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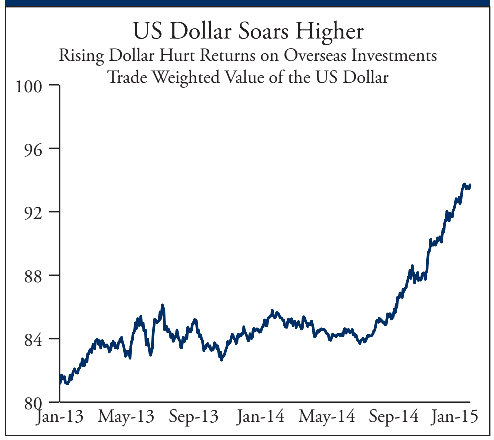
Authored by Howard J. "Rusty" Leonard, CFA
CEO and Chief Investment Officer, Stewardship Partners Investment Counsel, Inc.

2014 Was Another Good Year for Investors, Particularly US Investors

"Give thanks to the Lord for his unfailing love and his wonderful deeds for mankind" Psalm 107:8

As we expected, 2014 turned out to be a good year for most investors. Powered by a continued advance in corporate earnings and coupled with persistently low interest rates, equities achieved worthwhile gains in the US. Outside the US, however, share prices in US dollar terms were held back somewhat by the remarkable strength of the US dollar (Chart 1), yet still delivered positive returns in the developed markets (Table 1). Despite our hopes, emerging market share prices fell slightly in 2014 after producing promising returns earlier in the year. The combined impact of the stronger dollar, China's economic slowdown and the demise in the price of oil all worked to undermine equities in most emerging markets. This was most pronounced in the fourth quarter when the emerging markets index fell almost as much as the S&P 500 rose. Indeed, all foreign stock indices were hurt in 2014's fourth quarter by the unusual strength in the US dollar. But this is not just a short term phenomena. Table 1 also highlights US equities have far outperformed their foreign counterparts over the last five years. Indeed, the S&P 500 has outperformed the MSCI EAFE index by over 10% annually since 2010. This is an astonishing level of outperformance which should have been nearly impossible to attain let alone sustain for so long. It would not be surprising if this situation reversed in the years ahead. For the moment, however, despite many noisy assertations to the contrary in recent years, the US not only remains the world's greatest economic superpower, but also has added to its advantage. This trend was very evident in 2014 as the US economy made continual progress while most of the world's other major economies struggled to avoid falling into recession. Some, like Japan, Russia and Brazil, succumbed to the forces buffeting their economies and saw their growth turn negative. Even so, most companies managed their affairs well and corporate earnings relentlessly moved higher, thereby boosting share prices and rewarding shareholders with attractive returns.

Chart 1



Source: JP Morgan, Bloomberg

Table 1

4Q14 Total Returns

US Indices	4Q14	YTD	5y ann
S&P 500	4.9%	13.7%	15.5%
S&P 500 Value	4.8%	12.4%	14.9%
S&P 500 Growth	5.1%	14.9%	16.0%
NASDAQ	5.7%	14.7%	17.2%
S&P 400 (Mid Cap)	6.3%	9.8%	16.5%
S&P 600 (Small Cap)	9.8%	5.8%	17.3%
Treasury Bonds	2.3%	6.0%	4.0%
High Grade Corp. Bonds	1.4%	7.5%	6.6%
Gold	-1.9%	-1.7%	1.6%
Global & International Indices			
MSCI World	1.0%	4.9%	10.2%
MSCI EAFE	-3.6%	-4.9%	5.3%
MSCI Euro	-5.1%	-8.3%	2.4%
MSCI Far East	-1.7%	-2.6%	5.9%
MSCI Japan	-2.4%	-4.0%	5.5%
MSCI Emerging Markets	-4.5%	-2.2%	1.8%
US Economic Sectors			
Energy	-10.7%	-7.8%	8.8%
Materials	-1.8%	6.9%	11.2%
Industrials	6.8%	9.8%	17.6%
Consumer Discretionary	8.7%	9.7%	21.4%
Consumer Staples	8.2%	16.0%	16.1%
Health Care	7.5%	25.3%	19.4%
Financials	7.2%	15.2%	13.4%
Information Technology	5.2%	20.1%	14.9%
Telecom	-4.2%	3.0%	11.4%
Utilities	13.2%	29.0%	13.3%

Source: Bloomberg

Fortunately, most Stewardship Partners portfolios were able to not only participate in these good returns but also to exceed them by surpassing the relevant market indices in 2014. Our results were aided by being underexposed to some of the poorer performing regions and good stock selection. Stewardship Partners had healthy weightings in the healthcare and technology sectors, which also helped our results. In the US the utility sector was oddly the best performing group in 2014 and, other than in our high yield portfolios, this is not a sector in which we typically invest. It is very unusual to have this sector lead the way in a year when share prices rise as it is typically viewed as the market's most defensive sector. The combined impact of investors in a desperate search for income in a yield-starved world, increasing US economic activity and lower oil prices boosted the utility stocks in 2014. Like the extraordinary returns on US stocks versus foreign ones over the last five years, however, this trend is not likely to persist too much longer. We are grateful we were able to produce index beating returns in most of our portfolios in 2014 given the headwinds of the strong dollar, weaker returns from overseas markets and odd situations like the utility stocks being the best performing US sector in a bull market.

We believe it is worth noting the markets were initially unaffected by the cessation of Quantitative Easing (QE) by the Fed. Many claimed QE's end would also mark the end of the bull market that began in 2009. Instead, the markets enjoyed good, if more volatile, returns after QE was finally fully phased out in October and the dollar soared. During this long bull market we have heard many scaremongers preaching pessimism. As is normally the case, optimism has overcome those often loud, negative voices. With the bull market in US stocks being so lengthy and foreign markets now valued much more attractively, however, it may soon be time to be more cautious on the relative performance prospects of US stocks. While the US should remain the best place for corporate innovation and growth over the long term, better investment values are increasingly found outside our borders.

