ACG Market Review

Third Quarter 2023

Global Highlights:

- **Economy** – The unexpected strength of the economy has caused the near term probability of a recession to plateau
- **Equities** – Markets experienced a temporary halt in their upward trajectory, despite prevailing economic optimism
- **Fixed Income** – Bond yields continue to rise, but the potential for rate cuts is on the horizon

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The Fall: Recession Probabilities and Markets

The global financial situation in the third quarter of 2023 was a complicated mix of economic forces and market trends. At the beginning of the year, against a backdrop of deteriorating economic indicators, banking industry concerns, and a hawkish U.S. Federal Reserve ("Fed"), a significant portion of economists predicted a recession within the next 12 months. However, following a series of positive surprises, recession probabilities have declined, and consequently, the projected timeline has been pushed back to 2024. Despite a brighter economic outlook, both the equity and fixed income markets posted negative returns in Q3. With global interest rates reaching long-term highs, investors may have finally adopted a "higher-for-longer" mindset. A surging oil market and a lackluster recovery in China also contributed to dampening investor sentiment. As the global economy marches forward, investors and policymakers alike would do well to proceed with a prudent blend of optimism and caution.

Economic Resilience

Indicative of the impact of 18 months of interest rate hikes by the Fed, the number of available job opportunities has declined to its lowest point in two years. As businesses are beginning to feel the effects of financial tightening, many have removed job postings. This produces the Fed's desired result of easing some of the upward pressure on wages. Importantly, to date, layoffs have remained limited, with the unemployment rate hovering around 50-year lows. Absent a significant recession, there is a projected limit to how much the unemployment rate could rise, as U.S. businesses are confronting structurally slower labor force growth due to diminishing legal immigration and baby boomers reaching retirement age. Strong employment conditions should provide consumers with a protective buffer and increase the likelihood of avoiding a recession despite a decline in labor demand.

Additional positive economic indicators include robust corporate profits and GDP figures, both of which have surpassed expectations. The Atlanta Federal Reserve's forward-looking GDPNow model estimates a near-5% annualized growth rate for Q3 2023. This impressive figure stands in stark contrast to initial expectations of most economists and investors earlier in the year, considering the backdrop of aggressive rate hikes implemented by the Fed since early 2022. With the unexpected strength in the economy, the consensus probability of a recession in the near term has plateaued and even declined, according to some prognosticators. Recently, Goldman Sachs lowered their 12-month ahead recession probability to 15%, noting the positive labor market and better inflation news. Although there is no certainty regarding the occurrence of a recession in the near future, it is crucial to acknowledge that a decelerating economy is more vulnerable to unforeseen difficulties.

Equity Markets Pause Despite Economic Optimism

During the third quarter, equity indices largely declined, with September being particularly challenging as the S&P 500 finished down -4.77% for the month. The index was down -3.27% for Q3 and is up +13.07% year-to-date. In terms of style, value outperformed growth by a small margin during the quarter, but growth remains well ahead of value year-to-date with the Russell 3000 Growth up +23.77% vs. +1.67% for the Russell 3000 Value.

As highlighted by the spread between growth and value, the equity market's resilience has not been evenly distributed.

Considerable attention has been devoted to the renowned "Magnificent 7."[1] While most of these stalwarts declined during Q3, the majority of the market's overall return year-to-date has been driven by these few Large Cap stocks. Looking at the 10 largest stocks in the S&P 500, with the exception of one stock, all are currently trading at a valuation exceeding 20x forward earnings. This raises questions about the sustainability of the current market trend of outperformance by these few Mega Cap names as the S&P 500 Equal Weight Index trades at a much lower 15.4x earnings.

In terms of sectors, Energy stocks exhibited exceptional performance during the quarter, led by the surge in oil prices resulting from prolonged supply reductions implemented by OPEC and Russia. While rising oil prices reflect a recovering market that was hit hard during the pandemic, economists have expressed concerns about the potential consequences for consumer behavior. Prolonged periods of high oil prices can translate into increased costs for businesses and consumers alike. Consequently, cautious consumer behavior may arise as individuals grapple with the financial strain posed by elevated fuel prices.

During the quarter, we observed a continuation of the trend where Domestic Small Cap and International shares lagged U.S. Large Cap. The Russell 2000 experienced a decline of -5.13%, while the MSCI EAFE saw a decrease of -4.11%. One potential silver lining amidst this ongoing underperformance is the opportunity to acquire equities at more attractive valuations in both market segments. Although short-term valuation reversions are unpredictable, a more affordable initial investment should positively impact long-term future returns.

Bond Yields Keep Rising

In July, both the Fed and European Central Bank implemented 25 bps rate increases, but with positive developments on the inflation front, many major central banks indicated a pause in further rate hikes in September. Fed Funds futures indicate the market expectation is for rate cuts in 2024 and 2025; however, intermediate yields tend to align with GDP. Thus, yields could remain elevated relative to the recent past for some time.

Concerns regarding the rising issuance of US debt weighed on the Treasury market in Q3. Fitch Ratings downgraded the United States' triple-A rating to double-A plus in August, citing the increasing debt burden and "erosion of governance" as the reasons for its decision. The bellwether 10-year Treasury yield surged above 4% during the quarter, marking a decade-high. While painful for current returns, this move has, however, brought real yields back into positive territory after years of negative real yields.

In a rising rate environment, a shorter duration has provided protection in fixed income portfolios, but with rate cuts expected in 2024, a shift in duration positioning might prove prudent. Historical data reveals that longer-duration fixed income instruments tend to deliver higher total returns in the year following the final Fed rate hike.

[1] Apple, Alphabet, Amazon, Meta, Microsoft, Nvidia, and Tesla.

Credit spreads for investment-grade and high-yield bonds are close to their 20-year averages and actually contracted during the quarter. Nonetheless, a worrying trend has emerged, with an increasing number of high-yield bonds placed on negative watch. This trend signifies a greater risk of defaults and is reminiscent of conditions in 2020.

China’s Property Sector Fallout

One of the most discussed potential risks to global financial markets is the deterioration of the Chinese economy. Although China's official PMI manufacturing index rose in August, the reading remained below the 50-point threshold, marking the fifth consecutive month of contraction. As investors disputed Beijing's ability to provide sufficient stimulus to get the world's second-largest economy back on track, Chinese equities fell sharply in August, with the country's real estate sector performing particularly poorly. Trading in shares of Chinese property giant Evergrande was suspended in Hong Kong after significant price falls. Once the world’s most valuable property developer, an overwhelming debt burden resulted in a default in 2021, causing significant disruptions globally. The Chinese government has yet to directly bail out any of the many failing Chinese property developers, but the size and interconnectedness of Evergrande’s liabilities make an orderly restructuring difficult to achieve. The global impact of the Evergrande unwind is difficult to measure, but not to be trivialized should a credit crunch ensue.

