

June 2016 Investment Report

June Highlights

- United Kingdom (U.K.) voters shocked global markets by voting to exit the European Union (EU) in a highly anticipated referendum.
- Currency markets were volatile subsequent to the U.K. vote—the Japanese yen appreciated 8.1% relative to the U.S. dollar; the British pound decreased 8.2%, reaching a 30-year low.
- The U.S. Federal Reserve (Fed) left interest rates unchanged at its June meeting, citing a weak labor market.
- Wespath's active equity funds declined amid heightened volatility and the market's search for higher-yielding stocks. Fixed income funds gained as global economic uncertainty drove bond yields lower, and improving economic outlook for several developing countries (notably Brazil) resulted in the appreciation of their currencies.

Monthly Overview

British voters' decision to exit the EU ("Brexit") created significant uncertainty and market volatility.

The U.K.'s vote to exit the economic union of 28 member states surprised most investors, as polls indicated a "remain" outcome heading into the June 23 referendum. U.K. Prime Minister David Cameron, who campaigned for remaining in the EU, announced afterward that he would step down once his party named a successor, sending U.K. political leadership into disarray. Political analysts questioned the long-term viability of the EU if other member countries moved forward with similar referendums. The turmoil prompted economists to lower their estimates for future economic growth in the U.K. and world.

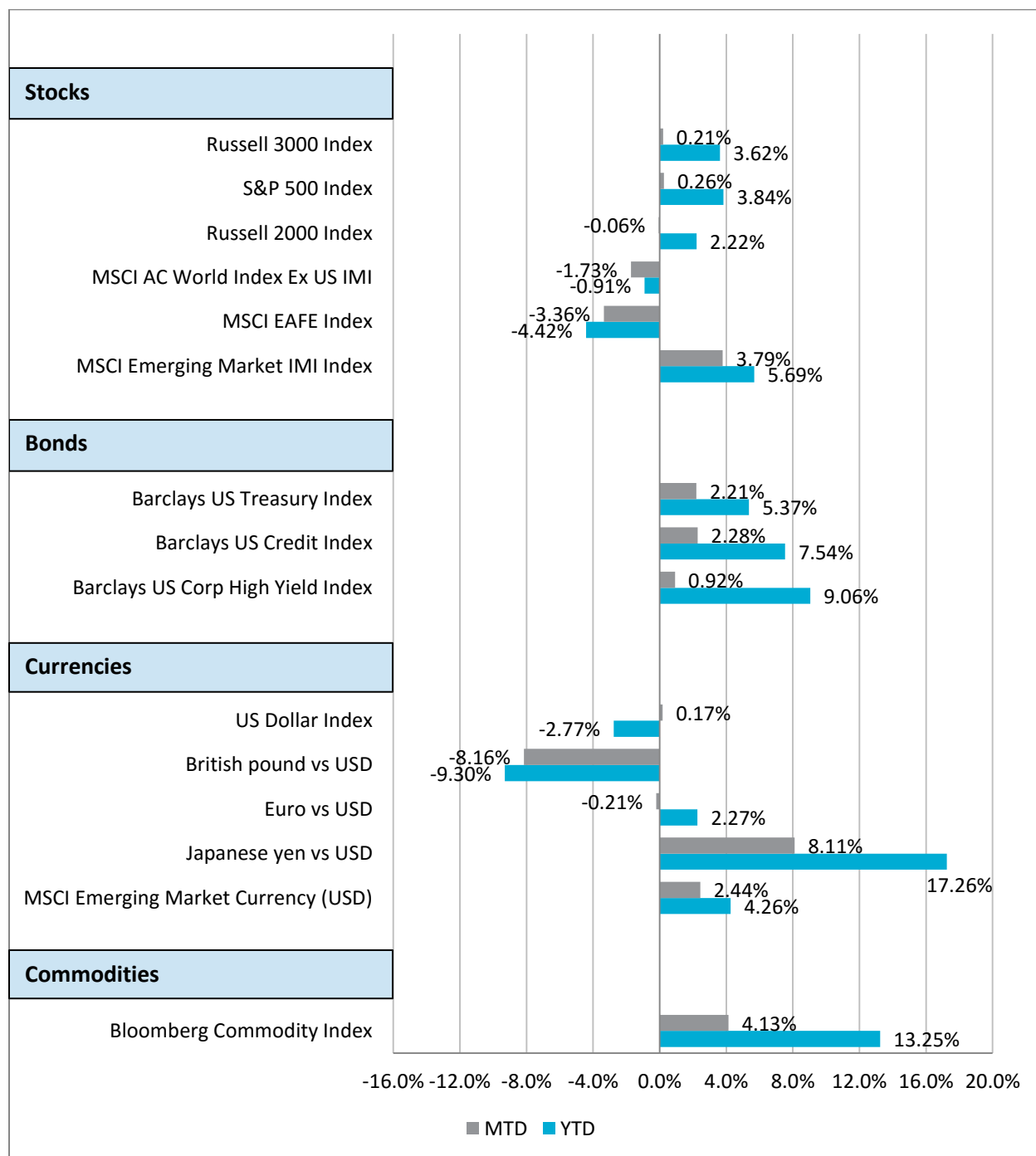
Financial markets responded significantly to the uncertainty, and the British pound decreased more than 8% relative to the U.S. dollar—a 30-year low. Global stock markets declined sharply immediately following the vote but then recovered during the final three trading days of the month.

