

Global Investment Solutions - Strategic Portfolios  
2000 Westchester Ave.  
Purchase, New York 10577

Style: US Large Cap Value  
Sub-Style:  
Firm AUM: \$233.5 million  
Firm Strategy AUM: \$133.3 million

Year Founded: 2004  
GIMA Status: Not Applicable  
Firm Ownership: Morgan Stanley Smith Barney, LLC.  
Professional-Staff: 6

## PRODUCT OVERVIEW

The GIS Strategic 10 Dividend Strategy seeks long term capital appreciation by investing in ten "blue chip" companies, using dividend yield as the primary investment criterion. Accounts are generally restructured and rebalanced annually, on or around the beginning of each calendar year. There may be circumstances when Morgan Stanley will deviate from the discipline and make adjustments to the portfolios.

## TARGET PORTFOLIO CHARACTERISTICS

Number of stock holdings: 9 to 11  
Average dividend yield: Above the S&P 500  
P/E ratio: Below the S&P 500  
Cash level over market cycle: 1 to 2%  
Risk (standard deviation): Similar to/Below the S&P 500  
Average turnover rate: 20 to 50%  
Use ADRs: No  
Capitalization: Mega and Large companies

## PORTFOLIO STATISTICS

	-----03/18-----	09/17	
	GIS	Index***	GIS
Number of stock holdings	10	—	10
Wtd avg dividend yield	3.8%	—	3.2%
Wtd avg P/E ratio <sup>1</sup>	17.18x	—	25.19x
Wtd avg portfolio beta	0.81	—	—
Mega capitalization <sup>+</sup>	100.0%	0.0%	86.5%
Large capitalization <sup>+</sup>	0.0%	0.0%	11.6%
Medium capitalization <sup>+</sup>	0.0%	0.0%	0.0%
Small capitalization <sup>+</sup>	0.0%	0.0%	0.0%
Micro capitalization <sup>+</sup>	0.0%	0.0%	0.0%

## PORTFOLIO'S EQUITY SECTOR WEIGHTINGS <sup>+</sup>

Sector	-----03/18-----	09/17	
	GIS	Index***	GIS
Energy	18.57	0.00	17.70
Materials	0.00	0.00	0.00
Industrials	7.75	0.00	25.89
Consumer Discretionary	0.00	0.00	0.00
Consumer Staples	19.27	0.00	9.48
Health Care	20.32	0.00	18.89
Financials	0.00	0.00	0.00
Information Technology	21.57	0.00	17.47
Telecomm Services	9.68	0.00	8.74
Utilities	0.00	0.00	0.00
Miscellaneous	0.00	0.00	0.00
Cash/Cash Equivalents	2.84	0.00	1.83

## PORTFOLIO'S TOP FIVE EQUITY HOLDINGS %

Chevron Corporation	11.5
Pfizer Inc.	10.2
Merck & Co., Inc.	10.1
Coca-Cola Company	10.1
International Business Machines Corporation	10.0

## % PROCESS BASED ON

- 0 Asset allocation - cash vs. stock
- 0 Industry or sector weighting
- 100 Stock Selection

## MANAGER'S INVESTMENT STRATEGY

- Top-down / portfolio structures based on economic trends
- Bottom-up / portfolio structure based on individual securities

\*\*\*Index : DJ Industrial Avg

<sup>1</sup>The P/E used here is calculated by the harmonic mean.

<sup>+</sup>Total may not equal 100% due to rounding.

