STEWARDSHIP PARTNERS
MARKET COMMENTARY

QUARTERLY COMMENTARY | VOLUME 17 ISSUE 1 | APRIL 2017

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

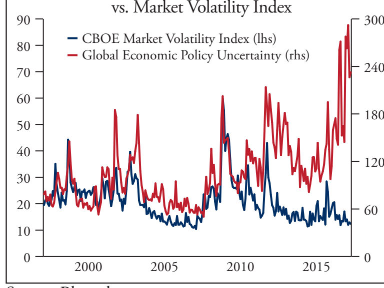
Stocks Rise Impressively With Little Volatility Despite Trump's Shaky Start

"Give thanks in all circumstances; for this is God's will for you in Christ Jesus." 1 Thessalonians 5:18

Stewardship Partners got off to a fast start for the second year in a row with almost all of our portfolios surpassing an impressive increase in the market indices in 2017's first quarter. We are very grateful we can be a blessing to our clients and are particularly thankful we were able to achieve these good results even while maintaining a degree of defensiveness in our portfolios. As unusual as it was for our portfolios to beat rising indices even while we were maintaining a defensive posture, it was equally strange that the markets performed so well (Table 1) during a period when global economic policy uncertainty indices were climbing to all time highs. Rather bizarrely, the higher uncertainty rose, the further volatility measures of the financial markets fell. This is just the opposite of what should have happened as markets normally get unnerved, rather than becalmed, when uncertainty spikes higher (Chart 1). Moreover, in addition to investors' growing concerns about central bank and government economic policies, the new Trump administration's more aggressive foreign policy actions have increased the spectre of war and even the possible use of nuclear weapons by North Korea, the US, or both. The willingness of the Trump administration to use the largest non-nuclear bomb ever deployed by the US military clearly indicates to misbehaving dictators and terrorists alike there is a new sheriff in town, but also comes with new risks. The failure of Republicans to repeal and/or replace Obamacare was also a disappointment and threw into doubt President Trump's ability to follow through on his aggressive domestic agenda, most notably tax reform. The President also now faces a more hawkish Federal Reserve, which is raising interest rates after spending almost the entire Obama administration implementing the most dovish monetary policy our country has ever seen. There can be no doubt President Trump has faced more obstacles than he likely hoped he would. Had we been told beforehand all these developments would come to pass in the first quarter of 2017, we would never have guessed the outcome would have been as positive as it has been for the markets. Investors, however, chose to brush aside these concerns and take a longer view of the market's prospects under the new administration. Shareholders found they were able to ignore the growing concerns by remaining focused on an expected rebound in corporate earnings in 2017. This recovery in profitability comes after a long period of falling earnings and is a very welcome development.

Chart 1

Bizarre Market Behavior – Risk Up, Volatility Down



Source: Bloomberg

Table 1

1Q17 Total Returns

US Indices	1Q17	5y ann
S&P 500	6.1%	13.3%
S&P 500 Value	3.3%	12.7%
S&P 500 Growth	8.5%	13.8%
NASDAQ	10.1%	15.3%
S&P 400 (Mid Cap)	3.9%	13.3%
S&P 600 (Small Cap)	1.1%	14.2%
Treasury Bonds	0.7%	1.6%
High Grade Corp. Bonds	1.2%	4.0%
High Yield Corp. Bonds	2.7%	6.8%
Gold	8.4%	-5.6%
Global & International Indices		
MSCI World	6.4%	9.4%
MSCI EAFE	7.2%	5.8%
MSCI Euro	8.5%	6.4%
MSCI Far East	5.9%	6.8%
MSCI Japan	4.5%	6.8%
MSCI Emerging Markets	11.4%	0.8%
US Economic Sectors		
Energy	-6.7%	1.7%
Materials	5.9%	9.5%
Industrials	4.6%	14.2%
Consumer Discretionary	8.4%	16.3%
Consumer Staples	6.4%	12.9%
Health Care	8.4%	16.7%
Financials	2.5%	15.4%
Information Technology	12.6%	14.6%
Telecom	-4.0%	10.3%
Utilities	6.4%	12.1%

Source: Bloomberg

Nevertheless, the surprising advance in share prices in the first quarter, coming on the back of a strong fourth quarter for the financial markets, has pushed valuations even further above the long term averages than had already been reached earlier. Should the hoped for recovery in corporate earnings fail to fully materialize, equities may find the remainder of 2017 to be a bit more challenging as markets might try to find a more sensible balance between the potential risks and returns investors now face. In the short term, the markets could easily take a period of time to better digest all the factors impacting share prices. With the normally seasonally weak summer months coming up quickly, we would not be surprised if the markets struggled to build upon the gains seen in the last two quarters. In fact, a consolidating market would be quite normal at this point. Even so, this would not preclude the possibility of a strong finish to 2017 as a healthy pullback would set the stage for a bounce higher later this year. If earnings remain supportive, however, any pullback in share prices should be limited in scope and duration.

Stewardship Partners' portfolios could also been in for a period of normal consolidation after our strong first quarter results. We noted previously we believed our portfolios contained some very intriguing stocks that might generate very good results for us in 2017. Fortunately, our largest holding has performed very well, not only in the first quarter but also over the last year, and we are hopeful this favorable trend will continue. Still, no stock or market goes straight up. So, we would not be surprised if the second quarter of 2017 proves to be more challenging than the first.

