2014 Q3 Market Review

By Rob Little, CFA, CPA
Email: rlittle@lamcogroup.com ▪ Phone: 407.585.1176

Economy

Investor optimism that central banks globally will continue monetary policies to support economic growth provided a positive backdrop for the financial markets. Unfortunately, several macro factors including the geopolitical tensions between Russia and Ukraine as well as the ISIS terrorist acts in Iraq, counteracted the tailwind from monetary policies.

Monetary policy remains accommodative among central banks around the world; although the Federal Reserve ("Fed") will probably switch gears to raise short-term interest rates sometime next year. After moving one of the key interest rates (deposit facility) to -0.1% in June, the European Central Bank ("ECB") announced additional liquidity measures to help the bank meet its primary objective of "price stability" (i.e., inflation) for the region. ECB President Mario Draghi appears to be considering asset purchases, a form of quantitative easing that the Federal Reserve and the Bank of Japan are utilizing to jump start a languishing economy.

Economic fundamentals in the United States continued to improve in the third quarter. GDP growth for the second quarter finished at +4.6% after declining 2.1% in the first quarter. While many economists expected more robust growth following the 'weather-induced' decline in the first quarter, the significant uptick in the final reading for the second quarter was a surprise. With the pickup in the growth for the second quarter, many economists expect the US economy to grow between 2.5% to 3% for the rest of the year, which would equal or exceed the twenty-five year average annualized growth of 2.5%.

On the surface the economy's job creation heated up well, which is important for continued and stable economic growth. Except for August and January, over 200,000 jobs have been added per month. Even with the 180,000 addition in August, nearly 224,000 jobs have been added, on average, over the last three months and nearly 227,000 average per month year-to-date. Many observers view the September unemployment rate of 5.9% as a sign that the labor market is becoming too 'tight'. A tight labor market could lead to wage inflation. Higher wages, while desired by workers, is viewed as a potential negative to corporate profitability. However, the Fed does not appear convinced as "there remains significant underutilization of labor resources." Possible underutilization may include weak wage growth (i.e., less than the rate of inflation) and/or the low and declining participation rate. The participation rate for September was 62.7, which is the lowest reading since February 1978.

A decoupling of monetary policy among the central banks that should begin in the coming months is tied with the decoupling of economic growth among the major economies. Both the Federal Reserve and the Bank of England are expected to raise rates in the near future due to the perceived strength and stability of their respective economies. During the last couple of months of the third quarter, the economic data released for Europe, Japan, and China adversely impacted investor sentiment. Economic growth in Europe, especially in Germany, has declined. Given its size, Germany has been viewed as the cornerstone for Europe and was expected to pull the region forward. However, it appears sanctions against Russia and slower growth in China have affected exports. The market sentiment turned negative in August when data was released that showed Germany's economy was retracting; annualized second quarter GDP declined to -0.2% from +0.8% in the first quarter, which affected the year-over-year growth compared to the previous quarter (1.2% vs. 2.5%). As a result of Germany's slowdown, the economic growth in the Eurozone is zero. In addition to the perpetual analysis China's economic growth, which has declined to 7.5% from double digits several years ago, China's real estate and credit markets are under the microscope. The

Bank of China is not adjusting monetary policy through changes in interest rates or asset purchases. However, the government's efforts to limit the growth of the country's estimated $4.9 trillion shadow banking system will affect economic growth. Finally, the Bank of Japan continues its efforts to push inflation higher and boost economic growth through asset purchases.

During the quarter, the US Dollar strengthened considerably against most currencies. Based on data from Bloomberg, the dollar appreciated 7.8% versus the Euro and 6.7% against a group of group of 10 currencies in the third quarter. There are multiple ramifications for a strong dollar. A strong dollar coupled with low inflation should continue to attract foreign investors to US Treasury debt. From an investment perspective for a US investor, US dollar returns for non-US investments will be lower due to currency translation. Additionally, a strong dollar could impact corporate profitability, both in export sales to non-US consumers as well as currency translation on sales from subsidiaries based in other countries.

Lastly, the Federal Reserve is always influencing investor sentiment. Leading up to the FOMC two-day meeting on September 16th-17th, the focus was whether the Committee would leave three words in their statement at the conclusion of the meeting; the three words were "*for considerable time*" in reference to how long it would be before the Committee raised the Federal Funds rate after the asset purchases concluded. The FOMC did not remove the words and the equity markets rallied immediately after the statement was released. As expected, with the perceived stability of the US economy, the FOMC announced an additional taper of its asset purchases to $15 billion in October from $25 billion. Given the Committee's systematic tapering, many market observers expect FOMC to end its purchase of Treasury and agency mortgage-backed securities at the next meeting in late October. A huge worry for market participants remains; what does "for considerable time" mean? No one knows for sure, but the FOMC, in its goal of full transparency, has stated the US economy must improve to reach the FOMC's statutory mandate of maximum employment and stable prices. Based on the discussions during the September meeting, the Committee is also concerned about the strength of the Dollar and a general economic slow down globally. The FOMC zero interest rate policy may last longer than expected, which means the market participants will continue to parse words for extra meaning. Expect additional Federal Reserve induced market volatility.

WORLD EQUITY

US Equities

The 'bull market' continued for domestic equities with the close of the third quarter. It has been 848 days since the S&P 500 Index last experienced a price decline greater than -10%. This level of decline is the common definition for a "*correction*". Based on data in Bloomberg, the index declined 10.94%, excluding the impact of dividends, over forty-three trading days from April 2, 2012 through June 4, 2012.

