Investment Insights

Fourth Quarter 2017

BNY MELLON | LOCKWOOD

Executive Summary

Five Trends to Consider Discussing With Your Clients

1. Implications of Tax Reform (Page 3)

The plan as currently envisioned will boost corporate earnings. The tax cut cannot pay for itself, but we anticipate the U.S. economy may see bursts of strong growth as corporations respond to reduced taxes.

2. The Impact of Lower Wage Growth (Page 5)

What has killed wage growth? It's is likely a combination of several factors affecting the labor markets. The jobs created in this recovery simply have not measured up to those created in past recoveries.

3. The Lack of Volatility and Inflation in the Markets (Pages 6)

Markets in 2017 posted some of the lowest volatility measures ever recorded. It is not just stocks, but bonds and other asset classes are also experiencing low volatility. So far, low volatility is simply a reflection of relatively stable trends in overall developed market output. As long as economies are stable, markets could continue to enjoy relatively low volatility.

4. Quantitative Tightening and the Constitution of the Federal Reserve Board (Page 7)

In 2018, the Federal Reserve (Fed) will rapidly ramp up quantitative tightening from the initial pace set in the fourth quarter of 2017. While the Fed has gone to great lengths to communicate its plan to the bond market, the unwinding of a large central bank balance sheet is a novel experience. In addition, the composition of the Federal Reserve Board (FRB) and Federal Open Market Committee (FOMC) will undergo the largest turnover of senior management positions in its institutional history.

5. Opportunities in Foreign Markets (Page 9)

While U.S. stock markets performed admirably in 2017, foreign stocks performed even better. The S&P 500® Index was up 21.8% in 2017 while the MSCI EAFE Index (net of taxes) was up 25.0% and MSCI Emerging Markets Index (net of taxes) was up 37.3%. We believe conditions are set up for continued outperformance by foreign bourses as we begin 2018.

Year-End Commentary 2017

Celebrate. 2017 was a stellar year for capital markets. Stocks were up. Bonds were up (rates were down). Most commodities, including gold, were up. Developed markets and emerging markets mostly all headed higher. Only the broad U.S. dollar and several smaller equity markets experienced losses. Markets performed better than most consensus projections, so enjoy the good fortunes from this past year.

Market Overview								
Return (%) as of December 31, 2017								
Index	4th Qtr	1 Yr.	3 Yr.^	5 Yr.^	2016	2015	2014	2013
S&P 500	6.6	21.8	11.4	15.8	12.0	1.4	13.7	32.4
MSCI USA Small Cap	4.9	17.3	10.6	15.0	19.8	(3.7)	7.6	38.3
MSCi EAFE (net of taxes)	4.2	25.0	7.8	7.9	1.0	(0.8)	(4.9)	22.8
MSCI Emerging Mrkts (net of taxes)	7.4	37.3	9.1	4.3	11.2	(14.9)	(2.2)	(2.6)
Bloomberg Barclays U.S. Aggregate Bond	0.4	3.5	2.2	2.1	2.6	0.6	6.0	(2.0)
Bloomberg Barclays Global Aggregate ex U.S.	1.6	10.5	1.8	(0.2)	1.5	(6.0)	(3.1)	(3.1)
S&P GSCI Crude Oil	16.9	12.5	4.3	(8.0)	45.0	(30.5)	(45.9)	7.2
S&P GSCI Gold	1.9	12.8	2.7	(5.4)	7.8	(10.9)	(1.8)	(28.7)
Bloomberg Commodity	4.7	1.7	(5.0)	(8.5)	11.8	(24.7)	(17.0)	(9.5)
Bloomberg Barclays U.S. Tsy Bill 6-9 Month	0.2	0.7	0.5	0.3	0.5	0.2	0.1	0.1
Inflation §	1.0	2.2	1.5	1.4	1.7	0.4	0.7	1.5

Sources: MSCI; Bloomberg Barclays; Standard and Poor's (©2018, S&P Dow Jones Indices LLC. All rights reserved); Bureau of Labor Statistics. § Inflation data through November 2017.

^Annualized return.

Each asset class is represented by a widely recognized industry benchmark. For additional information and a list of indices used to represent each asset class, please refer to the Important Disclosures at the end of this document. ***Past performance is not a guarantee of future results.*** *Indices are unmanaged and are not available for direct investment.*

What Will Change in 2018?

