Harpswell CAPITAL ADVISORS, LLC

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Looking forward to 2020 Hindsight!

Market Outlook

There is no need for Harpswell to rehash the latest developments on COVID-19 as we are all inundated in the news flow and the narrative seems to change daily. The bottom line is we are at a critical juncture where the markets may struggle to remain buoyant if prolonged closure policies drive further permanent changes. Up until now, a lot of the damage has been limited through fiscal and monetary policy triage. With debt levels relative to GDP approaching those most often associated with third world nations, at some point, the markets may very well lose confidence in the efficacy of policies.

Monetary policies, in particular, seem to have impacted the markets' perception of prospective effects rather than the actual impact the policies have on rates and asset prices.

Thus, when monetary policy confidence evaporates, and that can happen precipitously, we will be out of dry powder and the possible selloff will dwarf the blip we experienced this year, as depicted in Chart A below.

Going forward, the markets' oscillations will be the byproduct of investors handicapping the prospects of three events: economic activity; the application and viability of fiscal and monetary policy support; and geopolitical risks.

Public policies in response to COVID-19 have propelled the evolution of our economy from a manufacturing, bricks-and-mortar world to one more centered around services and e-commerce as depicted in Chart B on page 2. As a result, we expect many of the industries most stressed by closures to be permanently altered.

(continue to page 2)

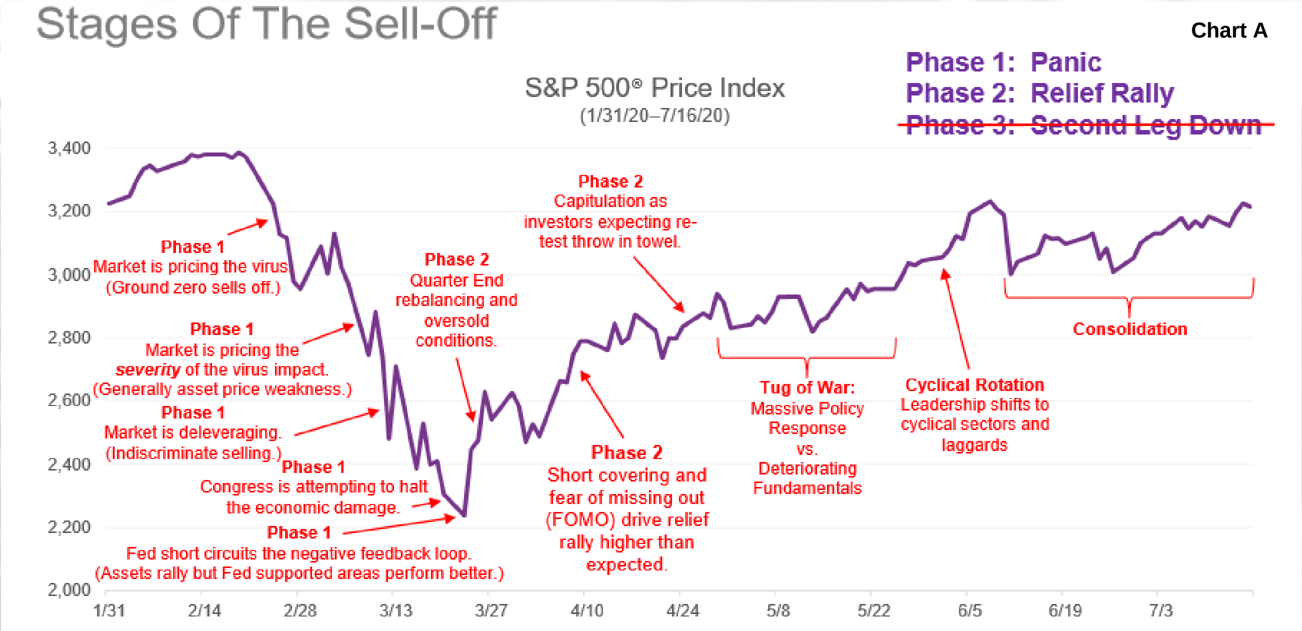


Chart B

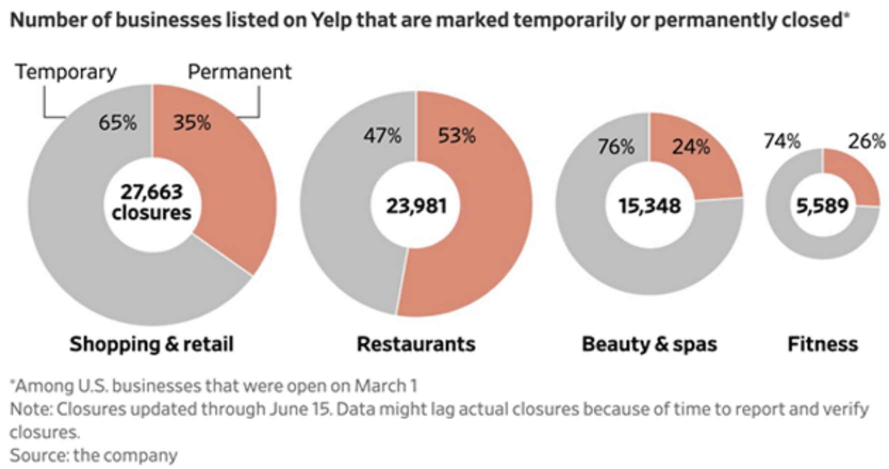


Image credit: WSJ

The markets are forward-looking discount mechanisms. That means they tend to reflect expectations for the future rather the conditions of any particular point in time. Thus, the selloff this year reflected uncertainty and the market's inability to handicap prospective paths forward; then, the post-March 23rd bounce reflected policy certainty. Market practitioners were pretty certain the Treasury and Federal Reserve would pull out all of the stops and would not cease until markets stabilized. The bounce also was the byproduct of the extraordinary financial stimulus injected into economies around the world.

The easy money was made simply by being in the market (or adding to equities, as Harpswell did) after the market bottomed on March 23rd. Regardless of the nature of your equity exposure, you (should have) performed reasonably well. Looking ahead, Harpswell feels the winners and losers will be determined by where investors choose to allocate their equity exposure. Decisions regarding value vs. growth, domestic vs. international, developed vs. emerging markets and large vs. small will most certainly drive relative performance for the remainder of 2020 and beyond.

Growth vs. Value

As shown in Charts C and D growth stocks have crushed value over the last few years. The dispersion in performance is on par with what we experienced during the "dot com" bubble and we all know how that played out. While growth's acceleration seems destined to continue to propel beyond value, we remain anchored in the notion that value stocks have handedly outperformed growth over the long run.

