

# July 2016 Investment Report

## July Highlights

- The International Monetary Fund (IMF) lowered its economic outlook for global growth to 3.1% for 2016 citing the economic impact of the United Kingdom's (U.K.) referendum to exit the European Union ("Brexit"), a slowdown in China, and general economic weakness across the globe.
- Second quarter U.S. Gross Domestic Product (GDP) grew at a weaker than expected pace of 1.2%.
- Equities performed strongly with small-cap, mid-cap and international stocks outperforming large-cap, and growth stocks outperforming value.
- Wespath's equity funds delivered positive absolute returns against a backdrop of improving equity markets. Equity funds benefitted from exposure to small- and mid-cap companies, and large-cap growth; fixed income funds gained from investments in below-investment-grade corporate bonds and emerging market debt.

## Monthly Overview

### *U.S. economy: The Fed is on hold*

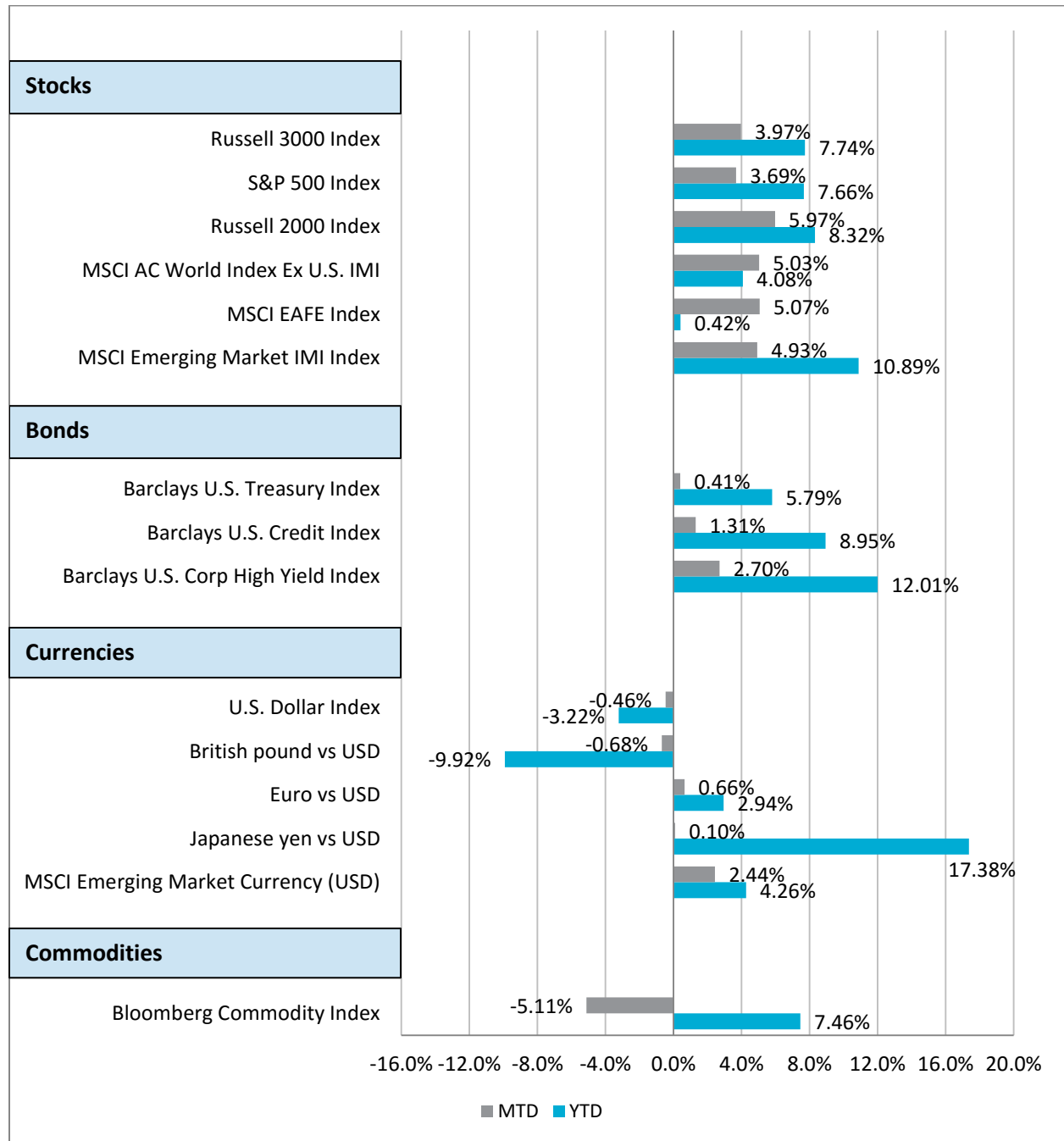
The Federal Reserve (Fed) left rates unchanged after its meeting in July. Factory orders and durable goods orders declined as the U.S. business community continues to refrain from making capital expenditures. In contrast, U.S. consumer confidence remained high as new and existing home sales were strong and the unemployment rate remained below 5.0%. The June figure for non-farm payrolls, released in July, grew by 287,000, a big increase from the downwardly revised May number of 11,000. A lower than expected second quarter GDP estimate, subdued inflation readings, and slower than expected global growth, all contributed to the Fed's decision to delay a rate hike.

