

December 2016 Investment Report

December Highlights

- The post-election stock rally in the U.S continued, but at a slower pace by year-end. Positive economic news supported strong performance. The U.S. Commerce Department reported higher-than-expected, 3rd quarter U.S. gross domestic product (GDP) at 3.5%.
- Equity markets ended the year with the S&P 500 posting a return of 11.96% and the MSCI AC World ex USA Investable Market Index posting a gain of 4.41%. Fixed income markets retreated from previous highs due to expectations of faster U.S. growth, which may lead to higher inflation and interest rates in the future. The U.S. Treasury Index fell 0.11% in December. However, fixed income credit spreads narrowed at the end of the year on renewed growth expectations with the Barclays U.S. Credit Index posting a positive 0.61% return for the month.
- For the month, Wespath's U.S. Equity Fund, International Equity Fund and Inflation Protection Fund underperformed their respective fund benchmarks. Wespath's Fixed Income Fund outperformed its benchmark due to the fund's strategic overweight to the more credit-sensitive sectors of the fixed income market.

Monthly Overview

As expected, Fed raises rates

As a result of continued economic progress, the Federal Open Market Committee (FOMC) voted during their December meeting to raise the Fed funds rate by 25 basis points to a new range of 0.50% to 0.75%. The FOMC signaled faster rate increases by unanimously approving the increase. Officials pointed to low unemployment and higher inflation expectations. The U.S. dollar increased in value relative to foreign currencies while the value of U.S. Treasury securities dropped as yields rose following the rate increase.

