

# September 2019 Investment Report

## Highlights

- In two widely anticipated decisions, the Federal Reserve (Fed) and the European Central Bank (ECB) cut interest rates to provide stimulus to their respective economies.
- U.S.-China trade tensions rose after Chinese agricultural officials canceled a visit to the U.S. scheduled for late September and later eased after the sides agreed to restart trade negotiations in early October.
- Political uncertainty around the globe intensified as U.K. Prime Minister Boris Johnson faced new challenges in reaching a Brexit agreement and the U.S. House of Representatives initiated an impeachment inquiry into President Trump. Heightened geopolitical risk threatened the global growth outlook.
- In September, MAF underperformed its benchmark. USEF, IEF and IPF underperformed their respective benchmarks, while FIF outperformed its benchmark.

## Monthly Overview

### Major central banks cut interest rates, as widely anticipated

The Fed's 25 basis point rate cut coincided with comments pointing to a "weaker growth outlook and elevated uncertainty weighing on business investment and exports." The Fed also offered liquidity directly to banks through overnight repurchase agreements (repos) for the first time in ten years after observing a sharp increase in repo rates. Repo is an important source of overnight funding in the financial system, and the cost to borrow cash in the repo market briefly increased to 10% as corporate income tax payments and other factors drove a shortage of cash. The ECB cut rates to minus 0.5% and reinstated its bond purchase program indefinitely. In his penultimate meeting as ECB president, Mario Draghi committed to this program until the inflation outlook "robustly" converges to the 2% target.

### Markets supported by policy stimulus

The S&P 500 increased 1.9% for the month and 21% for the year through September, reaching its strongest gain for the first nine months of the year since 1997. Central bank stimulus supported a risk-on appetite early in the month and triggered a large style rotation from growth to value following persistent outperformance of growth-oriented stocks over the past several years. High-yield bonds outperformed investment-grade bonds for the month, which also reflected a risk-on stance.

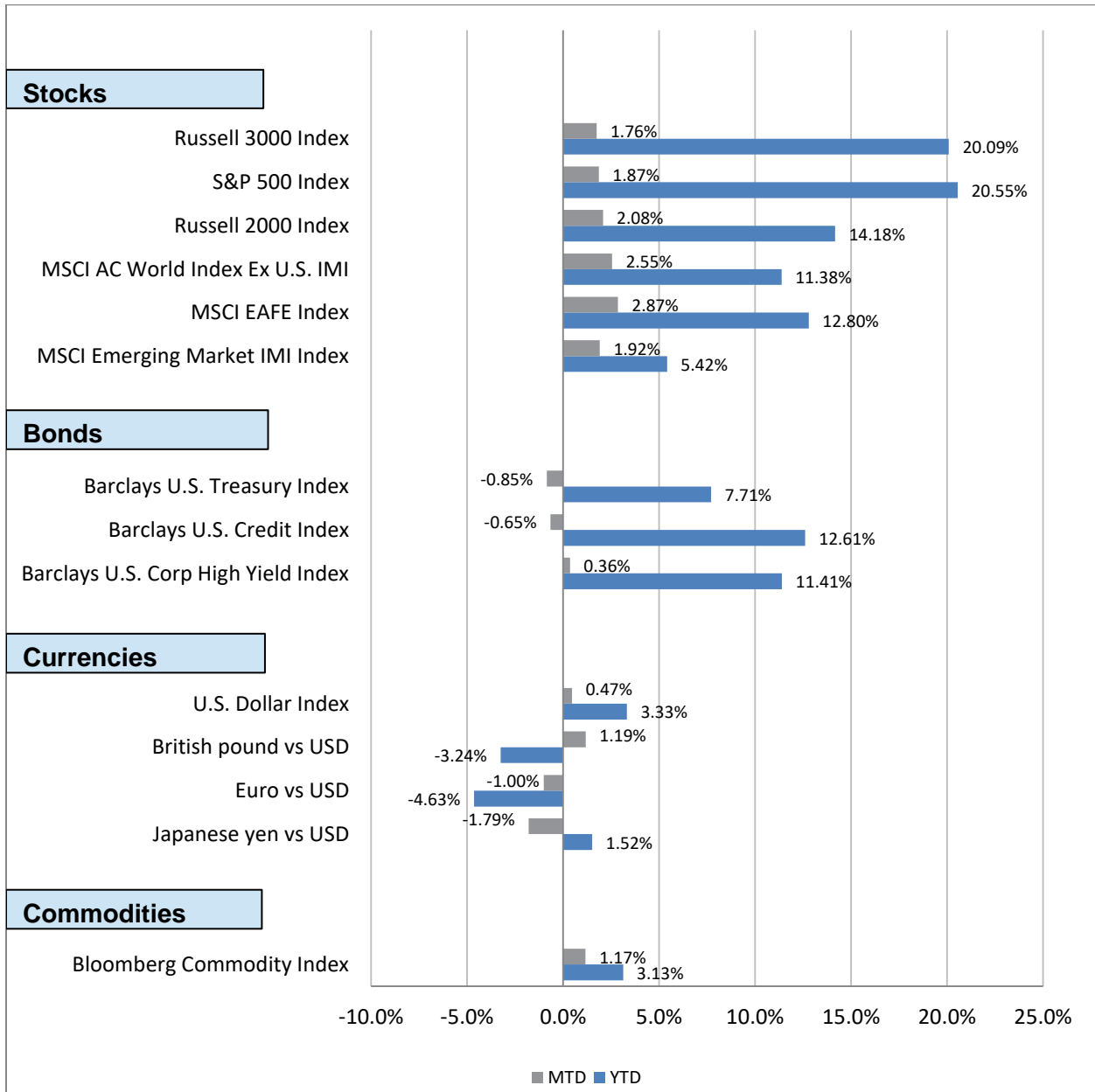
### U.S. resiliency drives historic economic expansion

