WELLS FARGO
Investment Institute

Investment Strategy

Weekly guidance from our Investment Strategy Committee **March 4, 2024**

Asset Allocation Spotlight: The gap between top and bottom performers... 2

- Since 1988, the difference between the top and bottom performers within U.S. equity styles has varied significantly and is currently above average.
- Chasing last year's best or worst performers is not a successful strategy compared to a diversified portfolio.

Equities: Fast-growing data center investment matters for Industrials 4

- The data center market has rapidly increased in importance for the Industrials sector. Company-level exposure varies but can be as high as a mid-teens percentage of revenue, particularly for companies with exposure to electrical end markets.
- Industry forecasts pointing to significant medium-term demand growth representing a tailwind for the Industrials sector and underscores our favorable stance.

Fixed Income: After earnings, most triple-B corporates remain strong 5

- Bonds rated Baa3 by Moody's Investors Service carry the lowest investment-grade (IG) rating and are the most likely IG credits to show credit deterioration in an economic slowdown.
- Stable fourth-quarter results for Baa3-rated companies have left few at risk of falling to high yield.

Real Assets: Our equity perspective on natural gas producers 6

- U.S. natural gas prices are at their lowest levels since mid-2020.
- For investors seeking to benefit from the potential for higher natural gas prices in the future, we recommend diversified producers that have exposure to both oil and natural gas.

Alternatives: Private equity: Light at the end of the tunnel?.............................. 7

- Recent leveraged loan issuance and private equity exit data provide hope that the slowdown of private capital activity may be stabilizing.
- For now, we continue to focus on the opportunities currently present in small- and mid-buyouts, growth equity, and secondaries.

Current tactical guidance 8

Investment and Insurance Products: ➤ NOT FDIC Insured ➤ NO Bank Guarantee ➤ MAY Lose Value

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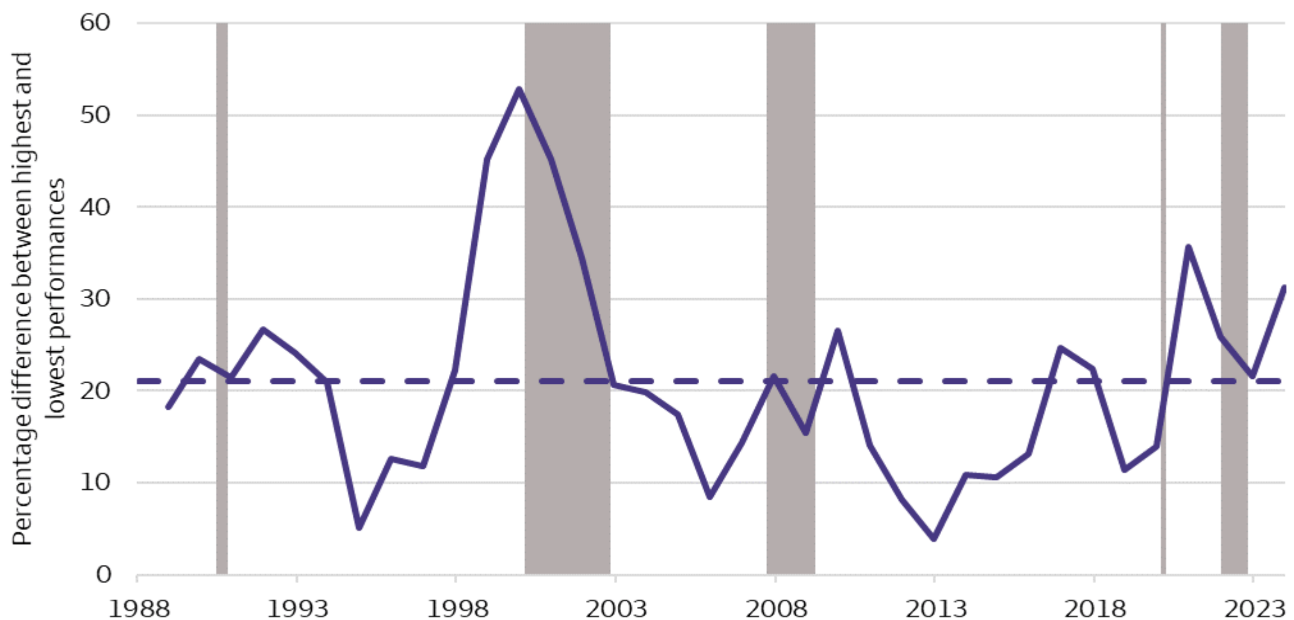
Asset Allocation Spotlight

Jeremy Folsom
Investment Strategy Analyst

The gap between top and bottom performers

Last year's narrow market breadth was evidenced in the large difference between the top and bottom performers in U.S. equity growth and value styles across various capitalizations. Since 1988, the average difference between the top- and bottom-performing equity style and capitalization in U.S. equities has been around 20%, compared to 31.2% last year. The difference between the U.S. equity market capitalization and styles' performance appears greatest as volatility increases during market turning points, such as the dot-com bubble, the Great Recession, and the onset of COVID-19, with the difference between the best- and worst-performing styles peaking around 50%, 25%, and 35%, respectively. As the chart below shows, dispersion between equity asset classes historically has widened ahead of bear markets (shaded). While elevated, the current dispersion could persist for some time before another bear market emerges, as was the case in the late 1990s.

