Klingman & Associates, LLC

An Independent Registered Investment Advisor

CAPITAL MARKETS OUTLOOK
Q2 2017

Reviewing the quarter ended March 31, 2017

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By Gerard A. Klingman, CFP®, CLU®, ChFC®
Founder and President

Gerry provides financial planning and investment advisory services to corporate executives, entrepreneurs, professional athletes and other high-net-worth individuals.

Gerry received a bachelor's degree in Economics from Princeton University and attained his Certified Financial Planner™ certification from the College of Financial Planning in 1989. He later earned CLU® and ChFC® designations from the American College, as well as a CFS® designation from the Institute of Business & Finance. He is a member of the Financial Planning Association.

With more than 30 years of experience, Gerry is widely recognized as a leader in the field of financial planning and investment management. Gerry has been consistently ranked on many of the industry's lists of top financial advisers including Barron's Top 100 Independent Advisors, the Financial Times' F400 Top Financial Advisers**, and the Forbes ranking of America's Top Wealth Advisors***.*

Published April 2017

The year 2017 got off to a good start in the first quarter as global economies and financial markets performed well. The US economy grew at a rate of 2.1% in the fourth quarter of 2016, marking the 90th month of this economic expansion (page 7). The US unemployment rate continued to fall, reaching 4.5% in March (page 9), and wage growth improved to 2.7% versus a year ago. US Household Net Worth rose to a record $92.8 trillion, a $36 trillion improvement since the depths of the recession in 2009. The "wealth effect" that many US consumers are feeling by seeing their houses and investment portfolios grow in value is having a positive effect on consumer sentiment, which is currently at the highest recorded levels since 2000 (page 12). We are cognizant that these "soft" sentiment readings have not yet translated into significantly higher "hard" economic data, but they cannot be ignored. The US consumer still represents two-thirds of our countries economic output, and the better they feel about their financial situation, the more they spend. Small business confidence indicators should also lead to continued employment growth and business investment. While the US growth rate may still lag the 3-4% rate that our new President has promised, we see no signs of a slowdown or recession in any of the economic data.

US Equities continued to perform well against this economic backdrop. US Large Cap Equities, as measured by the S&P 500 index, returned +6.1% for the quarter (page 15). The index has now returned +18% since June 2016, not coincidentally when the US earnings recession concluded. Analysts expect 9% earnings growth for the earnings season kicked off last week, which would mark the highest growth since 2011. However, at 17.4x our forward earnings estimate of $136 per share, we believe growth prospects are fully priced in and we are moving back to Neutral weight from Over weight in our models. US Mid Cap Equities (S&P 400) and US Small Cap Equities (S&P 600) returned +5.2% and +1.1% respectively in the first quarter. We continue to remain cautious with these asset classes with valuations well above historical averages.

Continued

We continue to be positive on International Equities, both Developed and Emerging Markets, which have broadly underperformed US Equities in recent years (page 25). Fortunes reversed course in the first quarter, with the MSCI EAFE index of Non - US Developed Equities returning +7.2% and MSCI Emerging Market index returning +11.4%. We believe the key to this turnaround has been a synchronized improvement of global economic data. Expectations have been so low for so long that the market was deeply discounting longer-term growth potential. In Europe, inflation is up, unemployment is down (now below 10%), and concerns that anti-European Union populists would make gains at key elections have somewhat reduced. Manufacturing momentum is strong across the globe, with 84% of countries in March’s global Purchasing Manager Index (PMI) having reported accelerating orders, inventories and production. Even with the strong start to the year for these indexes, we believe valuations remain attractive. The MSCI EAFE now trades at 14.8x forward P/E with a 3.1% dividend yield and the MSCI EM index trades at 12.1x forward P/E with a 2.4% dividend yield. Both are significantly below the levels in the US and remain attractive versus longer-term averages. We acknowledge geopolitical and economic uncertainties remain, but we believe investors are adequately being compensated for these risks in the prices being paid for these assets.

The Federal Reserve raised short-term interest rates 25 basis points in March, marking its third move since kicking off the tightening cycle in December of 2015 (page 14). We continue to believe the path of rate increases will be slow and steady, and we expect two, or possibly three, more rate increases in 2017. While short-term interest rates have increased along with the Fed’s actions, longer-term interest rates (more indicative of growth and inflation expectations) have not increased as much (page 20). We still believe the general trend is for higher interest rates, and our portfolios remain cautiously positioned with elevated cash levels and shorter duration fixed income investments. After considerable spread tightening in 2016, High Yield spreads are currently 4.4% over Treasury yields. In comparison to the historical average spread of 5.8%, valuations are less compelling -- we remain Underweight in our models.

Politics and policies coming out of Washington will continue to be followed closely by the markets. As we discussed in our last Outlook, we were concerned that the Republicans would first focus on healthcare and immigration instead of tax reform and fiscal stimulus, both of which are viewed positively by financial markets. Unfortunately, that is exactly what has happened. Repealing Obamacare and coming up with a completely new system was going to be extraordinarily difficult with little potential economic benefits. While we believe still likely, the chance of meaningful corporate tax reform passing this year is no longer a “slam dunk”. US equity markets seem to be pricing in tax reform, and if it does not pass this year, we could see a pullback in equities as earnings estimates reset.

Continued

Speaking of pullbacks, the recent volatility or lack-thereof in US equity markets has been both incredible and almost unprecedented. Realized volatility of the S&P 500 for the quarter (6.7%) was the lowest first quarter reading since 1965. And it was not until March 21st when the S&P 500 index snapped its historic run of 110 straight trading days without a 1% decline. This was the longest streak since 1995 and ninth longest ever recorded. The CBOE Volatility Index (VIX), a popular measure of the implied volatility of the S&P 500 index, recorded the lowest start to a year since inception of the index in 1990. While none of us know exactly when, we do believe volatility will revert back to the mean over time. If it does, it is important for us as long term investors to remember short term thinking can our enemy. Instead, we must understand and embrace volatility, rebalance our portfolios, tax-loss harvest if/where appropriate, and focus on successfully achieving our long term financial goals.

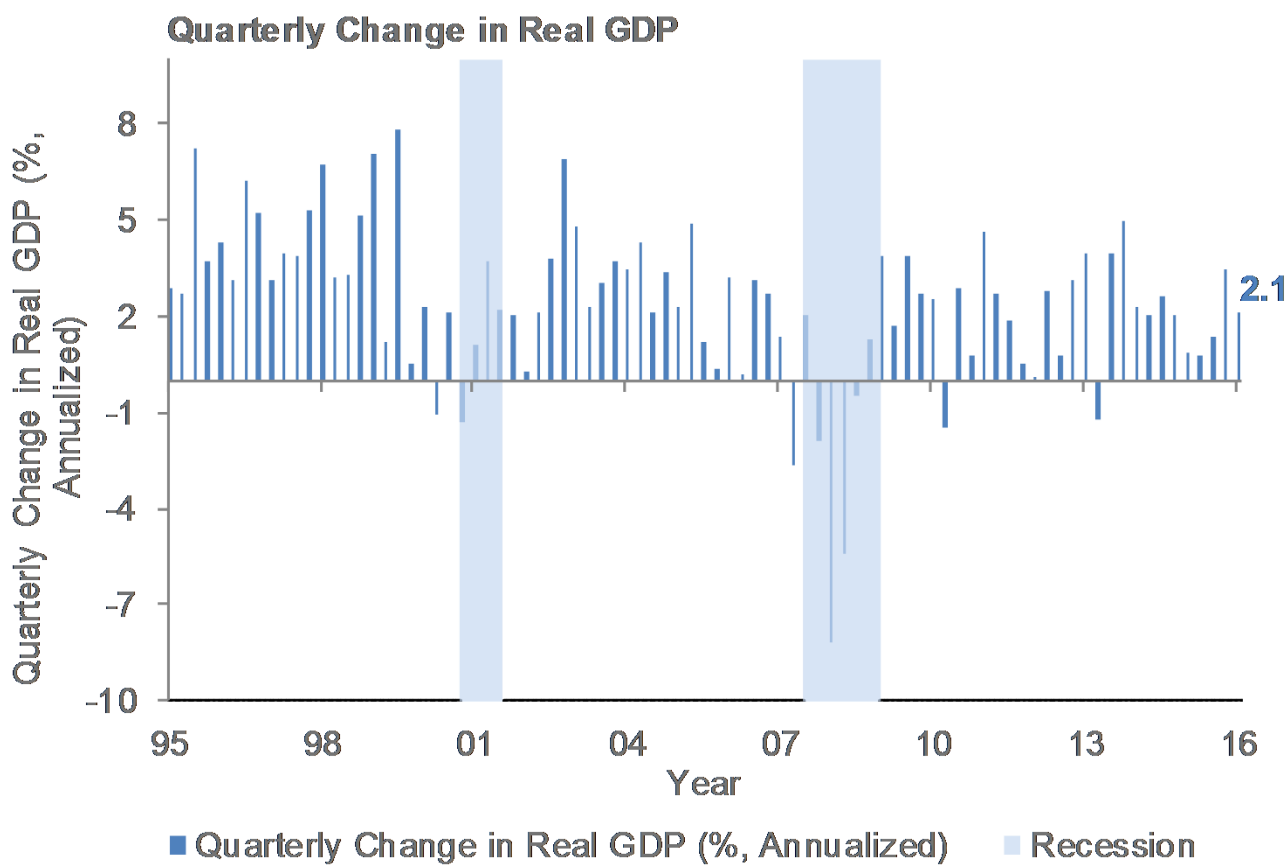
TACTICAL OVERLAY TO STRATEGIC ASSET ALLOCATION MODELS

CASH ALTERNATIVES	UNDERWEIGHT	NEUTRAL	**OVERWEIGHT**
FIXED INCOME			
US INVESTMENT GRADE BOND	**UNDERWEIGHT**	NEUTRAL	OVERWEIGHT
US HIGH YIELD BOND	**UNDERWEIGHT**	NEUTRAL	OVERWEIGHT
NON-US BOND	**UNDERWEIGHT**	NEUTRAL	OVERWEIGHT
US STOCKS			
US LARGE CAP EQUITY	UNDERWEIGHT	**NEUTRAL**	OVERWEIGHT
US MID CAP EQUITY	UNDERWEIGHT	**NEUTRAL**	OVERWEIGHT
US SMALL CAP EQUITY	**UNDERWEIGHT**	NEUTRAL	OVERWEIGHT
NON-US STOCKS			
NON-US DEVELOPED MARKETS EQUITY	UNDERWEIGHT	NEUTRAL	**OVERWEIGHT**
NON-US EMERGING MARKETS EQUITY	UNDERWEIGHT	NEUTRAL	**OVERWEIGHT**
ALTERNATIVES			
REAL ESTATE	UNDERWEIGHT	**NEUTRAL**	OVERWEIGHT
COMMODITIES	**UNDERWEIGHT**	NEUTRAL	OVERWEIGHT
MASTER LIMITED PARTNERSHIPS	UNDERWEIGHT	NEUTRAL	**OVERWEIGHT**
ABSOLUTE RETURN	UNDERWEIGHT	NEUTRAL	**OVERWEIGHT**

This material is for informational purposes only and should not be used or construed as a recommendation regarding any security outside of a managed account. There is no assurance any of the trends mentioned will continue in the future. Dividends are not guaranteed and must be authorized by a company's board of directors. Diversification does not assure a profit or protect against loss. International investing involves additional risks such as currency fluctuations, differing financial and accounting standards, and possible political and economic instability. Also, investing in emerging markets can be riskier than investing in well-established foreign markets. Investing involves risk and investors may incur a profit or a loss, including the loss of all principal.

