Wespath

INSTITUTIONAL INVESTMENTS

June 2020 Investment Report

Highlights

- Countries continued to reopen their economies from COVID-19 shutdowns, although data indicates a potential second wave of COVID infections. More than 125,000 Americans have died from COVID-19, while the global death toll reached 500,000.
- The stock market rally continued in June; the S&P 500 returned 20.5% for the second quarter, its strongest quarterly performance since 1998.
- The U.S. economy created 4.8 million jobs in June, which exceeded most economists' forecasts; the unemployment rate fell by 2.2 percentage points to 11.1%.
- MAF-I, USEF-I, IEF-I and FIF-I outperformed their respective benchmarks in June. IPF-I underperformed its benchmark for the month.

Monthly Overview

Strong Monthly and Quarterly Investment Returns

June and the second quarter saw strong investment returns across equity and fixed income markets. The S&P 500 closed the second quarter with its largest percentage gain since the fourth quarter of 1998, though the difficult first quarter heavily influenced year-to-date performance of -3.1%. Most broad equity indexes remain in negative territory for the year, but the tech-heavy NASDAQ is the exception, returning 12.7% year to date. Below-investment-grade corporate bonds returned 1.0% in June and 10.2% for the second quarter, partially reversing first quarter weakness.

Employment Gains

The U.S. added 4.8 million nonfarm jobs in June, lowering the unemployment rate from 13.3% to 11.1%. The May and June reports showed a trend of job creation as COVID-related restrictions were liberalized and economic activity increased. Jobs in the leisure and hospitality sectors rose sharply, as these sectors were hit the hardest earlier in the year. Nevertheless, since February, 12 million jobs have been lost in the U.S.

