



May 2015 Investment Report

Monthly Report

Markets

- U.S. equities, as represented by the Russell 3000 Index, increased **1.4%** in May, which was a volatile month as positive and negative economic news alternately impacted U.S. equity performance.
- U.S. small company stocks increased **2.3%**, as measured by the Russell 2000 Index. Large company stocks increased 1.3%, as measured by the Russell 1000 Index. Results were somewhat muted by lower expected corporate earnings resulting from a stronger dollar and the impact of lower oil prices on energy company earnings. Companies with strong earnings growth, driven by the technology sector, outperformed value companies. Health care was the best-performing Russell 3000 sector during the month (gaining **5.1%**), while energy was the worst-performing Russell 3000 sector (declining **5.0%**).
- Non-U.S. stocks declined by **1.3%**, as measured by the MSCI ACWI World ex-USA IMI index. Most developed markets saw positive returns measured in local currency, but U.S. dollar strength materially reduced performance in dollar terms. Developing international markets were the worst-performing equity sector, decreasing **3.4%** in U.S. dollar terms as measured by the MSCI Emerging Markets IMI Index.
- The U.S. Treasury yield curve steepened during May in anticipation of a continued steady U.S. economic recovery. Federal Reserve (Fed) Chairwoman Janet Yellen stated that it is likely the Fed will increase short-term interest rates this year. The 2-year Treasury note yield increased by **0.04%** to a yield of **0.61%**. The 30-year Treasury note yield increased by **0.14%** to a yield of **2.88%**. Global sovereign yields moved higher as well, with the 30-year German bund yield increasing **0.24%** to a yield of **1.11%**.
- U.S. Treasury securities, as measured by the Barclays U.S. Treasury Index, decreased **0.2%** in May due to the steepening yield curve. Investment-grade debt, as measured by the Barclays U.S. Credit Index, decreased **0.6%** during the month amid a record new supply of corporate issues. Below-investment-grade debt, as measured by the Barclays U.S. Corporate High-Yield Index, increased **0.3%** and outperformed investment-grade debt.
- The U.S. dollar strengthened **2.2%** in May, as measured by the U.S. Dollar Index, due to investor anticipation of higher interest rates. Core consumer price inflation (excluding the volatile Food and Energy components) increased to **0.3%** in April, supporting market views of imminently higher interest rates. The euro and Japanese yen decreased **2.2%** and **3.8%** respectively, relative to the dollar. The Brazilian real decreased **5.2%** during May amid rising inflation, unemployment and economic contraction in Brazil.
- Commodities, as represented by the Bloomberg Commodity Index, decreased **2.7%** during May. The sub-index of Coffee, Cotton and Sugar decreased **7.9%** amid reports of abundant supplies of these commodities. Industrial Metals decreased **7.7%** due to U.S. dollar strength and uncertainty about global metals demand, especially in China. Livestock increased **2.3%** in May, attributed to increased demand from the U.S. summer grilling season.

Economics Highlights

- U.S. gross domestic product (GDP) declined a disappointing **0.7%** during the first quarter of 2015, according to a revised estimate from the Bureau of Economic Analysis. The revised figure was sharply lower than the previous estimate of **0.2%** growth. Harsh winter weather, lower oil prices, a West Coast port labor slowdown, and the impact of the strong U.S. dollar on exports were cited as causes for the GDP weakness.
- On a positive note, the U.S. economy added **280,000** nonfarm jobs in May, according to the Department of Labor. However, the unemployment rate increased slightly to **5.5%**, largely due to an increase in the labor participation rate as potential workers became more optimistic about their job prospects. The strength of the jobs report exceeded consensus estimates and signaled continuation of the U.S. economic recovery.
- Euro zone GDP grew **0.4%** in the first quarter of 2015, which was its strongest quarterly growth rate in nearly two years. GDP in Germany, France and Italy increased **0.3%**, **0.6%** and **0.3%** respectively. Greece slipped back into recession with a contraction of **0.2%**, following a fourth quarter contraction of **0.4%**.
- Britain's Office for National Statistics reported that British consumer prices in April were **0.1%** lower than one year ago. It was the first annual decrease in British consumer prices since 1960. In the euro zone, Eurostat reported that consumer prices increased **0.3%** in May compared to one year ago. The increase indicated progress toward the European Central Bank's 2% inflation target after several months of declining prices.

