Market Observations – 2Q 2018 Recap

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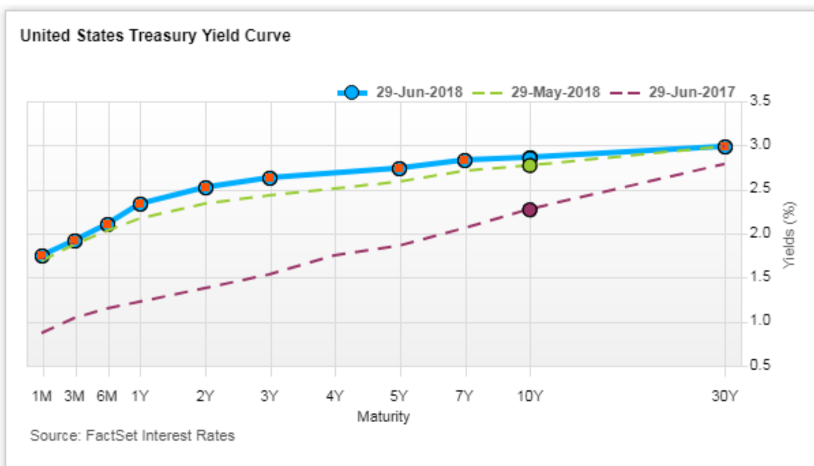
Two opposing forces seem to be at work in the US; the economy and trade tensions. First quarter earnings growth came in at approximately 24% while the economy is humming along with good data and inflations fears abated for the time being. On the flip side is the threat of tariffs on imports and the resulting retaliatory measures that would impact US exports, which could have a menacing impact on growth globally. So far the equity market has been fairly resilient in the face of these ongoing trade tensions. The S&P 500 finished the quarter with a 3.4% return and is now up 2.7% for the year-to-date period. Of the major gauges the Nasdaq and the Russell 2000 are outperforming the S&P 500 over the quarter and year-to-date periods while the Dow Jones Industrial Average (DJIA) is lagging. Nasdaq has benefited from its heavy exposure to Consumer Discretionary and Information Technology, the two top performing sectors. The Russell 2000 has benefited from less reliance on exports, which are being hurt by the appreciating US Dollar and trade tensions. The DJIA has the drag of its heavy exposure to industrial stocks which could bear the brunt to trade friction.

International equities have underperformed US equities for the quarter and year-to-date periods with the MSCI EAFE index down 1.2% for the quarter and 2.8% for the year-to-date. This underperformance relative to US equities was driven partly by the strength of the US Dollar which hurts returns in US Dollar terms, partly due to trade tensions, and partly due to political uncertainty. For the quarter the US Dollar was up 5.1% vs. the Euro and 4.0% vs. the Yen. Many European countries along with Japan are significant exporters to the US, for which US imposed tariffs will have an outsized negative impact. Emerging markets were down 8.0% as per the MSCI EM index. The strengthening US Dollar and trade tensions had an even bigger impact on emerging markets than they did on developed markets.



