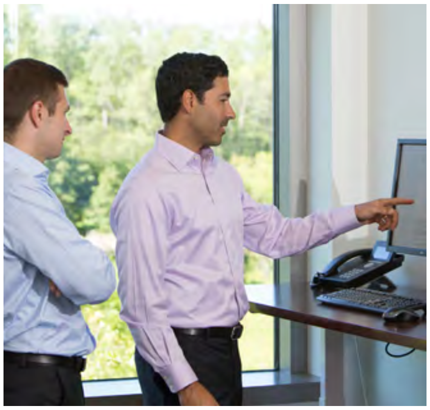
Wespath
BENEFITS | INVESTMENTS

Annual Report 2018

a general agency of The United Methodist Church


THE METHODIST BUILDING

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A Message from the Chairperson of the Board and the General Secretary

Positioned for Transformation

2018 was a year of visioning for the future, even as we marked historic milestones. We reached our agency's 110th year of service and commemorated the 50th anniversary of The United Methodist Church. While honoring the past, we are focused intently on the future—on positioning Wespath for transformation. The forces of change in technology, global economics, demographics and the Church impact the work we do and the ways we do it.

We are journeying on a bold strategic plan that envisions Wespath 10, 20 and even 50 years ahead. In 2018, we moved full-speed on an ambitious strategy that positions Wespath to serve a broader universe of institutional investors—supporting clients' investment objectives while honoring UMC values.

Simultaneously, we are developing a future-focused retirement plan design proposal that can deliver adequate benefits for those who serve the Church, yet also be sustainable for the long-term and harmonized with economic forces, post-millennium demographics, and growth of part-time and second-career clergy who no longer rely solely on the Church for their retirement security.

Investing for the Future

Our focus on the future is rooted in **enabling sustainability** for our investors and more than 100,000 participants whom we serve. In 2018, we developed an innovative "Transition Readiness" methodology that evaluates companies' preparedness for the global transition to a low-carbon economy, and then incorporates this insight into investment decision-making. Created in partnership with BlackRock, the Transition Ready Strategy tailors our long-term investing approach to maximize financial opportunities and minimize risks as major players move toward a lower-carbon economy.

Transition Ready is the most recent demonstration of how Wespath generates a positive impact on the environment and society within the context of favorable long-term financial value and the UMC's Social Principles.

Working Toward a Better World

True to our heritage, **Wespath is committed to our ministry with the poor**. Wespath was honored in 2018 by ChildServ (a Chicago-area agency dedicated to building better lives for children) in recognition of our legacy of investments in at-risk communities and our decade-long support of ChildServ's programming, both as an organization and through the personal generosity of our employees.

Caring for Those Who Serve—Past, Present, Future

This has been a year of reflection and discourse within the UMC. Wespath remains prudent and stable, yet flexible—**we are prepared to support the financial and benefits needs** of others well into the future.

While preparing for transformation in our Church, the economy and across societies, Wespath as always is dedicated to caring for those who serve—past, present and for generations to come. We are entrusted as the fiduciary steward for nearly $22 billion* in assets under management—a trust that we accept with humility, integrity and solemn responsibility.

Building on over a century of experience and emboldened by strategic pathways for the future, Wespath is well-positioned to seize the challenges of transformation unfolding around us.

We remain yours in service to Christ,

Bishop Robert Schnase
Chairperson,
Board of Directors

Barbara A. Boigegrain
General Secretary
and Chief Executive Officer

*$21.9 billion as of December 31, 2018

2018 Highlights

Transforming Lives by Enhancing Well-Being

Serving Participants' Needs

Over **100,000** participants

- Retirement benefits
- Health benefits and Well-being programs
- Disability benefits
- Death benefits

Answered **100,400** calls from participants regarding benefits, investments and other requests

Central Conferences

Served over **3,100** pensioners in 69 of the 78 conferences outside U.S.

Distributed **$1.2** million in Central Conference Pension funds

Transforming Communities and Global Trends

$21.9 billion in assets under management as of December 31, 2018

Over **130** institutional clients

PRI: **A+** rating for Strategy and Governance in sustainable investing

$750 million committed to low-carbon economy transition through Transition Ready Investment Strategy

Positive Social Purpose Lending Program

- **$79** million in investment activity in 2018*
- Financed nearly **1,600** affordable housing units and a 200-bed shelter in 2018

*Investment activity includes new forward commitments and purchases that were booked as forward commitments in previous years

Cost of Operations

Wespath does not receive general Church funds to support the cost of its operations. Our operations (excluding certain direct plan expenses) are funded solely by passing through to our funds the investment management, bank custody and administration expenses. The annual cost from the three components, as a ratio to our average portfolio value, was 59.6 basis points (0.596%) in 2018.

A Message from
the Chief Investment Officer

In a Year of Extremes, We Continue to Invest for the Future

Wespath is committed to investing with a long-term perspective. Our commitment to our participants and institutional clients extends decades into the future, and it is our fiduciary duty to ensure our investment approach reflects this long-term view.

2018 was a year of extremes for the global financial markets.

Investors experienced both the largest single day downswing of the Dow Jones Industrial Average in history, and after narrowly avoiding the start of a bear market, the largest single day gain.

Positive market fundamentals did not assuage the markets as these swings happened against a backdrop of continued U.S. expansion, subdued inflation and strong employment data.

Instead, the markets reacted negatively to uncertainty around the trade war between the U.S. and China, which rippled across the global economy, and the United Kingdom's precarious negotiations to exit the European Union. In addition, several companies warned future profits could be lower than previously expected.

A lesser-discussed driver of volatility is the rise of computer-driven algorithmic trading strategies—about 85% of all trading is now controlled entirely by computers.[‡] These strategies serve as a catalyst to extreme market movements because they place buy or sell orders without human interaction, and without regard to economic or company fundamentals.

Meanwhile, quarterly interest rate hikes by the U.S. Federal Reserve (Fed), which is determined to avoid an overheated economy, moved the bond markets.

Some events that led to 2018's unusual market volatility will pass. Others, like the increasing use of algorithmic trading, are a new reality. Volatility is likely to remain in coming years.

[‡]Gregory Zuckerman, Rachael Levy, Nick Timiraos and Gunjan Banerji; *Behind the Market Swoon: The Herdlike Behavior of Computerized Trading; Wall Street Journal*; December 25, 2018

Steady for the Long Term

Our investment funds felt the impact of a year in which all major market indices ended in negative territory and nearly all funds declined on a one-year basis.

However, while we carefully monitor shorter-term market movements, we position our funds to reflect our long-term view on future financial growth.

Our investment worldview is that the world will continue to experience modest and sustainable long-term growth driven by emerging economies. We reflect this optimism by investing in companies and countries that will benefit from this growth. We also invest in low-carbon strategies, which will benefit from continued economic growth and the world's commitment to reducing carbon consumption.

> *"Our commitment to our participants and institutional clients extends decades into the future, and it is our fiduciary duty to ensure the assets we manage on their behalf reflect this long-term view."*

Influencing Change

We believe that the adoption of sustainable investment strategies by investors, companies, and countries can position the overall financial markets, and ultimately our assets, for stronger long-term gains. I can categorize our 2018 sustainability activities in two ways: as **influencers** and as **pioneering investors**.

Sustainable investors, including Wespath, have come together in coordinated and unprecedented ways to encourage more sustainable corporate behavior.

Most notable was the impact of the Climate Action 100+, a coalition of over 300 global investors, including Wespath, with a combined $32 trillion in assets engaging the companies contributing most to global industrial emissions and those most able to drive a clean energy transition. Engagement efforts in 2018 laid the groundwork for increased support for the goals of the Paris Climate Agreement from global oil and gas majors in 2019.

Wespath and BlackRock, Inc. have launched a new approach to **low-carbon investing**.

...allocated **$750 million**

...across U.S. domestic and international **equity market accounts**

Additionally, through the Sustainability Accounting Standards Board's Investor Advisory Group, we partnered with some of the world's largest asset managers to influence some of the world's largest companies to provide more standardized reporting on material environmental, social and governance issues (ESG). We believe that it is important for investors to have access to standard reporting on material ESG risks and opportunities to comprehensively evaluate company performance. Through these relationships, asset owners and managers make a powerful statement that all investors need decision-useful and standardized data in order to make smarter investment decisions.

When investors speak with one voice, **we have the power to create a more sustainable global economy** that works more efficiently and delivers stronger returns for all!

Pioneering Investments

Last year we broke new ground on an innovative way of investing for a low-carbon future. We partnered with BlackRock, the world's largest asset manager, to create the Wespath|BlackRock Transition Ready Strategy, and allocated $750 million of fund assets to this new investment approach.

Climate change concerns are driving countries, states and individuals toward cleaner and cheaper sources of energy. Due to these concerns, the world is changing and we are investing in the companies that are changing with it.

The Transition Ready Strategy identifies which companies are shifting their business models in response to the low-carbon transition, as we believe those adapting in anticipation of a low-carbon future will outperform over the long-term. Using a unique set of data points, qualitative insights and innovative quantitative techniques, the strategy scores companies based on their plans for energy use and management. It then invests slightly more, compared to the benchmark, in those with higher scores. We expect to expand this strategy in the future.

Transforming for Your Future

Using the weight of over $21 billion in assets, we are able to influence the transformation of companies and markets. We will diligently endeavor to position our funds for long-term growth, identifying relevant investing opportunities and working with our peers to create a more sustainable future for all.

> *"Our investment worldview is that the world will continue to experience modest and sustainable long-term growth driven by emerging economies. Our investments in the developing world, and in low-carbon strategies set to benefit from this growth, are some of the ways in which our funds reflect this optimism."*

Dave Zellner
Chief Investment Officer

Summary*

2018 Financial Markets and Investment Results

Net-of-fees; as of 12/31/2018

Multiple Asset Fund

Fund: -6.14% Benchmark[1]: -6.47%

Relative Performance (percentage points): ▲ 0.33

- MAF has a target allocation of 35 percent U.S. Equity Fund, 30 percent International Equity Fund, 25 percent Fixed Income Fund, and 10 percent Inflation Protection Fund, all of which declined in value in 2018.
- The International Equity Fund positively contributed to relative performance, but the U.S. Equity Fund, Fixed Income Fund and Inflation Protection Fund detracted.

Total Assets: **$6,414M**

U.S. Equity Fund

Fund: -5.48% Benchmark[2]: -5.24%

Relative Performance (percentage points): ▼ 0.24

- USEF was down due to a sharp sell-off in the U.S. stock market in Q4, stemming from concerns over slowing global growth, U.S.-China trade tensions and hawkish sentiment from the Fed.
- Allocations to private equity and private real estate, as well as Wespath's Ethical Exclusions Policy, benefited benchmark-relative performance; overweights in small- and mid-sized companies detracted.

Total Assets: **$6,032M**

International Equity Fund

Fund: -13.78% Benchmark[3]: -14.76%

Relative Performance (percentage points): ▲ 0.98

- IEF fell as a result of concerns about slowing growth in Europe, uncertainties related to Brexit, rising global trade tensions, and country-specific political issues in developing countries.
- Strong performances by one developed market small-cap manager and one emerging market manager helped the fund outperform its benchmark; exposure to private equity and private real estate also contributed positively.

Total Assets: **$4,721M**

Detailed information about the fund performance and fund benchmarks can be found on page 38 of this report.

