LPL RESEARCH

MARKET INSIGHT MONTHLY

SEPTEMBER 2016 IN REVIEW

October Update | As of September 30, 2016

ECONOMY: DISAPPOINTING SEPTEMBER DATA LOWER EXPECTATIONS

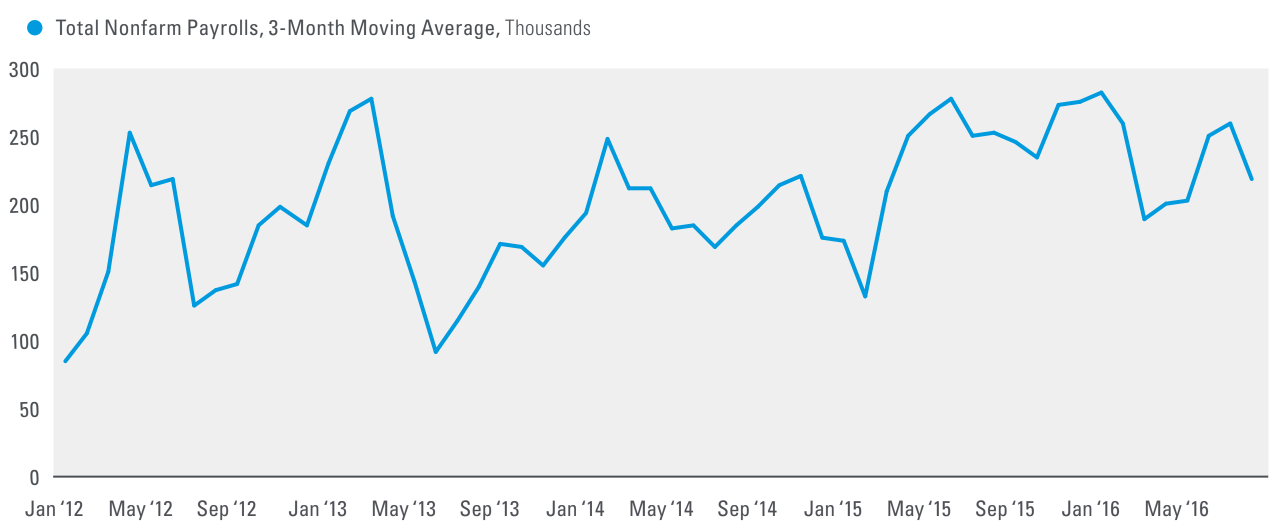
Economic Data

Economic reports received in September, which mostly reflect economic activity in August, broadly disappointed after signs of accelerating activity in the early part of the summer. Despite a weak month, data have continued to suggest stronger growth in the second half of the year after subdued real gross domestic product (GDP) growth of less than 1.5% in the first half of 2016. One way to gauge the impact of the month's data is to look at the change in the New York and Atlanta Federal Reserve (Fed) Bank forecasts for third quarter GDP during the month, based on data available to date. Between the end of August and the end of September, the Atlanta Fed's model for third quarter GDP growth moved from 3.5% to 2.4%, while the New York Fed's model moved from 2.8% to 2.2%. Even 2.2% growth would be the strongest quarter since the second quarter of 2015 (2.6%), so these revisions should be interpreted as a mediocre month of data after two relatively strong months, rather than as a warning of potential economic contraction.

Both Fed models saw a sizable impact from the upward revision of second quarter GDP growth in the latest estimate from 1.1% to 1.4%, which pulled some of the expected growth in the third quarter to earlier in the year. Downward revisions within the models were dispersed broadly across the major components of GDP, with the notable exception of trade, which received a meaningful upward revision over the month.

The month was not without its highlights. Consumer confidence remained strong on typical mid-cycle labor markets and oil prices still low enough for reasonable prices at the pump but high enough not to raise concerns about credit markets, as they did earlier in the year. The Conference Board's Consumer

JOB GROWTH HAS BEEN ABOVE 200,000 PER MONTH FOR MOST OF 2016



Source: LPL Research, U.S. Bureau of Labor Statistics 09/30/16

Confidence Index reached its highest level since the end of the Great Recession, with improvement in the assessment of both current conditions and expectations. Although housing data for the month were mixed, the National Association of Home Builders (NAHB) Housing Market Index rose sharply to its best level since October 2015, signaling improved prospects for housing.

