

# February 2019 Investment Report

## Highlights

- U.S. equity markets continued their 2019 rally, with the S&P 500 Index up 3.2% for the month and 11.5% year-to-date.
- Minutes from the January Federal Open Market Committee (FOMC) meeting indicated that it would curtail efforts to reduce its holding of government bonds by year-end.
- Surveys of corporate purchasing managers show contraction in manufacturing for several large global economies.
- In February, the U.S. Equity Fund–I, International Equity Fund–I, Fixed Income Fund–I, Inflation Protection Fund–I and Multiple Asset Fund–I outperformed their benchmarks.

## Monthly Overview

### Equity markets continue their momentum

Following the best January performance in 30 years, domestic equity markets continued their upward momentum. For U.S. stocks, gains of 3.2% in February were more moderate than the 8% gains seen in January. The Trump administration postponed additional tariff increases on Chinese goods beyond the March 1 deadline, which contributed to investor optimism.

The FOMC minutes further added to positive sentiment by indicating that it had near-unanimous agreement to stabilize the Fed's holdings of government bonds (balance sheet normalization) by year-end. Fed officials also signaled a willingness to tolerate periods of inflation above 2% if it felt that it would balance out periods of below 2% inflation. Investors might expect less aggressive FOMC actions were it to adopt the new inflation policy.

Global stocks also posted moderate gains as the MSCI EAFE Index returned 2.6% for the month. Waning China trade rhetoric helped support positive sentiment, with the MSCI China Index gaining 3.5% in February.

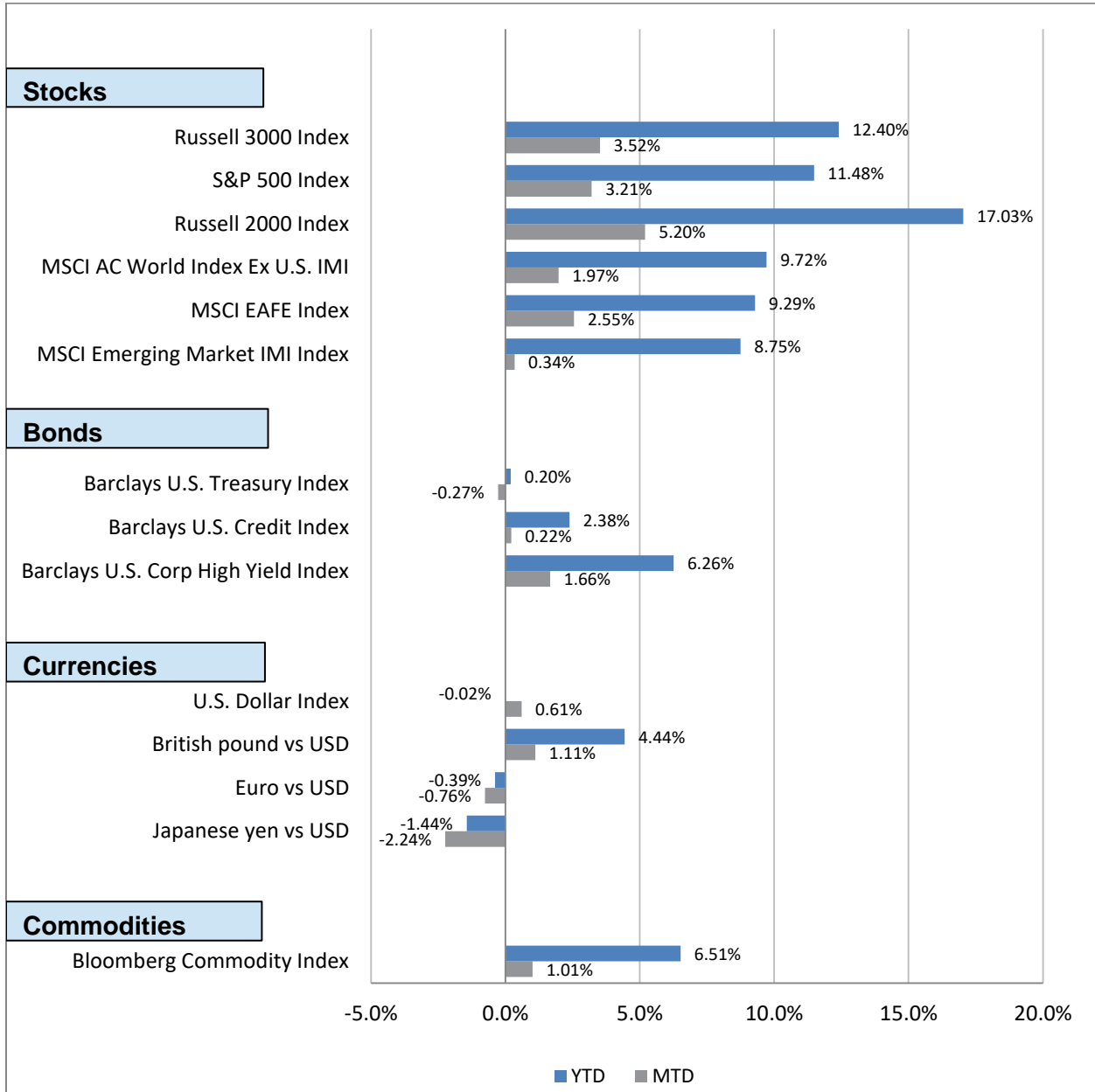
### Mixed economic indicators give pause

