2014 Q1 Market Review

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Economy

A harsher than normal winter impacted the economy and made the evaluation of the current economic trend more challenging. During the quarter, changes in key economic data in the United States resulted in more volatility in the equity markets and increases in bond prices. The seemingly endless snowstorms in the eastern half of the United States have been tied to reduced job growth, a slowdown in consumer spending and a slowdown in manufacturing. Despite a positive start to the year, consumer sentiment soured as the quarter progressed.

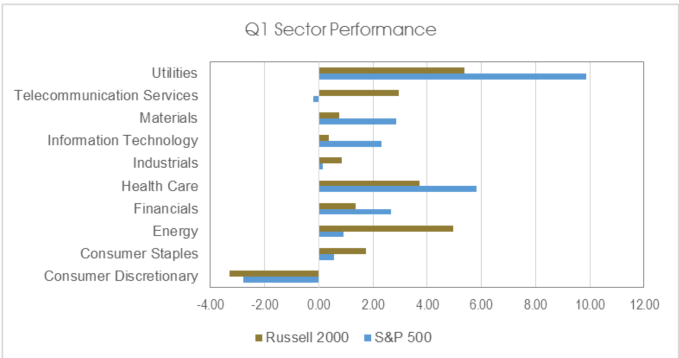
A lackluster jobs report, indicating lower than expected job creation in the US, combined with growing tension in the Ukraine and evidence of moderating growth in China caused investors to rethink their appetite for risk. However, positive economic data and solid corporate fundamentals counterbalanced some of the negative sentiment from geopolitical tensions.

In January, Janet Yellen as assumed the reigns as Chair of the Federal Reserve. Yellen rattled the markets in January with comments that Fed could begin to raise the Fed funds rates within six months after the taper ends, which implies an early 2015 timeframe. Yellen later seemed to back down from those statements when she pointed to continued softness in the labor markets and the Committee's objective to reach a 2% inflation target. Further mollifying investors was the decision by the FOMC, reflected in the March meeting minutes, to remove the reference to a 6.5% unemployment rate as a threshold to maintain the 0-0.25% Fed funds rate. This change in the forward guidance was another signal that the Fed's zero interest rate policy (ZIRP) will not change in the near future as the unemployment rate continues to drop.

US Equities

For the first time since 2008, the equity markets started the year in the red after the first trading day. The month did not get better as the large cap S&P 500 Index and small cap Russell 2000 Index returned -3.46% and -2.77%, respectively, for January. Both indexes rebounded in February. Small cap lead the way with a return of +4.77%, which outperformed the S&P 500 Index by 20 basis points. After underperforming for the first two months, the S&P 500 finished the quarter with outperformance in March (+0.84% vs. -0.68%). When the quarter came to a close, the S&P 500 Index finished ahead of the Russell 2000 Index (+1.81% vs. +1.12%). Additionally, the S&P 500 Index reached an all-time new high of 1,878 on March 7th. This was the second consecutive quarter where large cap outperformed small cap.

As a result of the macro influences outlined earlier, it was a volatile quarter in equities where changes in investor sentiment resulted in shifts in the favorite areas in the market. In addition to the swings between large and small cap, changes in investor sentiment resulted in dramatic reversals within equity style. For the first two months of the quarter, growth continued its outperformance from 2013.



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However, negative returns in March for the growth indexes resulted in value outperforming for the quarter. Across the Russell small, mid, and large capitalization indexes, the average outperformance was 213 basis points. The largest disparity between the styles was in mid cap where the differential was 318 bps. With declining Treasury yields, REITs rebounded in the quarter; the Wilshire US REIT Index returned +10.1%. However, another yield-oriented '*asset class'* lagged the broad market during the quarter as the Alerian MLP Index returned +0.4%.

Sector performance varied significantly. Within the S&P 500, the best performing sectors were Utilities (+10.09%) and Health Care (+5.81%). Consumer Discretionary was the worst performing sector with a return of -2.8%. The Utilities sector was the only sector to generate a positive return in all three months. Utilities are considered a defensive and yield-oriented sector. The sector's strong performance was a dramatic shift from the fourth quarter in which the sector was the worst performing in the S&P 500. The last time the sector outperformed the index was the first quarter of 2013 (+13.0% vs. 10.6%). Amazon (Consumer Discretionary) returned -15.6% and was the top detractor in the index for the quarter. Microsoft was the top contributor.

As was the case in the large cap index, the Utilities sector was the best performing sector (+6.4%) in the Russell 2000 Index and Consumer Discretionary was the worst performing (-3.3%) . The Russell 2000 High Beta Index outperformed the Low Beta Index by 170 basis points in the first quarter, which was a reversal of the performance differential in the fourth quarter—low beta outperformed by 140 bps.

