LPL RESEARCH

MARKET INSIGHT MONTHLY

AUGUST 2016 IN REVIEW

September Update | As of August 31, 2016

ECONOMY:

POCKETS OF STRENGTH IN AUGUST KEEP Q3 GROWTH FORECASTS ON TRACK

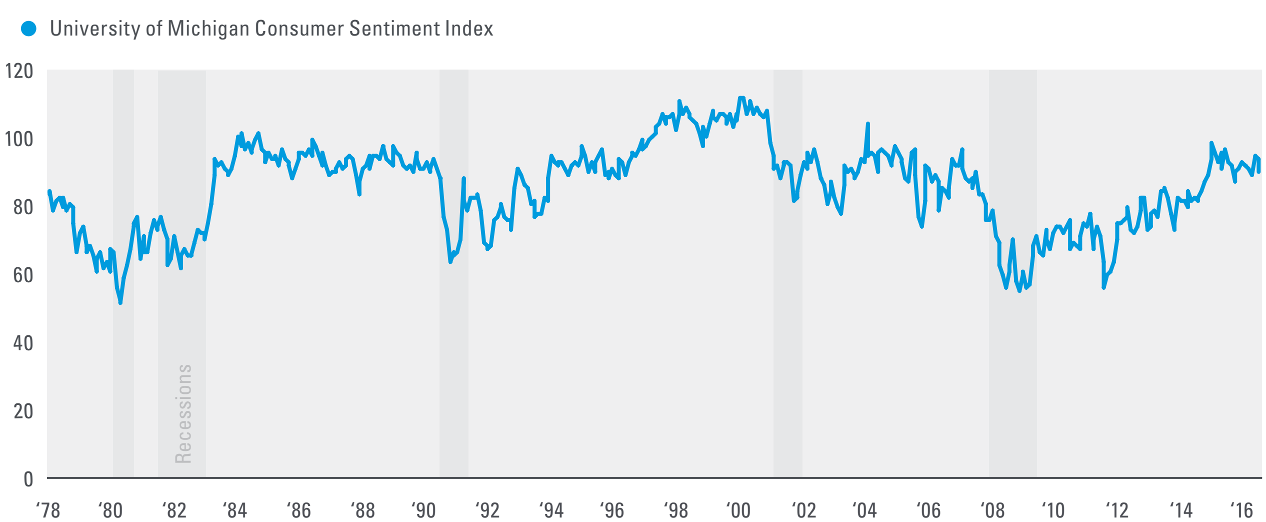
Economic Data

Economic reports received in August, which largely reflect economic activity in July, signaled the economy is on track to bounce back from the roughly 1% real gross domestic product (GDP) growth in the last three quarters. Data were consistent with possible GDP growth of 3–4% in the third quarter of 2016. In aggregate, data came in ahead of expectations for a second consecutive month, although the average size of surprises had narrowed. Although the consumer continues to be the main driver of the economy (with particular strength in the second quarter, according to GDP data), surprises in August were more evenly distributed across economic sectors, providing some signs that economic headwinds to manufacturing from a strengthening dollar and low oil prices are fading.

There were several signs of improvement in manufacturing activity in August reports. The production-related component of the Chicago Fed National Activity Index, a monthly aggregate of economic indicators, posted its best number since July 2015 and was above zero for two consecutive months for the first time since August 2014 (above zero represents growth above the long-term historical trend rate). Manufacturing data were highlighted by respectable 0.5% growth in manufacturing industrial production. While stabilization in manufacturing is a positive sign, recent strength takes place against a backdrop of slow to flat growth over the last two years.

Improving economic data and little immediate impact from the United Kingdom's referendum vote to leave the European Union ("Brexit") has intensified

CONSUMER SENTIMENT REMAINS AT LEVELS CONSISTENT WITH OTHER EXPANSIONS



Source: LPL Research, University of Michigan, Federal Reserve 09/05/16 already heavy scrutiny of the monthly employment data. According to the August Employment Situation report, the economy created 255,000 jobs in July, much higher than somewhat tempered consensus expectations of 170,000 following June's surprising addition of an upwardly revised 292,000 jobs. The unemployment rate ticked up to 4.9% in July from 4.8% in June, but that rise occurred for the "right reasons," as the labor force increased. Average hourly earnings rose 2.6% year over year in July, in-line with expectations and the June reading, probably the most disappointing aspect of an otherwise solid report.

