LPL RESEARCH

MARKET INSIGHT MONTHLY

DECEMBER 2016 IN REVIEW

January Update | As of December 31, 2016

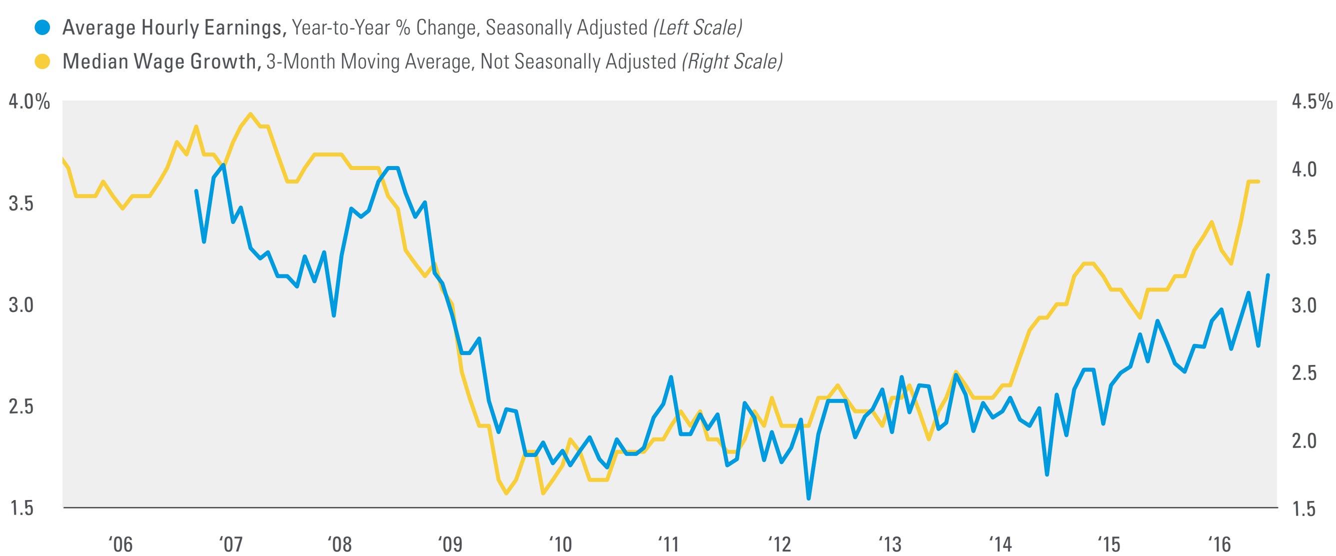
ECONOMY:
GROWTH ACCELERATES IN THIRD QUARTER

Economic Data

Economic reports received in December 2016, which mostly reflect economic activity in November and early December 2016, were generally mixed relative to consensus expectations, which have moved higher since the November 8, 2016 U.S. presidential election. On the upside, reports on consumer sentiment, housing, and manufacturing were all notably better than expected. While not as timely as the data for November and early December, the revised estimate of 2016 third quarter gross domestic product growth (GDP), released on December 23, surprised to the upside, accelerating to 3.5% annualized growth from 1.4% in the second quarter, above economists' consensus expectations of 3.2% and solidly above the initial reading of 2.9%. Despite the pickup in GDP, growth remains at a tepid 1.7% year over year.

Aside from the better than expected reading on third quarter GDP, the month's economic releases were highlighted by ongoing improvement in the manufacturing sector. The Institute for Supply Management's (ISM) Purchasing Managers' Index (PMI) for manufacturing continued to accelerate in late 2016 after a nearly two year slump related to falling oil prices. Many of the regional Federal Reserve (Fed) surveys on manufacturing also exceeded expectations in December, including the Dallas Fed's index, which is heavily dependent on oil and energy. Readings released on consumer sentiment in November and December were also strong, with the University of Michigan's consumer sentiment reading hitting a 12-year high. Consumer spending remained firm as 2016 ended, with vehicle sales hitting an all-time high.

WAGE GROWTH HAS BEEN ACCELERATING



Source: LPL Research, Bureau of Labor Statistics, Federal Reserve Bank of Atlanta, Haver Analytics 01/06/17

Despite the better than expected tone of the manufacturing, housing, and consumer data released in December, not all the data exceeded expectations. Noteworthy disappointments included payroll employment, average hourly earnings, inflation, net exports, inventories, home sales, and construction spending.

Despite the mixed data, leading economic indicators continued to signal low odds of a recession. The level of the Conference Board's Leading Economic Index (LEI), an aggregate of economic indicators that tends to lead the overall economy, was unchanged between October and November and its year-over-year value decelerated from +1.1% to 0.7%. However, with December data for market returns, the yield curve, and new manufacturing orders already posting solid numbers, the LEI is poised to accelerate in early 2017. Historically, when the change in the LEI has been at this level or higher, the economy has been in a recession a year later less than 10% of the time.

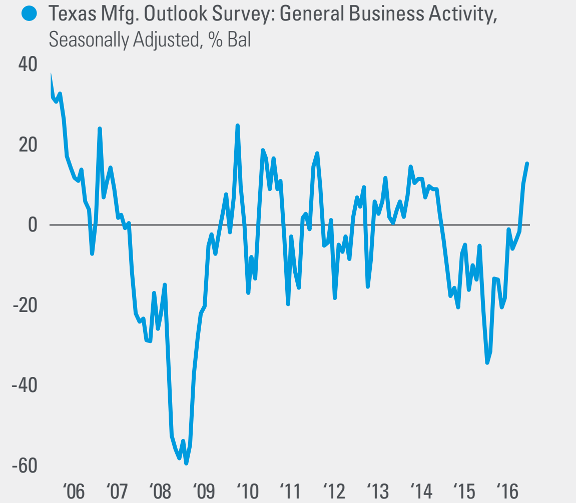
Although the inflation reports released in December largely matched expectations, inflation, as measured by the Consumer Price Index (CPI), continued to accelerate, from a 1.6% year-over-year gain in October to 1.7% in November. Wage gains decelerated between October and November from +2.7% year over year to 2.5%, but most other measures of wages and compensation continued to point to higher wage inflation as 2016 ended.

Central Banks

The big news for central banks in December was that the Federal Reserve (Fed) raised rates by 0.25% at its final meeting of 2016. The move was widely expected by market participants, but the Fed's guidance for 2017 surprised market participants. Prior to the December meeting, the market was expecting the Fed to guide to two 0.25% rate hikes in 2017. Instead, the Fed guided to three hikes.

Outside of the U.S., December was a busy month for central banks. Notably, the European Central Bank held rates steady at its mid-month meeting but said that it would extend its bond buying plan, originally slated to end in March 2017, to the end of 2017. However, the ECB also said they would begin tapering their bond purchases, which surprised markets. Elsewhere, the Bank of Japan and the Bank of England met and made no changes to rates or on their bond buying programs. Mexico's central bank matched the Fed's 0.25% hike, but India's central bank held its ground despite market expectations of a rate cut.

