Market Observations – 2q17 Recap

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One of the more interesting data points that has taken place during the first half of the year, in our opinion, was the decline of the US Dollar (USD) relative to most major developed and emerging market currencies. This is shown in the graph below (Figure 1) which shows the US Dollar index over the year-to-date period. The US Dollar index declined 6.4% over this timeframe, a fairly significant decline over a short period of time. This is interesting because the relationship between the USD and the 10-Year Treasury (Figure 2) had a high correlation until the second half of June when this dynamic broke down.

Figure 1

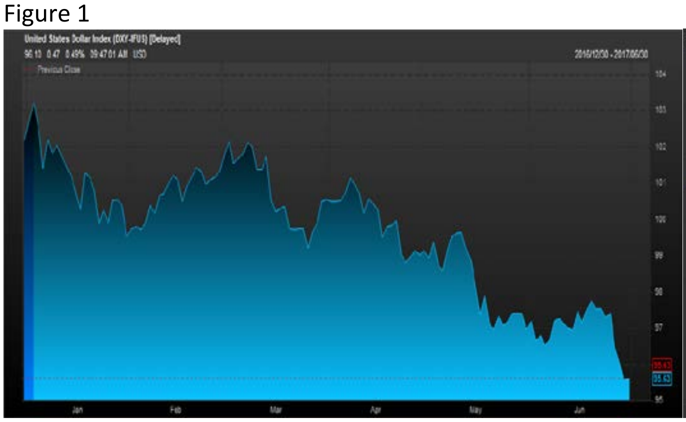
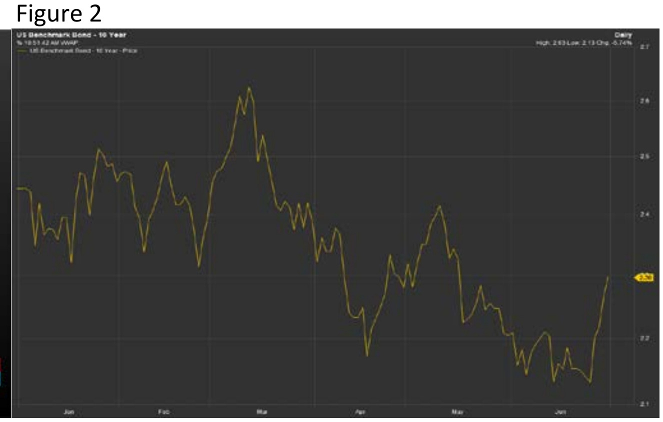


Figure 2



Later in the first quarter the US Dollar (USD) began to decline when it became more apparent that the reflation trade would happen later rather than sooner as the Trump administration hit some stumbling blocks in implementing its legislative agenda which included tax cuts, infrastructure spending, and reduced regulation. This caused the “animal spirits” that sparked the reflation trade late last year and early this year to settle down. As a result, we saw a reversal of the rally in the financial sector within equities in favor of high growth technology and health care stocks. In bonds we saw the 10-Year Treasury decline from a peak of 2.58%. Towards the end of the second quarter concerns began to reemerge about waning US growth, which fiscal stimulus was supposed to reinvigorate, causing the equity rally to lose steam, the 10-Year Treasury yield to bottom and the USD to decline.

