable period. Nevertheless, many risks to such a rosy scenario remain. If policymakers do not remain both savvy and vigilant or if the global economy suffers some unexpected shock, this nascent virtuous cycle could be easily undermined leading to continued disappointing growth or even another recession.

Central Banks Work to "Stick the Landing"

"Let perseverance finish its work so that you may be mature and complete ..." James 1:4 (NIV)

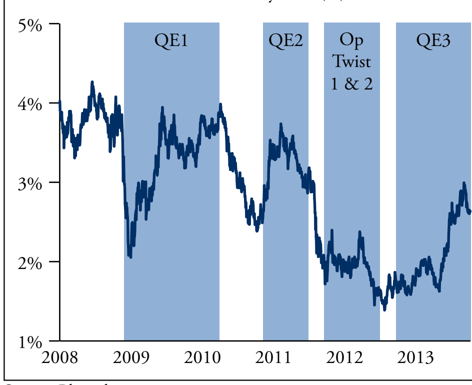
At the outset of the financial crisis in 2008, the Fed began its QE programs in order to provide liquidity to the bond market which was in desperate need of it. QE1 significantly boosted the Fed's balance sheet as it took onboard the bonds hedge funds and banks were selling in order to restore order to their own balance sheets. As time wore on, the Fed initiated additional bond buying programs in order to drive real interest rates below zero in order to encourage economic activity since, despite their already sizable stimulus efforts, economic growth remained well below average. Before long, hedge fund speculators and big banks determined if the Fed were buying bonds, they would try to buy the same bonds one step ahead of them in order to profit from the Fed's actions. Over time, the public joined in as well and loaded up on bonds while selling equities. Eventually, bond holdings in the hands of speculators became enormous, creating a big problem for the Fed. Therefore, as soon as the Fed hinted it might slowly back away from its bond buying, fixed income markets went haywire, taking other financial markets down at the same time. This can be clearly seen in Chart 6, which highlights the near doubling in the 10 year US Treasury yield after the Fed stated its intentions to taper QE3 in the middle of this year.

Chart 6

Rates Jump Despite QE3

Speculators Selling Bonds After Taper News Overwhelm Fed

10 Year US Treasury Yield (%)



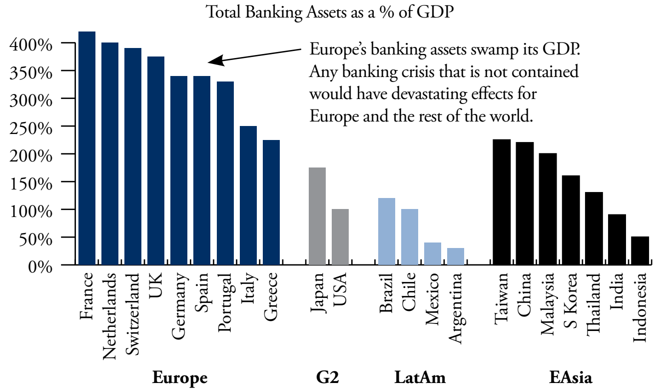
Source: Bloomberg

While the Fed laid out a slow exit strategy with the intent of provoking the least possible disruption in the markets, there really was not much a chance of short term trouble being avoided. Speculators, who dominate short term trading in the markets, knew the real issue was they had to sell bloated bond positions before other speculators dumped their excessive bond holdings. Indeed, the Fed has no plans to sell any bonds at this point, so the speculators were not fearful of getting out before a selling wave from the Fed hit the market. The plan is for the Fed to exit by letting bond positions mature over the long term.

Chart 7

Europe's Bank Asset/GDP Ratios Remain a Huge Risk

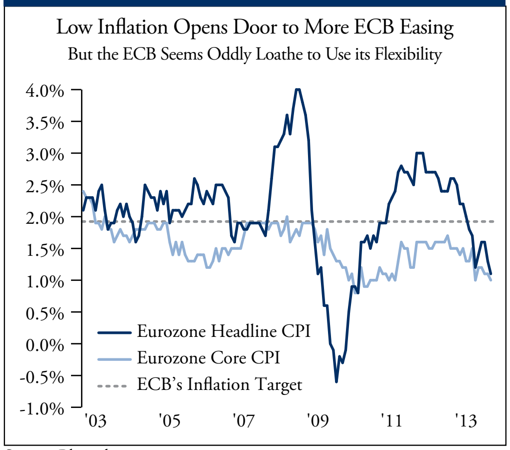
Total Banking Assets as a % of GDP



Source: BofA Merrill Lynch Global Research, Central Bank data, Haver

Of course, all this speculation was of the Fed's own making. We always said it would be difficult for the Fed to "stick the landing" as it exited it stimulus

