2013

Market Review Q2

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Market Review

Investment performance in the second quarter was mixed as concerns surrounding an end to quantitative easing by the Federal Reserve weighed heavily. Most asset classes declined for the quarter and remain muted for the YTD period.

The notable exception is US Equities which delivered positive returns for the quarter and have appreciated significantly for the first six months of 2013.

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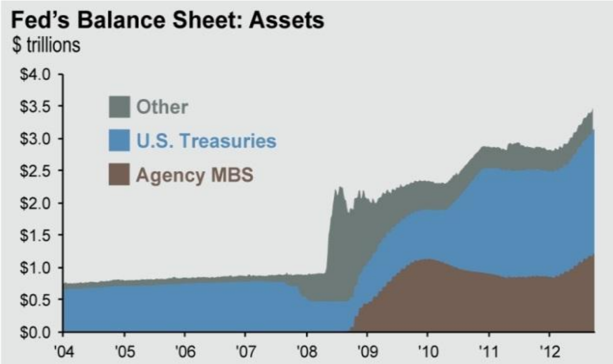
Overview

Much of the volatility in the quarter can be tied to a slight but meaningful change in the Federal Reserve's Policy. Fed Chairman, Ben Bernanke, in his June 19 press conference, left the door open for the Fed to begin tapering the pace of its monthly bond purchases sooner than expected. This seemingly small policy change resulted in a substantial increase bond yields and presaged the difficulty bond investments will face in a rising interest rate environment.

The impact of this statement was not limited solely to bonds, however. This news, combined with news that Japan was not going to expand its quantitative easing efforts, resulted in volatility across asset classes as the process of unwinding carry trades began. (Carry trades are the practice of borrowing in the currency of countries with low yielding debt or depreciating currencies and invest the proceeds in higher yielding/appreciating currency investing such as emerging market local currency bonds, REIT's, High Yield Bonds, etc.).



For chart source & details see page 11

World Equity Market View

US Equities

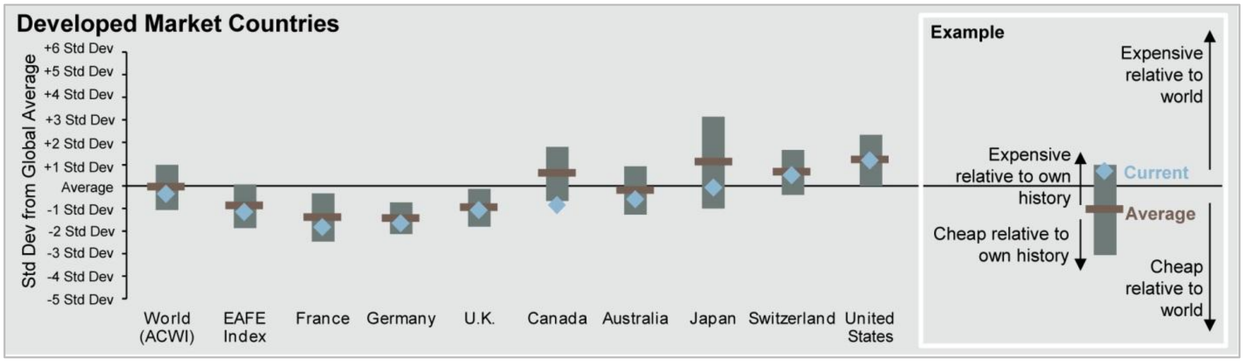
Emboldened by positive US economic news and encouraged by the accommodative policies from the Federal Reserve, US Stocks have outperformed both the developed foreign and the developing foreign markets handily in 2013. The Federal Reserve, by repressing interest rates at all-time lows, and aggressively purchasing government and mortgage backed bonds, has enticed investors to move out of lower yielding "safe" investments into higher yielding, "riskier" asset classes. This aided US Equities in delivering outsized performance relative to longer term expectations for the asset class.

Returns of this magnitude are normally associated with markedly improved economic conditions and/or a revaluation of undervalued assets.

While these factors may have had a marginal impact, we believe the outstanding performance to date has likely borrowed from the future and thus presages subpar prospective performance. At their current values, we would consider US Equities to be fairly valued albeit with a heightened sensitivity to subpar earnings or economic news.