### *Global growth*

The IMF lowered its 2016 and 2017 global growth forecast by 0.1 percentage points each to 3.1% and 3.4%, respectively. The updated forecasts reflect the uncertainty surrounding the effects of Brexit on the European economies. Other concerns remain beyond Brexit. Quantitative easing policies in Europe and Japan have yet to ignite meaningful growth and the IMF is encouraging developed market governments to institute labor market reforms and fiscal spending programs to spur higher growth rates. There also remains ongoing uncertainty about how effectively China will be able to transition from a manufacturing to a consumer-based economy.

Developing economies have recently attracted significant capital inflows, which is partly due to relatively new leadership in several countries and investor expectations of more responsible economic policies.

## Market Performance



Source: FactSet, As of July 31, 2016

## Key Monthly Economic Statistics

Statistic	Monthly/Yearly Change	Positive
Existing Home Sales	Jun: 1.1% (May: 1.5%); M/M-SAAR	▲
Housing Starts	Jun: 4.8% (May: -1.7%); M/M-SAAR	▲
Institute for Supply Management Index	Jun: 53.2% (May: 51.3%)	▲
New Home Sales	Jun: 3.5% (May: 0.0%); M/M-SAAR	▲
Nonfarm Payrolls	Jul: 287,000 (Jun: 11,000)	▲
Unemployment Rate	Jun: 4.9% (May: 4.7%)	▲
<b>Neutral</b>		
Consumer Confidence	Jul: 97.3 (Jun: 97.4)	◆
Consumer Price Index core	Jul: 0.2% (Jun: 0.2%); M/M-SA	◆
Consumer Price Index	Jul: 0.2% (Jun: 0.2%); M/M-SA	◆
Producer Price Index core	Jul: 0.4% (Jun: 0.3%); M/M-SA	◆
Producer Price Index	Jul: 0.5% (Jun: 0.4%); M/M-SA	◆
Retail Sales ex-auto	Jul: 0.7% (Jun: 0.4%); M/M-SA	◆
Retail Sales	Jul: 0.6% (Jun: 0.2%); M/M-SA	◆
S&P/Case-Shiller 20-City Home Price Index	May: 6.4% (Apr: 6.7%); Y/Y	◆
<b>Negative</b>		
Durable Goods Orders	Jun: -4.0% (May: -2.8%); M/M-SA	▼
Factory Orders	May: -1.0% (Apr: 1.8%); M/M-SA	▼
Real Gross Domestic Product	Jun: 1.2% (Mar: 0.8%); Q/Q-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	<b>FactSet</b>

## Investment Fund Review (Net of Fees Performance)<sup>i</sup>

### Equity Funds

#### U.S. Equity Fund

Fund	July	YTD
U.S. Equity Fund	+4.26%	+6.33%
Russell 3000 Index	+3.97%	+7.74%
Difference (percentage points)	+0.29	-1.41

- For the month, underweight positions in several oil companies within the large-cap segment positively contributed to benchmark-relative performance. Additionally, the fund benefitted from not holding a number of stocks excluded under our Ethical Exclusions guideline. The allocation to alternatives detracted from relative performance despite modest positive returns for the month.
- For the year, an underweight to higher dividend-yielding securities, including strong performing telecommunication services companies, and the fund's allocation to alternatives detracted from relative performance. The fund's strategic asset allocation of overweighting small- and mid-cap stocks with a corresponding underweight in large-cap stocks, positively contributed to relative performance.

#### International Equity Fund

Fund	July	YTD
International Equity Fund	+4.46%	+5.28%
MSCI ACWI ex U.S. Investable Market Index	+5.03%	+4.08%
Difference (percentage points)	-0.57	+1.20

- For the month, the fund's daily valuation policy (described [here](#)) was a detractor to the fund's benchmark-relative performance, as were Japanese stocks. Alternatives performance was flat for the month and detracted from benchmark-relative performance. The fund's allocation to emerging and frontier markets positively contributed to benchmark-relative performance.
- For the year, the fund's less-than-benchmark weighting to investments in Europe and Japan, which have underperformed the fund benchmark, were the top contributors to benchmark-relative performance. The daily valuation policy also positively contributed to relative performance.

