Wespath
Investment Management

February 2014 Investment Report

Monthly Report

Markets

- U.S. equities as represented by the Russell 3000 Index rebounded from January's decline with an increase of **4.7%** in February. The bellwether S&P 500 Index reached a record high at month-end, as improving consumer confidence and continued reassurance from the Federal Reserve (the Fed) to support the economy more than offset concerns about the unrest in Ukraine.
- Small companies and large companies as measured by the Russell 2000 and Russell 1000 indices, respectively, increased **4.7%** in February. Almost all industry sectors in the S&P 500 showed positive performance, with the materials sector leading (**+6.9%**) and telecommunications services sector lagging (**-1.0%**). Companies with strong earnings growth continued the trend of better performance than those classified as value among both large and small companies.
- Developed country international equities as measured by the MSCI World ex-US IMI Index increased **5.1%** during the month while developing country equities increased **3.4%**, according to the MSCI Emerging Markets IMI Index. Investors continue to prefer the relative safety of developed markets, given continued turmoil in several large developing market countries.
- The U.S. Treasury yield curve ended February nearly unchanged from January. The 2-year U.S. Treasury Note yield decreased by **0.02%** to **0.32%**, and the 10-year Note yield was unchanged at **2.65%**. The long bond (30-year U.S. Treasury) decreased **0.02%** in yield to **3.58%**.
- U.S. Treasury securities as measured by the Barclays U.S. Treasury Index increased **0.3%** in February, reflecting the nearly unchanged Treasury yield curve. Investment-grade debt as measured by the Barclays U.S. Credit Index increased **1.1%** during the month, outperforming the Treasury Index. Below-investment-grade debt as measured by the Barclays U.S. Corporate High Yield Index increased **2.0%**, outperforming less-risky government and investment-grade debt, as improving investor confidence reduced the yield premium required to accept credit risk.
- The U.S. dollar weakened in February, decreasing **1.8%** as measured by the U.S. Dollar Index. The euro increased **2.3%** relative to the dollar and the British pound increased **1.9%**. After a weak January, developing country currencies were generally stronger relative to the dollar during February. However, the Chinese renminbi decreased **1.3%**, which was the largest monthly decline on record. Economic growth has slowed in China, and investors have speculated that China's central bank will widen the permitted band of renminbi fluctuation.
- Commodities as represented by the Dow Jones UBS Commodity Index increased **6.2%** in February, partially driven by adverse weather conditions across the U.S. The soft commodities sub-index increased **18.8%** as a drought in Brazil caused coffee prices to increase more than **40%**. Agriculture and grains increased **11.5%** and **8.3%**, respectively. Precious metals increased **7.7%**, including a **6.6%** increase in the price of gold.

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Economics Highlights

- Weak economic statistics, including a reduction in the previously reported fourth quarter GDP from **3.2%** to **2.4%**, failed to slow market gains after comments by Federal Reserve (Fed) chair, Janet Yellen indicated that tapering of monthly bond purchases would continue. Yellen stated that the Fed was not on a "preset course" and could change policy if the outlook changed significantly. Yellen also indicated that much of the recent weak economic data was due to severe weather.
- While developing market equities advanced, concerns remained regarding economic growth in the developing world. Growth concerns focused primarily on China, where a gauge of manufacturing declined to a 17-month low and the renminbi declined to a 10-month low against the U.S. dollar because of speculation that the People's Bank of China would let it float in a wider range.
- European economies continued to recover from their recent recession primarily caused by sovereign debt crises in several countries including Greece, Spain, Italy, Ireland and Portugal. German economic strength returned, as evidenced by its modest **0.4%** growth in fourth quarter—marking the strongest business confidence in 2 ½ years and strongest consumer confidence in more than 7 years. Additionally, Moody's Investor Services upgraded Spain's debt one grade level, stating that Spain had rebalanced its economy toward a healthier growth model and showed improvement in its ability to finance its debt.