Position in the Portfolio:
The current allocation for this asset class in our portfolios remains consistent with our long term targets.

Developed Foreign Equities



For chart source & details see page 11

Developed Foreign Equities delivered respectable returns for the first half of 2013; however, this performance was well below the returns delivered by US Stocks. Much of this underperformance can be linked to the impact a stronger dollar has had on returns. For the first half of 2013, the MSCI EAFE index, in local currencies, returned 11.4%, slightly below the 13.8% return achieved by the S&P 500. However, once adjusted for the impact of currency, the return actually achieved by a US investor shrank to 4.5%.

The Bank of Japan's aggressive quantitative easing plan, which seeks to double the monetary base over the next two years to achieve a 2% inflation target, resulted in strong performance in Japanese stocks. In fact, in isolation, Japanese stocks actually delivered superior performance than did US Equities.

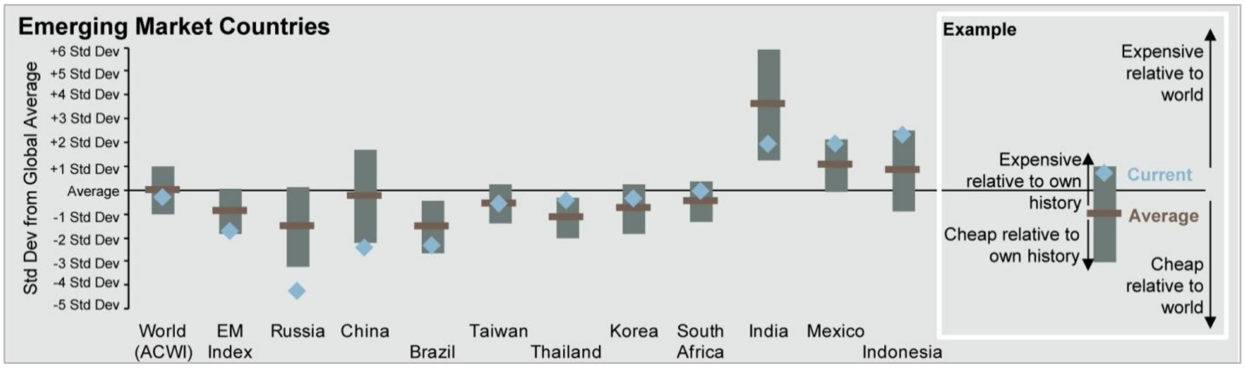
European stocks continued to struggle amid a protracted recession. While Europe has made progress in dealing with the three year old sovereign debt crisis, the austerity measures enacted have taken a toll on the European economy.

Unemployment figures for the 17-nation Eurozone remained at a record high 12.2% and GDP declined in the first quarter. In reaction to this, the European Central Bank further reduced its benchmark interest rate to a historic low 0.5%.

From a valuation perspective, non US Developed Market foreign equities appear undervalued. However, given the macro level challenges and the overhang related to the sovereign debt crisis, we feel the risk/reward relationship remains tilted towards risk.

Position in the Portfolio:
Relative to Long Term Target allocations, the portfolio remains underweighted to Developed Foreign Equities.

Emerging Markets Equities



For chart source & details see page 11

Emerging Market stocks (and bonds) were influenced negatively by several events during the quarter. As previously mentioned the intimation of a wind down in quantitative easing both in the US and in Japan elevated concerns that global growth would slow and put pressure on emerging country stocks. Further, economic growth in several emerging countries continued to disappoint. Most notably was growth in China where the focus is gradually being shifted away from an export and investment driven economy to one that is balanced by domestic consumption.

Lastly, and of growing concern is the size and impact of lending outside of the traditional banking sector ("*shadow banking*") in China.

While these notable concerns are likely to have a continued impact on near term results, we continue to believe emerging market stocks offer attractive long term return opportunities both on an absolute basis and relative to other equity securities. Favorable demographics, strong long term fundamentals and cheaper valuations support our thesis.

Position in the Portfolio:
Emerging Markets Equities are overweighed relative to our longer term strategic targets.