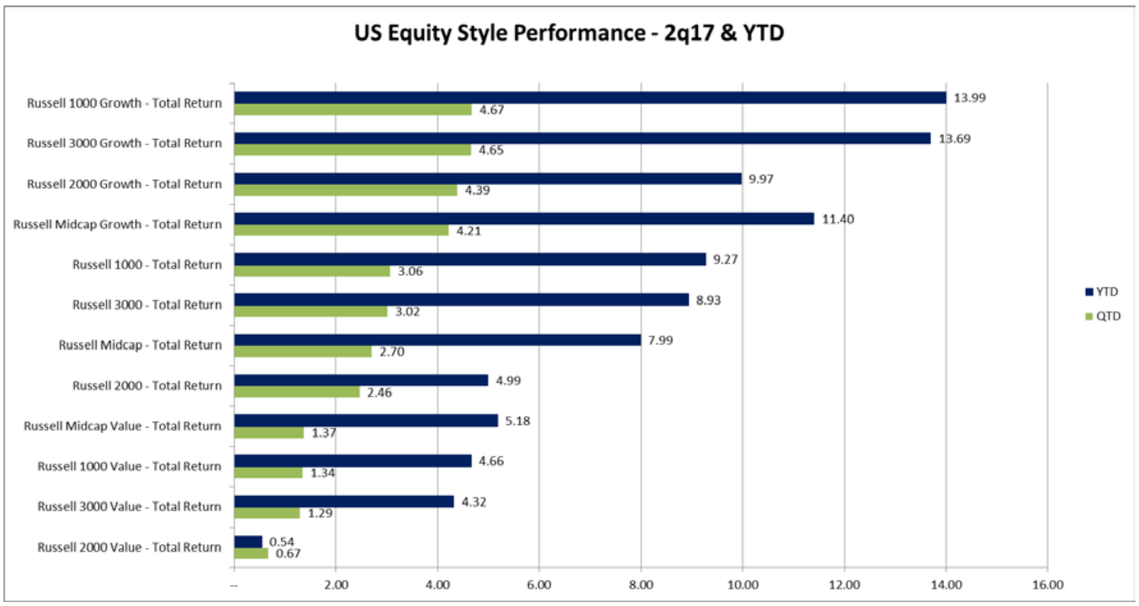
Meanwhile, the USD was under pressure in May and particularly in June as growth prospects have improved in non-US developed markets. Europe in particular was getting indications from its central bank in June that it is reaching an inflection point to begin a tightening monetary cycle. This will most likely be gradual and will begin with a reduction in central bank bond purchases before it looks to proactively raise rates further in the future. However, this combined with continued gridlock in Washington, caused the Euro to appreciate relative to the USD at a fast rate during the month of June. It is at this point when the correlation of the USD to the 10-year Treasury began to break down. In addition to improving economic growth in Europe, there has been improving corporate earnings growth, both of which has resulted in increasing flows to European equities which have driven their markets higher. As the favorable trade moved to Europe, the Fed announced in June that it will soon begin to unwind its balance sheet. The result was a quick spike in the 10-Year Treasury in June, bringing it from the 2.14% low to end the quarter at 2.30%.

Lastly, a declining USD is typically favorable to emerging markets where a weaker USD tends to ease the burden of servicing dollar denominated debt since it will be cheaper to service as their own currencies strengthen.

Commentary on the various market segments for the second quarter of 2017 is on the pages that follow.

US Equity Style: US equities continued their rally in the second quarter as the broad indices are near historic highs. However, in the month of June stock leadership shifted from Growth stocks to Value stocks.

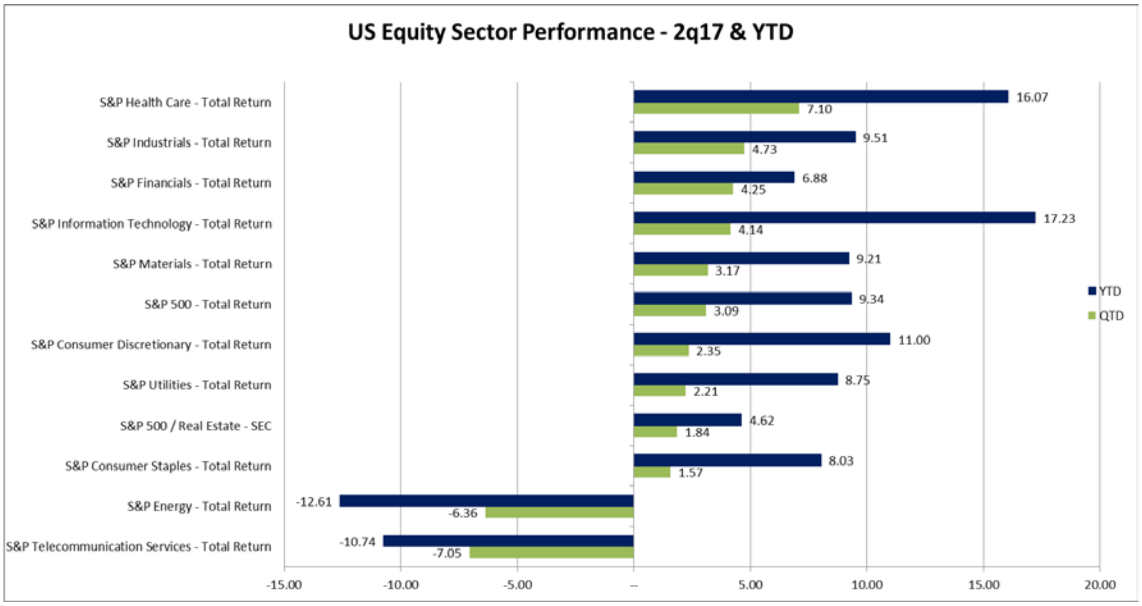
- The Growth style outperformed the Value style across all market caps during the quarter. Strong performance by the Health Care and Information Technology sectors in the Large Cap, Mid Cap and Small Cap segments drove their respective growth indices. In the month of June a rotation occurred where the Value style outperformed the Growth style.
- The Value indices were held back by poor performance from Energy stocks, which were hurt by the decline in oil and natural gas prices. However, in the month of June the Financials and sectors drove the Value indices to outperform.
- From a market cap standpoint, Large Cap stocks outperformed Small Cap Stocks as large cap, multinational companies could potentially benefit from the declining US Dollar as well as a more moderate tone of President Trump's trade policy (the trade weighted US Dollar index was down an additional 4.9% for the quarter). The Russell 1000 index returned of 3.1% for the quarter while the Russell 2000 index and Russell Mid Cap index returned 2.5% and 2.7%, respectively.
- The dispersion between the best performing style (Large Cap Growth) and the worst performing style (Small Cap Value) during the quarter was only 4.0%, indicating that manager style had a moderate impact on active management performance.



