



Conference Forum—March 2021



**Wespath**

BENEFITS | INVESTMENTS

# Investments and Economic Update

# Wespath Investments Presenters

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**Karen Manczko**  
Director, Institutional  
Relationships



**Trish Halper, CFA**  
Deputy Chief  
Investment Officer



**Dave Zellner**  
Chief Investment Officer

# Agenda

- Overview of Fund Performance
- Five Long-Term Opportunities and Risks
- Five Near-Term Risks



# Fund Performance Review



# Quarterly Investment Webinars

## Investment Insights Webinar

**Register for the Investment Insights webinar!**

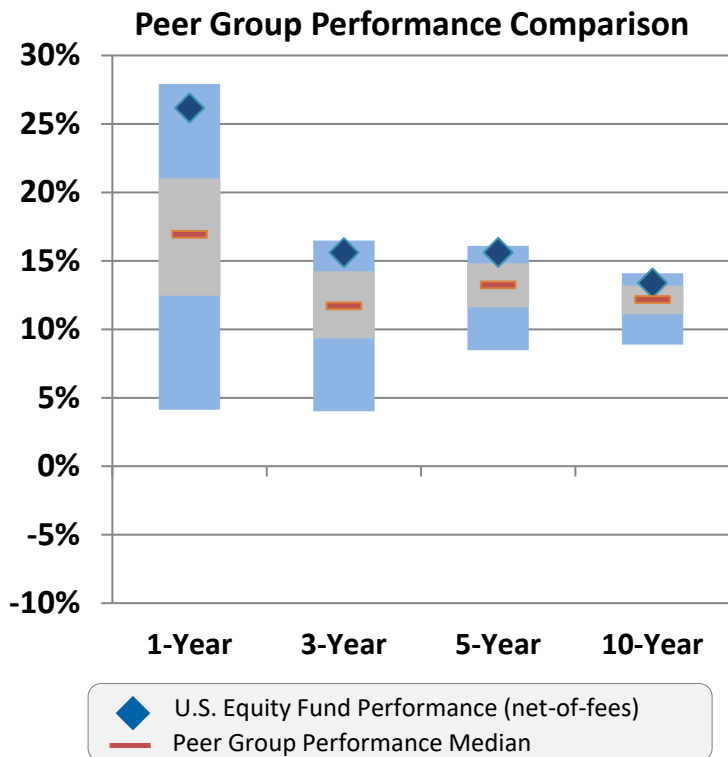
**Event Name:** Investment Insights Webinar—Q1 2021  
Review and Outlook

**Date:** Thursday, April 22, 2021

**Location:** Online



# U.S. Equity Fund (P) vs. Lipper Multi-Cap Core Funds Universe—As of December 31, 2020



**Annualized Performance (net-of-fees)**

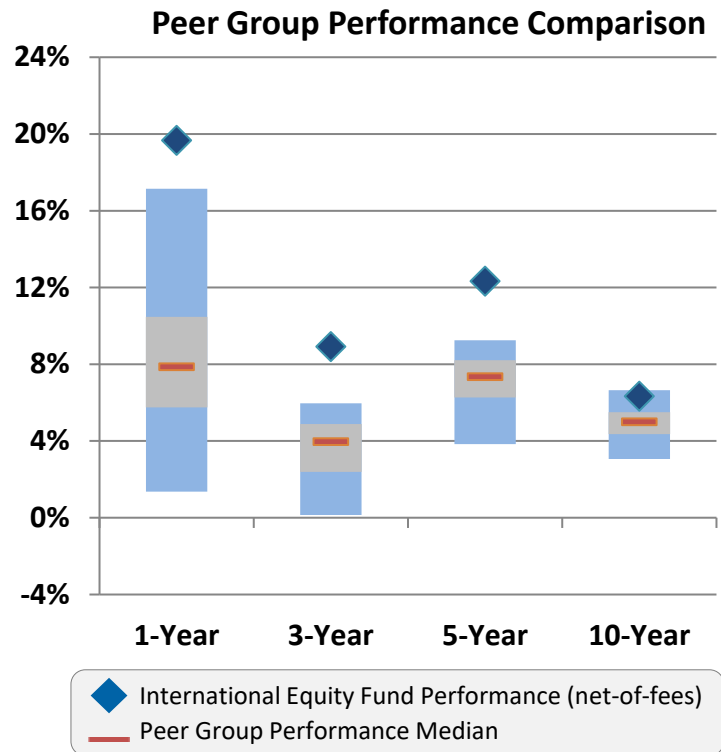
	1-Year	3-Year	5-Year	10-Year
<b>U.S. Equity Fund</b>	26.2%	15.6%	15.6%	13.4%
<b>Median</b>	16.9%	11.7%	13.2%	12.2%
<b>Rank in Universe</b>	9 <sup>th</sup>	8 <sup>th</sup>	9 <sup>th</sup>	22 <sup>nd</sup>
<b># of Observations</b>	654	588	509	351

Historical returns are not indicative of future performance. Please refer to the Investment Funds Description – P Series at wespath.org for more information about the Fund. This is not an offer to purchase securities. Please refer to the disclosures at the end of this presentation for additional information.

Source: Lipper

Lipper Multi-Cap core Universe is a group of mutual funds comparable to USEF. This Universe consists of a Lipper predefined Universe of “Multi-Cap Core” funds.

# International Equity Fund (P) vs. Lipper International Equity Funds Universe—As of December 31, 2020



## Annualized Performance (net-of-fees)

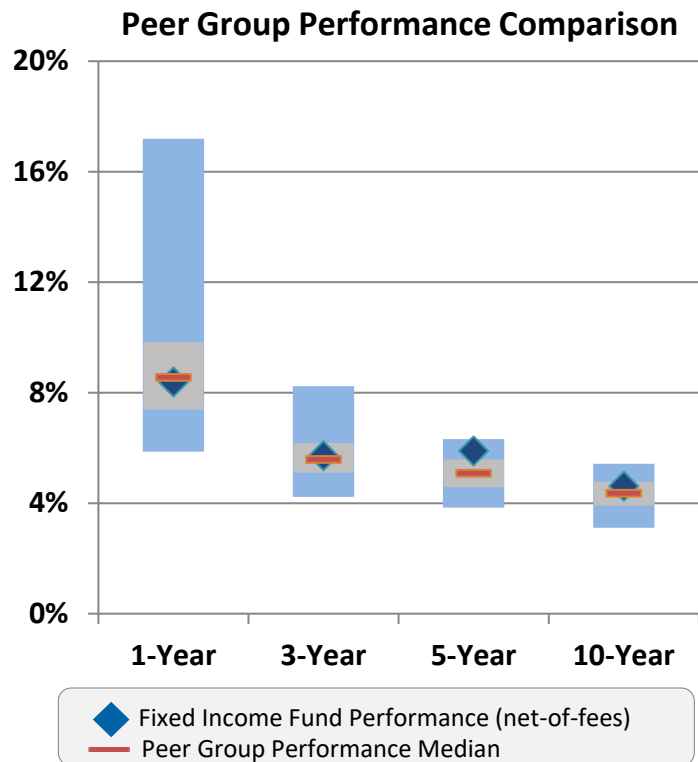
	1-Year	3-Year	5-Year	10-Year
<b>International Equity Fund</b>	19.7%	8.9%	12.3%	6.3%
<b>Median</b>	7.9%	4.0%	7.3%	5.0%
<b>Rank in Universe</b>	3 <sup>rd</sup>	2 <sup>nd</sup>	1 <sup>st</sup>	7 <sup>th</sup>
<b># of Observations</b>	376	330	287	178

Historical returns are not indicative of future performance. Please refer to the Investment Funds Description – P Series at wespath.org for more information about the Fund. This is not an offer to purchase securities. Please refer to the disclosures at the end of this presentation for additional information.

Source: Lipper

Lipper International Equity Funds Universe is a group of mutual funds comparable to IEF. Lipper utilized all mutual funds included in the pre-defined Lipper classification universes of “Int’l Multi-Cap Core” to construct this Universe.

# Fixed Income Fund (P) vs. Lipper Bond Funds Universe— As of December 31, 2020



## Annualized Performance (net-of-fees)

	1-Year	3-Year	5-Year	10-Year
<b>Fixed Income Fund</b>	8.4%	5.7%	5.9%	4.6%
<b>Median</b>	8.6%	5.6%	5.1%	4.4%
<b>Rank in Universe</b>	54 <sup>th</sup>	43 <sup>rd</sup>	13 <sup>th</sup>	35 <sup>th</sup>
<b># of Observations</b>	299	257	206	151

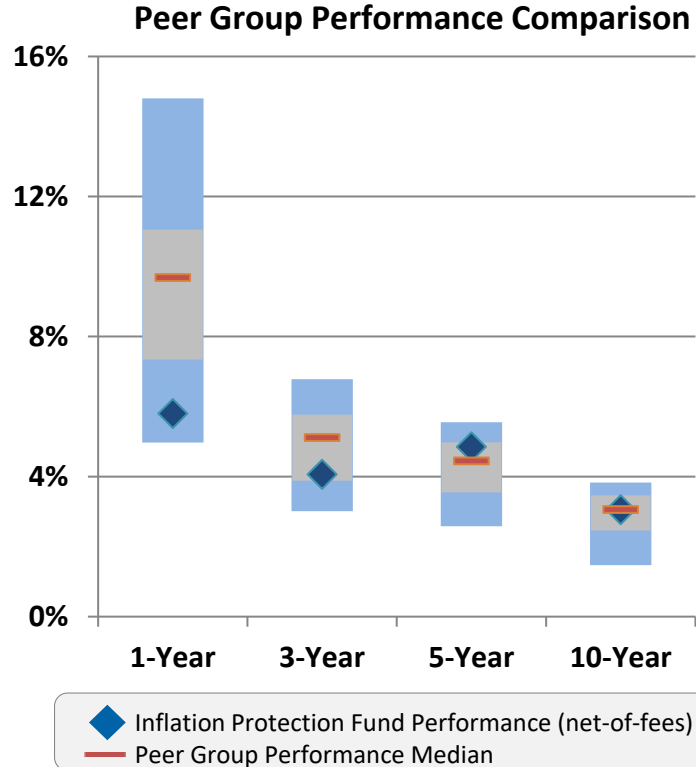
Historical returns are not indicative of future performance. Please refer to the Investment Funds Description – P Series at wespath.org for more information about the Fund. This is not an offer to purchase securities. Please refer to the disclosures at the end of this presentation for additional information.

Source: Lipper

Lipper Bond Funds Universe is a group of mutual funds comparable to FIF. Lipper utilized all mutual funds included in the pre-defined Lipper classification universe of “Core Plus Bond” to construct this Universe.



# Inflation Protection Fund (P) vs. Lipper Inflation Protection Funds Universe—As of December 31, 2020



## Annualized Performance (net-of-fees)

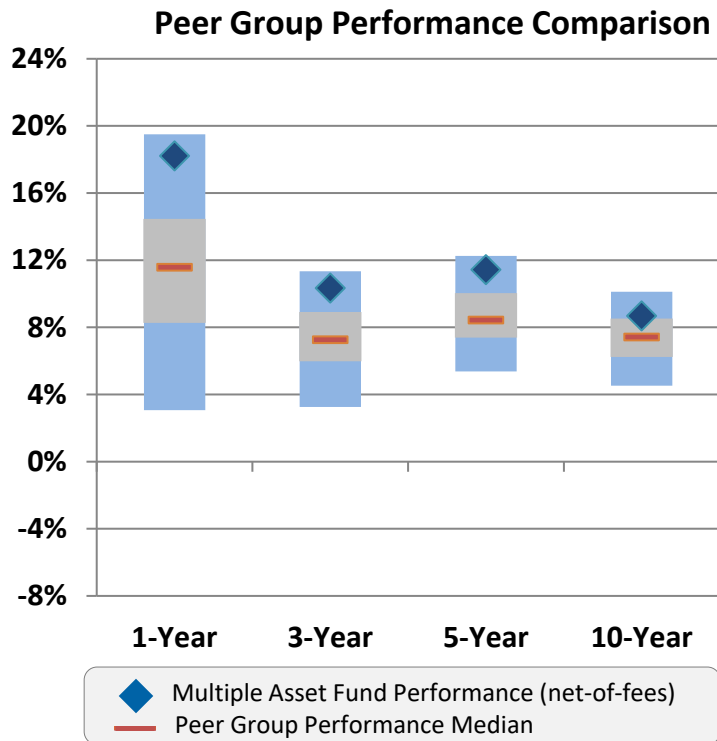
	1-Year	3-Year	5-Year	10-Year
<b>Inflation Protection Fund</b>	5.8%	4.1%	4.9%	3.1%
<b>Median</b>	9.7%	5.1%	4.4%	3.1%
<b>Rank in Universe</b>	81 <sup>st</sup>	72 <sup>nd</sup>	33 <sup>rd</sup>	50 <sup>th</sup>
<b># of Observations</b>	204	195	172	113

Historical returns are not indicative of future performance. Please refer to the Investment Funds Description – P Series at [wespath.org](http://wespath.org) for more information about the Fund. This is not an offer to purchase securities. Please refer to the disclosures at the end of this presentation for additional information.

