

May 2018 Investment Report

Highlights

- U.S. trade policy and Eurozone politics drove negative market sentiment in May. The U.S. announced steel and aluminum tariffs at month end, which prompted retaliatory statements from major U.S. trading partners. The naming of a euro-skeptic economic minister in Italy stirred up Eurozone breakup fears.
- Foreign equity markets declined during the month, while strong earnings from technology companies supported positive U.S. equity performance. Solid economic activity continued in the U.S., and the dollar resumed its upward trend. Markets fully anticipate a June Fed interest rate hike.
- In May, the U.S. Equity Fund and International Equity Fund outperformed their respective benchmarks, while the Fixed Income Fund and Inflation Protection Fund underperformed. All four funds outperformed year-to-date. The Multiple Asset Fund outperformed in May and year-to-date.

Monthly Overview

Trade Uncertainty

U.S. import tariffs on steel and aluminum products prompted retaliatory statements from Mexico, Canada and Europe, renewing trade war concerns. Talks aimed at reducing the U.S. trade deficit with China by \$200 billion in 2020 achieved initial progress when China agreed to increase purchases of U.S. agriculture, energy and autos. Talks stalled after China refused to commit to specific import targets.

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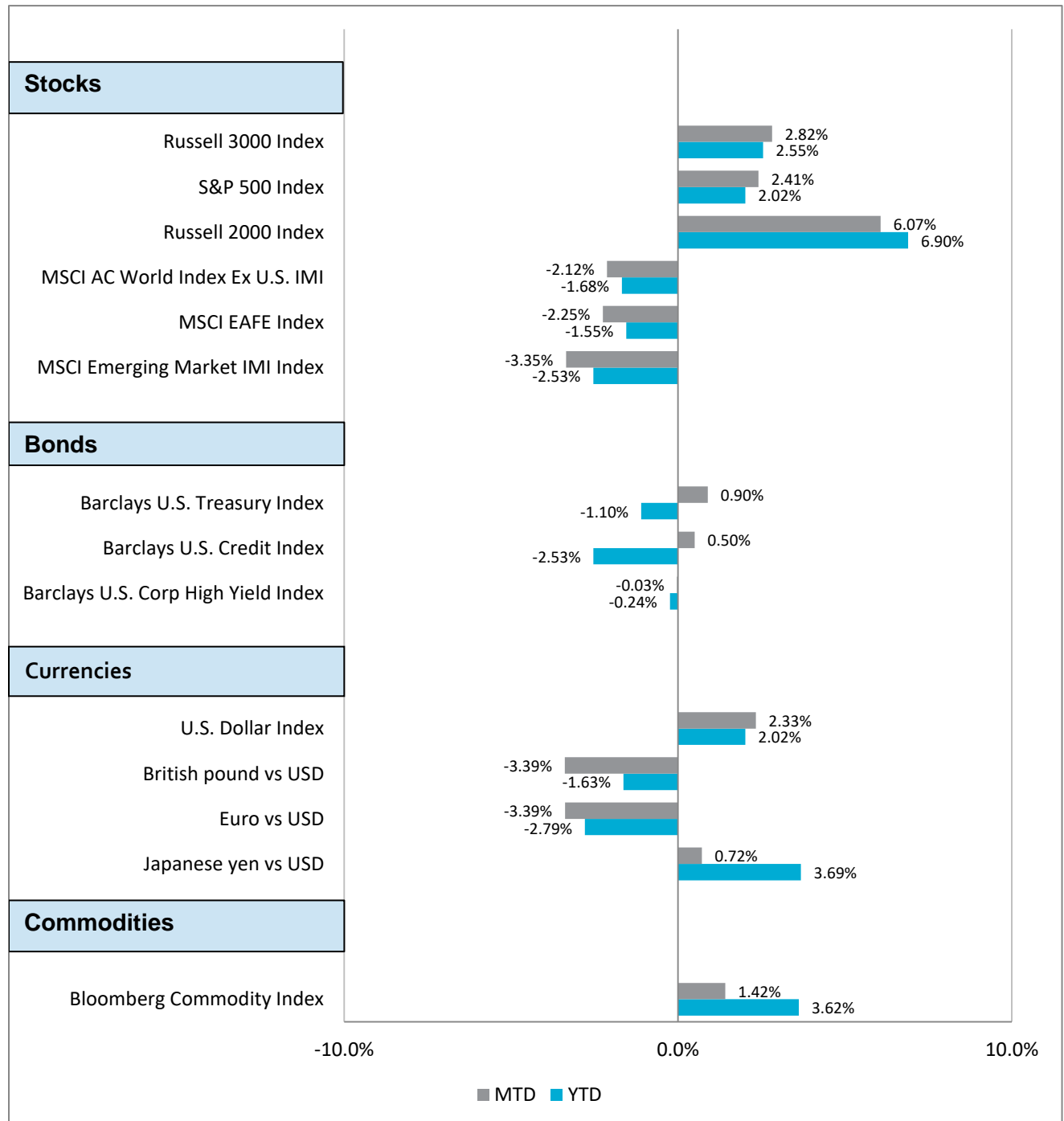
Political risk in Italy rose after anti-establishment parties merged to form a euro-skeptic governing coalition. The coalition named an anti-euro economic minister, which played into fears that Italy would exit the European Union and prompted a sell-off of Italian assets and broader risk assets. While the Italian president initially vetoed the candidate, uncertainty persisted until the new government accepted an economic minister more supportive of the European Union.

