LPL RESEARCH

MARKET INSIGHT MONTHLY

DECEMBER 2017 IN REVIEW

January Update | As of December 31, 2017

ECONOMY: DECEMBER DATA POINT TO CONTINUED STEADY GROWTH

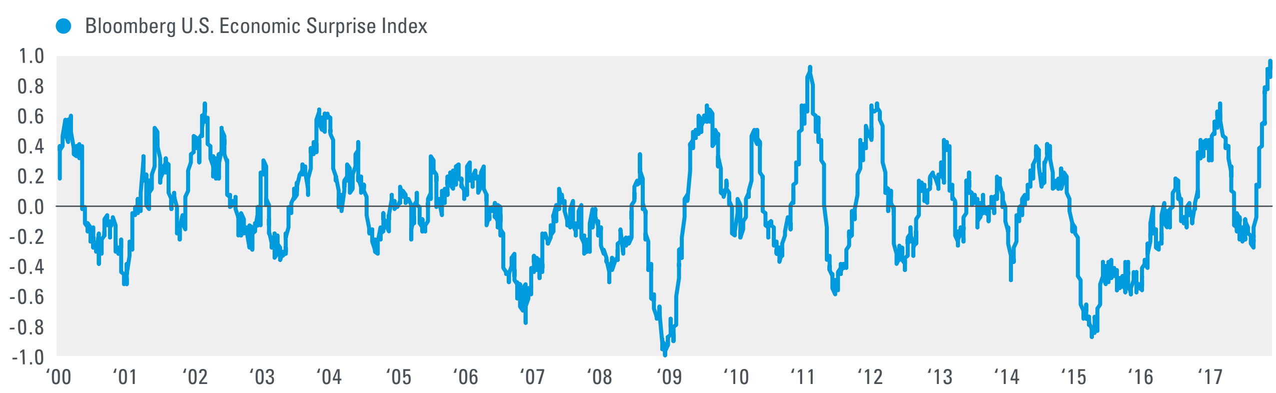
Economic Data

Economic reports released in December 2017, which mostly reflect economic activity in November, largely exceeded economists' consensus expectations and suggested continued steady growth in the U.S. economy. Data pointed to an economy that picked up some speed from the 2.2% average pace of growth during the current economic expansion. The Bloomberg-surveyed consensus estimate for fourth quarter gross domestic product (GDP) growth stood at 2.7% as of year-end, following the revised 3.2% GDP growth rate reported for the third quarter.

Measures of economic surprises relative to expectations continue to reflect an economy that is growing faster than economists' expectations. The Citi U.S. Economic Surprise Index, a standardized average of economic data compared to economists' expectations, rose to its highest level since 2007. Bloomberg's U.S. Economic Surprise Index, which uses a longer moving average and therefore responds more slowly, rose to its highest level ever recorded in the 18-year history of the index. Expectations have remained fairly subdued due to the extended period of subpar growth over the past decade, skepticism toward the potential impact of the tax law, and hurricane disruptions.

Consumer-oriented reports were mostly positive in December. U.S. retail sales rose at their strongest pace during the holiday period since 2011. And although consumer spending in the third quarter GDP report only rose at a 2.2% annualized rate, it may accelerate in the fourth quarter. A solid 228,000 new jobs were created in November, nicely above expectations for the monthly payroll employment report. A survey of consumer confidence conducted by the University of Michigan for both current conditions and future expectations dipped slightly, as did the Conference Board's measure, though both remain elevated.

ECONOMIC SURPRISES AT HISTORICAL HIGHS



Source: LPL Research, Bloomberg 12/31/17

Above 0 indicates economic data has been above consensus estimates, on average. Data are scaled and weighted by relative importance.

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Housing data mostly surprised to the upside, including new and existing home sales, while natural disasters supported housing construction.

Consumer inflation remained well contained, decelerating to 1.7% year over year excluding food and energy, though headline inflation rose 2.2% year over year, while producer inflation is showing some pipeline pressures building. The Federal Reserve's (Fed) preferred measure of inflation, the Personal Consumption Expenditures (PCE) Index, rose 1.8% year over year in November and 1.5% excluding food and energy.

