LPL RESEARCH

MARKET INSIGHT

First Quarter 2015

STOCK AND BOND MARKETS KEEP QUARTERLY WINNING STREAKS ALIVE

- **Temporary factors drive first quarter slowdown.** The U.S. economy had to negotiate several hurdles in the first quarter of 2015, which made it feel similar to the first quarter of 2014, when severe winter weather hampered economic activity. Weather was also a factor in the first quarter of this year, while a West Coast port strike, the strong dollar's impact on exports, and less energy capital spending also hindered economic activity.
- **Stocks post ninth consecutive quarterly gain.** The S&P 500 produced its ninth straight positive quarter during the first quarter of 2015 with a 1.0% total return, the longest such streak since 1998. The gains helped the bull market reach its sixth birthday on March 9, 2015, only the third to reach that age since World War II. The Nasdaq Composite also hit a milestone during the quarter, returning to the 5000 level for the first time in 15 years.
- **Oversupply, Iran negotiations weighed on oil.** The Bloomberg Commodity Index suffered another negative quarter (-5.9%) thanks to weakness across all but a few constituents. Much of the pain was attributable to the sharp rise in the dollar. After a brief reprieve in February, oil resumed its downtrend.

Please note: All return figures are as of March 31, 2015, 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.

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.

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

1 Q1 2015 AT A GLANCE

	Q1 2015
GDP*	2.2%
S&P 500 Index	1.0%
Barclay's Aggregate Bond Index	1.6%
Bloomberg Commodity Index	-5.9%

Source: LPL Financial Research, Bloomberg, FactSet 03/31/15

*Bloomberg consensus as of April 2, 2015.

Figures for S&P 500, Barclays Aggregate Bond Index, and Bloomberg Commodity Index are total returns from 1/1/15–3/31/15.

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.

- **Bonds keep their own winning streak intact.** The first quarter of 2015 marked the fifth consecutive quarterly gain for the Barclays U.S. Aggregate Bond Index, which returned 1.6%. Communications from the Federal Reserve (Fed) suggested the central bank was moving closer to its first interest rate hike, currently projected in late 2015 or early 2016 by the futures market. Conversely, U.S. economic data disappointed for most of the quarter, giving fixed income investors a confusing dose of countervailing forces.

- **Alternatives saw broad-based returns.** The first quarter of 2015 saw broad gains across all major strategies, as opposed to the prior quarter when the alternative investment indexes were narrowly led by macro-related strategies, helped by trends in the U.S. dollar, energy commodities, and fixed income.

A LOOK FORWARD

We expect the U.S. economy will expand at a rate of 3% or slightly higher in 2015, matching the average growth rate over the past 50 years, based on contributions from consumer spending, business capital spending, and housing. That economic growth forecast, along with earnings gains, benign global monetary policy, and a favorable policy climate in Washington, should support mid- to high-single-digit returns for stocks in 2015. We see little, if any, growth potential for bonds in 2015 due to the U.S. economic expansion and the Fed's impending interest rates hikes.

For more insight into our forecasts, please see our *Outlook 2015: In Transit.*

ANOTHER CHALLENGING FIRST QUARTER FOR U.S. ECONOMY

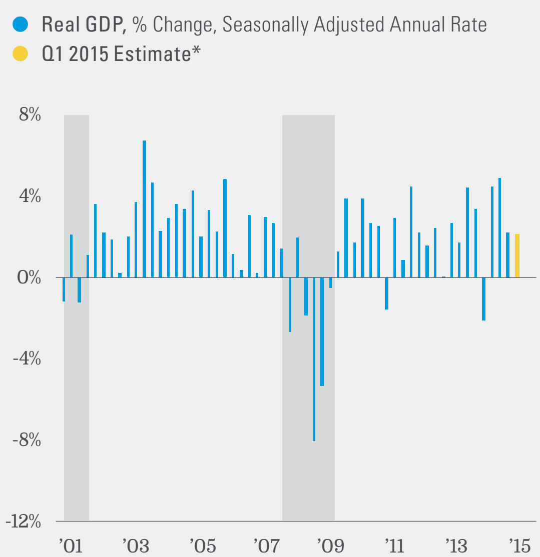
The U.S. economy had to negotiate several hurdles in the first quarter of 2015, which made it feel similar to the first quarter of 2014, when severe winter weather hampered economic activity. Weather was also a factor in the first quarter of this year, although less so than in 2014. But a West Coast port strike and the impact of a strong dollar on exports also hindered economic activity, while lower capital expenditures by the oil industry have affected manufacturing data. While the quarter's data make it more likely that gross domestic product (GDP) growth may run at or below Q4 2014's 2.2%, rather than approach 2014's stronger midyear growth [Figure 2], the Institute for Supply Management's (ISM) surveys of manufacturing and non-manufacturing activity remained in expansionary territory throughout the quarter, and leading economic indicators remain robust.

