Adjusting Your Course

How to invest in a world of diverging paths, find new opportunities and combat new risks

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Understand. Act.

Agenda

1 **Introduction:** The Challenges Facing Americans

2 **What to know:** The world is on diverging paths

- Global view
- Euro-zone outlook
- Emerging-market outlook
- China outlook
- Japan outlook
- US outlook

3 **What to do:** Adjust course to address three areas of investor concern

A dramatic shift in the past 35 years…

Retirement

On Our Own Now…

Defined Benefit

Defined Contribution

A dramatic shift in the past 35 years…

Education

From Affordable to Unaffordable…

1980-81^	2015-16
$10,438	$32,405

Source: College Board,

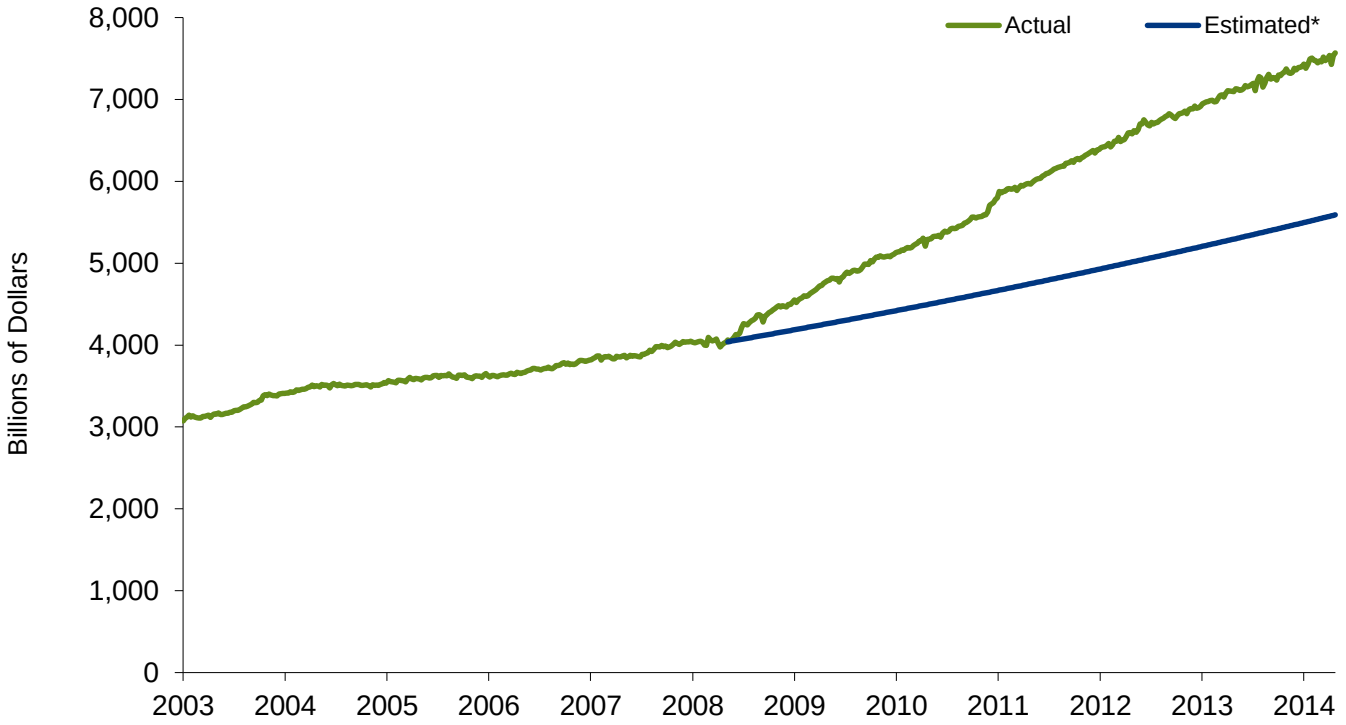
*In 2015 dollars

Financial illiteracy helped cause the Financial Crisis of 2007-2009

And financial illiteracy exacerbated the aftermath…

Risk aversion caused people to put more money into cash at the wrong time...

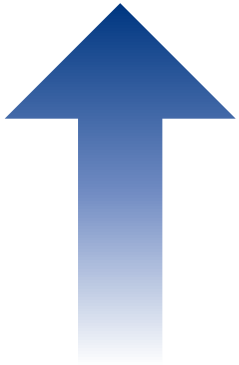
Savings Plus Small Time Deposits at Banks and Thrifts



*Assumes a pre-crisis rate of growth.
Source: Federal Reserve Bank of St. Louis as of 7/28/2014.

…causing people to unload stocks

S&P 500 since March 9, 2009



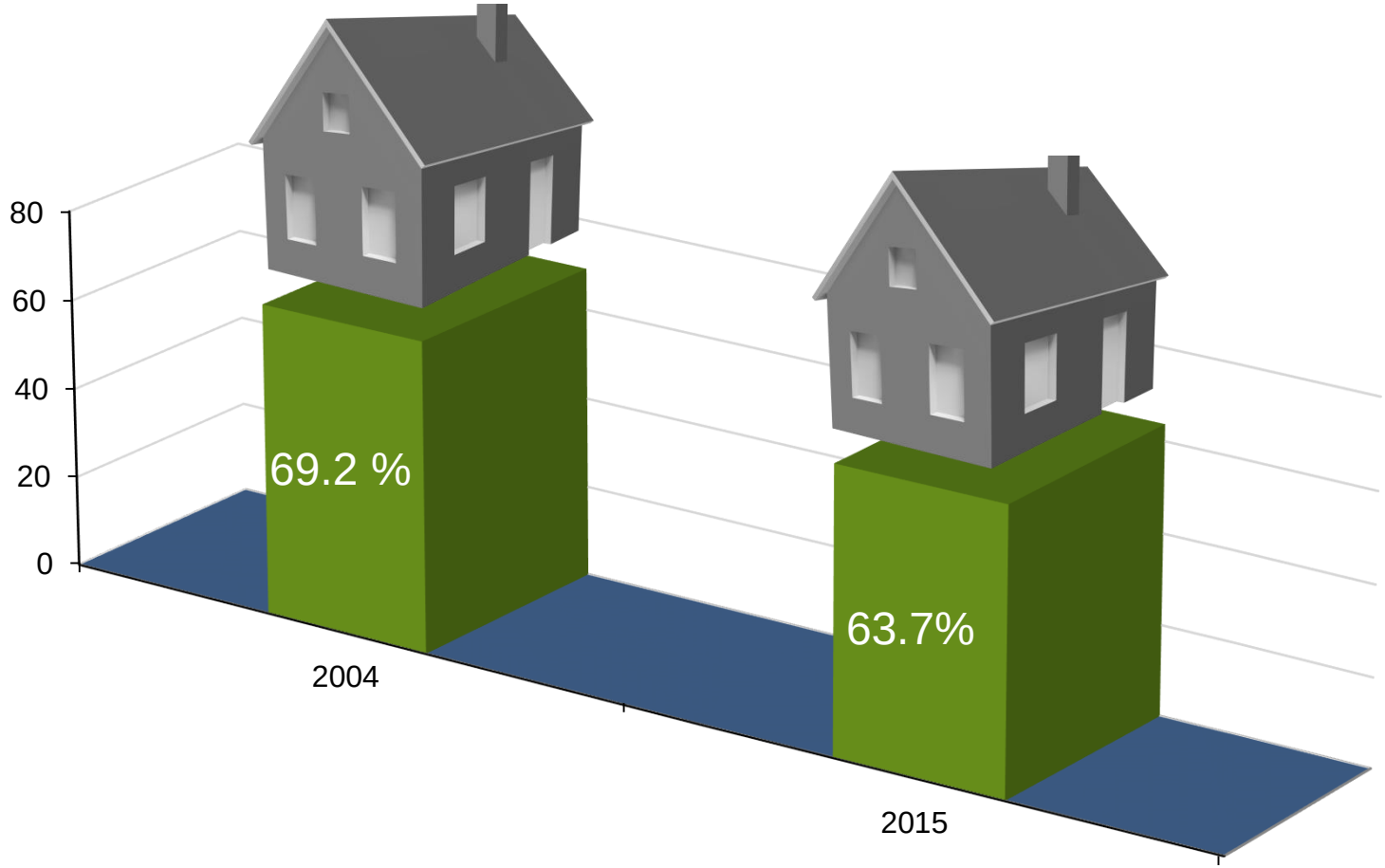
Up more than 200%

Year	Household stock ownership	Mean value of stock holdings
2007	53.2%	$254,000
2010	49.9%	$228,300
2013	48.8%	$269,900

Source: Federal Reserve Board of Governors, “Changes in U.S. Family Finances from 2010 to 2013. Evidence from the Survey of Consumer Finances,” September 2014.

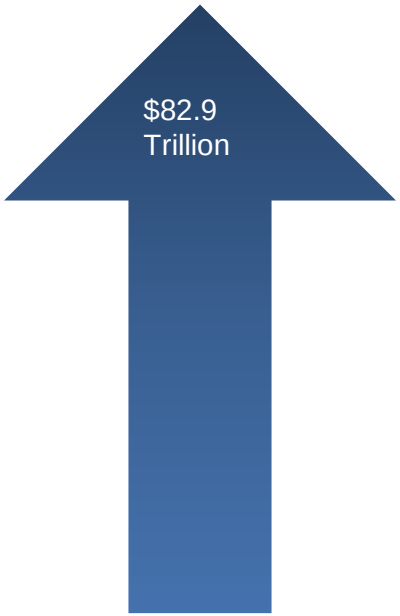
…and homes

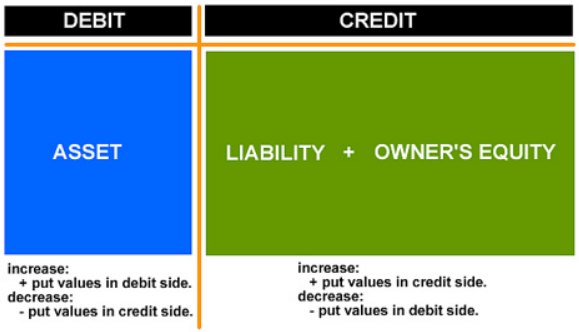
Home ownership has fallen in the past decade...