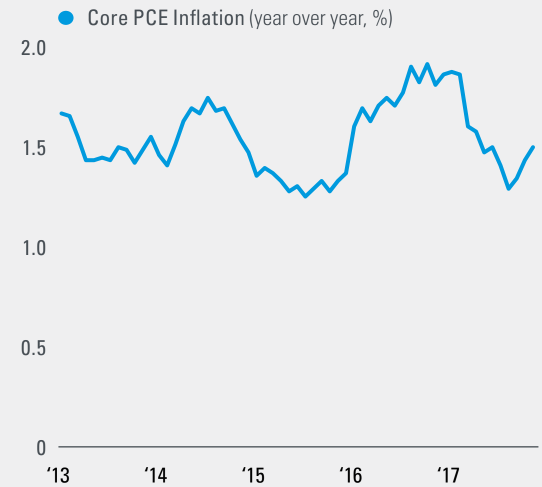
Business investment picked up in the third quarter, increasing at a solid 10.8% annualized pace and driving the second straight quarter of 3.0% or more GDP growth. Manufacturing surveys for November, reported in December, remained quite strong. The ISM Manufacturing Index, at 58.2, met expectations and remained near the highs of the economic expansion despite dropping 0.5 points from the prior month. Regional surveys mostly showed strength, including those in Dallas, Chicago, and Philadelphia, although the Richmond and Kansas City regional surveys fell slightly short of expectations.

Indicators that tend to lead economic activity suggest steady growth appears likely to extend well into 2018. The Conference Board's Leading Economic Index (LEI), an aggregate of ten leading indicators, rose solidly in November, boosted by improving financial indicators, strong new manufacturing orders, and high consumer sentiment. The year-over-year change of 5.5% is the strongest since April 2015. Positive year-over-year growth has historically been associated with a low chance of a recession in the next year. Strength in leading indicators over the last six months in particular suggests the odds of a recession in the next year remain below the historical average.

Central Banks

December was a busy month for global central banks which, collectively, continue to move gradually toward monetary policy normalization.

INFLATION HAS STARTED TO PICK UP BUT REMAINS CONTAINED



Source: LPL Research, U.S. Bureau of Economic Analysis 12/31/17

The Fed's policy committee raised its target interest rate, the fed funds rate, by 0.25% on December 13, which was the fifth hike of the economic expansion in the last official meeting under Janet Yellen's leadership. The Fed also upgraded its 2018 and longer-term economic growth outlooks, while maintaining forward guidance for monetary policy. The Fed expects 2.5% GDP growth in 2018, up from its prior forecast of 2.1%, and is calling for three rate hikes in 2018 based on the average committee member forecast, the so-called "dot plots".

Turning to other central banks, the People's Bank of China followed the Fed with a small 0.05% rate hike a few hours after the Fed's decision on December 13. The following day, the Bank of England and European Central Bank (ECB) left rates and bond purchase plans unchanged. Like the Fed, the ECB upgraded its economic outlook. On December 21, the Bank of Japan made no changes to its monetary policy but did make somewhat more hawkish statements that suggest a tapering plan may be forthcoming.

GLOBAL EQUITIES:
DECEMBER GAINS CAP OFF STELLAR 2017 FOR U.S. STOCKS

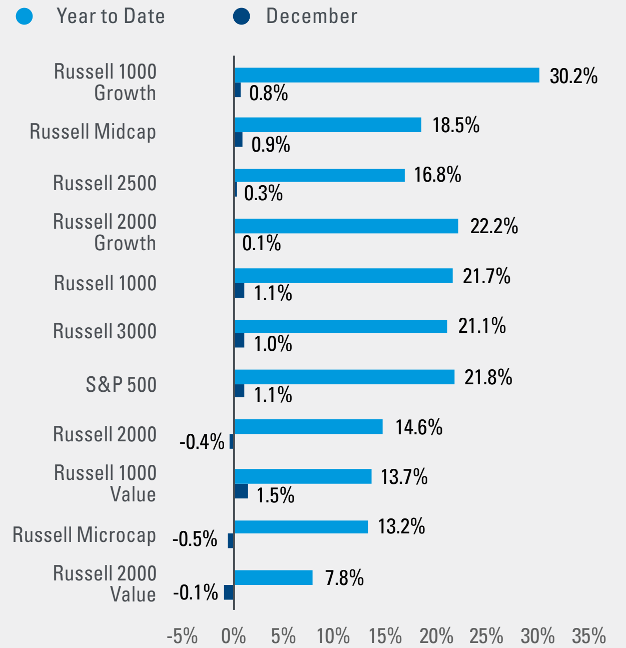
U.S.

