Wespath
Investment Management

January 2016 Investment Report

Monthly Report

Markets

- The start of 2016 marked the worst January for equity markets since 2009. U.S. equities, represented by the Russell 3000 Index, fell **5.6%** in January. Heightened concerns over China's slowing economy and its managed transition from a manufacturing-based economy to a consumption-led economy contributed to market unrest during the month. Small company stocks fell **8.8%** in the month, as measured by the Russell 2000 Index, while large company stocks fell **5.0%**, as measured by the S&P 500 Index. Health Care was the worst performing Russell 3000 sector, falling **9.3%** in the month.
- Non-U.S. stocks declined **6.9%** in January, as measured by the MSCI ACWI World ex USA Investable Market Index. Developed market stocks decreased **7.2%**, as measured by the MSCI EAFE Index, and underperformed developing international market stocks, which fell **6.7%** as measured by the MSCI EM IMI Index. The sell-off in oil continued during January, which put downward pressure on other commodities, which is viewed as a significant detractor to growth in developing economies.
- The U.S. Treasury yield curve declined during January as global market volatility prompted investors to favor the safety of U.S. Treasury securities. The 2-year and 5-year Treasury note yields decreased by **0.28%** and **0.43%** to yield **0.77%** and **1.33%**, respectively. The 30-year bond yield decreased by **0.27%** to **2.75%**.
- U.S. Treasury securities, as measured by the Barclays U.S. Treasury Index, gained **2.1%** in January due to the decline in the yield curve. Investment-grade debt, as measured by the Barclays U.S. Credit Index, increased **0.5%**. Below-investment-grade debt, as measured by the Barclays U.S. Corporate High Yield Index, decreased **1.6%** and underperformed investment-grade debt during the month. As in the previous month, high-yield securities of energy-related issuers were the weakest, decreasing **8.4%** due to declining crude oil prices.
- The U.S. dollar strengthened **0.9%** in January, as measured by the U.S. Dollar Index. The euro declined **0.3%** relative to the dollar, and the Japanese yen decreased **0.6%** as the Bank of Japan unexpectedly lowered its benchmark deposit rate to minus **0.1%** from plus **0.1%** at the end of the month. The Mexican peso, which is the most actively traded developing country currency, decreased **4.6%**.
- Commodities, as represented by the Bloomberg Commodity Index, decreased **1.7%** in January. Petroleum decreased **9.6%** during the month. The price of gold increased **6.7%** as investors sought its perceived safety amid global currency and market uncertainty.

1901 Chestnut Avenue
Glenview, Illinois 60025
847-866-4100
Wespath.com

Economic Highlights

- By the end of January, global equity and commodity markets had still not recovered from the significant losses that began in December amid reports that Chinese manufacturing activity had declined for the tenth consecutive month. Chinese "A" shares traded down almost **25%** in January, despite efforts by Chinese officials to forestall the decline through measures such as temporary "circuit-breakers," currency support and monetary stimulus. China eventually released economic data confirming that 2015 gross domestic product (GDP) expanded at only **6.9%**—the lowest level in a quarter century.
- U.S. economic activity was also a cause for concern as fourth quarter preliminary GDP growth reflected a modest increase of **0.7%**, down from **2.0%** in the third quarter. Weak foreign demand for U.S. products in light of the strong dollar and a decline in domestic oil-related investment served as headwinds to growth. Automobile sales, an economic bright spot, rose **5.7%** in 2015 and broke a 15-year record. American consumers took advantage of low gas prices driven by a **30%** decline in crude oil prices over the past year.
- The January employment report reflected an addition of 151,000 new jobs, but was below the consensus forecast of 185,000 and below the average of recent months. The unemployment rate fell to **4.9%**, the first time since February 2008 that it was below 5%. Average hourly earnings growth was **2.5%**, one of the highest figures since 2008; however, wage inflation is low relative to past economic recoveries.
- In its January policy statement, the Federal Reserve (Fed) suggested it was on track to raise interest rates in March. Bond markets greeted the news with skepticism, as post-announcement pricing reflected a less-than-30% chance of an actual raise. Other major central banks are traveling a divergent monetary path with the European Central Bank's chief, Mario Draghi, proclaiming willingness to engage in further stimulus measures and the Bank of Japan setting short-term interest rates below zero.
- Apple Inc. said iPhone sales grew at the slowest rate since the product's introduction in 2007 and forecast that total revenue will drop for the first time in 13 years in the first quarter of 2016.