Global government bond yields declined.

Earlier in the month, the U.S. Labor Department reported that the U.S. economy added a disappointing 38,000 nonfarm jobs in May. After the weak jobs report and surprise Brexit outcome, market expectations for a Fed interest rate increase have been pushed to beyond 2016. Investors sought safety in highly rated government bonds, as the 10-year U.S. Treasury note yield declined by 0.38 percentage points to end June at 1.47%. The yield on 10-year U.K. government notes declined by 0.56 percentage points to a record low 0.87% as U.K. investors sought safety amid Brexit-induced uncertainty.

Investors flocked to higher dividend-yielding equities and emerging market debt in light of declining developed market bond yields and expectations for further central bank stimulus.

Market Performance



Source: FactSet, As of June 30, 2016

Key Monthly Economic Statistics

Statistic	Monthly/Yearly Change	Positive
Consumer Confidence	Jun: 98.0 (May: 92.4)	▲
Existing Home Sales	May: 1.8% (Apr: 1.3%); M/M-SAAR	▲
Factory Orders	Apr: 1.9% (Mar: 1.7%); M/M-SA	▲
Institute for Supply Management Index	May: 51.3 (Apr: 50.8)	▲
Producer Price Index core	Jun: 0.3% (May: 0.1%); M/M-SA	▲
Producer Price Index	Jun: 0.4% (May: 0.2%); M/M-SA	▲
Unemployment Rate	May: 4.7% (Apr: 5.0%)	▲
		Neutral
Consumer Price Index core	Jun: 0.2% (May: 0.2%); M/M-SA	◆
Consumer Price Index	Jun: 0.2% (May: 0.4%); M/M-SA	◆
S&P/Case-Shiller 20-City Home Price Index	Apr: 5.4% (Mar: 5.5%); Y/Y	◆
		Negative
Durable Goods Orders	May: -2.2% (Apr: 3.3%); M/M-SA	▼
Housing Starts	May: -0.3% (Apr: 4.9%); M/M-SAAR	▼
New Home Sales	May: -6.0% (Apr: 12.3%); M/M-SAAR	▼
Nonfarm Payrolls	May: 38,000 (Apr: 123,000)	▼
Real Gross Domestic Product	Apr: 1.1% (Jan: 1.4%); Q/Q-SAAR	▼
Retail Sales ex-auto	Jun: 0.4% (May: 0.8%); M/M-SA	▼
Retail Sales	Jun: 0.5% (May: 1.3%); 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	FactSet

Investment Fund Review (Net of Fees Performance)ⁱ

Equity Funds

U.S. Equity Fund

Fund	June	QTD	YTD
U.S. Equity Fund	-0.58%	+1.96%	+1.99%
Russell 3000 Index	+0.21%	+2.63%	+3.62%
Difference (percentage points)	-0.79	-0.67	-1.63

- The collective underweight position by the U.S. Equity Fund's third-party investment managers in higher-yielding stocks—such as utilities, telecommunications and energy—detracted significantly from performance across the monthly, quarterly and year-to-date periods. The fund's benchmark-relative performance was also hurt by above-market gains in a number of ethically excluded stocks for all periods. However, the fund's overweight to small- and mid-cap companies and a corresponding underweight to large-cap positively contributed to the fund's benchmark-relative performance for the month, quarter and year-to-date. Performance within the information technology sector also bolstered returns.

International Equity Fund

Fund	June	QTD	YTD
International Equity Fund	-0.91%	+0.14%	+0.78%
MSCI ACWI ex US Investable Market Index	-1.73%	-0.68%	-0.91%
Difference (percentage points)	+0.82	+0.82	+1.69

- The International Equity Fund's daily valuation policy (described [here](#)) significantly contributed to the fund's positive benchmark-relative performance across all three periods.
- During the month and quarter, the fund benefited from allocations to private real estate and emerging markets, but small-cap equities detracted from benchmark-relative performance.
- Year-to-date, the fund's allocation to alternative investments (specifically private equity and private real estate) positively contributed to performance compared to the benchmark. However, small-cap equities detracted from performance.

