Market Observations – Second Quarter 2016

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Similar to the first quarter of this year, the second quarter was seemingly thrown into the depths of despair only to rebound with the S&P 500 ending the quarter in the black. Again, patience was rewarded as investors who stood firm and slogged through the volatility won, as opposed to those that couldn't hold their breadth long enough and ended the quarter with losses. While the factors leading to volatility and the timeframe of the drawdown to recovery were quite different in the second quarter vs. the first quarter, the result was similar. In the first quarter, the S&P 500 experienced over a 9% drawdown and in the second quarter, it experienced over a 5% drawdown. The first quarter's drawdown was deeper with the total period to recovery taking over 2 months. The second quarter's drawdown was not as deep, but occurred over a much shorter timeframe. The main point here is that while both periods were extremely painful for investors with the easy decision being to pull out of the markets, go to cash, and wait it out, that decision would have been costly; patience, staying the course, and letting the volatility play out was the best bet.

Speaking of volatility, the CBOE Volatility Index (VIX) hit a high of 25.76 on June 24th, the day after the British referendum vote. The VIX then fell back to 15.63 to close the quarter. In the first quarter, the VIX hit a high of 28.14 on February 11th and then fell to 13.95 to end the quarter. Volatility in the first quarter was driven by slowing global growth, the strengthening US Dollar, and continued weakening of commodity prices. Volatility in the second quarter was driven by the global repercussions if Britain were to leave the EU, which became a more likely scenario as we entered June. Despite all the volatility in the first and second quarters, the S&P 500 finished the first half of the year with a return of 3.8% after a 2.5% return in the second quarter. The last week of the quarter was the best week for the S&P 500 so far in 2016 with a return of 3.2%.

International equity markets were harder hit than the US market, given their direct ties to Britain. The MSCI EAFE index experienced a drawdown of over 8% after the British vote and then bounced back to finish the quarter down 1.5%. Currencies played a big role in non-US markets, as volatility was high and many currencies depreciated significantly against the US Dollar given its perception as a safe haven currency. The Japanese Yen also strengthened during quarter as a result of its safe haven status. Emerging markets were up 0.7% for the quarter, as per the MSCI EM index, maintaining its strong first quarter return, to post a 6.4% year-to-date return.

Sovereign bond markets benefited from the flight to safety with strong returns for the quarter, as investors pulled money from risky assets. The flow into sovereign bonds created additional downward pressure on bond yields. The 10-year and 30-year US Treasury yields hit their lowest levels ever. Yields of European sovereign bonds also hit historic lows. According to Bloomberg, approximately 93% of the $35.1 trillion in sovereign global debt is yielding less than 2%. Despite the volatility, credit markets held up fairly well aside from the financial sector, where spreads widened among bank credit due to fears of contagion emanating from the British exit vote.

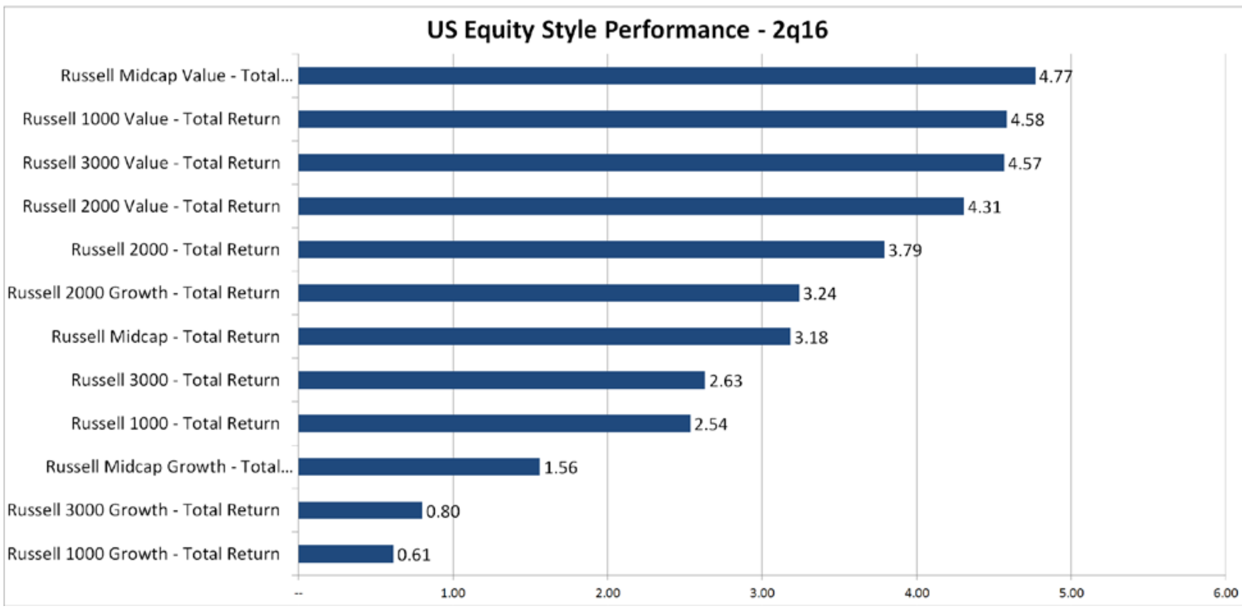
While equity markets seemed to somewhat stabilize as the quarter neared a close, the bond markets were telling a different story as yields have remained at low levels despite the equity market rebound. It is highly likely that market volatility will pick up again in the not too distant future. The message of being patient and not reacting remains the same.

