

October Update | As of September 30, 2015

SEPTEMBER 2015 IN REVIEW

ECONOMY: U. S. DATA MODERATE BUT REMAIN EXPANSIONARY

Economic Data

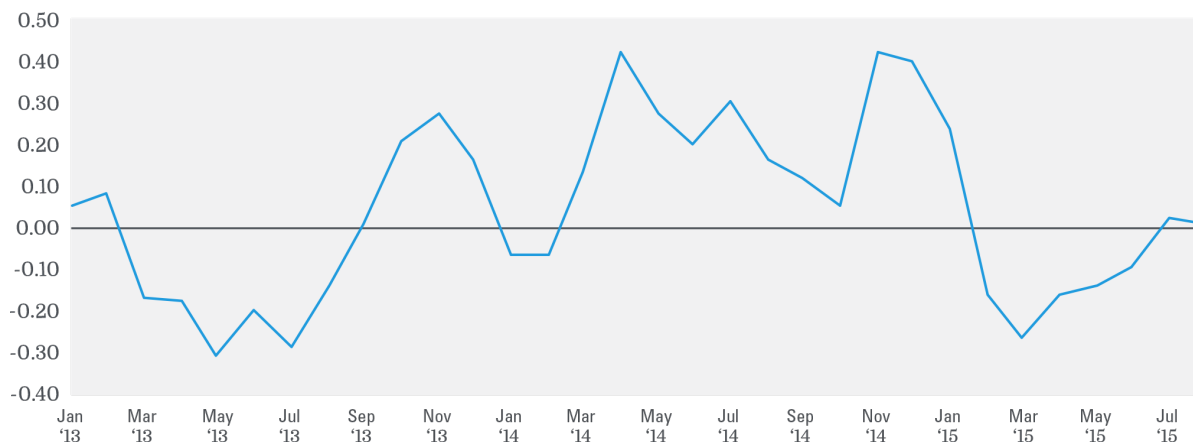
Economic reports received in September, which are largely based on economic activity in August, reflected steady overall U.S. economic activity and a healthy consumer, but with moderating strength in the labor market and greater weakness in the manufacturing sector, as a strong dollar and declining capital expenditures in the energy sector continued to take their toll. Some of the weakness in August can be viewed as payback from stronger July data, but structural factors also played a role. With data ranging from healthy to worrisome, but not recessionary, the Chicago Federal Reserve's (Fed) National Activity Index (CFNAI), a broad aggregate of economic indicators, provides a useful measure of overall economic health. The CFNAI's three-month average for August, the Fed's preferred measure, remained above the zero level that indicated growth at the long-term trend rate for the second consecutive month.

Nevertheless, weaker data in September reports added to uncertainty within financial markets. With increased volatility in U.S. equities carrying over from August and widening spreads between domestic high-yield bonds and Treasury rates, concerns about financial stress among market participants increased. However, levels of overall financial stress, while elevated from the calm seen in 2013 and 2014, remained well below levels considered alarming, as exhibited in the St. Louis Fed's Financial Stress Index. Current levels remain well below zero (lower levels indicate less stress) and well below levels seen during the last market correction in 2011.

Job growth slowed in August compared with data from earlier in the year. Non-farm payrolls grew by 173,000, missing expectations, which were offset by an upward revision of July's data, while the unemployment rate fell from 5.3% to 5.1%. Labor market health was reflected in spending data. Real personal spending grew 0.4% in August, ahead of consensus expectations of 0.2% and accelerating from upwardly revised July data.

Manufacturing continues to be a weak spot in the economy, as low commodities prices lower demand for capital equipment, a strong dollar makes U.S. goods more expensive abroad, and slowing growth in China weighs on demand for commodities and construction

