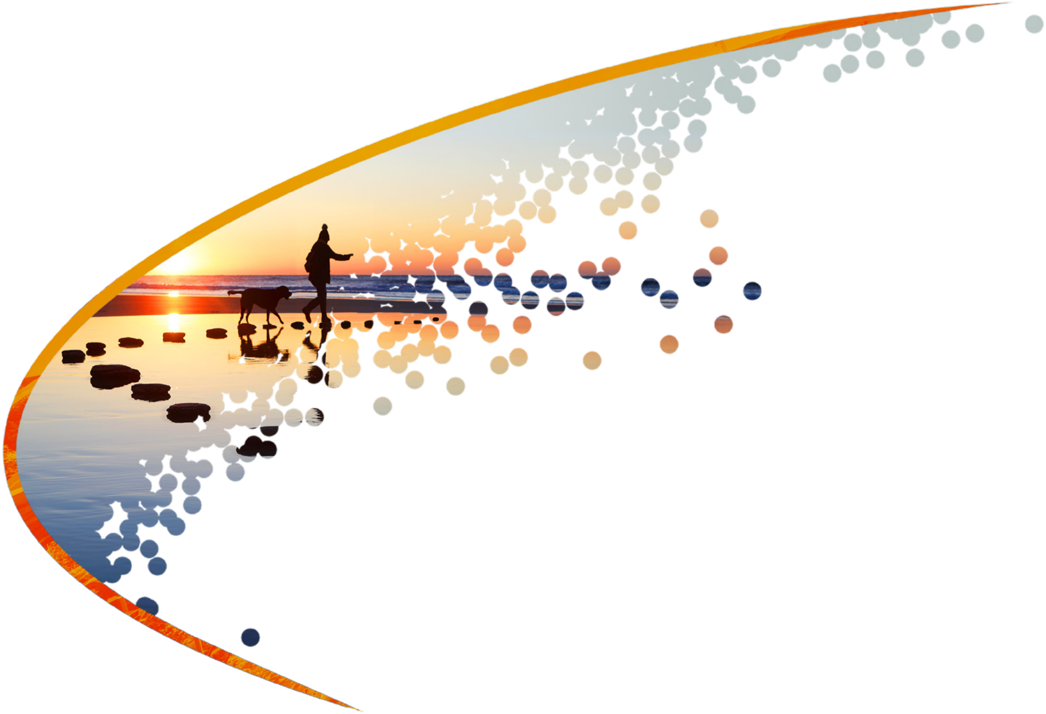


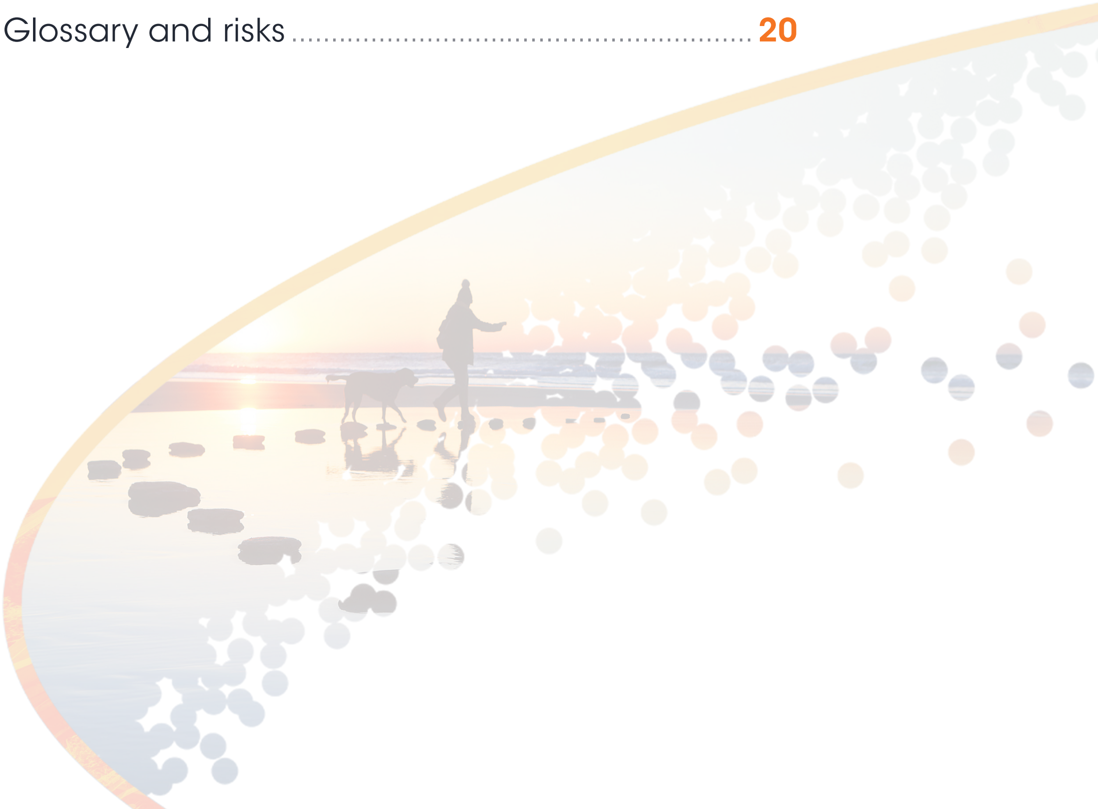
TRENDS AND OPPORTUNITIES

TREADING CAREFULLY

A BALANCING ACT FOR 2023

Portfolio Construction and Strategy Insights

CONTENTS



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TREADING CAREFULLY

A BALANCING ACT FOR 2023

In our mid-year 2022 installment of *Trends and Opportunities*, titled "Shock Therapy," we trained our sights on three profound market shocks that drove an extremely volatile year: slowing growth, inflation, and a historic interest rate reset. The report focused on providing "shock therapy" in the form of portfolio solutions tailored to this new investing paradigm. Now we enter a new era characterized by structurally higher interest rates and fresh discounts across major global asset classes. Investors will need to watch their step as they venture into this new territory.

What does "Treading carefully" mean to you?

Our title for this edition, "Treading carefully," serves as a Rorschach test: Do you read it as meaning investors will fight to stay afloat in murky waters in 2023, or do you think it implies that those who are bold enough to persevere through the volatility may be rewarded?

