



WELS Investment Funds
Wisconsin Evangelical Lutheran Synod

Annual Report

2017



*Strengthening and enhancing
ministry through professionally
managed investment portfolios*





WHAT ARE THE BENEFITS OF WELS MINISTRIES INVESTING THROUGH WELS INVESTMENT FUNDS?

- WELS Investment Funds was incorporated as a **support services subsidiary of WELS** in 1997 and currently manages more than \$200 million for more than 200 WELS and WELS affiliated ministries including WELS Foundation, Martin Luther College, Wisconsin Lutheran Seminary, Luther Preparatory School, Michigan Lutheran Seminary, WELS Home and World Missions, several area Lutheran high schools, and more than 170 congregations.
- **WELS Investment Funds provides cost-effective, professionally managed investment portfolios exclusively for WELS and affiliated ministries.** By pooling our God-given talents and resources with other congregations we can take advantage of lower cost, institutional priced investment opportunities that are not available to smaller investment accounts. As more congregations and organizations invest in WELS Investment Funds, the cost reduction benefits also increase. It's a way we can help support each other.
- **WELS Investment Funds is easy to use.** Executive Director Jim Holm, CFP®, an employee of WELS, is available to meet with your organization, either in person or via phone, to discuss the various investment opportunities available through WELS. Our investment services specialist, Monica Peavy, is also available to guide you through the steps to open and maintain an investment account.

HOW DOES WELS INVESTMENT FUNDS SERVE MINISTRY?

WELS Funds are designed primarily for the investment needs of endowment funds, scholarship funds, and charitable trust funds that strengthen and enhance our ministry as a whole.

WHO CAN INVEST IN WELS FUNDS?

Any 501(c)(3) organization that is affiliated with WELS (i.e. listed in the WELS Yearbook). (Individuals and organizations located in Connecticut, Maryland, Pennsylvania, Tennessee, or Virginia may not invest in WELS Funds.)

HOW ARE THE FUNDS MANAGED?

WELS Investment Funds' Board of Directors has retained Vanguard Institutional Advisory Services® as the investment consultant for WELS Investment Funds. As a co-fiduciary, the investment consultant is responsible for making investment recommendations to the board. Once the recommendation is approved by the board, the investment consultant, after consideration of the WELS Investment Funds' investment policy statement and the various investment objectives and restrictions therein, has the discretion to implement and oversee the investment recommendations.

A copy of the most recent investment policy statement is available on the WELS Investment Funds' website.





WHAT IS WELS FUNDS INVESTMENT PHILOSOPHY?

We believe that the earth is the Lord's, and everything in it. From a human perspective, we utilize our knowledge, experience, and available professional resources to provide efficient and effective investment management. Ultimately, we acknowledge that it is the Lord who provides for our needs in the manner that is most beneficial for our individual and collective good.

We believe we can be better stewards by pooling our collective talents and resources. We recognize that each congregation or organization could develop their own investment policies, retain their own consultants, and invest independently in separate portfolios. However, we believe that together we can benefit from the collective knowledge and experience of the membership throughout our synod. Together we can also leverage economies of scale and utilize institutional priced investment opportunities when available.

MANAGEMENT

The Board of Directors of WELS Investment Funds is responsible for the operation of WELS Investment Funds, including the engagement of investment consultants. Directors serve three-year terms and are elected annually by the WELS Synodical Council.

The day-to-day affairs are carried out by its officers and other WELS employees. For administrative convenience, efficiency, and cost effectiveness, WELS Investment Funds leases its personnel from WELS. WELS also provides services relating to the processing of transactions, preparing investor account statements, and the preparation of corporate financial statements.

Additional information concerning the Board and officers and a copy of the most recent audited financial statements of WELS Investment Funds is available on the WELS Investment Funds' website.





BOARD OF DIRECTORS



Dennis Walters
Chairman

Dennis Walters is retired and formerly vice president, administrative controller, and director of Corporate Financial Reporting for Cargill, Inc.



Seth T. Hansen
Director

Seth T. Hansen is the vice president, Project Management, Daktronics, Inc., a developer of electronic display systems.



Joel L. Luehmann
Vice Chairman

Joel L. Luehmann serves as director, Enterprise Risk Management, for Compeer Financial in Mankato, Minn.



