Wespath
INSTITUTIONAL INVESTMENTS

February 2020 Investment Report

Highlights

- Coronavirus (COVID-19) concerns reignited in late February and quickly pivoted from China to South Korea, Italy and Iran as health officials in those countries reported waves of infections.
- The S&P 500 declined 11.5% and into "correction" territory in the last week of the month. The popular index declined 8.3% on a year-to-date basis.
- China manufacturing Purchasing Managers' Index (PMI) data fell to an all-time low of 40.3 in February from 51.1 in January; the services PMI fell to 26.5 from 51.8, the lowest reading on record and well into contraction territory, reflecting the severe quarantine and travel restrictions imposed to reduce the spread of the virus.
- Non-farm payrolls as reported by the Bureau of Labor Statistics grew by 273,000 new jobs in February, exceeding expectations and the unemployment rate dropped back to 3.5%.
- In February, MAF-I, USEF-I, and IEF-I outperformed their respective benchmarks, while FIF-I and IPF-I underperformed their benchmarks.

Monthly Overview

Markets respond to global implications of COVID-19

Investors came to understand COVID-19 as a global threat, with new waves of cases emerging around the world. Equity markets fell dramatically into correction territory even as new cases in China greatly diminished over the month. Negative sentiment may persist as testing becomes more widely available and reported case counts grow.

The S&P 500 fell nearly 13% from its February 19th high in response to the likely impact the virus will have on economic growth. Through month end, the S&P 500 was down 8.3% for the year. All industrial sectors were negative, with materials, energy and financials down the most. Government imposed travel restrictions disproportionately affected the travel and leisure industry. Analysts revised down their corporate earnings estimates, and some analysts now forecast no earnings growth for the year. The 10-year Treasury yield fell to a record low of 1.12% at month end.

Economic impacts

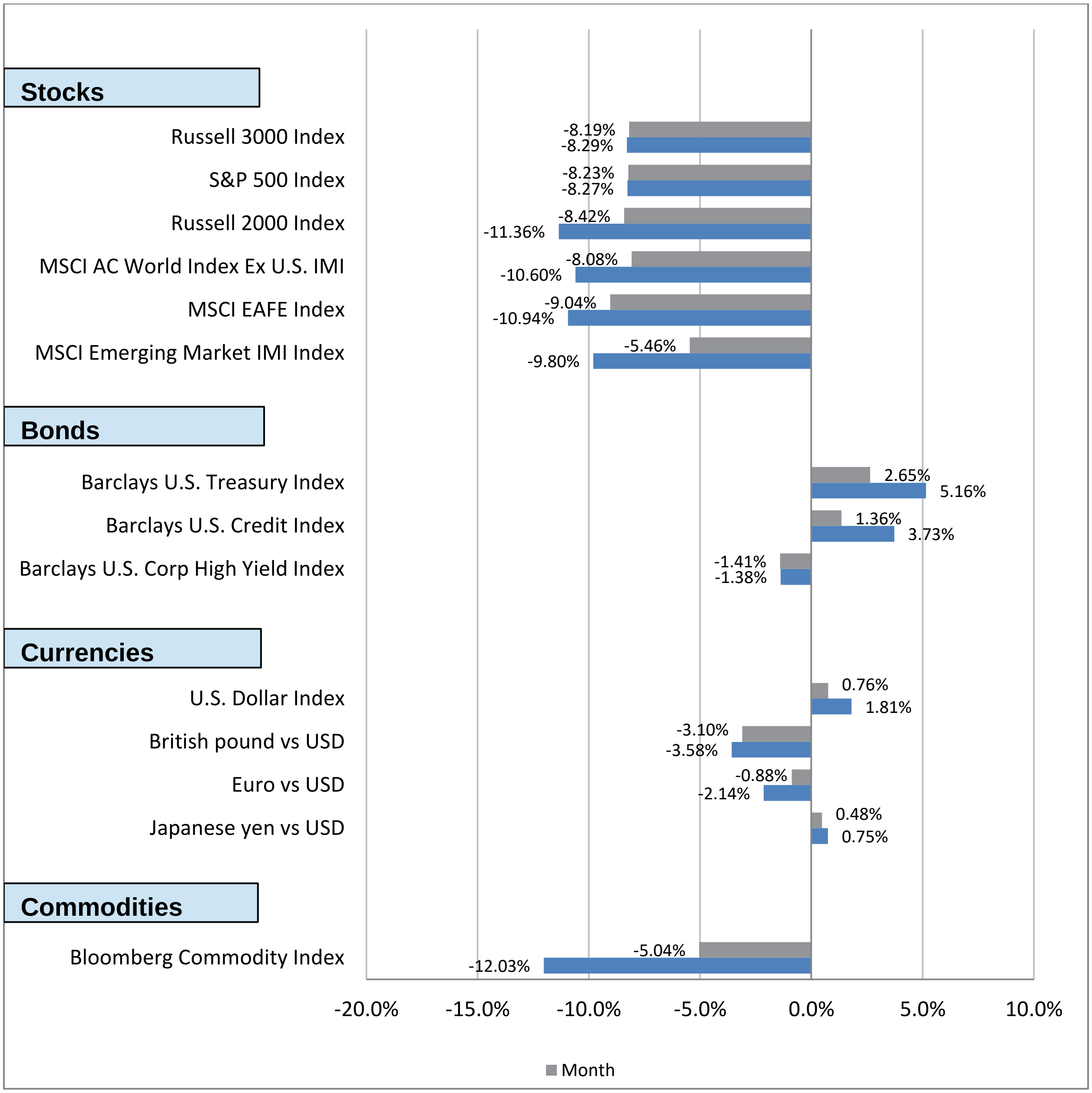
Strict quarantine measures adopted by China meant that consumer demand stalled. This drop in demand will likely extend for several more months. With the virus seemingly contained and China getting back to work, flight activity, traffic congestion and coal consumption for electricity remain about 25% below normal levels. Restaurant and movie theater activity were down by nearly 90% over the year-ago period. The extended shutdown in China impacted supply chains and reduced commodity prices. West Texas Intermediate (WTI) crude oil fell by 23% year to date.

