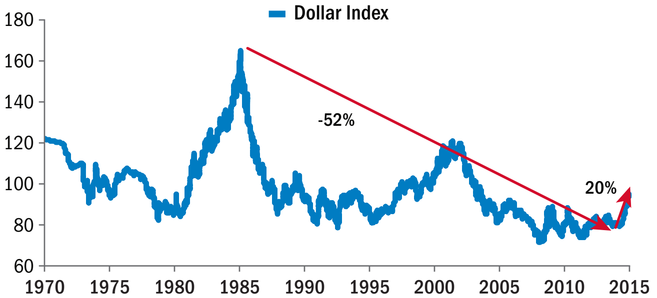
A Sleeping Giant Awakens

Trends in currency markets have been shifting, with structural or long-term factors pushing up the value of the U.S. dollar. The shifts have implications for the way investors carrying international positions with currency risk should manage their portfolios in pursuit of their personal goals. We believe it's critical to be selective in hedging currency exposure and prefer a flexible, active approach.

The growth of international and global strategies provides investment opportunities beyond filling the traditional domestic stock or bond buckets. An individual's goals and home currency inform investment choices and the type of risks they should take in a portfolio. Hedging strategies are complex and carry risks above and beyond those associated with traditional assets, so they may not be available to all investors or suitable for them. Some of the strategies involve additional costs and they may also increase investment risks.

Exhibit 1: The long decline in the dollar has started to reverse, and cycles in the dollar tend to be long



Dollar Index = U.S. Dollar Spot Index
Source: Bloomberg and ML GWM Investment Management & Guidance. Data as of February 11, 2015. Time frame reference for 52%: 2/25/1985 - 2/1/2013. Time frame reference for 20%: 2/1/2013 - 1/30/2015.

Currency market trends have shifted

From 1985 to 2013 the U.S. dollar index tumbled 52%, but since its low at the end of that period the index has reversed the trend, rising 20% through the end of January of this year (see Exhibit 1). In 2014 alone the dollar appreciated 13%, the fourth-largest annual gain since 1977.[1]

This change in trend highlights a key factor driving currency markets—the commitment of central banks to quantitative easing (QE). In response to the global financial crisis in 2008, central banks undertook unprecedented monetary easing. Now the degree of easing and the scope of the programs have become the dominant drivers of currency markets. Until recently, monetary policies across the U.S., the euro area and Japan were on similar tracks.

Ashvin B. Chhabra

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Shifting values of major currencies pose risks that today's investors may not be prepared for. The stronger dollar that we expect over the medium term makes it critical for dollar-based investors to decide whether or not to hedge foreign currency exposure. In this Monthly Letter we describe our preference to maintain strategic asset allocations and hedge at the portfolio level as opposed to the security level in ways that are in line with overall risk/reward objectives. Hedging for each security can result in a fragmented and undisciplined approach. We also bring you a conversation with David Rubenstein of The Carlyle Group.

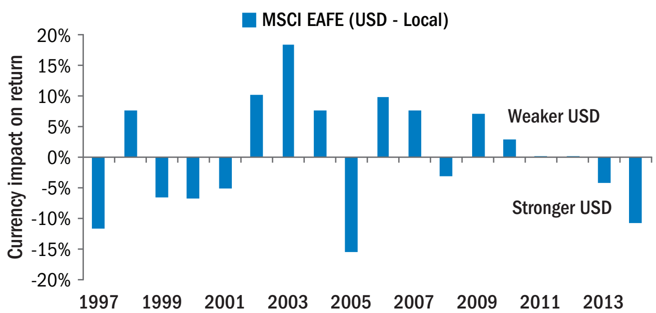
Sincerely,

[1] Based on the U.S. Dollar Spot Index

Today, however, differences in the stages that business cycles have reached in the U.S. and the UK, on one side, and in the euro area and Japan on the other call for central banks to take different stands on monetary policy. These differences in policy support a stronger U.S. dollar, especially versus the euro and the yen.

In our view, the forecast of a stronger dollar over the medium term makes it critical for dollar-based investors to consider whether hedging foreign currency is appropriate for their situation. For nearly 25 years, the trend of a depreciating U.S. dollar has generally helped U.S.-based investors with global holdings. As the dollar weakened, the performance of overseas assets measured in dollars improved, all other things being equal (see Exhibit 2).