The S&P 500 Index returned 1.1% in December, capping off an unprecedented year in which the index produced a positive total return during each of the 12 calendar months. The S&P 500 has risen now 9 straight months on a price basis and a record 14 straight months based on total returns. The Dow Jones Industrials rose 25% in 2017, or 28% on a total return basis, to finish the year with 9 straight monthly gains, while the Nasdaq, which returned 30% for the year, has been higher 13 of the past 14 months.

December is generally a seasonally positive month for the stock market. Add to that continued solid economic data in the United States and overseas plus passage of the new tax law, and you had the makings of a strong finish to 2017. Potential stumbling blocks proved manageable, as the flurry of global central bank meetings offered few surprises, a government shutdown was avoided, and the last needed votes for the tax bill in the Senate were secured. In the end, December looked like the rest of the year with stock market gains and little volatility amidst a generally favorable macroeconomic backdrop.

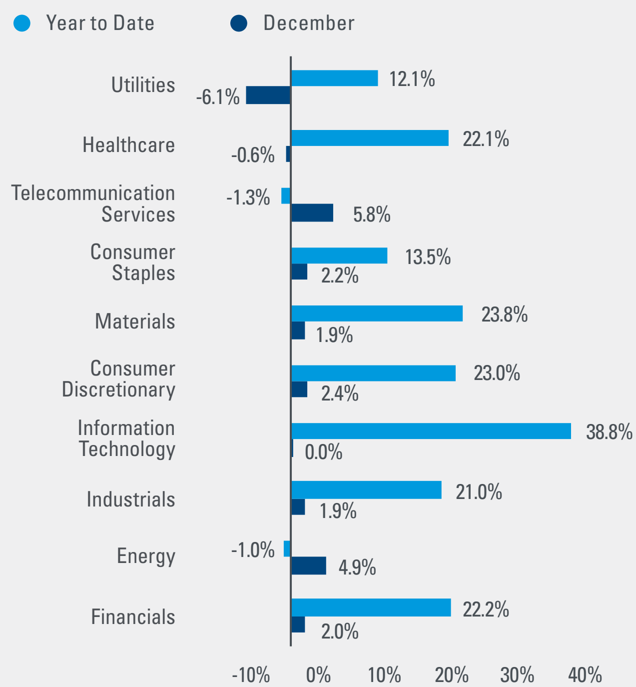
Sector leadership in December saw the 2017 laggards—telecommunications and energy—perform best with returns of 5.8% and 4.9%, respectively. Telecommunications, a domestic sector that pays among the highest tax rates, got a boost from the tax law as well as the news from S&P that the sector will be expanded late in 2018 to include media and cable companies. The change may attract more interest from investors in the legacy telecommunication companies. Energy got a boost from higher oil prices as WTI crude oil rose more than 5% for the month. Still, both sectors ended the year with modest losses. Meanwhile, the income-oriented real estate and utilities sectors were the biggest laggards in December and both underperformed compared to the index in 2017.

DOMESTIC INDEX PERFORMANCE



Source: LPL Research, FactSet 12/31/17

S&P 500 SECTOR PERFORMANCE



Source: LPL Research, FactSet 12/31/17

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

Stock investing involves risk, including loss of principal.

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

The technology sector, 2017's best S&P sector performer, slowed down in December and closed out the month unchanged. Technology's underperformance for the month helped the value style outpace growth, based on the Russell 3000 style indexes, as technology is the biggest growth sector. Value got a lift from gains in energy and telecommunications, while the value-heavy financials sector also outperformed in support of value. The modest value outperformance was not nearly enough, however, to reverse the 2017 trend, as the Russell 3000 Value Index returned just 13.2% for the year, well behind the growth index's 29.6% gain.

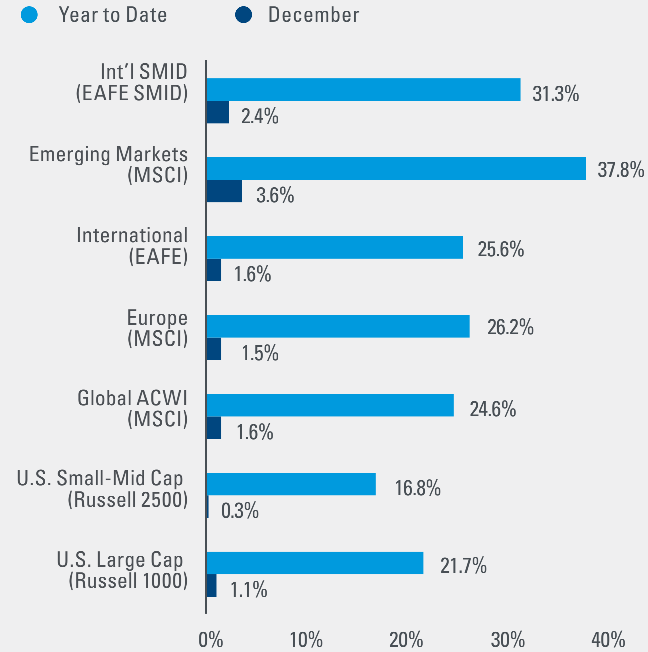
Small caps continued to struggle to keep up with large caps in December, despite the fact that smaller companies tend to pay higher tax rates and therefore generally benefit more from the reduction in corporate tax rates than large cap companies. Small caps returned a very respectable 14.7% in 2017, based on the Russell 2000 Index, but trailed the 21.7% return for the large cap Russell 1000 Index.