While individual country responses will likely differ, economists expect that the global impact from COVID-19 will be meaningful. Once risks pass, manufacturing activity should rebound and partially make up for lost production.

We recognize the current situation is fluid and risks are developing. However, Wespath adheres to a consistent, long-term and disciplined strategy for managing a diversified investment program. We continue to follow this strategy in both up markets and down markets, and it has successfully stood the test of time.

Source: FactSet; WSJ, IHS Markit, World Health Organization, Worldometer and CNBC

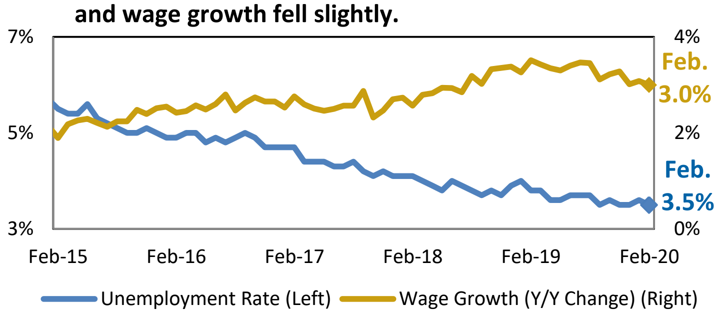
Market Performance



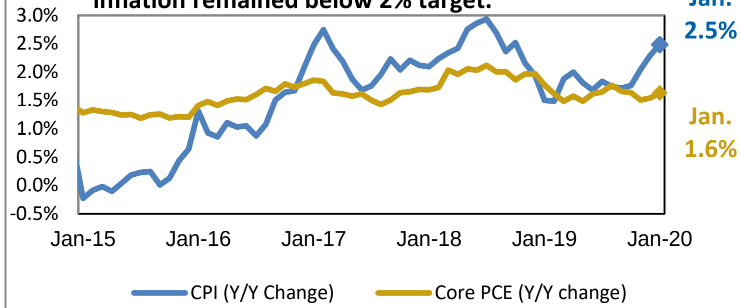
Source: FactSet, as of February 29, 2020

Key Monthly Economic Statistics

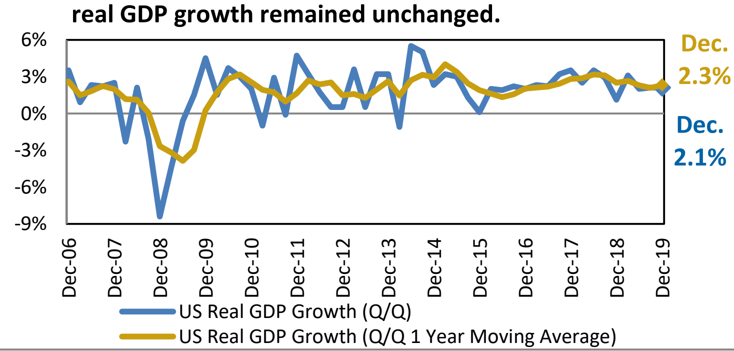
The unemployment rate remained at 50-year lows, and wage growth fell slightly.



