# Market Observations – 1Q 2017 Recap

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Since the US election on November 8th there have been numerous references to “animal spirits”, the reflation trade, and the Trump trade. What does all of this mean and how does it impact your investments? In our view, all three references mean the same thing. President Trump was elected largely on the platform of replacing the Affordable Care Act, personal and corporate tax reform, infrastructure spending, and reduced regulation. The market rally that has occurred since the US election (the so-called “animal spirits”) is based on tax reform and infrastructure spending in particular which is expected to “reflate” the economy. The reflation trade has benefited certain sectors over others, especially through the end of February.

Benefiting most from these expectations were small cap stocks, sectors such as financials, industrials and materials, and high yield credit within the bond markets. Small cap stocks benefited from having less multinational exposure that could be impacted by altered trade agreements. Financials benefited due to the potential reduction in regulations. Industrials and materials benefited as a result of the proposed increased fiscal spending on infrastructure. High yield credit benefited as below investment grade companies would get tailwind of fiscal stimulus. Additionally, due to the reflation trade, the 10-year Treasury yield rallied 0.75% from just before the election to its peak on March 10th.

Now that the optimism has waned and the Trump administration hit a road block with health care reform, investors may be calling into question the White House’s ability to successfully implement tax reform and infrastructure spending to the extent that the market had expected. Trade reform may prove to be more moderate than anticipated and enthusiasm over financial industry regulatory overhaul has calmed. The result is the market dialing back expectations. Later in the quarter US large cap stocks outperformed small cap stocks, information technology and health care became the leading performing sectors, emerging market equities outperformed US equities, and Treasury yields settled back down.

Despite the shift in investor sentiment over the course of the quarter, US equities ended the quarter with an impressive 6.1% return. Notable economic data has provided signs of strength in economic growth along with increased inflation which has driven investors towards a late cycle growth theme that has benefited growth stocks over value stocks. The information technology sector was up 12.6% for the quarter, following by health care’s 8.4% return. International and emerging market stocks outperformed US equities for the quarter as the MSCI EAFE returned 7.2% and MSCI EM returned 11.4%. In addition to stock price appreciation of developed and emerging market equities, currencies also benefited as they appreciated relative to the US dollar. This occurred despite the Fed raising rates in December and again in March. US Treasury prices increased during the quarter as the 10-Year Treasury ended the quarter yielding 2.39% after beginning the year at 2.44%.