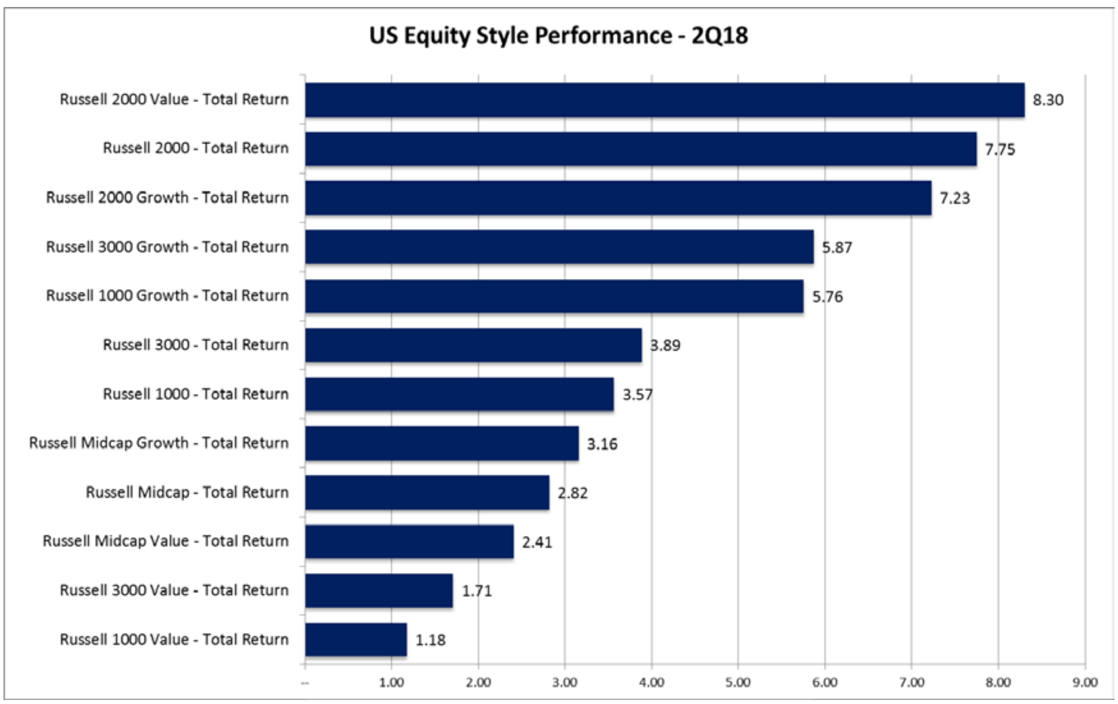
In the bond market we saw the 10-Year Treasury finish the quarter at a yield of 2.85%, which is up from 2.74% at the end of the first quarter. The Fed has set the expectation that there may be enough inflation in the economy to raise rates two more times in 2018, making for a total of four rate hikes this year. All of this depends on whether the current pace of economic growth continues. A concern is the spread between 2-and-10-year Treasuries, which has narrowed to 32 basis points at quarter end. This represents the narrowest spread since 2007. As this spread continues to narrow there is danger of the yield curve inverting, which in many cases signals a recession is on the horizon.

Commentary on the various market segments for the second quarter of 2018 is on the pages that follow.

OPPENHEIMER ASSET MANAGEMENT

US Equity Style: The US equity market resumed its advance in the second quarter after hitting a road block in the first quarter, bringing the S&P 500 into the black for the year-to-date period. Inflationary concerns took a back seat to trade tensions. However, the market remained resilient.

- Small cap stocks outperformed mid and large cap stocks for the quarter with small cap value being the best performing segment. The Russell 2000 Value index returned 8.3% for the quarter and broke the streak of the Growth style outperforming the Value style. The Energy and Real Estate sectors contributed to the performance of the Russell 2000 Value index.
- Aside from the Value style outperforming the Growth style within the Small Cap segment, Growth outperformed Value and maintained its leadership within the Mid and Large Cap segments.
- Strong performance by the Information Technology and Consumer Discretionary sectors in the Large Cap segment drove the Russell 1000 Growth index.
- The Momentum and Size factors dominated for the quarter. Value and Quality factors were the weakest performing during the quarter.
- The dispersion between the best performing style (Small Cap Value) and the worst performing style (Large Cap Value) in the second quarter was 7.1%, indicating that manager had a meaningful impact on active manager performance.