MANUFACTURING IS NOW REBOUNDING AS OIL PRICES AND PRODUCTION RECOVER



Source: LPL Research, Federal Reserve Bank of Dallas, Haver Analytics 01/06/17

GLOBAL EQUITIES:

STOCKS CAP OFF STRONG 2016 WITH TRUMP-FUELED DECEMBER RALLY

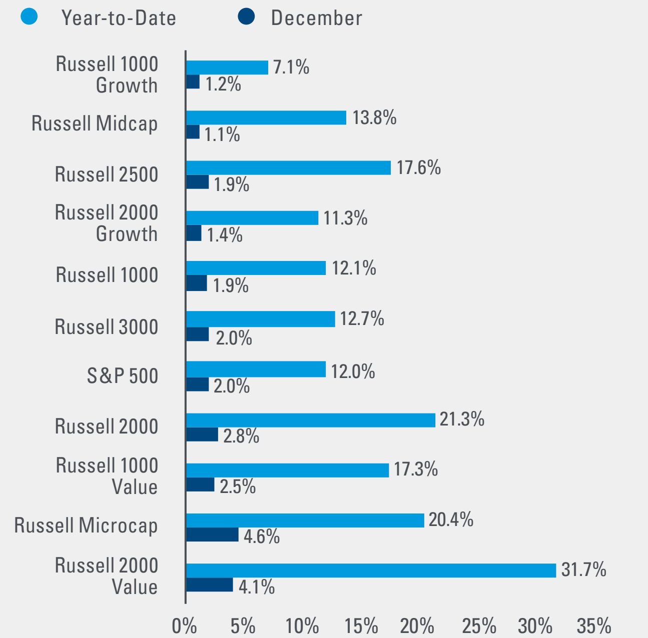
U.S.

Stocks capped off a very strong year with a 2% return in December of 2016, bringing the S&P 500's 2016 total return to a solid 12%. The year's gains came with solid consistency, with the S&P 500 producing a positive return in nine of the final ten months of the year. As was the case during November when stocks gained nearly 4%, the biggest drivers of the move were improving economic conditions and optimism surrounding potential pro-growth policies under a Trump presidency with Republican control of Congress, including tax reform, infrastructure spending, and deregulation.

December also brought the Fed's widely anticipated rate hike (on December 14), the second of the current economic expansion. The limited market reaction was attributed to the news being expected (the index fell 0.8% on December 14, 2016, and quickly recovered those losses, while even the move in the bond market was well contained), despite the FOMC's unexpected forecast of three rate hikes in 2017. The related upward pressure on the U.S. dollar, and its expected drag on earnings and exports, did little to slow the stock market's ascent.

The election theme remained evident amongst sector performance in December. Financials (+3.9%) continued to outperform amid expectations for less regulatory burden and higher interest rates under Trump. Telecom, which is interest rate sensitive but also highly regulated and therefore may benefit from a smaller regulatory burden under a Trump administration, was the month's top performer with an 8.1% gain. And weakness in consumer discretionary (+0.1%) likely partially reflected the potential for higher tax rates on imports, in addition to traditional retailers' struggles to compete with internet retailers. Defensive sector outperformance is not likely a reflection of deteriorating macroeconomic conditions.

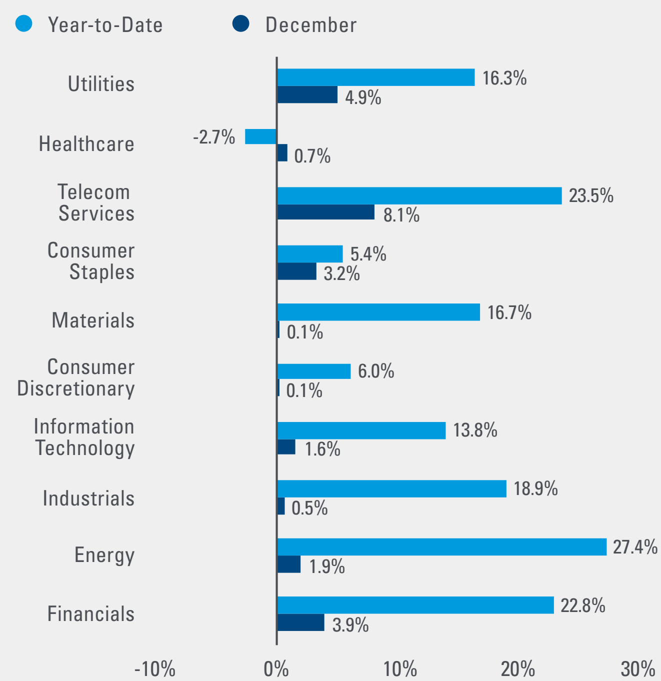
DOMESTIC INDEX PERFORMANCE



Source: LPL Research, FactSet 12/31/16

Indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

S&P 500 SECTOR PERFORMANCE



Source: LPL Research, FactSet 12/31/16

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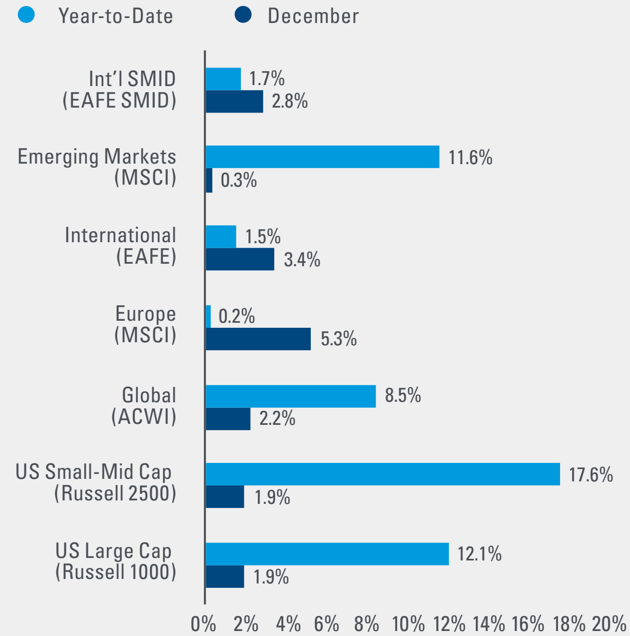
Stock investing involves risk, including loss of principal.

Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

Value outperformed growth for the third straight month due primarily to the strong performance from financials, the biggest value sector, although solid gains for income oriented telecom and utilities also buoyed value. The growth style, based on the Russell indexes, was weighed down by underperformance of the growth-oriented consumer discretionary sector. For the year, value beat growth handily as value sectors energy, telecom, and financials finished atop the sector leaderboard.

Small caps* continued to show their approval of the election results in December by outperforming both the large and midcap Russell indexes. Smaller companies generally have higher tax rates than their larger counterparts, so they have more to gain from lower tax rates, and they are generally less impacted by trade policy (or by tweets from the president-elect).

GLOBAL INDEX PERFORMANCE



Source: LPL Research, FactSet 12/31/16

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International and emerging markets investing involves special risks, such as currency fluctuation and political instability, and may not be suitable for all investors.

International

Developed international equity markets rebounded solidly in December after lagging U.S. markets during November, as the MSCI EAFE Index gained 3.4% for the month. Still, international equities had a challenging year, as the EAFE index returned just 1.5% and trailed the U.S. indexes significantly.

Emerging market (EM) equities continued to struggle with the potential for souring trade relations with China and/or Mexico and gained only marginally in December (0.3%) based on the MSCI Emerging Markets Index. But it was still a good year for EM equity investors, with the EM Index having returned 11.6% in 2016, essentially matching the S&P 500.

