Investment Outlook

By Craig Burelle, VP, Macro Analyst

KEY TAKEAWAYS

- Global growth is expected to pick up modestly over the next two years, and corporate profits are now growing again in most countries.
- The ongoing economic and profits recoveries mean global risk assets could see modest upside from here.
- EM profits and economic growth are strengthening relative to DM for the first time in years.
- Changes in US government policy could be positive for growth, but uncertainty can spark market volatility and create disconnects between upbeat sentiment and the real economy.

A synchronized pickup in global economic activity has lifted the spirits of businesses, consumers and investors worldwide. Though many equity markets are near 52-week highs and credit spreads are near multi-year lows, we still believe the US credit cycle has time to advance in its later stage.

Less Accommodative Monetary Policy is Slowly Emerging

After years of monetary stimulus, the world's major economies are starting to see firmer growth and inflation, and policymakers are slowly shifting gears. The Federal Reserve (Fed) has ratcheted up rates three times since the economic recovery began, and the central bank looks positioned for two more hikes this year and three next year. In Europe, the European Central Bank (ECB) is trimming monthly asset purchases and inching away from ultra-accommodative policy, but the process of interest rate normalization is expected to be slow and take several years. Improving global growth and gradual steps toward less accommodative policy have limited US-dollar strength so far this year.

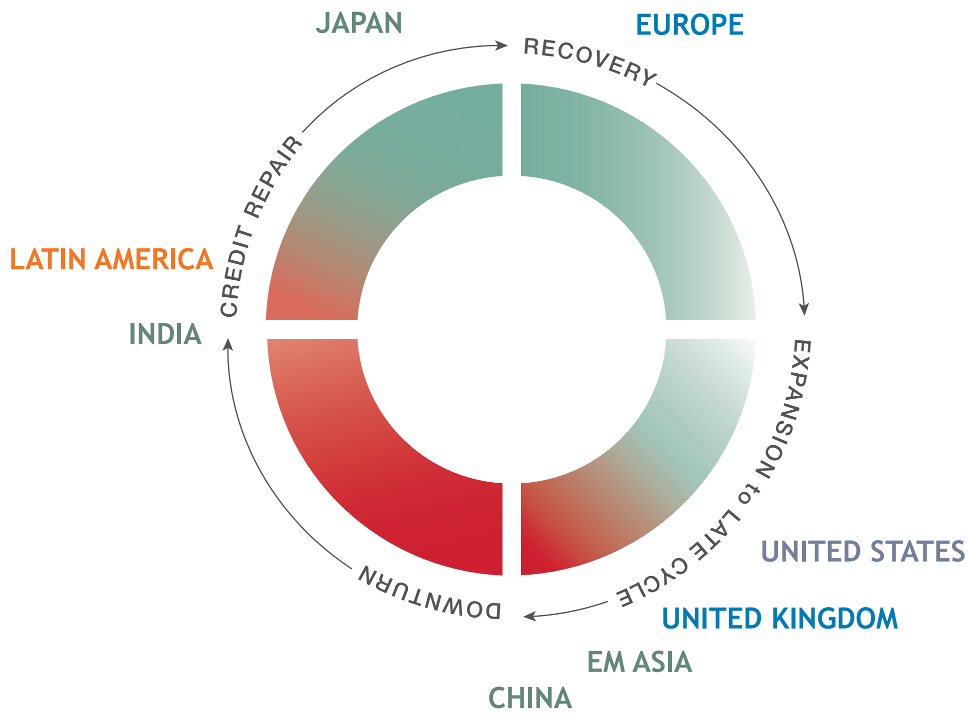
Though growth and inflation are headed in a positive direction, the long-term trajectory looks moderate, with no sign of an impending economic boom. US consumer confidence has reached pre-recession highs, and small business optimism has skyrocketed to levels not seen since 2004, but exceptionally high policy uncertainty could be limiting the passthrough to actual economic indicators like private non-residential fixed investment. Consensus expectations suggest US real GDP will grow at an annual rate of around 2.0% through 2019 and core personal consumption expenditures (PCE) will hover around 2.0%. The goldilocks economic backdrop means the Fed can tighten, but should do so cautiously.