Job Market Continues to Heal, Although Wage Growth Remains Restrained

The job market was a bright spot in a lackluster quarter of economic data. The U.S. economy created an average of nearly 275,000 jobs per month in the 12 months ending in February 2015, exceeding 200,000 in each of those months — the longest streak in 20 years. Behind the headline numbers, however, some concerns remain. The participation rate (percent of working age persons working or seeking work) remains low, while real (inflation adjusted) wage growth has only seen modest acceleration.

Job growth, lower gas prices, and lower prices on imported goods due to the strong dollar have all been beneficial to the consumer. The University of Michigan Consumer Sentiment Index ended the quarter at 93, above its long-term average during expansions. However, a stronger consumer has not fed through to increased spending, as retail sales posted a month-over-month decline in February

2 **U.S. ECONOMY HIT A BIT OF A SOFT PATCH**

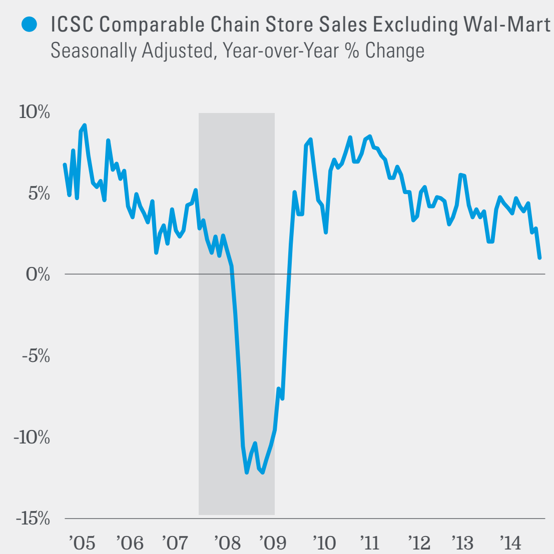


Source: LPL Research, Haver Analytics 03/31/15

Shaded areas indicate recession.

*Reflects Q1 2015 Bloomberg-tracked consensus of economic forecasters at 2.2%.

3 **WEATHER LIKELY A FACTOR IN THIRD CONSECUTIVE MONTH OF DECLINES IN RETAIL SPENDING**



Source: LPL Research, ICSC, Haver Analytics 03/31/15

Shaded areas indicate recession.

The International Council of Shopping Centers (ICSC) is a global trade association of the shopping center industry.

2015 for the third month in a row, with weather likely playing a strong role [Figure 3]. On the other hand, the personal savings rate in January and February 2015 rose to levels not seen since December 2012, a negative for consumer spending that may benefit the longer-term health of the economy.

Non-Manufacturing Activity Holds Steady; Manufacturing Activity Weakens

The ISM Manufacturing Purchasing Managers' Index (PMI) slipped for the fourth consecutive month in February 2015, but still remained in expansionary territory. Although manufacturing is only estimated to directly account for 12% of U.S. economic output, according to Bureau of Economic Analysis (BEA) estimates, it is often viewed as a bellwether for overall economic activity. The ISM Non-Manufacturing Index, by contrast, expanded in February. Markit's "flash" manufacturing and services PMIs, which take place prior to the conclusion of the month they are measuring, both topped expectations and accelerated in March, potentially providing an early sign that, like last year, some factors restraining growth may be temporary.

International Developed Markets: Some Signs That Europe May Be Turning a Corner

On January 22, 2015, the European Central Bank (ECB) announced it would make its formal foray into purchasing sovereign debt of Eurozone member countries, also known as quantitative easing (QE). Actual purchases began on March 9, 2015. The Eurozone seemed to get a little lift from the combination of central bank support, cheaper oil, and a weak euro, which boosted export prospects. Based on its Composite Leading Indicator (CLI), the Organisation of Economic Co-Operation and Development (OECD) upgraded the Eurozone to "positive change in growth momentum" in March 2015. In addition, the Eurozone continued to muddle through a response to Greece's new government's efforts to renegotiate its bailout terms, although many challenges remain. In March, the Japanese government raised its assessment of its economy for the first time in eight months, emphasizing improved industrial output, corporate profits, and business sentiments. Private spending, however, remains weak.

Emerging Markets: China's Central Bank Aims for Balancing Act as Economic Growth Slows

China's central bank surprised markets in late February by lowering a key interest rate, and in early March announced it had lowered its growth target for 2015 to 7% after growing 7.4% in 2014. China continues to try to balance growth against implementing needed structural reforms and reining in credit growth. India's government also continues to try to implement growth-friendly reforms, but progress remains challenging for the world's largest democracy. Growth prospects remain bleaker in emerging markets more dependent on commodity exports.

