INVESTING BASICS

VOLATILITY IS A NATURAL PART OF INVESTING.

How can you feel more confident in your investment strategy?
INVESTING BASICS

STEP 1: Goal Setting
STEP 2: Risk and Reward
STEP 3: Diversification
STEP 4: Discipline
STEP 5: Momentum

Investing is not difficult if you understand the fundamentals.
A FOCUS ON CORE VALUES

- Expert guidance
- Asset allocation
- Investing fundamentals
## MARKET DECLINES ARE TO BE EXPECTED

### Market Downturns and Recoveries 1926-2016

<table>
<thead>
<tr>
<th>Downturn</th>
<th>% Loss</th>
<th>Downturn Dates</th>
<th>Recovery</th>
</tr>
</thead>
<tbody>
<tr>
<td>34 months</td>
<td>-83.4%</td>
<td>Sep 1929-Jan 1932, Jul 1932-Jan 1945</td>
<td>151 months</td>
</tr>
<tr>
<td>6 months</td>
<td>-21.8%</td>
<td>Jun 1946-Nov 1946, Dec 1946-Oct 1949</td>
<td>35 months</td>
</tr>
<tr>
<td>7 months</td>
<td>-10.2%</td>
<td>Aug 1956-Feb 1957, Mar 1957-Jul 1957</td>
<td>5 months</td>
</tr>
<tr>
<td>5 months</td>
<td>-15.0%</td>
<td>Aug 1957-Dec 1957, Jan 1958-Jul 1958</td>
<td>7 months</td>
</tr>
<tr>
<td>6 months</td>
<td>-22.3%</td>
<td>Jan 1962-Jun 1962, Jul 1962-Apr 1963</td>
<td>10 months</td>
</tr>
<tr>
<td>8 months</td>
<td>-15.6%</td>
<td>Feb 1966-Sep 1966, Oct 1966-Mar 1967</td>
<td>6 months</td>
</tr>
<tr>
<td>21 months</td>
<td>-42.6%</td>
<td>Jan 1973-Sep 1974, Oct 1974-Jun 1976</td>
<td>21 months</td>
</tr>
<tr>
<td>14 months</td>
<td>-14.3%</td>
<td>Jan 1977-Feb 1978, Mar 1978-Jul 1978</td>
<td>5 months</td>
</tr>
<tr>
<td>3 months</td>
<td>-29.6%</td>
<td>Sep 1987-Nov 1987, Dec 1987-May 1989</td>
<td>18 months</td>
</tr>
<tr>
<td>25 months</td>
<td>-44.7%</td>
<td>Sep 2000-Sep 2002, Oct 2002-Oct 2006</td>
<td>49 months</td>
</tr>
<tr>
<td>16 months</td>
<td>-50.9%</td>
<td>Nov 2007-Feb 2009, Mar 2009-Mar 2012</td>
<td>37 months</td>
</tr>
</tbody>
</table>

Large stocks are represented by the Ibbotson Large Company Index. Downturns in this example are defined by a time period when the stock market value declined by 10 percent or more from its peak, while the recovery period indicates the number of months from the trough of the downturn to the market’s previous peak. An investment cannot be made directly in an index. The data assumes reinvestment of all income and does not account for taxes or transaction costs.

Avoid making emotional decisions.
DANGERS OF MARKET TIMING

Hypothetical value of $1 invested from 1997-2016

Although successful market timing may improve portfolio performance, it is very difficult to time the market consistently. In addition, unsuccessful market timing can lead to a significant opportunity loss. Returns and principal invested in stocks are not guaranteed, and stocks have been more volatile than other asset classes. Government bonds and Treasury bills are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest. Holding a portfolio of securities for the long-term does not ensure a profitable outcome and investing in securities always involves risk of loss.

Stocks are represented by the Ibbotson® Large Company Stock Index. Treasury bills are represented by the 30-day U.S. Treasury bill. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not account for taxes or transaction costs. Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. © 2017 Morningstar. All Rights Reserved.
Goals you set will help you decide:

- Where you are going
- What you need to do to get there
- When you want to arrive

If you fail to plan, you plan to fail.
A STRONG FOUNDATION: RISK MANAGEMENT

- Life Insurance
- Disability Income Insurance
- Health Insurance*
- Auto and Homeowner’s Insurance*
- Long-Term Care Planning

A financial pyramid is only as strong as its foundation.

