August Update | As of July 31, 2016

JULY 2016 IN REVIEW

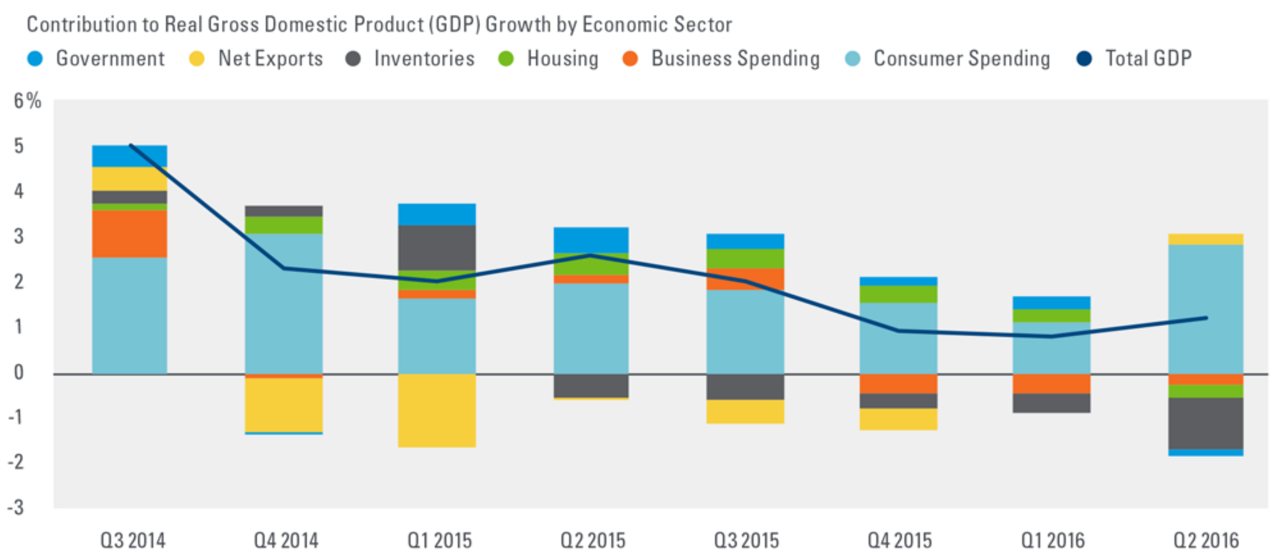
ECONOMY:
Q2 GDP DISAPPOINTS, BUT JUNE DATA TOP EXPECTATIONS OVERALL

Economic Data

Economic data received in July, which largely reflect economic activity in June, broadly surprised to the upside throughout the month versus economists' consensus estimates, possibly indicating a pickup in growth from the lackluster start to the year. As a result, the weekly reading of the Citi U.S. Economic Surprise Index, which measures the aggregate number of positive economic surprises relative to negatives and scales them by size and economic impact, crossed into positive territory in July for the first time since January 2015. Positive surprises were widespread across economic sectors, including major measures of manufacturing and services sector activity, employment, retail sales, and housing. While surprises were strong, expectations were modest, somewhat dampening the potential impact. Nevertheless, the streak of strong surprises may indicate that expectations had been dialed down too low and the baseline economy may be stronger than perceived.

Aside from the release of the first estimate of second quarter gross domestic product (GDP) at the end of the month, the Employment Situation report was the most widely anticipated data release last month. Following a very disappointing report for May that indicated the economy had only added 38,000 jobs (later revised to only 11,000) versus consensus expectations of over 150,000, the July release did not disappoint. Consensus expectations, sitting at 180,000, did signal expectations of some bounce back, but the 287,000 jobs created in June handily topped the upper end of the range. An

INVENTORIES WEIGHED ON SECOND QUARTER GDP, BUT CONSUMER SPENDING WAS STRONG



improving job market is one factor providing a strong backdrop for consumers, along with low inflation, low interest rates, rising home prices, and a more than seven-year bull market for stocks. Consumer strength was reflected in a 0.6% increase in retail sales for June, above expectations of +0.1%.

