

October 2014 Investment Report

Monthly Report

Markets

- U.S. equities, as represented by the Russell 3000 Index, increased **2.7%** during October. The increase comes after an intra-month decline of more than **5%**. Small cap stocks, as measured by the Russell 2000 Index, increased **6.6%** during the month but still lag the broader Russell 3000 index by **8** percentage points year-to-date.
- Utilities (**+8.4%**) were the best-performing sector during the month as investors demonstrated a preference for stocks that pay high-dividends. Energy (**-3.9%**) was the worst-performing sector as the price of crude oil declined to below \$80 per barrel for the first time in over two years. Real estate investment trusts (REITs), another high-dividend-paying sector, gained **10.7%** as measured by the Wilshire US RESI index.
- Developed international markets decreased **1.7%** during October, as measured by the MSCI World ex-US IMI Index in U.S. dollar terms. Both the European Central Bank and the Bank of Japan continued to implement stimulus measures to combat low economic growth. Developing international markets increased **0.8%** during the month; these continue to outperform developed markets for the year-to-date.
- The U.S. Treasury yield curve flattened in October as the 10-year U.S. Treasury note yield decreased by **0.15%** to a yield of **2.34%**. Treasury yields exhibited intra-month volatility, and the 10-year yield briefly declined below **1.9%** amid reports of German economic weakness and an unexpected decrease in U.S. wholesale prices. The 10-year U.S. Treasury Inflation Protected Security (TIPS) real yield decreased **0.12%** during the month to **0.43%**.
- U.S. Treasury securities, as measured by the Barclays U.S. Treasury Index, increased **1.0%** in October. Investment-grade debt, as measured by the Barclays U.S. Credit Index, increased **1.1%** during the month. Below-investment-grade debt, as measured by the Barclays U.S. Corporate High-Yield Index, increased **1.2%** during October.
- The U.S. dollar strengthened again in October, increasing **1.2%** as measured by the U.S. Dollar Index. The euro and British pound decreased **0.8%** and **1.3%**, respectively, relative to the dollar. The Bank of Japan announced additional monetary stimulus during the month, and the yen decreased **2.4%**. In developing country currencies, the Brazilian real decreased **1.3%** in October as President Dilma Rousseff won re-election. The Russian ruble decreased **7.9%** despite an interest rate increase by the Russian central bank. The ruble has decreased **23.6%** relative to the dollar since the beginning of 2014.
- Commodities, as represented by the Bloomberg Commodity Index, decreased **0.8%** in October. The grains sub-index was the strongest during the month, increasing **14.3%**. The petroleum sub-index decreased **9.6%**, as U.S. crude oil production reached its highest level in at least three decades and OPEC increased output.

Economics Highlights

- The U.S. economy added **214,000** jobs in October, bringing the unemployment rate to **5.8%**—a six-year low. The number of jobs added was slightly below the consensus of economists' expectations of **230,000**. The labor force participation rate rose to **62.8%**, remaining near lows not seen since the 1970s. U.S. gross domestic product (GDP) rose at a rate of **3.5%** in the third quarter, exceeding forecast expectations of **3.1%**. The Consumer Confidence Index rose to **86.9**, the highest in seven years, signifying an improved outlook on the economy and spending.
- The impact of continued oil and gas production gains in the U.S. weighed heavily on oil prices in October. Saudi Arabia and other large OPEC (Organization of Oil Exporting Countries) producers were thought to reduce prices close to \$80 per barrel in an attempt to maintain market share as U.S. domestic production leaves the world with excess supplies.
- Economic uncertainty continues in the Eurozone. Although the annual inflation rate slightly increased to **0.4%** in October, from **0.3%** in September, it continues to be significantly below the European Central Bank's target of **2%**. The Bank of England maintained its **0.50%** policy rate, but decided not to extend its quantitative easing program. Britain's unemployment rate in October was **6%**, the lowest in six years; meanwhile the country's inflation rate dropped to **1.2%**, the lowest in five years.
- Another round of quantitative easing began in Japan, as The Bank of Japan took aggressive action to stimulate its economy by increasing purchases of long-term debt to **80** trillion yen annually, up from an original target range of **60-70** trillion yen annually. This comes at a time when central banks in other countries have begun winding down their stimulus programs.