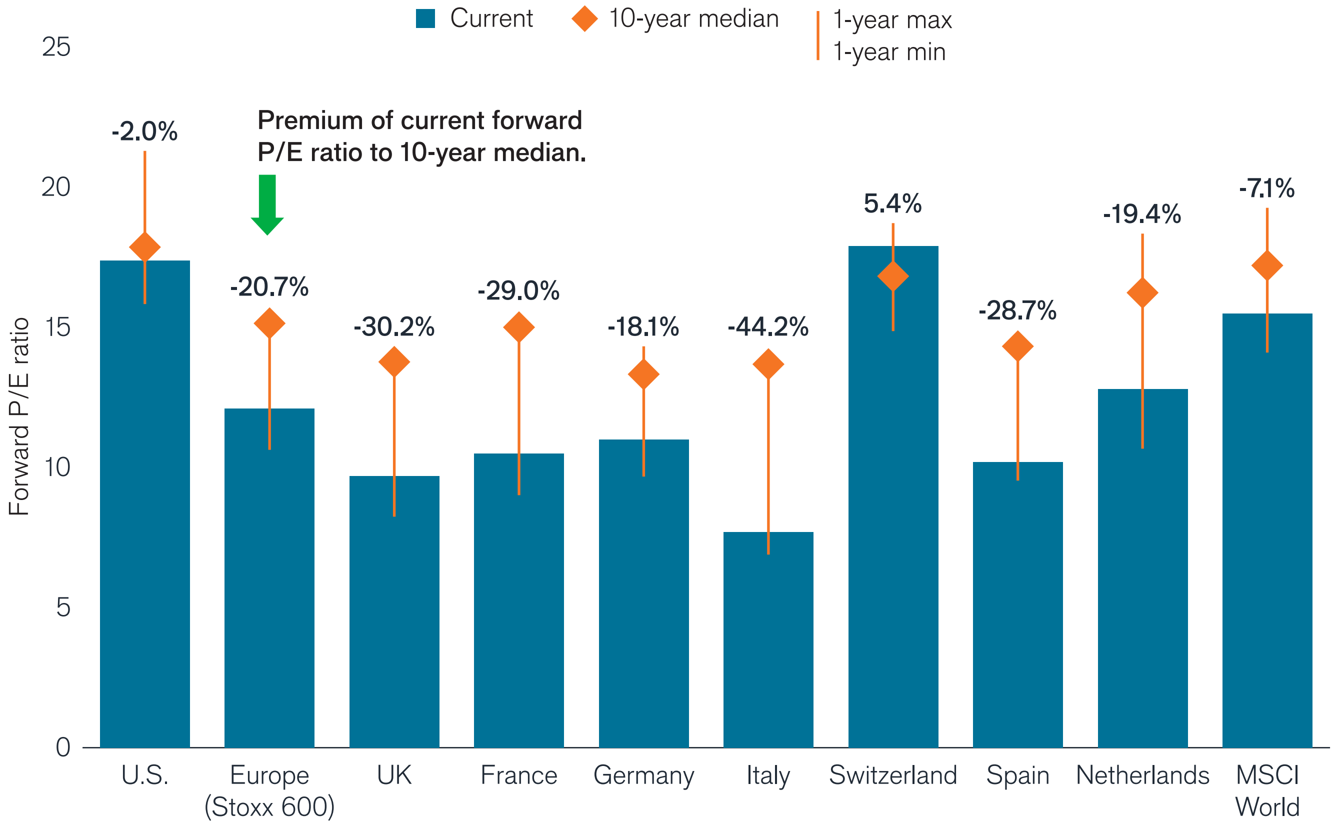
We believe wise investors recognize that both interpretations apply. In our view, 2022's historic volatility has given rise to two dependable investment themes for the year ahead: 1) Volatility will continue, and 2) that volatility presents a silver lining for those who are bold enough to forge ahead. The new portfolio solutions we highlight in this edition were selected because they have the potential to help portfolios thrive by navigating those themes.

Equity

One of 2022's many mindbenders was that "duration" became a major risk for equities – not just fixed income. The historic magnitude and speed of rate increases was the primary driver of losses for the S&P 500® Index in 2022, the silver lining being that the S&P 500 entered 2023 with a P/E of 17.5x – in line with its historical average. The focus for U.S. large-cap investors now shifts from the "P" to the "E": finding resilient earnings amid an economic slowdown. Meanwhile, U.S. small- and mid-cap stocks historically outperform large caps during the early stages of recoveries.

Looking abroad, unlike U.S. stocks, ex-U.S. developed market equities carry a valuation discount, potentially offering a better "margin of safety" to help absorb some earnings weakness. Couple this discount with their more cyclical, higher-yielding characteristics, and ex-U.S. equities present strong upside potential (Exhibit 1).

Exhibit 1: Global P/E Ratios



Source: Bloomberg, as at 31 December 2022.

Past performance is not a guarantee of future performance.

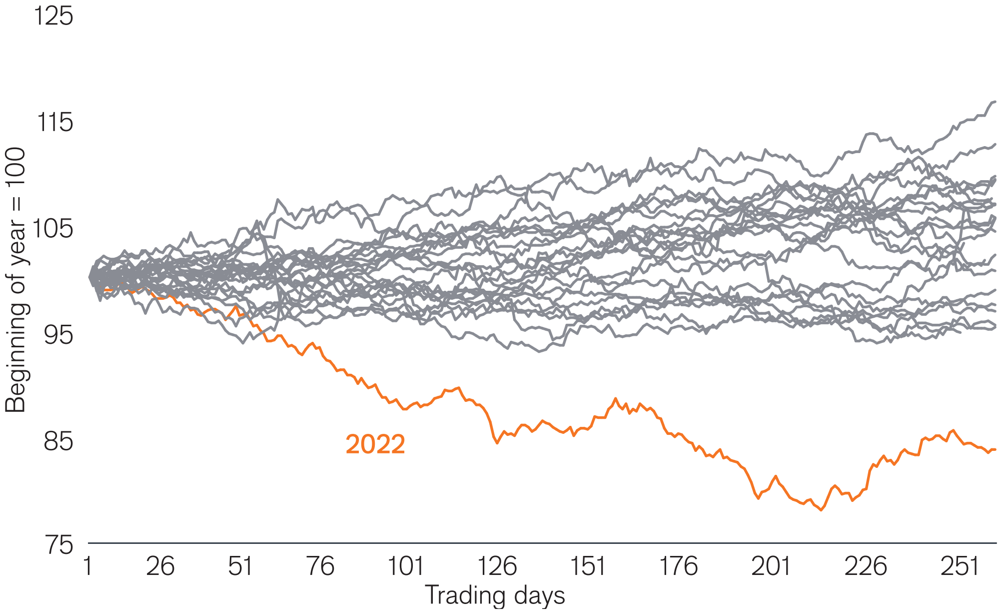
Looking across all global equity sectors, healthcare was the second-best performer in 2022, trailing only the energy sector. While we are looking to healthcare as a whole for its resiliency, we also see biotech as an important subsector that is offering attractive discounts as it potentially recovers from a severe drawdown.

