

# ASSET CLASS PERFORMANCE UPDATE

As of September 30, 2016

## HOW TO USE MARKETS AT A GLANCE

*Markets at a Glance* shows annual and YTD performance for a broad array of financial market asset classes. As the overall market moves through different cycles and environments, individual asset class performance can also fluctuate. This report is helpful in illustrating the extent to which asset class performance can vary and the importance a well-diversified portfolio can have in potentially minimizing these variations.

Page 2 Asset class performance snapshot

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Page 3

EQUITY

- The S&P 500 Index posted a 3.9% total return during the third quarter, with the bulk of gains coming in July. Central banks provided support as Federal Reserve (Fed) rate hike expectations were pushed out to December 2016 and European and Japanese central banks were expected to do more. Markets largely shrugged off political uncertainty ahead of the presidential election.
- Market leadership shifted from high-dividend-paying sectors to cyclicals, as technology and financials topped the quarter's sector rankings; while consumer staples, telecom, and utilities lagged.
- International equities outpaced the U.S. during the quarter as markets shrugged off uncertainty surrounding the United Kingdom's planned exit from the European Union (Brexit). Overseas markets benefited from central bank support, which helped offset concerns about the health of European banks. In emerging markets, an improving earnings outlook, currency stability, and better Chinese economic data drove solid gains.

Page 4

FIXED INCOME

- Treasury yields, which started the quarter at depressed levels due to the surprise Brexit vote, rose steadily over the quarter to end higher across the yield curve. Despite the Fed opting not to hike interest rates in September, global central bank action during the quarter was hawkish on balance, helping to drive global yields higher.
- The Barclays Aggregate Bond Index returned 0.5%, and with corporate bonds returning 1.2%. Economically sensitive, lower-credit quality sectors continued to rally, with high-yield returning 5.6%, emerging markets debt returning 3.7%, and bank loans 3.3%.
- A meaningful pickup in inflation expectations was a tailwind for Treasury Inflation-Protected Securities (TIPS), which returned 1.0% during the quarter.

Page 5

ALTERNATIVES

- The 5.8% return from the HFRX Distressed Debt Index led third quarter alternative investment category gains, as a higher trading range for oil prices supported performance within the energy and basic material sectors.
- While long/short equity strategies (HFRX Equity Hedge +3.4%) marginally underperformed the 3.9% S&P 500 gain on an absolute basis, from a risk-adjusted view performance was very strong. As the index maintained a beta profile of roughly a third of that of the broader market, indicating managers were able to add alpha from both their long and short positioning.
- As measured by the 0.8% decline in the HFRX Systematic Diversified Index, performance from managed futures strategies was lackluster, as the increase in U.S. Treasury rates weighed on portfolios.

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

EQUITY		FIXED INCOME				ALTERNATIVES	
■ Large Growth (LG)	■ Emerging Markets (EM)	■ Broad Bond Market (Agg)	■ Corporate Bonds (CB)	■ Absolute Return (AR)	■ Global Macro (GM)		
■ Mid Growth (MG)	■ Small Foreign (SF)	■ Municipal Bonds (MB)	■ High-Yield Bonds (HYB)	■ Equity Long/Short (L/S)	■ Market Neutral (MN)		
■ Small Growth (SG)	■ REITs (R)	■ Municipal High-Yield Bonds (MHY)	■ Unhedged Foreign Bonds (UFB)	■ Event Driven (ED)	■ Physical Commodities (PC)		
■ Large Value (LV)	■ Domestic Equity (DE)	■ U.S. Treasury (UST)	■ Emerging Markets Debt (EMD)	■ Managed Futures (MF)			
■ Mid Value (MV)		■ TIPS (T)	■ Preferred Stocks (PS)				
■ Small Value (SV)		■ Mortgage-Backed Securities (MBS)	■ Bank Loans (BL)				
■ Large Foreign (LF)							

□ 60/40 Portfolio (P)

