LPL RESEARCH

MARKET INSIGHT MONTHLY

SEPTEMBER 2017 IN REVIEW

October Update | As of September 30, 2017

ECONOMY:

HURRICANES IMPACT DATA, BUT EXPANSION APPEARS INTACT

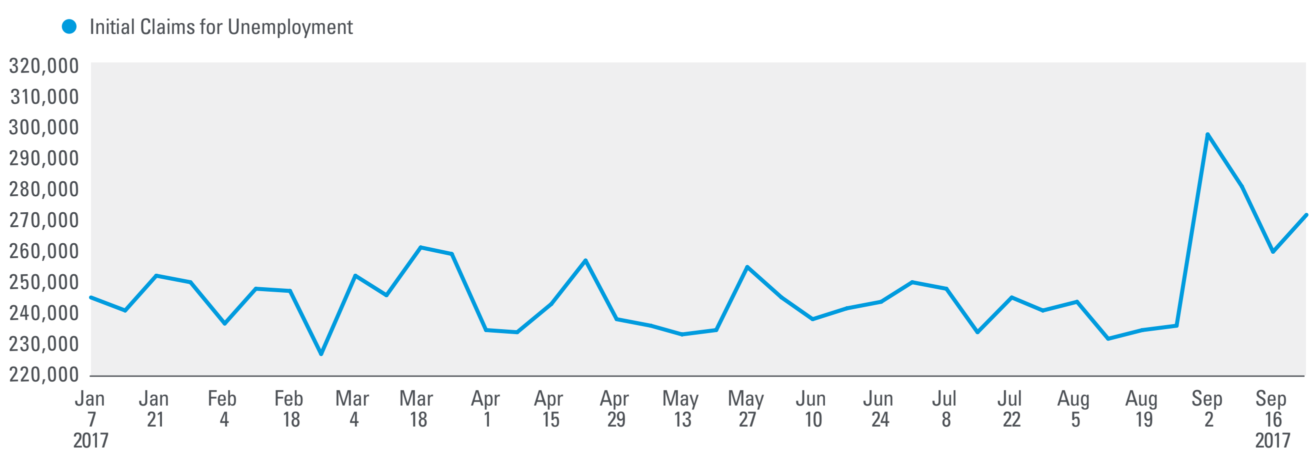
Economic Data

Economic reports released in September 2017, which mostly reflect economic activity in August but also include some weekly data and preliminary reports for September, were already showing the impact of three powerful hurricanes that hit Texas, Florida, Louisiana, and Puerto Rico in August and September. The economic impact of these events was significant, but the impact on everyday lives as these regions start to recover and build, is difficult to capture.

Typically, weather events of this scale have an initial negative impact on economic data due to the destructive impact of the storms and the disruption of regional commerce. But regional events also can have a national impact due to the regional concentration of key industries or agricultural products (oil refineries, oranges) and the disruption of transportation networks. The economic data often pick up as regions begin to recover and rebuild, creating increased demand for goods and services. In addition to missing the human toll, economic data also typically miss the cost of destroyed property, which isn't reflected in current activity, and the need to reallocate resources to replace it that might have been put to more productive use elsewhere.

While the September reports were generally weaker than reports in August, we believe the change mostly reflects the impact of the hurricanes, with no real indication, in our view, that the overall course of the economy has changed. Economists' estimates of economic data pre-release were generally well calibrated with actual data, indicating minimal unexpected shocks outside of the hurricanes. Over the course of September, the Citi Economic Surprise Index, an aggregate of standardized economic surprises, rose from -23 to -8. (Zero represents surprises that were completely in line with expectations. We generally consider expectations to be in line with data when the index reads between +25 and -25.) Of the 95 economic data points tracked by Bloomberg for which they have economic estimates, 45

DISRUPTIONS FROM HARVEY AND IRMA CLEARLY HAVING AN IMPACT ON DATA



Source: LPL Research, U.S. Employment and Training Administration 09/30/17 came in above expectation and 50 below expectation, with the median negative surprise slightly larger, again indicating that average expectations were about right.

