CLEARBROOK

INVESTMENT PERFORMANCE REPORT

The West Warwick Pension Board,

On Behalf of the Town of West Warwick

September 2018

WEST WARWICK TOTAL PLAN

Market Performance

As of September 30, 2018

Domestic Equity

- US Equity markets continued to rally in September, boosted by strong economic data and consumer confidence levels not seen since the early 2000's, including greater than expected non-farm payroll figures indicating strong job growth and improving ISM non-manufacturing figures, indicating robust service sector growth.
- The Federal Reserve did not surprise anyone by raising rates again at the end of September, further indicating their confidence in the strength of the US economy.
- The end of September brought the creation of a new sector, the Communications sector, which is a combination of stocks from Technology, all of the Telecomm sector, and Consumer Discretionary. The new sector boasts names such as Facebook, Google, Comcast, and Disney.
- Much of the gains made in the domestic indexes for the month came from the large caps, particularly the DJIA (+1.97% in September). The Dow hit record highs during the month of September, matching similar records that were achieved by the S&P 500 and NASDAQ earlier in the year. Contrary to what has played out for most of the year, the NASDAQ and Small Caps were laggards for the month. Growth and Value continue to diverge in performance, although both were up for the month of September, Growth outperformed Value 0.56% to 0.20%.
- The S&P 500 finished September up 0.57% and YTD was up 10.51%, DJIA up 1.97% for the month and 8.83% YTD, the NASDAQ was down -0.70% for September and is up 17.48% for the year.
- The Russell 2000 was down -2.41% for the month and remains up 11.51% for the year, the Russell 1000 Growth was up 0.56% for the month and was up 17.09% YTD, while the Russell 1000 Value was up 0.20% for the month and is only up 3.92% for the year.

International Equity

- International markets followed the momentum of US markets by posting gains in September, though soft economic data, the potential negative effects of increased tariffs and a hard "Brexit" continued to weigh on investor minds.
- China's economic growth has been slowing, creating a drag on EM markets that posted another negative month (-0.53%, -1.09% for the QTR) despite attractive valuations and fundamentals. Japanese markets ended the quarter on a high note posting gains on 3.04% for September and 3.68% for the quarter. Much of the gains in Japan can be attributed to increased job growth and positive inflation numbers.
- While Japanese and US economic outlook remains positive, the Eurozone is facing further headwinds from the lowest levels of business and consumer confidence in over a year. Despite this, European indexes finished the month and quarter positive (+0.36% and +0.80%) getting a strong boost from the UK for the month but gaining in the rest of Europe for the quarter.

Fixed Income

- US Fixed income markets rallied last month with the Treasury yield curve declining for 2yr to 30yr durations. 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.
- The Federal Reserve voted to raise rates by another 0.25% to a new range of 2.00-2.25%. Market-implied probabilities indicate a 70% chance that the next rate increase will occur in December 2018.
- US Treasury yields rose up the curve as 10-year yield reached 3.06%, while the 5-year rate reached 2.98%, a post-crisis peak before settling at 2.95% for the close of the month. The 20 year closed at 3.13% and the 30 year rate ended the month at 3.19%.
- Investment-grade corporate issuance for September priced over $126 billion. Spreads performed well in spite of heavy supply as investment-grade corporate spreads tightened 8bps to close at 106bps--the tightest level since April 2018. High-yield spreads tightened 22bps to close at 316bps.

Economics

- The synchronized growth from last year provided a basis of hope in 2018 for a rebound in productivity due to an increase in capital expenditures (cap-ex). After seeing a solid rise in capex in 2017 of 7.4% according to JPMorgan, the hope for this year was a continuation of that trend. Unfortunately, capex has grown by 5.0% during the first half of 2018, and is predicted to slide to 4% in Q3. Most of the deceleration is coming from EM, But with recent positive data coming out of countries such as the US and Japan, we are looking for a rebound heading into the end of the year.
- In the US, four key readings in the jobless claims hit historic lows. Initial claims fell 3,000 in the September 15 week to 201,000 with the four-week average down 2,250 to 205,750. Both readings are at new 50-year lows. Continuing claims in lagging data for the September 8 week fell a very sharp 55,000 to 1.645 million with this four-week average down 20,000 to 1.692 million. Both readings are at new 46-year lows.
- In Europe, real GDP growth was revised to 2.0% in 2018 and 1.8% in 2019, both rates down 0.1% from their June projections, and unchanged at 1.7% in 2020. At the same time, inflation is seen at 1.7% over the entire forecast horizon, matching last time's prediction. Economic risks are still thought to be broadly balanced, but ECB President Draghi did acknowledge increasing downside global risks due to heightened volatility in emerging markets and, in particular, the rise in protectionism.
- In Asia, several Chinese economic reports released in September, portend a potential slowdown. Industrial output and retail sales for August were higher than expected but real estate investment slowed and growth in fixed asset investment dropped to a historic low, raising risks to China's economic outlook as the trade conflict with the U.S. escalates.

