WELLS FARGO
INVESTMENT INSTITUTE

Investment Strategy

WEEKLY GUIDANCE FROM OUR INVESTMENT STRATEGY COMMITTEE

January 2, 2018

Five Moves that Could Make a Difference in 2018

Tracie McMillion, CFA
Head of Global Asset Allocation Strategy

Key takeaways

» *All major asset classes gained—some significantly—during 2017.*

» *We expect markets to continue climbing in 2018, but investors should not expect a repeat of 2017.*

What it may mean for investors

» *Risk management is a critical part of reaching most investors' goals. We believe that investors should remain well diversified to help mitigate risk, stay fully invested according to their plan, and keep focusing on longer-term goals—while capitalizing upon active management opportunities in 2018.*

2017 was a very good year for investors, with all major asset classes rising. Although we expect that more upside is likely—particularly in the equity markets—we feel this year's returns are unlikely to match last year's gains. In the coming year, we urge investors to be vigilant about the amount of risk they are taking in their portfolios. We believe that the five moves listed below could make a difference in 2018:

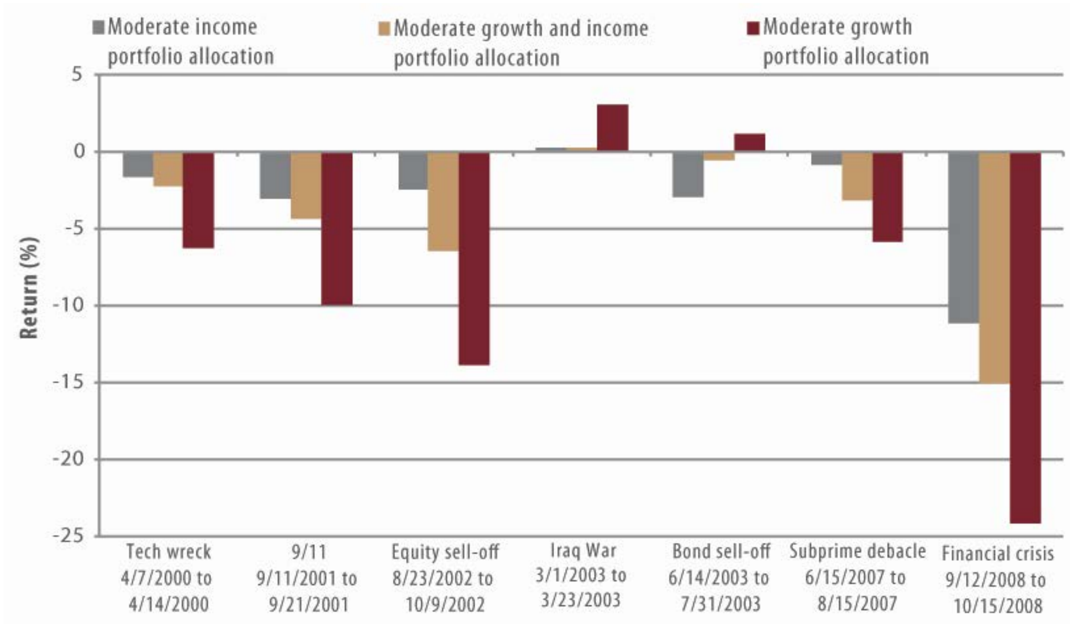
1. **Compare your current portfolio against any suggested hypothetical model portfolios and evaluate how those models may have performed during historical events.** Higher allocations to equities have tended to result in greater portfolio losses during market downturns. If equity allocations are higher than your long-term target, we suggest rebalancing back to your target while markets are strong.
2. **Seek alpha[1] through active strategies.** As we enter the latter stages of the recovery, there may be potential opportunity for active managers. Qualified investors may want to consider Relative Value and Equity Hedge strategies.
3. **Stay flexible when assets are mispriced.** Investors have been taking on greater risk for lower expected returns. We believe that investors should identify asset classes in which risk is rising today. In our view, high-yield bonds represent an asset class for which risk currently outweighs return opportunities.