Global Economic Growth Accelerating But Debt Remains a Threat

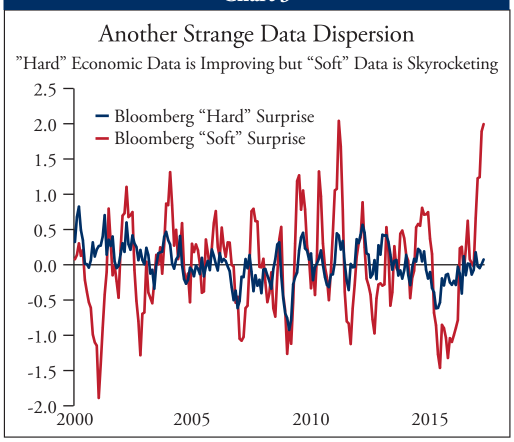
"Why let this threat grow, to the detriment of the royal interests?" Ezra 4:22

Since late last year, the global economy has increasingly been beating back the deflationary impulses from previous years. Across the continents, stronger economic growth has begun to appear and inflation has also been making a muted resurgence as well. Chart 2 highlights the encouraging and welcome upward trend in both global manufacturing and GDP. Moreover, for most of 2017 it has appeared this improvement from the many previous years of moribund growth was set to continue as many economic indicators in most of the world's key economies were pointing in a positive direction. The upturn in the US economy has been particularly encouraging as it comes during a period of time when the Fed has been started to remove its unusually accommodative monetary policy stance. That the US economy has been able to move to a higher rate of economic expansion even as the Fed withdrew some of its support for the economy is a testament to the self-sustaining nature of this recovery. We have been hoping to see just such a development for several years and had begun to wonder if the deflationary beast unleashed by the 2008 financial market crash could ever be beaten back. Outside the US, however, most central banks are still providing a very high level of monetary policy support for their economies so our optimism remains tempered by that fact. Victory over the deflationary forces that have constrained the global economy cannot be declared yet.

Chart 2

Source: Markit, Thomson Reuters, Capital Economics

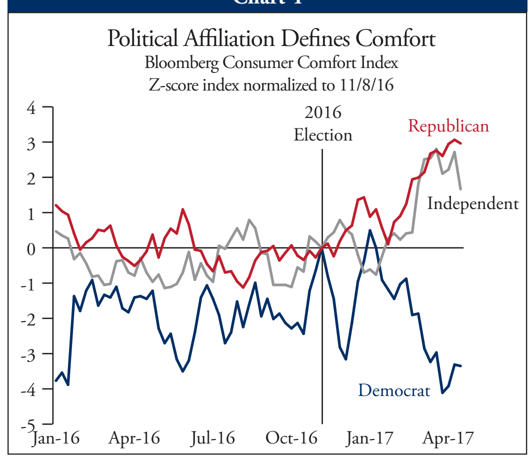
Chart 3



Source: Bloomberg

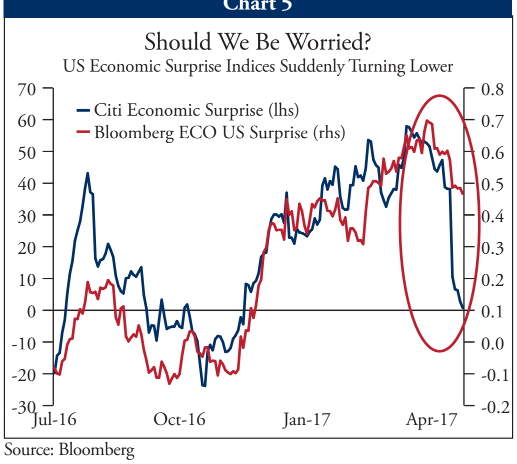
Even in the US, where economic optimism has been high, there remain doubts as to the sustainability of the economic upturn. Leading indices of US economic activity have been largely optimistic but further analysis has raised concerns that business optimism spurred by the election of President Trump might be biasing the economic forecasts higher. Chart 3 indicates while positive surprises from actual "hard" economic reports have been slightly favorable, the trend has been far weaker than the extremely optimistic trend of positive surprises in "soft" economic data tied to surveys of attitudes of businesses and consumers. It seems people are feeling way better than the actual data suggests they should and President Trump's pro-business attitude is likely largely responsible for this odd turn of events. Chart 4 highlights the big upward swing in the consumer comfort of Independent and Republican voters following the election and these hopeful attitudes are likely being reflected in the "soft" survey data. Of course, to some extent, the sharp decline in consumer comfort for Democrats is offsetting this, but we suspect a plurality of consumers back Trump's "America First" approach and the majority of business people answering economic surveys fall into the Republican or Independent political camps, thereby skewing the data to the positive side of the equation. Accordingly, we are focusing more on the "hard" data as it may prove to be a more accurate reflection of the actual state of the US economy at the moment. Since the middle of last year, that "hard" economic data has portrayed favorable trends for the US economy, just not quite as favorable as the "soft" data.

Chart 4



Source: Bloomberg

Chart 5

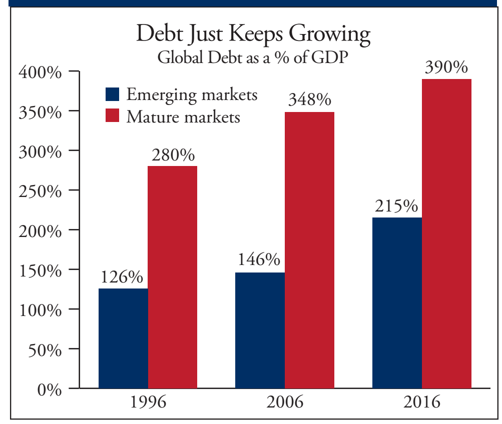


Source: Bloomberg

Moreover, just as we were beginning to be convinced the economic recovery was firming and would not succumb to deflationary pressures as earlier indications of progress inevitable did, there has been a sudden and surprising negative shift in the economic data points in the last few weeks (Chart 5). This abrupt change in trend could well be tied to declining optimism for President Trump's agenda following the epic failure of the Republican Congress to repeal and replace Obamacare, which, in turn, has undercut the prospects for tax reform and significant personal and business tax cuts in 2017. Moreover, the Trump administration's bumbling of the executive order on banning people from certain Muslim countries from entering the US and the firing of the National Security Advisor also undermined confidence. Additionally, geopolitical developments arose in Syria, North Korea and elsewhere which were quite worrisome to many. While we do not expect this swift turn of events to continue at this point, we will be closely observing the economic data in the next few months and will be ready to turn defensive if these negative trends persist.

