EXPLORING ALTERNATIVE INVESTMENTS

Life is full of alternatives. So is investing.
The importance of portfolio diversification was first recognized by noted economist and Nobel Prize recipient Harry Markowitz in 1952. Over half a century later, Markowitz’s theory is as important as ever: The effective combination of asset classes can reduce overall portfolio risk, while potentially increasing returns.

Finding asset classes capable of adding diversification has become increasingly difficult due to the globalization of world markets. For years, institutional investors have used alternative investments to assist with providing such diversification.*

This brochure is intended to provide information concerning the benefits and points of consideration associated with alternative investments, an overview of the types of investments offered at Raymond James, and assistance in determining whether alternative investments might be appropriate to add to your portfolio.

*Alternative investments involve substantial risks that may be greater than those associated with traditional investments and are not suitable for all investors. They may be offered only to clients who meet specific suitability requirements, including minimum-net-worth tests. These risks include, but are not limited to, limited liquidity, tax considerations, incentive fee structures, potentially speculative investment strategies, and different regulatory and reporting requirements. Investors should only invest in hedge funds, managed futures, structured products, commodities, real estate or other similar strategies if they do not require a liquid investment and can bear the risk of substantial losses. There is no assurance that any investment will meet its investment objectives or that substantial losses will be avoided. Investors should carefully review any offering materials or prospectuses prior to investing.*

*Diversification does not guarantee profits or protection against losses.
INTRODUCING ALTERNATIVE INVESTMENTS

Diversification is the golden rule of investing. Appropriately allocating assets to account for personal objectives, risk tolerance and time horizons is a critical part of a thorough financial plan. For many, a mix of traditional investments – such as stocks and bonds – is the typical approach. However, as seen in the following chart, investors can further diversify their portfolios and potentially enhance returns by employing other asset classes, such as commodities and real estate, or investing in traditional asset classes in nontraditional (or “alternative”) ways, as illustrated in the outermost ring.

Institutional and high-net-worth investors have long taken advantage of the potential benefits offered by alternative investments, including the potential to reduce portfolio risk and/or enhance long-term performance.

*These investment strategies trade in multiple asset classes, commodities included.

How have institutions used alternative investments to further diversify their portfolios?
CASE STUDY: LEADING U.S. ENDOWMENTS

According to a 1998 report by the National Association of College and University Business Officers (NACUBO), the 31 university endowments in the U.S. managing more than $1 billion allocated an average of 24.5% of their portfolios to alternative asset classes at that time. By 2015, that percentage had steadily grown to 57% for the 94 endowments managing more than $1 billion, as illustrated in the chart below.

As reflected in the chart, endowments have used a variety of alternative investment strategies focused on the potential benefits of better managing portfolio risk and the possibility of enhancing long-term returns.

It must be noted that endowments generally enjoy longer time horizons than do most individual investors, allowing for a greater consideration of less-liquid investment strategies. Individual investors are not afforded such flexibility, and accordingly would not typically consider such a high concentration in alternative investments.

1Information derived from the 2015 NACUBO-Commonfund Study of Endowments® ("NCSE") is based on the fiscal year ending June 30, 2015. NCSE categorizes alternative investments into the following categories: private equity (LBOs, mezzanine, M&A funds and international private equity); marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, and event-driven and derivatives); venture capital; private equity and real estate (non-campus); energy and natural resources (oil, gas, timber, commodities and managed futures); commodities and managed futures; and distressed debt. In the above chart, marketable alternative strategies, distressed debt, commodities and managed futures, and a small percentage of alternative investments that are not broken out are combined and reflected as "Hedge Funds," venture capital and private equity are combined and reflected as "Private Equity," and "Real Estate" consists of private equity and real estate. This data includes information from 94 endowments reporting their detailed asset allocation. Past performance is not indicative of future results. Performance is not inclusive of fees which would reduce an investor’s return.

Why is managing portfolio risk so important?
RECOGNIZING THE IMPACT OF VOLATILITY

Investors recognize that volatility exists in all markets and often find themselves challenged to manage it. The fact that markets go through different growth and contraction phases is nothing new; the natural cycle of business almost dictates such swings. For instance, consider performance for the S&P 500: movements of 30%, 40% and even 50% in value are not uncommon and can wreak havoc on long-term investment goals.

