Wespath
INSTITUTIONAL INVESTMENTS

October 2019 Investment Report

Highlights

- The Federal Reserve (Fed) cut its policy rate by 25 basis points for the third time in 2019. Fed chair Jerome Powell labeled this a cautionary measure and signaled a pause on future rate reductions, barring a serious slowdown in economic activity or significant increase in inflation from the 2% target.
- Trade tensions between the U.S. and China continued to fuel uncertainty and dampen global business sentiment. The signing of a Phase I "mini" deal at the Asia-Pacific Economic Cooperation (APEC) summit in Chile was delayed following the cancellation of APEC due to civil unrest and protests against inequality.
- In October, MAF outperformed its benchmark. IEF, IPF and FIF outperformed their respective benchmarks, while USEF was the only fund that underperformed its benchmark.

Monthly Overview

Longevity of U.S. expansion

The Bureau of Economic Analysis' advanced estimate showed U.S. GDP rose by 1.9% in the third quarter, beating analyst estimates of 1.6% on the back of strong consumer confidence. This marked 124 consecutive months of economic growth—the longest economic expansion in U.S. history. The Bureau of Labor Statistics (BLS) reported that non-farm payrolls grew by 128,000 in October despite the General Motors strike, representing a record 109 straight months of job growth. This result exceeded the consensus of economists' estimates. The BLS also revised its August and September job figures higher. The unemployment rate rose to 3.6%, a 0.1% increase from the previous month, as more participants joined the labor pool. Consumer spending, government spending, home sales and employment remained strong and continued to sustain the economy. However, a survey of corporate CEO's reported weak sentiment, reflecting anemic business spending in the midst of ongoing global trade uncertainty.

Fed buys Treasuries, but it is not QE

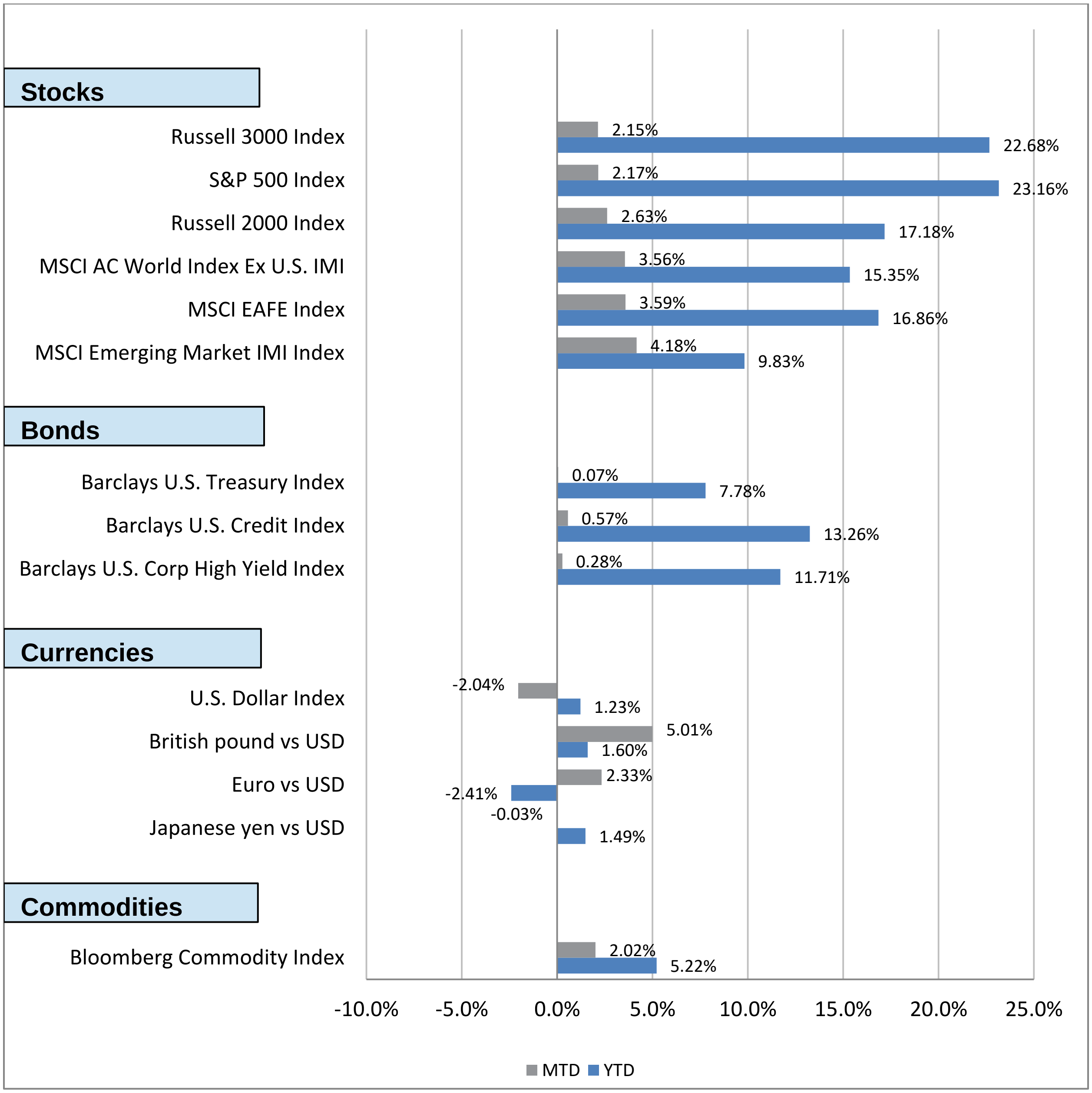
A cash shortage in September highlighted the need for additional liquidity in the financial system. In response, the Fed announced it would expand its asset holdings with regular purchases of short-term Treasury securities—about $60B per month—over the next several months, adjusting "as necessary over time." While this amount is similar to previous rounds of quantitative easing (QE) stimulus, Fed officials stressed the aim is not to affect long-term interest rates or encourage economic activity (which is the goal of QE), but to fix what a Federal Reserve president called a "plumbing issue" to ensure an adequate supply of liquidity for financial markets to function smoothly.

