

January 2012 Investment Report

Markets

- U.S. equities represented by the Russell 3000 Index increased **5.1%** during January. Improvement in U.S. employment statistics, an increase in real GDP growth, and the Federal Reserve's (the Fed's) extension of low interest rate accommodations all contributed to increased investor optimism. It was the best January for equities since 1997.
- Small-company U.S. equities outperformed large-company U.S. equities during the month, as investors favored the higher risk-return profile of small-company stocks. Stocks with strong earnings growth performed better than equities classified as "value."
- International developed equities, as measured by the bellwether MSCI EAFE Index, increased **5.3%** in U.S. dollar terms. Increased optimism and decreasing fear about the European debt crisis contributed to the gains. Equities of developing countries also increased, as the MSCI Emerging Markets IMI Index gained **11.3%** during the month. The gains in international equities follow double-digit declines for the full year of 2011.
- The interest rate yield curve flattened in January, with the portion of the curve representing intermediate-term yields dropping and short and long yields rising. Short rates (less than three years) rose a fractional 1–4 basis points (**0.01%** to **0.04%**). The yield on the 10-year security declined by 7.9 basis points (**0.08%**), ending the month at **1.80%**. The yield for long bonds (30-year U.S. Treasury) rose 4.4 basis points to **2.90%**.
- The U.S. credit sector continued to perform well in January. Investment-grade debt as represented by the Barclays U.S. Credit Index increased by **2.1%**. The Barclays U.S. High Yield Index returned **3.0%**.
- The U.S. dollar declined in January. The Dollar Index, which compares the U.S. dollar to six other major currencies, fell **0.4%**. Within that index, the euro strengthened to \$1.31, a gain of **1.0%**. Emerging market currencies showed strength, with the Brazilian real and Mexican peso both rising by more than **6.0%** against the U.S. dollar.
- Commodities rebounded from losses incurred late last year. The Dow Jones UBS Commodity Index showed a gain of **2.5%** for the month. Metals were the biggest benefactor, with industrial metals gaining **10.9%** and precious metals gaining **12.7%**. The biggest detractor from the index was the energy sector, which declined by **3.5%**.

Economics Highlights

- The Fed announced plans to keep its short-term borrowing rate near zero through at least 2014—one year longer than previously indicated. The announcement demonstrates the Fed's commitment to its objective of encouraging economic growth.
- Real Gross Domestic Product improved **2.8%** during the fourth quarter of 2011, surpassing the third quarter's **1.8%** growth and reflecting stronger economic conditions.
- The unemployment rate in the U.S. unexpectedly fell to **8.3%**, the lowest level in three years. Jobs increased by 243,000, exceeding median estimates by more than 100,000 in a sign the economy is improving.

- Social networking service Facebook announced plans for an initial public offering (IPO). The company is rumored to be worth up to \$100 billion, potentially making Facebook the largest internet IPO in history.

Geopolitical Headlines

- The Obama administration rejected a Canadian firm's application to build the Keystone pipeline, which would transport crude oil produced from tar sands in Alberta, Canada, to multiple destinations in the United States. Proponents claim it would offer greater energy independence to the United States and simultaneously create jobs. The Obama administration wanted more time to review potential environmental impacts.
- The World Economic Forum held its annual summit in Davos, Switzerland, where leaders from government and business gathered to discuss key economic topics. Despite the optimism in international equity markets, European debt concerns dominated discussions. Leaders urged their European counterparts to institute reforms before the turmoil spreads.
- Mitt Romney emerged as the frontrunner to date for the Republican U.S. presidential nomination, following his victory in the Florida primary and other state primaries/caucuses.

Sources: *Bloomberg News, the Economist, the Wall Street Journal, CNBC and CNN*

Key Monthly Economic Statistics

This is a list of key monthly economic statistics. Each statistic is listed with a link to a Web page that provides a thorough description of the economic indicator.

