

Why Managing Inflation Risk Still Matters: A Multi-Asset Approach

Inflation—the general increase in the prices of goods and services—is an important investment consideration for two primary reasons. First, inflation erodes the purchasing power of a portfolio's value. For example, if the inflation rate was at its historical long-term average of 3% over a 10-year period, the original value of \$100 would fall by 26% to only \$74. The inflation rate might therefore be considered the “hurdle rate” for an investment strategy, the minimum return required to keep a portfolio's purchasing power intact over time. Second, stocks and bonds typically perform less well during periods of high and rising inflation. As a result, unexpected inflation represents a risk to the performance of traditional portfolio allocations, and managing that risk should be incorporated into an investment strategy.

Inflation risk—the implicit inflation rate individuals experience—is very different for each type of investor. For instance, a retiree living on a fixed pension with expenses concentrated in health care (with costs rising rapidly) may face a higher implicit inflation rate and therefore much higher inflation risk than an average investor. In contrast, a young investor with growing employment income who spends more on technology—a sector where input costs continue to decline—may experience a lower implicit inflation rate and less inflation risk. Inflation considerations can therefore be tailored to the individual experience and circumstance of the investor.

For the purposes of this paper, we will focus on the outlook for aggregate inflation in the U.S. economy, as measured by the government's Consumer Price Index (CPI), and the inflation risk considered will be broad-based increases in this overall price level.

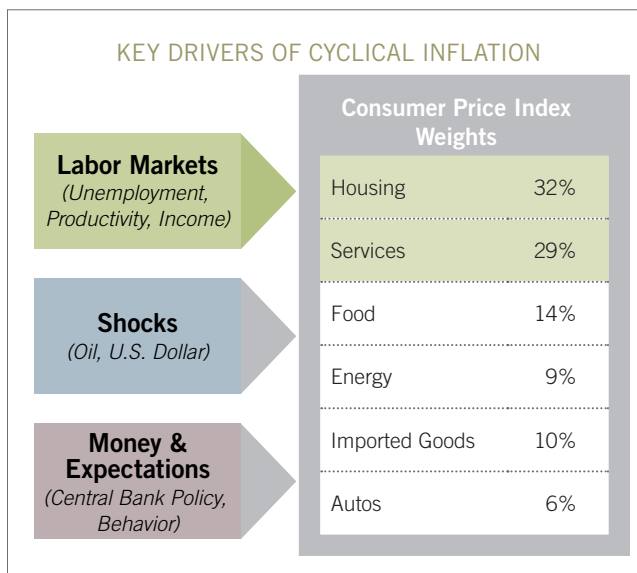
Drivers of cyclical inflation

An economy has many potential inflation drivers that can be grouped into three general categories (see Exhibit 1, right).

Labor market activity.

Particularly in an advanced economy like that of the U.S., labor market supply-and-demand conditions tend to be the crucial factor in determining whether inflationary pressures become widespread and sustained. Tight conditions (low unemployment) generally spur growth in wages and incomes, which ultimately

EXHIBIT 1: Labor market trends tend to heavily influence the largest components of CPI: housing and services.



For illustrative purposes only. Source: Fidelity Investments.

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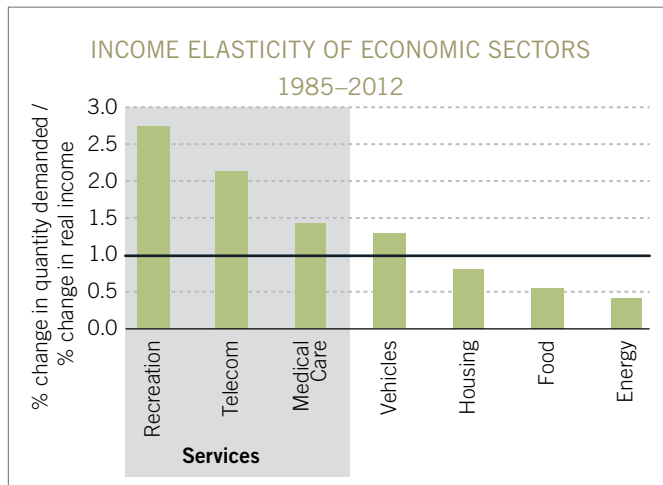
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KEY TAKEAWAYS

- Due in large part to limited wage pressures, our cyclical outlook is for U.S. inflation rates to be range-bound over the next 12–18 months.
- Even relatively low inflation erodes purchasing power and can be particularly detrimental to investors with fixed incomes.
- A typical portfolio of fixed-rate bonds and equities generally performs worse during periods of high and rising inflation, while certain real assets and financial assets with adjustment features tend to hold up better.
- Adding exposure to categories with some inflation resistance may help protect against the negative impact of higher inflation while also providing risk-return characteristics that may provide diversification benefits to an overall portfolio.