TREADING CAREFULLY *continued*

Fixed income

The aforementioned "magnitude and speed of rate increases" is a euphemism for what actually happened in fixed income last year: 2022 was literally the asset class's worst year in a generation (Exhibit 2).

Exhibit 2: Annual trajectory of Global Aggregate Index since 1999



Source: Bloomberg, as at 31 December 2022. Note: Quarterly returns based on Bloomberg Global Aggregate Index.
Past performance is not a guarantee of future performance.

Fortunately, "bonds are math," as they say, and this historic sell-off creates obvious silver linings. The reset in rates has created a level of yield cushion not seen in many years that may help buffer bond returns during any further rate increases, while the disproportionate increase in shorter-term rates caused short-duration yields to exceed those of intermediate-duration bonds.

Forward returns in corporate credit markets are beneficiaries of both the reset in rates and a moderate amount of spread widening in 2022. If the potential global slowdown in 2023 serves to widen spreads, the high starting yields in corporates may help cushion losses.

Moving forward

Treading carefully requires a delicate balance of defense and offense. The Portfolio Construction and Strategy Team is focused on providing portfolio solutions to help navigate this new environment and address the ubiquitous asset allocation gaps and concentrations we see in investor portfolios through our consultations with financial professionals.

Continue reading our Trends and Opportunities report for more details on these portfolio solutions.

In this Trends and Opportunities report, we highlight portfolio solutions focused on:

- Equity
  - **Small- and mid-caps:** Look beneath the surface
  - **European equity:** A warmer spring after a cold winter?
  - **Healthcare:** Immunity from the downturn?
- Fixed Income
  - **Short duration:** Sea change in short duration
  - **Intermediate duration:** Back to basics
  - **Corporate credit:** Starting ahead with a strong yield

U.S. EQUITY

LOOK BENEATH THE SURFACE FOR SMALL/MID-CAP OPPORTUNITIES

2022: U.S. equity returns by style and size

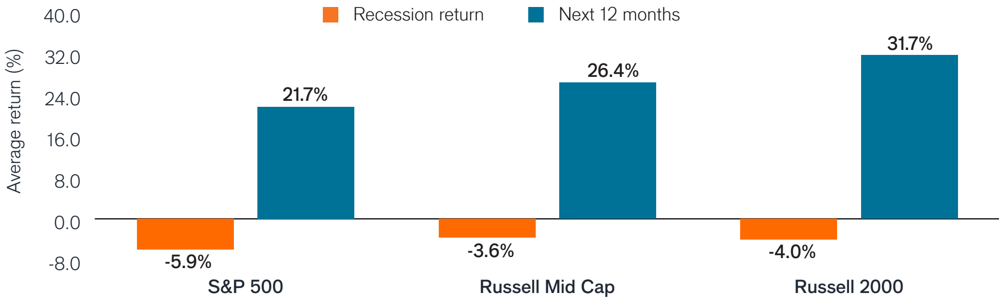
	Value	Core	Growth
Large	-7.5%	-19.1%	-29.1%
Mid	-12.0%	-17.3%	-26.7%
Small	-14.5%	-20.4%	-26.4%

Source: Morningstar. Style/size in the table based on Russell indices.

76% vs 69%

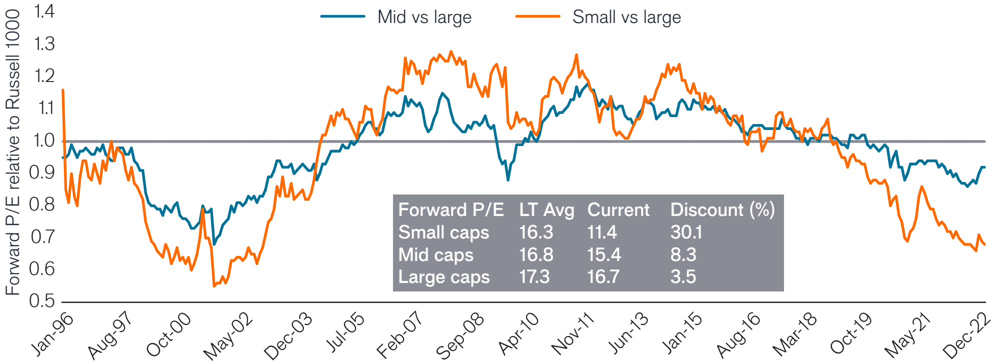
average portfolio allocation* to U.S. large caps vs Russell 3000® Index

Small- and mid-cap stocks have typically fared well in and after recessions



Source: Morningstar, National Bureau of Economic Research, U.S. Bureau of Labor Statistics, Bureau of Economic Analysis. Recession return based on time period from 1980 to 2022.

Small- and mid-caps remain historically cheap vs. large-caps



Source: FactSet. As at 31 December 2022.

2022 Recap

- Persistent inflation, a historic increase in interest rates, and recession fears were the major drivers of double-digit losses across many U.S. equity asset classes.
- The increase in cost of capital – aka, discount rate – negatively impacted valuations and put greater downward pressure on longer-duration growth equities relative to value.
- Small caps recently lead large caps in losses going into this period of weakness, as evidenced by small caps reaching a 2022 low of -27% in June while large caps bottomed out in October at -25%.

Outlook

- U.S. small- and mid-cap companies are typically levered to the economic cycle and historically outperform large caps during the early stages of recoveries, as large companies are generally slower to respond to a changing economic environment.
- The excesses of the last several years have been shed in the small- and mid-cap universes, with absolute valuations now well below historical averages and relative valuations (vs. large caps) nearing the lows of the early 2000s.
- Small- and mid-cap companies tend to be more U.S.-centric, potentially benefiting from long-term themes of reshoring/deglobalization, while also being less sensitive to U.S. dollar fluctuations.

