STEWARDSHIP PARTNERS
MARKET COMMENTARY

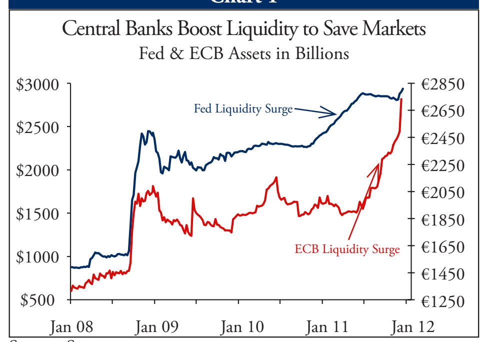
QUARTERLY COMMENTARY | VOLUME 11 ISSUE 4 | JANUARY 2012

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

2011 – A Diabolical Year When Investment Landmines Began to Blow Up

"Though they plot evil against you and devise wicked schemes, they cannot succeed." Psalms 21:11 (NIV)

Chart 1



Source: Strategas

From start to finish, 2011 was a year which proved exasperating for investors, particularly professional money managers who mostly underperformed the indices. Its price movements in a variety of securities often seemed to be oddly out of sync with the reality of the many investment landmines threatening the markets. Some observers even began to accuse investors of being addicted to "hopium," an irrational hope all would turn out fine even as circumstances were deteriorating all around them. Others rightly blamed government interventions for the market's inability to fully price in the many landmine risks we have been concerned about and which were so obviously threatening investors' wealth. For the first half of the year, US markets were clearly supported by the Fed's QE 2 program. Once this extraordinary provision of liquidity halted on June 30, the US market declined during the second half of 2011. A series of ultimately flawed rescue efforts by European authorities seeking to avert a crippling systemic financial crisis also sporadically propped up the markets over the second half of the year. In December, the ECB finally came to Europe's rescue with its own version of a massive QE liquidity infusion (Chart 1). Stewardship Partners was well aware of the risk of financial calamity as the European, Japanese and Chinese economic landmines began to explode at various points during the year. The US economy also flirted with recession fears for most of the year. Accordingly, amidst these grave economic threats, we remained cautiously positioned. Given that almost all markets ultimately fell sharply during the year (Table 1) as we expected, this careful approach was appropriate.

Table 1

4Q11 & YTD Total Returns

US Indices	4Q11	YTD
S&P 500	11.81%	2.11%
S&P 500 Value	12.98%	-0.48%
S&P 500 Growth	10.81%	4.65%
NASDAQ* (price only)	7.86%	-1.80%
S&P 400 (Mid Cap)	12.98%	-1.73%
S&P 600 (Small Cap)	17.17%	1.02%
Treasury Bonds	0.91%	9.79%
High Grade Corp. Bonds	1.78%	7.51%
Gold	-3.71%	10.06%
Global & International Indices		
MSCI World	7.11%	-7.61%
MSCI EAFE	2.86%	-14.82%
MSCI Euro	2.38%	-19.19%
MSCI Far East	-2.94%	-16.78%
MSCI Japan	-4.04%	-16.21%
MSCI Emerging Markets	4.08%	-20.41%
US Economic Sectors		
Energy	18.70%	3.49%
Materials	15.98%	-9.30%
Industrials	17.17%	-2.02%
Consumer Discretionary	12.53%	3.83%
Consumer Staples	9.63%	14.03%
Health Care	9.77%	10.72%
Financials	11.81%	-14.24%
Information Technology	9.02%	0.69%
Telecom	7.63%	4.48%
Utilities	8.69%	19.12%

Source: Standard & Poors, MSCI, Bloomberg

Despite efforts to protect investors, including ours at Stewardship Partners, most money managers were frustrated by seemingly diabolical market movements in 2011. As a result, most underperformed their indices by a significant amount. The average mutual fund trailed its index meaningfully (only 17% beat their index) and the average hedge fund closed the year down considerably. Here are just some factors which tripped up investors in 2011:

1) Despite the threat to its very existence, the value of the Euro bizarrely rose for most of the year and only moved slightly lower at year-end.
2) Likewise, even a huge earthquake, tsunami and nuclear accident, all in the face of a recession and massive debt load, Japan's Yen strangely proved to be one of the world's strongest currencies.
3) The emerging markets had the world's strongest economies and no government debt issues, yet they still had the worst performing equity markets.
4) Long term US government bonds started the year at unusually low yields, but they went lower still, even in the face of a historic credit rating downgrade by S&P. 30 Year US Treasury bonds actually rose by 31% in 2011.

While 2011 was a difficult year, some Stewardship Partners portfolios turned in exceptional results (Concentrated Dividend Yield portfolios), while others managed to achieve gross returns very close to their benchmarks (Global Rising Dividends, Global Shield and International). Our cautiously positioned US and global equity portfolios, however, trailed the indices as the rally in the fourth quarter, coming even as a market disaster was seemingly just one headline away, undermined our relative performance.

