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Esports

As the economy continues to evolve in response to both new technologies and intergenerational trends, Harpswell sees potential for profits arising from e-sports. Every parent has endured an endless battle over screen time and it seems as though the battle is essentially lost. Kids, and now adults, have paved the way for a commercially thriving e-games industry and this industry is on the verge of exploding into a multi-billion-dollar empire. The dollars flowing into e-sports today highlight a new opportunity for e-sports and pending peril for (some) conventional sports.

At the end of the day, the commercialized success of e-sports is very much tied to dollars at stake related to both marketing and direct sales. E-sports offer a lot of attractive characteristics which may help play into its successful evolution. First, the barriers for participants is minimal and the profit potential can appear endless.

As the chart on (page 2) highlights, viewership for e-sporting events has trumped several noteworthy traditional sporting events. In addition to viewer growth, ticket sales are setting records prompting the development of new e-sports arenas. In Philadelphia, where e-sports tickets at the Spectrum have sold out in under 3 minutes, Comcast Spectator announced it will be constructing a new $50,000,000 arena aimed at housing their e-sports franchises. *(continue to page 2)*

Trends in Endowment Investing

Observations from the 2018 NACUBO report

Harpswell's team pays particularly close attention to the National Association of College and University Business Officers' (NACUBO) annual study of endowments. This study compiles data on over 800 education-related endowments totaling over $600B and serves as a yardstick for comparison of both performance and positioning. The NACUBO study is like scripture for folks in the endowment industry and it is a staple in every college investment committees' annual review.

This month, Harpswell reached out to NACUBO and asked for additional endowment data dating back to 1999. The trends over the last 20 years among endowment managers seem to be reasonably pronounced and are likely to have an impact on future returns and, more importantly, risk. Harpswell's observations are classified under two themes: (1) trends over time and (2) differentiating characteristics of large versus small endowment strategies.

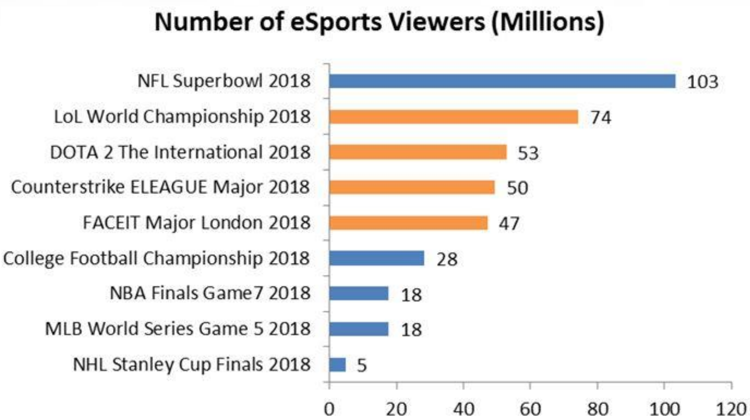
Trends Over the Last 20 years

The most pronounced trend over the last 20 years among the endowments in the NACUBO study, was the slide in fixed income (bonds) exposure and the increase in investments in alternatives (hedge funds, venture capital, and private equity). According to the *Modern Portfolio Theory*, diversification across asset classes, which have varied correlations and return patterns, should achieve higher returns for a given level of risk. *(continue to page 5)*