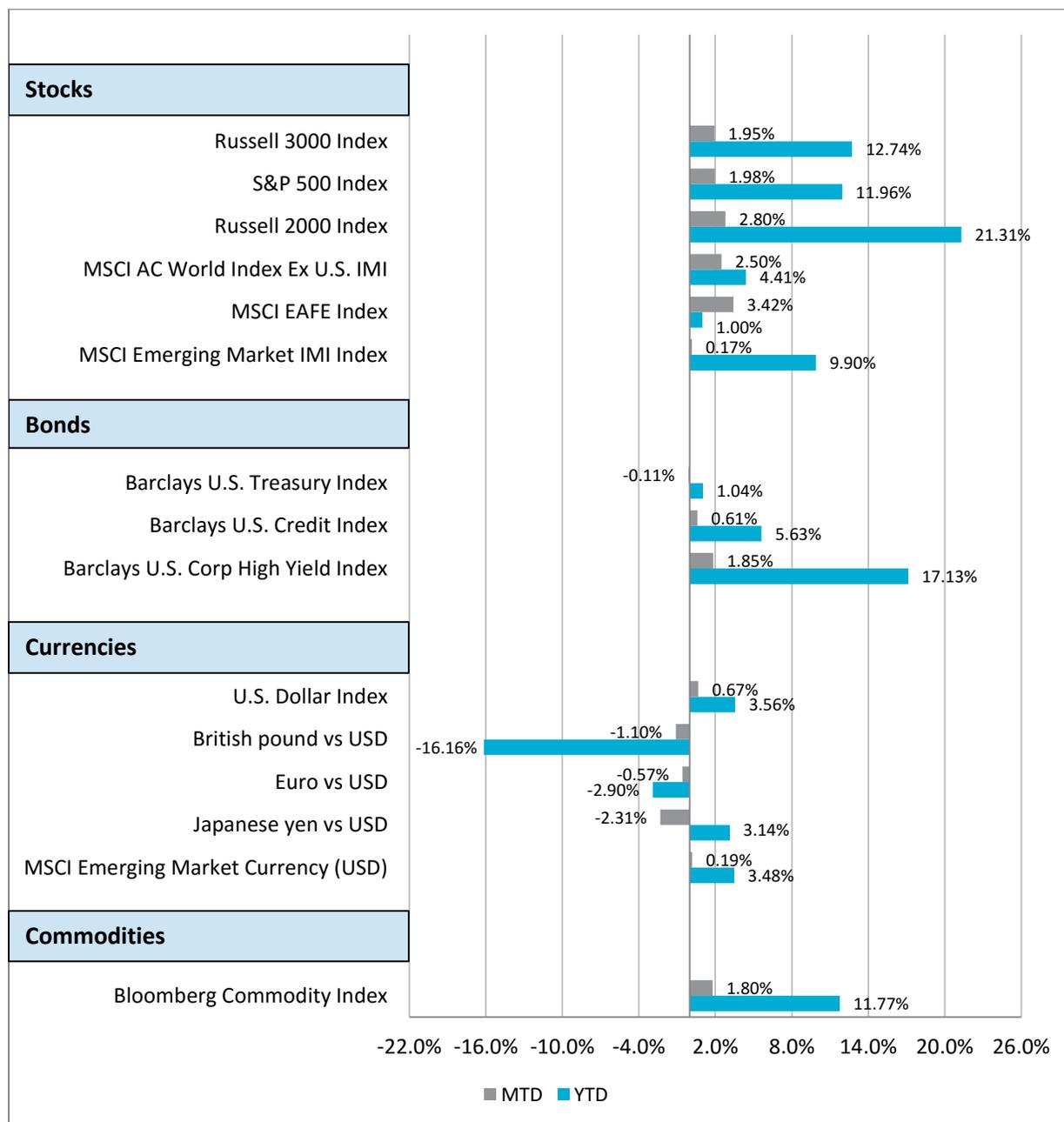
Oil prices increase

Oil prices increased during the month. The Organization of Petroleum Exporting Countries (OPEC) met with Russia and other non-OPEC producers who agreed to reduce output by 558,000 barrels per day. This follows an OPEC commitment in November to cut daily member output by 1.2 million barrels.

U.S. economy strengthens

Economic statistics were positive, with consumer confidence increasing to the highest level since August 2001 and the national unemployment rate dropping to 4.6% in November, the lowest it's been since August 2007. Consumer confidence rose in November to 113.7, with the index reflecting consumer expectations for future conditions increasing significantly from 94.4 to 105.5. The overall level of consumer confidence is the highest since 2001.

Market Performance



Source: FactSet, As of December 31, 2016

Key Monthly Economic Statistics

Statistic	Monthly/Yearly Change	Positive
Consumer Confidence	Dec: 113.7 (Nov: 109.4)	▲
Factory Orders	Oct: 2.7% (Sep: 0.6%); M/M-SA	▲
Institute for Supply Management Index	Nov: 53.2%(Oct: 51.9%)	▲
New Home Sales	Nov: 5.2% (Oct: -1.4%); M/M-SAAR	▲
Nonfarm Payrolls	Nov: 178,000 (Oct: 142,000)	▲
Producer Price Index core	Nov: 0.4% (Oct: -0.2%); M/M-SA	▲
Producer Price Index	Nov: 0.4% (Oct: 0.0%); M/M-SA	▲
Real Gross Domestic Product	Sep: 3.5% (Jun: 1.4%); Q/Q-SAAR	▲
Unemployment Rate	Nov: 4.6% (Oct: 4.9%)	▲
		Neutral
Consumer Price Index core	Nov: 0.2% (Oct: 0.1%); M/M-SA	◆
Consumer Price Index	Nov: 0.2% (Oct: 0.4%); M/M-SA	◆
S&P/Case-Shiller 20-City Home Price Index	Oct: 5.1% (Sep: 5.1%); Y/Y	◆
		Negative
Durable Goods Orders	Nov: -4.6% (Oct: 4.8%); M/M-SA	▼
Existing Home Sales	Nov: 0.7% (Oct: 1.5%); M/M-SAAR	▼
Housing Starts	Nov: -18.7% (Oct: 27.4%); M/M-SAAR	▼
Retail Sales ex-auto	Nov: 0.2% (Oct: 0.6%); M/M-SA	▼
Retail Sales	Nov: 0.1% (Oct: 0.6%); M/M-SA	▼