#### Equity Social Values Plus Fund

Fund	July	YTD
Equity Social Values Plus Fund	+3.80%	+5.16%
MSCI World Custom ESG Special Weighted Index	+4.32%	+5.84%
Difference (percentage points)	-0.52	-0.68

- The Equity Social Values Plus Fund is a passively managed fund designed to closely match the fund benchmark, less fees and expenses. The international daily valuation policy (described [here](#)) contributes to any deviation from the benchmark return.

## U.S. Equity Index Fund

Fund	July	YTD
U.S. Equity Index Fund	+3.97%	+7.50%
Russell 3000 Index	+3.97%	+7.74%
Difference (percentage points)	+0.00	-0.24

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

## Fixed Income Funds

### Fixed Income Fund

Fund	July	YTD
Fixed Income Fund	+1.18%	+8.05%
Barclays U.S. Universal (Ex MBS) Index	+1.01%	+7.57%
Difference (percentage points)	+0.17	+0.48

- Corporate bonds continued to perform well in July with longer dated and lower rated bonds performing best. The fund's allocation to below-investment-grade corporate bonds increased 2.3% and contributed most to monthly performance. Investment grade credit also contributed positively to returns.
- Year-to-date, benchmark-relative performance remained positive due to the fund's allocation to developing country debt, high-yield and investment grade credit. The fund's exposure to the Brazilian real, Russian ruble and South African rand contributed positively as those currencies each appreciated more than 10% versus the dollar.

### Extended Term Fixed Income Fund

Fund	July	YTD
Extended Term Fixed Income Fund	+1.80%	+11.33%
Barclays U.S. Government/Credit Long Term Index	+2.55%	+17.25%
Difference (percentage points)	-0.75	-5.92

- The yield curve flattened during July with the long end of the curve moving lower and yields in the 2-year part of the curve moving slightly higher. Despite a strong monthly return of 1.80%, the fund's shorter relative duration caused the fund to underperform its benchmark. The fund's overweight allocation to non-government bonds helped performance.
- Year-to-date, the fund underperformed its benchmark due to its strategic policy to maintain a shorter-than-benchmark maturity profile.

### Inflation Protection Fund

Fund	July	YTD
Inflation Protection Fund	+0.44%	+7.76%
BC Universal Government Inflation Linked Bond Index (USD Unhedged)	+1.09%	+9.88%
Difference (percentage points)	-0.65	-2.12

- The fund's 9% exposure to commodities futures contracts detracted from relative performance in July as the strategy lost 4.8% after the price of oil slipped 14%. Developed market and developing country inflation-linked bonds modestly contributed to the fund's relative performance.
- Year-to-date, the fund's strategic underweight of non-dollar currencies detracted from benchmark-relative performance—the U.S. dollar fell 3.2% against a basket of currencies, as measured by the U.S. Dollar Index. Fund exposure to high-yield asset backed securities and bank loans also detracted from performance. The fund's allocation to developing country inflation-linked bonds outperformed and contributed positively to benchmark-relative performance.

### Balanced Fund

#### Multiple Asset Fund

Fund	July	YTD
Multiple Asset Fund	+3.13%	+6.69%
Composite Benchmark <sup>ii</sup>	+3.21%	+7.12%
Difference (percentage points)	-0.08%	-0.43%

- Of the fund's four underlying strategies, the U.S. Equity Fund and Fixed Income Fund outperformed their respective benchmarks in July. The International Equity Fund and Inflation Protection Fund underperformed, detracting from benchmark-relative performance.
- Year-to-date, the Fixed Income and International Equity Funds contributed positively, while the Inflation Protection Fund and U.S. Equity Fund detracted from benchmark-relative performance.

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<sup>i</sup> 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*.

<sup>ii</sup> Prior to January 1, 2006, the benchmark for the Multiple Asset Fund (MAF) was a blended index with weightings as follows: 47% Russell 3000 Index, 15% MSCI EAFE Index, 3% MSCI Emerging Markets Index and 35% Lehman Brothers U.S. Universal Index. On January 1, 2006, the performance benchmark for MAF became a blended index based on the following weightings: 45% Russell 3000 Index, 20% MSCI All Country World Index ex USA IMI, 25% Barclays Capital U.S. Universal Index ex-Mortgage Backed Securities and the 10% Barclays Capital U.S. Government Inflation-Linked Bond Index. On January 1, 2014, the performance Benchmark for MAF became 40% Russell 3000 Index, 25% 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% Barclays Capital U.S. Government Inflation-Linked Bond Index. On January 1, 2016, the performance Benchmark for MAF became 40% Russell 3000 Index, 25% 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% Barclays Capital Universal Government Inflation Linked Bond Index (USD Unhedged).