

# August 2023 Investment Report

## Highlights

- The S&P 500 Index of U.S. stocks declined 1.6%, while non-U.S. stocks, represented by the MSCI ACWI ex-U.S. IMI Index, declined 4.3% in August. The Bloomberg U.S. Aggregate Bond Index declined 0.6%.
- The Consumer Price Index (CPI) measure of inflation rose 3.2% over the last 12 months.
- The S&P Global U.S. Composite Purchasing Managers Index (PMI) declined to 50.4 in August, down from 52 in July.
- The U.S. economy added 187,000 jobs, and the unemployment rate rose from 3.5% in July to 3.8% in August.
- The U.S. Equity Fund, International Equity Fund, Fixed Income Fund, Inflation Protection Fund and Multiple Asset Fund underperformed their respective benchmarks.

## Monthly Overview

### Turbulence in Equity and Bond Markets

Equity markets experienced volatility in August due to a combination of global economic factors and geopolitical events. The S&P 500 and Nasdaq 100 both posted monthly declines, their first since February 2023.

Bond yields increased and prices decreased in August as investors evaluated the U.S. Treasury's plans to issue bonds to finance the federal budget deficit. Investors also expressed concerns about inflation, Federal Reserve (Fed) interest rate policy and the unexpected Fitch downgrade of the U.S. long-term credit rating from AAA to AA+. Fitch cited rising debt levels and ongoing deterioration in fiscal governance in its downgrade announcement.

The 30-year Treasury bond yield ended the month at 4.20%, a month-over-month increase of 0.18%, and the yield on the 2-year note ended the month at 4.85%. The Bloomberg U.S. Aggregate Bond Index decreased 0.6%, the Bloomberg U.S. High Yield Index rose 0.3% and the Bloomberg Commodity Index fell 0.8%.

### U.S. Economic Expansion Continues

U.S. real GDP, as measured by the second estimate from the Bureau of Economic Analysis, grew at an annual rate of 2.1% in Q2 (below initial projections of 2.4%). Consumer spending increased 0.8% month-over-month in July, up from a revised 0.6% in June, with shoppers spending most on housing, vehicles, recreational goods, dining out and insurance. The CPI increased 3.2% year-over-year in July, exceeding the Fed's 2% inflation target. Core CPI inflation, which excludes food and energy, increased 4.7% over the last 12 months, the lowest level since October 2021.