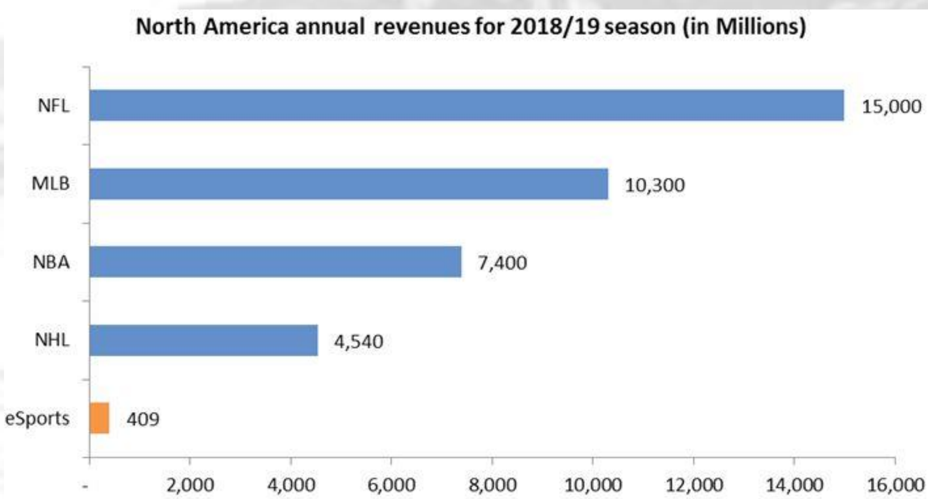
Summer reading: Deadly Account

It's summer! You have visions of beaches, ice-cold beverages and vacation rolling around in your brain. With a good book in hand, the day at the beach is complete. In that vein, the Harpswell team has compiled a fantastic list of fiction books. Topping that list is Deadly Account, the first novel by Jere G. Michelson. *(continue to page 7)*

Esports *(continued from cover)*



While revenues from e-sports are presently dwarfed by those for conventional sports (see below), both the trends and the economic potential suggest revenue growth may very well follow viewership growth. Aside from the growth, e-sports offer a number of advantages from an entrepreneur's standpoint; they have low operating expenses, marketing potential, scale, and an eventual target population in the billions. We are in the first inning of growth here, that seems certain.



As e-gamer enthusiasts flood into arenas and stream (view) live competitions, the populations that normally fill the seats of college and pro-sports is dwindling. Just looking at college football attendance over the last five years the picture is clear; in 2013, 35,340,049 college football tickets were sold and in 4 of the 5 following years, college football sales steadily trended lower.

The days are not numbered for all conventional sports nor are all e-sports going to grow and prosper. The trends certainly do suggest, however, that dollars will continue to flow to e-game sports and we may have very well seen peak growth in the conventual sporting world.

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The Conference Circuit

Harpswell's Claude Perrier recently participated as a panelist at the Family Office Management Forum sponsored by the Opal Group. The panel, entitled "Family Governance and the Single-Family Office: Planning for the Next Generation", focused on the interaction of Family members and educating the next generation to continue the Family's legacy and manage wealth in a responsible manner. Too often we see members of the next generation ill-prepared to manage the Family's wealth as they come of age, possibly resulting in poor decision-making or becoming victims of unscrupulous investment professionals.

The panel discussed the various alternatives that can be employed to avoid these situations, including involving the next generation early and educating them about the Family's legacy and wealth. All panelists agreed that early involvement was crucial. A simple example was establishing a Family Foundation and providing younger family members with an opportunity to do some giving, even at a very limited level, or volunteering their time to a charitable cause. Such activities help promote responsible behavior and a sense of community.

Quite often, families bring in outside parties to work with the different generations. This can help facilitate the educational process and deal with conflicts or different viewpoints and promote a sense that all family members are involved. The ultimate goal would be to preserve, the Family's values and legacy over time.

Over the last five years, Harpswell's team has been asked to participate at several national conferences on subjects relating to investment strategy, family offices, governance, endowment best practices and hedge funds.

Harpswell's team participates at those conferences which are most aligned with the firm's core focus and depth of knowledge. Our next event is in Boston on November 8, 2019:

https://opalgroup.net/conference/endowment-foundation-forum-2019/

Advisory Board's Q2 2019 Meeting

Harpswell held its quarterly Advisory Board meeting on July 11, 2019 to cover the second quarter of the year. We always look forward to these meetings and are so grateful for the guidance and expertise that Gus Sauter and Mauricia Geissler provide. Please see https://www.harpswelladvisors.com/advisory-board for more information on the Advisory Board. Harpswell reviewed Firm updates and new clients for the second quarter, as well as mid-year performance and manager updates.