…Causing Asset Inequality

Household net worth





Source: NBER Study, “What Happened Over the Great Recession?”, December 2014

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Home economics

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What to know: The world is on diverging paths

- Global view

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Outlook

What we know

- End of QE in the US
- Expectations of rising US rates
- Since the end of the financial crisis, an environment driven by non fundamental-based factors has seen higher stock correlations, which has led active strategies to struggle to out perform

What we expect

- As monetary policy normalizes in the US we expect capital markets to normalize – this would lead to
  - Lower stock correlations
  - Increased market volatility
  - Fundamentals driving returns with stronger distinction between winners and losers
- We expect subdued stock market returns and relatively low interest rates
  - High debt levels generally serve to slow the rate of economic growth and limit interest rate increases
  - Slow economic growth and high equity valuations limit upside potential for stocks

Diverging Paths | Global View

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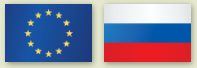
Economic growth is on different paths for different countries

GDP (% change)	2013	2014	2015*
Negative			
0 to 1			
1.1 to 2			
2.1 to 3			
3.1 to 5			
5.1 to 7			
Over 7			

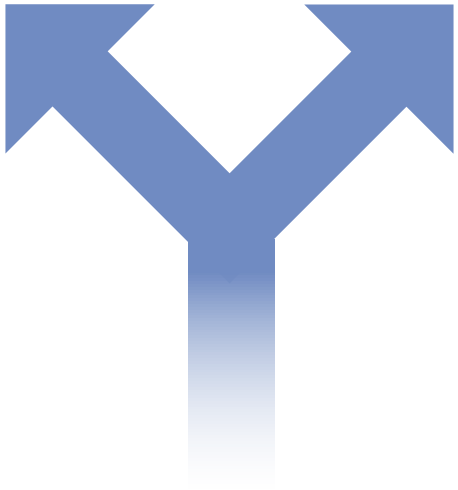
Global growth is relatively low. However some countries have higher absolute growth levels than others. And some countries are seeing an acceleration in growth, while many others (including most BRIC nations) are experiencing a deceleration in growth.

Source: FactSet. *Data as of 9/30/2015.

Diverging Paths | Global View

The US is on a divergent monetary policy path from other major economies

More Easing



Tightening

Policy normalization began in the US in late 2015, while more unconventional monetary policy accommodation occurred in Japan and the euro zone.

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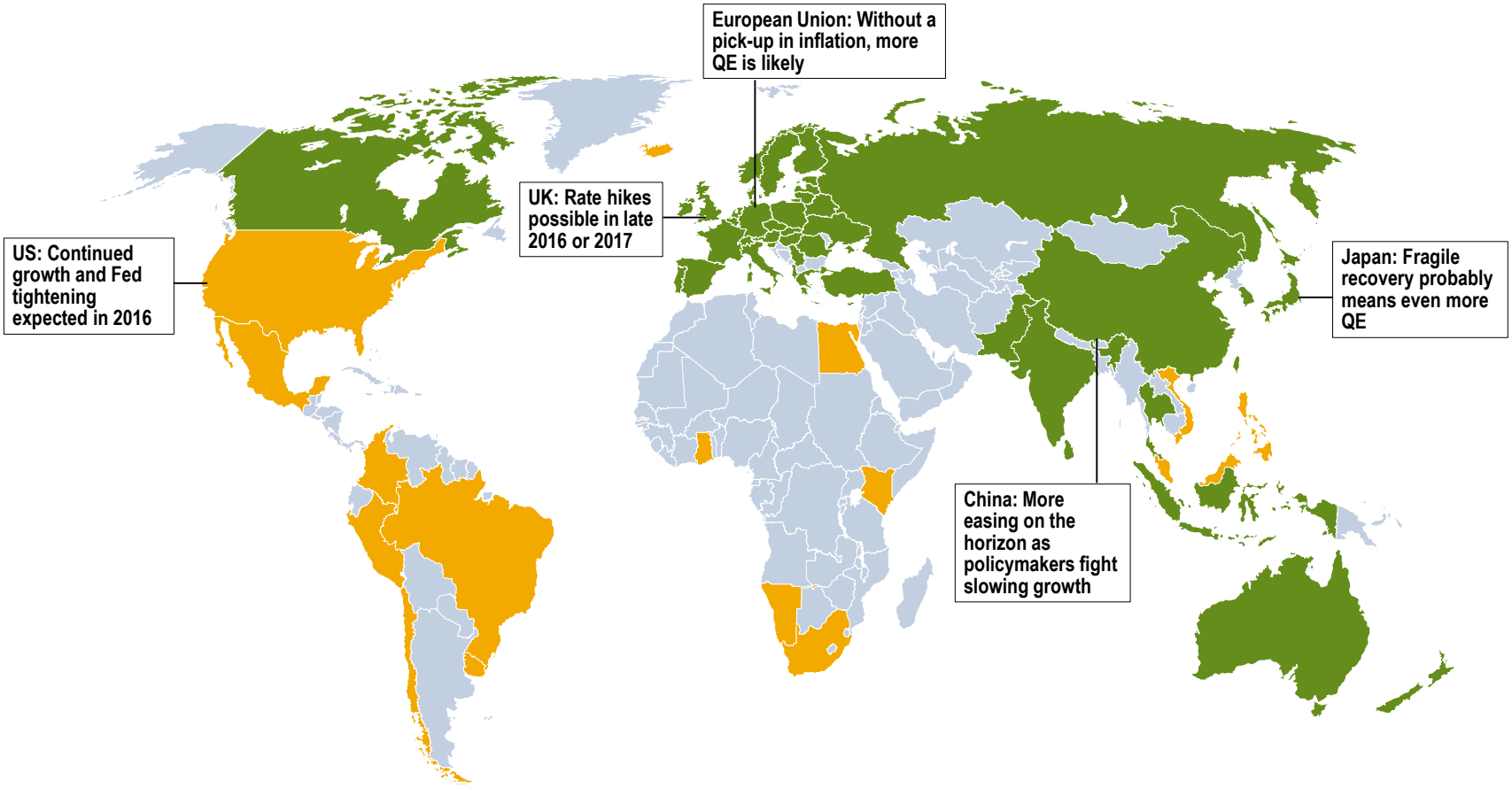
Global monetary policy and economic growth in 2016



Diverging Paths | Global View

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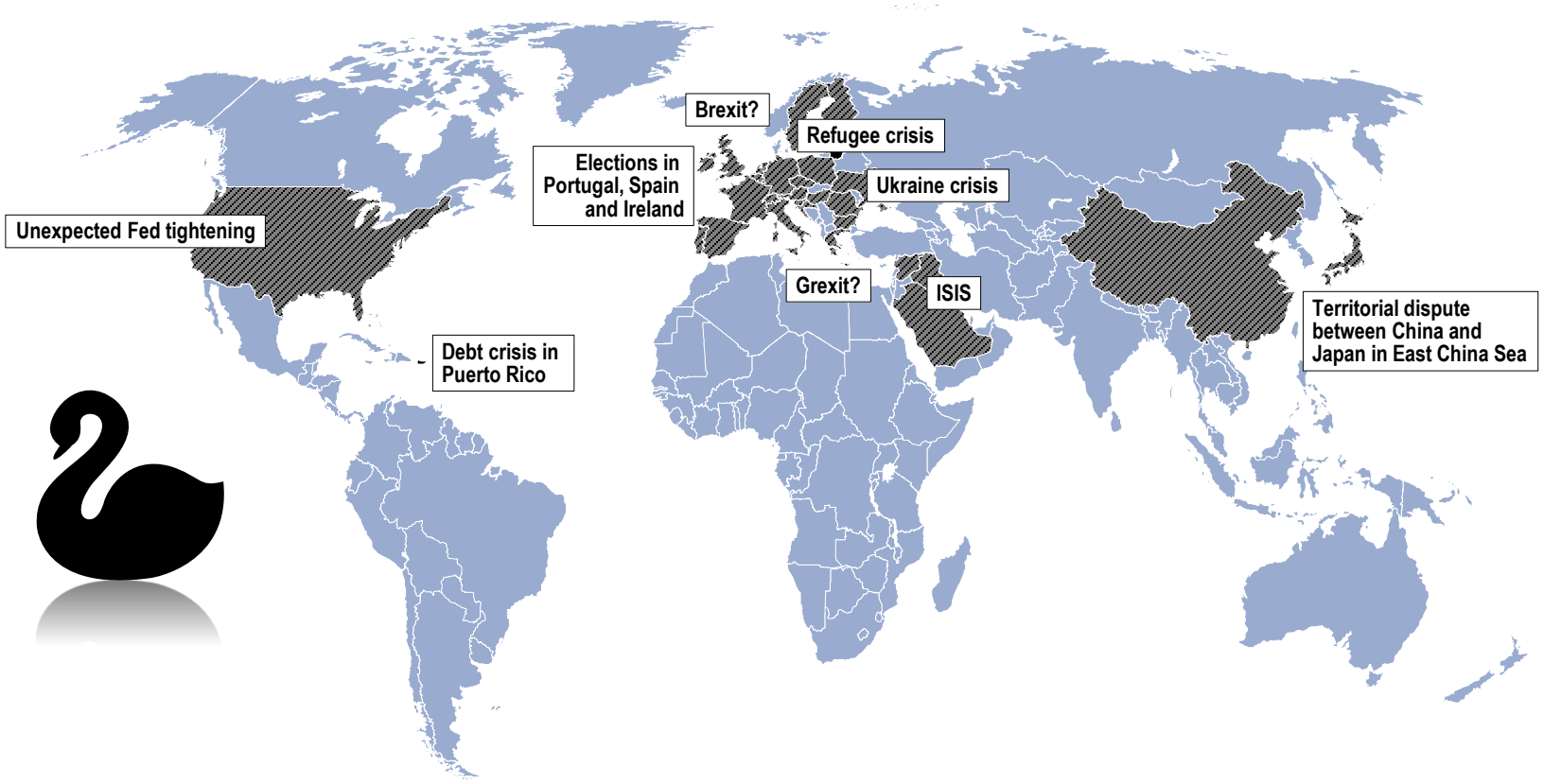
Macroeconomic and geopolitical risks could make black swan events even more common



Source: Allianz GI Capital Markets & Thematic Research

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What to know: The world is on diverging paths

- Euro-zone outlook
- Emerging-market outlook
- China outlook
- Japan outlook

Diverging Paths | Euro-Zone Outlook

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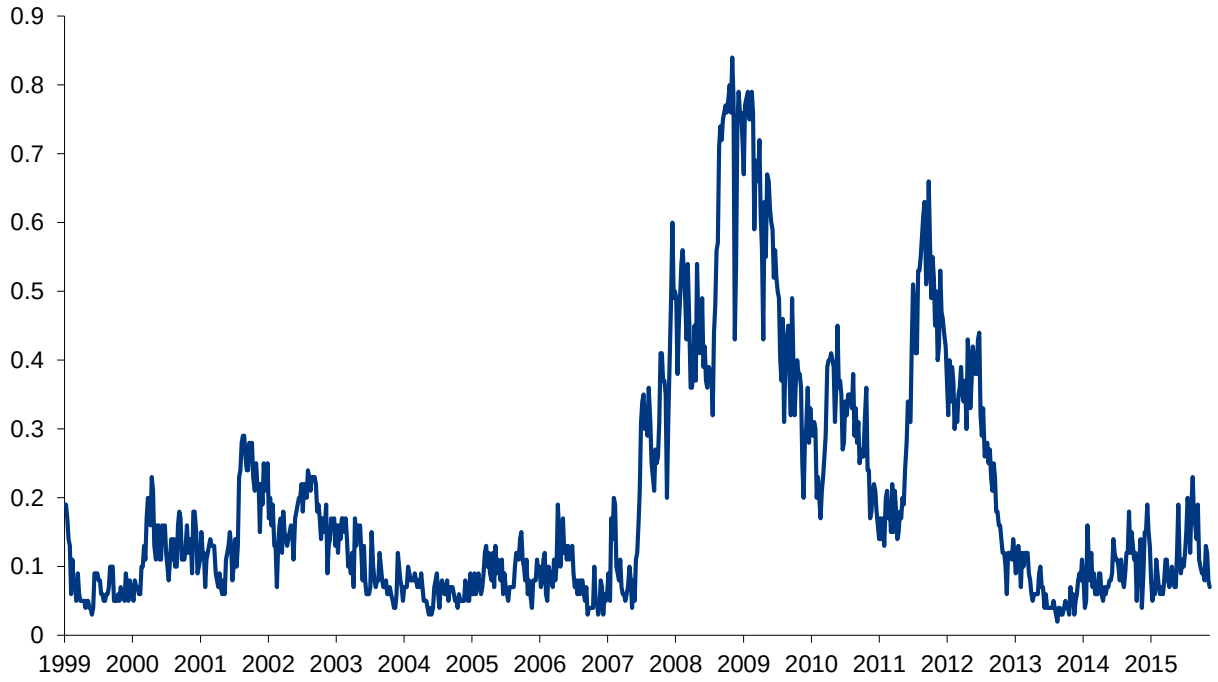
Euro zone is experiencing a modest recovery, as systemic stress has declined dramatically

CISS: Composite Indicator of Systemic Stress in the euro zone



Monetary Policy

Economic Growth

As a consequence of the improved financial architecture since mid-2012, systemic stress in the euro zone has significantly declined. For relatively long-term investors, Europe might be a good place to find bargains.