A Brief Look Ahead: Leading Indicators Point to Low Probability of Recession

The Index of Leading Economic Indicators (LEI)—compiled by the Conference Board, a private sector think tank—is comprised of 10 primarily fundamental economic indicators designed to predict the future path of the economy. When the year-over-year rate of change in the LEI turns negative, a recession has historically followed in anywhere from 0 to 14 months. The year-over-year increase in the LEI of 6.2% in February 2014, supported by better economic growth and improving business and investor confidence, suggests a low probability of recession in the near term. Three months after each of the 184 months that the LEI increased 6.2% or more (the 662-month series goes back to 1960), the economy was never in recession. Six months after the LEI was up by 6.2% or more on a year-over-year basis, the U.S. economy has been in recession in just 2 of the 184 months, or 1% of the time. Looking out 12 months after the LEI was up 6.2% or more, the economy was in recession in just 8 of the 184 months, or 4% of the time. Based on this relationship, the odds of a recession within the next 18 months and 2 years increase to between 10% and 15% [Figure 4].

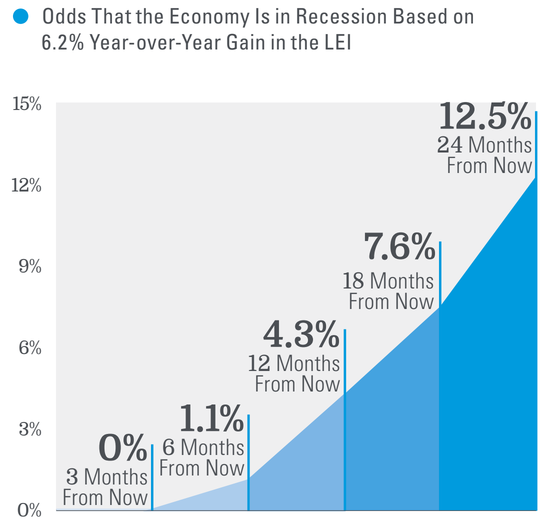
STOCKS EKED OUT NINTH STRAIGHT POSITIVE QUARTER

The S&P 500 produced its ninth straight positive quarter during the first quarter of 2015 with a 1.0% total return, the longest such streak since 1998. The gains to start the year helped the current bull market reach its sixth birthday on March 9, 2015, only the third bull market to reach that age since World War II. Not to be outdone, the Nasdaq Composite also hit a milestone during the quarter, returning to the 5000 level on March 9, 2015, for the first time in 15 years. The Nasdaq also registered its first nine quarter winning streak.

The path to first quarter gains was far from a straight line with the S&P 500 down 3.0% in January, up 5.7% in February, and then down 1.6% in March [Figure 5]. Weakness early in the year was attributable primarily to worries about the impact of the sharp drop in oil on capital spending and earnings, and the drag on U.S. exports and multinational profits from the strength in the U.S. dollar. Meanwhile, concerns surrounding a potential exit from the Eurozone after the Greek election and heightened geopolitical risk in the Middle East and Russia also contributed to some early-year market jitters.

February offered a much better stock market environment. The market appeared to gain confidence that the dip in economic growth and earnings was likely temporary, and that the benefits of lower oil prices overall would outweigh the costs, despite the negative impact on economic conditions in big oil-producing regions of the United

4 LEADING ECONOMIC INDEX CONTINUES TO SUGGEST LOW ODDS OF RECESSION IN NEXT TWO YEARS



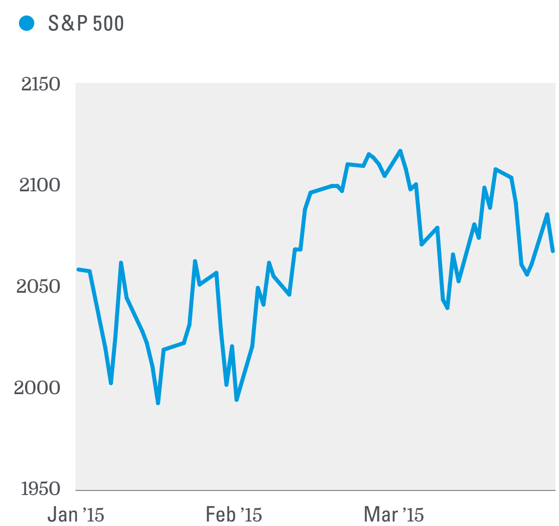
Source: LPL Research, Conference Board, Bureau of Economic Analysis 03/31/15

Shaded areas indicate recession.

Past economic performance is not a guarantee of future results.

The Index of Leading Economic Indicators (LEI) is an economic variable, such as private-sector wages, that tends to show the direction of future economic activity.

5 PATH TO FIRST QUARTER GAINS FAR FROM A STRAIGHT LINE



Source: LPL Financial Research, FactSet 03/31/15

The S&P 500 Index is an unmanaged index, which cannot be invested into directly. Past performance is no guarantee of future results.

