WELLS FARGO
INVESTMENT INSTITUTE

The Divided Recovery

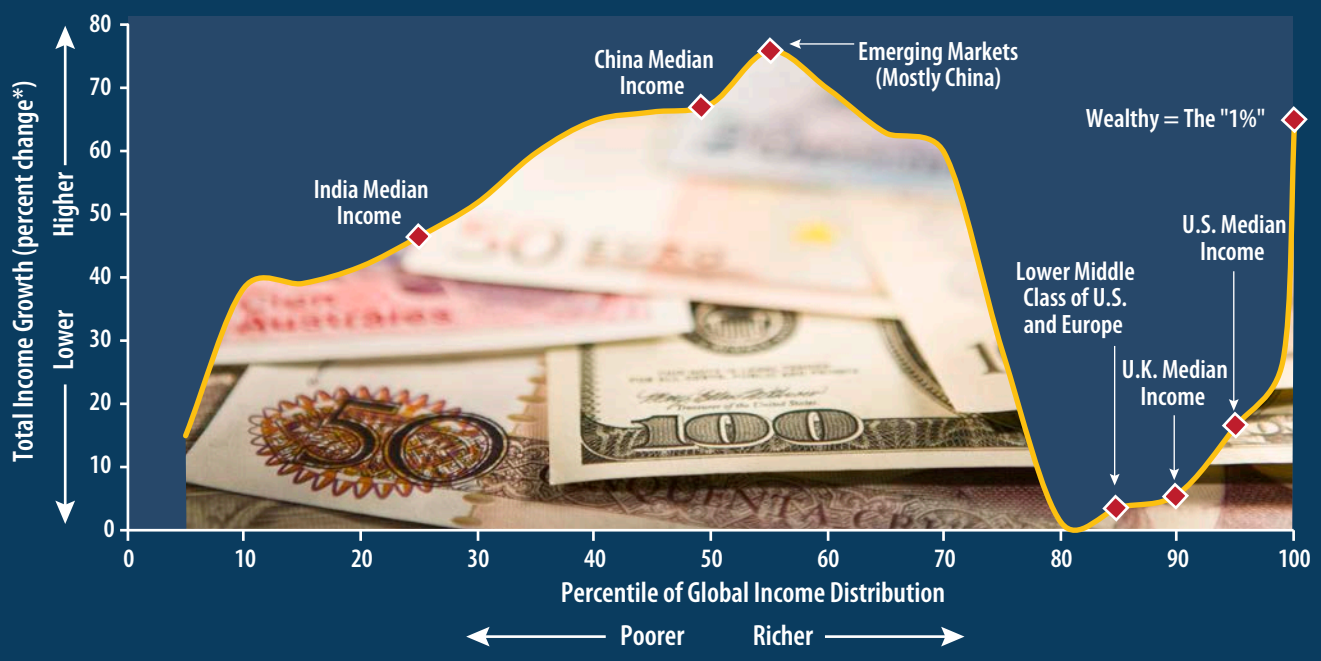
How the Innovative and Efficient Adapt

The World is Changing

Real (or inflation-adjusted) income stagnated for many American workers over the past two decades, while workers in many emerging markets made sizable income gains (see chart below). Globalization, coupled with advancing technology and automation, has played a significant role in this outcome. So has the slow pace of growth thus far in the recovery. We believe that governments are taking greater risks to spur economic growth, but doing so could lead to market volatility. Companies will need to invest in technology and train workers to improve productivity that could result in higher real wages and profits. It is important that investors adapt to this changing environment.

The Divided Recovery

"Winners and Losers" after two decades of globalization (1988-2011)



Source: Lakner, Christoph and Milanovic, Branko, Global Income Distribution: From the Fall of the Berlin Wall to the Great Recession. World Bank Policy Research Working Paper No. 6719. Page 33, Figure 1(a) (December 1, 2013). Data covers 1988 to 2011 in five percent increments. *Percent change expressed in terms of purchasing power parity, an economic theory that uses a "basket of goods" approach to compare different countries' currencies.

Strategies for a Divided World

This recovery has divided along several fault lines:

By geography—both within the U.S. and globally— The recession and slow-growth economy have been particularly hard on the lower-to-middle income segment of the developed world. Yet incomes finally appear poised to rise. Meanwhile, emerging economies are struggling to maintain their relatively higher growth rates amid a global slowdown in trade.

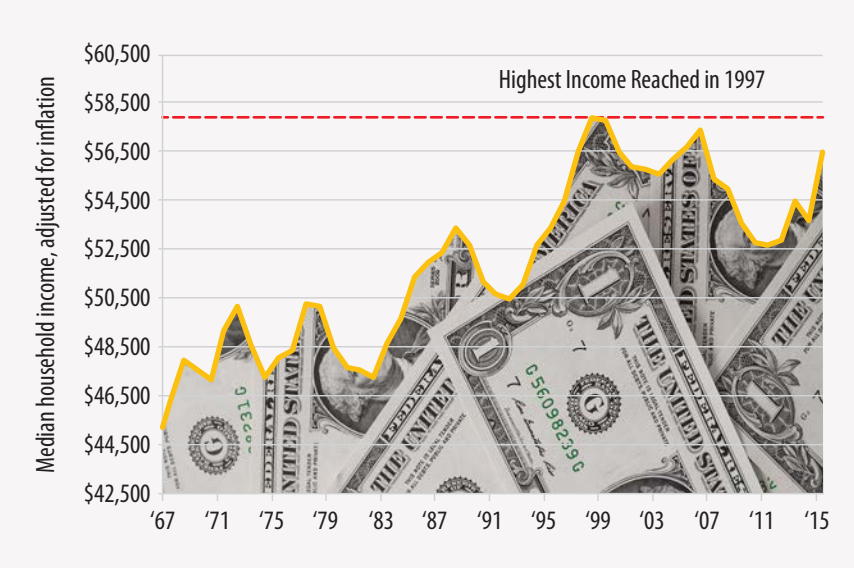
By education levels—Jobs created since the recession overwhelmingly have gone to college-educated workers.