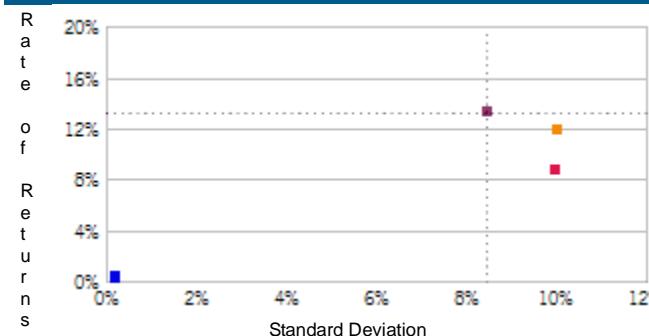
MANAGER'S INVESTMENT PROCESS		RISK CONSIDERATIONS	PORTFOLIO'S ALLOCATION HISTORY (%) *			
			03/18	12/17	09/17	06/17
• Systematic investment approach, using a quantitative rank of the universe based on dividend yield		Equity securities prices may fluctuate in response to specific situations for each company, industry, market conditions and general economic environment. Companies paying dividends can reduce or cut payouts at any time. Strategies that invest a large percentage of assets in only one industry sector (or in only a few sectors) are more vulnerable to price fluctuation than portfolios that diversify among a broad range of sectors.	U.S. Stocks	98	98	98
• Generally comprise the portfolio of the 10 highest yielding stocks of the universe		Investing in securities entails risks, including: When investing in value securities, the market may not necessarily have the same value assessment as the manager, and, therefore, the performance of the securities may decline. Value investing involves the risk that the market may not recognize that securities are undervalued and they may not appreciate as anticipated. Growth investing does not guarantee a profit or eliminate risk. The stocks of these companies can have relatively high valuations. Because of these high valuations, an investment in a growth stock can be more risky than an investment in a company with more modest growth expectations. Value investing does not guarantee a profit or eliminate risk. Not all companies whose stocks are considered to be value stocks are able to turn their business around or successfully employ corrective strategies which would result in stock prices that do not rise as initially expected.	Cash/Cash Equivalents	2	2	2

\*\*\*Index : DJ Industrial Avg

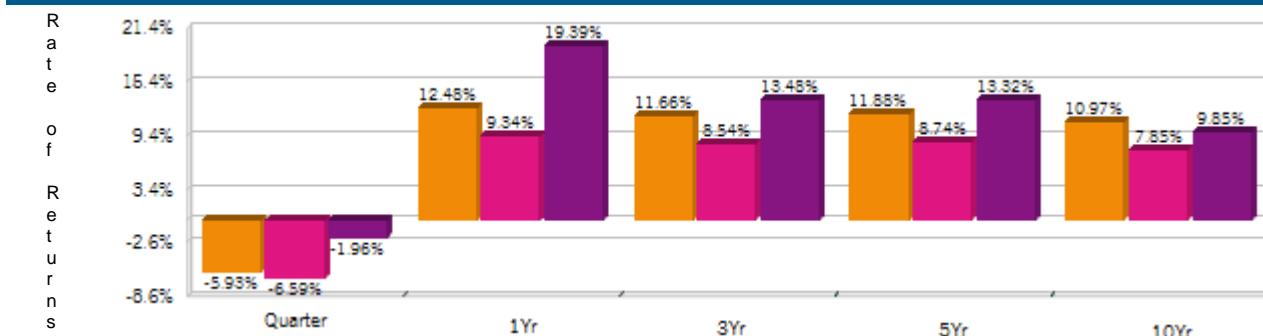
<sup>1</sup>The P/E used here is calculated by the harmonic mean.

<sup>2</sup>Total may not equal 100% due to rounding.

## RISK/RETURN ANALYSIS - 5 YEARS ENDING 03/31/18



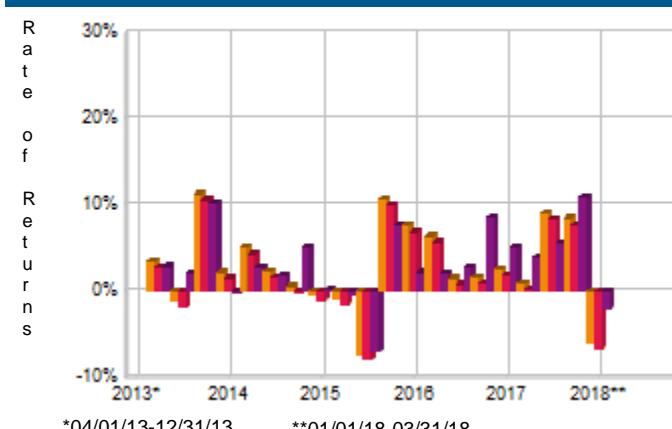
## AVERAGE ANNUAL TOTAL RETURN (%) - PERIODS ENDING 03/31/18



	STD	ROR
GIS (Gross)	10.04	11.88
GIS (Net)	9.99	8.74
DJ Industrial Avg	8.47	13.32
90-Day T-Bills	0.21	0.31