Net-of-fees; as of 12/31/2018

Fixed Income Fund

Fund: -1.10% Benchmark[4]: -0.63%

Relative Performance (percentage points): ▼ 0.47

- FIF declined during 2018 as the Fed increased rates four times during the year and credit spreads widened.
- Overweights to emerging market bonds and non-dollar currencies of emerging market countries, as well as to corporate bonds, hurt benchmark-relative performance. However, Wespath's Positive Social Purpose Lending Program loans and an allocation to U.S. Agency CMBS helped performance.

Total Assets: **$5,971M**

Social Values Choice Equity Fund

Fund: -7.75% Benchmark[6]: -7.55%

Relative Performance (percentage points): ▼ 0.20

- SVCEF invested in a mix of domestic and international markets which were impacted by concerns over slowing economic growth worldwide, trade war fears, and uncertainties related to Brexit.
- The fund is passively managed and designed to closely match the benchmark—less fees and expenses. The fair market valuation policy, which captures changes in non-U.S. securities values that arise because of time-zone differences among global securities markets, negatively impacted relative performance.

Total Assets: **$68M**

Inflation Protection Fund

Fund: -2.17% Benchmark[5]: -1.49%

Relative Performance (percentage points): ▼ 0.68

- IPF was down for the year amid declining commodity prices and rising real yields on inflation-linked government bonds.
- Below-investment-grade floating rate strategies boosted benchmark-relative performance. However, an underweight to UK inflation-linked bonds, and overweights to U.S. Treasury Inflation Protected Securities and certain bonds denominated in emerging market currencies offset the gains.

Total Assets: **$1,957M**

U.S. Equity Index Fund

Fund: -4.99% Benchmark[2]: -5.24%

Relative Performance (percentage points): ▲ 0.25

- USEIF fell on the year, primarily because of a Q4 sell-off that stemmed from concerns over slowing global growth, U.S.-China trade disputes, and the Fed's hawkish tone.
- The fund is passively managed and designed to closely track the fund benchmark, less fees and expenses. Ethical Exclusions positively impacted relative performance, as excluded tobacco companies underperformed the benchmark.

Total Assets: **$97M**

Summary*

2018 Financial Markets and Investment Results

Net-of-fees; as of 12/31/2018

Extended Term Fixed Income Fund

Fund: -2.23% Benchmark[7]: -4.68%

Relative Performance (percentage points): ▲ 2.45

- A rising rate environment negatively impacted the valuations of long duration securities and caused ETFIF to decline for the year.
- Maintaining a lower sensitivity to interest rate movements and the allocation to long duration collateralized mortgage securities bolstered relative fund performance.

Total Assets: **$984M**

Stable Value Fund

Fund: +1.79% Benchmark[10]: +1.87%

Relative Performance (percentage points): ▼ 0.08

- SVF produced a modest positive rate of return for the year, as it is designed to do.
- Widening credit spreads and the flatness of the U.S. Treasury yield curve modestly detracted from benchmark-relative performance.

Total Assets: **$392M**

Social Values Choice Bond Fund

Fund: -0.96% Benchmark[8]: -0.63%

Relative Performance (percentage points): ▼ 0.33

- SVCBF was negatively impacted by the Fed's rate hike initiatives as well as increased credit spreads.
- While yield curve strategies and underweights to dollar-denominated emerging market debt helped benchmark-relative results, exposure to the Argentine peso and Turkish lira detracted.

Total Assets: **$83M**

Short Term Investment Fund

Fund: +1.62% Benchmark[11]: +1.87%

Relative Performance (percentage points): ▼ 0.25

- The Fed's four interest rate hikes during the year drove STIF's yield and rate of return higher than achieved in recent years.
- Widening credit spreads modestly detracted from the fund's benchmark-relative performance.

Total Assets: **$235M**

U.S. Treasury Inflation Protection Fund

Fund : -1.74% Benchmark[9]: -1.48%

Relative Performance (percentage points): ▼ 0.26

- USTPF was down for the year due to rising real yields on U.S. Treasury Inflation Protected Securities (TIPS).
- The fund is passively managed and designed to closely match the performance of the fund benchmark, less fees and expenses.

Total Assets: **$690M**

Detailed information about the fund performance and fund benchmarks can be found on page 38 of this report.

Performance (net-of-fees; as of 12/31/2018)[12,13]

Fund	1-Year	3-Years	5-Years	10-Years	Inception[14]
Multiple Asset Fund (MAF)	-6.14%	6.28%	4.02%	8.75%	6.62%
MAF Benchmark[1]	-6.47%	5.90%	4.48%	8.88%	6.30%
U.S. Equity Fund (USEF)	-5.48%	8.12%	6.98%	12.12%	6.50%
USEF Benchmark[2]	-5.24%	8.97%	7.91%	13.18%	6.76%
International Equity Fund (IEF)	-13.78%	6.07%	0.99%	7.99%	5.82%
IEF Benchmark[3]	-14.76%	4.39%	0.85%	6.97%	4.57%
Fixed Income Fund (FIF)	-1.10%	3.68%	2.64%	5.23%	5.29%
FIF Benchmark[4]	-0.63%	2.83%	2.78%	4.45%	4.89%
Inflation Protection Fund (IPF)	-2.17%	3.23%	1.41%	3.84%	3.52%
IPF Benchmark[5]	-1.49%	4.33%	3.11%	4.27%	4.27%
Social Values Choice Equity Fund (SVCEF)*	-7.75%	6.24%	–	–	4.35%
SVCEF Benchmark[6]	-7.55%	6.41%	–	–	4.60%
U.S. Equity Index Fund (USEIF)	-4.99%	8.71%	–	–	6.42%
USEIF Benchmark[2]	-5.24%	8.97%	–	–	6.78%
Extended Term Fixed Income Fund (ETFIF)	-2.23%	3.52%	–	–	2.43%
ETFIF Benchmark[7]	-4.68%	4.03%	–	–	2.63%
Social Values Choice Bond Fund (SVCBF)	-0.96%	–	–	–	0.29%
SVCBF Benchmark[8]	-0.63%	–	–	–	0.58%
U.S. Treasury Inflation Protection Fund (USTPF)	-1.74%	–	–	–	0.35%
USTPF Benchmark[9]	-1.48%	–	–	–	0.54%
Stable Value Fund (SVF)	1.79%	1.55%	2.16%	2.54%	3.06%
SVF Benchmark[10]	1.87%	1.02%	1.84%	2.31%	2.80%
Short Term Investment Fund (STIF)	1.62%	0.99%	0.62%	0.49%	1.36%
STIF Benchmark[11]	1.87%	1.02%	0.63%	0.38%	1.33%

*Formerly the Equity Social Values Plus Fund

Additional information regarding fund performance, including a detailed analysis of the factors that positively and negatively influenced results for the funds, is available on Wespath's website at the following web addresses:

- For monthly economic commentary and discussion of investment performance results: **wespath.org/investments/performance/monthly-investment-report**
- *Investment Funds Description*: **wespath.org/IFD**

Management's Report
on Financial Statements

We have prepared the accompanying combined financial statements of Wespath Benefits and Investments (Wespath) for the years ended December 31, 2018 and 2017. We are responsible for the content and integrity of the financial statements as well as the other financial information included in this annual report. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and reflect our best estimates and judgments. The other financial information included in this annual report is consistent with the financial statements. We believe that the financial statements present fairly Wespath's financial position; results of operations and changes in net assets; changes in plan accumulations, plan sponsor deposits and endowments; and cash flows.

Wespath's financial statements have been audited by Grant Thornton LLP, independent certified public accountants, whose report appears on page 11. Grant Thornton LLP was given unrestricted access to all financial records and related information, including minutes of meetings of the board of directors and committees. We believe that all representations made to Grant Thornton LLP during its audit were valid, timely and appropriate.

We recognize our responsibility for fostering a strong ethical climate so that Wespath's affairs are conducted according to the highest standards of conduct. This responsibility is characterized and reflected in Wespath's Code of Conduct (Code). The Code addresses, among other things, the necessity of assuring open communication within Wespath, potential conflicts of interest, compliance with all applicable domestic and foreign laws, and the confidentiality of proprietary information. We maintain a systematic program to assess compliance with the Code, including a requirement that all employees and board members must affirm their compliance annually.

Wespath management has established and maintains a system of internal controls that provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition, and the prevention and detection of fraudulent financial reporting. This system of internal controls provides for appropriate division of responsibility, and is documented by written policies and procedures that are communicated to employees with significant roles in the financial reporting process and are updated as necessary. Management monitors the system of internal controls for compliance. Wespath maintains an internal auditing program that independently assesses the effectiveness of the system of internal controls and recommends possible improvements. In planning and performing its audit of Wespath's financial statements, Grant Thornton LLP considered Wespath's internal controls relevant to Wespath's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Wespath's internal control. In addition, Wespath has an Audit Committee that oversees the internal and external audit processes. (See the Audit Committee section on page 34.)

Barbara A. Boigegrain
General Secretary
and Chief Executive Officer

Eileen M. Kane
Chief Financial and
Information Officer

Report of Independent Certified Public Accountants

GrantThornton

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Audit Committee of the Board of Directors
Wespath Benefits and Investments

We have audited the accompanying combined financial statements of Wespath Benefits and Investments, which comprise the combined statements of assets and liabilities and net assets as of December 31, 2018 and 2017, and the related combined statements of operations and changes in net assets, changes in plan accumulations, plan sponsor deposits and endowments, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Wespath Benefits and Investments as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Chicago, Illinois
May 1, 2019

Combined Statements of Assets and Liabilities and Net Assets

Assets (in thousands)	**December 31, 2018**	**December 31, 2017**
Investments (Notes 2, 3 and 5)		
Fixed income securities and contracts (Note 6)	$ 8,937,260	$ 9,166,975
Equity securities	7,501,016	9,317,249
Limited partnership investments (Note 2)	1,161,564	1,159,232
Emerging market funds	1,074,217	1,285,430
Cash equivalents	1,058,769	1,246,582
Securities loaned under securities lending agreements (Notes 2 and 4)	2,186,115	1,956,539
Total investments	21,918,941	24,132,007
Invested collateral from securities lending agreements (Note 4)	1,138,740	1,001,689
Other assets (Note 2)	422,668	285,531
Cash	32,906	20,538
Total assets	**$ 23,513,255**	**$ 25,439,765**

Liabilities and net assets (in thousands)	**December 31, 2018**	**December 31, 2017**
Plan accumulations, plan sponsor deposits and endowments (Note 2)		
Defined contribution plans	$ 8,221,932	$ 9,102,123
Defined benefit plans	4,030,389	4,419,837
Annuities	4,181,411	4,367,414
Disability, death and health benefit program deposits (Note 8)	1,721,006	1,869,943
Plan sponsor and other deposits	3,435,673	3,723,231
Endowments	48,618	52,677
Total plan accumulations, plan sponsor deposits and endowments	21,639,029	23,535,225
Payable under securities lending agreements (Note 4)	1,138,740	1,001,689
Other liabilities (Note 2)	678,377	847,133
Total liabilities	23,456,146	25,384,047
Net assets (Note 2)	57,109	55,718
Total liabilities and net assets	**$ 23,513,255**	**$ 25,439,765**

See accompanying "Notes to the Combined Financial Statements."

