

## August 2015 Investment Report

Monthly Report

### Markets

- U.S. equities, represented by the Russell 3000 Index, decreased **6.0%** in August. Equity markets around the world experienced high volatility near month-end driven by concerns about slowing global economic growth, primarily in China and commodity-driven emerging markets. The Dow Jones Industrial Average suffered its largest one-month decline since May 2010.
- Small company stocks declined **6.3%**, as measured by the Russell 2000 Index, modestly underperforming large company stocks, which declined **6.0%**, as measured by the Russell 1000 Index. Given broad concerns about the slowdown in global growth, companies with strong earnings growth underperformed value companies. The technology-driven NASDAQ market experienced its largest monthly drop since May 2012. The Utilities sector was the best-performing Russell 3000 sector, falling **3.4%**, while Health Care was the worst performing Russell 3000 sector, declining **8.0%**.
- Non-U.S. stocks declined **7.4%**, as measured by the MSCI ACWI World ex-USA IMI index. Investors were especially cautious about developing markets, particularly those dependent upon commodity exports. Developed international markets, as measured by the EAFE index, decreased **7.4%**, while developing country stocks, as measured by the MSCI Emerging Markets Index IMI, declined **9.1%** in U.S. dollar terms. China's largest devaluation of the yuan against the dollar in two decades and subsequent market tremors raised fears that the Chinese economy was growing at a slower rate than previously thought. Shares in China's Shanghai market declined about **15%** during the month in dollar terms.
- The U.S. Treasury yield curve ended August modestly higher, although yields were volatile during the month. The 10-year Treasury note yield increased **0.04%** during the month to end at **2.22%**, but the yield fluctuated intra-month to as low as **1.90%** due to concerns about global economic growth that overshadowed expectations of potential increases in the Federal Funds Rate by the Federal Reserve.
- U.S. Treasury securities, as measured by the Barclays U.S. Treasury Index, increased less than **0.1%** in August, as income generated was offset by a decrease in prices. Investment-grade debt, as measured by the Barclays U.S. Credit Index, decreased **0.6%**. Below-investment-grade debt, as measured by the Barclays U.S. Corporate High-Yield Index, decreased **1.7%** and underperformed investment-grade debt during the month. Energy was again the weakest sector within the high-yield index, decreasing nearly **7%**.
- The U.S. dollar weakened **1.3%** in August, as measured by the U.S. Dollar Index. The euro and Japanese yen increased **2.1%** and **2.2%** relative to the dollar, respectively, as fears of an economic slowdown in China reduced expectations that the U.S. Federal Reserve will increase short term interest rates in September. Developing country currencies were generally weaker, and the Brazilian real and Russian ruble decreased **5.5%** and **3.9%**, respectively. The prospect of declining Chinese demand for commodity exports contributed to expectations of economic weakness in those countries.

- Commodities, as represented by the Bloomberg Commodity Index, decreased **0.9%** in August. The Grains sub-index decreased 3.6% amid reports of adequate supplies. Industrial metals decreased **2.8%** amid concerns about declining demand from China. The Petroleum sub-index ended August **2.2%** higher as the price of oil rebounded during the last week of the month. The price of West Texas Intermediate (WTI) crude oil declined to as low as **\$38.22** per barrel before increasing to **\$49.19** at the end of the month.