Real Assets

The Real Asset Class incorporates disparate strategies that seek to both protect the value of the portfolio against higher than expected inflation rates and provide a return opportunity less correlated with traditional equity markets. Over the trailing twelve months, the Real Asset category has been invested in Commodities and Metals, Real Estate investment Trusts “REITS” and Master Limited partnerships (“MLP’s”).

Commodities and metals prices have logged meaningful declines in 2013 as fears of global inflation have subsided and global economic growth appears to be slowing. As a result of the Fed's intent to taper bond buying, the US dollar strengthened, causing a meaningful decline in Gold prices.

Real Estate Investment Trusts have delivered strong performance since 2008 as investors, hungry for yield, bid up the prices for these investments. As with other yield oriented investments, however, shares of REIT's have been negatively impacted by the recent rise in interest rates. Given the relatively current low yield REIT securities are delivering, in comparison to historic yields, we no longer view REIT's to offer a favorable Risk/Reward proposition.

While REIT valuations have become expensive, the valuations on the underlying real estate is less expensive.

Master Limited Partnerships (“MLP”), in aggregate, have delivered strong performance in 2013. Attractive yields, sustainable business models, and predictable cash flow make this asset class a solid portfolio diversifier. While we are concerned that valuations in these assets could become stretched as more capital is attracted to this space, we feel the opportunity still warrants a portfolio allocation.

Position in the Portfolio:
The portfolio allocation to Real Assets remains under allocated relative to longer term targets. Within this asset class, the allocation to REITS is being removed in its entirety. The allocations to Commodities and Metals and MLP's remain over weighted.

Equity Diversification Strategies

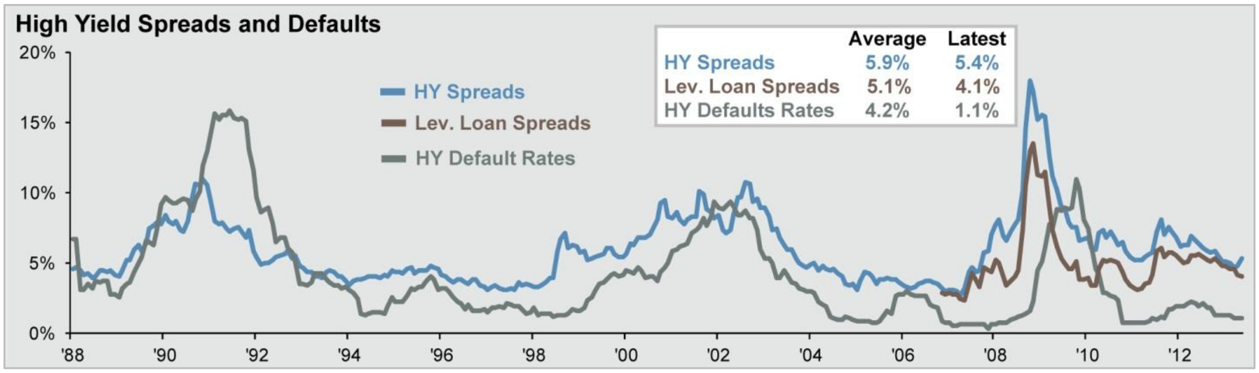
As we have stated in the past, Equity Diversification Strategies is not an asset class but rather a strategy developed around the equity asset class. The objective for the strategy is to deliver the long term return objective of equities, with less market dependency and less price variability. During strong equity market environments, such as those currently being experienced in US Equities, the absolute return orientation of this Equity Diversification Strategies will appear to dampen returns. The value of this approach, however, can only be recognized over an entire market cycle.

Earlier this year, based on the belief that equities were positioned for stronger relative performance, the allocation to Equity Diversification was reduced.

Position in the Portfolio:
Equity Diversification Strategies remain underweighted relative to our longer term strategic targets.

Income Oriented Assets

Fixed Income



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As stated earlier, the rise in interest rates post Fed Chairman Bernanke's comments and the subsequent declines in bond prices presage the challenge facing Fixed Income investments. As was noted by Bill Gross of PIMCO and Jeffrey Gundlach of Doubleline, the bond market had reached a "*tipping point*". Fed Chairman Bernanke supplied the push. According to TrimTabs Investment Research, bond mutual funds and exchange traded funds had $72.5 billion in outflows from June 1 - June 25, far eclipsing the $41.8 billion that was withdrawn in October, 2008.