Source: FactSet

US Sectors: The higher growth sectors of the market (Health Care and Information Technology) contributed significantly to the S&P 500's return. However, the quarter ended on a sour note as stock leadership rotated from the Information Technology sector to the Financials sector in the month of June.

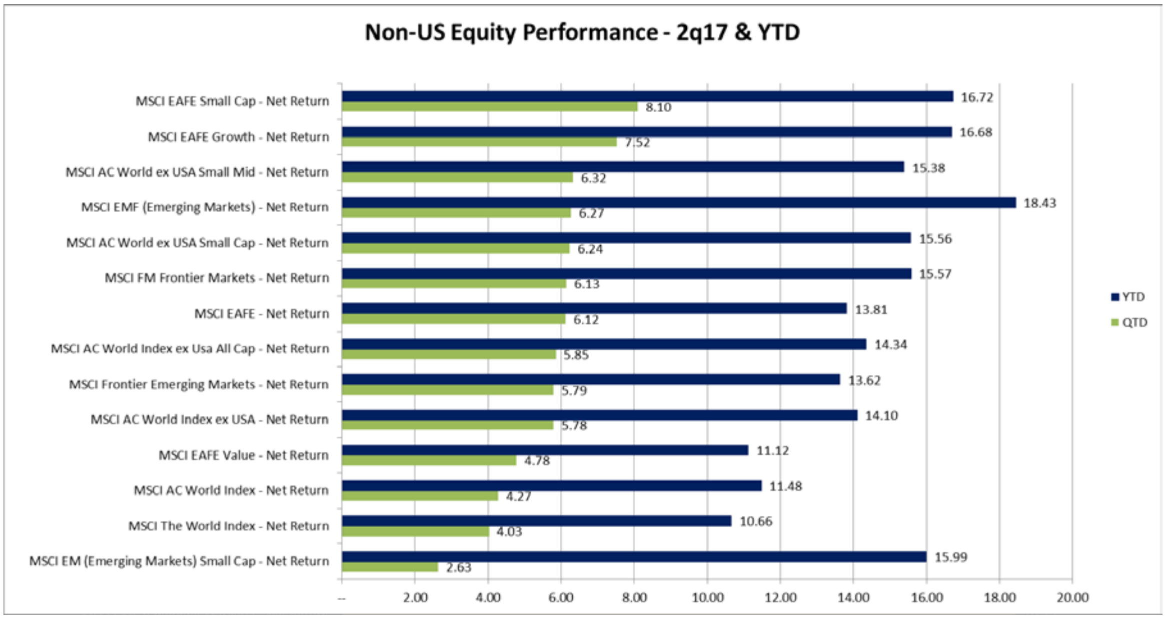
- Health Care, Industrials and Financials were the top performing sectors for the quarter. Information Technology finished a close fourth after giving up some gains in the month of June. Within the Health Care sector, Health Care Equipment and Services drove the sector's return while the Industrials sector was driven by Transportation.
- The Energy and Telecom sectors were the only two negative performing sectors for the quarter with returns of -6.4% and -7.0% respectively. The Energy sector was hurt by a 9% drop in WTI Crude Oil. Within Telecom, Verizon was among the top detractors in the S&P 500 for the quarter. Financials staged a comeback in the month of June after the Fed announced that they will soon begin to unwind their balance sheet.
- There was a wide level of dispersion between the best and worst performing sectors for the quarter. The level of dispersion was 14.1% with the Health Care sector being the best performer and the Telecom sector being the worst performer.



Source: FactSet

Non-US Markets: Developed and emerging market equities continued to benefit from strengthening currencies, attractive valuations, and improving fundamentals. For the quarter, both developed and emerging market equities outperformed US equities.