States. Meanwhile, dovish comments from the Fed and lowered economic growth expectations helped push the market's expectations for an initial Fed rate hike later into 2015, which helped stocks move higher despite weaker growth. Overseas, the ECB's QE program announced in late January, better European economic data, Greece's four-month extension of its bailout terms in February, and prospects for more stimulus from the Chinese government all helped buoy investor sentiment.

The early-quarter concerns seemed to drive the small loss in March. Economic data continued to show slower U.S. economic growth. The impending probable year-over-year drop in first quarter 2015 S&P 500 earnings garnered more media and investor attention as the quarter came to an end. Oil continued to stumble, while few signs emerged that the U.S. dollar's run might come to an end.

6 **HEALTHCARE AND CONSUMER DISCRETIONARY TOPPED Q1 2015 SECTOR RANKINGS; ENERGY AND UTILITIES STRUGGLED**

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

Sector	Q1 2015
Healthcare	6.5%
Consumer Discretionary	4.8%
Telecom	1.5%
Consumer Staples	1.0%
Materials	1.0%
S&P 500	1.0%
Technology	0.6%
Industrials	-0.9%
Financials	-2.1%
Energy	-2.9%
Utilities	-5.2%

Source: LPL Research, FactSet 03/31/15

The 10 S&P 500 Global Industry Classification Standards (GICS) indexes are unmananged 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 asset classes are represented by the 10 S&P 500 Global Industry Classification Standard (GICS) indexes.

Cyclical sectors are economically sensitive and typically have stronger performance as economic and market conditions improve.

Defensive sectors typically are less economically sensitive and tend to perform relatively better in more challenging economic and market environments.

Consumer Discretionary Rides Lower Gas Prices

The top sector performers of the first quarter, healthcare and consumer discretionary, benefited from a healthy consumer spending environment and continued strong demand for healthcare products and services. For consumer discretionary, retailers and automakers benefited from lower gas prices while housing data improved. The healthcare sector continues to gain support from favorable drug development trends, merger activity, and more insured patients under the Affordable Care Act (ACA).

Energy remained a big story in early 2015, as the sector lost about 3% due to further declines in oil prices amid an ongoing global supply glut. Energy sector weakness weighed on master limited partnerships (MLP), which were also hurt by their interest rate sensitivity in February, when the yield on the 10-year Treasury jumped. Rising interest rates in February also hurt utilities, which suffered the biggest loss among S&P sectors during the first quarter [Figure 6].

Although interest rates rose sharply in February, they still ended up falling over the entire quarter and remained historically low, providing a very difficult profit environment for financials. The low interest rate environment did help real estate investment trusts (REIT), however, as the NAREIT REIT Index generated a 4.0% return during the quarter despite February losses.

Investing in real estate/REITs involves special risks such as potential illiquidity and may not be suitable for all investors. There is no assurance that the investment objectives of this program will be attained.

Strong Start to 2015 for Small Caps

After struggling to keep up with large caps throughout most of 2014, small caps (represented by the Russell 2000 Index) continued their strong late-2014 run in early 2015 with a solid 4.3% return [Figure 7]. Smaller cap valuations became relatively more attractive late in 2014, while the strong U.S. dollar added to their relative attractiveness, because overall they generate more of their revenue inside the U.S. Small cap performance was best for the financials, healthcare, and technology sectors, while the asset class also benefited from a relative low energy sector weighting.

Growth Continued to Outpace Value

Growth strongly outpaced value during the first quarter, based on the Russell 3000 Growth and Value Indexes, which returned 4.1% and -0.5%, respectively [Figure 7]. Growth benefited from greater exposure to consumer discretionary and healthcare, and less to energy, financials, and utilities. Small cap strength was broad based as 9 of the 10 Russell 2000 sectors beat their larger cap Russell 1000 counterparts during the quarter.

European Markets Bounced Back on Back of Stimulus

After trailing the U.S. stock market significantly during 2014, developed foreign markets rebounded strongly during the first quarter and outperformed the U.S. market. The MSCI EAFE Index returned 5.0% during the quarter despite the negative impact on foreign returns related to the increase in the U.S. dollar [Figure 7]. Central bank stimulus was a big driver, as Europe launched—and Japan continued—its QE program, pushing interest rates and currencies lower. Weakness in the euro and yen made European and Japanese exports more attractive and reduced the risks associated with deflation (a sustained period of falling prices and wages that can hurt economic activity by delaying spending and investment). Weakness in these foreign currencies resulted in improved economic data overseas, particularly in Europe, which along with attractive relative valuations, led to improved investment performance.

Growth-oriented funds may underperform when value investing is in favor, and growth stocks may be more volatile than other stocks because they are more sensitive to investor perceptions of the issuing company's growth of earnings potential.

Value investments can perform differently from the market as a whole. They can remain undervalued by the market for long periods of time.

