

# October 2017 Investment Report

## Highlights

- Despite the impact of three major hurricanes last month, third-quarter GDP registered 3.0% growth vs. a projected rate of 2.5%. Strength has come from renewed business investment, household spending (driven by new car sales resulting from hurricane damage) and exports.
- U.S. equity markets rose for the twelfth consecutive month on strong corporate earnings reports, positive economic news, low unemployment and a rebounding dollar. Rising oil prices boosted the energy sector. U.S. Treasury yields moved higher, particularly for maturities within five years, which are more responsive to expectations for an additional hike in the federal funds rate by year end.
- The International Equity Fund outperformed its benchmark due to its overweight of emerging market equities and corresponding underweight of developed market equities. The U.S. Equity Fund underperformed its benchmark due to its exposure to alternative investment strategies and underweight of strong-performing, large-company stocks, with a corresponding overweight of small-company stocks. The Fixed Income Fund underperformed due to exposure to non-dollar, emerging and developed country bonds, and the Inflation Protection Fund underperformed due to its strategic underweight of U.K. inflation-linked bonds.

## Monthly Overview

### **Third-quarter corporate earnings reports, particularly in technology sector, support market strength**

The last two weeks in October marked the start of the corporate earnings reporting season. In general, the results highlight strength among companies that are pursuing disruptive business models (Amazon, Google and Microsoft) or adopting new technologies (GM, Ford, CVS). Companies that are finding it difficult to adjust to a more competitive global economy (General Electric) have underperformed. For example, Amazon reported strong revenue growth as it expands into new home delivery services, including retail food and pharmaceuticals. CVS is an example of an established firm that is addressing the potential threat from Amazon through vertical integration in the health care sector by acquiring health insurer Aetna for \$66 billion.

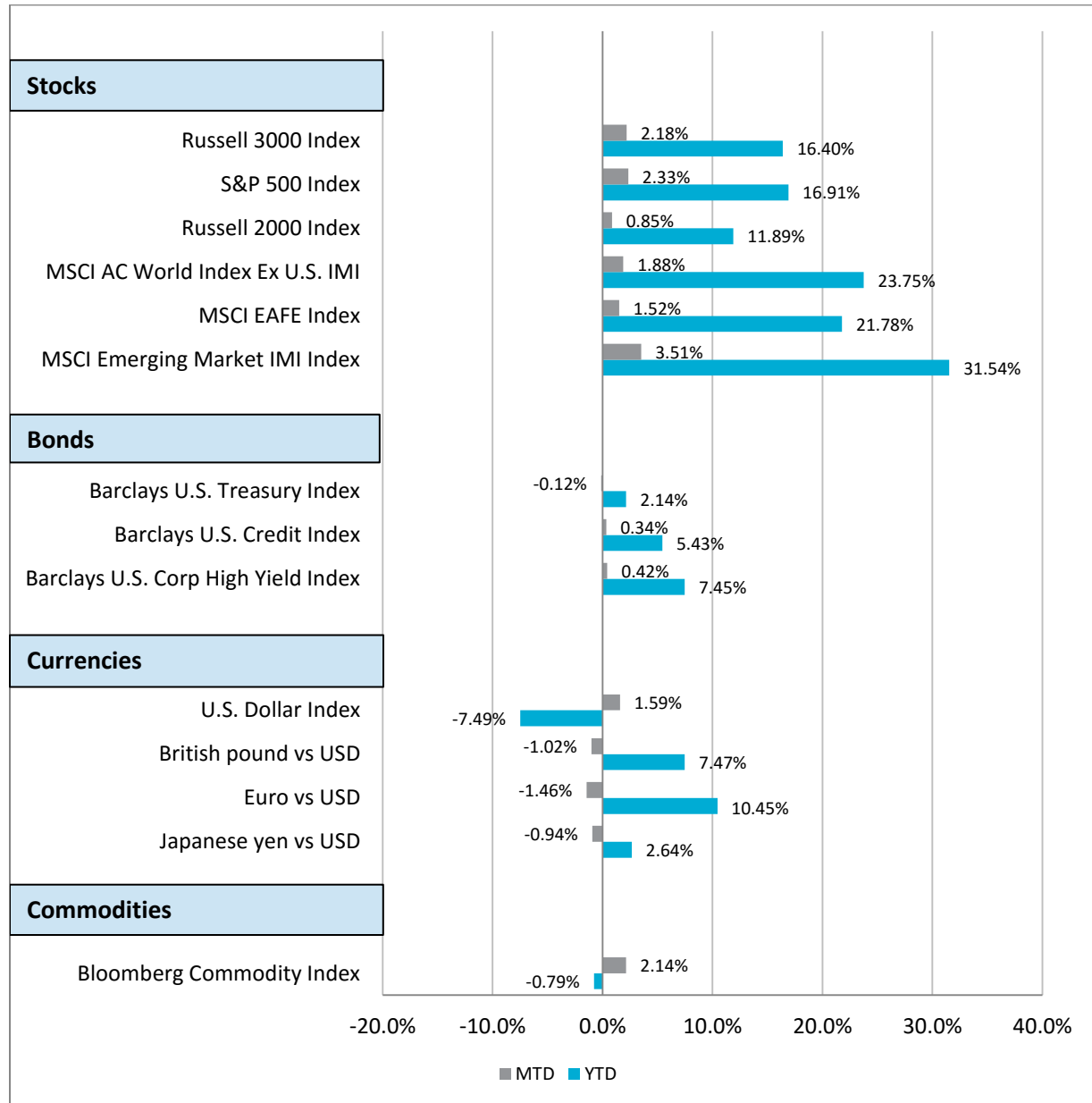
### **Global synchronization in developed and emerging economies is boosting markets worldwide**