	Annual Rates of Return (%)							10 Year - Ending 03/31/18				
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Annual	Std. Dev.
GIS (Gross)	-35.11	25.95	21.60	14.74	11.65	32.98	10.73	1.59	18.43	22.63	10.97	17.15
GIS (Net)	-37.01	22.40	18.21	11.54	8.50	29.36	7.58	-1.23	15.05	19.19	7.85	17.08
DJ Industrial Avg	-31.93	22.68	14.06	8.38	10.23	29.64	10.03	0.21	16.50	28.11	9.85	14.97

## RISK VOLATILITY (%)



\*04/01/13-12/31/13

\*\*01/01/18-03/31/18

## PORTFOLIO'S QUARTERLY RETURNS (%)

	Quarter1		Quarter2		Quarter3		Quarter4	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
2008	-8.14	-8.82	-13.77	-14.37	1.22	0.52	-19.07	-19.74
2009	-15.73	-16.45	15.41	14.66	19.31	18.54	8.55	7.77
2010	5.25	4.47	-7.31	-7.97	16.91	16.13	6.62	5.87
2011	5.22	4.46	4.13	3.41	-7.42	-8.11	13.11	12.36
2012	7.81	7.06	5.62	4.87	3.35	2.62	-5.12	-5.82
2013	16.58	15.79	3.59	2.86	-1.12	-1.80	11.35	10.60
2014	2.26	1.50	5.10	4.36	2.37	1.64	0.64	-0.09
2015	-0.32	-1.05	-0.77	-1.46	-7.28	-7.95	10.77	10.05
2016	7.70	6.92	6.47	5.71	1.58	0.86	1.68	0.92
2017	2.56	1.82	1.01	0.29	9.11	8.36	8.49	7.72
2018	-5.93	-6.59						

Related

Select UMA

## PORTFOLIO'S RISK STATISTICS - PERIODS ENDING 03/31/18<sup>1,2</sup>

	3 Year	5 Year
Standard Deviation	11.59%	10.04%
Standard Deviation of Primary Benchmark	9.82%	8.47%
Sharpe Ratio	0.96	1.15
Sharpe Ratio of Primary Benchmark	1.32	1.54
Alpha	-0.26%	-0.02%
Beta	0.90	0.91
Downside Risk	5.65%	5.02%
R-Squared	0.58	0.58
Tracking Error	7.57%	6.53%
Information Ratio	-0.24	-0.22

Number Of Up Qtrs. Down Qtrs.

GIS (Gross)	15	5
GIS (Net)	14	6
DJ Industrial Avg	16	4

## PORTFOLIO DIVERSIFICATION - R<sup>2</sup>(INCEPTION THROUGH 12/14)+

GIS vs. DJ Industrial Avg R<sup>2</sup> 0.84

+Statistics are calculated using gross of fee performance only.

1. Statistics are calculated using gross of fee performance only.

2. DJ Industrial Avg was used as the primary benchmark and the 90-Day T-Bills Index as the risk-free benchmark.

See important notes and disclosures pages for a discussion of the sources of the performance data used to calculate the performance results and related analyses shown above.

## IMPORTANT NOTES AND DISCLOSURES

### COMPOSITE DISCLOSURES

**Past performance is no guarantee of future results. Actual individual account results may differ from the performance shown in this profile. There is no guarantee that this investment strategy will work under all market conditions. Do not use this profile as the sole basis for your investment decisions.**

Performance results in this profile are calculated assuming reinvestment of dividends and income. Returns for more than one year are annualized and based on quarterly data. Returns for periods of less than a calendar year show the total return for the period and are not annualized.