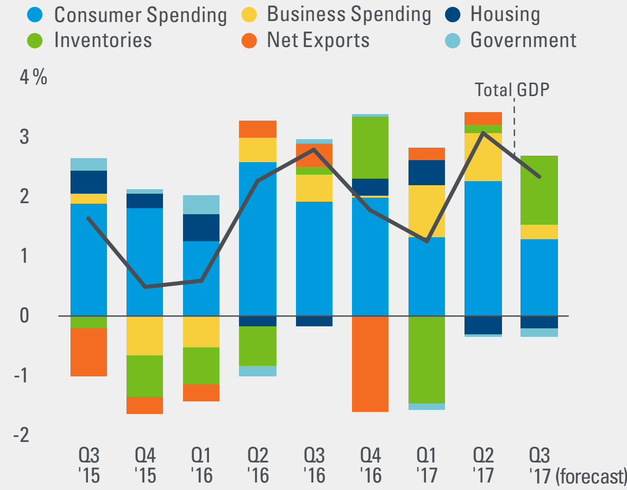
The immediate impact of the hurricanes already stood out in some reports. New claims for unemployment, which is released weekly, jumped noticeably from an average of 247,000 in the prior year (and 235,000 at the end of August) to 298,000 for the first week in September. The number declined later in the month, but remained elevated. While not as dramatic, industrial production for August also started to show the impact of Harvey, posting its largest monthly decline since the Great Recession. The Federal Reserve (Fed), which provides the data, estimated that of the 0.9% decline, about 0.75% could be attributed to the storms.

The impact was also readily apparent in lowered expectations for third quarter real gross domestic product (GDP) growth, which will be released on October 27. Economists' estimates for real economic growth have generally come down 0.4–0.8% in September. (This range is based on a review of changes in individual forecasts—broad forecast averages may not be updated frequently enough to reflect the impact of the hurricanes.) We have seen similar adjustments in the New York and Atlanta Fed's NowCast models. The New York Fed model's estimate for third quarter growth fell 0.7% between September 1 and September 29, and now indicates forecasted growth of 1.5%, while the Atlanta Fed's model declined 0.9% to forecasted growth of 2.3%. Note that these models are purely data driven and reflect the economic shock from the hurricanes as already expressed in recent data; the changes do not directly reflect economists' judgment.

Growth estimates have declined across economic sectors in the Atlanta Fed's Nowcast model except for inventories, which may see a temporary increase due to an unexpected decline in demand and the inability of finished goods to make it to market, and net exports, which have been helped by a weaker dollar independent of weather events, but may also get some support from disruptions in production of some U.S. goods. Anything between about 2.0 and 2.5% growth in the third quarter would generally fall within the expected range and would not be considered a disruption in the current run rate of economic growth after adjusting for the initial negative impact of the hurricanes.

Q3 GROWTH STILL LOOKS SOLID BUT EXPECTATIONS TEMPERED

Contribution to Real GDP Growth by Economic Sector



Source: LPL Research, U.S. Bureau of Economic Analysis, Federal Reserve Bank of Atlanta 09/30/17

Q3 '17 data are from the Federal Reserve Bank of Atlanta's GDPNow forecast estimate.

There was also some positive economic news in September. Leading indicators, as aggregated in the Conference Board's Leading Economic Index, advanced at an accelerated pace year over year in August, indicating below-historical odds of a recession in the next 12–18 months. Several measures of regional manufacturing activity surprised to the upside, building permits for August rose, and some measures of inflation ticked up (while still remaining stubbornly below the Fed's 2% target). The impact of the hurricanes will likely continue to be felt in October's data releases, making it more difficult to gauge the health of the overall economy, but the broader signs point to continued expansion.

Central Banks

Following its September 19–20 policy meeting, the Fed announced that it was leaving the target range for the fed funds rate unchanged at 1–1.25%, as widely expected. The meeting did include updated economic projections and forecasts for the expected future path of interest rates. Median expectations continued to point to an additional rate hike in December and three more in 2018. The Fed also announced that its balance sheet normalization program would begin in October 2017. The plan calls for gradually reducing the size of the Fed balance sheet by decreasing reinvestment of principal payments from maturing bonds.

GLOBAL EQUITIES:
ANOTHER UP MONTH FOR U.S. STOCKS

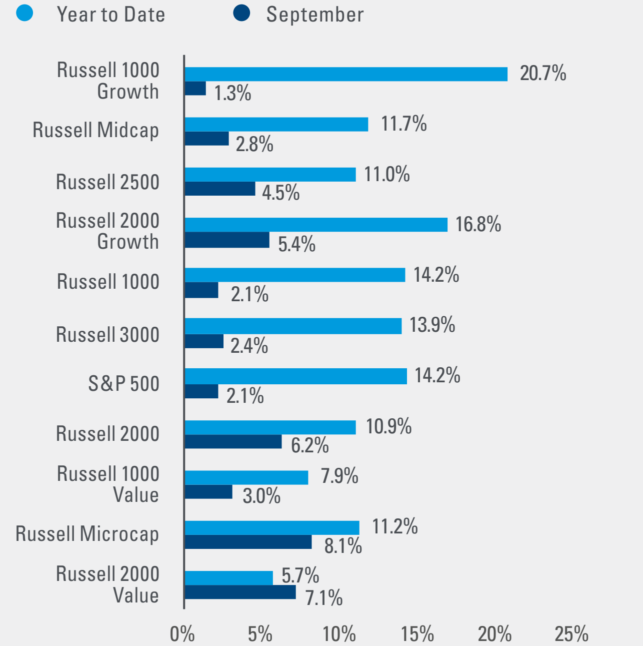
U.S.