International

Developed international and emerging market (EM) equities both posted gains in December, based on the MSCI EAFE and EM Indexes, outpacing the more moderate returns for the S&P 500 in December. A weak U.S. dollar supported international equities in December, and throughout 2017, in addition to improved global economic growth and the strong rebound in international company earnings.

For international developed markets, the 1.6% return in December brought the 2017 return to an impressive 25.6%. Regionally, the Pacific produced the best return within the index for the month, while Europe was the top performing region for the year. At the country level, the best performers included Australia, Hong Kong, and the United Kingdom, despite an uneven start to Brexit negotiations with the European Union, while markets in France, Germany, and Japan underperformed.

GLOBAL INDEX PERFORMANCE



Source: LPL Research, FactSet 12/31/17

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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.

The Fed rate hike in December did not slow EM down despite the sensitivity of many of the developing economies to U.S. monetary policy. The MSCI EM Index returned 3.6% in December, bringing the 2017 return to 37.8%, nearly doubling the performance of the S&P 500. Equity markets in Brazil, India, and South Africa outperformed, while those in China, Mexico, and Taiwan lagged.

FIXED INCOME:
DESPITE TAX REFORM, YIELD CURVE FLATTENS WITH FED RATE HIKE

Treasury yields rose sharply in shorter maturities during December. The 2-year Treasury rose by 11 basis points (0.11%), while the 10- and 30-year Treasuries fell by 2 and 9 basis points (0.02% and 0.09%), respectively. Inflation expectations moved higher, however longer-term yields could not break to the upside. The Fed followed through with a rate hike during its December meeting, which pressed short-term rates higher. This led to a further flattening of the yield curve during the final month of the year.

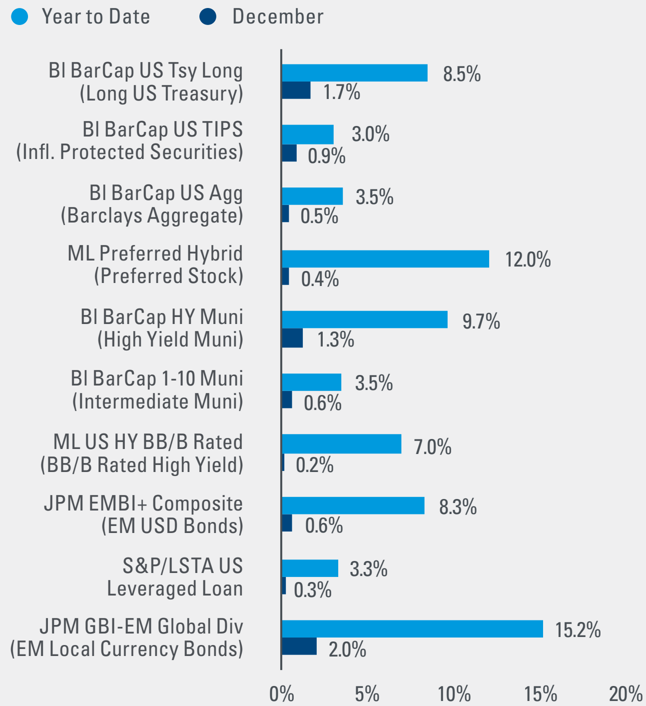
The muted nature of the move in longer-term yields translated to a solid month for high-quality fixed income. The broad Bloomberg Barclays U.S. Aggregate Bond Index returned 0.5% during the month, with Treasuries underperforming, returning 0.1% (Bloomberg Barclays U.S. Treasury Index). Mortgage-backed securities and investment-grade corporates returned 0.3% and 0.9%, respectively, outperforming Treasuries.