On the negative side, manufacturing, which had been showing some signs of improvement, took a step back. The Institute for Supply Management's (ISM) manufacturing Purchasing Managers' Index (PMI) missed consensus expectations and dipped just below 50, which indicates contraction, for the first time since February. Consumers provided little offset, with retail sales falling 0.3% versus consensus expectations of a 0.1% decline.

Despite middling data, leading indicators continue to signal low odds of a recession. The Conference Board's Leading Economic Index (LEI), an aggregate of economic indicators that tend to lead the overall economy, fell 0.2% month over month but accelerated slightly year over year from 1.1% to 1.2%. Historically, when the change in the LEI has been at this level or higher the economy has been in a recession a year later only about 7% of the time.

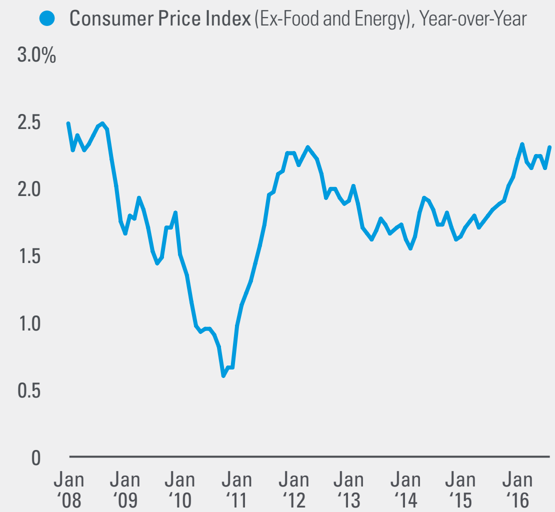
Central Banks

After a quiet August, September was a busy month for central banks, with closely watched policy meetings for the Fed, Bank of Japan (BOJ), and, to a lesser extent, the Bank of England (BOE) and European Central Bank (ECB).

Both the BOE and the ECB showed restraint at their September policy meetings, neither central bank reducing rates. With little of the feared economic damage from the Brexit vote manifesting in European economies to date and a broad sense of diminishing returns from further monetary easing, central bank officials were reluctant to step in without further evidence that it was warranted. The BOE did gesture at the possibility of lowering rates in November.

The BOJ left rates unchanged and did not expand its quantitative easing program, but did announce it would try to steepen its yield curve to improve the profitability of banks and that it was raising its inflation target. While the announcements did have an immediate impact on the stocks of financial institutions, which are sensitive to the yield curve, it revealed much about the challenges that Japan's central bank continues to face.

CORE INFLATION HAS BEEN NEAR EXPANSION HIGHS



Source: LPL Research, U.S. Bureau of Labor Statistics 09/30/16

The Fed also made no change to its policy rate at its September meeting. While expectations of a rate hike were low, there was some relief upon confirmation. Market participants took comfort in the Fed's projections of the path of the fed funds rate, which were updated for the first time since its June meeting. The median projection from Fed members decreased the number of expected hikes in 2017 from three to two, while the long run fed funds rate—what the Fed would consider neutral—dropped from 3.0% in the June 2016 projections to 2.875%. The policy statement released after the meeting did continue to gesture towards a potential December rate hike, emphasizing that "the case for an increase in the federal funds rate has strengthened," but, as always, with the added qualification that any decision would be data dependent.

GLOBAL EQUITIES:
SECOND STRAIGHT FLAT MONTH FOR U.S. EQUITIES

U.S.

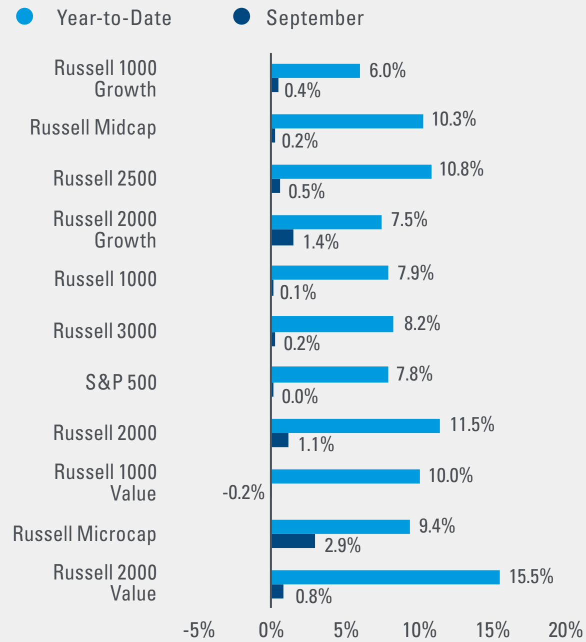
The S&P 500 finished September where it started, the second straight flat month. The index did, however, manage to produce a solid quarter, gaining 3.3% (or 3.9% on a total return basis) on the strength of July's gains. Considering September has been the market's worst calendar month historically (since 1950), and given widespread nervousness, flat probably did not feel so bad to most. On a total return basis, the S&P 500 has produced seven straight positive months (the last two months were marginally positive) and was 0.1% short of eight straight months (the S&P 500 returned -0.1% in February 2016).

