LOOMIS | SAYLES

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Investment Outlook

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In our view, the majority of positive developments that propelled markets higher earlier in the current credit cycle are now working in reverse.

Higher interest rates, a stronger US dollar, slowing economic growth and significantly tighter monetary policy define today's macro landscape. The global economy appears headed for a downturn and we believe the clock is ticking on the US cycle as well. Global central banks are focused on stubborn high inflation, and they appear prepared to drive core levels back to lower targets.

Investment Themes: Key Takeaways

PAGE 3 Russian War in Ukraine

Both the situation on the ground and the associated stress in energy markets remain fluid, but likely to escalate, with no signs of imminent resolution.

PAGE 4 Macro Drivers

We believe labor market resilience is bound to fade. However, the Federal Reserve (Fed) appears poised to keep tightening monetary policy despite its subdued economic outlook.

PAGE 5 Credit

Key corporate fundamentals, such as pricing power and profit margins, are expected to trend lower, but we see value in credit sectors.

PAGE 6 Government Debt & Policy

We believe excessive inflation limits the monetary and fiscal response to the next downturn. In our view, investors should not expect a wide-sweeping rescue.

PAGE 7 Currencies

A pause in the substantial US dollar rally would not surprise us near term. Longer term, economic prospects appear brightest in the US, which could help drive the dollar higher in the cycle.

PAGE 8 Equities

Price-to-earnings multiples are not likely to expand consistently until the Fed pivots away from tightening—an unlikely shift any time soon.

PAGE 9 Potential Risks

Active management could add value in a market where investors must be more selective.

PAGE 9 Asset Class Outlook

Our allocation expresses a cautious view where investors should be in higher-quality securities and relatively higher in the capital structure.

Russian War in Ukraine

Both the situation on the ground and the associated stress in energy markets remain fluid, but likely to escalate, with no signs of imminent resolution.

- Ukraine's counteroffensives around Kherson and then Kharkiv, coupled with Russia's decision to effectively cease gas exports to Europe, kicked the conflict into a more dynamic phase.
- Despite initial Ukrainian successes, notably around Kharkiv, Russia retains significant gains. This was underscored by Russia's decision to annex Luhansk, Donetsk, Zaporizhia and Kherson oblasts (provinces)—a decision consistent with our initial assessment of Russian war aims.
- Russia's annexation, coupled with Putin's bellicose rhetoric, is a marked escalation: the Kremlin's official position is now that there is a hot land war raging on what it claims to be Russian soil with Ukrainian forces under de facto NATO command.
- We believe the risks of military escalation remain very high, with the use of weapons of mass destruction a distinct possibility. The knock-on effects of Russia's cessation of gas flows to Europe are both ominous and difficult to precisely quantify. Both vectors present a downside risk to growth and markets within Europe and globally.

ASSESSED CONTROL OF UKRAINE & MAIN RUSSIAN MANEUVER AXES AS OF 29 SEPTEMBER 2022

Source: Copyright 2002, Institute for the Study of War and AEI's Critical Threats Project.

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Assessed Russian advances are areas where Russian forces have operated in or launched attacks against but do not control.

Macro Drivers

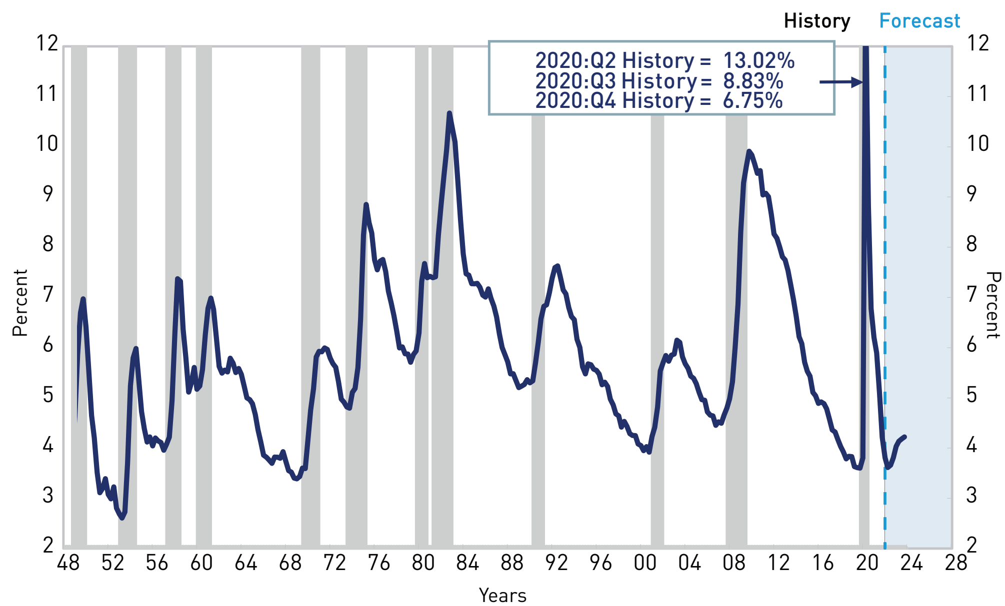
The Fed's economic projections suggest US unemployment will rise 0.70% by the end of 2023.

