

August 2018 Investment Report

Highlights

- U.S. equity markets rose to new highs, despite continued trade tensions. Investors remained focused on the strength of the U.S. economy supported by strong employment market, higher income levels, increased consumer confidence as well as discretionary spending.
- Emerging market securities continued to weaken, a trend that began during the second quarter.
- In August, the U.S. Equity Fund, Inflation Protection Fund and Multiple Asset Fund outperformed their respective benchmarks, while the International Equity Fund and Fixed Income Fund underperformed.

Monthly Overview

Longest bull market for U.S. equities

U.S. equity markets rose during the month despite continued trade tensions. The S&P 500 achieved the landmark of the longest bull market in modern history. Investors continue to focus on the strength of the U.S. economy as opposed to the potential impact of trade wars. The Commerce Department reported that second quarter corporate profits, boosted by tax cuts and strong economic growth, rose 16% over the prior year. In addition, the labor market remains strong, though inflation is approaching 3%. The only sign of weakness is in several housing indicators such as new and existing home sales, attributable to higher interest rates due to Fed tightening and higher home prices.

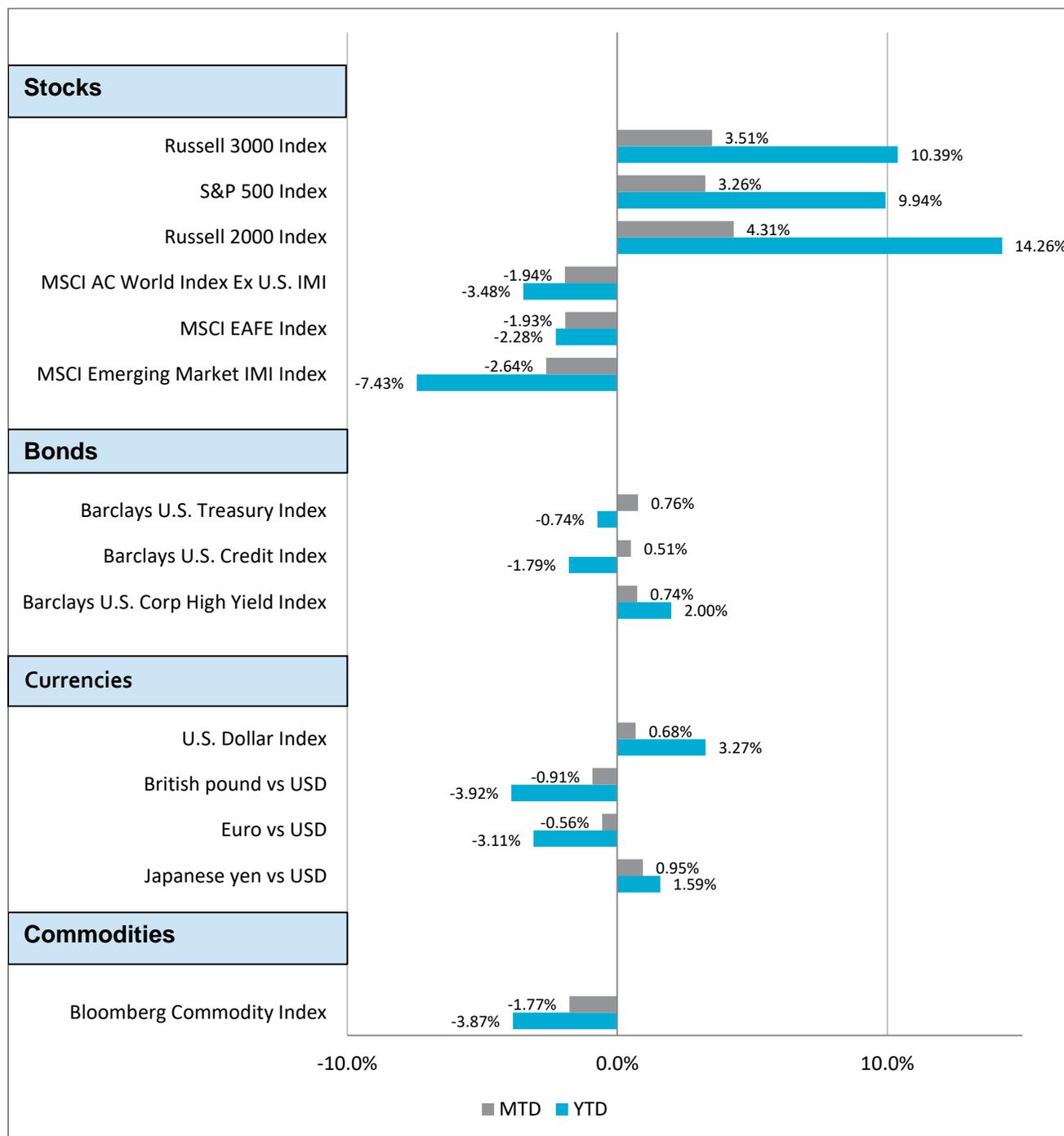
Emerging markets deteriorated

Argentina and Turkey led the continued decline in the value of emerging market securities during the month. Argentina's President Mauricio Macri asked the International Monetary Fund for a \$50 billion bailout to cover debt payments while Argentina's central bank raised short-term interest rates from 45% to 60% to defend the peso. In addition, Turkish President Erdogan continued to pressure Turkey's central bank to keep interest rates low even after inflation hit a 15-year high of nearly 18% in August. There is concern the specific events in these countries will fuel contagion fears in other emerging markets.

Fed Chairman Powell defends gradualist approach

Central bankers from around the world gathered at the Jackson Hole Economic Policy Symposium, where Chairman Jerome Powell addressed the gathering for the first time as the Fed Chair. He expects the economy's strong performance will continue and he confirmed the Fed's normalization process of gradual rate increases to keep inflation near target. The 10-year Treasury bond yield decreased by 12 basis points during the month, but the yield remained within the 2.75%-3.0% range as investors shifted to higher quality bonds amid emerging market concerns.

Market Performance



Source: FactSet, as of August 31, 2018

Key Monthly Economic Statistics

Statistic	Monthly/Yearly Change	Positive
Consumer Confidence	Aug: 133.4 (Jul: 127.9)	▲
Institute for Supply Management Index	Aug: 61.3% (Jul: 58.1%)	▲
