

October 2018 Investment Report

Highlights

- Large equity declines marked October markets as U.S. stocks posted the worst month in seven years. Concerns over a slowdown in global growth, higher U.S. interest rates and the U.S./China trade dispute impacted global markets. The drop largely erased year-to-date gains.
- Corporate earnings remained strong as 80% of companies that have so far released third quarter earnings reported positive earnings surprises. However, several bellwether firms indicated tariffs, wage pressures and slowing global growth momentum could negatively affect future earnings.
- Strong U.S. economic momentum continued with consumer confidence at an 18-year high, unemployment at a 49-year low and small business optimism at a 45-year high.
- In October, the International Equity Fund outperformed its benchmark, while the U.S. Equity Fund, Fixed Income Fund, Inflation Protection Fund and Multiple Asset Fund underperformed.

Monthly Overview

Strong US economic momentum

The U.S. economy grew at a strong 3.5% rate in the third quarter, according to an advanced estimate of U.S. gross domestic product (GDP) from the Bureau of Economic Analysis, down, however, from the second quarter rate of 4.2%. The 250,000 jobs created in October exceeded expectations and raised the labor participation rate to 62.9%. The unemployment rate was unchanged at 3.7% and remained significantly below the Federal Reserve's (Fed) estimate of 4.6% full employment. While the low unemployment rate suggests higher wage pressures, wage growth remained muted with average hourly earnings up only 3.1% over the past year.

Slowing growth momentum elsewhere

China reported third quarter GDP growth of 6.5%, a decrease from the 6.7% reported the previous quarter and the lowest rate of growth since the 2008 financial crisis. The slowdown was due, in part, to policy makers reigning in credit growth and from U.S. tariffs on Chinese exports enacted over the year. Recent data shows European growth activity also moderating. West Texas Intermediate crude oil, a benchmark for oil pricing, fell 11% to \$65 per barrel, posting its worst monthly decline in two years.

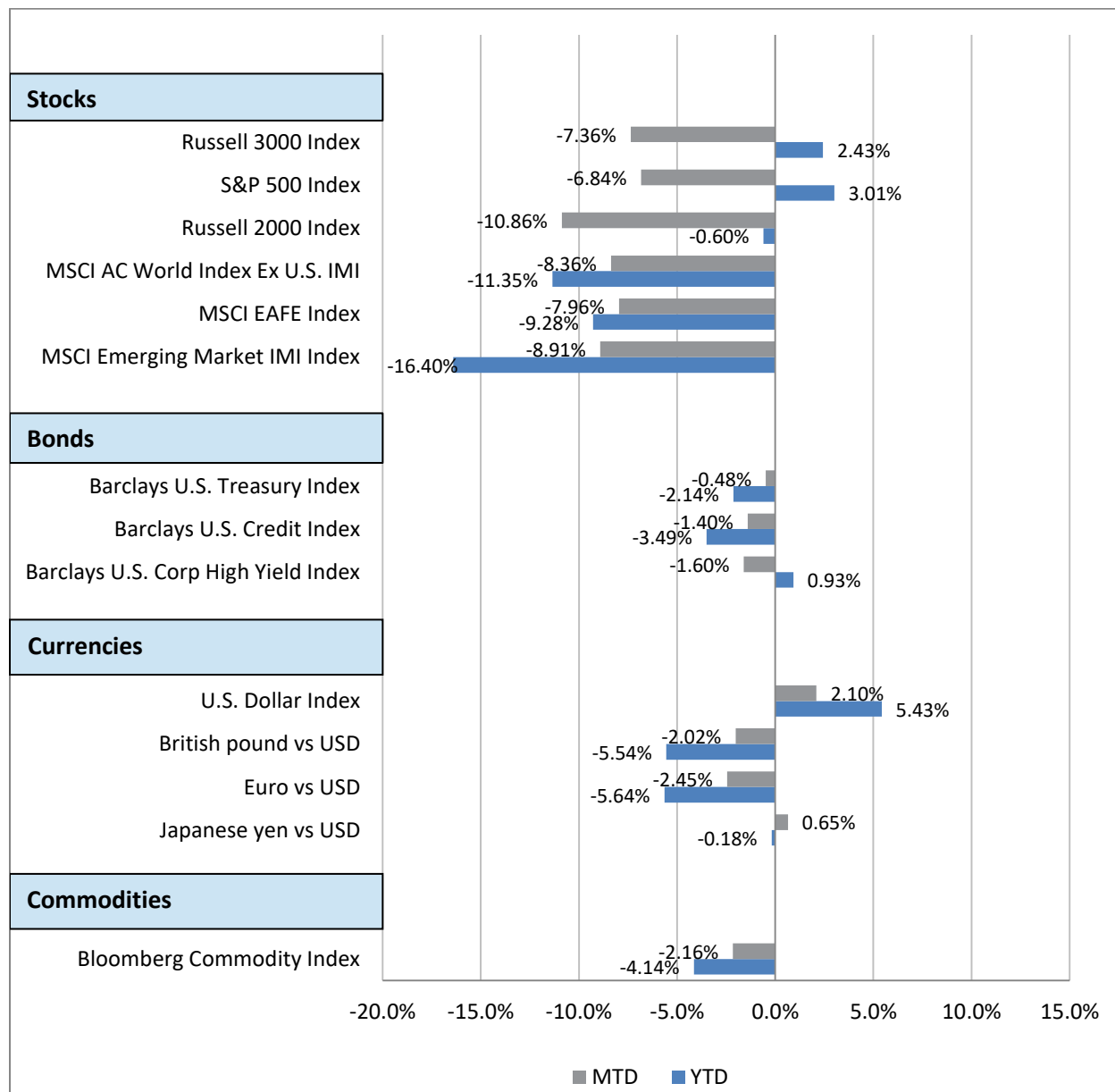
Fed Chairman Jerome Powell indicates more rate hikes