Economically sensitive sectors of fixed income were boosted by the passage of tax reform legislation. Municipal bonds were also impacted by tax reform, as headlines about the potential for some areas of the market to lose tax benefits led to a late-year surge in issuance. The Bloomberg Barclays Municipal Bond Index posted a full-month return of 1.1% as market participants chose to look past heightened December issuance, and focus on the fact that reform could lead to lower supply in the municipal market in the future.

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	11/30/17	12/31/17	Change in Yield
3 Month	1.27	1.39	0.12
2 Year	1.78	1.89	0.11
5 Year	2.14	2.20	0.06
10 Year	2.42	2.40	-0.02
30 Year	2.83	2.74	-0.09

AAA MUNICIPAL YIELDS

Security	11/30/17	12/31/17	Change in Yield
2 Year	1.32	1.32	0.00
5 Year	1.62	1.58	-0.04
10 Year	2.21	2.10	-0.11
20 Year	2.79	2.64	-0.15
30 Year	2.95	2.76	-0.19

Source: LPL Research, Bloomberg, FactSet 12/31/17

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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.

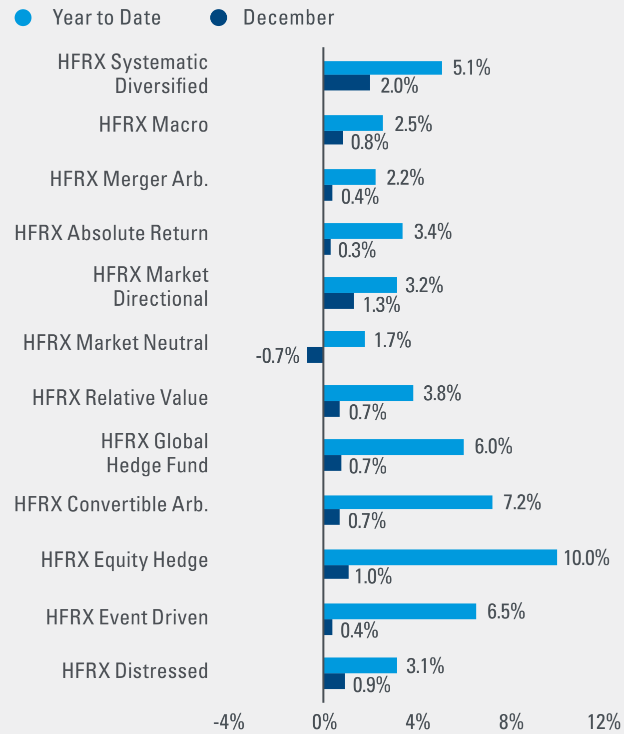
ALTERNATIVES:
ALTERNATIVE STRATEGIES END 2017 ON STRONG NOTE

Long/short equity strategies finished the year strong, as the HFRX Equity Hedge Index gained 1.0%. This was in line with the S&P 500's monthly return; however, long/short equity strategies were able to do so with less than half of the net market exposure. For 2017, the HFRX Equity Hedge gained 10.0%, outperforming all other alternative investment categories. Gains were predominantly driven from their overweight to large cap growth holdings, specifically within the information technology and consumer discretionary sectors. On the short side, significant alpha generation was challenging given the broad market rally; however, select managers were able to add additional value from idiosyncratic weakness in the retail and energy space. The HFRX Equity Market Neutral Index declined 0.7% during the month and only gained 1.7% on the year. Many strategies within the category have a long bias to value stocks, while being short growth firms, an approach that was a broad headwind to overall returns this year.

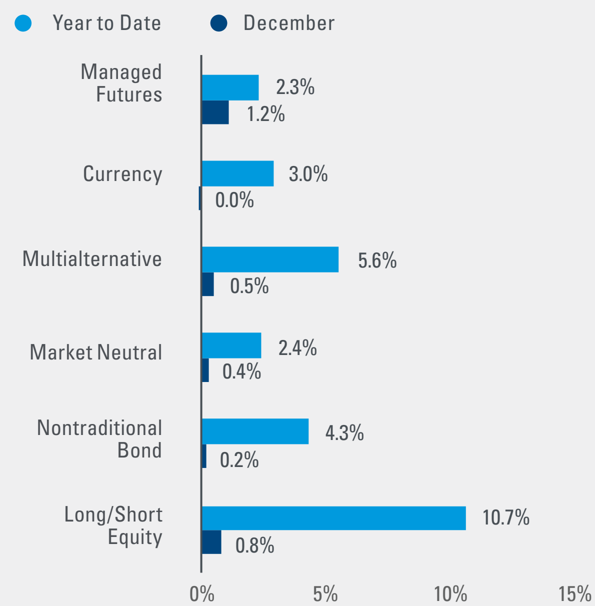
The HFRX Event Driven category gained 0.4% during the month and 6.5% for the year. Performance at the subcategory level was dispersed, with distressed strategies gaining 0.9%, while merger arbitrage managers returned 0.4%. The outlook within the event-driven space still appears promising, as tax reform and a more accommodative regulatory environment should improve the overall investment opportunity set.