EXHIBIT 2: Changes in income have a big effect on the demand for many services, which are a large component of CPI.



Source: Bureau of Labor Statistics, Haver Analytics, Fidelity Investments (AART), as of Dec. 31, 2012. Income elasticity measures the rate of change in quantity demanded due to change in income.

becomes the main transmission mechanism through which inflationary pressures are passed through to the broader economy because higher incomes enable greater consumption. Productivity rates are a key determinant for whether wage growth generates widespread inflation; if positive, companies may be able to increase compensation without creating inflationary labor-cost pressures. Conversely, declining productivity is inherently inflationary.

Shocks. Outside of the supply and demand conditions for labor and money, a sudden shift in any of a number of other economic factors can influence inflation; such shocks typically have a transitory, short-term impact that dissipates in the medium term. The most notable include supply shocks to a key economic input, such as oil. Another example is a significant change in the U.S. dollar, where a stronger dollar generally decreases inflationary pressures by lowering the cost of imports for U.S. consumers.

Money and inflation expectations. Central bank policies, which affect the level of interest rates and growth in the money supply, play a critical role in influencing inflationary pressures and expectations (see *Impact of Federal Reserve policies*, page 3). Credit creation by financial intermediaries is an important transmission mechanism for how monetary policies ultimately impact growth and inflation in the real economy. Because changing interest rates can raise or lower inflation expectations, which can become self-fulfilling, the expectations of economic actors can also affect inflation rates. For this reason, the Fed closely monitors inflation expectations and has an inflation target to help anchor those expectations.

Forecasting cyclical movements in broad prices

Composition of CPI

As a proxy for aggregate prices, the weightings in the Consumer Price Index are designed to measure the out-of-pocket spending

of urban consumers. Its weightings aim to represent the basket of goods and services of a typical consumer's budget. Our cyclical inflation models attempt to forecast CPI movements by identifying and measuring fluctuations in the underlying drivers of different CPI components (see weights in Exhibit 1).

The CPI's weightings illustrate the heavy influence of labor markets on aggregate inflation. Housing and services make up roughly 60% of the CPI, and prices in each of these categories are driven by developments in employment and income. Within housing, the key driver of costs is the growth in household formation, which is highly correlated to changes in employment, making unemployment and wages the best indicators of housing inflation.¹ Similarly, consumer spending on many services is heavily influenced by changes in income. Roughly half the services in the CPI—from air travel to recreation—have income elasticity greater than one, implying they are highly discretionary purchases that will rise or fall disproportionately relative to income changes (see Exhibit 2, left).

In contrast, shocks such as an oil price spike are less potent at creating sustained inflationary pressures. Energy accounts directly for 9% of the CPI, with oil prices being the biggest driver, and petroleum has an impact on other categories, including food and transportation services. However, the energy efficiency of the U.S. economy has improved dramatically since the 1970s, making the overall economy less susceptible to oil price shocks. As a general rule, a 10% jump in oil prices adds about 1% to headline inflation over one year but then dies out by the second year. Because energy is relatively price inelastic—demand isn't influenced much by price changes—the net result of an oil price spike tends to be a shift away from discretionary spending and toward energy.

Import prices (not including autos) account for only about 10% of the CPI. As a result, a shock to the value of the dollar tends to have only a modest impact on overall inflationary pressures.

As a result, our cyclical inflation models include a variety of key drivers of inflationary pressures, including a number of labor-market indicators, in addition to money supply, credit conditions, oil prices, the value of the dollar, and inflation expectations.

