Wespath
INSTITUTIONAL INVESTMENTS

December 2023 Investment Report

Highlights

- Fixed income and equity markets ended the month higher after the Federal Reserve signaled a change toward monetary easing.
- The S&P 500 Index of U.S. stocks increased 4.5%, while non-U.S. stocks, represented by the MSCI ACWI ex-U.S. IMI Index, jumped 5.2%. The Bloomberg U.S. Aggregate Bond Index increased 3.8%.
- In December, U.S. employers added 216,000 non-farm jobs with the unemployment rate remaining the same at 3.7%.
- The International Equity Fund – I Series, Inflation Protection Fund - I Series and Fixed Income Fund – I Series underperformed their respective benchmarks, while the U.S. Equity Fund – I Series and Multiple Asset Fund – I Series outperformed their respective benchmarks.

Monthly Overview

Markets Finish the Year Strong

Decelerating inflation and a potential shift in monetary policy from the Federal Reserve ("Fed") resulted in a rise in both equity and fixed income markets. Core Personal Consumption Expenditures, the Fed's favorite inflation gauge came in at 3.2% year over year. Below the consensus estimate of 3.4%.

The S&P ended the month up 4.5% and finished the year up 26.3%. International markets also finished strong with the ACWI ex USA IMI up 5.2% for the month of December and ended the year up 15.6%. Fixed income markets also closed higher with the Bloomberg U.S. Aggregate ending the year up 5.5%. Commodities declined for a second consecutive month with the Bloomberg Commodity Index down 2.7%. The University of Michigan Survey of Consumers recorded a 13.7% increase in consumer optimism for the month and 16.6% for the year. The survey's measure of consumers' year-ahead inflation expectations decreased to 3.1% this month from 4.5% last month, the lowest reading since March 2021.

A Dovish Fed

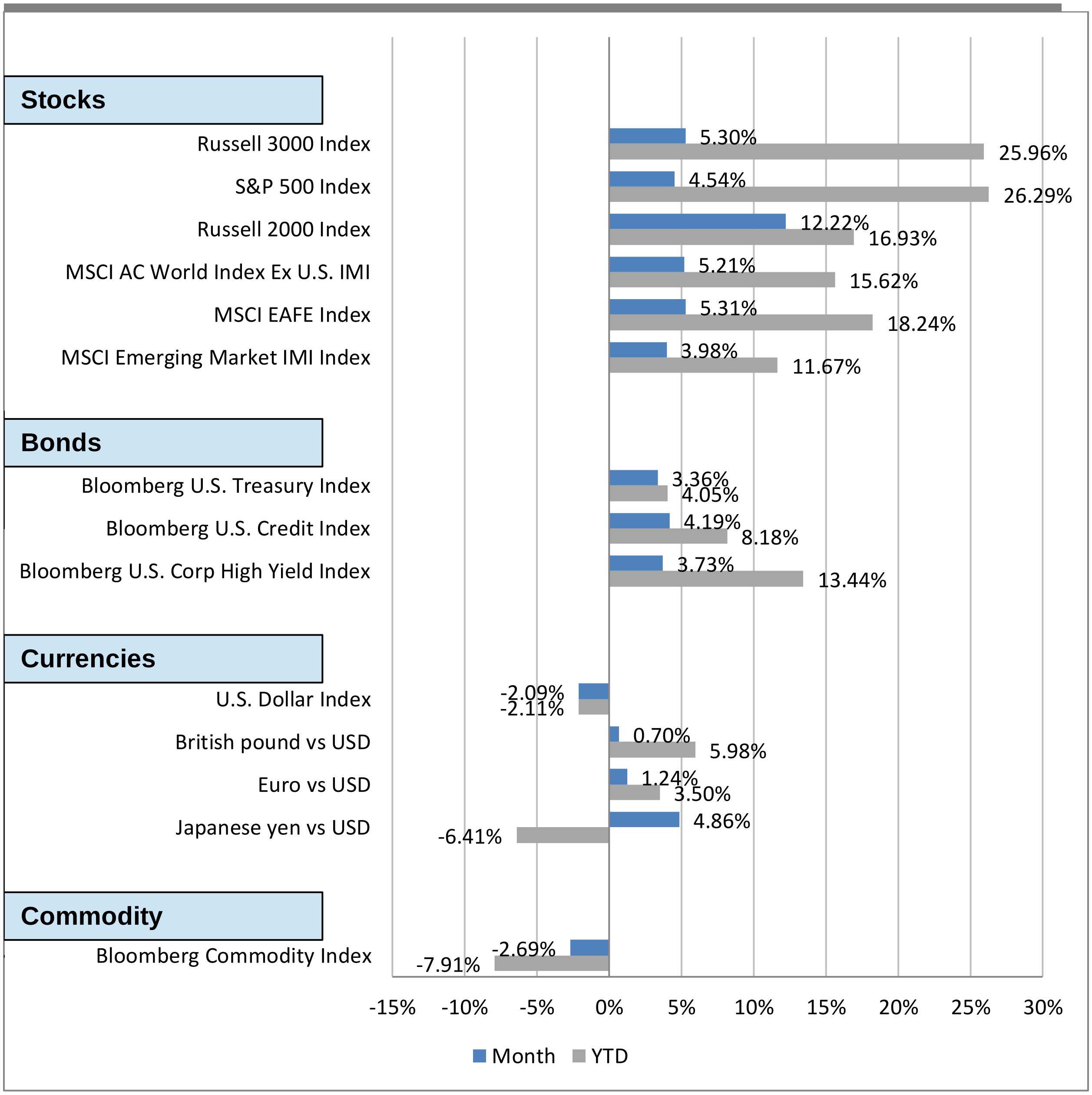
Federal Reserve Chair Jerome Powell signaled the beginning of a pivot toward monetary easing following the Fed's meeting in December. He indicated the central bank was now focused on rate cuts because inflation has declined much faster than expected. The Fed projected the Core Personal Consumption Expenditures (PCE) price index to rise 3.2% this quarter, down from their previous projection of 3.7%. Core PCE, the Fed's preferred measure of inflation, excludes the more volatile food and energy components. For 2024, the central bank currently projects three rate cuts according to their median rate estimate.