Equity Social Values Plus Fund

Fund	June	QTD	YTD
Equity Social Values Plus Fund	-1.01%	+1.21%	+1.31%
MSCI World Custom ESG Special Weighted Index	-1.30%	+1.11%	+1.46%
Difference (percentage points)	+0.29	+0.10	-0.15

- 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	June	QTD	YTD
U.S. Equity Index Fund	+0.17%	+2.52%	+3.40%
Russell 3000 Index	+0.21%	+2.63%	+3.62%
Difference (percentage points)	-0.04	-0.11	-0.22

- 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	June	QTD	YTD
Fixed Income Fund	+2.06%	+3.07%	+6.78%
Barclays U.S. Universal (Ex MBS) Index	+2.05%	+2.98%	+6.49%
Difference (percentage points)	+0.01	+0.09	+0.29

- During June, the Fixed Income Fund's 10% allocation to emerging market bonds was the strongest contributor to growth. This was partially due to the appreciation of developing country currencies amid an improving economic outlook (notably Brazil) and increasing probability for further monetary stimulus in developed countries. Wespeth's Positive Social Purpose (PSP) Lending program also contributed positively. The fund's allocations to below-investment-grade corporate bonds and credit opportunities were the biggest detractors.
- Quarter-to-date, the fund's allocations to emerging market bonds, below-investment-grade corporate bonds and PSP loans each increased at least 4.5% and were the strongest contributors. Global bonds from developed countries were the biggest detractor as the gains resulting from declining yields were partially offset by weakness in the British pound and the euro.
- Year-to-date, emerging market bonds increased 11.5% and were the strongest contributors. Developing country currencies have benefitted from rising commodity prices and declining expectations for Fed interest rate increases.

Extended Term Fixed Income Fund

Fund	June	QTD	YTD
Extended Term Fixed Income Fund	+3.09%	+4.31%	+9.37%
Barclays US Government/Credit Long Term Index	+4.92%	+6.55%	+14.33%
Difference (percentage points)	-1.83	-2.24	-4.96

- Longer maturity bonds outperformed shorter maturity bonds during the month, quarter and year-to-date as yields declined globally amid political and economic uncertainty. The Extended Term Fixed

Income Fund gained strongly on an absolute basis, but the fund's strategy of holding bonds with shorter-term maturities than the benchmark until interest rates return to historically normal levels detracted from benchmark-relative performance.

Inflation Protection Fund

Fund	June	QTD	YTD
Inflation Protection Fund	+2.84%	+3.50%	+7.29%
BC Universal Government Inflation Linked Bond Index (USD Unhedged)	+2.97%	+2.59%	+8.70%
Difference (percentage points)	-0.13	+0.91	-1.41

- The Inflation Protection Fund's strategy of hedging developed market currencies benefitted performance following Brexit and the subsequent weakening of the British pound, the euro and other developed market currencies. The 10% allocation to senior secured loans detracted from fund performance.
- After a jump in commodity prices during the second quarter, the 9% allocation to the diversifying strategy of commodities futures contracts positively contributed to quarterly and year-to-date performance, with a return of 11.8% for both periods. The 10% allocation to emerging market inflation-linked securities performed best year-to-date with a 13.3% return. Detracting from year-to-date returns was the fund's 3% allocation to high yield asset backed securities, which increased only 1%.

Balanced Fund

Multiple Asset Fund

Fund	June	QTD	YTD
Multiple Asset Fund	+0.34%	+1.95%	+3.45%
Composite Benchmark ⁱⁱ	+0.46%	+1.90%	+3.79%
Difference (percentage points)	-0.12%	+0.05%	-0.34%

- Two of the Multiple Asset Fund's (MAF) four underlying strategies outperformed their respective benchmarks in June. The U.S. Equity Fund (USEF) was the primary detractor from benchmark-relative performance.
- For the quarter, USEF detracted from performance, while the remaining funds positively contributed to MAF's benchmark-relative performance.
- Year-to-date, the International Equity Fund contributed most positively to benchmark-relative performance, while USEF detracted the most.

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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](#) for more information about the Funds. This is not an offer to purchase securities. Offers will only be made through the *Investment Funds Description*.

ⁱⁱ Prior to January 1, 2006, the benchmark for the Multiple Asset Fund (MAF) was a blended index with weightings as follows: 47% Russell 3000 Index, 15% MSCI EAFE Index, 3% MSCI Emerging Markets Index and 35% Lehman Brothers U.S. Universal Index. On January 1, 2006, the performance benchmark for MAF became a blended index based on the following weightings: 45% Russell 3000 Index, 20% MSCI All Country World Index ex USA IMI, 25% Barclays Capital U.S. Universal Index ex-Mortgage Backed Securities and the 10% Barclays Capital U.S. Government Inflation-Linked Bond Index. On January 1, 2014, the performance Benchmark for MAF became 40% Russell 3000 Index, 25% 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% Barclays Capital U.S. Government Inflation-Linked Bond Index. On January 1, 2016, the performance Benchmark for MAF became 40% Russell 3000 Index, 25% 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% Barclays Capital Universal Government Inflation Linked Bond Index (USD Unhedged).