



# INVESTMENT PERSPECTIVE

## Some Recent Indicators

	December	2001 YTD
CPI (All Urban)	down 0.4%	up 1.6%
	January	2002 YTD
S&P 500	down 1.5%	down 1.5%
MSCI EAFE*	down 5.2%	down 5.2%
LB G/C	up 0.7%	up 0.7%
LB G/C Int	up 0.5%	up 0.5%
3-Mo T-Bill	up 0.1%	up 0.1%



The economy is preparing for the long road to recovery.

\*Morgan Stanley Capital International Europe/Australia/Far East net dividends

## THE MARKETS

The Standard & Poor's 500 Index lost 1.5 percent in January, its first drop since September 2001. The materials sector (up 1.9 percent), along with information technology and consumer staples (up 1.4 and 1.0 percent, respectively), grew during January, but with the majority of sectors down by larger margins, the overall index fell. Telecommunication services (down 8.1 percent) and utilities (down 6.0 percent) experienced the month's largest declines.

The MSCI Europe/Australia/Far East Index gave up 5.2 percent in January, with both Europe and the Pacific region losing in the 5 percent range. Only Singapore, New Zealand, and Australia (up 12.0 percent, 4.1 percent, and 0.5 percent, respectively) posted gains in January, and Australia barely managed that. Sweden (down 9.4 percent) and Finland (down 8.4 percent) posted the largest losses, although Japan and the United Kingdom had larger effects on the index. All international sectors fell, with materials (down 0.7 percent) and telecommunications (down 13.0 percent) staking out the extremes.

The Lehman Brothers Government/Credit Index gained 0.7 percent to start the year on a positive note. Bond yields rose near month-end, and prices fell, amid concern that economic data showed an improving economy, a development that would likely pull significant investments

back into equities after investors took refuge in bonds during the contraction.

## THE ECONOMY

After almost a full year of reducing its interest rate targets, the Federal Reserve made the much-anticipated decision to leave them unchanged at its January meeting. This non-move reflects growing evidence that the economy has bottomed out and is preparing for recovery. Predictions, however, are still for a gradual recovery that may not even begin until the third quarter of 2002. Activity in U.S. Treasuries, among other indicators, confirms this view.

As the economy moves in a positive direction, funds that shifted into bonds on the downside should return to equity investments. At the same time, if there are continuing revelations of problems from off-balance sheet financing or other financial statement problems, investments could move toward the relative safety of Treasuries. Although Brethren Foundation does not own Treasury securities, our managers are observing these and other trends as the economy begins the long road toward recovery.

**Darryl Deardorff**  
Chief Financial Officer

\*\*Please see the reverse side for a note on how Enron affected Brethren Foundation's investments.

## BRETHREN FOUNDATION INC.



A not-for-profit ministry of Brethren Benefit Trust  
1505 Dundee Avenue, Elgin, IL 60120-1619

### Monthly Fund Performance Report

for period ending December 31, 2001

All Foundation investment funds must meet socially responsible investment guidelines.

#### Domestic Stock Fund

##### Current Asset Allocation Range

Equity Fund . . . . . 90 — 95%  
Cash Fund . . . . . 5 — 10%

##### Rate of Return

Current month . . . . . (2.0)%  
Year to date . . . . . (2.0)%

#### Domestic Stock Index Fund

##### Current Asset Allocation Range

Equity Fund . . . . . 100%

##### Rate of Return

Current month . . . . . (1.4)%  
Year to date . . . . . (1.4)%

#### International Stock Index Fund

##### Current Asset Allocation Range

Equity Fund . . . . . 80 — 100%  
Cash Fund . . . . . 0 — 20%

##### Rate of Return

Current month . . . . . (5.5)%  
Year to date . . . . . (5.5)%

#### Balanced Fund

##### Current Asset Allocation Range

Equity Fund . . . . . 55 — 60%  
Fixed Income Fund . . . . . 35 — 40%

##### Rate of Return

Current month . . . . . (1.0)%  
Year to date . . . . . (1.0)%

#### Short Term Fund

##### Current Asset Allocation Range

Cash Fund . . . . . 100%

##### Rate of Return

Current month . . . . . 0.2%  
Year to date . . . . . 0.2%

#### Bond Fund

##### Current Asset Allocation Range

Fixed Income Fund . . . . . 95 — 100%  
Cash Fund . . . . . 0 — 5%

##### Rate of Return

Current month . . . . . 0.4%  
Year to date . . . . . 0.4%

## Enron has minimal impact on Foundation portfolios

During 2001, Brethren Foundation, Inc., investment managers held Enron Corporation securities — and experienced investment losses — in three portfolios. For the Brethren Foundation Domestic Fund, this resulted in losses of approximately 0.5% based on beginning-of-year market values. The Bond Fund experienced a loss of about 0.2% for the year due to Enron's failure.

Part of the investment was held in the equity core fund, which bought Enron stock because it was included in the Standard & Poor's 500 Index for most of the year and sold the stock when it was removed from the index. This matches precisely the expectations under which the core manager operates. Because this portfolio holds most of the stocks in the index (excluding the tobacco, alcohol, gambling and defense companies), no individual stock has a large impact on the overall performance.

A second equity manager bought the stock because of its apparent strength and sold it in late summer when the weakness became apparent. As is the case with all investments, our managers used the best information

available to support their investment decisions. In this case, the manager moved quickly to dispose of the stock when information began coming to light and the stock price reacted in dramatic fashion. As a result, the loss was limited.

A third manager, with responsibility for one of our bond portfolios, purchased a bond that provided indirect, but disclosed, financing to Enron. The bond lost most of its value when Enron declared bankruptcy and the source of interest payments disappeared overnight. Although the loss on this specific security was severe, the overall effect on the Bond Fund was minimal.

In recent discussions, both equity and bond managers have reaffirmed their commitment to rigorous analysis of the available information on potential investments and on those currently held in their portfolios. They, like other analysts, must still rely on publicly available, audited, financial information as the basis for their analysis. As part of their work, however, they will continue to examine and to question the assumptions and choices inherent in financial reporting.