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QUARTERLY MARKET COMMENTARY | Q2 2019

Stocks Surge into Summer

Quarterly Snapshot

- Stocks around most of the world continued their early-year rally into the second quarter before tumbling throughout May and then recovering to varying degrees in June. Government-bond rates moved lower over the three-month period.
- Trade negotiations between the U.S. and China deteriorated in early May, but were revived in late June as both sides agreed to return to the negotiating table.
- We think there is still life in the economic expansion, both in the U.S. and globally. If we're right, that means corporate profits should continue to expand and push global stock markets to higher levels in the months ahead.

Stocks around most of the world continued their early-year rally before tumbling throughout May and then recovering to varying degrees in June. U.S. and Brazilian stocks were the only regions to record all-time highs, both surpassing their prior peaks in June. U.K. and European equities rallied, but fell short of reaching their late-April highs. Similarly, Japanese stocks jumped sharply at the end of the quarter without hitting their late-April peak. Mainland Chinese stocks also bounced back convincingly, more so than those in Hong Kong, but failed to recover fully.

Government-bond rates increased in the U.S., U.K. and Europe during April, but ultimately moved lower over the quarter as a whole. As for Treasurys, after briefly inverting in March, the 3-month-to-10-year spread once again turned negative in May—where it remained throughout the second quarter. This triggered concerns about the U.S. economy, as an inverted yield curve is commonly considered a reliable recession indicator.

Trade negotiations between the U.S. and China had promising momentum at the start of the quarter, but soon deteriorated in early May. The U.S. announced an escalation of existing tariffs on $200 billion of Chinese imports from 10% to 25%, and proposed expanding the scope of the 25% tariffs to an additional $300 billion of imports—prompting smaller retaliatory tariffs from China. However, the U.S. stalled the proposed tariffs in late June to entice Chinese President Xi Jinping to meet with President Donald Trump on the side-lines of a Group of 20 summit (an international forum for governments and central bank governors from 19 countries and the EU); the meeting produced a temporary truce as both sides agreed to return to the negotiating table.

After Theresa May announced her resignation in late May, a race opened for her role as U.K. Prime Minister and leader of the Conservative Party. The crowded candidate field quickly narrowed—pitting former Foreign Secretary Boris Johnson as widely favored over his successor Jeremy Hunt. Johnson has campaigned on an explicit willingness to depart the EU without a deal upon the October 31 deadline, but has made conflicting comments on the likelihood of this outcome. Jean-Claude Juncker, president of the European Commission, stated in June that the divorce deal established during May's tenure is not open for renegotiation despite the British leadership contest.

Key Measures: Q2 2019

EQUITY		
Dow Jones Industrial Average	3.21%	↑
S&P 500 Index	4.30%	↑
NASDAQ Composite Index	3.87%	↑
MSCI ACWI Index (Net)	3.61%	↑
BOND		
Bloomberg Barclays Global Aggregate Index	3.29%	↑
VOLATILITY		
Chicago Board Options Exchange Volatility Index PRIOR QUARTER: **13.71**	15.08	↑
OIL		
WTI Cushing crude oil prices PRIOR QUARTER: **$60.14**	$58.47	↓
CURRENCIES		
Sterling vs. U.S. dollar	$1.27	↓
Euro vs. U.S. dollar	$1.14	↑
U.S. dollar vs. yen	¥107.74	↓

Sources: Bloomberg, FactSet, Lipper

Central Banks

- The Federal Open Market Committee (FOMC) made no changes at its May or June meetings. However, its statement following the latter did not include its prior commitment to patience, and indicated increased uncertainty along with a less-positive assessment of economic fundamentals. The decision in June to hold rates provoked one dissenting vote—the first of Jerome Powell's tenure as Federal Reserve Chairman—in favor of cutting the federal funds rate.

- The Bank of England's Monetary Policy Committee made no changes at its May or June meetings. It maintained a preference for tighter monetary policy with the caveat that this stance could be upended by Brexit uncertainty, which it noted has increased.

- The European Central Bank (ECB) extended its commitment to retain low European benchmark rates (for refinance, deposit and marginal lending) through the first half of 2020, and said it will continue to reinvest the principal proceeds from its asset-purchase program for at least as long. ECB projections for overall economic growth and inflation were revised marginally higher for 2019, but lower for future years.

- The Bank of Japan made no changes at its April or June meetings, staying accommodative by maintaining a negative short-term policy rate and a rate of approximately zero on 10-year Japanese government bonds.

