Wespath
Investment Management

January 2015 Investment Report

Monthly Report

Markets

- U.S. equities, as represented by the Russell 3000 Index, declined **2.8%** in January. According to FactSet, analysts' expectations for S&P 500 earnings-per-share growth declined during the month for the first quarter (to **0.1%** from **4.0%**) and for the full-year 2015 (to **5.1%** from **8.7%**).
- Investors preferred companies with strong earnings growth during the month, with the Russell 3000 Growth Index declining only **1.6%**, which was less than the Russell 3000 Value Index decline of **4.0%**. Financials (**-5.5%**) and Energy (**-4.8%**) were the worst-performing sectors, and Utilities (**+2.1%**) and Health Care (**+1.6%**) were the best. Small company stocks declined **3.2%**, as measured by the Russell 2000 Index.
- Developing international markets gained **0.7%** during January in U.S. dollar terms, as measured by the MSCI Emerging Markets IMI Index. Developed international markets declined for the fifth consecutive month, as indicated by the MSCI World ex-US IMI Index decrease of **0.4%.**
- The U.S. Treasury yield curve continued to flatten during January. The 2-year Treasury note yield decreased by **0.22%** to a yield of **0.45%**. The 30-year Treasury bond yield decreased by **0.52%** to a record low yield of **2.23%**. The yield curve flattening has been attributed to decreased expectations for inflation and economic growth, largely due to the European Central Bank's quantitative easing efforts in response to anemic economic growth in the Eurozone.
- U.S. Treasury securities, as measured by the Barclays U.S. Treasury Index, increased **2.6%** in January, driven by the yield curve decline. Investment-grade debt, as measured by the Barclays U.S. Credit Index, increased **2.8%** during the month. Below-investment-grade debt, as measured by the Barclays U.S. Corporate High-Yield Index, increased **0.7%**, underperforming investment-grade debt amid widening credit yield spreads. The value of below-investment-grade bonds of energy companies, which comprise roughly 16% of the high-yield universe, has been adversely affected by the drop in crude oil prices.
- The U.S. dollar strengthened for the seventh consecutive month in January, increasing **5.1%**, as measured by the U.S. Dollar Index. The euro and British pound decreased **6.7%** and **3.3%**, respectively, relative to the dollar. The Swiss franc increased **8.1%** relative to the dollar due to the Swiss National Bank's unexpected announcement that it would allow the Swiss franc to float freely relative to the euro. Most developing-country currencies also weakened relative to the dollar. The Russian ruble decreased **12.6%** during January, prompting S&P to reduce Russia's credit rating to below investment grade.
- Commodities, as represented by the Bloomberg Commodity Index, decreased **3.3%** during January. Grains, Livestock and Petroleum were the weakest sub-indices, decreasing **8.7%**, **8.5%** and **7.9%**, respectively. The strongest sub-index was Precious Metals, which increased **8.5%**.

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Economics Highlights

- The price of crude oil continued to decline during January. The price per barrel of West Texas Intermediate (WTI) decreased **9.4%**, ending the month at **$48** per barrel after briefly trading below **$45**. Oil's steep decline has placed downward pressure on overall inflation as measured by the Consumer Price Index (CPI), which decreased a seasonally adjusted **0.4%** in December. The monthly decrease in CPI was the largest since December 2008 and was led by a **9.4%** decrease in the gasoline component.
- The European Central Bank (ECB) announced an expanded quantitative easing program under which it will purchase 60 billion euros of government and private debt securities per month. The program is scheduled to commence in March 2015 and continue through September 2016 in an effort to stimulate economic growth and inflation in the Eurozone.
- The U.S. economy added **257,000** jobs in January, exceeding consensus estimates. The Labor Department also revised upward its job creation figures for the prior two months, making the three-month increase in payrolls the largest in 17 years. Average hourly earnings increased **0.5%** in January, which was the largest monthly increase since November 2008, when the economy was declining into recession. A modest increase in the unemployment rate to **5.7%** from **5.6%** was interpreted favorably because it was due to an increase in the labor force participation rate.
- U.S. inflation-adjusted gross domestic product (GDP) increased at an annual rate of **2.6%** during the fourth quarter of 2014, according to advance estimates from the Commerce Department. Consumer spending during the quarter increased **4.3%**. For the year 2014, GDP growth was estimated at **2.4%**, which was the strongest annual growth rate since 2010.
- The U.S. Federal Reserve (Fed) announced that it will remain patient as it evaluates the need to raise short-term interest rates. The Fed acknowledged that inflation may decrease further in the near term due to declining energy prices, but it expects inflation to gradually increase toward its 2% target.