By skill levels—Workers with sought-after skills are in high demand, but companies are struggling to find qualified workers.

By company size—Small private businesses were hit harder than larger companies during the recession and took longer to recover. However, recent data show small-business confidence rising rapidly.

Better Times Ahead?

Although U.S. median household income remains below its pre-recession levels, it climbed by 5.2 percent in 2015.



Source: U.S. Census Bureau, Current Population Survey, Income and Poverty in the United States: 2015
Data as of 2015. Report Issued September 2016.

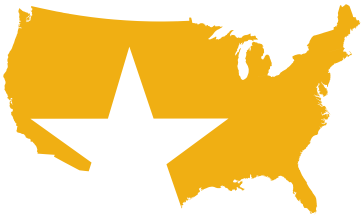
TOPICS WE ADDRESS

Where in The World Can You Find Economic Opportunity?

Where you live matters. If you are fortunate enough to be one of the four percent of the global population born in the U.S., that puts you ahead of 93 percent of the rest of the world in the economic terms.[1] Being a highly educated worker residing in one of America's thriving cities means that you have more opportunities for economic success. Investors in U.S. markets can benefit from the resiliency of the U.S. economy.

However, within the U.S, the recovery has been geographically uneven. Since the onset of the recovery, new business formation and job growth have been concentrated in about 20 counties out of more than 3,000.[2] Gains for most of America's workers stagnated as jobs moved to more cost-effective areas of the globe, such as Asia and Latin America, contributing to higher growth rates in these parts of the world.

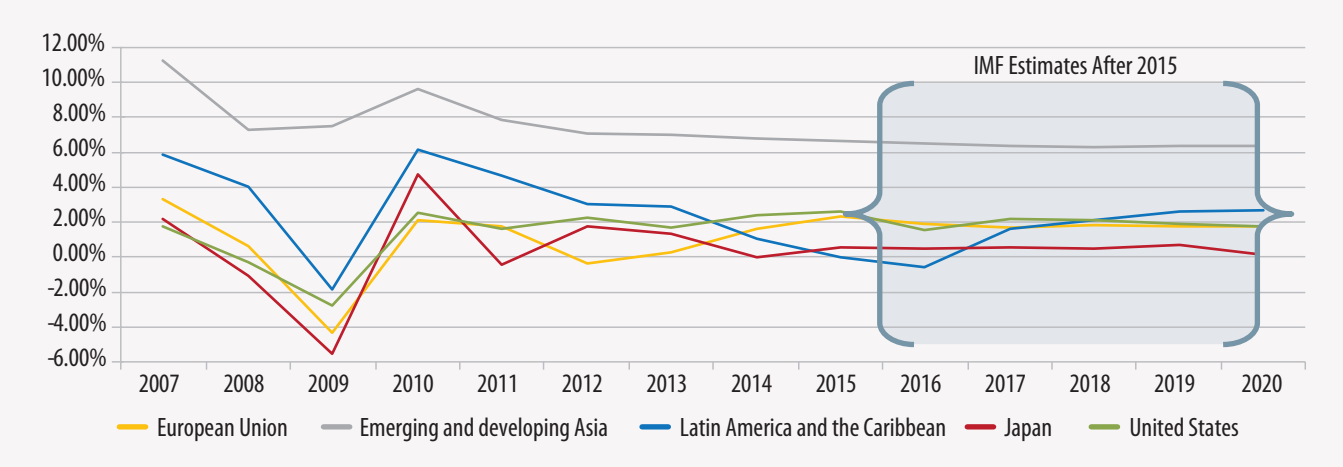
That has benefited workers in some of the poorest countries on the globe. Emerging economies have been growing faster as a group than developed economies, but most of their populations still subsist on a fraction of the income that most developed-market workers earn. Global businesses likely will continue to take advantage of this disparity to reduce their cost of production and increase profits.



Just five percent of the U.S. population is considered "poor" or "low income" by global standards compared to 71 percent of the global population.[3]

Emerging Markets Should Continue to Grow Faster Than Developed Markets

Economic opportunities may be greatest in emerging Asia.



Source: Wells Fargo Investment Institute, World Economic Outlook Database—International Monetary Fund (IMF); latest data as of October 2016.