In developed international markets and globally, the Italian constitutional referendum in early December was a big focus. After surprising votes in the U.K. with Brexit and the U.S. presidential election, markets were braced for another surprise ahead of the vote in Italy. Despite the political uncertainty, Italian equities led the EAFE Index performance for the month with a 13.4% jump, followed by several other Eurozone countries (Spain, Germany, Portugal and France) that each produced gains of more than 5%. The ECB's decision to extend its quantitative easing program, though at a smaller monthly amount, may have also supported European markets as 2016 came to a close.

For evidence of the potential impact of Trump's trade policy on EM, look no further than the sharp declines for the Chinese and Hong Kong stocks within the MSCI EM Index which fell 5.6% and 3.5% in December. Mexico fared better, gaining 0.6% after falling more than 12% in November, but still lagged the U.S. and Europe. EM also tends to be interest rate and U.S. dollar sensitive, so some of the underperformance compared with the U.S. was likely attributable to the Fed's more hawkish rate outlook, a strong U.S. dollar, and the move higher in the U.S. 10-year Treasury yield. On the flip side, a near 9% gain in oil prices in December provided support, particularly through double-digit gains in Russian equities.**

* Based on Russell 2000 Index.

** All country market performance measurements are taken from constituents in the MSCI EAFE Index and MSCI Emerging Markets Index.

FIXED INCOME:

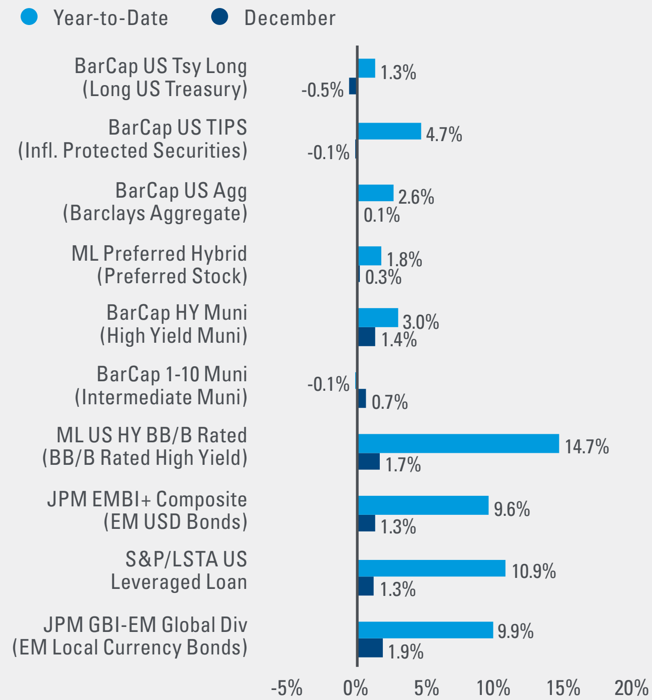
RATES RISE AS MARKETS CONTINUE TO PRICE IN IMPLICATIONS OF TRUMP POLICIES

Treasury yields rose across the yield curve during December. The 2-year Treasury yield rose by 0.08% and the yield on the 10-year Treasury by 0.6%. Treasury yields increased as markets continued to digest the implications of President-elect Trump's policies. Increasing economic growth expectations drove longer-term yields higher, while inflation expectations ended December little changed from a month prior. Short-term interest rates were pushed higher by the Fed's decision to raise the fed funds rate during its December meeting, in addition to laying out a more aggressive path of future rate hikes than previously anticipated.

The slight rise in yields across the maturity spectrum was a modest headwind for high-quality fixed income. The broad Bloomberg Barclays Aggregate Bond Index returned 0.1% during the month, outperforming Treasuries, which returned -0.1%, based on the Bloomberg Barclays U.S. Treasury Index. Municipals rebounded after significant weakness in November, leading to a 1.2% return during December, based on the Bloomberg Barclays Municipal Bond Index.

The rise in short-term interest rates continued to help drive up Libor (the London interbank offered rate), a short-term global benchmark interest rate. This rise was a benefit for bank loans, which returned 1.3% during December. Emerging market debt (EMD), which was hurt during November amid concerns of the impact of Trump's protectionist trade policies on emerging markets (EM), rebounded in December to return 1.3%. The dollar moved 0.7% higher during the month, hurting unhedged foreign bonds, which returned -1.0% amid globally rising rates. High-yield rallied with equities on economic optimism, leading to a strong 1.7% return during the month.

FIXED INCOME PERFORMANCE



US TREASURY YIELDS

Security	11/30/16	12/31/16	Change in Yield
3 Month	0.48	0.51	0.03
2 Year	1.11	1.20	0.09
5 Year	1.83	1.93	0.10
10 Year	2.37	2.45	0.08
30 Year	3.02	3.06	0.04

AAA MUNICIPAL YIELDS

Security	11/30/16	12/31/16	Change in Yield
2 Year	1.21	1.18	-0.03
5 Year	1.83	1.77	-0.06
10 Year	2.51	2.38	-0.13
20 Year	3.22	2.97	-0.25
30 Year	3.41	3.17	-0.24

Source: LPL Research, Bloomberg, FactSet 12/31/16

Indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise, and bonds are subject to availability and change in price.

Bank loans are loans issued by below investment-grade companies for short-term funding purposes with higher yield than short-term debt and involve risk.

ALTERNATIVES:

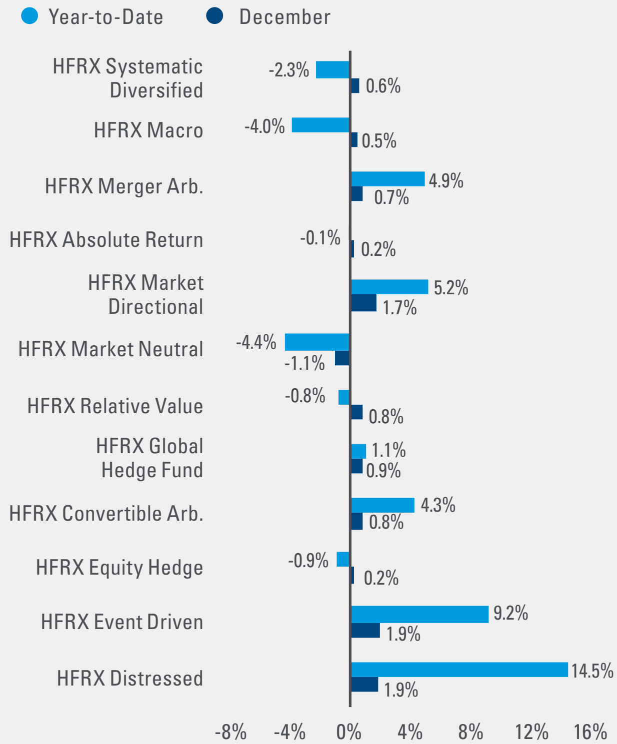
DISTRESSED DEBT RALLY CONTINUES INTO YEAR-END

Distressed debt strategies ended the year on another positive note, as the HFRX Distressed Index gained 1.9% during December, resulting in a 2016 return of 14.5%. Exposure to the energy sector continued to support returns, as commodity prices once again moved higher during the month. Additionally, managers employing portfolio hedges through the use of short U.S. Treasury exposure saw further gains, as the post-election backup in rates continued into December. This strategy of hedging out the risk of higher interest rates had previously been a consistent drag on portfolios for much of the year.