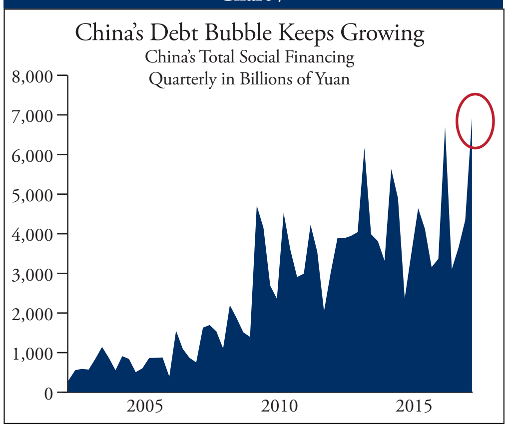
Nevertheless, we are hopeful US economic data will soon regain its positive tone and would be surprised if it did not do so. While the current economic expansion is now the second longest in history, there are not many signs it is about to falter into a recession. Most importantly, employment trends remain strong allowing most consumers to pay their bills and buy the goods and services that keep the economy growing. While the Fed has raised interest rates once already in 2017 and has indicated plans for additional rate hikes this year, the real level of interest rates, after adjusting for inflation, has not increased much at all. The US banking system is in a very strong position and problems on that front do not seem imminent. Despite Trump's "Make America Great Again" slogan, the US dollar has weakened so far this year and that is helpful to promoting economic growth through higher exports and lower imports. The threat of the US economy succumbing to recessionary forces in the short run still seems low. That is a very good thing as unusually high debt levels could make any recession that might occur longer and deeper. While too high debt is a problem everywhere, it is worse in the developed markets of the world (Chart 6). As long as the economy continues to grow, most of these debts can be serviced. Should growth slow or, worse yet turn negative, these debts could be a crushing burden for some consumers, businesses and perhaps even governments. This is clearly one of the reasons Central Banks have gone to such extremes in recent years to fight off deflation and recession.

Chart 6



Source: IIF, BIS, Haver

Chart 7



Source: Bloomberg

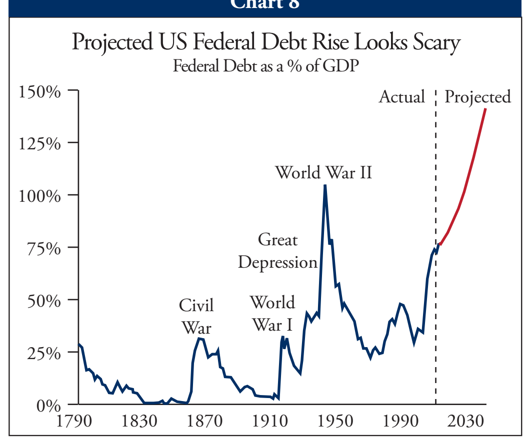
The world's poster child for excessive debt remains China. Recently, China reported better than expected economic growth in what was the first real indication its long growth slowdown may actually be coming to an end. Chinese housing prices have been strong indicating an improving economic picture there as well. Satellite studies of the intensity of lights in Chinese cities in the evening have even suggested Chinese economic growth may have actually been understated rather than overstated, as many observers have believed, in recent years. China's recent growth may have been fueled, however, by the government continuing to pump up economic activity through the application of even more debt. Chart 7 shows China's Total Social Financing, its description of government debt injected into its economy rose to a new record high in 2017's first quarter. As we have demonstrated in our past Quarterly Commentaries, the level of debt in the Chinese economy is well into the "red zone" from where other countries have subsequently experienced a very hard economic correction. The Chinese central government is desperate to avoid such a scenario, but seems to be digging a much bigger hole for itself with each additional debt-laden effort to keep economic growth propped up. In our view, a bursting of the Chinese debt bubble remains the single biggest risk the world's financial markets. While such a burst does not appear about to happen, we continue to monitor developments in China very closely.

Looking More Closely at US Debt Risks

"Look to the Lord and his strength; seek his face always." 1 Chronicles 16:11

China's debt is definitely worrisome but what about US government and private debt? We have heard for decades from a variety of purveyors of gloom and doom that our nation is in imminent peril due to the massive debts we have been rather consistently accumulating. While we like to consider ourselves long term optimists, it is not difficult to be concerned about often rapidly rising debt levels across US society. The US government, with a short exception during the end of President Clinton's term and the pre-9/11 period of President Bush's term, has been piling up debt to levels not seen since World War II's surge in government spending (Chart 8). Even more worrying is the Congressional Budget Office's (CBO) projections for the massive increase in the US government debt to GDP ratio in the next three decades. While the beginning of this sharp increase is still several years away, the long term trend is disconcerting. Moreover, President Trump used copious amounts of debt on his path to becoming a billionaire, so he is likely not as concerned about debt as your average Republican. But even the levels of debt projected two decades from now are still well below that seen in Japan and China right now. Yet neither the Japanese nor the Chinese economy have collapsed under this much greater debt burden. Clearly the risk of trouble is significantly higher with greater debt, but both nations are still functioning relatively normally.

