IBEW Local #25 Retirement Funds

NATIONAL ELECTRICAL CONTRACTORS ASSOCIATION

IBEW Local 25 Funds Update

U.S. stocks ended 2016 on a strong note amid firm employment statistics, favorable corporate earnings forecasts and an optimistic near-term view of fiscal stimulus, tax reform and infrastructure spending promised by a new Presidential administration. The same could not be said about the bond market. Yields on Ten-year U.S. Treasury bonds, which move inversely to bond prices, increased from near-record lows of approximately 1.3% in July 2016 to 2.45% in anticipation of a Federal Reserve decision to increase interest rates. This contributed to losses for most bond indexes in the fourth quarter.

In this environment, based on preliminary information, the IBEW 25 Pension, Annuity and 401(k) Funds returned 7.4%, 5.8% and 6.0% for the year. Preliminary annualized returns for five, three and one year periods through December 2016 are summarized below.* Please keep in mind that these returns do not take into account the Funds' administrative/operating costs.

IBEW Local 25 Funds Returns through December 31, 2016*

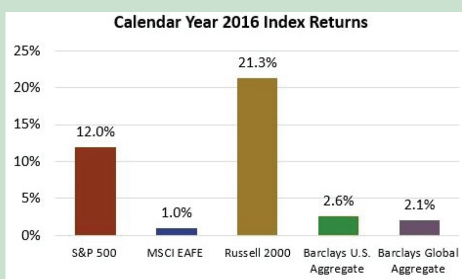
Fund	5 Yrs.	3 Yrs.	YTD
Pension	8.9%	5.0%	7.4%
Index	*8.0%*	*5.2%*	*7.6%*
Annuity	6.0%	3.7%	5.8%
Index	*5.5%*	*3.8%*	*5.6%*
401(k)	6.2%	3.6%	6.0%
Index	*5.6%*	*3.8%*	*5.7%*

**Returns are preliminary. Returns for periods prior to September 2014 include certain fees.*

4th Quarter 2016 Market Review

December year-to-date returns for equity indexes ranged from 1.0% for the EAFE Index of non-U.S. developed markets stocks, to 12.0% for the S&P 500 Index of U.S. large company stocks and 21.3% for the Russell 2000 Index of small U.S. company stocks. Factoring in fourth quarter losses, bond index returns ranged from 2.1% for the Barclays Global Aggregate Bond Index to 2.6% for the Barclays U.S. Aggregate Bond Index and 9.9% for the Emerging Markets Bond Index. Among alternative investments, U.S. real estate gained 7.8%, while Commodities, as measured by the Bloomberg index, gained 11.3%. Hedge funds posted a modest return of 0.7% for the full year.

Figure 2: 2016 Index Returns



Bond Market Volatility

Investment professionals, investors and economists view bonds as a lower risk asset class, especially compared to equities. This is for good reason. In times of economic distress, bonds serve to mitigate risk because of their lower correlations to equities. During 2008 for example, which encompassed much of the financial system crisis, U.S. large cap stocks lost 37%, while the bond index gained 5.2%. There are, however, conditions that lead bonds to incur losses. In the fourth quarter of 2016, for example, the Barclays Capital U.S. Aggregate Bond Index lost 3%, while large company U.S. stocks gained 3.8%. Although the Bond Index ended 2016 with a positive return, the fourth quarter saw bond yields rise and prices drop amid Federal Reserve communications about a planned interest rate hike in December. Expectations of fiscal stimulus and general sentiment that interest rates were due to rise from their historically low levels were also factors.

Managing Interest Rate Risk

"Interest rate risk" is the risk that investors will lose money on their bond investments when interest rates rise. While investors do not possess the ability to predict the timing and severity of future interest rate increases, they can build a bond portfolio that mitigates interest rate risk through diversification.

To that end, the IBEW Local 25 Retirement Funds' bond portfolios include investments in bond sectors and strategies that are less sensitive to rising interest rates than most bond sectors. These strategies include lower risk stable value investments utilized by the Annuity and 401(K) Funds and multi-sector strategies that take more credit risk and currency risk, but are generally less sensitive to moves in interest rates. Of course, as is the case with any investment, there are tradeoffs in the types of risks bond portfolios take. In addition, exposures to interest rate risk can add to return when and if bond yields decline.

The Trustees of the IBEW Local 25 Retirement Funds will continue to positon the Funds for risk adjusted returns through changing markets with assistance of their investment consultant and advisors.

I.B.E.W. LOCAL No. 25
RETIREMENT FUNDS
372 Vanderbilt Motor Parkway
Hauppauge, NY 11788-5133

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