The majority of developed and emerging economies are simultaneously experiencing positive economic growth accompanied by low inflation. This synchronization is due partly to the impact of quantitative easing in Europe and Japan, and the recovery from balance of payment issues in emerging economies. Combined with low unemployment and a rebound in commodity prices, these factors are fueling investor confidence that the current equity rally is supported by strong fundamentals.

### **Xi Jinping solidifies his hold on power in China**

At the most recent Communist Party Congress, Chinese leader Xi Jinping cemented his hold as supreme leader of China, achieving an ideological stature comparable to former Chairman Mao Zedong. With his enhanced power, it is expected that Chairman Xi will continue implementing his economic reform agenda for at least the next five years.

## Market Performance



Source: FactSet, as of October 31, 2017

## Key Monthly Economic Statistics

Statistic	Monthly/Yearly Change	Positive
Consumer Confidence	Oct: 125.9 (Sep: 120.6)	▲
Durable Goods Orders	Sep: 2.2% (Aug: 2.0%); M/M-SA	▲
Existing Home Sales	Sep: 0.7% (Aug: -1.7%); M/M-SAAR	▲
Factory Orders	Aug: 1.2% (Jul: -3.3%); M/M-SA	▲
Institute for Supply Management Index	Sep: 60.8% (Aug: 58.8%)	▲
New Home Sales	Sep: 18.9% (Aug: -3.6%); M/M-SAAR	▲
Real Gross Domestic Product	Sep: 3.0% (Jun: 3.1%); Q/Q-SAAR	▲
Retail Sales ex-auto	Sep: 1.0% (Aug: 0.5%); M/M-SA	▲
Retail Sales	Sep: 1.6% (Aug: -0.1%); M/M-SA	▲
S&P/Case-Shiller 20-City Home Price Index	Aug: 5.9% (Jul: 5.8%); Y/Y	▲
		<b>Neutral</b>
Consumer Price Index core	Sep: 0.1% (Aug: 0.2%); M/M-SA	◆
Consumer Price Index	Sep: 0.5% (Aug: 0.4%); M/M-SA	◆
Producer Price Index core	Sep: 0.4% (Aug: 0.1%); M/M-SA	◆
Producer Price Index	Sep: 0.4% (Aug: 0.2%); M/M-SA	◆
Unemployment Rate	Sep: 4.2% (Aug: 4.4%)	◆
		<b>Negative</b>
Housing Starts	Sep: -4.7% (Aug: -0.2%); M/M-SAAR	▼
Nonfarm Payrolls	Sep: -33,000 (Aug: 169,000)	▼

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	<b>FactSet</b>

## Investment Fund Review (Net-of-Fees Performance)<sup>i</sup>

### Equity Funds

#### U.S. Equity Fund

Fund	October	YTD
U.S. Equity Fund	+2.10%	+15.72%
Russell 3000 Index	+2.18%	+16.40%
Difference (percentage points)	-0.08	-0.68

- For the month, the fund's strategic overweight to small- and mid-sized company stocks, with a corresponding underweight in large-company stocks, negatively impacted benchmark-relative performance. Additionally, the fund's allocation to private equity and private real estate detracted from performance.
- Year-to-date, the fund continues to benefit most from strong performance from two growth-oriented managers and one mid-cap manager, specifically related to their holdings in the information technology and healthcare sectors. However, negatively impacting relative performance to a larger degree was the fund's strategic overweight to small- and mid-sized company stocks, along with the allocation to the alternative investment strategies of private real estate and private equity.

#### International Equity Fund

Fund	October	YTD
International Equity Fund	+2.08%	+26.81%
MSCI ACWI ex U.S. Investable Market Index (Net)	+1.88%	+23.75%
Difference (percentage points)	+0.20	+3.06

- For the month, seven of 11 active investment strategies outperformed their respective benchmarks, and the fund's allocation to private real estate contributed positively to performance. Moreover, the fund's overweight to emerging market equities, and corresponding underweight in developed market equities, modestly contributed to benchmark-relative performance.
- For the year-to-date period, the fund's overweight to emerging market equities, and corresponding underweight in developed market equities, positively contributed to benchmark-relative performance. The fund also benefited from the international daily valuation policy (described [here](#)).