Geopolitical Headlines

- In the aftermath of the U.S./Iran nuclear agreement and the lifting of trade sanctions on Iran, Iranian President Hassan Rouhani launched a tour of Europe that presaged the country's successful re-engagement on the global business and geopolitical stage. One notable announcement on that visit was the country's commitment to purchase 118 commercial jets from Airbus valued at $27 billion. Also, Iran's potential acceleration in crude oil production was a key factor in the negative sentiment surrounding world energy oversupply and depressed oil prices.
- The presidential primary season kicked off in the U.S. with the Iowa caucuses on February 1. Despite preliminary polls to the contrary, Texas Senator Ted Cruz triumphed over Donald Trump on the Republican front. Former Secretary of State Hillary Clinton narrowly edged out Vermont Senator Bernie Sanders on the Democratic side.

Sources: *Forbes, Reuters, Bloomberg, The Economist, Energy Information Administration, The Wall Street Journal, CBS News, FactSet, Barclays, Russell Investments, CNBC, CNN, The New York Times, Associated Press, Bridgewater Associates, Wikipedia, NASDAQ* and *Bureau of Economic Analysis.*

1901 Chestnut Avenue
Glenview, Illinois 60025
847-866-4100
Wespath.com

Key Monthly Economic Statistics

This table contains a list of key monthly economic statistics.

	Positive Statistics • Consumer Confidence, Jan: 98.1 (Dec: 96.3) • Existing Home Sales, Dec: 14.7% (Nov: -10.5%); M/M-SAAR • New Home Sales, Dec: 10.8% (Nov: 1.9%); M/M-SAAR • S&P/Case-Shiller 20-City Home Price Index, Nov: 5.8% (Oct: 5.5%); Y/Y • Unemployment Rate, Jan: 4.9% (Dec: 5.0%)
	Neutral Statistics • Consumer Price Index core, Dec: 0.1% (Nov: 0.2%); M/M-SA • Consumer Price Index, Dec: -0.1% (Nov: 0.0%); M/M-SA • Institute for Supply Management Index, Jan: 48.2 (Dec: 48.0) • Nonfarm Payrolls, Jan: 151,000 • Producer Price Index core, Dec: 0.1% (Nov: 0.3%); M/M-SA • Producer Price Index, Dec: -0.2% (Nov: 0.3%); M/M-SA
	Negative Statistics • Durable Goods Orders, Dec: -5.0% (Nov: -0.5%); M/M-SA • Factory Orders, Dec: -2.9% (Nov: -0.7%); M/M-SA • Housing Starts, Dec: -2.5% (Nov: 10.1%); M/M-SAAR • Real Gross Domestic Product, Q4: 0.7% (Q3: 2.0%); Q/Q-SAAR • Retail Sales ex-auto, Dec: -0.1% (Nov: 0.3%); M/M-SA • Retail Sales, Dec: -0.1% (Nov: 0.4%); 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***

1901 Chestnut Avenue
Glenview, Illinois 60025
847-866-4100
Wespath.com

Investment Fund Review: (Net of Fees Performance)

Stocks and other risk-based assets experienced significant declines during January as risk-averse investors sought safe assets due to fears regarding the prospect of muted near-term global growth. Investors were specifically concerned about the deceleration of Chinese growth and a continued decline in the price of oil and other commodities. This risk-off sentiment affected the performance of all our funds in January. Equity funds felt the impact of the worst January for global stocks since 2009. Fixed income funds with exposure to high-quality debt benefitted, while performance suffered for those with exposure to below investment-grade debt.

Historical returns are not indicative of future performance. 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. For historical returns of one-year, three-year, five-year, 10-year and since inception periods, please visit our Historical Funds Performance page.

Inflation Protection Fund

Fund	January
Inflation Protection Fund	+0.67%
Barclay's Capital U.S. Government Inflation Linked Bond Index	+0.72%
Difference	-0.05%

- The Inflation Protection Fund (IPF) gained **0.67%** in January and slightly underperformed the fund benchmark. The benchmark changed on January 1, 2016 to the Barclays Capital Universal Government Inflation Linked Bond Index (unhedged) from the Barclays Capital U.S. Government Inflation Linked Bond Index to better reflect the fund's investment characteristics. The fund's allocations to global inflation-linked bonds and U.S. Treasury inflation-linked bonds gained **1.7%** and **1.6%** respectively and were the fund's best performing strategies. Highly rated government bonds worldwide gained as risk-averse investors sought safe assets due to fears regarding the prospects of near-term global growth. The fund's worst performing strategy was its 8% allocation to commodities futures contracts, which declined **3%** amid the continuing fall in the price of oil. In addition, the fund's four other diversifying strategies, which include below investment-grade floating rate securities and inflation-link bonds of developing countries, recognized fractional losses due to the perceived higher risk of these strategies.

