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MONTHLY MARKET COMMENTARY | OCTOBER 2021

Developed Markets Drive Equity Advance

Monthly Snapshot

- Equities charged ahead around most of the world in October, erasing September's dip. Developed-market stocks surged, while emerging-market stocks mounted a subdued advance.
- Government-bond yield curves flattened during the month; inflation-indexed sovereign debt was the top performer within fixed income, retaining its lead from the third quarter.
- While U.S. inflation may be near a peak, Europe appears poised for further acceleration given immediate concerns about the cost of energy.

Equities charged ahead around most of the world in October, erasing September's dip. Developed-market stocks surged, with the U.S. at the helm, while emerging-market stocks mounted a subdued advance. European and U.K. stocks delivered strong performance in October, while Japan continued its countertrend pattern with a plunge that offset its sizeable September gain.

Outside of developed markets, Argentina and Indonesia sustained remarkable multi-month runs, and China offset recent drops with a healthy showing in October. Peru outpaced nearly all other markets (second only to Egypt), but Latin America's overall equity-market performance sank as Brazil and Chile clocked the worst emerging-market country-level performance.

Government-bond yield curves flattened in the U.S., U.K. and eurozone during October as short-to-medium-term rates climbed and longer-term rates declined. Inflation-indexed sovereign debt retained its third-quarter rank as the top-performing segment of fixed-income markets in October, while local-currency emerging-market debt continued to sustain the deepest losses.

The price of West Texas Intermediate crude oil increased by 11.4% to end October at $83.57 per barrel, its highest level since October 2014.

The number of new COVID-19 cases reported globally appeared to bottom in mid-October after hitting a recent peak in mid-August (as measured by the seven-day average, according to Reuters' global tracker). By the month's end, Eastern Europe (and, to a lesser degree, the Caribbean and Southeast Asia) had the highest concentrations of countries contending with all-time peak or near-peak outbreaks.

On a country-level, the U.S. continued to report the highest average number of new infections and COVID-19-related deaths per day at the end of October; yet its infection rate declined to 29% of its all-time high. The U.K. averaged the second-largest number of daily infections and recorded a rising infection trajectory for most of October, but it registered a much lower death rate compared to other countries. Russia had the third-highest average number of new infections per day in late October (hitting its all-time peak at the end of the month) and averaged the second-highest

Key Measures: October 2021

Equity		
Dow Jones Industrial Average	5.93%	↑
S&P 500 Index	7.01%	↑
NASDAQ Composite Index	7.29%	↑
MSCI ACWI Index (Net)	5.10%	↑
Bond		
Bloomberg Barclays Global Aggregate Index	-0.24%	↓
Volatility		
Chicago Board Options Exchange Volatility Index PRIOR MONTH: **23.14**	16.26	↓
Oil		
WTI Cushing crude oil prices PRIOR MONTH: **$75.03**	$83.57	↑
Currencies		
Sterling vs. U.S. dollar	$1.37	↑
Euro vs. U.S. dollar	$1.16	↓
U.S. dollar vs. yen	¥114.02	↑

Sources: Bloomberg, FactSet, Lipper

daily number of COVD-19-related deaths. By the end of the month, large majorities of the U.K. (74%) and U.S. (67%) populations had received at least one COVID-19 vaccine dose, while 38% of Russia's residents had received the same.

The Congress voted to increase the federal debt ceiling by $480 billion in mid-October, effectively allowing federal borrowing until early December in order to temporarily prevent a government shutdown. Competing priorities—centered on funding for a large multi-year infrastructure plan and a wide-ranging healthcare, education and child care program—have fragmented the Democrats' razor-thin majority; although there appears to be enough votes to enact the infrastructure priorities.

In early October, U.S. Trade Representative Katherine Tai formally articulated the U.S.-China trade policy of President Joe Biden's administration, which includes retaining existing tariffs, avoiding new ones, and committing to the Phase One trade deal. She also announced the reinstatement of an exclusion process for U.S. companies that apply for relief from tariff-induced damages.

Beleaguered Chinese property developer Evergrande made two interest payments in October as 30-day grace periods were set to expire, narrowly averting defaults. Fantasia Holdings Group, a much smaller developer, failed to repay a $206 million bond payment early in the month.

Economic Data

U.S.