[1] IMF 2014 Purchasing Power Parity Per Capita Gross Domestic Product (GDP) in U.S. Dollars, World Economic Outlook Oct. 2016

[2] Economic Innovation Group, May 2016

[3] Pew Research Center, "How Americans compare with the global middle class", July 9, 2015, the poor live on $2 or less a daily, low income on $2.01-10

Political Risk on The Rise

The U.S. election was considered by some to be a protest against the effects of globalization and income stagnation. And U.S. voters are not alone in their discontent. The U.K. vote to exit the European Union (EU) or "Brexit" was an opportunity for British voters to express their displeasure with the perceived restrictions imposed by the EU. Italians, unwilling to support the changes championed by their prime minister, rejected his reform ideas in late 2016, forcing his resignation. One developed market after another seems to be contending with the fallout of a divided recovery, at the same time that political risk is elevated in many major emerging markets.

The political landscape remains unsettled in 2017. Rising global political tensions could lead to further market volatility, as policymakers appear willing to take on greater risk to promote higher growth rates. Holding bonds and alternative investments with low net equity exposure as part of a well-diversified global portfolio could help to offset some of this risk. Rebalancing to long-term target allocations when market dislocations occur is another way for investors to mitigate risks during volatile markets.

Key Takeaways

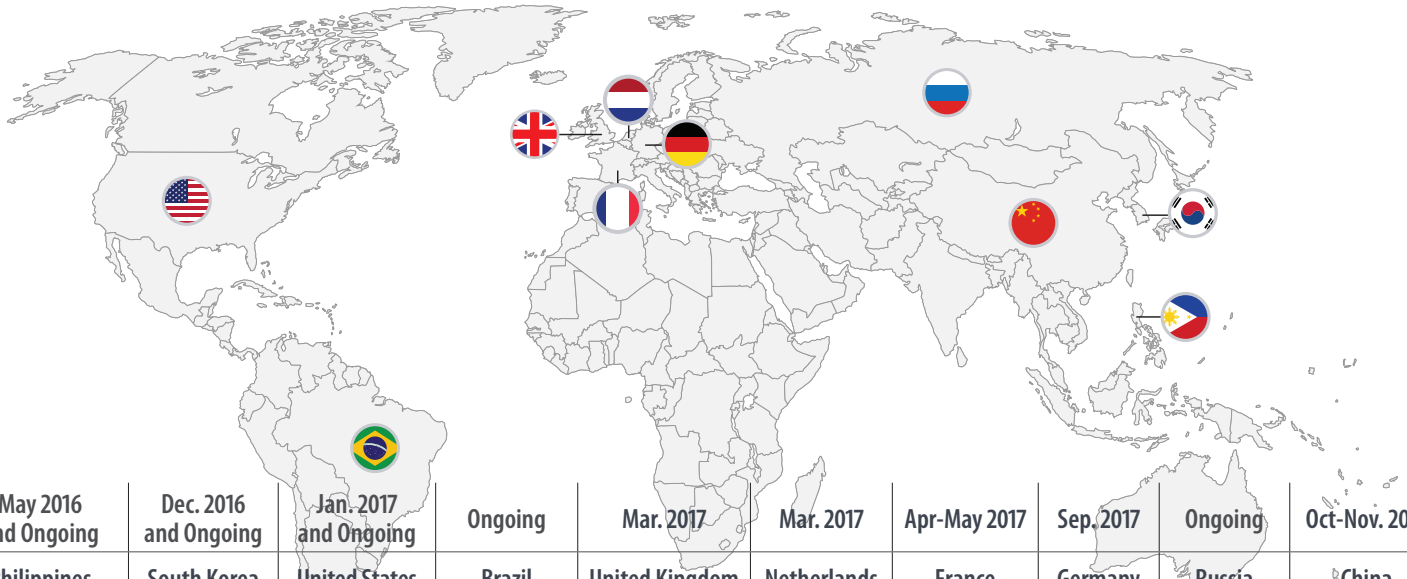
Businesses likely will continue to take advantage of lower labor costs in emerging markets, fueling political risk in developed markets.

To deal with heightened volatility, we suggest that investors hold bonds and alternative investments with low net equity exposure in a diversified portfolio.

Also consider rebalancing to long-term target allocations when market dislocations occur.

Geopolitical Hot Spots

What we are watching in 2017



May 2016 and Ongoing	Dec. 2016 and Ongoing	Jan. 2017 and Ongoing	Ongoing	Mar. 2017	Mar. 2017	Apr-May 2017	Sep. 2017	Ongoing	Oct-Nov. 2017
Philippines	South Korea	United States	Brazil	United Kingdom	Netherlands	France	Germany	Russia	China
Populist President Rodrigo Duterte elected; potential tax reform; new central bank governor in 2017	Political uncertainty following impeachment of President Park Geun-hye	New presidential administration	Political instability (Corruption probes of government leaders)	Invoke Article 50 /Start Brexit from E.U.	General election	Presidential election	General election	Foreign policy conflicts with NATO and the U.S.	19th National Party Congress; potential decisions on economic reforms

Source: Wells Fargo Investment Institute, December 2016.

In Search of Efficiencies: From Outsourcing to Automation

Many economists and policymakers support the notion that global trade and technological advancement will benefit the U.S. economy. Although globalization conferred benefits to U.S. consumers in the form of more plentiful choices and lower prices, 30 years of intensifying global competition—particularly from the emerging Asian economies—eroded U.S. manufacturing competitiveness and employment more substantially than many anticipated.

