STEWARDSHIP PARTNERS MARKET COMMENTARY

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Stewardship Partners Posts Strong Returns in 2Q and YTD

"…give thanks to the Lord for his unfailing love and his wonderful deeds for mankind." Psalm 107:21

Across the globe, share prices struggled to achieve a positive return in the second quarter of 2018 (Table 1). Escalating tensions over global trade and signs of slowing economic activity outside the United States kept share prices in check. Most Stewardship Partners portfolios, however, benefited from good returns on a number of our holdings. Our largest holding advanced particularly strongly in anticipation of sales of its important new drug. As a result, almost all of our non-quantiatively managed portfolios had double digit returns during the quarter. Most Stewardship Partners portfolios also now have a significant advantage over the relevant indices in the year-to-date period as better than index performance has been achieved in each of the first two quarters of 2018. In the US, share prices fared a bit better than elsewhere in the world in the second quarter with the S&P 500 rising 3.4% led by energy stocks and large technology shares. The S&P 500 closed the first half of the year up only 2.7% despite rapidly growing corporate profits. Chart 1 highlights how corporate profit margins have jumped to a new record high in early 2018. Improved US economic growth and the Trump tax reform bill were largely responsible for this unusually good earnings performance. Normally, such strong earnings would be expected to translate into higher share prices. Since the market had gotten ahead of itself in 2017 and through January 2018, when it experienced an exceptionally low volatility advance that extended to a record 15 straight months, it needed to take a deep breath. Accordingly, equities have struggled so far in 2018 as last year's move higher had pushed share prices temporarily too far ahead of reality. We are very grateful most Stewardship Partners portfolios have been able to produce index beating returns during this period when the market has struggled to move higher.

Chart 1

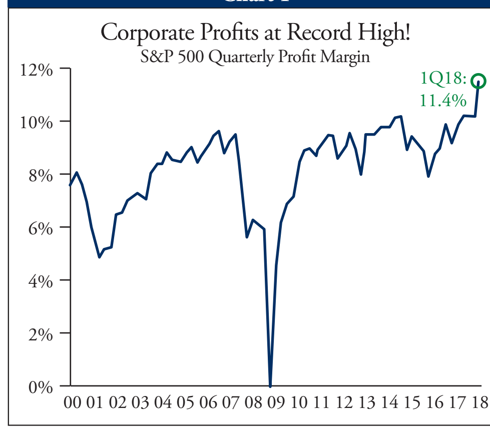


Table 1

2Q18 Total Returns

US Indices	2Q18	YTD	5y Ann
S&P 500	3.4%	2.6%	13.4%
S&P 500 Value	1.4%	-2.2%	10.4%
S&P 500 Growth	5.2%	7.3%	16.0%
NASDAQ	6.6%	9.4%	18.5%
S&P 400 (Mid Cap)	4.3%	3.5%	12.7%
S&P 600 (Small Cap)	8.8%	9.4%	14.6%
Treasury Bonds	0.1%	-1.1%	1.5%
High Grade Corp. Bonds	-1.0%	-3.3%	3.5%
High Yield Corp. Bonds	1.0%	0.2%	5.5%
Gold	-5.5%	-3.8%	0.3%
Global & International Indices			
MSCI World	1.8%	0.4%	9.9%
MSCI EAFE	-1.1%	-2.7%	6.4%
MSCI Euro	-2.8%	-3.2%	7.1%
MSCI Far East	-2.3%	-2.2%	7.4%
MSCI China	-2.2%	-2.0%	7.4%
MSCI Japan	-3.5%	-1.7%	12.1%
MSCI Emerging Markets	-7.8%	-6.7%	5.0%
US Economic Sectors			
Energy	13.5%	6.8%	2.2%
Materials	2.6%	-3.1%	10.9%
Industrials	-3.2%	-4.7%	12.7%
Consumer Discretionary	8.2%	11.5%	16.0%
Consumer Staples	-1.5%	-8.5%	8.2%
Health Care	3.1%	1.8%	13.8%
Financials	-3.2%	-4.1%	13.1%
Information Technology	7.1%	10.9%	21.9%
Telecom	-0.9%	-8.4%	3.7%
Utilities	3.7%	0.3%	10.6%

Source: Bloomberg

Despite its low returns thus far in 2018, the US equity market has done better than most other markets around the world. Additionally, bonds have struggled to achieve positive returns as the Federal Reserve has continued to push interest rates higher and some credit quality concerns have begun to arise. There just have not been many places for investors to turn to achieve good results in 2018, which makes us especially thankful for our returns so far this year. European equities have struggled due to the trade and political frictions with President Trump, increasing political uncertainty in Italy and Great Britain (related to Brexit), renewed questions about the vitality of the Italian banking system and its possible impact on French and German financial institutions as well as continued struggles at Deutsche Bank. Deutsche Bank's stock plumbed new lows during the second quarter as investors became increasingly concerned its efforts to "right the ship" were floundering. Recently, Deutsche Bank's US unit failed the Federal Reserve stress test which only heightened the concerns about the German parent. In the end, European stocks fell 1.3% in the quarter and 3.2% for the first half.

Emerging market equities have faced the biggest headwinds so far this year and fell by 8% in the second quarter. Trade frictions between the US and China were the biggest culprit for the poor performance of the emerging markets as the Chinese market has technically entered a bear market by falling more than 20% from its previous high. The strength of the US dollar has also become an issue for the emerging markets as it raises the cost of US Dollar denominated debts many emerging market companies need to soon repay. We have often noted in these commentaries the risks associated with the huge debt bubble which arose during China's economic boom. Should the Chinese government ever lose control of the sizable debts incurred by its corporate sector, as well as the debts that have built up in its regional governments, there could be a sizable economic shock to China, and perhaps the rest of the world as well. A trade war with the US is not what China needs right now given this risk.

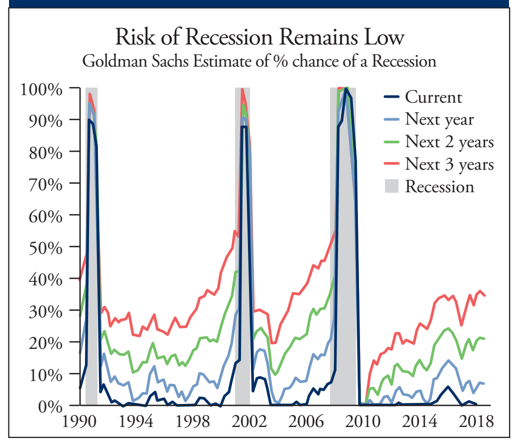
Fortunately, the US economy and financial system appear to be in very good shape. Heavy US exposure in our global portfolios also aided our returns so far in 2018.