Ronald Schmitz
Director

Ronald Schmitz is retired after a 34-year career as a financial consultant for AXA Advisors (formerly Equitable Life, N.Y.).



John G. Wenker
Secretary

Mr. John G. Wenker is a managing director at Nuveen Asset Management, a wholly owned subsidiary of TIAA-CREF. John was Head of Real Assets at Nuveen Asset Management until June 30, 2017, and will retire December 31, 2017.



Max D. Wenck
Director

Max D. Wenck is a co-owner of MorganMyers, Inc., a multi-million dollar communications consulting firm.



Jon C. Bruss
Director

Jon C. Bruss is the founder of Fortress Partners Capital Management, LTD. (an investment advisory firm).

HOW ARE THE DIRECTORS ON THE WELS INVESTMENT FUNDS' BOARD SELECTED?

Nominations are received from voting members of congregations throughout WELS. The nominees are then vetted by the WELS Human Resources director and the WELS Investment Funds Board of Directors. The Board makes a recommendation to the WELS Synodical Council. The final decision is made by the WELS Synodical Council. The Board of Directors is made up entirely of WELS members with relevant professional experience for service to WELS Investment Funds. The Directors have a heart for ministry and are dedicated to managing WELS Investment Funds to the benefit of invested WELS entities.

WELS members with the necessary skills and experience are encouraged to contact WELS Investment Funds or their pastor to learn more about the nomination process.



The Funds

The WELS Balanced Fund is managed mindful of the long-term investment goals of endowment and scholarship funds. Currently the target allocation for the WELS Balanced Fund is 60% in equity and 40% in fixed income. This target allocation is regularly reviewed by the Board of Directors and is subject to change. Approximately 90% of all investments in the WELS Funds are in the WELS Balanced Fund.

The WELS Equity Fund and WELS Income Funds invest in the same underlying mutual funds as the WELS Balanced Fund. They are available for those organizations who desire an asset allocation other than that offered by the WELS Balanced Fund.

All the mutual funds that comprise the WELS Funds have investment expenses significantly below the industry average. The weighted average expense ratios for the WELS Balanced Fund, WELS Equity Fund, and WELS Income Fund are 0.14%, 0.19%, and 0.06%, respectively.

WELS BALANCED FUND - As of December 31, 2017

The WELS Balanced Fund is the portfolio specifically designed for trust, endowment, and scholarship funds within WELS.

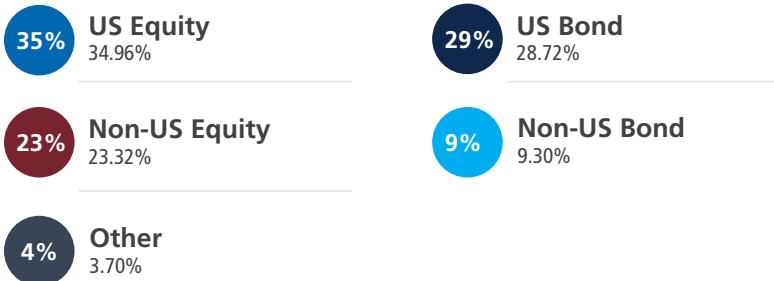
| ANNUAL RETURN* | 3 Mo. | 6 Mo. | 1 Yr | 5 Yr | 10 Yr |
|----------------|-------|-------|-------|------|-------|
| Total Return % | 3.5% | 7.2% | 16.2% | 8.3% | 5.8% |

*Vanguard portfolio returns beginning 7/2016 are gross of WELS Investment Funds operating expenses.

Target Holdings

| | |
|--|-------|
| Vanguard Total Stock Market Idx I | 18.0% |
| Vanguard Total Bond Market Index I | 16.0% |
| Vanguard Short-Term Investment-Grade I | 12.0% |
| Vanguard Total Intl Stock Index I | 12.0% |
| Vanguard Interm-Term Investment-Grde Adm | 8.0% |
| Vanguard Morgan™ Growth Admiral™ | 6.3% |
| Vanguard Windsor™ II Admiral™ | 6.3% |
| Vanguard International Growth Adm | 6.0% |
| Vanguard International Value Inv | 6.0% |
| Vanguard Total Intl Bd Idx Institutional | 4.0% |
| Vanguard Mid Cap Growth Inv | 2.7% |
| Vanguard Strategic Equity Inv | 2.7% |

Asset Allocation



PORTFOLIO INSIGHTS - EQUITY

Equity investments are globally diversified across domestic and international large-cap, mid-cap, and small-cap securities, including value, core, and growth styles.

