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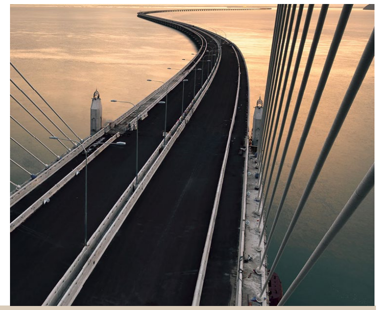

Investment Strategy

Weekly guidance from our Investment Strategy Committee **December 29, 2025**

Investment and Insurance Products: ➤ NOT FDIC Insured ➤ NO Bank Guarantee ➤ MAY Lose Value

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Global Economic Spotlight

"Good tidings we bring to you and your kin…" — Arthur Warrell, English composer (We Wish You a Merry Christmas)

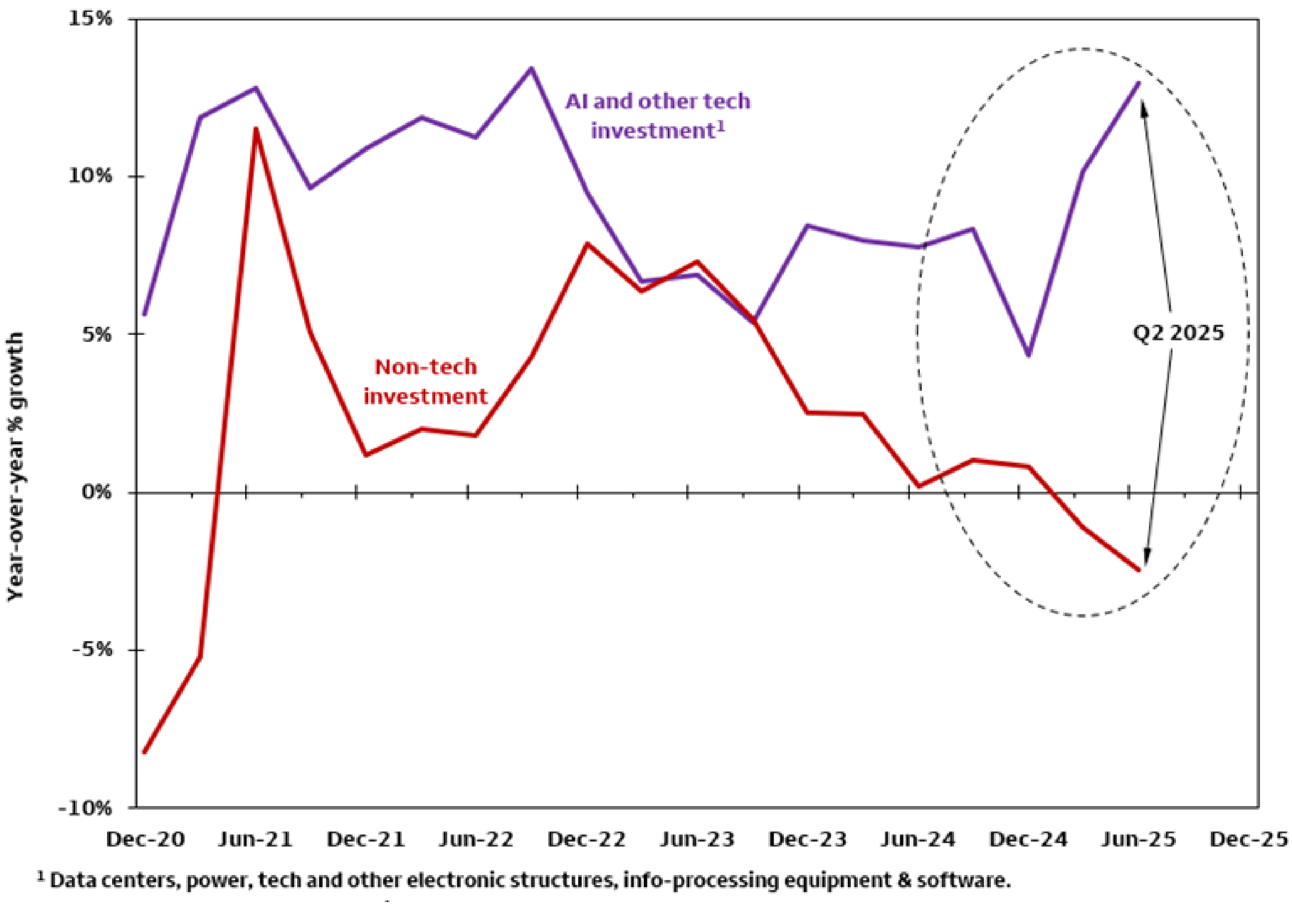
Jennifer Timmerman
Investment Strategy Analyst

A look back at an eventful 2025

The U.S. economy weathered a whirlwind of change in 2025, contending with constantly evolving trade policy, a softening labor market, and the longest government shutdown on record. A weak start and finish to 2025 left full-year growth slightly below its pace in 2024 despite the strong performance during the middle two quarters of the year.