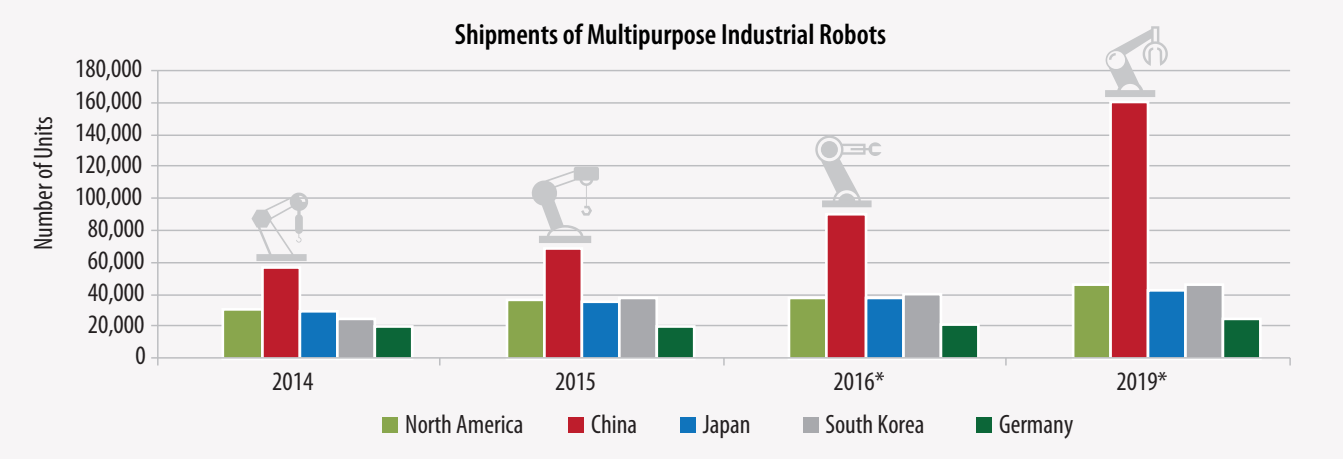
Advances in technology and communications have allowed companies to decrease labor costs by outsourcing work to lower-cost regions, with relative benefits accruing to the world's poorest workers. In addition, lower-skilled segments of the U.S. workforce did not adapt rapidly enough to keep up with technological advancements.

Technology continues to exacerbate job displacement. If we assume that labor costs will rise as the U.S. economy approaches full employment, then productivity will become an increasingly important component of corporate profitability. It will be vital for businesses to innovate and automate to compete globally. This could benefit companies that sell capital equipment such as robotics. Interestingly, China may once again be leading the race to reduce production costs and increase profitability. Industrial robot sales in China are projected to far outpace those of developed markets such as the U.S., Japan, and Germany.

One trend we are watching is companies locating their manufacturing facilities near their customers to reduce shipping costs and currency effects, as well as being viewed as contributing to the "local" economy.

The Race Toward Automation

Top five markets for industrial robot sales



Source: International Federation of Robotics, Executive Summary: World Robotics 2016 Industrial Robots. Data as of September 2016.
*Forecast

Labor Market Changes Bring Opportunities

The good news is that labor reallocation, which is the sum of job creation and job destruction, is intensifying. As jobs are eliminated, new jobs are being created. In this recovery, our research shows that job gains have been broad-based across many different sectors. Although a number of lower-wage hospitality jobs were created since the financial crisis, so were a number of higher-wage jobs in health care, business, and management.

The challenges are training workers to meet employer demands and matching available workers with available jobs. Education plays a vital role in this transition. Education companies should benefit from the need to train and retrain workers throughout their careers.

Automation is by no means a synonym for worker extinction. The proliferation of non-standard jobs, also known as the "gig economy," may offer greater flexibility and autonomy for workers. This form of employment, which often includes temporary positions and independent contractors, may also offer access to those who have been shut out of the formal labor market. Short-term engagements may provide better matching mechanisms, in some cases creating demand and making new types of independent earning activities possible. Over time, technology may make the hierarchical corporate model obsolete, replaced by leaner core organizations that rely on a loose network of contractual workers. This could potentially benefit both workers and investors in these companies.

Key Takeaways

Continued advances in technology and communications favor those companies best able to innovate and adapt.

Education companies are in a position to benefit from the need to train and retrain workers throughout their careers.

Non-standard jobs may offer greater flexibility and autonomy for workers, a possible compensation for slower wage growth.

"There's never been a better time to be a worker with special skills or the right education, because these people can use technology to create and capture value.

"However, there's never been a worse time to be a worker with only 'ordinary' skills and abilities to offer, because computers, robots, and other digital technologies are acquiring these skills and abilities at an extraordinary rate."

– *Brynjolfsson E. and McAfee A., (2014). The Second Machine Age. Work, Progress, and Prosperity in a Time of Brilliant Technologies, New York: W. W. Norton & Company.*

Business Confidence Rising

The Great Recession and the subsequent recovery did not have a uniform effect on small and large businesses. Small businesses (those that employ fewer than 50 workers), were hit harder during the recession, and took longer to recover.

