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QUARTERLY MARKET COMMENTARY | Q4 2019

Markets Ring in the Decade on a High Note

Quarterly Snapshot

- **Equity and fixed-income markets around the globe wrapped up 2019 with above-average annual performance, giving investors the gift of optimism as they rang in the New Year.**
- **China and the U.S. settled on a limited "phase-one" trade agreement in mid-December. The deal is expected to provide China with tariff relief and the U.S. with agricultural purchases, assurances that China will address forced technology transfer practices, and greater access to the Chinese financial services industry.**
- **Figuring out how investors might react to shifting conditions is almost always a challenging exercise. With that in mind, as always, we retain our emphasis on long-term, strategic investing over tactical reactions to short-term events.**

The final quarter of 2019 could be taken as a microcosm of the full year and, for that matter, the entire decade. Each period began in the wake of volatile, confidence-testing equity-market selloffs, yet proceeded to soar dramatically—overshooting far beyond the point of recovery.

Equity and fixed-income markets around the globe wrapped up the decade with above-average annual performance, giving investors the gift of optimism as they rang in the New Year. Developed-market equities generally performed quite well for the 12-month period relative to historical averages; U.S. shares shined the brightest, maintaining their dominance of the past decade. Although emerging-market equities lagged for the year and the decade, they outpaced their developed-market counterparts for the final quarter of 2019.

The riskiest segments of the fixed-income universe (high-yield bonds and emerging-market debt) along with U.S. investment-grade corporates outperformed all other fixed-income segments around the globe in 2019. Local-currency emerging-market debt was the star of the fourth quarter; however, over the last decade it lagged its hard-currency counterpart, as well as high yield and U.S. investment-grade corporates.

Government bond rates declined over the full year across all maturities in the U.S., U.K. and eurozone. However, government bond rates climbed across the yield curve in the U.K. and eurozone during the fourth quarter. In the U.S., long-term Treasury rates rose but short-term rates fell during the three-month period, resulting in a steeper yield curve that all but vanquished an inversion that began in late 2018.

The U.S. and China settled on a limited "phase-one" trade agreement in mid-December, which the countries' leaders agreed to formally sign by mid-January. The deal includes the following provisions:

- A commitment from China to purchase about $50 billion in U.S. agricultural goods over a two-year period; assurances that China will address its long-standing practice of forcing the transfer of intellectual property and technology to Chinese counterparts in exchange for access to the Chinese market; and a promise to continue opening its financial-services industry to foreign investors.

Key Measures: Q4 2019

Equity	
Dow Jones Industrial Average	6.67% ↑
S&P 500 Index	9.07% ↑
NASDAQ Composite Index	12.47% ↑
MSCI ACWI Index (Net)	8.95% ↑
Bond	
Bloomberg Barclays Global Aggregate Index	0.49% ↑
Volatility	
Chicago Board Options Exchange Volatility Index PRIOR QUARTER: **16.24**	13.78 ↓
Oil	
WTI Cushing crude oil prices PRIOR QUARTER: **$54.07**	$61.06 ↑
Currencies	
Sterling vs. U.S. dollar	$1.32 ↑
Euro vs. U.S. dollar	$1.12 ↑
U.S. dollar vs. yen	¥108.68 ↑

Sources: Bloomberg, FactSet, Lipper

› A reduction of existing U.S. tariffs on Chinese goods (from 15% to 7.5% on $110 billion of goods, with another $240 billion of goods still subject to 25% tariffs); and a delay in the imposition of additional tariffs that were previously scheduled for December 15.

Also in December, President Donald Trump's administration finally secured bipartisan support in the House of Representatives (the House) for the U.S.-Mexico-Canada Agreement (USMCA) to replace the North American Free Trade Agreement—one year after the three countries' respective leaders signed the deal. This win for the administration came just one day after the House approved articles of impeachment against Trump—making him the third U.S. president in history to be impeached (the political equivalent of a criminal indictment). As the culmination of a three-month investigation, President Trump was formally charged with abuse of power (using the power of the presidency for his own benefit) and obstruction of Congress (blocking Congress's investigation into his alleged wrongdoing). An impeachment of a U.S. president does not equal removal from office; this is determined in the Senate (the upper chamber of Congress), where a trial must be held once the House passes on the articles. The process was suspended at year-end as House leaders said they plan to hold the documents until the Senate agrees to certain trial rules.

The U.K.'s Conservative Party consolidated its power in a mid-December election—winning a majority of seats in the House of Commons and gaining approval for Prime Minister Boris Johnson's EU departure deal. The country is set to officially leave the EU at the end of January 2020, giving way to an 11-month transition period during which the U.K. and EU will negotiate the terms of their future relationship. Ursula von der Leyen, president of the European Commission, expressed concern in late December that the transition period may not be long enough and that an extension could be necessary; Johnson previously said he will not tolerate a longer transition period.