Despite healthy gains in the equity markets, February saw the release of mixed economic indicators. Initial fourth quarter U.S. Gross Domestic Product (GDP) growth of 2.6% (annualized) was better than consensus estimates of 2.5%, but slower than the third quarter's 3.4% growth rate. In addition, the Commerce Department reported that U.S. retail sales declined 1.2% in December, marking the biggest drop since 2009.

Manufacturing activity continued to contract in several major world economies. The Eurozone flash February Purchasing Managers Index (PMI) fell to 49.2, a 68-month low. Japan's manufacturing PMI fell to 48.5, a 32-month low. China's official manufacturing PMI also fell in February to 49.2, a 36-month low.

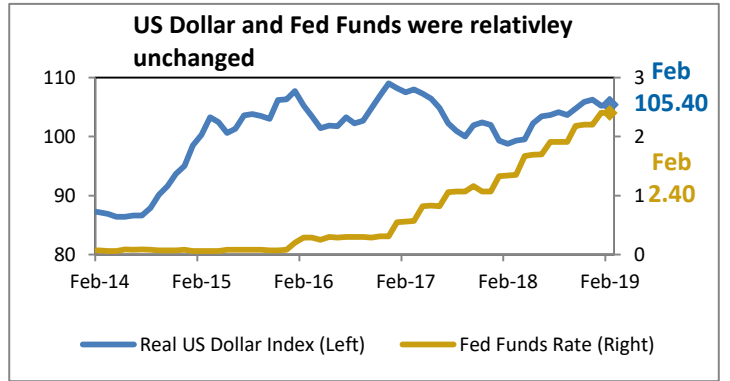
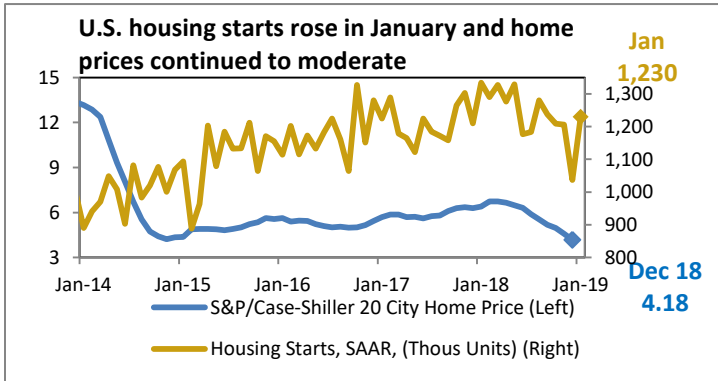
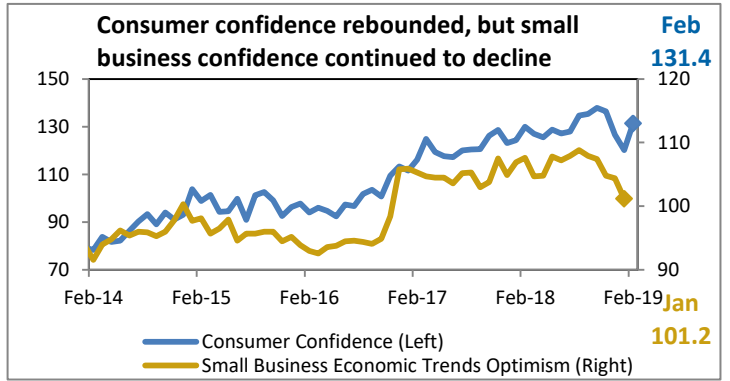
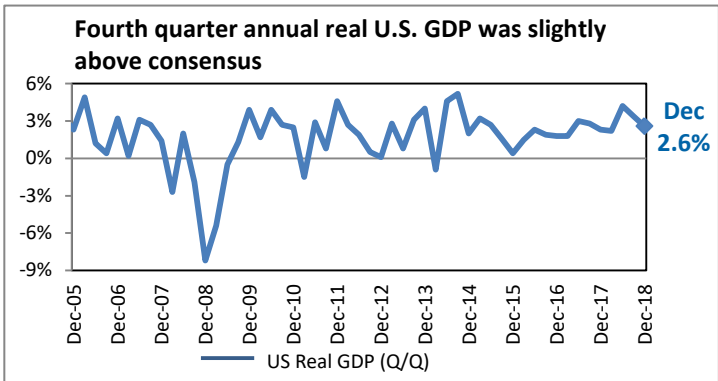
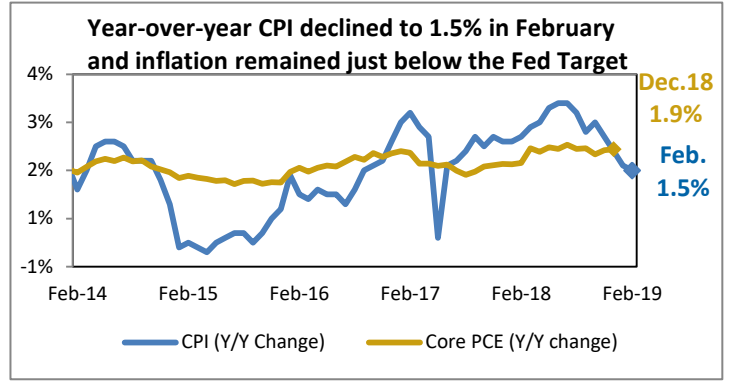
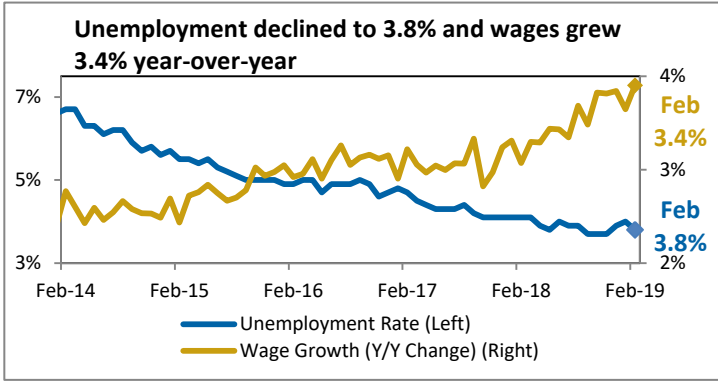