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	YTD 2016
35.06 (R)	39.82 (EM)	18.33 (MF)	79.02 (EM)	29.09 (SG)	13.56 (T)	20.42 (SF)	43.30 (SG)	28.03 (R)	9.94 (SF)	16.36 (EM)
32.55 (EM)	32.67 (PC)	13.74 (UST)	58.21 (HYB)	27.95 (R)	10.70 (MB)	19.70 (R)	35.74 (MG)	18.37 (MF)	7.72 (PS)	15.49 (SV)
26.86 (LF)	11.81 (LG)	10.89 (UFB)	53.84 (BL)	26.38 (MG)	9.81 (UST)	18.63 (EM)	34.52 (SV)	14.75 (MV)	5.67 (LG)	15.11 (HYB)
23.48 (SV)	11.64 (T)	8.30 (MBS)	47.32 (SF)	24.75 (MV)	9.25 (MHY)	18.54 (EMD)	33.55 (DE)	13.84 (MHY)	5.46 (MN)	15.04 (EMD)
22.25 (LV)	11.63 (LF)	5.61 (GM)	46.29 (MG)	24.50 (SV)	8.46 (EMD)	18.51 (MV)	33.48 (LG)	13.68 (PS)	3.30 (MB)	13.72 (MV)
20.22 (MV)	11.43 (MG)	5.24 (Agg)	37.21 (LG)	22.40 (SF)	8.28 (R)	18.14 (MHY)	33.46 (MV)	13.45 (LV)	2.86 (AR)	12.31 (R)
19.67 (SF)	10.95 (UFB)	-1.16 (MN)	34.47 (SG)	19.20 (EM)	8.15 (CB)	18.05 (SV)	32.53 (LV)	13.05 (LG)	2.83 (R)	11.07 (UFB)
15.72 (DE)	9.01 (UST)	-2.35 (T)	34.21 (MV)	16.93 (DE)	7.84 (Agg)	17.90 (LF)	29.69 (SF)	12.56 (DE)	1.81 (MHY)	10.00 (LV)
13.35 (SG)	7.05 (SG)	-2.47 (MB)	32.73 (MHY)	16.71 (LG)	6.35 (UFB)	17.51 (LV)	23.29 (LF)	11.90 (MG)	1.46 (MBS)	9.37 (MHY)
11.85 (HYB)	6.97 (Agg)	-4.94 (CB)	32.46 (LF)	15.51 (LV)	6.14 (MBS)	16.42 (DE)	18.19 (P)	9.96 (P)	1.23 (EMD)	9.20 (CB)
11.08 (P)	6.96 (MBS)	-8.99 (PS)	28.34 (DE)	15.12 (HYB)	4.98 (HYB)	15.81 (HYB)	13.87 (ED)	9.05 (MB)	0.84 (UST)	8.38 (BL)
10.75 (MHY)	6.68 (AR)	-10.91 (EMD)	28.18 (EMD)	13.97 (PS)	4.07 (P)	15.81 (MG)	11.14 (L/S)	7.46 (CB)	0.73 (P)	8.18 (DE)
10.66 (MG)	6.28 (EMD)	-13.09 (AR)	27.99 (R)	13.25 (P)	2.64 (LG)	15.26 (LG)	7.44 (HYB)	6.07 (MBS)	0.55 (Agg)	7.48 (SG)
10.32 (ED)	6.02 (P)	-22.11 (ED)	20.58 (SV)	12.22 (MF)	1.86 (PS)	14.59 (SG)	5.39 (BL)	5.97 (Agg)	0.48 (DE)	7.35 (P)
9.88 (EMD)	6.01 (MF)	-22.24 (P)	19.69 (LV)	12.04 (EMD)	1.06 (BL)	11.64 (PS)	3.57 (AR)	5.60 (SG)	-0.20 (MG)	7.27 (T)