Index	Q3	1Y	3Y	5Y
S&P 100 TR	2.39	20.48	22.58	15.13
S&P 500 TR USD	1.13	19.73	22.99	15.70
Russell 1000 Growth TR USD	1.49	19.15	22.45	16.50
Russell 1000 Value TR USD	-0.19	18.89	23.93	15.26
Russell Mid Cap Growth TR USD	-0.73	14.43	22.74	17.12
Russell Mid Cap TR USD	-1.66	15.83	23.79	17.19
Russell Mid Cap Value TR USD	-2.65	17.46	24.72	17.24
Russell 2000 Growth TR USD	-6.13	3.79	21.91	15.51
Russell 2000 TR USD	-7.36	3.93	21.26	14.29
Russell 2000 Value TR USD	-8.58	4.13	20.61	13.02

Returns for the various equity capitalization and style indexes varied significantly in the third quarter. In general, large cap outperformed small cap and growth outperformed value. 'Mega cap', as measured by the S&P 100 Index, returned +2.4%, which was one of the best performing domestic equity indexes. The Russell 2000 Value Index had the worst return (-8.6%).

With a +1.13% quarterly return, the large cap S&P 500 Index has provided a positive return for seven consecutive quarters. Continuing with tallies, for the fourth consecutive quarter, the large cap index return exceeded the return for the small cap Russell 2000 Index (-7.36%). The 849 basis point (bps) differential was the largest since the 800 bps in the second quarter of 2011. It has been twenty-two quarters since the beginning of the 'bull market'. Even though the Russell 2000 Index has outperformed the S&P 500 in 55% of the quarterly periods, the annualized return for the S&P 500 Index is greater (+17.9% vs. +17.5%).

Several of the equity indexes made new all-time highs in September. The most publicized were the S&P 500 Index surpassing the 2000 level and the Dow Jones Industrial Average ("DJIA") surpassing the 17,000 level. Both indexes recorded new highs within a day of one another. On September 18th, the S&P 500 closed at 2,011.36 and the DJIA reached 17,279.74 on the 19th. Even with the nearly 6% decline in January, the S&P 500 returned +8.34% year-to-date through September 30th. While the Nasdaq Composite Index did not reach a new all-time high, the index reached a new high since the recession in early 2000, which was within nine percent of the all-time high of 5,048.62 reached during the tech bubble of 1999 and early 2000.

There has been a lot written about the 'quality' of this bull market or lack thereof. In the third quarter, 'high quality' stock outperformed 'low quality' stocks based on Standard & Poor's; the S&P 500 High Quality Index outperformed the Low Quality Index by 308 bps (+1.11% vs. -1.97%). For high quality, this is the first quarter of outperformance since the second quarter of 2012 and the outperformance was similar to the last (e.g., 338 bps). However, in the twenty quarters since the 'official' end of the last recession in June 2009, high quality has outperformed in only five quarters and one calendar year (e.g., 2011). Although high quality outperformed in the quarter by a wide margin, year-to-date performance still favors low quality (+7.19% vs. +9.70%).

From a sector perspective, there were a couple significant reversals in leadership in the third quarter from the second quarter. The big picture takeaway is only five sectors in both the S&P 500 and Russell 2000 indexes outperformed the respective index in the third quarter. Interestingly, the negative sentiment for small cap stocks did not discriminate by sector as every sector in the Russell 2000 finished the quarter in the red. With both indexes, the two top performing sectors for the second quarter were the worst performing sectors in the third quarter. Investors in energy and utility companies felt the market's acute aversion. In three months, energy stocks returned -8.6% and -20.5%, respectively in the S&P 500 and Russell 2000 Index. By comparison, the Energy sector appreciated 12.1% and 11.4% in the large cap and small cap indexes, respectively, for the previous quarter. Energy companies were hit hard as a result of the high correlation to the price of oil. WTI declined 13.5% in the quarter.

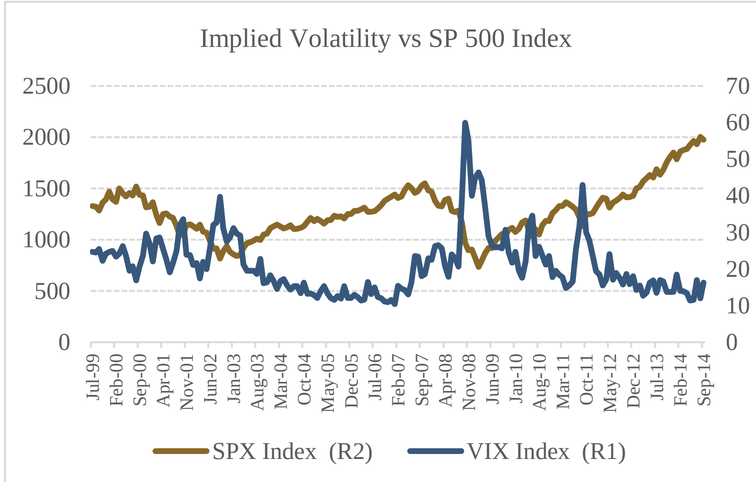
On a positive note, the Health Care and Information Technology sectors were the top performers in large cap, while Health Care and Consumer Staples led the way in small cap. In large cap, health care companies outperformed the S&P 500 Index by 435 bps and technology companies returned +4.8% for 360 bps of excess return. Some of the top performing companies in large cap index were companies in the health care sector; Gilead Sciences, Regeneron Pharmaceuticals, and Tenet Healthcare each had price appreciation between +26% and +29%. Top performers in the Information Technology sector were Apple (+9.0%), Microsoft (+11.9%), Intel (+13.5%), and Facebook (+17.5%). In the Russell 2000 Index, the excess return for Health Care and Consumer Staples was 406 bps and 392 bps, respectively. At the end of the quarter, the Information Technology and Financials sectors were the two largest sectors in the S&P 500 and the Russell 2000 indexes; Information Technology represented almost one-fifth of the large cap index, while Financials represented nearly a quarter of the small cap index.