Stocks posted yet another positive month in September, as the S&P 500 Index returned 2.1% (including dividends), ending near the 2500 level and record highs. This marked 6 straight months of gains; or based on total return (including dividends), 11 straight months, which is the longest streak in more than 50 years. The Dow has also produced 6 straight monthly gains, while the Nasdaq, which eked out a 1% gain in September, has been higher 10 of 11 months.

In September, the more than eight-year-old bull market continued to garner support from improving global growth, strong earnings, low interest rates, and contained inflation. Meanwhile, intra-market movements and commentary from Washington, D.C. insiders suggest that market participants have gained more confidence that tax reform, or at least tax cuts, will be achieved. Although skeptics are not hard to find, the progress made on taxes late in the month buoyed investor sentiment. Stocks continued to largely shrug off the most common concerns, including hurricane damage, North Korea threats, central bank tightening, elevated stock valuations, and the age of the business cycle.

From a sector perspective, the rebound in the energy sector (+9.9%) was the big story of the month as crude oil jumped more than 9%. Also notable was weakness in technology (+0.6%), a victim of rotation into areas that have lagged and potentially would benefit more from tax reform, some profit taking after such a strong year, and weakness in a large sector constituent. Industrials fared well due to its commodity sensitivity and improved global growth prospects, while financials benefited from higher interest rates as expectations for a late 2017 Fed rate hike increased. Conversely, higher interest rates hampered utilities, which lagged. Year to date, technology (+27.4%) remains the top-performing sector, followed by healthcare (+20.3%), while energy (-6.6%) has suffered the biggest decline.

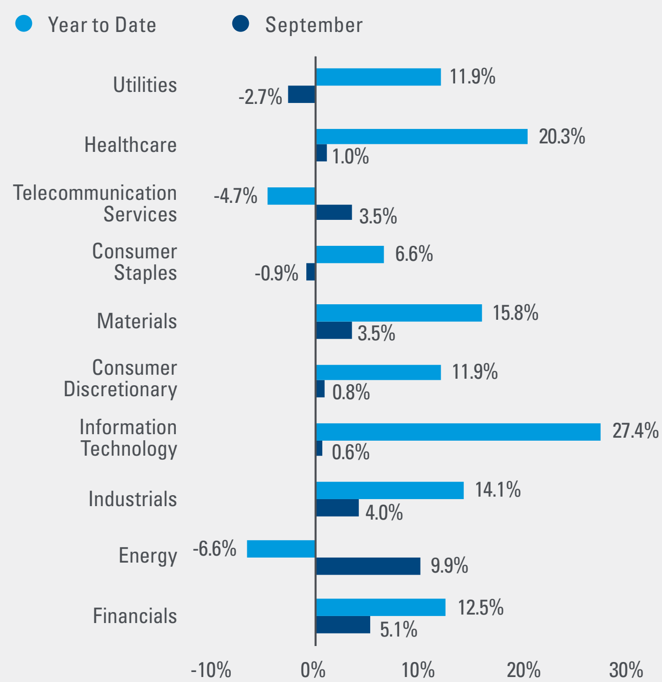
DOMESTIC INDEX PERFORMANCE



Source: LPL Research, FactSet 09/30/17

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 09/30/17

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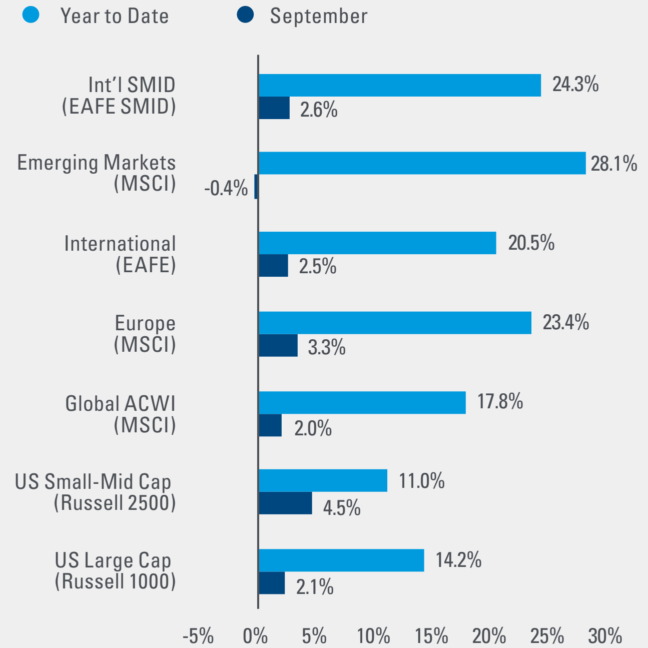
Stock investing involves risk, including loss of principal.