2Q16 Commentary on the various market segments is on the pages that follow.

OPPENHEIMER ASSET MANAGEMENT

US Equity Style: For the second consecutive quarter the Value style outperformed the Growth style across the market cap spectrum.

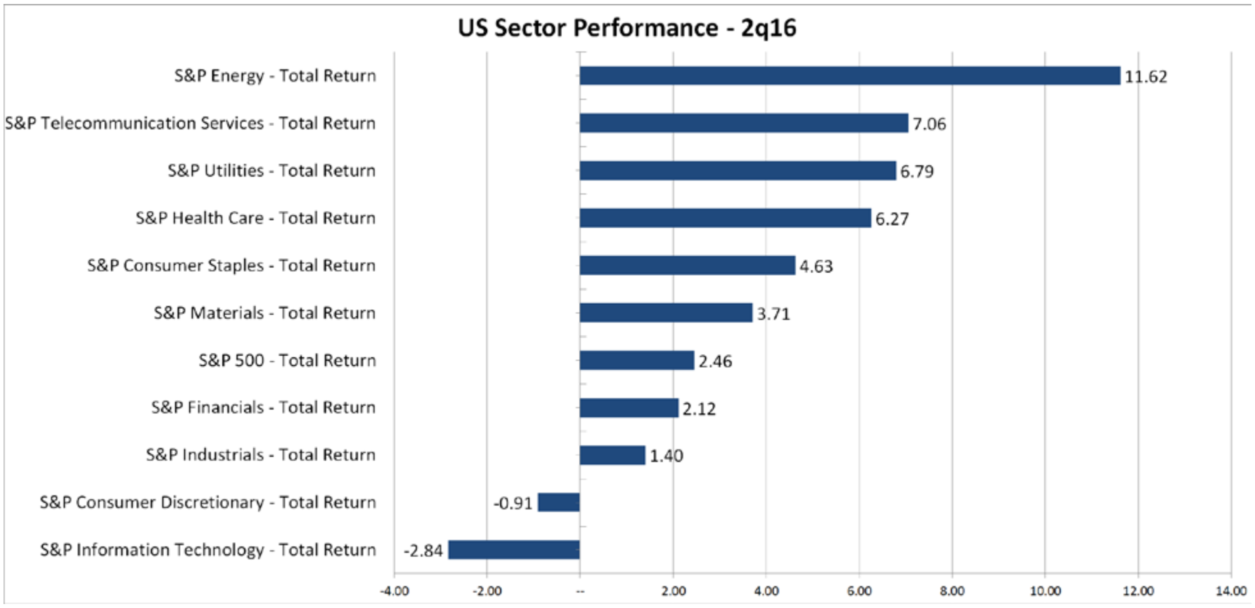
- From a market cap standpoint, Small Cap stocks led the way with a return of 3.8% as per the Russell 2000 index. Mid Cap stocks was the next best performing segment followed by Large Cap stocks.
- Large Cap Growth stocks were the weakest performing segment with a return of 0.6% as per the Russell 1000 Growth index. The Information Technology sector was a large drag on the index (details below). Interestingly, Mid Cap Value was again the top performing segment with a return of 4.8% as per the Russell Mid Cap Value index.
- The dispersion between the best performing style (Mid Cap Value) and the worst performing style (Large Cap Growth) during the quarter was 4.2% indicating that manager style had only a moderate impact on performance active management.