- The growth of U.S. manufacturing activity remained strong in October, cooling only slightly. Services-sector growth accelerated from solid levels in September to remarkably strong levels in October.
- New weekly U.S. jobless claims broke below 300,000 during October for the first time since March 2020—beginning the month at 326,000 filings per week and trending steadily lower to finish at 281,000.
- The U.S. economy expanded at a 2.0% annual rate in the third quarter, down steeply from 6.7% during the second quarter. Meanwhile, U.S. wages increased by 1.5% during the third quarter, the highest rate in the Department of Labor's 20-year measurement period.

U.K.

- U.K. manufacturing growth picked up during October from already-strong levels. Services-sector growth re-accelerated in the month after slowing from multi-decade highs during the third quarter.
- The U.K. claimant count (which calculates the number of people claiming Jobseeker's Allowance) declined further in September by roughly 50,000 claimants, lowering the claimant share of the population from 5.4% to 5.2%.
- The U.K. economy expanded by 0.4% in September, remaining below the monthly readings that surpassed 2% during the springtime peak in economic activity but above August's near-flat showing.

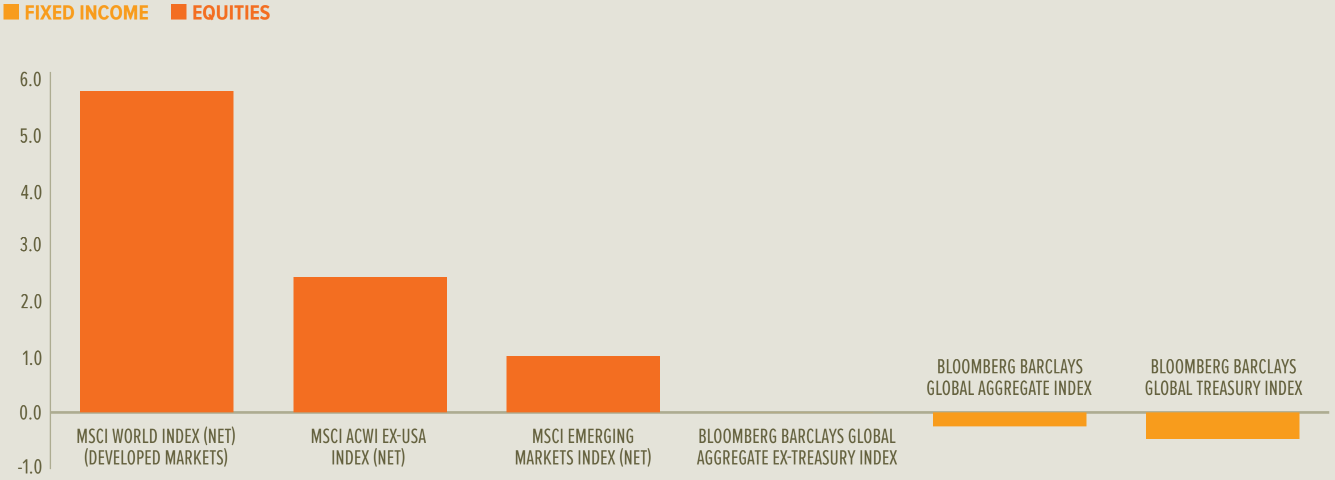
Eurozone

- The eurozone sustained its spirited manufacturing growth in October. Services growth continued to soften in the month, albeit to still-healthy levels.
- The eurozone unemployment rate slipped from 7.5% in August to 7.4% in September.
- The overall eurozone economy grew by 2.2% during the third quarter, matching the second-quarter pace, and by 3.7% year over year in September. France's economy expanded by 3.0% during the third quarter, beating forecasts for 2.1% and improving on the country's second-quarter pace of 1.2%; the German economy grew by 1.8%, in line with the second quarter but below estimates.

Central Banks

- The Federal Open Market Committee (FOMC) did not hold an October meeting, but announced in early November a long-anticipated timetable to reduce its asset purchase programme, which is currently running at purchases of $80 billion in Treasurys and $40 billion in agency mortgage-backed securities (MBS) per month. The central bank will shrink its monthly asset purchases by $15 billion—split between a $10 billion reduction in Treasury purchases and $5 billion in MBS—in November and again in December, with the expectation that the reductions will continue until asset purchases conclude altogether in June 2022, although the pace can be adjusted "if warranted by changes in the economic outlook."