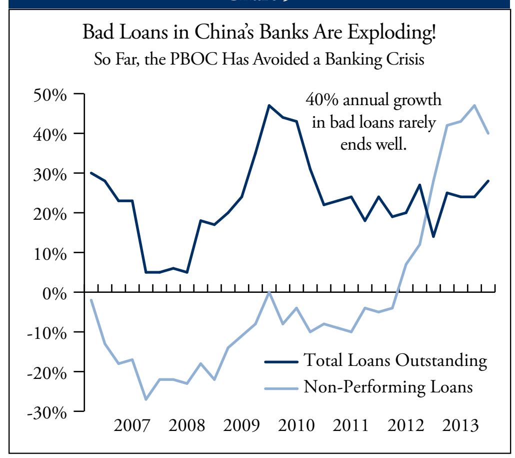
Chart 8



Source: Bloomberg

efforts and this first attempt proved just how tricky it will be. The substantial jump in real interest rates accompanying this first attempt to exit no doubt played a big role in the Fed later deciding not to taper as soon as they had indicated. Clearly, this unintended interest rate jump also slowed what finally was looking like a self-reinforcing US economic recovery, thereby taming the Fed's tapering appetite. Following the negative economic impact of the government shutdown, tapering probably will not begin until 2014. Perhaps an ulterior motive of the Fed was to keep hedge funds off balance so they would not bet so heavily in the future on expected changes in Fed policy, thus making it easier for the Fed to properly administer its aid to the economy.

Chart 9



Source: Bloomberg

While the big jump in rates as the "Great Rotation" away from bonds and into equities unfolded clearly undermined the momentum the US economy was beginning to build, it did not bring the whole economy to its knees. Still, it was a good reminder of how difficult and risky it will be to unwind the various measures taken by the Fed and other policymakers have put in place during the course of the crisis and its aftermath. With short term traders dominating all the financial markets at this time, this complicates sensible policymaking. Sadly, the speculators have perverted our capital markets by taking on huge, levered risks which cause our financial markets to overreact to changes that might actually have little impact on actual economic performance. The financial markets have always been prone to short term overreactions, but now that speculators dominate the problem is far worse than in the past.

Table 2

Loans to Small Chinese Companies Show Massive Growth
This Will End Badly, But Will It Matter?
Loans in RMB Millions

Region	June 2013	Dec. 2010	Growth
Jiangsu	1,091	374	192%
Zhejiang	819	337	143%
Sichuan	433	55	690%
Chongqing	402	60	566%
Inner Mongolia	363	213	70%
Shandong	358	95	276%
Anhui	342	106	221%
Guangdong	320	91	253%
Liaoning	271	65	317%
Hebei	253	86	194%
China (ex-HK, Macau)	**7,043**	**1,975**	**257%**

Source: PBOC, Bloomberg

The Fed is not the only central bank facing difficulty in "sticking the landing". Both the ECB and the Peoples Bank of China (PBOC) are facing continuing challenges as these policymakers seek to effectively manage the affairs of their respective economies. In Europe, the threat of a banking system implosion was greatly reduced by the ECB's LTRO program which stuffed the banking system with desperately needed liquidity in late 2011 and early 2012. Recently, the ECB announced it was open to performing another such operation if needed in order to calm the markets nerves and keep the embryonic economic recovery now developing in Europe intact. As seen in Chart 7 above, banking assets in Europe are several times the size of its GDP, meaning any disruption in the banking sector could cause even greater economic disaster here than elsewhere. Essentially, cleaning up the European banking industry after a collapse would be virtually impossible. Accordingly, such a disaster must be avoided at all costs but the possibility remains a banking crisis could get out of control.

Fortunately, inflation is running well below the ECB's target giving the bank ample room to apply additional stimulus if needed (Chart 8). Still, the ECB seems more reluctant to come to the aid of the European economy than the Fed, potentially tempting an unwanted fate. Given risks are higher in Europe, this stingy attitude is something that could come back to bite both the ECB and investors around the world. We continue to be wary of European assets in light of the ongoing risks in its banking sector. Recently, measures of Portugal's risk of default have been climbing again and we are concerned this could lead to another round of fear and contagion in Europe's banks. While this is still a low probability, the consequences of renewed contagion fears would be significant.

