

# September 2017 Investment Report

## Highlights

- The Federal Reserve (Fed) left interest rates unchanged in September but confirmed that it will begin to slowly and predictably reduce its holdings of U.S. Treasury and mortgage backed securities in October.
- The Trump administration released a broad framework for significant tax reform. Details of the plan are expected to become clearer as congressional tax-writing committees draft proposed legislation. The most recent comprehensive tax reform bill was adopted in 1986.
- U.S. equity valuations moved higher during the month as rising oil prices provided a boost to the energy sector. U.S. bond yields ended the month higher in response to the U.S. central bank policy shift and the potential for meaningful tax reform.
- All four funds that comprise the Multiple Asset Fund outperformed their respective benchmarks in September. The U.S. Equity Fund benefited from its overweight to small and mid-sized companies and the International Equity Fund benefited from its allocation to private equity. The Fixed Income Fund benefited from its overweight to below investment-grade bonds and emerging market debt. The Inflation Protection Fund benefited from its strategic underweight to UK inflation-linked bonds.

## Monthly Overview

### Fed announces plans to shrink balance sheet

After years of supporting economic growth through its Quantitative Easing bond buying program, the Fed announced plans to slowly and predictably “normalize” (reduce) the size of its balance sheet. Following the financial crisis of 2007-2008, the U.S. central bank began buying debt as a means of stabilizing financial markets and has since accumulated \$4.5 trillion in government debt and agency mortgage bonds. Starting in October of this year, the Fed plans to limit its reinvestment of maturing Treasury bonds and mortgage backed securities, resulting in a declining balance sheet. The Fed also indicated that it expects to increase the overnight bank borrowing rate one more time this year and three times in 2018.

