Wespath
Investment Management

October 2015 Investment Report

Monthly Report

Markets

- U.S. equities, represented by the Russell 3000 Index, increased **7.9%** in October due to a number of strong earnings reports and the expectation that the Federal Reserve (Fed) will continue to hold interest rates near zero. The rebound in October meant that equity returns for the year-to-date period increased to a positive **2%**.
- Continuing the trend from last quarter, large company stocks rose **8.1%**, outperforming small company stocks, which were up only **5.6%** due to a continued flight to the stability of more established businesses. Materials & Processing was the best performing Russell 3000 sector, up **12.2%**, while Utilities was the worst performing Russell 3000 sector, returning **4%**.
- Non-US stocks increased **7.3%**, as measured by the MSCI ACWI World ex USA Investable Market Index. Markets were reassured by China announcing a cut in interest rates and the lowering of its reserve rate for banks, as well as by the prospect of new stimulus measures in Europe. Developing market stocks increased **7.1%**, slightly below developed international markets, as measured by the MSCI EAFE Index, which increased **7.8%** in U.S. dollar terms.
- The U.S. Treasury yield curve rose during October. The 2-year and 10-year Treasury note yields both increased **0.1%** to **0.73%** and **2.14%**, respectively. The federal funds rate remained unchanged, as expected. However, the Fed removed references to concerns about a global economic slowdown in a policy statement made at their October policy meeting.
- U.S. Treasury securities, as measured by the Barclays U.S. Treasury Index, decreased **0.4%** in October. Investment-grade debt, as measured by the Barclays U.S. Credit Index, increased **0.5%**. Below-investment-grade debt, as measured by the Barclays U.S. Corporate High-Yield Index, increased **2.8%** and outperformed investment-grade debt during the month. The strengthening of investor confidence in the global economy positively affected below-investment-grade debt and October's returns largely offset the prior month's underperformance.
- The U.S. dollar strengthened **0.7%** in October, as measured by the U.S. Dollar Index. The euro decreased **1.5%** but the British pound increased **2%** relative to the dollar. The currency fluctuations reflected anticipated monetary policy divergence, with U.S. and U.K. central banks moving toward raising interest rates and the European Central Bank hinting at further monetary stimulus. Developing country currencies increased relative to the dollar, and the Brazilian real and Mexican peso increased **2.4%** and **2.7%**, respectively.
- Commodities, as represented by the Bloomberg Commodity Index, decreased **0.5%** in October. Lean hogs decreased **11.3%** amid reports of adequate supplies and lower demand. Sugar increased **12.7%** due to the warm and wet El Niño weather forecast and its potential to hinder harvesting. The El Niño forecast for a warm winter also impacted natural gas prices, which decreased **13.5%**.

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Economics Highlights

- The U.S. economy added 271,000 jobs in October, significantly higher than economist projections of 185,000. The unemployment rate dropped from **5.1%** in September to **5%** in October, the lowest it has been since April 2008. The labor force participation rate of **62.4%** remained unchanged from the previous month.
- The Fed continued to hold interest rates steady in October but indicated that an increase to short-term rates in December was possible if the economy continued to show sufficient strength to tolerate a rate increase.
- According to an advance estimate released by the Bureau of Economic Analysis, U.S. gross domestic product (GDP) increased at an annual rate of **1.5%** in the third quarter of 2015, slightly below the **1.6%** forecasted by economists. A second estimate of third quarter GDP is expected on November 24.

Geopolitical Headlines

- Members of the European Union met in Brussels for the purpose of drafting an action plan to address the influx of refugees into Europe who are desperately trying to escape conflicts in the Middle East.
- The United States and its allies in Europe and the Middle East continued efforts to resolve the crisis in Syria. Western allies demanded that Syria's president, Bashar al-Assad, step down from his position prior to continuing peace talks. Although it has supported the Syrian government through numerous airstrikes on Islamic State targets, Russia's position on Assad remaining in power appears neutral.
- Six nations, including Argentina and Poland, held elections in October. Argentina's president, Cristina Fernandez de Kirchner, was constitutionally barred from re-election to a third consecutive term, leaving the position open to a run-off between Buenos Aires mayor, Mauricio Macri, and former Argentinian vice president, Daniel Scioli. Poland's right-wing party, Law and Justice, defeated Civic Platform which has led the country for the past eight years.
- Tensions arose in the South China Sea after a U.S. guided-missile destroyer sailed within 12-nautical miles of Subi Reef. In response, China sent a patrol ship to shadow the USS Lassen and warned the ship about entering Chinese territorial limits for its artificial islands. Navy chiefs representing both countries were expected to meet in November to discuss the situation and reduce tension.
- On October 31, a Russian passenger jet broke apart in mid-air and crashed in Egypt's Sinai Peninsula, killing all 224 people on board. Investigations are on-going to find a cause and determine if this was an act of terrorism.

