LPL RESEARCH

MARKET INSIGHTS MONTHLY

MAY 2015 IN REVIEW

June Update | As of May 31, 2015

ECONOMY:

STILL WAITING FOR SPRING SNAPBACK

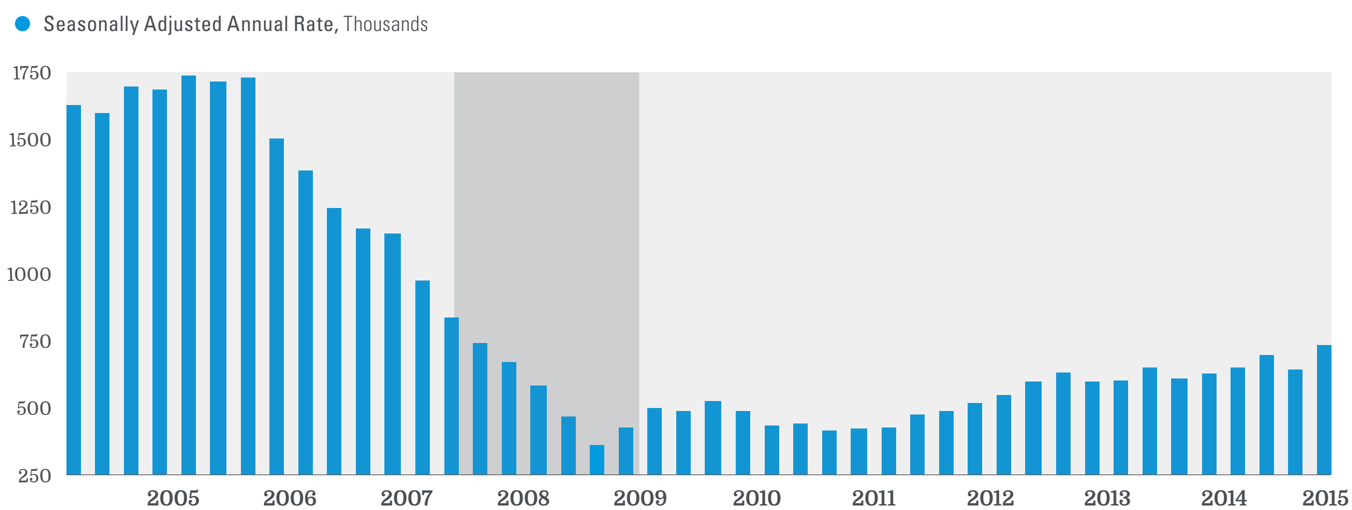
Economic Data

May 2015's economic reports (which largely reflect economic activity in April 2015) extended the recent theme of a slower than expected snapback from the first quarter economic weakness, which was due largely to temporary factors (unusually harsh winter weather in areas of the country, a major West Coast port strike, the strong dollar's impact on trade, and a sharp reduction of oil-related capital expenditures). March data had improved in last month's economic reports but had largely missed economists' raised expectations. May reports have also had their share of disappointments, but some upside surprises have begun to appear, especially toward the latter half of the month.

Job creation stabilized in April according to the May release of the Department of Labor's Employment Situation report (released May 8, 2015). Nonfarm payrolls increased by 233,000 in April after a lackluster increase of only 85,000 new jobs in March. A large increase in construction sector jobs may foreshadow possible increased housing activity following winter-delayed projects. The participation rate, which had fallen to multi-decade lows, ticked 0.1% higher and appears to be stabilizing.

Overall retail sales were unchanged between March and April, defying expectations of a 0.5% gain. However, the March reading was revised higher, from +0.9% to +1.1%. Despite the weaker than expected

HOUSING STARTS



Source: LPL Research, Census Bureau, Haver Analytics 05/31/15

Shaded area indicates recession.

April reading, core retail sales in Q2 are running 2% ahead of Q1's level after just a 0.5% gain in Q1. Consumers continue to divert income gains and money saved from lower gas prices toward savings and paying down debt, which can have long-term benefits, but is currently acting as a drag on short-term economic growth.

Manufacturing activity has continued to expand but growth remains weak, held back by the strong dollar and oil-related declines in capital investment. The Institute for Supply Management's (ISM) Manufacturing Purchasing Managers' Index for April came in at 51.5, well below its August 2014 peak of 58.1 (above 50 indicates expansion).