**Sources of Performance Results and Other Data:** The performance data and certain other information for this strategy (including the data on page 1 of this profile) reflect the investment manager's results in managing Morgan Stanley program accounts, or the investment manager's results in managing accounts and investment products, in the same or a substantially similar investment discipline. (For periods through June 2012, the Fiduciary Services program operated through two channels - Morgan Stanley channel and the Smith Barney channel - and any performance and other data relating to Fiduciary Services accounts shown here for these periods is calculated using accounts in only one of the these channels.) This information for the investment manager is presented solely to provide information about accounts that were managed according to investment objectives and strategies the same or substantially similar to the corresponding investment discipline in the Select UMA program. Although the Fiduciary Services and Select UMA programs are both Morgan Stanley managed account programs, the performance results and other features of similar investment disciplines in the two programs may differ due to investment and operational differences. For example, the individual investment disciplines in the Select UMA accounts may contain fewer securities, which would lead to a more concentrated portfolio. The automatic rebalancing, wash sale loss and tax-harvesting features of the Select UMA program, which are not available in Fiduciary Services, also could cause differences in performance. Accordingly, the performance of the accounts in the Fiduciary Services program is not, and may differ significantly from, the performance of the accounts in the Select UMA program and should not be considered indicative of or a substitute for Select UMA performance. Similarly, performance results of the investment manager's composites may differ from those of Select UMA accounts managed in the same or a substantially similar investment discipline.

### Related Performance:

**GIS Strategic 10 Dividend Strategy** This Strategy seeks as its primary investment objective long-term capital appreciation. The portfolios are individually managed using a disciplined approach (the "Discipline") to identify and maintain a select portfolio of stocks from the 30 components of the Dow Jones Industrial Average (the "Index"). The Discipline uses dividend yield as the primary criterion for portfolio selection. Generally, the Discipline invests in the ten highest-yielding stocks in the Index. Individual accounts are invested on a daily basis (as clients select the Strategic 10 Dividend Strategy for their accounts), purchasing the ten highest-yielding stocks in the Index as of the time of the immediately previous re-balance for the Strategy (i.e., on or around the beginning of that calendar year). Accounts are generally restructured and rebalanced annually, on or around the beginning of each calendar year. Generally, the Portfolio Manager will allow a full year to elapse before the next rebalancing (to allow for long term capital gain treatment). There may be some circumstances when Morgan Stanley Smith Barney LLC ("Morgan Stanley") will deviate from the Discipline and make adjustments to the portfolios.

Applicable law or regulation may prohibit Morgan Stanley from purchasing the stock of Morgan Stanley or affiliates, or securities where Morgan Stanley affiliates are performing investment banking or other services, for portfolios if such securities were to meet the selection criteria described above. In such event, Morgan Stanley may substitute one or more other stocks (for example, the 11th highest-yielding stock in the Index) for the stock(s) that it is unable to purchase, and/or increase the weightings of the remaining stocks that fit the Discipline's selection criteria.

### Consider Your Own Investment Needs

This profile is not intended to be a client-specific suitability analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities (including securities of Morgan Stanley, and/or its affiliates if shown in this profile). Do not use this profile as the sole basis for investment decisions. Do not select an investment strategy based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon.

### Performance and Other Portfolio Information

**General:** The inception date of this Strategy in the Morgan Stanley Global Investment Solutions program (as available as an Investment Product in the Morgan Stanley Select UMA program) is September 25, 2014. Performance and Key Statistics (including Assets and Inception) are for the Morgan Stanley Strategic Portfolios program, which utilizes a substantially similar strategy and is currently closed to new business. Please see the Morgan Stanley Smith Barney LLC Strategic Portfolios Wrap Fee Brochure, for more information. The Morgan Stanley ADVs are available from your Financial Advisor or on line at [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV).

The investment results depicted herein represent historical performance of the Strategic Portfolios program. As a result of recent market activity, current performance may vary from the figures shown. Please contact your Financial Advisor for up to date performance information. Past performance does not guarantee future results. There is no guarantee that this investment strategy will work under all market conditions.

Performance results include all cash and cash equivalents, are annualized for time periods greater than one year and include realized and unrealized capital gains and losses and reinvestment of dividends, interest and other income. Totals are rounded to the nearest dollar and, as such, may not equal the sum of the detail.

Performance results depicted as "gross" of fees do not reflect the deduction of any wrap fee or investment management fees. Actual returns will be reduced by wrap fees and investment management fees and any other expenses. The client is referred to the Morgan Stanley Smith Barney LLC Form ADV Part 2 or comparable applicable disclosure brochure, for a full disclosure of the applicable fee schedule. Your Financial Advisor will provide those documents to you upon request.

