

# June 2017 Investment Report

## Highlights

- The Department of Labor revised its estimate for first quarter U.S. economic growth to an annual rate of 1.4%, up from the previous estimate of 1.2% published in May.
- As expected, the Federal Reserve's (Fed) Open Market Committee raised its overnight borrowing rate 0.25% for the second time this year to a range of 1.00% - 1.25%.
- Equity markets posted a strong first half of the year boosted by solid corporate earnings and investors' expectations for improving economic growth. So far this year, emerging markets equities have advanced more than developed market equities.
- All four funds that comprise the Multiple Asset Fund outperformed their respective benchmarks in June. The U.S. Equity Fund benefitted from its overweight to small and mid-sized companies and the International Equity Fund benefitted from significant gains in its private real estate holdings and overweight to developing countries. The Fixed Income Fund benefited from its exposure to non-U.S. dollar bonds while the Inflation Protection Fund benefitted from its strategic underweight of UK inflation-linked bonds.

## Monthly Overview

### Mixed market response to 2017 UK election results

The market had a mixed response to the United Kingdom's June 8 election results as the Conservative party failed to secure enough seats to hold its majority in the British Parliament. Prime Minister Theresa May declined to resign her post amid pressures to do so after the election.

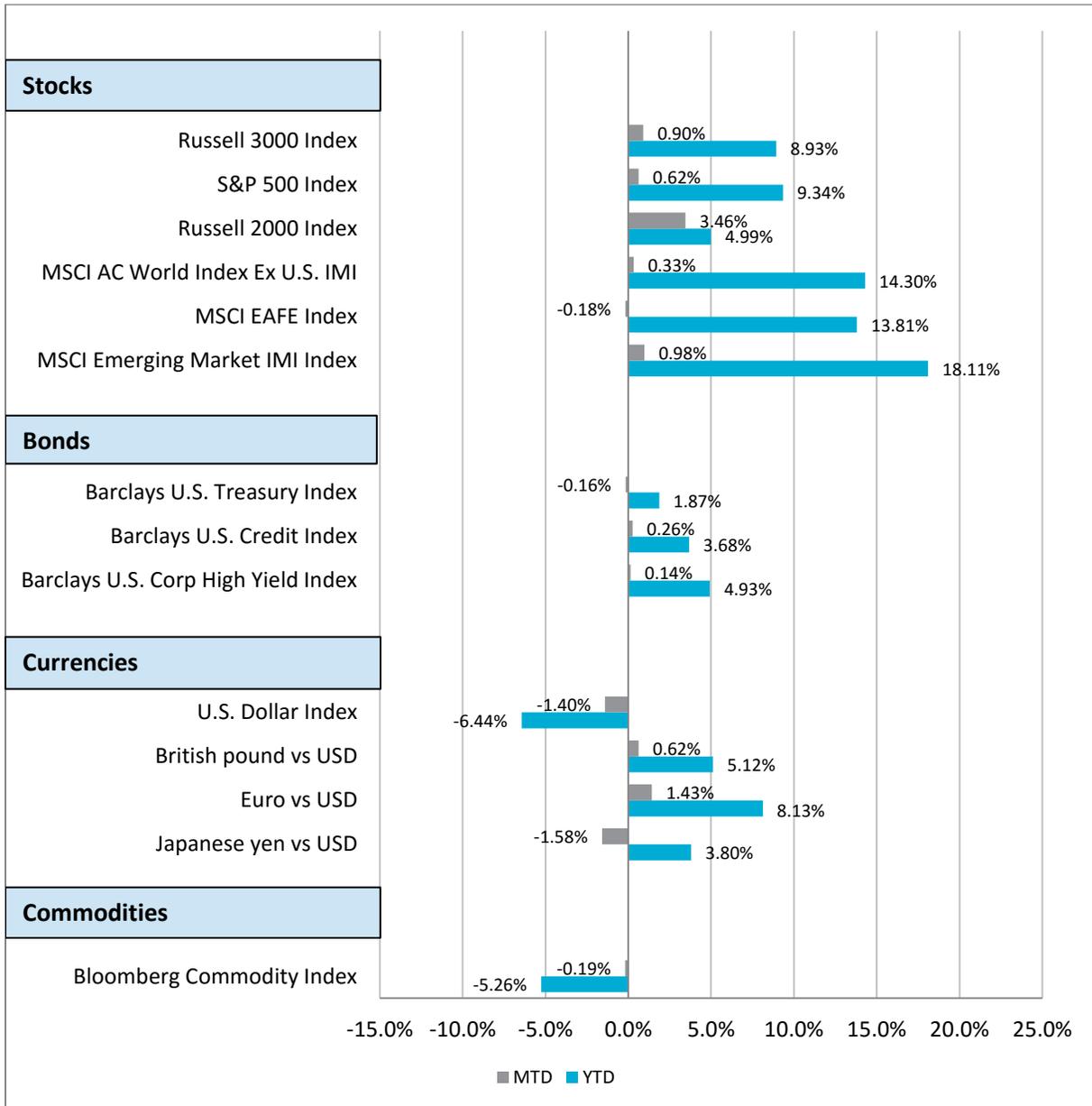
### Fed raises short term rates in June

The Federal Reserve (Fed) raised short term rates by 0.25% in mid-June, signaling continued confidence in the U.S. economy. The bond market had a muted reaction to the rate hike, as it anticipated the increase. One additional rate hike is expected before the end of the year. The U.S. central bank also discussed plans to begin reducing the size of its \$4.5 trillion balance sheet later this year, which includes a significant amount of government debt accumulated subsequent to the financial crisis of 2008-2009.

### U.S. unemployment rate at 16-year low

The Bureau of Labor Statistics reported that the U.S. economy added 138,000 nonfarm jobs to the U.S. economy in May. Although this was below economist projections, it continued a 6+ year job growth streak resulting in an unemployment rate of 4.3%, the lowest level since 2001. Wages grew 2.5%, slightly below economists' expectations of 2.6%. The annual inflation rate, based on the Consumer Price Index, was 1.9% in May, lower than the central bank's 2% target rate.

## Market Performance



Source: FactSet, as of June 30, 2017

## Key Monthly Economic Statistics

Statistic	Monthly/Yearly Change	Positive
Existing Home Sales	May: 1.1% (Apr: -2.5%); M/M-SAAR	▲
New Home Sales	May: 2.9% (Apr: -7.9%); M/M-SAAR	▲
