

April 2014 Investment Report

Monthly Report

Markets

- U.S. equities as represented by the Russell 3000 Index increased **0.1%** during April. Investors favored less volatile, high dividend-paying blue chip stocks as the bellwether Dow Jones industrial average gained **0.7%** and ended the month at an all-time high, eclipsing the previous high set on December 31, 2013.
- For the second consecutive month, investors preferred large company stocks over small company stocks, and favored stocks classified as “value” over those with strong earnings growth. Energy was the top-performing sector (**+5.1%**), and utilities (**+2.6%**) and consumer staples (**+2.5%**) also gained. Bottom-performing sectors included financial services (**-1.6%**), health care (**-1.4%**) and consumer discretionary (**-1.4%**).
- International stocks gained **1.1%** as measured by the MSCI All Country World Index ex-US IMI. Developed markets gained **1.3%**, as measured by the MSCI World ex-US Index, while developing country equities gained **0.3%**, as measured by the MSCI Emerging Market Equity IMI. Canada, a net energy exporter, saw its equity markets increase **3.0%** as measured by the MSCI Canada Index. The MSCI Russia Index declined **6.5%** as turmoil in Ukraine continued to weigh on the markets.
- The U.S. Treasury yield curve flattened in April. The 2-year U.S. Treasury Note yield decreased by **0.01%** to **0.41%**, and the 10-year U.S. Treasury Note yield decreased by **0.07%** to **2.65%**. The long bond (30-year U.S. Treasury) decreased **0.10%** in yield to **3.46%**.
- U.S. Treasury securities as measured by the Barclays U.S. Treasury Index increased **0.6%** during April. Investment-grade debt as measured by the Barclays U.S. Credit Index increased **1.2%** during the month, reflecting increased investor confidence in corporate creditworthiness and a decrease in European sovereign yields. Below-investment-grade debt as measured by the Barclays U.S. Corporate High Yield Index increased **0.6%**.
- The U.S. dollar weakened in April, decreasing **0.8%** as measured by the U.S. Dollar Index. The euro increased **0.7%** relative to the dollar, and the Japanese yen increased **1.0%**. Developing country currencies were mixed relative to the dollar during April. The Brazilian real and Colombian peso each increased **1.8%**, but the Russian ruble and Indian rupee decreased **1.4%** and **0.7%**, respectively.
- Commodities as represented by the Dow Jones UBS Commodity Index increased **2.4%** in April. Coffee has increased **14.4%** during the month and gained **81.0%** in 2014 due to drought conditions in Brazil. Natural gas increased **9.5%** during the month and **22.7%** year-to-date after a frigid winter depleted supplies. The price of hogs decreased **3.2%** during the month but rose **27.0%** year-to-date due to the spread of a deadly hog virus.

Economics Highlights

- National Association of Realtors reported a rise in pending home sales of 3.4% during the month of March. This is the first gain reported over the past nine months. After a brutal winter, buyers are now looking at homes and starting to make contract offers. Home sales are still well below last year as tight credit availability and rising home prices are keeping potential buyers on the sidelines.
- U.S. consumer sentiment rose in April to a nine-month high as determined by the Thomson Reuters/University of Michigan's survey. The survey measures consumers' views on current and near-term economic conditions.
- The preliminary figures from the Bureau of Labor Statistics indicated strong job growth during April, with the unemployment rate dropping to 6.3%. Federal Reserve (Fed) Chair Janet Yellen placed a renewed emphasis on strengthening U.S. labor markets through monetary policy. She noted that the Fed will maintain its highly accommodative policies until the unemployment rate falls to a range of 5.2% - 5.6%. On April 30, the Fed announced it will continue to reduce the monthly bond purchases in May by \$10 billion to \$45 billion, while also keeping interest rates unchanged.
- Gross domestic product rose at an annual rate of 0.1% during the first quarter of 2014. This is the weakest performance in three years. Economists believe the weak performance is due to the unusually harsh winter weather. Preliminary indicators show improvement during the second quarter.