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

The change in sector leadership that occurred during September favored the value style, as the Russell 3000 Value Index outperformed its growth counterpart for just the second time this year (June was the other). In general, improving economic growth, higher commodity prices, and rising interest rates—all typically tied to higher inflation—tend to be more favorable for the value style. Specifically, the outperformance by energy and financials, the two biggest value sectors, coupled with technology's underperformance, drove the value outperformance for the month. It's been all about growth this year, with the Russell 3000 Growth Index outperforming its value counterpart by nearly 13% year to date (20.4% versus 7.7%).

Small caps played some catch-up in September, as the Russell 2000 Index outperformed the large cap Russell 1000 by 3.3%. The strength reflected some increase in confidence that policymakers will achieve tax reform, given that smaller companies tend to be more domestic, and usually pay higher tax rates, and therefore tend to benefit more from tax reform. Small cap outperformance during the month was concentrated in the most economically sensitive areas, including technology, financials, consumer discretionary, and industrials. Year to date, small caps still trail large, with the Russell 2000 up 10.9% compared to 14.2% for the Russell 1000.

GLOBAL INDEX PERFORMANCE



Source: LPL Research, FactSet 09/30/17

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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 equities produced a solid 2.5% gain in September, outpacing both the domestic (S&P 500) and developing (MSCI Emerging Markets Index) market benchmarks, bringing the year-to-date return to 20.5%. Europe drove much of the monthly gain as the region continued to produce solid economic growth, strong enough to assuage fears of tighter monetary policy. The rally in the euro currency paused, which helped investor sentiment toward European-based exporters. Geopolitical risk, including North Korean saber-rattling, the German election—which offered no surprises, Japanese leader Shinzo Abe's call for an October snap election, and the bumpy start to Brexit negotiations with the European Union, did little to slow overseas markets. European markets: Germany, France, Italy, and the U.K. were the top performers during the month. Performance laggards included Australia and Hong Kong.

September was mixed for emerging markets, as the MSCI Emerging Markets (EM) Index lost 0.4%, but is still up over 28% year to date. EM equities are more sensitive to Fed policy, so the increasing odds of a late 2017 rate hike likely hindered the asset class. Strength in the U.S. dollar and profit taking after such a strong year may have also played a role. In terms of countries, oil's rally boosted Russia, Brazil's resurgence continued, and South Korea impressively performed well, despite heightened North Korea tensions. China's market produced a modest gain amidst steady economic growth and ongoing efforts to curb property speculation, while South Africa, India, and Taiwan lagged.

FIXED INCOME:
RATES RISE AS FED CONTINUES GRADUAL MONETARY POLICY NORMALIZATION

Treasury yields rose sharply across the maturity spectrum during September. The 2-year Treasury rose by 16 basis points (0.16%), while the 10- and 30-year Treasuries rose by 22 and 13 basis points (0.22% and 0.13%), respectively. Higher inflation expectations helped push long-term rates higher, while the Fed stood firm on its commitment to continued gradual rate hikes, which pressed short-term rates higher as well. The Fed's decision to begin its balance sheet normalization program in October also pushed long-term rates higher.

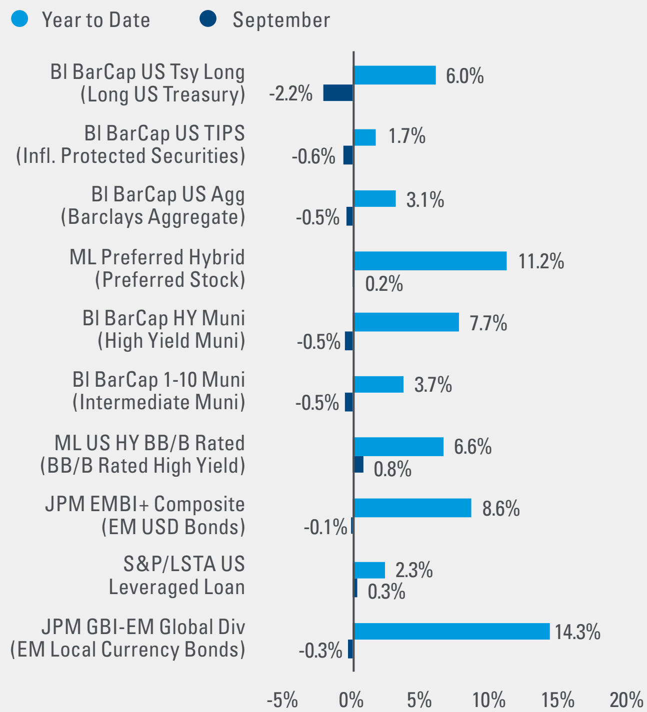
The upward pressure on yields led to a challenging month for high-quality fixed income. The broad Bloomberg Barclays Aggregate Bond Index returned -0.5% during the month, while Treasuries underperformed, returning -0.9% (Bloomberg Barclays U.S. Treasury Index). Mortgage-backed securities and investment-grade corporates both returned -0.2%, outperforming the broad high-quality market.