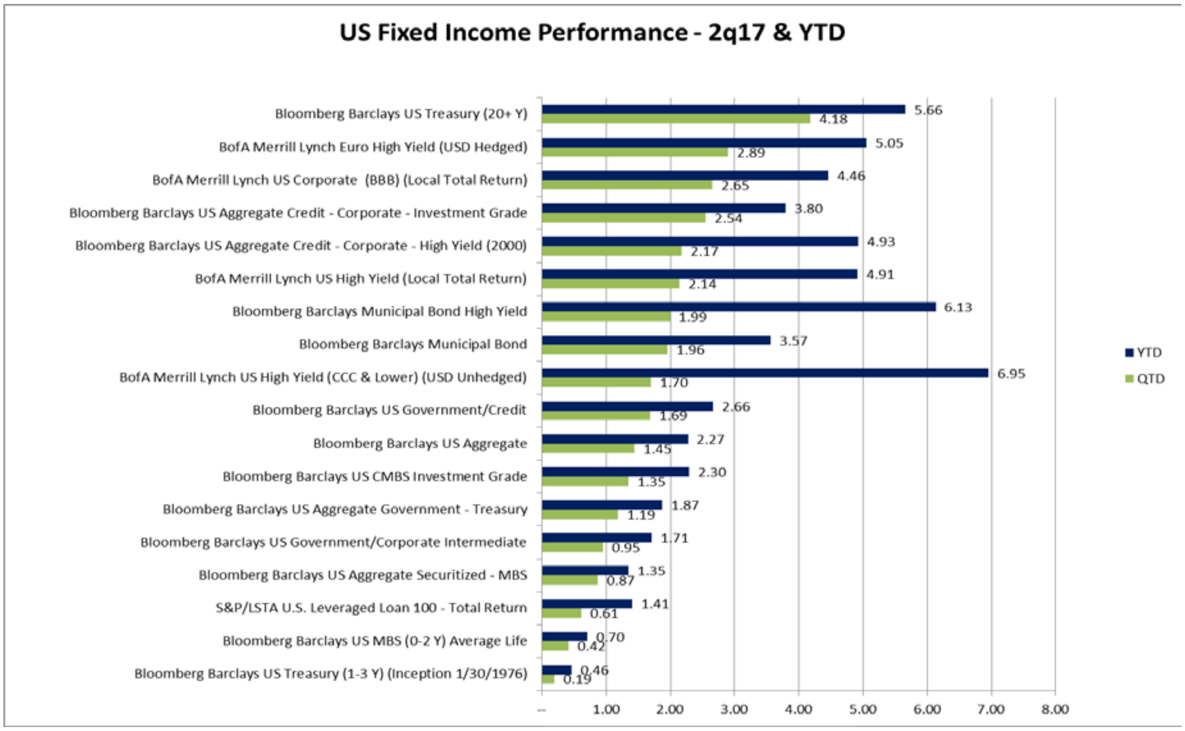
- The MSCI EAFE index returned 6.1% for the quarter, outperforming the S&P 500's 3.1% gain. As with the US, the Growth style outperformed the Value style by a fairly wide margin. Unlike in the US, Small Cap stocks outperformed Large Cap Stocks. Brexit and other European election concerns abated and investor flows to the region increased. The MSCI Europe returned 7.4% for the quarter and was the best performing region. The Far East region, which includes Japan, returned 5.4%. Japan, which began to see signs of economic improvement, returned 5.2% for the quarter.
- The MSCI EM index returned 6.3% for the quarter. Despite a Fed rate increase and concern regarding reform to US trade policy, emerging markets performed strongly. The Asian region performed best as MSCI EM Asia returned 8.6%. The MSCI Latin America posted a negative return of 1.7% for the quarter. Brazil in particular was down 6.7% and represents a 7% weighting in the index. Eastern Europe was the weakest performing region, despite continued strong performance from Poland (+13.6%). The MSCI Eastern Europe index returned -2.6%. Emerging market small cap stocks underperformed large cap stocks during the quarter.
- Currencies of most major developed and emerging market countries appreciated relative to the USD. The US Dollar index, a trade weighted basket of currencies, was down 4.9% for the quarter. This currency appreciation was a tailwind for non-US equities and bonds for the quarter for US-based investors. Exceptions were the Yen which was down a modest 83bps, the South Korean Won, the Brazilian Real and the Russian Ruble which were down 2.3%, 4.2%, and 4.9%, respectively.
- From a sector perspective, Information Technology was the top performing sector within developed markets, followed by Consumer Staples and Health Care. Energy was the only sector with a negative return (-0.5%). Materials (3.4%) and Real Estate (4.7%) were the other bottom performing sectors. The exception was energy which was the worst performing sector for both developed and emerging markets. As in developed markets Information Technology was also the top performing sector within emerging markets. This was followed by Real Estate and Consumer Discretionary. Weakest performing emerging market sectors were Energy and Materials.
- Frontier markets lagged emerging markets but outperformed US equities. The MSCI Frontier Markets index returned 6.2% while the MSCI Frontier Emerging Market index returned 5.8%.