9.23 (L/S)	5.14 (DE)	-25.45 (L/S)	19.48 (P)	9.71 (BL)	1.03 (DE)	11.55 (P)	2.86 (R)	5.53 (EMD)	-0.39 (LF)	7.17 (ED)
9.07 (LG)	4.88 (ED)	-26.16 (HYB)	18.68 (CB)	9.03 (PC)	0.39 (LV)	10.23 (BL)	1.72 (MN)	5.24 (GM)	-0.68 (CB)	6.84 (MG)
8.05 (MF)	4.56 (CB)	-27.01 (MHY)	16.59 (ED)	9.00 (CB)	-1.18 (PC)	9.82 (CB)	-0.94 (PS)	5.05 (UST)	-0.82 (BL)	6.59 (PS)
7.67 (PS)	3.36 (MB)	-28.92 (SV)	14.14 (PS)	8.92 (L/S)	-1.38 (MV)	6.98 (T)	-1.22 (PC)	4.22 (SV)	-0.93 (MF)	6.00 (LG)
7.43 (AR)	3.21 (L/S)	-29.48 (BL)	13.48 (PC)	8.21 (LF)	-1.65 (MG)	6.78 (MB)	-1.39 (MBS)	3.64 (T)	-1.38 (SG)	5.80 (Agg)
7.05 (BL)	3.19 (GM)	-36.85 (LV)	13.14 (L/S)	7.80 (MHY)	-2.91 (SG)	5.96 (ED)	-1.53 (CB)	3.63 (MN)	-1.44 (T)	5.53 (SF)
6.12 (UFB)	3.11 (MN)	-37.31 (DE)	12.91 (MB)	6.54 (Agg)	-2.92 (MN)	4.81 (L/S)	-1.79 (GM)	2.45 (HYB)	-1.96 (GM)	5.30 (PC)
5.61 (GM)	2.12 (BL)	-37.73 (R)	11.41 (T)	6.31 (T)	-3.71 (AR)	4.21 (Agg)	-2.02 (Agg)	1.54 (BL)	-2.33 (L/S)	5.07 (UST)
5.32 (MBS)	1.87 (HYB)	-38.44 (LG)	5.93 (Agg)	5.87 (UST)	-4.19 (MF)	2.59 (MBS)	-2.27 (EM)	1.42 (L/S)	-3.57 (UFB)	4.01 (MB)
4.84 (MB)	1.79 (SF)	-38.44 (MV)	5.76 (MBS)	5.67 (MBS)	-4.88 (GM)	1.99 (UST)	-2.55 (MB)	0.79 (AR)	-3.83 (LV)	3.72 (MBS)
4.76 (MN)	-0.17 (LV)	-38.54 (SG)	2.55 (UFB)	5.17 (UFB)	-4.90 (ED)	1.65 (UFB)	-2.56 (MF)	-0.48 (UFB)	-4.47 (HYB)	2.20 (LF)
4.33 (Agg)	-1.42 (MV)	-43.06 (LF)	-3.57 (UST)	2.64 (MN)	-5.50 (SV)	0.88 (AR)	-2.75 (UST)	-1.82 (EM)	-4.78 (MV)	0.66 (AR)
4.30 (CB)	-2.28 (MHY)	-44.32 (MG)	-3.58 (AR)	2.38 (MB)	-11.73 (LF)	0.08 (PC)	-4.00 (UFB)	-4.06 (ED)	-6.94 (ED)	-0.69 (L/S)
3.08 (UST)	-9.78 (SV)	-46.49 (PC)	-5.56 (MN)	1.98 (ED)	-15.66 (SF)	-1.00 (GM)	-5.51 (MHY)	-4.48 (LF)	-7.47 (SV)	-1.15 (GM)
0.41 (T)	-12.74 (PS)	-46.78 (SF)	-6.57 (MF)	-0.12 (AR)	-18.17 (EM)	-2.93 (MF)	-6.58 (EMD)	-4.63 (SF)	-14.60 (EM)	-1.26 (MF)
-15.09 (PC)	-15.69 (R)	-53.18 (EM)	-8.78 (GM)	-1.73 (GM)	-19.08 (L/S)	-4.66 (MN)	-8.61 (T)	-33.06 (PC)	-32.86 (PC)	-3.90 (MN)