GROSS DOMESTIC PRODUCT

Real gross domestic product (GDP) increased at an annual rate of 2.1% in the fourth quarter of 2016, according to the "third" estimate. In the third quarter of 2016, real GDP increased 3.5%. The decline in quarter-to-quarter growth is likely reflecting transitory factors.



Source: Bloomberg, as of 12/31/2016

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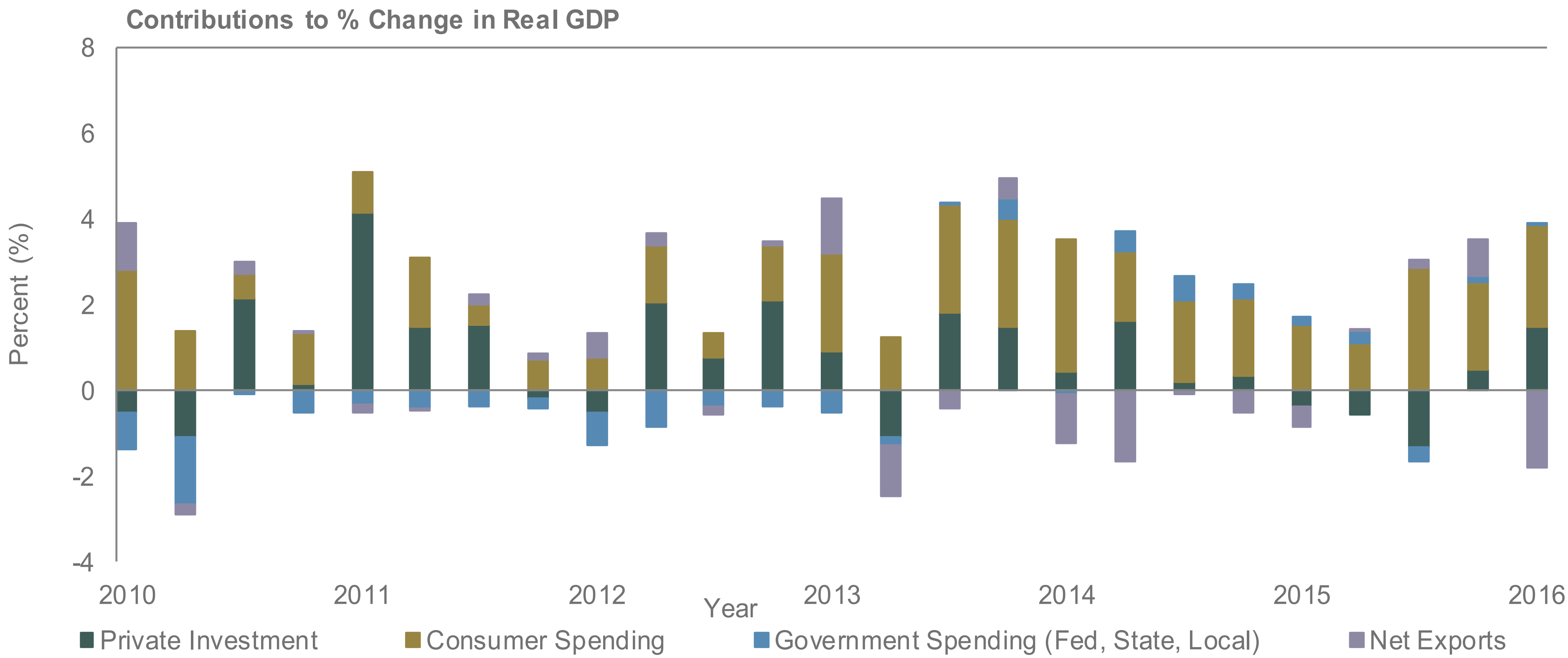
CONTRIBUTIONS TO % CHANGE IN REAL GDP

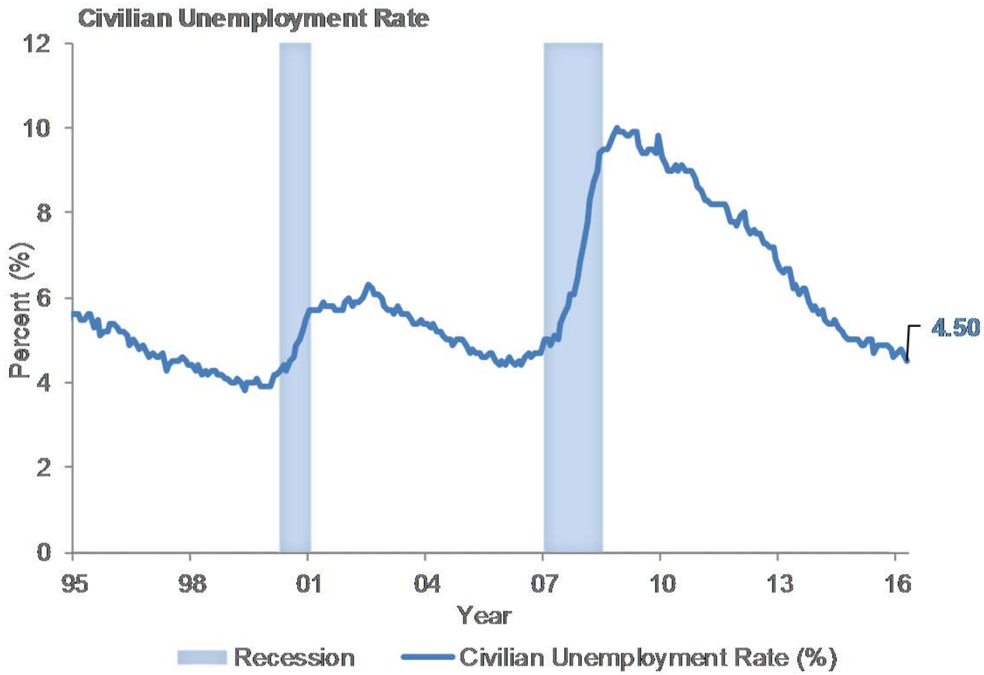
The increase in real GDP in the fourth quarter reflected positive contributions from consumer spending, private inventory investment, residential and nonresidential fixed investment, and state and local government spending that were partly offset by negative contributions from exports and federal government spending.



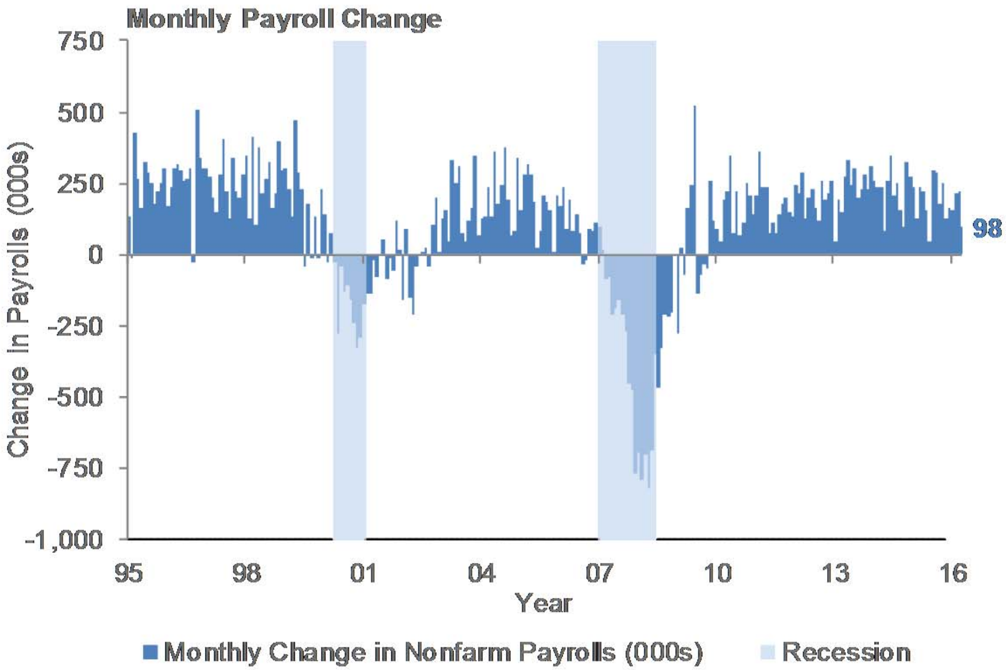
Source: Bloomberg, as of 12/31/2016

EMPLOYMENT

The unemployment rate declined to 4.5% in March, and total nonfarm payroll employment edged up by 98,000. In 2016, job gains averaged 180,000 per month, slower than the average increase of 229,000 per month in 2015.



Source: Bloomberg, as of 3/31/2017



Source: Bloomberg, as of 3/31/2017

MAJOR INDUSTRY CONTRIBUTIONS TO JOB GROWTH

Employment increased in professional and business services, education and health services, manufacturing and in mining, among other industries. Retail trade lost jobs in general merchandise stores where employment declined by 35,000.