The US Economy is Improving, Not So Much Elsewhere

"See what the land is, and whether the people who dwell in it are strong or weak" Numbers 13:18

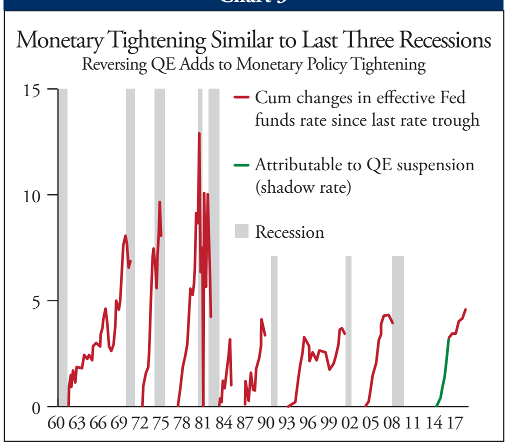
Given our overweighting of US shares in our global portfolios, we are focused on the outlook for the US economy. As we have pointed out in the past, the current economic recovery is close to becoming the longest one ever, so we need to be more attentive than normal to the risk of an impending recession. Fortunately, that risk is still quite low as indicated in Chart 2. Research by Goldman Sachs places the risk of a recession at less than 10% in the next year. We believe this model is largely accurate in its assertion of such a low risk of a recession in the near term. The US economy is performing better under the more pro-business policies implemented by the Trump administration. Indeed, most economists believe economic growth is now accelerating rather than slowing. This is unusual for such an old economic expansion, but through most of the Obama years, growth was so moderate that normal economic excesses which often lead to recessions never built up. With US economic activity now finally beginning to speed up, however, we will be watching for signs that economic growth is running too hot. For now, however, that is not the case and economic growth seems to be returning to more normal levels.

Chart 2



Source: Goldman Sachs Global Investment Research

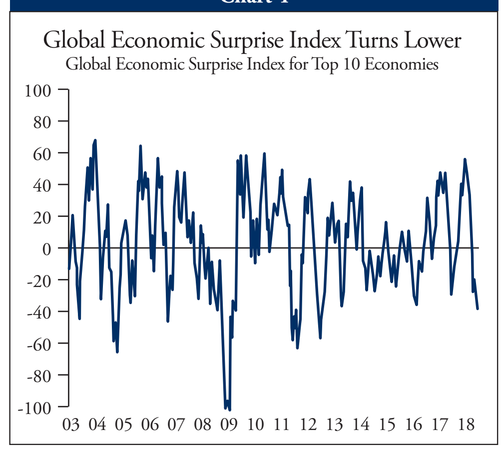
Chart 3



Source: SG Cross Asset Research/Equity Quant

While US economic activity is improving, there are always threats to its well-being. Foremost among these at the moment is the possibility of a monetary policy mis-step. With a relatively new Fed chairman at the helm and with inflation beginning to move higher, the chance the Fed takes a too aggressive posture too early against inflation is higher than normal. Moreover, no one is sure just how the unwinding of the Fed's massive, multi-year Quantitative Easing (QE) will impact the economy, and more importantly, the financial markets. With the transition to what we have named Quantitative Squeezing (QS), where the Fed has begun to sell the financial assets it acquired during QE, now started, we are in virgin territory as this has never been attempted before. Chart 3 displays a model of the impact of QS on monetary policy which indicates monetary policy has already tightened as much as it did prior to the last three recessions. We suspect this model overstates the case, but given the uncertainties surrounding this previously untried QS, we will be paying close attention to the upcoming economic data.

Chart 4



Source: Topdown Charts, Thomson Reuters Datastream

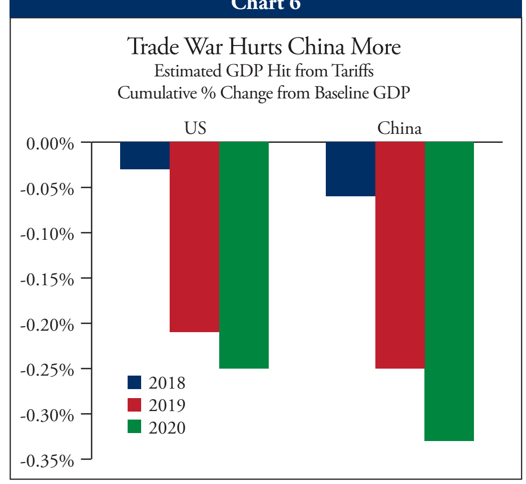
Chart 5

Source: BofA Merrill Lynch Global Research, Bloomberg, Markit

Another threat to the US economy is a shock emanating from outside the US borders. The European economy is clearly not in as good shape as the US and further deterioration there could impact the global economy, particularly if the stability of its financial institutions comes into question. Likewise, in China, the emerging markets and Japan, a debt crisis could easily arise and set off a contagion around the world. Chart 4 portrays deterioration in global economic indicators which, if not soon reversed, will only increase the chances of such an unwanted development.

Of course, the Trump administration's trade policies are one item causing some disruption in the global economy. This can be clearly seen in the sharp decline in export orders around the world shown in Chart 5, particularly in Europe and Japan. With economies outside the US already facing downward pressure, the timing for Trump to deploy his efforts to negotiate more attractive trade deals could not be better. Given the current stronger US growth prospects, he has some fortuitous negotiating leverage at his disposal. With regards to the biggest target in the trade negotiations, China, Chart 6 highlights both economies will be hurt by a trade war but China will feel a bit more pain than the US. While the impact on both countries may not be too severe if the trade war ever fully plays out, China will lose the most. We suspect, however, some agreement will be reached before the losses seen in Chart 6 ever materialize. With the Chinese economy looking particularly vulnerable, they have every reason to negotiate.