Exhibit 2: Currency values in the short-term can drastically impact total return



Source: Bloomberg and ML GWM Investment Management & Guidance. Annual data as of December 31, 2014.

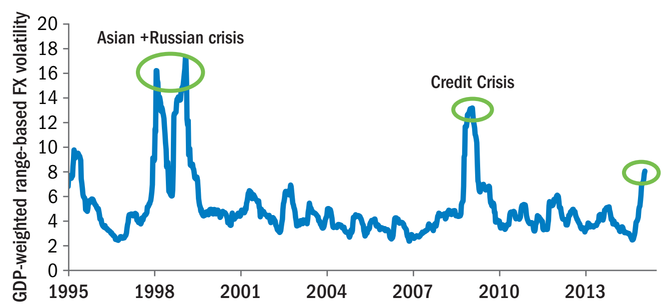
Now the sleeping dollar giant has awakened. The unhedged policy of the last few decades may no longer add to returns from international assets but weigh on them instead. Investors should consider a new strategy, one they may not be familiar with given how long the dollar has been weakening.

Policies are likely to increase volatility

When looking at currency exposures, we believe it's important to consider the growing realization of competitive devaluations. The dramatic fall of the yen, in particular, has given rise to criticism of global currency wars, with some accusing Japan (and even the U.S.) of manipulating their currencies. Initially most central banks enact policies to boost economic demand and growth, but recently, as they have reached the limits of their zero interest rate policies, they have taken unprecedented measures leading to weaker currencies. Our BofA Merrill Lynch Global Research foreign exchange (FX) team believes that in a world in which economic growth is scarce and there are not enough policy instruments to improve it, currency devaluations may be here to stay.

Whether currency devaluations are intended or not, the end result is higher levels of foreign exchange volatility (see Exhibit 3). Other factors could also keep FX volatility high in 2015: Monetary policies could be seriously derailed by developments such as an upcoming UK election, a Scottish referendum that is potentially back on the table, although there is little talk of it now, and other issues in Europe and Japan. Add to that possible weakening of the dollar if the U.S. economy started to slow down sharply and the trade deficit began to weaken (although that's not our base case).

Exhibit 3: Currency volatility is currently the highest for non-crisis periods in 20 years



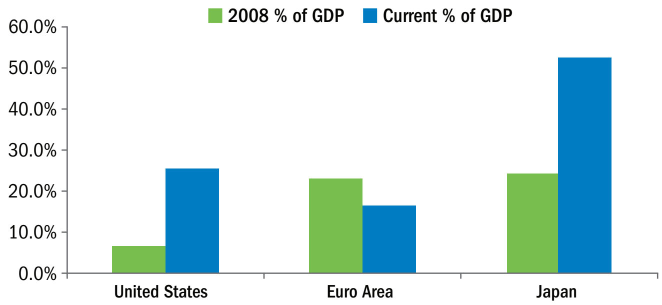
Source: BofA Merrill Lynch Global Research. Data as of February 3, 2015.

Greater foreign exchange volatility is likely to increase both the riskiness and cost of cross-border transactions, whether trade in goods or services, foreign direct investment or portfolio investments. The knock-on-effects from the volatility are broad, ranging from greater hedging costs to reduced global trade and foreign investment. Our BofAML Global Research FX team sees near-term benefits to countries engaged in competitive currency devaluations but diminishing gains as more countries participate in them.

Dollar, euro and yen dynamics

U.S. Dollar - Our BofAML Global Research FX strategists look for continued U.S. dollar upside this year, especially against the euro and the yen and other developed markets currencies. An improving domestic economy, low inflation and a Fed that is less accommodative than other central banks should lead to U.S. dollar outperformance (see Exhibit 4). There is additional support for dollar strength in the direction of Fed policy—the conclusion of its asset purchases in 2014 and an anticipated

Exhibit 4: Central bank assets as a percentage of nominal GDP



Source: Trading Economics and ML GWM Investment Management & Guidance. Current GDP data as of 4Q 2014.

slow-motion exit from accommodation, with rate hikes in the second half of the year.