* Northwestern Mutual does not offer these products.
GOAL SETTING

Measurable

Timeframe

Resources Defined

Action Steps

Get specific about your goals.
STEP 2

WHAT’S YOUR TOLERANCE FOR RISK?

- Investment timeframe
- Withdrawal timeframe
- Stable assets
- Personal liquidity
- Income stability
- Risk tolerance

Understanding your Personal Investor Profile will increase your confidence in evaluating risks in your portfolio.
TAKE A LONG-TERM VIEW

Reduction of Risk Over Time 1926-2016

Stocks historically have provided positive returns over the long term.

Small stocks are represented by the Ibbotson® Small Company Stock Index. Large stocks are represented by the Ibbotson® Large Company Stock Index. Government bonds are represented by the 20-year U.S. government bond, and Treasury bills by the 30-day U.S. Treasury bill. The data assumes reinvestment of all income and does not account for taxes or transaction costs. Past performance is no guarantee of future results. Each bar shows the range of compound annual returns for each asset class over the period 1926-2016. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © 2017 Morningstar. All Rights Reserved.
INFLATION AND TAXES REDUCE RETURNS

Compound annual returns 1926-2016

Federal income tax is calculated using the historical marginal and capital gains tax rates for a single taxpayer earning $100,000 in 2010 dollars every year. This annual income is adjusted using the Consumer Price Index in order to obtain the corresponding income level for each year. Income is taxed at the appropriate federal income tax rate as it occurs. When realized, capital gains are calculated assuming the appropriate capital gains rates. The holding period for capital gains tax calculation is assumed to be five years for stocks, while government bonds are held until replaced in the index. No state income taxes are included.

Stocks are represented by the Ibbotson® Large Company Stock Index. Government bonds are represented by the 20-year U.S. government bond, cash by the 30-day U.S. Treasury bill, and inflation by the Consumer Price Index. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not account for transaction costs.

Consider the impact of inflation and taxes on investment returns over time.
DEVELOP A DIVERSIFIED INVESTMENT PROGRAM

- Personal goals
- Risk tolerance
- Timeframe
- Investment options

Diversification is the key to a sound investment strategy.
ASSET CATEGORIES

EQUITIES →

Stocks
- Small Company Stocks
- Large Company Stocks
- International Stocks

Cash Alternatives
- Money Marketing Funds
- Treasury Bills
- Certification of Deposit

Bonds
- Government Bonds
- Corporate Bonds
- Municipal Bonds
- International Bonds

Different asset types react differently to changes in the market.
YOUR PERSONAL INVESTOR PROFILE

Asset Allocation Models

- Equities
- Fixed Income

< RETURN >

Conservative

Moderate

Aggressive

< RISK >

The goal of asset allocation is to help investors balance expected risks with expected returns.
MIX MATTERS

Potential to Reduce Risk or Increase Return 1970-2016

Fixed Income Portfolio
- Return: 7.5% | Risk: 7.8%
- 15% Stocks
- 85% Bonds

Lower Risk Portfolio
- Return: 7.5% | Risk: 5.4%
- 41% Stocks
- 20% Bonds
- 39% Cash

Higher Return Portfolio
- Return: 8.8% | Risk: 7.8%
- 9% Stocks
- 32% Bonds
- 59% Cash

Stocks are represented by the Ibbotson® Large Company Stock Index. Long-term government bonds are represented by the 20-year U.S. government bond, intermediate-term government bonds by the five-year U.S. government bond, and cash by the 30-day U.S. Treasury bill. Bonds represent an equally weighted portfolio of long-term government bonds and intermediate-term government bonds. All portfolios are rebalanced annually. Risk is measured by standard deviation. Standard deviation measures the fluctuation of returns around the arithmetic average return of the investment. The higher the standard deviation, the greater the variability (and thus risk) of the investment returns. An investment cannot be made directly in an index. The data assumes reinvestment of all income and does not account for taxes or transaction costs.

Use asset allocation to help address investment volatility.

Past performance is no guarantee of future results. Risk and return are measured by standard deviation and compound annual return, respectively. They are based on annual data over the period 1970-2016. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © 2017 Morningstar. All Rights Reserved.
ASSET ALLOCATION

CONSERVATIVE ASSET ALLOCATION MODEL
Conservative investors tend to be more interested in preservation of principal, liquidity and income, rather than in long-term growth or capital appreciation. These investors are willing to accept lower returns for the potential to reduce volatility.