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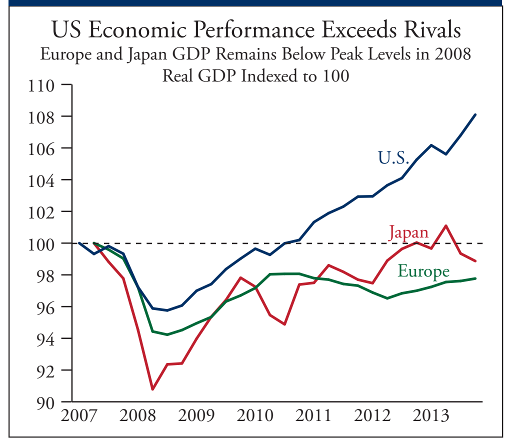
Searching for Economic Policy Clarity and Stability Overseas

"By justice a king gives a country stability ..." Proverbs 29:4a

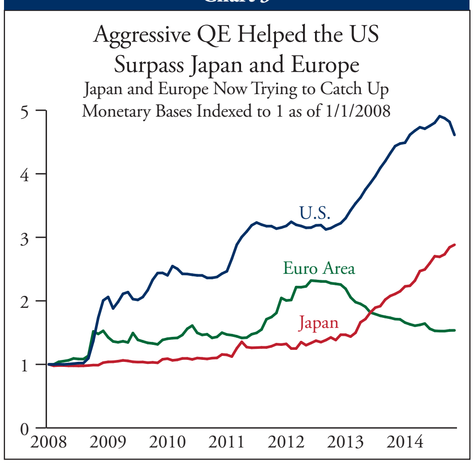
If these attractive overseas investment values are to ultimately translate into superior long term returns for investors, clarity and stability must first be firmly established in foreign economic policies. Share prices in the US have done so well versus foreign stocks simply because the US pursued significantly more aggressive fiscal and monetary policies. The US also cleaned up its banking system faster as well. As a result, the economic performance of the US since the Great Recession, as measured by real GDP, has easily surpassed that of its developed market partners in Europe and Japan (Chart 2). More recently, Japan has been following the US's lead on the monetary policy front (Chart 3). Indeed its monetary policy has been considerably more aggressive than that employed by the Fed, relative to the size of its economy. On the other hand, its fiscal policy has been more restrictive with tax increases undermining its economic expansion in 2014. Moreover, the investor jury remains out on Japan's "Abenomics" economic policies (named after Japan's Prime Minister Abe) with many concerned the current strategy could fail, leaving Japan in a more difficult spot than previously. For 2015, however, it appears Japanese corporate earnings will benefit from the current policy mix and Japan's short recession should end. In Europe, competing interests from the various countries which make up the European Monetary Union has limited the flexibility of the European Central Bank to employ the most appropriate monetary responses to the region's economic ills. Given its long period of economic underperformance and the strong deflationary trends erupting in Europe, the ECB seems to be finally poised to embark on more aggressive monetary policies, including a sizable QE program in 2015. If economic policy clarity and stability are achieved, we suspect investors will become more attracted to the compelling investment values found in both Japan and Europe. It remains to be seen, however, if this can be accomplished. Fortunately, in both cases the plunge in oil prices and currency values is aiding recovery efforts and makes a positive outcome more likely.

Chart 2



Source: Haver Analytics, Morgan Stanley, Bloomberg

Chart 3



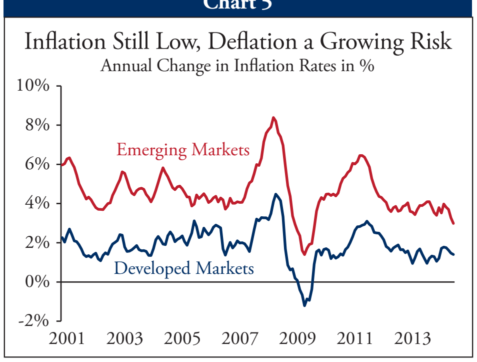
Source: Bloomberg

On the other hand, the collapsing oil price is crushing economic growth in the Middle East, Russia and Venezuela. Fortunately, all of these regions combined contribute relatively little to global economic growth. China's reported economic growth, if it is accurate, is slowing but still remains higher than most countries. While the shale oil boom will at least temporarily turn to a bust in the US, the overall economic impact of lower oil prices will likely still be favorable for the US, which already ended 2014 with a degree of economic momentum. With some economic recovery in Japan and Europe possible, global GDP should be able to improve slightly in 2015 (Chart 4). Given the decline in oil prices, the risk is greater 2015 GDP forecasts will be revised higher rather than lower. Lower oil prices act like an enormous tax cut for global consumers. They have more money to spend and also feel more confident about the future.

Chart 4

Source: BofA Merrill Lynch Global Research

Chart 5

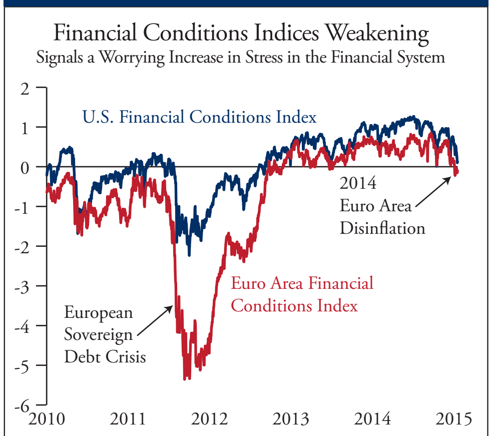


Source: BofA Merrill Lynch Global Research

Also boosting consumer confidence is the near absence of inflationary concerns. All around the world, inflation has been trending lower for several years, well before the rapid decline in oil and other commodity prices (Chart 5). With global growth expectations relatively subdued and considerable excess labor and manufacturing resources still available around the world, global inflation seems poised to remain tame for now. This may allow the Fed and other central banks to keep interest rates at rock bottom levels for longer than many now expect. Most believe the Fed will begin raising rates in the middle of 2015. We would not be surprised if rate increases are delayed until later in the year or maybe even 2016 due to inflation remaining in a downward trend, minimal upward pressure on wages and relatively moderate economic growth. If this proves correct, both stocks and bonds should benefit in 2015.