As part of our ongoing manager due-diligence, Harpswell reviewed all managers in client portfolios while paying particular attention to active managers and their roles in the portfolios. In a rare occurrence, Harpswell terminated a manager in the international equity space; only the second manager to be terminated since the Firm's inception. In this case, we felt that the manager had strayed from its expertise and portfolio mandate and was no longer positioned for the downside protection it had historically offered. Harpswell's low manager turnover experience is the byproduct of a detailed oriented manager selection process that avoids performance chasing and focuses more on people and processes.

Our Advisory Board also discussed market updates and insights as they relate to portfolio positioning and asset allocation across client portfolios. We particularly focused on fixed income duration in comparison to the Barclays Aggregate Index, where Harpswell has a slightly conservative tilt towards the shorter side of the curve. While this was particularly helpful through 2018, the longer side of the curve has since rallied. However, both the Firm and the Board are in an agreement on maintaining a more conservative approach to the risk associated with the longer duration securities. The overall theme throughout the conversation was largely to stay the course and continue to monitor things closely; a difficult challenge in and of itself, but a judicious approach.

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Negative Yield

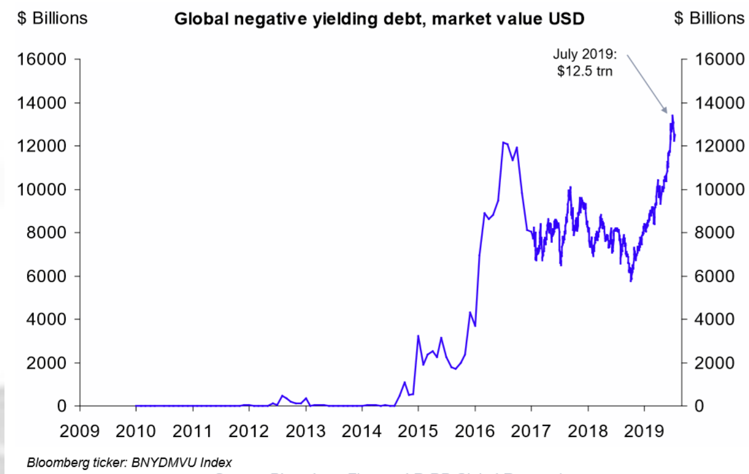
Why would anyone buy or hold a bond that guarantees a loss? Well, the answer is complex, but we can point out a few data points that can help you piece together your own conclusion.

First, bond investors focus on their <u>real</u> return, not absolute return. The real return is the absolute return adjusted to reflect the impact of inflation (which erodes buying power, thus, real return, in an inflationary environment, is always lower than the absolute return).

Negative (or very low) bond yields may be suggesting elevated prospects for deflation which would be devastating for a net debtor economy. Inflation erodes the impact of debts (that is what our country has been built on over the last 50 years) and deflation compounds the burden associated with debt. Deflation also stifles economic activity as purchases are delayed in hopes of lower prices. Deflation is bad, that is for sure!

Second, some feel central banks are simply driving yields lower as they aggressively purchase bonds in the open market. More buyers than sellers is certainly a recipe for price movement and lower yields; however, we should have seen immediate mean-reversion once the talk on the prospects of tapering emerged. We had discussions with Eugene Fama (famed Nobel laureate in economics) just two months ago and asked him about his views on whether central banks are setting interest rates or just following the market; he suggested the latter. We agree and therefore suggest the absolute yield of bonds is the byproduct of an economic equilibrium and it reflects a view on the economy.

Finally, bonds are often the investment of refuge when turbulence dominates the markets. Investors are willing to pay up (through lower yields) for the peace of mind associated with bonds. While (US) equity markets hit all time highs, the bond market is clearly telling another story.



