LPL RESEARCH

MARKET INSIGHT MONTHLY

AUGUST 2017 IN REVIEW

September Update | As of August 31, 2017

ECONOMY:
AUGUST DATA CONFIRMS STEADY U.S. GROWTH

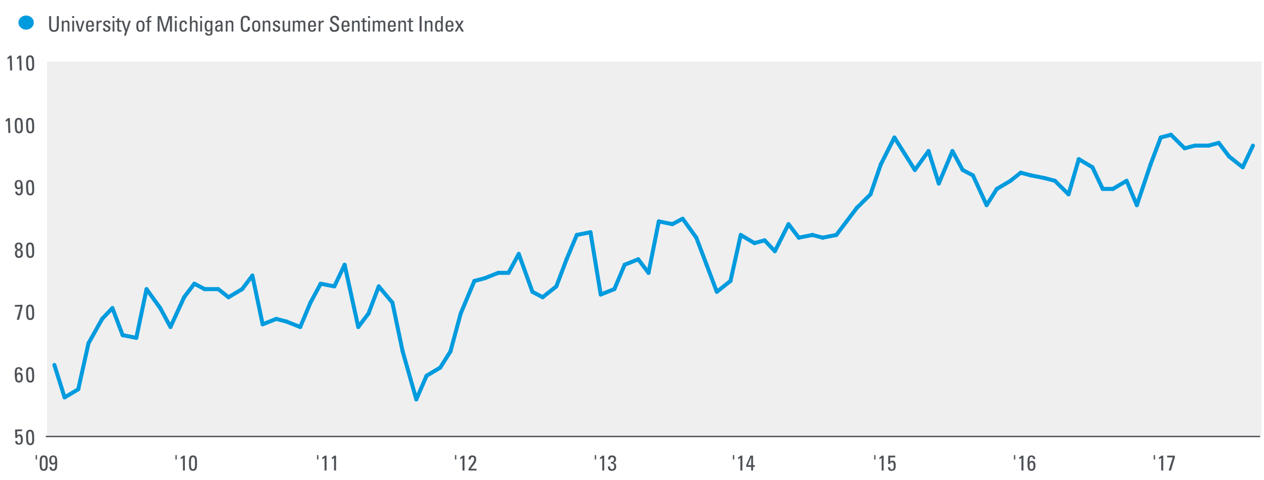
Economic Data

Economic reports released in August 2017, which mostly reflect economic activity in July, confirmed that the U.S. economy continued to exhibit steady growth at the start of the third quarter after a solid rebound in the second quarter. The primary driver of the expansion was support for business spending which has continued to round out the solid picture of consumer spending. According to Bloomberg-surveyed economists, consensus expectations for real (inflation-adjusted) economic growth in the third and fourth quarter are for 2.5% and 2.4%, respectively.

The second estimate of second quarter gross domestic product (GDP) was released in August, with a meaningful upward revision from the initial estimate of 2.6% to 3.0%, ahead of expectations of 2.7%. The main source of the revision was the underestimated growth of consumer spending, supported by a healthy labor market, although improvement in the initial estimate of business investment was also a positive sign. GDP data is backward looking, but it's our best overall estimate of economic activity and the positive revision provides added evidence that first quarter weakness was transitory.

On average, data released in August was largely in line with expectations and reflected approximate trend growth in July. Economic weakness was concentrated in inflation data and housing, while economic strength was more broadly based. Consumer spending continues to drive the economy, but business spending is playing an increasing role. A largely healthy labor market has provided important support for consumers, and the July jobs report continued to show strength. The economy added 209,000 jobs in July, according to data available as of August 31, topping expectations of 180,000. Strong jobs data flowed through to spending, retail sales in July rising 0.6%, ahead of expectations, with a healthy revision of June data from -0.2% to +0.3%. Consumer strength was also reflected in consumer

A HEALTHY LABOR MARKET CONTINUES TO SUPPORT CONSUMER CONFIDENCE



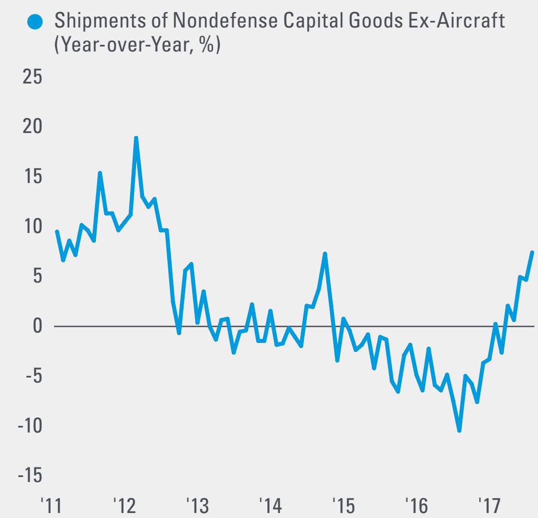
Source: LPL Research, University of Michigan, Bloomberg 08/31/17 confidence surveys. The University of Michigan's Consumer Sentiment reading jumped to 97.6 on a rise in future expectations, although sentiment on current conditions lost a little ground.

