Morgan Stanley

INVESTMENT MANAGEMENT

Global Fixed Income Bulletin

We're All Data Dependent Now

BROAD MARKETS FIXED INCOME TEAM | MACRO INSIGHT | AUGUST 2023

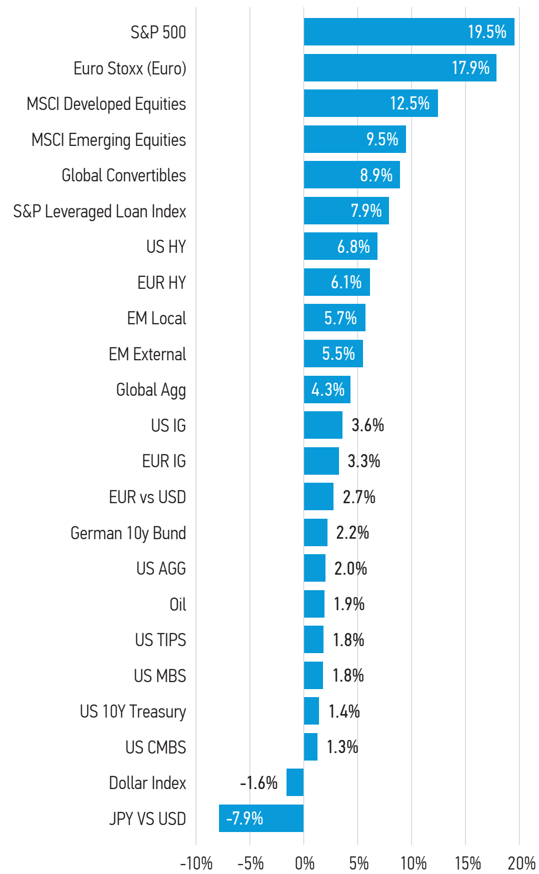
Risk assets sustained their rally in July as economic data continued to show its resiliency and the soft-landing rhetoric gained credibility. Corporate credit spreads were largely tighter over the month as the U.S. led the way in producing strong economic data with inflation data surprising to the downside. The Chinese government also announced they would continue to support their economy with further stimulus. This all bodes well for risk assets.

Within the corporate credit space, high yield outperformed investment grade, with lower rated securities outperforming. Euro-area credits broadly outperformed their U.S. counterparts. Securitized credits also tightened, albeit less so than corporate credit.

Within the macro space, markets saw multiple rate hikes within the developed markets throughout July. These hikes were mostly supplemented by dovish overtones from central bankers signaling that the end may be near for the rate hiking cycle. Only time (and data) will tell if it is necessary to keep hiking. On the other hand, emerging markets continued to rally as Emerging Market (EM) central banks either cut rates or broadcasted that rate cuts are imminent. EM central banks led the way in terms of hiking rates and so far, are leading the way in terms of cutting. The U.S. dollar was broadly lower over the month, depreciating against a basket of Developed Market (DM) and EM currencies.

DISPLAY 1

Asset Performance Year-to-Date



Note: USD-based performance. Source: Bloomberg. Data as of July 31, 2023. The indexes are provided for illustrative purposes only and are not meant to depict the performance of a specific investment. **Past performance is no guarantee of future results.** See pages 6-7 for index definitions.

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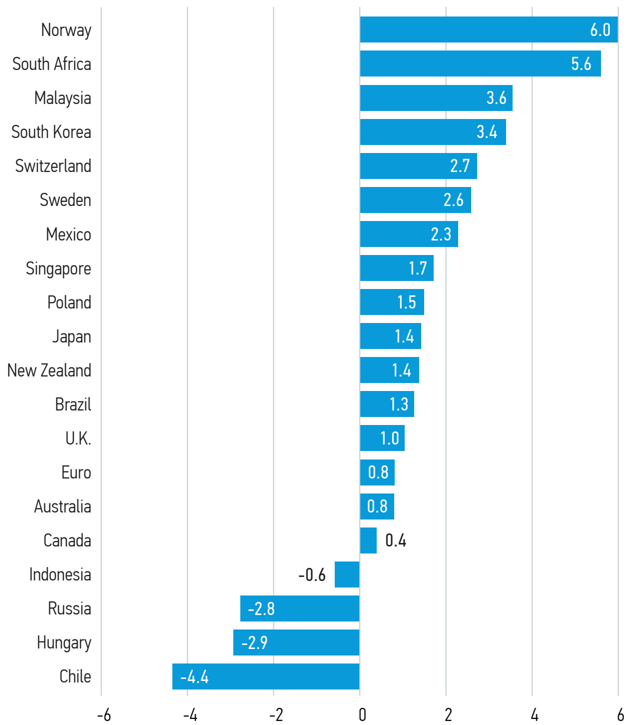
DISPLAY 2