Our medium-term view for a stronger dollar is also supported by differences in economic growth rates along with the improving fiscal health of the U.S. and transformative changes such as the surge in U.S. energy production. A smaller deficit tends to reduce inflation expectations, supporting the currency, and the U.S. fiscal position has improved quite a bit over the past few years. The Congressional Budget Office estimates that the U.S. fiscal deficit for the 2014 fiscal year will be $483 billion, much less than the trillion-dollar levels of 2009–2012. It projects that the deficit will fall to 2.6% of gross domestic product (GDP) by 2015, down from 6.8% in 2012.

Euro – The recent announcement by the European Central Bank (ECB) of a sovereign asset purchase program is likely to weigh on the euro. The ECB QE program came in at the high end of market expectations and as open-ended as it could be. As long as inflation remains low, the ECB will keep easing. This means the euro is likely to weaken further, in our view. Our BofAML FX strategists expect the exchange rate to weaken to 1.10 to the dollar by the end of 2015 and weaken further to 1.05 in 2016.

Over the medium term a weaker currency tends to boost exports, but the resulting increase in economic growth typically doesn't fully offset a negative impact on the domestic economy. As a result, the euro is likely to remain weak in coming years. Other factors having a negative impact on the strength of the euro over the medium term include high levels of unemployment and the absence of sustainable domestic growth.

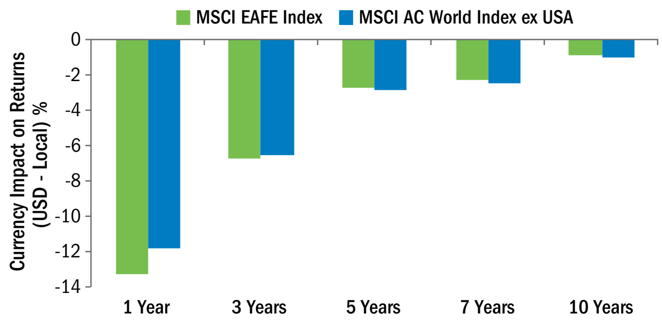
Yen – The expansion of QE by the Bank of Japan (BoJ) and its new emphasis on international holdings is likely to keep downward pressure on the yen in 2015. Prime Minister Shinzo Abe and BoJ Governor Haruhiko Kuroda should continue to pursue reflation through policies to lower real interest rates and improve investor sentiment, which would incentivize domestic investors to sell the currency. Our BofAML FX strategists expect the exchange rate to weaken to 123 yen to the dollar by the end of 2015 and remain there in 2016.

Caution on the yen should extend beyond this year, given Japan's unsustainable government debt and elderly population. The ratio of government debt to GDP has increased well above the average for advanced economies during the last two decades and the International Monetary Fund (IMF) projects this trend to continue in 2015. As a share of GDP, Japan's government debt is the highest by far compared with other developed countries in gross terms and second only to Greece in net terms. A key factor determining whether the yen can persistently weaken is whether the Japanese start to see nominal wages start to rise, which would increase the possibility of future inflation. While it is unclear how successful policymakers will be in achieving this result, it's worth noting that the BoJ's current policy represents the largest attempt at easing in more than three decades.

Evaluating the hedging decision

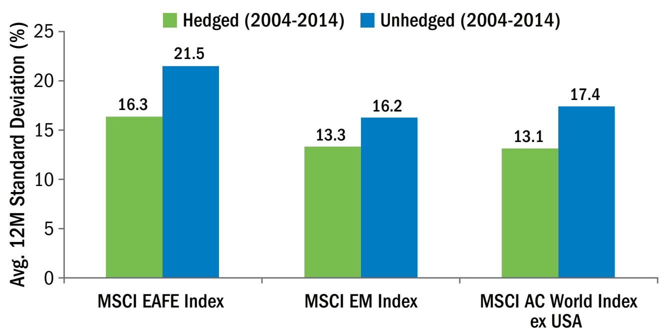
Domestic investors with a goal that cannot be met with domestic securities may look to international assets to help them achieve their objectives. After all, there are avenues in these markets for growth of capital and income. While the primary variable for most investors is the allocation between stocks and bonds, an important but often overlooked decision when investing in international securities is the decision of whether to hedge currency exposures or not. **In addition to an investor's risk tolerance, the decision is typically based on two criteria: 1) the investor's base currency and 2) the time-horizon of the investment.** An unhedged global portfolio over the short to intermediate term is likely to be subject to greater variability of returns from currency movements, but over the longer term the currency movements are likely to have less of an impact on portfolio returns (see Exhibit 5). Another reason to consider hedging currency exposure is that currency hedging investments have historically exhibited less volatility than their unhedged