China's PBOC has seemingly navigated the huge risk in its banking and shadow banking system well so far if the numbers it produces can be believed. Chart 9 portrays the sharp increase in problem loans outside of the big four Chinese banks while Table 2 indicates the explosive growth in loans to smaller companies. Such spectacular growth in bank loans is almost always followed by bad loans. We do not believe anyone knows the full scope of the trouble in the Chinese banking system but, thus far, the PBOC has been able to contain any problems. We continue to monitor this risk factor as best we are able, but may need to act quickly if the PBOC appears to be losing control of it. Given the lack of transparency in the Chinese banking and financial system, there is little doubt an unusually large and surprising shock to the global financial markets could emanate from this source. At the same time, the capacity for China to effectively hide its banking problems and to eventually fix them without incident is not to be underestimated either.

Earnings and Valuations Suggest the Bull Run Could Continue

"So the Jews agreed to continue the celebration they had begun …" Esther 9:23 (NIV)

The excessive amount of assets held by European banks relative to their country's GDP is a risk factor many investors are beginning to overlook. European stocks were among the world's best performers in the third quarter. Not only have the ECB's policies seemed to have neutralized the banking risk for the moment, but the European economy has surprised many by exiting recession sooner than expected. Clearly, a growing economy is the best recipe for helping the banking sector overcome bad debt issues. Unfortunately, European economic growth remains barely in positive territory with many imbalances remaining among countries. Spain's bad loans are currently north of 10% of its banking system's total loans and its economy remains mired in recession. As noted earlier, the markets are starting to get concerned again about Portugal's ability to avoid another debt crisis. As we have seen previously, if one country gets in trouble, all of Europe's markets, indeed all of the world's markets, pay the price. While we are not yet ready to increase our low weighting to European stocks due to the still high risk in the banking system, the overall progress in economic trends as well as the poor longer term performance of the region (Chart 10) is attracting our attention.

Chart 10

European Stocks Looking Cheap

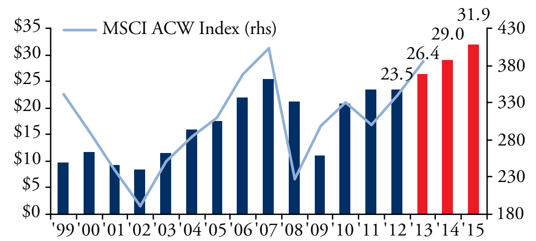
Relative Price Performance of European Stocks to US Stocks

Source: BofA Merrill Lynch Global Investment Strategy, DataStream

Chart 11

Global Earnings Outlook Is Bright!

IBES Consensus MSCI All-Country World Index EPS Estimates



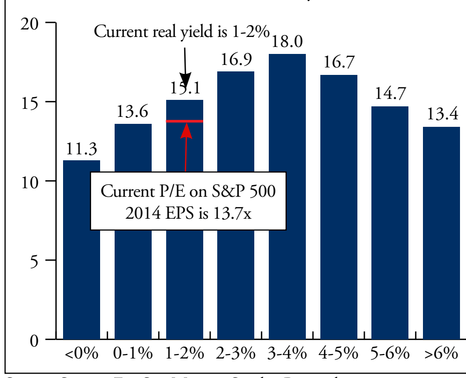
Source: Strategas

Chart 12

P/Es Could Rise As Real Rates Increase

Historic Average P/Es Under Different Real Yields

Real Yield = Yield on 10 Year US Treasury Bond Less Inflation



Source: Source: FactSet, Morgan Stanley Research

The recovery in Europe as well as rising economic growth rates elsewhere in the world means corporate earnings are still on the rise. Chart 11 highlights the stronger global earnings expected in 2013 and beyond. If policymakers, particularly those at the world's leading central banks, can navigate the global economy around further banking crises, then the prospect for earnings trends to develop nicely, if perhaps a bit less optimistically than shown in Chart 11, is good. If earnings continue to expand, the downside in global share prices is limited and the upside remains worthwhile.

Table 3

Is This Bull Market Getting Long in the Tooth?