Currency Monthly Changes Versus U.S. Dollar

(+ = appreciation)



Note: Positive change means appreciation of the currency against the USD.
Source: Bloomberg. Data as of July 31, 2023.

DISPLAY 3

Major Monthly Changes in 10-Year Yields and Spreads

COUNTRY	10-YR YIELD LEVEL (%)	MONTH CHANGE (BPS)	10-YR SPREAD (BPS)	MONTH CHANGE (BPS)
			(Spread over USTs)	
United States	3.96	+12		
United Kingdom	4.31	-8	35	-20
Germany	2.49	+10	-147	-2
Japan	0.61	+21	-335	+9
Australia	4.06	+4	10	-9
Canada	3.50	+23	-46	+11
New Zealand	4.68	+6	72	-6
EUROPE			(Spread over Bunds)	
France	3.02	+9	53	-1
Greece	3.76	+9	127	-1
Italy	4.10	+3	161	-7
Portugal	3.22	+10	73	0
Spain	3.52	+13	102	+3
EM	**10-YR LOCAL YIELD (%)**	**MTD CHANGE (BPS)**	**SPREAD (BPS)**	**MTD CHANGE (BPS)**
EM External Spreads			444	-14
EM Corporate Spreads			393	+4
EM Local Yields	6.89	-23		
			(Spread over USTs)	
Brazil	10.81	+18	685	+6
Colombia	10.18	-7	622	-19
Hungary	7.29	+29	333	+17
Indonesia	6.23	-1	227	-14
Malaysia	3.83	-1	-12	-13
Mexico	8.81	+14	485	+2
Peru	6.73	-17	277	-29
Poland	5.42	-35	146	-47
South Africa	11.51	-24	755	-36
CREDIT			**SPREAD (BPS)**	**MTD CHANGE (BPS)**
U.S. IG			112	-11
EUR IG			147	-16
U.S. HY			367	-23
EUR HY			427	-16
SECURITIZED				
Agency MBS			162	+162
U.S. BBB CMBS			739	+26

Positive Neutral Negative

Source: Bloomberg, JPMorgan. Data as of July 31, 2023

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Fixed Income Outlook

As a famous musician once said, the song remains the same. The same could be said for bond markets, at least for the U.S. U.S. recession risk keeps receding into the future with many analysts, including the Fed research staff, now saying the highest probability scenario is no recession at all. But, despite this increased optimism on the economy, inflation has been behaving well. And guess what—falling inflation, reasonable growth (particularly falling probability of recession) is generally good for financial assets. A notable exception may be for longer-maturity DM government bonds which have been hurt by valuations (steep inversion of yield curves), rising U.S. deficits and issuance plans, QT, especially in Japan which is slowly moving to a tighter monetary policy. Moreover, EM central banks have begun to cut rates, with Latin America leading the way as both Chile and Brazil cut rates more than expected. The backdrop for bonds is quite benign barring longer dated bonds.

Will the no recession scenario happen? While the probability has risen, and we have been in the slow growth/small recession camp, there are no sure things. First, financial conditions continue to tighten. The full effects of cumulative rate hikes have probably not been fully felt and credit conditions continue to tighten, per the U.S. senior loan officer's survey. Second, the pandemic surge in service spending will probably wane in the second half of the year. Third, savings rates and pools of excess savings are dwindling, boding ill for continued robust spending. And lastly, the U.S. labor market is slowing, albeit very slowly.