Source: Lipper

Lipper Inflation Protection Funds Universe is a group of mutual funds comparable to IPF. The Lipper Universe used for this comparison was Inflation Protected Bonds.

# Multiple Asset Fund (P) vs. Lipper Multiple Asset Funds Universe—As of December 31, 2020



**Annualized Performance (net-of-fees)**

	1-Year	3-Years	5-Years	10-Years
<b>Multiple Asset Fund</b>	18.2%	10.3%	11.4%	8.7%
<b>Median</b>	11.6%	7.3%	8.4%	7.4%
<b>Rank in Universe</b>	9 <sup>th</sup>	12 <sup>th</sup>	13 <sup>th</sup>	23 <sup>rd</sup>
<b># of Observations</b>	718	677	617	459

Historical returns are not indicative of future performance. Please refer to the Investment Funds Description – P Series at [wespath.org](http://wespath.org) for more information about the Fund. This is not an offer to purchase securities. Please refer to the disclosures at the end of this presentation for additional information.

Source: Lipper

Lipper Multiple Asset Fund Universe is a group of mutual funds comparable to MAF. Lipper utilized all mutual funds included in the pre-defined Lipper classification universes of “Mixed-Asset Target Allocation Moderate” and “Mixed-Asset Target Allocation Aggressive Growth” to construct this Universe.



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# Themes Influencing Our Lives



# Megatrends Will Influence Future Economic Growth



# Five Long-Term Opportunities and Risks



**One Belt  
One Road**

**1**



**U.S. Retirement  
Funding Crisis**

**2**



**Technological  
Disruption**

**3**



**Low-Carbon  
Transition**

**4**



**Sociological  
Challenges**

**5**



# One Belt One Road

1

## Megatrends



**Demographic Shifts**



**Increasing Urbanization**



**Global Power Shifts**



# One Belt One Road: China's Aggressive Initiative



**1,700 Projects**  
**\$1 Trillion**

Source: Eurasia Review, China's Belt And Road Initiative: Ambition And Opportunity – Analysis, April 20, 2018

# Silk Road Economic Belt





# Maritime Silk Road



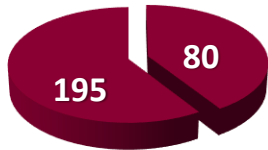
# One Belt One Road Will Have a Broad Reach

“Community of Common Destiny for Mankind”

Countries



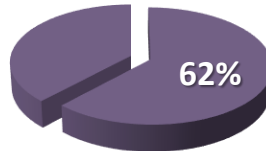
80 countries



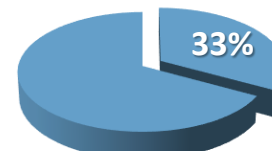
People



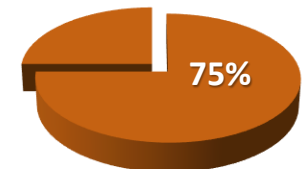
4.7 billion



World Economy



Energy Reserves



Sources: World Bank, Belt Road Initiative Brief, March 29, 2018 and Alfred Lee, Refinitiv, Belt and Road Initiative : 9 Overlooked Facts, November 22, 2018

# U.S. Retirement Funding Crisis

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2

Megatrends



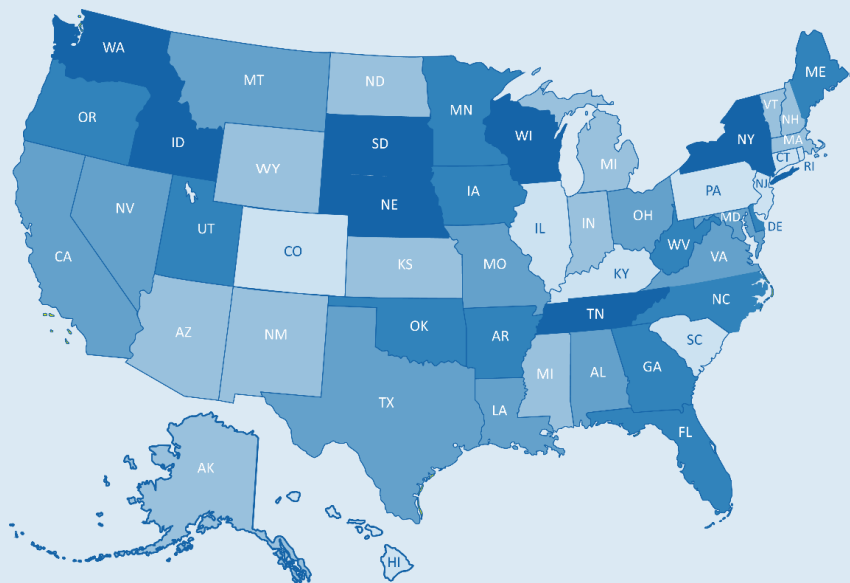
Demographic Shifts





# State Public Pension Plans—Underfunded by \$1.2 Trillion

As of Fiscal Year 2018



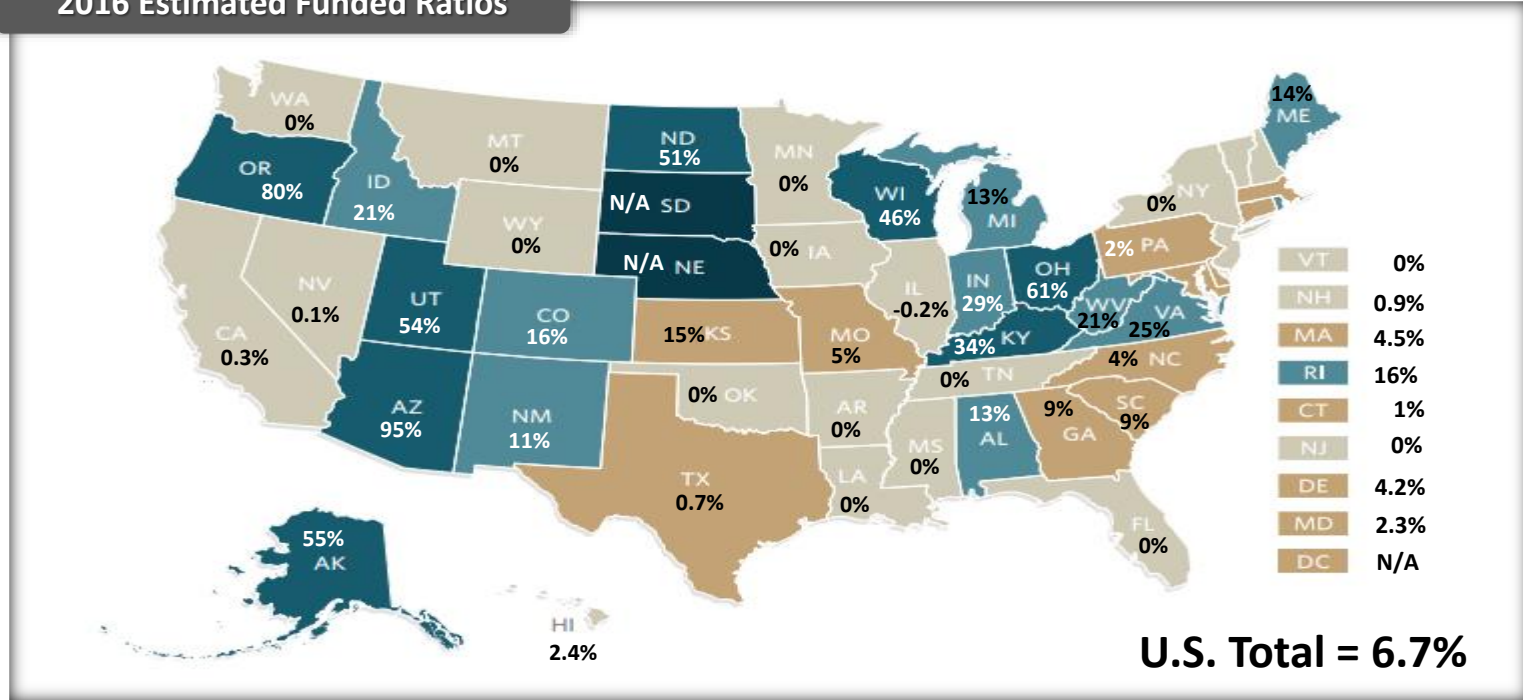
Just seven states were 90% funded, while nine states were less than 60% funded.

- 90-100%
- 80-89%
- 70-79%
- 60-69%
- Below 60%

Source: The Pew Charitable Trusts; Numbers reflect the Governmental Accounting Standards Board reporting standards as of 2018

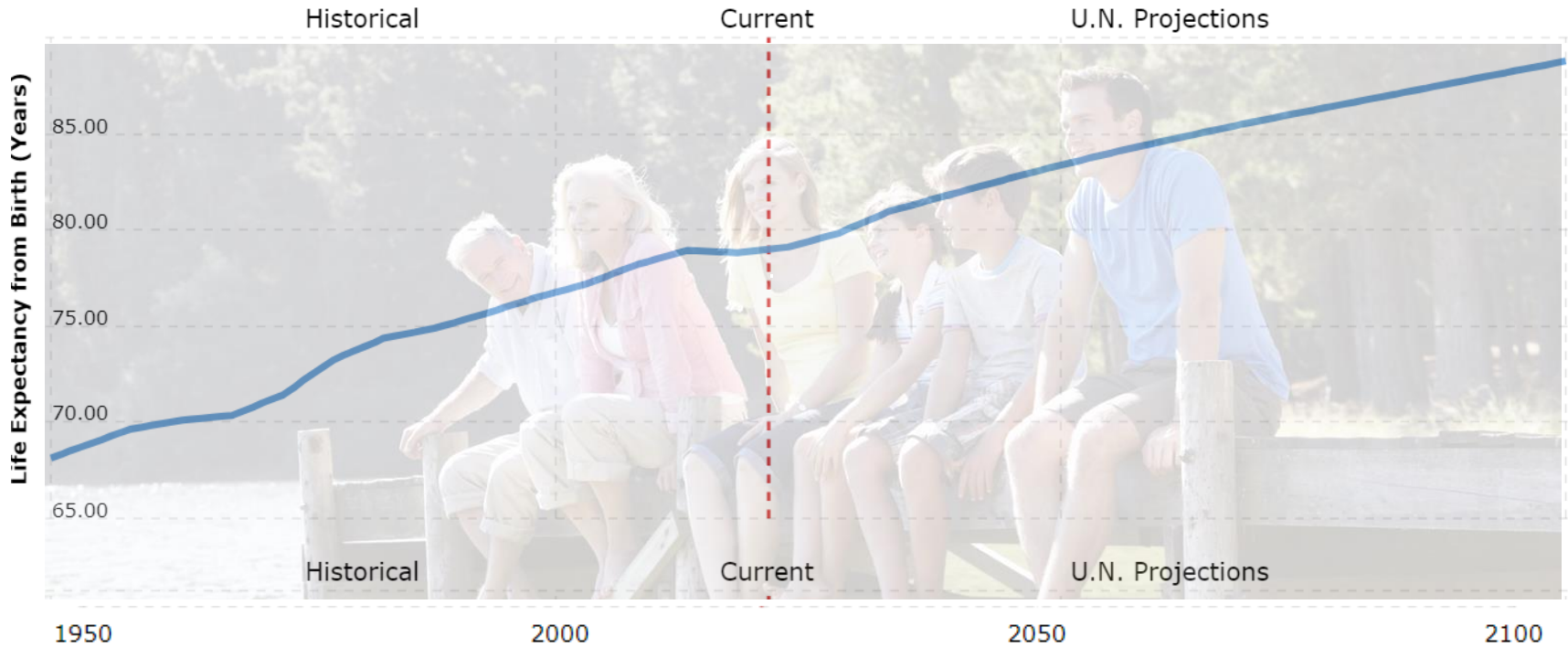
# State Retiree Medical Obligations— Underfunded by \$696 Billion

