

December 2019 Investment Report

Highlights

- The S&P 500 total return was 3.0% in December and 31.5% for the full year 2019, marking the equity index's best annual performance since 2013. International stocks also finished the year strong; the MSCI ACWI ex-USA IMI Index total return was 4.4% in December and 21.6% for the full year.
- Federal Reserve (Fed) officials unanimously voted to keep interest rates unchanged at their December meeting, indicating that current monetary policy is appropriate and will likely remain on hold through 2020.
- U.S. and Chinese officials agreed in principle to a “phase one” trade agreement, and President Trump announced a signing ceremony with Chinese officials at the White House on January 15.
- In December, the Multiple Asset Fund, International Equity Fund, Fixed Income Fund and Inflation Protection Fund all outperformed their respective benchmarks, while the U.S. Equity Fund underperformed its benchmark.

Monthly Overview

U.S. stocks touch new highs, supported by trade agreement and Fed

The S&P 500 reached another all-time high and returned 31.5% for the year in a sharp reversal of its peak-to-trough decline of nearly 20% in the fourth quarter of 2018. Supporting investor sentiment in December, U.S. and Chinese officials agreed to terms of a “phase one” trade deal, under which the U.S. would cut in half the 15% tariff imposed September 1 on \$120 billion of Chinese goods. Meanwhile, China agreed to increase purchases of U.S. goods and services, including agricultural products and manufactured goods, by \$200 billion over the next two years. Also supporting sentiment, the Bureau of Labor Statistics’ November employment report reflected continued strength with an increase of 266,000 jobs and an unemployment rate of 3.5%. Markets exhibited a muted response to the House of Representatives’ impeachment of President Trump, which passed largely along party lines, on charges of abuse of power and obstruction of Congress.

Fed on hold after significant 2019 policy pivot

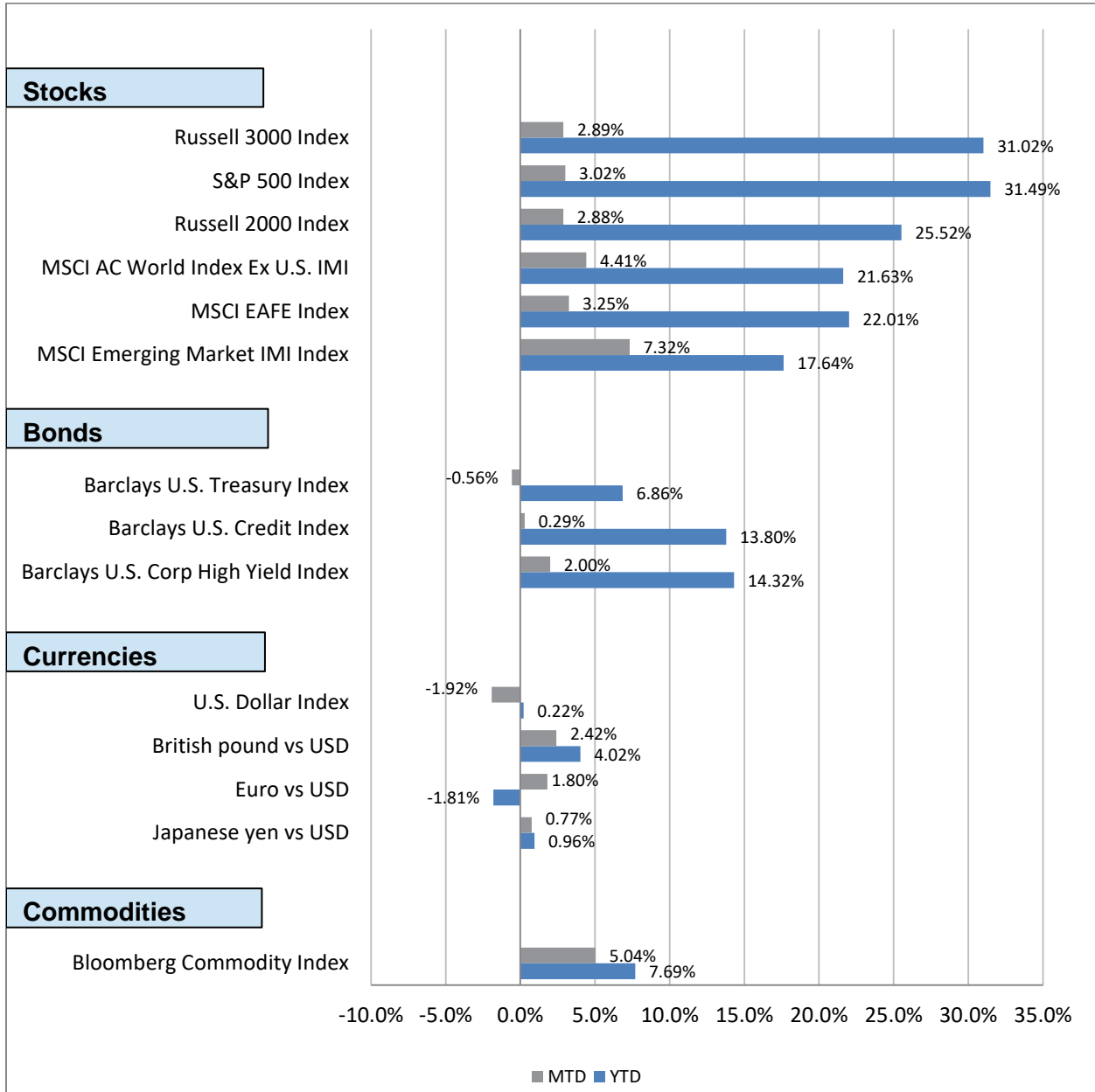
In their first unanimous decision since May, Fed officials at the December meeting kept interest rates unchanged within a range of 1.50% to 1.75%. The updated “dot plot” of Federal Open Market Committee members’ interest rate expectations revealed a median outlook of no rate changes through 2020. Chairman Powell remarked that the Fed might purchase short-term U.S. Treasury coupon notes to manage financial system reserves, expanding efforts to promote repo market stability after September’s imbalances caused repo rates to rise sharply. Reflecting on 2019, the Fed’s three rate cuts, stable interest rate outlook and resumption of Treasury security purchases represented a major pivot from 2018 when the Fed increased rates four times, foresaw further rate hikes and allowed Treasury holdings to roll off the balance sheet.