- The People's Bank of China undertook various efforts to balance the country's cooling economic growth and support the yuan's exchange rate—including providing liquidity to the financial system by renewing lending facilities, issuing reverse repurchase agreements, and conducting bill swaps. The China Banking and Insurance Regulatory Commission took control of the failing Baoshang Bank in late May, representing the first Chinese bank rescue in almost two decades; as a consequence, smaller banks were confronted with funding roadblocks and higher borrowing costs.

Economic Data

- Growth in the U.S. manufacturing and services sectors slowed sharply in the beginning of the second quarter before maintaining a modest expansion later in the period. Personal income growth outpaced consumer spending through April and May; the U.S. unemployment rate declined to 3.6% in April and held steady in May. Overall economic growth registered an annualized 3.1% rate during the first quarter.

- The U.K. services sector accelerated out of a contraction early in the second quarter and with increased speed in May. Manufacturing conditions moved in the opposite direction, starting the period moderately expanding before deteriorating to a standstill in May and ultimately contracting in June. The U.K. claimant count, which measures the number of people claiming unemployment, edged upward to 3.1% in May after holding firm at 3.0% in the prior month. Overall, U.K. economic growth accelerated in the first quarter to a rate of 0.5% from 0.2% in the prior quarter; the year-over-year pace also increased during the first quarter, to 1.8% from 1.4% in the final three-month period of 2018.

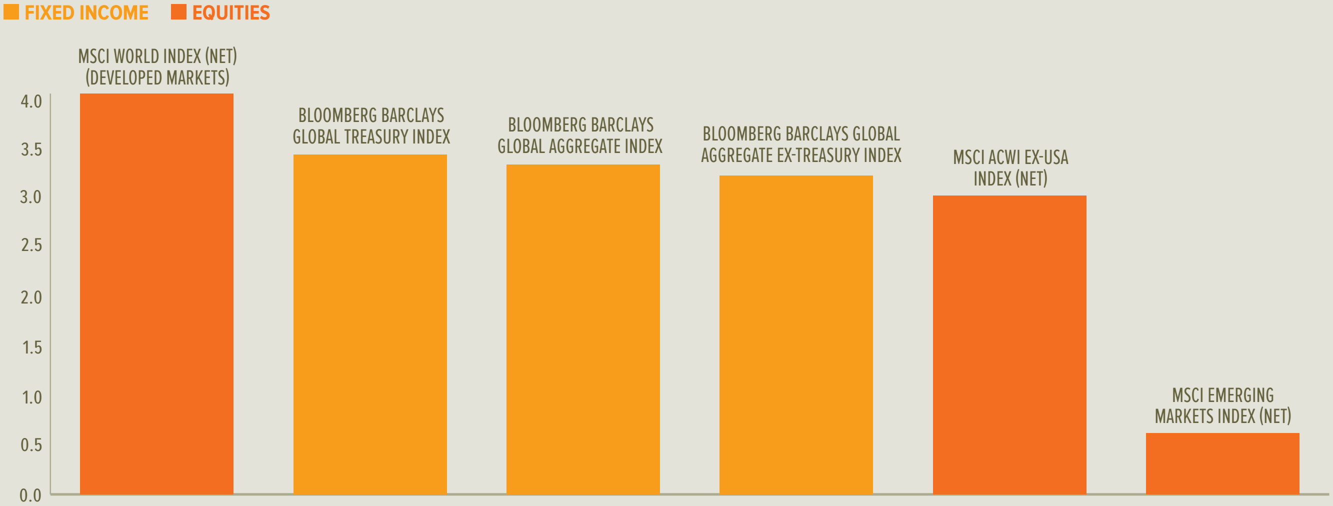
- Eurozone manufacturing activity contracted throughout the second quarter as output steadily declined and new orders continued to drop. Meanwhile, services growth remained moderate for the duration of the second quarter. The European unemployment rate moved lower through the first two months of the period, settling at 7.5% in May. The eurozone economy expanded by 0.4% during the first quarter, doubling the rate of growth in the prior quarter; year-over-year growth increased to 1.2%.