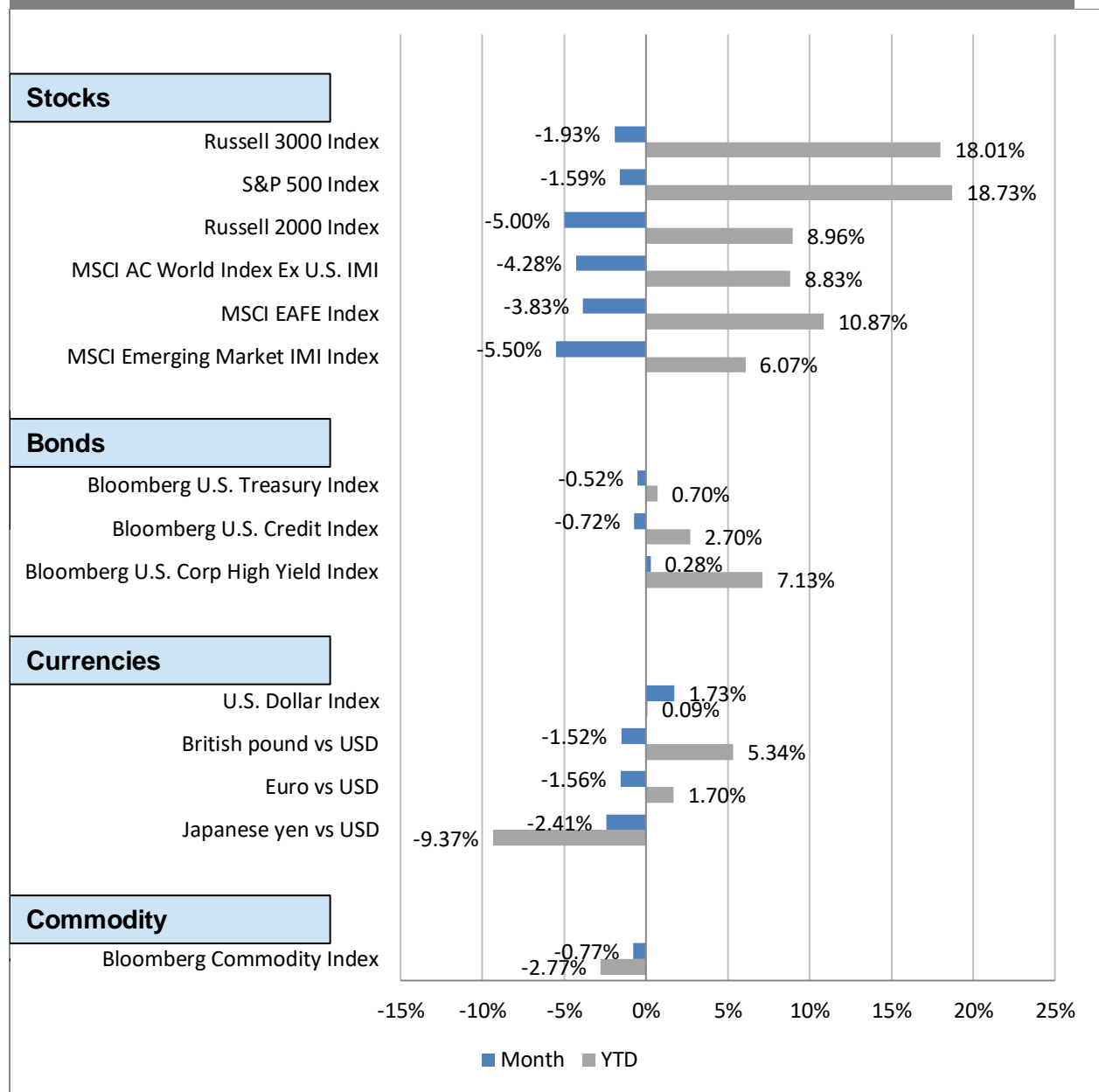
The U.S. economy added 187,000 non-farm jobs in August, and the unemployment rate increased to 3.8% from 3.5% in July as the labor force participation rate rose by 0.2% to 62.8%.

### Fed Remains Cautiously Hawkish on Rates

Central bankers, policymakers and economists gathered at the annual Jackson Hole Economic Symposium to discuss monetary policy. Fed Chair Jerome Powell emphasized that while inflation is down from its peak, the level remains too high and the Fed is prepared to raise interest rates further if appropriate.

