



March 2015 Investment Report

Monthly Report

Markets

- U.S. equities, as represented by the Russell 3000 Index, decreased **1.0%** in March. Small company stocks rose **1.7%**, as measured by the Russell 2000 Index, and outperformed large company stocks, which declined **1.6%**, as measured by the S&P 500. The potential negative impact on U.S. exports caused by a strengthening dollar adversely affected large company stocks, with their greater exposure to international sales. In a changing of the “corporate” guard, the bellwether Dow Jones Industrial Average replaced AT&T with Apple, acknowledging Apple’s ascendance to a position of prominence among blue chip equities.
- Investors continued to prefer companies with strong earnings growth, with the Russell 3000 Growth Index declining **0.9%**, compared to a decline in the Russell 3000 Value Index of **1.1%**. Healthcare was the best-performing Russell 3000 sector during the month, gaining **1.3%**. Technology was the worst-performing Russell 3000 sector, declining **3.1%**.
- Developing international markets declined **1.3%** during March in U.S. dollar terms, as measured by the MSCI Emerging Markets IMI Index. The decline is primarily attributable to the negative impact of U.S. dollar appreciation, which more than offset gains when valued based on local currencies. Developed international markets decreased **1.6%** during March, as measured by the MSCI World ex-US IMI Index for U.S.-based investors, but continue to outperform developing markets year-to-date.
- The U.S. Treasury yield curve declined during March as the Federal Reserve (Fed) reduced its estimates for short-term interest rates at year-end. The 2-year Treasury note yield decreased by **0.06%** to a yield of **0.56%**. The 10-year Treasury note yield decreased by **0.07%** to a yield of **1.92%**.
- U.S. Treasury securities, as measured by the Barclays U.S. Treasury Index, increased **0.6%** in March. Investment-grade debt, as measured by the Barclays U.S. Credit Index, increased **0.4%** during the month. Below-investment-grade debt, as measured by the Barclays U.S. Corporate High-Yield Index, decreased **0.6%**, partially reversing its strong February outperformance of investment-grade debt.
- The U.S. dollar strengthened for the ninth consecutive month in March, increasing **3.3%**, as measured by the U.S. Dollar Index. U.S. dollar strength has been attributed to relative economic strength in the U.S. and prospects for the Federal Reserve to increase short-term interest rates later this year. The euro and British pound decreased **4.2%** and **4.0%** relative to the dollar, respectively. The Brazilian real decreased **11.1%** during March and has decreased nearly **30%** since the end of August 2014. As expected, the Brazilian central bank announced during March that it would end intervention to support its currency, the real.
- Commodities, as represented by the Bloomberg Commodity Index, decreased **5.1%** during March. Within the Commodity Index, Petroleum decreased **10.7%**, and Sugar decreased **13.4%**. The decrease

in Sugar was attributed to the decline in the Brazilian real, which makes Brazilian sugar production less expensive in U.S. dollar terms.

Economics Highlights

- The Federal Reserve hinted it could raise short-term interest rates as early as its mid-June meeting. Markets responded strongly, however, when Chairwoman Janet Yellen later seemed to downplay the possibility of a near-term rate increase, given current economic conditions.
- A summary of economic reports in the month were mixed, suggesting the economy is not on as firm footing as previously thought. Retail sales were a negative development in March, falling for the third month in a row despite the expected benefits from lower gas prices. Durable goods orders also declined as businesses were cautious about capital spending due to a stronger U.S. dollar and weak global demand. The U.S. economy added **126,000** jobs in March, well below expectations, while the unemployment rate was unchanged at **5.5%**. Positive signs included an increase in consumer prices in February for the first time in four months, which negated ongoing concerns about potential deflation. Housing sales in March reached the highest annual rate since 2008.
- Merger and acquisition activity received investor attention with the announcements of several large deals including the proposed merger of Kraft Foods with the H.J. Heinz Company in a \$49 billion transaction and United Healthcare Services' proposed \$13 billion acquisition of Catamaran Corporation in the pharmacy benefit management (PBM) business. Simon Property Group and Macerich could not agree to terms on a proposed combination of two of the largest publicly-traded shopping mall companies.
- China officially lowered its economic growth target to 7%, as measured by the gross domestic product (GDP) growth rate. China's revised target is below its 7.4% GDP growth rate achieved last year, and is the lowest in 25 years. The GDP growth slowdown is the result of housing oversupply, excessive corporate debt and a generally weak global economy.
- During March, the euro declined toward parity with the dollar as markets anticipated the impact of opposing monetary policies in the U.S. and Europe. The European Central Bank (ECB) will begin a quantitative easing program through bond purchases, while the U.S. Fed contemplates raising short-term rates.
- Record crude supplies and historically low oil prices are restraining future energy exploration plans, as major producers Chevron, Exxon and Shell announced suspension of shale-drilling operations outside the U.S.

