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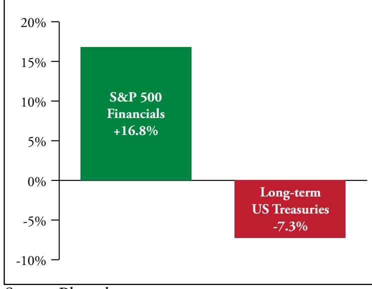
While We Were "Trumped", 2016 Was a Very Good Year for Our Clients

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

We are very thankful for the investment results the Lord allowed us to achieve in 2016 as almost all of our strategies' returns surpassed those of the relevant indices, some by a considerable margin. Moreover, 2016 was a year where US stocks managed to recover significantly from what was the worst start to a year ever seen and ended up posting pretty good returns for the full year (Table 1). Stewardship Partners was able to avoid much of the early carnage due to our defensive positioning and then we were blessed to be able to more than fully capture the strong rebound in share prices from February through May by reverting to a fully invested posture right at what we like to refer to as the "point of maximum pessimism". Having achieved very attractive returns so early in 2016, we gradually moved to a more defensive posture over the summer in an effort to best preserve those returns. This strategy worked as intended right up until the election. While the S&P 500 fell for nine straight days in the run-up to the election, and then initially dropped 5% in the overnight futures market when it became apparent Trump would pull off a shocking victory, share prices quickly reversed course when the markets actually opened the next day. Bond prices, however, got crushed. Indeed, asset prices around the world began moving rapidly as the market tried to make sense of the implications of a new Trump administration. Perhaps incorrectly, the markets jumped to the conclusion economic growth would accelerate considerably and quickly under Trump. Inflation expectations also rose contributing to the jump in interest rates. The most dramatic market movements post election were tied to these higher interest rates. Financial stocks soared as speculators determined this sector would be one of the prime beneficiaries of Trump's policies (Chart 1). Meanwhile, high quality bonds sold off sharply even while low quality bonds did better. Indeed, lower quality stocks also did much better than higher quality stocks as junk, whether in the bond or equity world, benefitted from the renewed hope for stronger economic growth. While we altered our portfolio positioning after the election, we were still "Trumped" by these developments and, other than our Quantitative Strategies which performed exceptionally well, we ended up losing some ground in the fourth quarter. Even so, 2016 was still a very good year for Stewardship Partners and we are thankful to have achieved good returns for our clients in what was yet another unusual year for the world's financial markets.

Chart 1

Election Helps Financials, Hurts Bonds
S&P 500 Financials vs. Long-term US Treasuries
Cumulative Return From Election to Year End



Source: Bloomberg

Table 1

4Q16 Total Returns

US Indices	4Q16	YTD	5y ann
S&P 500	3.8%	12.0%	14.7%
S&P 500 Value	7.3%	17.4%	14.7%
S&P 500 Growth	0.5%	6.9%	14.5%
NASDAQ	1.7%	8.9%	17.1%
S&P 400 (Mid Cap)	7.4%	20.7%	15.3%
S&P 600 (Small Cap)	11.1%	26.6%	16.6%
Treasury Bonds	-3.8%	1.0%	1.2%
High Grade Corp. Bonds	-2.8%	6.1%	4.1%
High Yield Corp. Bonds	1.8%	17.1%	7.4%
Gold	-12.4%	8.6%	-5.9%
Global & International Indices			
MSCI World	1.9%	7.5%	10.4%
MSCI EAFE	-0.7%	1.0%	6.5%
MSCI Euro	2.0%	1.4%	7.1%
MSCI Far East	-1.4%	2.3%	8.0%
MSCI Japan	-0.2%	2.4%	8.2%
MSCI Emerging Markets	-4.2%	11.2%	1.3%
US Economic Sectors			
Energy	7.3%	27.4%	3.9%
Materials	4.7%	16.7%	10.5%
Industrials	7.2%	18.9%	15.6%
Consumer Discretionary	2.3%	6.0%	17.8%
Consumer Staples	-2.0%	5.4%	12.7%
Health Care	-4.0%	-2.7%	16.8%
Financials	21.1%	22.8%	19.5%
Information Technology	1.2%	13.8%	16.4%
Telecom	4.8%	23.5%	11.6%
Utilities	0.1%	16.3%	10.4%

Source: Bloomberg

We have been surprised by the extent of the market's reaction to Trump's surprising electoral victory. Perhaps the shock associated with his win contributed to the seemingly outsized reactions in equity, bond, currency and commodity markets. While there can be little doubt Trump's economic policies will promote economic growth far more than a Clinton administration would have, the road to improved economic growth is unlikely to be smooth. Fortunately for President Trump, the voters also gave him a majority in both the Senate and the House of Representatives, which will help him as he seeks to turn his agenda into actual law. Unfortunately for Trump, he does not have 60 US senators he can count on to back his plans. Therefore, many of his economic efforts are likely to be watered down by compromises forced upon him by Democrats in the US Senate, and some will be thwarted altogether. In the House of Representatives, President Trump is also likely to find opposition to some of his plans by fiscally conservative Republicans who are determined to bring an end to the ever increasing Federal Debt. It is also clear our new President will not have the same support from favorable Fed policies that Obama had during his eight years in office. Because Trump is likely to face higher interest rates and tighter Fed policies, disappointments may also await those investors who rushed into buying financial stocks on the back of Trump's victory. Wall Street actually heavily backed Clinton and the President's victory was secured by his populist, Main Street-themed rhetoric. Helping Wall Street does not appear to be on the top of his agenda.