- Fed tightening is usually consistent with the early stages of a credit cycle's expansion phase. However, despite two quarters of real GDP contraction in 2022, the Fed has ramped up its tightening efforts.
- Financial conditions could tighten further as the Fed seeks to maintain a positive real policy rate. In our view, the fed funds rate will likely climb 100 basis points higher to 4.25% by the end of 2022, with at least one more hike in early 2023.
- Even with US recession risk rising quickly, we believe the Fed will continue hiking. Its short-term objective is to bring inflation down to target by crushing demand and thereby preventing entrenched inflation from threatening long-term economic stability.
- This new regime of higher interest rates, a stronger dollar and tighter Fed policy stand to keep market volatility elevated in the US and abroad.

CIVILIAN UNEMPLOYMENT RATE

We are forecasting a nearly 0.60% rise in the unemployment rate. However, there is risk of a much sharper spike—especially if a recession arrives.

Source: Labor Department; CBO; Loomis Sayles; break in data effective 94:1; history through Q2-2022 <- Aug-2022; forecast through Q4:2023.



Seasonally adjusted; quarterly data; shaded areas denote NBER-designated recessions.

Credit

Corporate pricing power has been in decline, but the silver lining is potentially lower inflation.

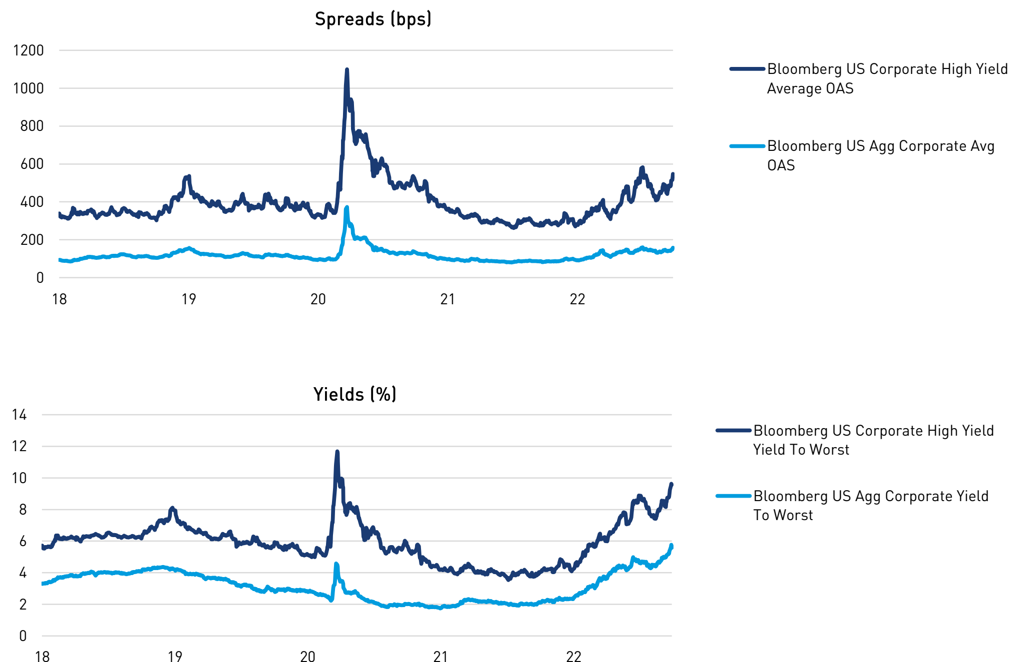
- Our quantitative credit health indicator suggests underlying fundamentals are currently favorable, with potential for positive excess returns over the next six months.
- From a top-down macro perspective, we recognize that profit margins are just off record highs. However, the trend for margins is likely to remain lower through the end of this cycle.
- We expect a slow and steady deterioration in credit fundamentals. However, credit rating downgrades and defaults should remain at fairly low levels relative to other late-cycle phases.
- While the credit outlook is a cautious one, we believe there is a strong case for owning credit during the volatility that we anticipate.
- In 2022, yields on US investment grade and high yield corporate credit indices rose substantially. At this point in the year, yields appear to be more than compensating investors for expected losses due to downgrades and defaults.
- Yields on floating-rate bank loans have reached relatively attractive levels. However, we caution that investors should remain in higher-quality securities as the cycle progresses. Additional Fed rate hikes could inflict the most pain on lower-quality credits.

CORPORATE BENCHMARK YIELDS

While yields have risen to their most attractive levels in years, there is continued potential for wider spreads in a bumpy economic environment.

Source: Datastream, Bloomberg, JP Morgan, S&P Global. Data as of 29 Sep 2022.

Indices are unmanaged and do not incur fees. It is not possible to invest directly in an index.



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Government Debt & Policy

Developed market central banks are taking steps to reverse policies of extraordinary accommodation. We do not expect a lasting pivot away from these actions anytime soon.

