WELLS FARGO
INVESTMENT INSTITUTE

Investment Strategy

WEEKLY GUIDANCE FROM OUR INVESTMENT STRATEGY COMMITTEE

August 26, 2019

Alternative Investment Strategies for Late in the Cycle

James W. Sweetman
Senior Global Alternative Investment Strategist

Key takeaways

» *During the latter stage of the economic cycle, we believe that increasing exposure to Long/Short strategies may help to enhance portfolio returns and mitigate risk.*

» *Long/Short strategies can actively adjust net market exposure and use a broad tool kit to potentially generate alpha, while attempting to smooth the effects of volatility.[1] They also can provide a useful complement to traditional long-only equity and fixed income exposure as appropriate to the investor.*

What it may mean for investors

» *We remain favorable on Equity Hedge and Long/Short Credit strategies as we believe that rapidly shifting economic and market conditions could create a more favorable environment for alpha-focused, absolute return equity and fixed income strategies.*

Asset Group Overviews

Alternative investments are not suitable for all investors. They are speculative and involve a high degree of risk that is suitable only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in a fund and for which the fund does not represent a complete investment program. Please see end of this report for important definitions and disclosures.

Over the first seven months of 2019, hedge funds posted their best absolute returns since 2009 and the third best start to a year since 2000. The HFRI Fund Weighted Composite Index returned 7.8%. This compares with the 18.0% year-to-date (YTD) global equity gain, the 6.4% U.S. investment-grade bond return, and the 2.9% increase in commodities over this period (Table 1). These gains were generated despite signs of a maturing credit and business cycle, intensifying trade rhetoric, decelerating global economic growth, the Federal Reserve's (Fed) dovish shift, and the spike-collapse-spike cycle of equity and credit volatility.

August developments also have been noteworthy, with gold prices reaching six-year highs, oil prices setting new 2019 lows, and a continued global interest-rate decline. As the 2-year/10-year Treasury yield curve inverted for the first time since 2007, Germany's entire yield curve turned negative for the first time in history.

As we approach the latter stage of the economic cycle, we believe qualified investors may want to consider adding select exposure to total-return, growth-oriented strategies that have the potential to enhance performance and mitigate downside risk. We believe that beta-mitigating strategies such as Equity Hedge and Long/Short Credit—with their ability to adjust net exposure and take long or short positions designed to generate alpha in up or down markets—can be complementary to long-only equities and fixed income, especially in the latter stages of an economic cycle.

[1] Alpha is excess return over the market-based return. It is often associated with beta, which measures the degree of volatility, or systemic risk, which exists due to market exposure.

Table 1. Selected monthly and year-to-date returns through July 31, 2019

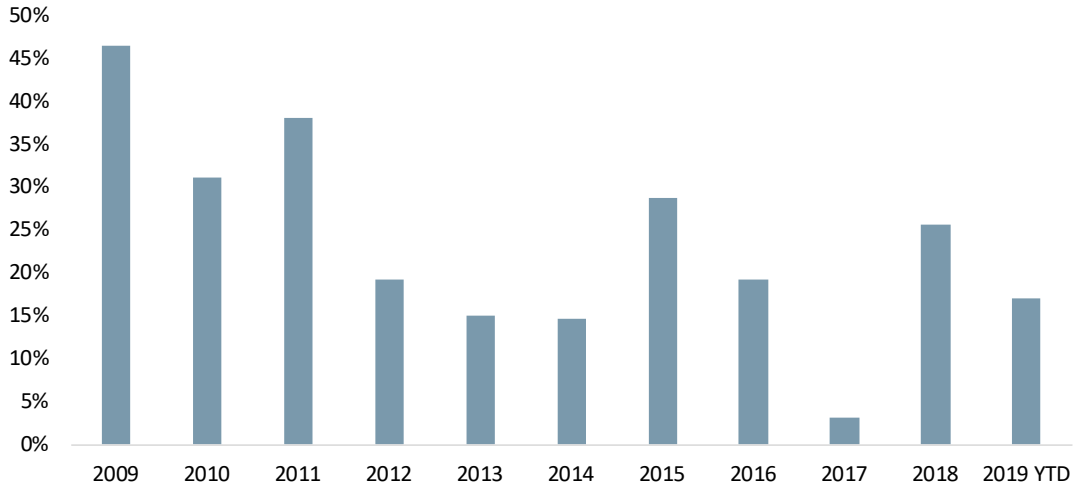
Alternative investment indices	July 2019	Year to date
HFRI Fund Weighted Composite Index	0.53%	7.80%
HFRI Equity Hedge (Total) Index	0.25%	9.52%
HFRI Event Driven (Total) Index	0.41%	5.94%
HFRI Macro (Total) Index	1.46%	6.37%
HFRI Relative Value (Total) Index	0.39%	5.87%
HFRI Fund of Funds Composite Index	0.26%	6.43%
Goldman Sachs VIP Index	0.36%	19.64%
Traditional investment indices	**July 2019**	**Year to date**
S&P 500 Index	1.44%	20.24%
MSCI World Index	0.53%	18.01%
Bloomberg Barclays U.S. Aggregate Bond Index	0.22%	6.35%
Bloomberg Barclays U.S. High Yield Corporate Index	0.56%	10.56%
Bloomberg Commodity Index	-0.87%	2.93%