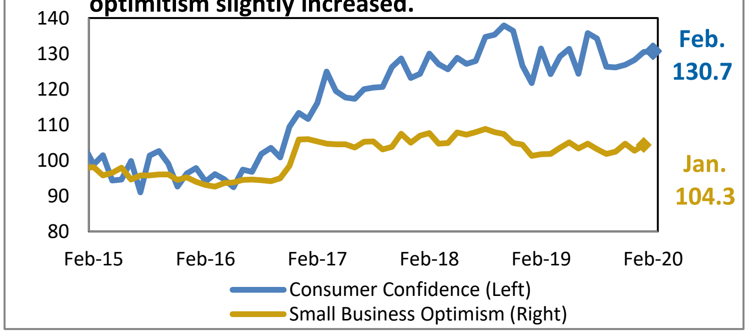
Year-over-year CPI increased in January and PCE inflation remained below 2% target.



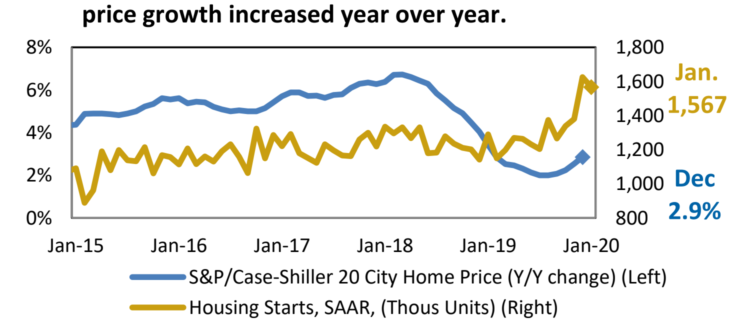
The second estimate of 4th quarter 2019 annualized real GDP growth remained unchanged.



Consumer Confidence and Small Business optimitism slightly increased.



Annual U.S. housing starts fell in January, and home price growth increased year over year.



The Fed Funds rate and Trade Weighted Dollar index was stable.

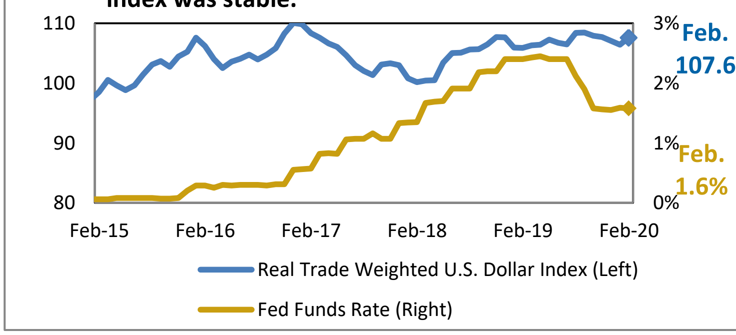
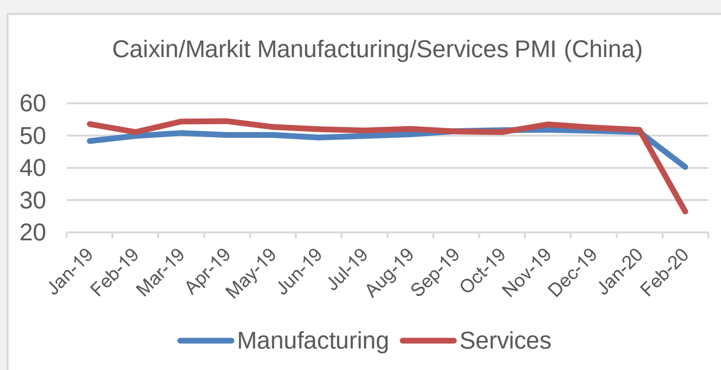


Chart of Month

- China monthly PMI data is a good way to observe the impact of travel restrictions and company closures in real time. A sharp decline in business activity resulted in the fastest decline and the lowest PMI readings on record. Manufacturing activity fell to financial crisis levels, and services activity fell by over 25 points to its first ever negative reading.
- The Chinese government recently announced supportive policies for heavily affected industries, but it will be more difficult for services companies to make up their cash flow losses as consumer behavior changes.
- Business confidence fell to a low in February, while confidence in the year-ahead period rose to a five-year high for manufacturers on hopes conditions will recover. In contrast, year-ahead confidence for services hit the lowest level since the survey began in 2005.