Portfolio Review

U.S. equity-market performance during the second quarter contributed to an impressive first half of the year for both large- and small-cap stocks. Gains were concentrated among the largest-capitalization stocks, and growth stocks outperformed value stocks again. Our core U.S. large-cap strategy underperformed due to a preference for medium-cap and value stocks. An overweight to financials—the best-performing U.S. large-cap sector—was the strategy's largest contributor, while an underweight to information technology detracted. Our core U.S. small-cap strategy performed well as a result of an overweight to stability-oriented stocks, as unease with trade tensions produced a risk-off environment for much of the period. Strong selection within the healthcare, information technology, and consumer staples sectors contributed, as did an underweight to healthcare, while positioning in materials and energy detracted. Overseas, our international developed-market equity strategy lagged the rally as a result of exposure to Asian internet companies in the communication services sector, weak selection in Canadian and Norwegian energy companies, and global industrial companies based in Europe. An overweight and selection in technology, along with an underweight to materials and positioning in financials contributed. Our emerging-market equity strategy was held back by similar positioning in communication services, as well as poor selection within materials, while selection in consumer staples and healthcare helped. An overweight to Brazil was also beneficial.

Our core fixed-income strategy performed in line with its benchmark during the second quarter as U.S. investment-grade non-government fixed-income

Major Index Performance in Q2 2019 (Percent Return)



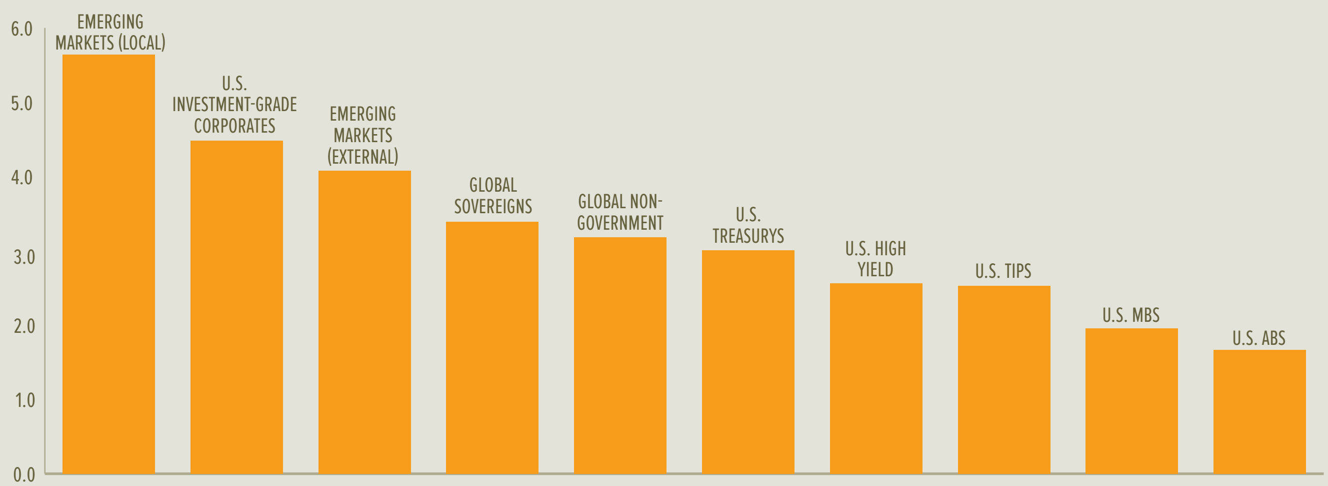
Sources: FactSet, Lipper

sectors led comparable U.S. Treasurys. Neutral-to-modestly-longer duration contributed as Treasury yields declined; an overweight to the long end of the Treasury yield curve added as 30-year yields fell. A slight overweight to credit enhanced performance, but an allocation to student loans detracted as they trailed other asset-backed securities (ABS). A higher-quality bias within commercial mortgage-backed securities (CMBS) also held back returns. An overweight to agency mortgage-backed securities (MBS) subtracted; although holdings within lower-coupon mortgages helped. An underweight to taxable municipal bonds also detracted. Our high-yield strategy also essentially matched its benchmark. An allocation to collateralized loan obligations (CLOs) continued to outperform the broad high-yield market, and positioning media and healthcare also contributed. Positioning within basic industry, telecommunications and banking detracted. Emerging-market debt led other fixed-income market segments during the second quarter, and our emerging-market debt strategy trailed its benchmark during the period. An overweight to local-currency debt contributed, particularly in Egypt and Russia. An underweight to hard-currency debt also helped, but was offset by positioning within Venezuela and other key countries.

