

# September 2016 Investment Report

## September Highlights

- U.S. economic news remains modestly positive, despite worries about the outcome of the November U.S. presidential election. Candidates Hillary Clinton and Donald Trump held their first debate and clashed over dramatically different visions of how they would lead the country. The U.S. Census Bureau reported median income rose an inflation-adjusted 5.2% to \$56,500 in 2015 from 2014, the biggest gain since the yearly survey of incomes began in 1967.
- The Eurozone economy grew slower during the first half of the year than had been previously estimated, hurt by poor investment spending and slower household and government expenditure.
- Wespath's equity funds outperformed their respective benchmarks. The U.S. Equity Fund benefited from exposure to strong performing small-cap companies, and the International Equity Fund gained from its holdings in European companies. The Fixed Income Fund benefited from its exposure to below-investment-grade debt and developing countries bonds. The Inflation Protection Fund received a boost from its overweight positions in U.S. Treasury Inflation-Protected Securities and a diverse basket of commodities.

## Monthly Overview

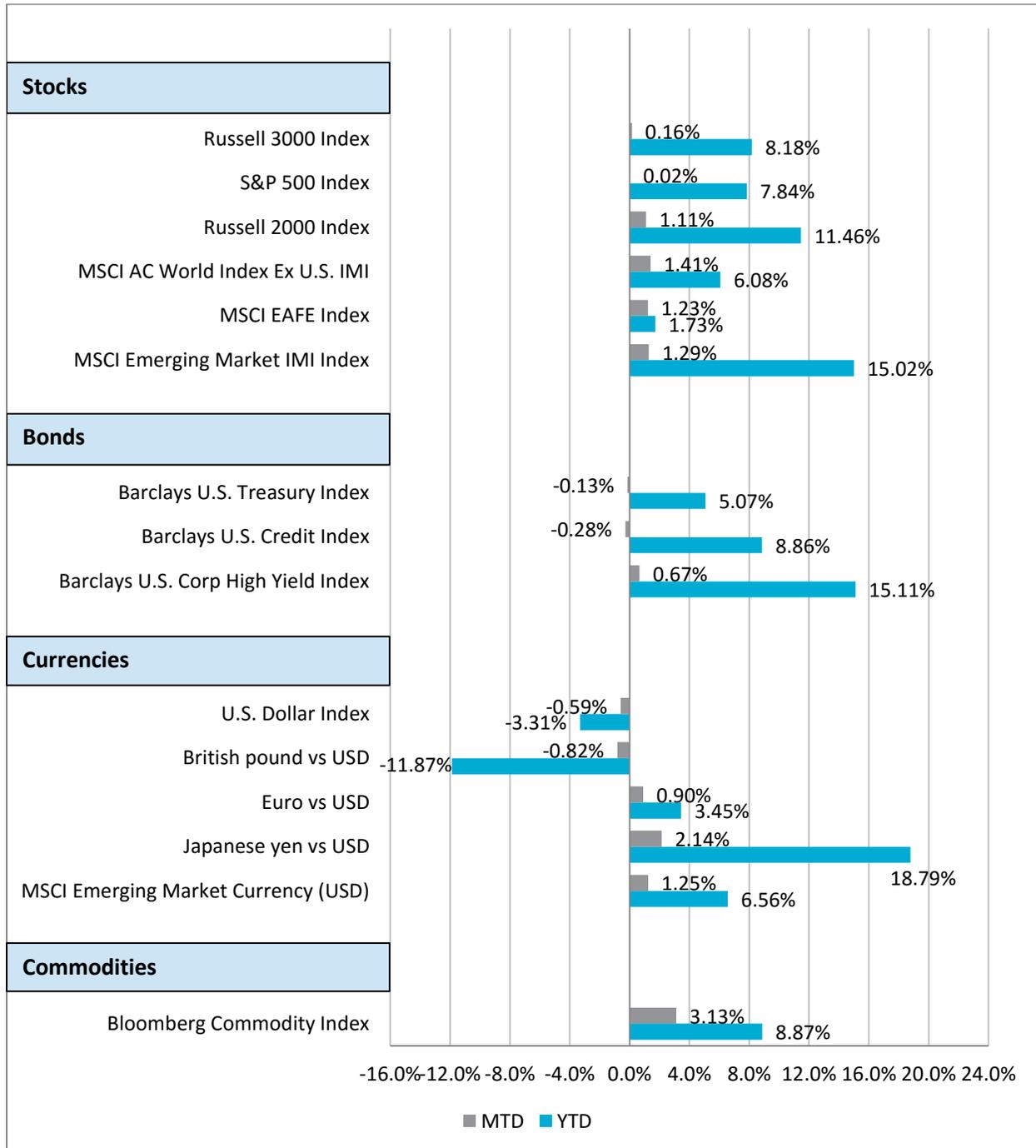
### ***U.S. modest, but positive, economic expansion***

