

# October 2016 Investment Report

## October Highlights

- Despite positive economic news in the United States, financial markets were generally down for the month. Investors expressed concern over the uncertainty in the outcome of the November presidential election and the potential for interest rate increases by the Federal Reserve at its December meeting. The broader U.S. equity markets posted a loss during the month of October. U.S. real estate investment trusts (REITS) led the decline, falling 5.7%, the third straight monthly decline. International stocks closed mixed, with developed country stocks ending the month lower and stocks from emerging markets posting a slight positive return. Debt markets were challenged during the month as the yield curve steepened with short-term rates remaining flat and longer term rates increasing.
- Wespath's equity funds produced negative absolute and relative returns for the month. Major detractors to equity funds' performance included exposure to small- and mid-cap companies. The Fixed Income Fund's positive relative performance was due to exposure to higher-risk debt strategies as well as emerging market exposure. Strong relative performance of the Inflation Protection Fund was the result of an overweight of securities denominated in U.S. dollars.

## Monthly Overview

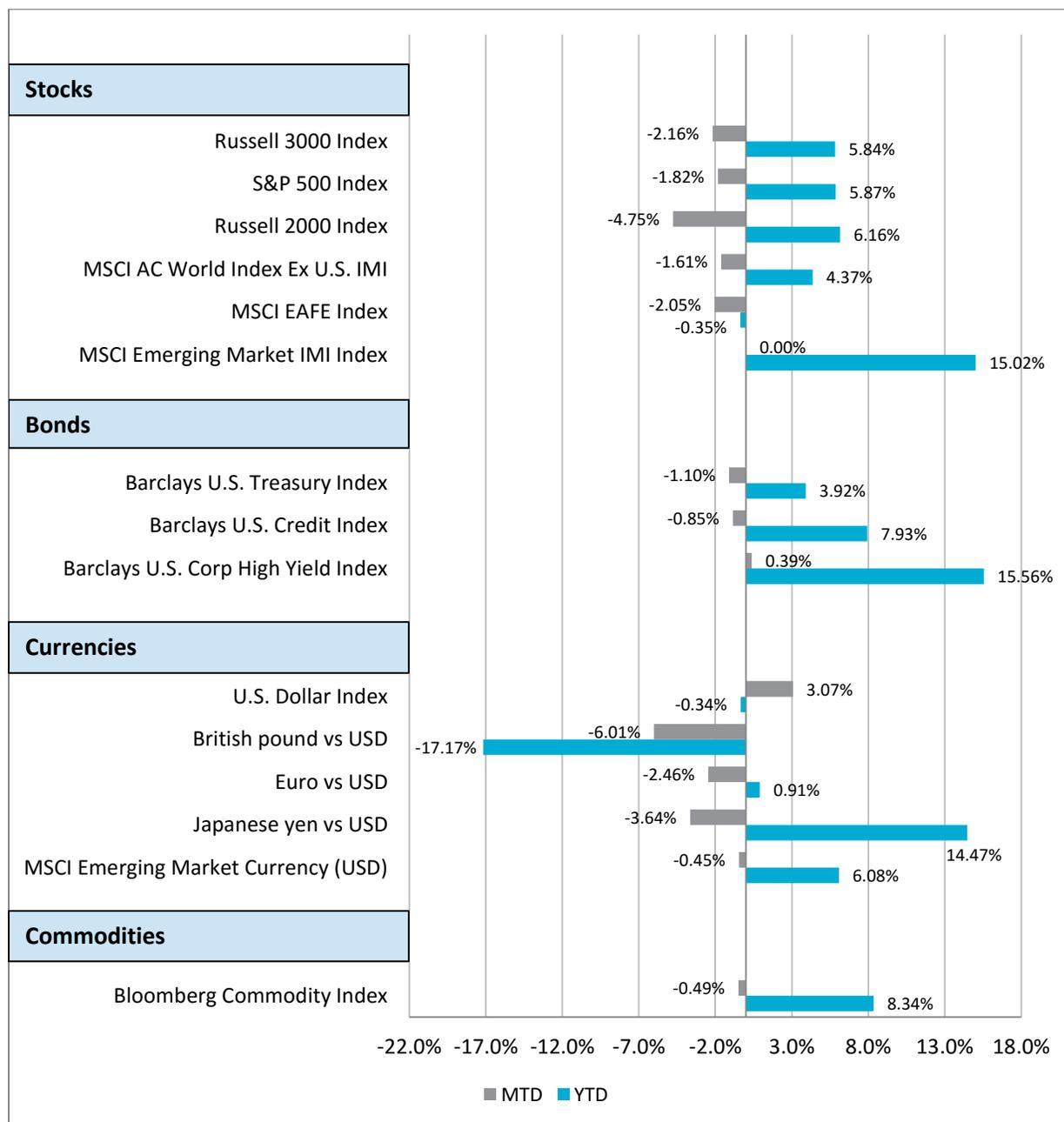
### *Global bond yields surge*

Global bond markets yields, inversely related to bond prices, rose sharply higher in October due to divergent central bank policies. The largest yield increase occurred in Britain where the 10-year bond (Gilt) rose from a historic low of 0.51% in August to 1.28% at the end of October as investors sold Gilts due to concerns of potential inflationary effects of Brexit on the UK economy. In the United States, the 10-year Treasury bond yield rose 24 basis points to 1.82%, the largest monthly gain since June. The increase was due to rising expectations of an interest rate hike by the Federal Reserve at its December Federal Open Market Committee (FOMC) meeting.

### *Strong U.S. economic data fails to lift markets*

U.S. stock markets closed lower as U.S. election news overshadowed positive economic data released during the month. The Commerce Department reported a U.S. Gross Domestic Product annualized growth rate of 2.9% during the third quarter, representing a significant improvement from the first half of 2016 and the strongest quarterly advance in two years. This strong growth was fueled by consumer spending, as well as exports. Other economic data released during the month revealed that non-farm employment added 156,000 jobs during September. Average hourly earnings rose by 0.2%, bringing wage gains over the prior 12 months to 2.6%, well above the pace of inflation. These positive economic indicators likely support an increase in U.S. interest rates by the Federal Reserve in December.

