Wespath
INSTITUTIONAL INVESTMENTS

February 2021 Investment Report

Highlights

- The S&P 500 increased in February amid a decline in new COVID-19 cases, an aggressive vaccination program, growth in consumer spending and signs of increasing business activity.
- Fixed income markets declined as signs of improving economic activity and the potential for higher inflation drove U.S. Treasury bond yields higher.
- The Labor Department reported that U.S. employers added 379,000 nonfarm jobs in February, exceeding estimates. The unemployment rate modestly decreased to 6.2% from 6.3%.
- MAF-I, USEF-I, and IPF-I outperformed, while FIF-I and IEF-I underperformed their respective benchmarks in February.

Monthly Overview

Equities Increased as Fixed Income Declined

The S&P 500 Index of large-cap company stocks increased 2.8% in February as companies reported better-than-expected earnings for the fourth quarter of 2020. The Russell 2000 Index of small-cap stocks increased 6.2%, outperforming the large-cap index. Value-oriented stocks outperformed growth-oriented stocks, and value sectors such as Energy and Financials increased 22.6% and 11.6%, respectively. International stocks increased 2.2%, as measured by the MSCI AC World Ex U.S. IMI. The Bloomberg Barclays U.S. Treasury Index decreased 1.8% in February as bond yields moved higher. The increase in bond yields reflected increasing optimism for the economic recovery and growing concern that fiscal and monetary stimulus could lead to higher inflation.

Vaccination Progress and Economic Recovery

The rate of new COVID-19 cases declined globally as vaccinations reached 242 million doses across more than 100 countries. The U.S. Food and Drug Administration authorized Johnson & Johnson's single-dose vaccine, adding a third option to the previously approved Pfizer and Moderna vaccines.

The U.S. Bureau of Economic Analysis reported that household income increased 10% in January, the second largest rise on record, supported by several federal pandemic response programs. The increase in household income also supported consumer spending, and U.S. retail sales (ex-auto) increased 5.9% in January. Nonfarm payroll employment increased by 379,000 in February, supported by gains in the leisure and hospitality sectors as pandemic-related restrictions eased.