Geopolitical Headlines

- The Ebola epidemic continues to spread beyond West Africa, with a number of individuals having tested positive in the U.S., Spain and Germany. The U.S. and Britain are taking measures to screen those traveling from infected countries in West Africa. The World Health Organization (WHO) has documented **9,000** Ebola cases with **4,500** resulting deaths, and has indicated that the number of new cases could reach **10,000** per week by December if control efforts are not increased. WHO expects to have two experimental Ebola vaccines available in 2015 and intends to vaccinate **20,000** people.
- U.S. airstrikes against ISIS in Syria and Iraq continued and have resulted in over **500** deaths, targeting mainly Islamic militants. Britain and Canada joined the airstrike campaign against ISIS in response to recent attacks on citizens of those countries. ISIS beheaded a British taxi driver in early October, making him the fourth Western hostage executed since August 2014. Terrorist attacks on Canadian soil by Islamist extremists, one in Quebec on October 21 and another in Ottawa on October 23, resulted in the death of two Canadian soldiers.
- Members of the European Union (EU) agreed on a climate and energy package that will ensure a reduction in greenhouse gas emissions by 2030. The EU is targeting emissions levels to be **40%** lower than 1990 levels.
- Pro-democracy protests in Hong Kong have continued. In an effort to reach an agreement, student protesters and senior government officials participated in televised discussions focusing on free elections; however, little progress was made and protests have continued.
- Dilma Rousseff secured her position as president of Brazil for a second term, garnering **51.6%** of the vote in the recent presidential run-off against Aécio Neves. Brazil saw a **4%** drop in its currency and a

6% drop in its stocks immediately after the election, and uncertainty remains as to how Rousseff's re-election will impact Brazil's economy long-term.

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, Oct: 94.5 (Sep: 89.0) • Existing Home Sales, Sep: 2.4% (Aug: -1.8%); M/M-SAAR • Housing Starts, Sep: 6.3% (Aug: -12.8%); M/M-SAAR • Institute for Supply Management Index, Oct: 59.0 (Sep: 56.6) • New Home Sales, Sep: 0.2% (Aug: 15.3%); M/M-SAAR • Real Gross Domestic Product, Q3: 3.5% (Q2: 4.6%); Q/Q-SAAR • Unemployment Rate, Oct: 5.8% (Sep: 5.9%)
	<p>Neutral Statistics</p> <ul style="list-style-type: none"> • Consumer Price Index core, Sep: 0.1% (Aug: 0.0%); M/M-SA • Consumer Price Index, Sep: 0.1% (Aug: -0.2%); M/M-SA • Nonfarm Payrolls, Oct: 214,000 • Producer Price Index core, Sep: 0.0% (Aug: 0.1%); M/M-SA • Producer Price Index, Sep: -0.1% (Aug: 0.0%); M/M-SA
	<p>Negative Statistics</p> <ul style="list-style-type: none"> • Durable Goods Orders, Sep: -1.3% (Aug: -18.3%); M/M-SA • Factory Orders, Sep: -0.6% (Aug: -10.0%); M/M-SA • Retail Sales ex-auto, Sep: -0.2% (Aug: 0.3%); M/M-SA • Retail Sales, Sep: -0.3% (Aug: 0.6%); M/M-SA • S&P/Case-Shiller 20-City Home Price Index, Aug: 5.6% (Jul: 6.7%); 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	October	YTD
Inflation Protection Fund	+0.65%	+4.25%
Barclay's Capital U.S. Government Inflation-Linked Bond Index	+0.97%	+5.19%
Difference	-0.32%	-0.94%

- The Inflation Protection Fund (IPF) gained **0.65%** in October, but underperformed its benchmark return by **0.32%**. The primary contributor to the fund's underperformance was its 10% allocation to commodities futures contracts, which lost **1.2%** for the month as world oil prices continued to decline. In addition, the fund's two below-investment-grade floating rate bond strategies produced returns of approximately **0.5%**. The fund's allocation to inflation-linked debt from developing countries gained **1.6%**, however, and partially offset the negative contribution of these diversifying strategies.
- For the year-to-date, the Inflation Protection Fund has gained **4.25%** and has underperformed the fund benchmark by **0.94%**. The fund's diversifying strategies of commodities futures contracts declined **3.7%**, senior-secured floating rate bonds gained **2.8%**, and inflation-linked bonds from developing countries gained **3.8%**, all detracting from benchmark-relative performance. The fund's allocation to inflation-linked bonds from developed countries positively contributed to the fund's benchmark-relative performance and has advanced **7.6%** year-to-date.