However, in the bullish economy camp are the following facts. One, employment is growing nicely, unemployment rates are low and household incomes in real terms are expanding finely with the big drop in inflation. Two, the goods sector which has been in pseudo-recession all year looks like it is beginning to wake up. Capital expenditures and high levels of U.S. fiscal support for expansion of manufacturing capacity in the U.S. is very supportive. Newfound demand for tech, including AI-related expenditures should also be a positive. Lastly, goods inventories are low as is household demand, which should both begin to improve in the months ahead. It could be that the goods sector business confidence surveys are at their bottoms, and are likely to improve going forward, offsetting a slowdown in service sector spending.

What does this all mean for monetary policy? Potentially a lot. With inflation falling almost everywhere the pressure to raise rates slightly further or not at all is growing. We would not be surprised if the Fed is finished hiking rates, while the ECB hikes one or maybe two more times (as does the Bank of England). As mentioned earlier, EM central banks have already started cutting and this should continue over the second half of the year. Reduced central bank pressure on rates improves the outlook for shorter-maturity bonds significantly and we have already seen the beginnings of steeper yield curves. While we believe the best opportunities lie in shorter maturity bonds of all sectors given their yield advantage, there are limits. Without confidence that monetary policy will be eased, curves can only steepen so far, or real long-maturity yields can only rise so far. But in the interim, the higher carry from shorter maturity bonds should be enjoyed.

Despite a lot of positives for bonds, including higher longer-maturity yields improving expected returns, there are caveats. The first is valuation. There are limits to the rally in risk-free government yields unless central banks cut rates. We generally favor those countries closest to finishing the hiking cycle or that are actually cutting rates. While U.S. 10-year Treasury yields are at multi-year highs, we would not get too bullish. Yields below 4% may be difficult to sustain until the Fed calls all clear. A similar situation holds in many other DM countries. After the recent rise in yields, a broad range trade looks likely until there is more clarity on the economic and policy outlook.

In credit sectors, markets have embraced the soft-landing scenario as spreads have tightened this year and hover near lows outright or within historical ranges. In the investment grade space, we view non-financials being expensive or rich to their fundamentals and prefer large cap financials given their extra yield and proof they can weather financial volatility. That said, we do not see a reason to be bearish. Fundamentals remain solid both at a macro and sector level. The other challenge for investment grade (IG) corporates is wide spreads on U.S. agency mortgages. These spreads are quite competitive to higher quality IG and we would substitute these for many alternatives in the IG universe.

The high yield market is more unpredictable. Spreads are in the bottom quartile, but yields are in the top quartile historically. Yield buyers find them attractive; spread buyers see them as risky. Our view: be selective. Avoiding defaults and blow ups will eventually be key as higher rates and refinancing risks feed into corporate performance and outlooks. We are modestly positive on both sectors.

We continue to favor shorter maturity securitized credit (RMBS, ABS, selected CMBS) as offering best opportunities in fixed income. The outlook has modestly deteriorated as U.S. household balance sheets come under more pressure and excess savings are run down. We are trying to take advantage of higher yields on higher quality issuers to achieve our target returns, rather than venture down the risk/rating spectrum. Our favorite category of securitized credit remains non-agency residential mortgages, despite challenging home affordability. Somewhat surprisingly, U.S. housing looks like it may have bottomed out.

Overall, fixed income has not been this attractive in a very long time. While risks remain, we do not envision a hard landing for the global economy. We believe this will be supportive of credit and EM, and not too painful for government bonds. Most yields compensate for remaining risks, with the caveat -- that with policy rates so high, cash and short maturity bonds offer compelling yields compared to longer-maturity bonds.

Recent good news on the U.S. economic front has caused the U.S. dollar to stabilize if not appreciate. While the U.S. dollar looks vulnerable in the medium term, other DM currencies do not offer compelling advantages at the moment. The most undervalued currency continues to be the Japanese yen but given the slow-moving nature of Japanese monetary policy and still exceptionally high hedging costs, it will be difficult for the yen to rally until Japanese rates move higher or begin to fall in a meaningful way in the U.S.. We continue to like being underweight the U.S. dollar over the longer term versus a basket of mostly emerging market currencies. However, given EM's strong year to date performance, we are not in a rush to increase exposure. We also continue to like emerging market local government bonds versus hard currency debt and developed market government bonds given the differences in recent inflation performance, level of real yields, and central bank policy trajectories.