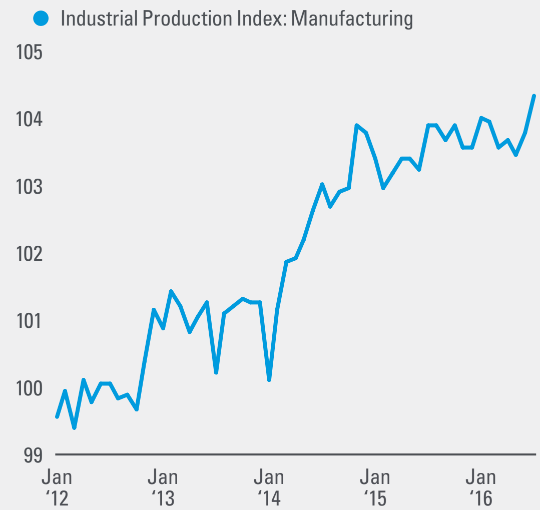
Despite a strengthening labor market, July retail sales were flat versus expectations of 0.4% growth. The number was even weaker excluding automobiles (-0.3%) and excluding automobiles and gas (-0.1%). The disappointing data were somewhat mitigated by an upward 0.2% revision to the June data. The contrasting employment and retail data were reflected in the University of Michigan's Consumer Sentiment data. The August survey remains at a level consistent with prior expansions, but missed expectations. There was a marked contrast, however, between a rising but somewhat depressed expectations index, which might be reflecting continued job market improvement, versus a decline in the assessment of current conditions, which may have restrained retail sales.

Forward-looking indicators in August signaled the possibility of stronger growth in the third quarter. Aggregate economic surprises, as measured by the Citi Economic Surprise Index, flattened in August but remained above the zero level that represents net positive aggregate surprises. The Conference Board's Leading Economic Index (LEI) for July, an aggregate of key economic data points that tend to lead the overall economy, rose 0.4%. At the end of August, Atlanta and New York Fed GDP NowCast models, which forecast GDP growth based on data released to date, had third quarter GDP growth at 3.5% and 2.8%, respectively.

Central Banks

The Federal Reserve (Fed) does not hold a policy meeting in August (the next policy meeting will take place September 20–21), but the minutes from the July 26–27 policy meeting were released on August 17

JULY MANUFACTURING PRODUCTION DATA SHOWED SIGNS OF ACCELERATION



Source: LPL Research, Federal Reserve 09/05/16

and Fed Chair Janet Yellen was a featured speaker at the Fed's August 26 annual policy symposium in Jackson Hole, Wyoming. The Fed minutes indicated somewhat heightened internal division among policymakers in late July, as they weighed strong employment data against continued slow economic growth. With little explicit support for a September hike and the possibility of lowered long-term expectations, the 10-year Treasury yield fell modestly in response to the release.

While the minutes reflected the Fed's mood back in late July, Yellen's Jackson Hole speech reflected an additional month of continued economic improvement and strong jobs data. Yellen sounded relatively upbeat about the prospects for both the U.S. and global economies, and while she didn't make any promises, she noted that the case for a rate hike "has strengthened in recent months." The speech complemented a parade of Fed speakers over the month emphasizing that a rate hike in September was a live possibility, if only, perhaps, to move the market to start adjusting to the likelihood of a December hike. While a September hike remains a possibility, based on current economic data and this recent messaging from Fed members, we continue to expect the Fed to raise rates in December 2016.

GLOBAL EQUITIES:

CLOSE BUT NO CIGAR: U.S. EQUITIES' MONTHLY WINNING STREAK SNAPPED AT 5 IN AUGUST

U.S.

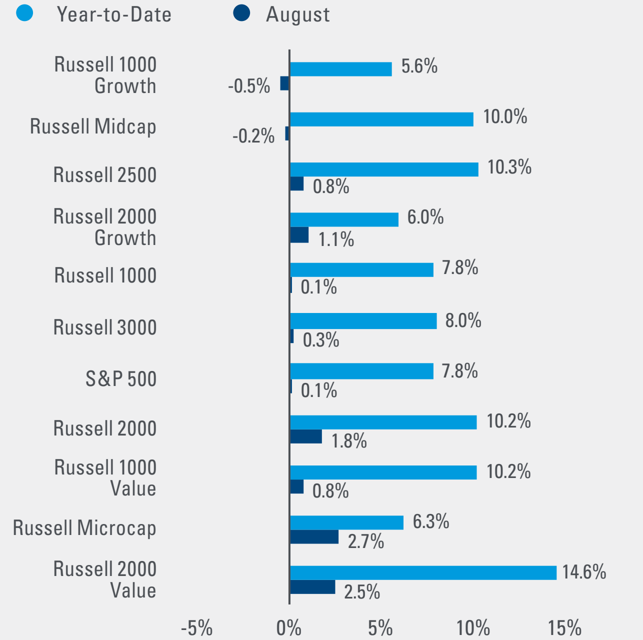
The S&P 500 Index finished down 0.1% in August, ending the five-month winning streak. On a total return basis, the month produced a marginal positive return; interestingly, the previous monthly loss back in February 2016 was also only 0.1%, putting the S&P 500 very close to a seven-month winning streak.

