

July 2014 Investment Report

Monthly Report

Markets

- U.S. equities, as represented by the Russell 3000 Index, decreased **2.0%** during July. Companies such as Exxon Mobil and Kraft Foods reported disappointing earnings on the last day of the month—contributing to the largest one-day decline for the bellwether S&P 500 Index (**-1.4%**) since April. July results were the Russell 3000's first monthly decline since January.
- Investors were more averse to small company stocks during July as measured by the **6.0%** decline in the Russell 2000 Index. Utilities sector stocks declined **7.0%**—the most of any sector in the Russell 3000—while telecommunication stocks performed best, gaining **3.0%**.
- Developed international markets declined **1.9%** during July, as measured by the MSCI World ex-US IMI Index. Markets were impacted by Argentina's pending default as well as financial irregularities at Portugal's second largest lender, Banco Espírito Santo. Developing international markets gained **1.8%** during the month and continued to outperform developed markets year-to-date, reversing last year's trend.
- The U.S. Treasury yield curve flattened in July as intermediate maturity yields increased and the 30-year U.S. Treasury bond yield decreased on stronger economic news and concerns about the Federal Reserve (the Fed) increasing near-term rates.
- U.S. Treasury securities, as measured by the Barclays U.S. Treasury Index, decreased **0.2%** during July, reflecting the rise in intermediate yields. Investment-grade debt, as measured by the Barclays U.S. Credit Index, decreased only fractionally during the month. Below-investment-grade debt, as measured by the Barclays U.S. Corporate High-Yield Index, decreased **1.3%**. Investors demanded a greater yield premium from riskier debt securities in July, decreasing the value of below-investment-grade debt.
- The U.S. dollar strengthened broadly in July on higher interest rate expectations, increasing **2.1%** as measured by the U.S. Dollar Index. The euro, British pound and Japanese yen decreased **2.2%**, **1.3%** and **1.4%** relative to the dollar, respectively. Currencies of less-developed countries also weakened relative to the dollar; the Brazilian real decreased **2.2%** and the Mexican peso decreased **1.9%**.
- Commodities, as represented by the Bloomberg Commodity Index, decreased **5.0%** in July, which was the largest monthly loss since May 2012. The Grains sub-index decreased **10.6%** as favorable weather supported strong crop forecasts. The Energy sub-index decreased **7.8%**, partially attributable to increased supply after Libya resumed exporting crude oil. Cotton decreased **14.5%** on reports of record inventories in China, which is the largest user of cotton.

Economics Highlights

- The government released its preliminary estimate of second quarter gross domestic product (GDP), which rebounded to **4.0%** from a winter-dominated fourth quarter contraction of **-2.1%**. Markets reacted unfavorably to the news—at month-end Treasury bonds had their biggest one-day sell-off since November 2013. Equity markets also reacted negatively as investors viewed the strong GDP report as a potential catalyst for the Fed to begin raising rates sooner than projected. The Fed announced at its June meeting that its Treasury bond-buying program would officially terminate in October.
- The Labor Department reported the U.S. economy added **209,000** nonfarm jobs in July, marking the first time since 1997 that employers added 200,000 or more jobs in a six-month stretch. The unemployment rate increased modestly to **6.2%**, but this was due to an improvement in the labor force participation rate, suggesting more people were looking for jobs in the face of a gradually recovering economy.
- Merger and acquisition activity was once again in the news, with three of the top 10 deals for 2014 announced during July. The largest deal—AbbVie's \$54 billion takeover of Irish drug firm Shire—is part of a growing trend by U.S. firms to purchase foreign companies and move headquarters overseas in an effort to reduce U.S. taxes. Other notable acquisitions included Zillow's \$3.5 billion purchase of Trulia to consolidate its position as the largest online real estate Web site. In addition, discount retailer chain Dollar Tree purchased rival Family Dollar, in an effort to better compete with mass merchandiser Walmart for low-end consumers.
- Chinese equity markets saw a sharp turnaround in the final two weeks of July, driven by a strong rally in certain bank and property stocks. The rebound followed several positive economic reports that highlighted reform of state-owned enterprises (SOEs), favorable policy rulings regarding the real estate sector and indications of looser monetary policy including interest rate cuts in the near future.