Jitters around anticipated tariffs incentivized U.S. businesses to front-load imports early in the year, dampening first-quarter economic growth before markets were rattled by the April 2 "Liberation Day" tariff announcements. Subsequently, a series of tariff pauses and extended negotiations helped ensure a gradual absorption of the levies by the U.S. economy, among the factors keeping inflation (as well as longer-term interest rates) surprisingly subdued. Disinflation buoyed overall consumer purchasing power and, combined with AI and other tech-related investment, sparked a rebound in second- and third-quarter growth.

Chart 1. Tech investment masked capital spending weakness elsewhere in 2025



Sources: Wells Fargo Investment Institute, U.S Census Bureau, and U.S. Department of Commerce. Data as of December 3, 2025.

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All this occurred against a backdrop of softening labor market conditions, which prompted a series of Fed interest-rate cuts during the final months of the year. The government shutdown in October and early November collided with a more cautious but resilient consumer, resulting in a mild economic soft patch.

Especially notable was the U.S. economy's ability to overcome striking imbalances between services and manufacturing industries, AI and other investment, large and small businesses, and upper- versus lower-income households. Windfall gains in household wealth — from 2025's rally in stocks and other financial assets — supported upper-income spending, driving the bulk of consumer-led economic growth.
Overseas economies navigated a less-friendly global trade environment but in the end logged respectable growth. Disinflation supported household purchasing power, fiscal stimulus, and central-bank interest-rate cuts and allowed Europe to overcome weakness in manufacturing-oriented Germany and France (which also grappled with political uncertainties) and benefit from more service-oriented growth in Spain, Italy, and other southern-tier economies. China's export strength and an AI-related tech boom outweighed weak domestic consumer demand tied to the ongoing property slump. Economic growth elsewhere in Asia benefited from low-value manufacturing outsourced by China. A weaker U.S. dollar provided added support to emerging-market economies as local central banks, freed from concerns over currency depreciation, were able to cut interest rates.

Unwrapping our *2026 Outlook*

As we detailed in our *2026 Outlook*, "Trendlines over headlines," we expect noisy headlines — around tariff developments, a new Fed chair, and the midterm elections — to add to market volatility throughout the coming year. However, we are focused on five durable trends already in motion that we believe will overshadow bouts of market volatility, fuel a moderate economic growth recovery, and boost financial markets in 2026:

1. Tax cuts for individuals and businesses should encourage spending by consumers and businesses.
2. AI-related investments appear poised to broaden and expand across sectors and should begin to lift productivity.
3. The lagged effect of this year's Fed rate cuts, and our expectation for further reductions in 2026 , should provide relief to interest-sensitive pockets of the economy like small businesses.
4. Cost savings from deregulation should become increasingly noticeable.
5. U.S. business profit margins could benefit from potential tariff refunds tied to a looming Supreme Court ruling on the legality of the bulk of 2025's tariff increases.

What it may mean for investors

We view the U.S. as the engine of global economic expansion in 2026, supporting our preferred tilt toward U.S. assets in a diversified portfolio. That leadership should help stabilize the U.S. dollar's value.

We believe strong corporate earnings growth will power equity-market gains as the economy reaccelerates and AI and tech-related spending broadens across companies and market sectors. We favor U.S. Large and Mid Cap Equities and see the most value in Financials, Industrials, and Utilities. We believe these sectors are more effective ways to lean into the AI theme at more attractive valuations than the more richly valued Information Technology sector, where we currently hold a neutral rating that still implies a full portfolio allocation.

In fixed income, we prefer investment-grade corporate bonds with three- to seven-year maturities, and we favor high-quality municipal bonds. We think a diversified portfolio can benefit from a full allocation to international stocks (both developed and emerging markets) along with a broad basket of commodities.

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Equities

Edward Lee
Investment Strategy Analyst

A look back at the year in equities

Stocks experienced significant volatility in 2025 but are poised to end the year with solid gains. The Fed, tariffs, company earnings, and AI have been driving themes as we look back on an eventful 2025.