Our outlook will identify trends and questions that we believe will likely determine whether the next year will prove as beneficial as the past one. Taxes, inflation, central banks and geopolitics, as usual, loom large in how 2018 looks likely to unfold.

Not Your Father's Tax Reform

In the fourth quarter of the last two years (2016 and 2017) markets rallied based on expectations for tax cuts and the promise of a more lenient regulatory regime. For most of 2017, we witnessed a steady decline in expectations for the tax cuts as the Trump Administration policy initiatives floundered. Then in late November of 2017, as the tax plan came out of the Senate Finance Committee, market expectations rose again.

The 2017 Tax Cuts and Jobs Act, as amended in committee, is as much of a tax shift as a tax reform plan. Consider that the overall "cost" of the plan, approximately $1.5 trillion in a 10-year budget forecasting scenario (according to the House Ways and Means Committee), pales in comparison (as a percentage of the economy) to much larger tax cuts under President Ronald Reagan. The legislation shows very little corresponding "payfors" (using the lingo of K Street Consulting, "K Street" is the generic nickname for the lobbying community), so we can only wonder if any spending cuts will ever materialize to accompany the revenue cuts. Citizens should ask themselves what their long-term tax liability will ultimately look like. Will they save the tax cut in expectations for future hikes down the road? Despite the long-term effects on the deficit, the tax plan could become much more popular early in 2018 as payroll taxes quickly begin to reflect new lower rates. In the short run, we believe the plan will likely prove more popular than current headlines suggest.

The plan as currently envisioned will boost corporate earnings. There is a large reduction in the corporate tax rate (to 21%). The tax cut cannot pay for itself, but we anticipate the U.S. economy may see bursts of strong growth (>3%) as corporations respond to reduced taxes. The multipliers from boosts in expenditures from the beneficiaries of the plan are not high enough to allow the plan to pay for itself. It may also boost capital expenditures, stock buybacks, the repatriation of foreign earnings and possible dividends. As with any large-scale undertaking like this policy shift, there could be unforeseen consequences.

	Former Tax Law - 2017	New Tax Cuts and Jobs Act - 2018
Tax Brackets	Seven tax brackets with rates of 10, 15, 25, 28, 33, 35 and 39.6 percent.	Simplifies into four brackets: 12 percent, 25 percent, 35 percent and 39.6 percent.
Corporate Tax Rate	35 percent.	Lowers to a flat 21 percent.
Standard Deduction	$6,350 for single individuals and married individuals filing separate returns, $9,350 for heads of households and $12,700 for married individuals filing a joint return.	Increases to $24,400 for married individuals filing a joint return, to $18,300 for head-of-household filers and to $12,200 for all other taxpayers.
State and Local Tax Deductions	Taxpayers who itemize their deductions are able to deduct four kinds of non-businesses taxes, including state and local income, real estate, property and sales taxes.	Repeals deduction for state and local income taxes and sales taxes with exception that allows deduction up to $10,000 in state and local property taxes for individuals.
Alternative Minimum Tax (AMT)	AMT imposed on individual taxpayers whose tentative minimum tax is higher than the regular tax. (2017 exemption levels of $84,500 for married couples and $54,300 for individuals).	Repeals corporate AMT, but retains AMT for individuals, with increased exemption amounts of $109,400 for married couples and $70,300 for individuals for 2018.
Individual Mandate	Individuals who do not purchase health care insurance but could afford to do so could face a fine of either 2.5 percent of household income or a per-person fee – whichever is higher.	Eliminates the individual mandate.
Child Tax Credit	Allows for taxpayers to receive up to $1,000 per child under the age of 17.	Increases the child tax credit to $2,000 per qualifying child under age 17 and creates a new dependent tax credit of $500 per qualifying dependent not eligible for the child tax credit.
Estate Tax	Estates valued at more than $5.4 million in 2017 could be taxed.	Increases the estate tax exemption to $10 million for 2017, with inflation adjustment, exemption is $11.2 million for 2018.

Source: https://www.congress.gov/bill/115th-congress/house-bill/1 Data as of December 22, 2017. Visual created by Lockwood Advisors, Inc.

What Killed Wage Growth?