CHICAGO FED NATIONAL ACTIVITY INDEX, 3-MONTH AVERAGE



Source: LPL Research, Chicago Federal Reserve 09/30/15

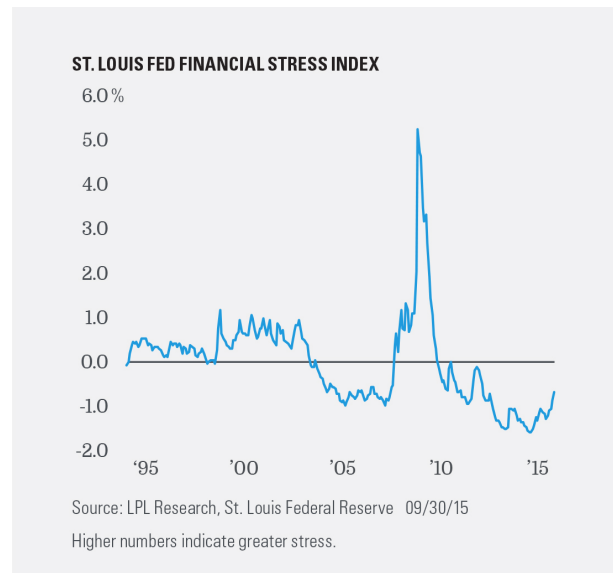
equipment. The Institute for Supply Managements' Purchasing Managers' Index (PMI) for August fell to 51.1, missing consensus expectations but remaining above the 50 level that indicates contraction. Capital goods orders for August also disappointed.

Early data on September economic activity and leading indicators remain positive. Markit's preliminary PMI for manufacturing in September came in just below expectations at 53, but accelerated from August, while the services PMI came in just ahead of consensus at 55.6. In addition, leading indicators—as measured by the Conference Board's Leading Economic Index (LEI)—increased a solid 4.1% year over year for August, which has historically been associated with only a 4% chance of recession in the next 12 months. Economist consensus forecasts, however, missed expectations by a slightly wider margin. The Citi Economic Surprise Index declined from -8.2 at the end of August to -20.5 at the end of September (a negative score indicating that data have been, on average, below expectations), but remains in the +25 to -25 range that indicates that economic data have been generally in-line with economist expectations.

Central Banks

Throughout much of the current expansion, bad news has been good news for U.S. equity markets on expectations of extended monetary support from the Fed. That pattern seemed to reverse when markets responded negatively to the Fed's policy statement following the September 16–17 meeting of its policy arm, the Federal Open Market Committee (FOMC). In what was broadly considered a “dovish” statement, the Fed explicitly mentioned the potential negative impact of international developments on the U.S. economy for the first time, leading markets to push back expectations of the timing of the first rate hike. While markets may have been playing off of the Fed's pessimism, the response may also indicate that markets have braced themselves for the start of moderately paced rate hikes and may no longer consider a delay advantageous. Outside of the U.S.,

major international central banks continue to be broadly accommodative, highlighted by European Central Bank (ECB) President Mario Draghi's September 3 comments that the ECB could expand its quantitative easing (QE) program if needed.



GLOBAL EQUITIES: GROWTH CONCERNS DRIVE LOSSES, BUT DECLINES SLOW

U.S.

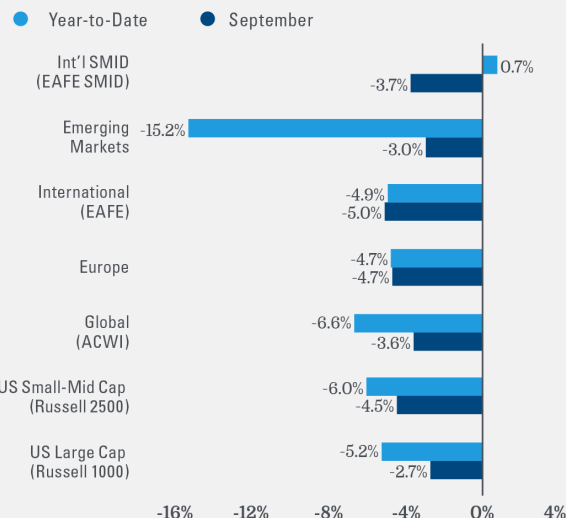
U.S. equity markets, as measured by the S&P 500 Index, extended August declines in September, posting a total return of -2.5% compared with August's -6.0%. September's returns also did not produce the extremes seen in August: The index experienced two days of losses and one day of gains of more than 3% in August, but no moves of that magnitude in September. For the quarter, the S&P 500 had a total return of -6.4%, its weakest performance since the third quarter of 2011. Markets were primarily driven by continued concerns about global growth, especially China, uncertainty about the path of the Fed, and weak earnings expectations, which continue to be weighed down by energy sector weakness and a strong dollar.

Monthly sector performance was clearly tilted toward income-oriented defensives, given market declines and a falling 10-year Treasury yield, as utilities and staples were the only sectors to post gains. Among more cyclical sectors, consumer discretionary was the most resilient, helped by lower oil prices, labor market gains, and solid earnings prospects. Energy and materials fell to the bottom of the sector rankings as concern over the impact of slowing Chinese growth on commodities and continued oil oversupply dampened prospects. Healthcare also showed weakness, weighed down by biotech, which saw heavy selling due to high relative valuations and negative political and press attention to drug pricing strategies.