## Economics Highlights

- The Bureau of Economic Analysis released its second estimate of second quarter U.S. gross domestic product (GDP), which indicated growth of 3.7%. This is above their advanced estimate of 2.3%. The revised estimate reflects a decrease in imports and increases in nonresidential fixed investment, private inventory investment, state and local government spending, and personal consumption expenditures.
- The U.S. economy added 173,000 jobs during the month, and the unemployment rate dropped from 5.3% in July to 5.1% in August. Although total job gains were below the reported gains expected by economists of 220,000, the unemployment rate reached a level considered by the Federal Reserve as “full employment.” Wage growth remains slow, with average hourly earnings increasing 0.3% during the month and 2.2% for the one year period. The labor force participation rate remains at a historic low of 62.6% for the third consecutive month.
- The Commerce Department reported that overall housing starts rose 0.2% in July to a seasonally adjusted rate of 1.21 million, the highest level since October 2007. Single-family starts increased 21.8% and multifamily unit starts fell 17%. New applications for building permits declined 16.3% to 1.1 million.
- The U.S. Census Bureau and Department of Housing and Urban Development reported new single-family home sales in July increased 5.4% from the prior month to a seasonally adjusted annual rate of 507,000. The July 2015 sales are 25.8% above the July 2014 estimate of 403,000. The seasonally adjusted estimate of new homes for sale at the end of July was 218,000 or 5.2 months of supply based on the current sales rate.
- The Shanghai Composite Index lost 8.5% on August 24, its biggest single-day percentage loss since 2007. International commentators labeled the day “Black Monday” and China responded by cutting interest rates for the fifth time since November 2014. Additionally, China’s manufacturing purchasing-managers index, a measure of manufacturing activity, fell to 49.7 in August from 50 reported for July.

## Geopolitical Headlines

- The Greek parliament approved new austerity measures in July in order to unlock a new three-year €86 billion bailout package negotiated with Eurozone creditors. Subsequently, Prime Minister Alexis Tsipras, who initially opposed the measures, managed to pass them with help from opposition parties and announced his resignation to seek a vote of confidence. Elections, which will provide for the third national vote in eight months, will be held September 20.
- Military action by the U.S. continues against the Islamic State of Iraq and Syria (ISIS). Saudi Arabia’s role in suppressing Houthi rebels in Yemen has increased. Saudi Arabia acknowledged sending ground forces into Yemen in response to border attacks.

- Moody's Investor Service reduced Brazil's credit rating to Baa3, its lowest investment grade level, but assigned a stable outlook. Moody's noted a weakening economy and rising government spending. Continued economic weakness and corruption scandals led thousands of Brazilians to protest and call for the impeachment of President Dilma Rousseff. Only seven months into her second term, Rousseff's approval rating has dropped to 8%.

Sources: Forbes, Reuters, Bloomberg, The Economist, Energy Information Administration, The Wall Street Journal, CBS News, FactSet, Barclays, Russell, CNBC, CNN, The New York Times, Associated Press, Bridgewater Associates, Wikipedia and NASDAQ.

## Key Monthly Economic Statistics

This table contains a list of key monthly economic statistics.

	<p><b>Positive Statistics</b></p> <ul style="list-style-type: none"> <li>Consumer Confidence, Aug: 101.5 (Jul: 91.0)</li> <li>Durable Goods Orders, Jul: 2.2% (Jun: 4.1%); M/M-SA</li> <li>Existing Home Sales, Jul: 2.0% (Jun: 3.0%); M/M-SAAR</li> <li>New Home Sales, Jul: 5.4% (Jun: -7.7%); M/M-SAAR</li> <li>Real Gross Domestic Product, Q2: 3.7% (Q1: 0.6%); Q/Q-SAAR</li> <li>Retail Sales, Jul: 0.6% (Jun: 0.0%); M/M-SA</li> <li>Unemployment Rate, Aug: 5.1% (Jul: 5.3%)</li> </ul>
	<p><b>Neutral Statistics</b></p> <ul style="list-style-type: none"> <li>Consumer Price Index core, Jul: 0.1% (Jun: 0.2%); M/M-SA</li> <li>Consumer Price Index, Jul: 0.1% (Jun: 0.3%); M/M-SA</li> <li>Institute for Supply Management Index, Aug: 51.1 (Jul: 52.7)</li> <li>Producer Price Index core, Jul: 0.3% (Jun: 0.3%); M/M-SA</li> <li>Producer Price Index, Jul: 0.2% (Jun: 0.4%); M/M-SA</li> <li>Retail Sales ex-auto, Jul: 0.4% (Jun: 0.4%); M/M-SA</li> <li>S&amp;P/Case-Shiller 20-City Home Price Index, Jun: 5.0% (May: 5.0%); Y/Y</li> <li>Nonfarm Payrolls, Aug: 173,000</li> </ul>
	<p><b>Negative Statistics</b></p> <ul style="list-style-type: none"> <li>Factory Orders, Jul: 0.4% (Jun: 2.2%); M/M-SA</li> <li>Housing Starts, Jul: 0.2% (Jun: 12.3%); 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