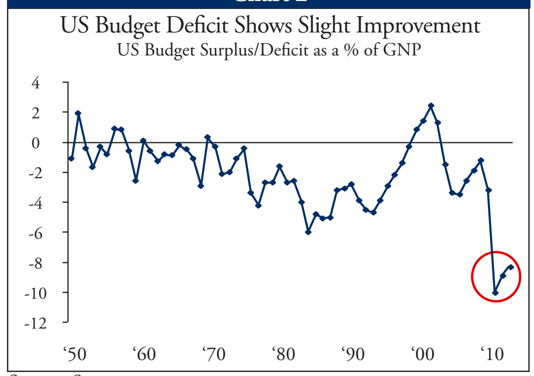
Table of Contents:

ARE THE MARKETS WORKING THEIR WAY SAFELY OUT OF THE MINEFIELD?

"He guided them safely, so they were unafraid" Psalms 78:53a (NIV)

There is no doubt many sizable risks still confront investors, but 2012 has the potential to be a much better year. To be sure, Europe remains in a debt quagmire; China is just now beginning to face the ramifications of its bursting property bubble and Japan's massive debt and moribund economy could at any moment become the focus of the next global economic crisis. In the US, however, there are clear signs of improvement throughout the economy. Since early October the economic data has been mostly on an improving track, led by a slowly, but consistently brightening, labor market. Retail sales have been encouraging, led by the auto industry. Even the housing market seems to have at least leveled off, if only at a very low point. Consumer debt ratios have improved meaningfully and the Federal budget deficit has also grudgingly moved lower as a percent of GDP (Chart 2). Granted, there are many things which could still go wrong and easily reverse this nascent progress, but it is undeniable that the economic outlook has moved from widespread expectation of another recession to cautious optimism in the last three months. This hesitant hopefulness, however, quickly translated into gains for US stocks. Between the market low on October 4th and the end of the year, the S&P 500 advanced 11.1%, although in keeping with the new elevated market volatility, there was also a 10% decline in the midst of this advance. Neither overseas equities nor economies showed a similar recovery as the US appeared to decouple, if only temporarily, from the rest of the world. If this US recovery is sustained and built upon, it will do much to help the rest of the world's economy reverse the current negative trends. Nothing can be better for the world than having an expansion in its largest economy stimulating growth globally.

Chart 2



Source: Strategas

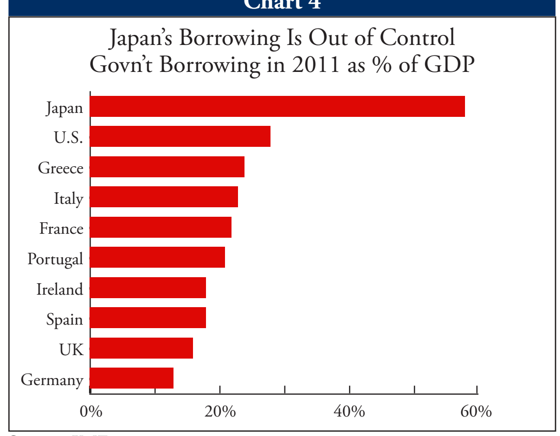
Chart 3

Source: Thomson Reuters Datastream

Because of the US's heavy influence on the global economy (the US accounts for roughly 25% of global GDP), it is unlikely to remain decoupled from the rest of the world for very long. Either the US's improving growth soon starts to positively impact the rest of the world or the weakness outside the US will start to drag the US economy lower again. Chart 3 highlights how US manufacturing activity has begun to recover even while the rest of the world, particularly Europe, accelerates towards recession. Given the momentum towards a European recession of as yet unknown depth and length seems much stronger than the impetus for recovery in the US at the moment, investors would be wise to avoid embracing too soon the idea that a big turnaround in economic activity is upon us. Additionally, China and Japan also are facing significant economic challenges which are biasing global economic and corporate earnings growth rates lower.

Government borrowing needs across the globe in 2011 were significant (about $10 trillion) and will likely be higher than this in 2012. As can be seen in Chart 4, Japan's huge debt burden requires it to seek financing for an amount that is nearly 60% of its GDP. Tax revenues in Japan now account for less than half the nation's spending! This is clearly unsustainable particularly in light of Japan's aging population and declining trade surplus. Meanwhile, in Europe, Italy and Spain have significant borrowing to accomplish early in the year. If these attempts to raise funds fail in the current perilous atmosphere in Europe, it could precipitate a temporary crisis in the financial markets. Additionally, Greece's debt problems remain unresolved and the possibility of a default is again growing. Should Greece default, this too could set off a sequence of events that could keep the European banking sector under pressure. There are a variety of troublesome scenarios, mostly linked to Europe's PIGS and troubled banks, which could lead to further instability in the global banking system and financial markets. So while there are signs of hope on the horizon, it is certainly not a time for investors to get complacent.