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

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Key Monthly Economic Statistics

This table contains a list of key monthly economic statistics.

	Positive Statistics • Existing Home Sales, Sep: 4.7% (Aug: -5.0%); M/M-SAAR • Housing Starts, Sep: 6.5% (Aug: -1.7%); M/M-SAAR • S&P/Case-Shiller 20-City Home Price Index, Aug: 5.1% (Jul: 4.9%); Y/Y • Nonfarm Payrolls, Oct: 271,000 • Unemployment Rate, Oct: 5% (Sep: 5.1%)
	Neutral Statistics • Consumer Price Index core, Sep: 0.2% (Aug: 0.1%); M/M-SA • Consumer Price Index, Sep: -0.2% (Aug: -0.1%); M/M-SA • Institute for Supply Management Index, Oct: 50.1 (Sep: 50.2) • Producer Price Index core, Sep: -0.3% (Aug: 0.3%); M/M-SA • Producer Price Index, Sep: -0.5% (Aug: 0%); M/M-SA • Retail Sales, Sep: 0.1% (Aug: 0%); M/M-SA • Retail Sales ex-auto, Sep: -0.3% (Aug: -0.1%); M/M-SA
	Negative Statistics • Consumer Confidence, Oct: 97.6 (Sep: 102.6) • Durable Goods Orders, Sep: -1.2% (Aug: -2.9%); M/M-SA • Factory Orders, Sep: -1.0% (Aug: -2.1%); M/M-SA • New Home Sales, Sep: -11.5% (Aug: 5.2%); M/M-SAAR • Real Gross Domestic Product, Q3: 1.5% (Q2: 3.9%); 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***

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Investment Fund Review: (Net of Fees Performance)

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 years, five years, 10 years and since inception periods, please visit our Historical Funds Performance page.

Inflation Protection Fund

Fund	October	YTD
Inflation Protection Fund	+0.52%	-2.91%
Barclays Capital U.S. Government Inflation Linked Bond Index	+0.31%	-0.79%
Difference	+0.21%	-2.12%

- The Inflation Protection Fund (IPF) gained **0.52%** in October and outperformed the fund's benchmark return by **0.21%**. Interest rates for U.S. Treasury Inflation Protected Securities declined in October as many economists expressed their doubts that the Fed would take action to raise its short-term lending rate in December. October was a strong month for higher risk assets resulting from a combination of factors, in addition to market expectations concerning Fed action in December. Notable was a recovery in the Chinese stock market, which positively affected the outlook for other developing country financial assets. The fund benefitted from its exposure to developing country inflation-linked bonds, which gained **3.2%** for the month.
- For the year-to-date, the Inflation Protection Fund declined **2.91%** and it underperformed the fund benchmark by **2.12%**. The fund's diversifying strategies of inflation-linked bonds from developing countries and commodities are responsible for the fund's underperformance. Despite the October boost, developing country inflation-linked bonds declined **13.4%** in the year-to-date period, while commodities declined **15.7%**. Both strategies have suffered due to investor perceptions of stagnant future world economic growth, especially in the developing world, particularly China. The fund's two floating rate strategies of senior secured loans and asset-backed securities gained **4%** and **3.8%** respectively, and positively contributed to benchmark-relative results. The fund's allocation to currency-hedged developed country inflation-linked bonds also positively contributed to benchmark-relative performance, gaining **0.8%**.

Fixed Income Fund

Fund	October	YTD
Fixed Income Fund	+1.15%	-0.26%
Barclays U.S. Universal (Ex MBS) Index	+0.40%	+1.19%
Difference	+0.75%	-1.45%

- The Fixed Income Fund (FIF) gained **1.15%** in October and significantly outperformed its benchmark return by **0.75%**. The fund benefitted from exposure to higher risk fixed income assets as they reversed September's poor performance. This was largely due to a belief that the developing country economies will not suffer as much as previously thought. The fund's 10% allocation to bonds from developing countries, its 8% allocation to below-investment grade bonds, and its 4% credit opportunities strategy gained **3.7%**, **3%**, and **1.7%** respectively, more than erasing September's

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losses. In addition, the fund's two core managers both significantly outperformed their benchmarks due to their exposure to higher risk fixed income assets.

- For the year-to-date, the Fixed Income Fund lost **0.26%** and underperformed its benchmark return by **1.45%**. The fund's allocations to bonds denominated in currencies other than the U.S. dollar declined due to dollar strength, especially compared to the currencies of developing countries. The fund's allocation to bonds from developed countries lost **2.4%** and the fund's allocation to bonds from developing countries lost **5.3%**. The fund's allocation to positive social purpose loans gained **5.2%** and positively contributed to benchmark-relative performance.