U.S. median annual household income rose 5.2% in 2015 after adjusting for inflation, the highest rate on record, according to a recent U.S. Census Bureau report. While the median income level is still 1.6% below the pre-crisis level, the dramatic rise comes after a period of robust employment growth, which included an additional 2.4 million people who gained full-time work. The report also noted that income inequality eased, with income growing faster for middle and lower-income households compared to the more affluent. Other economic data released in September included news that total U.S. household net worth reached \$89.1 trillion in the second quarter on strength from higher home prices and a rising stock market. As a result, U.S. consumer confidence rose to its highest level in nine years. These changes could have important implications for U.S. consumer spending and retailers.

### ***U.S. stock market adjusts in anticipation of Federal Reserve (Fed) action***

The third quarter represented the best three consecutive months for U.S. stocks this year—the Russell 3000 index gained 4.4% in the quarter. Investors moved away from higher-dividend paying stocks, which provide attractive yields in a low-interest rate environment, as many now expect the Fed to raise short-term rates by year-end. Instead, investors turned to higher growth technology companies, like Apple. Higher-dividend paying companies such as utilities and telecommunication firms fell in the third quarter after a very strong run in the first half of the year—the sectors were down 5.9% and 5.0%, respectively, in the quarter, versus returning 23.1% and 22.7% respectively, in the first half of the year.

## Market Performance



Source: FactSet, as of September 30, 2016

## Key Monthly Economic Statistics

Statistic	Monthly/Yearly Change	Positive
Consumer Confidence	Sep: 104.1 (Aug: 101.8)	▲
Factory Orders	Jul: 1.9% (Jun: -1.8%); M/M-SA	▲
		Neutral
Durable Goods Orders	Aug: 0.0% (Jul: 3.6%); M/M-SA	◆
Consumer Price Index core	Aug: 0.3% (Jul: 0.1%); M/M-SA	◆
Consumer Price Index	Aug: 0.2% (Jul: 0.0%); M/M-SA	◆
Producer Price Index core	Aug: 0.1% (Jul: -0.3%); M/M-SA	◆
Producer Price Index	Aug: 0.0% (Jul: -0.4%); M/M-SA	◆
Real Gross Domestic Product	Jun: 1.4% (Mar: 0.8%); Q/Q-SAAR	◆
S&P/Case-Shiller 20-City Home Price Index	Jul: 5.0% (Jun: 5.1%); Y/Y	◆
Nonfarm Payrolls	Aug: 151,000 (Jul: 275,000)	◆
Unemployment Rate	Aug: 4.9% (Jul: 4.9%)	◆
		Negative
Existing Home Sales	Aug: -0.9% (Jul: -3.4%); M/M-SAAR	▼
Housing Starts	Aug: -5.8% (Jul: 1.4%); M/M-SAAR	▼
Institute for Supply Management Index	Aug: 49.4 (Jul: 52.6)	▼
New Home Sales	Aug: -7.6% (Jul: 13.8%); M/M-SAAR	▼
Retail Sales ex-auto	Aug: -0.1% (Jul: -0.4%); M/M-SA	▼
Retail Sales	Aug: -0.3% (Jul: 0.1%); M/M-SA	▼

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	<b>FactSet</b>

## Investment Fund Review (Net of Fees Performance)<sup>i</sup>

### Equity Funds

#### U.S. Equity Fund

Fund	September	QTD	YTD
U.S. Equity Fund	+0.56%	+5.52%	+7.61%
Russell 3000 Index	+0.16%	+4.40%	+8.18%
Difference (percentage points)	+0.40	+1.12	-0.57