Exhibit 5: The impact of currency movements declines over time



Source: Bloomberg and ML GWM Investment Management & Guidance. Data as of January 31, 2015.

Exhibit 6: Historically, over a longer time-horizon currency hedging reduces volatility



Source: Bloomberg and ML GWM Investment Management & Guidance. Data range 2004 - 2014. EAFE = Europe, Australasia and Far East

investments (see Exhibit 6). A reduction in volatility can potentially aid in providing superior risk-adjusted returns.

For investors looking to hedge over a short-to-intermediate time horizon, our preference is to do so for a portfolio's overall currency exposure rather than for each security with exposure individually. Hedging for each security can result in a fragmented and undisciplined approach. The currency market is a "zero sum game," where one country's currency gain is another country's currency loss. Hedging at the level of individual securities for short periods of time can be costly, time-consuming and ineffective at neutralizing the currency risk at the total portfolio level.

Deciding whether hedging might be sensible for an investor means first taking into account the costs it will entail, and then weighing them against the investor's overall foreign currency exposure. As investors contemplate the hedging decision, they should evaluate their currency risk in relation to how it affects the tradeoff between the total portfolio's risk and potential reward.

The currency impact varies by asset class

Fixed Income **-** Investors should consider hedging the lion's share of their international bond exposure. It's important to remember that bonds are loans tied to the value of the local currency. Translating yield and principal into dollar terms creates additional volatility inside a portfolio, since there is a positive correlation between currency movements and changes in bond yields—as a bond's return declines, the value of the currency it's denominated in tends to rise, further reducing the return to foreign investors. Particularly in a low-interest-rate environment, as we have now, it doesn't take that much of a currency move to offset all the investment's coupon returns.

Equities **-** Unlike bonds, equity price fluctuations are influenced by numerous factors that often outweigh any currency moves, from the latest economic data to a company's earnings. For that reason, fluctuations in the currency markets tend not to carry as much significance for equities as they do for bonds. However, studies show that up to 40% of the "variance" of foreign equity values can be attributed to swings in the currency markets.[2] **This underpins the need to at least consider hedging equity exposure, especially dividend-paying stocks, which produce regular income.** Shifting exchange rates can take a significant bite out of their total return, much the way they do with fixed-income securities.

Currency-hedged investment vehicles: Investors seeking pure exposure to underlying international markets can help to neutralize currency risk with a currency-hedged investment or ETF. Sometimes the hedging is done automatically. Investors who own global allocation mutual funds or interests in U.S.-based global hedge funds can occasionally expect the portfolio managers of those funds to have currency-hedging strategies in place. That said, reviewing those strategies increasingly should be part of the fund selection process.

Alternatively, clients may want to adopt currency overlay techniques as a convenient and efficient way to hedge FX risks. **Currency overlay programs have the advantage of not requiring any additional asset allocation decisions; these programs simply take an existing portfolio and apply a**

[2] Currency Management in a Volatile World (2012). State Street Vision Series.

currency hedge using futures, forwards and swaps. There are two basic types of overlays—passive and active.

A passive overlay is more straightforward; it hedges 100% of FX risk. An active overlay requires deciding on a hedge ratio (e.g., 20%, 50%, 75% etc. of the portfolio), allowing active management of the unhedged portion to generate “alpha,” or excess returns.

Hedging instruments involve the use of derivatives and require that investors meet specific suitability and documentation requirements. We recommend speaking with a financial advisor about whether FX exposures in portfolios are appropriate for individual goals.