Combined Statements of Operations and Changes in Net Assets

Years Ended December 31 (in thousands)	**2018**	**2017**
Interest, dividend, partnership and trust investment income	$ 662,431	$ 605,121
Securities lending and other income	8,431	7,427
Investment income	670,862	612,548
Net realized gain on investments	979,050	752,361
Net unrealized (loss) gain on investments	(2,632,924)	1,961,672
Net (loss) gain on investments and investment income	(983,012)	3,326,581
Investment management and custodial fees	(87,755)	(77,481)
Net investment (loss) earnings	(1,070,767)	3,249,100
Operating expenses	(61,068)	(58,768)
Net (loss) earnings before allocation	(1,131,835)	3,190,332
Allocated net loss (earnings) to unitized funds (Note 7)	1,125,306	(3,178,957)
Allocated to net assets	7,920	9,306
Increase in net assets	1,391	20,681
Net assets:		
Beginning of year	55,718	35,037
End of year	$ 57,109	$ 55,718

See accompanying "Notes to the Combined Financial Statements."

Combined Statements of Changes in Plan Accumulations, Plan Sponsor Deposits and Endowments

Year Ended December 31, 2018 (in thousands)	**Balances Beginning of Year**	**Net Loss Allocated to Unitized Funds**	**Contributions and Deposits**	**Distributions and Withdrawals**	**Net Transfers and Other**	**Balances End of Year**
Defined contribution plans	$ 9,102,123	$ (451,821)	$ 225,899	$ (384,079)	$ (270,190)	$ 8,221,932
Defined benefit plans	4,419,837	(243,458)	147,270	(292,730)	(530)	4,030,389
Annuities	4,367,414	(107,960)	–	(349,647)	271,604	4,181,411
Disability, death and health benefit program deposits	1,869,943	(108,582)	153,948	(199,162)	4,859	1,721,006
Plan sponsor and other deposits	3,723,231	(210,399)	424,184	(502,194)	851	3,435,673
Endowments	52,677	(3,086)	88	(144)	(917)	48,618
Total plan accumulations, plan sponsor deposits and endowments	$ 23,535,225	$ (1,125,306)	$ 951,389	$ (1,727,956)	$ 5,677	$ 21,639,029

Year Ended December 31, 2017 (in thousands)	**Balances Beginning of Year**	**Net Earnings Allocated to Unitized Funds**	**Contributions and Deposits**	**Distributions and Withdrawals**	**Net Transfers and Other**	**Balances End of Year**
Defined contribution plans	$ 8,237,060	$ 1,237,127	$ 227,546	$ (344,953)	$ (254,657)	$ 9,102,123
Defined benefit plans	3,933,742	655,046	128,990	(302,065)	4,124	4,419,837
Annuities	3,974,679	468,978	–	(339,640)	263,397	4,367,414
Disability, death and health benefit program deposits	1,605,926	271,571	169,140	(181,528)	4,834	1,869,943
Plan sponsor and other deposits	3,146,504	538,188	473,729	(423,870)	(11,320)	3,723,231
Endowments	45,182	8,047	121	(374)	(299)	52,677
Total plan accumulations, plan sponsor deposits and endowments	$ 20,943,093	$ 3,178,957	$ 999,526	$ (1,592,430)	$ 6,079	$ 23,535,225

See accompanying "Notes to the Combined Financial Statements."

Combined Statements of Cash Flows

Years Ended December 31 (in thousands)	**2018**	**2017**
Cash flows from operating activities		
Increase in net assets	$ 1,391	$ 20,681
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation	1,435	1,674
Net unrealized loss (gain) on investments	2,632,924	(1,961,672)
Net realized gain on investments	(979,050)	(752,361)
Undistributed earnings-limited partnership investments	(2,993)	(22,711)
Changes in assets and liabilities:		
(Increase) decrease in invested collateral from securities lending agreements	(137,051)	315,910
(Increase) decrease in other assets	(138,014)	58,105
(Decrease) increase in other liabilities	(168,756)	47,375
Increase (decrease) in payable under securities lending agreements	137,051	(315,910)
Net (loss) earnings allocated to unitized fund accounts	(1,125,306)	3,178,957
Allocated to net assets	(7,920)	(9,306)
Contributions and deposits	951,389	999,526
Distributions and withdrawals	(1,727,956)	(1,592,430)
Net transfers and other	13,597	15,385
Net cash used in operating activities	(549,259)	(16,777)
Cash flows from investing activities		
Purchases of investments	(37,225,235)	(29,948,788)
Sales of investments	37,787,420	29,877,884
Capital expenditures	(558)	(536)
Net cash provided by (used in) investing activities	561,627	(71,440)
Net increase (decrease) in cash	12,368	(88,217)
Cash at beginning of year	20,538	108,755
Cash at end of year	$ 32,906	$ 20,538

See accompanying “Notes to the Combined Financial Statements.”

Notes to the Combined Financial Statements

Note 1:
Nature of Operations

Wespath Benefits and Investments (Wespath) is the doing-business-as name of the General Board of Pension and Health Benefits of The United Methodist Church, Incorporated in Illinois (the Illinois Corporation). The name was designed with two important elements in mind: Wes—to recognize and honor John Wesley, the founder of Methodism and a strong advocate for social justice; and Path—referring to our goal of providing participants and institutional investors with a path to follow in helping to achieve retirement, health and investment objectives.

Wespath conducts business primarily through two Illinois not-for-profit corporations: the Illinois Corporation and the UMC Benefit Board, Inc. (the Benefit Board); collectively we refer to the two corporations as Wespath in these notes.

The Illinois Corporation is an administrative general agency of the religious denomination known as The United Methodist Church (UMC) and is responsible for the general supervision and plan administration of retirement, disability, death and health benefit plans, programs and funds for plan sponsors as authorized by General Conference, the denomination's highest legislative authority. The Benefit Board is the trustee for various trusts and the exempt investment adviser to the funds in which the plan assets and the trusteed assets of UMC-related institutions are invested.

Pension and retirement plans administered by Wespath: As of December 31, 2018, the three Internal Revenue Code (IRC) section 403(b) retirement benefit plans are the Clergy Retirement Security Program (CRSP), providing retirement benefits to eligible clergy; the Retirement Plan for General Agencies (RPGA), providing retirement benefits to eligible employees of general agencies; and the United Methodist Personal Investment Plan (UMPIP), providing retirement benefits and savings opportunities for clergy and lay employees of United Methodist churches and church-related organizations. The current IRC section 401(a) plan is the Horizon 401(k) Plan, a retirement savings plan for employee and employer contributions available to employees of eligible UMC-related institutions.

In addition, Wespath administers certain legacy benefit plans, which no longer accrue additional service credit for plan participants or allow for the eligibility of new participants.

CRSP consists of two components: a defined benefit component, based on Denominational Average Compensation (DAC), and a defined contribution component, providing for a plan sponsor contribution of 2% of a clergyperson's actual compensation. In addition, the plan sponsor matches 100% of a clergyperson's elective contributions to UMPIP up to 1% of the clergyperson's plan compensation and contributes the matching funds to the clergyperson's CRSP defined contribution account.

CRSP is an amendment and restatement of the Ministerial Pension Plan (MPP). The program consists of three parts covering three different periods: CRSP for service beginning January 1, 2007; MPP for service from January 1, 1982 through December 31, 2006; and Supplement One to CRSP for service prior to 1982 (Pre-82 Plan).

RPGA became effective on January 1, 2010, and is an amendment and restatement of the Retirement Security Program for General Agencies (RSP), which is retained in Supplement Two to RPGA.

Disability, death, and health benefit plans and programs administered by Wespath: The three current disability, death and health benefit programs include the Comprehensive Protection Plan (CPP), providing various welfare benefits to eligible clergy; UMLifeOptions, providing various welfare benefits to eligible clergy and lay employees of participating local churches, annual conferences, general agencies and other eligible United Methodist-related institutions; and HealthFlex, providing group health coverage for those under 65 and access to retiree medical supplement options for employees of participating local churches, annual conferences, general agencies and other eligible United Methodist-related institutions.

Funding of benefit obligations: Plan sponsors are responsible for the funding and recording of all pension, disability, death and health benefit obligations. All sponsoring entities are responsible for funding both current and past service costs. Pension and other post-retirement obligations are the responsibility of the sponsoring entities.

Wespath Trusts and Funds: All of the assets of the trusts are invested in a prudent manner based on Wespath's investment policies. As of December 31, 2018, Wespath administered 19 active investment funds. Ten funds are available for direct investment by UMPIP, CRSP and RPGA defined contribution participants: Multiple Asset Fund (MAF), Fixed Income Fund (FIF), Inflation Protection Fund (IPF), U.S. Equity Fund (USEF), International Equity Fund (IEF), Extended Term Fixed Income Fund (ETFIF), Social Values Choice Equity Fund (SVCEF)*, Social Values Choice Bond Fund (SVCBF), U.S. Treasury Inflation Protection Fund (USTPF) and Stable Value Fund (SVF). SVF is not available for investment by institutional investors or for plan reserves. Instead, these groups can invest in the Short Term Investment Fund (STIF) and the U.S. Equity Index Fund (USEIF), as well as the other nine funds listed above. Wespath also manages seven funds that provide indirect exposure to specialized investment strategies for participants, plan reserves and institutional investors: Positive Social Purpose Lending Fund (PSPLF), Domestic Private Real Estate Fund (DPRF), Domestic Private Equity Fund (DPEF), International Private Equity Fund (IPEF), International Private Real Estate Fund (IPRF), Annuity Immunization Fund (AIF) and Special Opportunity Fund (SOF).

Note 2: Summary of Significant Accounting Policies

Basis of presentation: The combined financial statements consisting of the Combined Statements of Assets and Liabilities and Net Assets (Balance Sheets); Combined Statements of Operations and Changes in Net Assets (Statements of Operations); Combined Statements of Changes in Plan Accumulations, Plan Sponsor Deposits and Endowments (Statements of Changes); and the Combined Statements of Cash Flows (known collectively as the financial statements) include the accounts of the funds within Wespath, prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported. Actual results could differ from those estimates. All significant intercompany and interfund accounts and transactions have been eliminated in these financial statements.

Investments: All investment transactions are governed by the investment policy and guidelines of Wespath. In general, investments are stated at fair value. Changes in fair value of investments are recorded in the Statements of Operations as "Net unrealized (loss) gain on investments." Investment purchases and sales are recorded as of the trade date. Net gains and losses on the sale of investments, other than cash equivalent investments, are included in "Net realized gain on investments" in the Statements of Operations. Gains and losses on the sale of cash equivalent investments are included in interest income. Costs of investments sold are determined on an average cost basis. The methodology used in determining the fair value of investments is described in Note 3 ("Fair Value Measurements").

*Formerly the Equity Social Values Plus Fund (ESVPF). The name changed to the Social Values Choice Equity Fund (SVCEF) on April 7, 2018.

Notes to the Combined Financial Statements

Fixed income securities and contracts: Fixed income securities and contracts consist primarily of U.S. Treasury and agency securities, corporate bonds, mortgage-backed securities, asset-backed securities, sovereign securities denominated in U.S. dollars and foreign currencies, stated at fair value determined primarily by third-party pricing vendors, and forward contracts and mortgage contracts or other loans that comprise investments in Wespath's Positive Social Purpose Lending Program.