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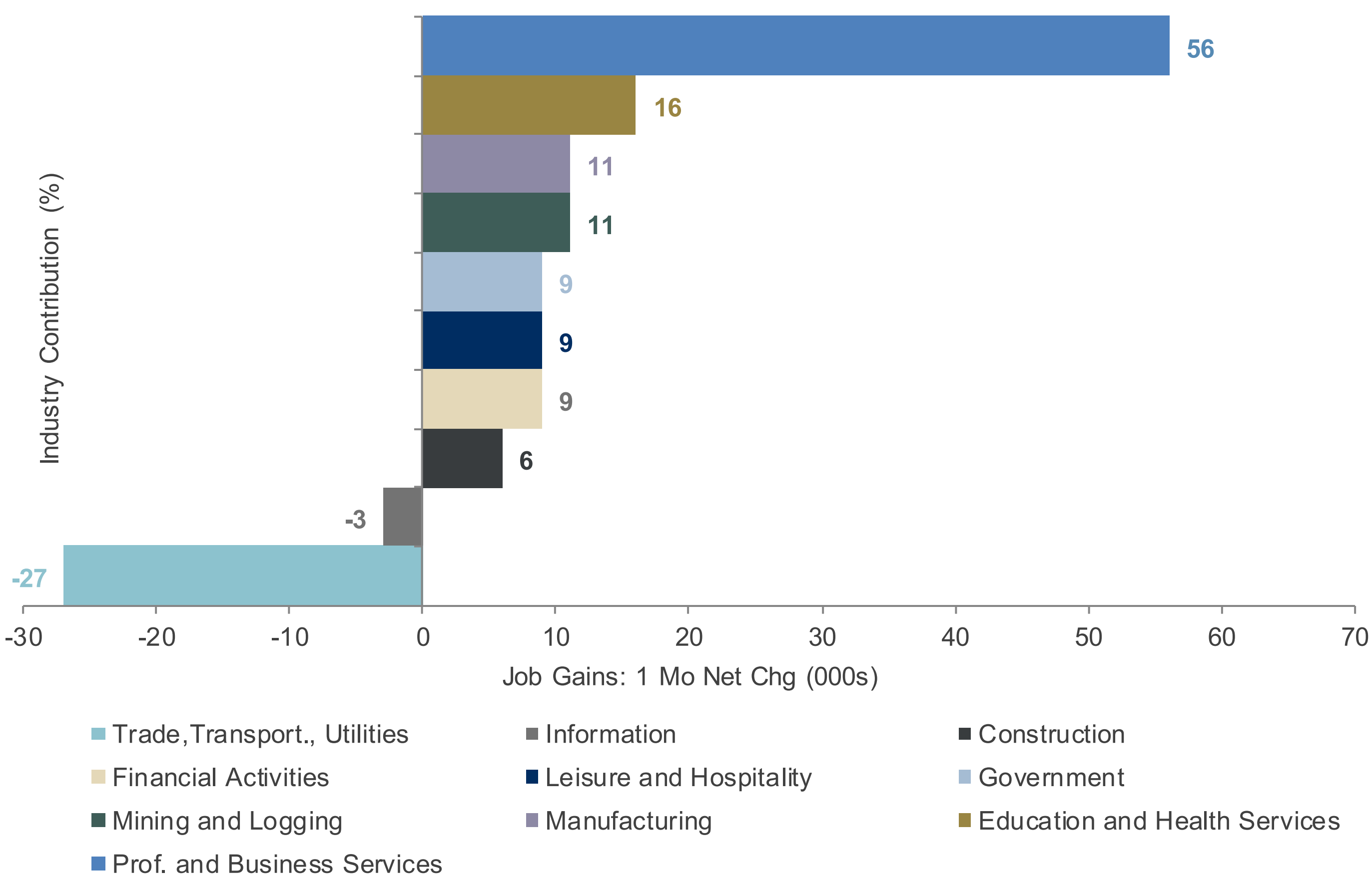
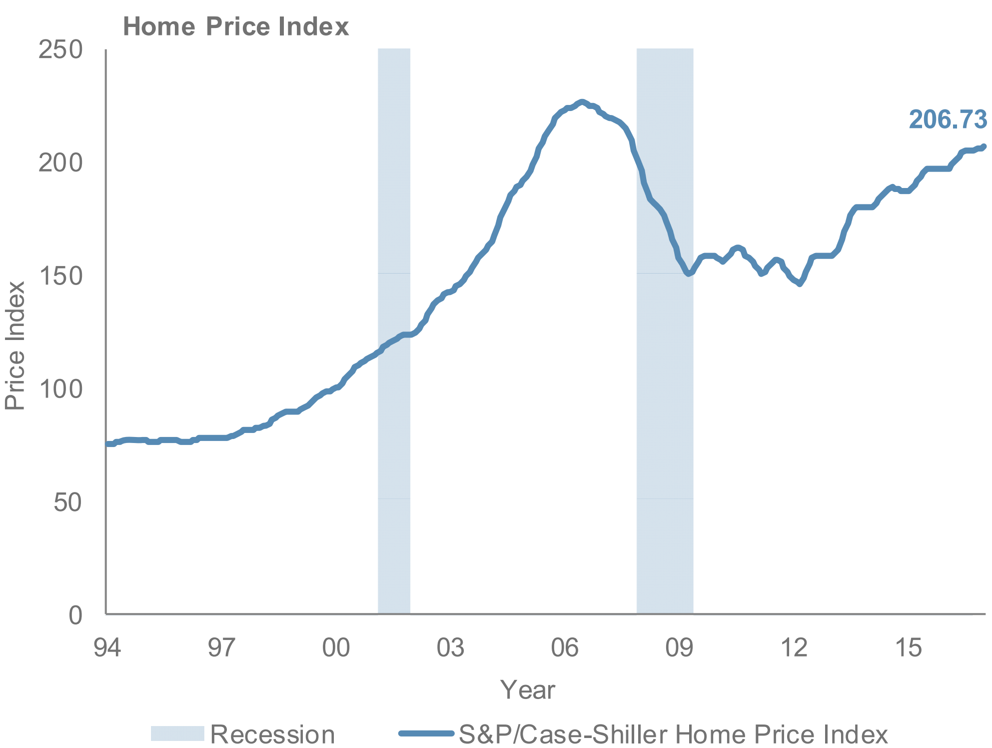


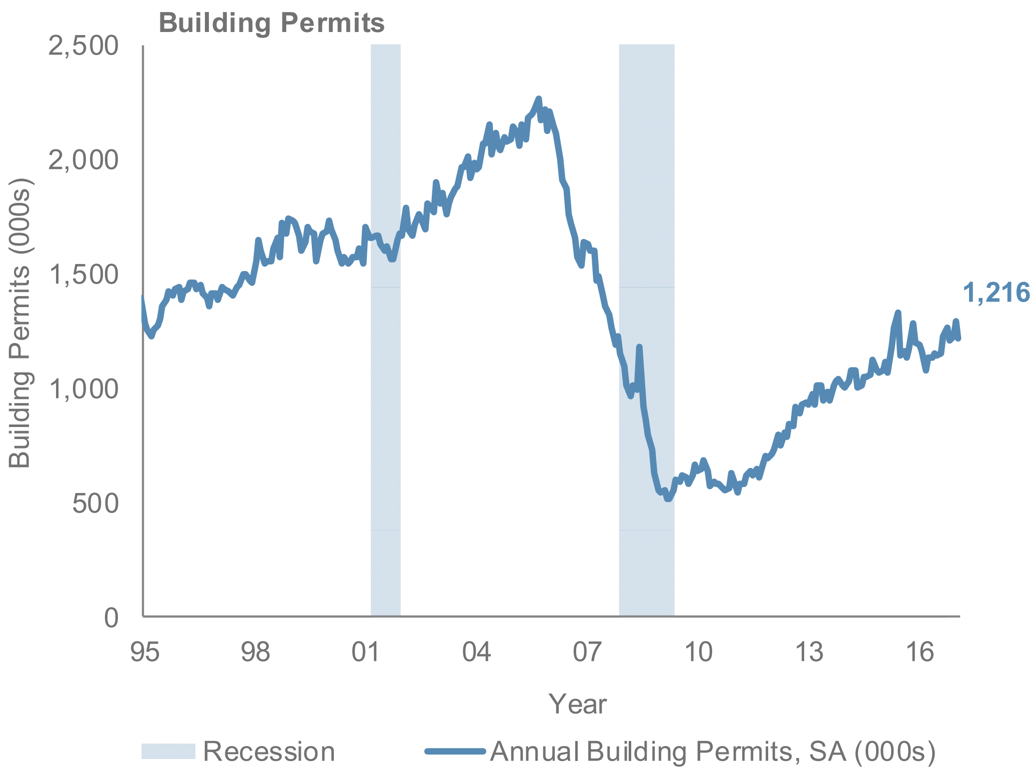
Source: Bureau of Labor Statistics, as of 3/31/2017, a preliminary estimate of the net number of jobs in the various industries in the latest month.

HOUSING MARKET

U.S. home prices continue to recover from post-financial crisis lows, driven by low mortgage rates and lean inventory levels. Issuance of building permits - which tends to be a reliable indicator of the underlying trend in construction - continued to hover in the 1,200 range.



Source: Bloomberg, as of 1/31/2017



Source: U.S. Census Bureau, as of 1/31/2017

CONSUMER CONFIDENCE

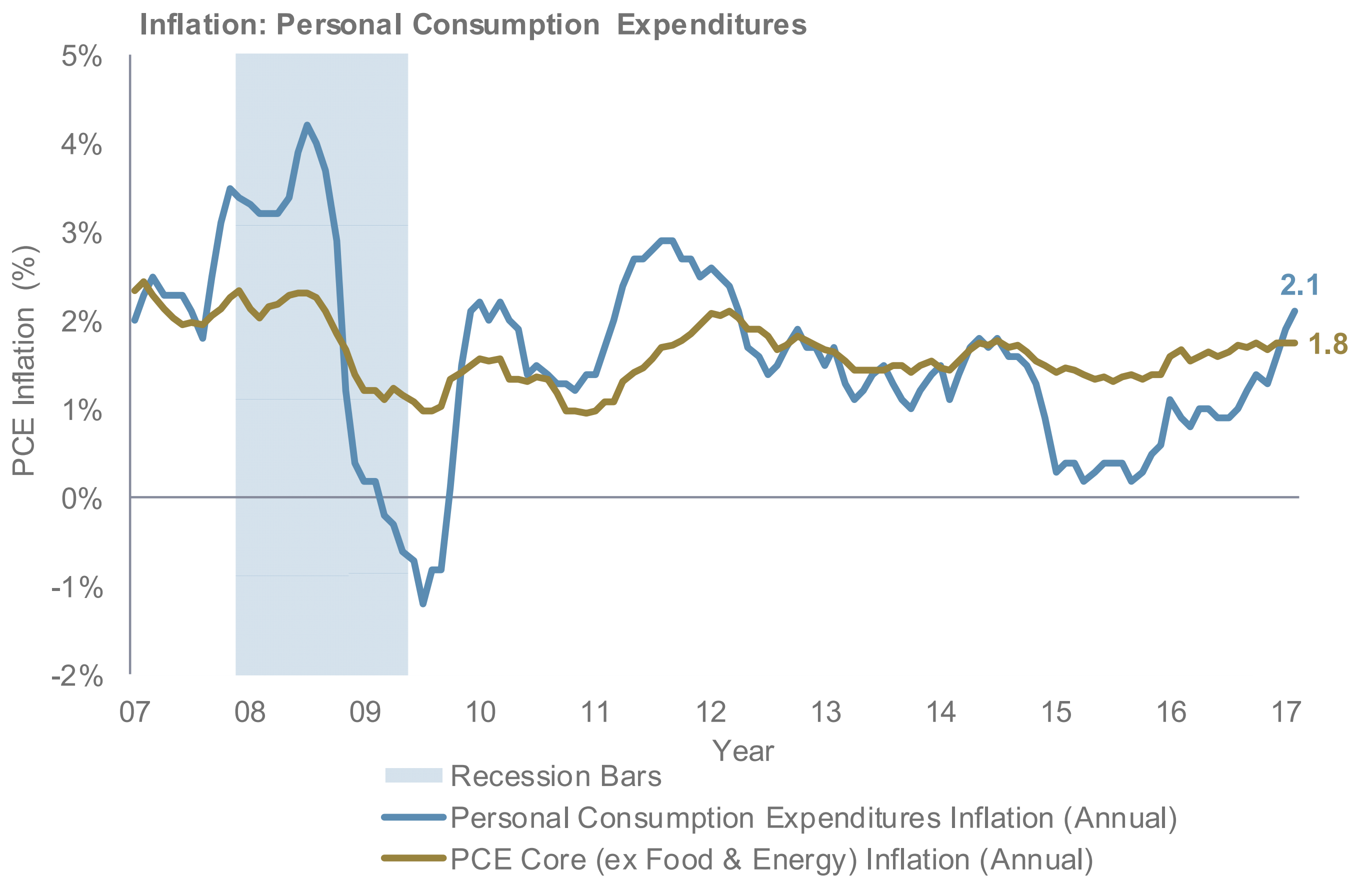
"Consumer confidence increased sharply in March to its highest level since December 2000. Consumers also expressed much greater optimism regarding the short-term outlook for business, jobs and personal income prospects. This renewed optimism suggests the possibility of some upside to the prospects for economic growth in the coming months."