Markets largely shrugged off concerns about sluggish economic growth, the ongoing earnings recession, China's debt problem, and the challenges that lie ahead for the United Kingdom (U.K.) as it engineers its separation from the European Union (EU). Markets were not quite as quiet as they were in July and August, which saw a total of one session when the S&P 500 moved more than 1% (there were six in September), but generally, volatility remained below average.

With Election Day approaching and the first presidential debate among the most watched political events in history, politics garnered significant media attention in September. The election, to the surprise of many, appeared to have little impact on markets, with the exception of the small bump up the day after the debate that was widely attributed to Clinton's performance (markets appear to prefer the continuity and lower uncertainty associated with a Clinton presidency).

Monetary policy remained in focus in September. Stocks dipped mid-month as interest rates moved higher on fears of a Fed rate hike, before bouncing back during the second half of the month as rates moved lower and the Fed held rates unchanged. The Fed's upgrade of its assessment of the economy in its September statement helped buoy investor sentiment even though hints at a rate hike in December came with it.

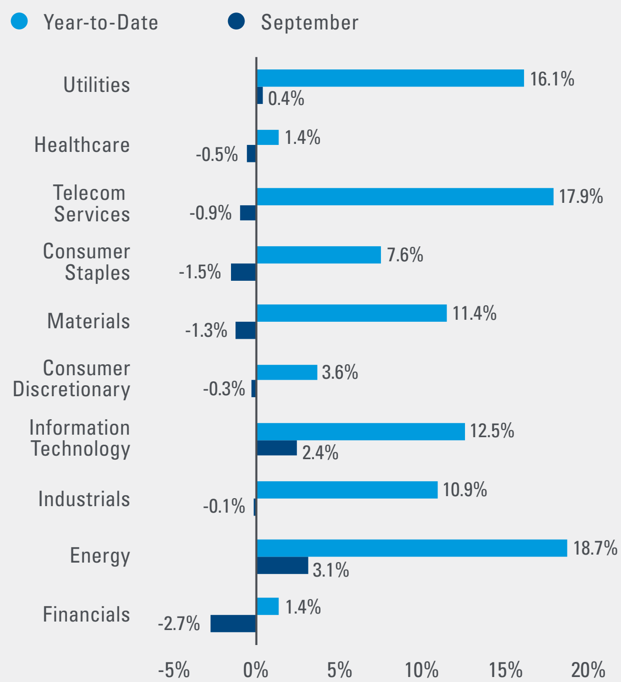
DOMESTIC INDEX PERFORMANCE



Source: LPL Research, FactSet 09/30/16

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 09/30/16

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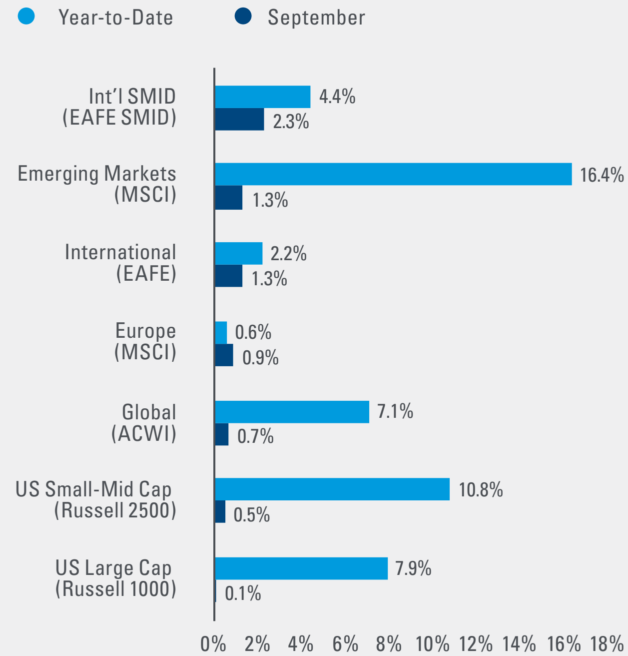
Stock investing involves risk, including loss of principal.