Major Index Performance in October 2021 (Percent Return)



Sources: FactSet, Lipper

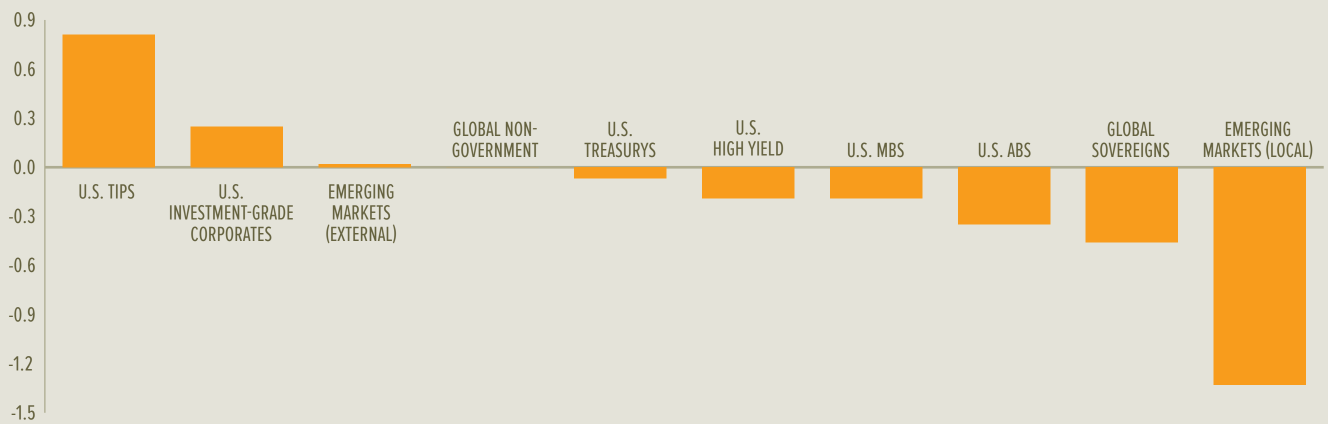
- The Bank of England (BOE) did not convene its Monetary Policy Committee (MPC) during October. The bank rate remained 0.1% at its last meeting. The maximum allowance for asset purchases was unchanged at £895 billion, but elevated inflation pressures provoked the BOE to acknowledge in its September Monetary Policy Summary that modest policy tightening may eventually be warranted.
- The European Central Bank (ECB) kept its monetary-policy orientation on hold at its late-October meeting, enabling a moderately lower pace of net asset purchases under the pandemic emergency purchase programme (PEPP) than the target of approximately €80 billion per month that prevailed prior to its September meeting. ECB President Christine Lagarde stated that market expectations for an ECB rate hike in 2022 seemed a bit premature based on the central bank's analysis.
- The Bank of Japan (BOJ) maintained its monetary-policy course at its late-October meeting—holding its short-term interest rate at -0.1% and its 10-year government bond yield target near 0%, while continuing open-ended asset purchases. The central bank downgraded its near-term consumer inflation forecast in its latest quarterly economic outlook.

Portfolio Review

U.S. large-cap stocks were off to the races in October, with larger and growth-oriented stocks outpacing their smaller and value-oriented peers. Our U.S. large-cap strategies[1] lagged their benchmarks for the period given their value orientation and tilt away from mega-cap stocks. Growth also outperformed value among small caps, but by a much smaller margin. Our small-cap strategies slightly underperformed their benchmarks, with selection in information technology and industrials detracting the most.