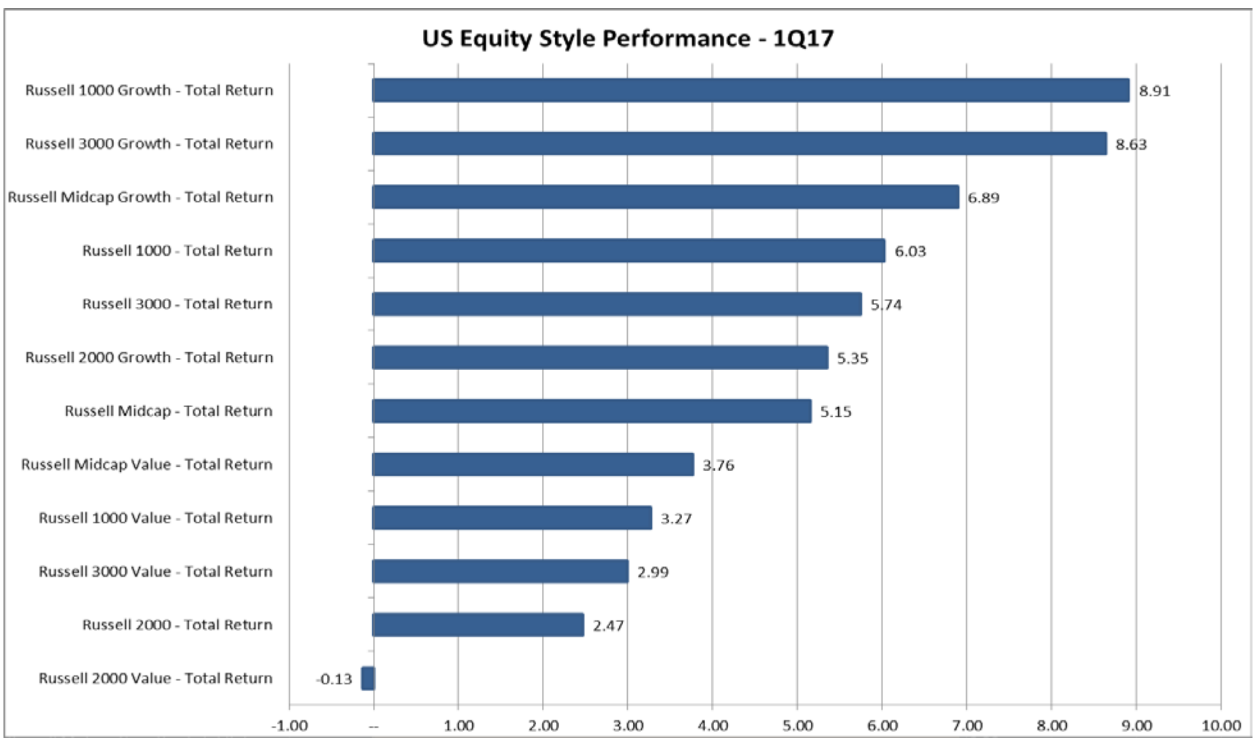
As we move towards earnings season, the market is anticipating a strong showing. Given current lofty valuations in the US equity market, reported results will have to meet or exceed those expectations in order for valuations to be supported, in our opinion. As long as the political standoff in Washington doesn’t destroy the economy’s current resurgence, a meaningful pullback could be averted as the Fed continues its path to normalization.

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

# US Equity Style:

US equities continued their rally in the first quarter. What began as a compounding of the "Trump trade" early in the quarter became more of a late cycle growth trade later in the quarter.

- The Growth style outperformed the Value style across all market caps during the quarter. Strong performance by the Information Technology and Health Care sectors in the Large Cap, Mid Cap and Small Cap segments drove their respective growth indices. Apple, Facebook and Amazon were the top contributing stocks to the S&P 500 index's return. Johnson & Johnson and Procter & Gamble were the top contributors in the Health Care sector.
- The Value indices were held back by poor performance from Energy stocks, which were hurt by the decline in oil and natural gas prices. Within the S&P 500, Exxon Mobil and Chevron were top detractors with returns of -8.3% and -7.9%, respectively.
- 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 1.6% for the quarter). The Russell 1000 index returned of 6.0% for the quarter while the Russell 2000 index and Russell Mid Cap index returned 2.5% and 5.2%, respectively.
- The dispersion between the best performing style (Large Cap Growth) and the worst performing style (Small Cap Value) during the quarter was 9.0%, indicating that manager style had a fairly large impact on active management performance.