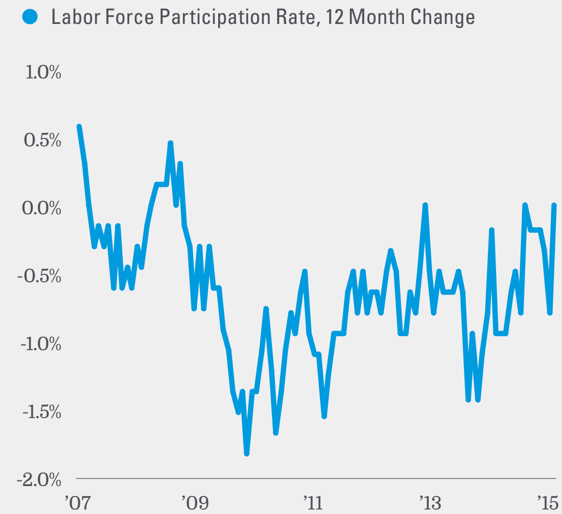
Housing data provided one of the largest upside surprises this month. Housing starts jumped 20%, the largest move in over 20 years. New permits also provided a large upside surprise, rising 10%, suggesting that the April jump in starts was not simply due to winter weather delays. Housing prices (the S&P/Case-Shiller Home Price Index) and new home sales also both topped economist consensus expectations. New housing permits is a component of the Conference Board's Leading Economic Index (LEI), and the rebound in permits helped the index rise 0.7% month over month in the May report, easily topping expectations and posting its largest gain since July 2014.

Market indicators of improved economic expectations have included a sharp reversal higher for the dollar in the second half of the month following an approximately two-month decline and the highest monthly 10-year Treasury yield (average value) since November 2014.

Central Banks

Central bank activity has been quieter in May after a flurry of rate cuts and other supportive measures over the first third of the year. The most notable move was a May 10 rate cut by China's central bank, its third since last November, as it tries to meet growth targets while making a difficult transition to a more consumer-led economy. In the U.S., the Fed remains on track to raise rates later this year. In the minutes of its April 28-29 policy meeting, released on May 20, the Fed emphasized that a rate hike decision remained data dependent and that members believed first quarter economic weakness was due to temporary factors, although there was a small increase in concern about downside risk to the economy. The European Central Bank (ECB) briefly sparked a rally in European equities (and a sharp decline in the euro) after it announced it would frontload some of its quantitative easing (QE) purchases ahead of lower volume summer months. Japan's economy has been showing strength lately and in the minutes to its April 30 meeting, released May 27, the Bank of Japan (BOJ) confirmed that most of its members were satisfied with the current impact of its QE program. The market, which had expected the BOJ to revisit and possibly increase QE later this summer, now expects it to wait until late 2015 before deciding whether or not to add to its program.

LABOR FORCE PARTICIPATION RATE



Source: LPL Research, U.S. Bureau of Labor Statistics 05/31/15

GLOBAL EQUITIES:

U.S. STOCKS CONTINUE TO GRIND HIGHER

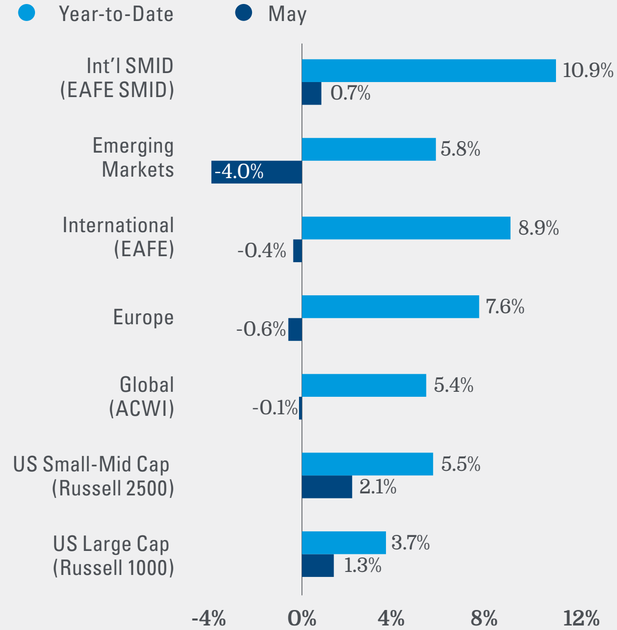
U.S.

Domestic equities continued to climb higher in May, the S&P 500 Index posting a total return of 1.3%. Despite pockets of resistance that caused modest volatility, the index did not post a one-day move of more than 1.5% (up or down) during the month. Stock prices were buoyed by a still supportive Fed, continued expectations of an economic snapback once the impact of temporary factors fully rolls off, greater stability in international developed markets, and an expected acceleration in earnings growth over the back half of the year. The total return of the S&P 500 year to date stands at 3.2%.