The difference in performances within U.S. equity styles is above average



Sources: Bloomberg and Wells Fargo Investment Institute. Yearly data from January 1, 1988, to December 31, 2023. Gray bars indicate bear markets for equities. The indexes evaluated that have had the best- and worst-performing total returns within U.S. equity styles are: S&P 500 Index, Russell 1000 Index, Russell 1000 Growth Index, Russell 1000 Value Index, Russell MidCap Index, Russell MidCap Growth Index, Russell MidCap Value Index, Russell 2000 Index, Russell 2000 Growth Index, Russell 2000 Value Index, and Russell 3000 Index.

Even if another bear market is not around the corner, when markets narrow, as we have seen in the past year, we see a temptation for investors is to narrow portfolio holdings to include more of the outperforming assets. But that might not be the best strategy in our view. In the chart below, we show a comparison of investing 100% in the best-performing asset class from the previous year or, alternatively, taking a contrarian position and investing 100% in the worst-performing asset class from the previous year. Historically over time, this strategy of investing in either the prior year's best performer and hoping for continued outperformance or investing in the prior year's worst performer and hoping for a reversal, has been less successful than owning a diversified portfolio.

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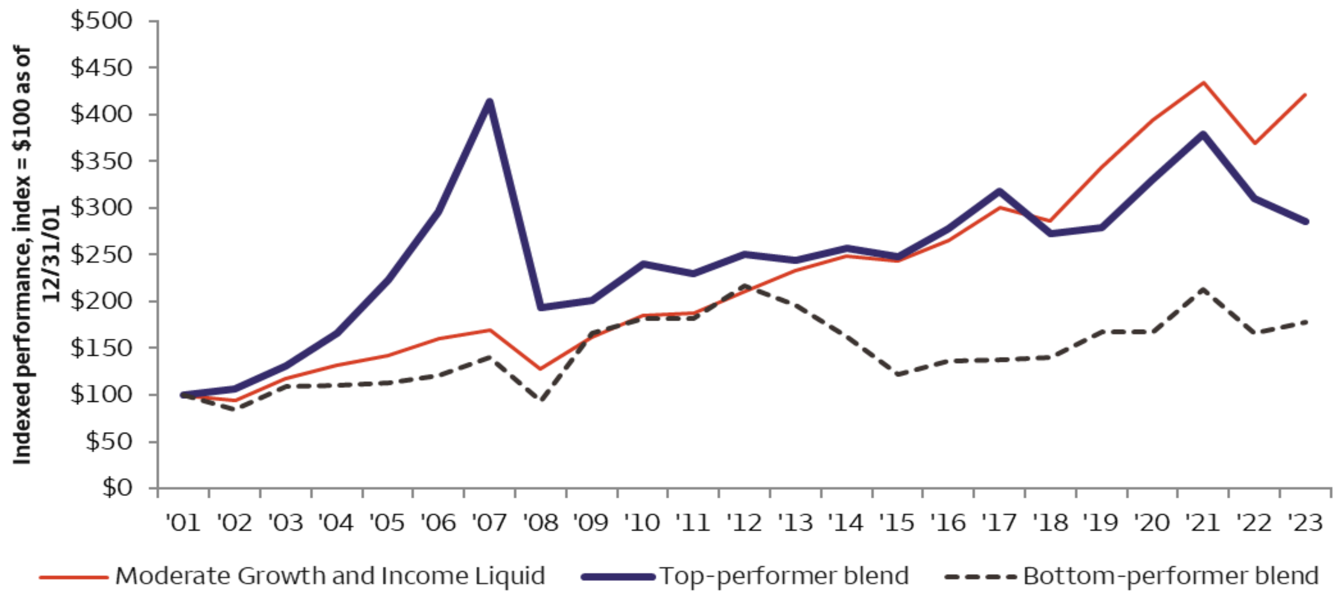
Chasing past winners or losers historically has not been a successful strategy



Sources: © Morningstar Direct, All Rights Reserved, and Wells Fargo Investment Institute. Data from December 31, 2001, to December 31, 2023. Indexed to 100 as of December 31, 2001. The top-performer blend allocates 100% in the current year to the top performing asset class of the previous year. The bottom-performer blend allocates 100% in the current year to the bottom performing asset class of the previous year. Performance results for Moderate Growth and Income Liquid and the top and bottom performer blends are calculated using blended index returns. Moderate Growth and Income allocation is dynamic and changes as needed[1] with adjustments to the strategic allocations. Index return information is provided for illustrative purposes only. Index returns do not represent investment performance or the results of actual trading. Index returns represent general market results, assume the reinvestment of dividends and other distributions and do not reflect deduction for fees, expenses or taxes applicable to an actual investment. **Past performance is no guarantee of future results**.