Data on July business activity showed largely steady growth. The Institute for Supply Management's (ISM) Manufacturing Purchasing Managers' Index (PMI) fell to a still healthy 56.3 in July (above 50 indicates expansion) after surging to 57.8 in June. Markit's competing Manufacturing PMI rose to 53.3 and continues to paint a less rosy picture, although the spread between the two indexes has narrowed. ISM's Non-Manufacturing Composite showed unexpected weakness, falling to 53.9, although the Markit Services PMI provided a counterbalance, rising to 56.9. Hard data on business activity showed some upside; shipments of nondefense capital goods ex-aircraft, which flows through to GDP as part of private business investment, jumped 1.0% in July, while orders of durable goods ex-transportation (vehicles, aircraft, etc.) climbed a healthy 0.5%. Capital goods shipment data has accelerated sharply year over year off of 2016 lows, and the current value of +7.3% is the strongest since 2012.

Economic data 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, reversed higher in July and continued to climb in August but remained in negative territory, showing normalization after elevated expectations were not met in the second quarter. Meanwhile, indicators that tend to lead economic activity continue to suggest below-historical odds of recession in the next year. The Conference Board's Leading Economic Index (LEI), an aggregate of 10 leading indicators, continued to climb in July, rising 3.9% year over year.

Overall, the August 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.

BUSINESS INVESTMENT IN CAPITAL GOODS IS ACCELERATING



Source: LPL Research, U.S. Census Bureau, Bloomberg 08/31/17

Central Banks

Major central banks had a quiet August, with no scheduled meetings for the Federal Reserve (Fed), the European Central Bank (ECB), or the Bank of Japan (BOJ). The headline event was the annual Fed-sponsored symposium in Jackson Hole, Wyoming from August 24–26. While there have been important market-moving speeches at Jackson Hole in the past, this year's symposium held no surprises.

Neither Fed Chair Janet Yellen nor ECB President Mario Draghi directly addressed monetary policy. One could interpret their comments as support for the status quo, and in a way, a victory lap for current policies. Fed Chair Yellen's comments about financial stability could have been interpreted as dovish, but they were also a clear defense of post-crisis regulatory policy. Yellen said reforms since the crisis have boosted the resilience of the system, and she downplayed concerns about the effects of regulation on bank lending and liquidity. ECB President Draghi delivered nothing new in terms of policy expectations, but he did say that substantial accommodation is still warranted considering still low inflation, giving his speech a dovish tilt. He spent the majority of the time defending international trade and provided a warning against the increasing rise of protectionism. However, he did not mention the strength of the euro, which was discussed at the last ECB meeting.

GLOBAL EQUITIES:
U.S. STOCKS EKE OUT A GAIN IN AUGUST

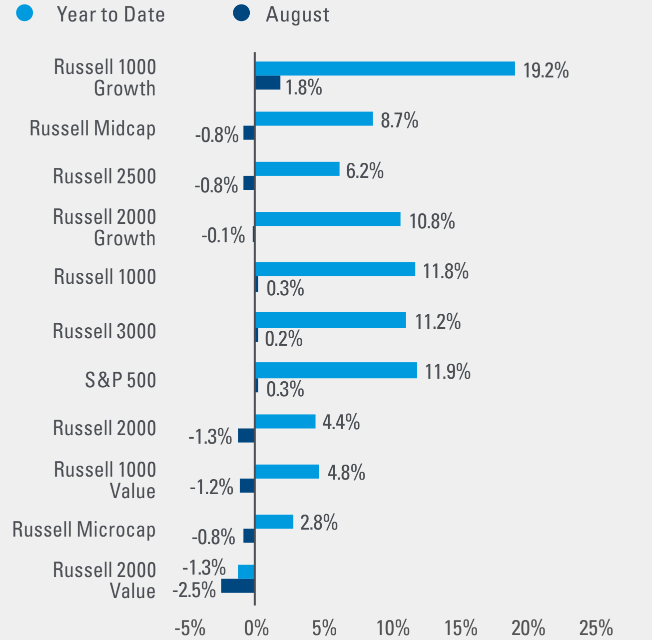
U.S.