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	MONTHLY REVIEW	OUTLOOK
Developed Market Rate/ Foreign Currency	Developed market rates broadly shifted higher in July. Economic data continued to show that a recession is not imminent; however still elevated inflation data also made progress lower and was mostly below expectations. Against this backdrop, central bankers noted that they were likely closer to the end of the hiking cycle but made it clear that they were not necessarily done. Beyond fundamental data, the Bank of Japan's decision to tweak the yield curve control policy to allow the 10-year rate to move above the 50 basis points (bps) threshold pushed yields higher globally. During the month, 10-year U.S. Treasury yields moved up 12 bps and 10-year German bunds were up 10 bps. Notably, Japanese 10-year yields underperformed, up 21 bps following the BoJ decision. In contrast, UK 10-year yields outperformed, down 8 bps as inflation data came in much cooler than expected. Partially reflecting the end of cycle theme and the BoJ tweak, long-end rates sold off more than front-end rates, resulting in steeper curves. Beyond the BoJ, the Fed hiked 25 bps as widely anticipated, emphasizing the data dependent nature of policy going forward. Likewise, the ECB hiked 25 bps but was broadly dovish, not committing to further hikes. Elsewhere the RBA again decided to keep policy rates unchanged, the BoC hiked 25 bps as expected, and the RBNZ held rates as expected.[1]	Overall, the goldilocks scenario where inflation falls without requiring a recession keeps growing more plausible. Central bankers can be comforted with slowing inflation data while labor markets and growth data remain resilient. With that said, most central bankers are fully in a data dependent mode, remaining open to a hawkish shift provided inflation proves stickier than expected. Given the uncertainty, it is difficult to concretely express an outright view on interest rates; however, with signs that central bankers are nearing the end of the cycle and with catalysts to drive term premium higher (QT, Japanese selling), we are starting to find steepeners more attractive at certain parts of the curve. In terms of foreign exchange, the U.S. dollar strengthened during July. We still believe that the U.S. dollar should weaken, especially versus attractive emerging market currencies.
Emerging Market Rate/ Foreign Currency	Emerging Market Debt (EMD) continued to rally and delivered positive returns for July. Many EM central banks are starting down a path of rate cuts. Chile announced a larger than expected rate cut. Latin American central banks continue to be first movers in the rate cut cycle as Costa Rica, Dominican Republic and Uruguay previously cut rates this year. Sovereign and corporate spreads compressed month-over month, continuing the downward trend we've seen year to date.	We continue to be cautiously optimistic about the asset class heading into the second half of the year. Many EM central banks are preparing to cut rates and some notable markets have already started to cut. However, the divergence between EM and DM rates may not persist and EM rates will likely need to be accompanied by declines in DM rates. Growth, inflation, and policy continue to be diverse across the assets class so differentiation between countries and credits remains important in order to uncover value.

[1] Source: Bloomberg. Data as of July 31, 2023.