Economically sensitive sectors of fixed income were boosted by strong equity markets and a rise in the price of oil, which rallied 9.4% during September. Major beneficiaries of lower-quality fixed income strength were high yield and bank loans, which returned 0.8% and 0.3%, respectively.

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.

FIXED INCOME PERFORMANCE



U.S. TREASURY YIELDS

Security	08/31/17	09/30/17	Change in Yield
3 Month	1.01	1.06	0.05
2 Year	1.33	1.47	0.14
5 Year	1.70	1.92	0.22
10 Year	2.12	2.33	0.21
30 Year	2.73	2.86	0.13

AAA MUNICIPAL YIELDS

Security	08/31/17	09/30/17	Change in Yield
2 Year	0.92	1.02	0.10
5 Year	1.25	1.38	0.13
10 Year	1.95	2.09	0.14
20 Year	2.60	2.74	0.14
30 Year	2.78	2.91	0.13

Source: LPL Research, Bloomberg, FactSet 09/30/17

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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.

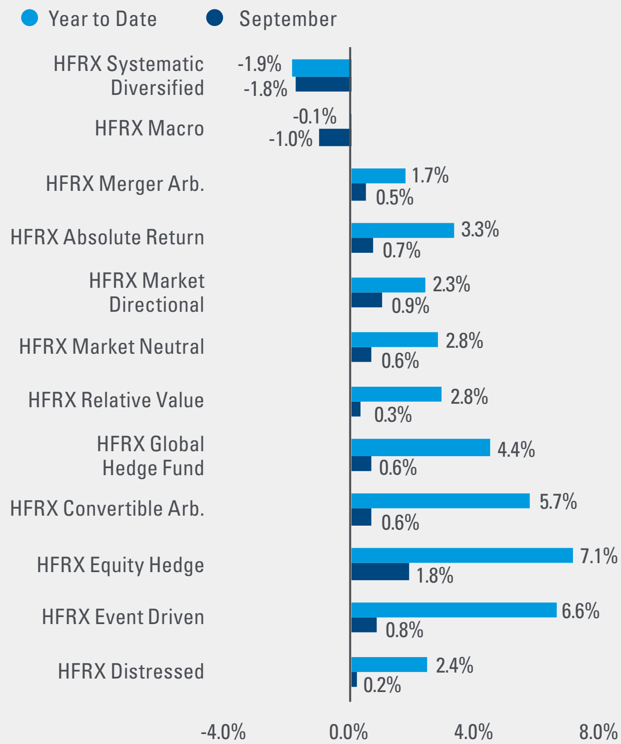
Bank loans are loans issued by below investment-grade companies for short-term funding purposes with higher yield than short-term debt and involve risk.

ALTERNATIVES:
LONG/SHORT EQUITY KEEPS PACE

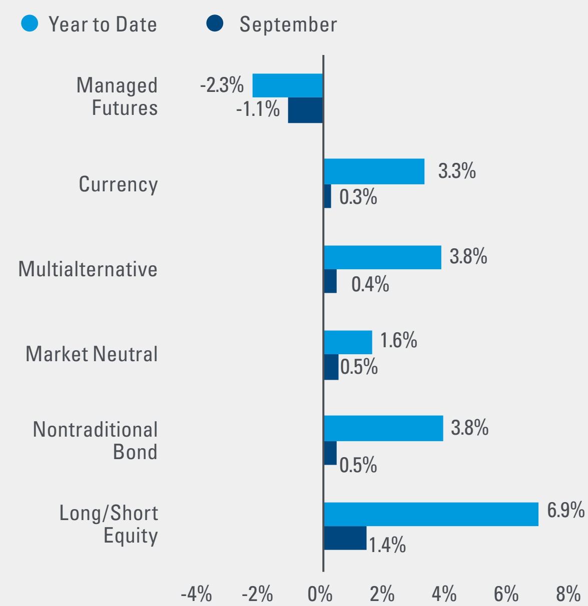
The HFRX Equity Hedge Index gained 1.8% during the month, capturing a majority of the S&P 500's 2.0% return. While strength in technology and other large cap growth holdings have supported the industries year-to-date gains; small cap and value firms led equity markets higher during September. We were pleased to see continued strength within the long/short space, as these types of sudden rotations often lead to periods of underperformance, and identify managers that have been crowding into winning trades. However, September's performance suggests that managers have not concentrated risk in a specific sector or style and continue to maintain diverse long and short exposure. Year to date, the HFRX Equity Hedge Index has returned 7.1%, with a beta of only 0.44 to the S&P 500, representing the best start since 2008.

