

May 2014 Investment Report

Monthly Report

Markets

- U.S. equities, as represented by the Russell 3000 Index, increased **2.2%** during May. It was the fourth consecutive monthly gain for equities. Additionally, the S&P 500 Index ended the month at another new all-time high.
- For the third consecutive month, investors preferred large company stocks over small company stocks. Stocks with strong earnings growth performed better than those classified as value. Telecommunications (**+3.8%**) and information technology (**+3.4%**) were the best-performing sectors.
- International stocks gained **1.9%**, as measured by the MSCI All Country World Index ex-US IMI. Developing markets (**+3.4%**) outperformed developed markets (**+1.5%**), as measured by the MSCI Emerging Market Equity Index IMI and the MSCI World ex-US Index, respectively.
- The U.S. Treasury yield curve declined in May. The 2-year U.S. Treasury Note yield decreased by **0.04%** to **0.37%**, and the 10-year yield decreased by **0.17%** to **2.48%**. The long bond (30-year U.S. Treasury) decreased **0.13%** in yield to **3.33%**.
- U.S. Treasury securities, as measured by the Barclays U.S. Treasury Index, increased **0.9%** during May, reflecting the decline in the 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, increased **0.9%**.
- The U.S. dollar strengthened in May, increasing **1.1%** as measured by the U.S. Dollar Index. The euro decreased **1.7%** relative to the dollar, reflecting investor expectations for further monetary policy action from the European Central Bank (ECB) to stimulate Europe's lackluster economy and prevent deflation. The British pound decreased **0.7%** in May, but had increased **10.2%** during the preceding 12 months through May on signs of a strengthening British economy.
- Commodities, as represented by the Dow Jones UBS Commodity Index, decreased **2.9%** in May. Coffee decreased **13.8%** after rains in Brazil eased concerns about the severity of crop damage from recent drought conditions. Wheat decreased **13.1%** after favorable weather and accelerated planting in the U.S., Canada and Ukraine increased crop estimates. Hog prices decreased **5.5%** as forecasters predicted that hogs will develop increased immunity to the deadly virus that previously caused hog prices to rise **27.0%** for the year-to-date up until May.

Economics Highlights

- The Commerce Department revised its estimate of first quarter 2014 gross domestic product (GDP) reporting a decline in the country's economic output of **1.0%** compared to its previous estimate of a **0.1%** increase in output. It was the first quarterly economic contraction since the first quarter of 2011. Economists attributed the weakness to severe winter weather and forecast a return to economic growth in the second quarter.
- The Labor Department reported the U.S. economy added **217,000** nonfarm jobs in May, marking the fourth consecutive monthly report of greater than 200,000 new jobs. The unemployment rate was unchanged at **6.3%**. The cumulative addition of 8.8 million jobs since the employment trough in February 2010 surpassed the estimated 8.7 million jobs lost during the recession.
- U.S. housing starts increased **13.2%** in April to a seasonally adjusted annual rate of **1.07 million** units. The rate was **26.4%** higher than one year ago. The increase was driven by a **39.6%** rise in multi-family home starts, reflecting strong demand for rental housing, but groundbreaking for single-family homes increased only **0.8%**. Building permits issued in April reflected a similar pattern: multi-family permits increased **19.5%** and single-family permits increased only **0.3%**.

Geopolitical Headlines

- President Obama outlined a new timetable for the withdrawal of American troops from Afghanistan. The plan calls for troop levels to be reduced to 9,800 at the end of 2014 from the current 32,000. By the end of 2016, troop levels will be reduced to the level needed for normal embassy protection and local security advisory functions.
- After months of unrest in Thailand, a military coup placed the country under martial law. General Prayuth Chan-ocha assumed leadership of the country and stated that it may take more than a year to prepare the country for democratic elections. The Thai military has overthrown its government 12 times since 1932, most recently in 2006.
- Ukrainian voters elected billionaire businessman Petro Poroshenko as the country's new president. Poroshenko stated that his first priority will be to end violence and unite Ukraine. He is viewed as a president who will seek improved ties with Europe. Russian troops were reported to have withdrawn from the eastern border of Ukraine, but tension remained high amid violence between government forces and separatists.
- Abdel Fattah al-Sisi won the presidential election in Egypt by a wide margin but with reportedly low voter turnout. In 2013, Sisi led the military coup that removed Egyptian president Muhammed Morsi of the Muslim Brotherhood. Saudi Arabia and other Gulf Arab states voiced support for Sisi and are expected to continue providing financial aid to Egypt under his presidency.
- Indian voters elected Narendra Modi of the Bharatiya Janata Party (BJP) as prime minister, unseating Manmohan Singh of the Congress Party. The Congress Party had been the subject of corruption allegations, while Modi's platform was viewed as more supportive of business and employment.