Business activity also showed strength in July data. The Institute for Supply Management's (ISM) Purchasing Managers' Index (PMI) for manufacturing in June came in at 53.2 (above 50 indicates expansion), above expectations of 51.3 and accelerating from the prior month. This marked the fourth consecutive month of expansion and the highest level in over a year, indicating further stabilization in manufacturing following contraction in late 2015 and early 2016. The new orders sub-component, which tends to be a leading indicator, posted a solid 57.0. ISM's non-manufacturing PMI, which reflects services sector activity, remained strong, coming in at 56.5 for June after weakening to 52.9 last month. The services sector has continued to exhibit steady growth despite weakness in manufacturing.

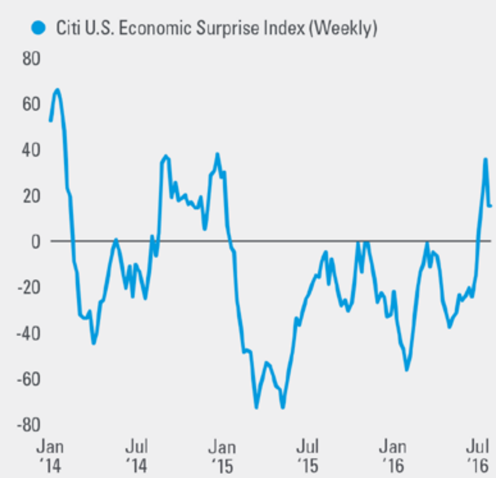
Although data released in July were promising, second quarter 2016 GDP, the headline data release for the month, disappointed. Real growth came in at an annualized 1.2%, well below consensus expectations of 2.5%, and first quarter growth was revised down from 1.1% to 0.8%, leaving the year-over-year growth rate as of the end of the second quarter at 1.2%. Underperformance versus expectations was largely driven by the inventory component, which pulled over 1% from second quarter GDP. But lean inventories, while weighing on the current report, are also considered a potential positive for future production. Private investment (business investment and housing) also disappointed. Consumer spending, by contrast, posted its second highest quarterly growth since the end of the Great Recession and consumers continue to be the growth engine of the economy. Net exports were also a positive, making their largest contribution to GDP since the third quarter of 2014, signaling that some of the negative impact of a strong dollar may be starting to roll off.

Central Banks

As expected, the Federal Open Market Committee (FOMC), the policy arm of the Federal Reserve (Fed), left rates unchanged at its July 26–27 meeting. The FOMC upgraded its assessment of the economy versus the June statement, and noted that "near-term risks to the economic outlook have diminished." Importantly, the Fed did not drop any hints that a September rate hike was on the table, although it does continue to emphasize data dependence. Following the September meeting, the Fed will next meet in November, less than a week before the elections, making a rate hike unlikely. Therefore, if the Fed does hike this year, it will likely be at the December meeting.

European central banks were watched carefully in July as markets gauged their response to the United Kingdom's (U.K.) vote to leave the European Union (EU), known as the Brexit. The Bank of England (BOE) surprised markets at its July 14 meeting, leaving rates unchanged, but hinted at monetary policy loosening in August. Relatively stable financial conditions in July, despite the Brexit vote outcome, likely helped reassure the BOE that it could take a more measured approach. As expected, at its July 21 meeting, the European Central Bank (ECB) left rates unchanged.

CITI ECONOMIC SURPRISE INDEX TURNED POSITIVE FOR FIRST TIME SINCE JANUARY 2015



Source: LPL Research, Citigroup Global Markets, Bloomberg 7/31/2016

Global Equities:

MONTHLY WINNING STREAK FOR U.S. EQUITIES CONTINUED IN JULY

U.S.