PCS Perspective

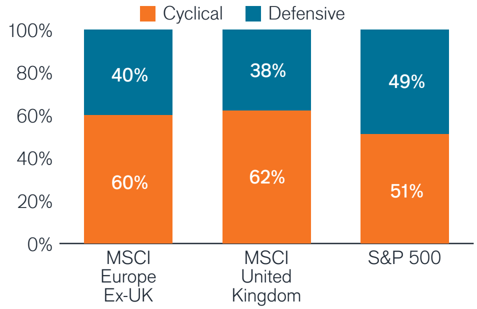
- Equity allocations are often top-heavy with an overweight to large caps (76% for the average advisor portfolio allocation from our proprietary database* vs. 69% in the Russell 3000® Index), creating a potential opportunity to move down in cap size, broaden the equity footprint, and take advantage of the current market environment on two fronts:
  - **Valuations**: Small/mid-cap valuations are near historical lows and look appealing from an absolute and relative (vs. large caps) standpoint; starting from these levels has historically been attractive when looking at forward returns.
  - **Economic recovery**: Small/mid-caps can be quick to rebound as they are structurally overweight cyclical sectors such as industrials, financials, materials, and energy compared to large caps.
- Finally, we believe it is prudent to take an active approach in the small/mid-cap space to focus on higher-quality companies and avoid unprofitable ones – roughly 25% of stocks in the Russell 2500 Growth Index currently do not earn money.[1]

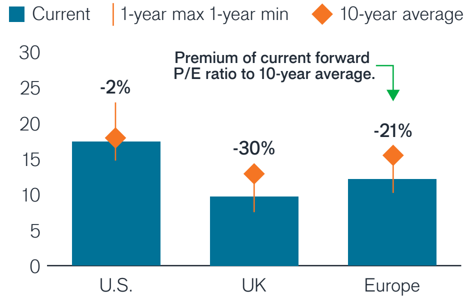
[1] Source: Janus Henderson Investors, as at 31 December 2022.

EUROPEAN EQUITY

A WARMER SPRING AFTER A COLD WINTER?

European equities contain more cyclical stocks – typically outperforming during rate rises – and trade at a discount vs. the U.S.



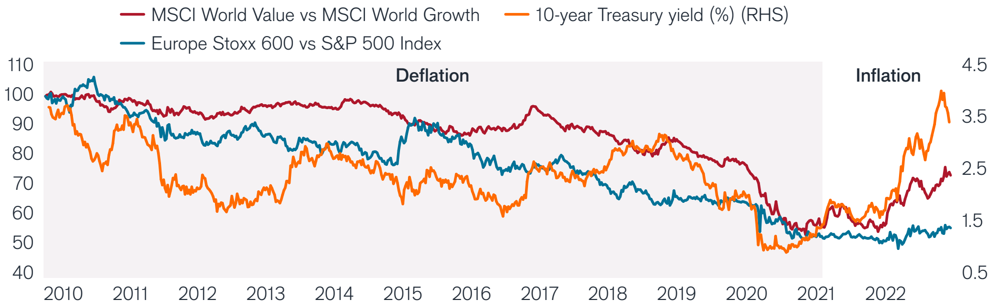


Source: (LHS) Janus Henderson Portfolio Construction and Strategy, Morningstar. Cyclical sectors include energy, financials, industrials and materials. Defensive includes communication services, consumer discretionary, consumer staples, healthcare, technology, real estate and utilities. As at 31 December 2022. (RHS) Janus Henderson Portfolio Construction and Strategy, Bloomberg. Forward P/E Ratio as at December 2022.

-34%

YoY decrease in portfolio allocation to European equities*

U.S. vs. Europe returns: European cyclicality and value potentially poised to outperform in an era of higher interest rates



Source: Janus Henderson Portfolio Construction and Strategy, Morningstar, as at December 2022. Stoxx 600, S&P 500 Index, MSCI World Value, MSCI World Growth, total return indices. 10-Year U.S. Treasury yield (%). **Past performance does not predict future returns.**

2022 Recap

- Inflation, rising bond yields, and the conflict in Ukraine drove the decline in valuation multiples and subsequent drawdown of European equities from January through September, which fell 22% before rallying in the fourth quarter to close out 2022 ahead of U.S. equities.
- The increase in energy prices has been the biggest driver of Euro area inflation, which reached a staggering 10.7% in October 2022 and has urged the European Central Bank (ECB) to hike rates.
- German 10-year bund yields reaching an 11-year high in 2022 marked a new era of rising rates in developed markets, which took a toll on growth-oriented stocks.

Outlook

- With a potential recession on the horizon, the ECB must delicately navigate rate increases to bring down core inflation in 2023. This will create an environment that should benefit more value-oriented sectors, as well as companies that are an inflation hedge and are less sensitive to rising rates (vs. future earnings for growth stocks).
- The generally cyclical European market structure, combined with historic valuation discounts, implies that a little bit of good news can go a long way. Europe is potentially well-positioned for any relief that might stem from a weaker U.S. dollar, geopolitical resolutions, and/or a continued pickup in post-pandemic demand recovery.

PCS Perspective

- Europe is likely to enter a recession earlier than other developed markets – a scenario that appears to be increasingly factored into relative market valuations.
- While impossible to predict the point of recovery, there are strong indications that suggest a recession in the region should be relatively shallow compared to previous experiences. Therefore, we believe it makes sense to look for opportunities to position portfolios for the eventual economic recovery.
- Irrespective of the timing of a recovery, European equities are paying dividends that are nearly double that of the U.S.[2], thus providing an attractive income opportunity.
- In our view, the more cyclical nature (i.e., greater exposure to consumers, energy, financials, and materials) of European equities versus the U.S. and their lower relative valuations present strong upside potential.

[2] Source: Morningstar as at 31 December 2022.

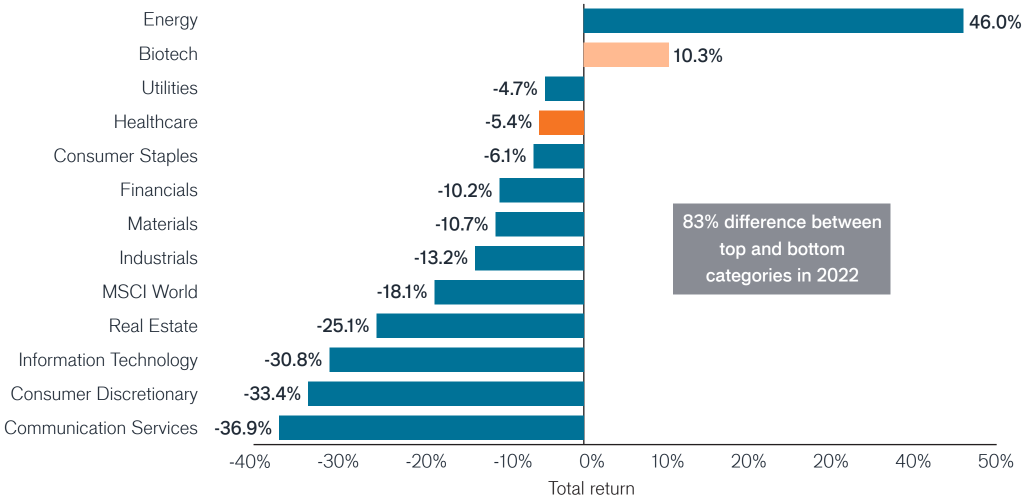
SECTOR EQUITY: HEALTHCARE

IMMUNITY FROM THE DOWNTURN?