To be sure, we are not witnessing a "Goldilocks" economy at present, where growth and inflation are neither too hot nor too cold. In this case, inflation is currently too cool to be comfortable. Indeed, it

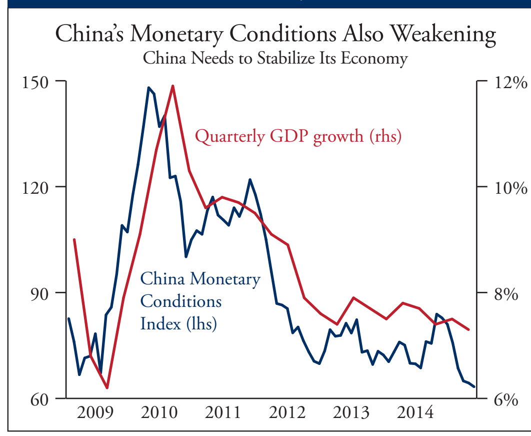
Chart 6



Source: Bloomberg

may be signaling greater problems are on the horizon for global growth. The collapse in most industrial commodity prices in 2014 could be sending investors a message regarding an impending global recession. Moreover, other measures of risk are beginning to trend in the wrong direction as well. The Financial Conditions Indices in both the US and Europe have been weakening lately as a result of increased financial market volatility and sharply widening spreads between risky and safe bonds (Chart 6). Clearly, the markets are not fully comfortable with the present economic situation and this growing concern is beginning to show up in various statistics. In Europe, low confidence in economic policymakers successfully steering their way through both another Greek crisis and deflation have resulted in the highly unusual situation of many European government bonds offering negative nominal yields. If policymakers fail to win the endorsement of the financial markets, we could stumble into another financial crisis as investors panic. The stakes are high for investors as panic starting in any one of Europe, Japan or China will inevitably hit markets everywhere. Moreover, financial markets currently seem more brittle than normal.

Chart 7



Source: Bloomberg

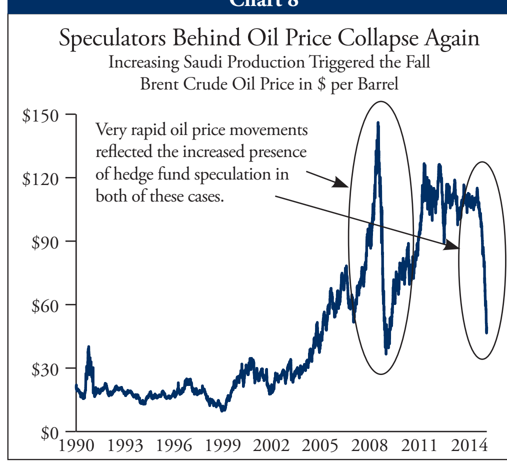
China has long been our biggest concern. Due to its significant contribution to global economic growth, its bubble-like, debt-fueled economic expansion and its highly suspect economic reporting, we have long been worried we might wake up one day to find the ugly truth had finally been revealed about China's economy. It could be far uglier than anyone thought. Crashing commodity prices may be an indicator of unreported stress in the Chinese economy. Moreover, while China's policymakers have always been quick to respond to economic threats, they do not always respond wisely. Currently, China's real interest rates are among the highest in the world and its Monetary Conditions Index continues to slump (Chart 7). Global investors would feel much more comfortable if there was greater clarity and stability in China's economic policy and performance. Until such time as these trends convincingly reverse, we will remain alert to the possibility of a financial accident erupting in China. If, however, the only problem ends up being temporarily lower commodity prices during a period of adjustment for the Chinese economy, that will actually be good for the rest of the world. For now, however, there remains a meaningful and still growing risk China's problems turn out to be more significant than the markets now believe. We still hope the worst will be avoided, but remain very attentive given current trends.

The Important Political Dynamics Behind Oil's Dramatic Collapse

"'We have devised a perfect plan!' Surely the human mind and heart are cunning." Psalm 64:6b

With oil prices crumbling and Chinese economic growth slowing, it is natural to suspect China as the culprit by causing a fall in the demand for oil. After all, incredible Chinese demand for more oil had accounted for an impressive percentage of global oil consumption growth in recent years. As China slows, many might think the impact on oil demand is a significant negative. But China is only slowing, not declining, and its demand for oil has not collapsed. Indeed, global demand for oil has not fallen at all. Still, after hovering in a relatively stable range for several years, oil prices have fallen fast and hard. The current decline's speed has only been surpassed by that seen just before the Great Recession. In June of 2008, oil prices quickly spiked to $147 per barrel even though there were no demand or supply shocks in the oil market. Instead, hedge funds speculated on a massive scale by going long oil and short the US dollar. It was an enormously leveraged trade that worked fabulously for hedge funds for a time and then flamed out in an even more spectacular fashion. Meanwhile, the global economy had been brought to its knees by the surging oil price simply due to unbridled hedge fund speculation. Oil prices then plummeted by $100 a barrel in about 100 days following the June 2008 peak as hedge funds scrambled to exit this hugely "crowded", and now unprofitable, trade (Chart 8).

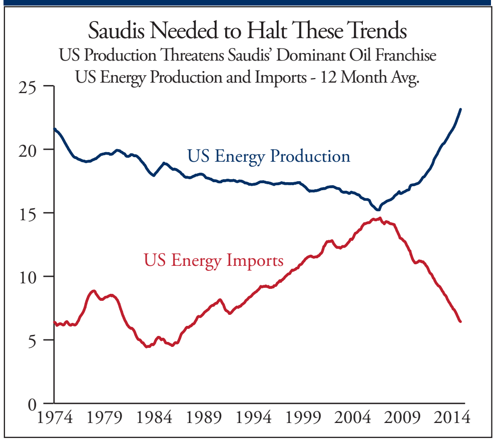
Chart 8



Source: Bloomberg, BofA Merrill Lynch Global Commodity Research

The genesis of the most recent decline, however, began differently. There was no massive spike up in oil prices preceding the collapse. Instead, the rapid increase in the supply of oil simply surpassed the still growing demand and the market finally hit a breaking point. Normally, to avoid such a precipitous fall, the effective "central bank" of the oil market - Saudi Arabia - would temporarily curtail its production until the market once again came into balance. But Saudi Arabia saw an opportunity to achieve a number of goals at once. Not only did the Saudis refrain from reducing production, but also they actually increased output in an increasingly oversupplied market. Once this decision had become