## 2016 Estimated Funded Ratios



Source: Update: 50-State Survey of Retiree Health Care Liabilities, The Pew Charitable Trusts, December 2018

# U.S. Life Expectancies Continue Increasing



Source: <https://www.macrotrends.net/countries/USA/united-states/life-expectancy>

# Disruptive Technological Innovations

3

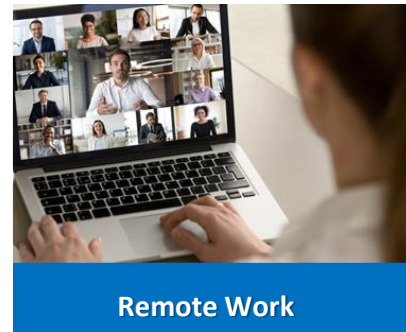
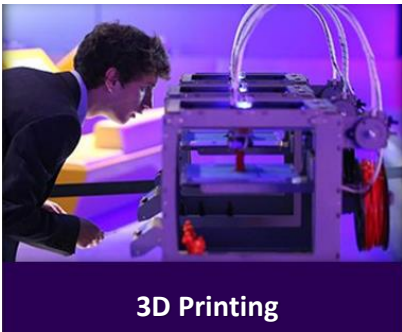
Megatrends



**Accelerated adoption of technology**

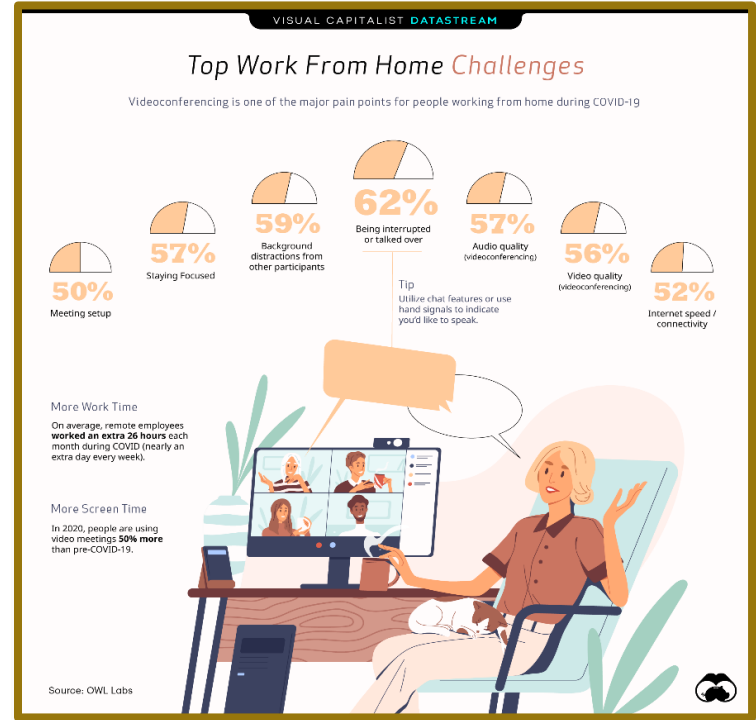
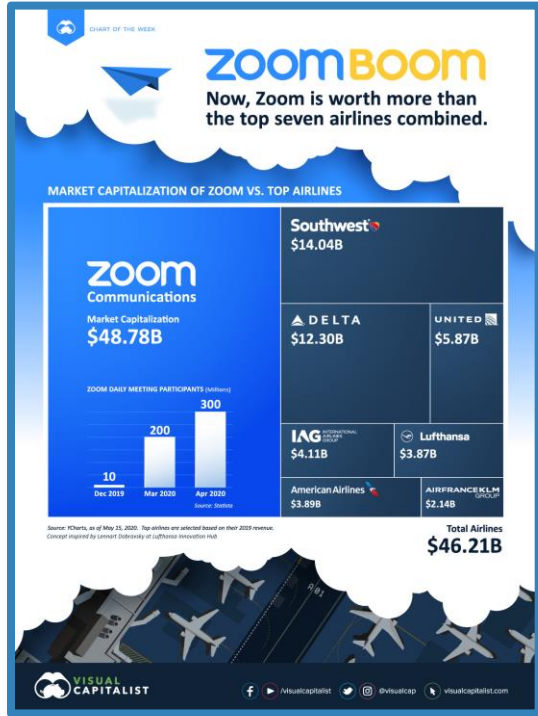


# Major Disruptions Are Underway





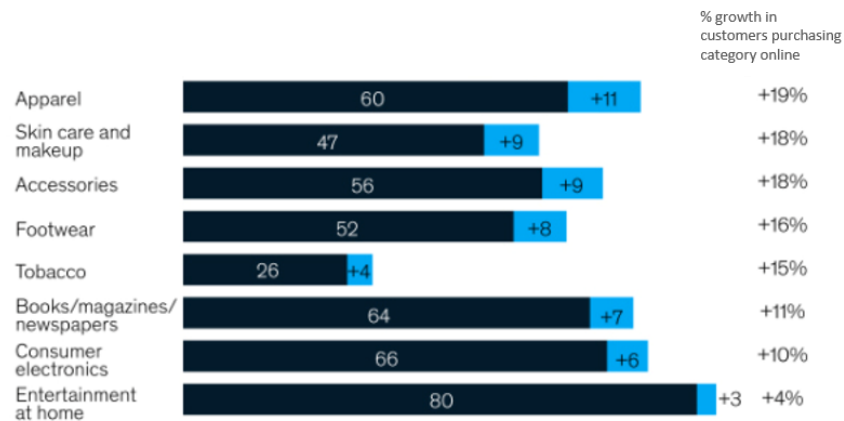
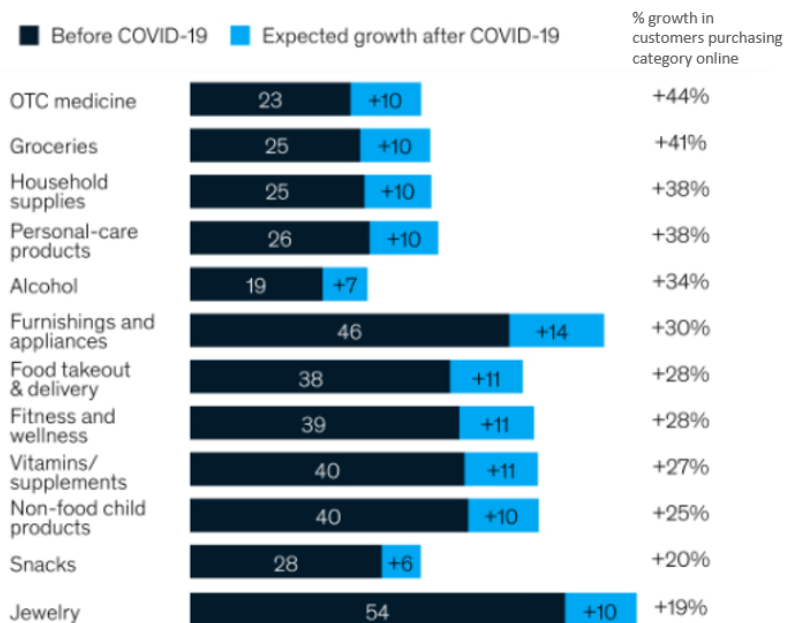
# Remote Work Takes Off





# Purchasing Habits Change Post-Pandemic

Post COVID-19, more people expect to make a portion of their purchases online, as compared to before.



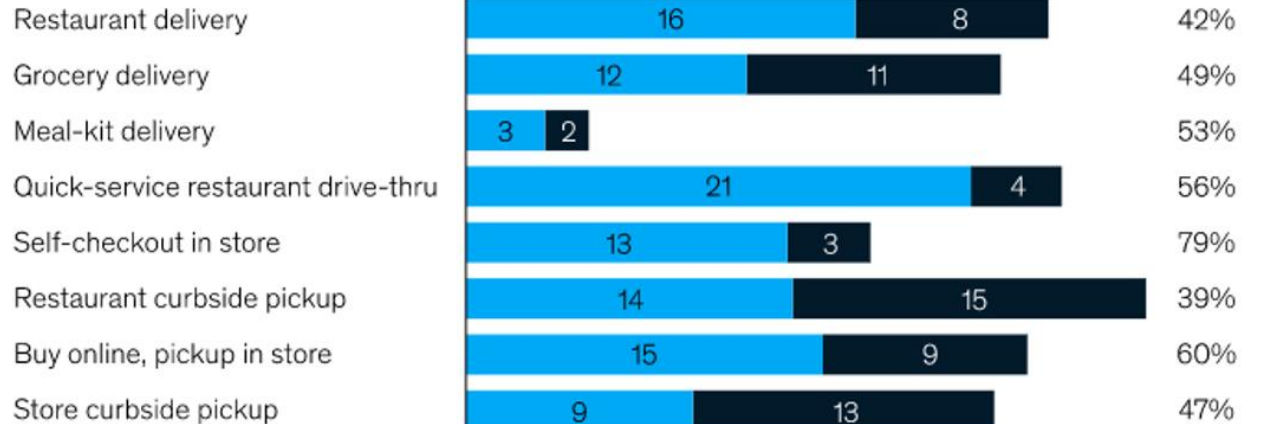
**Approximately 15-30% growth in consumers who purchase online for most categories**

Source: <https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/the-great-consumer-shift-ten-charts-that-show-how-us-shopping-behavior-is-changing>

# Purchasing Habits Change Post-Pandemic

In response to health and safety concerns, U.S. consumers are changing how they shop.