EM Equities Struggled to Keep up With Developed Foreign Despite China Strength

Emerging markets (EM) staged a similar rebound during the first quarter after trailing the U.S. stock market significantly during 2014, with the MSCI EM Index returning 2.3% during the first quarter [Figure 7]. Central banks were a factor for EM, as slower growth in China led to stimulus from the Chinese central bank, while speculation remained—as of quarter end—that more monetary or fiscal stimulus may be on the way. China's stock exchange tie-in with Hong Kong likely also helped drive strong gains in China, the biggest country weighting in the MSCI Index, and potentially Hong Kong too. More broadly, many EM countries benefited from cheaper oil, particularly in the oil-importing countries in Asia. Despite depressed oil prices, the energy-heavy Russian market produced double-digit gains during the quarter and, along with Hungary, Hong Kong, and the Philippines, was one of the best performing country markets in the MSCI EM Index.

7 INTERNATIONAL LED THE WAY IN Q1 2015

Ranked by First Quarter Returns

Asset Class	Q1 2015
Developed Foreign	5.0%
U.S. Small Cap	4.3%
U.S. All Cap Growth	4.1%
U.S. Mid Cap	4.0%
Emerging Markets	2.3%
U.S. Large Cap	1.6%
U.S. All Cap Value	-0.5%

Source: LPL Research, FactSet 03/31/15

Based on Russell 1000, Russell 3000 Growth and Value Indexes, Russell 2000, Russell Mid Cap Index MSCI EAFE, MSCI Emerging Markets Index

Total returns from 1/1/15–3/31/15.

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.

COMMODITIES' DECLINE CONTINUED

The Bloomberg Commodity Index suffered another negative quarter (-5.9%) thanks to weakness across all but a few constituents. Much of the pain was attributable to the sharp rise in the dollar (+8.9% in Q1). Since most commodities are priced in dollars, they typically weaken when the purchasing power of the dollar is on the rise.

After a brief reprieve in February, energy, particularly Brent (-12.3%), the European benchmark for crude oil, and West Texas Intermediate (-7.8%), the domestic benchmark, resumed their respective downtrends. Geopolitical unrest in Yemen near the Saudi border pushed WTI crude above $50 for a few days; however, gains were short lived amid ongoing Iran nuclear negotiations that raised the potential for more oil to hit the already oversupplied global market [Figure 8].

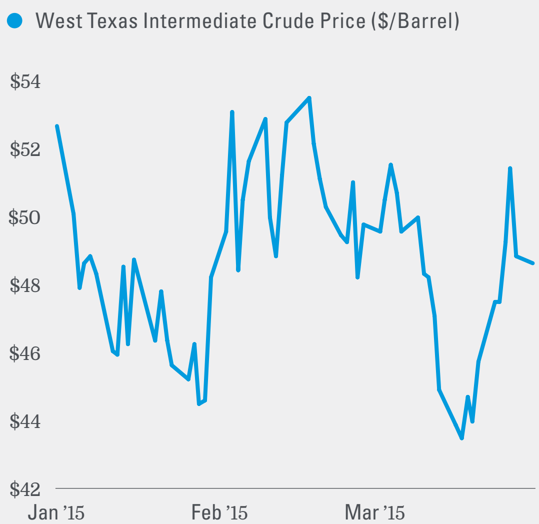
Agricultural components struggled mightily after a strong showing in the fourth quarter of 2014, thanks to renewed oversupply concerns. Wheat futures, which tumbled more than 14% back in January thanks to surprisingly weak U.S. export data, could not recover thanks, in part, to record exports from Ukraine. Elsewhere, coffee (-21.6%) and sugar (-17.6%) also dropped on oversupply concerns.

Industrial metals closed the quarter in negative territory, led lower by nickel (-18.5%). A Chinese inventory glut appeared to have spooked investors, who reduced net long positions meaningfully during the quarter. This is a stark reversal from 2014, when an Indonesian export ban went into effect. Gold finished the quarter effectively flat [Figure 9], but rose 12% in the quarter in euro terms.

MLPs were effectively flat coming into March, but with no earnings reports to calm investors, renewed weakness in energy commodities brought another wave of selling while secondary share issuances and several distribution cuts also weighed on the group. On the bright side, most distribution cuts came from variable distribution MLPs that are structurally more exposed to commodity prices.

Investing in MLPs involves additional risks as compared with the risks of investing in common stock, including risks related to cash flow, dilution, and voting rights. MLPs may trade less frequently than larger companies due to their smaller capitalizations, which may result in erratic price movement or difficulty in buying or selling. MLPs are subject to significant regulation and may be adversely affected by changes in the regulatory environment, including the risk that an MLP could lose its tax status as a partnership. Additional management fees and other expenses are associated with investing in MLP funds.

