

February 2018 Investment Report

Highlights

- The January jobs report, released by the U.S. Department of Labor on February 2, revealed that average hourly earnings gains were the largest annual pace since 2009, leading to inflationary fears.
- The CBOE Volatility Index (VIX) experienced its largest single day increase since 1990. Global stock markets dropped approximately 10% after 10 months of gains.
- Jerome Powell became the new chair of the Federal Reserve Board. Addressing the House Financial Services Committee, Mr. Powell stated he believes the economy remains strong and that the recent tax reform and budget deal will lead to a “meaningful increment to demand, at least for the next couple of years.”
- The U.S. Equity Fund outperformed its benchmark partially due to investments in private equity and private real estate, while the International Equity Fund fractionally trailed its benchmark. The Fixed Income Fund and Extended Term Fixed Income Fund each outperformed their respective benchmarks for the month, and the Inflation Protection Fund underperformed. The Multiple Asset Fund modestly outperformed its benchmark for the month.

Monthly Overview

Strong U.S. Macro Data

Average hourly earnings strongly accelerated in January and the resulting inflationary fears affected the 10-year U.S. treasury yield, which reached a four-year high during the month. The 10-year yield increased 0.15 percentage points during the month to 2.87%, 0.47 percentage points higher than the beginning of the year.

However, inflationary fears sparked volatility in the equity markets, as the CBOE Volatility Index (VIX) spiked in early February. Despite high market volatility in the beginning of the month, strong macro-economic data allowed the market to recover part of the losses by month-end. The U.S. Gross Domestic Product remained steady, expanding at a revised 2.5% annual rate in the last quarter of 2017. The University of Michigan Consumer Sentiment Index posted its second largest reading since 2004.

