



August 2014 Investment Report

Monthly Report

Markets

- U.S. equities, as represented by the Russell 3000 Index, increased **4.2%** during August. Despite continued concerns over multiple international crises, impending interest rate increases and the pace of economic recovery, the bellwether S&P 500 Index of large cap stocks gained **4.0%** and ended the month at an all-time high.
- Investors favored small company stocks during August as measured by the **5.0%** gain in the Russell 2000 Index. In a reversal of the year-to-date trend, companies with strong earnings growth outperformed those classified as “value” across both large- and small-market capitalization stocks.
- Developed international markets increased **0.1%** during August, as measured by the MSCI World ex-US IMI Index. The euro declined **1.9%** versus the U.S. dollar as European Central Bank President Mario Draghi called for action to stimulate growth while the U.S. continues to reduce its economic stimulus program. Developing international markets gained **2.3%** during the month and continued to outperform developed markets year-to-date, reversing last year’s trend.
- The U.S. Treasury yield curve flattened in August as the 30-year U.S. Treasury bond yield decreased by **0.28%** to a yield of **3.08%**. Escalation of geopolitical tensions in Ukraine and disinflation in Europe caused yields to decline on U.S. Treasuries and German bunds. The yield on 10-year German bunds touched a record low of **0.87%**.
- U.S. Treasury securities, as measured by the Barclays U.S. Treasury Index, increased **1.1%** in August, reflecting the flattening yield curve. Investment-grade debt, as measured by the Barclays U.S. Credit Index, increased **1.4%** during the month. Below-investment-grade debt, as measured by the Barclays U.S. Corporate High-Yield Index, recovered from July weakness and increased **1.6%** during August.
- The U.S. dollar strengthened in August, increasing **1.6%** as measured by the U.S. Dollar Index. The euro, British pound and Japanese yen decreased **1.9%**, **1.7%** and **1.2%**, respectively, relative to the dollar. Currencies of some less-developed countries strengthened relative to the dollar; for example, the Brazilian real increased **1.2%** and the Mexican peso increased **1.0%** in August.
- Commodities, as represented by the Bloomberg Commodity Index, decreased **1.1%** in August. The Agriculture sub-index decreased **2.3%** amid forecasts for record U.S. crop harvests. The Livestock sub-index decreased **4.2%**, partially attributable to reduced feed grain costs.

Economics Highlights

- Economic statistics continue to point to a moderate increase in economic activity ahead. The U.S. government revised its estimate of second-quarter gross domestic product (GDP) growth from **4.0%** to **4.2%**, which showed the pace of economic activity increased faster than previously reported. Additionally, The Conference Board (U.S.) reported that consumer confidence in current economic conditions increased for the fourth consecutive month. However, the U.S. government also reported that consumer spending fell in July for the first time in six months and that the U.S. economy added only **142,000** nonfarm jobs in August. This was **88,000** fewer nonfarm jobs than consensus expectations.
- The fallout from the housing boom and subsequent bust continued as Bank of America agreed to the largest settlement in history with the federal government and a group of states attorneys. The \$17 billion agreement provides \$7 billion in relief to homeowners and includes \$10 billion in fines. Bank of America has agreed to pay more than \$60 billion to resolve legal disputes related to the financial crisis. The company's stock rose on the news, finishing the month up almost 5% since the announcement.
- In a speech to representatives of various central banks gathered in Jackson Hole, Wyoming, Federal Reserve Chair Janet Yellen indicated that the true level of labor market supply is difficult to measure due to the elevated levels of under-employed workers and the millions of workers who have left the labor force. Accordingly, Yellen urged policy makers to move with caution.
- The global economy wavered despite economic strength in the U.S. The European Central Bank (ECB) reported that second quarter Eurozone GDP showed 0.0% growth and Eurozone inflation fell to a 0.3% annualized rate in August. The three largest European economies (France, Germany and Italy) are in danger of slipping back into recession.