Market Index Review – September 2023

Major Market Indices	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
S&P 500	-4.77	-3.27	13.07	21.62	10.15	9.92	11.91
Russell 2000	-5.89	-5.13	2.54	8.93	7.16	2.39	6.65
Russell 3000	-4.76	-3.25	12.39	20.46	9.38	9.14	11.28
MSCI ACWI	-4.14	-3.40	10.06	20.80	6.89	6.46	7.56
MSCI ACWI ex USA	-3.16	-3.77	5.34	20.39	3.74	2.58	3.35
Bloomberg US Aggregate TR	-2.54	-3.23	-1.21	0.64	-5.21	0.10	1.13

International Indices	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
MSCI EAFE	-3.42	-4.11	7.08	25.65	5.75	3.24	3.82
MSCI Europe	-3.97	-4.96	7.96	28.84	7.23	3.96	3.83
MSCI Pacific	-2.42	-2.65	5.51	20.41	3.20	1.99	3.86
MSCI EAFE Small Cap	-4.42	-3.51	1.82	17.90	1.10	0.76	4.30
MSCI Emerging Markets	-2.62	-2.93	1.82	11.70	-1.73	0.55	2.07
MSCI Frontier Markets	-3.79	1.98	7.37	6.48	1.73	1.63	2.25

Russell Indices	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Russell 1000	-4.70	-3.15	13.01	21.19	9.53	9.63	11.63
Russell 1000 Growth	-5.44	-3.13	24.98	27.72	7.97	12.42	14.48
Russell 1000 Value	-3.86	-3.17	1.79	14.44	11.05	6.23	8.45
Russell MidCap	-5.02	-4.68	3.91	13.45	8.09	6.38	8.98
Russell MidCap Growth	-4.87	-5.22	9.88	17.47	2.61	6.97	9.94
Russell MidCap Value	-5.09	-4.46	0.54	11.05	10.98	5.18	7.91
Russell 2000 Growth	-6.60	-7.32	5.24	9.59	1.09	1.55	6.72
Russell 2000 Value	-5.21	-2.96	-0.53	7.84	13.32	2.59	6.19

Bond Indices	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
FTSE T-Bill 3 Months	0.45	1.38	3.80	4.71	1.78	1.74	1.12
Bloomberg US Municipal TR	-2.93	-3.95	-1.38	2.66	-2.30	1.05	2.29
Bloomberg US Govt/Credit TR	-2.34	-3.00	-0.86	0.93	-5.32	0.41	1.31
Bloomberg US Govt/Credit Int TR	-1.08	-0.83	0.65	2.20	-2.93	1.02	1.27
Bloomberg US Credit 1-3 Yr TR	-0.10	0.75	2.20	3.51	-0.30	1.60	1.50
Bloomberg US Credit Long TR	-5.29	-7.23	-2.62	2.54	-8.97	-0.23	2.71
Bloomberg US Corporate High Yield TR	-1.18	0.46	5.86	10.28	1.76	2.96	4.24
FTSE WGBI	-3.24	-4.27	-2.68	1.04	-8.72	-2.57	-1.19

Sector Indices	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
S&P 500 Materials	-4.78	-4.76	2.61	18.05	9.46	8.61	8.70
S&P 500 Consumer Discretionary	-5.98	-4.80	26.67	13.77	2.35	7.18	11.53
S&P 500 Consumer Staples	-4.53	-5.97	-4.76	7.35	6.09	8.51	8.85
S&P 500 Energy	2.63	12.22	6.03	30.21	51.42	8.96	5.07
S&P 500 Financials	-3.14	-1.13	-1.65	11.73	13.55	6.04	9.69
S&P 500 Health Care	-2.96	-2.65	-4.09	8.18	8.61	8.21	12.00
S&P 500 Industrials	-5.96	-5.16	4.50	24.58	11.44	7.29	10.05
S&P 500 Information Technology	-6.87	-5.64	34.72	41.10	13.32	18.39	20.38
S&P 500 Real Estate	-7.25	-8.90	-5.45	-1.84	2.33	4.39	--
S&P 500 Communication Services	-3.26	3.07	40.43	38.48	5.31	7.88	7.27
S&P 500 Utilities	-5.63	-9.25	-14.41	-7.02	2.91	5.65	8.32

Other Indices	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Morningstar US Long-Short Equity	-1.91	-1.11	3.74	8.98	4.87	2.92	3.44
Morningstar US Equity Market Neutral	1.89	3.54	4.00	7.75	4.69	2.13	2.23
Morningstar US Multistrategy	-0.96	0.22	3.26	5.81	3.67	2.26	2.36
Morningstar US Macro Trading	1.22	1.42	2.00	2.74	3.00	2.54	2.40
Morningstar US Event Driven	-0.10	1.91	2.80	5.03	3.81	3.64	3.35
Wilshire Liquid Alternative TR USD	-0.74	-0.20	2.39	4.16	1.83	1.36	1.36
FTSE EPRA/NAREIT Developed NR USD	-6.11	-5.84	-4.88	1.64	0.59	-1.24	2.04
Alerian MLP TR USD	3.24	9.90	20.56	32.74	43.10	6.81	1.93
Bloomberg Commodity Index TR USD	-0.69	4.71	-3.44	-1.30	16.23	6.13	-0.75
S&P Global Infrastructure TR USD	-4.67	-7.28	-3.74	6.88	7.33	4.07	5.10
Consumer Price Index *	0.44	0.63	3.45	3.67	5.71	4.02	2.76

* Consumer Price Index returns will be reported as of the previous month end due to the delayed release of data.

Source: Morningstar, ACG
Returns include dividends; 3-year, 5-year and 10-year returns are annualized. Indices are unmanaged.
You cannot invest directly into an index. Past performance is not indicative of future results

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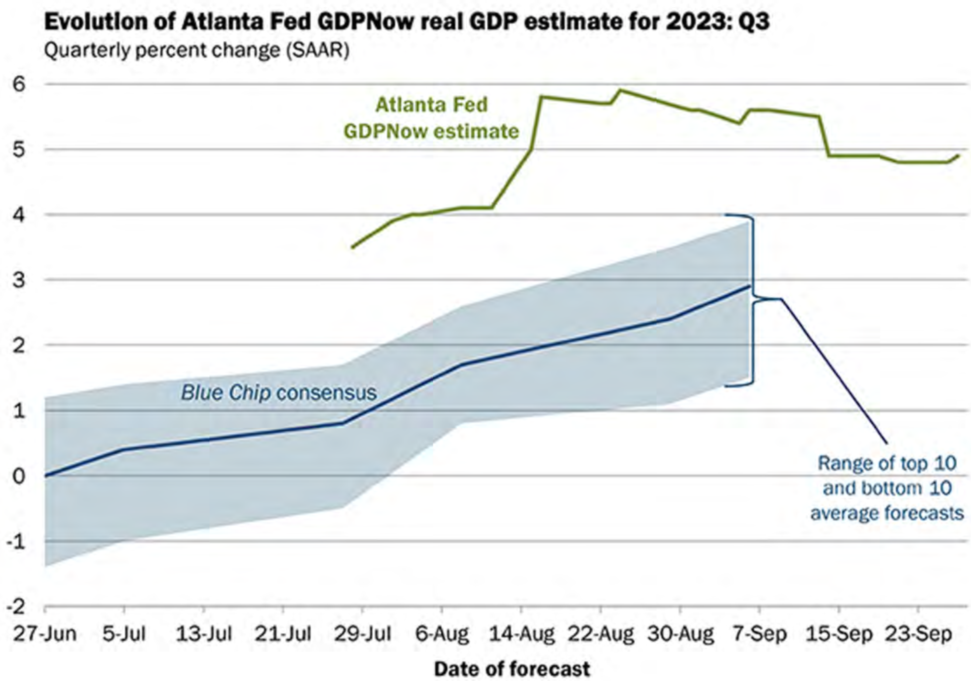
Q3 2023: The Fed Guessing Game Continues

