Market Insight

Fourth Quarter 2013

Improving Economy and the Fed Fueled Powerful Stock Market Rally in Q4 and 2013

1 Q4 and 2013 At a Glance

Sector	Q4 2013	2013
GDP*	1.5%	1.7%
S&P 500 Index	10.5%	32.4%
Barclays Aggregate Bond Index	-0.14%	-2.02%
DJ-UBS Commodities Index	-1.1%	-9.5%

Source: LPL Financial Research, FactSet, Bloomberg 12/31/13

*Bloomberg consensus as of December 2013

Figures for S&P 500, Barclays Aggregate, and DJ-UBS Commodities Index are total returns from 09/30/13–12/31/13 and 12/31/12–12/30/13.

All indices are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges or expenses. The results don't reflect any particular investment. Past performance is no guarantee of future results.

- **Resilient private sector buoyed U.S. economy in 2013.** The private sector performed well in 2013, considering the drags from government spending cuts and higher taxes. We believe U.S. gross domestic product (GDP), which likely grew about 2% in 2013, would have grown modestly faster if not for these drags.
- **Best year for S&P 500 Index in over a decade as PEs expanded.** The stock market capped off a strong 2013 with double-digit gains in the fourth quarter (based on the S&P 500 Index). The strong finish to the year for stocks brought the index's 2013 total return to a stellar 32.4%, the best calendar year performance since 1997. For the year, the boost to price-to-earnings (PE) multiples from improving investor sentiment was the biggest driver of stock returns in a year of only mid-single-digit earnings growth.
- **Challenging 2013 for commodities, as gold suffers biggest drop since 1981.** The commodity markets broadly limped to the finish in 2013, as the Dow Jones-UBS Commodity Index fell 1.1% during the fourth quarter, bringing the 2013 loss for the year to 9.5%. Gold's 28% decline, including a 9% fourth quarter loss, was its first loss since 2000 and biggest loss in over 30 years amid anticipation of less stimulus from the Fed, low inflation, and the market's rotation into riskier investments.
- **Bond investors experienced rare losses as interest rates rose in 2013.** After suffering losses in the third quarter of 2013, the bond market stabilized during the fourth quarter with flat returns as the yield on the 10-year Treasury rose approximately 0.4%. That left the broad bond market, based on the Barclays Aggregate Bond Index, down 2.0% for the full year as the 10-year Treasury yield rose 1.3%.

Looking Back, Moving Forward

An improving economy and the Fed helped drive strong stock market performance in 2013. LPL Financial Research believes the rally can continue, although gains this year may likely come with higher volatility than we experienced in 2013. Our 2014 outlook calls for better economic growth, which may lead to rising yields and flat bond market total returns. However, we see better growth leading to low double-digit stock market returns, derived from earnings per share for S&P 500 companies growing 5–10% and a rise in the price-to-earnings ratio (PE) of about half a point from 16 to 16.5. The primary risk to our outlook is that better growth in the economy and profits do not develop.

For more insight into our forecasts, please see our *Outlook 2014: The Investor's Almanac* publication and *Outlook 2014* video on YouTube.

The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Please note: all return figures are as of December 31, 2013 unless otherwise stated.

LPL Financial

Resilient Private Sector Buoyed U.S. Economy in 2013

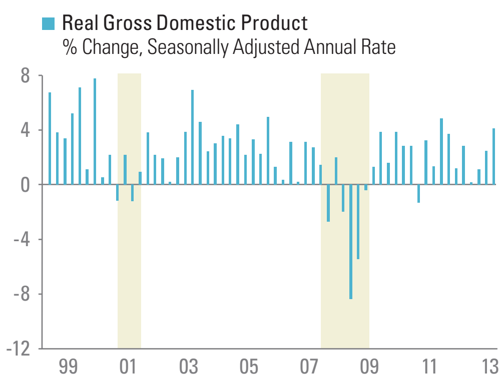
The private sector performed well in 2013 considering the drags from government spending cuts associated with the sequester and higher taxes associated with the fiscal cliff. But those were not the only challenges facing the U.S. economy last year. Consumers and businesses had to deal with the uncertainty in Washington from the political brinksmanship, including a government shutdown in October that weighed on confidence. There was the uncertainty around the rollout of the Affordable Care Act and new regulations in the financial sector. The Federal Reserve (Fed), with its inconsistent communications during the summer, created more uncertainty and an economic headwind in driving a sharp, swift rise in interest rates during the summer. Meanwhile, the long-term budget problems in the United States remain.