Asset Group Overviews

[1] Alpha is any additional return generated by choosing assets or managers that outperform the overall market.

Performance of WFII's current model portfolios against historical events

These current hypothetical portfolios were created as a guideline for investors to apply to their individual Investment Objectives.



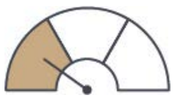
Sources: Wells Fargo Investment Institute and Morningstar Direct. Cumulative returns for the time periods noted as of September 30, 2017.
Performance results for the model portfolios are hypothetical and for illustrative purposes only. The indices reflect the historical performance of the represented assets and assume the reinvestment of dividends and other distributions. An index is unmanaged and not available for direct investment. Index returns reflect general market results and do not reflect actual portfolio returns; the experience of any investor; or the impact of any fees, expenses, or taxes applicable to an actual investment.
Hypothetical and past performance does not guarantee future results.
Keep in mind, there are difficulties in assessing hypothetical asset class performance during certain crisis periods, in part, because these results do not represent actual trading and cannot completely account for the impact financial risk has on actual trading. In addition, any actual portfolio or account will invest in different economic conditions during periods with different volatility and in different securities than those incorporated in the hypothetical performance shown above. It is possible there are other scenarios, or crisis events which could have resulted in heavier losses for a portfolio than those that occurred during the time periods shown. There is no guarantee any asset class will perform in a similar manner in the future. Please see page 7 for the model portfolio compositions, definitions of the indices and risks associated with the representative asset classes.

4. **Hold an appropriate level of cash.** Investors should hold some cash, but overinvestment in cash comes with a high opportunity cost. Investors often hold cash as a source of funds for investment during market pullbacks. However, the pullbacks may fail to materialize, or when they do, investors may be unwilling to invest in a falling market. A better approach may be to invest cash systematically over a period of months or quarters.

5. **Keep your eyes on the goal.** We anticipate that many markets will continue to move higher this year, but there also is the possibility that much of 2018's gains have been pulled forward into 2017. If that is the case, then investors could be disappointed. We believe that investors should keep focusing on their longer-term goals and remain fully invested according to their plan. A diversified portfolio may help investors to achieve their goals over time by gaining during bull markets and mitigating risk during bear markets.

EQUITIES

Stuart Freeman, CFA
Co-Head of Global Equity Strategy



Underweight
U.S. Small Cap Equities

Evenweight
U.S. Large Cap Equities

Evenweight
U.S. Mid Cap Equities

Evenweight
Developed Market Ex-U.S. Equities

Evenweight
Emerging Market Equities

2018 Outlook—Earnings momentum continues

We don't see the aging U.S. bull market ending in 2018

Consistent with an equity bull market that is maturing but still has room to run, we anticipate continued earnings growth for S&P 500 Index companies in 2018. We expect S&P 500 Index earnings per share (EPS) to grow 12.4% this year, fueled by tax reductions and modestly higher operating margins. We expect growth to be spread more broadly across sectors. Overall, however, valuations are not cheap. If we exclude the late-1990s bubble, the S&P 500 Index has been cheaper roughly 89% of the time (from the third quarter of 1986 to today).

International stocks, earlier in their cycle, may have more growth potential

We favor international stocks over U.S. stocks—as international equities are being driven by solid earnings and attractive valuations. Also, the international economies are earlier in their expansions. We are projecting 7% growth in developed international earnings and 16% growth in emerging-market earnings this year. Emerging-market equities, in particular, seem set for a three-year streak of increasing earnings, which last happened in 2007.

Main risks to our outlook

In the U.S., our outlook could be at risk if inflation were to rise materially, the Federal Reserve (Fed) were to raise rates more aggressively than we expect, or higher wage growth puts earnings expansion at risk. Internationally, optimism over consecutive years of earnings growth could be dampened by worries that central-bank tightening might limit the mid-cycle recoveries in these economies. Our emerging-market outlook also would be threatened if China were to materially decrease its economic stimulus.

