Quick Take

TAKE 5 VIEWS

We're asking our money managers the questions you're asking us.

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Rebalancing Act

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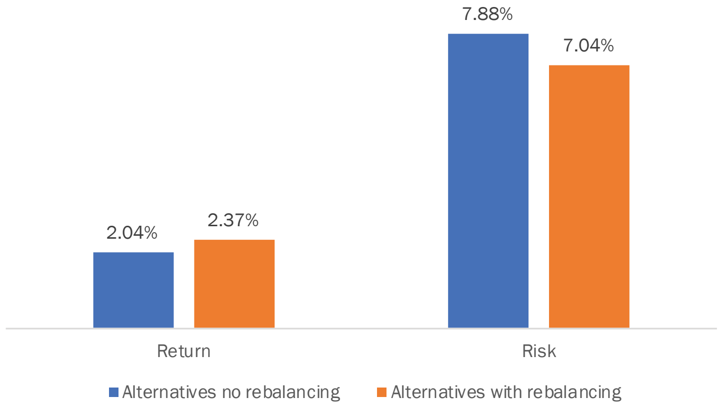
Alternative investments can be a way to diversify an investment portfolio and reduce risk. But alternatives involve unfamiliar risks for traditional investors, and may have low correlations to plain-vanilla stocks and bonds. Obtaining alternative exposure through a portfolio combining complementary alternative strategies and assets is one way you can potentially mitigate these risks. A portfolio of alternative asset classes and strategies may provide diversification and reduce the risks inherent in individual securities.

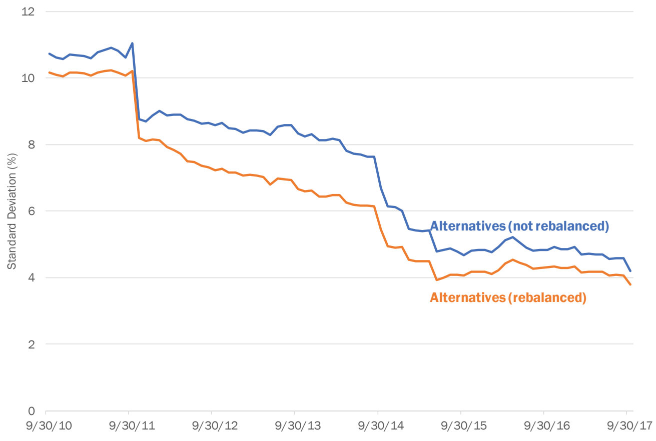
Importantly, the simple act of regular portfolio rebalancing may also offer benefits in terms of both risk and return. The charts below show the historical performance of an equally weighted basket of alternative investments. The non-rebalanced portfolio's allocation is left to change with movements in the market, while the rebalanced portfolio is brought back to its equal target weightings each month. **Over the past 10 years, the rebalanced portfolio achieves a higher return and lower standard deviation than the portfolio that was not rebalanced.**

Please note that, rebalancing does not guarantee a profit or protect against loss in a declining market but may help to mitigate risk and smooth out returns over time.

The Impact of Rebalancing on Return and Risk
October 2007 - September 2017



The Impact of Rebalancing on Risk Over Time
October 2010 - September 2017



Source: Zephyr StyleADVISOR. As of 9/30/17. For illustrative purposes only.
Past performance is no indication of future results. Return is the percent total return, annualized. Risk is measured by rolling three-year standard deviation (begins 9/30/2010).
Alternatives represented by a Multi-Alt Index. See definitions on back page.

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IMPORTANT INFORMATION

The "Multi-Alt Index" is a hypothetical portfolio assuming equal weights of the following: Convertible Securities, Long/Short Equity, Currency, Managed Futures, Global Real Estate, Commodities, Precious and Base Metals, Merger Arbitrage, Absolute Return, Multi-Strategies and Real Return.

Convertible Securities - Bloomberg Barclays U.S. Convertibles – 500MM Face Liquidity Index represents the market of U.S. convertible bonds with outstanding issue sizes greater than $500 million. Convertible bonds are bonds that can be exchanged, at the option of the holder, for a specific number of shares of the issuer's preferred stock or common stock. **Long/Short Equity -** The FTSE RAFI US 1000 Long Short Total Return Index has been designed to reflect the performance spread between an index of US equities weighted by specific fundamental factors and its market cap weighted counterpart. The FTSE RAFI US 1000 Index comprises the 1000 US-listed companies with the largest RAFI fundamental scores selected from a constituent universe of all common stocks on the New York Stock Exchange American Stock Exchange (NYSE AMEX) and NASDAQ National Market System. The universe is screened for nationality, free float, liquidity and multiple line rules according to the FTSE Global Equity Index Series Ground Rules. **Currency -** DB G10 Currency Future Harvest Index reflects the return from investing long in currency futures for currencies with relatively high-yielding interest rates and short in currency futures for currencies with relatively low-yielding interest rates. This is designed to exploit the trend that currencies trading with a forward discount, tend to on average perform better than those trading at a forward premium. **Managed Futures -** S&P Diversified Trends Indicator Index is a diversified composite of global commodity and financial futures that are highly liquid. The components are formed into sectors that are long or short (except energy) the underlying futures using a rules-based methodology. The indicator measures the extent (and duration), i.e. the extended volatility, of the trends of these sectors in aggregate. **Global Real Estate -** S&P Global Property Index defines and measures the investable universe of publicly traded property companies. The index is ideal for a range of investing activities, including benchmarking active funds and setting the foundation for passive funds. **Commodities -** DBIQ Optimum Yield Diversified Commodity Index is based on 14 commodities drawn from the energy, precious metals, industrial metals and agriculture sectors. The 14 index components of the index are Aluminum, Brent Crude, Copper, Corn, Gold, Heating Oil, Light Crude, Natural Gas, RBOB Gasoline, Silver, Soybean, Sugar, Wheat and Zinc. **Precious and Base Metals -** S&P GSCI Precious Metals Index provides investors with a reliable and publicly available benchmark for investment performance in the precious metals market. **Merger Arbitrage -** The IQ Merger Arbitrage seeks to achieve capital appreciation by investing in global companies for which there has been a public announcement of a takeover by an acquirer. This differentiated approach is based on a passive strategy of owning certain announced takeover targets with the goal of generating returns that are representative of global merger arbitrage activity. The Index also includes short exposure to global equities as a partial equity market hedge. **Absolute Return -** Merrill Lynch Factor Model Index is designed to emulate the beta performance of broad-based hedge fund indices. The index uses liquid, tradable instruments to achieve this goal. **Multi-strategies -** Morgan Stanley Multi-Strategy Alternative Index is a quantitative, rules-based Index consisting of five long, short and market-neutral (long/short) strategies which aim to capture alternative risk premia across equities, interest rates, currencies and volatility markets. **Real Return -** Bloomberg Barclays U.S. Treasury Inflation-Linked Bond Index (Series-L) measures the performance of the U.S. Treasury Inflation-Protected Securities (TIPS) market. Federal Reserve holdings of US TIPS are not index eligible and are excluded from the face amount outstanding of each bond in the index. The US TIPS Index is a subset and the largest component of the Global Inflation-Linked Bond Index (Series-L).

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Past performance is not a guarantee of future results.

Standard deviation is used to gauge a fund's risk. Standard deviation simply quantifies how much a series of numbers, such as fund returns, varies around its mean, or average. It provides a precise measure of how varied a fund's returns have been over a particular time frame both on the upside and the downside. The more a fund's returns fluctuate from month to month, the greater its standard deviation.

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