LPL RESEARCH

MARKET INSIGHT MONTHLY

JULY 2017 IN REVIEW

August Update | As of July 31, 2017

ECONOMY:
U.S. ECONOMY REBOUNDS IN Q2

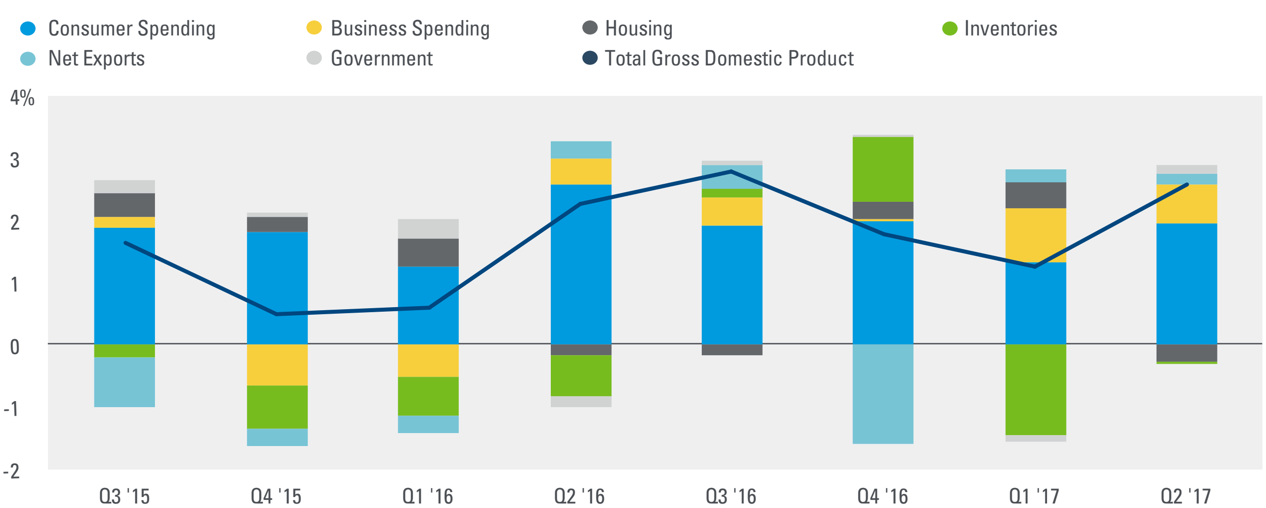
Economic Data

Economic reports released in July 2017, which mostly reflect economic activity in June, indicated that the economy continued to rebound in the closing month of the second quarter following weak growth in the first quarter. The stronger June data was reassuring after an initial bounce back in April was followed by weakness in May. Consensus expectations for 2017 real (inflation-adjusted) economic growth held steady at 2.2% throughout July, according to Bloomberg-surveyed economists.

July brought us the first estimate of second quarter gross domestic product (GDP), which while backwards looking, remains the best overall measure of economic growth. According to the report, the economy grew at an annualized rate of 2.6% in the second quarter, slightly missing consensus expectations of 2.7%, following downwardly revised growth of 1.2% in the first quarter. Looking inside the numbers, the data tilts more positive. Consumer spending rebounded solidly after a weak first quarter and business spending on equipment grew 8.2%, the most in almost two years. The two big disappointments were residential construction, which slowed after a strong first quarter, and inventories, which were expected to bounce after sharp contraction in the first quarter but were basically flat.

Consumers continue to be the primary driver of the economy, but business spending is playing an increasing role. Consumer strength has been supported by an improving labor market, low interest rates, and generally strong economic confidence. On the jobs front, the economy added 222,000 jobs in June versus consensus expectations of 178,000. An upward revision of 47,000 jobs in April and May added to the solid labor market picture. Hourly wages rose 0.2% versus May's 0.1% and expectations of a 0.3% increase. Wage growth was disappointing given the strong jobs number, but modest wage growth helped

CONTRIBUTION TO REAL GDP GROWTH BY ECONOMIC SECTOR



Source: LPL Research, U.S. Bureau of Economic Analysis 07/31/17 limit concerns about inflation. Despite the positive backdrop, June retail sales disappointed, contracting 0.1% ex-autos and gasoline versus expectations of fairly robust 0.4% growth. While confidence remains elevated and consumer spending did rebound in the second quarter overall, consumer behavior remains somewhat cautious.