Extended Term Fixed Income Fund

Fund	October	YTD
Extended Term Fixed Income Fund	+0.86%	-0.67%
Barclays U.S. Government/Credit Long Term Index	+0.41%	-1.17%
Difference	+0.45%	+0.50%

- The Extended Term Fixed Income Fund gained **0.86%** in October and outperformed its benchmark return by **0.45%**. The fund benefitted from its exposure to higher risk credit fixed income investments, which gained due to reduced levels of investor concern regarding future world economic growth. In addition, the fund benefitted from its intentional strategy of holding bonds with shorter-term maturities than the fund benchmark until interest rates return to more historically normal levels. Interest rates for longer-term bonds increased as investors collectively expressed less pessimism regarding future economic growth.
- For the five months since the implementation of the fund, it declined **0.67%** and outperformed the fund benchmark by **0.5%**. The fund has benefited from our intentional strategy of holding bonds with shorter-term maturities until interest rates have returned to historically normal levels.

U.S. Equity Fund

Fund	October	YTD
U.S. Equity Fund	+6.97%	+1.67%
Russell 3000	+7.90%	+2.02%
Difference	-0.93%	-0.35%

- The U.S. Equity Fund (USEF) gained **6.97%** in October, which nearly completely reversed the fund's negative performance in the third quarter. However, the fund significantly underperformed the Russell 3000 Index benchmark by **0.93%**. The fund's greater than benchmark allocation to small and mid-sized companies detracted from performance as the Russell 2000 Index of small companies and the S&P 400 Midcap Index both gained **5.6%** compared to the **8.4%** gain of the large company S&P 500 Index. In addition, the fund's 10% allocation to the alternative investment strategies of private equity and private real estate detracted from benchmark-relative performance, as the strategies collectively recognized a modest gain compared to the strong performance of the U.S. stock market.
- For the year-to-date, the fund gained **1.67%** and underperformed its benchmark return by **0.35%**. The fund benefitted from its diversifying allocations to private equity and private real estate, which recognized gains of **7.1%** and **11.8%** respectively. The fund's larger than benchmark allocations to

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small and mid-sized companies detracted from benchmark-relative performance as the Russell 2000 Index of small companies declined **2.5%** and the S&P 400 Midcap Index gained **0.7%** compared to the **2.7%** gain of the large company S&P 500 Index.

International Equity Fund

Fund	October	YTD
International Equity Fund	+6.34%	-2.44%
MSCI ACWI ex-US Investable Market Index	+7.24%	-1.17%
Difference	-0.90%	-1.27%

- The International Equity Fund (IEF) gained **6.34%** in October, but significantly underperformed its benchmark return by **0.9%**. However, two-thirds of the below benchmark performance is attributable to the application of the fund's daily valuation policy, which resulted in a negative adjustment in the fund's net asset value. The international daily valuation policy is described **here**. In addition, the fund's modest exposure to the alternative investment strategies of private equity and private real estate recognized modest losses, which detracted from benchmark-relative performance.
- For the year-to-date, the fund declined **2.44%** and underperformed the fund benchmark by **1.27%**. The fund's higher than benchmark allocation to developing country stocks had the largest impact on the fund's below-benchmark relative performance as the MSCI Emerging Markets IMI Index declined **8.8%**. The fund's greater than benchmark allocation to small company stocks and international REITS positively contributed to performance gaining **7%** and **5.8%** respectively. The impact of the international daily valuation policy also had a slight positive influence on results.

Multiple Asset Fund

Fund	October	YTD
Multiple Asset Fund	+4.60%	-0.30%
Composite Benchmark	+5.10%	+0.95%
Difference	-0.50%	-1.25%

- For October, the Multiple Asset Fund (MAF) gained **4.6%**, but underperformed its fund benchmark by **0.5%**. The fund's two equity strategies detracted from benchmark-relative performance and the fund's two fixed income strategies positively impacted benchmark-relative results.
- For the year-to-date, the Multiple Asset Fund returned **-0.3%** and underperformed its benchmark return by **1.25%**. All four of the fund's underlying strategies underperformed their respective benchmark.

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Equity Social Values Plus Fund

Fund	October	YTD
Equity Social Values Plus Fund	+7.55%	+0.82%
MSCI World Custom ESG Special Weighted Index	+7.90%	+1.63%
Difference	-0.35%	-0.81%

- The Equity Social Values Plus Fund is a passively managed fund designed to closely match the fund benchmark, less fees and expenses.

U.S. Equity Index Fund

Fund	October	YTD
U.S. Equity Index Fund	+7.77%	+1.40%
Russell 3000 Index	+7.90%	+2.02%
Difference	-0.13%	-0.62%

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

For additional information, please contact:

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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

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