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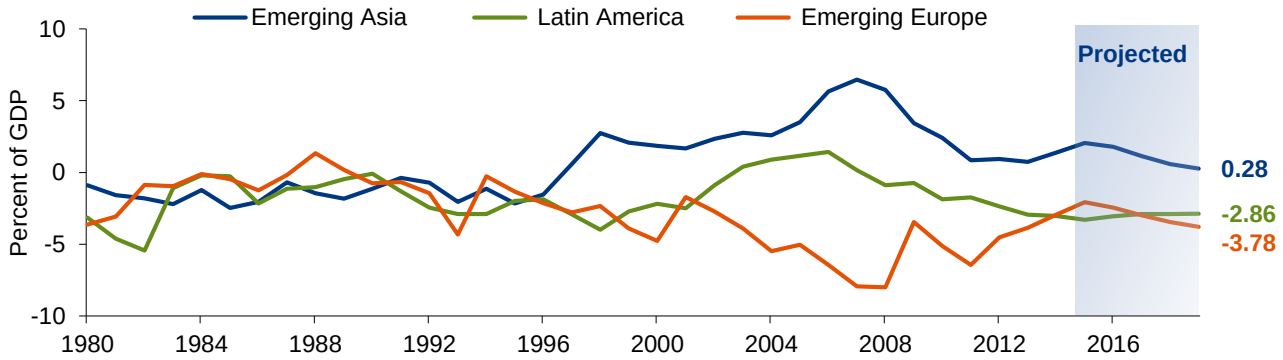
Source: European Central Bank (ECB), Weekly data as of 12/25/15.

Diverging Paths | Emerging-Market Outlook

There are major differences among emerging market countries, with some opportunities and some risks

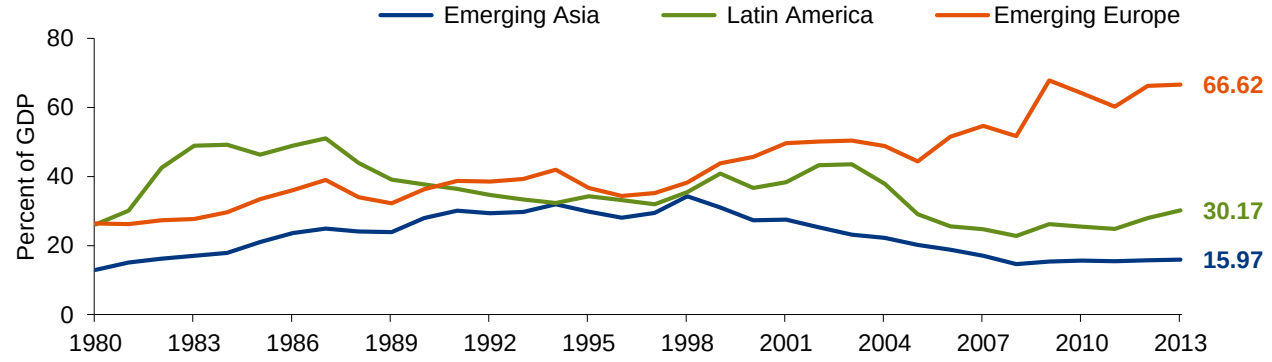
Emerging Market Current Account Balances



Source: International Monetary Fund, data as of 12/31/15.

Forecasts are inherently limited and should not be relied upon as a guarantee of future results.

Emerging Market External Debt as % GDP



Source: International Monetary Fund. Data as of 10/31/2015.

Monetary Policy

Economic Growth

There are some headwinds for emerging-market economies, including weaker commodity prices and lower trend growth. We need to be very discerning when investing in the emerging markets space in order to find areas of opportunity despite headwinds for the overall asset class.

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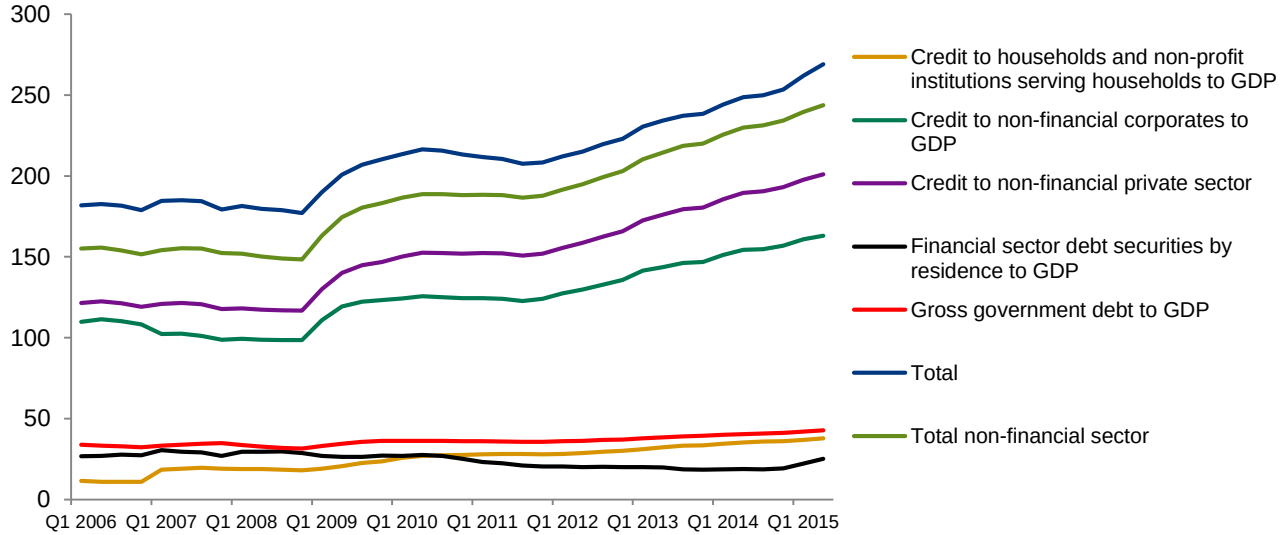
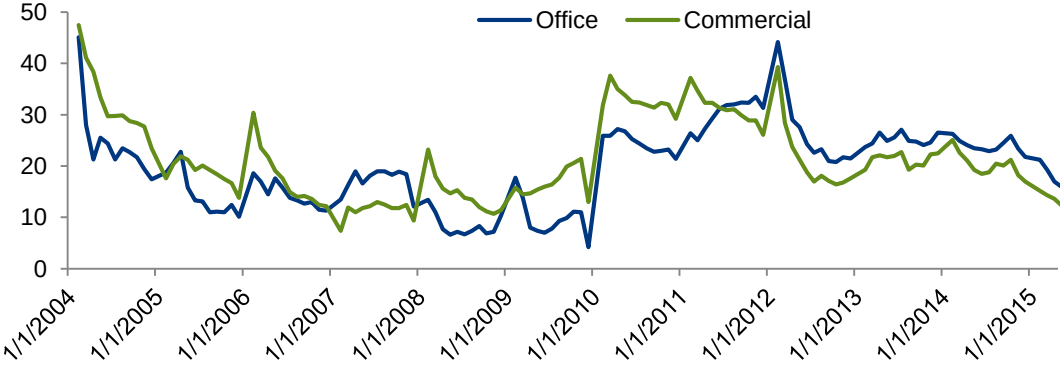
China faces risks going forward as its economy transitions

Chinese debt (as a percentage of GDP) by Sector



Source: Bank for International Settlements (BIS), FactSet. Data as of 6/30/2015. Forecasts are inherently limited and should not be relied upon as a guarantee of future results.

Chinese Housing Floor Area Under Construction



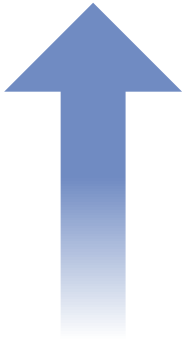
Source: Bloomberg. Data as of 12/31/2015.

Monetary Policy

Economic Growth

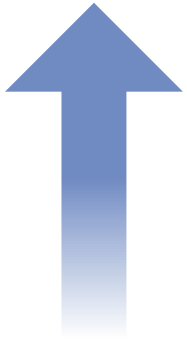
China's economic growth is decelerating but remains relatively high as it transitions from an investment-based economy to a more consumption-based economy. Major risks to China going forward include high levels of private debt.

Concerns over “Abenomics” in Japan



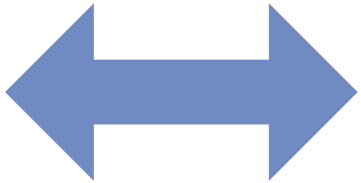
Monetary Policy

- Radical QE program
- Yen driven down, stimulating exports but increasing cost of imports



Fiscal Stimulus

- Significant increase in government spending
- VAT increase postponed until 2017



Structural Reforms
Still in progress

- Higher VAT needed to stabilize government tax revenue
- Corporate governance improvements
- Pension reforms

Monetary Policy

Economic Growth

Japan’s economy continues to struggle to record real economic growth. However tailwinds include accommodative monetary policy and improvements in corporate governance.

VAT: Value-added tax

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What to know: The world is on diverging paths

- US outlook

Diverging Paths | US Outlook

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"The US economy has certainly improved in the past few years and is on solid footing, but it faces some headwinds in 2016."