Source: Bloomberg Finance LP, DB Global Research

NEGATIVE RATES ARE INFECTING MARKETS

Developed Market Govt. Bond Yields	6-Month	1-Year	2-Year	3-Year	5-Year	7-Year	10-Year	15-Year	30-Year
Germany	-0.58%	-0.69%	-0.76%	-0.76%	-0.66%	-0.57%	-0.33%	-0.12%	0.27%
Austria	-0.76%	-0.73%	-0.68%	-0.63%	-0.48%	-0.25%	-0.05%	-	0.67%
Finland	-0.62%	-0.64%	-0.66%	-0.66%	-0.53%	-0.39%	-0.03%	-	0.54%
France	-0.54%	-0.62%	-0.69%	-0.68%	-0.51%	-0.31%	-0.01%	0.36%	0.94%
Japan	-0.18%	-0.21%	-0.22%	-0.23%	-0.25%	-0.25%	-0.16%	0.05%	0.37%
Netherlands	-	-0.67%	-0.67%	-0.72%	-0.65%	-0.42%	-0.16%	-0.01%	0.29%
Switzerland	-	-0.85%	-0.88%	-0.89%	-0.86%	-0.72%	-0.54%	-	0.00%
Belgium	-	-0.58%	-0.68%	-0.64%	-0.40%	-0.24%	0.07%	0.41%	1.03%
Portugal	-0.54%	-0.50%	-0.43%	-0.31%	-0.17%	0.22%	0.47%	-	1.36%
Denmark	-	-	-0.75%	-0.68%	-0.64%	-	-0.26%	-	-
Sweden	-0.40%	-	-0.63%	-	-0.53%	-0.39%	0.02%	-	-
Spain	-	-	-0.43%	-0.40%	-0.16%	0.07%	0.39%	-	1.38%
Italy	-0.08%	-0.06%	0.21%	0.80%	1.34%	1.54%	2.08%	2.53%	3.07%
Australia	-	1.04%	0.97%	0.95%	1.00%	1.15%	1.32%	1.44%	1.92%
Canada	1.69%	1.70%	1.47%	-	1.39%	1.41%	1.46%	-	1.68%
Hong Kong	1.81%	1.63%	1.57%	1.48%	1.39%	1.40%	1.43%	-	-
New Zealand	1.63%	-	1.18%	-	1.26%	1.25%	1.57%	-	-
Norway	1.26%	-	1.23%	-	1.24%	1.31%	1.43%	-	-
Singapore	1.66%	1.64%	1.61%	1.67%	1.76%	1.89%	2.00%	-	2.58%
United Kingdom	0.75%	0.70%	0.67%	0.60%	0.62%	0.68%	0.83%	1.18%	1.46%
United States	2.10%	1.94%	1.73%	1.69%	1.75%	1.87%	2.00%	-	2.53%

Source: FactSet

Trends in Endowment Investing *(continued from page 1)*

Thus, many endowments feel the benefits of diversification offset the virtue of having bonds which typically generate lower returns, (although they are more effective at preserving value in challenging markets). However, as we enjoy one of the most prolonged bull markets in modern history, we remain conscious of the notion that during periods of heightened volatility, many of these alternative asset classes can fall along with global equity markets, nullifying their diversification. Bonds hold their value because they are structurally a more sound harbor to be in in a stormy market Alternative investments can be relatively safe but every manager knows she doesn't get paid for *not* losing value and they are therefore incentivized to take risks that may not be aligned with the goals of endowments. At the very least, it is fair to say that few alternative fund managers are targeting a risk profile that mirrors that for a quality bond portfolio.

LARGE versus small Endowment Positioning The historic NACUBO data also highlighted the growing dispersion between how larger endowments are currently invested relative to their smaller peers. The differentiations are multifaceted, and some can be chalked up to the fact that larger endowments having greater resources and scale. The two most significant factors that differentiate the larger endowments from their smaller counterparts, as illustrated in the chart below, are: (1) the higher proportion of domestic stocks smaller endowments have relative to international equities; and (2) the fact that larger endowments invest a much smaller portion of their assets in bonds. These differences clearly become more pronounced as the differentiation in size grows. As we noted above, the trend for diversification out of bonds and into alternatives has been ongoing for many years. In addition to size and scale, factors that contribute to the difference in allocations include the fact that endowments under $25MM are not qualified to investment in most alternative investments. Furthermore, some larger endowments allocate to fixed income hedge funds and consider them to be bond investments.