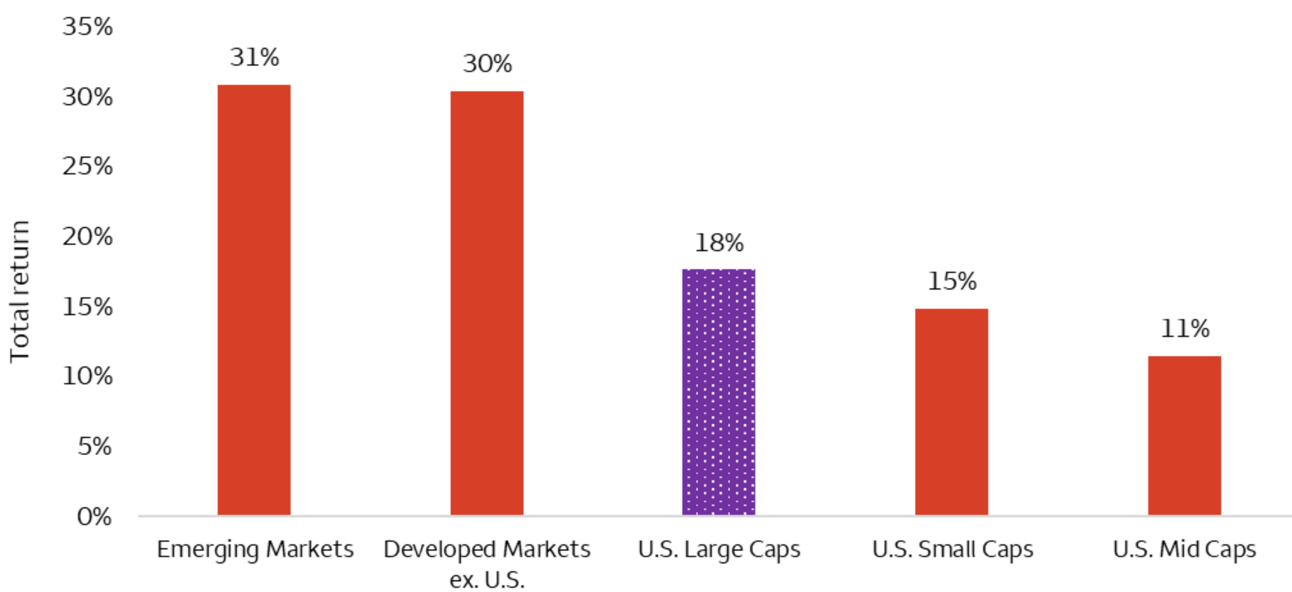
The year began with optimism as stocks initially rose on policy hopes from the incoming administration. However, deteriorating macroeconomic data, increased investor concerns over the AI trade, and aggressive trade policy announcements turned markets lower. The S&P 500 Index fell nearly 20% from its high on February 19, to its low on April 8.

Stocks rebounded quickly off the April lows that were fueled by delayed tariff implementation, the anticipation of a new Fed easing cycle, strong earnings growth, and renewed AI enthusiasm. The S&P 500 Index returned almost 40% from the April low to December 22, 2025. However, over the past two months stocks have traded sideways with recent volatility driven by concerns regarding the economy, the government shutdown, technology company valuations, and AI spending.

International markets delivered a standout performance, with Emerging Markets Equities and Developed Markets ex-U.S. Equities outperforming U.S. markets by considerable margins (see Chart 2). Dollar weakness, especially in the beginning of the year, improving fundamentals, and relatively cheaper valuations helped improve investor sentiment and drive returns.

Going into 2026, we expect that accelerating economic growth, lower short-term interest rates, and subdued inflation will support continued earnings growth and strong equity gains. We are favorable on U.S. Large Cap Equities and U.S. Mid Cap Equities, neutral on Developed Market ex-U.S. Equities and Emerging Market Equities, and unfavorable on U.S. Small Cap Equities.

Chart 2. International equities significantly outperformed their peers in 2025



Sources: Wells Fargo Investment Institute and Bloomberg. December 31, 2024- December 22, 2025. U.S. large caps is represented by the total return of the S&P 500 Index. U.S. mid caps is represented by the total return of the Russell Midcap Index. U.S. small caps is represented by the total return of the Russell 2000 Index. Developed markets ex U.S. is represented by the total return of the MSCI EAFE Index. Emerging markets is represented by the total return of the MSCI EM Index. **Past performance is no guarantee of future results. Please see the end of the report for important risk disclosure and definitions.**

