

# December 2017 Investment Report

## Highlights

- Total nonfarm payroll employment increased by 228,000 in November. Employment continued its upward trend in professional and business services, manufacturing and health care. The unemployment rate remained unchanged from the previous month at 4.1% in November.
- President Donald Trump executed the Tax Cuts and Jobs Act bill, viewed as the first legislative achievement for the administration. The \$1.5 trillion tax overhaul is expected to reduce taxes for most Americans beginning next year.
- The Federal Reserve (Fed) raised interest rates for the third time this year, the federal funds rate increased from 1.25% to 1.50%.
- The U.S. Equity Fund and International Equity Fund underperformed their respective benchmarks. The U.S. Equity Fund's overweight in underperforming small- and mid-cap companies hurt performance, while the international fair market value adjustment negatively affected the International Equity Fund. The Fixed Income Fund modestly outperformed its benchmark primarily due to an overweight allocation to non-dollar bonds from developing countries and investment grade corporate bonds. The Inflation Protection Fund underperformed as a result of its strategic underweight allocation to U.K. inflation-linked bonds.

## Monthly Overview

### **U.S. stock market continues to break records**

U.S. stock indexes closed 2017 at record levels. A strong economy, low unemployment, improving business conditions, increased corporate profits, consumer confidence at a 17-year high and the Republican tax reform agenda all helped fuel the market.

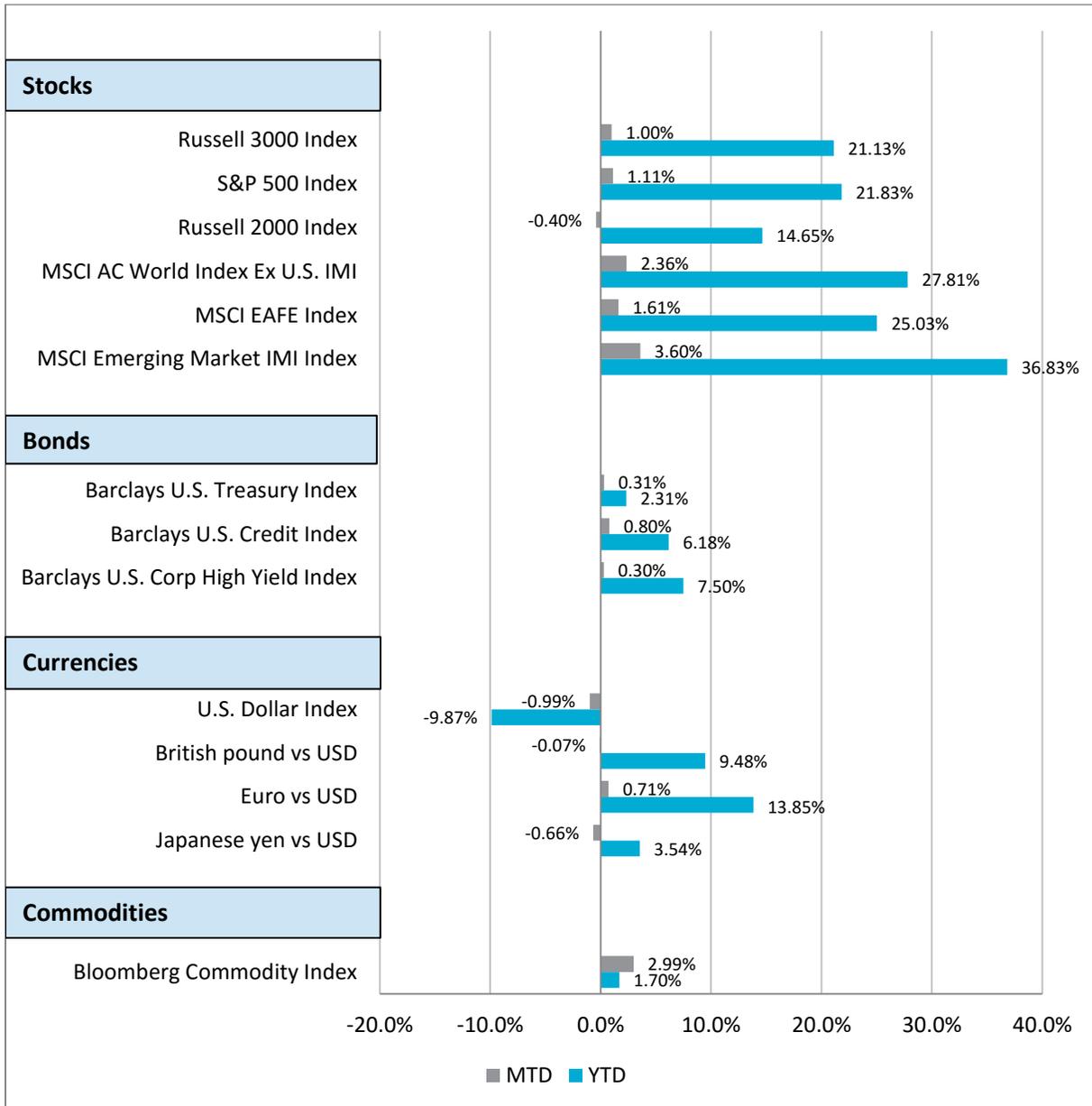
### **President Trump signs the Tax Cuts and Jobs Act into law**