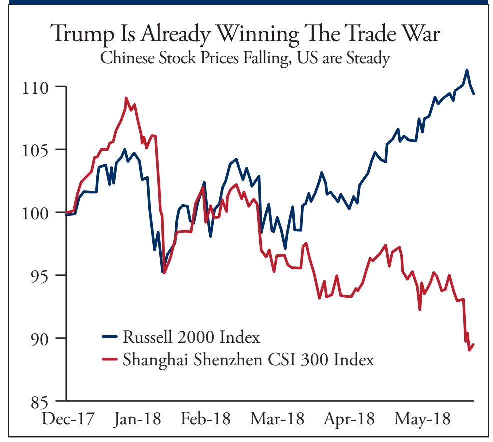
Chart 6



Source: Oxford Economics

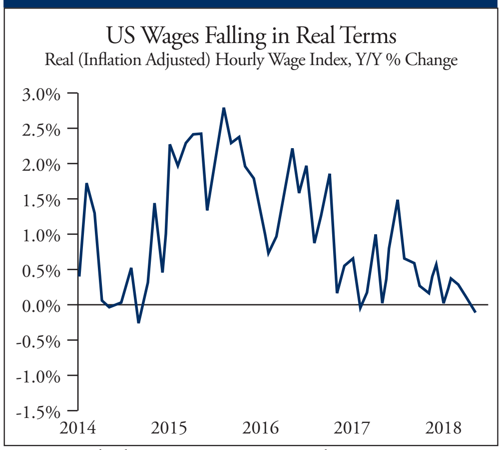
Chart 7 shows at least one reason why the Chinese should be looking for a negotiated settlement. When it comes to the financial markets, Trump is clearly winning the trade war so far. The Chinese stock market has fallen into a bear market while the US stock market has been able to hold steady at a high level. But the Chinese stock market is probably not the Chinese government's biggest concern. The Chinese bond market is where China could really be in big trouble if their economic growth slows too much. During its massive economic boom, debt has grown very rapidly in China and the possibility of a cascading inability of Chinese companies being unable to roll these loans over or pay them back certainly must be keeping Chinese economic officials, if not the political leaders, up at night. Of course, if the Chinese debt bubble did burst, it could easily end up being a problem not just for China but for the rest of the word as well. Western financial institutions would not likely be impacted directly by such a turn of events, but the indirect impact on financial markets and monetary policy elsewhere in the world would be meaningful.

Chart 7



Source: SG Cross Asset Research/Equity Quant

Chart 8



Source: Scotiabank Economics, Statistics Canada, BLS

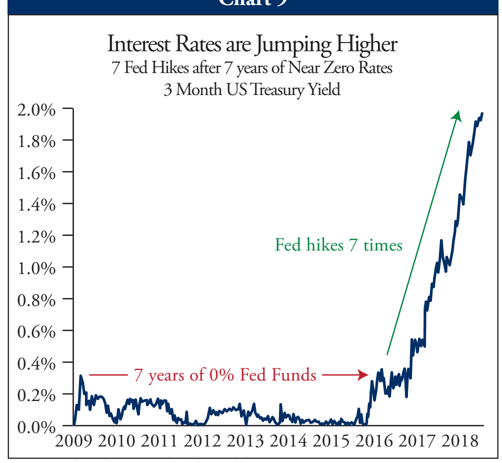
The Trump administration may have a good chance of succeeding on the trade front but translating the better economic growth into tangible benefits for the electorate back here in the United States is proving a bit more difficult to achieve. Certainly, employment levels are very good and wages are rising faster than they have in years as a result. Unfortunately, inflation is also rising faster than it has in years and the net result is real wages, which account for inflation, are actually now declining (Chart 8). This is a trend that is unlikely to be altered much before the election in November and could cost the Republicans at the polls, especially in the House of Representatives. If the Republicans lose the house in November, the ability to move any legislation forward will be greatly reduced. This is no doubt one reason why President Trump has been recently imploring OPEC to lower oil prices and has also been talking about releasing oil from the Strategic Petroleum Reserve. Lower gas prices at the pump are always an encouraging development for voters and could save the Republicans a few house seats which could end up determining whether they retain control of the House. While President Trump is clearly a polarizing politician, the economy is doing well enough and consumer confidence is high enough that he may once again confound the pollsters in the mid-term elections. Moreover, Democrats have swung so far left in reaction to Trump that many independent voters may struggle to embrace the left's platform. If President Trump can deliver peace and prosperity between now and November, his second two years in office may find him once again surrounded by a Republican House and Senate, which might help him continue to implement his economic agenda.

Free Money Created a Lot of Debt – Beware the Consequences

"He said to them, 'Why are you troubled, and why do doubts rise in your minds?'" Luke 24:38

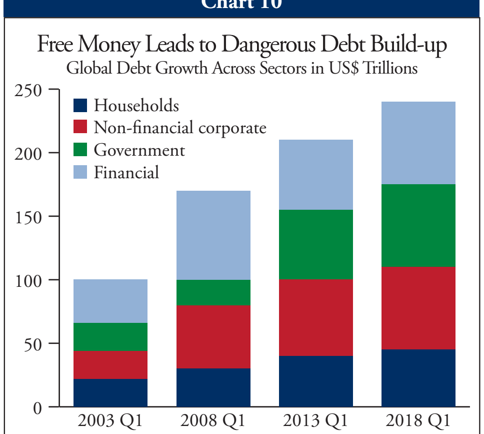
Reflecting the strength of the recovery, the US economy has been doing just fine even as interest rates have finally risen following a seven year period of time when the Fed held short term interest rates very close to zero (Chart 9). For years, the Fed had to effectively offer free money to the economy to keep it from entering a deflationary spiral. Now, economic growth is accelerating even in the face of a Fed anxious to return rates to more normal levels. Still, those many years of low interest rates, in fact negative real interest rates both here and around the world, had a number of consequences which will influence economic performance for some time to come. It is not necessarily easy to unwind such a dramatic and long lasting economic policy without some impact being felt. Most importantly, this extensive period of effectively free money led to an explosion of debt throughout the world with governments, businesses and consumers all partaking in the free money. Between 2003 and early 2018, global debt increased by almost $150 trillion (Chart 10). While economic growth also expanded over this time frame, it was outpaced by the growth of debt; therefore risk of an unfortunate debt debacle has risen. For the most part, the higher debt levels will likely be able to be handled without incidence. But it only takes one weak link to falter and cause the financial markets to become frightened about a larger debt problem. Anytime and anywhere debt grows too fast, a calamity often follows. Debt is typically taken on under the assumption economic growth will continue. Sadly, that sometimes does not prove to be true leading to slower economic growth as governments, consumers and companies struggle to make interest and principal payments under harsher than expected economic conditions. Banks also reduce lending under such circumstances as they deal with credit losses, thereby further