Geopolitical Headlines

- Two masked gunmen stormed the Paris office of French satirical weekly *Charlie Hebdo*, killing 12 people. The attack was apparently orchestrated by Al-Qaeda in the Arabian Peninsula in response to published editorial cartoons depicting the prophet Muhammad in disparaging ways. Massive rallies in France after the attack attracted millions of citizens and dozens of international leaders to denounce terrorism and support free speech.
- In Greece, Syriza party candidate Alexis Tsipras was elected prime minister. Tsipras has been a vocal opponent of the Greek fiscal austerity measures that were mandated under the financial bailout of Greece in 2010. Tsipras cites the austerity measures as a source of Greece's current economic hardship, as evidenced by an unemployment rate of **27%.**
- President Barack Obama delivered his State of the Union address, outlining his new budget priorities. His plans call for an increase in the minimum wage, two years of tuition-free community college, paid sick leave, access to affordable child care and national infrastructure improvements. Additional tax revenue from corporations and wealthy individuals would fund the increased spending.

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- King Abdullah of Saudi Arabia died at the age of 90. He was considered a strong ally of the United States and was noted for efforts to promote education and women's rights. He is succeeded by his half-brother, Salman bin Abdulaziz. King Salman is 79 years old and had been Minister of Defense since 2011.

Sources: Forbes, Reuters, Bloomberg, The Economist, Energy Information Administration, The Wall Street Journal, CBS News, FactSet, Barclays, Russell, CNBC, CNN, Associated Press, Bridgewater Associates, Wikipedia and NASDAQ.

Key Monthly Economic Statistics

This table contains a list of key monthly economic statistics.

	Positive Statistics • Consumer Confidence, Jan: 102.9 (Dec: 93.1) • Existing Home Sales, Dec: 2.4% (Nov: -6.3%); M/M-SAAR • Housing Starts, Dec: 4.4% (Nov: -4.5%); M/M-SAAR • New Home Sales, Dec: 11.6% (Nov: -6.7%); M/M-SAAR • Nonfarm Payrolls, Jan: 257,000 • Unemployment Rate, Jan: 5.7% (Dec: 5.6%)
	Neutral Statistics • Consumer Price Index core, Dec: 0.0% (Nov: 0.1%); M/M-SA • Consumer Price Index, Dec: -0.4% (Nov: -0.3%); M/M-SA • Institute for Supply Management Index, Jan: 53.5 (Dec: 55.1) • Producer Price Index core, Dec: 0.3% (Nov: 0.0%); M/M-SA • Producer Price Index, Dec: -0.3% (Nov: -0.2%); M/M-SA • S&P/Case-Shiller 20-City Home Price Index, Nov: 4.3% (Oct: 4.5%); Y/Y • Real Gross Domestic Product, Q4: 2.6% (Q3: 5.0%); Q/Q-SAAR
	Negative Statistics • Durable Goods Orders, Dec: -3.4% (Nov: -2.2%); M/M-SA • Factory Orders, Dec: -3.4% (Nov: -1.7%); M/M-SA • Retail Sales ex-auto, Dec: -1.0% (Nov: 0.1%); M/M-SA • Retail Sales, Dec: -0.9% (Nov: 0.4%); 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***

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Investment Fund Review: **(*Net of Fees Performance*)**