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

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, May: 83.0 (Apr: 81.7) • Existing Home Sales, Apr: 1.3% (Mar: -0.2%); M/M-SAAR • Housing Starts, Apr: 13.2% (Mar: 2.0%); M/M-SAAR • New Home Sales, Apr: 6.4% (Mar: -6.9%); M/M-SAAR • Nonfarm Payrolls, May: 217,000 • Unemployment Rate, May: 6.3% (Apr: 6.3%) • S&P/Case-Shiller 20-City Home Price Index, Mar: 12.4% (Feb: 12.9%); Y/Y
	<p>Neutral Statistics</p> <ul style="list-style-type: none"> • Consumer Price Index core, Apr: 0.2% (Mar: 0.2%); M/M-SA • Consumer Price Index, Apr: 0.3% (Mar: 0.2%); M/M-SA • Institute for Supply Management Index, May: 55.4 (Apr: 54.9) • Producer Price Index core, Apr: 0.5% (Mar: 0.6%); M/M-SA • Producer Price Index, May: 0.6% (Apr: 0.5%); M/M-SA
	<p>Negative Statistics</p> <ul style="list-style-type: none"> • Durable Goods Orders, Apr: 0.6% (Mar: 3.7%); M/M-SA • Factory Orders, Apr: 0.7% (Mar: 1.5%); M/M-SA • Real Gross Domestic Product, Q1: -1.0% (Q4: 2.6%); Q/Q-SAAR • Retail Sales ex-auto, Apr: 0.0% (Mar: 1.0%); M/M-SA • Retail Sales, Apr: 0.2% (Mar: 1.5%); 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	May	YTD
Inflation Protection Fund	+1.48%	+5.31%
Barclay's Capital U.S. Government Inflation-Linked Bond Index	+2.25%	+6.04%
Difference	-0.77%	-0.73%

- The Inflation Protection Fund gained **1.48%** in May but underperformed the fund benchmark by **0.77%**. Global interest rates declined in May, confounding the expectations of economists and investors alike. A decline in the general level of interest rates has a positive effect on the prices of fixed income instruments. Market observers attribute May's decline in rates to expected action by the European Central Bank to provide additional monetary stimulus in the wake of anemic economic growth and benign inflationary pressures. In fact, several commentators believe that deflation in the euro zone is more likely than inflation. While the fund's 10% allocation to inflation-linked debt from developing countries slightly benefited its benchmark-relative performance, the fund's other diversifying strategies detracted from performance. The greatest detractor was the fund's 10% allocation to commodities futures contracts, which declined **1.4%**.
- For the year to date, the Inflation Protection Fund has produced the highest return of all Wespath funds, gaining **5.31%**; however, it has underperformed its benchmark return by **0.73%**. The Inflation Protection Fund's diversifying allocations to the inflation-linked debt of developing countries and commodities futures contracts have gained **6.9%** and **6.6%** respectively and have positively contributed to its benchmark-relative performance. However, the fund's allocation to floating rate senior secured debt has only gained **1.8%**, which has detracted from benchmark-relative performance.