August was unique in that the S&P 500 did not move up or down more than 1% on any trading day during the month, while the trading range for the index based on closing prices was the tightest of any month in over a decade. Stocks are still poised for a 13th positive quarter out of the past 14, although September has historically been among the worst months on the calendar for stocks.

Despite the calm, market participants remained intensely focused on the Fed as Yellen and other Fed officials reminded the market throughout the month that a September rate hike, and certainly a December hike, remained on the table. And while overseas economies have not delivered any unwelcomed surprises in recent weeks, they still could, with issues like Brexit and China's debt problem hovering over the market. In the U.S., second quarter earnings season offered few signs of improvement for corporate America and U.S. presidential election uncertainty remains. Despite all this, stocks remained near record highs with historic low volatility.

Rising interest rates on increasing expectations of a Fed rate hike were clearly evident in the sector performance rankings. Financials, a big beneficiary of rising interest rates, topped the sector leaderboard in August with a total return of 3.8%, while the sectors most negatively correlated to interest rates, telecom (-5.7%) and utilities (-5.6%), suffered the biggest losses. Gains in the most economically sensitive sectors, including technology, energy, and industrials, suggest an improving macroeconomic backdrop.

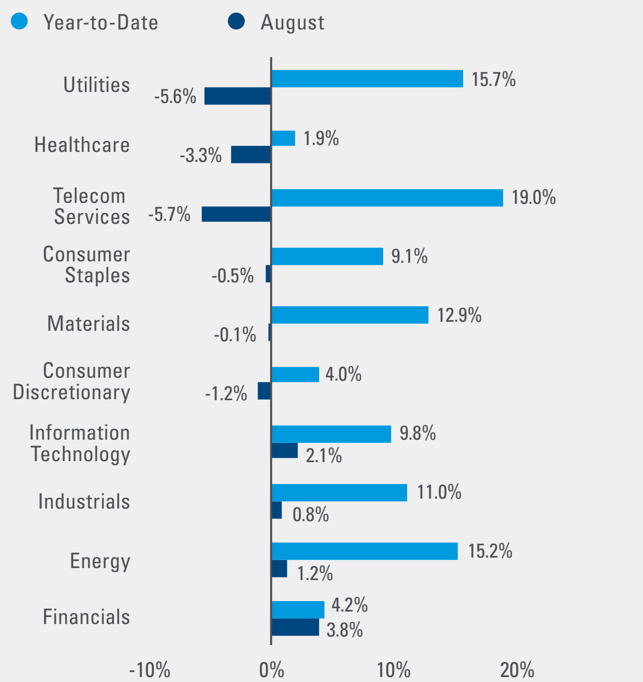
DOMESTIC INDEX PERFORMANCE



Source: LPL Research, FactSet 08/31/16

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 08/31/16

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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.

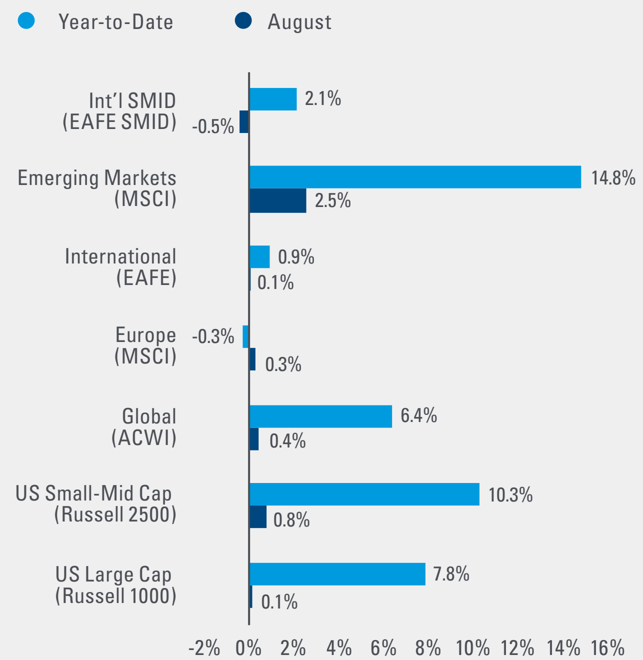
Small cap leadership was also encouraging as the most economically and market sensitive segment of the market cap spectrum outperformed based on the Russell 2000 Index. Although stock valuations based on price-to-earnings ratios are elevated and many fear that the bull market is too old, the composition and broad distribution of the market's recent gains are encouraging.