As the credit cycle progresses, we expect only modest upward pressure on long-term US yields. A flatter US Treasury curve is expected as yields at the front end of the curve rise faster and by more than those at the long end. In this environment, we believe return prospects for risk assets will continue to look favorable relative to developed market (DM) government bonds.

US CREDIT CYCLE STILL HAS TIME TO ADVANCE

Source: Loomis Sayles. Views as of 3/31/2017.

Chart provided for illustrative purposes only.



Economic Backdrop Still Credit Positive

Global growth is expected to pick up modestly over the next two years and corporate profits are now growing again in most countries, two factors that could help higher-yielding credit products generate excess returns over government bonds. Though the US and UK are in later stages of expansion than Europe, corporates in each region can perform well if growth and business conditions continue to improve.

In aggregate, US investment grade corporate leverage has reached new highs, but when commodity-related sectors and financials are excluded, gross leverage has recently trended lower. Investment grade option-adjusted spreads are near their lowest levels since the global financial crisis, but modest excess returns could be achieved from here as corporate earnings recover. US high yield bond spreads have risen around 50 basis points from recent lows made in early March but remain tight relative to history. A reacceleration of corporate profit growth and the expected advance in US GDP, albeit slight, should help slow the credit rating downgrades seen recently.

Corporate health should continue to strengthen in Europe, where profits have been mixed at the sector level and slower to advance relative to other countries. Within the investment grade space, UK corporates have led performance globally over the past 12 months, and downside risks—like messy Brexit negotiations and the end of Bank of England (BOE) buying—look manageable at present.

Emerging Markets in Position to Benefit

With US corporate yields near the low end of their historical ranges, and the UK and European corporate markets yielding even less, those looking for more yield can currently find it in emerging market (EM) sovereign and local currency bond markets. Within EM, individual country performance will likely be driven by political and economic idiosyncratic developments, but broadly speaking, EM assets can benefit from the fundamental improvement we see globally.

US-dollar-denominated EM sovereigns offer US investors the potential to earn carry over US Treasurys without taking currency risk. If US Treasury yields rise slowly as expected, it should limit upward pressure on dollar-denominated sovereign yields. After lagging for five years, EM corporate earnings are finally growing faster than DM earnings, a factor contributing to EM equity outperformance year to date. Additionally, the emerging to developed real growth differential is expected to improve in favor of EM, which could provide an additional tailwind to the asset class.

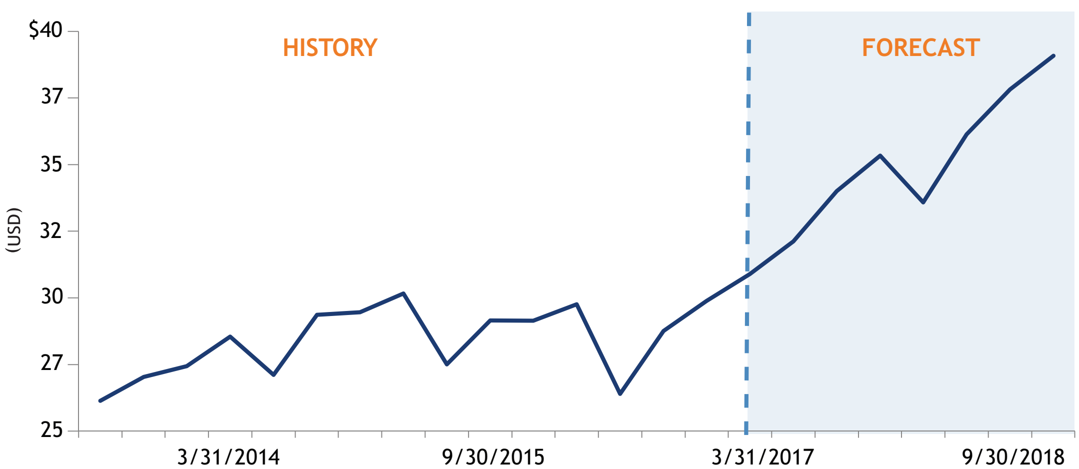
Equity Valuations Supported by Low Yields and Profits Recovery

The US has been largely alone in generating healthy stock market returns in recent years, but performance appears to be in the early stages of broadening. Global economic data like Purchasing Managers' Index (PMI) readings and surprise indices are supporting equity sentiment. Developed market equities are posting respectable gains so far this year, led by technology and healthcare. Emerging markets have also gotten off to a strong start.