S&P 500 TOTAL RETURN INDEX (January 2001 – December 2015)

When considering the concept of volatility, it is important to understand the damage that losses have on long-term portfolio performance. Many investment losses, while causing a tremendous amount of stress and difficulty, are for the most part unavoidable. After all, markets are predicated on the payoff between risk and reward. When the math involving large losses is studied, however, the damage to long-term returns becomes even clearer. The chart below illustrates the negative effect that losses have, as well as the appreciation required to recoup the losses. The road back from such losses can be long.

RECOVERING FROM LOSSES

<table>
<thead>
<tr>
<th>Loss</th>
<th>Gain Required to Break Even</th>
<th>Assuming Annual 5% Return</th>
<th>Assuming Annual 10% Return</th>
<th>Assuming Annual 25% Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>-20%</td>
<td>25%</td>
<td>4.6 years</td>
<td>2.3 years</td>
<td>1 year</td>
</tr>
<tr>
<td>-30%</td>
<td>42.9%</td>
<td>7.3 years</td>
<td>3.7 years</td>
<td>1.6 years</td>
</tr>
<tr>
<td>-40%</td>
<td>66.7%</td>
<td>10.5 years</td>
<td>5.4 years</td>
<td>2.3 years</td>
</tr>
<tr>
<td>-50%</td>
<td>100%</td>
<td>14.2 years</td>
<td>7.3 years</td>
<td>3.1 years</td>
</tr>
</tbody>
</table>

This chart is shown for illustrative purposes only and does not reflect an actual investment.

How do investors manage portfolio volatility?
UNDERSTANDING CORRELATION IS KEY TO MANAGING RISK

Regardless of how many investments an investor owns, if they consistently perform in similar fashions, the investor is not fully benefitting from the advantages of diversification. The degree to which an investment historically correlates with (or behaves like) another is measured on a descending scale from +1.0 (perfect positive correlation) to -1.0 (perfect negative correlation). A measure of 0.0 would indicate no correlation.

PERFECT POSITIVE CORRELATION: +1.0
Investments with high positive correlation do not provide meaningful diversification benefits, offering little protection during market declines.

PERFECT NEGATIVE CORRELATION: -1.0
Investments with high negative correlation can potentially have an “offsetting effect” that can reduce gains over time.

NO CORRELATION: 0.0
Investments with low (or no) correlation can help manage portfolio volatility and potentially increase long-term returns.

The charts above are shown for illustrative purposes only and do not reflect an actual investment.

The correlation between investments is an important factor to consider when making investment decisions. Many alternative investments seek to generate returns that have a low (or lower) correlation with traditional investments, thereby offering the potential to further diversify a portfolio.

It is important to recognize that not all alternative investments target lower correlation with traditional asset classes. Some strategies, such as private equity, are focused on return enhancement and, in turn, may increase overall portfolio risk.

What correlation trends have emerged within traditional asset classes?
DIVERSIFICATION IS INCREASINGLY DIFFICULT TO ATTAIN

Traditionally, investors have diversified their portfolios by including several core asset classes, such as equities, bonds and publicly traded real estate, often further diversifying within these asset classes. For instance, the equity portion of a portfolio might include domestic, international, small-cap and large-cap stocks, diversified across many sectors and industries.

Over time, however, the diversification benefits in certain market segments have weakened. For example, the chart below provides an overview of some common indices and their correlation trends to the S&P 500 index. Many would argue that the globalization of world markets has led to increased correlation over the past 15 years, making diversification subsequently more difficult to attain.

Recognizing the challenge of meaningfully diversifying a portfolio, investors commonly turn to alternative strategies that have the potential to generate returns with a low (or lower) correlation to traditional components of a portfolio. Investors with records of attractive long-term, risk-adjusted returns have typically utilized as many low-correlating, high-performing asset classes as possible.

It is important to stress that there is no “magic formula” when it comes to investing. The most logical, prudent and proven method of reducing portfolio volatility while enhancing long-term returns remains proper, meaningful diversification.

CORRELATION VERSUS THE S&P 500 (ROLLING FIVE-YEAR)

This phenomenon illustrates that the increased correlation among asset classes has decreased the diversification potential in recent years and that these asset classes tend to trade similarly to each other, i.e., decline or advance during the same time periods.

What are some of the alternative strategies that can potentially increase diversification through lower correlation?
ALTERNATIVE SOURCES OF DIVERSIFICATION

The universe of alternative investment strategies is extremely broad. Raymond James continually monitors the alternative investments landscape to select investment opportunities and make them available to clients. While not a complete list of all possible strategies, the following are general descriptions of many of the alternative strategies available at Raymond James.

