Steward Mutual Funds

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Steward Select Bond Fund Commentary

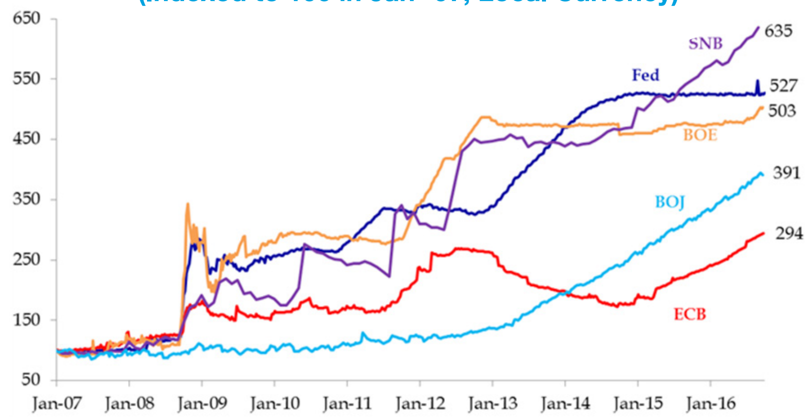
September 30, 2016

Disciplined, Principled, Responsible Investing

We just finished the 3rd quarter of the year; a time when parents and children share opposite sides of the same coin and both anticipation and dread fill the air. Eager anticipation by parents as they prepare to send their children off for the first day of school, and dread by those same children who are not so anxious about heading back to class. After completing almost 20 years of formal education, I thought I was done with this 3rd quarter of the year dilemma And yet, here we are, sitting in our office, once again filled with both anticipation and dread. Anticipation that the Federal Open Market Committee (FOMC) will begin to normalize rates and hopefully remove a piece of uncertainty from the markets, and at the same time, dreading an overdone reaction from the markets, or worse, another FOMC meeting with no change at all.

It has been an interesting time for market participants as opposing forces battle to determine the future path of interest rates. On one side we have fear of a stronger dollar and growth concerns pressing for lower rates pitted against a global search for yield and a desire for rate normalization on the other. After no rate shift at the September FOMC meeting, the month of December is beginning to look like the moment that many have been waiting for with data showing a roughly 60% probability of a hike at that meeting. With uncertainty circling the wagons, the U.S. 10yr Treasury yield has averaged around 1.56% for the quarter, hitting 1.36% in early July and moving up to 1.73% in the middle of September prior to the FOMC meeting. We are ending the quarter just north of the average at 1.60% where we anticipate yields will continue to hover as we approach the end of the year and battle through two more FOMC meetings. In addition, we must watch other central banks around the world as they determine the appropriate interest-rate path for their economies. Over the past year, we have seen the balance sheets continue to grow, especially with the Bank of Japan and the European Central Bank, even while the FOMC struggles with a tightening stance.

Assets on Central Bank Balance Sheets (Indexed to 100 in Jan-'07, Local Currency)



Source: Strategas Research Partners - Investment Strategy

- It has been an interesting time for market participants as opposing forces battle to determine the future path of interest rates.
- The search for yield has increased demand for higher coupon, good quality securities, as well as the high yield sectors, which benefits our portfolios.
- The market appears to be pricing in another rate hike soon and our shorter duration positioning will be an advantage as rates move higher.
- A 25 basis point move in the Fed Funds rate is not earth-shattering, but due to the built-up anticipation and uncertainty of the FOMC's actions, it has become a much larger hurdle than in previous cycles.

Our fixed income investment group anticipates a Fed Funds rate hike in December, which will hopefully allow the markets to begin the process of normalization, although we have a long road ahead of us.

Utilizing our 4-step investment process allows our fixed income investment team to take a consistent approach to determining and implementing strategy for the fund. With the belief that the FOMC would begin to raise rates in 2015, we positioned the fund with a shorter duration than the Barclay's Government/Credit Index to moderate market value fluctuations and reduce interest rate risk. Although there was one rate hike in December 2015, the path of rate hikes is taking longer than anticipated as we continue to wait for the 2nd hike in this cycle. The market appears to be pricing in another hike soon and our shorter duration positioning will be an advantage as rates move higher.

We saw this during the 3rd quarter as duration proved to be the largest positive contributor to performance for the period as rates moved higher by as much as 35bps and settling about 15bps higher than it began for the U.S. 10yr Treasury.
The overweight to the investment-grade corporate allocation provided steady income from companies with strong balance sheets who can weather market volatility due to solid fundamentals. The search for yield increased demand for higher coupon, good quality securities which benefits the fund. We are continuously monitoring our sector allocation in order to make opportune changes as appropriate.

So as the 3rd quarter comes to a close and, depending on where you live, you begin to feel the crisp autumn air and see the changing colors of the leaves, anticipation and dread remain. Our fixed income investment group anticipates a Fed Funds rate hike in December, which hopefully allows the markets to begin the process of normalization, although we have a long road ahead of us. A 25 basis point move in the Fed Funds rate is not earth-shattering, but due to the built-up anticipation and uncertainty of the FOMC's actions, it has become a much larger hurdle than in previous cycles. The fund positioning is focused on helping you maneuver through the changing seasons of the markets and assist you in achieving your investment goals as we head into the final quarter of the year.

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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