When an asset class, sector, style, or individual stock is the highest or lowest performer in one year, this is not necessarily indicative of the following year's performance. Oftentimes, top-performing assets may experience periods of being bottom performers, and vice versa. Looking at U.S. equity indexes, the most common top performer on an annual basis between 1988 and 2023 was the Russell 1000 Growth Index, which was the top performer 13 times. However, the same index was the bottom performer eight times. Alternatively, the Russell 2000 Value Index was the most common bottom performer, trailing in 12 years, but was also the top performer eight years. We see a similar pattern across other asset classes. By definition, more volatile assets tend to move up and down to a greater degree. We believe these variable assets can potentially be offset with less volatile assets, or assets that exhibit different volatility patterns, within a diversified portfolio to help smooth returns over the course of an investor's designated time horizon.

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[1] Moderate Growth and Income: 2% Bloomberg U.S. Treasury Bills (1–3 Month) Index, 30% Bloomberg U.S. Aggregate Bond Index, 6% Bloomberg U.S. Corporate High Yield Bond Index, 5% J.P. Morgan EMBI Global, 24% S&P 500 Index, 10% Russell Midcap Index, 6% Russell 2000 Index, 8% MSCI EAFE Index, 5% MSCI Emerging Markets Index, 4% Bloomberg Commodity Index.

Top-performer blend : 2002: 100% Bloomberg U.S. Aggregate Bond Index (1–3 year); 2003: 100% Bloomberg Commodity Index; 2004: 100% MSCI Emerging Markets Index; 2005: 100% MSCI Emerging Markets Index; 2006: 100% MSCI Emerging Markets Index; 2007: 100% MSCI Emerging Markets Index; 2008: 100% MSCI Emerging Markets Index; 2009: 100% J.P. Morgan GBI Global ex-U.S.; 2010: 100% MSCI Emerging Markets Index; 2011: 100% Russell 2000 Index; 2012: 100% Bloomberg U.S. Aggregate Bond Index (10+year); 2013: 100% MSCI Emerging Markets Index; 2014: 100% Russell 2000 Index; 2015: 100% Bloomberg U.S. Aggregate Bond Index (10+ year); 2016: 100% S&P 500 Index; 2017: 100% Russell 2000 Index; 2018: 100% MSCI Emerging Markets Index; 2019: 100% Bloomberg U.S. Treasury Bill 1–3 Month Index; 2020: 100% S&P 500 Index; 2021: 100% Russell 2000 Index; 2022: 100% S&P 500 Index; and 2023: 100% Bloomberg Commodity Index.

Bottom-performer blend: 2002: 100% MSCI EAFE Index; 2003: 100% S&P 500 Index; 2004: 100% Bloomberg U.S. Treasury Bill 1–3 Month Index; 2005: 100% Bloomberg U.S. Treasury Bill 1–3 Month Index; 2006: 100% J.P. Morgan GBI Global ex-U.S.; 2007: 100% Bloomberg Commodity Index; 2008: 100% Russell 2000 Index; 2009: 100% MSCI Emerging Markets Index; 2010: 100% Bloomberg U.S. Aggregate Bond Index (10+ year); 2011: 100% Bloomberg U.S. Treasury Bill 1–3 Month Index; 2012: 100% MSCI Emerging Markets Index; 2013: 100% Bloomberg Commodity Index; 2014: 100% Bloomberg Commodity Index; 2015: 100% Bloomberg Commodity Index; 2016: 100% Bloomberg Commodity Index; 2017: 100% Bloomberg U.S. Treasury Bill 1–3 Month Index; 2018: 100% Bloomberg U.S. Treasury Bill 1–3 Month Index; 2019: 100% MSCI Emerging Markets Index; 2020: 100% Bloomberg U.S. Treasury Bill 1–3 Month Index; 2021: 100% Bloomberg Commodity Index; 2022: 100% J.P. Morgan GBI Global ex-U.S.; and 2023: 100% Bloomberg U.S. Aggregate Bond Index (10+ year).