PROFITS TURNAROUND SUPPORTIVE FOR STOCKS

Source: FactSet. Data as of 3/31/2017. Earnings estimates Q2 2017 through Q3 2018.

S&P 500 Index Quarterly Operating Earnings Per Share



Ultimately, stock market prices will reflect macroeconomic conditions and earnings coupled with dividend payout growth and other shareholder-friendly activity, like buybacks. We don't think higher interest rates will hamper support for equity market valuations in the medium term. If yields rise gradually as we expect, the 10-year Treasury may not reach and sustain 3.0% until the middle of 2019. A 3.0% yield on the 10-year Treasury would still imply valuation support for stocks, which are trading at about 17.5X operating earnings estimates for 2018. Equities continue to have a strong cash return story, even with interest rates having moved higher since bottoming last year. The S&P 500® Index sports a current yield of about 2.0%, a level that has been fairly consistent in recent years.

Dividend increases have been running strong since 2011, and we expect mid- to high-single-digit cash dividend growth this year and next as modest economic growth continues. Share repurchases remain an ongoing benefit to valuations as well. When combining net share repurchases with dividend yield, we currently find the effective yield of the S&P 500 to be above 4.0%, significantly higher than the current 2.35% yield on the 10-year Treasury. While some may forecast a further pickup in share repurchases, we think a balanced approach to corporate spending, including share repurchases, cash dividends, mergers and acquisitions and capital expenditure, implemented over time is the most likely scenario.

Developments in Washington Could Bring Positive Catalysts

The 2017 policy agenda in Washington, D.C., will take time to play out, with considerable uncertainty over the extent and timing of change. Corporate tax reform, incremental infrastructure spending and potential regulatory reforms are all on the table and could be positive catalysts. The US has one of the highest statutory corporate tax rates in the world, and if tax rates could be brought down to the global average of 23.6%, many companies would benefit. Additionally, US companies would face less pressure to engage in aggressive global tax structures if tax rates were reduced. Of course, many companies do not pay taxes at the statutory rate, so not all will benefit—especially if certain tax preferences are reduced or eliminated. The details will make the difference, and we believe it is too soon to have a strong view on the outcome. Corporate earnings may rise a bit with tax reform, but a continuation of the current economic expansion is far more important than a modest earnings-per-share boost.

First Quarter Review

By Craig Burelle, VP, Macro Analyst

INDEX RETURNS BY SECTOR
as of March 31, 2017

INDEX				
US BROAD MARKET	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG BARC US AGGREGATE BOND	-0.05	0.82	-2.18	0.44
BBG BARC US GOVERNMENT/CREDIT	-0.09	0.96	-2.46	0.54

Most risk assets posted positive performance for the first quarter, backed by an improving global economic environment and the resumption of corporate profit growth in most countries. Several investment grade credit indices earned modest excess returns, but higher-yielding credit benchmarks outperformed like-duration Treasurys by a greater margin.

US GOVERNMENTS	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG BARC US TREASURYS	-0.05	0.67	-3.19	-1.44
3-MONTH T-BILLS	0.01	0.11	0.19	0.37
2-YEAR TREASURY	0.05	0.26	-0.30	0.08
5-YEAR TREASURY	-0.02	0.46	-2.90	-1.96
10-YEAR TREASURY	-0.13	0.79	-6.07	-3.96
30-YEAR TREASURY	-0.71	1.30	-12.63	-6.18
BBG BARC US TIPS	-0.05	1.26	-1.18	1.48
BBG BARC US AGENCY	0.08	0.76	-1.22	0.12

The US Treasury yield curve flattened during the quarter as yields at the short end of the curve rose while yields from the 7-year to 30-year moved just a few basis points lower. The market digested a 25-basis-point Fed rate hike, which was considered a long shot at the start of the year but became a consensus expectation by the first week of March. Yields at the very front end of the curve moved between 20 and 30 basis points higher, reflecting the Fed hike, but market projections for stable growth and inflation over the long term kept long-end yields anchored.

US MUNICIPALS	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG BARC US MUNICIPALS	0.22	1.58	-2.10	0.15

Continued improvement in domestic housing indicators supported the housing sector of the municipal index, which was the top-performing muni sector for the quarter. At the state level, there was very little dispersion among total returns, with most states performing in line with the aggregate municipal index. North Dakota, a state levered to energy drilling, was by far a leading performer at the state level, but it returned just 2.05% relative to the index's 1.58%.