Fundamentally, US equities look good. Valuations are fair and corporate earnings are expected to grow. Even though domestic equity markets have continued to set new highs, valuations are not extreme, anecdotally, for large cap equities or small cap. For the S&P 500, price-to-earnings ("P/E") ratios, whether based on trailing or forward earnings, are around historical averages. Based on trailing earnings, the S&P 500 Index trades at a P/E ratio 17.3 times and due to expected earnings growth, the P/E ratio on expected earnings for next four quarters is 16.5 times. As of September 30th, the dividend yield was 1.96%. Small cap equities have historically traded at high valuations to large cap and that has not changed. On an absolute basis, the current ratio of P/E ratios is elevated, but still within statistical measures of normal.

Share buybacks have been credited to help fuel one of the strongest rallies in the last fifty years. According to an article in Bloomberg, companies in the S&P 500 are expected to spend over $914 billion on share buybacks and dividends this year. This amount represents approximately 95% of earnings. According to a strategist at Barclays Capital, company management teams, over the last ten years, have nearly doubled the level of cash flow used to repurchase stock. Has this practice boosted share prices? It has, based on the performance of the S&P 500 Buyback Index. This index includes the top 100 companies with the highest buyback ratio. The quarterly return for the Buyback Index was +2.9% or 177 bps above the return for the S&P 500 Index. The excess return holds for longer periods of time as well. The excess return for the YTD, one-, three- and five-year was 64 bps, 189 bps, 541 bps, and 500 bps, respectively. Going forward, the concern is whether companies can maintain or increase the level of share repurchases instead increasing expenditures on capital improvements.

US Equity Market Implied Volatility

In general, the volatility has been low for large cap equity for the last couple of years as the VIX has consistently traded below the fifteen-year average of 21. As discussed earlier, investor sentiment changed throughout the quarter and it shows in the movement of the VIX index. After ending the second quarter at 11.6, the VIX jumped to 17.0 by the end of July. The risk-off sentiment eased in August and the implied volatility index declined to 12.0. With investors putting more attention to the geopolitical issues in Eastern Europe and the Middle East, investors became more defensive and purchased more downside protection. As a result, the VIX jumped 36% to end the quarter at 16.3.



Foreign Equity

As previously mentioned, the US Dollar strengthened considerably in the third quarter. Unfortunately, the strength of the dollar was a significant detractor to the performance of foreign equity. In local currency terms, many of the foreign equity markets were positive for the third quarter. However, for US investors the results were negative as a result of the appreciation of the US Dollar. For example, the MSCI World xUSA returned +0.92% in local currency terms, but the quarterly return dropped to -5.69% after converting to dollars.

For the fourth consecutive quarter, the MSCI EAFE Index lagged the S&P 500 Index (-5.83% vs. +1.13%). From a region perspective, the Pacific region outperformed the Euro region (-3.56% vs. -8.62%). While negative, the performance in Japan stood out in the quarter relative to the region and among the other developed markets. Japan is the largest country representation in the index and returned -2.19% in dollar terms (+5.91% in local currency terms). Within the European Monetary Union (EMU or "Euro"), Germany lagged the most as investors became more averse to the country as economic data indicated a slow down in growth. It is interesting to see how sentiment towards a country changes from quarter to quarter. With a -3.13% quarterly return, Ireland lead the way in the third quarter after positioned at the bottom in the previous quarter.

Similar to performance of the U.S. indexes, large cap outperformed small cap in the third quarter. The MSCI EAFE Small Cap Index trailed the large cap EAFE index by 194 bps (-7.77%). Small cap returns lag large cap for the year-to-date and trailing twelve month periods. Also, the growth style outperformed value. The MSCI EAFE Growth and MSCI EAFE Value returned -4.97% and -6.04%, respectively.

At the index level, emerging markets did relatively well in the third quarter and outperformed developed markets. The MSCI Emerging Markets ("EM") Index returned -3.36% for the quarter; the 247 bps of excess return was similar to the excess return in the second quarter. This is the first back-to-back quarterly outperformance since the first quarter of 2012. Only three of the ten largest countries represented in the index, which account for nearly 90%, had a positive return. China, with the largest allocation in the index (~18%), was a positive contributor. However, India was the top performer with a quarterly return of +2.34%. Mexico's +2.09% return was not far behind. To put it mildly, equity returns in Russia have been volatile this year. Performance in the third quarter was similar to the first quarter (-15.07% and -14.5%, respectively). Apparently, investors had their eyes and hears closed in the second quarter as they bid up equity prices +10.7%.

From a sector perspective, quarterly performance varied significantly within the two foreign equity indices. The range of returns in the MSCI EAFE Index and the MSCI EM Index was 1,144 bps and 1,784 bps, respectively. Furthermore, only five of the ten sectors in each index beat the respective index. Health care was the top performing sector in both the developed and emerging market indexes. The only sector in the MSCI EAFE Index with a positive return was Health Care (+0.42%). Health care's dominance in the EM Index was greater (+10.0% vs. -3.36%). As a result of the small allocation in each index, the impact from the sector's positive performance was marginal. At quarter-end, the largest sector allocation in both indexes was Financials.