Despite the devastation caused by Hurricane Harvey and an escalating North Korean threat, stocks managed a small gain in August to end the month less than 0.5% from their all-time closing high. The S&P 500 Index closed higher by 0.3% to mark its fifth consecutive monthly gain and tenth straight with a positive total return (including dividends); this is the longest such streak since 1995. The Dow Jones Industrial Average has produced five straight monthly gains, while the Nasdaq has been higher nine of the past ten months and has set a new record every month this year. Improving economic growth in both the U.S. and abroad, combined with strong earnings globally, ebbing inflation risks, and continued low interest rates all buoyed investor sentiment even at elevated valuation levels. As of August 31, the S&P 500 has returned 11.9% year to date.

Although stocks produced slight gains for the month, they did not come with the same low volatility observed throughout much of 2017. The S&P 500 lost 1% or more in two August trading sessions, which had only occurred twice the entire year—once in March and once in May. Losses were mostly attributable to escalating tensions with North Korea, but many investors were also unnerved by the terrorist attacks in Barcelona and the uncertainty in Washington, D.C., in particular the risk of a heated debt ceiling debate, a 2018 federal budget impasse, and stalled tax reform efforts. Still, as September begins, the S&P 500 has not pulled back 3% or more in 10 months.

Technology topped the sector leaderboard in August—this was the fourth time in eight months that the sector accomplished that feat. Earnings strength and improving business spending played a role; however, a double-digit advance for the sector's largest constituent was also a big part of the story. Additionally, interest rate sensitive utilities produced market-beating gains in August as Treasury yields fell. But on the flip side, Hurricane Harvey weighed on the energy sector as crude

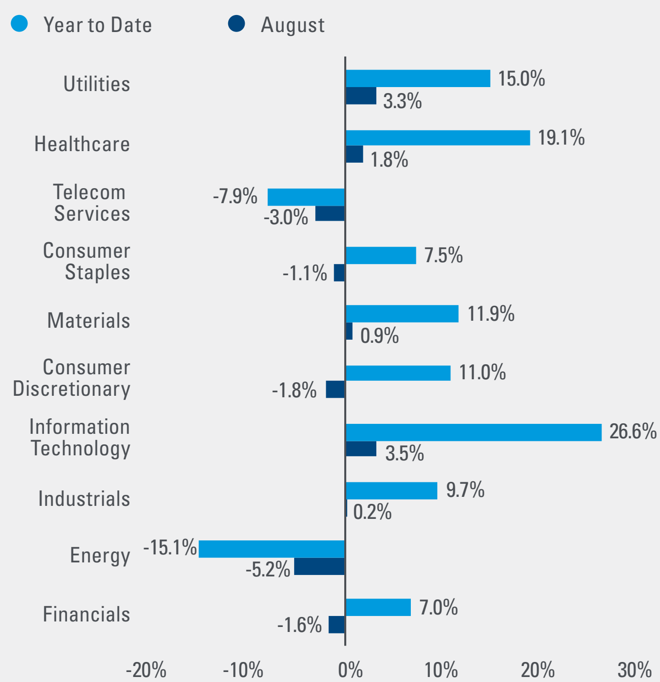
DOMESTIC INDEX PERFORMANCE



Source: LPL Research, FactSet 08/31/17

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 08/31/17

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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.

prices declined amid concerns about the potential demand impact of refinery outages.

By style, growth continued its strong performance versus value. Based on the Russell 3000 style indexes, growth outperformed value for the seventh month out of the past eight in August and has now outpaced value by more than 11 percentage points year to date. Technology strength was the biggest growth driver, while losses for the value-heavy financials and energy sectors hurt the value side.