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

Sector performance favored the more economically sensitive sectors in September, a trend that has generally been in place since the spring and, we believe, suggests improving economic growth. The race for the top sector, won by energy (+3.1%) over second place finisher technology (+2.4%), came down to the last day of the month. Energy benefited from the nearly 8% gain in crude oil prices, driven in large part by OPEC's commitment to cut production — with details to come at its November 30 meeting. Technology finished a close second on strength in its top holding Apple and solid gains in semiconductor shares. Financials were the biggest laggard amid concerns about the health of European banks and the move lower in interest rates, which negatively impacts lending margins of financial institutions.*

Although the broad stock market indexes did not move much, continued small cap outperformance also suggested that market participants embraced risk. Small caps bested their mid and large cap counterparts for the third straight month and continue to outperform year to date (based on the Russell indexes). In terms of style, the combination of technology's strength and financials weakness propelled growth over value, although the value style leads year to date.

GLOBAL INDEX PERFORMANCE



Source: LPL Research, FactSet 09/30/16

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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.

International

September was another good month for international equity markets relative to the U.S. The international developed equity benchmark, the MSCI EAFE Index, and the emerging markets benchmark, the MSCI Emerging Markets Index, both outperformed the S&P 500. The MSCI EAFE Index returned 1.3% in September, and is up 2.2% year to date, while the MSCI EM Index returned 1.3% in September and 16.4% year to date.

Japan fared better than Europe but both posted gains, helped by the market's continued comfort with the Brexit situation, bold stimulus from global central banks, and a slightly weaker U.S. dollar over the month. European markets were hurt late in the month by increasing concerns about the health of European banks, but European economies have continued to perform reasonably well considering the expected pressure on the U.K. economy once it begins the process of separating from the EU. Leading developed foreign markets included Hong Kong, Japan, and commodity-oriented Norway and Australia, while Germany lagged due in large part to losses in Deutsche Bank shares.

Emerging markets have benefited from the Fed's go-slow approach to interest rate hikes as well as an improving earnings outlook and stability in the commodity and currency markets. As in developed markets, commodity-oriented markets including Russia and South Africa performed well, in addition to China and Taiwan. Mexican stocks fell in U.S. dollars amid concerns about the potential impact of a Trump presidency and related weakness in the peso, while markets in India, Thailand, and Malaysia also underperformed the broad EM Index.

* Based on Global Industry Classification Standard (GICS) sectors.

FIXED INCOME:

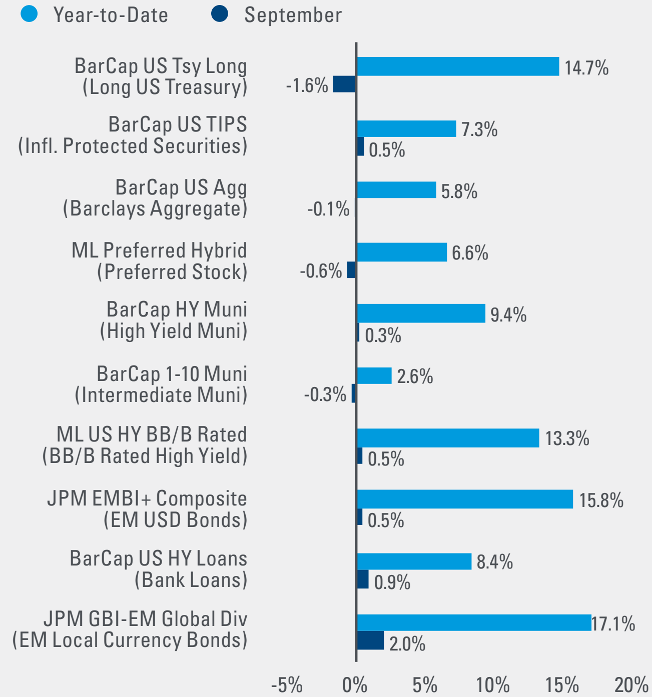
YIELD CURVE STEEPENS AMID CENTRAL BANK HEADLINES

The yield curve steepened over September, with the yield on the 2-year Treasury declining by 0.03% and the yield on the 10-year Treasury rising by 0.02%. The rise in yield on the 30-year Treasury was more pronounced, increasing by 0.09% during the month. Increases in longer-term yields were driven by a meaningful pickup in inflation expectations, in addition to comments by the BOJ that it was studying ways to steepen Japan's yield curve, which caused yield curve steepening not only in Japan but in Europe and the U.S. as well. Short-term interest rates were pushed lower by the Fed's decision not to raise the fed funds rate during its September meeting.