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Equities

Larry Pfeffer, CFA
Equity Sector Analyst, Industrials

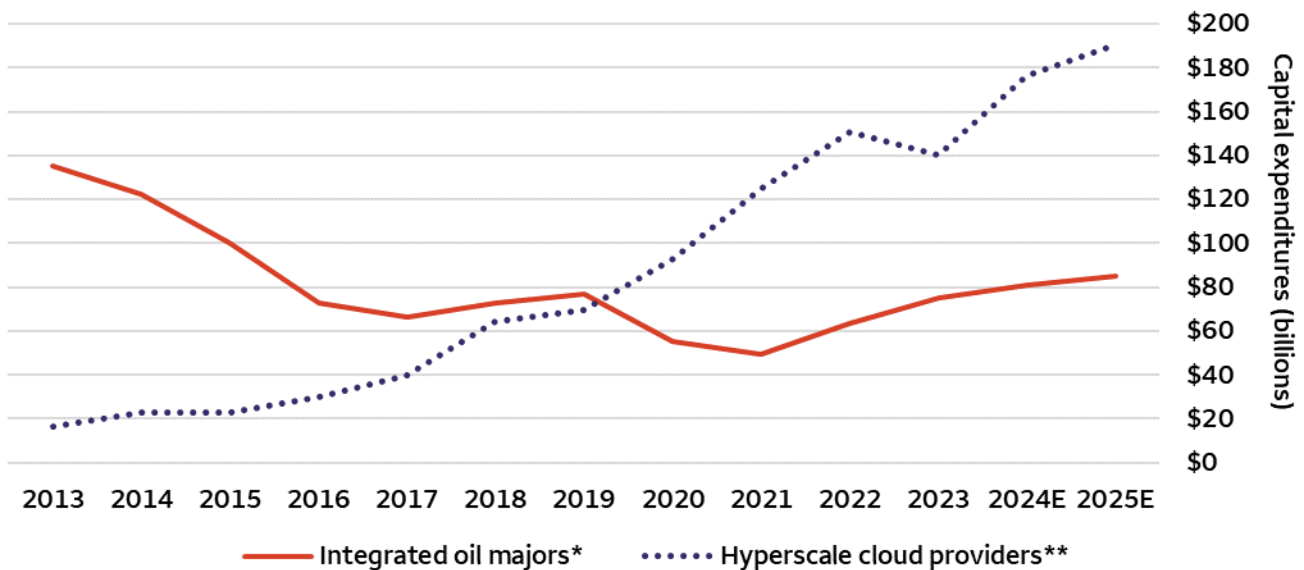
Fast-growing data center investment matters for Industrials

Investors remain intently focused on the latest happenings in the world of semiconductors, and we can understand why. To that effect, we would point out that the largest driver of this enthusiasm — rising demand for data center construction — has trickle-down effects across the Industrials sector.

Multiple electrical equipment vendors are expanding their facilities to support the broader increase in demand for electrification. HVAC suppliers have expanded their technology portfolios to better serve the cooling needs of this market. Even makers of large-scale diesel generators have announced facility or line expansions targeted for back-up power supply in this area. Based on company disclosures, we believe that for those involved, this end market represents anywhere from a low-single-digits percentage of revenue on the low end to a mid-teens percentage on the high end. For a broader perspective, we would note that capital expenditures for the four largest hyperscale cloud companies began to exceed those for the four largest integrated oil majors in 2020 (see chart).

So, how fast can this industry grow? Although not directly comparable to construction or equipment demand, we would note that in January 2023, McKinsey & Company projected that U.S. data center electricity consumption would grow roughly 10% annually from 2023 – 2030.[2] Bottom line — this is now a meaningful end market for a growing number of companies in the Industrials sector and a tailwind for select companies in the Electrical Equipment, Building Products, and Industrial Machinery sub-industries.

Capital expenditures for hyperscale cloud providers outpacing integrated oil majors



Sources: FactSet and Wells Fargo Investment Institute. Based on calendar year data; 2024 and 2025 data represent consensus estimates from FactSet. *Four largest global integrated oil majors by market capitalization BP p.l.c, Chevron Corporation, Exxon Mobil Corporation, Royal Dutch Shell Plc. **Four largest cloud infrastructure companies by market capitalization Alphabet Inc., Amazon.com, Inc., Meta Platforms Inc, Microsoft Corporation. Forecasts and targets are based on certain assumptions and on views of market and economic conditions which are subject to change. See end of report for important definitions.

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[2] Investing in the rising data center economy; Bangalore, Srivathsan, Bhan, Del Miglio, Sachdeva, Sarma, and Sharma

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Fixed Income

Eric M. Jasso, CFA
Senior Retail Fixed Income Analyst

After earnings, most triple-B corporates remain strong

When assessing investment grade (IG) credit quality, it is important to understand that different rating groups will experience rating changes at differing tempos. Single-A credits in deterioration often taken 5 – 10 years to fall to triple-B while triple-B credits could fall to high yield within a few years of decline. Rating agencies typically provide warning to IG issuers by issuing negative outlooks, often 12 – 18 months prior to a rating downgrade. Bonds rated Baa3 with a negative outlook are closely monitored by investors when measuring IG credit health to focus on issuers that are at risk of falling to high yield (known as becoming a "fallen angel").