The 10-year Treasury note yield rose by nearly 15 basis points over the first few days of the month to 3.23%, which represented a 40 basis point rise since August and the highest rate in seven years. Mr. Powell's statement that "we're a long way from neutral at this point" appeared to spur recent interest rate moves. Inflation expectations remained stable near the Fed's 2% target.

Brazilian elections

Brazilian stocks rose by 18% in U.S. dollar terms following the election of far-right presidential candidate Jair Bolsonaro on October 7. Despite Mr. Bolsonaro's authoritarian style, markets were encouraged by his economic agenda of lower taxes, pension reform and privatization.

Market Performance



Source: FactSet, as of October 31, 2018

Key Monthly Economic Statistics

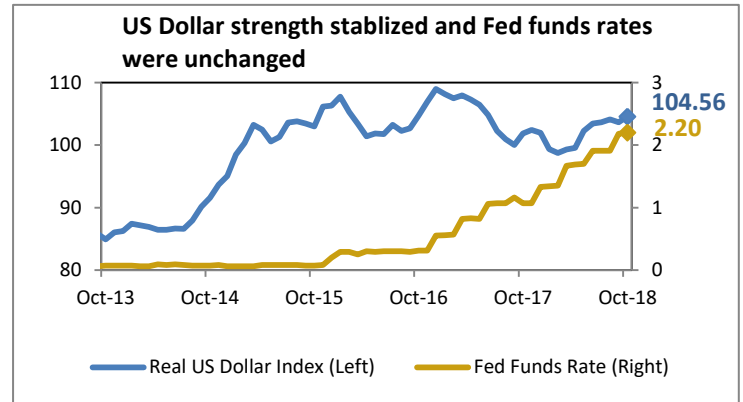
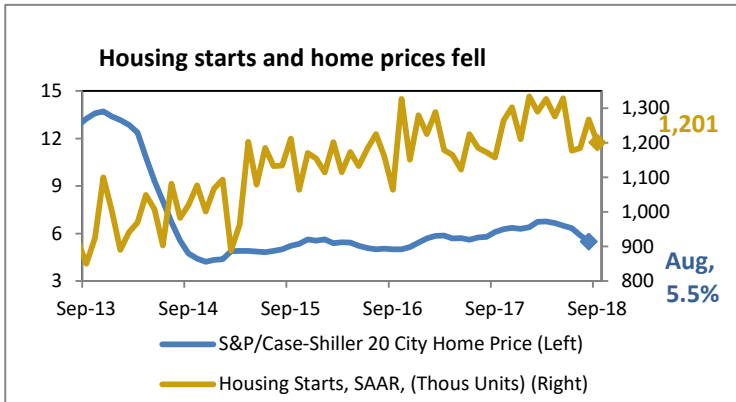
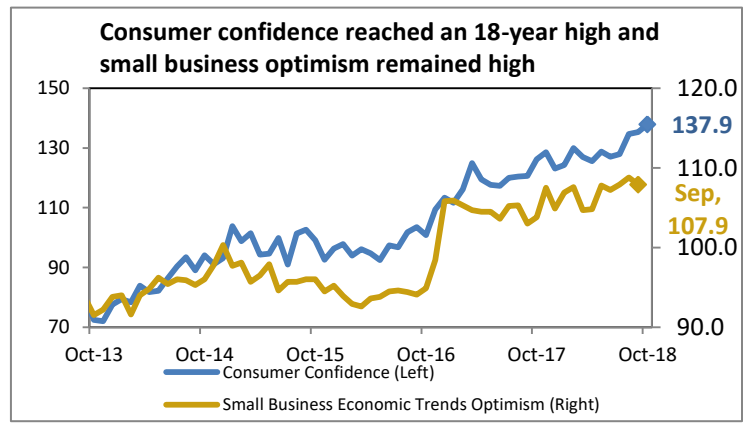
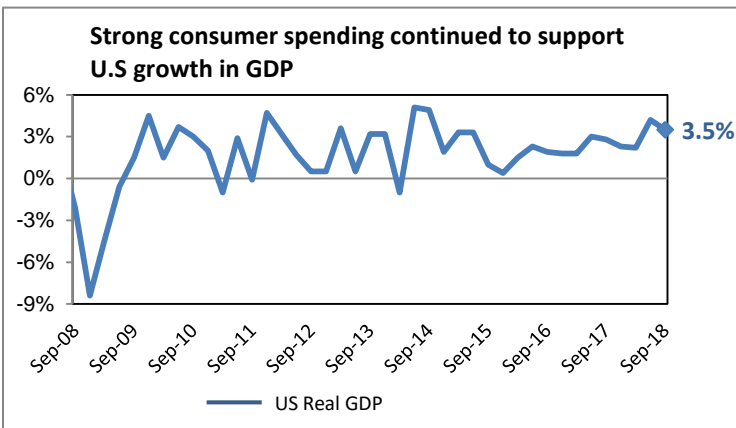
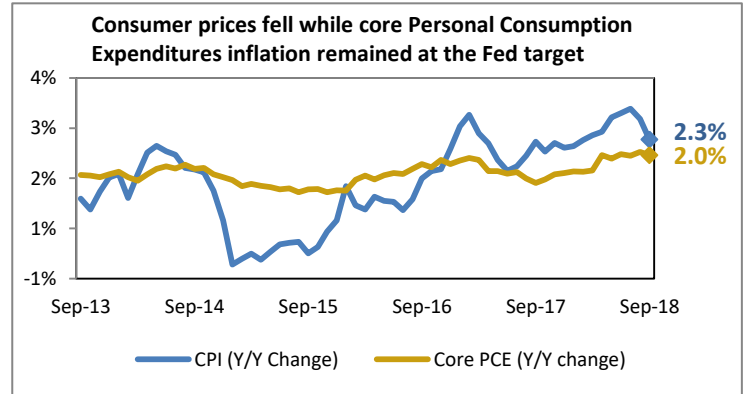
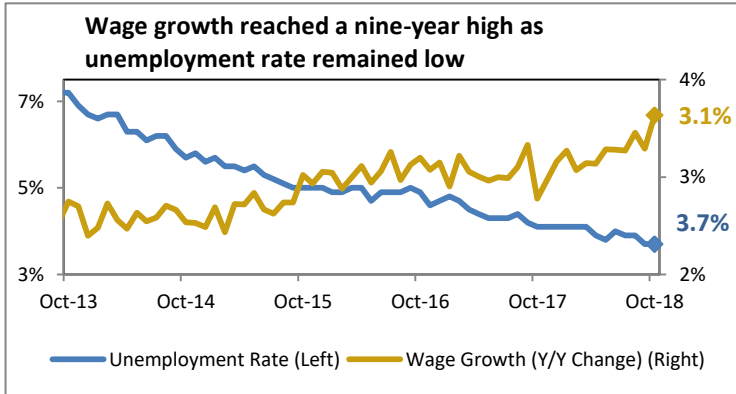
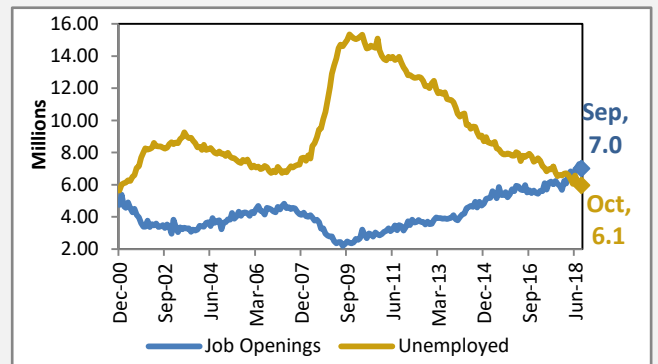