Managed future strategies also finished the year on a positive note, with the HFRX Systematic Diversified CTA Index returning 2.0%. Strength across global equity markets continued to drive performance. For the year, the index gained 5.1%, the best annual performance since the category delivered a 6.0% return in 2010.

HFRX INDEX PERFORMANCE



MORNINGSTAR INDEX PERFORMANCE



Source: LPL Research, FactSet 12/31/17

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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.

REAL ASSETS:
STRONG MONTH FOR MLPS, INTERNATIONAL REAL ESTATE, AND COMMODITIES

December was mixed for liquid real assets, as master limited partnerships (MLP), international real estate, and commodities produced solid gains, and global infrastructure and domestic real estate lost ground. Investors generally favored more economically sensitive investments over defensive, yield-oriented choices.

MLPs

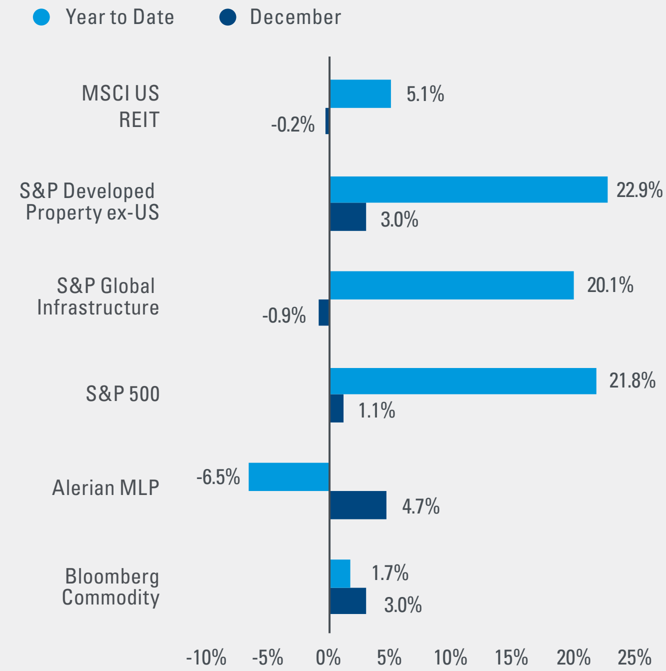
MLPs rebounded in December amid rising oil prices and easing year-end tax loss selling. December's 4.7% advance brought the 2017 loss for the Alerian MLP Index to 6.5%. Slowing distribution growth prospects, broad energy sector weakness, and tax policy uncertainty hurt the group in 2017, although rich yields and tax policy clarity may have helped market participants regain confidence as the year ended.

REITs & Global Listed Infrastructure

December was a strong quarter for international real estate, as the S&P Developed Property ex.-U.S. Index returned 3.0%. The domestic story was very different, with the U.S.-based MSCI REIT Index down 0.2% for the month, as the market appeared to favor more economically sensitive investments and bigger beneficiaries of tax reform. At the subsector level, residential, industrial, and healthcare REITs suffered declines, while retail and office produced gains. Domestic and international real estate returned 5.1% and 22.9% in 2017, respectively, as more attractive valuations and currency translation supported overseas real estate.

The S&P Global Infrastructure Index generated negative returns (-0.9%) in December and underperformed global equities. The index's energy holdings generated positive returns for the month; however, they were offset by declines in the industrials and utilities subcomponents, which make up the majority of the index.

LIQUID REAL ASSET PERFORMANCE



Source: LPL Research, FactSet 12/31/17

Commodities

The Bloomberg Commodity Index rose 3% in December amid strong performance in energy and metals. December's gains brought the index's 2017 performance into positive territory (1.7%), though far behind the global equities benchmark. During the month, gains in industrial and precious metals contributed positively to the index due to an increase in global demand and continued U.S. dollar weakness—in 2017 the dollar suffered its biggest annual loss since 2003. Higher oil prices amid strong global demand, global supply disruptions, and a weak U.S. dollar helped drive gasoline higher, although natural gas prices fell slightly. Within agriculture, gains in cotton and lean hogs helped offset some of the losses in the grains; notably, soybeans and corn.