This, when combined with the unwinding of the carry trades (as outlined earlier) caused significant selling pressure, likely causing bond rates to overshoot to the upside and bond prices to overshoot to the downside.

Emerging Market Bonds were particularly hard hit. The intimation of a wind down in quantitative easing both in the US and in Japan initiated the unwinding of carry trades. As the carry trades unwound, emerging market bond prices declined, yields rose, and currencies depreciated against the dollar. The magnitude of these withdrawals, which are more sensitive to cash flows than the more liquid developed markets, steepened the magnitude of the decline. Inflation Protected Bonds declined sharply hit as rising treasury rates combined with muted expectations for inflation resulted in a sharp selloff in TIPS ("*Treasury Inflation Protected Securities*").

High Yield Bonds, which historically are less sensitive to interest rate movements, moved sharply lower on the Fed news already tight credit spreads (the extra yield earned above treasury rates to compensate the investor for additional credit risk) had reached low levels, thereby creating less of a cushion than targeted. The fact that rates are this low this far into an economic recovery may lessen the advantage these bonds have in mitigating rising rates.

Position in the Portfolio:
Anticipating an eventual rise in interest rates, a number of significant changes were made to bond portfolios at the start of the year. Fixed Income securities were underweighted while the duration of fixed income securities was shortened to protect against the impact of rising rates (duration is a measure of sensitivity to interest rates), Credit bonds (Corporate Bonds, High Yield Bonds, Emerging Market Bonds, Foreign Bonds).

Fixed Income Diversification Strategies

As with their equity counterparts, Fixed Income Diversification Strategies are not an asset class but rather a strategy invested around the asset class. The focus of the strategy is to deliver bond like returns with less reliance and sensitivity to the movement of interest rates. This strategy has been beneficial this far this year as the rise in interest rates have caused the prices of interest rate sensitive securities to decline.

Position in the Portfolio:
Anticipating an eventual rise in interest rates, Fixed Income Diversification Strategies remain overweighed relative to long term targets.

Summary

The slow, consistent upward movement in the US stock market, despite well publicized obstacles, have caused some to name this the "*Zombie Market*". In the face of the unknown impact of the tax increases, sequesters, and the Affordable Care Act, the US Equity Market has climbed. While we think the opportunity for return in the US equity markets remains, we think the current return levels are inconsistent with the fundamentals.

Fixed Income investments continue to face a prolonged headwind with a secular rise in interest rates on the horizon. Attempts to diversify within this asset class, to mitigate the impact of rising rates, have proved challenging. The amount of artificial intervention from the US Government, the US Federal Reserve and the other central banks makes it significantly more difficult to gauge the market's reaction to events, thereby increasing the range of possible outcomes. In these types of environments, the short term noise becomes louder and more destructive. As an example, the Federal Reserve, by prescribing artificially low yields, has forced investors to hunt for yield. In doing so, they have created mispricing in the markets. Asset values in certain areas have overshot reasonable valuations.

With all the noise, following a disciplined strategy and maintaining the proper long term focus becomes even more challenging but ultimately more rewarding. ■

Sources:

Guide to the Markets – 3Q 2013. J.P. Morgan Asset Management. June 30, 2013

Chart Sources:

Feds Balance Sheet- Assets (Pg. 3) Source of Chart: Federal Reserve, FactSet, J.P. Morgan Asset Management. Data are as of 6/30/13.

Developed Market Countries (Pg. 5) Source of Chart: MSCI, FactSet, J.P. Morgan Asset Management. Data are as of 6/30/13.

Emerging Market Countries (Pg. 6) – Source of Chart: Chart Source: MSCI, FactSet, J.P. Morgan Asset Management. Data are as of 6/30/13.

High Yield Spreads & Defaults (Pg. 8) – Source of Chart: U.S. Treasury, J.P. Morgan, Strategic Insight, J.P. Morgan Asset Management. Data are as of 6/30/13.

Index Definitions & Disclaimer

All indexes are unmanaged and an individual cannot invest directly in an index. Index returns do not include fees or expenses.