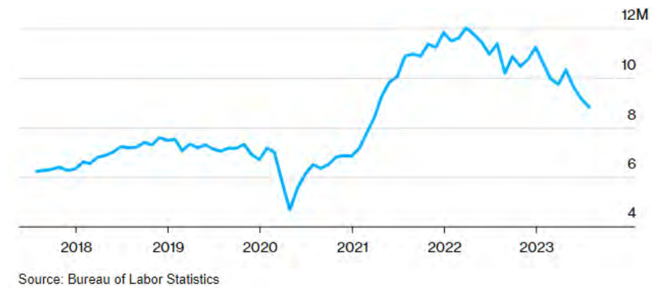
Source: Hedgeye, ACG

U.S. Economy Surprises to Upside Despite Fed Hikes Rates

Q3 2023 U.S. GDP Estimate
(Atlanta Fed GDPNow Estimate)



Number of U.S. Job Openings



Number of Layoffs
(3 Month average, Thousands of People)

- The Atlanta Federal Reserve's GDPNow real-time estimate of Q3 2023 GDP shows that the economy could grow by a nearly 6% annualized pace in the third quarter which is well above most economists' estimates. This pace of growth would be particularly impressive considering the aggressive rate hikes by the Fed since early 2022
- In a sign that the Fed hikes are having the intended consequences, the number of job openings fell to a two-year low as employers removed job postings, thus easing some of the upward pressure on wages. Layoffs, however, remained muted which limits the pain felt by consumers and helps increase the odds that the U.S. can avert a recession

Source: Atlanta Federal Reserve Bank, Bureau of Economic Analysis, Bureau of Labor Statistics, Bloomberg, ACG

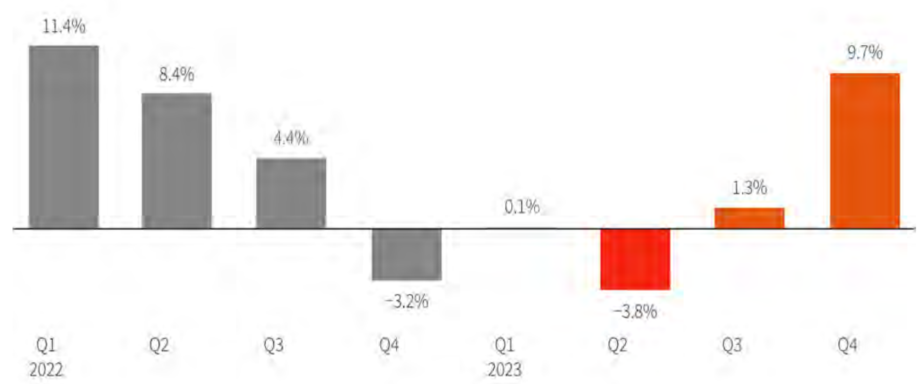
Maybe a Recession isn't a Foregone Conclusion

- Heading into 2023, most economists surveyed were forecasting a U.S. recession when looking out over the next 12 months. As economic data, like corporate profits and GDP, surprised to the upside, the consensus probability of a recession in the near-term plateaued and has even started to come down more recently. For example, Goldman Sachs recently cut their odds of a recession significantly based on improving data and a more positive economic outlook

- This renewed optimism has flowed through to Wall Street expectations for corporate earnings growth. After a slowdown in earnings in 2022 and a decline in the first half of 2023, year-over-year earnings growth is expected to increase during the second half of 2023. Growth in Q4 2023 is now forecast to be nearly 10% higher vs. Q4 2022

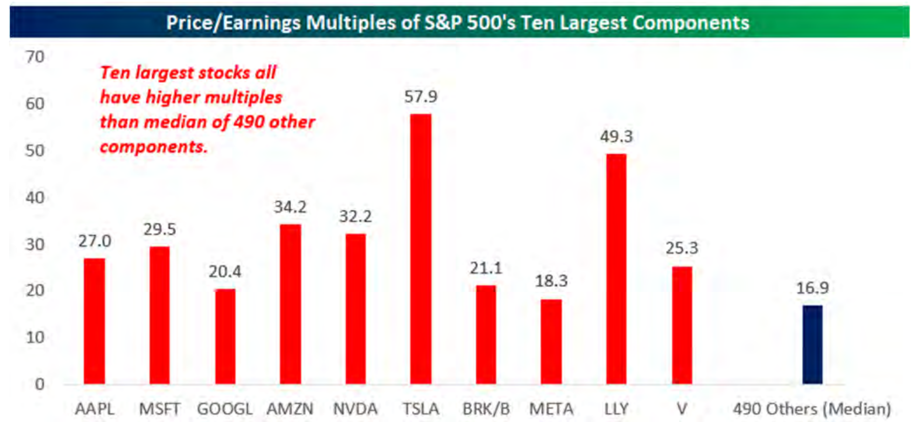
Probability of a U.S. Recession
(U.S. 12 Month Forward Odds)

S&P 500 Quarterly Earnings
(Year-over-year Growth)



Equity Market Breadth Still Lagging Despite Strong Returns

S&P 500 Performance vs. Breadth
(Index Level vs. % of Stocks above 200 Day Avg.)



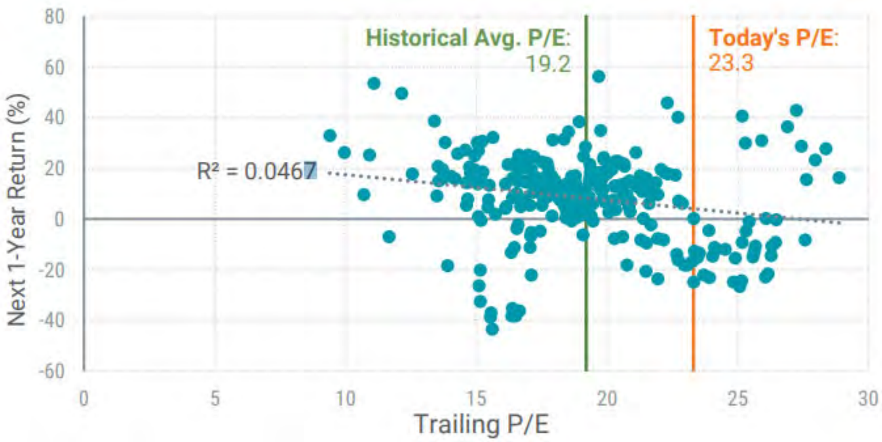
- Much has been made of the so-called "Magnificent 7" as those few large stocks drove most of the market's overall return in 2023. Looking at the percentage of stocks trading above their 200-day moving average shows that the statistic (which measures market breadth and how many stocks are contributing to returns) remains significantly below levels seen the last time the S&P 500 was at these levels

- The price-to-earnings ratio of the S&P 500 Index is now at 18.9x forward earnings. To illustrate the effect that the largest stocks are having on index averages, note that the S&P 500 Equal Weight Index is trading at 15.4x earnings. Looking at the largest 10 stocks in the index shows that all but one of the stocks is trading above 20x forward earnings

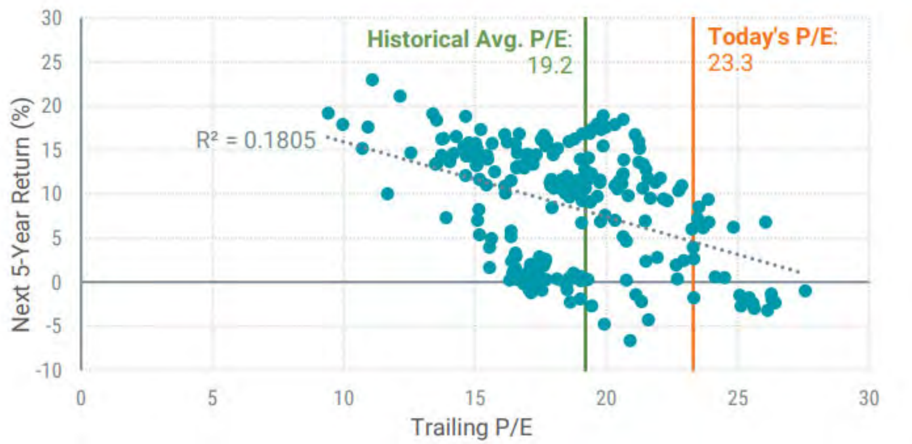
Source: Charles Schwab, Bespoke Investment Group, Standard & Poor's, ACG