The cornerstone equity holding is the Vanguard Total Stock Market Index Fund, Institutional Shares. This fund is diversified across over 3,400 domestic equities.

The Vanguard Total International Stock Index Fund, Institutional Shares hold more than 6,000 equity securities, diversified across over 30 countries.

These two core equity index funds are complimented by four actively managed Vanguard mutual funds managed by firms including, Barrow, Hanley, Mewhinney & Straus, LLC; Lazard Asset Management, LLC, and Ballie Gifford Overseas, LTD.

WELS EQUITY FUND - As of December 31, 2017

The WELS Equity Fund seeks long-term capital growth by investing in a portfolio of equity securities that is well diversified by industry and company size.

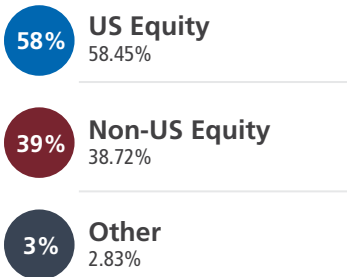
| ANNUAL RETURN* | 3 Mo. | 6 Mo. | 1 Yr | 5 Yr | 10 Yr |
|----------------|-------|-------|-------|-------|-------|
| Total Return % | 5.6% | 11.4% | 25.4% | 12.6% | 6.5% |

*Vanguard portfolio returns beginning 7/2016 are gross of WELS Investment Funds operating expenses.

Target Holdings

| | |
|-----------------------------------|-------|
| Vanguard Total Stock Market Idx I | 30.0% |
| Vanguard Total Intl Stock Index I | 20.0% |
| Vanguard Morgan™ Growth Admiral™ | 10.5% |
| Vanguard Windsor™ II Admiral™ | 10.5% |
| Vanguard International Growth Adm | 10.0% |
| Vanguard International Value Inv | 10.0% |
| Vanguard Mid Cap Growth Inv | 4.5% |
| Vanguard Strategic Equity Inv | 4.5% |

Asset Allocation



PORTFOLIO INSIGHTS – FIXED INCOME

The Vanguard Total Bond Market Index Fund, Institutional Shares, is invested in more than 8,000 investment grade, domestic fixed income securities. Holdings include U.S. Treasury, U.S. agency, and other domestic investment grade fixed income securities.

For diversification purposes, the Vanguard Total International Bond Index Fund is utilized. This Fund is diversified across over 8,000 international fixed income securities, representing 30 underlying countries. All holdings are currency hedged to the U.S. dollar, for risk management purposes.

The Vanguard Intermediate-Term Investment Grade Fund, Admiral Shares, and the Vanguard Short-Term Investment Grade Fund, Institutional Shares, are actively managed with an intensive credit analysis and risk controlled approach.

WELS INCOME FUND - As of December 31, 2017

The WELS Income Fund seeks to provide income by investing primarily in investment quality debt securities.

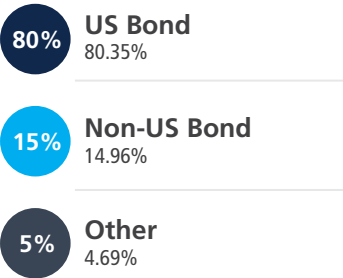
| ANNUAL RETURN* | 3 Mo. | 6 Mo. | 1 Yr | 5 Yr | 10 Yr |
|----------------|-------|-------|------|------|-------|
| Total Return % | 0.3% | 1.1% | 3.2% | 1.8% | 4.0% |

*Vanguard portfolio returns beginning 7/2016 are gross of WELS Investment Funds operating expenses.