Data Sources: Bloomberg Barclays indices from Barclays Live; currency returns, JPMorgan and Citigroup indices from Bloomberg; bank loans from S&P Global Market Intelligence.

All returns in US dollars, unless noted. ***Past Performance is no guarantee of future results.***

US SECURITIZED	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG BARC MBS	0.03	0.47	-1.51	0.17
BBG BARC ABS	0.18	0.54	-0.16	1.20
BBG BARC CMBS	0.03	0.86	-2.19	0.59

The market's focus on risks related to potential monetary and fiscal policy changes became more intent during the quarter. Policy changes pertaining to the Fed's MBS portfolio and GSE reform did not stop the US MBS index from earning a positive total return for the quarter. The more cyclically levered ABS index earned an excess return of 22 basis points as spreads tightened very modestly. The CMBS index, which has the highest relative duration, led the group and earned an excess return of 8 basis points.

INDEX RETURNS BY SECTOR
as of March 31, 2017

INDEX CORPORATES	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG BARC US INVESTMENT GRADE	-0.23	1.22	-1.64	3.31
AAA	-0.26	0.84	-4.10	-0.39
AA	-0.19	0.93	-2.09	0.94
A	-0.25	1.00	-2.15	1.74
BBB	-0.22	1.48	-1.03	5.30
BBG BARC EUROPEAN INVESTMENT GRADE -*LOCAL CURRENCY RETURNS*	-0.36	0.27	-0.93	2.48
AAA	-0.83	-0.27	-3.62	1.37
AA	-0.64	-0.05	-1.48	1.08
A	-0.46	0.07	-1.21	1.96
BBB	-0.22	0.50	-0.55	3.24
BBG BARC STERLING INVESTMENT GRADE -*LOCAL CURRENCY RETURNS*	0.20	1.91	-0.47	10.90
AAA	0.52	1.82	-3.22	11.94
AA	0.07	1.69	-0.73	10.02
A	0.19	2.04	-0.83	11.36
BBB	0.22	1.88	-0.05	10.69

March took a small bite out of quarterly investment grade credit total returns, but each of the three aggregate indices managed to post positive total and excess returns. In recent quarters, duration impact on total return had been quite high, but that changed this quarter as long-end yields in the US, Germany and UK moved very little. The UK corporate index, which has a relatively longer duration, outperformed the US and Europe in local currency terms, assisted by a marginal decline of about 10 basis points in long-end UK government yields. The Euro-Aggregate experienced some downward pressure due to a tiny tick up in German yields paired with a slightly larger move higher in periphery yields. In the US, essentially flat Treasury yields limited duration impact on US investment grade corporate total returns.

CORPORATES	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG BARC US HIGH YIELD	-0.22	2.70	4.50	16.39
BB	-0.14	2.06	2.50	10.82
B	-0.16	2.53	4.59	15.89
CCC	-0.61	4.66	9.58	32.60
BBG BARC PAN-EURO HIGH YIELD -*LOCAL CURRENCY RETURNS*	0.09	1.97	4.21	8.06
BB	0.10	2.00	3.55	7.56
B	0.01	1.56	5.08	8.30
CCC	0.73	3.81	9.84	14.87

High yield corporate performance leadership continued throughout the first quarter as the US and Pan Euro indices built on strong 2016 gains. The improving global economic backdrop and better corporate earnings were two key fundamental supports for the asset class. The high yield indices offered superior quarterly excess returns relative to other fixed income benchmarks. Low government yields in the US and Europe continue to support the case for high yield and buoy valuations, which are toward the high end of historical ranges.

Data Sources: Bloomberg Barclays indices from Barclays Live; currency returns, JPMorgan and Citigroup indices from Bloomberg; bank loans from S&P Global Market Intelligence.