- Developed market interest rates made shocking upside moves over the course of 2022 in response to stubborn inflation pressures. We see renewed value in the rates markets after the reset, and believe much of the rise in long-term yields is in the rearview mirror.
- The leap higher in global yields has staying power and we see these new levels continuing to exert downward pressure on other assets' valuations.
- The short end of government yield curves remains subject to inflation trends. We see signs that inflation is peaking, particularly in commodity prices and transportation costs. However, short-end yields could remain stable, or even face upward pressure, if inflation continues to surprise.
- Investors willing to hold short-term government bonds until maturity could potentially earn meaningful nominal returns in this highly volatile environment.
- US Treasurys have not been an effective hedge to market volatility in 2022. However, we believe this characteristic could return as the cycle shifts closer to downturn.
- Over the past two cycles, monetary and fiscal policies were able to quickly arrest market and economic downturns. That type of extreme intervention is not guaranteed in the next downturn due to inflation being above central bankers' long-run targets.

TWO-YEAR DEVELOPED MARKET GOVERNMENT BOND YIELDS

Two-year yields reflect the significant shift toward tighter monetary policy.

Source: Refinitiv Datastream. Data as of 5 October 2022.

Currencies

With risk appetites likely to remain constrained, the US dollar will likely be the recipient of "safe haven" flows.

- In past cycles, the Fed would pivot toward cutting rates shortly after the terminal rate was reached. We do not anticipate that type of quick reaction this cycle and believe short-term rates could attract foreign capital into US dollars.
- Global economies may have a tougher time fighting the inflation battle. Consequently, global growth, excluding the US, could struggle as monetary policy stays restrictive for longer.
- Until global growth begins to improve, perhaps led by China, we may not see foreign currencies consistently outperform the US dollar.
- When higher-credit quality government debt had interest rates near zero, investors sought higher returns in emerging markets and other higher-yielding assets. That scenario has reversed and will likely continue over coming quarters, in our view.
- Our fair value framework suggests the dollar is very expensive. However, trends in currency valuation metrics tend to ebb and flow over long periods rather than indicate turning points.
- We are selectively seeking exposure to currencies within emerging markets. Currencies in South Africa, Brazil, Colombia and Mexico appear compelling relative to the US dollar.

US DOLLAR INDEX LEVELS

A quick reversal of multi-year US dollar breakouts seems unlikely.

Source: Federal Reserve, Bloomberg, JP Morgan. Data as of 4 October 2022.

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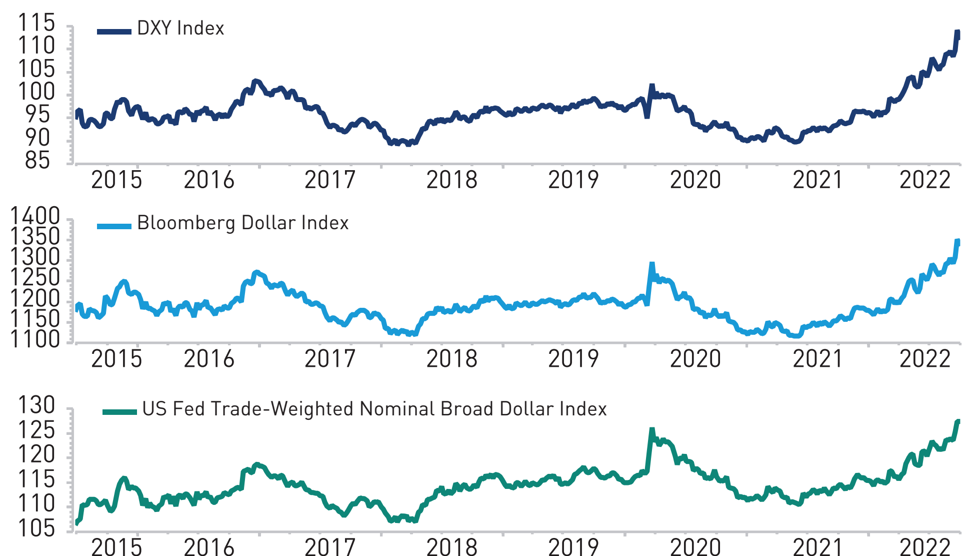

Equities

The resilient earnings backdrop will likely come under pressure as financial conditions tighten and nominal GDP slows.

- In our view, the Fed's willingness to put the US economy in recession to lower inflation is a major risk for equity performance and earnings potential.
- Consensus earnings growth for 2023 remains around 7%. We expect large cap earnings will be flat year over year in 2023 if a recession is avoided.
- So far in 2022, equity earnings have held up well, largely because pricing power had remained strong across most industries. If pricing power fades, we expect the remainder of this year and 2023 could be challenging.
- With decreasing pricing power, profit margins could drift lower, but likely not collapse. If demand significantly disappoints, then earnings and margins could see a much steeper drop.
- Rising interest rates are challenging equity valuations. At the same time, our earnings expectations are very muted. Equity prices will likely remain challenged by higher rates and earnings that are likely to be revised lower. We expect the equity market to remain volatile until macro conditions firm.
- As we enter the fourth quarter, equity markets appear technically oversold globally and we feel that much of the negative macro catalysts are understood by the markets. With sentiment so poor, positive developments could spark a near-term rally.