President Trump signed the tax reform act into law on December 22. The new tax bill cuts corporate tax rates permanently and individual tax rates temporarily. Individual tax rates across each income tax bracket are lower, with the changes going into effect in 2018 and expiring after 2025. Corporate tax rates fall from 35% to 21% beginning in 2018. The bill also enables corporations to repatriate overseas profits at a rate of 15.5%. In addition, the individual mandate, a provision of the Affordable Care Act that provides tax penalties for individuals who do not obtain health insurance coverage, will end in 2019. Economists have conflicting viewpoints on whether the tax plan will spur sufficient economic growth to pay for itself or increase the federal deficit.

### **Fed raises rates**

The Fed increased the federal funds rate by 25 basis points (0.25%) to 1.50% on December 13, citing solid economic growth and job gains. The Federal Open Market Committee maintained its forecast for three rate increases in 2018, despite sluggish inflation, as it expects higher economic growth into the New Year. Fed Chair Janet Yellen will preside over one more committee meeting before Fed governor Jerome Powell takes over as the Chair in February.

## Market Performance



Source: FactSet, as of December 31, 2017

## Key Monthly Economic Statistics

Statistic	Monthly/Yearly Change	Positive
Durable Goods Orders	Nov: 1.3% (Oct: -0.4%); M/M-SA	▲
Existing Home Sales	Nov: 5.6% (Oct: 2.4%); M/M-SAAR	▲
Housing Starts	Nov: 3.3% (Oct: 8.4%); M/M-SAAR	▲
New Home Sales	Nov: 17.5% (Oct: -1.7%); M/M-SAAR	▲
Nonfarm Payrolls	Nov: 228,000 (Oct: 244,000)	▲
Retail Sales Ex-auto	Nov: 1.0% (Oct: 0.4%); M/M-SA	▲
Retail Sales	Nov: 0.8% (Oct: 0.5%); M/M-SA	▲
S&P/Case-Shiller 20-City Home Price Index	Oct: 6.4% (Sep: 6.2%); Y/Y	▲
Unemployment Rate	Nov: 4.1% (Oct: 4.1%)	▲
Consumer Confidence	Dec: 122.1 (Nov: 128.6)	▲
Institute for Supply Management Index	Nov: 58.2% (Oct: 58.7%)	▲
Real Gross Domestic Product	Sep: 3.2% (Jun: 3.1%); Q/Q-SAAR	▲
		Neutral
Consumer Price Index core	Nov: 0.1% (Oct: 0.2%); M/M-SA	◆
Consumer Price Index	Nov: 0.4% (Oct: 0.1%); M/M-SA	◆
Factory Orders	Oct: -0.1% (Sep: 1.7%); M/M-SA	◆
Producer Price Index core	Nov: 0.3% (Oct: 0.4%); M/M-SA	◆
Producer Price Index	Nov: 0.4% (Oct: 0.4%); 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	<a href="#">FactSet</a>