Geopolitical Headlines

- Geopolitical concerns returned to emerging markets in February. The continued unrest in Ukraine led to the toppling of Ukrainian President Viktor Yanukovych. As of month-end, pro-Russian activists had seized government buildings in Crimea, and the Russian military prepared to respond. With Russia unlikely to honor its $15 billion bailout agreement signed with the former regime in December 2013, Ukraine's financial outlook remained cloudy. Unrest in several other developing countries, such as Turkey, Venezuela, Thailand and Bosnia-Herzegovina, continued to focus on misgovernment, corruption and weak economic growth.
- Continued peace talks between the Syrian government of President Bashar al-Assad and opposition leaders in an effort to end the three-year civil conflict were met with news stories of Iran boosting its military support to the Assad regime. The several hundred military specialists allowed Syria to enter the negotiations with increased confidence and lessened its desire to make concessions.
- The XXII Olympic Winter Games were held in Sochi, Russia, February 7-23. Concerns raised by December's terrorist attack in Volgograd were met with a significant Russian security presence, and the games concluded without incident. Despite significant criticism with the readiness of the facilities for the games and Russia's human-rights record, the Winter Olympics were generally considered a success.

Sources: Bloomberg News, the Economist, the Wall Street Journal, CNBC, CNN, Associated Press, Reuters and Bridgewater Associates

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Key Monthly Economic Statistics

This table contains a list of key monthly economic statistics. Each statistic is listed with a link to a Web page that provides a thorough description of the economic indicator.

	Positive Statistics • Institute for Supply Management Index, Feb: 53.2 (Jan: 51.3) • New Home Sales, Jan: 9.6% (Dec: -3.8%); M/M-SAAR • Nonfarm Payrolls, Feb: 175,000 • Unemployment Rate, Feb: 6.7% (Jan: 6.6%) • S&P/Case-Shiller 20-City Home Price Index, Dec: 13.4% (Nov: 13.7%); Y/Y
	Neutral Statistics • Consumer Price Index core, Jan: 0.1% (Dec: 0.1%); M/M-SA • Consumer Price Index, Jan: 0.1% (Dec: 0.2%); M/M-SA • Durable Goods Orders, Jan: -1.0% (Dec: -5.3%); M/M-SA • Producer Price Index core, Jan: 0.2% (Dec: 0.2%); M/M-SA • Producer Price Index, Jan: 0.2% (Dec: 0.1%); M/M-SA • Real Gross Domestic Product, Q4 2013: 2.4% (Q3 2013: 4.1%); Q/Q-SAAR • Retail Sales ex-auto, Jan: 0.0% (Dec: 0.3%); M/M-SA
	Negative Statistics • Consumer Confidence, Feb: 78.1 (Jan: 79.4) • Existing Home Sales, Jan: -5.1% (Dec: 0.8%); M/M-SAAR • Factory Orders, Jan: -0.7% (Dec: -2.0%); M/M-SA • Housing Starts, Jan: -16.0% (Dec: -4.8%); M/M-SAAR • Retail Sales, Jan: -0.4% (Dec: -0.1%); 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***

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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.

Inflation Protection Fund

Fund	February	YTD
Inflation Protection Fund	+1.17%	+2.19%
Barclay's Capital U.S. Government Inflation Linked Bond Index	+0.48%	+2.67%
Difference	+0.69%	-0.48%

- The Inflation Protection Fund advanced **1.17%** in February and outperformed the fund benchmark by **0.69%**. The fund's 10% allocation to commodities and inflation-linked debt from developing countries (emerging markets) increased **5.4%** and **3.3%** respectively, and added the most to the fund's benchmark-relative performance. Commodities benefited from an increase in energy prices resulting from greater-than-average energy consumption caused by the harsh winter weather in the U.S. and concerns about shortages of agricultural commodities due to the draught in California and transportation limitations in Canada. Emerging market debt benefited from strength in the countries' currencies after an extended period of currency weakness. The fund's 10% allocation to floating rate senior secured loans had a fractional gain for the month and detracted from benchmark-relative performance.
- For the year to date, the Inflation Protection Fund has gained **2.19%** but underperformed its benchmark by **0.48%**. Four of the fund's five diversifying strategies detracted from benchmark-relative performance. Only the fund's allocation to commodities, which has increased **5.0%** for the year-to-date, contributed positively to the Inflation Protection Fund's relative performance.