Data on June business activity was stronger. The Institute for Supply Management's (ISM) Manufacturing Purchasing Managers' Index (PMI) surged to 57.8, topping expectations of 55.3 (above 50 indicates expansion). Weakness in Markit's competing Manufacturing PMI at 52 calls for some caution, but nevertheless also indicated expansion. ISM's Non-Manufacturing Composite also showed strength, climbing to 57.4. Hard data on manufacturing also showed some upside. The manufacturing component of industrial production rose 0.2% in June after contracting 0.4% in May.

LEADING INDICATORS SIGNAL LOW CHANCE OF RECESSION

Source: LPL Research, Conference Board 07/31/17

Actual economic activity compared to consensus estimates can also provide a helpful real-time gauge of economic activity. The Citi Economic Surprise Index, a rolling average of standardized economic surprises, had been trending downward since mid-March, as data failed to keep up with elevated expectation, but showed a clear reversal higher in July, although surprises, on average, remain to the downside. Meanwhile, indicators that tend to lead economic activity continue to suggest below-historical odds of recession in the next year. The year-over-year change in the Conference Board's Leading Economic Index (LEI), an aggregate of 10 leading indicators, accelerated +4.0% in June. The LEI got a boost from a sharp pick-up in housing permits after recent weakness.

Overall, the July data painted a picture of an economy growing a little better than the 2.2% average we've seen since the end of the Great Recession with no apparent threat of a downturn on the immediate horizon.

Central Banks

After raising rates for the third time in six months in June, the Federal Reserve (Fed) left rates unchanged at 1.0–1.25% during its July 25–26 policy meeting, as was widely expected. There were few takeaways from a largely unchanged policy statement, with the Fed's view of the labor market, household spending, and business fixed investment remaining positive. A slight downgrade in the language around inflation, from characterizing it as "running somewhat below 2 percent" to "running below 2 percent", was viewed by market participants as a small concession given the Fed's view that recent declines in inflation were largely due to temporary factors. There was also greater clarity around the timing of the start of balance sheet normalization, the language changing from a timeframe of "this year" in the June statement to "relatively soon" in the July statement.

The European Central Bank (ECB) also left rates unchanged in July. ECB President Mario Draghi's comments following the meeting were largely seen as an effort to calm markets following remarks at a June conference highlighting recent European economic strength that led to concerns that the ECB would start tapering its asset purchases ("quantitative easing") earlier than expected. The Bank of Japan (BOJ) also maintained its current policy at its July meeting, but, in what may be viewed as a largely symbolic move given possibly unrealistic expectations, moved the target date for achieving its core inflation target to fiscal year 2019/20.

GLOBAL EQUITIES:
ANOTHER POSITIVE MONTH FOR U.S. STOCKS; EVEN BETTER OVERSEAS

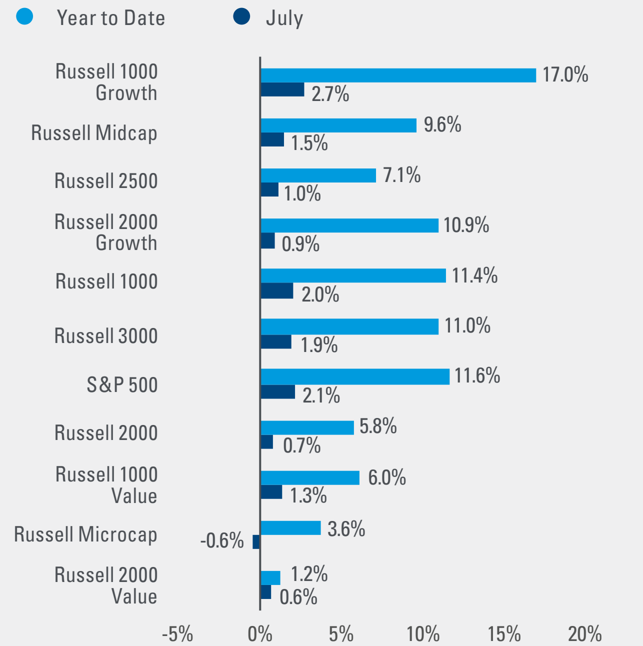
U.S.

In July, U.S. stocks picked up where they left off in the first half of the year with another positive month. The S&P 500 Index gained 2.1% in July, the ninth straight month with a positive total return, bringing its year-to-date return to 11.6%. Low volatility and an absence of pullbacks remained hallmarks of the latest leg of the bull market. The Dow Jones Industrials Average and Nasdaq Composite fared even better, gaining 2.7% and 3.4%, respectively. On the strength of the technology sector, the Nasdaq leads major U.S. equity indexes with a 17.9% year-to-date advance.