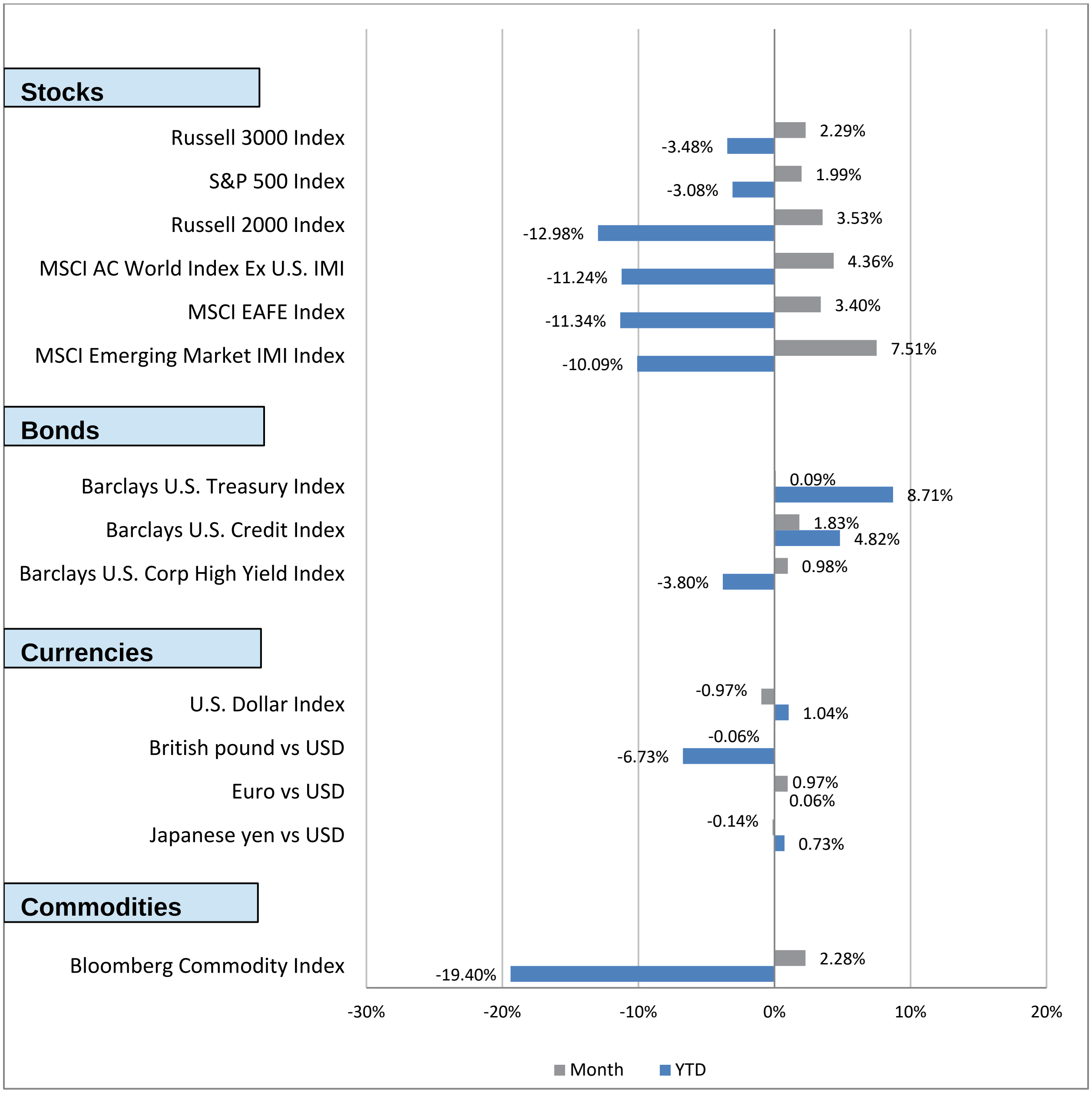
Reopening and Reassessing

Evidence suggests that reopening from coronavirus lockdowns has increased the rate of new COVID-19 infections across the U.S., generating a reassessment of reopening. Some states and cities are changing their plans and restoring restrictions amid a rapid increase in coronavirus infections.

The Big Picture

Returning to pre-COVID-19 economic output may take years, but investors appear to have confidence in the swift and unprecedented fiscal and monetary policy response from the world's central banks and governments. According to the International Monetary Fund (IMF), global fiscal support has totaled $9 trillion. In the U.S., the key fiscal policy response totaled approximately $3 trillion, or 14% of 2019 GDP. Since the pandemic started, U.S. monetary policy has also been swift. Notably, the Federal Reserve (Fed) lowered interest rates to near zero and increased the assets on its balance sheet to $7 trillion by deploying a quantitative easing (Q.E.) program. The Fed has also provided liquidity to overnight and repo markets and intervened directly in corporate credit markets—all to "support the economy and the flow of credit to U.S. households and businesses."

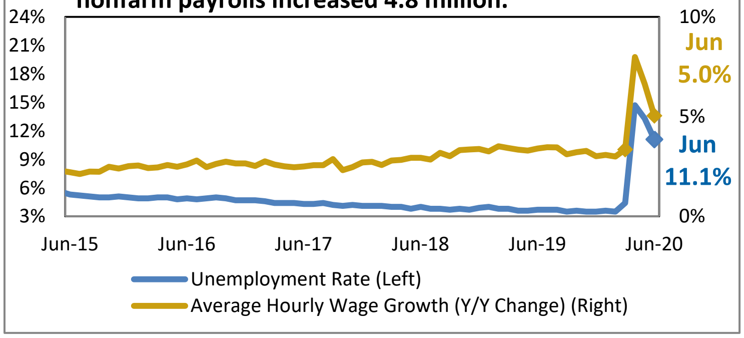
Market Performance



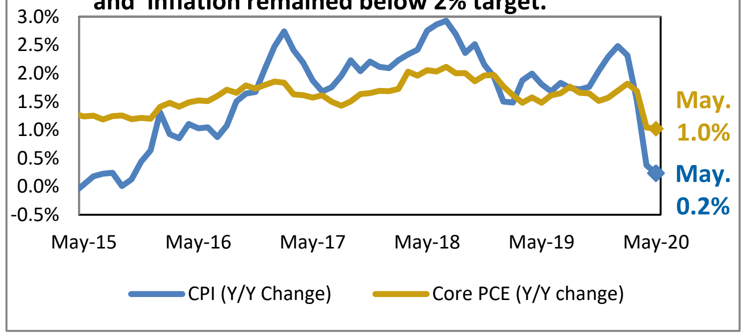
Source: FactSet, as of June 30, 2020

Key Monthly Economic Statistics

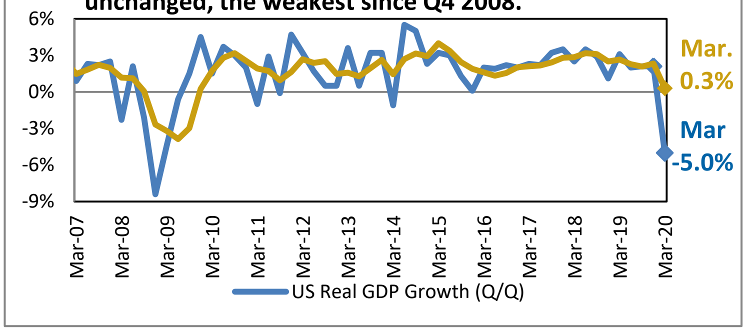
The unemployment rate fell to 11% in June as nonfarm payrolls increased 4.8 million.