HEDGE FUNDS
Hedge funds typically offer private investment management in a structure that provides managers broad flexibility in executing their mandates. Hedge funds employ a wide array of strategies and may invest in a variety of financial instruments across global markets.

Long/Short Equity
Long/short equity managers typically take both long and short positions in equity markets. The ability to vary market exposure may provide a long/short manager with the opportunity to express either a bullish or bearish view, and to potentially mitigate risk during difficult times.

Event-Driven
Event-driven managers typically focus on company-specific events. Examples of such events include mergers, acquisitions, bankruptcies, reorganizations, spin-offs and other events that could be considered to offer “catalyst driven” investment opportunities. These managers will primarily trade equities and bonds.

Fund of Hedge Funds
A fund of hedge funds is designed to offer diverse exposure to hedge funds, often incorporating multiple hedge fund managers and strategies. The number of underlying strategies and funds varies, depending on the funds’ mandates and the views of the fund of funds’ portfolio manager(s).

MANAGED FUTURES
Managed futures strategies trade in a variety of global markets, attempting to identify and profit from rising or falling trends that develop in these markets. Markets that are traded often include financials (interest rates, stock indices and currencies), as well as commodities (energy, metals and agriculturals).

PRIVATE EQUITY
Private equity managers seek to make privately negotiated investments in companies, ranging from providing capital for startup companies to “buying out” mature companies with the intent of improving fundamentals and, in turn, the value of the businesses.

REAL ESTATE
Real estate has long been considered an alternative tangible asset. While real estate can be accessed through traditional means, such as direct ownership and real estate investment trusts (REITs), it is also possible to access this asset class through managers who invest opportunistically in private real estate and trade less mainstream real estate-related securities.

COMMODITIES AND TANGIBLE ASSETS
Managers who focus on investing in tangible assets, such as commodities or equipment (rail, maritime, industrial, energy, etc.) have the potential to generate returns that offer diversification benefits and protection against inflation.

How have alternative investments performed relative to traditional investments over the past 16 years? ▶
**ALTERNATIVE SOURCES OF DIVERSIFICATION**

The table below illustrates how numerous asset classes, both traditional and alternative, have performed relative to each other over the past 15 years. Refer to pages 13 and 14 for key terms.

