

December 2015 Investment Report

Monthly Report

Markets

- U.S. equities, represented by the Russell 3000 Index, fell **2.1%** in December. Global growth concerns and the continued decline in energy prices contributed to a general theme of risk avoidance. Small company stocks fell **5%** in the month, as measured by the Russell 2000 Index, while large company stocks, as measured by the S&P 500, fell **1.6%**. Energy was the worst performing Russell 3000 sector by a wide margin, falling **10.7%** in the month, a consequence of the falling price of crude oil.
- Non-US stocks declined **1.6%** in December, as measured by the MSCI ACWI World ex USA Investable Market Index. Developed market stocks decreased **1.4%**, as measured by the MSCI EAFE Index but outperformed developing international market stocks, which fell **1.9%** as measured by the MSCI EM IMI Index. Slowing growth in China and the related fall-off in commodities demand had a devastating impact on developing markets, which registered a nearly **14%** decline for the year.
- The U.S. Treasury yield curve rose and flattened during December as the Federal Reserve (Fed) raised their target range for the Fed Funds short-term interest rate. The majority of economists correctly anticipated the 0.25% increase, resulting in a target range of 0.25% to 0.5%. The 2-year Treasury note yield increased **0.13%** to **1.06%**, and the 30-year bond yield increased **0.05%** to **3.02%**.
- U.S. Treasury securities, as measured by the Barclays U.S. Treasury Index, decreased **0.2%** in December. Investment-grade debt, as measured by the Barclays U.S. Credit Index, decreased **0.8%**. Below investment-grade debt, as measured by the Barclays U.S. Corporate High Yield Index, decreased **2.5%** and underperformed investment-grade debt during the month. High-yield securities of energy-related issuers were the weakest, decreasing **12.2%** due to declining crude oil prices.
- The U.S. dollar weakened **1.5%** in December, as measured by the U.S. Dollar Index. The euro increased **2.7%** relative to the dollar after the European Central Bank announced additional monetary stimulus that fell short of market expectations. The Chinese renminbi (yuan) decreased **1.5%** relative to the dollar during December amid evidence that China's economic growth continued slowing.
- Commodities, as represented by the Bloomberg Commodity Index, decreased **3.1%** in December. Petroleum was the weakest commodity sector and decreased **14.4%** during the month. The price of West Texas Intermediate (WTI) crude oil decreased **65%** in the past eighteen months.

Economics Highlights

- The U.S. job market remained a source of strength for the U.S. economy in December. The U.S. economy added 292,000 jobs in December. The economy added 2.65 million jobs in 2015 and the unemployment rate stood at **5%** at year-end. October and November employment levels were revised up by a total of 50,000. Offsetting the strong gains in jobs, average hourly earnings only rose **2.5%** and the labor force participation rate increased from **62.5%** to **62.6%**.
- The U.S. housing market continues to show mixed results. U.S. housing starts rebounded from a **12%** decline in October to post a **10.5%** gain in November. Additionally, new home sales increased **4.3%** in November and home prices—as measured by the S&P/Case-Shiller 20-City Home Price Index—increased **5.5%** in the latest report (October 2015). Conversely, the Mortgage Bankers Association reported that mortgage applications declined **1.1%** in December.
- The impact of the strength of the U.S. dollar over the past 18 months continued to affect U.S. manufacturing. The industrial production index declined by **0.6%** in November following a **0.2%** decline in October. The Institute for Supply Management index of manufacturing activity declined from **48.6** to **48.2** in December.
- The overall strength in the U.S. economy remains despite disappointing news from emerging markets, particularly China. While the Purchasing Managers' Index for China increased from **49.6%** to **49.7%**, it remained below 50%, showing continued contraction in manufacturing activity. Additionally, average annual growth in industrial production in China declined from **6.4%** in October to **6.3%** in November, the lowest level in over 25 years. The continued uncertainty about economic growth in China negatively impacted many other markets. Commodity markets decreased **3.1%** in December, as measured by the Bloomberg Commodity Index.
- The near-term outlook for growth in Europe continued to improve, albeit from historically low levels. Economic growth in the 19 countries that comprise the Euro currency zone, increased at an annual rate of **1.6%** in the third-quarter of 2015, as reported by the European Central Bank (ECB). While modest, this annual rate of growth is the highest since 2010. The ECB expects growth in 2016 to increase to an annual rate of **1.7%**.

