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SECOND QUARTER 2016 IN REVIEW

STOCKS & BONDS BOTH BENEFITED FROM FALLING GLOBAL YIELDS

- **U.S. economy accelerates in Q2, as dollar, oil prices, and manufacturing stabilize.** Based on data received through early July 2016, second quarter 2016 real gross domestic product (GDP) growth is tracking close to 3.0%, following 1.1% growth in the first quarter of 2016 and 1.4% growth in the fourth quarter of 2015. Although tepid by historical standards, the 2%+ growth rate in real GDP in the first half of 2016 is running just above potential GDP growth of 1.5–2.0% (the maximum pace the economy can grow without causing inflation), and is enough to continue to slowly tighten the labor market, push wages higher, and keep the Federal Reserve (Fed) on track to potentially raise rates once in the second half of the year. The more modest path of rate hikes for the Fed has allowed the dollar to turn from a headwind to a tailwind for manufacturing, overseas sales, exports, and oil prices. Lastly, after consistently creating 200,000 jobs per month in the last six years, job growth has started to slow, and is likely to slow further in the second half of 2016.
- **Stocks ride oil and falling rates to solid Q2.** The S&P 500 Index posted a 2.5% total return during the second quarter, despite a volatile finish due to the unexpected Brexit vote in the United Kingdom. The quarter's gains were driven by the continued recovery in the oil market, which drove crude prices more than 25% higher and propelled energy to the top of the S&P sector rankings.

1 Q2 2016 AT A GLANCE

	Q2 2016
GDP*	2.5%
S&P 500 Index	2.5%
Barclay's Aggregate Bond Index	2.2%
Bloomberg Commodity Index	12.8%

Source: LPL Research, Bloomberg, FactSet 06/30/16

*Bloomberg consensus as of June 30, 2016.

Figures for S&P 500, Barclays Aggregate Bond Index, and Bloomberg Commodity Index are total returns from 3/31/16–6/30/16 (Q2).

All indexes are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges, or expenses. The results don't reflect any particular investment.

Please note: All return figures are as of June 30, 2016, unless otherwise stated.

Past performance is not indicative of future results.

The economic forecasts set forth in the presentation may not develop as predicted.

Stock investing entails risk including loss of principal.

The pushout of Fed rate hike expectations also helped, with the resulting drop in interest rates driving gains in defensive, high-dividend-paying sectors, including consumer staples, telecom, and utilities. Despite the weak growth signal from the bond market and the soft May jobs report, U.S. economic data were generally supportive of a pickup in economic and earnings growth, which also helped buoy investor sentiment.

- **Bonds have another strong quarter as global yields decline.** Fixed income markets strengthened further during the second quarter. The surprise outcome of the Brexit vote, in addition to dovish central bank actions across the globe, led to broad bond strength over the quarter, with the 10- and 30-year Treasury yields falling 0.30% and 0.33%, respectively. The Barclays Aggregate Bond Index returned 2.2% for the quarter. The higher interest rate sensitivity of longer-dated fixed income was a tailwind amid the overall decline in rates. Economically sensitive, lower-credit quality sectors rallied, with high-yield returning 5.5% (Barclays U.S. Corporate High Yield Index) and bank loans 3.1% (Barclays U.S. High Yield Loan Index). International fixed income also had a strong quarter: emerging markets debt returned 5.4% (JP Morgan Emerging Markets Bond Index), currency-hedged foreign 3.1% (Citigroup Non-U.S. World Government Bond Index), and unhedged foreign 4.0% (Citigroup Non-U.S. World Government Bond Index Hedged for Currency).
- **U.S. oil production declines hastened in the second quarter, driving prices higher.** WTI crude oil rose 31.4% in the quarter as oil production in the U.S. fell below the 9 million barrels per day mark and ended below 8.7 million. The Bloomberg Commodity Index returned 12.8%, led by energy and precious metals. Gold and silver gained 7.9% and 23.8%, respectively, as lower interest rates and market volatility benefited the precious metals. The U.S. Dollar Index was modestly positive, increasing 1.4% in the quarter.
- **Distressed debt strategies led second quarter alternative investment category returns, as the rally in oil prices supported gains in the energy and material sectors.** For the quarter, the HFRX Distressed Strategies Index gained 9.02%. As measured by the -1.0% return in the HFRX Equity Hedge Index, long/short equity strategies struggled during the quarter, even as they generally continued to reduce both long and short exposure due to market volatility. A general portfolio overweight to more growth and cyclical holdings acted as a headwind, as more defensive sectors were among the top quarterly performers. ■

A LOOK FORWARD

We continue to expect stocks to produce mid-single-digit returns in 2016,* based on an expected second half 2016 rebound in earnings, a modest pickup in global growth, stable oil prices, and a largely range-bound U.S. dollar. We expect elevated volatility as the business cycle ages and markets face political uncertainty in Europe following the Brexit vote and the upcoming U.S. presidential election. We expect modest positive bond market performance in 2016, based on the Barclays Aggregate Bond Index, as the Fed may hike interest rates just once this year and low yields overseas continue to put downward pressure on domestic yields. For more on our forecasts, look for our *Midyear Outlook 2016* publication by July 12, 2016.