Yet, to grow more quickly, the economy will need recoveries from both large and small businesses. That's because there are more than 28 million small businesses in the U.S. that employ about 48 percent of private sector employees and comprise 99.9 percent of all U.S. firms.[1] Between 1992 and 2013, small businesses created two out of every three net new jobs. More broadly, entrants and young firms are the biggest contributors to employment creation for developed countries.[2]

The good news for the U.S. economy is that the next generation, Millennials, are optimistic about the prospects of starting new businesses. And we should not discount the economic growth supported by larger firms. Large companies that are highly productive and internationally active have an exceptional impact on economic growth and employment expansion.[2]

Effect of Recession on Large Companies versus Small Businesses

Large Company:

- Revenues decline = >
- Cut jobs to save costs = >
- Cancel products/ cut capital expenditures and R&D = >
- Cost cutting impacts other businesses big and small = >
- Fewer employees yet productivity may increase

Small Business:

- Revenues decline = >
- Layoffs = >
- Fail to deliver goods/services = >
- Loss of contracts from larger companies = >
- Credit/financing sources dry up = >
- Productivity decreases further = >
- Risk of bankruptcy

Source: Wells Fargo Investment Institute, January 2017

Source for small business information: NFIB Small Business Economic Trends, December 2016.

Millennial small-business owners—facing challenges but looking on the bright side

Millennial business owners are optimistic about the near term.

77% of millennial business owners expect their businesses to improve in the coming year.

Millennial business owners are committed to succeed and take on debt to meet long-term goals.

80% are in business for the long term and expect to pass their business on to their children.

67% view debt as a long-term investment.

Source: "Millennial Small Business Owner Survey: A closer look at the millennial entrepreneur." Wells Fargo Bank, N.A. June 2016.

[1] Source: Small Business Administration, June 2016. (https://www.sba.gov/sites/default/files/advocacy/SB-FAQ-2016_WEB.pd)

[2] Source: The European Political Strategy Centre of the European Commission, June 2016. "The Future of Work: Skills and Resilience for a World of Change."

Renewed Optimism

The new U.S. administration's stated commitment to lower corporate tax rates and impose fewer regulatory policies could improve the environment for both large and small businesses. Small-business owners regularly cite taxes and regulations as among the most severe burdens their companies face. The National Federation of Independent Businesses (NFIB) estimates that small businesses pay 30 percent more than large businesses in per employee regulation costs.[1] Perhaps that's why its latest survey of small-business confidence now stands at its highest level since 2004. Improving confidence will need to be reinforced with policy actions that lead to greater profitability for small businesses. If this happens, then we should see economic growth improve.

Profitable small businesses generally face higher tax rates than larger businesses, so they may benefit more from a reduction in corporate taxes. However, any disruption to trade through more protectionist policies could negatively impact retail businesses of all sizes that rely heavily on imports.

It is important to distinguish between small companies and small-cap stocks. Often small-cap stocks (those with a market value of $3 billion or less) may qualify as large companies (that is, they may employ more than 50 people, but are among the smallest companies available for public investment).

Key Takeaways

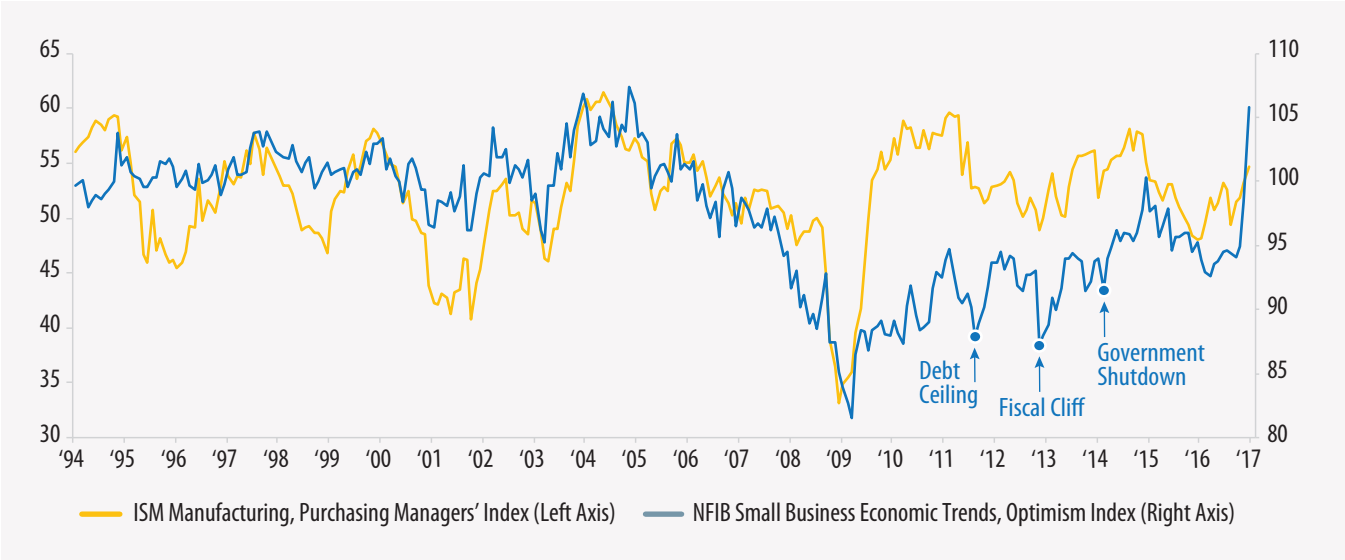
Larger companies are generally better equipped to weather recessions, using workforce reductions to control costs and improve productivity.