Global equity Sector returns for 2022

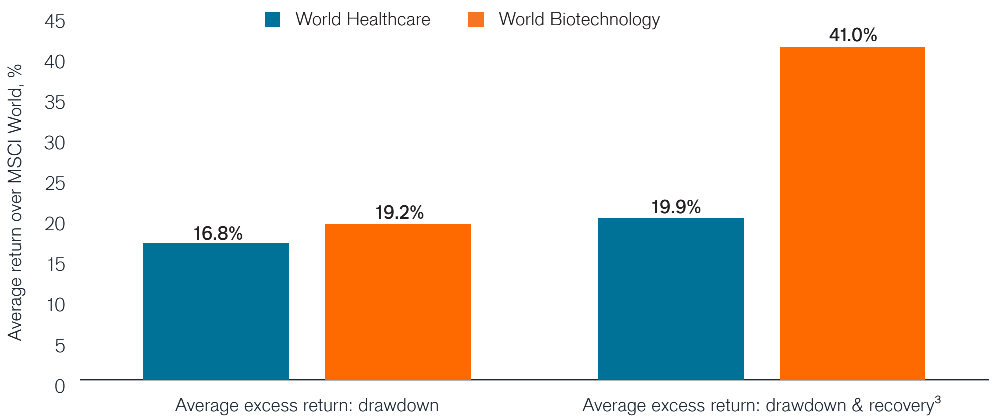
13.6%

average portfolio allocation to Healthcare in 2022*



Source: Morningstar using MSCI World Index sub-sector returns as of 31 December 2022.

Healthcare and biotech have been resilient in market downturns and recoveries



[3] Last market downtown period recovery and full-cycle end date is as of 31 December 2022.

Source: Morningstar, global equity sectors and sub-sectors based on MSCI World Index. Average of downturn periods are 4/1/00 – 10/9/02, 11/1/07 – 3/9/09, 5/3/11 – 10/4/11, 2/13/20 – 3/23/20, 1/5/22 – 10/12/22. Recovery periods are based on MSCI World, for the final period 12/31/22 in the case of the recent recovery.

2022 Recap

- In a year marked by supply-chain disruptions, persistent inflation, and historically sharp rate hikes, equity sector dispersion across global equity markets was staggering. But healthcare broadly – and the biotech sector specifically – were somewhat insulated from the pain.
- Biotech began to recover in the second half of 2022 following the worst drawdown in the sector's recent history (-64% vs. average biotech drawdown of -32%).[4]
- Innovation in healthcare accelerated during the COVID-19 pandemic and continues to drive the sector forward. Novel drug approvals by the U.S. Food and Drug Administration (FDA) are at decades-high annual averages since 2018.[5]

Outlook

- Given the uncertainty surrounding the severity of the impending economic slowdown, volatility is expected to persist in 2023.
- For the past two decades, the healthcare sector has proved resilient during market downturns, exhibiting lower average volatility and downside than global equities.
- At the same time, the sector continues to trade at a discount to longer-term averages, with many biotech companies in particular trading below levels of cash on their balance sheets, providing the potential for growth regardless of the recession outlook.
- In biotech, the ability to understand the science behind pending drug approvals, as well as the business impact of those approvals in the market, is critical to finding winners that can take advantage of the speed of innovation happening in the sector.

PCS Perspective

- Taking a balanced approach to assessing both the defensive and growth characteristics of the healthcare index can help investors navigate the volatility ahead.
- Healthcare and the narrower biotech sub-sector have outperformed the broader market through the drawdown and recovery phases of the past five sell-offs.
- Paying close attention to near-term cash flows, valuations, and revenue generation is increasingly important in an environment where inflation may persist and rates remain higher than in the previous decade.
- An active and nimble approach incorporating sector and portfolio construction expertise can help investors take advantage of the many long-term tailwinds healthcare can provide.

[4] Biotech performance is for SPDR® S&P® Biotech ETF (XBI). 64% drawdown occurred from 8 February 2021 through 11 May 2022 vs. average biotech drawdowns going back to 31 January 2006.

[5] "New Drugs at FDA: CDER's New Molecular Entities and New Therapeutic Biological Products." U.S. Food and Drug Administration, 27 January 2022.

Note: Janus Henderson makes no representation as to whether any illustration/example mentioned is now or was ever held in any portfolio. Illustrations are only for the limited purpose of analyzing general market or economic conditions and demonstrating the research process. References to specific securities should not be construed as recommendations to buy, sell or hold any security, or as an indication of holdings.