Energy Prices Decline

Energy prices continued to decline, with West Texas Intermediate crude oil (WTI) down 5.7% for the month and down 10.7% for the year. U.S. oil output reached record levels, surpassing Saudi Arabia and Russia as OPEC+ continued to slash production. At the same time, mild winter weather has caused the price of natural gas to fall 17% for the month, bringing its decline to 43.3% for the year.

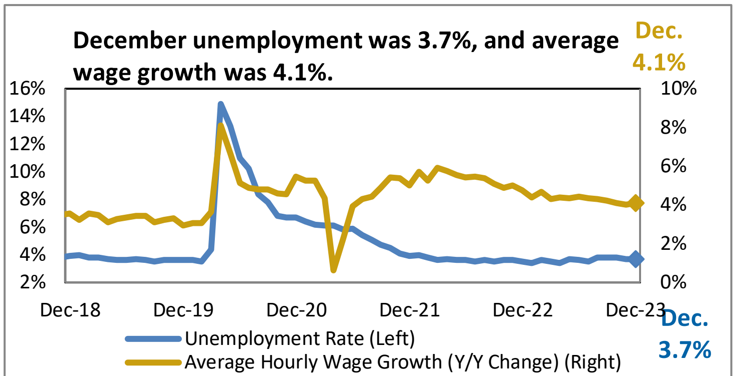
Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Seeking Alpha, Wall Street Journal and FactSet.