- For the month, the U.S. Equity Fund's overweight to small-cap stocks contributed to its benchmark-relative outperformance. In addition, the fund's strategic allocation to private equity and private real estate contributed modestly to outperformance.
- During the third quarter, the fund's overweight to small- and mid-cap stocks was a significant contributor to benchmark-relative performance. The fund also benefitted from particularly strong benchmark-relative performance by one of the fund's large-cap growth managers with meaningful exposure to new economy companies, such as Amazon and Tesla. The fund's allocation to private equity and private real estate modestly detracted from performance.
- For the year-to-date period, the fund's strategy of overweighting small- and mid-cap stocks with a corresponding underweight in large-cap stocks, positively contributed to relative performance. An underweight to higher dividend-yielding securities, including strong performing telecommunication services companies, and an allocation to private equity and private real estate detracted from performance.

#### International Equity Fund

Fund	September	QTD	YTD
International Equity Fund	+1.89%	+7.69%	+8.53%
MSCI ACWI ex US Investable Market Index	+1.41%	+7.05%	+6.08%
Difference (percentage points)	+0.48	+0.64	+2.45

- The International Equity Fund's daily valuation policy (described [here](#)) contributed to the fund's positive benchmark-relative performance for the month and year-to-date periods, but detracted for the quarter.
- During the month, all but one of the fund's active managers in the developed markets outperformed their respective benchmarks. The fund also benefited from dedicated allocations to small cap stocks and private equity.
- Quarter-to-date, the fund benefited most from its developed country managers, which outperformed due to their holdings of companies in the United Kingdom (U.K.), Germany, and Switzerland. Additionally, the fund benefited from its allocation to emerging market stocks, which returned 8.83% for the quarter.
- Year-to-date, the three largest developed market managers outperformed their strategy benchmarks by over five percentage points and positively contributed to benchmark-relative performance. The fund's allocation to emerging market stocks and its strategic allocation to private equity also contributed to benchmark-relative performance.

### Equity Social Values Plus Fund

Fund	September	QTD	YTD
Equity Social Values Plus Fund	+0.34%	+4.45%	+5.82%
MSCI World Custom ESG Special Weighted Index	+0.39%	+4.91%	+6.44%
Difference (percentage points)	-0.05	-0.46	-0.62

- The Equity Social Values Plus Fund is a passively managed fund designed to closely match the fund benchmark, less fees and expenses. Relative performance is affected by the international daily valuation policy (described [here](#)).

### U.S. Equity Index Fund

Fund	September	QTD	YTD
U.S. Equity Index Fund	+0.13%	+4.41%	+7.96%
Russell 3000 Index	+0.16%	+4.40%	+8.18%
Difference (percentage points)	-0.03	+0.01	-0.22

- The U.S. Equity Index Fund is a passively managed fund designed to closely match the fund benchmark less fees and expenses. For the year-to-date period, the strong performance of stocks excluded from the portfolio for ethical reasons, negatively impacted benchmark-relative performance.

## Fixed Income Funds

### Fixed Income Fund

Fund	September	QTD	YTD
Fixed Income Fund	+0.12%	+1.71%	+8.61%
Barclays U.S. Universal (Ex MBS) Index	-0.05%	+1.07%	+7.63%
Difference (percentage points)	+0.17	+0.64	+0.98

- The Fixed Income Fund outperformed its benchmark during the month, quarter and year-to-date periods as low interest rates and slow, but positive, growth conditions continued to support bond valuations. The fund's strategy to overweight below-investment-grade and emerging markets bonds has been the strongest contributor to benchmark-relative performance during all three periods. The allocation to affordable housing loans through our Positive Social Purpose Lending Program positively contributed to benchmark-relative performance in September and year-to-date.

### Extended Term Fixed Income Fund

Fund	September	QTD	YTD
Extended Term Fixed Income Fund	-0.79%	+1.25%	+10.73%
Barclays US Government/Credit Long Term Index	-1.26%	+1.24%	+15.74%
Difference (percentage points)	+0.47	+0.01	-5.01

- For the month and quarter-to-date, the fund's strategic policy to maintain a shorter-than-benchmark duration and an underweight in U.S. Treasury bonds contributed to positive benchmark-relative performance due to the modest increase in U.S Treasury rates.
- Year-to-date, longer maturity bonds outperformed and the fund's strategy of maintaining shorter-than-benchmark duration detracted from benchmark-relative performance.

