

March 2016 Investment Report

Monthly Report

Markets

- U.S. equities, represented by the Russell 3000 Index, returned **7.0%** in March. A recovery in oil prices and better-than-expected economic data provided support to U.S. markets. Continuing the previous month's trend, small company stocks were up **7.9%** as measured by the Russell 2000 Index, while large company stocks gained **6.7%**. Energy and Materials & Processing were the best-performing Russell 3000 sectors, while Health Care was the worst-performing.
- Non-U.S. stocks were up **8.2%** in March, as measured by the MSCI ACWI ex USA Investable Market Index. Developing market stocks returned **12.7%**, as measured by the MSCI EM Investable Market Index, significantly outperforming developed international market stocks, which returned **6.5%** as measured by the MSCI EAFE Index. Brazil led developing market stocks and increased **30.2%**, as measured by the BOVESPA Index, on hopes that recent scandals might lead to a change in the country's leadership and to structural reforms that will improve Brazil's competitiveness in the global economy.
- The U.S. Treasury yield curve steepened modestly during March. The 2-year Treasury note yield decreased **0.06%** to **0.72%**, and the 10-year note yield increased **0.03%** to **1.77%**. The 30-year bond yield was nearly unchanged at **2.61%**.
- U.S. Treasury securities, as measured by the Barclays U.S. Treasury Index, gained **0.2%** in March. Corporate debt securities dramatically outperformed Treasury securities during March as investors' aversion to risk subsided. Investment-grade debt, as measured by the Barclays U.S. Credit Index, increased **2.5%**. Below-investment-grade debt, as measured by the Barclays U.S. Corporate High Yield Index, increased **4.4%**.
- The U.S. dollar weakened **3.6%** in March, as measured by the U.S. Dollar Index, as the Federal Reserve assured investors it would increase short-term interest rates only gradually. The euro and British pound increased **4.5%** and **3.2%** relative to the dollar, respectively. Developing country currencies increased significantly during March, led by the Russian ruble and Brazilian real—each increased **11.8%**.
- Commodities, as represented by the Bloomberg Commodity Index, increased **3.8%** in March. Petroleum increased **3.8%**, and natural gas increased **8.4%**. Grains increased **2.3%** and Coffee increased **10.8%**. Brazil is the world's largest coffee producer, and the strength of the Brazilian real relative to the U.S. dollar made coffee more expensive in dollar terms.

Economics Highlights

- The Institute for Supply Management (ISM) reported economic activity at U.S. manufacturing companies expanded for the first time in six months. The index rose to **51.8%** from **49.5%** in February.
- ADP reported the U.S. private sector added 200,000 jobs in March. The increase was in line with expectations, although modestly below the prior month's 205,000 increase. The majority of the gain came from the service sector.
- The Commerce Department reported corporate profits fell 3.2% in 2015, marking the first decline since the 2008 recession. The stronger dollar combined with higher labor costs, which make American manufacturing companies less competitive overseas, led to a drop in profitability.
- Consumer confidence increased in March, reflecting higher optimism as stock markets rebounded from steep losses earlier in the year and concerns about a possible U.S. recession faded. The index of consumer confidence, as determined by the Conference Board, climbed to **96.2**, beating the forecast of 94.2.
- U.S. oil prices ended the month at \$39.34, a **13%** gain for the month as determined by the West Texas Intermediate May 2016 futures contract, on hopes that OPEC and other producers would agree to freeze production when they meet in Doha, Qatar on April 17.

Geopolitical Headlines

- On March 22, three coordinated suicide bombings occurred in Belgium—two occurred at the Brussels main airport and one at the Maalbeek subway station. The attacks killed more than 30 people and injured over 300. The Islamic State of Iraq and Syria (ISIS) claimed the attack was in response to Belgium's support of the international coalition opposing them. The suspects are linked to the same terrorist cell that plotted the attacks in Paris in November 2015.
- European leaders continue to struggle with balancing internal security and absorbing millions of refugees and migrants who have escaped fighting in Syria and neighboring countries. The attacks in Belgium heightened anxieties around the migrant crisis. Hungary declared a state of emergency in early March and threatened to deploy 1,500 soldiers to reinforce the border. Balkan states, meanwhile, began implementing border checks that require EU visas. Turkey reached an agreement with the EU this month to take back all refugees and migrants who cross illegally to Greece in exchange for financial aid, and to accelerate EU membership talks. The transfer of migrants from Greece to Turkey began on April 4, but uncertainty remains over the logistics and legality of the deal.
- The Brazilian Democratic Movement Party (PMDB) announced a split with Brazilian President Dilma Rousseff's coalition, removing the six ministers from her Cabinet and all other PMDB party members with government appointments. The departure raised the odds of President Rousseff's impeachment in the coming months. The largest protests in recent years occurred in cities across Brazil and reflect rising anger over corruption scandals and worsening economic conditions.