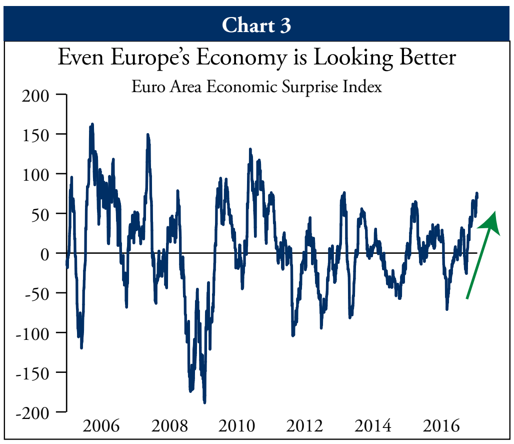
As 2016 came to an end, the market seemed to begin to recognize its initial optimistic reaction to Trump's election may have been overdone. Bond yields have since fallen from the recent highs, the Dow Jones Industrial Average cannot seem to surpass 20,000 and the value of the US dollar, which had initially screamed higher, has since weakened a bit. One thing is for sure, after eight years of "No Drama Obama", Trump is certain to regularly create some sort of news to keep investors on their toes in 2017 and beyond.

Global Economic Growth Picking Up But Risks Remain

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

President Trump may have also caught a lucky break when it comes to the economy. After tepid economic growth ever since the Great Recession, supported all along by massive government and Central Bank interventions, the global economy began to show signs of higher growth shortly before the election took place. At long last, it is beginning to seem like the deflationary pressures which have plagued the global economy for so long are finally relenting. In particular, the US economy grew at greater than 3% in the last quarter and is threatening to do so again in 2016's fourth quarter as well. This coming two years after the Fed ceased its Quantitative Easing (QE) program and less than one year after implementing its first hike in short term interest rates. In December, the Fed followed with a second small increase in rates and announced it is contemplating further rate rises in 2017. Inflation expectations have also finally begun to rise, an indication that the Fed's longstanding efforts to defeat deflation may finally be starting to bear fruit. After being in a downtrend for more than two years, the Global Leading Economic Indicator measure finally turned higher in early 2016 and continued to improve over the remainder of the year (Chart 2). While it remains early, and it would not be surprising for there to be setbacks, it appears to us the global economy may be finally breaking loose from the deflationary grasp the Great Recession had maintained on it over the last eight years. If so, this will lead to important economic policy changes in the quarters and years ahead, most notably from the world's central banks.

Source: BCA Research



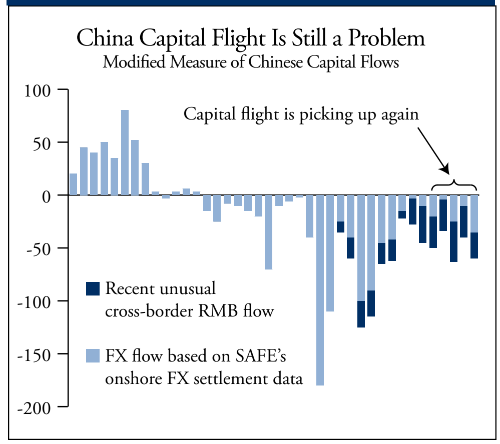
Source: Bloomberg

The economic improvement is being led by better performance in the United States. Housing prices have recovered, banks are now well capitalized and wages have started to rebound as well. With Trump promising tax cuts, consumer spending could strengthen further in the year ahead as fiscal stimulus begins to supplant monetary stimulus in the US economic growth equation. Moreover, businesses, particularly in the energy sector, may find many more growth opportunities in front of them as Trump intends to relax many regulatory strictures put in place by the Obama administration. With an air of optimism sweeping through both consumers and businesses due to the change in power in the US, the outlook for growth has moved higher. Excessive auto and student loans present risks to the economy, but even these may not be sufficient to undermine stronger economic growth in 2017 and beyond. The strong US dollar, higher interest rates and rising oil prices will also act as a brake on US economic growth, yet it still appears higher growth will be realized. But it is not just the US where things are starting to look better. Even in long moribund Europe, favorable economic surprises recently have been occurring with greater frequency (Chart 3). Despite political turmoil regarding Brexit, the poorly capitalized Italian banks and questions surrounding the survivability of the European Economic Union and the Euro, an improving economic trend has clearly fought its way through these threats towards greater prosperity in Europe. The same can be said for China (Chart 4) where economic surprises have been on the positive side as well recently. Indeed, many forecasters expect the actual economic growth rate in China to come much closer to the official 6% rate the government is now targeting (and officially reports whether or not the Chinese economy actually grew that fast). A variety of stimulus measures implemented earlier by the Chinese government are primarily behind its economy's better outlook.

Source: Bloomberg

While President Trump will have this economic wind blowing at his back early in his administration, there can be no doubt that challenges will arise. The market may have ignored the Italian banking problems and the associated political risks for the Euro so far, but it would not be surprising to see those issues come to the fore again. An even greater risk remains China's enormous debt problem. Recently, this explosion in debt has reached levels that proved very problematic for other countries that allowed their debts to grow to such levels (Chart 5). While China has an unusual ability to control its financial system and its overall economy due to its centralized governance, it is clear it will be difficult for the country to correct the sizable imbalances in its economy without causing serious economic consequences for both itself and the world. Should the ultimate resolution of China's enormous debts come about in an uncontrolled or haphazard way, another long round of global deflationary pressures could be the result. At the beginning of 2016, the world's financial markets had a short meltdown based largely on the prospect of a Chinese economic collapse. At that time, much focus was targeted towards the large sums of money looking to escape from China prior to what many believed (and still believe) is an inevitable and significant Chinese currency devaluation. When capital flight waned a bit in the Spring of 2016, investors became more confident the worst would be avoided in China. Unfortunately, capital flight has picked up again (Chart 6) and the Chinese government has recently instituted numerous regulations to try to stem the flow of money outside its borders. With President Trump clearly looking to target China's economy in an effort to restore manufacturing jobs to the US, the risk of a financial event occurring in China which could negatively impact the world's financial markets is not likely to diminish anytime soon.