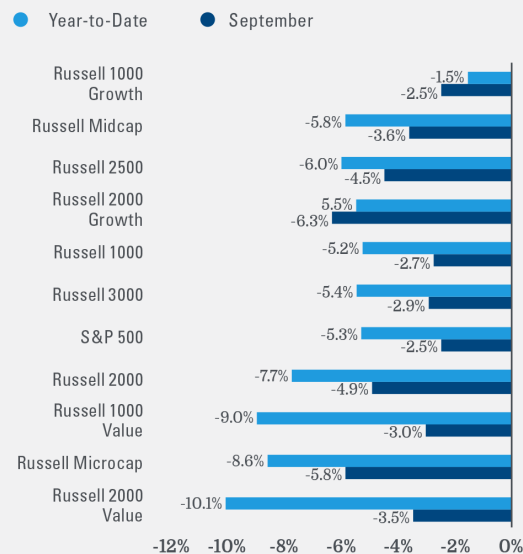
Large caps, which tend to be less sensitive to broad equity market movements than small caps, outperformed small across style tilts. The relative performance of growth and value was inconsistent across market cap, growth outperforming value for large caps but value topping growth for mid and small. The difference was largely driven by industry make-up within sectors, regional banks in mid and small caps outperforming their large cap cousins in value, while

price declines among biotech and pharma were much sharper in small growth than large.

GLOBAL INDEX PERFORMANCE



DOMESTIC INDEX PERFORMANCE



Source: LPL Research, FactSet 09/30/15

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

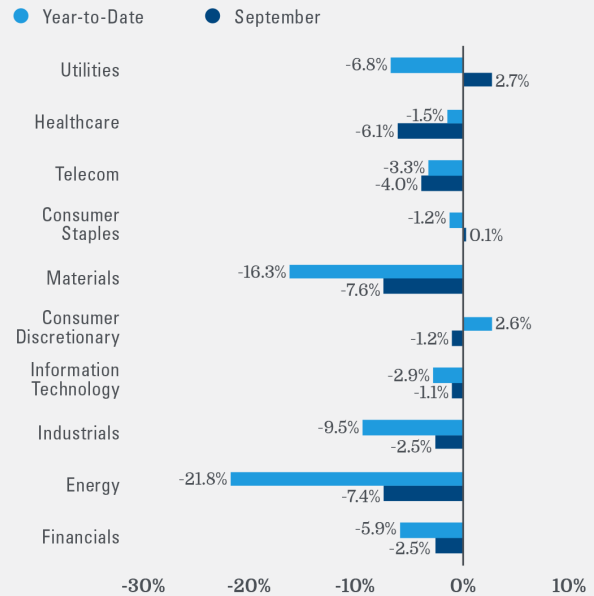
Stock investing involves risk, including loss of principal.

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

International

Despite angst over emerging markets acting as a catalyst for September equity weakness in the U.S., emerging market stocks, as measured by the MSCI Emerging Markets Index, did not trail far behind the S&P 500, underperforming by only 50 basis points (0.5%) and outperforming large foreign stocks as measured by the MSCI EAFE. The MSCI Emerging Markets Index was buoyed by some of its larger commodity importers, especially South Korea and India but also Hong Kong. Despite a less downbeat month, emerging market stocks suffered through a very weak third quarter, falling 17.8%. Developed international stocks were weighed down by Japanese equities after a rash of disappointing economic data, along with some concern about exposure to China. The MSCI index fell 10.2% over the third quarter, outperforming emerging markets but trailing the S&P 500 by over 300 basis points (3%).

RUSSELL 1000 SECTOR PERFORMANCE



Source: LPL Research, FactSet 09/30/15

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

FIXED INCOME: INTEREST RATES END FLAT DESPITE TURBULENT MONTH

Interest rates fell across the maturity spectrum during September, with the 10-year Treasury yield falling from 2.21% to 2.06% and the yield curve flattening slightly. The backdrop of falling interest rates was a tailwind for fixed income—the Barclays U.S. Aggregate returned 0.7% on the month. Yield curve flattening over September resulted in longer-dated fixed income outperforming shorter-dated, all else equal.

