

August 2019 Investment Report

Highlights

- Global equities closed lower in the month of August, with the S&P 500 Index down 1.5% and the MSCI EAFE Index down 2.6%. Stock prices moved strongly in both directions as investors closely followed trade news that vacillated between additional tariffs and potential progress in the trade dispute.
- The benchmark 30-year Treasury yield fell to a historic low of 1.91%, and the CBOE Volatility Index (VIX) peaked at the highest level since February. Long-term U.S. yields remain well above most other developed markets as central banks around the globe are lowering interest rates, resulting in \$17 trillion of negative-yielding global debt. The 10-year/2-year Treasury yield curve temporarily inverted during the month, often viewed as a leading indicator for an economic recession.
- U.S. Retail Sales rose by 0.7% in July, the most in four months.
- In August, the U.S. Equity Fund, Inflation Protection Fund, Fixed Income Fund and Multiple Asset Fund underperformed their benchmarks. The International Equity Fund outperformed its benchmark.

Monthly Overview

Markets close lower amid volatile month

Rising U.S.-China trade tensions increased market volatility and investor concerns around slowing global growth. The major U.S. stock indexes marked just their second negative month in an otherwise strong 2019. The CBOE Volatility Index (VIX), Wall Street's fear gauge, remained elevated throughout the month after peaking in early August. As investors migrated toward safer assets, the 30-year U.S. Treasury bond yield declined to a record low, and gold reached a six-year high.

U.S. consumer stays the course

Concerns of a prolonged trade dispute and escalating tariffs weakened manufacturing activity and corporate earnings as firms seek to shift supply chains to lower priced regions of the world. The U.S. Manufacturing IHS Markit Purchasing Manager Index (PMI) fell below 50, into contraction territory for the first time in 10 years. According to Refinitiv, blended earnings for S&P 500 companies during the second quarter grew 3.2% year over year, with preliminary estimates calling for Q3 earnings to fall 2.0%. Despite these developments, the Conference Board Consumer Confidence Index reflected consumers' view of current conditions near the highest level in 19 years, albeit weakening slightly in the last reading.

