REVIEWING THE QUARTER ENDED SEPTEMBER 30, 2018

Klingman & Associates, LLC
An Independent Registered Investment Advisor

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The third quarter of 2018 was certainly a positive one for the US economy and equity markets. GDP growth accelerated (page 7), unemployment numbers touched levels not seen in nearly 50 years (page 9), and corporate earnings were robust even when ignoring the boost from corporate tax reform. This came as a surprise to many investors who continue to question the longevity of the 9+ year economic expansion and equity bull market.

Despite these strong fundamentals, financial markets have experienced increased volatility in early Q4. Rising US interest rates (page 19) and comments from the Fed have driven much of this volatility. It is important to remember that rising interest rates are a double-edged sword for long-term investors. On one side, higher interest rates can slow the overall economy as borrowers are faced with higher costs on mortgages, business loans, etc. On the other side, higher rates enable long-term investors to purchase bonds at more attractive valuations that can generate higher income over time. Higher interest rates can also pose a challenge for equity markets, as bonds become more attractive relative to riskier equities. But at the current yield on the 10 year US Treasury, we do not believe this is a major issue for equities yet. We believe the yield on the 10 year Treasury would have to rise to over 4% (3.1%+ as of 10/12/18) before creating real competition for equities.

The US economy, as measured by GDP, grew 2.9% year-over-year in the second quarter of 2018 (page 7). We expect it will remain in the 2.5-3% range in the third quarter. Fiscal stimulus, in the form of higher government spending and tax cuts, has propelled growth above the 2.3% average growth rate experienced since the economic expansion began 108 months ago. We have discussed our long-term concerns about our government financing this stimulus through increasing federal deficits, but nonetheless it continues to have a positive near term impact on today’s economic activity. Consumer spending continues to be supported by a falling unemployment rate (3.7%) and wage gains (+2.8% versus a year ago). US Household Net Worth continues to break records, eclipsing $100 trillion earlier this year. The “wealth effect” that US consumers are feeling by seeing their houses and investment portfolios grow in value, along with better job prospects, is having a positive effect on consumer sentiment. While these are “soft” sentiment readings, the consumer represents two-thirds of the growth in our economy, and the better they feel about their financial situation, the more they tend to spend.

Continued
ECONOMIC OUTLOOK

US Equities continued to perform well against this strong economic backdrop. US Large Cap Equities, as measured by the S&P 500 index, returned +7.7% for the quarter (page 14) and are +10.6% year-to-date. Corporate earnings notched consecutive quarters of 25%+ growth in the first half of the year, which has helped bring down elevated valuations metrics such as the Price-to-Earnings (P/E) ratio. The S&P 500 index now trades at 16.8x forward earnings estimates, very close to its historic average of 16x (page 16). While much has been said about the pronounced impact corporate tax reform has had on earnings growth, revenues continue to grow at over 10%. This is a healthy sign for corporate America. We expect earnings to grow ~20% versus a year ago this upcoming earnings season, reflecting continued revenue growth and lower taxes partly offset by higher material/labor costs and a stronger dollar. US Mid Cap Equities, as measured by the S&P 400 index, returned 3.9% in the quarter and now trade at 17x forward earnings estimates. US Small Cap Equities, as measured by the S&P 600 index, returned 4.7% for the quarter and now trade at 18x forward earnings estimates. With valuations back in line with historical averages and another strong earnings season likely upcoming, we remain neutral weight US equities across our asset allocation models.