Key takeaways

» We believe that S&P 500 Index revenue and earnings growth will continue. The new tax law should add to domestic earnings growth. Cyclically dependent (versus defensive) companies should continue to benefit from global growth.

» International equities are earlier in their cycle.

» We believe that international small-cap equities look attractive. Investors may want to consider allocating to this asset class by using a portion of their international developed-market equity allocation.

Brian Rehling, CFA
Co-Head of Global Fixed Income Strategy

2018 Outlook—Fighting fixed-income complacency

Supportive conditions—But caution is in order

In our opinion, investors should use current yield levels as a proxy for expected 2018 fixed-income returns. Even with continued economic improvement, it is impossible to ignore the fact that risks are increasing. The Fed is tightening monetary policy, the yield curve is flattening, and credit spreads are near historically tight levels. As we begin 2018, we believe that investors need to consider potential late-cycle risks and be thoughtful regarding fixed-income portfolio positioning.

The Fed—Slow and deliberate with rate hikes

We expect the Fed to continue tightening monetary policy slowly and deliberately in 2018. As a result, we believe that investors will see further interest-rate-curve flattening—as the Fed slowly increases short-term rates, while longer-term rates remain relatively contained. We continue to expect that short-term rates will remain below long-term rates, suggesting that more gas remains in the economic tank.

Time for investors to upgrade their credit profiles

With the corporate credit spread (over Treasury yields) near historically expensive levels, high-yield debt investors are presented with an asymmetric risk profile—upside returns likely are limited to current yield levels while potential losses could be significantly greater. Although a meaningful turn in the credit cycle is not our base case for 2018, the risks are elevated. We recommend that investors focus on investment-grade-rated issuers.

International—We see risk in developed-market debt

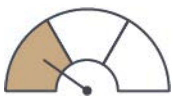
While international diversification remains important for fixed-income holdings, we continue to recommend that investors limit exposure to international developed fixed income, because developed-market yields remain close to zero or are negative in many instances. We believe that returns are likely to disappoint over time.

We expect stable returns in dollar-denominated emerging market sovereign bonds overall. Higher available yields in emerging markets (versus U.S. Treasury yields) should help to attract demand in an environment in which yields seem destined to remain lower for longer.

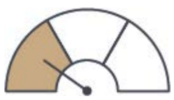
Key takeaways

» We recommend that investors upgrade their fixed-income credit profiles, favoring investment-grade-rated debt.

» Given the current low-yield environment, fixed-income investors are likely to experience lower returns in the future than they have experienced over the past decade.



Underweight
High Yield Taxable Fixed Income

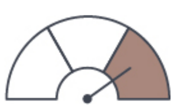


Underweight
Developed Market Ex.-U.S. Fixed Income

Evenweight
U.S. Short Term Taxable Fixed Income

Evenweight
U.S. Long Term Taxable Fixed Income

Evenweight
Emerging Market Fixed Income

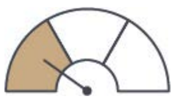


Overweight
U.S. Taxable Investment Grade Fixed Income

Overweight
U.S. Intermediate Term Taxable Fixed Income

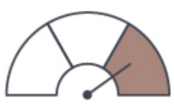
John LaForge
Head of Real Asset Strategy

"You cannot escape the responsibility of tomorrow by evading it today."
--Abraham Lincoln



Underweight
Commodities

Evenweight
Private Real Estate



Overweight
Public Real Estate

2018 Outlook—Real Estate remains strong and the commodity bear super-cycle continues

We continue to believe that most commodity prices will be flat-to-down by the time 2018 concludes—as that pesky commodity bear super-cycle continues. The average bear market super-cycle lasts for approximately 20 years, and we are at a point at which many commodities still are overproduced.

The good news is that commodity bear markets have shortened in length in the past century, as shown by the shaded areas in the chart below. We believe that this current cycle might last for 12-15 years. The bear market is now almost 7 years old, and most of the downward price action has tended to happen in the first 5 years. For most commodities, that may mean sideways price action and capped price rallies in 2018.

