

# JUNE 2017 IN REVIEW

July Update | As of June 30, 2017

## ECONOMY: DATA CONFIRMS Q2 GROWTH REBOUND STILL ON TRACK

### Economic Data

Economic reports released in June 2017, which mostly reflect economic activity in May, continued to indicate that economic growth picked up during the second quarter of the year. The consensus estimate from economists surveyed by Bloomberg is calling for a gross domestic product (GDP) rate of 3% during the second quarter, on an annualized basis, slightly above the average of the New York Federal Reserve (Fed) and Atlanta Fed NowCast models, which forecast quarterly GDP based on currently available data.

However, data mostly fell short of expectations during the month, a trend that began in March. The Citigroup Economic Surprise Index (CESI), an aggregate measure of economic surprises, fell to its lowest level since 2011. Some of the disappointments relative to expectations included: employment (monthly payrolls), durable

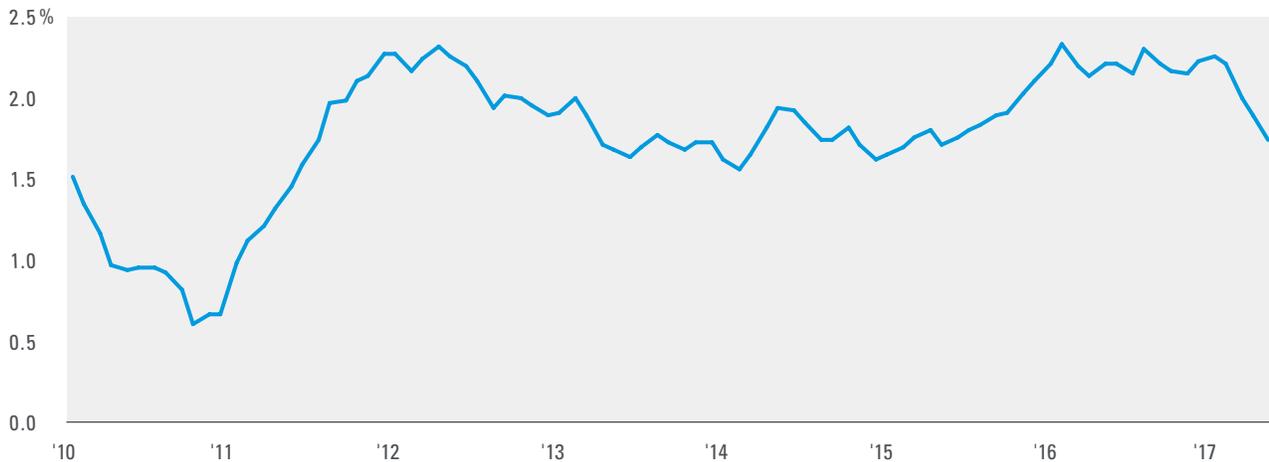
goods orders (a proxy for capital investment), and retail sales (autos in particular). But, at the same time, first quarter GDP was revised higher (to 1.4% annualized, up from 1.2%), consumer confidence is positive, and the consensus forecast for second quarter GDP is still a solid 3%.

Given that roughly two-thirds of economic data points released in June missed consensus forecasts, expectations clearly got a bit too high; however, the growth trajectory is still increasing. The Conference Board Leading Economic Index (LEI) is up year over year, suggesting low odds of a recession over the next year. And despite the political wrangling in Washington, D.C., corporate tax cuts, and potentially other pro-growth initiatives such as infrastructure spending, are still possible. Bottom line, interpreting frequent data shortfalls relative to expectations is a sign that impending economic deterioration may be premature.

On the job front, although the May payroll employment report (released in early June) fell short

### CORE CPI IS BACK BELOW 2%

● CPI Ex-Food and Energy, Year over Year



Source: LPL Research, Bureau of Labor Statistics 06/30/17

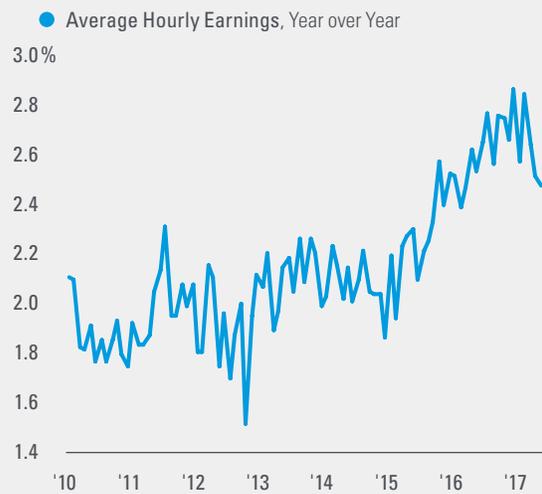
of consensus forecasts, job growth has been steady. The unemployment rate fell 0.1% in June and remains historically low at 4.3%. Monthly job growth averaged 162,000 during the first five months of 2017 despite May's 138,000 reading. The employment component of the Institute for Supply Management's (ISM) Manufacturing Index survey rose 1.5 points and remains well in expansion territory (above 50 at 53.5).

Wage growth, measured by the annual change in average hourly earnings, inched fractionally lower from April to May, but the indicator remains near post-financial crisis highs at 2.5%. It is also important to note that the latest downtick in inflation, based on the consumer price index (CPI), increases the real (inflation adjusted) buying power of those wages. At 1.9%, the annual change in the CPI for May fell and is well off the February 2017 peak of 2.7%. Core CPI, which excludes food and energy, rose 1.7% year over year, down from the recent peak of 2.3% in January 2017. Both readings were below economists' expectations and the Fed's target, as was the case with the Fed's preferred inflation measure (the Personal Consumption Expenditures Index [PCE]), which rose 1.4% year over year in May.

The stable and steady job market has helped buoy consumer confidence, which rose one point in June on strong performance for the current conditions component, based on the Conference Board's measure. This measure remains near its highest level since the dotcom boom in 2000 and is consistent with a healthy U.S. consumer. Confidence did not translate into strong retail sales in May, though falling prices played a role, including gasoline, and consumer spending is still on track for a rebound in the second quarter based on the Fed's forecasts.

Housing data for May was mixed as pending home sales, housing starts, and the forward-looking permits measure all fell short of expectations. The National Association of Home Builders Housing Market Index (HMI) also missed expectations but remains near post-financial crisis highs. On a positive note, tallies of existing and new home sales came in slightly ahead of forecasts. All in all, these data are still consistent with a healthy U.S. housing market, with constrained inventory and rising prices of some concern, not demand.

#### WAGE GROWTH HAS SLOWED BUT IS BEATING INFLATION



Source: LPL Research, Bureau of Labor Statistics 06/30/17

Capital investment activity slowed some in May based on the bigger-than-expected 1.1% month-over-month drop in durable goods orders. The decline was driven mostly by weaker aircraft orders, which can be very volatile month to month.

#### Central Banks

As expected, the Fed raised interest rates at the conclusion of its June 13–14 policy meeting, the fourth rate hike of the current cycle that began in December 2015. Though, more surprising was the added hawkish tone of the Federal Open Market Committee's statement following the latest weak inflation readings. The median interest rate projections among committee members (1.4% at the end of 2017 and 2.1% at the end of 2018) suggests one more hike this year with possibly three more next year; this is faster than the market's expectations based on federal funds futures prices. The Fed also provided strong hints that it would begin the process of reducing its balance sheet by year-end, but would do so in a very gradual and transparent manner.