Brexit delayed and ECB President Draghi steps down

Just days ahead of an October 31 deadline for Brexit, the European Union granted the U.K. an extension to January 31, 2020. The U.K. will hold a general election on December 12—the outcome of which will determine the path of deal or no deal (or renegotiation or referendum). The European Central Bank (ECB) kept rates unchanged at its October meeting. As planned, former International Monetary Fund chair Christine Lagarde replaced Mario Draghi, who finished his distinguished term as ECB president on November 1.

Source: New York Times

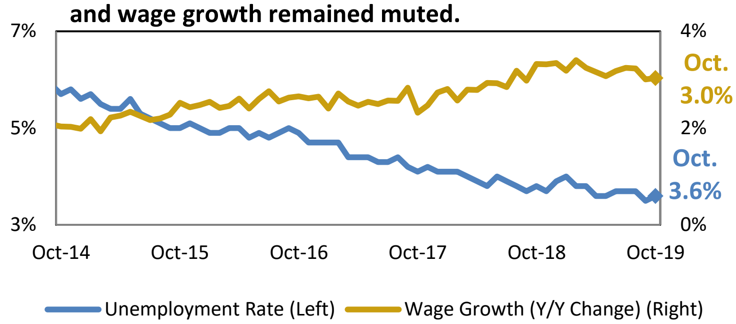
Market Performance



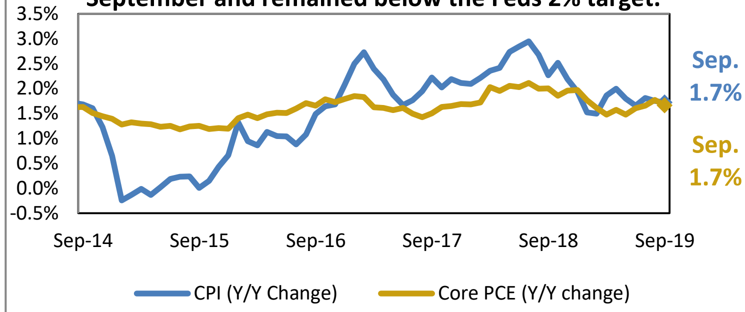
Source: FactSet, as of October 31, 2019

Key Monthly Economic Statistics

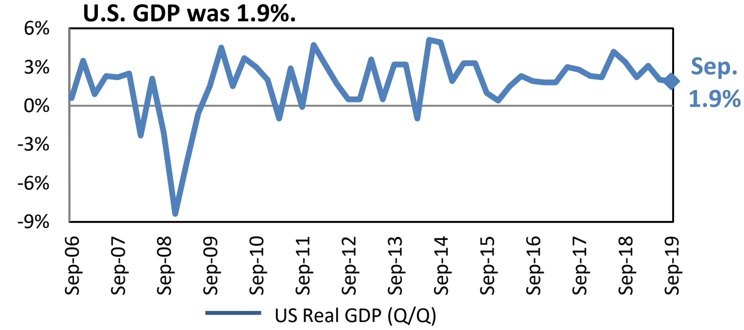
Unemployment rate ticked up slightly in October and wage growth remained muted.