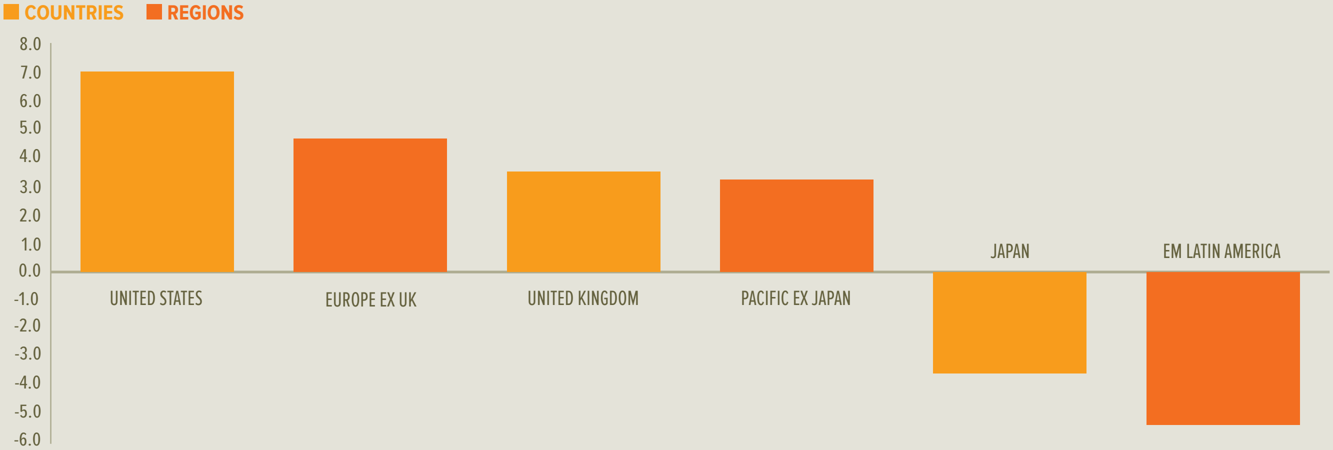
[1] Individual holdings will differ between strategies. Not representative of our passive strategies.

Fixed-Income Performance in October 2021 (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 October 2021 (Percent Return)



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

Overseas, developed-market stocks performed well, and our international developed-market equity strategy essentially matched the benchmark's gain. Strong results from price momentum and quality exposures were enough to offset losses from value exposures. Our emerging-market equity strategy slightly outperformed its benchmark during the month. Broad-based strength in bottom-up selection overcame value-related setbacks.

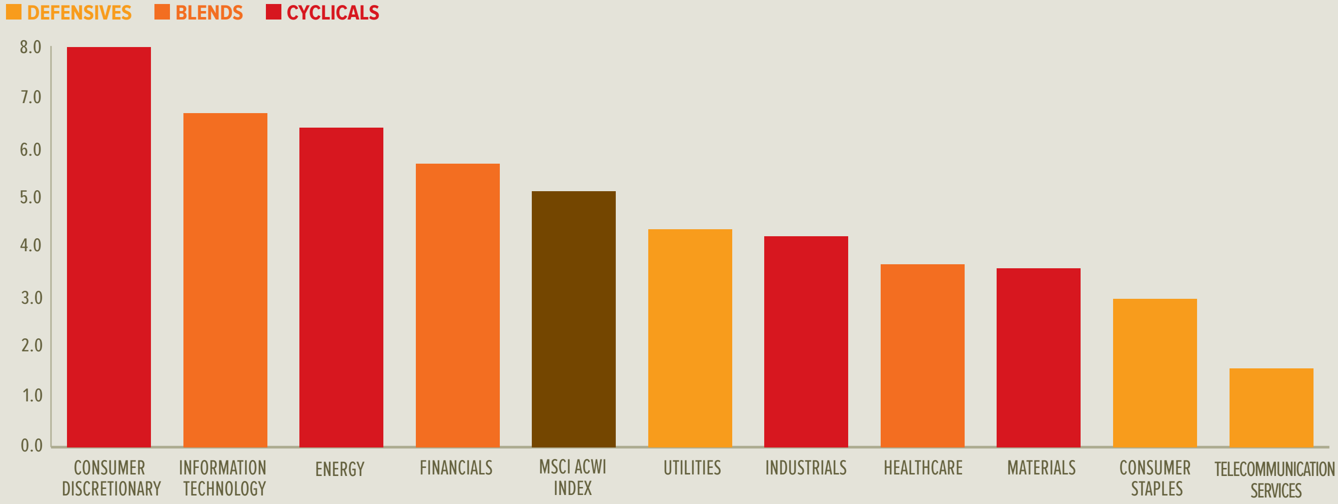
Our core fixed-income strategy was nearly in line with its benchmark's flat overall performance during October as non-government fixed-income sectors had mixed performance relative to comparable U.S. Treasurys. Yield curve positioning, primarily driven by an overweight to the long end, benefited from the decline in long-term yields. Positioning within corporates detracted, mostly on an overweight to and selection within financials. An allocation to non-agency MBS contributed; asset-backed securities (ABS) modestly underperformed the benchmark, yet our selection within ABS was beneficial. Within commercial MBS (CMBS), selection within higher-quality tranches was strong but an underweight to lower-quality tranches detracted. Our high-yield strategy gained in absolute terms for the month, outperforming the benchmark's loss. An allocation to collateralized loan obligations (CLO) remained the top contributor, followed by selection in energy and basic industry. The most significant detractors were selection in healthcare, media and consumer goods. Our emerging-market debt strategy slightly trailed its benchmark for the month, primarily on an underweight to hard-currency debt.