CONSENSUS EARNINGS ESTIMATES BY CALENDAR YEAR

S&P 500 consensus for 2023 earnings should slide lower over the next few quarters toward a flat year-over-year growth rate.

Source: Refinitiv Datastream, I.B.E.S.

Data as of 29 September 2022.

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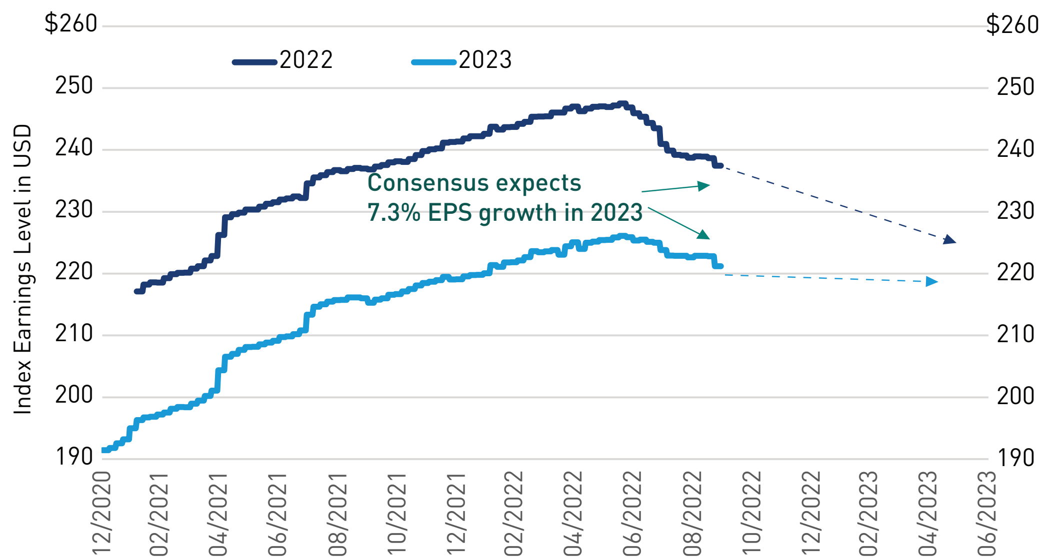


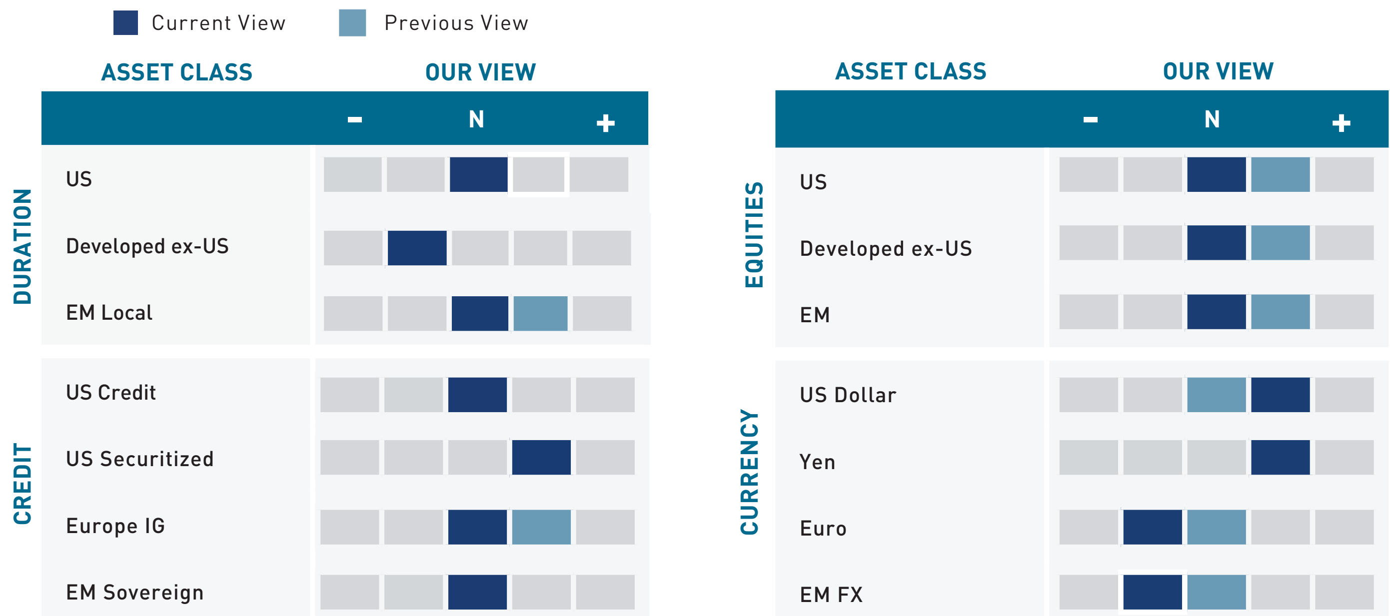
Potential Risks

Most markets appear priced for a global economic slowdown but not an outright downturn.