Chart 6



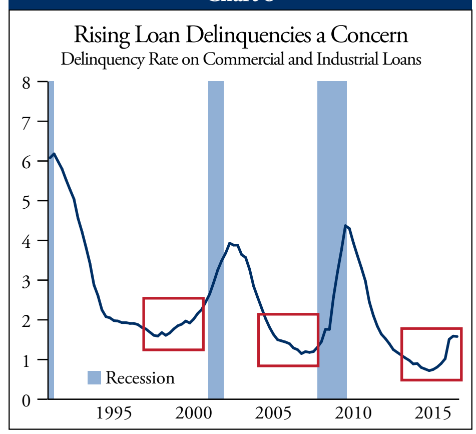
Source: Goldman Sachs

Chart 7

Source: FRED

With the US leading the way towards stronger economic growth, the US dollar has also strengthened considerably, particularly post the election (Chart 7). While initially one might think a stronger dollar is a good thing (and we believe, on balance, it is), it is worth observing a strong dollar has also been present around the previous two recessions. President Trump's goal of restoring manufacturing jobs in the US may be undermined in part by the strong US dollar as the higher currency value makes US manufactured goods less attractive to overseas buyers. Additionally, it is worth noting the delinquency rate on commercial and industrial loans has recently risen, in line with similar trends prior to previous recessions (Chart 8). We believe this is likely the result of defaults in the oil field and may not be as onerous as it currently looks, but we will be watching closely to see if these trends worsen or improve. Overall, economic models which predict US recessions indicate the chances are less than 20% over the next twelve months. The current economic expansion is the third longest in history, but it currently looks like it will make a good run at becoming the second longest ever before succumbing to a recession.

Chart 8

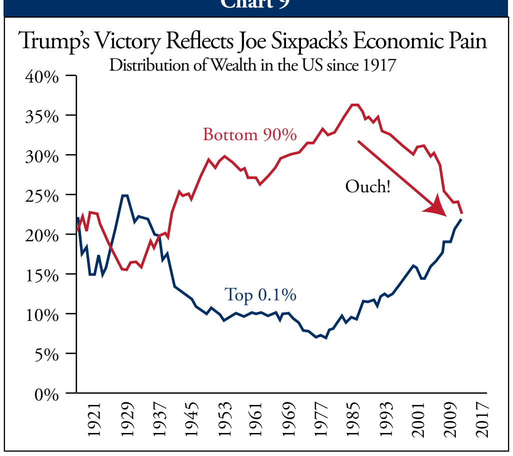


Source: Real Investment Advice

How Will Trump's Policies Impact the Financial Markets?

"Wisdom reposes in the heart of the discerning and even among fools she lets herself be known." Proverbs 14:33

Chart 9

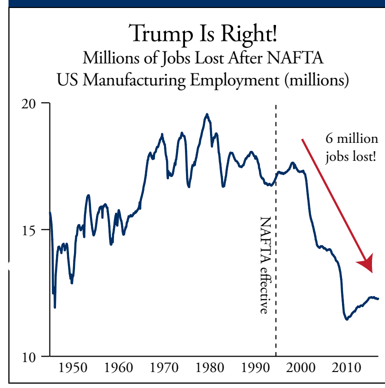


Source: Bloomberg

Unlike President Obama, President Trump will be entering office with the economic wind blowing at his back. His objective is to make policy changes which will cause the speed of that blowing wind to increase significantly, thereby increasing prosperity for all, but particularly for the middle and lower classes who have been not fully participated, or not participated at all, in the nation's economic prosperity in recent decades (Chart 9). In the months ahead, we will learn if the many populist messages of the Trump campaign were simply well-tested tropes aimed at getting him elected or heartfelt policy proposals he intends to actually pursue. At this time, we believe it is likely Trump will pursue the policies he campaigned on but we can't help but note the prevalence of Goldman Sachs ex-employees already added to his administration and the favorable stock market reaction of Wall Street's largest financial institutions to his election. Could these be signs Trump will largely abandon the proposals he laid out during his campaign to help Joe six-pack? Time will tell and all investors will be watching his performance closely.

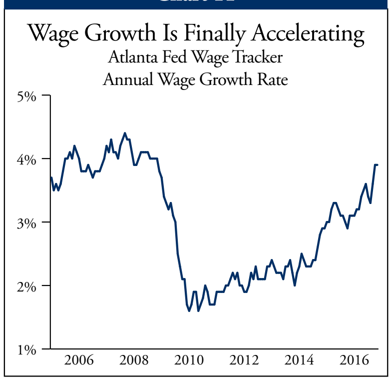
Some of the new President's most famous policy proposals are on the immigration front. He claimed loudly and often he would build a big, beautiful wall along the Mexican border to bring a halt to both illegal immigration and drugs, and that Mexico would pay for it. Already, there has been some equivocating on the idea Mexico would pay for the wall as Trump has sought to expand the way in which they would pay for it to undefined other ways payments could be made outside of just getting a check from the Mexican government. Such a wall would cost billions and it really has not yet been determined what the total cost might be. Republicans in Congress certainly support the wall but they have not yet given much consideration to its cost. Clearly, however, the cost will initially be borne by the US. In fact, it is unlikely Mexico will ever make any direct payments for the wall. Moreover, Republicans in Congress will be torn between their desire to halt illegal immigration and the drug trade with their intent to cut the deficit. We can easily see how the wall's construction could be delayed by such struggles. Campaign rhetoric is easy to produce but finding money for such a large project when there are many other pressing priorities as well may prove very difficult politically. Some progress will likely be made on the wall and this will certainly benefit the construction sector and will boost employment. But don't be surprised if the wall ends up never quite getting finished.

