

February 2017 Investment Report

February Highlights

- The stock market continued its recent climb after strong fourth quarter corporate earnings reports and positive investor sentiment resulting from anticipated U.S. government policy changes viewed as supportive for business growth. The Dow Jones Industrial Average and S&P 500 reached new highs during the month.
- Federal Reserve (“Fed”) Chairwoman Janet Yellen spoke to Congress in February and said “waiting too long to remove accommodation would be unwise,” reinforcing expectations for a near-term increase in short-term borrowing rates.
- Wespath’s equity funds had positive absolute returns for the month, but underperformed their respective benchmarks. The U.S. Equity Fund’s strategic bias to overweight small- and mid-sized firms and the fund’s allocation to alternative investments, detracted from relative performance. Wespath’s fixed income funds had positive returns for the month, with the Fixed Income Fund outperforming its benchmark but the Inflation Protection Fund underperforming its benchmark despite positive performance. The Fixed Income Fund benefited from overweight positions in below-investment-grade bonds and emerging market debt.

Monthly Overview

Investors expect the Fed to raise interest rates two to three times this year

U.S. inflation, as measured by the Consumer Price Index, was 2.5% in January for the trailing 12 months—the highest in four years. The Personal Consumption Expenditures Price Index (the Fed’s preferred measure of inflation) is below the Fed’s target of 2% but is trending higher. Investors expect the Fed to raise interest rates multiple times this year due to the combination of rising inflation, low unemployment and the new administration’s plans for aggressively pursuing fiscal stimulus.

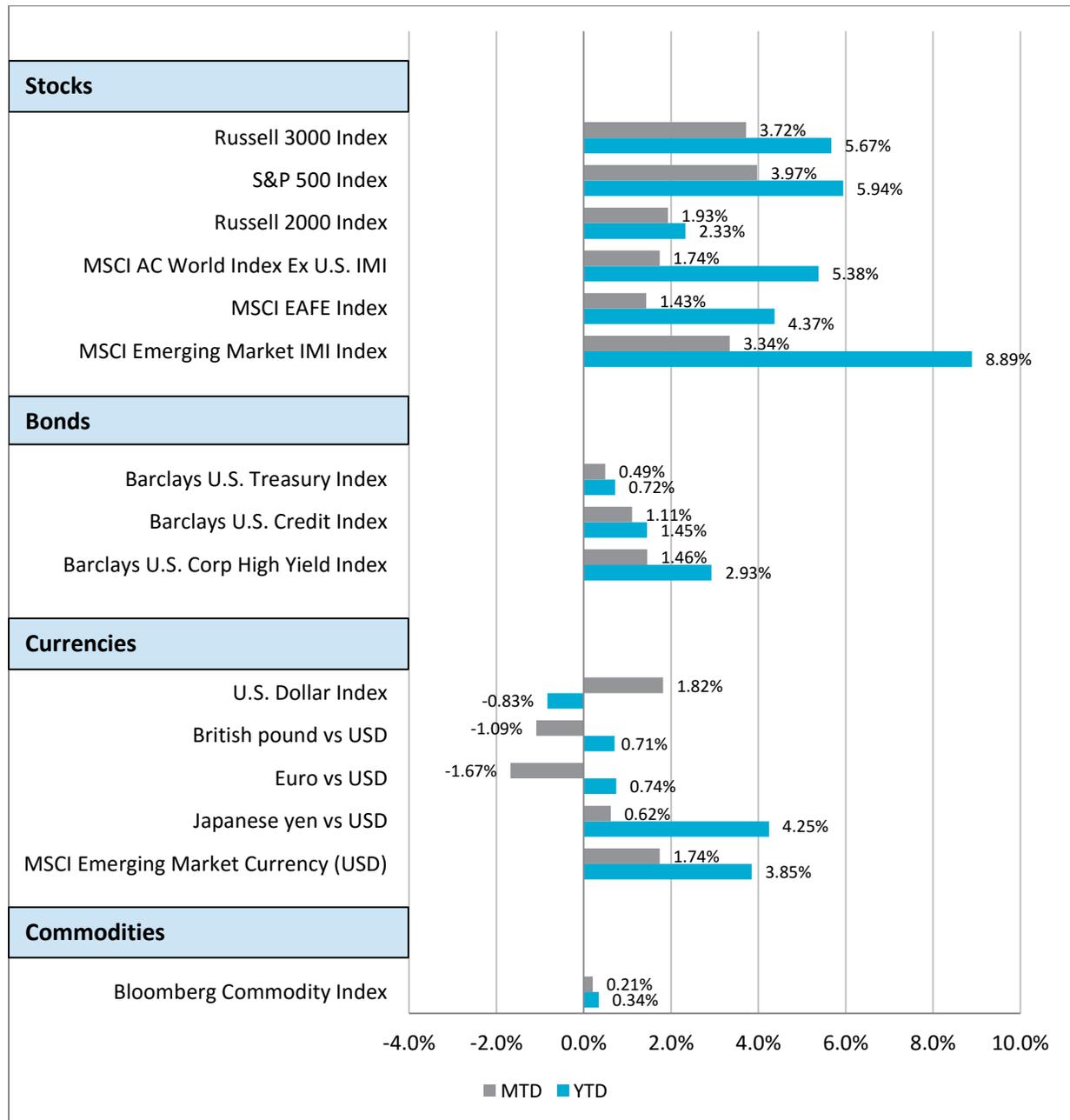
The reflation trade and exuberance in the equity market