The resilience of the private sector, particularly by consumers, was critical in a year when the public sector was contracting. We believe U.S. GDP, which likely grew about 2% in 2013, would have grown modestly faster if not for the drags from the defense and other spending cuts associated with the sequester and the fiscal cliff, including higher taxes. Late in the year, these uncertainties began to clear, while the drags from government spending cuts began to ease, helping to establish a stronger foundation for growth as 2014 gets underway.

Economic Growth Began to Pick Up as 2013 Ended

After picking up in the third quarter, the U.S. economy was growing at a sluggish pace as the year ended. Based on available data as of year-end, fourth quarter growth is tracking to about 2%, well below the 4.1% growth rate reported in the latest revised measure of third quarter GDP [Figure 2]. The third quarter's strength was driven largely by inventory accumulation, which may act as a drag in subsequent quarters as that inventory is reduced.

2 Faster U.S. Economic Growth in the Third Quarter Unlikely To Be Repeated in the Fourth



Source: LPL Financial Research, Bureau of Economic Analysis, Haver Analytics 12/31/13

Shaded areas indicate recession.

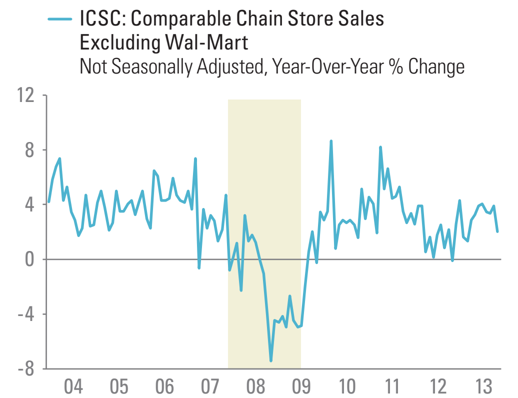
The Great Investment Taper

In December 2013, the Fed announced that it will begin scaling back its bond-buying program, known as quantitative easing (QE). This is the beginning of the infamous taper that garnered so much press in 2013. QE, even reduced, along with the dovish interest rate guidance the Fed provided at its December 17–18 meeting, still leaves the Fed significantly accommodative. The Fed cited less fiscal drag and an improving labor market as justification for its decision to now buy $75 billion per month in QE—$10 billion less than the prior monthly $85 billion. The improvement in the job market that the Fed noted is a positive, as is still-low inflation, which gives the Fed a cushion for continuing QE. However, the move—and expectations of it—have helped pushed interest rates higher.

Consumers Spending Gains Continue

Consumer spending continued to grow at a slow but steady clip as 2013 ended, buoyed by job gains and positive wealth effects from rising stock and home prices. At the same time, an expectation of less policy uncertainty in Washington has helped buoy confidence. The labor market has been adding

3 Wealth Effects Drive Continued Retail Sales Gains

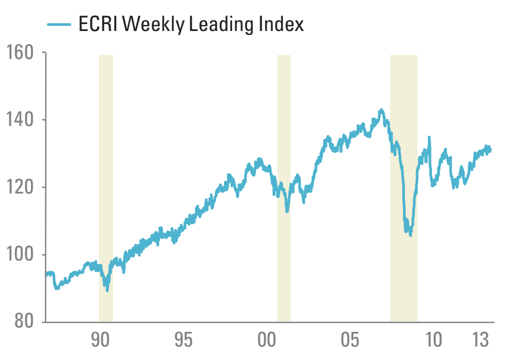


Source: LPL Financial Research, ICSC, Haver Analytics 12/31/13

Shaded areas indicate recession.

The International Council of Shopping Centers (ICSC) is a global trade association of the shopping center industry.

4 Leading Economic Indicators Suggest Very Low Probability of Recession



Source: LPL Financial Research, Economic Cycle Research Institute, Haver Analytics 12/31/13

Shaded areas indicate recession.

