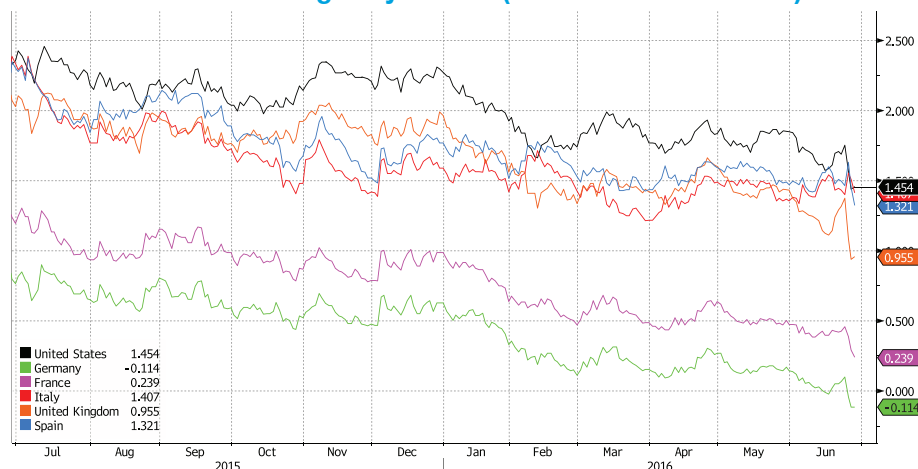


Steward Select Bond Fund Commentary

June 30, 2016

You may have heard of the “summer doldrums”-- a time period when traders are away on vacation, a low liquidity environment reigns, and the markets take a pause until summer winds down as we approach Labor Day. However, this may be the summer the doldrums may take their own vacation, and the markets remain active thanks to the attention on central banks and the UK referendum to leave the European Union. The uncertainty prevailing in the market as we embark upon summer 2016 has shifted the market’s focus and will hold our attention not only for the summer, but for many quarters to come.

Global Sovereign 10yr Yields (June 2015 – June 2016)



Source: Bloomberg

From the chart above, you can see we’ve had some volatility in the U.S. Government 10yr Treasury over the past quarter, although it has been somewhat range-bound moving mainly from 1.60-1.90% depending on the headlines of the day. There was speculation as to when the Federal Reserve would make its second move toward a rate hike – would it be June, July, September or December? This question drove much of the volatility along with statements from central banks around the world. The decision by the United Kingdom to leave the European Union was the most noteworthy driver of volatility, as uncertainty of global markets sky-rocketed, pushing 10yr US Treasury yields to the lowest we have seen them in four years.

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- The bond market will benefit from a move lower in yields as prices on fixed income securities move opposite of yields.
- The investment-grade corporate, government agency and U.S. treasury allocations in the fund have provided a steady income flow, regardless of the volatility going on in the markets.
- The conservative approach to investing for your fixed income allocation will work well for the fund as uncertainty is the only certainty in the coming months.

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So what does that mean for your fixed income investments? The bond market will benefit from a move lower in yields as prices on fixed income securities move opposite of yields. However, what we will need to watch is how individual sectors react to the uncertainty. The Select Bond Fund has been positioned with reduced interest rate risk as we anticipated a higher interest rate environment beginning in 2015. Although the Federal Open Market Committee did raise rates in December 2015, the follow through on higher rates has stalled. The investment-grade corporate, government agency and U.S. treasury allocations in the fund have provided

a steady income flow, regardless of the volatility going on in the markets. This steady cash flow (the largest component of total return for a fixed-income security) is a positive contribution to the fund, allowing the fund to ride through some of the uncertainty we are witnessing. As bonds mature, we are looking for the most opportunistic part of the yield curve to reinvest, allowing a move out the yield curve and slightly increased duration in this low-coupon, low-yield environment. We still maintain a defensive posture versus the index as we prefer to be cautious in uncertain times, waiting for knee-jerk reactions to shocks in the market to subside before making a strategy shift. Our four-step investment process allows us to evaluate current market conditions through the lens of duration, yield-curve, sector and security selection to position the fund based on a long-term strategy.

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The conservative approach to investing for your fixed income allocation will work well for the fund as uncertainty is the only certainty in the coming months. Although a shorter duration may work against us versus a comparable index in periods of declining rates, the elevated levels of steady cash flow will serve as a positive contribution to performance and work in concert with a reduced exposure to interest rate risk to help reduce volatility within the fund. As the summer doldrums take a hiatus for this summer, we will continue to monitor the markets, adjusting our strategy as appropriate. As your investment partner, we look forward to maneuvering through the volatility that lies ahead as we focus on longer-term investing to meet the needs of our clients.

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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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.