Conclusion Over the last couple decades, the "endowment model" of investing has evolved. Modern endowment trends entail higher allocations to alternative investments (*i.e.*, hedge funds and private equity) and lower allocations to bonds. While these trends are most pronounced for larger endowments, we recognize that many of these portfolios could be positioned to realize a significantly higher level of volatility than that which they experienced historically, if or when markets slide.

2018 NACUBO Endowment Study

Size of Endowment	Domestic Equities %	Foreign Equities %	Alternative Strategies %	Fixed Income %	Cash %
Over $1B	13	19	58	7	3
$500MM to $1B	22	22	41	10	5
$251MM to $500MM	24	22	38	12	4
$100MM to $250MM	31	22	22	19	3
$51MM to $100MM	34	22	22	19	3
$25MM to $50MM	39	18	16	22	5
Under $25MM	45	15	11	24	5
Dollar-Weighted Average	16	20	53	8	3
Equal-Weighted Average	31	21	28	16	4

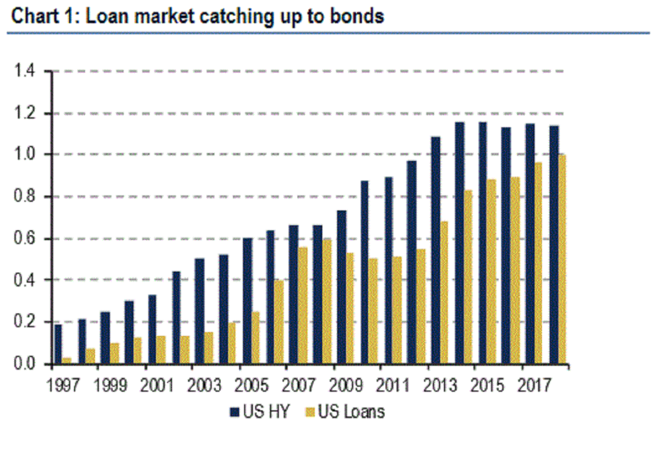
Source: 2018 NACUBO-TIAA Study of Endowments

Leverage Loans

A potential financial land mine worth avoiding

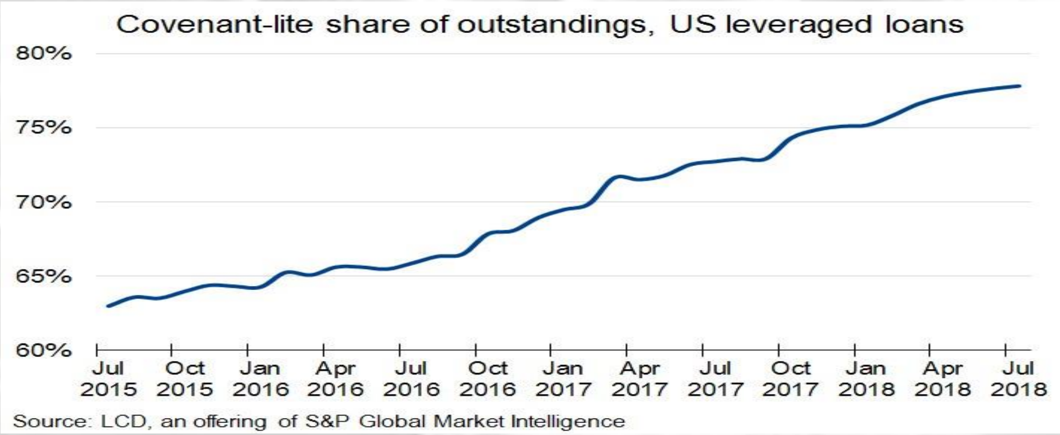
One of the repercussions of banking regulatory changes resulting from the financial crisis (2008) is the growth in leveraged loans. Leveraged loans are essentially junk bonds issued to private investors under whatever structure and interest rate that meets the demands of investors. They have replaced some of the loans that banks conventionally made and they are often associated with high yield (junk) bonds. As yields across almost all asset classes drop, investors have aggressively poured into leveraged loans as a means to target higher returns. We feel this is an asset class worth avoiding and, as with all good things in the investment world that become over-extended, there could be pain down the road for investors.