Kristina Hooper
US Investment Strategist

Outlook for US Economy in 2016

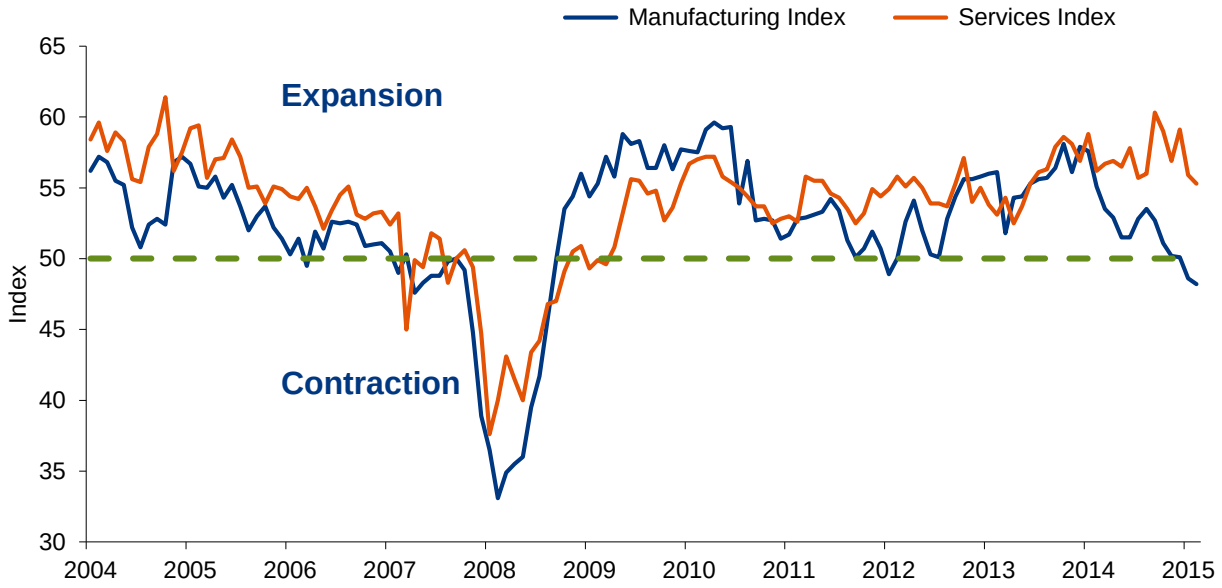
1
Economy is back on solid footing

2
Growth should continue, albeit slowly

3
Monetary policy will remain very accommodative despite US tightening

Divergent paths within the US: Activity in manufacturing has fallen while services continue to expand

ISM Report on Business



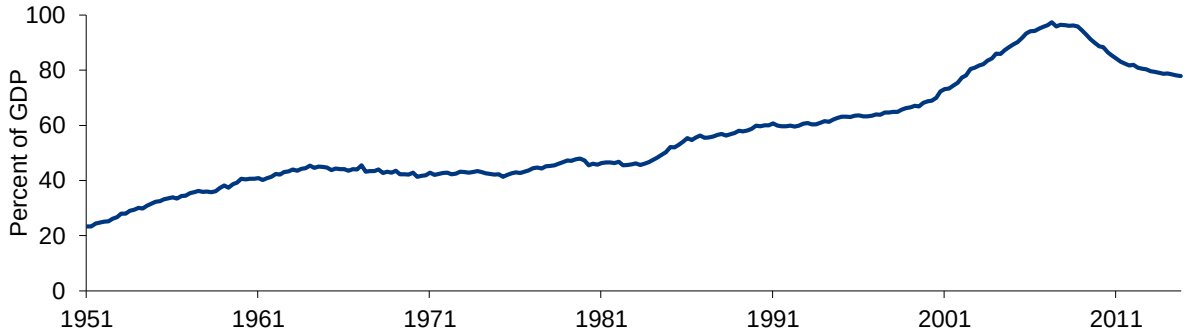
Economy on Solid Footing

The manufacturing and services indices have been on different trajectories in recent months.

Source: FactSet. Data as of 12/31/2015.

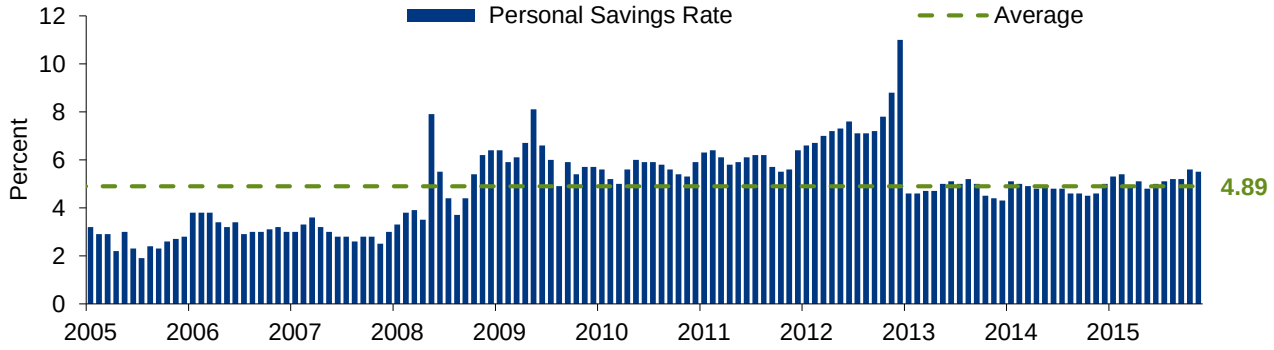
An improving consumer balance sheet

Total Household Debt (Percent of GDP)



Source: FactSet, data as of 9/30/2015.

Personal Savings Rate (Unspent Portion of Disposable Income)



Source: FactSet. Data as of 11/30/2015.

Consumer Spending Could Improve

Consumers have not yet participated fully in the economic expansion. But with US household balance sheets stronger and labor market conditions improving, consumer spending may be a “coiled spring” capable of helping to power US economic growth.

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Unemployment dropped significantly over the past two years; areas of weakness are diminishing

	Oct 2013	Oct 2014	Dec 2015
Unemployment rate	7.2%	5.8%	5.0%
Percentage of jobless who have been out of work 27 weeks or more	36.0%	32.0%	26.3%
Total unemployed, plus some part-time and marginally attached workers (U-6)*	13.7%	11.5%	9.9%
Year-over-year wage growth	2.3%	2.0%	2.5%
Labor force participation rate	62.8%	62.8%	62.6%
Percentage of part-time employees who want to be full-time	30.0%	26.0%	22.9%

Consumer Spending Could Improve

The labor market, a laggard in this economic recovery, has improved substantially in the past two years, particularly headline unemployment. As slack in the labor market decreases, we're likely to see better wage growth and improvement in the quality of jobs.

*Includes persons working part-time who seek full-time employment, plus persons outside the labor force who want, and are able, to work.
Source: Department of Labor, Bureau of Labor Statistics, as of 12/31/2015.

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Home prices are improving, which means home equity is increasing

	Q2 2013	Q2 2015
Percentage of mortgaged homes with negative equity	14.5%	8.7%
Percentage of mortgaged homes that are “under-equitied” (less than 20% equity)	21.1%	17.8%
TOTAL of mortgaged homes with negative or less than 20% equity	35.6%	26.5%

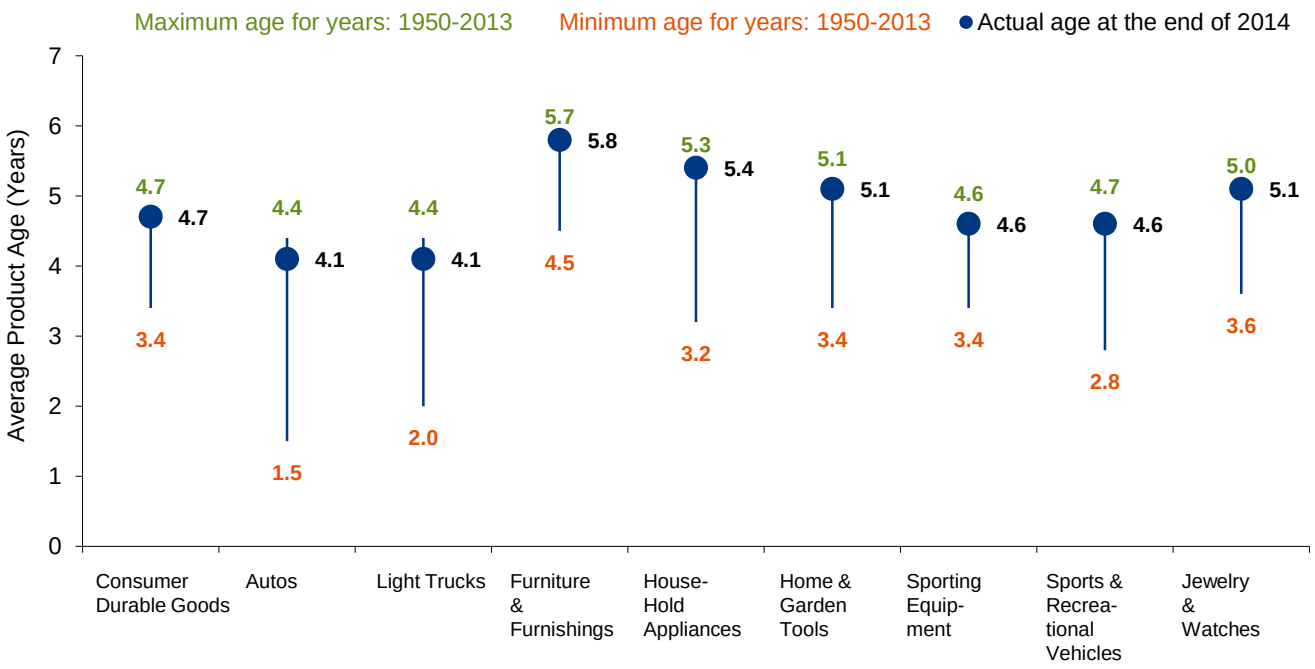
Consumer Spending Could Improve

Housing, which had been at the heart of the global financial crisis in the US, continues to recover slowly. Increasingly, homeowners again have positive equity in their homes. This should enable more homeowners to refinance – and give more US consumers confidence in their net worth and their ability to spend.

Source: CoreLogic, June 2013 and June 2015.