Chart of Month – Jobs Market

- Employers added 250,000 jobs to payrolls in October.
- There are now one million more jobs than there are people looking for them.
- The number of job openings first exceeded the number of unemployed in April and continues to grow.
- While this supports wage inflation, muted wage growth to date may suggest a jobs/skills mismatch.



Investment Fund Review (Net-of-Fees Performance)ⁱ

Equity Funds

U.S. Equity Fund

Fund	October	YTD
U.S. Equity Fund	-8.63%	+2.25%
Russell 3000 Index	-7.36%	+2.43%
Difference (percentage points)	-1.27	-0.18

- For the month, the fund's strategic overweight to small- and mid-sized company stocks, and corresponding underweight of large-company stocks, contributed negatively to benchmark-relative performance. In addition, two growth-oriented investment managers negatively affected relative performance due to a number of underperforming investments in health care and technology companies. The fund's dedicated allocation to private equity and private real estate positively contributed to performance.
- Year-to-date, the fund's strategic overweight to small- and mid-sized companies and underweight to large-company stock were the primary detractors to performance. The fund benefited from investments in private equity and private real estate, and from excluding underperforming tobacco companies and gambling stocks as dictated by Wespath's [Ethical Exclusion](#) policy.

International Equity Fund

Fund	October	YTD
International Equity Fund	-8.31%	-10.75%
MSCI ACWI ex U.S. Investable Market Index (Net)	-8.36%	-11.35%
Difference (percentage points)	+0.05	+0.60

- For the month, the fund performed in line with the benchmark. The strategic underweight to developed market equities, and corresponding overweight to emerging market equities, slightly detracted from benchmark-relative returns. The fund's dedicated allocation to alternatives positively impacted performance.
- Year-to-date, the fund benefited the most from investments in private equity and private real estate. Strong performance by an emerging markets manager with a sizable overweight to the top performing Brazilian market was another significant contributor to performance. The fund's strategic underweight to developed market equities, and corresponding overweight to emerging market equities, detracted from benchmark-relative returns.

Social Values Choice Equity Fund

Fund	October	YTD
Social Values Choice Equity Fund	-7.30%	-3.03%
SVCEF Benchmark ⁱⁱ	-7.30%	-2.98%
Difference (percentage points)	+0.00	-0.05

- The Social Values Choice Equity Fund is a passively managed fund designed to closely match the fund benchmark, less fees and expenses. The fair market valuation policy (described [here](#)) negatively impacted performance for the month, but positively contributed to performance year-to-date.