Nonfarm Payrolls	Aug: 201,000 (Jul: 147,000)	▲
Real Gross Domestic Product	Jun: 4.2% (Mar: 2.2%); Q/Q-SAAR	▲
S&P/Case-Shiller 20-City Home Price Index	Jun: 6.3% (May: 6.5%); Y/Y	▲
Unemployment Rate	Aug: 3.9% (Jul: 3.9%)	▲
		Neutral
Consumer Price Index core	Aug: 0.1% (Jul: 0.2%); M/M-SA	◆
Consumer Price Index	Aug: 0.2% (Jul: 0.2%); M/M-SA	◆
Housing Starts	Jul: 0.9% (Jun: -12.9%); M/M-SAAR	◆
Retail Sales ex-auto	Aug: 0.3% (Jul: 0.9%); M/M-SA	◆
Retail Sales	Aug: 0.1% (Jul: 0.7%); M/M-SA	◆
Durable Goods Orders	Jul: -1.7% (Jun: 0.9%); M/M-SA	▼
Existing Home Sales	Jul: -0.7% (Jun: -0.6%); M/M-SAAR	▼
Factory Orders	Jul: -0.8% (Jun: 0.6%); M/M-SA	▼
New Home Sales	Jul: -1.7% (Jun: -2.4%); M/M-SAAR	▼
Producer Price Index core	Aug: -0.1% (Jul: 0.1%); M/M-SA	▼
Producer Price Index	Aug: -0.1% (Jul: 0.0%); 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	+4.45%	+12.61%
Russell 3000 Index	+3.51%	+10.39%
Difference (percentage points)	+0.94	+2.22

- In August, the fund's strategic overweight to small- and mid-sized company stocks and corresponding underweight in large-company stocks, contributed positively to benchmark-relative performance. The fund's dedicated allocation to private equity investments contributed positively to performance, while investments in private real estate detracted. Strong performing investments in health care technology-focused companies contributed the most to fund performance. In addition, Wespath's Ethical Exclusions policy benefited the fund due to poor performing tobacco company stocks.
- Year-to-date, two growth-oriented managers' investments in e-commerce, biotech and healthcare equipment companies were the primary contributors to the fund's positive benchmark-relative performance. In addition, the fund's strategic overweight to small- and mid-sized companies, and corresponding underweight in large-company stocks, contributed positively to benchmark-relative performance. The fund also benefited from not holding underperforming tobacco stocks.

International Equity Fund

Fund	August	YTD
International Equity Fund	-2.14%	-2.51%
MSCI ACWI ex U.S. Investable Market Index (Net)	-1.94%	-3.48%
Difference (percentage points)	-0.20	+0.97

- In August, the fund benefited from dedicated investments in private equity and private real estate. However, this was more than offset by underperforming active strategies across both developed and emerging markets. During the month, the fair market valuation policy (described [here](#)) was not a meaningful contributor or detractor to performance.
- Year-to-date, the fund's strategic underweight to developed market equities, and corresponding overweight to emerging market equities, detracted from benchmark-relative returns. The fund benefited the most from strong performance by two developed market managers and one emerging market manager. Both private equity and private real estate positively contributed to relative returns.