Manager Positioning and Opportunities

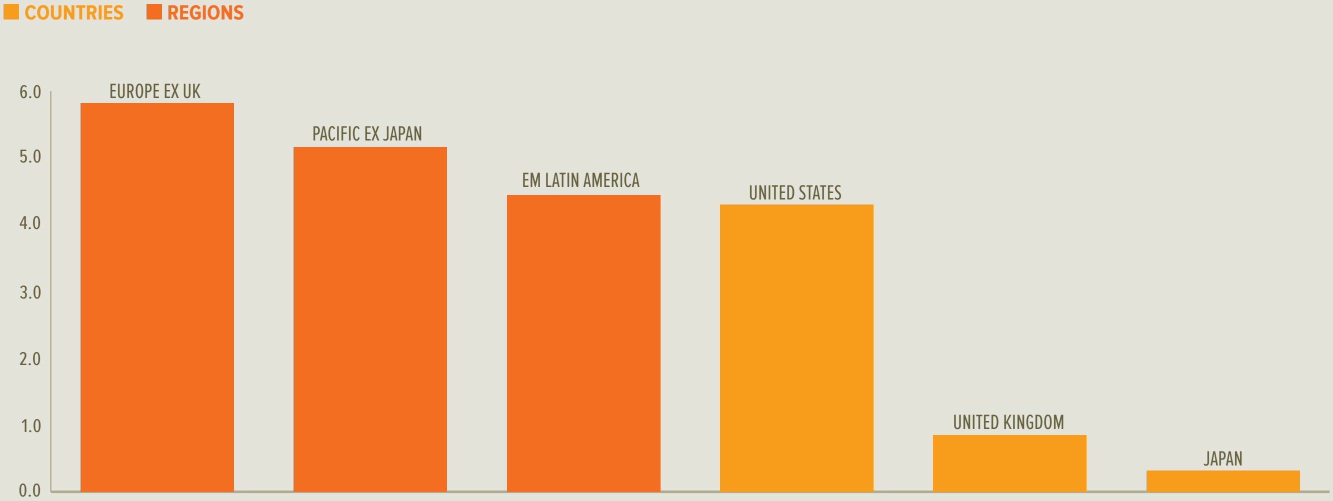
Our core U.S. large-cap strategy remained overweight financials as the sector continued to be relatively inexpensive. The strategy was also underweight information technology due to concerns about high valuations and sustainability of margins. Our core U.S. small-cap strategy decreased its overweight to information technology as a result of trimming from momentum to allocate to value and stability. It was also underweight real estate due to the sector's low growth and unattractive valuations, and overweight industrials because of the sector's economic sensitivity and attractive valuations. Our international developed-market equity strategy increased its overweight to healthcare as a result of stock-specific opportunities in

Fixed-Income Performance in Q2 2019 (Percent Return)



Sources: FactSet, Lipper. See "Corresponding Indexes for Fixed-Income Performance Exhibit" in the Index Descriptions section for more information.

Regional Equity Performance in Q2 2019 (Percent Return)



Sources: FactSet, Lipper. See "Corresponding Indexes for Regional Equity Performance Exhibit" in the Index Descriptions section for more information.

healthcare equipment and pharmaceuticals. An underweight to Australia was decreased along with increased exposure to healthcare and materials stocks. The strategy remained overweight information technology, and underweight consumer staples and real estate. Regionally, it was underweight Asia. Our emerging-market equity strategy increased an underweight to materials as we sold out of chemicals, metal and mining stocks. An underweight to Taiwan was decreased as we added to technology stocks with potential growth opportunities. The strategy was overweight information technology and underweight financials—driven by limited exposure to Chinese banks. Like our developed-market strategy, we were underweight Asia, and also overweight Latin American and Europe.

Our core fixed-income strategy maintained modestly longer duration positioning as rates declined during the second quarter. The strategy added exposure in the front end of the yield curve due to the Federal Reserve's dovish pivot on interest rates. It also maintained an overweight to the long end of the curve as we believe inflationary pressures will likely make a gradual advance. The strategy remained slightly overweight the corporate sector—primarily in banking—with selective additions in the new-issue market. It also retained overweights to ABS and CMBS, as these offer competitive risk-adjusted yields, with an emphasis on higher-quality holdings. The strategy also maintained an overweight to agency MBS and an allocation to non-agency MBS. Our high-yield strategy decreased underweights to basic industry, financials and energy during the period. Within basic industry, affordability in building and construction remains a concern; a lack of visibility into the financial sector is unappealing; and there is concern that a decline in oil prices could pressure cash flow and slow growth in the energy sector. Our strategy retained an allocation to CLOs due to attractive opportunities within these securities. Our emerging-market debt strategy increased its underweight to hard-currency debt and overweight to local-currency debt during the period. It also retained an overweight to emerging-market corporates—which is generally concentrated in high-yield-rated companies

It's not unusual for capital expenditures to run well in excess of cash flow, especially toward the end of the economic up-cycle. And that's not happening yet.

that offer attractive return potential with lower interest-rate sensitivity—and is intended to work in conjunction with the broader hard-currency debt allocation.