International

August was a good month for international investing as both foreign developed and emerging markets equities outperformed U.S. equities based on the MSCI EAFE and MSCI Emerging Markets (EM) indexes. Not only were European markets only minimally disrupted by the United Kingdom vote to exit the European Union in late June, in dollar terms they have actually outperformed the U.S. since the vote, as markets appear to have been relieved by the stability of the European economies. Prospects for more stimulus from the European Central Bank (ECB) and Bank of Japan also continue to buoy sentiment in developed overseas markets while keeping interest rates extremely low. Leading developed foreign markets included the Netherlands, Germany, and Sweden, while Australia lagged. The U.K. market gained in British pounds, but was lower in U.S. dollars.

Despite the market's pricing in higher odds of a Fed rate hike and the related rise in the U.S. dollar, EM equity markets outperformed the U.S. benchmarks, helped by a rally in commodity prices in the first half of the month. Among the best performing EM country markets were China, Thailand, and South Korea, while South Africa lagged.

GLOBAL INDEX PERFORMANCE



Source: LPL Research, FactSet 08/31/16

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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.

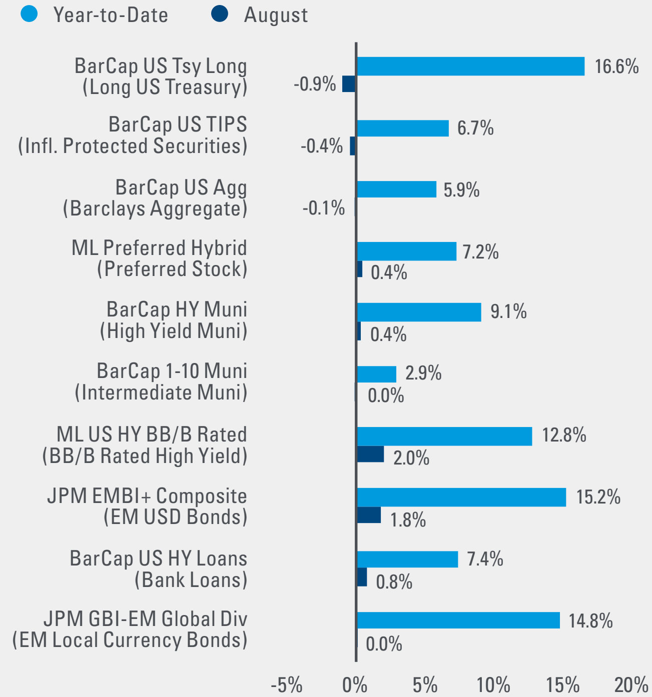
FIXED INCOME:
ECONOMICALLY SENSITIVE SECTORS RALLY WHILE YIELDS RISE

Interest rates were up during August, with yields rising across the yield curve. The yield on the 2- and 10-year Treasuries rose by 0.13% and 0.12%, respectively. Longer-term yields were depressed at the beginning of the month due to a weak second quarter GDP figure and gradually rose over the course of the month. Hawkish comments by Fed members throughout August, hoping to keep markets honest about the potential for near-term rate hikes, pushed Treasury yields higher in the short end of the curve. The rising rate backdrop was a headwind for high-quality bonds, as the Barclays U.S. Treasury Index returned -0.6% during August. The Barclays U.S. Aggregate returned -0.1% for the month.

More economically sensitive, lower credit-quality bonds rallied, as global investors continued their search for yield in a low-yielding environment. The rebound in the price of oil, up 7.5% during the month, was an additional tailwind for high-yield and emerging markets debt (EMD), which were notably strong during the month. High-yield and EMD returned 2.0% and 1.8% during August, bringing their year-to-date returns to 12.8% and 15.3%, respectively.

The rise in yields was a tailwind for preferreds, as financial stocks are beneficiaries of higher interest rates. The rise in Libor (London interbank offered rate), a short-term global benchmark interest rate, was a benefit for bank loans, which returned 0.8% during August.