The Positive Social Purpose Lending Program was established in 1990 to earn risk-adjusted market rates of return while funding a variety of projects in traditionally underserved communities. This includes, but is not limited to, the development of affordable housing for low- and moderate-income individuals and families, homeless shelters, health centers, senior living centers, charter schools and microfinance loans primarily to low-income entrepreneurs in the developing world. The program invests primarily in privately placed mortgage-backed securities, mortgage loans and direct loans that meet certain criteria, such as specified minimum loan-to-value and debt coverage ratios. At December 31, 2018 and 2017, Wespath had outstanding positive social purpose investments of $801 million and $811 million, respectively. Mortgage contracts and other loans are stated on the financial statements at fair value based either on the net present value of the estimated future cash flows discounted at market equivalent rates or, for those mortgage contracts and other loans that have published trades, other observable pricing information by independent third-party pricing services.

At December 31, 2018 and 2017, Wespath had outstanding commitments to provide $34 million and $85 million, respectively, in additional funding related to the Positive Social Purpose Lending Program. These commitments are not recorded in the financial statements. Funds set aside to cover these commitments are included under the captions "Fixed income securities and contracts" and "Cash equivalents."

Also included in this category are derivative-based wrap contracts used in conjunction with the SVF portfolio. These contracts are utilized to mitigate market rate risk exposure on the underlying SVF portfolio of investments, stated at contract value as detailed in Note 6.

Equity securities: Equity securities consist primarily of common and preferred stocks, stated at fair value determined primarily by closing prices quoted on recognized U.S. and international security exchanges.

Cash equivalents: Cash equivalent investments are stated at fair value or at cost, which approximates fair value. Cash equivalents include cash, short-term securities that mature within three months or less at date of purchase, and cash collateral related to margin requirements on futures contracts, all of which are stated at cost.

Limited partnerships: Limited partnership investments consisting of real estate, private equity, joint venture and real assets are carried at Wespath's share of the partnership's net asset value (NAV) or its equivalent based primarily on the most recent unaudited financial statements, which are used to estimate fair value at year-end. In some cases, management uses discretion in determining fair value for a particular partnership based on more current information regarding market conditions or applying a different valuation that better reflects the true underlying value of the investments.

Emerging market funds: Emerging market funds are valued using an estimated daily NAV based on the fair market value of the underlying securities.

The following table summarizes the fair value and unfunded commitments of limited partnerships, limited liability companies (joint venture) and emerging market funds as of December 31, 2018:

Investments Valued at NAV as of December 31, 2018

(in thousands)	Fair Value	Unfunded Commitments	Longest Redemption Notice Period
Open-end funds			
Real estate	$ 95,117	$ 11,978	90 days
Emerging market	1,074,217	–	120 days
Closed-end funds			
Real estate	442,603	256,573	
Real assets	122,568	9,847	
Private equity	490,145	404,931	
Joint Venture	11,131	38,400	
Total	**$ 2,235,781**	**$ 721,729**	

The following table summarizes the fair value and unfunded commitments of limited partnerships and emerging market funds as of December 31, 2017:

Investments Valued at NAV as of December 31, 2017

(in thousands)	Fair Value	Unfunded Commitments	Longest Redemption Notice Period
Open-end funds			
Real estate	$ 92,196	$ –	90 days
Emerging market	1,285,430	–	120 days
Closed-end funds			
Real estate	490,959	260,808	
Real assets	121,270	15,121	
Private equity	454,807	339,757	
Total	**$ 2,444,662**	**$ 615,686**	

Open-end real estate funds primarily invest in U.S. commercial real estate. These have an indefinite life, and investments may be redeemed with up to 90 days' notice. However, the fund manager has the discretion not to accept the redemption request.

Emerging market funds are open-ended comingled funds invested primarily in equities of companies domiciled in emerging markets. These have an indefinite life, and investments may be redeemed with up to 120 days' notice.

Closed-end real estate funds primarily invest in U.S. commercial real estate. Closed-end real assets funds primarily invest in real assets such as timber, energy, agriculture and infrastructure. Closed-end private equity funds primarily invest in privately held companies. These investments cannot be redeemed. Distributions from each fund occur as the underlying investments of the funds are liquidated. Wespath estimates that the underlying investments of the existing funds will be liquidated over the next 15 years.

In 2018, Wespath, through its Special Opportunities Fund, entered into a limited liability company joint venture with Metro Storage to acquire and/or develop self-storage units. These investments cannot be sold until February 2024, at the earliest.

The total investment in the joint venture as of December 31, 2018 was $11.1 million.

International securities: International securities primarily consist of equity and fixed income securities of entities domiciled outside the United States as well as foreign currency forward contracts. Investments in international fixed income securities and contracts are included under the caption "Fixed income securities and contracts." Investments in international equity securities are included under the caption "Equity securities." Investments in emerging market funds are included under the caption "Emerging market funds." The total investment in international securities is $7,140 million and $8,307 million in 2018 and 2017, respectively.

Securities loaned under securities lending agreements: A portion of equity securities, fixed income securities and international securities has been loaned to qualified borrowers pursuant to Wespath's securities lending program, further described in Note 4.

Notes to the Combined Financial Statements

The following table summarizes the fair value of securities on loan and the collateral held as of December 31, 2018:

(in thousands)	Market Value of Securities on Loan	Collateral Held
Fixed Income Securities	$ 906,439	$ 926,652
Domestic Equity Securities	1,052,079	1,076,798
International Equity Securities	227,597	237,745
Total	**$ 2,186,115**	**$ 2,241,195**

The following table summarizes the fair value of securities on loan and the collateral held as of December 31, 2017:

(in thousands)	Market Value of Securities on Loan	Collateral Held
Fixed Income Securities	$ 872,790	$ 894,148
Domestic Equity Securities	900,521	922,118
International Equity Securities	183,228	203,730
Total	**$ 1,956,539**	**$ 2,019,996**

Other assets: Other assets primarily consist of fixed assets and investment receivables. Fixed assets, which include property, furniture and equipment, are assets with cost in excess of $10,000 that have a useful life greater than one year. Fixed assets are stated at cost less depreciation. Depreciation of fixed assets is provided on a straight-line basis over the assets' estimated service life, typically five to seven years for furniture, fixtures and equipment; 15 years for land improvements; and 40 years for the building. Depreciation expense totaling $1.4 million for 2018 and $1.7 million for 2017 is included in Operating expenses in the Statements of Operations. Receivables due from the purchasers of investments sold of $266 million and $130 million at December 31, 2018 and 2017, respectively, are included in "Other assets."

Property and equipment, which are components of "Other assets," are comprised of the following as of December 31:

(in thousands)	2018	2017
Land	$ 15,685	$ 15,685
Land improvements	3,753	3,726
Building	29,965	29,869
Computer and office equipment	20,177	21,105
	69,580	**70,385**
Less accumulated depreciation		
Land improvements	2,057	1,809
Building	6,157	5,409
Computer and office equipment	19,300	20,223
Property and equipment – net	**$ 42,066**	**$ 42,944**

Defined contribution plans: This liability represents the accumulated fair value of contributions and earnings to the defined contribution components of the three IRC Section 403(b) and one IRC Section 401(k) pension or retirement plans as remitted by the plan sponsor to a participant's account.

Defined benefit plans: Plan sponsors fund current and future benefits for service rendered under the defined benefit plans. For financial statement purposes, Wespath reflects only amounts that plan sponsors have contributed to date, with accumulated investment earnings. These plans have funded and unfunded liabilities. Plan sponsors of the Pre-82 Plan are required to contribute the unfunded amounts, plus any changes resulting from benefit improvements, no later than the end of the year 2021. Plan sponsors of defined benefit plans contributed $147 million and $129 million to the plans in 2018 and 2017, respectively.

Annuities: Annuities are primarily lifetime monthly benefit payments for retired individuals that have been established under certain plans. Actuarially determined benefits are funded from the individual accounts of participants upon retirement. Participants make specific elections with regard to survivor benefits, post-retirement benefit increases and other terms of the annuity.

Disability, death and health benefit program deposits: These pooled accounts represent deposits to certain employee welfare benefit plans held to provide benefits to participants in the disability, death and health benefit programs.

Plan sponsor and other deposits: These deposits represent amounts received from institutional investors; and from plan sponsors to fund pension, disability, death, health benefit and other programs. These funds are invested at the direction of the account holder.

Endowments: Included in the endowment liabilities, within Wespath, are funds administered on behalf of UMC-related organizations. Wespath invests these funds as the trustee. Distributions of income are made in accordance with the provisions of the applicable governing documents. Many annual conferences, particularly those in the South Central and Southeastern jurisdictions, have Conference Superannuate Endowment Fund accounts. These funds, the principal of which may not be withdrawn as mandated by General Conference, represent endowment funds for the benefit of retirees of the former Methodist Episcopal Church, South. Also included in endowments, within Wespath, are undesignated gifts, bequests and donations.

Other liabilities: Other liabilities primarily consist of payables for investment purchases of $555 million and $662 million at December 31, 2018 and 2017, respectively.

Net assets: Combined Net Assets at December 31, 2018 and 2017 represent Wespath's designated operating reserve of $26.7 million and $20.5 million, respectively, plus accumulated unrestricted net assets that have been determined based on increases or decreases in the value of assets not specifically allocated to plans or a specific investor. Wespath transferred $7.9 million and $9.3 million in 2018 and 2017, respectively, to its designated operating reserve.

Notes to the Combined Financial Statements

Note 3: Fair Value Measurements

Wespath uses the fair value hierarchy, which is based on the inputs used to measure fair value. Observable inputs are inputs that market participants use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants use in pricing the asset or liability based on the best information available in the circumstances. Wespath utilizes the following hierarchy to classify assets and liabilities held at fair value based on the transparency of inputs:

Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the report date.

Level 2: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. These types of securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.

Level 3: This includes securities that have little to no observable pricing inputs as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

When available, Wespath values securities at observable market prices, observable market parameters, or broker or dealer prices (bid and ask prices). In the case of securities transacted on recognized exchanges, the observable market prices represent quotations for completed transactions from the exchange on which the securities are principally traded. For investments in illiquid or privately held securities and private real estate, real asset or private equity limited partnership investments that do not have readily determinable fair values, the determination of fair value requires Wespath to estimate the value of the securities using the best information available.

Among the factors that may be considered by Wespath in determining the fair value of illiquid or privately held securities are the cost, terms and liquidity of the investment; the financial condition and operating results of the issuer; the quoted market price of publicly traded securities with similar quality and yield; and other factors generally pertinent to the valuation of these investments. In instances where a security is subject to transfer restrictions, the value of the security is based primarily on the quoted price of a similar security without restriction, but may be reduced by an amount estimated to reflect such restrictions. In addition, even where the value of a security is derived from an independent source, certain assumptions may be required to determine the security's fair value. The actual value realized upon disposition could be different from the currently estimated fair value. All of Wespath's investments in illiquid, infrequently traded or privately held securities have been valued using Level 3 inputs.