### Inflation Protection Fund

Fund	September	QTD	YTD
Inflation Protection Fund	+0.54%	+1.66%	+9.07%
BC Universal Government Inflation Linked Bond Index (USD Unhedged)	+0.21%	+2.97%	+11.93%
Difference (percentage points)	+0.33	-1.31	-2.86

- While U.S. inflation is below the Fed's target level of 2%, core inflation (excluding food and energy) has increased above 2%, supporting U.S. inflation-linked bond valuations. The fund's overweight positions in U.S. Treasury inflation-protection bonds and commodities contributed to the fund's outperformance in September. The diversifying allocations to floating rate senior loans and asset-backed securities also positively contributed.
- During the quarter, the fund's overweight in commodities and underweight in U.K. inflation-linked securities detracted most from benchmark-relative performance. Yields in the U.K. declined sharply and bond prices increased due to the Bank of England's accommodative monetary response to the Brexit referendum that will lead to the U.K. withdrawing from the European Union.
- Year-to-date, foreign inflation-linked bonds generated the strongest returns within the fund's benchmark; inflation-linked bonds from developing countries increased 16.9%, primarily due to currency appreciation, and developed countries outside the U.S. increased 11.5%, primarily due to declining yields. The fund's strategic allocations to floating rate securities detracted from benchmark-relative performance. The fund's developed country currency hedging strategy positively contributed to benchmark-relative performance.

## Balanced Fund

### Multiple Asset Fund

Fund	September	QTD	YTD
Multiple Asset Fund	+0.79%	+4.69%	+8.30%
Composite Benchmark <sup>ii</sup>	+0.42%	+4.08%	+8.03%
Difference (percentage points)	+0.37	+0.61	+0.27

- All of the Multiple Asset Fund's underlying strategies outperformed their respective benchmarks in September.
- For the quarter, three out of four strategies outperformed, with the Inflation Protection Fund being the sole detractor from benchmark-relative performance.
- Year-to-date, the International Equity Fund and Fixed Income Fund contributed positively to benchmark-relative performance, while the U.S. Equity Fund and Inflation Protection Fund detracted.

**For additional information, please contact:****Derek Casteel, CFA***Managing Director, Investment Services*

Wespath Investment Management

(847) 866-4307 direct

(847) 866-4100 general

[dcasteel@wespath.org](mailto:dcasteel@wespath.org)**Bill Stewart, CIMA, CFA***Director, Institutional Relationships*

Wespath Investment Management

(847) 866-2700 direct

(847) 866-4100 general

[bstewart@wespath.org](mailto:bstewart@wespath.org)**Karen Manczko***Manager, Institutional Relationships*

Wespath Investment Management

(847) 866-4236 direct

(847) 866-4100 general

[kmanczko@wespath.org](mailto:kmanczko@wespath.org)

1901 Chestnut Avenue  
Glenview, Illinois 60025  
847-866-4100  
[wespath.org](http://wespath.org)

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<sup>i</sup> 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*.

<sup>ii</sup> Prior to January 1, 2006, the benchmark for the Multiple Asset Fund (MAF) was a blended index with weightings as follows: 47% Russell 3000 Index, 15% MSCI EAFE Index, 3% MSCI Emerging Markets Index and 35% Lehman Brothers U.S. Universal Index. On January 1, 2006, the performance benchmark for MAF became a blended index based on the following weightings: 45% Russell 3000 Index, 20% MSCI All Country World Index ex USA IMI, 25% Barclays Capital U.S. Universal Index ex-Mortgage Backed Securities and the 10% Barclays Capital U.S. Government Inflation-Linked Bond Index. On January 1, 2014, the performance Benchmark for MAF became 40% Russell 3000 Index, 25% 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% Barclays Capital U.S. Government Inflation-Linked Bond Index. On January 1, 2016, the performance Benchmark for MAF became 40% Russell 3000 Index, 25% 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% Barclays Capital Universal Government Inflation Linked Bond Index (USD Unhedged).