Valuations Slightly More Useful as Long-term Predictor

Valuation vs. Return
(S&P 500 Trailing P/E vs. Forward 1 Year Return)



Valuation vs. Return
(S&P 500 Trailing P/E vs. Forward 5 Year Return)



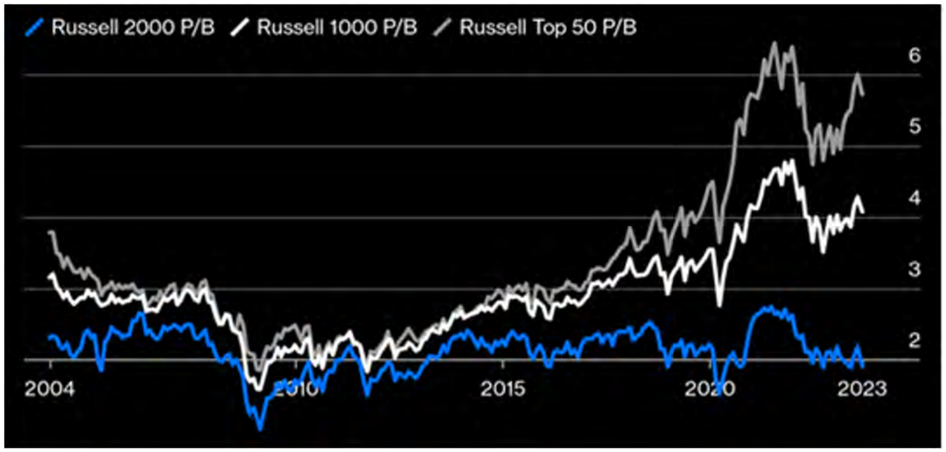
- Over the short-term (1-Year in this example), equity market performance tends to be largely unrelated to the starting valuation level. For example, there are many examples historically when the starting price-to-earnings ratio was relatively high vs. history but equities went on to have strong performance in the subsequent year. This makes using P/E ratios to tactically time the market nearly impossible

- When you stretch the observation period a little longer and look at subsequent 5-Year returns, however, one starts to see a slightly stronger relationship between valuation and future returns. But, even over this longer period you can find many examples where the starting valuation was not indicative of future returns. The moral of the story is timing the overall market on any metric, but especially valuation, is very difficult

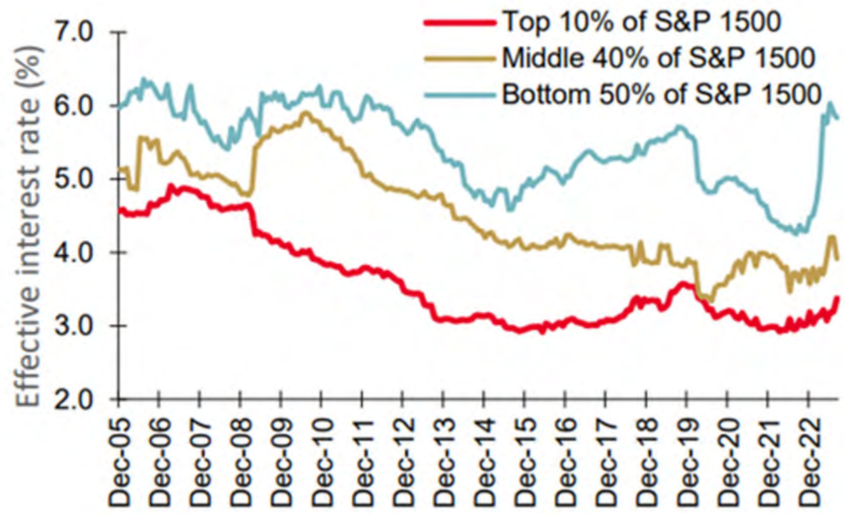
Source: Standard & Poor's, ACG

Is Recent Performance Dispersion Driven by Cost of Capital?

Valuations by Capitalization
(Price-to-Book Ratios of Russell 1000, 2000 Top 50 Indexes)



Effective Interest Rate by Capitalization
(Interest Paid Divided by Total Debt)



- While valuations for companies with small, medium and very large market capitalizations typically varies somewhat over time, in the last few years there has been a drastic separation where the largest companies have been rewarded in the market with the highest valuations. This is reflected in trailing performance where small cap companies have lagged larger companies recently

- Digging deeper, many of the largest companies took advantage of the period of low interest rates to lock in low financing costs through issuance of low-rate debt, whereas smaller companies, which don't have similar access to corporate bond markets, were unable to lock in the same advantaged financing. Many point to this difference as key reason for the recent performance dispersion

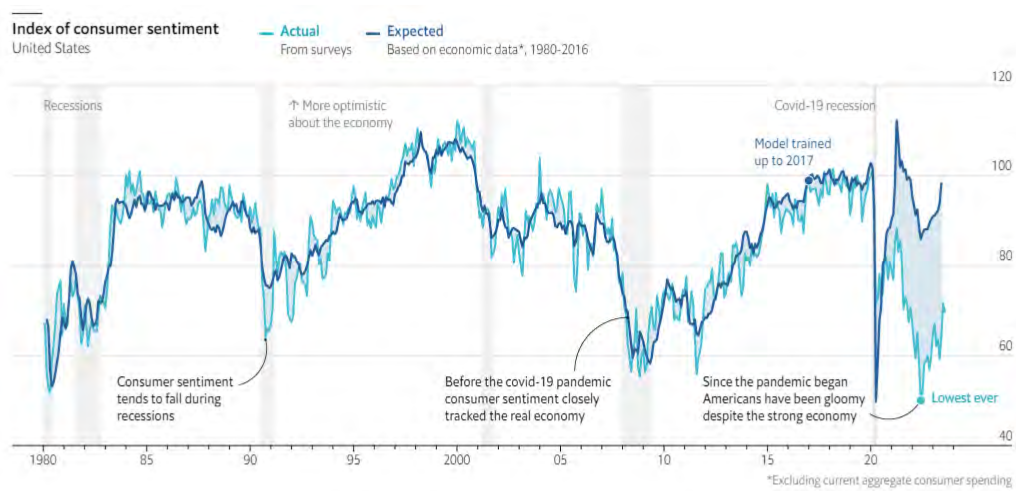
Source: Bloomberg, Standard & Poor's, ACG