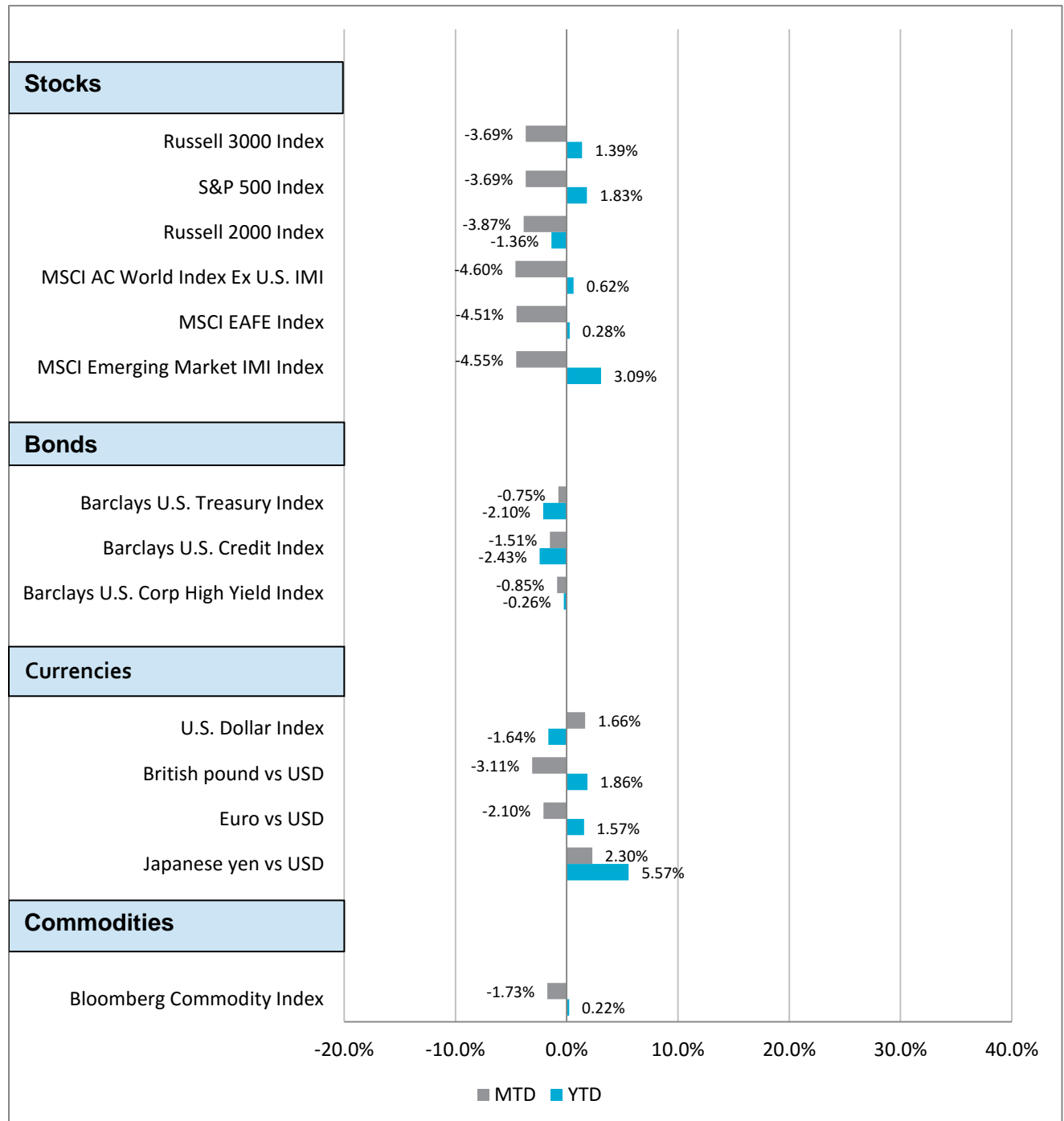
Strong Corporate Earnings

With the fourth-quarter earnings season 99% complete, 73% of S&P 500 companies reported earnings per share above analysts' expectations. Further, 77% of S&P 500 companies reported positive sales surprises, the highest percentage since FactSet began its tracking in the third quarter of 2008.

Strong Prospects for International Growth

A gauge of business activity across the Eurozone reached a twelve-year high in January, which, if sustained for February and March, would result in economic growth meaningfully above the long-term average. Japan's economy grew at an annualized rate of 0.5% in the fourth quarter of 2017, concluding an eighth straight quarterly expansion, and marking the longest period of growth in nearly 30 years.

Market Performance



Source: FactSet, as of February 28, 2018

Key Monthly Economic Statistics

Statistic	Monthly/Yearly Change	Positive
Consumer Confidence	Feb: 130.8 (Jan: 124.3)	▲
Factory Orders	Dec: 1.7% (Nov: 1.7%); M/M-SA	▲
Housing Starts	Jan: 9.7% (Dec: -6.9%); M/M-SAAR	▲
Nonfarm Payrolls	Jan: 200,000 (Dec: 160,000)	▲
S&P/Case-Shiller 20-City Home Price Index	Dec: 6.3% (Nov: 6.4%); Y/Y	▲
Unemployment Rate	Jan: 4.1% (Dec: 4.1%)	▲
		Neutral
Consumer Price Index core	Jan: 0.3% (Dec: 0.2%); M/M-SA	◆
Consumer Price Index	Jan: 0.5% (Dec: 0.2%); M/M-SA	◆
Producer Price Index core	Jan: 0.4% (Dec: -0.1%); M/M-SA	◆
Producer Price Index	Jan: 0.4% (Dec: 0.0%); M/M-SA	◆
Institute for Supply Management Index	Jan: 59.1% (Dec: 59.3%)	◆
Real Gross Domestic Product	Dec: 2.5% (Oct: 3.2%); Q/Q-SAAR	◆
		Negative
Durable Goods Orders	Jan: -3.7% (Dec: 2.6%); M/M-SA	▼
Existing Home Sales	Jan: -3.2% (Dec: -2.8%); M/M-SAAR	▼
New Home Sales	Jan: -7.8% (Dec: -7.6%); M/M-SAAR	▼
Retail Sales ex-auto	Jan: 0.0% (Dec: 0.1%); M/M-SA	▼
Retail Sales	Jan: -0.3% (Dec: 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	February	YTD
U.S. Equity Fund	-3.37%	+1.53%
Russell 3000 Index	-3.69%	+1.39%
Difference (percentage points)	+0.32	+0.14

- During the month and year-to-date periods, the fund's strategic overweight to small- and mid-sized company stocks, with a corresponding underweight in large-company stocks, slightly detracted from benchmark-relative performance.
- In February, the fund benefited most from its allocation to private equity and private real estate investments. However, for the year-to-date period, private equity detracted.
- Investments in e-commerce and online media, and internet software and service companies, positively contributed to returns for the month and year-to-date.
- The fund's large-company growth oriented manager, and two small- and mid-sized company focused managers meaningfully outperformed their respective benchmarks in February, contributing to positive benchmark-relative returns.

International Equity Fund

Fund	February	YTD
International Equity Fund	-4.69%	+1.51%
MSCI ACWI ex U.S. Investable Market Index (Net)	-4.60%	+0.62%
Difference (percentage points)	-0.09	+0.89

- During February, the fund trailed its benchmark by a small margin mainly due to a large fair market value adjustment (described [here](#)). The adjustment also negatively affected returns for the year-to-date. Over time, these adjustments should balance out and not impact relative performance.
- For the month, the fund's overweight to emerging market equities, and corresponding underweight to developed market equities, only slightly detracted from benchmark-relative performance, while its allocation to alternatives positively contributed to returns.
- For the year-to-date, however, the emerging market equities overweight helped benchmark-relative performance, as did private real estate investments. The fund's investment in private equity negatively affected the fund's benchmark-relative performance.
- Seven out of 11 active investment managers outperformed their respective benchmarks for the year-to-date.

