

## September 2014 Investment Report

Monthly Report

### Markets

- U.S. equities, as represented by the Russell 3000 Index, decreased **2.1%** during September. Markets reflected economic and geopolitical concerns including a decline in U.S. consumer confidence, more dour concerns about Eurozone economic growth, and continued geopolitical turmoil. Small cap stocks as measured by the Russell 2000 Index declined 6.0% during the month and lag the broader Russell 3000 Index by **11.4%** year-to-date.
- Consumer staples was the only sector with positive performance (**+0.3%**) during the month, as investors preferred these lower-volatility stocks. Energy was the worst-performing sector (**-8.0%**). Stocks with strong earnings growth outperformed those classified as value, as measured by the Russell 3000 Growth (**-1.7%**) and Russell 3000 Value (**-2.4%**) Indexes.
- Developed international markets decreased **4.4%** during September, as measured by the MSCI World ex-US IMI Index in U.S. dollar terms. Developing international markets declined **7.0%** during the month, but continue to outperform developed markets year-to-date. Alibaba, China's leading online commerce company, completed the largest initial public offering (IPO) in history by raising \$21.8 billion selling shares on the New York Stock Exchange.
- The U.S. Treasury yield curve steepened in September as the 10-year U.S. Treasury note yield increased by **0.15%** to a yield of **2.49%**. A greater increase in the real yield of the 10-year U.S. Treasury Inflation Protected Security (TIPS) of **0.32%** brought its yield to **0.55%**. The difference between the 10-year Treasury and TIPS yields—a measure of inflation expectations—decreased by **0.17%** to end September at **1.94%**. The Federal Reserve (Fed) announced the end of monthly bond purchases in its Quantitative Easing program and is expected to begin raising the federal funds rate in the first half of 2015 to prevent excessive inflation. ("Fed funds rate" refers to the relatively low interest rate for commercial bank cash reserves deposited at regional Federal Reserve banks—typically on an overnight basis.)
- The increase in real yields for TIPS during September can be attributed to two factors. First, most economists believe that the continued steady improvement in the U.S. economic outlook will obviate the need for ongoing monetary stimulus from the Fed and that interest rates will likely increase in early 2015 rather than late 2015. Second, the continued lack of success of the European monetary authorities and Eurozone fiscal policies to revive the continent's moribund economy has stoked fears of deflation, which has also influenced inflation expectations for the U.S.
- U.S. Treasury securities, as measured by the Barclays U.S. Treasury Index, decreased **0.6%** in September, reflecting the rise in the yield curve. Investment-grade debt, as measured by the Barclays U.S. Credit Index, decreased **1.4%** during the month. Below-investment-grade debt, as measured by the

Barclays U.S. Corporate High-Yield Index, decreased **2.1%** during September. The yield spread over treasuries that investors demanded as compensation for credit risk increased during the month, causing credit sectors to underperform.

- The U.S. dollar strengthened broadly in September, increasing **3.9%** as measured by the U.S. Dollar Index. Economic weakness in Europe and Japan caused the euro and the yen to decrease **3.8%** and **5.1%**, respectively, relative to the dollar. The Brazilian real decreased **8.6%** in September as polls suggested President Dilma Rousseff would win re-election in Brazil, reducing hopes for economic reform. The U.S. dollar strength negatively impacted unhedged international fixed income and non-U.S. equity strategies.
- Commodities, as represented by the Bloomberg Commodity Index, decreased **6.2%** in September. The grains sub-index was the weakest, decreasing **12.4%** as favorable weather and crop conditions led forecasters to expect record corn and soybean harvests. Precious metals decreased **7.6%**, attributed to U.S. dollar strength and anticipated monetary policy tightening by the Fed.

## Economics Highlights

- The U.S. economy added **248,000** jobs in September, bringing the unemployment rate to a six-year low at **5.9%**. However, the nation's labor force participation rate fell to **62.7%**, its lowest level since 1978. Roughly 3 million people have been out of work for more than six months, and involuntary part-time workers (those that would prefer to be employed full-time) remained elevated at 7.1 million.
- The European Central Bank unexpectedly cut interest rates and announced stimulus plans in an effort to minimize deflation risks in the fragile Eurozone economy. The news was met with mixed responses from varying Eurozone regions, and the extent of stimulative bond purchases is yet to be determined. The slowing of the Germany economy is particularly worrisome, as evidenced in the recent release of poor figures for gross domestic product (GDP) growth, trade and industrial production.
- Bill Gross, founder and 40-plus-year veteran of \$2 trillion Pacific Investment Management Company (PIMCO), left the firm for Janus Capital Group where he will manage a newly created bond fund. Gross' departure was abrupt and comes after a year of turmoil at the world's largest bond manager amid heavy outflows from the firm's flagship PIMCO Total Return Fund.