Fund	August	YTD
Inflation Protection Fund	-1.23%	-2.38%
Barclays Capital U.S. Government Inflation Linked Bond Index	-0.85%	-0.42%
Difference	-0.38%	-1.96%

- The Inflation Protection Fund (IPF) declined **1.23%** in August and underperformed the fund's benchmark return by **0.38%**. The fund's 10% exposure to inflation-linked bonds from developing countries declined **4.4%** for the month, and was the primary reason for the fund's underperformance. Continued fears of slower Chinese growth more broadly threatens the economies of the developing world, resulting in dollar strengthening relative to developing country currencies.
- For the year-to-date, the Inflation Protection Fund lost **2.38%** and underperformed the fund benchmark by **1.96%**. The fund's diversifying strategies of commodity futures contracts and inflation-linked bonds from developing countries contributed the most to the fund's underperformance, declining **12.5%** and **13.6%** for the year-to-date. The fund's two floating rate strategies of senior secured loans and asset-backed securities each gained **3.9%**, and positively contributed to benchmark-relative results. In addition, the fund's allocation to dollar-hedged global inflation-linked bonds gained **0.7%**, partially offsetting the benchmark-relative losses from commodities and developing country inflation-linked bonds.

#### Fixed Income Fund

Fund	August	YTD
Fixed Income Fund	-0.88%	-0.93%
Barclays U.S. Universal (Ex MBS) Index	-0.41%	+0.46%
Difference	-0.47%	-1.39%

- The Fixed Income Fund (FIF) declined **0.88%** in August and underperformed its benchmark return by **0.47%**. The fund's 10% allocation to bonds from developing countries declined **2.8%** due to strength of the U.S. dollar relative to developing country currencies. In addition, similar to what transpired in July, the fund's two below-investment-grade fixed income strategies detracted from performance largely due to the decline in the price of oil and its impact on bond prices for energy-related companies. The fund's high-yield strategy declined **1.8%**, and the fund's credit opportunities strategy declined **1.7%** for the month. The fund's allocation to positive social purpose loans gained **0.2%** and positively contributed to benchmark-relative performance.
- For the year-to-date, the Fixed Income Fund lost **0.93%** and underperformed its benchmark by **1.39%**. The fund's allocations to bonds denominated in foreign currencies from both developed and developing countries declined **6.1%** and **3.3%**, respectively, due to strength of the U.S. dollar relative to most foreign currencies during the first eight months of the year. The U.S. dollar benefitted from

higher U.S. interest rates and investor perception of stronger U.S. growth relative to foreign economies. In addition, the fund's allocation to investment-grade corporate bonds declined **0.6%**, largely due to higher levels of debt issuance as companies aggressively borrowed prior to anticipated rate increases later in 2015. The fund's allocation to positive social purpose loans gained **3.7%**. The fund's largest investment manager (PIMCO) outperformed its benchmark by **0.4%**, positively contributing to the fund's benchmark-relative performance.