The most-watched commodities—oil and gold—should generally continue to follow the range-bound action of the commodity bear super-cycle. We expect price rallies from both commodities, but those rallies should be capped as they are met with increasing supply.

Oil related master limited partnerships (MLPs) should largely track oil prices, which we expect to be flat-to-down. Yet, we believe that MLP performance should be respectable because of MLPs' dividend yields.

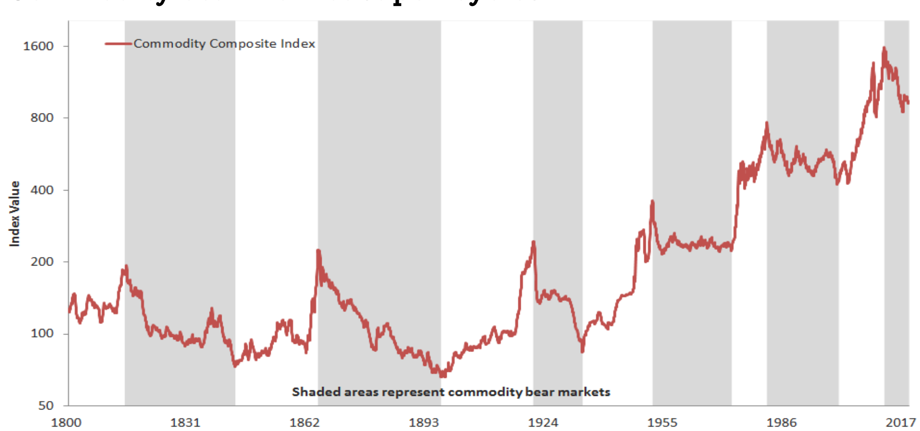
We expect the average real estate investment trust (REIT) to deliver mid- to high-single-digit gains, in large part because REITs offer fundamentals at a good value today. REITs saw solid (but not great) price gains in commercial real estate in 2017, offset by continued negative retail headlines and fears over rising rates. We expect that a similar picture will prevail in 2018—but that investors will increasingly focus on value.

Key takeaways

» The continued influence of the commodity bear super-cycle should mean sideways price action and capped rallies for most commodities in 2018.

» REIT fundamentals should remain positive in 2018, and we expect the group to deliver mid- to high-single-digit gains.

Commodity bear market super-cycles



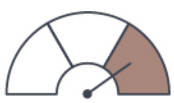
Sources: Bloomberg, Prices by G.F. Warren and F.A. Pearson, Bureau of Labor Statistics (BLS), Bureau of Economic Research (NBER), Wells Fargo Investment Institute. Monthly Data: January 31, 1800 through November 30, 2017. A bear market, period of time in which securities prices are persistently falling, is established when prices have fallen 20 percent or more from their 52-week high. **Past performance does not guarantee future results.**

Justin Lenarcic
Global Alternative Investment Strategist

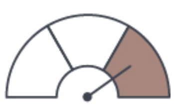
Evenweight
Private Equity

Evenweight
Hedge Funds-Macro

Evenweight
Hedge Funds-Event Driven



Overweight
Hedge Funds-Relative Value



Overweight
Hedge Funds-Equity Hedge

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

2018 Outlook—Favorable for hedge funds

We expect a continuation of late-cycle behavior to be a key driver of 2018 returns, tightening the performance gap between hedge funds and long-only benchmarks. We have a high degree of conviction that Relative Value strategies are poised to benefit from the asymmetric risk profile that we anticipate in credit markets this year. Historically tight spreads, coupled with high valuations, could combine with a burgeoning deterioration in fundamentals and lead to credit-market disruptions similar to those experienced from the third quarter of 1999 through 2001. We believe that Long/Short Credit strategies are well-positioned compared to long-only credit and fixed-income investing in the coming year.

