Wespath
Investment Management

July 2015 Investment Report

Monthly Report

Markets

- U.S. equities, represented by the Russell 3000 Index, increased **1.7%** in July. Positive news regarding a potential Greek government debt default and a stronger Q2 GDP release contributed to the modest gain.
- Small company stocks substantially underperformed large company stocks in July, reversing a trend from the previous month. Small company stocks declined **1.2%**, as measured by the Russell 2000 Index, while large company stocks increased **1.9%**, as measured by the Russell 1000 Index. Continuing the recent trend, companies with strong earnings growth outperformed value companies. Consumer Staples was the best-performing Russell 3000 sector, gaining **5.3%**; Energy was the worst-performing Russell 3000 sector, declining **3.6%**.
- Non-U.S. stocks declined **0.5%**, as measured by the MSCI ACWI World ex-USA IMI index. Developed international markets, as measured by the EAFE index, increased **2.1%**, as it became less likely that a Greek government debt crisis would result in a split with the Eurozone. Developing country stocks, as measured by the MSCI Emerging Markets Index IMI, registered a decline of **7.1%** in U.S. dollar terms, driven down by weaker commodity prices and a volatile Chinese stock market. At month-end, Chinese stocks experienced their worst one-day percentage drop, down **8.5%**, as Chinese authorities struggled to stop the collapse in equity prices.
- The U.S. Treasury yield curve flattened during July. The 2-year Treasury note yield increased **0.03%** to **0.67%**, and the 30-year Treasury note yield decreased **0.22%** to **2.91%**. The Labor Department reported that U.S. wages and benefits, as measured by the Employment Cost Index, increased a disappointing **0.2%** during the second quarter. The Federal Reserve indicated that it will move at a measured pace when it eventually begins to increase the Federal Funds rate.
- U.S. Treasury securities, as measured by the Barclays U.S. Treasury Index, increased **0.8%** in July due to the flattening yield curve. Investment-grade debt, as measured by the Barclays U.S. Credit Index, increased **0.6%**. Below-investment-grade debt, as measured by the Barclays U.S. Corporate High-Yield Index, decreased **0.6%** and underperformed investment-grade debt during the month. Energy was the weakest sector within the high-yield index, decreasing **5.5%** amid declining energy prices.
- The U.S. dollar strengthened **1.7%** in July, as measured by the U.S. Dollar Index. The euro decreased **1.5%** relative to the dollar as European finance ministers agreed to a Greek bailout for the third time in five years. Developing country currencies also weakened relative to the dollar. The Brazilian real decreased **9.3%**, and the Russian ruble decreased **10.3%**, as economic weakness in both Brazil and Russia was exacerbated by declining prices of their commodity exports.
- Commodities, as represented by the Bloomberg Commodity Index, decreased **10.6%** in July. The Grains sub-index decreased **13.1%** amid reports of plentiful supplies. Petroleum decreased **17.6%** as the Iran nuclear deal increased prospective global oil supply.

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Economics Highlights

- Commodity prices tumbled during July. Crude oil prices fell almost 20% in the month due to strong supply from both U.S. and OPEC producers and concerns that Iranian production would flood the market once economic sanctions end. Gold prices fell to a five-year low, along with other metals such as copper, aluminum and iron ore. Demand for commodities is closely correlated with growth in developing country economies, so investors remain particularly concerned about the Chinese economy's resiliency.
- The Bureau of Economic Analysis released its advanced estimate of second-quarter U.S. gross domestic product (GDP), which indicated growth of **2.3%**. On a positive note, the revised estimate of first-quarter GDP growth was **0.6%**, an increase from the previous estimate of **-0.2%**.
- The U.S. economy added 215,000 jobs during July, with the unemployment rate holding steady at **5.3%**. Wage growth remains disappointingly slow, as indicated by average hourly earnings increase of only **0.2%** during July and **2.1%** for the one-year period. The labor force participation rate remains at a historic low of **62.6%**.
- The mere hint of potential interest rate increases in the near future led to a weakened housing market in recent months. The Commerce Department reported that new home sales in June decreased **6.8%** from the prior month to a seasonally adjusted annual rate of 482,000. The report also revised May sales to 517,000—down from 546,000. New home sales and construction pace still remain far below long-term averages.