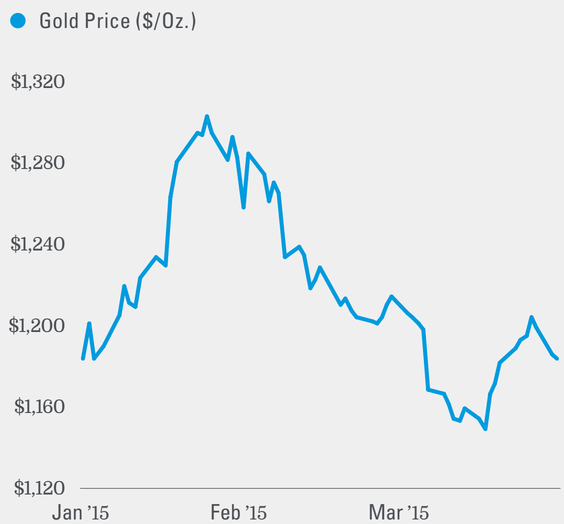
8 SUPPLY GLUT, IRAN NEGOTIATIONS WEIGH ON OIL



Source: LPL Research, FactSet 03/31/15

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

9 GOLD FINISHED THE QUARTER EFFECTIVELY FLAT



Source: LPL Research, FactSet 03/31/15

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

Precious metal investing is subject to substantial fluctuation and potential for loss.

FIXED INCOME – TAXABLE: FIRST QUARTER'S CONUNDRUM SUPPORTS LOWER FOR LONGER

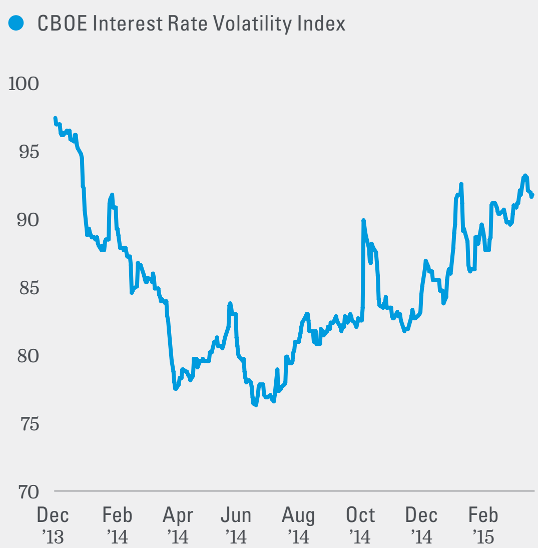
The first quarter of 2015 marked the fifth consecutive quarterly gain for the Barclays U.S. Aggregate Bond Index, which returned 1.6%. The quarter itself was marked by interest rate volatility. The CBOE Interest Rate Volatility Index, a measure of bond market volatility, rose to levels not seen in a year [Figure 10]. The increase in volatility reflected several cross currents. Communications from the Fed suggested the central bank was moving closer to its first interest rate hike, currently projected in late 2015 or early 2016 by the futures market. Conversely, recent U.S. economic data have disappointed, giving fixed income investors a confusing dose of countervailing forces.

Concurrent with increased volatility, yields outside the U.S. continued to fall with the sovereign debt of most European nations and Japan well below Treasury yields in the U.S., driving greater demand for U.S. Treasuries among international investors. The result was a flatter yield curve with rates for U.S. Treasury notes and bonds falling between 11 and 28 basis points in the quarter (0.11% and 0.28%, respectively), with the largest adjustment felt by the 5-year portion of the yield curve. The 5-year Treasury note yielded 1.4% at the close of the quarter, down from 1.7% at the start of the quarter. The 10-year Treasury note finished the quarter down by a similar amount, to end the quarter at a yield of 1.9% [Figure 11]. This activity was the primary driver of fixed income performance in the first quarter.

Solid Investment-Grade Corporate Performance

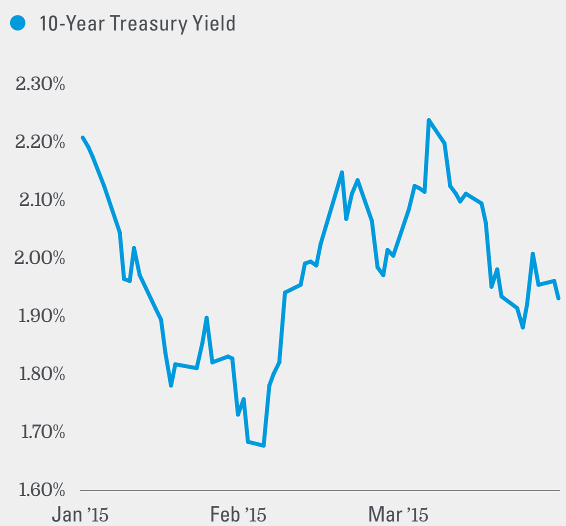
Investors that opted to invest in investment-grade corporate bonds realized better performance, with the Barclays Corporate Investment Grade Index up 2.3% during the quarter, reflecting both its slightly greater duration (a measure of interest rate risk) and income, as compared to the Barclays Aggregate Bond Index. Mortgage-backed securities (MBS) lagged the Barclays Aggregate, as lower

10 Q1 2015 MARKED BY INTEREST RATE VOLATILITY



Source: LPL Research, Bloomberg 03/31/15

11 INCREASED VOLATILITY PULLED YIELDS DOWN IN Q1 2015



Source: LPL Research, FactSet 03/31/15

U.S. rates spurred greater refinance activity among mortgage holders, which ultimately weighed on valuations in the mortgage market [Figure 12].