Real Assets

As a result of their strategic partnership with UBS, Bloomberg has assumed responsibility for the calculation, distribution, governance and licensing of the DJ-UBS commodity indexes. Effective July 1st, index family was renamed the Bloomberg Commodity Index family.

The Bloomberg Commodity Index returned -11.83% in the third quarter. There were no bright spots in the commodity complex as all of the five primary sectors were negative. Agriculture prices continue to decline due to oversupply issues for many of the commodities. The Agriculture sector declined 18.05% and was the worst performer for the second consecutive quarter. Within the sector, coffee was the best performer (+7.95%) due to lower output as a result of the dry weather in Brazil. Energy and Precious Metals declined 12.1% and 11.3%, respectively. Crude oil was adversely impacted by increase supply from OPEC and weaker demand. The strength in the dollar and a better U.S. economic outlook more than offset the price appreciation from investors buying gold as a safe haven to geopolitical tensions. Gold was a better performing precious metal than silver (-8.44% vs. -19.25%).

In the quarter, investors were split in their attraction to MLPs and REITs; the Alerian MLP Index returned +2.73%, while the FTSE NAREIT Equity Index returned -3.15%. Sixty percent of the twenty-five constituents in the Alerian index had a positive return. Kinder Morgan Energy Partners ("KMP") was the top performer with a return of +15.4%; the MLP benefited from an announced merger with Kinder Morgan Inc. With a +19.5% return through September 30th, the yield of the Alerian MLP Index has declined to 5.11% from 5.69% as of December 31, 2013.
While the REIT index was negative for the quarter, the year-to-date performance was +13.96%. Even with the appreciation in the index, the yield has not changed much this year. At the end of the quarter, the yield was 4.02%, which is higher than the 3.75% at the end of the second quarter and inline with the 4.04% at the end of 2013. The top performing REIT sector was Regional Malls (-0.48%), while Mixed was the worst (-7.39%).

Fixed Income

Coming into 2014, many market observers predicted Treasury yield would rise dramatically this year. The common view was that yields would continue upward as the Federal Reserve began to further reduce the liquidity in the economy. The yield on the 10-year Treasury was 3.03% at the end of 2013 and the expectation was an increase of 50 bps to 75 bps by the end of 2014. Based on the path for Treasury yields so far this year, the market commentators and economist have been a 'little off'. At the end of the third quarter, the yield on the 10-year was 2.49%.

In all fairness, it seemed logical that Treasury yields should rise this year especially if the Federal Reserve met its objectives of price stability (i.e., inflation) and maximum employment. Meeting these objectives should lead to higher economic growth. With higher economic growth and higher inflation, fixed income investors, especially investors in Treasuries, should require a higher yield to compensate for the higher inflation. While economic growth has picked up, inflation is still low and below the Federal Reserves's targeted levels.

Maturity	9/30/14 Yield	Yield Change (in bps)	
		From 6/30/14	From 12/31/13
1M	0.01	0.51	0.00
3M	0.02	-0.51	-5.07
6M	0.03	-3.04	-5.58
1Y	0.10	-0.25	-1.52
2Y	0.57	11.03	18.71
3Y	1.04	17.07	27.32
5Y	1.76	12.67	1.47
7Y	2.20	6.78	-24.83
10Y	2.49	-4.16	-53.94
30Y	3.20	-16.32	-77.18

Source: Bloomberg

Unexpected macro factors have suppressed Treasury yields as investors have been attracted to the safety of Treasuries. In addition to the unrest in Eastern Europe and the Middle East, the yields on other sovereign debt is on par or below Treasury yields. A consequence of the attractiveness of the Treasury market has been a general increase in prices across the various maturities. In the third quarter, the greatest price increases were at the 10-year and 30-year maturities, which brought yields down 4.2 bps and 16.3 bps, respectively. As a result, the Treasury yield curve flattened further by quarter-end. Price declines in the 'belly of the curve' increased yields in the 2-, 3-, 5-, and 7-year maturities, which also contributed to a flatter yield curve.

The investment grade fixed income benchmark, the Barclays Aggregate Index, returned +0.17% in the quarter. This is the third consecutive quarter of positive performance for the index. The two largest sector allocations in the benchmark index are Treasury (35.5%) and Mortgage-backed securities (28.9%) and both sectors were positive contributors to the index, with returns of +0.34% and +0.18%, respectively. Investment Grade Corporates returned -0.08%, which was the first negative quarter since the second quarter of 2013. From a credit quality perspective, AAA-rated securities outperformed (+0.45%). For each of the remaining three investment grade credit quality classifications, the return declined with the decline in quality; the return for A and Baa were negative (-0.02% and -0.21%, respectively).