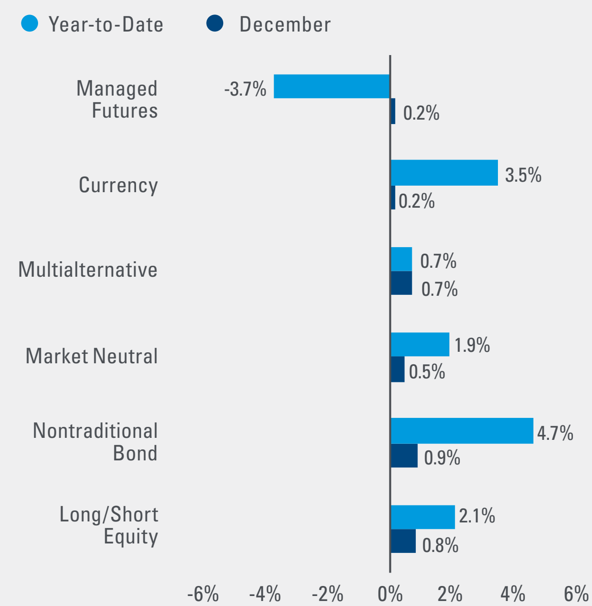
Managed Futures strategies rebounded after a difficult November, as the HFRX Systematic Diversified Index gained 0.6%. Long domestic and international equity exposure supported returns, as did several trends in the agriculture markets. Short exposure to cocoa and coffee futures provided gains, as cocoa prices continued to decline on stronger than expected supply from West Africa, which accounts for over 70% of global production. After reaching a 2016 peak in early November, coffee prices have also continued to move lower; as higher than expected output and declining concerns over droughts in South American have led prices lower. Of note, many strategies have now completely eliminated their long Treasury exposure, an area that weighed heavily on portfolio returns earlier in the fourth quarter.

In the equity space, performance was broadly lackluster, as the HFRX Equity Hedge Index gained 0.2%. Gains from long holdings were offset by losses experienced on short positioning, specifically due to short exposure in the Utility and Telecom sectors. For the year, the HFRX Equity Index returned -0.9%, underperforming the 12% total return of the S&P 500.

HFRX INDEX PERFORMANCE



MORNINGSTAR INDEX PERFORMANCE



Source: LPL Research, FactSet 12/31/16

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Alternative strategies may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.

LIQUID REAL ASSETS MOSTLY POSITIVE IN DECEMBER

As the post-election risk-on rally continued in December, liquid real assets were mostly stronger as well. The U.S. dollar trade-weighted index was up 0.7% for the month as the 10-year Treasury yield moved modestly higher from 2.37% to 2.45%.

MLPs & Global Listed Infrastructure

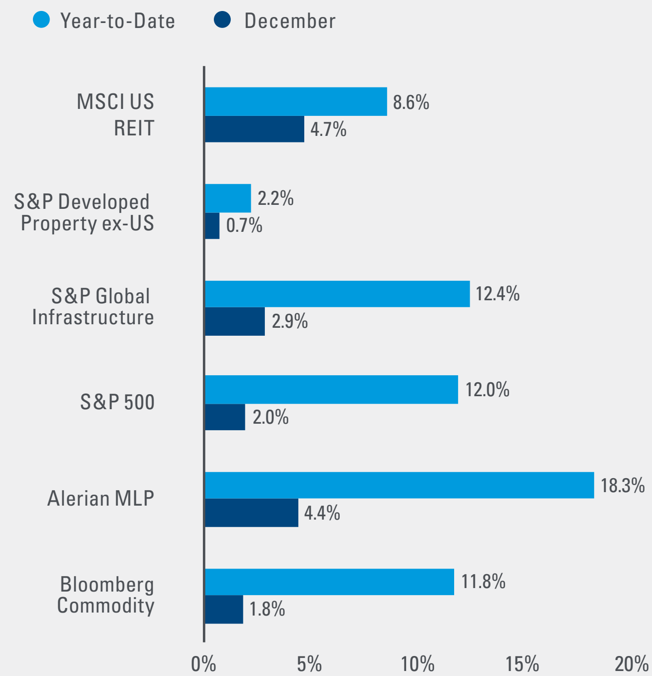
The positive sentiment around master limited partnerships (MLPs) continued into December as the Alerian MLP Index returned 4.4%. The market continued to focus on the likelihood of higher U.S. crude oil production as a means for pipeline operators to realize higher volumes of shipments. This backdrop is also supported by what should be an energy-friendly administration in the U.S. coming into power in January. The asset class remains attractively valued with the index yielding above 7%, still well wide of corporate bonds and Treasuries.

Global listed infrastructure, as measured by the S&P Global Infrastructure Index, returned 2.9% in December to end a streak of two straight negative months. In light of the recent focus on the potential for fiscal stimulus in the U.S., it should be noted that this index is comprised primarily of ex-U.S. companies. As of the end of the year, U.S. companies made up 39.9% of the index.

REITs

After being impacted negatively by rising rates in November, the MSCI US REIT Index bounced back and produced a return of 4.7% for December. Hotel REITs again outperformed supported by the broader risk-on equity rally.

LIQUID REAL ASSET PERFORMANCE



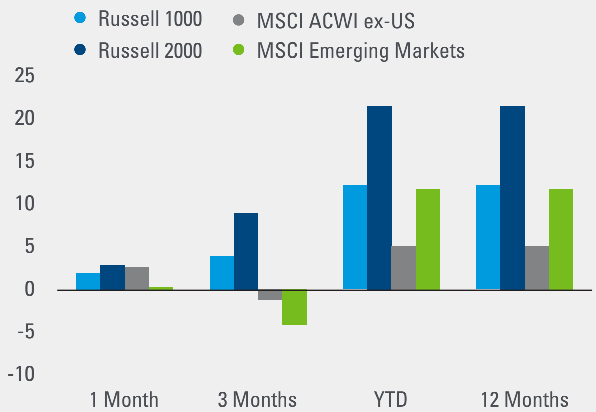
Source: LPL Research, FactSet 12/31/16

Commodities

Oil prices followed through on their rally post-OPEC meeting as WTI crude prices increased 8.7% in December. It now remains to be seen how quickly the market returns back to balance and how true OPEC agreement participants stay to their quotas. Precious metals retreated as interest rates rose modestly and equities rallied. The more positive market sentiment of late and lack of any clearly identifiable downside catalyst events have decreased investors' appetite for gold and silver, which were down 1.6% and 2.5%, respectively, for the month. Agricultural commodity prices broadly decreased, as measured by the -2.3% return for the Bloomberg Agriculture Subindex. This was led by declines in most constituents but belied strong performance in the grain complex. Industrial metals declined and took a pause from the recent rally as copper prices decreased by 4.4%.

