Does greater risk equal greater reward?

The simple answer is not always, which is why investors may look at lower-volatility fund options like GuideStone’s Defensive Market Strategies Fund. The Fund aims to deliver equity-like returns at reduced risk when compared to the S&P 500® Index.
The aim of the GuideStone Defensive Market Strategies Fund is simple: to participate in the return potential of stocks over time, but at a lower risk level than a traditional stock portfolio. This objective is accomplished by building the Fund on four important investment principles:

1. Reducing volatility and drawdowns

GuideStone Capital Management, LLC® (GSCM), adviser to the Fund, structured the Fund to have significantly less volatility and smaller drawdowns compared to the equity market, as indicated by its targeted beta to the S&P 500® Index of approximately 0.50.

For example, six of the largest drawdowns of the S&P 500® Index since September 2011, as compared to the drawdowns of the Fund for the same periods, are shown in Figure 1.0.

When the S&P 500® Index fell 55% from its peak during the 2008–2009 financial crisis, it took a 122% gain to fully recover from that loss. A portfolio that fell half as much would take a 38% gain to fully recover. As this example shows, minimizing loss is important in order to preserve capital and allow the power of compounding to work in favor of the investor.
2. Emphasizing diversification of strategy types

Investment strategies go in and out of favor, which is why the Fund utilizes four sub-advisers, each with unique investment strategies and processes. Major strategies include long-only equity, convertible bonds and options equity.

Across these strategies, there is diversification in approaches, emphasizing:

- Quantitative and fundamental approaches
- Systematic and discretionary methodologies
- Higher and lower risks
- Value, growth and core orientations

This type of diversification improves the probability that the Fund can deliver on its investment objectives across a wider set of economic environments.

3. Utilizing active management to deliver alpha

GSCM implements an active management philosophy and seeks to add value through both rigorous fundamental research and robust quantitative processes. GSCM believes active management improves the return potential of the Fund relative to passive investment options seeking to replicate a market-capitalization weighted index or alternative indexes constructed on smart beta principles, such as fundamental or style-based criteria.

4. Building upon strategic beta

Unlike a traditional strategic beta strategy that seeks to passively enhance returns or minimize volatility relative to traditional market-capitalization weighted indexes, the Fund builds upon this conceptual framework by also incorporating active management and deploying multiple diversifying strategies.

Each of the underlying strategies within the Fund has the potential to deliver equity-like returns at reduced risk, compared to the S&P 500® Index.

This can be seen in the long-term track record of convertible bonds, minimum volatility indices and options equity strategies. As observed in Figure 1.1, a simple blend of these three strategies would have delivered 90% of the return of the S&P 500® Index, but at 69% of the risk over the past 25 years, gross of fees.

![Figure 1.1](image-url)

1 MSCI World Minimum Volatility (USD) Index — MSCI World Minimum Volatility (USD) Index aims to reflect the performance characteristics of a portfolio of stocks optimized to minimize absolute risk (within a given set of constraints) to that of the MSCI World Index (an index of developed market country stocks).

2 BofA Merrill Lynch US Convertibles — This index consists of convertible bonds publicly traded in the U.S.

3 The CBOE S&P 500 BuyWrite Index (BXM) is designed to measure the total rate of return of a hypothetical “buy-write” or “covered call” strategy on the S&P 500® Index. A covered call strategy consists of a long position in an asset and writing (selling) call options on that asset.

While the actively managed investment strategies within the Fund do not mimic these benchmarks, the performance record of these indices demonstrates the potential to produce enhanced risk-adjusted returns in the respective areas of reduced risk equities, convertible bonds and options equity strategies.

Since inception, the Fund has enjoyed strong risk-adjusted investment results on an absolute basis and relative to its peers. Within the Fund’s Lipper peer group, Flexible Portfolio
Funds, its Sharpe Ratio since inception is the highest out of 290 ranked funds, as of March 31, 2018, as shown in Figure 1.2. Looking beyond its Lipper category to other risk-managed equity solutions, the Fund also had the highest Sharpe Ratio of any fund in the Lipper Alternative Long/Short Equity Funds category on a since-inception basis, as of March 31, 2018.

Manager vs. Lipper Flexible Portfolio Funds: Sharpe Ratio
September 2011–March 2018 (not annualized if less than 1 year)

Created with Zephyr StyleADVISOR. Manager returns supplied by: Lipper, Morningstar, Inc.

The Defensive Market Strategies Fund may be suitable for investors who have a medium- to long-term investment horizon, possess a moderate tolerance for risk and seek to participate in the return potential of stocks at a slightly lower risk level than an all-stock portfolio. This fund is subject to interest rate risk, meaning, when interest rates rise, the value of the existing bonds decreases and vice versa. Changes in interest rates have a bigger impact on long-duration holdings than on short-duration holdings. The value of convertible securities increases and decreases with the value of the underlying common stock, but may also be sensitive to changes in interest rates. Foreign securities may be subject to greater risk than domestic securities due to currency volatility, reduced market liquidity, and political and economic instability. To the extent that the investment advisor misjudges current market conditions, the fund’s volatility may be amplified by its use of short sales and derivatives and by its ability to select sub-advisers to allocate assets. Short sales by a fund theoretically involve unlimited loss potential since the market price of securities sold short may continuously increase. Leverage may increase the risk of loss and cause fluctuations in the market value of the fund’s portfolio to have disproportionately large effects or cause the NAV of the fund to decline faster than it would otherwise.

Learn more about GuideStone’s Defensive Market Strategies Fund, visit GuideStoneFunds.com/Funds or call 1-888-GS-FUNDS (1-888-473-8637).