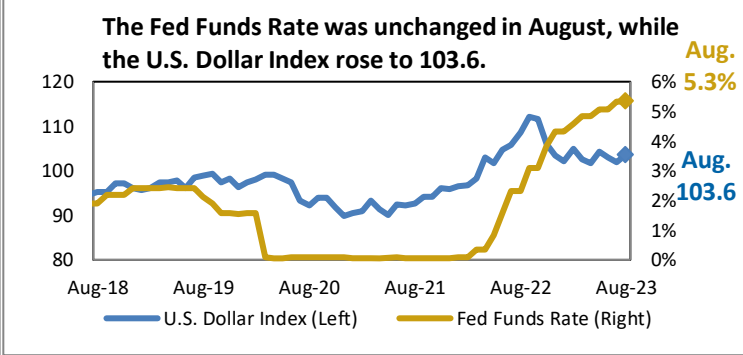
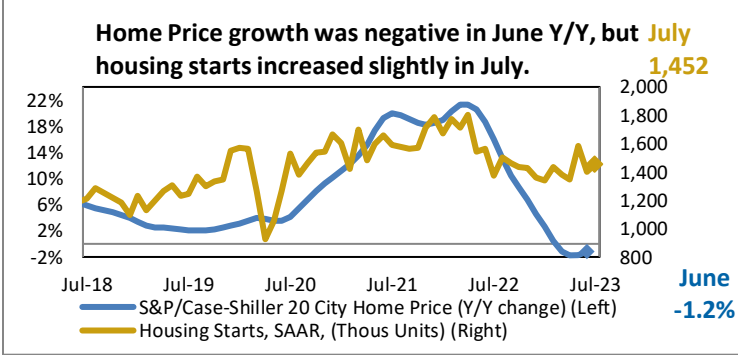
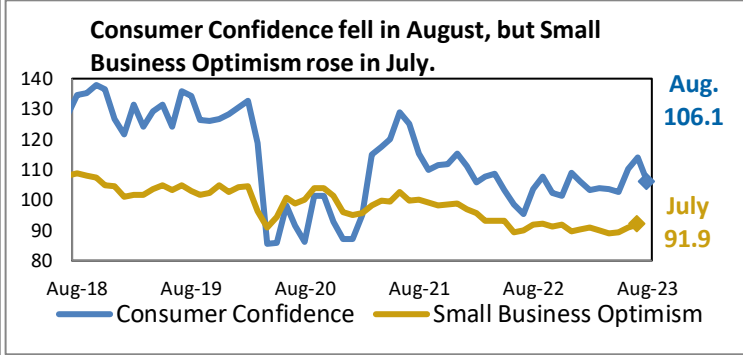
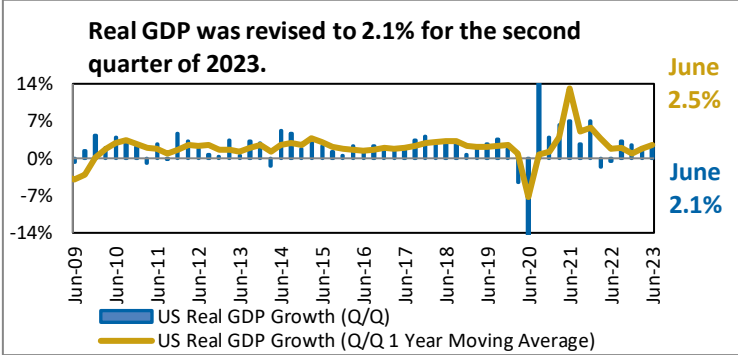
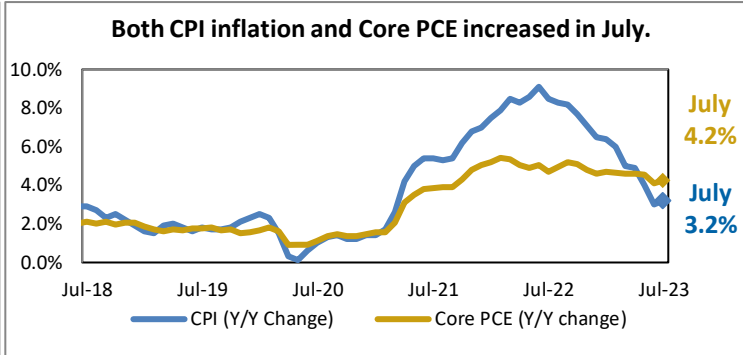
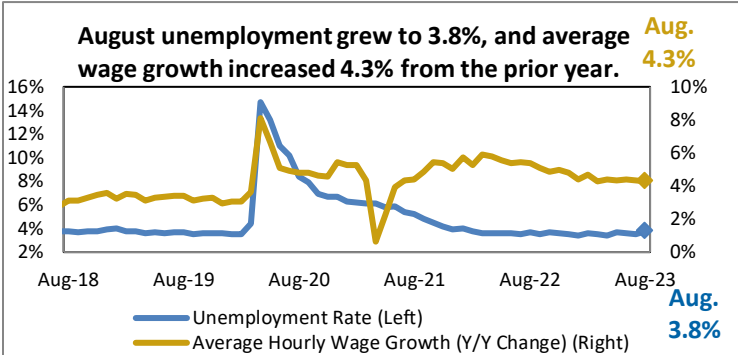
Sources: Bureau of Economic Analysis, Wall Street Journal, and FactSet.

