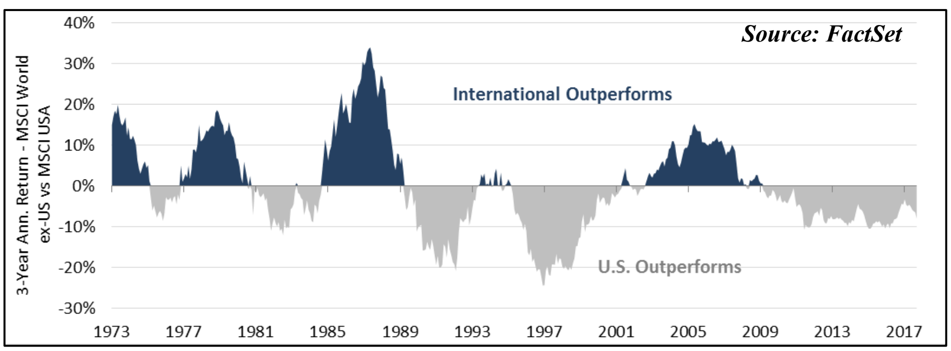
Market Observations 3Q 2018 Recap

By Jeffrey Sutton, CFA
Managing Director
Consulting Group

In what seemed to be a tension-filled quarter, the S&P 500 managed to sneak in a 7.7% return, its strongest quarter since the fourth quarter of 2013. The equity market continued to plow ahead despite a number of distractions; global trade tensions, three, possibly four, rates hikes over the course of the year, a rising U.S. dollar, oil prices at new highs, and extreme partisanship in Washington just before mid-term elections. Despite these headwinds, the market experienced muted volatility as investors kept a laser focus on corporate earnings. We believe that as long as corporate earnings remain strong the market rally can continue. However, with U.S. equities priced for perfection, a hint of disappointing news could ruin the party.

International and emerging market equities are underperforming U.S. equities by a significant margin this year. The MSCI EAFE index was up 1.4% for the quarter while the MSCI EM index was down 1.1%. For the year-to-date period they were down 1.4% and 7.7%, respectively. With U.S. equities on a tear, one has to wonder why investment professionals, myself included, continue to tout global equity diversification. In fact, the U.S. has outperformed non-U.S. over the trailing 1, 3, 5 and 10 year periods. However, as shown below, non-US equities did have periods where they delivered strong performance. It's not a question of <u>if</u> non-U.S. equities will again outperform, it's a question of <u>when</u>.



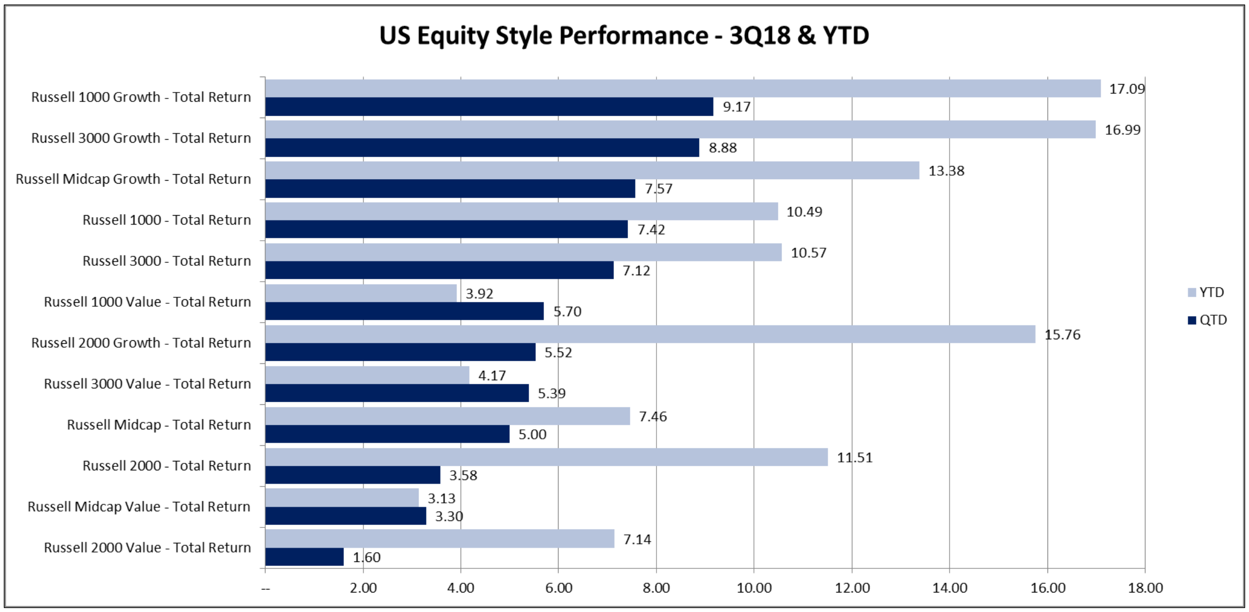
As mentioned earlier, U.S. equities are priced for perfection at a time when the Fed is raising rates. The U.S. dollar seems to have peaked, in our opinion, as the Fed approaches what is referred to as a neutral rate. Meanwhile, Europe, Japan and Emerging Markets are more attractively valued. In the case of Europe and Japan we are seeing improved corporate earnings while their central banks remain in stimulus mode. If the U.S. dollar is indeed peaking, a declining greenback should be a tailwind to Emerging Markets. Additionally, the resolution of trade tensions could provide a big boost for non-U.S. equities. As of this writing, Canada reached an agreement with the U.S. and Mexico to establish a new trade agreement. It is our view that it is only a matter of time that we once again see a sustained period of non-U.S. outperformance.