Chart 9



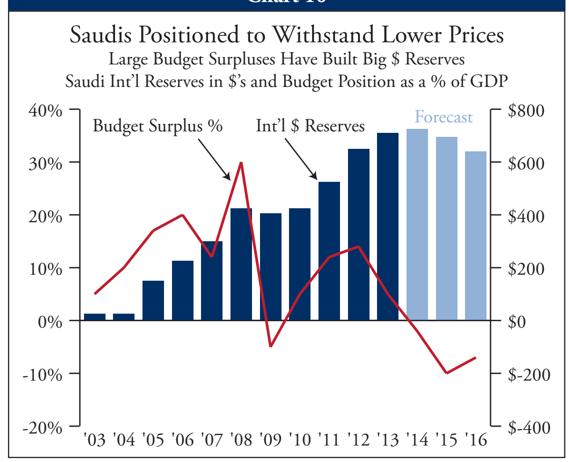
Source: Nuveen Asset Management, Cornerstone Macro

apparent, hedge fund speculators began putting on the reverse of the trade they utilized in 2008 - shorting oil and going long the US dollar. This piling on by the hedge funds contributed to the rapidity of the decline and abetted the Saudis in achieving their goals.

Clearly, one of the Saudi objectives was to bring a halt to the enormous expansion in US oil and gas production. Technological advances allowed drillers to access massive reserves found in shale formations in several large fields across the US. With oil prices near $100 per barrel, these fields were highly profitable and a boom in US oil production, coupled with a decline in demand for OPEC's oil, quickly followed (Chart 9). To protect its oil franchise, it was imperative for Saudi Arabia to undermine this competitive threat in order to maximize the long term economic value of its still massive oil reserves. Since its cost of production is so much lower than that of the US shale producers, it was simply a matter of lowering the price in order to disable the competition. Moreover, Saudi Arabia was prepared for this competitive battle. It had built a good fiscal position to endure a period of lower prices by boosting its reserves via running large budget surpluses for many years (Chart 10). While Saudi Arabia would have liked to avoid this move, we believe they came to the conclusion it was their optimal alternative.

But this decision was not simply about Saudi Arabia's competitive position in the oil market. It was a decision with far-reaching geopolitical consequences as well. While the US should desire its rapid march towards energy independence to continue, the Obama administration nevertheless made no complaints about the US's long-time ally's behavior. In fact, we believe the Obama administration inspired Saudi Arabia to increase its production. First, the plan was initially implemented this summer and we feel certain the Obama administration was looking for Saudi help to lower gasoline prices to aid its party's wavering electoral prospects. As it turned out, the most dramatic drop in gas prices came after the election and the fall which occurred before was insufficient to turn the electoral tide.

Chart 10

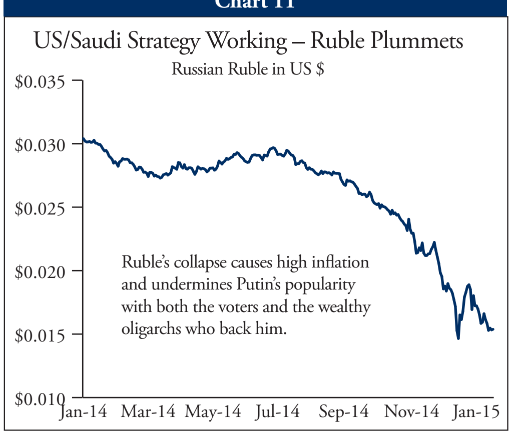


Source: Census Bureau, JP Morgan

Second, with global economic growth seemingly stalling, a lower oil price would boost economic recovery by increasing disposable consumer income and allowing central banks to keep interest rates lower for longer than otherwise would be the case. In doing so, a potential global recession, and the faltering demand for oil that would accompany it, might be avoided. Lower oil prices also would help ease the US transition away from QE.

Third, the plan to crush oil prices perfectly aligned with both US and Saudi foreign policy goals. Iran is the leading Shiite Muslim nation and Saudi Arabia is the leading Sunni Muslim nation. The animosity between the two Muslim sects, and therefore these two nations, is well known. Iran, already weakened economically by US sanctions, is not in the same favorable fiscal position as Saudi Arabia. It was also coming to a critical point in its negotiations with the US and other Western nations regarding its efforts to acquire nuclear weapons and remove economic sanctions. The timing of bringing a hard economic blow to the Iranian leaders was perfect for both the US and Saudi Arabia.

Chart 11



Source: Bloomberg

Fourth, Iran's primary geopolitical supporter is Russia, the world's third largest oil producer. By undermining Russia via lower oil prices, Saudi Arabia also undercuts support for its arch rival Iran. With the US heavily sanctioning Russia for its illegal occupation of Crimea, bringing the Russian economy to its knees once again made strategic sense for both Saudi Arabia and the US. Russia's economy is now in big trouble as it is facing a recession, dwindling international reserves and high inflation as a result of its crumbling currency (Chart 11). Moreover, this strategy has effectively bankrupted socialist Venezuela.

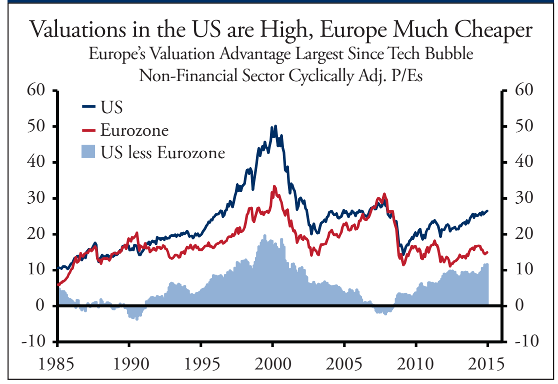
While this aggressive US/Saudi strategy to force oil prices dramatically lower might be seen as brilliant short term foreign policy, it does not come without serious risks. Only time will tell if Russia and Iran will buckle under the extreme pressure they face or if they will strike out in a dangerous manner. Logically, they should admit defeat and resolve the situation. But logic often does not prevail and who knows how or when either nation might react. Neither Putin nor the Iranian Ayatollah inspires much confidence. With nuclear weapons at Russia's disposal and nuclear material in both nations' hands, the possibility for war and terrorism should not be ignored.