The European Central Bank (ECB) and Bank of Japan (BOJ) both held policy meetings in June, where the central banks held rates unchanged and maintained their securities purchase programs. The ECB did change its language, however, dropping its reference to a potential interest rate cut, a subtle hint at a tighter (or less easy) policy bias later in the year.

## GLOBAL EQUITIES: STRONG FIRST HALF

### U.S.

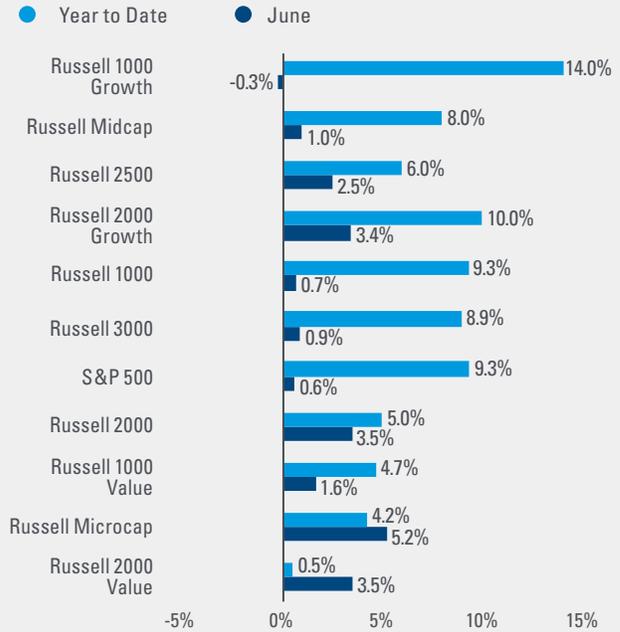
U.S. stocks capped off a strong first half with a 0.62% gain in June, bringing the S&P 500's first half return to an impressive 9.34%, its best since 2013. On a total return basis, June's gain marked the eighth straight positive month and the 15th positive month out of the last 16. The Nasdaq's more than 14% advance through the end of June is its best first half since 2009.

The market impressively shrugged off soft economic data during June. Although incoming data offered more evidence of steady, though unspectacular growth, the data mostly missed consensus expectations. Signs of economic softness were interpreted more as "Goldilocks" conditions (not too hot, not too cold) than as a warning of a meaningful slowdown, helping stocks produce another positive month even as the Fed hiked interest rates mid-month. Stocks also shrugged off a flattening yield curve, a bear market in oil, little progress by the Trump administration in advancing its economic agenda, and ongoing geopolitical threats. But, on a more positive note, while few companies reported results in June, the resilience of Wall Street's earnings estimates offered cause for optimism with regard to the upcoming second quarter earnings season.

Turning to policy, Republicans continued to work on healthcare reform and deregulation, while tax reform work continued in the background. As healthcare overhaul efforts continue, optimism surrounding comprehensive tax reform has faded some; but, even the possibility of smaller, narrower corporate tax cuts has helped keep major stock market averages near record highs. A reduction in the corporate tax rate remains a realistic possibility, although timing and scope of tax changes remain uncertain. Regulatory actions have contributed to optimism among business leaders and helped buoy investor sentiment.

Sector dynamics were noteworthy as June saw a significant rotation out of surging technology

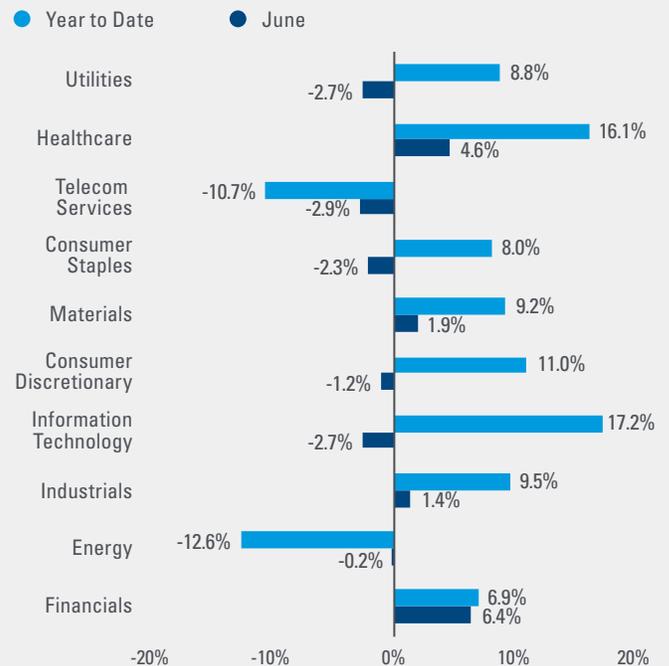
### DOMESTIC INDEX PERFORMANCE



Source: LPL Research, FactSet 06/30/17

Indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

### S&P 500 SECTOR PERFORMANCE



Source: LPL Research, FactSet 06/30/17

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Stock investing involves risk, including loss of principal.

Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

stocks and into lagging financials. The technology sector lost 2.7% for the month, ahead of only telecommunications, while financials (+6.4%) topped the sector rankings. Ongoing financial deregulation efforts, favorable results for the Fed's bank stress tests, and higher interest rates all helped support financials; meanwhile, concerns that the technology sector had rallied too far too fast, after a 22% year-to-date gain through June 8, led to selling pressure over the rest of June.

On a style basis, value broke growth's five-month winning streak, based on the Russell 3000 style indexes, but value still trailed growth by over nine percentage points in the first half of 2017. The story for the month and year has been the divergence between the biggest growth sector, technology, and the biggest value sectors, energy and financials. Energy and financials caught up some in June but remain significantly behind technology for the year.

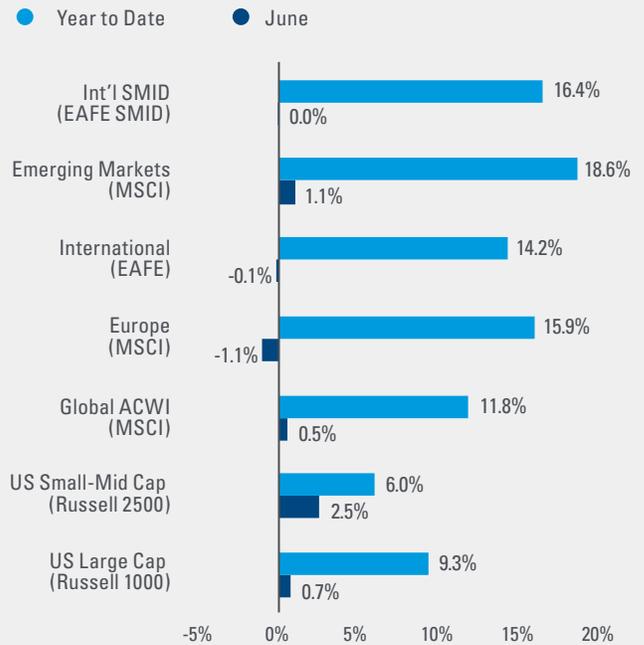
Small caps also staged a bit of a comeback, outpacing mid and large caps in June after lagging much of the year. Small caps benefited from outperformance by cyclical sectors and generally favorable financial conditions, while some may have seen prior weakness as an opportunity on the potential for a policy boost from Washington, D.C. Large caps bested small and mid caps during the first half.