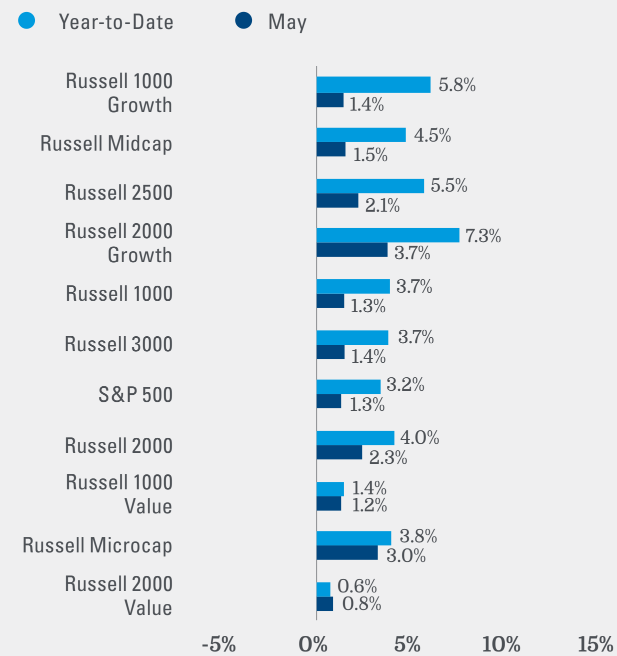
With the earnings season for the first quarter of 2015 all but complete, the broad verdict is that results were much better than feared but hardly robust. According to Thomson data, with 98% of S&P 500 companies having reported as of May 29, 2015, year-over-year operating earnings for the first quarter is estimated at +2.2% versus expectations of -2.9% as of March 31, 2015. Expected revenue for Q1 has declined to -2.9%, versus -2.6% as of March 31, reflecting the impact of a stronger dollar and the drop in oil prices.

Gains for the quarter were broad based with 8 of 10 equity sectors advancing. Healthcare topped the sector leaderboard, supported by the strongest first quarter earnings and revenue growth among all sectors, powered by the biotechnology industry. Strong earnings season performance also helped financials, although an easy year-over-year comparison from Bank of America after a large litigation charge in Q1 2014 mars the appearance of the strength of the sector. Technology rounded out the top of the leaderboard. Energy was the sector laggard in May after oil prices stabilized following strong gains in April. While first quarter energy earnings came in much stronger than expected, they still fell over 50% year over year and investors remain uncertain how long it will take the industry's cost structure to adjust to the new oil price environment. Telecom also fell in May, with some headwinds from rising rates, but idiosyncratic business risk plays a large

GLOBAL INDEX PERFORMANCE



DOMESTIC INDEX PERFORMANCE



Source: LPL Research, FactSet 05/31/15

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

Stock investing involves risk, including loss of principal.

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

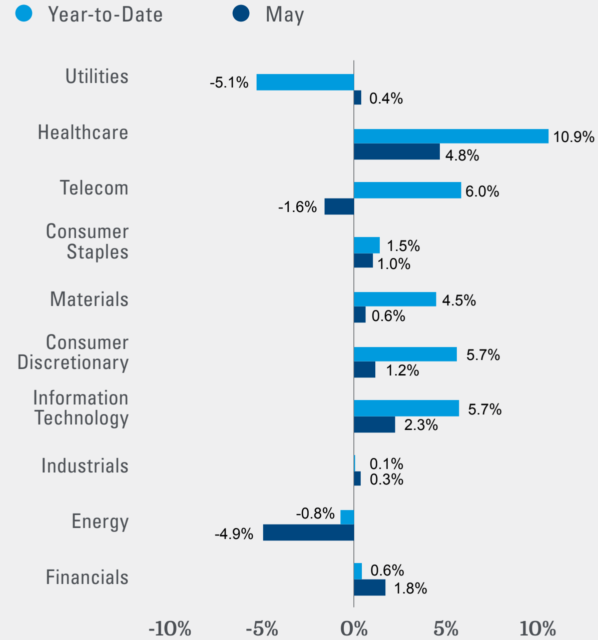
role in performance for the smallest sector in the index. There was no clear preference for cyclical or defensive sectors in May, with the four defensive sectors (healthcare, staples, utilities, and telecom) split evenly between the top and bottom five in the monthly sector rankings.

Small caps had a strong month, the Russell 2000 outperforming the S&P 500 by almost 1%, buoyed by its growth segment as investors search for growth opportunities in a low growth environment, although value outperformed growth among mid caps, according to Russell indexes.

International Developed/Emerging Markets

After starting the year strong, both international developed markets, as measured by the MSCI EAFE Index, and emerging markets, as measured by the MSCI Emerging Markets Index, stalled in May, with both indexes posting losses. A series of upside economic surprises earlier in the year had raised expectations about European data, leading to May's economic data falling back in-line with economists' raised consensus forecasts. European shares were also weighed down by ongoing uncertainty around Greece's efforts to renegotiate terms with its creditors. Japan was more resilient among international developed markets with improved earnings results and a series of positive economic surprises. Emerging markets performance was significantly weaker than international developed markets in May, falling over 4%. China's Shanghai extended its recent run but ran into a bout of high volatility as the month wound down, while India's Sensex also posted gains, but Latin America, emerging Europe, and South Africa all struggled.

