March Update | As of February 29, 2016

FEBRUARY 2016 IN REVIEW

ECONOMY:

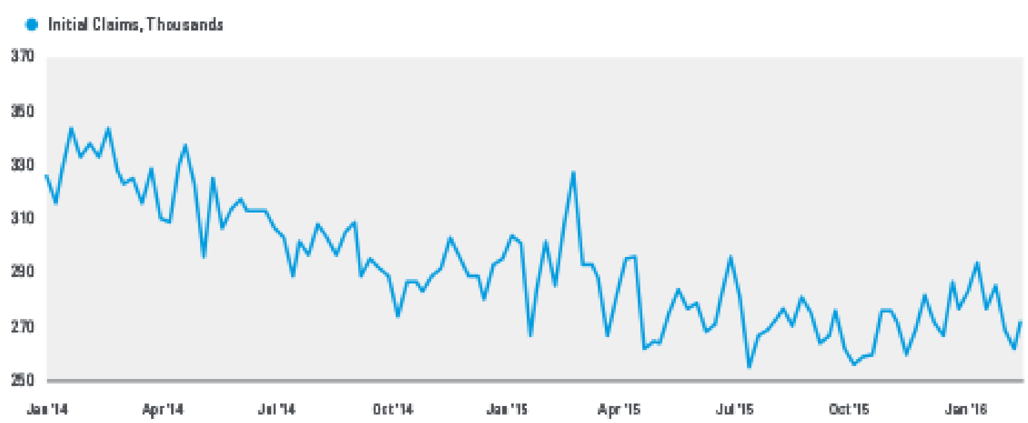
STRONG LABOR MARKET SUPPORTS ECONOMIC EXPANSION, BUT RECESSION ODDS ARE MODESTLY HIGHER

Economic Data

Although the odds of a recession have doubled since the start of the year, to around 25–30% from 10–15%, we do not expect a recession to occur in 2016. U.S. economic data released in February, which largely capture economic activity in January, continue the recent narrative of a healthy labor market and a stable U.S. consumer, offset in part by continued contraction in manufacturing. On the positive side of the ledger are employment figures, which support the case the U.S. economy is not likely to enter a recession in the short run. Weekly initial jobless claims continue to reside in the range of 260,000–285,000, which is near recent lows. Further, the unemployment rate was reported at 4.9%, comfortably within the Federal Reserve's (Fed) target range. Given the strong labor market backdrop, personal income and personal spending continue to expand, albeit at a moderate pace, registering a 0.5% increase in both categories. The manufacturing sector of the economy continues to face headwinds from constrained business spending and lower demand for U.S. goods due to the stronger U.S. dollar. Manufacturing activity, as measured by the Institute for Supply Management (ISM) Manufacturing Index, was 48.2, a level indicative of contractionary conditions but above recent lows. However, the services sector of the economy, which is a bigger relative driver of the broad economy, continues to show evidence of health. The ISM Non-Manufacturing Index registered 53.5, a level that indicates expansion, although it fell below recent levels and consensus expectations.

Late in the month, the revised estimate of fourth quarter 2015 gross domestic product (GDP) growth showed the economy expanded by 1.0% annualized, up from a disappointing initial estimate of 0.7% that was released in January. While the higher estimate is a positive, the underlying drivers of the revision were lower import demand and an increase in inventories, indicators that

INITIAL JOBLESS CLAIMS CONTINUE TO RESIDE IN THE 260–285 THOUSAND RANGE



Source: LPL Research, U.S. Employment and Training Administration 02/29/16 are less than ideal for sustained growth.

Central Banks

The Monetary policy divergence remains the primary theme among the world's developed economies. The Bank of Japan (BOJ) made the decision to implement a negative interest rate policy at the end of January 2016, and the European Central Bank (ECB) is maintaining its commitment to act further should conditions warrant. ECB President Mario Draghi took the opportunity to allay fears surrounding the European financial system during a speech to the European Parliament; he noted the strength of bank balance sheets, due to capital buffers, were stronger than they were at the height of the European debt crisis in 2011–12. Draghi also hinted at the possibility of further stimulus at the March 2016 ECB meeting to stem the effects of weak capital investment, sluggish manufacturing growth, geopolitical risks, and uncertainty about the health of the global economy.

