

The logo for CLEARBROOK, featuring the word "CLEARBROOK" in a bold, white, sans-serif font. The letters "C", "L", "E", "A", "R", "B", "R", "O", "O", and "K" are all the same height, while the "R"s are significantly taller, extending above the rest of the letters. The text is set against a solid black rectangular background.

CLEARBROOK

INVESTMENT PERFORMANCE REPORT

The West Warwick Pension Board,

On Behalf of the Town of West Warwick

August 2018

WEST WARWICK TOTAL PLAN

WEST WARWICK TOTAL PLAN

Market Performance

As of August 31, 2018

Domestic Equity

- The US expansion that has led to the rally in US equities continued in August. Strong corporate results from the second quarter earnings season were further supported by positive business and consumer sentiment. This drove the market higher despite Fed interest rate hikes, which is starting to cool the housing and auto sectors.
- The US is outpacing all other developed countries in terms of year-over-year revenue and earnings growth. On an YTD basis, the S&P 500 TR index is up 9.94%, led by Growth oriented sectors including Technology and Consumer Discretionary sectors. While positive, Value oriented sectors such as Financials and Energy have lagged the broader market. Weighting on the Financial sector has been flattening of the yield curve, with 2Yr vs 10Yr treasuries converging by 28.9bps since the beginning of the year.
- Large cap companies have lagged small caps this year due to tariff concerns and the rising US Dollar. As measured by the DXXY index, the US Dollar has risen 3.27% since the beginning of the year, making US goods and services more expensive for international buyers.
- Since the start of Q2 2018 earnings season, 80% of the S&P 500 companies have reported and the blended earnings growth rate has further increased 24.0% at the end of July to 25.0% at the end of August.
- At the end of August, the 12-month forward P/E ratio stood at 16.8x, down from 18.4x in December. The 5-year average P/E ratio is 16.3x and the 10-year average is 14.4x. (Source: Factset)

International Equity

- International equity markets are facing a number of idiosyncratic issues. These include the US's ongoing negotiations with Mexico and Canada in restructuring NAFTA, Italy's interest in fiscal expansion versus the Eurozone's interest in forcing fiscal constraint, Argentina's issues with runaway inflation, and tariffs levied on China and Turkey, to name a few. The ACWI-ex US index down -1.38% on a local currency basis in August and is now negative for the year (-0.36%). With the rising USD, US investors are now down -3.53% for the year.
- In Europe, muted earnings growth and heightened political risk and slowed economic growth. In Japan, the Bank of Japan has supported stock buying. In Emerging Markets, cheap valuations make certain countries appealing. However, negative fund flows, rising tariff risks, a tightening US monetary policy and rapidly declining currency valuations continue to be headwinds for those countries.

Fixed Income

- US Fixed income markets rallied last month with the Treasury yield curve declining across the board between 2yrs to 30yrs, driven by geopolitical tensions raising concerns for global growth. US Barclays Aggregate was up 0.64% for the month but remains in negative territory (-0.96%) for the year as overall interest rates have risen with the tightening of the Fed's monetary policy.
- Economic data released in August showed the unemployment rate fell to 3.9%, the US Core Consumer Price Index (CPI) tick up to 2.4%, and second-quarter GDP was revised upward from 4.1% to 4.2%. These figures support the market's expectation of another 25bp rate increase during the Fed's September meeting.
- For the month, securitized credit outperformed corporates, and ABS and CMBS outperformed Treasuries, whereas corporates lagged.
- Emerging Market Debt declined significantly as concerns over Argentina, Brazil and Turkey weighed on markets. The decline in the value of the currencies from these countries, have sparked increases in inflation, which has compelled their respective central banks to raise interest rates.