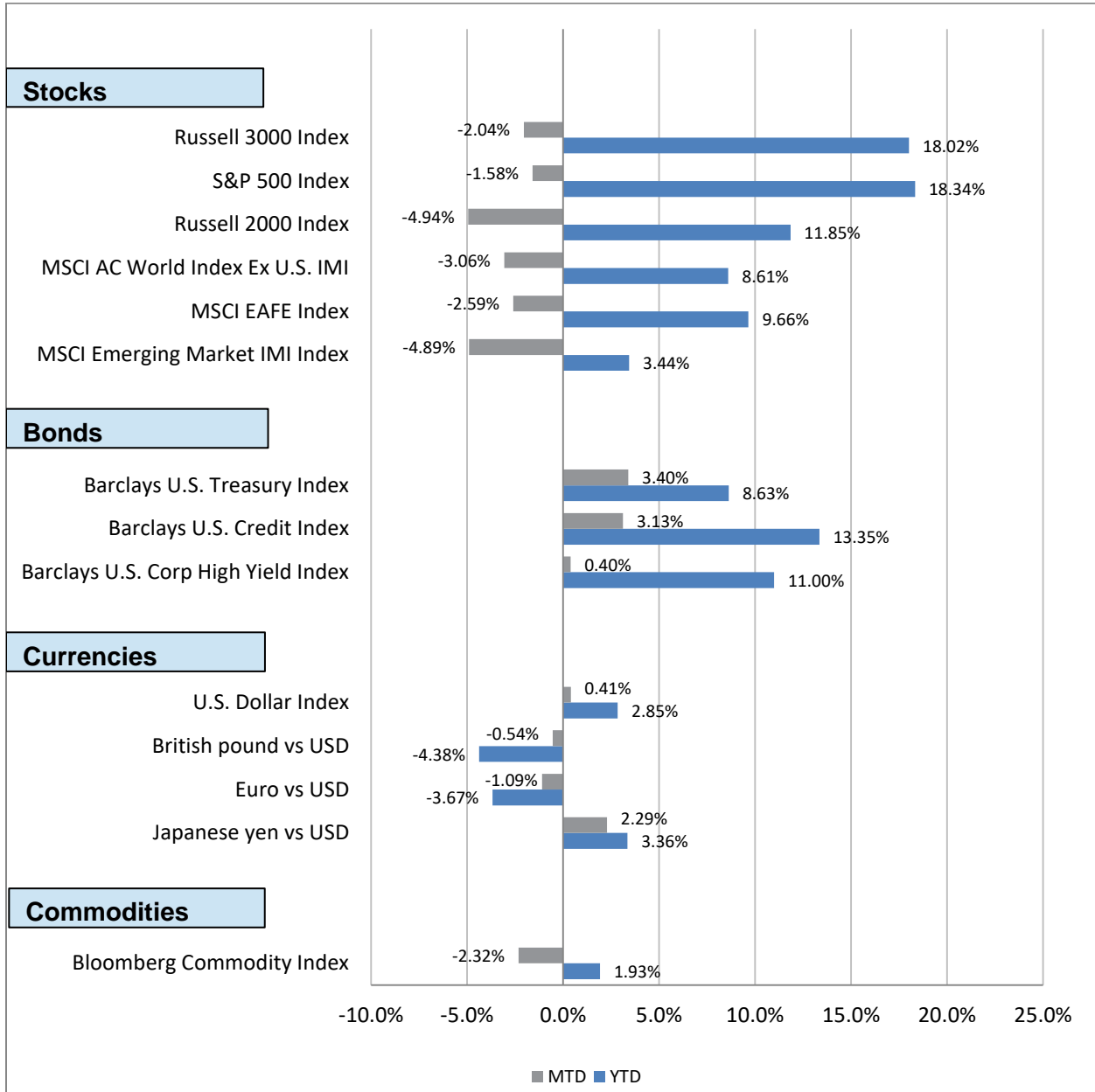
Federal Reserve Chairman Jerome Powell pledges to keep expansion on track

Central bankers from around the world gathered at the annual Economic Symposium in Jackson Hole, Wyoming. U.S. Federal Reserve (Fed) Chairman Jerome Powell delivered the headline speech and declared that the Fed will act as appropriate to sustain U.S. economic expansion, while also highlighting the limited ability of Central Bank policy tools to mitigate effects of international trade tensions.

International Developments

U.K. Prime Minister Boris Johnson received approval from Queen Elizabeth II to temporarily shut down parliament, limiting the time lawmakers have to debate leaving the European Union on October 31, 2019. Protesters in Hong Kong escalated demonstrations against the extradition bill and effectively shut down the Hong Kong International Airport for three days.