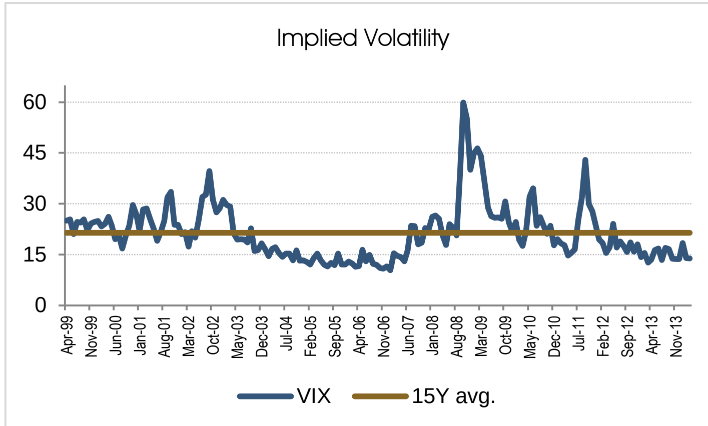
There are many characteristics used to try to describe a market environment. Some terms used are risk-off /risk-on, high quality/low quality or defensive /cyclical. Since there are nuances within an asset class of an index, it is sometimes difficult to describe a market with a blanket characteristic, like risk-off. The first quarter is good example of the difficulty. Based on the sector performance of the S&P 500 Index during the quarter, the two highest returning sectors are considered defensive. Therefore, one may consider outperformance in defensive sectors to be a risk-off market.

However, if we look at the security quality indexes established by Standard & Poor's (S&P) we get a different view of the landscape. In the quality indexes, a company with higher earnings growth and more consistent earnings and dividends is classified as '*high quality'*. For the first quarter, the S&P 500 Low Quality Index returned +4.7%, while the S&P 500 High Quality Index returned +1.8%. As many have commented, the equity bull market, which started in March 2009, has primarily been a '*low quality rally*'. In fact, the S&P 500 Low Quality Index has outperformed the high quality index for seven consecutive quarters since the second quarter of 2012. Given that low quality outperformed, it should not be surprising that the '*non-earners'* in the S&P 500 outperformed the index. As of the end of the quarter, there were eighteen companies that had negative earnings per share (EPS) for the trailing twelve months. According to data obtained from Bloomberg, the average return for the quarter for these companies was +4.49% compared to +1.81% for the index. This dominance of lower quality companies also occurred in the Russell 2000 Index. At quarter-end 564 companies that had negative EPS. The average return was +2.67% compared to 1.12% for the index.

	1Q14	2013
S&P 500 Index	1.81	32.39
S&P 500 High Quality Index	1.84	32.44
S&P 500 Low Quality Index	4.74	42.69

Market Volatility

The VIX Index, which measures implied volatility based on S&P 500 option activity, ended the quarter at approximately the same level as of 12/31/13 (13.88 vs. 13.72). While the index levels at the two end points were very similar, there was significant volatility in the index during the quarter. Even though S&P 500 was declining in January, the VIX was also declining and reached a low of 12.14 in middle of January before spiking to 21.4 in early February. Excluding a spike in mid-March, the index remained close to 14. Over the last ten years, the average level for the VIX has been 20.1, significantly higher than the average for the trailing twelve months (14.5).