Central Banks

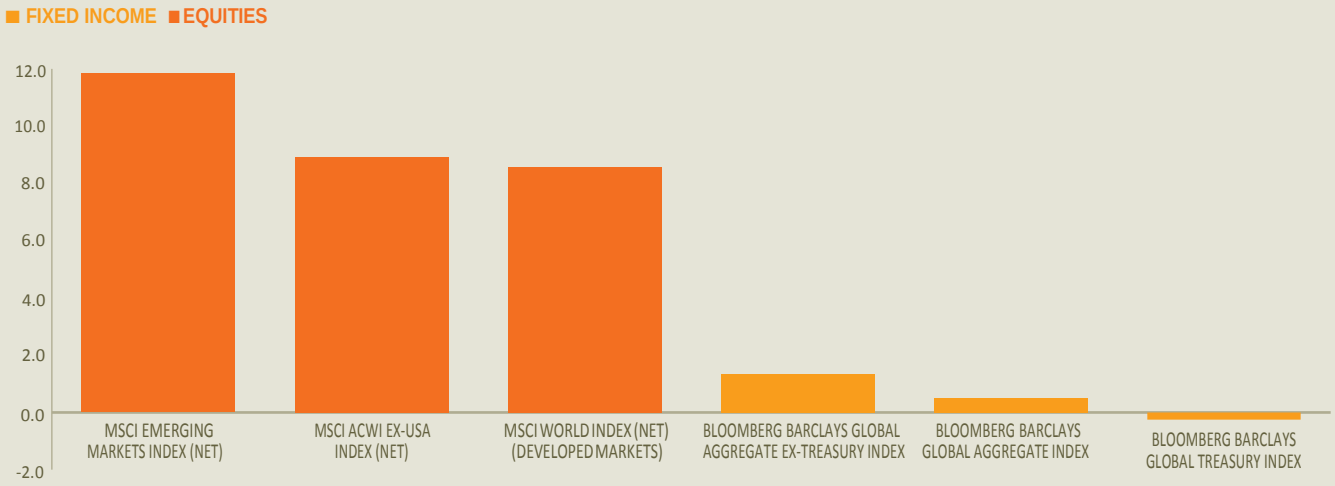
› The Federal Open Market Committee (FOMC) cut the federal-funds rate by 0.25% in October, its third cut in as many meetings. In mid-October, the U.S. central bank also made its first monthly purchase of $60 billion in Treasury bills as part of a program to increase liquidity in the financial system. The FOMC left the federal-funds rate unchanged at its December meeting and noted that "the vast majority of the Committee expects to leave rates unchanged next year before very gradually raising rates toward neutral over the next three years." This quote encapsulates the expectations contained in the Federal Reserve's (Fed) final Summary of Economic Projections for 2019, which depicted slowing growth and firming inflation over the next two years.

› The Bank of England (BOE) announced its next Governor in late December following the Conservative election victory. Andrew Bailey, current head of the Financial Conduct Authority, whose working history with the BOE began in 1985, will lead the central bank starting in March 2020. The Monetary Policy Committee held firm through its November and December meetings—keeping its key interest rate unchanged at 0.75%. However, two out of nine committee members voted for a 0.25% rate reduction at both meetings, representing the first glimmers of a preference for a rate cut since the immediate aftermath of the Brexit vote in 2016.

› The European Central Bank (ECB) took no new actions in its final two monetary policy meetings of the decade, held in October (the last with Mario Draghi as president) and December (the first with Christine Lagarde at the helm). However, there was a shift in focus from one leader to another: As Draghi's tenure came to a close, he offered a defense of the ECB's policy move toward further accommodation; Lagarde began her watch by announcing a broad policy review that raises fundamental questions about the central bank's mandate as well as whether it can influence other areas (including disruptive technologies, cryptocurrencies and climate change).

› The Bank of Japan made no changes to its accommodative monetary policy stance at its October and December meetings despite expectations that it would introduce additional easing measures to offset the economic pressure created by an October increase in the country's consumption tax.

