

August 2016 Investment Report

August Highlights

- At an economic policy symposium in Jackson Hole, Federal Reserve (Fed) Chairman Janet Yellen signaled that recent signs of economic strength were sufficient to warrant raising the Fed Funds rate as early as September.
- The broader U.S. equity market rose modestly with small-cap stocks outperforming large- and mid-cap stocks; value stocks outperformed growth stocks. International stocks continued their upward trend post-Brexit led by stocks of companies domiciled in the emerging markets. Debt markets reflected a “risk-on” sentiment with the high-yield sector outperforming U.S. Treasuries.
- Wespath’s equity funds delivered positive absolute and relative returns for the month. Major contributors to equity funds’ performance included exposure to small-cap companies and better-than-benchmark performance by emerging markets managers. The Fixed Income Fund gained from exposure to higher-risk debt strategies. Performance of the Inflation Protection Fund was hampered by an underweight to developed country international inflation-linked bonds and commodities.

Monthly Overview

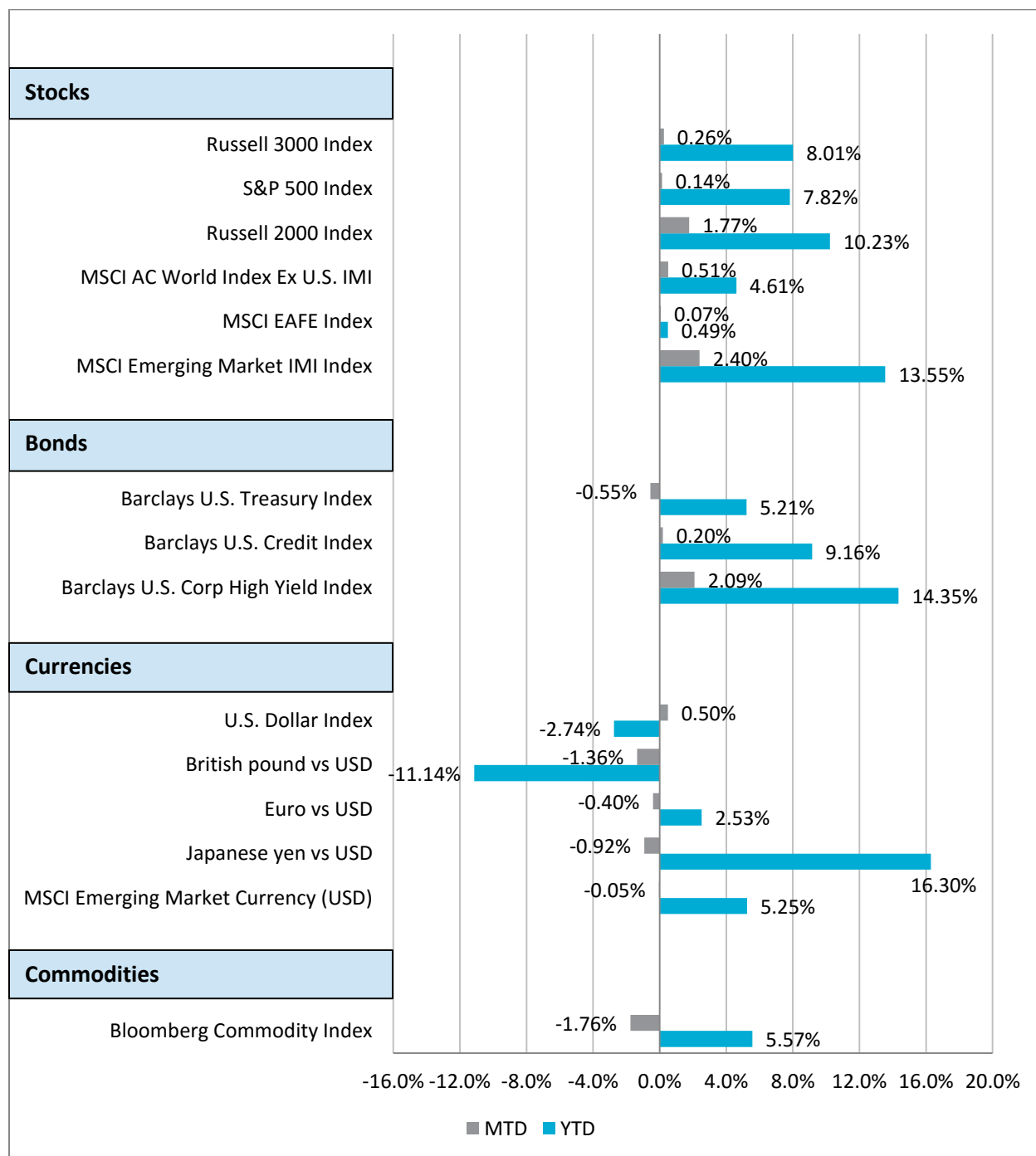
U.S. economy: Fed Funds Rate increase may be in the wings

The Fed left the rate it charges for bank deposits (Fed Funds) unchanged at its August meeting, but several pronouncements from Fed officials regarding the strong July jobs report suggested that the Fed Funds rate would increase sooner than prevailing market expectations. The July data of new non-farm employment, released in August, grew by 255,000, following strong June numbers. Other economic data released during the month was mixed with mediocre results for retail sales, productivity growth, corporate earnings and existing home sales. Positive indicators included new home sales, wage growth and a rebound in durable goods orders. The improvement in durable goods orders implies U.S. companies are increasing business investment after a long period of decline. U.S. consumer confidence reached an 11-month high and the unemployment rate remained at 4.9%.