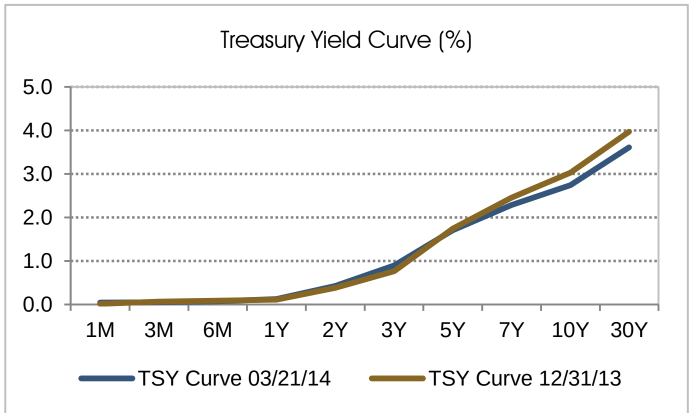


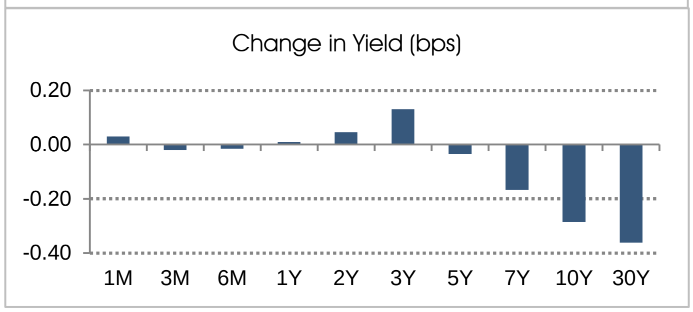
Foreign Equity

Continuing the performance gap from 2013, the developed markets MSCI EAFE Index, outperformed the MSCI Emerging Markets Index in the first quarter by 114 bps (+0.77% vs. -0.37%). Within the developed markets, the Europe region (+2.1%) outperformed the Pacific region (-2.42%). As of 3/31, Japan represented the largest country allocation (19.75%) in the MSCI EAFE Index and its impact on the index performance was significant (-124 bps). Some apparent profit taking and concerns regarding the potential effects of a new sales tax in Japan weighed on performance during the quarter (-5.39%). Another detractor to the index's quarter return was the performance of United Kingdom, the second largest country in the index. With a quarterly return of -1.10%, the United Kingdom detracted 20 bps from the index total return. Italy, with a return of +15.75%, added 34 bps to the index. However, Switzerland's +5.05% contributed 49 bps, which was the top contributor.

Even though the emerging markets index was in the red for the quarter, there were several performance reversals. The "*Fragile Five*" was a common catchphrase used in 2013 to classify those countries (Brazil, Turkey, Indonesia, India, and S. Africa) that have large current account deficits. A majority of these countries were some of the hardest hit in 2013 as investors pulled capital from those markets; Turkey and Indonesia declined over 20% last year. Indonesia had one of the strongest reversals with a quarterly return of +21.0% and contributed 49 bps to the index return. The top two detractors were China (-85 bps) and Russia (-65 bps). As expected, Russia, given the growing tensions in the Ukraine, was the worst performing country in the index (-14.5%).

Fixed Income





With global macro uncertainties, investors bid up fixed income prices. As a result of this '*risk-off*' sentiment, price increases drove yields down. Compared to 12/31/13, the largest decline along the yield curve occurred at the 30-year maturity (3.97% vs. 3.61%). The yield on the benchmark 10-Year Treasury declined to 2.74% from 3.03% at the end of the 2013; however, the yield dropped as low as 2.6% in early March as the geopolitical tensions between Russia and Ukraine increased.

Since yields on longer-maturity Treasury securities declined the most, long duration indexes outperformed short duration. With price increases for most of the maturity buckets along the curve, the Treasury index returned +1.34%. Corporate securities continued to outperform due to a longer duration and a yield advantage. The Barclays Investment Grade Corporate Index returned +2.94%. For the second consecutive quarter, Baa-rated corporate securities had a performance advantage to the other investment grade rated securities. For seven consecutive quarters, the Barclays High Yield Index outperformed the investment grade index; however, the performance differential was only 4 bps compared to 196 bps over the prior six quarters. While inflation risks have remained subdued, Treasury Inflation Protected securities (TIPs) returned +1.95% and benefited from the flight to safety as well as a long duration.

The domestic, broad investment grade Barclays Aggregate Index returned +1.84%, which underperformed the Barclays Global Aggregate and Barclays Global Aggregate ex USD index that returned +2.4% and +2.8%, respectively. With a quarterly return of +2.98%, the Global High Yield Index performance was similar to the US High Yield Index (+2.97%).

Impact to the Portfolio and Current Outlook

The domestic equity portfolio is weighted towards higher quality companies with stronger growth prospects. These companies outperformed significantly in the last several years and through February of this year; however they trailed in March. In the foreign markets, the resurgence of the fragile five in the developing markets and a decline the core markets in the developed markets ran counter to the portfolio approach. Lastly, with a shorter portfolio duration designed to protect against the possibility of rising rates, the fixed income portfolio return trailed slightly as rates declined.

We remain convicted that a high quality, diversified strategy in the equity portfolio and a less interest rate sensitive strategy in the fixed income portfolio remains appropriate given the growing risks in the markets. The current equity bull market has entered its fifth year, making it one of the 6 longest bull markets in history. With stock valuations, at best, fairly valued and macro risks evident, our focus is on absolute return rather than relative return. As a result of these risks, we have gradually increased the portfolio exposure to diversifying strategies. We will be watching the current trends carefully. If we feel adjustments to be warranted, we will notify you promptly.