Chart 9



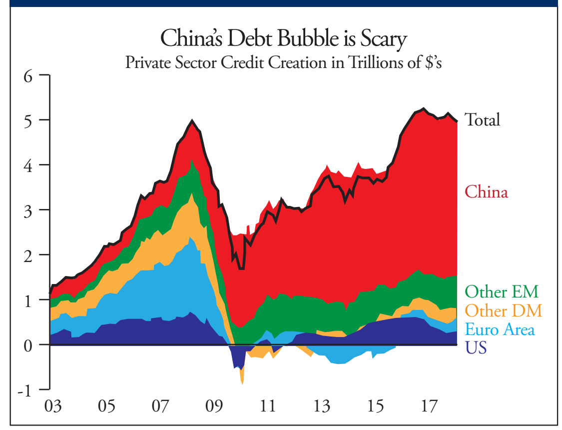
Source: Bloomberg, @CharlesBiello

Chart 10



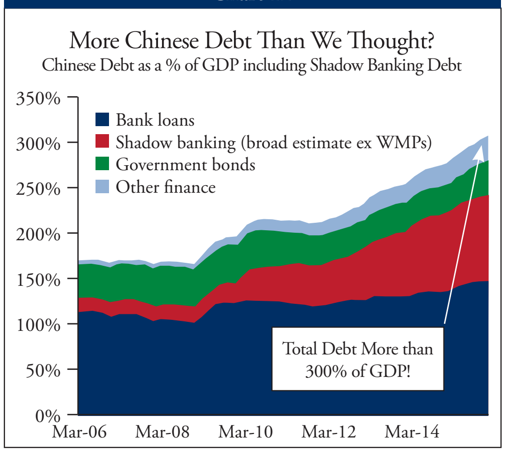
Source: Institute of International Finance slowing economic growth. Even when an economy is performing well, an excessive amount of debt in the system can sometimes promote a recessionary environment as heavily indebted entities seek to slow their growth in order to regain a more balanced exposure between debt and equity. While the sizable increase in debt in recent years, and especially since interest rates fell to near zero after the Great Recession, is a problem throughout the world, it is a huge problem in China and a sizable one in the emerging markets as well. The stunning growth in just private sector credit in China alone, as seen in Chart 11, should cause all investors to pause and take note as it is a calamity waiting to happen. In the past, the Chinese government has been able to forestall any problems emanating from this huge growth in debt. They may be able to continue to do so. Still, the enormous growth in Chinese debt, which dwarfs that of the rest of the world since the Great Recession in 2008, remains a lingering risk factor for the global economy and the financial markets. Should the Chinese authorities ever lose control of this situation, trouble will quickly follow.

Chart 11



Source: Citi Research

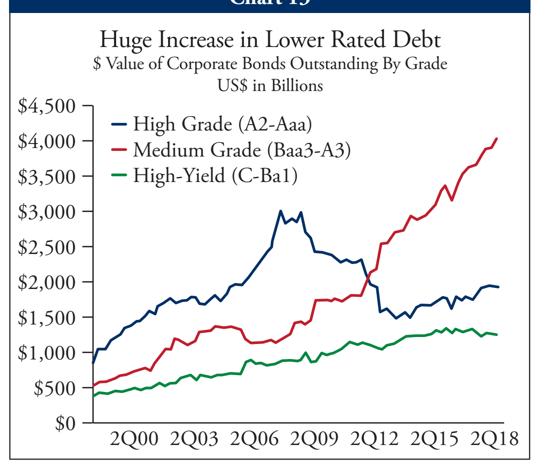
Chart 12



Source: CEIC, NAB Economics

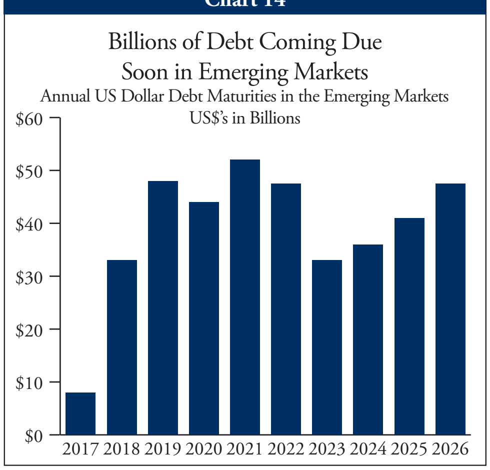
Another economic forecaster shows the debt growth in China has not been just in nominal terms but also in relation to the size of the Chinese economy. Since 2006, the total debt to GDP ratio for China has doubled with much of the growth being attributed to "shadow banking" or loans given by unregulated entities acting like a bank but not actually an official bank. This type of lending is a recipe for disaster. Moreover, we would not be surprised if Chart 12 actually understates the degree of the problem. There is no question China will have to confront its debt problem soon. It will have, and may already be having, a negative impact on China's economic growth prospects. The Chinese debt bubble bursting remains the biggest threat to the global financial markets but, thus far, China has been able to avoid the normal consequences of such an explosion of debt. We can only hope they are able to continue to do so and they slowly make the needed adjustments to return debt to more manageable levels.

Chart 13



Source: Moody's Analytics

Chart 14

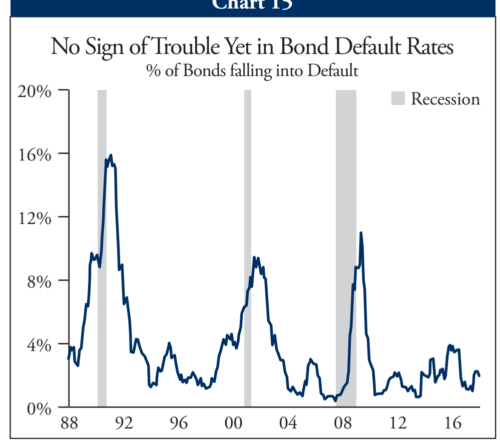


Source: JP Morgan EMBI Global Core Index, Bloomberg Intelligence

Of course, with free money available for so long, China is not the only problem. The corporate sector, with the exception of highly rated companies which reduced their debt levels, has also greatly expanded the amount of debt being utilized. As seen in Chart 13, speculative grade companies (those that issue junk bonds) have roughly tripled the amount of debt on their balance sheets since 1998 but the really massive growth in debt has occurred in those companies rated between investment grade and junk bonds. While the credit risk here is not as high as with junk bonds, the amazing increase in the amount of debt since the Great Recession suggests there could be an unwelcome reckoning at some point.