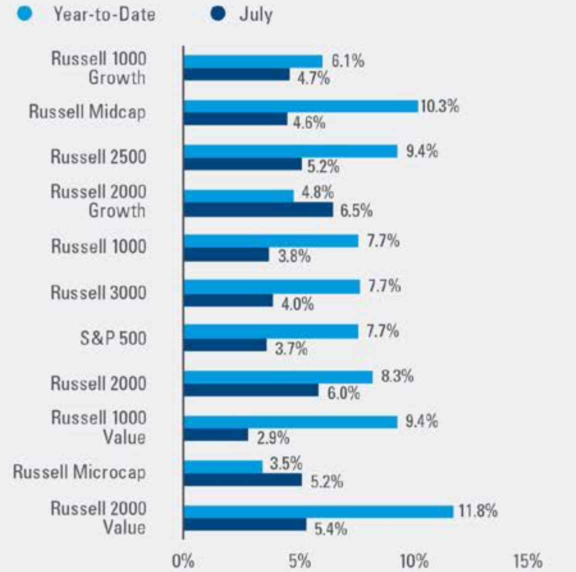
The S&P 500 made it five consecutive winning months in July with a 3.7% gain for the month, the best July since 2013 and first five-month win streak in two years. Should stocks rise in August, one of the seasonally weakest months, it would mark the first six-month winning streak for stocks since early 2013. The month of July was also noteworthy because stocks traded in such a tight range. Despite many reasons for investors to be concerned (the Brexit vote result, slow global growth, U.S. election uncertainty, terrorism, etc.), the S&P 500 ended July with the tightest 11-day string of closing prices in more than a decade.

Stocks continued to garner support from global central banks, although market participants and central bankers are increasingly of the opinion that monetary policy may have reached its limits and that fiscal policy tools are required. The Fed, in its mid-July policy meeting, shored up the market's confidence that the next rate hike was likely to come after the election. Meanwhile, markets expect the BOE, ECB, and Bank of Japan (BOJ) to do more.

Although central bank support and slow global growth continued to put downward pressure on interest rates, the market's thirst for yield showed signs of abating in July. Dividend-focused sectors such as consumer staples, telecom, and utilities underperformed the S&P 500; while the top-performing sectors, technology, materials, and healthcare, all yielded less than the broad market index.

Technology sector gains were driven by a strong start to second quarter earnings season and helped propel growth outperformance versus value across the market cap spectrum. A 15% drop in oil prices during the month on renewed oversupply fears drove the energy sector down nearly 2%, although the sector is the third best performer year to date as of July 31, 2016, behind telecom and utilities. The economic sensitivity of small and mid caps worked to their advantage as the broad