### International

International equity market performance was mixed during June despite generally favorable economic performance overseas. The developed foreign benchmark (MSCI EAFE Index) returned -0.15% despite some translation benefit from a weaker U.S. dollar, while the MSCI Emerging Markets (EM) Index gained 1.07%. Both indexes finished solidly ahead of the U.S. in the first half, with the EAFE returning 14.23% and the EM returning 18.60%, both aided by U.S. dollar weakness.

During the month, developed foreign markets were hurt by the election outcome in the U.K., which left Prime Minister Theresa May's party without a majority and contributed to the U.K.'s 1.9%

### GLOBAL INDEX PERFORMANCE



Source: LPL Research, FactSet 06/30/17

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International and emerging markets investing involves special risks, such as currency fluctuation and political instability, and may not be suitable for all investors.

decline. A more market-friendly election outcome in France, with French President Macron winning a strong parliamentary majority, did not provide much help for French stocks, which along with Germany, lost ground during the month as the euro strengthened. Japanese stocks moved higher as the BOJ maintained its security purchase program and left rates unchanged.

Broadly, EM economies continued to benefit from a healthy global economy and perform well. EM equity gains were driven mostly by Asia; in particular, markets in China, Taiwan, and Hong Kong, representing about 40% of the EM Index, gained at least 1%. Index provider MSCI's decision to add local Chinese listed "A-shares" to its indexes likely helped buoy sentiment. Mexico also outpaced the MSCI EM as trade war concerns faded. Laggards included Brazil, which was hurt by a corruption scandal, and commodities-oriented markets in South Africa and Russia.

## FIXED INCOME: RATES RISE AS FED HIKES RATES FOR SECOND TIME IN 2017

Treasury yields rose across the maturity spectrum during June, with the exception of the longest maturity of 30 years. The Fed's decision to raise rates on June 14 pressed shorter-term yields higher, while longer-term yields were pushed higher in part by a pickup in longer-term developed foreign yields.

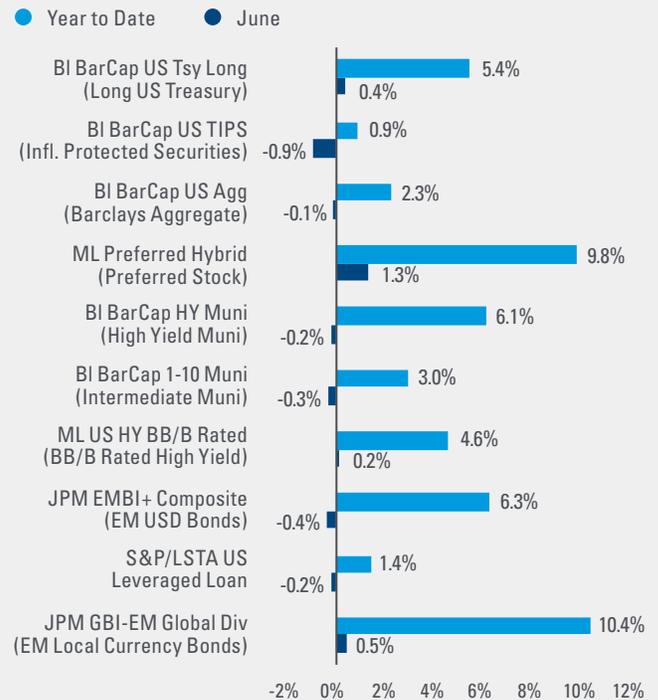
The upward pressure on yields led to a mixed month for fixed income. The broad Bloomberg Barclays Aggregate Bond Index returned -0.1% during the month, with Treasuries underperforming, returning -0.2% (Bloomberg Barclays U.S. Treasury Index). Investment-grade corporates outperformed the broad high-quality market, returning 0.3%, as valuations continued to richen over the month.

Economically sensitive, fixed income sectors were pressured by choppy equity markets and a further slide in the price of oil, which dropped 4.7% during June. High yield returned 0.1%, emerging market debt -0.3%, and bank loans -0.2%. Preferreds were the standout, leading all major fixed income sectors with a 1.3% return during June, due to a strong month for financial equities.

Investing in foreign and emerging markets debt securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical and regulatory risk, and risk associated with varying settlement standards.

Municipal bonds are subject to availability, price, and to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rate rise. Interest income may be subject to the alternative minimum tax. Federally tax-free but other state and local taxes may apply.

### FIXED INCOME PERFORMANCE



### U.S. TREASURY YIELDS

Security	05/31/17	06/30/17	Change in Yield
3 Month	0.98	1.03	0.05
2 Year	1.28	1.38	0.10
5 Year	1.75	1.89	0.14
10 Year	2.21	2.31	0.10
30 Year	2.87	2.84	-0.03

### AAA MUNICIPAL YIELDS

Security	05/31/17	06/30/17	Change in Yield
2 Year	0.98	1.05	0.07
5 Year	1.38	1.45	0.07
10 Year	2.09	2.15	0.06
20 Year	2.79	2.81	0.02
30 Year	2.94	2.97	0.03

Source: LPL Research, Bloomberg, FactSet 06/30/17

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Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise, and bonds are subject to availability and change in price.

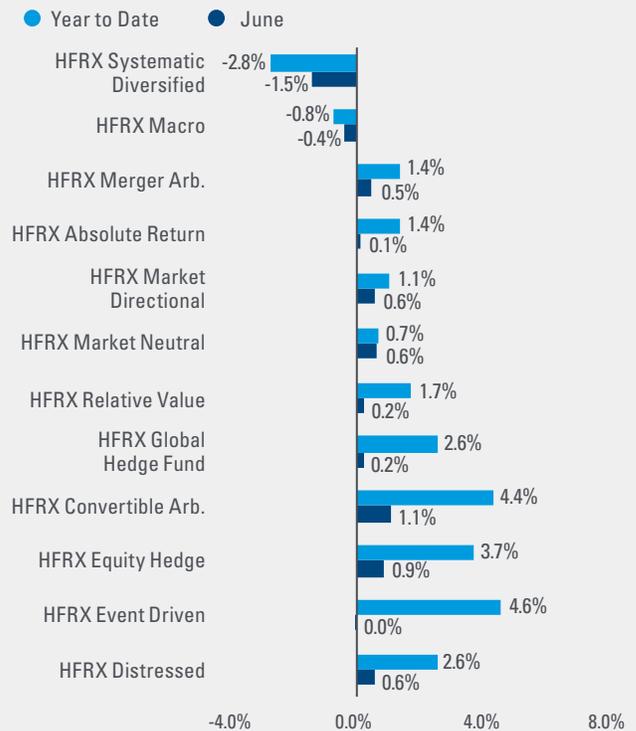
Bank loans are loans issued by below investment-grade companies for short-term funding purposes with higher yield than short-term debt and involve risk.