Domestic Resilience

U.S. stocks gained for the month despite trade uncertainty and Italian politics. Positive earnings and share buy-back news from technology giants supported market sentiment. Solid U.S. economic momentum continued, and the Purchasing Managers' Composite Index rose in May. European and Japanese economic activity indices weakened.

Annual core Personal Consumption Expenditures inflation rose to 1.8% in May, slowly approaching the Federal Reserve's (Fed) 2% target. As expected, the Fed held interest rates steady during the month, while markets expectations reflected a June rate hike. The U.S. dollar gained 2.3% versus a basket of developed currencies, helped by rising short-term Treasury yields and increased demand for safe assets due to trade tensions and geopolitical uncertainties. In May, the MSCI AC World Index ex U.S. fell 2.1%, and MSCI Emerging Markets fell 3.4%.

Market Performance



Source: FactSet, as of May 31, 2018

Key Monthly Economic Statistics

Statistic	Monthly/Yearly Change	Positive
Consumer Confidence	May: 128.0 (Apr: 125.6)	▲
Institute for Supply Management Index	Apr: 57.3% (Mar: 59.3%)	▲
Nonfarm Payrolls	Apr: 164,000 (Mar: 135,000)	▲
Unemployment Rate	Apr: 3.9% (Mar: 4.1%)	▲
		Neutral
Consumer Price Index core	Apr: 0.1% (Mar: 0.2%); M/M-SA	◆
Consumer Price Index	Apr: 0.2% (Mar: -0.1%); M/M-SA	◆
Real Gross Domestic Product	Mar: 2.2% (Dec: 2.9%); Q/Q-SAAR	◆
Retail Sales ex-auto	Apr: 0.3% (Mar: 0.2%); M/M-SA	◆
Retail Sales	Apr: 0.3% (Mar: 0.6%); M/M-SA	◆
S&P/Case-Shiller 20-City Home Price Index	Mar: 6.8% (Feb: 6.8%); Y/Y	◆
Factory Orders	Mar: 1.6% (Feb: 1.2%); M/M-SA	◆
Producer Price Index core	Apr: 0.2% (Mar: 0.3%); M/M-SA	◆
Producer Price Index	Apr: 0.1% (Mar: 0.3%); M/M-SA	◆
		Negative
Durable Goods Orders	Apr: -1.7% (Mar: 2.7%); M/M-SA	▼
Existing Home Sales	Apr: -2.5% (Mar: 1.1%); M/M-SAAR	▼
Housing Starts	Apr: -3.7% (Mar: 3.6%); M/M-SAAR	▼
New Home Sales	Apr: -1.5% (Mar: 2.0%); 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	May	YTD
U.S. Equity Fund	+3.26%	+4.60%
Russell 3000 Index	+2.82%	+2.55%
Difference (percentage points)	+0.44	+2.05

- During the month, the fund's strategic overweight to small- and mid-sized company stocks, and corresponding underweight in large-company stocks, contributed to positive benchmark-relative performance. The fund benefited the most from top-performing investments in e-commerce companies. Holdings in private equity and private real estate detracted from performance during the month.
- Year-to-date, the fund's positive benchmark-relative performance benefited the most from two growth-oriented managers due to their 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, along with the private real estate allocation, contributed positively to benchmark-relative performance.

International Equity Fund

Fund	May	YTD
International Equity Fund	-1.15%	-0.02%
MSCI ACWI ex U.S. Investable Market Index (Net)	-2.12%	-1.68%
Difference (percentage points)	+0.97	+1.66

- During the month, the fund's strategic underweight to developed markets, and corresponding overweight to emerging markets, contributed to positive relative performance. The fund benefited from two top-performing growth-oriented managers invested in developed markets. Strong performance from dedicated investments in private equity and private real estate also contributed to returns. The fund's international daily valuation policy (described [here](#)) positively affected benchmark-relative performance.
- Year-to-date, seven of the fund's 11 active investment managers outperformed their respective benchmarks. The fund's strategic underweight to developed market equities, and corresponding overweight to emerging market equities, contributed to positive benchmark-relative returns. The allocation to private real estate helped, while investments in private equity detracted.