Does Valuation and Profit Growth Even Matter Right Now?

"'What then do I gain by being wise?' I said to myself, 'This too is meaningless.'" Ecclesiastes 2:15b

Long term Stewardship Partners clients know we typically assess topics such as valuations across regions and market sectors, the prospect for future corporate profits and factors impacting price earnings multiples, among other issues, in this section of our Quarterly Commentary. Such matters are of vital interest in determining where to optimally invest our clients' assets to achieve the best long term returns while taking the least possible risk. When considering the high stakes geopolitical game the US and Saudi Arabia are playing at the moment, we have to seriously question if any of those normally critical aspects of successful long term investing are actually very relevant in early 2015. Instead, the outcome of the joint US/Saudi efforts to destabilize their foes via lower oil prices will likely trump all the normal considerations regarding the direction of the financial markets over the course of the next year and possibly longer.

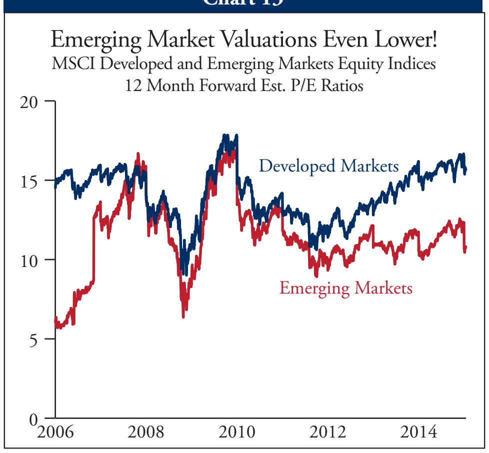
Chart 12



Source: Capital Economics

For the record, US share prices remain valued at historically high levels and foreign shares are significantly cheaper (Chart 12). Emerging market share prices are even cheaper than those in Europe and Developed Asia due largely to China's economic problems, Brazil's socialist political leadership mismanaging its economy and the crushing blow Russia has taken due to the falling oil price (Chart 13). Corporate profits in the US seem poised to accelerate as more rapid economic growth and lower commodity prices help the profit margins of most companies outside of the energy sector. Overseas, corporate profit growth in 2015 is looking a bit sketchier in view of the weaker economic performance in Europe, Japan and the emerging markets, but a bit better economic growth and the lower oil price will help the profitability of many companies in these regions too. Price earnings multiples are unlikely to expand much in the US unless the "Great Rotation" from bonds to stocks reengages, while valuations overseas have significant upside potential from the current relatively (versus the US) depressed levels. While much ink has and will be spilled writing stories and headlines about the perils of the Fed beginning to raise rates sometime in 2015, history suggests equities will do just fine in a rising rate environment. Bonds may do fine as well if the rate increases are not too rapid. If it were not for the interference with market forces brought about by the US/Saudi foreign policy gambit, 2015 would probably have proceeded as a reasonably good years for most investors.

Chart 13



Source: Capital Economics

Depending on how and when Russia, Iran and other nations react to the oil price fall, 2015 may still turn out to be a reasonably good year for investors. The longer it takes for this "battle" to be resolved, the better for investors as oil prices, inflation and interest rates all should remain lower longer. Should the US/Saudi ploy prove successful in quickly getting Russia and Iran to back down from their dangerous stances, we would expect oil prices to jump and the US dollar to weaken. The initial increase in oil prices, which could be both substantial and fast, would be caused by speculators scurrying to reverse their short oil/long US dollar trades. While the markets would cheer the reduced threat of war and terrorism such a victory would suggest, it would likely reel at the prospect of the lower consumer disposable income, higher inflation and higher interest rates, which increasing oil prices would likely cause. So it is not at all clear a foreign policy victory would be helpful to equities as market forces would take over (assuming Saudi Arabia resumed its normal role of cutting production to balance the oil market).

Putin, however, is not likely to easily or quickly capitulate to the US/Saudi alliance. While the Russian economy is facing both a significant decline and inflation, which could eat away at Putin's support from both the public and the oligarchs supporting him; we suspect he will first seek to counterattack. If the US/Saudi alliance is willing to destroy his economy, he might decide to take action to destroy theirs as well. Unfortunately, outside of war or terrorism, he does not have many real options. Terrorism via Muslim proxies would likely be the preferred route and Saudi Arabia the easiest target. This may be the reason the US is stockpiling supplies coming out of Afghanistan and Iraq in Kuwait at the moment. Anything Russia or Iran can do to reduce the production of oil from the Gulf region will result in higher oil prices and a restoration of their economic well-being. At the same time, it would have a very negative impact on the financial markets, which would further punish the US. More frightening is the possibility of terror attacks by Russian/Iranian backed Muslim terrorists on US soil and aimed, as 9/11 was, at our financial and political centers. How this "battle" ends will likely play the biggest role in determining the outcome for investors in 2015, with the best scenario likely being a continued stand-off which keeps oil prices low. Since this requires good behavior from the Russians and Iranians, it is hard to be confident in that outcome.