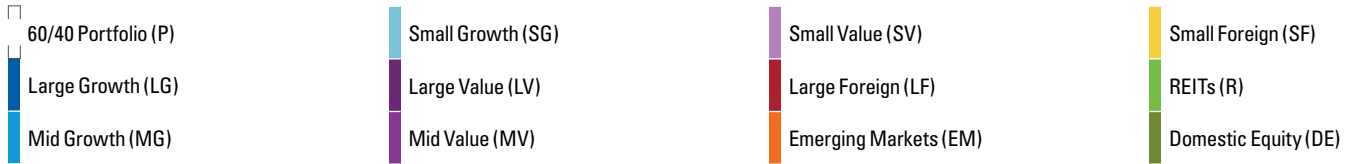
Source: LPL Research, FactSet 09/30/16

Investing involves risk including the risk of loss. Asset class returns are represented by the returns of indexes and are not ranked on an annual total return basis. Indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results. Because of their narrow focus, specialty sector investing will be subject to greater volatility than investing more broadly across many sectors and asset classes.

Indexes:

60/40 Portfolio – 60% Russell 3000/40% Barclays Aggregate; Large Growth – Russell 1000 Growth; Mid Growth – Russell Mid Growth; Small Growth – Russell 2000 Growth; Large Value – Russell 1000 Value; Mid Value – Russell Mid Value; Small Value – Russell 2000 Value; Large Foreign – MSCI EAFE; Emerging Markets – MSCI Emerging Markets Free; Small Foreign – MSCI EAFE Small Cap; REITs – NAREIT Equity REIT; Domestic Equity – Russell 3000; Broad Bond Market – Barclays U.S. Aggregate Bond Index; Municipal Bonds – Barclays Municipal Bonds; Municipal High-Yield Bonds – Barclays Municipal High Yield Bonds; U.S. Treasuries – Barclays U.S. Treasuries Index; TIPS – Barclays U.S. Aggregate Government - Treasury Inflation Protected (TIPS); Mortgage-Backed Securities – BofA Merrill Lynch Mortgage Master Index; Corporate Bonds – Barclays U.S. Aggregate Credit; High-Yield Bonds – Barclays U.S. Aggregate Credit - Corporate - High Yield; Foreign Bonds (Unhedged) – Citigroup WGBI ex U.S.; Emerging Markets Debt – JP Morgan EMBI Global Index; Preferred Stocks – Merrill Lynch Preferred Stock Hybrid; Bank Loans – Barclays U.S. High Yield Loan; Absolute Return – HFRX Absolute Return; Equity Long/Short – HFRX Equity Hedge; Event Driven – HFRX Event Driven; Managed Futures – Credit Suisse Managed Futures; Global Macro – HFRX Macro; Market Neutral – HFRX Equity Hedge: Equity Market Neutral; Physical Commodities – S&P GSCI

# EQUITY ASSET CLASSES



2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	YTD 2016
R 35.06	EM 39.82	P -22.24	EM 79.02	SG 29.09	R 8.28	SF 20.42	SG 43.30	R 28.03	SF 9.94	EM 16.36
EM 32.55	LG 11.81	SV -28.92	SF 47.32	R 27.95	P 4.07	R 19.70	MG 35.74	MV 14.75	LG 5.67	SV 15.49
LF 26.86	LF 11.63	LV -36.85	MG 46.29	MG 26.38	LG 2.64	EM 18.63	SV 34.52	LV 13.45	R 2.83	MV 13.72
SV 23.48	MG 11.43	DE -37.31	LG 37.21	MV 24.75	DE 1.03	MV 18.51	DE 33.55	LG 13.05	P 0.73	R 12.31
LV 22.25	SG 7.05	R -37.73	SG 34.47	SV 24.50	LV 0.39	SV 18.05	LG 33.48	DE 12.56	DE 0.48	LV 10.00
MV 20.22	P 6.02	LG -38.44	MV 34.21	SF 22.40	MV -1.38	LF 17.90	MV 33.46	MG 11.90	MG -0.20	DE 8.18
SF 19.67	DE 5.14	MV -38.44	LF 32.46	EM 19.20	MG -1.65	LV 17.51	LV 32.53	P 9.96	LF -0.39	SG 7.48
DE 15.72	SF 1.79	SG -38.54	DE 28.34	DE 16.93	SG -2.91	DE 16.42	SF 29.69	SG 5.60	SG -1.38	P 7.35
SG 13.35	LV -0.17	LF -43.06	R 27.99	LG 16.71	SV -5.50	MG 15.81	LF 23.29	SV 4.22	LV -3.83	MG 6.84
P 11.08	MV -1.42	MG -44.32	SV 20.58	LV 15.51	LF -11.73	LG 15.26	P 18.19	EM -1.82	MV -4.78	LG 6.00
MG 10.66	SV -9.78	SF -46.78	LV 19.69	P 13.25	SF -15.66	SG 14.59	R 2.86	LF -4.48	SV -7.47	SF 5.53
LG 9.07	R -15.69	EM -53.18	P 19.48	LF 8.21	EM -18.17	P 11.55	EM -2.27	SF -4.63	EM -14.60	LF 2.20