## Market Performance



Source: FactSet, As of October 31, 2016

## Key Monthly Economic Statistics

Statistic	Monthly/Yearly Change	Positive
Existing Home Sales	Sep: 3.2% (Aug: -1.5%); M/M-SAAR	▲
New Home Sales	Sep: 3.1% (Aug: -8.6%); M/M-SAAR	▲
Real Gross Domestic Product	Sep: 2.9% (Jun: 1.4%); Q/Q-SAAR	▲
Retail Sales ex-auto	Sep: 0.5% (Aug: -0.2%); M/M-SA	▲
Retail Sales	Sep: 0.6% (Aug: -0.2%); M/M-SA	▲
S&P/Case-Shiller 20-City Home Price Index	Aug: 5.1% (Jul: 5.0%); Y/Y	▲
Unemployment Rate	Sep: 5.0% (Aug: 4.9%)	▲
		<b>Neutral</b>
Consumer Price Index core	Sep: 0.1% (Aug: 0.3%); M/M-SA	◆
Consumer Price Index	Sep: 0.3% (Aug: 0.2%); M/M-SA	◆
Factory Orders	Aug: 0.2% (Jul: 1.4%); M/M-SA	◆
Institute for Supply Management Index	Sep: 51.5% (Aug: 49.4%)	◆
Nonfarm Payrolls	Sep: 156,000 (Aug: 167,000)	◆
Producer Price Index core	Sep: 0.2% (Aug: 0.1%); M/M-SA	◆
Producer Price Index	Sep: 0.3% (Aug: 0.0%); M/M-SA	◆
		<b>Negative</b>
Consumer Confidence	Oct: 98.6 (Sep: 103.5)	▼
Durable Goods Orders	Sep: -0.1% (Aug: 0.3%); M/M-SA	▼
Housing Starts	Sep: -9.0% (Aug: -5.6%); 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	<a href="#">FactSet</a>

## Investment Fund Review (Net of Fees Performance)<sup>i</sup>

### Equity Funds

#### U.S. Equity Fund

Fund	October	YTD
U.S. Equity Fund	-2.76%	+4.65%
Russell 3000 Index	-2.16%	+5.84%
Difference (percentage points)	-0.60	-1.19

- For the month, the U.S. Equity Fund's overweight to stocks of small and mid-sized companies detracted from benchmark-relative performance. However, the fund's strategic allocation to private real estate and private equity contributed modestly to relative performance.
- For the year-to-date period, the fund's strategic asset allocation of overweighting small- and mid-sized company stocks with a corresponding underweight in large-company stocks, detracted slightly from benchmark-relative performance. In addition, an underweight to higher dividend-yielding securities, including strong performing telecommunication services companies—as well as the fund's allocation to the alternative investment strategy of private equity—detracted from benchmark-relative performance.