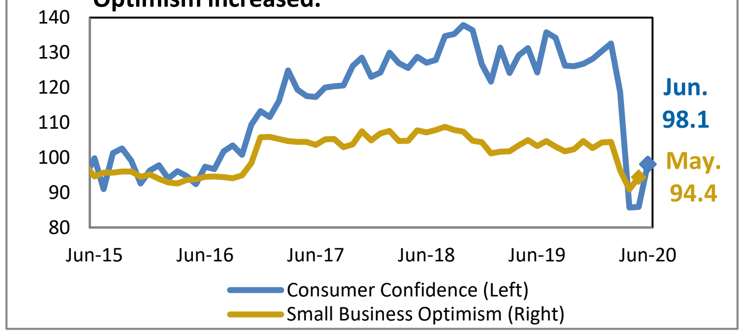
Year-over-year CPI continued to decrease in May and inflation remained below 2% target.



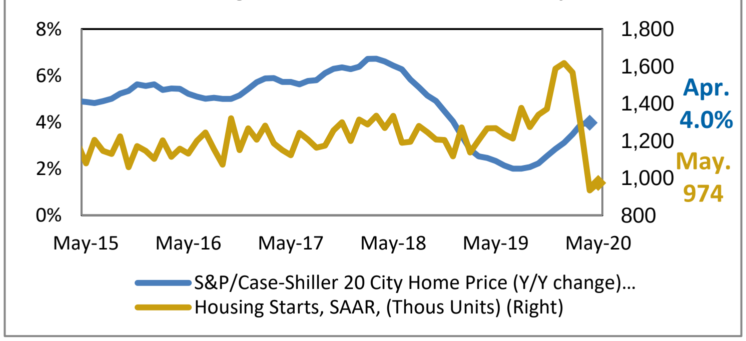
The third estimate of Q1 2020 real GDP remained unchanged, the weakest since Q4 2008.



Consumer Confidence and Small Business Optimism increased.



U.S. housing starts increased 4.2% in May.



The Fed Funds rate remained near zero. The trade weighted U.S Dollar index decreased in June.

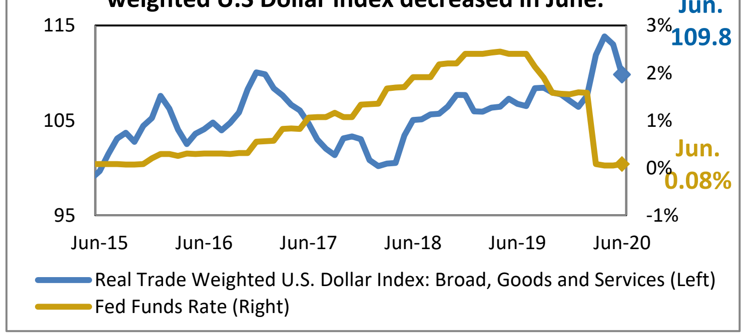
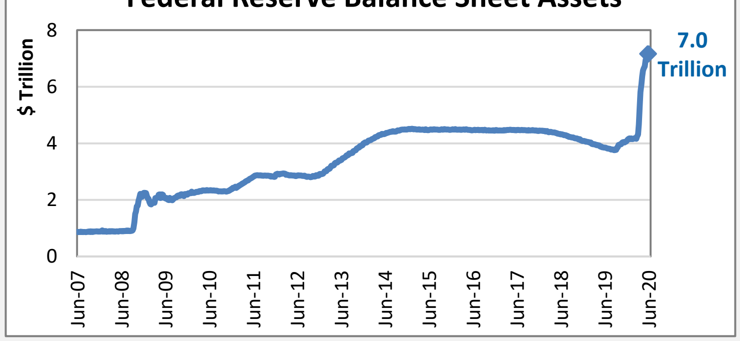


Chart of Month

- The Fed responded to the March credit market dislocation by purchasing assets with unprecedented speed, scope and breadth.
- The Fed's balance sheet has grown to $7 trillion, which far exceeds its size in 2015 ($4.5 trillion) and in 2008 ($2.2 trillion).
- New policy tools, such as purchasing corporate bonds and ETFs, significantly restored confidence and function within credit markets.

Federal Reserve Balance Sheet Assets



Source: FactSet ; U.S Bureau of Labor Statistics; The Conference Board; Federal Reserve Bank of St. Louis

Investment Fund Review (Net-of-Fees Performance)[i]

Equity Funds

U.S. Equity Fund–I Series

Fund	June	QTD	YTD
U.S. Equity Fund-I Series	+3.29%	+25.43%	-1.76%
Russell 3000 Index	+2.29%	+22.03%	-3.48%
Difference (percentage points)	+1.00	+3.40	+1.72

- During the June, quarter-to-date and year-to-date time periods, the fund outperformed the benchmark due largely to growth-oriented active managers with exposure to numerous e-commerce businesses better positioned to succeed through the pandemic. Underweights to poor performing value-oriented companies and poor-performing stocks excluded in compliance with WII's Exclusions policy also benefitted relative performance (described here).