As always, we thank you for your continued trust and confidence. ▪

Supplemental Charts

Global Economic Forecast

Sunny	Developed Economy Growth	Most indicators point to sustainable or improving growth prospects in the U.S., Europe and Japan. All three have vulnerabilities that keep growth below trend, but none shows the excesses that lead to significant downturns.
	Market Valuations	Equity market valuations appear fair in most of the world's markets, possibly advantageous in certain ones. Similarly, interest rates have adjusted in the U.S. to a point where further increases in longer term yields are likely to reflect rather than inhibit economic growth.
	Interest Rates	Following adjustments in the U.S. and certain emerging markets, global rates reasonably reflect moderate growth and inflation prospects.
	Energy	Improving prospects for oil and gas production in North America should reduce uncertainty about the supply and price of energy to levels not seen in 40 years.
Cloudy	Credit Conditions	In the U.S., credit supply and demand show clear signs of recovery from the financial crisis. Regulation and risk aversion keep European businesses starved for credit while Chinese policy seeks to tighten overly easy credit conditions especially for local governments.
	China	As authorities limit credit and attempt to redirect growth toward domestic consumption, growth in the world's second largest economy could slow below the 7.5% rate expected for 2014. A further significant slowdown would limit the opportunity for other emerging markets, especially commodity producers, to reestablish an acceptable rate of growth (see below).
	Monetary Policy	As the Federal Reserve slows the pace of monetary accommodation, the Bank of Japan and potentially the European Central Bank (ECB) are positioned to add further stimulus. Rumored ECB moves to liquefy bank lending could particularly brighten economic prospects. The implications of gradual Fed withdrawal from unprecedented policy are uncertain with some risk of unexpected disruptions.
Stormy	Emerging Economy Weakness	Commodity-based emerging economies may struggle to restart expansion as Chinese demand ceases to grow rapidly. Countries that failed to direct earlier commodity income into sustainable investment may not achieve the economic growth previously expected.
	Geopolitical Tensions	Possible confrontations between Europe and Russia over the Ukraine and among China, Japan, Korea and the Philippines over offshore territories probably remain contained. In the centennial year of the Great War that shouldn't have happened, we should be mindful of the potential for region, nationalistic conflicts to escalate.

Source: Oppenheimer Funds: "Market Charts", as of 3/31/14.

Equity Index Performance and Fundamentals

	Index Returns				Fundamentals								
Index	3M	1YR	3Y	5Y	Current P/E Ratio	P/E (N4Q)	Trailing P/E (20Y Avg)	Price-to-Book	P/B (20Y Avg)	Div YLD	Dividend Yld (20Y Avg)	Earnings Yield	EPS-G (next 3-5Y)
Mega Cap Equity	1.09	20.29	14.45	19.76	16.03	15.25	17.95	2.61	2.78	2.11	1.93	6.21	8.62
Large Cap Equity	1.81	21.86	14.66	21.16	17.15	15.92	19.31	2.62	2.99	1.96	1.89	5.83	8.91
Mid Cap Equity	3.53	23.51	14.39	25.55	21.16	18.49	21.40	2.65	2.42	1.60	1.66	4.80	9.13
Small Cap Equity	1.12	24.90	13.18	24.31	48.49	24.64	40.00	2.44	2.09	1.42	1.46	1.63	10.50
Developed Foreign Equity	0.77	18.06	7.72	16.56	18.22	14.26	28.92	1.69	2.01	3.24	2.59	5.48	2.72
Global Equity ex. USA	0.51	12.31	4.15	15.52	16.38	13.45	23.54	1.66	1.89	3.11	2.50	6.11	2.94
Emerging Foreign Equity	-0.43	-1.43	-2.86	14.48	11.89	10.78	14.54	1.47	1.54	2.78	2.32	8.51	3.26
Real Estate Securities	9.98	4.16	10.65	28.20	52.60	43.27	67.42	2.24	2.21	3.84	3.60	1.90	5.52
Master Limited Partnerships	0.39	7.02	19.47	7.96	32.79	24.81	23.52	2.49	2.40	5.49	6.32	2.94	8.35

Source: Bloomberg

Indices used: S&P 100 Index (Mega Cap Equity), S&P 500 Index (Large Cap Equity), Russell Mid Cap Index (Mid Cap Equity), Russell 2000 Index (Small Cap Equity), MSCI EAFE (Developed Foreign Equity), MSCI All Country World Index ex. USA (Global Equity ex. USA), MSCI Emerging Markets (Emerging Foreign Equity), FTSE NAREIT Equity REIT Index (Real Estate Securities), Alerian MLP Index (Master Limited Partnerships).

Performance by Style:

During the quarter, the average return in each Morningstar category, except Small Blend, underperformed the representative benchmark index. The average return in Large Growth, Mid Value, and Small Value trailed the index for the trailing one-year period.

In the tables below, the darkest '***blue***' represents highest return, while darkest '***brown***' represents the lowest return for the respective time periods.

US Indexes

Q1	Value	Blend	Growth
Large	3.02	1.81	1.12
Mid	5.22	3.53	2.04
Small	1.78	1.12	0.48

1-Yr	Value	Blend	Growth
Large	21.57	21.86	23.22
Mid	22.95	23.51	24.22
Small	22.65	24.9	27.19

Source: Morningstar; Russell Indexes except for Large Blend (SP500)

US Mutual Fund Category

Q1	Value	Blend	Growth
Large	2.27	1.69	0.05
Mid	3.05	2.54	1.19
Small	1.7	1.45	0.32

1-Yr	Value	Blend	Growth
Large	20.74	21.17	23.59
Mid	23.23	22.66	23.4
Small	23.38	24.09	26.05

Source: Morningstar: performance represents category average.