Equity Social Values Plus Fund

Fund	February	YTD
Equity Social Values Plus Fund	-4.49%	+0.35%
ESVPF Custom Benchmark ⁱⁱ	-4.22%	+0.65%
Difference (percentage points)	-0.27	-0.30

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

U.S. Equity Index Fund

Fund	February	YTD
U.S. Equity Index Fund	-3.81%	+1.18%
Russell 3000 Index	-3.69%	+1.39%
Difference (percentage points)	-0.12	-0.21

- 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](#)) detracted from benchmark-relative performance for the month and year-to-date, specifically strong performing defense contractors.

Fixed Income Funds

Fixed Income Fund

Fund	February	YTD
Fixed Income Fund	-0.89%	-1.01%
Barclays U.S. Universal (ex MBS) Index	-1.04%	-1.93%
Difference (percentage points)	+0.15	+0.92

- In February, the fund outperformed its benchmark primarily due to its exposure to loans supporting affordable housing through Wespath's [Positive Social Purpose \(PSP\) Lending Program](#). An improvement in the performance of securities held in the fund's private market debt allocation also positively contributed to benchmark-relative returns. The overweight to developed market non-dollar denominated debt was a detractor.
- Year-to-date, exposure to non-dollar emerging and developed market debt positively contributed to benchmark-relative results. The overweight to below-investment-grade-bonds, allocations to PSP loans, and investments in alternative debt also helped performance. The fund's two core plus managers made modest positive contributions to benchmark-relative returns.

Social Values Choice Bond Fund

Fund	February	YTD
Social Values Choice Bond Fund	-1.03%	-1.99%
Barclays U.S. Universal (ex MBS) Index	-1.04%	-1.93%
Difference (percentage points)	+0.01	-0.06

- In February, the modest underweight to dollar-denominated emerging market debt and the allocation to currencies of developed markets contributed positively to benchmark-relative results.
- Year-to-date, exposure to non-US dollar emerging market bonds and to currencies of developed markets contributed to positive benchmark relative performance.
- For both periods, the overweight to bonds maturing in the intermediate term detracted from benchmark-relative returns.

Extended Term Fixed Income Fund

Fund	February	YTD
Extended Term Fixed Income Fund	-1.97%	-3.38%
Barclays U.S. Government/Credit Long Term Index	-3.16%	-5.15%
Difference (percentage points)	+1.19	+1.77

- The Extended Term Fixed Income Fund's intentional policy of maintaining a lower sensitivity to interest rate movements contributed to the fund's significant month- and year-to-date benchmark-relative results.

Inflation Protection Fund

Fund	February	YTD
Inflation Protection Fund	-0.76%	-0.44%
IPF Benchmark ⁱⁱⁱ	-0.46%	-0.87%
Difference (percentage points)	-0.30	+0.43

- During the month, the strategic underweight allocation to U.K. inflation-linked bonds and overweight to U.S. Treasury Inflation Protected Securities (TIPS) detracted from benchmark-relative results.
- For the year-to-date, the strategic underweight allocation to U.K. inflation-linked bonds and out-of-benchmark exposure to below-investment-grade floating-rate strategies positively contributed to relative results.

U.S. Treasury Inflation Protection Fund

Fund	February	YTD
U.S. Treasury Inflation Protection Fund	-0.99%	-1.89%
Barclays U.S. Inflation Linked Bond Index	-1.08%	-1.95%
Difference (percentage points)	+0.09	+0.06

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

Balanced Fund

Multiple Asset Fund

Fund	February	YTD
Multiple Asset Fund	-2.90%	+0.85%
MAF Benchmark ^{iv}	-2.98%	+0.15%
Difference (percentage points)	+0.08	+0.70

- For the month, the U.S. Equity Fund and Fixed Income Fund positively contributed to the Multiple Asset Fund's benchmark-relative performance, while the International Equity Fund and Inflation Protection Fund detracted from performance.
- Year-to-date, all four components of the Multiple Asset Fund positively contributed to benchmark-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. Offers will only be made through the *Investment Funds Description*.

ⁱⁱ 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.

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.

^{iv} The benchmark for the Multiple Asset Fund 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% Inflation Protection Fund (IPF) Benchmark.