Geopolitical Headlines

- British Prime Minister David Cameron's Conservative Party won a Parliamentary majority in United Kingdom elections. Shocking many election prognosticators, Conservatives won 331 of 650 seats in the House of Commons, which was a gain of 24 seats and a stronger showing than polls had predicted.
- Islamic State (ISIS) fighters captured the Iraq city of Ramadi after Iraqi military troops withdrew from fighting in the city. During the siege, ISIS seized a large collection of U.S. military vehicles and weaponry that were left behind by the fleeing Iraqi forces. The U.S. resolved to provide additional training, equipment and air support to Iraqi forces as they seek to retake control of Ramadi.
- The U.S. Senate voted 62-37 in support of the Trade Promotion Authority (TPA) bill, which provides President Barack Obama with "fast track" authority to negotiate trade agreements. Passage in the House of Representatives will likely be more challenging. TPA would grant the president authority to negotiate trade agreements that could be accepted or rejected by Congress, but not amended. President Obama is seeking to complete the Trans-Pacific Partnership (TPP) trade accord using the powers granted in TPA.
- Greek officials continued negotiations with international creditors in an effort to secure the remaining 7.2 billion euros of the previously negotiated bailout package. Greece will likely be unable to make scheduled loan payments in June without further bailout funding, raising the risk that Greece will default and may exit the euro zone. The negotiations stalled regarding continued austerity measures demanded by Greece's creditors, but were cited as causing excessive economic hardship for Greek citizens.

Sources: *Forbes, Reuters, Bloomberg, The Economist, Energy Information Administration, The Wall Street Journal, CBS News, FactSet, Barclays, Russell, CNBC, CNN, Associated Press, Bridgewater Associates, Wikipedia and NASDAQ.*

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, May: 95.4 (Apr: 94.3) • Housing Starts, Apr: 20.2% (Mar: 4.9%); M/M-SAAR • Institute for Supply Management Index, May: 52.8 (Apr: 51.5) • New Home Sales, Apr: 6.8% (Mar: -10.0%); M/M-SAAR • Nonfarm Payrolls, May: 280,000 • Retail Sales ex-auto, Apr: 0.1% (Mar: 0.7%); M/M-SA • S&P/Case-Shiller 20-City Home Price Index, Mar: 5.0% (Feb: 5.0%); Y/Y • Unemployment Rate, May: 5.5% (Apr: 5.4%)
	<p>Neutral Statistics</p> <ul style="list-style-type: none"> • Consumer Price Index core, Apr: 0.3% (Mar: 0.2%); M/M-SA • Consumer Price Index, Apr: 0.1% (Mar: 0.2%); M/M-SA • Producer Price Index core, Apr: -0.2% (Mar: 0.2%); M/M-SA • Producer Price Index, Apr: -0.4% (Mar: 0.2%); M/M-SA • Retail Sales, Apr: 0.0% (Mar: 1.1%); M/M-SA
	<p>Negative Statistics</p> <ul style="list-style-type: none"> • Durable Goods Orders, Apr: -1.0% (Mar: 5.1%); M/M-SA • Existing Home Sales, Apr: -3.3% (Mar: 6.5%); M/M-SAAR • Factory Orders, Apr: -0.4% (Mar: 2.2%); M/M-SA • Real Gross Domestic Product, Q1: -0.7% (Q4: 2.2%); Q/Q-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)

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	May	YTD
Inflation Protection Fund	-1.04%	+0.67%
Barclays Capital U.S. Government Inflation Linked Bond Index	-0.92%	+1.23%
Difference	-0.12%	-0.56%

- The Inflation Protection Fund declined **1.04%** in May and underperformed the fund benchmark return by **0.12%**. May's negative results are attributable to the increase in world interest rates resulting from positive economic growth in Europe. Despite some signs of recent growth, however, interest rates in Europe and around the world have remained at historically low levels due to aggressive central bank efforts to stimulate sustainable growth. Once growth resumes, investors expect that interest rates throughout most of Europe will return to normal levels. The fund's best-performing strategy was its allocation to senior-secured and asset-backed floating rate loans, which produced modest gains. The fund's 8% allocation to commodity futures contracts declined **2.7%** and detracted from the fund's benchmark-relative performance.
- For the year to date, the Inflation Protection Fund gained **0.67%** and underperformed its benchmark by **0.56%**. The fund's allocation to commodities declined **2.0%**, detracting from benchmark-relative performance. In addition, its allocation to inflation-linked bonds from developing countries declined **6.0%**, primarily due to weakness of developing market currencies, such as the Brazilian real, relative to the U.S. dollar. The fund's allocations to dollar-hedged inflation-linked bonds from developed countries and senior-secured floating rate bonds positively contributed to the fund's benchmark-relative performance, gaining **2.5%** and **3.9%** respectively.

