



June 2015 Investment Report

Monthly Report

Markets

- U.S. equities, as represented by the Russell 3000 Index, declined **1.7%** in June. Concerns about a possible government debt default by Greece outweighed positive domestic economic news during the month, such as stronger home sales and the announcement of several health care company mergers.
- Small company stocks increased **0.8%**, as measured by the Russell 2000 Index. Large company stocks decreased **1.9%**, as measured by the Russell 1000 Index. Similar to last month, companies with strong earnings growth outperformed value companies. Consumer Discretionary was the best-performing Russell 3000 sector during the month, gaining **0.2%**; while Utilities was the worst-performing Russell 3000 sector, declining **4.6%** amid rising interest rate concerns.
- Non-U.S. stocks declined **2.7%**, as measured by the MSCI ACWI World ex-USA IMI index. International markets were more negatively influenced by the Greek debt crisis than U.S. markets. Developing and emerging international markets registered declines of **2.8%** in U.S. dollar terms. Notable was a nearly **7%** decline in Chinese stocks, which added to May's losses after an extended period of strong market returns.
- The U.S. Treasury yield curve steepened during June as further indications of U.S. economic recovery outweighed fears regarding Greece's debt crisis. The 2-year Treasury note yield increased **0.04%** to **0.64%**. The 30-year Treasury note yield increased **0.24%** to **3.12%**.
- U.S. Treasury securities, as measured by the Barclays U.S. Treasury Index, decreased **0.9%** in June due to the steepening yield curve. Investment-grade debt, as measured by the Barclays U.S. Credit Index, decreased **1.7%**. Below-investment-grade debt, as measured by the Barclays U.S. Corporate High-Yield Index, decreased **1.5%** and outperformed investment-grade debt during the month. However, below-investment-grade debt underperformed investment-grade debt on a maturity-adjusted basis.
- The U.S. dollar weakened **1.4%** in June, as measured by the U.S. Dollar Index. The euro, British pound and Japanese yen increased **1.5%**, **2.8%** and **1.4%**, respectively, relative to the dollar. Developing country currencies were mixed relative to the dollar. The Brazilian real increased **2.4%** during June, but the Mexican peso decreased **2.3%**.
- Commodities, as represented by the Bloomberg Commodity Index, increased **1.7%** in June. The Grains sub-index increased **18.5%** amid reports that heavy rains hindered planting and crop growth. The weakest sub-indices were Livestock and Industrial Metals, which decreased **5.4%** and **4.9%**, respectively.

Economics Highlights

- The Department of Labor reported that the U.S. economy added **223,000** nonfarm jobs in June, below economist projections of 230,000. The unemployment rate fell to **5.3%**, the lowest in seven years. The decrease was attributed to a decline in labor force participation, which declined from **62.9%** to **62.6%**—its lowest level since October 1977.
- The Bureau of Economic Analysis released a third and final estimate of first quarter U.S. gross domestic product (GDP), which reflected a decline of **0.2%**. This was an improvement compared to the previous decline estimate of **0.7%**. Economists expect better growth over the remainder of the year based on expected increases in consumer spending and housing industry activity.
- U.S. housing starts dropped by **11.1%** in May; however building permits for new homes hit an eight-year high at **12.1%**. Construction-related activity and jobs are expected to have a positive effect on the economy over the coming months.

Geopolitical Headlines

- Terror attacks across three continents occurred on June 26 within hours of one another. Bombing of a Shiite mosque in Kuwait City killed 27 people and left hundreds injured. An attack on a beach resort in Sousse, Tunisia, resulted in 39 people killed and several others injured. An explosion and beheading occurred at an American-owned chemical plant in France. Islamic State (ISIS) claimed responsibility for the attacks carried out in Kuwait City and Tunisia.
- On June 18, the U.S. House of Representatives voted 218-208 in support of the Trade Promotion Authority (TPA) bill, followed by the Senate issuing final approval of the bill on June 24. The TPA bill provides the President with enhanced authority to negotiate major trade agreements that could be accepted or rejected, but not amended, by Congress.
- The debt crisis in Greece continued as voters rejected bailout terms offered by international creditors. The government closed banks and limited ATM withdrawals and transfers in an effort to preserve capital and prevent a collapse of the financial system. Unless Prime Minister Alexis Tsipras can expediently negotiate new and acceptable terms with creditors, Greece's exit out of the Eurozone becomes a likely possibility.