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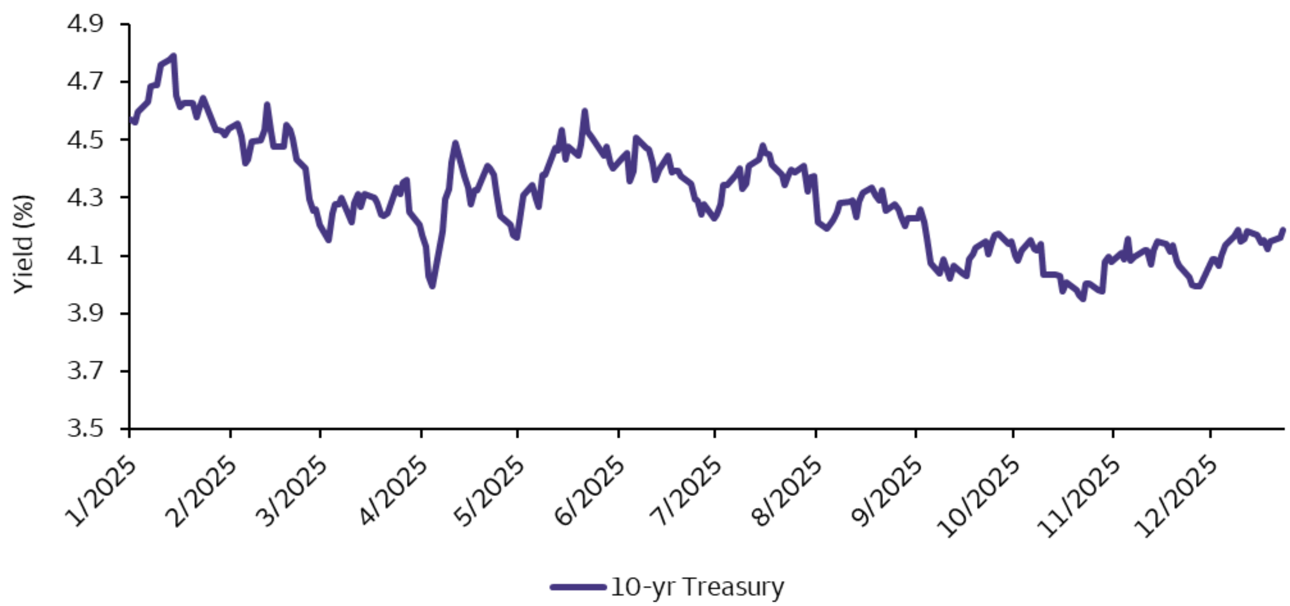
Fixed Income

Tony Miano, CFA, CAIA
Investment Strategy Analyst

A look back at the year in fixed income

Investors continued to face volatility in 2025 on the back of tariff uncertainty. However, the continuation of the Fed rate-cutting cycle and an overall positive environment for credit supported fixed-income investments. Ten-year Treasury yields started at 4.6%, rose to 4.8% in mid-January, and retreated to 4.16% as of December 22. However, the chart below shows the significant fluctuations along the way.

Chart 3. Ten-year treasury yields in 2025



Sources: Wells Fargo Investment Institute and Bloomberg. Data as of 12/23/2025.

After initial worries over tariff-driven inflation starting in April, the Fed held rates steady until their September meeting, then delivered one 25 basis point (bps; 100 bps equals 1.00%) cut at each of its three final meetings of the year. We believe the Fed is poised to continue this cycle into 2026, with mild economic softening driving two additional cuts early in 2026. In December, the Fed also provided monetary support by ending its policy of quantitative tightening through balance sheet reductions.

These efforts, along with a solid underlying economy, have supported credit markets. High Yield and Investment Grade credit spreads (a measure of credit risk) both ended the year at historically tight levels, though again with the intervening path showing volatility. Falling rates and tight credit spreads have come together to form a positive year for fixed income, with most fixed-income asset classes on track to produce high single-digit returns. With the volatility underlying these returns, some of the best performers on a risk-adjusted basis were intermediate-term bonds and investment-grade securities, which struck a balance between risk and reward.

While fixed income returns for the year may have underperformed equities, the volatility and uncertainty seen in 2025 highlights the importance of high-quality fixed income in investor portfolios as a means of decreasing portfolio volatility. We believe investors should continue to focus on quality while balancing risk with the yield generation we see as a key investor focus in 2026.

