



February 2015 Investment Report

Monthly Report

Markets

- U.S. equities, as represented by the Russell 3000 Index, increased **5.8%** in February. The bellwether S&P 500 Index also gained **5.8%**—its largest monthly gain since October 2011. The NASDAQ composite rose **7.0%** in February—the largest gain since 2000—and approached its all-time high.
- Investors preferred companies with strong earnings growth during the month, with the Russell 3000 Growth Index gaining **6.7%**, versus **4.8%** for the Russell 3000 Value Index. The best-performing sector was Technology (**+8.3%**), and the worst was Utilities (**-1.2%**). Small company stocks gained **5.9%**, as measured by the Russell 2000 Index.
- Developing international markets gained **3.0%** during February in U.S. dollar terms, as measured by the MSCI Emerging Markets IMI Index. Developed international markets gained **5.4%**, ending a streak of five consecutive monthly losses.
- The U.S. Treasury yield curve rose during February, reflecting expectations for the Federal Reserve (Fed) to raise short-term interest rates later this year. The 2-year Treasury note yield increased by **0.17%** to a yield of **0.62%**. The 10-year Treasury note yield increased by **0.35%** to a yield of **1.99%**.
- U.S. Treasury securities, as measured by the Barclays U.S. Treasury Index, decreased **1.5%** in February. Investment-grade debt, as measured by the Barclays U.S. Credit Index, decreased **1.0%** during the month. Below-investment-grade debt, as measured by the Barclays U.S. Corporate High-Yield Index, increased **2.4%**, strongly outperforming investment-grade debt. The below-investment-grade debt related to the energy industry led the outperformance as the price of oil increased during the month, partially reversing the prior underperformance of the Energy-related sector.
- The U.S. dollar strengthened for the eighth consecutive month in February, increasing **0.4%** as measured by the U.S. Dollar Index. The euro decreased **0.8%** relative to the dollar, but the British pound increased **2.5%** as investors evaluated the probability that the Bank of England will increase short-term interest rates. The Russian ruble increased **12.5%** during February, which was its largest monthly gain on record and reversed most of its January decline. The ruble strength was attributed to the rise in crude oil prices and signs that the Ukraine cease-fire was holding.
- Commodities, as represented by the Bloomberg Commodity Index, increased **2.6%** during February. Petroleum increased **11.2%** and was the strongest sub-index sector. In spite of its February gain, Petroleum has decreased **42.7%** during the trailing 12 months. Coffee and Sugar were the weakest commodities during February, decreasing **14.7%** and **6.6%**, respectively.

Economics Highlights

- Retail sales fell **0.8%** in January, despite the higher discretionary income resulting from lower gasoline prices. This was reflected in the personal savings rate, which rose to **4.9%** from **4.3%**. Given that consumer spending generates more than two-thirds of economic output, increased rates of saving have caused some U.S. economists to reduce their projected GDP forecasts. One bright spot in spending was foodservice sales, which increased by **0.8%** from last month and by **11.3%** from last February.
- The U.S. economy added **295,000** jobs in February, exceeding the averaged estimates of leading economists. The U.S. economy has now added more than **200,000** jobs per month for the past 12 straight months. However, a lackluster reading on average hourly earnings, which only increased 3 cents in February, somewhat offsets this positive news. The unemployment rate fell to **5.5%** from **5.7%** but was largely due to people exiting the labor force, as reflected in the labor force participation rate's decrease from **62.9%** for January to **62.8%** for February.
- Fourth-quarter U.S. inflation-adjusted gross domestic product (GDP) was revised to an annual rate of **2.2%**, down from the Commerce Department's **2.6%** advance estimate. This is slightly better than the **2.1%** increase expected by economists. A positive note amid the overall negative news was that the downward revision for GDP was primarily in inventories, while final sales data was revised upward.
- Federal Reserve Chairwoman Janet Yellen gave her semi-annual testimony before the Senate Banking Committee. Her remarks referred to a soft labor market, continued benign inflation, and the Fed's willingness to start raising rates possibly by mid-year. Yellen spoke against a Fed "audit," as proposed by some congressmen, claiming it would politicize the Fed's work.