Source: FactSet

US Sectors: Aside from the continued rebound in the energy sector, sector leadership continued to be the highest yielding sectors as the Fed indicated that it likely be lower for longer.

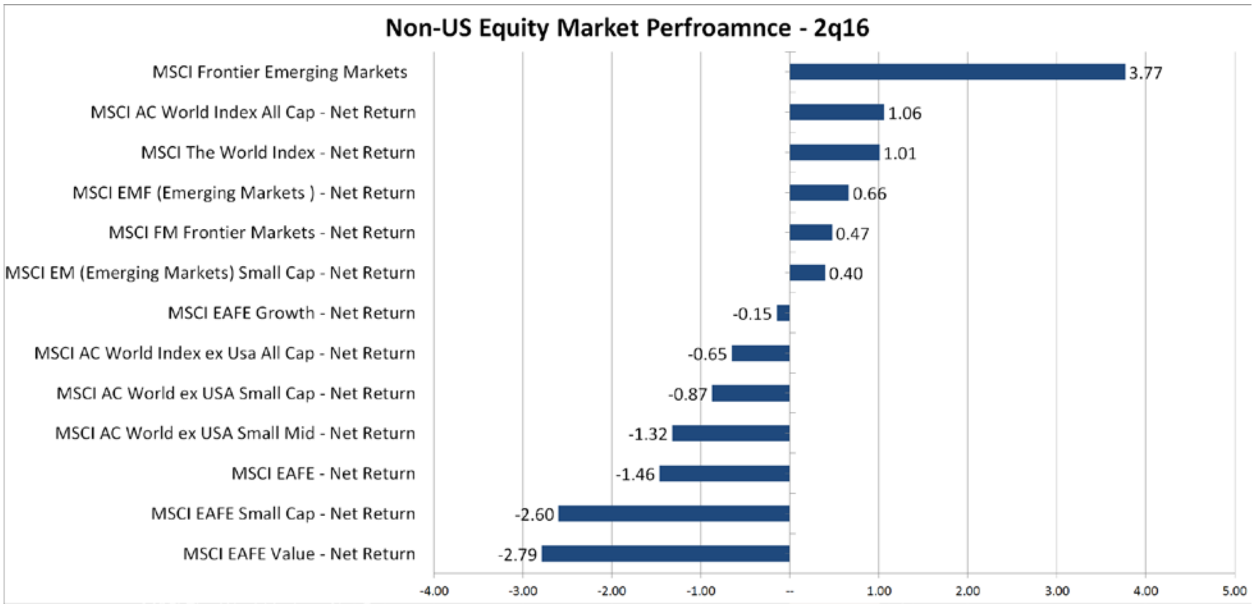
- Energy was the top performance sector, benefiting from oil prices increasing from $38.84 to $48.33 during the quarter (over a 24% increase), helping the Energy sector climb 11.6%.
- The Telecom and Utilities sectors, the highest yielding sectors, were also top performers for the quarter with returns of 7.1% and 6.8%, respectively. The Health Care sector was a close fourth with a return of 6.3%.
- The Information Technology and Consumer Discretionary sectors were the weakest performing sectors and the only two in negative territory for the quarter with returns of -2.8% and -0.9%, respectively. Information Technology was hurt by poor performance among larger market cap stocks such as Apple, Microsoft, and Google, which were the largest negative detractors to the S&P 500 for the quarter.
- Real Estate continues to be on a tear with the FTSE NARIET Equity index returning 7.0% for the quarter, bringing its year-to-date return to 13.6%. Single Family Homes and Data Centers have been the top two performing segments.
- There was a wide level of dispersion between the best and worst performing sectors for the quarter. The level of dispersion was over 14% with the Energy sector being the best performer and the Information Technology sector being the worst performer.



Source: FactSet

Non-US Markets: Amongst non-US equities during the quarter, emerging & frontier markets posted positive returns while developed markets posted negative returns with the British vote to leave the EU weighing the most on developed markets.