Brexit’s Impact lingers

Citing a weak outlook after the United Kingdom’s (U.K.) vote to leave the European Union (EU)—“Brexit”—the Bank of England (BoE) significantly reduced its 2017 growth forecast for the British economy and dropped its benchmark interest rate from 0.5% to 0.25%, the lowest rate in its 322-year history. Rates on the 10-year U.K. government note fell to historic lows, helping the U.K. debt market perform better in August than all other developed countries. Interest rates for U.S. debt markets fluctuated within a narrow range as the 10-year Treasury rate barely budged during the month. Despite low rates, municipal government bond issuances fell to levels not seen in the past 20 years as government officials resist adding debt for infrastructure-related spending. Instead, they are choosing to keep budgets balanced and tax increases low, particularly in an election year.

Market Performance



Source: FactSet, As of August 31, 2016

Key Monthly Economic Statistics

Statistic	Monthly/Yearly Change	Positive
Consumer Confidence	Aug: 101.1 (Jul: 96.7)	▲
Durable Goods Orders	Jul: 4.4% (Jun: -4.2%); M/M-SA	▲
New Home Sales	Jul: 12.4% (Jun: 1.7%); M/M-SAAR	▲
Nonfarm Payrolls	Jul: 255,000 (Jun: 292,000)	▲
Unemployment Rate	Jul: 4.9% (Jun: 4.9%)	▲
		Neutral
Consumer Price Index core	Jul: 0.1% (Jun: 0.2%); M/M-SA	◆
Consumer Price Index	Jul: 0.0% (Jun: 0.2%); M/M-SA	◆
Housing Starts	Jul: 2.1% (Jun: 5.1%); M/M-SAAR	◆
Institute for Supply Management Index	Jul: 52.6% (Jun: 53.2%)	◆
Producer Price Index core	Jul: -0.3% (Jun: 0.4%); M/M-SA	◆
Producer Price Index	Jul: -0.4% (Jun: 0.5%); M/M-SA	◆
S&P/Case-Shiller 20-City Home Price Index	Jun: 5.1% (May: 5.3%); Y/Y	◆
		Negative
Existing Home Sales	Jul: -3.2% (Jun: 1.1%); M/M-SAAR	▼
Factory Orders	Jun: -1.5% (May: -1.2%); M/M-SA	▼
Real Gross Domestic Product	Jun: 1.1% (Mar: 0.8%); Q/Q-SAAR	▼
Retail Sales ex-auto	Jul: -0.3% (Jun: 0.9%); M/M-SA	▼
Retail Sales	Jul: 0.0% (Jun: 0.8%); 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)ⁱ

Equity Funds

U.S. Equity Fund

Fund	August	YTD
U.S. Equity Fund	+0.64%	+7.01%
Russell 3000 Index	+0.26%	+8.01%
Difference (percentage points)	+0.38	-1.00

- U.S. Equity Fund's overweight to small-cap stocks contributed to its benchmark-relative outperformance for the month. The fund's 2% allocation to Real Estate Investment Trusts declined 3.7% and modestly detracted from performance.
- For the year-to-date period, the fund's strategic asset allocation of overweighting small- and mid-cap stocks with a corresponding underweight in large-cap stocks, positively contributed to relative performance. In addition, an underweight to higher dividend-yielding securities, including strong performing telecommunication services companies, as well as the fund's allocation to the alternative investment strategies of private equity and private real estate detracted from performance.

International Equity Fund

Fund	August	YTD
International Equity Fund	+1.17%	+6.51%
MSCI ACWI ex US Investable Market Index	+0.51%	+4.61%
Difference (percentage points)	+0.66	+1.90

- The International Equity Fund's daily valuation policy (described [here](#)) contributed to the fund's positive benchmark-relative performance for the month- and year-to-date periods.
- During the month, the fund also benefited from strong performance of stocks in the United Kingdom and emerging markets. All of the fund's active managers in the developed markets outperformed their respective benchmarks.
- Year-to-date, two of the fund's three emerging market managers and the three largest developed market managers outperformed their strategy benchmarks, contributing positively to benchmark-relative performance. However, the below-benchmark performance of the fund's dedicated allocations to developed small-cap stocks and international REITs detracted from performance.