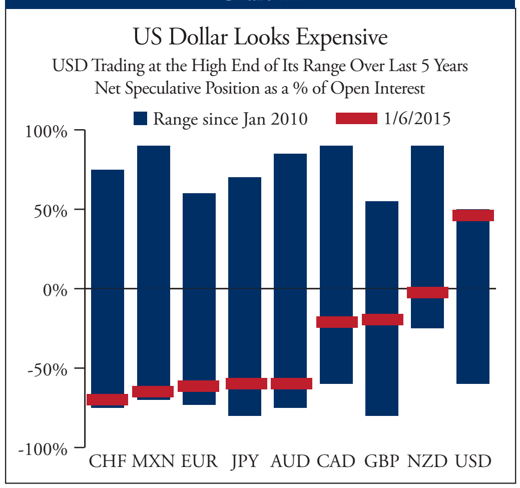
Investing Wisely When Fundamentals May Prove Temporarily Irrelevant

"Who is wise? Let them realize these things. Who is discerning? Let them understand." Hosea 14:9

With QE finally coming to an end in October, it was easy to think that government interference in the markets had been finally and mercifully significantly reduced. Now, due to the US/Saudi effort to bankrupt their foes into submission, it seems likely government actions will once again play a big role in determining the direction and magnitude of market movements. In this case, however, we have little insight into the timing surrounding the government's moves. With QE programs, stimulus spending and government shutdowns, we knew when they began and had a good idea of when they were likely to stop. This government action was not publiclly announced and the path forward is dependent on other, untrustworthy nations. Moreover, we have outlined only a few of the possible scenarios that may play out. While we acknowledge we may be overreacting, it is just as possible events proceed in a more negative manner than we are assuming. Timing investment decisions around this issue will be important to achieve success, but will also be quite hard to get it right. With various governments pronouncing warnings of increasing terrorist activity in the days ahead, however, it may be events are moving faster than we might like to believe. Additionally, the more positive extended stand-off scenario seems less likely given both the temperment of Putin and difficulty Russia and Iran would have in economically surviving a protracted "battle".

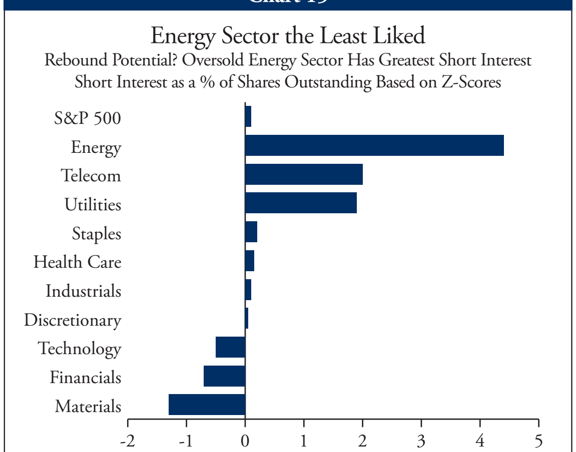
Accordingly, despite our generally favorable expectation for the markets outside of this critical development, we believe the wisest course of action is to rearrange our portfolio holdings to a more conservative stance. As a result, we have increased our cash weighting and utilized some of this cash to purchase "insurance" in the form of inverse index ETFs in those portfolios where we have the authority to do so. We are reducing our exposure to the more highly valued US market and US dollar (Chart 14). With both US equities and the US dollar at the high end of historical valuation ranges, moving into better values in other countries and currencies should pay off in the long term, if not the short term. We may increase our hedging in the days to come.

Chart 14



Source: Credit Suisse, CFTC

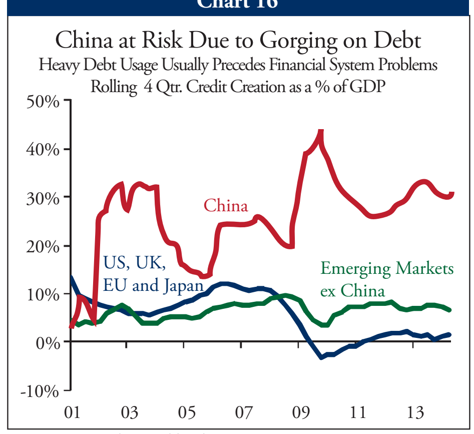
Chart 15



Source: NYSE, JP Morgan

The price of oil and the energy sector are, not surprisingly, significantly oversold. Both are overdue for a substantial short term technical bounce. Yet there is no evidence to suggest such a jump is imminent as oil continues to flood the already oversupplied market. While the US rig count has just begun to move lower, in what will likely turn into a meaningful decline, it will take some time before shale oil production declines in a meaningful way. Given our expectation oil prices will ultimately recover swiftly no matter who wins this "battle", we will be looking for opportunities to build our holdings of energy companies and reduce our holdings of stocks benefitting from low oil prices. Chart 15 highlights how aggressively speculators have shorted the energy sector, thereby creating value for long term investors. When US/Saudi manipulation of oil prices ends, market forces will drive oil higher and the energy stocks will fly as shorts cover. Timing our entry into a larger energy exposure, however, will be challenging. Still, it stands a very good chance of providing very rewarding long term returns. While Saudi Arabia has significant reserves set aside for just such an exercise of disciplining the market, they cannot hold prices low for too long without doing more damage than good to their long term prospects. Still, their actions could continue throughout 2015.

Chart 16



Source: National central banks, BIS, JP Morgan

In view of China's ongoing difficulties in reversing its declining economic growth rate and the signs of financial stress which are becoming more apparent there, we have reduced our exposure to the Pacific region and the emerging markets. Chart 16 portrays the extremely, some would say insanely, rapid credit growth in China in recent years. Such rapid credit growth is almost always followed by a financial crisis. While China may be somehwat unique in its ability to manage such a crisis, it is a still a risk we are not inclined to take at this time. As we observe the rapid movements in oil, currencies and credit spreads, it appears the markets are determined to force an accident to occur somewhere in the world. Unfortunately, China's enormous credit growth make it a likely target for trouble. We remain optimistic about the financial markets over the long term, but believe caution is warranted currently.