RUSSELL 1000 SECTOR PERFORMANCE



Source: LPL Research, FactSet 05/31/15

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

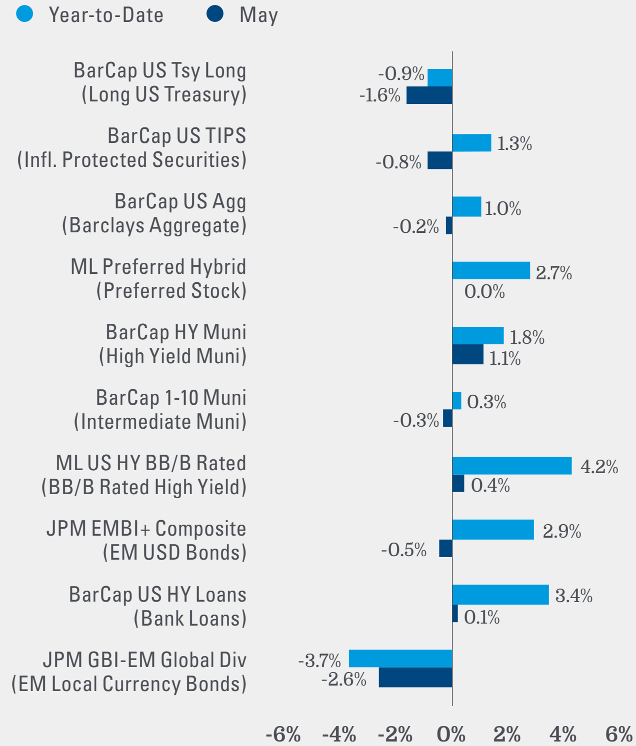
FIXED INCOME:
HIGH-QUALITY BOND SELL-OFF CONTINUED IN MAY

Bond prices weakened for most of May, continuing the price declines witnessed at the end of April, before stabilizing late in the month. The sell-off that extended into May was not primarily driven by fundamentals, nor increased fear of Fed action, but by position imbalances in fixed income markets. Low trading volume and limited liquidity exacerbated selling pressures, further weighing on bond prices during the month.

With the headwind of rising interest rates, May proved to be a challenging month for the bond market, with the Barclays U.S. Aggregate Bond Index declining by 0.24% during May. This marks the first time since the end of 2013 that the Barclays Aggregate has posted consecutive monthly declines. The lower returns also reflect the low-yield environment where interest income is less able to buffer against price declines associated with rising interest rates.

Longer-term bonds underperformed within the bond market. Among sectors, Treasury Inflation-Protected Services (TIPS) fared worst, down 0.82% in May, not only due to their elevated duration relative to conventional Treasuries, but to the decline in inflation expectations, which fell from 2.0% on May 1 to 1.82% on May 29, based on the 10-year break-even spread implied between TIPS and conventional Treasuries. More economically sensitive sectors weathered the rise in rates better. High-yield corporate bonds, based on the Barclays High Yield Bond Index, posted a positive total return of 0.30%, outperforming the Barclays Aggregate Index by 0.54%. Foreign bonds underperformed domestic bonds, with hedged foreign bonds returning -0.84% during May. Unhedged foreign bonds fared worse, down -3.37% in May, due to renewed strength in the U.S. dollar.

FIXED INCOME PERFORMANCE



US TREASURY YIELDS

Security	4/30/15	5/31/15	Change in Yield
3 Month	0.01	0.01	0.00
2 Year	0.58	0.61	0.03
5 Year	1.43	1.49	0.06
10 Year	2.05	2.12	0.07
30 Year	2.75	2.88	0.13

AAA MUNICIPAL YIELDS

Security	4/30/15	5/31/15	Change in Yield
2 Year	0.56	0.61	0.05
5 Year	1.33	1.41	0.08
10 Year	2.38	2.43	0.05
20 Year	3.77	3.87	0.10
30 Year	4.44	4.57	0.13

Source: LPL Research, Bloomberg, FactSet 05/31/15

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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.