Manager Positioning and Opportunities

High-growth stocks are expensive relative to the broader market. The top active positions within our U.S. large-cap strategies were overweights to the materials and financials sectors (attractive relative valuations, positioned to handle high inflation). Our U.S. small-cap strategies continued to primarily favor value given its significant discount and reversion potential versus growth. Secondarily, we prefer quality and have marginally increased our allocations accordingly (cautious view on the market, attractive valuations). Our international developed-market equity strategy was overweight Europe and North America due to the wide variety of bottom-up opportunities within the technology and consumer-oriented sectors. It was underweight Japan and the broader Pacific region (economic headwinds), as well as the U.K. (diversification away from the largest sectors). Our emerging-market equity strategy was overweight South Africa and Korea (internet-related stocks) and underweight China (expensive valuations in growth names and pockets of slow growth). Saudi Arabia also remained underweight (concerns about oil, lack of near term growth prospects).

With long-term yields still near historically low levels, our core fixed-income strategy has been gradually adjusting its yield curve posture—reducing an overweight to the 25-to-30-year segment of the yield curve, and increasing exposure to the 5-to-10-year segment. Our corporate overweight remained concentrated in financials, industrials and, to a lesser degree, energy. Overweights to ABS and CMBS remained given their attractive risk-adjusted yields, with an emphasis on higher-quality holdings. We maintained an allocation to non-agency MBS and were underweight agency MBS as the tapering of the FOMC's asset purchases appears imminent. Our high-yield strategy's largest position remained an allocation to CLOs, which we believe remain attractive, particularly given the high yields on lower-rated debt and equity tranches. We also

Global Equity Sector Performance in October 2021 (Percent Return)



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

had a large overweight to basic industry. Our largest underweights were within telecommunications, leisure, services and capital goods. Our EMD strategy retained an overweight to local-currency assets, underweight to hard-currency debt, and an allocation to corporates.

SEI's View

Recent gloom about flagging economic growth is likely a bit overdone. We expect economic growth—in the U.S. and globally—to continue over the next year or two at a pace that meaningfully exceeds the sluggishness of the years that followed the 2007-to-2009 global financial crisis.

Household wealth is at an all-time high, owing to booming stock and home prices. A big decline in the saving rate has helped cushion the blow to consumer spending; still, saving as a percentage of disposable income remains elevated compared to pre-pandemic levels. We think households generally can adjust to a decline in pandemic relief payments without necessitating a sharp contraction in their expenditures.

The impact of COVID-19 on global supply chains has been a more significant impediment. Vendor deliveries have seldom been as slow in the 74-year history of the Institute for Supply Management's (ISM) survey as they are now, even with the situation having eased slightly since May. Inventories remain exceedingly low relative to demand.

Input costs have been rising rapidly, but companies have been able to compensate by passing along their increased costs to customers. After-tax corporate margins on an economy-wide basis hit a new all-time high in the second quarter, rising to 14.9% of sales.

Corporate pricing power is the good news. The bad news is that inflation keeps exceeding consensus expectations. We still expect inflation to run at a higher rate for a longer period than has been commonly assumed, not just over the next one or two years, but well into the decade.

Growth in unit labor costs typically plummets when the economy emerges from recession. Now, however, unit labor costs are running at the fastest pace since the peak of the 2002-to-2007 expansion.

While commodity inflation and parts shortages may indeed prove transitory, it isn't clear whether the labor shortage and resultant pressure on compensation growth will be as quick to revert to lower levels. The tax and regulatory initiatives of the Biden administration will likely add to the cost pressures facing businesses in the years immediately ahead.