Economics

- The narrative for global economic growth has shifted, from seeing coordinated global growth, to one favoring developed versus emerging markets. The downgrade in emerging markets stems from the geo-political and currencies issues confronting Argentina and Turkey, as well as the decline in global liquidity prompted by the halt and reversal of central bank easing policies. China is attempting to jump start growth through bank stimulus, in an effort to offset the potential negative effects of a trade war with the US. Developed market growth is led by the US, which is estimated to grow above 3% in Q3, supported by increases in capital expenditures and consumer spending.
- In the US, the August retail sales report showed a strong monthly gain that easily topped high-end expectations. However, it is not the monthly gain that's key, but the year-on-year rate. At 6.4%, July matches May as the strongest showing since early 2012 and compares well with the very highest rates of the 2001-2007 expansion. The strength of the labor market is pushing growth. The month-to-month gain was 0.5%.
- In Europe, second quarter gross domestic product was up a quarterly 0.4% rate, up from the first estimate of 0.3%. Annual growth was nudged 0.1% higher to 2.2%, a 0.3% drop from its first quarter mark. The headline revision was essentially attributable to Germany where quarterly growth weighed in at an unexpectedly strong 0.5%. This outpaced the sluggish 0.2% rate posted by both France and Italy.

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WEST WARWICK TOTAL PLAN Performance

As of August 31, 2018

Ending August 31, 2018

Policy Index	Market Value (\$)	% of Portfolio	1 Mo (%)	3 Mo (%)	YTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	Inception (%)	Inception Date
WEST WARWICK TOTAL PLAN	36,153,568	100.0	1.2	2.6	2.9	2.9	7.7	7.8	6.5	Jan-11
MSCI ACWI			0.9	2.3	2.3	2.3	7.3	7.9	--	Jan-11
Russell 3000			0.8	3.3	3.4	3.4	11.4	11.8	--	
S&P 500			3.5	7.6	10.4	10.4	20.2	15.9	--	
Russell 1000 Value			3.3	7.8	9.9	9.9	19.7	--	14.3	Nov-15
Spliced Russell 1000 Growth Index			1.5	5.8	3.7	3.7	12.5	--	11.2	Oct-15
Russell Mid Cap Index			5.5	9.6	16.4	16.4	27.2	16.9	20.7	Oct-15
KBW NASDAQ BANK			3.1	6.4	8.2	8.2	17.9	--	14.0	Mar-17
KBW NASDAQ REGIONAL BANK INDEX			1.4	4.6	--	--	--	--	-1.8	Feb-18
RUSSELL 2000 INDEX			2.7	0.3	--	--	--	--	5.2	Apr-18
MSCI ACWI ex USA			4.3	6.9	--	--	--	--	13.3	Apr-18
Vanguard Developed Custom			-2.1	-1.6	-3.5	-3.5	3.2	8.1	--	
MSCI EAFE Growth			-1.6	-1.1	-2.5	-2.5	5.0	--	7.1	Oct-15
MSCI EAFE Small Cap			-0.3	0.6	0.8	0.8	8.1	--	7.9	Jun-17
MSCI World ex-US Diversified Multi-Factor Index			-0.8	-2.1	--	--	--	--	-1.7	Apr-18
MSCI JAPAN SMALL CAP			-2.0	-3.0	--	--	--	--	-4.5	Apr-18
MSCI EM			-0.6	-5.0	--	--	--	--	-5.0	Jun-18
BBgBarc US Universal TR			-2.0	--	--	--	--	--	-2.0	Aug-18
			0.5	0.6	-1.0	-1.0	-0.9	2.3	--	

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	Market Value (\$)	% of Portfolio	1 Mo (%)	3 Mo (%)	YTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	Inception (%)	Inception Date
Barclays U.S. Gov/Credit 5-10 Yr			0.9	0.8	-1.3	-1.3	-2.1	--	1.3	Oct-15
Barclays 1-3 Yr. Gov/Credit			0.4	0.4	0.5	0.5	0.2	--	0.5	Apr-17
BbgBarc US Universal			0.5	0.6	-1.0	-1.0	--	--	-0.5	Oct-17
HFRX Global Hedge Fund Index			0.5	0.1	-0.5	-0.5	1.5	1.7	2.0	Nov-15
HFRX Macro Index			2.4	1.4	-0.6	-0.6	1.0	-0.7	-0.4	Jan-16
HFRX Event Driven Index			0.0	-1.0	-5.0	-5.0	-4.4	2.6	4.5	Jan-16
HFRX Global Hedge Fund Index			0.5	0.1	-0.5	-0.5	1.5	1.7	3.2	Jan-17
Chit Smith Treasury Bill										