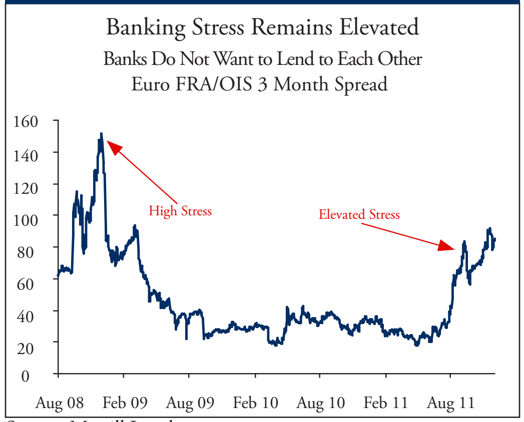
Chart 4



Source: IMF

We at Stewardship Partners remain concerned about the prospects for further disruption coming from Europe. Still, we recognize the ECB's early December decision to offer unlimited, three year, low cost financing to European banks greatly reduced the risk of Europe's financial system descending into a disorderly crisis. In our estimation, the chance of such a debacle fell from a disconcertingly high and rapidly rising level of about 25-30% to a much lower 5-10% with this action. Prior to this initial effort to flood the European banking system with liquidity ($644 billion to 523 banks) it was apparent some European banks and sovereign nations were at great risk of being unable to finance their needs for liquidity. Even Germany failed to reach its fundraising goal at one of its government bond auctions prior to the ECB action. After these loans were given out, the ability of nations to sell government bonds, particularly those under three years in maturity, became considerably easier. Even troubled Spain was able to raise more money than it was targeting.

Chart 5



Source: Merrill Lynch

While helping to avert an immediate crisis, this liquidity injection did nothing to resolve the solvency issues facing both the PIIGS and European banks. As seen in Chart 5, significant stress still remains in the European banking system. While not yet to 2008 levels, this measure highlights the unwillingness of banks in Europe to lend to one another. This is confirmed by the high level of overnight deposits banks are making with the ECB rather than with other banks at more attractive interest rates. Stated simply, even after the ECB liquidity injection, European banks do not trust each other to not go bankrupt tomorrow and therefore are keeping their overnight deposits with the ECB at punitively low interest rates. If they do not yet trust each other, concerns clearly remain. Nevertheless, the most recent data on banking stress has turned down slightly, a trend we trust will continue.

Another short term threat to the financial markets is the reaction to the credit rating downgrades of European nations and banks by S&P. Following S&P's downgrade of the US's credit rating last summer, the financial markets tumbled. While the downgrades in Europe may not be as great a surprise, the markets may react negatively to this development, particularly if Moody's and Fitch also downgrade. The downgrade of France was only to AA+, better than expectations. Still, the downgrade of France's credit rating raises serious issues about the capacity of the EFSF bailout fund (Europe's version of TARP), which is critical to Europe's refinancing needs. While the risk of systemic failure has been ameliorated in Europe, the data indicates serious troubles persist. Hopefully, Europe will be able to use the extra time the ECB's actions have given it to put the region on the right financial path before it is too late. Ireland has already made significant progress and Italy seems to be making a quick turn for the better. Spain is still a question mark while Portugal and Greece are still deteriorating. The end of the minefield is coming into view but is still a ways off.

Are the 2012 Elections a New Landmine Risk for the Markets?

"For rulers hold no terror for those who do right..." Romans13:3a (NIV)

Just as some progress is beginning to be made on exiting the minefield, another landmine has been planted. During 2012, presidential elections will be held in seven nations that comprise roughly 40% of global GDP (Table 2). Putin's presumed restoration to power in Russia is not something anyone is looking forward to, particularly given Russia's partnership with Iran and Syria at a time when tensions there are building rapidly. Russia has apparently sent 3 million gas masks to Syria, parked a naval rapid deployment force in one of its ports and shipped missiles to the country that are capable of taking out opposing warships. Putin also can be expected to back Iran, at least diplomatically if not militarily, as he seeks to maintain a stake in the Middle East. Putin's presence cannot be considered a positive development for the rapidly developing events in the region. Israel defense minister Ehud Barak indicated recently that any strike on Iran's nuclear efforts would have to come before August in order to be successful. News that Europe will ban Iranian oil imports has been met with increasingly strong threats of military action by Iran. With Egypt, Libya, Syria, Iran and some of the Arab Emirates all