U.S. Equity Index Fund

Fund	October	YTD
U.S. Equity Index Fund	-7.46%	+2.44%
Russell 3000 Index	-7.36%	+2.43%
Difference (percentage points)	-0.10	+0.01

- 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](#)) negatively impacted benchmark-relative performance for the month, but positively contributed year-to-date.

Fixed Income Funds

Fixed Income Fund

Fund	October	YTD
Fixed Income Fund	-0.94%	-2.42%
Barclays U.S. Universal (ex MBS) Index	-0.90%	-2.39%
Difference (percentage points)	-0.04	-0.03

- For the month, the fund modestly underperformed the fund benchmark. The relative gains from the out-of-benchmark allocations to loans issued through Wespath's Positive Social Purpose (PSP) Lending Program and to U.S. Agency CMBS did not offset negative relative results from investments in non-U.S. dollar bonds of emerging economies and the overweight allocation to below-investment-grade corporate bonds.
- Year-to-date, the overweight to below-investment-grade corporate bonds, allocations to loans issued by the PSP Lending Program and investments in U.S. Agency CMBS were the biggest contributors to relative performance. The allocation to non-dollar bonds, particularly those issued by emerging countries, detracted from relative performance.

Social Values Choice Bond Fund

Fund	October	YTD
Social Values Choice Bond Fund	-0.72%	-2.63%
Barclays U.S. Universal (ex MBS) Index	-0.90%	-2.39%
Difference (percentage points)	+0.18	-0.24

- For the month, the overweight to the intermediate part of the interest rate curve and an underweight allocation to emerging market debt helped benchmark-relative performance.
- Year-to-date, benchmark-relative performance benefited from positioning on the interest rate curve and an overweight allocation to corporate credit. Exposure to certain emerging market currencies detracted.

Extended Term Fixed Income Fund

Fund	October	YTD
Extended Term Fixed Income Fund	-1.90%	-5.01%
Barclays U.S. Government/Credit Long Term Index	-3.35%	-8.59%
Difference (percentage points)	+1.45	+3.58

- The Extended Term Fixed Income Fund's policy of maintaining a lower sensitivity to interest rate movements contributed to the fund's positive benchmark-relative performance for the month and year-to-date time periods.

Inflation Protection Fund

Fund	October	YTD
Inflation Protection Fund	-1.03%	-1.75%
IPF Benchmark ⁱⁱⁱ	-0.15%	-1.42%
Difference (percentage points)	-0.88	-0.33

- For the month, gains from investments in bonds denominated in Argentine pesos and Turkish lira were offset by an underweight to UK inflation linked bonds and overweight to U.S. Treasury Inflation Protected Securities (TIPS). The overweight to the energy and industrial metals sectors within the dedicated commodities account also detracted.
- Year-to-date, the allocation to below-investment-grade floating rate strategies and an overweight to the energy sector within the commodities mandate helped relative performance. However, the underweight allocation to UK inflation linked bonds and the overweight allocation to U.S. TIPS offset those gains.

U.S. Treasury Inflation Protection Fund

Fund	October	YTD
U.S. Treasury Inflation Protection Fund	-1.58%	-2.81%
Barclays U.S. Inflation Linked Bond Index	-1.56%	-2.53%
Difference (percentage points)	-0.02	-0.28

- 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	October	YTD
Multiple Asset Fund	-5.82%	-2.92%
MAF Benchmark ^{iv}	-5.32%	-3.28%
Difference (percentage points)	-0.50	+0.36

- During the month and year-to-date, the U.S. Equity Fund, Fixed Income Fund and Inflation Protected Fund all negatively contributed to the Multiple Asset Fund's benchmark-relative performance. During both periods the International Equity Funds positively contributed to performance.

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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.

ⁱⁱ The benchmark for the Social Values Choice Equity 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.