- Policy Index = OCIO Custom Index
- S&P 500 = S&P 500
- Russell 1000 Value = Russell 1000 Value
- Spliced Russell 1000 Growth Index = Russell 1000 Growth
- Russell Mid Cap Index = Russell MidCap
- KBW NASDAQ BANK = KBW NASDAQ BANK
- RUSSELL 2000 INDEX = Russell 2000
- Vanguard Developed Custom = Vanguard Developed Custom
- MSCI EAFE Growth = MSCI EAFE Growth
- MSCI EAFE Small Cap = MSCI EAFE Small Cap
- MSCI EM = MSCI Emerging Markets
- Barclays U.S. Gov/Credit 5-10 Yr = BbgBarc US Gov/Credit 5-10 Yr TR
- Barclays 1-3 Yr. Gov/Credit = BbgBarc US Gov/Credit 1-3 Yr. TR
- BbgBarc US Universal = BbgBarc US Universal TR
- HFRX Global Hedge Fund Index = HFRX Global Hedge Fund Index

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Policy Index: 33% Russell 3000/ 22% MSCI ACWI Ex USA/ 22.5% Barclays U.S. Universal/ 18.5% HFRX Global Hedge Fund Index/ 4% 91 Day T-Bills
Shares Russell 1000 Growth ETF= VIGAX until 12/29/2015, IWF going forward
Spliced Russell 1000 Growth Index= CRSP Large Growth Index until 12/31/2015, Russell 1000 Growth going forward

Footnotes:

- Doubleline Total Return Bond Fund-I was liquidated on August 28, 2018
- iShares Edge MSCI Multifactor EM ETF was liquidated on August 8, 2018
- Causway EM Fund was liquidated on August 1, 2018
- Rayden Emerging Markets Bond Fund was liquidated on June 15, 2018
- DFA Japanese Small Company was invested on June 15, 2018
- iShares MSCI Japan was liquidated on June 15, 2018
- iShares MSCI Eurozone was liquidated on May 31, 2018
- iShares European Financials ETF was liquidated on May 18, 2018
- iShares EDGE MSCI Multifactor International ETF was invested in April 18, 2018
- Causeway International Value was liquidated on April 18, 2018
- Powershares KBW Regional Bank ETF was invested in April 6, 2018
- Masatch Core Growth was invested in April 6, 2018
- AMG Silvercrest was liquidated on April 6, 2018
- Vanguard International Explorer Fund was invested in April 2, 2018
- PowerShares KBW Bank ETF was invested February 21, 2018.
- Rayden Emerging Markets Bond Fund was invested February 6, 2018.
- iShares Edge MSCI Multifactor Emerging Markets ETF was invested December 13, 2017
- iShares MSCI Eurozone ETF was invested December 26, 2017
- DFA Emerging Markets Core Equity Fund was liquidated December 12, 2017
- iShares MSCI Japan ETF was invested October 13, 2017
- Voya Securitized Credit was invested October 10, 2017

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Clearbrook Investment Consulting, LLC (Clearbrook) has exercised reasonable professional care in the preparation of this performance report. However, certain information in this report, such as market indices, security characteristics, etc. is received from sources external to Clearbrook. These sources, including pricing and rating services, issuer reports or communications, etc. are believed to be reliable. While efforts are made to ensure that this data is accurate, Clearbrook cannot accept responsibility for any errors that may occur. All rates of return for periods longer than one year have been annualized. All rates of return are gross of management fees and net of commissions unless otherwise noted. Past performance is not an indication of future results.

A copy of Clearbrook's Form ADV, Part 2A, is available, without charge, upon request. The Form ADV, Part 2A, is the SEC disclosure document Clearbrook is required to file as a registered investment advisor. If you would like to receive a copy, please send a written request to the address noted below.

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