MODERATELY CONSERVATIVE ASSET ALLOCATION MODEL
Moderately conservative investors are interested in preservation of principal, liquidity and income, but also seek modest growth in the value of their investments. These investors are willing to take on a little more risk to achieve that growth, with the understanding that it may increase volatility.

BALANCED ASSET ALLOCATION MODEL
Balanced investors are equally interested in preservation of principal and long-term growth. These investors generally want steady and sustained growth without the volatility that high-risk investments can bring.

AGGRESSIVE ASSET ALLOCATION MODEL
Aggressive investors are primarily interested in long-term growth and are willing to take reasonable risks to achieve it. These investors are comfortable with the volatility that accompanies higher risk investments.

VERY AGGRESSIVE ASSET ALLOCATION MODEL
Very aggressive investors are interested in higher potential growth with greater volatility and are willing to take substantial risks to achieve it.

Your portfolio should be a reflection of your goals, risk tolerance and time frame.

Portfolios presented are based on modern portfolio theory. This is for illustrative purposes only and not indicative of any investment. No investment strategy can guarantee a profit or protect against a loss.
**RESIST THE TEMPTATION OF TIMING**

**MARKET PREFERENCES**

<table>
<thead>
<tr>
<th>Year</th>
<th>Commodity</th>
<th>Emerging</th>
<th>Real Estate</th>
<th>Fixed Income</th>
<th>U.S. Small Cap</th>
<th>U.S. Mid Cap</th>
<th>Diversified Portfolio</th>
<th>Cash Alt.</th>
<th>Int1 Developed</th>
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</thead>
<tbody>
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<td>2002</td>
<td>Commodity</td>
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<td>Real Estate</td>
<td>33.2%</td>
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<td>Real Estate</td>
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<td>Int1 Emerging</td>
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<td>2004</td>
<td>Commodity</td>
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<td>Real Estate</td>
<td>35.3%</td>
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<td>Int1 Developed</td>
<td>U.S. Mid Cap</td>
<td>16.2%</td>
<td>Int1 Emerging</td>
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<tr>
<td>2005</td>
<td>Fixed Income</td>
<td>10.1%</td>
<td>Real Estate</td>
<td>34.0%</td>
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<td>Int1 Developed</td>
<td>U.S. Small Cap</td>
<td>21.4%</td>
<td>Int1 Emerging</td>
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<tr>
<td>2006</td>
<td>Commodity</td>
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<td>Real Estate</td>
<td>34.0%</td>
<td>Int1 Emerging</td>
<td>Int1 Developed</td>
<td>U.S. Mid Cap</td>
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<td>Fixed Income</td>
<td>10.1%</td>
<td>Real Estate</td>
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<td>Int1 Developed</td>
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<td>Int1 Developed</td>
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<td>Fixed Income</td>
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<td>Int1 Emerging</td>
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<tr>
<td>2011</td>
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<td>Int1 Emerging</td>
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<td>2012</td>
<td>Commodity</td>
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<td>16.2%</td>
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<tr>
<td>2013</td>
<td>Fixed Income</td>
<td>10.1%</td>
<td>Real Estate</td>
<td>34.0%</td>
<td>Int1 Emerging</td>
<td>Int1 Developed</td>
<td>U.S. Small Cap</td>
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<tr>
<td>2014</td>
<td>Commodity</td>
<td>28.4%</td>
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<td>Int1 Developed</td>
<td>U.S. Mid Cap</td>
<td>16.2%</td>
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</tr>
<tr>
<td>2015</td>
<td>Fixed Income</td>
<td>10.1%</td>
<td>Real Estate</td>
<td>34.0%</td>
<td>Int1 Emerging</td>
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</tr>
<tr>
<td>2016</td>
<td>Commodity</td>
<td>28.4%</td>
<td>Real Estate</td>
<td>34.0%</td>
<td>Int1 Emerging</td>
<td>Int1 Developed</td>
<td>U.S. Mid Cap</td>
<td>16.2%</td>
<td>Int1 Emerging</td>
</tr>
</tbody>
</table>

* Compounded returns are measured by the geometric mean of a given portfolio, which takes into account the sequence of returns over a given period of time and more accurately shows the portfolio’s performance over that period of time, as compared to a simple average.