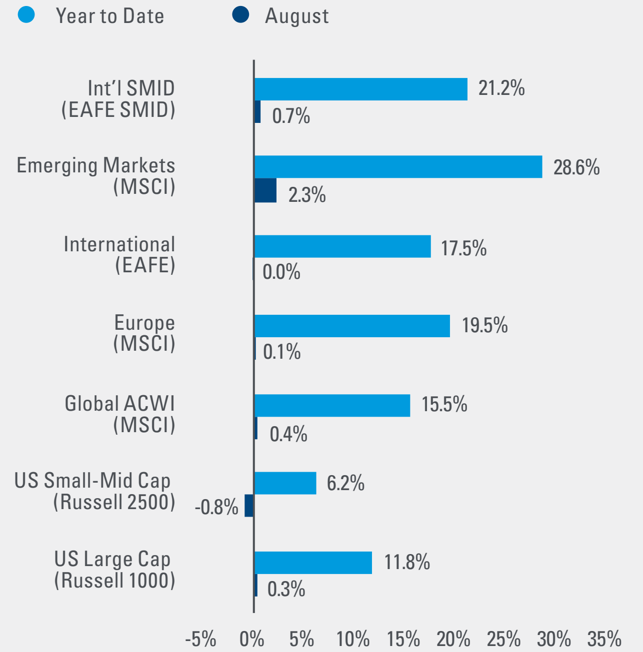
In terms of market cap, small cap stocks continued to struggle in August as they have done much of the year. Lingering doubts about tax reform are a factor, given that small cap companies could benefit more from a potential reduction in corporate tax rates due to their domestic focus. Year to date, the small cap Russell 2000 Index's return of 4.4% is well behind the large cap Russell 1000 Index's 11.8% return.

International

International equities were mixed in August, with the MSCI Emerging Markets (EM) Index returning a solid 2.3% for the month, while the developed foreign MSCI EAFE Index finished flat. Both benchmarks are ahead of the U.S. stock market year to date, with the EM Index up 28.6% and the EAFE Index up 17.5%, compared to the S&P 500's 11.9% return. Both indexes have benefited from improving global growth and U.S. dollar weakness, which boosts dollar-based returns for U.S. investors. ECB President Draghi delivered nothing new in terms of policy in Jackson Hole, but his comments were generally interpreted as dovish, and on the margin, may have had some positive impact on investor sentiment in the region. Hong Kong and France were among the best performing developed international markets for the month, while the U.K. and Switzerland were among the worst.

EM equities also got a boost from a weaker U.S. dollar in August, in addition to a firmer growth outlook in China, and a potentially slower pace of Fed rate hikes due to weaker inflation. The North Korean threat unsurprisingly hurt South Korean equities but did not prevent gains in China, which was among the best performing EM markets for the month, along with Brazil.

GLOBAL INDEX PERFORMANCE



Source: LPL Research, FactSet 08/31/17

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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.

FIXED INCOME:
HIGH-QUALITY FIXED INCOME RALLIES AS RATES DECLINE

Treasury yields were down substantially during August, with the biggest declines in longer maturities (10- and 30-year), which declined by 18 and 16 basis points (0.18% and 0.16%), respectively. Declining inflation expectations and escalating geopolitical tensions helped push rates lower globally.

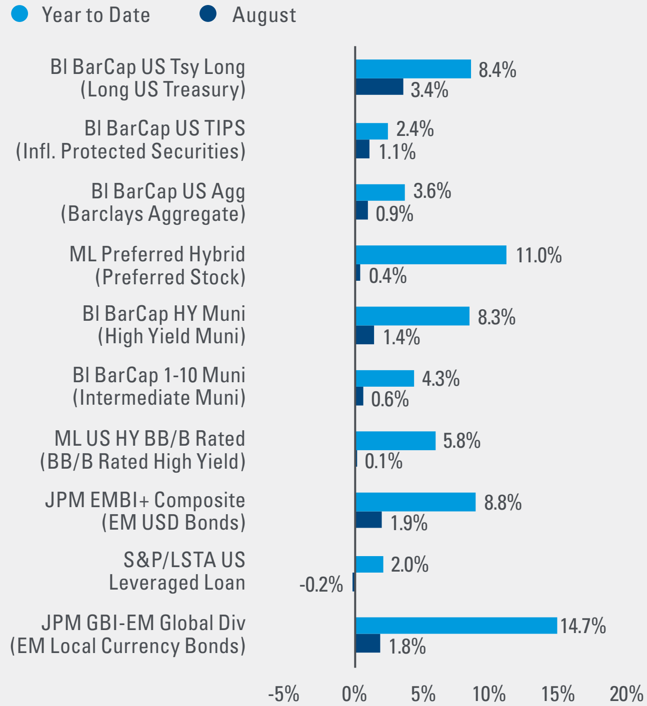
The broad Bloomberg Barclays Aggregate Bond Index returned 0.9% during the month, with Treasuries outperforming, returning 1.1% (Bloomberg Barclays U.S. Treasury Index). Investment-grade corporate bonds underperformed the broad high-quality market, returning 0.8%. Despite a decline in inflation expectations, Treasury Inflation-Protected Securities (TIPS) performed well amid the decline in rates, returning 1.1%.