Fixed Income Fund

Fund	February	YTD
Fixed Income Fund	+1.38%	+2.11%
Barclays U.S. Universal (Ex MBS) Index	+0.83%	+2.09%
Difference	+0.55%	+0.02%

- The Fixed Income Fund gained **1.38%** in February and outperformed the fund benchmark return by **0.55%**. The best-performing strategy for the month was the fund's 10% allocation to bonds from developing countries, which gained **4.0%** primarily due to currency appreciation relative to the U.S. dollar**.** The fund's allocation to bonds from developed countries also added value due to U.S. dollar weakness relative to developed country currencies. In addition, the Fixed Income Fund's below-investment-grade and credit-opportunities strategies also contributed to its better-than-benchmark performance. The fund's roughly 8% allocation to positive social purpose loans gained only **0.2%** for the month and slightly detracted from benchmark-relative performance.
- For the year to date, the Fixed Income Fund has gained **2.11%** and slightly outperformed its benchmark. The fund has benefited from its below-benchmark allocation to U.S. government debt. The Fixed Income Fund's allocation to emerging market debt has only gained **0.5%** for the first two months of 2014, offsetting the benchmark-relative gains contributed by the fund's credit exposure.

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U.S. Equity Fund

Fund	February	YTD
U.S. Equity Fund	+4.86%	+2.65%
Russell 3000	+4.74%	+1.43%
Difference	+0.12%	+1.22%

- The U.S. Equity Fund gained **4.86%** in February and modestly outperformed the Russell 3000 Index. The fund primarily benefited from active management, as eight of its 12 active managers outperformed their respective benchmarks. The fund's nearly 6% allocation to private equity and private real estate did not recognize any meaningful gains during the month and partially offset the positive contribution from the fund's active managers.
- For the year to date, the fund gained **2.65%** and outperformed the Russell 3000 Index by **1.22%**. Six of the fund's 12 active managers have meaningfully exceeded their respective performance benchmarks for the first two months, while four of the fund's 12 active managers meaningfully underperformed their benchmarks over this period. In addition, the fund's 3% allocation to publicly traded real estate investment trusts (REITs) has gained **9.4%** for the year to date.

International Equity Fund

Fund	February	YTD
International Equity Fund	+5.04%	-0.16%
MSCI ACWI ex-U.S. Investable Market Index	+5.07%	+0.63%
Difference	-0.03%	-0.79%

- The International Equity Fund advanced **5.04%** in February and slightly underperformed its benchmark return. The fund benefited from its below-benchmark allocation to stocks from developing countries, as the MSCI Emerging Markets Index gained only **3.4%** for the month. However, the fund's allocation to international REITs also gained only **3.4%** for the month, and offset the positive contribution from the fund's underweighting of emerging market stocks. The International Equity Fund's almost 2% allocation to private equity and private real estate did not recognize any meaningful gains during February and detracted from fund performance.
- For the year to date, the International Equity Fund has declined **0.16%** and has underperformed its benchmark, which has gained **0.63%.** The MSCI Emerging Markets Index has declined **2.8%** for the year to date and the fund benefited from its underweighting of emerging market stocks. However, eight of the fund's managers have underperformed their respective benchmarks for the first two months, which contributed to the fund's below-benchmark performance. Reversal of the positive impact in December 2013 that resulted from changes to the fund's daily valuation process (described **here)** also contributed to the International Equity Fund's below-benchmark performance for February.

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Multiple Asset Fund

Fund	February	YTD
Multiple Asset Fund	+3.64%	+1.77%
Composite Benchmark	+3.42%	+1.57%
Difference	+0.22%	+0.20%

- For February, the Multiple Asset Fund gained **3.64%** and outperformed its composite benchmark by **0.22%**. Three of the four funds that comprise the Multiple Asset Fund outperformed their respective benchmarks, with only the International Equity Fund slightly underperforming its benchmark.
- For the year, the Multiple Asset Fund has gained **1.77%** and it exceeds its composite benchmark by **0.2%**. While the U.S. Equity Fund's meaningful excess performance has primarily contributed to the Multiple Asset Fund's excess return, underperformance by the Inflation Protection Fund and International Equity Fund has detracted from the fund's benchmark-relative performance overall.

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