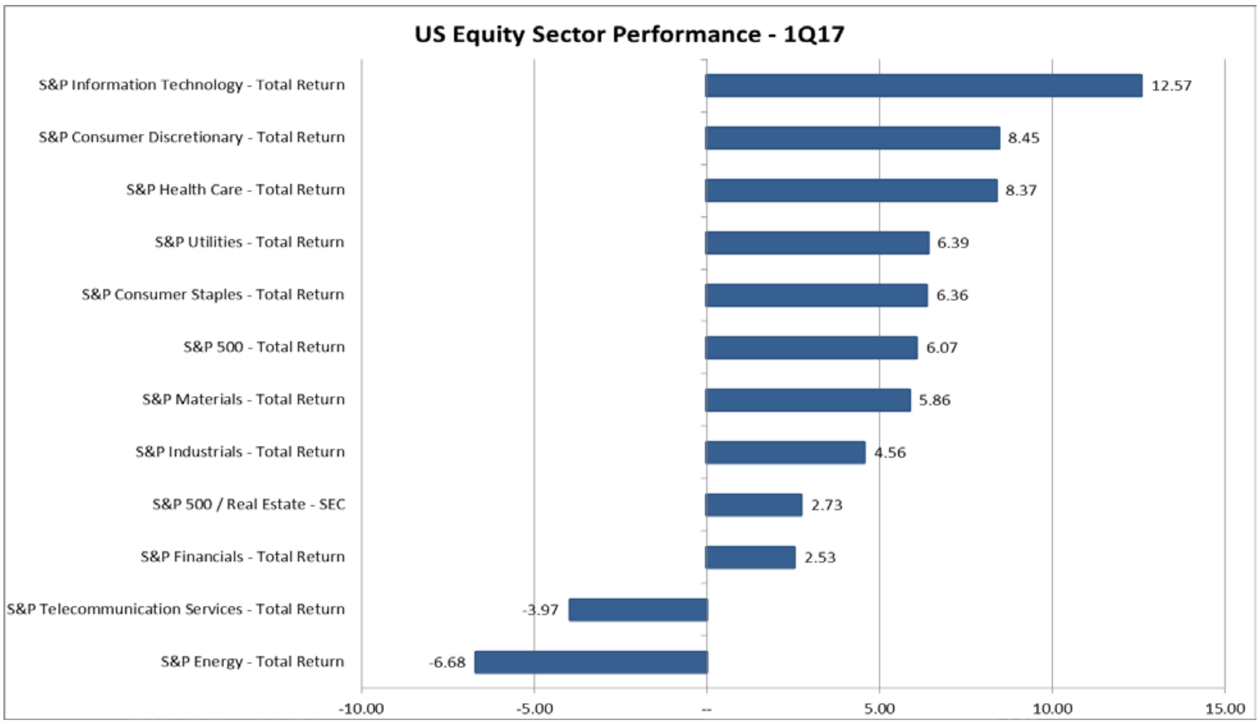

***Source: FactSet***

# US Sectors:

The higher growth sectors of the market (Info Tech, Health Care, Consumer Discretionary), which represents approximately 48% of the S&P 500, drove the market return as the focus turned towards those companies that exhibit higher earnings growth.

- As the Trump trade rotated into a late cycle growth trade, Information Technology became the top performing sector, returning 12.6% for the quarter. This was followed by strong performance from the Health Care and Consumer Discretionary sectors both with returns of 8.4%. Within the Information Technology sector, hardware and software companies led the way while semiconductor companies lagged. Returns in the Health Care sector were broad based with both biotech and equipment and services companies participating. The Consumer Discretionary sector return was driven by a combination of retail, media and consumer services while autos and consumer durables posted weaker returns.

- Energy was the weakest performing sector with a -6.7% return for the quarter. Oil and natural gas prices declined which weighed on energy stocks. However, MLPs, which tend to be correlated to energy stocks during oil and gas price declines, decoupled from the sector and posted a positive return for the quarter.
- Financials, which broke out in 2016 with a 22.7% return, benefited from the Trump trade early in the quarter but then gave up some of the gains as valuations became excessive in our view. The sector finished the quarter with a 2.5% return but with a trailing 12 month return of 32.5%.
- There was a wide level of dispersion between the best and worst performing sectors for the quarter. The level of dispersion was 19.2% with the Information Technology sector being the best performer and the Energy sector being the worst performer.