## Geopolitical Headlines

- Pro-democracy protests continued in Hong Kong after China's government ruled that candidates for the region's top legislative position must be prescreened, effectively barring pro-democracy legislators. Police have used pepper spray and tear gas to disperse crowds, while dozens have been arrested and nearly 100 people have been sent to nearby hospitals for treatment.
- The West African Ebola epidemic, the largest Ebola outbreak in history, made its way to the United States. The first travel-associated case was diagnosed in a man who traveled to Dallas from Liberia (who died from Ebola in early October). While public health officials and health care professionals are taking precautions and using meticulous infection control to prevent transmission, its rapid advance has worried populations worldwide.
- The U.S. expanded airstrikes against Islamic State Fighters (ISIS) in Syria and Iraq. While airstrikes have blunted the ISIS advance toward Bagdad, ISIS fighters continued to advance in Kurdish regions of Syria and Iraq. According to a United Nations report, the extremist group has killed more than 9,000 civilians this year in Iraq alone.

- In a historic independence referendum, Scotland elected to remain part of the United Kingdom rather than become an independent nation. The turnout was unusually high, with 84.6% of registered voters participating. Fifty-five percent of the voters were in favor of remaining part of the United Kingdom.

Sources: Bloomberg News, the Economist, the Wall Street Journal, CNBC, CNN, Associated Press, Reuters, Bridgewater Associates, FactSet 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><b>Positive Statistics</b></p> <ul style="list-style-type: none"> <li>• New Home Sales, Aug: 18.0% (Jul: 1.9%); M/M-SAAR</li> <li>• Nonfarm Payrolls, Sep: 248,000</li> <li>• Real Gross Domestic Product, Q2: 4.6% (Q1: -2.1%); Q/Q-SAAR</li> <li>• Retail Sales, Aug: 0.6% (Jul: 0.3%); M/M-SA</li> </ul>
	<p><b>Neutral Statistics</b></p> <ul style="list-style-type: none"> <li>• Consumer Price Index core, Aug: 0.0% (Jul: 0.1%); M/M-SA</li> <li>• Consumer Price Index, Aug: -0.2% (Jul: 0.1%); M/M-SA</li> <li>• Institute for Supply Management Index, Sep: 56.6 (Aug: 59.0)</li> <li>• Producer Price Index core, Aug: 0.1% (Jul: 0.2%); M/M-SA</li> <li>• Producer Price Index, Aug: 0.0% (Jul: 0.1%); M/M-SA</li> <li>• Retail Sales ex-auto, Aug: 0.3% (Jul: 0.3%); M/M-SA</li> <li>• Unemployment Rate, Sep: 5.9% (Aug: 6.1%)</li> <li>• S&amp;P/Case-Shiller 20-City Home Price Index, Jul: 6.7% (Jun: 8.1%); Y/Y</li> </ul>
	<p><b>Negative Statistics</b></p> <ul style="list-style-type: none"> <li>• Consumer Confidence, Sep: 86.0 (Aug: 93.4)</li> <li>• Durable Goods Orders, Aug: -18.4% (Jul: 22.5%); M/M-SA</li> <li>• Existing Home Sales, Aug: -1.8% (Jul: 2.2%); M/M-SAAR</li> <li>• Factory Orders, Aug: -10.1% (Jul: 10.5%); M/M-SA</li> <li>• Housing Starts, Aug: -14.4% (Jul: 22.9%); M/M-SAAR</li> </ul>

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**

<b>Fund</b>	<b>September</b>	<b>QTD</b>	<b>YTD</b>
Inflation Protection Fund	-2.61%	-2.12%	+3.58%
Barclay's Capital U.S. Government Inflation-Linked Bond Index	-2.69%	-2.05%	+4.17%
Difference	+0.08%	-0.07%	-0.59%