The **S&P 500 Index** is widely regarded as the best single gauge of the U.S. equities market. This world-renowned index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. Although the S&P 500 Index focuses on the large-cap segment of the market, with approximately 75% coverage of U.S. equities, it is also an ideal proxy for the total market. An investor cannot invest directly in an index.

The **S&P 400 Mid Cap Index** is representative of 400 stocks in the mid-range sector of the domestic stock market, representing all major industries.

The **Russell 3000 Index**® measures the performance of the 3,000 largest U.S. companies based on total market capitalization.

The **Russell 1000 Index** ® measures the performance of the 1,000 largest companies in the Russell 3000.

The **Russell 1000 Growth Index** ® measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

The **Russell 1000 Value Index** ® measures the performance of those Russell 1000 companies with lower priceto-book ratios and lower forecasted growth values.

The **Russell Midcap Index** ® measures the performance of the 800 smallest companies in the Russell 1000 Index.

The **Russell Midcap Growth Index** ® measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000 Growth index.

The **Russell Midcap Value Index** ® measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values. The stocks are also members of the Russell 1000 Value index.

The **Russell 2000 Index** ® measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

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

The **MSCI® EAFE** (Europe, Australia, Far East) Net Index is recognized as the pre-eminent benchmark in the United States to measure international equity performance. It comprises 21 MSCI country indexes, representing the developed markets outside of North America.

The **MSCI Emerging Markets Index**℠ is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of June 2007, the MSCI Emerging Markets Index consisted of the following 25 emerging market country indices: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

The **MSCI ACWI (All Country World Index) Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. As of June 2009 the **MSCI ACWI** consisted of 45 country indices comprising 23 developed and 22 emerging market country indices.

The **MSCI Small Cap Indices**℠ target 40% of the eligible Small Cap universe within each industry group, within each country. MSCI defines the Small Cap universe as all listed securities that have a market capitalization in the range of USD200-1,500 million.

The **MSCI Value and Growth Indices**℠ cover the full range of developed, emerging and All Country MSCI Equity indexes. As of the close of May 30, 2003, MSCI implemented an enhanced methodology for the MSCI Global Value and Growth Indices, adopting a two dimensional framework for style segmentation in which value and growth securities are categorized using different attributes - three for value and five for growth including forward looking variables.

The objective of the index design is to divide constituents of an underlying MSCI Standard Country Index into a value index and a growth index, each targeting 50% of the free float adjusted market capitalization of the underlying country index. Country Value/Growth indices are then aggregated into regional Value/Growth indices. Prior to May 30, 2003, the indices used Price/Book Value (P/BV) ratios to divide the standard MSCI country indices into value and growth indices. All securities were classified as either “value” securities (low P/BV securities) or "growth" securities (high P/BV securities), relative to each MSCI country index.

The following **MSCI Total Return Indices^{SM}** are calculated with gross dividends**:** This series approximates the maximum possible dividend reinvestment. The amount reinvested is the dividend distributed to individuals resident in the country of the company, but does not include tax credits.

The **MSCI Europe Index^{SM}** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe. As of June 2007, the MSCI Europe Index consisted of the following 16 developed market country indices: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

The **MSCI Pacific Index^{SM}** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the Pacific region. As of June 2007, the MSCI Pacific Index consisted of the following 5 Developed Market countries: Australia, Hong Kong, Japan, New Zealand, and Singapore.

Credit Suisse/Tremont Hedge Fund Index is compiled by Credit Suisse Tremont Index, LLC. It is an asset weighted hedge fund index and includes only funds, as opposed to separate accounts. The Index uses the Credit Suisse/Tremont database, which tracks over 4500 funds, and consists only of funds with a minimum of US$50 million under management, a 12-month track record, and audited financial statements. It is calculated and rebalanced on a monthly basis, and shown net of all performance fees and expenses. It is the exclusive property of Credit Suisse Tremont Index, LLC.

The **Credit Suisse Leveraged Loan Index** tracks the performance of senior floating rate loans.

The **NCREIF Property Index** is a quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutional investors - the great majority being pension funds. As such, all properties are held in a fiduciary environment.

The **NAREIT EQUITY REIT Index** is designed to provide the most comprehensive assessment of overall industry performance, and includes all tax-qualified real estate investment trusts (REITs) that are listed on the NYSE, the American Stock Exchange or the NASDAQ National Market List.