Despite a general slowdown in earnings through 2023, Baa3 credits have actually strengthened. The amount of potential fallen angels, roughly $67 billion of outstanding debt amongst U.S.-based issuers, is near the lowest levels in recent history. The majority of Baa3 companies' fourth-quarter earnings have shown that profit growth over the past 12 months has been high enough to offset the slow rise of interest expenses (see table below). Two industry sectors of concern are Baa3-rated real estate investment trusts (REITs) and consumer discretionary, which are seeing materially negative earnings growth among already relatively weak credit profiles. Positively, many highly leveraged Baa3 credits in other sectors have seen management reduce capital spending and shareholder return plans to preserve credit metrics — a positive sign for bondholders. We continue to view IG credit as attractive due to historically strong credit metrics among higher-rated issuers and resilience among lower-rated triple-Bs.

Baa3 credit metrics following fourth-quarter 2023 Earnings

Sector	Companies reporting	EBITDA growth	Interest coverage	Net leverage
Basic Materials	6	-5.4%	5.26	7.25
Communications	3	10.4%	6.85	2.14
Consumer Discretionary	13	-19.1%	5.10	4.93
Consumer Staples	10	14.5%	5.27	4.50
Energy	12	-3.0%	6.77	4.43
Financial	45	28.2%	3.18	8.86
Industrial	21	7.8%	6.08	3.16
Technology	6	14.0%	5.41	3.65
Utilities	5	-2.9%	2.76	23.33
All Baa3 issuers	**121**	**8.7%**	**5.08**	**5.30**
All Baa3 issuers, ex Financials and Utilities			**5.83**	**4.15**

Sources: Bloomberg and Wells Fargo Investment Institute. Companies reporting fourth-quarter 2023 earnings as of February 23, 2024. Figures represent the trimmed mean (removing the top and bottom 10% of the dataset). EBITDA growth refers to earnings before interest, taxes, depreciation, and amortization growth over past 12 months. Net Leverage is defined as Net Debt to EBITDA after Capital Expenditures. Interest Coverage is defined as earnings before interest & taxes divided by net interest expenses.

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Real Assets

Ian Mikkelsen, CFA
Equity Sector Analyst, Energy

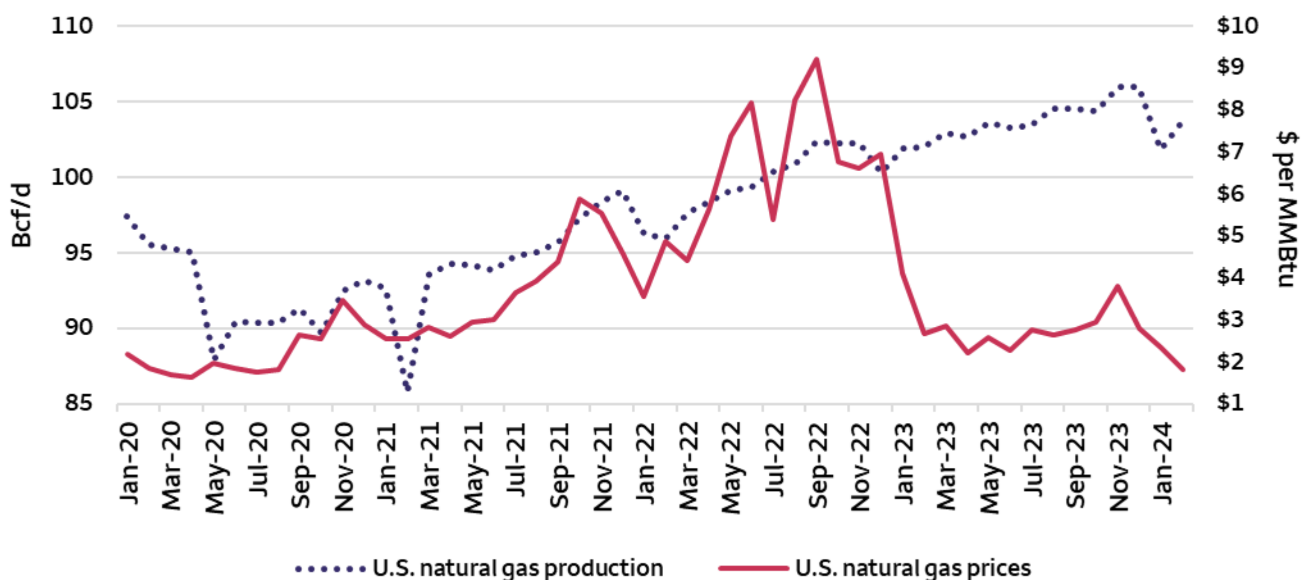
Our equity perspective on natural gas producers

U.S. natural gas prices are currently hovering around their lowest levels since mid-2020. We primarily attribute the recent weakness in natural gas prices to two factors — warmer winter weather and a significant increase in production over the past three years (see chart). Several new liquefied natural gas (LNG) export projects are expected to enter service between 2025 and 2027, which may support higher natural gas prices, but a key variable will be the cadence of continued supply growth.

