

February 2019 Investment Report

Highlights

- U.S. equity markets continued their 2019 rally, with the S&P 500 Index up 3.2% for the month and 11.5% year-to-date.
- Minutes from the January Federal Open Market Committee (FOMC) meeting indicated that it would curtail efforts to reduce its holding of government bonds by year-end.
- Surveys of corporate purchasing managers show contraction in manufacturing for several large global economies.
- In February, the U.S. Equity Fund, International Equity Fund, Fixed Income Fund, Inflation Protection Fund and Multiple Asset Fund outperformed their benchmarks.

Monthly Overview

Equity markets continue their momentum

Following the best January performance in 30 years, domestic equity markets continued their upward momentum. For U.S. stocks, gains of 3.2% in February were more moderate than the 8% gains seen in January. The Trump administration postponed additional tariff increases on Chinese goods beyond the March 1 deadline, which contributed to investor optimism.

The FOMC minutes further added to positive sentiment by indicating that it had near-unanimous agreement to stabilize the Fed's holdings of government bonds (balance sheet normalization) by year-end. Fed officials also signaled a willingness to tolerate periods of inflation above 2% if it felt that it would balance out periods of below 2% inflation. Investors might expect less aggressive FOMC actions were it to adopt the new inflation policy.

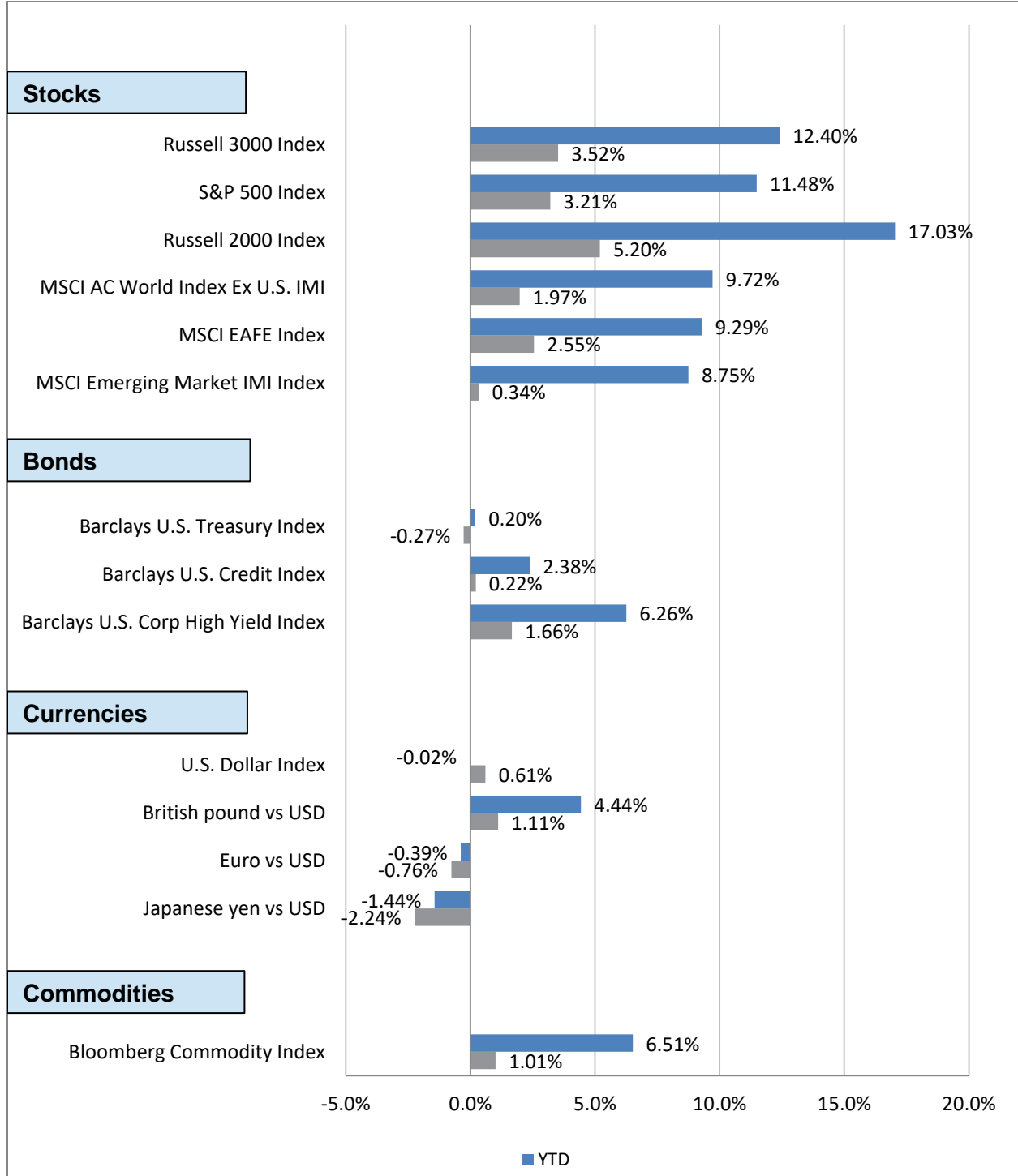
Global stocks also posted moderate gains as the MSCI EAFE Index returned 2.6% for the month. Waning China trade rhetoric helped support the positive sentiment, with the MSCI China Index gaining 3.5% in February.