The index of leading economic indicators (LEI) is an economic variable, such as private-sector wages, that tends to show the direction of future economic activity.

jobs at a respectable 200,000 per-month pace, while the unemployment rate fell to 7% in November 2013 from 7.6% at mid-year. The stock market, based on the S&P 500 Index, returned more than 10% during the fourth quarter alone and 30% for the year, while home prices continued to rise at a double-digit year-over-year pace, based on widely followed home price measures including Case-Shiller, CoreLogic, and the National Association of Realtors. The resulting gains in wealth and income have helped drive recent retail sales gains [Figure 3] and should enable retail sales gains during the 2013 holiday shopping season to meet or exceed expectations for a 3–4% annual gain.

Challenged Overseas Economies Have Stabilized

Europe was growing slowly as the year ended after emerging from recession during the third quarter of 2013. Europe has stopped getting worse and, partly due to a stronger export partner in the United States, is getting a bit better. But we believe meaningful, sustained improvement from the current roughly 1% annualized growth pace will require greater access to credit by Eurozone consumers and businesses through the region's banking system.

In China, growth stabilized in late 2013 after slowing much of the year, setting up a soft landing. A better growth picture in China, which has also helped Europe, helps the emerging market (EM) outlook significantly, though several other key EM countries such as Brazil and India continue to struggle. Less accommodative Fed policy may constrain growth in some of these economies in 2014 that depend on foreign capital to fund trade deficits.

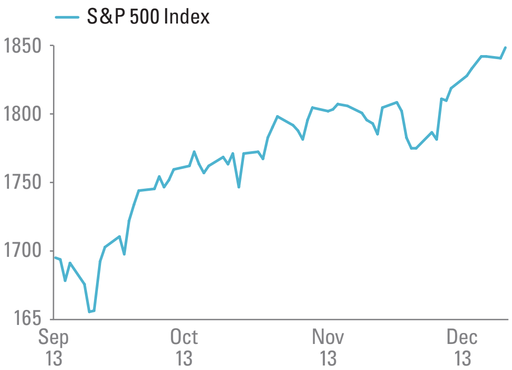
Brief Look Ahead: Leading Indicators Suggest Low Likelihood of Recession

Based on leading economic indicators, we believe a recession in the United States in the next two years remains unlikely despite the sluggish pace of U.S. economic growth. [Figure 4]. We expect less drag from government spending cuts to support continued economic growth in 2014.

Best Year for S&P 500 Index in Over a Decade

The stock market capped off a strong 2013 with double-digit gains in the fourth quarter (based on the S&P 500 Index). The strong finish to the year for stocks brought the index's 2013 total return to a stellar 32.4%, the best calendar year performance since 1997. An improving U.S. economy and continued support from the Fed drove a strong finish. Market participants were able to look past the 16-day government shutdown, which was resolved with a budget agreement in mid-October 2013. They also embraced the Fed's taper announcement in December 2013, as the central bank provided an upbeat assessment of the U.S. economy and dovish guidance for its benchmark interest rate (the federal funds rate). Stocks were able to clear these hurdles without as much as even a 3% pullback at any point during the last three months of the year [Figure 5].

5 Solid Finish to Stellar Year for Stocks



Source: LPL Financial Research, FactSet 12/31/13

The S&P 500 Index is an unmanaged index, which cannot be invested into directly. The returns do not reflect fees, sales charges or expenses. The results don't reflect any particular investment. Past performance is no guarantee of future results.

For the year, the boost to PE multiples from improving investor sentiment, a first for the current bull market, was the biggest driver of stock market returns in a year of only mid-single-digit earnings growth. The year began with a huge wall of worry to climb (fiscal cliff, sequester, debt limit debate, etc.) that was reflected in below-average valuations, and those discounts were unwound throughout the year. After starting the year just over 13, on a trailing 12-month basis, the PE ratio for the S&P 500 Index finished 2013 at over 16 (based on Thomson data).

Cyclicals, Growth, and Large Caps Led in the Fourth Quarter

Cyclical sectors led the fourth quarter rally, whereas the most interest rate sensitive sectors lagged. After unusually strong defensive (less economically sensitive) sector performance when stocks rallied to double-digit returns during the first quarter of 2013, cyclical (economically sensitive) sectors have paced the market's gains since. The fourth quarter's top sectors, industrials and technology, are consistent with an improving U.S. economy, while the quarter's biggest laggards, telecom and utilities, were hurt by their interest rate sensitivity, as these high dividend-paying sectors can be used as bond substitutes. The year's winners reflect durable consumer spending (consumer discretionary), improving manufacturing activity (industrials), attractive valuations, and the robust pace of medical innovation (health care).