## Investment Fund Review (Net-of-Fees Performance)<sup>i</sup>

### Equity Funds

#### U.S. Equity Fund

Fund	December	QTD	YTD
U.S. Equity Fund	+0.84%	+5.80%	+19.92%
Russell 3000 Index	+1.00%	+6.34%	+21.13%
Difference (percentage points)	-0.16	-0.54	-1.21

- In December and quarter-to-date, the impact of the fund's strategic overweight to small- and mid-sized company stocks, with a corresponding underweight in large-company stocks, negatively affected benchmark-relative performance. The fund benefited from its allocation to private equity and private real estate in December, but the allocation to alternative investments detracted quarter-to-date.
- For the year, the fund was negatively impacted by its strategic overweight to small- and mid-sized company stocks, along with the allocation to the alternative investment strategies of private real estate and private equity. The performance for alternative investment strategies tends to lag during periods of strong returns in the public equity markets. The fund benefited most from strong performance by two growth-oriented managers and one mid-cap manager, specifically related to their holdings in the information technology and healthcare sectors.

#### International Equity Fund

Fund	December	QTD	YTD
International Equity Fund	+2.26%	+5.10%	+30.56%
MSCI ACWI ex U.S. Investable Market Index (Net)	+2.36%	+5.23%	+27.81%
Difference (percentage points)	-0.10	-0.13	+2.75

- During the month of December and quarter-to-date, the fund benefited from its strategic overweight to emerging market equities, with a corresponding underweight in developed market equities and allocation to alternative investment strategies. However, benchmark-relative performance was negatively impacted largely by the international daily valuation policy (described [here](#)) and, to a lesser extent, by the strong performance from stocks subject to Wespath's ethical exclusions policy.
- Year-to-date, the fund's overweight to emerging market equities, and corresponding underweight in developed market equities, positively contributed to benchmark-relative performance. Specifically, underweighting poor performing U.K. stocks and overweighting Chinese technology companies contributed positively to returns. The fund also benefited from the international daily valuation policy (described [here](#)). The allocation to private equity and private real estate negatively affected returns.

### Equity Social Values Plus Fund

Fund	December	QTD	YTD
Equity Social Values Plus Fund	+0.85%	+4.81%	+21.53%
ESVPF Benchmark <sup>ii</sup>	+1.08%	+4.98%	+21.60%
Difference (percentage points)	-0.23	-0.17	-0.07

- 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 impacted by the international daily valuation policy (described [here](#)).

### U.S. Equity Index Fund

Fund	December	QTD	YTD
U.S. Equity Index Fund	+0.90%	+6.31%	+20.34%
Russell 3000 Index	+1.00%	+6.34%	+21.13%
Difference (percentage points)	-0.10	-0.03	-0.79

- The U.S. Equity Index Fund is a passively-managed fund designed to closely match the fund benchmark less fees and expenses. Ethical exclusions detracted from benchmark-relative performance during all three time periods.

## Fixed Income Funds

### Fixed Income Fund

Fund	December	QTD	YTD
Fixed Income Fund	+0.52%	+0.65%	+6.57%
Barclays U.S. Universal (ex MBS) Index	+0.48%	+0.49%	+4.59%
Difference (percentage points)	+0.04	+0.16	+1.98

- In December, the fund modestly outperformed its performance benchmark primarily due to overweight allocations to emerging market debt and, to a lesser degree, investment grade corporate bonds.
- Quarter-to-date, overweight allocations to developed market non-dollar bonds and investment grade corporate bonds contributed to benchmark-relative outperformance. Wespath's Positive Social Purpose Lending Program also positively contributed.
- Benchmark-relative performance positively benefited from overweight allocations to non-dollar developed and emerging market debt, which returned 13.8% and 9.3% respectively in 2017. The performance results of non-dollar-denominated debt benefited in 2017 from a weaker U.S. dollar relative to developed and emerging market currencies. Additionally, overweight allocations to investment-grade

and below-investment-grade corporate bonds positively contributed to benchmark-relative results, as did strong performance by the fund's two core plus managers.