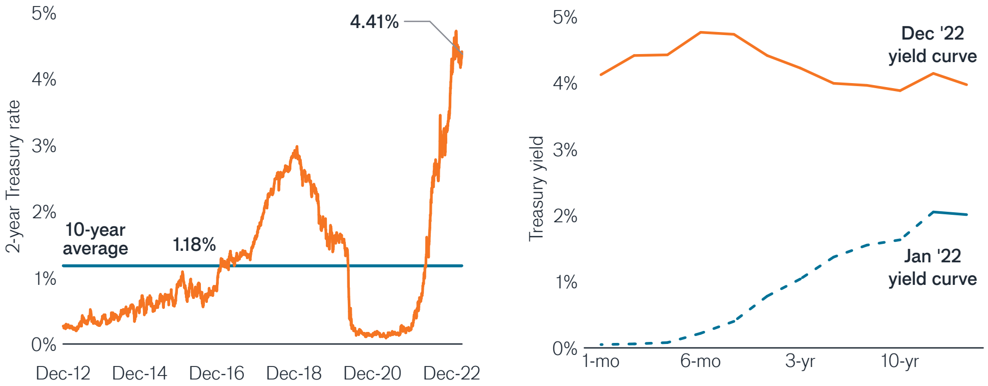
SHORT DURATION

SEA CHANGE IN SHORT DURATION

Seismic shift in bedrock fixed income

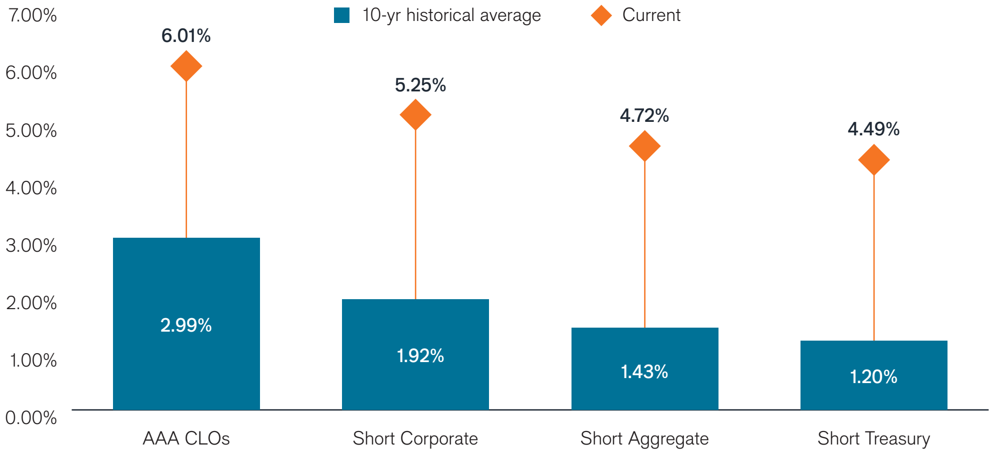
140%

increased presence of bank loans in 2022 portfolios*



Source: Bloomberg, Janus Henderson Investors, as at 31 December 2022.

Yields soar past historical levels



Source: Bloomberg, as at 31 December 2022. Indices represented are JPM AAA CLO Index, Bloomberg U.S. Corp 1-3yr TR USD, Bloomberg U.S. Aggregate 1-3yr TR USD, Bloomberg U.S. 1-3 Treasury TR USD.

2022 Recap

- To tame the highest rates of inflation in modern history, the Federal Reserve (Fed) hiked rates a staggering 425 basis points (bps) in 2022, sending yields on short-dated assets to levels not seen since 2007.
- Since short-dated yields are more sensitive to Fed policy, this massive repricing resulted in a deeply inverted yield curve.
- Despite this rapid rise in yields, shorter-duration Treasuries, which have less interest rate sensitivity than intermediate-duration Treasuries, were down just 3.82% vs. 12.6%, respectively, as at 31 December 2022.

Outlook

- It remains uncertain how far the Fed will raise rates and when/if they will pivot. We therefore still foresee elevated interest rate volatility in the first half of the year.
- As rates could remain higher throughout the year as the economy slows, we think investors may benefit from limiting interest rate sensitivity while also increasing the credit quality in their portfolios.
- Maintaining a high-quality ballast on the short end of the curve might finally provide compelling yields and mitigate downside risk ahead of an uncertain economic environment, while also limiting duration risk if we end up in a rate regime that is higher for longer.

PCS Perspective

- In our view, short-duration fixed income is a strategically crucial bedrock exposure for portfolios, with a potentially compelling entry point.
- It's important to keep in mind that short-term fixed income encompasses more than Treasuries; Collateralized Loan Obligations (CLOs), corporates, and global sovereigns all bring their own curves, risks, opportunities, and sources of diversification.
- A diversified approach to a short-term allocation that utilizes securitized assets, corporate spreads, and/or seeks to navigate global monetary cycle divergences might help prepare a portfolio to keep up with the possibility of stubbornly high inflation.
- In an environment where the outlook for both markets and the economy is murky, being nimble and flexible in a short-term allocation may help investors maintain stability during rate volatility, while also potentially providing opportunities to capture capital appreciation in the case of a Fed pivot or market recovery.

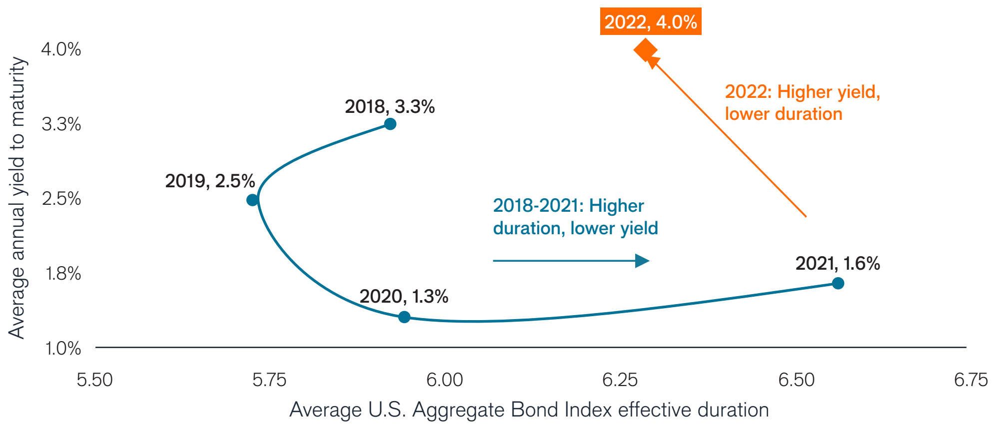
INTERMEDIATE DURATION

BACK TO BASICS WITH INTERMEDIATE DURATION

Yield duration trade-off more favourable

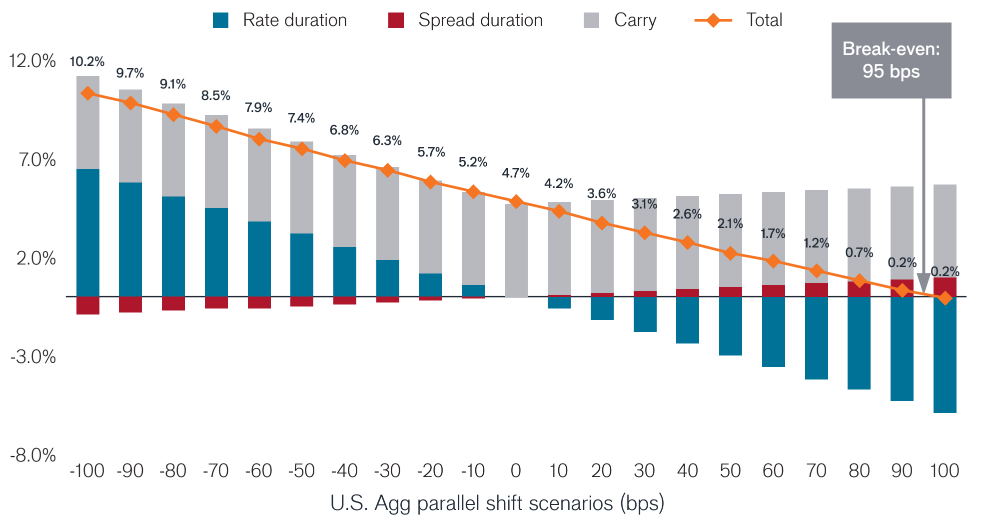
-36%

allocated to intermediate duration bonds in 2022 vs. 2021*



Source: Morningstar, as at 31 December 2022.