The **Dow Jones-UBS Commodity Index** is composed of futures contracts on physical commodities and represents nineteen separate commodities traded on U.S. exchanges, with the exception of aluminum, nickel, and zinc.

The **S&P GSCI Index** is a composite index of commodity sector returns representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities. The returns are calculated on a fully collateralized basis with full reinvestment. Individual components qualify for inclusion in the index on the basis of liquidity and are weighted by their respective world production quantities.

The **Barclays Capital 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. These major sectors are subdivided into more specific indexes that are calculated and reported on a regular basis.

West Texas Intermediate (WTI) is the underlying commodity for the New York Merchantile Exchange's oil futures contracts. This **U.S. Treasury Index** is a component of the U.S. Government index.

The **Barclays Capital High Yield Index** 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.

The **Barclays Capital 1-3 Month U.S. Treasury Bill Index** includes all publicly issued zero-coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and more than 1 month, are rated investment grade, and have $250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non-convertible.

The **Barclays Capital General Obligation Bond Index** is a component of the **Barclays Capital Municipal Bond Index**. To be included in the index, bonds must be general obligation bonds rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be investment-grade. They must have an outstanding par value of at least $7 million and be issued as part of a transaction of at least $75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990, and must be at least one year from their maturity date. Remarketed issues, taxable municipal bonds, bonds with floating rates, and derivatives, are excluded from the benchmark.

The **Barclays Capital Revenue Bond Index** is a component of the **Barclays Capital Municipal Bond Index**. To be included in the index, bonds must be revenue bonds rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be investment-grade. They must have an outstanding par value of at least $7 million and be issued as part of a transaction of at least $75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990, and must be at least one year from their maturity date. Remarketed issues, taxable municipal bonds, bonds with floating rates, and derivatives, are excluded from the benchmark.

The **Barclays High Yield Municipal Index** includes bonds rated Ba1 or lower or non-rated bonds using the middle rating of Moody's, S&P and Fitch.

The **Barclays Capital Taxable Municipal Bond Index** is a rules-based, market-value weighted index engineered for the long-term taxable bond market. To be included in the index, bonds must be rated investment-grade (BAA3/BBB- or higher) by at least two of the following ratings agencies if all three rate the bond: Moody's, S&P, Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be investment-grade. They must have an outstanding par value of at least $7 million and be issued as part of a transaction of at least $75 million. The bonds must be fixed rate and must be at least one year from their maturity date. Remarketed issues (unless converted to fixed rate), bonds with floating rates, and derivatives, are excluded from the benchmark.

Municipal Bond Index: To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be investment-grade. They must have an outstanding par value of at least $7 million and be issued as part of a transaction of at least $75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990, and must be at least one year from their maturity date. Remarketed issues, taxable municipal bonds, bonds with floating rates, and derivatives are excluded from the benchmark.

The **Barclays Capital Emerging Markets Index** includes USD-denominated debt from emerging markets in the following regions: Americas, Europe, Middle East, Africa, and Asia. As with other fixed income benchmarks provided by Barclays Capital, the index is rules-based, which allows for an unbiased view of the marketplace and easy replicability.

The Barclays Capital MBS Index covers the mortgage-backed pass-through securities of Ginnie Mae, Fannie Mae, and Freddie Mac. Aggregate components must have a weighted average maturity of at least one year, must have $250 million par amount outstanding, and must be fixed rate mortgages.

The **Barclays Capital Corporate Bond Index** is the Corporate component of the U.S. Credit index.

The **Barclays Capital TIPS Index** consists of Inflation-Protection securities issued by the U.S. Treasury.

The **J.P. Morgan EMBI Global Index** includes U.S. dollar denominated Brady bonds, Eurobonds, traded loans and local market debt instruments issued by sovereign and quasi-sovereign entities.

The **J.P. Morgan Domestic High Yield Index** is designed to mirror the investable universe of the U.S. dollar domestic high yield corporate debt market.

The **CS/Tremont Equity Market Neutral Index** takes both long and short positions in stocks with the aim of minimizing exposure to the systematic risk of the market (i.e., a beta of zero).