Markets in the U.S. have remained well supported by economic and earnings growth. U.S. GDP rebounded solidly from the weak first quarter and incoming data began to beat expectations again at an improved rate after mostly falling short in prior months. Second quarter earnings season, which kicked into high gear in mid-July, impressed on both the top and bottom lines, putting the S&P 500 on pace for a second consecutive quarter of double-digit year-over-year earnings gains. Management teams' outlooks and continued U.S. dollar weakness, which increases the value of overseas earnings for U.S. companies, pointed to a positive near-term earnings picture.

Despite challenges policymakers faced with reforming healthcare, market participants continued to express some confidence in tax reform based on the stock market's continued ascent. Low interest rates continued to support stock valuations as the Fed helped ease the market's concerns that rates would be raised rapidly. Budget battles heat up in Washington, D.C. in August, but stocks thus far have not reflected any concerns about a possible debt ceiling conflict or government shutdown in the fall. The market also shrugged off potential conflicts stemming from North Korea's nuclear ambitions.

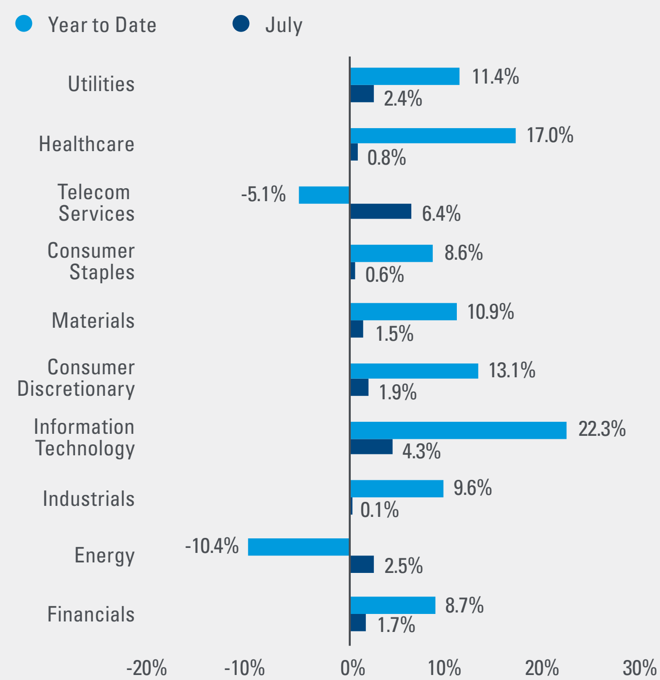
DOMESTIC INDEX PERFORMANCE



Source: LPL Research, FactSet 07/31/17

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

S&P 500 SECTOR PERFORMANCE



Source: LPL Research, FactSet 07/31/17

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Stock investing involves risk, including loss of principal.

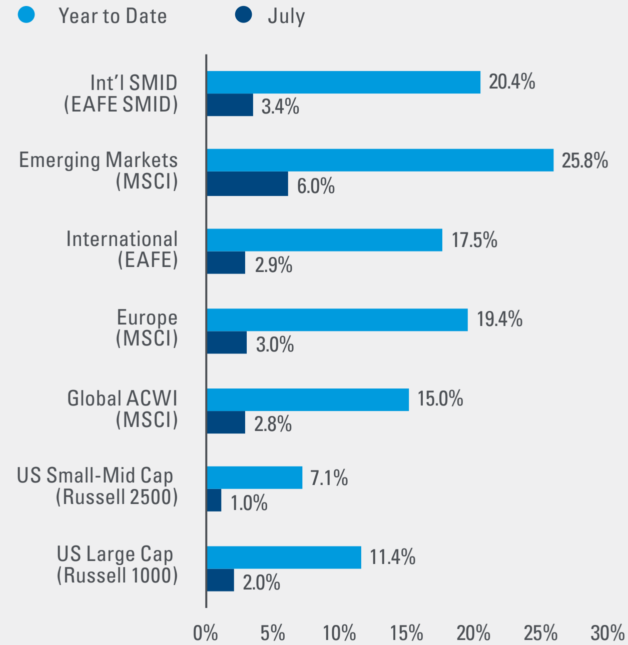
Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

The June rotation out of technology reversed in July as the sector's 4.3% return paced the market. Year to date, technology leads all sectors with a 22% return on strength in internet and software stocks. The narrow telecommunication services sector gained 6.4% for the month after well-received earnings. Energy, with its 2.5% gain, also outperformed thanks to oil's 9% rally back to $50 per barrel. On the flip side, weakness in transports and conglomerates weighed on industrials while policy uncertainty contributed to healthcare's underperformance.