At this time, we would caution equity investors against trying to bottom fish in stocks of pure-play natural gas producers. Profitability varies across companies, but we believe that current prices are well below breakeven levels for the vast majority of U.S. production. There is also an increasing amount of price-insensitive natural gas coming from the Permian Basin in conjunction with the oil production growth there, and the startup of the Mountain Valley Pipeline later this year will deliver additional supply from producers in the Northeast. In summary, while we expect increased LNG export capacity to eventually lead prices to a healthier balance, we expect prices to remain highly volatile and continue to see much uncertainty in the near-term outlook for pure-play natural gas producers.

For investors seeking to benefit from the potential for higher natural gas prices in the future, we favor diversified integrated oil companies and exploration and production companies that have exposure to both oil and natural gas. These companies would stand to benefit significantly from higher natural gas prices while also providing exposure to our favorable view on crude oil.

Rise in natural gas supply has contributed to decline in prices



Sources: Factset, Wells Fargo Investment Institute, and Energy Information Administration. U.S. natural gas price based on the Henry Hub benchmark. Bcf/d = billion cubic feet per day. MMBtu = million British thermal units.

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Alternatives

Chao Ma, PhD, CFA, FRM
Global Portfolio and Investment Strategist

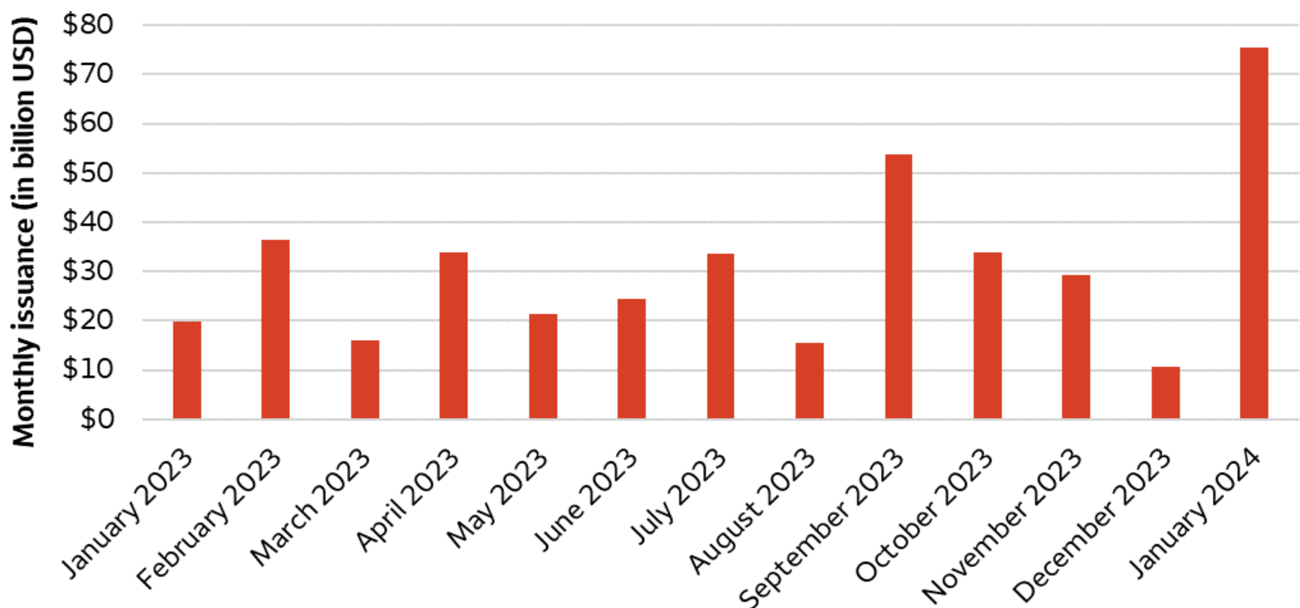
Private equity: Light at the end of the tunnel?

The rapidly increasing interest rates and elevated economic uncertainties have weighed on private equity exits since 2022. This slowdown in exits and distributions, in turn, negatively impacted new vintage fundraising as well as managers' appetites for dealmaking.