WEST WARWICK TOTAL PLAN

WEST WARWICK TOTAL PLAN Performance

As of September 30, 2018

	Market Value ($)	% of Portfolio	Ending September 30, 2018 1 Mo (%)	3 Mo (%)	YTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	Inception (%)	Inception Date
WEST WARWICK TOTAL PLAN	**35,354,943**	**100.0**	**-0.3**	**2.7**	**2.6**	**2.6**	**6.4**	**8.4**	**6.4**	**Jan-11**
Policy Index			*-0.1*	*2.5*	*2.3*	*2.3*	*5.9*	*8.6*	*--*	*Jan-11*
MSCI ACWI			*0.4*	*4.3*	*3.8*	*3.8*	*9.8*	*13.4*	*--*	
Russell 3000			*0.2*	*7.1*	*10.6*	*10.6*	*17.6*	*17.1*	*--*	
S&P 500			*0.6*	*7.7*	*10.6*	*10.6*	*17.9*	*--*	*14.0*	*Nov-15*
Russell 1000 Value			*0.2*	*5.7*	*3.9*	*3.9*	*9.5*	*10.9*	*10.9*	*Oct-15*
Spliced Russell 1000 Growth Index			*0.6*	*9.2*	*17.1*	*17.1*	*26.3*	*20.3*	*20.3*	*Oct-15*
Russell Mid Cap Index			*-0.6*	*5.0*	*7.5*	*7.5*	*14.0*	*--*	*12.8*	*Mar-17*
KBW NASDAQ BANK			*-4.6*	*1.6*	*--*	*--*	*--*	*--*	*-6.3*	*Feb-18*
KBW NASDAQ REGIONAL BANK INDEX			*-5.3*	*-2.2*	*--*	*--*	*--*	*--*	*-0.4*	*Apr-18*
RUSSELL 2000 INDEX			*-2.4*	*3.6*	*--*	*--*	*--*	*--*	*10.6*	*Apr-18*
MSCI ACWI ex USA			*0.5*	*0.7*	*-3.1*	*-3.1*	*1.8*	*10.0*	*--*	
Vanguard Developed Custom			*0.7*	*1.1*	*-1.8*	*-1.8*	*3.0*	*7.1*	*7.1*	*Oct-15*
MSCI EAFE Growth			*-0.2*	*1.5*	*0.6*	*0.6*	*5.8*	*--*	*7.2*	*Jun-17*
MSCI EAFE Small Cap			*-0.7*	*-0.9*	*--*	*--*	*--*	*--*	*-2.4*	*Apr-18*
MSCI World ex-US Diversified Multi-Factor Index			*1.3*	*1.5*	*--*	*--*	*--*	*--*	*-3.3*	*Apr-18*
MSCI JAPAN SMALL CAP			*1.4*	*-0.1*	*--*	*--*	*--*	*--*	*-3.7*	*Jun-18*
MSCI EM			*-0.5*	*--*	*--*	*--*	*--*	*--*	*-2.5*	*Aug-18*
BBgBarc US Universal TR			*-0.4*	*0.3*	*-1.4*	*-1.4*	*-1.0*	*2.0*	*--*	

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Barclays U.S. Gov/Credit 5-10 Yr			-0.8	0.1	-2.1	-2.1	-2.1	1.0	1.0	Oct-15
Barclays 1-3 Yr. Gov/Credit			-0.1	0.3	0.4	0.4	0.2	--	0.4	Apr-17
BbgBarc US Universal			-0.4	0.3	-1.4	-1.4	-0.9	--	-0.9	Oct-17
91 Day T-Bills			0.2	0.5	1.3	1.3	1.6	0.9	0.2	Sep-18
HFRX Global Hedge Fund Index			-0.7	-0.4	-1.2	-1.2	0.2	2.2	1.7	Nov-15
HFRX Macro Index			-0.6	0.6	-1.2	-1.2	1.4	-0.7	-0.6	Jan-16
HFRX Event Driven Index			-0.5	-1.1	-5.5	-5.5	-5.6	3.6	4.1	Jan-16
HFRX Global Hedge Fund Index			-0.7	-0.4	-1.2	-1.2	0.2	2.2	2.7	Jan-17
FTSE T-Bill 3 Months TR										

WEST WARWICK TOTAL PLAN

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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:

-ClearShares Ultra Short Maturity was invested on September 18, 2018

-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

-Payden 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 Aril 18, 2018

-Causeway International Value was liquidated on April 18, 2018

-Powershares KBW Regional Bank ETF was invested in April 6, 2018

-Wasatch 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.

-Payden 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

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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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