Inflation outlook

Our cyclical outlook is for inflation to be range-bound over the next 12 to 18 months. Core inflationary pressures are experiencing modest upward pressure from income growth and the pickup in housing, offsetting the disinflationary impact of a stronger dollar and lower import prices. Overall, the backdrop is consistent with inflation rates that remain relatively stable, at around 2%. Oil prices—particularly if driven by a supply shock—are a major wild card for short-term inflation measures, but oil-driven inflation spikes tend to be more transient, and create a disinflationary impact on other parts of the U.S. economy.

Impact of Federal Reserve policies

An expansion of the money supply is a necessary but not sufficient condition for broad-based inflation. A central bank authority can expand the monetary base (currency plus reserves in the banking system) and provide banks the means or incentives (lower interest rates) to increase lending and thereby boost economic activity. However, whether this monetary expansion ultimately raises aggregate inflation depends on two key transmission mechanisms: the expansion of the monetary base increases the total supply of money and credit, and the supply of money eventually makes its way into wages and the general price level of the real economy.

Through its quantitative easing programs, the Federal Reserve has dramatically increased its balance sheet and roughly quadrupled the monetary base since 2008. While this has dramatically lowered interest rates, it has not resulted in rapid bank lending growth due to the economy-wide deleveraging in the wake of the housing market collapse and financial crisis. Banks have been capital-constrained and loan demand from both businesses and consumers has been limited.

Therefore, the Fed's extraordinarily accommodative monetary policy has not translated into a rapid expansion of money moving through the real economy. We can see this in the dramatic drop in the velocity of money, implying that money is not changing hands rapidly in a series of transactions that would provide a boost to economic activity. The weak pace of lending and falling velocity has effectively blunted the ability of the Fed's balance sheet expansion to create inflation (see Exhibit 3, above right).

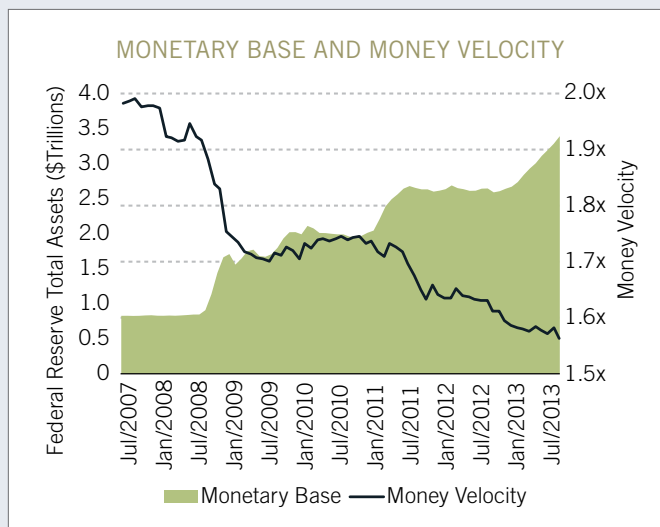
There is evidence that bank loans have posted modest growth, and banks have continued to ease lending standards for both

Structural shifts in inflation that move an economy off its cyclical path and to a higher or lower inflation backdrop over the medium term can occur periodically. This has happened before due to dramatic turns in certain factors, including major changes in the money multiplier² or the credibility of the Federal Reserve to fight inflation. While we continually monitor signs of such a "regime change," our long-term forecast for U.S. inflation is also around 2%—a lower rate than historical averages because of the Federal Reserve's explicit 2% inflation target³ and its perceived success in controlling inflation over the past three decades. Inflation tends to be lower and more stable in advanced economies with high per capita incomes, particularly those that have credible, independent monetary authorities that can successfully anchor long-term inflation expectations.

Inflation and asset performance

At 2%, our forecast appears to be fairly benign, but there are two reasons managing inflation risk still matters. First, even mild

EXHIBIT 3: While the Fed's balance sheet has risen significantly, low money velocity has blunted the potential for inflation.