The U.S. economic expansion continued, marking the longest expansion in history at 123 months. September non-farm payrolls, as measured by the Bureau of Labor Statistics, increased by 136,000 and unemployment declined to 3.5%, its lowest level since December 1969. Average hourly wages were unchanged month over month, but wage growth slowed to 2.9% on an annual basis. The strong labor market continued to support consumer confidence and U.S. economic resilience for the month.

### Geopolitical risk rises amidst global growth downgrades

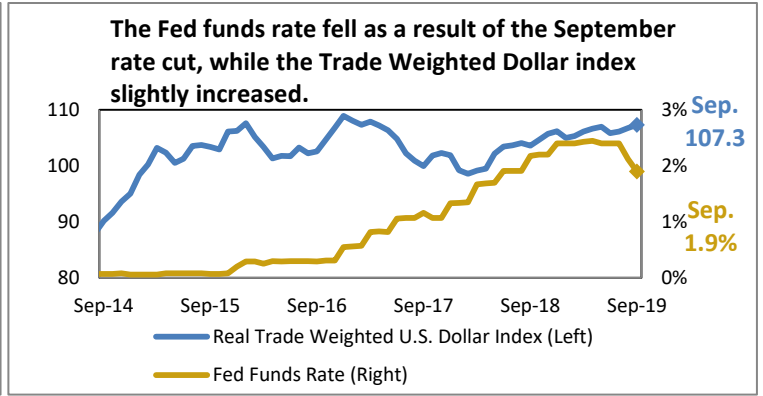
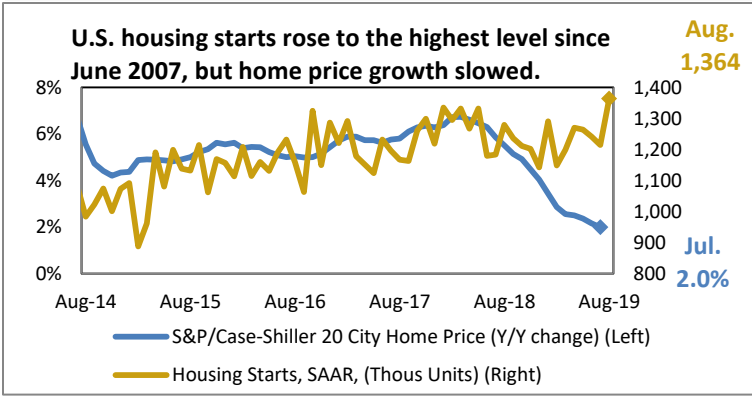
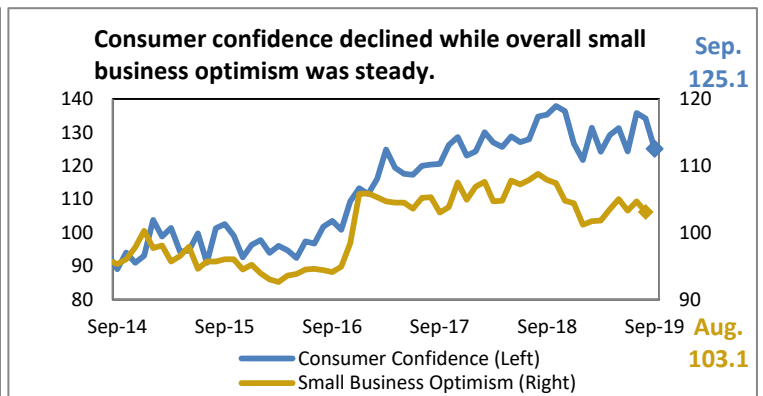