However, recent data provides hope that the situation may be stabilizing. Pitchbook reported a much milder decline in exit activity for the fourth quarter of 2023, relative to prior quarters. In January, issuance of leveraged loans, a common financing source for private equity, resurged to over $75 billion in the U.S. (see chart below). This represents a 2.8x increase from a year ago and is the highest level achieved over the past two years. We consider stabilizing policy rates and falling borrowing costs key contributors to this uptick. Furthermore, the combination of an all-time high in the S&P 500 Index, elevated public valuations, and improved business confidence may give hope for a revived Initial Public Offering market in the coming quarters. Should this be the case, it will provide managers with more opportunities to exit.

Although the ice on private equity may show signs of thawing, overall capital activities are still in a slowdown mode and rank below long-term average levels. We expect the trajectory of public market prices, economic conditions, and the interest rate environment to be pivotal to further developments in private capital activity. As we monitor these developments that may take quarters to unfold, we prefer to leverage the opportunities currently present in small- and mid-buyouts, growth equity, and secondaries.

Monthly U.S. leveraged loan issuance since January 2023



Sources: Wells Fargo Investment Institute and Pitchbook. Data as of January 31, 2024.

Alternative investments, such as hedge funds, private equity, private debt and private real estate funds are not appropriate for all investors and are only open to "accredited" or "qualified" investors within the meaning of U.S. securities laws.
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Tactical guidance***

Cash Alternatives and Fixed Income

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
	High Yield Taxable Fixed Income	Cash Alternatives Developed Market Ex-U.S. Fixed Income Emerging Market Fixed Income U.S. Long Term Taxable Fixed Income U.S. Intermediate Term Taxable Fixed Income	U.S. Taxable Investment Grade Fixed Income	U.S. Short Term Taxable Fixed Income

Equities

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
U.S. Small Cap Equities	Emerging Market Equities	U.S. Mid Cap Equities Developed Market Ex-U.S. Equities	U.S. Large Cap Equities	

Real Assets

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
		Private Real Estate	Commodities	

Alternative Investments****

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
		Hedge Funds—Event Driven Hedge Funds—Equity Hedge Private Equity Private Debt	Hedge Funds—Relative Value Hedge Funds—Macro	

Source: Wells Fargo Investment Institute, March 4, 2024. ***Tactical horizon is 6-18 months

****Alternative investments are not appropriate for all investors. They are speculative and involve a high degree of risk that is appropriate only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in a fund and for which the fund does not represent a complete investment program. Please see end of report for important definitions and disclosures.

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Risk considerations

Asset allocation and diversification are investment methods used to help manage risk. They do not guarantee investment returns or eliminate risk of loss including in a declining market.

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Foreign investing** has additional risks including those associated with currency fluctuation, political and economic instability, and different accounting standards. These risks are heightened in emerging markets. **Small- and mid-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. **High yield (junk) bonds** have lower credit ratings and are subject to greater risk of default and greater principal risk. The **commodities** markets are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investing in a volatile and uncertain commodities market may cause a portfolio to rapidly increase or decrease in value which may result in greater share price volatility. **Real estate** has special risks including the possible illiquidity of underlying properties, credit risk, interest rate fluctuations and the impact of varied economic conditions.

Sector investing can be more volatile than investments that are broadly diversified over numerous sectors of the economy and will increase a portfolio's vulnerability to any single economic, political, or regulatory development affecting the sector. This can result in greater price volatility. **Communication Services** companies are vulnerable to their products and services becoming outdated because of technological advancement and the innovation of competitors. Companies in the Communication Services sector may also be affected by rapid technology changes, pricing competition, large equipment upgrades, substantial capital requirements and government regulation and approval of products and services. In addition, companies within the industry may invest heavily in research and development which is not guaranteed to lead to successful implementation of the proposed product. Risks associated with the **Consumer Discretionary** sector include, among others, apparel price deflation due to low-cost entries, high inventory levels and pressure from e-commerce players, reduction in traditional advertising dollars, increasing household debt levels that could limit consumer appetite for discretionary purchases, declining consumer acceptance of new product introductions, and geopolitical uncertainty that could affect consumer sentiment. **Consumer Staples** industries can be significantly affected by competitive pricing particularly with respect to the growth of low-cost emerging market production, government regulation, the performance of the overall economy, interest rates, and consumer confidence. The **Energy** sector may be adversely affected by changes in worldwide energy prices, exploration, production spending, government regulation, and changes in exchange rates, depletion of natural resources, and risks that arise from extreme weather conditions. Investing in the **Financial** services companies will subject an investment to adverse economic or regulatory occurrences affecting the sector. Some of the risks associated with investment in the **Health Care** sector include competition on branded products, sales erosion due to cheaper alternatives, research and development risk, government regulations and government approval of products anticipated to enter the market. There is increased risk investing in the **Industrials** sector. The industries within the sector can be significantly affected by general market and economic conditions, competition, technological innovation, legislation and government regulations, among other things, all of which can significantly affect a portfolio's performance. **Materials** industries can be significantly affected by the volatility of commodity prices, the exchange rate between foreign currency and the dollar, export/import concerns, worldwide competition, procurement and manufacturing and cost containment issues. **Real estate** investments have special risks, including possible illiquidity of the underlying properties, credit risk, interest rate fluctuations, and the impact of varied economic conditions. Risks associated with the **Technology** sector include increased competition from domestic and international companies, unexpected changes in demand, regulatory actions, technical problems with key products, and the departure of key members of management. Technology and Internet-related stocks, especially smaller, less-seasoned companies, tend to be more volatile than the overall market. **Utilities** are sensitive to changes in interest rates, and the securities within the sector can be volatile and may underperform in a slow economy.

