Wespath
Investment Management

November 2014 Investment Report

Monthly Report

Markets

- U.S. equities as represented by the Russell 3000 Index increased **2.4%** during November. Non-farm employment increased 321,000 during the month, and average hourly wages increased 2% over the last 12 months, according to payroll processor ADP. The bellwether Dow Jones Industrial Average ended the month at 17,828, its all-time high.
- Large company stocks as measured by the S&P 500 gained **2.7%** during the month, while small company stocks as measured by the Russell 2000 gained only **0.1%**. Companies with high earnings growth outperformed those classified as "value" across all market capitalizations. Energy was the worst-performing sector during the month (**-9.5%**), as the price of crude oil declined sharply. Consumer discretionary and consumer staples were the best-performing sectors, gaining **5.4%** and **5.3%**, respectively.
- Developed international markets decreased 0.4% during November, as measured by the MSCI World ex-US IMI Index in U.S. dollar terms. The European Central Bank continued to implement monetary policy designed to stimulate the economy, and the euro continued to decline versus the U.S. dollar. Developing international markets decreased **0.8%** during the month, but continue to outperform developed markets year-to-date.
- The U.S. Treasury yield curve continued to flatten during November. The 10-year U.S. Treasury note yield decreased by **0.17%** to a yield of **2.17%**. The 10-year U.S. Treasury Inflation Protected Security (TIPS) real yield decreased by only **0.04%** to a real yield of **0.39%**, meaning the 10-year breakeven inflation rate decreased by **0.13%** during the month to **1.78%**.
- U.S. Treasury securities as measured by the Barclays U.S. Treasury Index increased **0.8%** in November, reflecting the decrease in Treasury yields. Investment-grade debt, as measured by the Barclays U.S. Credit Index, increased **0.7%** during the month. Below-investment-grade debt, as measured by the Barclays U.S. Corporate High-Yield Index decreased **0.7%**, reflecting an increase in the yield spread over Treasury securities resulting primarily from the degradation of value of below-investment-grade bonds of companies in the energy sector.
- The U.S. dollar strengthened for the fifth consecutive month during November, increasing **1.5%** as measured by the U.S. Dollar Index. The euro and British pound decreased **0.6%** and **2.2%**, respectively, relative to the dollar. The Japanese yen decreased **5.3%** during the month after reports showed the Japanese economy entered recession. Developing country currencies also weakened relative to the dollar. The Russian ruble decreased more than **13%** relative to the dollar, as declining oil prices further strained Russia's weak economy.
- Commodities as represented by the Bloomberg Commodity Index decreased **4.1%** during November.

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Crude oil's significant decline continued during the month as the Petroleum sub-index decreased **16.9%**. Since January, the Petroleum sub-index has decreased **30.5%**.

Economics Highlights

- The U.S. Commerce Department released its first revision to the third-quarter Gross Domestic Product estimates, indicating a **3.9%** annualized rate of growth versus the **3.5%** previously reported. The stronger-than-expected growth figures were due to higher consumer and business spending compared with second quarter activity.
- Japanese Prime Minister Shinzo Abe dissolved the lower house of parliament on November 21, calling for new elections in December. In addition, he announced a delay in the second consumer sales tax increase by 18 months. This announcement came shortly after economic reports showed the Japanese economy contracted by an annualized **1.6%** in the third quarter, following a **7.3%** contraction in the second quarter. Moody's Investors Service downgraded Japan's credit rating one level on December 1 to A1 from Aa3.
- Retail sales over the Thanksgiving holiday (Thursday through Sunday) were **11%** lower than last year. Nonetheless, the National Retail Federation is predicting sales to be the strongest in three years as consumers continue to benefit from lower unemployment and lower gas prices.
- Oil prices continue to fall and are at five-year lows. The OPEC nations met and opted to maintain existing production targets. Brent crude fell nearly **8%** following this announcement. Many interpret the OPEC decision in part as a maneuver to slow the booming production in the U.S. (which became the world's leading oil producer this summer). Some of the poorer OPEC nations expressed concern, as oil accounts for more than half of their governments' budgets.