** Risk is represented by Standard Deviation, which is the measure of total volatility in a portfolio. It shows how widely a portfolio’s returns have varied around the average over a period of time. Standard deviations on this chart were calculated using monthly returns.

This chart is for illustrative purposes only and not indicative of any investment. The data assumes reinvestment of all income and does not account for taxes or transactions costs. This chart is based upon past index performance and is not indicative of future results. Indexes are unmanaged and cannot be invested in directly. Diversification does not guarantee a profit or protect against a loss. Note that the diversified portfolios were rebalanced at the end of each quarter in order to maintain the designated allocations throughout the period. Standard deviations are calculated using monthly returns. Standard deviation is the measure of total volatility, or risk, in a portfolio. It tells how widely a portfolio’s returns have varied around the average over a period of time.


Can you predict next year’s winner?
STEP 4  GIVE IT TIME

Power of Compounding

<table>
<thead>
<tr>
<th>Investor A</th>
<th>Investor B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years contributing: 1997-2006</td>
<td>Years contributing: 2007-2016</td>
</tr>
<tr>
<td>Annual mount contributed: $2,000</td>
<td>Annual mount contributed: $2,000</td>
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<tr>
<td>$20,000</td>
<td>$20,000</td>
</tr>
<tr>
<td>$56,022</td>
<td>$36,690</td>
</tr>
</tbody>
</table>

The sooner you start, the harder compounding can work for you.

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STEADY AS YOU GO

Market-Timing Risk

The effects of missing the best month of annual returns 1970-2016

Investors who attempt to time the market run the risk of missing periods of exceptional returns.

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LET YOUR PROGRESS BUILD ON ITSELF

Exercise Your Investments

Reinvesting is using the dividends, interest and capital gains earned from an investment to buy additional shares or units.
POWER OF REINVESTING - 1997-2016

Reinvesting can help build the value of your portfolio even faster.

Stocks are represented by the Ibbotson® Large Company Stock Index. Bonds are represented by the 20-year U.S. government bond. An investment cannot be made directly in an index. With fixed income securities, such as bonds, interest rates and bond prices tend to move in opposite directions. When interest rates fall, bond prices typically rise; and conversely, when interest rates rise, bond prices typically fall. Bond and bond fund investors should carefully consider risks such as interest rate risk, credit risk, liquidity risk and inflation risk before investing in a particular bond or bond fund. Past performance is no guarantee of future results. Hypothetical value of $1,000 invested at the beginning of 1996. Data does not account for taxes or transaction costs. This is for illustrative purposes only and not indicative of any investment. ©2017 Morningstar, All Rights Reserved.
STEPS TO INVESTING

- **STEP 1** Start with your goals
- **STEP 2** Determine your tolerance for risk
- **STEP 3** Develop a diversified investment program
- **STEP 4** Give it time
- **STEP 5** Let your progress build on itself
ABOUT NORTHWESTERN MUTUAL

• Ranked among the Top 10 independent broker-dealers by leading investment industry publications.¹

• Has helped clients achieve financial security for nearly 160 years.

• Provides on-going expert guidance to help you reach your financial goals.

¹ As measured by total combined revenues of NMIS and NMMWC by Financial Advisor magazine, April 2015, Financial Planning magazine, June 2015, and Investment Advisor magazine, June 2015.

Northwestern Mutual is the marketing name for The Northwestern Mutual Life Insurance Company, Milwaukee, WI (founded 1867) and its subsidiaries, including Northwestern Mutual Investment Services, LLC (NMIS) (founded 1968) and Northwestern Mutual Wealth Management Company® (NMMWC) (founded 2001). NMIS is an introducing broker-dealer and an investment adviser registered with the Securities and Exchange Commission, and a member of the Financial Industry Regulatory Authority and the Securities Investor Protection Corporation. NMMWC is a federal savings bank. It is not a broker-dealer or insurance company and does not offer insurance products or brokerage products. Investment products and trust services are not insured by the FDIC, are not deposits or other obligations of, or guaranteed by, Northwestern Mutual Investment Services or Northwestern Mutual Wealth Management Company or their affiliates, and are subject to investment risks, including possible loss of the principal amount invested.
THE VALUE OF PROFESSIONAL GUIDANCE

- Customized investment plan
- An objective perspective
- Discipline to move forward

A trusted guide can lead the way to a sound investment program.
OUR COMMITMENT

IT IS OUR MISSION TO DEVELOP ENDURING RELATIONSHIPS BY PROVIDING EXPERT GUIDANCE FOR A LIFETIME OF SECURITY.