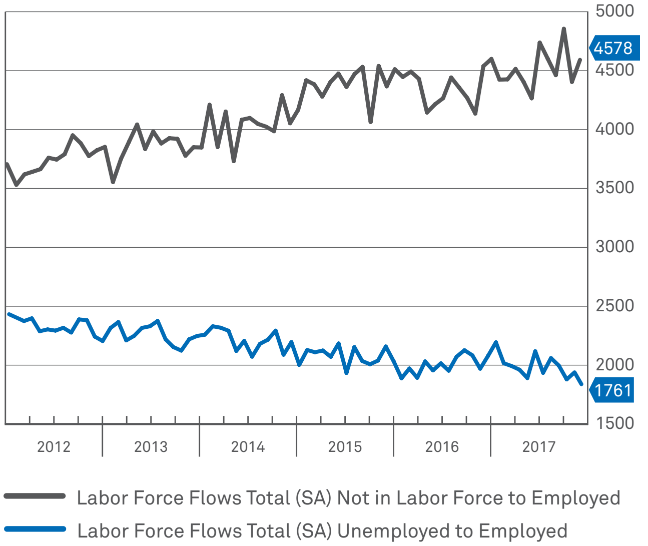
Throughout the recovery from the Great Financial Crisis and into November's employment report, wage growth has continued to remain subpar for an economic recovery. At this later stage in a recovery with current levels of overall unemployment and labor utilization, we should see sizable pickups in wages. Theoretically, as unemployment rates descend below a concept of non-accelerating inflation rate of unemployment (NAIRU), wages should begin to move higher as labor gets scarce. Employers, finding it harder to fill positions, have to offer higher wages or benefits. Surveys continue to point to reports of labor shortages. Yet, wage growth remains anemic. Economists and strategists warn that conditions are ripe for a pickup in wages and hence, inflation.

So, what killed wage growth? It's likely a combination of several factors affecting the labor markets. The jobs created in this recovery simply have not measured up to those created in past recoveries. As the U.S. economy has shifted toward services and away from manufacturing, average wages have not grown as quickly. Many workers have left the labor force due to demographic changes. Some may also have exchanged high-paying jobs for part-time "gigs." Thus, it could boil down to a question of the composition of jobs in the labor force.

Amazon hired 75,000 robots last year. Gains in technology could also be a culprit. Productivity gains to capital have outstripped labor for decades. Workers displaced by technology shifts may not be able to retain their previous wage levels. This has been a global phenomenon. Even countries we perceive as manufacturing powerhouses have experienced declines in the percentage of their economies engaged in manufacturing. Those countries face competition from cheaper global competitors also.

Sources of Job Growth

New employees coming from labor force sidelines



Sources: Labor Department and Bloomberg. Data through December 31, 2017.

Structural issues in the labor market are also contributing to the lack of wage growth. Increasingly, employers are finding workers who come back in from the sidelines of the labor market, not from the ranks of the unemployed. This argues that labor markets are not as tight as headline unemployment rates suggest. These structural considerations require more creative policy impulses.

Employees may be so scarred from the Great Financial Crisis that they have not yet begun to bargain in earnest for increased wages. They may worry that their job prospects are precarious and that they cannot risk losing their current position.

Economists and strategists tell us that increased wages are just around the corner. Stay tuned in 2018.

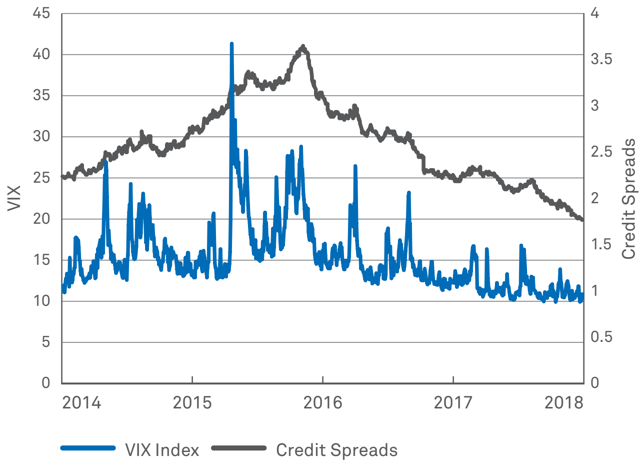
Low Volatility or Complacency?

In 2017, markets posted some of the lowest volatility measures ever recorded. It's not just stocks, but bonds and other asset classes are also experiencing low volatility. Is low volatility simply a reflection of benign and favorable market trends? For example, through December 31, 2017, the S&P 500 Index maximum peak to trough was less than 3%. While this is the definition of a trending bull market, investors would be wise to consider how long such extreme low volatility can last.

