January 2014 Investment Report

Monthly Report

Markets

- U.S. equities as represented by the Russell 3000 Index decreased **3.2%** during January amid a backdrop of reduced Federal Reserve buying of Treasury bonds and increased developing market economic concerns. The bellwether S&P 500 Index finished the month with three consecutive weeks of decline and experienced its worst January since 2010.
- Small companies as measured by the Russell 2000 Index declined **2.8%** in January, while large companies as measured by the Russell 1000 Index declined **3.2%**. Health care (**+1.8%**) and utilities (**+0.2%**) were the only positive sectors in the Russell 3000 Index during the month. Energy (**-6.0%**) and consumer discretionary (**-5.7%**) declined the most. Companies with strong earnings growth performed better 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 declined **3.8%** during the month, while developing country equities declined **6.0%**, according to the MSCI Emerging Markets IMI Index. Emerging market currencies decreased 3.5% relative to the U.S. dollar during the month as measured by the JP Morgan Emerging Markets Currency Index.
- The U.S. Treasury yield curve declined and flattened during January. The 2-year U.S. Treasury Note yield decreased by **0.04%** to **0.34%**, and the 10-year Note yield decreased by **0.39%** to **2.65%**. The long bond (30-year U.S. Treasury) decreased **0.37%** in yield to **3.60%**. The decline in yields was attributed to weakness in developing countries' currencies and securities, which caused investors to seek the perceived safety of U.S. Treasury securities.
- U.S. Treasury securities as measured by the Barclays U.S. Treasury Index increased **1.4%** in January, reflecting the decrease in yields along most of the Treasury yield curve. Investment-grade debt as measured by the Barclays U.S. Credit Index increased **1.7%** during the month and outperformed the Treasury Index due to longer average duration. On a duration-adjusted basis, the Credit Index underperformed the Treasury Index. Below-investment-grade debt as measured by the Barclays U.S. Corporate High Yield Index increased **0.7%** and underperformed less-risky government and investment-grade debt as investors favored higher quality credit.
- The U.S. dollar strengthened in January, increasing **1.6%** as measured by the U.S. Dollar Index. Developing country currencies notably weakened during January. The Argentine peso decreased **18.7%** relative to the U.S. dollar, and the Russian ruble and Turkish lira decreased **6.5%** and **4.8%**, respectively. Rising U.S. interest rates have reduced the relative attractiveness of developing country rates for investors, thereby reducing the demand for developing country currencies. Weak economic growth in developing countries has limited the ability of those countries' central banks to raise interest rates to support their currencies. In developed country currencies, the euro decreased **1.9%** relative to the U.S. dollar, while the Japanese yen increased **3.2%** after a higher inflation reading led investors to forecast less monetary easing by the Bank of Japan.

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- Commodities as represented by the Dow Jones UBS Commodity Index increased **0.3%** in January. The market's energy sector increased **3.4%**. Industrial metals reversed December gains and decreased **4.9%** after a release of weaker-than-expected Chinese manufacturing data. Precious metals increased **1.9%**, including a **3.1%** increase in the price of gold.

Economics Highlights

- Recent economic statistics provided further evidence of the continued strength in the U.S. economy as the new year began. GDP growth of **3.2%** in fourth quarter 2013, when combined with third-quarter results, produced the strongest second-half GDP growth since 2003. Retail sales gained in December as consumer spending, which represents two-thirds of the economy, recovered strongly in the final months of 2013. Also, despite the fact that the pace slowed in December, existing home sales finished 2013 at the highest level in seven years.
- Recent statements from the Board of Governors of the Federal Reserve System (the Fed) confirmed that the central bank views the U.S. economy on a continuing path of recovery, with inflation under control. As a result, the Fed announced a further $10 billion tapering of its Treasury bond-buying program to $65 billion per month.
- Stock markets in developing countries continued to perform poorly, as a combination of lower growth expectations and foreign currency weakness prompted investors to withdraw capital in favor of developed countries. Argentina became the latest country of concern when the Argentine central bank stepped back from foreign exchange market interventions and allowed the peso to decline against the U.S. dollar.

Geopolitical Headlines

- President Obama outlined a plan to limit surveillance practices by the National Security Administration (NSA), including limiting the retention of phone data. The plan also included a promise to halt monitoring of communications among leaders of the United States' Western allies.
- Iran reached an accord with the major world powers to begin a six-month process of scaling back its nuclear weapons program in exchange for a reduction in international economic sanctions against the country. The White House released details of the plan to U.S. lawmakers in an effort to allay skepticism on the part of some in Congress.
- Peace talks opened between the Syrian government of President Bashar al-Assad and opposition leaders in an effort to end the three-year civil conflict in which more than 100,000 civilians have died. Despite the talks, Syrian forces continued to conduct airstrikes against rebel-held neighborhoods.
- Violence erupted in the Ukrainian capital of Kiev as riot police clashed with protesters, who have rallied around opposition to Ukraine's increasingly closer ties with neighboring Russia. In a controversial move, Ukrainian President Viktor Yanukovych rejected an integration pact with the European Union in favor of a multi-billion dollar bailout offered by Russia's Vladimir Putin.