6 Another Strong Quarter for Cyclical Sectors
Ranked by Fourth Quarter Returns

Sector	Q4 2013 (%)	YTD (%)
Industrials	13.5	40.5
Technology	13.3	28.3
Consumer Discretionary	10.8	42.9
Materials	10.7	25.5
S&P 500	10.5	32.3
Financials	10.3	35.5
Health Care	10.1	41.3
Consumer Staples	8.7	26.0
Energy	8.4	25.0
Telecom	5.5	11.4
Utilities	2.8	13.2

Source: LPL Financial Research, FactSet 12/31/13

The S&P 500 is an unmanaged index and cannot be invested into directly. The returns do not reflect fees, sales charges or expenses. The results don't reflect any particular investment. Past performance is no guarantee of future results.

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

The asset classes are represented by the ten S&P 500 Global Industry Classification Standard (GICS) indexes.

Large caps led the broad market's gains during the fourth quarter, although small cap stocks enjoyed a big enough lead going into the fourth quarter to lead the Russell market cap indexes for the full year. Throughout most of 2013, small caps benefited from an improving outlook for the U.S. economy, healthy credit markets, and their tendency to rise more than large cap stocks during market rallies. But small caps lost a bit of steam late in the year as higher valuations dampened enthusiasm some. Technology led large cap gains late in the year.

Cyclical sectors are economically sensitive and typically have stronger performance as economic and market conditions improve.

Defensive sectors typically are less economically sensitive and tend to perform relatively better in more challenging economic and market environments.

7 Growth Led the Quarter but Small Caps Were Tops for the Year

Asset Class	Q4 2013 (%)	2013 (%)
Growth	10.3	34.2
Large Caps	10.2	33.0
Value	10.0	32.7
Small Caps	8.7	38.7
Developed Foreign	5.8	23.2
Emerging Markets	1.9	-2.3

Source: LPL Financial Research, FactSet 12/31/13

Based on Russell 1000, Russell 3000 Growth and Value Indexes, Russell 2000, MSCI EAFE, MSCI EM Index

Total returns from 09/30/13–12/31/13 and 12/31/12–12/30/13.

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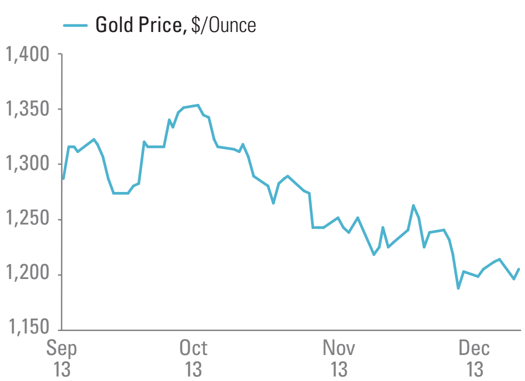
International and emerging markets investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

Mid-capitalization companies are subject to higher volatility than those of larger capitalized companies.

Small cap stocks may be subject to a higher degree of risk than more established companies' securities. The illiquidity of the small cap market may adversely affect the value of these investments.

Value investments can perform differently from the market as a whole. They can remain undervalued by the market for long periods of time.

8 Gold's Slide Continued as the Fed Announced Tapering QE



Source: LPL Financial Research, FactSet 12/31/13

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

Precious metal investing is subject to substantial fluctuation and potential for loss.

Growth outpaced value for the second straight quarter in the fourth quarter of 2013, and held on to a modest lead over value for the full year. At a macro level, value stocks tend to offer higher yields and were hurt by rising interest rates. At the sector level, slightly better growth returns in the quarter were driven by solid technology gains and less exposure to the lagging utilities sector.

Staying Close to Home Paid Off

Looking beyond U.S. markets, performance for the developed international markets continued to trail that of the United States during the fourth quarter, as it did throughout 2013, primarily due to lagging returns in Europe. The MSCI EAFE Developed Market Index returned 5.8% during the fourth quarter and 23.2% for the year. The MSCI Emerging Markets (EM) Index gained just 1.9% in the fourth quarter and still ended 2013 with a modest loss, badly trailing developed markets. China's stabilization and improving U.S. growth were positive developments for several key EM countries, but these factors were overwhelmed by concerns about tighter liquidity as interest rates rose and global markets prepared for less stimulus from the Fed. Weakness in commodity prices and capital outflows added to the pressure on these markets that was felt acutely in such markets as Brazil and Indonesia.

