

May 2016 Investment Report

Monthly Report

Markets

- U.S. equities, represented by the Russell 3000 Index, increased **1.8%** in May as confidence in the economic recovery strengthened. Oil prices continued their upward progress, briefly crossing the **\$50** per barrel threshold. Small company stocks rose **2.3%**, as measured by the Russell 2000 index, and for the fourth consecutive month outperformed large company stocks, which gained **1.8%** as measured by the S&P 500 index. Within the Russell 3000, technology sector stocks performed best gaining **6.0%**, while energy declined **1.2%** and was the worst performing sector despite the steady rise in crude oil prices.
- Non-U.S. stocks declined **1.6%** in May, as measured by the MSCI ACWI ex USA Investable Market Index (IMI). Developing market stocks fell **3.7%**, as measured by the MSCI Emerging Markets IMI, underperforming developed international market stocks, which returned **-0.9%** as measured by the MSCI EAFE Index. Dollar appreciation of nearly **3%** against a trade-weighted basket of currencies negatively affected returns.
- The U.S. Treasury yield curve moved higher for most maturities in May with shorter maturities gaining the most in terms of yield as investors anticipated an increase in the overnight Fed Funds lending rate. Treasuries maturing in 30 years exhibited less sensitivity to the expected rate hike. The 2-year and 10-year Treasury note yields increased **0.10%** and **0.02%** to end the month at **0.88%** and **1.85%**, respectively. Conversely, 30-year U.S. Treasury Bonds decreased in yield **0.03%** and ended the month at **2.65%**.
- U.S. Treasury securities, as measured by the Barclays U.S. Treasury Index, ended the month flat. Long-dated treasuries performed positively, but this was offset by the negative performance associated with shorter-dated issues. Corporate debt securities modestly underperformed Treasury securities during May with a decrease of **0.04%**, as measured by the Barclays U.S. Credit Index. Below-investment-grade debt, as measured by the Barclays U.S. Corporate High Yield Index, continued to show improvement and outperformed higher quality debt, increasing **0.62%**.
- The U.S. dollar strengthened **2.9%** in May, as measured by the U.S. Dollar Index. The euro and Japanese yen weakened **2.8%** and **3.9%** relative to the dollar, respectively. The strength in the dollar is, in part, reflective of the market's anticipation of near-term Federal Reserve (Fed) action to raise interest rates and the relative attractiveness of U.S. bond yields compared with those of other developed economies.
- Commodities, as represented by the Bloomberg Commodity Index, decreased **0.2%** in May. The positive performance from energy and agriculture of **3.1%** and **3.4%**, respectively, was offset by declines in industrial metals and precious metals of **7.3%** and **7.1%**, respectively.

Economics Highlights

- The April employment report reflected an addition of **160,000** new jobs, but was below the consensus forecast of **205,000**. The unemployment rate held steady at **5.0%** and the labor force participation rate decreased by **0.2%** to **62.8%**. Average hourly earnings increased in the month from **\$25.45** to **\$25.53**, for a total one-year gain of **2.5%**.
- The Fed released April meeting minutes which indicate it is considering raising its benchmark interest rate at the next meeting in June if supported by positive economic data. Following the release, the futures markets priced the probability of a June rate increase at approximately **34%** compared to **4%** a few days before the release.
- The first quarter gross domestic product (GDP) growth was revised to a higher seasonally adjusted annual rate of **0.8%** from the previous estimate of **0.5%**. Real growth ranged between **1.4%** and **3.9%** for the previous three quarters. Soft consumer spending and a strong dollar hampered first quarter GDP growth. In the Eurozone, first quarter GDP results were revised down from **0.6%** to **0.5%**.
- The Consumer Confidence Index declined in May to **92.6** from **94.2** reported in April and **96.1** in March. Consumers expressed concerns about their short-term outlook on the economy and labor markets.
- New home sales increased **16.6%** in April 2016 to an annualized rate of **619,000**, the highest pace since January 2008.

Geopolitical Headlines

- Wildfires in Alberta, Canada destroyed approximately 2,400 buildings and affected the production of an estimated one million barrels of oil a day from oil sands. The disruption of about 25% of Canada's total oil production contributed to a rise in global oil prices. The wildfires began to recede at the end of the month with producers restarting operations and residents returning to the areas impacted by the fire.
- Donald Trump reached the number of delegates needed to secure the GOP presidential nomination. On the Democratic side, the race between Hillary Clinton and Bernie Sanders continued past month-end. (Ms. Clinton became the party's nominee in June.)
- On May 19, EgyptAir Flight 804, en route from Paris to Cairo, crashed into the Mediterranean Sea killing all **66** people on board. The cause of the crash is unknown and the search for the plane's black box continues. The crash is expected to negatively impact the country's tourism industry which accounts for approximately **11%** of their gross domestic product.