Chart C

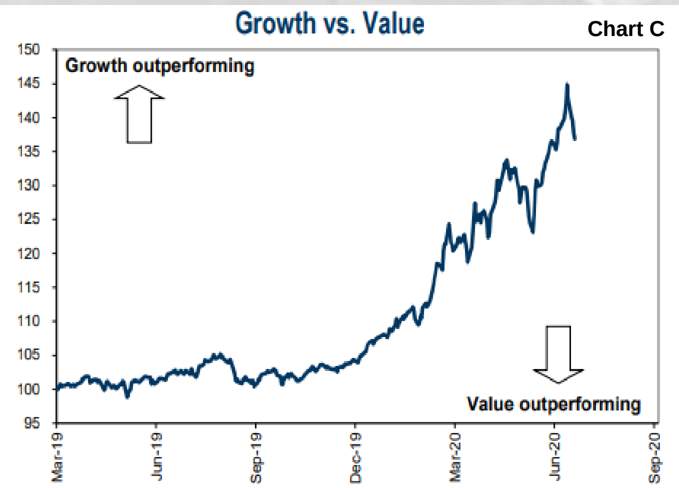


Chart D

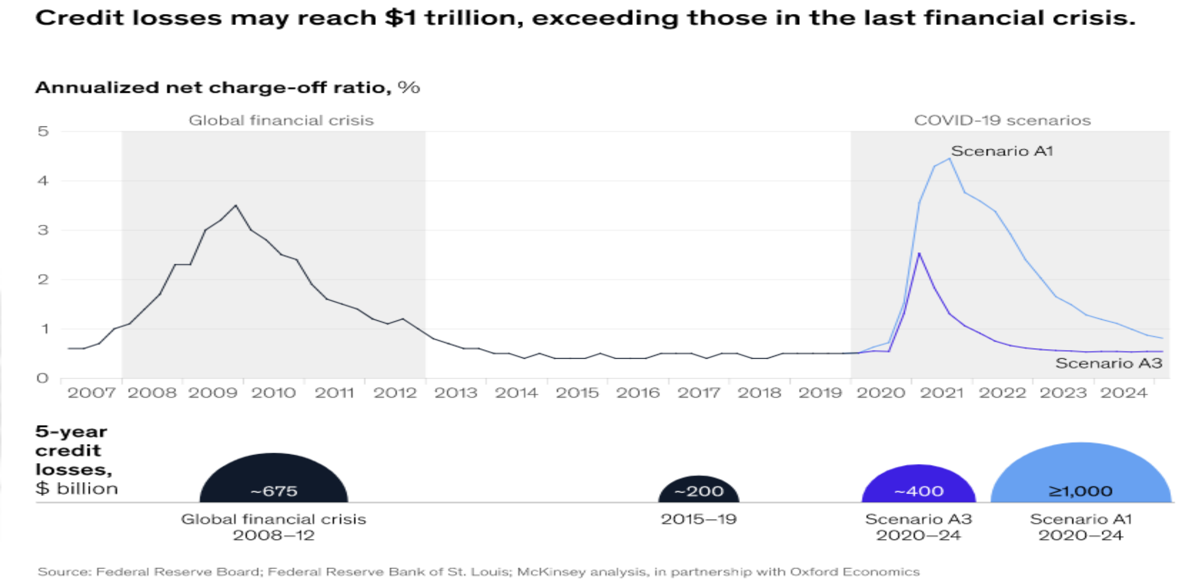
Note: Cumulative returns represent the compounded gross US Dollar (USD) performance of the MSCI World Value Index and MSCI World Growth Index from January 1975 to January 2018. Source: MSCI, FactSet

(continue to page 3)

Banks/Financial Institutions Banks comprise a meaningful proportion of value indexes. Thus, the performance of banks is a key driver for value performance. There are three primary concerns with banks. First, investors are concerned with excessive regulation. Harpswell feels that while the regulatory measures have stifled buy-backs and dividends, they are ultimately helpful in providing stability to the sector. Second, investors are bracing for an unprecedented wave of defaults and bankruptcies, and banks are taking reserves to help prepare, as depicted in Chart E.

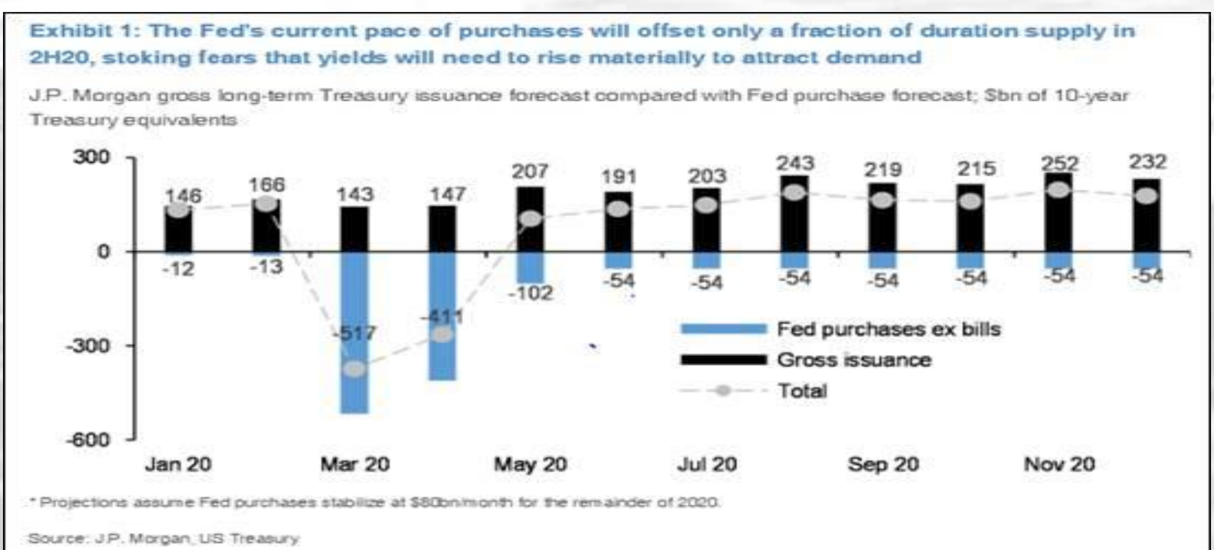
While Harpswell expects a meaningful headwind for banks as the repercussions of COVID-19 play out, we feel there is some room for optimism. Over the last decade, "leveraged-loans" evolved as its own asset class. Leveraged loans are risky loans issued by private investors rather than banks. Thus, many of the riskier loans that are likely to be underwater will impact nonfinancial institutions rather than banks.

Chart E



Finally, investors are concerned about the shape of the yield curve and banks inability to make profits by taking advantage of higher long-term rates versus lower short-term rates (see Chart F). While this phenomenon is currently impacting their profits, it is unlikely to remain the case over the long-run. In fact, as the Treasury starts to issue more longer-dated bonds (20+ years) and the Fed tapers back its purchases of such bonds, we could envision longer-term interest rates rising as supply increases and demand softens. *(continue to page 4)*

Chart F



We will note that banks, in general, are in a much better position relative to their predicament in 2008 and we can likely count on government support in the event a prolonged crisis further jeopardizes their viability.

Large vs. Small As Harpswell has noted in previous works, small cap stocks (along with value and REITs) have historically (meaningfully) outperformed their counterparts as economies emerge from recessions and market selloffs,. With respect to small cap stocks, this is generally the byproduct of smaller stocks underperforming in the period leading up to a rebound and their higher levels of leverage (debt). A higher proportion of debt, relative to equity, tends to foster heightened concerns in tough times and it tends to be the beneficiary of optimism as markets rebound, see Chart G.

