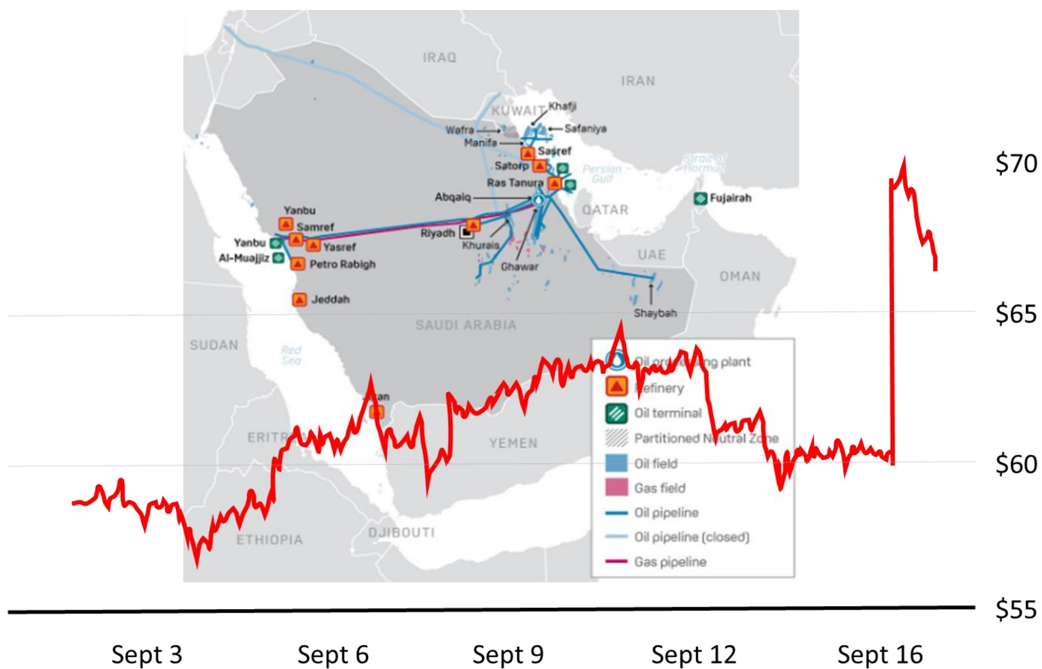
VIEW CAPITAL
ADVISORS, LLC

Quarterly Review and Strategy Update

September 30, 2019

Saudi Arabian oil infrastructre and the September surge in oil prices



Source: SP Global Platts, Bloomberg

- **The attack on the Abqaiq oil prcessing facility in Saudi Arabia a reminder of global political tensions, from the Middle East to Hong Kong**
- **The Federal Reserve reluctantly begins interest rate cut cycle in response to weak economic data**
- **Equity markets have stalled, while bond markets have become even more pessimistic, highlighting the need for investors to be defensive**

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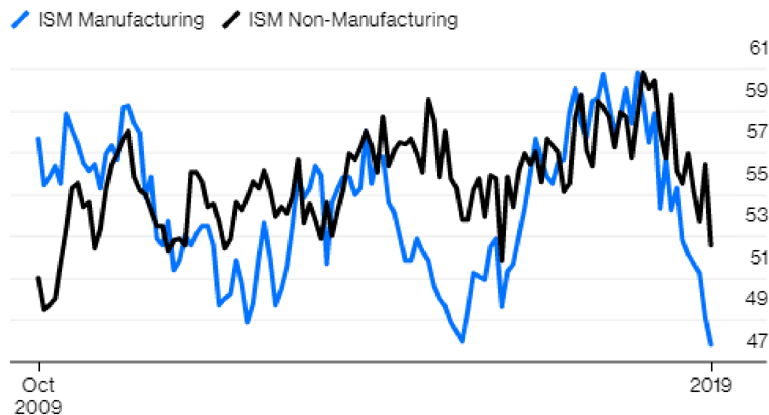
THE ECONOMIC ENVIRONMENT

Institute for Supply Management Indicators



Source: Bloomberg, ISM

- **Manufacturing weakness around the world depresses growth**
- **Federal Reserve reluctantly begins to cut interest rates following global central bank peers**
- **Europe may have reached limits of monetary policy; need to consider fiscal options**

While the prospects of a recession are still remote, the U.S. economic growth is faltering. The Atlanta Fed's GDPNow forecast points to growth of just 1.8% for the third quarter, following a 2% increase in the second and 3.1% in the first. The Institute for Supply Management's ("ISM") September report showed manufacturing activity declining to a 10-year low, and even its Non-Manufacturing Index, measuring growth in the service sector, declined 3.8% below its August reading.

The economy has been propped up by robust consumer spending, which in turn has been driven by the strong labor market. However, there are ominous signs that the employment picture may be deteriorating. Non-farm payrolls rose by a measly 136,000 in September following an upwardly revised 168,000 in August and 166,000 in July, bringing down the average for the year to 161,000, well below the average monthly gain of 223,000 jobs during 2018. With the unemployment level down to a 50-year low of 3.5% and fewer idle workers who can be lured back into the labor market (the labor force participation rate was more or less unchanged at 63%), it is unlikely that job creation can expand significantly going forward. Employment is also a lagging indicator of business conditions (employers don't immediately lay off workers in the face of lost orders or declining margins), so we may see worse numbers if the ISM manufacturing and service data are accurately reflecting the path of the economy. Moreover, despite the tight labor market, average hourly wages have increased by only 2.9% over the past 12 months, suggesting that employers have kept a tight lid on costs – and consumer appetite for spending may wane if confidence starts to deteriorate.