Chart 10



Source: FRED

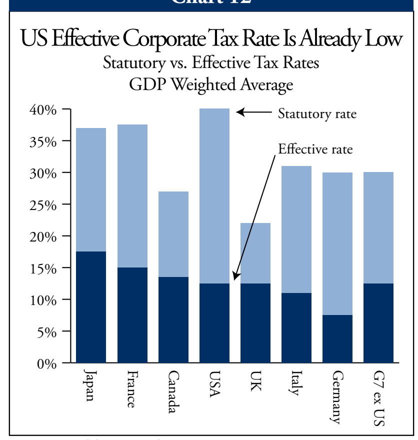
Chart 11



Source: Atlanta Fed

President Trump also campaigned on revising the "horrible" trade deals which have hurt the manufacturing sector in the US. And the facts back him up when he says those deals were harmful to US manufacturing jobs (Chart 10). He has already had several successes in convincing US companies to not move jobs outside the country. Additionally, many companies, both foreign and US, seem to be lining up to report how many jobs they plan to bring to or create in the US. While revising trade deals and treaties can take a long time, it appears Trump may be able to do much to keep this campaign promise. With unemployment currently at low levels, however, such successes might stimulate cost-push inflation unless the millions who left the labor force under President Obama can be convinced to return to work. The promise of higher pay however, may be enough to draw people back into the workforce. Again, Trump has inherited a good situation on the compensation front as wage growth has already started to jump prior to him taking office (Chart 11). Too much wage growth, however, and the Fed could raise interest rates more quickly than currently believed. Bonds, as well as equities, could be negatively impacted.

Chart 12



Source: Goldman Sachs

President Trump has also promised to reduce corporate taxes in an effort to keep companies from seeking to locate to countries where tax rates are lower. While the statutory corporate tax rate is very high, indeed the highest in the developed world, the actual tax rate the average company pays is considerably less (Chart 12). If President Trump and the Republicans lower the current rate but do not also eliminate deductions, then the deficit implications could prove to be onerous. In this case, we suspect the statutory rate will be reduced so Trump can make good on a campaign promise but that deductions will also be reduced so the impact on the Federal Treasury will be slight. The potential for companies to get a tax holiday to repatriate money they are holding overseas is high as there is little cost to this. If billions are returned to the US, it could lead to higher investment spending, more merger and acquisition activity and increased share repurchasing activity, all of which would be helpful to the financial markets. This seems likely to be implemented.

Chart 13

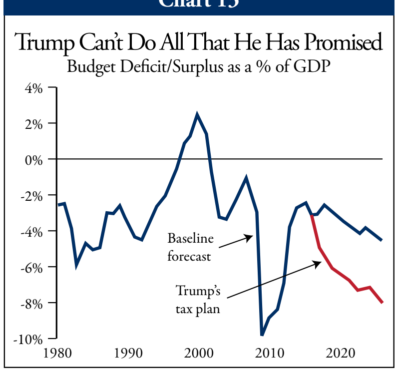
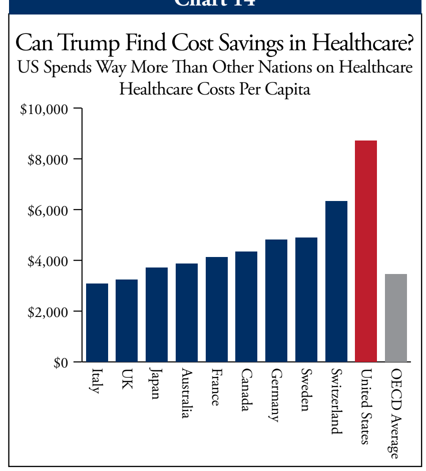


Chart 14



Source: OECD, Peter G. Peterson Foundation

Trump has also promised to cut personal income taxes and to increase infrastructure spending. If you do the math on these proposals, it gets ugly pretty quickly in terms of increasing the Federal deficit and debt. Chart 13 highlights the annual deficit projections of the current forecast under current budget plans and the impact of the Trump Tax plan. As can be seen, the annual budget deficit quickly jumps above 6% of GDP under Trump's plan. Clearly, this is unlikely to happen unless Trump finds offsetting cost cuts or finds Democratic support for his plans in Congress. While some personal tax relief will likely be passed, other spending items will need to be trimmed in order to keep the Federal government's finances from getting too bad. President Trump would be wise to target major spending and tax changes which would set the US government finances on a better long term path. There are no easy choices in making such changes and we should expect to see a lot of political uproar surrounding tax and spending cuts.

Repealing and replacing Obamacare is one area where cost savings may be achieved since we currently spend so much more than other countries on health care (Chart 14). At the same time, replacing Obamacare will be an arduous political process where it will be hard to achieve an outcome that meets both political and budgetary needs.

Earnings Finally Improving But Valuations Are Well Above Average

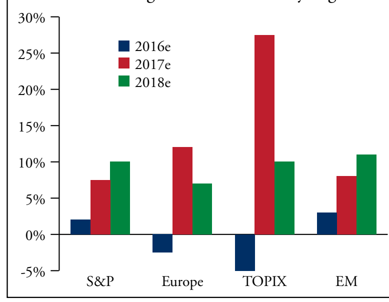
"If you find honey, eat just enough— too much of it, and you will vomit" Proverbs 25:16

Corporate earnings have been falling for much of the last three years but have finally found a bottom recently. The sharp recovery in oil prices has allowed the energy sector, the major drag on corporate earnings during the period of weakness, to begin to rebound. While equity prices continued to rise as earnings fell over the last few years, this has led to valuation levels getting extended. As a result, share prices may not be as responsive to this upturn in earnings as high valuations will act as a constraint on further equity advances. Moreover, outside of Japan, the anticipated percentage earnings growth in 2017 and 2018 is mostly in the single digits (Chart 15). It will be interesting to see if this earnings growth is sizable enough to propel share prices much higher.