Geopolitical Headlines

- Tensions in the Ukraine remained elevated. Recriminations on both sides of the conflict delayed investigations into the Malaysian Airlines passenger plane that was shot down over the rebel-controlled eastern part of Ukraine in July. Despite several periods of optimism in August that the conflict could be resolved without further bloodshed, the month ended with Ukraine and NATO accusing Russia of an outright invasion of several areas in eastern and southern Ukraine.
- After several failed attempts, Egypt brokered a binding, open-ended ceasefire agreement between Israel and representatives of Hamas. While it appears that Israel achieved its aim in the conflict to eliminate tunnels from the Gaza Strip into southern Israel, many observers noted that Hamas won the battle for public opinion in Palestine. The Palestinian Center for Policy and Survey Research conducted a poll of Palestinians in the West Bank and the Gaza Strip that showed 79% of respondents said Hamas had won the war and 61% would choose Hamas leader Ismail Haniyeh for president of Palestine, up from 41% before the conflict.
- Elsewhere in the Middle East, the Islamic State (ISIS) continued to menace Shiite and Kurdish areas of Iraq. In response, Iraqi President Fuad Masum asked Prime Minister Haider al-Abadi to form a new unity government with the hopes of drawing moderate Sunni Muslims away from open rebellion. Additionally, the U.S. committed advisors to assist Iraq in defeating ISIS as well as troops to protect American interests. The U.S. began bombing ISIS-held positions to support the advance of the Iraq army and Kurdish Peshmerga fighters.

Sources: Bloomberg News, the Economist, the Wall Street Journal, CNBC, CNN, Associated Press, Reuters, Bridgewater Associates, FactSet, Barclays and Wikipedia

Key Monthly Economic Statistics

This table contains a list of key monthly economic statistics. Each statistic is listed with a link to a Web page that provides a thorough description of the economic indicator.

	<p>Positive Statistics</p> <ul style="list-style-type: none"> • Consumer Confidence, Aug: 92.4 (Jul: 90.3) • Durable Goods Orders, Jul: 22.6% (Jun: 2.7%); M/M-SA • Factory Orders, Jul: 10.5% (Jun: 1.5%); M/M-SA • Housing Starts, Jul: 15.7% (Jun: -4.0%); M/M-SAAR • Institute for Supply Management Index, Aug: 59.0 (Jul: 57.1) • Real Gross Domestic Product, Q2: 4.2% (Q1: -2.1%); Q/Q-SAAR
	<p>Neutral Statistics</p> <ul style="list-style-type: none"> • Consumer Price Index core, Jul: 0.1% (Jun: 0.1%); M/M-SA • Consumer Price Index, Jul: 0.1% (Jun: 0.3%); M/M-SA • Existing Home Sales, Jul: 2.4% (Jun: 2.4%); M/M-SAAR • Producer Price Index core, Jul: 0.2% (Jun: 0.2%); M/M-SA • Producer Price Index, Jul: 0.1% (Jun: 0.4%); M/M-SA • Retail Sales ex-auto, Jul: 0.1% (Jun: 0.4%); M/M-SA • Retail Sales, Jul: 0.0% (Jun: 0.2%); M/M-SA • Unemployment Rate, Aug: 6.1% (Jul: 6.2%)
	<p>Negative Statistics</p> <ul style="list-style-type: none"> • New Home Sales, Jul: -2.4% (Jun: -7.0%); M/M-SAAR • Nonfarm Payrolls, Aug: 142,000 • S&P/Case-Shiller 20-City Home Price Index, Jun: 8.1% (May: 9.4%); Y/Y

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	August	YTD
Inflation Protection Fund	+0.89%	+6.35%
Barclay's Capital U.S. Government Inflation-Linked Bond Index	+0.55%	+7.05%
Difference	+0.34%	-0.70%

- The Inflation Protection Fund advanced **0.89%** in August as real interest rates declined amid signals from the president of the European Central Bank (ECB) that the ECB will likely expand its stimulative economic actions to include the purchase of corporate and government debt of European Union members. The fund outperformed its benchmark by **0.34%**. The fund's two diversifying strategies with exposure to non-U.S. government inflation-linked debt both outperformed the fund benchmark, contributing to the Inflation Protection Fund's excess performance. However, three of the Inflation Protection Fund's other diversifying strategies underperformed the fund benchmark and partially offset the positive gains from non-U.S. bonds. The Inflation Protection Fund's 10% allocation to commodities futures contracts declined **1.1%** and was the fund's worst-performing strategy.
- For the year to date, the Inflation Protection Fund has gained **6.35%** and has underperformed its benchmark return by **0.70%**. The fund's allocations to commodities and senior-secured floating rate securities have gained **3.0%** and **2.8%** respectively, which is primarily responsible for the fund's underperformance compared to the benchmark. The fund's allocations to inflation-linked bonds of developed and lesser-developed countries have gained **8.5%** and **8.3%** respectively, and positively contributed to benchmark-relative results.