**PERIODIC TABLE OF INVESTMENT RETURNS (JANUARY 2001 - DECEMBER 2015)**

<table>
<thead>
<tr>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Real Estate 16%</td>
<td>Commodity 26%</td>
<td>Small-Cap U.S. Stocks 47%</td>
<td>Public Real Estate 30%</td>
<td>Commodity 21%</td>
<td>Public Real Estate 34%</td>
<td>Private Real Estate 16%</td>
<td>Managed Futures 14%</td>
</tr>
<tr>
<td>Event-Driven 12%</td>
<td>Managed Futures 12%</td>
<td>International Stocks 39%</td>
<td>International Stocks 20%</td>
<td>Private Real Estate 20%</td>
<td>International Stocks 26%</td>
<td>Commodity 16%</td>
<td>U.S. Bonds 5%</td>
</tr>
<tr>
<td>U.S. Bonds 8%</td>
<td>U.S. Bonds 10%</td>
<td>Public Real Estate 38%</td>
<td>Small-Cap U.S. Stocks 18%</td>
<td>International Stocks 14%</td>
<td>Small-Cap U.S. Stocks 18%</td>
<td>International Stocks 11%</td>
<td>Private Real Estate 6%</td>
</tr>
<tr>
<td>Private Real Estate 7%</td>
<td>Private Real Estate 7%</td>
<td>Large-Cap U.S. Stocks 29%</td>
<td>Event-Driven 15%</td>
<td>Long/Short Equity 11%</td>
<td>Private Real Estate 17%</td>
<td>Long/Short Equity 10%</td>
<td>Fund of Hedge Funds -21%</td>
</tr>
<tr>
<td>Fund of Hedge Funds 3%</td>
<td>Public Real Estate 5%</td>
<td>Event-Driven 25%</td>
<td>Private Real Estate 14%</td>
<td>Public Real Estate 8%</td>
<td>Large-Cap U.S. Stocks 16%</td>
<td>Fund of Hedge Funds 10%</td>
<td>Event-Driven -22%</td>
</tr>
<tr>
<td>Small-Cap U.S. Stocks 2%</td>
<td>Fund of Hedge Funds 1%</td>
<td>Commodity 24%</td>
<td>Large-Cap U.S. Stocks 11%</td>
<td>Fund of Hedge Funds 7%</td>
<td>Event-Driven 15%</td>
<td>Managed Futures 8%</td>
<td>Commodity 36%</td>
</tr>
<tr>
<td>Managed Futures 1%</td>
<td>Event-Driven -4%</td>
<td>Long/Short Equity 21%</td>
<td>Commodity 9%</td>
<td>Event-Driven 7%</td>
<td>Long/Short Equity 12%</td>
<td>U.S. Bonds 7%</td>
<td>Small-Cap U.S. Stocks -34%</td>
</tr>
<tr>
<td>Large-Cap U.S. Stocks -12%</td>
<td>International Stocks -16%</td>
<td>Managed Futures 9%</td>
<td>Fund of Hedge Funds 12%</td>
<td>Long/Short Equity 8%</td>
<td>Small-Cap U.S. Stocks 5%</td>
<td>Managed Futures 5%</td>
<td>Large-Cap U.S. Stocks -37%</td>
</tr>
<tr>
<td>Commodity 29%</td>
<td>Small-Cap U.S. Stocks -20%</td>
<td>Private Real Estate 9%</td>
<td>U.S. Bonds 4%</td>
<td>Managed Futures 2%</td>
<td>U.S. Bonds 4%</td>
<td>Small-Cap U.S. Stocks -2%</td>
<td>Public Real Estate -37%</td>
</tr>
<tr>
<td>International Stocks -21%</td>
<td>Large-Cap U.S. Stocks -22%</td>
<td>U.S. Bonds 4%</td>
<td>Managed Futures 3%</td>
<td>U.S. Bonds 2%</td>
<td>Commodity 2%</td>
<td>Public Real Estate -18%</td>
<td>International Stocks -43%</td>
</tr>
</tbody>
</table>

*Past performance is not indicative of future results. It is not possible to invest directly in an index. There are inherent limitations to indices that are designed to track the alternative investments universe. Index data is shown for illustrative purposes only and not designed to represent any specific investment. Specific investment statistics could differ materially from those shown above. Data source: PerTrac Financial Solutions, LLC and eVestment*
<table>
<thead>
<tr>
<th>Year</th>
<th>International Stocks</th>
<th>U.S. Stocks</th>
<th>Real Estate</th>
<th>Small-Cap U.S. Stocks</th>
<th>Managed Futures</th>
<th>Private Real Estate</th>
<th>U.S. Bonds</th>
<th>Commodities</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>32%</td>
<td>28%</td>
<td>27%</td>
<td>27%</td>
<td>-0.1%</td>
<td>14%</td>
<td>6%</td>
<td>17%</td>
</tr>
<tr>
<td>2010</td>
<td>19%</td>
<td>10%</td>
<td>10%</td>
<td>7%</td>
<td>7%</td>
<td>8%</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>2011</td>
<td>11%</td>
<td>9%</td>
<td>7%</td>
<td>4%</td>
<td>8%</td>
<td>7%</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>2012</td>
<td>8%</td>
<td>8%</td>
<td>7%</td>
<td>7%</td>
<td>-3%</td>
<td>8%</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>2013</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>-8%</td>
<td>7%</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>2014</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>-3%</td>
<td>7%</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>2015</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>-1%</td>
<td>7%</td>
<td>6%</td>
<td>6%</td>
</tr>
</tbody>
</table>

### 2008 Managed Futures

Indicative of the lack of correlation to equity markets, managed futures managers were able to profit from negative trends in many equity, fixed income and commodity markets.

### 2009 Event-Driven

Event-driven managers were able to take advantage of a number of distressed opportunities after the market disruptions of 2008, primarily through reorganizations, significant price dislocations of credit-related securities, and select mergers and acquisitions.

### 2011-2012 Funds of Hedge Funds

These diversified investment vehicles allocate to different types of managers using different alternative strategies, allowing them to potentially capture positive performance in up markets, while generally having less downside participation during more volatile markets.