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

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, Kimberly-Clark, and one we avoid, Actavis. Kimberly-Clark is a holding in some of our Stewardship Partners portfolios while we actively avoid ownership in Actavis 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 – Kimberly-Clark – Exemplary Corporate Citizen

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

Founded in 1872 in Wisconsin, Kimberly-Clark is now headquartered in Dallas, Texas and employs roughly 58,000 people at facilities in 37 different countries. Kimberly-Clark has grown from its humble Wisconsin roots to be one of the largest consumer products companies in the world with global sales exceeding $21 billion. At least one of its five separate brands which generate revenues in excess of $1 billion annually is likely part of your everyday life. Indeed, the company touches lives in 175 countries across the globe, but roughly half of its sales still come from the United States. The company estimates its products are used by 25% of the world's population and its market share position is either #1 or #2 in over 80 of the countries it serves. The company's largest brand is its "Huggies" children's diapers, but it also is well known for its "Kleenex" and "Scott Tissue" brands as well, among many others. Long known for its innovation, Kimberly-Clark actually created five of the eight major product categories in which it operates. Not surprisingly, innovation is one of the company's four key values. Authenticity is another of these values as the company emphasizes its heritage has always been one of honesty, integrity and courageously doing the right thing. A third corporate value is "accountability" wherein the company and its employees take ownership of their business activities and the company's future. The last, but hardly least, corporate value for Kimberly-Clark is "caring". The staff of the company seeks to respect each other and care for the many communities in which they work. Undoubtedly, these four key values have contributed significantly to the phenomenal success the company has enjoyed over the years. Naturally, it does not hurt to be in a business where almost all people view your products as a necessity! Kimberly-Clark's steady, consistent growth is certainly an attribute investors seek, but it is also a blessing knowing the company has historically carried out its work in an admirable manner. It should come as no surprise that Kimberly-Clark is recognized by the Ethisphere Institute, the leading business ethics think-tank, as one of the World's Most Ethical Companies for 2012 and 2013.

Kimberly-Clark's well-deserved reputation for maintaining high ethics can be traced from its core value of Authenticity, but its comprehensive 33 page global code of conduct helps guide its employees through the maze of difficult real world issues and consistently takes the right approach to resolving problems. The code of conduct applies to everyone associated with the company anywhere in the world, including the board of directors. Employees can report violations of the code directly or anonymously but the code ensures that employees cannot be retaliated against for highlighting potential violations. Throughout the code of conduct, employees are encouraged to report anything they deem questionable as the company desires to investigate potential abuses and maintain its sterling reputation. The code covers conduct with other Kimberly-Clark employees, conduct with people outside of Kimberly-Clark and the employees' responsibility towards the company itself. Regarding conduct with other employees, the company seeks a respectful workplace where diverse views are welcome. The company promotes a safe workplace where drugs, alcohol and/or violence are not permitted. Regarding people with whom employees come into regular contact, such as customers, suppliers and regulators, Kimberly-Clark's code of conduct emphasizes fair dealing and honesty. The intent of the company is to offer high quality, safe products while competing in a tough, but fair, fashion. Keeping sensitive data private, avoiding either giving or taking gifts and dealing uprightly with government officials are just a few of the many topics discussed in this section of the code. The code of conduct also addresses the behavior of employees towards Kimberly-Clark. This section highlights the need to disclose real or perceived conflicts of interest, retaining appropriate records, the proper use of company resources and the requirement to make accurate financial reports. While no company is perfect, Kimberly-Clark has gone to some length to maintain a high standard of integrity.

Like most excellent companies, Kimberly-Clark's admirable treatment of its employees is indicative of the wise stewardship which pervades the entire organization. To maintain its position as one of the world's best places to work (the company has won many awards as one of the best workplaces in a variety of countries), Kimberly-Clark naturally offers a competitive salary as well as a lucrative benefits package. Included among the many benefits is a company-run 401(k) plan which has many helpful options. The company not only matches employee contributions but also will contribute up to another 6% of an employee's salary depending upon the company's financial performance. On the health insurance front, the company offers medical, dental and vision insurance from the day of hire to the employee and dependents. For health insurance, an employee can choose from a number of different health plan options in order to find the one that suits their particular needs best. Short and long term disability insurance, as well as life insurance is available to all employees with the company paying for portions of these income stability plans. Employees are also able to purchase long term care insurance at group rates through the company. In addition to standard vacation time, employees are also granted emergency leave for unexpected personal issues. Moreover, employees can purchase up to an additional 40 hours of "flex time" from the company should they need additional time off. Kimberly-Clark also will provide each employee with up to $5,250 per year for furthering the employee's education. Moreover, the company will provide up to $10,000 per year to employees to help cover the often high costs of adoption. Finally, Kimberly-Clark, in line with its "caring" corporate value, provides completely free and confidential counseling services for workers going through distressing emotional, financial or relationship issues.

Kimberly-Clark is not only a blessing to its employees, but also to the communities in which it operates. In 2013 the company donated $35 million in cash and product contributions to charitable causes around the world. Of that amount, $1.5 million went to matching employee charitable contributions and $700,000 went to charities where employees volunteered their time. In total, Kimberly-Clark workers or their spouses gave over 80,000 hours of volunteer time to charities in 2013. The company also prioritizes helping support charities offering relief to those suffering from the impact of natural disaster, partly through a long term commitment to provide support to the American Red Cross. The company also was instrumental in the founding nearly two decades ago of MedShare, a charity which seeks to provide needed medical supplies to those communities around the world that could never afford to acquire such materials themselves. Indicative of the company's long philanthropic heritage, the Kimberly-Clark Foundation was established in 1952. The company also is a blessing to the communities it operates in via its efforts to reduce its impact on the environment. In 2012, 22% of the company's sales were from environmentally innovative origin, in line with the company's goals to dramatically increase the environmentally friendliness of its operations. The company is targeting to source 50% of its wood-fiber requirements from alternative, more environmentally friendly sources rather than from natural forests. While the company has more work to do to reduce its environmental footprint, it has made worthwhile progress so far.

Kimberly-Clark's good works, while numerous, are no guarantee of long-term investment success. As Biblically Responsible Investors, however, the company's commitment to innovation and integrity as well as its outstanding treatment of its employees and exemplary 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 benefits those it comes into contact with and one we can be proud to own!