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

- Real Gross Domestic Product Q4 2013 (Advanced): **+3.2%** (Q3 2013: **+4.1%**);Q/Q – SAAR
- S&P/Case-Shiller 20-City Home Price Index, Nov: **+13.7%** (Oct: **+13.6%**) – Y/Y
- Consumer Confidence, Jan: **80.7** (Dec: **77.5**)
- Existing Home Sales, Dec: **+1.0%** (Nov: **-5.9%**); M/M – SAAR
- Retail Sales ex-auto, Dec: **+0.8%** (Nov: **-0.1%**); M/M – SA

Neutral Statistics

- Retail Sales, Dec: **+0.2%** (Nov: **+0.3%**); M/M – SA
- Consumer Price Index, Dec: +**0.3%**; core: **+0.1%;** M/M – SA
- Producer Price Index, Dec: **+0.4%**; core: **+0.3%;** M/M – SA
- Institute for Supply Management Index, Jan: **51.3** (Dec: **56.5**)

Negative Statistics

- Durable Goods Orders, Dec: **-4.2%** (Nov: **+2.7%**); M/M – SA
- Employment, January job gains: **113,000**; Unemployment rate: **6.6%**
- Factory Orders, Dec: **-1.5%** (Nov**: +1.5%**); M/M – SA
- Housing Starts, Dec: **-9.8%** (Nov: **+23.1%**); M/M – SAAR
- New Home Sales, Dec: **-7.0%** (Nov: **-3.9%**); M/M – SAAR

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: briefing.com – economic statistic; *Econoday* – description of the economic indicator

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Investment Fund Review: (Net of Fees Performance)

For historical returns of one year, three years, five years and since inception periods, please visit our [Historical Funds Performance page].

Inflation Protection Fund

Fund	January
Inflation Protection Fund	+1.01%
Barclay's Capital U.S. Government Inflation Linked Bond Index	+2.17%
Difference	-1.16%

The Inflation Protection Fund advanced **1.01%** in January but meaningfully underperformed the fund benchmark by **1.16%**. All five of the fund's diversifying strategies detracted from performance compared to the benchmark. Global fears of an economic downturn attributable to adverse developments in several developing countries negatively affected higher risk investments. Accordingly, low-risk investments such as U.S. Treasury Inflation Protected Securities (TIPS) produced positive returns. The fund's 10% allocation to inflation-linked debt of developing countries declined **3.6%** and was the fund's largest detractor from benchmark-relative performance.

Fixed Income Fund

Fund	January
Fixed Income Fund	+0.72%
Barclays U.S. Universal (Ex MBS) Index	+1.25%
Difference	-0.53%

The Fixed Income Fund gained **0.72%** in January, but underperformed the fund's benchmark return by **0.53%**. As with the Inflation Protection Fund, the Fixed Income Fund's 10% allocation to the sovereign debt of developing countries was primarily responsible for the fund's below-benchmark performance. Sovereign debt of developed countries also adversely affected performance. However, the fund's allocation to positive social purpose loans gained **2.5%** and partially offset the negative contribution from the fund's international bond holdings.

U.S. Equity Fund

Fund	January
U.S. Equity Fund	-2.11%
Russell 3000	-3.16%
Difference	+1.05%

The U.S. Equity Fund lost **2.11%** in January, but significantly outperformed its benchmark by **1.05%**. The fund benefited from its larger-than-benchmark allocation to stocks of small- and mid-sized companies, as the Russell 2000 Index of small companies lost only **2.8%** compared to the large company S&P 500 Index return of **-3.5%**. In addition, the U.S. Equity Fund's nearly 6% allocation to the alternative investment strategies of private real estate and private equity added value, with the fund's private real estate investments gaining **2.1%**. Other positive contributors to performance were the fund's 3% allocation to public real estate investment trusts (REITs), which gained **4.1%**, as well as meaningful benchmark-relative excess performance from several of the fund's active managers.

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International Equity Fund

Fund	January
International Equity Fund	-4.95%
MSCI ACWI x US Investable Market Index	-4.22%
Difference	-0.73%

The International Equity Fund declined **4.95%** in January and underperformed its benchmark by **0.73%**. A significant portion of the fund's below-benchmark performance is attributable to the impact of the fund's daily valuation policy. At the end of 2013, the fund benefited from a positive adjustment in price resulting from strong performance in the U.S. markets on December 31. However, the impact of 2013's positive results reversed in January. In addition, the U.S. stock market declined significantly on January 31, which detracted from performance compared to the benchmark. The International Equity Fund's daily valuation policy is further described **here**. In addition, all but one of the fund's active managers underperformed their respective benchmarks.

Multiple Asset Fund

Fund	January
Multiple Asset Fund	-1.81%
Composite Benchmark	-1.79%
Difference	-0.02%

For the month of January, the Multiple Asset Fund declined **1.81%** and nearly matched its benchmark return. The positive contribution from the fund's U.S. Equity Fund allocation was entirely offset by the less-than-benchmark performance of the Multiple Asset Fund's other three strategies.

For additional information, please contact:

Derek Casteel, CFA
Managing Director, Institutional Investment Services
Wespath Investment Management
(847) 866-4307 direct
(847) 866-4100 general
dcasteel@wespath.com

Or:

Brian Coker, CFA
Director, Institutional Investment Services
Wespath Investment Management
(847) 866-2700 direct
(847) 866-4100 general
bcoker@wespath.com

1901 Chestnut Avenue
Glenview, Illinois 60025
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