Market Performance



Source: FactSet, as of August 31, 2019

Key Monthly Economic Statistics

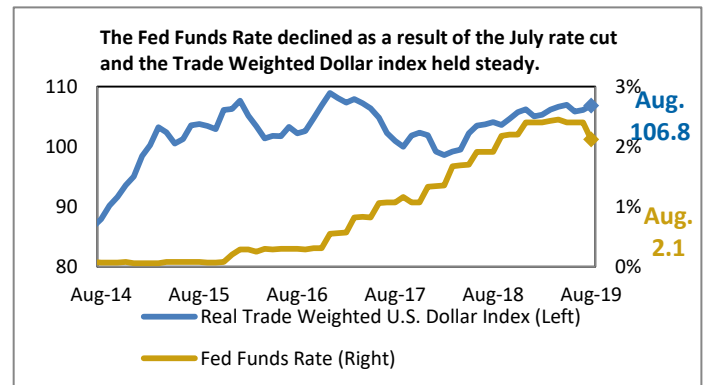
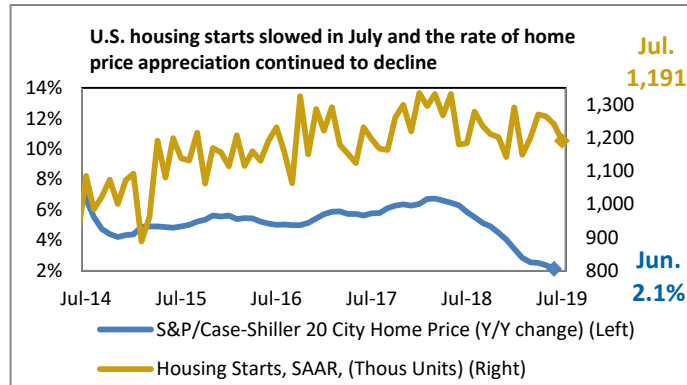
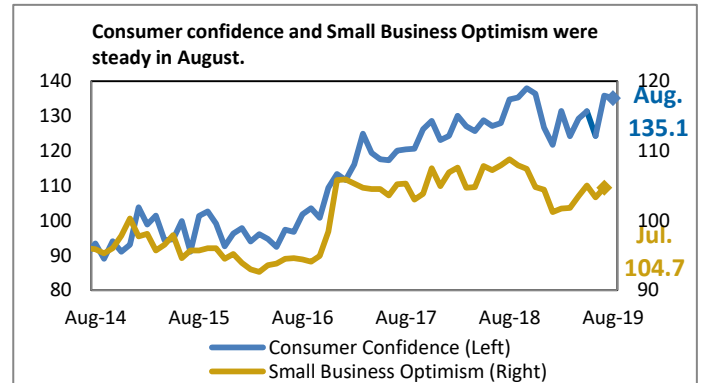
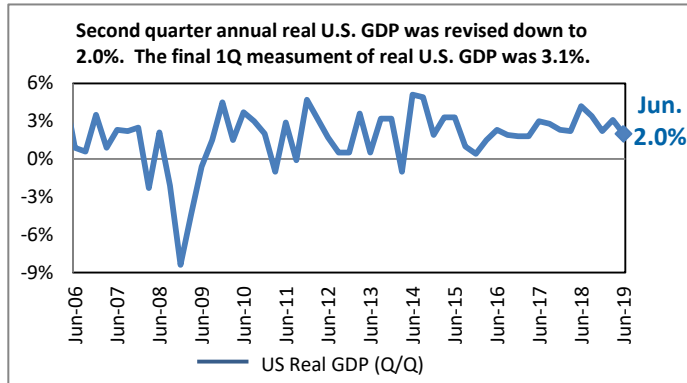
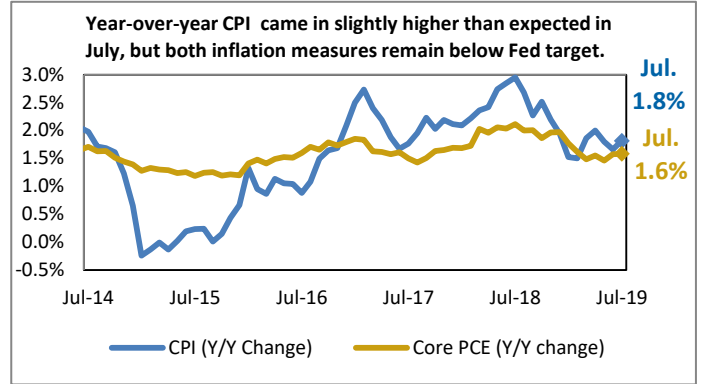
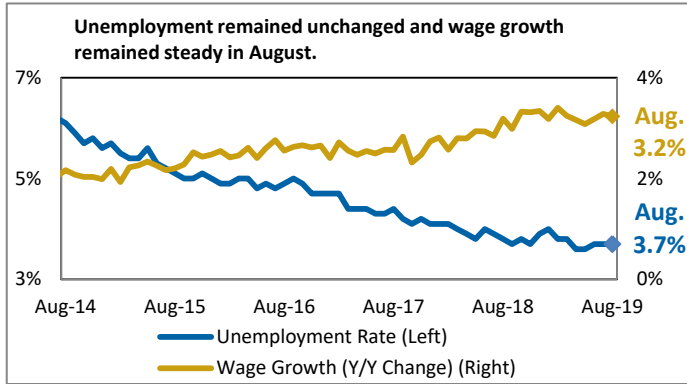
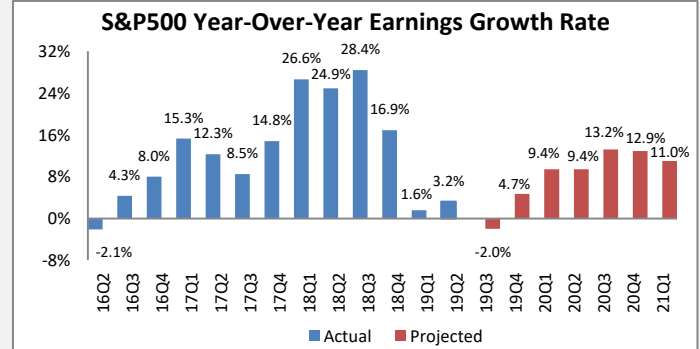