## ALTERNATIVES: LONG/SHORT DELIVERS BEST MONTH OF 2017

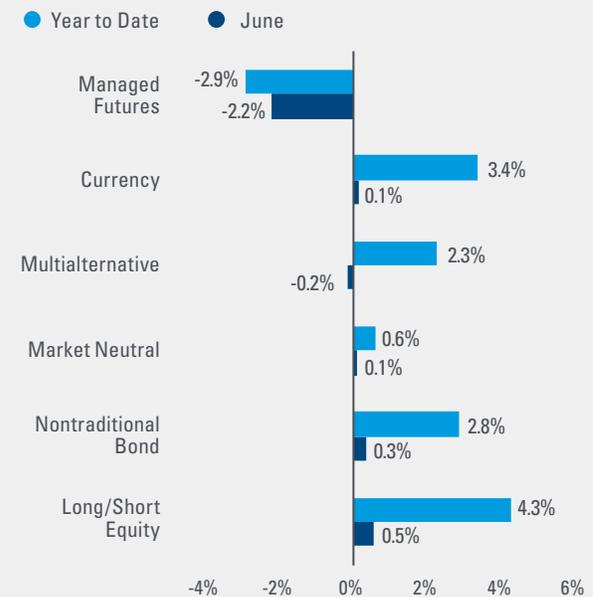
Long/short equity strategies delivered an impressive month, with the HFRX Equity Hedge Index gaining 0.86%, outperforming the S&P 500 by 24 basis points (0.24%). This represents the first month of absolute outperformance in an upmarket against the S&P since September 2016. The dispersion between top and bottom performing S&P 500 sectors (financials at +6.43% and telecommunications at -2.92%) supported active managers and their ability to add value from short-side stock selection skills. Additionally, for those managers with a global mandate, increasing levels of exposure to EM has been a tailwind, as the MSCI EM gained 1.07% during the month and has now returned 18.6% year to date. In the relative value space, the HFRX Convertible Arbitrage Index continues to perform well, as yields compressed moderately, while there has also been subdued volatility. For June, the index gained 1.06% and has now returned 4.35% since the beginning of the year.

Systematic macro strategies lagged all alternative investment categories, as the HFRX Systematic Diversified CTA Index declined 1.48%. The weak performance was concentrated in the last week of the month, where the index fell 1.53%. This was predominantly caused by the sell-off in equity and fixed income markets, which resulted in steep losses for those strategies positioned long in both asset classes. Commodity exposure was the main source of gains during the month, specifically due to short oil positioning. The HFRX Event Driven Index strategies posted a decline of 0.03%, which represents the categories first monthly loss since October 2016. Losses were manager specific and not due to any major deal breaks or spread widening in previously announced mergers.

### HFRX INDEX PERFORMANCE



### MORNINGSTAR INDEX PERFORMANCE



Source: LPL Research, FactSet 06/30/17

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Alternative strategies may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.

## STRONG MONTH FOR INTERNATIONAL ASSETS

Liquid real assets were mostly lower in June, with the exception of U.S. real estate investment trusts (REIT) which produced a solid 2.1% return. Commodities, master limited partnerships (MLP), global infrastructure, and international real estate all finished June in the red, although the international real asset categories saw solid gains in the first half that surpassed those produced by the S&P 500.

### MLPs

The Alerian MLP Index slipped 0.6% during June as crude oil and natural gas prices fell. The moderate loss masked significant intra-month volatility that saw the index down over 7% month to date as of June 21, before a sharp rebound in oil prices helped the group recover. MLPs exhibited little interest rate sensitivity, declining even as yields lowered. The Alerian MLP Index lost a disappointing 2.7% in the first half but held up better than the S&P 500 energy sector which fell 12.6%.

### REITs & Global Listed Infrastructure

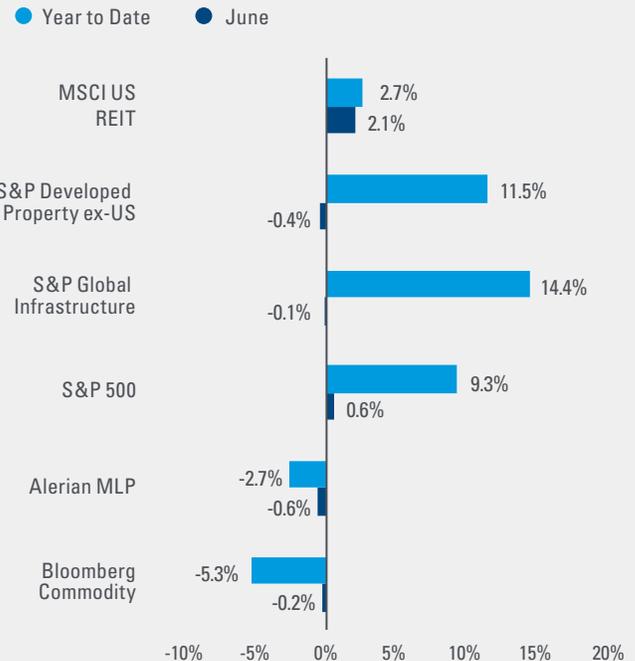
U.S. REITs were a standout performer in June, despite the headwind of higher interest rates based on the 10-year Treasury yield and the market's preference for cyclical sectors. Strength was broad based with solid gains in the retail, industrial, and office categories. International real estate did not fare as well, despite a weaker U.S. dollar. For the month of June, global infrastructure performance trailed domestic equities (S&P 500) while international real estate returns lagged the domestic U.S. REIT index (MSCI U.S. REIT).

Investing in real estate/REITs involves special risks such as potential illiquidity and may not be suitable for all investors. There is no assurance that the investment objectives of this program will be attained.

Investing in MLPs involves additional risks as compared with the risks of investing in common stock, including risks related to cash flow, dilution, and voting rights.

MLPs may trade less frequently than larger companies due to their smaller capitalizations, which may result in erratic price movement or difficulty in buying or selling. MLPs are subject to significant regulation and may be adversely affected by changes in the regulatory environment, including the risk that an MLP could lose its tax status as a partnership. Additional management fees and other expenses are associated with investing in MLP funds.

### LIQUID REAL ASSET PERFORMANCE



Source: LPL Research, FactSet 06/30/17

### Commodities

The Bloomberg Commodity Index (BCOM) fell for the fourth straight month, losing 0.2% in June, but rebounded nicely late in the month as oil bounced. The BCOM fell 5.3% during the first half, despite a weaker U.S. dollar that tends to boost global commodity prices.

While oil's late June rally, aided by the first drop in weekly rig counts since January, got a lot of headlines, the agriculture rebound including wheat's near 20% surge on a drought-ridden U.S. crop was notable. In addition, copper prices rose 4.6% as China's growth outlook has firmed amid several global supply disruptions. Gold fell 2.6% as interest rates rose, despite the normally supportive U.S. dollar weakness.