Mixed economic indicators give pause

Despite healthy gains in the equity markets, February saw the release of mixed economic indicators. Initial fourth quarter U.S. Gross Domestic Product (GDP) growth of 2.6% (annualized) was better than consensus estimates of 2.5%, but slower than the third quarter's 3.4% growth rate. In addition, the Commerce Department reported that U.S. retail sales declined 1.2% in December, marking the biggest drop since 2009.

Manufacturing activity continued to contract in several major world economies. The Eurozone flash February Purchasing Managers Index (PMI) fell to 49.2, a 68-month low. Japan's manufacturing PMI fell to 48.5, a 32-month low. China's official manufacturing PMI also fell in February to 49.2, a 36-month low.

Market Performance



Source: FactSet, as of February 28, 2019

Key Monthly Economic Statistics

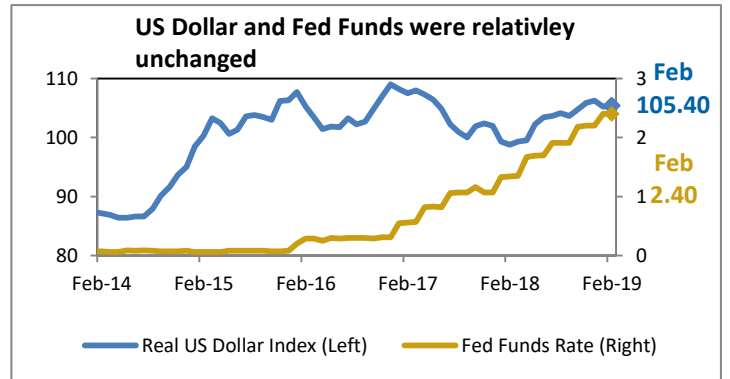
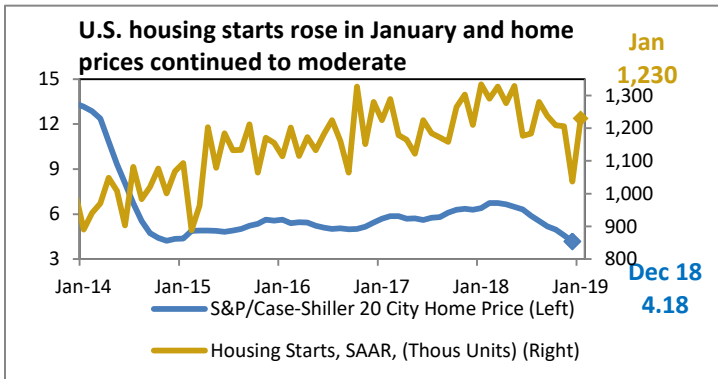
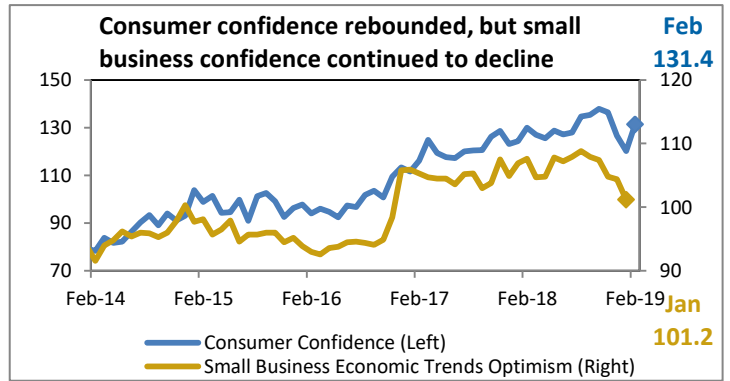
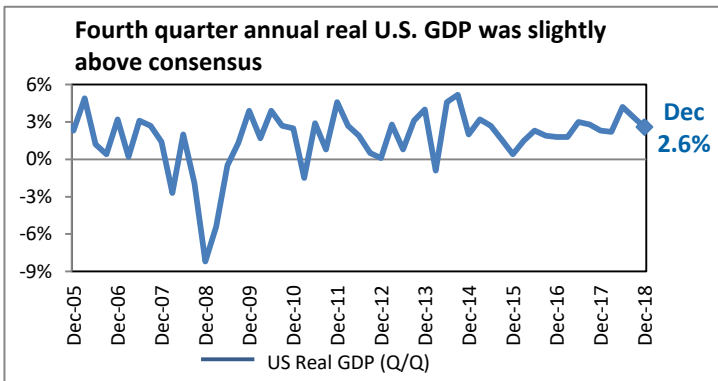
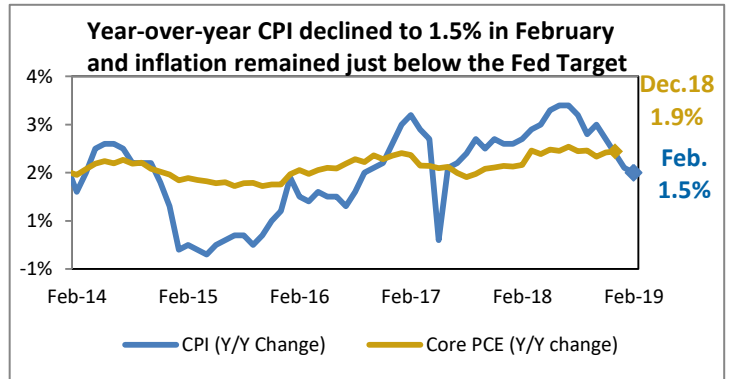
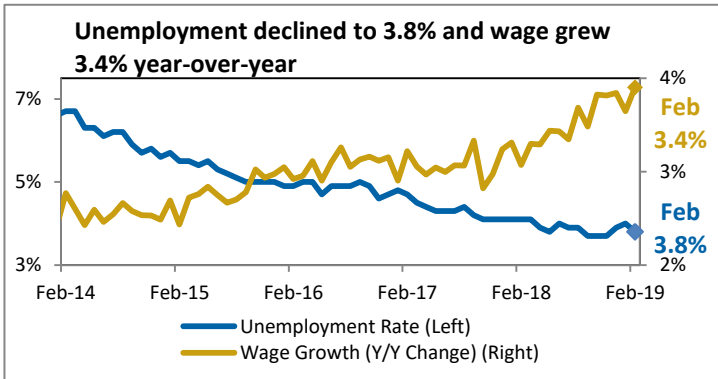
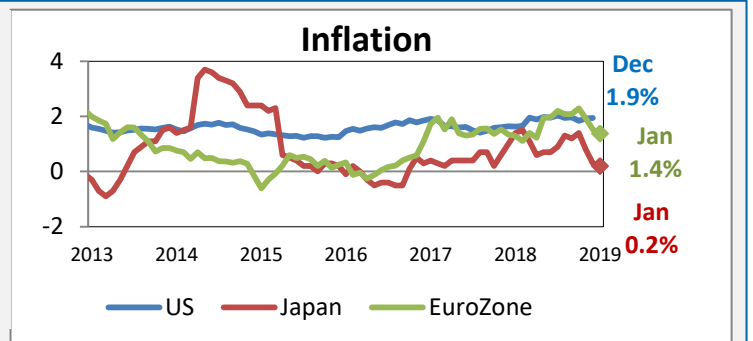


Chart of Month

- Major developed economy inflation rates remain below 2%.
- FOMC is starting to consider an average inflation target to allow periods of above 2% inflation to balance out periods of below 2% inflation.
- The average 2% inflation target may cause the Fed to raise rates slower than it has in the past.



Source: FactSet

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

Equity Funds

U.S. Equity Fund

Fund	February	YTD
U.S. Equity Fund	+4.49%	+14.54%
Russell 3000 Index	+3.52%	+12.40%
Difference (percentage points)	+0.97	+2.14

- For the month and year-to-date, the combination of the fund's strategic overweight to small- and mid-sized company stocks, and corresponding underweight to large-company stocks, positively contributed to benchmark-relative performance. Solid returns by a growth-oriented manager investing in top-performing healthcare and e-commerce stocks contributed the most. The fund's dedicated allocation to private equity and private real estate detracted from returns. Wespath's [Ethical Exclusions](#) policy also detracted mainly due to the strong performing aerospace sector.