Indeed, the Michigan Consumer Sentiment survey shows that consumers have been expressing rising levels of anxiety, caused by political partisanship, global events (Brexit, Iran, Saudi Arabia, China), and above all the trade war. A near record one-third of all consumers mentioned trade policies when asked to explain in their own words the factors underlying their economic expectations.

The trade war has unquestionably damaged business confidence and corporate capital expenditure. U.S. business optimism dropped last quarter to its lowest level in three years, according to the Duke University CFO Survey, the world's longest-running research on the views of senior finance executives. By a factor of five to one, the executives surveyed expressed pessimism about the future, and a majority expect a recession to start before the presidential election. "Executives don't want to be caught unprepared for the next recession like they were in the global financial crisis," notes John Graham, a finance professor at Duke University's Fuqua School of Business, "There are plenty of warning signs and now is the time to be prudent. Who wants to put their firm at risk by increasing borrowing to fund a major new project when a recession could be on the horizon? It is no surprise that capital expenditures have dried up. For the first time in a decade, no region of the world appears to be on solid enough economic footing to be the engine that pulls the global economy upward. Trade wars and broad economic uncertainty are hurting economic outlooks worldwide."

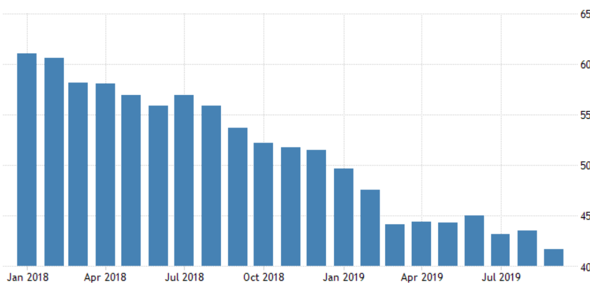
Faced with such concerns, the Federal Reserve voted to cut policy rates by a quarter percentage point to a range between 2% and 2.25% in July, followed by an additional quarter point in September. Fed chair Powell suggested that the steps were merely precautionary measures providing "insurance against ongoing risks", or as the Fed minutes described, a "mid-cycle adjustment", rather than the start of a progression of cuts needed to quench the fires of an imminent recession. The bond markets, however, clearly believes otherwise, pricing in another cut in December followed by several more next year and pushing market rates to unprecedented levels. The equity markets, on the other hand, continues to show optimism, displaying a "bad news is good news" attitude, or the hope that poor economic data will indeed compel the Fed to lower rates further.

The equity market is also holding out hope for a trade deal with China. President Trump had imposed a new 15% tariff on more than $100 billion worth of Chinese imports, many of them consumer goods, at the start of September, with plans for an increase in the existing 25% tariff on $250 billion in Chinese products rising to 30% in October. Moreover, Trump has escalated the conflict by adding 5 Chinese technology companies to the Commerce Department's list of companies restricted from buying American technology, and has even suggested limiting the ability of Chinese companies to raise capital in the U.S. and prohibiting American pension funds from investing in Chinese stocks. However, last week's meetings between Chinese Vice-Premier Liu and senior administration officials indicated that a truce is imminent. While tariffs may be reduced or postponed in exchange for Chinese promises to buy more agricultural goods, it is almost certain that the key issues of forced technology transfer, intellectual property rights, China's subsidies for state owned enterprises and its strategic industrial polices will be off the table. A superficial deal may be enough for the equity markets to resume its climb.

The Global Economy

While the trade war is certainly putting stresses on the Chinese economy, it is also impacting its principal trading partners, most notably Germany, which is expected to fall into a recession in the third quarter after contracting in the second.

German Manufacturing PMI



Source: Trading Economics

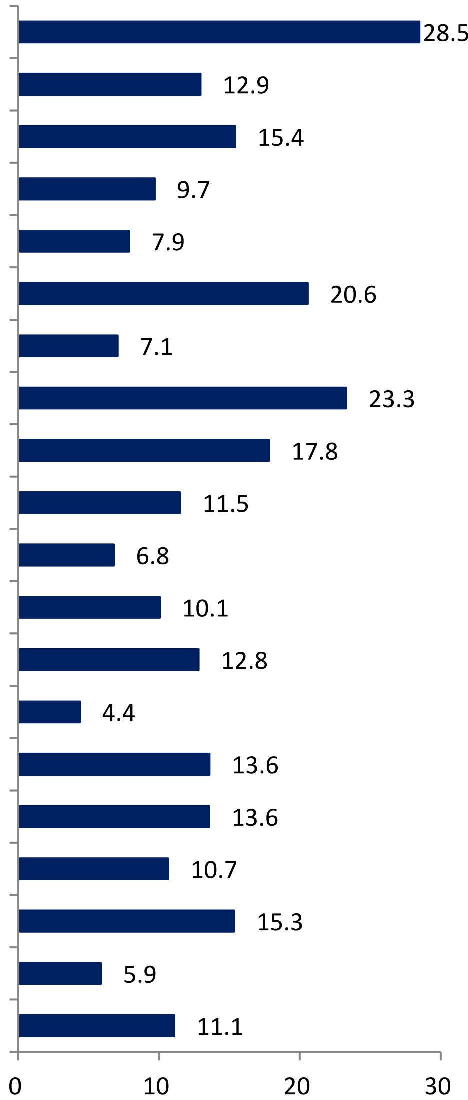
The downturn in Europe's largest economy has been led by its manufacturing sector, which is heavily dependent on exports and has been hit by weakening demand from China and uncertainty over Brexit. The German Purchasing Managers Index has been declining steadily since the start of last year, reflecting contraction in both exports and the auto sector, and collapsed sharply in September to its lowest level in a decade. Overall Eurozone growth has been frail, registering only 0.2% growth in the second quarter, slowing from a 0.4% in the previous period. The Trump administration's imposition of tariffs on European aircraft, food and agricultural products starting October 18, following the World Trade Organization's decision to allow the United States permission to tax as much as $7.5 billion of European exports in response to Airbus subsidies, will no doubt provoke retaliatory action and further crimp trade flows.