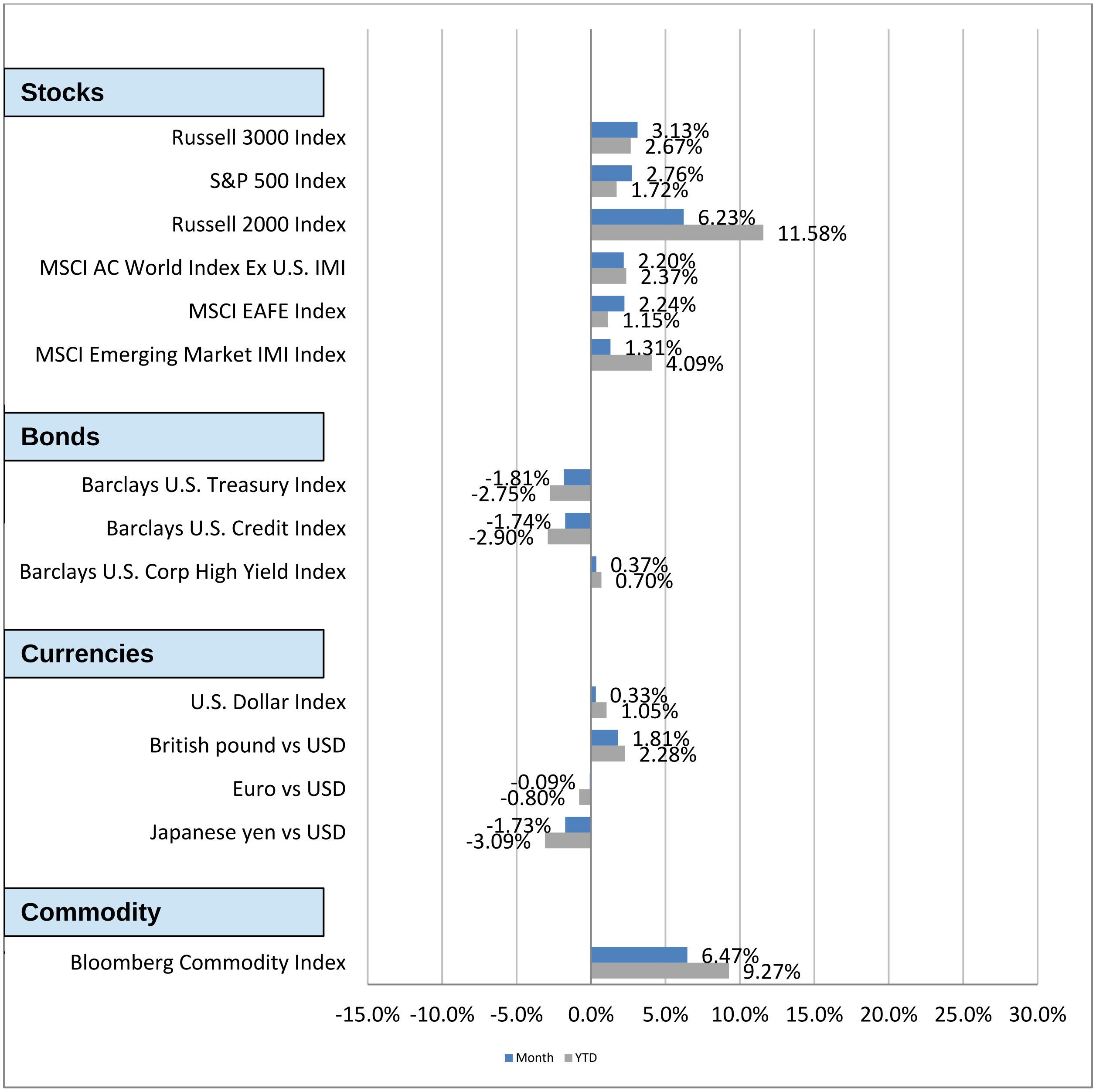
The IHS Markit U.S. Composite Purchasing Managers Index increased to 59.5 in February, reflecting strong expansion in manufacturing and service sector activities. S&P 500 companies reported that earnings grew by 3.9% year-over-year in the fourth quarter of 2020, far exceeding the January 29estimates of -9.3%.

Inflation Expectations and a Steepening Yield Curve

The U.S. Treasury yield curve steepened in February as the 10-year Treasury yield increased 37 basis points to 1.46%, the highest level in more than a year. Inflation expectations for the next five years increased to 2.4% during the month, according to the 5-year breakeven inflation rate, which is measured as the difference in yield between 5-year Treasury securities and 5-year Treasury Inflation Protected Securities (TIPS).

Sources: Bloomberg, FactSet, Moody's Analytics, Federal Reserve Bank of St. Louis, The Wall Street Journal, CNBC.

