CLEARBROOK

INVESTMENT PERFORMANCE REPORT

The West Warwick Pension Board,

On Behalf of the Town of West Warwick

July 2018

WEST WARWICK TOTAL PLAN

Market Performance

As of July 31, 2018

Domestic Equity

- July's US equity indices were driven higher by strong economic data and corporate fundamentals, overcoming concerns related to the potential expansion of global tariffs. Second-quarter US GDP growth came in at a solid 4.1%. In addition, unemployment declined to 4.0%. At present, 400 companies out of the S&P 500 have reported and 85% of those companies have beaten analyst earnings expectations. This strong earnings momentum, combined with positive macroeconomic tailwinds, and the corporate tax cut has helped drive the S&P 500 TR index up 3.72% in July, bringing its YTD return to 6.47%.
- Large cap companies outperformed small cap during the month with the Russell 1000 returning 3.45%, while the Russell 2000 returned 1.74%. However, on a year-to-date basis, tariff concerns have weighed heavily on larger cap companies that have export risk. Similarly, while Value outperformed Growth during the month, driven by Financials and Industrials, Growth has outpaced Value since the beginning of the year. Companies such as Apple and Amazon have driven the majority of the growth and price appreciation in the market.
- For Q2 2018, the blended earnings growth rate for the S&P 500 is estimated to be 24.0%, which would be the second highest earnings growth since Q3 2010 (34.1%).
- At the end of July, the 12-month forward P/E ratio stood at 16.5x, down from 18.4x in December. The 5-year average P/E ratio is 16.2x and the 10-year average is 14.4x. (Source: Factset)

International Equity

- International equity markets rallied in July with the ACWI-ex US index up 2.31% on a local currency basis. For the year, that index is up 1.04%. However, for USD investors, YTD returns are -1.46% as the US Dollar has rallied as interest rates have risen in the US.
- International markets have been challenged by muted earnings growth, weak economic momentum and heightened political risks, such as Brexit. Further, international market performance has lagged, as growth sectors in the US, such as technology and healthcare, have been big drivers of the US economy and US equity markets.
- Emerging Markets rebounded last month as valuation became cheap relative to developed markets and as tariff concerns abated, which have since resurfaced. The MSCI EM Local currency index rallied 1.18% last month but remains down -4.13% for the year. Support for a long-term EM recovery include broad economic reforms and improving corporate fundamentals. However, near term headwinds include the strength of the US dollar, negative fund flows, and global trade tensions.

Fixed Income

- Fixed income markets were relatively flat in July with the Barclays US Aggregate up 2bps. However, its YTD return is -1.59% as the yield curve has risen commiserate with the Federal Reserve's increase of the Fed Funds rate.
- The market is expecting the Fed to further increase the Fed Funds rate by 25-50 bps year-end, with a 90% implied probability that the next 25bps rate hike will happen in September. Further, the implied probabilities of a 50bps hike by the end of the year is 70%. Strong US economic growth and the Fed's interest in mitigating inflation has led to their continued monetary action.
- Since the beginning of the year, investment grade corporates have seen spreads widen out as issuance has been strong and as short-term treasury rates have risen, thereby competing for capital. Interestingly, High Yield spreads have tightened over the same period, as default rates continue to be exceptionally low.
- Securitized credit outperformed Treasuries but lagged against corporates as a heavy supply entered the market weighing on spreads.

Economics

- Global economic growth during the first half of the year came with few surprises, but the outlook for the second half is muddled. On balance, global GDP came in at a strong 3.4% annualized gain for the first half of 2018, but the divergence particularly between developed economies was more than expected. The US posted a strong 4.1% GDP growth rate for Q2, which brings the year to date gain about 1% higher than projected in December. The Euro-zone disappointed calls for above trend line growth, but still grew a solid 1.75%. The outlook for the rest of 2018 is still robust global growth, but risk is prevalent due to the potential for a US driven trade war, though this risk should abate.
- In the US, strength in the economy is nowhere more apparent than in the labor market. Initial jobless claims fell 8,000 in the July 14 week to a 207,000 level that is the lowest since December 1969. Continuing claims, where data lag by a week, edged 8,000 higher to 1.751 million, which is just off a low last seen in 1972.
- In Europe, the ECB kept interest rates on hold last week and confirmed plans to halt bond purchases in December. The bank's governing council left main interest rates unchanged. Monthly net asset purchases are scheduled to continue at €30 billion through September before being halved to €15 billion and ending by December. The banker also expected to keep rates on hold at record low levels "at least through the summer of 2019".
- In Asia, Chinese economic data showed economic growth slowed in the second quarter, as the government's efforts to rein in debt-dampened activity, while production slowed adding fuel to concerns over an escalating trade war with the United States. Gross domestic product expanded 6.7% on the year in the three months to June as expected after growing 6.8% in the first quarter.