Source: FactSet

Fixed Income: All major fixed income segments posted positive returns for the quarter. Long duration excelled, US credit performed well and the Barclays US Aggregate bond index finished the quarter with a return of 1.4%.

- The yield curve flattened during the quarter as the Fed-driven short end rose and the long end slightly declined. The 10-year Treasury yield finished the quarter yielding 2.30% after beginning the year at 2.39%. During the quarter the yield bottomed on June 23rd at 2.14% before climbing back to 2.3% after the Fed announced that it will soon begin to unwind its balance sheet. The Barclays US Treasury 20+ Year index returned 4.2% while the Barclays US Aggregate Government/Treasury index finished the quarter with a 1.2% return.
- Municipal bonds continue its strong run since last year with the Barclays Municipal Bond index returning 2.0% for the quarter. High yield municipal bonds returned 2.0% as per the Barclays Municipal Bond High Yield index. The Muni/Treasury yield ratio declined to 0.95, which is slightly above its long term average. This is an indication that municipal bonds are now fairly valued.
- Credit spreads tightened during the quarter helping the BofA ML US High Yield index post a return of 2.1% for the quarter and the Barclays US Aggregate Investment Grade Credit index post a return of 2.5%. High yield spreads finished the quarter at 440 basis points above Treasuries, which is tighter than its long-term average of 5.8%. Also, the default rate declined to 1.3%, which is lower than the longer-term average default rate.
- Leveraged loans also experienced spread tightening during the quarter with the S&P/LSTA Leveraged Loan 100 returning 0.6%. Leverage loans have become more attractive as LIBOR has increased recently due to Fed rate hikes and is getting close to the LIBOR floor which will allow the floating component of the coupon to rise.
- Developed market bonds outperformed strongly in the quarter on the back of a broad rally in foreign currency. The Citigroup non-USD WGBI Index rose 4.0% in the quarter as the euro and British pound appreciated 6.6% and 3.9% respectively. Locally-denominated Emerging Markets also outperformed, rising 3.6% for the quarter.



Source: FactSet

Manager Review: Since the financial crisis, the US market has led the global recovery and in turn, has been the best performing market. More recently, we have seen the huge amounts of monetary stimulus in foreign markets begin to have the desired impact on their economies. Investor flows are now increasingly moving towards those markets driving up their stock prices and currency values. Meanwhile, the US economy continues its slow and steady progress giving the Fed the ability to continue its normalization of interest rates. These market dynamics seem to be having a positive impact on active management.

In the second quarter of 2017 the following dynamics were taking place: 1) strong performance from growth stocks relative to value stocks globally, 2) Non-US stocks and US multinational stocks benefiting from currency appreciation relative to the USD, and 3) corporate credit continue its strong run.

1) In the second quarter we continued to see strong performance from growth stocks relative to value stocks globally. The Health Care and Information Technology sectors drove performance in both US and non-US developed markets. Information Technology alone was the main driver within emerging markets. Growth managers that emphasize these sectors benefited as we have seen a majority of our growth manager outperform their respective benchmarks.
2) Most major currencies appreciated substantially relative to the USD over the quarter due lack of fiscal stimulus in Washington and improving prospects overseas. The USD index was down 4.9%. This has been a tailwind for US multinationals as their goods are cheaper in the markets they are exporting to. It has also helped US managers with direct non-US exposure as they got a boost from appreciating currencies.
3) Within the fixed income markets we continued to great performance from credit. This benefited flexible bond managers that have increased their exposure to credit, especially high yield credit. Additionally, municipal high yield credit also continued to perform strongly, benefiting those municipal managers that have the ability to dip down in quality and have done so.

We have seen mixed performance out of diversifying strategies in the second quarter. Given the idiosyncratic nature of many of these strategies, it is always difficult to generalize performance. With that said, the strongest performance seemed to come from macro and event driven strategies as well as hedged equity strategies which benefited from their positive beta exposure. However, managed futures strategies look to be the one area of difficulty during the quarter, continuing their struggle from last year. Real asset strategies saw good performance from infrastructure and real estate; however MLPs were adversely impacted by the decline in oil prices.

Disclosures

Indices are unmanaged and presented for comparison purposes only. Please note that the returns displayed for indices do not take into account any of the costs associated with buying and selling individual securities. Individuals cannot invest directly in an index.