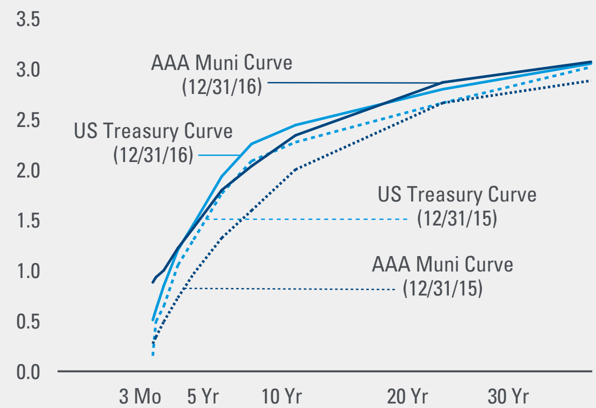
MONTHLY PERFORMANCE REPORT

EQUITY PERFORMANCE



Source: LPL Research, Bloomberg, FactSet 12/31/16

DOMESTIC YIELD CURVE



Source: LPL Research, Bloomberg, FactSet 12/31/16

		1 Mo	3 Mos	YTD	12 Mos
Large Cap	S&P 500	1.98	3.82	11.96	11.96
	DJIA	3.44	8.66	16.50	16.50
	Russell 1000	1.88	3.83	12.05	12.05
	Russell 1000 Value	2.50	6.68	17.34	17.34
	Russell 1000 Growth	1.24	1.01	7.08	7.08
Small/Mid Cap	Russell 2000	2.80	8.83	21.31	21.31
	Russell 2000 Value	4.13	14.07	31.74	31.74
	Russell 2000 Growth	1.36	3.57	11.32	11.32
	Russell Microcap	4.55	10.05	20.37	20.37
	Russell Midcap	1.14	3.21	13.80	13.80
	Russell Midcap Value	1.78	5.52	20.00	20.00
	Russell Midcap Growth	0.35	0.46	7.33	7.33
All Cap	Russell 3000	1.95	4.21	12.74	12.74
	Russell 3000 Value	2.63	7.24	18.40	18.40
	Russell 3000 Growth	1.25	1.20	7.39	7.39
International Markets	MSCI EAFE	3.44	-0.68	1.51	1.51
	MSCI ACWI ex US	2.59	-1.20	5.01	5.01
	MSCI Europe	5.25	-0.36	0.22	0.22
	MSCI Japan	0.99	-0.14	2.73	2.73
	MSCI AC Asia Pacific ex Japan	-1.05	-4.86	7.06	7.06
	MSCI EAFE SMID	2.82	-2.61	1.71	1.71

		1 Mo	3 Mos	YTD	12 Mos
Int'l - Continued	MSCI ACWI ex US SMID	2.00	-3.37	3.96	3.96
	MSCI Emerging Mkts	0.29	-4.08	11.60	11.60
	MSCI EMEA	7.24	1.90	20.50	20.50
	MSCI Latin America	0.94	-0.77	31.47	31.47
	MSCI Frontier Markets	2.75	0.54	3.16	3.16
Sectors - S&P500 GICS	Consumer Discretionary	0.06	2.31	6.03	6.03
	Consumer Staples	3.17	-2.02	5.38	5.38
	Energy	1.92	7.28	27.36	27.36
	Financials	3.90	21.10	22.80	22.80
	Healthcare	0.73	-4.00	-2.69	-2.69
	Industrials	0.51	7.21	18.86	18.86
	Information Technology	1.56	1.19	13.85	13.85
	Materials	0.12	4.70	16.69	16.69
	Telecom Services	8.12	4.78	23.49	23.49
	Utilities	4.94	0.14	16.29	16.29

Source: LPL Research, Bloomberg, FactSet 12/31/16

(Data continued on following page.)

All data represent total returns, where applicable. Information contained in this report is from sources deemed to be reliable. We cannot guarantee the accuracy or completeness of such information and we assume no liability for damages resulting from or arising out of the use of such information. Further, please note that past performance is not indicative of future results.

Fixed Income	1 Mo	3 Mos	YTD	12 Mos
BarCap US Agg	0.14	-2.98	2.65	2.65
BarCap 1-10 Muni	0.59	-2.32	-0.15	-0.15
BarCap HY Muni	1.38	-5.84	2.99	2.99
BarCap Inv. Grade Credit	0.67	-2.83	6.11	6.11
BarCap Muni Long Bond -22+	1.58	-4.95	0.88	0.88
BarCap US Agg Securitized MBS	0.00	-1.97	1.67	1.67
BarCap US TIPs	-0.10	-2.41	4.68	4.68
BarCap US Treasury Interm	-0.03	-2.25	1.06	1.06
BarCap US Treasury Long	-0.53	-11.67	1.33	1.33
BarCap US High Yield Loans	1.29	2.21	10.88	10.88
ML Preferred Stock Hybrid	0.26	-4.52	1.77	1.77
ML US High Yield BB/B Rated	1.67	1.26	14.72	14.72
ML US Convert ex Mandatory	1.29	2.61	11.71	11.71
JPM GBI Global ex US Hedged	0.43	-2.16	5.46	5.46
JPM GBI Global ex US Unhedged	-1.01	-11.03	1.86	1.86
JPM GBI-EM Global Div	1.87	-6.09	9.94	9.94
JPM ELMI+	0.49	-3.59	3.54	3.54
JPM EMBI+ Composite	1.32	-5.32	9.62	9.62

Alternatives	1 Mo	3 Mos	YTD	12 Mos
HFRX Absolute Return	0.20	-0.35	0.31	0.31
HFRX Market Directional	1.73	1.87	9.86	9.86
HFRX Convertible Arb.	0.75	0.57	5.76	5.76
HFRX Distressed	1.87	5.43	19.72	19.72
HFRX Equity Hedge	0.18	0.79	0.10	0.10
HFRX Market Neutral	-1.07	-1.23	-5.08	-5.08
HFRX Event Driven	1.92	3.65	11.08	11.08
HFRX Merger Arb.	0.75	1.11	4.30	4.30
HFRX Relative Value Arb.	0.83	1.28	1.03	1.03
HFRX Global Hedge Fund	0.86	1.15	2.50	2.50
HFRX Macro Index	0.48	-1.80	-2.93	-2.93
HFRX Systematic Diversified	0.62	-3.47	-1.44	-1.44
Bloomberg Commodity	1.80	2.66	11.77	11.77
DJ Wilshire REIT	4.69	-2.53	6.68	6.68
Alerian MLP	4.39	2.04	18.31	18.31

		Latest Mo End (12/31/16)	3 Mos Ago (09/30/16)	Latest Yr End (12/31/16)	12 Mos Ago (12/31/15)
Currency	US Dollar Index Value	102.21	95.42	102.21	98.69
	USD vs. Yen	116.90	101.34	116.90	120.66
	Euro vs. USD	1.05	1.12	1.05	1.09
Cmdtys	Gold ($ per Troy Ounce)	1150.90	1315.90	1150.90	1061.00
	Crude Oil ($ per Barrel)	53.72	48.24	53.72	37.04

IMPORTANT DISCLOSURES

The economic forecasts set forth in the presentation may not develop as predicted. The opinions voiced in this material are for general information only and are not intended to provide or be construed as providing specific investment advice or recommendations for any individual security. There is no assurance that the techniques and strategies discussed are suitable for all investors or will yield positive outcomes. The purchase of certain securities may be required to affect some of the strategies.

Stock and Pooled Investment Risks

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.

Investments in specialized industry sectors have additional risks, which are outlined in the prospectus. Please read the fund's prospectus for more information on risks, fees, and other important information.

Bond and Debt Equity Risks

Government bonds and Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

High-yield/junk bonds are not investment-grade securities, involve substantial risks, and generally should be part of the diversified portfolio of sophisticated investors.

Investing in foreign and emerging markets debt securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical and regulatory risk, and risk associated with varying settlement standards.

