



June 2014 Investment Report

Monthly Report

Markets

- U.S. equities, as represented by the Russell 3000 Index, increased **2.5%** during June. The end of June marked the sixth consecutive quarterly gain for the bellwether S&P 500 and the Nasdaq Composite indices—a streak not seen in over 14 years.
- For the first time since February, investors preferred small company stocks over large company stocks as measured by the Russell 2000 Index (**+5.3%**) and the Russell 1000 Index (**+2.3%**). Energy (**+5.4%**) and utilities (**+4.5%**) were the top two-performing sectors within the Russell 3000; telecommunications (**-0.9%**) and consumer staples (**-0.1%**) performed the worst.
- Developed international markets gained **1.5%** during the month, as measured by the MSCI World ex-US IMI Index. Developing markets gained **2.6%**, as measured by the MSCI Emerging Markets IMI Index. International market value stocks outperformed those classified as growth for the month and year-to-date by **0.4%** and **1.5%** respectively, as measured by the MSCI All Country World ex-US IMI style indexes.
- U.S. Treasury yields rose in June. The 2-year U.S. Treasury Note yield increased by **0.09%** to **0.46%**, and the 10-year yield increased by **0.05%** to **2.53%**. The long bond (30-year U.S. Treasury) increased by **0.03%** in yield to **3.36%**.
- U.S. Treasury securities, as measured by the Barclays U.S. Treasury Index, decreased **0.1%** during June, reflecting the rise in the yields. Investment-grade debt, as measured by the Barclays U.S. Credit Index, increased **0.1%** during the month. Below-investment-grade debt, as measured by the Barclays U.S. Corporate High Yield Index, increased **0.8%**.
- The U.S. dollar weakened in June, decreasing **0.8%** as measured by the U.S. Dollar Index. The euro and the Japanese yen each increased **0.4%** relative to the dollar. The British pound increased **2.1%** in June amid signs of further improvement in the British economy.
- Commodities, as represented by the Dow Jones UBS Commodity Index, increased **0.6%** in June. Livestock increased **7.4%**, partially attributed to a report showing greater-than-expected impact to hog herds from the Porcine Epidemic Diarrhea virus. Precious metals increased **7.7%**, which was attributed to safe-haven demand as Sunni militants advanced in Iraq. Grains decreased **8.6%** due to reports of large inventories and strong crop expectations.

Economics Highlights

- The Labor Department reported the U.S. economy added **288,000** nonfarm jobs in June, marking the fifth consecutive monthly report of greater than 200,000 nonfarm jobs and far surpassing the consensus of surveyed economists. The combined revisions for the previous two months resulted in an additional 29,000 jobs. The unemployment rate decreased to **6.1%**—the lowest level since September 2008. The labor-force participation rate remained unchanged at **62.8%**.
- Adverse weather caused the first quarter's gross domestic product (GDP) to be revised down to **-2.9%** from **-1.0%**. This is the largest contraction since the first quarter of 2009. The consensus among economists is that the first quarter report is an aberration and that second quarter data should return to modest growth.
- U.S. housing starts decreased **6.5%** in May to a seasonally adjusted annual rate of **1.00 million** units. The rate was **9.4%** higher than one year ago, but still below economists' expectations. After a large spike in April, multifamily housing starts declined by **7.6%** in May. Single-family starts declined by **5.9%**. Building permits issued in May also declined by **6.4%**.
- For the first time in 20 years, the world financial markets all rallied during the first half of the year. Six indices covering global stocks, bonds and commodities have all posted positive results for 2014 year-to-date. The gains show investor optimism for growth despite the political and economic unrest in the Mideast and Ukraine. The optimism seems to result from commitments from the U.S. Federal Reserve (the Fed), Bank of Japan and European Central Bank to maintain low interest rates to stimulate growth.

Geopolitical Headlines

- In Egypt, Abdel Fattah Al Sisi, the former military chief who overthrew President Morsi, was sworn in as president. In a visit to Egypt, U.S. Secretary of State John Kerry declared support for President Al Sisi and signaled that military aid from the U.S. will resume.
- Fighting continued in Ukraine following an eight-day cease-fire announced by Ukrainian President Petro Poroshenko. Both the government and the pro-Russian separatists accused each other of breaking the cease-fire. Pro-Russian separatists, using Russian supplied anti-aircraft rockets, shot down a Ukrainian airplane during the cease-fire, killing nine passengers. Earlier in June, Russia cut off supplies of natural gas to Ukraine after both sides failed to reach agreement on pricing.
- Extremist Sunni insurgents seized a large portion of northern Iraq and Syria. The group, formally known as the State of Iraq and al-Sham (ISIS), captured Mosul earlier in the month and began a move toward Baghdad. At the end of June, ISIS declared a new caliphate (an Islamic state led by a supreme and religious leader) and renamed itself "The Islamic State." In response, the Kurds took over the city of Kirkuk and began discussing independence after the Iraqi army deserted the city ahead of encroaching ISIS insurgents. The Iraqi vice president ordered parliament to form a new government in early July, with the U.S. advocating a more inclusive government of Shiites, Sunnis and Kurds.
- Argentina lost its 13-year legal battle with holdout creditors from its 2001 debt default. The U.S. Supreme Court refused to hear Argentina's appeal of a lower court decision requiring payment to holdout creditors that chose not to participate in previous debt restructurings. In addition, the U.S. Supreme Court issued a decision that allows these holdout creditors to seize Argentinian assets in the U.S. and abroad as payment. While the impact of these rulings on broader markets is uncertain, the consensus opinion is that this will lead to Argentina's second default in 13 years.