Major Index Performance in Q4 2019 (Percent Return)



Sources: FactSet, Lipper

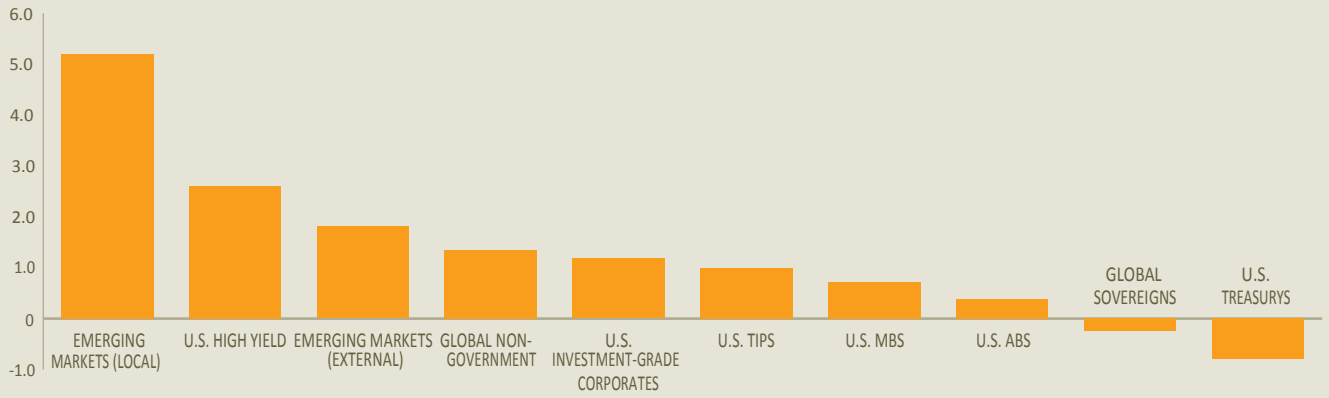
› The People's Bank of China (PBOC) announced in late December that the Loan Prime Rate (LPR) will serve as the benchmark for existing floating-rate loans beginning in 2020 and that banks will no longer be allowed to sign loan contracts based on previous benchmark rates. This change was taken as an easing measure, as the PBOC trimmed the one-year LPR to 4.15% in mid-November for the third cut in recent months. As the ball dropped in Times Square to signify the end of the decade, the PBOC announced its latest cut (of 0.5%) to bank reserve-requirement ratios, freeing about $115 billion (U.S. dollars) for bank lending.

Economic Data

› U.S. manufacturing continued to slide further into contraction territory throughout the fourth quarter ending 2019 at the lowest level of activity in a decade, according to one purchasing manager survey. The services sector increased its growth pace to finish the year at moderately healthy levels. The U.S. unemployment rate fell to 3.5% in November, the lowest rate in 50 years. Overall U.S. economic growth was measured at an annualized 2.1% rate in the third quarter, an uptick from preliminary readings of 2%.

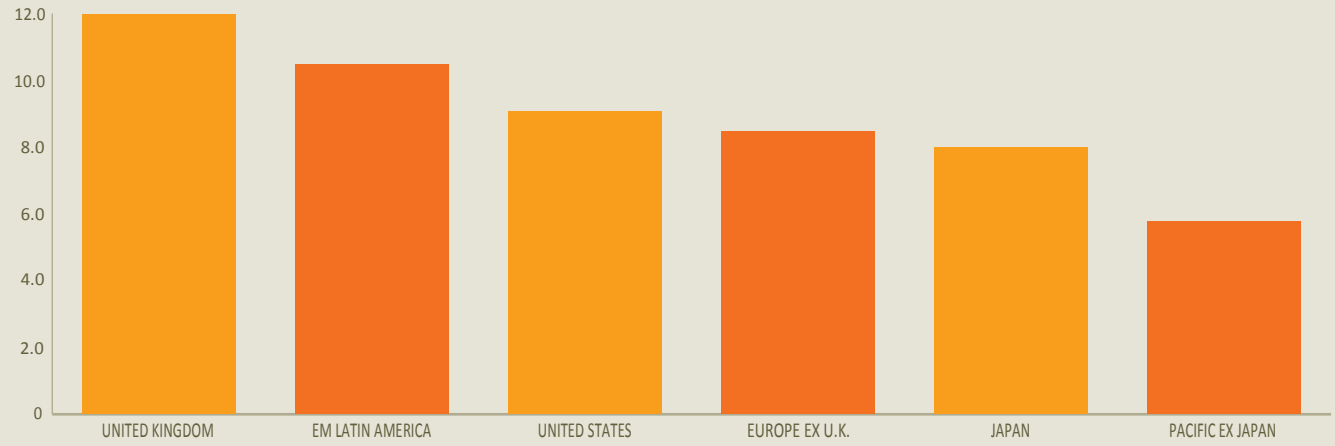
› The slowdown in U.K. manufacturing worsened in December, contracting for the eighth consecutive month. U.K. services sector activity also slowed further into contraction territory, although to the same degree as manufacturing. The U.K. claimant-count unemployment rate continued an upward trend that persisted through most of the year, reaching 3.5% in November; meanwhile, the three-month average U.K. unemployment rate remained relatively steady throughout most of 2019, holding firm at 3.8% in the August-to-October period. Average year-over-year U.K. earnings growth for the August-to-October period continued to decline to 3.5% after peaking at 3.9% over the summer.