The shift from very low inflation, slow growth and very low interest rates to higher inflation, rising interest rates and policies that promote growth has stimulated a higher demand for riskier assets (“the reflation trade”), benefited equity markets. The Dow Jones Industrial Average, which gained 4.8% in February, had 12 straight days of record closes. This has happened only two other times in the Dow’s history. Growth stocks outperformed value, and large-cap outperformed mid- and small-cap companies.

The bond market was more subdued

U.S. Treasury yields traded within a narrow range during the month. Below-investment-grade bonds outperformed Treasury securities as expectations for corporate profitability improved. Emerging market bonds also outperformed, aided by currency appreciation. The Mexican peso and Brazilian real appreciated 3.6% and 1.3%, respectively, relative to the U.S. dollar.

Market Performance



Source: FactSet, As of February 30, 2017

Key Monthly Economic Statistics

Statistic	Monthly/Yearly Change	Positive
Consumer Confidence	Feb: 114.8 (Jan: 111.6)	▲
Consumer Price Index core	Jan: 0.3% (Dec: 0.2%); M/M-SA	▲
Consumer Price Index	Jan: 0.6% (Dec: 0.3%); M/M-SA	▲
Durable Goods Orders	Jan: 1.8% (Dec: -0.8%); M/M-SA	▲
Existing Home Sales	Jan: 3.3% (Dec: -1.6%); M/M-SAAR	▲
Factory Orders	Dec: 1.3% (Nov: -2.3%); M/M-SA	▲
Institute for Supply Management Index	Jan: 56.0% (Dec: 54.5%)	▲
New Home Sales	Jan: 3.7% (Dec: -7.0%); M/M-SAAR	▲
Nonfarm Payrolls	Jan: 227,000 (Dec: 157,000)	▲
Retail Sales ex-auto	Jan: 0.8% (Dec: 0.4%); M/M-SA	▲
Retail Sales	Jan: 0.4% (Dec: 1.0%); M/M-SA	▲
S&P/Case-Shiller 20-City Home Price Index	Dec: 5.5% (Nov: 5.2%); Y/Y	▲
		Neutral
Producer Price Index core	Jan: 0.4% (Dec: 0.1%); M/M-SA	◆
Producer Price Index	Jan: 0.6% (Dec: 0.2%); M/M-SA	◆
Real Gross Domestic Product	Dec: 1.9% (Sep: 3.5%); Q/Q-SAAR	◆
Unemployment Rate	Jan: 4.8% (Dec: 4.7%)	◆
		Negative
Housing Starts	Jan: -2.6% (Dec: 11.3%); 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

Investment Fund Review (Net of Fees Performance)ⁱ

Equity Funds

U.S. Equity Fund

Fund	February	YTD
U.S. Equity Fund	+3.08%	+5.19%
Russell 3000 Index	+3.72%	+5.67%
Difference (percentage points)	-0.64	-0.48

- For the month, the U.S. Equity Fund's strategic allocation of overweighting small- and mid-sized company stocks, with a corresponding underweight in large-company stocks, detracted from benchmark-relative performance. Additionally, the fund's allocation to private real estate and private equity investments detracted from relative performance as valuations for these types of alternative investments typically lag strong gains in the public markets.
- Year-to-date, the fund's overweight to small-company stocks along with an allocation to private equity and real estate detracted from relative performance. However, the fund's benchmark-relative performance benefited from an overweight to the strong-performing Information Technology sector by several of the fund's active managers.

International Equity Fund

Fund	February	YTD
International Equity Fund	+1.11%	+6.14%
MSCI ACWI ex US Investable Market Index	+1.74%	+5.38%
Difference (percentage points)	-0.63	+0.76

- For the month and year-to-date, the International Equity Fund benefited from its strategic overweight allocation to stocks from emerging markets. Emerging market stocks returned 3.3% for the month and 8.9% for the year-to-date.
- During the month, the fund's three developed market managers underperformed their respective benchmarks, detracting from the fund's benchmark-relative performance. Specifically, these managers held underweight positions in the strong-performing Consumer Staples and Health Care sectors. However, in the year-to-date period, the three developed market managers contributed to positive benchmark-relative performance, due to strong returns driven by holdings in Japan and Europe ex-U.K.
- The fund's daily valuation policy (described **here**) positively contributed to benchmark-relative performance for the year-to-date period.