International Equity Fund

Fund	February	YTD
International Equity Fund	+2.26%	+10.73%
MSCI ACWI ex U.S. Investable Market Index (Net)	+1.97%	+9.72%
Difference (percentage points)	+0.29	+1.01

- For the month, the combination of the fund's strategic underweight to developed market equities, and corresponding overweight to emerging market equities, negatively contributed to benchmark-relative returns. The fund benefited most from strong stock selection across most investment managers, as eight out of eleven active managers outperformed their respective benchmarks. The fund's strategic allocation to private equity and private real estate, along with the fair market valuation policy (described [here](#)), all detracted from returns.
- Year-to-date, the combination of the fund's strategic underweight to developed market equities, and corresponding overweight to emerging market equities, slightly contributed to benchmark-relative returns. Similar to February, the fund benefited most from strong stock selection with nine out of eleven active managers outperforming their respective benchmarks. The fund's strategic allocation to alternative investments, along with those stocks excluded for ethical reasons, detracted from performance. However, the fund's fair market valuation policy (described [here](#)), contributed positively to returns.

U.S. Equity Index Fund

Fund	February	YTD
U.S. Equity Index Fund	+3.36%	+12.10%
Russell 3000 Index	+3.52%	+12.40%
Difference (percentage points)	-0.16	-0.30

- The U.S. Equity Index Fund is a passively managed fund designed to closely match the fund benchmark, less fees and expenses. Ethical exclusions (described [here](#)) negatively impacted benchmark-relative performance during the month and year-to-date due to strong performing aerospace companies.

Fixed Income Funds

Fixed Income Fund

Fund	February	YTD
Fixed Income Fund	+0.28%	+2.26%
Barclays U.S. Universal (ex MBS) Index	+0.17%	+1.73%
Difference (percentage points)	+0.11	+0.53

- For the month, the overweight to below-investment-grade corporate bonds, as well as strong security selection from a core-plus manager, were the biggest contributors to benchmark-relative performance. Allocations to non-US dollar bonds and distressed real estate debt detracted.
- Year-to-date, the fund's overweight to below-investment-grade corporate bonds and emerging market debt positively contributed to positive benchmark-relative results. Exposure to non-US dollar debt, Wespath's Positive Social Purpose Lending Program and to U.S. Agency Commercial Mortgage Backed Securities partially offset benchmark relative gains.

Extended Term Fixed Income Fund

Fund	February	YTD
Extended Term Fixed Income Fund	-0.12%	+1.65%
Barclays U.S. Government/Credit Long Term Index	-0.55%	+1.67%
Difference (percentage points)	+0.43	-0.02

- The fund's policy of maintaining a lower sensitivity to interest rate movements contributed to month-to-date relative results.
- Year-to-date, the fund performed in line with the benchmark as relative gains from manager security selection were offset by the fund's exposure to long duration collateralized mortgage backed securities.

Inflation Protection Fund

Fund	February	YTD
Inflation Protection Fund	+0.12%	+2.29%
IPF Benchmark ⁱⁱ	-0.33%	+1.71%
Difference (percentage points)	+0.45	+0.58

- For the month and year-to-date, the out-of-benchmark exposure to below-investment grade floating rate bank loans, the underweight allocation to UK inflation-linked bonds and the overweight allocation to energy commodity contracts contributed to positive benchmark-relative performance.

Balanced Fund

Multiple Asset Fund

Fund	February	YTD
Multiple Asset Fund	+2.34%	+8.92%
MAF Benchmark ⁱⁱⁱ	+1.83%	+7.82%
Difference (percentage points)	+0.51	+1.10

- During the month and year-to-date, all sub-components positively contributed to benchmark-relative performance. The fund invests in the International Equity Fund, Fixed Income Fund, Inflation Protected Fund and the U.S. Equity Fund.

Social Values Choice Suite of Funds

Social Values Choice Bond Fund

Fund	February	YTD
Social Values Choice Bond Fund	+0.37%	+1.97%
Barclays U.S. Universal (ex MBS) Index	+0.17%	+1.73%
Difference (percentage points)	+0.20	+0.24

- For the month and year-to-date, the overweight to corporate bonds contributed to benchmark-relative performance, and the underweight to U.S. dollar denominated emerging market debt detracted from relative results.

Social Values Choice Equity Fund

Fund	February	YTD
Social Values Choice Equity Fund	+3.31%	+10.82%
SVCEF Benchmark ^{iv}	+3.32%	+10.64%
Difference (percentage points)	-0.01	+0.18

- 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 impacted performance during the month.

U.S. Treasury Inflation Protection Fund

Fund	February	YTD
U.S. Treasury Inflation Protection Fund	-0.12%	+1.35%
Barclays U.S. Inflation Linked Bond Index	-0.03%	+1.37%
Difference (percentage points)	-0.09	-0.02

- 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 and related documents](#) 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 Equity Social Values Plus Fund is the MSCI World Environmental, Social and Governance (ESG) ex Fossil Fuels Index.