Fixed income securities, such as domestic government or corporate bonds, are stated at fair value determined primarily by third-party pricing vendors. In instances where sufficient market activity exists, the valuations may utilize a market-based approach through which quotes from market makers are used to determine fair value. In instances where sufficient market activity may not exist or is limited, valuations also utilize proprietary valuation models, which may consider market characteristics, such as benchmark yield curves, option-adjusted spreads, credit spreads, estimated default rates, coupon rates, anticipated timing of principal repayments, underlying collateral, and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair value. Fair value estimates of guaranteed investment contracts (GICs) are made according to the methodologies further detailed in Note 6. Mortgage contracts and other loans are stated at fair value based on the net present value of the estimated future cash flows discounted at market equivalent rates. Most of Wespath's fixed income securities have been valued at Level 2. The exceptions relate to certain domestic government securities that have been valued at Level 1 and to certain corporate bonds that have been valued at Level 3. All mortgage contracts and other loans have been primarily valued at Level 2.

For private real estate limited partnership investments, fair value estimates of the underlying real estate investments are based on a combination of property appraisal reports prepared by third-party, independent appraisers and internal models developed by the underlying fund managers using a variety of market-based assumptions. The estimates of fair value are based on three conventional approaches to value, all of which require the exercise of subjective judgment. The three approaches are: 1) current cost of replacing the real estate less deterioration and functional and economic obsolescence; 2) discounting a series of expected income streams and reversion at a specific yield or by directly capitalizing a single-year income estimate by an appropriate factor; and 3) the value indicated by recent sales of comparable real estate in the market. In reconciliation of these three approaches, the independent appraiser uses one, or a combination of them, to determine an approximated fair value.

For private equity limited partnership investments, fair value estimates of the underlying private equity investments made by the respective partnerships require significant judgment and interpretation of the general partner's overall management. Underlying private equity partnership investment values are determined based on available market data, including observations of the trading multiples of public companies considered comparable to the investments being valued. Valuations also are adjusted to give consideration to the financial condition and operating results specific to the issuer, the lack of liquidity inherent in a non-public investment, the long-term nature of such investments, credit markets, and the fact that comparable public companies are not identical to the companies being valued.

For real assets limited partnership investments such as timberland, agricultural properties and private equity energy investment vehicles, fair value estimates of the underlying properties are determined by qualified third-party appraisers and internal models developed by the underlying fund managers using a variety of market-based assumptions. Estimates of fair value are based on factors such as current supply/demand dynamics for the underlying assets, commodity prices and sales of comparable properties.

Wespath recognizes transfers between levels on the first day of the month in which the transfers occur. No significant transfers occurred in 2018 or 2017.

Notes to the Combined Financial Statements

The following table summarizes financial assets at fair value, by levels, as of December 31, 2018:

Asset Class (in thousands)	**Level 1**	**Level 2**	**Level 3**	**Investments**
Investments at fair value (non NAV)				
Domestic common stock[A]	$ 5,275,129	$ –	$ –	$ 5,275,129
International common stock[B]	3,503,734	–	3	3,503,737
Preferred stock[C]	13,015	239	–	13,254
Domestic government fixed income[D]	2,184,866	–	–	2,184,866
International government fixed income[E]	–	1,389,519	–	1,389,519
Domestic government and other agencies[F]	–	849,824	–	849,824
Municipal fixed income[G]	–	46,128	–	46,128
Corporate fixed income[H]	–	3,263,791	274,434	3,538,225
Asset-backed securities[I]	–	713,087	2	713,089
Collateralized loan obligations[J]	–	655,000	–	655,000
Risk management instruments[K]	(7,195)	165,537	–	158,342
Cash equivalents[L]	1,301	49,176	–	50,477
Total investments at fair value (non NAV)	**$ 10,970,850**	**$ 7,132,301**	**$ 274,439**	**$ 18,377,590**
Investments at fair value (NAV)				
Emerging market funds[M]				1,074,217
Private equity/real estate partnerships[N]				1,038,996
Real asset partnerships[O]				122,568
Total investments at fair value				**$ 20,613,371**
Cash equivalents at cost[P]				922,848
Wrap contracts at contract value[Q]				382,722
Total investments				**$ 21,918,941**

A Domestic common stock reflects investments in common stock of companies primarily domiciled in the United States.

B International common stock reflects investments in common stock of companies primarily domiciled outside of the United States.

C Preferred stock is composed of straight and convertible preferred stock issues across various industry sectors.

D Domestic government fixed income represents investments in U.S. Treasury bonds, U.S. Treasury notes and U.S. Treasury inflation-adjusted securities at various interest rates and maturities.

E International government fixed income includes non-U.S. government investments, including inflation-adjusted securities, with both fixed and variable yields, and with geographical concentrations in Europe, Asia and South America.

F Domestic government and other agencies include Government National Mortgage Association, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation investments with both variable and fixed interest rates.

G Municipal fixed income is composed of various state and local municipality investments.

H Corporate fixed income represents U.S. and international investment grade and below investment grade corporate securities across various industry sectors.

I Asset-backed securities are composed of both variable and fixed rate investments collateralized by a specific pool of underlying assets such as auto loans, credit card receivables, whole loans, etc.

J Collateralized loan obligations reflect the Positive Social Purpose private loan portfolio.

K Risk management instruments include derivatives held primarily as hedges to mitigate financial risk exposure. Investments include foreign currency and futures contracts, forward commitments, options on futures contracts and swap contracts.

L Cash equivalents include investments in commercial paper, U.S. Treasury bills and money market funds.

M Emerging market funds represent equity ownership of comingled funds that primarily invest in international publicly traded equity securities.

N Private equity partnerships represent primary and secondary investments in limited partnerships that invest in leveraged buyout and venture capital companies. Private real estate partnerships represent primarily investments in limited partnerships or limited liability companies that hold commercial real estate debt and equity interests in real estate.

O Real asset partnerships include investments in limited partnerships that invest in timberland and private equity energy properties.

P Cash equivalents at cost include investments in commercial paper, repurchase agreements and time deposits. These investments are carried at cost, which approximates fair value.

Q Wrap contracts at contract value represent investments that insulate the holder from changes in fair value in the underlying portfolio of the Stable Value Fund. These investments are reported at contract value (Note 6).

The following table summarizes the change in fair value associated with Level 3 financial assets for the year ended December 31, 2018:

(in thousands)	Corporate Fixed Income	Asset-Backed Securities	International Common Stocks	Total
Balance as of December 31, 2017	$ 266,930	$ 727	$ 3	$ 267,660
Purchases	166,697	3	–	166,700
Sales	(146,284)	(729)	–	(147,013)
Transfer out	–	–	–	–
Transfer in	–	–	–	–
Realized gains/(losses) – net	(1,831)	(1)	–	(1,832)
Unrealized gains/(losses) – net	(11,078)	2	–	(11,076)
Balance as of December 31, 2018	**$ 274,434**	**$ 2**	**$ 3**	**$ 274,439**

Notes to the Combined Financial Statements

The following table summarizes financial assets at fair value, by levels, as of December 31, 2017:

Asset Class (in thousands)	**Level 1**	**Level 2**	**Level 3**	**Investments**
Investments at fair value (non NAV)				
Domestic common stock[A]	$ 6,055,560	$ –	$ –	$ 6,055,560
International common stock[B]	4,310,647	–	3	4,310,650
Preferred stock[C]	18,882	391	–	19,273
Domestic government fixed income[D]	2,576,779	–	–	2,576,779
International government fixed income[E]	–	1,467,911	–	1,467,911
Domestic government and other agencies[F]	–	343,895	–	343,895
Municipal fixed income[G]	–	64,647	–	64,647
Corporate fixed income[H]	–	3,638,216	266,930	3,905,146
Asset-backed securities[I]	–	618,922	727	619,649
Collateralized loan obligations[J]	–	651,342	–	651,342
Risk management instruments[K]	35,557	84,358	–	119,915
Cash equivalents[L]	8,358	33,136	–	41,494
Total investments at fair value (non NAV)	**$ 13,005,783**	**$ 6,902,818**	**$ 267,660**	**$ 20,176,261**
Investments at fair value (NAV)				
Emerging market funds[M]				1,285,430
Private equity and real estate partnerships[N]				1,037,962
Real asset partnerships[O]				121,270
Total investments at fair value				**$ 22,620,923**
Cash equivalents at cost[P]				1,124,149
Wrap contracts at contract value[Q]				386,935
Total investments				**$ 24,132,007**

The following table summarizes the change in fair value associated with Level 3 financial assets for the year ended December 31, 2017:

(in thousands)	**Corporate Fixed Income**	**Asset-Backed Securities**	**Domestic Common Stocks**	**International Common Stocks**	**Cash Equivalents**	**Total**
Balance as of December 31, 2016	$ 267,024	$ 2,224	$ 51,579	$ 20	$ 326	$ 321,173
Purchases	171,739	37	13,954	64	24,326	210,120
Sales	(169,878)	(1,577)	(68,488)	–	(24,652)	(264,595)
Transfer out	–	–	–	(81)	–	(81)
Transfer in	–	–	–	–	–	–
Realized gains/(losses) – net	(1,669)	90	(483)	–	–	(2,062)
Unrealized gains/(losses) – net	(286)	(47)	3,438	–	–	3,105
Balance as of December 31, 2017	**$ 266,930**	**$ 727**	**$ –**	**$ 3**	**$ –**	**$ 267,660**

For the years ended December 31, 2018 and 2017, the net change in unrealized losses associated with Level 3 financial assets held at year-end are $14.2 million and $836 thousand, respectively.

Note 4: Securities Lending Agreements

Wespath enters into securities lending transactions in its fixed income and equity portfolios, for which it receives compensation. Loans of securities are collateralized by cash and securities equal to at least 102% and 105% of the carrying value of the securities on loan for domestic and international securities, respectively. Wespath typically reinvests the cash collateral in repurchase agreements. Wespath monitors the fair value of the collateral relative to the amounts due under the agreements and, when required, requests through its advisors additional collateral or reduces the loan balance in order to maintain the contractual margin protection. The amount of the collateral related to its reinvestment agreements is carried at amortized cost, which approximates fair value, and is reported on the Balance Sheets as "Invested collateral from securities lending agreements." Repurchase agreements are collateralized by securities with a fair value equal to at least 102% of Wespath's investment in the agreement.

Cash collateral is invested in repurchase agreements of a short-term nature; however, such investments are subject to risk of payment delays or default on the part of the issuer or counterparty or otherwise may not generate sufficient interest to support the costs associated with securities lending. Wespath could also experience delays in recovering its securities and possible loss of income or value if the borrower fails to return the borrowed securities, although Wespath is indemnified from this risk by contract with the securities lending agent.

The fair value of the securities loaned totaled $2,186 million and $1,957 million at December 31, 2018 and 2017, respectively. The securities loaned are recorded in the Balance Sheets as "Securities loaned under securities lending agreements." The fair value of the "Invested collateral from securities lending agreements" includes only cash collateral received and reinvested that totaled $1,139 million and $1,002 million at December 31, 2018 and 2017, respectively. These amounts are offset by a liability recorded as "Payable under securities lending agreements." At December 31, 2018 and 2017, Wespath had received non-cash collateral of $1,102 million and $1,018 million, respectively, in the form of U.S. government securities inclusive of U.S. government agencies and mortgages.