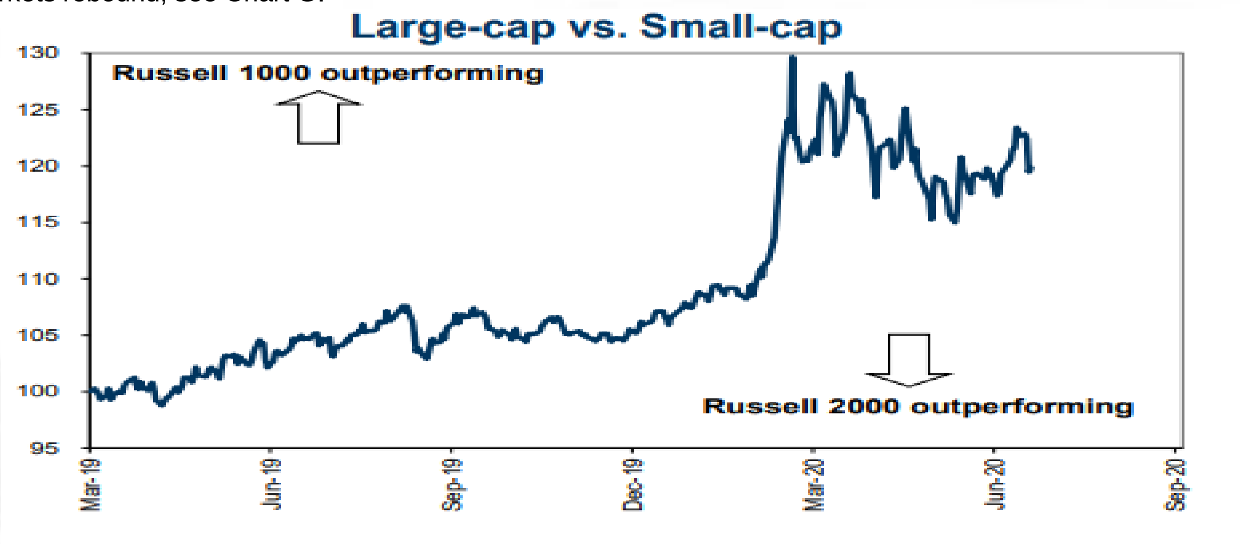


Chart G

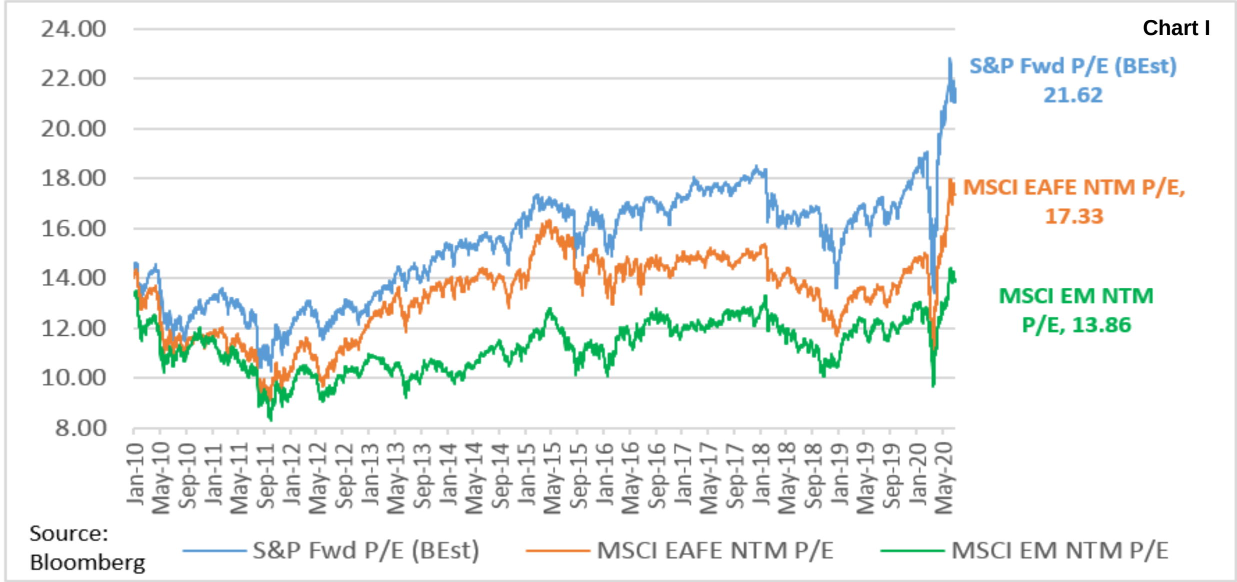
Developed markets vs. Emerging Markets The axiom "when developed markets catch a cold, emerging markets end up six feet under" has long been an accepted view by many market practitioners, see Chart H. However, markets, economies and demographics have evolved, and Harpswell feels this is no longer the case. In fact, we see a higher level of emerging market economic independence and more refrained monetary and fiscal policies combined with a more attractive demographic profile leading to quite a different path than we are accustomed to expecting. Emerging markets tend to have substantially younger populations with a rapidly growing middle class. Furthermore, their dependence on exporting (trinkets) to developed countries like the USA has been constantly falling, as manufacturing advantages are no longer tied to low labor costs and the service economy grows. *(continue to page 5)*

Chart H

Market Outlook *(continued from page 4)*

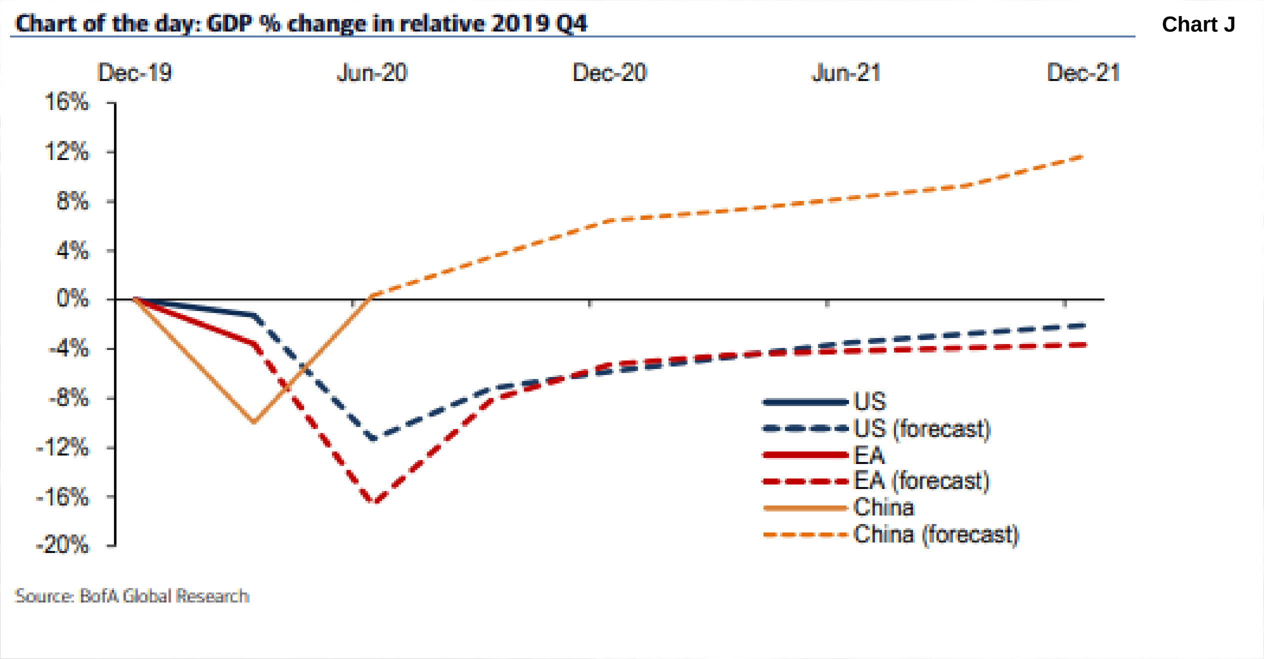
We feel the future looks very interesting for emerging markets, particularly Asia. We feel there are a number of factors that contribute to this promising outlook, and Harpswell expresses this view through our selection of active managers who are on the ground and are intimately familiar with the drivers and opportunities in Asia, see Chart I and Chart J.