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Real Assets

Mason Mendez
Investment Strategy Analyst

A look back at the year in real assets

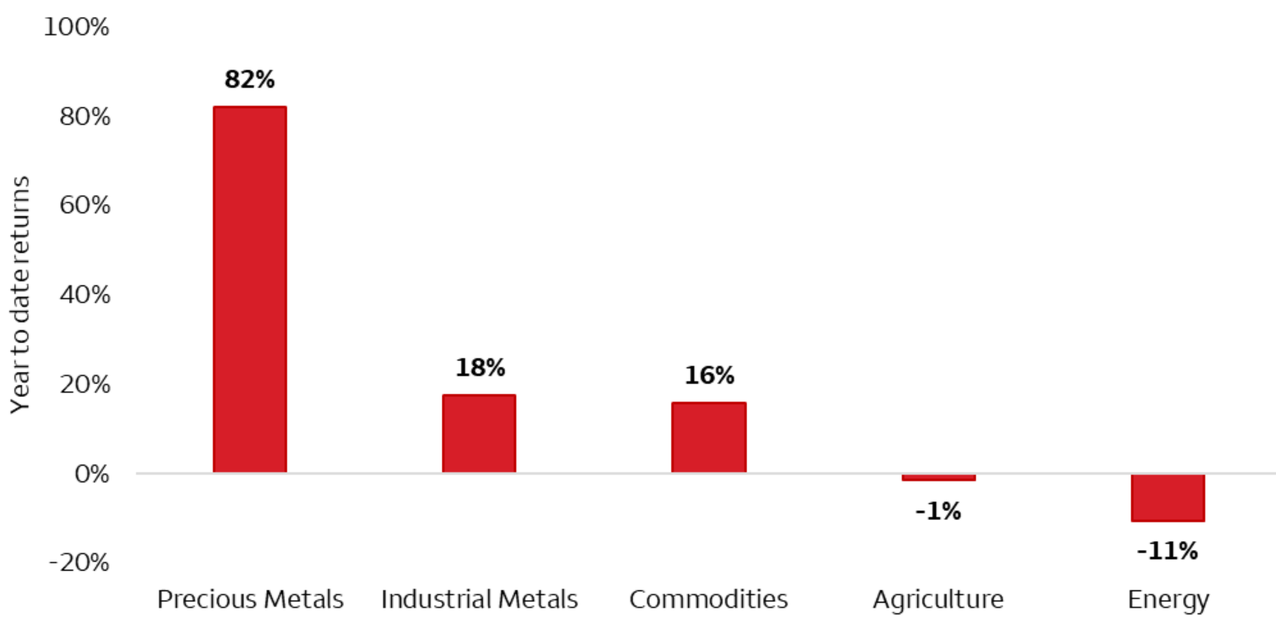
2025 was undoubtedly a volatile year for financial markets, as uncertainties around economic conditions, geopolitics, and evolving trade policies were common headlines. Commodities emerged, though, as an effective hedge against many of these risks, and the Bloomberg Commodity Index turned in a 16% return year to date (YTD; as of December 22).

Year-to-date, Precious Metals led the pack with an 82% return, followed by Industrial Metals (+18%), Agriculture (-1%), and Energy (-11%). Though the more cyclically sensitive Energy sector underperformed the broader commodity complex, unique tailwinds elsewhere in Commodities helped broad performance and supported Commodities' role as a portfolio diversifier. These tailwinds included global mine disruptions for copper, agricultural trade deals with China, and central bank purchases of precious metals.

Additionally, a weakening U.S. dollar and Fed rate cuts proved to be strong tailwinds for broad performance. Not to mention, support from the buildout of data centers and electrification needed to support emerging technologies such as AI also benefited industrial metal and even silver prices. Looking ahead, we suspect the AI theme will continue to be a positive demand driver for these commodities.

In 2026, we suspect that an improving global economy and support U.S. dollar will drive positive commodity returns. We remain neutral on Commodities as a whole, largely due to oversupply headwinds in Energy markets. Nevertheless, a neutral rating still warrants a full allocation to Commodities, and their role as diversifiers could also prove to be beneficial, as we suspect that volatility amid headline noise could persist into next year. Additionally, we see the strongest potential for outperformance in our two favorably rated sectors — Precious Metals and Industrial Metals.

Chart 4. Commodity year-to-date performance



Sources: Wells Fargo Investment Institute and Bloomberg. Daily data is from December 31, 2024 – December 22, 2025. **Past performance is no guarantee of future results.** Precious Metals are represented by the Bloomberg Precious Metals Total Return Subindex, Industrial Metals are represented by the Bloomberg Industrial Metals Total Return Subindex, Agriculture is represented by the Bloomberg Agriculture Total Return Subindex, Energy is represented by the Bloomberg Energy Total Return Subindex, and Commodities are represented by the Bloomberg Commodity Total Return Index. **Please see the end of the report for important risk disclosure and definitions.**