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**ALTERNATIVE INVESTMENT INDICES**
- Long/Short Equity: HFRI Equity Hedged (Total) Index
- Fund of Hedge Funds: HFRI Fund of Funds Composite Index
- Commodities: Bloomberg Commodity Index Total Return
- Managed Futures: Barclay CTA Index
- Event-Driven: HFRI Event-Driven (Total) Index
- Private Real Estate: National Council of Real Estate Investment Fiduciaries (NCREIF)

**TRADITIONAL INDICES**
- U.S. Bonds: Barclays U.S. Aggregate Bond Index
- Large-Cap U.S. Stocks: S&P 500 TR Index
- Small-Cap U.S. Stocks: Russell 2000 Index (DRI)
- International Stocks: MSCI EAFE (Net) Index
- Public Real Estate: FTSE NAREIT U.S. Real Estate (All REIT) Index
PERFORMANCE, RISK AND DIVERSIFICATION POTENTIAL

Performance, volatility (risk) and correlation are some of the most important factors to consider when making asset allocation decisions. The chart below highlights these factors for some traditional asset class indices, as well as for six alternative investment indices. Performance is represented as “return.” Volatility is represented by “standard deviation,” which measures the variability of an investment’s return relative to its mean (or average) return. Correlation, as reflected below, is measured against the return of the S&P 500 index and the Barclays U.S. Aggregate Bond Index.

As the chart indicates, the alternative investment indices have generated attractive long-term returns. When the volatility of the alternative investment returns are viewed, particularly relative to the volatility of the traditional asset class indices, the returns become even more notable. While the correlation of alternative investments to traditional asset classes varies by strategy and time frame, the low correlation of certain alternative investments supports the concept that alternative investments may provide investors with additional portfolio diversification.

In addition to reviewing potential benefits, what are some key considerations when evaluating alternative investments?
ALTERNATIVE INVESTMENTS REQUIRE CAREFUL CONSIDERATION

While alternative investments provide a number of potential benefits, they are not suitable for all investors. Terms and conditions generally vary between investments, but some of the most common considerations are discussed below.

LIQUIDITY
The term liquidity refers to the ability of a financial asset to be readily converted into cash without a significant discount. Many alternative investments do not offer the liquidity that stocks, bonds and mutual funds offer, at times “locking up” an investment for a certain period of time. Illiquidity can be the result of an investment fund that trades less liquid financial instruments, requiring that the fund provide “liquidity windows” only on a periodic basis.

FEES
The fees and expenses of alternative investments are generally higher than those of traditional investments and often include performance-based incentive fees.

TRANSPARENCY
The degree to which information is available on underlying portfolio holdings is often referred to as transparency. While some alternative investments offer transparency, many do not fully disclose portfolio positions in order to protect intellectual capital.

LEVERAGE
The use of borrowed money in an effort to enhance returns is known as leverage. Alternative investment strategies may employ leverage, which can magnify both profits and losses.

SPECULATIVE TRADING STRATEGIES
Many alternative investments employ trading strategies that may include short selling, trading of derivative securities and other strategies of a speculative nature. There are no assurances that such strategies will be profitable or not result in a loss.

TAXES
The taxation of alternative investments varies significantly; some investments produce a Form 1099, while others produce a Schedule K-1. In certain cases, K-1s may be delayed, resulting in an investor having to file for an extension. Additionally, short-term trading may result in suboptimal taxation. Please refer to specific offering documents and consult a tax professional to evaluate the tax consequences of any prospective investment.

REGULATION
Many alternative investments are not required to register with certain financial regulatory organizations such as the Securities and Exchange Commission (SEC). Therefore, investors will not receive some of the protections and disclosures that are generally afforded to funds or companies that are registered with these organizations.

Specific investments may have other significant considerations. It is important to study the offering documents of any investment being considered in order to weigh such considerations carefully.

Your Raymond James financial advisor can help you analyze the benefits and considerations associated with specific investment opportunities.

How does Raymond James assist its clients and advisors in evaluating alternative investments?
THE RAYMOND JAMES ALTERNATIVE INVESTMENTS GROUP

The Raymond James Alternative Investments Group is a team of professionals dedicated to identifying and researching nontraditional investment opportunities. The steps undertaken in the research and due diligence process, as outlined below, ultimately result in a menu of alternative investments available for Raymond James and its clients. The Alternative Investments Group regularly consults with financial advisors and clients to assist in determining which specific investments, or combinations of investments, may be most appropriate for a client’s needs.