Fixed-Income Performance in Q4 2019 (Percent Return)



Sources: FactSet, Lipper. See "Corresponding Indexes for Fixed-Income Performance Exhibit" in the Index Descriptions section for more information.

Regional Equity Performance in Q4 2019 (Percent Return)



Sources: FactSet, Lipper. See "Corresponding Indexes for Regional Equity Performance Exhibit" in the Index Descriptions section for more information.

Overall third-quarter U.K. economic growth measured 0.4% (and 1.1% year over year), up from earlier estimates of 0.3% for the quarter (and 1.0% year over year), and rebounding from the 0.2% contraction in the second quarter.

› The eurozone manufacturing landscape eroded further into contraction territory during December, having spent every month of 2019 besides January in contraction. On the positive side, services sector activity accelerated in the final month of the year to healthier growth levels. The eurozone unemployment rate finished October at 7.5%, in line with its pace for much of 2019 after edging lower early in the year. Overall eurozone economic growth held firm at 0.2% during the third quarter and 1.2% year over year.

Portfolio Review

U.S. equities jumped sharply during the last three months of 2019. Small-cap stocks outpaced large caps; however, our large-cap strategies[1] performed well relative to their benchmarks, while our small-cap strategies underperformed. Within large caps, we benefitted from generally favorable security selection across sectors, as well as an underweight to utilities and an overweight to healthcare positioning within information technology and an overweight to consumer staples detracted. We lagged within small caps due to our orientation toward higher-quality, lower-beta holdings with cheaper valuations. Additionally, an underweight to biotechnology companies was a significant detractor. Our international developed-market equity strategy performed well in an environment that mirrored the steep climb of U.S. equities. Selection within Europe ex-U.K. was beneficial, especially within consumer staples, financials and information technology. An underweight to and selection within financials in the Pacific ex-Japan

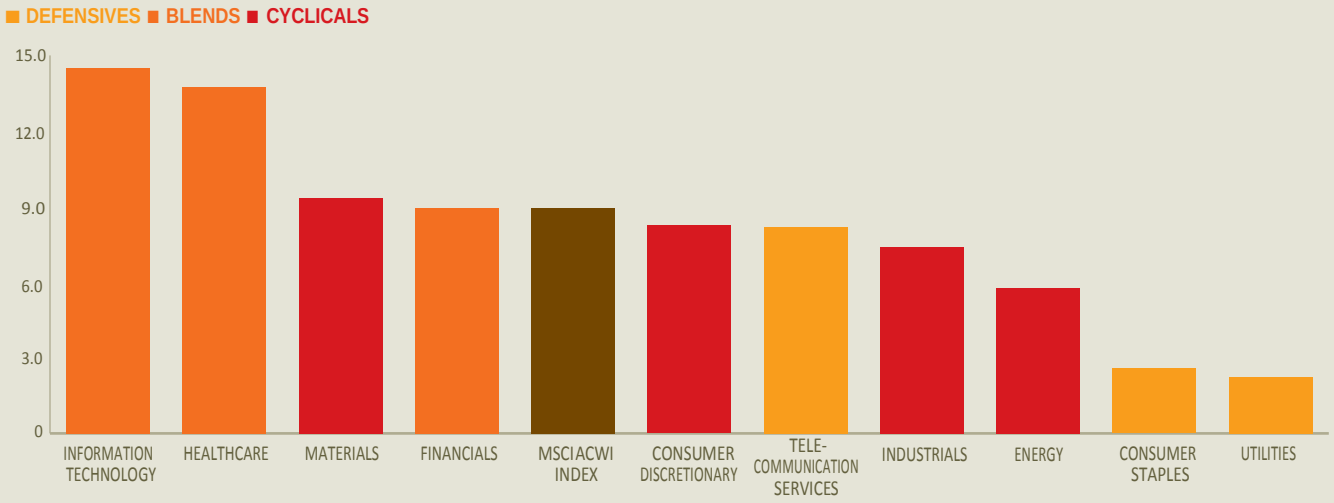
[1]Individual holdings will differ between strategies. Not representative of our passive strategies.