Since U.S. demand is expected to remain robust as economic growth normalizes, it would not be surprising to see companies continue passing along their increased costs. Inflation over the long haul could thus be closer to 3% than the 2% or so currently expected by the Fed and most investors.

While commodity inflation and parts shortages may indeed prove transitory, it isn't clear whether the labor shortage and resultant pressure on compensation growth will be as quick to revert to lower levels.

If that turns out to be the case, the Fed may be forced to raise interest rates higher and faster over the next three years than anticipated.

A concern that is much nearer in timeframe is the fight in Washington over infrastructure spending and the debt limit. We assume President Biden will get about half of what he is seeking, but the devil will be in the details. Investors are probably right not to react too dramatically to every development. The debt-limit drama, however, could elicit a more significant disruption as the deadline for must-pass legislation nears (again, after earning a temporary reprieve). Although the debt ceiling will be raised, the wrangling over it will almost certainly come down to the wire.

We suggest focusing on longer-term considerations: Economic growth should stay relatively strong in 2022. Households are in solid financial shape and will benefit as employment and wages continue to move higher. Companies are still able to pass along increased costs and maintain high profit margins. Fed policy is still biased toward easing credit conditions via ultra-low rates and asset purchases, allowing the economy to run hot at the risk of higher inflation. This should all create a favorable backdrop for risk assets and support a resumption in the coming months of the cyclical/financial/value trend versus growth/technology.

Other developed countries are broadly on the same path as the U.S., and are reacting to the same catalysts.

Purchasing managers' surveys from recent months show that U.S. economic growth is cooling, yet still strong versus pre-pandemic levels. Activity in Europe, led by Germany, appears to be on the upswing—boosted by a decline in Delta (which has allowed for more travel and tourism in Europe) and an increase in EU fiscal support.

The major outlier is Japan, which has been rather weak so far this year versus its industrial-country peers. Inflation-adjusted GDP fell in the first quarter and posted only a tepid gain in the second quarter. Economists blame COVID-19-related restrictions. The global shortage in the supply of semiconductor chips, meanwhile, has impeded auto production. Citizens nonetheless blamed Prime Minister Yoshihide Suga. In response, he pledged to cede leadership of the Liberal Democratic Party (LDP) to former foreign minister Fumio Kishida. The LDP retained a comfortable majority in an October 31 election, so Kishida will also succeed Suga as prime minister.

U.S. inflation may be near a peak, but a further acceleration appears in store for Europe. The immediate concern for households in the region is the cost of energy. Even without energy-production shortages, electricity prices across Europe tend to be much higher than in North America—especially for households, particularly in Germany.

Europe's energy woes probably won't cause the region's governments to deviate from the climate-change agenda they have put in place. The German election underscores this point. Although it will take a couple of months to cobble together a coalition, all political parties are committed to reducing carbon emissions.

Beyond energy, Europe's reopening should cause the price of services to rise as they have in the U.S., albeit to far less of an extent. The overwhelming assumption is that any pickup in inflation will be short-lived.

China is dominating investor perceptions of emerging markets. The Xi government's push to enforce "common prosperity" has had far-reaching effects on corporate China. The country's 20-year boom has exacerbated social inequality. Crackdowns on for-profit tutoring companies, major gig employers, and individuals (notably, Jack Ma, the founder of e-commerce giant Alibaba and digital payments company Ant Group) is a brutal but effective way of addressing disparities in wealth and income.

Although some of these moves have hurt foreign equity investors, it's unclear whether the economy itself will be severely constrained. China is a huge country with tremendous internal capital upon which to draw. Foreign companies probably won't cut and run, but they will certainly be forced to play by Beijing's rules if they stay.

We expect diversification of supply chains away from China at the margin, but this has been happening anyway. It is in advanced countries' interests to be more self-sufficient in producing critical products. But China is too big, too efficient and too important a manufacturer for the world to turn its back on.

China's economic growth rate should nevertheless slow as a result of the government's actions. Property development has been the driving force behind its rapid expansion over the past 15 years. Critics of China's economic model have wondered for years if the bill would ever come due. It might be coming due now.

We are watching the trend in commodity prices for hints that pressure on China's construction activity is beginning to reverberate beyond its borders. So far, there has been little sign of that occurring. Iron ore prices have plunged, but that appears to have been caused primarily by government-mandated closures of steel plants in an effort to curb pollution.