FIXED INCOME PERFORMANCE



US TREASURY YIELDS

Security	07/31/16	08/31/16	Change in Yield
3 Month	0.28	0.33	0.05
2 Year	0.67	0.80	0.13
5 Year	1.03	1.19	0.16
10 Year	1.46	1.58	0.12
30 Year	2.18	2.23	0.05

AAA MUNICIPAL YIELDS

Security	07/31/16	08/31/16	Change in Yield
2 Year	0.61	0.63	0.02
5 Year	1.03	1.03	0.00
10 Year	1.78	1.75	-0.03
20 Year	3.09	3.07	-0.02
30 Year	3.80	3.68	-0.12

Source: LPL Research, Bloomberg, FactSet 08/31/16

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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.

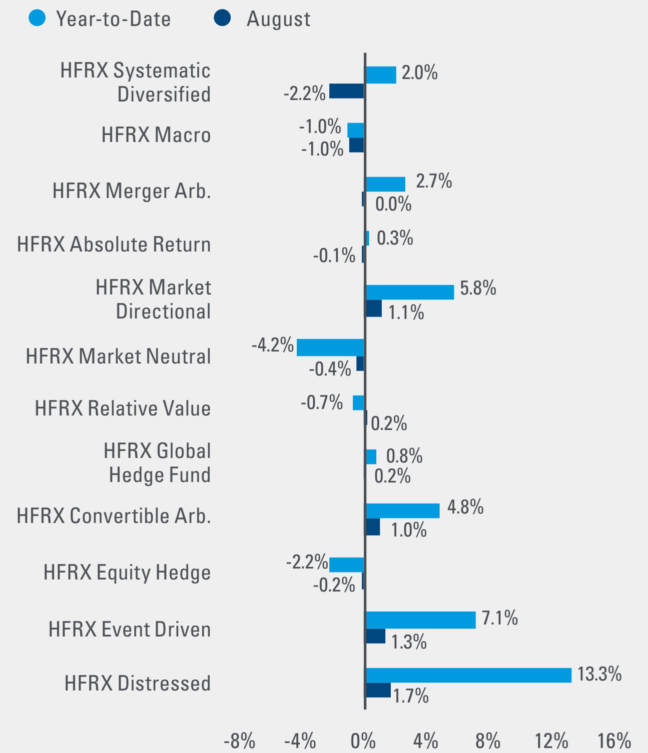
ALTERNATIVES:
DISTRESSED DEBT ADDS TO 6-MONTH RALLY

As measured by the 0.2% August decline in the HFRX Equity Hedge Index, equity-related strategies were marginally lower during a month characterized by extremely low levels of volatility. However, even while the S&P 500 traded in a tight range, there was significant performance dispersion between cyclical and defensive sectors, with financial, technology, and energy-related firms delivering gains, while healthcare, telecom, and utilities names declined. On balance, given the hedge fund industries' technology overweight and aversion to bond proxy sectors such as telecom and utilities, sector performance acted as a tailwind. Net equity exposure remained relatively unchanged from previous months, averaging 47%, while gross exposure increased approximately 5% to 157%. This net exposure figure remains well below the five-year average, with many managers growing increasingly reluctant to add market exposure.

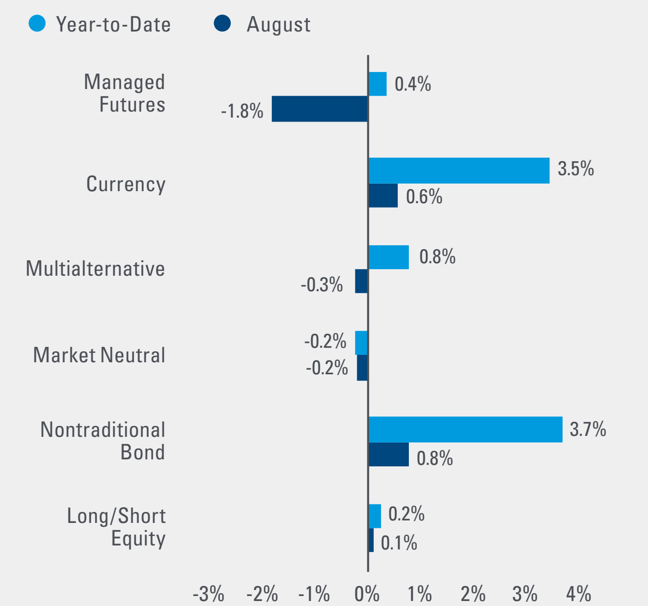
The impressive stretch of performance in the distressed debt industry also persisted into August, as the HFRX Distressed Index returned 1.7% and has now gained 20.0% since the beginning of March. This represents the benchmark's best stretch of performance since inception. Again, positions were supported by energy market gains, as WTI crude oil returned 7.45%.