Leveraged loans are generally below investment grade quality ("high-yield" securities or "junk" bonds). Investing in such securities should be viewed as speculative and investors should review their ability to assume the risks associated with investments which utilize such securities.

Alternative investments, such as hedge funds, private equity/private debt and private real estate funds, are speculative and involve a high degree of risk that is appropriate only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in a fund and for which the fund does not represent a complete investment program. They entail significant risks that can include losses due to leveraging or other speculative investment practices, lack of liquidity, volatility of returns, restrictions on transferring interests in a fund, potential lack of diversification, absence and/or delay of information regarding valuations and pricing, complex tax structures and delays in tax reporting, less regulation and higher fees than mutual funds. Hedge fund, private equity, private debt and private real estate fund investing involves other material risks including capital loss and the loss of the entire amount invested. A fund's offering documents should be carefully reviewed prior to investing.

Hedge fund strategies, such as Equity Hedge, Event Driven, Macro and Relative Value, may expose investors to the risks associated with the use of short selling, leverage, derivatives and arbitrage methodologies. Short sales involve leverage and theoretically unlimited loss potential since the market price of securities sold short may continuously increase. The use of leverage in a portfolio varies by strategy. Leverage can significantly increase return potential but create greater risk of loss. Derivatives generally have implied leverage which can magnify volatility and may entail other risks such as market, interest rate, credit, counterparty and management risks. Arbitrage strategies expose a fund to the risk that the anticipated arbitrage opportunities will not develop as anticipated, resulting in potentially reduced returns or losses to the fund.

*Integrated Oil: BP p.l.c, Chevron Corporation, Exxon Mobil Corporation, Royal Dutch Shell Plc

**Hyperscale Cloud Providers: Alphabet Inc., Amazon.com, Inc., Meta Platforms Inc, Microsoft Corporation

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Definitions

An index is unmanaged and not available for direct investment.

Bloomberg Commodity Index is comprised of 22 exchange-traded futures on physical commodities and represents 20 commodities weighted to account for economic significance and market liquidity.

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

Bloomberg U.S. Aggregate 1-3 Year Bond Index is composed of the Bloomberg U.S. Government/Credit Index and the Bloomberg U.S. Mortgage-Backed Securities Index, and includes Treasury issues, agency issues, corporate bond issues, and mortgage-backed securities with maturities of 1-3 years.

Bloomberg U.S. Aggregate 10+ Year Bond Index is composed of the Bloomberg U.S. Government/Credit Index and the Bloomberg U.S. Mortgage-Backed Securities Index, and includes Treasury issues, agency issues, corporate bond issues, and mortgage-backed securities with maturities of 10 years or more.

Bloomberg 1-3 Month U.S. Treasury Bill Index includes all publicly issued zero-coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and more than 1 month, are rated investment grade, and have $250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non-convertible.

Bloomberg U.S. Corporate High Yield Index covers the universe of fixed-rate, noninvestment-grade debt.

JPMorgan Emerging Markets Bond Index Global (EMBI Global), which currently covers 27 emerging market countries. Included in the EMBI Global are U.S.-dollar-denominated Brady bonds, Eurobonds, traded loans, and local market debt instruments issued by sovereign and quasi-sovereign entities.

JPMorgan GBI ex-U.S. Index measures the performance of fixed rate issuances for local debt instruments from high-income countries spanning Europe, North America and Asia-Pacific regions. It is a sub-set of GBI Global index excluding bond from U.S.

MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets around the world.

MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

Russell 1000® Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 2000® Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000® Index, which represent approximately 25% of the total market capitalization of the Russell 1000® Index.

Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index. **The Russell 3000® Index** measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

Moody's uses a lettering system consisting of upper and lower case, as well as numeric modifiers. 'Aaa' and 'Aa' (high credit quality) and 'A' and 'Baa' (medium credit quality) are considered investment grade. Credit ratings for bonds below these designations ('Ba', 'B', 'Caa', etc.) are considered low credit quality, and are commonly referred to as "junk bonds". The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

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