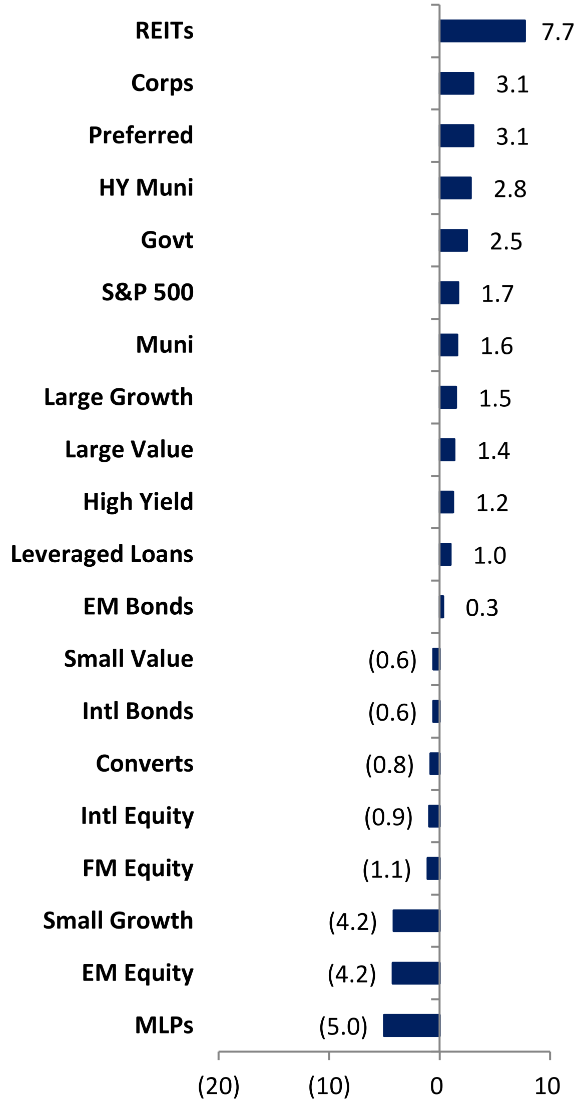
In September the European Central Bank launched a package of actions to stimulate the region's economy. In Mario Draghi's parting moves the ECB cut the deposit rate by 10 basis points to minus 0.50% and alleviated the burden on banks that had been charged negative interest rates on their deposits with the central bank. It also committed not to raise rates until inflation rose towards its 2% target and to resume an open-ended Quantitative Easing program in November, buying €20 billion of debt. There is however widespread skepticism that such monetary policies alone can revive the European economy. Negative interest rates may have boosted financial asset prices but has not led to business investment or consumer spending. There are now more insistent calls for fiscal solutions, including greater government spending and tax cuts. Germany's obsession with a balanced budget and the constraints imposed by the European Community's "Stability and Growth Pact", which limits its member states' ability to borrow above designated limits to pursue expansionary policies, may have to be addressed if the area is to break out of stagnation.

Finally, the devastating drone attack on the Abqaiq oil prcessing facility in Saudi Arabia intensified concerns about growing instability in the region. Iran-backed Houthi rebels in Yemen claimed credit for the attack, but President Trump and Secretary of State Mike Pompeo blamed Iran. State-run producer Saudi Aramco lost about 5.7 million barrels a day of output as a result, or 5% of global production, propelling Brent futures by a record $12 to $69 a barrel, in the biggest one-day percentage spike since the contract began trading in 1988. Prices, however, stabilized quickly, demonstrating that while events in the Middle East trigger volatility, the role of the U.S. as the world's dominant producer has forever changed the dynamics of the oil market.