**Indices:** The investment strategies depicted are not index strategies, and are not restricted to securities in any particular index. The benchmark index is the Dow Jones Industrial Average. Depending on the composition of your account and your investment objectives, any indices shown in this profile may not be an appropriate measure for comparison purposes and are therefore presented for illustration only. Indices are unmanaged. They do not reflect any management, custody, transaction or other expenses. Such expenses would reduce performance. Index returns generally assume reinvestment of dividends, accrued income and capital gains. Past performance of indices does not guarantee future results. You cannot invest directly in an index. Performance of indices may be more or less volatile than any investment strategy. The risk of loss in value of a specific investment strategy is not the same as the risk of loss in a broad market index. Therefore, the historical returns of an index will not be the same as the historical returns of a particular investment strategy.

*Dow Jones Industrial Average is a price-weighted index of the 30 "blue-chip" stocks and serves as a measure of the U.S. market, covering such diverse industries as financial services, technology, retail, entertainment and consumer goods. An investment cannot be made directly in a market index.*

**Securities holdings:** Holdings are subject to change, so any securities discussed in this profile may or may not be included in your account if you invest in this investment strategy. Your account may also include other securities in addition to or instead of any securities discussed in this profile. There is no assurance that any securities discussed herein will remain in an account at the time you receive this profile, or that securities sold have not been repurchased. The securities discussed do not represent all the securities that will be purchased, sold or recommended for advisory clients. Do not assume that any holdings mentioned were, or will be, profitable or that the investment recommendations or decisions made in the future will be profitable or will equal the investment performance of the securities discussed in this material.

Holdings and sector allocation are based on the holdings in the accounts in the portfolio. Holdings and sector allocation are measured as a percentage of the total portfolio in terms of asset value as of the specified date.

*Actual account data may differ from that shown in this profile:* The performance, holdings, sector weightings, portfolio traits and other data for an actual account may differ from that in this report due to various factors including the size of an account, cash flows within an account, and restrictions on an account.

The composite was created by Morgan Stanley from its account records and was not audited or verified by an independent third party. As indicated above, the composite is for the Morgan Stanley Strategic Portfolios program, which utilizes a substantially similar strategy and is currently closed to new business. The composite inception date for Strategic Portfolios program is December 31st, 1999. The composite for Strategic Portfolios consists of 304 accounts with a market value of \$84.7 million as of June 30, 2014. The inception date of this Strategy in the Morgan Stanley Global Investment Solutions program (as available as an Investment Product in the Morgan Stanley Select UMA program) is September 25, 2014.

Investment returns of accounts invested in the for Strategic 10 Dividend are determined on the basis of trade-date accounting (meaning that securities transactions are recorded on the date on which the transaction occurs, except interest earned in connection with a transaction is recorded on the date the transaction settles). The cash flows (i.e., contributions and withdrawals) are weighted based on the actual date of each contribution or withdrawal. The rate of return is calculated on a time-weighted rate of return basis with the portfolios being revalued daily. The time-weighted rate of return minimizes the effect of cash flows on the investment performance of the portfolio.

Accounts are included in the composite on the last calendar day of the month during which the account becomes managed in accordance with the strategy (that is, added for the first full month). The composite performance is a monthly asset-weighted return of all accounts that meet the criteria for inclusion in the composite. Accounts that are terminated or frozen are excluded from the composite in the same month that the account is terminated or frozen. Accounts that have restrictions are excluded from the composite. Additionally, if upon review of the composites, it is determined that the rules did not exclude an account that should not be included, the account may be manually removed from the composite.

The composite performance for accounts invested in the Strategic 10 Dividend Strategy is derived by geometrically linking monthly composite total rates of return. Monthly composite total rates of return are computed as the average of each portfolio's monthly total rate of return within the composite weighted by its respective beginning market value. The performance of each account within the composite is equal to the change in the market value of the portfolio, including capital appreciation, depreciation and income, as a percentage of the beginning market value of the portfolio, adjusted for the net of all contributions and withdrawals (the 'Cash Flows').

The cash balance of accounts invested in the Strategic 10 Dividend Strategy fluctuates on a daily basis as purchases or sales of securities occur, as dividends are received, and as funds are contributed to or withdrawn from such accounts, and the yield received on such balances will be calculated daily at the prevailing rates on the particular day.

#### Key Asset Class Considerations

Equity securities' prices may fluctuate in response to specific situations for each company, industry, market conditions and general economic environment. Companies paying dividends can reduce or cut payouts at any time.