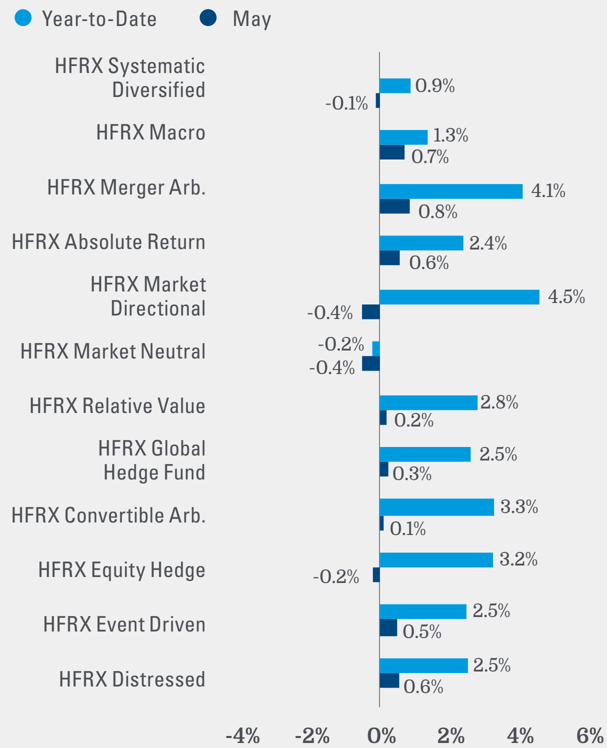
ALTERNATIVES:
EVENT DRIVEN STRATEGIES CONTINUE STEADY CLIMB

The HFRX Event Driven Index gained 0.48%, the fourth straight month of gains, as subdued domestic market volatility and several large-scale merger and acquisition announcements contributed to a positive environment for the strategy. Per Bloomberg Research, global merger and acquisition volume has reached $1.8 trillion, which is the best 5-month start to a year in 20 years, with 50% of the volume taking place in the United States. Within the macro space, May performance for both discretionary and systematic-related managers was mixed; however, this was still an overall improvement from a volatile April, when the reversal of several long-term asset trends prompted losses. Long exposure to the U.S. dollar proved beneficial, as the U.S. Dollar Index gained over 2.0%.

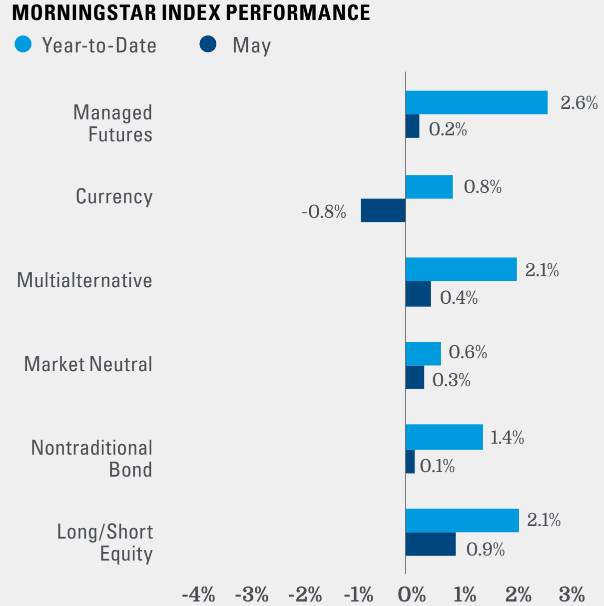
Long/short equity and market neutral strategies saw muted performance, returning -0.18% and -0.45%, respectively. Once again, managers with exposure to Asian markets were able to deliver gains, as a spike in volatility provided opportunities to capitalize on the long and short side of their portfolios.

In aggregate and in comparison to the last several years, the year-to-date performance in the alternative investment space is indicative of an improved market environment for these strategies. The broad-based HFRX Absolute Return Index, which is designed to be representative of the overall hedge fund universe, has now returned 2.40% through the end of May, with an equity beta of only 0.02, as compared with the 3.23% return of the S&P. While a portion of these returns can be attributed to outsized strength in the macro space during the first quarter, the remaining strategies within the index have also positively contributed to returns.

HFRX INDEX PERFORMANCE



MORNINGSTAR INDEX PERFORMANCE



Source: LPL Research, FactSet 05/31/15

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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.

FEW BRIGHT SPOTS FOR LIQUID REAL ASSETS IN MAY

Liquid real assets (LRA) finished with mixed performance during May. Global infrastructure finished the month lower, although the S&P utilities sector produced a small gain even as interest rates ended the month slightly higher (10-year Treasury). Among other interest rate sensitive sectors, real estate investment trusts (REIT) were modestly lower while master limited partnerships (MLP) suffered a more than 3% loss. Hurt by a strong U.S. dollar, the broad commodities index fell in May, despite crude oil's modest gain.