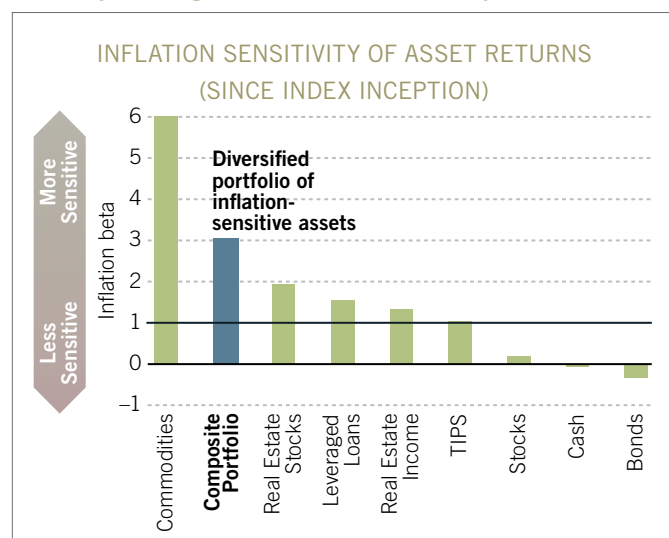
Source: Federal Reserve Board, Haver Analytics, Fidelity Investments (AART), through Jul. 31, 2013. Money velocity data as of Jun. 30, 2013. See endnotes, page 7, for definitions.

commercial and consumer loans in recent quarters. Ultimately, however, money growth would have to find a way to boost prices in the real economy to raise aggregate price levels. For instance, increased bank lending would need to result in faster economic growth, prompting more hiring by employers, and causing wages and incomes to rise; whereupon tighter monetary policy may be considered. As a result, money may provide a necessary but not sufficient condition for inflation, and monetary policies must be considered within the context of the economic environment in which they occur.

inflation erodes a portfolio's purchasing power. Second, the risk of rising or high inflation poses a significant threat to the performance of traditional stock-and-bond portfolios.

Most financial assets, including the majority of stocks and bonds, tend to underperform their historical averages during an inflationary environment. Rising inflation expectations generally lead to higher interest rates and discount rates. Therefore, high-quality fixed-rate bonds perform the worst in periods of rising inflation, because the fixed cash flows are discounted at a higher rate. In terms of cash holdings, their short maturities make them less sensitive to inflation, because investors can roll these assets over more frequently and participate in higher rates. Finally, while stocks may enjoy a positive offset when rising inflation increases company revenues, inflation can also impair stock valuations when higher rates are used to discount company earnings.

EXHIBIT 4: Certain real and financial assets have a higher positive sensitivity to changes in inflation than other major asset classes.



Inflation beta measures the asset class total return over the past year relative to the change in inflation (CPI) over the past year. All asset classes used herein are represented by: Commodities—S&P GSCI Commodities Index from 1970 to 1990 and Dow Jones-UBS Commodities Index from 1991; Real Estate Investment Trusts (REITs)—FTSE NAREIT All Equity from 1972 to 1977, Dow Jones US Select Real Estate Securities Index from 1978; Leveraged Loans—CSFB Leveraged Loans Index from 1992 to 1996 and S&P/LSTA Performing Leveraged Loans from 1997; Real Estate Income—BofA ML US Corporate Real Estate Index from 1997; Treasury Inflation Protected Securities (TIPS)—Barclays US TIPS Index; Stocks—S&P 500 Index; Bonds—Barclays Aggregate Bond Index from January 1976 and by a composite of the IA SBBI Intermediate-Term Government Bond Index (67%) and the IA SBBI Long-Term Corporate Bond Index (33%) from January 1926 through December 1975; Cash—IA SBBI US 30 Day Treasury Bill Index. Hypothetical composite portfolio start date 1997, based on indices above—30% TIPS, 25% leveraged loans, 25% commodities, 10% real estate equity, 10% real estate income. Source: Morningstar EnCorr, Fidelity Investments (AART), as of Aug. 31, 2013. Past performance is no guarantee of future results.

Inflation beta

One way to demonstrate an asset's effectiveness at countering inflation is to measure its inflation beta—the change in an asset's total return for a given increase in the inflation rate. A beta of one signifies an asset's return has a tendency to move with changes in inflation; the higher the inflation beta, the more inflation protection the asset provides. In contrast, an inflation beta less than one reflects an asset's low or negative sensitivity to a change in inflation.