Geopolitical Headlines

- The 21st Conference of the Parties to the United Nations Framework Convention on Climate Change concluded in Paris in December with a historic agreement to coordinate efforts to limit potential temperature increases to “well below” 2-degrees Celsius (3.6-degrees Fahrenheit). The agreement breaks new ground in international climate negotiations by including binding commitments from all signatories and requiring subsequent, and more stringent, commitments over time. The final agreement also included a financing obligation for developed countries to support the implementation of low-carbon solutions in developing economies. The agreement immediately became grounds for political fighting between the major U.S. political parties.
- Terrorist attacks continued to weigh on markets and dominate news in December. An attack by Islamic State (IS) sympathizers in San Bernardino, California killed 14 people and injured 22 more. Additionally, three suicide bombers attacked markets in Chad, killing 27 and injuring 90. In London, a man stabbed three people at the Leytonstone tube station. In addition, Boko Haram continued to menace Nigeria with an attack on two villages in Warwara, which claimed the lives of 30 people, and a suicide bombing in Maiduguri that left 26 dead.

- Tensions in the Middle East remained elevated. Russia continued to spar with Turkey and the United States diplomatically, and in the press, over the November downing of a Russian military plane by Turkey. Additionally, Iran's test-fire of new long-range ballistic missiles close to U.S. warships in the region continued to strain relations with the U.S. and Saudi Arabia. The Iranian and Saudi stand-off continued into the New Year with the controversial Saudi execution of a Shia cleric on January 1.

Sources: *Forbes, Reuters, Bloomberg, The Economist, Energy Information Administration, The Wall Street Journal, CBS News, FactSet, Barclays, Russell Investments, CNBC, CNN, The New York Times, Associated Press, Bridgewater Associates, Wikipedia, NASDAQ and Bureau of Economic Analysis.*

Key Monthly Economic Statistics

This table contains a list of key monthly economic statistics.

	<p>Positive Statistics</p> <ul style="list-style-type: none"> • Consumer Confidence, Dec: 96.5 (Nov: 92.6) • Housing Starts, Nov: 10.5% (Oct: -12%); M/M-SAAR • New Home Sales, Nov: 4.3% (Oct: 6.3%); M/M-SAAR • Real Gross Domestic Product, Q3: 2% (Q2: 3.9%); Q/Q-SAAR • S&P/Case-Shiller 20-City Home Price Index, Oct: 5.5% (Sep: 5.4%); Y/Y • Nonfarm Payrolls, Dec: 292,000 • Unemployment Rate, Dec: 5% (Nov: 5%)
	<p>Neutral Statistics</p> <ul style="list-style-type: none"> • Consumer Price Index core, Nov: 0.2% (Oct: 0.2%); M/M-SA • Consumer Price Index, Nov: 0% (Oct: 0.2%); M/M-SA • Institute for Supply Management Index, Dec: 48.2 (Nov: 48.6) • Producer Price Index core, Nov: 0.3% (Oct: -0.3%); M/M-SA • Producer Price Index, Nov: 0.3% (Oct: -0.4%); M/M-SA • Retail Sales ex-auto, Nov: 0.4% (Oct: 0.1%); M/M-SA • Retail Sales, Nov: 0.2% (Oct: 0.1%); M/M-SA
	<p>Negative Statistics</p> <ul style="list-style-type: none"> • Durable Goods Orders, Nov: 0% (Oct: 2.8%); M/M-SA • Existing Home Sales, Nov: -10.5% (Oct: -4.1%); M/M-SAAR • Factory Orders, Nov: -0.2% (Oct: 1.3%); M/M-SA