History of US Bull Markets Since 1932

Start	End	Rally	Duration (mos)	Prior Bear Market
6/1/1932	3/5/1937	323%	57	-86%
4/29/1942	5/29/1946	153%	49	-54%
6/14/1949	8/2/1956	265%	86	-30%
10/22/1957	12/12/1961	86%	50	-22%
6/27/1962	2/9/1966	79%	44	-28%
10/7/1966	11/29/1968	48%	25	-22%
5/26/1970	1/11/1973	74%	32	-36%
10/3/1974	11/28/1980	126%	73	-48%
8/12/1982	8/25/1987	229%	60	-27%
12/4/1987	7/16/1990	65%	31	-34%
10/11/1990	3/24/2000	417%	113	-20%
10/9/2002	10/9/2007	101%	60	-49%
3/9/2009	**7/31/2013**	**149%**	**52**	**-57%**
Average		**163%**	**56**	**-39%**

Source: BofA Merrill Lynch Global Investment Strategy, Dow Jones Indices, Bloomberg

Also aiding the prospects for equities is valuation. Outside the US, P/E ratios are quite low. European P/Es are mostly in single digits and Emerging Market valuations are at very low levels relative to the US following the extreme and odd performance dispersion not only in 2013 but for several years. Even in the US, P/E multiples remain in an attractive range. Chart 12 indicates there remains upside in the US P/E multiple even if interest rates were to continue to rise. Currently, real interest rates are between 1 and 2% which has typically resulted in a P/E around 15x. The current P/E on 2014E EPS for the S&P 500 is only 13.7x. Furthermore, should interest rates rise and inflation remain low, historical data suggests P/E ratios could rise to 18x. The combination of higher earnings and higher P/Es could translate into further significant gains for shares in the year ahead.

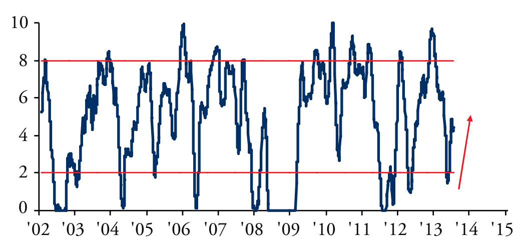
Some investors are becoming concerned the current bull market is getting long in the tooth (Table 3). In our view, however, this bull run could go on longer and farther than normal given economic growth only now seems poised to finally accelerate. Moreover, valuations are attractive still. There is room to run.

The "Great Rotation" Should Power Shares Even Higher

"They celebrate your abundant goodness ..." Psalm 145:7 (NIV)

Chart 13

Little to Impede Higher Share Prices, Including Sentiment!
Investor Sentiment Index

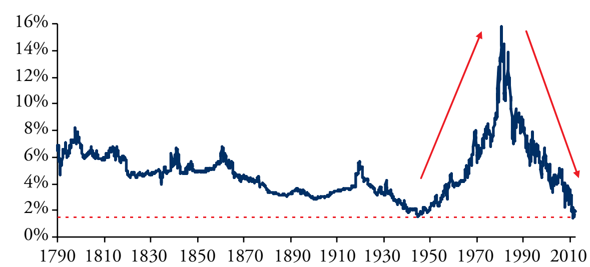


Source: BofA Merrill Lynch Global Investment Strategy, Bloomberg, EPFR Global, Lipper FMI, Global FMS, CFTC, MSCI

Fortunately, the end of 2013 seems set up for continuing the current bull market run. While October is a month when many of the worst market sell-offs have occurred, the fourth quarter as a whole has historically averaged the highest returns for equities. There are few impediments to the market turning in an even better than average performance in 2013's fourth quarter. Earnings are not expected to be either spectacular or to greatly disappoint. Valuations are reasonably attractive and investor sentiment towards equities is not signaling any risk to shares (Chart 13). The Fed, which will soon have the historically dovish Janet Yellen as its new leader, seems poised to keep QE3 going until at least early 2014. Obamacare's impact, which remains hard to gauge in its first year, may not have much of an economic impact in 2014 since significant penalties will not kick in until 2015. Most importantly, the "Great Rotation" from bonds to stocks may pick up speed as investors continue to make major changes to their asset allocation. With the impasse over the budget and debt limit extension at least temporarily resolved until early 2014, the market should have little to impede it moving higher.