Investors Swing Between Optimism & Caution

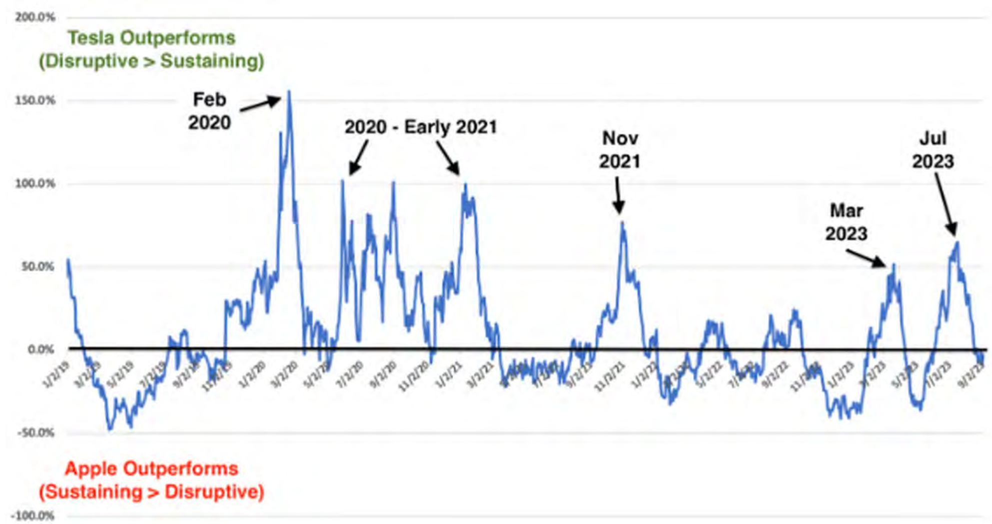
- Historically, University of Michigan Consumer Sentiment Index has moved in tandem with changes in consumer spending. Economists worry that current economic pessimism, which started during the pandemic, will become a self-fulfilling prophecy. Since 2020, however, the mix of economic indicators that shape sentiment has changed, and as a result the measure has lost its predictive power. Although Americans report being worried about their finances, they are behaving as flush as ever—and in economic forecasting, actions speak louder than words

- Over the last few years equity market investors have swung between optimism and caution based on a variety of factors. Another way to view this is through investor preference for the stocks of Apple and Tesla. Apple is widely perceived as a safe asset due to its massive cashflow while Tesla is a proxy for disruptive technologies like autonomous cars and artificial intelligence. When Tesla is outperforming, investors are generally confident and have plenty of risk appetite; when Apple takes the lead, they tend to be more cautious and want safety and stability

Index of Consumer Sentiment
(Actual vs. Expected)



Tesla Minus Apple Relative Returns
(50 Day Trailing Relative Returns)



Source: Bloomberg, DataTrek, ACG

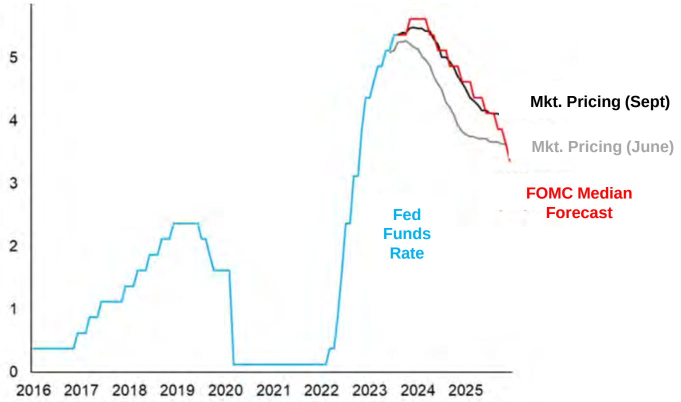
Bond Yields and Fed Funds Futures Diverge

- During the third quarter of 2023, the bellwether 10-Year Treasury yield shot up above the 4% level, ending September at 4.57%. In addition, 3 Month T-Bills are now well over 5%. This is the highest level for both bond instruments in about 20 years. The recent move has brought inflation-adjusted (or “real”) yields back into positive territory and also brought short-term bond yields above the S&P 500 earnings yield (which is calculated as the inverse of the price-to-earnings ratio)

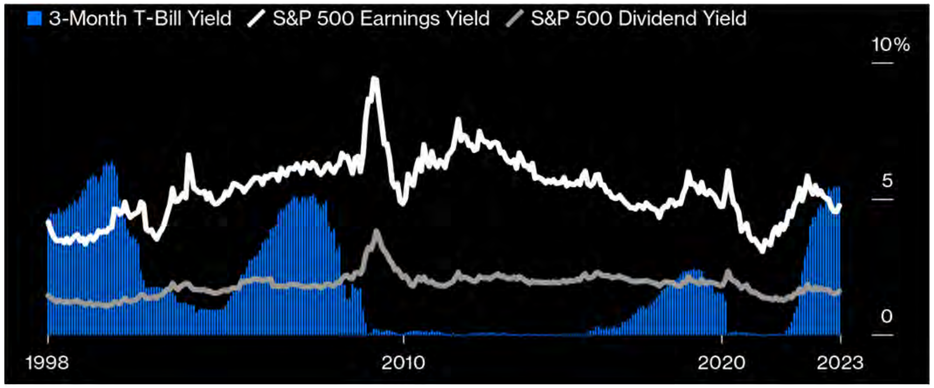
- While Fed Funds futures still show an expectation of rate cuts in 2024 and 2025, over the long-term, intermediate yields tend to broadly follow GDP. Improving economic growth suggest that yields could continue to see upward pressure over time

10-Year Treasury Yields

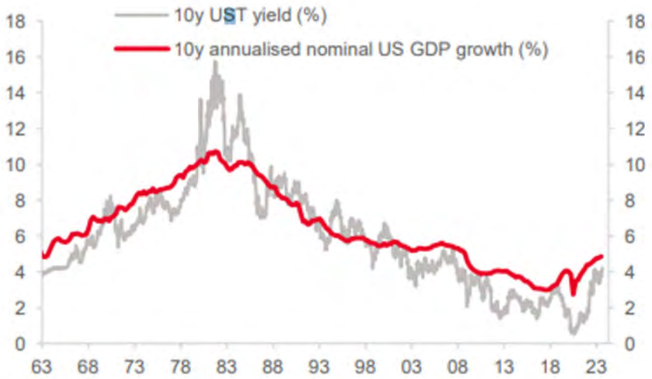
Fed Funds Rate & Projections
(Market Implied Fed Funds Futures)



Yield Comparison
(3-Month T-Bill Yield vs. S&P 500 Earnings & Dividend Yield)



Yields vs. GDP Growth
(10 Year Yield vs. 10 Year Avg. GDP Growth)



Source: Bloomberg, Federal Reserve, Societe General, Bureau of Economic Analysis, Bureau of Labor Statistics, ACG

Atlanta Consulting Group

Where Do Bonds Go From Here?