Equity Social Values Plus Fund

Fund	February	YTD
Equity Social Values Plus Fund	+2.71%	+5.06%
MSCI World Custom ESG Special Weighted Index	+2.71%	+4.94%
Difference (percentage points)	+0.00	+0.12

- 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	February	YTD
U.S. Equity Index Fund	+3.60%	+5.41%
Russell 3000 Index	+3.72%	+5.67%
Difference (percentage points)	-0.12	-0.26

- 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	February	YTD
Fixed Income Fund	+1.08%	+1.89%
Barclays U.S. Universal (ex MBS) Index	+0.86%	+1.34%
Difference (percentage points)	+0.22	+0.55

- The Fixed Income Fund's strategic underweight of U.S. Treasury bonds, combined with an overweight of below-investment grade and emerging market debt, modestly contributed to the fund's relative outperformance for the month. In the year-to-date period, this strategic bias had a significant positive contribution to benchmark-relative returns.
- The fund's dedicated high-yield manager returned 1.6% for the month and 2.5% year-to-date, reflecting positive economic data and a shift in policies supportive of improving economic growth.
- Emerging market debt was the fund's best-performing sector for the month and year-to-date. The sector benefited from currency appreciation and higher prices for certain commodities. Additionally, overweight positions in bonds denominated in the Mexican peso, Brazilian real and South African rand—all of which strengthened versus the U.S. dollar for both periods—benefited benchmark-relative performance.

Extended Term Fixed Income Fund

Fund	February	YTD
Extended Term Fixed Income Fund	+1.32%	+1.71%
Barclays U.S. Government/Credit Long Term Index	+1.83%	+2.15%
Difference (percentage points)	-0.51	-0.44

- The Extended Term Fixed Income Fund's policy to maintain a lower sensitivity to interest rate movements detracted from performance for both periods. Two of the fund's three fund managers outperformed their benchmarks, positively contributing to relative performance.

Inflation Protection Fund

Fund	February	YTD
Inflation Protection Fund	+0.81%	+1.48%
IPF Custom Benchmark ⁱⁱ	+1.02%	+1.29%
Difference (percentage points)	-0.21	+0.19

- The Inflation Protection Fund's underweight position in U.K. inflation-linked bonds and an overweight to U.S. TIPS detracted from benchmark-relative performance for the month, but positively contributed in the year-to-date period.
- Additionally, the fund's strategic allocation to below-investment-grade floating rate debt positively contributed to the fund's benchmark-relative performance for the month and year-to-date.
- For the month and year-to-date, the emerging market inflation-linked bond allocation had the best absolute returns. However, the strategy's dedicated emerging markets manager underperformed its benchmark, detracting from returns for both periods.

Balanced Fund

Multiple Asset Fund

Fund	February	YTD
Multiple Asset Fund	+1.76%	+4.23%
Composite Benchmark ⁱⁱⁱ	+2.14%	+4.06%
Difference (percentage points)	-0.38	+0.17

- For the month, the Fixed Income Fund positively contributed to the Multiple Asset Fund's benchmark-relative performance, while the U.S. Equity, International Equity and Inflation Protection funds detracted from performance.
- Year-to-date, the U.S. International Equity Fund, Fixed Income Fund and Inflation Protection Fund have positively contributed to the Multiple Asset Fund's relative performance, while the U.S. Equity Fund detracted.

For additional information, please contact:**Derek Casteel, CFA***Managing Director, Investment Services*

Wespath Investment Management

(847) 866-4307 direct

(847) 866-4100 general

dcasteel@wespath.org**Bill Stewart, CIMA, CFA***Director, Institutional Relationships*

Wespath Investment Management

(847) 866-2700 direct

(847) 866-4100 general

bstewart@wespath.org**Karen Manczko***Manager, Institutional Relationships*

Wespath Investment Management

(847) 866-4236 direct

(847) 866-4100 general

kmanczko@wespath.org

1901 Chestnut Avenue
Glenview, Illinois 60025
(847) 866-4100
wespath.org

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 The custom benchmark for the Inflation Protection Fund is comprised of 80% Barclays World Government Inflation Linked Bond Index (Hedged), 10% Barclays Emerging Market Tradeable Inflation Linked Bond Index (Unhedged) and 10% Bloomberg Commodity Index.

ⁱⁱⁱ The custom benchmark for the Multiple Asset Fund is comprised of 35% Russell 3000 Index, 30% 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% Inflation Protection Fund (IPF) Custom Benchmark.