The following table outlines the cash collateral received on securities loaned at December 31, 2018:

Loan Type (in thousands)	**Overnight and Continuous**	**Up to 30 Days**	**30-90 Days**	**Greater than 90 Days**	**Total**
Fixed Income Securities	$ 427,004	$ 6,006	$ –	$ –	$ 433,010
Domestic Equity Securities	529,002	–	–	–	529,002
International Equity Securities	168,857	7,481	–	390	176,728
Total	**$ 1,124,863**	**$ 13,487**	**$ –**	**$ 390**	**$ 1,138,740**

The following table outlines the cash collateral received on securities loaned at December 31, 2017:

Loan Type (in thousands)	**Overnight and Continuous**	**Up to 30 Days**	**30-90 Days**	**Greater than 90 Days**	**Total**
Fixed Income Securities	$ 176,633	$ 19,196	$ –	$ –	$ 195,829
Domestic Equity Securities	616,057	–	–	–	616,057
International Equity Securities	176,875	11,155	–	1,773	189,803
Total	**$ 969,565**	**$ 30,351**	**$ –**	**$ 1,773**	**$ 1,001,689**

Notes to the Combined Financial Statements

Note 5: Risk Management Instruments

Wespath may, from time to time, enter into financial futures contracts, foreign-currency forward contracts, forward contracts to purchase U.S. government agency obligations for trading purposes and commodity futures contracts. Equity futures contracts are used as a means to replicate the performance of the broad stock market and to reduce transaction costs associated with rebalancing a market-based indexed portfolio when there are cash inflows or outflows, or facilitating asset allocation shifts when warranted. Foreign-currency forward contracts are used to manage the risk of foreign currency fluctuations and to ensure that adequate funds, denominated in the local currency, are available to settle purchases of foreign securities. Forward contracts to purchase U.S. government agency obligations are used to take advantage of market yield premiums available for delayed settlement contracts.

Fixed income financial futures (both exchange-traded and over-the-counter, including forward contracts and futures contracts) are used for hedging purposes. Hedging transactions that use fixed income futures contracts are defined as transactions that are substitutes for fixed income securities that the portfolio could own, and that have the comparable economic impact of managing the risks of the portfolio. In addition, fixed income financial futures are used for obtaining efficient investment exposure to certain financial market sectors that may not be economically accessible outside of the derivatives market. Commodity futures contracts are used to gain exposure to price changes of various commodities, such as energy, agriculture, metals and livestock. Wespath does not use derivative instruments or strategies to leverage its investments.

Financial futures contracts, commodity futures contracts, foreign-currency forward contracts and forward contracts to purchase U.S. government agency obligations are stated at fair value determined by prices quoted on national security exchanges. Fluctuations in value prior to maturity are recognized as unrealized gains or losses in the period during which they arise. At maturity, realized gains or losses are recognized and settled daily with cash through a margin account. Other liabilities, including the payables related to forward contracts to purchase U.S. government agency obligations, are stated at face value.

As with all of the securities included in Wespath's investment portfolio, these instruments are exposed to both market and credit risk. The market risk associated with these instruments is that equity prices or foreign exchange rates could change, resulting in a loss in the value of the investment. These risks may be offset partially by holding positions in the underlying securities. The credit risk associated with these instruments relates to the failure of the counterparty to pay based on the contractual terms of the agreement. Wespath monitors the counterparties that are responsible for fully satisfying their obligations under the contracts, and no loss related to this risk is expected. Each equity futures contract requires that Wespath place on deposit with the executing counterparty an amount equal to the margin requirement for the contract. The margin requirement is recalculated daily to reflect the change in fair value.

Fund transfers to or from Wespath depend on the change in margin requirement. Wespath's daily credit exposure is limited to the margin requirement attributable to one day's price fluctuation.

Notes to the Combined Financial Statements

The fair value or the notional value of the net positions of risk management instruments and the location of related unrealized gains (losses) in the Balance Sheets as of December 31 are listed in the table below:

(in thousands)	2018	2017	Location on Balance Sheet
Forward Commitments			
Federal National Mortgage Association*	$ 165,761	$ 80,325	Fixed income securities
Federal National Mortgage Association*	–	(51,749)	Other liabilities
Contracts to sell foreign currency**	774,053	641,954	Other assets
Contracts to (buy) foreign currency**	(204,705)	(155,980)	Other liabilities
Contracts to (buy) equity futures			
S&P 500 Index**	(108,600)	(124,434)	Equity securities
Russell 2000 Index**	(9,241)	(12,446)	Equity securities
Other index futures**	(157,626)	(140,217)	Equity securities
Contracts to (buy) sell other futures			
Fixed income securities**	(52,568)	343,436	Equity securities
Cash and equivalents**	(342,935)	(58,961)	Equity securities
Commodities**	(183,950)	(196,009)	Equity securities
Other			
Net credit default swap contracts – long position*	(2,256)	2,329	Fixed income securities
Net credit default swap contracts – short position*	–	–	Other liabilities
Interest rate swap contracts – long position*	(3,435)	(1,909)	Fixed income securities
Interest rate swap contracts – short position*	–	–	Other liabilities
Inflation rate swap contracts*	15	24	Fixed income securities
Zero coupon swap contracts – long position*	30	7	Fixed income securities
Zero coupon swap contracts – short position*	–	–	Other liabilities
Purchased options*	5,423	3,662	Fixed income securities
Written options*	(5,752)	(4,355)	Other liabilities

* At fair value in balance sheet account indicated
** At notional value (related fair value is in balance sheet account indicated)

Net gains (losses) from risk management instruments, included in the Statements of Operations, are listed in the table below for the years ended December 31:

Derivative Investments (in thousands)	2018 Net Gains (Losses) on Investments Realized	2018 Unrealized	2017 Net Gains (Losses) on Investments Realized	2017 Unrealized
Forward commitments	$ 527	$ 1,250	$ 231	$ 811
Foreign exchange contracts	24,503	7,300	(1,299)	(7,778)
Futures contracts	(33,382)	(28,495)	99,599	11,174
Credit default swap contracts	(252)	(2,429)	2,959	817
Interest rate swap contracts	2,535	(3,427)	5,832	(5,668)
Inflation rate swap contracts	–	(9)	370	(273)
Zero coupon swap contracts	758	101	12	(74)
Total return swap contracts	2	–	–	–
Options contracts	1,068	471	(997)	452
Total	**$ (4,241)**	**$ (25,238)**	**$ 106,707**	**$ (539)**

Notes to the Combined Financial Statements

Note 6:
Stable Value Fund

The Stable Value Fund invests in fixed income securites and GICs. GAAP requires that fair value be based upon the standard discounted cash flow methodology for traditional and variable GICs. Fair value is based on fair value of underlying portfolios for constant duration synthetic GICs.

The stable value fund GICs consist of constant duration and fixed maturity synthetic GICs, which are benefit-responsive. These are known as security-backed contracts.

Synthetic GICs consist of a portfolio of securities owned by the fund and a benefit-responsive, book-value wrap contract purchased for the portfolio. The wrap contract amortizes gains and losses of the underlying securities over the portfolio duration and assures that benefit-responsive payments will be made at book value for participant-directed withdrawals. The initial crediting rate is established based on the market interest rates at the time the underlying portfolio is funded.

The total contract value for constant duration and fixed maturity synthetic GICs was $383 million and $387 million at December 31, 2018 and 2017, respectively.

Most investment contracts have book value crediting rates that are reset periodically. The crediting rates are initiated at the inception of each contract and typically are recalculated on a quarterly basis. Applicable book value wrap fees, underlying asset management fees and/or product fees are subtracted from the gross crediting rate to determine a net crediting rate for each reset period.

The primary variables impacting the future crediting rates of security-backed contracts include the current yield of the assets underlying the contract, the duration of the assets underlying the contract, and the existing difference between the fair value of the assets underlying the contract and the contract value. The security-backed contracts are designed to reset their respective crediting rates on a quarterly basis, and the interest credited cannot be less than zero percent (0%).

The crediting rate of security-backed contracts will track current market yields on a trailing basis. The rate reset allows the contract value to converge with the fair value of the underlying portfolio over time, assuming the portfolio continues to earn the current yield for a period of time equal to the current portfolio duration.

To the extent that the underlying portfolio of a security-backed contract has unrealized and/or realized losses, a positive adjustment is made to the adjustment from fair value to contract value under contract value accounting. As a result, the future crediting rate may be lower over time than the then-current market rates. Similarly, if the underlying portfolio generates unrealized and/or realized gains, a negative adjustment is made to the adjustment from fair value to contract value, and the future crediting rate may be higher than the then-current market rates.

Certain employer-initiated events (e.g., layoffs, plan terminations, mergers, early retirement incentives, employer communications designed to induce participants to transfer from the fund, competing fund transfers, violation of equity wash or equivalent rules in place, and changes of qualification status of employer or plan) are not eligible for book-value disbursements even from fully benefit-responsive contracts. These events may cause liquidation of all or a portion of a contract at a market-value adjustment.

In general, issuers may terminate the contract and settle at other-than-contract value for the following reasons: changes in the qualification status of employer or plan changes, breach of material obligations under the contract, misrepresentation by the contract holder or failure of the underlying portfolio to conform to the pre-established investment guidelines. Issuers also may make payments at a value other than book value when withdrawals are caused by certain employer-initiated events.

It is unlikely that an event as described above would occur limiting the ability of Wespath to transact at contract value with the contract issuers and also limiting the ability of Wespath to transact at contract value with the participants.

Note 7: Allocated Net Earnings to Unitized Funds

The assets in the various Wespath-administered investment funds are priced daily and recorded in units to the accounts of plan participants, plan sponsors, institutional investors and plan reserves. The accounts are allocated primarily with their portion of actual earned returns, including realized and unrealized gains and losses, net of all operating expenses which include funding of the operating reserve as discussed in Note 2. Where appropriate, certain administrative costs that are strictly related to the administration of various plans, such as HealthFlex, are charged directly to those plans through an expense allocation process.

Note 8: HealthFlex

HealthFlex is a self-funded church plan, contracting with certain outside firms for administrative services only. Some of the benefit programs under HealthFlex are insured by third-party providers. Wespath also participates in a purchasing coalition with other church benefit program administrators, in which a single pharmacy benefit manager with beneficial economies of scale administers prescription drug claims.

As the HealthFlex plan administrator, Wespath bills plan sponsors a premium for benefits received by the plan participants. The premium is actuarially determined to cover all plan costs, including premiums paid to insurance companies, self-funded claims and all administrative costs.

Wespath invests the assets of HealthFlex in MAF and STIF, and incurs the expense of staff support and other costs to administer HealthFlex.

Activity for the HealthFlex plan for the years ended December 31 is as follows:

(in thousands)	2018	2017
Premiums		
Medical	$ 142,412	$ 126,301
Other premiums	7,569	6,279
Total premiums	149,981	132,580
Claims		
Medical (net of rebates)	(120,366)	(113,270)
Other expenses	(11,306)	(5,096)
Total claims	(131,672)	(118,366)
Administration		
Wespath	(2,803)	(2,913)
Third-party	(9,286)	(8,162)
Total administration	(12,089)	(11,075)
Net experience	6,220	3,139
Investment (losses) earnings	(2,588)	10,267
Increase in accumulated reserves	3,632	13,406
Accumulated reserves		
Beginning of year	135,883	122,477
End of year	$ 139,515	$ 135,883

The HealthFlex accumulated reserves are included in the Balance Sheets as part of "Disability, death and health benefit program deposits."