- Lynn Franco, Director of Economic Indicators at The Conference Board

Source: Bloomberg, as of 3/31/2017

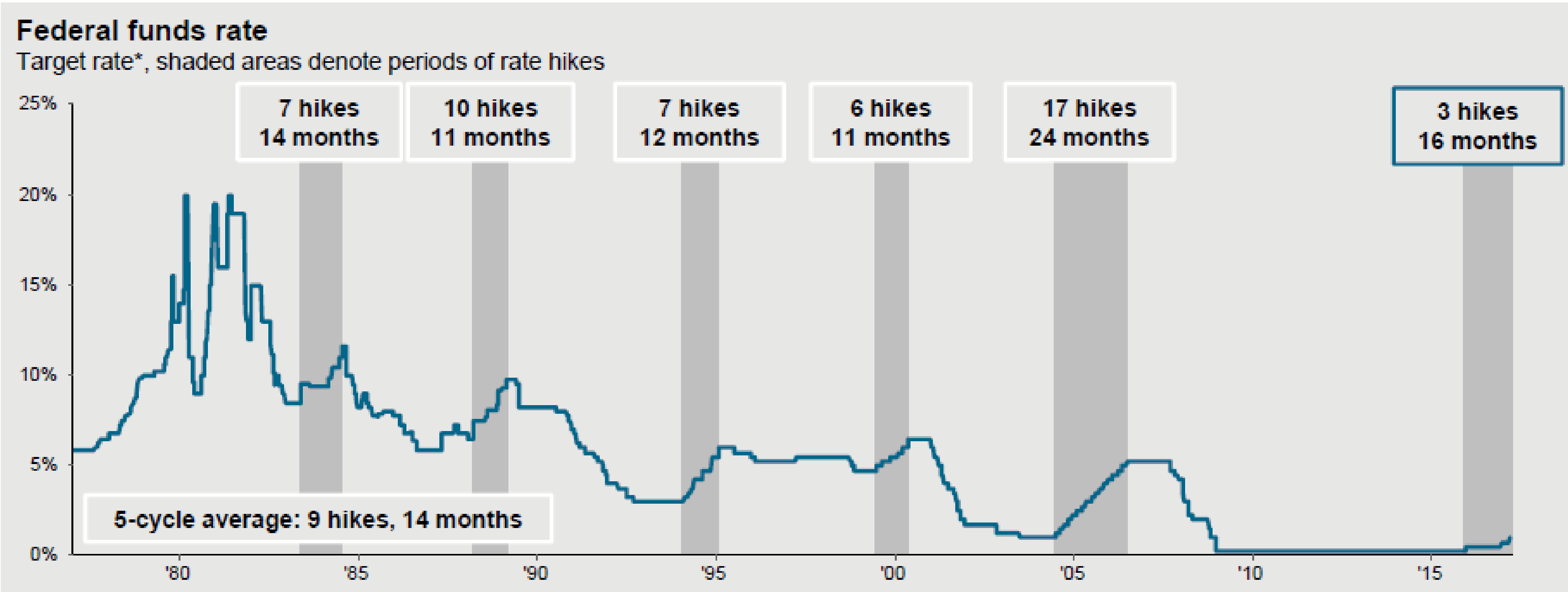
INFLATION

Inflation has increased since earlier this year and has reached the Federal Reserve's (Fed) 2% longer-run objective. Further gains in employment, real disposable personal income, and households' net worth, as well as elevated consumer sentiment were all sited in the Fed's decision to increase short-term interest rates in March.



Source: Bloomberg, as of 2/28/2017. Personal Consumption Expenditure (PCE) is the preferred measure of inflation by the Bureau of Economic Analysis.

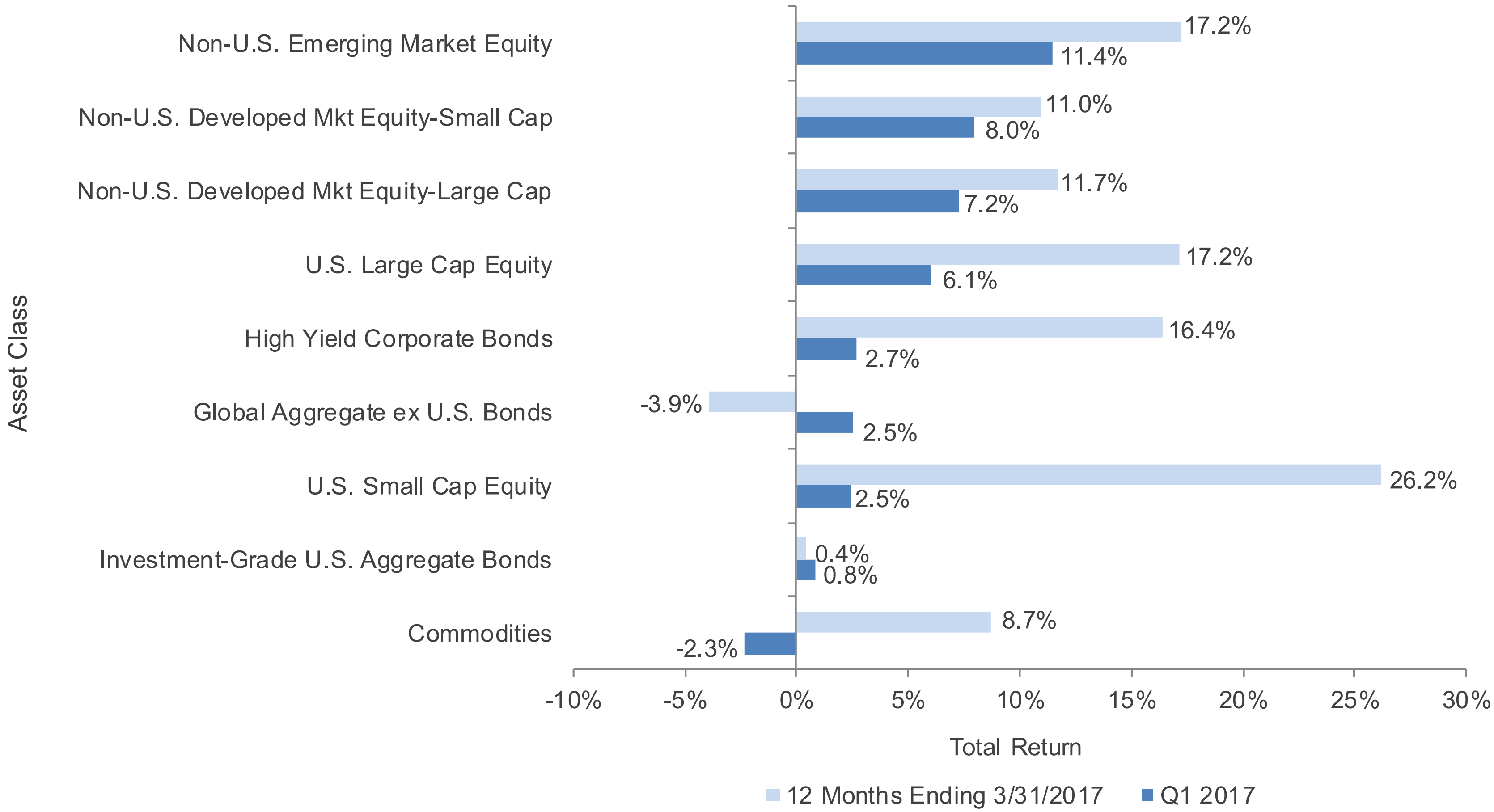
FEDERAL RESERVE POLICY



Source: FactSet, Federal Reserve, Standard & Poor's, JPMorgan Asset Management. Data as of 3/31/2017.

ASSET CLASS RETURNS

Risk assets took the lead in the first quarter with emerging market and non-US developed market equities ranking as top performers.