In the bond markets we have seen consecutive quarters of 10-year Treasury yield increases. The 10-year Treasury ended the third quarter yielding 3.05% after beginning the quarter at 2.85%. In the back of many minds is the narrow spread between the 2-year and 10-year Treasuries. When there is an inversion (negative spread) it is believed to signal a recession on the horizon. The quarter ended with the spread at 69bps.

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

US Equity Style: The US equity market resumed its advance with the strongest quarter since the fourth quarter of 2013, approaching new highs. With the strong quarter the S&P 500's tally for the year is a 10.6% return.

- Large cap stocks outperformed mid and small cap stocks for the quarter with large cap growth being the best performing segment. Small cap value was the weakest performing style as the Russell 2000 Value index returned 1.6% for the quarter. Small cap still remains ahead of large cap over the year-to-date period. We feel the small cap segment has benefited most from corporate tax cuts and are more shielded than large cap stocks by global trade tensions.
- Growth outperformed Value across all market cap segments for the quarter and year-to-date periods benefiting from performance of the Information Technology and Consumer Discretionary sectors.
- The Quality, Growth, Value and Size factors dominated for the quarter. Momentum was the weakest performing during the quarter.
- The dispersion between the best performing style (Large Cap Growth) and the worst performing style (Small Cap Value) in the third quarter was 7.6%, indicating that manager had a meaningful impact on active manager performance.



Source: FactSet

US Sectors: Going forward, the GICS sector composition will be changing. The most significant change is the newly formed Communications Services sector, which will be replacing the Telecom sectors. The Communication Services sector will contain stocks from the telecom sector, media stocks from the consumer discretionary sector, and social media stocks from the Information Technology sector.

- Health Care was the top performing sector for the quarter with a return of 14.5%. Within the sector health care equipment & services and biotech drove performance.
- Following Health Care was Industrials and Telecom. Information Technology and Consumer Discretionary were the other two sectors to outperform the S&P 500.
- Real Estate, Materials, Energy and Utilities were the weakest performing sectors. Real Estate and Utilities have been adversely impacted by rising rates. Energy is somewhat of a surprise given the run-up of oil prices over the course of the year. Digging into the sector it was energy equipment and services which were a drag on performance.
- There was a wide level of dispersion between the best and worst performing sectors for the quarter. The level of dispersion was 14.5% with the Health Care sector being the best performer and the Real Estate sector being the worst performer indicating that sector positioning had a meaningful impact on active management.