Bonds have a negative inflation beta, while that of stocks is only modestly positive. However, there are some assets that offer greater inflation resistance. For example, real assets (e.g., commodities and real estate assets) and inflation-adjusting financial assets (e.g., TIPS and leveraged loans) have had inflation betas of one or greater (see Exhibit 4, above). Therefore, for a given change in the rate of inflation, the change in their performance has been even more pronounced (see *Inflation-resistant assets*, right). In addition, there are certain equity sectors that have relatively high inflation sensitivity. The energy and materials sectors—the most inflation-sensitive sectors—have the highest probability of out-

Inflation-resistant assets

Two broad asset categories have historically tended to hold up relatively well during inflationary climates: real assets and financial securities with features that enable them to adapt positively to inflation.

Commodities are an example of real assets, such as oil and copper. Their prices tend to rise when mounting demand is stoking broad inflation or when negative supply shocks cause oil or food prices to spike. Investors should note the relatively high volatility associated with commodities. One means of offsetting their volatility is to invest in a diversified basket of commodity exposures.

Another source of real assets is commercial **real estate**—apartment buildings, office towers, and shopping malls. Investors can gain exposure to these assets through real estate investment trusts (REITs) and real estate fixed income. Within this segment, combining equities that offer the potential for outperforming the stock market with bonds that have defensive characteristics can benefit an asset allocation that is attentive to inflation hedging.

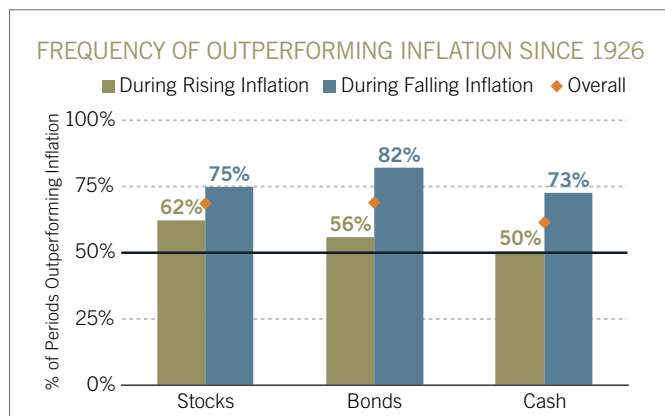
REITs maintain value during inflationary periods because they generally own physical structures and property that generate rents, which can be increased as broad prices rise. REITs tend to be less influenced by rising inflation than paper-based monetary assets. However, it is a sector that can be prone to volatility. As such, significant research is a necessary prerequisite to maximizing the reward per unit of risk in real estate.

Within the fixed income market, TIPS and leveraged loans provide returns that adjust for inflation.

Treasury Inflation-Protected Securities (TIPS) are Treasury bonds whose principal value is adjusted daily based on lagged Consumer Price Index moves. While TIPS have a constant coupon rate, the security generates a higher level of interest when the inflation-adjusted principal rises, thus protecting the investor against inflation. The inflation-adjusted principal value of TIPS is paid at maturity.

Leveraged loans are floating-rate bank loans to companies with below-investment-grade (high yield) credit quality. These loans provide a coupon—typically three-month LIBOR⁴ plus an additional yield spread to compensate for higher credit risk. As LIBOR rises or falls, the coupon automatically adjusts to movements in short-term interest rates, meaning income rises as short-term rates increase. Because interest rates typically tend to rise as inflationary pressures pick up, the floating rate mechanics make leveraged loans an effective inflation offset.

EXHIBIT 5: Major asset classes have outperformed inflation more often when inflation has been falling.



Source: Morningstar EnCorr, Fidelity Investments (AART), as of Aug. 31, 2013. Rising/falling inflation is the one-year change in the inflation rate higher/lower. Asset class one-year total return relative to one-year change in inflation. See endnotes for indexes used as asset class proxies. Past performance is no guarantee of future results.

performing inflation. During periods of rising inflation, demand for energy and materials can put upward pressure on prices.

Hit rate

Another way to assess an asset's inflation-fighting capabilities is to look at its "hit rate"—the probability that it will outperform the rate of inflation over a 12-month period. Since 1926, the major asset classes have generally outpaced inflation. However, they have tended to surpass inflation much more often when inflation is falling (see Exhibit 5, above left). For example, fixed-rate bonds outpaced inflation more than 80% of the time when inflation was falling, but only just over half the time when inflation was rising.