- The MSCI EAFE and MSCI EM index returned -1.5% and +0.4% in the second quarter, respectively.
- Developed market equities were adversely impacted when news came out in early June that the vote to leave the EU looked to be closer than anticipated. This brought about volatility in early June which eventually peaked in the when the vote had in fact been to leave the EU. While the UK itself does not have a significant impact on the global economy, it is the contagion into the European banking sector and rising populism among other EU member countries that causes the most fear.
- Emerging markets posted slightly positive returns, maintaining the gains generated in the first quarter for a 6.41% year-to-date return. Emerging markets continued to benefit from the weakening USD as well as strengthening commodity prices earlier in the quarter, which stabilized and then reversed in June.
- Growth outperformed Value within developed markets and emerging markets for the quarter with momentum stocks performing particularly well within developed markets. Small cap stocks underperformed large cap stocks within both developed and emerging markets during the quarter.
- Currencies had a big (negative) impact on performance as the US Dollar (USD) rallied relative to most major currencies. The exceptions were the Brazilian Real, the Japanese Yen and the Russian Ruble, which appreciated vs. the USD. The large moves in currencies impacts the returns for US investors that are priced in USDs.
- From a regional perspective the Latin American region drove emerging market performance with MSCI EM Latin America up 5.3%. Strong performance out of Brazil and Peru, along with the appreciation of the Brazilian Real drove performance for the quarter. Emerging Asia was another good performing region for the quarter with strong performance out of the Philippines, Indonesia and India. Weak performance came out of Europe and Emerging Europe.
- From a sector perspective, the dynamics in developed and emerging markets were similar to what occurred in the US in terms of best and worst performers. However, within emerging markets the Information Technology sector performed well, while being a weak performer in the US and non-US developed markets. This was primarily driven by Samsung and Taiwan Semiconductor, two large components of the index.

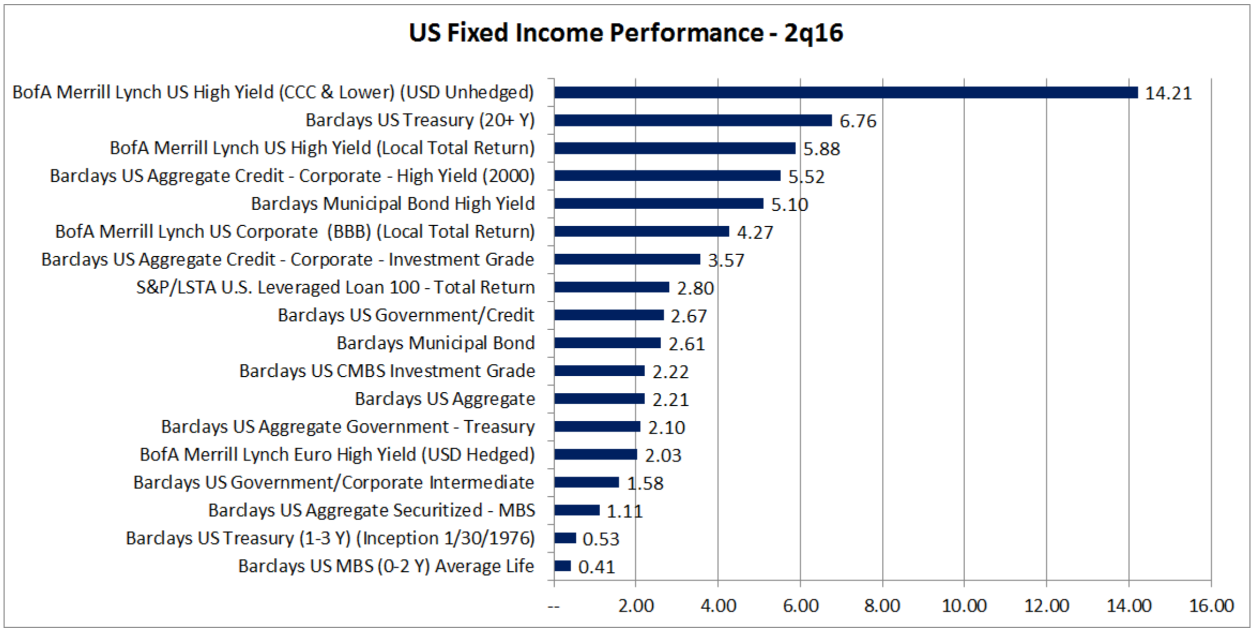


Source: FactSet

Fixed Income:

All major bond segments provided positive returns globally during the second quarter and year-to-date period.