Sources: Hedge Fund Research, Bloomberg, August 19, 2019. **Past performance is no guarantee of future results.** An index is unmanaged and not available for direct investment.

Equity Hedge: An opportunity to participate, but protect

As noted, hedge funds had a strong YTD rebound. That resurgence has been led by the Equity Hedge strategy (+9.5%) within the HFRI Equity Hedge (Total) Index. Recent volatility increases, expensive asset-class valuations, and the global cycle transitioning to a later stage may contribute to a more challenging backdrop for asset prices. Looking forward, we believe that this environment should prove constructive for Equity Hedge, particularly relative to traditional, long-only equity investments. Importantly, volatility has risen in 2018 and YTD, and we expect this to continue through 2020 (Chart 1).

Chart 1. Percentage of days the S&P 500 Index rose or fell by more than 1%



Source: Standard & Poor's, August 16, 2019. Year to date (YTD) 2019 data is through August 16, 2019. **Past performance is no guarantee of future results.** An index is unmanaged and not available for direct investment.

Against this backdrop, we also expect U.S. stock dispersion to rise and correlations to fall.[2] We anticipate that certain companies and sectors will benefit more than others, creating a compelling backdrop for stock selection. While fundamentals remain strong and economic data has been largely positive, the crosscurrents of rising volatility, dovish central bank policy, and macro risks have appeared. We remain favorable on Equity Hedge as we believe that this strategy may assist in diversifying equity exposure and enhancing risk-adjusted portfolio returns during the latter stages of the economic cycle.

Long/Short Credit: With intensifying credit risks, a strategy to consider

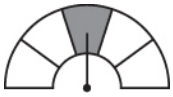
In recent years, corporate debt has expanded dramatically, while high-yield debt and leveraged loan covenants (and other bondholder protections) have weakened considerably. Nonfinancial corporate debt in the form of loans and bonds stood at approximately $16 trillion at the end of the first quarter, which equals approximately 75% of U.S. gross domestic product (GDP).[3] This is an increase of more than 50% since 2007. About a third of that debt is either high-yield debt or leveraged loans.[4] Additionally, roughly 14% of companies in the S&P 1500 Index (which includes all stocks in the S&P 500, S&P 400, and S&P 600 indices and covers 90% of the market capitalization of U.S. stocks) are now "zombies," meaning that they do not have enough earnings before interest and taxes to cover interest expenses.[5]

Yet, despite these rising risks, yield-starved investors continue to allocate assets to U.S. high-yield corporate debt (at the same time as the Fed's July rate cut allayed some investor concerns). Credit defaults remain low, and we have a favorable view of investment-grade credit and investment-grade corporate debt (we are unfavorable on high yield).