High-Yield Bounces Back from Energy-Related Weakness

The taxable high-yield bond market and leveraged loan market, based on the Barclays High Yield Bond Index and Barclays High Yield Loans Index, generated returns of 2.5% and 2.3% for the quarter, respectively, outperforming the Barclays Aggregate Bond Index [Figure 12]. Like the interest rate markets, the high-yield bond market experienced bouts of volatility as investors digested the mix of communications from the Fed, mostly disappointing economic data, and perhaps most importantly, continued stress in the energy sector. Despite the potential for more defaults as the industry grapples with $50 oil, energy sector bond prices rallied in the quarter as the market took advantage of attractive valuations. Overall, high-yield bond spreads fell by more than 40 basis points (0.40%), while spreads for energy-related bonds within the high-yield benchmark dropped approximately 60 basis points (0.60%).

Strong U.S. Dollar Weighed Heavily on Developed Foreign Bond Markets

Economic conditions across the globe warranted continued easing activity with 48 central banks electing to ease monetary policy in the first quarter. Most notable was the ECB's announcement of its massive QE bond purchase program. These actions, along with related growth fears, bolstered international fixed income markets as yields fell precipitously, particularly within the Eurozone. Germany, for example, saw its 10-year

12 STRONG FIRST QUARTER FOR CREDIT

Bond Market Performance, Ranked by First Quarter Returns

Sector	Q1 2015
Preferred Securities	2.8%
High-Yield Corporates	2.5%
Bank Loans	2.3%
Foreign Bonds (Hedged)	2.3%
Investment-Grade Corporates	2.2%
Emerging Market Debt	2.1%
U.S. Treasuries	1.6%
Barclays Aggregate	1.6%
TIPS	1.4%
Municipal High-Yield	1.1%
Mortgage-Backed Securities	1.1%
Municipal Bonds	1.0%
Foreign Bonds (Unhedged)	-4.4%

Source: LPL Financial Research, FactSet 03/31/15

The indexes mentioned are unmanaged and you cannot invest 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.

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.

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)

Mortgage-backed securities are subject to credit, default risk, prepayment risk that acts much like call risk when you get your principal back sooner than the stated maturity, extension risk, the opposite of prepayment risk, and interest rate risk.

High-yield spread is the yield differential between the average yield of high-yield bonds and the average yield of comparable maturity Treasury bonds.

Investing in foreign and emerging markets debt securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical and regulatory risk, and risk associated with varying settlement standards.

Currency risk is a form of risk that arises from the change in price of one currency against another. Whenever investors or companies have assets or business operations across national borders, they face currency risk if their positions are not hedged.

Bund fall from a yield of 0.53% to 0.15% over the first quarter. As a result, hedged investors in international developed bonds, as measured by the Citigroup Non-U.S. World Government Bond Index, posted a 2.3% return in euros, or a loss of -4.4% in U.S. dollars if left unhedged.

FIXED INCOME – TAX-FREE: SUPPLY SURGE CAPPED MUNICIPAL BOND RETURNS

Tax-exempt bonds trailed their taxable brethren in the quarter as the Barclays Municipal Bond Index returned 1.0% in the quarter. Tax-exempt yields struggled to follow the taxable markets lower. Relative to the start of the year the municipal yield curve was essentially unchanged to 10 basis points lower (0.10%) as of March 31, 2015. The inability of municipal yields to adjust lower primarily reflected a recent surge in supply. The first three months of 2015 were the busiest of recent memory in terms of new issuance with supply up 60% relative to the same period last year. Concurrent with this stepped up new issuance was a drop in general demand, which usually occurs in the latter half of the first quarter as investors sell municipal bond investments to meet annual tax obligations. High-yield municipal bonds provided a similar return (1.1%) as the Barclays Municipal Bond Index.

Q1 2015 SAW BROAD-BASED ALTERNATIVE RETURNS

While in Q4 2014 alternative investment indexes were narrowly led by macro-related strategies, helped by trends in the U.S. dollar, energy commodities, and fixed income, Q1 2015 saw broad gains across all major strategies.