Sources: *Forbes, Reuters, Bloomberg, The Economist, Energy Information Administration, The Wall Street Journal, CBS News, FactSet, Barclays, Russell Investments, CNBC, CNN, The New York Times, Associated Press, Bridgewater Associates, Wikipedia, NASDAQ and Bureau of Economic Analysis.*

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, Mar: 96.2 (Feb: 94.0) • Factory Orders, Jan: 1.2% (Dec: -2.9%); M/M-SA • Housing Starts, Feb: 5.2% (Jan: -3.4%); M/M-SAAR • Institute for Supply Management Index, Feb: 49.5 (Jan: 48.2) • New Home Sales, Feb: 2.0% (Jan: -7.0%); M/M-SAAR • Nonfarm Payrolls, Feb: 245,000 • Unemployment Rate, Feb: 4.9% (Jan: 4.9%)
	<p>Neutral Statistics</p> <ul style="list-style-type: none"> • Consumer Price Index core, Feb: 0.3% (Jan: 0.3%); M/M-SA • Producer Price Index core, Feb: 0.0% (Jan: 0.4%); M/M-SA • S&P/Case-Shiller 20-City Home Price Index, Jan: 5.7% (Dec: 5.6%); Y/Y
	<p>Negative Statistics</p> <ul style="list-style-type: none"> • Consumer Price Index, Feb: -0.2% (Jan: 0.0%); M/M-SA • Durable Goods Orders, Feb: -3.0% (Jan: 4.3%); M/M-SA • Existing Home Sales, Feb: -7.1% (Jan: 0.4%); M/M-SAAR • Producer Price Index, Feb: -0.2% (Jan: 0.1%); M/M-SA • Real Gross Domestic Product, Dec: 1.4% (Sep: 2.0%); Q/Q-SAAR • Retail Sales ex-auto, Feb: -0.1% (Jan: -0.4%); M/M-SA • Retail Sales, Feb: -0.1% (Jan: -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: [FactSet](#)

Investment Fund Review: (Net of Fees Performance)

Broad equity indices finished the first quarter flat to slightly positive—a welcome outcome considering the steep declines in the first two months of the year, including the worst January for equity markets since 2009. Fixed income indices were strongly positive for the quarter. Positive U.S. economic news, cautious signals from the U.S. Federal Reserve regarding the pace of U.S. interest rate hikes, a rebound in energy prices, and U.S. dollar weakness all contributed to a turn-around in market performance, leading to a renewed appetite for risk among global investors. Strong performance in

U.S. and non-U.S. equity markets, as well as positive performance in global fixed income markets in March helped erase much of the damage left from declines in both markets in January and February.

Historical returns are not indicative of future performance. 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. For historical returns of one-year, three-year, five-year, 10-year and since inception periods, please visit our [Historical Funds Performance page](#).

Inflation Protection Fund

Fund	March	YTD
Inflation Protection Fund	+2.49%	+3.65%
BC Universal Government Inflation Linked Bond Index (USD Unhedged)	+4.70%	+5.95%
Difference	-2.21%	-2.30%

- The Inflation Protection Fund (IPF) gained **2.49%** in March but underperformed the fund's benchmark by **2.21%** primarily due to U.S. dollar weakness. The benchmark includes approximately 60% in securities denominated in foreign currencies, and most of the fund's developed country international securities have been hedged to the U.S. dollar. The fund's approximately 11% exposure to unhedged developing country inflation-linked bonds increased **8.4%** during March, contributing positively to fund performance.
- Year-to-date, IPF gained **3.65%** but underperformed its benchmark by **2.30%**, primarily due to the fund's lower non-dollar currency exposure relative to the benchmark. The fund's strongest contributors were its allocations to developing country and U.S. inflation-linked bonds, which gained **9.6%** and **4.8%**, respectively. The fund's 3% allocation to high-yield asset backed securities was the weakest performer, declining **3.7%**.