*Historically since WWII, the average annual gain on stocks has been 7–9%. Thus, our forecast is roughly in-line with average stock market growth. We forecast a mid-single digit gain, including dividends, for U.S. stocks in 2016 as measured by the S&P 500. This gain is derived from earnings per share (EPS) for S&P 500 companies assuming mid-to-high-single-digit earnings gains, and a largely stable price-to-earnings ratio. Earnings gains are supported by our expectation of improved global economic growth and stable profit margins in 2016.

Bonds are subject to market and interest rate risk if sold prior to maturity.

Bond values and yields will decline as interest rates rise, and bonds are subject to availability and change in price.

Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory developments.

Alternative strategies may not be suitable for all investors. The management of alternative investments may accelerate the velocity of potential losses.

2 MARKETS FAVORED ENERGY AND DIVIDEND YIELD IN Q2

S&P 500 Sector Performance, Ranked by Second Quarter Returns

Sector	Q2 2016
Energy	11.6%
Telecom	7.1%
Utilities	6.8%
Healthcare	6.3%
Consumer Staples	4.6%
Materials	3.7%
S&P 500	2.5%
Financials	2.1%
Industrials	1.4%
Consumer Discretionary	-0.9%
Technology	-2.8%

3 U.S. AND VALUE OUTPACED INTERNATIONAL AND GROWTH IN Q2

Domestic & International Asset Class Performance, Ranked by Second Quarter Returns

Asset Class	Q2 2016
U.S. Mid Value	4.8%
U.S. Large Value	4.6%
U.S. Small Value	4.3%
U.S. Small Growth	3.2%
U.S. Mid Growth	1.6%
Emerging Markets	0.8%
U.S. Large Growth	0.6%
Large Foreign	-1.2%

4 DELAYED RATE HIKE EXPECTATIONS AND LOWER INTEREST RATES FUELED BROAD Q2 BOND MARKET GAINS

Bond Market Performance, Ranked by Second Quarter Returns

Sector	Q2 2016
High-Yield Bonds	5.5%
Emerging Markets Debt	5.4%
Municipal High-Yield	5.1%
Foreign Bonds (Unhedged)	4.0%
Preferred Securities	3.6%
Investment-Grade Corporates	3.5%
Foreign Bonds (Hedged)	3.1%
Bank Loans	3.1%
Municipal Bonds	2.6%
Barclays U.S. Aggregate	2.2%
U.S. Treasuries	2.1%
TIPS	1.7%
Mortgage-Backed Securities	1.1%

Asset class returns are represented by the returns of indexes and are not ranked on an annual total return basis. It is not possible to invest directly in an index so these are not actual results an investor would achieve.

Bond Market Asset Class Indexes: Foreign Bonds (hedged) – Citigroup Non-U.S. World Government Bond Index Hedged for Currency; Preferred Securities – Merrill Lynch Preferred Stock Hybrid Securities Index; Treasury – Barclays U.S. Treasury Index; Mortgage-Backed Securities – Barclays U.S. MBS Index; Investment-Grade Corporate – Barclays U.S. Corporate Bond Index; Municipal – Barclays Municipal Bond Index; Municipal High-Yield – Barclays Municipal High Yield Index; TIPS – Barclays Treasury Inflation-Protected Securities Index; Bank Loans – Barclays U.S. High Yield Loan Index; High-Yield – Barclays U.S. Corporate High Yield Index; Emerging Market Debt – JP Morgan Emerging Markets Global Index; Foreign Bonds (unhedged) – Citigroup Non-U.S. World Government Bond Index (unhedged)

Sources: LPL Research, FactSet 06/30/16

All indexes are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges, or expenses. The results don't reflect any particular investment. Past performance is no guarantee of future results.

Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

The sectors are represented by the 10 S&P 500 Global Industry Classification Standard (GICS) indexes.

Asset classes based on Russell 1000, Russell 3000 Growth and Value Indexes, Russell 2000, Russell Midcap Index, MSCI EAFE, MSCI Emerging Markets Index.

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance reference is historical and is no guarantee of future results. All indexes are unmanaged and cannot be invested into directly.

General Stock & Debt Equity Risks

Stock investing may involve risk including loss of principal.

Investing in foreign and emerging markets securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a nondiversified portfolio. Diversification does not ensure against market risk.

Government bonds and Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

High-yield/junk bonds are not investment-grade securities, involve substantial risks, and generally should be part of the diversified portfolio of sophisticated investors.

Long/short equity funds are subject to normal alternative investment risks, including potentially higher fees; while there is additional management risk, as the manager is attempting to accurately anticipate the likely movement of both their long and short holdings. There is also the risk of "beta-mismatch," in which long positions could lose more than short positions during falling markets.

Definitions

Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments, and exports less imports that occur within a defined territory.

Index Definitions

The Barclays U.S. Corporate High Yield Index measures the market of USD-denominated, noninvestment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging markets debt.

The Barclays U.S. High Yield Loan Index tracks the market for dollar-denominated floating-rate leveraged loans. Instead of individual securities, the U.S. High-Yield Loan Index is composed of loan tranches that may contain multiple contracts at the borrower level.

The Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS (agency and non-agency).

The Barclays U.S. Corporate Index is a broad-based benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate, taxable corporate bond market.

The Barclays U.S. Treasury Index is an unmanaged index of public debt obligations of the U.S. Treasury with a remaining maturity of one year or more. The index does not include T-bills (due to the maturity constraint), zero coupon bonds (strips), or Treasury Inflation-Protected Securities (TIPS).

The Barclays U.S. Mortgage Backed Securities (MBS) Index tracks agency mortgage backed pass-through securities (both fixed rate and hybrid ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

The Barclays U.S. Treasury TIPS Index is a rules-based, market value-weighted index that tracks inflation-protected securities issued by the U.S. Treasury.

The BofA Merrill Lynch Preferred Stock Hybrid Securities Index is an unmanaged index consisting of a set of investment-grade, exchange-traded preferred stocks with outstanding market values of at least $50 million that are covered by Merrill Lynch Fixed Income Research.

The Bloomberg Commodity Index is calculated on an excess return basis and composed of futures contracts on 22 physical commodities. It reflects the return of underlying commodity futures price movements.

The HFRX Distressed Restructuring Index strategies employ an investment process focused on corporate fixed income instruments, primarily on corporate credit instruments of companies trading at significant discounts to their value at issuance or obliged (par value) at maturity as a result of either formal bankruptcy proceeding or financial market perception of near term proceedings. Managers are typically actively involved with the management of these companies, frequently involved on creditors' committees in negotiating the exchange of securities for alternative obligations, either swaps of debt, equity or hybrid securities. Managers employ fundamental credit processes focused on valuation and asset coverage of securities of distressed firms; in most cases portfolio exposures are concentrated in instruments which are publicly traded, in some cases actively and in others under reduced liquidity but in general for which a reasonable public market exists. In contrast to Special Situations, Distressed Strategies employ primarily debt (greater than 60%) but also may maintain related equity exposure.

The HFRX Equity Market Neutral Index strategies employ sophisticated quantitative techniques of analyzing price data to ascertain information about future price movement and relationships between securities, select securities for purchase and sale. These can include both factor-based and statistical arbitrage/trading strategies. Factor-based investment strategies include strategies in which the investment thesis is predicated on the systematic analysis of common relationships between securities. In many but not all cases, portfolios are constructed to be neutral to one or multiple variables, such as broader equity markets in dollar or beta terms, and leverage is frequently employed to enhance the return profile of the positions identified. Statistical arbitrage/trading strategies consist of strategies in which the investment thesis is predicated on exploiting pricing anomalies that may occur as a function of expected mean reversion inherent in security prices; high frequency techniques may be employed and trading strategies may also be employed on the basis on technical analysis or opportunistically to exploit new information the investment manager believes has not been fully, completely, or accurately discounted into current security prices. Equity market neutral strategies typically maintain characteristic net equity market exposure no greater than 10% long or short.

The JP Morgan Emerging Markets Bond Index is a benchmark index for measuring the total return performance of international government bonds issued by emerging markets countries that are considered sovereign (issued in something other than local currency) and that meet specific liquidity and structural requirements.

The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 92% of the U.S. market.

The Russell Midcap Index offers investors access to the mid cap segment of the U.S. equity universe. The Russell Midcap Index is constructed to provide a comprehensive and unbiased barometer for the mid cap segment and is completely reconstituted annually to ensure that larger stocks do not distort the performance and characteristics of the true mid cap opportunity set. The Russell Midcap Index includes the smallest 800 securities in the Russell 1000.

The Russell 2000 Index measures the performance of the small cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index.

The Russell 3000 Growth Index measures the performance of the broad growth segment of the U.S. equity universe. It includes those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 3000 Value Index measures the performance of the broad value segment of U.S. equity value universe. It includes those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values.

The MSCI EAFE Index is recognized as the pre-eminent benchmark in the United States to measure international equity performance. It comprises the MSCI country indexes that represent developed markets outside of North America: Europe, Australasia, and the Far East.

The MSCI Emerging Markets Index captures large and mid cap representation across 23 emerging markets (EM) countries. With 822 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The S&P 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Barclays U.S. Municipal Index covers the USD-denominated, long-term, tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

The Barclays Municipal High Yield Bond Index is comprised of bonds with maturities greater than one-year, having a par value of at least $3 million issued as part of a transaction size greater than $20 million, and rated no higher than 'BB+' or equivalent by any of the three principal rating agencies.

The Citigroup Non-U.S. World Government Bond Hedged Index measures the performance of fixed-rate, local currency, investment grade sovereign bonds. This index is a widely used benchmark that currently comprises sovereign debt from over 20 countries, denominated in a variety of currencies, and has more than 25 years of history available. It provides a broad benchmark for the global sovereign fixed income market, excluding the U.S., with currencies hedged against the U.S. dollar.

The USD Index measures the performance of the U.S. dollar against a basket of foreign currencies: EUR, JPY, GBP, CAD, CHF and SEK. The U.S. Dollar Index goes up when the dollar gains "strength" compared to other currencies.

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