Value investing does not guarantee a profit or eliminate risk. Not all companies whose stocks are considered to be value stocks are able to turn their business around or successfully employ corrective strategies which would result in stock prices that do not rise as initially expected.

Strategies that invest a large percentage of assets in only one industry sector (or in only a few sectors) are more vulnerable to price fluctuation than portfolios that diversify among a broad range of sectors.

#### Morgan Stanley Performance:

The composite consists of 237 account(s) with a market value of **\$54.6 million** as of **03/31/2018**. In this profile, the performance from October 1, 2008 through June 30, 2012 consists of accounts managed by the investment manager in this strategy in either the Morgan Stanley or the Smith Barney form of the Fiduciary Services program. From July 1, 2012 through December 31, 2015, performance consists of all Fiduciary Services (FS) accounts managed by the investment manager in this strategy, subject to any other limitations stated in this profile. From January 1, 2016, performance consists of the performance of all FS accounts (as described in the previous sentence) as well as the performance of all single style Select UMA accounts managed by the investment manager in this strategy, subject to any other limitations stated in this profile. Performance composites calculated by Morgan Stanley include all fee-paying portfolios with no investment restrictions. New accounts are included beginning with the second full calendar month of performance. Terminated accounts are removed in the month in which they terminate (but prior performance of terminated accounts is retained). Performance is calculated on a total return basis and by asset weighting the individual portfolio returns using the beginning of period values.

Equity Account (Gross): GIS's gross results do not reflect a deduction of the investment advisory fees charged by GIS, or program fees, if any, but are net of commissions charged on securities transactions.

**Net Performance for all Periods:** Net performance results reflect a deduction of 0.7175% quarterly. This consists of three components: 0.625% maximum quarterly MS Advisory Fee and 0.0175% maximum quarterly Program Overlay Fee (which, together cover the services provided by Morgan Stanley), plus 0.075% quarterly SMA Manager Fees (being the fee currently charged by GIS to new clients for managing their assets in the Select UMA program). The SMA Manager Fees may differ from manager to manager, and managers may change their fee to new clients from time to time. If you select this manager for your account, check the SMA Manager Fees specified in the written client agreement, in case these have changed since you received this profile. Historical net fees reflect the Advisory Fee Schedule as of March 31, 2014.

Morgan Stanley program fees are usually deducted quarterly, and have a compounding effect on performance. The Morgan Stanley program fee, which differs among programs and clients, is described in the applicable Morgan Stanley ADV brochure, which is available at [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV) or on request from your Financial Advisor or Private Wealth Advisor.

Document approval date October 2014.

#### **Focus List, Approved List, and Watch Status:**

Global Investment Manager Analysis ("GIMA") uses two methods to evaluate investment products in applicable advisory programs. In general, strategies that have passed a more thorough evaluation may be placed on the "Focus List", while strategies that have passed through a different and less comprehensive evaluation process may be placed on the "Approved List". Sometimes an investment product may be evaluated using the Focus List process but then placed on the Approved List instead of the Focus List.

Investment products may move from the Focus List to the Approved List, or vice versa. GIMA may also determine that an investment product no longer meets the criteria under either evaluation process and will no longer be recommended in investment advisory programs (in which case the investment product is given a "Not Approved" status).

GIMA has a "Watch" policy and may describe a Focus List or Approved List investment product as being on "Watch" if GIMA identifies specific areas that (a) merit further evaluation by GIMA and (b) may, but are not certain to, result in the investment product becoming "Not Approved". The Watch period depends on the length of time needed for GIMA to conduct its evaluation and for the investment manager to address any concerns. GIMA may, but is not obligated to, note the Watch status in this report with a "W" or "Watch" on the cover page.

For more information on the Focus List, Approved List, and Watch processes, please see the applicable Morgan Stanley ADV brochure ([www.ms.com/adv](http://www.ms.com/adv)). Your Financial Advisor or Private Wealth Advisor can provide on request a copy of a paper entitled "GIMA: At A Glance".

#### **ADDITIONAL DISCLOSURES**

The information about a representative account is for illustrative purposes only. Actual account holdings, performance and other data will vary depending on the size of an account, cash flows within an account, and restrictions on an account. Holdings are subject to change daily. The information in this profile is not a recommendation to buy, hold or sell securities.

