

February 2020 Investment Report

Highlights

- Coronavirus (COVID-19) concerns reignited in late February and quickly pivoted from China to South Korea, Italy and Iran as health officials in those countries reported waves of infections.
- The S&P 500 declined 11.5% and into “correction” territory in the last week of the month. The popular index declined 8.3% on a year-to-date basis.
- China manufacturing Purchasing Managers’ Index (PMI) data fell to an all-time low of 40.3 in February from 51.1 in January; the services PMI fell to 26.5 from 51.8, the lowest reading on record and well into contraction territory, reflecting the severe quarantine and travel restrictions imposed to reduce the spread of the virus.
- Non-farm payrolls as reported by the Bureau of Labor Statistics grew by 273,000 new jobs in February, exceeding expectations and the unemployment rate dropped back to 3.5%.
- In February, the Multiple Asset Fund, U.S. Equity Fund, and International Equity Fund outperformed their respective benchmarks, while the Fixed Income Fund and Inflation Protection Fund underperformed their benchmarks.

Monthly Overview

Markets respond to global implications of COVID-19

Investors came to understand COVID-19 as a global threat, with new waves of cases emerging around the world. Equity markets fell dramatically into correction territory even as new cases in China greatly diminished over the month. Negative sentiment may persist as testing becomes more widely available and reported case counts grow.

The S&P 500 fell nearly 13% from its February 19th high in response to the likely impact the virus will have on economic growth. Through month end, the S&P 500 was down 8.3% for the year. All industrial sectors were negative, with materials, energy and financials down the most. Government imposed travel restrictions disproportionately affected the travel and leisure industry. Analysts revised down their corporate earnings estimates, and some analysts now forecast no earnings growth for the year. The 10-year Treasury yield fell to a record low of 1.12% at month end.

