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.

Data source: Informa Investment Solutions – Zephyr StyleADVISOR

Past performance does not guarantee future results. See the attached fund fact sheet for more complete information about the fund’s performance.

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 88% 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 275 ranked funds, as of June 30, 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 June 30, 2018.

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

![Manager vs. Lipper Flexible Portfolio Funds: Sharpe Ratio](image)

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 the equity market.

Investment Strategy: The Fund is actively managed and combines multiple principal strategies intended to result in the Fund obtaining investment returns consistent with the equity market, but with lower volatility when compared to the equity market.

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%

Gross Expense Ratio 0.98% Net Expense Ratio* 0.97%

* When the gross expense ratio and the net expense ratio are different, it reflects fee waivers and expense reimbursements for the Fund. Some expense limitation arrangements are voluntary and may end at any time. Others are contractual and—unless renewed—will end on a date specified in the agreement. Please refer to the prospectus for more information.

Fact sheet performance data is sourced from Morningstar. The performance data quoted represents past performance and does not guarantee future results. Current performance may be lower or higher. Performance data current to the most recent month-end and complete calendar year performance may be obtained at GuideStoneFunds.com/funds. The investment return of an investment will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Performance would have been lower without fee waivers and reimbursements in effect. Year 2011 annual performance began 9/1/2011. Returns exceeding 20% reflect unusual market conditions and may not be sustained at this level over the long term.

You should carefully consider the investment objectives, risks, charges and expenses of GuideStone Funds before investing. For a copy of the prospectus with this and other information about the funds, please call 1-888-98-GUIDE (1-888-984-8433) or visit GuideStoneFunds.com/funds to view or download a prospectus. You should read the prospectus carefully before investing.


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placing more emphasis on downward variations and rewarding consistent performance. The
measure that accounts for variation in a managed product's monthly excess performance,
² The Morningstar Rating™ for funds, or “star rating”, is calculated for managed products
GuideStoneFunds.com/funds for the latest month
* Cash is maintained by the fund for liquidity purposes and may be overlaid with equity and / or U.S. Treasury futures
to provide capital market exposure.

** Calculated over previous 5 years

<table>
<thead>
<tr>
<th>Asset Allocation</th>
<th>Fixed Income Holdings**</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equities 47%</td>
<td>Convertibles 29.16%</td>
</tr>
<tr>
<td>Non-U.S. Equities 2%</td>
<td>Treasury/Agency 21.13%</td>
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<tr>
<td>Fixed Income 49%</td>
<td>Corporate 2.84%</td>
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<tr>
<td>Cash 2%</td>
<td>Yankee 0.19%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Equity Sector Holdings</th>
<th>Top Ten Equity Holdings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Discretionary</td>
<td>Johnson &amp; Johnson 2.67%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>Procter &amp; Gamble Company 2.54%</td>
</tr>
<tr>
<td>Energy</td>
<td>iShares Russell 1000 Value ETF 2.17%</td>
</tr>
<tr>
<td>Financial Services</td>
<td>3M Company 1.88%</td>
</tr>
<tr>
<td>Health Care</td>
<td>PepsiCo, Inc. 1.81%</td>
</tr>
<tr>
<td>Industrials</td>
<td>PNC Financial Services Group, Inc. 1.79%</td>
</tr>
<tr>
<td>Materials</td>
<td>Republic Services, Inc. 1.77%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>Total SA 1.53%</td>
</tr>
<tr>
<td>Technology</td>
<td>Chevron Corporation 1.47%</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>Medtronic plc 1.44%</td>
</tr>
<tr>
<td>Utilities</td>
<td></td>
</tr>
</tbody>
</table>

* Cash is maintained by the fund for liquidity purposes and may be overlaid with equity and / or U.S. Treasury futures
to provide capital market exposure.

** Calculated over previous 5 years

<table>
<thead>
<tr>
<th>Fund Size ($ in millions)</th>
<th>Sub-Adviser Composite</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Fund Net Assets for All</td>
<td>American Century Investment 27% Management</td>
</tr>
<tr>
<td>Share Classes</td>
<td>AQR Capital Management 22%</td>
</tr>
<tr>
<td>Number of Holdings</td>
<td>Parametric Portfolio Associates 25%</td>
</tr>
<tr>
<td></td>
<td>Shenkman Capital Management 26%</td>
</tr>
</tbody>
</table>

Standard deviation—Depicts how widely returns varied over a certain period of time. A high standard deviation implies greater volatility and greater risk.
R-squared—Shows the percentage of a fund’s performance that is explained by movement in the benchmark index. An R-squared of 100% indicates that all movements of a fund can be explained by movements in the benchmark.
Beta vs. Benchmark—Beta is 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.
Beta vs. S&P 500® Index—Beta is a measure of a fund’s sensitivity to market movements as defined by the S&P 500® Index. A fund with a higher beta relative to the S&P 500® Index is more volatile than the S&P 500® Index.
Sharpe Ratio—A risk-adjusted measure that measures reward per unit of risk. The higher the Sharpe ratio, the better the fund’s historical risk adjusted performance.
Information Ratio—Measures how much the fund outperformed the benchmark per unit of additional risk taken.

1. Performance quoted reflects fee waivers in effect, and would have been lower in their absence. All figures shown represent total return, except for those identified as yield. Total return is based on net change in NAV with reinvestment of all distributions. Returns for periods less than one year are aggregate and for periods greater than one year are annualized. Unlike a mutual fund, the performance of an index assumes no taxes, transaction costs, management fees or other expenses.

2. Past rankings are no guarantee of future rankings. Rankings are relative to a peer group and do not necessarily mean that the fund had high total returns. Visit GuideStoneFunds.com/funds for the latest month-end ranking and ratings.

3. The Morningstar Rating™ for funds, or “star rating”, is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product’s monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating / 40% three-year rating for 60-119 months of total returns, and 50% 10-year rating / 30% five-year rating / 20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. Ratings are for the share class shown only; other classes may vary. Past performance is no guarantee of future results.

4. Portfolio composition subject to change at any time.

5. Due to rounding, portfolio holdings data may not sum to 100%.

6. The S&P 500 Index is a market capitalization-weighted equity index composed of approximately 500 U.S. companies representing all major industries. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of its constituents. “Standard & Poor’s”, “S&P®”, “S&P 500®”, “Standard & Poor’s 500®” and “500” are trademarks of The McGraw-Hill Companies, Inc. and have been licensed for use by GuideStone Funds. The Product is not sponsored, endorsed, sold or promoted by Standard & Poor’s, and Standard & Poor’s makes no representation regarding the advisability of investing in the Product. The FTSE 3-Month Treasury Bill Index measures monthly return equivalents of yield averages that are not marked to market, consisting of the last three three-month Treasury bill issues. All rights in the FTSE 3-Month Treasury Bill Index vest in FTSE Fixed Income LLC (“FTSE FI”). “FTSE®” is a trademark of the London Stock Exchange Group companies and is used by FTSE FI under license. The FTSE 3-Month Treasury Bill Index is calculated by FTSE or its agent. FTSE FI and its licensors are not connected to and do not sponsor, advise, recommend, endorse or promote the product and do not accept any liability whatsoever to any person arising out of (a) the use of, reliance on or any error in the Index or (b) investment in or operation of the product. All indexes used with permission. It is not possible to invest directly in an index.