Chart 14

Bond Yields Near a 220 Year Low!
Yields Can Really Only Go Higher Now

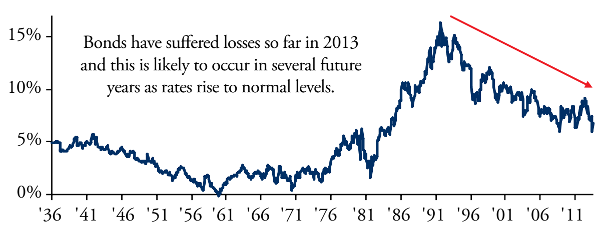


Source: BofA Merrill Lynch Global Investment Strategy, Global Financial Data, Haver

In the end, the "Great Rotation" could prove to be a very powerful force propelling equities higher in the months ahead. Those investors with heavy exposure to bonds have to recognize the risk of low returns they are running given the US Treasury yield recently bouncing off a low rarely seen in the last 220 years (Chart 14)! In England, the Bank of England's Base Lending rate is at its lowest point in over 300 years! Absent a strong deflationary trend, which seems very improbable at this time, interest rates can only move higher in the quarters and years ahead. Particularly if global economic momentum continues to climb, as we suspect will be the case, interest rates will begin to normalize. Investors have already been moving money towards both shares and real estate and, as a result, both are already seeing good gains. Since the bond money has to go somewhere, it is likely these two asset classes will continue to benefit and there is a possibility these trends become very pronounced as 2013 comes to a close.

Chart 15

Bond Returns Heading Lower
10 Year Rolling Returns on Long Term US Treasuries



Source: Source: BofA Merrill Lynch Global Investment Strategy, Ibbotson, DataStream

The trend in returns on bonds has already been pointing in the wrong direction for some time (Chart 15). We would not be surprised to see the line in Chart 15 eventually fall below 5% as bonds suffer a number of negative return years in the next 10 years. The 10 year rolling return on equities, on the other hand, is recovering nicely and seems poised to continue to move higher in the years ahead. With the US debt to GDP ratio appearing under control until after 2020, and the US banking system's capital base now looking strong, economic calamity may not be something the US faces from internal sources anytime soon. As pointed out earlier, however, foreign banking and debt issues could lead to another brush with a global systemic financial collapse. The risk of European or Chinese banking and/or debt issues causing alarm is less than it was in 2011, but it remains and we continue to monitor it closely.

Emerging market equity prices have been under a lot of pressure in recent years even while these nations have grown to represent more than 50% of global GDP. As seen in Chart 16, however, their stock markets, along with the "Asian Tigers" nations, now represent just about 15% of global stock market capitalization. This seems likely to reverse in a significant manner in the years ahead and Stewardship Partners' clients stand to benefit.

Chart 16

Emerging Markets Equities Due for a Bounce
EM and Asia ex Japan Market Cap as a % of Global Market Cap

Source: BofA Merrill Lynch Global Investment Strategy, DataStream, MSCI

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, Duke Realty Group, and one we avoid, PepsiCo. Duke Realty Group is a holding in some of our Stewardship Partners portfolios while we actively avoid ownership in PepsiCo 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 – Duke Realty – Excelling in Blessing Others

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

Duke Realty Group, a real estate investment trust (REIT) got its start in industrial development and construction in the Indianapolis area in 1972 and soon began to expand in the Midwest. Before long the company was one of the leading industrial real estate developers in Indianapolis, Cincinnati, Columbus and Nashville. Following listing on the New York Stock Exchange in 1993, the company's ability to expand was bolstered by additional capital. Growth came from both acquisition and internal growth. A significant acquisition in 1999 allowed the company to establish a meaningful presence in the South and Southeast section of the US. In 2007, Duke entered a new market segment with an acquisition of a company that had a focus on medical office buildings which has been an area of growth in the real estate sector. Currently, the company has over 148 million square feet of office space in 18 major markets across the nation. These facilities house over 3,000 tenants served by the company's 800+ employees. Roughly half of Duke's property are industrial facilities and almost half are located in the Midwest. Duke's proven expertise, financial strength and commitment to quality have forged a reputation within the industry that is second to none for the development and management of industrial, office and medical space. Outside of the shock of the 2008 crash in the financial markets, Duke Realty Group has generally produced attractive, consistent returns to its shareholders through dividend growth and capital appreciation. As the economy and real estate market continue to recover from the 2008 crash, the future appears bright for well-managed, geographically diversified REITs like Duke Realty Group.