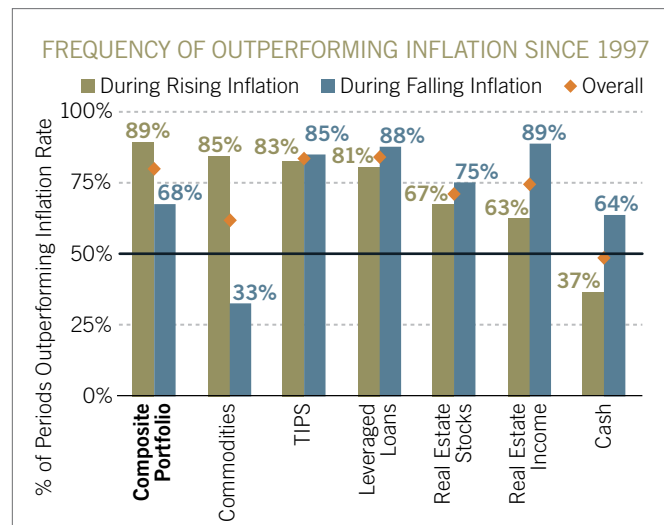
Categories that are more inflation resistant have also tended to outpace inflation since 1997 (see Exhibit 6, above right). However, their hit rates tended to be higher during periods when inflation was rising—when investors needed the protection the most. For instance, commodities, TIPS, and leveraged loans outpaced inflation more than 80% of the time during periods of rising inflation. A composite portfolio of inflation-resistant asset categories beat inflation nearly 90% of the time.⁵

Inflation considerations and portfolio construction

The degree of inflation hedging an investor achieves by owning inflation-resistant assets will be influenced by the timing and pricing of their purchases. Adding such assets at reasonable valuations over time would help investors avoid chasing these assets at higher prices when inflation accelerates.

In isolation, commodities, real estate, TIPS, and floating-rate loans have qualities that make them inflation-hedging tools with favorable hit rates. For investors interested in building an inflation-

EXHIBIT 6: More inflation-resistant assets have generally outpaced inflation during rising inflation environments.



Source: Morningstar EnCorr, Fidelity Investments (AART), as of Aug. 31, 2013. See endnotes for indexes used as asset class proxies. Past performance is no guarantee of future results.

resilient asset allocation, a key consideration is the correlation characteristics of these asset classes with each other and with stocks and bonds in general. Can an asset allocation be enhanced in terms of risk and return by combining assets that hold up well in an inflationary environment?

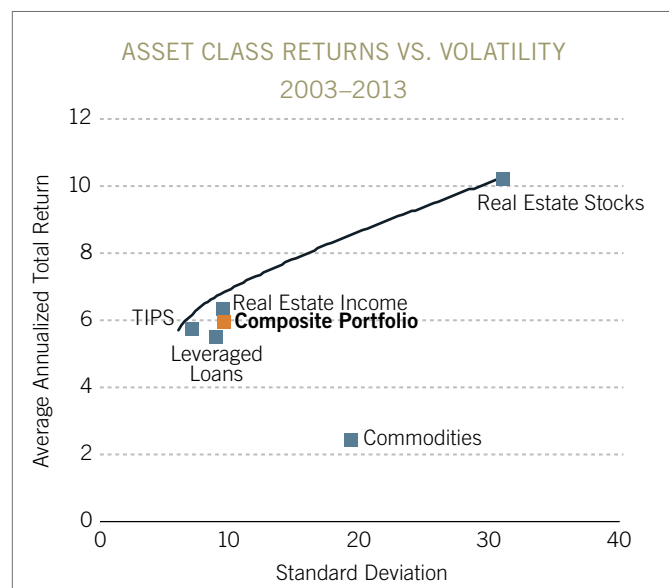
The distinct return patterns of the disparate asset classes presented earlier do translate into a compelling correlation matrix and thus appear to reflect meaningful opportunities for diversification. Most of the more inflation-resistant assets (TIPS, commodities, real estate, and leveraged loans) have relatively low correlations with each other (see Exhibit 7, below). In addition,

EXHIBIT 7: The relatively low performance correlations of inflation-resistant assets can enhance a portfolio's risk-return profile.