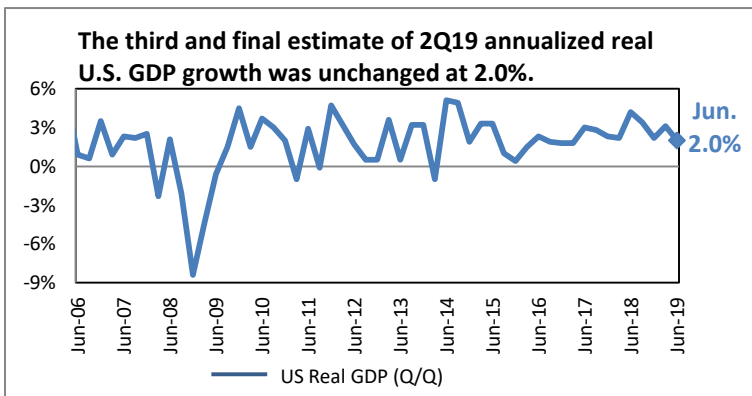
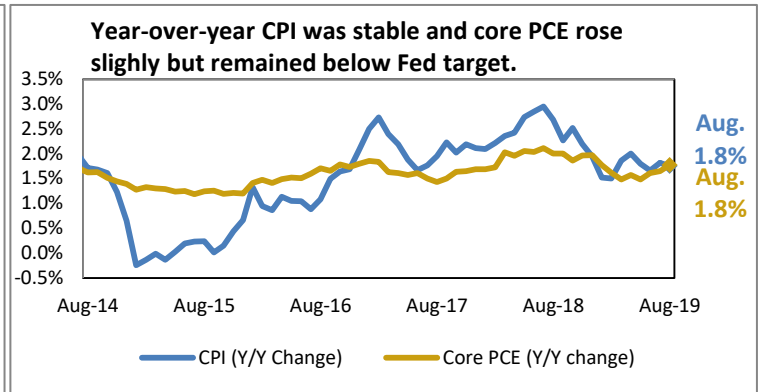
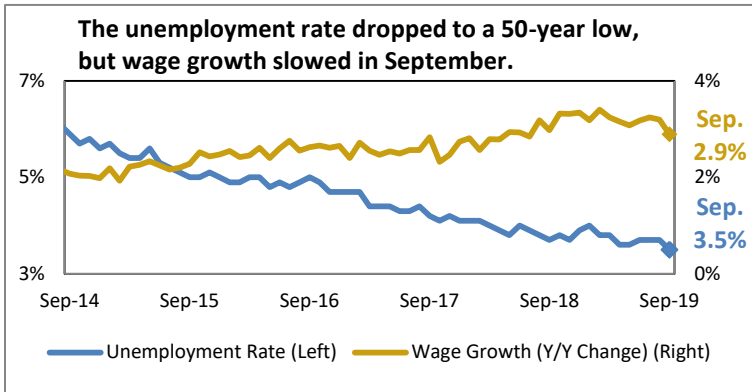
The U.K. Supreme Court ruled Prime Minister Boris Johnson's suspension of Parliament was unlawful, the U.S. House of Representatives initiated an official impeachment inquiry of President Trump's interactions with the Ukrainian president, and oil prices temporarily rose 15% when Saudi Arabia suffered a drone attack on its Abqaiq oil-processing center. The Organization for Economic Co-operation and Development (OECD) downgraded its 2019 global growth forecast from 3.2% to 2.9%, the weakest level since the 2008 financial crisis.