Geopolitical Headlines

- After nearly two years of negotiations, the U.S., Britain, China, France, Russia and Germany have reached a landmark deal with Iran to reduce Iran's nuclear weapons activities. The deal imposes strict limits on Iran's nuclear activities for 10 years in exchange for removal of international sanctions. The deal still faces several hurdles, including approval by the U.S. Congress within 60 days. Democrats and Republicans in Congress, along with several U.S. allies—including Saudi Arabia, Israel and the United Arab Emirates—remain wary of Iran's long-term intentions for developing nuclear weapons.
- The Greek parliament approved new austerity measures in July in order to unlock a new three-year €86 billion bailout package negotiated with Eurozone creditors. A key aspect of the agreement includes the transfer of €50 billion of Greek-owned assets into a privatization fund. The fund acts as an insurance policy for Eurozone creditors concerned that Greece may fall short in meeting its austerity reform promises. Opposition to the bailout deal from Greece Prime Minister Alexis Tsipras' Syriza party forced Tsipras to reshuffle his cabinet and may result in new elections in the fall.
- The Shanghai Composite Index lost 27% of its value subsequent to its high on June 12. This drop marked the largest sell-off in two decades. The Chinese government took unprecedented steps to support its stock market, including suspending initial public offerings, relaxing margin restrictions, suspending all short selling, and banning major Chinese stakeholders from selling shares for six months. At one point during July, more than 50% of the companies listed on the Shanghai Stock Exchange had suspended trading.

Sources: Forbes, Reuters, Bloomberg, The Economist, Energy Information Administration, The Wall Street Journal, CBS News, FactSet, Barclays, Russell, CNBC, CNN, The New York Times, Associated Press, Bridgewater Associates, Wikipedia and NASDAQ.

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Key Monthly Economic Statistics

This table contains a list of key monthly economic statistics.

(green)	**Positive Statistics** • Durable Goods Orders, Jun: 3.4% (May: -2.3%); M/M-SA • Factory Orders, Jun: 1.8% (May: -1.1%); M/M-SA • Housing Starts, Jun: 9.8% (May: -10.2%); M/M-SAAR • Real Gross Domestic Product, Q2: 2.3% (Q1: 0.6%); Q/Q-SAAR • Unemployment Rate, Jul: 5.3% (Jun: 5.3%) • Nonfarm Payrolls, Jul: 215,000
(yellow)	**Neutral Statistics** • Consumer Price Index core, Jun: 0.2% (May: 0.1%); M/M-SA • Consumer Price Index, Jun: 0.3% (May: 0.4%); M/M-SA • Institute for Supply Management Index, Jul: 52.7 (Jun: 53.5) • Producer Price Index core, Jun: 0.3% (May: 0.1%); M/M-SA • Producer Price Index, Jun: 0.4% (May: 0.5%); M/M-SA • S&P/Case-Shiller 20-City Home Price Index, May: 4.9% (Apr: 5.0%); Y/Y
(red)	**Negative Statistics** • Consumer Confidence, Jul: 90.9 (Jun: 99.8) • Existing Home Sales, Jun: 3.2% (May: 4.5%); M/M-SAAR • New Home Sales, Jun: -6.8% (May: -1.1%); M/M-SAAR • Retail Sales ex-auto, Jun: -0.1% (May: 0.8%); M/M-SA • Retail Sales, Jun: -0.3% (May: 1.0%); M/M-SA

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***

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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	-0.97%	-1.16%
Barclays Capital U.S. Government Inflation Linked Bond Index	+0.31%	+0.44%
Difference	-1.28%	-1.60%