| Correlations since 1997 | | | | | | | | |
|-------------------------|------------|--------------|-------|------------------|------|---------|-------|-------|
| | Lev. Loans | Com-modities | REITs | Real Estate Debt | TIPS | S&P 500 | Bonds | Cash |
| Lev. Loans | | 0.34 | 0.49 | 0.73 | 0.16 | 0.42 | -0.04 | -0.08 |
| Commodities | 0.34 | | 0.29 | 0.28 | 0.30 | 0.33 | 0.07 | 0.03 |
| REITs | 0.49 | 0.29 | | 0.34 | 0.20 | 0.59 | 0.12 | -0.05 |
| RE Debt | 0.73 | 0.28 | 0.34 | | 0.49 | 0.16 | 0.44 | -0.05 |
| TIPS | 0.16 | 0.30 | 0.20 | 0.49 | | 0.02 | 0.75 | 0.00 |
| S&P 500 | 0.42 | 0.33 | 0.59 | 0.16 | 0.02 | | -0.04 | -0.01 |
| Bonds | -0.04 | 0.07 | 0.12 | 0.44 | 0.75 | -0.04 | | 0.09 |
| Cash | -0.08 | 0.03 | -0.05 | -0.05 | 0.00 | -0.01 | 0.09 | |

Source: Morningstar EnCorr, Fidelity Investments (AART), as of Aug. 31, 2013.

EXHIBIT 8: A diversified approach to inflation hedging may be effective without adding significant volatility to a portfolio by incorporating high inflation-beta assets such as commodities and real estate stocks.



Line in chart represents the efficient frontier. Source: Morningstar EnCorr, Fidelity Investments (AART), as of Aug. 31, 2013. See endnotes for indexes used as asset class proxies. Past performance is no guarantee of future results.

the inflation-resistant categories offer diversification opportunities to a traditional portfolio, with many of them having modest or low correlations with stocks and bonds. This is important because

a portfolio's inflation-resistant qualities can be bolstered without compromising the risk-return profile of a portfolio.

A diversified approach to protecting against the impact of inflation can be more effective than investing in any of the single asset classes discussed (see Exhibit 8, left). For example, from 2003 to 2013, a hypothetical composite portfolio would have provided a healthy exposure to high inflation-beta assets such as commodities and real estate without adding significant volatility to the overall portfolio.

Investment implications

Our outlook is for inflation to remain relatively stable, at around 2% during the next 12 to 18 months. While a seemingly low figure, we have demonstrated that even mild inflation can undermine a portfolio's returns. For certain types of investors with income streams that are fixed, it can present a significant hurdle. Therefore, inflation protection is a critical component of an investment plan.

Investing in inflation-sensitive assets such as TIPS, leveraged loans, commodities, REITs, and real estate fixed income offers the opportunity to preserve purchasing power and provides a potential hedge against an unexpected rise in inflation. While these assets provide inflation resistant characteristics on their own, the hit rate and correlation data suggest that a diversified approach to inflation hedging is more effective than investing in any single asset class. A portfolio approach can provide exposure to categories with higher inflation resistance, such as commodities and real estate, without assuming their commensurate volatility.

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The Asset Allocation Research Team (AART) conducts economic, fundamental, and quantitative research to develop asset allocation recommendations for Fidelity's portfolio managers and investment teams. AART is responsible for analyzing and synthesizing investment perspectives across Fidelity's asset management unit to generate insights on macroeconomic and financial market trends and their implications for asset allocation.

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Investment decisions should be based on an individual's own goals, time horizon, and tolerance for risk.

Past performance is no guarantee of future results.

All indices are unmanaged and performance of the indices includes reinvestment of dividends and interest income, unless otherwise noted, and are not illustrative of any particular investment. An investment cannot be made in any index.

Neither asset allocation nor diversification ensures a profit or guarantees against a loss.

In general the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry inflation risk, liquidity risk, call risk and credit and default risks for both issuers and counterparties. Unlike individual bonds, most bond funds do not have a maturity date, so avoiding losses caused by price volatility by holding them until maturity is not possible.

Stock markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments.

Changes in real estate values or economic conditions can have a positive or negative effect on issuers in the real estate industry, which may affect the fund.

Increases in real interest rates can cause the price of inflation-protected debt securities to decrease.

Leveraged loans inherently have higher refinancing/repricing risk. Unlike other credit investments with non-call periods when the bonds cannot be redeemed, leveraged loans are callable at par at any time. As the broader market trades above the long-term average price and some loans trade at or above par, this callability presents an additional downside risk to loan investors.