Geopolitical Headlines

- Ukraine remained in the headlines this month as a Malaysian Airlines passenger plane was shot down over the rebel-controlled, eastern part of the country, resulting in the deaths of 298 people. Despite no admission of complicity in the attacks, U.S. intelligence identified Ukrainian rebel forces operating a Soviet anti-aircraft missile battery as the source of the plane's demise. The European Union joined the U.S. in imposing far-reaching economic sanctions on Russia, including export bans on military arms, oil exploration and production equipment, and other exported items.
- The ongoing conflict between Israel and Palestine intensified, with the Palestinian militant group Hamas launching a series of rocket attacks deep into Israeli territory and Israel invading the Gaza strip. In early August, Egypt brokered a tentative cease-fire between the combatants. Israel withdrew the majority of its troops, citing completion of its mission to destroy all cross-border tunnels.
- Concerns regarding the Argentinian economy and currency increased in late July. Argentina moved closer to its second default on government bonds in 13 years, as it missed a deadline to make interest payments to certain creditors. The nation's press reported that a default could cut Argentina's GDP growth by 1% and further fuel inflation, which is already tracking 40% per year.

Sources: Bloomberg News, the Economist, the Wall Street Journal, CNBC, CNN, Associated Press, Reuters, Bridgewater Associates, FactSet, Barclays and Wikipedia

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.

	<p>Positive Statistics</p> <p>Consumer Confidence, July: 90.9 (June: 86.4)</p> <p>Durable Goods Orders, June: 1.7% (May: -0.9%); M/M-SA</p> <p>Institute for Supply Management Index, July: 57.1 (June: 55.3)</p> <p>Producer Price Index core, June: 0.2%; (May: -0.1%); M/M-SA</p> <p>Producer Price Index, June: 0.4%; (May: -0.2%); M/M-SA</p> <p>Factory Orders, June: 1.1% (May: -0.6%); M/M-SA</p> <p>Real Gross Domestic Product Q2 2014, 4.0% (Q1 2014: -2.1%); Q/Q-SAAR</p>
	<p>Neutral Statistics</p> <p>Consumer Price Index core, June: 0.1%; (May: 0.3%); M/M-SA</p> <p>Consumer Price Index, June: 0.3%; (May: 0.4%); M/M-SA</p> <p>Nonfarm Payrolls, July: 209,000</p> <p>Retail Sales ex-auto, June: 0.4% (May: 0.4%); M/M-SA</p> <p>Retail Sales, June: 0.3% (May: 0.4%); M/M-SA</p> <p>Unemployment Rate, July: 6.2% (June: 6.1%)</p>
	<p>Negative Statistics</p> <p>Existing Home Sales, June: 2.6% (May: 5.4%); M/M-SAAR</p> <p>Housing Starts, June: -9.3% (May: -7.3%); M/M-SAAR</p> <p>New Home Sales, June: -8.1% (May 8.3%); M/M-SAAR</p> <p>S&P/Case-Shiller 20-City Home Price Index, May: 9.3% (Apr: 10.8%); Y/Y</p>

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)

For historical returns of one year, three years, five years, 10 years and since inception periods, please visit our [Historical Funds Performance page](#). **Please note:** Historical returns are not indicative of future performance. For further details about the funds please refer to the [Investment Funds Description](#).

Inflation Protection Fund

Fund	July	YTD
Inflation Protection Fund	-0.38%	+5.41%
Barclay's Capital U.S. Government Inflation-Linked Bond Index	+0.11%	+6.47%
Difference	-0.49%	-1.06%

- The Inflation Protection Fund declined **0.38%** in July and underperformed the fund benchmark by **0.49%**. The fund's higher risk, diversifying allocations to commodities and inflation-linked debt from developing countries declined **4.0%** and **1.8%** respectively as geopolitical concerns contributed to negative investor sentiment. The fund's allocation to inflation-linked bonds from developed countries gained **0.6%** for the month and positively contributed to benchmark-relative results.
- For the year to date, the Inflation Protection Fund has produced the highest return of all Wespath funds, gaining **5.41%** even though it has underperformed its benchmark return by **1.06%**. The fund's allocations to commodities and senior secured floating rate securities have gained **4.0%** and **2.6%**, and were primarily responsible for the fund's underperformance compared to the fund benchmark.