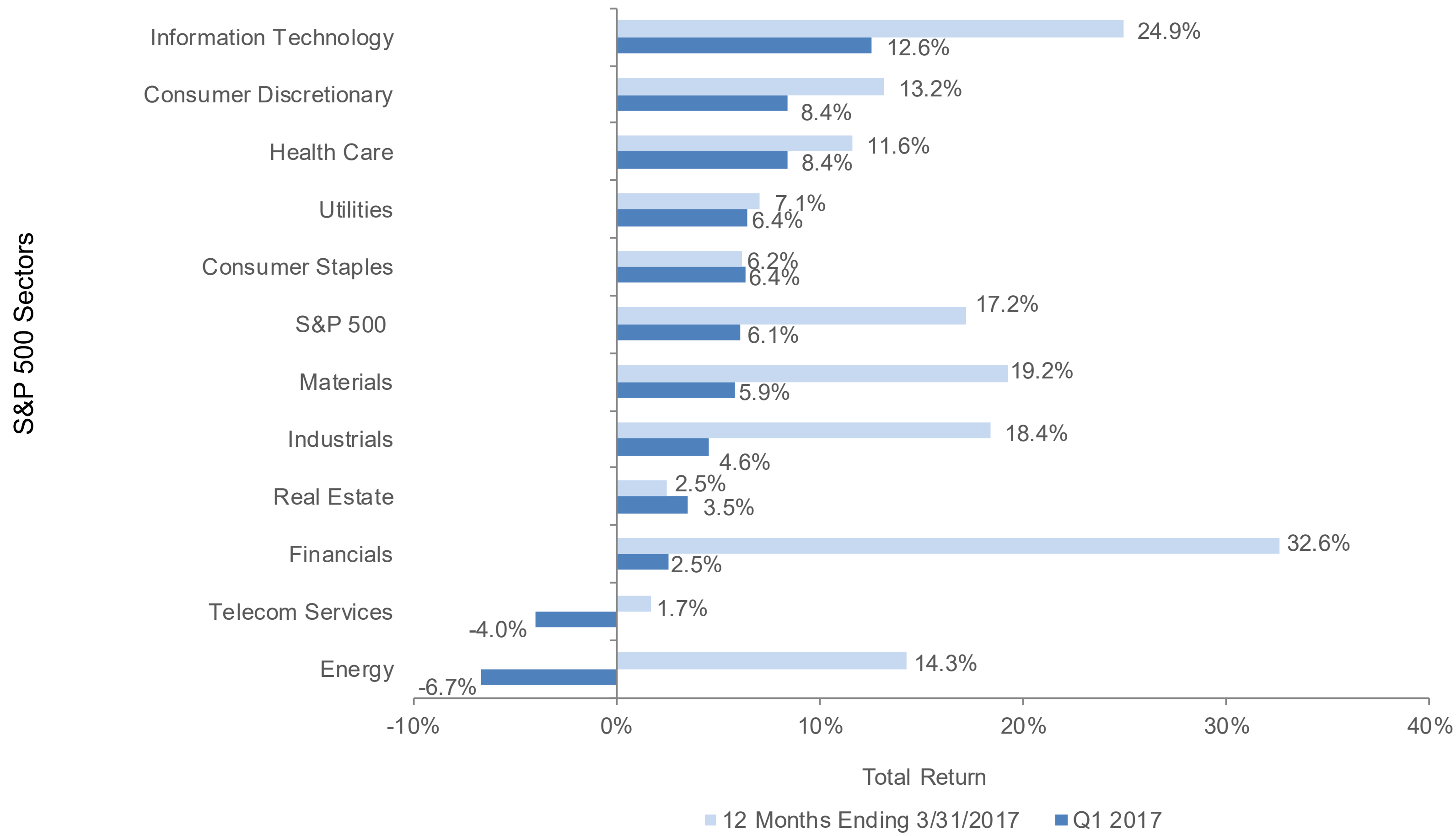


Past performance is not indicative of future results. Please see slide 31-33 for asset class definitions.

Source: Morningstar Direct, as of 3/31/2017

S&P 500 SECTOR RETURNS

Information technology was the top-performing sector in the first quarter as positive fundamental and technical trends stand out versus other sectors. Energy lost 6.7% as excess global supply continues to weigh on oil prices.



Source: Morningstar Direct, as of 3/31/17.

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 31-33 for asset class definitions.

EQUITY STYLES

Growth-oriented equities made a comeback in the first quarter, outperforming value-oriented equities across the market-cap spectrum. Still, value continues to dominate on a trailing-12-month basis.

Q1 2017 Total Return

	Value	Blend	Growth
Large	3.3%	6.0%	8.9%
Mid	3.8%	5.1%	6.9%
Small	-0.1%	2.5%	5.3%

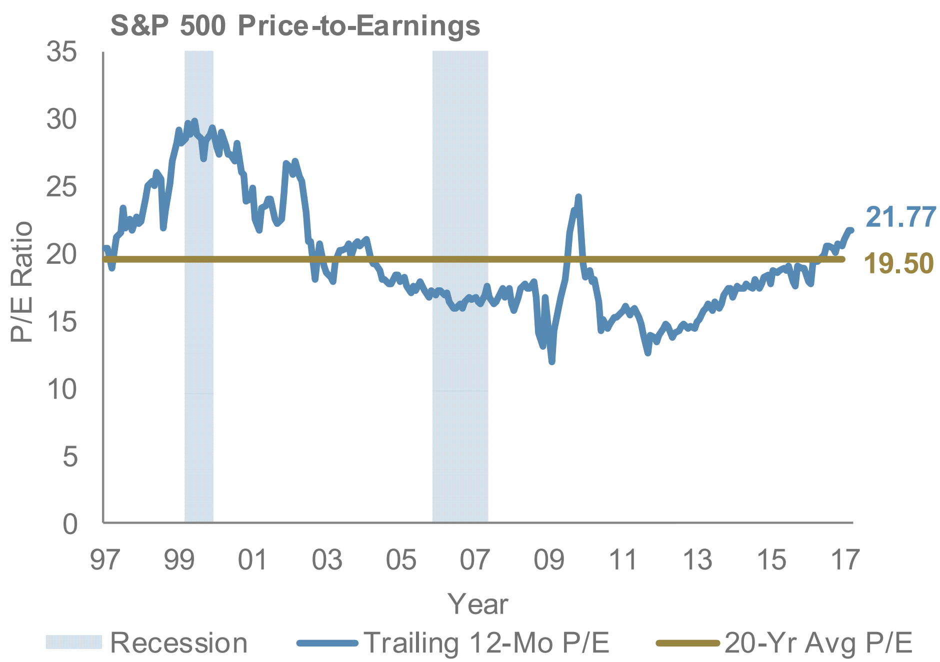
12-Month Total Return

	Value	Blend	Growth
Large	19.2%	17.4%	15.8%
Mid	19.8%	17.0%	14.1%
Small	29.4%	26.2%	23.0%

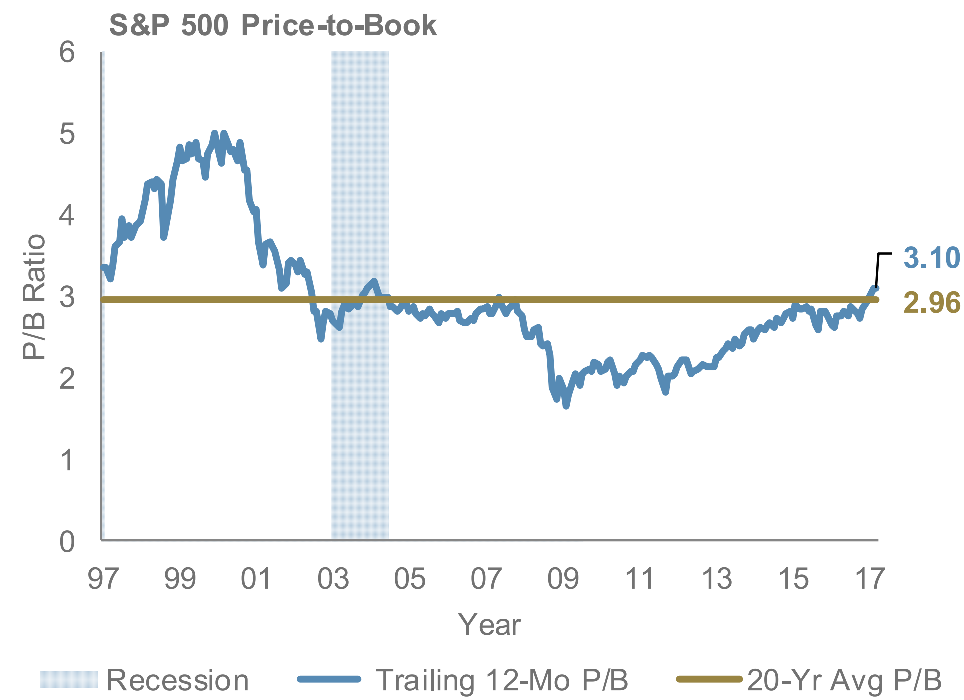
Source: Morningstar Direct., as of 3/31/17. Style box returns based on the GICS Classification model. All values are cumulative total return for stated period including reinvestment of dividends. The Indices used from left to right, top to bottom are: Russell 1000 Value Index, Russell 1000 Index, Russell 1000 Growth Index, Russell Mid-cap Value Index, Russell Mid-cap Blend Index, Russell Mid-cap Growth Index, Russell 2000 Value Index, Russell 2000 Index and Russell 2000 Growth Index. Past performance is not indicative of future results. Please see slides 31-33 for index definitions.

PRICE-EARNINGS AND PRICE-BOOK RATIOS

Source: Bloomberg, as of 3/31/2017



Source: Bloomberg, as of 3/31/2017



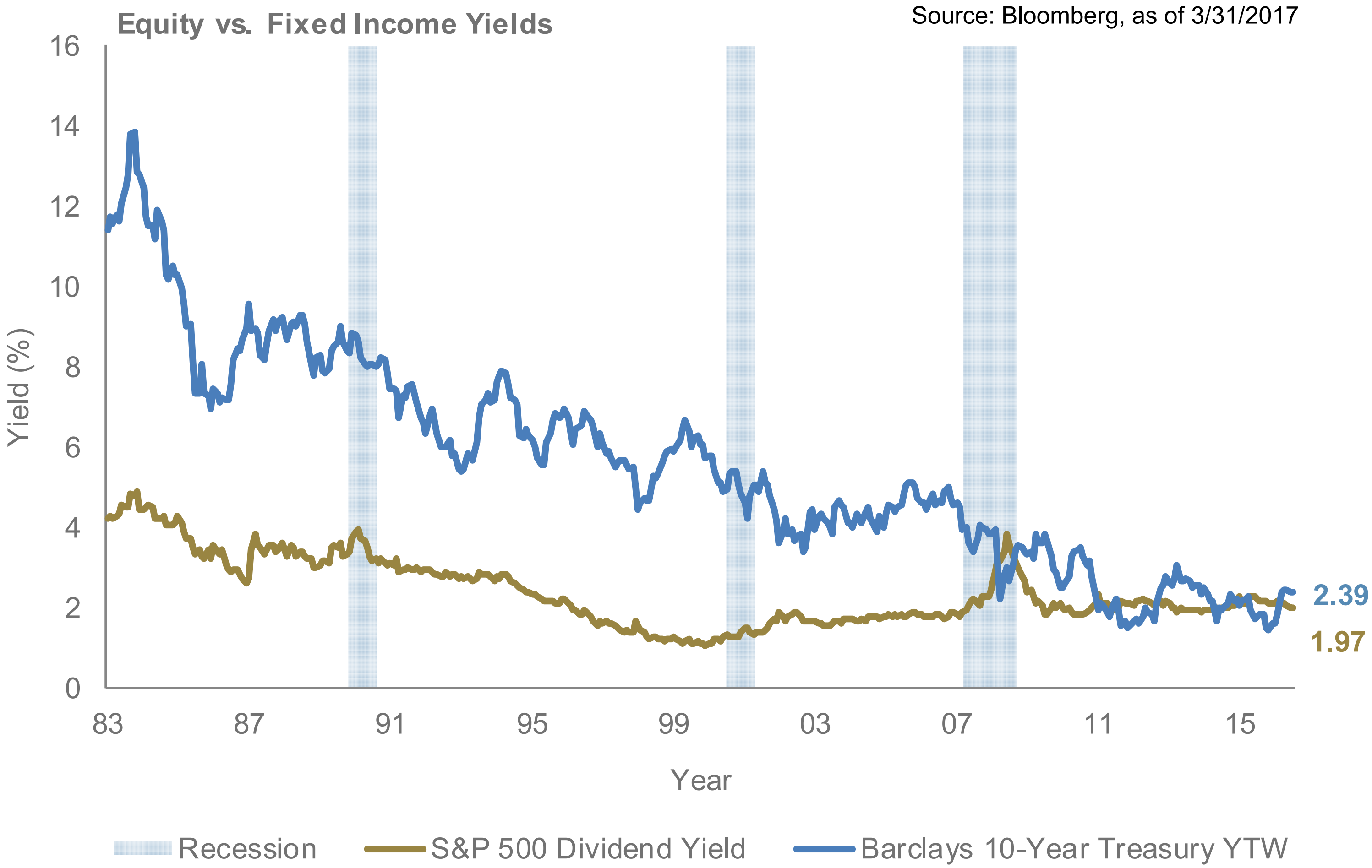
The price-earnings ratio, or P/E, is a common measure of the value of stocks. It shows the relationship between a stock's price and the underlying company's earnings (or profits) per share of stock. In essence, it calculates how many dollars you pay for each dollar of a company's earnings. In very general 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.

