

June 2018 Investment Report

Highlights

- Trade policy continued to dominate headlines and weigh on markets as both the U.S. and China announced reciprocating tariffs. The Chinese currency fell 3.4% versus the U.S. dollar on trade concerns.
- Fundamentals of the U.S. economy remained strong and the Federal Reserve (Fed) raised interest rates as expected. Job openings outnumbered total unemployed persons for the first time since 2000. The Dow Jones Industrial Average dropped GE after more than a century and replaced it with Walgreens Boots Alliance.
- In June, the U.S. Equity Fund and Inflation Protection Fund outperformed their respective benchmarks, while the International Equity Fund and Fixed Income Fund underperformed. The Multiple Asset Fund slightly outperformed its benchmark during the month.

Monthly Overview

Continued Trade Discussions

President Trump announced plans mid-month to impose 25% tariffs on about \$34 billion of Chinese industrial products such as machinery and electrical parts. China responded in kind with 25% tariffs on agricultural products, energy and chemicals. The Chinese yuan and other emerging market currencies depreciated versus the U.S. dollar over concerns of slowing trade.

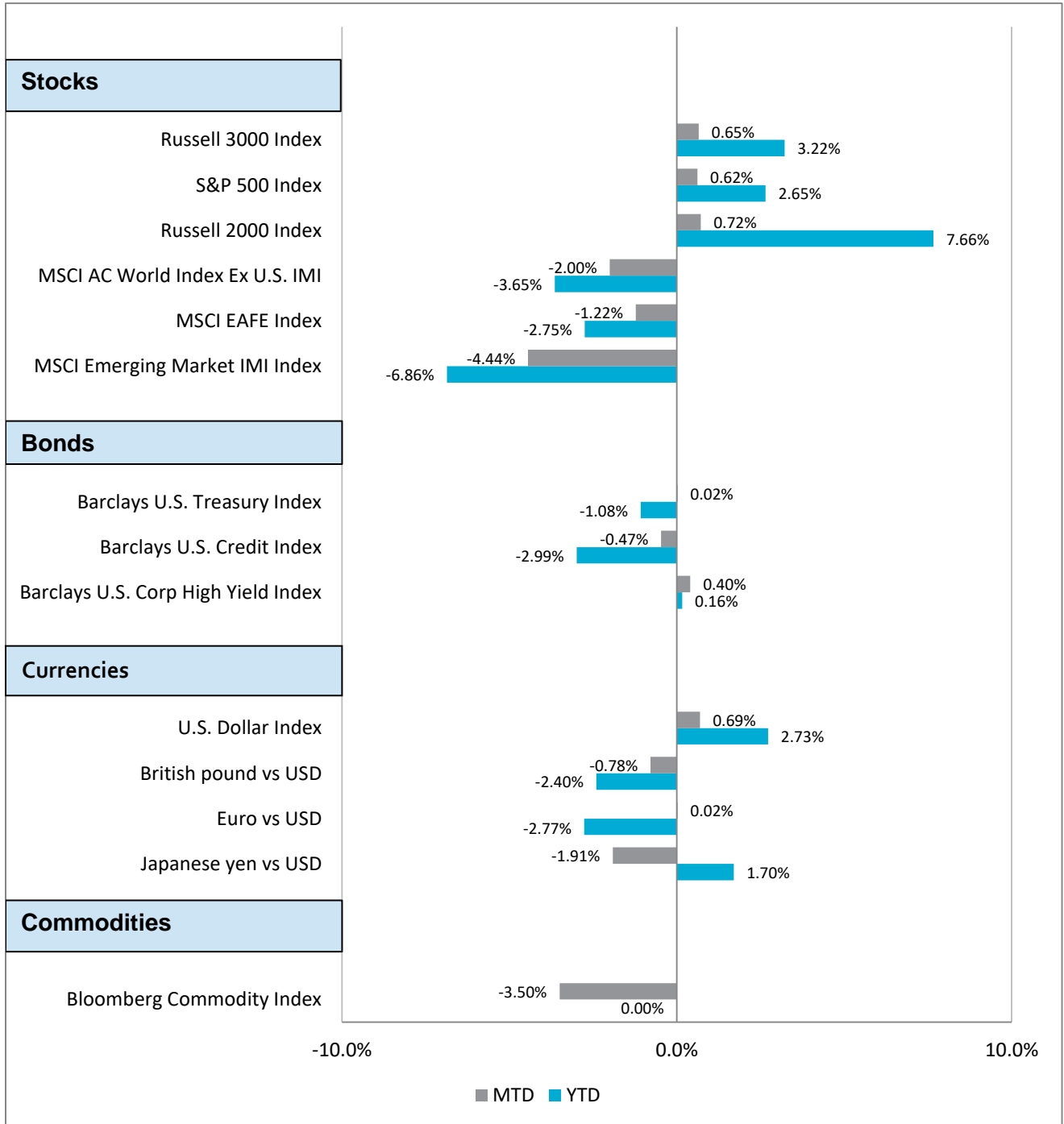
Fed and ECB Reduce Accommodations

The Fed raised the overnight bank lending rate by 0.25%, as expected. The Fed's year-end unemployment forecast declined from 3.8% to 3.6% and its preferred measure of inflation, core personal consumption expenditures, reached the 2% target. Separately, the European Central Bank (ECB) indicated that its bond purchase program would end by December, but indicated interest rate increases would remain on hold through next summer. In response, the Euro depreciated.

