Wespath
Investment Management

December 2014 Investment Report

Monthly Report

Markets

- U.S. equities as represented by the Russell 3000 Index were unchanged in December. Declining oil prices continued to impact markets as West Texas Intermediate (WTI) crude traded at levels more than **50%** lower than just six months earlier. The bellwether S&P 500 Index declined **0.3%** and ended the month **1.5%** below its all-time high achieved earlier in the month.
- Small company stocks gained **2.9%** in December as measured by the Russell 2000 Index, and large company stocks declined **0.2%** as measured by the Russell 1000 Index. Year-to-date, small company stocks have underperformed (**+4.9%**) versus large cap stocks (**+13.2%**). The traditionally low-volatility, higher-dividend-yielding utilities sector was the best-performing sector for the month (**+3.4%**) and for the year (**+26.9%**).
- Developed international markets decreased **3.0%** during December, as measured by the MSCI World ex-US IMI Index in U.S. dollar terms. Developing international markets decreased **4.4%** during the month, but declined only **1.8%** for the year.
- The U.S. Treasury yield curve continued to flatten during December. The 2-year U.S. Treasury note yield increased by **0.20%** to a yield of **0.67%**, while the 30-year Treasury bond yield decreased by **0.14%** to a yield of **2.75%**. The yield curve flattening has been attributed to a combination of decreasing inflation expectations and assumptions that the Federal Reserve will begin increasing the Fed Funds rate in 2015.
- U.S. Treasury securities as measured by the Barclays U.S. Treasury Index increased **0.1%** in December. Investment-grade debt as measured by the Barclays U.S. Credit Index increased only fractionally during the month. Below-investment-grade debt as measured by the Barclays U.S. Corporate High-Yield Index decreased **1.5%**. The energy industry segment of the high-yield index decreased **6.2%** as oil prices continued to decline.
- The U.S. dollar strengthened for the sixth consecutive month in December, increasing **2.3%** as measured by the U.S. Dollar Index. The euro, yen and British pound decreased **2.8%**, **1.0%** and **0.4%**, respectively, relative to the dollar. Developing country currencies also weakened relative to the dollar. The Russian ruble continued its decline, decreasing more than **18%** relative to the dollar during December and more than **45%** during all of 2014.
- Commodities as represented by the Bloomberg Commodity Index decreased **7.6%** during December, contributing to a total decrease in 2014 of **17%**—one of the worst years in history. The coffee, cotton and sugar sub-index decreased **7.8%** during the month, and livestock decreased **4.8%**. Petroleum was the weakest sub-index, decreasing **18.1%** during the month and **43.3%** during all of 2014.

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Economics Highlights

- The price of crude oil fell below **$54** a barrel (compared to **$108** a barrel in June 2014)—a decline of **50.5%**, as a result of weakening demand and increased supply due to the U.S. shale boom and OPEC's decision not to cut production.
- The U.S. economy added **252,000** jobs in December, and the unemployment rate decreased to **5.6%**, exceeding Bloomberg's surveyed expectations of **240,000** jobs and a **5.7%** unemployment rate. Additionally, the November jobs report was revised from **321,000** jobs to **353,000**. Total jobs added in 2014 amounted to **2.95 million**—the largest increase since **3 million** new jobs were added in 1999. The jobs progress was hampered by a decrease in the average hourly earnings of **0.2%** in December, which compares to an increase of **0.4%** in November. Average hourly earnings continued a trend of weak annual growth as they increased only **1.7%** in 2014. The labor force participation rate decreased in December to **62.7%** from November's report of **62.9%**.
- The U.S. inflation-adjusted gross domestic product (GDP) was revised higher for the third quarter of 2014 to **5.0%**, above the previous estimate of **3.9%** and the highest quarterly increase since 2003. Equity markets responded favorably as a result of the news, with the Dow Jones industrial average closing above **18,000** points for the first time.
- The Russian financial crisis continued. The Russian ruble declined compared to other currencies, and a slowdown in the Russian economy was driven primarily by declining oil prices and economic sanctions resulting from Russian military intervention in Ukraine. As a result of the crisis, the Central Bank of Russia increased its key interest rate from **10.5%** to **17.0%** on December 16 in an effort to defend the ruble's strength.