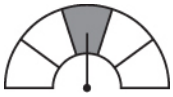
However, several catalysts are appearing on the horizon that could trigger a multi-year opportunity for Long/Short Credit investing. We expect that rising corporate debt, along with increased risks of an economic downturn down the road, should translate to opportunities for Long/Short Credit strategies. We believe that continued low rates mean that more companies are likely to borrow even more actively. In the face of economic headwinds, companies that are overleveraged could face challenges that cause them to deleverage or default on debt. These factors, among others, are why we believe that credit security selection will become increasingly important. We expect the changing credit landscape to create a more lucrative environment for shorting credit, which could offer an important source of alpha for the Long/Short Credit strategy. This strategy, along with Equity Hedge, merits consideration by qualified investors as part of a well-diversified portfolio.

[2] Correlations measure how two asset classes or investments move in relation to each other.
[3] Institute of International Finance, August 2019.
[4] S&P Global Market Intelligence, August 2019.
[5] Bianco Research, August 2019.

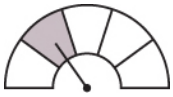
Audrey Kaplan, Head of Global Equity Strategy***; Scott Wren,*** Senior Global Equity Strategist***; Ken Johnson, CFA,*** Investment Strategy Analyst



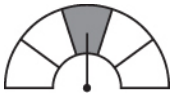
Neutral
U.S. Large Cap Equities



Neutral
U.S. Mid Cap Equities



Unfavorable
U.S. Small Cap Equities



Neutral
Developed Market
Ex-U.S. Equities

Neutral
Emerging Market Equities

Guidance and target changes as risks increase

Our recent guidance and target changes have one goal in mind—reducing risk in the equity portion of portfolios.[6] The negative risks to our broadly constructive outlook have increased meaningfully in recent weeks as trade frictions have reaccelerated and global growth momentum appears to have slowed further.

Wells Fargo Investment Institute (WFII) has reduced its 2019 interest-rate forecasts and expects two more Fed rate cuts this year. WFII also has reduced its 2019 oil-price targets—and expects the dollar to remain at stronger levels than initially projected. These changes influence our thinking on emerging markets and U.S. large-cap equity sectors.

We have lowered our emerging market guidance to neutral from favorable—and also reduced our 2019 year-end target for the MSCI Emerging Markets Index. A stronger dollar and slower global growth are headwinds for this equity class. Our target now reflects approximately 3% upside from current levels by year-end 2019.

We have downgraded the Industrials and Energy sectors to neutral from their previous ratings of most favorable and favorable, respectively. Both are tied to global growth and capital spending—where we see increased downside risks. Lower oil prices are also a headwind for the Energy sector.

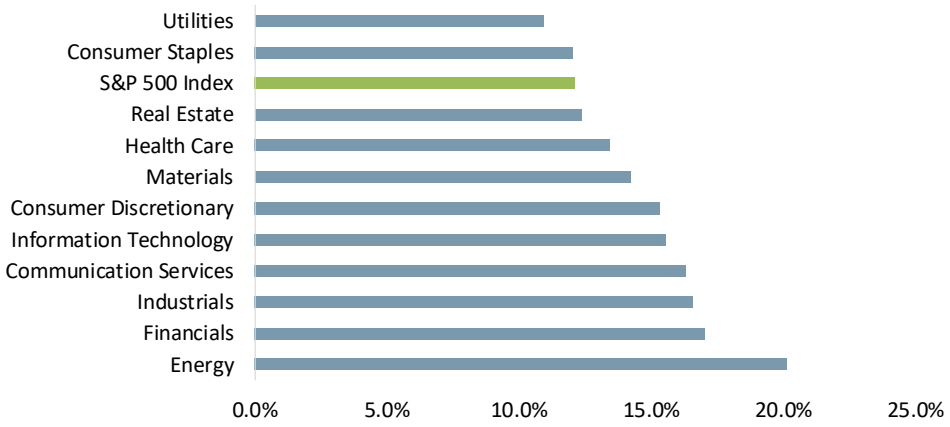
We have upgraded the defensive Utilities and Real Estate sectors from their previous most unfavorable and unfavorable ratings. As the chart shows, the standard deviations (a measure of risk) for these sectors are lower than the more economically sensitive Industrials and Energy sectors. Additionally, these sectors offer yield potential in a low-rate environment.