Geopolitical Headlines

- As violence escalated in Ukraine, German Chancellor Angela Merkel and French President Francois Hollande restarted peace talks with Russian President Vladimir Putin in early February. While the European leaders were advocating for a diplomatic solution, the U.S. began to consider supplying Ukraine with defensive military weapons. After a session of all-night talks between the leaders of Ukraine, Russia, France and Germany, a new cease-fire was put into place mid-month. Immediately following the cease-fire agreement, pro-Russian rebels moved to capture the Ukrainian town of Debaltseve, claiming it was not part of the agreement. Tensions remained high as the month ended, with the assassination of well-known Putin critic Boris Nemstov near the Kremlin as he walked home from dinner.
- Eurozone finance ministers approved an extension of Greece's bailout by four months. Greece's new government initially pledged to cancel about one-third of the austerity measures committed to by the previous Greek government as an element of the financial assistance package, which raised alarms with Europe and placed downward pressure on the financial markets. The bailout extension helped eliminate the threat of a "Grexit," or Greece's exit from the European Monetary Union, and appeared successful in curtailing a run on Greek banks following a week of heavy depositor withdrawals. Later in the month, Greece raised the possibility of default on loans from the International Monetary Fund (IMF) due in March. Greece currently owes the IMF more than \$20 billion, with \$1.7 billion due in March.
- The Islamic State (IS) continued its reign of terror across the Middle East. President Barack Obama asked Congress to authorize military action against IS in Syria and Iraq. In Libya, terrorists aligned with IS beheaded 21 Egyptian Christians. Egypt responded by bombing facilities linked to IS. In Syria, it is believed up to 285 Christians were abducted by IS. Nineteen of the hostages were released later in the

month, but the fate of the more than 200 remaining hostages is unclear.

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.*

Key Monthly Economic Statistics

This table contains a list of key monthly economic statistics.

	<p>Positive Statistics</p> <ul style="list-style-type: none"> • Durable Goods Orders, Jan: 2.8% (Dec: -3.7%); M/M-SA • Nonfarm Payrolls, Feb: 295,000 • Unemployment Rate, Feb: 5.5% (Jan: 5.7%)
	<p>Neutral Statistics</p> <ul style="list-style-type: none"> • Real Gross Domestic Product, Q4: 2.2% (Q3: 5.0%); Q/Q-SAAR • S&P/Case-Shiller 20-City Home Price Index, Dec: 4.5% (Nov: 4.3%); Y/Y • Consumer Confidence, Feb: 96.4 (Jan: 103.8) • Consumer Price Index core, Jan: 0.2% (Dec: 0.1%); M/M-SA • Consumer Price Index, Jan: -0.7% (Dec: -0.3%); M/M-SA • Producer Price Index core, Jan: -0.1% (Dec: 0.3%); M/M-SA • Producer Price Index, Jan: -0.8% (Dec: -0.2%); M/M-SA
	<p>Negative Statistics</p> <ul style="list-style-type: none"> • Existing Home Sales, Jan: -4.9% (Dec: 2.4%); M/M-SAAR • Factory Orders, Jan: -0.2% (Dec: -3.5%); M/M-SA • Housing Starts, Jan: -2.0% (Dec: 7.1%); M/M-SAAR • Institute for Supply Management Index, Feb: 52.9 (Jan: 53.5) • New Home Sales, Jan: -0.2% (Dec: 8.1%); M/M-SAAR • Retail Sales ex-auto, Jan: -0.9% (Dec: -0.9%); M/M-SA • Retail Sales, Jan: -0.8% (Dec: -0.9%); 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)

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	February	YTD
Inflation Protection Fund	-0.73%	+1.40%
Barclay's Capital U.S. Government Inflation Linked Bond Index	-1.30%	+1.96%
Difference	+0.57%	-0.56%

- The Inflation Protection Fund declined **0.73%** in February and outperformed the fund benchmark by **0.57%**. The fund's 8% allocation to commodities and 10% allocation to floating rate senior-secured loans gained **3.5%** and **1.5%** respectively, and contributed the most to the positive benchmark-relative performance. Commodities benefitted from the rebound in oil prices during the month. In addition, the fund's 32% allocation to global inflation-linked bonds contributed to the fund's positive benchmark-relative performance decline of **1.1%**, which was a smaller decline than the fund benchmark. Only the fund's 10% allocation to inflation-linked bonds from developing countries detracted from benchmark-relative performance, having declined **2.9%**, primarily due to weakness in the Brazilian real and Turkish lira relative to the U.S. dollar.
- For the year to date, the Inflation Protection Fund has gained **1.40%** but has underperformed its benchmark by **0.56%**. The fund's allocations to commodities and inflation-linked bonds from developing countries declined **1.2%** and **2.6%** respectively, and were the primary contributors to the fund's underperformance. The fund's allocation to dollar-hedged inflation-linked bonds from developed countries has gained **2.5%** and positively contributed to benchmark-relative performance.