Chart 15

Earnings Picking Up Everywhere

Global Earnings Growth Forecasts By Region



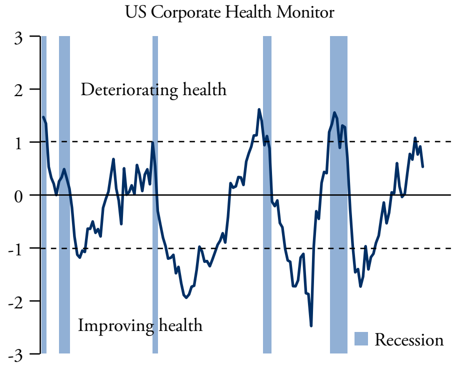
Source: Morgan Stanley

Chart 16

Companies' Financial Health Deteriorating

Weaker Corporate Health Associated with Recessions

US Corporate Health Monitor



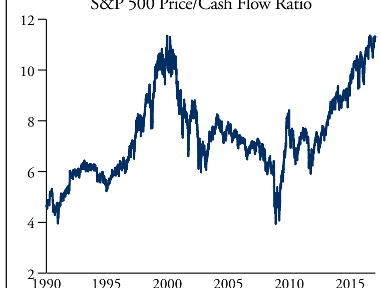
Source: BCA Research

At the same time earnings are finally recovering from the long downturn, measures of corporate financial health are deteriorating (Chart 16). This primarily relates to the build-up of debt many companies have seen during the period when earnings were weak. Increasingly, companies have been relying on debt to fund share buybacks, thereby weakening corporate balance sheets while propping up stock prices. Other companies have simply been issuing as much debt as they can at low interest rates as management recognized higher interest rates would soon be forthcoming. Profit margins have also been under pressure in recent quarters as wage pressures have begun to build, healthcare costs continue to shoot higher and energy costs rebounded. Hopefully, the earnings recovery we expect in 2017 and 2018 will do much to help improve the financial health of corporations. At the same time, however, it is hard not to notice the propensity for recessions to occur when corporate financial health deteriorates to its current level. Companies know they need to clean up their financial house so we suspect efforts to do just that will be made in the coming few years. As a result, share repurchase activity may suffer as well as investment projects and mergers and acquisitions. If so, these former supports for share prices may be not as strong in 2017 and 2018.

Chart 17

US Stock Valuations Are Historically High

S&P 500 Price/Cash Flow Ratio



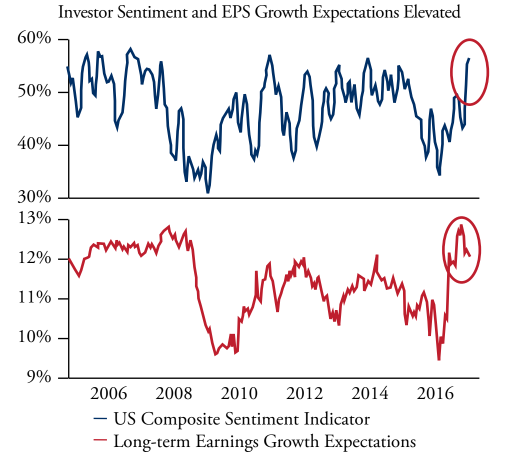
Cash Flow = Earnings Before Interest, Taxes, Depreciation, and Amortization

Source: Bloomberg

Chart 18

Is the Market Getting a Little Frothy?

Investor Sentiment and EPS Growth Expectations Elevated



Source: IBES, BCA Research

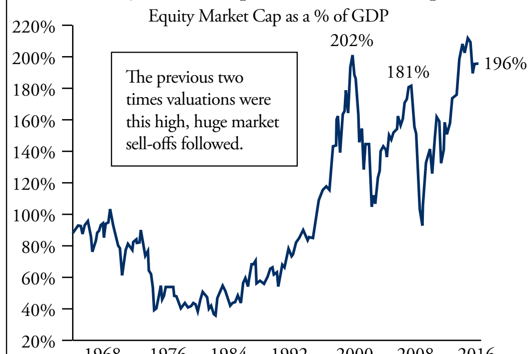
Almost all measures of valuation indicate stock prices are at a high level at this time. The "Trump Bump" the market just experienced only heightened the valuation risk investors are now facing as prices rose significantly without any concurrent improvement in fundamentals. Essentially, the market jumped in anticipation of good things it believed Trump would accomplish and/or out of relief that Clinton was not elected president. One of the more disturbing valuation measures is the S&P 500 Price/EBITDA measure shown in Chart 17. As can be seen, the last time valuations were this high was just before the technology bubble crash. While nothing that dramatic seems likely at the moment, it is wise to closely monitor developments when valuations are this extended.

Chart 18 contains two additional measures which provide insight into the state of the markets. First, the investor sentiment indicates the "Trump Bump" has investors feeling pretty good about the investment outlook. Unfortunately, such high sentiment readings are often a good indication of risk of a market sell-off. Second, long term earnings growth expectations are also high at the moment. These are sure to fall in the months to come and share prices could fall with them.

Chart 19

Scary Chart - Equities Are Not Cheap!

Equity Market Cap as a % of GDP



Source: FRED

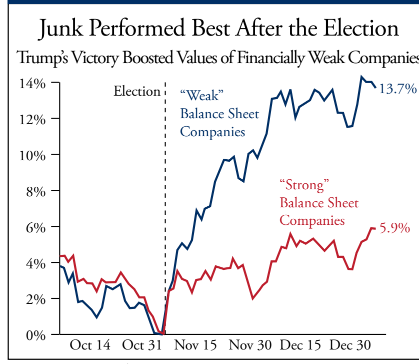
Finally, another way to look at valuation is by comparing the value of the stock market to GDP. Chart 19 reveals that for the third time in the since the late 1990's, this measure it at a very high point. In each of the last two incidences where this level was attained, a roughly 50% decline in share prices followed. Accordingly, caution is advised and investors should not be taking maximum risk at this time.