Oil Hits \$79/Barrel, Up 18% Year-To-Date

Brent crude oil reached a three-year high due to factors restricting supply such as U.S.-led sanctions on oil exports from Iran and Venezuela, and a lower than expected production increase agreement by the Organization of the Petroleum Exporting Companies (OPEC).

Market Performance



Source: FactSet, as of June 30, 2018

Key Monthly Economic Statistics

Statistic	Monthly/Yearly Change	Positive
Institute for Supply Management Index	Jun: 60.2% (May: 58.7%)	▲
Nonfarm Payrolls	Jun: 213,000 (May: 244,000)	▲
Real Gross Domestic Product	Mar: 2.0% (Dec: 2.9%); Q/Q-SAAR	▲
Housing Starts	May: 5.0% (Apr: -3.1%); M/M-SAAR	▲
New Home Sales	May: 6.7% (Apr: -3.7%); M/M-SAAR	▲
Retail Sales	May: 0.8% (Apr: 0.4%); M/M-SA	▲
Retail Sales ex-auto	May: 0.9% (Apr: 0.4%); M/M-SA	▲
Unemployment Rate	Jun: 4.0% (May: 3.8%)	▲
		Neutral
Consumer Confidence	Jun: 126.4 (May: 128.8)	◆
Consumer Price Index core	May: 0.2% (Apr: 0.1%); M/M-SA	◆
Consumer Price Index	May: 0.2% (Apr: 0.2%); M/M-SA	◆
Factory Orders	May: 0.4% (Apr: -0.4%); M/M-SA	◆
Producer Price Index core	May: 0.3% (Apr: 0.2%); M/M-SA	◆
Producer Price Index	May: 0.5% (Apr: 0.1%); M/M-SA	◆
S&P/Case-Shiller 20-City Home Price Index	Apr: 6.6% (Mar: 6.7%); Y/Y	◆
		Negative
Durable Goods Orders	May: -0.6% (Apr: -1.0%); M/M-SA	▼
Existing Home Sales	May: -0.4% (Apr: -2.7%); M/M-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)ⁱ

Equity Funds

U.S. Equity Fund

Fund	June	QTD	YTD
U.S. Equity Fund	+0.80%	+5.06%	+5.43%
Russell 3000 Index	+0.65%	+3.89%	+3.22%
Difference (percentage points)	+0.15	+1.17	+2.21

- During the month, the fund's strategic overweight to small- and mid-sized company stocks, and corresponding underweight in large-company stocks, slightly detracted from benchmark-relative performance. However, this positioning benefited performance on a quarter-to-date basis. During both periods, the fund benefited from top-performing investments in large and medium-sized growth-oriented companies. Not holding underperforming defense contractors and tobacco companies also benefited returns.
- Year-to-date, the fund's positive benchmark-relative performance was mainly due to two growth-oriented managers' investments in e-commerce, biotech and healthcare equipment companies. The fund's strategic overweight to small- and mid-sized companies, and corresponding underweight in large-company stocks, contributed positively to benchmark-relative performance. The fund also benefited from not holding underperforming tobacco stocks, which are excluded under Wespath's Ethical Exclusions policy.

International Equity Fund

Fund	June	QTD	YTD
International Equity Fund	-2.04%	-2.63%	-2.06%
MSCI ACWI ex U.S. Investable Market Index (Net)	-2.00%	-2.61%	-3.65%
Difference (percentage points)	-0.04	-0.02	+1.59

- During the month and for the quarter, the fund's strategic underweight to developed markets, and corresponding overweight to emerging markets, negatively impacted relative performance. The fund benefited from dedicated investments in private equity and private real estate. The fair market valuation policy (described [here](#)) negatively affected benchmark-relative performance.
- Year-to-date, eight of the fund's 11 active investment managers outperformed their respective benchmarks. In particular, one developed markets manager contributed to returns due to sizable investments in automobile manufacturers and technology companies. The fund's strategic underweight to developed market equities, and corresponding overweight to emerging market equities, detracted from benchmark-relative returns. The allocation to private real estate and private equity helped performance.