So far, low volatility is simply a reflection of relatively stable trends in overall developed market output. As long as economies are stable, markets could continue to enjoy relatively low volatility.

VIX (Volatility Index) and Credit Spreads

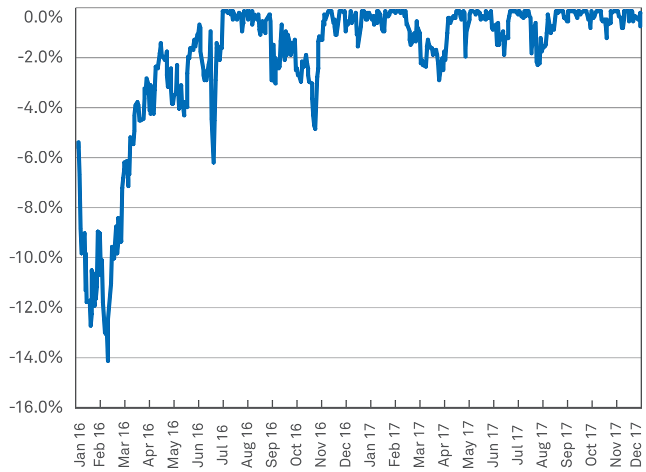
June, 2014 to Present



Data through January 10, 2018. ***Past performance is not a guarantee of future results.*** *Indices are unmanaged and are not available for direct investment.*

Max Drawdown in 2017 less than 3%

S&P 500® Price Index Drawdown



Source: Morningstar, Yahoo Finance; Data through December 31, 2017. Visual created by Lockwood Advisors, Inc. ***Past performance is not a guarantee of future results.*** *Indices are unmanaged and are not available for direct investment.*

Where Is Inflation?

Investors need to worry about inflation. It erodes their nominal returns and turns them into smaller, real, inflation-adjusted returns.

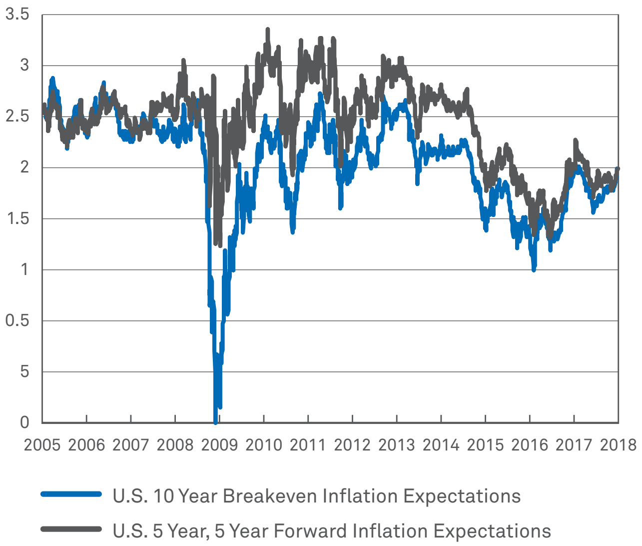
Like wage growth, inflationary pressure has remained well below analysts and economists expectations during this recovery cycle. Yet, a fear of incipient inflation has been lurking in the minds of investors since the Fed embarked on an unprecedented expansion of monetary policy stimulus after the Great Financial Crisis. The Fed has built a more than $4 trillion balance sheet, and yet inflationary pressures have remained contained. These days, we hear macroeconomists and strategists fretting about imminent inflation fears. This time, the likely causes are the wage growth and tax plan, which could overheat the economy as we enter the later stages of an economic cycle (not the usual time for a stimulus package). Some economists propose that measures of underlying inflation warn of building pressures also. Finally, see our earlier comments on wage growth (What Killed Wage Growth? section).

In 2018, the tax plan and tight labor markets could help to move inflation a little higher. In our view, it is also possible the long-term demographic challenges and debt-creation continue to keep a lid on inflation.

Researchers at the San Francisco Fed consider how inflation works within different sectors of the economy. They compare growth rates of pro-cyclical inflation (sensitive to the economic cycle) and acyclical inflation (insensitive to the economic cycle) and find that inflation in pro-cyclical goods and services has climbed. Acyclical inflation has not. They point to health care as a key component of why overall inflation has not climbed meaningfully. Moreover, they do not see a reason to expect more inflation relatively soon.

Inflation Expectations Stable

2005 - Present



Source: U.S. Federal Reserve. Data through January 10, 2018.