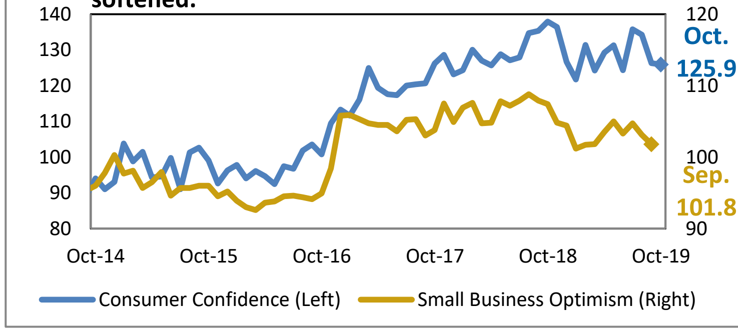
Year-over-year CPI and PCE were stable in September and remained below the Feds 2% target.



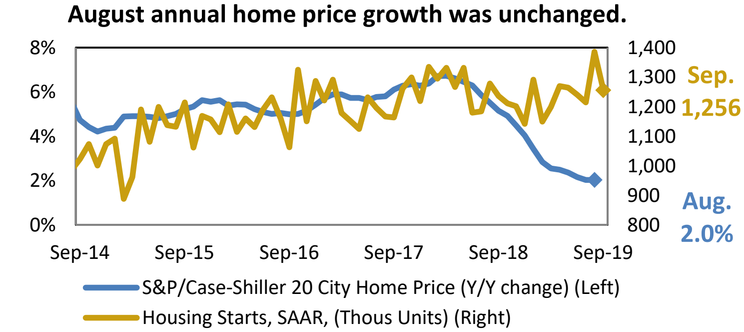
The advanced estimated of third quarter annual real U.S. GDP was 1.9%.



Consumer confidence and small business optimitism softened.



U.S. housing starts declined 9% in September, August annual home price growth was unchanged.



The Fed Funds Rate declined as a result of the October rate cut and the Trade Weighted Dollar index was unchanged.

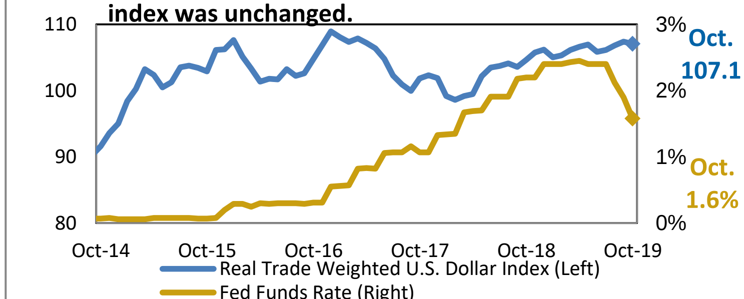
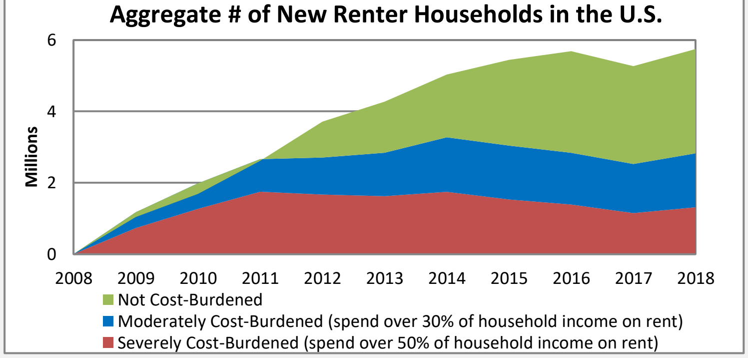


Chart of Month

- Nearly half of U.S. renter households are cost burdened despite record low unemployment and consistent but modest wage growth.
- Cost burdened households fell from 53.4% in 2011 to 49.7% in 2018, however the number of cost-burdened households increased by 28M since 2008.
- I Series funds invest in multifamily affordable housing which benefits low-income households across the U.S. through the Positive Social Purpose Lending Program.

Aggregate # of New Renter Households in the U.S.



Source: FactSet; United States Census Bureau, ACS, Apartment List.com

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

Equity Funds

U.S. Equity Fund–I Series

Fund	October	YTD
U.S. Equity Fund–I Series	+1.59%	+21.77%
Russell 3000 Index	+2.15%	+22.68%
Difference (percentage points)	-0.56	-0.91

- For the month, the fund's underweight allocation to strong performing large-cap growth-oriented company stocks, as well as investments in private equity, were the key detractors to benchmark-relative performance.
- Year to date, the fund's strategic overweight to small- and mid-sized company stocks and corresponding underweight to large-company stocks, along with investments in alternatives, detracted from benchmark-relative performance. Conversely, the fund benefited from the majority of active managers outperforming their respective benchmarks.