Index	Q3	1Y	3Y	5Y
Barclays US Agg Bond TR USD	0.17	3.96	2.43	4.12
Barclays US Corp IG TR USD	-0.08	6.77	5.19	6.41
Barclays US Treasury TR USD	0.34	2.28	1.04	3.24
Barclays US MBS TR USD	0.18	3.78	2.07	3.48
Barclays US Treasury US TIPS TR USD	-2.04	1.59	1.34	4.48
Barclays US Corporate High Yield TR USD	-1.87	7.20	11.09	10.57
Barclays Global Aggregate TR USD	-3.14	1.19	1.16	2.69
Barclays Gbl Agg Ex USD TR USD	-5.38	-0.81	0.14	1.68
Barclays EM Local Currency Div TR USD	-4.65	1.27	4.47	0.00
S&P/LSTA Leveraged Loan TR USD	-0.47	3.85	6.66	6.47

Source: Morningstar

Yield was not the sole focus for fixed income investors during the quarter. We have read commentary from investment management firms that describe the sell off in high yield in July as 'technical', which is defined as more sellers than buyers. Basically, there was a reassessment of risk and investor sentiment switched to 'risk off' after ten consecutive months of positive returns. In addition to July, the Barclays Corporate High Yield Index was also negative in September (-1.33% and 2.09%, respectively). For the quarter, the high yield index returned -1.87% and the yield-to-worst increased 116 bps to 6.27% from 5.11%. This is only the third quarter in the last three years that the index has been negative. One coincided with 'taper tantrum' in Q2 2013 and the other occurred during the European debt crisis induced volatility in Q3 2011. With much shorter durations, leveraged loans outperformed in high yield. Similar to the broad Barclays high yield, the S&P/LTSA Leveraged Loan index was negative in July and September.

Lower inflation risks resulted in underperformance for Treasury Inflation-Protected Securities (-2.04%) after outperforming the broad market in the second quarter.

Municipals continue to perform. Compared to the end of the second quarter, yields declined across most maturities. As of September 30th, the yield on a generic 10-year municipal was 2.23%, which was only 26 bps less than a comparable maturity Treasury. With a +1.49% quarterly return, the Barclays Municipal Index has posted a positive return for four consecutive quarters. The index's longer duration (e.g., 6.75 years) has boosted performance as interest rates have declined during the year.

Returns for global indices were less than their domestic counterparts. The Barclays Global Aggregate Index returned -3.14%, while the Barclays Global Aggregate ex USD returned -5.38%. According to Barclays, cumulative currency impact was -4.27%. Longer maturity securities outperformed the broad index; also AAA- and A-rated securities outperformed. Moreover, mortgage-backed and corporates securities were the top performers, with returns of -1.15% and -2.13, respectively. At quarter-end, the U.S. Aggregate is the largest allocation in the global index (38.2%).

Supplemental Charts

Global Economic Forecast

Sunny	Interest Rates	Sovereign bond interest rates have declines in most developed markets through 2014, keeping debt-services costs low for those households and businesses that can access credit. While the Federal Reserve and the Bank of England are likely to begin raising short-term rates in the next year, the Bank of Japan and the European Central Bank (ECB) are unlikely to follow suit. Longer term rates may remain historically low even after central banks begin to normalize policy rates.
	US Manufacturing	Driven by autos, aircraft and construction equipment, US factories continue to recover from depressed Great Recession lows.
	Credit	In the US, credit demand and supply continue to improve at sustainable rates for both businesses and households. Many European companies lack access to bank credit, however, a situation the ECB is currently shaping policy to ameliorate.
Cloudy	Consumer Demand	Steady job growth should continue to support US consumer demand. Continued weak growth in Europe and the consumption tax increase in Japan could slow demand growth in those regions.
	Emerging Market Growth	Several important emerging economies such as China, India, Philippines and Indonesia appear to be strengthening. Others, such as Brazil, which faces political uncertainty, has a more questionable growth trajectory. EM countries should produce most of the world's growth throughout this decade, but a cyclical recovery remains uneven.
	Japanese Economic Outlook	While Japanese growth remains well below that of the US, highly accommodative monetary policy and renewed yen weakness may help end years of deflation. Little progress on structural reform, poor demographics and weak capital spending are likely to restrict economic growth.
	US Housing	US home prices have moderated as demand has slowed. Residential real estate is unlikely to be a major source of economic growth or household wealth appreciation in this business cycle.
Stormy	European Economic Stagnation	Structural rigidities, poor demographics and limited fiscal flexibility are likely to continue to inhibit economic growth in the Eurozone. Newly aggressive ECB policy may accelerate credit creation and lead to a more competitive euro, but the effects will be slow to boost investment and demand sufficiently to drive the overall economy in the near term.
	Geopolitical Risks	Renewed and unresolved conflict between Russia and Ukraine may further inhibit growth throughout Europe. The acceleration of violence in the Middle East, while it does not currently threaten energy supplies, continues to threaten broader disruption.

Source: Oppenheimer Funds: "Market Charts", as of 09/30/14.

Equity Index Performance and Fundamentals

	Index Returns					Fundamentals							
Index	3M	1YR	3Y	5Y	Current P/E Ratio	Adj. "Positive" P/E Ratio	P/E (N4Q)	Trailing P/E (20Y Avg)	Price-to-Book	P/B (20Y Avg)	Div YLD	Earnings Yield	EPS-G (next 3-5Y)
Mega Cap Equity	2.39	20.48	22.58	15.13	16.89	17.95	15.83	15.73	2.69	2.81	2.09	5.92	8.25
Large Cap Equity	1.13	19.73	22.99	15.70	17.88	19.33	16.53	16.78	2.70	2.99	1.96	5.59	7.40
Mid Cap Equity	-1.66	15.83	23.79	17.19	22.56	21.51	19.78	16.79	2.67	2.43	1.60	4.43	11.09
Small Cap Equity	-7.36	3.93	21.26	14.29	50.78	48.36	25.98	25.26	2.09	2.05	1.39	1.97	12.48
Developed Foreign Equity	-5.83	4.70	14.16	7.04	17.07	28.14	14.92	13.26	1.57	2.00	3.37	5.86	7.71
Global Equity ex. USA	-5.19	5.22	12.29	6.50	15.89	23.46	14.14	12.87	1.57	1.89	3.19	6.29	13.00
Emerging Foreign Equity	-3.36	4.66	7.56	4.76	12.61	14.61	11.69	11.26	1.45	1.54	2.78	7.93	-7.65
Real Estate Securities	-5.95	13.14	16.68	15.88	48.85	65.59	38.04	47.86	2.19	2.22	4.02	2.05	5.52
Master Limited Partnerships	2.73	25.80	22.95	23.58	41.58	22.87	29.31	19.92	2.77	2.39	5.11	2.40	16.12

Source: Bloomberg. Data as of September 30, 2014.