Such a reckoning, however, may first come in one or more of the emerging markets. Unlike China, these nations may not have the economic wherewithal to forestall the problems associated with excessive much debt and could prove to be the weakest link in the global debt chain. Chart 14 highlights the rising amount of dollar denominated debt that needs to be paid back or rolled over as it matures in the coming years. Dollar denominated debt has proven to be especially problematic for emerging market issues in the past as their currencies are so susceptible to crash in relation to the dollar thereby inflating their debt to unmanageable levels.

Chart 15



Source: JP Morgan Global Economic Research

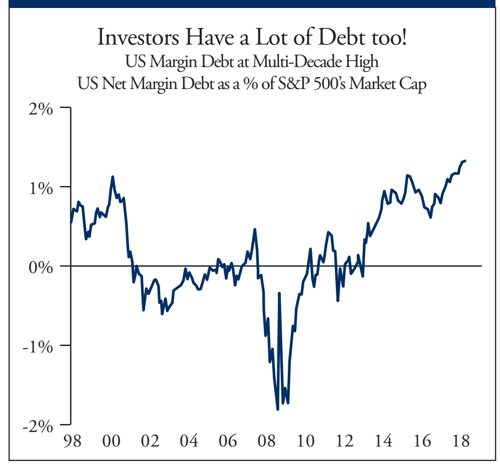
In the US, however, a debt crisis does not appear to be at hand, despite the growing debt load. Backed by the improving economy, the default rate is actually currently well below the average of the last 30 years and is moving lower (Chart 15). Should interest rates continue to rise, however, we would expect more borrowers to begin to struggle in the US as well.

Very Strong Earnings But Lots of Margin Debt and a Tech Bubble

"Do not be far from me, for trouble is near and there is no one to help." Psalm 22:11

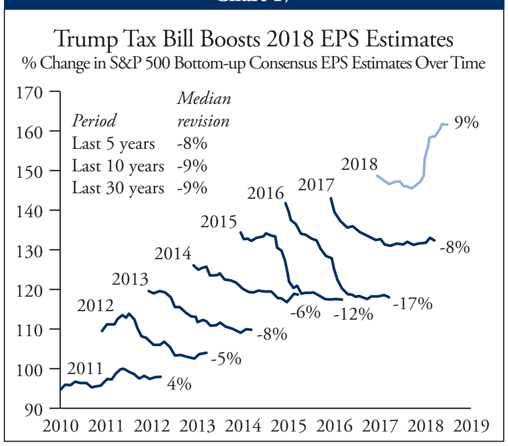
Excessive debt is a problem in the US equity market as well as elsewhere in the world. Following the especially elongated bull market we are currently enjoying (now almost the longest in the post-World War II period) the use of margin debt to purchase equities relative to the market cap of the S&P 500 has risen to a multi-decade high (Chart 16). While excesses have not built up in the economy because most of the economic expansion was subdued, the bull market has not been so restrained. Aided by QE, the bull market has been one of the best ever. Clearly, the significant use of margin debt is one indication of how risks build after the market has had a very good run. This does not mean, however, a margin call driven bear market is about to send share prices reeling. High margin debt does not normally cause a sell-off is equities, it instead exacerbates a sell-off that arises from other concerns. The larger the margin debt, the greater the market's fall ultimately will be whenever the circumstances arise to trigger a correction. Within the US the conditions for a bear market do not appear to be in place. Economic activity is expanding, corporate earnings are expected to continue to grow, valuations are no longer extended and interest rates and inflation, while rising, are not yet doing so in a manner which would alarm investors. Of course, should some unexpected event occur either inside or outside the US that would undermine investor confidence in future growth, then the market could head lower quickly aided by the liquidation of margin debt.

Chart 16



Source: FINRA, FactSet, Goldman Sachs Global Investment Research

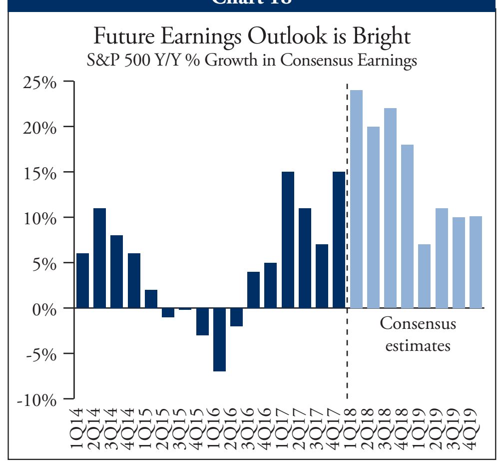
Chart 17



Source: Goldman Sachs

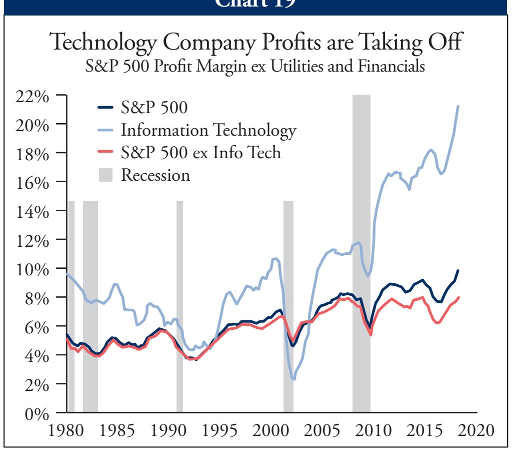
Corporate earnings have not just been good in 2018, they have been great. Thanks to the Trump tax reform bill, corporate tax rates were slashed, leading to an unusual jump in the S&P 500 earnings estimate (Chart 17). Normally, analysts start the year too optimistic about corporate earnings and their estimates get revised lower as the year progresses, typically by an average of 9%. So far in 2018, just the opposite has occurred as estimates have increased by 9%. The tax bill had both a direct and indirect impact on earnings forecasts as the boost it is giving the economy is also contributing to corporate earnings power. With this backdrop of strong earnings such as this, the market should find it difficult to fall for more than a short period of time.

Chart 18



Source: Thomson Reuters, Morgan Stanley Research

Chart 19



Source: Goldman Sachs

At the moment, forecasters are predicting continued strong US earnings growth through 2018 and a more moderate earnings expansion in 2019 (Chart 18). Since foreign earnings make up close to 40% of US corporate profits, imbedded in these estimates is an expectation that global growth continues relatively unimpeded and the value of the US dollar does not rise too much. But the dollar has been rising and the risk of a recession outside the US is greater than within it. So, while the earnings outlook is rosy right now, it could change quickly. Moreover, some fear the hit to earnings from a trade war might offset much of the benefit from the Trump tax reform bill. Clearly, this is one reason why equities have struggled in 2018 even though the earnings outlook has been so attractive. And now the seasonally weak period of the year for stocks is also just ahead.