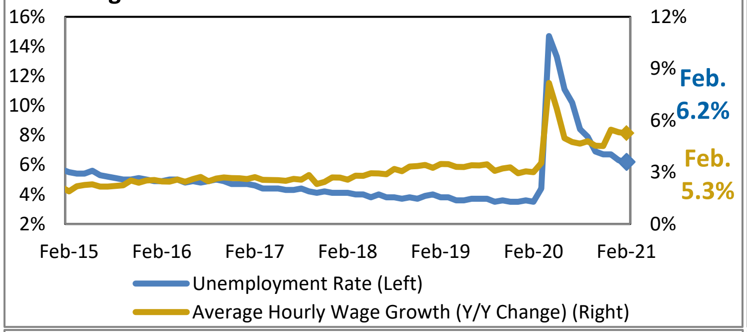
Market Performance



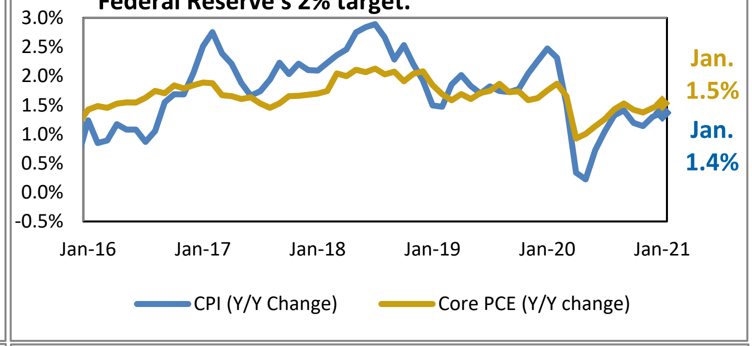
Source: FactSet, as of February 28, 2021

Key Monthly Economic Statistics

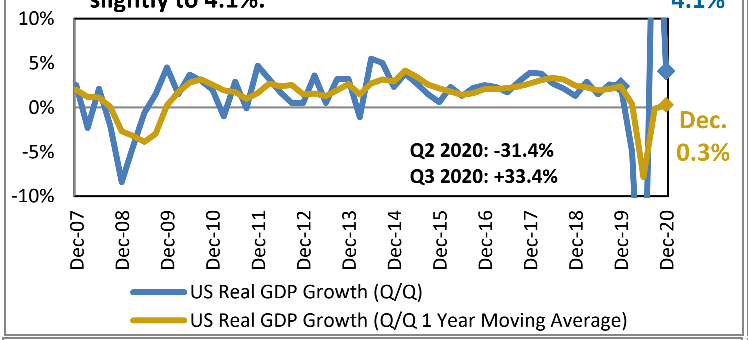
The Unemployment Rate slightly decreased, and Wage Growth remained stable.



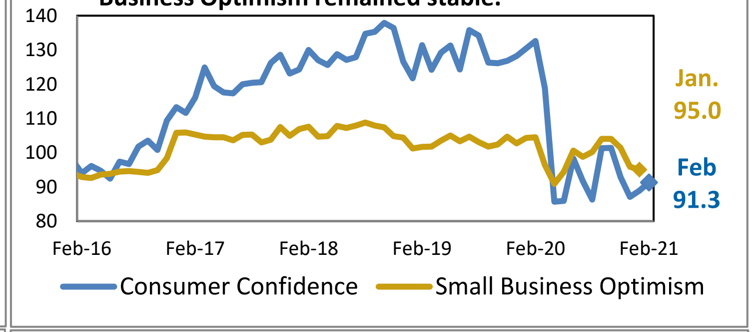
Year-over-year Inflation remained below the Federal Reserve's 2% target.



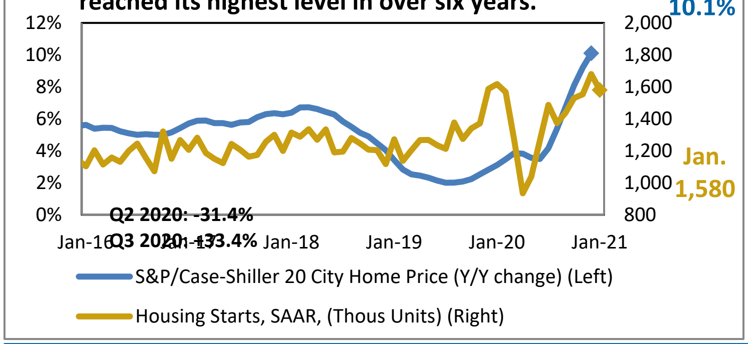
Q4 2020 Annualized Real U.S. GDP was revised up slightly to 4.1%.



Consumer Confidence slightly improved, and Small Business Optimism remained stable.