*For historical returns of one year, three years, five years, 10 years and since inception periods, please visit our Historical Funds Performance page. **Please note:** Historical returns are not indicative of future performance. For further details about the funds please refer to the Investment Funds Description.*

Inflation Protection Fund

Fund	**January**
Inflation Protection Fund	+2.14%
Barclays Capital U.S. Government Inflation Linked Bond Index	+3.31%
Difference	-1.17%

- The Inflation Protection Fund (IPF) gained **2.14%** in January, but meaningfully underperformed the fund's benchmark return by **1.17%**. The primary contributor to the fund's underperformance was its 8% allocation to commodities futures contracts, which lost **4.5%** for the month. Except for Precious Metals and Textiles, most commodity sectors saw mid-single-digit declines in January, with Grains and Livestock down about **8.5%** and Energy commodities down **6.7%**, as the price of oil continued its descent. In addition, four of the fund's other five diversifying strategies significantly underperformed the fund's benchmark. U.S. Treasury Inflation Protected Securities (TIPS) benefitted from a decline in real interest rates resulting from the announcement by the European Central Bank that it would take additional aggressive steps to stimulate economic growth in the Eurozone.

Fixed Income Fund

Fund	**January**
Fixed Income Fund	+1.63%
Barclays U.S. Universal (Ex MBS) Index	+2.24%
Difference	-0.61%

- The Fixed Income Fund advanced **1.63%** in January but underperformed its benchmark return by **0.61%**. The fund's diversifying strategy of higher-risk bonds with a below-investment-grade credit rating gained only **0.4%** due to continued weakness of bonds issued by energy companies. Bonds from developed countries declined **0.5%** in response to strength in the U.S. dollar compared to the euro currency, which continued to decline due to continued aggressive efforts by the European Central Bank to stimulate Eurozone economic growth. The fund benefitted from its exposure to investment-grade corporate bonds and positive social purpose loans, which gained about a half percentage point more than the fund benchmark.

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U.S. Equity Fund

Fund	January
U.S. Equity Fund	-2.54%
Russell 3000 Index	-2.78%
Difference	+0.24%

- The U.S. Equity Fund declined **2.54%** in January but outperformed the fund's Russell 3000 Index benchmark by **0.24%**. The fund benefitted from its slightly more than 6% allocation to the alternative investment strategies of private real estate and private equity—private real estate reported a gain in net asset value of **2.4%** for the month and private equity declined only **0.2%** for the month. In addition, the fund's 4% allocation to publicly traded real estate investment trusts (REITs) gained **6.8%** for the month. The fund also benefitted from its greater-than-benchmark allocation to mid-sized companies, as the S&P 400 Midcap Index declined only **1.1%** for the month. The benchmark-relative gains from these strategies, however, were partially offset by meaningful below-benchmark performance by three of the U.S. Equity Fund's mid-/small-company managers.

International Equity Fund

Fund	January
International Equity Fund	-0.50%
MSCI ACWI ex-US Investable Market Index	-0.18%
Difference	-0.32%

- The International Equity Fund declined **0.50%** in January and underperformed its benchmark return by **0.32%**. The primary contributor to the fund's below-benchmark performance was the collective underperformance of the fund's active managers, as all but one underperformed their respective benchmarks.

Multiple Asset Fund

Fund	January
Multiple Asset Fund	-0.56%
Composite Benchmark	-0.27%
Difference	-0.29%

- For January, the Multiple Asset Fund declined **0.56%** and underperformed its fund benchmark by **0.29%**. Three of the fund's four underlying strategies underperformed their respective benchmarks in January, with only the U.S. Equity Fund contributing positively to benchmark-relative performance.

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Equity Social Values Plus Fund

Fund	January
Equity Social Values Plus Fund	-2.17%
MSCI World Custom ESG Special Weighted Index	-1.67%
Difference	-0.50%

U.S. Equity Index Fund

Fund	January
U.S. Equity Index Fund	-2.86%
Russell 3000 Index	-2.78%
Difference	-0.08%

For additional information, please contact:

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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.

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