Fixed Income Fund

Fund	February	YTD
Fixed Income Fund	-0.26%	+1.37%
Barclays U.S. Universal (Ex MBS) Index	-0.71%	+1.51%
Difference	+0.45%	-0.14%

- The Fixed Income Fund declined **0.26%** in February and outperformed the fund benchmark return by **0.45%**. The best-performing strategy for the month was the fund's 10% allocation to below-investment-grade bonds and its 5% allocation to credit opportunity strategies, which gained **2.5%** and **2.1%** respectively, primarily due to a reversal of prior-month declines in the value of bonds of companies operating in the Energy sector.
- For the year to date, the Fixed Income Fund has gained **1.37%** and has slightly underperformed the fund benchmark. The fund's allocations to below-investment-grade bonds and credit opportunities gained **3.0%** and **2.4%** respectively. However, the fund's allocation to global bonds, which includes bonds denominated in foreign currencies, has declined **1.2%** due to continued weakness in foreign currencies relative to the U.S. dollar; this decline detracted from benchmark-relative performance.

U.S. Equity Fund

Fund	February	YTD
U.S. Equity Fund	+5.51%	+2.83%
Russell 3000	+5.79%	+2.85%
Difference	-0.28%	-0.02%

- The U.S. Equity Fund gained **5.51%** in February and underperformed the fund's Russell 3000 Index benchmark by **0.28%**. The fund's nearly 4% allocation to publicly traded real estate investment trusts (REITS) declined **3.5%**, detracting from benchmark-relative performance. In addition, the fund's 6% allocation to the alternative investment strategies of private equity and private real estate recognized minor losses during the month, which also detracted from benchmark-relative performance. The fund benefitted from significant outperformance by several of its active managers.
- For the year to date, the U.S. Equity Fund has gained **2.83%**, which is marginally below its benchmark. The fund's best-performing strategy is its 8% allocation to mid-cap growth equities, which gained **6.0%** during the first two months of the year. The fund's worst-performing strategy is its slightly more than 3% allocation to private equity, which has recognized a fractional loss in the first two months of the year. In addition, one of the fund's managers has recognized losses resulting from a greater-than-10% decline in three of its consumer discretionary stocks, which contributed to notable below-benchmark performance. Another fund manager, however, recognized significant gains among several stocks it holds in the Financial and Commercial Services sectors, which contributed positively to fund performance.

International Equity Fund

Fund	February	YTD
International Equity Fund	+5.61%	+5.08%
MSCI ACWI ex-US Investable Market Index	+5.36%	+5.17%
Difference	+0.25%	-0.09%

- The International Equity Fund advanced **5.61%** in February and outperformed its benchmark return by **0.25%**. The fund's 14% allocation to developed country growth stocks gained **8.5%** and was the largest contributor to the fund's excess benchmark-relative performance.
- For the year to date, the International Equity Fund has gained **5.08%** and has slightly underperformed its benchmark by **0.09%**. The positive contribution resulting from the reversal of the negative adjustment to the fund's net asset value at the end of 2014 has been more than offset by below-benchmark performance for the fund's two core developed country investment managers. The international daily valuation policy is described [here](#).

Multiple Asset Fund

Fund	February	YTD
Multiple Asset Fund	+3.41%	+2.83%
Composite Benchmark	+3.35%	+3.07%
Difference	+0.06%	-0.24%

- For February, the Multiple Asset Fund (MAF) gained **3.41%** and modestly outperformed the fund's composite benchmark. Three of the four funds that comprise MAF outperformed their respective benchmarks, with only the U.S. Equity Fund slightly underperforming its benchmark.
- For the year, the Multiple Asset Fund has gained **2.83%**, which is **0.24%** below the fund benchmark. All four of the funds that comprise MAF have modestly underperformed their respective benchmarks for the year-to-date.

Equity Social Values Plus Fund

Fund	February	YTD
Equity Social Values Plus Fund	+5.51%	+3.22%
MSCI World Custom ESG Special Weighted Index	+5.37%	+3.62%
Difference	+0.14%	-0.40%

U.S. Equity Index Fund

Fund	February	YTD
U.S. Equity Index Fund	+5.75%	+2.72%
Russell 3000 Index	+5.79%	+2.85%
Difference	-0.04%	-0.13%

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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