MLPs & Global Listed Infrastructure

MLPs slipped 3.6% in May after a strong April, leaving the asset class down 3.0% year to date. A slight rise in interest rates—the 10-year Treasury yield increased by 4 basis points in May—certainly did not help this interest rate–sensitive sector. But the group's performance was disappointing given the slight rise in oil prices. Secondary securities offerings, some lower than expected distributions, and a pipeline rupture in California were among the factors weighing on the group.

Global infrastructure reversed April gains and lost 1.5% in May. Most of the tailwinds this asset class enjoyed in April—including strong performance in overseas markets and energy sector gains—were absent in May as both international developed and emerging markets fell and the energy sector suffered losses. The S&P 500 utilities sector index gained 0.7% despite an unfavorable environment for higher-yielding securities.

REITs

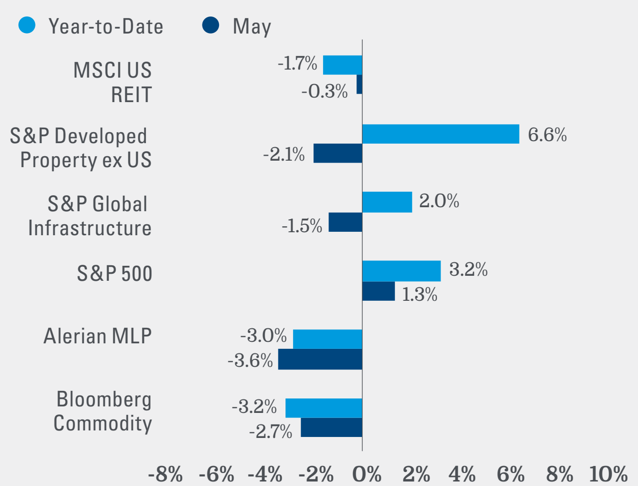
REITs suffered a second consecutive monthly loss in May, as the MSCI U.S. REIT Index lost 0.3% during the month. The two-month losing streak was the index's first such streak since November and December of 2013 and brings the sector's year-to-date loss to 1.7%. Weakness was due in part to rising interest rates, but likely also reflected continued valuation concerns and disappointment with the strength of the U.S. economy's bounce back after the slow start to the year. Healthcare and office REITs were among the hardest hit subsectors within the REIT universe.

Commodities

The Bloomberg Commodity Index fell 2.7% in May and is now down 3.2% year to date. May losses came despite crude oil's modest advance (West Texas Intermediate) and were at least partly influenced by the gains in the U.S. dollar. Crude oil seemed to run out of steam after April's 25% jump, but did manage a 1.1% increase for the month as the pace of U.S. production began to slow in response to the lower prices and evidence of a pickup in demand emerged. The strong dollar did not hurt precious metals, as ongoing Greece concerns, delayed expectations for Fed rate hikes, and mostly accommodative central banks globally helped push gold and silver prices higher.

The downdraft in agriculture commodities continued in May, with favorable weather contributing to oversupply and lower prices for corn and soybeans, while restrictions on Russian exports helped provide support for wheat, which eked out a small gain for the month. Copper prices fell 5.5% for the month as inventories remain elevated in China, while aluminum prices slid 10.7% due to growing Chinese exports, as weaker fundamentals offset any potential benefit from China's reform and monetary stimulus efforts.