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**Indexes:**

60/40 Portfolio—60% Russell 3000/40% Barclays Aggregate; Large Growth—Russell 1000 Growth; Mid Growth—Russell Mid Growth; Small Growth—Russell 2000 Growth; Large Value—Russell 1000 Value; Mid Value—Russell Mid Value; Small Value—Russell 2000 Value; Large Foreign—MSCI EAFE; Emerging Markets—MSCI Emerging Markets Free; Small Foreign—MSCI EAFE Small Cap; REITs—NAREIT Equity REIT; Domestic Equity—Russell 3000

# FIXED INCOME ASSET CLASSES

 60/40 Portfolio (P)	 Municipal High-Yield Bonds (MHY)	 Mortgage-Backed Securities (MBS)	 Unhedged Foreign Bonds (UFB)	 Bank Loans (BL)
 Broad Bond Market (Agg)	 U.S. Treasury (UST)	 Corporate Bonds (CB)	 Emerging Markets Debt (EMD)	
 Municipal Bonds (MB)	 TIPS (T)	 High-Yield Bonds (HYB)	 Preferred Stocks (PS)	

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	YTD 2016
HYB 11.85	T 11.64	UST 13.74	HYB 58.21	HYB 15.12	T 13.56	EMD 18.54	P 18.19	MHY 13.84	PS 7.72	HYB 15.11
P 11.08	UFB 10.95	UFB 10.89	BL 53.84	PS 13.97	MB 10.70	MHY 18.14	HYB 7.44	PS 13.68	MB 3.30	EMD 15.04
MHY 10.75	UST 9.01	MBS 8.30	MHY 32.73	P 13.25	UST 9.81	HYB 15.81	BL 5.39	P 9.96	MHY 1.81	UFB 11.07
EMD 9.88	Agg 6.97	Agg 5.24	EMD 28.18	EMD 12.04	MHY 9.25	PS 11.64	PS -0.94	MB 9.05	MBS 1.46	MHY 9.37
PS 7.67	MBS 6.96	T -2.35	P 19.48	BL 9.71	EMD 8.46	P 11.55	MBS -1.39	CB 7.46	EMD 1.23	CB 9.20
BL 7.05	EMD 6.28	MB -2.47	CB 18.68	CB 9.00	CB 8.15	BL 10.23	CB -1.53	MBS 6.07	UST 0.84	BL 8.38
UFB 6.12	P 6.02	CB -4.94	PS 14.14	MHY 7.80	Agg 7.84	CB 9.82	Agg -2.02	Agg 5.97	P 0.73	P 7.35
MBS 5.32	CB 4.56	PS -8.99	MB 12.91	Agg 6.54	UFB 6.35	T 6.98	MB -2.55	EMD 5.53	Agg 0.55	T 7.27
MB 4.84	MB 3.36	EMD -10.91	T 11.41	T 6.31	MBS 6.14	MB 6.78	UST -2.75	UST 5.05	CB -0.68	PS 6.59
Agg 4.33	BL 2.12	P -22.24	Agg 5.93	UST 5.87	HYB 4.98	Agg 4.21	UFB -4.00	T 3.64	BL -0.82	Agg 5.80
CB 4.30	HYB 1.87	HYB -26.16	MBS 5.76	MBS 5.67	P 4.07	MBS 2.59	MHY -5.51	HYB 2.45	T -1.44	UST 5.07
UST 3.08	MHY -2.28	MHY -27.01	UFB 2.55	UFB 5.17	PS 1.86	UST 1.99	EMD -6.58	BL 1.54	UFB -3.57	MB 4.01
T 0.41	PS -12.74	BL -29.48	UST -3.57	MB 2.38	BL 1.06	UFB 1.65	T -8.61	UFB -0.48	HYB -4.47	MBS 3.72


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# ALTERNATIVE & COMMODITY ASSET CLASSES

 60/40 Portfolio (P)	 Equity Long/Short (L/S)	 Managed Futures (MF)	 Market Neutral (MN)
 Absolute Return (AR)	 Event Driven (ED)	 Global Macro (GM)	 Physical Commodities (PC)