Break-even rates have reset much higher



Source: Janus Henderson, assuming a 1-year holding period, as at 31 December 2022.

2022 Recap

- Duration-sensitive fixed income generated the worst drawdown in recent history on fears of runaway inflation. For the second year in a row, core bonds were a detractor to the 60/40 portfolio.
- This unprecedented repricing, while painful, has led to a much more favorable yield/duration trade-off for intermediate bonds.
- Toward the latter half of 2022, intermediate duration began to demonstrate periods of impressive return as the market pondered the impact of the Federal Reserve (Fed) pausing their rate-hiking cycle to assess the severity of a potential economic slowdown.

Outlook

- At the start of the new year, many investors are focused on how to source positive returns during what could be a continued market drawdown.
- Historically, duration has provided a ballast when equity earnings sell off, including during the sharp COVID drawdown in early 2020, when U.S. Treasuries returned 5.3% despite the 10-year yield starting 232 basis points (bps) lower than where it sits today.
- Persistent inflation has caused yields to stay elevated and decouple from the declining growth trajectory. Should inflation continue its downward trend, we believe rates will recover along with growth, leading to an attractive environment for core bonds.

PCS Perspective

- In our global proprietary database of financial professional portfolios, allocations to intermediate bonds were down 36% year over year as investors smartly moved to the shorter end of the yield curve to help insulate their portfolios from rate increases.
- Last year's historic losses in intermediate duration make for a compelling current yield profile that can help provide cushion against potential future rate volatility.
- In a slowing growth environment, duration also provides ample opportunity for capital appreciation should rates move lower.
- Longer-duration assets have historically been a better ballast in true risk-off environments and can act as a diversifier to a short-duration allocation. As such, we think it may now make sense to get back to basics in core fixed income with intermediate duration.

Pricing in Investment-grade (IG) better reflects recession risk

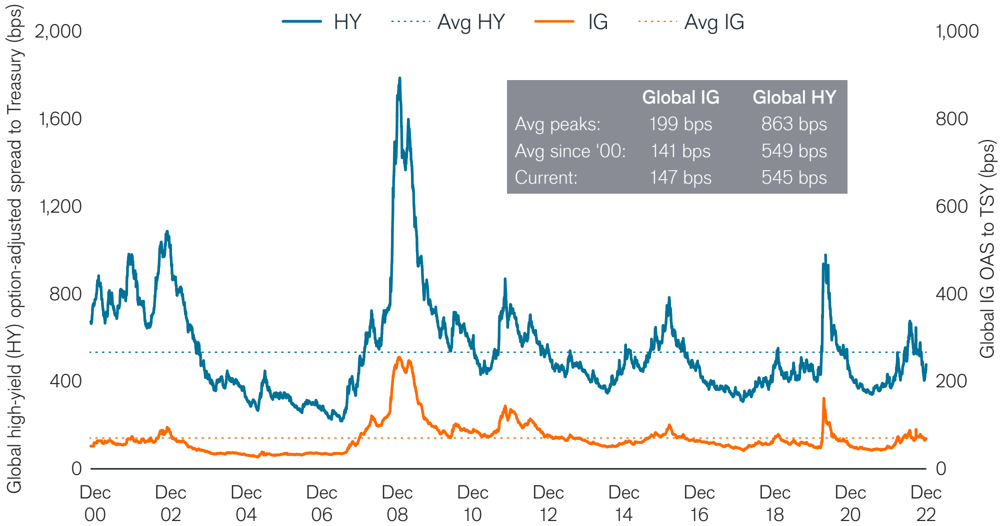
60/36/4

average portfolio allocations to equity/ fixed income/alternatives in 2022*

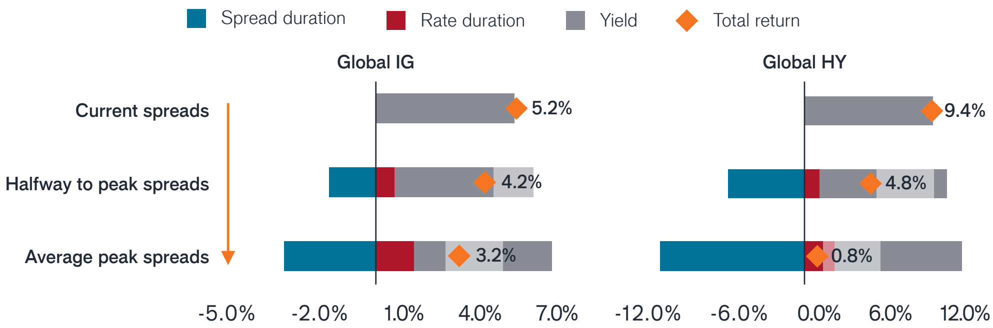
A higher starting yield can help weather spread widening

CORPORATE CREDIT

STARTING AHEAD WITH A STRONG YIELD



Source: Bloomberg as at 31 December 2022. Investment-Grade (IG) credit and high yield (Non-IG) credit represented by Bloomberg Global Aggregate Corporate TR USD and Bloomberg Global High Yield TR USD, respectively. Avg peak spreads ex '08 and COVID.



Source: Janus Henderson, as at 31 December 2022, assuming 1-year holding period.

2022 Recap

- As the Federal Reserve (Fed) dramatically raised rates last year, investment-grade (IG) credit sold off more than high-yield (non-IG) credit due to its greater sensitivity to interest rate volatility.
- While the Fed's efforts to combat inflation dominated headlines in 2022, the labor market has remained surprisingly resilient, with companies' earnings yet to show significant strain at the start of the new year. Credit spreads have therefore not yet widened to the levels typically seen during a recession.
- Investment-grade spreads, however, have priced in more of a slowing growth environment, while high-yield spreads remain below their 10-year historic averages.

Outlook

- In the face of a looming growth slowdown, IG and non-IG spreads remain relatively tight by historical standards, and thus are vulnerable to further widening.
- Even during a slowdown, credit remains attractive since high current yields and interest rate sensitivity can counterbalance – or possibly exceed – potential losses from spread widening.
- Furthermore, an uncertain economic outlook should lead to a lighter supply of credit, as most companies have already locked in low-coupon, longer-duration bonds. These technical trends should be supportive for both investment-grade and high-yield credit.

PCS Perspective

- The high-quality nature of IG credit translates to lower risk of significant earnings deterioration compared to non-IG. With spreads above historical averages and starting yields at over 5.0%, careful IG credit security selection may provide opportunities for defensive total return.
- Non-IG high-yield spread widening can generate larger losses than its IG counterparts. However, the higher starting level of carry – almost 9.5% as at 31 December 2022 – means non-IG spreads would have to widen to historical non-crisis peak levels (i.e., ex-COVID and Global Financial Crisis) before leading to negative total return.
- Active managers with the ability to identify strong fundamentals can help navigate volatility and default risk, potentially making an allocation to credit an attractive risk-adjusted opportunity in a year where the outlook for equities is uncertain.