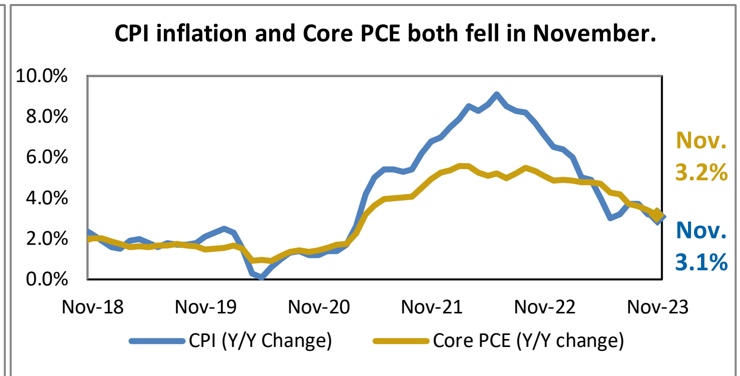
Market Performance

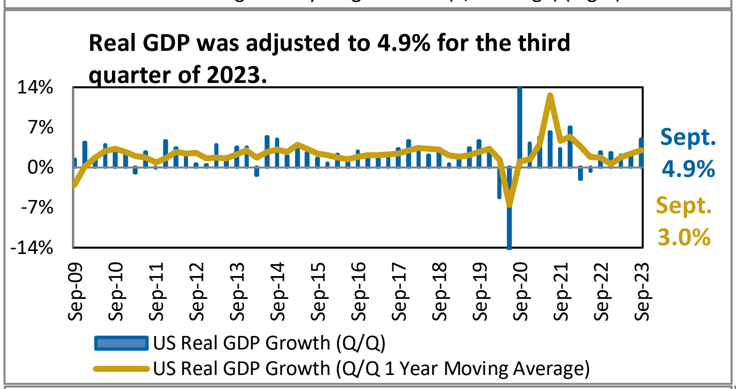


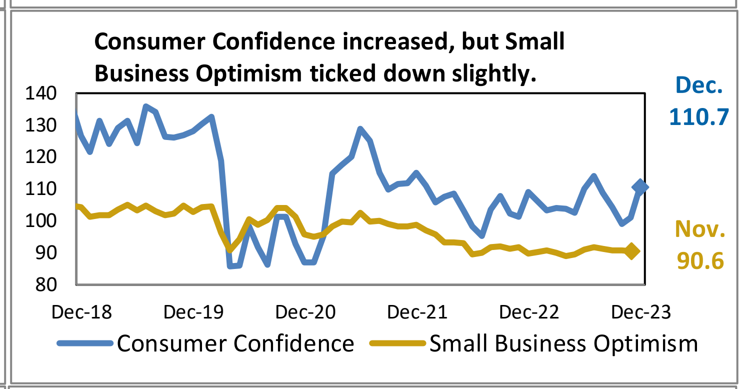
Source: FactSet, as of December 31, 2023.