S&P 500 YIELDS VS. TREASURY YIELD

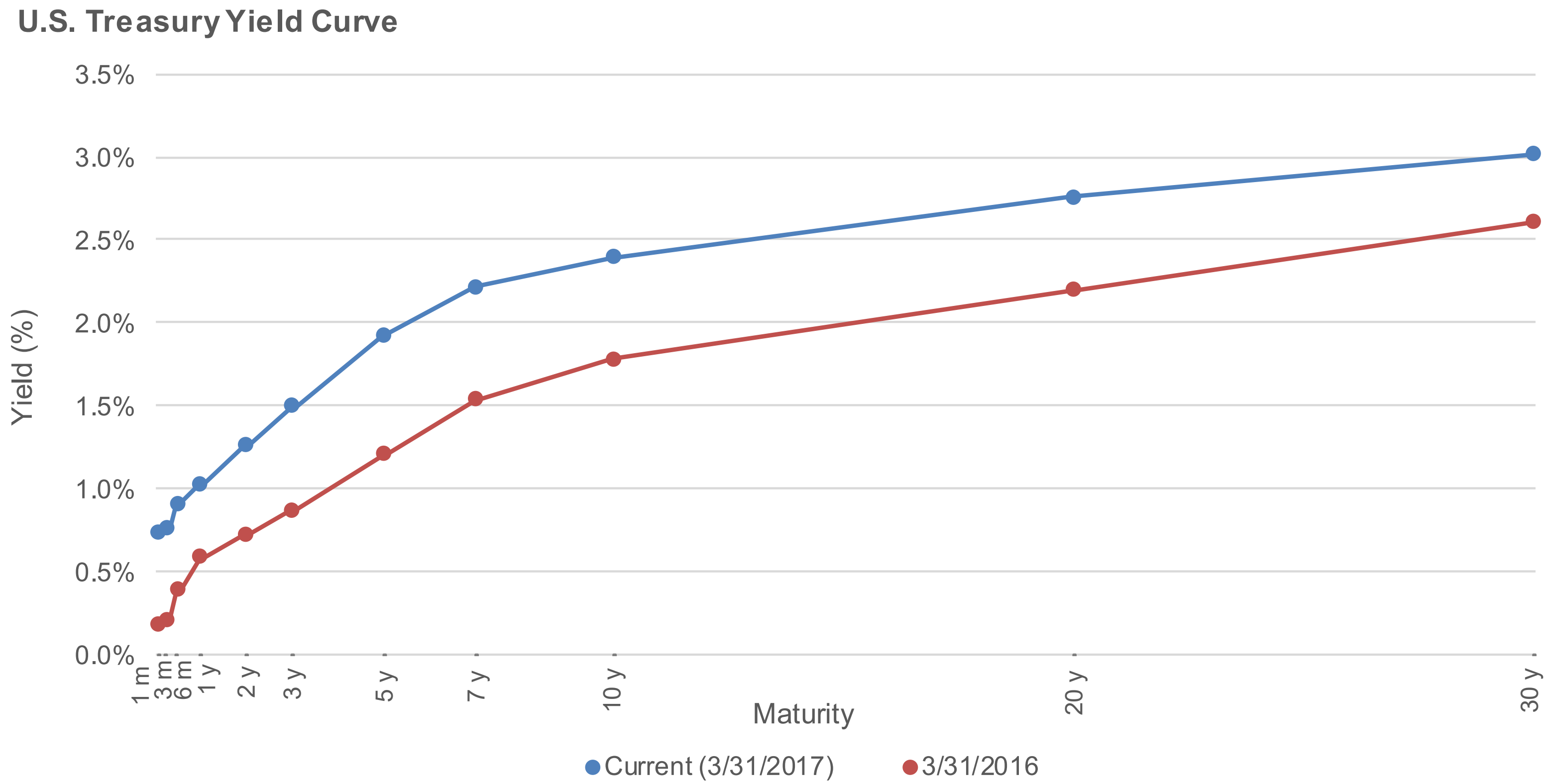
While bonds are currently yielding more than stocks, spreads remain tight relative to historical averages.

Source: Bloomberg, as of 3/31/2017



Past performance is not indicative of future results. Please see slides 31-33 for index definitions.

U.S. TREASURY YIELD CURVE

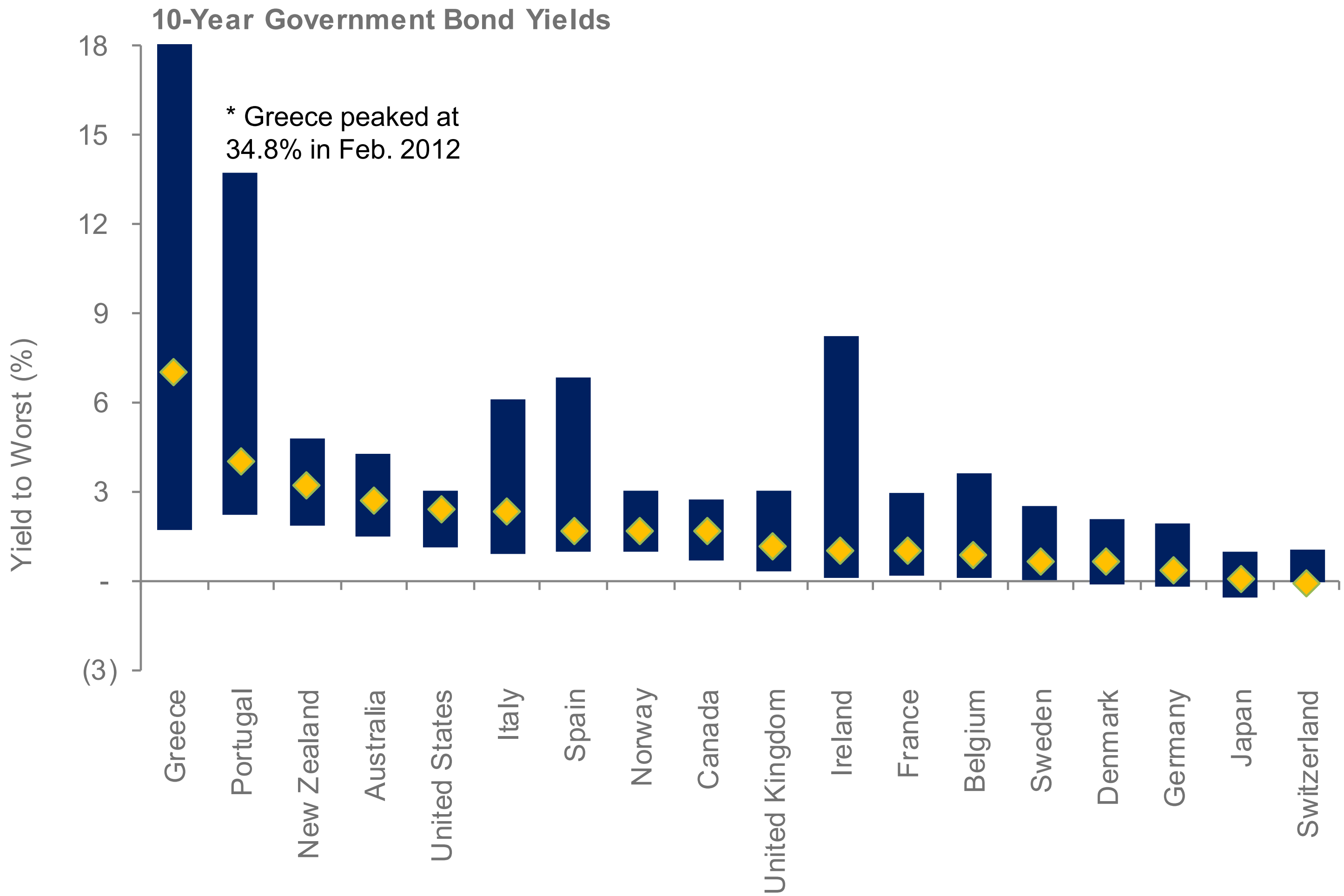


Source: Federal Reserve, as of 12/30/2016

FIXED INCOME YIELDS

Past performance is not indicative of future results. Please see slides 31-33 for index definitions. Source: Bloomberg, as of 3/31/2017

GLOBAL SOVEREIGN DEBT YIELDS



Source: Bloomberg, as of 3/31/2017. This chart illustrates the highest and lowest monthly yields over the past 5 years as well as the current yield, represented by ♦.