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	MONTHLY REVIEW	**OUTLOOK**
Corporate Credit	Euro IG spreads outperformed U.S. IG spreads this month amidst a credit market rally driven by numerous factors. The U.S. saw stronger growth data, with inflation pressures moderating and corporates in most sectors exceeding expectations. Europe, in contrast, saw weaker forward-looking signals across both manufacturing and services (PMI's and IFO) but markets focused on the U.S. as a leading indicator of the economic base case outcome. In addition, credit sentiment in China improved upon mention of government driven stimulus, despite the weak economy.[2] July was another strong month for the global high yield markets as mounting macroeconomic evidence continued to solidify the broadly held expectation for a soft economic landing. The technical conditions in high yield remained strong in July amid a slowdown in activity in the primary market and robust demand. The lower quality segments of the market generally outperformed in July, after outperforming in several of the preceding months as well.[3] Global convertibles participated in a global risk rally in July. MSCI global equities rose 3.55% and Bloomberg Global Aggregate Credit climbed 0.90% while the Refinitiv Global Convertibles Focus Index rose 2.73%. Supply continues to drip in, with just $3.5bn in new deals in July. Notably, no deals were issued in the U.S., marking the longest issuance drought there in seven years.[4]	Looking forward, we foresee a summer squeeze driven by light supply and continued demand for yield. Followed by a stormier winter as tighter monetary policy, tighter lending conditions and lower profit margins impact sentiment, resulting in attractive carry but limited capital gains. Our base case can be summarised as: while an economic slowdown seems likely, the magnitude and impact on downgrades/ defaults is likely low as a combination of strong employment and conservative corporate management supports markets. We remain cautious on the high yield market as we progress through the third quarter of 2023. Despite finishing July at year-to-date lows, over the short-term it appears the average spread in the high yield market could grind even lower driven by temporarily supportive technical conditions, similar to those which drove the beta-led outperformance that characterized much of the last several months. For convertibles, we see positive signs for market supply going forward, as rising rates and equities always bring new paper.
Securitized Products	Within securitized, credit spreads tightened in July, while agency MBS spreads were little changed for the month. We have moved up in credit over the past few months, reducing credit risk while taking advantage of wider spreads for highly rated securities. We continue to believe that the fundamental credit conditions of residential mortgage markets remain sound, but also believe that higher risk premiums are warranted across all credit assets. Fundamental credit conditions remain stable despite mild recession risks. Although delinquencies across many asset classes are increasing slowly, overall delinquencies remain low from a historical perspective. Securitized yields remain at historically wide levels, and we believe these wider spreads offer more than sufficient compensation for current market risks. Our favorite sector remains residential mortgage credit, and home prices have proved to be extremely resilient to declines despite the increase in mortgage rates, only having fallen 1% since the peak in June of 2023. Our European securitized holdings were relatively flat in July, but we have meaningfully reduced our European holdings over the past year.[5]	Looking forward, we believe delinquency and default levels will remain non-threatening to the large majority of securities. U.S. residential credit remains our favorite sector, with a strong preference for seasoned loans (originated in 2020 or earlier) due to the sizable home price appreciation over the past few years and potential future home price declines. We remain more cautious of commercial real estate, especially office, which continues to be negatively impacted in the post-pandemic world.

[2] Source: Bloomberg Indices: U.S. Corporate Index and the European Aggregate Corporate Index. Data as of July 31, 2023.

[3] Source: J.P. Morgan and Bloomberg U.S. Corporate High Yield Index. Data as of July 31, 2023.

[4] Source: Bloomberg and Refinitiv Global Convertibles Focus Index. Data as of July 31, 2023.

[5] Source: Bloomberg. Data as of July 31, 2023.

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Risk Considerations

Diversification neither assures a profit nor guarantees against loss in a declining market.

There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to **market risk**, which is the possibility that the market values of securities owned by the portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing in a portfolio. **Fixed-income securities** are subject to the ability of an issuer to make timely principal and interest payments (credit risk), changes in interest rates (interest rate risk), the creditworthiness of the issuer and general market liquidity (market risk). In a rising interest-rate environment, bond prices may fall and may result in periods of volatility and increased portfolio redemptions. In a declining interest-rate environment, the portfolio may generate less income. **Longer-term securities** may be more sensitive to interest rate changes. Certain **U.S. government securities** purchased by the strategy, such as those issued by Fannie Mae and Freddie Mac, are not backed by the full faith and credit of the U.S. It is possible that these issuers will not have the funds to meet their payment obligations in the future. **Public bank loans** are subject to liquidity risk and the credit risks of lower-rated securities. **High-yield securities (junk bonds)** are lower-rated securities that may have a higher degree of credit and liquidity risk. **Sovereign debt securities** are subject to default risk. **Mortgage- and asset-backed securities** are sensitive to early prepayment risk and a higher risk of default, and may be hard to value and difficult to sell (**liquidity risk**). They are also subject to credit, market and interest rate risks. The **currency market** is highly volatile. Prices in these markets are influenced by, among other things, changing supply and demand for a particular currency; trade; fiscal, money and domestic or foreign exchange control programs and policies; and changes in domestic and foreign interest rates. Investments in **foreign markets** entail special risks such as currency, political, economic and market risks. The risks of investing in **emerging market** countries are greater than the risks generally associated with foreign investments. **Derivative instruments** may disproportionately increase losses and have a significant impact on performance. They also may be subject to counterparty, liquidity, valuation, and correlation and market risks. **Restricted and illiquid securities** may be more difficult to sell and value than publicly traded securities (liquidity risk). Due to the possibility that prepayments will alter the cash flows on **collateralized mortgage obligations** (CMOs), it is not possible to determine in advance their final maturity date or average life. In addition, if the collateral securing the CMOs or any third-party guarantees are insufficient to make payments, the portfolio could sustain a loss.