Bloomberg Barclays Capital U.S. Aggregate Bond Index: *The U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The Index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM pass throughs), ABS, and CMBS sectors. The U.S. Aggregate Index is a component of the U.S. Universal Index in its entirety. The index was created in 1986 with index history backfilled to January 1, 1976. All issues in the Aggregate Index are rated Baaa3/BBB-/BBB- or higher (using the middle rating of Moody's, S&P, and Fitch, respectively) and have at least one year to maturity and have an outstanding par value of at least $250 million.*

Bloomberg Barclays CMBS IG TR USD: *The index measures the performance of investment-grade commercial mortgage-backed securities, which are classes of securities that represent interests in pools of commercial mortgages. The index includes only CMBS that are Employee Retirement Income Security Act of 1974, which will deem ERISA eligible the certificates with the first priority of principal repayment, as long as certain conditions are met, including the requirement that the certificates be rated in one of the three highest rating categories by Fitch, Inc., Moody's Investors Services or Standard & Poor's.*

Bloomberg Barclays Municipal TR USD: *The Bloomberg Barclays Municipal Bond Index is considered representative of the broad market for investment grade, tax-exempt bonds with a maturity of at least one year.*

Bloomberg Barclays US Corp IG TR USD: *The index measures the performance of investment grade corporate bonds.*

Bloomberg Barclays US Corporate High Yield TR USD: *Bloomberg Barclays US Corporate High Yield TR USD*

Bloomberg Barclays US Govt/Credit Interm TR USD: *A subgroup of the Bloomberg Barclays Government/Credit Bond Index that is based on maturity with greater than 1 to 10 years.*

Bloomberg Barclays US Govt/Credit TR USD: *The U.S. Government/Credit Bond Index is the non-securitized component of the U.S. Aggregate Index. Specifically, the Government/Credit Index includes treasuries (i.e., public obligations of the US Treasury that have remaining maturities of more than 1 year), Government-Related issues (i.e. agency, sovereign, supranational, and local authority debt) and Corporates (publicly issued US corporate and Yankee debentures and secured notes that meet specified maturity, liquidity, and quality requirements). All issues in the Government/Credit Index are rated Baaa3/BBB-/BBB- or higher (using the middle rating of Moody's, S&P, and Fitch, respectively) and have at least one year to maturity and have an outstanding par value of at least $250 million.*

Bloomberg Barclays US MBS TR USD: *The Bloomberg Barclays Mortgage-backed Securities Index is a market value-weighted index which covers the mortgage-backed securities component of the Bloomberg Barclays U.S. Aggregate Bond Index. The index is composed of agency mortgage-backed pass through securities of the Government National Mortgage Association (Ginnie Mae), the Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (Freddie Mac) with a minimum $150 million par amount outstanding and a weighted-average maturity of at least 1 year. The index includes reinvestment of income*

Bloomberg Barclays US Treasury 1-3 Yr TR USD: *The Bloomberg Barclays Capital US Treasury Bond 1-3yr term index measures the performance of short-term government bonds issued by the US Treasury.*

Bloomberg Barclays US Treasury 20+ Yr TR USD: *The Index is market capitalization weighted and includes all of the securities that meet the Index criteria. The index includes all publicly issued, U.S. Treasury securities that have a remaining maturity greater than 20 years, are non-convertible, are denominated in U.S. dollars, are rated investment grade (Baa3 or better) by Moody's Investors Service, are fixed rate, and have more than $150 million par outstanding. Excluded from the*

Index are certain special issues, such as flower bonds, targeted investor notes (TINs) and state and local government series bonds (SLGs), and coupon issues that have been stripped from assets already included.

Bloomberg Barclays US Treasury TR USD: *The U.S. Treasury Index includes public obligations of the U.S. Treasury. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index. In addition, certain special issues, such as state and local government series bonds (SLGs), as well as U.S. Treasury TIPS, are excluded. STRIPS are excluded from the index because their inclusion would result in double-counting. Securities in the index roll up to the U.S. Aggregate, U.S. Universal, and Global Aggregate Indices. The U.S. Treasury Index was launched on January 1, 1973.*

Bloomberg Barclays US Treasury US TIPS TR USD: *The Index includes all publicly issued, U.SS Treasury inflation-protected securities that have at least 1 year remaining to maturity, are rated investment grade and have $250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non-convertible. The Index is market capitalization weighted and the securities in the Index are updated on the last calendar day of each month.*

BofAML US Corps BBB TR USD: *This data represents the BofA Merrill Lynch US Corporate BBB Index, a subset of the BofA Merrill Lynch US Corporate Master Index tracking the performance of US dollar denominated investment grade rated corporate debt publically issued in the US domestic market. This subset includes all securities with a given investment grade rating BBB.*