It was another tough quarter for global diversification in equity markets. After a brief reprieve last year when Non-US equities outperformed their US counterparts, we returned to the environment that has persisted since the Financial Crisis. Non-US Developed Markets Equities, as measured by the MSCI EAFE Index, returned +1.4% for the quarter and are -1.4% for the year. Non-US Emerging Markets Equities, as measured by the MSCI EM index, returned -1.1% for the quarter and are -7.7% for the year. Concerns around trade negotiations, China’s over-leveraging and more recently a Fed policy misstep have been headwinds to these markets. We understand this under-performance will likely once again raise questions about whether diversification still makes sense, and we recognize the appeal to “just invest in US equities”. History tells us that it is not uncommon for one asset class to outperform another for many years, but returns have invariably returned to the mean. To mitigate the uncertainty, we diversify portfolios across different asset classes and countries. We continue to believe that Non-US equity assets are attractively priced by almost any valuation metric and remain overweight these asset classes in our models.
Late in Q3, the Federal Reserve raised the fed funds target rate for the eighth time during the cycle, bringing the target rate to 2.25%. It is widely expected the Fed will raise rates again in December, and we expect 2-3 more increases in 2019. Longer-term interest rates have also moved higher over the course of the year. We believe some of the move in long-term interest rates reflects higher growth and inflation expectations, but what is often less talked about is the effect of changing term premiums. Term premium is the extra yield required by investors to lock up money in bonds over time. With inflation and growth expectations being less certain today (a tightening Federal Reserve, growing budget deficit, among others), bond investors are requiring a higher yield to be compensated. We welcome these higher interest rates as we have positioned client portfolios to take advantage of such rates in two ways: with higher cash allocations and lower duration existing bond holdings. This has enabled us to protect against mark-to-market paper losses when interest rates move higher, and to also invest cash at more attractive yields. We have steadily increased our allocation to US Investment Grade Bonds throughout the year, and are now Neutral weight for the first time since 2012. We have continued to reduce our allocations to High Yield and Floating Rate bonds, whose yields do not adequately compensate investors for the credit risk being taken, and remain Underweight in our models (page 20). We also have reduced our allocations to Absolute Return, and moved from Overweight to Neutral weight. Recall we have utilized managers of these Absolute Return funds to provide investment returns while being less correlated to global equity markets and less sensitive to rising interest rates. With more attractive interest rates available in the fixed income markets, the investment thesis for these managers becomes less compelling.

Not to worry, we have not forgotten about the impending US midterm elections. At this point, it appears the Republicans will likely retain control of the Senate. The House looks like a tossup with the Democrats likely gaining significant seats, but uncertain as to whether or not they will take the majority. Whatever the outcome, it is hard for us to see it having a significant impact on the financial markets in the near-term. While we believe the midterms will likely be a non-event for financial markets, we stopped predicting elections after 2016…
### TACTICAL OVERLAY TO STRATEGIC ASSET ALLOCATION MODELS

<table>
<thead>
<tr>
<th>CASH ALTERNATIVES</th>
<th>UNDERWEIGHT</th>
<th>NEUTRAL</th>
<th>OVERWEIGHT</th>
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<td>FIXED INCOME</td>
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<td>US INVESTMENT GRADE BOND</td>
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<td>NON-US BOND</td>
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<td>OVERWEIGHT</td>
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<td>US LARGE CAP EQUITY</td>
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<td>NEUTRAL</td>
<td>OVERWEIGHT</td>
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<td>US MID CAP EQUITY</td>
<td>UNDERWEIGHT</td>
<td>NEUTRAL</td>
<td>OVERWEIGHT</td>
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<tr>
<td>US SMALL CAP EQUITY</td>
<td>UNDERWEIGHT</td>
<td>NEUTRAL</td>
<td>OVERWEIGHT</td>
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<tr>
<td>NON-US STOCKS</td>
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<tr>
<td>NON-US DEVELOPED MARKETS EQUITY</td>
<td>UNDERWEIGHT</td>
<td>NEUTRAL</td>
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<td>NON-US EMERGING MARKETS EQUITY</td>
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<td>ALTERNATIVES</td>
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<td>NEUTRAL</td>
<td>OVERWEIGHT</td>
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<td>MASTER LIMITED PARTNERSHIPS</td>
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<td>NEUTRAL</td>
<td>OVERWEIGHT</td>
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<td>ABSOLUTE RETURN</td>
<td>UNDERWEIGHT</td>
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Real gross domestic product (GDP) increased at an annual rate of 4.2 percent in the second quarter of 2018, according to the "third" estimate released by the Bureau of Economic Analysis. Compared to the second quarter last year, GDP grew +2.9 percent.

Source: Bloomberg, as of 6/30/2018
The increase in real GDP in the second quarter reflected positive contributions from consumer spending on goods, more investment by state and local governments, and less spending on imports, which are a subtraction in the calculation of GDP.