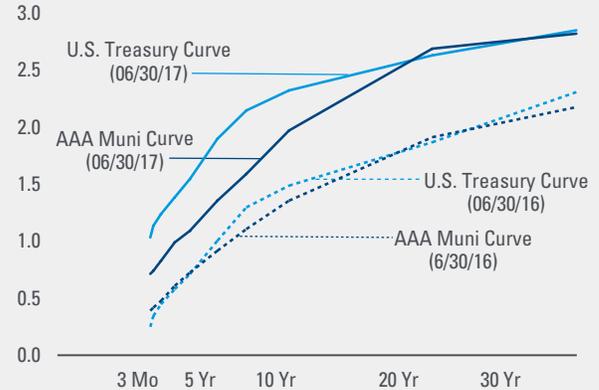
# MONTHLY PERFORMANCE REPORT

## EQUITY PERFORMANCE



Source: LPL Research, Bloomberg, FactSet 06/30/17

## DOMESTIC YIELD CURVE



Source: LPL Research, Bloomberg, FactSet 06/30/17

		1 Mo	3 Mos	YTD	12 Mos
Large Cap	S&P 500	0.62	3.09	9.34	17.90
	DJIA	1.74	3.95	9.35	22.12
	Russell 1000	0.70	3.06	9.27	18.03
	Russell 1000 Value	1.63	1.34	4.66	15.53
	Russell 1000 Growth	-0.26	4.67	13.99	20.42
	Small/Mid Cap	Russell 2000	3.46	2.46	4.99
Russell 2000 Value		3.50	0.67	0.54	24.86
Russell 2000 Growth		3.44	4.39	9.97	24.40
Russell Microcap		5.19	3.83	4.23	27.60
Russell Midcap		0.99	2.70	7.99	16.48
Russell Midcap Value		1.49	1.37	5.18	15.93
Russell Midcap Growth		0.30	4.21	11.40	17.05
All Cap	Russell 3000	0.90	3.02	8.93	18.51
	Russell 3000 Value	1.78	1.29	4.32	16.21
	Russell 3000 Growth	0.00	4.65	13.69	20.72
International Markets	MSCI EAFE	-0.15	6.37	14.23	20.83
	MSCI ACWI ex US	0.35	5.99	14.45	21.00
	MSCI Europe	-1.06	7.73	15.93	21.81
	MSCI Japan	1.08	5.23	10.11	19.58
	MSCI AC Asia Pacific ex Japan	1.91	6.28	19.93	25.27
	MSCI EAFE SMID	-0.01	7.83	16.40	22.50

		1 Mo	3 Mos	YTD	12 Mos
Int'l-Continued	MSCI ACWI ex US SMID	0.28	6.50	15.66	20.32
	MSCI Emerging Mkts	1.07	6.38	18.60	24.17
	MSCI EMEA	-2.20	2.30	5.19	13.47
	MSCI Latin America	0.67	-1.61	10.32	15.40
	MSCI Frontier Markets	0.64	6.27	15.89	19.70
	Sectors -S&P 500 GICS	Consumer Discretionary	-1.20	2.35	11.00
Consumer Staples		-2.25	1.57	8.03	3.06
Energy		-0.18	-6.36	-12.61	-4.14
Financials		6.43	4.25	6.88	35.37
Healthcare		4.62	7.10	16.07	12.47
Industrials		1.39	4.73	9.51	22.27
Information Technology		-2.70	4.14	17.23	33.89
Materials		1.85	3.17	9.21	18.59
Telecom Services		-2.92	-7.05	-10.74	-11.71
Utilities		-2.70	2.21	8.75	2.47

Source: LPL Research, Bloomberg, FactSet 06/30/17

(Data continued on following page.)

All data represent total returns, where applicable. Information contained in this report is from sources deemed to be reliable. We cannot guarantee the accuracy or completeness of such information and we assume no liability for damages resulting from or arising out of the use of such information. Further, please note that past performance is not indicative of future results.

	1 Mo	3 Mos	YTD	12 Mos
BI BarCap US Agg	-0.10	1.45	2.27	-0.31
BI BarCap 1-10 Muni	-0.34	1.21	2.76	0.27
BI BarCap HY Muni	-0.22	1.99	6.13	1.22
BI BarCap Inv. Grade Credit	0.31	2.54	3.80	2.28
BI BarCap Muni Long Bond -22+	-0.25	2.75	4.54	-1.30
BI BarCap US Agg Securitized MBS	-0.40	0.87	1.35	-0.06
BI BarCap US TIPs	-0.95	(0.40)	0.85	-0.63
BI BarCap US Treasury Intern	-0.27	0.66	1.21	-1.33
BI BarCap US Treasury Long	0.40	3.96	5.41	-7.22
BI BarCap US High Yield Loans	-0.22	0.63	1.42	6.74
ML Preferred Stock Hybrid	1.32	3.79	9.84	5.61
ML US High Yield BB/B Rated	0.15	2.21	4.54	11.15
ML US Convert ex Mandatory	0.72	2.98	8.76	19.86
JPM GBI Global ex US Hedged	-0.54	0.55	0.17	-1.93
JPM GBI Global ex US Unhedged	-0.29	3.53	5.56	-5.66
JPM GBI-EM Global Div	0.46	3.62	10.36	6.41
JPM ELMI+	0.04	1.93	7.21	4.91
JPM EMBI+ Composite	-0.38	2.40	6.27	3.75

Fixed Income

	1 Mo	3 Mos	YTD	12 Mos
HFRX Absolute Return	0.10	0.72	1.38	1.93
HFRX Market Directional	0.59	-2.06	1.05	8.83
HFRX Convertible Arb.	1.06	1.81	4.35	8.76
HFRX Distressed	0.57	0.96	2.56	14.34
HFRX Equity Hedge	0.86	1.01	3.73	8.07
HFRX Market Neutral	0.60	-0.79	0.70	0.55
HFRX Event Driven	-0.03	1.61	4.61	12.55
HFRX Merger Arb.	0.46	1.26	1.37	3.24
HFRX Relative Value Arb.	0.21	0.68	1.71	4.59
HFRX Global Hedge Fund	0.21	0.88	2.56	6.00
HFRX Macro Index	-0.41	0.01	-0.75	-3.34
HFRX Systematic Diversified	-1.48	-1.47	-2.77	-6.90
Bloomberg Commodity	-0.19	-3.00	-5.26	-6.50
DJ Wilshire REIT	2.45	1.64	1.36	-2.43
Alerian MLP	-0.65	-6.35	-2.66	0.40

Alternatives

	Latest Mo End (06/30/17)	3 Mos Ago (03/31/17)	Latest Yr End (12/31/16)	12 Mos Ago (06/30/16)
US Dollar Index Value	95.63	100.56	102.21	95.96
USD vs. Yen	112.35	111.39	116.90	103.21
Euro vs. USD	1.14	1.07	1.05	1.11
Gold (\$ per Troy Ounce)	1241.20	1249.20	1150.90	1321.70
Crude Oil (\$ per Barrel)	46.04	50.60	53.72	48.33

Currency

Cmtys

## IMPORTANT DISCLOSURES

The economic forecasts set forth in the presentation may not develop as predicted. The opinions voiced in this material are for general information only and are not intended to provide or be construed as providing specific investment advice or recommendations for any individual security. There is no assurance that the techniques and strategies discussed are suitable for all investors or will yield positive outcomes. The purchase of certain securities may be required to affect some of the strategies.

### Stock and Pooled Investment Risks

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.

Investments in specialized industry sectors have additional risks, which are outlined in the prospectus. Please read the fund's prospectus for more information on risks, fees, and other important information.