Table 2

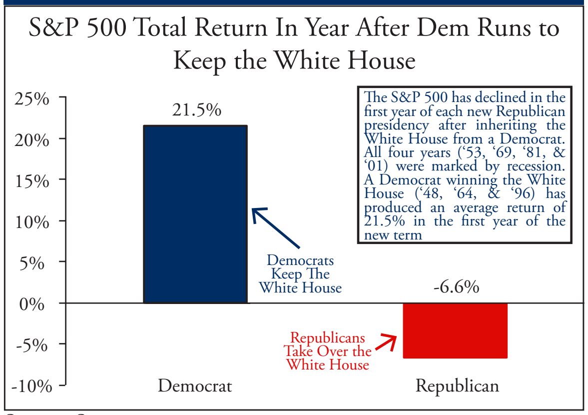
G20 Elections in 2012

Country	Current President	Running for Re-Election	Presidential Election Date
France	Nicholas Sarkozy	Yes	4/22/2012
India	Pratibha Patil	Unknown	Jul, 2012
Korea	Lee Myung-bak	No	Dec, 2012
Mexico	Felipe Calderon	No	7/1/2012
Russia	Dmitry Medvedev	No	3/4/2012
USA	Barack Obama	Yes	11/6/2012
China	Hu Jintao	No	2012 Transition

Source: Strategas

still in some degree of turmoil, the Middle East is a growing risk factor for investors. In addition to the mounting menace to Israel's well-being, the possibility of disruptions in oil supplies cannot be ignored.

Chart 6

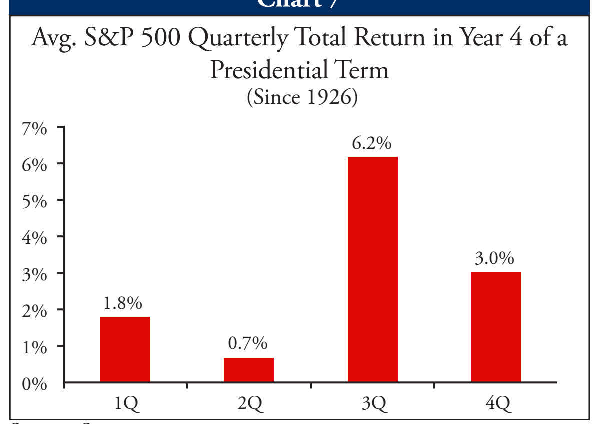


Source: Strategas

At this point, however, the most important political development of the year looks to be the US elections. While the Republican nomination has yet to be finally decided, Governor Romney is the heavy favorite to win it. Conservatives will not be pleased with this outcome due to Romney's past flip-flopping on core social and economic issues, but he will likely pick a more conservative running mate to balance out his ticket. Romney's turnaround skills, learned while heading up the private equity firm Bain & Co., may prove quite helpful should he triumph in the November election. Of course, private equity firms typically rely heavily on debt to accomplish their goals and more debt is not something this country needs right now. Nor is it clear that Romney will win in the general election. The race is likely to be a tight one if current US economic trends persist and gain momentum. President Obama will concede it took a long time to get George Bush's mess cleaned up, but will insist the economy is finally on the right track. With most of the press implicitly backing the President and with economy improving, Obama should not be counted out, even if he has a very weak hand to play. Additionally, we would not be surprised if developments in the Middle East give the President an opportunity to appear like a strong commander-in-chief sometime just before the election.

Some investors may look at the historic evidence and think that a second term for President Obama would actually be best for their pocketbook! Chart 6 highlights the performance of the S&P 500 when a Democrat won re-election in the post-World War II era versus what happened when he was unseated by his Republican challenger. In each case where a Republican challenger won, the following year the economy suffered a recession. In each situation, the new Republican president had to clean up the economic mess left by the Democrat. In the end, we suspect Romney will win the presidential election in the US and we may well be facing a recession in 2013 as he will need to make difficult budget choices as part of the credible long term economic plan we and all investors have been looking for in recent years. Obama, should he win, will be faced with the very same choices and there will probably not be much room for either president to maneuver around these choices. If this proves to be true, it may not matter much which candidate wins as political ideology may need to be largely cast aside as they struggle in what could easily be a crisis atmosphere to right the economic ship.

Chart 7



Source: Strategas

Given the importance of presidential elections, the market usually does not move much until the outcome becomes clear. Chart 7 reveals returns on the S&P 500 are typically muted during the first half of an election year as the outcome is still in doubt. As the market gets a better handle on the eventual victor and the uncertainty dissipates, the market tends to respond favorably in the second half of the year. Since this race looks to be very competitive at this point, this pattern may once again play itself out.

There are sure to be other political challenges for the market in 2012. Soon, Congress will once again try to extend the payroll tax cut and there is a chance the debt ceiling debate reemerges before the election as well since we are adding to our debt faster than expected. Perhaps more important to the long term health of the US will be the US Supreme Court decision over the constitutionality of Obamacare. If overturned, the markets may jump as the huge cost burden of this new entitlement would be removed from the back of a weak economy.