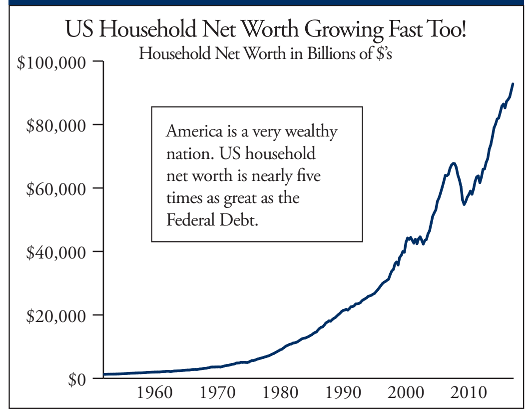
Chart 8



Source: Congressional Budget Office

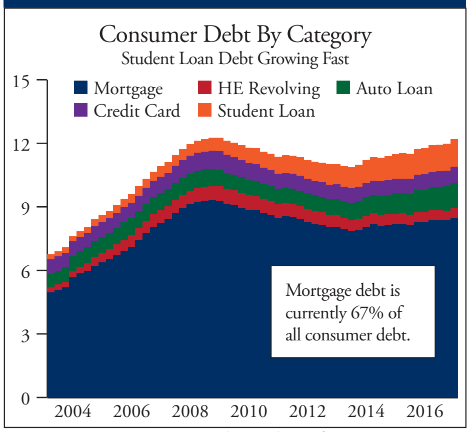
One aspect of the discussion which is often overlooked in discussions about the national debt is the national assets. For example, Chart 9 portrays the rapid increase in Household Net Worth in the US. Indeed, while the US government debt on a gross basis is around $20 trillion (although some of that amount is debt owed by the government to itself, thus the net US government debt is lower), the Household Net Worth is close to five times as great. And that is just the net worth of consumers. The US government also has extensive assets and it has a positive net worth, which is likely understated as well. Then there is the US corporate sector which has been thriving for decades and has a huge positive net worth. Now, we would be much happier if the US government, US consumer and US corporations had no debt at all, but we believe anyone speaking about the risk of the debt to our economy needs to also reflect on the much larger assets each sector of our economy controls. The United States is a massively wealthy country, which minimizes the risk from the high level of debt. The current level of US government debt, in particular, may pose a much lower risk to economic stability than many believe.

Chart 9



Source: Bloomberg

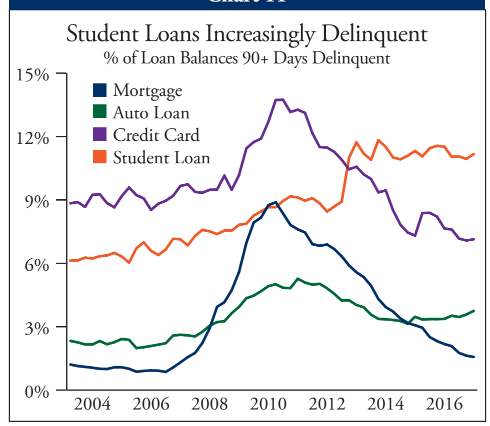
Chart 10



Source: FRBNY Consumer Credit Panel/Equifax

Nevertheless, we saw as recently as 2008 what a debt crisis can do to our economy. Excessive debts in certain economic sectors can upend our banking system and cause quite a calamity. In 2008, it was foolishly structured, subprime mortgage debts, rather than high US government debt levels, which triggered a systemic banking failure and brought the world to the brink of another Great Depression. It has taken years for the global economy to shake off the deflation resulting from that crisis and it is possible the process is still not complete. Accordingly, it is important to know which debts pose the biggest threat to the stability of our financial system and therefore, our economy. Sometimes, it is not the biggest debts which cause a problem. Chart 10 indicates the breakdown of the types of consumer debt in the US. As can be seen, mortgage debt accounts for the majority of US consumer debt and it was the cause of the banking crisis in 2008. Even now, mortgage debt still does not exceed the amount outstanding at the beginning of the crisis in 2008. Given the economy has grown significantly since then, the amount of mortgage debt relative to GDP has fallen notably. With employment strong, the housing market strengthening, mortgage financing being much more sensible and the banking system in very strong condition, the risk of another mortgage meltdown is remote.

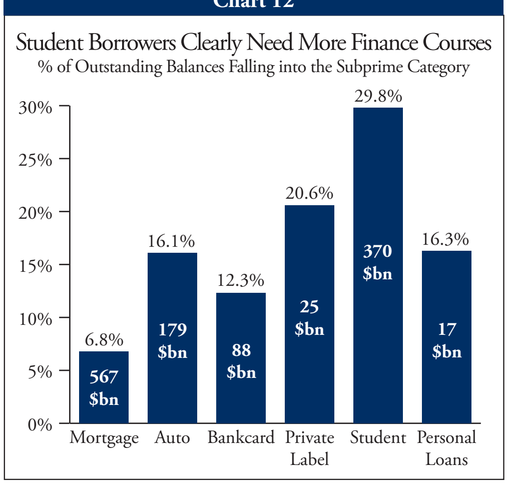
Chart 11



Source: FRBNY Consumer Credit Panel/Equifax

Still, whenever there is a long economic expansion as we have had since 2009, even if it has been relatively tepid, unhealthy debt levels are bound to arise in some segments of the economy. In this recovery, the most obvious example of worrisome debt growth has been in student loans. With jobs hard to come by after the 2008 Great Recession, many young people opted to stay in school rather than face unemployment. With easily obtained, government backed, student loans, many students opted to pursue masters and doctoral degrees than face the rigors of finding a job. In essence, the student loan program acted as something of a welfare program for some young people, but at least they were getting an education. Unfortunately, paying these loans back has been difficult for many and the delinquency rate on student loans is the highest of any form of debt at this time at 11% (Chart 11). While there are over $1 trillion in student loans outstanding, there is little risk to the economy from them as the government, not the banking system, is responsible for most of these loans. So, even though the amount of subprime student loans is 30% of the total (Chart 12), we are not overly concerned about the economic implications of this situation.

Chart 12



Source: UBS, TransUnion

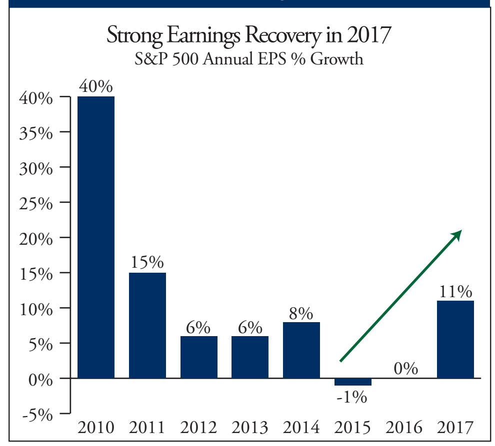
Some concerns have also recently been raised by an increase in the percentage of auto loans becoming delinquent. It is pretty clear auto loan underwriting standards have had much to be desired in recent years and there will be some economic impact from slower auto sales as banks return to tougher lending criteria. The overall economy, however, is not likely to be thrown into a recession by this and we suspect this debt issue will have only a transitory effect on economic growth. Nevertheless, we will be closely monitoring this situation in the months ahead.