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Alternatives

Chao Ma, PhD, CFA, FRM
Global Portfolio and Investment Strategist

A look back at the year in alternatives

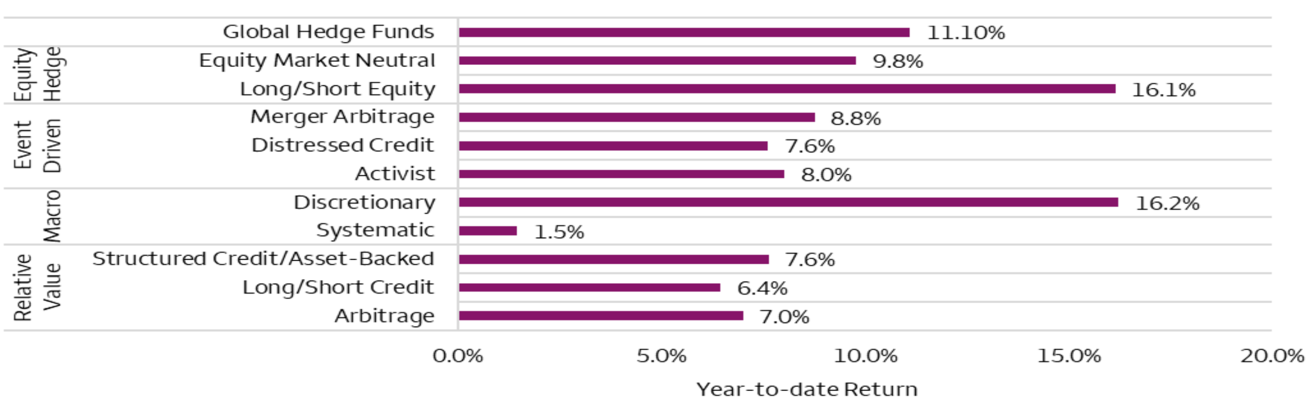
Hedge funds delivered solid results in 2025 as the HFRI Fund Weighted Composite Index gained over 11% year-to-date through November, with all major sub-indexes contributing positively (see Chart 5). According to HFR, hedge fund industry assets approached $5 trillion by the end of the third quarter, supported by investment gains and steady inflows. As the chart shows, flexible strategies such as Long/Short Equity and Discretionary Macro were among the top performers, while Systematic Macro and Equity Market Neutral lagged.

Private equity showed signs of recovery after three years of slowdown,[1] with dealmaking strengthening. Exit activity surged — average quarterly transaction volume rose more than 70% in 2025, and public listings also more than doubled compared to last year[1]. Venture capital (VC) remained highly concentrated in AI, with AI-related deals accounting for roughly two-thirds of total VC deal volume and more than doubling the share from five years ago.[2]

Structural growth themes continued to shape private markets. The secondaries market reached a new record surpassing $100 billion in transactions during the first half of the year,[3]. Evergreen or perpetual fund structures also expanded rapidly, with assets under management climbing from $250 billion in 2022 to nearly $500 billion in 2025.[4] Private infrastructure strategies attracted strong demand, driven by the need to upgrade aging facilities and themes, such as energy transition, AI adoption, and supply chain reshoring.[5]

Overall, we believe 2025 highlighted the resilience and adaptability potential of alternative investments. Looking ahead, we continue to favor strategies emphasizing flexibility, quality, and differentiated risk-return profiles in both hedge funds and private capital.

Chart 5. Global hedge funds delivered solid performance in 2025



Sources: Wells Fargo Investment Institute and Hedge Fund Research. Data as of November 30, 2025. **Past performance is no guarantee of future results. Please see the end of the report for important risk disclosure and definitions.**

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

1. Pitchbook, "US PE Breakdown," October 10, 2025.
2. Pitchbook, "Venture Monitor First Look," October 2, 2025.
3. Evercore, "H1 2025 Secondary Market Report," September 15, 2025.
4. Pitchbook, "Evergreen Fund Landscape," December 17, 2025.
5. Pitchbook, "Global Private Market Fundraising Report," November 26, 2025.

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Tactical guidance*

Cash Alternatives and Fixed Income

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
	U.S. Long Term Taxable Fixed Income U.S. Short Term Taxable Fixed Income	Cash Alternatives Developed Market Ex-U.S. Fixed Income Emerging Market Fixed Income High Yield Taxable Fixed Income	U.S. Intermediate Term Taxable Fixed Income	

Equities

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
	U.S. Small Cap Equities	Developed Market Ex-U.S. Equities Emerging Market Equities	U.S. Large Cap Equities U.S. Mid Cap Equities	

Real Assets

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
		Commodities Private Real Estate	Private Infrastructure	

Alternative Investments**

Most Unfavorable	Unfavorable	Neutral	Favorable	Most Favorable
		Hedge Funds—Equity Hedge Hedge Funds—Macro Hedge Funds—Relative Value Private Equity Private Debt	Hedge Funds—Event Driven	

Source: Wells Fargo Investment Institute, December 29, 2025.