The rise in longer term yields was a headwind for high-quality fixed income. The broad Barclays Aggregate Bond Index returned -0.1% during the month. The longer duration of corporate bonds was a headwind, as the sector returned -0.3% during September. The aforementioned rise in inflation expectations was a tailwind for Treasury Inflation-Protected Securities (TIPS), which returned 0.55% on the month.

The rise in short-term interest rates helped to drive up Libor (London interbank offered rate), a short-term global benchmark interest rate, which was a benefit for bank loans, which returned 0.9% during September. The rebound in the price of oil, up 7.9% during the month, was an additional tailwind for high-yield and emerging market debt (EMD), which were notably strong during the month. High-yield and EMD returned 0.5% and 0.5% during September, bringing their year-to-date returns to 13.3% and 15.8%, respectively.

FIXED INCOME PERFORMANCE



US TREASURY YIELDS

Security	08/31/16	09/30/16	Change in Yield
3 Month	0.33	0.29	-0.04
2 Year	0.80	0.77	-0.03
5 Year	1.19	1.14	-0.05
10 Year	1.58	1.60	0.02
30 Year	2.23	2.32	0.09

AAA MUNICIPAL YIELDS

Security	08/31/16	09/30/16	Change in Yield
2 Year	0.63	0.78	0.15
5 Year	1.03	1.16	0.13
10 Year	1.75	1.83	0.08
20 Year	3.07	3.16	0.09
30 Year	3.68	3.77	0.09

Source: LPL Research, Bloomberg, FactSet 09/30/16

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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.

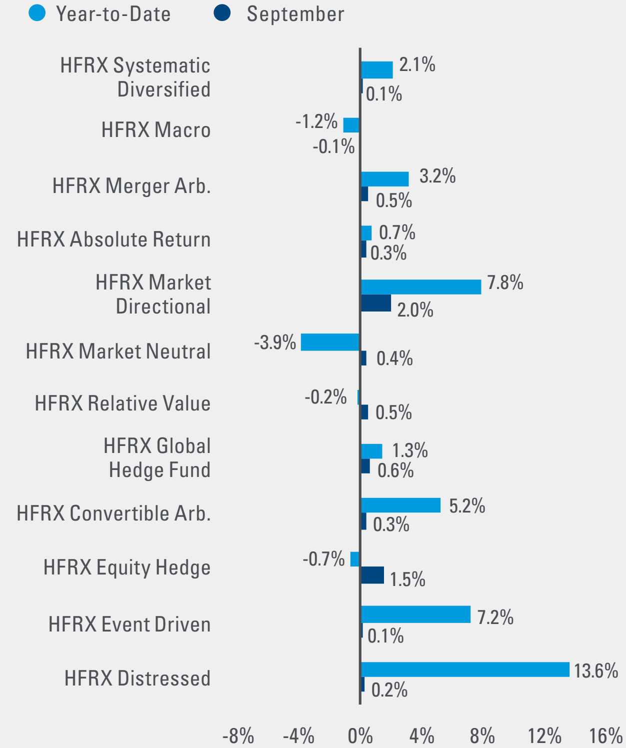
ALTERNATIVES:
LONG/SHORT STRATEGIES OUTPERFORM

As measured by the 1.5% gain in the HFRX Equity Hedge Index, long/short equity strategies outperformed the S&P 500 by the largest margin in a positive month since April 2015. The 2.4% return from the technology sector supported long positions, as in aggregate, the hedge fund industry has maintained a consistent overweight to the space. Additionally, the moderate increase in energy sector (+3.1% for the month) buying supported returns; while short exposure to the more defensive sectors such as telecom and consumer staples provided further gains.