Growth returned as the leader after value's June outperformance, based on the Russell 3000 style indexes. Technology strength was the biggest growth driver, while modest financials sector underperformance hurt the value side, due in part to the lack of movement in interest rates and subdued trading activity. Year to date, the Russell 3000 Growth Index return is about 11% ahead of value.

After a strong June, small cap stocks lagged in July. Although the broad market's advance likely reflects some confidence in the pro-growth agenda in Washington, D.C., recent underperformance from small caps seems to reflect some doubt about tax reform. Lower corporate tax rates would generally benefit small cap companies more than large due to their higher tax rates and more domestic focus. Year to date, large caps have outperformed small caps by about 5%, based on the Russell indexes.

GLOBAL INDEX PERFORMANCE



Source: LPL Research, FactSet 07/31/17

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

International

International equities enjoyed solid performance during July, aided by U.S. dollar weakness, with both the developed foreign MSCI EAFE Index (+2.9%) and MSCI Emerging Markets Indexes (+6.0%) outperforming the S&P 500's 2.1% return. Year-to-date returns have also been lifted by dollar weakness, as the MSCI EAFE and Emerging Markets Indexes have returned 17.5% and 25.8%, respectively, well ahead of the S&P 500's 11.6% return.

Beyond the currency impact, the macroeconomic backdrop has generally improved overseas as global growth expectations and earnings growth have increased. Moreover, markets seemed comforted by the latest updates from key central banks, as the ECB and BOJ both kept the status quo in place.

All major country markets contributed to gains in the international equity indexes in July. On the developed market side, Australia (+4.5%), which benefited from rising commodity prices, was a top performing market, while France (+2.7%) also outperformed. In emerging markets, China (+12.7%) was the top performer for the month, aided by a strong second quarter GDP report. Other strong markets included Brazil (+11.0%), which recovered from its corruption scandal, and India (+7.5%), despite the implementation of a new goods and services tax.

FIXED INCOME:
ALL SECTORS POSITIVE IN QUIET MONTH FOR INTEREST RATES

Treasury yields were mixed and fairly quiet during July, with the exception of the longest maturity (30-year) which rose 7 basis points (0.07%), driven mainly by a pickup in inflation expectations. A quiet month for interest rates and continued improvement across spread sectors led to a positive month for all sectors within fixed income.

The broad Bloomberg Barclays Aggregate Bond Index returned 0.4% during the month, with Treasuries underperforming, returning 0.2% (Bloomberg Barclays U.S. Treasury Index). Investment-grade corporates outperformed the broad high-quality market, returning 0.7%, as valuations continued to richen over the month.

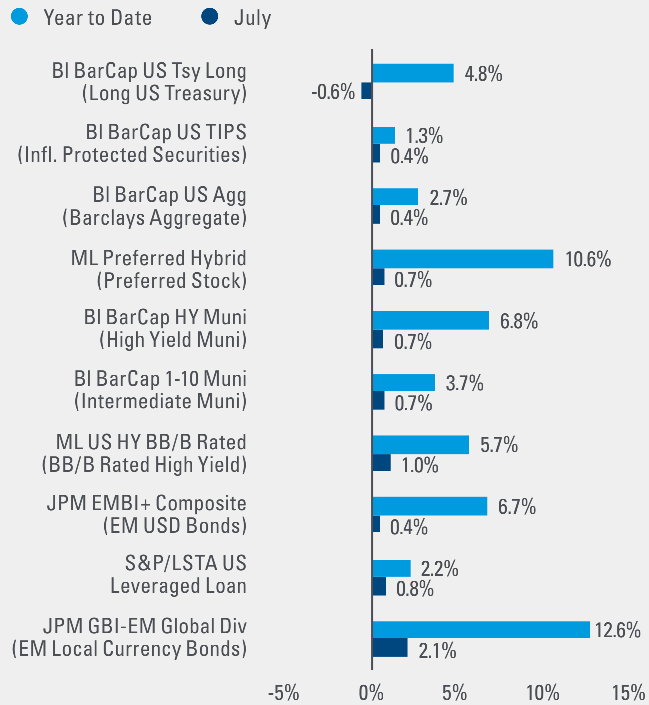
Economically sensitive sectors of fixed income were boosted by sharply positive equity markets and a rebound in the price of oil, which rose 9.0% during July. Emerging market debt returned 0.4% (JPM EMBI+ Composite), high yield 1.0% (ML US High Yield BB/B Rated), and bank loans 0.8% (S&P/LSTA US Leveraged Loan). Unhedged foreign bonds were a standout with a 2.8% return,* benefited by a 2.9% decline in the dollar.