Our View

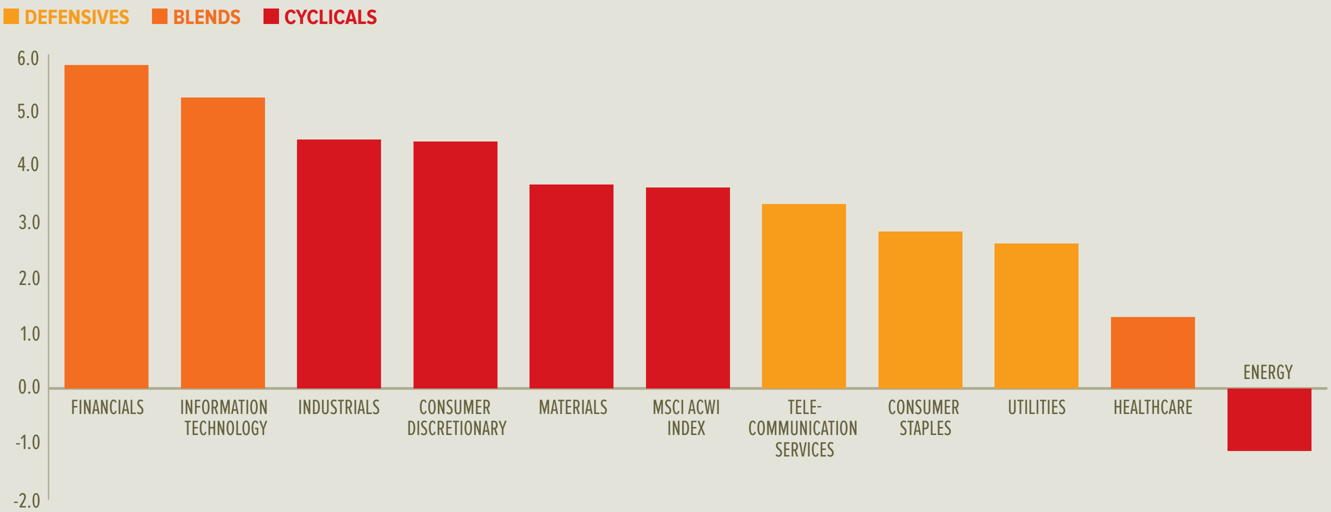
July marks the tenth anniversary of the U.S. economic expansion. The bull market in U.S. equities (as measured by the S&P 500 Index) reached its tenth birthday in March. The S&P 500 Index seemed to celebrate these achievements just a few weeks ago by moving into new-high territory. But there now seems to be anxiety that the bull market in equities is on its last legs, the victim of a slowing global economy, the lagged impact of last year's U.S. interest-rate increases and, perhaps most importantly, a worsening trade war between the U.S. and China.

To be sure, the U.S. economy is hardly firing on all cylinders. There's a good chance that capital spending will continue to ease in the months ahead, but we're not forecasting a major downturn. Corporate cash generation continues to run slightly ahead of capital expenditures. The main point to remember: It's not unusual for capital expenditures to run well in excess of cash flow, especially toward the end of the economic up-cycle. And that's not happening yet.

We need to see a severe deterioration in financial and leading economic indicators before climbing onto the recession train. Even after the past two years of multiple Fed rate increases, there are still few signs of a build-up in financial stress.

The big unknown, of course, is how the evolving tariff war between China and the U.S. will affect U.S. economic growth and global trade in the months ahead. Tariff tensions and worries about global growth have put only a modest dent in the confidence of American businesses. But it certainly

Global Equity Sector Performance in Q2 2019 (Percent Return)



Sources: FactSet, Lipper. MSCI ACWI Index Components (as defined by SEI).

looks as if the U.S.-China trade relationship is frosty at best, even though the countries' leaders declared a tariff truce in order to continue negotiations.

It is our view at SEI that the U.S. economy should be able to weather this storm. An all-out tariff war between the two largest economies in the world will certainly disrupt supply chains and likely lead to higher prices for a broad range of consumer goods. Still, we think it helps to keep the problem in perspective. Even if the U.S. imposes a 25% tariff on all Chinese imports, total duties will amount to roughly 0.5% of U.S. gross domestic product, according to our calculations of data provided by the United States International Trade Commission.