Conservative Party wins in U.K.

Boris Johnson’s Conservative party convincingly won the U.K. general election with a majority of 80 seats in Parliament and promptly passed Johnson’s European Union (EU) Withdrawal Agreement Bill. This vote advanced Johnson’s Brexit agenda, nearly ensuring the U.K. will depart the EU by the end of January 2020. The bill also prohibits the transition period for trade deal negotiations with the EU from extending beyond December 2020.

Source: FactSet, Bloomberg, Reuters, WSJ, IHS Markit, CNBC

Market Performance



Source: FactSet, as of December 31, 2019

Key Monthly Economic Statistics

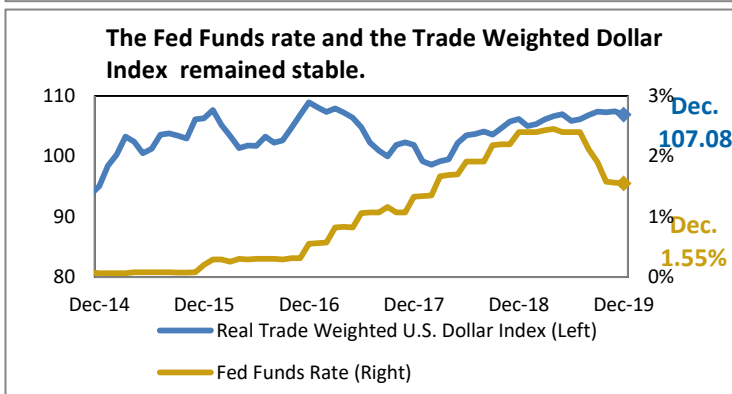
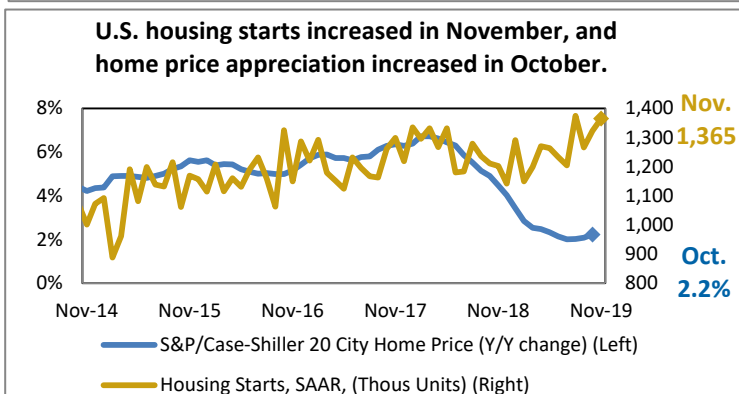
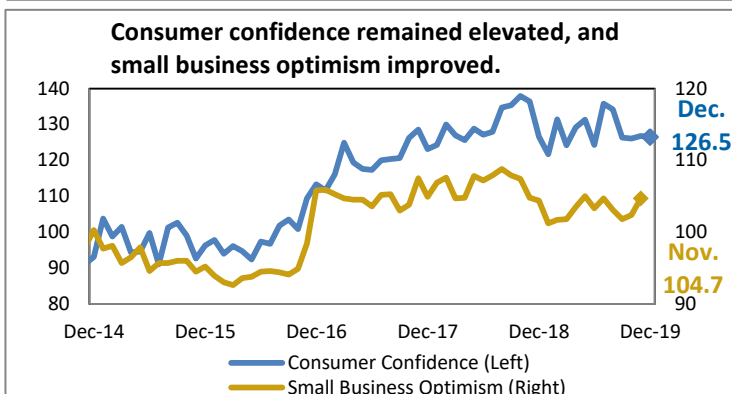
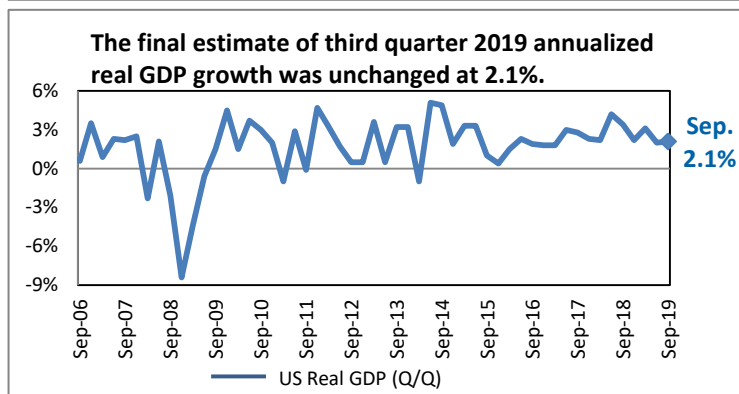
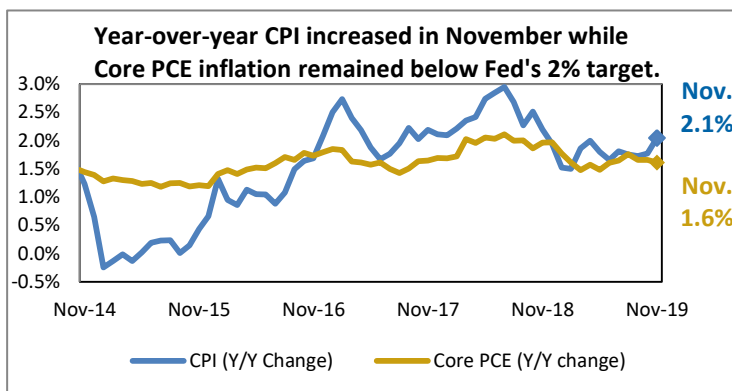
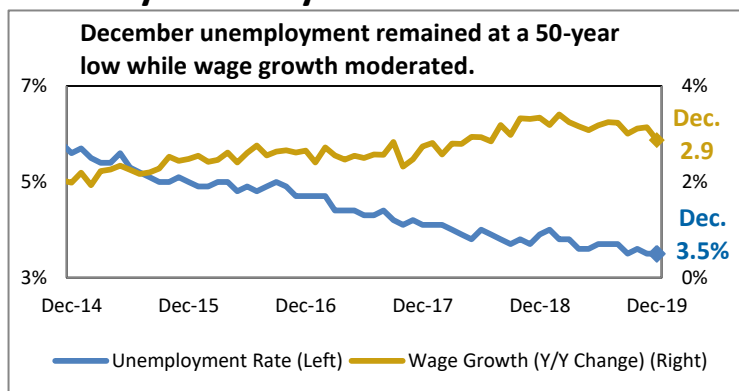
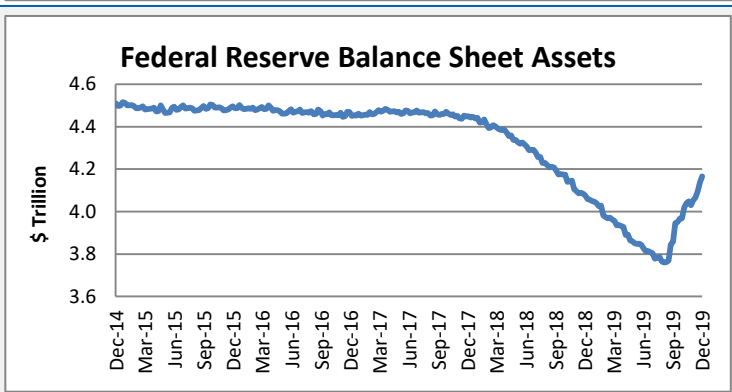