Notes to the Combined Financial Statements

Note 9:
Operating Expenses

The components of operating expenses for the years ended December 31 are as follows:

(in thousands)	2018	2017
Salaries	$ 26,754	$ 25,942
Current and retired employee benefits	8,525	8,736
Redirected employee benefit expenses	(3,393)	(6,679)
Professional services	9,084	8,587
Occupancy and other office expenses	3,798	3,972
Computers and other equipment	1,556	1,491
Meetings and travel	1,653	1,500
Reserve funding	7,920	10,139
Other expenses	5,171	5,080
Total operating expenses	**$ 61,068**	**$ 58,768**

All operating expenses are considered to be programmatic and are allocated to the unitized fund accounts or benefit plans. In 2018 and 2017 respectively, Wespath paid $3.4 and $6.7 million in eligible current and retired employee benefits through funding by the General Agency Benefit Trust (GABT) and its associated employee benefit reserve per the terms of the trust. GABT accumulated reserves are included in the Balance Sheets as part of "Plan sponsor and other deposits."

Note 10:
Tax Status and Positions

Wespath operates exclusively for religious and charitable purposes and is exempt from federal income taxes under IRC section 501(c)(3). The Financial Accounting Standards Board (FASB) issued guidance that requires tax effects from uncertain tax positions to be recognized in the financial statements only if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. Management believes there are no material uncertain tax positions that require recognition in the accompanying financial statements. While exempt from income tax under IRC section 501(c)(3), Wespath is subject to tax on income unrelated to its exempt purposes, unless that income is otherwise excluded by IRC. The tax years ending 2015, 2016, 2017 and 2018 are still open to audit for both federal and state purposes. There were no material interest or penalties related to income taxes that have been accrued or recognized as of and for the years ended December 31, 2018 and 2017.

Note 11:
Related Party Transactions

Wespath borrowed certain funds from the CPP welfare plan, one of the plans managed by Wespath, to fund the cost of construction of the headquarters at 1901 Chestnut Avenue, Glenview, Illinois. In exchange, CPP holds a mortgage note payable, secured by the Glenview property. The mortgage note payable has a principal balance of $24.2 million and $24.9 million as of December 31, 2018 and 2017, respectively, and bears an interest rate of 4% (the market rate at the time of a refinancing in July 2016). Wespath makes monthly payments of $137 thousand, which includes interest, through March 2041.

On July 1, 2016, Wespath executed a loan from HealthFlex in the amount of $26 million in order to provide additional funding of non-MPP annuities.

The note has an 84-month term and bears a variable interest rate equal to the STIF annual rate of return with an additional premium of 70 basis points (currently 1.72%) that will be adjusted annually every July.

These two loans are intra-company loans that eliminate upon combination of the financial statements.

The annual principal payments on these two loans are as follows:

Years ending December 31 (in thousands)		
2019	$	4,336
2020		4,427
2021		4,521
2022		4,616
2023		3,405
Thereafter		20,496
	$	**41,801**

Note 12:
Subsequent Events

In preparing these financial statements, Wespath has evaluated events and transactions for potential recognition or disclosure through May 1, 2019, the date the financial statements were available to be issued.

On January 2, 2019, Wespath Institutional Investments LLC (WII) was officially launched. WII is the new exempt investment advisor separate from, but controlled by, the Illinois Corporation created to serve a broader range of institutional investors, such as hospitals, universities, foundations and other organizations whose missions align with that of The United Methodist Church. WII administers eight new investment funds, solely for institutional investors, called *I-Series* funds.

As part of the launch on January 2, 2019, approximately $1.9 billion of institutional client assets were transferred from the existing funds (now referred to as the *P-Series* funds) managed by the Benefit Board to *I-Series* funds managed by WII.

In addition, on January 2, 2019, the Illinois Corporation loaned WII $3.5 million, for start-up costs, at a rate of 5.875% per year, maturing on January 1, 2029. This loan will be eliminated upon combination of the financial statements.

Other Information

Executive Compensation

Wespath regularly reviews and analyzes market compensation data to help ensure that we can attract, retain and help motivate superior leadership in a competitive market while maintaining our commitments to stewardship and strong investment returns. The Wespath Senior Leadership Team, Personnel Committee and board of directors take their roles in setting executive compensation seriously—striving to balance the values of the Church in which we serve and the business environment in which we compete for talent.

The executive compensation philosophy for our top five positions developed with input from an independent compensation consulting firm is to target the 50th percentile of the comparable market data (excluding long-term incentives) from the composite talent market (+/-10%). A detailed review of total compensation for executives within comparable organizations was completed by an independent compensation consulting firm. The executive compensation program was found to be consistent with Wespath's compensation philosophy and reasonable under IRS guidelines considering competitive compensation market practices.

In choosing the comparable organizations, several factors were considered, including the mix and complexity of the products and services offered, the clients being served and asset size. Companies with whom we compete for talent were considered, as well as data from a published survey of other church benefits organizations. Wespath, with just under $22 billion in assets under management, is the largest participating organization in the church survey.

Total Cash Compensation (in thousands) **2018**	
Chief Executive Officer	
Financial Services*	$ 1,784.4
Composite**	$ 1,233.5
Wespath	$ 1,025.5
Chief Operating Officer	
Financial Services*	$ 764.3
Composite**	$ 606.7
Wespath	$ 557.7
Chief Investment Officer	
Financial Services*	$ 592.2
Composite**	$ 498.2
Wespath	$ 496.3
Chief Financial and Information Officer	
Financial Services*	$ 566.7
Composite**	$ 505.4
Wespath	$ 402.3
Chief Legal Officer	
Financial Services*	$ 496.1
Composite**	$ 458.7
Wespath	$ 414.5

* Median (50th percentile) of total cash compensation at comparable financial services organizations

** Median (50th percentile) of total weighted cash compensation including base salary from financial services organizations (70%) and not-for-profit organizations (30%) with a target incentive entirely from not-for-profit organizations as provided by the Mercer US Term Incentive Survey.

Audit Committee

Wespath's Audit Committee generally is composed of six members from the board of directors and four non-board committee members who have specialized accounting or auditing experience and expertise. The board of directors of Wespath has adopted a written charter for the Audit Committee. The board of directors of Wespath has determined that more than one member of the Audit Committee is an audit committee financial expert, as defined in its charter.

The Audit Committee selects Wespath's independent certified public accounting firm and reviews the professional services it provides. The Audit Committee reviews the scope of the audit performed by the independent certified public accounting firm, its report on the audit, Wespath's annual financial statements, any material comments contained in the auditor's communication to the Audit Committee, Wespath's internal accounting controls, and other matters relating to accounting, auditing and financial reporting as it deems appropriate. The Audit Committee has discussions at least once a year with the external auditor without management being present. The Audit Committee reviews the external auditor's scope of work and related fees and expenses to determine that Wespath has not hired the firm for other significant amounts of work. The Audit Committee discusses with Wespath's internal audit service provider and with appropriate Wespath management the overall scope and plans for their respective audits. The Audit Committee regularly meets with each to discuss the results of their examinations and their observations and recommendations regarding Wespath's internal controls.

Investment Managers, Positive Social Purpose Lending Program Intermediaries, Banks, Auditors and Consultants

Investment Managers

Adams Street
Chicago, Illinois
USEF – *private equity*
IEF – *private equity*

AMERRA Capital Management
New York, New York
IEF – *private equity*

Baillie Gifford
Edinburgh, Scotland
IEF – *international equity*

BlackRock
San Francisco, California
and New York, New York
IPF – *inflation-protected fixed income*
FIF – *corporate and agency fixed income*
ETFIF – *long duration fixed income*
USEF – *domestic equity*
USEIF – *domestic equity*
IEF – *international equity*

Blackstone Group
New York, New York
IEF – *private real estate*
SOF – *private real estate*

Brown Capital Management
Baltimore, Maryland
USEF – *domestic equity*

The Bank of New York Mellon
Pittsburgh, Pennsylvania
USEF, USEIF, SVCEF, ETFIF,
IEF, FIF, IPF, SVF, STIF, SVCBF, USTPF
– *securities lending*

Cabot Properties
Boston, Massachusetts
USEF – *private real estate*

Capital Group
Los Angeles, California
FIF – *emerging market debt*
IEF – *developed and emerging-markets international equity*

CBRE Global Advisors
Los Angeles, California
USEF – *private real estate*

Cerberus Capital Management
New York, New York
USEF – *private real estate*
SOF – *private real estate distressed debt and equity*

Conservation Forestry
Exeter, New Hampshire
SOF – *timber*

Credit Suisse Asset Management
New York, New York
IPF – *senior secured loans*

Disciplined Growth Investors
Minneapolis, Minnesota
USEF – *domestic equity*

Dodge & Cox
San Francisco, California
SVF – *stable value fixed income*
ETFIF – *fixed income*

Equity International Management
Chicago, Illinois
IEF – *private real estate*

Genesis Investment Management
London, England
IEF – *emerging-markets equity*

Gresham Investment Management
New York, New York
IPF – *commodities*

Hancock Timber Resource Group
Boston, Massachusetts
IPF – *timber*
SOF – *timber*

HarbourVest
Boston, Massachusetts
IEF – *private equity*

Hotchkis and Wiley Capital Management
Los Angeles, California
USEF – *domestic equity*

Hutensky Capital
Hartford, Connecticut
USEF – *private real estate*

H/2 Capital
Stamford, Connecticut
SOF – *private real estate distressed debt*

Impax Asset Management
London, England
USEF – *domestic equity*
IEF – *international equity*

JP Morgan Investment Management
New York, New York
USEF – *private equity*

Investment Managers, Positive Social Purpose Lending Program Intermediaries, Banks, Auditors and Consultants

Investment Managers (continued)

Kabouter Management
Chicago, Illinois
IEF – *international equity*

Lone Star Funds
Dallas, Texas
FIF – *private real estate distressed debt and equity*
SOF – *private real estate distressed debt and equity*

LSV Asset Management
Chicago, Illinois
USEF – *domestic equity*

Marathon Real Estate
New York, New York
SOF – *private real estate distressed debt*

Mellon
Pittsburgh, Pennsylvania
and San Francisco, California
Sweep Account – *short term fixed income*
SVF – *stable value fixed income*

Metro Storage
Lake Forest, Illinois
SOF – *private real estate*

Mondrian Investment
London, United Kingdom
IEF – *international equity*

Neuberger Berman Investment Advisers
Chicago, Illinois
FIF, SVF – *fixed income*
USTPF – *inflation-protected fixed income*
IPF – *short duration fixed income*
ETFIF – *long duration fixed income*

Northern Trust Quantitative Advisers
Chicago, Illinois
USEF – *domestic equity*
SVCEF – *domestic and international sustainable equity*

Northwood Securities
New York, New York
IEF – *international REITs*

Nuveen Alternative Advisors
Charlotte, NC
SOF – *Agribusiness*

Oaktree Capital Management
Los Angeles, California
FIF – *high-yield fixed income*
IEF – *emerging-markets international equity*

Pacific Investment Management (PIMCO)
Newport Beach, California
AIF, FIF, SVCBF – *fixed income*
IPF – *emerging-markets inflation-protected fixed income*

Parametric Clifton
Minneapolis, Minnesota
USEF – *U.S. equity index financial futures*
IEF – *international equity index financial futures*
MAF – *equity and fixed income financial futures*
ETFIF – *fixed income financial futures*