Chart of Month

- By August end, nearly all of S&P 500 companies reported 2Q19 earnings. 74% beat estimates vs. the long-term average of 65%.
- Blended year-over-year, share-weighted earnings grew 3.2% in 2Q19, which exceeded estimates of 0.3%.
- So far, 67 S&P 500 companies preannounced negative EPS vs. 34 firms who preannounced positive EPS for 3Q19. This is difficult quarter for comparison given the 3Q18 earnings peak.
- Weak global economic growth and intensified US-China trade talks also negatively affected 3Q19 earnings expectations.



Source: FactSet and I/BE/S data from Refinitiv as of 8/30/19

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

Equity Funds

U.S. Equity Fund

Fund	August	YTD
U.S. Equity Fund	-2.93%	+18.30%
Russell 3000 Index	-2.04%	+18.02%
Difference (percentage points)	-0.89	+0.28

- For the month, the fund's strategic underweight to large-capitalization stocks, and corresponding overweight to small- and mid-sized company stocks, along with specific investments in e-commerce companies, detracted from relative performance. Investments in private equity and private real estate positively contributed to relative performance.
- Year to date, outperforming e-commerce and biotech investments held by managers had a sizable positive impact on the fund's relative performance. The fund's strategic overweight to small- and mid-sized company stocks, and corresponding underweight to large-company stocks, detracted from relative performance. Dedicated investments in private equity and private real estate detracted from relative performance.

International Equity Fund

Fund	August	YTD
International Equity Fund	-2.80%	+10.77%
MSCI ACWI ex U.S. Investable Market Index (Net)	-3.06%	+8.61%
Difference (percentage points)	+0.26	+2.16

- For the month, the largest contributor to relative performance was the fund's fair market valuation policy (described [here](#)). In addition, dedicated investments in private equity and private real estate positively impacted performance. The fund's strategy overweight to emerging market equities along with stocks excluded in compliance with Wespath's Exclusions policy (described [here](#)), detracted from benchmark-relative performance.
- Year to date, the fund outperformed its benchmark due to over 80% of active managers outperforming their respective benchmarks. Specifically, an underweight to poor-performing Japan and superior stock selection within Japan and China were the largest contributors to benchmark-relative returns. The fund's strategic allocation to alternative investments, along with stocks excluded in compliance with Wespath's Exclusions policy (described [here](#)), detracted from benchmark-relative performance. Additionally, the fund's strategic overweight to emerging market equities detracted from relative performance.

U.S. Equity Index Fund

Fund	August	YTD
U.S. Equity Index Fund	-2.15%	+17.76%
Russell 3000 Index	-2.04%	+18.02%
Difference (percentage points)	-0.11	-0.26

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

Fixed Income Funds

Fixed Income Fund

Fund	August	YTD
Fixed Income Fund	+1.82%	+9.70%
Barclays U.S. Universal (ex MBS) Index	+2.67%	+10.42%
Difference (percentage points)	-0.85	-0.72

- At the fund level, the overweight allocation to emerging market debt was the biggest detractor for month- and year-to-date relative results as demand for risky assets softened during the month. Additionally the decision of the dedicated emerging markets debt manager to overweight local currencies, particularly the Argentine peso, also detracted from relative results for both time-periods. The fund's exposure to non-U.S. currencies of developed markets detracted for both time-periods as the dollar strengthened relative to a basket of developed market currencies. The overweight to below investment grade corporate debt detracted in August.