The small advance in the S&P 500 in 2018 has been largely powered by a small number of e-Commerce stocks. This can largely be attributed to the soaring profitability of the technology sector generally and its largest constituents specifically. Chart 19 portrays how the technology sectors profit margins have soared relative to the rest of the S&P 500 in last fifteen and especially since the Great Recession. Just eight large technology companies accounted for the S&P 500's total return so far in 2018, with Amazon leading the way by accounting for 36% of the index's return by itself. With such robust profit growth, it has not been surprising to see investors piling into these stocks. The performance of the e-commerce component of the technology sector (Amazon, Netflix, etc.) has been so good it now matches prior bubbles (Chart 20) – let the buyer beware!

Chart 20

Source: BofA Merrill Lynch Global Investment Strategy, Bloomberg

Still Cautiously Positioned as Seasonally Weak Period Ahead

"Do not say, 'Why were the old days better than these?'... it is not wise to ask such questions" Ecclesiastes 7:10

We remain cautiously positioned in our portfolios as our current strategy has worked well in 2018. Since we have had a high degree of confidence our largest holding would perform well in 2018 and recognizing the market might need some time to digest its 2017 advance, we have positioned our portfolios cautiously via retaining a lot of cash for safety and future hedging (we also had hedges in place earlier in the year). Of course, having an unusually large amount of the portfolios in one stock is a risk but our unusually good knowledge about the company in question helps mitigate that risk. We also have smaller positions in many other stocks, several of which we believe also have impressive growth potential. Given our long experience in the financial markets, we know we are highly unlikely to get all of our picks correct over an even short period of time and we will never be so fortunate over a longer period of time. If we continue to be right about our largest holding (and there is no guarantee we will), however, we will likely add to our index beating returns in the second half of the 2018. And we are prepared to reinstate hedges to our portfolios as the current bull market is very close to being the longest ever (Chart 21). Should this bull market finally falter, we hope to be wise enough to protect our portfolios as best possible.

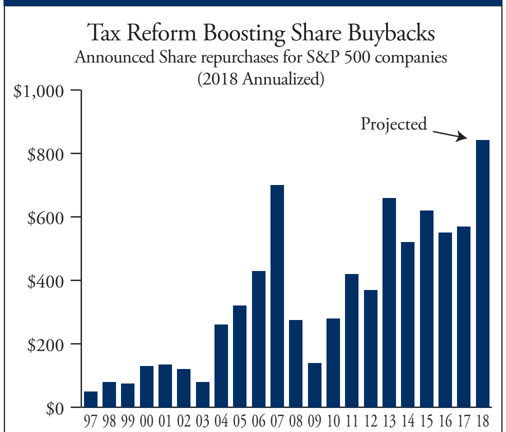
Table 2

Sizing Up the Bull Markets – This One is Old

Rank	Start/End Years	# of Months	S&P 500 Return	Annualized Return
1	1990-2000	114	418%	19.0%
2	2009-2018	113	302%	16.7%
3	1949-1956	86	267%	20.0%
4	1974-1980	74	126%	14.1%
5	1982-1987	60	229%	26.7%
6	2002-2007	60	101%	15.0%

Source: Bloomberg

Chart 21



Source: JP Morgan US Equity Strategy and Quantitative Research, Bloomberg

One element that is clearly keeping the bull market alive is the unusually large amount of share repurchases corporations are undertaking this year (Chart 22). Trump's tax reform has given companies an unexpected boost to cash flow and has also made it much easier from a financial perspective to repatriate cash that had been held offshore for tax purposes. These two factors combined have allowed corporate management to pursue a projected $842 billion in share buybacks in 2018, which is expected to be the largest annual share repurchase in history. While other sources of funds for the markets have dried up as the year has progressed, the buybacks are helping to hold the market up in the face of overseas uncertainty, the percolating trade war and the impact from the Fed's more aggressive inflation fighting efforts, including the reduction in the assets it acquired during its QE programs. Of course, share buybacks alone will not be able to prevent a market sell-off should the impact of the negative forces above increase.

Table 3

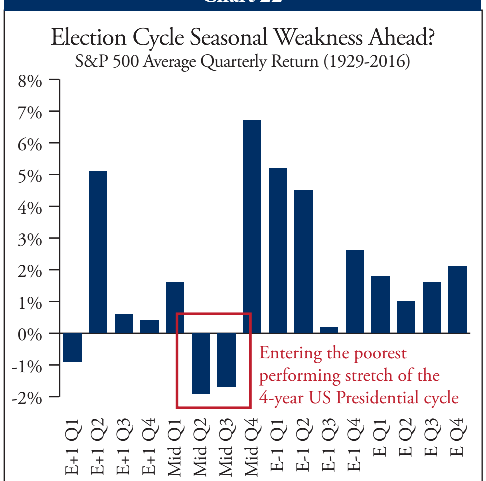
Flat Yield Curve Does Not Equal Imminent Recession

Recession Start Date	Months from 0.5% Yield Curve Steepness to Inversion	Months From Inversion to Recession	Total Months from 0.5% Yield Curve Steepness to Recession	S&P 500 Price Return From 0.5% to Recession
February 1980	11.9	17.8	29.6	19.8%
August 1981	0.8	10.9	11.7	5.8%
August 1990	53.9	19.8	73.7	137.0%
April 2001	42.4	34.7	77.1	155.3%
January 2008	7.4	24.5	31.9	21.5%
Median	**11.9**	**19.8**	**31.9**	**21.5%**
Average	**23.3**	**21.5**	**44.8**	**67.9%**

Source: LPL Research, FactSet

As we have noted earlier, a recession in the US anytime soon seems unlikely given current trends. Still, some rightly point to a flattening yield curve, where longer term interest rates and shorter term rates are at the same level, as indicating a growing risk of recession. As we have noted in our previous Quarterly Commentaries, a flat yield curve has accurately predicted all recessions in recent memory and it is moving closer to a flat position as short term interest rates rise. Table 2, however, indicates on average the yield curve is roughly where it is at now about 2 ½ years ahead of a recession and stocks have advanced on average by 67.9% during the 2 ½ year wait for a recession to appear. So, if investors act too early on the yield curve signal of a future recession, they stand a good chance at missing out on meaningful returns.