3rd QUARTER 2019 PERFORMANCE OF MAJOR ASSET CLASSES

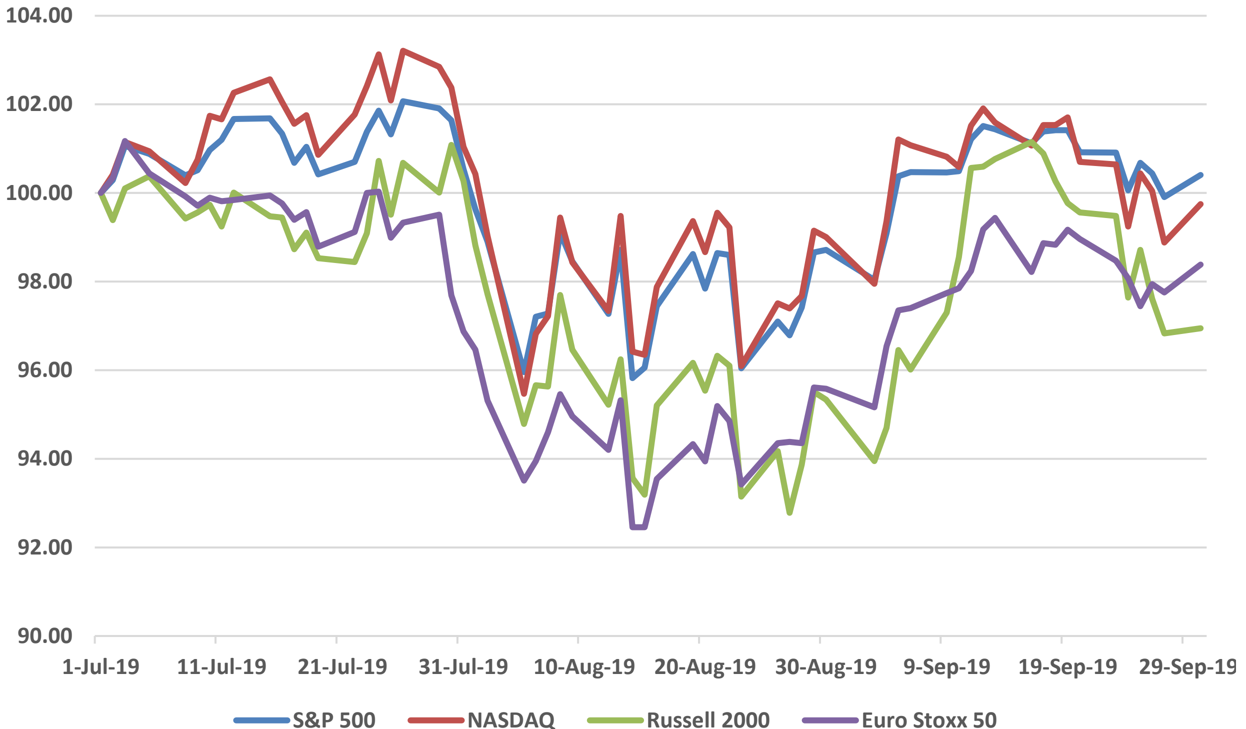
Numbers represent percentage change





EQUITIES

3rd Quarter Equity Market Performance



Source: Bloomberg

U.S. Equities

The U.S. equity markets ran out of steam in the third quarter, weighed down by the unresolved trade war, the attacks on Saudi Arabian oil facilities in September and the prospects of impending impeachment proceedings against President Trump. The S&P 500 index returned just 1.7% for the quarter, the NASDAQ was down 0.9% and the Russell 2000 also down 2.7%. All three indices, however, have generated impressive returns so far this year – both the S&P 500 and the Nasdaq are up over 20% year-to-date, while the Russell 2000 is up 14%.

Investors are relying too much on the Federal Reserve and continued interest rate cuts to support valuations. Ultimately the market cannot continue to rise without earnings growth. According to Factset, third quarter earnings for companies in the S&P 500 index are expected to report a year-over-year decline of -4.1%., marking the first time the index has reported three straight quarters of year-over-year earnings declines since 2016. If earnings continue to fizzle the market - based on Price/Earnings multiples (currently18 times and not much above long term historical averages) - may begin to look expensive.

While the stock market traded within a narrow range during the quarter with volatility stable at just under 16 on the VIX index, there was a stunning upheaval beneath the surface with an aggressive rotation out of momentum stocks into hitherto neglected value stocks. Over 3 days in mid-September momentum stocks dropped by as much as 10%, while value stocks rallied 7%, in one of the sharpest factor reversals in 30 years. Many investors, and even some finance professionals, confuse the momentum and growth factors, so it is worth highlighting the difference: Momentum stocks are those that have seen the largest stock price gains in the recent past, regardless of earnings growth, valuations, balance sheet quality, or sensitivity to the to the market – just those that have appreciated, let's say, over the previous 3 to 12 months. Growth stocks, on the other hand, are those expected to generate high earnings growth. While growth stocks such as Amazon, Microsoft and Salesforce have indeed shown significant price momentum over the past few years, so have low-volatility stocks like MasterCard (a cyclical financial) and Proctor and Gamble (a defensive consumer staple), as investors have de-risked their portfolios in anticipation of an economic slowdown.

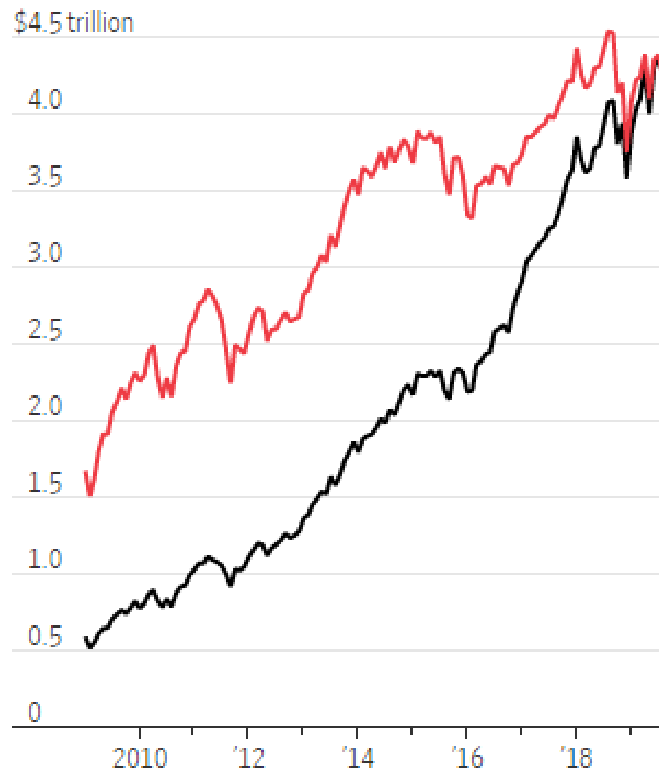
This type of reversal within the stock market – for example the shift from Dotcom bubble stocks into old-fashioned industrials in 2000 to 2002, or the "quant quake" in August 2007 which saw a major reversal of growth and value stocks – is often a harbinger of shifts in financial markets. The rally in value stocks represented a statistically unprecedented 5-standard deviation ("Black Swan") event and may indicate a longer-term repositioning of equity portfolios by institutional investors. While it may be too early to argue that value investing has made a comeback, the rotation is a reminder of the need for investors to scrutinize their portfolios to make sure that unbalanced market cap, geography and risk factor exposures have developed.