Municipal bonds are subject to availability, price, and to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rate rise. Interest income may be subject to the alternative minimum tax. Federally tax-free but other state and local taxes may apply.

Treasury Inflation-Protected Securities (TIPS) are subject to interest rate risk and opportunity risk. If interest rates rise, the value of your bond on the secondary market will likely fall. In periods of no or low inflation, other investments, including other Treasury bonds, may perform better.

Preferred stock investing involves risk, which may include loss of principal, and are subject to many of the same risks which affect fixed income securities.

Alternative Risks

Currency risk is a form of risk that arises from the change in price of one currency against another. Whenever investors or companies have assets or business operations across national borders, they face currency risk if their positions are not hedged.

Investing in real estate/REITs involves special risks such as potential illiquidity and may not be suitable for all investors. There is no assurance that the investment objectives of this program will be attained.

Investing in MLPs involves additional risks as compared with the risks of investing in common stock, including risks related to cash flow, dilution, and voting rights.

MLPs may trade less frequently than larger companies due to their smaller capitalizations, which may result in erratic price movement or difficulty in buying or selling. MLPs are subject to significant regulation and may be adversely affected by changes in the regulatory environment, including the risk that an MLP could lose its tax status as a partnership. Additional management fees and other expenses are associated with investing in MLP funds.

Long/short equity funds are subject to normal alternative investment risks, including potentially higher fees; while there is additional management risk, as the manager is attempting to accurately anticipate the likely movement of both their long and short holdings. There is also the risk of "beta-mismatch," in which long positions could lose more than short positions during falling markets.

Global macro strategies attempt to profit from anticipated price movements in stock markets, interest rates, foreign exchange and physical commodities. Global macro risks include but are not limited to imperfect knowledge of macro events, divergent movement from macro events, loss of principal, and related geopolitical risks.

Event driven strategies, such as merger arbitrage, consist of buying shares of the target company in a proposed merger and fully or partially hedging the exposure to the acquirer by shorting the stock of the acquiring company or other means. This strategy involves significant risk as events may not occur as planned and disruptions to a planned merger may result in significant loss to a hedged position.

Selling short can result in losses should the borrowed security increase in price, rather than decline. The theoretical potential loss is unlimited. Additionally, short sales will incur interest on the borrowed shares while also being subject to margin calls, or early sales in the event that the original owner wishes to sell their position.

Definitions

Different agencies employ different rating scales for credit quality. Standard & Poor's (S&P) and Fitch both use scales from AAA (highest) through AA, A, BBB, BB, B, CCC, CC, C to D(lowest). Moody's uses a scale from Aaa (highest) through Aa, A, Baa, Ba, B, Caa, Ca to C (lowest).

The Leading Economic Index is a monthly publication from the Conference Board that attempts to predict future movements in the economy based on a composite of 10 economic indicators whose changes tend to precede changes in the overall economy.

Purchasing Managers Indexes are economic indicators derived from monthly surveys of private sector companies, and are intended to show the economic health of the manufacturing sector. A PMI of more than 50 indicates expansion in the manufacturing sector, a reading below 50 indicates contraction, and a reading of 50 indicates no change. The two principal producers of PMIs are Markit Group, which conducts PMIs for over 30 countries worldwide, and the Institute for Supply Management (ISM), which conducts PMIs for the U.S.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

The U.S. Institute for Supply Managers (ISM) manufacturing index is an economic indicator derived from monthly surveys of private sector companies, and is intended to show the economic health of the U.S. manufacturing sector. A PMI of more than 50 indicates expansion in the manufacturing sector, a reading below 50 indicates contraction, and a reading of 50 indicates no change.

Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

London Interbank Offered Rate (Libor): An interest rate at which banks can borrow funds, in marketable size, from other banks in the London interbank market. The Libor is fixed on a daily basis by the British Bankers' Association. The Libor is derived from a filtered average of the world's most creditworthy banks' interbank deposit rates for larger loans with maturities between overnight and one full year.

INDEX DEFINITIONS

The Alerian MLP Index is a composite of the 50 most prominent energy master limited partnerships that provides investors with an unbiased, comprehensive benchmark for this emerging asset class. The index, which is calculated using a float-adjusted, capitalization-weighted methodology, is disseminated in real time on a price-return basis (NYSE: AMZ) and on a total-return basis (NYSE: AMZX).

The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS (agency and non-agency).

The Bloomberg Barclays U.S. Aggregate Securitized MBS Index tracks agency mortgage backed pass-through securities (both fixed-rate and hybrid (ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

The Bloomberg Barclays Capital High Yield Index covers the universe of publicly issued debt obligations rated below investment grade. Bonds must be rated below investment grade or high yield (Ba1/BB+ or lower), by at least two of the following ratings agencies: Moody's, S&P, and Fitch. Bonds must also have at least one year to maturity, have at least $150 million in par value outstanding, and must be U.S. dollar denominated and nonconvertible. Bonds issued by countries designated as emerging markets are excluded.

The Bloomberg Barclays 7-year Municipal Bond Index is the 7 Year (6 -8 year) component of the Bloomberg Barclays Municipal Bond, which is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market.

The Bloomberg Barclays Corporate Investment Grade Credit Index is a broad-based benchmark that measures the investment-grade, U.S. dollar-denominated, fixedrate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-U.S. industrial, utility, and financial issuers that meet specified maturity, liquidity, and quality requirements.

The Bloomberg Barclays U.S. High-Yield Loan Index tracks the market for dollar-denominated floating-rate leveraged loans. Instead of individual securities, the U.S. High-Yield Loan Index is composed of loan tranches that may contain multiple contracts at the borrower level.

The Bloomberg Barclays Municipal High Yield Bond Index is comprised of bonds with maturities greater than one year, having a par value of at least $3 million issued as part of a transaction size greater than $20 million, and rated no higher than 'BB+' or equivalent by any of the three principal rating agencies. (The long and the short are subindexes of the Municipal Bond Index, based on duration length.)

The Bloomberg Barclays U.S. Corporate High Yield Energy Index covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included.

The Bloomberg Barclays U.S. TIPS Index is a rules-based, market value-weighted index that tracks Inflation-Protected Securities issued by the U.S. Treasury. The U.S. TIPS Index is a subset of the Global Inflation-Linked Index, with a 36% market value weight in the index (as of December 2007), but is not eligible for other nominal treasury or aggregate indexes In order to prevent the erosion of purchasing power, TIPS are indexed to the nonseasonally adjusted Consumer Price Index for All Urban Consumers, or the CPI-U (CPI).

The Bloomberg Barclays U.S. Treasury Index is an unmanaged index of public debt obligations of the U.S. Treasury with a remaining maturity of one year or more. The index does not include T-bills (due to the maturity constraint), zero coupon bonds (strips), or Treasury Inflation-Protected Securities (TIPS). (The long and the intermediate are subindexes of the U.S. Treasury Index, based on duration length.)

The Bloomberg Commodity Index is calculated on an excess return basis and composed of futures contracts on 22 physical commodities. It reflects the return of underlying commodity futures price movements.

The BofA Merrill Lynch BB-B U.S. High Yield Constrained Index contains all securities in the BofA Merrill Lynch US High Yield Index rated BB+ through B- by S&P (or equivalent as rated by Moody's or 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%.