Most economically sensitive sectors of fixed income were restrained by relatively flat equity markets and a 5.9% decline in the price of oil. High yield was flat on the month and bank loans lost 0.2%. Emerging market debt was a standout with a 1.9% return, benefiting from elevated interest rate sensitivity (relative to high yield) and richening valuations.

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	07/31/17	08/31/17	Change in Yield
3 Month	1.07	1.01	-0.06
2 Year	1.34	1.33	-0.01
5 Year	1.84	1.70	-0.14
10 Year	2.30	2.12	-0.18
30 Year	2.89	2.73	-0.16

AAA MUNICIPAL YIELDS

Security	07/31/17	08/31/17	Change in Yield
2 Year	0.97	0.92	-0.05
5 Year	1.37	1.25	-0.12
10 Year	2.07	1.95	-0.12
20 Year	2.72	2.60	-0.12
30 Year	2.89	2.78	-0.11

Source: LPL Research, Bloomberg, FactSet 08/31/17

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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.

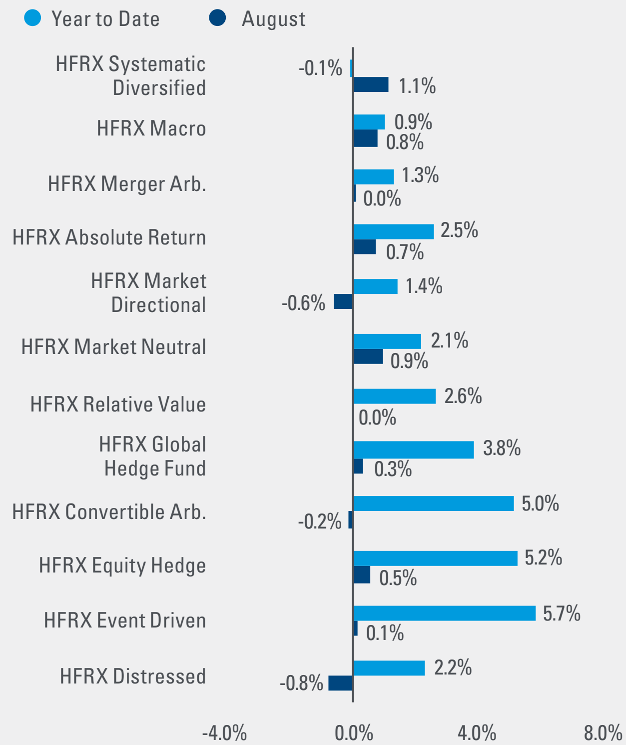
ALTERNATIVES:
MANAGED FUTURES STRENGTH CONTINUES

Managed futures strategies posted a second straight month of strong returns, as the HFRX Systematic Diversified Index gained 1.1%. Returns were once again supported by long equity and long fixed income contract exposure, as both markets moved higher during the month. Commodity positioning, specifically long exposure in base metals such as copper, aluminum, and zinc, provided further gains and illustrated the positive diversification benefits managed futures could provide across a variety of markets.

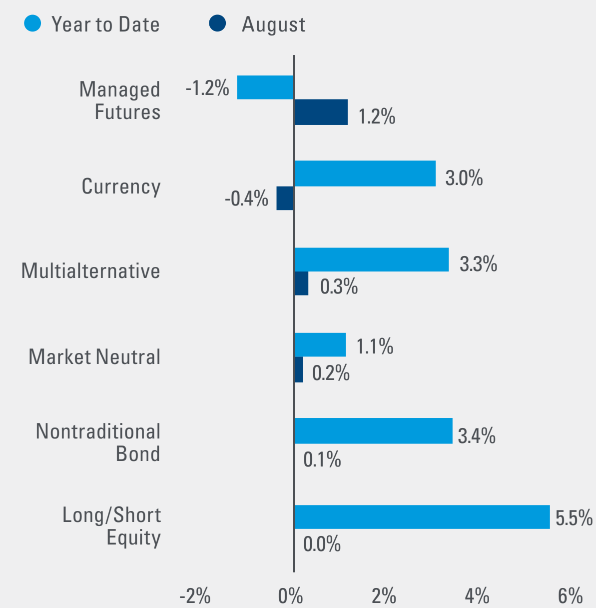
While the broader HFRX Event Driven Index edged out a 0.1% gain during the month, the underlying merger arbitrage and distressed subcategories faced headwinds. Within the merger arbitrage space, announced deal spreads widened marginally due to the spikes in volatility during the month. While the increase in deal spreads may cause a short-term loss for existing positions, it also provides a more attractive entry point for adding new capital. In the distressed category, the 0.81% loss was partially driven by the industries sensitivity to the energy market. In general, finding value in the space has become increasingly difficult, as the impressive stretch of return since early 2016 has led to significant capital appreciation in many credits. Year to date, the HFRX Event Driven Index leads all other alternative investment categories in performance, with a gain of 5.7%.