IMPORTANT INFORMATION

*Values are based on Janus Henderson's proprietary database of financial professional portfolios as at 31 December 2022.

Glossary:

10-Year Treasury Yield is the interest rate on U.S. Treasury bonds that will mature 10 years from the date of purchase.

A yield curve plots the yields (interest rate) of bonds with equal credit quality but differing maturity dates. Typically bonds with longer maturities have higher yields.

An inverted yield curve occurs when short-term yields are higher than long-term yields.

Basis point (bp) equals 1/100 of a percentage point. 1 bp = 0.01%, 100 bps = 1%.

Bloomberg U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market.

Bloomberg Global Aggregate Corporate Bond Index measures global investment grade, fixed-rate corporate bonds.

Bloomberg Global Aggregate Bond Index is a broad-based measure of the global investment grade fixed-rate debt markets.

Bloomberg Global High Yield Index is a broad-based measure of the global high-yield fixed income markets.

Bloomberg 1-3 Year U.S. Treasury Index measures U.S. Treasury securities with maturities between 1-3 years.

Bloomberg 1-3 Year U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market with maturities between 1-3 years.

Bloomberg 1-3 Year U.S. Corporate Bond Index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate bond market.

Capture Ratio measures the percentage of index (market) performance an investment "captured" during periods when the index achieved gains (up capture) or declined (down capture). A capture ratio of 100% means investment performance went up or down exactly the same amount as the index.

Carry is the excess income earned from holding a higher yielding security relative to another.

Credit Spread is the difference in yield between securities with similar maturity but different credit quality. Widening spreads generally indicate deteriorating creditworthiness of corporate borrowers, and narrowing indicate improving.

Duration measures a bond price's sensitivity to changes in interest rates. The longer a bond's duration, the higher its sensitivity to changes in interest rates and vice versa.

J.P. Morgan CLO AAA Index is designed to track the AAA-rated components of the USD-denominated, broadly syndicated CLO market.

MSCI Europe ex UK Index℠ reflects the equity market performance of developed markets in Europe, excluding the United Kingdom.

MSCI United Kingdom Index℠ reflects the equity market performance of developed markets in the United Kingdom.

MSCI World Growth Index℠ reflects the performance of growth stocks from global developed markets.

MSCI World Index℠ reflects the equity market performance of global developed markets.

MSCI World Value Index℠ reflects the performance of large and mid cap equity securities exhibiting value style characteristics across global developed markets.

Option-Adjusted Spread (OAS) measures the spread between a fixed-income security rate and the risk-free rate of return, which is adjusted to take into account an embedded option.

Price-to-Earnings (P/E) Ratio measures share price compared to earnings per share for a stock or stocks in a portfolio.

Russell 1000® Index reflects the performance of U.S. large-cap equities.

Russell 2000® Index reflects the performance of U.S. small-cap equities.

Russell 2500™ Growth Index reflects the performance of U.S. small to mid-cap equities with higher price-to-book ratios and higher forecasted growth values.

Russell 3000® Index reflects the performance of broad U.S. equities.

Russell Midcap® Index reflects the performance of U.S. mid-cap equities.

S&P 500® Index reflects U.S. large-cap equity performance and represents broad U.S. equity market performance.

STOXX® Europe 600 Index represents large, mid and small capitalization companies across 17 countries in the European region.

U.S. Treasury securities are direct debt obligations issued by the U.S. Government. With government bonds, the investor is a creditor of the government. Treasury Bills and U.S. Government Bonds are guaranteed by the full faith and credit of the United States government, are generally considered to be free of credit risk and typically carry lower yields than other securities.

Volatility measures risk using the dispersion of returns for a given investment.

Yield cushion, defined as a security's yield divided by duration, is a common approach that looks at bond yields as a cushion protecting bond investors from the potential negative effects of duration risk. The yield cushion potentially helps mitigate losses from falling bond prices if yields were to rise.

Risks:

Actively managed portfolios may fail to produce the intended results. No investment strategy can ensure a profit or eliminate the risk of loss.

Collateralized Loan Obligations (CLOs) are debt securities issued in different tranches, with varying degrees of risk, and backed by an underlying portfolio consisting primarily of below investment grade corporate loans. The return of principal is not guaranteed, and prices may decline if payments are not made timely or credit strength weakens. CLOs are subject to liquidity risk, interest rate risk, credit risk, call risk and the risk of default of the underlying assets.

Diversification neither assures a profit nor eliminates the risk of experiencing investment losses.

Equity securities are subject to risks including market risk. Returns will fluctuate in response to issuer, political and economic developments.

Fixed income securities are subject to interest rate, inflation, credit and default risk. The bond market is volatile. As interest rates rise, bond prices usually fall, and vice versa. The return of principal is not guaranteed, and prices may decline if an issuer fails to make timely payments or its credit strength weakens.

Foreign securities are subject to additional risks including currency fluctuations, political and economic uncertainty, increased volatility, lower liquidity and differing financial and information reporting standards, all of which are magnified in emerging markets.

Growth stocks are subject to increased risk of loss and price volatility and may not realize their perceived growth potential.

Health care industries are subject to government regulation and reimbursement rates, as well as government approval of products and services, which could have a significant effect on price and availability, and can be significantly affected by rapid obsolescence and patent expirations.

High-yield or "junk" bonds involve a greater risk of default and price volatility and can experience sudden and sharp price swings.

Securitized products, such as mortgage- and asset-backed securities, are more sensitive to interest rate changes, have extension and prepayment risk, and are subject to more credit, valuation and liquidity risk than other fixed-income securities.

Smaller capitalization securities may be less stable and more susceptible to adverse developments, and may be more volatile and less liquid than larger capitalization securities.

Sovereign debt securities are subject to the additional risk that, under some political, diplomatic, social or economic circumstances, some developing countries that issue lower quality debt securities may be unable or unwilling to make principal or interest payments as they come due.

Value stocks can continue to be undervalued by the market for long periods of time and may not appreciate to the extent expected.

NOTES

ABOUT THE PORTFOLIO CONSTRUCTION AND STRATEGY TEAM

The PCS Team performs customized analyses on investment portfolios, providing differentiated, data-driven diagnostics. From a diverse universe of thousands of models emerge trends, themes and potential opportunities in portfolio construction that we believe will be interesting and beneficial to any investor.

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