Geopolitical Headlines

- Israel Prime Minister Benjamin Netanyahu appeared before a joint session of Congress, contrary to President Barack Obama's wishes, to voice his concerns about the Obama Administration's pending agreement with Iran over its nuclear weapons program. This unprecedented appeal by a foreign leader directly to Congress placed Netanyahu in clear showdown with President Obama over the latter's Middle East policy. Two weeks later, Netanyahu's Likud Party prevailed in closely contested parliamentary elections by appealing to conservative Israeli voters regarding the Palestinian state issue. Despite strong Republican opposition in Congress, President Obama's continued diplomatic efforts with Iran resulted in a tentative deal at month-end.
- The 2016 U.S. presidential campaign officially began with conservative Texas Senator Ted Cruz (R), among the first high-profile individuals to announce his candidacy. The rest of the Republican

presidential field remains largely undeclared. On the Democratic side the presumptive frontrunner, former Secretary of State Hillary Clinton, revealed that she set up a personal e-mail server and e-mail account to send and receive official government e-mails while leading the Department of State.

- Violence continued to spread throughout the Middle East with terrorist attacks in Tunisia and Yemen. Yemen was on the brink of civil war between Sunni and Shi'a Muslims as an Islamic State-affiliated group seized the country's capital and forced Yemen former President Mansour Abdrabbuh Hadi to depart the country in March, after resigning along with his Cabinet in January. Iraqi forces, supported by Iranian and American assistance, gained ground against the Islamic State by retaking the strategic Iraqi city of Tikrit. Separately, President Obama agreed to delay withdrawal of U.S. forces in Afghanistan, citing concerns about a repeat of the military chaos in Iraq.

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.

	<p>Positive Statistics</p> <ul style="list-style-type: none"> • Consumer Confidence, Mar: 101.3 (Feb: 98.8) • Existing Home Sales, Feb: 1.2% (Jan: -4.9%); M/M-SAAR • Factory Orders, Feb: 0.2% (Jan: -0.7%); M/M-SA • New Home Sales, Feb: 7.8% (Jan: 4.4%); M/M-SAAR • S&P/Case-Shiller 20-City Home Price Index, Jan: 4.6% (Dec: 4.4%); Y/Y • Consumer Price Index core, Feb: 0.2% (Jan: 0.2%); M/M-SA • Consumer Price Index, Feb: 0.2% (Jan: -0.7%); M/M-SA
	<p>Neutral Statistics</p> <ul style="list-style-type: none"> • Institute for Supply Management Index, Mar: 51.5 (Feb: 52.9) • Producer Price Index core, Feb: -0.5% (Jan: -0.1%); M/M-SA • Producer Price Index, Feb: -0.5% (Jan: -0.8%); M/M-SA • Real Gross Domestic Product, Q4: 2.2% (Q3: 5.0%); Q/Q-SAAR • Unemployment Rate, Mar: 5.5% (Feb: 5.5%)
	<p>Negative Statistics</p> <ul style="list-style-type: none"> • Durable Goods Orders, Feb: -1.4% (Jan: 1.9%); M/M-SA • Housing Starts, Feb: -17.0% (Jan: 0.0%); M/M-SAAR • Nonfarm Payrolls, Mar: 126,000 • Retail Sales ex-auto, Feb: -0.1% (Jan: -1.1%); M/M-SA • Retail Sales, Feb: -0.6% (Jan: -0.8%); 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)

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	March	YTD
Inflation Protection Fund	-0.50%	+0.89%
Barclay's Capital U.S. Government Inflation Linked Bond Index	-0.49%	+1.47%
Difference	-0.01%	-0.58%

- The Inflation Protection Fund declined **0.50%** in March, essentially matching the performance of the fund benchmark. The fund's best-performing strategy was its allocation to currency-hedged global inflation-linked bonds, which gained **1.3%** for the month. In addition, the fund's 10% allocation to floating rate senior secured loans gained **0.6%**, positively contributing to benchmark-relative performance. However, the fund's 10% allocation to inflation-linked bonds from developing countries and 8% allocation to commodities futures contracts offset these gains, as the strategies declined **3.6%** and **4.6%** respectively. The decline in the value of inflation-linked bonds from developing countries is attributable primarily to the depreciation in the value of currencies, notably the Brazilian real, which declined **11.1%**, compared to the U.S. dollar. During March, the price of West Texas Intermediate Oil declined **4.3%** due to increasing oil inventories and expectations for increased production from Iran subsequent to negotiations over its nuclear program. In addition, agricultural commodities declined more than **5%**, which included a more than **13%** drop in the price of sugar. Market observers attribute the decline to weakness of the Brazilian currency and expectations that Brazilian producers will flood the market with sugar in order to capitalize on the weakness of its currency.
- For the year to date, the Inflation Protection Fund has gained **0.89%** but has underperformed its benchmark by **0.58%**. The fund's allocations to commodities and inflation-linked bonds from developing countries declined **5.7%** and **6.2%** respectively and are the primary contributors to the fund's underperformance. The fund's allocation to dollar hedged inflation-linked bonds from developed countries has gained **3.9%** and positively contributed to benchmark-relative performance.