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	YTD 2016
P 11.08	PC 32.67	MF 18.33	P 19.48	P 13.25	P 4.07	P 11.55	P 18.19	MF 18.37	MN 5.46	P 7.35
ED 10.32	AR 6.68	GM 5.61	ED 16.59	MF 12.22	PC -1.18	ED 5.96	ED 13.87	P 9.96	AR 2.86	ED 7.17
L/S 9.23	P 6.02	MN -1.16	PC 13.48	PC 9.03	MN -2.92	L/S 4.81	L/S 11.14	GM 5.24	P 0.73	PC 5.30
MF 8.05	MF 6.01	AR -13.09	L/S 13.14	L/S 8.92	AR -3.71	AR 0.88	AR 3.57	MN 3.63	MF -0.93	AR 0.66
AR 7.43	ED 4.88	ED -22.11	AR -3.58	MN 2.64	MF -4.19	PC 0.08	MN 1.72	L/S 1.42	GM -1.96	L/S -0.69
GM 5.61	L/S 3.21	P -22.24	MN -5.56	ED 1.98	GM -4.88	GM -1.00	PC -1.22	AR 0.79	L/S -2.33	GM -1.15
MN 4.76	GM 3.19	L/S -25.45	MF -6.57	AR -0.12	ED -4.90	MF -2.93	GM -1.79	ED -4.06	ED -6.94	MF -1.26
PC -15.09	MN 3.11	PC -46.49	GM -8.78	GM -1.73	L/S -19.08	MN -4.66	MF -2.56	PC -33.06	PC -32.86	MN -3.90

Source: LPL Research, FactSet 09/30/16

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#### Indexes:

60/40 Portfolio—60% Russell 3000/40% Barclays Aggregate; Absolute Return—HFRX Absolute Return; Equity Long/Short—HFRX Equity Hedge; Event Driven—HFRX Event Driven; Managed Futures—Credit Suisse Managed Futures; Global Macro—HFRX Macro; Market Neutral—HFRX Equity Hedge: Equity Market Neutral; Physical Commodities—S&P GSCI

#### 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. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

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

A traditional balanced portfolio is defined as an allocation of 60% to Russell 3000 Index and 40% to Barclays Capital U.S. Aggregate Bond Index.

Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market.

Because of its narrow focus, specialty sector investing, such as healthcare, financials, or energy, will be subject to greater volatility than investing more broadly across many sectors and companies.

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

Investing in foreign and emerging markets securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

#### BOND AND DEBT EQUITY RISKS

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

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.

Treasury Inflation-Protected Securities (TIPS) help eliminate inflation risk to your portfolio, as the principal is adjusted semiannually for inflation based on the Consumer Price Index (CPI), while providing a real rate of return guaranteed by the U.S. government. However, a few things you need to be aware of are that the CPI might not accurately match the general inflation rate; therefore, the principal balance on TIPS may not keep pace with the actual rate of inflation. The real interest yields on TIPS may rise, especially if there is a sharp spike in interest rates. If so, the rate of return on TIPS could lag behind other types of inflation-protected securities, like floating rate notes and T-bills. TIPS do not pay the inflation-adjusted balance until maturity, and the accrued principal on TIPS could decline, if there is deflation.

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

Mortgage-backed securities are subject to credit, default risk, prepayment risk (that acts much like call risk when you get your principal back sooner than the stated maturity), extension risk, the opposite of prepayment risk, market and interest rate risk.

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.

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.

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.

#### ALTERNATIVE PRODUCT RISKS

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.

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.

Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory developments.

Long/short equity funds are subject to normal alternative investment risks, including potentially higher fees, and 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.

#### INDEX DEFINITIONS

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 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).

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 Barclays U.S. Corporate High-Yield Index measures the market of USD-denominated, noninvestment-grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt.

The Barclays U.S. Corporate Index is a broad-based benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate, taxable corporate bond market.

The JP Morgan Emerging Markets Bond Index is a benchmark index for measuring the total return performance of international government bonds issued by emerging markets countries that are considered sovereign (issued in something other than local currency) and that meet specific liquidity and structural requirements.

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 which 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 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 which employ an investment process designed to identify opportunities in markets exhibiting trending or momentum characteristics across individual instruments or asset classes. Strategies typically employ quantitative process which focus on statistically robust or technical patterns in the return series of the asset, and 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 portfolio in either dedicated currency or commodity exposures over a given market cycle.

This research material has been prepared by LPL Financial LLC.

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