A similar case can be made for Long/Short Equity in 2018, which has experienced the most dramatic performance improvement relative to the post-crisis period. We continue to anticipate a favorable environment for the strategy this year, which we expect will result in outperformance compared to passive benchmarks. This view is predicated upon our expectations for greater fundamental dispersion among sectors, industries, and geographies, along with greater dispersion in equity prices and returns.

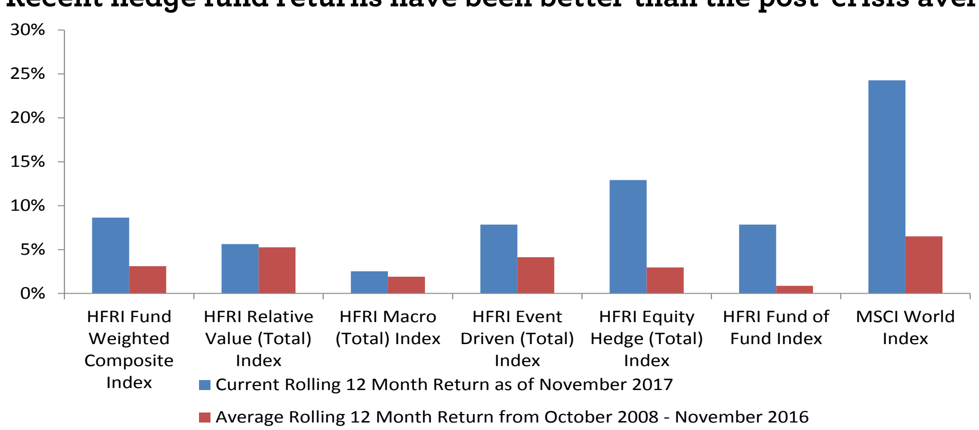
Perhaps most importantly, we expect the illiquidity premium offered within Private Capital strategies to increase in 2018. We anticipate that this will result in attractive opportunities for Private Debt strategies, particularly involving Distressed and Special Situations, in 2018 and beyond. But with valuations relatively high and record amounts of dry powder waiting to be deployed in several mainstream Private Equity and Private Real Estate strategies, we favor more specialty/niche opportunities—including international and sector-specific funds—in 2018.

Key takeaways

» We anticipate another strong year for hedge fund returns in 2018, with credit and equity security selection driven by a maturing cycle and the gradual removal of monetary stimulus.

» We expect Long/Short Equity strategies to perform best this year, followed by Event Driven strategies focused on special situations and Stressed/Distressed Credit.

Recent hedge fund returns have been better than the post-crisis average



Sources: Hedge Fund Research, Inc., Bloomberg, December 20, 2017. **Past performance does not guarantee future results.** Please see disclosures for index definitions. An index is unmanaged and not available for direct investment.

Risks Considerations

Forecasts are based on certain assumptions and on views of market and economic conditions which are subject to change.

Dividends are not guaranteed and are subject to change or elimination.

Diversification does not guarantee profit or protect against loss in declining markets.

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.

Investment in Master Limited Partnerships (MLPs) involves certain risks which differ from an investment in the securities of a corporation. MLPs may be sensitive to price changes in oil, natural gas, etc., regulatory risk, and rising interest rates. A change in the current tax law regarding MLPs could result in the MLP being treated as a corporation for federal income tax purposes which would reduce the amount of cash flows distributed by the MLP. Other risks include the volatility associated with the use of leverage; volatility of the commodities markets; market risks; supply and demand; natural and man-made catastrophes; competition; liquidity; market price discount from Net Asset Value and other material risks. No investment should be made on the basis of yield alone.

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 suitable 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.

Definitions

Moderate Income model portfolio: 3% Bloomberg Barclays 1–3 Month Treasury Bill Index, 19% Bloomberg Barclays U.S. Aggregate Bond Index (1–3Y), 30% Bloomberg Barclays U.S. Aggregate Bond Index (5–7Y), 7% Bloomberg Barclays U.S. Aggregate Bond Index (10+Y), 6% Bloomberg Barclays U.S. Corporate High Yield Bond Index, 5% JPM GBI Global ex.-U.S. Index, 5% JPM EMBI Global Index, 12% S&P 500 Index, 2% Russell Midcap® Index, 2% Russell 2000® Index, 4% MSCI EAFE Index (USD), 5% FTSE EPRA/NAREIT Developed Index.