***Source: FactSet***

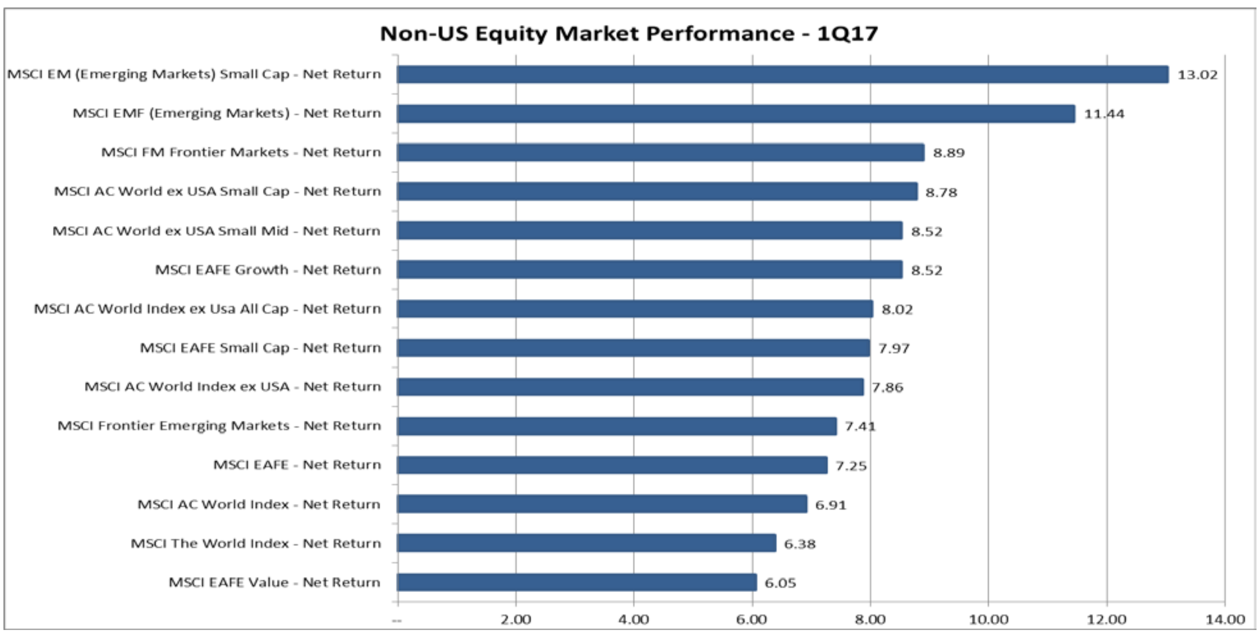
## Non-US Markets: 

Developed and emerging market equities benefited 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 7.2% for the quarter, outperforming the S&P 500's 6.1% gain. As with the US, the Growth style outperformed the Value style by a fairly wide margin. Unlike in the US, Small Cap stocks marginally 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. The Pacific region, excluding Japan, was the strongest performing region as the MSCI Pacific returned 11.8%. Japan, which began to see signs of economic improvement, lagged the other regions with a return of 4.5%.
- The MSCI EM index returned 11.4% 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 13.4%. Banks and technology companies, which comprise approximately 50% of the benchmark, drove returns. The

Latin American region also posted strong returns with MSCI Latin America up 12.1% for the quarter. Mexico and Brazil in particular were up 16.0% and 10.4%, respectively. Eastern Europe was the weakest performing region, despite a 17.7% return from Poland. The MSCI Eastern Europe index returned 0.1%. Emerging market small cap stocks outperformed large cap stocks during the quarter.

- Currencies were the difference maker during the quarter. The US Dollar declined relative to major developed and emerging market currencies. The US Dollar Index (DXY), a trade weighted basket of currencies, was down 1.6% but doesn't tell the entire story as there were some big moves, especially among some emerging market currencies. For example, within emerging markets the Mexican Peso was up 9.4%, the Russian Ruble was up 8.4% and the Indian Rupee was up 4.5%. Within developed markets the Japanese Yen was up 4.7% and the Euro was up 1.4%. Currency appreciation ended up being a strong tailwind to developed and emerging market equity (and bond) returns.
- From a sector perspective, the dynamics in developed and emerging markets were similar to one another. Information technology was the top performing sector followed by other cyclically oriented sectors. The exception was energy which was the worst performing sector for both developed and emerging markets.
- Frontier markets lagged emerging markets but outperformed US equities. The MSCI Frontier Markets index returned 8.9% while the MSCI Frontier Emerging Market index returned 7.4%.