Fixed Income Fund

Fund	October	YTD
Fixed Income Fund	+0.85%	+4.80%
Barclays U.S. Universal (ex MBS) Index	+0.98%	+5.17%
Difference	-0.13%	-0.37%

- The Fixed Income Fund advanced **0.85%** in October and slightly underperformed its benchmark return by **0.13%**. The U.S. dollar continued to strengthen against developed country currencies and was primarily responsible for the fund's underperformance. The fund's diversifying allocation to developed country bonds that includes bonds denominated in currencies other than the U.S. dollar gained only **0.3%**, detracting from the Fixed Income Fund's benchmark-relative performance.
- For the year-to-date, the Fixed Income Fund has gained **4.80%**, but has underperformed its benchmark return by **0.37%**. The fund's best-performing strategy is its allocation to positive social purpose loans, which has gained **7.5%**. In addition, the fund's two core managers have both outperformed their respective benchmarks by about **0.9%**. The positive contribution from these strategies, however, was more than offset by the fund's allocations to developed country bonds denominated in non-U.S. currencies. The Fixed Income Fund's allocation to developed country bonds has gained **2.8%** and has been adversely affected by strength of the U.S. dollar relative to foreign currencies.

U.S. Equity Fund

Fund	October	YTD
U.S. Equity Fund	+3.07%	+8.64%
Russell 3000 Index	+2.75%	+9.90%
Difference	+0.32%	-1.26%

- The U.S. Equity Fund gained **3.07%** in October and modestly outperformed the fund's Russell 3000 Index benchmark by **0.32%**. The fund's 3.5% allocation to publicly traded real estate investment trusts (REITs) produced the best return, gaining **10.6%** for the month. In addition, the fund's greater-than-benchmark allocation to small and mid-sized company stocks also positively contributed to the U.S. Equity Fund's performance as the Russell 2000 Index of small companies gained **6.6%** compared to the S&P 500 Index return of **2.4%**. The positive contribution from these strategies, however, was partially offset by below-benchmark performance of **1** percentage point or more by five of the fund's managers.
- For the year-to-date, the U.S. Equity Fund has gained **8.64%** and has underperformed its benchmark return by **1.26%**. The fund's greater-than-benchmark allocation to the stocks of small and mid-sized companies detracted from performance, as the Russell 2000 Index has gained **1.9%** for the year-to-date compared with the **11.0%** gain for the large-cap S&P 500 Index. The U.S. Equity Fund's allocation to publicly traded REITs has gained **28.0%** and positively contributed to the fund's benchmark-relative performance.

International Equity Fund

Fund	October	YTD
International Equity Fund	-0.31%	-3.09%
MSCI ACWI x US Investable Market Index	-1.16%	-1.17%
Difference	+0.85%	-1.92%

- The International Equity Fund declined **0.31%** in October and outperformed its benchmark return by **0.85%**. However, most of the fund's excess performance is attributable to an adjustment to the fund's net asset value that occurred on the last day of the month due to very strong returns in the U.S. stock market on that day. The positive contribution from this adjustment will reverse in November. The fund's daily valuation policy is further described [here](#) and in the [Investment Funds Description](#). The fund also benefitted from its 5% allocation to international REITs, which gained **3.8%**.
- For the year-to-date, the International Equity Fund has declined **3.09%** and has meaningfully underperformed its benchmark return by **1.92%**. Approximately one-third of the fund's underperformance is attributable to its separate allocation to small-company stocks, which has lost **8.4%** for the year-to-date. In addition, six of the fund's eight active managers have meaningfully underperformed their respective benchmarks due to a number of factors, including exposure to poor performing stocks in the energy and financial sectors and a preference for stocks of smaller companies.

Multiple Asset Fund

Fund	October	YTD
Multiple Asset Fund	+1.46%	+4.27%
Composite Benchmark	+1.15%	+5.49%
Difference	+0.31%	-1.22%

- For October, the Multiple Asset Fund gained **1.15%** and outperformed its fund benchmark by **0.31%**. However, half of this excess performance is attributable to the net asset value adjustment for the fund's International Equity Fund holdings resulting from the strong performance of the U.S. stock market on the last day of the month. The positive benchmark-relative contribution from this adjustment will reverse in November. The Multiple Asset Fund's two equity strategies positively contributed to the fund's benchmark-relative performance, while the fund's two bond strategies detracted.
- For the year-to-date, the Multiple Asset Fund has gained **4.27%**, but has underperformed its benchmark return by **1.22%**. All four of the Multiple Asset Fund's underlying strategies have underperformed their respective benchmarks, primarily due to their collective exposure to securities denominated in foreign currencies and the higher-than-benchmark allocations to small company stocks in the two equity funds.

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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.