



February 2016 Investment Report

Monthly Report

Markets

- After declining nearly 6% in the first two weeks of the month, U.S. equities rebounded to finish the month down a modest **0.03%** as measured by the Russell 3000 Index. The prospect of coordinated cuts by oil producing nations spurred higher crude oil prices and contributed to the end-of-month rally. Small- and mid-cap company stocks reversed the recent trend of underperformance relative to large-cap stocks. Small-cap stocks, as measured by the Russell 2000 Index, were flat, while mid-cap stocks, as measured by the S&P 400 Midcap Index, rose **1.4%**. The large company S&P 500 Index fell **0.1%**. Energy and Financial Services were the worst performing Russell 3000 sectors, while the Materials and Processing sector was the best performing.
- Non-U.S. stocks fell **0.9%** in February, as measured by the MSCI ACWI World ex USA Investable Market Index. Developing market stocks declined **0.2%**, as measured by the MSCI EM Investable Market Index, outperforming developed international market stocks, which fell **1.8%** as measured by the MSCI EAFE Index. The rebound in oil prices benefited commodity-driven developing market economies.
- The U.S. Treasury yield curve declined and flattened during February as investors sought the perceived safety of Treasury securities amid concerns about slowing global economic growth. The 2-year Treasury note yield was unchanged at **0.78%**. The 10-year note yield decreased **0.19%** to **1.74%**, and 30-year bond yield decreased **0.13%** to **2.62%**.
- U.S. Treasury securities, as measured by the Barclays U.S. Treasury Index, gained **0.9%** in February due to the decline in the yield curve. Investment-grade debt, as measured by the Barclays U.S. Credit Index, increased **0.8%**. Below-investment-grade debt, as measured by the Barclays U.S. Corporate High Yield Index, increased **0.6%**.
- The U.S. dollar weakened **1.4%** in February, as measured by the U.S. Dollar Index. The Japanese yen increased **7.7%** relative to the dollar as investors sought the yen's safe-haven status. The British pound decreased **2.2%** amid concerns about the United Kingdom (U.K.) potentially exiting the European Union.
- Commodities, as represented by the Bloomberg Commodity Index, decreased **1.6%** in February. Petroleum decreased **3.2%** during the month, and natural gas decreased **25.8%** due to warm El Niño weather. The price of gold increased **10.6%** as investors sought its perceived safety amid global currency and market uncertainty.

Economics Highlights

- February employment figures continued to show economic growth despite financial market turmoil. The U.S. economy added 242,000 jobs in February, exceeding economists' expectations of 200,000, and revisions showed employers added 30,000 more jobs than previously estimated in December and January. The unemployment rate held steady at **4.9%**, while the labor force participation rate increased to **62.9%** from 62.7% in January.
- During the month, U.S. crude oil prices experienced a 13-year low due to continued oversupply and concerns regarding global growth. A number of the world's largest oil producing nations were in talks to coordinate a cut in output in an effort to support prices—this caused a bump up in the cost of crude, but was not enough to undo previous declines. Oil has fallen more than **32%** over the last twelve months.
- The Commerce Department said U.S. GDP grew at an annual rate of **1.0%** in the fourth quarter, an improvement from the first estimate of **0.7%** and higher than the **0.4%** rate economists were expecting. The revision confirmed that trade and business investment were negative contributors to the economy during the final three months of last year, a sign that the U.S. economy is not immune from global weakness.
- Core inflation, which excludes volatile food and energy categories, increased **0.3%** in January, the biggest monthly increase in more than four years. Core inflation advanced **2.2%** from a year earlier, while the overall Consumer Price Index increased **1.4%**. There has been a clear pickup in inflation, which is attributable to the impact of the U.S. job market on prices.

Geopolitical Headlines

- The United Nations (U.N.) moved toward imposing new sanctions against North Korea in response to its recent nuclear and missile tests. The resolution, which is based on an agreement between the U.S. and China, would target a sweeping range of North Korea's "pressure points," including its financial institutions, cargo shipments, exports of natural resources and its access to aircraft and rocket fuel. "If adopted, it will break new ground and represent the strongest new set of sanctions in two decades," said U.S. Ambassador to the U.N. Samantha Power.
- The European Union (EU) faces the prospect of losing the U.K., its second largest economy, despite lengthy negotiations on a new package of exemptions for the country. The U.K. is scheduled to vote on a referendum in mid-June on whether it should leave the EU, which is straining under continued slow growth and an influx of refugees. While Britain's prime minister has publicly stated that the country should remain part of the EU, polls show growing support for leaving. Many Britons favor leaving the union in order to have more control over laws, their economy and the flow of refugees into their country.