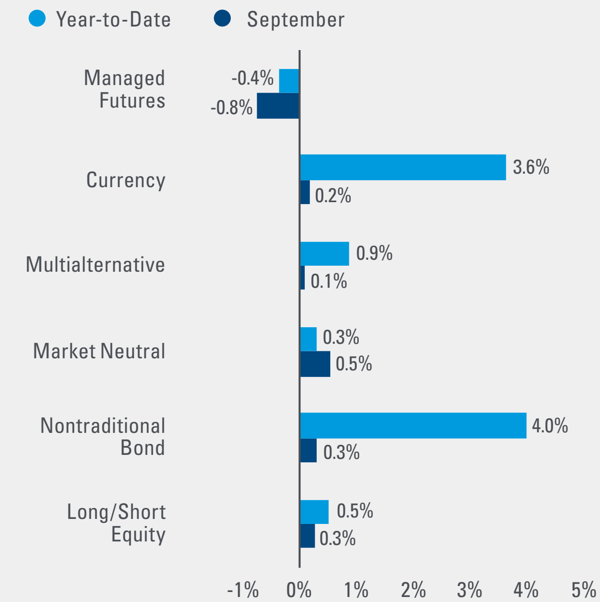
While performance in the distressed debt industry was positive (HFRX Distressed Debt +0.2%), it represented the softest month of performance since the January/February sell-off. However, year to date, the HFRX Distressed Debt Index has now returned 13.6%, which easily leads all alternative investment sub-categories. After several months of significant price appreciation, many of the energy related credits that were steeply marked down as oil plunged seemed to have found relative stability in pricing.

In the macro space, the HFRX Systematic Diversified Index gained 0.1% and has now returned 2.1% for the year. Long exposure to smaller metal markets such as nickel, copper, and palladium proved beneficial, as all three experienced sharp price gains. Unfortunately, these gains were partially offset by long fixed income exposure, as rates across the longer end of the yield curve increased moderately. Convertible arbitrage strategies (HFRX Convertible Arb +0.3%) also continue to see steady monthly returns, as the recent increase in volatility has acted as a tailwind. Year to date, the index has only experienced one down month (January) and has now gained 5.2%.

HFRX INDEX PERFORMANCE



MORNINGSTAR INDEX PERFORMANCE



Source: LPL Research, FactSet 09/30/16

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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.

STRONG PERFORMANCE FOR REAL ASSETS IN SEPTEMBER

Real asset returns in September were strong as the U.S. dollar provided a modest tailwind (U.S. dollar trade weighted index down 0.24%). The 10-year Treasury yield rose slightly from 1.58% to 1.60%. The Bloomberg Commodity Index returned 3.1% while the S&P 500 Index was flat.

MLPs & Global Listed Infrastructure

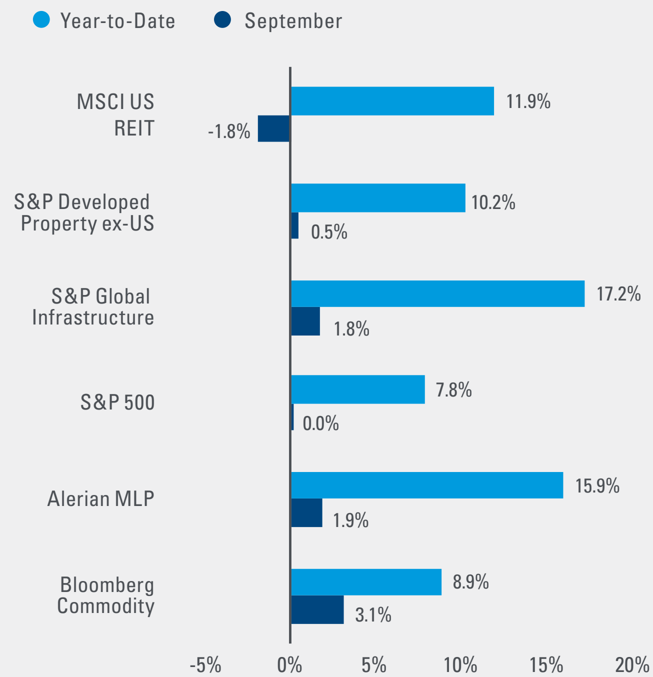
The most important development affecting master limited partnership (MLP) prices in September was the increase in crude oil prices. The Alerian MLP Index returned 1.9% for the month. The yield on the Alerian MLP Index remains above 7%, with the spread to the 10-year Treasury and BAA-rated corporate bonds well wide of historical averages. Fundamentals remain relatively strong for the group as a whole, especially for those companies engaged in long-haul transportation of energy products. Flows into energy infrastructure strategies have been strong, which is supportive of the asset class.

Global listed infrastructure, as measured by the S&P Global Infrastructure Index, returned 1.8% for the month, making returns in six of the last seven months positive for the index. Year to date, the index is up by more than 17%.