International Equity Fund–I Series

Fund	October	YTD
International Equity Fund–I Series	+3.70%	+17.63%
MSCI ACWI ex U.S. Investable Market Index (Net)	+3.56%	+15.35%
Difference (percentage points)	+0.14	+2.28

- For the month, the strategic overweight to emerging market equities and corresponding underweight to developed economies, along with stocks excluded in compliance with WII's Exclusions policy (described here), positively contributed to benchmark-relative returns. Alternatively, dedicated allocations to alternatives and the fund's fair market valuation policy (described here) were negative contributors to relative returns.
- Year to date, the fund most benefited from the majority of active managers outperforming their respective benchmarks. The strategic overweight to emerging market equities and corresponding underweight to developed economies, as well as investments in private equity and private real estate, detracted from relative performance.

U.S. Equity Index Fund–I Series

Fund	October	YTD
U.S. Equity Index Fund–I Series	+2.17%	+22.50%
Russell 3000 Index	+2.15%	+22.68%
Difference (percentage points)	+0.02	-0.18

- The U.S. Equity Index Fund is a passively managed fund designed to closely match the fund benchmark, less fees and expenses. WII's Exclusions policy (described here) positively impacted benchmark-relative performance during the month but slightly detracted year to date.

Fixed Income Funds

Fixed Income Fund–I Series

Fund	October	YTD
Fixed Income Fund–I Series	+0.54%	+9.91%
Barclays U.S. Universal (ex MBS) Index	+0.31%	+10.13%
Difference (percentage points)	+0.23	-0.22

- For the month, the allocation to emerging market bonds denominated in local currencies contributed positively to benchmark-relative performance as emerging market currencies appreciated relative to the dollar. Security selection decisions of the core-plus managers also helped relative results. The allocation to loans from the Positive Social Purpose Lending program detracted from benchmark-relative performance.
- Year to date, exposure to multi-family housing through high-quality U.S. agency commercial mortgage-backed securities and the Positive Social Purpose lending program detracted from benchmark-relative results. Exposure to euro-denominated bonds also detracted from benchmark-relative results as the European currency depreciated relative to the U.S. dollar. Security selection decisions of the core-plus managers helped relative results.

Inflation Protection Fund–I Series

Fund	October	YTD
Inflation Protection Fund–I Series	+0.56%	+7.99%
IPF Benchmark[ii]	-0.78%	+9.53%
Difference (percentage points)	+1.34	-1.54

- The fund's underweight exposure to U.K. inflation-linked securities and overweight to U.S. Treasury inflation-linked securities significantly contributed to benchmark-relative performance during the month but has detracted year to date.
- Year to date, the fund's allocation to floating rate senior secured bank loans detracted from benchmark-relative performance amid declining short term interest rates.

U.S. Treasury Inflation Protection Fund–I Series

Fund	October	YTD
U.S. Treasury Inflation Protection Fund–I Series	+0.24%	+7.97%
Barclays U.S. Inflation Linked Bond Index	+0.25%	+8.22%
Difference (percentage points)	-0.01	-0.25

- The U.S. Treasury Inflation Protection Fund–I Series is a passively managed fund designed to closely match the performance of the fund benchmark, less fees and expenses.

Short Term Investment Fund–I Series

Fund	October	YTD
Short Term Investment Fund–I Series	+0.20%	+2.06%
STIF-I Benchmark	+0.19%	+2.01%
Difference (percentage points)	+0.01	+0.05

- The Short Term Investment Fund–I Series holds cash and cash equivalents with the objective of preserving capital while earning current income higher than that of money market funds.

Balanced Fund

Multiple Asset Fund–I Series

Fund	October	YTD
Multiple Asset Fund–I Series	+1.83%	+15.98%
MAF Benchmark[iii]	+1.82%	+16.16%
Difference (percentage points)	+0.01	-0.18

- During the month, the U.S. Equity Fund–I Series detracted from benchmark-relative performance, while the International Equity Fund–I Series, Fixed Income Fund–I Series and Inflation Protection Fund–I Series all positively contributed to relative performance.
- Year to date, the International Equity Fund–I Series was the only fund that positively contributed to relative returns, while the U.S. Equity Fund–I Series, Fixed Income Fund–I Series and Inflation Protected Fund–I Series negatively contributed to benchmark-relative performance.

U.S. Treasury Inflation Protection Fund–I Series

Fund	October	YTD
U.S. Treasury Inflation Protection Fund–I Series	+0.24%	+7.97%
Barclays U.S. Inflation Linked Bond Index	+0.25%	+8.22%
Difference (percentage points)	-0.01	-0.25

- The U.S. Treasury Inflation Protection Fund–I Series is a passively managed fund designed to closely match the performance of the fund benchmark, less fees and expenses.

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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 – I Series, the Summary Fund Description – I Series and the Statement of Additional Information*** for more information about the funds. This is not an offer to purchase securities.

[ii] 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.

[iii] 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.