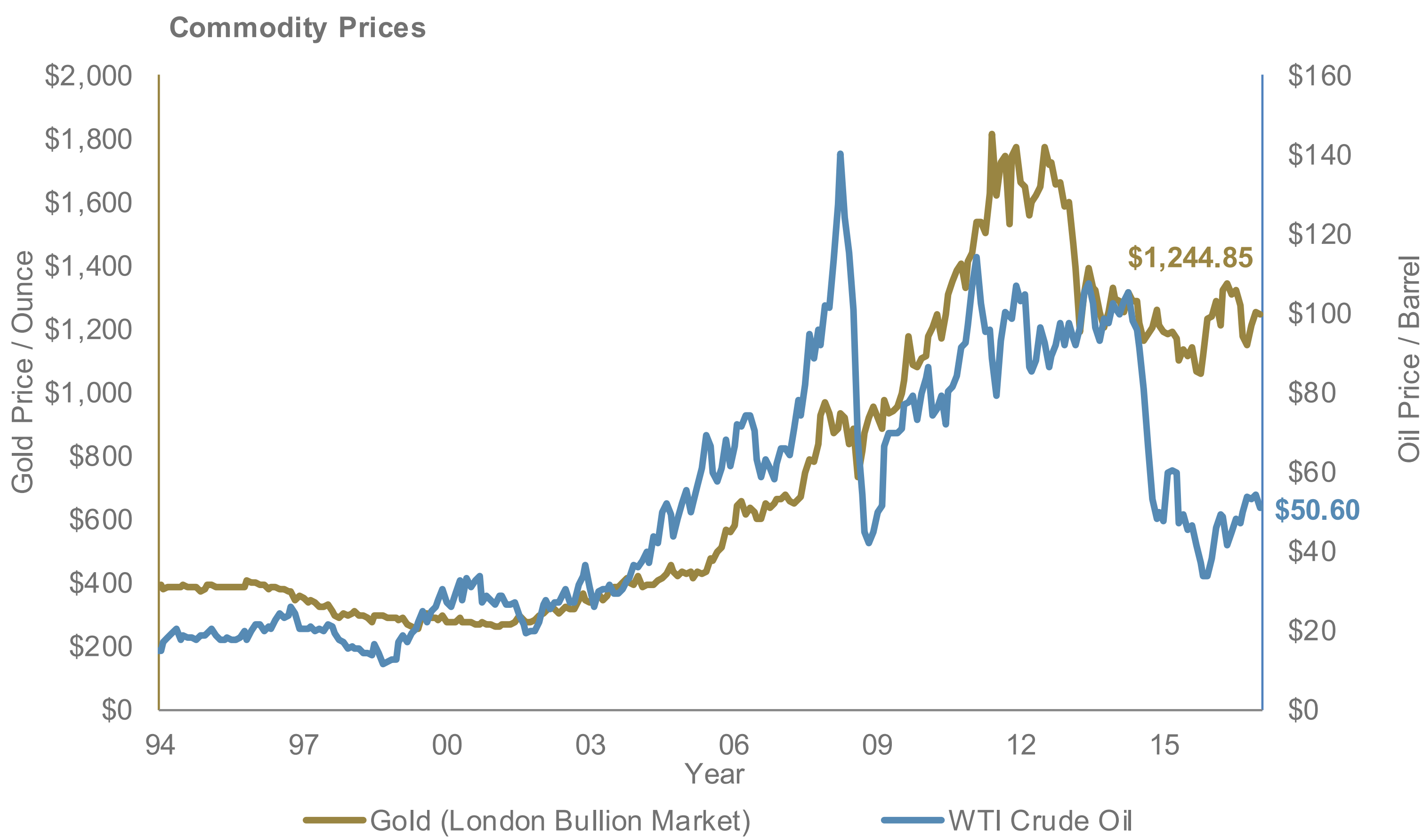
FOREIGN EXCHANGE RATES

Monetary policy has contributed to the dollar's strength. A strong dollar should keep some downward pressure on commodity prices, but will place pressure on U.S. exporters.

Source: Bloomberg, as of 3/31/2017

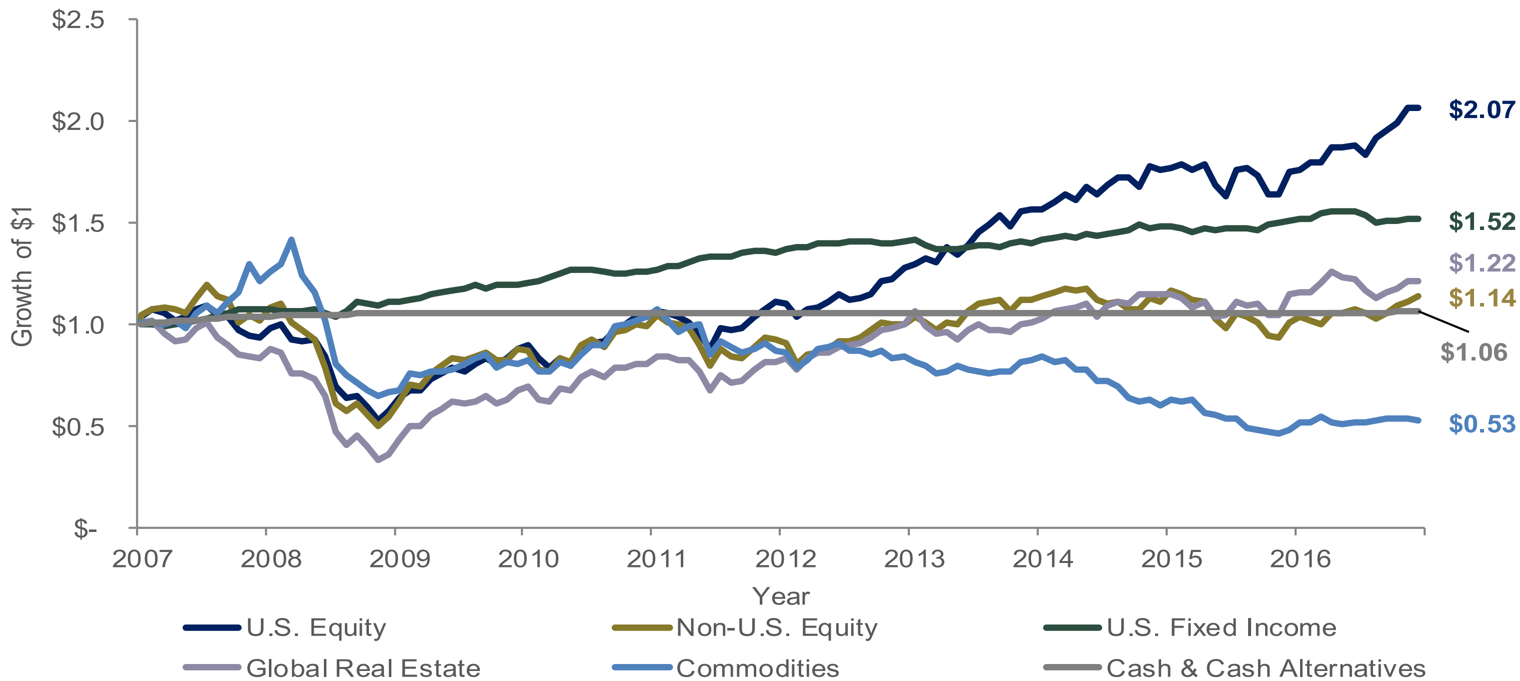
	3/31/2017	3/31/2016
Source: Bloomberg, as of 3/31/2017		
U.S. Dollar ($) / Japanese Yen (¥)	111.3900	112.3500
Euro (€) / U.S. Dollar ($)	1.0652	1.1378
British Pound (£) / U.S. Dollar ($)	1.2550	1.4404

COMMODITY PRICES



Source: Bloomberg, as of 3/31/2017

INDEX RETURNS GROWTH OF A DOLLAR



Source: Morningstar Direct, as of 3/31/2017

	QTD	YTD	1-Year	3-Year	5-Year	10-Year
U.S. Equity	5.74%	5.74%	18.07%	9.76%	13.18%	7.54%
Non-U.S. Equity	7.86%	7.86%	13.13%	0.56%	4.36%	1.35%
U.S. Fixed Income	0.82%	0.82%	0.44%	2.68%	2.34%	4.27%
Global Real Estate (REITs)	3.18%	3.18%	2.06%	5.09%	6.86%	1.98%
Commodities	-2.33%	-2.33%	8.71%	-13.91%	-9.54%	-6.22%
Cash & Cash Alternatives	0.12%	0.12%	0.34%	0.15%	0.11%	0.61%

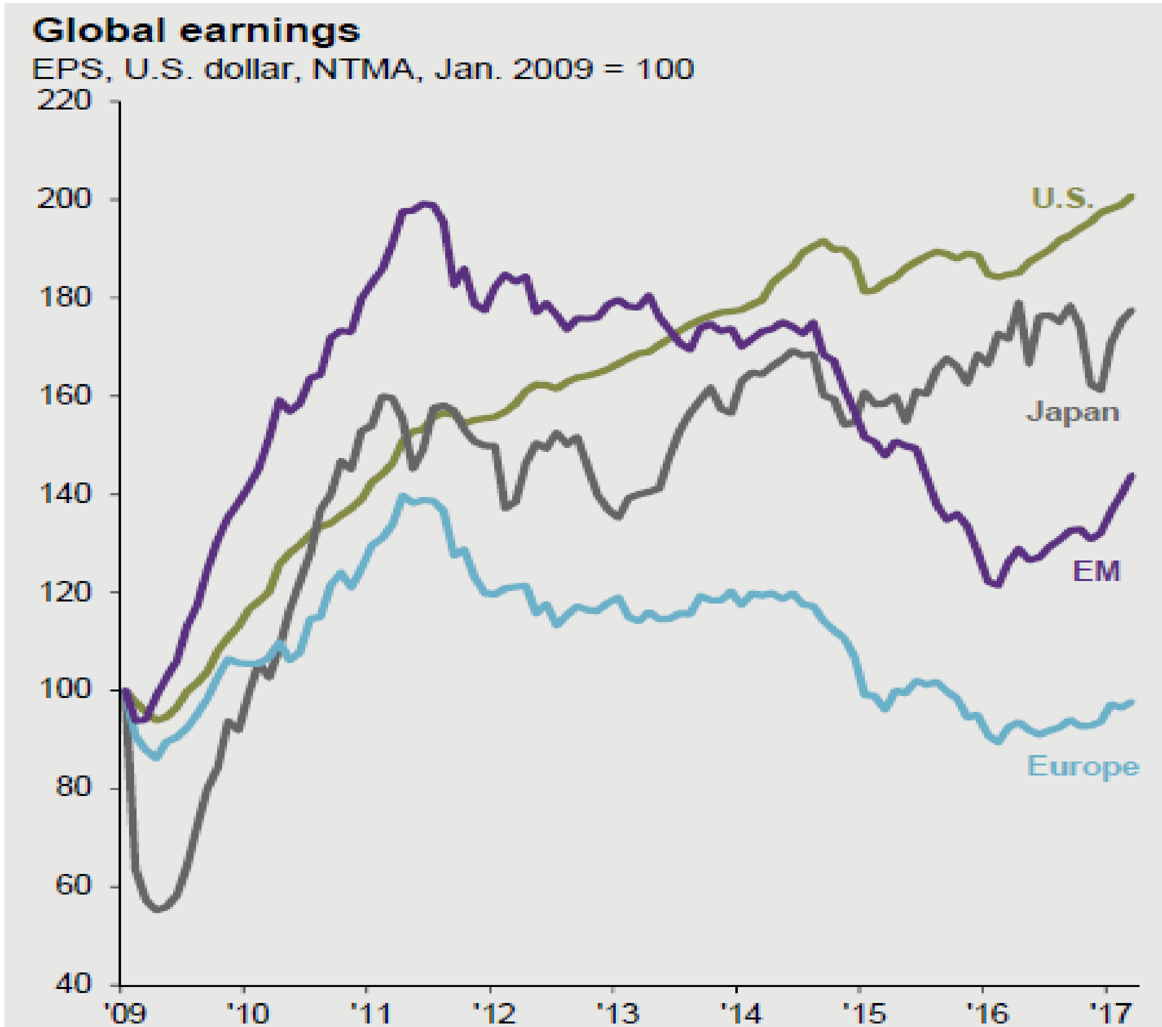
Investors cannot invest directly in an index. Past performance is not indicative of future results. **See slide 31-33 for asset class definitions.**