### Social Values Choice Bond Fund

Fund	December	QTD	YTD (From 6/30/2017)
Social Values Choice Bond Fund	+0.29%	+0.20%	+1.41%
Barclays U.S. Universal (ex MBS) Index	+0.48%	+0.49%	+1.52%
Difference (percentage points)	-0.19	-0.29	-0.11

- In December, benchmark-relative gains from exposure to inflation-linked securities were more than offset by the negative contribution from Mexican bonds and certain investment grade corporate bonds.
- Quarter-to-date, benchmark-relative underperformance was driven by exposure to non-dollar denominated emerging market bonds and positioning in emerging market currencies.
- Since inception on June 30, 2017, the fund's overweight allocation to investment-grade and below-investment-grade credit, and non-dollar emerging market debt, contributed to benchmark-relative results. The underweight allocation to U.S. dollar-denominated emerging market debt detracted.

### Extended Term Fixed Income Fund

Fund	December	QTD	YTD
Extended Term Fixed Income Fund	+1.23%	+1.72%	+7.62%
Barclays U.S. Government/Credit Long Term Index	+1.89%	+2.84%	+10.71%
Difference (percentage points)	-0.66	-1.12	-3.09

- The Extended Term Fixed Income Fund's intentional policy of maintaining a lower sensitivity to interest rate movements detracted from the month-, quarter- and year-to-date periods.

### Inflation Protection Fund

Fund	December	QTD	YTD
Inflation Protection Fund	+0.93%	+1.63%	+4.42%
IPF Benchmark <sup>iii</sup>	+1.34%	+2.40%	+4.12%
Difference (percentage points)	-0.41	-0.77	+0.30

- Month- and quarter-to-date, the strategic underweight allocation to U.K. inflation-linked bonds and overweight allocation to U.S. Treasury Inflation Protected securities detracted from benchmark-relative results. The relative results of the dedicated commodities manager contributed for both periods.

- For the year, the dedicated commodities manager outperformed the Bloomberg Commodities Index by over four and a half percentage points contributing to positive benchmark-relative results. The out-of-benchmark allocations to below-investment-grade floating-rate strategies—particularly the allocation to high-yielding, floating-rate, asset-backed securities—positively contributed to relative results.

### U.S. Treasury Inflation Protection Fund

Fund	December	QTD	YTD (From 6/30/2017)
U.S. Treasury Inflation Protection Fund	+1.02%	+1.36%	+2.31%
Barclays U.S. Inflation Linked Bond Index	+1.01%	+1.41%	+2.33%
Difference (percentage points)	+0.01	-0.05	-0.02

- The U.S. Treasury Inflation Protection Fund is a passively-managed fund designed to closely match the fund benchmark less fees and expenses. The fund performed in line with the benchmark for the month-, quarter- and year-to-date periods.

### Balanced Fund

#### Multiple Asset Fund

Fund	December	QTD	YTD
Multiple Asset Fund	+1.22%	+3.94%	+17.98%
MAF Benchmark <sup>iv</sup>	+1.31%	+4.14%	+16.95%
Difference (percentage points)	-0.09	-0.20	+1.03

- In December and for the fourth quarter, only the Fixed Income Fund contributed positively to the Multiple Asset Fund's benchmark-relative performance.
- For the year, the International Equity Fund, Fixed Income Fund and Inflation Protection Fund positively contributed to benchmark-relative performance, while the U.S. Equity Fund detracted slightly.

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- <sup>i</sup> 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*.
- <sup>ii</sup> On April 1, 2017, the benchmark for the Equity Social Values Plus Fund became the MSCI World Environmental, Social and Governance (ESG) ex Fossil Fuels Index. Prior to April 1, 2017, the benchmark was the MSCI World Custom Environmental, Social, and Governance (ESG) Special Weighted Index.
- <sup>iii</sup> The benchmark for the Inflation Protection Fund is composed 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.
- <sup>iv</sup> The benchmark for the Multiple Asset Fund is composed of 35% Russell 3000 Index, 30% 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% Inflation Protection Fund (IPF) Benchmark.
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