Long/short equity strategies continue to perform well, as the HFRX Equity Hedge Index gained 0.50%, outperforming the S&P 500, while still maintaining a beta inside of 0.5. Gains from long positioning were once again supported by the industry's overweight to the technology sector (+3.5% during the month), while short energy (-5.2% during the month) related positioning also added value.

HFRX INDEX PERFORMANCE



MORNINGSTAR INDEX PERFORMANCE



Source: LPL Research, FactSet 08/31/17

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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.

INTERNATIONAL REAL ESTATE AND GLOBAL INFRASTRUCTURE PACED LIQUID REAL ASSET GAINS

August was mixed overall for liquid real assets, with international real estate, global infrastructure, and commodities producing positive returns, and master limited partnerships (MLP) and domestic real estate investment trusts (REIT) suffering losses. Stable and low interest rates and tepid inflation globally provided support, while lower crude prices and a distribution cut weighed on MLPs.

MLPs

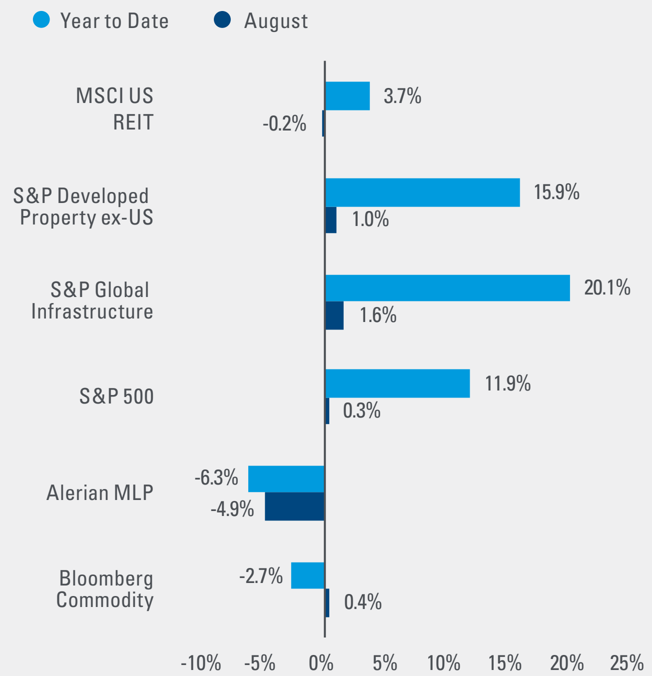
MLP performance has been tightly tied to oil price movements this year and August was no different, as the Alerian MLP Index declined -4.9% for the month. One of the major MLPs announced a dividend cut and provided a downbeat outlook, which directly impacted the index and resulted in spillover effects on other players.

The U.S. Senate finally approved two nominations to the Federal Energy Regulatory Commission (FERC), the main regulatory body for MLPs. A number of major projects have been in limbo pending these position appointments and we expect fairly quick action on project backlog, which should bode well for the asset class in the long run.

REITs & Global Listed Infrastructure

Global infrastructure produced the best August returns among the major liquid real asset categories, followed by international real estate, while domestic REITs suffered modest losses. Global and international yield-oriented investments got some support from low interest rates and expectations for continued monetary policy stimulus, in addition to broad gains in global equities and modest U.S. dollar weakness. U.S. REITs were down modestly as weakness in office REITs was only partly offset by strength in industrial and data center REITs.