Social Values Choice Equity Fund

Fund	June	QTD	YTD
Social Values Choice Equity Fund	-0.03%	+0.57%	-0.46%
SVCEF Benchmark ⁱⁱ	-0.06%	+0.55%	-0.47%
Difference (percentage points)	+0.03	+0.02	+0.01

- The Social Values Choice Equity Fund is a passively managed fund designed to closely match the fund benchmark, less fees and expenses. The fair market valuation policy (described [here](#)) negatively affected performance.

U.S. Equity Index Fund

Fund	June	QTD	YTD
U.S. Equity Index Fund	+0.76%	+4.12%	+3.27%
Russell 3000 Index	+0.65%	+3.89%	+3.22%
Difference (percentage points)	+0.11	+0.23	+0.05

- The U.S. Equity Index Fund is a passively managed fund designed to closely match the fund benchmark, less fees and expenses. Ethical exclusions (described [here](#)) contributed positively to benchmark-relative performance for the month and year-to-date periods.

Fixed Income Funds

Fixed Income Fund

Fund	June	QTD	YTD
Fixed Income Fund	-0.35%	-1.26%	-1.87%
Barclays U.S. Universal (ex MBS) Index	-0.20%	-0.43%	-1.89%
Difference (percentage points)	-0.15	-0.83	+0.02

- For the three time periods, the overweight allocation to below-investment-grade corporate bonds positively contributed to benchmark-relative results. The out-of-benchmark allocation to bonds denominated in non-dollar currencies detracted from benchmark-relative performance. Emerging market currencies were the weakest, as trade rhetoric and geopolitics continued to create market uncertainty.
- Wespath's Positive Social Purpose (PSP) Lending Program and allocation to alternative investments contributed positively during the quarter and year-to-date periods due to improving valuations and strong positive cash flows for residential mortgage loans.

Social Values Choice Bond Fund

Fund	June	QTD	YTD
Social Values Choice Bond Fund	-0.18%	-0.49%	-2.16%
Barclays U.S. Universal (ex MBS) Index	-0.20%	-0.43%	-1.89%
Difference (percentage points)	+0.02	-0.06	-0.27

- For the month and the quarter, interest rate strategies contributed positively to benchmark-relative performance, as did the underweight allocation to U.S. dollar denominated emerging market debt. For the three time periods, out-of-benchmark exposure to certain emerging market currencies, particularly the Argentine peso and Brazilian real, detracted from benchmark-relative results.

Extended Term Fixed Income Fund

Fund	June	QTD	YTD
Extended Term Fixed Income Fund	-0.32%	-0.76%	-3.16%
Barclays U.S. Government/Credit Long Term Index	-0.62%	-1.45%	-4.98%
Difference (percentage points)	+0.30	+0.69	+1.82

- The Extended Term Fixed Income Fund's policy of maintaining a lower sensitivity to interest rate movements contributed to the fund's benchmark-relative performance for the month, quarter, and year-to-date time periods.

Inflation Protection Fund

Fund	June	QTD	YTD
Inflation Protection Fund	-0.08%	-0.46%	-0.09%
IPF Benchmark ⁱⁱⁱ	-0.23%	-0.75%	-0.33%
Difference (percentage points)	+0.15	+0.29	+0.24

- The strategic underweight allocation to U.K. inflation-linked bonds and the commodity manager's decision to overweight the energy sector positively impacted relative results for all three time periods.
- For the quarter and year-to-date, the allocation to below-investment-grade floating rate strategies helped relative results, but the performance of the dedicated emerging markets inflation-linked bond portfolio detracted.

U.S. Treasury Inflation Protection Fund

Fund	June	QTD	YTD
U.S. Treasury Inflation Protection Fund	+0.38%	+0.63%	-0.26%
Barclays U.S. Inflation Linked Bond Index	+0.44%	+0.80%	-0.07%
Difference (percentage points)	-0.06	-0.17	-0.19

- The U.S. Treasury Inflation Protection Fund is a passively-managed fund designed to closely match the performance of the fund benchmark, less fees and expenses.

Balanced Fund**Multiple Asset Fund**

Fund	June	QTD	YTD
Multiple Asset Fund	-0.40%	+0.63%	+0.98%
MAF Benchmarkiv	-0.45%	+0.39%	-0.42%
Difference (percentage points)	+0.05	+0.24	+1.40

- During the month, the U.S. Equity Fund and Inflation Protection Fund positively contributed to the Multiple Asset Fund's benchmark-relative performance, while the International Equity Fund and Fixed Income Fund detracted.
- For the quarter, the U.S. Equity Fund and Inflation Protection Fund positively contributed to relative results, with only the Fixed Income Fund detracting.
- Year-to-date, all four underlying funds in the Multiple Asset Fund positively contributed to benchmark-relative performance.

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ⁱ 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*.

ⁱⁱ The benchmark for the Equity Social Values Plus Fund is the MSCI World Environmental, Social and Governance (ESG) ex Fossil Fuels Index.

ⁱⁱⁱ 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.

^{iv} 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.