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INDEX RETURNS BY SECTOR
as of March 31, 2017

INDEX				
BANK LOANS	1 MONTH	3 MONTH	6 MONTH	1 YEAR
S&P/LSTA LEVERAGED LOAN	0.08	1.15	3.43	9.72
BB	0.12	0.66	2.02	6.11
B	0.16	1.14	3.35	10.10
CCC	-0.43	5.02	14.28	35.57

As we have noted in the past, high yield loan market performance is highly correlated with that of the high yield corporate bond market despite fundamental differences between the two asset classes, most notably the floating rate characteristic of bank loans. That relationship held throughout the first quarter as the high yield loan index earned positive total returns. The bank loan index should continue to benefit from the recovery in US corporate profits as well as a slight uptick in domestic GDP.

DEVELOPED COUNTRIES	1 MONTH	3 MONTH	6 MONTH	1 YEAR
CITIGROUP WGBI *-LOCAL CURRENCY RETURNS*	-0.19	-0.18	-3.22	-0.87
CITIGROUP NON-USD WGBI	-0.26	-0.63	-3.27	-0.63
UNITED STATES	-0.05	0.67	-3.15	-1.41
CANADA	0.14	0.50	-3.39	-0.95
JAPAN	-0.15	-0.50	-2.27	-1.49
AUSTRALIA	0.50	1.24	-2.87	1.35
UNITED KINGDOM	0.37	1.63	-2.13	7.10
EUROPEAN GBI	-0.61	-1.51	-4.48	-1.73
FRANCE	-0.73	-2.29	-5.63	-2.69
GERMANY	-1.03	-0.75	-3.21	-0.62
IRELAND	-0.61	-1.34	-3.09	-0.42
ITALY	-0.28	-1.98	-5.21	-3.71
SPAIN	0.04	-0.79	-3.59	0.74

The global economic backdrop is expected to improve, but long-term inflation expectations and trend growth are not forecast to accelerate rapidly. Thus, while economic activity is set to pick up, the increase should be modest. As the world sheds the deflationary pressures of past quarters, central banks are slowly reducing monetary accommodation. Although the pace of change has been historically slow in the US and is just now emerging elsewhere, some upward pressure on government bond yields is to be expected. But taken together, the tame outlook for global growth and inflation and investor demand for interest-bearing securities suggests a material repricing of global yields in the near future is unlikely.

EMERGING MARKET BONDS	1 MONTH	3 MONTH	6 MONTH	1 YEAR
JP MORGAN EMBIG *-SOVEREIGN/QUASI-SOVEREIGN, USD*	0.35	3.90	-0.47	8.82
JP MORGAN CEMBI BROAD DIVERSIFIED *-CORPORATES, USD*	0.32	2.97	1.62	8.69
JP MORGAN GBI-EM GLOBAL DIVERSIFIED *-GOVERNMENTS, LOCAL CURRENCY*	1.40	3.23	1.79	7.52

EM fixed income indices were top performers along with high yield throughout the quarter. Many of the same characteristics that supported high yield, like a corporate profit recovery and better global growth, also applied to these emerging market benchmarks. Essentially flat US Treasury yields in the belly of the curve (5-year through 7-year tenors) supported the valuation case for the EMBIG US dollar sovereign index. Improving corporate profits among EM companies directly benefits the CEMBI index, which is composed of US-dollar-denominated corporate bonds. In the highest carry EM local currency space, the GBI-EM index benefited from positive investor sentiment, decreased fears about China's economy and a more measured approach to trade-related fiscal policy in the US.

Data Sources: Bloomberg Barclays indices from Barclays Live; currency returns, JPMorgan and Citigroup indices from Bloomberg; bank loans from S&P Global Market Intelligence.

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INDEX RETURNS BY SECTOR
as of March 31, 2017

