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Market Observations – 2016 Recap

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With the help of some optimism post-election, the US equity market finished up the year on a strong note with the S&P 500 posting a return of 11.9%. This return would have been among the more optimistic forecasts from the Street when we entered the year. It is a particularly impressive return given that we experienced a 15% dip from January to early February due to recessionary concerns. The markets quickly rebounded until June when Britain voted to leave the European Union. This was a short-lived concern, followed by the Trump presidential win which fueled the rally to end the year. The Trump rally was fueled by the expectation of tax cuts on businesses and individuals, a reduction in regulations which have hindered growth, and an increase in infrastructure spending. We believe that now these expectations have been priced in, any hiccup in execution could stir up volatility.

Leading up to the elections the bond markets were reacting to the higher likelihood of a Fed rate increase in December. Then the Trump win sped up the rise in bond yields as the Trump agenda created higher inflation expectations. As a result, the 10-Year Treasury increased from a low of 1.36% in July to end the year at 2.45%. Some feel this may have marked the end of the 30-year Treasury bull market. Regardless of whether this is the case or not it created havoc in the bond markets with many of the bond indices providing negative returns in the fourth quarter. This scared many investors out of the bond markets and into the equity markets, perpetuating the outflows from bond investments and inflows to equity investments. The Barclays US Aggregate Bond index finished the fourth quarter with a -3.0% return and the year with a 2.6% return. As a result, we believe that the rally in equity prices and the slump in bond prices could have been over-done, borrowing from 2017 returns.

Optimism within the US didn't translate in kind to overseas markets. The MSCI EAFE index was flat for the year while emerging markets managed an 11.1% gain for the year despite being down over 4% in the fourth quarter. While Europe is looking better from an economic standpoint and there continued to be plenty of central bank stimulus, terror attacks, Brexit, and issues with its large banks plagued the region. Add in weakening currencies and the returns looked even less appealing in USD terms. The bright side is that valuations are attractive relative to other regions along with continued support from the ECB which could unlock value in the coming year. Japan continued to disappoint as Prime Minister Abe's monetary stimulus continued to lack in effectiveness. The dramatic reversal in emerging markets late in the year was prompted by a combination of an expected Fed rate hike in December and the Trump victory which is expected to hurt global trade and emerging market exporters in particular.

Another interesting dynamic that took place in 2016 was the recovery in oil prices. After the price of crude bottomed in February at around $26 a barrel the commodity rallied to finish the year close to $54 a barrel. This helped MLPs and the energy sector in general to be among the top performers for the year. This also contributed to the strong performance of emerging markets (earlier in the year) and high yield bonds. Emerging market oil exporters such as Russia and Brazil benefited by the rising price of crude. Additionally, the default risk of energy credits within the high yield market lessened as oil prices recovered, helping high yield capture the spot of best performing bond segment. The OPEC deal to cut production in 2017 is supportive of a continued increase in oil prices.