GICS Sector Returns (%): US Large Cap vs. US Small Cap

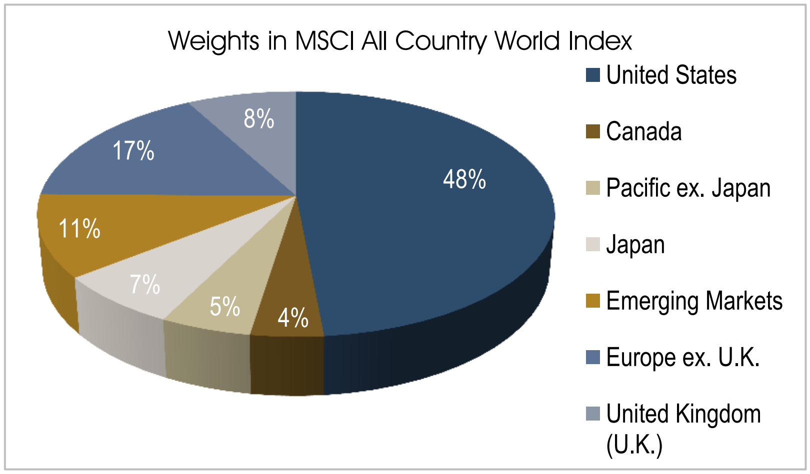
The large cap S&P 500 outperformed the small cap Russell 2000 in the first quarter. There was a reversal in relative performance among the sectors. After being one of the worst performers in2013, the Utilities sector was best performing in both indexes, while the Consumer Discretionary sector was the worst performer in the each index in the quarter.

	Q1		2013	
	S&P 500	Russell 2000	S&P 500	Russell 2000
INDEX	**1.82**	**1.12**	**32.29**	**39.12**
Consumer Discretionary	-2.80	-3.29	43.2	45.41
Consumer Staples	0.55	1.75	26.01	46.63
Energy	0.91	4.96	25.28	29.36
Financials	2.65	1.36	35.21	30.22
Health Care	5.83	3.72	41.26	49.43
Industrials	0.14	0.85	40.71	43.09
Information Technology	2.33	0.37	28.17	43.28
Materials	2.86	0.75	25.79	22.90
Telecom Services	-0.20	2.95	11.59	23.26
Utilities	9.88	5.36	12.47	18.84

Source: Bloomberg. iShares S&P 500 Index and iShares Russell 2000 Index ETF funds used as a proxy for index returns. Past performance is no guarantee of future results. Sectors as defined by GICS.

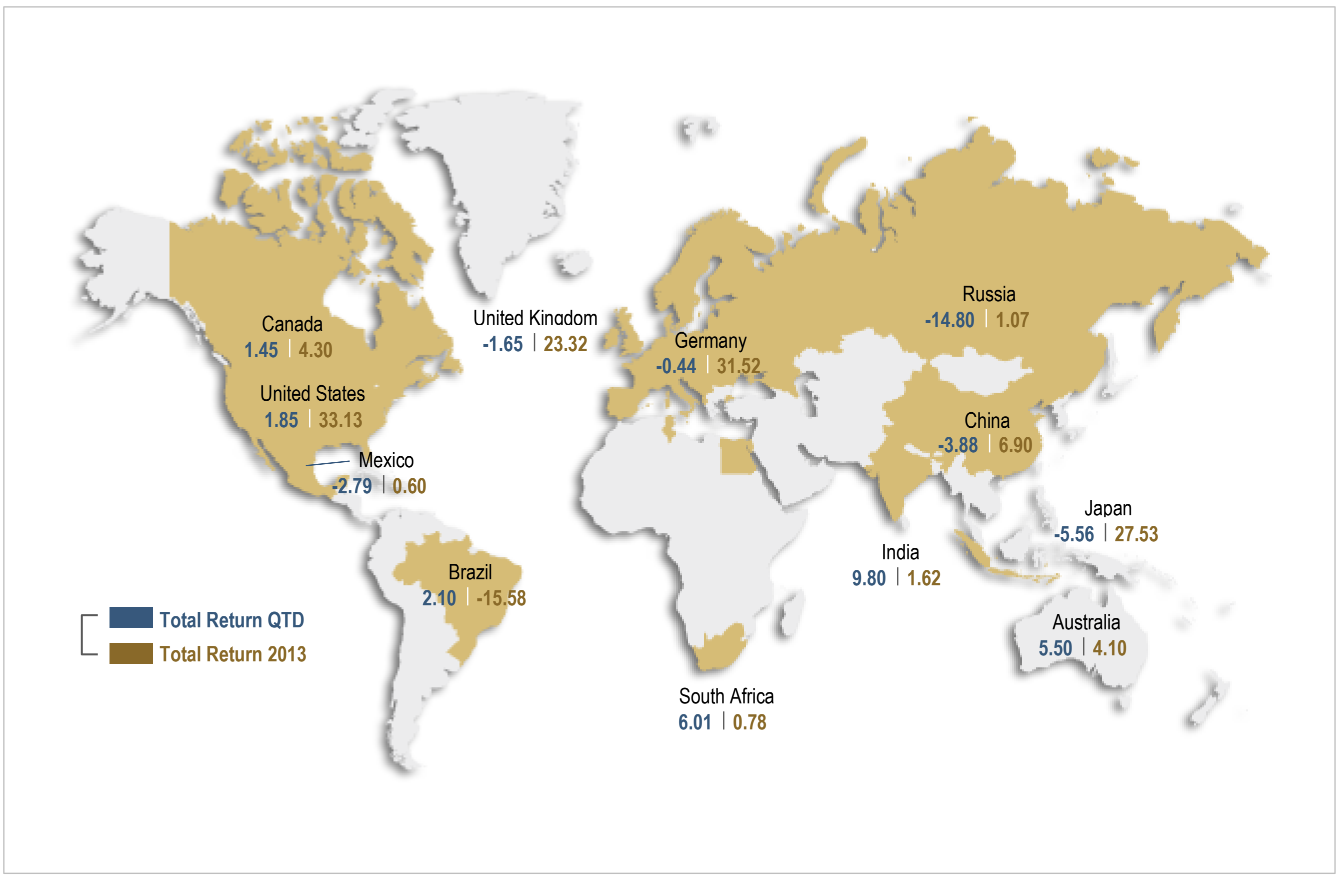
Global Country/Region Allocation by Market Cap