In another significant milestone in the equity market, Morningstar reported that equity index funds hit $4.27 trillion in assets at the end of August, surpassing the $4.25 trillion in actively managed funds. Over the past 10 years funds managed by stock pickers have seen $1.3 trillion in outflows while their passive counterparts, dominated by BlackRock, Vanguard and State Street with 80% market share, gained $1.4 trillion in inflows. Recently, "smart beta" or factor-based funds, a subset of passive investing where managers determine index composition not by market capitalization or industry sector but by risk premia factors such as value or low-volatility, have proliferated and attracted significant institutional capital. There is something of an arms race amongst asset management firms to create the next innovative index fund. The boundaries between passive and active investing approaches have become blurred. Proponents of passive investing have traditionally argued that buying and holding index funds, with their low costs, minimal turnover and transparency, offered investors the best approach for

superior performance. It is ironic that asset allocators, who shift portfolios dynamically to generate outperformance, are increasing using the new generation of index funds to trade in and out of exposures, time markets and tactically tilt their exposures to one factor or another. It makes one wonder what Jack Bogle, the founder of Vanguard and a pioneer in passive investing, would be thinking in his grave.

U.S. equity fund assets

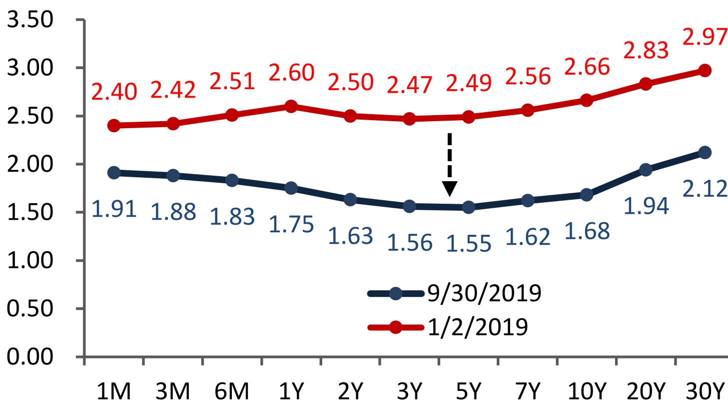
Actively managed funds   Index funds



Source: Morningstar

BONDS

U.S. Treasury Yield Curve



- **Interest rates have declined across the yield curve**
- **Federal Reserve may cut rates again in December**
- **Credit assets traded within a narrow range during the quarter, and concerns grow about more systemic weakness in corporate credit**

Source: Bloomberg

U.S. Treasuries

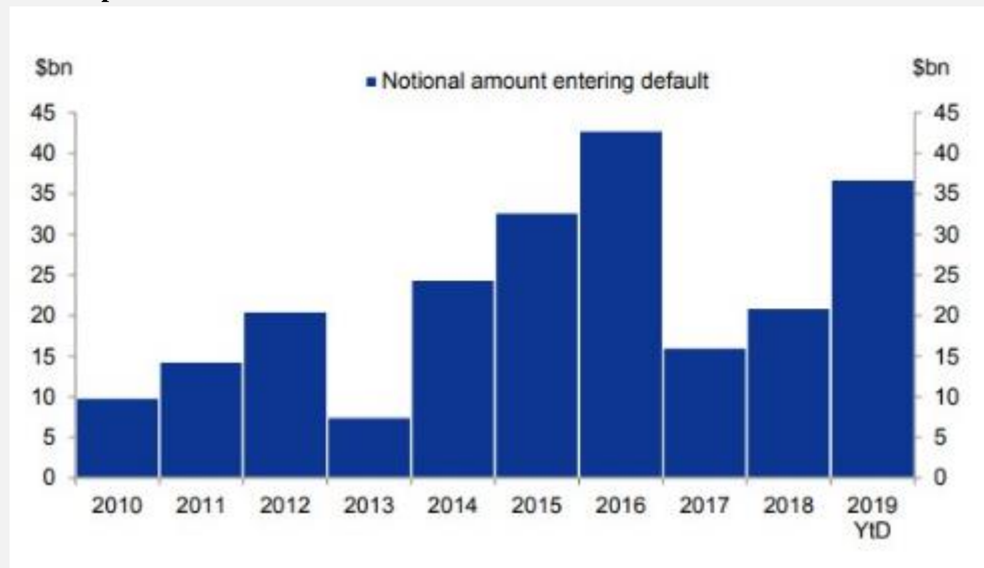
The Federal Reserve cut its benchmark interest rates in both July and September to a range of 1.75% to 2%. Over the past 3 months the yield curve has shifted downwards across all maturities. The yield on the 30-year Treasury bond fell to 1.92%, a record low, and the 10-year note yield dropped to 1.45%, approaching the record low of 1.37% set in 2016. Bond investors have continued to fly to the safety of the Treasury market. While global demand for long duration bonds will persist, expectations of sharper declines in yields may be overdone.