Chart I



The growing dispersion in market valuations lends support to Harpswell's emerging markets thesis. Furthermore, while COVID-19 does seem to be a driver for market volatility, we see Asia better positioned to battle the repercussions. Asian governments appear more effective at enforcing helpful policies and, with a very high proportion of their populations substantially under the high-risk cohort (ages 70+), we see a dampened impact (with exceptions expected). China was clearly the first country to be hit by COVID-19 and they seem to be the first coming out. *(continue to page 6)*

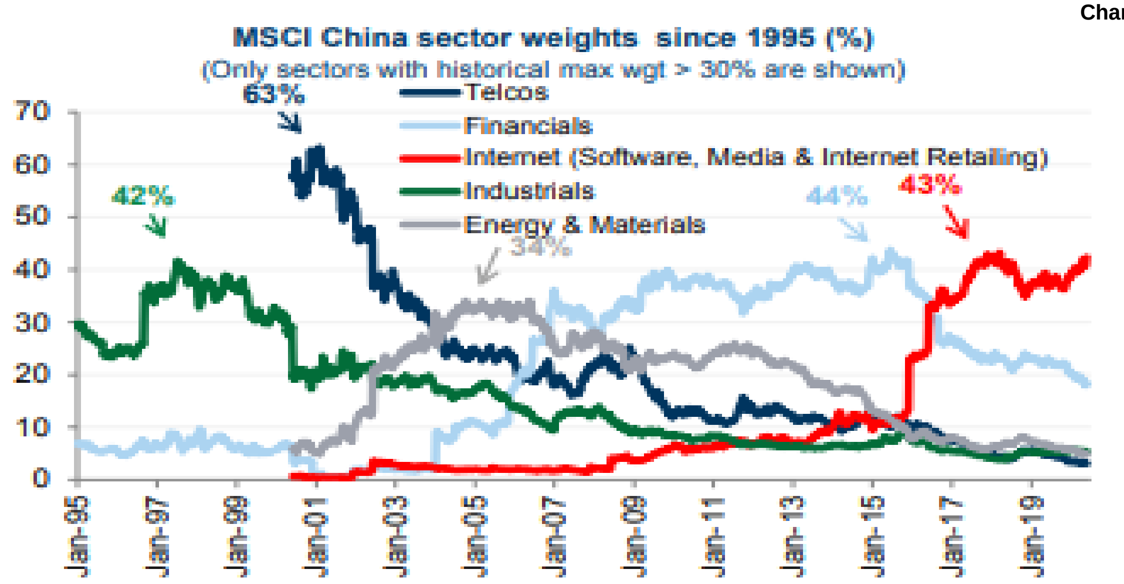
Chart J



New China Equities China's stock market is evolving much like the US markets have over the last decade. As the global economy shifts from manufacturing to an e-commerce world, China's stock markets reflect this change with the weighting of "new economy" stocks consistently increasing over the last decade. Furthermore, China's equity weighting to technology has grown from under 2% in 2000 to over 40% today. Thus, historic trends in volatility do not apply to today's China. Over the last few years, the tech growth stocks have proven to be resilient in volatile markets, see Chart K and Chart L.

Chart K

Chart L

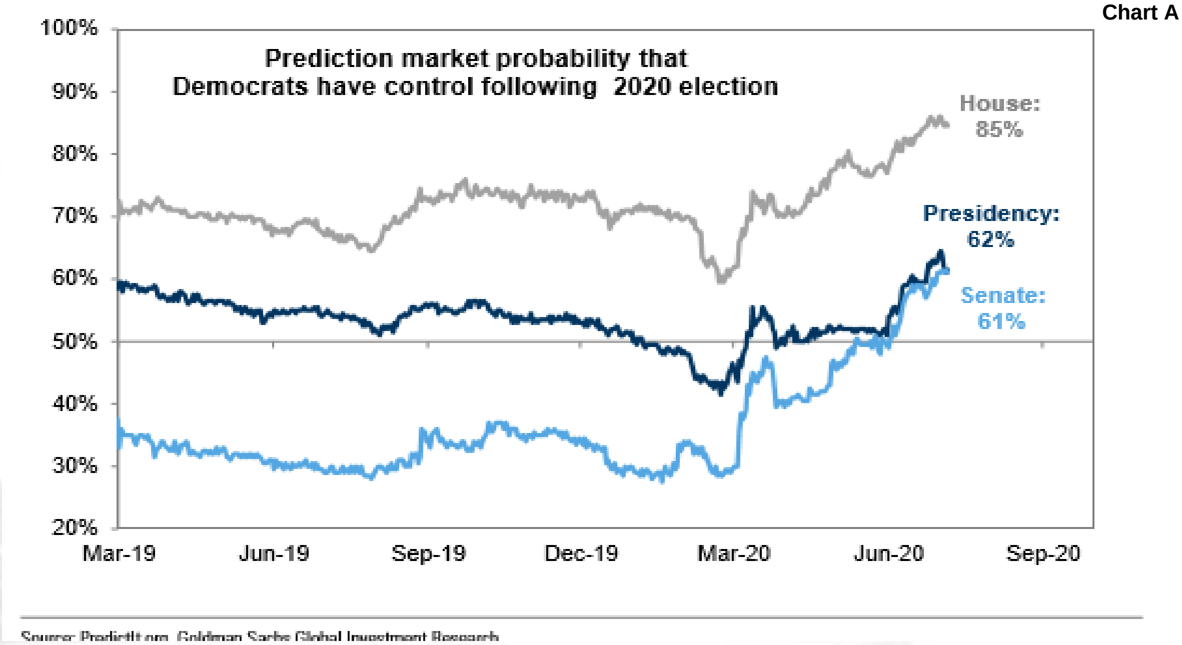


Source: FactSet, MSCI, Goldman Sachs Global Investment Research

Elections have consequences

Over the last month, the political outlook for 2020 has radically changed. It appears expectations were generally geared towards the status quo, yet that has changed. A recent Goldman Sachs report published this week suggests the prospects for a Democratic sweep are possible.

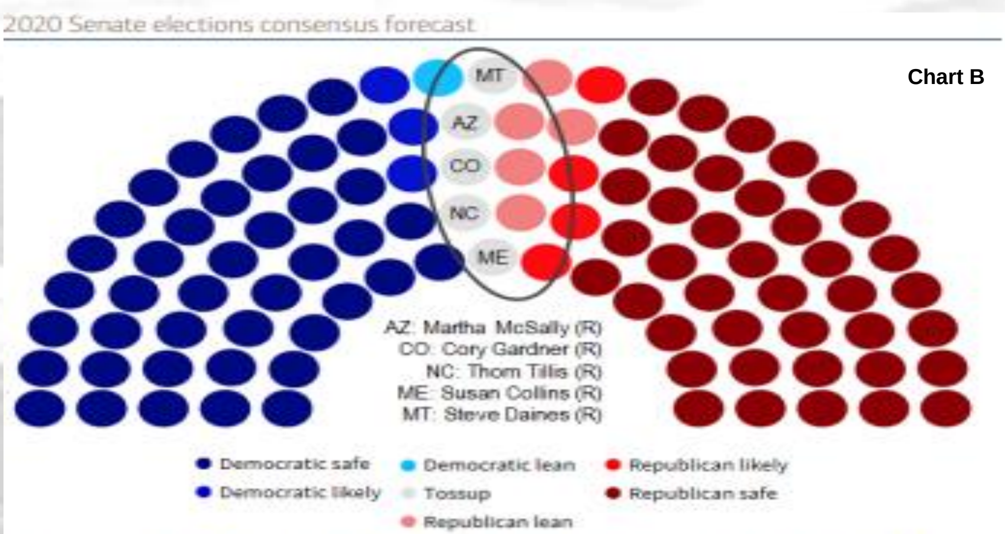
Chart A



Source: PredictIt.org, Goldman Sachs Global Investment Research

While the House was always expected to remain in Democratic control, the elevated prospects for the Senate to change leadership is likely the most meaningful shift in recent weeks. Motivations to achieve victories for both houses of Congress, as well as the POTUS, are as strong as ever for both parties. However, Senate races are ~~is~~ attracting record political donations given the pivotal role the Senate plays legislatively, as well as its impact on the Judiciary branch. The ability to shape the Judiciary by appointing Federal appellate and district court judges as well as the prospect of appointing new justices to the Supreme Court has both parties vigorously seeking control of the Senate.*(continue to page 8)*

Chart B



Source: BofA Research Investment Committee, Cook Political Report, Sabato's Crystal Ball, Inside Elections

Elections have consequences *(continued from page 7)*

What Does a Biden Presidency Mean to the Stock Market? Until recently, tax policy was a key differentiating factor upon which investors focused. President Trump reduced corporate taxes from 35% to 21% and former Vice President Biden is slated to raise them to 28%. This translates into the S&P 500 earnings jumping from $125 to either $154 (Biden) or $162 (Trump), as depicted in Chart C. While the resulting differential in earnings is real, we do not believe the tax policies alone would send the market on a meaningfully different tangent.