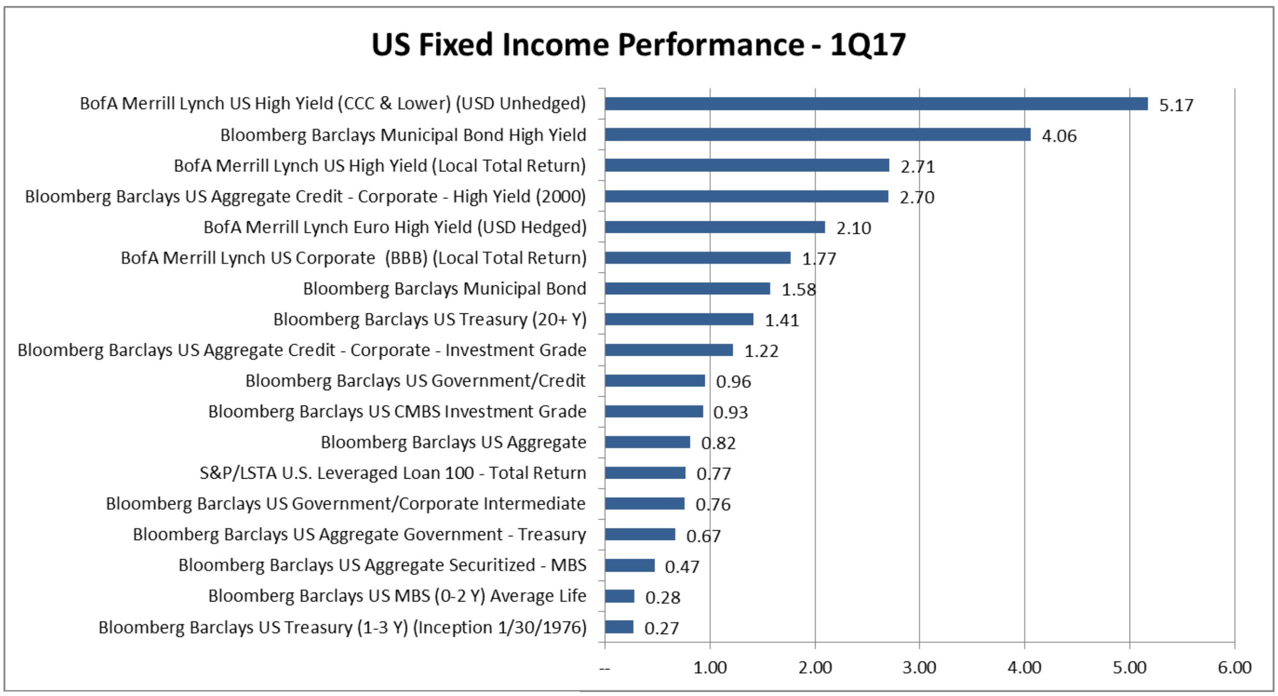

***Source: FactSet***

Fixed Income: All major fixed income segments posted positive returns for the quarter. Treasury yields have been range-bound since rallying in the fourth quarter, posting modest returns. US credit performed well. The Barclays US Aggregate bond index finished the quarter with a return of 0.8%.

- The yield curve flattened during the quarter as the short end rallied and the long end slightly declined. The 10-year Treasury yield finished the quarter yielding 2.39% after beginning the year at 2.45%. During the quarter the yield peaked on March 10th at 2.58% before settling back after the Trump trade lost momentum. The Barclays US Aggregate Government/Treasury index finished the quarter with a 0.7% return.
- Municipal bonds also posted strong returns in the quarter, rebounding from the rough patch hit in the second half of last year. A steepening yield curve, an increase in supply, and concerns regarding potential tax cuts when Trump took office caused the Barclays Municipal Bond index to drop 3.6% in the fourth quarter as the asset class experienced large outflows from retail investors. The index returned 1.6% in the first quarter. High yield municipal

bonds, which took the biggest hit last year, was the best performing bond segment in the first quarter with the Barclays Municipal Bond High Yield index returning 4.1%.