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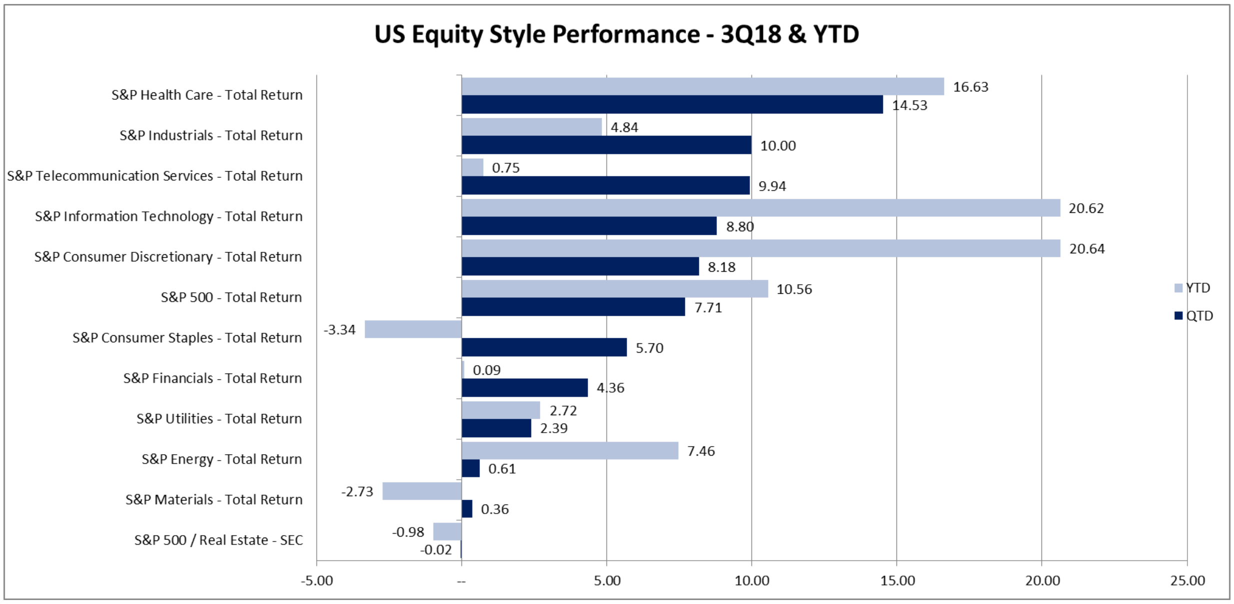

Source: FactSet

Non-US Markets: Both international and emerging market equities continue to underperform US equities. Headwinds to these markets were ongoing trade tensions and a stronger US Dollar.

- The MSCI EAFE index returned 1.4% in the third quarter. The MSCI EAFE index underperformed the S&P 500's 7.7% total return. The Growth style outperformed the Value style within international equities. Health Care was the top performing sector benefiting biotech performance. Telecom and Energy were the next best performing sectors. Real Estate, Consumer Discretionary and Consumer Staples were the weakest performing sectors. Small Cap stocks underperformed Large Cap Stocks within international equities.
- The Far East region was the best performing developed market region while the Pacific region was the weakest performing. Japan, returned 3.7% while Australia was down 0.9%. The European region was slightly up for the quarter.
- The MSCI EM index returned -1.1% for the quarter. Emerging markets got a triple whammy from an appreciating US Dollar (which makes USD-denominated debt more expensive), rising Fed rates, and trade tensions. Within emerging markets Large Cap outperformed Small Cap. The Eastern European region was the best performing within emerging markets while Emerging Asia was the weakest. Emerging Asia was dragged down by China as the MSCI China All Shares index was down 6.9%. The Latin American region up 4.8% after being down 17.7% in the second quarter.
- The US Dollar index, a trade weighted basket of currencies was up 0.5% for the quarter. However, relative to individual currencies the US Dollar is mixed. The US Dollar declined relative to the Mexican Peso, Canadian Dollar and Swiss Franc. The US Dollar appreciated relative other major currencies such as the Euro, Yen, Real, Renminbi and Rupee.
- In emerging markets, Energy was the leading sector with return of 14.3% which significantly outperformed all other sectors. This was followed by Materials and Industrials. The weakest performing sectors were Consumer Discretionary, Health Care, and Real Estate.
- Frontier markets underperformed emerging markets for the quarter. The MSCI Frontier Markets index returned -2.0% while the MSCI Frontier Emerging Market index returned -1.6%. Argentina, Sri Lanka and Nigeria were the main detractors from the MSC Frontier Market index.

