

# Steward Global Equity Income Fund Commentary

June 30, 2016

## Performance

The second quarter traded in a tight range until the final two weeks with a quick sell-off followed by an equally quick rebound ending the period with positive returns. The Global Equity Income Fund benchmarks of the S&P 500 and the S&P Global 1200 ended the quarter with returns of 2.46% and 1.36% respectively. For dividend income comparison purposes, the MSCI ACWI High Dividend Yield Index returned 2.72%.

## Factors Affecting Performance

As we approached the end of the quarter, the markets held a relatively tight performance range while moving slightly higher. This all changed when the United Kingdom voted to leave the European Union. The markets reacted as expected considering the uncertainty that surrounds the decision. The decision will most likely not be detrimental to the United Kingdom in the long term if handled properly, however this may have a larger implication for the European Union. Other countries in the Union will undoubtedly begin to reevaluate their own membership. In the U.S., the Federal Reserve has temporarily put a hold on raising interest rates as economic growth remains sluggish. A sharp slide in May job growth raised the possibility that falling profits have curtailed hiring as well as reducing capital spending. The decline in inflation expectations have also added to the support of holding interest rates steady. International developed economies remain so weak that both the Eurozone and Japan require negative rates to support growth. This is raising concerns that a slowdown or a recession could spread to the U.S. GDP

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growth estimates in the U.S. for 2016 are a modest 2% but remain the highest of the G7 countries.

Earnings growth continues to stagnate as we begin to get reports on the second quarter. Company earnings growth as represented by the S&P 500 continued to be negative at -6.6% in the first quarter. The energy sector is still reeling with low oil prices as first

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GLOBAL EQUITY  
INCOME FUND  
AWARD WINNER  
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UNITED STATES



2016  
THOMSON REUTERS  
LIPPER FUND AWARDS

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quarter earnings fell -108%. The S&P 500 minus the energy sector would still have been negative at -1.4%. Looking forward, the earnings growth for the full year of 2016 is estimated to be an anemic 0.6%

The Global Equity Income Fund outperformed both of its benchmarks for

the quarter. The portfolio equity allocation at the end of the period was 63% U.S. and 37% international. Positive contributors to relative return were led by St. Jude Medical Inc. +42.39% as shares soared on the news that the company has reached a generous agreement with Abbott to acquire it for approximately \$85 per share. The deal would add to Abbott's cardiovascular device segment and is expected to close in the fourth quarter of 2016. Merger and acquisition activity continued with Hershey Co. +24.03% as shares rose sharply on the last day of the quarter when Mondelez made a takeover bid on the company. Mondelez bid \$107 per share on a 50/50 cash and stock deal and plans to rename the combined company Hershey. EPR Properties +22.75% shares climbed on strong box-office revenue and increased customer spending due to continuously expanding amenities in their entertainment (mostly megaplex theaters) properties.

Holdings that were negative contributors to relative return included Western Refining's -28.10% as the market value dropped on the news of a possible lifting of the U.S. crude oil export ban. This raised fears of a decline in refining margins. However, the company raised its quarterly dividend and authorized an additional \$200 million share repurchase program. Briggs & Stratton Corp. -10.87% declined on analyst "downgrades" as earnings estimates in recent weeks have remained flat for 2016. This follows on the heels of a 40% increase in the stock price for the first quarter. Overall, the effectiveness of the methodology and quantitative screens for stock selection continue to perform as designed and are exceeding expectations.

## Global Equity Income Fund

The Global Equity Income Fund pursues its objective through the investment in U.S. and non-U.S. dividend-paying stocks that have demonstrated above median yield, a positive trend in dividends and favorable earnings growth. These companies also represent a broad spectrum of the global economy. The objective of this strategy is to provide current income and the potential for capital appreciation at lower than overall market risk.

## Faith-Based Screening Methodology:

The Fund uses CFS Consulting Services, LLC (CCS) as its provider of cultural values research data in the screening of securities. The management team at CCS pioneered the initial development of values-based investing in the mid 1990's. Their experience includes having started an investment research firm dedicated to values-based investing data and analysis in 1996.

The Fund applies a comprehensive set of cultural values screens to all of the investments. Screens applied to the portfolio management process allow investors to avoid owning securities in companies that choose to profit from businesses that are at odds with values consistent with a Christian lifestyle.

Strict exclusionary screens are applied to companies involved in the businesses of abortion and pornography. In addition, the Fund screens for businesses that are principally involved in gambling, or the manufacturing of alcoholic or tobacco products. The Fund employs only avoidance screens and does not dilute the portfolio by seeking to invest in companies that promote any individual cultural or social issue.

This methodology gives the Fund the ability to serve a rapidly growing number of investors seeking competitive investment returns without compromising their personal convictions.

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*The U.S. Lipper Fund Awards recognized The Fund on March 22, 2016 for delivering consistently strong risk-adjusted performance, relative to its peers, for the 5-year period. Chosen out of 80 others, The Fund achieved the highest Lipper Leader for Consistent Return (Effective Return Net of Expenses) value over an individual time period in its classification.*

**This is not an offer to sell or a solicitation to buy Fund shares. Sales of Fund shares may only be made by prospectus. Before investing you should carefully consider the Fund's investment objectives, risks, charges and expenses. This and other information is in the prospectus, a copy of which may be obtained by calling Capstone Asset Planning Company, Distributor for the Steward Funds, Inc., (800) 262-6631. Please read the prospectus carefully before you invest.**