The Fed's policy arm, the Federal Open Market Committee (FOMC), did not meet in February, but will reconvene on March 15–16. Fed Chair Janet Yellen did testify before both houses of Congress on February 10–11. The biggest news from this semiannual trip to Capitol Hill was the admission that the Fed is evaluating whether negative interest rates would work in the U.S. now that they have been implemented in both Europe and Japan, albeit only in an extreme downside stress scenario. In her prepared remarks, Yellen noted that the Fed's assessment of the economy was little changed from its last statement in December 2015—labor market gains continue and low levels of inflation are mostly due to transitory factors. She did, however, note that financial conditions have become less supportive of growth with heightened stock market volatility, the stronger dollar, and increasing spreads on corporate debt. As to the causes of recent market turmoil, Yellen pointed to investors' focus on the Chinese yuan and potential devaluation, as well as the continued supply glut that is contributing to falling oil prices. She believes the Fed's decision to hike rates at its December 2015 meeting for the first time in nearly 10 years was not in and of itself a cause for market volatility, as the change in policy was well communicated.

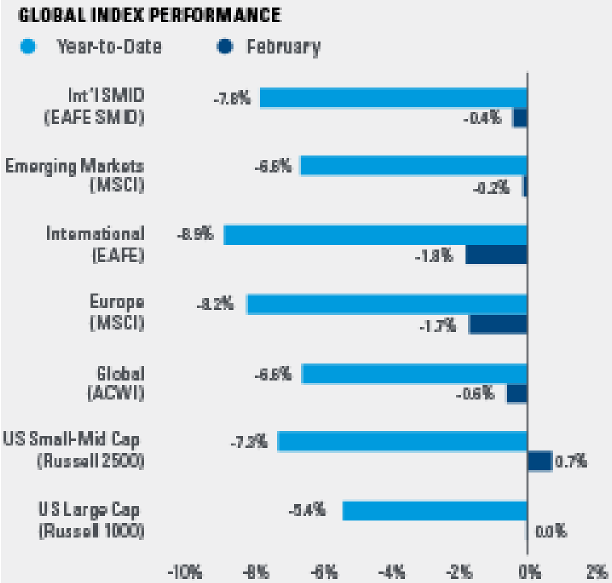
GLOBAL EQUITIES:

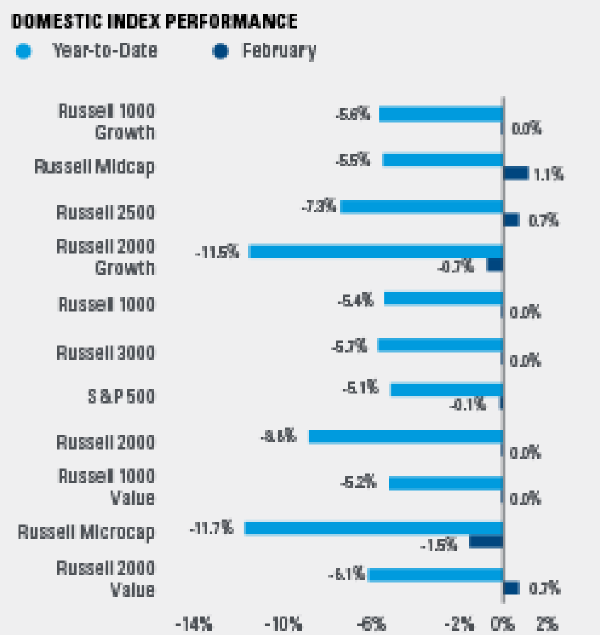
INTERNATIONAL TRAILS DOMESTIC AS INVESTORS ASSESS MONETARY RESPONSES TO CHALLENGED GROWTH

U.S.

Domestic equity markets continued to swing within a broad range. Despite recovering from an intra-month closing low of -5.3%, the S&P 500 finished the month with a total return of -0.1%. This marks the third consecutive month of negative performance. The biggest catalyst for the reversal was improvement in the commodity complex. Also contributing to the reversal were oversold conditions and the belief that pessimism was simply overdone given continued economic stability. February marked the effective end of the fourth quarter earnings season, with 97% of S&P 500 firms in the books. In total, reported earnings growth was -4.5%, as the energy and materials sectors continued to struggle with supply imbalances and slowing global growth. Beyond these problem sectors, the results were mixed, as the utilities, industrials, and technology sectors saw negative earnings growth, while telecommunications, consumer discretionary, healthcare, and consumer staples were all able to grow earnings on a year-over-year basis. Beyond the actual results, forward guidance has also been an incremental drag, as management teams look to manage expectations for full-year 2016.