It is not our intention to minimize the importance of the shift in U.S. trade policy toward protectionism. The speed and ease with which supply chains can be relocated to other countries will be a critical factor, either exacerbating or tempering the tariff impact on consumers and companies in both the U.S. and China. An escalation of the trade wars by the U.S. against other countries would prove far more dangerous for the near-term growth prospects in the U.S. than if trade were disrupted only with China.

We have been thinking that the U.S. would avoid waging multiple tariff wars as it has concentrated its firepower on China. But our persistent optimism may not hold. Tariffs on German and Japanese autos are still a possibility later this year.

In all, we think the U.S. economy will show resiliency in the face of what is admittedly a stiff headwind. Household income growth has continued to advance at a good pace. The decline in U.S. interest rates that began late last year should certainly help consumers.

The market-implied rate (based on federal-funds futures contracts) projects a federal-funds rate of 1.7% by the close of 2019, according to the Chicago Board of Trade, consistent with three 25 basis-point cuts. Although the forecasts of FOMC members have been more cautious, they are moving in the direction of the markets. The recent decline in bond yields to levels last seen in 2016 ranks as one of the biggest surprises of the year. We find it hard to justify these moves. In our view, recession is not likely without a severe policy mistake, such as fighting a tariff war on multiple fronts.

When one considers all the headwinds facing emerging economies—a significant slowdown in Chinese economic growth, on-going trade tensions between the U.S. and China, weak commodity pricing, and a still-resilient U.S. dollar—it's surprising that emerging stock markets have appreciated at all this year. But as long as a tariff truce remains in place with the U.S., we expect China's economy to improve in the months ahead. Scores of measures, both monetary and fiscal, have been put in place over the past year.

Europe currently faces a variety of unique challenges, both economic and political, that makes it hard for even contrarian investors to get terribly enthusiastic about the near term. Economically, the downward trajectory is similar to that of the 2011-to-2012 period amid the region's periphery debt crisis. This time, however, Germany's industrial economy is fully participating in the slowdown.

We think there is still life in the economic expansion, both in the U.S. and globally. If we're right, that means corporate profits should continue to expand and push global stock markets to higher levels in the months ahead.

It's not just the region's heavy exposure to manufacturing and international trade that makes German industrialists glum. There is also a worrisome vacuum of political leadership. Chancellor Angela Merkel is on her way out, and a politically distracted Germany is a concerning issue given the country's central importance in the eurozone and EU.

At the supra-national level, Germany's Ursula von der Leyen was nominated to serve as president of the European Commission (the executive arm of the EU), and Christine Lagarde of France (the current president of the International Monetary Fund) will succeed Mario Draghi as president of the ECB at the end of October. Lagarde is expected to maintain her predecessor's dovish policies. Perhaps before Draghi leaves office, we will see another interest-rate cut that brings policy rates deeper into negative territory. And we can't rule out a new round of quantitative easing, just as the current one is set to end.

President Draghi has reason to be concerned. But unconventional monetary policy in the form of negative European interest rates, quantitative easing and term lending facilities do not carry a lot of punch nowadays. An aggressive easing of fiscal policy makes sense, but that strategy is a non-starter in the eurozone. Once again, the structural flaws of the eurozone are coming to the fore.

And then there's the looming cloud of Brexit. Although it has been delayed until October 31, there is little sign that the breathing space will be put to good use. It appears likely that Boris Johnson will win the Conservative Party's search for a new Prime Minister. It's hard to see how that improves the chances of an orderly exit.

Although economic growth is sluggish, the U.K. economy is not exactly cratering as the deadline approaches. In fact, the U.K. unemployment rate fell to a multi-decade low. The eurozone also recorded steady labor-market improvement; however, the jobless rate itself remained far higher, owing to structural factors.

That being said, we can't help but think Brexit (if it indeed occurs) will prove to be a highly disruptive event for the U.K. and the EU. Roughly half of the U.K.'s trade in goods, both imports and exports, is with the EU.

We think there is still life in the economic expansion, both in the U.S. and globally. If we're right, that means corporate profits should continue to expand and push global stock markets to higher levels in the months ahead. This may seem like a bold statement at a time when the world seems increasingly unpredictable and the economic data point to slowing growth. Yet we simply do not yet see the economic imbalances or nosebleed equity-market valuations that normally bring on recessions and an associated contraction in earnings and stock prices. It is also clear that central banks have investors' backs as monetary policymakers are making promises about (or already are) cutting interest rates in various parts of the world and providing additional liquidity to their banking systems in both developed and emerging countries.