International Equity Fund–I Series

Fund	June	QTD	YTD
International Equity Fund-I Series	+5.59%	+20.79%	-7.18%
MSCI ACWI ex U.S. Investable Market Index (Net)	+4.36%	+16.96%	-11.24%
Difference (percentage points)	+1.23	+3.83	+4.06

During all three time periods, the fund benefited most from the majority of active managers outperforming their respective benchmarks—in particular, a growth-oriented manager focused in developed markets and a dedicated emerging markets manager with outperforming investments in China and Brazil. Stocks excluded from the fund in compliance with WII's Exclusions policy also benefitted relatively performance.

U.S. Equity Index Fund–I Series

Fund	June	QTD	YTD
U.S. Equity Index Fund-I Series	+2.40%	+22.17%	-3.49%
Russell 3000 Index	+2.29%	+22.03%	-3.48%
Difference (percentage points)	+0.11	+0.14	-0.01

- The U.S. Equity Index Fund–I Series is a passively managed fund designed so that it closely matches the fund benchmark, less fees and expenses.

Fixed Income Funds

Fixed Income Fund–I Series

Fund	June	QTD	YTD
Fixed Income Fund-I Series	+1.42%	+6.69%	+3.37%
Barclays U.S. Universal (ex MBS) Index	+1.11%	+4.75%	+5.67%
Difference (percentage points)	+0.31	+1.94	-2.30

- The fund outperformed its benchmark during the month and quarter due to allocations to corporate credit, emerging market debt and non-Agency mortgage backed securities. Asset manager security selection also added to benchmark-relative performance.
- Year to date, overweight allocations to emerging market debt and corporate bonds detracted from benchmark-relative performance. Exposure to multi-family housing through high-quality U.S. agency commercial mortgage-backed securities added to benchmark-relative performance.

Inflation Protection Fund–I Series

Fund	June	QTD	YTD
Inflation Protection Fund-I Series	+1.07%	+4.67%	-0.96%
IPF-I Benchmark[ii]	+1.16%	+6.13%	+1.76%
Difference (percentage points)	-0.09	-1.46	-2.72

- The fund's overweight exposure to U.S. inflation-linked securities and related underweight exposure to U.K. inflation-linked securities contributed to benchmark-relative performance during the month but detracted during the quarter and year-to-date time periods.
- The commodities manager's active management decisions added to relative performance for the quarter but detracted year to date.

U.S. Treasury Inflation Protection Fund–I Series

Fund	June	QTD	YTD
U.S. Treasury Inflation Protection Fund-I Series	+1.06%	+4.16%	+6.04%
Barclays U.S. Inflation Linked Bond Index	+1.15%	+4.36%	+6.37%
Difference (percentage points)	-0.09	-0.20	-0.33

- The U.S. Treasury Inflation Protection Fund–I Series is a passively managed fund designed so that it closely matches the performance of the fund benchmark, less fees and expenses.

Short Term Investment Fund–I Series

Fund	June	QTD	YTD
Short Term Investment Fund-I Series	+0.02%	+0.15%	+0.52%
BofA Merrill Lynch 3-Month Treasury Bill Index	+0.01%	+0.02%	+0.60%
Difference (percentage points)	+0.01	+0.13	-0.08

- The Short Term Investment Fund–I Series holds cash, cash equivalents and short-term securities with the objective of preserving capital while earning current income higher than that of money market funds.

Balanced Fund

Multiple Asset Fund–I Series

Fund	June	QTD	YTD
Multiple Asset Fund-I Series	+3.33%	+17.16%	-1.30%
MAF-I Benchmark[iii]	+2.50%	+14.49%	-2.82%
Difference (percentage points)	+0.83	+2.67	+1.52

- During the month and quarter, the U.S. Equity Fund-I Series, International Equity Fund-I Series and Fixed Income Fund-I Series positively contributed to benchmark-relative performance, while the Inflation Protection Fund-I Series detracted from performance.
- Year to date, the International Equity Fund-I Series, and U.S. Equity Fund-I Series positively contributed to benchmark-relative performance, while the Fixed Income Fund-I Series and Inflation Protection Fund-I Series detracted from 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 – I Series*** for more information about the funds. This is not an offer to purchase securities.

[ii] The benchmark for the Inflation Protection Fund–I Series 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.

[iii] The benchmark for the Inflation Protection Fund–I Series 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.