REITs

After an August which saw negative returns for REITs on the back of higher interest rates, the sector saw another negative month despite rates not rising materially. The MSCI US REIT Index returned -1.8% for the month with a sharp decline in the latter part of September as rates increased into month-end.

LIQUID REAL ASSET PERFORMANCE



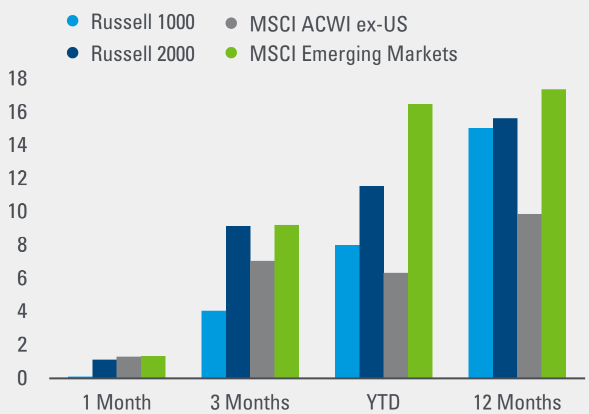
Source: LPL Research, FactSet 09/30/16

Commodities

WTI crude oil prices increased nearly 8% in September as an end of month OPEC meeting gave the markets hope that a production cut deal was forthcoming. It remains to be seen whether or not this deal will come to fruition, but the initial talk was of a cut of 800,000 barrels per day of production from OPEC. Natural gas prices were also buoyed by this news as prices increased by 11.3% for the month. A formal vote on the production cut will take place at a meeting in November. Two questions around the deal are surrounding the involvement of Iran and/or Russia in the cutting of output. Agricultural commodities were mixed with most posting increases. Gold was flat for the month while silver saw a modest uptick in prices, returning 1.4%. Copper exhibited strong performance, returning 6.5% in September, as managed money (i.e., hedge funds) turned from an overall net short position to net long toward the end of the month.

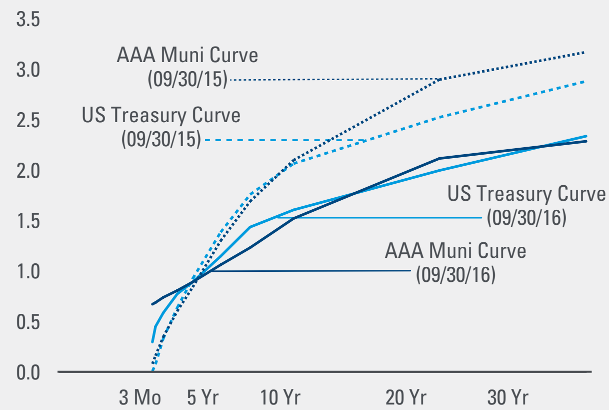
MONTHLY PERFORMANCE REPORT

EQUITY PERFORMANCE



Source: LPL Research, Bloomberg, FactSet 09/30/16

DOMESTIC YIELD CURVE



Source: LPL Research, Bloomberg, FactSet 09/30/16

		1 Mo	3 Mos	YTD	12 Mos
Large Cap	S&P 500	0.02	3.85	7.84	15.43
	DJIA	-0.41	2.78	7.21	15.46
	Russell 1000	0.08	4.03	7.92	14.93
	Russell 1000 Value	-0.21	3.48	10.00	16.20
	Russell 1000 Growth	0.37	4.58	6.00	13.76
Small/Mid Cap	Russell 2000	1.11	9.05	11.46	15.47
	Russell 2000 Value	0.79	8.87	15.49	18.81
	Russell 2000 Growth	1.44	9.22	7.48	12.12
	Russell Microcap	2.94	11.25	9.38	13.47
	Russell Midcap	0.20	4.52	10.26	14.25
	Russell Midcap Value	0.42	4.45	13.72	17.26
	Russell Midcap Growth	-0.05	4.59	6.84	11.24
All Cap	Russell 3000	0.16	4.40	8.18	14.96
	Russell 3000 Value	-0.13	3.87	10.40	16.38
	Russell 3000 Growth	0.45	4.92	6.12	13.64
International Markets	MSCI EAFE	1.27	6.50	2.20	7.06
	MSCI ACWI ex US	1.28	7.00	6.29	9.80
	MSCI Europe	0.89	5.45	0.58	3.13
	MSCI Japan	1.74	8.76	2.87	12.52
	MSCI AC Asia Pacific ex Japan	1.81	9.79	12.53	18.40
	MSCI EAFE SMID	2.28	8.06	4.44	10.90

