Wespath
Investment Management

March 2014 Investment Report

Monthly Report

Markets

- U.S. equities as represented by the Russell 3000 Index increased **0.5%** during March. The bellwether S&P 500 Index ended the month at 1,872. This is **135%** higher than at the end of March 2009—the nadir of the financial crisis.
- Investors favored less-volatile stocks during the month. Utilities, a low-volatility sector, was the best-performing sector (**+3.9%**); while consumer discretionary, a high-volatility sector, declined the most (**-2.4%**) in March. Small capitalization stocks as measured by the Russell 2000 Index declined **0.7%**, while large cap stocks as measured by the Russell 1000 gained **0.6%**. Stocks with strong earnings growth underperformed those classified as value across both large and small companies.
- Developed country international equities as measured by the MSCI World ex-US IMI Index declined **0.4%** during the month, while developing country equities increased **2.95%**, according to the MSCI Emerging Markets IMI Index.
- The U.S. Treasury yield curve flattened in March as intermediate maturity yields increased. The 2-year U.S. Treasury Note yield increased by **0.10%** to **0.42%**; the 5-year yield increased by **0.22%** to **1.72%**; and the 10-year yield increased by **0.07%** to **2.72%**. The long bond (30-year U.S. Treasury) decreased **0.03%** in yield to **3.56%**. The increase in intermediate yields was attributed to expectations for a reduction of future Federal Reserve (the Fed) stimulative monetary policies.
- U.S. Treasury securities as measured by the Barclays U.S. Treasury Index decreased **0.3%** in March, reflecting the increase in intermediate maturity Treasury yields. Investment-grade debt as measured by the Barclays U.S. Credit Index increased **0.1%** during the month, outperforming the Treasury Index. Below-investment-grade debt as measured by the Barclays U.S. Corporate High Yield Index increased **0.2%**, outperforming less-risky government and investment-grade debt.
- The U.S. dollar strengthened in March, increasing **0.4%** as measured by the U.S. Dollar Index. The euro decreased **0.2%** relative to the dollar, and the Japanese yen decreased **1.4%** relative to the dollar. Developing country currencies were generally stronger relative to the dollar this month. The Brazilian real increased **3.2%** as investor confidence improved and capital inflows into Brazil increased demand for the currency.
- Commodities as represented by the Dow Jones UBS Commodity Index increased **0.4%** in March. Grains increased **8.4%** amid drought conditions in the U.S. and the combination of drought and geopolitical uncertainty in Ukraine (a major grain exporter). Precious metals decreased **4.0%** in March, only partially reversing February's strength.

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Economics Highlights

- Consensus among economists is that weather had a large impact on economic growth during March, with severe weather across much of the U.S. leading to lower retail sales, lower job growth and lower housing sales figures. Additionally, manufacturing was negatively impacted due to snowstorm-related power outages in some areas. According to the Fed's Beige Book, one sector that benefited was weather-related goods in the Minneapolis, Chicago and Richmond, Virginia areas. Hotels also did well as many travelers stranded in areas like Atlanta and Boston booked hotel rooms.
- Puerto Rico issued $3.5 billion of municipal bonds, which was four times oversubscribed and its largest issuance ever. This will provide time for the U.S. commonwealth to improve its financial position. The government was looking for 18 months of liquidity to make fiscal changes such as cutting spending, raising taxes and restructuring public pensions. The bond will mature in 2035 and pay an interest rate of **8.73%**, making this a below-investment grade security.
- Janet Yellen chaired her first Fed Open Market Committee meeting in March. The stock market reacted negatively to her comments following the meeting, as Yellen hinted at earlier interest rate increases than the market expected. The Fed Funds future contracts for June 2015 increased from **28** basis points to **36** basis points, reflecting the higher probability of Fed action. The Fed continued to reduce its stimulative quantitative easing, reducing monthly bond purchases to $55 billion. The Fed also revised its guidance to de-emphasize a **6.5%** unemployment rate threshold before it begins raising interest rates.