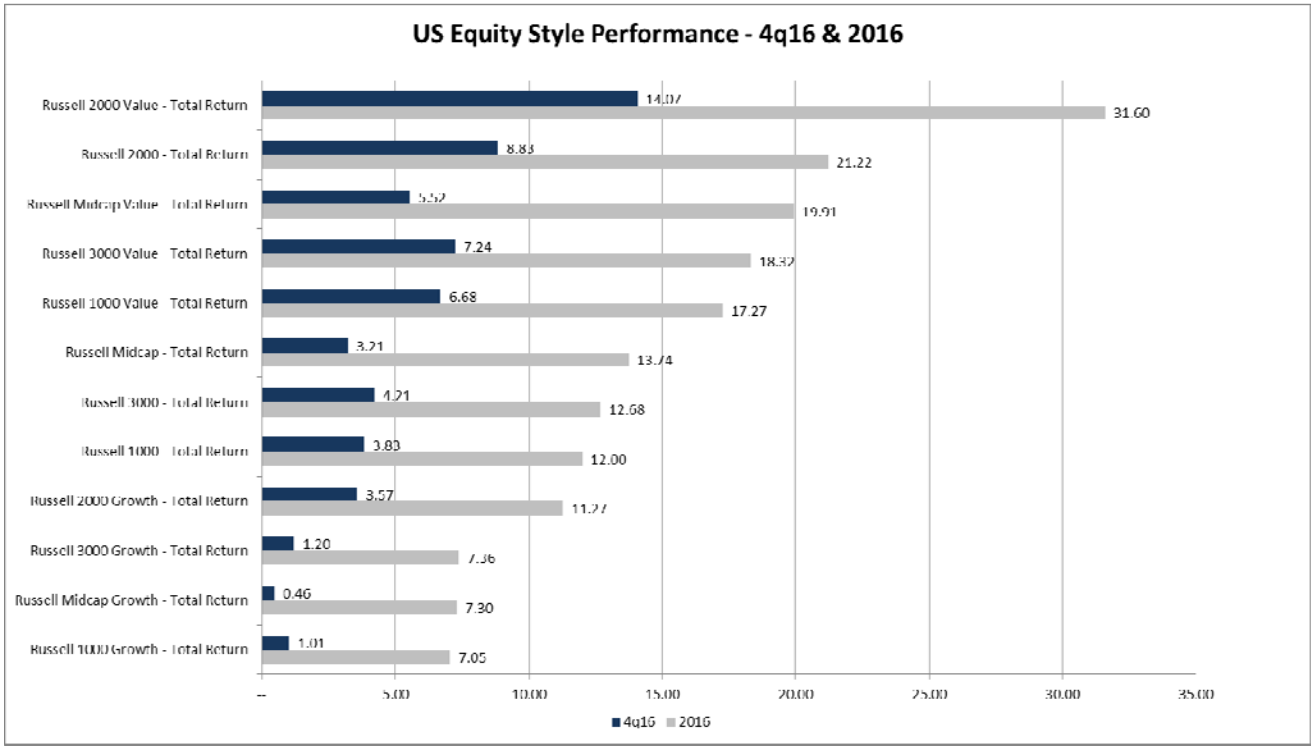
The following pages provide more detail on performance of the various market segments in 2016. Happy new year to all and best wishes for a happy, healthy and prosperous 2017.

2016 commentary on the various market segments is on the pages that follow.

US Equity Style:

Amongst US equities, there was a substantial bias towards the Value style which outperformed the Growth style by a wide margin, which will likely end the investors' obsession with a handful of mega cap growth stocks. Additionally, Small and Mid-Cap stocks came out of their slumber and outperformed Large Cap stocks.

- The Value style outperformed the Growth style across all market caps over the year-to-date period. Strong performance by the Financials sector in the Large Cap (+22.7%), Mid Cap (+15.17%) and Small Cap (+31.0%) segments drove their respective value indices. Banks in particular led the Financials sector benefiting from the expected Fed rate increase in December and a Trump administration that could stoke inflation and further rate increases. The Value style was also supported by good performance from the Energy and Industrials sectors which have meaningful weights in the Value indices.
- The Large Cap Growth style was hurt by poor performance from Health Care stocks, specifically biotech stocks which were down 6% for the year. Also holding back the Growth style were the Consumer Staples and Consumer Discretionary sectors with 2016 returns of 5.4% and 6.0%, respectively.
- From a market cap standpoint, Small Cap stocks again were the strongest performing segment of the year with a return of 21.2%, as per the Russell 2000 index. Mid Cap stocks was the next best performing segment with a return of 13.7%, as per the Russell Mid Cap index, followed by Large Cap stocks with a return of 12.0%, as per the Russell 1000 index.
- The dispersion between the best performing style (Small Cap Value) and the worst performing style (Large Cap Growth) during the year was 24.6%, indicating that manager style had a large impact on active management performance.