		1 Mo	3 Mos	YTD	12 Mos
Int'l - Continued	MSCI ACWI ex US SMID	1.97	7.65	7.58	12.66
	MSCI Emerging Mkts	1.32	9.15	16.36	17.21
	MSCI EMEA	2.93	5.85	18.25	8.61
	MSCI Latin America	-0.82	5.41	32.49	29.03
	MSCI Frontier Markets	2.60	2.74	2.60	1.37
Sectors - S&P500 GICS	Consumer Discretionary	-0.31	2.94	3.64	9.64
	Consumer Staples	-1.46	-2.63	7.55	15.77
	Energy	3.08	2.26	18.72	18.96
	Financials	-2.72	4.59	1.40	7.44
	Healthcare	-0.51	0.94	1.37	10.71
	Industrials	-0.11	4.14	10.87	19.74
	Information Technology	2.44	12.86	12.51	22.82
	Materials	-1.25	3.71	11.45	22.25
	Telecom Services	-0.93	-5.60	17.86	26.82
	Utilities	0.39	-5.91	16.13	17.37

Source: LPL Research, Bloomberg, FactSet 09/30/16

(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.

Fixed Income	1 Mo	3 Mos	YTD	12 Mos
BarCap US Agg	-0.06	0.46	5.80	5.19
BarCap 1-10 Muni	-0.30	-0.11	2.22	2.87
BarCap HY Muni	0.27	1.29	9.37	11.32
BarCap Inv. Grade Credit	-0.25	1.41	9.20	8.56
BarCap Muni Long Bond -22+	-0.87	-0.67	6.13	8.72
BarCap US Agg Securitized MBS	0.28	0.60	3.72	3.61
BarCap US TIPs	0.55	0.96	7.27	6.58
BarCap US Treasury Interm	0.17	-0.26	3.39	2.50
BarCap US Treasury Long	-1.61	-0.36	14.71	13.13
BarCap US High Yield Loans	0.93	3.30	8.38	5.96
ML Preferred Stock Hybrid	-0.61	0.69	6.59	10.53
ML US High Yield BB/B Rated	0.47	5.00	13.29	12.01
ML US Convert ex Mandatory	1.58	7.41	8.87	10.01
JPM GBI Global ex US Hedged	-0.07	0.06	7.78	8.43
JPM GBI Global ex US Unhedged	0.97	0.46	14.49	13.00
JPM GBI-EM Global Div	2.02	2.68	17.07	17.06
JPM ELMI+	0.90	1.50	7.40	7.25
JPM EMBI+ Composite	0.46	3.11	15.78	17.83

Alternatives	1 Mo	3 Mos	YTD	12 Mos
HFRX Absolute Return	0.33	0.89	0.66	0.88
HFRX Market Directional	1.97	5.72	7.85	4.93
HFRX Convertible Arb.	0.30	3.64	5.17	3.65
HFRX Distressed	0.22	5.75	13.56	5.93
HFRX Equity Hedge	1.53	3.36	-0.69	0.13
HFRX Market Neutral	0.36	1.09	-3.90	-3.06
HFRX Event Driven	0.05	3.79	7.17	6.52
HFRX Merger Arb.	0.48	0.72	3.16	6.46
HFRX Relative Value Arb.	0.50	1.53	-0.25	-2.54
HFRX Global Hedge Fund	0.55	2.18	1.33	0.72
HFRX Macro Index	-0.15	-0.83	-1.15	-1.56
HFRX Systematic Diversified	0.07	-0.81	2.10	1.30
Bloomberg Commodity	3.13	-3.86	8.87	-2.58
DJ Wilshire REIT	-2.06	-1.24	9.45	17.70
Alerian MLP	1.85	1.07	15.94	12.74

		Latest Mo End (09/30/16)	3 Mos Ago (06/30/16)	Latest Yr End (12/31/15)	12 Mos Ago (09/30/15)
Currency	US Dollar Index Value	95.42	95.96	98.69	96.28
Currency	USD vs. Yen	101.34	103.21	120.66	119.93
Currency	Euro vs. USD	1.12	1.11	1.09	1.12
Cmdtys	Gold ($ per Troy Ounce)	1315.90	1321.70	1061.00	1115.30
Cmdtys	Crude Oil ($ per Barrel)	48.24	48.33	37.04	45.09

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.

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.

Purchasing Managers Indexes 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 U.S.

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

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

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

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

INDEX DEFINITIONS

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

The 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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