Target Holdings

| | |
|--|-------|
| Vanguard Total Bond Market Index I | 40.0% |
| Vanguard Short-Term Investment-Grade I | 30.0% |
| Vanguard Interm-Term Investment-Grde Adm | 20.0% |
| Vanguard Total Intl Bd Idx Institutional | 10.0% |

Asset Allocation



Past performance is no guarantee of future results. The performance data is current as of December 31, 2017, and is subject to change at any time based on market and other conditions. Participating in the WELS Funds is subject to investment risks, including possible loss of the principal amount invested. Withdrawals from the WELS Funds are payable exclusively from the net assets of the Fund. Accounts are not protected or insured by the FDIC or SIPC and are not guaranteed by WELS or any other person or entity.

OPERATING EXPENSES

All direct expenses and any expenses allocated by WELS related to the operation of WELS Investment Funds (e.g. rent for office space, utilities, financial, technological, and human resources expenses) are charged directly to the WELS Funds. While these expenses vary from year to year, for the fiscal year 2018, they are projected to be approximately 0.21% of the assets in the WELS Funds.

MONTHLY PROCESSING

WELS Funds' transactions are processed on the first business day of each month. Additions and/or redemption requests must be received by WELS Investment Funds at least one business day prior to month end for processing. Funds received prior to month-end will be held in a non-interest bearing cash account until processed. Redemptions proceeds will be deposited in the organization's bank account via direct deposit.

HOW TO INVEST

A custodial account agreement and custodial worksheet must be completed to establish a new account. All investments made pursuant to the custodial agreement will be held in the name of WELS Investment Funds (or such other entity selected by WELS Investment Funds) as nominee for the organization, with actual ownership of the investments remaining in the organization. Each organization investing in the WELS Funds will be assigned an interest (an "Ownership Interest") in the assets of each chosen WELS Fund reflecting the pro rata interest of the organization in the assets of the particular WELS Fund. The value of the organization's Ownership Interest may fluctuate as the value of the particular WELS Fund fluctuates.

MAILING ADDRESS

Investment and redemption requests should be mailed to:

WELS Investment Funds
N16W23377 Stone Ridge Drive
Waukesha, WI 53188-1108

CONTACT INFORMATION

E-mail: welsfunds@wels.net
Phone: (877) 888-8953
Web: wels.net/welsfunds



OTHER WELS SUBSIDIARIES

WELS Church Extension Fund (CEF) exists to provide financing for mission-minded endeavors and projects that are under the direction of WELS Board for Home Missions. WELS CEF provides loans and grants to qualified mission congregations so they can acquire land and build or renovate ministry facilities—used as tools for gospel outreach. The money WELS CEF uses to provide loans and grants comes from two sources— investments and gifts. For more information, visit wels.net/cef.

WELS Foundation exists to assist God’s people in support of God’s ministry through the Wisconsin Evangelical Lutheran Synod. WELS Foundation provides a channel through which gifts can be administered for the benefit of local and national ministries by:

- Providing knowledgeable planned giving support to WELS Christian giving counselors and other WELS advancement representatives.
- Facilitating various giving opportunities, including charitable gift annuities, charitable remainder trusts, donor advised funds, and endowment administration.

Visit wels.net/foundation for more information.

WELS Investment Funds is a charitable non-stock, not-for-profit corporation organized under the laws of the State of Wisconsin. It was formed in 1997 as a support services subsidiary of WELS to provide investment vehicles so that funds of WELS, WELS congregations, and other WELS related organizations could be invested to achieve the desires of the organizations and their donors.

WELS Investment Funds is not registered as an investment company under the Investment Company Act of 1940, as a broker or dealer under the Securities Exchange Act of 1934, or as an investment adviser under the Investment Advisers Act of 1940. WELS Investment Funds, Inc. administers the WELS Funds for the benefit of WELS ministries pursuant to a claim of exemption from registration under the federal Philanthropy Protection Act of 1995.

Note that investment programs offered by WELS Investment Funds involve risk. Past performance is no guarantee of future returns, WELS Funds are not FDIC or SIPC insured, and may lose value. WELS Funds are not guaranteed by WELS or any other person or entity.

At this time, WELS Funds are NOT available in Connecticut, Maryland, Pennsylvania, Tennessee, or Virginia.



N16W23377 Stone Ridge Drive • Waukesha, WI 53188-1108
1-877-888-8953 • wels.net/welsfunds