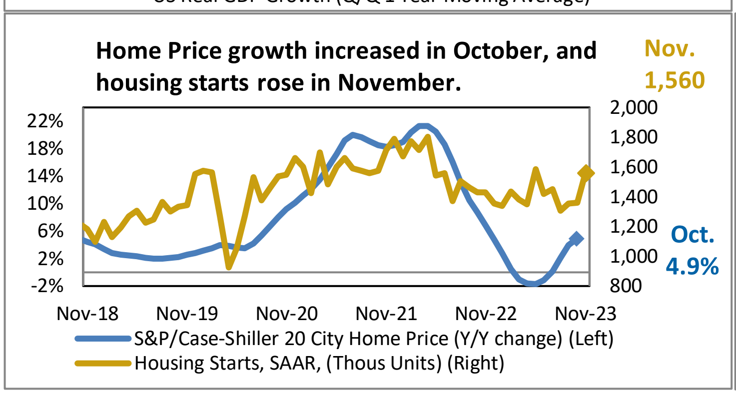
Key Monthly Economic Statistics











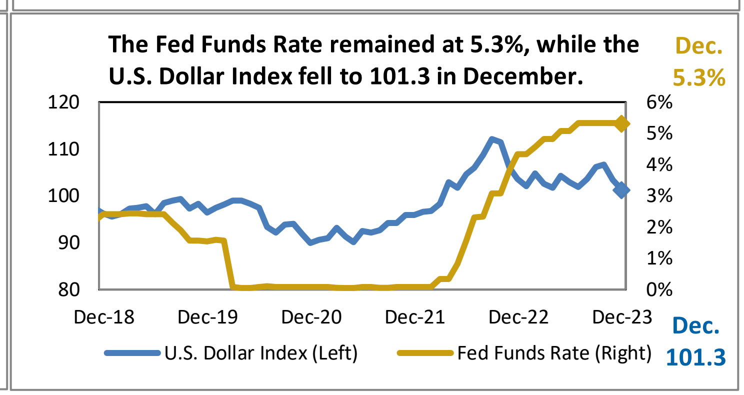
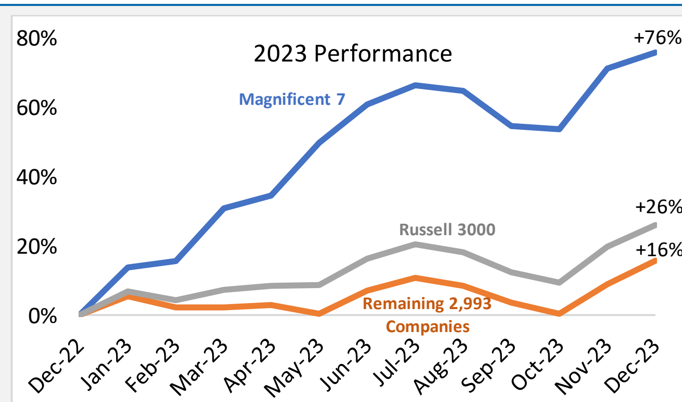


Chart of the Month

- Seven companies, called the "Magnificent 7," largely drove domestic equity performance for the year: Microsoft, Amazon, Tesla, Meta, Apple, Alphabet and Nvidia.
- They are all focused on technological growth trends involving artificial intelligences, cloud computing or cutting-edge hardware/software to develop those technologies.
- The seven companies ended the year with a combined market capitalization of more than $12 trillion.



Investment Fund Review (Net-of-Fees Performance)[i]

Equity Funds

U.S. Equity Fund – I Series

Fund	December	QTD	YTD
U.S. Equity Fund – I Series	6.37%	10.83%	23.27%
Russell 3000 Index	5.30%	12.07%	25.96%
Difference (percentage points)	+1.07	-1.24	-2.69

- During December, the fund outperformed its benchmark mainly due to underweighting poor performing mega-cap companies and overweighting better performing small- and mid-cap stocks. In addition, the majority of active managers outperformed their respective benchmarks.
- During the quarter, the fund underperformed its benchmark as a result of underweighting strong performing mega-caps stocks, underperforming alternative investments and the majority of active managers underperforming their respective benchmarks.
- For the year, the fund's holdings in private markets and an underweight to strong performing mega-tech growth companies were key detractors from relative performance. To a lesser extent, the fund benefited from active managers' investments, particularly growth-oriented strategies, and excluding certain stocks in accordance with WII's Investment Exclusions policies (described here).

International Equity Fund – I Series

Fund	December	QTD	YTD
International Equity Fund – I Series	4.90%	9.75%	12.80%
MSCI ACWI ex U.S. Investable Market Index (Net)	5.21%	9.81%	15.62%
Difference (percentage points)	-0.31	-0.06	-2.82

- During December, the fund underperformed its benchmark due to underperforming investments in private equity and private real estate.
- During the quarter, the fund benefited from the majority of active strategies outperforming their respective benchmarks; however, the fund ultimately underperformed its benchmark due to poor performing private equity and private real estate investments.
- For the year, the fund underperformed its benchmark due to investments in private equity and private real estate and underperforming active managers. Active managers' underperformance is primarily attributable to investments in the emerging markets and investments in companies best positioned to benefit from the transition to a low-carbon economy.

U.S. Equity Index Fund – I Series

Fund	December	QTD	YTD
U.S. Equity Index Fund – I Series	5.33%	12.01%	26.09%
Russell 3000 Index	5.30%	12.07%	25.96%
Difference (percentage points)	+0.03	-0.06	+0.13

- The U.S. Equity Index Fund – I Series is a passively managed fund designed to closely match the fund benchmark, less fees and expenses. For the year, the underperformance of certain stocks excluded in accordance with WII’s Investment Exclusions policies (described here) positively impacted relative performance.