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

	Positive Statistics <ul style="list-style-type: none"> • Consumer Confidence, Jun: 85.2 (May: 82.2) • Existing Home Sales, May: 4.9% (Apr: 1.5%); M/M-SAAR • New Home Sales, May: 18.6% (Apr: 3.7%); M/M-SAAR • Nonfarm Payrolls, Jun: 288,000 • Unemployment Rate, Jun: 6.1% (May: 6.3%)
	Neutral Statistics <ul style="list-style-type: none"> • Consumer Price Index core, May: 0.3% (Apr: 0.2%); M/M-SA • Consumer Price Index, May: 0.4% (Apr: 0.3%); M/M-SA • Producer Price Index core, May: -0.1% (Apr: 0.5%); M/M-SA • Producer Price Index, May: -0.2% (Apr: 0.6%); M/M-SA
	Negative Statistics <ul style="list-style-type: none"> • Durable Goods Orders, May: -0.9% (Apr: 0.9%); M/M-SA • Factory Orders, May: -0.5% (Apr: 0.8%); M/M-SA • Housing Starts, May: -6.5% (Apr: 12.7%); M/M-SAAR • Institute for Supply Management Index, Jun: 55.3 (May: 55.4) • Real Gross Domestic Product, Q1: -2.9% (Q4: 2.6%); Q/Q-SAAR • Retail Sales ex-auto, May: 0.1% (Apr: 0.4%); M/M-SA • Retail Sales, May: 0.4% (Apr: 0.6%); M/M-SA • S&P/Case-Shiller 20-City Home Price Index, Apr: 10.8% (Mar: 12.4%); Y/Y

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	June	QTD	YTD
Inflation Protection Fund	+0.48%	+3.25%	+5.82%
Barclay's Capital U.S. Government Inflation-Linked Bond Index	+0.30%	+4.06%	+6.35%
Difference	+0.18%	-0.81%	-0.53%

- The Inflation Protection Fund (IPF) gained **0.48%** in June and modestly outperformed the fund's benchmark return by **0.18%**. The Federal Reserve maintained its commitment to gradually taper its stimulative bond-buying program, and the market's expectations for when the Fed will raise interest rates did not change. Four of the fund's five diversifying strategies added value relative to the fund's benchmark, led by its 10% allocation to commodities futures contracts, which gained **1.5%**. Only the fund's allocation to bonds from developed countries detracted from benchmark-relative performance.
- For the second quarter 2014, the Inflation Protection Fund gained 3.25% but underperformed its benchmark return by **0.81%**. The fund's 10% allocation to the diversifying strategy of inflation-linked bonds from developing countries gained **6.1%**, but was the only strategy that added value relative to the fund's performance benchmark. The fund's 10% allocation to senior secured floating rate securities gained only **1.2%** and was the largest detractor from benchmark-relative performance; however, the strategy continues to perform as expected.
- For the year-to-date, the Inflation Protection Fund has gained **5.82%** and has underperformed the fund benchmark by **0.53%**. The fund's diversifying strategies of commodities futures contracts and inflation-linked bonds from developing countries have gained **8.3%** and **8.2%** respectively and have positively contributed to benchmark-relative performance. However, the value added from these two strategies was more than offset by the Inflation Protection Fund's allocation to senior secured floating rate securities, which has gained only **2.5%**. In addition, the fund's allocation to inflation-linked bonds from developed countries has also detracted from performance, primarily due to the strength of the U.S. dollar compared to developed country currencies.

Fixed Income Fund

Fund	June	QTD	YTD
Fixed Income Fund	+0.41%	+2.61%	+5.04%
Barclays U.S. Universal (ex MBS) Index	+0.12%	+2.13%	+4.25%
Difference	+0.29%	+0.48%	+0.79%