- The yield curve flattened during the quarter as the 10-year Treasury yield declined from 1.78% where it began the quarter to 1.49% where it ended the quarter. The short end of the curve also saw the 2-year Treasury decline from 0.73% to 0.58% during the quarter. The result was strong returns out of US Treasuries as foreign investors look to the US as a safe haven. This flow from foreign investors has also resulted in the appreciation of the USD during the quarter.
- Credit spreads tightened during the quarter within both the investment grade and high yield segments. Investment grade spreads are at their long term average of 1.8%. High yield spreads are at 6.7%, which is wider than the long term average of 5.9%. The Barclays US Investment Grade Credit index returned 3.6% for the quarter while the BofA Merrill Lynch High Yield index returned 5.9%. The lowest quality segment was the best performing. Leveraged loans (bank loans) didn't perform as well as high yield bonds but still posted a respectable return as the S&P/LSTA Leveraged Loan index returned 2.8%.
- Municipal bonds continued their strong run with the Barclays Municipal Bond index posting a 2.6% return. The Muni-to-Treasury ratio is current at 1.05, which is higher than its long term average of 0.92. High yield municipal bonds also performed well, outperforming high quality bonds.
- Global bonds posted strong returns for the quarter amid a boom in 'safe haven' government bonds and currencies such as the Japanese Yen (+9.56%). As a result, developed market bonds were the strongest performing sector in local currency terms, with the JPM GBI Global ex-US returning 7.6% for the quarter. On the Emerging Market front, expectations for delayed interest rate hikes from the Federal Reserve and the continued hunt for yield has bolstered both sovereign and corporate debt – returning 5.0% and 4.1% respectively.



Source: FactSet

Manager Review: In the first quarter we discussed the factors that drove relative performance of active. The dynamics that took place during the second quarter were fairly similar to those that took place in the first quarter. Those dynamics include but are not limited to: 1) good relative performance of high quality equity strategies, 2) the rotation from growth to value 3) the rebound in emerging markets. Below we cover these dynamics:

- High quality equity strategies: The volatility that occurred provided an opportunity for managers that emphasize quality characteristics to outperform. Many of these high quality-focused managers have experienced difficult performance during the recent bull market with little opportunity to add value. The recent drawdowns have given them the opportunity to show the defensive benefits of high quality managers during these volatile periods. Note; these high quality managers also include those that emphasize high and rising dividends.
- Rotation from growth to value: The relative performance between growth and value stocks was at one standard deviation as we entered 2016, meaning that growth was due to a rebound relative to value. Since the beginning of the year we have seen value strategies begin to outperform growth strategies across the market cap spectrum. Momentum has begun to shift away from growth stocks and into energy, utility, telecom and consumer staples stocks. Those value strategies that were most out of favor began to turn sharply positive during the first quarter.
- Rebound in emerging markets: Emerging market strategies had a difficult time over the past couple of years as commodity exporters have been hurt by declining commodity prices and China has been experiencing declining GDP growth while at the same time currencies have been depreciating relative to the USD. In the first quarter we saw a reversal for commodity exporters as they benefit from a rebound in commodity prices, and the USD began to depreciate relative to most emerging market currencies. This was less so in the second quarter but still positively impacted performance of many emerging market strategies and boosted performance of international equity strategies with exposure to emerging markets given that emerging markets outperformed developed markets.

There was fairly good performance out of alternative investments 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 real asset strategies; REITs, MLPs, and global infrastructure have all posted impressive returns in the second quarter. These strategies have shown the ability to perform well despite the volatility that occurred in the equity markets. Managed futures and macro strategies seemed to have also demonstrated positive performance during the quarter. Event driven and arbitrate strategies provided modest positive performance during the quarter. Hedged equity strategies have shown mixed performance during the quarter.

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.

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.*

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.*

Barclays Municipal TR USD: *The 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.*

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

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

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

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.*

Barclays US MBS TR USD: *The Barclays Mortgage-backed Securities Index is a market value-weighted index which covers the mortgage-backed securities component of the 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*

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

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.*

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.*

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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