Fixed Income Fund

Fund	March	YTD
Fixed Income Fund	-0.23%	+1.13%
Barclays U.S. Universal (Ex MBS) Index	+0.43%	+1.94%
Difference	-0.66%	-0.81%

- The Fixed Income Fund declined **0.23%** in March and significantly underperformed the fund benchmark return, which gained **0.43%**. The best-performing strategy for the month was the fund's 9% allocation to positive social purpose loans, which gained **1.3%**. However, the fund's holdings of

bonds denominated in currencies other than the U.S. dollar detracted from benchmark-relative performance. The fund's 10% allocation to bonds from developing countries declined **2.5%**, and the fund's 15% allocation to global bonds declined **1.2%**.

- For the year to date, the Fixed Income Fund has gained **1.13%** and has underperformed the fund benchmark by **0.81%**. The fund's best-performing strategy is its allocation to positive social purpose loans, which has gained **3.0%**. In addition, nine of the fund's 10 investment managers have outperformed their respective manager benchmarks. However, due to continued appreciation of the U.S. dollar relative to foreign currencies, the fund's two allocations to non-dollar bonds have detracted from benchmark-relative performance. The Fixed Income Fund's allocation to global bonds has declined **2.3%**, and its allocation to bonds from developing countries has declined **0.7%**.

U.S. Equity Fund

Fund	March	YTD
U.S. Equity Fund	-0.67%	+2.14%
Russell 3000	-1.02%	+1.80%
Difference	+0.35%	+0.34%

- The U.S. Equity Fund declined **0.67%** in March but outperformed the fund's Russell 3000 Index benchmark by **0.35%**. The fund's nearly 4% allocation to publicly traded real estate investment trusts (REITs) gained **1.6%**, and positively contributed to benchmark-relative performance. In addition, the fund's 6% allocation to the alternative investment strategies of private equity and private real estate recognized minor gains during the month, which also added to relative performance. The fund also benefitted from its higher-than-benchmark allocation to stocks of mid- and small-sized companies, as the S&P 400 Midcap Index and Russell 2000 Index small company stocks gained **1.3%** and **1.7%** respectively. However, the positive impact from the U.S. Equity Fund's allocations to these strategies was partially offset by below-benchmark performance by many of the fund's investment managers.
- For the year to date, the U.S. Equity Fund has gained **2.14%**, outperforming the fund benchmark by **0.34%**. The fund's best-performing strategy is its 8% allocation to mid-cap equities, which has gained **6.0%** for the first three months of the year. In addition, the fund's allocation to REITs has gained **4.7%**. The fund also benefitted from its higher-than-benchmark allocation to stocks of mid- and small-sized companies, as the S&P 400 Midcap Index and Russell 2000 Index small company stocks gained **5.3%** and **4.3%** respectively. These benchmark-relative gains were partially offset by losses recognized by one of the fund's managers that resulted from a 20+% decline in two of the manager's consumer discretionary stocks and contributed to the fund manager's material below-benchmark performance. The U.S. Equity Fund's worst-performing strategies on an absolute basis were in the large cap value sector.

International Equity Fund

Fund	March	YTD
International Equity Fund	-1.48%	+3.53%
MSCI ACWI ex-US Investable Market Index	-1.55%	+3.55%
Difference	+0.07%	-0.02%

- The International Equity Fund declined **1.48%** in March and slightly outperformed its benchmark return by **0.07%**. None of the fund's investment strategies materially added to or detracted from benchmark-relative performance for the month.
- For the year to date, the International Equity Fund has gained **3.53%** and has slightly underperformed its benchmark by **0.02%**. Two of the fund's strategies have offset the positive contribution resulting from the reversal of the negative adjustment to the fund's net asset value at the end of 2014. One of the fund's emerging markets managers has underperformed its benchmark by three percentage points, and the fund's modest allocations to the alternative investment strategies of private equity and private real estate have both declined **3.4%**, primarily due to foreign currency depreciation.

Multiple Asset Fund

Fund	March	YTD
Multiple Asset Fund	-0.74%	+2.07%
Composite Benchmark	-0.74%	+2.31%
Difference	+0.00%	-0.24%

- For March, the Multiple Asset Fund declined **0.74%**, exactly matching the performance of the fund benchmark. The two equity funds that comprise MAF positively contributed to the fund's benchmark-relative performance, and the two fixed income funds underperformed their respective benchmarks.
- For the year to date, the Multiple Asset Fund has gained **2.07%**, which is **0.24%** below the fund benchmark. The U.S. Equity Fund's positive contribution to benchmark-relative performance has been more than offset by the benchmark-relative underperformance of the other three funds that comprise MAF.

Equity Social Values Plus Fund

Fund	March	YTD
Equity Social Values Plus Fund	-1.09%	+2.09%
MSCI World Custom ESG Special Weighted Index	-1.06%	+2.52%
Difference	-0.03%	-0.43%

U.S. Equity Index Fund

Fund	March	YTD
U.S. Equity Index Fund	-0.93%	+1.76%
Russell 3000 Index	-1.02%	+1.80%
Difference	+0.09%	-0.04%

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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