- The global monetary tightening cycle is progressing rapidly alongside supply-side challenges and inflation levels not seen in decades. It may take longer than markets anticipate, and even higher short-term rates, to push inflation down to acceptable levels.
- A global recession may be a necessary condition to achieve central bank inflation goals. If that scenario develops, we believe credit spreads could widen significantly and equities could come under renewed pressure.
- Long-term interest rates could head lower as a downturn scenario takes shape and investors likely seek safe havens.
- An upside scenario is one where economies, particularly the US, remain resilient and labor market strength prevents a downturn from taking hold. Achieving price stability, while limiting job losses and a prolonged downturn, would be a major win for the Fed.
- Earnings could prove more resilient than we expect, which would support corporate health fundamentals. Downgrades and defaults have been historically low through this cycle. A continuation of that trend would be highly supportive for credit markets.

Asset Class Outlook

Our allocation expresses a cautious view where investors should be in higher-quality securities and relatively higher in the capital structure.



Third Quarter Review

INDEX RETURNS BY SECTOR
as of 30 September 2022

INDEX				
US BROAD MARKET	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG US AGGREGATE BOND	-4.32	-4.75	-9.22	-14.60
BBG US GOVERNMENT/CREDIT	-4.08	-4.56	-9.36	-14.95

The broad fixed income market posted significantly negative returns in the third quarter. This was largely driven by persistently elevated inflation and an increased expectation of Fed rate hikes. Negative developments in the Russian war in Ukraine and the potential economic impacts of zero-COVID lockdowns in China led to spread widening in riskier assets.

US GOVERNMENTS	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG US TREASURYS	-3.45	-4.35	-7.96	-12.94
3-MONTH T-BILLS	0.22	0.46	0.57	0.62
2-YEAR TREASURY	-1.12	-1.59	-2.11	-5.10
5-YEAR TREASURY	-2.95	-3.91	-5.93	-11.59
10-YEAR TREASURY	-4.96	-5.83	-10.72	-16.29
30-YEAR TREASURY	-8.69	-10.36	-22.67	-28.27
BBG US TIPS	-6.62	-5.14	-10.92	-11.57
BBG US AGENCY	-2.10	-2.69	-4.50	-9.04

US Treasurys meaningfully sold off this quarter as the market began pricing in additional Fed rate hikes. While rates in the front end increased more than those of longer maturities, the overall impact from the yield curve shift was more punitive on the longer end given the effects of duration.

US MUNICIPALS	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG US MUNICIPALS	-3.84	-3.46	-6.30	-11.50

Municipal bonds saw valuations correct sharply during the selloff in the third quarter. This can be attributed to rising rates, but also to expected imbalances in state balance sheets given that a slowing economy would put downward pressure on revenue while there are plans of increased spending.

US SECURITIZED	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG MBS	-5.05	-5.35	-9.14	-13.98
BBG ABS	-1.16	-1.34	-2.24	-5.61
BBG CMBS	-3.11	-3.85	-6.59	-12.38

The securitized market posted negative returns. Asset-backed securities (ABS) outperformed within the securitized market primarily due to their lower-duration profile.

Data Sources: Bloomberg indices from Bloomberg Live; currency returns, JPMorgan and Citigroup indices from Bloomberg; bank loans from S&P Global Market Intelligence.

All returns in US dollars, unless noted. ***Past performance is no guarantee of future results.***

INDEX RETURNS BY SECTOR
as of 30 September 2022

INDEX				
CORPORATES	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG US INVESTMENT GRADE	-5.26	-5.06	-11.95	-18.53
AAA	-6.51	-7.02	-14.67	-21.43
AA	-5.79	-5.78	-12.68	-19.07
A	-5.22	-5.17	-11.39	-17.75
BBB	-5.18	-4.80	-12.22	-19.01
BBG EUROPEAN INVESTMENT GRADE -*LOCAL CURRENCY RETURNS*	-3.32	-3.06	-10.12	-15.14
AAA	-4.20	-4.14	-11.69	-17.43
AA	-2.91	-3.05	-8.29	-12.19
A	-3.21	-3.25	-9.82	-14.65
BBB	-3.45	-2.91	-10.55	-15.82
BBG STERLING INVESTMENT GRADE -*LOCAL CURRENCY RETURNS*	-8.88	-11.99	-19.00	-24.03
AAA	-7.76	-11.75	-21.03	-28.50
AA	-8.42	-11.82	-18.73	-24.57
A	-9.07	-12.50	-19.43	-24.59
BBB	-8.81	-11.60	-18.66	-23.41

Returns in corporate credit were poor this quarter. The US slightly underperformed compared to its euro area counterparts. However, sterling corporate credit sold off to a greater degree. This was largely due to the historic jump in UK government bond yields at the end of the quarter, which fed into corporate bond yields.