ANNUAL ASSET CLASS TOTAL RETURNS

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	YTD 2017
Non-U.S. Equity 16.7%	Fixed Income 5.2%	Non-U.S. Equity 41.5%	Real Estate 19.3%	Fixed Income 7.8%	Real Estate 29.0%	U.S. Equity 33.6%	Real Estate 13.9%	Fixed Income 0.6%	U.S Equity 12.7%	Non-U.S. Equity 7.9%
Commodities 16.2%	Cash & Cash Alternatives 1.8%	Real Estate 40.2%	U.S. Equity 16.9%	Blended Portfolio 2.1%	Non-U.S. Equity 16.8%	Non-U.S. Equity 15.3%	U.S. Equity 12.6%	U.S. Equity 0.5%	Commodities 11.8%	U.S Equity 5.7%
Blended Portfolio 7.8%	Blended Portfolio -21.7%	U.S. Equity 28.3%	Commodities 16.8%	U.S. Equity 1.0%	U.S. Equity 16.4%	Blended Portfolio 13.9%	Blended Portfolio 7.1%	Cash & Cash Alternatives 0.0%	Blended Portfolio 7.1%	Blended Portfolio 3.8%
Fixed Income 7.0%	Commodities -35.7%	Blended Portfolio 20.2%	Blended Portfolio 11.9%	Cash & Cash Alternatives 0.1%	Blended Portfolio 11.0%	Real Estate 1.6%	Fixed Income 6.0%	Blended Portfolio -0.2%	Non-U.S. Equity 4.5%	Real Estate 3.2%
U.S. Equity 5.1%	U.S. Equity -37.3%	Commodities 18.9%	Non-U.S. Equity 11.2%	Real Estate -8.7%	Fixed Income 4.2%	Cash & Cash Alternatives 0.1%	Cash & Cash Alternatives 0.0%	Real Estate -1.2%	Real Estate 3.8%	Fixed Income 0.8%
Cash & Cash Alternatives 4.7%	Non-U.S. Equity -45.5%	Fixed Income 5.9%	Fixed Income 6.5%	Commodities -13.3%	Cash & Cash Alternatives 0.1%	Fixed Income -2.0%	Non-U.S. Equity -3.9%	Non-U.S. Equity -5.7%	Fixed Income 2.7%	Cash & Cash Alternatives 0.1%
Real Estate -5.0%	Real Estate -50.2%	Cash & Cash Alternatives 0.2%	Cash & Cash Alternatives 0.1%	Non-U.S. Equity -13.7%	Commodities -1.1%	Commodities -9.5%	Commodities -17.0%	Commodities -24.7%	Cash & Cash Alternatives 0.3%	Commodities -2.3%

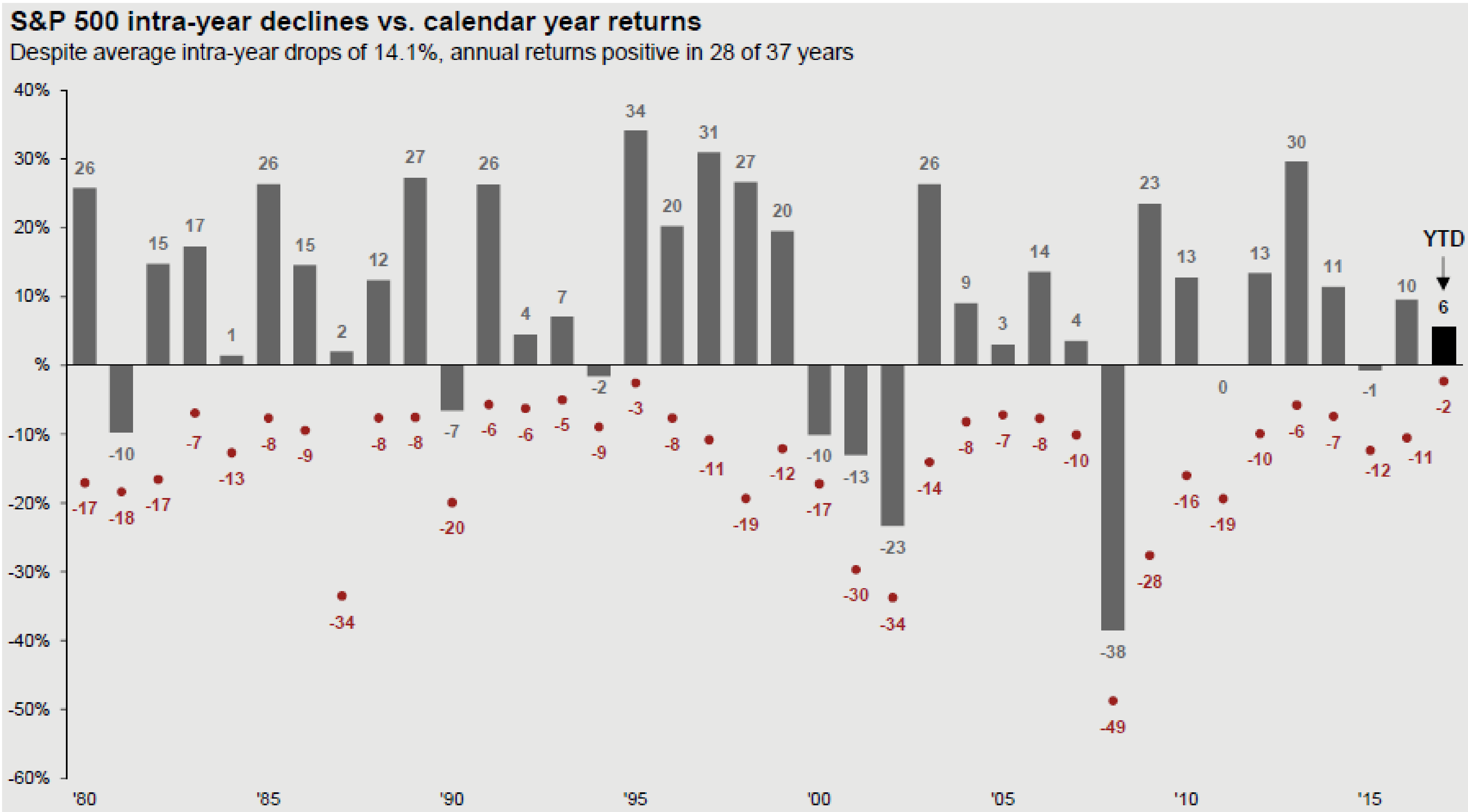
Source: Morningstar Direct, as of 3/31/2017. Blended portfolio allocation is 45% US Equity, 15% Non-US Equity, 40% Fixed Income. Investors cannot invest directly in an index. Past performance is not indicative of future results. See slide 31-33 for asset class definitions.

GLOBAL EARNINGS



Source: FactSet, MSCI, Standard & Poor's, JPMorgan Asset Management. Earnings are US Dollar Earnings Per Share, NTMA. Data as of 3/31/2017.

STOCK MARKET RESILIENCY



Source: FactSet, Standard & Poor's, JPMorgan Asset Management. Returns are based on price index of the S&P 500 only and do not include dividends. Intra year drops refers to the largest market drop from a peak to a trough during the year. Investors cannot invest directly in an index. Past performance is not indicative of future results. **See slide 31-33 for asset class definitions.** Data as of 3/31/2017.

DISCLOSURE

*Winner's Circle, a Barron's research organization, produced the rankings based on data provided by over 4,000 individual advisors and their firms. Advisor data is confirmed via regulatory databases, crosschecks with securities firms and conversations with individual advisors. Among the factors considered for the rankings are assets under management, revenue that the advisors generate for their firms and the quality of their practices. Data points that relate to quality of practice include length of service, designations held, and services beyond investments offered including estates and trusts, and an evaluation of each advisor's regulatory record etc. Investment performance is not an explicit component because not all advisors have audited results and because performance figures often are influenced more by clients' risk tolerance than by an advisor's investment picking abilities. The ranking may not be representative of any one client's experience, is not an endorsement, and is not indicative of future performance. Neither Raymond James nor any of its Financial Advisors pay a fee in exchange for this award/rating. Barron's is not affiliated with Raymond James.

**The FT 400 was developed in collaboration with Ignites Research, a subsidiary of the FT that provides specialized content on asset management. To qualify for the list, advisers had to have 10 years of experience and at least $300 million in assets under management (AUM). The FT then invited a list of just under 1,000 advisors to complete a survey used to obtain more information on the advisors practices. 400 qualified advisers were then scored on six attributes: AUM, AUM growth rate, compliance record, experience, industry certifications and online accessibility. AUM is the top factor, accounting for roughly 60-70 percent of the applicant's score. Additionally, to provide a diversity of advisors, the FT placed a cap on the number of advisors from any one state that's roughly correlated to the distribution of millionaires across the U.S. The ranking may not be representative of any one client's experience, is not an endorsement, and is not indicative of future performance. Neither Raymond James nor any of its Financial Advisors pay a fee in exchange for this award/rating. The FT is not affiliated with Raymond James.

***The Forbes ranking of America's Top Wealth Advisors, developed by SHOOK Research, is based on an algorithm of qualitative and quantitative data, rating thousands of wealth advisors with a minimum of seven years of experience. Ranking algorithm is based on quality of practice, including: telephone and in-person interviews, client retention, industry experience, review of compliance records, firm nominations; and quantitative criteria, including: assets under management and revenue generated for their firms. Investment performance is not a criteria because client objectives and risk tolerances vary, and advisors rarely have audited performance reports. Rankings are based on the opinions of SHOOK Research, LLC which does not receive compensation from the advisors or their firms in exchange for placement on the ranking. Research Summary (as of July 2016): 11,235 Advisor nominations were received, based on thresholds. 4,000 Advisors were invited to complete the online survey. 2,500 Advisors were interviewed by telephone. 425 Advisors were interviewed in-person at the Advisors' location. Final list of the top 200 Advisors was then compiled based upon the quantitative criteria. Raymond James is not affiliated with Forbes or Shook Research, LLC. This ranking is not indicative of future investment performance, is not an endorsement, and may not be representative of individual clients' experience. Neither Raymond James nor any of its Financial Advisors or RIA firms pay a fee in exchange for this award/rating.

Data provided by Morningstar, Bloomberg.

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DISCLOSURE (continued)

Asset allocation and diversification does not guarantee a profit nor protect against loss. Dividends are not guaranteed and will fluctuate. Past performance is not indicative of future results. Investing in international securities involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets. The values of real estate investments may be adversely affected by several factors, including supply and demand, rising interest rates, property taxes, and changes in the national, state and local economic climate. Companies engaged in business related to a specific sector are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector including limited diversification.

Certified Financial Planner Board of Standards Inc. owns the certification marks CFP®, Certified Financial Planner™ and federally registered CFP in the U.S., which it awards to individuals who successfully complete CFP Board's initial and ongoing certification requirements.

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:

ASSET CLASS	BENCHMARK
U.S. Equity	Russell 3000 TR
Non-U.S. Equity	MSCI ACWI ex US NR
U.S. Fixed Income	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

Bloomberg Commodity Total Return Index: Formerly the Dow Jones-UBS Commodity Index TR (DJUBSTR),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.

INDEX DESCRIPTIONS (continued)

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 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 98% of the investable U.S. equity market.

INDEX DESCRIPTIONS (continued)

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.