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.*

Key Monthly Economic Statistics

This table contains a list of key monthly economic statistics.

	<p>Positive Statistics</p> <ul style="list-style-type: none"> • Consumer Confidence, Jun: 101.4 (May: 94.6) • Existing Home Sales, May: 5.1% (Apr: -2.3%); M/M-SAAR • Institute for Supply Management Index, Jun: 53.5 (May: 52.8) • New Home Sales, May: 2.2% (Apr: 8.1%); M/M-SAAR • Retail Sales ex-auto, May: 1.0% (Apr: 0.1%); M/M-SA • Retail Sales, May: 1.2% (Apr: 0.2%); M/M-SA
	<p>Neutral Statistics</p> <ul style="list-style-type: none"> • Consumer Price Index core, May: 0.1% (Apr: 0.3%); M/M-SA • Consumer Price Index, May: 0.4% (Apr: 0.1%); M/M-SA • Producer Price Index core, May: 0.1% (Apr: -0.2%); M/M-SA • Unemployment Rate, Jun: 5.3% (May: 5.5%) • Nonfarm Payrolls, Jun :223,000 • Producer Price Index, May: 0.5% (Apr: -0.4%); M/M-SA • S&P/Case-Shiller 20-City Home Price Index, Apr: 4.9% (Mar: 5.0%); Y/Y
	<p>Negative Statistics</p> <ul style="list-style-type: none"> • Durable Goods Orders, May: -1.8% (Apr: -1.7%); M/M-SA • Factory Orders, May: -1.0% (Apr: -0.7%); M/M-SA • Housing Starts, May: -11.1% (Apr: 22.1%); M/M-SAAR • Real Gross Domestic Product, Q1: -0.2% (Q4: 2.2%); 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: [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	-0.87%	-1.08%	-0.20%
Barclay's Capital U.S. Government Inflation Linked Bond Index	-1.09%	-1.32%	+0.13%
Difference	+0.22%	+0.24%	-0.33%

- The Inflation Protection Fund (IPF) declined **0.87%** in June, but outperformed the fund's benchmark return by **0.22%**. The prices of U.S. fixed income assets declined as interest rates rose in early June after the U.S. Department of Labor reported strong employment gains in May, signaling better-than-expected economic growth. Greece and the "troika" of the European Commission, European Central Bank and International Monetary Fund were unable to reach agreement regarding the Greek debt crisis, which adversely affected the price of many European bonds. The fund's benchmark-relative performance benefitted from its 10% exposure to commodity futures contracts, which gained **0.5%** for the month. In addition, three of the fund's diversifying strategies of inflation-linked bonds from developing countries and floating rate loans and asset-backed securities added value relative to the fund benchmark. The fund's diversifying dollar-hedged global inflation-linked bond strategy, however, declined **1.8%** and partially detracted from benchmark-relative gains.
- For the second quarter, the Inflation Protection Fund declined **1.08%** and outperformed its benchmark return by **0.24%**. The fund's 10% allocation to commodities futures contracts gained **4.3%**, as oil prices rebounded. The fund's two floating rate strategies of senior-secured loans and asset-backed securities gained **1.2%** and **1.8%**, respectively. In addition, a fourth diversifying strategy of inflation-linked bonds from developing countries declined only **0.1%** and added value relative to the fund benchmark. Only one of the fund's five diversifying strategies—its allocation to dollar-hedged inflation-linked bonds from developed countries—detracted from benchmark-relative performance, as it declined **3.2%** for the second quarter of the year.
- For the year-to-date, the Inflation Protection Fund has lost **0.20%** and underperformed the fund benchmark by **0.33%**. The Inflation Protection Fund's diversifying strategy of inflation-linked bonds from developing countries is the primary contributor to the fund's underperformance as it declined **6.2%** for the year-to-date, largely due to U.S. dollar strength compared to developing country currencies. The fund's commodities futures allocation also detracted from benchmark-relative performance, declining **1.5%**. The fund's two floating rate strategies of senior-secured loans and asset-backed securities gained **3.8%** and **3.2%**, respectively, and contributed positively to benchmark-relative results.