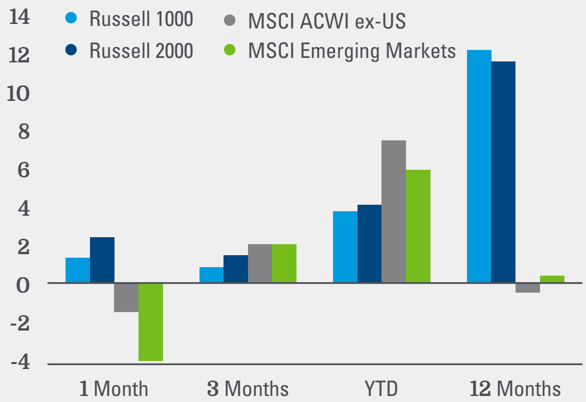
LIQUID REAL ASSET PERFORMANCE



Source: LPL Research, FactSet 05/31/15

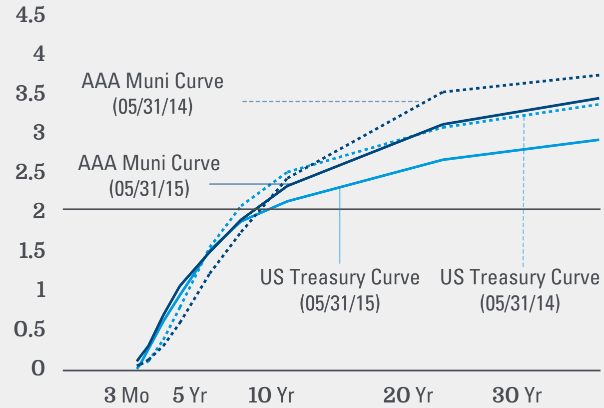
MONTHLY PERFORMANCE REPORT

EQUITY PERFORMANCE



Source: LPL Research, Bloomberg, FactSet 05/31/15

DOMESTIC YIELD CURVE



Source: LPL Research, Bloomberg, FactSet 05/31/15

		1 Mo	3 Mos	YTD	12 Mos
Large Cap	S&P 500	1.29	0.64	3.23	11.81
	DJIA	1.35	-0.08	2.14	10.28
	Russell 1000	1.31	0.76	3.65	11.91
	Russell 1000 Value	1.20	0.76	1.41	9.03
	Russell 1000 Growth	1.41	0.76	5.83	14.73
Small/Mid Cap	Russell 2000	2.28	1.41	3.98	11.32
	Russell 2000 Value	0.83	0.34	0.63	5.10
	Russell 2000 Growth	3.67	2.43	7.30	17.73
	Russell Microcap	3.02	2.74	3.77	11.19
	Russell Midcap	1.46	0.60	4.52	12.47
	Russell Midcap Value	1.77	0.43	3.05	10.09
	Russell Midcap Growth	1.19	0.76	5.88	14.72
All Cap	Russell 3000	1.38	0.81	3.68	11.86
	Russell 3000 Value	1.17	0.72	1.35	8.71
	Russell 3000 Growth	1.58	0.88	5.94	14.95
International Markets	MSCI EAFE	-0.40	2.27	8.93	-0.06
	MSCI ACWI ex US	-1.47	1.97	7.29	-0.47
	MSCI Europe	-0.60	1.18	7.55	-4.32
	MSCI Japan	1.31	6.64	15.76	16.30
	MSCI AC Asia Pacific ex Japan	-2.65	2.77	7.65	5.29
	MSCI EAFE SMID	0.69	3.58	10.93	2.73

		1 Mo	3 Mos	YTD	12 Mos
Int'l - Continued	MSCI ACWI ex US SMID	-0.17	3.83	9.65	1.51
	MSCI Emerging Mkts	-3.99	1.97	5.78	0.33
	MSCI EMEA	-6.36	-1.30	3.66	-13.32
	MSCI Latin America	-7.01	-5.06	-7.15	-20.80
	MSCI Frontier Markets	-3.49	-1.53	-2.77	-13.62
Sectors - S&P500 GICS	Consumer Discretionary	1.32	0.81	6.14	18.02
	Consumer Staples	0.84	-1.97	1.06	11.22
	Energy	-4.76	-0.38	-1.33	-15.39
	Financials	1.84	1.40	-0.07	12.32
	Healthcare	4.53	4.04	9.86	27.25
	Industrials	0.33	-2.29	-0.55	5.36
	Information Technology	2.31	1.24	5.30	18.81
	Materials	0.47	-1.33	4.59	4.67
	Telecom Services	-1.77	0.19	5.60	3.12
	Utilities	0.67	-0.82	-4.97	7.93

Source: LPL Research, Bloomberg, FactSet 05/31/15

(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.

Fixed Income	1 Mo	3 Mos	YTD	12 Mos
BarCap US Agg	-0.24	-0.14	1.00	3.03
BarCap 1-10 Muni	-0.29	-0.40	0.28	1.43
BarCap HY Muni	1.13	0.45	1.83	5.89
BarCap Inv. Grade Credit	-0.65	-1.03	0.94	2.72
BarCap Muni Long Bond -22+	-0.33	-0.77	0.29	5.31
BarCap US Agg Securitized MBS	-0.02	0.39	1.08	3.34
BarCap US TIPs	-0.82	-0.56	1.33	-0.47
BarCap US Treasury Interm	0.05	0.49	1.22	2.09
BarCap US Treasury Long	-1.59	-3.53	-0.87	10.32
BarCap US High Yield Loans	0.12	1.42	3.41	3.01
ML Preferred Stock Hybrid	0.03	0.26	2.72	6.89
ML US High Yield BB/B Rated	0.35	0.98	4.18	2.97
ML US Convert ex Mandatory	2.22	2.82	6.10	8.71
JPM GBI Global ex US Hedged	-0.82	-0.84	0.50	6.42
JPM GBI Global ex US Unhedged	-3.37	-3.45	-5.71	-12.33
JPM GBI-EM Global Div	-2.58	-2.72	-3.71	-13.49
JPM ELMI+	-1.38	1.09	-0.75	-9.31
JPM EMBI+ Composite	-0.51	1.57	2.89	0.55