Managed futures strategies were the main laggard during the month, as the HFRX Macro: Systematic Diversified Index declined 2.2%. Long exposure to U.S. Treasury contracts and the Japanese yen weighed on returns, as the long-term trend in both assets reversed, with a moderate increase in domestic rates and a weaker yen against the U.S. dollar. To a small extent, these losses were offset by profits in the agriculture markets, as short cotton and wheat exposure proved beneficial. Year to date, the index has now gained 2.0% and has experienced consistently large fluctuations in performance on a month-to-month basis.

HFRX INDEX PERFORMANCE



MORNINGSTAR INDEX PERFORMANCE



Source: LPL Research, FactSet 08/31/16

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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.

MIXED RESULTS FOR REAL ASSETS IN AUGUST

Real asset returns in August were varied with some assets posting strong returns while others dropped significantly. The U.S. dollar trade-weighted index was up 0.50% while the 10-year Treasury yield rose from 1.46% at the end of July to 1.58% on August 31. The Bloomberg Commodity Index returned -1.8% and the S&P 500 Index returned 0.1%.

MLPs & Global Listed Infrastructure

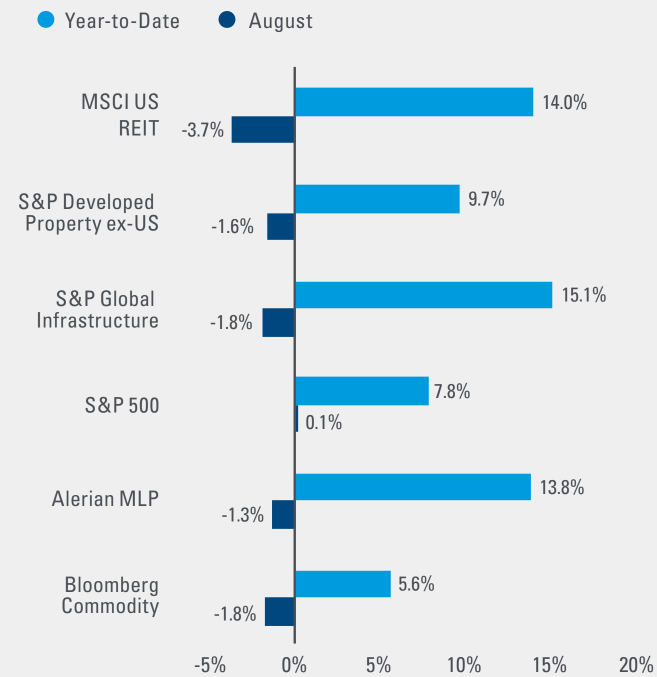
Master limited partnerships (MLP) were down modestly in August, with the Alerian MLP Total Return Index returning -1.3%. The yield on the index stands at 7.4% and the yield spread versus the 10-year Treasury stands more than 2% wide of the long-term average (3.39%). The index's yield spread versus BBB corporate bonds is still attractive as well, standing at greater than 3% versus the long-term average of 0.84%. Although production declines for oil have slowed and even reversed, slowing production remains a risk for those MLPs whose business models depend largely on transporting crude oil. This segment of the market, however, is not the majority and we believe that fundamentals are still solid for much of the universe. We are encouraged that the correlation between the index and WTI crude oil has come down since February of this year. The correlation of the index and WTI crude oil was 0.62 from the period of August 1, 2014, to January 31, 2016; this compares to a correlation of 0.48 from February 1, 2016 to August 31, 2016.

Global listed infrastructure, as measured by the S&P Global Infrastructure Index, returned -1.8% in August. This month broke the trend of five straight positive months for the index, which has rallied significantly year to date.

REITs

The REIT rally took a pause in August as the MSCI U.S. REIT Index returned -3.7%. Interest rate increases during the month certainly had an impact in stalling the index's rally as rates rose across the entire U.S. Treasury yield curve.