U.S. Housing Starts declined, while Price Growth reached its highest level in over six years.



The Fed Funds rate remained near zero. The Trade Weighted U.S Dollar Index remained stable.

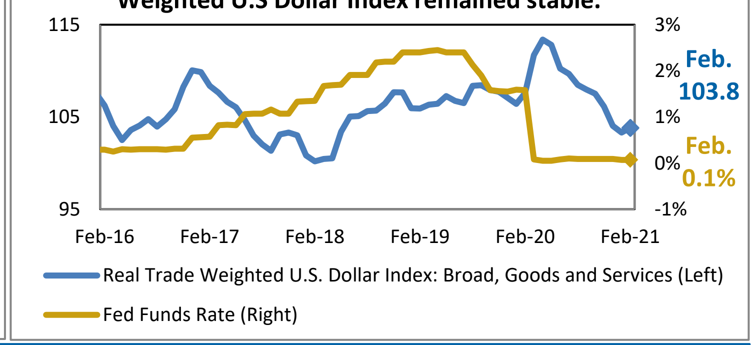
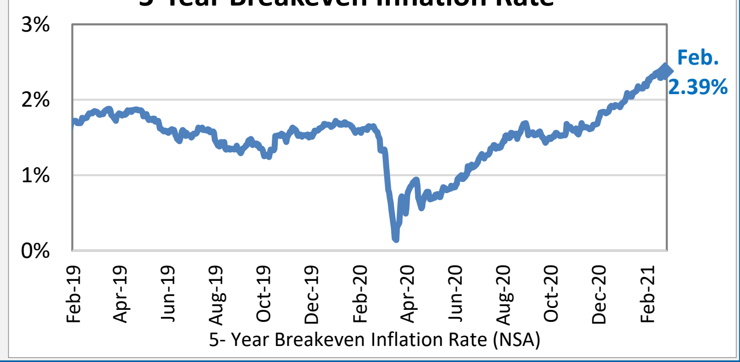


Chart of the Month

- The 5-year breakeven inflation rate increased to 2.4% in February, its highest level since 2013.
- The 5-year breakeven inflation rate reflects market expectations for the average inflation rate over the next five years.
- The breakeven inflation rate is measured as the yield difference between U.S. Treasury securities and U.S. Treasury Inflation Protected Securities, which are also known as “TIPS.”

5-Year Breakeven Inflation Rate



Source: FactSet; U.S Bureau of Labor Statistics; The Conference Board; Federal Reserve Bank of St. Louis; Bureau of Economic Analysis; National Realtors Association

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	+3.89%	+4.48%
Russell 3000 Index	+3.13%	+2.67%
Difference (percentage points)	+0.76	+1.81

- During the month and year to date, the fund outperformed its benchmark mainly due to its strategic overweight allocation to small- and mid-cap companies and corresponding underweight to large-cap companies, specifically underperforming large growth companies. In addition, the fund benefited from active managers' investments in cyclical companies benefiting from the re-opening of the economy. Stocks excluded in accordance with WII's Exclusions Policy (described here) modestly detracted from relative performance during the month.

International Equity Fund – I Series

Fund	February	YTD
International Equity Fund–I Series	+1.19%	+1.55%
MSCI ACWI ex U.S. Investable Market Index (Net)	+2.20%	+2.37%
Difference (percentage points)	-1.01	-0.82

- During the month and year to date, the fund underperformed its benchmark as a result of poor performing investments held by active managers, notably, consumer discretionary and financial companies. Investments in private equity detracted from benchmark-relative performance. However, investments in private real estate modestly contributed to benchmark-relative performance during the month and year to date. Stocks excluded in accordance with WII's Exclusions Policy slightly detracted from relative performance during the month but modestly contributed year to date.