## Market Performance



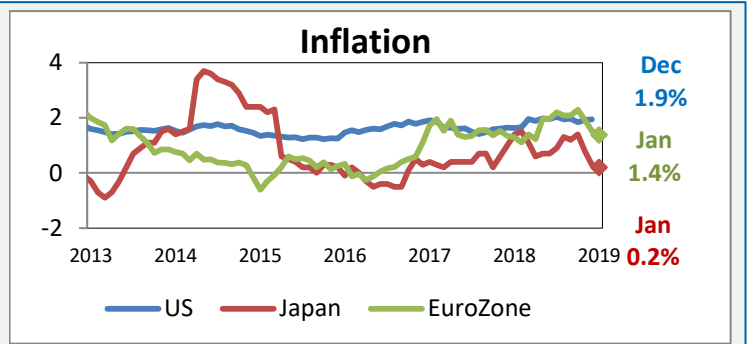
Source: FactSet, as of February 28, 2019

## Key Monthly Economic Statistics



### Chart of Month

- Major developed economy inflation rates remain below 2%.
- FOMC is starting to consider an average inflation target to allow periods of above 2% inflation to balance out periods of below 2% inflation.
- The average 2% inflation target may cause the Fed to raise rates slower than it has in the past.



Source: FactSet

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

### Equity Funds – I Series

#### U.S. Equity Fund–I

Fund	February	YTD
U.S. Equity Fund–I	+4.42%	+14.73%
Russell 3000 Index	+3.52%	+12.40%
Difference (percentage points)	+0.90	+2.33

- For the month and year-to-date, the combination of the fund's strategic overweight to small- and mid-sized company stocks, and corresponding underweight to large-company stocks, positively contributed to benchmark-relative performance. Solid returns by a growth-oriented manager investing in top-performing healthcare and e-commerce stocks contributed the most. The fund's dedicated allocation to private equity and private real estate detracted from returns. Wespath's [Ethical Exclusions](#) policy also detracted due to the strong performing aerospace sector.