DEFINITIONS

Basis point: One basis point = 0.01%.

INDEX DEFINITIONS

The indexes shown in this report are not meant to depict the performance of any specific investment, and the indexes shown do not include any expenses, fees or sales charges, which would lower performance. The indexes shown are unmanaged and should not be considered an investment. It is not possible to invest directly in an index.

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The **Bloomberg Euro Aggregate Corporate Index (Bloomberg Euro IG Corporate)** is an index designed to reflect the performance of the euro-denominated investment-grade corporate bond market.

The **Bloomberg Global Aggregate Corporate Index** is the corporate component of the Bloomberg Global Aggregate index, which provides a broad-based measure of the global investment-grade fixed income markets.

The **Bloomberg US Corporate High Yield Index** measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The index excludes emerging market debt.

The **Bloomberg US Corporate Index** is a broad-based benchmark that measures the investment grade, fixed-rate, taxable, corporate bond market.

The **Bloomberg US Mortgage Backed Securities (MBS) Index** tracks agency mortgage-backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA) and Freddie Mac (FHLMC). The index is constructed by grouping individual TBA-deliverable MBS pools into aggregates or generics based on program, coupon and vintage. Introduced in 1985, the GNMA, FHLMC and FNMA fixed-rate indexes for 30- and 15-year securities were backdated to January 1976, May 1977 and November 1982, respectively. In April 2007, agency hybrid adjustable-rate mortgage (ARM) pass-through securities were added to the index.

Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care.

Euro vs. USD—Euro total return versus U.S. dollar.

German 10YR bonds—Germany Benchmark 10-Year Datastream Government Index; **Japan 10YR government bonds**—Japan Benchmark 10-Year Datastream Government Index; and **10YR US Treasury**—US Benchmark 10-Year Datastream Government Index.

The **ICE BofAML European Currency High-Yield Constrained Index (ICE BofAML Euro HY constrained)** is designed to track the performance of euro- and British pound sterling-denominated below investment-grade corporate debt publicly issued in the eurobond, sterling

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The **ICE BofAML US Mortgage-Backed Securities (ICE BofAML US Mortgage Master) Index** tracks the performance of US dollar-denominated, fixed-rate and hybrid residential mortgage pass-through securities publicly issued by US agencies in the US domestic market.

The **ICE BofAML US High Yield Master II Constrained Index (ICE BofAML US High Yield)** is a market value-weighted index of all domestic and Yankee high-yield bonds, including deferred-interest bonds and payment-in-kind securities. Its securities have maturities of one year or more and a credit rating lower than BBB-/Baa3, but are not in default.

The **ISM Manufacturing Index** is based on surveys of more than 300 manufacturing firms by the Institute of Supply Management. The ISM Manufacturing Index monitors employment, production inventories, new orders and supplier deliveries. A composite diffusion index is created that monitors conditions in national manufacturing based on the data from these surveys.

Italy 10-Year Government Bonds—Italy Benchmark 10-Year Datastream Government Index.

The **JP Morgan CEMBI Broad Diversified Index** is a global, liquid corporate emerging markets benchmark that tracks US-denominated corporate bonds issued by emerging markets entities.

The **JPMorgan Government Bond Index**—emerging markets (**JPM local EM debt**) tracks local currency bonds issued by emerging market governments. The index is positioned as the investable benchmark that includes only those countries that are accessible by most of the international investor base (excludes China and India as of September 2013).

The **JPMorgan Government Bond Index Emerging Markets (JPM External EM Debt)** tracks local currency bonds issued by emerging market governments. The index is positioned as the investable benchmark that includes only those countries that are accessible by most of the international investor base (excludes China and India as of September 2013).

The **JP Morgan Emerging Markets Bond Index Global (EMBI Global)** tracks total returns for traded external debt instruments in the emerging markets and is an expanded version of the EMBI+. As with the EMBI+, the EMBI Global includes US dollar-denominated Brady bonds, loans and eurobonds with an outstanding face value of at least $500 million.

The **JP Morgan GBI-EM Global Diversified Index** is a market-capitalization weighted, liquid global benchmark for US-dollar corporate emerging market bonds representing Asia, Latin America, Europe and the Middle East/Africa.