While there are pros and cons to each party's policies from a market-perspective, a rise in populism could divert the markets' recovery. Generally, policies are developed in a legislative process which weights the prospective benefits and costs of new policies. Then, the CBO opines on what it feels the long-term financial impact of a law would be. Policies driven by a populist agenda tend to ignore the cost-side of the equation as they have more radical goals focused on social impact. ✥

Chart C

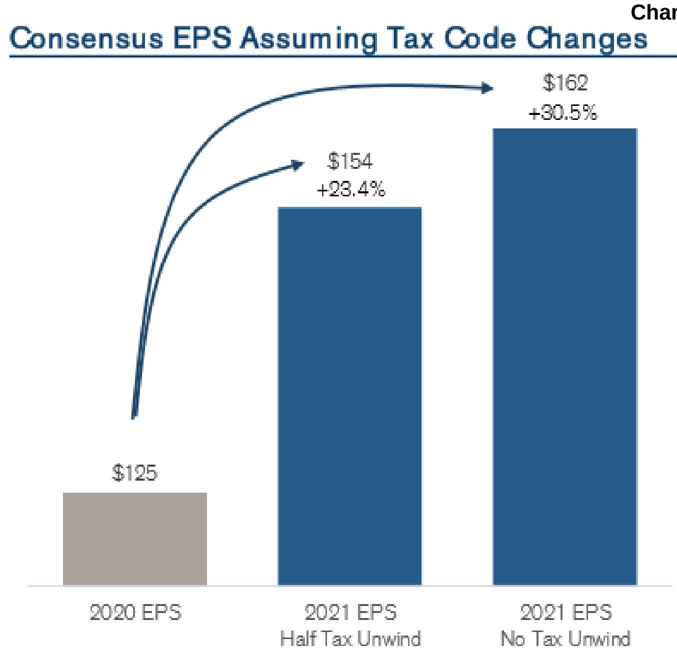


Chart D

Corporate Tax Reform: Trump vs. Biden

	Trump Tax Cut & Jobs Act	Biden Tax Proposals[1]
Corporate Tax Rate	Reduced from 35% to 21%	Increase to 28%
Multinational Reforms	Repatriation and Territorial tax relief Minimum tax on foreign earnings (GILTI, BEAT)	Increase minimum tax on foreign earnings (GILTI)
Minimum Tax on "Book" Profit	No	Yes
Immediate Expensing (Capex)	Yes	Not clear; but could introduce new limits
Limits on Interest Deduction	Yes, but some relief under CARES Act	Not clear
Limits on NOL Carrybacks	Yes, but temporary relief under CARES Act	Yes, reverse CARES Act provisions
Investor Taxes	No	Increase Capital Gains and Dividend Tax

Where to be active and passive

At Harpswell, we believe that there is a role for both active and passive management when building investment portfolios. However, the challenge for any investment advisor is determining when and where each can add the most value in crafting a portfolio.

To provide some insight into our evaluation process and how we developed our investment approach, we prepared a historical review where Active Equity Managers' results were compared to a relevant index. We looked at returns over the past 10 years but also included a risk measure, Standard Deviation, which is an important consideration when identifying suitable managers. Active managers are more concentrated than index funds and will over/under weight sectors and individual securities to add value. This results in added layers of risk associated with sector and security selection. Index funds, by contrast, only have the Systematic Risk of the market or underlying segment that they represent.

Our review focused on four asset classes: Domestic Large Core; Domestic Small Cap Core; Developed International; and Emerging Markets.

Conclusion

Index funds provided attractive returns throughout the review period when compared to Active Equity Managers, especially on a risk-adjusted basis. Low fees contributed to the outperformance on a relative basis as well. There are Managers that have performed well over time versus the Indices but identifying those firms requires significant time and effort. The results of our review certainly suggest that focusing this effort on Active International Equity Managers offers the best opportunity for success.

A detailed white paper and exhibits are available on the website: Active Equity Managers' Performance vs. Index Funds.

The future value of a college degree

We all know that COVID-19 is a game changer for education. The efficacy of e-learning is real and clearly the direction our world is heading. Without much fanfare at all, we feel this movement was just advanced to an exponential magnitude on June 26, 2020.

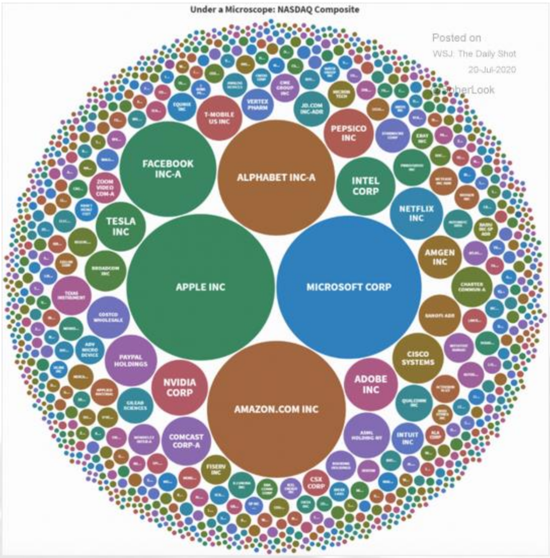
On June 26, the White House issued an executive order entitled, "Modernizing and Reforming the Assessment and Hiring of Federal Job Candidates." This order deemphasizes the role degrees play in the federal government's hiring process and places more weight on skills. We feel this is a great equalizer as college degrees are still monopolized by a racially and economically homogeneous population. While we have made great progress in leveling the playing field at colleges, we are not yet there. This order enables those who have the skills yet lack a degree to put their abilities to work within the federal government.

The federal government is the largest employer in the country–employing over two million people—and they are not alone in this movement to focus on skills over pedigree. A growing number of employers recognize that their rapidly evolving needs are less often aligned with the degree programs of colleges and universities. Apple and Alphabet have loosened degree requirements over the last few years and Alphabet has developed their own skills testing program to hone-in on folks with the very specific skills they need. Even JPMorgan, the largest US bank, has moved in this direction and announced this year they will end their on-campus recruiting program.

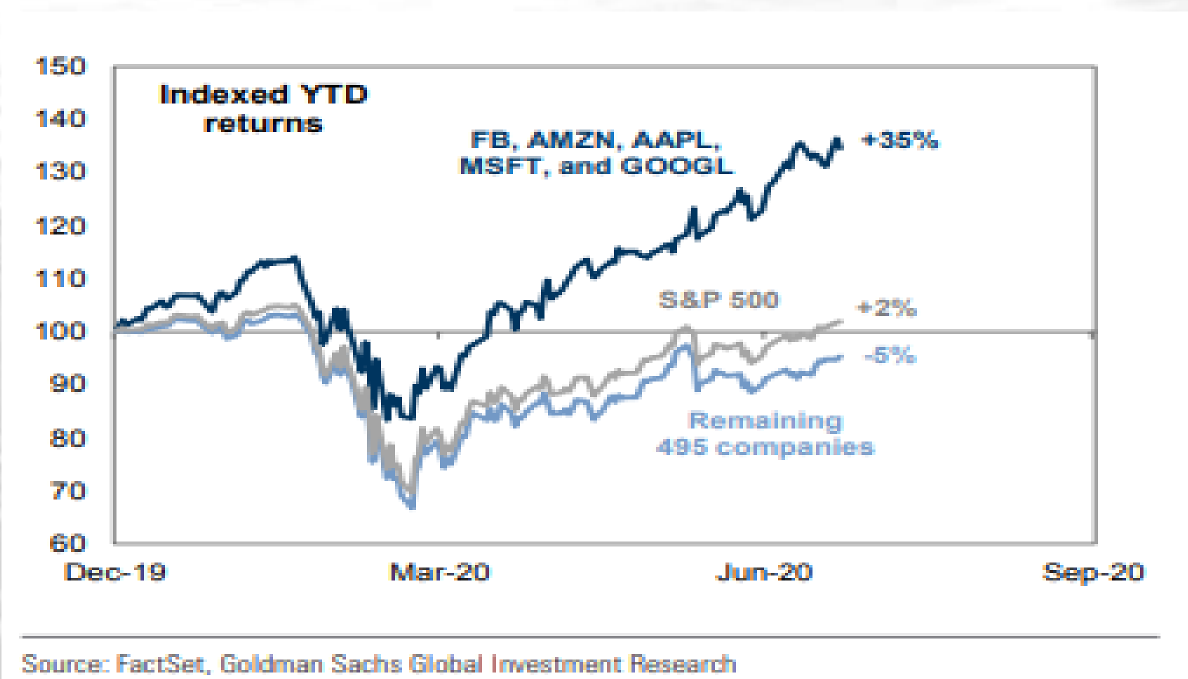
COVID-19 has most certainly changed the model for education and those institutions who embrace change will be best positioned for the future era of e-learning.