Earnings Look Good But Valuations are at Very High Levels

"... who will judge its quality as good or bad. Whatever value the priest sets, that is what it will be." Leviticus 27:12

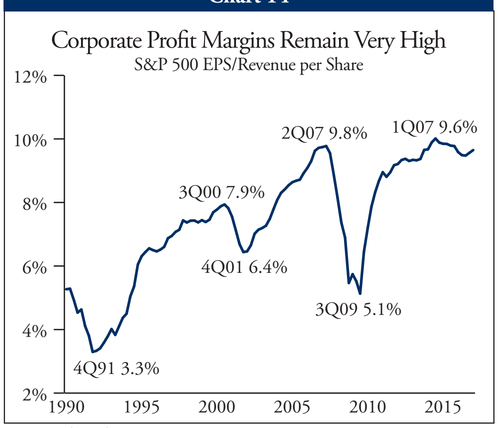
President Trump's promises to make America great again by reducing government interference in the markets, reducing taxes, fixing health care and fighting for better trade deals clearly helped spur a big advance in the equities market since November. Just as important in our view, however, was the rebound in corporate earnings expectations we have noted in our recent Quarterly Commentaries. Indeed, one of the reasons the market may have continued to rise when some of the President's promises have seemed like they might go unfulfilled is due to the anticipated recovery in corporate earnings power. After two years of flat earnings, the S&P 500 in 2017 is currently expected to produce the best earnings growth since 2011 with a jump of 11% anticipated (Chart 13). This is the result of many factors, including a recovery in the energy business as oil prices have risen, better global economic growth and, somewhat surprisingly, a weaker US dollar. Offsetting gains in these areas will be higher financing costs as interest rates are now moving higher. If President Trump is able to overcome the many obstacles to his legislative initiatives, particularly regarding tax cuts for consumers and businesses (a tall order in our view), earnings expectations in 2017 could rise even further. Normally, however, earnings expectations fall as the year goes on.

Chart 13



Source: JP Morgan, Factset

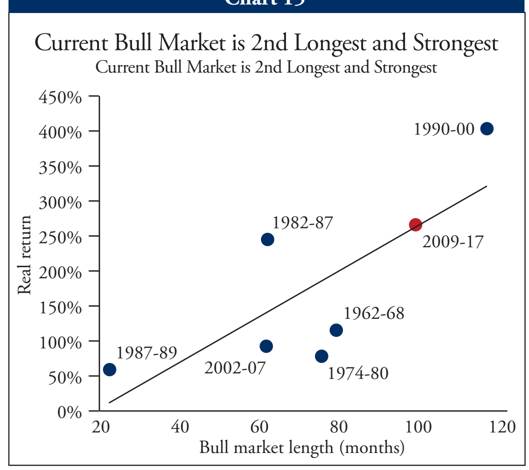
Chart 14



Source: Bloomberg

While earnings growth may have additional upside from tax reform, it is worth remembering US corporations are already very profitable. The current high level of profit margins (Chart 14) may be difficult to maintain in the years ahead and, should these diminish, it will act as a drag on future profit growth. President Trump's populist message during the election could cause him to seek ways to redistribute some of those high corporate earnings as the next election approaches, especially if stronger economic growth turns out to be insufficient to help narrow the wealth and income gap between the rich and the poor. Whether if it is because of policies President Trump adopts or for other reasons, we do expect corporate profit margins to be under pressure in the years ahead due largely to increasing wages. With Trump's efforts to slow illegal immigration and limit work visas, the laws of supply and demand should push wages higher for many. Company earnings can continue to expand even with some margin pressure from wages if good economic growth can be maintained.

Chart 15



Source: GFD, Datastream, Goldman Sachs Global Investment Research

Table 2

Equities are at Peak Valuation Levels
Summary of S&P 500 Valuation Metrics

Valuation metrics	Aggregate index		Median stock	
	Current	Historical percentile	Current	Historical percentile
P/E to growth (PEG)	1.5	97%	2.0	100%
EV / sales	2.2	95%	2.8	100%
EV / EBITDA	11.7	89%	12.1	100%
Price / book	3.1	83%	3.4	99%
Forward P/E	18.1	90%	18.4	98%
Free cash flow yield	4.1	55%	4.5	43%
Cyclically adjusted P/E	25.0	87%	N/A	N/A
Median		**89%**		**100%**

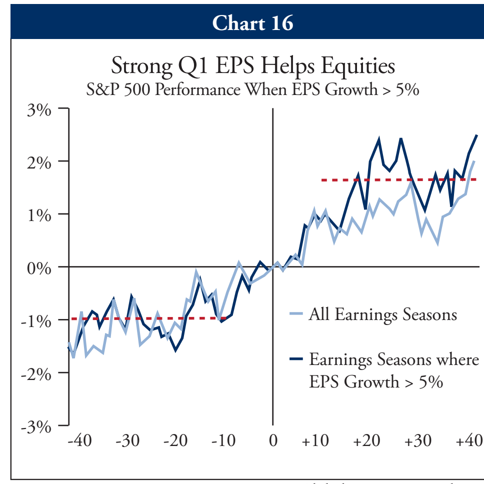
Source: Factset, Goldman Sachs Global Investment Research

Continued strong economic growth will be required if what is already the second largest and longest bull market is going to continue (Chart 15). Given the duration and magnitude of the current bull market, investors need to be very wary of any indication the factors helping it along may be deteriorating. Should earnings expectations for 2017 begin to falter, we could easily get a significant correction in share prices.

Strong earnings are also needed to keep the market going because valuation levels are so high. Table 2 looks at a variety of valuation measures and the inescapable conclusion is that equities are not cheap. Any breakdown in the fundamentals supporting these valuations should lead share prices to retreat. Additionally, strong future earnings growth will be required to bring these valuations metrics back down to less risky levels.