INDEX				
CURRENCY MARKETS	1 MONTH	3 MONTH	6 MONTH	1 YEAR
DOLLAR BLOC				
CANADIAN DOLLAR	-0.13	0.92	-1.43	-2.36
AUSTRALIAN DOLLAR	-0.37	5.84	-0.46	-0.37
NEW ZEALAND DOLLAR	-2.59	1.04	-3.84	1.40
WESTERN EUROPE				
EURO	0.72	1.28	-5.19	-6.40
NORWEGIAN KRONE	-2.38	0.49	-7.14	-3.84
SWEDISH KRONA	0.73	1.51	-4.42	-9.51
SWISS FRANC	0.32	1.64	-3.11	-4.07
BRITISH POUND	1.37	1.70	-3.25	-12.60
EMERGING EUROPE & AFRICA				
CZECH KORUNA	0.66	1.23	-5.28	-6.38
HUNGARIAN FORINT	0.53	1.56	-5.34	-4.80
POLISH ZLOTY	2.49	5.39	-3.78	-6.17
RUSSIAN RUBLE	3.64	8.89	11.70	19.17
SOUTH AFRICAN RAND	-2.13	2.43	2.30	10.09
TURKISH NEW LIRA	0.27	-3.10	-17.50	-22.52
ASIA				
JAPANESE YEN	1.24	5.00	-9.01	1.06
CHINESE RENMINBI	-0.29	0.84	-3.13	-6.30
INDONESIAN RUPIAH	0.08	1.10	-2.06	-0.50
MALAYSIAN RINGGIT	0.34	1.37	-6.55	-11.89
PHILIPPINE PESO	0.04	-0.94	-3.39	-8.23
SINGAPORE DOLLAR	0.44	3.56	-2.43	-3.49
SOUTH KOREAN WON	1.07	8.00	-1.53	2.24
LATIN AMERICA				
ARGENTINE PESO	0.60	3.20	-0.52	-4.44
BRAZILIAN REAL	-0.41	4.09	4.45	15.07
CHILEAN PESO	-1.49	1.58	-0.44	1.13
COLOMBIAN PESO	1.66	4.41	0.25	4.46
MEXICAN PESO	7.39	10.69	3.53	-7.72
PERUVIAN NEW SOL	0.42	3.31	4.16	1.99

The US-dollar index (DXY) and broad trade-weighted US-dollar index both traded slightly lower during the quarter despite the Fed rate hike in March and investor expectations for two more hikes in 2017. Monetary policy divergence could become less of a driving force behind the US dollar in the quarters ahead as global central banks take baby steps toward less accommodation. Additional Fed hikes in 2017 and 2018 are a consensus expectation and seem to be reflected in the financial markets for the most part. On the fiscal policy front, the new US administration has been slower to act on trade, and overall nationalist rhetoric has cooled somewhat. Those developments sparked currency rallies for many of the US's trade partners. The Mexican peso in particular has rallied substantially from lows reached in mid-January.

Data Sources: Bloomberg Barclays indices from Barclays Live; currency returns, JPMorgan and Citigroup indices from Bloomberg; bank loans from S&P Global Market Intelligence.

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GLOBAL EQUITY MARKETS
as of March 31, 2017

INDEX TOTAL RETURNS (%)				
INDEX	3 MONTH	1 YEAR	3 YEAR	5 YEAR
S&P 500®	6.07	17.17	10.37	13.30
MSCI ALL COUNTRY WORLD	7.05	15.69	5.65	8.97
MSCI EUROPE	11.49	17.65	1.55	1.17
MSCI JAPAN	7.61	10.47	-0.95	6.25
MSCI EMERGING MARKETS	4.64	14.82	6.36	7.11

In a strong quarter led by EM, and more specifically the EM technology sector, global equities earned very respectable total returns. At the close of the quarter, much of the world appeared to be in a bull market, and this broadening strength is a sign of equity market health. Better economic fundamentals supported Europe and Japan, but Japan equities were hampered somewhat by yen strength for the quarter. Corporate profit growth has resumed in many countries, which is perhaps the most important catalyst for global equities.

US EQUITY MARKETS
as of March 31, 2017

INDEX TOTAL RETURNS (%)				
INDEX	3 MONTH	1 YEAR	3 YEAR	5 YEAR
RUSSELL 1000®	6.03	17.43	9.99	13.26
GROWTH	8.91	15.76	11.27	13.32
VALUE	3.27	19.22	8.67	13.13
RUSSELL MIDCAP®	5.15	17.03	8.48	13.09
GROWTH	6.89	14.07	7.88	11.95
VALUE	3.76	19.82	8.94	14.07
RUSSELL 2000®	2.47	26.22	7.22	12.35
GROWTH	5.35	23.03	6.72	12.10
VALUE	-0.13	29.37	7.62	12.54

Small and mid caps lagged relative to large caps for the quarter, but one-year returns are nearly equal for mid caps and considerably better for small caps. Information technology and a welcome recovery in the healthcare sector drove the performance of growth over value-oriented sectors like energy and financials. Over the longer term, value still shows a modest but consistent performance edge over growth. Five-year annualized total returns indicate exceptional performance of US equities across styles. Patience is warranted to some degree, but US equities can grow into fairly high valuations as the economy and earnings continue to grow.