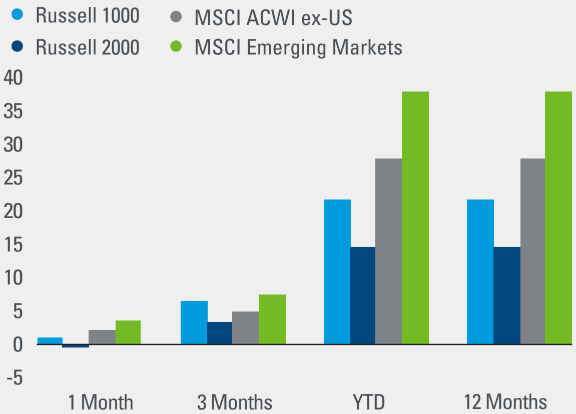
Investing in real estate/REITs involves special risks such as potential illiquidity and may not be suitable for all investors. There is no assurance that the investment objectives of this program will be attained.

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.

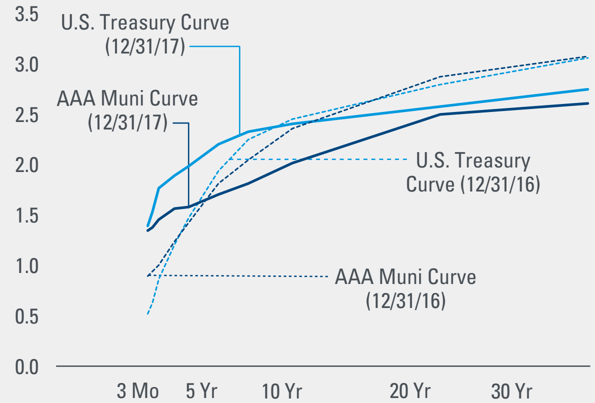
MONTHLY PERFORMANCE REPORT

EQUITY PERFORMANCE



Source: LPL Research, Bloomberg, FactSet 12/31/17

DOMESTIC YIELD CURVE



Source: LPL Research, Bloomberg, FactSet 12/31/17

		1 Mo	3 Mos	YTD	12 Mos
Large Cap	S&P 500	1.11	6.64	21.83	21.83
	DJIA	1.92	10.96	28.11	28.11
	Russell 1000	1.11	6.59	21.69	21.69
	Russell 1000 Value	1.46	5.33	13.66	13.66
	Russell 1000 Growth	0.78	7.86	30.21	30.21
Small/Mid Cap	Russell 2000	-0.40	3.34	14.65	14.65
	Russell 2000 Value	-0.95	2.05	7.84	7.84
	Russell 2000 Growth	0.12	4.59	22.17	22.17
	Russell Microcap	-0.47	1.80	13.17	13.17
	Russell Midcap	0.93	6.07	18.52	18.52
	Russell Midcap Value	1.24	5.50	13.34	13.34
	Russell Midcap Growth	0.54	6.81	25.27	25.27
All Cap	Russell 3000	1.00	6.34	21.13	21.13
	Russell 3000 Value	1.28	5.08	13.19	13.19
	Russell 3000 Growth	0.73	7.61	29.59	29.59
International Markets	MSCI EAFE	1.62	4.27	25.62	25.62
	MSCI ACWI ex US	2.27	5.06	27.77	27.77
	MSCI Europe	1.52	2.26	26.24	26.24
	MSCI Japan	0.72	8.52	24.39	24.39
	MSCI AC Asia Pacific ex Japan	3.13	7.98	37.32	37.32
	MSCI EAFE SMID	2.40	5.63	31.27	31.27

		1 Mo	3 Mos	YTD	12 Mos
Int'l -Continued	MSCI ACWI ex US SMID	3.03	6.12	30.83	30.83
	MSCI Emerging Mkts	3.64	7.50	37.75	37.75
	MSCI EMEA	7.01	11.82	25.22	25.22
	MSCI Latin America	4.52	-2.24	24.15	24.15
	MSCI Frontier Markets	3.14	5.63	32.32	32.32
Sectors -S&P 500 GICS	Consumer Discretionary	2.41	9.87	22.98	22.98
	Consumer Staples	2.21	6.49	13.49	13.49
	Energy	4.88	6.02	-1.01	-1.01
	Financials	1.96	8.63	22.18	22.18
	Healthcare	-0.65	1.47	22.08	22.08
	Industrials	1.90	6.05	21.03	21.03
	Information Technology	0.01	9.01	38.83	38.83
	Materials	1.94	6.93	23.84	23.84
	Telecom Services	5.77	3.61	-1.25	-1.25
	Utilities	(6.14)	0.21	12.11	12.11

Source: LPL Research, Bloomberg, FactSet 12/31/17

(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.