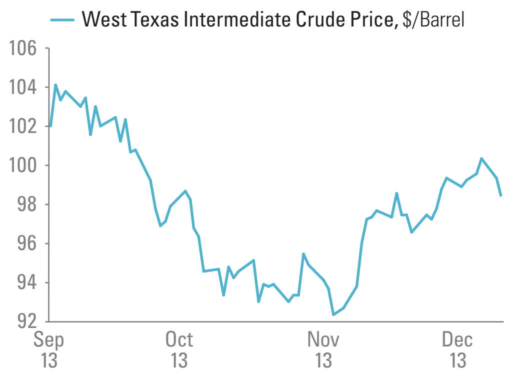
Challenging 2013 for Commodities, as Gold Suffers Biggest Drop Since 1981

The commodity markets broadly limped to the finish in 2013, as the Dow Jones-UBS Commodity Index fell 1.1% during the fourth quarter, bringing the loss for the year to 9.5%. Stabilizing growth in China did not help commodities much as China-sensitive commodities such as copper and aluminum suffered sharp declines in 2013, although copper eked out a small fourth quarter gain. Precious metals were particularly weak. Gold's 28% decline, including a 9% fourth quarter loss, was the yellow metal's first loss since 2000 and biggest loss in over 30 years [Figure 8]. Gold was hurt by a combination of factors, including anticipation of less stimulus from the Fed, low inflation, rising interest rates, greater stability in Europe, and the market's rotation into riskier investments.

Energy was a standout performer among commodities. Oil (WTI Crude) rose 7% for the year, but fell 4% during the fourth quarter [Figure 9]. Better U.S. economic growth, some supply constraints, and political turmoil in the Middle East (primarily related to Egypt and Syria) drove strength earlier in the year. But oil's gains fell well short of those posted by natural gas, which got a boost from cold weather and tightening supplies late in 2013. Natural gas prices jumped 17% during the fourth quarter alone to end the year with a 24% advance.

The slide in agriculture prices that began back in the summer 2012 continued through the end of 2013. After weather-related supply disruptions drove crop prices sharply higher 18 months ago, prices started coming

9 Oil Pulled Back as Middle East Tensions Eased



Source: LPL Financial Research, FactSet 12/31/13

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

down as weather normalized and supplies increased globally. Wheat and corn experienced particularly sharp declines amid record harvests, while soybean prices proved resilient with modest gains in the fourth quarter and for the year. The Dow Jones-UBS Agriculture Index fell 5% during the fourth quarter to bring losses for 2013 to 14%.

Fixed Income — Taxable: Bond Investors Experienced Rare Losses in 2013

After suffering losses in the third quarter of 2013, the bond market stabilized during the fourth quarter with flat returns. That left the broad bond market, based on the Barclays Aggregate Bond Index, down 2.0% for the full year. The rare annual loss for bonds was the second worst in the 40-year history of the Barclays Aggregate Bond Index, after the 2.9% loss in 1994.

The yield on the 10-year Treasury climbed about 0.4% basis points during the fourth quarter [Figure 10]. Following the Fed's surprising decision not to taper QE at its September 17–18 policy meeting, the yield fell during the first few weeks of October during the government shutdown. After falling to an interim low of 2.48% in mid-October, the yield steadily increased, finishing the year at a multi-year high of just over 3.0%. The rate increase was more gradual and started from higher levels than back in May and June 2013, resulting in only marginal losses for bonds.

Credit and Short Duration Were the Most Rewarding Characteristics

Credit spreads continued to narrow over the quarter on strengthening economic conditions and low corporate default rates. Investment-grade corporate bonds produced a positive return of 0.9% for the quarter, versus a 0.8% loss for U.S. Treasuries, pushing them 0.7% ahead of Treasuries for the year but in line with the Barclays Aggregate Bond Index's return. As measured by the Barclays U.S. Corporate High-Yield Index, high-yield had the strongest performance of the quarter and year among major bond sectors, with a 3.6% return for the quarter and a comparatively robust 7.4% for the year. Bank loans and preferred stocks were also helped by narrowing credit spreads, posting 1.7% and 0.8% returns, respectively, for the quarter. Bank loans were among the best-performing fixed income sectors for the year with a 5.4% return.