Duke Realty Group's success can find its foundation in the company's simply stated vision, mission and values statements. Duke's vision is to continually set the industry standard for excellence in reliability and the company seems to be delivering on this aspiration. Its mission is to build, own, lease and manage industrial, office and healthcare properties with a focus on exceptional customer satisfaction while maximizing shareholder value. With the exception of the 2008 crash-related shortfall in shareholder returns, the company has done a good job of achieving this as well. Finally, its values are 1) to be responsible by doing the right thing, 2) to be respectful by recognizing the strength in differences among stakeholders and 3) to be resourceful by creatively finding answers to issues the company faces. While most companies will expound at greater length about their vision, mission and values, we are impressed by the ability of Duke to capture the essence of good corporate stewardship in these brief statements. We are even more impressed by the company's ability to live these out on a consistent basis over time which reflects corporate leadership's commitment to these ideals. This commitment is reflected in the company's superior approach to corporate governance which includes robust policies on board independent directors, a comprehensive code of conduct and easy to use whistle-blowing options for employees. Indicative of the company's commitment to good corporate governance is its dedicated committee of the board on this subject.

Duke Realty Group's core values of being responsible, respectful and resourceful have aided the company in attracting a first-rate staff which, in turn, have contributed meaningfully to the firm's long term success. The company's efforts to build a highly professional workplace atmosphere do not end at its commitment to its values statement. The company provides an outstanding array of compensation and benefits to its employees as well as stable employment and opportunities for training and advancement. Duke provides employees with a career development website where they can find tools and resources to manage the growth and development of their career. Additionally, the company provides mentors, company supported training, aid in achieving professional certifications and career assessments. The benefits package at Duke Realty Group is extraordinary and therefore contains too many aspects to fully summarize in this review. Some of the highlights include a variety of insurance plans aimed at providing the greatest possible financial security for the company's team members. Besides the normal health, disability and life insurance plans, Duke also provides critical illness insurance, health savings accounts, and flexible spending plans that can be used for a variety of purposes including dependent care. Duke also offers employees adoption assistance, special leave for those adopting children, an employer assisted housing program, military leave, educational scholarships and programs designed to help employees struggling with the wide variety of difficult health and relational problems many families face. The company also promotes its employee wellness program in which it offers opportunities for employees to improve their physical, emotional and financial well-being through interactive programs, online resources and generous incentives. Duke's efforts to be a blessing to its staff are exemplary. Not surprisingly, the company has won numerous awards for its efforts to build as attractive a work environment as possible, including the Dave Thomas Foundation Award for being one of the 100 best adoption friendly workplaces.

In light of the above, it should come as no surprise that Duke Realty Group also excels in its philanthropic efforts to bless its community. Its employees are encouraged to give through the company's matching grant program, encouragement to volunteer at charities, paid time off to assist non-profits and providing financial resources for those helping community groups via their "Dollars for Doers" program. The company also gives awards to those employees who excel in their charitable endeavors. Recently the company sponsored a conference for medical missionary groups in Indiana and has also provided funding for many other worthwhile causes, including providing food for the poor in Washington, DC and free vacations to terminally ill children and their families. Recently the company won recognition from the United Way in Indiana for its "exemplary and consistent volunteer and financial support" for the organization. Some of the projects Duke had assisted with leading to this award where financial and construction aid given to the Boys and Girls Club, Senior Services and the Lutheran Child & Family Services. We are impressed with the willingness of the company to support Christian charities in an age when some companies avoid such help to avoid any potential for controversy.

Duke Realty Group'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 – PepsiCo – Homosexuality and Dubious Advertising

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

PepsiCo, maker of Pepsi soft drinks, Lay's chips and Dorito's among other well-known brands, has unfortunately also become a major financial supporter of groups promoting the sinful lifestyle of homosexuality. While we do not know the exact dollar amount of shareholder funds that are directed to these groups by PepsiCo's management, we believe it is at least measured in seven figures. The company also has extensive internal programs supporting homosexual employees as well as providing benefits for employee sex reassignment surgery. Moreover, PepsiCo has been labeled as one of the ten worst corporate advertisers of sexually graphic, profane and violent television programing by the Parents Television Council. It is distressing to see a company of PepsiCo's stature to be so supportive of activities which unfortunately bring lasting harm to many of those involved in them.