U.S. Equity Index Fund – I Series

Fund	February	YTD
U.S. Equity Index Fund–I Series	+3.15%	+2.68%
Russell 3000 Index	+3.13%	+2.67%
Difference (percentage points)	+0.02	+0.01

- The U.S. Equity Index Fund is a passively managed fund designed so that it closely matches the fund benchmark, less fees and expenses.

Fixed Income Funds

Fixed Income Fund – I Series

Fund	February	YTD
Fixed Income Fund–I Series	-1.53%	-2.26%
Barclays U.S. Universal (ex MBS) Index	-1.47%	-2.29%
Difference (percentage points)	-0.06	+0.03

- A one-hour timing difference in determining the fund's security prices and the benchmark's security prices on February 26, 2021 adversely affected benchmark-relative performance for the month and year-to-date periods. Absent this difference, the fund would have outperformed its benchmark by approximately 25 basis points for the month. The impact of the timing difference reversed on the following trading day (March 1, 2021). The fund's custodian, Bank of New York Mellon, is in the process of changing its pricing of fixed income securities to align with benchmark pricing.
- For the month, allocations to emerging market debt detracted from benchmark-relative performance. Allocations to high-yield corporate bonds, as well as the fund's interest rate positioning, added to relative performance. The fund is moderately less sensitive to changes in interest rates than its benchmark, which positively impacted benchmark-relative performance for the month.
- Year-to-date the fund outperformed its benchmark due to its allocations to high-yield corporates and its interest rate positioning. The fund is moderately less sensitive to changes in interest rates than its benchmark, which positively impacted benchmark-relative performance for the month. The fund's allocation to emerging market debt detracted from benchmark-relative performance.

Inflation Protection Fund – I Series

Fund	February	YTD
Inflation Protection Fund–I Series	-0.96%	-0.62%
IPF-I Benchmark[ii]	-1.86%	-2.19%
Difference (percentage points)	+0.90	+1.57

- A one-hour timing difference in determining the fund's security prices and the benchmark's security prices on February 26, 2021 adversely affected benchmark-relative performance for the month and year-to-date periods. Absent this difference, the fund would have outperformed its benchmark by approximately 110 basis points for the month. The impact of the timing difference reversed on the following trading day (March 1, 2021). The fund's custodian, Bank of New York Mellon, is in the process of changing its pricing of fixed income securities to align with benchmark pricing.
- The fund's underweight exposure to U.K. inflation-linked securities, as well as its allocation to senior loans, contributed positively to benchmark-relative performance during the month and year to date. Managers' security and sector selections detracted from benchmark-relative performance.

U.S. Treasury Inflation Protection Fund – I Series

Fund	February	YTD
U.S. Treasury Inflation Protection Fund–I Series	-2.30%	-2.07%
Barclays U.S. Inflation Linked Bond Index	-1.84%	-1.56%
Difference (percentage points)	-0.46	-0.51

- A one-hour timing difference in determining the fund's security prices and the benchmark's security prices on February 26, 2021 adversely affected benchmark-relative performance for the month and year-to-date periods. Absent this difference, the fund would have performed in line with its benchmark. The impact of the timing difference reversed on the following trading day (March 1, 2021). The fund's custodian, Bank of New York Mellon, is in the process of changing its pricing of fixed income securities to align with benchmark pricing.
- The U.S. Treasury Inflation Protection Fund is a passively managed fund designed so that it closely matches the performance of the fund benchmark, less fees and expenses.

Balanced Fund

Multiple Asset Fund – I Series

Fund	February	YTD
Multiple Asset Fund–I Series	+1.28%	+1.47%
MAF-I Benchmark[iii]	+1.20%	+0.85%
Difference (percentage points)	+0.08	+0.62

- During the month, USEF-I and IPF-I positively contributed to benchmark-relative performance, but IEF-I and FIF-I detracted from benchmark-relative performance.
- Year to date, USEF-I, FIF-I and IPF-I positively contributed to benchmark-relative performance, but IEF-I detracted from 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*** 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% IPF Benchmark.