### Bond and Debt Equity Risks

Government bonds and Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

High-yield/junk bonds are not investment-grade securities, involve substantial risks, and generally should be part of the diversified portfolio of sophisticated investors.

Municipal bonds are subject to availability, price, and to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rate rise. Interest income may be subject to the alternative minimum tax. Federally tax-free but other state and local taxes may apply.

Treasury Inflation-Protected Securities (TIPS) are subject to interest rate risk and opportunity risk. If interest rates rise, the value of your bond on the secondary market will likely fall. In periods of no or low inflation, other investments, including other Treasury bonds, may perform better.

Preferred stock investing involves risk, which may include loss of principal, and are subject to many of the same risks which affect fixed income securities.

### Alternative Risks

Currency risk is a form of risk that arises from the change in price of one currency against another. Whenever investors or companies have assets or business operations across national borders, they face currency risk if their positions are not hedged.

Long/short equity funds are subject to normal alternative investment risks, including potentially higher fees; while there is additional management risk, as the manager is attempting to accurately anticipate the likely movement of both their long and short holdings. There is also the risk of "beta-mismatch," in which long positions could lose more than short positions during falling markets.

Global macro strategies attempt to profit from anticipated price movements in stock markets, interest rates, foreign exchange and physical commodities. Global macro risks include but are not limited to imperfect knowledge of macro events, divergent movement from macro events, loss of principal, and related geopolitical risks.

Event driven strategies, such as merger arbitrage, consist of buying shares of the target company in a proposed merger and fully or partially hedging the exposure to the acquirer by shorting the stock of the acquiring company or other means. This strategy involves significant risk as events may not occur as planned and disruptions to a planned merger may result in significant loss to a hedged position.

Selling short can result in losses should the borrowed security increase in price, rather than decline. The theoretical potential loss is unlimited. Additionally, short sales will incur interest on the borrowed shares while also being subject to margin calls, or early sales in the event that the original owner wishes to sell their position.

Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory developments.

### Definitions

Different agencies employ different rating scales for credit quality. Standard & Poor's (S&P) and Fitch both use scales from AAA (highest) through AA, A, BBB, BB, B, CCC, CC, C to D (lowest). Moody's uses a scale from Aaa (highest) through Aa, A, Baa, Ba, B, Caa, Ca to C (lowest).

The Leading Economic Index is a monthly publication from the Conference Board that attempts to predict future movements in the economy based on a composite of 10 economic indicators whose changes tend to precede changes in the overall economy.

Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

The Citigroup Economic Surprise Index (CESI) measures the variation in the gap between the expectations and the real economic data.

Personal Consumption Expenditures (PCE) is a measure of price changes in consumer goods and services, targeted towards goods and services consumed by individuals. PCE is released monthly by the Bureau of Economic Analysis (BEA).

The U.S. Institute for Supply Managers (ISM) manufacturing index is an economic indicator derived from monthly surveys of private sector companies, and is intended to show the economic health of the U.S. manufacturing sector. A PMI of more than 50 indicates expansion in the manufacturing sector, a reading below 50 indicates contraction, and a reading of 50 indicates no change.

The National Association of Home Builders Housing Market Index is based on a monthly survey of NAHB members designed to take the pulse of the single-family housing market. The survey asks respondents to rate market conditions for the sale of new homes at the present time and in the next 6 months as well as the traffic of prospective buyers of new homes.

The Consumer Confidence Index is based on consumers' perceptions of current business and employment conditions, as well as their expectations for six months hence regarding business conditions, employment, and income. Three thousand households across the country are surveyed each month. In general, while the level of consumer confidence is associated with consumer spending, the two do not move in tandem each and every month.

## INDEX DEFINITIONS

The Alerian MLP Index is a composite of the 50 most prominent energy master limited partnerships that provides investors with an unbiased, comprehensive benchmark for this emerging asset class. The index, which is calculated using a float-adjusted, capitalization-weighted methodology, is disseminated in real time on a price-return basis (NYSE: AMZ) and on a total-return basis (NYSE: AMZX).

The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS (agency and non-agency).

The Bloomberg Barclays U.S. Aggregate Securitized MBS Index tracks agency mortgage backed pass-through securities (both fixed-rate and hybrid (ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

The Bloomberg Barclays Capital High Yield Index covers the universe of publicly issued debt obligations rated below investment grade. Bonds must be rated below investment grade or high yield (Ba1/BB+ or lower), by at least two of the following ratings agencies: Moody's, S&P, and Fitch. Bonds must also have at least one year to maturity, have at least \$150 million in par value outstanding, and must be U.S. dollar denominated and nonconvertible. Bonds issued by countries designated as emerging markets are excluded.

The Bloomberg Barclays 7-year Municipal Bond Index is the 7 Year (6 -8 year) component of the Bloomberg Barclays Municipal Bond, which is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market.

The Bloomberg Barclays Corporate Investment Grade Credit Index is a broad-based benchmark that measures the investment-grade, U.S. dollar-denominated, fixed rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-U.S. industrial, utility, and financial issuers that meet specified maturity, liquidity, and quality requirements.

The Bloomberg Barclays U.S. High-Yield Loan Index tracks the market for dollar-denominated floating-rate leveraged loans. Instead of individual securities, the U.S. High-Yield Loan Index is composed of loan tranches that may contain multiple contracts at the borrower level.

The Bloomberg Barclays Municipal High Yield Bond Index is comprised of bonds with maturities greater than one year, having a par value of at least \$3 million issued as part of a transaction size greater than \$20 million, and rated no higher than 'BB+' or equivalent by any of the three principal rating agencies. (The long and the short are subindexes of the Municipal Bond Index, based on duration length.)

The Bloomberg Barclays U.S. Corporate High Yield Energy Index covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included.

The Bloomberg Barclays U.S. TIPS Index is a rules-based, market value-weighted index that tracks Inflation-Protected Securities issued by the U.S. Treasury. The U.S. TIPS Index is a subset of the Global Inflation-Linked Index, with a 36% market value weight in the index (as of December 2007), but is not eligible for other nominal treasury or aggregate indexes. In order to prevent the erosion of purchasing power, TIPS are indexed to the nonseasonally adjusted Consumer Price Index for All Urban Consumers, or the CPI-U (CPI).

The Bloomberg Barclays U.S. Treasury Index is an unmanaged index of public debt obligations of the U.S. Treasury with a remaining maturity of one year or more. The index does not include T-bills (due to the maturity constraint), zero coupon bonds (strips), or Treasury Inflation-Protected Securities (TIPS). (The long and the intermediate are subindexes of the U.S. Treasury Index, based on duration length.)

The Bloomberg Commodity Index is calculated on an excess return basis and composed of futures contracts on 22 physical commodities. It reflects the return of underlying commodity futures price movements.

The BofA Merrill Lynch Preferred Stock Hybrid Securities Index is an unmanaged index consisting of a set of investment-grade, exchange-traded preferred stocks with outstanding market values of at least \$50 million that are covered by Merrill Lynch Fixed Income Research.

The BofA Merrill Lynch BB-B U.S. High Yield Constrained Index contains all securities in the BofA Merrill Lynch US High Yield Index rated BB+ through B- by S&P (or equivalent as rated by Moody's or Fitch), but caps issuer exposure at 2%. Index constituents are capitalization-weighted, based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 2%.