Geopolitical Headlines

- Since the first reported case of Ebola in West Africa in December 2013, 20,206 cases and 7,905 deaths have been reported worldwide thru December 28, 2014. The majority of Ebola cases have been concentrated in Liberia, Sierra Leone and Guinea. Based on World Health Organization reports, the numbers of new Ebola cases in Guinea and Liberia appear to have stabilized; however, the number of reported cases in Sierra Leone appears to be increasing.
- In a bold and highly contentious maneuver, President Barack Obama and Cuban President Raúl Castro announced that their countries would renew diplomatic relations. The opening of diplomatic relations included: the establishment of an embassy in Havana, a prisoner exchange, allowing American institutions to open accounts with Cuban counterparts, easing restrictions on export of U.S. agricultural and telecommunications equipment to Cuba, permitting Americans to use credit and debit cards in Cuba, and allowing U.S. residents to send up to $2,000 to relatives in Cuba every three months.
- Indonesia AirAsia Flight 8501 traveling from Surabaya, Indonesia, to Singapore crashed on December 28, killing all 155 passengers and 7 crew members on board. The crash is under investigation, and recovery efforts continued into the new year. The crash was the third major Asian airline incident in 2014.

Sources: Forbes, Reuters, Bloomberg, The Economist, Energy Information Administration, The Wall Street Journal, CBS News, FactSet, Barclays, Russell, CNBC, CNN, Associated Press, Bridgewater Associates, Wikipedia and NASDAQ.

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Key Monthly Economic Statistics

This table contains a list of key monthly economic statistics.

	Positive Statistics • Consumer Confidence, Dec: 92.6 (Nov: 91.0) • Nonfarm Payrolls, Dec: 252,000 • Real Gross Domestic Product, Q3: 5.0% (Q2: 4.6%); Q/Q-SAAR • Retail Sales ex-auto, Nov: 0.5% (Oct: 0.4%); M/M-SA • Retail Sales, Nov: 0.7% (Oct: 0.5%); M/M-SA • Unemployment Rate, Dec: 5.6% (Nov: 5.8%)
	Neutral Statistics • Consumer Price Index core, Nov: 0.1% (Oct: 0.2%); M/M-SA • Consumer Price Index, Nov: -0.3% (Oct: 0.0%); M/M-SA • Producer Price Index core, Nov: 0.0% (Oct: 0.4%); M/M-SA • Producer Price Index, Nov: -0.2% (Oct: 0.2%); M/M-SA • S&P/Case-Shiller 20-City Home Price Index, Oct: 4.5% (Sep: 4.8%); Y/Y
	Negative Statistics • Durable Goods Orders, Nov: -0.7% (Oct: 0.3%); M/M-SA • Existing Home Sales, Nov: -6.1% (Oct: 1.4%); M/M-SAAR • Factory Orders, Nov: -0.7% (Oct: -0.7%); M/M-SA • Housing Starts, Nov: -1.6% (Oct: 1.7%); M/M-SAAR • Institute for Supply Management Index, Dec: 55.5 (Nov: 58.7) • New Home Sales, Nov: -1.6% (Oct: -2.2%); M/M-SAAR

M/M = Month-over-month (% change since last month)
Q/Q = Quarter-over-quarter (% change since last quarter)
Y/Y = Year-over-year (% change since the same month, last year)
SA = Seasonally Adjusted
SAAR = Seasonally Adjusted Annual Rate

Source: ***FactSet***

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Investment Fund Review: ***(Net of Fees Performance)***

*For historical returns of one year, three years, five years, 10 years and since inception periods, please visit our [Historical Funds Performance page](). **Please note:** Historical returns are not indicative of future performance. For further details about the funds please refer to the [Investment Funds Description.]()*

Inflation Protection Fund

Fund	December	QTD	YTD
Inflation Protection Fund	-1.66%	-0.92%	+2.63%
Barclay's Capital U.S. Government Inflation Linked Bond Index	-1.02%	+0.25%	+4.43%
Difference	-0.64%	-1.17%	-1.80%