Given the rise in interest rates in 2013 (1.3% on the 10-year Treasury) and during the fourth quarter (0.4%), shorter-maturity bonds showed more resilience among high-quality bonds, among both government and corporate issues, ending the quarter and the year with marginal gains. Treasuries and Treasury inflation-protected securities (TIPS) were among those most impacted by interest rate sensitivity while the lesser sensitivity of mortgage-backed securities (MBS), helped the sector better weather rising interest rates. MBS finished the quarter down 0.4%, and outperformed Treasuries and the Barclays Aggregate for the year with a -1.4% return.

Foreign bonds helped diversify some rate risk in the fourth quarter. Emerging markets recouped some of their losses from earlier in the year on some economic improvement, better valuations, and improved liquidity.

The risks associated with investment-grade corporate bonds are considered significantly higher than those associated with first-class government bonds. The difference between rates for first-class government bonds and investment-grade bonds is called investment-grade spread. The range of this spread is an indicator of the market's belief in the stability of the economy.

Credit quality is one of the principal criteria for judging the investment quality of a bond or bond mutual fund. As the term implies, credit quality informs investors of a bond or bond portfolio's credit worthiness, or risk of default.

Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity and redemption features.

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

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.

Preferred stock investing involves risk, which may include loss of principal.

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—while providing a real rate of return guaranteed by the U.S. government.

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, and interest rate risk.

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

10 Improving Economic Data and Fed Taper Pushed Yields Higher During the Fourth Quarter

Source: LPL Financial Research, FactSet 12/31/13

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.

11 Credit Risk, Not Duration, Fared Best in the Fourth Quarter and 2013r

Ranked by Fourth Quarter Returns

Sector	Q4 2013 (%)	YTD (%)
High-Yield	3.7	7.4
Bank Loans	1.7	5.4
Investment-Grade Corporates	0.9	-2.0
Emerging Market Debt	0.9	-6.6
Preferred Securities	0.8	-0.9
Foreign Bonds (Hedged)	0.4	1.4
Municipal Bonds	0.3	-2.5
Barclays Aggregate	**-0.1**	**-2.0**
Mortgage-Backed Securities	-0.4	-1.4
Municipal High-Yield	-0.5	-5.5
U.S. Treasuries	-0.8	-2.7
Foreign Bonds (Unhedged)	-1.2	-4.6
TIPS	-2.0	-8.6

Source: LPL Financial Research, FactSet 12/31/13

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Asset class returns are represented by the returns of indexes and are not ranked on an annual total return basis. It is not possible to invest directly in an index so these are not actual results an investor would achieve.

The JPMorgan Global Emerging Markets Bond Index returned 0.9% for the quarter but still finished the year down over 6%. For developed foreign bond markets, returns depended heavily on currency exposure: hedged foreign bonds returned 0.4%, while unhedged foreign bonds lost 1.2%. This was the theme for foreign bonds for the year overall, with hedged bonds returning 1.4% and unhedged bonds losing 4.6%.

Fixed Income — Tax-Free: Municipal Bonds Began Their Climb Back in the Fourth Quarter

Credit exposure was not rewarded in municipal bond markets. Poor liquidity, interest rate sensitivity, and the possibility of a downgrade for Puerto Rico to below investment-grade all contributed to a fourth quarter loss of 0.5% for high-yield municipals. Investment-grade municipals, however, benefitting from relatively attractive valuations and improving state budgets, finished the quarter with positive returns for short, medium, and long maturities. For the year, short-term municipals finished with positive returns and intermediate term, while showing losses, still beat the Barclays Aggregate, even before factoring in the added tax advantage. Long-quality and high-yield municipals, however, both underperformed the Barclays Aggregate for the year. ■

Asset Class Indexes: Emerging Market Debt – JP Morgan Emerging Markets Global Index; High-Yield – Barclays US High Yield Corporate Index; Foreign Bonds (un-hedged) – Citigroup Non-US World Govt Bond Index (un-hedged); Municipal High-Yield – Barclays Municipal High-Yield Index; Bank Loans – Barclays US High-Yield Loan Index; Invst-Grade Corporate – Barclays US Corporate Bond Index; Municipal – Barclays Municipal Bond Index;Preferred Stocks – Merrill Lynch Preferred Stock Hybrid Index; TIPS – Barclays Treasury Inflation Protected Securities Index; Foreign Bonds (hedged) – Citigroup Non-US World Govt Bond Index Hedged for Currency;Mortgage-Backed Securities – Barclays US MBS Index; Treasury – Barclays US Treasury Index.