LIQUID REAL ASSET PERFORMANCE



Source: LPL Research, FactSet 08/31/17

Commodities

The Bloomberg Commodity Index gained 0.4% in August. The U.S. dollar weakness that boosted commodities early in the year slowed to a modest decline. Domestic energy markets were impacted by Hurricane Harvey and generally oversupplied conditions. Oil fell 5.9% (WTI Crude Oil futures), while gasoline futures jumped 15.7% as refineries were closed in the Houston area. Base metals gained 10.1% during the month and are now up 21.7% this year (Bloomberg Base Metals Spot Price Commodity Index), driven by strong demand and reports that China is reducing production. The Bloomberg Agriculture Subindex lost 6.9%, while cotton gained 3% in August (cotton futures), but saw a price spike at the end of the month and in early September due to Hurricane Harvey.

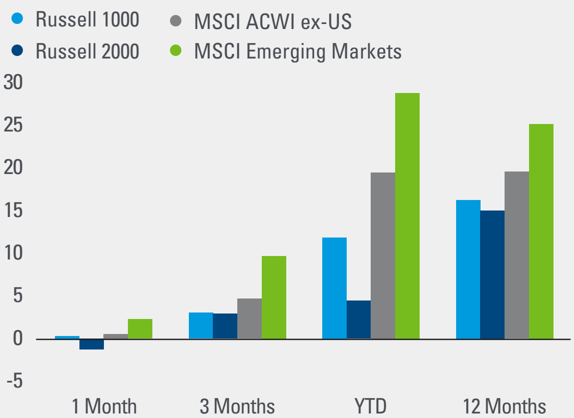
Investing in real estate/REITs involves special risks such as potential illiquidity and may not be suitable for all investors. There is no assurance that the investment objectives of this program will be attained.

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.

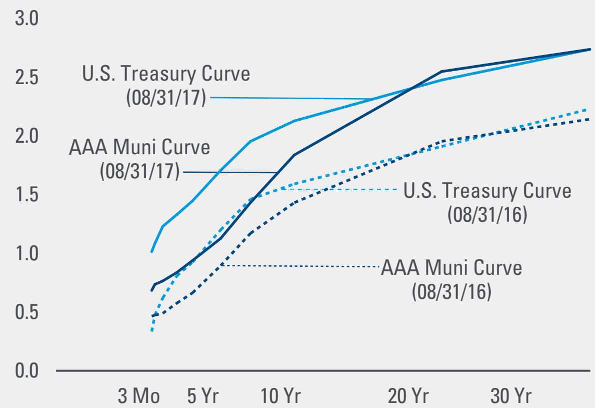
MONTHLY PERFORMANCE REPORT

EQUITY PERFORMANCE



Source: LPL Research, Bloomberg, FactSet 08/31/17

DOMESTIC YIELD CURVE



Source: LPL Research, Bloomberg, FactSet 08/31/17

		1 Mo	3 Mos	YTD	12 Mos
Large Cap	S&P 500	0.31	3.01	11.93	16.23
	DJIA	0.65	5.15	13.01	22.29
	Russell 1000	0.31	3.01	11.79	16.16
	Russell 1000 Value	-1.16	1.79	4.81	11.58
	Russell 1000 Growth	1.83	4.26	19.17	20.82
Small/Mid Cap	Russell 2000	-1.27	2.90	4.42	14.91
	Russell 2000 Value	-2.46	1.59	-1.31	13.47
	Russell 2000 Growth	-0.12	4.20	10.78	16.39
	Russell Microcap	-0.83	3.73	2.79	16.44
	Russell Midcap	-0.78	1.69	8.73	12.44
	Russell Midcap Value	-1.87	0.91	4.58	10.82
	Russell Midcap Growth	0.71	2.69	14.06	14.52
All Cap	Russell 3000	0.19	3.00	11.20	16.06
	Russell 3000 Value	-1.26	1.78	4.32	11.73
	Russell 3000 Growth	1.68	4.24	18.51	20.47
International Markets	MSCI EAFE	-0.02	2.71	17.50	18.19
	MSCI ACWI ex US	0.55	4.64	19.35	19.43
	MSCI Europe	0.07	1.97	19.49	20.12
	MSCI Japan	-0.05	3.08	12.29	14.08
	MSCI AC Asia Pacific ex Japan	1.06	8.36	27.53	23.52
	MSCI EAFE SMID	0.69	4.10	21.18	20.71