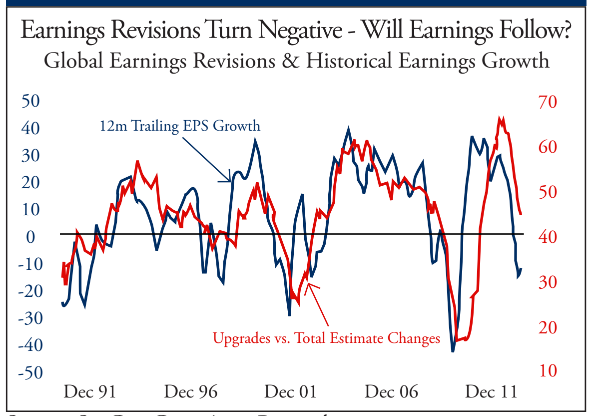
Further tension could also be on tap for Europe as President Sarkozy of France could easily lose his election in April to an opponent who may not be willing to go along with Germany's plan for the Eurozone crisis.

Earnings Landmine Offset by Attractive Valuations?

"I will turn the darkness into light before them and make the rough places smooth" Isaiah 42:16b (NIV)

In 2011, earnings continued to advance while markets fell, making valuations more attractive. Lower price-earnings multiples and higher dividend yields are factors which will aid the performance of stocks should the landmines in Europe, China, Japan and on the political front lessen in 2012. Analysts have already begun to reflect the economic challenges in these regions in their earnings estimates as shown in Chart 8. Earnings revisions turned negative just as the US economy started to recover in the Fall since virtually all other major regions of the world are facing deteriorating economic conditions presently. Given the large exposure the typical US company has to overseas economies, US corporate earnings are also being impacted by these trends. Historically, negative earnings revisions have normally been followed by an actual decline in earnings. Should earnings growth turn negative in the months ahead, equities will almost certainly struggle to mount a sustained advance. On the other hand, if the combination of a fledgling recovery in the US, the ECB's efforts to prevent a deep, lengthy downturn in Europe and China's recent move towards easier monetary policy are successful at limiting economic weakness, the earnings revision index - and more importantly actual corporate earnings - may stabilize before significant damage is done. The latest earnings revision reading hinted at just such a stabilization. Hopefully, this is an early sign of better news on the earnings front in the months ahead but, again, there is no room for complacency.

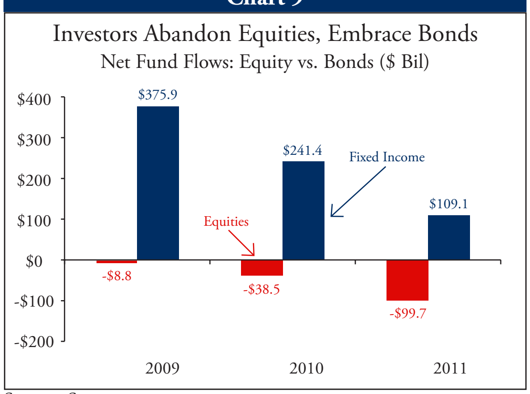
Chart 8



Source: SocGen Cross Asset Research

Many investors, however, are not waiting around to see if the markets can traverse this earnings minefield unscathed. As shown in Chart 9, flows out of equity funds accelerated in 2011. Government ineptitude in Europe and the US in dealing with national debt problems has shaken the faith of investors even while corporations have managed their affairs very effectively in the midst of this slow-moving crisis. As long term individual investors have reduced their exposure to the equity markets, they have increasingly turned towards fixed income investments. With central banks providing excess liquidity, rates have continued to fall resulting in good rates of return on fixed income investments and sharply reducing the ability of investors to find worthwhile yields on relatively safe bonds. At this point, bonds are historically very expensive and we are concerned many bond investors could be hurt in the years to come. Bond prices would fall more than most individual investors realize if interest rates were to rise (as will inevitably occur) and some could also be undermined by reduced credit quality should economic weakness become more widespread. Given the "crowd" often chases the wrong investment at the wrong time, long term investors should be considering when to move away from bonds and into equities. At this point, bonds are only likely to generate attractive absolute and relative returns over the long term if the world is gripped by deflation. This seems unlikely given the desire and ability of central banks to avoid that outcome.

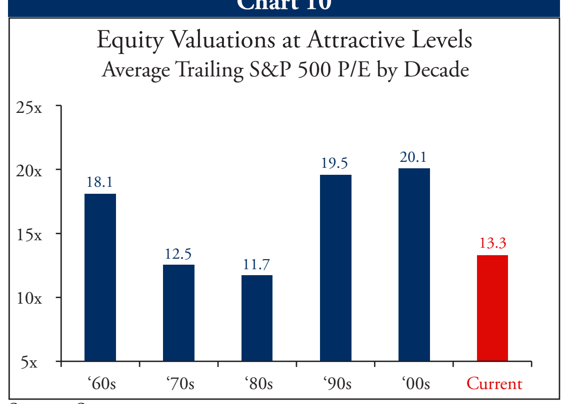
Chart 9



Source: Strategas

While equities are not out of the minefield yet, valuations are pretty low, indicating long term investors should be paying attention. Chart 10 shows the S&P 500's price-earnings ratio on last year's earnings has fallen close the levels seen on average in the 1970's and 1980's. It was from these low levels that a huge bull market was launched. Since we might already be half way through the investment minefield, investors should soon begin focusing on the long term opportunities equities offer, particularly in relation to bonds.