**Development of Investment Ideas** – The initial step in the research process is a strategic review of various markets, investment strategies and investment themes that offer potentially attractive investment opportunities. The strategic review is then combined with a search of various investment managers and investment products that attempt to capitalize on the identified themes.

**Comprehensive Research** – Comprehensive research is performed on investment managers and products to scrutinize the multitude of considerations specific to alternative investments. This comprehensive research process is typically several months in length and results in only a small number of opportunities that merit further consideration.

**Investment Committee** – The Investment Committee reviews all new alternative investment products offered by the firm and is led by Raymond James senior management.

**Ongoing Research and Monitoring** – After alternative investment products are added to the Raymond James platform, research is conducted on an ongoing basis to monitor new developments and provide relevant updates.

What are some next steps to consider?
THE NEXT STEP: EVALUATING INVESTMENT OPPORTUNITIES

Diversification has long been a cornerstone of creating attractive, long-term investment results – largely due to its potential to help manage the risk inherent in most asset classes. Recognizing the challenge of recouping large portfolio losses, institutional and individual investors alike continue to evaluate and embrace alternative sources of return and diversification to complement their existing portfolios.

 SOURCES OF RETURN AND DIVERSIFICATION

 TRADITIONAL

 ALTERNATIVE

 Hedge Funds
 Managed Futures
 Private Equity
 Real Estate

HOW DOES AN INVESTOR BEGIN TO CONSIDER ALTERNATIVE INVESTMENTS?

- Consider opportunities that exist to **broaden sources of return and diversification**.

- **Study the objectives for any investment being considered.** Some investments seek higher returns with a commensurately higher level of risk. Others may simply seek diversification with a more moderate risk and return profile.

- **Carefully review the considerations** of each potential investment including factors such as liquidity, fees, transparency and leverage.

Your financial advisor, with the support of the Raymond James Alternative Investments Group, is well-equipped to answer any questions regarding alternative investments and can inform you of specific opportunities suitable to your needs.
KEY TERMS

Barclays U.S. Aggregate Bond Index – A broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS. Securities must be rated investment-grade or higher using the middle rating of Moody’s, S&P and Fitch. When a rating from only two agencies is available, the lower is used. Information on this index is available at INDEX-US@BARCLAYS.COM.

Barclay CTA Index – The Barclay CTA Index is a leading industry benchmark of representative performance of commodity trading advisors. The index is unweighted and rebalanced at the beginning of each year. To qualify for inclusion in the index, an advisor must have four years of prior performance history. Additional programs introduced by qualified advisors are not added to the index until after their second year. These restrictions, which offset the high turnover rates of trading advisors as well as their artificially high short-term performance records, ensure the accuracy and reliability of the Barclay CTA Index. Information on this index is available at BARCLAYHEDGE.COM.

Bloomberg Commodity Index Total Return – Formerly known as the Dow Jones-UBS Commodity Index Total Return, the index is composed of futures contracts of up to 24 physical commodities. The index aims to be a broadly diversified, highly liquid representation of commodities as an asset class. Information on this index is available at BLOOMBERGINDEXES.COM.

Dow Jones Industrial Average Index – The Dow Jones Industrial Average is a composite of 30 stocks designed to represent large and well known U.S. companies and covers all industries with the exception of Transportation and Utilities. The index is price-weighted. Information on this index is available at DJINDEXES.COM.

FTSE NAREIT U.S. Real Estate (All REIT) Index – This index was designed to present a comprehensive index that spans the commercial real estate space across the U.S. economy, offering exposure to all investment and property sectors. It includes all tax-qualified real estate investment trusts with more than 50% of total assets in qualifying real estate assets other than mortgages secured by real property that also meet minimum size and liquidity criteria. Information on the index is available at FTSE.COM.

Hedge Fund Research, Inc. (HFR) – HFR is a research firm specializing in the aggregation, dissemination and analysis of alternative investment information. The company produces a widely used commercial database of hedge fund performance, research products and monthly performance indices. For additional information, visit HEDGEFUNDRESEARCH.COM.

Hedge Fund Index Limitations – While hedge fund indices are frequently used, they 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 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 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 the index may omit funds, the inclusion of which might significantly affect the performance shown).

HFRI Equity Hedge (Total) Index – Funds included in the HFRI Equity Hedge Index include 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 widely diversified or narrowly focused on specific sectors and can range widely in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios. Equity hedge managers would typically maintain at least 50%, and may in some cases be substantially or entirely invested in equities, both long and short. Information on this index is available at HEDGEFUNDRESEARCH.COM.