Overweighting local-currency debt within our emerging-market debt strategy and underweighting foreign-currency debt contributed, given that local-currency debt was the best-performing fixed-income segment in the fourth quarter.

region contributed, as did selection in the region's real estate sector. In the U.K., financials led performance, particularly banks. Selection within Japan hurt, especially within information technology and healthcare. Our emerging-market equity strategy slightly lagged the strongest-performing area of global equities during the fourth quarter. Poor selection within consumer discretionary (retailers) and an underweight to large internet retailers detracted. Selection within information technology (specifically semiconductors) and financials (especially in banks) contributed, as did selection in materials within emerging Asia.

Our core fixed-income strategy modestly outpaced its benchmark during the fourth quarter as U.S. investment-grade non-government fixed-income sectors led comparable U.S. Treasurys. An overweight to the long end of the yield curve contributed for the full year, but detracted for the quarter as the 30-year U.S. Treasury yield moved higher during the three-month period. A slight overweight to corporate bonds was additive for the quarter as spreads narrowed. An allocation to non-agency mortgage-backed securities (MBS) contributed as well, but less so than in recent quarters. Overweighting agency MBS was also beneficial for the three-month period. Selection in asset-backed securities (ABS) detracted, primarily an allocation to government-guaranteed student loans. A beneficial overweight to commercial MBS (CMBS) was partially offset by an unfavorable higher-quality bias during the quarter. An underweight to taxable municipal bonds detracted as demand for higher-quality investments remained strong despite an uptick in supply. Our high-yield strategy performed in line with the benchmark during the fourth quarter, benefiting from overweights to retail and media, and an underweight to basic industry. An allocation to collateralized loan obligations (CLOs), a large underweight to energy, and an underweight to healthcare detracted. Within emerging-market debt, our strategy performed well versus the benchmark during the fourth quarter. Overweighting local-currency debt within our emerging-market debt strategy and underweighting foreign-currency debt contributed, given

Global Equity Sector Performance in Q4 2019 (Percent Return)



Sources: FactSet, Lipper. MSCI ACWI Index Components (as defined by SEI).

that local-currency debt was the best-performing fixed-income segment in the fourth quarter. At the country level, overweights to Ukraine, Egypt and Russia helped; an underweight to Thailand detracted, as did overweights to Argentina and Venezuela. In currency terms, an overweight to the Mexican peso was the greatest contributor, while an underweight to the South African rand was the most significant detractor.

Manager Positioning and Opportunities

At the start of 2020, our large-cap strategies' biggest overweight was to financials and the largest underweight was to information technology; an underweight to utilities was decreased significantly. We continued to underweight mega-cap stocks, seeking opportunities further down the capitalization spectrum. Within small caps, our largest position was an underweight to real estate, followed by an overweight to information technology; the most significant change was a reduced underweight to energy. We retained a sizeable overweight to value-oriented stocks. Overseas, our international developed-market strategy increased an overweight to industrials and deepened an underweight to Japan due to reduced holdings in financials, healthcare and consumer staples. We remained overweight information technology due to attractive structural-growth opportunities; we were underweight utilities due to interest-rate sensitivity and a lack of growth opportunity in the sector, and maintained an underweight to materials (metals and mining). Within our emerging-market equity strategy, we reduced an underweight to consumer discretionary on increased exposure to the sector's internet retailing industry. We also added to Taiwanese stocks on the recovery in semiconductors and the localization of technology supply chains in Asia. We remained overweight information technology and underweight financials (Chinese banks). We were overweight Latin America, primarily Brazil.

As the growth and inflationary outlook turned more cautious with the Fed's dovish pivot at the beginning of 2019, our core fixed-income strategy has been adding exposure to the front end of the yield curve while maintaining an overweight to the long end of the curve. We remained modestly overweight the corporate sector with an emphasis on banking, and added holdings from the new-issue market as recent issuance remained robust. Within the securitized sectors, we retained overweights to ABS and CMBS (both concentrated in higher-quality holdings given their competitive risk-adjusted yields); we also maintained an off-benchmark allocation to non-agency MBS and an overweight to agency MBS. Our high-yield strategy's largest position remained an allocation to CLOs, followed by a large underweight to energy and an underweight to capital goods. The most significant changes to high-yield positioning over the fourth quarter was a decreased overweight to healthcare, followed by decreased underweights to banking and telecommunications. Within our emerging-market debt strategy, we increased the overweight to local-currency debt and expanded the underweight to foreign-currency debt. At the country level, we boosted the Mexico overweight to the largest country-level position in the strategy during the fourth quarter. We also held significant overweights to Egypt and Ukraine.

For Europe, we accurately anticipated a further slowdown in economic growth over 2019. While we were right on the economy, we were perhaps too bearish on European risk assets.