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:

For the third quarter and the trailing one-year period, the average active fund lagged the respective benchmark index in the large cap and mid cap, regardless of style. Based on the return differentials, active management has had the most difficult time beating the index in Mid Cap Growth. On average, small cap value managers have excelled over the most recent quarter, year-to-date, and the trailing one-year periods.

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

US Indexes

Q3	Value	Blend	Growth
Large	-0.19	1.13	1.49
Mid	-2.65	-1.66	-0.73
Small	-8.58	-6.05	-5.35

1-Yr	Value	Blend	Growth
Large	18.89	19.73	19.15
Mid	17.46	15.83	14.43
Small	4.13	3.93	3.79

US Mutual Fund Categories

Q3	Value	Blend	Growth
Large	-0.55	-0.08	0.68
Mid	-3.42	-3.30	-2.29
Small	-7.14	-6.75	-5.80

1-Yr	Value	Blend	Growth
Large	16.35	16.84	16.24
Mid	13.56	12.20	10.05
Small	6.31	5.66	2.78

Source: Morningstar: performance represents category average.

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

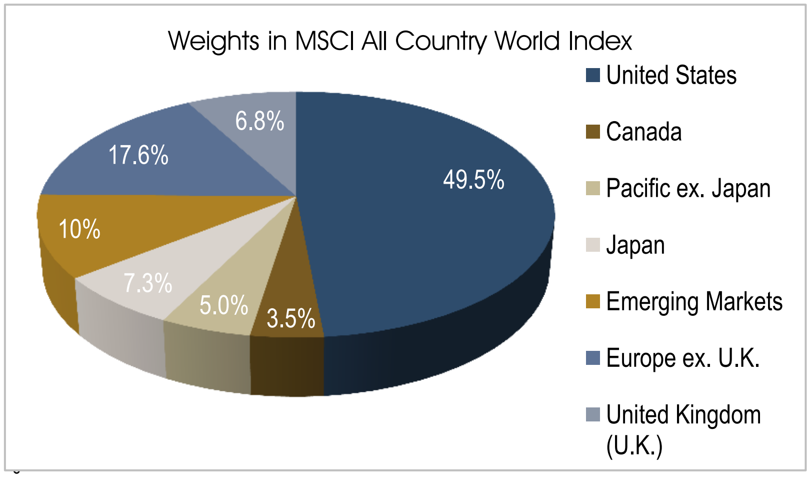
For the third consecutive quarter, the large cap S&P 500 Index outperformed the small cap Russell 2000 Index. In aggregate, health care stocks lead the way in both indexes. Even though investors appeared to favor defensive sectors (i.e., consumer staples and health care), information technology and financials also outperformed the broad the index. After outperforming the broad index for the first two quarters of the year, the Utilities sector was one of the worst performing in the third quarter.

	Q2		1-Year	
	S&P 500	Russell 2000	S&P 500	Russell 2000
INDEX	**1.13**	**-7.33**	**19.72**	**3.94**
Consumer Discretionary	0.24	-8.48	11.79	-2.66
Consumer Staples	1.95	-3.41	16.44	4.85
Energy	-8.62	-20.48	12.11	-1.46
Financials	2.34	-5.17	18.49	6.30
Health Care	5.48	-3.27	27.94	7.12
Industrials	-1.10	-9.90	16.68	1.17
Information Technology	4.77	-5.65	29.28	3.15
Materials	0.32	-8.31	20.59	3.88
Telecom Services	3.07	-6.81	12.91	-3.23
Utilities	-3.97	-10.25	16.51	9.15