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance reference is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

Stock investing may involve risk including loss of principal.

Duration is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. It is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices. The bigger the duration number, the greater the interest-rate risk or reward for bond prices.

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

Quantitative easing is a government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity.

Default rate is the interest rate charged to a borrower when payments on a revolving line of credit are overdue. This higher rate is applied to outstanding balances in arrears in addition to the regular interest charges for the debt.

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.

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.

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.

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.

Credit risk is the risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. Credit risk arises whenever a borrower is expecting to use future cash flows to pay a current debt. Investors are compensated for assuming credit risk by way of interest payments from the borrower or issuer of a debt obligation. Credit risk is closely tied to the potential return of an investment, the most notable being that the yields on bonds correlate strongly to their perceived credit risk.

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.

Materials Sector: Companies that are engaged in a wide range of commodity-related manufacturing. Included in this sector are companies that manufacture chemicals, construction materials, glass, paper, forest products and related packaging products, metals, minerals and mining companies, including producers of steel.

Energy Sector: Companies whose businesses are dominated by either of the following activities: The construction or provision of oil rigs, drilling equipment and other energy-related service and equipment, including seismic data collection. The exploration, production, marketing, refining and/or transportation of oil and gas products, coal and consumable fuels.

Health Care Sector: Companies are in two main industry groups — Health care equipment and supplies or companies that provide health care-related services, including distributors of health care products, providers of basic health care services, and owners and operators of health care facilities and organizations. Companies primarily involved in the research, development, production, and marketing of pharmaceuticals and biotechnology products.

Utilities Sector: Companies considered electric, gas or water utilities, or companies that operate as independent producers and/or distributors of power.

Consumer Staples Sector: Companies whose businesses are less sensitive to economic cycles. It includes manufacturers and distributors of food, beverages and tobacco, and producers of non-durable household goods and personal products. It also includes food and drug retailing companies.

Consumer Discretionary Sector: Companies that tend to be the most sensitive to economic cycles. Its manufacturing segment includes automotive, household durable goods, textiles and apparel, and leisure equipment. The service segment includes hotels, restaurants and other leisure facilities, media production and services, consumer retailing and services, and education services.

Telecommunications Services Sector: Companies that provide communications services primarily through a fixed line, cellular, wireless, high bandwidth and/or fiber-optic cable network.

Financials Sector: Companies involved in activities such as banking, consumer finance, investment banking and brokerage, asset management, insurance and investment, and real estate, including REITs.

Industrials Sector: Companies whose businesses manufacture and distribute capital goods, including aerospace and defense, construction, engineering and building products, electrical equipment and industrial machinery. Provide commercial services and supplies, including printing, employment, environmental and office services. Provide transportation services, including airlines, couriers, marine, road and rail, and transportation infrastructure.

Technology Software & Services Sector: Companies include those that primarily develop software in various fields such as the internet, applications, systems and/or database management and companies that provide information technology consulting and services; technology hardware & equipment, including manufacturers and distributors of communications equipment, computers and peripherals, electronic equipment and related instruments, and semiconductor equipment and products.

INDEX DEFINITIONS

The Barclays Aggregate Bond Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment-grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

The 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 US dollar denominated and non-convertible. Bonds issued by countries designated as emerging markets are excluded.

The Barclays Capital High Yield Municipal Bond Index is an unmanaged index made up of bonds that are non-investment grade, unrated, or rated below Ba1 by Moody's Investors Service with a remaining maturity of at least one year.

The Barclays Capital Long Government/Credit Index measures the investment return of all medium and larger public issues of U.S. Treasury, agency, investment-grade corporate, and investment-grade international dollar-denominated bonds with maturities longer than 10 years. The average maturity is approximately 20 years.

Barclays Capital US Corporate Investment Grade Index measures the performance of investment grade corporate bonds.

Barclays Capital U.S. Intermediate Credit Bond Index measures the performance of investment grade corporate debt and agency bonds that are dollar denominated and have a remaining maturity of greater than one year and less than ten years.

The Barclays Corporate Index is an unmanaged index of publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered. The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility, and Finance, which include both U.S. and non-U.S. corporations. The non-corporate sectors are Sovereign, Supranational, Foreign Agency, and Foreign Local Government. Bonds must have at least one year to final maturity, must be dollar-denominated and non-convertible, and must have at least $250 million par amount outstanding. Bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be investment-grade.