Hypothetical back-tested data has inherent limitations due to the retroactive application of a model designed with the benefit of hindsight and may not reflect the effect that any material market or economic factors may have had on the use of the model during the time periods shown.

Thus, hypothetical performance is speculative and of extremely limited use to any investor and should not be relied upon in any way.

Hypothetical performance of the model is no guarantee of future results.

Endnotes

¹ Housing CPI measures shelter costs, not asset prices, including calculations of contract rentals as well as owners' equivalent rent that is imputed from housing market conditions.

² The money multiplier is contingent on banks' reserve requirements. A higher reserve requirement leaves less in assets to be loaned, and vice versa.

³ www.federalreserve.gov: *FOMC Longer-Run Goals and Monetary Policy Strategy*.

⁴ London Interbank Offered Rate.

⁵ Composite portfolio made up of 30% TIPS, 25% commodities, 25% leveraged loans, 10% REITs, and 10% real estate debt.

Definitions

The Consumer Price Index (CPI) measures over time the cost of goods and services purchased by the consumer compared to a base period.

Money velocity = GDP/M2. GDP = Gross domestic product. M2 = money supply measure including currency, demand deposits, checking deposits, savings accounts, money market accounts, certificates of deposit. Monetary base = currency plus reserves in the banking sources.

The efficient frontier is at the core of modern portfolio theory. It represents those portfolios with the highest expected return for a given level of risk.

Standard deviation indicates the volatility of data over time. A higher standard deviation indicates a wider dispersion of past returns and thus greater historical volatility.

Index definitions

Bonds

The IA SBBI U.S. Intermediate-Term Government Bond Index is an unweighted index that measures the performance of five-year maturity U.S. Treasury bonds. Each year a one-bond portfolio containing the shortest non-callable bond having a maturity of not less than five years is constructed.

The IA SBBI U.S. Long-Term Corporate Bond Index is a custom index designed to measure the performance of long-term U.S. corporate bonds.

Barclays U.S. Aggregate Bond Index is an unmanaged, market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year.

TIPS

Barclays U.S. Treasury Inflation-Protected Securities (TIPS) Index is a market-value-weighted index that tracks inflation-protected securities issued by the U.S. Treasury.

Cash

The IA SBBI U.S. 30 Day Treasury Bill Index is a custom index designed to measure the performance of 30-day Treasury bills.

Real Estate Fixed Income

BofA ML Corporate Real Estate Index, a subset of BofA Merrill Lynch U.S. Corporate Index, is a market-capitalization-weighted index of U.S. dollar-denominated investment-grade corporate debt publicly issued in the U.S. domestic market by real estate issuers. Qualifying securities must have an investment-grade rating (based on an average of Moody's, S&P, and Fitch). In addition, qualifying securities must have at least one year remaining to final maturity, a fixed coupon schedule, and a minimum amount outstanding of \$250 million.

Stocks

S&P 500® Index, a market-capitalization-weighted index of common stocks, is a registered service mark of The McGraw-Hill Companies, Inc., and has been licensed for use by Fidelity Distributors Corporation and its affiliates.

Leveraged loans

S&P/LSTA Leveraged Performing Loan Index (Standard & Poor's/Loan Syndications and Trading Association Leveraged Performing Loan Index) is a market-value-weighted index designed to represent the performance of U.S. dollar-denominated, institutional leveraged performing loan portfolios (excluding loans in payment default) using current market weightings, spreads, and interest payments.

CSFB Leveraged Loans index represents tradable, senior-secured, U.S.-dollar non-investment grade loans.

Commodities

CSFB Leveraged Loan Index measures tradable, senior-secured, U.S. dollar-denominated non-investment-grade loans.

S&P GSCI Commodities Index encompasses the principal physical commodities that are traded in active, liquid futures markets.

Dow Jones-UBS Commodities Index is a broadly diversified index that encompasses futures contracts on physical commodities.

Real Estate Investment Trusts (REITs)

FTSE NAREIT All Equity Index contains all tax-qualified REITs with more than 50% of total assets in qualifying real estate assets other than mortgages secured by real property.

The Dow Jones U.S. Select Real Estate Securities Index includes equity real estate investment trusts (REITs) and real estate operating companies traded in the U.S.

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