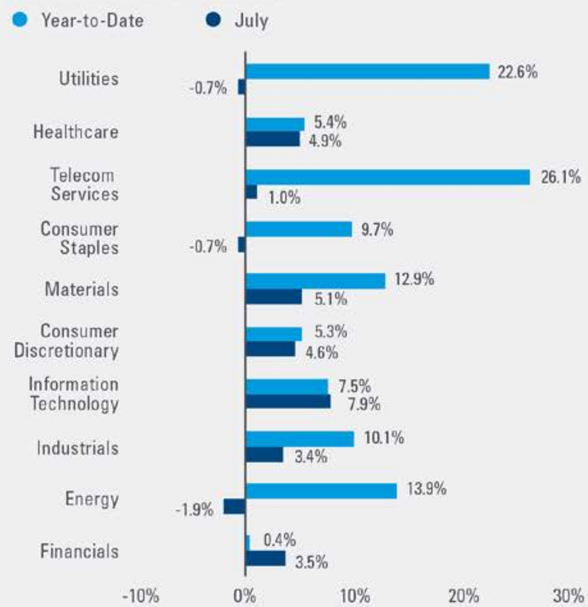
DOMESTIC INDEX PERFORMANCE



Source: LPL Research, FactSet 07/31/16

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

S&P 500 SECTOR PERFORMANCE



Source: LPL Research, FactSet 07/31/16

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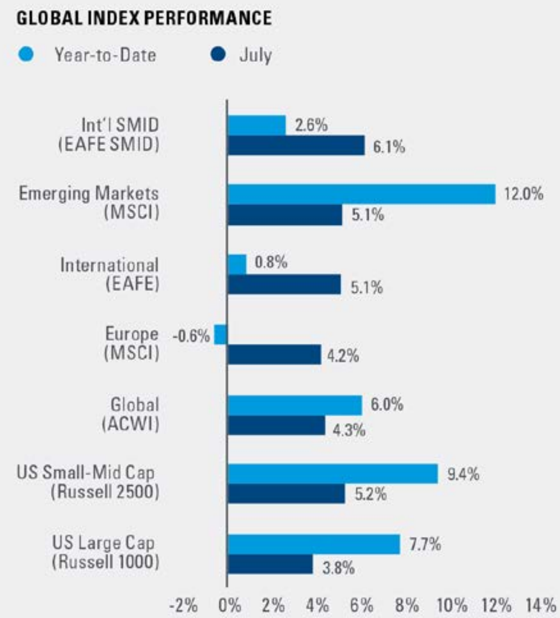
Stock investing involves risk, including loss of principal.

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

market moved higher, enabling them to outperform large caps for the month.

International

July was a good month for global diversification as both the MSCI EAFE (foreign developed) and MSCI Emerging Markets (EM) indexes, each with gains of 5.1%, outperformed the U.S. stock market for the month based on the S&P 500. For foreign developed markets, the impressive outperformance comes despite the uncertainty surrounding the U.K.'s eventual exit from the EU and ongoing concerns about the health of European banks. Solid gains in Japan came despite continued strength in the Japanese yen, which creates a headwind for the export-focused Japanese equity market. The expectations that the Fed will remain on hold for a while weakened the U.S. dollar, increasing returns for U.S. investors in overseas markets. These expectations, along with attractive relative valuations, helped EM, which performed well despite lower oil and agriculture prices. By country, strength in Brazil, South Africa, Taiwan, and South Korea helped offset weakness in Russia and China.



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

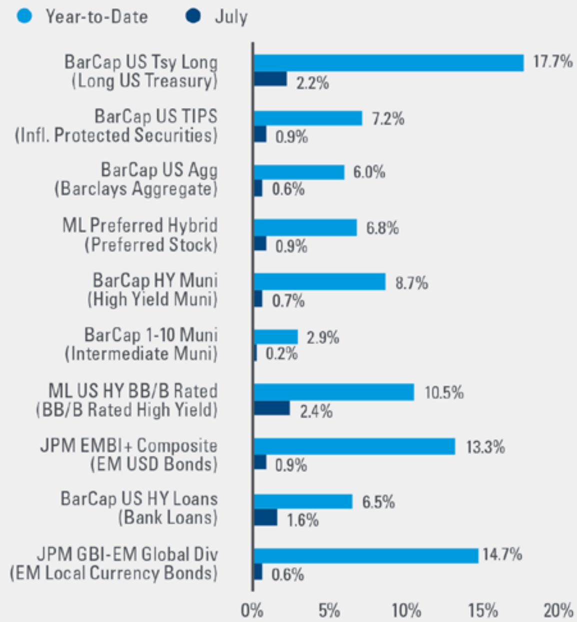
FIXED INCOME: SOLID MONTH AS YIELD CURVE FLATTENS

Interest rates were mixed during July, with shorter-term yields rising marginally and longer-term (10- to 30-year) yields falling. Slightly hawkish comments from the Fed's FOMC statement helped raise shorter-term rates, while continued dovish global central bank action and a search for yield helped keep rates restrained at longer maturities. This led to a flattening of the yield curve, reflecting lower growth expectations, which were reinforced by weak domestic GDP data. This dynamic created a tailwind for longer-duration bonds more so than shorter-dated. The broad fixed income market, represented by the Barclays Aggregate, returned a strong 0.6% during the month, bringing its year-to-date total return to 6.0%.

More economically sensitive, lower credit-quality bonds rallied more so than higher-credit quality, as global investors continued their search for yield in a low-yielding environment. Corporate bonds returned 1.5%, outperforming the broad Barclays Aggregate and Barclays U.S. Treasury Index, which returned 0.4% during July.