Sources: *Forbes, Reuters, Bloomberg, The Economist, Energy Information Administration, The Wall Street Journal, CBS News, FactSet, Barclays, Russell Investments, CNBC, CNN, The New York Times, Associated Press, Bridgewater Associates, Wikipedia, NASDAQ and Bureau of Economic Analysis.*

Key Monthly Economic Statistics

This table contains a list of key monthly economic statistics.

	Positive Statistics <ul style="list-style-type: none"> Durable Goods Orders, Jan: 4.7% (Dec: -4.6%); M/M-SA Factory Orders, Jan: 1.6% (Dec: -2.9%); M/M-SA Institute for Supply Management Index, Feb: 49.5 (Jan: 48.2) Nonfarm Payrolls, Feb: 242,000 Real Gross Domestic Product, N/A: 1.0% (Q3: 2.0%); Q/Q-SAAR Unemployment Rate, Feb: 4.9% (Jan: 4.9%)
	Neutral Statistics <ul style="list-style-type: none"> Consumer Price Index core, Jan: 0.3% (Dec: 0.2%); M/M-SA Consumer Price Index, Jan: 0.0% (Dec: -0.1%); M/M-SA Producer Price Index core, Jan: 0.4% (Dec: 0.2%); M/M-SA Producer Price Index, Jan: 0.1% (Dec: -0.2%); M/M-SA Retail Sales ex-auto, Jan: 0.1% (Dec: 0.1%); M/M-SA Retail Sales, Jan: 0.2% (Dec: 0.2%); M/M-SA S&P/Case-Shiller 20-City Home Price Index, Dec: 5.7% (Nov: 5.7%); Y/Y
	Negative Statistics <ul style="list-style-type: none"> Consumer Confidence, Feb: 92.2 (Jan: 97.8) Existing Home Sales, Jan: 0.4% (Dec: 12.1%); M/M-SAAR Housing Starts, Jan: -3.8% (Dec: -2.8%); M/M-SAAR New Home Sales, Jan: -9.2% (Dec: 8.2%); M/M-SAAR

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: [FactSet](#)

Investment Fund Review: (Net of Fees Performance)

Financial Markets struggled to regain their footing after a disappointing January and beginning of February. In equity markets, U.S. small- and mid-cap stocks led the rebound in the second half of the month while stocks in emerging markets outpaced equity markets in developed countries. Commodities and currency valuations also stabilized by the end of the month. Such trends demonstrated a growing appetite for risk as the month came to a close.

Historical returns are not indicative of future performance. 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. For historical returns of one-year, three-year, five-year, 10-year and since inception periods, please visit our [Historical Funds Performance page](#).

Inflation Protection Fund

Fund	February	YTD
Inflation Protection Fund	+0.46%	+1.13%
BC Universal Government Inflation Linked Bond Index (USD Unhedged)	+0.47%	+1.20%
Difference	-0.01%	-0.07%

- The Inflation Protection Fund (IPF) gained **0.46%** in February, nearly matching the fund benchmark return of 0.47%. The fund's allocations to developing country inflation-linked bonds and U.S. Treasury inflation-linked bonds gained **1.2%** and **1.3%** respectively, and were the fund's best performing strategies. Government bonds gained as investors contemplated continued low interest rates amid weak global growth. The fund's worst performing strategy was its 3% allocation to high-yield asset-backed securities, which declined **2.2%** amid investor preference for lower-risk assets.
- Year-to-date, IPF gained **1.13%**, underperforming its benchmark by **0.07%**. The fund's allocations to U.S. and hedged global inflation-linked government bonds gained **3.0%** and **2.0%** respectively, and positively contributed to benchmark-relative performance. The fund's 8% allocation to commodities declined **3.8%** and was the largest detractor.

Fixed Income Fund

Fund	February	YTD
Fixed Income Fund	+0.66%	+1.07%
Barclays U.S. Universal (Ex MBS) Index	+0.82%	+1.87%
Difference	-0.16%	-0.80%

- The Fixed Income Fund (FIF) gained **0.66%** in February but underperformed its benchmark return by **0.16%**. The fund's two core managers detracted the most from benchmark-relative performance largely due to their underweight exposures to U.S. Treasury securities and overweight exposures to securities with greater credit risk. The fund's allocation to developing country bonds increased **1.3%** as global government bond yields declined, positively contributing to benchmark-relative performance.