Fixed Income	1 Mo	3 Mos	YTD	12 Mos
BI BarCap US Agg	0.46	0.39	3.54	3.54
BI BarCap 1-10 Muni	0.53	-0.38	3.03	3.03
BI BarCap HY Muni	1.30	1.83	9.69	9.69
BI BarCap Inv. Grade Credit	0.91	1.17	6.42	6.42
BI BarCap Muni Long Bond -22+	1.55	2.23	8.19	8.19
BI BarCap US Agg Securitized MBS	0.33	0.15	2.47	2.47
BI BarCap US TIPs	0.92	1.26	3.01	3.01
BI BarCap US Treasury Interm	0.03	-0.41	1.14	1.14
BI BarCap US Treasury Long	1.72	2.37	8.53	8.53
BI BarCap US High Yield Loans	0.32	0.95	3.31	3.31
ML Preferred Stock Hybrid	0.42	0.76	12.03	12.03
ML US High Yield BB/B Rated	0.20	0.39	6.98	6.98
ML US Convert ex Mandatory	0.01	1.83	15.70	15.70
JPM GBI Global ex US Hedged	-0.07	1.20	2.03	2.03
JPM GBI Global ex US Unhedged	0.02	1.58	9.92	9.92
JPM GBI-EM Global Div	2.02	0.82	15.21	15.21
JPM ELMI+	0.91	2.00	11.54	11.54
JPM EMBI+ Composite	0.63	-0.32	8.29	8.29

Alternatives	1 Mo	3 Mos	YTD	12 Mos
HFRX Absolute Return	0.28	0.13	3.39	3.39
HFRX Market Directional	1.33	0.79	3.15	3.15
HFRX Convertible Arb.	0.69	1.47	7.22	7.22
HFRX Distressed	0.92	0.69	3.14	3.14
HFRX Equity Hedge	1.03	2.72	9.98	9.98
HFRX Market Neutral	-0.72	-1.02	1.73	1.73
HFRX Event Driven	0.39	-0.10	6.48	6.48
HFRX Merger Arb.	0.40	0.49	2.23	2.23
HFRX Relative Value Arb.	0.67	0.93	3.80	3.80
HFRX Global Hedge Fund	0.73	1.50	5.99	5.99
HFRX Macro Index	0.82	2.61	2.51	2.51
HFRX Systematic Diversified	1.99	7.11	5.05	5.05
Bloomberg Commodity	2.99	4.71	1.70	1.70
DJ Wilshire REIT	0.03	1.98	3.76	3.76
Alerian MLP	4.74	-0.95	-6.52	-6.52

		Latest Mo End (12/31/17)	3 Mos Ago (09/30/17)	Latest Yr End (12/31/16)	12 Mos Ago (12/31/16)
Currency	U.S. Dollar Index Value	92.12	93.08	92.12	102.21
	USD vs. Yen	112.71	112.46	112.71	116.90
	Euro vs. USD	1.20	1.18	1.20	1.05
Cmdtys	Gold ($ per Troy Ounce)	1302.50	1279.40	1302.50	1150.90
	Crude Oil ($ per Barrel)	60.42	51.67	60.42	53.72

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.

Small cap is a term used to classify companies with a relatively small market capitalization. The definition of small cap can vary, but it is generally a company with a market capitalization of between $300 million and $2 billion. The prices of small cap stocks are generally more volatile than large cap stocks.

All information is believed to be from reliable sources; however LPL Financial makes no representation as to its completeness or accuracy.

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.

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.

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

Alpha: Measures the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by Beta. A positive (negative) Alpha indicates the portfolio has performed better (worse) than its Beta would predict.

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

Yield curve is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. The most frequently reported yield curve compares the 3-month, 2-year, 5-year, and 30-year U.S. Treasury debt. This yield curve is used as a benchmark for other debt in the market, such as mortgage rates or bank lending rates. The curve is also used to predict changes in economic output and growth.

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

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.

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

INDEX DEFINITIONS

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

The 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.