JPY vs. USD—Japanese yen total return versus US dollar.

The **Markit ITraxx Europe Index** comprises 125 equally weighted credit default swaps on investment grade European corporate entities, distributed among 4 sub-indices: Financials (Senior & Subordinated), Non-Financials and HiVol.

The **Nikkei 225 Index (Japan Nikkei 225)** is a price-weighted index of Japan's top 225 blue-chip companies on the Tokyo Stock Exchange.

The **MSCI AC Asia ex-Japan Index (MSCI Asia ex-Japan)** captures large- and mid-cap representation across two of three developed markets countries (excluding Japan) and eight emerging markets countries in Asia.

The **MSCI All Country World Index (ACWI, MSCI global equities)** is a free float-adjusted market capitalization weighted index designed to measure the equity market performance of developed and emerging markets. The term "free float" represents the portion of shares outstanding that are deemed to be available for purchase in the public equity markets by investors. The performance of the Index is listed in US dollars and assumes reinvestment of net dividends.

MSCI Emerging Markets Index (MSCI emerging equities) captures large- and mid-cap representation across 23 emerging markets (EM) countries.

The **MSCI World Index (MSCI developed equities)** captures large and mid-cap representation across 23 developed market (DM) countries.

Purchasing Managers Index (PMI) is an indicator of the economic health of the manufacturing sector.

The **Refinitiv Convertible Global Focus USD Hedged Index** is a market weighted index with a minimum size for inclusion of $500 million (US), 200 million (Europe), 22 billion Yen, and $275 million (Other) of Convertible Bonds with an Equity Link.

The **Russell 2000® Index** is an index that measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

The **S&P 500® Index (US S&P 500)** measures the performance of the large-cap segment of the US equities market, covering approximately 75 percent of the US equities market. The index includes 500 leading companies in leading industries of the U.S. economy.

S&P CoreLogic Case-Shiller US National Home Price NSA Index seeks to measure the value of residential real estate in 20 major US metropolitan areas: Atlanta, Boston, Charlotte, Chicago, Cleveland, Dallas, Denver, Detroit, Las Vegas, Los Angeles, Miami, Minneapolis, New York, Phoenix, Portland, San Diego, San Francisco, Seattle, Tampa and Washington, D.C.

The **S&P/LSTA US Leveraged Loan 100 Index (S&P/LSTA Leveraged Loan Index)** is designed to reflect the performance of the largest facilities in the leveraged loan market.

The **S&P GSCI Copper Index (Copper)**, a sub-index of the S&P GSCI, provides investors with a reliable and publicly available benchmark for investment performance in the copper commodity market.

The **S&P GSCI Softs (GSCI soft commodities) Index** is a sub-index of the S&P GSCI that measures the performance of only the soft commodities, weighted on a world production basis. In 2012, the S&P GSCI Softs Index included the following commodities: coffee, sugar, cocoa and cotton.

Spain 10-Year Government Bonds—Spain Benchmark 10-Year Datastream Government Index.

The **Thomson Reuters Convertible Global Focus USD Hedged Index** is a market weighted index with a minimum size for inclusion of $500 million (US), 200 million euro (Europe), 22 billion yen, and $275 million (Other) of convertible bonds with an equity link.

U.K. 10YR government bonds—U.K. Benchmark 10-Year Datastream Government Index. For the following Datastream government bond indexes, benchmark indexes are based on single bonds. The bond chosen for each series is the most representative bond available for the given maturity band at each point in time. Benchmarks are selected according to the accepted conventions within each market. Generally, the benchmark bond is the latest issue within the given maturity band; consideration is also given to yield, liquidity, issue size and coupon.

The **US Dollar Index (DXY)** is an index of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of US trade partners' currencies.

The **Chicago Board Options Exchange (CBOE) Market Volatility (VIX) Index** shows the market's expectation of 30-day volatility.

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A separately managed account may not be appropriate for all investors. Separate accounts managed according to the particular strategy may include securities that may not necessarily track the performance of a particular index. Please consider the investment objectives, risks and fees of the Strategy carefully before investing. A minimum asset level is required. For important information about the investment managers, please refer to Form ADV Part 2.

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