### Extended Term Fixed Income Fund

Fund	August	YTD
Extended Term Fixed Income Fund	-0.68%	-1.80%
Barclays U.S. Government/Credit Long Term Index	-0.80%	-2.36%
Difference	+0.12%	+0.56%

- The newly created Extended Term Fixed Income Fund (ETFIF) declined **0.68%** in August, but slightly outperformed its benchmark return by **0.12%**. Long-term interest rates increased in August in anticipation of Federal Reserve action to increase short-term borrowing rates. Wespath is temporarily holding bonds with shorter terms compared with bonds held in the fund benchmark until interest rates rise to historically normal levels. Hence, for the near term, the Extended Term Fixed Income Fund will likely outperform its benchmark when interest rates increase and will underperform when interest rates decline. Click [here](#) for more information about the Extended Term Fixed Income Fund.
- For the three months since the fund's inception, the Extended Term Fixed Income Fund declined **1.80%**, which exceeded the fund benchmark return by **0.56%**. As indicated above, Wespath expects the fund to outperform when interest rates increase, and rates have increased since the inception of the fund.

### U.S. Equity Fund

Fund	August	YTD
U.S. Equity Fund	-5.49%	-2.17%
Russell 3000	-6.04%	-2.61%
Difference	+0.55%	+0.44%

- The U.S. Equity Fund (USEF) lost **5.49%** in August and outperformed its Russell 3000 Index benchmark by **0.55%**. The fund benefitted from its allocations to the alternative investment strategies of private real estate, which recognized a **3.1%** gain in August, and private equity, which recognized a loss of only **1.6%** for the month. In addition, six of the fund's seven active small and midcap managers outperformed their respective benchmarks.
- For the year-to-date, the U.S. Equity Fund declined **2.17%** but outperformed its benchmark return by **0.44%**. The fund's more than 3% allocation to the alternative equity strategy of private real estate has recognized a gain of **11.1%**, which contributed the most to benchmark-relative performance.

### International Equity Fund

Fund	August	YTD
International Equity Fund	-7.13%	-4.93%
MSCI ACWI ex-US Investable Market Index	-7.37%	-3.60%
Difference	+0.24%	-1.33%

- The International Equity Fund (IEF) declined **7.13%** in August and outperformed its benchmark return by **0.24%**. The fund's modest 2% allocation to private real estate recognized a gain of **7.8%**, which contributed the most to the fund's benchmark-relative performance. In addition, the fund's dedicated allocation to small company stocks declined **4.9%**, which also positively contributed to benchmark relative performance.
- For the year-to-date, the fund declined **4.93%** and underperformed the fund benchmark by **1.33%**. All but one of the fund's active managers underperformed their respective benchmarks, with significant below-benchmark performance by the two investment managers that have exposure to stocks from developing countries. The fund's public REIT investment manager significantly outperformed its benchmark so far this year, partially offsetting the negative benchmark-relative results from the fund's other managers.

### Multiple Asset Fund

Fund	August	YTD
Multiple Asset Fund	-4.33%	-2.56%
Composite Benchmark	-4.44%	-1.73%
Difference	+0.11%	-0.83%

- For August, the Multiple Asset Fund (MAF) declined **4.33%** and slightly outperformed its fund benchmark by **0.11%**. Both the fund's equity strategies positively contributed to benchmark-relative performance, while the two fixed income strategies negatively contributed to benchmark-relative performance.
- For the year-to-date, the Multiple Asset Fund had declined **2.56%** and underperformed its benchmark return by **0.83%**. The U.S. Equity Fund positively contributed to benchmark-relative performance, while the fund's other three strategies detracted from benchmark-relative performance.

### Equity Social Values Plus Fund

Fund	August	YTD
Equity Social Values Plus Fund	-6.71%	-3.29%
MSCI World Custom ESG Special Weighted Index	-6.47%	-2.52%
Difference	-0.24%	-0.77%

- The Equity Social Values Plus Fund is a passively managed fund designed to closely match the fund benchmark, less fees and expenses.

## U.S. Equity Index Fund

Fund	August	YTD
U.S. Equity Index Fund	-6.00%	-2.96%
Russell 3000 Index	-6.04%	-2.61%
Difference	+0.04%	-0.35%

- The U.S. Equity Index Fund is a passively managed fund designed to closely match the fund benchmark, less fees and expenses.

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*Historical returns are not indicative of future performance. Fund returns are net of fees. 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*