The BofA Merrill Lynch U.S. Convertibles Ex-Mandatory Index is a rule-driven Index designed to capture the organic evolution of the U.S. convertible market and adjust automatically based on any changes in the market such as size of the market, industry skew, structure popularity, issuer size or equity sensitivity. The index rules include issues: U.S. dollar denominated greater than \$50M in aggregate market value that are publicly traded (including 144A) in the U.S. market but are not currently in bankruptcy. Exclusions are synthetic convertibles and mandatory convertibles.

The Dow Jones Industrial Average Index is comprised of U.S.-listed stocks of companies that produce other (non-transportation and non-utility) goods and services. The Dow Jones industrial averages are maintained by editors of The Wall Street Journal. While the stock selection process is somewhat subjective, a stock typically is added only if the company has an excellent reputation, demonstrates sustained growth, is of interest to a large number of investors, and accurately represents the market sectors covered by the average. The Dow Jones averages are unique in that they are price weighted; therefore, their component weightings are affected only by changes in the stocks' prices.

The Dow Jones U.S. Select REIT Index (formerly the DJ Wilshire REIT) intends to measure the performance of publicly traded REITs and REIT-like securities. The index is a subset of the Dow Jones U.S. Select Real Estate Securities Index (RESI), which represents equity REITs and real estate operating companies (REOCs) traded in the U.S. The indices are designed to serve as proxies for direct real estate investment, in part by excluding companies whose performance may be driven by factors other than the value of real estate.

The HFRX Absolute Return Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage.

The HFRX Distressed Restructuring Index strategies employ an investment process focused on corporate fixed income instruments, primarily on corporate credit instruments of companies trading at significant discounts to their value at issuance or obliged (par value) at maturity as a result of either formal bankruptcy proceeding or financial market perception of near term proceedings. Managers are typically actively involved with the management of these companies, frequently involved on creditors' committees in negotiating the exchange of securities for alternative obligations, either swaps of debt, equity, or hybrid securities. Managers employ fundamental credit processes focused on valuation and asset coverage of securities of distressed firms; in most cases portfolio exposures are concentrated in instruments that are publicly traded, in some cases actively and in others under reduced liquidity, but in general for which a reasonable public market exists. In contrast to special situations, distressed strategies employ primarily debt (greater than 60%) but also may maintain related equity exposure.

The HFRX Equity Hedge Index, also known as long/short equity, combines core long holdings of equities with short sales of stock or stock index options. Equity hedge portfolios may be anywhere from net long to net short, depending on market conditions. Equity hedge managers generally increase net long exposure in bull markets and decrease net long exposure (or even are net short) in a bear market. Generally, the short exposure is intended to generate an ongoing positive return in addition to acting as a hedge against a general stock market decline. Stock index put options are also often used as a hedge against market risk. Profits are made when long positions appreciate and stocks sold short depreciate. Conversely, losses are incurred when long positions depreciate or the value of stocks sold short appreciates. Equity hedge managers' source of return is similar to that of traditional stock pickers on the upside, but they use short selling and hedging to attempt to outperform the market on the downside.

The HFRX Equity Market Neutral Index strategies employ sophisticated quantitative techniques of analyzing price data to ascertain information about future price movement and relationships between securities, select securities for purchase and sale. These can include both factor-based and statistical arbitrage/trading strategies. Factor-based investment strategies include strategies in which the investment thesis is predicated on the systematic analysis of common relationships between securities. In many but not all cases, portfolios are constructed to be neutral to one or multiple variables, such as broader equity markets in dollar or beta terms, and leverage is frequently employed to enhance the return profile of the positions identified. Statistical arbitrage/trading strategies consist of strategies in which the investment thesis is predicated on exploiting pricing anomalies that may occur as a function of expected mean reversion inherent in security prices; high frequency techniques may be employed and trading strategies may also be employed on the basis on technical analysis or opportunistically to exploit new information the investment manager believes has not been fully, completely, or accurately discounted into current security prices. Equity market neutral strategies typically maintain characteristic net equity market exposure no greater than 10% long or short.

The HFRX Event Driven Index managers maintain positions in companies currently or prospectively involved in corporate transactions of a wide variety, including but not limited to mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance, or other capital structure adjustments. Security types can range from most senior in the capital structure to most junior or subordinated, and frequently involve additional derivative securities. Event driven exposure includes a combination of sensitivities to equity markets, credit markets and idiosyncratic, company-specific developments. Investment theses are typically predicated on fundamental characteristics (as opposed to quantitative), with the realization of the thesis predicated on a specific development exogenous to the existing capital structure.

The HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies, including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry.

The HFRX Macro Index strategy managers trade a broad range of strategies in which the investment process is predicated on movements in underlying economic variables and the impact these have on equity, fixed income, hard currency, and commodity markets. Managers employ a variety of techniques, both discretionary and systematic analysis, combinations of top-down and bottom-up theses, quantitative and fundamental approaches, and long- and short-term holding periods. Although some strategies employ RV techniques, macro strategies are distinct from RV strategies in that the primary investment thesis is predicated on predicted or future movements in the underlying instruments, rather than realization of a valuation discrepancy between securities. In a similar way, while both macro and equity hedge managers may hold equity securities, the overriding investment thesis is predicated on the impact movements in underlying macroeconomic variables may have on security prices, as opposed to EH, in which the fundamental characteristics on the company are the most significant and integral to investment thesis.

The HFRX Macro: Systematic Diversified CTA Index strategies have investment processes typically as function of mathematical, algorithmic, and technical models, with little or no influence of individuals over the portfolio positioning. Strategies employ an investment process designed to identify opportunities in markets exhibiting trending or momentum characteristics across individual instruments or asset classes. Strategies typically employ a quantitative process that focuses on statistically robust or technical patterns in the return series of the asset, and they typically focus on highly liquid instruments and maintain shorter holding periods than either discretionary or mean reverting strategies. Although some strategies seek to employ counter trend models, strategies benefit most from an environment characterized by persistent, discernible trending behavior. Systematic diversified strategies typically would expect to have no greater than 35% of the portfolio in either dedicated currency or commodity exposures over a given market cycle.

The HFRX Market Directional Index is comprised of all eligible hedge fund strategies, including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. As a component of the optimization process, the index selects constituents which characteristically exhibit higher volatilities and higher correlations to standard directional benchmarks of equity, bond market, and hedge fund industry.

The HFRX Merger Arbitrage Index strategies employ an investment process primarily focused on opportunities in equity and equity-related instruments of companies that are currently engaged in a corporate transaction. Merger arbitrage involves primarily announced transactions, typically with limited or no exposure to situations that pre- or post-date, or situations in which no formal announcement is expected to occur. Opportunities are frequently presented in cross border, collared, and international transactions that incorporate multiple geographic regulatory institutions, with typically involve minimal exposure to corporate credits. Merger arbitrage strategies typically have over 75% of positions in announced transactions over a given market cycle.

The HFRX Relative Value Arbitrage Index includes managers who maintain positions in which the investment thesis is predicated on the realization of a valuation discrepancy in the relationship between multiple securities. Managers employ a variety of fundamental and quantitative techniques to establish investment theses, and security types range broadly across equity, fixed income, derivative, or other security types. Fixed income strategies are typically quantitatively driven to measure the existing relationship between instruments and, in some cases, identify attractive positions in which the risk adjusted spread between these instruments represents an attractive opportunity for the investment manager. RV position may be involved in corporate transactions also, but as opposed to ED exposures, the investment thesis is predicated on the realization of a pricing discrepancy between related securities, as opposed to the outcome of the corporate transaction.