■ Using more  
■ Just started using



<https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/the-great-consumer-shift-ten-charts-that-show-how-us-shopping-behavior-is-changing>

# “Amazonification” of Buying and Selling

**DEFINITION:** The ability to compare prices across a broad spectrum of sellers  
More transparency means more competition, which in turn means lower prices for consumers



# “Uberization” of Work

**DEFINITION:** Where agents exchange under-utilized capacity of existing assets or human resources (typically through a website or software platform), while incurring only low transaction costs

## U.S.-Based On-Demand Mobile Services



Source: Anne Dias, CEO of Aragon Global, Crains, February 22, 2018; Image published April 2014 by @schlaf, @RRE

# “Alibabification” of the Economy

**DEFINITION:** Using machine learning to predict what goods and services you want, when, where and at what price



Source: Anne Dias, CEO of Aragon Global, Crains, February 22, 2018

# Low-Carbon Transition

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4

Megatrends

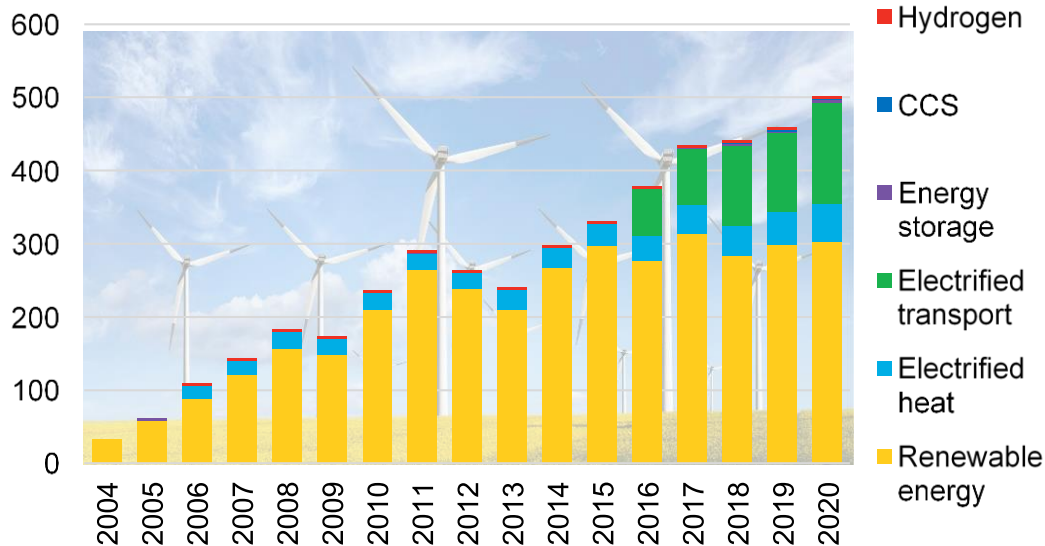


**Heightened impact from climate change and environmental stress**



# 9% Year-Over-Year Increase Despite COVID-19

Global Investment in Energy Transition by Sector (\$Billions)

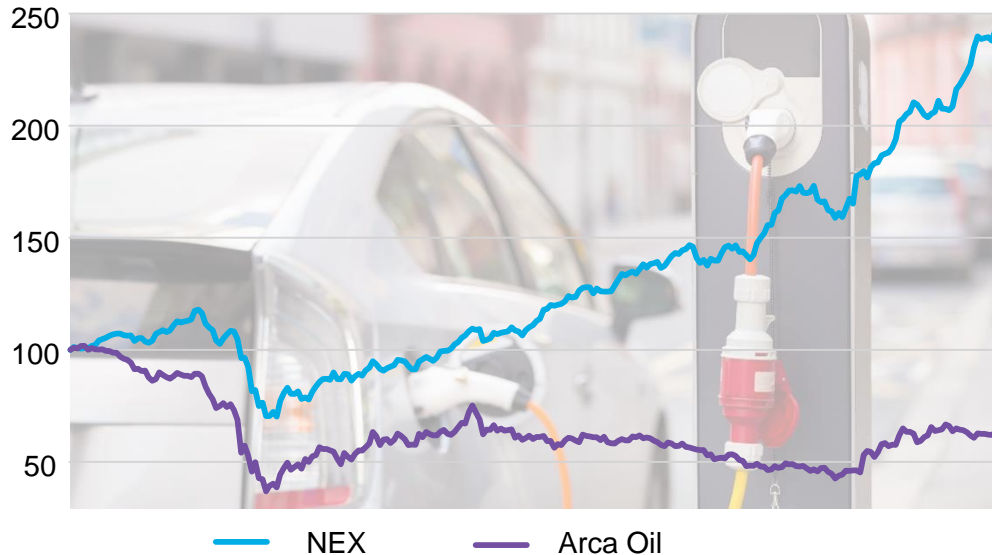


The world invested more than **\$500 billion** in 2020 in energy transition sectors such as renewable energy, electric vehicles and charging, and electric heat, according to authoritative figures from BNEF.

Source: BloombergNEF

# Clean Energy Shares Jumped 142% in 2020, Oil Shares Fell

WilderHill New Energy Global Innovation Index (NEX) Versus NYSE Arca Oil Index, Full Year 2020 (Rebased)

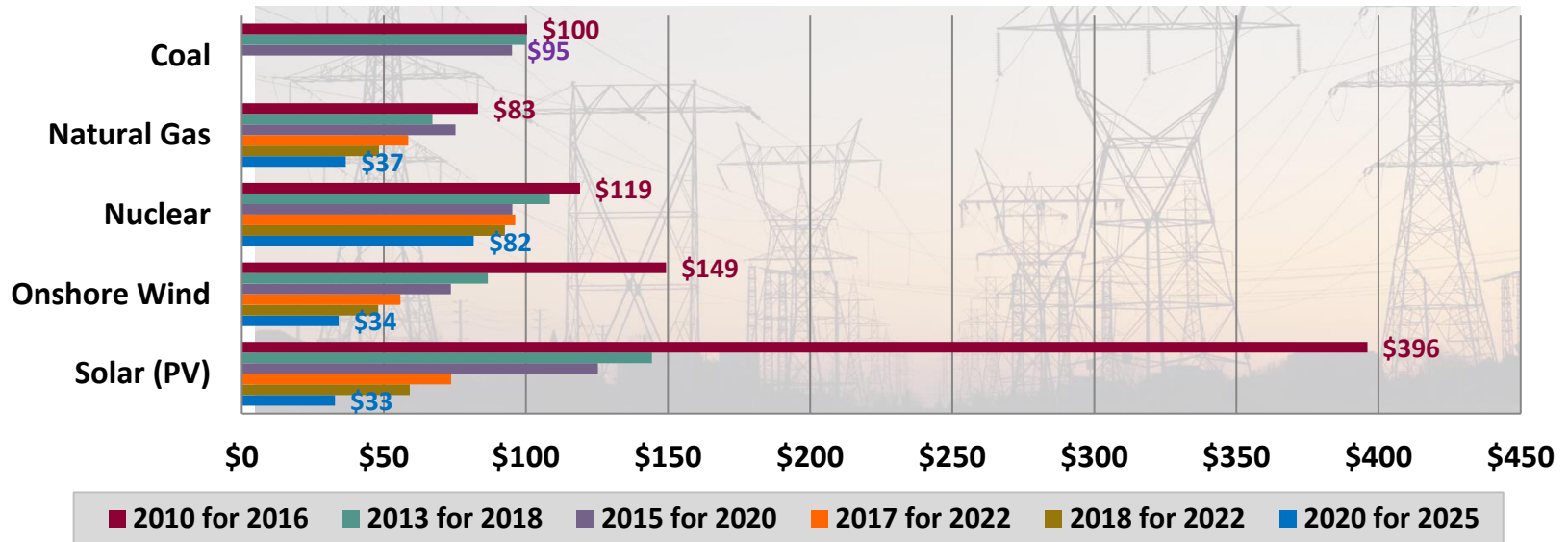


- Clean energy shares have been serial under-performers for most of the last decade.
- The trend reversed spectacularly in 2020 as investors warmed to the prospects for wind, solar, batteries and electric vehicles.
- Two other considerations in the minds of investors were hopes for a 'green recovery' from the COVID-19 recession and excitement about the low-carbon policies that a Biden administration might adopt in the U.S.

Source: BloombergNEF. NEX is WilderHill New Energy Global Innovation Index

# Renewable Energy Costs Declining Rapidly

## Estimated Levelized Cost of Electricity Entering Service (No Subsidies)

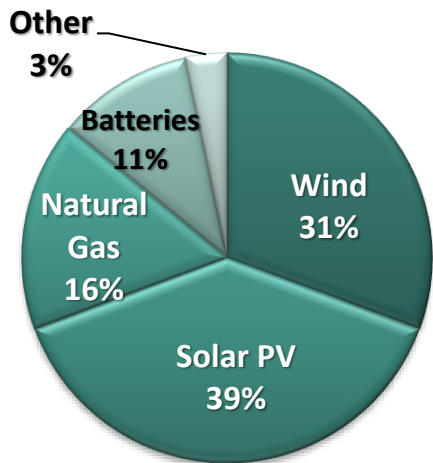


Source: U.S. Energy Information Agency Annual Energy Outlook, Estimated Levelized Cost of Electricity (capacity weighted) for New Generation Entering Service in 2010, 2015, 2019, and 2020. Coal cost not estimated in 2019 report as no new coal capacity being built. PV = photovoltaic

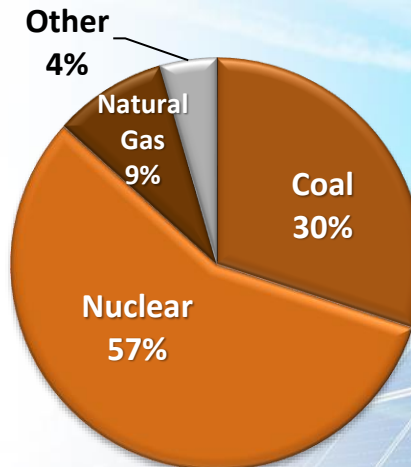
# Renewables Rapidly Replacing Coal and Nuclear

## Change in U.S. Electricity Generating Capacity—2021

### Planned Additions—40 Gigawatts



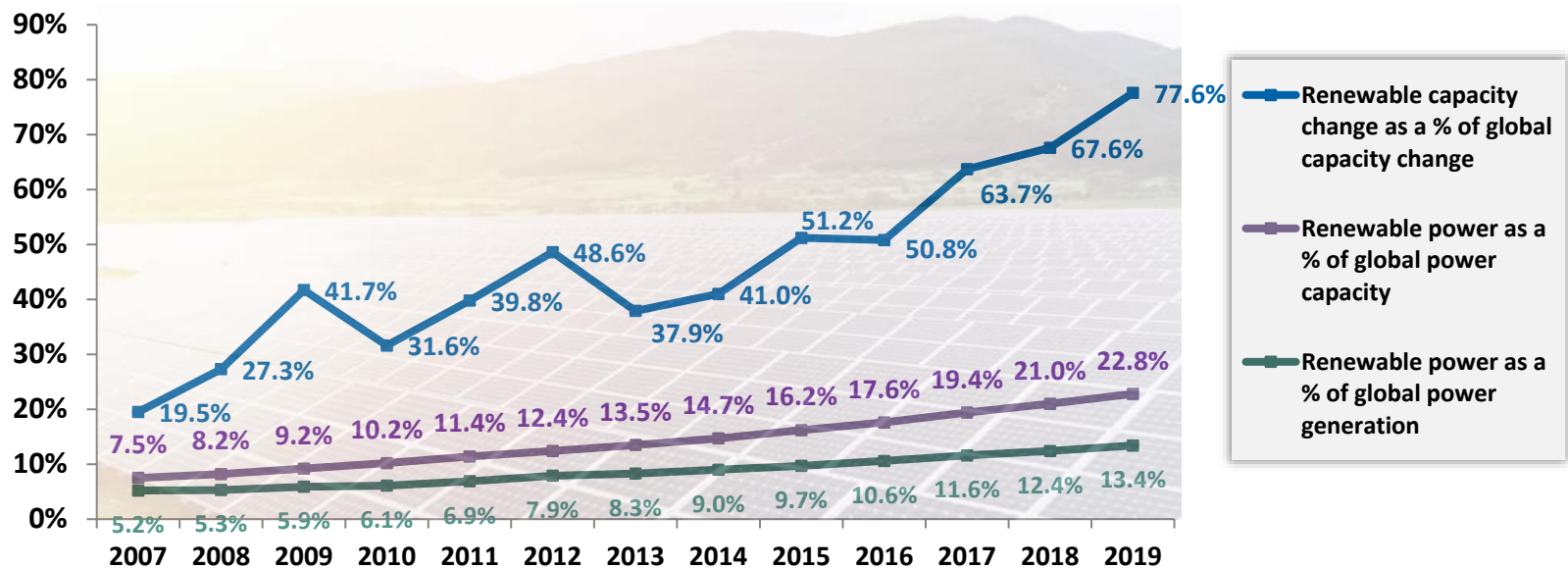
### Planned Retirements—9 Gigawatts



Source: U.S. Energy Administration, Today in Energy, January 11, 2021

# Renewable Capacity Rapidly Increasing

Renewable Power Generation and Capacity as a Share of Global Power: 2007 – 2019



Note: Renewable figures exclude large hydro. Capacity and generation based on Bloomberg New Energy Finance totals.  
Source: UN Environment, Bloomberg New Energy Finance, Global Trends in Renewable Energy Investment 2020