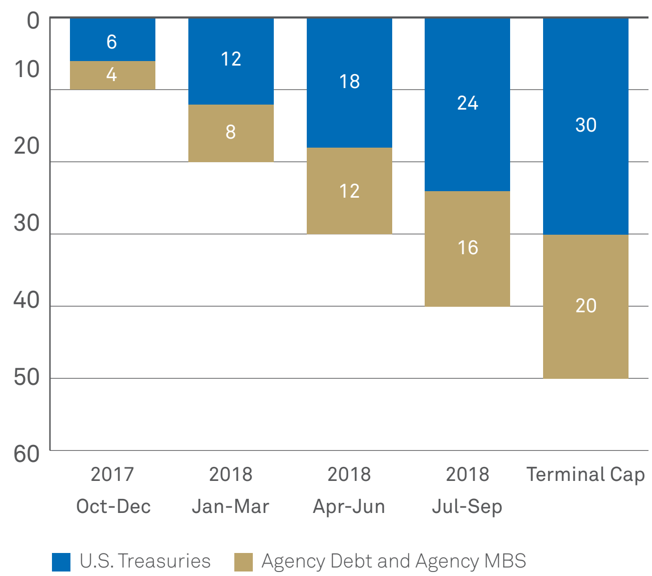
Should We Fear Quantitative Tightening?

In 2018, the Fed will likely rapidly ramp up quantitative tightening from the initial pace set in the fourth quarter of 2017. While the Fed has gone to great lengths to communicate its plan to the bond market, the unwinding of a large central bank balance sheet is a novel experience. As we have noted in past writings, the Fed is simply letting bonds mature from its balance sheet. The Fed will not sell bonds from its balance sheet into the open market. Still, we believe we could see surprising outcomes that could force the Fed or the bond markets to deal with issues that had not been foreseen.

The Fed has set caps on the amount of bonds that can mature in any given month during the period, thus limiting the impact to the amount of the policy cap. The distributions of the maturities in the Fed's System Open Market Account (SOMA) are lumpy. In any given month, more bonds may mature than in other months. Effectively, this plan attempts to smooth the ride as the caps are periodically increased over 2018 and into the future.

Federal Reserve Quantitative Tightening

Caps on Amount of Bonds Purchased



MBS = mortgage-backed securities
Source: Federal Reserve Board. Data as of December 31, 2017.
2018 and terminal cap reflect targets levels.
Visual created by Lockwood Advisors, Inc.

Who Is Running the Fed?

In 2018, the composition of the Federal Reserve Board (FRB) and Federal Open Market Committee (FOMC) will undergo the largest turnover of senior management positions in its institutional history. We expect the next chairman will be current FRB member Jay Powell. We have little visibility into who will fill the other vacant positions. Moreover, key personnel in the district banks are turning over as well. For example, William Dudley, current President of the New York Fed, has announced he intends to leave.

The Fed is a powerful institution that tends to shape members rather than the other way around. Are these strangers going to prove friendly to your portfolio in 2018? We'll have to wait and see.

Federal Reserve Board of Governors	Term End (Chair and Vice Chair)	End of Term as Governor
Janet Yellen (Chair)[1]	February 2018	2024
William Dudley (Vice Chair)	June 2018	2020
Lael Brainard		2026
Jerome Powell		2028
Vacant		2028
Randal Quarles		2018
Vacant		2030
FOMC District Bank Voters in 2018		**District**
Charles Evans		Chicago
Patrick Harker		Philadelphia
Robert Kaplan		Dallas
Neel Kashkari		Minneapolis
Alternate Members		**District**
Michael Strine[2]		New York
Raphael Bostic		Atlanta
Loretta Mester		Cleveland
Mark Mullinix		Richmond
John Williams		San Francisco