S&P 500 SECTORS
as of March 31, 2017

SECTOR PERFORMANCE ATTRIBUTION (%)				
INDEX	3 MONTH	1 YEAR	3 YEAR	5 YEAR
INFORMATION TECHNOLOGY	12.57	24.93	16.81	14.33
CONSUMER DISCRETIONARY	8.45	13.37	12.60	16.27
HEALTHCARE	8.37	11.68	10.14	16.66
UTILITIES	6.39	7.06	11.31	12.07
CONSUMER STAPLES	6.36	6.17	11.30	12.92
MATERIALS	5.86	19.10	5.08	9.16
INDUSTRIALS	4.56	17.90	9.86	14.12
REAL ESTATE	3.54	-2.36	-0.79	-0.48
FINANCIALS	2.53	32.77	11.70	15.43
TELECOMMUNICATIONS	-3.97	1.69	7.92	10.31
ENERGY	-6.68	14.24	-5.24	0.77

At the sector level, technology and consumer discretionary were strong throughout the quarter while gains in healthcare were made almost exclusively during February. Though certain retail stocks in the consumer discretionary sector are struggling, many e-commerce and media companies are performing quite well. The energy sector was by far the worst performer as crude oil came under significant price pressure late in the quarter. The financial sector consolidated during the quarter after an outstanding nine-month rally and a period of significant relative outperformance. The 2017 earnings outlook for financials remains healthy, with the Fed on track to raise rates twice by year-end.

Data Source: FactSet. All returns quoted in US dollars. Performance for one and multi-year periods is annualized. Sorted by index quarterly returns. Due to rounding, sector totals may not equal 100%. ***Past performance is no guarantee of future results.***

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Disclosure

All data as of March 31, 2017, unless otherwise noted.

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Index Definitions

Bloomberg Barclays US Aggregate Bond Index *represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the US investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.*

Bloomberg Barclays US Government/Credit Index *includes securities in the government and credit indices. The government index includes treasuries -i.e., public obligations of the US Treasury that have remaining maturities of more than one year and agencies -i.e., publicly issued debt of US Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the US Government. The credit index includes publicly issued US corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.*

Bloomberg Barclays US Treasury Index *includes public obligations of the US Treasury with at least one year until final maturity, excluding certain special issues such as state and local government series bonds -SLGs, US Treasury TIPS and STRIPS.*

Bloomberg Barclays US Treasury Inflation Protected Securities Index *consists of inflation-protection securities issued by the US Treasury that have at least one year to maturity and at least $250 million par amount outstanding.*

Bloomberg Barclays US Agency Index *includes agency securities that are publicly issued by US Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the US Government -such as USAID securities.*

Bloomberg Barclays US Municipal Index *is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. The index has four main sectors: general obligation bonds, revenue bonds, insured bonds -including all insured bonds with a Aaa/AAA rating, and prerefunded bonds.*

Bloomberg Barclays Mortgage-Backed Securities -MBS Index *is a component of the Bloomberg Barclays Aggregate Index covering mortgage-backed pass-through securities of Ginnie Mae -GNMA, Fannie Mae -FNMA and Freddie Mac -FHLMC. The MBS Index is formed by grouping the universe of over 600,000 individual fixed rate MBS pools into approximately 3,500 generic aggregates.*

Bloomberg Barclays Asset-Backed Securities -ABS Index *is a component of the Bloomberg Barclays US Aggregate Index including pass-through, bullet and controlled amortization structures. The ABS Index includes only the senior class of each ABS issue and the ERISA-eligible B and C tranche. Constituents must have an average life of at least one year and a deal size of at least 500 million.*

Bloomberg Barclays Commercial Mortgage-Backed Securities -CMBS ERISA-Eligible Index *is a component of the Bloomberg Barclays US Aggregate Index and the ERISA-eligible component of the Bloomberg Barclays CMBS Index. This index, which includes investment grade securities that are ERISA eligible under the underwriter's exemption, is the only CMBS sector that is included in the US Aggregate Index.*