Key takeaways

» We have adjusted our sector and equity class guidance, and our emerging market year-end target, to adopt a more conservative investment stance.

» We believe that investors should adjust their portfolio exposure accordingly.

S&P 500 Index: Sector risk

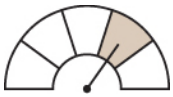


Sources: FactSet, Wells Fargo Investment Institute. Chart shows standard deviation of total return for the three years from August 1, 2016 to July 31, 2019, using the S&P 500 sub-index for each sector. **Past performance is no guarantee of future results.** An index is unmanaged and not available for direct investment.

[6] Wells Fargo Investment Institute, "Institute Alert: Economic Concerns Signal a More Conservative Stance", August 19, 2019.

Brian Rehling, CFA
Co-Head of Global Fixed Income Strategy

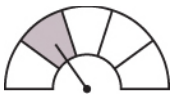
Neutral
U.S. Taxable Investment Grade Fixed Income



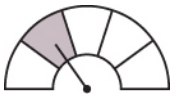
Favorable
U.S. Short-Term Taxable Fixed Income

Neutral
U.S. Intermediate Term Taxable Fixed Income

Neutral
U.S. Long-Term Taxable Fixed Income



Unfavorable
High Yield Taxable Fixed Income



Unfavorable
Developed Market Ex.-U.S. Fixed Income

Neutral
Emerging Market Fixed Income

Reducing our interest-rate targets

We recently reduced our year-end 2019 federal funds rate target by 25 basis points to 1.50%-1.75% (one hundred basis points equal 1.00%). Our new target implies that the Fed will make two additional 25-basis-point rate cuts before year-end. We also reduced our 10-year and 30-year Treasury yield targets by 50 basis points. Our year-end targets for the 10-year and 30-year Treasury yields now stand at 1.50-2.00% and 1.75-2.25%, respectively.

Rates across the yield curve are falling as investors move to reduce risk in the face of increasing trade and global growth uncertainty. The magnitude and speed of the recent rate decline and the effect on yield curves are quite concerning. Adding to these concerns is the backdrop of extremely low global yields, with the German 10-year Bund yield at nearly -0.70% and worldwide negative-yielding debt now at more than $15 trillion.[7]

We believe that risks remain to the downside for our targets. While we may experience an "oversold bounce" in the near term, we do not expect longer-term rates to move materially higher from current levels. With this in mind, we believe that investors should position portfolios near a neutral duration or maturity profile.[8]

Upgrading investment-grade (IG) credit

We also upgraded IG credit and IG corporate fixed income to favorable from neutral. We believe IG credit securities offer reasonably attractive yield potential in a market segment that historically has offered good liquidity. We believe that investors should emphasize sound credit analysis, with a focus on higher-quality issuers and sectors (as we are late in the economic cycle).

Key takeaways

» We have reduced our year-end rate targets and upgraded IG credit and IG corporates to favorable.

» We believe that investors should raise average credit quality and maintain a neutral duration profile.

Wells Fargo Investment Institute year-end 2019 fixed income targets

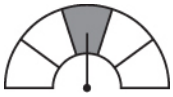
	New 2019 year-end target	Previous 2019 year-end target
Federal funds rate	1.50%-1.75%	1.75%-2.00%
10-year U.S. Treasury yield	1.50%-2.00%	2.00%-2.50%
30-year U.S. Treasury yield	1.75%-2.25%	2.25%-2.75%

Source: Wells Fargo Investment Institute, August 19, 2019. Forecasts are not guaranteed and based on certain assumptions and on views of market and economic conditions which are subject to change.

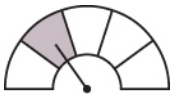
[7] Bloomberg, August 20, 2019.
[8] Duration is a measure of interest-rate risk.