Chart 22

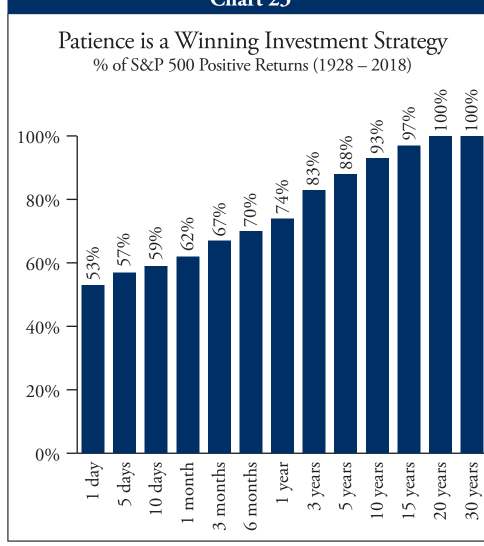


Source: Oppenheimer & Co., Bloomberg

July is typically a very good month for equities but August and September are normally seasonally weak. In the mid-term election year, the third quarter has typically produced negative returns in the past (Chart 23). As a result, remaining cautiously positioned with a high amount of cash in our portfolios remains the wise choice at this time. Following the election, however, the market's returns are normally strongly positive and we will be looking to become less cautious as we move beyond 2018's third quarter if the circumstances justify a more fully invested portfolio.

While we do try to avoid downturns in the market, we are also cognizant of the risks of missing out on good returns by being overly cautious. As Chart 24 highlights, riding out the bumps in the market almost always leads to positive results in the long term. Patient investors tend to be the most successful.

Chart 23



Source: @CharlesBiello

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, WW Grainger, and one we avoid, Amazon. WW Grainger is a holding in some Stewardship Partners portfolios while we actively avoid ownership in Amazon 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 – WW Grainger – An Exemplary Corporate Citizen

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

WW Grainger was founded in Chicago in 1927 by Bill Grainger in order to provide a consistent supply of motors to its customers. Grainger initially used a catalog called "The Motor Book" to market its motors and customers often ordered the devices using postcards. Soon the company realized that opening regional offices to be closer to its clients was a superior approach and by 1936, Grainger had 15 branch offices around the United States. Despite its humble beginnings, Grainger quickly grew its product line and it business in the decades to come. By 1967, the company had gone public and later listed on the New York Stock Exchange. Starting in the 1970's Grainger put an emphasis on technology to help it serve its customers best. It was the first company in its industry to utilize optical character recognition equipment in the 1970's, the first to install a satellite communications network in the 1980's the first to put its now massive product catalog on a CD-ROM in the early 1990's and the first to have a functioning e-commerce website in 1996. Now, Grainger sells more than 1.7 million separate products and operates out of over 700 branch offices making the company North America's leading business-to-business supplier of broad line manufacturing, repair and operating products. Grainger has also established operations in Asia, Europe and Latin America. More than 3 million businesses and institutions worldwide rely on Grainger for products in categories such as safety, material handling and metalworking, along with services like inventory management and technical support. These customers represent a broad collection of industries including commercial, government, healthcare and manufacturing. Moreover, the company has 5,200 suppliers and employs more than 25,000 workers. The company achieved revenues of $10.4 billion in 2017 and has raised its dividend for 48 straight years. Grainger is one of the most successful companies where most people have never known it even existed.

Grainger's "Business Conduct Guidelines" document starts with this statement: "One of the core pillars of our Growth Map is to be ***responsible stewards*** of our business. This means that Grainger and all of our team members honor their commitments and operate with ethics and integrity each day. To uphold this standard and ensure long-term success, we must continue to inspire trust and confidence with our stakeholders and each other in everything we do. Being ***responsible stewards*** means operating with ethics and integrity; honoring our commitments to our customers, team members and shareholders; and making choices with a long term view." We have highlighted both mentions of "responsible stewards" since our firm, Stewardship Partners, has an obvious affinity for the use of such language. The CEO also commented "Integrity is one of the core principles this company was founded on back in 1927, and 90 years later integrity continues to be essential and must be reflected in how we do business every day." Grainger is a mid-Western company and retains its mid-Western values as well. The 16 page Business Conduct Guidelines document addresses numerous potential ethical issues, including being fair and honest in all business dealings, avoiding conflicts of interest and insider trading, abiding by the rules and procedures in government contracts, illegal drugs, threats and violence in the workplace and a number of other important ethical issues. These guidelines apply to everyone working for the company, including the board of directors. Additionally, Grainger requires all of its 5,200 suppliers to sign its supplier code of ethics document which highlights rules for human rights and the environment.

Of course it is as just as important for a company to be a responsible steward of its employees as it expects its employees to be of the business.

Grainger has proven itself to be an exceptional employer and seeks to have its workers share in its success via its "Total Rewards Program". Remuneration is clearly at the top of the list in this program and the company has a variety of ways to compensate its employees including a fair and competitive salary, a management incentive program, a sales incentive program, a distribution center bonus, a long term incentive plan and cash awards. To assist employees with planning for their retirement, Grainger operates a profit sharing plan that incorporates within it a 401-K to which the company automatically contributes 3% of an employee's salary each year. Additional variable amounts are paid out of this plan when the company achieves its goals for the year. The company's medical plans cover all the possible alternatives (HSA plans and standard lower deductible, higher premium plans) any employee might want, including coverage options for retired workers. There is also a wide array of wellness programs a Grainger employee can utilize including smoking cessation, flu shots, weight loss, stress management and maternity programs, among others. Flexible spending accounts also allow Grainger's staff to purchase dependent care services, dental and vision insurance. A generous amount of life insurance is also granted to each Grainger employee. Grainger also provides up to $6,000 in funding to assist with an employee adoption. In another benefit which we have never seen before, the company provides a baby blanket for each new child born to an employee with the child's name embroidered on the blanket. Clearly, Grainger has thought of everything when it comes to being a responsible steward to its employees.

Grainger has also excelled at being a responsible steward of the environment, leading the company to receive an "A-" grade from an independent monitoring group in each of the last two years. Its environmental efforts extend from its suppliers to its customers and everywhere in its operations in between. Grainger has also consistently invested in the communities it has served. The company's focus is on disaster preparedness and response, education and workforce development, and local civic and community engagement. The company has donated over $17 million to the Red Cross over the years and is currently giving the Red Cross more than $1 million annually to assist in disaster preparedness and response. The company has donated more than 50,000 smoke alarms and was very active in assisting with recovery from last year's hurricanes. Over 1,700 Grainger employees have been trained by the Red Cross for its "Ready When the Time Comes" program. These workers are trained to respond quickly when a disaster strikes. Grainger is also involved in a program to help 1 million underprivileged children to obtain college degrees. A generous matching gift program gave more than $2.2 million in donations last year and the Grainger Foundation made over 1,100 grants as it gave away more $6.6 million. The Foundation typically makes grants to smaller charities recommended to it by staff in the various Grainger offices across the US.