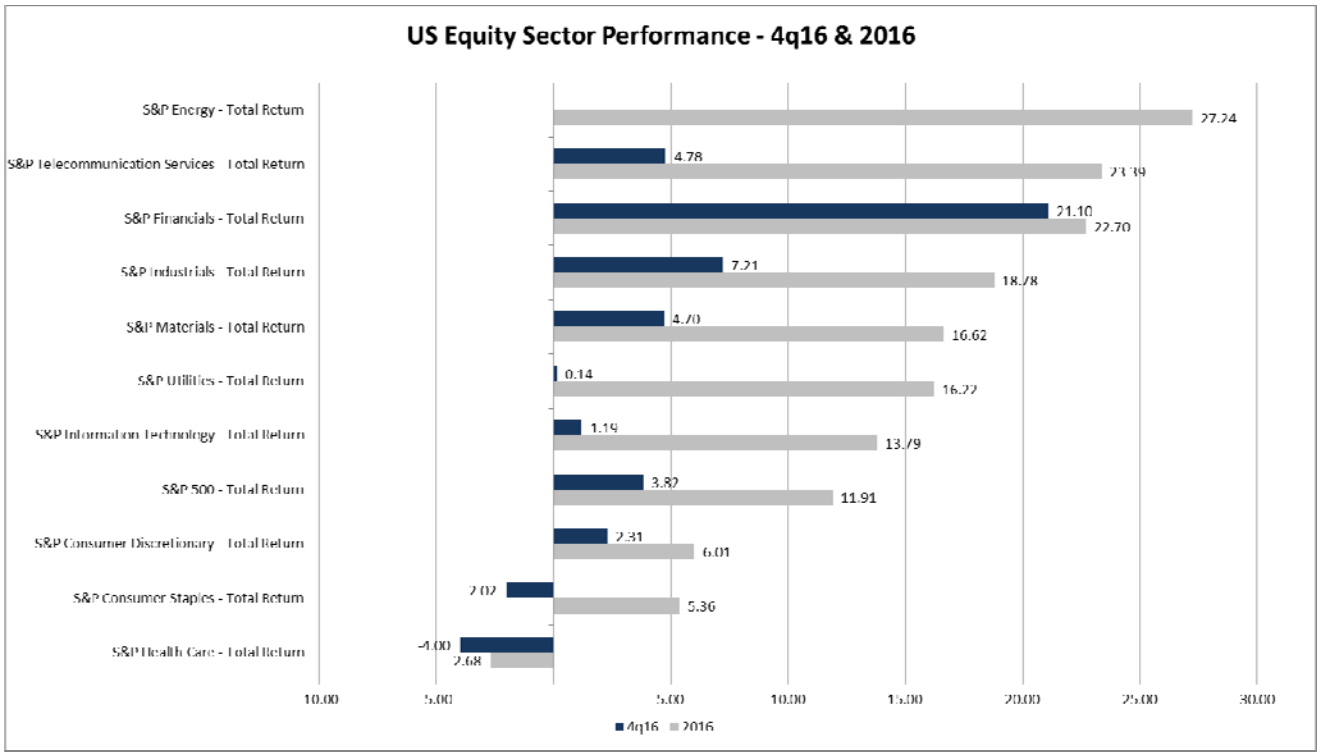


Source: FactSet

US Sectors:

There was a strong tilt towards the more cyclical sectors during 2016, especially since the presidential election.

- Energy was the top performing sector, with the S&P 500 sector returning 27.2% followed by Telecom (23.4%) and Financials (+22.7%). Industrials and Materials finished the year with returns of 18.8% and 16.6%, respectively. The cyclical rally picked up steam in the fourth quarter as a Trump victory was perceived as highly simulative to the US economy.
- If the Trump agenda is implemented the expectation is that it will stimulate growth, which will stir up inflation, which will prompt additional Fed rate increases. Fed rate increases would benefit the financial sector which was up 21.1% in the fourth quarter alone. Inflation will drive up commodity prices, which would help the Energy and Materials sectors, which were up 7.3% and 4.7%, respectively, in the fourth quarter. Infrastructure spending would help the Industrials sector, which was up 7.2% in the fourth quarter.
- Health Care was the weakest performing sector with a -2.7% return for the year. While health care equipment and services stocks performed fairly well, pharmaceutical and biotech stocks dragged the sector down as drug prices continue to be under scrutiny by the current administration and the president-elect's administration.
- Real Estate, which became a stand-alone GIC sector during the year, was also down in the fourth quarter but still posted a respectable 2016 return of 8.5%.
- There was a very wide level of dispersion between the best and worst performing sectors for the year. The level of dispersion was over 29% with the Energy sector being the best performer and the Health Care sector being the worst performer.