## Market Performance



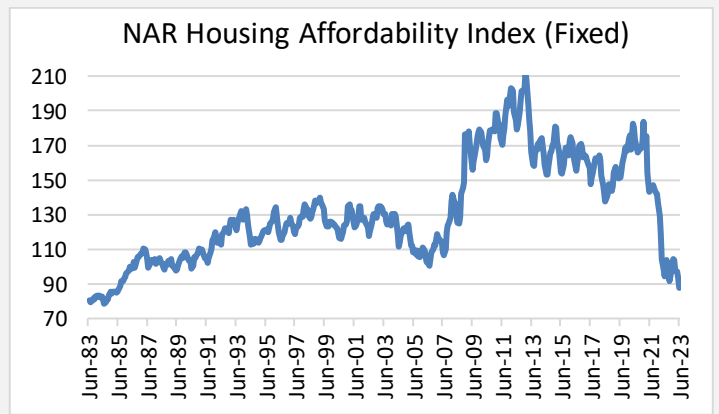
Source: FactSet, as of August 31, 2023.

### Key Monthly Economic Statistics



### Chart of the Month

- Housing affordability in the U.S. fell to its lowest level in nearly four decades, driven by surging mortgage rates, rising home prices and rents, government policies, and housing inventory shortages.
- Over the past five years, the National Association of Realtors' housing affordability index, which measures the ability of the average household to afford a typical home (not spending more than 30% of area median income) fell to 88.
- When the index falls below 100, it indicates that a household with a median income does not have sufficient income to afford a median-priced home in the area.



Source: FactSet, U.S. Bureau of Labor Statistics, The Conference Board, Federal Reserve Bank of St. Louis, Bureau of Economic Analysis, National Association of Realtors, U.S. Census Bureau, S&P Global, Bloomberg, Redfin.

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

### Equity Funds

#### U.S. Equity Fund

Fund	August	YTD
U.S. Equity Fund	-2.77%	15.98%
Russell 3000 Index	-1.93%	18.01%
Difference (percentage points)	-0.84	-2.03

- During the month, the fund underperformed its benchmark due to poor relative performance by active managers and the fund's strategic underweight to mega-tech growth companies and overweight to small- and mid-cap companies. The fund's investments in private equity and private real estate positively contributed to relative performance.
- Year to date, the fund's holdings in private markets and an underweight to strong performing mega-tech growth companies were key detractors from relative performance. To a lesser extent, the fund benefited from active managers' investments, particularly growth-oriented strategies, and excluding certain stocks in accordance with Wespath's Investment Exclusions policies (described [here](#)).

#### International Equity Fund

Fund	August	YTD
International Equity Fund	-5.33%	7.38%
MSCI ACWI ex U.S. Investable Market Index (Net)	-4.28%	8.83%
Difference (percentage points)	-1.05	-1.45

- During the month and year to date periods, the fund underperformed its benchmark. Active managers' underperformance was mainly in the emerging markets and in investments in companies best positioned to benefit from the transition to a low-carbon economy and resource-constrained environment.

## U.S. Equity Index Fund

Fund	August	YTD
U.S. Equity Index Fund	-1.96%	18.15%
Russell 3000 Index	-1.93%	18.01%
Difference (percentage points)	-0.03	+0.14

- The U.S. Equity Index Fund is a passively managed fund designed so that it closely matches the fund benchmark, less fees and expenses. During the month and year to date, certain stocks excluded in accordance with Wespath's Investment Exclusions policies (described [here](#)) positively contributed to relative performance.

## Fixed Income Funds

### Fixed Income Fund

Fund	August	YTD
Fixed Income Fund	-0.57%	3.17%
Bloomberg U.S. Universal (ex MBS) Index	-0.54%	2.07%
Difference (percentage points)	-0.03	+1.10

- For August, the fund modestly underperformed the benchmark. The allocations to Wespath's Positive Social Purpose Lending Program and high yield corporate bonds positively contributed to benchmark-relative performance, while emerging market debt detracted.
- The fund's overweight allocations to high yield credit and emerging market debt largely drove positive benchmark-relative performance year to date.

### Extended Term Fixed Income Fund

Fund	August	YTD
Extended Term Fixed Income Fund	-1.39%	1.99%
Bloomberg U.S. Government/Credit Long Term Index	-2.31%	0.87%
Difference (percentage points)	+0.92	+1.12

- The fund's policy of maintaining a lower sensitivity to interest rate movements until interest rates return to higher levels was the largest positive driver of benchmark-relative performance for the month.
- Year-to-date, asset manager security selection contributed positively to benchmark-relative performance. The well diversified fund's allocations to high yield, emerging market and securitized debt also helped.