LIQUID REAL ASSET PERFORMANCE



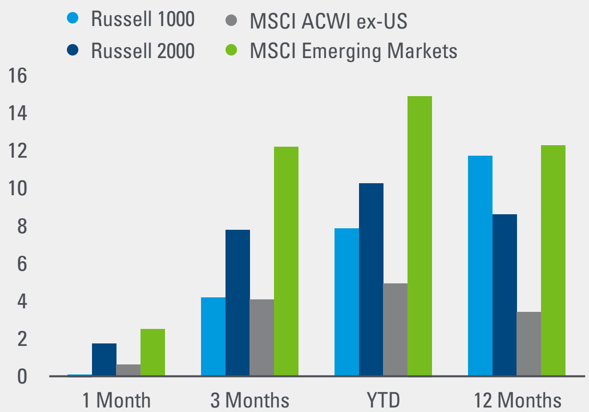
Source: LPL Research, FactSet 08/31/16

Commodities

The Bloomberg Commodity Index returned -1.8% for the month, with energy as the most significant positive contributor. WTI crude oil prices increased 7.45%. Natural gas prices also increased, albeit modestly, by 0.38%. Energy bounced back from a rough July as hope grew over a potential OPEC supply freeze agreement. Agricultural commodities continued their losing streak from July even as net positioning by hedge funds turned slightly less bearish toward the end of the month. Wheat futures hit a 10-year low in August as large expected grain harvests in the U.S. continue to put pressure on the complex. Gold returned -3.40% and silver -8.06% as precious metals took a break from their year-to-date rally. Interest rate increases once again had an impact on the metals.

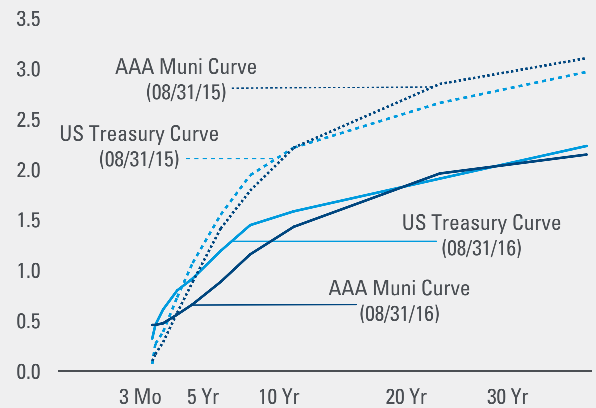
MONTHLY PERFORMANCE REPORT

EQUITY PERFORMANCE



Source: LPL Research, Bloomberg, FactSet 08/31/16

DOMESTIC YIELD CURVE



Source: LPL Research, Bloomberg, FactSet 08/31/16

		1 Mo	3 Mos	YTD	12 Mos
Large Cap	S&P 500	0.14	4.10	7.82	12.55
	DJIA	0.26	4.18	7.65	14.37
	Russell 1000	0.13	4.18	7.83	11.69
	Russell 1000 Value	0.77	4.59	10.23	12.92
	Russell 1000 Growth	-0.50	3.79	5.62	10.54
Small/Mid Cap	Russell 2000	1.77	7.78	10.23	8.59
	Russell 2000 Value	2.49	8.34	14.58	13.80
	Russell 2000 Growth	1.06	7.18	5.96	3.55
	Russell Microcap	2.70	7.44	6.26	3.79
	Russell Midcap	-0.25	4.78	10.04	9.91
	Russell Midcap Value	-0.21	4.96	13.24	12.88
	Russell Midcap Growth	-0.29	4.63	6.89	7.00
All Cap	Russell 3000	0.26	4.45	8.01	11.44
	Russell 3000 Value	0.90	4.87	10.55	12.98
	Russell 3000 Growth	-0.38	4.04	5.65	9.99
International Markets	MSCI EAFE	0.08	1.68	0.92	0.38
	MSCI ACWI ex US	0.65	4.10	4.95	3.43
	MSCI Europe	0.31	-0.08	-0.30	-2.54
	MSCI Japan	0.39	4.29	1.12	3.19
	MSCI AC Asia Pacific ex Japan	2.11	10.22	10.53	13.65
	MSCI EAFE SMID	-0.45	0.62	2.11	4.40

		1 Mo	3 Mos	YTD	12 Mos
Int'l - Continued	MSCI ACWI ex US SMID	-0.25	2.75	5.51	6.79
	MSCI Emerging Mkts	2.52	12.15	14.84	12.25
	MSCI EMEA	-2.62	6.35	14.88	0.23
	MSCI Latin America	0.71	18.46	33.58	20.13
	MSCI Frontier Markets	-1.12	-3.32	0.00	-3.40
Sectors -S&P500 GICS	Consumer Discretionary	-1.24	2.03	3.96	9.29
	Consumer Staples	-0.48	3.93	9.15	18.10
	Energy	1.15	2.46	15.17	7.71
	Financials	3.83	4.07	4.24	7.15
	Healthcare	-3.32	2.49	1.88	4.97
	Industrials	0.83	5.28	10.99	17.67
	Information Technology	2.12	7.14	9.83	18.69
	Materials	-0.07	4.09	12.86	14.69
	Telecom Services	-5.67	4.19	18.96	23.40
	Utilities	-5.62	1.04	15.67	20.32