Trump Almost Certainly Means Greater Volatility for Share Prices

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

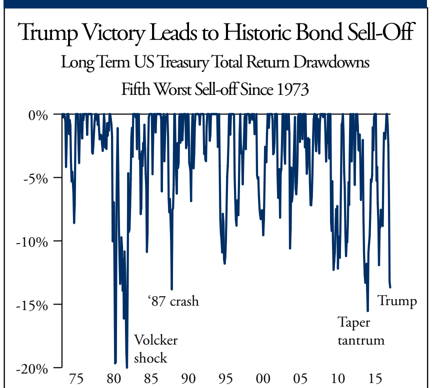
High valuations, deteriorating corporate financial health, somewhat exuberant Investor sentiment and threats from China and Europe are not the only reasons to take a more cautious investment approach at this time. The "Trump Bump" in share prices also favored the weak (Chart 20), suggesting it might have been more than a bit speculative. This was also true for speculative debt, which performed well post the election, while high quality, long term debt suffered a historically serious setback (Chart 21) following Trump's victory. Notoriously volatile copper price also moved significantly higher as speculators bet on a stronger economy under a Trump administration. Due to these moves, as well as those in the US Dollar and the price of financial stocks, many normal market relationships got seriously out of sync in the fourth quarter of 2016. At the very end of December and so far in January 2017, some of these relationships have begun to revert toward more normal levels with bond yields in particular retracing a significant amount the post-election advance. We suspect these reversions will continue as investors come to hold a more realistic view of what President Trump may be able to actually accomplish in his first year as President.

Chart 20



Source: Zero Hedge

Chart 21



Source: Bloomberg

President Trump himself also adds risk to the markets simply due to his personality and mode of operation. Gone are the extremely careful, often painfully hesitant, word choices seen when President Obama spoke extemporaneously and in are the rash, loud and usually intentionally provocative pronouncements from President Trump. Unfortunately, the financial markets likely will continue to react to President Trump's declarations, whether this makes any sense or not. Accordingly, President Trump himself represents another source of volatility investors must contend with now. Moreover, should any undisciplined comments lead to serious political or foreign tensions, the impact on the markets could prove to be more than a passing problem.

Chart 22

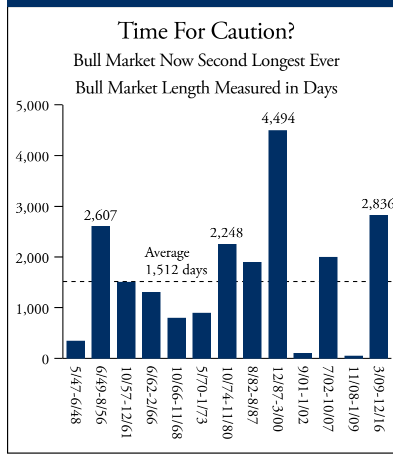


Table 2

Get Ready for More Volatility Under Trump
S&P 500 Corrections of 5% or More Since March 2009 Low

Correction Period	# Days	% Decline
2016: Aug 15 - Nov 4	81	-5.0%
2016: Jun 8 - Jun 27	19	-6.1%
2015/16: Nov 3 - Feb 11	100	-14.5%
2015: May 20 - Aug 24	96	-12.5%
2014/15: Dec 29 - Feb 2	35	-5.4%
2014: Dec 5 - Dec 16	11	-5.1%
2014: Sep 19 - Oct 15	26	-9.8%
2014: Jan 15 - Feb 5	21	-6.1%
2013: May 22 - Jun 24	33	-7.5%
2012: Sep 14 - Nov 16	63	-8.9%
2012: Apr 2 - Jun 4	63	-10.9%
2011: Oct 27 - Nov 25	29	-10.4%
2011: May 2 - Oct 4	155	-21.6%
2011: Feb 18 - Mar 16	26	-7.1%
2010: Aug 9 - 27	18	-7.9%
2010: Apr 26 - Jul 1	66	-17.1%
2010: Jan 19 - Feb 5	17	-9.2%
2009: Oct 21 - Nov 2	12	-6.5%
2009: Sep 23 - Oct 2	9	-5.6%
2009: Jun 11 - Jul 7	26	-9.1%
2009: May 8 - 15	7	-5.5%
Average	**42**	**-9.3%**
Median	**26**	**-8.4%**

Source: Pension Partners

It is also worth remembering the current bull market is already the second longest ever (Chart 22). This is by no means a guarantee it will end soon. Indeed the market could end up throwing off all of the concerns we have noted and continue to advance. The rebound in the earnings outlook offers some hope this can be achieved. Further, should the great rotation from bonds back to stocks ever finally get started, the current bull market could easily be extended for quite some time. Given the possibility interest rates may continue to rise being meaningful for the first time in years, this is not an issue which should be ignored.

Table 3

Going for Nine Positive Years in a Row!
S&P 500 Longest Consecutive Positive Year Streaks

1982	20.4%
1983	22.3%
1984	6.1%
1985	31.2%
1986	18.5%
1987	5.8%
1988	16.5%
1989	31.5%
Cumulative	294%
Annualized	19%
Streak	8 Straight

1991	30.2%
1992	7.5%
1993	10.0%
1994	1.3%
1995	37.2%
1996	22.7%
1997	33.1%
1998	28.3%
1999	20.9%
Cumulative	442%
Annualized	21%
Streak	9 Straight

2009	25.9%
2010	14.8%
2011	2.1%
2012	15.9%
2013	32.1%
2014	13.5%
2015	1.4%
2016	12.0%
Cumulative	191%
Annualized	14%
Streak	8 Straight

Source: Pension Partners

Of course, the markets could suffer through a painful correction without ever reaching the threshold of a 20% bear market fall. Over the last seven years, the market has faced 21 corrections of 5% or more, or three per year (Table 2). There certainly will be more such declines in 2017. But if the S&P 500 can still produce a positive return in 2017, it will tie the record for nine straight years of positive returns for the index (Table 3). While 2017 very likely will prove more volatile than recent years, equities may still turn in positive results. Moreover, we feel unusually confident about the capital gains potential for several of our holdings in 2017 and are hopeful 2017 will be a very good year for our clients.