- The Fixed Income Fund (FIF) gained **0.41%** in June and outperformed its benchmark return by **0.29%**. The fund generally benefited from its exposure to the higher-risk bond strategies of developing country debt, credit opportunities and below-investment-grade corporate bonds. In addition, the fund benefited from its exposure to bonds from developed international countries that increased in value primarily because of the European Central Bank's action to lower interest rates. The fund's 8% allocation to positive social purpose loans slightly detracted from performance.
- For the second quarter 2014, the Fixed Income Fund gained **2.61%** and outperformed the benchmark return by **0.48%**. The fund's 11% allocation to bonds from developing countries gained **4.6%** and was the fund's best-performing strategy. In addition, the fund's two "core" managers achieved investment returns that were comfortably ahead of their performance benchmarks. The fund's allocation to below-investment-grade corporate bonds gained **1.7%** and slightly detracted from benchmark-relative performance.
- For the year-to-date, the Fixed Income Fund has gained **5.04%** and has outperformed its benchmark return by **0.79%**. The fund's best-performing strategy is its allocation to developing country debt, which has gained **7.6%**. In addition, the fund's two core managers both outperformed their respective benchmarks by nearly one percentage point, which contributed positively to the fund's performance. None of the Fixed Income Fund's strategies meaningfully detracted from benchmark-relative performance.

U.S. Equity Fund

Fund	June	QTD	YTD
U.S. Equity Fund	+3.36%	+4.45%	+6.73%
Russell 3000	+2.51%	+4.87%	+6.94%
Difference	+0.85%	-0.42%	-0.21%

- The U.S. Equity Fund (USEF) gained **3.36%** in June and meaningfully outperformed the Russell 3000 Index benchmark by **0.85%**, reversing three consecutive months of below-benchmark performance. The fund benefited from its higher-than-benchmark allocation to small and mid-sized companies, as the Russell 2000 Index of small companies gained **5.3%** compared to the **2.1%** gain of the large company S&P 500 Index. In addition, two of the U.S. Equity Fund's managers attained substantial excess benchmark-relative performance of **5.4%** and **3.0%** respectively.
- For the second quarter 2014, the U.S. Equity Fund advanced **4.45%** but underperformed the fund benchmark return by **0.42%**. For the quarter, the fund's small and mid-sized company benchmark-relative overweight detracted from performance, as the Russell 2000 Index gained **2.1%** compared to the **5.2%** return for the S&P 500 Index.
- For the year-to-date, the fund has gained **6.73%** and has underperformed its benchmark return by **0.21%**. The fund's allocation to publicly traded real estate investment trusts (REITs) has gained **18.5%** and positively contributed to 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 June, the Russell 2000 Index has gained **3.2%** compared to the **7.1%** gain of the S&P 500 Index.

International Equity Fund

Fund	June	QTD	YTD
International Equity Fund	+1.18%	+3.45%	+3.92%
MSCI ACWI ex-US Investable Market Index	+1.75%	+4.85%	+5.77%
Difference	-0.57%	-1.40%	-1.85%

- The International Equity Fund (IEF) gained **1.18%** in June but underperformed its benchmark return by **0.57%**. The fund's best-performing strategy was its 3% allocation to Canadian stocks, which gained **6.1%** for the month. However, the fund's overweight to holdings of developed market stocks classified as growth detracted from performance. Developed international market growth stocks underperformed those classified as value for the month by **0.3%**, as measured by the MSCI World ex-US style indexes. In addition, the fund's collective underweight to Canadian stocks detracted from performance, as an index of Canadian stocks gained more than 6%. Finally, all but one of the International Equity Fund's active managers underperformed their respective benchmarks in June.
- For the second quarter 2014, the International Equity Fund gained **3.45%** and underperformed its benchmark by **1.40%**. As indicated above for the month of June, the fund's below-benchmark allocation to developed market stocks classified as value as well as its underweight of Canadian stocks detracted from benchmark-relative performance for the quarter. Developed international market growth stocks underperformed those classified as value for the month by **0.6%**, as measured by the MSCI World ex-US style indexes. In addition, all but one of the fund's active managers

produced below-benchmark returns for the quarter, which further detracted from benchmark-relative performance.

- For the year-to-date, the International Equity Fund has gained **3.92%** but has underperformed its benchmark return by **1.85%**. 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 **6.5%** compared to the **5.0%** 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 five percentage points.

Multiple Asset Fund

Fund	June	QTD	YTD
Multiple Asset Fund	+1.79%	+3.61%	+5.50%
Composite Benchmark	+1.50%	+4.10%	+5.97%
Difference	+0.29%	-0.49%	-0.47%

- For June, the Multiple Asset Fund (MAF) gained **1.79%** and outperformed its fund benchmark by **0.29%**. Three of the fund's four strategies added value, with the U.S. Equity Fund contributing the most to the Multiple Asset Fund's benchmark-relative performance. The positive contributions from these three strategies were partially offset by the International Equity Fund's below-benchmark performance.
- For the second quarter 2014, the Multiple Asset Fund returned **3.61%**, but underperformed its benchmark's **4.10%** return. Three of the fund's four underlying strategies underperformed their respective benchmarks, with only the Fixed Income Fund contributing positively to the fund's performance.
- For the year-to-date, the Multiple Asset Fund has gained **5.50%**, but has underperformed its benchmark return by **0.47%**. The International Equity Fund has detracted the most from benchmark-relative performance, and only the Fixed Income Fund has added value relative to the 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.