Source: LPL Research, Bloomberg, FactSet 08/31/16

(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
Fixed Income	BarCap US Agg	-0.11	2.32	5.86	5.97
	BarCap 1-10 Muni	-0.06	1.03	2.53	3.78
	BarCap HY Muni	0.36	4.16	9.08	13.38
	BarCap Inv. Grade Credit	0.20	3.95	9.47	9.64
	BarCap Muni Long Bond -22+	0.31	2.74	7.06	10.46
	BarCap US Agg Securitized MBS	0.12	1.14	3.44	3.93
	BarCap US TIPs	-0.45	2.50	6.68	5.37
	BarCap US Treasury Interm	-0.47	1.03	3.21	3.11
	BarCap US Treasury Long	-0.95	7.49	16.59	16.75
	BarCap US High Yield Loans	0.78	2.31	7.38	4.19
	ML Preferred Stock Hybrid	0.41	2.73	7.24	11.26
	ML US High Yield BB/B Rated	2.01	5.43	12.76	8.79
	ML US Convert ex Mandatory	0.88	6.07	7.17	4.97
	JPM GBI Global ex US Hedged	-0.18	2.70	7.86	9.55
	JPM GBI Global ex US Unhedged	-1.01	3.91	13.39	12.99
	JPM GBI-EM Global Div	0.04	6.57	14.75	11.33
	JPM ELMI+	0.22	3.13	6.44	5.62
	JPM EMBI+ Composite	1.76	7.32	15.25	16.00

		1 Mo	3 Mos	YTD	12 Mos
Alternatives	HFRX Absolute Return	-0.06	0.38	0.32	0.79
	HFRX Market Directional	1.15	5.91	5.76	-1.67
	HFRX Convertible Arb.	1.04	3.81	4.85	2.73
	HFRX Distressed	1.73	7.43	13.31	2.82
	HFRX Equity Hedge	-0.18	0.31	-2.18	-3.43
	HFRX Market Neutral	-0.45	-0.27	-4.24	-1.45
	HFRX Event Driven	1.34	5.17	7.11	3.02
	HFRX Merger Arb.	-0.01	0.29	2.67	6.27
	HFRX Relative Value Arb.	0.18	1.29	-0.75	-5.01
	HFRX Global Hedge Fund	0.16	1.81	0.78	-1.91
	HFRX Macro Index	-0.98	0.31	-1.01	-1.96
	HFRX Systematic Diversified	-2.15	3.15	2.03	1.99
	Bloomberg Commodity	-1.76	-2.93	5.57	-8.76
	DJ Wilshire REIT	-3.38	7.36	11.75	24.23
	Alerian MLP	-1.32	4.33	13.83	-6.23

		Latest Mo End (08/31/16)	3 Mos Ago (05/31/16)	Latest Yr End (12/31/15)	12 Mos Ago (08/31/15)
Currency	US Dollar Index Value	95.99	95.80	98.69	95.93
	USD vs. Yen	103.35	110.73	120.66	121.18
	Euro vs. USD	1.12	1.11	1.09	1.12
Cmdtys	Gold ($ per Troy Ounce)	1308.50	1215.00	1061.00	1134.40
	Crude Oil ($ per Barrel)	44.70	49.10	37.04	49.20

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.

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.

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.

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 presidents of regional Federal Reserve Banks are commonly classified as hawks or doves. Hawks generally favor tighter monetary policy, with less monetary support from the Federal Reserve. Doves are the opposite, generally favoring easing of monetary policy.

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.

The P/E ratio (price-to-earnings ratio) is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. It is a financial ratio used for valuation: a higher P/E ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with lower P/E ratio.

The Consumer Sentiment report refers to a report published by the University of Michigan, in which the University's Consumer Survey Center questions 500 households each month on their financial conditions and attitudes about the economy. Consumer sentiment is important because it is directly related to the strength of consumer spending. Preliminary estimates for a month are released at mid-month. Final estimates for a month are released near the end of the month."

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.

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. 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.

Net equity exposure is the difference between long equity positions and short equity positions. Short selling (also known as shorting or going short) is the practice of selling assets, usually securities, that have been borrowed from a third party (usually a broker) with the intention of buying identical assets back at a later date to return to the lender. The short seller hopes to profit from a decline in the price of the assets between the sale and the repurchase, as the seller will pay less to buy the assets than the seller received on selling them.

NowCast models use advanced statistical methods to forecast GDP growth, which is only estimated by the BEA after the quarter is over, based on data available to date.

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

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 are subindexes of the Municipal Bond Index, based on duration length.)

The 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 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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