High-yield bond prices, which had moved in tandem with the price of oil for over a year, decoupled in July. Despite oil's 15% price decline during the month, high-yield bonds returned a strong 2.4%, bringing their year-to-date return to an impressive 10.5%. Emerging markets debt was also able to shrug off oil weakness, returning 0.9% on the month and 13.3% year to date.

FIXED INCOME PERFORMANCE



US TREASURY YIELDS

Security	06/30/16	07/31/16	Change in Yield
3 Month	0.26	0.28	0.02
2 Year	0.58	0.67	0.09
5 Year	1.01	1.03	0.02
10 Year	1.49	1.46	-0.03
30 Year	2.30	2.18	-0.12

AAA MUNICIPAL YIELDS

Security	06/30/16	07/31/16	Change in Yield
2 Year	0.62	0.61	-0.01
5 Year	1.04	1.03	-0.01
10 Year	1.75	1.78	0.03
20 Year	3.04	3.09	0.05
30 Year	3.80	3.80	0.00

Source: LPL Research, Bloomberg, FactSet 07/31/16

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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.

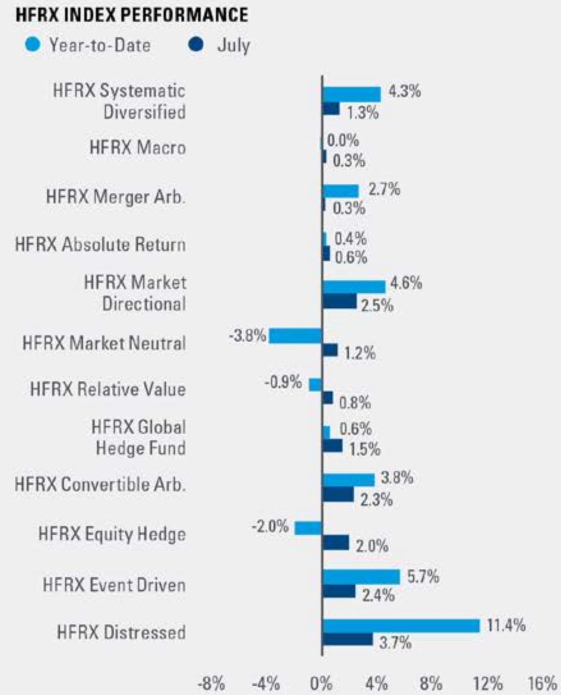
ALTERNATIVES:

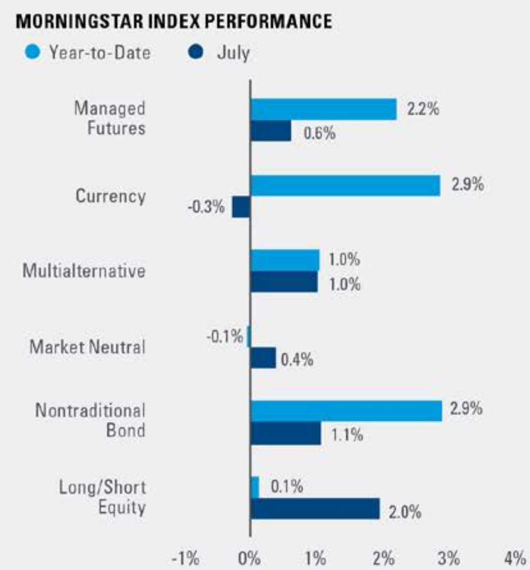
DISTRESSED DEBT RALLY CONTINUES

Distressed debt strategies continued to provide impressive returns during July with the HFRX Distressed Index up 3.7%, lifting year-to-date gains to 11.4% and leading all alternative investment categories. Of interest was the divergence between oil prices and distressed debt gains, as even with WTI crude declining over 15%, managers were still able to generate positive returns, profiting from exposure to the financial and consumer sectors. This contrasts with previous months, where gains and losses in the space were being predominantly driven by the direction of oil prices.