#### International Equity Fund–I

Fund	February	YTD
International Equity Fund–I	+2.33%	+11.09%
MSCI ACWI ex U.S. Investable Market Index (Net)	+1.97%	+9.72%
Difference (percentage points)	+0.36	+1.37

- For the month, the combination of the fund's strategic underweight to developed market equities, and corresponding overweight to emerging market equities, negatively contributed to benchmark-relative returns. The fund benefited most from strong stock selection across most investment managers, as eight out of eleven active managers outperformed their respective benchmarks. The fund's strategic allocation to private equity and private real estate, along with the fair market valuation policy (described [here](#)), all detracted from returns.
- Year-to-date, the combination of the fund's strategic underweight to developed market equities, and corresponding overweight to emerging market equities, slightly contributed to benchmark-relative returns. Similar to February, the fund benefited most from strong stock selection with nine out of eleven active managers outperforming their respective benchmarks. The fund's strategic allocation to alternative investments, along with those stocks excluded for ethical reasons, detracted from performance. However, the fund's fair market valuation policy (described [here](#)), contributed positively to returns.

**U.S. Equity Index Fund–I**

Fund	February	YTD
U.S. Equity Index Fund–I	+3.32%	+12.02%
Russell 3000 Index	+3.52%	+12.40%
Difference (percentage points)	-0.20	-0.38

- The U.S. Equity Index Fund–I is a passively managed fund designed to closely match the fund benchmark, less fees and expenses. Ethical exclusions (described [here](#)) negatively impacted benchmark-relative performance during the month and year-to-date due to strong performing aerospace companies.

**Fixed Income Funds – I Series****Fixed Income Fund–I**

Fund	February	YTD
Fixed Income Fund–I	+0.27%	+2.26%
Barclays U.S. Universal (ex MBS) Index	+0.17%	+1.73%
Difference (percentage points)	+0.10	+0.53

- For the month, the overweight to below-investment-grade corporate bonds, as well as strong security selection from a core-plus manager, were the biggest contributors to benchmark-relative performance. Allocations to non-US dollar bonds modestly detracted.
- Year-to-date, the fund’s overweight to below-investment-grade corporate bonds and emerging market debt positively contributed to benchmark-relative results. Exposure to non-US dollar debt, Wespath’s Positive Social Purpose Lending Program and to U.S. Agency Commercial Mortgage Backed Securities partially offset benchmark-relative gains.

**Inflation Protection Fund–I**

Fund	February	YTD
Inflation Protection Fund–I	+0.08%	+2.44%
IPF Benchmark <sup>ii</sup>	-0.33%	+1.71%
Difference (percentage points)	+0.41	+0.73

- For the month and year-to-date, the out-of-benchmark exposure to below-investment-grade floating rate bank loans, the underweight allocation to UK inflation-linked bonds and the overweight allocation to energy commodity contracts contributed to benchmark-relative performance.

**U.S. Treasury Inflation Protection Fund–I**

Fund	February	YTD
U.S. Treasury Inflation Protection Fund–I	-0.12%	+1.38%
Barclays U.S. Inflation Linked Bond Index	-0.03%	+1.37%
Difference (percentage points)	-0.09	+0.01%

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

### Short Term Investment Fund–I

Fund	February	YTD
Short Term Investment Fund–I	+0.20%	+0.20%
STIF-I Benchmark	+0.18%	+0.38%
Difference (percentage points)	+0.02	-0.18

- The Short Term Investment Fund–I holds cash and cash equivalents with the objective of preserving capital while earning current income higher than that of money market funds.

### Balanced Fund – I Series

#### Multiple Asset Fund–I

Fund	February	YTD
Multiple Asset Fund–I	+2.31%	+9.05%
MAF Benchmark <sup>iii</sup>	+1.83%	+7.82%
Difference (percentage points)	+0.48	+1.23

- During the month and year-to-date, all sub-components positively contributed to benchmark-relative performance. The fund invests in the International Equity Fund–I, Fixed Income Fund–I, Inflation Protected Fund–I and the U.S. Equity Fund–I.

**For additional information, please contact:****Bill Stewart, CIMA, CFA***Director, Institutional Relationships**Wespath Institutional Investments*

(847) 866-2700 direct

(847) 866-4100 general

[bstewart@wespath.org](mailto:bstewart@wespath.org)**Karen Manczko***Director, Institutional Relationships**Wespath Institutional Investments*

(847) 866-4236 direct

(847) 866-4100 general

[kmanczko@wespath.org](mailto:kmanczko@wespath.org)

1901 Chestnut Avenue  
Glenview, Illinois 60025  
(847) 866-4100  
[wespath.org](http://wespath.org)

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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 – I Series and related documents](#) for more information about the funds. This is not an offer to purchase securities.

<sup>ii</sup> The benchmark for the Inflation Protection Fund–I 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.

<sup>iii</sup> 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% Bloomberg Barclays U.S. Universal Index ex-Mortgage Backed Securities (MBS) and 10% IPF-I performance benchmark.