# Sociological Challenges

5

Megatrends



Demographic Shifts



Income Inequality



Opioid Crisis



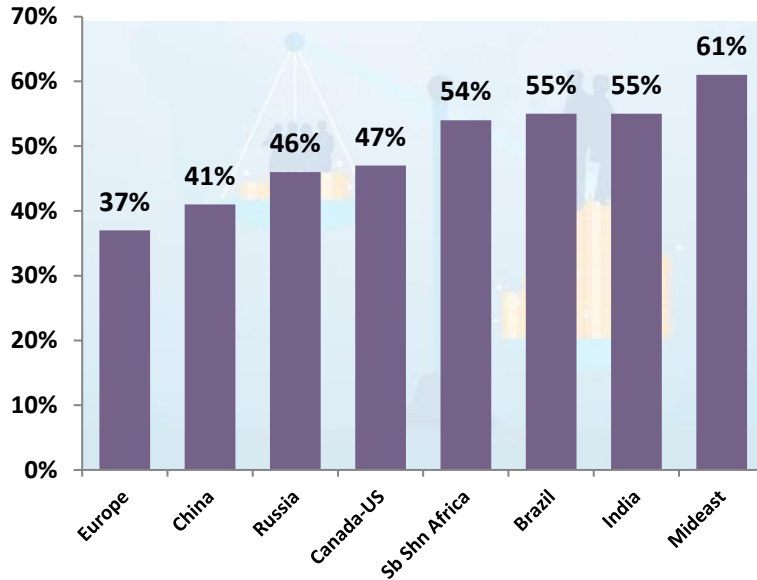
Migration



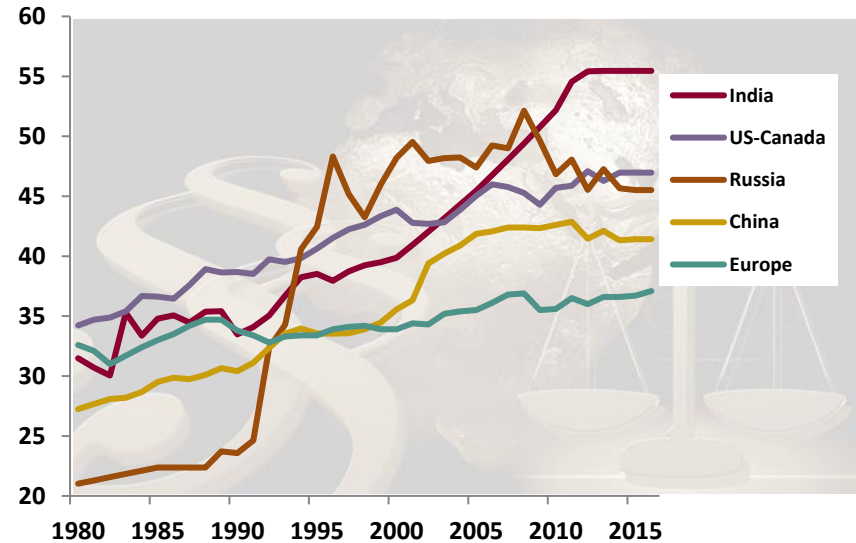
Nationalism/Populism

# Inequality Is a Global Issue

## Top Decile Share of National Income



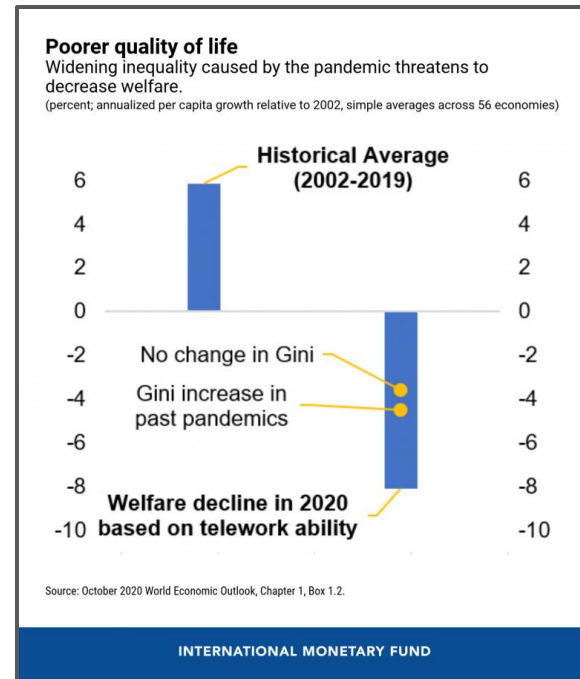
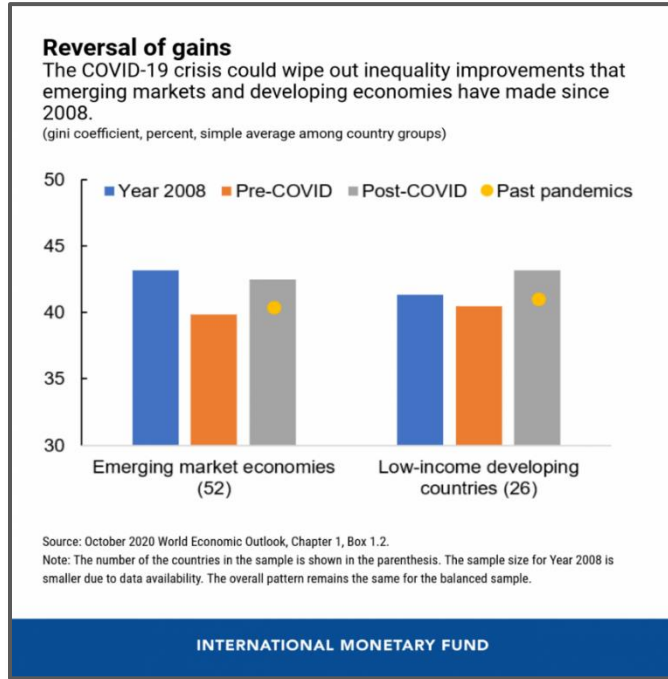
## Top Decile Share of National Income



Source: World Inequality Lab, World Inequality Report 2018, <https://wir2018.wid.world>



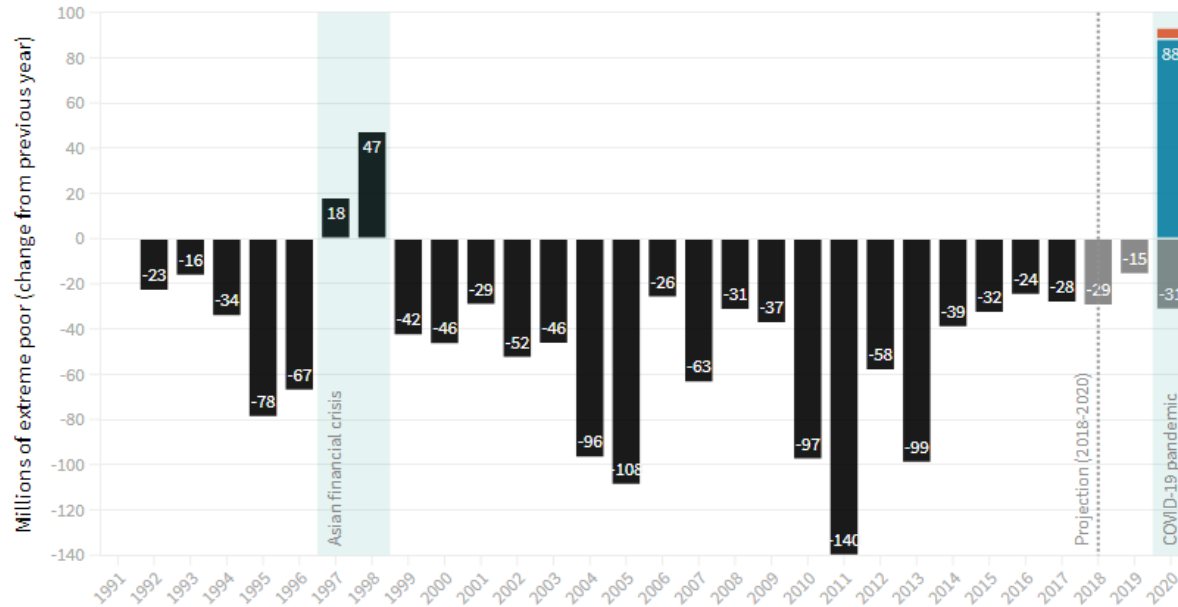
# Inequality Worsens During Pandemic



Sources IMF Blog: How COVID-19 Will Increase Inequality in Emerging Markets and Developing Economies November 2, 2020

# COVID-19 Pandemic Increases Extreme Poverty

Annual Change in Number of Extreme Poor (in Millions)—1992-2020



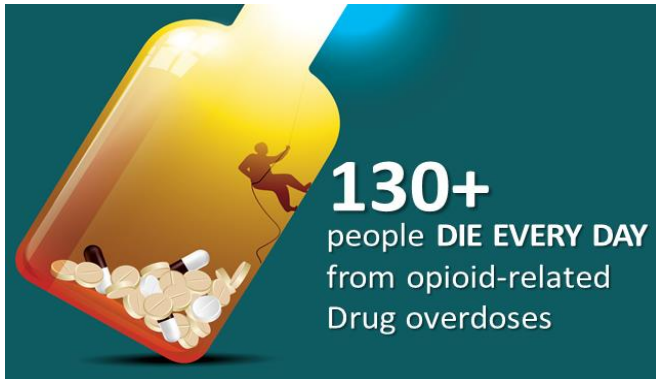
Source: Lakner et al. (2020) (updated), PovcalNet, Global Economic Prospects., wroldbank.org)

# U.S. Opioid Crisis Affects Workforce

**“Nearly half of prime age NLF\* men take pain medication on a daily basis”**

—Alan B. Krueger, Princeton U. and National Bureau of Economic Research, August 26, 2017

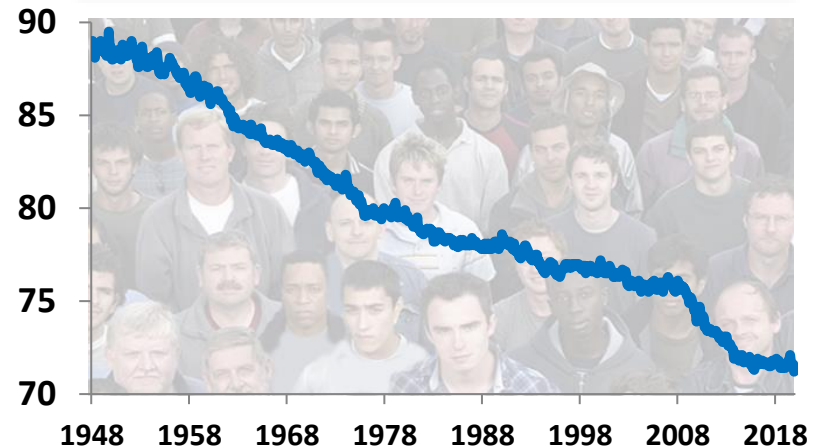
## Combating the Opioid Crisis



Source: National Institute on Drug Abuse, January 2019

\* **NLF—Not in Labor Force**

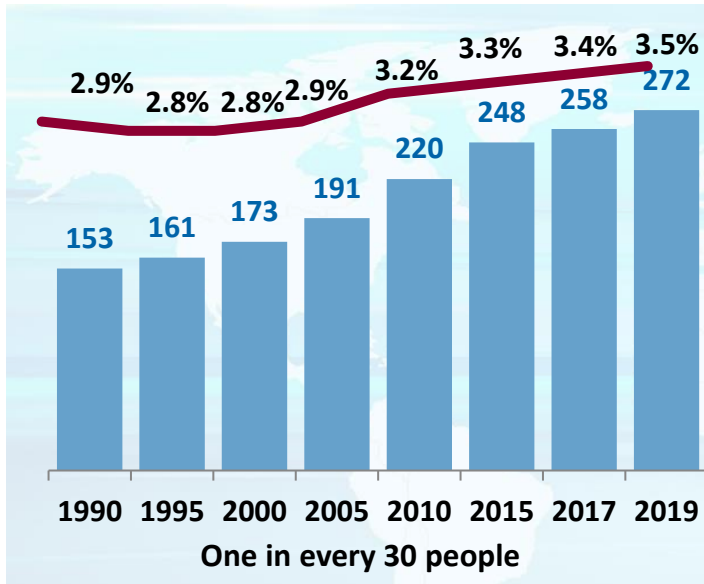
## Labor Participation Rate: Men 20+ Years