Event-driven strategies rebounded with a gain of 0.8%, as the HFRX Event Driven Index has now returned 6.6% on the year. During August, the spikes in volatility led to temporary losses for those in announced merger deals. However, September's return to a low-volatility environment and a move higher in equity prices provided a constructive backdrop and lower deal spreads. Additionally, as the discussion and potential proposals surrounding tax reform continue to develop, opportunities within the event-driven space are set to grow. Lower corporate tax rates may stimulate additional merger volume as firms seek inorganic growth with the extra cash flow. There also exists potential divergences in equity valuations, as investors reevaluate how changes to the tax rate, interest deductibility, and capital expenditure expensing impact corporate earnings, growth, and overall capital structures.

HFRX INDEX PERFORMANCE



MORNINGSTAR INDEX PERFORMANCE



Source: LPL Research, FactSet 09/30/17

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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.

INTERNATIONAL REAL ESTATE AND GLOBAL INFRASTRUCTURE PACED LIQUID REAL ASSET GAINS

Much like August, September was mixed for liquid assets. Master limited partnerships (MLP) benefited from higher oil prices and produced the strongest gains in this category for the month, while international real estate and global infrastructure declined and commodities and U.S. real estate investment trusts (REIT) were largely unchanged.

MLPs

MLPs benefited from the big jump in oil prices in September, helping the asset class recover from its August decline. September also benefited from earnings and distribution stability after a major MLP announced a distribution cut in August that weighed on the group, and reports that hurricane damage was less than feared. The increase in interest rates during the month likely capped MLP gains.

REITs and Global Listed Infrastructure

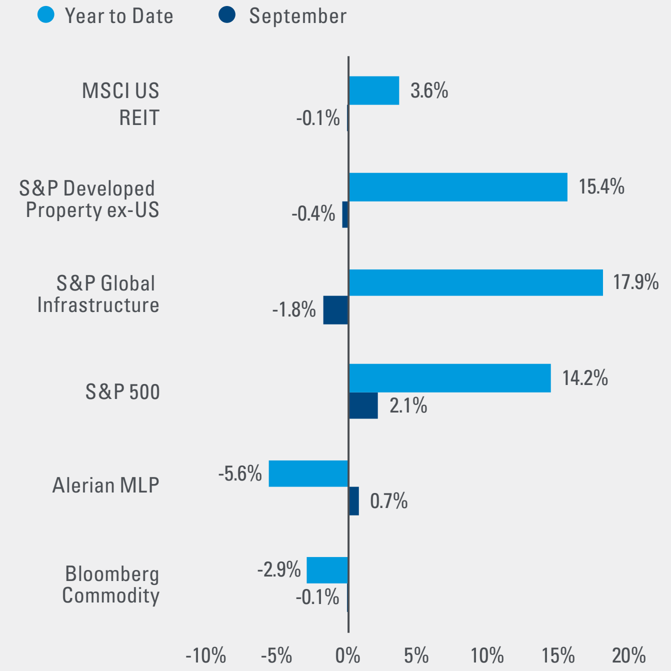
Domestic REITs were essentially unchanged in September, with gains in office and hotel REITs offset by weakness in industrial, residential, and healthcare REITs. And after delivering the best August returns among liquid real asset categories in August, global infrastructure struggled during September. The weakness in both U.S. REITs and global infrastructure were partly attributable to rising interest rates. Meanwhile, hurricane damage had some impact on U.S. real estate and the rebound in the U.S. dollar weighed on the international constituents within the S&P Global Infrastructure Index.

Commodities

The Bloomberg Commodity Index was essentially unchanged in September, slipping 0.1% during the month. Oil's more than 9% rally was the biggest story in commodities, although besides grains, little else in the commodities complex got much play. Oil benefited from firm demand, anticipation of extended production limits overseas, and slower-than-expected increases in U.S. production. However, the bullish sentiment for oil did not carry over into natural gas, which fell over the month.

Metals were weak across the board, hurt by the rising dollar, concerns about Chinese demand, and for precious metals in particular, increasing chances of a late-2017 rate hike. In agriculture, wheat and soybean prices rose as winter weather risks (i.e., La Nina) began getting priced in and reports of supply pressures in Latin America surfaced.