Geopolitical Headlines

- A South Korean ferry traveling to Jeju Island capsized on April 16 with 459 passengers on board. The majority of the passengers were high school students on a four-day excursion. The captain of the ferry and 14 crewmembers are facing criminal charges for leaving the ship and delaying the order to evacuate. Chung Hong-won, South Korea's prime minister, announced his resignation in accepting accountability for the government's slow initial reaction to the accident.
- The crisis in Ukraine continued to escalate during April. The U.S. has expanded its targeted sanctions against Russia. The new sanctions will freeze assets of 17 Russian companies and impose visa bans on seven government officials in reprisal for Moscow's actions in Ukraine.
- The search continues for Malaysia Airlines Flight 370, which is presumed to have disappeared over the Indian Ocean. An international coalition searching for the plane using equipment that scans the ocean floor has failed to find any evidence. A more intense search that will include the use of private contractors is planned. Families have begun filing lawsuits in American courts against the plane's manufacturer, Boeing Co.

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"> • Durable Goods Orders, Mar: 2.9% (Feb: 2.3%); M/M-SA • Housing Starts, Mar: 2.8% (Feb: 1.9%); M/M-SAAR • Institute for Supply Management Index, Apr: 54.9 (Mar: 53.7) • Nonfarm Payrolls, Apr: 288,000 • Producer Price Index core, Mar: 0.6% (Feb: -0.2%); M/M-SA • Producer Price Index, Mar: 0.5% (Feb: -0.1%); M/M-SA • Unemployment Rate, Apr: 6.3% (Mar: 6.7%)
	<p>Neutral Statistics</p> <ul style="list-style-type: none"> • Consumer Price Index core, Mar: 0.2% (Feb: 0.1%); M/M-SA • Consumer Price Index, Mar: 0.2% (Feb: 0.1%); M/M-SA • Existing Home Sales, Mar: -0.2% (Feb: -0.4%); M/M-SAAR • Factory Orders, Mar: 1.1% (Feb: 1.5%); M/M-SA • Retail Sales ex-auto, Mar: 0.7% (Feb: 0.4%); M/M-SA • Retail Sales, Mar: 1.2% (Feb: 0.8%); M/M-SA
	<p>Negative Statistics</p> <ul style="list-style-type: none"> • Consumer Confidence, Apr: 82.3 (Mar: 83.9) • New Home Sales, Mar: -14.5% (Feb: -4.5%); M/M-SAAR • Real Gross Domestic Product, Q1: 0.1% (Q4: 2.6%); Q/Q-SAAR • S&P/Case-Schiller 20-City Home Price Index, Feb: 12.9% (Jan: 13.2%); 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	April	YTD
Inflation Protection Fund	+1.26%	+3.77%
Barclay's Capital U.S. Government Inflation Linked Bond Index	+1.46%	+3.70%
Difference	-0.20%	+0.07%

- The Inflation Protection Fund gained **1.26%** in April but underperformed the fund benchmark by **0.20%**. Investors preferred the relative safety of U.S. Treasury Inflation Protected Securities (TIPS) in April as tensions in Ukraine continued to escalate and Federal Reserve Chair Yellen provided investors with reassurance of the Fed's measured approach in reducing its stimulative policies. The fund's 10% allocations to the diversifying strategies of commodities and inflation-linked debt from developing countries gained **2.3%** and **1.8%** respectively and positively contributed to benchmark-relative performance. However, the benchmark-relative gains of these two strategies were more than offset by the fund's allocation to floating rate bonds, which produced fractional returns in April.
- For the year to date, the Inflation Protection Fund has gained **3.77%** and has outperformed its benchmark by a modest **0.07%**. The fund's allocation to commodities has gained **8.1%**, and has positively contributed to the fund's benchmark-relative performance. The fund's allocation to floating rate senior secured debt, however, has only gained **1.2%**, which has detracted from benchmark-relative performance.

Fixed Income Fund

Fund	April	YTD
Fixed Income Fund	+0.84%	+3.23%
Barclays U.S. Universal (Ex MBS) Index	+0.80%	+2.89%
Difference	+0.04%	+0.34%

- The Fixed Income Fund gained **0.84%** in April and outperformed the fund benchmark return by a fractional **0.04%**. During the month, investors preferred the relative safety of higher quality bonds compared to higher risk bonds. The fund's allocations to investment grade corporate debt, international bonds (both developed and developing countries) and positive social purpose loans all contributed to positive benchmark-relative performance. The fund's allocation to below investment grade debt, however, detracted from benchmark-relative results.
- For the year to date, the Fixed Income Fund has gained **3.23%** and has outperformed the fund benchmark by **0.34%**. The fund has benefitted from its below-benchmark allocation to U.S. government debt as investors demonstrated a willingness to accept a smaller premium for credit risk. The best performing strategy has been the fund's 8% dedicated investment-grade corporate bond strategy, which has gained **4.4%** for the year to date. All of the Fixed Income Fund's other strategies produced results that were fractionally above or below the fund benchmark.