- The Inflation Protection Fund (IPF) declined **0.97%** in July and significantly underperformed the fund's benchmark return by **1.28%**. The fund's 10% exposure to commodity futures contracts contributed the most to the fund's underperformance as the price of oil declined 20.8%. In addition to commodity losses, the fund's 10% exposure to inflation-linked bonds from developing countries declined **3.7%**, largely due to strengthening of the U.S. dollar relative to developing country currencies. Investors fear a contagion effect resulting from slower Chinese growth and its impact on other developing country economies that export to China. The fund's diversifying dollar-hedged global inflation-linked bond strategy, however, gained **1.4%** and partially offset the benchmark-relative losses from commodities and developing country inflation-linked bonds.
- For the year-to-date, the Inflation Protection Fund lost **1.16%** and underperformed the fund benchmark by **1.60%**. The fund's diversifying strategies of commodity futures contracts and inflation-linked bonds from developing countries contributed the most to the fund's underperformance, declining **11.8%** and **9.6%** for the year to date. The fund's two floating rate strategies of senior secured loans and asset-backed securities gained **4.2%** and **3.6%** respectively, and positively contributed to benchmark-relative results. In addition, the fund's allocation to dollar-hedged global inflation-linked bonds gained **2.0%**, which also partially offset the benchmark-relative losses from commodities and developing country inflation-linked bonds.

Fixed Income Fund

Fund	July	YTD
Fixed Income Fund	+0.33%	-0.04%
Barclays U.S. Universal (Ex MBS) Index	+0.57%	+0.87%
Difference	-0.24%	-0.91%

- The Fixed Income Fund (FIF) advanced **0.33%** in July and underperformed its benchmark return by **0.24%**. The fund's 10% allocation to bonds from developing countries declined **1.1%** due to strength of the U.S. dollar relative to developing country currencies. In addition, the fund's two below-investment-grade fixed income strategies detracted from performance largely due to the decline in the price of oil and its impact on bond prices for energy-related companies. The fund's high-yield strategy declined **0.7%**, and the fund's credit opportunities strategy recognized a flat return (**0.0%**) for the month. The fund's allocation to positive social purpose loans gained **1.7%** and positively contributed to benchmark-relative performance.

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- For the year-to-date, the Fixed Income Fund lost a fractional **0.04%** and underperformed its benchmark return by **0.91%**. The fund's allocations to bonds denominated in foreign currencies from both developed and developing countries declined **3.0%** and **3.4%**, respectively, due to strength of the U.S. dollar relative to most foreign currencies during the first seven months of the year. The U.S. dollar benefitted from higher U.S. interest rates and investor perception of stronger U.S. growth relative to foreign economies. In addition, the fund's allocation to investment-grade corporate bonds declined **0.1%**, largely due to higher levels of debt issuance as companies aggressively borrowed to take advantage of low interest rate levels prior to anticipated rate increases later in 2015. The fund's allocation to positive social purpose loans gained **3.6%**. The fund's largest investment manager (PIMCO) outperformed its benchmark by **0.7%**, positively contributing to the Fixed Income Fund's benchmark-relative performance.

Extended Term Fixed Income Fund

Fund	July	YTD
Extended Term Fixed Income Fund	+1.05%	-1.13%
Barclays U.S. Government/Credit Long Term Index	+2.18%	-1.57%
Difference	-1.13%	+0.44%

- The newly created Extended Term Fixed Income Fund (ETFIF) gained **1.05%** in July, but significantly underperformed its benchmark return by **1.13%**. Long-term interest rates decreased in July due to investor concern regarding world economic growth. Lower long-term interest rates are largely attributable to slower growth in China and its potential to forestall Federal Reserve action to increase interest rates. Wespath intentionally elected to temporarily hold bonds with shorter terms compared with bonds held in the fund benchmark until interest rates rise to historically normal levels. Hence, for the near term, the Extended Term Fixed Income Fund will likely outperform its benchmark when interest rates increase and will underperform when interest rates decline. Click **here** for more information about the Extended Term Fixed Income Fund.
- For the two months since the fund's inception, the Extended Term Fixed Income Fund declined **1.13%**, which exceeded the fund benchmark return by **0.44%**. As indicated above, Wespath expects the fund to outperform when interest rates increase and rates have increased since the inception of the fund.