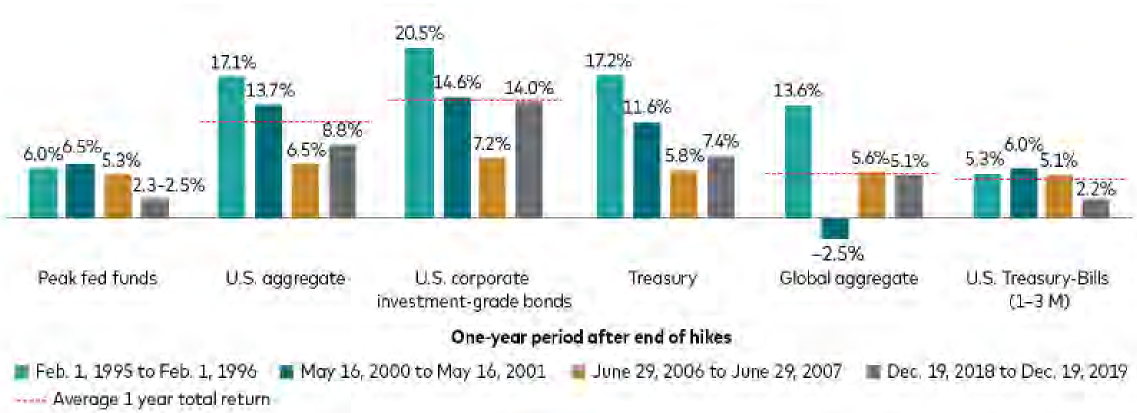
- Since the Fed started hiking rates early in 2022, having a shorter duration has been protective in fixed income portfolios. Looking ahead, with higher starting yields now, core / aggregate type fixed income exposure would have to see rates rise by over 1% to see losses over the next year. In the more likely scenario that rates are flat or decrease, aggregate exposure benefits more from its duration

- Looking back at the last four rate cycles one can see a similar trend where longer duration fixed income had higher total returns in the year following the final Fed rate hike. For example, the average return of corporate bonds and intermediate Treasuries was nearly twice that of Treasury Bills (or cash)

Fixed Income Analysis
(1 Year Future Performance By Rate Scenarios)

	Rates Up +1%	Rates Up +0.5%	Rates Flat	Rates Down -0.5%	Rates Down -1%
Aggregate 5.0% Yield 6.0 Year Duration	**-1.0%**	**+2.0%**	**+5.0%**	**+8.0%**	**+11.0%**
Short Duration 6.0% Yield 1.0 Year Duration	**+5.0%**	**+5.5%**	**+6.0%**	**+6.5%**	**+7.0%**

Performance by Bond Segment
(Performance for 1 Year After Final Fed Rate Hike)

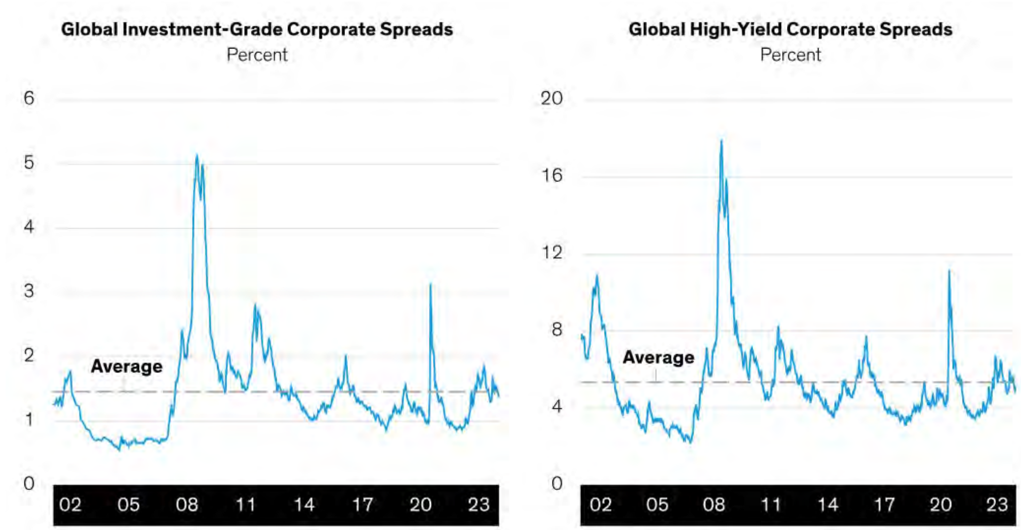


Source: Vanguard, Bloomberg, FactSet, ACG

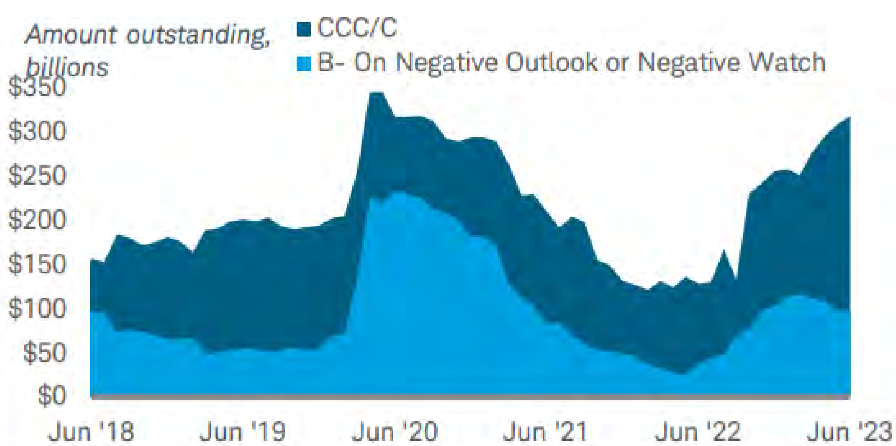
Fixed Income is More Than Just Interest Rates

- Investment grade and high yield credit spreads (the yield above Treasuries) are currently near their 20-year averages
- More high yield bonds are on negative watch status with a higher risk of default. The total dollar value in this category increased to over $300 billon, an amount not seen since 2020
- While most investment grade bonds remain on solid footing, interest coverage ratios are declining as financing costs increase

Fixed Income Credit Spreads



Amount of Bonds at Risk of Default
(CCC/C and B on negative Credit Watch)



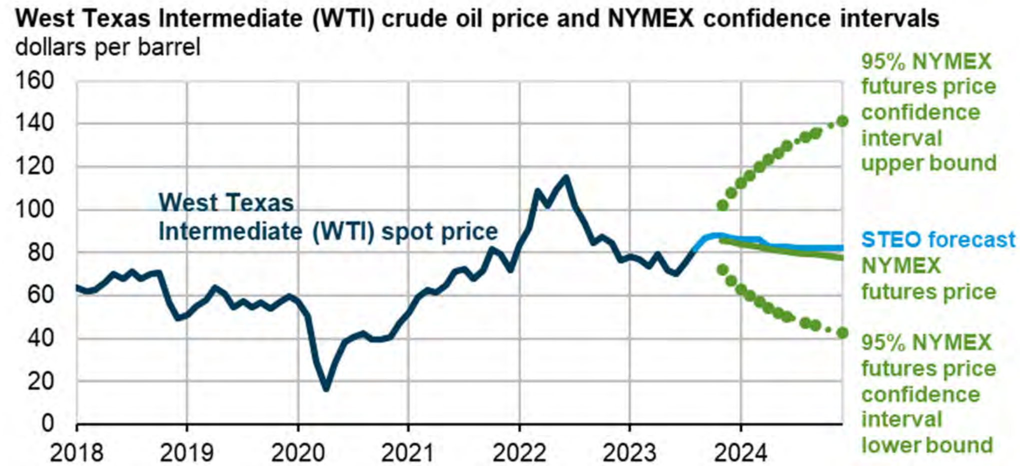
Interest Coverage Ratio
(Investment Grade Fixed Income)