Portfolio Strategy: Managing currency risk in portfolios
Aligning goals with investments entailing an appropriate level of risk is an active decision that includes identifying the amount of foreign exchange exposure and to what degree that exposure should be hedged. The decision is rarely static as markets and opportunities within them are dynamic. Since each strategy has strengths and weaknesses, a dynamic approach might better help investors manage risks and meet their goals.

Consistent with our expectation of a stronger dollar in 2015, investors need to re-think the decision of whether to hedge their international exposure. In an environment of a strengthening dollar, hedged positions typically outperform unhedged positions. This is particularly true for global investors and U.S. investors with significant international positions.

For U.S. investors, there is a weak relationship between the value of the dollar and those of equities and credit, so we do not advocate reallocating a portfolio to capture trends. As noted by our BofAML U.S. equity strategy team, relationships between a stronger dollar and the returns of equity styles and sectors have been inconsistent. In our view, investors should maintain their strategic asset allocations and hedge currency exposures in ways that are in-line with their total portfolio risk/reward objective.

CIO Insights A conversation with David Rubenstein*

Insights and the best thinking from distinguished investors around the world.

In another of our conversations with distinguished investors, we spoke with David Rubenstein, co-founder of The Carlyle Group, which he helped build into one of the largest private equity firms, with more than $200 billion in assets under management and 1,700 investors in 78 countries, along with 40 offices around the world. From 1977 to 1981, during the Carter Administration, Mr. Rubenstein was Deputy Assistant to the President for Domestic Policy, and prior to that was Chief Counsel to the U.S. Senate Judiciary Committee's Subcommittee on Constitutional Amendments. He serves as Chairman of the Board of Trustees of the John F. Kennedy Center for the Performing Arts and Duke University. He also serves on the boards of the Council on Foreign Relations, the Brookings Institution, Johns Hopkins University, the University of Chicago, Lincoln Center for the Performing Arts, Memorial Sloan-Kettering Cancer Center, Johns Hopkins Medicine and the Institute for Advanced Study.

Ashvin B. Chhabra

Chief Investment Officer, Merrill Lynch Wealth Management

David Rubenstein

Co-founder
The Carlyle Group

Ashvin Chhabra: You were recently in Davos for the World Economic Forum, where global business and political leaders met to discuss the most pressing issues facing the world. I'd like to get your views on politics and the economy. To begin, what did you think of the President's State of the Union address?

David Rubenstein: Given that it was the State of the Union he focused on many issues. But some of them I think actually have a modest chance of getting done. For instance, the Trans-Pacific Partnership is something the Republicans have wanted, but there are now probably enough Democrats in favor of it as well. If it gets passed, I think that would be a good thing for the country.

Tax reform is trickier. The problem in Washington has been separating corporate tax reform from individual tax reform. The theory being that you could pass a corporate tax reform, lower corporate tax rates and close some so-called loopholes, and bring money back from overseas. But I think it's increasingly being recognized that it's very difficult to separate corporate tax reform from individual tax reform, and I suspect that if there is some tax reform it will probably deal with both.

Ashvin: Well certainly the improving deficit is something the President has highlighted as one of his main accomplishments. Brinkmanship in Congress has weighed on the economy over the last few years, and introduced a lot of uncertainty into the markets. But I think for the first time this year Washington won't pose a headwind to growth. As such, what is your outlook for the United States?

David: The U.S. is in reasonably good shape. Unemployment has come down but everybody has to be reminded that the percentage of the adult population that's in the workforce is lower than it's been at any time since the 1970s. The general consensus is that Congress will not do all that much this year to help or hinder relatively robust GDP growth, but rather the Federal Reserve will be largely responsible for the direction of the economy and capital markets. We think that any rate increase is more likely to occur in September and probably be relatively modest.

Ashvin: That's interesting because inflation remains very low. Falling oil prices may be a reason for this as is a lack of wage pressures.

David: Because you have so much global competition now for so many products and services, you don't really have as much of an opportunity for wage price inflation. It also should be pointed out that in the 1970s, 25% of the workforce in the United States was unionized. Today that percentage is about 9%. People have a view that unions being less powerful than they used to be is another factor. So I don't see inflation being a big problem. Deflation is the more serious problem and Europe and Japan are at risk.