Geopolitical Headlines

- The U.S. and China announced a climate change agreement that would limit carbon emissions. Under this historic agreement, the U.S. would cut its carbon emissions 26% to 28% by 2025 compared with 2005 levels. China, the world's largest emitter of greenhouse gases, pledged to cap emissions by 2030 and to increase the use of non-fossil fuels to 20% by 2030.
- The Republican Party in the U.S. had a strong showing in the November 4 mid-term elections, retaining control of the U.S. House of Representatives, winning several important governorships, and wresting control of the U.S. Senate from the Democratic Party. The financial markets viewed these election results as a positive signal, as a Republican-controlled Congress may be able to drive business-friendly legislation, such as corporate tax reform. The Republican Party will have a majority control of the U.S. Senate beginning in January 2015 for the first time in eight years.
- Six leading countries—the U.S., China, Russia, Britain, France and Germany (P5+1)—have been negotiating intensively over the past year with Iran to dismantle parts of its nuclear infrastructure. The agreement is aimed at easing fears that Tehran will develop nuclear weapons under the guise of its civilian power-generation activities. The group has declared a seven-month extension of the interim agreement, which expired on November 24, in order to overcome political obstacles.

Sources: Bloomberg News, The Economist, The Wall Street Journal, CNBC, CNN, Associated Press, Reuters, Bridgewater Associates, FactSet, Barclays, Wikipedia and NASDAQ

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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 • Durable Goods Orders, Oct: 0.3% (Sep: -0.7%); M/M-SA • Real Gross Domestic Product, Q3: 3.9% (Q2: 4.6%); Q/Q-SAAR • Retail Sales ex-auto, Oct: 0.3% (Sep: -0.2%); M/M-SA • Retail Sales, Oct: 0.3% (Sep: -0.3%); M/M-SA • Non-farm Payrolls, Nov: 321,000 • Unemployment Rate, Nov: 5.8% (Oct: 5.8%)
	Neutral Statistics • Consumer Price Index core, Oct: 0.2% (Sep: 0.1%); M/M-SA • Consumer Price Index, Oct: 0.0% (Sep: 0.1%); M/M-SA • Institute for Supply Management Index, Nov: 58.7 (Oct: 59.0) • New Home Sales, Oct: 0.7% (Sep: 0.4%); M/M-SAAR • Producer Price Index core, Oct: 0.4% (Sep: 0.0%); M/M-SA • Producer Price Index, Oct: 0.2% (Sep: -0.1%); M/M-SA • Factory Orders, Oct: -0.7% (Sep: -0.5%); M/M-SA
	Negative Statistics • Consumer Confidence, Nov: 88.7 (Oct: 94.1) • Existing Home Sales, Oct: 1.5% (Sep: 2.6%); M/M-SAAR • Housing Starts, Oct: -2.8% (Sep: 7.8%); M/M-SAAR • S&P/Case-Shiller 20-City Home Price Index, Sep: 4.9% (Aug: 5.6%); 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	November	YTD
Inflation Protection Fund	+0.11%	+4.36%
Barclay's Capital U.S. Government Inflation-Linked Bond Index	+0.30%	+5.51%
Difference	-0.19%	-1.15%

- The Inflation Protection Fund (IPF) gained **0.11%** in November, but underperformed the fund's benchmark return by **0.19%**. The primary contributor to the fund's underperformance was its 9% allocation to commodities futures contracts, which lost **4.6%** for the month as world oil prices once more continued to decline. In addition, the fund's 10% allocation to inflation-linked bonds from developing countries declined **1.3%**, primarily due to currency weakness in countries that are dependent on natural resources, which were adversely affected by the drop in energy prices. The fund's diversifying allocation to inflation-linked debt from developed countries gained **1.8%**, however, and partially offset the negative contribution of these other diversifying strategies. Real interest rates in developed countries benefitted from continued perception of weak economic growth among the developed nations (other than the United States).
- For the year-to-date, the Inflation Protection Fund has gained **4.36%** and has underperformed the fund benchmark by **1.15%**. The fund's diversifying strategy of commodities futures contracts has declined **8.1%** due to the significant decline in the price of oil. In addition, the fund's other diversifying strategies of inflation-linked debt from developing countries and senior-secured floating rate bonds gained **2.5%** and **3.4%** respectively. The Inflation Protection Fund's allocation to inflation-linked bonds from developed countries positively contributed to the fund's benchmark-relative performance and has advanced **9.5%** year-to-date.

Fixed Income Fund

Fund	November	YTD
Fixed Income Fund	+0.35%	+5.16%
Barclays U.S. Universal (ex MBS) Index	+0.49%	+5.69%
Difference	-0.14%	-0.53%

- The Fixed Income Fund advanced **0.35%** in November and underperformed its benchmark return by **0.14%**. The fund's diversifying strategies of higher-risk bonds with a below-investment-grade credit rating declined **0.7%**, while bonds from developing countries declined **0.2%**—both strategies were adversely affected by the decline in energy prices. These declines reflect investors' concern about the impact of lower energy prices on the economic prospects for resource-dependent economies and the viability of several energy companies if oil prices remain lower for an extended period. On a more positive note, the Fixed Income Fund's 8% allocation to positive social purpose loans gained **1.2%** and positively contributed to the fund's benchmark-relative performance.