Fixed Income Fund

Fund	July	YTD
Fixed Income Fund	-0.50%	+4.51%
Barclays U.S. Universal (ex MBS) Index	-0.22%	+4.02%
Difference	-0.28%	+0.49%

- The Fixed Income Fund declined **0.50%** in July and underperformed the fund benchmark return by **0.28%**. As with the Inflation Protection Fund, geopolitical concerns adversely affected the Fixed Income Fund's allocation to higher risk diversifying strategies, with the fund's 8% allocation to below-investment-grade bonds and 11% allocation to bonds from developing countries declining **1.5%** and **0.8%** respectively during the month. The Fixed Income Fund's best-performing strategy in July was its 8% allocation to positive social purpose loans, which gained **0.1%**.
- For the year-to-date, the Fixed Income Fund has gained **4.51%** and has outperformed its benchmark return by **0.49%**. The fund's best-performing strategy year-to-date is its allocation to bonds from developing countries, which has gained **6.8%**. In addition, the fund's two "core" (i.e. broadly diversified) managers have both outperformed their respective benchmarks by nearly one percentage point, which contributed positively to the fund's performance. The Fixed Income Fund's allocation to higher-risk below-investment-grade bonds has gained about **3.3%**, which slightly detracted from benchmark-relative performance.

U.S. Equity Fund

Fund	July	YTD
U.S. Equity Fund	-2.37%	+4.20%
Russell 3000 Index	-1.97%	+4.83%
Difference	-0.40%	-0.63%

- The U.S. Equity Fund declined **2.37%** in July and underperformed its fund benchmark by **0.40%**. The fund's higher-than-benchmark allocation to stocks of small and mid-sized companies detracted from relative performance, as the Russell 2000 Index of small company stocks declined **6.1%** compared to the large company S&P 500 Index decline of **1.4%** decline in July. The fund's allocation to real estate investment trusts (REITs) gained **0.3%** and partially offset the adverse impact of the fund's allocation to small and mid-sized stocks. In addition, the fund's nearly 6% allocation to the alternative investment strategies of private equity and private real estate positively contributed to fund performance, with the latter strategy recognizing a **1.8%** increase in value during July.
- For the year-to-date, the U.S. Equity Fund has gained **4.20%** and has underperformed its benchmark return by **0.63%**. The fund's allocation to publicly traded real estate investment trusts has gained **18.9%** and positively contributed to the fund's benchmark-relative performance. However, this positive contribution was more than offset by the U.S. Equity Fund's greater-than-benchmark allocation to small and mid-sized companies. Through July, the Russell 2000 Index has lost **3.1%** compared to a **5.7%** gain of the S&P 500 Index.

International Equity Fund

Fund	July	YTD
International Equity Fund	-1.59%	+2.27%
MSCI ACWI x US Investable Market Index	-1.11%	+4.60%
Difference	-0.48%	-2.33%

- The International Equity Fund declined **1.59%** in July and underperformed its benchmark return by **0.48%**. The fund's current lower-than-benchmark allocation to stocks from developing countries detracted from performance, as the MSCI Emerging Markets Index gained **1.8%** for the month compared to the MSCI EAFE Index of developed countries, which declined **2.0%**. The International Equity Fund's allocation to small international companies also detracted from benchmark-relative performance, declining **3.7%** during July. The fund's 5% allocation to international real estate investment trusts positively contributed to performance and gained **0.1%**.
- For the year-to-date, the International Equity Fund has gained **2.27%** but has underperformed its benchmark return by **2.33%**. A portion of the underperformance is attributable to the fund's below-benchmark weighting in developed market stocks classified as "value" by the MSCI World Ex-US Value Index, which gained **4.9%** compared to the **2.3%** return for the MSCI World Ex-US Growth Index. In addition, five of the fund's active strategies have underperformed their respective benchmarks by between two and six percentage points.

Multiple Asset Fund

Fund	July	YTD
Multiple Asset Fund	-1.51%	+3.91%
Composite Benchmark	-1.11%	+4.79%
Difference	-0.40%	-0.88%

- For July, the Multiple Asset Fund declined **1.51%** and underperformed the fund's composite benchmark by **0.40%**. All four of the fund's strategies underperformed their respective benchmarks.
- For the year-to-date, the Multiple Asset Fund has gained **3.91%**, but has underperformed its benchmark return by **0.88%**. The International Equity Fund has detracted the most from benchmark-relative performance, and only the Fixed Income Fund has outperformed its fund benchmark.

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Historical returns are not indicative of future performance. 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.