Denmark does not come to mind as an obvious source of groundbreaking financial news, but two recent developments in the Nordic country caught the attention of the investment community. In July Jyske Bank, Denmark's third-largest bank, announced that it was offering 10-year mortgages at a rate of negative 0.5%. Homeowners won't receive monthly interest payments from the bank, but their loan principal would be reduced by 0.5% every year. Several other banks followed its lead, and unsurprisingly, the Danish mortgage sector has enjoyed a boom in new loans and refinancing. These banks can still make money on these loans through fees and because they in turn can borrow at even lower negative rates from the market. So even if they get back only €95 for every €100 advanced in the mortgage, they can issue debt at minus 0.6% and pay back €94 to their funding source. So far, banks have taken the brunt of negative interest rates in Europe, but consumers will inevitably begin to feel their impact, whether by being encouraged to borrow more or by being charged explicit fees on their deposits and savings.

While Danish borrowers may be benefiting from negative rates, the country's $440 billion pension system warned that they are creating systemic dangers to pension funds throughout the continent. Pension liabilities are calculated by discounting future obligations to pensioners by an interest rate largely determined by market rates. As interest rates have fallen and turned negative those liabilities have soared – while returns on pension assets have collapsed. The pensions are trapped in a viscous "negative spiral" where they are forced to buy low risk, low yielding bonds to hedge pension obligations, driving yields even lower and the value of liabilities higher. Some funds saddled with legacy policies guaranteeing returns as high as 4.5% have had to eat into their principal to meet obligations. Others have taken more risk by allocating to equities in the hope of generating higher returns. While U.S. pension funds benefitted recently from strong equity and fixed income returns, and still enjoy positive bond yields, they will face similar challenges if rates continue to fall.

Corporate Credit

U.S. corporate bond defaults



Source: Bloomberg, Goldman Sacjhs

During the third quarter, investment grade bond yields tightened slightly while those of riskier below-investment-grade bond widened marginally. Overall, the corporate credit markets do not appear to show concerns about deteriorating credit conditions and are trading at historically low yields. Nevertheless, market analysts have been worried for some time about the potential wave of investment grade bonds becoming "fallen angels" or being downgraded to junk status. There is $3 trillion of debt rated BBB, the lowest investment grade rating; if any of these bonds and loans are downgraded to a junk rating, they may need to be sold by conservative investors like pension funds and insurance companies barred from holding debt from high-yield issuers. In September, Moody's downgraded Ford's credit to junk, cutting its rating one

notch from Baa3, the lowest investment grade rating, to Ba1, the highest rung of the junk bond scale. Moody's cited the carmaker's poor financial performance and the considerable challenges it faces as it embarks on an $11 billion restructuring. "Ford is undertaking this restructuring from a weak position as measures of cash flow and profit margins are below our expectations and below the performance of investment-grade rated auto peers," Moody's said. While the two other major credit rating agencies, Standard & Poor's and Fitch, still maintain investment-grade ratings on the company, Moody's action will not reassure investors who have been selling lower quality debt in anticipation of other issuers falling below investment grade.

Defaults in the bond markets have indeed risen to about 5% compared to the 1.3% low in November 2018, with Pacific Gas and Electric in California and oil field services company Wetherford the two largest bankruptcies so far. The "distress ratio", the proportion of junk bonds that yield more than 10% above Treasuries, jumped to 9% in August from around 6% in July, according to data from S&P Global Ratings, illustrating that more companies are suffering from deteriorating conditions. While high yield bonds have produced mid-teen returns this year their correlation to equities is high. Investors need to watch their exposures if the economy weakens further.

"LIQUIDITY IS THE NEW LEVERAGE"

The arcane mechanics of how commercial banks finance themselves and interact with the Federal Reserve generally do not make the front pages of newspapers. The developments in the bond repurchase markets in September, however, have inspired a deluge of commentary within the financial community and provided another warning sign of structural stresses in the global financial system. The repo, or "sale and repurchase" market, is one where financial institutions obtain financing by selling securities, generally Treasury bills and bonds, in exchange for cash, with a simultaneous commitment to buy them back later. The cost of borrowing money in this way is typically very low, since the terms of the transactions are short (most commonly just overnight) and because the collateral for the loan is the safest and most liquid securities in the world. So, market participants were shocked in mid-September when the repo financing rate shot up to as high as 10%, reflecting a huge demand for short term cash. The Federal Reserve was forced to intervene by injecting hundreds of billions of dollars in emergency repo lines, not just once but repeatedly since September 17th, in operations that are likely to extend to November. When interest rates are at all-time lows, and capital seems abundant, how was this possible?

The conventional explanation was that banks found themselves very short of cash for three reasons: corporate clients drained their checking accounts in order to make quarterly tax payments to the IRS; the banks needed to settle the purchase of $78 billion of newly issued Treasury bills; and finally, the Treasury itself was drawing cash out of the banking system in order to build their own reserves. These explanations defy credibility given that these events were all anticipated. While it has become apparent that the major "prime dealer" banks – those that are obliged to purchase Treasury securities at auction – now hold significant piles of Treasury bills issued to finance the burgeoning Federal deficit, they could have simply sold the securities in the market rather than having to finance them at extortionate rates through the repo market that clearly had an imbalance of collateral relative to cash.