Our View

A year ago, many investors were licking their wounds following a sharp global stock-market correction. Today, we are confronted with a notably different market backdrop, as share prices generally ended 2019 near their highs of the year. With regard to the U.S. economy, our expectations turned out to be mildly optimistic. But we think it's worth pointing out that quarter-to-quarter fluctuations in the country's seasonally-adjusted gross domestic product (GDP) growth have remained on a relatively narrow path compared to their far more volatile historical range. One reason for the lower volatility was steady growth in U.S. household spending. By contrast, the contribution to real U.S. GDP growth from investment, both residential and non-residential, has been in a slowing trend; the pace of business spending in the country has eased dramatically since early 2018. On the positive side, the absence of an investment boom means there should be little to no hangover; even if a recession were to develop in the next year or so, we believe it almost certainly will not be especially painful.

Across the pond, Prime Minister Johnson's decision to hold a snap election paid off. He now enjoys the largest Tory majority in Parliament since 1987, when Margaret Thatcher was re-elected prime minister for a third term. The victory eliminated the possibility of a dramatic remaking of the British economy as envisioned by the Labour Party—and decreased the likelihood of a hung Parliament, which could have prolonged the uncertainty surrounding Brexit.

Of course, uncertainty still remains. The U.K. now must negotiate its future trading relationship with the EU by the end of 2020. A no-deal Brexit would provide a substantial negative shock to merchandise trade because dealings with the EU would revert to the most-favored-nation rules of the World Trade Organization. Trade in financial services, a category critical to the U.K.'s economic well-being, would be saddled with increased regulations, paperwork and costs.

It continues to be our working assumption that a no-deal Brexit will be avoided, although it may take an extension of the transition period to effect a deal that minimizes the disruption. Although Boris Johnson has already announced his intention to exit the transition period at the December 31 deadline.

For Europe, we accurately anticipated a further slowdown in economic growth over 2019. While we were right on the economy, we were perhaps too bearish on European risk assets. The MSCI Europe ex UK Index enjoyed an exceptional return in 2019 despite a still-significant disparity in economic growth between the U.S. and the Continent.

We think it may make sense to look past the current gloom when it comes to Europe. The lessening of trade tensions and improvement in China's economic growth should provide export-dependent Europe with a moderate boost in 2020.

Government policy also is geared toward encouraging growth. There are signs that ECB policy is having some positive impact. The banking system is slowly recuperating. Lending to households and businesses has been in a modestly accelerating trend over the past few years. There also is more serious discussion nowadays about easing fiscal policy. Even Jens Weidman, president of the Deutsche Bundesbank, member of the Governing Council of the ECB, and a long-time hawk, has recently felt comfortable backing calls for government spending. Perhaps there's hope that fiscal policy will turn into a tailwind for eurozone growth instead of a steady headwind.

Our expectation that emerging-market economies would enjoy a decent 2019 didn't pan out. First, we thought an economic turnaround in China was just around the corner. The country had been pushing through various monetary, fiscal and structural reform measures aimed at jumpstarting economic growth, and we assumed that the Chinese government would go back to the debt well if needed. This happened only to a limited extent.

Of course, one big problem impeding the recovery in Chinese economic growth is the running trade battle with the U.S. We have frequently made the argument that an all-encompassing trade war between China and the U.S. would be in neither countries' interest. The economic and political reverberations would simply be too painful. And so, the agreement on a "phase-one" deal at least helps lower the temperature and halts the tit-for-tat tariff escalations. We expect the truce will hold through the 2020 U.S. presidential election. If we're right, China's economy should be able to build upon the tentative pick-up in growth that has begun to show up in the economic data.

Looking at the big picture for the year ahead, we expect the U.S. and global economies to continue growing, but at a sluggish pace. This should keep inflation under control and encourage central banks to remain accommodative. Quantitative easing also should help keep fixed-income yields relatively steady, even as government deficit spending picks up. Altogether, this scenario should be positive for risk assets.

We've summarized the major themes for 2020, as well as outstanding questions that could cause markets to behave in ways that run counter to our positioning:

› The U.S. is converging with the rest of the world as U.S. economic and profits growth decline. Given the disparity in stock-market valuations, international markets are expected to outperform U.S. equities.

› China's economy should stabilize and improve. The partial U.S./China trade-war truce and a steady progression of fiscal and monetary stimulus measures over the past two years should pay off in 2020. Early signs of improvement are already apparent, which should boost the economic prospects of trade-dependent economies.

In our view, another stellar year for U.S. equities in 2020 would be a source of concern rather than celebration.