Fixed Income Fund

Fund	March	YTD
Fixed Income Fund	+2.51%	+3.60%
Barclays U.S. Universal (Ex MBS) Index	+1.52%	+3.42%
Difference	+0.99%	+0.18%

- The Fixed Income Fund (FIF) gained **2.51%** in March and significantly outperformed its benchmark return by **0.99%** as the U.S. dollar weakened and corporate bonds outperformed government bonds. The fund's 10% allocation to developing country bonds increased **5.4%** and was the strongest performance contributor. The fund's allocations to global bonds, high-yield bonds and credit opportunities also contributed to the fund's benchmark-relative performance, increasing **3.2%**, **3.9%** and **3.2%**, respectively.
- Year-to-date, FIF gained **3.60%** and outperformed its benchmark by **0.18%**. The fund's allocations to developing country bonds and global bonds contributed the most, increasing **6.7%** and **5.2%**, respectively, due to strength in non-dollar currencies. The fund's two core bond managers have underperformed their benchmarks by about 0.8%, which has detracted from benchmark-relative performance.

Extended Term Fixed Income Fund

Fund	March	YTD
Extended Term Fixed Income Fund	+2.55%	+4.85%
Barclays US Government/Credit Long Term Index	+2.84%	+7.30%
Difference	-0.29%	-2.45%

- The Extended Term Fixed Income Fund (ETFIF) gained **2.55%** in March but underperformed its benchmark return by **0.29%**. The fund's strategy of holding bonds with shorter-term maturities compared to the fund benchmark until interest rates return to historically normal levels detracted from performance.
- Year-to-date, ETFIF gained **4.85%** but underperformed the benchmark by **2.45%** due to the fund's shorter-than-benchmark maturity profile.

U.S. Equity Fund

Fund	March	YTD
U.S. Equity Fund	+7.08%	+0.03%
Russell 3000 Index	+7.04%	+0.97%
Difference	+0.04%	-0.94%

- The U.S. Equity Fund (USEF) returned **7.08%** in March and slightly outperformed the fund benchmark by **0.04%**. Public real estate investment trusts (REITs) gained **9.7%** and were the strongest-performing category in the month. Allocations to small and mid-cap strategies contributed positively to the fund's benchmark-relative performance. Alternatives, which tend to lag the broader markets, were the biggest detractors to performance.
- Year-to-date, the fund increased minimally, up **0.03%**, and underperformed the fund benchmark by **0.94%**. The fund's dedicated small-cap growth exposure and three underperforming large-cap managers detracted the most from benchmark-relative performance. REITs were the best performing category for the year-to-date period, gaining **5.7%**.

International Equity Fund

Fund	March	YTD
International Equity Fund	+8.89%	+0.64%
MSCI ACWI ex US Investable Market Index	+8.21%	-0.23%
Difference	+0.68%	+0.87%

- The International Equity Fund (IEF) increased **8.89%** in March and outperformed its benchmark return by **0.68%**. The fund's daily valuation policy (described [here](#)) contributed about one-third of the fund's benchmark-relative outperformance. Seven of eight active managers exceeded their

benchmarks for the month. Emerging markets rebounded strongly in the month, aided by a recovery in energy prices.

- Year-to-date, the fund gained **0.64%** and outperformed its benchmark by **0.87%**. The fund's daily valuation policy (described [here](#)) positively contributed about 40% of the fund's performance. Additionally, the fund benefited from its allocation to private equity, which returned **6.92%** compared to the **-0.23%** benchmark return.

Multiple Asset Fund

Fund	March	YTD
Multiple Asset Fund	+5.82%	+1.47%
Composite Benchmark	+5.72%	+1.86%
Difference	+0.10%	-0.39%

- For March, the Multiple Asset Fund (MAF) increased **5.82%** and outperformed its fund benchmark by **0.10%**. Three of the fund's four underlying strategies outperformed their respective benchmarks in March, with only the Inflation Protection Fund detracting from benchmark-relative performance.
- Year-to-date, the fund gained **1.47%** and underperformed its benchmark by **0.39%**. The Fixed Income Fund and International Equity Funds contributed positively, while the Inflation Protection Fund and U.S. Equity Fund detracted from benchmark-relative performance.

Equity Social Values Plus Fund

Fund	March	YTD
Equity Social Values Plus Fund	+7.06%	+0.10%
MSCI World Custom ESG Special Weighted Index	+7.07%	+0.35%
Difference	-0.01%	-0.25%

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

US Equity Index Fund

Fund	March	YTD
US Equity Index Fund	+7.04%	+0.85%
Russell 3000 Index	+7.04%	+0.97%
Difference	0.00%	-0.12%

- The U.S. Equity Index Fund is a passively managed fund designed to closely match the fund benchmark, less fees and expenses.

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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