Fixed Income Fund

Fund	May	YTD
Fixed Income Fund	-0.44%	+0.89%
Barclays U.S. Universal (Ex MBS) Index	-0.22%	+1.55%
Difference	-0.22%	-0.66%

- The Fixed Income Fund declined **0.44%** in May and underperformed the fund benchmark return by **0.22%**. The fund's allocation to bonds denominated in currencies other than the U.S. dollar was the primary contributor to the fund's below-benchmark performance; this underperformance was primarily due to the U.S. dollar's strength relative to foreign currencies, especially the euro. The fund's global bond strategy declined **1.6%**, and its emerging market debt strategy declined **1.3%**. The euro declined primarily due to ongoing concerns surrounding Greece's ability to repay its debts. Meanwhile, the U.S. dollar strengthened compared to developing country currencies due to concerns regarding future economic growth in the lesser developed world. The fund's best-performing strategy was its allocation to credit opportunities, which gained **0.6%**.

- For the year to date, the Fixed Income Fund gained **0.89%** and underperformed the fund benchmark by **0.66%**. The fund's best-performing strategies were its allocation to below-investment-grade bonds and credit opportunities, which both gained **4.1%**. In addition, the fund's largest manager (PIMCO) outperformed its portfolio benchmark by **0.6%**. However, the fund's two allocations to foreign bonds detracted from benchmark-relative performance. The fund's allocation to global bonds declined **2.8%**, and the fund's allocation to bonds from developing countries declined only **0.6%**, primarily due to strength of the U.S. dollar.

U.S. Equity Fund

Fund	May	YTD
U.S. Equity Fund	+1.19%	+3.35%
Russell 3000	+1.38%	+3.68%
Difference	-0.19%	-0.33%

- The U.S. Equity Fund gained **1.19%** in May, but underperformed the fund's Russell 3000 Index benchmark by **0.19%**. Although the fund benefitted from its higher-than-benchmark allocation to small company stocks, four of the fund's small and mid-sized company stock managers significantly underperformed their respective benchmarks. The primary factor attributable to these managers' underperformance was poor performance from the managers' selection of energy, technology and health care stocks.
- For the year to date, the U.S. Equity Fund gained **3.35%**, and underperformed the fund benchmark by **0.33%**. The fund's public real estate investment trusts (REIT) strategy declined **1.2%**, detracting from benchmark-relative performance. In addition, one of the fund's managers experienced significant losses from several of the manager's consumer discretionary stocks, resulting in significant below-benchmark performance.

International Equity Fund

Fund	May	YTD
International Equity Fund	-0.98%	+7.48%
MSCI ACWI ex-US Investable Market Index	-1.29%	+7.50%
Difference	+0.31%	-0.02%

- The International Equity Fund declined **0.98%** in May and outperformed its benchmark return by **0.31%**. Most of the fund's excess performance for the month was due to a reversal of the April negative adjustment to the fund's value attributable to the fund's daily valuation policy, which is described [here](#).
- For the year to date, the International Equity Fund gained **7.48%**, slightly below the fund benchmark by **0.02%**. The fund benefitted from significant excess benchmark-relative performance of the fund's international manager of REITs. The fund's modest allocations to the alternative investment strategies of private equity and private real estate, however, detracted from benchmark-relative performance; private equity and private real estate declined **4.4%** and **6.9%** respectively. In addition, two of the fund's managers of developing country equities underperformed their respective benchmarks by about **3.7%**.

Multiple Asset Fund

Fund	May	YTD
Multiple Asset Fund	+0.04%	+3.42%
Composite Benchmark	+0.08%	+3.94%
Difference	-0.04%	-0.52%

- For May, the Multiple Asset Fund gained a fractional **0.04%** and slightly underperformed the fund benchmark by **0.04%**. The International Equity Fund's positive contribution to the fund's benchmark-relative performance was more than offset by the negative contribution from the fund's other three strategies.
- For the year, the Multiple Asset Fund gained **3.42%**, which is **0.52%** below the fund benchmark. All four of the funds that comprise MAF underperformed their respective benchmarks.

Equity Social Values Plus Fund

Fund	May	YTD
Equity Social Values Plus Fund	+0.60%	+4.10%
MSCI World Custom ESG Special Weighted Index	+0.47%	+4.43%
Difference	+0.13%	-0.33%

For additional information, please contact:

Brian Coker, CFA
 Director, Investment Services
 Wespath Investment Management
 (847) 866-2700 direct
 (847) 866-4100 general
bcoker@wespath.com

or

Karen Manczko
 Manager, Institutional Relationships
 Wespath Investment Management
 (847) 866-4236 direct
 (847) 866-4100 general
kmanczko@wespath.com

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