LIQUID REAL ASSET PERFORMANCE



Source: LPL Research, FactSet 09/30/17

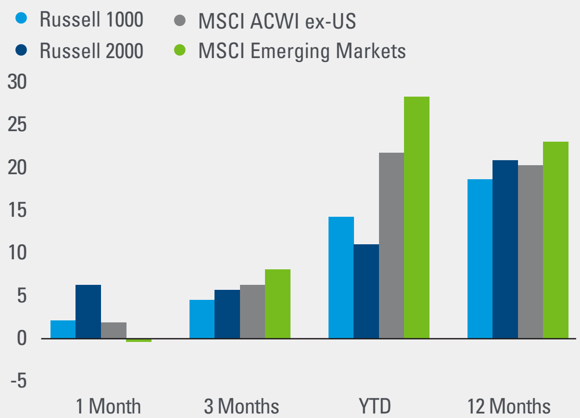
Investing in real estate/REITs involves special risks such as potential illiquidity and may not be suitable for all investors. There is no assurance that the investment objectives of this program will be attained.

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.

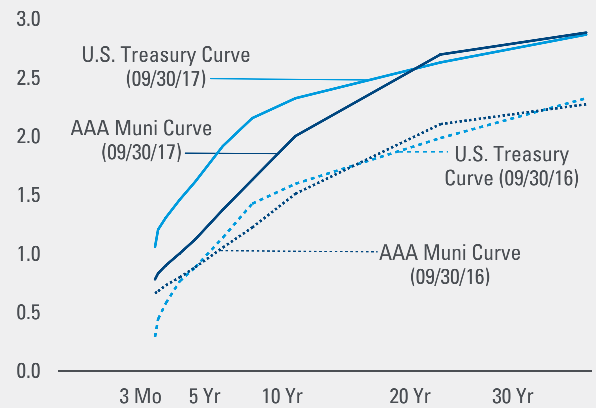
MONTHLY PERFORMANCE REPORT

EQUITY PERFORMANCE



Source: LPL Research, Bloomberg, FactSet 09/30/17

DOMESTIC YIELD CURVE



Source: LPL Research, Bloomberg, FactSet 09/30/17

		1 Mo	3 Mos	YTD	12 Mos
Large Cap	S&P 500	2.06	4.48	14.24	18.61
	DJIA	2.16	5.58	15.45	25.45
	Russell 1000	2.13	4.48	14.17	18.54
	Russell 1000 Value	2.96	3.11	7.92	15.12
	Russell 1000 Growth	1.30	5.90	20.72	21.94
Small/Mid Cap	Russell 2000	6.24	5.67	10.94	20.74
	Russell 2000 Value	7.08	5.11	5.68	20.55
	Russell 2000 Growth	5.45	6.22	16.81	20.98
	Russell Microcap	8.15	6.65	11.16	22.33
	Russell Midcap	2.77	3.47	11.74	15.32
	Russell Midcap Value	2.73	2.14	7.43	13.37
	Russell Midcap Growth	2.83	5.28	17.29	17.82
All Cap	Russell 3000	2.44	4.57	13.91	18.71
	Russell 3000 Value	3.26	3.27	7.72	15.53
	Russell 3000 Growth	1.62	5.93	20.43	21.87
International Markets	MSCI EAFE	2.53	5.47	20.47	19.65
	MSCI ACWI ex US	1.89	6.25	21.61	20.15
	MSCI Europe	3.32	6.49	23.45	23.01
	MSCI Japan	2.08	4.10	14.63	14.46
	MSCI AC Asia Pacific ex Japan	-0.28	6.04	27.17	20.99
	MSCI EAFE SMID	2.55	6.76	24.28	21.03

		1 Mo	3 Mos	YTD	12 Mos
Int'l - Continued	MSCI ACWI ex US SMID	1.94	6.59	23.28	19.13
	MSCI Emerging Mkts	-0.37	8.04	28.14	22.91
	MSCI EMEA	-3.82	6.45	11.98	14.11
	MSCI Latin America	1.58	15.12	27.00	26.03
	MSCI Frontier Markets	2.07	8.10	25.27	25.95
Sectors -S&P 500 GICS	Consumer Discretionary	0.84	0.84	11.93	14.52
	Consumer Staples	-0.86	-1.35	6.57	4.42
	Energy	9.94	6.84	-6.63	0.16
	Financials	5.14	5.24	12.48	36.21
	Healthcare	0.99	3.65	20.31	15.49
	Industrials	4.00	4.22	14.13	22.35
	Information Technology	0.64	8.65	27.36	28.88
	Materials	3.52	6.05	15.82	21.26
	Telecom Services	3.52	6.78	-4.69	-0.14
	Utilities	-2.74	2.87	11.87	12.03

Source: LPL Research, Bloomberg, FactSet 09/30/17

(Data continued on following page.)