Sector performance reflected potential decoupling from the defensive posture that has dominated the markets year to date. In February, the best performing sectors were materials (+7.6%) and industrials (+4.0%). While a positive for cyclical exposures, some defensive posture remains apparent, as telecommunications (+2.7%) and utilities (+1.9%) were next in total performance. After posting a strong relative performance in January on the back of the oil rally, the energy sector trailed the market by nearly 175 basis points (1.75%). The remaining five GICS sectors were mixed, with financials posting the worst total performance at -2.9% on profitability concerns from the path of monetary policy and fears of systemic stress emanating from European counterparts.





Source: LPL Research, FactSet 02/29/16

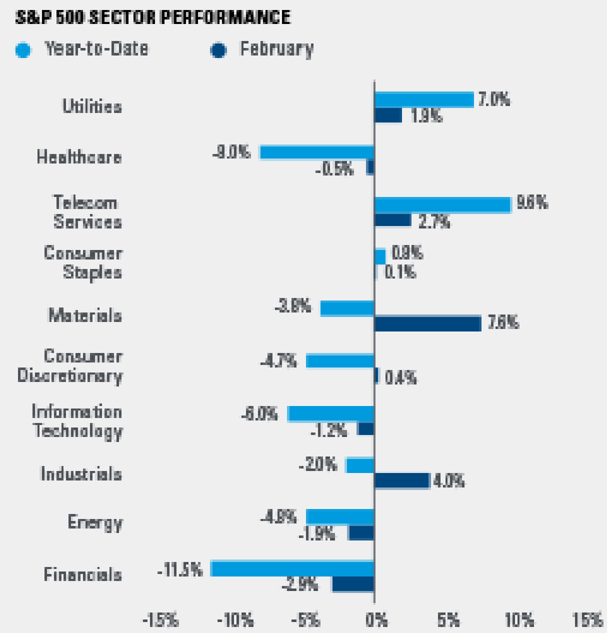
Indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

Stock investing involves risk, including loss of principal.

International and emerging markets investing involves special risks, such as currency fluctuation and political instability, and may not be suitable for all investors.

International

International stocks, as represented by the MSCI EAFE Index (foreign developed) and MSCI Emerging Markets Index, both posted losses in February and continued their underperformance relative to the S&P 500 on a trailing one-year and three-year basis. Foreign developed stocks trailed their domestic counterparts on the month by 167 basis points (1.67%), as investors struggle with the prospect of negative interest rate monetary policies amid a challenging growth environment. Emerging markets were relatively flat to domestic equities as pressure from the commodities complex has abated and the U.S. dollar finished the month weaker.



Source: LPL Research, Bloomberg, FactSet 02/29/16

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Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

FIXED INCOME:

YIELD CURVE FLATTENS ON LOWERED GROWTH EXPECTATIONS

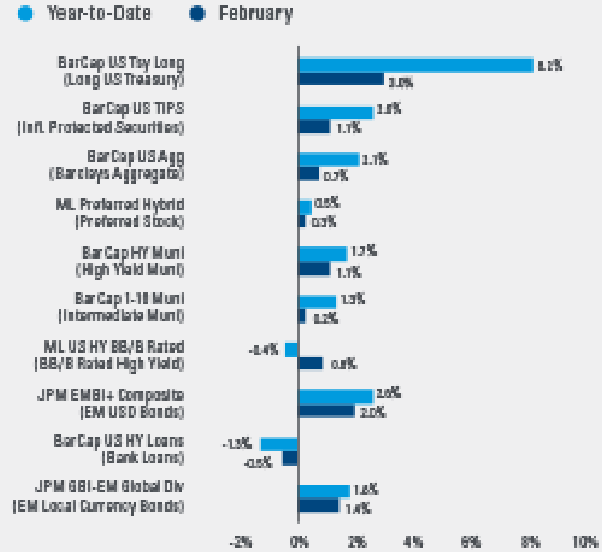
The yield curve continued to flatten in February, with longer-dated yields declining on lowered growth expectations. Shorter-dated yields rose on increasing rate hike expectations by the FOMC, which had become overly benign in January and early February.

The decline in longer-term yields was a greater tailwind for long-term bonds relative to short-term bonds. Treasuries outperformed the overall bond market, represented by the Barclays U.S. Aggregate, due to their elevated interest rate sensitivity. The Barclays U.S. Treasury Index returned 0.9%, compared to 0.7% for the Barclays U.S. Aggregate.

Stabilizing commodity prices were a tailwind for economically sensitive sectors as oil was able to stay above $30 per barrel for the majority of the month, slightly up (+0.3%) during February. High-yield rebounded from a difficult January, returning 0.8% during the month. Emerging markets debt (EMD) was a standout during the month, returning 2.0%. Foreign bonds benefited from weak overseas economic data and rising expectations of additional central bank stimulus. Foreign bonds, unhedged for currency movements, additionally benefited from the decline in the dollar, contributing to their 4.1% return during February. Foreign bonds, hedged for currency movements, still had a strong month, returning 1.5%.