The economy will need recoveries from both large and small businesses. Small businesses employ 48 percent of the U.S. workforce and have created two out of every three net new jobs.

The new U.S. administration's commitment to lower tax rates and fewer regulations could improve the business environment.

Return of Confidence

Small-business confidence lagged large-company sentiment (represented by the ISM index) throughout the recovery, but is rapidly trending higher.



Source: National Federation of Independent Businesses, "Small Business Economic Trends" Monthly Survey (December 2016). Institute for Supply Management, "Manufacturing ISM Report on Business."
Note: National Federation of Independent Businesses'—NFIB— Optimism Index (Mostly Small Businesses) and Institute for Supply Management's Manufacturing Index (Mostly Large Businesses)

[1] NFIB Small Business Economic Trends, December 2016.

Innovation Creates Opportunity

Technology has led to the creation of new businesses and extensively altered existing ones. It has allowed agricultural societies to leapfrog industrial societies to become export powerhouses. Developed markets have become global service economies with trade ties that reach the most remote areas of the world.

Perhaps the most impactful part of the technology revolution is the increasing rate of technology developments. Throughout history, that rate had been linear and localized; it was not until the last half century that the pace of change became exponential and global. Companies and workers that are better prepared to adapt to this new world have the best chances to thrive.

As outmoded assumptions about globalization change and industries are transformed by new technology and innovation, investors will need to find growth opportunities in what might be unfamiliar places. We expect further innovation in areas such as cloud computing, robotics, and data analytics, not to mention biotechnology and financial technology (FinTech). Expect various applications centered on using small devices to enhance efficiencies and make everyday life more manageable. The "internet of things" will allow devices to talk to each other and may contribute from $3.9 trillion to $11.1 trillion in economic impact by 2025, according to a McKinsey Global Institute analysis.

The Spread of the Internet of Things

New applications across various settings

Settings	Major applications
Human	Monitoring and managing illness, improving wellness
Home	Energy management, safety and security, chore automation, usage-based design of appliances
Retail Environments	Automated checkout, layout optimization, smart customer relationship management, in-store personalized promotions, inventory shrinkage prevention
Outside	Logistics routing, autonomous cars and trucks, navigation

Source: McKinsey Global Institute, June 2015

Key Takeaways

The internet of things is here to stay, creating ecosystems of technologies that interact to provide better insights. There are still technical, organizational, and regulatory hurdles, but we believe this is a ripe area for investment.

Across sectors, businesses that want to remain competitive must increase spending on technology to stay current. Yet, we also expect an evolution toward a more blended approach for businesses. For example, a financial technology company might combine automated and in-person services.

Investors looking for growth opportunities should consider exposure to the sectors, such as Information Technology and Health Care, that are best positioned to incorporate innovation into their products and services.

Investments—Go High Quality

As new policymakers take office around the globe, we see the potential for growth opportunities in cyclical sectors such as Industrials and Consumer Discretionary, but the uncertainty that comes with change may exacerbate market volatility. For this reason, we suggest that investors favor high-quality assets to mitigate volatility risk and aid in portfolio diversification.

One study by the Leuthold Group[1] found that between 1986 and 2014, high-quality stocks achieved a 13.1 percent annualized return compared to a 10 percent annualized return for low-quality stocks. The same study also showed that during economic downturns, high-quality equities outperformed low-quality ones.[1]

Solid companies with the attributes listed at the right may issue equity and fixed-income investments with attractive yields that can be assembled into a mix of stocks and bonds across geographies, sectors, credit ratings, and maturities. We also believe high-quality municipal bonds are currently attractive for investors in higher tax brackets.

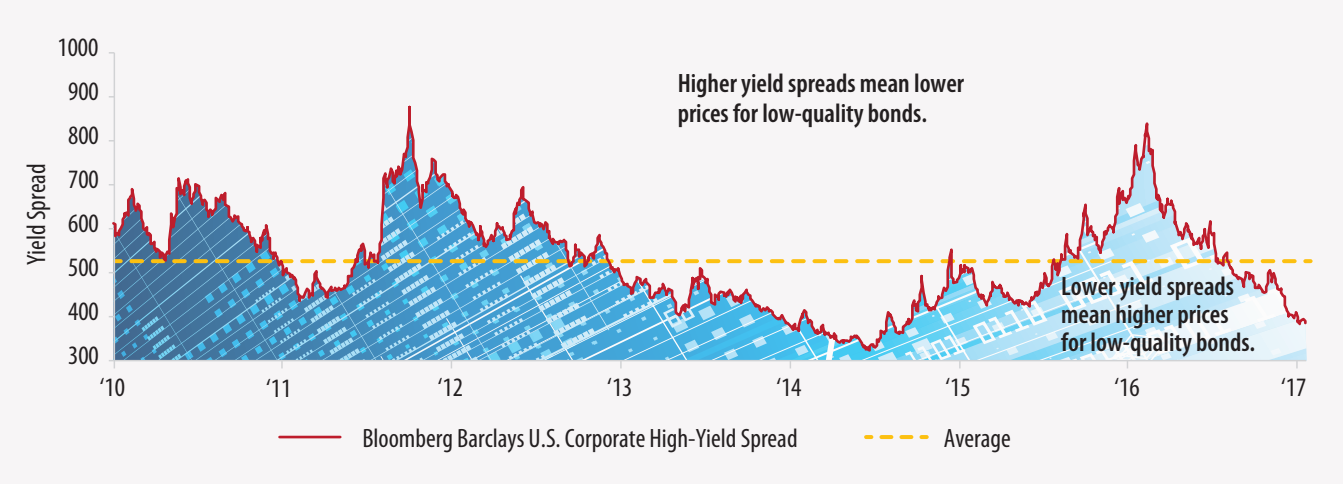
We recommend making occasional short-term, tactical adjustments to exploit market opportunities and perceived mispricing. For example, we suggest that investors underweight high-yield fixed income in favor of higher-quality bonds. The chart below shows how spreads (the yield differential) between these asset classes has compressed to levels that appear historically low. This is often a signal that higher-quality bonds may begin to outperform lower-quality bonds.