1 The Chair and Vice Chair terms last four years, but they may continue on the board of governors.

2 Permanent Voting Member

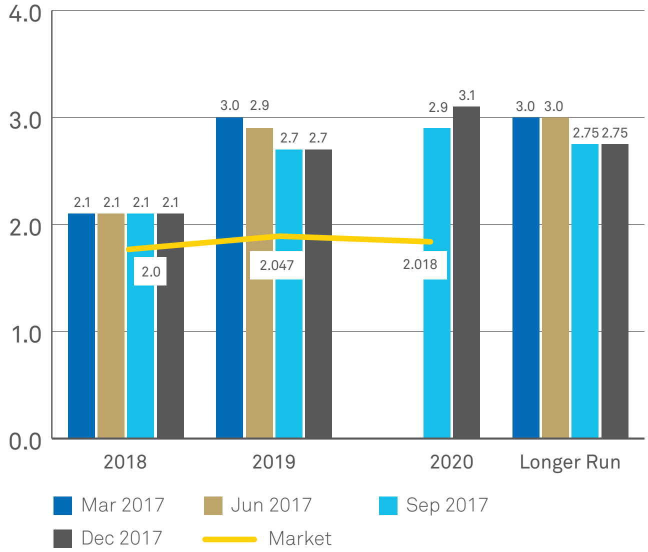
Source: https://www.federalreserve.gov/monetarypolicy/fomc.htm. Data as of December 31, 2017.

Misalignment

The FOMC's expectations for future rate hikes and the markets currently do not line up. The FOMC continues to warn the markets and investors that it expects more rate hikes. The market does not believe the Fed.

Market strategists and economists currently are expecting anywhere from two to five interest rate increases next year on top of December 2017's hike, with the median at two to three rate increases. We believe any more or less than that could derail market returns in 2018, particularly if the Fed behaves more hawkishly than investors expect.

Projections for Federal Funds Rate at End of Year (%)



Sources: Bloomberg and Lockwood Advisors, Inc. Data as of December 31, 2017. Visual created by Lockwood Advisors, Inc.

United We Stand?

In our view, the State of the Union appears fragile. Benjamin Franklin's print depicting the colonies as pieces of a dismembered snake has modern relevancy. We believe the fragmentation of social cohesion breeds conflict among groups who identify along divisive fault lines of class, race, ideology, religion, sexual orientation and nationality. James Madison, whose Federalist No. 10 celebrated its 230th birthday in November 2017, spoke eloquently about the need for popular governments to control the effects of faction.

"The instability, injustice, and confusion introduced into the public councils, have, in truth, been the mortal diseases under which popular governments have everywhere perished; as they continue to be the favorite and fruitful topics from which the adversaries to liberty derive their most specious declamations."

James Madison could not possibly have foreseen how modern computer technology could organize political interests into factions that would transcend geographical boundaries. Nor could he have imagined that these technologies would be used by foreign governments to sow dissent.

"Politics has always been the systematic organization of hatreds," wrote Henry Adams[3], a grandson and great-grandson of prior Presidents (John Adams and John Quincy Adams). For many Americans, it is hard to imagine a period of time when fault lines and sensitivities has seemed more exposed.

In our view, a country with firmer bonds would possess a palpable sense of "We" as in "We the People." Modern social and information networks provide possible venues to exploit these divisions.

We believe the fragmentation of political and social bonds threatens boundaries, unity and markets. In our view, distrust of governments and institutional motives, a feature of American culture, could evolve into more dangerous instability. These divisions challenge long-standing global political institutions. In Europe, many formerly fringe parties can rise to power suddenly. Brexit, Catalonia and populist movement across Europe reflect a growing uneasiness with the status quo.

In the U.S., nearly every policy initiative is seen through the lens of identity politics and class conflict. Despite the renewed health of many economic and financial variables, simmering divisions have not abated much.

While a recession is not on the immediate horizon, we believe an inevitable economic cycle trend change will take us from our current growth path at some point in the future. Given the politically charged nature of many internal and geopolitical divisions, a cyclical change could have far-reaching effects on political structure and markets.

Is the Grass Greener on the Other Side? Foreign Opportunities in 2018.

U.S. stock markets performed admirably in 2017. Foreign stocks performed even better. The S&P 500 Index was up 21.8% while MSCI EAFE Index (net of taxes) was up 25.0% and MSCI Emerging Markets Index (net of taxes) was up 37.3%. Conditions are set up for continued outperformance by foreign bourses as we begin 2018.

Many European countries and overall benchmark equity indices have not begun to approach the earnings levels that peaked in 2011. We believe their economies, likewise, probably have more room to run before they begin to approach peak output. The political populism that erupted across the continent in the past few years may have been reduced to a simmer on the backburner (but could flare up again at any time). Look for the European Central Bank (ECB) to begin to taper its QQE (quantitative and qualitative easing) as 2018 progresses. The ECB will likely take it slowly. Meanwhile, negative interest rates may continue to skew investment toward equities. A slow ECB and negative interest rates could buy time for European equities to continue to outperform.

The Japanese economy looks better than it has in years, despite lingering long-term issues.