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

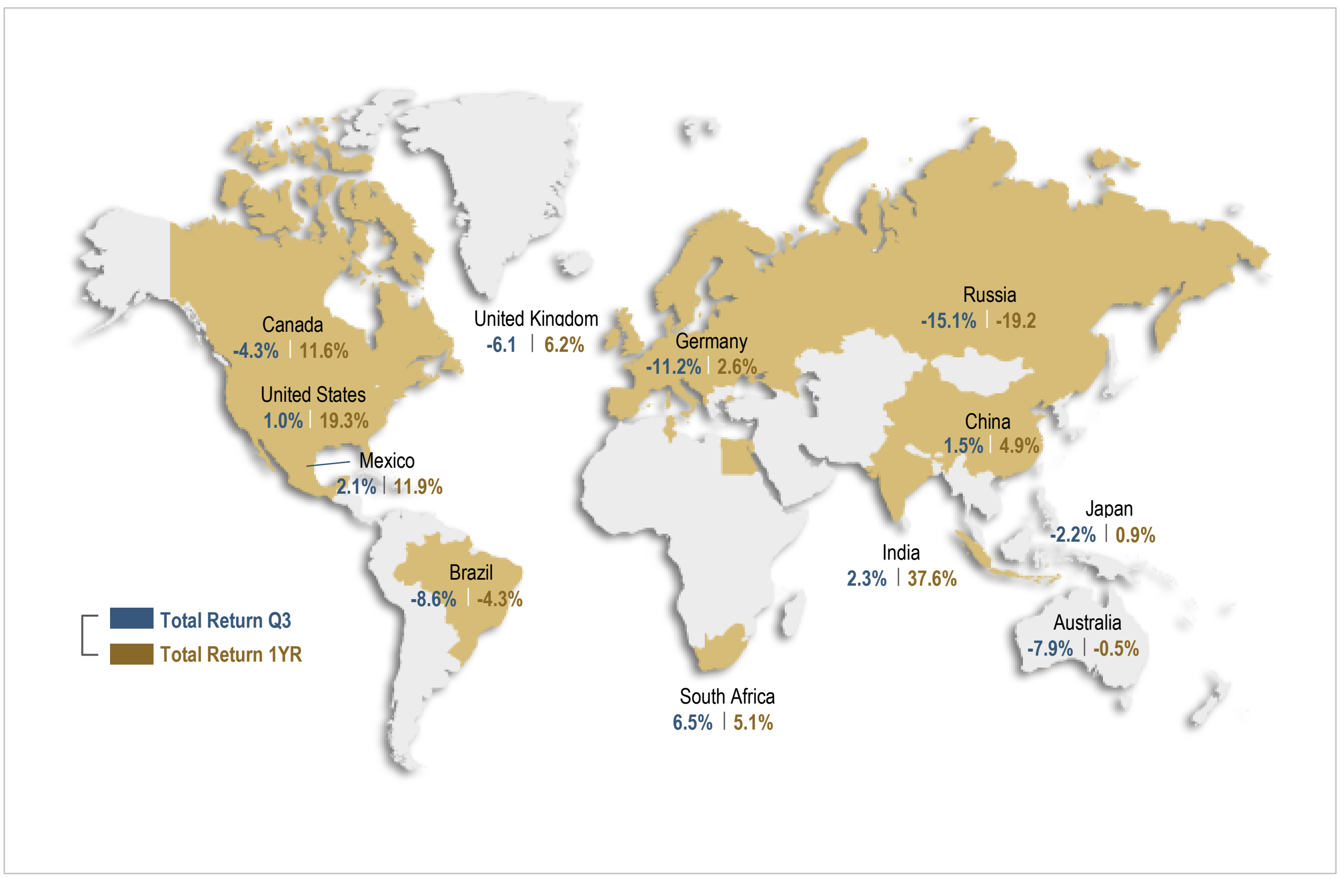
Based on the market cap equity markets, the United States is the largest market at 50%. This chart shows that there is a large investable universe outside the United States, which supports investing in non-US equity strategies.



Source: MSCI, Bloomberg, and JPMorgan "Guide to the Markets" (as of 9/30/14)

Country Performance

Based on the performance of the broad benchmark indexes, emerging markets (-3.36%) outperformed non-US developed markets (-5.83%). However, as the chart below illustrates, there several country performance outliers. Russia and Brazil significantly underperformed the emerging market index and Japan outperformed the MSCI EAFE Index.



Source: MSCI.com. Returns are 'gross' and are represented in USD dollar.

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. As previously mentioned, the US dollar appreciated significantly during the quarter relative to most developed and emerging market currencies. The greatest appreciation was relative to the New Zealand Dollar (+10.85%); the Dollar appreciated +9.51% versus the Brazilian Real, +7.75% versus the Euro, +7.59% Japanese Yen, and the +3.43% versus the Mexican Peso.

	US Dollar		Local	
	3MTD	1-Yr	3MTD	1-Yr
Developed Markets				
EAFE	-5.83%	4.70%	0.98%	11.18%
EMU (European Monetary Union)	-8.62%	5.78%	-0.96%	13.35%
Pacific	-3.56%	1.16%	3.32%	10.19%
Pacific Ex Japan	-5.88%	1.48%	-0.86%	6.03%
World Ex USA	-5.69%	5.34%	0.92%	12.06%
France	-8.33%	2.60%	-0.64%	9.94%
Germany	-11.17%	2.62%	-3.72%	9.97%
Ireland	-3.13%	12.15%	4.99%	20.18%
Italy	-8.58%	16.29%	-0.92%	24.61%
Spain	-7.41%	16.21%	0.35%	24.52%
United Kingdom	-6.05%	6.16%	-0.91%	6.04%
Japan	-2.19%	0.93%	5.91%	12.83%
Canada	-4.32%	11.64%	0.39%	21.37%
Emerging Markets				
EM (EMERGING MARKETS)	-3.36%	4.66%	0.70%	8.64%
BRIC (Brazil, Russia, India, China)	-3.14%	3.27%	1.43%	7.82%
India	2.34%	37.61%	5.09%	35.75%
Korea	-7.26%	0.62%	-3.28%	-1.20%
Taiwan	-3.01%	12.91%	-1.19%	16.16%
Brazil	-8.58%	-4.31%	1.60%	5.30%
Chile	-7.74%	-13.70%	-0.45%	2.43%
Mexico	2.09%	11.90%	5.69%	14.16%
Greece	-20.01%	-7.14%	-13.31%	-0.50%
Russia	-15.07%	-19.18%	-4.33%	-5.20%
Turkey	-11.77%	-8.35%	-5.09%	3.33%