- The U.S. dollar should reverse convincingly by losing value relative to other currencies. The Fed's pivot toward an aggressive approach to supporting the overnight lending market has the potential to significantly increase the global supply of dollars. Since we believe the dollar is overvalued on a fundamental basis, its depreciation is a high-conviction call. This would be a tailwind for non-U.S. economies and financial markets.

- The value style should prevail. Modest improvement in global economic growth, a tendency for inflation and interest rates to move higher and the record disparity in valuation between the most- and least-expensive stocks should lead to a better result for value-oriented active managers.

- We foresee less Brexit uncertainty, assuming a trade deal can be reached between the EU and U.K. We expect rationality to prevail, but a no-deal Brexit remains a residual risk. As the year-end 2020 transition deadline nears, U.K. and European markets could experience renewed volatility if the negotiations appear to be foundering on irreconcilable differences.

- Presidential politics could roil equity markets in the U.S. and elsewhere. A sense of which Democratic nominee will face Donald Trump in the coming U.S. presidential election should get clearer in March, when 25 states and Puerto Rico go to the polls; California and Texas, plus 12 other states, will hold their primary elections on Super Tuesday, March 3.

- The impact of Fed policy is a potential wildcard. While we don't see it as a likely outcome, the central bank's dovish stance at a time of full employment could cause a "melt-up" in stock prices. In our view, another stellar year for U.S. equities in 2020 would be a source of concern rather than celebration.

Equities and other risky assets are generally not well-correlated with the fundamentals in the short run; investor expectations can change much more quickly and far more dramatically than the fundamentals. Indeed, as seen in the past two years, changes in investor expectations can sometimes completely negate the change in the fundamentals.

As we enter 2020 with that in mind, we've resolved to retain an emphasis on strategic investing over tactical moves; continue to take stock of the economic and financial developments around the globe; and provide our thoughts on where global growth and interest rates are headed. As far as New Year's resolutions go, those are admittedly pretty easy (as the experience of the last few years illustrates). Figuring out how investors might react to the shifts in macroeconomic conditions is almost always the much harder exercise.

Glossary of Financial Terms

Beta: Beta is a measure of sensitivity to movements in the market. High-beta stocks are more sensitive to movements in the broad market. Low-beta stocks are less sensitive.

Dovish: Dovish refers to the views of a policy advisor (for example, at the Bank of England) who has a positive view of inflation and its economic impact and thus tends to favor lower interest rates.

Value: Value stocks are those that are considered to be cheap and are trading for less than they are worth.

Yield curve: The yield curve represents differences in yields across a range of maturities of bonds of the same issuer or credit rating (likelihood of default). A steeper yield curve represents a greater difference between the yields. A flatter yield curve indicates the yields are closer together.

Index and Benchmark Descriptions

All indexes are quoted in gross performance unless otherwise indicated.

The Bloomberg Barclays 1-10 Year US TIPS Index measures the performance of inflation-protected public obligations of the U.S. Treasury that have a remaining maturity of 1 to 10 years.

The Bloomberg Barclays US Asset Backed Securities (ABS) Index measures the performance of ABS with the following collateral types: credit and charge card, auto and utility loans. All securities have an average life of at least one year.

The Bloomberg Barclays Global Aggregate Index (formerly Lehman Brothers Global Aggregate Index), an unmanaged market-capitalization-weighted benchmark, tracks the performance of investment-grade fixed-income securities denominated in 13 currencies. The Index reflects reinvestment of all distributions and changes in market prices.

The Bloomberg Barclays Global Aggregate ex-Treasury Index is an unmanaged market index representative of the total-return performance of ex-Treasury major world bond markets.

The Bloomberg Barclays Global Treasury Index is composed of those securities included in the Bloomberg Barclays Global Aggregate Bond Index that are Treasury securities.

The Bloomberg Barclays US Corporate Bond Index is a broad-based benchmark that measures the investment-grade, fixed-rate, taxable corporate bond market.

The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index measures the performance of investment-grade, fixed-rate, mortgage-backed, pass-through securities of Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Freddie Mac (FHLMC).

The Bloomberg Barclays US Treasury Index is an unmanaged index composed of U.S. Treasurys.

The ICE BofA U.S. High Yield Constrained Index contains all securities in The BofA Merrill Lynch U.S. High Yield Index but caps exposure to individual issuers at 2%.

The ICE BofA U.S. High Yield Index tracks the performance of below-investment-grade, U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

The Chicago Board Options Exchange Volatility Index (VIX) tracks the expected volatility in the S&P 500 Index over the next 30 days. A higher number indicates greater volatility.