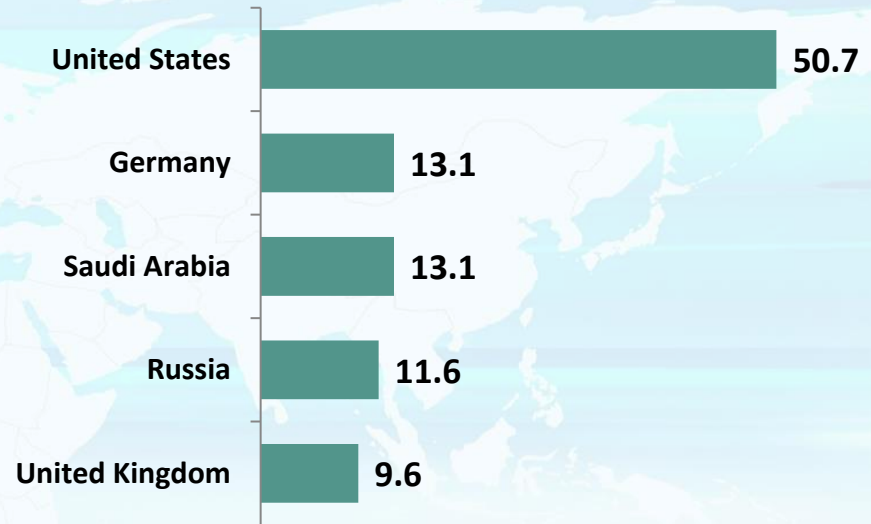
Source: U.S. Bureau of Labor Statistics, Civilian Labor Force Participation Rate: 20 years and over, retrieved from FRED, Federal Reserve Bank of St. Louis; data as of January 31, 2020

# Migration Was Increasing Prior to the Pandemic

## Millions of Migrants



## U.S. Is the Leading Destination



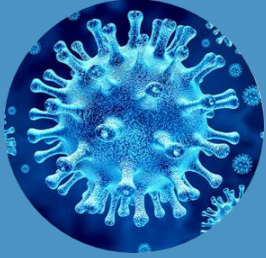
Source: United Nations, Department of Economic and Social Affairs, Population Division (2019). Trends in International Migration Stock



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# Five Near-Term Risks

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**Covid Vaccine  
Distribution**

**1**



**Federal Policy  
Changes**

**2**



**Inflation**

**3**



**Geopolitics**

**4**



**Market  
Disruptions**

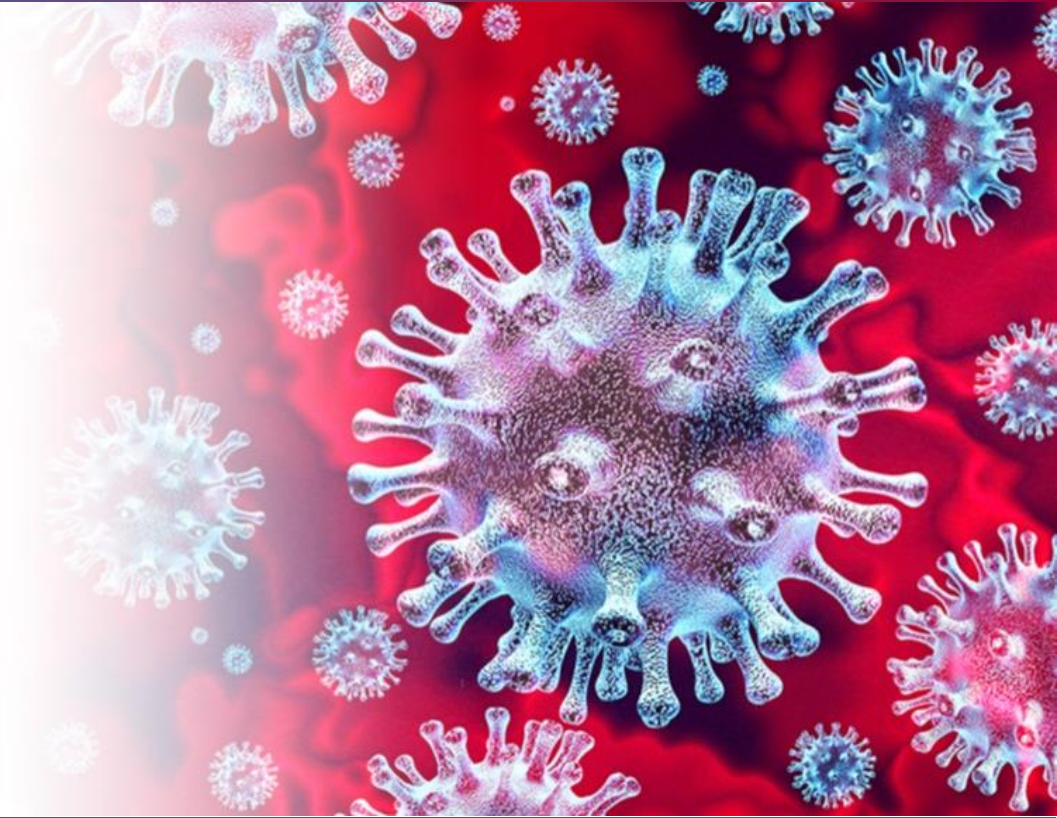
**5**



# Covid Vaccine Distribution

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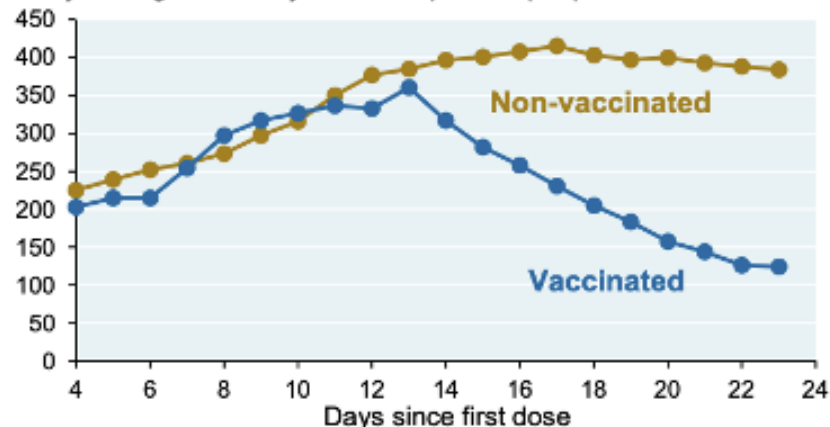
1



# Israeli Experience Justifies Optimism

## Infections among Israeli individuals over age 60

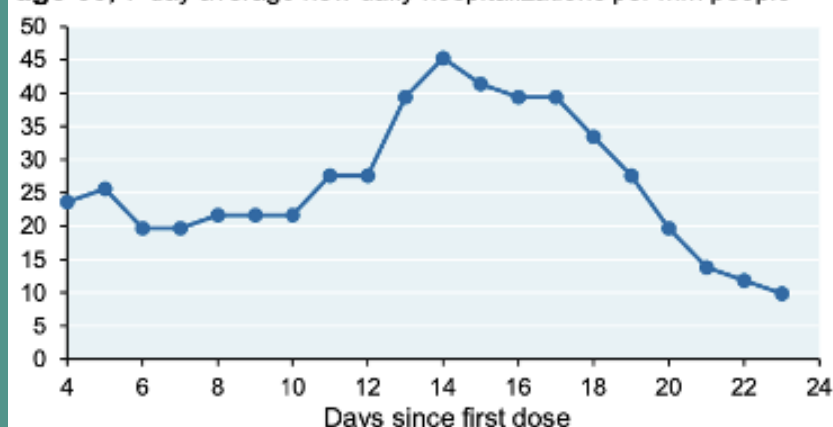
7-day average new daily infections per mm people



Source: KSM Maccabi Research and Innovation Center, JPMAM. January 2021. Includes 480,000 Maccabi healthcare members over the age of 60.

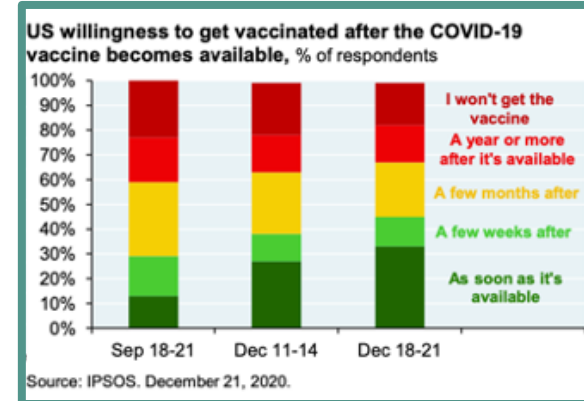
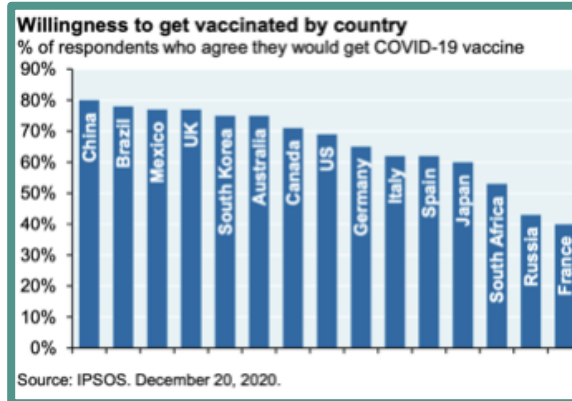
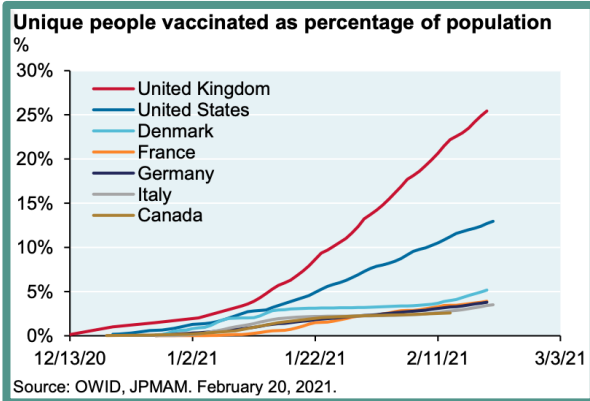
## Hospitalizations among vaccinated Israeli individuals over age 60, 7-day average new daily hospitalizations per mm people

7-day average new daily hospitalizations per mm people



Source: KSM Maccabi Research and Innovation Center, JPMAM. January 2021. Includes 480,000 Maccabi healthcare members over the age of 60.