Source: Bloomberg, as of 6/30/2018
The unemployment rate declined to 3.7% in September, and total nonfarm payroll employment increased by 134,000, the U.S. Bureau of Labor Statistics reported. Job gains occurred in professional and business services, in health care, and in transportation and warehousing.

Source: Bloomberg, as of 9/30/2018
In September, job gains occurred in professional and business services, in health care, and in transportation and warehousing. Employment in professional and business services, the top category for job gains, increased by 54,000 in September and has risen by 560,000 over the year.

Source: Bureau of Labor Statistics, as of 9/30/2018, a preliminary estimate of the net number of jobs in the various industries in the latest month.
U.S. home prices continue to recover from post-financial crisis lows, driven by relatively low mortgage rates and lean inventory levels. However, home prices have started to show signs of moderation with mortgage rates moving higher. Monthly figures on sales and construction activity have been volatile. Homebuilders have recently noted a lack of qualified workers and higher costs as reasons for light construction activity.

Source: Bloomberg, as of 7/31/2018
Source: U.S. Census Bureau, as of 8/31/2018
“After a considerable improvement in August, Consumer Confidence increased further in September and hovers at an 18-year high. The September reading is not far from the all-time high of 144.7 reached in 2000. Consumers’ assessment of current conditions remains extremely favorable, bolstered by a strong economy and robust job growth. These historically high confidence levels should continue to support healthy consumer spending, and should be welcome news for retailers as they begin gearing up for the holiday season.”

- Lynn Franco, Director of Economic Indicators at The Conference Board
Rising commodity prices and moderate wage growth have contributed to higher levels of inflation, which are now at the Federal Reserve’s target range.

Source: Bloomberg, as of 8/31/2018. Personal Consumption Expenditure (PCE) is the preferred measure of inflation by the Bureau of Economic Analysis.
Large cap US equity outperformed the broader market in the third quarter, supported by a strong U.S. economy and corporate earnings. Emerging market equities continued to face several headwinds in the third quarter including rising oil prices, a strong U.S. dollar, negative investor sentiment, and rising interest rates.

Past performance is not indicative of future results. Please see slide 30-32 for asset class definitions. Source: Morningstar Direct, as of 9/30/2018
S&P 500 SECTOR RETURNS

Source: Morningstar Direct, as of 9/30/18. Returns are based on the GICS Classification model. Returns are cumulative total return for stated period, including reinvestment of dividends. Past performance is not indicative of future results. Please see slide 30-32 for asset class definitions.
## PRICE-EARNINGS RATIOS VERSUS HISTORICAL AVERAGES

### Current P/E vs. 15-year avg. P/E

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<th>Value</th>
<th>Blend</th>
<th>Growth</th>
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<tr>
<td>Large</td>
<td>14.1</td>
<td>16.8</td>
<td>21.3</td>
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<tr>
<td>Mid</td>
<td>14.5</td>
<td>16.9</td>
<td>22.2</td>
</tr>
<tr>
<td>Small</td>
<td>15.5</td>
<td>22.2</td>
<td>37.4</td>
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### Current P/E as % of 15 -year avg. P/E

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<tr>
<th></th>
<th>Value</th>
<th>Blend</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large</td>
<td>102.3%</td>
<td>105.5%</td>
<td>107.9%</td>
</tr>
<tr>
<td>Mid</td>
<td>102.1%</td>
<td>104.2%</td>
<td>105.1%</td>
</tr>
<tr>
<td>Small</td>
<td>96.5%</td>
<td>110.4%</td>
<td>128.3%</td>
</tr>
</tbody>
</table>

Source: FactSet, Standard & Poor's, JPMorgan Asset Management. Most recent S&P 500 Index price, divided by consensus earnings in the next twelve months and is provided by FactSet. Data as of 9/30/2018.
The price-earnings ratio, or P/E, is a common measure of the value of stocks. It shows the relationship between a stock’s price and the underlying company’s earnings (or profits) per share of stock. In essence, it calculates how many dollars you pay for each dollar of a company’s earnings. In very general terms, the higher the P/E ratio, the more likely the stock is to be overpriced.

Price-to-book is a relative measure based on most recent price/accounting (book) value (quarterly, semiannual or annual data). Both price-to-earnings and price-to-book are accounting-based relative value measures.