Source: FactSet

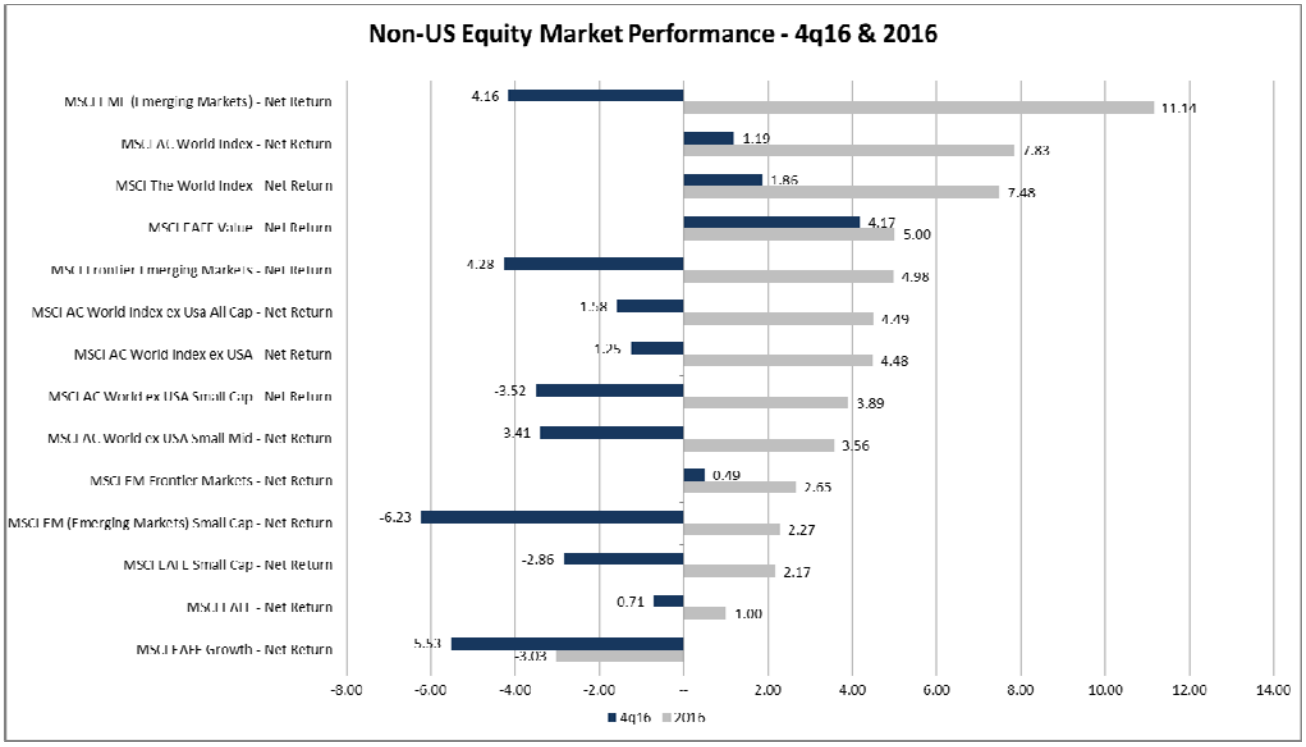
Non-US Markets:

Disappointing developed market performance continued in 2016 while emerging markets strong year fizzled out in the fourth quarter. The continued strengthening of the USD weighed on both developed and emerging market returns.

- The MSCI EM index returned 11.1% for the year, despite a fourth quarter return of -4.2%. For the first three quarters of the year emerging markets were helped by rising oil prices and an accommodative Fed funds rate. This helped oil exporters such as Russia (+54.6%) and Brazil (+65.9%). However, when Trump won the election,

sentiment towards emerging markets changed due to Trump's trade agenda which might hurt emerging market exporters and the prospect of higher interest rates which strengthened the USD further. The MSCI Latin America returned 30.9%, MSCI EM Eastern Europe returned 37.6% and MSCI EM Asia returned 6.1%.

- The MSCI EAFE index returned 1.0% for the year, underperforming the US yet again. As with the US, the Value style outperformed the Growth style by a wide margin. Unlike in the US, Large Cap stocks outperformed Small Cap Stocks. European equity headwinds included Brexit, continued troubles with its banks (Deutche Bank, Monte de Paschi), the elections that took place in Italy and the 2017 elections in France and Germany. This is despite improving economic data, improving GDP, and attractive valuations for Europe in general. The MSCI Europe returned -0.4% for the year. In Japan, there continues to be disappointment as Prime Minister Abe's monetary stimulus continues to lack in effectiveness. The MSCI Japan returned 2.4% for the year.
- Currencies weighed on both developed and emerging markets as the US Dollar Index (DXY), a trade weighted basket of currencies, was up 7.1% for the fourth quarter and 3.6% for 2016.
- From a sector perspective, the dynamics in developed and emerging markets were similar to those in the US in terms of best and worst performers with cyclical sectors overtaking defensive sectors. Energy, Financials, Materials and Industrials were the best performing sectors in both the MSCI EAFE and EM indices.
- Small Cap stocks slightly outperformed Large Cap stocks within developed markets, as the MSCI EAFE Small Cap index returned 2.2% for the year. Within emerging markets, Small Cap stocks underperformed Large Cap stocks, as the MSCI EM Small Cap index returned 2.3%.
- Frontier markets lagged emerging markets for the year, as the MSCI Frontier Markets index returned 5.0%.