What are high-quality companies? Look for the following attributes:

- ☑ Well-diversified in scope—across industry groups and with sales across broad geographies
- ☑ Large market capitalization with strong access to capital
- ☑ Strong market share in their industry with branding and pricing power
- ☑ Financially sound with ample liquidity, low debt, and strong cash flows
- ☑ Distinct competitive advantages
- ☑ Strong management teams
- ☑ Strong earnings with ability to grow and pay an attractive dividend yield.

Is the Yield Worth the Risk?

We expect higher-quality bonds to offer better risk-adjusted returns.



Source: Bloomberg, 1/23/17. The Bloomberg Barclays Corporate High Yield Index spread measures the U.S. corporate market yield spread of non-investment grade, fixed-rate corporate bonds over the yield of comparable U.S. Treasury bonds. Past performance is no guarantee of future results.

[1] Three factors are used to rank the largest 1,500 stocks in the Leuthold Index an index developed by Leuthold Group, an independent financial research and money management firm. The top quintile is defined as the High Quality Rank basket and the bottom quintile is defined as Low Quality Rank. These factors are: Return on equity over the past five years, debt/assets ratio for leverage, and sales and earnings trends for stability.

Opportunities in a Recovering World

Investments That May Thrive in a Changing Global Economy

EQUITIES

- Consumer Discretionary stocks may outperform because of their ability to generate earnings growth in a recovering economy.
- In a volatile market, owning stocks that pay dividends can help offset price losses and support total return.

Developed Market Equities

- European equity valuations remain attractive relative to European sovereign-bond yields and those of other global equities.
- Investing in European dividend-paying stocks may also help U.S.-based investors enhance sector diversification. Generally speaking, dividend-paying stocks can be found across a wider variety of sectors in Europe as compared to the U.S.

Emerging Market Equities

- Emerging-market equities still face significant challenges, yet earnings growth appears to be stabilizing.
- New policies that lead to dollar strength could benefit countries that export to the U.S.; however, restrictive trade policy could neutralize this advantage. We are evenweight emerging-market equities.

FIXED INCOME

- We see the potential for higher inflation beyond 2017, and therefore expect further risks to long-term bond yields.
- As we approach the latter stages of the credit cycle, lower-quality securities may face more downgrades and defaults.
- We favor intermediate-term U.S. corporate bonds and are underweighting high-yield corporate bonds.

REAL ASSETS

Commodities

- Agricultural commodities may fare better than crude oil and gold; however gold may rise on volatility spikes.

Real Estate

- Fundamentals in Public Real Estate remain generally supportive and valuations became more attractive due to underperformance in late 2016.
- Our view that long-term yields will not rise much more in 2017, supports our overweight to Public Real Estate.

ALTERNATIVE INVESTMENTS

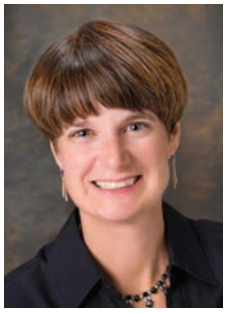
- Alternative strategies with low-net equity exposure such as Relative Value and Equity Hedge should perform well.
- As inflation begins to rise while economic growth remains modest, we believe that Equity Hedge and Macro strategies should present opportunities for investors while helping to mitigate risk.
- Structured Credit strategies also should perform well as inflation picks up, but interest rates remain relatively low. Private Capital may offer compelling opportunities for qualified investors.

Conclusion

The prolonged recovery has had a distinct set of winners and losers, as benefits have accrued unevenly to different groups of investors, workers, and countries. This disparity has increased certain economic and geopolitical risks. Yet, where there's risk, there's often opportunity for investors.

Against the potential for further geopolitical tensions, an economic downturn, or other unanticipated risks, we suggest holding high-quality assets within a well-diversified portfolio as we proceed through the latter stages of the recovery.

"We suggest holding high-quality assets within a well-diversified portfolio as we proceed through the latter stages of the recovery."



Tracie McMillion, CFA

Head of Global Asset Allocation Strategy

Ms. McMillion leads the development of global investment strategy. She oversees the creation of asset allocation recommendations and writes economic and market commentary and analysis. Prior to her current role, she served as an asset allocation strategist and a senior investment research analyst for Wells Fargo and predecessor firms.

Ms. McMillion earned a Bachelor of Arts in Economics and a Master of Business Administration from the College of William and Mary in Virginia. She is a CFA® charterholder. Ms. McMillion is located in Winston-Salem, North Carolina.