#### International Equity Fund

Fund	October	YTD
International Equity Fund	-1.62%	+6.77%
MSCI ACWI ex US Investable Market Index	-1.61%	+4.37%
Difference (percentage points)	-0.01	+2.40

- The International Equity Fund's daily valuation policy (described [here](#)) detracted from benchmark-relative performance for the month, but contributed positively to relative performance for the year-to-date period.
- During the month, the International Equity Fund benefited from its strategic asset allocation to private real estate and private equity and dedicated allocation to emerging markets. All three of the fund's emerging market managers outperformed their strategy benchmark during the month.
- Year-to-date, seven out of nine active managers outperformed their strategy benchmarks, contributing positively to the fund's benchmark-relative performance. Emerging markets significantly outperformed developed markets, contributing positively to benchmark-relative performance as a three of the fund's dedicated emerging market managers outperformed their strategy benchmark.

### Equity Social Values Plus Fund

Fund	October	YTD
Equity Social Values Plus Fund	-2.66%	+3.01%
MSCI World Custom ESG Special Weighted Index	-2.50%	+3.26%
Difference (percentage points)	-0.16	-0.25

- 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	October	YTD
U.S. Equity Index Fund	-2.26%	+5.51%
Russell 3000 Index	-2.16%	+5.84%
Difference (percentage points)	-0.10	-0.33

- 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	October	YTD
Fixed Income Fund	-0.75%	+7.80%
Barclays U.S. Universal (Ex MBS) Index	-0.78%	+6.79%
Difference (percentage points)	+0.03	+1.01

- Month-to-date fund performance modestly exceeded benchmark returns. The theme of lower quality bonds outperforming higher quality continued into October. The fund's overweight positions in high-yield corporate bonds and emerging market debt benefitted performance. Having exposure to foreign currency in developed markets hurt returns as the dollar strengthened during the month. The fund's allocation to the alternative investment strategy of distressed debt contributed positively to performance for the month.
- Year-to-date, the fund's returns exceeded benchmark returns by over 100 basis points due to overweight positions in high-yield bonds and emerging market debt. The portfolio's strategy bias of lower U.S. treasury exposure with a corresponding overweight to lower-rated credit exposure contributed positively to benchmark-relative performance for the year.

### Extended Term Fixed Income Fund

Fund	October	YTD
Extended Term Fixed Income Fund	-1.71%	+8.84%
Barclays U.S. Government/Credit Long Term Index	-2.84%	+12.46%
Difference (percentage points)	+1.13	-3.62

- The fund's policy to target a shorter than benchmark sensitivity to interest rate changes contributed positively to benchmark-relative returns for the month as an increase in bond yields resulted in lower, or more negative returns with longer maturity bonds vs. shorter maturity bonds. For the year-to-date, decreases in bond yields have resulted in the opposite effect, contributing negatively to benchmark-relative performance.

### Inflation Protection Fund

Fund	October	YTD
Inflation Protection Fund	-0.17%	+8.88%
BC Universal Government Inflation Linked Bond Index (USD Unhedged)	-2.51%	+9.12%
Difference (percentage points)	+2.34	-0.24

- For the month, the fund's performance exceeded its benchmark by over 200 basis points. An overweight to bonds denominated in the U.S. dollar positively contributed to benchmark-relative performance. Additionally, allocations to diversifying strategies of floating-rate, senior-secured loans and higher yielding asset-backed securities contributed positively. The fund modestly underperformed year-to-date, primarily as a result of the fund's overweight allocation to US Treasury Inflation Protected Securities and allocations to the diversifying strategies of floating-rate, senior-secured loans and commodities.

### Balanced Fund

#### Multiple Asset Fund

Fund	October	YTD
Multiple Asset Fund	-1.70%	+6.45%
Composite Benchmark <sup>ii</sup>	-1.71%	+6.18%
Difference (percentage points)	+0.01	+0.27

- The U.S. Equity Fund's below-benchmark performance was offset by the outperformance of the Inflation Protection Fund.
- Year-to-date, the U.S. Equity Fund detracted from relative performance, while the International Equity Fund, Fixed Income Fund and Inflation Protection Fund all contributed positively to benchmark-relative performance.

**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.com](mailto:dcasteel@wespath.com)**Karen Manczko***Manager, Institutional Relationships*

Wespath Investment Management

(847) 866-4236 direct

(847) 866-4100 general

[kmanczko@wespath.com](mailto:kmanczko@wespath.com)

1901 Chestnut Avenue

Glenview, Illinois 60025

847-866-4100

[wespath.com](http://wespath.com)

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<sup>i</sup> 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*.

<sup>ii</sup> 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).