*Based on the Citigroup Non-US Government Bond Index (Unhedged)

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

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

FIXED INCOME PERFORMANCE



U.S. TREASURY YIELDS

Security	06/30/17	07/31/17	Change in Yield
3 Month	1.03	1.07	0.04
2 Year	1.38	1.34	-0.04
5 Year	1.89	1.84	-0.05
10 Year	2.31	2.30	-0.01
30 Year	2.84	2.89	0.05

AAA MUNICIPAL YIELDS

Security	06/30/17	07/31/17	Change in Yield
2 Year	1.05	0.97	-0.08
5 Year	1.45	1.37	-0.08
10 Year	2.15	2.07	-0.08
20 Year	2.81	2.72	-0.09
30 Year	2.97	2.89	-0.08

Source: LPL Research, Bloomberg, FactSet 07/31/17

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

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

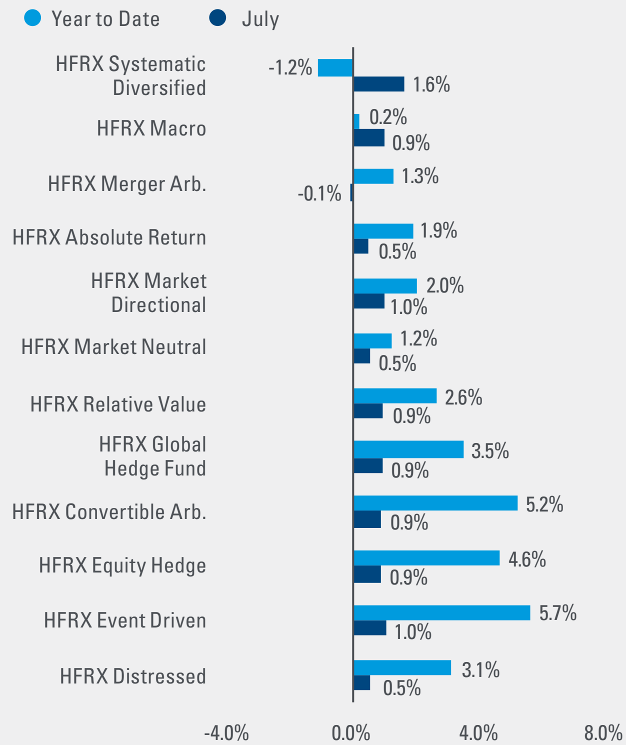
ALTERNATIVES:
EQUITY MARKET STRENGTH SUPPORTS MANAGED FUTURES REBOUND

Managed futures performance rebounded from a difficult month in June, as the HFRX Systematic Diversified Index gained 1.6%, leading all alternative investment sub-strategy returns. Returns were concentrated in the equity market, as long exposure within the United States and emerging markets positively contributed to returns. Currency positioning also supported returns, as long Australian and Canadian dollar positions were profitable during the month. Strong commodity market gains (oil, coffee, gold) helped drive both currencies higher. At the end of the month, long equity and long bond exposure continue to compose the largest allocations, while many strategies are also increasingly adding to their long exposure against the U.S. dollar in international and emerging market currencies.

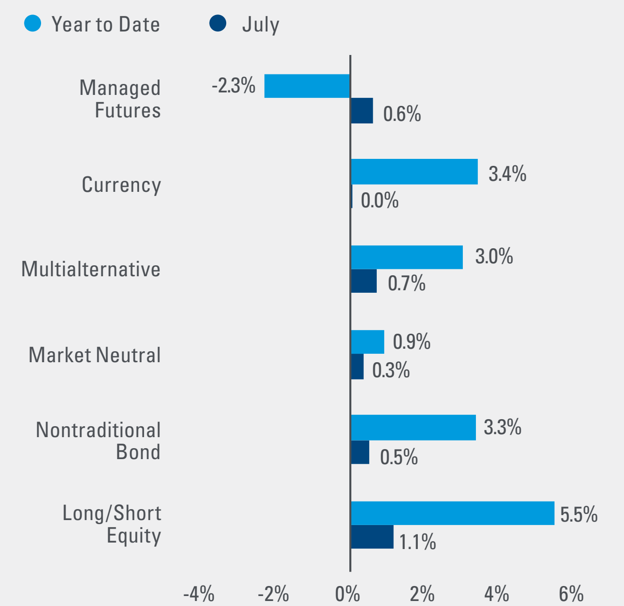
Gains were widespread. In the equity space for instance, the HFRX Equity Hedge Index gained 0.9%, bringing year-to-date returns to 4.6%. However, strategies that have increased emerging market exposure continue to outperform, as the MSCI Emerging Markets Index gained 6.0% during the month and has now returned 10.37% over the past three months. At the sector level, the industry maintains an overweight to growth related holdings, specifically in the technology and consumer discretionary sectors.