- Credit spreads tightened during the quarter helping the BofA ML US High Yield index post a return of 2.7% for the quarter and the Barclays US Aggregate Investment Grade Credit index post a return of 1.2%. High yield spreads finished the quarter at 440 basis points above Treasuries, tightening by 40bps during the quarter. Also, the default rate is currently at 2.8%, 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 0.8%. 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.
- Global bonds outperformed most US counterparts during the first quarter, primarily due to strong currency appreciation against the US Dollar. Locally-denominated emerging market sovereign bonds were the standout, as the JPMorgan GBI-EM Global Diversified Index returned 6.5% for the period. Developed market sovereign bonds returned a more moderate 2.4% per the Citigroup Non-USD WGBI as global rates normalized to positive absolute yields.




***Source: FactSet***

## Manager Review:

We are of the opinion that the market has moved into its late cycle growth phase. In this phase of the market cycle we expect to see rising rates, lower correlations among equities and asset classes in general, and as a result, better relative performance from active management. With that said, there are dynamics that took place in the first quarter that benefit (our hurt) some active managers over others.

In the first quarter of 2017 the following dynamics were taking place: 1) outsized returns from the information technology sector relative to the broad market, 2) high growth stocks/higher beta stocks in general being preferred by the market over attractively valued stocks, 3) size mattered, and 4) corporate credit outperformed government debt.

1) Information technology was the best performing sector globally during the quarter, far outpacing other sectors. The portfolio weight of active managers in this sector could make or break a strategy for the quarter, especially if the manager is benchmarked to a growth style index where the sector will have a higher weighting. For example, the S&P 500 has a 22% weighting to the sector while the Russell 1000 Growth index has a 33%

weighting. Also note that the information technology sector has only a 5% weighting in the MSCI EAFE index, and a 24% weighting in the MSCI EM index. Because of its significant weighting in the MSCI EM index, emerging market managers weighting to the sector will have a large impact on relative performance.

2) High growth/high beta stocks were strongly in favor during the quarter. From a factor perspective Beta and Earnings Growth were characteristics that defined what performed well during the quarter. This is somewhat synonymous with #1 above since information technology exhibits these characteristics. This trend also expands to other sectors (health care, consumer discretionary, etc.). Given this dynamic, managers exhibiting these characteristics had a nice tailwind in performance for the quarter.
3) Size mattered during the quarter as large cap stocks outperformed small cap stocks regardless of style. This dynamic applies solely to the US. Small cap stocks performed much better relative to large cap stocks in both developed markets and emerging markets. US large cap managers that go down in cap were hurt by that flexibility, while smaller cap managers that went up in cap benefited.
4) Within the fixed income markets we saw better performance from credit than we did from Treasury and Agency debt. This benefited flexible bond managers that have increased their exposure to credit, especially high yield credit. Additionally, given that municipal high yield credit was the best performing bond segment for the quarter, those municipal managers that have the ability to dip down in quality and have done so, benefited performance-wise.

We have seen fairly good performance out of alternative investments in the first 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 real asset strategies, relative value, event driven, and hedged equity strategies. Given that equities seemed to be performing more in accordance with fundamentals, it has been more favorable to these strategies. However, macro and managed futures strategies look to be the one area of difficulty during the quarter, continuing their struggle from last year. Real asset strategies were the best performing in the quarter as MLPs decoupled from declining oil and gas prices, infrastructure benefited from good performance from utilities, and REITs benefited from strong performance within the single family home and data center segments.

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# *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.*



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