We find that there are a few key differentiating factors that add up to a concerning trend. First, as Chart 1 highlights, the growth in leveraged loans is extraordinary and, as this growth corresponds to a decade of uninterrupted market strength, we feel it is harder for investors to differentiate the doomed companies from those who are sustainable. Leveraged loans, by nature, are low quality loans that most conventional institutions would not entertain. As famed financier Howard Marks has recently suggested, "there is more capital looking for investments than there are good investments," and this typically results in investors ultimately reaching too far down the risk spectrum for yield.



Source: BofA Merrill Lynch Global Research, LCD

One barometer of the risk appetite for investors is the nature of loan covenants they are demanding. Covenants outline the safety net investors can rely on in hard times and often articulate a variety of mandates that help preserve value for bond holders and prevent equity holders from acting in their interests over those of debt holders. As the graph below highlights, an increasing proportion of the $1 Trillion leveraged loan market is "covenant-lite" suggesting the investors are chasing yields all while accepting terms that will ultimately intensify volatility in down markets.



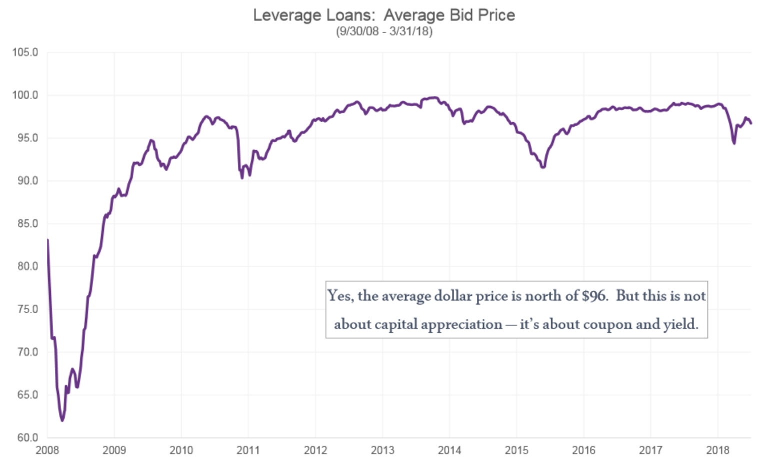
Source: LCD, an offering of S&P Global Market Intelligence

Leverage Loans *(continued from page 6)*

A potential financial land mine worth avoiding

As we look back on the sell-off in leveraged loans during the financial crisis, where loan values fell to 65 cents on the dollar, we would anticipate a steeper drawdown under similar circumstances in future sell offs due to both the liter covenants and the fact that global debt levels have ballooned. Finally, leveraged loans tend to have shorter durations which present elevated risks associated with the misalignment of loan recipients' capital needs and investors willingness to commit capital in times of volatility. Thus, when the loans are most in need, access to capital can be expected to be scarce.

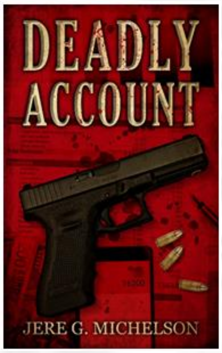
Harpswell believes fixed income (debt) investments are intended to (1) preserve value in volatile markets, (2) provide a predictable source of interest income that is commensurate with prevailing interests rates, and (3) serve as a liquid source of capital to reallocate capital opportunistically. Leveraged loans do not fit Harpswell's fixed income criteria and therefore will be an investment opportunity that we will happily leave to the lemmings.