Past performance may not be indicative of future results. Please see slides 30-32 for index definitions.
The yield spread between the 10-year Treasury bond and the S&P 500 Index continues to expand, making the bond market a more competitive source of income than in past years.

Source: Bloomberg, as of 9/30/2018

Past performance is not indicative of future results. Please see slides 30-32 for index definitions.
U.S. Treasury Yield Curve

Source: Federal Reserve, as of 9/30/2018
Past performance is not indicative of future results. Please see slides 30-32 for index definitions. Source: Bloomberg, as of 9/30/2018
GLOBAL SOVEREIGN DEBT YIELDS

Source: Bloomberg, as of 9/30/2018. This chart illustrates the highest and lowest monthly yields over the past 5 years as well as the current yield, represented by ♦.
The US Dollar has started to regain strength against global currencies given tighter Federal Reserve policy and trade policy conflicts.

Source: Bloomberg, as of 9/30/2018

<table>
<thead>
<tr>
<th>U.S. Dollar ($) / Japanese Yen (¥)</th>
<th>9/30/2018</th>
<th>9/30/2017</th>
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<tbody>
<tr>
<td>113.7</td>
<td>112.51</td>
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<tr>
<th>Euro (€) / U.S. Dollar ($)</th>
<th>9/30/2018</th>
<th>9/30/2017</th>
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<tbody>
<tr>
<td>1.1604</td>
<td>1.1814</td>
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<th>British Pound (£) / U.S. Dollar ($)</th>
<th>9/30/2018</th>
<th>9/30/2017</th>
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<tbody>
<tr>
<td>1.3031</td>
<td>1.3398</td>
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</table>
Investors cannot invest directly in an index. Past performance is not indicative of future results. See slide 30-32 for asset class definitions.
US FEDERAL DEBT AS % OF GDP

Source: Congressional Budget Office.
Continued rate hikes increase the possibility of an inverted curve and, with it, concerns of a recession.

Should short-term rates rise above intermediate and long-term rates, economic models and investor sentiment may very well turn an inverted yield curve into a self-fulfilling prophecy and thereby ‘will’ the economy into a recession.
It is important to keep in perspective that, on average, **periods of economic expansion have been much longer than periods of recession, and positively sloped curves persist much longer than inverted curves.**

As a result, **attempting to ‘time the market’ based on the shape of the yield curve is an extremely difficult technique** for fixed income investors focused on total return.
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Data provided by Morningstar, Bloomberg.

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**Fixed Income**: subject to credit risk and interest rate risk. An issuer’s credit rating may impact their ability to pay the promised income and return of principal upon maturity. Generally, when interest rates rise, bond prices fall, and vice versa. Specific-sector investing can be subject to different and greater risks than more diversified investments.

**Consumer Price Index (CPI)**: a common measure of inflation which examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. Changes in CPI are used to assess price changes associated with the cost of living.

**Gross Domestic Product (GDP)**: a broad measurement of a nation’s overall economic activity. It is the monetary value of all the finished goods and services produced within a country’s borders in a specific time period, including all private and public consumption, government outlays, investments and net exports that occur within a defined territory.

**Price-to-Earnings Ratio (P/E)**: a ratio for valuing a company that measures its current share price relative to its per-share earnings.

**Price-to-Book Ratio (P/B)**: A ratio used to compare a stock's market value to its book value. It is calculated by dividing the closing stock price by the latest quarter's book value per share.

**Small-cap and Mid-Cap Equity**: generally involve greater risks, and may not be appropriate for every investor. International investing also involves special risks, including currency fluctuations, different financial accounting standards, and possible political and economic volatility.

**High-Yield Fixed Income**: not suitable for all investors. Risk of default may increase due to changes in the issuer’s credit quality. Price changes may occur due to changes in interest rates and the liquidity of the bond. When appropriate, these bonds should only comprise a modest portion of your portfolio.

**Commodities**: trading is generally considered speculative because of the significant potential for investment loss.

**U.S. Government Fixed Income**: guaranteed timely payment of principal and interest by the federal government.

**U.S. Treasury Bills**: A short-term debt obligation backed by the U.S. government with a maturity of less than one year.