- The Inflation Protection Fund (IPF) declined **2.61%** in September, although it modestly outperformed the fund's benchmark return by **0.08%**. The fund benefitted from its currency-hedged exposure to non-dollar inflation-linked bonds from developed countries, which for some time have reflected the market's expectations for low inflation. In addition, the Inflation Protection Fund's diversifying strategies that invest in senior-secured floating rate notes also contributed to positive benchmark-relative performance, as these investments declined less than the fund benchmark. However, the positive contribution from these strategies was partially offset by the fund's allocations to commodities futures contracts and inflation-linked bonds from developing countries—both strategies of which declined nearly 6% during September. The losses incurred by these two strategies are largely attributable to strength in the U.S. dollar.
- For the third quarter, the Inflation Protection Fund declined **2.12%** and slightly underperformed its benchmark return by **0.07%**. The fund's 10% allocation to the diversifying strategy of commodities futures contracts declined **10.1%** and was the worst-performing strategy among all General Board/Wespath funds. In addition, inflation-linked bonds from developing countries lost **5.7%**, primarily due to strength of the U.S. dollar compared with the currencies of developing countries. The Inflation Protection Fund benefitted from its allocations to senior secured floating rate bonds, which experienced very modest losses during the third quarter. In addition, the fund's allocation to inflation-linked bonds from developed countries gained due to muted growth expectations for the Eurozone economy.
- For the year-to-date, the Inflation Protection Fund has gained **3.58%** and has underperformed the fund benchmark by **0.59%**. The fund's diversifying strategies of commodities futures contracts and inflation-linked bonds from developing countries detracted from benchmark-relative performance, with the commodities allocation declining **2.7%** and the fund's allocation to inflation-linked bonds from developing countries advancing only **2.1%**. Benchmark-relative performance benefitted from the fund's allocation to inflation-linked bonds from developed countries, which has advanced **6.9%** for the year-to-date.

## Fixed Income Fund

Fund	September	QTD	YTD
Fixed Income Fund	-1.70%	-1.07%	+3.92%
Barclays U.S. Universal (ex MBS) Index	-0.99%	-0.10%	+4.15%
Difference	-0.71%	-0.97%	-0.23%

- The Fixed Income Fund declined **1.70%** in September and meaningfully underperformed its benchmark return by **0.71%**. U.S. dollar strength was primarily responsible for the fund's underperformance, as its diversifying strategies of holding bonds denominated in currencies other than the U.S. dollar detracted from benchmark-relative performance. The fund's allocation to bonds from developing countries declined **4.4%** and its allocation to bonds from developed countries declined **2.5%**. In addition, the Fixed Income Fund's allocation to a variety of credit strategies exceeds its benchmark allocation to these strategies. Meanwhile, bonds exposed to credit risk declined over concerns about the Eurozone's economic recovery. The fund's allocation to positive social purpose (PSP) loans declined **0.6%**, but positively contributed to benchmark-relative performance.
- For the third quarter, the Fixed Income Fund declined **1.07%** and significantly underperformed the benchmark return by **0.97%**. As for the month of September, the fund's underperformance is largely attributable to its allocation to non-dollar bonds, which were adversely affected by strength of the U.S. dollar. The Fixed Income Fund's 11% allocation to bonds from developing countries declined **4.2%** and was the fund's worst-performing strategy. In addition, the fund's allocation to bonds from developed countries declined **2.5%**. The fund's best-performing strategy was its allocation to positive social purpose loans, which gained **0.7%** during the third quarter.
- For the year-to-date, the Fixed Income Fund has gained **3.92%**, but has underperformed its benchmark return by **0.23%**. The fund's best-performing strategy is its allocation to positive social purpose loans, which has gained **6.3%**. In addition, the fund's two core managers have both outperformed their respective benchmarks by **0.8%**. The positive contributions from these strategies, however, were more than offset by the fund's allocations to international bonds. The Fixed Income Fund's allocation to developed country bonds and developing country bonds have gained **2.5%** and **3.2%**, respectively and have been adversely affected by U.S. dollar strength.