John LaForge
Head of Real Asset Strategy

"Money is only a tool. It will take you wherever you wish, but it will not replace you as the driver."
--Ayn Rand



Neutral
Commodities



Unfavorable
Private Real Estate

The tale of two REITs

Over the past year or so, as interest rates have dropped and economic uncertainties have risen, real estate investment trusts (REITs) have been more favorable to investors. REITs may not be the "fastest growers," and fundamentals may be generally softening—but they have offered steady dividends and a lower risk profile than several other asset classes, and this is in high demand right now.

Not all REITs are created equal, though—especially when we look at REITs on a global basis. REITs that are based outside the U.S. have not had the great run that their average U.S. counterpart has. The chart breaks down U.S. REITs versus REITs outside the U.S. (international). Notice that U.S. REITs (green line) have handily outpaced their international counterparts (orange line) to date in 2019. In fact, international REIT performance has effectively remained at a standstill, since 2012. This difference is a primary reason why we have favored U.S. REITs over international REITs for years now. As for why U.S. REITs have done so much better, the reasons are largely tied to better economics inside the U.S. than overseas, and a relatively strong U.S. dollar.

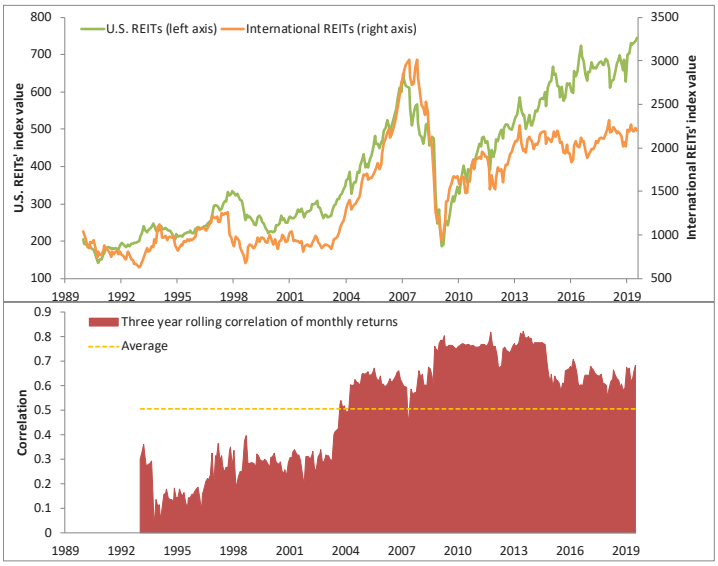
For diversified portfolios, we are neutral on Global REITs, which combine U.S. and international REITs. But for investors that are looking to distinguish between the two, we prefer U.S. REITs over international ones. For more on which U.S. REIT sectors we recommend, please see our July 25, 2019 report titled, "Global Real Assets: Quarterly Guidance".

Key takeaways

» We are neutral on Global REITs, which is an asset class that combines U.S. and international REITs.

» We prefer U.S. REITs over international ones today.

International REITs versus U.S. REITs

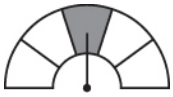


Sources: Bloomberg, Wells Fargo Investment Institute. Monthly data: December 29, 1989-July 31, 2019. FTSE NAREIT All Equity Index represents U.S. REITs. FTSE EPRA/NAREIT Developed ex U.S. Index represents International REITs. **Past performance is no guarantee of future results.** An index is unmanaged and not available for direct investment.

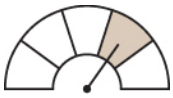
Justin Lenarcic
Global Alternative Investment Strategist

Neutral
Private Equity

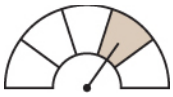
Neutral
Hedge Funds-Macro



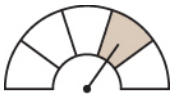
Neutral
Hedge Funds-Event Driven



Favorable
Private Debt



Favorable
Hedge Funds-Equity Hedge



Favorable
Hedge Funds-Relative Value

Alternative investments, such as hedge funds, private equity, private debt and private real estate funds are not suitable for all investors and are only open to "accredited" or "qualified" investors within the meaning of U.S. securities laws.