The HFRX Event Driven Index returned 1.0%, with year-to-date gains of 5.7%. At roughly 6%, the average annualized merger and acquisition deal spread has remained steady for a majority of the year and the market has yet to experience any major deal disruptions. Special situation managers also performed well, gaining 1.21% as the strategy has benefited from a variety of idiosyncratic events such as post-bankruptcy reorganizations, spin-offs, and the use of activism investment techniques.

HFRX INDEX PERFORMANCE



MORNINGSTAR INDEX PERFORMANCE



Source: LPL Research, FactSet 07/31/17

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

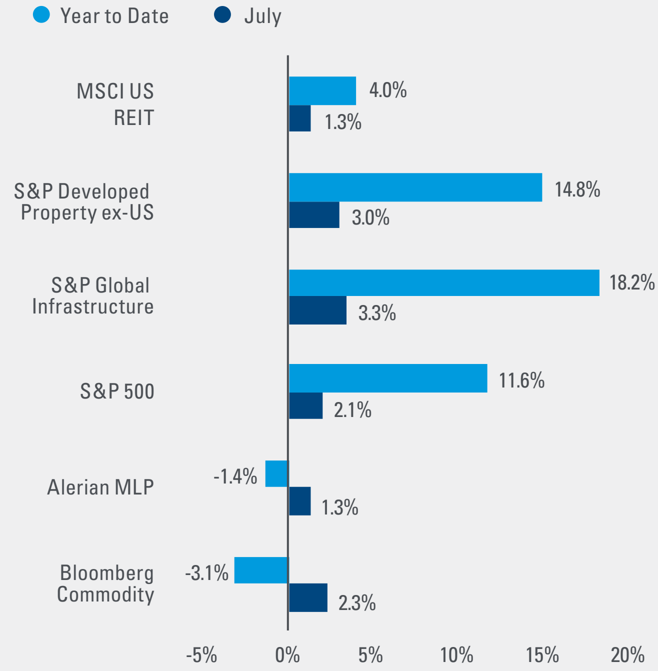
STRONG MONTH FOR INTERNATIONAL ASSETS

Liquid real assets followed global equities broadly higher in July, with the strongest gains coming from global infrastructure and international real estate. Commodities, master limited partnerships (MLP), and domestic real estate also produced gains of over 1%. A weaker U. S. dollar, and stable, low interest rates and inflation globally provided support.

MLPs

The Alerian MLP Index rose 1.3% in July, rebounding from June's declines, as higher oil prices, and stable and low interest rates helped offset the drag from falling natural gas prices. The Trump administration's ongoing deregulation efforts and generally healthy credit markets also contributed to a favorable backdrop for MLPs. Annual distribution growth for midstream MLPs has moderated to 2–3% year over year but remains positive while yields on distributions remain very attractive at roughly 7%, based on the Alerian MLP Index.

LIQUID REAL ASSET PERFORMANCE



Source: LPL Research, FactSet 07/31/17

REITs & Global Listed Infrastructure

Global infrastructure was the top performing liquid real asset category during July. The S&P Global Infrastructure Index returned 3.3% for the month, outpacing the global equity benchmark, the MSCI Global ACWI Index, which produced a 2.8% return. The weaker U.S. dollar propped up all international asset categories, including international infrastructure and international real estate, although U.S. REITs (+1.3%) and U.S. utilities (+2.4%) each produced gains as well, based on the MSCI U.S. REIT and S&P 500 Utilities Indexes. Low interest rates and relatively dovish commentary from global central banks helped drive REIT performance, with particular strength in the industrial category.