The HFRX RV: FI-Convertible Arbitrage Index includes strategies in which the investment thesis is predicated on realization of a spread between related instruments in which one or multiple components of the spread is a convertible fixed income instrument. Strategies employ an investment process designed to isolate attractive opportunities between the price of a convertible security and the price of a non-convertible security, typically of the same issuer. Convertible arbitrage positions maintain characteristic sensitivities to credit quality the issuer, implied and realized volatility of the underlying instruments, levels of interest rates and the valuation of the issuer's equity, among other more general market and idiosyncratic sensitivities.

The J.P. Morgan GBI Global ex-U.S. Hedged Index tracks fixed rate issuances from high-income countries spanning the globe, launched in 1989.

The JPM GBI Global ex-U.S. Unhedged Index generally tracks fixed rate issuances from high-income countries spanning North America, Europe, and Asia, not including the United States.

The JPM GBI-EM Global Diversified Index limits the weights of those index countries with larger debt stocks by only including a specified portion of these countries as eligible, current face amounts of debt outstanding.

The JPM ELMI+ and JPM ELMI+ Composite Indexes measure the performance of debt issued by emerging markets in the local currency.

The Merrill Lynch Preferred Stock Hybrid Securities Index is an unmanaged index consisting of a set of investment-grade, exchange-traded preferred stocks with outstanding market values of at least \$50 million that are covered by Merrill Lynch Fixed Income Research.

The MSCI AC Asia Pacific ex-Japan Index captures large and mid cap representation across four of five developed markets countries (excluding Japan) and eight emerging markets countries in the Asia Pacific region. With 682 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI ACWI ex-U.S. Index captures large and mid cap representation across 22 of 23 developed markets (DM) countries (excluding the U.S.) and 23 emerging markets (EM) countries. With 1,839 constituents, the index covers approximately 85% of the global equity opportunity set outside the U.S.

The MSCI ACWI ex-U.S. SMID Cap Index captures mid and small cap representation across 22 of 23 developed market (DM) countries (excluding the U.S.) and 23 emerging markets countries. With 5,164 constituents, the index covers approximately 28% of the free float-adjusted market capitalization in each country.

The MSCI EAFE Index is recognized as the pre-eminent benchmark in the United States to measure international equity performance. It comprises the MSCI country indexes that represent developed markets outside of North America: Europe, Australasia, and the Far East.

The MSCI EAFE SMID Cap Index captures mid and small cap representation across developed market countries around the world, excluding the U.S. and Canada. With 2,695 constituents, the index covers approximately 28% of the free float-adjusted market capitalization in each country.

The MSCI Emerging Markets Index captures large and mid cap representation across 23 emerging markets (EM) countries. With 822 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI Emerging Markets EMEA Index captures large and mid cap representation across eight emerging markets (EM) countries in Europe, the Middle East and Africa (EMEA). With 162 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI Emerging Markets (EM) Latin America Index captures large and mid cap representation across five emerging markets (EM) countries in Latin America. With 137 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI Europe Index is a free float-adjusted, market capitalization-weighted index that is designed to measure the equity market performance of the developed markets in Europe.

The MSCI Frontier Markets Index captures large and mid cap representation across 24 frontier markets (FM) countries. The index includes 127 constituents, covering about 85% of the free float-adjusted market capitalization in each country.

The MSCI U.S. REIT Index is a free float-adjusted market capitalization index that is comprised of equity REITs. The index is based on MSCI USA Investable Market Index (IMI), its parent index that captures large, mid, and small caps securities. With 139 constituents, it represents about 99% of the U.S. REIT universe and securities are classified in the REIT sector according to the Global Industry Classification Standard (GICS). It, however, excludes mortgage REITs and selected specialized REITs.

The Russell 1000 Index measures the performance of the large cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 92% of the U.S. market.

The Russell 1000 Value Index measures the performance of the large cap value segment of the U.S. equity universe.

The Russell 1000 Growth Index measures the performance of the large cap growth segment of the U.S. equity universe.

The Russell 2000 Index measures the performance of the small cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index.

The Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 2500 Index is a broad index featuring 2,500 stocks that cover the small and mid cap market capitalizations. The Russell 2500 is a market capitalization-weighted index that includes the smallest 2,500 companies covered in the Russell 3000 universe of U.S.-based listed equities.

The Russell 3000 Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

The Russell 3000 Growth Index measures the performance of the broad growth segment of the U.S. equity universe. It includes those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 3000 Value Index measures the performance of the broad value segment of U.S. equity value universe. It includes those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values.

The Russell Microcap Index measures the performance of the microcap segment of the U.S. equity market. Microcap stocks make up less than 3% of the U.S. equity market (by market cap) and consist of the smallest 1,000 securities in the small-cap Russell 2000 Index, plus the next 1,000 smallest eligible securities by market cap.

The Russell Midcap Index offers investors access to the mid cap segment of the U.S. equity universe. The Russell Midcap Index is constructed to provide a comprehensive and unbiased barometer for the mid cap segment and is completely reconstituted annually to ensure that larger stocks do not distort the performance and characteristics of the true mid cap opportunity set. The Russell Midcap Index includes the smallest 800 securities in the Russell 1000.

The Russell Midcap Growth Index offers investors access to the mid cap growth segment of the U.S. equity universe. The Russell Midcap Growth Index is constructed to provide a comprehensive and unbiased barometer of the mid cap growth market. Based on ongoing empirical research of investment manager behavior, the methodology used to determine growth probability approximates the aggregate mid cap growth manager's opportunity set.

The Russell Midcap Value Index offers investors access to the mid cap value segment of the U.S. equity universe. The Russell Midcap Value Index is constructed to provide a comprehensive and unbiased barometer of the mid cap value market. Based on ongoing empirical research of investment manager behavior, the methodology used to determine value probability approximates the aggregate mid cap value manager's opportunity set.

The S&P 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The S&P Global Infrastructure Index is comprised of 75 of the largest publicly listed infrastructure companies that meet specific investability requirements. The index is designed to provide liquid exposure to the leading publicly listed companies in the global infrastructure industry, from both developed markets and emerging markets.

The S&P Utilities Index is comprised primarily of companies involved in water and electrical power and natural gas distribution industries.

The S&P/LSTA U.S. Leveraged Loan 100 index is a market value-weighted index designed to measure the performance of the U.S. leveraged loan market. The index consists of 100 loan facilities drawn from a larger benchmark - the S&P/LSTA (Loan Syndications and Trading Association) Leveraged Loan Index (LLI).

The S&P Developed Ex-U.S. Property defines and measures the investable universe of publicly traded property companies domiciled in developed countries outside of the U.S. The companies included are engaged in real estate related activities, such as property ownership, management, development, rental and investment.

The USD Index measures the performance of the U.S. dollar against a basket of foreign currencies: EUR, JPY, GBP, CAD, CHF and SEK. The U.S. Dollar Index goes up when the dollar gains "strength" compared to other currencies.

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