Chart 10



Source: Strategas

Prudent Investing While in the Middle of a Minefield

"Every prudent man acts out of knowledge" Proverbs 13:16a (NIV)

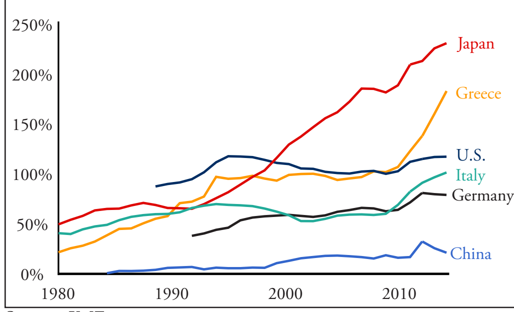
If it is true investors have made it to the middle of the investment minefield, it was not without suffering some damage. European and emerging market shares fell sharply in 2011 and US shares barely budged. While devastating blows have been avoided so far, there remains the still dangerous second half of the minefield to be traversed. Fortunately, the ECB's massive liquidity injection in December (another one is scheduled for late February as well) means the probability of a systemic collapse emanating from Europe, which appeared imminent and could have surpassed 2008 in its ferocity, has been mostly eliminated. The ECB's actions appear to have bought the European nations and the European banking system considerable time to get back on a path to prosperity. Still, there are a variety of ways Europe's problems could again mushroom and lead to a disorderly collapse of its financial system and of the currency itself. There is little question Europe's continued struggle to contain this crisis will dominate the headlines again in 2012. We are hopeful these headlines will progressively get less urgent and threatening, but no one should naively believe this is a certainty at this point. When technically insolvent banks are using nearly free money from the central bank to buy the government debt of equally insolvent nations because no one will do so, there is plenty of room for things to go wrong. Essentially, the ECB has created zombie banks and, through them, zombie nations. It is now up to the banks and nations to resurrect themselves as fast as possible. We are very cautiously optimistic on this front as the guillotine has a way of focusing the mind on the issue at hand. If nothing else, we are happy that the risk of calamity has been reduced for the time being.

If the only landmine in the investment minefield was Europe, we would still be very concerned about the short term outlook for equities. Unfortunately, Japan's debt situation is by far the worst in the world (Chart 11) and the fundamentals enabling the nation to support this level of debt in the past are weakening. It is difficult to pinpoint exactly when this issue might rise to the point of destabilizing the world's third largest economy, but we know it is getting closer each day. China's debt, by contrast remains quite low and this should help it fund the bailouts the country will need as its property and investment bubble continues to implode. We worry, however, that the data on debt and economic activity overall coming out of China may be understating the true size of the problem. With the European and Chinese bubble landmines already in the process of exploding while both the Japanese debt and the global corporate earnings landmines seemingly poised to start exploding as well, an investor in the middle of this minefield needs to proceed as prudently as possible.

Chart 11

Japan's Debt Far Worse Than Other Nations

Government Gross Debt as a % of GDP



Source: IMF

Chart 12

Have Equities Already Begun A Long Term Upturn?

S&P 500 Rolling Ten Year Return

Source: Strategas

At the same time, prudent investors need to consider the possibility these risks will never be fully realized. As the US equity market demonstrated since its low on October 4th, stocks can rise quickly when the worst case scenario is avoided. There is no requirement for an economy to be in perfect condition for stocks to rise. In fact, we at Stewardship Partners have always made it a habit to be ready to buy when things look the bleakest. Now, we are not suicidal. When a systemic financial collapse is possible, we naturally tame our inclinations since the devastation that can be wrought from such a circumstance is enormous. With the risk of such a collapse emanating from Europe now greatly reduced, we recently removed the hedges in our tactical portfolios and are looking to invest the cash proceeds as opportunities arise. A point of maximum pessimism could easily be associated with the European credit rating downgrades S&P just announced. The threat of a default by Greece late in the first quarter could also lead to such an opportunity. We also would like the outlook for corporate earnings to stop deteriorating before reinvesting. While still cautiously positioned, we recognize that the message of Chart 12 is that a powerful long-term bull market may have already begun.

We at Stewardship Partners continue to be grateful for the opportunity to serve your investment needs. Please do not hesitate to contact us if you have any questions or if we can be of assistance.