Source: Natixis PRCG. FactSet. The S&P/LSTA Leveraged Loan Index (LLI) covers loan facilities and reflects the market-value-weighted performance of U.S. dollar-denominated institutional leveraged loans.

Book Recommendation *(continued from page 1)*

DEADLY ACCOUNT



It appears Jon Kirouac Williams, a fresh-faced new auditor working in Portland, Maine's largest regional public accounting firm, leads a conventional existence. That is, until he bears witness to an unspeakable tragedy while walking toward his downtown office building the firm shares *with Portland Bank and Trust. Choreographed explosions crumble an entire face of the building, destroying lives and the businesses held within. The broad consensus points to a bank robbery gone awry - but few know the true target.*

Now Jon finds himself swept into the chaos by happenstance; treading on the frontline of pandemonium. All this for a bank robbery? Was this a terrorist-motivated attack? Why would the FBI want his observations and assessment?

Jon's unintentional and unwanted involvement will cause him to fight for his survival while striking unexpected allegiances along the way. The bonds he fosters not only help him wade through the physical danger, but support him as he faces his past and the long since-exorcised family demons intent on re-energizing and picking up where they left off.

If you are intrigued and would like to order, please visit www.michelsonpublishing.com!

We thought BCA Research had an interesting perspective on the markets…..

GRATITUDE

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April 2019 Flash Report

Overview: GDP increased at a 3.2% annualized rate as reported by the Commerce Department in its initial reading of 1st quarter GDP growth, significantly higher than the 2.3% consensus estimate. GDP growth occurred in part due to a sharp upturn in state and local government spending. Also fueling the growth were inventory buildups and increases in net exports. These factors are considered volatile and could reverse the next quarter. Offsetting these positive factors, consumer spending decelerated to a 1.2% gain in the quarter, the slowest increase in a year. However, consumer spending jumped to its biggest gain in 9-1/2 years in March while inflation pressures remained benign, setting a positive tone for the 2nd quarter.
Britain's exit from the European Union was postponed by an agreement in Brussels this month that gave Prime Minister Theresa May until Oct. 31 to persuade Parliament to approve the departure terms.

Equities: The S&P 500 returned 4.1% in April, resulting in a YTD gain of 18.3%. Stronger than expected 1st quarter GDP growth and a positive earnings season has provided support for the markets Also, the Fed has become more dovish as inflation remains muted. Growth stocks continue to outperform Value across all markets in 2019. YTD, Technology, Communications & Consumer Discretionary were the leading sectors while HealthCare lagged. The Russell 2000 index returned 3.4% in the month while gaining 18.5% this year, reflecting increases of 20.7% for Growth and 16.2% for Value stocks.

EAFE increased 2.9% in April where the stronger Dollar lowered gains by 0.6% versus local currency returns. EAFE has gained 13.3% this year. The UK pound remained stable as the Brexit deadline was extended to October. Germany had a strong month, gaining 7% while Japan lagged with a 1.4% return. Belgium is the best performing country this year with a 20.4% return.

The Emerging Markets increased by 2.1% in April. Again, the strong Dollar detracted 0.5% from local currency returns. The markets rose by 12.3% for the year. China increased 2.2% for the month for a YTD gain of 20.3% as positive trade negotiations continued. Mexico gained 5.2% in April resulting in an 11.8% YTD gain. Russia had a 3.8% return in the month while Greece posted an impressive 6.2% gain, earning 19.8% this year.