A more credible explanation has been offered by Scott Skyrm, a repo market veteran at Curvature Securities. Skyrm explains that the participants in the repo market – institutions with cash (money market funds, insurance companies, municipalities and banks) and those who hold securities and need to finance them (hedge funds, REITs, broker-dealers) do not transact directly with each other. For example, regulated money market funds, who supply as much as $1.3 trillion of cash to the repo market every day, do not want to take credit risk to a hedge fund, who in any case may not have direct relationships with the institutions that have the cash. So, both sides in the market trade through a counterparty with a high credit rating, such as the large money-center banks like J.P. Morgan and Citibank. These banks intermediate transactions between buyers and sellers, and profit by taking a spread. The problem is that these banks no longer run massive customer-matched repo books as they did before the Global Financial Crisis, as high regulatory charges have deterred them from expanding their balance sheets and engaging in low-margin transactions like repos. The banks' limited market-making capacity therefore leads to unexpected volatility when the system is exposed to even slight imbalances in supply and demand. Skyrm believes the repo market experienced a "bank run". Collateral sellers (who have limited options to finance their portfolios) panicked as they detected cash was scarce and were willing to pay absurdly high interest rates to cash investors, like money market funds, who were happy to hold out for even higher rates. The banks

themselves held on to their Treasury bills calculating that they could make more money on their own positions even if they temporarily paid a higher funding cost.

The mainstream press has posited several important lessons that emerge from the repo crisis:

- Banks need more reserves. Total bank reserve balances peaked at around $2.8 trillion in 2014 and have slowly declined to $1.7 trillion. Banks are required to hold a certain percentage of their liabilities in cash, and in addition larger banks are subject to new capital rules imposed by the Bank for International Settlements rules, which demand bank hold more liquidity.
- The situation will recur and may get worse, because the pool of securities that need to be financed is exploding. Treasury issuance required to fund the expanding Federal deficit is ballooning, with almost $814 billion of debt scheduled to be issued from July to the end of the year.
- The Federal Reserve and the banks need to find a longer-term structural solution. The injection of temporary capital is a band-aid. Perhaps a variation of Quantitative Easing, where an overwhelming amount of reserves are added to the banking system, may be the only realistic solution.

U.S. primary dealers net debt positions ($ billions)

Source: Algebris, FT

While these points are certainly valid, they ignore a critical part of the story – the intermediary role that banks still play in the plumbing of the financial markets. The fixed income markets are different from the equity markets, where exchanges provide price discovery and the vast majority of trades are executed electronically. The fixed-income markets are in contrast "over-the-counter" markets, where participants must trade through market makers, often by phone, on a bond by bond basis. Post-financial-crisis regulation has forced bank dealers to significantly reduce the balance sheet and risk capital committed to making markets in bonds. As the Financial Times argued recently, "Since the financial crisis, regulatory

changes have aimed to purge leverage from the system, primarily by severely curtailing the role that banks have traditionally played in providing liquidity. Instead of relying on balance sheets to lubricate trading, banks have become more like brokers and embraced the algorithmic techniques of high-frequency traders…On the whole this has made markets more efficient, with the difference between the price investors have to pay or will receive for a financial asset — the "bid-ask spread" — narrowing to record lows. By this measure even the bond market today looks more "liquid". But some analysts and investors said markets that may seem superficially more efficient were more prone to "liquidity crises", where waves of sellers suddenly overwhelmed the depleted capacity of market-makers such as banks to absorb and intermediate the buy and sell orders." Regulation did not eliminate the risk; it just transferred it from big banks to remaining market participants. Banks are no longer there to absorb risk, to serve as the backstop in the event of a spooked market, providing liquidity by buying into dips. If constrictions in what should be one of the most liquid and safe markets in the world can lead to the rate spikes and volatility, and necessitate Fed intervention, what might happen when a flood of sell orders in collateral loan obligations or commercial mortgages hit the street?

The presence of levered funds that have a mismatch between the liquidity of assets and liabilities is not new. Many hedge funds had to impose gates to limit investor redemptions during the Global Financial Crisis. More recently there have been several high-profile funds that have run into liquidity problems and incurred significant losses. British fund manager Neil Woodford was forced to suspend withdrawals from his €4.1bn flagship fund in June after it racked up huge losses amid excessive exposure to illiquid assets. Last year, GAM Investments liquidated its €9.5bn absolute return fund following similar problems. During this summer, London-based hedge fund H2O Asset Management suffered €8 billion of outflows (from a base of €30 billion) after the media reported that it held highly illiquid bonds issued by a controversial German financier with a history of bankruptcies. "More than $30 trillion of global assets are held in investment funds that promise daily liquidity to investors despite investing in potentially illiquid underlying assets," Bank of England Governor Mark Carney said in a speech in Tokyo earlier this month. He warned that such pledges are "built on a lie." While these funds clearly overestimated the portion of their assets that could be invested in illiquid assets, their losses resulted less from high leverage than vanishing market liquidity. In the past, leverage was "the tinder that turns a financial fire into an inferno," as The Financial Times put it recently. Today, the lack of market liquidity may pose greater dangers.