Pearlmark Real Estate
Chicago, Illinois
USEF – *private real estate*

PGIM Fixed Income
Newark, New Jersey
SVF – *stable value fixed income*
ETFIF – *fixed income*

PGIM Investments
Madison, New Jersey
USEF – *private real estate*
SOF – *private real estate*

Prism Capital
Chicago, Illinois
USEF – *private equity*

The Rohatyn Group
New York, New York
IPF – *international infrastructure*
SOF – *international infrastructure*

Schroders Investment Management
New York, New York
FIF – *fixed income*

Sprucegrove Investment Management
Toronto, Ontario, Canada
IEF – *international equity*

Stafford Capital
Austin, Texas
USEF – *private equity*

Systima Capital Management
Lake Forest, Illinois
SOF – *real estate debt*

TA Associates Realty
Boston, Massachusetts
USEF – *private real estate*

Townsend Group
Cleveland, Ohio
USEF – *private real estate*

Investment Managers (continued)

Tricon Capital Group
Toronto, Ontario, Canada
USEF – *private real estate*

Waterfall Asset Management
New York, New York
IPF – *asset-backed securities*

Wellington Management
Boston, Massachusetts
FIF – *fixed income*
USEF – *domestic equity*
IEF – *international equity*

Wespath Investment Management
Glenview, Illinois
AIF, PSPLF, FIF, Sweep Account –
loan participations to support affordable housing and community development

Zevenbergen Capital Management
Seattle, Washington
USEF – *domestic equity*

Positive Social Purpose Lending Program Intermediaries

Bellwether Enterprise Real Estate Capital
Columbia, Maryland

California Community Reinvestment Corporation
Los Angeles, California

Capital Impact
Arlington, Virginia

Cinnaire Corporation
Lansing, Michigan

The Community Development Trust
New York, New York

Community Investment Corporation
Chicago, Illinois

The Community Preservation Corporation
New York, New York

Community Reinvestment Fund
Minneapolis, Minnesota

Greystone Servicing Corporation
Atlanta, Georgia

The Low Income Investment Fund
San Francisco, California

International Microfinance Intermediary

Shared Interest
New York, New York

Renewable Energy Intermediary

Developing World Markets
Stamford, Connecticut

Custodial Bank

The Bank of New York Mellon Corporation
Pittsburgh, Pennsylvania

Commercial Bank

The Northern Trust Company
Chicago, Illinois

Independent Certified Public Accounting Firm

Grant Thornton
Chicago, Illinois

Internal Auditors

Protiviti
Chicago, Illinois

PC Connection
Merrimack, New Hampshire

Actuarial Consultants

Mercer Health & Benefits
Chicago, Illinois

Willis Towers Watson
New York, New York

Summary

Fund Benchmarks and Details

1 The **Multiple Asset Fund (MAF)** performance benchmark is 35% Russell 3000 Index, 30% MSCI All Country World Index (ACWI) ex-USA Investable Market Index (IMI), 25% Bloomberg Barclays U.S. Universal Index ex-Mortgage Backed Securities (MBS) and 10% Inflation Protection Fund (IPF) Benchmark, effective January 1, 2017. The IPF Benchmark consists of 80% Bloomberg Barclays World Government Inflation Linked Bond Index (Hedged), 10% Bloomberg Barclays Emerging Market Tradeable Inflation Linked Bond Index (Unhedged) and 10% Bloomberg Commodity Index. From January 1, 2016 to December 31, 2016, the benchmark for MAF was 40% Russell 3000 Index, 25% MSCI ACWI ex-USA IMI, 25% Bloomberg Barclays U.S. Universal Index ex-MBS, and 10% IPF Benchmark. From January 1, 2014 to December 31, 2015, the benchmark for MAF was 40% Russell 3000 Index, 25% MSCI ACWI ex-USA IMI, 25% Bloomberg Barclays U.S. Universal Index ex-MBS, and 10% Bloomberg Barclays U.S. Government Inflation Linked Bond Index. From January 1, 2006 to December 31, 2013, the benchmark for MAF was 45% Russell 3000 Index, 20% MSCI ACWI ex-USA IMI, 25% Bloomberg Barclays U.S. Universal Index MBS and 10% Bloomberg Barclays U.S. Government Inflation-Linked Bond Index. Prior to January 1, 2006, the benchmark for MAF was 47% Russell 3000 Index, 15% MSCI EAFE Index, 3% MSCI Emerging Markets Index and 35% Lehman Brothers U.S. Universal Index. Descriptions of each component of this blended benchmark are found elsewhere in this section.

2 The **U.S. Equity Fund (USEF)** and **U.S. Equity Index Fund (USEIF)** performance benchmark is the Russell 3000 Index. The index measures the investment performance of the 3,000 largest (based on total market value) U.S. companies, representing approximately 98% of the publicly traded companies available for investment in the U.S. equity market.

3 The **International Equity Fund (IEF)** performance benchmark is the MSCI ACWI ex-USA IMI, effective January 1, 2008. The index measures the performance of equities of companies domiciled in developed and emerging markets, excluding the U.S. From January 1, 2006 through December 31, 2007, the benchmark for IEF was the MSCI ACWI ex-USA Index. Prior to January 1, 2006, the benchmark was the MSCI EAFE Index.

4 The **Fixed Income Fund (FIF)** performance benchmark has been the Bloomberg Barclays U.S. Universal ex-mortgage-backed securities (MBS) Index since January 1, 2006 (formerly branded as Lehman and Barclays).

5 The **Inflation Protection Fund (IPF)** performance benchmark is 80% Barclays World Government Inflation Linked Bond Index (Hedged), 10% Barclays Emerging Market Tradeable Inflation Linked Bond Index (Unhedged) and 10% Bloomberg Commodity Index, effective January 1, 2016. The Barclays World Government Inflation Linked Bond Index (Hedged) measures the investment performance of a portfolio of developed market investment grade, government inflation-linked debt. The Barclays Emerging Market Tradeable Inflation Linked Bond Index measures the investment performance of a portfolio of local currency emerging markets inflation-linked government debt. The Bloomberg Commodity Index measures the investment performance of a broadly diversified portfolio of futures contracts on physical commodities. From January 1, 2006 to December 31, 2015, the IPF benchmark was the Barclays Capital U.S. Government Inflation Linked Bond (Series B) Index. From April 1, 2005 to December 31, 2005, the benchmark was a blended index based on the following weightings: Barclays Capital U.S. Government Inflation-Linked Bond Index (50%) and Barclays Capital Global Inflation-Linked Bond Index (50%). Prior to April 1, 2005, the benchmark was the Barclays Capital U.S. Government Inflation-Linked Bond Index.

6 The **Social Values Choice Equity Fund (SVCEF)**, formerly the Equity Social Values Plus Fund, performance benchmark is the MSCI World Environmental, Social and Governance (ESG) ex-Fossil Fuels Index, effective April 1, 2017. The index includes companies with highly rated sustainable policies and practices and excludes companies with exposure to fossil fuel reserves used for energy purposes. Prior to April 1, 2017, the benchmark was the MSCI World Custom Environmental, Social, and Governance (ESG) Special Weighted Index.

7 The **Extended Term Fixed Income Fund (ETFIF)** performance benchmark is the Bloomberg Barclays U.S. Long Government/Credit Bond Index. The index measures the investment performance of a portfolio of investment grade, fixed rate U.S. Treasuries, government related and corporate securities that are U.S. dollar denominated and have a maturity of 10 years or more.

8 The **Social Values Choice Bond Fund (SVCBF)** performance benchmark is the Bloomberg Barclays U.S. Universal ex-MBS Index. The index consists of the following Barclays indices: the U.S. Aggregate Bond Index, the U.S. High-Yield Corporate Index, the 144A Index, the Eurodollar Index, the Emerging Markets Index and the non-ERISA portion of the CMBS Index. Non-dollar denominated issues are excluded from the index.

9 The **U.S. Treasury Inflation Protection Fund (USTPF)** performance benchmark is the Bloomberg Barclays U.S. Inflation Linked Bond Index. The index measures the investment performance of U.S. Treasury Inflation Protected Securities.

10 The **Stable Value Fund (SVF)** performance benchmark is the Bank of America Merrill Lynch 3-Month Treasury Bill Index, effective January 1, 2016. The index measures the investment performance of the 3-month sector of the U.S. Treasury Bill market. From November 18, 2002 (the fund's inception) to December 31, 2015, the SVF benchmark was the Bank of America Merrill Lynch Wrapped 1-5 Year Corporate Government Index. The BofA ML Wrapped 1-5 Year Corp. Govt Index is a custom index that started on December 1, 2002 to coincide with the inception of SVF. This index does not reflect actual performance; performance has been adjusted to represent the assumed rate of return that would have been achieved if the BofA ML 1-5 Year Corp. Govt Index had been wrapped for book value returns. This index has been established and calculated by Standish Mellon Asset Management, is not sponsored or licensed by BofA Merrill Lynch, and is not available for direct investment. The index assumes a 12 basis point annual book value wrap fee from inception to June 30, 2004; 10 basis points from then until December 31, 2008; 15 basis points from then until December 31, 2011; and 20 basis points thereafter. These wrap fee assumptions are Standish's view of the industry's average during these points in time. The Crediting Rate formula applied is: CR = (((1+YTM) * ((MV/BV)^(1/D)))-1, where CR is equal to the book value crediting reset rate, YTM is the market yield to maturity of the underlying asset(s), MV is the market value of the underlying asset(s), BV is the book value of the synthetic wrap contract and D is the duration of the underlying asset(s).

11 The **Short Term Investment Fund (STIF)** performance benchmark is the BofA Merrill Lynch 3-Month Treasury Bill Index. The index measures the investment performance of the 3-month sector of the U.S. Treasury Bill market. The performance is the actual returns generated by STIF from the date of its inception, and it includes the performance of Wespath's investments managed with the same strategy prior to the introduction of STIF.

12 The performance shown is for the stated time period only.

13 Historical returns are not indicative of future performance. The prices of Wespath investment funds will rise and fall with the value of the investments held in the funds. The units an investor owns may be worth more or less than their purchase price when redeemed. Investment results shown here are after all investment, administrative and custodial expenses. Investment performance is presented net-of-fees—that is, with the deduction of external investment management fees, custody fees, and administrative and overhead expenses.

The investments of the funds may vary substantially from those in the applicable benchmark. The benchmarks are based on widely-available market indices, which are unmanaged and are not subject to fees and expenses typically associated with investment funds. Investments cannot be made directly in an index. Please refer to the **Investment Funds Description** for more information about each fund. This is not an offer to purchase securities. *Wespath investment funds are neither insured nor guaranteed by the government.*

14 The inception dates are as follows: Social Values Choice Bond Fund and U.S. Treasury Inflation Protection Fund—June 30, 2017; Extended Term Fixed Income Fund—May 29, 2015; Social Values Choice Equity Fund and U.S. Equity Index Fund—December 31, 2014; Inflation Protection Fund—January 5, 2004; Stable Value Fund—November 18, 2002; Multiple Asset Fund and Short Term Investment Fund—April 30, 2002; for all other funds, the inception date is December 31, 1997.

Some of the funds listed in the Summary section (investment results, pages 6-9) invest in both individual securities and in units of the other funds shown. As a result, the total asset amounts in the Summary section do not sum to the total investments in the financial statements.

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