## Market Performance



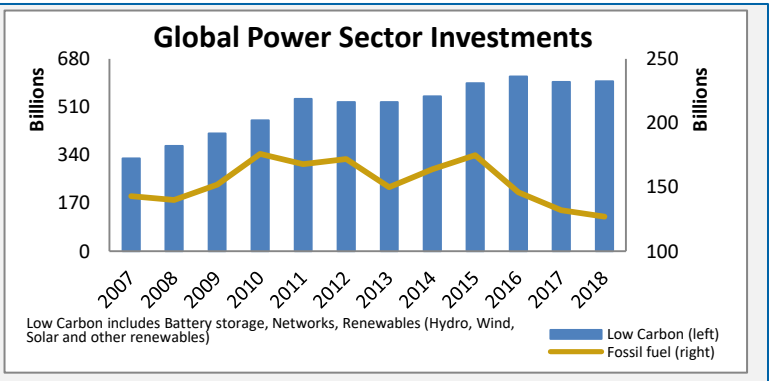
Source: FactSet, as of September 30, 2019

## Key Monthly Economic Statistics



### Chart of Month

- Global investment in low-carbon energy supply in 2018 was up 83% compared to 2007, while investment in fossil fuels as a power source declined 11% for the same period.
- During September, the UN Climate Action Summit took place in New York City, calling for governments, the private sector, and investors to take action to limit the increase of global temperatures to <math>2^{\circ}\text{C}</math> compared to pre-industrial levels.
- Wespath invests in companies positioned to benefit from the transition to a low-carbon economy.



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

### Equity Funds

#### U.S. Equity Fund

Fund	September	QTD	YTD
U.S. Equity Fund	+0.90%	-0.91%	+19.36%
Russell 3000 Index	+1.76%	+1.16%	+20.09%
Difference (percentage points)	-0.86	-2.07	-0.73

- For the month, the overweight allocation to poor performing small- and mid-sized growth-oriented company stocks as well as investments in e-commerce stocks and an identity-theft software company were the key detractors to benchmark-relative performance. Dedicated investments in private equity and private real estate also detracted from relative performance.
- During the quarter and year to date, the fund's strategic overweight to small- and mid-sized company stocks and corresponding underweight to large-company stocks, along with investments in alternatives, detracted from benchmark-relative performance. Stocks excluded in compliance with Wespath's Exclusions policy (described [here](#)) also detracted from relative performance. During the quarter, a number of individual investments in the software, e-commerce and biotech industries negatively impacted performance when compared to the benchmark.

#### International Equity Fund

Fund	September	QTD	YTD
International Equity Fund	+2.14%	-2.17%	+13.14%
MSCI ACWI ex U.S. Investable Market Index (Net)	+2.55%	-1.72%	+11.38%
Difference (percentage points)	-0.41	-0.45	+1.76

- For the month, the strategic overweight to emerging market equities and corresponding underweight to developed economies, along with investments in private real estate, negatively impacted relative performance. In addition, the majority of active investment managers underperformed their respective benchmarks.
- For the quarter, an overweight to emerging market equities and underperforming stocks in the Netherlands, Switzerland and Norway were the main contributors to underperformance. Albeit a smaller impact, dedicated investments in alternatives positively contributed to relative performance.
- Year-to-date, the fund benefited most from the majority of active managers outperforming their respective benchmarks. One manager in particular that invests in emerging market equities held outperforming investments in China, India and South Africa. In addition, the fund's fair market valuation policy (described [here](#)) was a positive contributor to relative performance. The fund's strategic overweight to emerging market equities and corresponding underweight to developed economies, along

with investments in private equity and private real estate, detracted from benchmark-relative performance.

### U.S. Equity Index Fund

Fund	September	QTD	YTD
U.S. Equity Index Fund	+1.77%	+1.05%	+19.84%
Russell 3000 Index	+1.76%	+1.16%	+20.09%
Difference (percentage points)	+0.01	-0.11	-0.25

- The U.S. Equity Index Fund is a passively managed fund designed to closely match the fund benchmark, less fees and expenses. Wespath's Exclusions policy (described [here](#)) negatively affected benchmark-relative performance during all three periods.