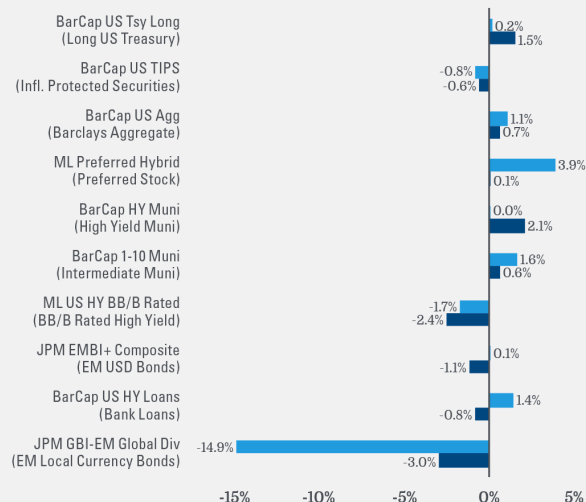
A prevailing risk-off sentiment from weakness in China and declines in several emerging market currencies stoked fears of weakness across emerging markets and led to headwinds in economically sensitive sectors of fixed income. Lower credit quality lagged higher quality, high-yield returning -2.4% during the month, the index's largest loss since June 2013. Continued weakness in the price of oil and concerns over energy-related defaults led to pronounced weakness in the high-yield energy sector, which contributed to high-yield's challenging month overall.

Fears about emerging markets, driven largely by concerns of contagion from China's economic weakness, was a headwind for dollar-denominated emerging markets debt, which returned -1.1% during September, as investors demanded additional compensation for perceived risks.

Inflation expectations fell dramatically over September, partially driven by the Fed's decision not to raise interest rates, in conjunction with lower growth and inflation estimates in the Fed's economic projections. The Fed's preferred inflation indicator, the five-year, five-year forward inflation expectation rate, fell from 2% to 1.75% during September, leading to a -0.6% return for the Treasury Inflation-Protected Securities (TIPS) Index.

FIXED INCOME PERFORMANCE

● Year-to-Date ● September



US TREASURY YIELDS

Security	8/31/15	9/30/15	Change in Yield
3 Month	0.08	0.00	-0.08
2 Year	0.74	0.64	-0.10
5 Year	1.54	1.37	-0.17
10 Year	2.21	2.06	-0.15
30 Year	2.95	2.87	-0.08

AAA MUNICIPAL YIELDS

Security	8/31/15	9/30/15	Change in Yield
2 Year	0.65	0.65	0.00
5 Year	1.40	1.37	-0.03
10 Year	2.38	2.31	-0.07
20 Year	3.84	3.77	-0.07
30 Year	4.49	4.45	-0.04

Source: LPL Research, Bloomberg, FactSet 09/30/15

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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.

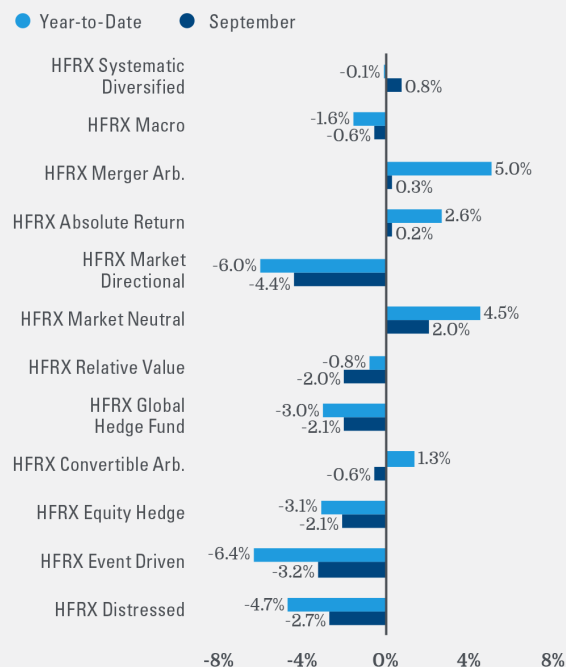
ALTERNATIVES: DEFENSIVE POSTURE LEAD GAINS

A second straight monthly sell-off across global equity markets left more directionally sensitive alternative investment strategies in negative territory. Event driven managers were among the strategies most impacted (HFRX Event Driven down 3.2%), as exposure to biotech and healthcare-related events weighed on overall returns. Political pressure related to prescription drug pricing exacerbated the broad sell-off, with concerns surrounding a potential increase in industry regulation. Given the risk-off sentiment, distressed debt strategies also encountered losses, with the HFRX Distressed Debt Index down 2.7%.