Fixed Income: The 3-month T-bill yield increased by 5 bps to 2.43%. The 10 Year Treasury yield increased in the month by 9 bps to 2.50%. The yield curve remained inverted from 6 months to nearly 10 years. A narrow yield spread of 50bps between the T-Bill and 30 Year Treasury remained at month's end. The 30 Year Treasury yield increased by 12bps to 2.93%. Yields increased modestly as concerns regarding a slowdown in global growth lessened. The 30 Year Municipal yield fell by another 7bps, closing at 2.65%, 28bps lower than the 30 Year Treasury. The 1 Year Municipal yield ended the month at 1.55%, a 4bps increase from March, resulting in a yield spread discount compared to the 1Year Treasury of 35%. The spread discount declines with longer maturities where at 30 year maturities, the discount is approximately 10%, although considerably larger than previous months where Municipals were trading at a slight premium to Treasuries.
German rates in April remained at a negative 0.6% yield for the 2Yr Bund and positive 0.01% for the 10Yr, an 8bps increase in the month . In the UK, the 10Yr Gilt yield moved up 19bps to a 1.18% yield as the Brexit implementation was delayed. The Japanese 10Yr Gov't bond yield remained stable yielding a negative 0.1%, while the 2Yr closed at negative 0.16%. High Yield bonds moved up in April by approximately 1.4% with an average yield of 6.0%. The High Yield market continues to show resiliency this year given the losses realized at the end of 2018.

	1 Month	3 Months	YTD	1 Year	3 Years	5 Years
Domestic Equities						
Dow Jones	2.7%	7.0%	14.8%	12.6%	17.2%	12.6%
S&P 500	4.1%	9.5%	18.3%	13.5%	14.9%	11.6%
Russell LG Value	3.6%	7.5%	15.9%	9.1%	11.0%	8.3%
Russell LG Growth	4.5%	11.3%	21.4%	17.4%	18.6%	14.5%
Russell 2000	3.4%	6.5%	18.5%	4.6%	13.6%	8.6%
NASDAQ	5.0%	11.8%	22.7%	16.1%	20.7%	15.9%
MLP Index	-1.3%	2.3%	15.3%	5.1%	1.6%	-5.8%
REIT Index	-0.1%	4.7%	16.6%	18.8%	8.5%	9.2%
International Equities						
EAFE	2.9%	6.3%	13.3%	-2.7%	7.8%	3.1%
EAFE Small Companies	3.1%	5.7%	14.2%	-7.5%	8.2%	5.6%
Emerging Markets	2.1%	3.2%	12.3%	-4.7%	11.7%	4.4%
China	2.2%	8.3%	20.3%	-4.0%	17.1%	10.7%
Fixed Income						
US Agg	0.0%	1.9%	3.0%	5.3%	1.9%	2.6%
US High Yield	1.4%	4.1%	8.8%	6.7%	7.7%	4.8%
Municipal Bonds	0.4%	2.5%	3.3%	6.2%	2.6%	3.6%
Currencies						
EURO	-0.2%	-2.2%	-2.2%	-7.3%	-0.8%	-4.2%
British Pound	-0.1%	-0.8%	2.1%	-5.3%	-3.8%	-5.1%
Japanese Yen	-0.5%	-2.3%	-1.6%	-1.9%	-1.3%	-1.6%
Commodities						
Bloomberg Commodity	-0.4%	0.4%	5.9%	-8.0%	-0.7%	-9.4%
S&P GSCI Crude Oil	6.5%	17.9%	39.1%	-3.7%	6.3%	-17.6%
Gold	-0.8%	-2.9%	0.1%	-3.2%	-0.9%	-0.8%

Commodities: WTI Crude Oil closed higher to $63.91/barrel, a $3.8/barrel increase in April. YTD price increases are the result of supply concerns associated with sanctions levied against Iran and Venezuela. Also, OPEC continues to maintain production cutbacks. Gold prices fell again by $13/oz to $1285/oz in the month. Gold has been pressured this year as inflation remains quite low and the Fed continues to delay any rate increases for 2019.

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Risks

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.

Current Information

Opinions expressed are current opinions as of the date appearing in this material only. While the data contained herein has been prepared from information that Harpswell Capital Advisors believes to be reliable, Harpswell Capital Advisors does not warrant the accuracy or completeness of such information.

Use of Indices

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.