CORPORATES	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG US HIGH YIELD	-3.97	-0.65	-10.41	-14.14
BB	-3.60	-0.71	-9.08	-13.84
B	-4.09	-0.66	-11.35	-13.76
CCC	-5.18	-0.42	-13.35	-16.26
BBG PAN-EURO HIGH YIELD -*LOCAL CURRENCY RETURNS*	-4.28	-0.90	-11.46	-15.12
BB	-4.10	-0.96	-10.86	-15.08
B	-4.82	-1.17	-12.69	-15.16
CCC	-3.77	0.76	-11.39	-14.66

Junk-rated bonds performed decently over the course of the quarter, at least in relation to other broad asset classes. The higher income offered by high yield debt cushioned downward pressure, leading to only a modest loss for the past three months.

Data Sources: Bloomberg indices from Bloomberg Live; currency returns, JPMorgan and Citigroup indices from Bloomberg; bank loans from S&P Global Market Intelligence.

All returns in US dollars, unless noted. ***Past performance is no guarantee of future results.***

INDEX RETURNS BY SECTOR
as of 30 September 2022

INDEX				
BANK LOANS	1 MONTH	3 MONTH	6 MONTH	1 YEAR
S&P/LSTA LEVERAGED LOAN	-2.31	1.37	-3.25	-2.61
BB	-1.19	2.45	-0.73	-0.23
B	-2.77	1.18	-3.79	-2.94
CCC	-2.36	-1.72	-9.28	-10.05

Bank loans outperformed this quarter in relation to similarly rated corporate high yield debt. Bank loans typically have floating-rate coupons that reset at specific periods. With rates having moved higher, floating-rate coupons reset higher, which contributed to bank loan outperformance.

DEVELOPED COUNTRIES	1 MONTH	3 MONTH	6 MONTH	1 YEAR
CITIGROUP WGBI *-LOCAL CURRENCY RETURNS*	-3.29	-4.18	-8.73	-13.17
CITIGROUP NON-USD WGBI	-3.18	-3.91	-9.23	-13.45
UNITED STATES	-3.42	-4.54	-8.03	-12.80
CANADA	-0.24	0.39	-4.61	-8.99
JAPAN	-1.54	-0.96	-3.04	-5.14
AUSTRALIA	-1.75	-0.96	-5.53	-13.73
UNITED KINGDOM	-8.95	-14.36	-21.78	-26.07
EUROPEAN GBI	-3.83	-5.05	-12.05	-17.13
FRANCE	-4.07	-4.79	-12.15	-17.09
GERMANY	-3.96	-4.64	-10.81	-15.16
IRELAND	-3.68	-4.81	-12.06	-17.41
ITALY	-3.34	-5.73	-12.69	-17.82
SPAIN	-3.52	-4.62	-11.18	-16.53

With the exception of Canada, all countries in the Citigroup World Government Bond Index (WGBI) lost value this quarter. Japan and Australia outperformed, while euro area countries performed comparatively worse. The UK was a noticeable outlier, falling more than 14% as the market revolted against the tax reform plan presented by Liz Truss's government.

EMERGING MARKET BONDS	1 MONTH	3 MONTH	6 MONTH	1 YEAR
JP MORGAN EMBIG *-SOVEREIGN/QUASI-SOVEREIGN, USD*	-6.07	-4.20	-14.30	-22.23
JP MORGAN CEMBI BROAD DIVERSIFIED *-CORPORATES, USD*	-3.83	-2.64	-8.11	-16.73
JP MORGAN GBI-EM GLOBAL DIVERSIFIED *-GOVERNMENTS, LOCAL CURRENCY*	-1.48	0.62	-1.68	-10.11

Local-currency EM government bonds were a rare asset class that produced a positive return in the third quarter. However, USD-denominated bonds suffered from the rise in US Treasury yields, leading to negative returns for both sovereign and corporate hard-currency bonds.

Data Sources: Bloomberg indices from Bloomberg Live; currency returns, JPMorgan and Citigroup indices from Bloomberg; bank loans from S&P Global Market Intelligence.

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INDEX RETURNS BY SECTOR
as of 30 September 2022