Obsolete consumer goods, pent-up demand could mean more household spending

The average age of consumer durable goods is the highest since 1962



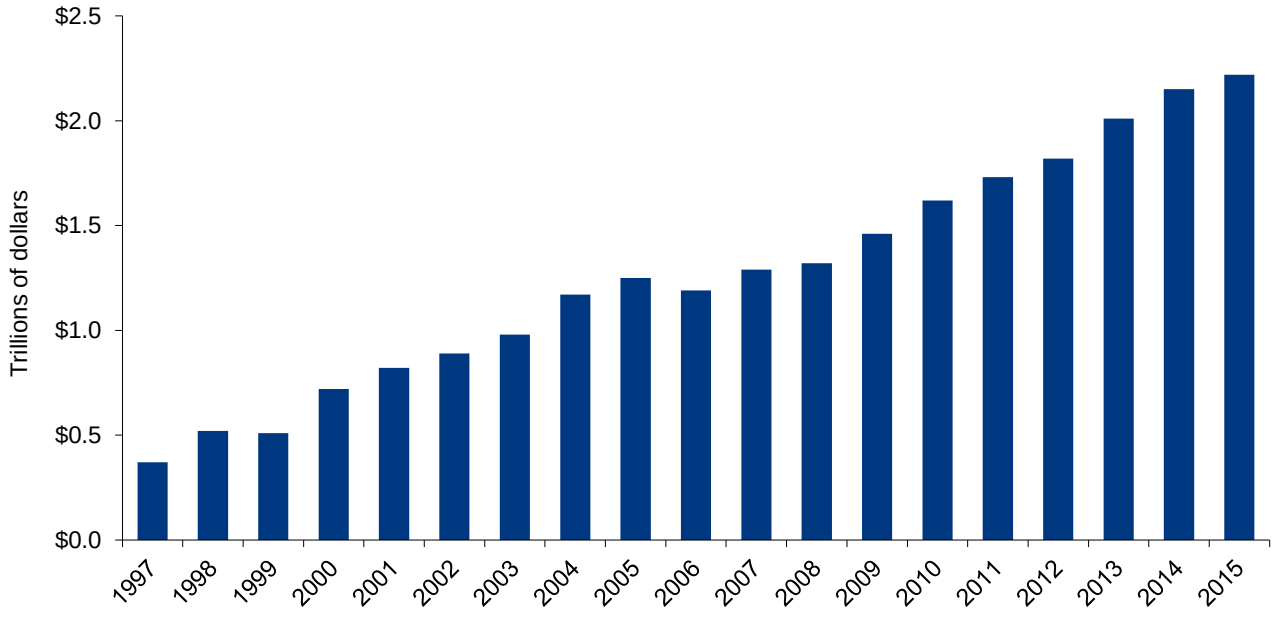
Consumer Spending Could Improve

Product obsolescence and pent-up demand should support consumer spending. Consumers are now not only capable of spending more but they have a reason to: They need to upgrade and replace the products they own.

Source: US Department of Commerce, Bureau of Economic Analysis. Data as of 8/31/2015.

Companies are poised to spend more, boosting the economy

Aggregate Cash on Balance Sheets: Russell 3000 Index Companies



Corporate Spending Could Improve

With so much cash on their balance sheets and strong profit margins, companies have the ability to spend.

Source: FactSet. Data as of 12/31/2015.

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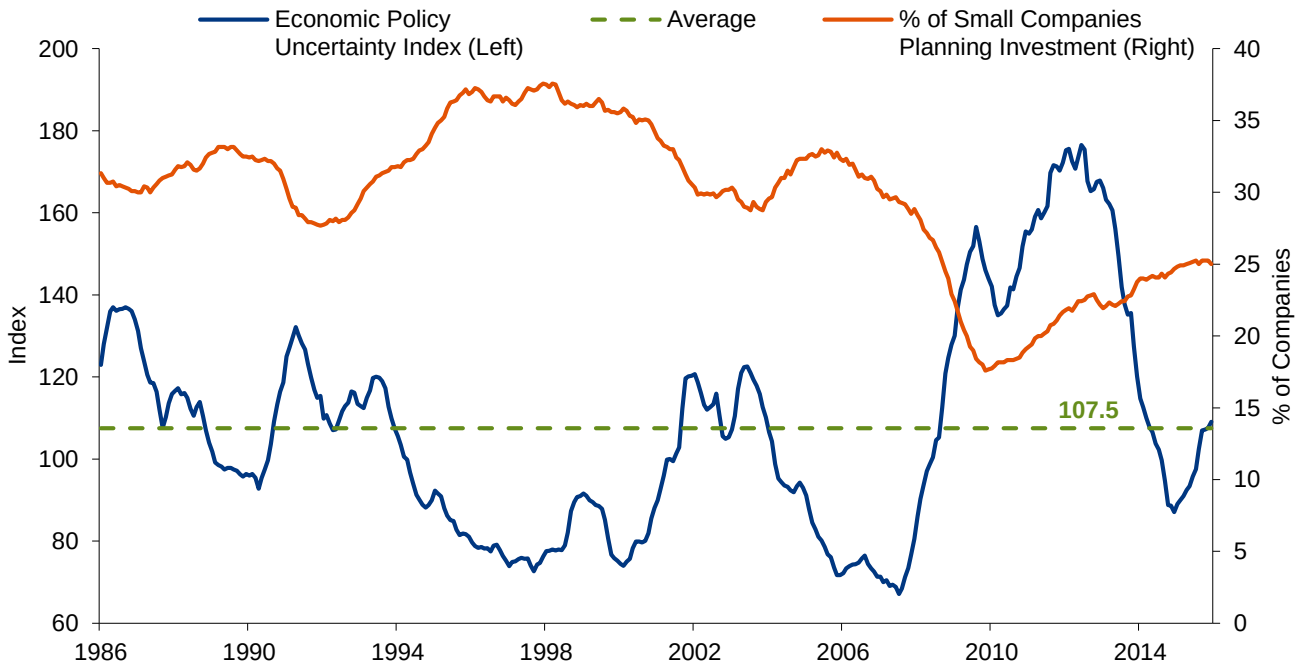
Companies poised to spend more, boosting the economy

Planned investment has increased as policy uncertainty has declined.



Corporate Spending Could Improve

Accommodative monetary policy and the changed composition of Congress improved business sentiment and set the stage for a potential capital spending surge. However, we could see a continued increase in short-term uncertainty given that this is a presidential election year.

Source: policyuncertainty.com and National Federation of Independent Businesses (NFIB). Data as of 12/31/2015.

Diverging Paths | US Outlook

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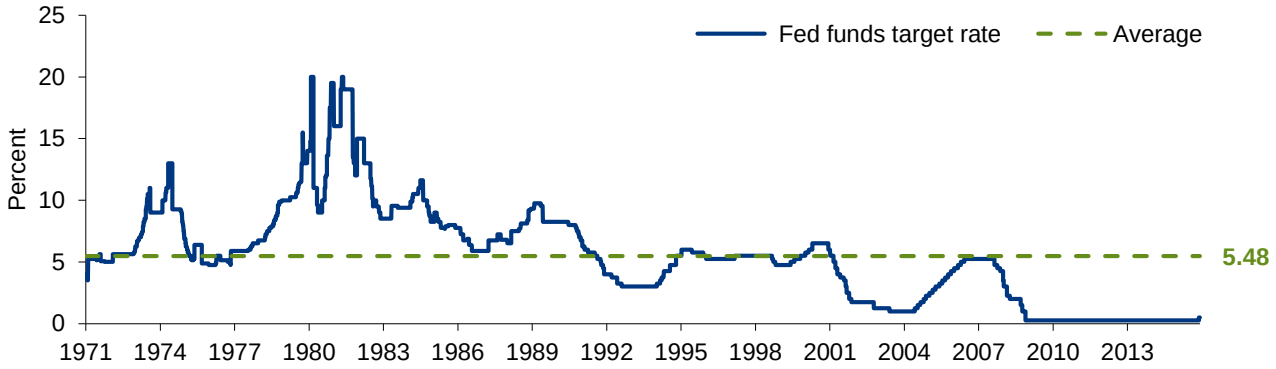
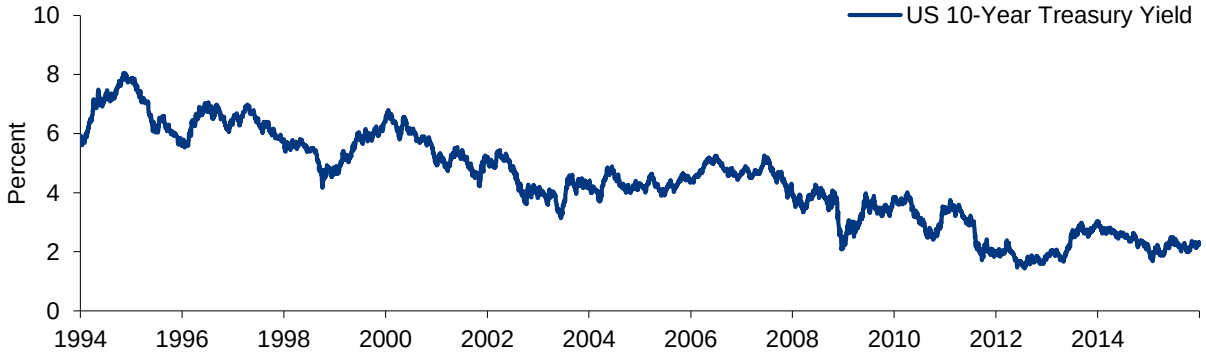
With rates near historic lows, monetary policy normalization will take time

US Federal Funds Target Rate



Source: FactSet. Data as of 12/31/2015.

10-Year US Treasury Yield



Source: FactSet. Data as of 12/31/2015.

Fed Will Stay Accommodative

Although the Fed made an initial rate hike in December 2015 and is poised to do more in 2016, rates will remain low relative to historical norms, sustaining an accommodative environment.

3

What to do: Adjust course to address three continued investor concerns

A 3-Step Plan

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1
Look for alternative sources of income

2
Guard against volatility using risk-managed solutions

3
Pursue areas of higher growth potential

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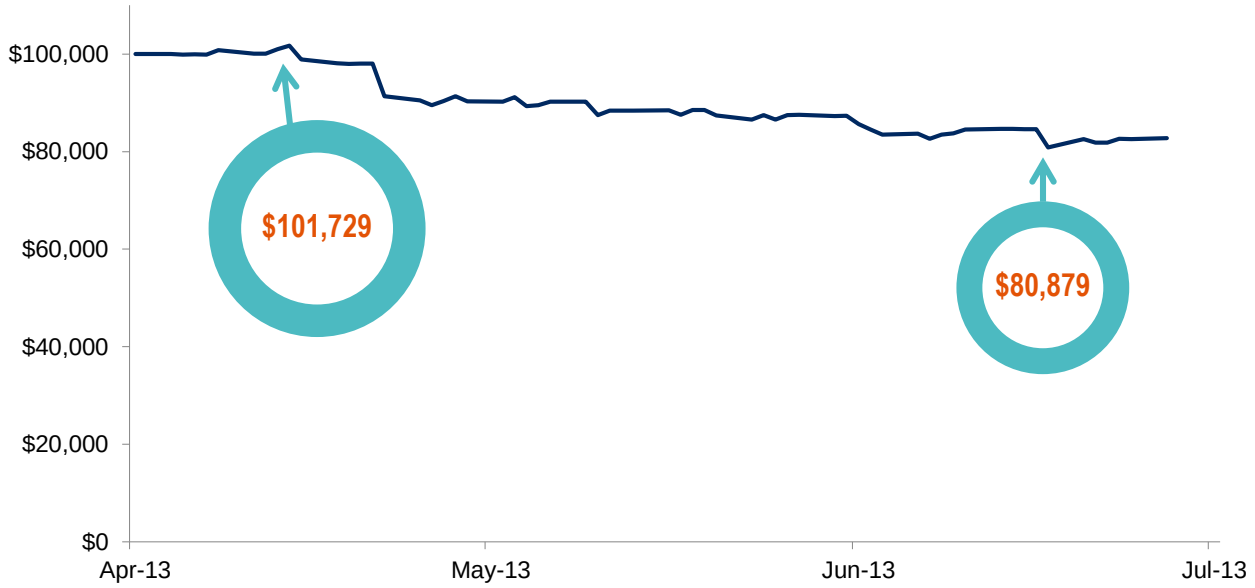
1. Look beyond core bonds for alternative sources of income

Core bonds are at risk for capital depreciation in 2016; look elsewhere for income

Impact of 70 bp rise in yield on 30-year Treasury bond on hypothetical $100,000 investment
From the 2013 'Taper Tantrum' (4/9/2013 – 7/15/2013)



The "taper tantrum" of 2013 illustrated the dangers of holding core bonds in a rising-rate environment. A $100,000 investment in 30-year Treasury bonds in April decreased to approximately $83,000 in value by July.