Source: FactSet

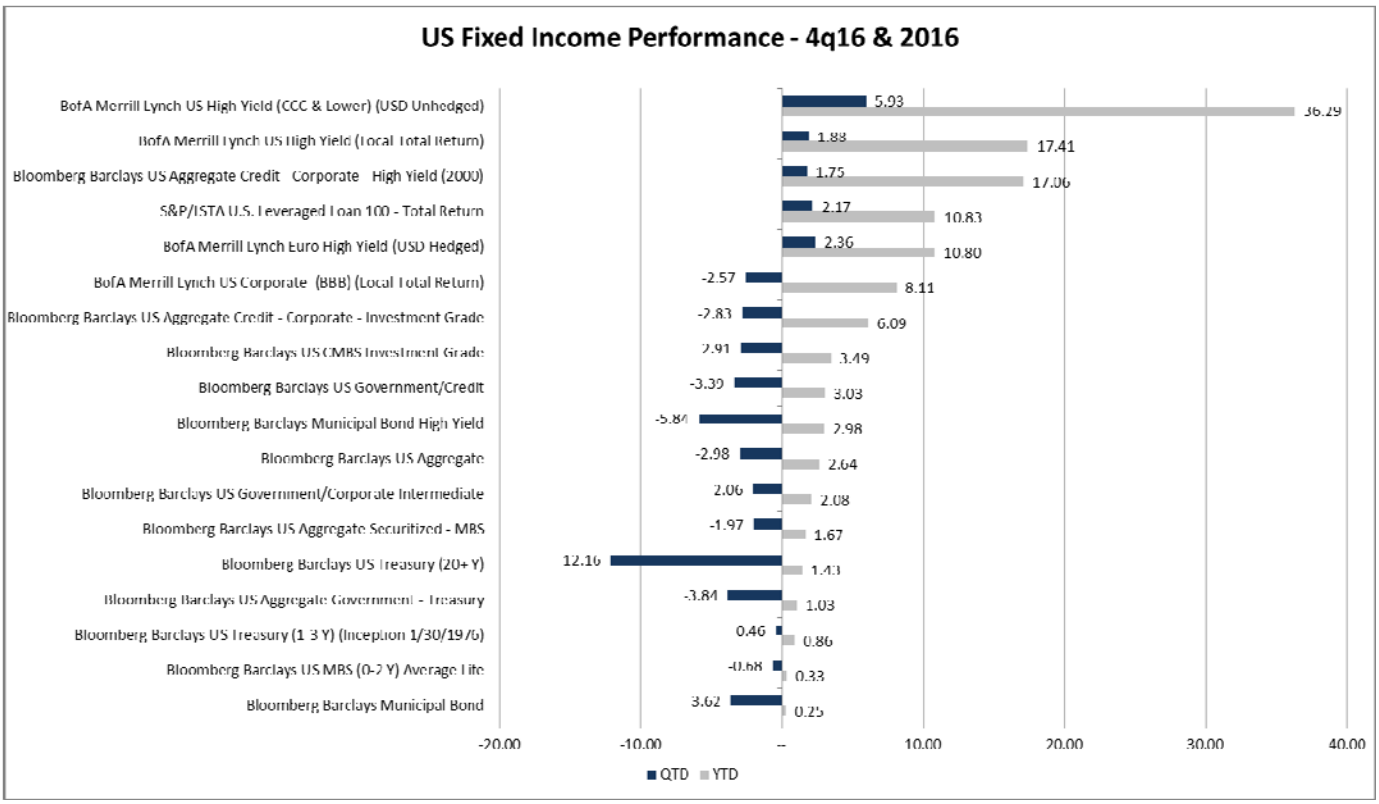
Fixed Income:

With the exception of high yield credit, investment grade credit, and leveraged loans, all major bond segments posted negative returns for the year.