Source: Bloomberg, AllianceBernstein, Standard & Poor's, ACG

Risks: Rising Oil Prices

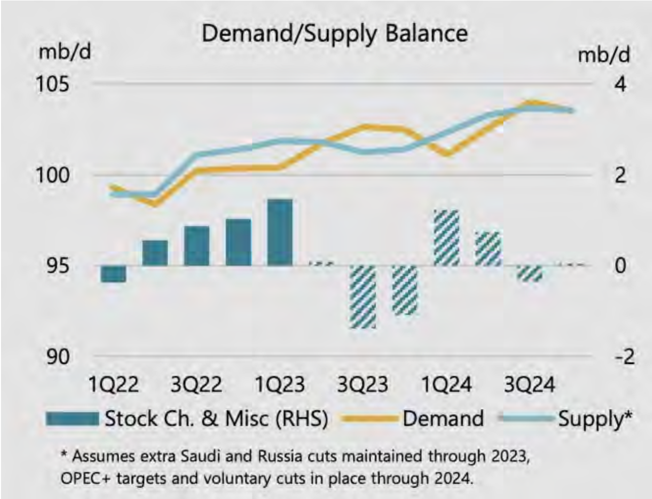
- After falling sharply during the pandemic when transportation and economic activity was curtailed, oil prices recovered with the global economy. Prices then shot up sharply when Russia invaded Ukraine in early 2022. After settling back in the $70-$80 range for some time, oil prices have again started to increase with West Texas Intermediate oil ending September at just over $90 a barrel

West Texas Intermediate Oil Price
(With Futures Pricing)



- Oil prices are largely driven by supply & demand dynamics. After a period of over supply, OPEC, as well as Russia, vowed to cut production through 2024. These cuts, as well as higher than expected economic activity throughout most of the developed world, have decreased inventories and increased prices. Economists worry that this oil price spike, if it lasts, could have a negative effect on already cautious consumer behavior

Global Oil Supply/Demand



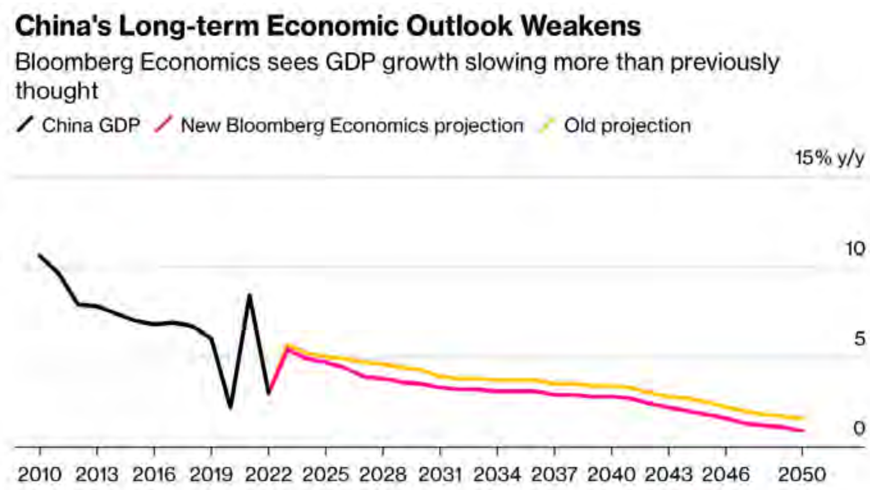
Source: U.S. Energy Information Administration, CME Group, International Energy Agency, Bloomberg, Refinitiv, ACG

Risks: A Slowing China

- Economic data out of China has been negative and resulted in continued poor returns from their equity market. This has had a large effect on the MSCI Emerging Markets Index due to China's relative size within that index. Looking at recent data, almost all the components of the Chinese economy were growing at very disappointing rates. This was true of industrial investment, investment in real estate, investment in fixed assets (such as infrastructure), and retail sales. While some volatility was expected with the relaxing of their Covid Zero policy, China is now six months past this milestone and most economists were expecting to see a rebound at this point

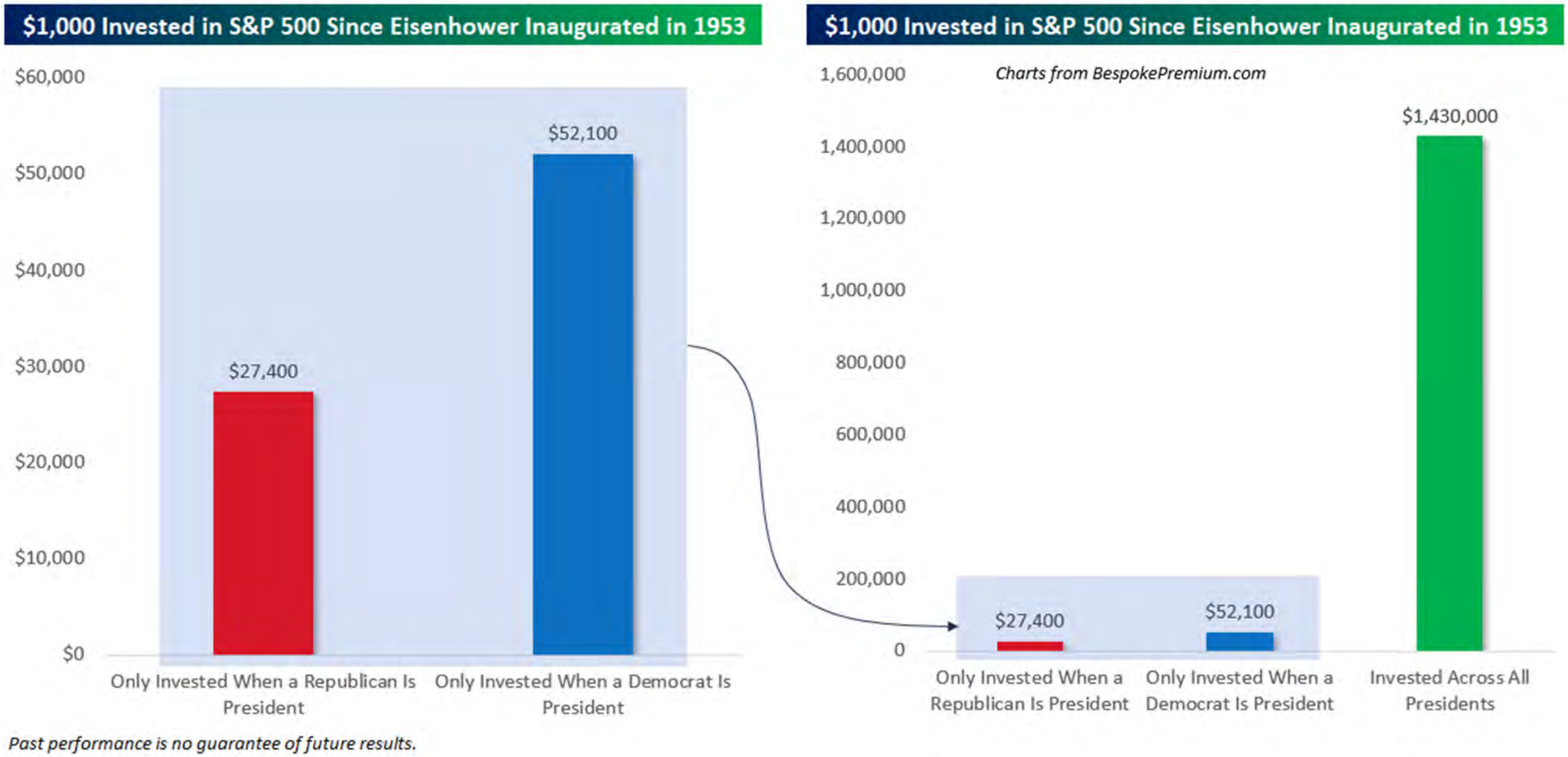
- After a long period of high single-digit and sometimes double-digit annual GDP growth, China recently announced a third straight year of sub-5% growth. This magnitude slowdown has not occurred in China since the death of Mao Zedong in the mid-1970s. Strategists and economists have taken note and have cut their expectations for future growth accordingly

China Data
(Year-over-year with 6 Month Smoothing)



Source: Bloomberg, ACG

Appendix: Approaching the 2024 Presidential Election



- Historically, if you go back to the Eisenhower administration, returns since the mid-1950s have been higher during Democratic administrations
- But, being fully invested far outweighs trying to pick political parties when it comes to long-term equity returns

Source: Bespoke Investment Group, ACG

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We urge you to take a moment to compare the account balances contained in this report to those balances reflected on the statements that you receive directly from your account's custodian. Please contact us or the account custodian with any questions you may have. Also, please notify us promptly if you do not receive statements on all accounts from the custodian on at least a quarterly basis.