Bank loans were the only fixed income sector in the red during February, returning -0.5%, as investors, digesting the possibility of Treasury yields remaining lower for longer, rotated out of the sector.

FIXED INCOME PERFORMANCE



US TREASURY YIELDS

Security	01/31/16	02/29/16	Change in Yield
3 Month	0.33	0.33	0.00
2 Year	0.76	0.78	0.02
5 Year	1.33	1.22	-0.11
10 Year	1.94	1.74	-0.20
30 Year	2.75	2.61	-0.14

AAA MUNICIPAL YIELDS

Security	01/31/16	02/29/16	Change in Yield
2 Year	0.70	0.69	-0.01
5 Year	1.24	1.23	-0.01
10 Year	2.12	2.14	0.02
20 Year	3.58	3.62	0.04
30 Year	4.29	4.37	0.08

Source: LPL Research, Bloomberg, FactSet 02/29/16

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Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise, and bonds are subject to availability and change in price.

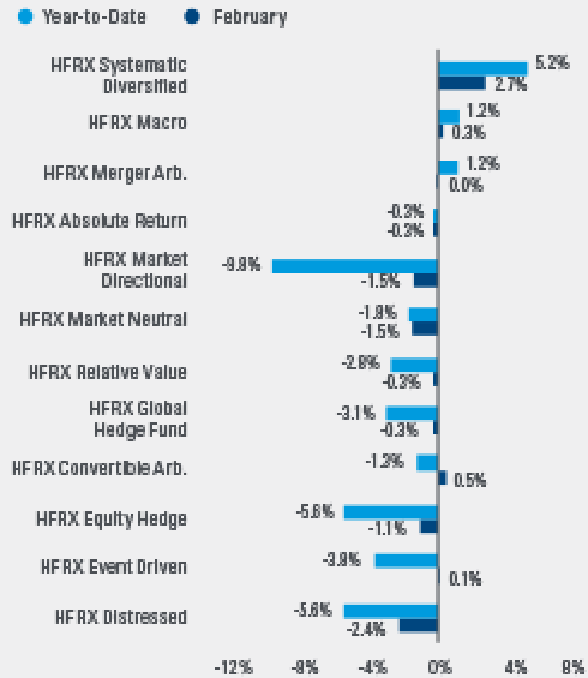
Bank loans are loans issued by below investment-grade companies for short-term funding purposes with higher yield than short-term debt and involve risk.

ALTERNATIVES:
MANAGED FUTURES CONTINUE WINNING STREAK

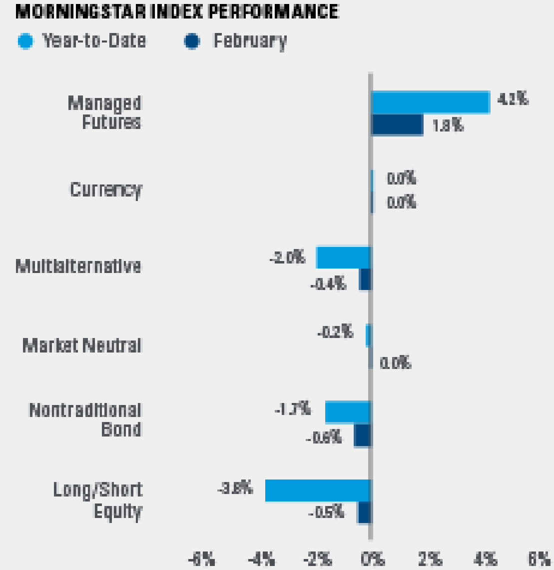
Similar to January, systematic macro posted the best number, while distressed was the worst performing strategy in the month of February. The HFRX Systematic Diversified Index was up 2.7%, bringing the year-to-date total return to 5.2%. Equity markets were under selling pressure before recovering in the second half of the month. Amid elevated volatility, equity-related strategies generated losses, with the HFRX Equity Hedge Index and the HFRX Equity Market Neutral Index losing 1.1% and 1.5%, respectively. Credits behaved, but dispersion continued to be the main theme as market participants gravitated toward less risky securities. While BB- and B-rated bonds ended February in positive territory, CCC and below saw mark-to-market losses. As a result, distressed strategies (HFRX Distressed Index) declined by 2.4%.