The United States represents nearly 50% of the global equity markets based on market cap and emerging markets represent 11%. However, emerging markets, in aggregate, account for nearly 30% of global gross domestic product (GDP) compared to 25% for the United States.



Source: MSCI, Bloomberg, and JPMorgan "Guide to the Markets" (as of 3/31/14)

Country Performance



Source: Bloomberg. Returns are dollar-denominated and represent performance of iShares All Country World Index (ACXI).

Non-US Equity Returns

A return represented in dollars that is greater than the local currency return indicates the US Dollar depreciated during the represented time period. In general, the Dollar depreciated in the quarter relative to most of the developed and emerging market currencies. However, the Dollar appreciated relative to the Canadian Dollar.

	US Dollar		Local	
	3MTD	1-Yr	3MTD	1-Yr
Developed Markets				
EAFE	0.77%	18.06%	-0.18%	15.90%
EMU (European Monetary Union)	2.84%	34.13%	2.82%	24.97%
Pacific	-2.42%	5.26%	-4.59%	14.44%
Pacific Ex Japan	2.99%	1.61%	0.57%	9.54%
World Ex USA	0.86%	17.00%	0.34%	15.91%
France	2.96%	30.63%	2.94%	21.71%
Germany	-0.26%	31.70%	-0.29%	22.71%
Ireland	14.23%	43.37%	14.20%	33.58%
Italy	14.59%	54.09%	14.57%	43.56%
Spain	4.80%	46.48%	4.78%	36.47%
United Kingdom	-0.82%	16.81%	-1.47%	6.40%
Japan	-5.47%	7.77%	-7.38%	18.04%
Canada	1.75%	7.17%	5.70%	16.43%
Emerging Markets				
EM (EMERGING MARKETS)	-0.37%	-1.07%	-0.47%	3.77%
BRIC (Brazil, Russia, India, China)	-2.89%	-3.17%	-3.78%	2.73%
India	8.16%	6.74%	4.43%	17.29%
Korea	-1.97%	5.53%	-1.12%	0.96%
Taiwan	1.10%	11.22%	3.30%	13.26%
Brazil	2.86%	-12.71%	-1.62%	-2.31%
Chile	-2.18%	-26.46%	2.53%	-14.14%
Mexico	-4.97%	-10.23%	-5.32%	-5.06%
Greece	18.12%	58.14%	18.09%	47.33%
Russia	-14.45%	-10.45%	-9.68%	-1.15%
Turkey	4.82%	-28.79%	4.37%	-15.81%