Source: FactSet and Allianz Global Investors. Hypothetical $100,000 investment in generic 30 year Treasury Bond developed by FactSet, not an actual security. Basis points are equivalent to 1/100 of 1%. Past performance is no guarantee of future results. For illustrative purposes only.

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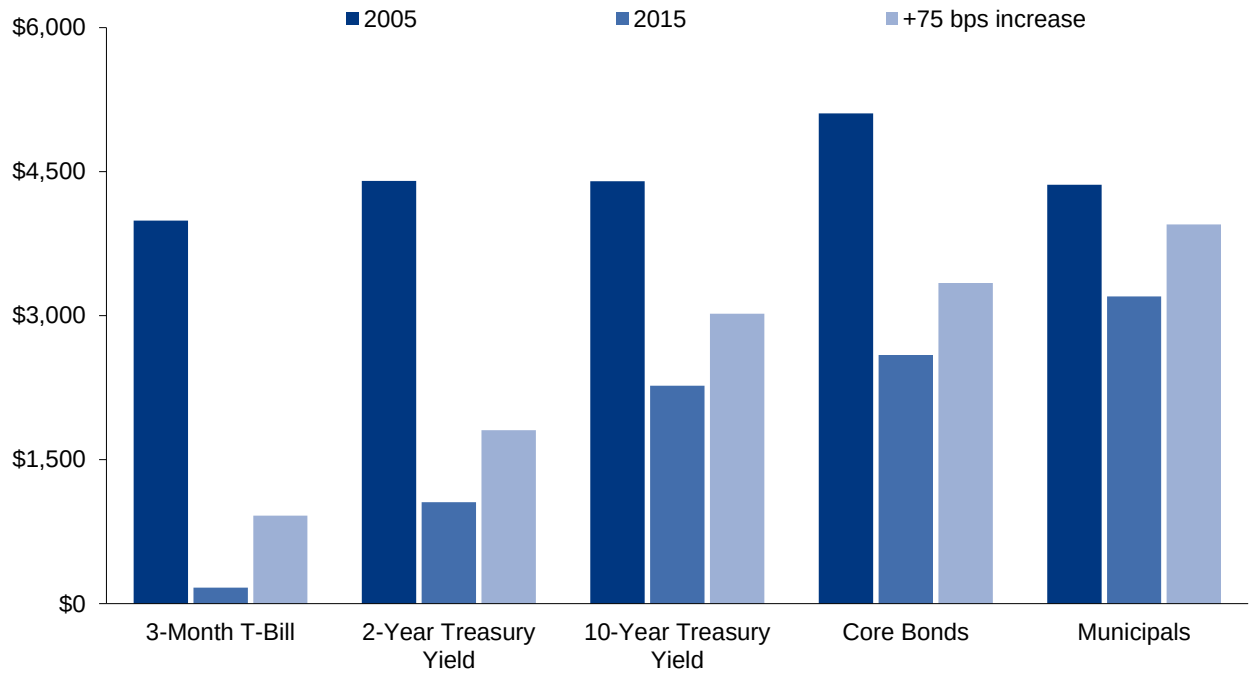
1. Look beyond core bonds for alternative sources of income

Traditional income sources are falling short today.

Even if rates rise, the income generated from a hypothetical $100,000 investment still will be significantly less than in 2005



Alternative Income Solutions

- High-yield bonds
- Short-term high-yield bonds
- Convertibles
- Options
- Dividend-paying stocks

Sources: Bloomberg, and FactSet, as of 12/31/15.

Past performance is no guarantee of future results. Based on yields for the indices as of 12/31/05 and 12/31/15, obtained from Bloomberg and FactSet.

A Word About Risk: Stocks are volatile and, unlike bonds, do not offer a fixed rate of return. Dividends are not guaranteed. High-yield or "junk" bonds have lower credit ratings and involve a greater risk to principal. Convertible securities involve the added risk that securities must be converted before it is optimal. Options prices depend on the performance of an underlying asset; derivatives carry market, credit and liquidity risk.

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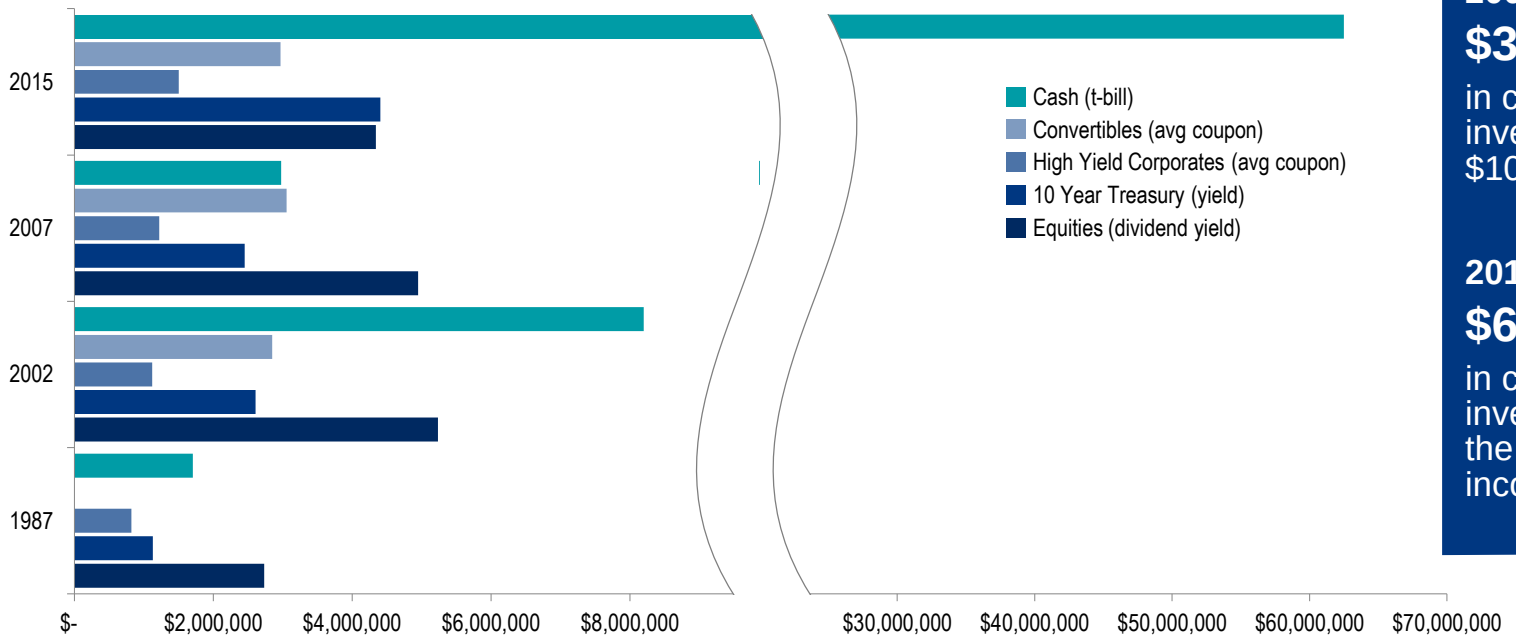
1. Look beyond core bonds for alternative sources of income

Consider moving out on the risk spectrum to find adequate sources of income.

Asset-class investment levels needed to generate $100,000 in income at different points in time



2007
$3.0 million
in cash needed by investors to generate $100,000 of income

2015
$62.5 million
in cash needed by investors to generate the same amount of income

Source: Factset, US Treasury Department, Bloomberg and Allianz Global Investors, as of 12/31/2015. Past performance is no guarantee of future results. Equities have tended to be volatile and unlike bonds do not offer a fixed rate of return. High-yield bonds involve greater risk of default and can be speculative. They may be more volatile than higher-rated fixed-income securities. Convertibles involve risk to principal including market, interest-rate and credit risk.Equities are represented by the S&P 500 Index, high-yield corporate bonds by the BofA Merrill Lynch HY Master II Index, convertibles by the BofA Merrill Lynch All Convertibles All Qualities Index and cash by the 90-day Treasury bill. Based on yields for the indexes as of 12/31/1997, 12/31/2002, 12/31/2007 and 12/31/2015 obtained from FactSet.

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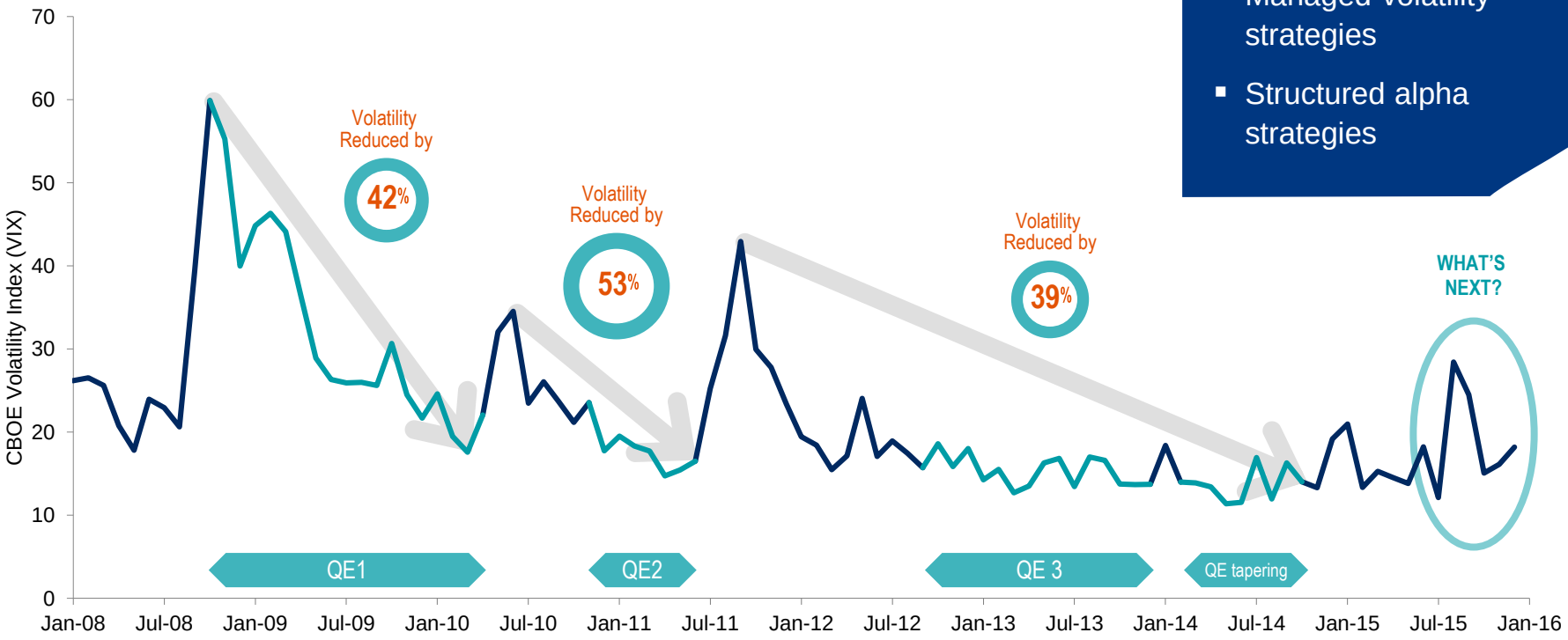
2. Guard assets against a volatile market