Commodities

The Bloomberg Commodity Index rose 2.3% in July, supported by the weaker U.S. dollar. Crude oil rose almost 9% as Saudi Arabia suggested further production cuts. The base metals sub-index rose 4.3%, led by a 6.7% advance for copper. Stability from China supports most commodities, but especially base metals. Volatile natural gas prices fell about 8% on forecasts for continued cooler weather across the northern U.S., reducing demand for electricity and boosting stockpiles. The agriculture sub-index rose 0.8%, aided by dry weather across the western part of the Midwest, though both corn and wheat prices were lower for the month.

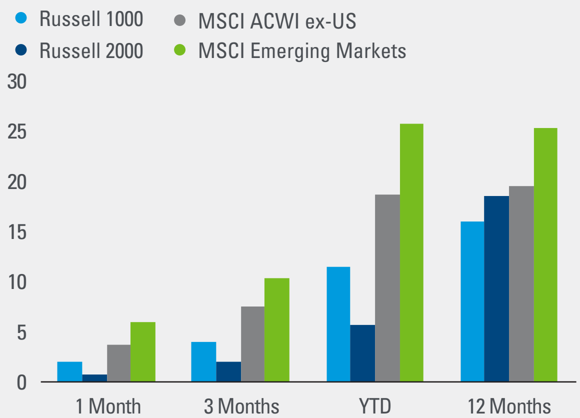
Investing in real estate/REITs involves special risks such as potential illiquidity and may not be suitable for all investors. There is no assurance that the investment objectives of this program will be attained.

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.

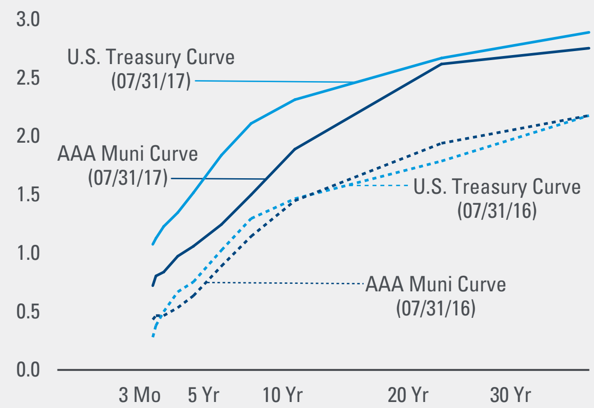
MONTHLY PERFORMANCE REPORT

EQUITY PERFORMANCE



Source: LPL Research, Bloomberg, FactSet 07/31/17

DOMESTIC YIELD CURVE



Source: LPL Research, Bloomberg, FactSet 07/31/17

		1 Mo	3 Mos	YTD	12 Mos
Large Cap	S&P 500	2.06	4.14	11.59	16.04
	DJIA	2.68	5.21	12.28	21.81
	Russell 1000	1.98	4.00	11.44	15.95
	Russell 1000 Value	1.33	2.88	6.05	13.76
	Russell 1000 Growth	2.66	5.05	17.02	18.05
Small/Mid Cap	Russell 2000	0.74	2.11	5.77	18.45
	Russell 2000 Value	0.63	0.91	1.18	19.21
	Russell 2000 Growth	0.85	3.37	10.91	17.76
	Russell Microcap	-0.56	2.21	3.65	20.58
	Russell Midcap	1.47	3.42	9.58	13.04
	Russell Midcap Value	1.33	2.52	6.57	12.69
	Russell Midcap Growth	1.67	4.41	13.26	13.39
All Cap	Russell 3000	1.89	3.86	10.99	16.14
	Russell 3000 Value	1.28	2.73	5.65	14.17
	Russell 3000 Growth	2.52	4.92	16.55	18.02
International Markets	MSCI EAFE	2.89	6.65	17.53	18.32
	MSCI ACWI ex US	3.71	7.56	18.70	19.55
	MSCI Europe	2.99	7.05	19.40	20.40
	MSCI Japan	2.02	6.24	12.34	14.57
	MSCI AC Asia Pacific ex Japan	5.22	10.10	26.20	24.81
	MSCI EAFE SMID	3.39	7.36	20.35	19.34

		1 Mo	3 Mos	YTD	12 Mos
Int'l - Continued	MSCI ACWI ex US SMID	3.57	7.11	19.79	17.74
	MSCI Emerging Mkts	6.04	10.37	25.77	25.30
	MSCI EMEA	6.01	3.89	11.52	13.91
	MSCI Latin America	8.30	6.50	19.48	18.43
	MSCI Frontier Markets	2.13	7.23	18.35	20.72
Sectors -S&P 500 GICS	Consumer Discretionary	1.87	1.79	13.08	13.90
	Consumer Staples	0.57	1.11	8.65	4.39
	Energy	2.50	-1.16	-10.43	0.19
	Financials	1.72	6.95	8.73	32.99
	Healthcare	0.77	6.29	16.97	8.00
	Industrials	0.06	2.98	9.57	18.31
	Information Technology	4.33	5.97	22.31	29.48
	Materials	1.54	3.32	10.90	14.58
	Telecom Services	6.36	2.25	-5.06	-7.03
	Utilities	2.44	3.90	11.41	5.70

Source: LPL Research, Bloomberg, FactSet 07/31/17

(Data continued on following page.)