INDEX				
CURRENCY MARKETS	1 MONTH	3 MONTH	6 MONTH	1 YEAR
DOLLAR BLOC				
CANADIAN DOLLAR	-5.05	-6.91	-9.57	-8.31
AUSTRALIAN DOLLAR	-6.46	-7.29	-14.46	-11.44
NEW ZEALAND DOLLAR	-8.48	-10.31	-19.39	-18.83
WESTERN EUROPE				
EURO	-2.51	-6.51	-11.43	-15.35
NORWEGIAN KRONE	-8.79	-9.54	-19.23	-19.64
SWEDISH KRONA	-3.87	-7.80	-15.26	-20.99
SWISS FRANC	-0.96	-3.23	-6.53	-5.60
BRITISH POUND	-3.89	-8.28	-14.98	-17.10
EMERGING EUROPE & AFRICA				
CZECH KORUNA	-2.84	-5.92	-12.08	-12.77
HUNGARIAN FORINT	-7.68	-12.40	-23.04	-28.08
POLISH ZLOTY	-5.18	-9.52	-15.24	-19.63
RUSSIAN RUBLE	1.42	-9.92	35.07	20.98
SOUTH AFRICAN RAND	-5.34	-9.99	-19.21	-16.68
TURKISH NEW LIRA	-1.80	-9.88	-20.81	-52.00
ASIA				
JAPANESE YEN	-3.99	-6.23	-15.92	-23.11
CHINESE RENMINBI	-3.17	-5.86	-10.91	-9.43
INDONESIAN RUPIAH	-2.53	-2.17	-5.64	-6.01
MALAYSIAN RINGGIT	-3.48	-4.94	-9.36	-9.73
PHILIPPINE PESO	-4.25	-6.26	-11.75	-13.06
SINGAPORE DOLLAR	-2.66	-3.12	-5.63	-5.41
SOUTH KOREAN WON	-6.50	-9.25	-15.32	-17.28
LATIN AMERICA				
ARGENTINE PESO	-5.83	-15.00	-24.65	-32.98
BRAZILIAN REAL	-4.28	-2.93	-12.44	0.51
CHILEAN PESO	-7.50	-5.22	-18.85	-16.38
COLOMBIAN PESO	-3.90	-9.84	-18.18	-17.38
MEXICAN PESO	0.00	-0.10	-1.33	2.49
PERUVIAN NEW SOL	-3.27	-3.93	-7.60	3.80

Not a single currency listed experienced a positive return in the past three months. Risk appetite continued to be low as global investors gravitated toward US assets as a relative safe haven, which has led to a general rise in the dollar.

Data Sources: Bloomberg indices from Bloomberg Live; currency returns, JPMorgan and Citigroup indices from Bloomberg; bank loans from S&P Global Market Intelligence.

All returns in US dollars, unless noted. ***Past performance is no guarantee of future results.***

GLOBAL EQUITY MARKETS
as of 30 September 2022

INDEX TOTAL RETURNS (%)

INDEX	3 MONTH	1 YEAR	3 YEAR	5 YEAR
S&P 500®	-4.88	-15.42	8.12	9.20
MSCI ALL COUNTRY WORLD	-6.71	-20.22	4.21	4.94
MSCI EUROPE	-10.11	-24.25	-1.15	-0.65
MSCI JAPAN	-7.52	-28.92	-2.28	-0.26
MSCI EMERGING MARKETS	-11.42	-27.71	-1.70	-1.44

Risk appetite evaporated due to a more hawkish Fed and equities sold off significantly. As the market continued to price in more aggressive rate hikes, equities suffered. However, US stocks continue to remain the relative safe haven in a global equity context, as the rest of world has experienced even greater losses.

US EQUITY MARKETS
as of 30 September 2022

INDEX TOTAL RETURNS (%)

INDEX	3 MONTH	1 YEAR	3 YEAR	5 YEAR
RUSSELL 1000®	-4.61	-17.16	7.90	8.96
GROWTH	-3.60	-22.51	10.61	12.12
VALUE	-5.62	-11.32	4.34	5.27
RUSSELL MIDCAP®	-3.44	-19.33	5.16	6.46
GROWTH	-0.65	-29.40	4.24	7.59
VALUE	-4.93	-13.51	4.47	4.74
RUSSELL 2000®	-2.19	-23.42	4.26	3.54
GROWTH	0.24	-29.18	2.92	3.58
VALUE	-4.61	-17.62	4.70	2.86

Within US equities in the third quarter, small caps slightly outperformed large caps, though the dispersion was not meaningful. Value underperformed growth, despite rising interest rates giving value stocks a comparative tailwind.

Data Source: FactSet. All returns quoted in US dollars. Performance for one and multi-year periods is annualized. Sorted by index quarterly returns. Due to rounding, sector totals may not equal 100%. ***Past performance is no guarantee of future results.***

S&P 500 SECTORS
as of 30 September 2022

SECTOR PERFORMANCE ATTRIBUTION (%)

INDEX	3 MONTH	1 YEAR	3 YEAR	5 YEAR
CONSUMER DISCRETIONARY	4.36	-20.89	6.70	10.58
ENERGY	2.35	45.70	13.44	3.73
FINANCIALS	-3.10	-17.65	4.92	5.47
INDUSTRIALS	-4.72	-13.96	3.95	4.84
HEALTHCARE	-5.18	-3.37	12.46	10.17
UTILITIES	-5.99	5.62	3.66	7.82
INFORMATION TECHNOLOGY	-6.21	-19.96	14.96	16.81
CONSUMER STAPLES	-6.62	-0.09	6.24	7.60
MATERIALS	-7.13	-12.15	7.54	5.84
REAL ESTATE	-11.03	-16.37	0.41	5.79
COMMUNICATION SERVICES	-12.72	-39.09	-0.05	1.46

While there were mostly negative returns among the sectors, there were a few bright spots such as consumer discretionary and energy. Real estate was an underperformer as mortgage rates continued to rise and house prices depreciated.