INDEX DESCRIPTIONS

Asset class and reference benchmarks:

ASSET CLASS	BENCHMARK
U.S. Equity	Russell 3000 TR
Non-U.S. Equity	MSCI ACWI ex US NR
U.S. Fixed Income	Bloomberg Barclays U.S. Aggregate Bond TR
Global Real Estate (prior to 2008)	NASDAQ Global Real Estate NR
Global Real Estate (2008-present)	FTSE EPRA/NAREIT Global Real Estate NR
Commodities	Bloomberg Commodity TR USD
Cash & Cash Alternatives	Citi Treasury Bill 3 Mon USD

Alerian MLP: The Alerian MLP Index is the leading gauge of large- and mid-cap energy Master Limited Partnerships (MLPs). The float-adjusted, capitalization- weighted index, which includes 50 prominent companies and captures approximately 75% of available market capitalization, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).

Bloomberg 10-Year U.S. Treasuries: Measures the performance of U.S. Treasury securities that have a remaining maturity of 10 years.

Bloomberg U.S. Aggregate 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.

Bloomberg Global Aggregate ex-U.S. Dollar Bond Index: Tracks an international basket of bonds that currently contains 65% government, 14% corporate, 13% agency and 8% mortgage-related bonds.

Bloomberg High Yield: Covers the universe of fixed-rate, non-investment grade debt. Pay-in-kind (PIK) bonds, Eurobonds, and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC-registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures and 144-As are also included.

Bloomberg U.S. Corporate High Yield: Composed of fixed-rate, publicly issued, non-investment grade debt.

The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities.

Dow Jones U.S. Total Stock Market Index, which comprises all U.S. equity securities with readily available prices.

FTSE 3-Month Treasury-Bill Index: This is an unmanaged index of three-month Treasury bills.

FTSE EPRA/NAREIT Global Real Estate Index: Designed to represent general trends in eligible listed real estate stocks worldwide. Relevant real estate activities are defined as the ownership, trading and development of income producing real estate.

INDEX DESCRIPTIONS

Gross Domestic Product (GDP) is the annual market value of all goods and services produced domestically by the US.

Morningstar US Equity-Market Neutral: These funds attempt to reduce systematic risk created by factors such as exposures to sectors, market-cap ranges, investment styles, currencies, and/or countries. They try to achieve this by matching short positions within each area against long positions. These strategies are often managed as beta-neutral, dollar-neutral, or sector-neutral. A distinguishing feature of funds in this category is that they typically have low beta exposures (less than 0.3 in absolute value) to equity market indexes such as the MSCI World. In attempting to reduce systematic risk, these funds put the emphasis on issue selection, with profits dependent on their ability to sell short and buy long the correct securities.

Morningstar US Event Driven : These funds attempt to profit from price changes related to a variety of corporate actions, including bankruptcy, emergence from bankruptcy, divestitures, stock buybacks, dividend issuance, major shifts in corporate strategy, and other atypical events. Many of these funds undertake activist techniques to spur further corporate changes at the underlying companies.

Morningstar US Long-Short Equity: These funds primarily take long and short positions in U.S. equities. These funds follow a strategy in which at least 75% of the fund's gross exposure is in equities, and 75% of equities exposure is in U.S. equities. The fund may also include some derivative instruments. These funds tend to have betas of 0.3 and higher relative to broad U.S. indexes like the S&P 500 and DJ Wilshire 5000.

Morningstar US Macro Trading: These funds base investment decisions on an assessment of the broad macroeconomic environment. They look for investment opportunities by studying such factors as the global economy, government policies, interest rates, inflation, and market trends. As opportunists, these funds are not restricted by asset class and may invest across such disparate assets as global equities, bonds, currencies, derivatives, and commodities. These funds primarily invest through derivatives markets. They typically make discretionary trading decisions rather than using a systematic strategy. At least 60% of the funds' exposure is obtained through derivatives.

Morningstar US Multistrategy: These funds offer investors exposure to several different hedge fund investment tactics. In most of these cases, all of the assets are managed in-house at the hedge fund, but the assets may be divided between multiple portfolio managers, each of whom focuses on a different strategy. This is not to be confused with a fund of funds, which uses external portfolio managers and strategies, as well as second layer of management and performance fees. An investor’s exposure to different tactics may change slightly over time in response to market movements.

MSCI All Country World Index Ex-U.S Index.: A market-capitalization-weighted index maintained by Morgan Stanley Capital International (MSCI) and designed to provide a broad measure of stock performance throughout the world, with the exception of U.S.-based companies. It includes both developed and emerging markets.

MSCI EAFE Index (Europe, Australasia, Far East): A free-float adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States and Canada. The EAFE consists of the country indices of 21 developed nations.

MSCI EAFE Growth Index: Represents approximately 50% of the free-float adjusted market capitalization of the MSCI EAFE index, and consists of those securities classified by MSCI as most representing the growth style.

MSCI EAFE Small-Cap Index: An unmanaged, market-weighted index of small companies in developed markets, excluding the U.S. and Canada.

MSCI EAFE Value: Represents approximately 50% of the free-float adjusted market capitalization of the MSCI EAFE index, and consists of those securities classified by MSCI as most representing the value style.

MSCI Emerging Markets Index: Designed to measure equity market performance in 25 emerging market indexes. The three largest industries are materials, energy and banks.

The NASDAQ Composite Index is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market.

Russell 1000 Index: Measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 90% of the investible U.S. equity market.

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

INDEX DESCRIPTIONS

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

Russell Mid-Cap Index: Measures the performance of the 800 smallest companies of the Russell 1000 Index, which represent approximately 30% of the total market capitalization of the Russell 1000 Index.

Russell Mid-Cap Value Index: Measures the performance of those Russell Mid-cap companies with lower price-to-book ratios and lower forecasted growth values.

Russell Mid-Cap Growth Index: Measures the performance of those Russell Mid-cap companies with higher price-to-book ratios and higher forecasted growth values.

Russell 2000 Index: Measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

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

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

Russell 3000 Index: Measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

Standard & Poor's 500 (S&P 500): Measures changes in stock market conditions based on the average performance of 500 widely held common stocks. Represents approximately 68% of the investable U.S. equity market.

Wilshire Liquid Alternative Index: The Wilshire Liquid Alternative Index℠ measures the collective performance of the five Wilshire Liquid Alternative strategies that make up the Wilshire Liquid Alternative Universe. The Wilshire Liquid Alternative Index (WLIQA) is designed to provide a broad measure of the liquid alternative market by combining the performance of the Wilshire Liquid Alternative Equity Hedge Index℠ (WLIQAEH), Wilshire Liquid Alternative Global Macro Index℠ (WLIQAGM), Wilshire Liquid Alternative Relative Value Index℠ (WLIQARV), Wilshire Liquid Alternative Multi-Strategy Index℠ (WLIQAMS), and Wilshire Liquid Alternative Event Driven Index℠ (WLIQAED).