Bloomberg Barclays US Corporate Index *contains publicly issued US 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 US and non-US corporations. The non-corporate sectors are Sovereign, Supranational, Foreign Agency, and Foreign Local Government.*

Bloomberg Barclays Euro-Aggregate Corporate Index *consists of bonds issued in the euro or the legacy currencies of the 16 sovereign countries participating in the European Monetary Union -EMU. All issues must be investment grade-rated, fixed-rate securities with at least one year remaining to maturity. The Euro-Aggregate Index excludes convertible securities, floating rate notes, perpetual notes, warrants, linked bonds, and structured products.*

Bloomberg Barclays Sterling Aggregate Corporate Index *is a broad-based benchmark that measures the investment grade, fixed-rate, taxable, corporate sterling-denominated bond market. Inclusion is based on the currency of the issue, not the domicile of the issuer. The index includes publically issued securities from industrial, utility, and financial companies that meet specified maturity, liquidity and quality requirements.*

Bloomberg Barclays US Corporate High-Yield Index *covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets -sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch are excluded, but Canadian and global bonds -SEC registered of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds -PIKs, as of October 1, 2009 are also included.*

Bloomberg Barclays Pan-European High-Yield Index *covers the universe of fixed-rate, sub-investment grade debt denominated in euros or other European currencies -except Swiss francs. Securities must be rated high-yield -Ba1/BB+ or lower by at least two of the following rating agencies: Moody's, S&P, Fitch. Excludes emerging markets.*

S&P/LSTA Leveraged Loan Index*, is a market value-weighted index designed to measure the performance of the US leveraged loan market based upon market weightings, spreads and interest payments.*

Citigroup World Government Bond Index -WGBI *measures the performance of fixed-rate, local currency, investment grade sovereign bonds. The WGBI is a widely used benchmark that currently comprises sovereign debt from over 20 countries, denominated in a variety of currencies. The WGBI provides a broad benchmark for the global sovereign fixed income market.*

JPMorgan Emerging Markets Bond Index Global -EMBIG *tracks total returns for US dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds.*

JPMorgan Corporate Emerging Markets Bond Index -CEMBI Broad Diversified *tracks total returns of US dollar-denominated debt instruments issued by corporate entities in emerging markets countries. The CEMBI Broad is the most comprehensive corporate benchmark followed by the CEMBI, which consists of an investable universe of corporate bonds.*

JPMorgan Government Bond Index—Emerging Markets -GBI-EM Global Diversified *provides a comprehensive measure of local currency denominated, fixed rate, government debt issued in emerging markets.*

Standard & Poor's 500 -S&P 500® Index *is a market capitalization-weighted Index of approximately 500 common stocks chosen for market size, liquidity, and industry group representation to measure broad US equity performance. S&P 500® is a registered service mark of McGraw-Hill Companies, Inc.*

MSCI All Country World *is a market cap weighted index of stocks from developed and emerging markets providing a broad measure of global equity-market performance.*

MSCI Europe *is a free float-adjusted market cap index measuring equity market performance of the large and mid cap segments across European developed markets.*

MSCI Japan *is a free float-adjusted market cap index measuring equity market performance of the large and mid cap segments of the Japanese market.*

MSCI Emerging Markets Index *is a free float-adjusted market cap index measuring equity market performance of emerging markets.*

Russell 1000® Index *measures the performance of the large cap segment of the US 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.*

Russell 1000® Growth Index *measures the performance of the large cap growth segment of the US equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.*

Russell 1000® Value Index *measures the performance of the large cap value segment of the US equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower expected growth values.*

Russell Midcap® Index *measures the performance of the mid cap segment of the US equity universe. The Russell Midcap is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership.*

Russell Midcap® Growth Index *measures the performance of the mid cap growth segment of the US equity universe. It includes those Russell Midcap Index companies with higher price-to-book ratios and higher forecasted growth values.*

Russell Midcap® Value Index *measures the performance of the mid cap value segment of the US equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios and lower forecasted growth values.*

Russell 2000® Index *measures the performance of the small cap segment of the US equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.*

Russell 2000® Growth Index *measures the performance of the small cap growth segment of the US equity universe. It includes those Russell 2000 Index companies with higher price-to-value ratios and higher forecasted growth values.*

Russell 2000® Value Index *measures the performance of small cap value segment of the US equity universe. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values.*