Volatility may increase as the days of easy money end and the conditions for a normalizing market take hold

CBOE Volatility Index (VIX). Examples of the Fed halting quantitative easing: Volatility spiked and markets normalized

January 2008 – December 2015



Solutions to Guard Against Volatility

- Managed-volatility strategies
- Structured alpha strategies

Source: VIX CBOE Volatility Index, Bloomberg. QE1: 11/25/2008–3/31/10, E2: 11/3/10–6/30/11, QE3: 9/13/12–12/18/13, QE tapering: 1/29/14–10/29/14. Data as of 12/31/2015.

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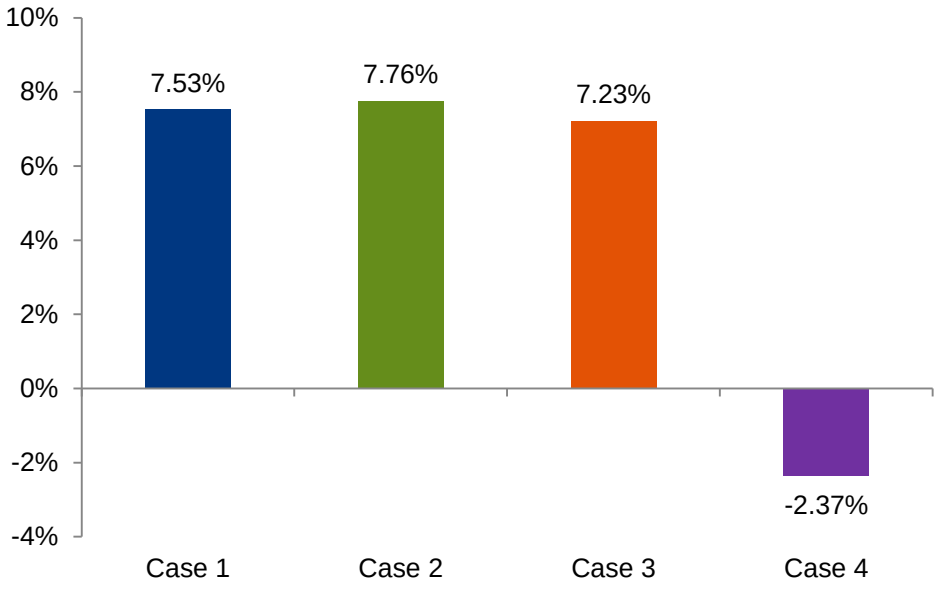
2. Guard assets against a volatile market

Don’t let your emotions alter your course; stay invested and diversified

Why market timing doesn’t pay

The chart below shows that the risk of missing high-return days when moving in and out of the stock market far outweighs potential gains.



Source: Allianz Global Investors, Commerzbank. S&P 500 Price Index 1963-2015 (Internal Rate of Return (IRR) on $100 Investment).

Allianz Global Investors looked at the performance of the S&P 500 Price Index from 1963 through the end of 2015, comparing four different investment approaches.

Case 1
Investing $100 at the start of the first year and adding an additional $100 at the start of each subsequent year.
Total Return = $60,830

Case 2
Investing $100 on the day of the lowest index level of the year and adding an additional $100 each year on the day of the lowest index level of that year—the best day of the year to invest.
Total Return = $66,295

Case 3
Investing $100 on the day of the highest index level of the year and adding an additional $100 each year on the day of the highest index level of that year—the worst day of the year to invest.
Total Return = $54,464

Case 4
Investing $100 each year at the start of the year as in the first approach, but assuming one misses the returns of the best three trading days in each year.
Total Return = $2,936

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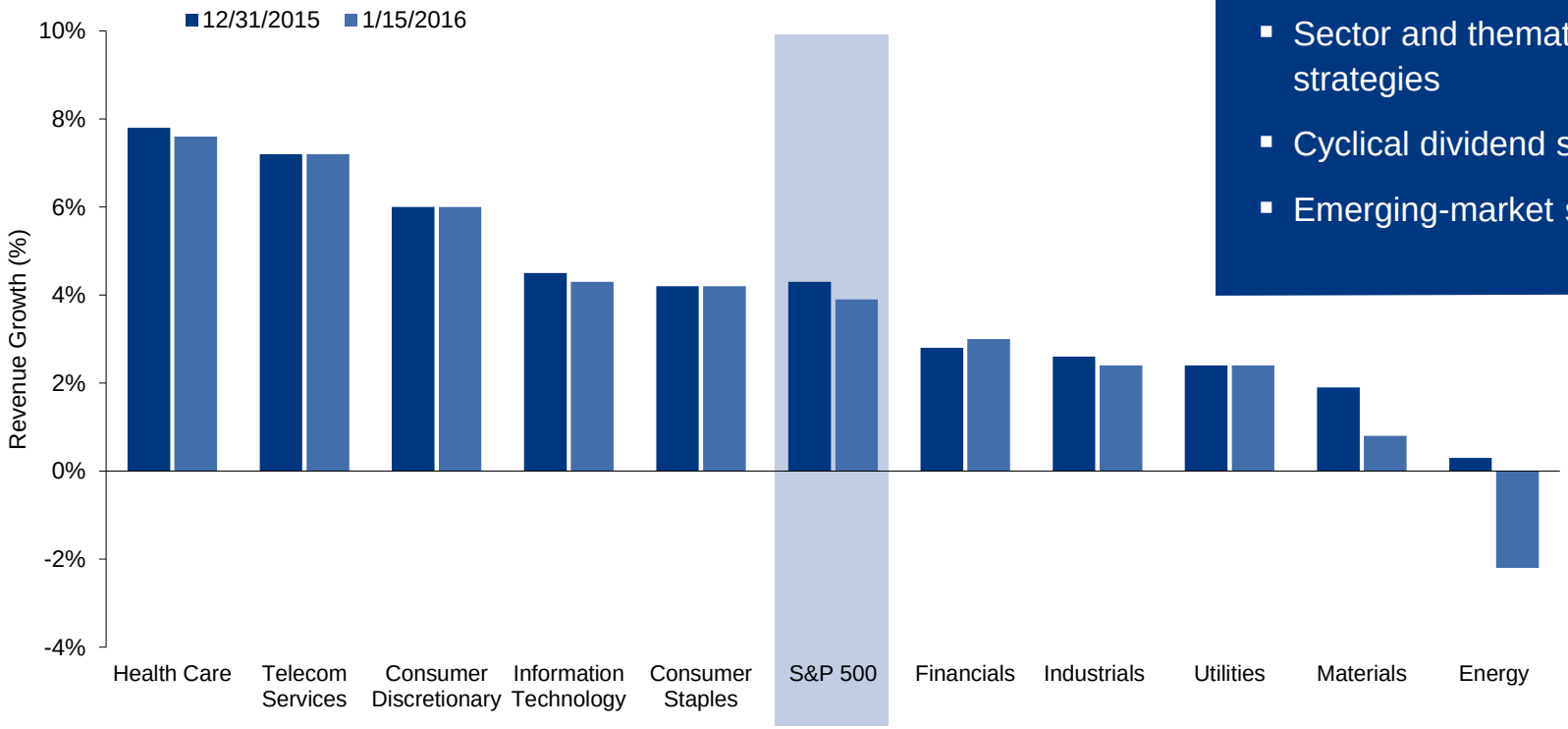
3. Pursue growth potential in a slow-growth world

S&P 500 Revenue Growth: Calendar year 2016



Solutions for Pursuing Higher Growth Potential

- Small-cap strategies
- Sector and thematic-growth strategies
- Cyclical dividend strategies
- Emerging-market strategies

Source: FactSet, as of 1/15/16.

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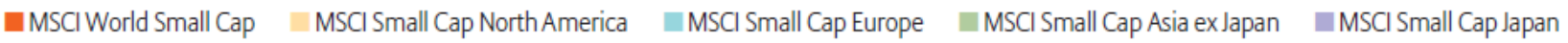
3. Pursue growth potential in a slow-growth world

Go global in small caps

In 11 of the last 15 years, a global allocation to small caps has been the median performer when compared to allocations to individual regions. Essentially, the global benchmark has posted steadier, less volatile returns.



2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
16.78%	-3.64%	61.46%	32.72%	41.55%	45.24	43.13%	-21.15%	112.94%	28.94%	-3.89%	28.97%	39.44%	5.91%	15.32%
6.97%	-5.18%	61.40%	24.69%	25.11%	32.86	2.54%	-37.93%	64.63%	26.13%	-4.61%	22.40%	34.24%	2.26%	10.90%
0.83%	-12.44%	57.79%	24.31 %	18.93%	17.20	0.79%	-41.88%	44.12%	24.32%	-9.06%	17.55%	32.38%	1.90%	-0.31%
-10.37%	-16.01%	54.70%	18.69%	15.71%	14.95	-0.44%	-54.24%	42.44%	21.47%	-20.12%	16.09%	26.34%	-0.47%	-3.52%
-21.97%	-21.96%	50.65%	15.20%	6.12%	-16.13%	-11.70%	-59.38%	5.09%	19.94%	-26.89%	4.01%	6.89%	-6.50%	-5.75%

Source: Allianz Global Investors, MSCI. Data as of 12/31/2015. Past performance is no guarantee of future results. Performance quoted represents past performance.