*Tactical horizon is 6-18 months

**Alternative investments are not appropriate for all investors. They are speculative and involve a high degree of risk that is appropriate 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. Please see end of report for important definitions and disclosures.

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Risk considerations

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

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.

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 appropriate 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

An index is unmanaged and not available for direct investment.

Bloomberg Agriculture Subindex Total Return is a commodity group subindex of the BCOMTR. The index is composed of futures contracts on coffee, corn, cotton, soybeans, soybean oil, soybean meal, sugar and wheat. It reflects the return on fully collateralized futures positions and is quoted in USD.

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

Bloomberg Commodity Total Return Index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. This combines the returns of the BCOM with the returns on cash collateral invested in 13 week (3 Month) U.S. Treasury Bills.

Bloomberg Energy Subindex Total Return Index is a commodity group subindex of the BCOMTR. The index is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return on fully collateralized futures positions and is quoted in USD.

Bloomberg Industrial Metals Subindex Total Return is a commodity group subindex of the BCOMTR. The index is composed of longer-dated futures contracts on aluminum, copper, nickel, lead and zinc. It reflects the return on fully collateralized futures positions and is quoted in USD.

Bloomberg Precious Metals Subindex Total Return is a commodity group subindex of the BCOMTR. The index is composed of futures contracts on gold and silver. It reflects the return on fully collateralized futures positions and is quoted in USD.

MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada.

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

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. The 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.

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HFRI Fund Weighted Composite Index is a global, equal-weighted index of over 2,000 single-manager funds that report to HFR Database. Constituent funds report monthly net of all fees performance in US Dollars and have a minimum of $50 Million under management or a twelve (12) month track record of active performance. The HFRI Fund Weighted Composite Index does not include funds of hedge funds.

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 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.

Funds that become ineligible are removed from the index in a manner consistent with real market options and practices within a timeframe reflecting actual market conditions. AUM will be redistributed among existing constituents or allocated to a new constituent or both. Due to mutual agreements with the hedge fund managers listed in the HFR Database, we are not at liberty to disclose the particular funds behind any index to non-database subscribers.

Global Hedge Funds. HFRI Fund Weighted Composite Index. A global, equal-weighted index of over 2,000 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.

Relative Value. HFRI Relative Value (Total) Index. Strategy 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. Relative Value (RV) position may be involved in corporate transactions also, but as opposed to Event Driven (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.

Arbitrage. HFRI RV: Multi-Strategy Index: multi-strategies employ an investment thesis predicated on realization of a spread between related yield instruments in which one or multiple components of the spread contains a fixed income, derivative, equity, real estate, MLP or combination of these or other instruments. 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.

Long/Short Credit. HFRI RV: Fixed Income — Corporate Index. Includes strategies predicated on realization of a spread between related instruments in which one or multiple components of the spread is a corporate fixed-income instrument. Strategies are designed to isolate attractive opportunities between a variety of fixed income instruments, typically realizing an attractive spread between multiple corporate bonds or between a corporate and risk free government bond. They typically involve arbitrage positions with little or no net credit market exposure, but are predicated on specific, anticipated idiosyncratic developments.

Structured Credit/Asset Backed. HFRI RV: Fixed Income — Asset Backed Index. Includes strategies predicated on realization of a spread between related instruments in which one or multiple components of the spread is a fixed-income instrument backed by physical collateral or other financial obligations (loans, credit cards) other than those of a specific corporation. Strategies are designed to isolate attractive opportunities between a variety of fixed income instruments specifically securitized by collateral commitments, which frequently include loans, pools and portfolios of loans, receivables, real estate, machinery or other tangible financial commitments. Investment thesis may be predicated on an attractive spread given the nature and quality of the collateral, the liquidity characteristics of the underlying instruments and on issuance and trends in collateralized fixed-income instruments, broadly speaking. In many cases, investment managers hedge, limit, or offset interest-rate exposure in the interest of isolating the risk of the position to strictly the disparity between the yield of the instrument and that of the lower-risk instruments.

Macro. HFRI Macro (Total) Index. Encompass a broad range of strategies 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 on 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 opposed to Equity Hedge (EH), in which the fundamental characteristics on the company are the most significant are integral to investment thesis.