Actual portfolio statistics may vary from target portfolio characteristics.

The investment manager may use the same or substantially similar investment strategies, and may hold similar portfolios of investments, in other portfolios or products it manages (including mutual funds). These may be available at Morgan Stanley or elsewhere, and may cost an investor more or less than this strategy in Morgan Stanley's Select UMA program.

The portfolio may, at times, invest in exchange-traded funds (ETFs), which are a form of equity security in seeking to maintain continued full exposure to the broad equity market.

Morgan Stanley investment advisory programs may require a minimum asset level and, depending on your specific investment objectives and financial position, may not be suitable for you. Investment advisory program accounts are opened pursuant to a written client agreement.

The investment manager acts independently of, and is not an affiliate of, Morgan Stanley Smith Barney LLC.

Diversification does not guarantee a profit or protect against a loss.

#### *No obligation to notify*

Morgan Stanley has no obligation to notify you when information in this profile changes.

#### *Sources of information*

Material in this profile has been obtained from sources that we believe to be reliable, but we do not guarantee its accuracy, completeness or timeliness. Third party data providers make no warranties or representations relating to the accuracy, completeness or timeliness of the data they provide and are not liable for any damages relating to this data.

#### *No tax advice*

Morgan Stanley and its affiliates do not render advice on legal, tax and/or tax accounting matters to clients. Each client should consult his/her personal tax and/or legal advisor to learn about any potential tax or other implications that may result from acting on a particular recommendation.

#### *Not an ERISA fiduciary*

Morgan Stanley is not acting as a fiduciary under either the Employee Retirement Income Security Act of 1974, as amended, or under section 4975 of the Internal Revenue Code of 1986, as amended, in providing the information in this profile.

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#### **INDEX DESCRIPTIONS**

## 90-Day T-Bills

The 90-Day Treasury Bill is a short-term obligation issued by the United States government. T-bills are purchased at a discount to the full face value, and the investor receives the full value when they mature. The difference of discount is the interest earned. T-bills are issued in denominations of \$10,000 auction and \$1,000 increments thereafter.

## DJ Industrial Avg

The Dow Jones Industrial Average also called the Industrial Average, the Dow Jones, the Dow 30, or simply the Dow, is a stock market index, and one of several indices created by Wall Street Journal editor and Dow Jones & Company co-founder Charles Dow. It was founded on May 26, 1896, and is now owned by Dow Jones Indexes, which has its majority owned by the CME Group. The average is named after Dow and one of his business associates, statistician Edward Jones. It is an index that shows how 30 large publicly owned companies based in the United States have traded during a standard trading session in the stock market. It is the second oldest U.S. market index after the Dow Jones Transportation Average, which was also created by Dow. The Industrial portion of the name is largely historical, as many of the modern 30 components have little or nothing to do with traditional heavy industry. The average is price-weighted, and to compensate for the effects of stock splits and other adjustments, it is currently a scaled average. The value of the Dow is not the actual average of the prices of its component stocks, but rather the sum of the component prices divided by a divisor, which changes whenever one of the component stocks has a stock split or stock dividend, so as to generate a consistent value for the index. Along with the NASDAQ Composite, the S&P 500 Index, and the Russell 2000 Index, the Dow is among the most closely watched U.S. benchmark indices tracking targeted stock market activity. Although Dow compiled the index to gauge the performance of the industrial sector within the American economy, the index's performance continues to be influenced by not only corporate and economic reports, but also by domestic and foreign political events such as war and terrorism, as well as by natural disasters that could potentially lead to economic harm. Components of the Dow trade on both the NASDAQ OMX and the NYSE Euronext, two of the largest stock market companies. Derivatives of the Dow trade on the Chicago Board Options Exchange and through the CME Group, the world's largest futures exchange company, which owns 90% of the indexing business founded by Dow Jones, including the Industrial Average.

## S&P 500

The S&P 500 Total Return has been widely regarded as the best single gauge of the large cap U.S. equities market since the index was first published in 1957. The index has over \$5.58 trillion benchmarked, with index assets comprising approximately \$1.31 trillion of this total. The index includes 500 leading companies in leading industries of the U.S. economy, capturing 75% coverage of U.S. equities. This index includes dividend reinvestment.