- Year-to-date, FIF gained **1.07%** but underperformed its benchmark by **0.80%**. The fund's allocations to below-investment grade debt and credit opportunities decreased **0.5%** and **1.3%** respectively, detracting from fund performance. As in February, the fund's underweight in U.S. Treasury and overweight to credit hurt performance.

Extended Term Fixed Income Fund

Fund	February	YTD
Extended Term Fixed Income Fund	+1.45%	+2.24%
Barclays US Government/Credit Long Term Index	+2.19%	+4.34%
Difference	-0.74%	-2.10%

- The Extended Term Fixed Income Fund (ETFIF) gained **1.45%** in February but underperformed its benchmark return by **0.74%**. The fund's strategy of holding bonds with shorter-term maturities compared to the fund benchmark until interest rates return to historically normal levels detracted from performance. Interest rates for longer-term bonds decreased amid investor concerns regarding the near-term sustainability of global growth.
- Year-to-date, ETFIF gained **2.24%** but underperformed the benchmark by **2.10%** due to the fund's shorter-than-benchmark maturity profile.

U.S. Equity Fund

Fund	February	YTD
U.S. Equity Fund	+0.01%	-6.59%
Russell 3000 Index	-0.03%	-5.67%
Difference	+0.04%	-0.92%

- The U.S. Equity Fund (USEF) returned **0.01%** in February and slightly outperformed the fund benchmark by **0.04%**. There were no material contributors or detractors affecting the fund's benchmark-relative performance for the month.
- Year-to-date, the fund declined **6.59%** and underperformed the fund benchmark by **0.92%**. The fund's dedicated small-cap growth exposure and active manager performance within the large-cap market segment were the largest detractors to benchmark-relative performance. Five of the fund's six active large-cap managers have underperformed their respective benchmarks year-to-date. The fund benefited from its diversifying allocations to public real estate investment trusts, private real estate and private equity, which returned **-3.65%**, **-0.60%** and **1.86%**, respectively.

International Equity Fund

Fund	February	YTD
International Equity Fund	-1.00%	-7.57%
MSCI ACWI ex US Investable Market Index	-0.94%	-7.80%
Difference	-0.06%	+0.23%

- The International Equity Fund (IEF) declined **1.0%** in February and slightly underperformed its benchmark return by **0.06%**. The fund's daily valuation policy (described [here](#)) contributed most to the below benchmark performance. The adjustment for the month was **-0.86%**. The fund benefited

most from its underweight to Japan, which returned **-2.45%**, and strong manager stock selection in Japan.

- Year-to-date, the fund lost **7.57%** but outperformed its benchmark by **0.23%**. The fund benefited most from its allocation to private equity and real estate, which returned **-0.92%** compared to the **-7.80%** benchmark return. Moreover, an underweight allocation to Japan compared to the benchmark benefited relative performance as Japanese equities underperformed the benchmark by **2.37%**. Additionally, the fund's daily valuation policy (described [here](#)) positively contributed to benchmark performance.

Multiple Asset Fund

Fund	February	YTD
Multiple Asset Fund	-0.02%	-4.11%
Composite Benchmark	+0.00%	-3.65%
Difference	-0.02%	-0.46%

- For February, the Multiple Asset Fund (MAF) slightly declined **-0.02%** and underperformed its fund benchmark by **0.02%**. Three of the fund's four underlying strategies underperformed their respective benchmarks in February, with only the U.S. Equity Fund positively contributing to benchmark-relative performance.
- Year-to-date, the fund declined **4.11%** and underperformed its benchmark by **0.46%**. Three of the fund's underlying strategies underperformed their respective benchmarks, with only the International Equity Fund positively contributing to benchmark-relative results.

Equity Social Values Plus Fund

Fund	February	YTD
Equity Social Values Plus Fund	-1.02%	-6.50%
MSCI World Custom ESG Special Weighted Index	-0.44%	-6.36%
Difference	-0.58%	-0.14%

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

US Equity Index Fund

Fund	February	YTD
US Equity Index Fund	+0.01%	-5.78%
Russell 3000 Index	-0.03%	-5.67%
Difference	+0.04%	-0.11%

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

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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](#)