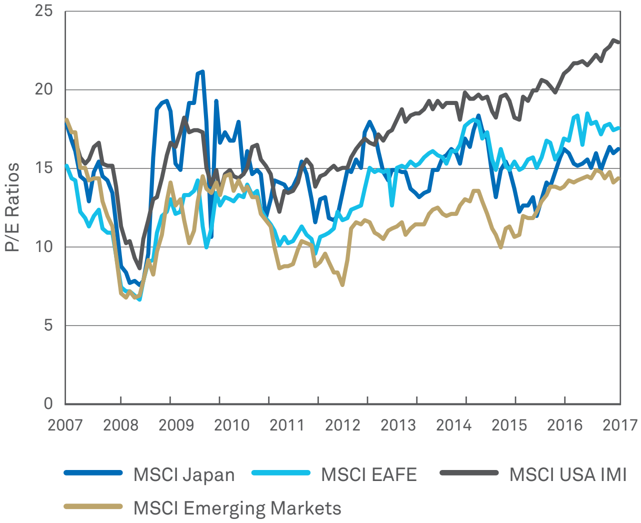
Combined, Europe and Japan possess a substantial valuation discount compared to the U.S. In our view, emerging markets, despite recent strong appreciation, sport even more attractive valuations compared to developed markets.

Here in the U.S., equity prices recently posted the highest price to sales ratio ever recorded. We anticipate that sales will likely climb next year on benefits from the tax plan, but multiples in the U.S. already reflect a lot of the good news.

[3] Adams, Henry. *The Education of Henry Adams*. New York: Oxford University Press, 1999 (originally published in 1918).

So, is the grass greener on the other side of the fence? In 2018, it could continue to be the case.

European, Japanese and Emerging Market Stocks Less Expensive



Source: Bloomberg. Data through December 31, 2017. Visual created by Lockwood Advisors, Inc.

Wrap It Up

The market has gift wrapped returns for investors in 2017. No matter how some of these issues play out, 2018 looks like a more sobering year. The market concluded 2017 with an enormous amount of momentum, both in prices and in economic terms. The global recovery seems "synchronized" as all major and most minor countries are in expansion. We anticipate a tax cut will undoubtedly help corporate profits. If most people experience a reduction in tax bills next year (and start seeing those cuts in their withholding in February), partisan rancor over the bill could fade. Our observation is that geopolitical risks still abound, but forming an investment strategy around unknowable risks is next to impossible.

Risk management will likely prove critical as we enter an aging bull market and economic cycle. We believe a major tax cut could certainly help to extend the cycle. As always, we recommend keeping an eye on these issues and others. We continue to advocate focusing on the long-term, but we believe paying some attention to the medium-term could help foster a more successful 2018.

Important Disclosures

Lockwood is not registered as an investment adviser in any jurisdiction outside of the United States.

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The statistical data contained herein has been obtained from third-party sources (see below) believed to be reliable and accurate. While Lockwood believes the information to be accurate and reliable, no representations, guarantee or warranty, express or implied, can be made as to its completeness, accuracy, or reliability.

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Statements of future expectations, estimates and other forward-looking statements are based on available information and Lockwood's view as of the time of these statements. Accordingly, such statements are inherently speculative, as they are based on assumptions that may involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed or implied in such statements.

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Diversification and strategic asset allocation do not guarantee a profit or protect against a loss in declining markets. All investments are subject to risk, including the loss of principal.

Foreign investments are subject to risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and may follow different accounting standards than domestic investments.

Investments in emerging or developing markets involve exposure to economic structures that are generally less diverse and mature, and to political systems that can be expected to have less stability than those of more developed countries. These securities may be less liquid and more volatile than investments in U.S. and longer-established non-U.S. markets.

Past performance is not a guarantee of future results. Current performance may be lower or higher than the performance data quoted. The investment return and principal value of an investment will fluctuate, so that an investor's assets, when sold, may be worth more or less than their original cost.

The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Index performance assumes the reinvestment of all distributions but does not assume any transaction costs, taxes, management fees or other expenses, which would reduce the performance shown. Indices unmanaged and are not available for direct investment.

Bloomberg Barclays Global Aggregate ex-U.S. Bond Index: The Bloomberg Barclays Global Aggregate ex-U.S. 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.