Ashvin: That's actually a great segue in trying to understand how to invest in a disinflationary world given that there are central banks with different agendas. In an environment of uneven growth, central bank policy is diverging. The Federal Reserve is considering raising interest rates later this year after ending their bond purchase program in October. At the same time however you're seeing monetary easing in Europe accelerating.

David: The consensus view at Davos was that the ECB's actions, while helpful, will not solve all of Europe's problems. My own view is that Europe is a pretty attractive place to invest because prices are cheaper than they are in the United States, and you see comparable companies at much lower valuations than you generally do in the United States. I'm not sure whether the Quantitative Easing program that was announced there will be enough but there's no doubt that European growth will be below the U.S. for quite some time. The biggest challenge is whether the politicians in Europe will take the action necessary to really get budgets in line, to get social spending in line.

Ashvin: Going back to deflation for a moment, to me this is not necessarily a universally bad thing, since the lack of inflation pressures is allowing central banks to keep interest rates lower for longer. While sluggish wage growth is certainly more troubling, the other less straightforward component of recent deflationary pressures is lower energy prices. What are your thoughts on the precipitous oil price decline since last summer?

David: I agree, lower oil prices are actually quite beneficial to the overall economy. They provide an effective tax cut to people in oil-importing countries like in Europe, China, Japan and the United States. The consensus is that oil prices will remain low for a couple of years or so, and this will provide cheaper energy for people and probably pretty good longer-term investment opportunities as well; companies in the sector are trading at lower valuations than you've historically seen them.

Ashvin: Private equity seems like an appropriate investment strategy to capitalize on such long-term opportunities.

David: Within the private equity space, I do think that energy is now among the most attractive opportunities because prices have come way down. I suspect they will not stay this low forever. When oil prices come back and asset prices in the sector come back investors will be rewarded.

Ashvin: Where else are you seeing longer-term opportunities?

David: We are still a big believer that health care is a spectacular area. When I worked in the White House health care was about 7% of the U.S. GDP and it is now closer to 19%. And the Baby Boomers who will have most of the wealth in the United States are going to spend more and more on health care. Various medical devices and service programs and hospitals and other organizations are going to benefit.

I think financial services will continue to do well also. As people get wealthier in the emerging markets in particular but also in developed markets, they will pay to have other people manage their money or advise them on their investments.

Ashvin: One question is whether private equity is well-suited to capitalize on opportunities in a way different than the public market. I always give this example of infrastructure in India. People rushed in but under the old regime there was no easy way of monetizing that, while China of course offers similar opportunities. Where do you see private equity being able to access markets and specific prospects in a way that provides a premium over returns typically generated in the public market?

David: I think private equity all over the world will continue to get a premium to the public market. The question is how much of a premium it is going to be. The premium might be 2 or 3 percent for an average fund but could be as high as 10 to 20 percent.

The most attractive developed market by far is the United States for all the reasons we know—transparency, rule of law, quality of financing, quality of managers, all the investment professionals. We do think Europe is very attractive, because as I've mentioned prices are lower and there's less competition.

Ashvin: What about Emerging Markets? Liquidity and transparency are certainly risk factors for investors to consider, and may be suited for those with a higher risk tolerance and a longer time horizon. This profile matches that of a private equity investor perfectly. What are your views on Emerging Markets, and where do you see opportunities?

David: Emerging Markets are a mixed bag. We think China is still the most attractive place to invest because of its size and its friendliness towards private equity and the enormous number of state-owned enterprises that have to be privatized. But India is creeping up because of its size–the population is roughly the same as China's now–and the growth rate this year is probably going to be close to what China's has been. It's been difficult to do private equity deals in India because almost everything is minority stake deals. But it's certainly the country to watch among all the large Emerging Markets. They have a prime minister who is focused on reforms, is business-friendly and welcoming foreign capital.

Conversely, Russia is not a place that we are investing and I think Russia is not for the faint of heart. There aren't that many private equity opportunities and there aren't many organizations that really invest there and consistently produce good rates of return.