Alternatives	1 Mo	3 Mos	YTD	12 Mos
HFRX Absolute Return	0.59	1.09	2.40	2.04
HFRX Market Directional	-0.42	2.48	4.52	7.76
HFRX Convertible Arb.	0.10	1.88	3.26	-6.82
HFRX Distressed	0.59	2.04	2.47	-1.28
HFRX Equity Hedge	-0.18	1.62	3.24	4.96
HFRX Market Neutral	-0.45	-0.88	-0.24	2.59
HFRX Event Driven	0.48	1.35	2.45	-4.39
HFRX Merger Arb.	0.83	2.10	4.05	5.55
HFRX Relative Value Arb.	0.20	0.93	2.79	-1.72
HFRX Global Hedge Fund	0.26	0.81	2.55	1.11
HFRX Macro Index	0.69	-1.30	1.34	7.52
HFRX Systematic Diversified	-0.10	-2.35	0.86	7.01
Bloomberg Commodity	-2.70	-2.40	-3.23	-24.55
DJ Wilshire REIT	-0.04	-4.14	-1.39	11.04
Alerian MLP	-3.58	-1.95	-2.97	-7.40

		Latest Mo End (05/31/15)	3 Mos Ago (02/28/15)	Latest Yr End (12/31/14)	12 Mos Ago (05/31/14)
Currency	US Dollar Index Value	96.89	95.25	90.28	80.39
Currency	USD vs. Yen	124.14	119.63	119.69	101.80
Currency	Euro vs. USD	1.10	1.12	1.21	1.36
Cmdtys	Gold ($ per Troy Ounce)	1190.00	1213.70	1182.90	1251.30
Cmdtys	Crude Oil ($ per Barrell)	60.30	49.76	53.27	102.71

IMPORTANT DISCLOSURES

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 onrisks, 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.

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.

Treasury Inflation-Protected Securities (TIPS) help eliminate inflation risk to your portfolio, as the principal is adjusted semiannually for inflation based on the Consumer Price Index (CPI)—while providing a real rate of return guaranteed by the U.S. government. However, a few things you need to be aware of is that the CPI might not accurately match the general inflation rate; so the principal balance on TIPS may not keep pace with the actual rate of inflation. The real interest yields on TIPS may rise, especially if there is a sharp spike in interest rates. If so, the rate of return on TIPS could lag behind other types of inflation-protected securities, like floating rate notes and T-bills. TIPS do not pay the inflation-adjusted balance until maturity, and the accrued principal on TIPS could decline, if there is deflation.

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.

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.

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.

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.

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.

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 Citigroup Economic Surprise Index is an objective and quantitative measure of economic news. It is defined as weighted historical standard deviations of data surprises (actual releases versus Bloomberg survey median). A positive reading of the Economic Surprise Index suggests that economic releases have on balance beaten consensus. The index is calculated daily in a rolling three-month window.

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 Employment Cost Index (ECI) measures the change in the cost of labor, free from the influence of employment shifts among occupations and industries and is published by the Bureau of Labor Statistics.

The monthly jobs report (known as the employment situation report) is a set of labor market indicators based on two separate surveys distributed in one monthly report by the U.S. Bureau of Labor Statistics (BLS). The report includes the unemployment rate, non-farm payroll employment, the average number of hours per week worked in the non-farm sector, and the average basic hourly rate for major industries.

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 Leading Economic Indicators (LEI) Index is a measure of economic variables, such as private-sector wages, that tends to show the direction of future economic activity.

The S&P/Case-Shiller home price index tracks monthly changes in the value of residential real estate in 20 metropolitan regions across the U.S. The composite indexes and the regional indexes are seen by the markets as measuring changes in existing home prices and are based on single-family home re-sales.

Purchasing Managers' Indexes (PMI) are economic indicators derived from monthly surveys of private sector companies, and are intended to show the economic health of the 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 two principal producers of PMIs are Markit Group, which conducts PMIs for over 30 countries worldwide, and the Institute for Supply Management (ISM), which conducts PMIs for the US.

Beta measures a portfolio's volatility relative to its benchmark. A Beta greater than 1 suggests the portfolio has historically been more volatile than its benchmark. A Beta less than 1 suggests the portfolio has historically been less volatile than its benchmark.

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 **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 **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 **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 **Barclays Corporate Investment Grade Credit Index** is a broad-based benchmark that measures the investment-grade, U.S. dollar-denominated, fixedrate, 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 **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 **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 wzare subindexes of the Municipal Bond Index, based on duration length.)

The **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 **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 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 form 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 Japan Index** is a free float-adjusted, market capitalization-weighted index that is designed to track the equity market performance of Japanese securities listed on Tokyo Stock Exchange, Osaka Stock Exchange, JASDAQ, and Nagoya Stock Exchange.

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 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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