Geopolitical Headlines

- Russia annexed Crimea, a move called illegal by the international community. The U.S. and Europe imposed sanctions in an attempt to pressure Russia to remove troops from the Ukrainian border and Crimea. The G8 effectively removed Russia from the group, returning it to the G7. Global financial markets initially reacted to the news by avoiding riskier assets and preferring the safety of U.S. Treasury securities. Later in March, financial markets mostly ignored Russia's escalation in Crimea as the U.S. equity markets finished positive for the month. The situation remained tense, with Russian troops still located along Ukraine's eastern border at month-end.
- The White House proposed a $3.9 trillion budget for 2015. With upcoming midterm elections, the budget requested increases for building and repairing the nation's infrastructure, education, research and development to be paid with higher taxes on wealthier Americans and some corporations. Absent from the previous budget was a concession to Republicans to cut future spending on Social Security by adjusting the cost-of-living allowance. The forecast for next year's budget deficit is $564 billion or 3.1% of GDP.
- Egypt's top general, Field Marshal Abdel Fattah Al Sisi who orchestrated the ouster of President Mohammed Morsi, resigned from the military to run in the next presidential election. Field Marshal Al Sisi, who was appointed defense chief by Morsi, is favored to win the presidency. Egypt's presidential election will be held in late May. Earlier in the month, 529 members of the Muslim Brotherhood, the organization Morsi headed prior to becoming president, were sentenced to death over the killing of a police officer.

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

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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 • Consumer Confidence, Mar: 82.3 (Feb: 78.3) • Durable Goods Orders, Feb: 2.2% (Jan: -1.4%); M/M-SA • Existing Home Sales, Feb: -0.4% (Jan: -5.1%); M/M-SAAR • Factory Orders, Feb: 1.6% (Jan: -1.0%); M/M-SA • Housing Starts, Feb: -0.2% (Jan: -11.2%); M/M-SAAR • Institute for Supply Management Index, Mar: 53.7 (Feb: 53.2) • Retail Sales ex-auto, Feb: 0.3% (Jan: -0.3%); M/M-SA • Retail Sales, Feb: 0.3% (Jan: -0.6%); M/M-SA
	Neutral Statistics • Consumer Price Index core, Feb: 0.1% (Jan: 0.1%); M/M-SA • Consumer Price Index, Feb: 0.1% (Jan: 0.1%); M/M-SA • Producer Price Index core, Feb: -0.2% (Jan: 0.2%); M/M-SA • Producer Price Index, Feb: -0.1% (Jan: 0.2%); M/M-SA • Nonfarm Payrolls, Mar: 192,000 • Unemployment Rate, Mar: 6.7% (Feb: 6.7%)
	Negative Statistics • New Home Sales, Feb: -3.3% (Jan: 3.2%); M/M-SAAR • Real Gross Domestic Product, Q4: 2.6% (Q3: 4.1%); Q/Q-SAAR • S&P/Case-Shiller 20-City Home Price Index, Jan: 13.2% (Dec: 13.4%); 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***

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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	March	YTD
Inflation Protection Fund	+0.28%	+2.48%
Barclay's Capital U.S. Government Inflation Linked Bond Index	-0.45%	+2.21%
Difference	+0.73%	+0.27%

- The Inflation Protection Fund gained **0.28%** in March and outperformed its benchmark by **0.73%**. All of the fund's five diversifying strategies recognized gains during the month and contributed to the fund's meaningful excess performance compared with the fund's benchmark. The Inflation Protection Fund's 10% allocation to inflation-linked debt from developing countries (emerging markets) increased **2.3%** and added the most to the fund's benchmark-relative performance. Emerging market debt extended gains that were recognized in February, which is primarily attributable to a continuation in the rebound of the countries' currencies after an extended period of emerging country currency weakness.
- For the year to date, the Inflation Protection Fund has gained **2.48%** and outperformed its benchmark by **0.27%**. Although three of the fund's five diversifying strategies have underperformed the fund benchmark, the Inflation Protection Fund's 10% allocation to commodities futures contracts has gained **5.6%** and more than offset negative contributions from the other diversifying strategies.