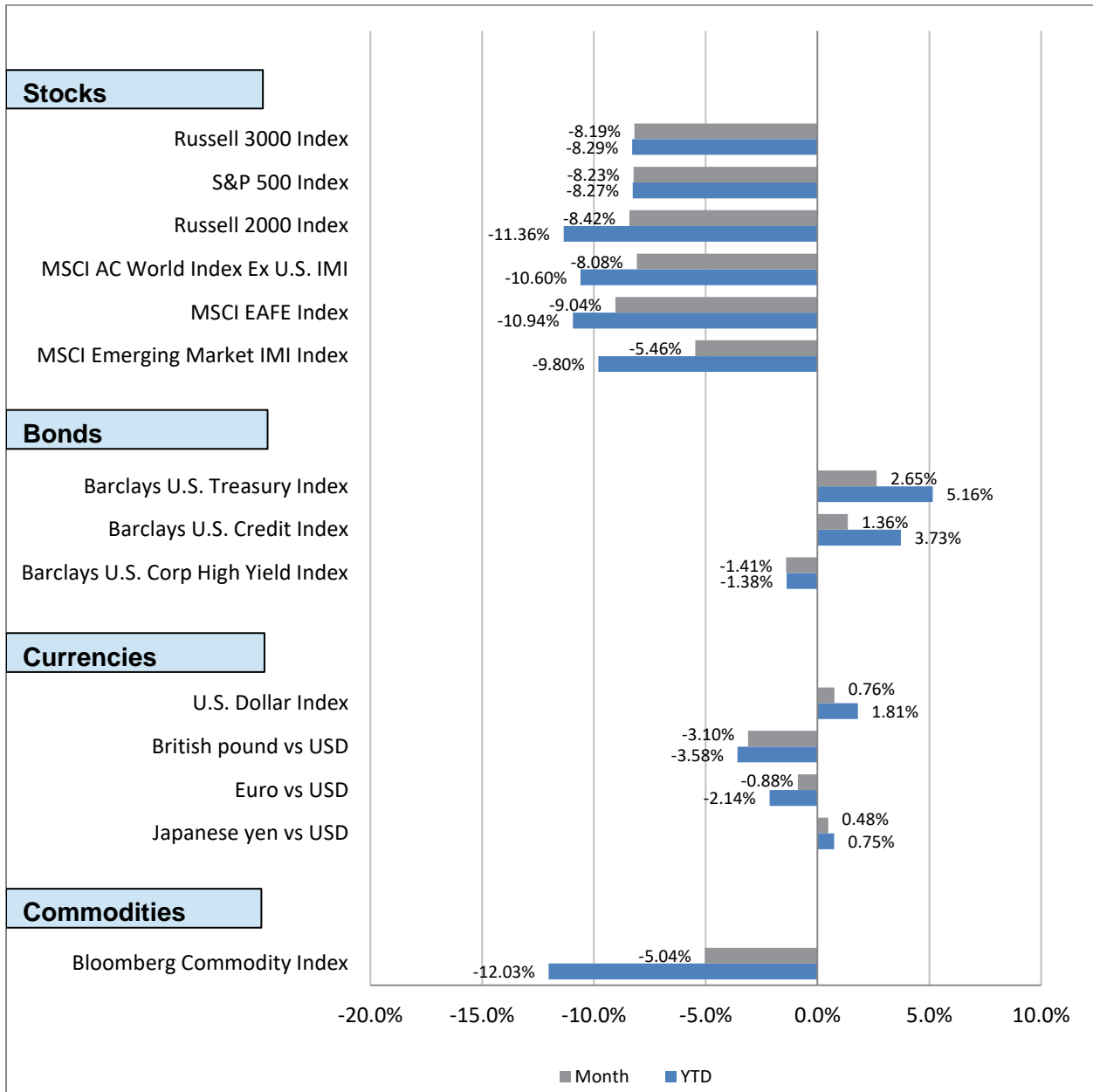
Economic impacts

Strict quarantine measures adopted by China meant that consumer demand stalled. This drop in demand will likely extend for several more months. With the virus seemingly contained and China getting back to work, flight activity, traffic congestion and coal consumption for electricity remain about 25% below normal levels. Restaurant and movie theater activity were down by nearly 90% over the year-ago period. The extended shutdown in China impacted supply chains and reduced commodity prices. West Texas Intermediate (WTI) crude oil fell by 23% year to date.

While individual country responses will likely differ, economists expect that the global impact from COVID-19 will be meaningful. Once risks pass, manufacturing activity should rebound and partially make up for lost production.

We recognize the current situation is fluid and risks are developing. However, Wespath adheres to a consistent, long-term and disciplined strategy for managing a diversified investment program. We continue to follow this strategy in both up markets and down markets, and it has successfully stood the test of time.