M/M = Month-over-month (% change since last month)

Q/Q = Quarter-over-quarter (% change since last quarter)

Y/Y = Year-over-year (% change since the same month, last year)

SA = Seasonally Adjusted

SAAR = Seasonally Adjusted Annual Rate

Source: [FactSet](#)

Investment Fund Review: (Net of Fees Performance)

Historical returns are not indicative of future performance. Please refer to the [Investment Funds Description](#) for more information about the funds. This is not an offer to purchase securities. Offers will only be made through the Investment Funds Description. For historical returns of one-year, three-year, five-year, 10-year and since inception periods, please visit our [Historical Funds Performance page](#).

Inflation Protection Fund

Fund	December	QTD	YTD
Inflation Protection Fund	-1.50%	-1.63%	-4.99%
Barclay's Capital U.S. Government Inflation Linked Bond Index	-0.85%	-0.63%	-1.72%
Difference	-0.65%	-1.00%	-3.27%

In 2015, a continuation of the dramatic decline in the price of oil and other commodities contributed to the fund's poor benchmark-relative performance for both the month of December and year-to-date.

- The Inflation Protection Fund (IPF) declined **1.5%** in December and underperformed the fund's benchmark return by **0.65%**. Interest rates for U.S. Treasury Inflation Protected Securities increased along with an increase in interest rates for most fixed income securities after the Fed finally initiated its long-expected increase in its overnight borrowing rate. The fund's 8% exposure to commodities futures contracts declined **4.2%** and accounted for the largest portion of the fund's underperformance compared to the fund benchmark. The fund's exposure to international inflation protected securities also detracted from performance. The fund's floating rate diversifying strategies added value relative to the fund benchmark.
- For the fourth quarter, the Inflation Protection Fund declined **1.63%** and underperformed the fund benchmark by **1%**. The fund's commodities allocation declined **10.9%**, which was the largest contributor to the fund's below-benchmark performance. The fund's 10% allocation to inflation-linked bonds from developing countries gained **1.2%** and positively contributed to benchmark-relative performance.
- For the year, the Inflation Protection Fund declined **4.99%** and underperformed the fund benchmark by **3.27%**. The fund's diversifying strategies of commodities and inflation-linked bonds from developing countries detracted the most from the fund's performance as they declined **24.8%** and **15.1%** respectively. Both strategies have suffered due to investor perceptions of stagnant future world economic growth, especially in China and other developing world countries. The fund's two floating rate strategies of senior secured loans and asset-backed securities gained **2.6%** and **4%** respectively, and positively contributed to benchmark-relative results. The fund's allocation to currency-hedged developed country inflation-linked bonds also positively contributed to benchmark-relative performance, declining only **0.4%**.

Fixed Income Fund

Fund	December	QTD	YTD
Fixed Income Fund	-1.04%	-0.59%	-1.97%
Barclays U.S. Universal (Ex MBS) Index	-0.65%	-0.69%	+0.10%
Difference	-0.39%	+0.10%	-2.07%

In 2015, the Fixed Income Fund suffered from poor performance from its diversifying allocations to non-dollar fixed income instruments and below investment-grade bonds. The fund's allocation to positive social purpose loans produced another year of good returns compared to the fund's performance benchmark.