Hedge fund sensitivity to global equities is near cycle lows

Beta is a well-known statistic within alternative investments that measures the degree of volatility, or systematic risk, which exists due to market exposure. It is an important metric to understand throughout the cycle, but especially in the latter stages, when volatility normally increases and portfolio diversification becomes more imperative.

As we noted in this week's cover article, hedge fund performance through the first seven months of 2019 ranked among the best in years. While this is quite encouraging, we also note hedge funds have generated strong returns while aggressively reducing their beta. As the chart below shows, the rolling six-month beta of the HFRX Global Hedge Fund Index to the MSCI World Index is well below the historical average. In fact, the current beta value of 0.12 ranks within the 10th percentile since August 2003.

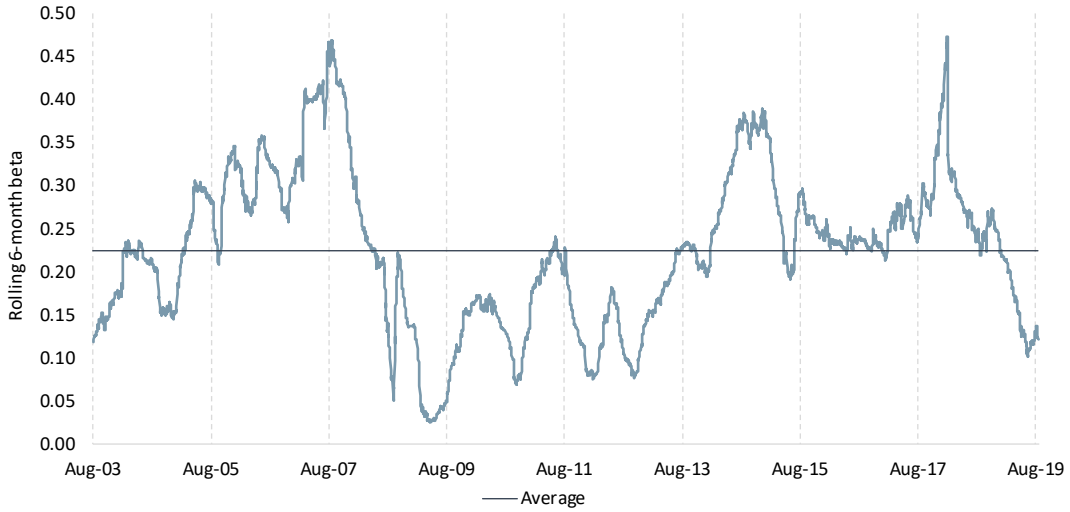
We continue to favor strategies that have the potential to generate attractive returns while also providing much-needed diversification in an effort to balance global equity and credit market exposure. Moreover, managers of certain strategies with a large imbedded "short" portfolio, such as Equity Hedge and Relative Value, often can control (and adjust) their beta more quickly than others—allowing them to navigate a potentially slowing global economy that is rife with geopolitical challenges.

Key takeaways

» Understanding how sensitive an investment is to general market volatility will become increasingly important as the economic cycle matures.

» Hedge fund performance has been impressive year to date—but even more impressive is how strong returns have been despite aggressively reducing beta.

Global hedge fund beta remains well below the historical average



Sources: Hedge Fund Research, Inc., Bloomberg, August 2019. Chart shows the rolling six-month beta of the HFRX Global Hedge Fund Index to the MSCI World Index (and that it is well below the historical average today). **Past performance is no guarantee of future results.** An index is unmanaged and not available for direct investment.

Risk Considerations

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Foreign investing** has additional risks including those associated with currency fluctuation, political and economic instability, and different accounting standards. These risks are heightened in emerging markets. **Small- and mid-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. **High yield (junk) bonds** have lower credit ratings and are subject to greater risk of default and greater principal risk. The **commodities** markets are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investing in a volatile and uncertain commodities market may cause a portfolio to rapidly increase or decrease in value which may result in greater share price volatility. **Real estate** has special risks including the possible illiquidity of underlying properties, credit risk, interest rate fluctuations and the impact of varied economic conditions.