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

		1 Mo	3 Mos	YTD	12 Mos
Fixed Income	BI BarCap US Agg	0.43	1.10	2.71	-0.51
	BI BarCap 1-10 Muni	0.64	1.26	3.42	0.66
	BI BarCap HY Muni	0.66	1.97	6.83	1.22
	BI BarCap Inv. Grade Credit	0.73	2.20	4.56	1.55
	BI BarCap Muni Long Bond -22+	0.97	2.99	5.56	-0.24
	BI BarCap US Agg Securitized MBS	0.45	0.67	1.81	0.19
	BI BarCap US TIPs	0.45	-0.55	1.30	-1.04
	BI BarCap US Treasury Interm	0.32	0.45	1.53	-1.05
	BI BarCap US Treasury Long	-0.62	1.75	4.76	-9.82
	BI BarCap US High Yield Loans	0.77	0.99	2.20	5.82
	ML Preferred Stock Hybrid	0.66	2.97	10.57	5.36
	ML US High Yield BB/B Rated	1.05	2.03	5.64	9.64
	ML US Convert ex Mandatory	1.98	3.86	10.92	16.63
	JPM GBI Global ex US Hedged	0.22	0.10	0.39	-2.01
	JPM GBI Global ex US Unhedged	2.71	4.56	8.42	-3.59
	JPM GBI-EM Global Div	2.07	4.55	12.65	7.97
	JPM ELMI+	1.62	3.24	8.94	6.21
	JPM EMBI+ Composite	0.41	0.65	6.71	3.29

		1 Mo	3 Mos	YTD	12 Mos
Alternatives	HFRX Absolute Return	0.48	0.90	1.86	1.79
	HFRX Market Directional	0.97	-0.39	2.03	7.21
	HFRX Convertible Arb.	0.86	1.91	5.25	7.27
	HFRX Distressed	0.51	0.88	3.08	10.80
	HFRX Equity Hedge	0.87	1.16	4.64	6.88
	HFRX Market Neutral	0.51	-0.40	1.22	-0.12
	HFRX Event Driven	1.00	1.91	5.66	11.04
	HFRX Merger Arb.	-0.11	0.70	1.25	2.85
	HFRX Relative Value Arb.	0.91	1.39	2.64	4.67
	HFRX Global Hedge Fund	0.93	1.39	3.51	5.45
	HFRX Macro Index	0.94	1.01	0.18	-2.72
	HFRX Systematic Diversified	1.63	0.49	-1.18	-6.60
	Bloomberg Commodity	2.26	0.71	-3.12	0.77
	DJ Wilshire REIT	0.92	2.81	2.29	-5.66
	Alerian MLP	1.29	-3.91	-1.40	1.13

		Latest Mo End (07/31/17)	3 Mos Ago (04/30/17)	Latest Yr End (12/31/16)	12 Mos Ago (07/31/16)
Currency	US Dollar Index Value	92.86	99.04	102.21	95.52
	USD vs. Yen	110.26	111.53	116.90	102.09
	Euro vs. USD	1.18	1.09	1.05	1.12
Cmdtys	Gold ($ per Troy Ounce)	1268.80	1267.70	1150.90	1350.40
	Crude Oil ($ per Barrel)	50.17	49.33	53.72	41.60

IMPORTANT DISCLOSURES

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

Stock and Pooled Investment Risks

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

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

Bond and Debt Equity Risks

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

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

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

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

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

Alternative Risks

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

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

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

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

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

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

Definitions

A leading indicator is an economic indicator that changes before the economy has changed. Examples of leading indicators include production workweek, building permits, unemployment insurance claims, money supply, inventory changes, and stock prices. The Fed watches many of these indicators as it decides what to do about interest rates.

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

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

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

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

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

The Citigroup Non-US Government Bond Index (Unhedged) measures the performance of government bonds issued by governments outisde the U.S.

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

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

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 US.

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

INDEX DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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