## U.S. Equity Fund

Fund	September	QTD	YTD
U.S. Equity Fund	-2.91%	-1.24%	+5.41%
Russell 3000	-2.08%	+0.01%	+6.95%
Difference	-0.83%	-1.25%	-1.54%

- The U.S. Equity Fund declined **2.91%** in September and meaningfully underperformed the fund's Russell 3000 Index benchmark by **0.83%**. The fund's greater-than-benchmark exposure to the stocks of small companies detracted from performance as the Russell 2000 Index of small companies declined **6.1%** in September, compared with the **1.4%** decline of the S&P 500. In addition, the fund's allocation to publicly traded real estate investment trusts (REITs) declined **5.5%**, reversing the strong gains recognized year-to-date through August. The U.S. Equity Fund benefitted from its approximately 6% allocation to the diversifying strategies of private real estate and private equity—which both realized modest gains during September.

- For the third quarter, the U.S. Equity Fund declined **1.24%** and meaningfully underperformed the fund benchmark return by **1.25%**. For the quarter, the fund's small company benchmark-relative overweight detracted from performance, as the Russell 2000 Index declined **7.4%** compared with a **1.1%** gain for the large company S&P 500 Index. In addition, the fund's allocation to public REITs declined **2.5%**. The fund's 6% allocation to the diversifying alternative investment strategies of private equity and private real estate contributed positively to benchmark-relative performance, as both strategies gained slightly more than **4%** during the third quarter.
- For the year-to-date, the U.S. Equity Fund has gained **5.41%** and has underperformed its benchmark return by **1.54%**. As for the month of September and third quarter, the fund's greater-than-benchmark allocation to the stocks of small companies detracted from performance, as the Russell 2000 Index has declined **4.4%** for the year-to-date compared with the **8.3%** gain for the large-cap S&P 500 Index. The fund's allocation to publicly traded REITs has gained **15.6%** and positively contributed to the fund's benchmark-relative performance.

### International Equity Fund

Fund	September	QTD	YTD
International Equity Fund	-5.61%	-6.46%	-2.79%
MSCI ACWI ex-US Investable Market Index	-4.95%	-5.47%	-0.01%
Difference	-0.66%	-1.01%	-2.80%

- The International Equity Fund declined **5.61%** in September but underperformed its benchmark return by **0.66%**. The fund's 13% allocation to small-company international stocks lost **7.5%** and detracted the most from benchmark-relative performance.
- For the third quarter, the International Equity Fund lost **6.46%** and underperformed the fund's benchmark by **1.01%**. The fund's allocation to small-company stocks declined **10%** and detracted the most from benchmark-relative performance. In addition, the fund's allocation to publicly traded international real estate investment trusts (REITs) lost **7.7%**. The fund's modest allocations to the alternative investment strategies of international private equity and private real estate recognized nominal gains, which partially offset the negative contribution from small company stocks and REITs.
- For the year-to-date, the International Equity Fund has declined **2.79%** and has meaningfully underperformed its benchmark return by **2.80%**. Approximately one-third of the fund's underperformance is attributable to its allocation to small-company stocks, which has lost **7.6%** for the year-to-date. Most of the rest of the International Equity Fund's underperformance is attributable to the collective underperformance by the fund's managers, as six of the seven 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 benefitted from a decline in interest rates. The MSCI EAFE IMI Growth Index declined **2.3%** for the year-to-date, compared with **0.8%** decline for the MSCI EAFE IMI Value Index.

## Multiple Asset Fund

Fund	September	QTD	YTD
Multiple Asset Fund	-3.23%	-2.59%	+2.77%
Composite Benchmark	-2.59%	-1.59%	+4.29%
Difference	-0.64%	-1.00%	-1.52%

- For September, the Multiple Asset Fund declined **3.23%** and underperformed its fund benchmark by **0.64%**. Three of the Multiple Asset Fund's four strategies detracted from September performance, with only the Inflation Protection Fund modestly outperforming its benchmark.
- For the third quarter, the Multiple Asset Fund lost **2.59%**, and underperformed its benchmark by **1.00%**. All four of the fund's underlying strategies underperformed their respective benchmarks due to their collective exposure to securities denominated in foreign currencies as well as higher-than-benchmark allocations to small company stocks in both the U.S. Equity Fund and International Equity Fund.
- For the year-to-date, the Multiple Asset Fund has gained **2.77%**, but has underperformed its benchmark return by **1.52%**. As reported above for the third quarter, all four of the Multiple Asset Fund's underlying strategies underperformed their respective benchmarks 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.

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)

Or:

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