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OR

Use an actively managed multi-asset solution

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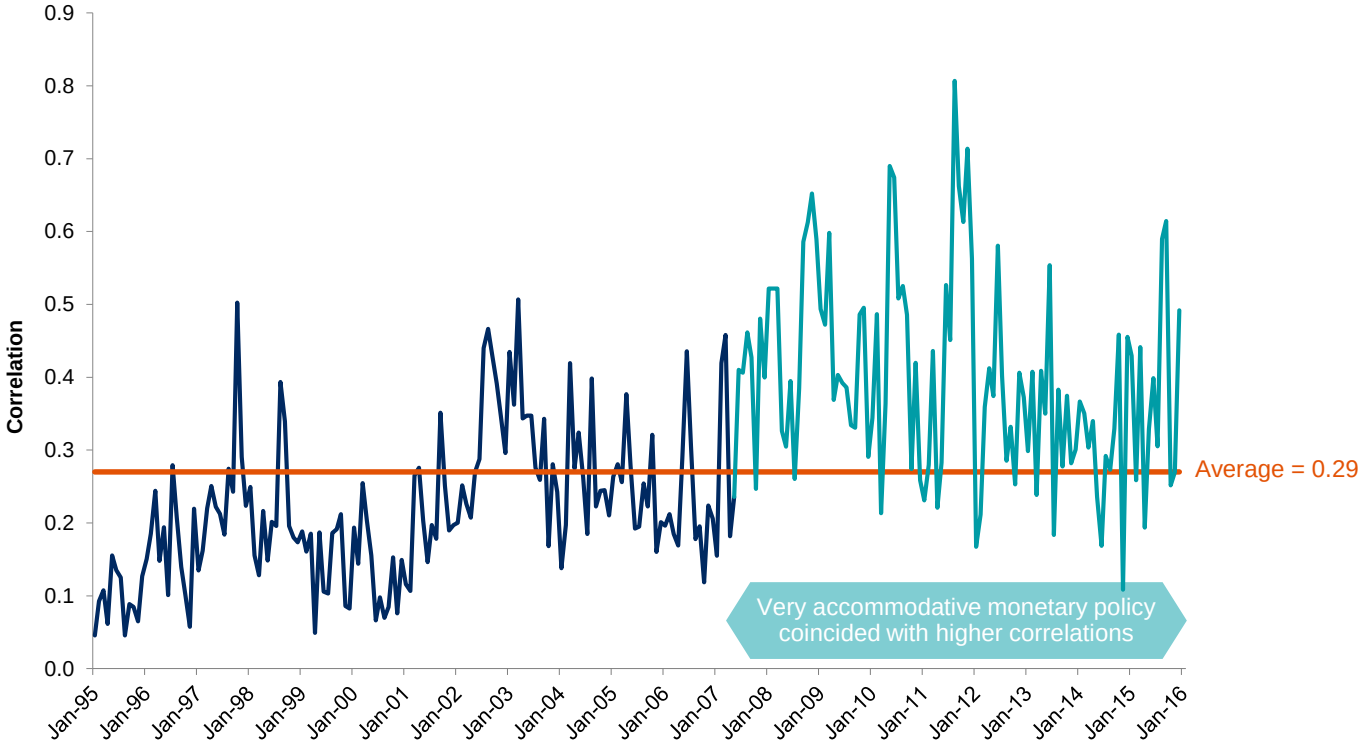
Highly correlated stock market may be coming to an end

Pairwise correlations over time (S&P 500 Index)



Post-QE, pairwise correlations have decreased and returned to a more normal level. In the coming years, stock-picking should play a key role in portfolio performance. As markets normalize, correlations drop and the gap widens between high and low-quality companies.

Source: FactSet. Data as of 12/31/2015.

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Strong case for active management: Fast rotation and wider spreads in asset-class returns!

Annual total returns of different asset classes from 2005-2015

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Commodities 21.36%	Real Estate 35.97%	Commodities 16.23%	Long-Term Bonds 24.02%	High-Yield Bonds 57.51%	Small-Cap Growth 29.09%	Long-Term Bonds 29.93%	Small-Cap Value 18.05%	Small-Cap Growth 43.30%	Real Estate 31.78%	Large-Cap Growth 5.67%
Real Estate 13.82%	International Stocks 26.34%	Large-Cap Growth 11.81%	International Bonds 11.40%	Convertibles 49.13%	Real Estate 28.60%	Real Estate 9.24%	Real Estate 17.59%	Small-Cap Value 34.52%	Long-Term Bonds 25.07%	Real Estate 4.23%
International Stocks 13.54%	Small-Cap Value 23.48%	International Bonds 11.30%	Intermediate-Term Bonds 5.24%	Large-Cap Growth 37.21%	Small-Cap Value 24.50%	Intermediate-Term Bonds 7.84%	Large-Cap Value 17.51%	Large-Cap Growth 33.48%	Large-Cap Value 13.45%	Intermediate-Term Bonds 0.55%
Large-Cap Value 7.05%	Large-Cap Value 22.25%	International Stocks 11.17%	Cash 1.80%	Small-Cap Growth 34.47%	Commodities 16.83%	International Bonds 5.91%	International Stocks 17.32%	Large-Cap Value 32.53%	Large-Cap Growth 13.05%	Cash 0.03%
Long-Term Bonds 6.50%	Small-Cap Growth 13.35%	Long-Term Bonds 9.81%	High-Yield Bonds -26.39%	International Stocks 31.78%	Convertibles 16.77%	High-Yield Bonds 4.38%	High-Yield Bonds 15.58%	Convertibles 24.92%	Convertibles 9.44%	International Stocks -0.81%
Large-Cap Growth 5.26%	Convertibles 12.83%	Small-Cap Growth 7.05%	Small-Cap Value -28.92%	Real Estate 28.60%	Large-Cap Growth 16.71%	Large-Cap Growth 2.64%	Large-Cap Growth 15.26%	International Stocks 22.78%	Intermediate-Term Bonds 5.97%	Long-Term Bonds -1.21%
Small-Cap Value 4.71%	High-Yield Bonds 11.77%	Intermediate-Term Bonds 6.97%	Commodities -35.65%	Small-Cap Value 20.58%	Large-Cap Value 15.51%	Large-Cap Value 0.39%	Convertibles 14.96%	High-Yield Bonds 7.42%	Small-Cap Growth 5.60%	Small-Cap Growth -1.38%
Small-Cap Growth 4.15%	Large-Cap Growth 9.07%	Cash 4.74%	Convertibles -35.73%	Large-Cap Value 19.69%	High-Yield Bonds 15.19%	Cash 0.08%	Small-Cap Growth 14.59%	Real Estate 1.86%	Small-Cap Value 4.22%	Convertibles -3.24%
Cash 3.00%	International Bonds 6.84%	Convertibles 4.53%	Large-Cap Value -36.85%	Commodities 18.91%	Long-Term Bonds 9.38%	Small-Cap Growth -2.91%	Intermediate-Term Bonds 4.21%	Cash 0.05%	High-Yield Bonds 2.50%	Large-Cap Value -3.83%
High-Yield Bonds 2.74%	Cash 4.76%	High-Yield Bonds 2.19%	Large-Cap Growth -38.44%	Intermediate-Term Bonds 5.93%	International Stocks 7.75%	Convertibles -5.18%	Long-Term Bonds 3.56%	Intermediate-Term Bonds -2.02%	Cash 0.03%	High-Yield Bonds -4.64%
Intermediate-Term Bonds 2.43%	Intermediate-Term Bonds 4.33%	Large-Cap Value -0.17%	Small-Cap Growth -38.54%	International Bonds 3.94%	International Bonds 6.78%	Small-Cap Value -5.50%	International Bonds 0.84%	International Bonds -5.08%	International Bonds -2.53%	International Bonds -4.84%
Convertibles 1.01%	Commodities 2.07%	Small-Cap Value -9.78%	Real Estate -39.20%	Cash 0.16%	Intermediate-Term Bonds 6.54%	International Stocks -12.14%	Cash 0.07%	Commodities -9.52%	International Stocks -4.90%	Small-Cap Value -7.47%
International Bonds -9.24%	Long-Term Bonds 1.85%	Real Estate -17.55%	International Stocks -43.38%	Long-Term Bonds -12.92%	Cash 0.13%	Commodities -13.32%	Commodities -1.06%	Long-Term Bonds -12.66%	Commodities -17.01%	Commodities -24.66%

Source: Morningstar Direct. Data as of 12/31/2015. Past performance is no guarantee of future results. Each Index reflects a group of unmanaged securities. It is not possible to invest directly in an index. Unless otherwise noted, index returns reflect the reinvestment of income dividends and capital gains, if any, but do not reflect fees, brokerage commissions or other expenses of investing. Diversification does not assure a profit or protect against loss. This chart is not indicative of the past or future performance of any Allianz Global Investors product. Please see the appendix for the chart key.

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Chart key

KEY

- Cash represented by the Citigroup 3-Month T-Bill Index, an index of three-month Treasury bills.
- Commodities represented by the Dow Jones-UBS Commodity Total Return Index, which is composed of futures contracts on physical commodities.
- Convertibles represented by the BofA Merrill Lynch All Convertibles Index, which measures the performance of US dollar-denominated convertible securities not currently in bankruptcy with a total market value greater than $50 million at issuance.
- Global Bonds represented by the J.P. Morgan Global Aggregate Bond Index (ex-US), which is a US dollar denominated, investment-grade index spanning asset classes from developed to emerging markets, excluding the US
- High-Yield Bonds represented by the BofA Merrill Lynch US High Yield Master II Total Return Index, which tracks the performance of below investment grade (BBB), but not in default, US dollar-denominated corporate bonds publicly issued in the domestic market.
- Intermediate-Term Bonds represented by the Barclays US Aggregate Index, which is composed of securities from the Barclays Government/Credit Bond Index, Mortgage-Backed Securities Index and Asset-Backed Securities Index. It is representative of the domestic, investment-grade, fixed-rate, taxable bond market.
- International Stocks represented by the MSCI EAFE Index. The MSCI Europe, Australasia, Far East Index (EAFE) is an index of over 900 companies, and is a generally accepted benchmark for major overseas markets.
- Large-Cap Growth Stocks represented by the Russell 1000 Growth Index, which measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
- Large-Cap Value Stocks represented by the Russell 1000 Value Index, which measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.
- Long-Term Bonds represented by the Barclays Long-Term Treasury Index, an index of US Treasury obligations with maturities greater than 10 years.
- Real Estate represented by the Wilshire REIT Index, which tracks publicly-traded Real Estate Investment Trusts in the US
- Small-Cap Growth Stocks represented by the Russell 2000 Growth Index, which measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.
- Small-Cap Value Stocks represented by the Russell 2000 Value Index, which measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

A Word About Risks: The 13 asset classes listed in the table involve contrasting risk factors. Cash-equivalent investments have fluctuated the least and have been relatively stable. Bond prices will normally decline as interest rates rise. The impact may be greater with longer-duration bonds. High-yield or “junk” bonds have lower credit ratings and involve a greater risk to principal. Equities have tended to be volatile, and unlike bonds do not offer a fixed rate of return. Convertible securities involve the added risk that securities must be converted before it is optimal. Investments in commodities may be affected by overall market movements, changes in interest rates, and other factors such as weather, disease, embargoes and international economic and political developments. Foreign markets may be more volatile, less liquid, less transparent and subject to less oversight, and values may fluctuate with currency exchange rates; these risks may be greater in emerging markets. Investments in smaller companies may be more volatile and less liquid than investments in larger companies. Real Estate Investment Trusts (REITs) are subject to risk, such as poor performance by the manager, adverse changes to tax laws or failure to qualify for tax-free pass-through of income.