The **CS/Tremont Multi-Strategy Index** consists of funds that allocate capital based on perceived opportunities among several hedge fund strategies. Strategies adopted in a multi-strategy fund may include, but are not limited to, convertible bond arbitrage, equity long/short, statistical arbitrage and merger arbitrage.

The **Consumer Price Index (CPI)** program produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.

The **U.S. Import Price Index** measures data on changes in the prices of non-military goods and services traded between the U.S. and the rest of the world.

*Market Neutral returns for November 2008 are estimates by J.P. Morgan Funds Market Strategy, and are based on a December 8, 2008 published estimate for November returns by CS/Tremont in which the Market Neutral returns were estimated to be +0.85% (with 69% of all CS/Tremont constituents having reported return data). Presumed to be excluded from the November return are three funds, which were later marked to $0 by CS/Tremont in connection with the Bernard Madoff scandal. J.P. Morgan Funds believes this distortion is not an accurate representation of returns in the category. CS/Tremont later published a finalized November return of -40.56% for the month, reflecting this mark-down. CS/Tremont assumes no responsibility for these estimates.

Past performance is no guarantee of comparable future results.
Diversification does not guarantee investment returns and does not eliminate the risk of loss.

Bonds are subject to interest rate risks. Bond prices generally fall when interest rates rise.

The price of **equity** securities may rise, or fall because of changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. These price movements may result from factors affecting individual companies, sectors or industries, or the securities market as a whole, such as changes in economic or political conditions. Equity securities are subject to "stock market risk" meaning that stock prices in general may decline over short or extended periods of time.

Small-capitalization investing typically carries more risk than investing in well-established "blue-chip" companies since smaller companies generally have a higher risk of failure. Historically, smaller companies' stock has experienced a greater degree of market volatility than the average stock.

Mid-capitalization investing typically carries more risk than investing in well-established "blue-chip" companies. Historically, mid-cap companies' stock has experienced a greater degree of market volatility than the average stock.

Real estate investments may be subject to a higher degree of market risk because of concentration in a specific industry, sector or geographical sector. Real estate investments may be subject to risks including, but not limited to, declines in the value of real estate, risks related to general and economic conditions, changes in the value of only, and is not intended to provide, and should not be relied on for accounting, legal or tax advice. References to future returns are not promises or even estimates of actual returns a client portfolio may achieve. Any forecasts contained herein are for illustrative purposes only and are not to be relied upon as advice or interpreted as a recommendation.

International investing involves a greater degree of risk and increased volatility. Changes in currency exchange rates and differences in accounting and taxation policies outside the U.S. can raise or lower returns. Also, some overseas markets may not be as politically and economically stable as the United States and other nations. Investments in **emerging markets** can be more volatile. As mentioned above, the normal risks of investing in foreign countries are heightened when investing in emerging markets. In addition, the small size of securities markets and the low trading volume may lead to a lack of liquidity, which leads to increased volatility. Also, emerging markets may not provide adequate legal protection for private or foreign investment or private property.

Investments in **commodities** may have greater volatility than investments in traditional securities, particularly if the instruments involve leverage. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments. Use of leveraged commodity-linked derivatives creates an opportunity for increased return but, at the same time, creates the possibility for greater loss.

Derivatives may be riskier than other types of investments because they may be more sensitive to changes in economic or market conditions than other types of investments and could result in losses that significantly exceed the original investment. The use of derivatives may not be successful, resulting in investment losses, and the cost of such strategies may reduce investment returns.

Price to forward earnings is a measure of the price-to-earnings ratio (P/E) using forecasted earnings.

Price to book value compares a stock's market value to its book value. **Price to cash flow** is a measure of the market's expectations of a firm's future financial health. **Price to dividends** is the ratio of the price of a share on a stock exchange to the dividends per share paid in the previous year, used as a measure of a company's potential as an investment.

There is no guarantee that the use of **long and short positions** will succeed in limiting an investor's exposure to domestic stock market movements, capitalization, sector swings or other risk factors. Investing using long and short selling strategies may have higher portfolio turnover rates. Short selling involves certain risks, including additional costs associated with covering short positions and a possibility of unlimited loss on certain short sale positions.