HFRI Event Driven (Total) Index – Funds included in this index include investment managers who maintain positions in companies currently or prospectively involved in corporate transactions of a wide variety including, but not limited to, mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments. Information on this index is available at HEDGEFUNDRESEARCH.COM.

HFRI Fund of Funds Composite Index – Funds included in the HFRI Fund of Funds Composite Index invest with multiple managers through funds or managed accounts. The strategy designs a diversified portfolio of managers with the objective of significantly lowering the risk (volatility) of investing with an individual manager. The fund of funds manager has discretion in choosing which investment strategies to use for the portfolio. A manager may allocate funds to numerous managers within a single strategy or with numerous managers in multiple strategies. The minimum investment in a fund of funds may be lower than an investment in an individual hedge fund or managed account. The investor has the advantage of diversification among managers and styles with significantly less capital than investing with separate managers. Information on this index is available at HEDGEFUNDRESEARCH.COM.
MSCI EAFE (Europe, Australasia, Far East) Net Index – This is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the United States and Canada. Information is available at MSCI.COM.

NCREIF Property Index – The index is a quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. Information on this index is available at NCREIF.COM.

The Russell 2000 (DRI) Index – The Russell 2000 is an index that measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index. It includes approximately 2,000 of the smallest securities based on a combination of their market capitalizations and current index memberships. Information on this index is available at RUSSELL.COM.

S&P 500 Total Return Index – The index consists of 500 stocks chosen from market size, liquidity and industry group representation, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities, and it is meant to reflect the risk/return characteristics of the large-cap universe. It is a market capitalization-weighted index including reinvestment of dividends that is generally considered representative of the U.S. stock market. Information on the index is available at STANDARDANDPOORS.COM.

Market Neutral – Market neutral hedge fund strategies attempt to isolate manager skill (alpha) from market fluctuations (beta). Market neutrality is generally achieved by employing both long and short strategies proportionally until the portfolio has no market correlation. Portfolio returns result from the differential performance of the long and short stock selections.

Mergers and Acquisitions Arbitrage – Mergers and acquisitions are two ways that separate companies can join together to become a single, larger company. Upon the announcement of a stock-based acquisition, the stock price of the company being acquired typically trades below the stated per-share acquisition price and the stock of the acquiring company declines. Such a scenario provides an opportunity to profit from the “spread” between announced and trading prices without being subject to broader market influences.

Distressed Debt – Managers invest in corporate bonds, privately held loans and other securities or obligations of companies that are highly leveraged, are in financial difficulty, have filed for bankruptcy or appear likely to do so in the near future. Managers purchase the debt at a discount to face value in anticipation of recovery or liquidation of assets.

Convertible Bond Arbitrage – A convertible bond is a bond that provides the holder with the option to exchange the bond for a company’s equity at a predetermined price. Convertible bond arbitrage strategies generally involve the purchase of convertible bonds and the simultaneous short sale of the issuing companies’ stock in order to capture pricing inefficiencies between the convertible bond and the issuer’s common stock.

Mezzanine Financing – Mezzanine debt represents a claim on a company’s assets that is senior to the common equity but junior to its debt. Mezzanine instruments typically have characteristics of both debt and equity.

Global Macro – Hedge funds employing a global macro approach take positions in financial derivatives and other securities on the basis of movements in global financial markets. The strategies are typically based on forecasts and analyses of interest rate trends, movements in the general flow of funds, political changes, government policies, inter-government relations, and other broad systemic factors.

REITs – A real estate investment trust (REIT) is a pool of investor capital formed to purchase real estate or real estate securities. REITs are tax-advantaged instruments in that they avoid the dual layer of taxation associated with most corporations. REITs can be listed and traded on a national exchange (publicly traded REITs) or can be unlisted (nontraded REITs) while retaining the same tax benefits.

High-Yield Debt – A high-yield bond is one that is rated below investment grade at the time of purchase. Therefore, high-yield bonds typically have a higher risk of default, but generally pay higher yields in order to compensate for the additional risk.

Real Estate Private Equity – Private equity can be broadly defined as privately negotiated transactions in publicly traded or private companies. Real estate private equity funds invest in a wide array of real estate and related securities, including physical buildings, real estate debt and mezzanine securities, across a broad array of the risk/return spectrum.
EXPLORING ALTERNATIVE INVESTMENTS