Fixed Income Fund

Fund	March	YTD
Fixed Income Fund	+0.26%	+2.37%
Barclays U.S. Universal (Ex MBS) Index	-0.02%	+2.07%
Difference	+0.28%	+0.30%

- The Fixed Income Fund gained **0.26%** in March and outperformed its benchmark return by **0.28%**. The best-performing strategy for the month was the fund's 10% allocation to bonds from developing countries, which gained **2.4%** primarily due to currency appreciation relative to the U.S. dollar. All of the Fixed Income Fund's other investment strategies produced fractional gains or losses for the month.
- For the year to date, the Fixed Income Fund has gained **2.37%** and outperformed its benchmark by **0.30%**. The Fixed Income Fund has benefited from its below-benchmark allocation to U.S. government debt as investors demonstrated a willingness to accept a smaller premium for credit risk. The best-performing strategy has been the fund's 8% dedicated allocation to investment grade corporate bonds, which gained **3.2%** for the year to date.

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U.S. Equity Fund

Fund	March	YTD
U.S. Equity Fund	-0.45%	+2.18%
Russell 3000	+0.53%	+1.97%
Difference	-0.98%	+0.21%

- The U.S. Equity Fund recognized a **0.45%** loss in March and meaningfully underperformed its Russell 3000 Index benchmark, which produced a gain of **0.53%**. Several stocks such as Tesla Motors, Facebook, Netflix and other technology-related companies that had meaningfully contributed to the fund's excess performance in 2013 and the first two months of 2014 experienced a significant reversal in their stock prices, which adversely affected U.S. Equity Fund performance. The fund's best-performing manager in 2013 experienced an **8.2%** decline in the value of its portfolio held in the U.S. Equity Fund. In addition, the fund's greater-than-benchmark weighting of small and mid-sized stocks adversely affected benchmark-relative performance, as the Russell 2000 Index of small company stocks declined **0.7%** compared with the **0.8%** gain for the S&P 500 Index of large company stocks.
- Despite March's poor benchmark-relative performance, the U.S. Equity Fund's year-to-date **2.18%** return remains ahead of the fund benchmark (Russell 3000) by **0.21%**. The fund's best-performing strategy is its dedicated 3% allocation to publicly traded real estate investment trusts (REITs), which has gained **10.3%** and is the primary factor contributing to the fund's positive benchmark-relative performance to date in 2014.

International Equity Fund

Fund	March	YTD
International Equity Fund	+0.62%	+0.46%
MSCI ACWI ex-U.S. Investable Market Index	+0.24%	+0.87%
Difference	+0.38%	-0.41%

- The International Equity Fund advanced **0.62%** in March and outperformed its benchmark return by **0.38%**. The fund's largest manager, representing approximately 20% of the fund's assets, gained **1.7%** and exceeded its benchmark return by **2.8%**. The positive contribution from this portfolio, however, was partially offset by the International Equity Fund's lower-than-benchmark allocation to stocks from developing (emerging) countries. The MSCI Emerging Markets Index IMI gained **3.0%** in March compared with the **-1.0%** loss for the developed markets EAFE Index. For an extended period prior to March, emerging markets had been underperforming developed markets.
- For the year to date, the International Equity Fund has gained **0.46%** and underperformed its benchmark by **0.41%**. Nearly all of the fund's performance differential compared with the fund benchmark can be explained by reversal of the net asset value adjustment recognized by the fund on the last day of 2013. At the end of 2013, the fund benefited from a positive adjustment in price resulting from strong performance in the U.S. markets on December 31, 2013. The International Equity Fund's daily valuation policy is further described here. In addition, the fund's nearly 5% allocation to international REITs has declined **2.7%** year to date, which partially contributed to the fund's below-benchmark performance results for the first three months of 2014.

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Multiple Asset Fund

Fund	March	YTD
Multiple Asset Fund	+0.06%	+1.83%
Composite Benchmark	+0.22%	+1.80%
Difference	-0.16%	+0.03%

- For March, the Multiple Asset Fund gained a fractional **0.06%** and underperformed its composite benchmark by **0.16%**. Although three of the four funds that comprise the Multiple Asset Fund outperformed their respective benchmarks, the significant below-benchmark performance of the U.S. Equity Fund more than offset the positive contribution from the Multiple Asset Fund's other funds.
- For the year, the Multiple Asset Fund has gained **1.83%** and fractionally exceeds its composite benchmark by **0.03%.** Three of the fund's four strategies have positively contributed to the Multiple Asset Fund's excess performance compared with its benchmark, with only the International Equity Fund detracting from benchmark-relative performance.

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