Biblically Responsible Investing (BRI)- Investing as Jesus Would

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

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

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

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

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

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

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

Additionally, we favor companies that clearly embrace:
- Honesty, Compassion, Diligence, Prudence and Creativity
- Support for quality products at fair prices and constructive stakeholder relations
- Support for a sustainable and healthy environment
- Support for charitable giving
- Support for the Jewish people and the state of Israel

We obtain information on both the objectionable practices and the exemplary attributes of corporations from our affiliate **The Biblically**

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

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

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

BRI in Action – Comparing Good and Bad Corporate Behavior

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

Below you will find an example of both a company exhibiting exemplary attributes, Sysco, and one we avoid, Bayer. We own Sysco in some Stewardship Partners portfolios while we actively avoid ownership in Bayer 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 – Sysco – Christian Heritage, Integrity and Generosity

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

Sysco's founder, John Baugh, was raised in a Christian home where the Bible was read daily. John was taught that it was his obligation to look after the needs of those less fortunate and to be selfless in his behavior. His father instilled in him that the highest value he could uphold was that of integrity and that he should always conduct himself in a manner that would leave his integrity unquestioned by others. These Biblically-based childhood lessons were evident in the manner in which Mr. Baugh built Sysco into the world's largest distributor of food products to restaurants and other institutions.

Sysco is the global leader in its business with over 400,000 customers. It also sells over 400,000 separate products and roughly ten percent of these are Sysco brands. Its 47,000 employees deliver 1.3 billion cases of food and other products each year. Almost two-thirds of its sales are to restaurants. Sysco's 17% market share is more than twice as large as its next largest rival, but also indicates the potential for further growth through acquisition. The company has been able to increase its revenues in almost every year since it was founded in 1969. Recently, the company has begun performing comprehensive "business reviews" with their clients as a means of helping them improve their operations and to help cement a close relationship with Sysco.

Sysco's Code of Conduct stresses that the company desires to outperform its competitors using fair and honest business practices and eschews any unethical or illegal business practices. The company says its code can be summed up in one saying, "Do the right thing". The code outlines the courteous, professional and ethical behaviors that are expected from anyone representing Sysco and must be signed by all employees and directors. New Sysco board members are required to attend an ethics orientation within six months of their appointment. Additionally, all board members and executive officers are required to own a specified minimum number of shares by their fifth anniversary with the company.

Mr. Baugh's early lessons about charity have also been evident in Sysco's philanthropic endeavors. Most of Sysco's charitable contributions are focused on feeding the poor. Mr. Baugh was a supporter of a Christian ministry called ServLife that seeks to bring both the gospel and practical assistance to the needy around the world. Other members of the Sysco board are also known for their efforts to assist their community through Christian ministry and community development. Each of Sysco's operations are active in providing assistance to their communities and the company is a significant supporter of Second Harvest, the largest US organization dedicated to helping feed the hungry. One of the company's most significant partnerships is with Share Our Strength, a national charity dedicated to eliminating child hunger. The company also sponsors "Dine Out America", an effort to encourage restaurants to donate two weeks of proceeds to childhood hunger. In addition to its corporate contributions, the company's employees participate in a variety of volunteer efforts and the company's local affiliates also work extensively with local food banks.

The company also has taken many actions to reduce its environmental impact. It has begun expanding its fleet of hybrid and natural gas powered vehicles and also is making efforts to utilize more efficient rail service as frequently as possible. By taking these initiatives, the company effectively removed 3,000 trucks from the road in the second of half of 2010. They are testing new alternative methods to power its refrigerated units. Overall efforts in the company's broadlines unit since 2006 enabled it to reduce energy consumption by 19% even while increasing warehouse space by 14%. The company is also known for its emphasis on quality and safety, something of particular importance for a company in the food business.

Sysco employees have access to a very broad range of employee benefits including a stock participation plan that allows the purchase of Sysco shares at discounted prices. The company also offers tuition reimbursement, will match employee gifts to higher education institutions, matches employee contributions to the company's 401(k) plan and offers employees significant discounts on company products.

Sysco's good works are, of course, no guarantee of long-term investment success. As Biblically Responsible Investors, however, the company's comprehensive efforts to be a good corporate citizen, its philanthropic activities and its good treatment of its employees allows us to know we are shareholders in a company seeking to be a blessing to all. While no company, like no person, is perfect, this is clearly a company that strives to be a good corporate citizen and one we can be proud to own!

The Bad – Bayer – Abortion, Homosexuality and Human Rights

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

Bayer is a German-based global enterprise with its main business activities falling in the healthcare, nutrition and high tech materials segments. In 2010 Bayer employed over 111,000 workers and had sales of over 35 billion Euros. Its healthcare unit contributes almost half the company's total revenues and is the area for which Bayer is most commonly known. Unfortunately, the company's operations in this segment include several abortion related products. In Canada, the company is a distributor of an emergency contraceptive product. It also is a manufacturer of emergency contraceptive drugs named Levonelle and Postinor. Other abortion related products are also produced by the company. At Stewardship Partners, we seek to avoid investing in companies that are in any way responsible for the death of millions of children each year through abortion. While it is true that Bayer is also engaged in many admirable activities, its extensive involvement in the abortion industry is reprehensible and clearly excludes the company from being considered for investment. It would not be right to use the Lord's money to profit, even if only in a small amount, from such activities.