BofAML US HY CCC- Constrained TR USD: *The BofA Merrill Lynch CCC and Lower US High Yield Constrained Index contains all securities in The BofA Merrill Lynch US High Yield Index that are rated CCC1 and lower, based on an average of Moody's, S&P and 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%. Issuers that exceed the limit are reduced to 2% and the face value of each of their bonds is adjusted on a pro-rata basis. Similarly, the face values of bonds of all other issuers that fall below the 2% cap are increased on a pro-rata basis. In the event there are fewer than 50 issuers in the Index, each is equally weighted and the face values of their respective bonds are increased or decreased on a pro-rata basis.*

BofAML US HY Master II Constnd TR USD: *The BofA Merrill Lynch US High Yield Constrained Index contains all securities in The BofA Merrill Lynch US High*

BofAML US HY Master II TR USD: *Tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic markets.*

Europe Stoxx 600: *The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 18 countries of the European region: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.*

Russell 1000 Growth Index (R1000 Growth*): Measures the performance of the Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.*

Russell 1000 Index (Russell 1000): *Measures the performance of the 1,000 largest companies in the Russell 3000 Index. Frank Russell Co. ranks the US common stocks from largest to smallest market capitalization at each annual reconstitution period. The*

Russell 1000 Index represents the vast majority of the total market capitalization of the Russell 3000 Index. It is considered to be generally representative of US Equity Large Cap performance.

Russell 1000 Value Index (R1000 Value): *Measures the performance of the Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.*

Russell 2000 Growth Index (R2000 Growth*): Measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.*

Russell 2000 Index (Russell 2000): *Measures the performance of the 2,000 smallest companies in the Russell 3000 Index. Frank Russell Co. ranks the US common stocks from largest to smallest market capitalization at each annual reconstitution period. The*
Russell 2000 Index represents a very small percentage of the total market capitalization of the Russell 3000 Index. It is considered to be generally representative of US Equity Small and Mid Cap performance.

Russell 2000 Value Index (R2000 Value): *Measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values*

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

Russell 3000 Index (Russell 3000): *Measures the performance of the 3,000 largest US companies based on total market capitalization, which represents nearly the entire market capitalization of the investable US equity market. Frank Russell Co. ranks the US common stocks from largest to smallest market capitalization at each annual reconstitution period.*

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

Russell Midcap Growth Index (Russell Midcap Growth): *Contains those Russell Midcap (800) securities with a greater than-average growth orientation. Companies in this index tend to exhibit higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values than the Value universe.*

Russell Midcap Index (Russell Midcap): *Measures the performance of the mid-cap segment of the US equity universe. The Russell Midcap Index includes the smallest 800 securities in the Russell 1000.*

Russell Midcap Value Index (Russell Midcap Value): *Contains those Russell Midcap (800) securities with a less-than average growth orientation. Securities in this index generally have lower price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values than the Growth universe.*

S&P 500 Index: *The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted Index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value. The Index is one of the most widely used benchmarks of US Equity Large Cap performance.*

S&P 500 Sector/Consumer Discretionary Index: *The S&P 500 Sector/Consumer Discretionary Index consists of stocks chosen for their representation in the Consumer Discretionary industry. The companies in the index tend to be the most sensitive to economic cycles. Manufacturing companies include automotive, household durable goods, textiles and apparel, and leisure equipment. Service companies include hotels, restaurants/leisure facilities, media production and services, consumer retailing and services and education services. It is a market value weighted Index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value.*

S&P 500 Sector/Consumer Staples Index: *The S&P 500 Sector/Consumer Staples Index consists of stocks chosen for their representation in the Consumer Staples industry. The companies in the index tend to be the less sensitive to economic cycles. They include manufacturers and distributors of food, beverages and tobacco, and producers of non-durable household goods and personal products; also food and drug retailing companies. It is a market value weighted Index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value.*

S&P 500 Sector/Energy Index: *The S&P 500 Sector/Energy Index consists of stocks chosen for their representation in the Energy industry. The companies in the index are dominated by either the construction for provision of oil rigs, drilling equipment and other energy-related service and equipment or the exploration, production, marketing, refining and/or* *transportation of oil and gas products, coal and consumable fuels. It is a market value weighted Index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value.*

S&P 500 Sector/Financials TR Index: *The S&P 500 Sector/Financials Index consists of stocks chosen for their representation in the Financials industry. The companies in the index are involved in activities such as banking, consumer finance, investment banking and brokerage, asset management, insurance and investments, and real estate, including REITs. It is a market value weighted Index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value.*