# But Challenges Exist



# Federal Policy Changes

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2



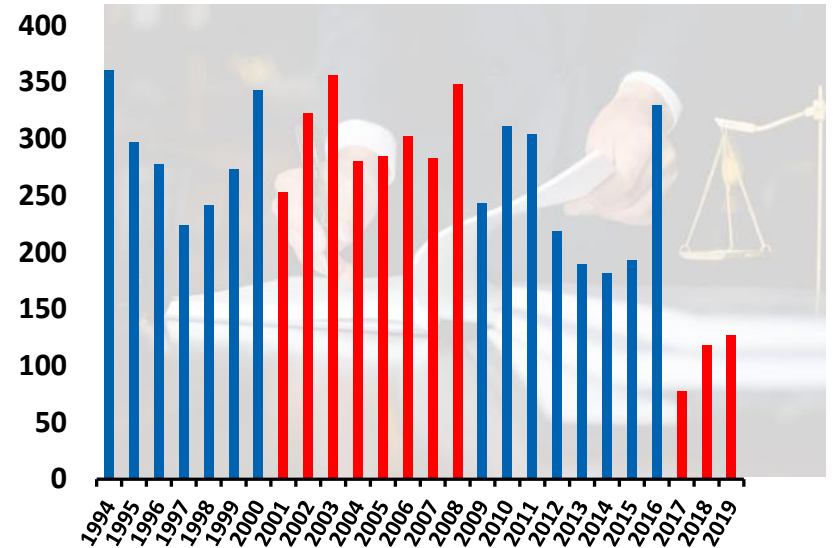
# High Debt and Dearth of Regulations

## Debt to GDP Ratio



Source: U.S. Office of Management and Budget and Federal Reserve Bank of St. Louis, Gross Federal Debt as Percent of Gross Domestic Product. Data as of January 31, 2021.

## Significant Final Rules by Presidential Year



Source: George Washington University Regulatory Study Center. Significant rules (which include economically significant rules) are those regulations that meet one or more of the following definitions in Executive Order 12866: "create a serious inconsistency or otherwise interfere with an action taken or planned by another agency; materially alter the budgetary impact of entitlements, grants, user fees, or loan programs or the rights and obligations of recipients thereof; or raise novel legal or policy issues arising out of legal mandates.



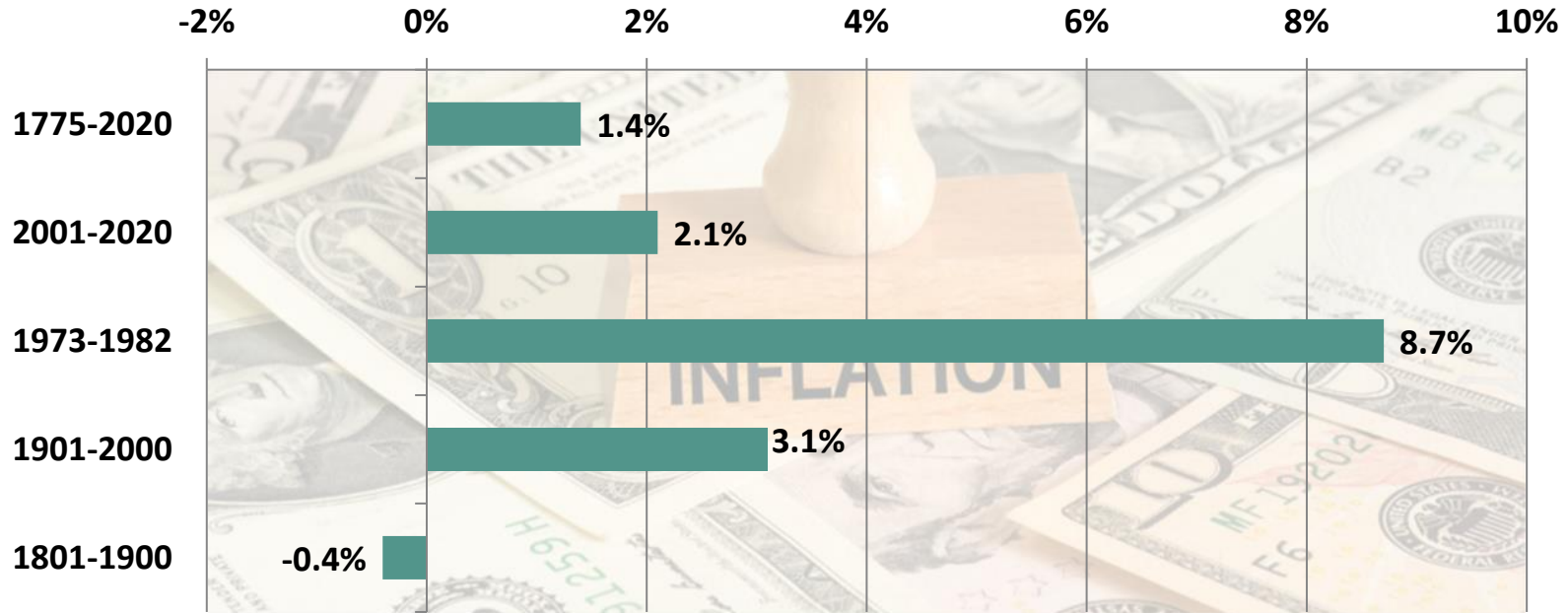
# Inflation

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3

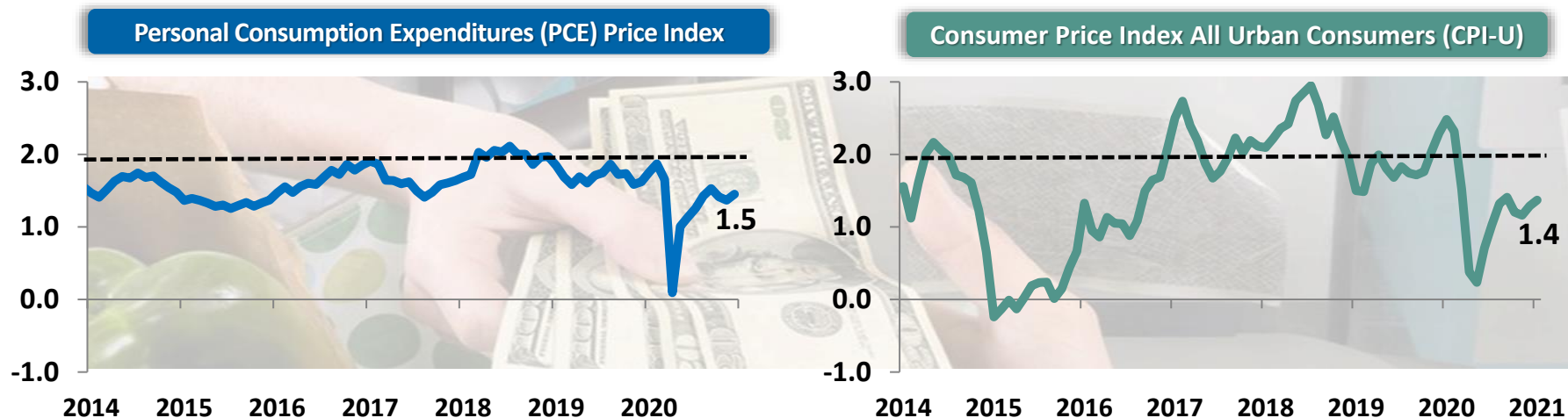


# Average Historical U.S. Inflation Is Low



Source: Robert C. Sahr, Political Science, Oregon State University, Bureau of Labor Statistics. Data as of December 31, 2020.

# Inflation Remains Subdued: < 2% Fed Target

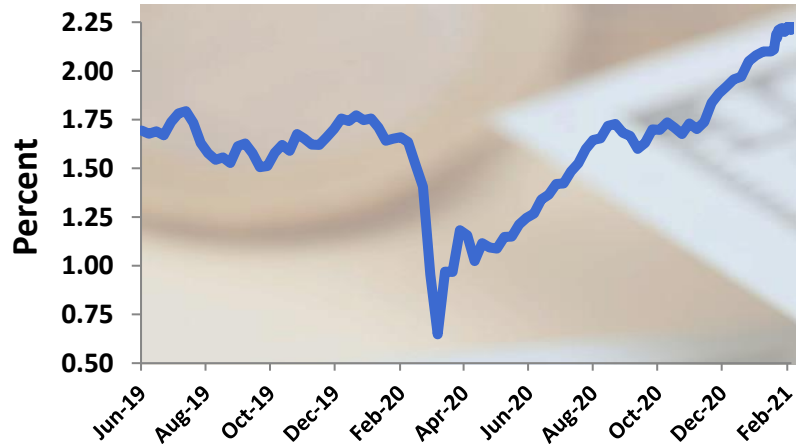


Market-Based Breakeven Inflation Rates			
5 Years	10 Years	20 Years	30 Years
2.38%	2.19%	2.18%	2.16%

Source: PCE and CPI-U: U.S. Bureau of Economic Analysis, retrieved from FRED, Federal Reserve Bank of St. Louis. Data as of December 31, 2020 (PCE seasonally adjusted) and January 31, 2021 (CPI-U seasonally adjusted). Breakeven Inflation Rate is Bloomberg. Data as of February 18, 2021.

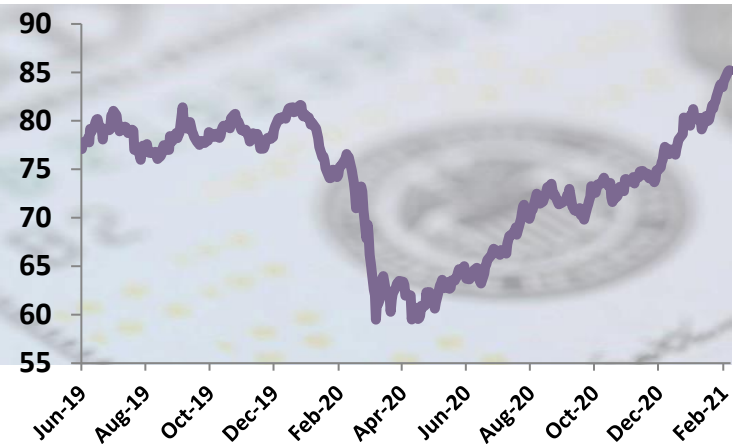
# Though Inflation Expectations Are Higher

### 10-Year Breakeven Inflation Rate



Source: Federal Reserve Bank of St. Louis, 10-Year Breakeven Inflation Rate, retrieved from FRED, Federal Reserve Bank of St. Louis. Data as of February 17, 2021.

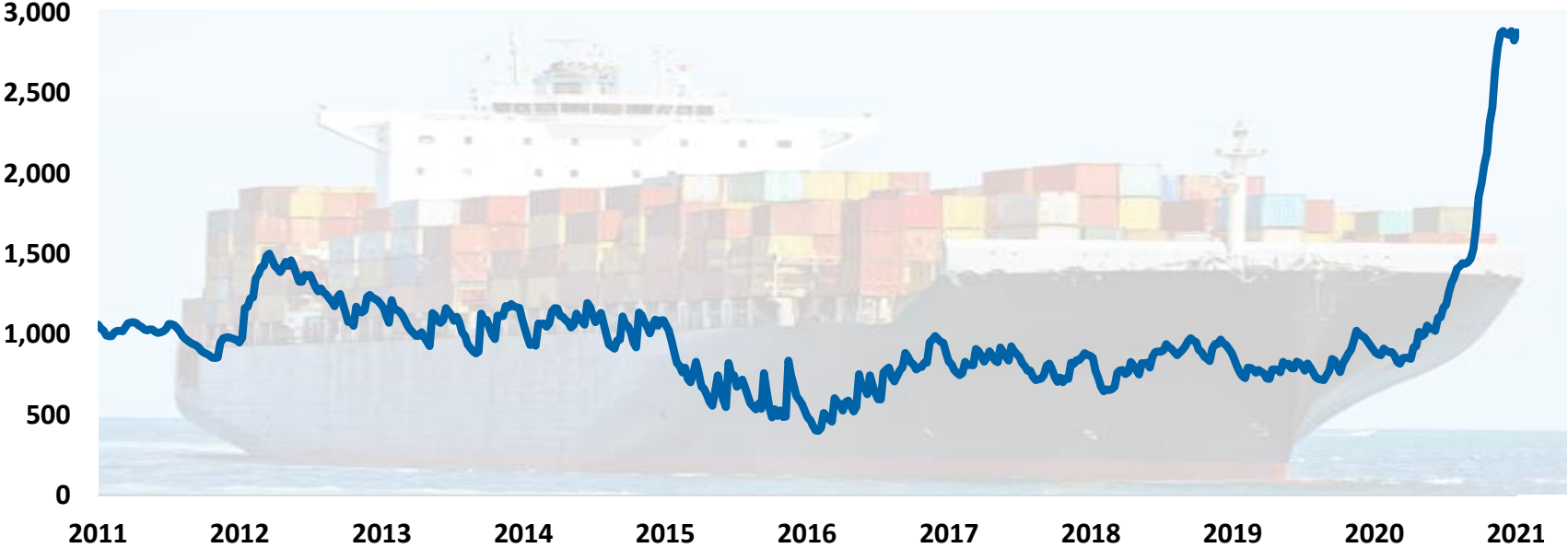
### Bloomberg Commodity Index



Source: Bloomberg, FactSet. Data as of February 17, 2021.