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, Martin Marietta, and one we avoid, Moody's. Martin Marietta is a holding in some of our Stewardship Partners portfolios while we actively avoid ownership in Moody's 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 – Martin Marietta – No BRI Screen Failures, Good Citizen

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

Raleigh, NC based Martin Marietta is one of the leading suppliers of aggregates and building materials in the US. It has operations in 26 states as well as Canada and the Bahamas. Founded in 1939 as Superior Stone Company, it merged 20 years later with American Marietta. Two years after that merger, the company joined forces with the Glenn L. Martin Company and became a leader in aerospace, aggregates, cement, electronics and chemicals while taking the name Martin Marietta. In 1993, while still a division of Martin Marietta, Martin Marietta Materials was separately listed on the New York Stock Exchange. In 1996, the company was formally spun off from Martin Marietta and maintained the name Martin Marietta Materials. Since being spun off as an independent company Martin Marietta (it reclaimed its parent's former name by dropping the word "Materials" in 2014) has grown dramatically both from organic expansion of its facilities but even more so via multiple acquisitions. The company is now a member of the S&P 500 and employs more than 7,200 people. It has won a variety of awards, including being named the most admired company in its field by Fortune magazine and was also ranked number 16 on a list of the country's top 100 business technology innovators by Information Week magazine. Martin Marietta, as a leading provider of building materials, stands to benefit significantly from President Trump's proposed infrastructure initiative, his desire to build a wall along the Mexican border and the possibility of new energy related building projects under a Trump administration. Studies have shown population growth is critical to the company's success as each and every person correlates with 8-12 tons of aggregate demand annually. The company provides all the needed materials for major construction projects including aggregates (347 facilities), asphalt (8 plants including recycled asphalt), ready mix concrete (124 facilities), cement (2 plants) and cement treated materials. It operates through eight divisions, six of which are designated regions within the US. The other two are Cement and Magnesia Specialties. The company states it has "the right people with the right assets, driving operational excellence against the right strategic plan, with a relentless focus on driving shareholder value." Known for building foundations of buildings, Martin Marietta says its own foundation is its people, a commitment to their safety and corporate ethics. It backs those statements up with a proven track record of superior safety relative to both the average company and the average company in its sector. Moreover, it maintains a Code of Ethical Business Conduct which is comprehensive, a necessity given the nature of its business activities with large contracts and government entities.

Most companies, particularly large ones which are members of the S&P 500 like Martin Marietta, will have several violations of some of the Biblically Responsible Investment Institute's screens, usually in the area of support for homosexual issues. In an effort to be politically correct, many companies will donate to homosexual charities or offer domestic partner and/or transgender healthcare benefits. Martin Marietta is one of the rare companies which has no violations of any of our Biblically Responsible Investing Institute's screens. In the current environment in which companies operate, it takes considerable intentionality by a corporate board and management to accomplish this feat. Given the company's emphasis on its people and ethics as the foundation for the company's success, it is not surprising Martin Marietta outshines most other companies when it comes to passing our Biblically Responsible Investing (BRI) screens. On its website the company states, "At Martin Marietta, we are dedicated to doing business the right way. Our employees hold themselves, and each other, to the utmost standard of integrity. Our business ethics allow us to maintain our strong commitment to honesty, integrity and accountability. We are dedicated to our employees, customers, communities, shareholders and suppliers. This has always been, and continues to be, the cornerstone of our business". Further, the company's twenty-four page Code of Ethics states the foundation of Martin Marietta is integrity, the company's strength is its people, its style is teamwork and its goal is excellence. All employees, including the board of directors, are subject to the Code of Ethics and a 24 hour phone hotline is made available to anyone who has any type of ethical concern about any individual's actions or any company activities.

As noted earlier, Martin Marietta makes it very clear that its employees are the foundation of its long term success. Accordingly, the company makes sure its employees are treated fairly and provides extensively for their safety, particularly in the often dangerous occupation of mining aggregates. The emphasis on employee safety is impressive and good results have been achieved due to this company focus. One obvious effort is the company's adoption of the "Guardian Angel Creed" which states, "I am now and always will be empowered to stop any actions or processes that will endanger any other person or myself, and will do so with no fear of retribution from anyone at Martin Marietta. I will do so because I am totally committed to working in a safe environment that my family and I know will allow me to come home safe and healthy." One Martin Marietta facility has not had a safety issue reported since 2004! Many have had no incidents for several years. The company also looks out for its workers via its compensation and benefits packages. On the compensation front, Martin Marietta offers standard salary, vacation and holiday pay but it also makes available a 401k plan where the company matches employees' contributions and, in what has become quite unusual these days, a pension plan as well. Short and long term disability plans are in place as is the availability of life insurance for the employee, their spouse and dependents. Via a Personal Choice Plan, employees are able to select from a menu of other benefits that best suit their needs. Options include medical, dental, vision and prescription drug insurance coverage as well as the availability of health care reimbursement accounts, dependent care reimbursement accounts, wellness and employee assistance programs. Other benefits include tuition assistance, scholarships for dependent children, a matching charitable gift program and a new car purchase discount plan. Financial assistance is available for employees looking to lose weight or to quit smoking. A Martin Marietta Employee Relief Foundation has been established to assist employees who have suffered loss from a natural disaster. Over 200 families have received grants from this foundation. The company also runs an employee exposure monitor program that seeks to identify if any employees are suffering ill effects from inhaling dust or being exposed to other harmful materials while on the job. The company also provides regular hearing check-ups for its potentially impacted workers. Clearly, Martin Marietta takes its objective of keeping its employees safe very seriously.

Martin Marietta also seeks to be a blessing to those in its communities. In addition to its matching grant program for charitable contributions by employees, it also has become involved in a number of other charitable initiatives. Not surprisingly, given its connection to the building industry, the company has begun to work with Habitat for Humanity. Recently, it helped Habitat for Humanity by providing materials and finances to help build 76 new homes while repairing 43 others. Additionally, the company has partnered with an urban farming non-profit, Sow Much Good, to plant a four acre farm at one of the company's facilities. Since 2013, over 1,000 volunteers have helped cultivate the plants at the farm as well as help care for the chickens it houses. Martin Marietta is also involved in a variety of educational initiatives. It brings teachers to its facilities to help them learn about geology, it has partnered with the Boy Scouts so scouts can earn mining merit badges and its brings students in for tours of its facilities and heavy machinery in an effort to educate them about mining with the objective of convincing some to enter the mining trade. While we hope the company will start a charitable foundation to improve its giving, it is off to a good start in providing charitable assistance to its employees and communities.