Nonfarm Payrolls	May: 138,000 (Apr: 174,000)	▲
Producer Price Index core	May: 0.3% (Apr: 0.4%); M/M-SA	▲
Real Gross Domestic Product	Mar: 1.4% (Dec: 2.1%); Q/Q-SAAR	▲
S&P/Case-Shiller 20-City Home Price Index	Apr: 5.7% (Mar: 5.9%); Y/Y	▲
Unemployment Rate	May: 4.3% (Apr: 4.4%)	▲
Consumer Confidence	Jun: 118.9 (May: 117.6)	▲
Institute for Supply Management Index	May: 54.9% (Apr: 54.8%)	▲
		<b>Neutral</b>
Consumer Price Index core	May: 0.1% (Apr: 0.1%); M/M-SA	◆
Consumer Price Index	May: -0.1% (Apr: 0.2%); M/M-SA	◆
Producer Price Index	May: 0.0% (Apr: 0.5%); M/M-SA	◆
		<b>Negative</b>
Durable Goods Orders	May: -1.1% (Apr: -0.9%); M/M-SA	▼
Factory Orders	Apr: -0.2% (Mar: 1.0%); M/M-SA	▼
Housing Starts	May: -5.5% (Apr: -2.8%); M/M-SAAR	▼
Retail Sales ex-auto	May: -0.3% (Apr: 0.4%); M/M-SA	▼
Retail Sales	May: -0.3% (Apr: 0.4%); 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	<b>FactSet</b>

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

### Equity Funds

#### U.S. Equity Fund

Fund	June	QTD	YTD
U.S. Equity Fund	+1.25%	+3.36%	+8.91%
Russell 3000 Index	+0.90%	+3.02%	+8.93%
Difference (percentage points)	+0.35	+0.34	-0.02

- For the quarter and year, the fund's strategic overweight to small- and mid-sized company stocks, with a corresponding underweight in large-company stocks, detracted from benchmark-relative performance. However, for the month, this strategic allocation positively contributed to benchmark-relative performance, though the performance of several of the fund's small- and mid-cap managers detracted from results.
- For the quarter and year, the fund benefited most from strong performance from two growth-oriented managers and one mid-cap manager, specifically related to their holdings in the information technology sector. The fund's strategic allocation to the alternative investment strategies of private equity and private real estate detracted from benchmark-relative performance.

#### International Equity Fund

Fund	June	QTD	YTD
International Equity Fund	+0.59%	+5.99%	+15.11%
MSCI ACWI ex US Investable Market Index	+0.33%	+5.85%	+14.30%
Difference (percentage points)	+0.26	+0.14	+0.81

- For the month, the fund's modest underweight position in Canadian equities, which gained 3.2%, detracted from benchmark-relative performance.
- For all periods, the fund's overweight of emerging market equities, and corresponding underweight of developed market equities, positively contributed to benchmark-relative performance. This was primarily due to strong performance of the fund's investments in the consumer discretionary and information technology sectors.
- For the month and quarter, the fund's allocation to the alternative investment strategies of private equity and private real estate benefited benchmark-relative performance. However for the year, these strategies detracted from benchmark-relative performance.