- The Fixed Income Fund (FIF) declined **1.04%** in December and underperformed its benchmark return by **0.39%**. The fund's two diversifying allocations to below investment-grade bonds declined **2.6%** and **1.7%** respectively, and detracted from benchmark-relative performance. Investor concerns regarding future world economic growth adversely affected higher-risk fixed income securities. In addition, the fund's 10% allocation to bonds from developing countries declined **2.1%** and impaired performance.
- For the fourth quarter, the fixed income fund declined **0.59%** and slightly outperformed the fund benchmark by **0.1%**. The fund's diversifying allocation to bonds from developing countries gained **1%** and was the fund's best performing strategy. In addition, the fund's 9% allocation to positive social purpose loans gained **0.1%** and positively contributed to benchmark-relative performance. The fund's allocation to below investment-grade bonds declined **1.9%** and detracted from the fund's benchmark-relative performance.
- For the year, the Fixed Income Fund lost **1.97%** and underperformed its benchmark return by **2.07%**. The fund's allocations to bonds denominated in currencies other than the U.S. dollar declined due to dollar strength, especially compared to the currencies of developing countries. The fund's allocation to bonds from developed countries lost **4%** and the fund's allocation to bonds from developing countries lost **7.8%**. The fund's allocation to positive social purpose loans gained **5%** and positively contributed to benchmark-relative performance.

Extended Term Fixed Income Fund

Fund	December	QTD	YTD
Extended Term Fixed Income Fund	-0.71%	-0.24%	-1.75%
Barclays U.S. Government/Credit Long Term Index	-0.79%	-0.94%	-2.50%
Difference	+0.08%	+0.70%	+0.75%

The Extended Term Fixed Income Fund declined in December after the Fed raised its short-term lending rate, which adversely affected bond prices.

- The Extended Term Fixed Income Fund declined **0.71%** in December and outperformed its benchmark return by **0.08%**. The fund benefitted from its intentional strategy of holding bonds with shorter-term maturities compared to the fund benchmark until interest rates return to historically normal levels. Interest rates for longer-term bonds increased as the Fed acted to increase its short-term lending rate in December.
- For the fourth quarter, the Extended Term Fixed Income Fund declined **0.24%** and outperformed its benchmark return by **0.7%**. As in December, the fund's strategy of holding bonds with shorter-term maturities than the fund benchmark aided performance.

- For the seven months since the implementation of the fund, it declined **1.75%** and outperformed the fund benchmark by **0.75%**, again benefitting from holding bonds with shorter-term maturities.

U.S. Equity Fund

Fund	December	QTD	YTD
U.S. Equity Fund	-2.56%	+5.29%	+0.08%
Russell 3000 Index	-2.05%	+6.27%	+0.48%
Difference	-0.51%	-0.98%	-0.40%

In 2015, the U.S. Equity Fund recognized a slight positive return, though it underperformed its benchmark primarily due to its higher-than-benchmark allocation to small- and mid-sized companies, which underperformed large company stocks. The fund's allocations to the alternative investment strategies of private equity and private real estate positively contributed to the fund's benchmark-relative performance.

- The U.S. Equity Fund (USEF) declined **2.56%** in December and underperformed the fund's Russell 3000 Index benchmark by **0.51%**. The fund's greater-than-benchmark allocation to small- and mid-sized companies negatively contributed to benchmark-relative performance as the Russell 2000 Index of small companies and the S&P 400 Midcap Index lost **5%** and **4.2%** respectively compared to the **1.6%** loss of the large company S&P 500 Index.
- For the fourth quarter, USEF gained **5.29%**, but underperformed the fund benchmark by **0.98%**. The fund's greater-than-benchmark allocation to small- and mid-sized companies negatively contributed to benchmark-relative performance as the Russell 2000 Index of small companies and the S&P 400 Midcap Index gained **3.6%** and **2.6%** respectively compared to the **7%** gain of the large company S&P 500 Index.
- For the year, the fund gained a fractional **0.08%** and underperformed its benchmark return by **0.4%**. The fund benefitted from its diversifying allocations to private equity and private real estate, which recognized gains of **8.2%** and **17.6%** respectively. The fund's larger-than-benchmark allocations to small- and mid-sized companies detracted from benchmark-relative performance as the Russell 2000 Index of small companies declined **4.4%** and the S&P 400 Midcap Index declined **2.2%** compared to the **1.4%** gain of the large company S&P 500 Index.