For systematic macro managers, the long position in fixed income was the key performance contributor as investors continued to de-risk. Short positioning in equities and commodities generated mixed performance as these markets experienced reversals later in the month. A volatile February proved to be a difficult trading environment for long/short managers. U.S. equity long/short managers saw their net market exposure dropping to 38% on February 11, which was the lowest mark since 2012, before bouncing back to end the month at 44%. From the sector allocation perspective, managers were mainly in information technology, consumer discretionary, financials, and healthcare. Internet software and services, software, internet retail, and hotels and restaurants were some of the well-owned industries. Toward the end of February, we observed some inflows into industrials and energy, as equity markets stabilized.

HFRX INDEX PERFORMANCE



MORNINGSTAR INDEX PERFORMANCE



Source: LPL Research, FactSet 02/29/16

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Alternative strategies may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.

SAFE-HAVEN REAL ASSETS ONCE AGAIN SHINE

Following January's example, February also experienced significant volatility, which led to certain safe-haven assets outperforming. Gold and silver benefited (returning 10.6% and 4.7%, respectively), and the 10-year Treasury bond yield fell 2 basis points on the month to finish at 1.7%. Even with the tailwind of the U.S. dollar index returning -1.4%, the Bloomberg Commodity Index returned -1.6% in a month that saw varied results among the index constituents.

MLPs & Global Listed Infrastructure

Master limited partnerships (MLP) showed strong resolve by rallying into the end of the month, resulting in a return of -0.5% for the Alerian MLP Index. The index sunk to a low closing price more than 19% below where it opened the month before recovering. Earnings season and oil prices were contributors to the turnaround, as WTI crude oil prices exhibited the same reversal mid-month. Earnings season ended with a relatively positive story regarding MLP distributions. For the 67 midstream MLPs and non-MLP midstream energy companies who reported (excluding all non-midstream entities), 31 increased their distributions, 33 kept them unchanged, and 3 cut (2 of which were separate entities of the same overarching company). This should allay some concerns over widespread distribution cuts.

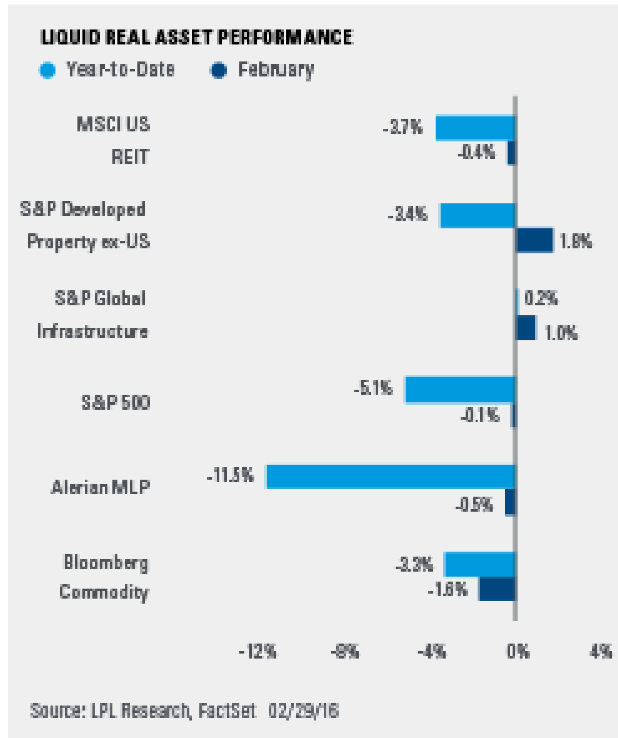
Global listed infrastructure, as measured by the S&P Global Infrastructure Index, was up 1% for the month. The energy component of the index contributed positively as the S&P Global Energy Infrastructure Index returned 4.7%.

REITs

Even as interest rates fell, real estate investment trusts (REIT) did not see a benefit as the MSCI U.S. REIT Index returned -0.4%. Hotel and resort REITs were the clear winners in the space, as that subsector returned 7.6%. The worst performer was office REITs, returning -3.0%.

Commodities

Commodities bucked the negative trend from January and late 2015, and for the most part posted strong returns. WTI crude oil finished the month up 0.3% and Brent crude returned 1.6%, both posting strong rallies after rough starts to the month. Gold and silver, as mentioned above, benefited in their capacities as safe havens. Even base metals showed resiliency as aluminum returned 2.9% and copper returned 3.2%. Natural gas and agricultural commodities were the outliers with natural gas returning -25.5% while the Bloomberg Commodity Agriculture Subindex returned -2.6%.



Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory developments.