Fixed Income Fund

Fund	June	QTD	YTD
Fixed Income Fund	-1.24%	-1.48%	-0.37%
Barclays U.S. Universal (Ex MBS) Index	-1.22%	-1.61%	+0.30%
Difference	-0.02%	+0.13%	-0.67%

- The Fixed Income Fund (FIF) declined **1.24%** in June and slightly underperformed its benchmark return by **0.02%**. Fixed income assets declined as interest rates rose at the beginning of the month after the U.S. Department of Labor reported strong employment gains in May, signaling better-than-expected economic growth. The fund's greater-than-benchmark exposure to credit strategies detracted from performance as credit spreads increased near the end of June due to concerns about the impact of the Greek debt crisis as well as investor withdrawals from fixed income mutual funds resulting from rising interest rates. The fund's allocation to global bonds added value relative to the benchmark as the U.S. dollar weakened relative to foreign currencies.
- For the second quarter, the Fixed Income Fund declined **1.48%** and outperformed the benchmark return by **0.13%**. The fund's allocation to below-investment-grade strategies positively contributed to benchmark-relative results. For the quarter, the credit opportunities strategy gained **0.5%**, and the high-yield strategy recorded a **0%** return.
- For the year-to-date, the Fixed Income Fund lost **0.37%** and underperformed its benchmark return by **0.67%**. The fund's allocations to bonds denominated in foreign currencies from both developed and developing countries declined **3.4%** and **2.3%**, respectively, due to the strength of the U.S. dollar relative to most foreign currencies during the first half of 2015. The dollar benefitted from higher U.S. interest rates and investor perception of stronger U.S. growth relative to foreign economies.

U.S. Equity Fund

Fund	June	QTD	YTD
U.S. Equity Fund	-0.99%	+0.18%	+2.32%
Russell 3000 Index	-1.67%	+0.14%	+1.94%
Difference	+0.68%	+0.04%	+0.38%

- The U.S. Equity Fund (USEF) declined **0.99%** in June and outperformed the fund's Russell 3000 Index benchmark by **0.68%**. The fund benefitted from its higher-than-benchmark weighting to small company stocks as the Russell 2000 Index of small companies gained **0.8%** compared to a **1.9%** decline of the large company S&P 500 Index. The fund also benefitted from its allocations to the alternative investment strategies of private equity and private real estate, which recognized gains of **0.5%** and **0.7%**, respectively. In addition, all but two of the fund's investment managers exceeded or nearly matched the returns of their respective performance benchmarks. The fund's 2% allocation to publicly traded real estate investment trusts (REITs) declined **4.5%** and detracted from benchmark-relative performance.
- For the second quarter, the U.S. Equity Fund gained a modest **0.18%** and slightly outperformed the fund benchmark return by **0.04%**. For the quarter, the fund benefitted from its higher-than-benchmark allocation to small company stocks as the Russell 2000 Index gained **0.4%** compared to the **0.1%** return for the S&P 500 Index. In addition, one of the fund's investment managers significantly outperformed its portfolio benchmark due to excellent appreciation in the value of several of its technology-related holdings. The fund also benefitted from its allocation to the alternative investment

strategy of private real estate, which recognized a gain of **3.3%**. The fund's 2% allocation to publicly traded REITs declined **10.4%** and detracted from benchmark-relative performance.