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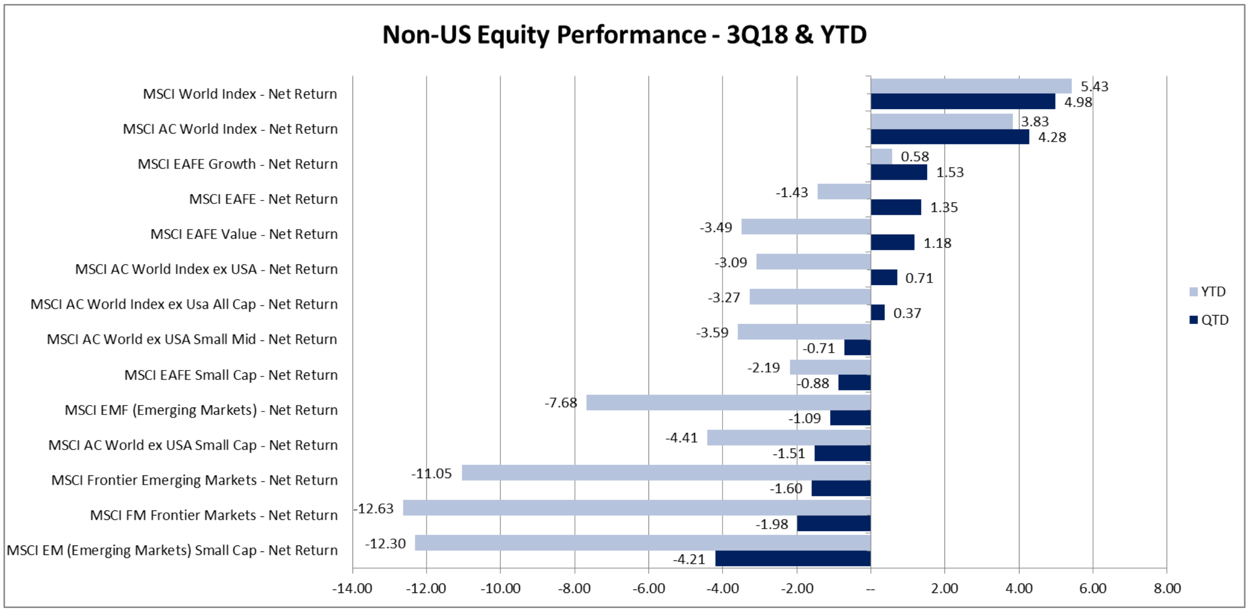

Source: FactSet

Fixed Income: Low quality, higher yielding instruments remain resilient to rising rates given a larger yield cushion. High yield bonds continue to be one of the top performing high yield segments despite spreads hovering near historically tight levels. However, high quality, longer duration instruments posted negative returns.

- The lower credit quality segments performed best during the quarter. CCC and below rated corporate credit was the best performing bond segment as the ICE BofA ML US High Yield (CCC & Lower) index returned 2.8% for the quarter. Broad high yield via the ICE BofA ML US High Yield index returned 2.4%. Credit spreads tightened modestly and is 360 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 2.1%.
- Investment grade credit also posted a positive return as the Bloomberg Barclays Aggregate Investment Grade Credit index was up 1.0%.
- The yield curve flattened modestly over the course of the quarter. The 2-year Treasury rose from 2.52% at the beginning of the quarter to 2.81% at the end of the quarter. The 10-year Treasury rose from 2.85% at the beginning of the quarter to 3.05% 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, of which three increases have already occurred. The long-end was due to a risk-on trade, causing Treasuries to sell off. As a result, the Bloomberg Barclays US Treasury 20+ Year index was down 3.0%.
- High yield municipal bonds posted good returns for the quarter with return of 0.8% while investment grade municipal bonds were slightly down as per the Bloomberg Barclays Municipal Bond indices.
- Global bond performance for the quarter was predominantly defined by currency exposure amid the continued rally in the US Dollar. Despite a challenging month of August for emerging markets, the JPMorgan EMBI Global Diversified Index returned 2.3% for the quarter as the US and Mexico solidified trade negotiations. However, currency effects overwhelmed locally-denominated emerging and developed market debt, as they returned -1.8% and -1.7% respectively.