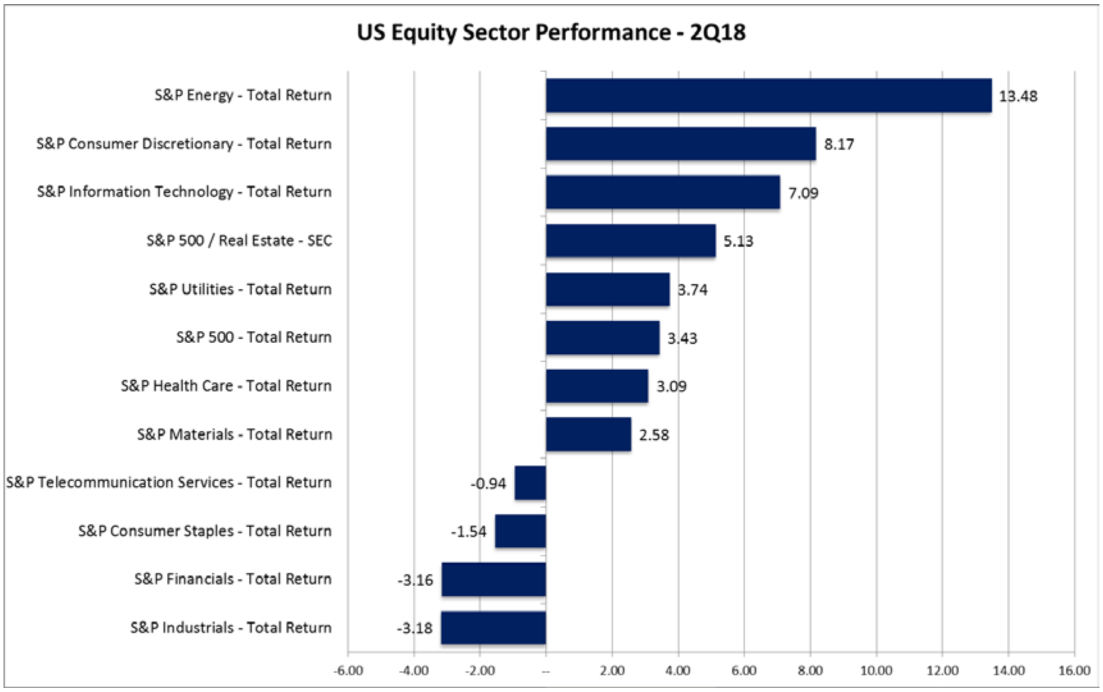


Source: FactSet

US Sectors: The equity market was top heavy from a sector perspective, driven by three main sectors (Energy, Consumer Discretionary and Information Technology). These three sectors contributed 3.57% to the S&P 500 index's second quarter performance.

- Energy was the top performing sector for the quarter with a return of 13.5%. The dwindling supply glut put upward pressure on the price of oil benefiting companies like Exxon Mobil and Chevron, which were among the top ten contributors to the S&P 500 for the quarter.
- Consumer Discretionary and Information Technology were the next two best performing sectors thanks to the usual suspects; Amazon, Apple, Facebook, Microsoft, and Netflix, which were the top five contributors to the S&P 500.
- The Industrials and Financials sectors were the weakest performing sectors for the quarter with both sectors returning -3.2%. These sectors were followed by the Consumer Staples, Telecom and Materials sectors.
- The higher yielding sectors of Health Care, Utilities and Real Estate finished is the middle of the pack as inflationary concerns took a back seat to trade tensions during the quarter.

- There was a wide level of dispersion between the best and worst performing sectors for the quarter. The level of dispersion was 16.7% with the Energy sector being the best performer and the Industrials sector being the worst performer indicating that sector positioning had a meaningful impact on active management.

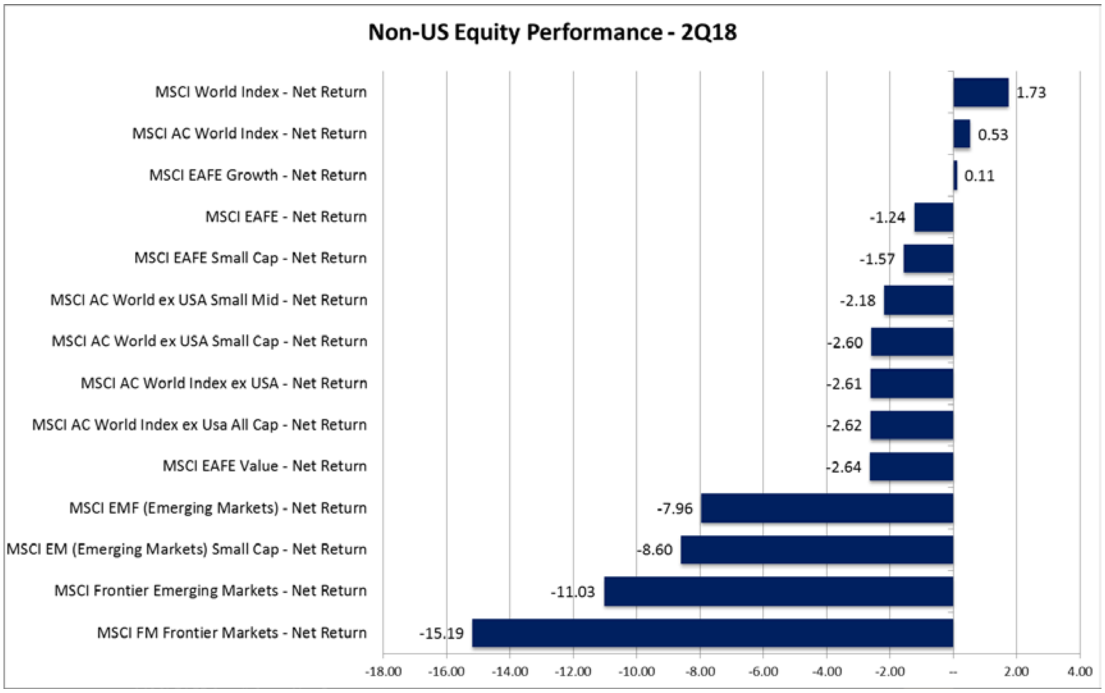


Source: FactSet

Non-US Markets: Both non-US developed and emerging markets were in the red for the second quarter. Headwinds to these markets were ongoing trade tensions, weaker economic data in the case of developed markets, and a stronger US Dollar.