Cultural trends, corporate activism, and recent court decisions have led to widespread acceptance of homosexuality in the US and around the world. Christians whose faith compels them to stand on the biblical teaching that homosexuality is a sin are now often being labeled as "haters". At Stewardship Partners, we love all sinners, including both ourselves and homosexuals. We desire the best for all who are separated from the Lord by sin and we stand in faith on the authority of scripture. While it saddens us that some interpret our faith as "hating", it simply is not the case.

Excluding PepsiCo 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.

STEWARDSHIP PARTNERS — MINISTRY COMMENTARY

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 – The Joshua Fund – Blessing Israel

"So the poor have hope, and injustice shuts its mouth." Job 5:16 (NIV)

The Joshua Fund was founded in 2006 by well-known Christian author Joel Rosenberg and his wife Lynn. The Rosenbergs' desire was to mobilize Christians to bless Israel and her neighbors in accordance with Genesis 12:1-3 where the Lord promises to bless those who bless Israel. The Joshua Fund seeks first to educate Christians around the world about the Lord's plan for Israel and her neighbors. The ministry accomplishes its educational goals by leading prayer and vision trips to Israel, organizing conferences about the Middle East throughout the world, and building relationships with government, businesses and religious leaders in the Middle East. Due to Joel Rosenberg's prominence in the evangelical community, he has reached millions with his biblically-based teaching on prophecy and current events via television, radio and the internet. Combined with Rosenberg's popular fiction and non-fiction books, The Joshua Fund has done more than any other ministry to help keep Christians well informed about the relevance of the Bible's teaching as related to current events in the Middle East.

The Joshua Fund's second initiative is to help the poor and needy in Israel and elsewhere in the region. The ministry has provided food and clothing to those suffering from poverty. Additionally, the company has helped organize housing for those in need and also ministers to Holocaust survivors and other elderly Israeli citizens in requiring care. The Joshua Fund has also purchased medical equipment for hospitals and made backpacks and schools supplies available to children who would otherwise not be able to obtain such items. The ministry has also provided care to unwed mothers and their unborn children in Israel. Outside of Israel, the ministry has helped set up a Christian radio station in Northern Iraq, distributed hundreds of thousands of copies of a Syrian-made movie regarding the life of the Apostle Paul, organized Bible training conferences for both Palestinian and Iraqi Christians and provided food and relief supplies for Muslims and persecuted Christians in the Middle East. The Joshua Fund also distributes New Testaments and the Jesus Film in Arabic and other languages understood in the Middle East.

The Joshua Fund, while still a relatively new, mid-sized ministry, has found a variety of ways in which to be a blessing to Israel, its neighbors and Christians around the world. Joel Rosenberg's timely teaching on current events and the ministry's heartfelt charitable efforts are commendable. The Joshua Fund has a three star Financial Efficiency Rating from MinistryWatch.com, indicative of its sensible use of donor resources. We believe The Joshua Fund 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 – National Christian Foundation

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

The National Christian Foundation (NCF) is the country's largest community foundation devoted to helping Christian donors give wisely to further the Gospel of Jesus Christ. Founded in the early 1980s by current board member Terry Parker along with Ron Blue and Larry Burkett, NCF and its affiliates have facilitated over $4 billion in gifts to tens of thousands of ministries. Under strong leadership from CEO Bill Williams and President David Wills, NCF has greatly expanded its offerings in recent years. Given the excellent services NCF provides to Christian donors, it is likely that its impact on Christian ministry will continue to grow rapidly in the years to come. NCF houses thousands of separate donor-advised funds and has assets of over $1 billion. Grants from funds overseen by NCF are always aligned with the foundation's Christian worldview. With over 200 employees working out of local offices around the nation, NCF has assembled a staff of charitable experts that is second to none.

NCF's services to Christian donors include fund accounting, administration, legal advice and access to professionally-managed portfolios. Such services provide donors with an alternative to setting up their own private foundation, which can be costly, time-consuming and subject to certain limitations. NCF also has the capacity to handle complex gifts such as real estate and closely-held stock. Additionally, NCF can provide philanthropic counseling to major donors and also will provide assistance to communities that want to establish a local community foundation.

Many wise Christian donors have already taken advantage of the resources available from the National Christian Foundation, including Rusty and Carol Leonard, the founders of Stewardship Partners. Additionally, Stewardship Partners currently manages a portion of NCF's Pooled Fund assets.

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