WEST WARWICK TOTAL PLAN

WEST WARWICK TOTAL PLAN Performance

As of July 31, 2018

	Market Value ($)	% of Portfolio	Ending July 31, 2018 1 Mo (%)	3 Mo (%)	YTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	Inception (%)	Inception Date
WEST WARWICK TOTAL PLAN	**35,699,659**	**100.0**	**1.8**	**1.9**	**1.7**	**1.7**	**7.2**	**5.9**	**6.4**	**Jan-11**
Policy Index			*1.6*	*2.0*	*1.4*	*1.4*	*6.8*	*6.1*	*--*	*Jan-11*
MSCI ACWI			*3.0*	*2.6*	*2.6*	*2.6*	*11.0*	*8.9*	*--*	
Russell 3000			*3.3*	*6.9*	*6.6*	*6.6*	*16.4*	*12.2*	*--*	
S&P 500			*3.7*	*6.9*	*6.5*	*6.5*	*16.2*	*--*	*13.4*	*Nov-15*
Russell 1000 Value			*4.0*	*4.8*	*2.2*	*2.2*	*9.5*	*--*	*11.0*	*Oct-15*
Spliced Russell 1000 Growth Index			*2.9*	*8.5*	*10.4*	*10.4*	*22.8*	*14.3*	*19.1*	*Oct-15*
Russell Mid Cap Index			*2.5*	*5.5*	*4.9*	*4.9*	*13.5*	*--*	*12.4*	*Mar-17*
KBW NASDAQ BANK			*5.0*	*2.4*	*--*	*--*	*--*	*--*	*-3.1*	*Feb-18*
KBW NASDAQ REGIONAL BANK INDEX			*0.5*	*1.2*	*--*	*--*	*--*	*--*	*2.4*	*Apr-18*
RUSSELL 2000 INDEX			*1.7*	*8.7*	*--*	*--*	*--*	*--*	*8.7*	*Apr-18*
MSCI ACWI ex USA			*2.4*	*-1.9*	*-1.5*	*-1.5*	*5.9*	*6.0*	*--*	
Vanguard Developed Custom			*2.0*	*-1.3*	*-0.9*	*-0.9*	*6.7*	*--*	*7.9*	*Oct-15*
MSCI EAFE Growth			*2.1*	*0.7*	*1.1*	*1.1*	*9.0*	*--*	*8.8*	*Jun-17*
MSCI Emerging Markets			*2.2*	*-5.5*	*-4.6*	*-4.6*	*4.4*	*--*	*11.5*	*Nov-15*
MSCI EM Diversified Multi-Factor Index			*-0.3*	*-6.9*	*-6.4*	*-6.4*	*--*	*--*	*-2.6*	*Dec-17*
MSCI EAFE Small Cap			*0.7*	*-2.3*	*--*	*--*	*--*	*--*	*-0.9*	*Apr-18*
MSCI World ex-US Diversified Multi-Factor Index			*2.2*	*-1.9*	*--*	*--*	*--*	*--*	*-2.5*	*Apr-18*
MSCI JAPAN SMALL CAP			*-0.9*	*--*	*--*	*--*	*--*	*--*	*-4.4*	*Jun-18*

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	Market Value ($)	% of Portfolio	Ending July 31, 2018 1 Mo (%)	3 Mo (%)	YTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	Inception (%)	Inception Date
BBgBarc US Universal TR			0.2	0.6	-1.5	-1.5	-0.6	2.0	--	
Barclays U.S. Gov/Credit 5-10 Yr			0.0	0.7	-2.1	-2.1	-1.9	--	1.0	Oct-15
Barclays 1-3 Yr. Gov/Credit			0.1	0.4	0.1	0.1	0.0	--	0.3	Apr-17
Barclays Aggregate			0.0	0.6	-1.6	-1.6	-0.8	--	1.2	Oct-15
BbgBarc US Universal			0.2	0.6	-1.5	-1.5	--	--	-1.0	Oct-17
HFRX Global Hedge Fund Index			-0.1	-0.1	-1.0	-1.0	1.4	0.8	1.9	Nov-15
HFRX Macro Index			-1.1	-1.3	-2.9	-2.9	-0.6	-2.1	-1.3	Jan-16
HFRX Event Driven Index			-0.5	-0.6	-5.0	-5.0	-4.3	1.6	4.6	Jan-16
HFRX Global Hedge Fund Index			-0.1	-0.1	-1.0	-1.0	1.4	0.8	3.1	Jan-17
Citi 3mth Treasury Bill										

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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:

-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

-Voya Securitized Credit was invested October 10, 2017

-Baird Short Term Bond was liquidated August 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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