Grainger'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 is an organization we can be proud to be known as part-owners!

The Bad – Amazon – Porn, Abortion and Poor Treatment of Workers

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

Amazon's stock alone accounted for 36% of the S&P 500's advance in the first half of 2018. It has been an enormously successful company, especially in terms of growing its sales at a very rapid rate. The company's success, however, has come at a high cost to many other businesses which have lost significant swaths of their business to the online retailer. Malls across the country are shuttering largely because of the impact of Amazon on so called "brick and mortar" retailers. Moreover, the company's founder, Jeff Bezos, purchased the left-leaning Washington Post newspaper company from Warren Buffet likely to help Amazon influence lawmakers to back legislation it may need to help the company's business (and likely to minimize the possibility of the government breaking the now huge company up into smaller pieces). To be sure, Amazon has also helped many small businesses to bring their product to the masses in ways they could not have done before, but some also complain of the company's over-the-top customer first policies which make operations very difficult. Clearly, Amazon is a huge company and it is always going to be embroiled in controversy of one sort or the other as a quick internet search will highlight. But some of its practices are of legitimate concern to Biblically Responsible Investors (BRI) like Stewardship Partners and others too. For example, in an Amazon warehouse near Allentown, PA a local newspaper interviewed workers who complained of working in unbearably hot conditions (temperatures of up to 114 degrees) which led to some employees passing out. Additionally, another worker claimed she was fired when she was diagnosed with breast cancer. More recently, workers have complained of not getting adequate bathroom breaks. Moreover, Amazon has been found to sell a variety of questionable products including Nazi themed merchandise, pornographic books and abortion drugs.

We seek to avoid investing in companies like Amazon. 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 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 – International Cooperating Ministries

"Everything must be done so that the church may be built up." 1 Corinthians 14:26b

International Cooperating Ministries (ICM) was founded by businessman Dois Rosser, Jr. in 1986 and was initially intended to translate and spread the teaching of a Virginia-based pastor by the name of Dick Woodward around the world. Before too long, however, the ministry realized it had a church growth model that worked well. When Mr. Rosser learned he could help congregations build their own churches for very little cost, his vision expanded. Church buildings gave Christians legitimacy in hostile cultures. Devotional Bible studies produced in the heart language of those in foreign lands and distributed in audio format transformed these believers into local evangelists. For more than 30 years, ICM has been using its unique strategy of partnering with indigenous ministries and leveraging that relationship to grow God's Church in some of the world's least-reached mission fields. The ministry's vision is for there to be a church within walking distance of everyone in the world. It also seeks to provide people with two vital resources, a church building and oral biblical-based discipleship tools. Around 60% of the world's population are oral learners due to an inability to read, thus ICM's focus on oral discipleship tools. ICM has found that equipping local churches with the tools they need to grow can allow entire nations to be blanketed with healthy churches. Also, when local churches invest their own effort and resources into each project, as they do with ICM's model, the result is a sense of ownership, long-term sustainability, and a greater impact for every dollar donors give to ICM.

ICM now has a long history of successfully implementing its church growth model. It has been involved in building over 7,000 churches in 90 different countries while partnering with more than 200 indigenous ministries. The church ICM ideally seeks to help are those that are already passionate about Jesus and ready to evangelize. The local congregations provide land and labor to help construct their church. ICM provides sturdy building materials and discipleship tools. The expectation is this initial church plant will lead to many more "daughter" churches being formed as the original church grows. Bible studies are also started to provide training and produce mature disciples who will be equipped to teach in the new churches. By repeating the process over and over again, ICM has been able to have a significant spiritual impact on many lives. If the average ICM church plant touches just 100 people, that translates into more than 700,000 people being blessed through ICM's work. But that likely underestimates greatly the direct impact of ICM's efforts, not to mention the positive indirect impact on the communities where these churches are built.

International Cooperating Ministries is a very strategic ministry which takes the steps needed to promote church growth in regions of the world where churches and sound biblically-based teaching can be hard to find. With greater resources, ICM would be easily able to replicate its proven model in other areas. Additionally, the ministry effectively utilizes the financial resources donors entrust to it as reflected by the Four Star Financial Efficiency Rating earned from MinistryWatch.com. ICM is also very transparent about its finances and 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

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 – ECFA

"We carry the offering, which we administer in order to honor the Lord." 2 Corinthians 8:19

The ECFA, founded in 1979 by a group of 150 Christian ministries, is an accreditation agency dedicated to helping Christian ministries earn the public's trust through adherence to its Seven Standards of Responsible Stewardship. ECFA, under the leadership of President Dan Busby, now has roughly 1,800 member ministries which combined have revenue of over $26 billion. Donors to ECFA member ministries, which can be recognized by the ECFA seal on ministry literature or by checking on the ECFA.org website, can have confidence these ministries have voluntarily submitted themselves to the most comprehensive rules and regulations of any peer accountability group in the non-profit arena. We would encourage interested donors to visit the ECFA website at www.ecfa.org. Due to the good work of the ECFA, the Christian Ministry Marketplace is more advanced than the non-profit marketplace in general, thereby affording donors to ECFA members greater confidence their gift is being utilized wisely. Donors do need to understand, however, that the ECFA exists primarily to protect the interests of ministries and it is the ministries which provide the income to the ECFA to enable its operations. As a result, the ECFA is reticent to highlight bad behavior of member ministries out of concern this might be detrimental to giving to those ministries that are deserving of donor's gifts. When a Christian ministry fails to uphold the ECFA's laudable guidelines, it is typically quietly asked to leave the association and the ECFA does not normally highlight its concerns to donors.

ECFA's Standards of Responsible Stewardship focus on board governance, financial transparency, integrity in fund-raising, and proper use of charity resources. ECFA provides several services to the donor public. Disclosure requirements enable donors to request and receive audited financial statements for all ECFA members. ECFA's website contains a membership directory with selected financial information of all its members, guidelines for wise giving and wide variety of information helpful to Christian donors and the ministries they give to. The ECFA also responds to complaints against its members. All such complaints are investigated thoroughly in order to determine if there has been non-compliance with the ECFA's standards.

Knowing Jesus Christ as Your Lord and Savior

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

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

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

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

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

STEWARDSHIP PARTNERS

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