



Investment Perspective

FROM THE BRETHERN FOUNDATION

JUNE 2005

MARKETS AND ECONOMY

Economic evidence accumulating in May described a U.S. economy that is weakening, even as it continues to grow. Many analysts now expect an ongoing period of growth they describe as “tepid” and “moderate.” One governor of the Federal Reserve suggested that the Fed’s string of interest-rate increases is about to end; this comment generated a flurry of activity, as bonds and stocks both reacted favorably to the possibility. Disappointing corporate earnings, slower manufacturing growth, and moderate job figures contributed to the lackluster outlook.

Domestic stocks saw significant gains in May, but not enough in most cases to overcome the negative performance earlier in the year. With a possible end to interest-rate increases now in sight, bond prices rose slightly. Inflation remains one of the primary conditions with the potential to upset investors’ plans. With the difference between short- and long-term interest rates relatively low, any renewal of inflation would have a significant impact on the financial markets.

In something of a turnaround, the Standard & Poor’s 500 Index gained 3.2 percent in May; it is now down 1.0 percent for the year. The MSCI Europe/Australia/Far East Index managed a 0.1 percent gain, for a 2.5 percent year-to-date loss. The Lehman Brothers Government/Credit Index gained another 1.3 percent in April; it is up 2.1 percent for the first five months of the year.

INFLATION AND INTEREST RATES

One of the Federal Reserve’s most reliable tools for shaping the direction of the U.S. economy is the ability to set short-term interest rates. For some time, the Fed has been raising its short-term rate to keep inflation at bay, although that pattern may soon be over.

Interest rates, in theory, have two portions. First, interest rates must cover the rate of inflation in the economy. In addition, interest rates provide a return to investors over and above inflation, known as the “real” interest rate. Lower interest rates mean lower real interest rates. Since borrowing money is less expensive in this situation, both businesses and individuals have incentives to borrow money – frequently to make other investments. Higher interest rates, which the Fed has been working toward for a full year, make borrowing more expensive and therefore dampen inflationary pressure.

The Fed’s challenge is to make interest rates low enough to allow economic growth while keeping them high enough to control inflation. When it is not possible to balance the two effects, the Fed must choose whether to encourage growth with low rates or to restrain inflation with higher rates. The current situation suggests the Fed may be about to shift from dampening growth with higher rates to a more neutral strategy, which is something the financial markets will always pay attention to.

BRETHERN FOUNDATION HIGHLIGHTS

- Returns were positive for May. The Domestic Stock Fund, Domestic Stock Index Fund, and Small Cap Fund regained most of the ground they lost earlier in the year.

A Brethren Foundation representative can talk with you about the appropriate allocation of your organization’s funds. Contact us to begin such a discussion.

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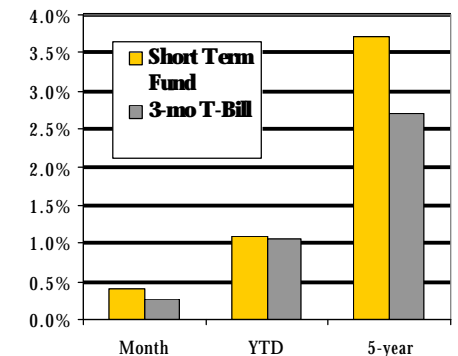
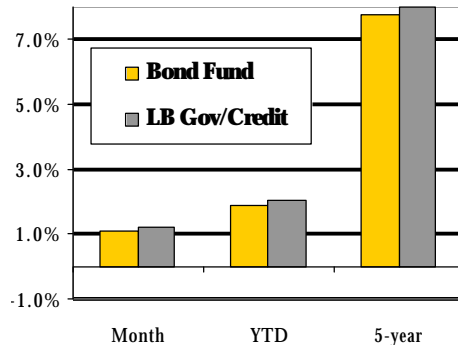
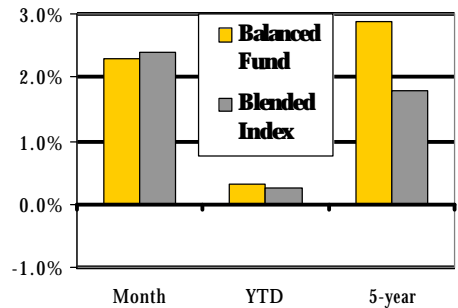
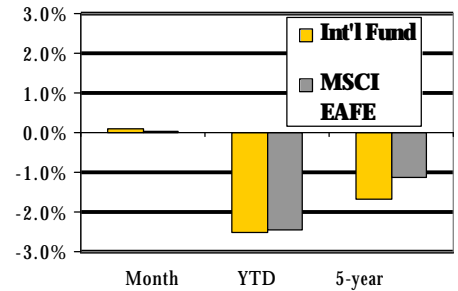
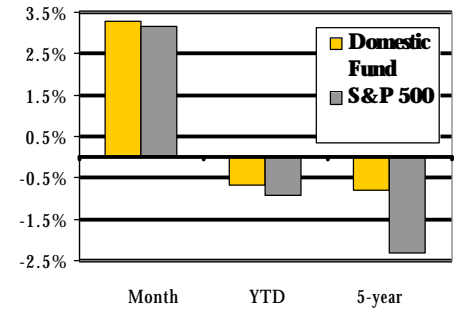
Monthly Fund Performance Report

for the period ending May 31, 2005

Performance Report

All Foundation investment funds must meet socially responsible investment guidelines.

FUNDS	BENCHMARKS
Domestic Stock Fund: Rate of Return Current month..... 3.3% Year to date..... (0.7)% Five years..... (0.8)%	S&P 500: Rate of Return Current month..... 3.2% Year to date..... (1.0)% Five years..... (2.3)%
Domestic Stock Index Fund: Rate of Return Current month..... 3.0% Year to date..... (1.5)% Five years..... (2.8)%	CPI: Rate of Return Current month..... 0.7% Year to date..... 2.3% Five years..... 2.5%
Small Cap Fund: Rate of Return Current month..... 5.4% Year to date..... (0.2)%	Russell 2000: Rate of Return Current month..... 6.6% Year to date..... (4.9)%
International Stock Index Fund: Rate of Return Current month..... 0.1% Year to date..... (2.5)% Five years..... (1.7)%	MSCI EAFE: Rate of Return Current month..... 0.1% Year to date..... (2.5)% Five years..... (1.1)%
Balanced Fund: Rate of Return Current month..... 2.3% Year to date..... 0.3% Five years..... 2.9%	Blended Balanced Index: Rate of Return Current month..... 2.4% Year to date..... 0.3% Five years..... 1.8%
Bond Fund: Rate of Return Current month..... 1.1% Year to date..... 1.9% Five years..... 7.8%	Lehman Bros Gov/Credit: Rate of Return Current month..... 1.3% Year to date..... 2.1% Five years..... 8.0%
Bond Fund Core: Rate of Return Current month..... 1.1% Year to date..... 2.1% Five years..... 7.8%	Lehman Bros Gov/Credit Intern.: Rate of Return Current month..... 0.9% Year to date..... 1.2% Five years..... 7.2%
Short Term Fund: Rate of Return Current month..... 0.4% Year to date..... 1.1% Five years..... 3.7%	3-Month T-Bill: Rate of Return Current month..... 0.3% Year to date..... 1.1% Five years..... 2.7%
Community Development Investment Fund: Rate of Return Current month..... 0.4%* Year to date..... 1.2%* *Interest accrues on a quarterly basis.	



Returns for periods longer than one year are annualized