Moderate Growth & Income model portfolio: 3% Bloomberg Barclays 1–3 Month Treasury Bill Index, 4% Bloomberg Barclays U.S. Aggregate Bond Index (1–3Y), 16% Bloomberg Barclays U.S. Aggregate Bond Index (5–7Y), 7% Bloomberg Barclays U.S. Aggregate Bond Index (10+Y), 6% Bloomberg Barclays U.S. Corporate High Yield Bond Index, 3% JPM GBI Global ex.-U.S. Index, 5% JPM EMBI Global Index, 21% S&P 500 Index, 9% Russell Midcap® Index, 8% Russell 2000® Index, 6% MSCI EAFE Index (USD), 5% MSCI EM Index (USD), 5% FTSE EPRA/NAREIT Developed Index, 2% Bloomberg Commodity Index.

Moderate Growth model portfolio: 2% Bloomberg Barclays 1–3 Month Treasury Bill Index, 2% Bloomberg Barclays U.S. Aggregate Bond Index (1–3Y), 3% Bloomberg Barclays U.S. Aggregate Bond Index (5–7Y), 3% Bloomberg Barclays U.S. Aggregate Bond Index (10+Y), 3% Bloomberg Barclays U.S. Corporate High Yield Bond Index, 2% JPM GBI Global ex.-U.S. Index, 3% JPM EMBI Global Index, 29% S&P 500 Index, 13% Russell Midcap® Index, 13% Russell 2000® Index, 10% MSCI EAFE Index (USD), 10% MSCI EM Index (USD), 5% FTSE EPRA/NAREIT Developed Index, 2% Bloomberg Commodity Index.

Bloomberg Barclays 1–3 Month Treasury Bill Index includes all publicly issued zero-coupon U.S. Treasury bills that have a remaining maturity of less than three months and more than one 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 nonconvertible.

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

Bloomberg Barclays U.S. Aggregate 5–7 Year Bond Index is unmanaged and is composed of the Bloomberg Barclays U.S. Government/Credit Index and the Bloomberg Barclays U.S. Mortgage-Backed Securities Index and includes Treasury issues, agency issues, corporate bond issues, and mortgage-backed securities with maturities of five to seven years.

Bloomberg Barclays U.S. Aggregate 10+ Year Bond Index is unmanaged and is composed of the Bloomberg Barclays U.S. Government/Credit Index and the Bloomberg Barclays 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 Barclays U.S. Corporate High Yield Bond Index covers the universe of fixed-rate, non-investment-grade debt.

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

FTSE EPRA/NAREIT Developed Index is designed to track the performance of listed real estate companies and REITs in developed countries worldwide.

J.P. Morgan Global Ex United States Index (JPM GBI Global Ex-US) is a total return, market-capitalization-weighted index, rebalanced monthly, consisting of the following countries: Australia, Germany, Spain, Belgium, Italy, Sweden, Canada, Japan, United Kingdom, Denmark, Netherlands, and France.

J.P. Morgan Emerging Market Bond Index Global (EMBI Global) 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.

MSCI EAFE Index is a free-float-adjusted market-capitalization-weighted index that is designed to measure the equity-market performance of developed markets, excluding the U.S. and Canada.

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

MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of 23 developed market countries including the United States.

Russell Midcap® Index measures the performance of the 800 smallest companies in 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.

Russell 1000® Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 90% of the total market capitalization of the Russell 3000 Index.

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.