With the S&P 500 gaining 3.7%, more directional equity managers were able to deliver stronger returns; however, the HFRX Equity Hedge Index still returned a respectable 2.0%, with a monthly beta of 0.57 — above the 2016 average of 0.42. While equity gains were broad based, the hedge fund industries long overweight to consumer discretionary and technology holdings was beneficial, as the sectors returned 4.6% and 7.9%, respectively. Additionally, the drag on performance caused by many strategies favoring growth names over value reversed, as the Russell 2000 Growth Index outperformed its value counterpart by 1.1%.

In the macro space, as measured by the HFRX Systematic Diversified Index, managed futures generated a gain of 1.3%. Performance was supported by long exposure to fixed-income contracts, as the decline in U.S. Treasury and sovereign rates provided gains, as did long exposure to the Japanese yen. Since the beginning of the year, the yen has now gained over 18% versus the U.S. dollar and represents one of the more profitable cross trades within the currency allocation of many strategies. Additionally, in the commodity space, there was a significant increase in short oil positioning, as the market has experienced significant downward price pressure since reaching a year-to-date high in the first week of June.





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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.

ENERGY AND AGRICULTURE LEAD SLIDE FOR REAL ASSETS IN JULY

Real assets experienced a rough month in July, as energy and agriculture commodities led to the downside. The U.S. dollar (trade weighted index) was down modestly (-0.12%) while the 10-year Treasury yield fell from 1.49% on June 30 to 1.46% on July 31. The Bloomberg Commodity Index returned -5.1% with only six constituents showing positive returns. The S&P 500 Index returned 3.7%.

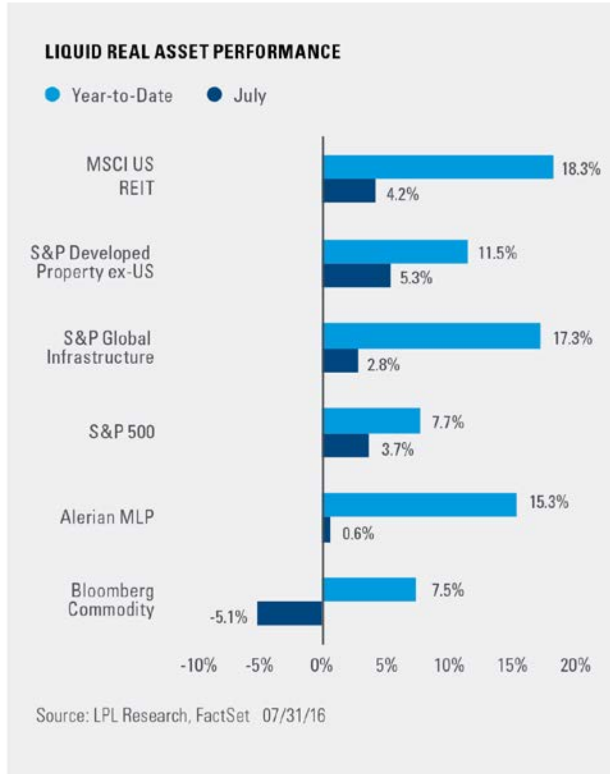
MLPs & Global Listed Infrastructure

Master limited partnerships (MLP) again faced down the headwind of lower crude oil prices and eked out a positive return of 0.6% for the month (as measured by the Alerian MLP Total Return Index). Distribution announcements for midstream companies have been relatively benign for the quarter; out of the 73 companies who have reported, 28 have reported increases in distributions (quarter over quarter), 45 have reported unchanged distributions, and zero have cut distributions. The average for the universe, quarter over quarter, is a 1.6% increase. Lower energy prices remain a risk for the segment, but lower interest rates and the "search for yield" seem to be propping up the market from a technical standpoint.

Global listed infrastructure, as measured by the S&P Global Infrastructure index, returned 2.8% in July. The index has now seen five straight positive months and boosted its year-to-date return to greater than 17%.

REITs

The real estate investment trust (REIT) rally continued unabated in July as the MSCI U.S. REIT Index returned 4.2%. The backdrop of lower for longer interest rates continues to benefit the asset class, which has seen a return of greater than 18% year to date.



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