Investing in long/short strategies is not suitable for all investors. Short selling involves sophisticated investment techniques that can add additional risk, and involves the risk of potentially unlimited increase in the market value of the security sold short, which could result in potentially unlimited loss for the Fund.

Long/short credit strategies seek to mitigate interest rate and credit risks regardless of market environment through investment in credit-related and structured debt vehicles. These strategies involve the use of market hedges and involve risks associated with the use of derivatives, fixed income, foreign investment, currency, hedging, leverage, liquidity, short sales, loss of principal and other material risks.

Alternative investments, such as hedge funds, private equity/private debt and private real estate funds, are speculative and involve a high degree of risk that is suitable only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in a fund and for which the fund does not represent a complete investment program. They entail significant risks that can include losses due to leveraging or other speculative investment practices, lack of liquidity, volatility of returns, restrictions on transferring interests in a fund, potential lack of diversification, absence and/or delay of information regarding valuations and pricing, complex tax structures and delays in tax reporting, less regulation and higher fees than mutual funds. Hedge fund, private equity, private debt and private real estate fund investing involves other material risks including capital loss and the loss of the entire amount invested. A fund's offering documents should be carefully reviewed prior to investing.

Hedge fund strategies, such as Equity Hedge, Event Driven, Macro and Relative Value, may expose investors to the risks associated with the use of short selling, leverage, derivatives and arbitrage methodologies. Short sales involve leverage and theoretically unlimited loss potential since the market price of securities sold short may continuously increase. The use of leverage in a portfolio varies by strategy. Leverage can significantly increase return potential but create greater risk of loss. Derivatives generally have implied leverage which can magnify volatility and may entail other risks such as market, interest rate, credit, counterparty and management risks. Arbitrage strategies expose a fund to the risk that the anticipated arbitrage opportunities will not develop as anticipated, resulting in potentially reduced returns or losses to the fund.

Sector Risks

Sector investing can be more volatile than investments that are broadly diversified over numerous sectors of the economy and will increase a portfolio's vulnerability to any single economic, political, or regulatory development affecting the sector. This can result in greater price volatility. **Communication** services companies are vulnerable to their products and services becoming outdated because of technological advancement and the innovation of competitors. Companies in the communication services sector may also be affected by rapid technology changes; pricing competition, large equipment upgrades, substantial capital requirements and government regulation and approval of products and services. In addition, companies within the industry may invest heavily in research and development which is not guaranteed to lead to successful implementation of the proposed product. Risks associated with the **Consumer Discretionary** sector include, among others, apparel price deflation due to low-cost entries, high inventory levels and pressure from e-commerce players; reduction in traditional advertising dollars, increasing household debt levels that could limit consumer appetite for discretionary purchases, declining consumer acceptance of new product introductions, and geopolitical uncertainty that could affect consumer sentiment. **Consumer Staples** industries can be significantly affected by competitive pricing particularly with respect to the growth of low-cost emerging market production, government regulation, the performance of the overall economy, interest rates, and consumer confidence. The **Energy** sector may be adversely affected by changes in worldwide energy prices, exploration, production spending, government regulation, and changes in exchange rates, depletion of natural resources, and risks that arise from extreme weather conditions. Investing in the **Financial** services companies will subject a investment to adverse economic or regulatory occurrences affecting the sector. Some of the risks associated with investment in the **Health Care** sector include competition on branded products, sales erosion due to cheaper alternatives, research and development risk, government regulations and government approval of products anticipated to enter the market. There is increased risk investing in the **Industrials** sector. The industries within the sector can be significantly affected by general market and economic conditions, competition, technological innovation, legislation and government regulations, among other things, all of which can significantly affect a portfolio's performance. **Materials** industries can be significantly affected by the volatility of commodity prices, the exchange rate between

foreign currency and the dollar, export/import concerns, worldwide competition, procurement and manufacturing and cost containment issues. **Real estate** investments have special risks, including possible illiquidity of the underlying properties, credit risk, interest rate fluctuations, and the impact of varied economic conditions. Risks associated with the **Technology** sector include increased competition from domestic and international companies, unexpected changes in demand, regulatory actions, technical problems with key products, and the departure of key members of management. Technology and Internet-related stocks smaller, less-seasoned companies, tend to be more volatile than the overall market. **Utilities** are sensitive to changes in interest rates, and the securities within the sector can be volatile and may underperform in a slow economy.