Fixed Income	1 Mo	3 Mos	YTD	12 Mos
BI BarCap US Agg	-0.48	0.85	3.14	0.07
BI BarCap 1-10 Muni	-0.52	0.65	3.43	1.03
BI BarCap HY Muni	-0.54	1.50	7.72	1.43
BI BarCap Inv. Grade Credit	-0.17	1.34	5.19	2.21
BI BarCap Muni Long Bond -22+	-0.70	1.23	5.83	0.59
BI BarCap US Agg Securitized MBS	-0.22	0.96	2.32	0.30
BI BarCap US TIPs	-0.64	0.86	1.72	-0.73
BI BarCap US Treasury Interm	-0.60	0.34	1.56	-0.73
BI BarCap US Treasury Long	-2.16	0.58	6.02	-6.35
BI BarCap US High Yield Loans	0.34	0.90	2.33	4.59
ML Preferred Stock Hybrid	0.16	1.23	11.19	6.17
ML US High Yield BB/B Rated	0.78	1.94	6.57	7.91
ML US Convert ex Mandatory	1.94	4.47	13.62	16.58
JPM GBI Global ex US Hedged	-0.61	0.64	0.82	-1.36
JPM GBI Global ex US Unhedged	-1.32	2.52	8.21	-3.7
JPM GBI-EM Global Div	-0.34	3.55	14.28	7.32
JPM ELMI+	-0.63	2.00	9.35	5.43
JPM EMBI+ Composite	-0.11	2.23	8.64	2.86

Alternatives	1 Mo	3 Mos	YTD	12 Mos
HFRX Absolute Return	0.71	1.85	3.26	2.90
HFRX Market Directional	0.94	1.28	2.34	4.26
HFRX Convertible Arb.	0.60	1.26	5.67	6.27
HFRX Distressed	0.18	-0.13	2.43	7.99
HFRX Equity Hedge	1.82	3.21	7.07	7.91
HFRX Market Neutral	0.63	2.07	2.78	1.52
HFRX Event Driven	0.79	1.88	6.58	10.47
HFRX Merger Arb.	0.45	0.36	1.73	2.86
HFRX Relative Value Arb.	0.25	1.11	2.84	4.16
HFRX Global Hedge Fund	0.60	1.83	4.43	5.64
HFRX Macro Index	-1.03	0.66	-0.10	-1.89
HFRX Systematic Diversified	-1.80	0.87	-1.92	-5.33
Bloomberg Commodity	-0.15	2.52	-2.87	-0.29
DJ Wilshire REIT	0.27	0.38	1.75	-0.83
Alerian MLP	0.69	-3.05	-5.62	-3.70

		Latest Mo End (09/30/17)	3 Mos Ago (06/30/17)	Latest Yr End (12/31/16)	12 Mos Ago (09/30/16)
Currency	U.S. Dollar Index Value	93.08	95.63	102.21	95.42
Currency	USD vs. Yen	112.46	112.35	116.90	101.34
Currency	Euro vs. USD	1.18	1.14	1.05	1.12
Cmdtys	Gold ($ per Troy Ounce)	1279.40	1241.20	1150.90	1315.90
Cmdtys	Crude Oil ($ per Barrel)	51.67	46.04	53.72	48.24

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.

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.

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.

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.

Managed futures strategies use systematic quantitative programs to find and invest in positive and negative trends in the futures markets for financials and commodities. Futures and forward trading is speculative, includes a high degree of risk that the anticipated market outcome may not occur, and may not be suitable for all investors.

Definitions

The Citigroup Economic Surprise Index (CESI) measures the variation in the gap between the expectations and the real economic data.

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 Consumer Sentiment report refers to a report published by the University of Michigan, in which the University's Consumer Survey Center questions 500 households each month on their financial conditions and attitudes about the economy. Consumer sentiment is important because it is directly related to the strength of consumer spending. Preliminary estimates for a month are released at mid-month. Final estimates for a month are released near the end of the month.

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.

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.

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.

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 US.

The Consumer Confidence Index is based on consumers' perceptions of current business and employment conditions, as well as their expectations for six months hence regarding business conditions, employment, and income. Three thousand households across the country are surveyed each month. In general, while the level of consumer confidence is associated with consumer spending, the two do not move in tandem each and every month.

Beta measures a portfolio's volatility relative to its benchmark. A Beta greater than 1 suggests the portfolio has historically been more volatile than its benchmark. A Beta less than 1 suggests the portfolio has historically been less volatile than its benchmark.

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, fixed rate, 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 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 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 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 Nasdaq Composite Index measures all Nasdaq domestic and non-U.S.-based common stocks listed on the Nasdaq stock market. The index is market-value weighted. This means that each company's security affects the index in proportion to its market value. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the index. It is not possible to invest directly in an index.

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.

RES 7775 1017 | Tracking #1-653079 (Exp. 10/18)