The S&P 5

The fact that the five largest companies in the S&P 500 comprise over 20% of the index is an alarming statistic. The companies are Apple, Amazon, Alphabet, Facebook and Microsoft.



One of the key benefits of index investing is the diversity in exposures it has historically provided. Now, not only does your exposure to these five companies present a real risk, all five companies are technology companies with reoccurring bouts with regulators over monopoly concerns. While the large tech companies account for most of the market's extraordinary five-year run and all of its amazing rebound this year, at some point it is inevitable that they will prove to detract from performance. Harpswell has taken steps to alleviate this concentration risk; however, we feel the markets will ultimately fix the issue.



Gold & Inflation

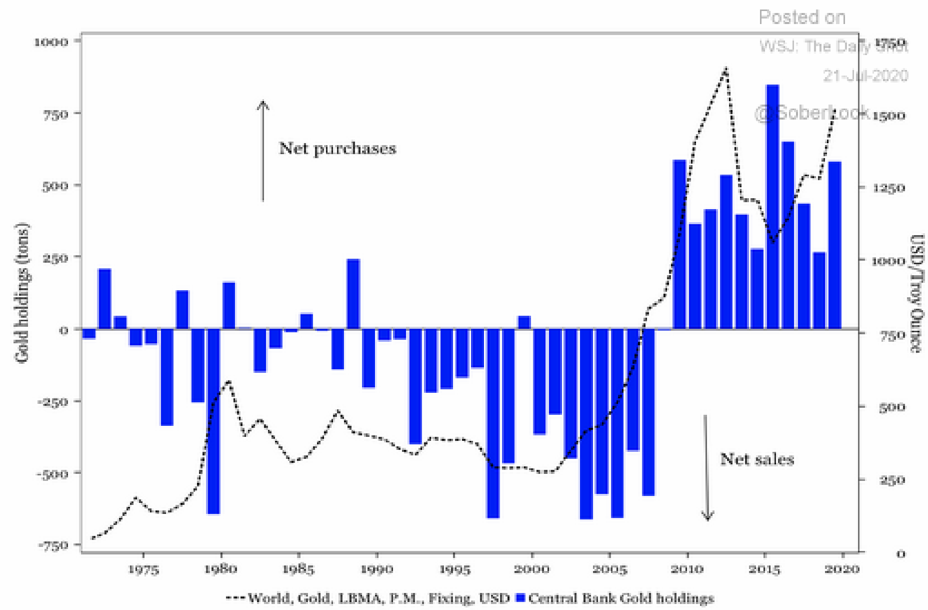
Gold has had quite a run since late last year and we thought it would be worth touching on. As the graph below highlights, gold has accelerated to lock-step with the drop in yields on TIPs. Considering gold offers no yield, it has little industrial value and the price you sell it at is based on the perceived value of the prospective buyer. Hence, we remain on the sidelines. Warren Buffett has always shied away from gold as he suggests its price is set by the "greater fool theory" (implying a lack of inherent value and risk of losses resulting from nothing more than a change in buyers' sentiment). With that said, gold is often considered to be a safe refuge in volatile times and that is certainly part of the picture. We, however, think there is more to it than that. Stay tuned for "the rest of the story."

Part of the story relates to the increased holdings of gold by central banks around the world. In a recent report from the World Gold Counsel, 20% of central banks surveyed expected to increase their inventories of the yellow metal. This compares to only 8% last year. The reasons are threefold. First, as concerns grow over a potential financial meltdown, central banks look to diversify away from bonds. *(continue to page 12)*

Gold & Inflation *(continued from page 11)*

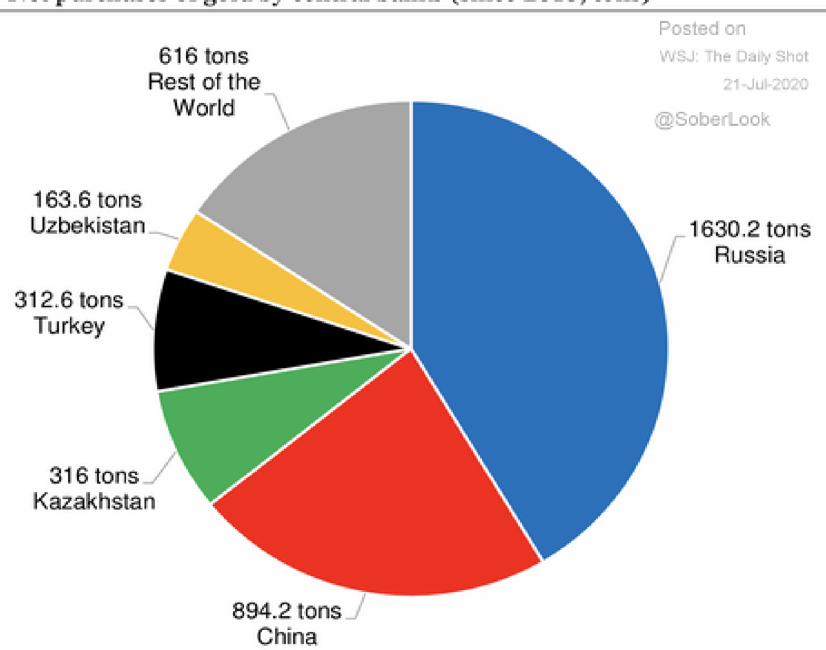
In the financial crises of 2007-2009, many central banks suffered large losses associated with defaulting bonds. Second, the growing sum of negative yielding bonds around the world is a catalyst for gold prices. Negative bond yields help gold prices as they eliminate the opportunity costs of bond allocations; they lower borrowing costs and the discounted value of a sale in the future looks more attractive, see Charts A, B and C.

Fig 3: Net annual gold purchases by central banks (tons) **Chart A**



Source: Longview Economics, Macrobond

Fig 5: Net purchases of gold by central banks (since 2010, tons) **Chart B**



Source: World Gold Council

(continue to page 13)

Gold & Inflation *(continued from page 12)*

Chart C

Over the last decade, central banks across the globe have also flooded their economies with currency as a means to inflate prices and defend against deflation. As we have noted numerous times in past publications, deflation would be detrimental to the economy and could trigger a level of volatility not yet seen this century.