The Barclays Mortgage-Backed Securities Index includes 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHLMC), and Federal National Mortgage Association (FNMA).

The Barclays Municipal Bond Index is a market capitalization-weighted index of investment-grade municipal bonds with maturities of at least one year. All indices are unmanaged and include reinvested dividends. One cannot invest directly in an index. Past performance is no guarantee of future results.

The Barclays 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 Barclays U.S. Treasury TIPS Index is a rules-based, market value-weighted index that tracks inflationprotected securities issued by the U.S. Treasury. The U.S. TIPS Index is a subset of the Global Inflation-Linked Index, with a 36.0% market value weight in the index (as of December 2007), but is not eligible for other nominal treasury or aggregate indices. In order to prevent the erosion of purchasing power, TIPS are indexed to the non-seasonally adjusted Consumer Price Index for All Urban Consumers, or the CPI-U (CPI).

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 Index includes certain publicly issued, $25- and $100-par securities with at least one year to maturity.

Citigroup World BIG ex US Index is a market capitilization weighted index that tracks the performance of the international fixed rate bonds that have remaining maturities of one year or longer and that are rated BBB-/ Baa3, or better, by S&P or Moody's, respectively. This Index excludes the U.S. and is unhedged USD.

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 - UBS Commodity Index is composed of futures contracts on 19 physical commodities. Unlike equities, which entitle the holder to a continuing stake in a corporation, commodity futures contracts specify a delivery date for the underlying physical commodity.

The Institute for Supply Management (ISM) index is based on surveys of more than 300 manufacturing firms by the Institute of Supply Management. The ISM Manufacturing Index monitors employment, production inventories, new orders, and supplier deliveries. A composite diffusion index is created that monitors conditions in national manufacturing based on the data from these surveys.

The JPMorgan Emerging Markets Bond Index Global ("EMBI Global") tracks total returns for traded external debt instruments in the emerging markets, and is an expanded version of the JPMorgan EMBI+. As with the EMBI+, the EMBI Global includes U.S. dollar-denominated Brady bonds, loans, and Eurobonds with an outstanding face value of at least $500 million. It covers more of the eligible instruments than the EMBI+ by relaxing somewhat the strict EMBI+ limits on secondary market trading liquidity.

MSCI EAFE is made up of approximately 1,045 equity securities issued by companies located in 19 countries and listed on the stock exchanges of Europe, Australia, and the Far East. All values are expressed in U.S. dollars. All values are expressed in US dollars. Past performance is no guarantee of future results.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of May 2005 the MSCI Emerging Markets Index consisted of the following 26 emerging market country indices: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, Turkey and Venezuela.

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. As of June 2007, the MSCI Europe Index consisted of the following 16 developed market country indices: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.

The New York Mercantile Exchange (NYMEX) is a commodity futures exchange owned and operated by CME Group of Chicago.

The Russell 1000 Index consists of the 1,000 largest securities in the Russell 3000 Index, which represents 90% of the total market capitalization of the Russell 3000 Index. It is a large-cap, market oriented index and is highly correlated with the S&P 500 Index.

Russell 1000® Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000® Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

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

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 3000 Value Index measures the performance of those Russell 3000 companies with lower price-to-book rations and lower forecasted growth values.

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

The Russell Mid Cap Value Index offers investors access to the mid cap value segment of the U.S. equity universe. The Russell Mid Cap 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 Standard & Poor's 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.

Consumer Price Inflations is the retail price increase as measured by a consumer price index (CPI). Core CPI is a subset of the total Consumer Price Index (CPI) that excludes the highly volatile food and energy prices. It is released by the Bureau of Labor Statistics around the middle of each month. Compare to Personal Consumption Expenditures (PCE); Core PPI; Producer Price Index (PPI).

The MSCI Japan Index is a free-float adjusted market capitalization weighted index that is designed to track the equity market performance of Japanese securities listed on Tokyo Stock Exchange, Osaka Stock Exchange, JASDAQ and Nagoya Stock Exchange. The MSCI Japan Total Return Index takes into account both price performance and income from dividend payments. The MSCI Japan Index is constructed based on the MSCI Global Investable Market Indices Methodology, targeting a free-float market capitalization coverage of 85%.

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