### Fixed Income Funds

#### Fixed Income Fund

Fund	September	QTD	YTD
Fixed Income Fund	-0.40%	+1.83%	+9.27%
Barclays U.S. Universal (ex MBS) Index	-0.58%	+2.34%	+9.78%
Difference (percentage points)	+0.18	-0.51	-0.51

- For the month, allocations to below-investment-grade corporate bonds and emerging market bonds denominated in local currencies contributed positively to benchmark-relative performance. The allocation to loans from the Positive Social Purpose lending program detracted from benchmark-relative performance.
- For the quarter, the overweight allocation to emerging market debt was the biggest detractor from benchmark relative performance amid slower global growth and political uncertainty. The overweight allocation to below investment grade corporate debt also detracted due to its relatively low price sensitivity to declining interest rates.
- Year to date, exposure to non-U.S. dollar denominated investments detracted from relative results as the dollar strengthened versus a basket of both developed and emerging market currencies. Multi-family housing, particularly the high-quality U.S. agency commercial mortgage-backed securities account, detracted. Security selection decisions of the core-plus managers helped relative results.

**Extended Term Fixed Income Fund**

Fund	September	QTD	YTD
Extended Term Fixed Income Fund	-1.32%	+4.16%	+14.59%
Barclays U.S. Government/Credit Long Term Index	-1.91%	+6.58%	+20.93%
Difference (percentage points)	+0.59	-2.42	-6.34

- The fund's policy of maintaining a lower sensitivity to interest rate movements contributed to benchmark-relative performance during the month but detracted from quarter and year-to-date relative results.

**Inflation Protection Fund**

Fund	September	QTD	YTD
Inflation Protection Fund	-0.42%	+1.00%	+7.06%
IPF Benchmark <sup>ii</sup>	-0.26%	+3.04%	+10.39%
Difference (percentage points)	-0.16	-2.04	-3.33

- The underweight to U.K. inflation-linked securities and overweight to U.S. Treasury inflation-linked securities detracted from benchmark-relative returns for the three reporting periods. U.K. inflation-linked securities, which have increased over 17% year to date, have benefited from heightened expectations for a global economic slowdown and the potential for higher U.K. inflation due to Brexit.

**Balanced Fund****Multiple Asset Fund**

Fund	September	QTD	YTD
Multiple Asset Fund	+0.81%	-0.41%	+13.60%
MAF Benchmark <sup>iii</sup>	+1.21%	+0.81%	+14.08%
Difference (percentage points)	-0.40	-1.22	-0.48

- During the month, the U.S. Equity Fund, International Equity Fund, and Inflation Protection Fund all detracted from benchmark-relative performance, while the Fixed Income Fund was a positive contributor.
- During the quarter, all four components of the fund detracted from benchmark-relative performance.
- Year to date, the U.S. Equity Fund, Fixed Income Fund, and Inflation Protected Fund negatively contributed to benchmark-relative performance, but the International Equity Fund positively contributed.

## Social Values Choice Suite of Funds

### Social Values Choice Bond Fund

Fund	September	QTD	YTD
Social Values Choice Bond Fund	-0.53%	+1.98%	+9.59%
Barclays U.S. Universal (ex MBS) Index	-0.58%	+2.34%	+9.78%
Difference (percentage points)	+0.05	-0.36	-0.19

- Month to date, contributions from selection decisions were partially offset by the tactical exposure to U.S. Treasury inflation-linked securities and out-of-benchmark exposure to the Japanese yen.
- Quarter to date, exposure to bonds issued by Argentina detracted from benchmark-relative results.
- Year to date, the overweight to corporate bonds issued by financial companies (both investment grade and below investment grade) positively contributed to relative results. This was more than offset by exposures to U.K. and European debt as well as out-of-benchmark exposures to the Columbian peso and Japanese yen.

### Social Values Choice Equity Fund

Fund	September	QTD	YTD
Social Values Choice Equity Fund	+2.29%	+1.76%	+19.27%
SVCEF Benchmark <sup>iv</sup>	+2.20%	+1.69%	+18.83%
Difference (percentage points)	+0.09	+0.07	+0.44

- 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 affected performance during all three periods.

### U.S. Treasury Inflation Protection Fund

Fund	September	QTD	YTD
U.S. Treasury Inflation Protection Fund	-1.62%	+1.38%	+7.69%
Barclays U.S. Inflation Linked Bond Index	-1.47%	+1.48%	+7.95%
Difference (percentage points)	-0.15	-0.10	-0.26

- 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.

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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 – 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.

<sup>ii</sup> 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.

<sup>iii</sup> 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.

<sup>iv</sup> The benchmark for the Social Values Choice Equity Fund is the MSCI World Environmental, Social and Governance (ESG) ex Fossil Fuels Index.