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.

	<p>Positive Statistics</p> <ul style="list-style-type: none"> • Consumer Confidence, May: 92.6 (Apr: 94.7) • Consumer Price Index, May: 0.4% (Apr: 0.1%); M/M-SA • Durable Goods Orders, Apr: 3.4% (Mar: 1.9%); M/M-SA • Factory Orders, Mar: 1.5% (Feb: -1.9%); M/M-SA • Housing Starts, Apr: 6.6% (Mar: -9.4%); M/M-SAAR • New Home Sales, Apr: 16.6% (Mar: -1.3%); M/M-SAAR • Producer Price Index, May: 0.2% (Apr: -0.1%); M/M-SA • Retail Sales ex-auto, May: 0.8% (Apr: 0.4%); M/M-SA • Retail Sales, May: 1.3% (Apr: -0.3%); M/M-SA • Unemployment Rate, Apr: 5.0% (Mar: 5.0%)
	<p>Neutral Statistics</p> <ul style="list-style-type: none"> • Consumer Price Index core, May: 0.2% (Apr: 0.1%); M/M-SA • Producer Price Index core, May: 0.1% (Apr: -0.1%); M/M-SA • S&P/Case-Shiller 20-City Home Price Index, Mar: 5.4% (Feb: 5.4%); Y/Y
	<p>Negative Statistics</p> <ul style="list-style-type: none"> • Existing Home Sales, Apr: 1.7% (Mar: 5.7%); M/M-SAAR • Institute for Supply Management Index, Apr: 50.8 (Mar: 51.8) • Nonfarm Payrolls, Apr: 160,000 (Mar: 208,000) • Real Gross Domestic Product, Mar: 0.8% (Dec: 1.4%); Q/Q-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)

As U.S. economic news improved in May, investor confidence strengthened and contributed to modest positive performance in the equity markets. A strengthening U.S. dollar negatively affected returns of international stocks. Although oil prices continued to rise, crossing the \$50 per barrel mark at one point, overall commodity prices decreased during the month. Fixed income markets remained relatively flat. Investors remained focused on economic data, which will influence the Fed's timing of future interest rate hikes.

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	May	YTD
Inflation Protection Fund	-0.54%	+4.32%
BC Universal Government Inflation Linked Bond Index (USD Unhedged)	-1.31%	+5.57%
Difference	+0.77%	-1.25%

- The Inflation Protection Fund (IPF) declined **0.54%** in May but outperformed the fund's benchmark by **0.77%**. The fund's greater-than-benchmark U.S. dollar exposure contributed to benchmark-relative performance as the dollar appreciated during the month. The fund's 30% allocation to developed country inflation-linked bonds—currency-hedged to the U.S. dollar—increased **0.7%** during May and was the strongest contributor to fund performance. The smaller allocations to floating rate senior secured loans and high-yield asset backed securities also positively contributed, increasing **0.8%** and **1.8%**, respectively. The fund's 10% allocation to unhedged inflation-linked bonds of developing countries decreased **5.8%** and was the largest performance detractor.
- Year-to-date, IPF gained **4.32%** but underperformed its benchmark by **1.25%**. The fund's higher U.S. dollar currency exposure relative to its index was the primary cause of below-benchmark performance as the dollar depreciated earlier in the year. The fund's currency hedged inflation-linked bonds from developed countries increased **3.4%** but detracted the most from IPF's benchmark-relative performance. The fund's strongest contributors to benchmark-relative performance were its allocations to commodities futures contracts and developing country inflation-linked bonds, which gained **8.6%** and **6.7%**, respectively.

Fixed Income Fund

Fund	May	YTD
Fixed Income Fund	-0.26%	+4.62%
Barclays U.S. Universal (Ex MBS) Index	+0.06%	+4.35%
Difference	-0.32%	+0.27%

- The Fixed Income Fund (FIF) declined **0.26%** in May and underperformed its benchmark return by **0.32%**. The strength of the U.S. dollar relative to other currencies detracted from the performance of FIF's non-dollar exposures. The fund's 10% allocation to developing country bonds decreased **2.4%**, and the 15% allocation to global developed country bonds decreased **0.9%**. The fund's largest

core bond allocation increased **0.4%** during the month, contributing positively to the fund's benchmark-relative performance.