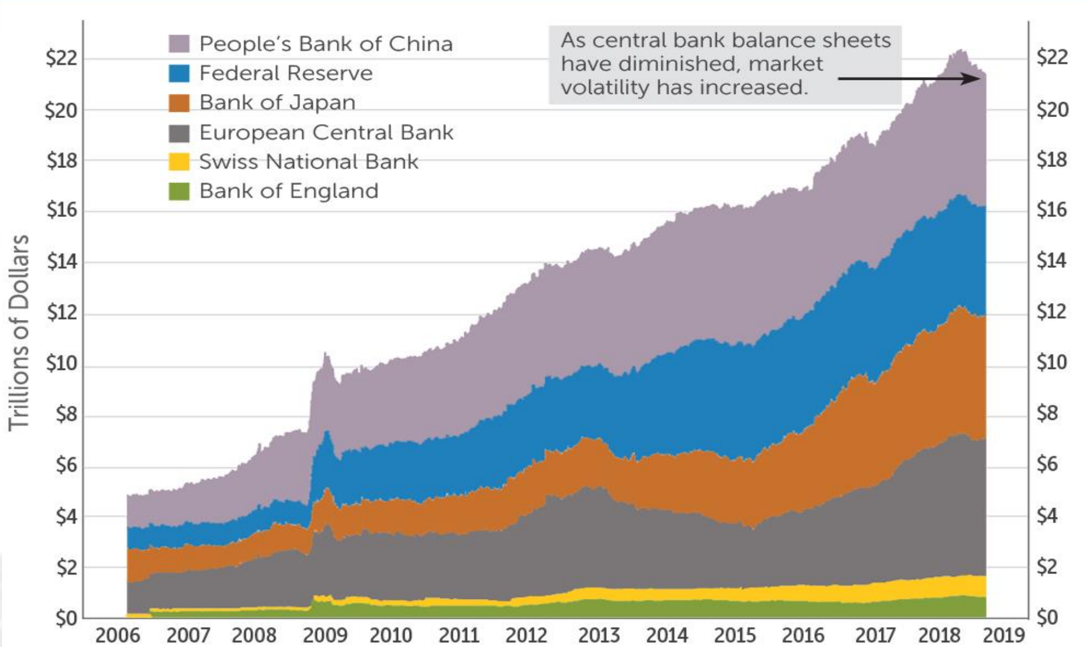
So what are the banks doing? Well, it's pretty simple. As the Treasury Department issues bonds to fund our enormous deficits, the Federal Reserve buys a good portion of them. They literally print more money and use that for the purchases. Thus, the US government's deficit is being partially financed by the dilution of the value of our currency.

Think of it this way: suppose you had an economy with assets worth $1,000,000 and you had currency worth $1,000,000. Now, assume the value of the assets doesn't change yet you now have $1,500,000 of outstanding currency. What happens? Well, you now have $1,500,000 chasing only $1,000,000 of assets. Thus, (theoretically) asset prices will get bid-up as the supply of dollars exceeds the value of assets; it's called inflation.

Central banks around the world are hoping their monetary policies drive inflation because inflation lowers the burden associated with high levels of debt. Here's another analogy: say you buy an apartment building for $100,000 and you borrow $50,000 to finance it. If you originally receive $10,000 a year in rent and then inflation drives it up to $15,000, the burden of the $50,000 in debt is lightened. This is the basis for what economist call "modern monetary policy." Now you know the rest of the story. Good day!

Gold & Inflation *(continued from page 13)*

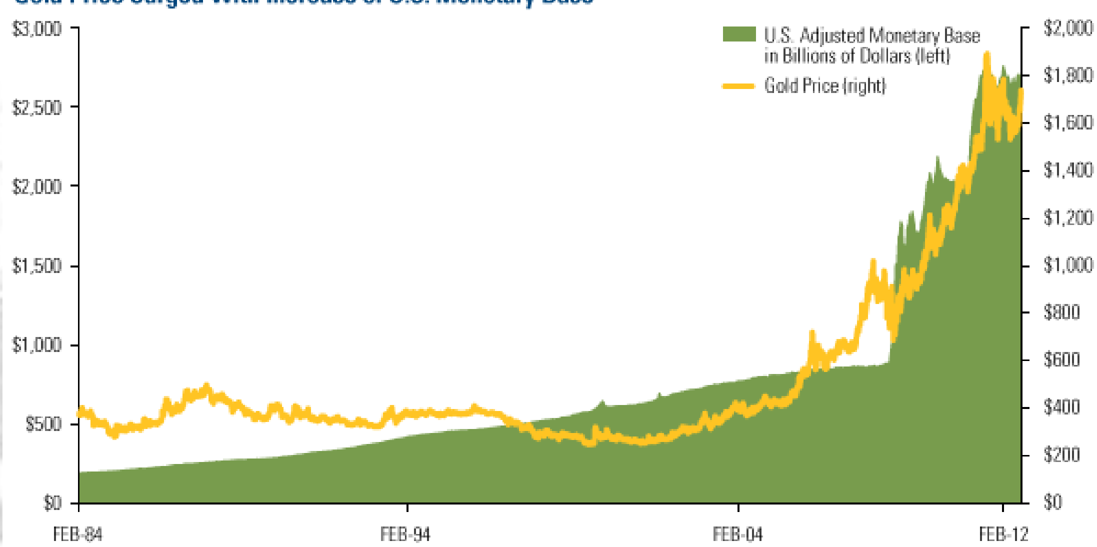
Cumulative Central Bank Balance Sheets (in Dollars) **Chart D**



Sources: Federal Reserve, European Central Bank, Bank of England, Swiss National Bank, People's Bank of China, Bloomberg

Chart E

Gold Price Surged With Increase of U.S. Monetary Base



Source: Federal Reserve Economic Data, St. Louis Fed.

M1 is the money supply that is composed of physical currency and coin, demand deposits, travelers' checks, other checkable deposits, and negotiable order of withdrawal (NOW) accounts. M1 includes the most liquid portions of the money supply because it contains currency and assets that either are, or can be, quickly converted to cash. However, "near money" and "near, near money," which fall under M2 and M3, cannot be converted to currency as quickly.

June 2020 Flash Report

Overview: Coronavirus – Many States experienced a resurgence in outbreaks forcing local and state governments to reconsider their re-opening plans. In reaction, investors sent global equity markets tumbling mid-month with renewed worries over the economic recovery. **Equity Markets –** following a significant mid-month decline, equities recovered ending with a 2nd quarter rally that took them to their best overall quarter since 1998. **Federal Reserve –** the FOMC met in early June, maintaining the fed funds rate in a range of 0% to 0.25%. The Fed will continue its bond buying program, including corporates, for the foreseeable future. On the GDP front, the Fed sees a decline of 6.5% in 2020 but a sharp recovery afterward, with 5% and GDP growth in 2021 and 2022, respectively.

Equities: Domestic – Markets rebounded in the month and 2nd quarter as the outlook for an economic recovery improved. The **S&P 500** increased by 2.0%, earning 20.5% in the quarter & reducing YTD losses to 3.1%. Growth stocks, again led by Tech, returned 4.4% in June and an outstanding 27.8% in the quarter. Value stocks lost another 0.7% in the month adding to a YTD loss of 16.3%, due primarily to losses in Energy and Financials. The R2000 earned 3.5% this month and 25.4% in the quarter but remains down 13% in 2020 as smaller companies continue to struggle to recover losses due to mandated shutdowns.

International – **EAFE** rose 3.4% in June led by Italy, which earned 7.9%, although many European and Asian markets had strong returns as well. A weaker Dollar contributed 1% the month's return. EAFE returned 15.1% in the quarter. Hong Kong earned 11% in June, erasing May's losses.

Emerging Mkts – the **Emerging** markets rose an impressive 7.4% in June and 18.2% in the quarter although YTD results still show a loss of 9.7%. China earned 9% resulting in a gain of 3.6% for the year. In general, the Asian markets posted strong returns for the month.

Fixed Income: Treasury rates remained relatively stable in the month despite the equity market's continued recovery. However, the Fed remains concerned about the economy and indicated it will not raise rates in the near term. Short term yields edged up slightly by 1bp to 0.13% for the **90 Day T-bill.** The **10 Year Treasury** yield rose by only 1bp to 0.66%. The yield curve remains slightly positive across all maturities. The **30 Year Treasury** yield closed at 1.41%, remaining unchanged.