Chart of Month

- The Fed grew its balance sheet to \$4.5 trillion in 2015 from \$870 billion in 2007 through Quantitative Easing (QE).
- In October 2017, the Fed embarked on balance sheet normalization, allowing some maturing securities to run off the balance sheet without reinvesting the proceeds.
- In September 2019, the Fed reversed course and began providing additional liquidity to support a key source of overnight funding in the financial system, known as "repo." Stock markets responded favorably to the liquidity injection, which the Fed insists is not the same as QE.



Investment Fund Review (Net-of-Fees Performance)ⁱ

Equity Funds

U.S. Equity Fund

Fund	December	QTD	YTD
U.S. Equity Fund	+2.39%	+8.53%	+29.55%
Russell 3000 Index	+2.89%	+9.10%	+31.02%
Difference (percentage points)	-0.50	-0.57	-1.47

- During the month, the fund's overweight exposure to growth-oriented, small- and mid-sized company stocks and corresponding underweight to large-company stocks was the main detractor from benchmark-relative performance. Within small- and mid-sized company investments, the health-care equipment and services segment was a notable detractor.
- For the quarter and year, the fund's allocation to the alternative strategies of private equity and private real estate detracted from benchmark-relative performance. The strategic overweight to small- and mid-sized company stocks and corresponding underweight to large-company stocks also detracted. To a lesser extent, the fund benefited from the majority of active managers outperforming their respective benchmarks.

International Equity Fund

Fund	December	QTD	YTD
International Equity Fund	+5.06%	+10.69%	+25.23%
MSCI ACWI ex U.S. Investable Market Index (Net)	+4.41%	+9.20%	+21.63%
Difference (percentage points)	+0.65	+1.49	+3.60

- Active management contributed the most to benchmark-relative performance during all three time periods as the majority of the fund's active managers outperformed their respective benchmarks.
- The fund's strategic overweight to emerging market equities and corresponding underweight to stocks from developed economies contributed positively to benchmark-relative performance during the month and quarter. Investments in private equity and private real estate detracted from performance for the quarter and year.

U.S. Equity Index Fund

Fund	December	QTD	YTD
U.S. Equity Index Fund	+2.94%	+9.21%	+30.88%
Russell 3000 Index	+2.89%	+9.10%	+31.02%
Difference (percentage points)	+0.05	+0.11	-0.14

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

Fixed Income Funds

Fixed Income Fund

Fund	December	QTD	YTD
Fixed Income Fund	+0.61%	+0.88%	+10.23%
Barclays U.S. Universal (ex MBS) Index	+0.11%	+0.38%	+10.19%
Difference (percentage points)	+0.50	+0.50	+0.04

- The fund's overweight exposure to below-investment-grade corporate bonds and bonds issued by emerging market countries contributed positively to benchmark-relative performance for all three reporting periods.
- The fund's investments in high-quality U.S. agency commercial mortgage backed securities and affordable housing loans issued through the Positive Social Purpose Lending program detracted from benchmark-relative performance for all three periods. Exposure to global bonds detracted for the quarter and year.