*S**&P 500 Sector/Healthcare TR Index:*** *The S&P 500 Sector/Healthcare Index consists of stocks chosen for their representation in the Healthcare industry. The companies in the index are involved in health care equipment and supplies, health care-related services, or in the research, development, production and marketing of pharmaceuticals and biotechnology products. It is a market value weighted Index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value.*

S&P 500 Sector/Industrials TR Index: *The S&P 500 Sector/Industrials Index consists of stocks chosen for their representation in the Industrials industry. Companies include those that manufacture and distribute capital goods (i.e. aerospace/defense, construction, engineering and building products, electrical equipment and industrial machinery); provide commercial services and supplies (i.e. printing, employment, environmental/office services); or provide transportation services (i.e. airlines, couriers, marine, road/rail and transportation infrastructure). It is a market value weighted Index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value.*

S&P 500 Sector/Information Technology TR Index: *The S&P 500 Sector/Information Technology Index consists of stocks chosen for their representation in the Info Tech industry. Companies considered are involved in technology software and services and technology hardware and equipment. It is a market value weighted Index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value.*

S&P 500 Sector/Materials TR Index: *The S&P 500 Sector/Materials Index consists of stocks chosen for their representation in the Materials industry. These include companies that manufacture chemicals, construction materials, glass, paper, forest products and related packaging products, metals, minerals and mining companies, including steel producers. It is a market value weighted Index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value.*

S&P 500 Sector/Telecommunication Services TR Index: *The S&P 500 Sector/Telecom Services Index consists of stocks chosen for their representation in the Telecom industry. The companies in the index are involved in health care equipment and supplies, health care-related services, or in the research, development, production and marketing of pharmaceuticals and biotechnology products. It is a market value weighted Index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value.*

S&P 500 Sector/Utilities TR Index: *The S&P 500 Sector/Utilities Index consists of stocks chosen for their representation in the Utilities industry. Companies considered include electric, gas or water utilities, or companies that operate as independent producers and/or distributors of power. It is a market value weighted Index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value.*

S&P/LSTA Leveraged Loan TR: *The S&P/LSTA U.S. Leveraged Loan 100 Index is designed to reflect the performance of the largest facilities in the leveraged loan market. Yield Index 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%. Issuers that exceed the limit are reduced to 2% and the face value of each of their bonds is adjusted on a pro-rata basis. Similarly, the face values of bonds of all other issuers that fall below the 2% cap are increased on a pro-rata basis. In the event there are fewer than 50 issuers in the Index, each is equally weighted and the face values of their respective bonds are increased or decreased on a pro rata basis.*

The success of an investment program may be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws and national and international political circumstances. These factors may *affect the level and volatility of securities prices and the liquidity of a portfolio's investments. Unexpected volatility or illiquidity could result in losses.*

Investing in securities is speculative and entails risk. There can be no assurance that one's investment objectives will be achieved or that an investment strategy will be successful. Significant losses could result if a strategy involves the use leverage, short sales and derivative transactions, investment in foreign or illiquid securities, and potentially limited diversification.

Special Risks of Fixed Income Securities

For fixed income securities, there is a risk that the price of these securities will go down as interest rates rise. Another risk of fixed income securities is credit risk, which is the risk that an issuer of a bond will not be able to make principal and interest payments on time.

Special Risks of Foreign Securities

Investments in foreign securities are affected by risk factors generally not thought to be present in the US. The factors include, but are not limited to, the following: less public information about issuers of foreign securities and less governmental regulation and supervision over the issuance and trading of securities.

Special Risks of Small Market Capitalization Securities

Investments in companies with smaller market capitalization are generally riskier than investments in larger, well-established companies. Smaller companies often are more recently formed than larger companies and may have limited product lines, distribution channels and financial and managerial resources. These companies may not be well known to the investing public, may not have significant institutional ownership and may have cyclical, static or moderate growth prospects. There is often less publicly available information about these companies than there is for larger, more established issuers, making it more difficult for the Investment Manager to analyze that value of the company. The equity securities of small and mid-capitalization companies are often traded over-the-counter or on regional exchanges and may not be traded in the volume typical for securities that are traded on a national securities exchange. Consequently, the Investment Manager may be required to sell these securities over a longer period of time (and potentially at less favorable prices) than would be the case for securities of larger companies. In addition, the prices of the securities of small and mid-capitalization companies may be more volatile that those of larger companies.

Special Risks of Master Limited Partnerships

Master limited partnerships (MLPs) are publicly listed securities that trade much like a stock, but they are taxed as partnerships. MLPS are typically concentrated investments in assets such as oil, timber, gold and real estate. The risks of MLPS include concentration risk, illiquidity, exposure to potential volatility, tax reporting complexity, fiscal policy and market risk. MLPS are not suitable for all investors.