Equity Social Values Plus Fund

Fund	August	YTD
Equity Social Values Plus Fund	+0.28%	+5.46%
MSCI World Custom ESG Special Weighted Index	+0.18%	+6.03%
Difference (percentage points)	+0.10	-0.57

- The Equity Social Values Plus Fund is a passively managed fund designed to closely match the fund benchmark, less fees and expenses. Relative performance is affected by the international daily valuation policy (described [here](#)).

U.S. Equity Index Fund

Fund	August	YTD
U.S. Equity Index Fund	+0.30%	+7.81%
Russell 3000 Index	+0.26%	+8.01%
Difference (percentage points)	+0.04	-0.20

- The U.S. Equity Index Fund is a passively managed fund designed to closely match the fund benchmark less fees and expenses. For the month, the weak performance of stocks excluded from the portfolio for ethical reasons, positively contributed to benchmark-relative performance.

Fixed Income Funds

Fixed Income Fund

Fund	August	YTD
Fixed Income Fund	+0.40%	+8.47%
Barclays U.S. Universal (Ex MBS) Index	+0.11%	+7.69%
Difference (percentage points)	+0.29	+0.78

- The fund's strategy to overweight high-yield and emerging markets bonds was the strongest contributor to benchmark-relative performance during August and for the year-to-date. Investors have been attracted to both markets because of higher yields and gradually improving emerging markets economies.

Extended Term Fixed Income Fund

Fund	August	YTD
Extended Term Fixed Income Fund	+0.25%	+11.61%
Barclays U.S. Government/Credit Long Term Index	-0.03%	+17.22%
Difference (percentage points)	+0.28	-5.61

- For the month, the fund's strategic policy to maintain a shorter-than-benchmark duration and an underweight in U.S. Treasury bonds contributed to the fund's positive benchmark-relative performance due to the modest increase in U.S Treasury rates during August.

- Year-to-date, longer maturity bonds outperformed bonds with shorter maturities—the fund’s strategy of maintaining shorter-than-benchmark duration detracted from benchmark-relative performance.

Inflation Protection Fund

Fund	August	YTD
Inflation Protection Fund	+0.67%	+8.49%
BC Universal Government Inflation Linked Bond Index (USD Unhedged)	+1.65%	+11.69%
Difference (percentage points)	-0.98	-3.20

- The Inflation Protection Fund’s underweight position in developed country (non-U.S.) inflation linked bonds detracted from benchmark-relative performance for the month. An index of U.K. inflation linked bonds gained 9.4% concurrent with monetary action taken by the Bank of England. The fund’s 9% allocation to commodities also detracted from performance for the month.
- Year-to-date, the fund’s strategic underweight of non-dollar currencies detracted from benchmark-relative performance—the U.S. dollar fell 2.7% against a basket of currencies, as measured by the U.S. Dollar Index. The diversifying allocations to commodities futures contracts, real assets and high-yield asset-backed securities detracted from benchmark-relative performance.

Balanced Fund

Multiple Asset Fund

Fund	August	YTD
Multiple Asset Fund	+0.72%	+7.45%
Composite Benchmark ⁱⁱ	+0.42%	+7.57%
Difference (percentage points)	+0.30	-0.12

- Three of the Multiple Asset Fund’s four underlying strategies outperformed their respective benchmarks in June. The Inflation Protection Fund was the sole detractor from benchmark-relative performance.
- Year-to-date, the International Equity Fund and Fixed Income Fund contributed positively to benchmark-relative performance, while the U.S. Equity Fund and Inflation Protection Fund detracted.

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ⁱ 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*.

ⁱⁱ Prior to January 1, 2006, the benchmark for the Multiple Asset Fund (MAF) was a blended index with weightings as follows: 47% Russell 3000 Index, 15% MSCI EAFE Index, 3% MSCI Emerging Markets Index and 35% Lehman Brothers U.S. Universal Index. On January 1, 2006, the performance benchmark for MAF became a blended index based on the following weightings: 45% Russell 3000 Index, 20% MSCI All Country World Index ex USA IMI, 25% Barclays Capital U.S. Universal Index ex-Mortgage Backed Securities and the 10% Barclays Capital U.S. Government Inflation-Linked Bond Index. On January 1, 2014, the performance Benchmark for MAF became 40% Russell 3000 Index, 25% MSCI All Country World Index (ACWI) excluding USA Investable Market Index (IMI), 25% Barclays Capital U.S. Universal Index ex-Mortgage Backed Securities, and 10% Barclays Capital U.S. Government Inflation-Linked Bond Index. On January 1, 2016, the performance Benchmark for MAF became 40% Russell 3000 Index, 25% MSCI All Country World Index (ACWI) excluding USA Investable Market Index (IMI), 25% Barclays Capital U.S. Universal Index ex-Mortgage Backed Securities, and 10% Barclays Capital Universal Government Inflation Linked Bond Index (USD Unhedged).