Glossary of Financial Terms

Basis Point: One basis point equals 0.01%.

Dovish: Dovish refers to the views of a policy advisor (for example at the Bank of England) who has a positive view of inflation and its economic impact and thus tends to favor lower interest rates.

Duration: Duration is a measure of a security's price sensitivity to changes in interest rates. Specifically, duration measures the potential change in value of a bond that would result from a 1% change in interest rates. The shorter the duration of a bond, the less its price will potentially change as interest rates go up or down; conversely, the longer the duration of a bond, the more its price will potentially change.

Momentum: Momentum stocks are those whose prices are expected to keep moving in the same direction (either up or down) and are not likely to change direction in the short-term.

Stability: Stability securities exhibit lower risk and higher quality, and can benefit from the power of long-term compounding as a result of investors' tendency to misprice lower risk.

Value: Value stocks are those that are considered to be cheap and are trading for less than they are worth.

Yield curve: The yield curve represents differences in yields across a range of maturities of bonds of the same issuer or credit rating (likelihood of default). A steeper yield curve represents a greater difference between the yields. A flatter yield curve indicates the yields are closer together.

Index and Benchmark Descriptions

All indexes are quoted in gross performance unless otherwise indicated.

The Bloomberg Barclays 1-10 Year U.S. TIPS Index measures the performance of inflation-protected public obligations of the U.S. Treasury that have a remaining maturity of 1 to 10 years.

The Bloomberg Barclays U.S. Asset Backed Securities (ABS) Index measures the performance of ABS with the following collateral types: credit and charge card, auto and utility loans. All securities have an average life of at least one year.

The Bloomberg Barclays Global Aggregate Bond Index (formerly Lehman Brothers Global Aggregate Index), an unmanaged market-capitalization-weighted benchmark, tracks the performance of investment-grade fixed-income securities denominated in 13 currencies. The Index reflects reinvestment of all distributions and changes in market prices.

The Bloomberg Barclays Global Aggregate ex-Treasury Index is an unmanaged market index representative of the total-return performance of ex-Treasury major world bond markets.

The Bloomberg Barclays Global Treasury Bond Index is composed of those securities included in the Bloomberg Barclays Global Aggregate Bond Index that are Treasury securities.

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

The Bloomberg Barclays U.S. Mortgage Backed Securities (MBS) Index measures the performance of investment-grade, fixed-rate, mortgage-backed, pass-through securities of Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Freddie Mac (FHLMC).

The Bloomberg Barclays U.S. Treasury Index is an unmanaged index composed of U.S. Treasurys.

The BofA Merrill Lynch U.S. High Yield Constrained Index contains all securities in The BofA Merrill Lynch U.S. High Yield Index but caps exposure to individual issuers at 2%.

The BofA Merrill Lynch U.S. High Yield Index tracks the performance of below-investment-grade, U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

The Chicago Board Options Exchange Volatility Index (VIX) tracks the expected volatility in the S&P 500 Index over the next 30 days. A higher number indicates greater volatility.

The Dow Jones Industrial Average is a widely followed market indicator based on a price-weighted average of 30 blue-chip New York Stock Exchange stocks that are selected by editors of *The Wall Street Journal*.

The FTSE All-Share Index represents 98% to 99% of U.K. equity market capitalization. The Index aggregates the FTSE 100, FTSE 250 and FTSE Small Cap Indexes.

The ICE BofAML USD 3-Month Deposit Offered Rate Constant Maturity Index is based on the assumed purchase of a synthetic instrument having three months to maturity and with a coupon equal to the closing quote for 3-month LIBOR. That issue is sold the following day (priced at a yield equal to the current day closing 3-month LIBOR rate) and is rolled into a new 3-month instrument. The index, therefore, will always have a constant maturity equal to exactly three months.

The JPMorgan EMBI Global Diversified Index tracks the performance of external debt instruments (including U.S. dollar-denominated and other external-currency-denominated Brady bonds, loans, eurobonds and local-market instruments) in the emerging markets.

JPMorgan GBI-EM Global Diversified Index tracks the performance of debt instruments issued in domestic currencies by emerging-market governments.

The MSCI ACWI Index is a market-capitalization-weighted index composed of over 2,000 companies, representing the market structure of 48 developed- and emerging-market countries in North and South America, Europe, Africa and the Pacific Rim. The Index is calculated with net dividends reinvested in U.S. dollars.