### Equity Social Values Plus Fund

Fund	June	QTD	YTD
Equity Social Values Plus Fund	+0.65%	+4.47%	+11.01%
ESVPF Custom Benchmark <sup>ii</sup>	+0.52%	+4.34%	+10.67%
Difference (percentage points)	+0.13	+0.13	+0.34

- The Equity Social Values Plus Fund is a passively-managed fund designed to closely match the fund benchmark, less fees and expenses. Relative performance is affected by the international daily valuation policy (described [here](#)).

### U.S. Equity Index Fund

Fund	June	QTD	YTD
U.S. Equity Index Fund	+0.82%	+2.74%	+8.36%
Russell 3000 Index	+0.90%	+3.02%	+8.93%
Difference (percentage points)	-0.08	-0.28	-0.57

- 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	June	QTD	YTD
Fixed Income Fund	+0.10%	+2.15%	+4.24%
Barclays U.S. Universal (ex MBS) Index	+0.01%	+1.72%	+3.03%
Difference (percentage points)	+0.09	+0.43	+1.21

- The fund's allocation to non-U.S. dollar denominated bonds was the greatest contributor to benchmark-relative returns during the month, quarter and year-to-date. The outperformance was primarily due to foreign currency appreciation versus the dollar. Additionally, declining risk premiums for developing country debt evidenced by tightening credit spreads also contributed year-to-date.
- The fund's overweight allocations to investment grade and high-yield corporate debt, as well as strategic yield curve positioning by the fund's core plus managers in anticipation of interest rate changes, positively contributed to the strong benchmark-relative performance across all periods.

### Extended Term Fixed Income Fund

Fund	June	QTD	YTD
Extended Term Fixed Income Fund	+0.41%	+3.10%	+4.47%
Barclays U.S. Government/Credit Long Term Index	+0.76%	+4.39%	+6.03%
Difference (percentage points)	-0.35	-1.29	-1.56

- The Extended Term Fixed Income Fund's intentional policy of maintaining a lower sensitivity to interest rate movements detracted from the fund's benchmark-relative performance for the month, quarter, and year-to-date periods, while individual asset manager performance positively contributed.

### Inflation Protection Fund

Fund	June	QTD	YTD
Inflation Protection Fund	-0.52%	-0.02%	+1.31%
IPF Custom Benchmark <sup>iii</sup>	-1.04%	-0.43%	+0.65%
Difference (percentage points)	+0.52	+0.41	+0.66

- During the month, quarter and year-to-date periods, the fund's strategic underweight allocation to U.K. inflation-linked bonds and overweight to U.S. inflation linked bonds helped benchmark-relative returns. The out of benchmark allocations to below investment grade floating rate strategies and private timber also positively contributed to relative results.
- The underweight allocation to inflation-linked bonds issued by European governments detracted from benchmark-relative results during the month and quarter, but positively contributed year-to-date.

### Balanced Fund

#### Multiple Asset Fund

Fund	June	QTD	YTD
Multiple Asset Fund	+0.59%	+3.52%	+8.74%
Composite Benchmark <sup>iv</sup>	+0.31%	+3.19%	+8.16%
Difference (percentage points)	+0.28	+0.33	+0.58

- For the month and quarter, all components of the Multiple Asset Fund contributed positively to benchmark-relative performance.
- Year-to-date, the International Equity Fund, Fixed Income Fund and Inflation Protection Fund all positively contributed to benchmark-relative performance, while the U.S. Equity Fund detracted slightly.

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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> On April 1, 2017, the benchmark for the Equity Social Values Plus Fund became the MSCI World Environmental, Social and Governance (ESG) ex Fossil Fuels Index. Prior to April 1, 2017, the benchmark was the MSCI World Custom Environmental, Social, and Governance (ESG) Special Weighted Index.

<sup>iii</sup> The benchmark for the Inflation Protection Fund is comprised of 80% Barclays World Government Inflation Linked Bond Index (Hedged), 10% Barclays Emerging Market Tradeable Inflation Linked Bond Index (Unhedged) and 10% Bloomberg Commodity Index.

<sup>iv</sup> The benchmark for the Multiple Asset Fund is comprised of 35% Russell 3000 Index, 30% 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% Inflation Protection Fund (IPF) Benchmark.

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