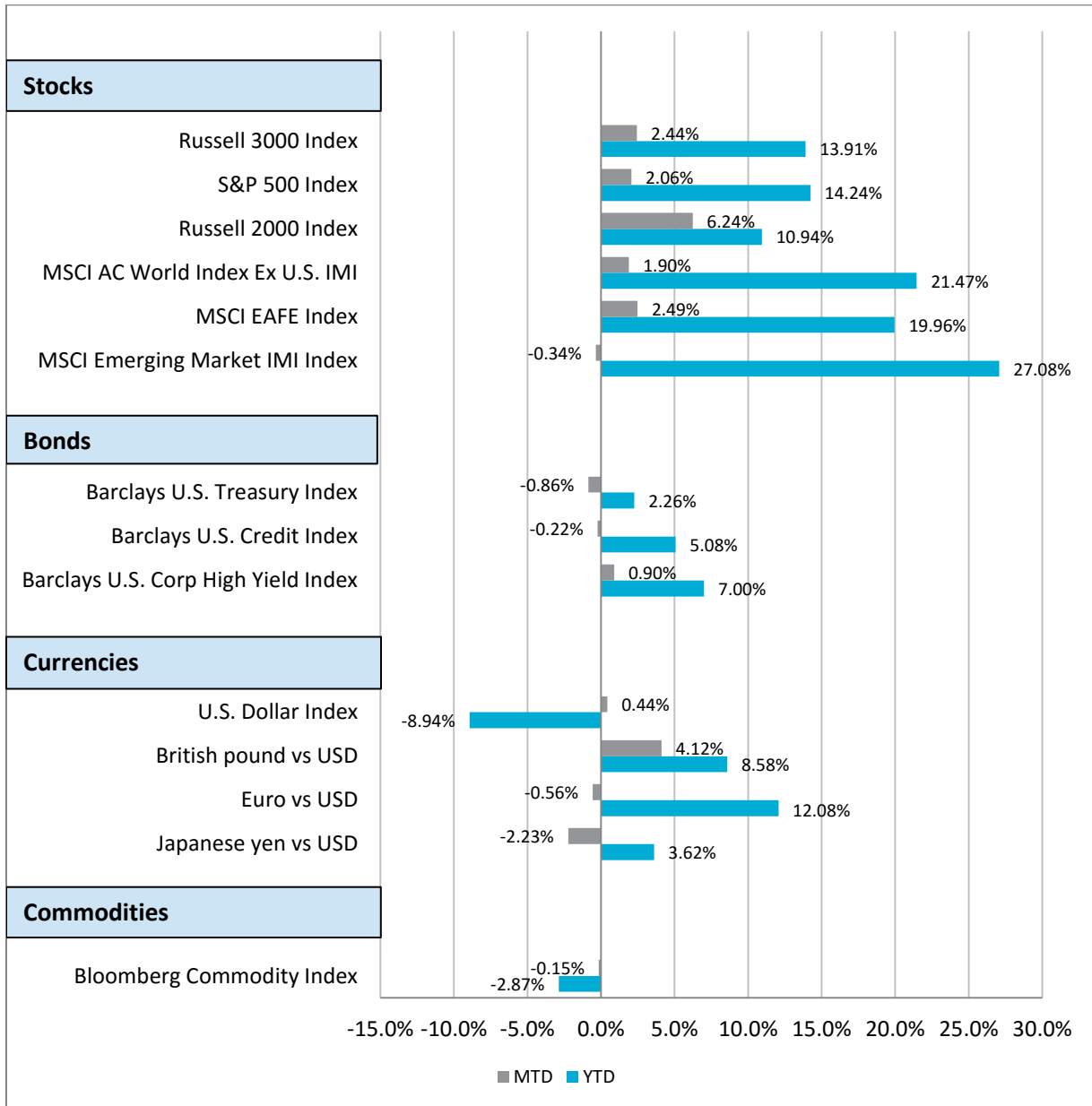
### U.S. dollar responds

In September, the U.S. dollar reversed its year-to-date decline. Amid the Fed’s balance sheet normalization announcement, expectations for rising interest rates and speculation that Washington may enact tax reforms to further benefit the economy, the U.S. Dollar Index strengthened versus a basket of foreign currencies.

### Hurricanes Harvey, Irma, Maria

The 2017 hurricane season has been unprecedented with Hurricanes Harvey, Irma and Maria causing widespread destruction on the U.S. mainland and across the Caribbean. U.S. economic growth and labor measures are expected to be negatively impacted in the short term by hurricanes Harvey and Irma. The overall trends of moderate economic growth and a strong labor market are expected to continue. Hurricane Maria’s devastating effects on Puerto Rico’s economy are expected to have further negative implications for the territory’s government-issued debt.

## Market Performance



Source: FactSet, as of September 29, 2017

## Key Monthly Economic Statistics

Statistic	Monthly/Yearly Change	Positive
Consumer Confidence	Sep: 119.8 (Aug: 120.4)	▲
Durable Goods Orders	Aug: 1.7% (Jul: -6.8%); M/M-SA	▲
Institute for Supply Management Index	Aug: 58.8% (Jul: 56.3%)	▲
Real Gross Domestic Product	Jun: 3.1% (Mar: 1.2%); Q/Q-SAAR	▲
S&P/Case-Shiller 20-City Home Price Index	Jul: 5.8% (Jun: 5.6%); Y/Y	▲
		Neutral
Consumer Price Index core	Aug: 0.2% (Jul: 0.1%); M/M-SA	◆
Consumer Price Index	Aug: 0.4% (Jul: 0.1%); M/M-SA	◆
Producer Price Index core	Aug: 0.1% (Jul: -0.1%); M/M-SA	◆
Producer Price Index	Aug: 0.2% (Jul: -0.1%); M/M-SA	◆
Retail Sales ex-auto	Aug: 0.2% (Jul: 0.4%); M/M-SA	◆
Unemployment Rate	Aug: 4.4% (Jul: 4.3%)	◆
		Negative
Existing Home Sales	Aug: -1.7% (Jul: -1.3%); M/M-SAAR	▼
Factory Orders	Jul: -3.3% (Jun: 3.2%); M/M-SA	▼
Housing Starts	Aug: -0.8% (Jul: -2.2%); M/M-SAAR	▼
New Home Sales	Aug: -3.4% (Jul: -5.5%); M/M-SAAR	▼
Nonfarm Payrolls	Aug: 156,000 (Jul: 189,000)	▼
Retail Sales	Aug: -0.2% (Jul: 0.3%); 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	<a href="#">FactSet</a>

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

### Equity Funds

#### U.S. Equity Fund

Fund	September	QTD	YTD
U.S. Equity Fund	+2.92%	+4.07%	+13.35%
Russell 3000 Index	+2.44%	+4.57%	+13.91%
Difference (percentage points)	+0.48	-0.50	-0.56

- For the month and quarter, the fund's strategic overweight to small- and mid-sized company stocks, with a corresponding underweight in large-company stocks, contributed positively to benchmark-relative performance. Alternatively, the fund's allocation to private equity and private real estate detracted from performance. Quarterly performance was also impacted by poor investment selection within the top performing information technology sector; specifically two "FinTech" investments within the real estate industry detracted the most.
- Year-to-date, the fund continues to benefit most from strong performance from two growth-oriented managers and one mid-cap manager, specifically related to their holdings in the information technology and health care sectors. The fund's strategic overweight to small- and mid-sized company stocks, along with the allocation to the alternative investment strategies of real estate and private equity, detracted from benchmark-relative performance.

#### International Equity Fund

Fund	September	QTD	YTD
International Equity Fund	+2.01%	+7.92%	+24.23%
MSCI ACWI ex US Investable Market Index	+1.90%	+6.27%	+21.47%
Difference (percentage points)	+0.11	+1.65	+2.76

- For the month, seven out of eleven active investment strategies outperformed their respective benchmarks, and the fund's allocation to private equity contributed positively to performance. However, the fund's overweight of emerging market equities, and corresponding underweight of developed market equities, modestly detracted from benchmark-relative performance.
- For the quarter and year-to-date periods, the fund's overweight of emerging market equities, and corresponding underweight of developed market equities, positively contributed to benchmark-relative performance. In particular, the fund benefited from its 10% allocation to investments in China (excluding Hong Kong), which returned nearly 17% for the quarter and nearly 47% for the year.