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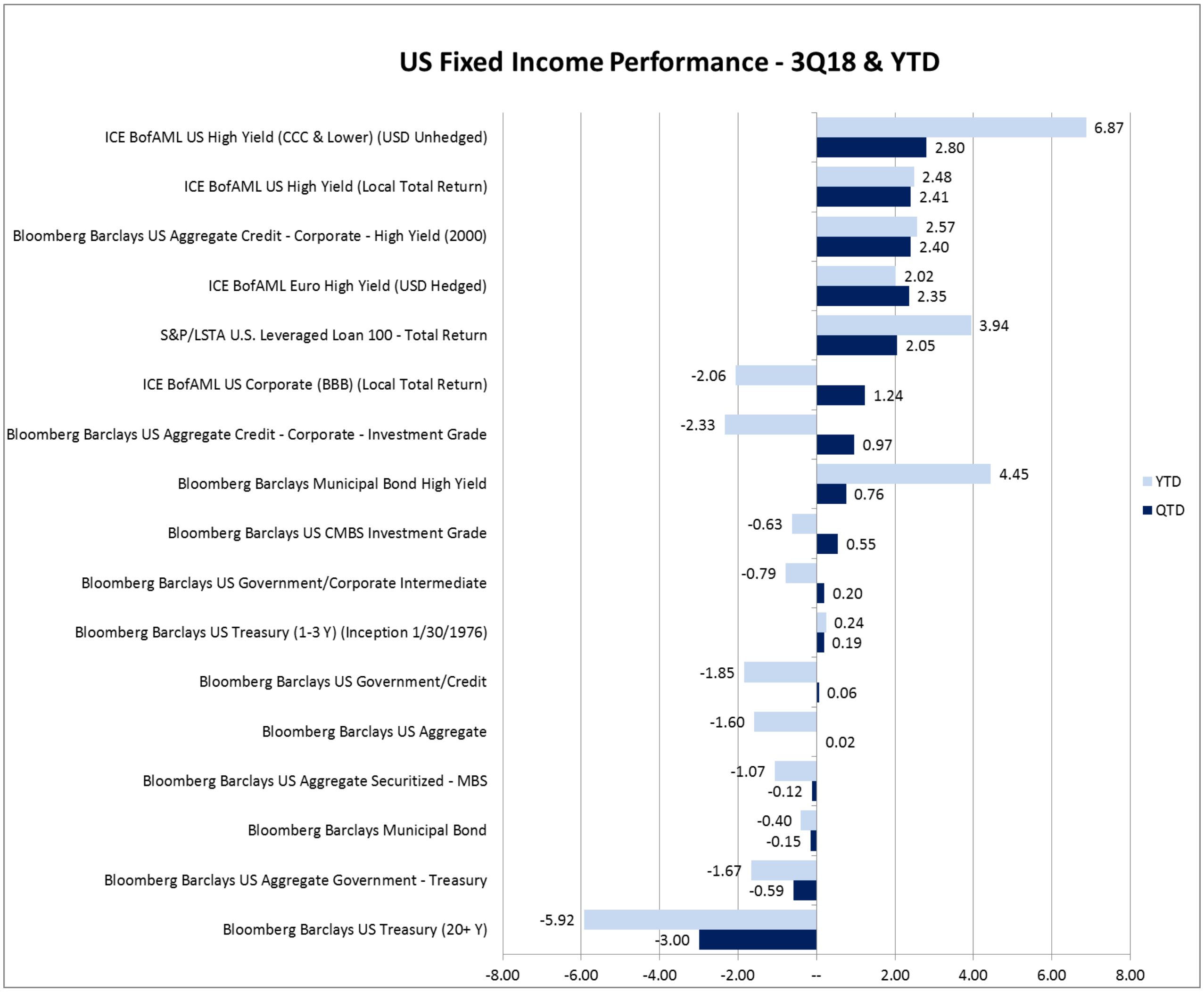

Source: FactSet

Manager Review: The third quarter was a period in which macro themes dominated the markets, in our view. The primary themes to note were trade tensions, the rising U.S. Dollar, and rising oil prices. These are themes we made note of in the second quarter edition of *Market Observations.* 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:** While less of an impact on the US market in the third quarter, the impact on non-US equities weighed on performance. This is especially the case in emerging markets where many countries are net exporters to developed markets and specifically the US. While unilateral deals are being made with some countries, the elephant in the room is China, which doesn't seem to be something that will be resolved quickly.
2) **Rising US Dollar:** The US Dollar rose only 0.5% in the third quarter compared to the 5% in the second quarter based as the US Dollar Index. We believe the rise was due to a combination of a strong 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. Given our opinion that the US Dollar is peaking, this theme could start to reverse.
3) **Rising Oil Prices:** The price of WTI Crude remained at elevated levels in the third quarter as excess supply has been reduced and fears of a shortage exist due to sanctions against Iran. While it helped boost the energy sector to be the top performing sector in the second quarter, it did not have a similar effect in the third 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.

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.