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- For the year-to-date, the Fixed Income Fund has gained **5.16%**, but has underperformed its benchmark return by **0.53%**. The fund's best-performing strategy is its allocation to positive social purpose loans, which has gained **8.8%**. In addition, the fund's core manager, PIMCO, has outperformed its benchmark by about **1.0%**. The positive contributions from these strategies, however, were more than offset by the fund's allocations to developed country bonds denominated in non-U.S. currencies and the fund's allocation to below-investment-grade bonds, which have gained **3.3%** and **3.4%** respectively. The developed country bonds have been adversely affected by strength of the U.S. dollar relative to foreign currencies, while the below-investment-grade bond allocation has been adversely affected by decline in energy company bonds.

U.S. Equity Fund

Fund	November	YTD
U.S. Equity Fund	+1.67%	+10.46%
Russell 3000 Index	+2.42%	+12.56%
Difference	-0.75%	-2.10%

- The U.S. Equity Fund gained **1.67%** in November but underperformed the fund's Russell 3000 Index benchmark by **0.75%**. The fund was adversely affected by its higher-than-benchmark weight to small- and mid-sized companies, as the Russell 2000 Index gained only **0.1%** and the S&P 400 Midcap Index gained **1.8%** compared to the **2.7%** gain of the large company S&P 500 Index. In addition, two of the fund's managers significantly underperformed their respective benchmarks. One of the fund's managers has a meaningful allocation to energy companies that have been adversely affected by the drop in oil prices, whereas the fund's other manager holds a number of stocks in the consumer discretionary and technology sectors that performed poorly during the month.
- For the year-to-date, the U.S. Equity Fund has gained **10.46%** but has underperformed its benchmark return by **2.10%**. The fund's greater-than-benchmark allocation to the stocks of small companies detracted from performance, as the Russell 2000 Index has gained only **2.0%** and the S&P 400 Midcap Index has returned **8.9%** for the year-to-date, compared with **14.0%** gain for the large-cap S&P 500 Index. The U.S. Equity Fund's allocation to publicly traded real estate investment trusts (REITs) has gained **30.7%** and positively contributed to the fund's benchmark-relative performance.

International Equity Fund

Fund	November	YTD
International Equity Fund	+0.38%	-2.73%
MSCI ACWI x US Investable Market Index	+0.58%	-0.60%
Difference	-0.20%	-2.13%

- The International Equity Fund gained **0.38%** in November and underperformed its benchmark return by **0.20%**. However, most of the fund's below-benchmark performance is attributable to the accelerated recognition of an increase to the fund's net asset value that occurred on the last day of October due to very strong returns in the U.S. stock market on that day, and the positive contribution from this adjustment reversed in November as expected (see Investment Funds Review in ***October 2014 Investment Report***). The fund's daily valuation policy is further described **here**. All three of the International Equity Fund's developing market managers outperformed their benchmark and positively contributed to performance.

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- For the year-to-date, the International Equity Fund has declined **2.73%** and has underperformed its benchmark return by **2.13%**. Approximately one-third of the fund's underperformance is attributable to its separate allocation to small-company stocks, which has lost **9.1%** for the year-to-date. In addition, three of the fund's active managers have meaningfully underperformed their respective benchmarks due to a number of factors, including exposure to poor-performing stocks in the energy and financial sectors and a preference for smaller companies.

Multiple Asset Fund

Fund	November	YTD
Multiple Asset Fund	+0.88%	+5.19%
Composite Benchmark	+1.27%	+6.82%
Difference	-0.39%	-1.63%

- For November, the Multiple Asset Fund gained **0.88%** but underperformed its fund benchmark by **0.39%**. All four of the fund's underlying strategies underperformed their respective benchmarks this month. However, about one-third of the below-benchmark performance is attributable to the accelerated recognition of the net asset value adjustment for the fund's International Equity Fund holdings that resulted from the strong performance of the U.S. stock market on the last day of October (described above).
- For the year-to-date, the Multiple Asset Fund has gained **5.19%**, but has underperformed its benchmark return by **1.63%**. All four of the Multiple Asset Fund's underlying strategies have underperformed their respective benchmarks, primarily due to their collective exposure to securities denominated in foreign currencies as well as the higher-than-benchmark allocations to small company stocks in the two equity funds.

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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.