The BofA Merrill Lynch U.S. Convertibles Ex-Mandatory Index is a rule-driven Index designed to capture the organic evolution of the U.S. convertible market and adjust automatically based on any changes in the market such as size of the market, industry skew, structure popularity, issuer size or equity sensitivity. The index rules include issues: U.S. dollar denominated greater than $50M in aggregate market value that are publicly traded (including 144A) in the U.S. market but are not currently in bankruptcy. Exclusions are synthetic convertibles and mandatory convertibles.

The Dow Jones Industrial Average Index is comprised of U.S.-listed stocks of companies that produce other (non-transportation and non-utility) goods and services. The Dow Jones industrial averages are maintained by editors of The Wall Street Journal. While the stock selection process is somewhat subjective, a stock typically is added only if the company has an excellent reputation, demonstrates sustained growth, is of interest to a large number of investors, and accurately represents the market sectors covered by the average. The Dow Jones averages are unique in that they are price weighted; therefore, their component weightings are affected only by changes in the stocks' prices.

The Dow Jones U.S. Select REIT Index (formerly the DJ Wilshire REIT) intends to measure the performance of publicly traded REITs and REIT-like securities. The index is a subset of the Dow Jones U.S. Select Real Estate Securities Index (RESI), which represents equity REITs and real estate operating companies (REOCs) traded in the U.S. The indices are designed to serve as proxies for direct real estate investment, in part by excluding companies whose performance may be driven by factors other than the value of real estate.

The HFRX Absolute Return Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage.

The HFRX Distressed Restructuring Index strategies employ an investment process focused on corporate fixed income instruments, primarily on corporate credit instruments of companies trading at significant discounts to their value at issuance or obliged (par value) at maturity as a result of either formal bankruptcy proceeding or financial market perception of near term proceedings. Managers are typically actively involved with the management of these companies, frequently involved on creditors' committees in negotiating the exchange of securities for alternative obligations, either swaps of debt, equity, or hybrid securities. Managers employ fundamental credit processes focused on valuation and asset coverage of securities of distressed firms; in most cases portfolio exposures are concentrated in instruments that are publicly traded, in some cases actively and in others under reduced liquidity, but in general for which a reasonable public market exists. In contrast to special situations, distressed strategies employ primarily debt (greater than 60%) but also may maintain related equity exposure.

The HFRX Equity Hedge Index, also known as long/short equity, combines core long holdings of equities with short sales of stock or stock index options. Equity hedge portfolios may be anywhere from net long to net short, depending on market conditions. Equity hedge managers generally increase net long exposure in bull markets and decrease net long exposure (or even are net short) in a bear market. Generally, the short exposure is intended to generate an ongoing positive return in addition to acting as a hedge against a general stock market decline. Stock index put options are also often used as a hedge against market risk. Profits are made when long positions appreciate and stocks sold short depreciate. Conversely, losses are incurred when long positions depreciate or the value of stocks sold short appreciates. Equity hedge managers' source of return is similar to that of traditional stock pickers on the upside, but they use short selling and hedging to attempt to outperform the market on the downside.

The HFRX Equity Market Neutral Index strategies employ sophisticated quantitative techniques of analyzing price data to ascertain information about future price movement and relationships between securities, select securities for purchase and sale. These can include both factor-based and statistical arbitrage/trading strategies. Factor-based investment strategies include strategies in which the investment thesis is predicated on the systematic analysis of common relationships between securities. In many but not all cases, portfolios are constructed to be neutral to one or multiple variables, such as broader equity markets in dollar or beta terms, and leverage is frequently employed to enhance the return profile of the positions identified. Statistical arbitrage/trading strategies consist of strategies in which the investment thesis is predicated on exploiting pricing anomalies that may occur as a function of expected mean reversion inherent in security prices; high frequency techniques may be employed and trading strategies may also be employed on the basis on technical analysis or opportunistically to exploit new information the investment manager believes has not been fully, completely, or accurately discounted into current security prices. Equity market neutral strategies typically maintain characteristic net equity market exposure no greater than 10% long or short.

The HFRX Event Driven Index managers maintain positions in companies currently or prospectively involved in corporate transactions of a wide variety, including but not limited to mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance, or other capital structure adjustments. Security types can range from most senior in the capital structure to most junior or subordinated, and frequently involve additional derivative securities. Event driven exposure includes a combination of sensitivities to equity markets, credit markets and idiosyncratic, company-specific developments. Investment theses are typically predicated on fundamental characteristics (as opposed to quantitative), with the realization of the thesis predicated on a specific development exogenous to the existing capital structure.

The HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies, including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry.

The HFRX Macro Index strategy managers trade a broad range of strategies in which the investment process is predicated on movements in underlying economic variables and the impact these have on equity, fixed income, hard currency, and commodity markets. Managers employ a variety of techniques, both discretionary and systematic analysis, combinations of top-down and bottom-up theses, quantitative and fundamental approaches, and long- and short-term holding periods. Although some strategies employ RV techniques, macro strategies are distinct from RV strategies in that the primary investment thesis is predicated on predicted or future movements in the underlying instruments, rather than realization of a valuation discrepancy between securities. In a similar way, while both macro and equity hedge managers may hold equity securities, the overriding investment thesis is predicated on the impact movements in underlying macroeconomic variables may have on security prices, as opposed to EH, in which the fundamental characteristics on the company are the most significant and integral to investment thesis.

The HFRX Macro: Systematic Diversified CTA Index strategies have investment processes typically as function of mathematical, algorithmic, and technical models, with little or no influence of individuals over the portfolio positioning. Strategies employ an investment process designed to identify opportunities in markets exhibiting trending or momentum characteristics across individual instruments or asset classes. Strategies typically employ a quantitative process that focuses on statistically robust or technical patterns in the return series of the asset, and they typically focus on highly liquid instruments and maintain shorter holding periods than either discretionary or mean reverting strategies. Although some strategies seek to employ counter trend models, strategies benefit most from an environment characterized by persistent, discernible trending behavior. Systematic diversified strategies typically would expect to have no greater than 35% of the portfolio in either dedicated currency or commodity exposures over a given market cycle.

The HFRX Market Directional Index is comprised of all eligible hedge fund strategies, including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. As a component of the optimization process, the index selects constituents which characteristically exhibit higher volatilities and higher correlations to standard directional benchmarks of equity, bond market, and hedge fund industry.

The HFRX Merger Arbitrage Index strategies employ an investment process primarily focused on opportunities in equity and equity-related instruments of companies that are currently engaged in a corporate transaction. Merger arbitrage involves primarily announced transactions, typically with limited or no exposure to situations that pre- or post-date, or situations in which no formal announcement is expected to occur. Opportunities are frequently presented in cross border, collared, and international transactions that incorporate multiple geographic regulatory institutions, with typically involve minimal exposure to corporate credits.Merger arbitrage strategies typically have over 75% of positions in announced transactions over a given market cycle.

The HFRX Relative Value Arbitrage Index includes managers who maintain positions in which the investment thesis is predicated on the realization of a valuation discrepancy in the relationship between multiple securities. Managers employ a variety of fundamental and quantitative techniques to establish investment theses, and security types range broadly across equity, fixed income, derivative, or other security types. Fixed income strategies are typically quantitatively driven to measure the existing relationship between instruments and, in some cases, identify attractive positions in which the risk adjusted spread between these instruments represents an attractive opportunity for the investment manager. RV position may be involved in corporate transactions also, but as opposed to ED exposures, the investment thesis is predicated on the realization of a pricing discrepancy between related securities, as opposed to the outcome of the corporate transaction.