### Equity Social Values Plus Fund

Fund	September	QTD	YTD
Equity Social Values Plus Fund	+2.07%	+4.45%	+15.95%
ESVPF Custom Benchmark <sup>ii</sup>	+2.16%	+4.66%	+15.83%
Difference (percentage points)	-0.09	-0.21	+0.12

- 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	+2.44%	+4.47%	+13.20%
Russell 3000 Index	+2.44%	+4.57%	+13.91%
Difference (percentage points)	+0.00	-0.10	-0.71

- The U.S. Equity Index Fund is a passively-managed fund designed to closely match the fund benchmark less fees and expenses. Ethical exclusions detracted from benchmark-relative performance for the quarter and year-to-date periods mainly due to strong performance by defense-related excluded companies.

## Fixed Income Funds

### Fixed Income Fund

Fund	September	QTD	YTD
Fixed Income Fund	-0.20%	+1.57%	+5.87%
Barclays U.S. Universal (ex MBS) Index	-0.39%	+1.02%	+4.08%
Difference (percentage points)	+0.19	+0.55	+1.79

- In September, the fund exceeded its performance benchmark primarily due to overweight allocations to below-investment-grade corporate bonds and emerging market debt.
- Contributing to quarter- and year-to-date benchmark-relative performance was an overweight allocation to non-dollar emerging and developed market debt. Both asset classes benefited from U.S. dollar weakness. Additionally, overweight allocations to both investment-grade and below-investment-grade corporate bonds positively contributed to benchmark-relative results, as did strong performance by the fund's two core plus managers.

**Social Values Choice Bond Fund**

Fund	September	QTD	YTD (From 6/30/2017)
Social Values Choice Bond Fund	-0.19%	+1.21%	+1.21%
Barclays U.S. Universal (ex MBS) Index	-0.39%	+1.02%	+1.02%
Difference (percentage points)	+0.20	+0.19	+0.19

- The fund exceeded its performance benchmark in September primarily due to its underweight allocation to bonds with short maturities, and overweight allocation to investment-grade credit.
- Since inception on June 30, 2017, the overweight allocation to investment-grade credit was the largest positive contributor to benchmark-relative results. The modest overweight to local currency emerging market debt also benefited relative results.

**Extended Term Fixed Income Fund**

Fund	September	QTD	YTD
Extended Term Fixed Income Fund	-0.61%	+1.26%	+5.79%
Barclays U.S. Government/Credit Long Term Index	-0.96%	+1.53%	+7.65%
Difference (percentage points)	+0.35	-0.27	-1.86

- The Extended Term Fixed Income Fund's intentional policy of maintaining a lower sensitivity to interest rate movements added to the fund's benchmark-relative performance for the month, but detracted from the quarter- and year-to-date time periods.

**Inflation Protection Fund**

Fund	September	QTD	YTD
Inflation Protection Fund	-0.25%	+1.41%	+2.74%
IPF Custom Benchmark <sup>iii</sup>	-1.32%	+1.02%	+1.68%
Difference (percentage points)	+1.07	+0.39	+1.06

- During the month-, quarter- and year-to-date periods, the strategic underweight allocation to U.K. inflation-linked bonds, and overweight to U.S. Treasury Inflation Protected Securities (TIPS) helped benchmark-relative returns. The out-of-benchmark allocations to below-investment-grade floating rate strategies and strong performance by the fund's commodities managers, also positively contributed to relative results.

- The underweight allocation to inflation-linked bonds issued by European governments detracted from benchmark-relative results for the three time periods.

### U.S. Treasury Inflation Protection Fund

Fund	September	QTD	YTD (From 6/30/2017)
U.S. Treasury Inflation Protection Fund	-0.63%	+0.94%	+0.94%
Barclays U.S. Inflation Linked Bond Index	-0.66%	+0.90%	+0.90%
Difference (percentage points)	+0.03%	+0.04%	+0.04%

- The U.S. Treasury Inflation Protection Fund is a passively-managed fund designed to closely match the fund benchmark less fees and expenses. The fund performed in line with its benchmark during September and since inception on June 30, 2017.

### Balanced Fund

#### Multiple Asset Fund

Fund	September	QTD	YTD
Multiple Asset Fund	+1.57%	+4.38%	+13.51%
Composite Benchmark <sup>iv</sup>	+1.19%	+3.83%	+12.31%
Difference (percentage points)	+0.38	+0.55	+1.20

- For the month, all components of the Multiple Asset Fund contributed positively to benchmark-relative performance.
- For the quarter and year-to-date, the International Equity Fund, Fixed Income Fund and Inflation Protection Fund positively contributed to benchmark-relative performance, while the U.S. Equity Fund detracted slightly.

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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> On April 1, 2017, the benchmark for the Equity Social Values Plus Fund became the MSCI World Environmental, Social and Governance (ESG) ex Fossil Fuels Index. Prior to April 1, 2017, the benchmark was the MSCI World Custom Environmental, Social, and Governance (ESG) Special Weighted Index.

<sup>iii</sup> 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.

<sup>iv</sup> 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.