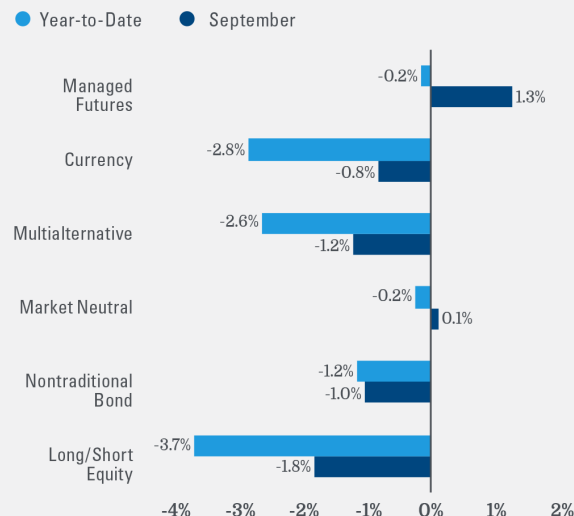
Equity market neutral managers continue to perform very well, returning 2.0% during the month and 4.5% year to date. Overall, managers in the space maintain a defensive posture, with a month-end beta of only 0.07. Short positioning in emerging markets, energy, and materials provided strong gains. Macro strategies have also developed a more defensive outlook of late, as per data from Bank of America Merrill Lynch, macro hedge funds have increased their shorts in the S&P 500 and the Nasdaq 100 to the highest levels since May 2013. This stance was well timed, as the HFRX Macro Index only fell 0.6% during the quarter. Global macro managers have also tactically reduced their long U.S. dollar positioning recently, as market participants continue to push out the anticipated increase in the federal funds target rate to a further date.

Systematic macro strategies also continued to perform well, as long fixed income exposure was the main contributor to the HFRX Systematic Diversified Index return of 0.8% for the month. Equity gains in the space were mixed, as short-term trend following models were positioned short. However, many managers employing long-term trend following systems maintained a small amount of long equity exposure, which detracted from performance.

HFRX INDEX PERFORMANCE



MORNINGSTAR INDEX PERFORMANCE



Source: LPL Research, FactSet 09/30/15

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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.

REITS ARE ONE OF FEW BRIGHT SPOTS IN LIQUID REAL ASSETS

As is now becoming somewhat normal, liquid real assets in general had another negative month in September. The U.S. dollar appreciated modestly and contributed to the poor performance of real assets. One of the few positives for the month were real estate investment trusts (REIT), which benefited from the 10-year yield falling from 2.21% to 2.06% after the Fed delayed its decision to hike rates.

MLPs & Global Listed Infrastructure

Master limited partnerships (MLP) had their worst month since 2008, with the Alerian MLP Index losing 15.3% in September. Daily trading proved extremely volatile, especially the final three days of the month, which all saw swings of more than 5%. MLPs have positive returns in just two months of 2015 and now are on a streak of five straight months of negative returns. The losses in September came on the back of no new material news and most likely were driven simply by continued concern over oil prices, which MLPs have been extremely sensitive to of late. Early October will see third quarter distribution announcements, which may provide an impetus for further losses or a reversal of the trend.

Global infrastructure, as measured by the S&P Global Infrastructure Index, returned -2.7% for the month. This marks the second straight month of declines and four out of the last five months with negative returns.