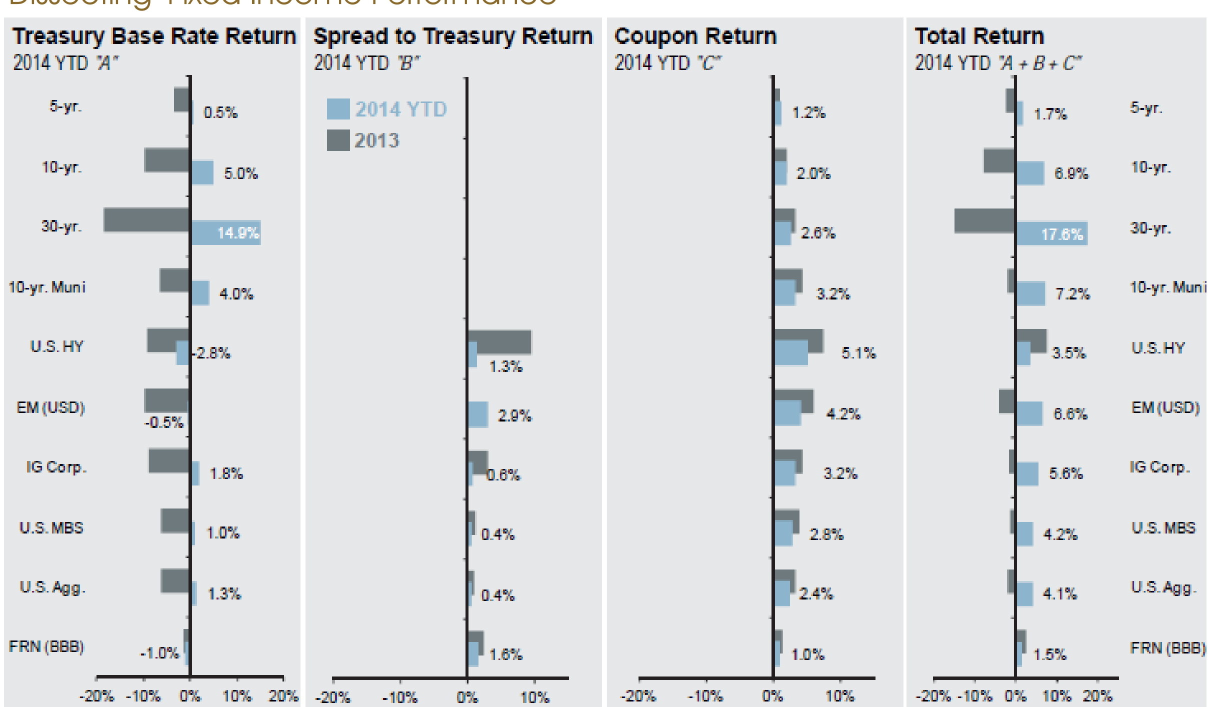
Source: MSCI

Fixed Income Performance & Fundamentals

	# of Issues	Return		Correlation	Average	Yield	
U.S Treasuries		**3Q14**	**YTD**	**(to 10Y TSY)**	**Maturity (Yrs.)**	**9/30/2014**	**6/30/14**
2-Year	93	0.04%	0.49%	0.64	2	0.58%	0.47%
5-Year	96	-0.19%	1.73%	0.91	5	1.78%	1.62%
10-Year	17	0.75%	6.93%	1.00	10	2.52%	2.53%
30-Year	20	3.33%	17.56%	0.92	30	3.21%	3.34%
TIPS	35	-2.04%	3.67%	0.58	10	0.55%	0.27%
Sector							
Broad Market	8,908	0.17%	4.10%	0.85	7.7	2.36%	2.22%
MBS	427	0.18%	4.22%	0.81	7.2	2.88%	2.79%
Municipals	9,057	1.46%	7.24%	0.46	9.9	2.13%	2.25%
Corporates	5,111	-0.08%	5.60%	0.46	10.5	3.10%	2.91%
High Yield	2,157	-1.87%	3.49%	-0.24	6.5	6.13%	4.91%
Floating Rate	49	0.40%	1.53%	-0.21	3.0	0.98%	1.01%
Convertibles	521	-1.51%	7.56%	-0.31	--	1.16%	1.19%
ABS	1,666	-0.18%	2.15%	-0.04	4.2	2.18%	1.90%

Source: JPMorgan "Guide to the Markets" (as of 6930/14); 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: Federal Reserve, Barclays, J.P. Morgan Asset Management.

Source: JPMorgan "Guide to the Markets" (as of 09/30/14). 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 93014	
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	13.96	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	7.97	Large Cap Equity
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	7.58	Municipal Fixed Income
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	7.01	Value Equity
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	6.91	Growth Equity
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	6.87	Mid Cap 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	4.1	Investment Grade Fixed Income
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	3.67	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	3.49	High Yield 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	2.75	Emerging Foreign 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	2.38	Fund of Hedge Funds
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	0.02	Cash
-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	-0.99	Developed Foreign Equity
-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	-4.41	Small Cap Equity
-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	-5.59	Commodities

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), Bloomberg Commodity TR 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).

For more information contact:

Rob Little, Vice President, Investment Strategy & Research
rlittle@lamcogroup.com or call 407.585.1176

LAMCO Advisory Services, Inc.
1525 International Pkwy, Ste. 2071 ▪ Lake Mary, FL 32746
www.lamcoadvisory.com

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**SM 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**SM 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**SM 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.