My hope is that this program will be the start of a conversation about how I can help.
IMPORTANT DISCLOSURES

Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns. Returns represent past performance, are not a guarantee of future performance and are not indicative of any specific investment. No investment strategy can guarantee a profit or protect against a loss.

Although stocks have historically outperformed bonds, they also have historically been more volatile. Investors should carefully consider their ability to invest during volatile periods in the market. The securities of small capitalization companies are subject to higher volatility than larger, more established companies and may be less liquid. Investors should be aware of the risks of investments in foreign securities, particularly investments in securities of companies in developing nations. These include the risks of currency fluctuation, of political and economic instability and of less well-developed government supervision and regulation of business and industry practices, as well as differences in accounting standards.

With fixed income securities, such as bonds, interest rates and bond prices tend to move in opposite directions. When interest rates fall, bond prices typically rise and conversely when interest rates rise, bond prices typically fall. This also holds true for bond mutual funds. When interest rates are at low levels there is risk that a sustained rise in interest rates may cause losses to the price of bonds or market value of bond funds that you own. At maturity, however, the issuer of the bond is obligated to return the principal to the investor. The longer the maturity of a bond or of bonds held in a bond fund, the greater the degree of a price or market value change resulting from a change in interest rates (also known as duration risk). Bond funds continuously replace the bonds they hold as they mature and thus do not usually have maturity dates, and are not obligated to return the investor’s principal. Additionally, high yield bonds and bond funds that invest in high yield bonds present greater credit risk than investment grade bonds. Bond and bond fund investors should carefully consider risks such as: interest rate risk, credit risk, liquidity risk and inflation risk before investing in a particular bond or bond fund.

Government bonds and Treasury bills are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than the other asset classes. Furthermore, small-company stocks are more volatile than large-company stocks and are subject to significant price fluctuations, business risks, and are thinly traded.

Commodity prices fluctuate more than other asset prices with the potential or large losses and may be affected by market events, weather, regulatory or political developments, worldwide competition, and economic conditions. Investment can be made directly in physical assets or commodity linked derivative instruments, such as commodity swap agreements or futures contracts.

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although money market funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in a money market fund.
The S&P 500 Index is a capitalization-weighted index of 500 stocks. The S&P 500 Index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The S&P Mid Cap 400 Index is the most widely used index for mid-size companies and covers approximately 7% of the U.S. equities market.

The S&P Small Cap 600 Index is a market-value weighted index that consists of 600 small-cap U.S. stocks chosen for market size, liquidity and industry group representation.

The MSCI EAFE Index (Europe, Australasia and Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. The MSCI EAFE Index consists of the following 21 developed market country indexes: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

The MSCI Emerging Markets (EM) Europe, Middle East and Africa Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of Europe, the Middle East and Africa. The MSCI EM EMEA Index consists of the following 10 emerging market country indexes: Czech Republic, Greece, Hungary, Poland, Russia, Turkey, Egypt, South Africa, Qatar and United Arab Emirates.

The Dow Jones U.S. Select REIT Index intends to measure the performance of publicly traded REITs and REIT-like securities. The index is a subset of the Dow Jones U.S. Select Real Estate Securities Index (RESI), which represents equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded in the U.S. The indices are designed to serve as proxies for direct real estate investment, in part by excluding companies whose performance may be driven by factors other than the value of real estate.

The Bloomberg Commodity Index (BCOM), formerly the Dow Jones-UBS Commodity Index, is a highly liquid, diversified and transparent benchmark for the global commodities market. It is calculated on an excess return basis and reflects commodity futures price movements.

The Barclays Capital U.S. Aggregate Bond Index (formerly the Lehman Brothers U.S. Aggregate Index) is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

Cash alternatives are represented by the Citigroup 3-month Treasury Bill Index, an unmanaged index representative of three-month Treasury bills.

A portfolio of all segments disclosed above, with the following weightings: 23% U.S. Large Cap; 6% U.S. Mid Cap; 3% U.S. Small Cap; 13% Int’l Developed; 6% Int’l Emerging; 4% Real Estate; 5% Commodities; 38% Fixed Income; 2% Cash Alternatives.
THANK YOU