**Fixed Income Sectors**: Returns based on the four sectors of Barclays Global Sector Classification Scheme: Securitized (consisting of U.S. MBS Index, the ERISA-Eligible CMBS Index and the fixed-rate ABS Index), Government Related (consisting of U.S. Agencies and non-corporate debts with four sub sectors: Agencies, Local Authorities, Sovereign and Supranational), Corporate (dollar-denominated debt from U.S. and non-U.S. industrial, utility, and financial institutions issuers), and Treasuries (includes public obligations of the U.S. Treasury that have remaining maturities of one year or more).
Asset class and reference benchmarks:

<table>
<thead>
<tr>
<th>ASSET CLASS</th>
<th>BENCHMARK</th>
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<tr>
<td>U.S. Equity</td>
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<tr>
<td>Non-U.S. Equity</td>
<td>MSCI ACWI ex US NR</td>
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<tr>
<td>U.S. Fixed Income</td>
<td>Barclays U.S. Aggregate Bond TR</td>
</tr>
<tr>
<td>Global Real Estate (prior to 2008)</td>
<td>NASDAQ Global Real Estate NR</td>
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<tr>
<td>Global Real Estate (2008-present)</td>
<td>FTSE EPRA/NAREIT Global Real Estate NR</td>
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<tr>
<td>Commodities</td>
<td>Bloomberg Commodity TR USD</td>
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<td>Cash &amp; Cash Alternatives</td>
<td>Citi Treasury Bill 3 Mon USD</td>
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**Bloomberg Commodity Total Return Index:** Formerly the Dow Jones-UBS Commodity Index TR (DJUBSTR), it is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. This combines the returns of the BCOM with the returns on cash collateral invested in 3-Month U.S. Treasury Bills.

**Barclays 10-Year Municipal:** A rules-based, market-value weighted index engineered for the long-term tax-exempt bond market. This index is the 10-year (8-12) component of the Municipal Bond Index.

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

**Barclays 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.

**Barclays 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.

**Barclays 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.

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

**Citi 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.
Global Financial Data: Index data has calculated for world ex US indices back to 1919. Since the Morgan Stanley World index was not calculated before 1970, an index has been put together to simulate how a World Index would have performed had it been calculated back to 1919. From 1970 on, the indices are capitalization weighted and include the same countries as are now included in the MSCI World Index.

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.

MSCI Local Currency Index: A special currency perspective that approximates the return of an index as if there were no currency valuation changes from one day to the next.

NASDAQ Global Real Estate Index: The index measures the performance of real estate stocks which listed on an Index Eligible Global Stock Exchange. The index is market-capitalization weighted.

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.

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 3000 Index: measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents 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.

S&P 500 Consumer Discretionary: Comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer discretionary sector.

S&P 500 Consumer Staples: Comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer staples sector.

S&P 500 Energy: Comprises those companies included in the S&P 500 that are classified as members of the GICS® energy sector.

S&P 500 Financials: Comprises those companies included in the S&P 500 that are classified as members of the GICS® financials sector.

S&P 500 Health Care: Comprises those companies included in the S&P 500 that are classified as members of the GICS® health care sector.

S&P 500 Industrials: Comprises those companies included in the S&P 500 that are classified as members of the GICS® industrials sector.

S&P 500 Information Technology: Comprises those companies included in the S&P 500 that are classified as members of the GICS® information technology sector.

S&P 500 Materials: Comprises those companies included in the S&P 500 that are classified as members of the GICS® materials sector.

S&P 500 Telecom Services: Comprises those companies included in the S&P 500 that are classified as members of the GICS® telecommunication services sector.

S&P 500 Utilities: Comprises those companies included in the S&P 500 that are classified as members of the GICS® utilities sector.

S&P Mid Cap 400 (S&P 400): Provides investors with a benchmark for mid-cap companies. The index, which is distinct from the large-cap S&P 500, measures the performance of mid-cap companies, reflecting distinctive risk and return characteristics of this market segment.

S&P Small Cap 600 (S&P 600): Provides investors with a benchmark for small-cap companies. The index, which is distinct from the large-cap S&P 500, measures the performance of small-cap companies, reflecting distinctive risk and return characteristics of this market segment.

VIX is the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. It is a widely used measure of market risk.