- The MSCI EAFE index returned -1.2% in the second quarter. The MSCI EAFE index underperformed the S&P 500's 3.4% total return. The Growth style outperformed the Value style within non-US developed markets. Energy was the top performing sector benefiting from the rising price of oil. Health Care and Materials were the next best performing sectors. Consumer Staples and Utilities made very modest gains. Financials, Telecom, and Consumer Discretionary were the weakest performing sectors. Small Cap stocks slightly underperformed Large Cap Stocks within non-US developed markets.
- The Pacific region ex Japan returned 1.8% for the quarter and was the best performing developed market region. Japan, returned -2.8% driven primarily by currency depreciation as the Yen was down 4% relative to the US Dollar. The MSCI Europe index, which includes the Eurozone, returned -1.3% for the quarter. The Euro declined by 5.1% relative to the US Dollar.
- The MSCI EM index returned -8.0% for the quarter. Emerging markets got a triple whammy from an appreciating US Dollar which makes US Dollar-denominated debt more expensive, rising Fed rates, and trade tensions. Within emerging markets Large Cap outperformed Small Cap. The Asian region was the best performing as China was down only 3.5% and India was down only 0.6%. The Latin American region was down 17.7% for the quarter driven by a -26.4% return for MSCI Brazil.
- The US Dollar appreciated relative to most major currencies in the second quarter. The US Dollar index, a trade weighted basket of currencies, climbed 5.0%.
- In emerging markets, all sectors posted negative returns for the quarter. Energy was the leading sector with return of -4.7%. This was followed by Health Care, Information Technology, and Materials. The weakest performing sectors were Financials, Industrials, and Real Estate.

- Frontier markets underperformed emerging markets for the quarter. The MSCI Frontier Markets index returned -15.2% while the MSCI Frontier Emerging Market index returned -11.0%. Argentina and Vietnam were the main detractors from the MSC Frontier Market index.