Fixed Income Fund

Fund	January
Fixed Income Fund	+0.41%
Barclays U.S. Universal (Ex MBS) Index	+1.04%
Difference	-0.63%

- The Fixed Income Fund (FIF) gained **0.41%** in January but underperformed its benchmark return by **0.63%**. Compared to the fund benchmark, the fund has a significant underweighting of U.S.

1901 Chestnut Avenue
Glenview, Illinois 60025
847-866-4100
Wespath.com

government fixed income securities, which are considered lower risk, offer lower interest rates, and which have performed well in the current risk-off environment. Higher risk credit strategies fared poorly during the month amid investor concerns regarding the prospects for near-term global growth. The fund's two investments in diversifying strategies of higher-risk bonds with below-investment-grade credit ratings declined **1.6%** and **1.3%** respectively amid investor preferences for lower-risk assets. The fund's 9% allocation to positive social purpose loans gained **2.8%**, contributing positively to benchmark-relative performance.

Extended Term Fixed Income Fund

Fund	**January**
Extended Term Fixed Income Fund	+0.78%
Barclays U.S. Government/Credit Long Term Index	+2.10%
Difference	-1.32%

- The Extended Term Fixed Income Fund (ETFIF) gained **0.78%**, but underperformed the benchmark return by **1.32%**. Performance was hurt by the fund's intentional strategy of holding bonds with shorter-term maturities compared to the fund benchmark until interest rates return to historically normal levels. Interest rates for longer-term bonds decreased amid investor concerns regarding the near-term sustainability of global growth.

U.S. Equity Fund

Fund	**January**
U.S. Equity Fund	-6.59%
Russell 3000 Index	-5.64%
Difference	-0.95%

- The U.S. Equity Fund (USEF) declined **6.59%** in January and underperformed the fund's Russell 3000 Index benchmark by **0.95%**. The fund's greater-than-benchmark allocation to small and mid-sized companies detracted from benchmark-relative performance as the Russell 2000 Index of small companies and the S&P 400 Index of mid-cap companies declined **8.8%** and **5.7%** respectively compared to the negative **5.0%** return for the large company S&P 500 Index. The fund's 3% allocation to publicly traded real estate investment trusts (REITs) declined **3.3%** for the month, which benefitted benchmark-relative performance. In addition, while the fund's 8% allocation to the alternative investment strategies of private equity and private real estate recognized fractional losses during the month, they did not decline as much as the benchmark and positively contributed to benchmark-relative results.

1901 Chestnut Avenue
Glenview, Illinois 60025
847-866-4100
Wespath.com

International Equity Fund

Fund	January
International Equity Fund	-6.64%
MSCI ACWI x US Investable Market Index	-6.92%
Difference	+0.28%

- The International Equity Fund (IEF) declined **6.64%** in January, but outperformed its benchmark return by **0.28%**. Three of the fund's eight active managers significantly underperformed their respective benchmarks in January due to several factors including poor stock selection in consumer discretionary and financial industry sectors, and an underweight in the consumer staples sector. However, the adjustment to the fund's net asset value attributable to the international daily valuation policy, which is described **here**, offset the adverse impact of the investment managers' relative performance by about one full percentage point.

Multiple Asset Fund

Fund	January
Multiple Asset Fund	-4.09%
Composite Benchmark	-3.65%
Difference	-0.44%

- For January, the Multiple Asset Fund (MAF) declined **4.09%** and underperformed its fund benchmark by **0.44%**. Three of the fund's four underlying strategies underperformed their respective benchmarks in January, with only the International Equity Fund positively contributing to benchmark-relative performance.

Equity Social Values Plus Fund

Fund	January
Equity Social Values Plus Fund	-5.54%
MSCI World Custom ESG Special Weighted Index	-5.94%
Difference	+0.40%

- The Equity Social Values Plus Fund (ESVPF) is a passively managed fund designed to closely match the fund benchmark, less fees and expenses. The fund benefitted from the application of the international daily valuation policy, which is described **here**.

1901 Chestnut Avenue
Glenview, Illinois 60025
847-866-4100
Wespath.com

US Equity Index Fund

Fund	January
US Equity Index Fund	-5.79%
Russell 3000 Index	-5.64%
Difference	-0.15%

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

For additional information, please contact:

Brian Coker, CFA
Director, Investment Services
Wespath Investment Management
(847) 866-2700 direct
(847) 866-4100 general
bcoker@wespath.com

or

Karen Manczko
Manager, Institutional Relationships
Wespath Investment Management
(847) 866-4236 direct
(847) 866-4100 general
kmanczko@wespath.com

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