In the short run, however, the historical evidence suggests additional upside for the market. Chart 16 highlights equities do better than normal when quarterly earnings increase by 5% or more, as is expected in each quarter in 2017. So, while stocks are valued highly, they may stay that way for now.

Chart 16



Source: JP Morgan US Equity Strategy & Global Quant Research

Still Cautious Given the Rising Odds of a Short Term Pullback

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

The strong first quarter earnings being reported now may well keep share prices from falling in the immediate future but every investor should expect a small pull back before too much longer. Markets do not normally go straight up and this market is well overdue for at least a slight setback. Table 3 reveals that since 1932, the stock market has averaged a 5% correction once every seven months and it has now been more than twice that long since our last 5%+ correction. During the first quarter, the market went more than two months without even a 1% correction. So no investor should be surprised if equities begin to exhibit signs of weakness sometime soon since that is just normal. Indeed, in order for the market to push higher over the balance of the year a short pullback may be needed. Such a pause in the market's advance should not alarm anyone. Of greater concern, however, is we are also overdue for a 20% bear market correction, which has typically occurred every 45 months in the past. We are now at 97 months without such a drop in share prices so taking a cautious stance towards equities seems wise. A 5% fall in share prices can occur without any good reason but a 20% decline will require bad news, most notably weaker earnings.

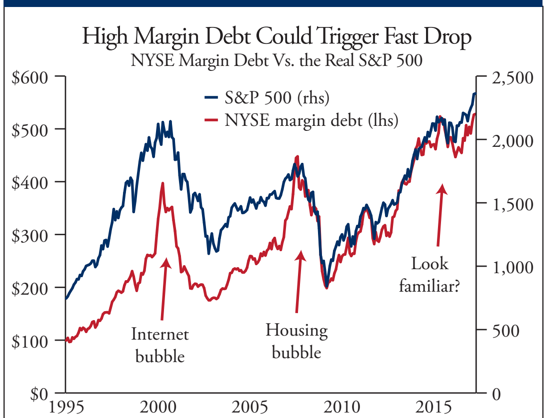
Table 3

Frequency of Corrections and Bear Markets
S&P 500, 1932 - Current

-5% Correction	Every 7.1 months
-10% Correction	Every 25.9 months
-20% Bear Market	Every 3.8 years (45 months)

Source: InvesTech Research

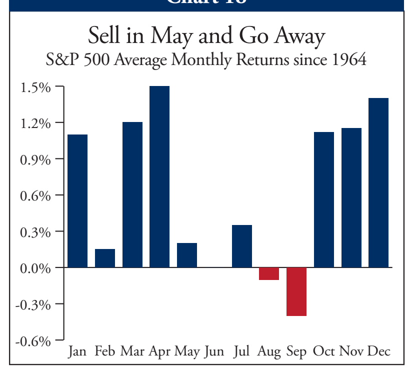
Chart 17



Source: Bloomberg

While it is hard to see sufficient economic bad news in our immediate future to push stocks dramatically lower, there certainly is room on the geopolitical front for great concerns to arise. With President Trump adopting a much more strident tone in his foreign policy than President Obama, the risk of warfare is simultaneously both higher and lower than previously. If his "big stick" approach works, it re-establishes the US as the world's dominant superpower and keeps bad actors around the world from causing trouble. If, instead it provokes one of those bad actors into starting a war, the markets would almost certainly react negatively in the short term. With margin debt at very high levels (Chart 17), it would not be surprising to see an outbreak of hostilities with North Korea or others lead to a rapid sell-off.

Chart 18



Source: Topdown Charts, Datastream

We are hopeful President Trump's demonstrated willingness to act, as he did by dropping the largest ever non-nuclear bomb in Afghanistan recently, will deter others from aggressive actions. Even if this turns out to be the case, the market is entering the period of the year when returns have been weakest. Chart 18 shows that while April is the best month of the year, the 5 month period from May through September contains the year's four weakest months. This does not guarantee such a time period will produce bad or weak returns for stocks, but it highlights there is greater than normal risks during this time period. Perhaps President Trump and the Republicans in Congress will work together to produce a tax reform bill that will help boost share prices or maybe a lessening in the threat of warfare will be well received by the market in coming months. If so, a setback to share prices, if one even occurred, could prove minor. But when considering the long length of time since the market corrected, extended valuation metrics, the high level of margin debt and the seasonal factors, a cautious approach seems sensible.

Table 4

A Strong Finish to 2017 for the S&P 500?
S&P 500 Returns after January and February are Both Up

	Full Year	Rest of Year (Final 10 months)
Average Return	19.5%	12.0%
Median Return	18.7%	11.0%
Count	26	26
Higher	25	24
% Higher	96.2%	92.3%

Source: LPL Research

While some pullback in the short term may be almost inevitable, there remains reason to be hopeful about equity returns for the remainder of 2017. Table 4 summarizes what has happened in past years (since 1950) when both January and February produced positive returns for the S&P 500. As can be seen, positive and normally very attractive returns were earned over the balance of the average year, with a very high success rate (24 out of 26 years). Again, this is no guarantee the rest of 2017 will turn out favorably for investors, but it does suggest the odds are better than normal.

We already feel good about our chances of producing good returns for our clients in 2017 based on our unusually high confidence level in the prospects of several of our key holdings, most notably our largest holding. Because of our unusually high confidence in these holdings, we are taking less risk with the remainder of our portfolio by holding a large proportion in cash and stand ready to use the cash to hedge the portfolios if necessary. A short correction in share prices, at a minimum, is inevitable and we hope to be able to limit its impact on our clients' portfolios.

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.