Fixed Income Fund

Fund	August	YTD
Fixed Income Fund	+1.15%	+5.71%
Barclays U.S. Universal (ex MBS) Index	+1.13%	+5.19%
Difference	+0.02%	+0.52%

- The Fixed Income Fund gained **1.15%** in August and slightly exceeded the performance of the fund benchmark. As with the Inflation Protection Fund, interest rates benefited from expectations of further stimulative policies from the ECB. The Fixed Income Fund's dedicated allocations to investment-grade corporate debt and positive social purpose loans marginally contributed to positive benchmark-relative gains; however, the gains were offset by modestly lower results by the fund's allocations to global bonds and emerging market debt compared to its benchmark.
- For the year-to-date, the Fixed Income Fund has gained **5.71%** and has outperformed its benchmark return by **0.52%**. The fund's best-performing strategies were its allocations to bonds from developing countries and investment-grade corporate debt, which have gained **7.9%** and **7.7%** respectively. In addition, the fund's two "core" (i.e., broadly diversified) managers have both outperformed their respective benchmarks by nearly one percentage point, which contributed positively to the Fixed

Income Fund's performance. The fund's two allocations to higher risk below-investment-grade bonds have both gained approximately **4.8%**, which slightly detracted from benchmark-relative performance.

U.S. Equity Fund

Fund	August	YTD
U.S. Equity Fund	+4.19%	+8.56%
Russell 3000 Index	+4.20%	+9.32%
Difference	-0.01%	-0.67%

- The U.S. Equity Fund gained **4.19%** in August and nearly matched the fund benchmark return. The fund benefited from its active managers' moderate collective emphasis on stocks with higher levels of expected earnings growth. The U.S. Equity Fund's two real estate strategies detracted from benchmark-relative performance, with the fund's 3.3% allocation to public real estate investment trusts (REITs) gaining **2.8%** and its 2.5% allocation to private real estate gaining **2.4%**.
- For the year-to-date, the U.S. Equity Fund has gained **8.56%** and has underperformed its benchmark return by **0.67%**. The fund's allocation to publicly traded REITs has gained **22.4%** and positively contributed to the fund's benchmark-relative performance. However, this positive contribution was more than offset by the fund's greater-than-benchmark allocation to small and mid-sized companies. Through June, the Russell 2000 Index of small company stocks has gained only **1.8%** compared to a **9.9%** gain for the S&P 500 Index of large companies.

International Equity Fund

Fund	August	YTD
International Equity Fund	+0.69%	+2.98%
MSCI ACWI x US Investable Market Index	+0.57%	+5.20%
Difference	+0.12%	-2.22%

- The International Equity Fund gained **0.69%** in August and outperformed its benchmark return by **0.12%**. The fund benefited from the investment managers' collective emphasis on stocks expected to have higher levels of earnings growth. The fund's 5% allocation to international REITs declined **1.7%** and detracted from benchmark-relative performance.
- For the year-to-date, the International Equity Fund has gained **2.98%** but has underperformed its benchmark return by **2.22%**. Most of the fund's underperformance is attributable to the collective underperformance by the fund's managers, as six of the fund's eight managers have underperformed their respective benchmarks due to their emphasis on stocks expected to have higher levels of earnings growth. International growth stocks have underperformed international value stocks, which generally pay higher dividends and have benefited from a decline in interest rates.

Multiple Asset Fund

Fund	August	YTD
Multiple Asset Fund	+2.20%	+6.20%
Composite Benchmark	+2.16%	+7.06%
Difference	+0.04%	-0.86%

- For August, the Multiple Asset Fund gained **2.20%** and slightly outperformed the fund's composite benchmark by **0.04%**. The Fixed Income Fund, Inflation Protection Fund and International Equity Fund contributed to the Multiple Asset Fund's modest excess performance.
- For the year-to-date, the Multiple Asset Fund has gained **6.20%**, but has underperformed its benchmark return by **0.86%**. The International Equity Fund has detracted the most from benchmark-relative performance, and only the Fixed Income Fund has outperformed its fund benchmark.

For additional information, please contact:

Derek Casteel, CFA
 Managing Director, Institutional Investment
 Services
 Wespath Investment Management
 (847) 866-4307 direct
 (847) 866-4100 general
dcasteel@wespath.com

Or:

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

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.