Fixed Income Fund

Fund	May	YTD
Fixed Income Fund	+1.33%	+4.61%
Barclays U.S. Universal (ex MBS) Index	+1.20%	+4.13%
Difference	+0.13%	+0.48%

- The Fixed Income Fund gained **1.33%** in May and outperformed the fund benchmark return by **0.13%**. The fund benefited from a decline in interest rates resulting from anticipated European Central Bank monetary stimulus. The fund's best-performing strategy in May was its 10% allocation to bonds from developing countries, which gained **2.6%**. The Fixed Income Fund's allocations to below-investment-grade bonds and bonds from developed countries produced returns that were less than the fund benchmark and detracted from performance. The U.S. dollar strengthened against the euro in May as declining interest rates for European debt made euro-denominated investments less attractive.
- For the year to date, the Fixed Income Fund has gained **4.61%** and outperformed the fund benchmark by **0.48%**. The fund has continued to benefit from its below-benchmark allocation to U.S. government debt as investors demonstrate a willingness to accept a smaller premium for credit risk. The best-performing strategy has been the fund's 11% allocation to debt from developing countries, which has gained **6.7%**. In addition, the fund's 8% allocations to investment-grade corporate bonds and positive social purpose loans have gained **5.9%** and **5.6%** respectively. The fund's allocation to bonds from developed countries has slightly detracted from returns, due to strength of the U.S. dollar relative to the euro.

U.S. Equity Fund

Fund	May	YTD
U.S. Equity Fund	+1.91%	+3.26%
Russell 3000 Index	+2.18%	+4.32%
Difference	-0.27%	-1.06%

- The U.S. Equity Fund gained **1.91%** in May, but underperformed its fund benchmark for a third consecutive month as small company stocks continued to underperform large company stocks. The U.S. Equity Fund has a higher-than-benchmark allocation to small company stocks and a lower-than-benchmark allocation to large company stocks. The Russell 2000 Index of small companies gained **0.8%** compared to the **2.3%** return for the S&P 500 Index of large company stocks. Investors continued to express a preference for stocks that pay higher dividends or are experiencing higher levels of earnings growth as an alternative to fixed income investments that have continued to experience low (and declining) interest rates.
- For the year to date, the U.S. Equity Fund has gained **3.26%**, but has underperformed the fund benchmark by **1.06%**. The fund's best-performing strategy is its dedicated 3% allocation to publicly traded real estate investment trusts (REITs), which has gained **17.3%** for the year to date and is the single best-performing strategy within the Wespath funds. However, the fund's higher-than-benchmark allocation to stocks of small and mid-sized companies has detracted from benchmark-relative performance, as the Russell 2000 Index declined **2.0%** for the year to date compared to the **5.0%** gain recognized by the S&P 500 Index.

International Equity Fund

Fund	May	YTD
International Equity Fund	+1.60%	+2.71%
MSCI ACWI x US Investable Market Index	+1.90%	+3.96%
Difference	-0.30%	-1.25%

- The International Equity Fund gained **1.60%** in May but underperformed its benchmark return by **0.30%**. The fund presently has a lower-than-benchmark allocation to stocks from developing countries. In May, the MSCI Emerging Markets Index IMI returned **3.4%** compared to the developed country MSCI EAFE Index, which returned **1.6%**. In addition, all of the fund's active managers underperformed their respective benchmarks during the month of May.
- For the year to date, the International Equity Fund has gained **2.71%** and has underperformed its benchmark by **1.25%**. The fund's managers have a collective bias to stocks that exhibit higher levels of earnings growth, and the MSCI ACWI (ex-US) IMI Growth Index has gained **3.4%** compared to the **4.5%** return of the MSCI ACWI (ex-US) IMI Value Index. In addition, six of the fund's seven active managers have underperformed their respective benchmarks, with five underperforming by more than two percentage points.

Multiple Asset Fund

Fund	May	YTD
Multiple Asset Fund	+1.64%	+3.65%
Composite Benchmark	+1.87%	+4.41%
Difference	-0.23%	-0.76%

- For May, the Multiple Asset Fund gained **1.64%** and underperformed the fund's composite benchmark by **0.23%**. Three of the fund's four strategies underperformed their respective benchmarks, with only the Fixed Income Fund surpassing the results of its benchmark.
- For the year to date, the Multiple Asset Fund has gained **3.65%**, but has underperformed its benchmark return by **0.76%**. The two equity funds and the Inflation Protection Fund have underperformed their respective benchmarks and are responsible for the Multiple Asset Fund's below-benchmark performance.

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.