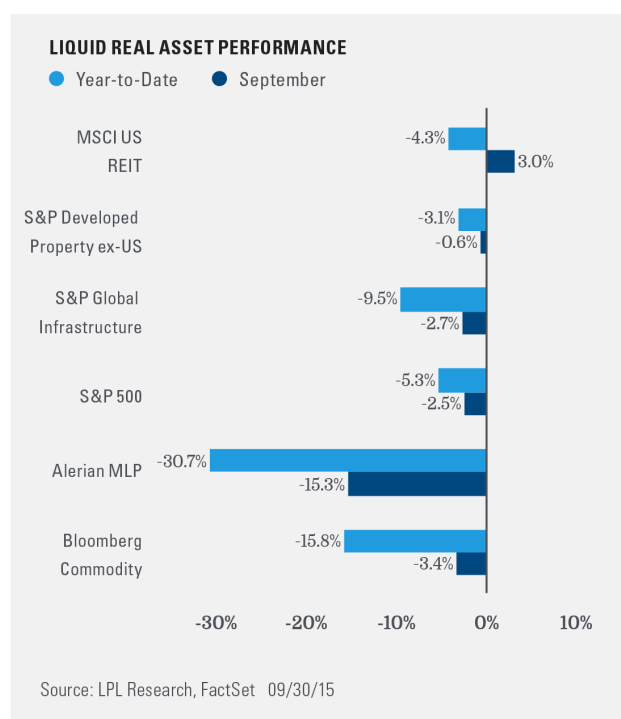
REITs

On a positive note, U.S. REITs performed well in September, with the MSCI U.S. REIT Index returning 3.0% and outperforming the S&P 500 by 5.5%. REITs undoubtedly benefited from the Fed's decision to hold off on raising rates. The inaction of the Fed contributed to the 10-year yield falling 15 basis points (0.15%) during the month. The yield on the index now stands at 4.2%, offering income-oriented investors a relatively attractive option.

Commodities

The overall commodity complex, as measured by the Bloomberg Commodity Index, returned -3.4% in

September. WTI crude oil perhaps had the worst month among its peers, returning -5.7%. Previous gains were partially given back after a strong final week of August, which saw sharp swings upward in the price of oil. The oil markets continue to seek a balance as U.S. production falls and OPEC maintains its supply levels. Grains were able to eke out gains bolstered on the final day of the month by lower than expected harvest forecasts for wheat. The Bloomberg Agriculture subindex returned 2.2%. Precious metals ended the month down modestly and industrial metals were roughly flat.



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

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

IMPORTANT DISCLOSURES

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 your clients. Any economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful. There is no assurance that the techniques and strategies discussed are suitable for all investors or will yield positive outcomes. The purchase of certain securities may be required to affect some of the strategies.

Stock and Pooled Investment Risks

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

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

Bond and Debt Equity Risks

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

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

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

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

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

Alternative Risks

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

Investing in 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.

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.

DEFINITIONS

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

The Citigroup Economic Surprise Index is an objective and quantitative measure of economic news. It is defined as weighted historical standard deviations of data surprises (actual releases versus Bloomberg survey median). A positive reading of the Economic Surprise Index suggests that economic releases have on balance beaten consensus. The index is calculated daily in a rolling three-month window.

The Chicago Fed National Activity Index (CFNAI) is a monthly index designed to gauge overall economic activity and related inflationary pressure.

Quantitative easing (QE) refers to the Federal Reserve's (Fed) current and/or past programs whereby the Fed purchases a set amount of Treasury and/or Mortgage-Backed securities each month from banks. This inserts more money in the economy (known as easing), which is intended to encourage economic growth.

The St. Louis Fed's Financial Stress Index measures the degree of financial stress in the markets and is constructed from 18 weekly data series: 7 interest rate series, 6 yield spreads and 5 other indicators. Each of these variables captures some aspect of financial stress. Accordingly, as the level of financial stress in the economy changes, the data series are likely to move together.

The Leading Economic Indicators (LEI) Index is a measure of economic variables, such as private-sector wages, that tends to show the direction of future economic activity.

Purchasing Managers' Indexes (PMI) 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.

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

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

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

The **BofA Merrill Lynch BB-B U.S. High Yield Constrained Index** contains all securities in the BofA Merrill Lynch US High Yield Index rated BB+ through B- by S&P (or equivalent as rated by Moody's or Fitch), but caps issuer exposure at 2%. Index constituents are capitalization-weighted, based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 2%.

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

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

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

The **HFRX Absolute Return Index** is designed to be representative of the overall composition of the hedge fund universe. It is

comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage.

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

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

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

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

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

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

The **HFRX Macro: Systematic Diversified CTA Index** strategies have investment processes typically as function of mathematical, algorithmic, and technical models, with little or no influence of individuals over the portfolio positioning. Strategies employ an investment process designed to identify opportunities in markets exhibiting trending or momentum characteristics across individual instruments or asset classes. Strategies typically employ a quantitative process that focuses on statistically robust or technical patterns in the return series of the asset, and they typically focus on highly liquid instruments and maintain shorter holding periods than either discretionary or mean reverting strategies. Although some strategies seek to employ counter trend models, strategies

benefit most from an environment characterized by persistent, discernible trending behavior. Systematic diversified strategies typically would expect to have no greater than 35% of the portfolio in either dedicated currency or commodity exposures over a given market cycle.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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