Market Performance



Source: FactSet, as of February 29, 2020

Key Monthly Economic Statistics

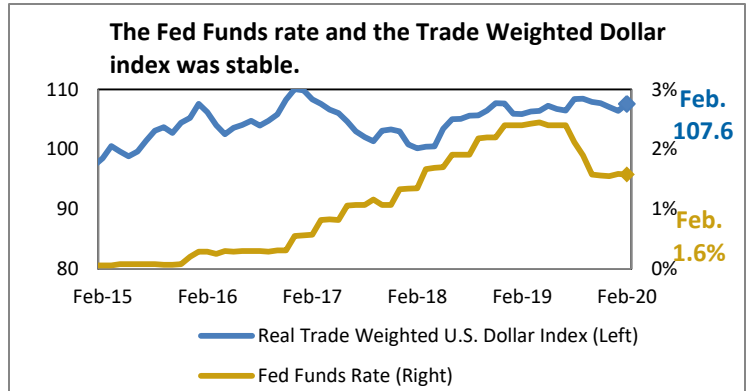
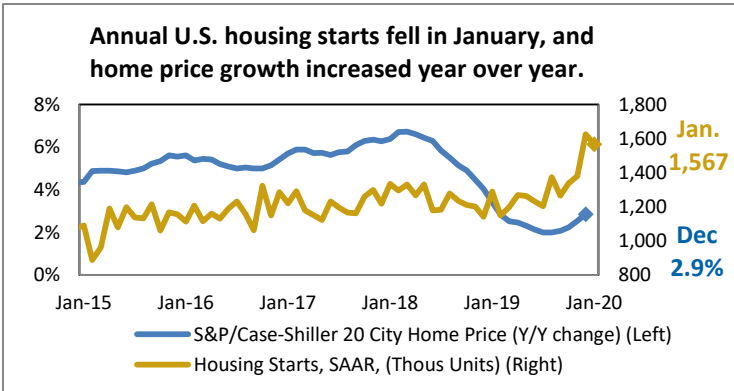
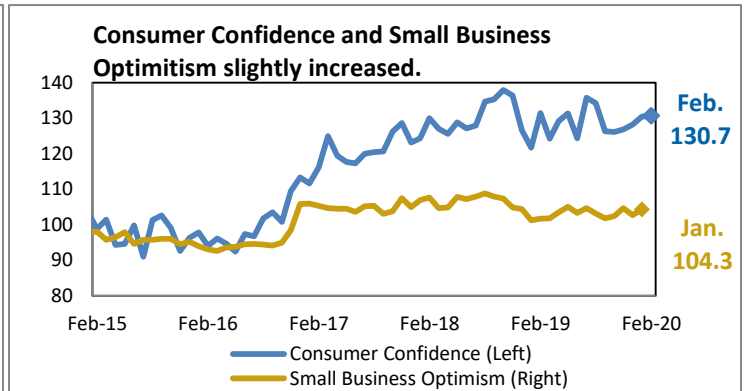
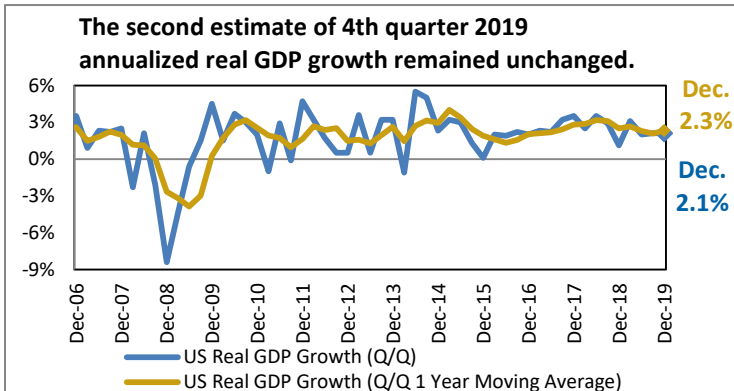
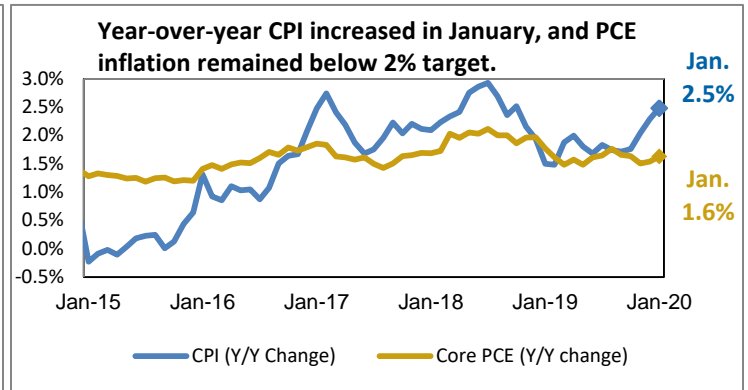
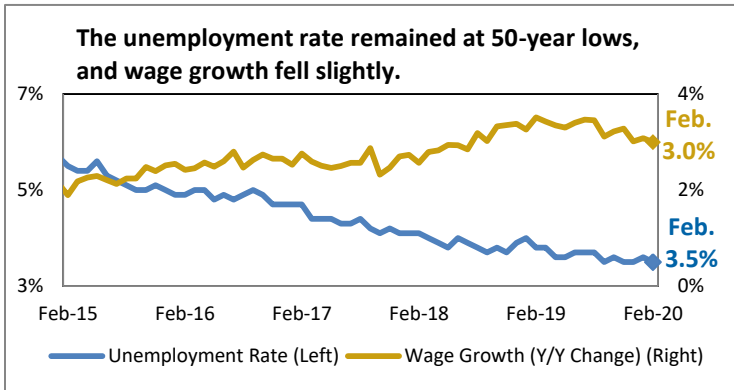
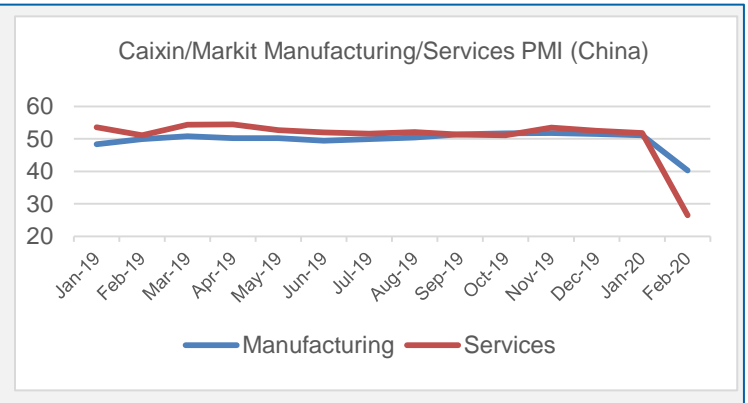