Positive Statistics

Employment, Jan. job gains: 243,000; Unemployment rate: 8.3%
Real Gross Domestic Product Q4 2011 (Adv) +2.8% (Q3 2011: +1.8%)
Existing Home Sales, Dec: +5.0% (Nov: +4.0%)
Institute for Supply Management Index, Jan: +54.1 (Dec: +53.1)

Neutral Statistics

Factory Orders, Dec: +1.1% (Nov: +2.2%)
Retail Sales, Dec: +0.1% (Nov: +0.4%)
Retail Sales ex-auto, Dec: -0.2% (Nov: +0.3%)
Consumer Price Index, Dec: 0.0%; core, +0.1%
Producer Price Index, Dec: -0.1%; core, +0.3%

Negative Statistics

Housing Starts, Dec: -4.1% (Nov: +9.3%)
New Home Sales, Dec: -2.2% (Nov: +1.6%)
Durable Goods Orders, Dec: +3.0% (Nov: +4.3%)
Consumer Confidence, Jan: +61.1 (Dec: +64.8)
S&P/Case-Shiller 20-City Home Price Index, Nov: -3.7% (Oct: -3.4%)

Source: briefing.com—economic statistics; [Econoday](http://Econoday.com)—description of economic indicators

Wespath Investment Fund Review

Inflation Protection Fund Performance (Net of Fees)

Fund	Jan
Inflation Protection Fund	2.3%
Barclays Capital U.S. Government Inflation-Linked Bond Index	2.3%
Difference	0.0%

The Inflation Protection Fund advanced **2.3%** during the month and matched the performance of the fund's benchmark. The fund's diversifying strategies of investing in commodities and inflation-linked bonds from developing countries both contributed positively to performance, advancing **3.5%** and **5.4%** respectively. However, the



fund's allocation to global inflation-linked bonds from developed countries increased only **1.4%** and offset the gains from its other two diversifying strategies: commodities and inflation-linked developing countries bonds.

Fixed Income Fund Performance (Net of Fees)

Fund	Jan
Fixed Income Fund	2.0%
Barclays Capital U.S. Universal (ex MBS) Index	1.3%
Difference	0.7%

The Fixed Income Fund advanced **2.0%** in January and significantly outperformed the fund's benchmark return. As in December, the fund's higher-than-benchmark exposure to corporate bonds and other credit instruments positively contributed to performance. U.S. economic conditions continued to improve, and investors were willing to accept more risk. All of the fund's strategies contributed positively to benchmark-relative performance.

U.S. Equity Fund Performance (Net of Fees)

Fund	Jan
U.S. Equity Fund	5.3%
Russell 3000	5.1%
Difference	0.2%

The U.S. Equity Fund gained **5.3%** in January and modestly outperformed the fund's benchmark by **0.2%**. The fund benefited from its higher-than-benchmark allocation to small and mid-sized companies. The Russell 2000 Index of small companies advanced **7.1%** compared with the **4.5%** return for the S&P 500 Index of large

companies. All but one of the fund's managers investing in equities from large companies outperformed their respective benchmarks. The fund's allocation to private equity and private real estate detracted from benchmark-relative performance, as the value assigned to these alternative investments lag in an advancing market.

International Equity Fund Performance (Net of Fees)

Fund	Jan
International Equity Fund	7.3%
MSCI ACWI x US	7.0%
Difference	0.3%

The International Equity Fund advanced **7.3%** in January and outperformed its benchmark by **0.3%**. The fund benefited from its diversifying strategies of investing in small company equities and international real estate investment trusts (REITs). Both strategies detracted from returns in 2011. The fund's allocation to private international real estate modestly detracted from returns.

Multiple Asset Fund Performance (Net of Fees)

Fund	Jan
Multiple Asset Fund	4.5%
Composite Benchmark	4.2%
Difference	0.3%

For January, the Multiple Asset Fund (MAF) gained **4.5%** and outperformed its benchmark by **0.3%**. MAF's two equity funds and the Fixed Income Fund all contributed to positive benchmark-relative performance.

For returns of one year, three years, five years, 10 years and Since Inception periods, please visit our [Fund Performance page](#).

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