- For the year-to-date, the fund gained **2.32%** and outperformed its benchmark return by **0.38%**. The fund's higher-than-benchmark allocation to small company stocks positively contributed to the fund's benchmark-relative performance, as the Russell 2000 Index gained **4.8%** compared to **1.2%** return for the S&P 500 Index. The fund's allocation to public REITs declined **6.1%** and detracted from benchmark-relative performance.

International Equity Fund

Fund	June	QTD	YTD
International Equity Fund	-2.75%	+0.96%	+4.53%
MSCI ACWI x US Investable Market Index	-2.71%	+1.00%	+4.59%
Difference	-0.04%	-0.04%	-0.06%

- The International Equity Fund (IEF) declined **2.75%** in June and slightly underperformed its benchmark return by **0.04%**. No single factor materially added to or detracted from benchmark-relative performance.
- For the second quarter, the International Equity Fund gained **0.96%** and slightly underperformed the fund's benchmark by **0.04%**. The fund benefitted from significant excess benchmark-relative performance by the fund's manager of international REITs, as these REITs gained **2.3%** during the quarter compared to a **2.4%** decline of the fund manager's benchmark. However, the fund's international small company manager underperformed its benchmark by **2.5%**, which detracted from the fund's benchmark-relative performance.
- For the year-to-date, the fund gained **4.53%** and modestly underperformed the fund benchmark by **0.06%**. The fund benefitted from significant excess benchmark-relative performance by the fund's manager of international REITs. However, the fund's modest allocations to the alternative investment strategies of private equity and private real estate detracted from benchmark-relative performance, gaining **2.6%** and declining **9.5%**, respectively. In addition, one of the fund's managers of developing country equities underperformed its respective benchmark by **4.2%**.

Multiple Asset Fund

Fund	June	QTD	YTD
Multiple Asset Fund	-1.47%	-0.17%	+1.90%
Composite Benchmark	-1.76%	-0.20%	+2.11%
Difference	+0.29%	+0.03%	-0.21%

- For June, the Multiple Asset Fund (MAF) declined **1.47%** and outperformed its fund benchmark by **0.29%**. Two 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.
- For the second quarter, the fund returned **-0.17%** and modestly outperformed its benchmark's **-0.20%** return. Three of the fund's four underlying strategies outperformed their respective benchmarks, with only the International Equity Fund slightly underperforming its benchmark.
- For the year-to-date, the Multiple Asset Fund gained **1.90%** but underperformed its benchmark return by **0.21%**. Three of the fund's underlying strategies underperformed their respective benchmark, with only the U.S. Equity Fund achieving positive benchmark-relative results.

Equity Social Values Plus Fund

Fund	June	QTD	YTD
Equity Social Values Plus Fund	-2.38%	-0.46%	+1.62%
MSCI World Custom ESG Special Weighted Index	-2.40%	-0.32%	+2.19%
Difference	+0.02%	-0.14%	-0.57%

Extended Term Fixed Income Fund

Fund	June	QTD	YTD
Extended Term Fixed Income Fund	-2.16%	-2.16%	-2.16%
Barclays U.S. Government/Credit Long Term Index	-3.68%	-3.68%	-3.68%
Difference	+1.52%	+1.52%	+1.52%

- The newly created Extended Term Fixed Income Fund (ETFIF, inception: June 1, 2015) declined **2.16%** during June, but significantly outperformed its benchmark return by **1.52%**. Long-term interest rates increased significantly at the beginning of June due to investor optimism for future U.S. economic growth resulting from May's strong U.S. jobs report. Wespath intentionally will 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 the fund benchmark when interest rates increase and will underperform when interest rates decline. Click [here](#) for more information about the Extended Term Fixed Income Fund.

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