### Inflation Protection Fund

Fund	August	YTD
Inflation Protection Fund (IPF)	-0.93%	2.58%
IPF Benchmark <sup>ii</sup>	-0.88%	1.29%
Difference (percentage points)	-0.05	+1.29

- During August, the fund's allocations to floating rate senior secured loans and developed market global inflation linked bonds helped relative performance, but the contributions were more than offset by the allocation to emerging market inflation linked bonds.
- Year to date, the fund's allocations to floating rates senior secured loans, emerging and developed market global inflation linked bonds, and issue selection within emerging markets helped benchmark-relative performance.

### Balanced Fund

#### Multiple Asset Fund

Fund	August	YTD
Multiple Asset Fund (MAF)	-2.82%	8.80%
MAF Benchmark <sup>iii</sup>	-2.18%	9.50%
Difference (percentage points)	-0.64	-0.70

- The U.S. Equity Fund, International Equity Fund, Fixed Income Fund and Inflation Protection Fund detracted from benchmark-relative performance for the month.
- Year to date, the Fixed Income Fund and Inflation Protection Fund contributed positively to benchmark-relative performance while the U.S. Equity Fund and International Equity Fund detracted.

## Social Values Choice Suite of Funds

### Social Values Choice Equity Fund

Fund	August	YTD
Social Values Choice Equity Fund (SVCEF)	-1.73%	17.80%
SVCEF Benchmark <sup>iv</sup>	-1.62%	17.83%
Difference (percentage points)	-0.11	-0.03

- The Social Values Choice Equity Fund is a passively managed fund designed to closely match the fund benchmark, less fees and expenses. The fund's fair market valuation policy (described [here](#)) negatively impacted benchmark-relative performance for the month and year to date.

### Social Values Choice Bond Fund

Fund	August	YTD
Social Values Choice Bond Fund	-0.63%	2.38%
Bloomberg U.S. Universal (ex MBS) Index	-0.54%	2.07%
Difference (percentage points)	-0.09	+0.31

- The overweight allocation to non-agency mortgage-backed securities contributed positively to relative performance during the month, but that was more than offset by asset manager selection decisions.
- The fund's duration positioning and manager security selection contributed positively to benchmark-relative performance year to date.

### U.S. Treasury Inflation Protection Fund

Fund	August	YTD
U.S. Treasury Inflation Protection Fund	-1.06%	0.84%
Bloomberg U.S. Inflation Linked Bond Index	-0.94%	1.09%
Difference (percentage points)	-0.12	-0.25

- The U.S. Treasury Inflation Protection Fund is a passively managed fund designed to closely match the performance of the fund benchmark, less fees and expenses.

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- <sup>i</sup> Historical returns are not indicative of future performance. Fund returns are net of fees. Please refer to the [Investment Funds Description – P Series](#) for more information about the funds. This is not an offer to purchase securities.
- <sup>ii</sup> The benchmark for the Inflation Protection Fund was comprised of 80% Barclays World Government Inflation Linked Bond Index (Hedged), 10% Barclays Emerging Market Tradeable Inflation Linked Bond Index (Unhedged) and 10% Bloomberg Commodity Index through January 31, 2023. Effective February 1, 2023, the benchmark for the Inflation Protection Fund is 90% Bloomberg U.S. Treasury Inflation-Linked Bond Index and 10% Bloomberg Commodity Index.
- <sup>iii</sup> The benchmark for the Multiple Asset Fund is comprised of 35% Russell 3000 Index, 30% MSCI All Country World Index (ACWI) excluding USA Investable Market Index (IMI), 25% Barclays Capital U.S. Universal Index ex-Mortgage Backed Securities and 10% Inflation Protection Fund (IPF) Benchmark.
- <sup>iv</sup> The benchmark for the Social Values Choice Equity Fund is the MSCI World Environmental, Social and Governance (ESG) ex Fossil Fuels Index.