Definitions

Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market.

Bloomberg Barclays US Corporate High-Yield Index covers the universe of fixed-rate, non-investment-grade debt.

Bloomberg Commodity Index is calculated on an excess return basis and reflects commodity futures price movements.

FTSE EPRA/NAREIT Developed ex US Index is designed to track the performance of listed real estate companies in developed countries worldwide other than the United States.

FTSE NAREIT All Equity REITs Index, a subset of the All REITs Index, is designed to track the performance of REITs representing equity interests in (as opposed to mortgages on) properties. It represents all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets, other than mortgages secured by real property that also meet minimum size and liquidity criteria.

The **Goldman Sachs Hedge Fund VIP Index** (the "Index") is owned by Goldman Sachs Asset Management L.P. (the "Index Sponsor"). The Index is calculated by Solactive AG (the "Calculation Agent"). The Index consists of hedge fund managers' "Very-Important-Positions," or the US-listed stocks whose performance is expected to influence the long portfolios of hedge funds. Those stocks are defined as the positions that appear most frequently among the top 10 long equity holdings within the portfolios of fundamentally-driven hedge fund managers. The Index is rebalanced on a quarterly basis to reflect changes in reported hedge fund manager holdings.

HFRI Equity Hedge (Total) Index: Investment Managers who maintain positions both long and short in primarily equity and equity derivative securities.

HFRI Event-Driven (Total) Index: Investment Managers who maintain positions in companies currently or prospectively involved in corporate transactions of a wide variety including but not limited to mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments.

HFRI Fund of Funds Composite Index invest with multiple managers through funds or managed accounts. The strategy designs a diversified portfolio of managers with the objective of significantly lowering the risk (volatility) of investing with an individual manager. PLEASE NOTE: The HFRI Fund of Funds Index is not included in the HFRI Fund Weighted Composite Index.

The **HFRI Fund Weighted Composite Index** is a global, equal-weighted index of over 2,000 single-manager funds that report to HFR Database. Constituent funds report monthly net of all fees performance in US Dollar and have a minimum of $50 Million under management or a twelve (12) month track record of active performance. The HFRI Fund Weighted Composite Index does not include Funds of Hedge Funds.

HFRI Macro (Total) Index: Investment Managers which trade a broad range of strategies in which the investment process is predicated on movements in underlying economic variables and the impact these have on equity, fixed income, hard currency and commodity markets. Managers employ a variety of techniques, both discretionary and systematic analysis, combinations of top down and bottom up theses, quantitative and fundamental approaches and long and short term holding periods.

HFRI Relative Value (Total) Index: Investment Managers who maintain positions in which the investment thesis is predicated on realization of a valuation discrepancy in the relationship between multiple securities. Managers employ a variety of fundamental and quantitative techniques to establish investment theses, and security types range broadly across equity, fixed income, derivative or other security types.

HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry.

MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of 23 developed market countries including the United States.

MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

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S&P MidCap 400 Index is a capitalization-weighted index measuring the performance of the mid-range sector of the U.S. stock market, and represents approximately 7% of the total market value of U.S. equities. Companies in the Index fall between the S&P 500 Index and the S&P SmallCap 600 Index in size: between $1-4 billion.

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the U.S. stock market. The Index is unmanaged and not available for direct investment.

S&P SmallCap 600 Index consists of 600 domestic stocks chosen for market size, liquidity (bid-asked spread, ownership, share turnover and number of no trade days) and industry group representation. It is a market value-weighted index (stock price times the number of shares outstanding), with each stock's weight in the index proportionate to its market value.

An index is unmanaged and not available for direct investment.

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