The MSCI ACWI ex-USA Index includes both developed- and emerging-market countries, excluding the U.S.

The MSCI Emerging Markets Index is a free float-adjusted market-capitalization-weighted index designed to measure the performance of global emerging-market equities.

The MSCI Emerging Markets Latin America Index captures large- and mid-cap representation across five emerging-market countries in Latin America.

The MSCI EMU (European Economic and Monetary Union) Index is a free float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of countries within EMU. The Index consists of the following 10 developed-market country indexes: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Netherlands, Portugal and Spain. The MSCI EMU Index captures large- and mid-cap representation across the developed-market countries in the EMU.

The MSCI Europe ex-UK Index is a free float-adjusted market-capitalization-weighted index that captures large- and mid-cap representation across 14 developed markets countries in Europe (Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden and Switzerland). The Index covers approximately 85% of the free float-adjusted market capitalization across European developed markets, excluding the U.K.

The MSCI Pacific ex Japan Index captures large- and mid-cap representation across four of five developed-market countries in the Pacific region (excluding Japan).

The MSCI Japan Index is designed to measure the performance of the large- and mid-capitalization stocks in Japan.

The MSCI World Index is a free float-adjusted market-capitalization-weighted index designed to measure the equity market performance of developed markets. The Index consists of the following 23 developed-market country indexes: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the U.K. and the U.S.

The MSCI World ex-USA Index is a free float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of developed markets, excluding the U.S.

The NASDAQ Composite Index is a market-value-weighted index of all common stocks listed on the National Association of Securities Dealers Automated Quotations (NASDAQ) system.

The Shenzhen Stock Exchange Composite Index tracks performance of A share stocks (which are denominated in renminbi, the local currency) and B share stocks (which are denominated in Hong Kong dollars, an offshore currency) on China's Shenzhen Stock Exchange.

The S&P 500 Index is a capitalization-weighted index made up of 500 widely held U.S. large-cap companies. The S&P 500 Index is an unmanaged, market-capitalization-weighted index comprising 500 of the largest publicly traded U.S. companies and is considered representative of the broad U.S. stock market.

The TOPIX, also known as the Tokyo Stock Price Index, is a capitalization-weighted index of all companies listed on the First Section of the Tokyo Stock Exchange. The Index is supplemented by the subindexes of the 33 industry sectors. The Index calculation excludes temporary issues and preferred stocks, and has a base value of 100 as of January 4, 1968.

Corresponding Indexes for Fixed-Income Performance Exhibit

U.S. High Yield	BofA Merrill Lynch U.S. High Yield Master II Constrained Index
Global Sovereigns	Bloomberg Barclays Global Treasury Bond Index
Global Non-Government	Bloomberg Barclays Global Aggregate ex-Treasury Index
Emerging Markets (Local)	JPMorgan GBI-EM Global Diversified Index
Emerging Markets (External)	JPMorgan EMBI Global Diversified Index
U.S. Mortgage-Backed Securities (MBS)	Bloomberg Barclays U.S. Mortgage Backed Securities Index
U.S. Asset-Backed Securities (ABS)	Bloomberg Barclays U.S. Asset-Backed Securities Index
U.S. Treasurys	Bloomberg Barclays U.S. Treasury Index
U.S. Treasury Inflation-Protected Securities (TIPS)	Bloomberg Barclays 1-10 Year U.S. TIPS Index
U.S. Investment-Grade Corporates	Bloomberg Barclays U.S. Corporate Investment Grade Index

Corresponding Indexes for Regional Equity Performance Exhibit

United States	S&P 500 Index
United Kingdom	FTSE All-Share Index
Pacific ex Japan	MSCI Pacific ex Japan Index (Net)
Japan	TOPIX, also known as the Tokyo Stock Price Index
Europe ex UK	MSCI Europe ex UK Index (Net)
EM Latin America	MSCI Emerging Markets Latin America Index (Net)

Disclosures

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There are risks involved with investing, including loss of principal. Current and future portfolio holdings are subject to risks as well. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. Narrowly focused investments and smaller companies typically exhibit higher volatility. Bonds and bond funds will decrease in value as interest rates rise. High-yield bonds involve greater risks of default or downgrade and are more volatile than investment-grade securities, due to the speculative nature of their investments.

Diversification may not protect against market risk. There is no assurance the objectives discussed will be met. Past performance does not guarantee future results. Index returns are for illustrative purposes only and do not represent actual portfolio performance. Index returns do not reflect any management fees, transaction costs or expenses. One cannot invest directly in an index.

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