Even within China itself, investors seem to be taking the Evergrande debacle in stride. The effective yield on the country's high-yield bonds has been rising sharply since May, but it is nowhere near the 40% yield reached in 2008. It also remains well below the high reached in 2011, when the government clamped down on excessive credit growth and rampant speculation in the property and stock markets.

In contrast to high yield, the yield on Chinese investment-grade bonds is currently at its lowest level in the past 20 years—indicating no sign of contagion.

One explanation for the resiliency of the MSCI Emerging Markets Index is the strength of the global economy outside China. The U.S. has been

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leading the way, but other advanced countries—notably Europe—continue to post improved economic activity.

If history is any guide, however, upside inflation surprises in the G-10 countries suggest that emerging economies will follow suit over the next few months. Unlike advanced countries, where inflation expectations tend to better anchored, central banks in vulnerable emerging economies are forced to raise interest rates sooner than they would prefer in order to dampen inflation pressures and defend their currencies.

Given these concerns, investors might be tempted to avoid emerging-market equities. We believe that would be a mistake. Valuations, particularly relative to the developed world, look especially cheap.

Globally, the earnings of publicly traded companies generally remain robust; we believe that analysts are still underestimating that strength. With the exception of Japan, earnings estimates for 2021 have been raised dramatically versus just six months ago. Forecasts for 2022 earnings have been cut in half from where they were six months ago, but they still are expected to show mid-to-high single-digit gains.

This lowering of the bar for next year could allow for upward revisions in analysts' earnings estimates—assuming, as we do, that the renormalization of global economic growth gets back on track with wider vaccine distribution and a declining COVID-19 wave.

Glossary of Financial Terms

Asset-Backed Securities (ABS): ABS are securities created from pools of loans or accounts receivable such as credit cards, auto loans and mortgage loans.

Bear market: A bear market refers to a market environment in which prices are generally falling (or are expected to fall) and investor confidence is low.

Bubble: A bubble occurs when excessive speculation leads to a drastic increase in asset prices, leaving them at risk to collapse.

Bull market: A bull market refers to a market environment in which prices are generally rising (or are expected to rise) and investor confidence is high.

Cyclical stocks: Cyclical stocks or sectors are those whose performance is closely tied to the economic environment and business cycle. Managers with a pro-cyclical market view tend to favor stocks that are more sensitive to movements in the broad market and therefore tend to have more volatile performance.

Delta variant: The B.1.617.2 (delta) variant of the severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2), the virus that causes coronavirus disease 2019 (Covid-19), arose during the sharp surge in cases in India during spring 2021 and has now been detected across the globe, including notable increases in cases in the U.K. and U.S.

Fiscal policy: Fiscal policy relates to decisions about government revenues and outlays, like taxation and economic stimulus.

Fiscal stimulus: Fiscal stimulus refers to government spending intended to provide economic support.

Forward price-to-earnings (PE) ratio: The forward PE ratio is equal to the market capitalization of a stock or index divided by forecasted earnings over the next 12 months. The higher the PE ratio, the more the market is willing to pay for each dollar of annual earnings.

Gilt: Gilt refers to a sovereign debt instrument issued by the U.K. government.

Green lending: Green lending refers to the Bank of Japan's effort to strengthen the lending market for environmentally-friendly projects.

Hawk: Hawk refers to a central bank policy advisor who has a negative view of inflation and its economic impact and thus tends to favor higher interest rates.

Inflation-Protected Securities: Inflation-protected securities are typically indexed to an inflationary gauge to protect investors from the decline in the purchasing power of their money. The principal value of an inflation-protected security typically rises as inflation rises, while the interest payment varies with the adjusted principal value of the bond. The principal amount is typically protected so that investors do not risk receiving less than the originally invested principal.

Monetary policy: Monetary policy relates to decisions by central banks to influence the amount of money and credit in the economy by managing the level of benchmark interest rates and the purchase or sale of securities. Central banks typically make policy decisions based on their mandates to target specific levels or ranges for inflation and employment.

Mortgage-Backed Securities: Mortgage-Backed Securities (MBS) are pools of mortgage loans packaged together and sold to the public. They are usually structured in tranches that vary by risk and expected return.