Extended Term Fixed Income Fund

Fund	December	QTD	YTD
Extended Term Fixed Income Fund	-0.53%	-0.48%	+14.04%
Barclays U.S. Government/Credit Long Term Index	-1.14%	-1.12%	+19.59%
Difference (percentage points)	+0.61	+0.64	-5.55

- The fund outperformed its benchmark during December and the fourth quarter but underperformed for the year. Interest rates declined sharply during 2019, so the fund's policy of maintaining a lower sensitivity to interest rate movements was a large detractor from its benchmark-relative performance for the year.
- The fund's asset managers generally outperformed their portfolio benchmarks and contributed positively to relative performance in all periods.

Inflation Protection Fund

Fund	December	QTD	YTD
Inflation Protection Fund	+1.27%	+1.69%	+8.86%
IPF Benchmark ⁱⁱ	+0.54%	-1.11%	+9.17%
Difference (percentage points)	+0.73	+2.80	-0.31

- The fund's strategic underweight allocation to U.K. inflation-linked securities contributed positively to benchmark-relative performance during December and the fourth quarter. Brexit headlines created significant volatility in U.K. inflation-linked bond markets throughout the year as investors evaluated potential implications for U.K. inflation. The fund's allocation to floating-rate, senior-secured bank loans also contributed positively during the month and quarter.
- Asset manager security selection decisions within commodities futures and emerging market inflation-linked bonds contributed positively to benchmark-relative performance for all three periods.

Balanced Fund

Multiple Asset Fund

Fund	December	QTD	YTD
Multiple Asset Fund	+2.65%	+6.58%	+21.08%
MAF Benchmark ⁱⁱⁱ	+2.42%	+5.88%	+20.78%
Difference (percentage points)	+0.23	+0.70	+0.30

- During the month and quarter, the International Equity Fund, Fixed Income Fund and Inflation Protection Fund positively contributed to benchmark-relative performance, while the U.S. Equity Fund detracted from relative performance.
- For the year, the International Equity Fund and Fixed Income Fund positively contributed to relative returns, while the U.S. Equity Fund and Inflation Protection Fund detracted from benchmark-relative performance.

Social Values Choice Suite of Funds

Social Values Choice Bond Fund

Fund	December	QTD	YTD
Social Values Choice Bond Fund	+0.24%	+0.73%	+10.39%
Barclays U.S. Universal (ex MBS) Index	+0.11%	+0.38%	+10.19%
Difference (percentage points)	+0.13	+0.35	+0.20

- The fund outperformed its benchmark for December, the fourth quarter and the year due to asset manager security selection decisions.

Social Values Choice Equity Fund

Fund	December	QTD	YTD
Social Values Choice Equity Fund	+2.76%	+8.35%	+29.23%
SVCEF Benchmark ^{iv}	+2.77%	+8.35%	+28.76%
Difference (percentage points)	-0.01	0.00	+0.47

- The Social Values Choice Equity Fund is a passively managed fund designed to closely match the fund benchmark, less fees and expenses. The fair market valuation policy (described [here](#)) detracted from benchmark-relative performance during the month and quarter but contributed positively for the year.

U.S. Treasury Inflation Protection Fund

Fund	December	QTD	YTD
U.S. Treasury Inflation Protection Fund	+0.31%	+0.69%	+8.43%
Barclays U.S. Inflation Linked Bond Index	+0.31%	+0.74%	+8.75%
Difference (percentage points)	0.00	-0.05	-0.32

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

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ⁱ Historical returns are not indicative of future performance. Fund returns are net of fees. Please refer to the [Investment Funds Description – P Series, the Summary Fund Description – P Series and the Statement of Additional Information](#) for more information about the funds. This is not an offer to purchase securities.

ⁱⁱ The benchmark for the Inflation Protection Fund is comprised of 80% Barclays World Government Inflation Linked Bond Index (Hedged), 10% Barclays Emerging Market Tradeable Inflation Linked Bond Index (Unhedged) and 10% Bloomberg Commodity Index.

ⁱⁱⁱ 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.

^{iv} The benchmark for the Social Values Choice Equity Fund is the MSCI World Environmental, Social and Governance (ESG) ex Fossil Fuels Index.