- The Inflation Protection Fund (IPF) declined **1.66%** in December and underperformed the fund's benchmark return by **0.64%**. The fund's 10% allocation to inflation-sensitive commodities futures contracts declined **7.8%** and was the primary contributor to the fund's below-benchmark performance. The price of oil has declined **50.5%** since its 2014 peak of $107.95 per barrel in June. In addition, the fund's 10% allocation to inflation-linked debt from developing countries declined **3.6%** due to continued weakness of developing market currencies compared to the U.S. dollar. The fund's exposure to hedged inflation-linked bonds of developed countries contributed positively to benchmark-relative performance, declining only **0.2%**.
- For the fourth quarter, the Inflation Protection Fund declined **0.92%** and underperformed its benchmark return by **1.17%**. The fund's 10% allocation to commodities futures contracts declined **13.0%** and was the worst-performing strategy among all General Board/Wespath funds. In addition, inflation-linked bonds from developing countries lost **3.3%**, due to the strength of the U.S. dollar compared with the currencies of developing countries. The Inflation Protection Fund benefitted from its allocation to hedged inflation-linked bonds of developed countries, which advanced **2.1%** during the fourth quarter.
- For the year, the Inflation Protection Fund gained **2.63%**, but underperformed the fund benchmark by **1.80%**. The fund's diversifying strategies of commodities futures contracts and inflation-linked bonds from developing countries both detracted from benchmark-relative performance, with the commodities allocation declining **15.2%** and the fund's allocation to inflation-linked bonds from developing countries declining **1.2%**. Benchmark-relative performance benefitted from the fund's allocation to hedged inflation-linked bonds from developed countries, which advanced **9.2%** for the year.

Fixed Income Fund

Fund	December	QTD	YTD
Fixed Income Fund	-0.82%	+0.37%	+4.30%
Barclays U.S. Universal (Ex MBS) Index	-0.29%	+1.20%	+5.40%
Difference	-0.53%	-0.83%	-1.10%

- The Fixed Income Fund declined **0.82%** in December and underperformed its benchmark return by **0.53%**. The strong U.S. dollar continued to appreciate against foreign currencies, as the fund's diversifying strategies of holding bonds denominated in currencies other than the U.S. dollar detracted from benchmark-relative performance. The fund's allocation to bonds from developing

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countries declined **0.8%**, and its allocation to bonds from developed countries declined **3.9%**. In addition, the Fixed Income Fund's allocation to a variety of credit strategies exceeds its benchmark allocation to these strategies, which also detracted from the fund's benchmark-relative performance.

- For the fourth quarter, the Fixed Income Fund gained **0.37%** and underperformed the benchmark return by **0.83%**. As was the case in the month of December, the fund's underperformance is largely attributable to its allocation to non-dollar bonds, which were adversely affected by the U.S. dollar's strength. The Fixed Income Fund's 11% allocation to bonds from developing countries declined **2.3%** and was the fund's worst-performing strategy. In addition, the fund's allocation to bonds from developed countries declined **0.2%**. The fund's allocation to positive social purpose loans gained **1.9%** during the fourth quarter and contributed positively to benchmark-relative performance.
- For the year, the Fixed Income Fund gained **4.30%**, but underperformed its benchmark return by **1.10%**. The fund's best-performing strategies were its allocation to positive social purpose loans and investment-grade corporate debt, which both gained **8.4%**. In addition, the fund's two core managers both outperformed their respective benchmarks by about **0.6%**. The positive contributions from these strategies, however, were more than offset by the fund's allocations to international bonds. The Fixed Income Fund's allocation to developed country bonds and developing country bonds gained **2.5%** and **0.9%**, respectively, and were adversely affected by the U.S. dollar's strength.

U.S. Equity Fund

Fund	December	QTD	YTD
U.S. Equity Fund	+0.27%	+5.08%	+10.76%
Russell 3000 Index	+0.00%	+5.24%	+12.56%
Difference	+0.27%	-0.16%	-1.80%

- The U.S. Equity Fund gained **0.27%** in December and outperformed the fund's Russell 3000 Index benchmark by **0.27%**. The fund's greater-than-benchmark exposure to the stocks of small companies contributed to the fund's excess performance, as the Russell 2000 Index of small companies gained **2.8%** in December compared with a **0.3%** decline of the large company S&P 500 Index. In addition, the fund's allocation to publicly traded real estate investment trusts (REITs) gained **2.1%**, also positively contributing to benchmark-relative performance. However, many of the U.S. Equity Fund's active managers underperformed their respective benchmarks, which detracted from overall performance.
- For the fourth quarter, the U.S. Equity Fund gained **5.08%** and slightly underperformed the fund benchmark return by **0.16%**. For the quarter, the fund's small company benchmark-relative overweight contributed positively to performance, as the Russell 2000 Index gained **9.7%** compared with the **4.9%** gain for the large company S&P 500 Index. In addition, the fund's allocation to public REITs gained **15.3%**. However, two of the fund's active managers meaningfully underperformed their respective benchmarks, which more than offset the positive contributions from these strategies. One of the managers focuses on companies experiencing accelerating earnings growth, and the stocks of those companies suffered due to investors' perceptions that growth may not be as great for these companies as previously expected. The other manager holds a number of stocks with exposure to the energy sector, which declined due to investor concerns resulting from the drop in the price of oil.
- For the year, the U.S. Equity Fund gained **10.76%** and underperformed its benchmark return by **1.80%**. Despite the strong relative performance from small company stocks during the fourth quarter, the fund's greater-than-benchmark allocation to the stocks of small companies detracted from its performance for the year, as the Russell 2000 Index only gained **4.9%** in 2014 compared with the