Luis Alvarado

Investment Strategy Analyst

Mr. Alvarado researches and analyzes economic and market trends for the investment strategy team. He joined the investment strategy team in 2012 from Wells Fargo Advisors where he served as a client service associate. Prior to Wells Fargo Advisors, Mr. Alvarado worked as a personal banker in Los Angeles.

Mr. Alvarado earned a Bachelor of Science in Business Administration from the Universidad de Costa Rica and a Master of Science in Financial Analysis from the University of San Francisco. He is currently a Level II candidate in the CFA® Program. In 2014, he was named as one of Forbes "30 under 30: Finance," a list that honors "men and women who are already making their mark at leading investment banks, hedge funds and other financial firms." He is located in San Francisco.

Michael Taylor, CFA

Investment Strategy Analyst

Mr. Taylor focuses on global asset allocation strategy and economic and market analysis. He has more than 17 years of experience in financial services and has spent the past 13 years at Wells Fargo.

Mr. Taylor earned a Bachelor of Science in Chemistry from the University of Minnesota Institute of Technology, Bachelor of Arts degrees in Chinese and Russian from the University of Minnesota College of Liberal Arts, and a Master of Business Administration from the University of Minnesota Carlson School of Management. Mr. Taylor is a CFA® charterholder. He is based in Minneapolis.

All investing involves risks, including the possible loss of principal. There can be no assurance that any investment strategy will be successful. Investments fluctuate with changes in market and economic conditions and in different environments due to numerous factors some of which may be unpredictable. Asset allocation and diversification are investment methods used to help manage risk. They do not ensure a profit or protect against a loss.

Risk Considerations:

Alternative Strategies: Alternative strategies, such as Equity Hedge, Macro, Relative Value and Structured Credit, are speculative and involve a high degree of risk. These strategies are affected in different ways and at different times by changing market conditions. They employ aggressive investment techniques, including using short sales, leverage, arbitrage, derivatives, such as swaps, futures contracts, options, forward contracts which can expose the investor to substantial risk. Investment returns, volatility and risk vary widely among the different strategies. The use of short selling 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 investment. In addition, taking short positions in securities is a form of leverage which may cause a portfolio to be more volatile. 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 which may hurt a fund's performance. Counterparty risk is the risk that the other party to the agreement will default at some time during the life of the contract. Equity Hedge strategies maintain positions both long and short in primarily equity and equity derivative securities. Macro managers 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. Relative Value strategies focus on exploiting perceived imbalances or valuation discrepancies between related markets or instruments. Structured credit strategies aim to generate returns via positions in the credit sensitive area of the fixed income markets. The strategy generally involves the purchase of corporate bonds with hedging of interest rate exposure.

Commodities: Investing in commodities is not suitable for all investors. Exposure to the commodities markets may subject an investment to greater share price volatility than an investment in traditional equity or debt securities. The commodities markets are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Commodities may be affected by changes in overall market movements, commodity index volatility, changes in interest rates or other factors affecting a particular industry or commodity. Investing in physical commodities, such as gold, exposes a portfolio to other risk considerations such as potentially severe price fluctuations over short periods of time and storage costs that exceed the custodial and/or brokerage costs associated with a portfolio's other holdings.

Equity securities are subject to market risk which means their value may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. Investments in equity securities are generally more volatile than other types of securities. There is no guarantee that dividend-paying stocks will return more than the overall stock market. Outside the U.S., the attitude toward dividends is different. Companies in the U.S. generally pay dividends every three months and are less likely to cut their dividends. Foreign companies normally pay dividends semiannually or annually. Dividends are only one consideration when investing and high dividend yields tend to be unsustainable. Dividends are not guaranteed and are subject to change or elimination. Dividend rates cannot guarantee a rate of return on an investment.

Fixed Income: Investments in fixed-income securities are subject to market, interest rate, credit/default, liquidity, inflation and other risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline in the bond's price. Credit risk is the risk that an issuer will default on payments of interest and/or principal. This risk is heightened in lower rated bonds. If sold prior to maturity, fixed income securities are subject to market risk. All fixed income investments may be worth less than their original cost upon redemption or maturity.

Foreign/Emerging Markets: Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. These risks are heightened in emerging markets.

Private Capital Investments: Private capital investments are investments in the equity or debt of private, non-publicly traded companies. Private capital funds are complex, speculative investment vehicles that are highly illiquid and involve substantial risk. They are intended for qualified, financially sophisticated investors who can bear the risks associated with these investments.

Real Estate: There are special risks associated with an investment in real estate, including the possible illiquidity of the underlying properties, credit risk, interest rate fluctuations and the impact of varied economic conditions.

Economic Index Definitions

NFIB Small Business Optimism Index is the small business optimism index is compiled from a survey that is conducted each month by the National Federation of Independent Business (NFIB) of its members. The index is a composite of ten seasonally adjusted components based on questions on the following: plans to increase employment, plans to make capital outlays, plans to increase inventories, expect economy to improve, expect real sales higher, current inventory, current job opening, expected credit conditions, now a good time to expand, and earnings trend.

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

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

Investment Expertise and Advice to Help You Succeed Financially

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For assistance with your investment planning or to discuss the points in this report, please talk to your investment professional.

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