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

The Bad – Moody's – Cheated its Clients

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

Moody's provides credit ratings and research covering debt instruments and securities. It is the second largest rating agency in the world after Standard and Poor's. Moody's Analytics offers leading-edge software, advisory services and research for credit and economic analysis and financial risk management. The Corporation, which reported revenue of $3.5 billion in 2015, employs approximately 10,900 people worldwide and maintains a presence in 36 countries. Unfortunately, Moody's also seriously misled investors with its ratings prior to the 2008 financial markets crisis while boosting its own bottom line. According to Connecticut's Attorney General, as reported in the Guardian newspaper, Moody's ratings were "directly influenced by the demands of the powerful investment banking clients who issued the securities and paid Moody's to rate them." As a result, the company recently agreed to pay an $864 million penalty to the Justice department, 21 states and the District of Colombia but without admitting criminal guilt. No Moody's executive is going to jail. Sadly, the investors who were burned by Moody's self-serving illicit activities will receive no compensation. It is also remarkable it took eight years for the company's misdeeds to be called to account. The company's shameful behavior is one of many reasons Main Street, USA has become so distrustful of Wall Street. In addition to the monetary fine, the company has also agreed to incorporate measures that will ensure the integrity of its ratings process going forward, including separating its rating employees from other employees seeking to enhance the revenues of the company.

Excluding Moody's 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 – Children of Promise International

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

One of the Bible's clearest teachings to Christians is to help widows and orphans. It has always struck us at MinistryWatch.com, therefore, just how few ministries there are which are dedicated to this task. Children of Promise International, however, is one of the few ministries in our database that seeks to help widows and orphans as well as other destitute children. While a small ministry ($1.25 million in annual revenue and a little more than half a million dollars in net assets), it has a long history of doing good work. Founded by missionary Linn Haitz in Colombia, South America in 1968, the ministry was originally known as the Bible and Literacy League. It originally focused on providing free schools to destitute children in some of the poorest regions of South America. At last report, however, the ministry was supporting operations on four continents and 23 countries and its focus had grown to include supporting some indigenous missionaries as well. In 2015, the ministry supported 1,750 orphans 63 different orphan homes. Some of the orphan homes are supported directly by Children of Promise International while the ministry partners with others groups to manage other orphan residences.

The ministry's program services include feeding and nutrition programs, free schools, higher education support and family assistance. Children of Promise International also mobilizes short term mission teams to assist the orphans and other they serve around the world. Moreover, the ministry seeks to help the orphans they assist to get adopted by working with adoption agencies and families seeking to adopt. In reviewing the ministry's financial statements, it is apparent it is run in an extremely lean fashion. Its office space is a gift from another company and all of its fixed assets have been fully depreciated at this point. There are no fundraising costs and other administrative costs amount to a tiny fraction of the ministry's overall budget. Literally, almost all of a donor's gift ends up being transferred to the ministry's operations overseas and to partners who are directly assisting those in need. It is no surprise, then, that the ministry receives a Five Star Financial Efficiency rating from MinistryWatch.com.

Children of Promise International's efforts to bring both the gospel and material support to orphans and widows have been successful for decades. Moreover, it has managed the financial affairs of its ministry very well, achieving a five star rating from MinistryWatch.com. Taking together its good stewardship of donor resources, its effective ministry and the limited number of ministries helping orphans and widows, Children of Promise International is worthy of your consideration for financial support.

The Christian Ministry Marketplace – Helping Donors Give Wisely

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

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

The Christian Ministry Marketplace
Resources for Christian Donors

WHY
to give to Christian ministries?

Teaching on Stewardship:

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

HOW
to give with a discerning mind?

Professional Advisors:

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

Donor Advisors:

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

WHERE
to invest in kingdom ministries?

Ministry Research:

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

Ministry Mutual Funds:

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

Featured Ministry Marketplace Participant – Calvin Edwards & Co.

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

Calvin Edwards & Company is a leading donor advisory consulting firm, which helps individuals, families and foundations maximize the good they achieve through strategic giving. Founded in 2001 by long-time ministry and Christian financial services veteran Calvin Edwards, the firm seeks to assist thoughtful, high-capacity donors with customized services to help ensure their generosity is as effective as it can be. Calvin and his team help guide a prospective donor through the creation of a donor profile which helps identify the donor's giving personality. A Giving Plan is then produced to help guide and manage the donors giving. In this process, Calvin Edwards & Company provides information, perspective, and judgment that informs and guides their clients' decisions about the charities that best match the client's giving goals. Calvin and his staff regularly prepare very professional, in-depth research reports which help define the important issues a wise donor should consider when evaluating a potential ministry for a sizable gift. The company can also assist in formulating the appropriate accountability methods for how a gift is utilized and can aid donors in structuring gifts so that the intended effect can be optimized and common barriers to effectiveness minimized.

Calvin Edwards and Co. also serves nonprofit organizations with products and services to improve its management and program effectiveness. It provides its analysis and insight in bound reports written in a style suitable for giving to a donor or prospective donors. Research on specific charities, charitable sectors and important issues facing charities are produced which are both comprehensive and enlightening. If you are a significant donor or ministry seeking to improve its operations, we would highly recommend that you consider enhancing your giving with the assistance of Calvin Edwards & Company. We have personally benefitted from Calvin Edwards' work and it is exemplary.

Knowing Jesus Christ as Your Lord and Savior

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

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

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

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

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

STEWARDSHIP PARTNERS

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