		1 Mo	3 Mos	YTD	12 Mos
Int'l -Continued	MSCI ACWI ex US SMID	0.96	4.85	20.94	19.17
	MSCI Emerging Mkts	2.27	9.61	28.62	24.99
	MSCI EMEA	4.40	8.25	16.43	22.12
	MSCI Latin America	4.65	14.09	25.03	23.05
	MSCI Frontier Markets	3.70	6.59	22.73	26.60
Sectors -S&P 500 GICS	Consumer Discretionary	-1.84	-1.19	11.00	13.22
	Consumer Staples	-1.06	-2.74	7.49	3.78
	Energy	-5.18	-2.99	-15.07	-6.09
	Financials	-1.61	6.52	6.98	26.02
	Healthcare	1.85	7.38	19.13	13.78
	Industrials	0.15	1.60	9.74	17.52
	Information Technology	3.47	5.04	26.56	31.19
	Materials	0.89	4.34	11.88	15.68
	Telecom Services	-3.02	0.14	-7.93	-4.42
	Utilities	3.25	2.91	15.03	15.64

Source: LPL Research, Bloomberg, FactSet 08/31/17

(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	0.90	1.23	3.64	0.49
	BI BarCap 1-10 Muni	0.53	0.83	3.97	1.25
	BI BarCap HY Muni	1.38	1.82	8.30	2.25
	BI BarCap Inv. Grade Credit	0.78	1.82	5.37	2.13
	BI BarCap Muni Long Bond -22+	0.97	1.69	6.58	0.42
	BI BarCap US Agg Securitized MBS	0.73	0.78	2.55	0.80
	BI BarCap US TIPs	1.06	0.55	2.38	0.46
	BI BarCap US Treasury Interm	0.62	0.67	2.16	0.03
	BI BarCap US Treasury Long	3.43	3.20	8.36	-5.82
	BI BarCap US High Yield Loans	-0.21	0.34	1.99	4.86
	ML Preferred Stock Hybrid	0.40	2.40	11.01	5.35
	ML US High Yield BB/B Rated	0.10	1.31	5.74	7.58
	ML US Convert ex Mandatory	0.49	3.22	11.46	16.17
	JPM GBI Global ex US Hedged	1.04	0.71	1.44	-0.82
	JPM GBI Global ex US Unhedged	1.15	3.59	9.67	-1.49
	JPM GBI-EM Global Div	1.79	4.38	14.67	9.86
	JPM ELMI+	1.01	2.69	10.04	7.05
	JPM EMBI+ Composite	1.92	1.95	8.75	3.45

		1 Mo	3 Mos	YTD	12 Mos
Alternatives	HFRX Absolute Return	0.65	1.24	2.53	2.51
	HFRX Market Directional	-0.63	0.92	1.39	5.32
	HFRX Convertible Arb.	-0.20	1.72	5.04	5.95
	HFRX Distressed	-0.81	0.26	2.25	8.04
	HFRX Equity Hedge	0.50	2.24	5.15	7.60
	HFRX Market Neutral	0.91	2.03	2.14	1.24
	HFRX Event Driven	0.08	1.06	5.75	9.67
	HFRX Merger Arb.	0.02	0.36	1.27	2.88
	HFRX Relative Value Arb.	-0.05	1.07	2.59	4.43
	HFRX Global Hedge Fund	0.29	1.44	3.81	5.59
	HFRX Macro Index	0.76	1.30	0.95	-1.01
	HFRX Systematic Diversified	1.08	1.21	-0.12	-3.51
	Bloomberg Commodity	0.40	2.48	-2.72	2.99
	DJ Wilshire REIT	-0.79	2.57	1.48	-3.13
	Alerian MLP	-4.94	-4.34	-6.27	-2.59

		Latest Mo End (08/31/17)	3 Mos Ago (05/31/17)	Latest Yr End (12/31/16)	12 Mos Ago (08/31/16)
Currency	US Dollar Index Value	92.67	96.98	102.21	95.99
	USD vs. Yen	110.00	110.77	116.90	103.35
	Euro vs. USD	1.19	1.12	1.05	1.12
Cmdtys	Gold ($ per Troy Ounce)	1320.80	1268.60	1150.90	1308.50
	Crude Oil ($ per Barrel)	47.23	48.32	53.72	44.70

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.

Managed futures strategies use systematic quantitative programs to find and invest in positive and negative trends in the futures markets for financials and commodities. Futures and forward trading is speculative, includes a high degree of risk that the anticipated market outcome may not occur, and may not be suitable for all investors.

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

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

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

The 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 Nasdaq Composite Index measures all Nasdaq domestic and non-U.S.-based common stocks listed on the Nasdaq stock market. The index is market-value weighted. This means that each company's security affects the index in proportion to its market value. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the index. It is not possible to invest directly in an index.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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