NextGenerationEU: NextGenerationEU is an economic recovery fund established by the EU and totaling more than €800 billion projected to be spent between 2021 and 2027. The centerpiece of the programme is a €723.8 billion facility for loans and grants to EU countries for investments.

OPEC+: OPEC+ combines OPEC—a permanent intergovernmental organization of 13 oil-exporting developing nations that coordinates and unifies the petroleum policies of its member countries—with Russia, a major oil exporter, to make collective high-level decisions about oil production levels.

Pandemic Emergency Purchase Programme (PEPP): PEPP is a temporary asset purchase programme of private and public sector securities established by the ECB to counter the risks to monetary policy transmission and the outlook for the euro area posed by the COVID-19 outbreak.

Quantitative easing: Quantitative easing refers to expansionary efforts by central banks to help increase the supply of money in the economy.

Summary of Economic Projections: The Fed's Summary of Economic Projections (SEP) is based on economic projections collected from each member of the Fed Board of Governors and each Fed Bank president on a quarterly basis.

Taper tantrum: Taper tantrum describes the 2013 surge in U.S. Treasury yields, resulting from the U.S. Federal Reserve's announcement of future tapering of its policy of quantitative easing.

Transitory inflation: Transitory inflation refers to a temporary increase in the rate of inflation.

Treasury Inflation-Protected Securities (TIPS): TIPS are sovereign securities issued by the U.S. Treasury that are indexed to an inflationary gauge to protect investors from the decline in the purchasing power of their money. The principal value of TIPS rise as inflation rises, while the interest payment varies with the adjusted principal value of the bond. The principal amount is protected so that investors do not risk receiving less than the originally invested principal.

Yield: Yield is a general term for the expected return, in percentage or basis points (one basis point is 0.01%), of a fixed-income investment.

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

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

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

The Bloomberg Commodity Index is composed of futures contracts and reflects the returns on a fully collateralized investment in the Index. This combines the returns of the Index with the returns on cash collateral invested in 13-week (3-month) U.S. Treasury bills.

The Employment Cost Index is a quarterly economic series published by the U.S. Bureau of Labor Statistics that details the growth of total employee compensation. The index tracks movement in the cost of labor, as measured by wages and benefits, at all levels of a company.

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.

CBOE Volatility Index (VIX Index): The VIX Index 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 Employment Cost Index is a quarterly economic series published by the U.S. Bureau of Labor Statistics that details the growth of total employee compensation. The index tracks movement in the cost of labor, as measured by wages and benefits, at all levels of a company.

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

The ICE BofA 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 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 Europe ex-UK Index is a free float-adjusted market-capitalization-weighted index that captures large- and mid-cap representation across developed-market countries in Europe excluding the UK.

The MSCI Frontier Emerging Markets Index is a free float-adjusted market capitalization index designed to serve as a benchmark covering all countries from the MSCI Frontier Markets Index and the lower size spectrum of the MSCI Emerging Markets Index.

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.

MSCI United Kingdom Index is designed to measure the performance of the large- and mid-cap segments of the U.K. market.

MSCI USA Index measures the performance of the large- and mid-cap segments of the U.S. market.

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.

Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 Index companies with higher price-to-value ratios and higher forecasted growth values.

The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower expected growth values.

The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values.

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 market-capitalization-weighted index that consists of 500 publicly-traded large U.S. companies that are 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.

The U.S. Dollar Index (DXY Index) measures the value of the U.S. dollar relative to a basket of other currencies, including the currencies of some of the US's major trading partners: the euro, Swiss franc, Japanese yen, Canadian dollar, British pound, and Swedish krona.

Corresponding Indexes for Fixed-Income Performance Exhibit

U.S. High Yield	ICE BofA U.S. High Yield Constrained Index
Global Sovereigns	Bloomberg Barclays Global Treasury 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 US Mortgage Backed Securities Index
U.S. Asset-Backed Securities (ABS)	Bloomberg Barclays US Asset Backed Securities Index
U.S. Treasurys	Bloomberg Barclays US Treasury Index
U.S. Treasury Inflation-Protected Securities (TIPS)	Bloomberg Barclays 1-10 Year US TIPS Index
U.S. Investment-Grade Corporates	Bloomberg Barclays US Corporate Bond 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 U.K.	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. 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.

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