The Dow Jones Industrial Average is a widely followed market indicator based on a price-weighted average of 30 blue-chip New York Stock Exchange stocks that are selected by editors of *The Wall Street Journal.*

The FTSE All-Share Index represents 98% to 99% of U.K. equity market capitalization. The Index aggregates the FTSE 100, FTSE 250 and FTSE Small Cap Indexes.

The JPMorgan EMBI Global Diversified Index tracks the performance of external debt instruments (including U.S. dollar-denominated and other external-currency-denominated Brady bonds, loans, eurobonds and local-market instruments) in the emerging markets.

JPMorgan GBI-EM Global Diversified Index tracks the performance of debt instruments issued in domestic currencies by emerging-market governments.

The MSCI ACWI Index is a market-capitalization-weighted index composed of over 2,000 companies, representing the market structure of 48 developed- and emerging-market countries in North and South America, Europe, Africa and the Pacific Rim. The Index is calculated with net dividends reinvested in U.S. dollars.

The MSCI ACWI ex-USA Index includes both developed- and emerging-market countries, excluding the U.S.

The MSCI Emerging Markets Index is a free float-adjusted market-capitalization-weighted index designed to measure the performance of global emerging-market equities.

The MSCI Emerging Markets Latin America Index captures large- and mid-cap representation across five emerging-market countries in Latin America.

The MSCI EMU (European Economic and Monetary Union) Index is a free float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of countries within EMU. The Index consists of the following 10 developed-market country indexes: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Netherlands, Portugal and Spain.

The MSCI Europe ex-UK Index is a free float-adjusted market-capitalization-weighted index that captures large- and mid-cap representation across 14 developed-market countries in Europe (Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden and Switzerland). The Index covers approximately 85% of the free float-adjusted market capitalization across European developed markets excluding the U.K.

The MSCI Pacific ex Japan Index captures large- and mid-cap representation across four of five developed-market countries in the Pacific region (excluding Japan).

The MSCI Japan Index is designed to measure the performance of the large- and mid-capitalization stocks in Japan.

MSCI United Kingdom Index is designed to measure the performance of the large- and mid-cap segments of the U.K. market.

MSCI USA Index is designed to measure the performance of the large- and mid-cap segments of the U.S. market.

The MSCI World Index is a free float-adjusted market-capitalization-weighted index designed to measure the equity market performance of developed markets. The Index consists of the following 23 developed-market country indexes: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the U.K. and the U.S.

The MSCI World ex-USA Index is a free float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of developed markets, excluding the U.S.

The NASDAQ Composite Index is a market-value-weighted index of all common stocks listed on the National Association of Securities Dealers Automated Quotations (NASDAQ) system.

The Shenzhen Stock Exchange Composite Index tracks performance of A share stocks (which are denominated in renminbi, the local currency) and B share stocks (which are denominated in Hong Kong dollars, an offshore currency) on China's Shenzhen Stock Exchange.

The S&P 500 Index is a market-capitalization-weighted index that consists of 500 publicly-traded large U.S. companies that are considered representative of the broad U.S. stock market.

The TOPIX, also known as the Tokyo Stock Price Index, is a capitalization-weighted index of all companies listed on the First Section of the Tokyo Stock Exchange. The Index is supplemented by the subindexes of the 33 industry sectors. The Index calculation excludes temporary issues and preferred stocks, and has a base value of 100 as of January 4, 1968.

Corresponding Indexes for Fixed-Income Performance Exhibit

U.S. High Yield	ICE BofA U.S. High Yield Master II Constrained Index
Global Sovereigns	Bloomberg Barclays Global Treasury Index
Global Non-Government	Bloomberg Barclays Global Aggregate ex-Treasury Index
Emerging Markets (Local)	JPMorgan GBI-EM Global Diversified Index
Emerging Markets (External)	JPMorgan EMBI Global Diversified Index
U.S. Mortgage-Backed Securities (MBS)	Bloomberg Barclays US Mortgage Backed Securities Index
U.S. Asset-Backed Securities (ABS)	Bloomberg Barclays US Asset Backed Securities Index
U.S. Treasurys	Bloomberg Barclays US Treasury Index
U.S. Treasury Inflation-Protected Securities (TIPS)	Bloomberg Barclays 1-10 Year US TIPS Index
U.S. Investment-Grade Corporates	Bloomberg Barclays US Corporate Bond Index

Corresponding Indexes for Regional Equity Performance Exhibit

United States	S&P 500 Index
United Kingdom	FTSE All-Share Index
Pacific ex Japan	MSCI Pacific ex Japan Index (Net)
Japan	TOPIX, also known as the Tokyo Stock Price Index
Europe ex U.K.	MSCI Europe ex UK Index (Net)
EM Latin America	MSCI Emerging Markets Latin America Index (Net)

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