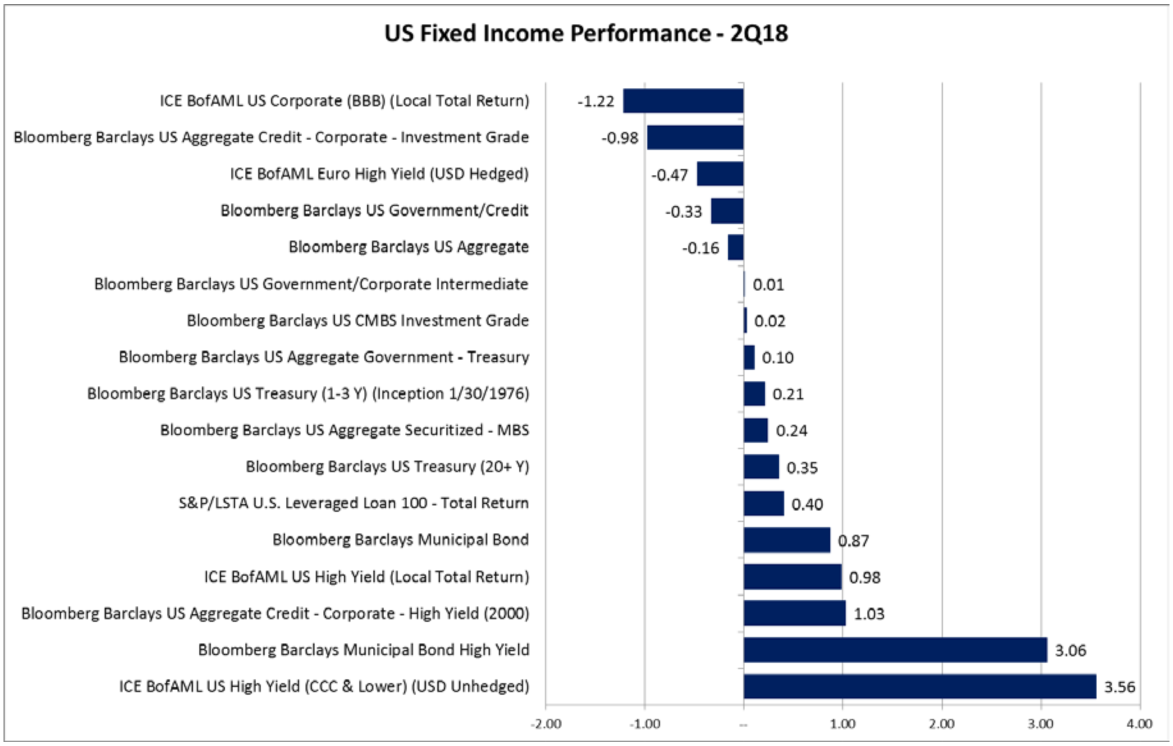


Source: FactSet

Fixed Income: There were mixed results in the fixed income markets during the quarter. Low quality bonds outperformed in the US while high quality not only lagged, but posted negative returns in some cases.

- The lower the credit quality the better the performance as below CCC rated corporate credit was the best performing bond segment as the ICE BofA ML US High Yield (CCC & Lower) index returned 3.6% for the quarter. Broad high yield via the ICE BofA ML US High Yield index returned 1.0%. Credit spreads tightened modestly and are 410 basis points above Treasuries. This is significantly below the long term average of 580 basis points.
- Leveraged loans/floating rate also performed well during the quarter as the S&P/LSTA US Leveraged Loan 100 index returned 0.4%.
- Investment grade credit performed poorly during the quarter, posting a -1.0% return as per the Bloomberg Barclays Aggregate Investment Grade Credit index.
- The yield curve flattened modestly over the course of the quarter. The 2-year Treasury rose from 2.27% at the beginning of the quarter to 2.52% at the end of the quarter. The 10-year Treasury rose from 2.74% at the beginning of the quarter to 2.85% at the end of the quarter. The rise in the short-end of the curve was induced by the potential for four Fed rate hikes in 2018. The flattening at the long-end was due to a combination of dialed down inflationary concerns as well as the potential for trade tensions that could potentially reduce US and global growth.
- Both investment grade and high yield municipal bonds posted good returns for the quarter with returns of 0.9% and 3.1% as per the Bloomberg Barclays Municipal Bond indices.
- Global bonds had some challenges during the second quarter as a strong US Dollar put pressure on local currency debt. Dollar-denominated EM sovereign and corporate debt performed best but posted negative returns for the quarter. Local currency EM debt was the weakest performing segment amid weak returns for just about all EM currencies, with the JPMorgan GBI-EM Global Diversified returning -10.4% for the period.

Chart on following page



Source: FactSet

Manager Review: The second quarter was a period in which macro themes dominated the markets, in our view. The primary themes to note were trade tensions, the rising US Dollar, reduced inflationary concerns, and rising oil prices. Each of these themes has impacted certain sectors in the equity and bond markets and in turn has impacted the performance of active management which is discussed below.

1) **Trade Tensions:** For US equities, trade tensions are having the largest impact on companies that obtain a high percentage of their revenues oversees. This has the largest impact on large cap, multi-national companies. The sector hardest hit by this is the industrials sector and managers with an outsized exposure to the sector. Small cap stocks have been the beneficiaries of trade tensions as these companies tend to have less non-US revenue exposure. Managers with a smaller cap bias have benefited from this exposure. Lastly, some emerging market managers have been adversely impact by trade tensions if a meaningful part of their revenue stream comes from the US, where tariffs could result their products less desirable.
2) **Rising US Dollar:** The US Dollar has risen 5% over the course of the quarter based as the US Dollar Index. We believe this is due to combination of the strength of the US economy and the rising Fed funds rate. The rising dollar was a significant drag on investments for US investors when those investments were denominated in non-US local currencies ultimately converted back to US Dollars. Multi-national companies were hurt by the rising dollar when their overseas revenue was converted back to US Dollars. Additionally, bonds denominated in non-US local currencies had to overcome a significant currency decline.
3) **Reduced Inflationary Concerns:** While inflation is still an emerging thread, the concern of a pickup in inflation has been reduced in our opinion. Investors seem to be more concerned with trade tensions and the potential impact of trade disputes on growth. As a result, interest rate sensitive investments such as REITS, utilities and infrastructure performed well in the second quarter. This helped the performance of higher yielding strategies as well as low volatility investments that tend to have a higher utilities exposure.
4) **Rising Oil Prices:** The price of WTI Crude rose approximately 14% in the second quarter as excess supply has been reduced. This help boost the energy sector to be the top performing sector for the quarter. It also served as a strong tailwind to MLP and energy infrastructure related investments. This has been a volatile arear of the market and managers with exposure to this segment benefited globally.

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.*

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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