In contrast, **Municipal** yields generally rose in June. The **1 Year Municipal** yield closed at 0.21%, up 13bps, and is now trading at a 6bps premium to the comparable Treasury. The **30 Year Municipal** yield closed at 1.7%, down 4bps, which is 29bps higher than the 30 Year Treasury. Tax-exempt yields closed at a premium to Treasury yields across all maturities.

International yields moved mostly lower in June. **German** rates fell by 2bps ending with a negative 0.70% yield for the **2 Year Bund** and by 1bp closing at a negative 0.46% for the **10 Year**. The **UK 10 Year Gilt** yield fell by 1bp to 0.17%. The **Japanese 10 Year Gov't** bond yield remained unchanged in June at negative 0.01%. The **2 Year Yield** increased by 1bps to negative 0.16%.

High Yield bonds rose 1.0% in June with an average yield of 5.7%. The Aggregate Bond Index gained 0.6% in the month reflecting an approximate yield of 2.3%.

	1 Month	3 Months	YTD	1 Year	3 Years	5 Years
Domestic Equities						
Dow Jones	1.8%	18.5%	-8.4%	-0.5%	9.1%	10.6%
S&P 500	2.0%	20.5%	-3.1%	7.5%	10.7%	10.7%
Russell LG Value	-0.7%	14.3%	-16.3%	-8.8%	1.8%	4.6%
Russell LG Growth	4.4%	27.8%	9.8%	23.3%	19.0%	15.9%
Russell 2000	3.5%	25.4%	-13.0%	-6.6%	2.0%	4.3%
NASDAQ	6.1%	31.0%	12.7%	27.0%	19.2%	16.4%
MLP Index	-7.9%	50.2%	-35.7%	-41.4%	-16.8%	-12.9%
REIT Index	2.7%	14.0%	-15.0%	-8.4%	2.5%	6.0%
International Equities						
EAFE	3.4%	15.1%	-11.1%	-4.7%	1.3%	2.5%
EAFE Small Companies	1.4%	20.0%	-12.9%	-3.2%	0.9%	4.2%
Emerging Markets	7.4%	18.2%	-9.7%	-3.1%	2.3%	3.2%
China	9.0%	15.4%	3.6%	13.3%	8.7%	5.5%
Fixed Income						
US Agg	0.6%	2.9%	6.1%	8.7%	5.3%	4.3%
US High Yield	1.0%	10.2%	-3.8%	0.0%	3.3%	4.8%
Municipal Bonds	0.8%	2.7%	2.1%	4.5%	4.2%	3.9%
Currencies						
EURO	1.1%	1.9%	0.1%	-1.3%	-0.6%	0.1%
British Pound	0.4%	-0.7%	-6.8%	-2.7%	-1.8%	-4.7%
Japanese Yen	0.0%	-0.3%	0.8%	0.0%	1.6%	2.7%
Commodities						
Bloomberg Commodity	2.3%	5.1%	-19.4%	-17.4%	-6.1%	-7.7%
S&P GSCI Crude Oil	9.6%	0.7%	-66.6%	-64.7%	-23.0%	-26.0%
Gold	2.8%	12.1%	17.1%	25.7%	12.2%	8.1%

Commodities: WTI Crude Oil gained **$4.1/barrel to $39.6/barrel** at month's end. Oil was buoyed by better-than-expected U.S. job growth in June as well as data showing the biggest weekly domestic crude supply decline since 2019. **Gold** prices increased by **$47/oz to $1799/oz** in June. Gold is still viewed as a safe haven while concerns remain regarding the economic recovery. COVID outbreaks have been on the rise putting investors in a cautionary mood.

"The only way to build wealth is to have a gap between your ego and your income." ~Morgan Housel, Little Money Rules

"Some things are immeasurably important. They're either impossible, or elusive, to quantify. But they can make all the difference in the world, often because their lack of quantification causes people to discount their relevance, or even deny their existence…If you think the world is all art you'll miss how much stuff is too complicated to think about intuitively. Most people get that. But if you think the world is all data you'll miss how much is too complicated to summarize in a statistic. That one's a little harder."
~Morgan Housel, Immeasurably Important

"The most important driver of anything tied to money is the stories people tell themselves and the preferences they have for goods and services. Those things don't tend to sit still. They change with culture and generation. And they'll keep changing. The mental trick we play on ourselves here is the over-admiration of people who have been there, done that, when it comes to money. Experiencing specific events does not necessarily qualify you to know what will happen next. In fact it rarely does, because experience leads to more overconfidence than prophetic ability." ~Morgan Housel, *The Psychology of Money*

We asked a friend for a nice quote to end our note on and he sent three – we liked all of them. If you do too, check out https://www.mondaymorninglift.com

Harpswell CAPITAL ADVISORS, LLC

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Harpswell invests in stocks, bonds, mutual funds and sometimes alternative investments. Each asset class, along with each individual investment, carries varied degrees of risk of loss. Harpswell analyses investments from a long-term fundamental perspective and aims to engineer portfolios that have an attractive risk and reward balance. Despite a strong bias for diversification, all Harpswell portfolios do carry risks of losses, particularly in times of escalated market volatility. Harpswell does focus on capital preservation yet extraordinary markets can potentially generate material losses.

Our investment decisions and recommendations are based upon our professional judgment. We do not guarantee the results of any of our investment decisions or recommendations, the future performance of your Assets or Accounts, any specific level of performance, the success of any Independent Manager, investment decision, strategy or recommendation made by an Independent Manager, or the overall success of the Account. Past performance is not indicative of future results. Investments in your Account may go up or down in value depending on market conditions.

Alternative investments are designed only for sophisticated investors who are able to bear the economic risk of losing all of their investment. Alternative investments: (1) often engage in leveraging and other speculative investment practices that may increase the risk of investment loss; (2) can be highly illiquid; (3) are not required to provide periodic pricing or valuation information to investors; (4) may involve complex tax structures and delays in distributing important tax information; (5) are not subject to the same regulatory requirements as mutual funds; and (6) often charge high fees.

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Market index information shown herein, such as that of the S&P 500 Stock Index, is included to show relative market performance for the periods indicated and not as standards of comparison, since these are unmanaged, broadly based indices which differ in numerous respects from the portfolio composition of the Fund. Market index information was compiled from sources that Harpswell Capital Advisors believes to be reliable. No representation or guarantee is made hereby with respect to the accuracy or completeness of such data.

Index Definitions

The S&P 500 Stock Index is an unmanaged market capitalization index of 500 US equities generally considered to be representative of US stock market activity. The Morgan Stanley Capital International World Index is a market capitalization-weighted equity index of over 1,500 stocks traded in 22 world markets. The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on the NASDAQ Stock Market. The Index is market value-weighted. The SB World Bond Index is a market capitalization weighted index of 18 Government bond markets composed of sovereign debt denominated in the domestic currency. The Lehman Aggregate Index is a benchmark index made up of the Lehman Brothers. The Hennessee Hedge Fund Indices® are calculated from performance data obtained from publicly available information, internally developed data and other third party sources believed to be reliable. MSCI EAFE is a stock market index that is commonly used as a benchmark for the performance of major international equity markets. The MSCI Emerging Market Index is an index created by Morgan Stanley Capital International (MSCI) that is designed to measure equity market performance in global emerging markets. The Russell 1000 seeks to track the investment results of an index composed of large- and mid-capitalization U.S. equities. The Russell 2000 seeks to track the investment results of an index composed of small-capitalization U.S. equities. The Russell 2500™ Index measures the performance of the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Barclays Capital Global Aggregate Bond Index is designed to be a broad based measure of the global investment-grade, fixed rate, fixed income corporate markets outside the United States. The Barclays Capital US Gov/Credit bond Index measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year.