Discretionary and systematic macro funds again led overall quarterly gains, as many of the previously mentioned trends remained intact; however, the speed at which these markets moved was drastically slower. This was most notable in the U.S. dollar, after its parabolic breakout that began in June 2014 was interrupted on March 18, 2015, by Federal Open Market Committee (FOMC) minutes that indicated interest rates would be held lower for longer. This pullback may have also had the effect of temporarily halting the fall in oil prices, which tend to be negatively correlated with the dollar. Although it's uncertain whether these were just short-term reversals and the prior trends will eventually continue, it does temporarily obstruct what had been rewarding strategies for discretionary and systematic macro managers.

Event driven managers provided a strong quarter of returns as merger and acquisition activity remained robust. Preliminary data from Thomson Reuters indicated that there was more than $843 billion in global merger and acquisition activity during the first quarter, 23.3% higher than deal volume in Q1 2014.

Within distressed debt, the first quarter saw the development of two main themes. First, managers continue to assess ongoing dislocations in the energy sector for potential opportunities. The overall outlook here, however, appears divided: Many strategies are waiting until a more definitive price range materializes for oil, while others have already deployed capital. Further, one of the most attractive risk-reward areas has been buying commercial- and residential-related loans at appealing values from European banks, as they continue to deleverage to restructure their balance sheets. ■

Municipal bonds are subject to availability, price, and to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rate rise. Interest income may be subject to the alternative minimum tax. Federally tax free but other state and local taxes may apply.

Global macro and event driven strategies incorporate sophisticated hedging strategies, are highly speculative, include a high degree of risk, and may not be suitable for all investors.

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.

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.

Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate, and credit risk, as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

Credit risk is the risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. Credit risk arises whenever a borrower is expecting to use future cash flows to pay a current debt. Investors are compensated for assuming credit risk by way of interest payments from the borrower or issuer of a debt obligation. Credit risk is closely tied to the potential return of an investment, the most notable being that the yields on bonds correlate strongly to their perceived credit risk.

Definitions

Default rate is the interest rate charged to a borrower when payments on a revolving line of credit are overdue. This higher rate is applied to outstanding balances in arrears in addition to the regular interest charges for the debt.

Master limited partnership (MLP) is a type of limited partnership that is publicly traded. There are two types of partners in this type of partnership: The limited partner is the personal or group that provides the capital to the MLP and receives periodic income distributions from the MLP's cash flow, whereas the general partner is the party responsible for managing the MLP's affairs and receives compensation that is linked to the performance of the venture.

Global macro strategy is a hedge fund strategy that bases its holdings—such as long and short positions in various equity, fixed income, currency, and futures markets—primarily on overall economic and political views of various countries (macroeconomic principles).

Merger arbitrage is a hedge fund strategy in which the stocks of two merging companies are simultaneously bought and sold to create a riskless profit. A merger arbitrageur looks at the risk that the merger deal with not close on time, or at all. Because of this slightly uncertainty, the target company's stock will typically sell at a discount to the price that the combined company will have when the merger is closed. This discrepancy is the arbitrageur's profit.

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.

The Institute for Supply Management (ISM) Index is based on surveys of more than 300 manufacturing firms by the Institute of Supply Management. The ISM Manufacturing Index monitors employment, production inventories, new orders, and supplier deliveries. A composite diffusion index is created that monitors conditions in national manufacturing based on the data from these surveys.

The Michigan Consumer Sentiment Index (MCSI) is a survey of consumer confidence conducted by the University of Michigan. The MCSI uses telephone surveys to gather information on consumer expectations regarding the overall economy.

Purchasing Managers' Index (PMI) is an indicator of the economic health of the manufacturing sector. The PMI is based on five major indicators: new orders, inventory levels, production, supplier deliveries, and the employment environment.

CBOE's Interest Rate Volatility Index measures expected basis-point volatility in the interest rate swap market. Specifically, the index is based on 1-year/10-year U.S. dollar-denominated swap options (swaptions), which are one of the most actively traded contracts in the $14.5-trillion notional over-the-counter (OTC) U.S. dollar interest rate option market.

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. 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 Long U.S. Treasury Index includes all publicly issued, U.S. Treasury securities that have a remaining maturity of 10 or more years, 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, fixed rate, and nonconvertible.

The Barclays Intermediate U.S. Treasury Index includes all publicly issued, U.S. Treasury securities that have a remaining maturity of greater than or equal to 1 year and less than 10 years, 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, fixed rate, and nonconvertible.

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 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 3000 Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

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 NASDAQ Composite Index measures all NASDAQ domestic and non-U.S.-based common stocks listed on the NASDAQ stock market. The index is market-value weighted. This means that each company's security affects the index in proportion to its market value. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index. It is not possible to invest directly in an index.

The FTSE NAREIT U.S. Real Estate Index Series is designed to present investors with a comprehensive family of REIT performance indexes that spans the commercial real estate space across the U.S. economy. The index series provides investors with exposure to all investment and property sectors. In addition, the more narrowly focused property sector and subsector indexes provide the facility to concentrate commercial real estate exposure in more selected markets.

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 Barlcays 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 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.

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