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

Investment Fund Review (Net of Fees Performance)ⁱ

Equity Funds

U.S. Equity Fund

Fund	December	QTD	YTD
U.S. Equity Fund	+1.36%	+3.64%	+11.53%
Russell 3000 Index	+1.95%	+4.21%	+12.74%
Difference (percentage points)	-0.59	-0.57	-1.21

- For all periods, the U.S. Equity Fund's strategic asset allocation of overweighting small- and mid-sized company stocks, with a corresponding underweight in large company stocks, benefited benchmark-relative performance. The fund's underweight to higher dividend-yielding securities, particularly telecommunications services companies, detracted from performance for all periods. The fund's strategic allocation to real estate detracted from performance during all periods as well.
- The fund's strategic asset allocation to private equity detracted from benchmark-relative performance for the quarter and year, but contributed positively to benchmark-relative performance during the month.
- During the fourth quarter, the fund's underweight position in financial sector companies detracted from benchmark-relative performance, as financial companies outperformed the broad market given the potential for reduced regulatory burdens in the new U.S. presidential administration. Also, overweight positions in small- to mid-sized software companies detracted from benchmark-relative performance, as these stocks underperformed the broad market.

International Equity Fund

Fund	December	QTD	YTD
International Equity Fund	+1.29%	-2.31%	+6.02%
MSCI ACWI ex US Investable Market Index	+2.50%	-1.57%	+4.41%
Difference (percentage points)	-1.21	-0.74	+1.61

- The International Equity Fund's daily valuation policy (described [here](#)) detracted from benchmark-relative performance for the month and quarter but contributed positively for the year.
- For all periods, the fund's ethical exclusions strategy and allocation to private equity contributed positively to benchmark-relative performance.
- The fund's strategic asset allocation to private real estate contributed positively to benchmark-relative performance for the quarter and year, but detracted from benchmark-relative performance during the month.
- For the quarter, the fund's underweight position in the strong performing financial sector within several Asian and European markets detracted most from benchmark-relative performance.

Equity Social Values Plus Fund

Fund	December	QTD	YTD
Equity Social Values Plus Fund	+2.16%	+1.09%	+6.97%
MSCI World Custom ESG Special Weighted Index	+2.29%	+1.21%	+7.19%
Difference (percentage points)	-0.13	-0.12	-0.22

- The Equity Social Values Plus Fund is a passively-managed fund designed to closely match the fund benchmark, less fees and expenses. Relative performance is affected by the international daily valuation policy (described [here](#)).

U.S. Equity Index Fund

Fund	December	QTD	YTD
U.S. Equity Index Fund	+1.94%	+4.07%	+12.35%
Russell 3000 Index	+1.95%	+4.21%	+12.74%
Difference (percentage points)	-0.01	-0.14	-0.39

- The U.S. Equity Index Fund is a passively managed fund designed to closely match the fund benchmark less fees and expenses.

Fixed Income Funds

Fixed Income Fund

Fund	December	QTD	YTD
Fixed Income Fund	+0.76%	-2.64%	+5.74%
Barclays U.S. Universal (Ex MBS) Index	+0.39%	-2.80%	+4.62%
Difference (percentage points)	+0.37	+0.16	+1.12

- The Fixed Income Fund outperformed its benchmark in all reporting periods, primarily due to the fund's strategy to underweight US Treasury and government bonds and overweight investment grade and high-yield credit.
- Additionally, the fund's overweight to emerging market debt contributed positively during the month and year but detracted during the quarter. The allocation to alternative investments, which includes distressed debt and corporate opportunities, strongly contributed during the quarter and year, but detracted slightly during December.

Extended Term Fixed Income Fund

Fund	December	QTD	YTD
Extended Term Fixed Income Fund	+0.50%	-4.78%	+5.44%
Barclays US Government/Credit Long Term Index	+0.73%	-7.84%	+6.67%
Difference (percentage points)	-0.23	+3.06	-1.23

- The fund underperformed its benchmark for the month and year primarily due to the fund's policy to maintain a shorter-than-benchmark duration while interest rates remain at historically low levels. For both periods, long maturity corporate bonds strongly outperformed both U.S. Treasury securities and shorter maturity corporate bonds. The fund's underweight allocation to long-term corporate bonds detracted from benchmark-relative performance.
- During the quarter, the prospects for future economic growth and for interest rate hikes increased, causing bond rates to rise. The fund's policy to maintain a shorter-than-benchmark duration significantly contributed to benchmark-relative outperformance.