The Bad – Actavis – Accessory to the Murder of Unborn Children

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

Headquartered in Dublin, Ireland, Actavis is a rapidly growing specialty pharmaceutical company, with growth coming through both internal development of drugs and significant acquisitions. The company sells both its own branded pharmaceuticals and generic medicines as well. Altogether, the company markets over 1,000 different drugs in more than 60 countries. On its website, the company highlights the many different product categories it operates within, drawing special attention to its dominance in the woman's health sector. Perhaps not surprisingly, however, the company makes no effort to highlight its manufacturing and distribution of drugs used to allow woman to abort their unborn children. Actavis manufactures Next Choice (Plan B One-Step generic) and Ella (ulipristal acetate). Both of these drugs are emergency contraceptive products used to abort a recently fertilized embryo. Additionally, the company manufactures Jolivette, Nora-BE and Nor-QD, all progestin only oral contraceptives. One of the actions of these contraceptive drugs is to alter to uterine lining which can therefore prevent a fertilized egg from implanting. As a result, a life that has officially begun ends up being aborted by the use of these drugs. Accordingly, Biblically Responsible Investors seeking to avoid companies which provide the means to cause the death of an unborn child should note that even some drugs sold as contraceptives actually work in some cases to abort already fertilized eggs.

Abortion is no longer viewed by many as an important issue for Christians to be concerned about. Sadly, almost all nations around the world have now legalized abortion. In the United States, many liberal Christian denominations support women's access to abortion while many conservative denominations still oppose it, but choose not to expend many resources fighting this heinous act. With much greater access to contraceptive drugs unplanned pregnancies have been declining, therefore, abortions have thankfully been falling in the US in recent years. Nevertheless, over 1 million abortions took place in the most recently reported year in the US.

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

Our Ultimate Goal – Funding the Lord's Work

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

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

Featured Ministry – Shelter for Life International

"Is it not to share your food with the hungry and to provide the poor wanderer with shelter?" Isaiah 58:7

Thor and Debi Armstrong founded Shelter for Life (SFL) in 1982 in response to the refugee crisis caused by Afghans fleeing into Pakistan as a result of the Soviet invasion of Afghanistan. The Armstrongs, who had already been active in Asian relief work, felt the Lord's calling to minister to the suffering Afghan people who had been driven from their homes by the war. The Armstrongs and those who joined them in this effort were eventually able to provide housing for thousands of Afghan refugees. Over the years, the ministry has grown significantly. It now not only provides assistance with housing needs but also by restoring sanitation systems and infrastructure reconstruction. In order to rebuild communities and restore lives, families must have a chance to break the cycle of poverty and dependence on outside assistance. The goals of SFL's community development initiatives are sustainability, independence, and self-sufficiency, all of which are difficult to accomplish without financial stability. SFL offers creative economic development programs that give families a chance to receive training, earn income, and launch new small businesses.

SFL understands that health encompasses more than the physical; it includes emotional, spiritual, and relational health as well. As immediate needs are met and communities are rebuilt, people are not hurting so much from lack of food, shelter, or even health care; but rather they are depressed, grieving, and unable to forgive. SFL provides hurting people with lessons in emotional health, moral values, and conflict resolution. These comprehensive community health programs play a significant role in restoring broken lives and offering hope for the future. Over the course of its existence, SFL has provided help in many countries, including Afghanistan, Angola, Burundi, Honduras, India, Indonesia, Iran, Iraq, Kosovo, Macedonia, Pakistan, Sri Lanka, Tajikistan, and Western Sahara, primarily in the areas of shelter, construction, and community development. SFL's mission is to "demonstrate God's love by enabling people affected by conflict and disaster to restore their lives and rebuild their communities." Their desire is to show hurting people God's love through humble, compassionate, sacrificial service and the evidence suggests they are succeeding.

Shelter for Life not only has performed many good deeds, but also has managed the ministry's financial affairs well. As a result, Shelter for Life has attained the highest Financial Efficiency Rating from MinistryWatch.com - five stars. We believe Shelter for Life is worthy of your consideration for financial support. The ministry's holistic approach is often found lacking in crisis atmosphere they typically work in and it is clear this still relatively small ministry could bring its expertise to many more hurting people if it had the financial resources to do so.

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)
- Sound Mind Investing (soundmindinvesting.com)
- The Gathering (thegathering.org)
- MaximumGenerosity.org (maximumgenerosity.org)
- Stewardship Ministries (stewardshipministries.org)

HOW
to give with a discerning mind?

Professional Advisors:

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

Donor Advisors:

- Excellence in Giving (excellenceingiving.com)
- Calvin Edwards & Company (CalvinEdwardsCompany.com)
- Kardia (kardiaplanning.com)

WHERE
to invest in kingdom ministries?

Ministry Research:

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

Ministry Mutual Funds:

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

Featured Ministry Marketplace Participant – Excellence in Giving

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

One element that has long been missing from the Christian Ministry Marketplace has been the aid and counsel that qualified, experienced advisors can bring to a giving decision. Due to the absence of such guidance, many well-intentioned donors have made giving decisions that proved to be less than optimal. **Excellence in Giving (EIG) seeks to fill that gap and thereby bring forth more resources for the Lord's work.** Founded by Wall Street veteran Al Mueller, EIG is one of a group of new philanthropic advisors that seek to transform the burden of wealth into the joy of generosity for major donors. The goal of the firm is to maximize the value and satisfaction of their clients' charitable giving. This is accomplished through a four-step process:

1. ***Discovery*** – EIG explores the issues their clients care most about, the values that they want to pass on to their children and the legacy that they would like to be remembered for.
2. ***Evaluation*** – EIG reviews their clients' current giving and produces an impact and satisfaction assessment. Analysis of new opportunities combined with the establishment of giving guidelines and initiation of a due diligence process are part of a course of action that leads to a Giving Game Plan.
3. ***Participation*** – EIG works with its network of contacts to identify the best opportunities, manages every aspect of the giving process from project evaluation, negotiation of grant terms and outcome measurements and seeks to partner with others, where appropriate, to leverage the client's gift.
4. ***Celebration*** – EIG provides both a quantitative and qualitative review of the giving process and the positive results achieved are celebrated.

EIG also offers access to a database of information on a variety of charities. This information can be found at www.IntelligentPhilanthropy.com and for a small charge, donors can gain obtain a two page report that is certain to enhance the quality of their giving.

Knowing Jesus Christ as Your Lord and Savior

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

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

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

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

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

STEWARDSHIP PARTNERS

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

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