International Equity Fund

Fund	December	QTD	YTD
International Equity Fund	-2.52%	+1.95%	-6.46%
MSCI ACWI x US Investable Market Index	-1.61%	+3.52%	-4.60%
Difference	-0.91%	-1.57%	-1.86%

In 2015, despite the international benchmark gaining 2.9% in local currency terms, a stronger dollar adversely affected the value of international stocks resulting in a negative return for U.S. dollar investors. The performance of four active developed market managers and two active developing market managers detracted most from benchmark-relative results.

- The International Equity Fund (IEF) declined **2.52%** in December and underperformed its benchmark return by **0.91%**. The application of the fund's daily valuation policy was responsible for more than half of the fund's below-benchmark performance. The international daily valuation policy is described [here](#).

- For the quarter, IEF gained **1.95%** and underperformed the fund benchmark by **1.57%**. The performance of four active developed market managers contributed most to the fund's relative underperformance. Application of the fund's daily valuation policy at the end of the year also detracted from benchmark-relative performance.
- For the year, the fund declined **6.46%** and underperformed the fund benchmark by **1.86%**. The performance of four active developed market managers and two active developing market managers contributed most to the fund's below-benchmark performance. The fund's greater-than-benchmark allocation to small company stocks positively contributed to performance, gaining **4.4%**. The negative contribution from the application of the daily valuation policy at year-end was almost completely offset by a similar and opposite adjustment on the first day of 2015.

Multiple Asset Fund

Fund	December	QTD	YTD
Multiple Asset Fund	-2.06%	+2.23%	-2.56%
Composite Benchmark	-1.47%	+3.17%	-0.90%
Difference	-0.59%	-0.94%	-1.66%

In 2015, the Multiple Asset Fund underperformed its benchmark as all four of the fund's strategies underperformed their respective benchmarks.

- For December, the Multiple Asset Fund (MAF) lost **2.06%** and underperformed its fund benchmark by **0.59%**. All four of the fund's strategies negatively affected the fund's benchmark-relative performance.
- For the fourth quarter, the fund gained **2.23%** and underperformed its benchmark by **0.94%**. Three of the fund's four strategies underperformed their respective benchmarks with only the Fixed Income Fund making a modest positive contribution to benchmark-relative results.
- For the year, the Multiple Asset Fund returned **-2.56%** and underperformed its benchmark return by **1.66%**. All four of the fund's underlying strategies underperformed their respective benchmarks, contributing to the fund's below-benchmark performance.

Equity Social Values Plus Fund

Fund	December	QTD	YTD
Equity Social Values Plus Fund	-1.74%	+5.48%	-1.13%
MSCI World Custom ESG Special Weighted Index	-1.45%	+6.06%	-0.11%
Difference	-0.29%	-0.58%	-1.02%

- The Equity Social Values Plus Fund is a passively managed fund designed to closely match the fund benchmark, less fees and expenses.

US Equity Index Fund

Fund	December	QTD	YTD
US Equity Index Fund	-2.09%	+6.10%	-0.16%
Russell 3000 Index	-2.05%	+6.27%	+0.48%
Difference	-0.04%	-0.17%	-0.64%

- The U.S. Equity Index Fund is a passively managed fund designed to closely match the fund benchmark, less fees and expenses.

For additional information, please contact:

Brian Coker, CFA
 Director, Investment Services
 Wespath Investment Management
 (847) 866-2700 direct
 (847) 866-4100 general
bcoker@wespath.com

or

Karen Manczko
 Manager, Institutional Relationships
 Wespath Investment Management
 (847) 866-4236 direct
 (847) 866-4100 general
kmanczko@wespath.com

Historical returns are not indicative of future performance. Fund returns are net of fees. Please refer to the [Investment Funds Description](#) for more information about the Funds. This is not an offer to purchase securities. Offers will only be made through the Investment Funds Description