Systematic Macro. HFRI Trend Following Directional Index is a global, equal-weighted index of single-manager funds that report to the HFR Database. The HFRI Trend Following Directional Index is comprised of funds that employ trend following strategies such as Macro: Currency – Systematic, Macro: Systematic Diversified, certain Macro: Multi-Strategy funds and other Macro funds that utilize, to some degree, trend following.

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Discretionary Macro. HFRI Macro: Discretionary Thematic Index. Strategies primarily rely on the evaluation of market data, relationships and influences, as interpreted by individuals who make decisions on portfolio positions; strategies employ an investment process most heavily influenced by top-down analysis of macroeconomic variables. Investment Managers may trade actively in developed and emerging markets, focusing on both absolute and relative levels on equity markets, interest rates/fixed income markets, currency and commodity markets; they frequently employ spread trades to isolate a differential between instrument identified by the Investment Manager as being inconsistent with expected value. Portfolio positions typically are predicated on the evolution of investment themes the Manager expects to develop over a relevant time frame, which in many cases contain contrarian or volatility-focused components.

Event Driven. HFRI Event Driven (Total) Index. Maintains positions in companies currently or prospectively involved in corporate transactions of a wide variety including 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. Exposure includes a combination of sensitivities to equity markets, credit markets and idiosyncratic, company-specific developments. Investment theses are typically predicated on fundamental (as opposed to quantitative) characteristics, with the realization of the thesis predicated on a specific development exogenous to the existing capital structure.

Activist. HFRI ED: Activist Index. Strategies may obtain or attempt to obtain representation on the company's board of directors in an effort to impact the firm's policies or strategic direction and in some cases may advocate activities such as division or asset sales, partial or complete corporate divestiture, dividends or share buybacks, and changes in management. Strategies employ an investment process primarily focused on opportunities in equity and equity-related instruments of companies that are currently or prospectively engaged in a corporate transaction, security issuance/repurchase, asset sales, division spin-off or other catalyst-oriented situation. These involve both announced transactions and situations in which no formal announcement is expected to occur. Activist strategies would expect to have greater than 50% of the portfolio in activist positions, as described.

Distressed Credit. HFRI Event Driven Directional Index is a global, equal-weighted index of single-manager funds that report to the HFR Database. The HFRI Event Driven Directional Index is comprised of Event Driven Funds that are classified as Special Situations, Credit Arbitrage and Distressed funds.

Merger Arbitrage. HFRI ED: Merger Arbitrage Index. Strategies primarily focus on opportunities in equity and equity-related instruments of companies that are currently engaged in a corporate transaction. Merger Arbitrage involves primarily announced transactions, typically with limited or no exposure to situations in which no formal announcement is expected to occur. Opportunities are frequently presented in cross-border, collared, and international transactions that incorporate multiple geographic regulatory institutions, typically with minimal exposure to corporate credits. Strategies typically have over 75% of positions in announced transactions over a given market cycle.

Equity Hedge. HFRI Equity Hedge (Total) Index. Equity Hedge: 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.

Directional Equity. HFRI EH: Long/Short Directional Index is a global, equal-weighted index of single-manager funds that report to the HFR Database. The HFRI EH: Long/Short Directional Index is comprised of Equity Hedge funds that are not considered Equity Market Neutral. The HFRI EH: Long/Short Directional Index includes funds that are classified as Fundamental Growth, Fundamental Value, Multi-Strategy, Quantitative Directional and sector-focused (i.e., Energy/Basic Materials, Healthcare and Technology).

Equity Market Neutral. HFRI EH: Equity Market Neutral Index. Strategies employ sophisticated quantitative techniques to analyze price data to ascertain information about future price movement and relationships between securities. These can include both Factor-based and Statistical Arbitrage/Trading strategies. Factor-based investment strategies include strategies predicated on the systematic analysis of common relationships between securities. In many cases, portfolios are constructed to be neutral to one or multiple variables, such as broader equity markets in dollar or beta terms, and leverage is frequently employed to enhance the return profile of the positions identified. Statistical Arbitrage/Trading strategies consist of strategies predicated on exploiting pricing anomalies which may occur as a function of expected mean reversion inherent in security prices; high-frequency techniques may be employed; trading strategies may also be based on technical analysis or designed opportunistically to exploit new information that the investment manager believes has not been fully, completely, or accurately discounted into current security prices. Strategies typically maintain characteristic net equity market exposure no greater than 10% long or short.

Note: While the HFRI Indices are frequently used, they have limitations (some of which are typical of other widely used indexes). These limitations include survivorship bias (the returns of the indexes 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 indexes, and, therefore, the index may omit funds, the inclusion of which might significantly affect the performance shown. The HFRI Indices are based on information hedge fund managers 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 indexes 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.

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