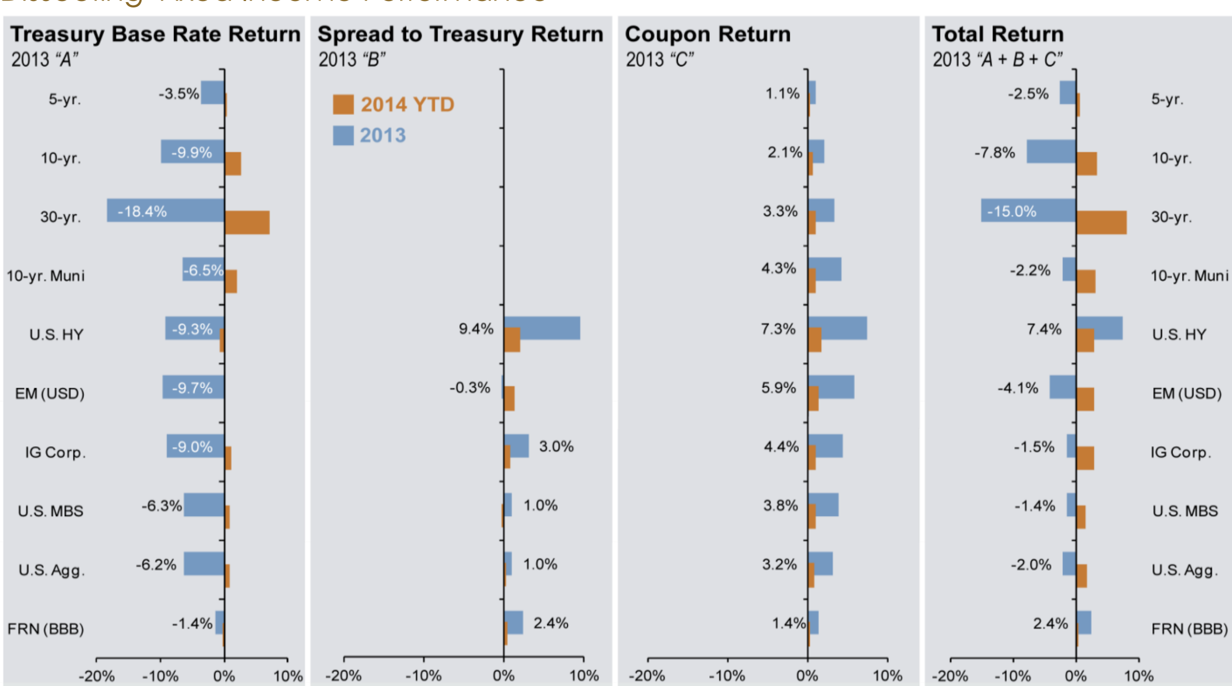
Source: MSCI

Fixed Income Performance & Fundamentals

	# of Issues	Return		Correlation	Average	Yield	
U.S Treasuries		1Q14	2013	(to 10Y TSY)	Maturity (Yrs.)	3/31/2014	12/31/2013
2-Year	86	19.00%	0.30%	0.66	2	0.44%	0.38%
5-Year	59	0.73%	-2.47%	0.91	5	1.73%	1.75%
10-Year	19	3.38%	-7.81%	1	10	2.73%	3.04%
30-Year	20	8.11%	-15.03%	0.92	30	3.56%	3.96%
TIPS	35	1.95%	-8.61%	0.6	10	0.60%	0.80%
Sector							
BroadMarket	8,732	1.84%	-2.02%	0.86	7.7	2.39%	2.48%
MBS	765	1.59%	-1.41%	0.82	7.6	3.11%	3.26%
Municipals	9,070	3.13%	-2.17%	0.49	9.9	2.55%	3.03%
Corporates	4,940	2.94%	-1.53%	0.48	10.4	3.10%	3.26%
HighYield	2,137	2.98%	7.44%	-0.22	6.6	5.23%	5.64%
FloatingRate	42	0.40%	2.42%	-0.21	3.2	1.17%	1.07%
Convertibles	538	4.38%	24.43%	-0.3	--	1.18%	1.19%
ABS	1,319	1.13%	0.14%	-0.04	3.5	1.90%	2.05%

Source: JPMorgan "Guide to the Markets" (as of 3/31/14); Fixed income sectors shown above are provided by Barclays Capital and are represented by – Broad Market: Barclays U.S. Aggregate; MBS: U.S. Aggregate Securitized - MBS Index; Corporate: U.S. Corporates; Municipals: Muni Bond 10-year Index; High Yield: Corporate High Yield Index; TIPS: Treasury Inflation Protection Securities (TIPS). Floating Rate: Barclay s FRN (BBB); Convertibles: Barclays U.S. Convertibles Composite; ABS: Barclays ABS + CMBS. Treasury securities data for # of issues based on U.S. Treasury benchmarks from Barclays Capital. Yield and return information based on bellwethers for Treasury.

'Dissecting' Fixed Income Performance



Source: JPMorgan "Guide to the Markets" (as of 3/31/14). Indices represented include Barclays US Treasury indexes, Barclays Muni 10-Year, Barclays Corporate High Yield, Barclays Emerging Markets USD, Barclays Corporate Investment Grade, Barclays US Mortgage Backed Securities Index, Barclays US Aggregate, and Barclays Floating Rate Note BBB.