U.S. Equity Fund

Fund	July	YTD
U.S. Equity Fund	+1.17%	+3.51%
Russell 3000	+1.67%	+3.65%
Difference	-0.50%	-0.14%

- The U.S. Equity Fund (USEF) gained **1.17%** in July but underperformed its Russell 3000 Index benchmark by **0.50%**. The fund's higher-than-benchmark allocation to small and mid-sized company stocks detracted from performance. The Russell 2000 Index of small companies declined **1.2%** compared to a **2.1%** gain of the large company S&P 500 Index. The fund benefitted from its allocation to publicly traded real estate investment trusts (REITs), which gained **6.1%** for the month.

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- For the year-to-date, the U.S. Equity Fund gained **3.51%** but slightly underperformed its benchmark return by **0.14%**. The fund's allocation to public REITs declined **0.3%** and detracted from benchmark-relative performance.

International Equity Fund

Fund	July	YTD
International Equity Fund	-2.06%	+2.38%
MSCI ACWI ex-US Investable Market Index	-0.50%	+4.07%
Difference	-1.56%	-1.69%

- The International Equity Fund (IEF) declined **2.06%** in July and significantly underperformed its benchmark return by **1.56%**. Two of the fund's investment managers significantly underperformed their respective benchmarks due to their allocations to stocks from developing countries. The MSCI Emerging Markets IMI Index declined **7.1%** during the month compared to the **2.1%** gain of the MSCI EAFE Index. In addition, the fund's 13% allocation to small company international stocks declined **1.4%**, contributing to the fund's below-benchmark performance.
- For the year-to-date, the fund gained **2.38%** and underperformed the fund benchmark by **1.69%**. All but one of the fund's active managers underperformed their respective benchmarks, with significant below-benchmark performance by the two developed-country investment managers that have exposure to stocks from developing countries and two of the developing-country investment managers. In addition, the fund's modest allocation to private international real estate declined **9.8%**, largely due to currency depreciation. The fund's public REIT investment manager significantly outperformed its benchmark so far this year, partially offsetting the negative benchmark-relative results from the fund's other managers.

Multiple Asset Fund

Fund	July	YTD
Multiple Asset Fund	-0.05%	+1.85%
Composite Benchmark	+0.72%	+2.84%
Difference	-0.77%	-0.99%

- For July, the Multiple Asset Fund (MAF) declined **0.05%** and underperformed its fund benchmark by **0.77%**. All four of the fund's strategies underperformed their respective benchmarks.
- For the year-to-date, the Multiple Asset Fund gained **1.85%**, but underperformed its benchmark return by **0.99%**. All four of the fund's underlying strategies underperformed their respective benchmarks.

Equity Social Values Plus Fund

Fund	July	YTD
Equity Social Values Plus Fund	+2.02%	+3.67%
MSCI World Custom ESG Special Weighted Index	+1.99%	+4.22%
Difference	+0.03%	-0.55%

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- The Equity Social Values Plus Fund is a passively managed fund designed to closely match the fund benchmark, less fees and expenses.

U.S. Equity Index Fund

Fund	July	YTD
U.S. Equity Index Fund	+1.45%	+3.24%
Russell 3000 Index	+1.67%	+3.65%
Difference	-0.22%	-0.41%

- The U.S. Equity Index Fund is a passively managed fund designed to closely match the fund benchmark, less fees and expenses.

For additional information, please contact:

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Historical returns are not indicative of future performance. Fund returns are net of fees. 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

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