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13.9% gain for the large-cap S&P 500 Index. In addition, three of the fund's active managers significantly underperformed their respective benchmarks for the year. The fund's allocation to publicly traded REITs was the best-performing strategy among all General Board/Wespath funds and gained **33.5%** for the year.

International Equity Fund

Fund	December	QTD	YTD
International Equity Fund	-3.28%	-3.22%	-5.92%
MSCI ACWI x US Investable Market Index	-3.31%	-3.88%	-3.89%
Difference	+0.03%	+0.66%	-2.03%

- The International Equity Fund declined **3.28%** in December and slightly outperformed its benchmark return by **0.03%**. The primary contributor to the fund's excess performance was the fund's modest allocation to international private equity, which recorded an increase in its net asset value resulting in a return of **6.9%** for the month. The fund was adversely affected by a reduction in value attributable to a significant decline in the U.S. stock market on December 31. The international daily valuation policy is described **here**.
- For the fourth quarter, the International Equity Fund declined **3.22%** but outperformed the fund's benchmark by **0.66%**. The fund benefitted from its nearly 6% allocation to publicly traded international real estate investment trusts (REITs), which gained **1.8%**. The fund also benefitted from its modest allocation to private equity, which gained **5.6%**. The positive contribution from these strategies was partially offset by a reduction in value due to a significant decline in the U.S. stock market on December 31.
- For the year, the International Equity Fund declined **5.92%** and underperformed its benchmark return by **2.03%**. Approximately one-half of the fund's benchmark-relative underperformance is attributable to the benchmark-relative performance of the fund's small-company stock manager, which underperformed its benchmark by nearly **8%**. In addition, the fund recognized a reduction to its net asset value due to the significant decline in the U.S. stock market on December 31, which accounted for about one-third of the fund's below-benchmark performance. The fund's modest allocation to international private equity gained **17.0%** for the year and positively contributed to the fund's performance.

Multiple Asset Fund

Fund	December	QTD	YTD
Multiple Asset Fund	-1.03%	+1.29%	+4.10%
Composite Benchmark	-1.00%	+1.41%	+5.76%
Difference	-0.03%	-0.12%	-1.66%

- For December, the Multiple Asset Fund declined **1.03%** and modestly underperformed its fund benchmark by **0.03%**. The positive benchmark-relative contribution from the fund's two equity funds was more than offset by the below-benchmark performance of the fund's two bond strategies. In addition, the fund was adversely affected by a reduction in value of the International Equity Fund, which was attributable to a significant decline in the U.S. stock market on December 31.
- For the fourth quarter, the Multiple Asset Fund gained **1.29%** and underperformed its benchmark by **0.12%**. The Multiple Asset Fund's 25% allocation to the International Equity Fund was the only

strategy that outperformed its benchmark. The significant underperformance of the two bond funds resulting from U.S. dollar strength was the primary contributor to the Multiple Asset Fund's underperformance compared to its benchmark.

- For the year, the Multiple Asset Fund gained **4.10%** but underperformed its benchmark return by **1.66%**. All four of the Multiple Asset Fund's underlying strategies underperformed their respective benchmarks due to the two bond funds' exposure to securities denominated in foreign currencies. In addition, the fund was adversely affected by the higher-than-benchmark allocations to small company stocks in the U.S. Equity Fund, poor benchmark-relative performance by the International Equity Fund's small company investment manager, and a reduction in value of the International Equity Fund attributable to a significant decline in the U.S. stock market on December 31.

Balanced Social Values Plus Fund

Fund	December	QTD	YTD
Balanced Social Values Plus Fund	+0.23%	+4.05%	+9.80%
Composite Benchmark	-0.16%	+3.47%	+9.46%
Difference	+0.39%	+0.58%	+0.34%

This will be the last report for the Balanced Social Values Plus Fund, as it was discontinued on December 31, 2014.

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