- Year-to-date, FIF gained **4.62%** and outperformed its benchmark by **0.27%**. The fund's 8% allocation to below-investment-grade corporate bonds and 10% allocation to developing country bonds contributed the most, increasing **7.4%** and **6.6%**, respectively.

Extended Term Fixed Income Fund

Fund	May	YTD
Extended Term Fixed Income Fund	+0.07%	+6.09%
Barclays US Government/Credit Long Term Index	+0.32%	+8.97%
Difference	-0.25%	-2.88%

- The Extended Term Fixed Income Fund (ETFIF) gained **0.07%** in May but underperformed its benchmark return by **0.25%**. Longer maturity bonds outperformed shorter maturity bonds during the month as the yield curve flattened. Therefore, the fund's strategy of holding bonds with shorter-term maturities than the fund benchmark until interest rates return to historically normal levels detracted from performance.
- Year-to-date, ETFIF gained **6.09%** but underperformed the benchmark by **2.88%** due to the fund's shorter-than-benchmark maturity profile.

U.S. Equity Fund

Fund	May	YTD
U.S. Equity Fund	+1.84%	+2.58%
Russell 3000 Index	+1.79%	+3.41%
Difference	+0.05%	-0.83%

- The U.S. Equity Fund (USEF) returned **1.84%** in May, slightly outperforming the fund benchmark by **0.05%**. The fund's strategic asset allocation, which includes an overweight to small- and mid-cap companies and a corresponding underweight to large-cap, modestly contributed to the fund's benchmark-relative performance.
- Year-to-date, the fund increased **2.58%** but underperformed the fund benchmark by **0.83%**. For the year, the fund's strategic asset allocation—overweighting of small- and mid-cap while underweighting large-cap stocks—detracted from performance. Additionally, external asset managers with exposure to financials, consumer discretionary and a select number of energy companies in small-cap value portfolios detracted from performance.

International Equity Fund

Fund	May	YTD
International Equity Fund	-1.08%	+1.70%
MSCI ACWI x US Investable Market Index	-1.55%	+0.83%
Difference	+0.47%	+0.87%

- The International Equity Fund (IEF) declined **1.08%** in May but outperformed its benchmark return by **0.47%**. The fund's daily valuation policy (described [here](#)) was a significant contributor to the fund's benchmark-relative outperformance. Alternative investments and the fund's recently added low carbon energy solutions strategy, were the main contributors to benchmark-relative outperformance.
- Year-to-date, the fund gained **1.70%** and outperformed its benchmark by **0.87%**. The largest contributors to benchmark-relative performance were the fund's exposure to emerging markets stocks and investments in private equity, as these areas of the market were top performers during the period. Additionally, the fund's daily valuation policy (described [here](#)) positively affected relative performance.

Multiple Asset Fund

Fund	May	YTD
Multiple Asset Fund	+0.35%	+3.09%
Composite Benchmark	+0.21%	+3.32%
Difference	+0.14%	-0.23%

- For May, the Multiple Asset Fund (MAF) increased **0.35%** and outperformed its fund benchmark by **0.14%**. Three of the fund's four underlying strategies outperformed their respective benchmarks in May, with the Fixed Income Fund detracting from benchmark-relative performance.
- Year-to-date, the fund gained **3.09%** but underperformed its benchmark by **0.23%**. The Fixed Income Fund and International Equity Funds contributed positively, while the Inflation Protection Fund and U.S. Equity Fund detracted from benchmark-relative performance.

Equity Social Values Plus Fund

Fund	May	YTD
Equity Social Values Plus Fund	+1.14%	+2.35%
MSCI World Custom ESG Special Weighted Index	+0.90%	+2.80%
Difference	+0.24%	-0.45%

- The Equity Social Values Plus Fund (ESVPF) is a passively managed fund designed to closely match the fund benchmark, less fees and expenses. The international daily valuation policy (described [here](#)) also contributes to any deviation from the benchmark return.

U.S. Equity Index Fund

Fund	May	YTD
US Equity Index Fund	+1.79%	+3.22%
Russell 3000 Index	+1.79%	+3.41%
Difference	+0.00%	-0.19%

- 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