The HFRX RV: FI-Convertible Arbitrage Index includes strategies in which the investment thesis is predicated on realization of a spread between related instruments in which one or multiple components of the spread is a convertible fixed income instrument. Strategies employ an investment process designed to isolate attractive opportunities between the price of a convertible security and the price of a non-convertible security, typically of the same issuer. Convertible arbitrage positions maintain characteristic sensitivities to credit quality the issuer, implied and realized volatility of the underlying instruments, levels of interest rates and the valuation of the issuer's equity, among other more general market and idiosyncratic sensitivities.

The J.P. Morgan GBI Global ex-U.S. Hedged Index tracks fixed rate issuances from high-income countries spanning the globe, launched in 1989.

The JPM GBI Global ex-U.S. Unhedged Index generally tracks fixed rate issuances form high-income countries spanning North America, Europe, and Asia, not including the United States.

The JPM GBI-EM Global Diversified Index limits the weights of those index countries with larger debt stocks by only including a specified portion of these countries as eligible, current face amounts of debt outstanding.

The JPM ELMI+ and JPM ELMI+ Composite Indexes measure the performance of debt issued by emerging markets in the local currency.

The Merrill Lynch Preferred Stock Hybrid Securities Index is an unmanaged index consisting of a set of investment-grade, exchange-traded preferred stocks with outstanding market values of at least $50 million that are covered by Merrill Lynch Fixed Income Research.

The MSCI AC Asia Pacific ex-Japan Index captures large and mid cap representation across four of five developed markets countries (excluding Japan) and eight emerging markets countries in the Asia Pacific region. With 682 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI ACWI ex-U.S. Index captures large and mid cap representation across 22 of 23 developed markets (DM) countries (excluding the U.S.) and 23 emerging markets (EM) countries. With 1,839 constituents, the index covers approximately 85% of the global equity opportunity set outside the U.S.

The MSCI ACWI ex-U.S. SMID Cap Index captures mid and small cap representation across 22 of 23 developed market (DM) countries (excluding the U.S.) and 23 emerging markets countries. With 5,164 constituents, the index covers approximately 28% of the free float-adjusted market capitalization in each country.

The MSCI EAFE Index is recognized as the pre-eminent benchmark in the United States to measure international equity performance. It comprises the MSCI country indexes that represent developed markets outside of North America: Europe, Australasia, and the Far East.

The MSCI EAFE SMID Cap Index captures mid and small cap representation across developed market countries around the world, excluding the U.S. and Canada. With 2,695 constituents, the index covers approximately 28% of the free float-adjusted market capitalization in each country.

The MSCI Emerging Markets Index captures large and mid cap representation across 23 emerging markets (EM) countries. With 822 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI Emerging Markets EMEA Index captures large and mid cap representation across eight emerging markets (EM) countries in Europe, the Middle East and Africa (EMEA). With 162 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI Emerging Markets (EM) Latin America Index captures large and mid cap representation across five emerging markets (EM) countries in Latin America. With 137 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI Europe Index is a free float-adjusted, market capitalization-weighted index that is designed to measure the equity market performance of the developed markets in Europe.

The MSCI Frontier Markets Index captures large and mid cap representation across 24 frontier markets (FM) countries. The index includes 127 constituents, covering about 85% of the free float-adjusted market capitalization in each country.

The MSCI Japan Index is a free float-adjusted, market capitalization-weighted index that is designed to track the equity market performance of Japanese securities listed on Tokyo Stock Exchange, Osaka Stock Exchange, JASDAQ, and Nagoya Stock Exchange.

The MSCI U.S. REIT Index is a free float-adjusted market capitalization index that is comprised of equity REITs. The index is based on MSCI USA Investable Market Index (IMI), its parent index that captures large, mid, and small caps securities. With 139 constituents, it represents about 99% of the U.S. REIT universe and securities are classified in the REIT sector according to the Global Industry Classification Standard (GICS). It, however, excludes mortgage REITs and selected specialized REITs.

The Russell 1000 Index measures the performance of the large cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 92% of the U.S. market.

The Russell 1000 Value Index measures the performance of the large cap value segment of the U.S. equity universe.

The Russell 1000 Growth Index measures the performance of the large cap growth segment of the U.S. equity universe.

The Russell 2000 Index measures the performance of the small cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index.

The Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 2500 Index is a broad index featuring 2,500 stocks that cover the small and mid cap market capitalizations. The Russell 2500 is a market capitalization-weighted index that includes the smallest 2,500 companies covered in the Russell 3000 universe of U.S.-based listed equities.

The Russell 3000 Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

The Russell 3000 Growth Index measures the performance of the broad growth segment of the U.S. equity universe. It includes those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 3000 Value Index measures the performance of the broad value segment of U.S. equity value universe. It includes those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values.

The Russell Microcap Index measures the performance of the microcap segment of the U.S. equity market. Microcap stocks make up less than 3% of the U.S. equity market (by market cap) and consist of the smallest 1,000 securities in the small-cap Russell 2000 Index, plus the next 1,000 smallest eligible securities by market cap.

The Russell Midcap Index offers investors access to the mid cap segment of the U.S. equity universe. The Russell Midcap Index is constructed to provide a comprehensive and unbiased barometer for the mid cap segment and is completely reconstituted annually to ensure that larger stocks do not distort the performance and characteristics of the true mid cap opportunity set. The Russell Midcap Index includes the smallest 800 securities in the Russell 1000.

The Russell Midcap Growth Index offers investors access to the mid cap growth segment of the U.S. equity universe. The Russell Midcap Growth Index is constructed to provide a comprehensive and unbiased barometer of the mid cap growth market. Based on ongoing empirical research of investment manager behavior, the methodology used to determine growth probability approximates the aggregate mid cap growth manager’s opportunity set.

The Russell Midcap Value Index offers investors access to the mid cap value segment of the U.S. equity universe. The Russell Midcap Value Index is constructed to provide a comprehensive and unbiased barometer of the mid cap value market. Based on ongoing empirical research of investment manager behavior, the methodology used to determine value probability approximates the aggregate mid cap value manager’s opportunity set.

The S&P 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The S&P Global Infrastructure Index is comprised of 75 of the largest publicly listed infrastructure companies that meet specific investability requirements. The index is designed to provide liquid exposure to the leading publicly listed companies in the global infrastructure industry, from both developed markets and emerging markets.

The S&P Utilities Index is comprised primarily of companies involved in water and electrical power and natural gas distribution industries.

The S&P/LSTA U.S. Leveraged Loan 100 index is a market value-weighted index designed to measure the performance of the U.S. leveraged loan market. The index consists of 100 loan facilities drawn from a larger benchmark - the S&P/LSTA (Loan Syndications and Trading Association) Leveraged Loan Index (LLI).

The S&P Developed Ex-U.S. Property defines and measures the investable universe of publicly traded property companies domiciled in developed countries outside of the U.S. The companies included are engaged in real estate related activities, such as property ownership, management, development, rental and investment.

The USD Index measures the performance of the U.S. dollar against a basket of foreign currencies: EUR, JPY, GBP, CAD, CHF and SEK. The U.S. Dollar Index goes up when the dollar gains “strength” compared to other currencies.

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