Inflation Protection Fund

Fund	December	QTD	YTD
Inflation Protection Fund	+0.58%	-1.26%	+7.70%
IPF Custom Benchmark ⁱⁱ	+1.53%	-1.77%	+10.73%
Difference (percentage points)	-0.95	+0.51	-3.03

- In all periods, the fund's strategic overweight to U.S. Treasury Inflation Protected Securities (TIPS), and a corresponding underweight to non-U.S. developed market inflation-linked bonds detracted from performance. The fund's commodities manager significantly outperformed its benchmark, positively contributing to benchmark-relative performance.
- During December, the fund's strategic underweight to UK inflation-linked bonds, which returned 3.7%, detracted from benchmark-relative performance.
- During the quarter, the fund's allocations to senior secured loans and high-yield asset backed securities, which are not represented in the fund's benchmark, positively contributed to benchmark-relative performance. However, for the entire year, those allocations modestly detracted from benchmark-relative performance.

Balanced Fund

Multiple Asset Fund

Fund	December	QTD	YTD
Multiple Asset Fund	+1.18%	+0.10%	+8.41%
Composite Benchmark ⁱⁱⁱ	+1.66%	+0.43%	+8.58%
Difference (percentage points)	-0.48	-0.33	-0.17

- For the month, the U.S. Equity Fund, International Equity Fund and Inflation Protection Fund all detracted from benchmark-relative performance, while the Fixed Income Fund contributed positively to benchmark-relative performance.
- For the quarter, the U.S. Equity Fund and International Equity Fund detracted from relative performance, but the Fixed Income Fund and Inflation Protection Fund contributed positively to performance.
- Year-to-date, the U.S. Equity Fund and Inflation Protection Fund detracted from relative performance, while the International Equity Fund and Fixed Income Fund contributed positively to benchmark-relative performance.

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ⁱ Historical returns are not indicative of future performance. Fund returns are net of fees. Please refer to the [Investment Funds Description](#) for more information about the Funds. This is not an offer to purchase securities. Offers will only be made through the [Investment Funds Description](#).

ⁱⁱ On January 1, 2016, the performance Benchmark for the Inflation Protection Fund became 80% Barclays World Gov't Inflation - Linked (Hedged) Index, 10% Barclays EM Tradable Inflation - Linked (EMTIL) (Unhedged) Index, and 10% Bloomberg Commodity Index.

ⁱⁱⁱ Prior to January 1, 2006, the benchmark for the Multiple Asset Fund (MAF) was a blended index with weightings as follows: 47% Russell 3000 Index, 15% MSCI EAFE Index, 3% MSCI Emerging Markets Index and 35% Lehman Brothers U.S. Universal Index. On January 1, 2006, the performance benchmark for MAF became a blended index based on the following weightings: 45% Russell 3000 Index, 20% MSCI All Country World Index ex USA IMI, 25% Barclays Capital U.S. Universal Index ex-Mortgage Backed Securities and the 10% Barclays Capital U.S. Government Inflation-Linked Bond Index. On January 1, 2014, the performance Benchmark for MAF became 40% Russell 3000 Index, 25% MSCI All Country World Index (ACWI) excluding USA Investable Market Index (IMI), 25% Barclays Capital U.S. Universal Index ex-Mortgage Backed Securities, and 10% Barclays Capital U.S. Government Inflation-Linked Bond Index. On January 1, 2016, the performance Benchmark for MAF became 40% Russell 3000 Index, 25% MSCI All Country World Index (ACWI) excluding USA Investable Market Index (IMI), 25% Barclays Capital U.S. Universal Index ex-Mortgage Backed Securities, and 10% Barclays Capital Universal Government Inflation Linked Bond Index (USD Unhedged).