Chart of Month

- China monthly PMI data is a good way to observe the impact of travel restrictions and company closures in real time. A sharp decline in business activity resulted in the fastest decline and the lowest PMI readings on record. Manufacturing activity fell to financial crisis levels, and services activity fell by over 25 points to its first ever negative reading.
- The Chinese government recently announced supportive policies for heavily affected industries, but it will be more difficult for services companies to make up their cash flow losses as consumer behavior changes.
- Business confidence fell to a low in February, while confidence in the year-ahead period rose to a five-year high for manufacturers on hopes conditions will recover. In contrast, year-ahead confidence for services hit the lowest level since the survey began in 2005.



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

Equity Funds

U.S. Equity Fund

| Fund | February | YTD |
|--------------------------------|----------|--------|
| U.S. Equity Fund | -7.02% | -7.03% |
| Russell 3000 Index | -8.19% | -8.29% |
| Difference (percentage points) | +1.17 | +1.26 |

- During the month, the fund benefited most from investments made by a growth-oriented all-cap manager, specifically holdings in a tele-healthcare provider and e-commerce companies. Private equity and private real estate contributed positively to relative performance during the month. The fund's overweight allocation to small- and mid-cap company stocks, and corresponding underweight to large-cap companies, detracted from benchmark-relative performance.
- Year to date, investments in an innovative electric car manufacturer and e-commerce companies contributed the most to benchmark-relative performance. Holdings in the alternative strategies of private equity and private real estate also benefited relative performance. The fund's strategic overweight to small- and mid-sized company stocks, and corresponding underweight to large-company stocks, detracted from benchmark-relative returns.

International Equity Fund

| Fund | February | YTD |
|---|----------|---------|
| International Equity Fund | -6.06% | -9.11% |
| MSCI ACWI ex U.S. Investable Market Index (Net) | -8.08% | -10.60% |
| Difference (percentage points) | +2.02 | +1.49 |

- During the month and year-to-date periods, the fund benefited most from outperformance by the majority of active managers versus their respective benchmarks and the fund's fair market valuation policy (described [here](#)). The strategic overweight to emerging market equities, and corresponding underweight to stocks of companies from developed economies, investments in private equity and private real estate, and stocks excluded in compliance with Wespath's Exclusions policy (described [here](#)) positively impacted relative performance.