Extended Term Fixed Income Fund

Fund	August	YTD
Extended Term Fixed Income Fund	+5.00%	+16.12%
Barclays U.S. Government/Credit Long Term Index	+7.87%	+23.29%
Difference (percentage points)	-2.87	-7.17

- The fund's policy of maintaining a lower sensitivity to interest rate movements detracted from monthly and year-to-date benchmark-relative results. Year to date, underlying manager security-selection decisions positively contributed to relative results.

Inflation Protection Fund

Fund	August	YTD
Inflation Protection Fund	+0.71%	+7.51%
IPF Benchmark ⁱⁱ	+1.59%	+10.67%
Difference (percentage points)	-0.88	-3.16

- The fund's underweight to U.K. inflation linked bonds was the biggest detractor from benchmark-relative performance for the month and year-to-date. The fund's allocation to below-investment-grade floating rate strategies and overweight to US Treasury Inflation Protected securities also meaningfully detracted from relative results during both periods.

Balanced Fund**Multiple Asset Fund**

Fund	August	YTD
Multiple Asset Fund	-1.36%	+12.69%
MAF Benchmark ⁱⁱⁱ	-0.81%	+12.71%
Difference (percentage points)	-0.55	-0.02

- During the month, the International Equity Fund positively contributed to benchmark-relative performance, while the U.S. Equity Fund, Fixed Income Fund, and Inflation Protection Fund negatively affected benchmark-relative returns.
- Year to date, the U.S. Equity Fund and International Equity Fund, positively contributed to benchmark-relative performance, while the Fixed Income Fund and Inflation Protection Fund negatively impacted relative returns.

Social Values Choice Suite of Funds**Social Values Choice Bond Fund**

Fund	August	YTD
Social Values Choice Bond Fund	+2.27%	+10.17%
Barclays U.S. Universal (ex MBS) Index	+2.67%	+10.42%
Difference (percentage points)	-0.40	-0.25

- The fund is positioned to be less sensitive to changes in global interest rates compared to the benchmark detracting from relative results for both the month and year-to-date. For the month, the overweight to bonds from Argentina and out of benchmark exposure to currencies of developing economies, particularly the Russian ruble and Mexican peso, detracted from benchmark relative results.

- Year to date, the overweight to corporate bonds issued by both investment grade and below investment grade financial companies contributed to relative results.

Social Values Choice Equity Fund

Fund	August	YTD
Social Values Choice Equity Fund	-1.15%	+16.60%
SVCEF Benchmark ^{iv}	-1.26%	+16.28%
Difference (percentage points)	+0.11	+0.32

- 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](#)) positively affected relative performance during the month and year to date.

U.S. Treasury Inflation Protection Fund

Fund	August	YTD
U.S. Treasury Inflation Protection Fund	+2.67%	+9.46%
Barclays U.S. Inflation Linked Bond Index	+2.59%	+9.57%
Difference (percentage points)	+0.08	-0.11

- 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.

For additional information, please contact:**Bill Stewart, CIMA, CFA**

Director, Institutional Relationships
Wespath Benefits and Investments
(847) 866-2700 direct
(847) 866-4100 general
bstewart@wespath.org

Karen Manczko

Director, Institutional Relationships
Wespath Benefits and Investments
(847) 866-4236 direct
(847) 866-4100 general
kmanczko@wespath.org

1901 Chestnut Avenue
Glenview, Illinois 60025
(847) 866-4100
wespath.org

ⁱ Historical returns are not indicative of future performance. Fund returns are net of fees. Please refer to the [Investment Funds Description – P Series, the Summary Fund Description – P 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.

^{iv} The benchmark for the Social Values Choice Equity Fund is the MSCI World Environmental, Social and Governance (ESG) ex Fossil Fuels Index.