**Indices are unmanaged and have no expenses. You cannot invest directly in an index.**

## GLOSSARY OF TERMS

**Alpha** is a mathematical estimate of risk-adjusted return expected from a portfolio above and beyond the benchmark return at any point in time.

**American Depository Receipts (ADRs)** are receipts for shares of a foreign-based corporation held in the vault of a U.S. bank.

**Average Portfolio Beta** is a measure of the sensitivity of a benchmark or portfolio's rates of return to changes against a market return. The market return is the S&P 500 Index. It is the coefficient measuring a stock or a portfolio's relative volatility.

**Beta** is a measure of the sensitivity of a portfolio's rates of return to changes in the market return. It is the coefficient measuring a stock or a portfolio's relative volatility.

**Bottom-Up Stock Selection** Emphasis primarily on individual stock selection. Considerations of economic and industry factors are of secondary importance in the investment decision-making process.

**Capitalization** is defined as the following: Mega (Above \$100 billion), Large (\$12 to \$100 billion), Medium (\$2.5 - \$12 billion), Small (\$.50 - \$2.5 billion) and Micro (below \$.50 billion).

**Dividend** a portion of a company's profit paid to common and preferred shareholders.

**Downside Risk** is a measure of the risk associated with achieving a specific target return. This statistic separates portfolio volatility into downside risk and upside uncertainty. The downside considers all returns below the target return, while the upside considers all returns equal to or above the target return.

**Duration** is a measure of price sensitivity expressed in years.

**High Grade Corporate Bonds** corporate bonds from issuers with credit ratings of AA or AAA.

**Information Ratio** is a measure of the investment manager's skill to add active value against a given benchmark relative to how stable that active return has been. Essentially, the information ratio explains how significant a manager's alpha is. Therefore, the higher the information ratio, the more significant the alpha.

**Investment Grade Bonds** are those rated by Standard & Poor's AAA (highest rated), AA, A or BBB (or equivalent rating by other rating agencies or, in the case of securities not rated, by the investment manager).

**Price/Book Ratio (P/B)** weighted average of the stocks' price divided by book value per share. Book value per share is defined as common equity, including intangibles, divided by shares outstanding times the adjustment factor.

**Price/Cash Flow Ratio** a ratio used to compare a company's market value to its cash flow. It is calculated by dividing the company's market cap by the company' operating cash flow in the most recent fiscal year (or the most recent four fiscal quarters); or, equivalently, divide the per-share stock price by the per-share operating cash flow.

**Price/Earnings Ratio (P/E Ratio)** shows the multiple of earnings at which a stock sells. Determined by dividing current stock price by current earnings per share (adjusted for stock splits). Earnings per share for the P/E ratio are determined by dividing earnings for past 12 months by the number of common shares outstanding. The P/E ratio shown here is calculated by the harmonic mean.

**Price/Sales Ratio** determined by dividing current stock price by revenue per share (adjusted for stock splits). Revenue per share for the P/S ratio is determined by dividing revenue for past 12 months by number of shares outstanding.

**R2 (R-Squared)/Portfolio Diversification** indicates the proportion of a security's total variance that is benchmark-related or is explained by variations in the benchmark.

**Sharpe Ratio** measures the efficiency, or excess return per unit of volatility, of a manager's returns. It evaluates managers' performance on a volatility-adjusted basis.

**Standard Deviation** is a statistical measure of historical variability or spread of returns around a mathematical average return that was produced by the investment manager over a given measurement period. The higher the standard deviation, the greater the variability in the investment manager's returns relative to its average return.

**Top-Down/Economic Analysis** Emphasis primarily on macroeconomic trends as opposed to bottom-up stock selection.

**Tracking Error** represents the standard deviation of the difference between the performance of the investment strategy and the benchmark. This provides a historical measure of the variability of the investment strategy's returns relative to its benchmark.

**U.S. Treasury Bonds** a marketable, fixed interest U.S. government debt security with a maturity of more than 10 years. Treasury bonds make interest payments semi-annually and the income that holders receive is only taxed at the federal level.

**Volatility** a measure of risk based on the standard deviation of the asset return. Volatility is a variable that appears in option pricing formulas, where it denotes the volatility of the underlying asset return from now to the expiration of the option. There are volatility indexes. Such as a scale of 1-9; a higher rating means higher risk.