U.S. Equity Index Fund

| Fund | February | YTD |
|--------------------------------|----------|--------|
| U.S. Equity Index Fund | -8.17% | -8.38% |
| Russell 3000 Index | -8.19% | -8.29% |
| Difference (percentage points) | +0.02 | -0.09 |

- The U.S. Equity Index Fund is a passively managed fund designed so that it closely matches the fund benchmark, less fees and expenses. Wespath's Exclusions policy (described [here](#)) positively impacted benchmark-relative performance during the month and year to date.

Fixed Income Funds

Fixed Income Fund

| Fund | February | YTD |
|--|----------|--------|
| Fixed Income Fund | +0.88% | +2.59% |
| Barclays U.S. Universal (ex MBS) Index | +1.63% | +3.78% |
| Difference (percentage points) | -0.75 | -1.19 |

- During February and year to date, allocations to emerging market debt and below-investment-grade corporate bonds both detracted from benchmark-relative performance. Exposure to multi-family housing through high-quality U.S. agency commercial mortgage-backed securities and the Positive Social Purpose Lending program added to benchmark-relative performance.

Extended Term Fixed Income Fund

| Fund | February | YTD |
|---|----------|--------|
| Extended Term Fixed Income Fund | +2.72% | +6.44% |
| Barclays U.S. Government/Credit Long Term Index | +4.01% | +9.44% |
| Difference (percentage points) | -1.29 | -3.00 |

- The fund's policy of maintaining a lower sensitivity to interest rate movements detracted from benchmark-relative results. Additionally, exposure to below-investment-grade corporate bonds detracted from relative performance.

Inflation Protection Fund

| Fund | February | YTD |
|--------------------------------|----------|--------|
| Inflation Protection Fund | -0.21% | +0.38% |
| IPF Benchmark ⁱⁱ | +0.05% | +1.43% |
| Difference (percentage points) | -0.26 | -1.05 |

- In February and year to date, the fund's underweight exposure to U.K. inflation-linked securities and its allocation to the diversifying strategy of below-investment-grade floating rate bank loans detracted from benchmark-relative performance.

Balanced Fund

Multiple Asset Fund

| Fund | February | YTD |
|--------------------------------|----------|--------|
| Multiple Asset Fund | -4.13% | -4.65% |
| MAF Benchmark ⁱⁱⁱ | -4.88% | -5.06% |
| Difference (percentage points) | +0.75 | +0.41 |

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

Social Values Choice Suite of Funds

Social Values Choice Bond Fund

| Fund | February | YTD |
|--|----------|--------|
| Social Values Choice Bond Fund | +1.59% | +3.81% |
| Barclays U.S. Universal (ex MBS) Index | +1.63% | +3.78% |
| Difference (percentage points) | -0.04 | +0.03 |

- No material performance contributors or detractors.

Social Values Choice Equity Fund

| Fund | February | YTD |
|----------------------------------|----------|--------|
| Social Values Choice Equity Fund | -7.51% | -7.55% |
| SVCEF Benchmark ^{iv} | -7.80% | -7.60% |
| Difference (percentage points) | +0.29 | +0.05 |

- The Social Values Choice Equity Fund is a passively managed fund designed so that it closely matches the fund benchmark, less fees and expenses. The fair market valuation policy (described [here](#)) positively affected benchmark-relative performance during the month and year-to-date.

U.S. Treasury Inflation Protection Fund

| Fund | February | YTD |
|---|----------|--------|
| U.S. Treasury Inflation Protection Fund | +1.43% | +3.77% |
| Barclays U.S. Inflation Linked Bond Index | +1.49% | +3.78% |
| Difference (percentage points) | -0.06 | -0.01 |

- The U.S. Treasury Inflation Protection Fund is a passively managed fund designed so that it closely matches the performance of the fund benchmark, less fees and expenses.

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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.