Periodic Table of Asset Class Returns

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	YTD 2014	
66.85	31.84	13.93	25.91	56.28	31.58	34.54	35.06	39.78	5.24	79.02	27.96	13.56	18.63	38.82	9.98	Real Estate Investment Trusts (REITs)
33.83	26.37	8.44	16.57	47.25	25.95	21.36	32.59	16.23	2.06	58.21	26.85	10.7	18.06	34.76	6.99	Commodities
27.37	13.18	7.9	10.25	40.06	20.7	14.02	26.86	11.64	-2.35	40.48	25.48	8.29	17.9	34.23	3.53	Mid Cap Equity
26.47	11.68	5.28	9.6	39.17	20.22	12.65	22.34	11.63	-2.47	37.01	19.2	7.84	17.55	33.11	3.32	Municipal Fixed Income
24.35	11.63	5.13	3.82	37.13	18.33	12.16	18.37	11.4	-21.37	32.46	17.64	4.98	17.28	32.69	2.98	High Yield Fixed Income
21.26	8.25	4.42	1.78	31.14	16.94	7.49	15.46	10.25	-26.16	28.43	16.83	2.18	16.42	23.29	2.92	Value Equity
20.91	8.04	2.8	1.02	30.97	11.4	6.85	15.26	6.97	-33.79	27.99	16.23	1.5	16.35	8.95	2.05	Large Cap Equity
18.23	6.18	2.49	-1.41	29.89	11.13	6.27	11.85	5.77	-35.65	27.17	16.1	0.1	15.81	7.44	1.95	Treasury Inflation-Protected Sec.
6.65	4.07	-2.37	-6	28.97	9.15	5.17	10.39	5.6	-36.25	19.76	15.12	-0.1	15.21	2.47	1.84	Investment Grade Fixed Income
4.85	-3.02	-4.33	-15.18	23.93	8.46	4.55	9.46	5	-37.6	18.91	8.21	-1.55	6.98	0.07	1.12	Small Cap Equity
2.39	-5.86	-5.62	-15.66	11.61	6.93	3.51	4.85	3.36	-37.73	12.91	6.54	-4.18	6.78	-2.02	1.07	Growth Equity
2.39	-7.79	-12.45	-16.19	8.4	6.86	3.07	4.84	1.87	-38.44	11.47	6.31	-5.72	4.79	-2.27	0.77	Developed Foreign Equity
-0.82	-13.96	-19.51	-20.48	5.31	4.48	2.84	4.33	-1.01	-41.46	11.41	5.7	-11.73	4.22	-2.55	0.38	Fund of Hedge Funds
-2.06	-22.42	-19.63	-21.65	4.1	4.34	2.74	2.07	-1.57	-43.06	5.93	2.38	-13.32	0.11	-8.6	0.01	Cash
-4.62	-30.71	-21.21	-28.03	1.15	1.33	2.43	0.41	-15.69	-53.18	0.21	0.13	-18.17	-1.06	-9.52	-0.37	Emerging Foreign Equity

Source: MPI, Morningstar

Indices used to represent the performance of the asset classes: Russell 1000 Index (Large Cap Equity), Russell 3000 Value Index (Value Equity), Russell 3000 Growth Index (Growth Equity, Russell Mid Cap Index (Mid Cap Equity), Russell 2000 Index (Small Cap Equity), MSCI EAFE (Developed Foreign Equity), MSCI Emerging Markets (Emerging Foreign Equity), DJ UBS Commodity Index (Commodities), Barclays US Aggregate Index (Investment Grade Fixed Income), Barclays US Treasury US TIPs Index (Treasury Inflation-Protected Securities), Barclays US Corporate High Yield Index (High Yield Fixed Income), Barclays US Municipal Index (Municipal Fixed Income), FTSE NAREIT Equity REIT Index (Real Estate Investment Trusts), HFRI Fund of Funds Composite Index (Fund of Hedge Funds), Merrill Lynch 3-Month T-Bill (Cash).

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APPENDIX

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 100 Index** is a capitalization-weighted index that includes the larger and more stable 100 companies in the S&P 500 Index. Since the index's weighted-average market cap is larger than the S&P 500 Index, the index is a proxy for 'mega cap' equity.

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 price to-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 **Barclays Floating Rate** Note Index measures the performance of investment-grade, floating rate notes of corporate and government-related issuers. The index includes both senior and subordinated securities and is not a subset of the US Aggregate Index, which only includes fixed coupon securities. Securities in the index have step-up coupons that are based on a spread to the 3-month LIBOR.

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.

An *option-adjusted spread* is the difference in yield versus a comparable maturity Treasury after incorporating any the right an issuer may have to purchase the bond prior to maturity.

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.