#### Equity Social Values Plus Fund

Fund	October	YTD
Equity Social Values Plus Fund	+1.90%	+18.15%
ESVPF Benchmark <sup>ii</sup>	+1.87%	+18.00%
Difference (percentage points)	+0.03	+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	October	YTD
U.S. Equity Index Fund	+2.30%	+15.80%
Russell 3000 Index	+2.18%	+16.40%
Difference (percentage points)	+0.12	-0.60

- The U.S. Equity Index Fund is a passively-managed fund designed to closely match the fund benchmark less fees and expenses. Ethical exclusions positively contributed to benchmark-relative performance for the month of October, but detracted from year-to-date performance.

### Fixed Income Funds

#### Fixed Income Fund

Fund	October	YTD
Fixed Income Fund	-0.02%	+5.85%
Barclays U.S. Universal (ex MBS) Index	+0.17%	+4.26%
Difference (percentage points)	-0.19	+1.59

- In October, the fund lagged its performance benchmark primarily due to an overweight allocation to non-dollar emerging and developed market debt. The overweight allocation to corporate debt, both investment grade and below investment grade, contributed positively.
- Contributing to year-to-date benchmark-relative outperformance was an overweight allocation to non-dollar emerging and developed market debt. Additionally, overweight allocations to both investment-grade and below-investment-grade corporate bonds positively contributed to benchmark-relative results, as did strong performance by the fund's two core plus managers.

#### Social Values Choice Bond Fund

Fund	October	YTD
Social Values Choice Bond Fund	+0.12%	+1.33%
Barclays U.S. Universal (ex MBS) Index	+0.17%	+1.19%
Difference (percentage points)	-0.05	+0.14

- In October, the positive contributions derived from interest-rate strategies were more than offset by the underperformance resulting from portfolio positioning in the emerging market sector.
- Since inception on June 30, 2017, the overweight allocation to investment-grade credit contributed to benchmark-relative results. The underweight allocation to U.S. dollar denominated emerging market debt detracted.

#### Extended Term Fixed Income Fund

Fund	October	YTD
Extended Term Fixed Income Fund	+0.30%	+6.11%
Barclays U.S. Government/Credit Long Term Index	+0.40%	+8.09%
Difference (percentage points)	-0.10	-1.98

- The Extended Term Fixed Income Fund's intentional policy of maintaining a lower sensitivity to interest rate movements detracted from the month- and year-to-date time periods.

### Inflation Protection Fund

Fund	October	YTD
Inflation Protection Fund	+0.35%	+3.10%
IPF Benchmark <sup>iii</sup>	+0.52%	+2.21%
Difference (percentage points)	-0.17	+0.89

- During the month, the strategic underweight allocation to U.K. inflation-linked bonds and overweight to U.S. Treasury Inflation Protected Securities (TIPS) detracted from benchmark-relative results.
- For year-to-date, the strategic underweight allocation to U.K. inflation-linked bonds and overweight to U.S. Treasury Inflation Protected Securities (TIPS) helped benchmark-relative returns. The out-of-benchmark allocations to below-investment-grade, floating-rate strategies and strong relative performance by the fund's commodities manager also positively contributed to relative results.
- The underweight allocation to inflation-linked bonds issued by European governments detracted from benchmark-relative results for both periods.

### U.S. Treasury Inflation Protection Fund

Fund	October	YTD
U.S. Treasury Inflation Protection Fund	+0.21%	+1.15%
Barclays U.S. Inflation Linked Bond Index	+0.22%	+1.12%
Difference (percentage points)	-0.01	+0.03

- The U.S. Treasury Inflation Protection Fund is a passively-managed fund designed to closely match the fund benchmark less fees and expenses. The fund performed in line with its benchmark during October and since inception on June 30, 2017.

## Balanced Fund

### Multiple Asset Fund

Fund	October	YTD
Multiple Asset Fund	+1.42%	+15.12%
MAF Benchmark <sup>iv</sup>	+1.42%	+13.91%
Difference (percentage points)	+0.00	+1.21

- For the month, only the International Equity Fund contributed positively to the Multiple Asset Fund's benchmark-relative performance.
- Year-to-date, the International Equity Fund, Fixed Income Fund and Inflation Protection Fund positively contributed to benchmark-relative performance, while the U.S. Equity Fund detracted slightly.

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- <sup>i</sup> 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*.
  - <sup>ii</sup> On April 1, 2017, the benchmark for the Equity Social Values Plus Fund became the MSCI World Environmental, Social and Governance (ESG) ex Fossil Fuels Index. Prior to April 1, 2017, the benchmark was the MSCI World Custom Environmental, Social, and Governance (ESG) Special Weighted Index.
  - <sup>iii</sup> The benchmark for the Inflation Protection Fund is composed 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.
  - <sup>iv</sup> The benchmark for the Multiple Asset Fund is composed 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.