U.S. Equity Fund

Fund	April	YTD
U.S. Equity Fund	-0.85%	+1.32%
Russell 3000	+0.12%	+2.10%
Difference	-0.97%	-0.78%

- The U.S. Equity Fund incurred a **0.85%** decline in April. For the second consecutive month, the fund meaningfully underperformed its Russell 3000 Index benchmark, which produced a gain of **0.12%**. The U.S. Equity Fund's holdings of stocks that produced exceptional returns in 2013 and in the first two months of 2014 continued to experience a reversal of their previously recognized gains. The fund's managers collectively have tilted their portfolios toward companies that exhibit

higher levels of earnings growth compared to more established “value” companies that generally pay higher dividends. In April (as in March), investors demonstrated a preference for high dividend-paying value stocks as the Russell 1000 Value Index returned **1.0%** compared to the flat return of the Russell 1000 Growth Index. In addition, the U.S. Equity Fund’s greater-than-benchmark allocation to stocks of small- and mid-sized companies adversely impacted the fund’s benchmark-relative performance, as the Russell 2000 Index of small stocks declined **3.9%** compared to a gain of **0.7%** for the large company S&P 500 Index. The fund’s 3% allocation to publicly traded real estate investment trusts (REITs) and 3% allocation to private real estate gained **3.7%** and **1.5%** respectively, and positively contributed to benchmark-relative performance.

- Because of April’s poor benchmark-relative performance, the U.S. Equity Fund’s **1.32%** return for the year-to-date trails the Russell 3000 benchmark by **0.78%**. The fund’s best performing strategy is its dedicated 3% allocation to publicly traded REITs, which has gained **14.4%** 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 have detracted from benchmark-relative performance as the Russell 2000 Index has declined **2.8%** for the year-to-date compared to the **2.6%** gain recognized by the S&P 500 Index of large companies. In addition, the fund’s collective growth bias has detracted from performance, as the Russell 1000 Growth Index has only gained **1.1%** year-to-date compared to the Russell 1000 Value Index gain of **4.0%**.

International Equity Fund

Fund	April	YTD
International Equity Fund	+0.63%	+1.09%
MSCI ACWI ex-U.S. Investable Market Index	+1.13%	+2.02%
Difference	-0.50%	-0.93%

- The International Equity Fund gained **0.63%** in April but underperformed its benchmark return by **0.50%**. As in the U.S. Equity Fund, the International Equity Fund’s managers collectively have higher-than-benchmark allocations to companies that benefit from earnings growth, such as information technology and consumer discretionary companies. These types of companies collectively underperformed “value” stocks that pay higher dividends, such as companies in the consumer staples, energy, telecommunications services and utilities industries. In addition, the fund’s 14% allocation to small company stocks declined **0.7%** and negatively contributed to the fund’s benchmark-relative underperformance.
- For the year to date, the International Equity Fund has gained **1.09%** and has underperformed its benchmark by **0.93%**. The fund’s allocation to international REITs has declined **1.5%** and has negatively contributed to benchmark-relative performance, as has the fund’s higher-than-benchmark allocation to companies with higher levels of earnings growth. The MSCI ACWI (ex-U.S.) IMI Growth Index has gained only **1.21%** compared to the **2.83%** return of the MSCI ACWI (ex-U.S.) IMI Value Index.

Multiple Asset Fund

Fund	April	YTD
Multiple Asset Fund	+0.15%	+1.98%
Composite Benchmark	+0.68%	+2.49%
Difference	-0.53%	-0.51%

- For April, the Multiple Asset Fund gained **0.15%** and underperformed the fund's composite benchmark by a disappointing **0.53%**. Most of the benchmark-relative underperformance is attributable to the below-benchmark performance of the U.S. Equity Fund and International Equity Fund.
- For the year, the Multiple Asset Fund has gained **1.98%**, but has underperformed its benchmark return by **0.51%**. The Multiple Asset Fund's two equity funds have underperformed their respective benchmarks and they are responsible for the Multiple Asset Fund's below-benchmark performance.

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