Bloomberg Barclays U.S. Aggregate Bond Index: The Bloomberg Barclays U.S. Aggregate Bond Index represents securities that are SEC registered, taxable and dollar denominated. The index covers the U.S. investment-grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. Securities must have at least one year to final maturity regardless of call features and must have at least $250 million par amount outstanding.

Bloomberg Barclays U.S. Treasury Bill 6–9 Month Index: The Bloomberg Barclays U.S. Treasury Bill 6–9 Month Index represents United States-issued government debt with a bond maturity between six months and nine months.

Bloomberg Commodity Index: The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The index is composed of exchange-traded futures and represents 20 physical commodities, which are weighted to account for economic significance and market liquidity (subject to weighting restrictions). On July 1, 2014, the Dow Jones UBS Commodity Index rebranded as the Bloomberg Commodity Index.

MSCI EAFE (Europe, Australasia and the Far East) Index (net of taxes): The MSCI EAFE (Europe, Australasia and the Far East) Index (net of taxes) is a free-float-adjusted market-capitalization index that is designed to measure developed market equity performance, excluding the United States and Canada. As of May 30, 2017, the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom. The index is net because dividends are reinvested after deducting a withholding tax from dividend distributions. Since taxes are withheld from the MSCI EAFE Index (net of taxes), the performance of the MSCI EAFE Index (net of taxes) will generally be lower than that of the MSCI EAFE Index (gross of taxes).

MSCI Emerging Markets Index (net of taxes): The MSCI Emerging Markets Index (net of taxes) is a free-float adjusted, market-capitalization index that is designed to measure equity market performance of emerging markets. As of May 30, 2017, the MSCI Emerging Markets

Index consisted of the following 24 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates. The index is net because dividends are reinvested after deducting a withholding tax from dividend distributions. Since taxes are withheld from the MSCI Emerging Markets Index (net of taxes), the performance of the MSCI Emerging Markets Index (net of taxes) will generally be lower than that of the MSCI Emerging Markets Index (gross of taxes).

MSCI Japan Index: The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 321 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

MSCI USA Investable Market Index (IMI): The MSCI USA Investable Market Index (IMI) is designed to measure the performance of the large, mid and small cap segments of the US market. With 2,432 constituents, the index covers approximately 99% of the free float-adjusted market capitalization in the US.

MSCI USA Small Cap Index: The MSCI USA Small Cap Index is an unmanaged index designed to measure the performance of the small-cap segment of the US equity market. The index represents approximately 14% of the free float-adjusted market capitalization in the U.S.

S&P GSCI Gold Index: The S&P GSCI Gold Index, a subindex of the S&P GSCI Index, provides investors with a reliable and publicly available benchmark for investment performance in the gold commodity markets. The index is designed to be tradable, readily accessible to market participants and cost efficient to implement. The S&P GSCI Index is widely recognized as the leading measure of general commodity price movements and inflation in the world economy.

S&P GSCI Crude Oil Index: The S&P GSCI Crude Oil Index, a sub-index of the S&P GSCI, provides investors with a reliable and publicly available benchmark for investment performance in the crude oil commodity markets. The index is designed to be tradable, readily accessible to market participants and cost efficient to implement. The S&P GSCI is widely recognized as the leading measure of general commodity price movements and inflation in the world economy. Spot price in the S&P GSCI means the price of the S&P GSCI futures holdings.

S&P 500 Index: The S&P 500 Index, an unmanaged index, includes 500 of the largest stocks (in terms of stock market value) in the United States; prior to March 1957, it consisted of 90 of the largest stocks. Although the S&P 500 focuses on the large-cap segment of the market, with approximately 80% coverage of U.S. equities, it is also used as a proxy for the total U.S. equity market.

For more information about Lockwood, as well as its products, fees and services, please refer to Lockwood's Form ADV Part 2, Wrap Fee Brochure for Managed Account Advisor, Wrap Fee Brochure for the Lockwood Sponsored Program, Wrap Fee Program Brochure for the Managed360® Program, Wrap Fee Brochure for Co-Sponsored Programs or the Firm Brochure, as applicable, which may be obtained through your financial advisor or by writing to: Lockwood, Attn: Legal Department (AIM #19K-0203), 760 Moore Road, King of Prussia, PA 19406, or by calling (800) 200-3033, option 3.

All performance is expressed in U.S. dollars. Sources: Bloomberg Barclay; Federal Reserve Board; MSCI; Standard & Poor's; Morningstar, Inc.; U.S. Treasury Department; Bloomberg; and U.S. Bureau of Labor Statistics.

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