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Glossary and Index Definition

•Alerian MLP Index (MLP) - The Alerian MLP Index is a composite of the 50 most prominent energy master limited partnerships calculated by Standard & Poor's using a float-adjusted market capitalization methodology. The index is disseminated by the New York Stock Exchange real-time on a price return basis (NYSE: AMZ). The corresponding total return index is calculated and disseminated daily through ticker AMZX.

•Barclays Capital U.S. Municipal Index – The U.S. Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligations, revenue bonds, insured bonds, and prerefunded bonds. Many of the subindices of the Municipal Index have historical data to January 1980. In addition, several subindices based on maturity and revenue source have been created, some with inception dates after January 1980 but no later than July 1, 1993. In January 1996, Barclays Capital also began publishing a non-investment grade municipal bond index and "enhanced" state specific indices for Arizona, Connecticut, Maryland, Massachusetts, Minnesota, and Ohio. These indices are published separately from the Barclays Capital Municipal Bond Index.

•BofA Merrill Lynch Convertible Bond Index (Convertibles) - The BofA Merrill Lynch Convertible Bond Index tracks the performance of US dollar denominated convertible bonds issued in the US domestic market. In addition, qualifying securities must have at least one year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of $100 million.

•BofA Merrill Lynch Perpetual Preferred Securities Index (Preferred) - The BofA Merrill Lynch Fixed Rate Preferred Securities Index tracks the performance of US dollar denominated preferred securities issued in the US domestic market. Qualifying securities must be rated investment grade (based on an average of Moody's, S&P and Fitch) and must have an investment grade rated country of risk (based on an average of Moody's, S&P and Fitch foreign currency long term sovereign debt ratings).

•BofA Merrill Lynch US High Yield Master II Index – This index tracks the performance of below investment grade US dollar-denominated corporate bonds publicly issued in the US domestic market.

•BofA Merrill Lynch EM External Debt Sovereign Index – This index tracks the performance of US dollar-denominated debt issued by sovereign issuers in countries belonging to emerging markets.

•BofA Merrill Lynch Mortgage Master Index – This index tracks the performance of US dollar-denominated mortgage securities.

•BofA Merrill Lynch Municipal Bond Index – This index tracks the performance of US dollar-denominated investment grade tax-exempt bonds.

•Credit Suisse Leveraged Loan Index – This index tracks the investable market of the U.S. dollar denominated leveraged loan market. It consists of issues rated "5B" or lower, meaning that the highest rated issues included in this index are Moody's/S&P ratings of Baa1/BB+ or Ba1/BBB+. All loans are funded term loans with a tenor of at least one year and are made by issuers domiciled in developed countries.

•JP Morgan Emerging Market Bond Index (EMBI+) - The Emerging Markets Bond Index Plus tracks total returns for traded external debt instruments in the emerging markets. The instruments include external-currency-denominated Brady bonds, loans and Eurobonds, as well as U.S. dollar local markets instruments. The EMBI+ is concentrated in instruments from the three major Latin American countries (Argentina, Brazil, and Mexico), reflecting the size and liquidity of these external debt markets. The non-Latin countries are represented in the index by Bulgaria, Morocco, Nigeria, the Philippines, Poland, Russia, and South Africa.

•MSCI Emerging Market Index (Emerging Market Equities) - The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of March 2015, the MSCI Emerging Markets Index consisted of the following 23 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates.

•MSCI Frontier Market Index – The MSCI Frontier Market Index is a free float-adjusted market capitalization index designed to measure equity market performance of the frontier markets. As of March 2015, the MSCI Frontier Markets Index consists of the following 24 frontier market country indices: Argentina, Bahrain, Bangladesh, Bulgaria, Croatia, Estonia, Jordan, Kenya, Kuwait, Lebanon, Lithuania, Kazakhstan, Mauritius, Morocco, Nigeria, Oman, Pakistan, Romania, Serbia, Slovenia, Sri Lanka, Tunisia, Ukraine, and Vietnam.

•Russell 2000 Index (TR) - The best-known of a series of market-value weighted indices published by the Frank Russell Company. The index measures the performance of the smallest 2,000 companies in the Russell 3000 Index of the 3,000 largest U.S. companies in terms of market capitalization.

•Russell 1000 Index (TR) –A market-value weighted indices published by the Frank Russell Company. The index measures the performance of the largest 1,000 companies in the Russell 3000 Index of the 3,000 largest U.S. companies in terms of market capitalization.

•S&P 500 Index (TR) -Widely regarded as the best single gauge of the U.S. equities market, this world-renowned index includes 500 leading companies in leading industries of the U.S. economy. S&P 500 is a core component of the U.S. indices that could be used as building blocks for portfolio construction. It is also the U.S. component of S&P Global 1200. Total return (TR) provides investors with a price-plus-gross cash dividend return. Gross cash dividends are applied on the ex-date of the dividend.

•FTSE NAREIT US Real Estate Index Series – The FTSE NAREIT US Real Estate Index Series is designed to present investors with a comprehensive family of REIT performance indexes that span the commercial real estate space across the US economy, offering exposure to all investment and property sectors. In addition, the more narrowly focused property sector and sub-sector indexes provide the facility to concentrate commercial real estate exposure in more selected markets.

Data Sources: Bloomberg, L.P., JPMorgan, BofA Merrill Lynch, Standard and Poors, Barclays Capital, Alerian, Morningstar Direct, MSCI, HFR, Goldman Sachs, Trading Economics, HIS Markit, Eurostat, Eaton Vance.