STEWARDSHIP PARTNERS

Biblically Responsible Investing COMMENTARY

Biblically Responsible Investing (BRI) – Investing as Jesus Would

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

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

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

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

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

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

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

Additionally, we favor companies that clearly embrace:

- Honesty, Compassion, Diligence, Prudence and Creativity
- Support for quality products at fair prices and constructive stakeholder relations
- Support for a sustainable and healthy environment
- Support for charitable giving
- Support for the Jewish people and the state of Israel

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

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

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

BRI in Action – Comparing Good and Bad Corporate Behavior

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

Below you will find an example of both a company exhibiting exemplary attributes, Abbvie, and one we avoid, Starbucks. Abbvie is a holding in some of our Stewardship Partners portfolios while we actively avoid ownership in Starbucks 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 – Abbvie – An Outstanding Corporate Citizen

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

Abbvie is a young company but has history stretching back 125 years. In 2013, Abbott Labs made a decision to break into two separate companies and Abbvie was one of the two. Therefore, it is still a new company but its roots stretch back into the 1800's and the founding of Abbott Labs. Abbvie contains the pharmaceutical research and development portion of the former Abbott Labs while Abbot Labs retained mostly non-pharmaceutical consumer healthcare brands and medical equipment. Abbvie has a broad product range and specifically targets difficult-to-cure diseases through its extensive, yet focused, research and development initiatives. There are currently five areas in which the company is targeting its work: immunology, oncology, neuroscience, virology and general medicine. By far the company's best known and successful drug has been Humira, which meets the needs of many patients with a variety of immune system diseases including rheumatoid arthritis, psoriatic arthritis, psoriasis, Crohn's disease and ulcerative colitis among others. Indeed Humira is among the most prescribed drugs in the US and the world. As a result, its estimated sales of $16 billion annually contributed greatly to the revenues of Abbvie, which amounted to nearly $26 billion in 2016. Abbvie has nearly 29,000 employees who work in 70 different countries to make more than 30 million patients' lives better in 170 nations around the world. Due to the success of several new drugs as well as the continued growth in Humira, Abbvie has been able to generate both double digit revenue and earnings growth since it separated from Abbott and its stock price has more than doubled in that time. Humira, however, lost its patent protection in 2016 and Abbvie has been busy acquiring other companies with the hope that the new drugs acquired would help the company avoid the inevitable decline in Humira's post-patent expiration sales. These efforts look promising as the company continues to forecast double digit increases in sales and earnings. For example, in 2016 Abbvie launched several new products or expanded indications across immunology, oncology, virology and neuroscience, many of which are expected to be significant long-term growth drivers. The company also advanced their research in oncology with Stemcentrx, a recent acquisition, and its novel compound, rovalpituzumab tesirine, which is currently in late-stage clinical trials for solid tumor cancers. Clearly, Abbvie has a very big hole to fill with Humira now being off patent but thus far, they seem to be managing the challenge very well.

While Abbvie has been and likely will continue to be a successful pharmaceutical company, the company's mission statement indicates they define their achievements not only in terms of sales and earnings growth: "Create an innovation-driven, patient-focused specialty biopharmaceutical company capable of achieving sustainable top-tier performance through outstanding execution and a consistent stream of innovative new medicines". The company also says this: "we combine advanced science, expertise and passion to solve serious health issues and have a remarkable impact on people's lives". The company's focus on positive patient outcomes is noteworthy and is backed up by the fact it has 1.37 million of its patients on its patient assistance programs because they struggle with the cost of its highly innovative medicines. Abbvie also ranks in the top 10 pharmaceutical companies in the Access to Medicines Index, which ranks pharmaceutical companies' efforts to improve access to medicine in developing countries. Abbvie was recognized for leadership in research and development, equitable pricing practices, addressing neglected tropical diseases and its focus on neonatal health in the Philippines. International Medical Corps gave Abbvie its 2016 annual Global Citizen Award for its humanitarian partnership to support underserved populations around the world. International Medical Corps and Abbvie work in disaster situations where speed and urgency are critical, including the Ebola crisis, Hurricane Matthew, the European refugee crisis and the earthquakes in Japan and Nepal. The Dave Thomas Foundation for Adoption recognized Abbvie for the second consecutive year as one of the 100 Best Adoption-Friendly Workplaces. These are just a few of the awards the company has earned which clearly demonstrate its desire to be a blessing to those in need.

Not surprisingly, Abbvie treats not only its patients but also its employees exceptionally well. Foremost among its commitments to its employees is its efforts to manage its widespread business with the highest of integrity and ethics. Its policy on Human Rights contains an employee section that includes the following:

- Encouraging open communication between management and employees without threat of reprisal, intimidation or harassment
- Providing compensation and benefits that are competitive and comply with applicable laws for minimum wages, overtime hours and mandated benefits
- Providing a healthy and safe working environment
- Providing a workplace free of harassment and discrimination for reasons such as race, religion, color, age, gender, ethnicity, disability, religion, marital status, sexual orientation, gender identity or expression, or any other status protected by law
- Complying with child labor laws, as well as laws prohibiting any form of forced, bonded or indentured labor, involuntary prison labor or human trafficking

Abbvie refers to its compensation and benefits package at its "Total Rewards Package". It entails not only competitive compensation but also assistance with employee well-being and flexible scheduling to adapt to changing situations in employees lives. Abbvie Vitality is the name of the program which assists employees in living a healthy lifestyle. This includes educational seminars on topics such as health, fitness and finances, screenings for various diseases to be able to detect them early and a competitive event that attracted 6,300 employees from 55 countries to exercise for a total of 8.3 million minutes. Employees can have a personal healthcare advocate, there are employee assistance programs for those facing difficult life situations, extensive child care facilities on the work site and assistance with home child care as well. Abbvie's extensive benefits package highlights its strong commitment to its employees, one in ten of which hold a doctoral degree.