Source: FactSet; Worldometers; IHS Markit and Investing.com

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

Equity Funds

U.S. Equity Fund–I Series

Fund	February	YTD
U.S. Equity Fund–I Series	-7.36%	-7.38%
Russell 3000 Index	-8.19%	-8.29%
Difference (percentage points)	+0.83	+0.91

- During the month, the fund benefited most from investments made by a growth-oriented all-cap manager, specifically holdings in a tele-healthcare provider and e-commerce companies. Private equity and private real estate contributed positively to relative performance during the month. The fund's overweight allocation to small- and mid-cap company stocks, and corresponding underweight to large-cap companies, detracted from benchmark-relative performance.
- Year to date, investments in an innovative electric car manufacture and e-commerce companies were the main contributors to strong relative-performance. In addition, holdings in alternative strategies benefited performance. The fund's strategic overweight to small- and mid-sized company stocks, and corresponding underweight to large-company stocks, detracted from benchmark-relative returns.

International Equity Fund–I Series

Fund	February	YTD
International Equity Fund–I Series	-6.23%	-9.35%
MSCI ACWI ex U.S. Investable Market Index (Net)	-8.08%	-10.60%
Difference (percentage points)	+1.85	+1.25

- During the month and year-to-date periods, the fund benefited most from outperformance by the majority of active managers versus their respective benchmarks and the fund's fair market valuation policy (described here). The strategic overweight to emerging market equities and corresponding underweight to stocks of companies from developed economies, investments in private equity and private real estate, and stocks excluded in compliance with WII's Exclusions policy (described here) positively impacted relative performance.

U.S. Equity Index Fund–I Series

Fund	February	YTD
U.S. Equity Index Fund–I Series	-8.19%	-8.41%
Russell 3000 Index	-8.19%	-8.29%
Difference (percentage points)	+0.00	-0.12

- The U.S. Equity Index Fund-I Series is a passively managed fund designed so that it closely matches the fund benchmark, less fees and expenses. WII's Exclusions policy (described here) positively impacted benchmark-relative performance during the month and year to date.

Fixed Income Funds

Fixed Income Fund–I Series

Fund	February	YTD
Fixed Income Fund–I Series	+0.90%	+2.66%
Barclays U.S. Universal (ex MBS) Index	+1.63%	+3.78%
Difference (percentage points)	-0.73	-1.12

- During February and year to date, allocations to emerging market debt and below-investment-grade corporate bonds both detracted from benchmark-relative performance. Exposure to multi-family housing through high-quality U.S. agency commercial mortgage-backed securities and the Positive Social Purpose Lending program added to benchmark-relative performance.

Inflation Protection Fund–I Series

Fund	February	YTD
Inflation Protection Fund–I Series	-0.24%	+0.33%
IPF-I Benchmark[ii]	+0.05%	+1.43%
Difference (percentage points)	-0.29	-1.10

- In February and year to date, the fund's underweight exposure to U.K. inflation-linked securities and its allocation to the diversifying strategy of below-investment-grade floating rate bank loans detracted from benchmark-relative performance.

U.S. Treasury Inflation Protection Fund–I Series

Fund	February	YTD
U.S. Treasury Inflation Protection Fund–I Series	+1.42%	+3.76%
Barclays U.S. Inflation Linked Bond Index	+1.49%	+3.78%
Difference (percentage points)	-0.07	-0.02

- The U.S. Treasury Inflation Protection Fund–I Series is a passively managed fund designed so that it closely matches the performance of the fund benchmark, less fees and expenses.

Short Term Investment Fund–I Series

Fund	February	YTD
Short Term Investment Fund–I Series	+0.17%	+0.33%
BofA Merrill Lynch 3-Month Treasury Bill Index	+0.15%	+0.28%
Difference (percentage points)	+0.02	+0.05

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

Balanced Fund

Multiple Asset Fund–I Series

Fund	February	YTD
Multiple Asset Fund–I Series	-4.22%	-4.73%
MAF-I Benchmark[iii]	-4.88%	-5.06%
Difference (percentage points)	+0.66	+0.33

- During the month, the U.S. Equity Fund–I Series and International Equity Fund–I Series positively contributed to benchmark-relative performance, while the Fixed Income Fund-I and Inflation Protection Fund-I Series detracted from relative performance.
- Year to date, the U.S. Equity Fund–I Series and International Equity Fund–I Series positively contributed to relative returns, while the Fixed Income Fund–I Series and Inflation Protection Fund–I Series negatively 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 – I Series, the Summary Fund Description – I Series and the Statement of Additional Information*** for more information about the funds. This is not an offer to purchase securities.

[ii] The benchmark for the Inflation Protection Fund-I Series 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.

[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% Inflation Protection Fund (IPF) Benchmark.