Data Source: FactSet. All returns quoted in US dollars. Performance for one and multi-year periods is annualized. Sorted by index quarterly returns. Due to rounding, sector totals may not equal 100%. ***Past performance is no guarantee of future results.***

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Disclosure

All data as of 30 September 2022, unless otherwise noted.

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Index Definitions

Bloomberg US Aggregate Bond Index *represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the US 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.*

Bloomberg US Government/Credit Index *includes securities in the government and credit indices. The government index includes treasuries -i.e., public obligations of the US Treasury that have remaining maturities of more than one year and agencies -i.e., publicly issued debt of US Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the US Government. The credit index includes publicly issued US corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.*

Bloomberg US Treasury Index *includes public obligations of the US Treasury with at least one year until final maturity, excluding certain special issues such as state and local government series bonds -SLGs, US Treasury TIPS and STRIPS.*

Bloomberg US Treasury Inflation Protected Securities Index *consists of inflation-protection securities issued by the US Treasury that have at least one year to maturity and at least $250 million par amount outstanding.*

Bloomberg US Agency Index *includes agency securities that are publicly issued by US Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the US Government -such as USAID securities.*

Bloomberg US Municipal Index *is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. The index has four main sectors: general obligation bonds, revenue bonds, insured bonds -including all insured bonds with a Aaa/AAA rating, and prerefunded bonds.*

Bloomberg Mortgage-Backed Securities -MBS Index *is a component of the Bloomberg Aggregate Index covering mortgage-backed pass-through securities of Ginnie Mae -GNMA, Fannie Mae -FNMA and Freddie Mac -FHLMC. The MBS Index is formed by grouping the universe of over 600,000 individual fixed rate MBS pools into approximately 3,500 generic aggregates.*

Bloomberg Asset-Backed Securities -ABS Index *is a component of the Bloomberg US Aggregate Index including pass-through, bullet and controlled amortization structures. The ABS Index includes only the senior class of each ABS issue and the ERISA-eligible B and C tranche. Constituents must have an average life of at least one year and a deal size of at least 500 million.*

Bloomberg Commercial Mortgage-Backed Securities -CMBS ERISA-Eligible Index *is a component of the Bloomberg US Aggregate Index and the ERISA-eligible component of the Bloomberg CMBS Index. This index, which includes investment grade securities that are ERISA eligible under the underwriter's exemption, is the only CMBS sector that is included in the US Aggregate Index.*

Bloomberg US Corporate Index *contains publicly issued US corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity and quality requirements. To qualify, bonds must be SEC-registered. The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility, and Finance, which include both US and non-US corporations. The non-corporate sectors are Sovereign, Supranational, Foreign Agency, and Foreign Local Government.*

Bloomberg Euro-Aggregate Corporate Index *consists of bonds issued in the euro or the legacy currencies of the 16 sovereign countries participating in the European Monetary Union -EMU. All issues must be investment grade-rated, fixed-rate securities with at least one year remaining to maturity. The Euro-Aggregate Index excludes convertible securities, floating rate notes, perpetual notes, warrants, linked bonds, and structured products.*

Bloomberg Sterling Aggregate Corporate Index *is a broad-based benchmark that measures the investment grade, fixed-rate, taxable, corporate sterling-denominated bond market. Inclusion is based on the currency of the issue, not the domicile of the issuer. The index includes publically issued securities from industrial, utility, and financial companies that meet specified maturity, liquidity and quality requirements.*

Bloomberg US Corporate High-Yield Index *covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets -sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch are excluded, but Canadian and global bonds -SEC registered of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds -PIKs, as of October 1, 2009 are also included.*

Bloomberg Pan-European High-Yield Index *covers the universe of fixed-rate, sub-investment grade debt denominated in euros or other European currencies -except Swiss francs. Securities must be rated high-yield -Ba1/BB+ or lower by at least two of the following rating agencies: Moody's, S&P, Fitch. Excludes emerging markets.*

S&P/LSTA Leveraged Loan Index*, is a market value-weighted index designed to measure the performance of the US leveraged loan market based upon market weightings, spreads and interest payments.*

Citigroup World Government Bond Index -WGBI *measures the performance of fixed-rate, local currency, investment grade sovereign bonds. The WGBI is a widely used benchmark that currently comprises sovereign debt from over 20 countries, denominated in a variety of currencies. The WGBI provides a broad benchmark for the global sovereign fixed income market.*

JPMorgan Emerging Markets Bond Index Global -EMBIG *tracks total returns for US dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds.*

JPMorgan Corporate Emerging Markets Bond Index -CEMBI Broad Diversified *tracks total returns of US dollar-denominated debt instruments issued by corporate entities in emerging markets countries. The CEMBI Broad is the most comprehensive corporate benchmark followed by the CEMBI, which consists of an investable universe of corporate bonds.*