HFRI Event Driven Index: Investment Managers who maintain positions in companies currently or prospectively involved in corporate transactions of a wide variety including but not limited to mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments. Security types can range from most senior in the capital structure to most junior or subordinated, and frequently involve additional derivative securities. Event Driven exposure includes a combination of sensitivities to equity markets, credit markets and idiosyncratic, company specific developments. Investment theses are typically predicated on fundamental characteristics (as opposed to quantitative), with the realization of the thesis predicated on a specific development exogenous to the existing capital structure.

HFRI Equity Hedge Index: Investment Managers who maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios. EH managers would typically maintain at least 50% exposure to, and may in some cases be entirely invested in, equities, both long and short. The

HFRI Equity Hedge Index is a composite of the hedge funds that employ the alternative strategies and who report their performance figure to HFRI. The number of hedge funds reporting may vary between each reporting period.

HFRI Fund of Funds Composite Index tracks fund of funds that invest with multiple managers through funds or managed accounts. The strategy designs a diversified portfolio of managers with the objective of significantly lowering the risk (volatility) of investing with an individual manager. The Fund of Funds manager has discretion in choosing which strategies to invest in for the portfolio. A manager may allocate funds to numerous managers within a single strategy, or with numerous managers in multiple strategies. The minimum investment in a Fund of Funds may be lower than an investment in an individual hedge fund or managed account. The investor has the advantage of diversification among managers and styles with significantly less capital than investing with separate managers.

HFRI Fund Weighted Composite Index is a global, equal-weighted index of over 2000 single-manager funds that report to HFR Database. Constituent funds report monthly net-of-all-fees performance in U.S. dollars and have a minimum of $50 Million under management or a 12-month track record of active performance. The HFRI Fund Weighted Composite Index does not include Funds of Hedge Funds.

HFRI Macro Index: Investment Managers which trade a broad range of strategies in which the investment process is predicated on movements in underlying economic variables and the impact these have on equity, fixed income, hard currency and commodity markets. Managers employ a variety of techniques, both discretionary and systematic analysis, combinations of top down and bottom up theses, quantitative and fundamental approaches and long and short term holding periods. Although some strategies employ RV techniques, Macro strategies are distinct from RV strategies in that the primary investment thesis is predicated on predicted or future movements in the underlying instruments, rather than realization of a valuation discrepancy between securities. In a similar way, while both Macro and equity hedge managers may hold equity securities, the overriding investment thesis is predicated on the impact movements in underlying macroeconomic variables may have on security prices, as opposes to EH, in which the fundamental characteristics on the company are the most significant are integral to investment thesis.

HFRI Relative Value Index maintains positions in which the investment thesis is predicated on realization of a valuation discrepancy in the relationship between multiple securities. Managers employ a variety of fundamental and quantitative techniques to establish investment theses, and security types range broadly across equity, fixed income, derivative or other security types. Fixed income strategies are typically quantitatively driven to measure the existing relationship between instruments and, in some cases, identify attractive positions in which the risk adjusted spread between these instruments represents an attractive opportunity for the investment manager. RV position may be involved in corporate transactions also, but as opposed to ED exposures, the investment thesis is predicated on realization of a pricing discrepancy between related securities, as opposed to the outcome of the corporate transaction.

Note: HFRI Indices have limitations (some of which are typical of other widely used indices). These limitations include survivorship bias (the returns of the indices may not be representative of all the hedge funds in the universe because of the tendency of lower performing funds to leave the index); heterogeneity (not all hedge funds are alike or comparable to one another, and the index may not accurately reflect the performance of a described style); and limited data (many hedge funds do not report to indices, and, therefore, the index may omit funds, the inclusion of which might significantly affect the performance shown. The HFRI Indices are based on information self-reported by hedge fund managers that decide on their own, at any time, whether or not they want to provide, or continue to provide, information to HFR Asset Management, L.L.C. Results for funds that go out of business are included in the index until the date that they cease operations. Therefore, these indices may not be complete or accurate representations of the hedge fund universe, and may be biased in several ways. Returns of the underlying hedge funds are net of fees and are denominated in USD.

An index is unmanaged and not available for direct investment.

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