Social Values Choice Equity Fund

Fund	May	YTD
Social Values Choice Equity Fund	+0.11%	-0.42%
SVCEF Benchmark ⁱⁱ	-0.04%	-0.41%
Difference (percentage points)	+0.15	-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 international daily valuation policy (described [here](#)) positively impacted performance.

U.S. Equity Index Fund

Fund	May	YTD
U.S. Equity Index Fund	+2.79%	+2.49%
Russell 3000 Index	+2.82%	+2.55%
Difference (percentage points)	-0.03	-0.06

- 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	May	YTD
Fixed Income Fund	-0.10%	-1.53%
Barclays U.S. Universal (ex MBS) Index	+0.50%	-1.69%
Difference (percentage points)	-0.60	+0.16

- The fund underperformed its benchmark in May. The positive impact from the allocation to loans supporting affordable housing through Wespath's Positive Social Purpose (PSP) Lending was more than offset by the fund's overweight allocations to global developed and emerging market bonds. The fund's exposure to non-dollar currencies detracted from relative results as the U.S. dollar strengthened against most developed and emerging market currencies. Trade rhetoric and geopolitical risks also detracted from emerging market bond performance.
- Year-to-date, the overweight to below-investment-grade corporate debt and exposure to loans supporting affordable housing through Wespath's Positive Social Purpose (PSP) Lending Program contributed positively to benchmark-relative performance. The overweight to emerging market debt detracted.

Social Values Choice Bond Fund

Fund	May	YTD
Social Values Choice Bond Fund	+0.19%	-1.99%
Barclays U.S. Universal (ex MBS) Index	+0.50%	-1.69%
Difference (percentage points)	-0.31	-0.30

- For both periods, the fund's exposure to certain emerging market currencies, particularly Argentinean and Brazilian currencies, detracted from benchmark-relative results. Exposure to Italian debt also detracted as political turmoil weighed on returns. An overweight to the intermediate part of the interest rate yield curve contributed to benchmark-relative performance during May, and exposure to inflation-linked bonds contributed to year-to-date relative results.

Extended Term Fixed Income Fund

Fund	May	YTD
Extended Term Fixed Income Fund	+0.77%	-2.85%
Barclays U.S. Government/Credit Long Term Index	+1.14%	-4.38%
Difference (percentage points)	-0.37	+1.53

- The Extended Term Fixed Income Fund's policy of maintaining a lower sensitivity to interest rate movements detracted from the fund's benchmark-relative performance for the month, but positively contributed year-to-date.

Inflation Protection Fund

Fund	May	YTD
Inflation Protection Fund	-0.44%	-0.01%
IPF Benchmark ⁱⁱⁱ	+0.15%	-0.11%
Difference (percentage points)	-0.59	+0.10

- During the month, the strategic underweight allocation to U.K. inflation-linked bonds detracted from benchmark-relative results. The relative performance of the dedicated emerging market inflation-linked bond portfolio also detracted from relative results. The underweight to developed market inflation-linked bonds in the Eurozone, particularly Italian bonds, helped relative returns as political turmoil weighed on returns.
- Year-to-date, the allocation to below-investment-grade floating rate strategies helped relative results, as did the positive relative performance of the dedicated commodities account. The emerging markets inflation-linked bond account detracted from benchmark-relative performance.

U.S. Treasury Inflation Protection Fund

Fund	May	YTD
U.S. Treasury Inflation Protection Fund	+0.39%	-0.63%
Barclays U.S. Inflation Linked Bond Index	+0.41%	-0.50%
Difference (percentage points)	-0.02	-0.13

- 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	May	YTD
Multiple Asset Fund	+0.74%	+1.39%
MAF Benchmark ^{iv}	+0.49%	+0.02%
Difference (percentage points)	+0.25	+1.37

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

For additional information, please contact:**Theresa Goldberg**

Managing Director, Institutional Investment Services

Wespath Investment Management

(847) 866-4307 direct

(847) 866-4100 general

tgoldberg@wespath.org

Bill Stewart, CIMA, CFA

Director, Institutional Relationships

Wespath Investment Management

(847) 866-2700 direct

(847) 866-4100 general

bstewart@wespath.org

Karen Manczko

Director, Institutional Relationships

Wespath Investment Management

(847) 866-4236 direct

(847) 866-4100 general

kmanczko@wespath.org

1901 Chestnut Avenue
Glenview, Illinois 60025
(847) 866-4100
wespath.org

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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.