Bayer also operates a subsidiary in Iran. As such, it violates the Biblically Responsible Investing Institute's Dangerous Nation and Oppressive Regime screens. As an active state sponsor of terrorism as well as both Israel's and the United States' long term political adversary at the moment, investors naturally should be wary of committing funds to this company's stock. Iran has also been behind the deaths of many US military personnel in Iraq via its work to provide insurgents there with roadside bombs and technology.

Additionally, the company has shown some support of homosexuality. It offers domestic partners benefits, has organized employee groups for homosexual employees and regularly advertises its products in homosexual magazines. While not extensive, the company's support for homosexuality is still unfortunate.

Excluding Bayer from our list of potential investments is not a difficult decision. As BRI investors seeking to please and honor our Lord, we naturally look elsewhere to achieve investment success as we do not want to be associated with a company using shareholder

resources in a manner which have a negative impact on individuals and society in general.

Our Ultimate Goal - Funding the Lord's Work

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

It is our hope that Stewardship Partners' ability to create an abundance for you will help you to share with those who are in need and assist in fulfilling the Great Commission. Our non-profit ministry affiliate, Wall Watchers, provides a free service to help you educate yourself about the many wonderful Christian giving opportunities available to wise donors. We invite you to join the thousands of visitors to our ministry's website at www.MinistryWatch.com, the Internet's top site for donors to Christian ministries. 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 be able to help you bless God's people who are in need. Please be sure to check out MinistryWatch.com's 2011 list of our thirty Shining Light Ministry Award winners as well as our companion list of thirty ministries that are subject to a Donor Alert from MinistryWatch.com.

Featured Ministry – International Justice Mission

"Go into all the world and preach the good news to all creation." Mark 16:15 (NIV)

International Justice Mission (IJM) is a Christian agency formed for the purpose of advancing the Scriptural mandate to help people suffering injustice and oppression who cannot rely on local authorities for relief. The primary activities of the organization are to document human rights abuses abroad, to educate the Christian church and the general public about such abuses and the need for the church to respond, and to mobilize intervention on behalf of the victims of these abuses. The IJM pursues this mandate by fielding staff and volunteer lawyers and law enforcement professionals in response to reports of injustice that the organization has received from its contacts overseas, typically Christian missionaries and relief workers. IJM investigates and documents the facts underlying these cases and then presents our evidence to appropriate centers of power, usually in-country, to obtain relief. IJM states its mission is to "Rescue thousands, protect millions and prove that justice for the poor is possible."

IJM is perhaps best known for its efforts to rescue victims of human trafficking and providing them restorative care. Over two million children are believed to be sexually exploited in the world today and hundreds of thousands of people are illegally trafficked across international borders every year. Observers believe the total market value of the human trafficking industry is $32 billion annually, tying it for second place with illegal arms sales on the list of the world's largest criminal industries (drug sales are number one on the list).

IJM is a very worthy ministry which is effectively filling a huge need in the world in response to the biblical injunction to help the oppressed. Additionally, the ministry effectively utilizes the financial resources donors entrust to it as reflected by the Three Star Financial Efficiency Rating earned from MinistryWatch.com. IJM is also a 2011 MinistryWatch.com Shining Light Award winner 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 (NIV)

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

The Christian Ministry Marketplace
Resources for Christian Donors

WHY to give to Christian ministries?

Teaching on Stewardship:

- Crown (crown.org)
- Eternal Perspectives (epm.org)
- Generous Giving (generousgiving.org)
- Royal Treasure (royaltreasure.org)
- Sound Mind Investing (soundmindinvesting.com)
- The Gathering (thegathering.org)
- MaximumGenerosity.org (maximumgenerosity.org)

HOW to give with a discerning mind?

Professional Advisors:

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

Donor Advisors:

- Excellence in Giving (excellenceingiving.com)
- Calvin Edwards & Co. (CalvinEdwardsCompany.com)
- Kardia (http://www.kardiaplanning.com/)

WHERE to invest in kingdom ministries?

Ministry Research:

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

Ministry Mutual Funds:

- Nat'l Christian Fdn (nationalchristian.com)
- Strategic Resource Group (srginc.org)

Online Donation Services:

- Network For Good (networkforgood.com)

Featured Ministry Marketplace Participant – Kingdom Advisors

"Good will come to him who is generous" Psalms 112:5a (NIV)

Kingdom Advisors is a rapidly growing association of Christian financial professionals dedicated to communicating biblical wisdom to their clients, apply professional principles in their practices and live 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 1,500 members and its impact continues to grow. Over 120 local branches of the group are in operation 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 ably headed by BRI veteran and financial advisor Dan Hardt. 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 Qualified 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 Advisor 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

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
Web-Site: www.stewardshippartners.com