# Shipping Costs Skyrocketing

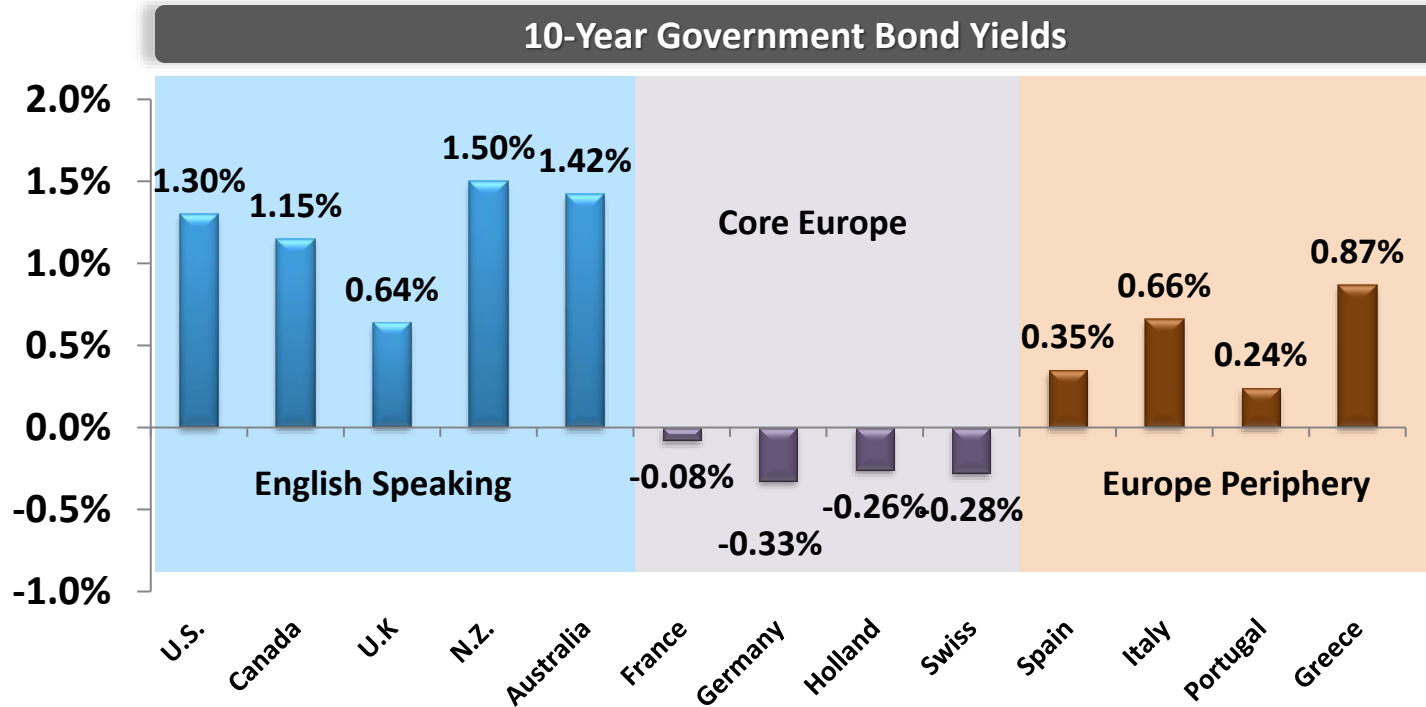
Shanghai Containerized Freight Index



Source: Shanghai Containerized Freight Index, FactSet. Data as of February 19, 2021.



# Interest Rates Remain Very Low, Though Rising



Source: countryeconomy.com. Data as of February 18, 2021.

# Geopolitics

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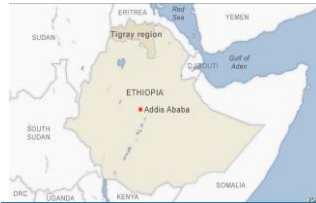
# World Events Could Adversely Affect Markets



# Ten Conflicts to Watch in 2021



Afghanistan



Tigray Region—Ethiopia



The Sahel—North Africa



Yemen



Venezuela



Somalia



Libya



Iran / U.S.



Russia / Turkey



Climate Change

Source: International Crisis Group, 10 Conflicts to Watch in 2021, December 30, 2020

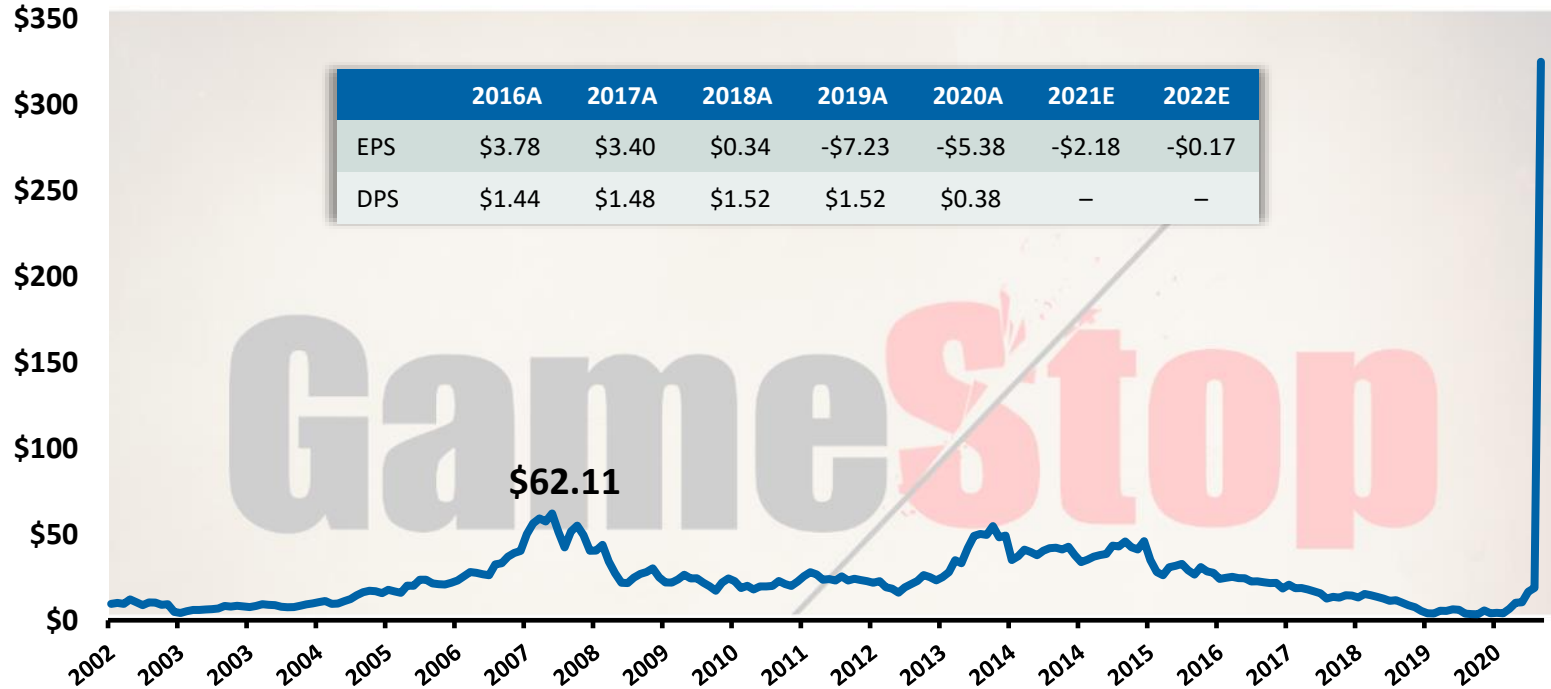
# Market Disruptions

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# Price Not Based on Reality



Source: FactSet. Data as of January 29, 2021



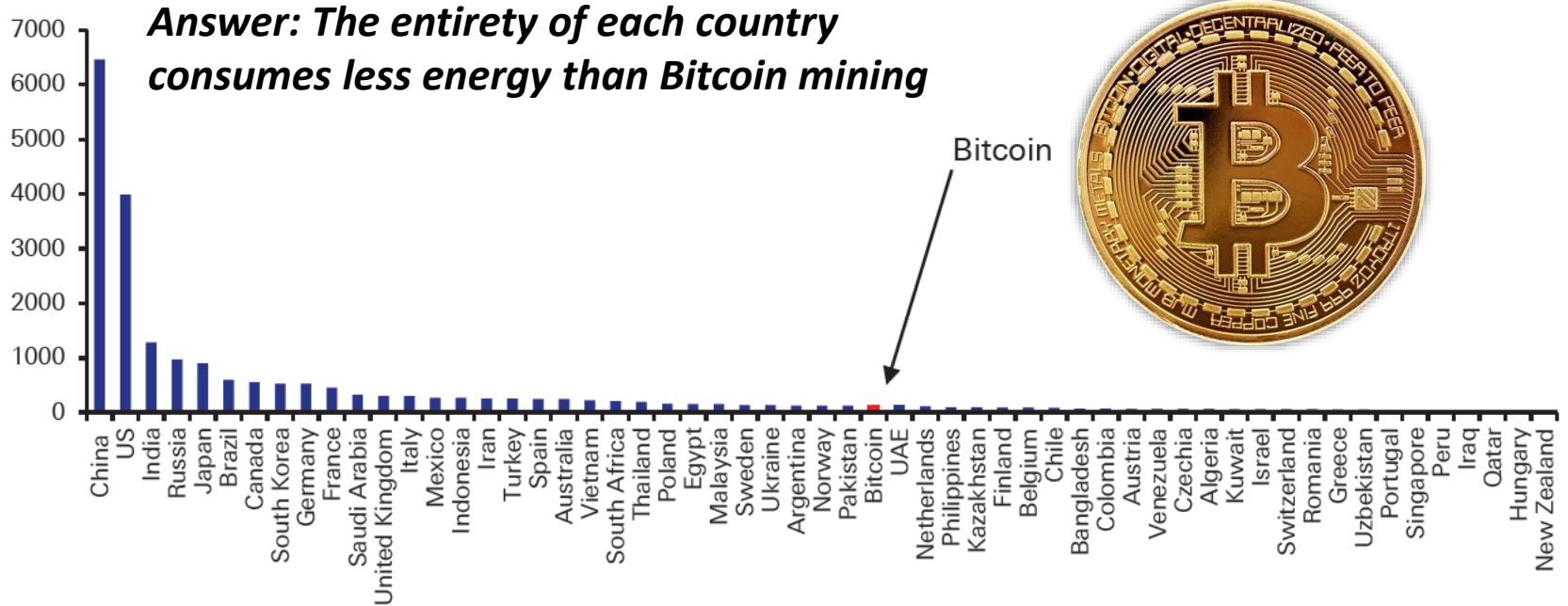
# What Do These Countries Have in Common?



UAE  
Netherlands  
Philippines  
Kazakhstan  
Finland  
Belgium  
Chile  
Bangladesh  
Colombia  
Austria  
Venezuela  
Czechia  
Algeria  
Kuwait  
Israel  
Switzerland  
Romania  
Greece  
Uzbekistan  
Portugal  
Singapore  
Peru  
Iraq  
Qatar  
Hungary  
New Zealand

**HINT:**  
It relates to  
**energy consumption**

# Seriously?



Source : University of Cambridge, Deutsche Bank



**Questions?**



**Wespath**

BENEFITS | INVESTMENTS