Fixed Income Funds

Fixed Income Fund – I Series

Fund	December	QTD	YTD
Fixed Income Fund – I Series	3.51%	6.92%	7.98%
Bloomberg U.S. Universal (ex MBS) Index	3.64%	6.65%	6.51%
Difference (percentage points)	-0.13	+0.27	+1.47

- For December, the fund had strong absolute returns but modestly underperformed the benchmark. While core plus manager issue selection contributed to relative results, it was more than offset by the overweight allocation to Agency commercial mortgage-backed securities (CMBS).
- For the quarter, the fund had strong absolute and benchmark relative performance. The biggest positive contribution came from the overweight allocation to, and selection within, emerging market debt. The allocation to global bonds and shorter maturity investment grade credit also positively contributed. Positive results were offset by the overweight allocation to Agency CMBS.
- For the year, the fund had strong absolute and benchmark relative performance. The overweight allocation to, and issue selection within, emerging market debt was the biggest positive contributor followed by the overweight allocation to high-yield bonds. The allocation to, and issue selection within, investment grade credit and the allocation to global bonds also helped. Results were modestly offset by the overweight allocation to Agency CMBS.

Inflation Protection Fund – I Series

Fund	December	QTD	YTD
Inflation Protection Fund – I Series (IPF-I)	2.14%	3.93%	4.77%
IPF-I Benchmark[ii]	2.15%	3.76%	3.28%
Difference (percentage points)	-0.01	+0.17	+1.49

- For December, the fund performed in line with the benchmark. The contribution from the dedicated allocation to emerging market inflation-linked securities was offset by the allocation to, and security selection within, the floating rate senior secured loan strategy.
- For the quarter, the allocation to, and issue selection within, emerging market inflation-linked securities meaningfully contributed. The allocation to developed market inflation-linked securities also helped. The allocation to, and issue selection within, senior secured floating-rate bank loans partially offset results.
- For the year, the allocation to emerging market inflation linked securities and senior secured floating rate bank loans meaningfully contributed to relative results. The allocation to developed market inflation linked securities and real assets also helped, as did security selection with the emerging markets account. January's underweight to UK inflation-linked bonds modestly detracted.

U.S. Treasury Inflation Protection Fund – I Series

Fund	December	QTD	YTD
U.S. Treasury Inflation Protection Fund – I Series	2.58%	4.53%	3.17%
Bloomberg U.S. Inflation Linked Bond Index	2.74%	4.75%	3.84%
Difference (percentage points)	-0.16	-0.22	-0.67

- The U.S. Treasury Inflation Protection Fund – I Series is a passively managed fund designed to closely match the performance of the fund benchmark, less fees and expenses.
- The performance differences are due to a modest difference between fund and benchmark durations. The modest difference resulted in underperformance given the meaningful volatility in real yields.

Short Term Investment Fund – I Series

Fund	December	QTD	YTD
Short Term Investment Fund – I Series	0.51%	1.48%	5.21%
BofA Merrill Lynch 3-Month U.S. Treasury Bill	0.47%	1.38%	5.05%
Difference (percentage points)	+0.04	+0.10	+0.16

- The fund outperformed the benchmark for the month-, quarter-, and year-to-date periods due to the out-of-benchmark exposures to non-U.S. Government sectors including U.S. corporate debt and asset-backed securities. Broadly, most fixed income sectors outperformed government bonds.

Balanced Fund

Multiple Asset Fund – I Series

Fund	December	QTD	YTD
Multiple Asset Fund – I Series (MAF-I)	4.79%	8.84%	14.32%
MAF-I Benchmark[iii]	4.54%	9.22%	15.59%
Difference (percentage points)	+0.25	-0.38	-1.27

- For the month, the U.S. Equity Fund – I Series contributed positively to benchmark-relative performance, while the Fixed Income Fund – I Series, Inflation Protection Fund – I Series and International Equity Fund – I Series detracted from relative performance.
- Quarter to date and year to date, the Fixed Income Fund – I Series and Inflation Protection Fund – I Series contributed positively to benchmark-relative performance, while the U.S. Equity Fund – I Series and International Equity Fund – I Series 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 – I Series*** for more information about the funds. This is not an offer to purchase securities.

[ii] The benchmark for the Inflation Protection Fund – I Series was 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 through January 31, 2023. Effective February 1, 2023, the benchmark for the Inflation Protection Fund – I Series is 90% Bloomberg U.S. Treasury Inflation-Linked Bond Index and 10% Bloomberg Commodity Index.

[iii] The benchmark for the Multiple Asset Fund – I Series is comprised 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% IPF Benchmark.