- The yield curve steepened over the course of the year. The 10-year Treasury yield finished the year yielding 2.45% after beginning the year at 2.2%. During the year the yield went as low as 1.36% and then climbed as the economy improved. It subsequently went even higher after the election and a December Fed meeting which alluded to three

potential rate hikes in 2017. The Barclays US Aggregate Government/Treasury index finished the year with a 1.03% return despite a -3.8% return in the fourth quarter.

- Municipal bonds also posted strong returns in the first half of the year and then hit a rough patch in the second half of the year. A steepening yield curve, an increase in supply, and concerns regarding potential tax cuts when Trump takes 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 still finished the year with a modestly positive return of 0.2%. The Muni/Treasury yield ratio remains positive and still favors municipal bonds on an after-tax basis.
- Credit began the year with falling oil and commodity prices which placed major stress on energy and commodity related credits. Credit spreads widened as a result creating an attractive opportunity for investors. Once oil and other commodity prices bottomed high yield spreads began to tighten with the ensuing rally making high yield credit then top performing bond segment. The BofA ML US High Yield index finished the year with a 17.4% return. High yield spreads finished the year 480 basis points above Treasuries, which is lower than its longer term average. Also, the default rate is currently at 3.6%, which is lower than the longer-term average default rate. Investment grade credit experienced similar dynamics as high yield with the Barclays Aggregate Credit Investment Grade index returning 6.1% for the year.
- Leveraged loans also experienced spread tightening over the course of the year making it one of the better performing bond segments. Leverage loans have become more attractive as LIBOR has increased over the course of the year and is getting close to the LIBOR floor which will allow the floating component of the coupon to rise.
- Despite negative absolute returns across most international bonds, emerging market debt outperformed developed markets for the quarter. The best performing segment in the period was emerging market corporates with a -1.3% return per the JPMorgan CEMBI Broad Diversified. CANT FIND BACKUP FOR THIS (JPMorgan)Amid strong declines in the Japanese Yen and Euro, -13.2% and -6.1% respectively, the locally-denominated Citigroup Non-USD WGBI returned -11% in the quarter.



Source: FactSet

Manager Review: Through the end of the 2016, the following dynamics were taking place: 1) a high level of dispersion among equity styles and sectors, 2) very strong relative performance of value-oriented strategies relative to growth, and 3) the steepening of the yield curve.

1) High level of dispersion among equity styles and sectors: The differences among the top performing style (small cap value) and the bottom performing style (large cap growth) as well as the top performing sector (energy) and the bottom performing sector (health care) were 24.6% and 29%, respectively. Even more important is the rising dispersion among stocks within the various indices. This wide level of dispersion creates opportunities for active managers. These opportunities are not created by managers deviating from their style. Instead, the opportunities are created by managers that have flexible, less constrained mandates that adhere to a specific and philosophy and process but at the same time can dip down into smaller cap stocks or further into specific sectors where opportunities are found.
2) Strong relative performance of value-oriented strategies relative to growth: Value began to make a comeback late in the first quarter and really took off in the fourth quarter. The sectors that benefited from this rotation to value were financials, energy, materials and industrials. These have been the worst performing sectors leading up to 2016. True contrarian managers that invest against the grain would have benefited from this rotation. Also, high conviction managers that have found opportunities in any of these sectors, especially financials would have benefited. Managers that are more broad-based and benchmark like would have been exposed to those segments of the market that lagged.
3) The steepening of the yield curve: Given the dramatic steepening of the yield curve that took place during the year it would have been beneficial for managers to be either short duration or highly exposure to credit. Either a short duration posture or an exposure to credit would have minimized the impact of the steepening that occurred, especially in the fourth quarter.

We have seen fairly good performance out of alternative investments in 2016. 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 relative value and event driven strategies, as well as hedged equity strategies. Given that equities seemed to be performing more in accordance with fundamentals, it is possible that these strategies could succeed. Additionally, in the real assets category, MLPs continued their strong run, benefiting from the continued rebound in oil and gas prices. Macro and managed futures strategies seemed to have a more difficult time as of late, as central banks continue to exert a lot of influence over global macro trends as well as the substantial shifts that have occurred within the US markets. Lastly, real estate and infrastructure within in the real assets category have been hurt by the potential rate increase that was expected later in the year by the Federal Reserve.

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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