You should carefully consider the investment objectives, risks, charges and expenses of the GuideStone Funds® before investing. A prospectus with this and other information about the Funds may be obtained by calling 1-888-GS-FUNDS (1-888-473-8637) or downloading one at GuideStoneFunds.com/Funds. It should be read carefully before investing.

GuideStone Funds shares are distributed by Foreside Funds Distributors LLC, not an advisor affiliate.
1. **Drawdown** – The peak-to-trough decline during a specific record period of an investment, fund or commodity. A drawdown is usually quoted as the percentage between the peak and the trough.

2. **Beta** – A measure of a fund’s sensitivity to market movements as defined by the fund’s benchmark. A fund with a higher beta relative to the benchmark is more volatile than the benchmark.

3. **Sharpe Ratio** – A measure for calculating risk-adjusted return. It is the average return earned in excess of the risk-free rate per unit of volatility or total risk. Subtracting the risk-free rate from the mean return, the performance associated with risk-taking activities can be isolated. Generally, the greater the value of the Sharpe Ratio, the more attractive the risk-adjusted return.
Investment Objective: The Fund seeks to provide long-term capital appreciation with reduced volatility compared to equity markets.

Investment Strategy: The Fund is actively managed and invests mainly in equity securities with defensive characteristics. The Fund may also invest to a lesser extent in convertible bonds.

Investment Suitability: This Fund may be suitable for investors who have a medium to long-term investment horizon, possess a moderate tolerance for risk and seek to participate in the return potential of stocks at a lower risk level than an all stock portfolio.

Convertible securities valuations generally are more closely aligned with a company’s bonds than common stock. This Fund is subject to interest rate risk. Meaning, when interest rates rise, the value of the existing bonds decrease and vice versa. Foreign securities may be subject to greater risk than domestic securities due to currency volatility, reduced market liquidity and political and economic instability. To the extent that the investment advisor misjudges current market conditions, the Fund’s volatility may be amplified by its use of short sales and derivatives, and by its ability to select sub-advisers to allocate assets. Short sales by a fund theoretically involve unlimited loss potential since the market price of securities sold short may continuously increase. Leverage may increase the risk of loss and cause fluctuations in the market value of the Fund’s portfolio to have disproportionately large effects or cause the NAV of the fund generally to decline faster than it would otherwise.

Benchmark^ S&P 500® Index 50% FTSE 3-Month Treasury Bill Index 50%

Equity Investment Approach

VALUE

GROWTH

LARGE

SMALL

MUTUAL FUND MARKET CAPITALIZATION

GROWTH OF $10,000 INVESTMENT

Ending Value: $18,452

1/08/12  1/13  1/14  1/15  1/16  1/17  1/18

MORNINGSTAR RATING BASED ON RISK ADJUSTED RETURN²

Category: Allocation--50% to 70% Equity

Overall

Three Year

Five Year

 ★★★★★

among 680 funds

★ ★★★★★

among 680 funds

★★★★★

among 628 funds

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GuideStone Defensive Market Strategies Fund
Share Class: Investor

PORTFOLIO DETAILS

Asset Allocation
- U.S. Equities 47%
- Non-U.S. Equities 2%
- Fixed Income 49%
- Cash 2%

** Equity Sector Holdings **
- Consumer Discretionary: 7.18%
- Consumer Staples: 11.49%
- Energy: 5.75%
- Financial Services: 18.23%
- Health Care: 11.84%
- Industrials: 11.70%
- Materials: 2.98%
- Real Estate: 2.46%
- Technology: 14.74%
- Telecommunications: 1.88%
- Utilities: 11.75%

** Fixed Income Holdings **
- Convetibles: 24.75%
- Treasury Agency: 21.48%
- Corporate: 2.69%
- Yankee: 0.21%

** Top Ten Equity Holdings **
- Procter & Gamble Company: 3.26%
- Johnson & Johnson: 3.18%
- Republic Services, Inc.: 1.94%
- Total SA: 1.63%
- PNC Financial Services Group, Inc.: 1.62%
- Spectra Energy Partners, LP: 1.51%
- Medtronic plc: 1.49%
- Walmart Inc.: 1.45%
- Chubb Limited: 1.39%
- Chevron Corporation: 1.34%

** Fund Size ($ in millions) **
- Total Fund Net Assets for All Share Classes: $1,007
- Number of Holdings: 713

** Risk/Return Characteristics **
- Standard Deviation: 5.55%
- R-Squared: 91.77%
- Beta vs. Benchmark: 1.09
- Beta vs. S&P 500 Index: 0.54
- Sharpe Ratio: 1.59
- Information Ratio: 1.45

** Sub-Adviser Composite **
- American Century Investment Management: 27%
- AQR Capital Management: 22%
- Parametric Portfolio Associates: 25%
- Shenkman Capital Management: 26%

** GROWTH OF $10,000 INVESTMENT **

<table>
<thead>
<tr>
<th>Period</th>
<th>1/12</th>
<th>1/13</th>
<th>1/14</th>
<th>1/15</th>
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<th>1/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500® Index Benchmark</td>
<td>9/1/2011</td>
<td>-9.38%</td>
<td>-12.88%</td>
<td>0.41%</td>
<td>25.71%</td>
<td>9.73%</td>
<td>8.57%</td>
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<tr>
<td>GuideStone Defensive Market Strategies Fund</td>
<td>9/1/2011</td>
<td>4.09%</td>
<td>8.17%</td>
<td>4.67%</td>
<td>4.65%</td>
<td>3.01%</td>
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