Social Values Choice Equity Fund

Fund	August	YTD
Social Values Choice Equity Fund	+1.23%	+4.28%
SVCEF Benchmark ⁱⁱ	+1.25%	+4.26%
Difference (percentage points)	-0.02	+0.02

- The Social Values Choice Equity Fund is a passively managed fund designed to closely match the fund benchmark, less fees and expenses. The fair market valuation policy (described [here](#)) positively contributed to performance for the year, but detracted during the month.

U.S. Equity Index Fund

Fund	August	YTD
U.S. Equity Index Fund	+3.64%	+10.62%
Russell 3000 Index	+3.51%	+10.39%
Difference (percentage points)	+0.13	+0.23

- The U.S. Equity Index Fund is a passively managed fund designed to closely match the fund benchmark, less fees and expenses. Ethical exclusions (described [here](#)) positively contributed to benchmark-relative performance for the month and year-to-date.

Fixed Income Funds

Fixed Income Fund

Fund	August	YTD
Fixed Income Fund	+0.04%	-1.32%
Barclays U.S. Universal (ex MBS) Index	+0.46%	-1.14%
Difference (percentage points)	-0.42	-0.18

- In August, the allocation to non-U.S. dollar currencies, particularly those of emerging economies, detracted from benchmark-relative performance. The allocation to Wespath's Positive Social Purpose Lending Program contributed.
- Year-to-date, positive relative performance attributed to the fund's overweight allocation to below investment grade corporate bonds, and the allocations to Wespath's Positive Social Purpose Lending Program and alternative investments was more than offset by the exposure to non-U.S. dollar currencies. Non-dollar currencies, especially those of emerging market countries, suffered relative to the U.S. dollar because of expected implications from trade issues, geopolitics and country specific challenges.

Social Values Choice Bond Fund

Fund	August	YTD
Social Values Choice Bond Fund	+0.45%	-1.47%
Barclays U.S. Universal (ex MBS) Index	+0.46%	-1.14%
Difference (percentage points)	-0.01	-0.33

- For the month and year-to-date, interest rate strategies contributed positively to benchmark-relative performance, as did investment grade corporate bond security selection. Exposure to certain emerging market currencies detracted.

Extended Term Fixed Income Fund

Fund	May	YTD
Extended Term Fixed Income Fund	+0.65%	-2.30%
Barclays U.S. Government/Credit Long Term Index	+0.85%	-3.93%
Difference (percentage points)	-0.20	+1.63

- The Extended Term Fixed Income Fund's policy of maintaining a lower sensitivity to interest rate movements had a negative impact on month-to-date relative results, but contributed to the fund's positive benchmark-relative performance year-to-date.

Inflation Protection Fund

Fund	August	YTD
Inflation Protection Fund	-0.38%	-0.69%
IPF Benchmark ⁱⁱⁱ	-0.81%	-1.16%
Difference (percentage points)	+0.43	+0.47

- In August, the decision to strategically underweight U.K. inflation-linked bonds and the overweight allocation to U.S. Treasury Inflation Protected securities (TIPS) positively affected relative results.
- Year-to-date, the strategic underweight to U.K. inflation-linked bonds, the allocation to below-investment-grade floating rate strategies and the commodities manager's decision to overweight energy helped relative results. The emerging market inflation-linked bond manager's decision to overweight certain currencies, including the Brazilian real and South African rand, which weakened versus the U.S. dollar, detracted from benchmark-relative results.

U.S. Treasury Inflation Protection Fund

Fund	August	YTD
U.S. Treasury Inflation Protection Fund	+0.76%	-0.08%
Barclays U.S. Inflation Linked Bond Index	+0.73%	+0.15%
Difference (percentage points)	+0.03	-0.23

- The U.S. Treasury Inflation Protection Fund is a passively managed fund designed to closely match the performance of the fund benchmark, less fees and expenses.

Balanced Fund**Multiple Asset Fund**

Fund	August	YTD
Multiple Asset Fund	+0.97%	+3.41%
MAF Benchmark	+0.68%	+2.14%
Difference (percentage points)	+0.29	+1.27

- During the month, the U.S. Equity Fund and Inflation Protection Fund positively contributed to the Multiple Asset Fund's benchmark-relative performance, while the International Equity Fund and Fixed Income Fund negatively impacted performance. Year-to-date, three of the four components positively impacted performance, while the Fixed Income Fund detracted from relative performance.

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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.
- ⁱⁱ The benchmark for the Equity Social Values Plus Fund is the MSCI World Environmental, Social and Governance (ESG) ex Fossil Fuels Index.
- ⁱⁱⁱ The benchmark for the Inflation Protection Fund is comprised of 80% Barclays World Government Inflation Linked Bond Index (Hedged), 10% Barclays Emerging Market Tradeable Inflation Linked Bond Index (Unhedged) and 10% Bloomberg Commodity Index.