Abbvie's charitable efforts are also extensive and include partnerships with Christian organizations like MAP International and Mercy Ships. In 2016, nearly 81,000 patients in the US received medication from Abbvie at no cost whatsoever while hundreds of thousands more received financial assistance to help make their medicines affordable. The company also donated 21,000 textbooks to US students and helped provide over 30 million free HIV tests in ten countries in Africa over the last twelve years. The Abbvie Foundation made 574 grants to help with education and training regarding a variety of diseases in 2016. The company also made $6.3 million in cash and product grants to areas ravaged by natural disasters and 5,500 of its employees donated 25,000 hours of time in 50+ countries in 2016 to help with a wide variety of needs during an event Abbvie calls the "Week of Opportunities". Additionally, 97% of Abbvie's US employees gave to over 3,000 charitable organizations last year, so the company's generosity extends to its employees as well. The company also had 160 of its scientists donate over 17,000 hours of time to help find solutions for the poor in many countries suffering from neglected tropical diseases.

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

The Bad – Starbucks – Promoting Sin

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

Starbucks needs no description as everyone reading this Quarterly Commentary is no doubt well-acquainted with the brand. During the company's peak of popularity, it seemed that everywhere you turned an old gas station or bank was being renovated into a brand new Starbucks coffee shop. The shops became so ubiquitous people began to joke a new Starbucks had just opened in the Starbucks rest room and it is said that if you stood at a certain spot in Manhattan you could see three Starbucks without even turning your head. Somehow, by using European languages to name their coffee cup sizes and providing an atmosphere in their stores that appealed to young and old alike, the company found it could charge a small fortune for its coffee. While the Starbucks brand is currently a bit passé (we thought we would use a French word given we are talking about Starbucks!), the company remains fairly successful and is currently in the midst of yet another sizable expansion program that aims to surround us with even more of their shops. For Christian investors who believe the Bible is the word of God, however, Starbucks is a company that raises many questions with it very strong support for the sin of homosexuality. Starbucks' Chairman, Howard Schultz, has openly expressed unusually strong negative words toward anyone who share a biblically-based belief regarding homosexuality. And he has backed that up with many, many actions using shareholder money to back homosexual causes. Few CEO's have expressed such strong feelings that are at odds with those of so many of his customers.

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

Our Ultimate Goal – Funding the Lord's Work

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

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

Featured Ministry – World Outreach Ministries

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

The vision of World Outreach Ministries is to help advance the Great Commission throughout the world by serving missionaries and humanitarian workers on the frontlines. World Outreach Ministries is an affiliation of interdenominational missionaries and humanitarian workers who need a dependable home office. It was established over 38 years ago by Jason Peebles in 1979 as a 501(c)3 nonprofit organization. The missionaries World Outreach Ministries serve are from all types of church backgrounds and are involved in a variety of outreaches - evangelism, church planting, schools, medical clinics, aviation, translation work, children's shelters, leadership training, support roles, and so much more. God's kingdom needs all kinds of workers. The ministry's desire is to serve missionaries who are on the frontlines and provide them with a dependable home office. World Outreach Ministries is currently serving over 400 missionary families and we assist over 1800 native workers each month with our free study materials. The ministry assists them by providing many critical services: donor receipts, online gifts, automatic gifts, list maintenance, deposits, support development, and a web-based system that allows them to log in 24/7. With their system, they can log-in to their account, track funds, update their list, generate reports, build files, and much more.

World Outreach Mission's core value is that each person - regardless of race, culture, nation, belief, or lifestyle - is valuable to God and in need of Jesus Christ. According to Matthew 16:26, the value of a human soul is immeasurable: "For what is a man profited, if he shall gain the whole world and lose his soul? Or, what shall a man give in exchange for his soul?" Every human being (regardless of how "good" they are or how miserable their current state) should be treated with respect and given the opportunity to know God's great love through Christ. In truth, all of us are "prodigal sons" in need of returning to the Father's House (Lk 15:11-32). The ministry accomplishes all its important work on behalf of independent missionaries very efficiently and productively. It is no surprise the ministry receives a Five Star Financial Efficiency rating from MinistryWatch.com.

World Outreach Ministries' work to function as an efficient "missionary home office" has been a blessing to many who have been called overseas to sever the Lord for decades. Moreover, it has managed the financial affairs of its ministry very well, achieving a five star rating from MinistryWatch.com. Taking together its good stewardship of donor resources and its effective ministry to those sacrificially serving the Lord as missionaries, World Outreach Ministries is worthy of your consideration for financial support.

The Christian Ministry Marketplace – Helping Donors Give Wisely

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

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

The Christian Ministry Marketplace
Resources for Christian Donors

WHY to give to Christian ministries?

Teaching on Stewardship:

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

HOW to give with a discerning mind?

Professional Advisors:

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

Donor Advisors:

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

WHERE to invest in kingdom ministries?

Ministry Research:

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

Ministry Mutual Funds:

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

Featured Ministry Marketplace Participant – Kingdom Advisors

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

Kingdom Advisors is a rapidly growing association of Christian financial professionals dedicated to communicating biblical wisdom to their clients, applying professional principles in their practices and living out their faith their marketplace in order to have a kingdom impact. The organization was originally founded by Larry Burkett as the Christian Financial Planning Institute. In 2003, however, Ron Blue took over leadership of this 16-member organization and laid plans to significantly increase its size and impact. Six years later, the now renamed Kingdom Advisors has 1,700 members and its impact continues to grow. Many local branches of the group are in operation across the country as well where members can minister to one another and work together to have an eternal impact on their communities. Additionally, members have begun to create affinity groups within Kingdom Advisors where financial advisors can join together with others who share their interests. The oldest such group is the Biblically Responsible Investing (BRI) Community Group which Stewardship Partners helped start. Other groups focus on charitable giving, attorneys and emerging advisors. Advisors from individual firms, such as Morgan Stanley and Merrill Lynch have also organized within Kingdom Advisors.

Members of the group are also encouraged to pursue the Certified Kingdom Advisor designation which requires participation in a rigorous study program designed by Ron Blue, founder of the largest Christian financial planning firm in the world. Kingdom Advisors' professional training is designed to assist financial professionals in becoming disciples of Christ who are equipped and motivated to disciple others in comprehensive biblical financial stewardship. Hundreds of Kingdom Advisors members have already completed these studies, including some of the most respected financial advisors in the country. If you are a Christian financial advisor, you need to be a member of Kingdom Advisors!

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 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