Ashvin: That's interesting. I think many people have this misconception of the Emerging Markets, where they just look at it as one homogenous group. There is so much variability among the regions, whether from a cultural, social, political or economic perspective. I think it's important to be thoughtful about these differences, and I think it can make a huge impact on a portfolio. I think we'll end there, but thank you for the wonderful insight.

* The views and opinions expressed are those of the speaker as of February 19, 2015, are subject to change without notice at any time, and may differ from views expressed by Bank of America Corporation, Merrill Lynch, Pierce, Fenner & Smith Incorporated, or any affiliates. This conversation is presented for informational purposes only and should not be used or construed as a recommendation of any service, security or sector. Before acting on the information provided, you should consider suitability for your circumstances and, if necessary, seek professional advice.

When assessing your portfolio in light of our current guidance, consider the tactical positioning around asset allocation in reference to your own individual risk tolerance, time horizon, objectives and liquidity needs. Certain investments may not be appropriate given your specific circumstances and investment plan. Certain security types, like hedged strategies and private equity investments, are subject to eligibility and suitability criteria. Your Financial Advisor can help you customize your portfolio in light of your specific circumstances.

ASSET CLASS	OFFICE OF THE CIO VIEW					COMMENTS
	Negative		Neutral		Positive	
Global Equities				●		Further upside expected, based on improving economic and earnings growth and valuations, which remain close to fair value. However, return expectations should be lower than in recent history.
U.S. Large Cap				●		Fair valuation and improved economic growth to support globally exposed cyclical sectors; preference for tech and industrials. Higher quality is preferred in a rising volatility environment.
U.S. Mid & Small Cap			●			The recent pullback has narrowed the valuation gap with large caps. Investors with a higher risk tolerance may consider select opportunities within higher-quality small caps.
International Developed				●		European equity performance is waiting for ECB policy action to stimulate a weakening macro outlook; we prefer Japan as it should benefit from continued reflationary "Abenomics".
Emerging Markets			●			Structural headwinds remain as global liquidity peaks and USD strengthens; prefer active management and exposure to countries that are reform minded and net oil-importers.
Global Fixed Income		●				Bonds continue to provide diversification, income and stability within total portfolios. Interest rates remaining lower for longer limit total return opportunities in bonds.
U.S. Treasuries		●				Prefer to be short duration as longer maturity yields rise on better global growth. Current valuations are stretched, especially on longer maturities.
U.S. Municipals				●		Valuations relative to Treasuries remain attractive and tax-exempt status is not likely to be threatened in the near term; advise a nationally diversified approach.
U.S. Investment Grade			●			Current valuation doesn't offer much room for spread tightening and leaves investment grade more susceptible to rising rates.
U.S. High Yield			●			**High yield still offers a relatively attractive profile given a low corporate default outlook. However, now is not the time to add to overweight positions as HY could be challenged by advances in the credit cycle and the Fed starting to raise interest rates, but these are not imminent risks.**
U.S. Collateralized			●			Higher rates and Fed tapering are likely to increase spread volatility. A shortage of new issues should counter the effects of tapering.
Non-U.S. Corporates			●			Select opportunities in European credit, including financials, however any yield pickup likely to be hampered by a stronger dollar.
Non-U.S. Sovereigns		●				Yields are unattractive after the current run-up in performance; prefer active management.
Emerging Market Debt			●			Vulnerable to less accommodative Fed policy and lower global liquidity; prefer U.S. dollar denominated EM debt. Local EM debt likely to remain volatile due to FX component; prefer active management.
Alternatives*				●		Select alternative investments help broaden the investment toolkit to diversify traditional stock and bond portfolios.
Commodities		●				Commodity headwinds are likely to persist in 2015 driven by the combination of a stronger U.S. dollar, higher interest rates and sluggish demand growth.
Hedged Strategies			●			Equity long/short should benefit from reduced correlation among equities. Global Macro and Managed Futures typically benefit from increased levels of market turbulence.
Real Estate				●		Prefer direct real estate investments. Within REITs volatility is likely to increase as rates rise, opportunities remain in apartment and office sectors.
Private Equity				●		The combination of an improving economy and banks still reluctant to lend provides attractive opportunities that compensate for reduced liquidity.
U.S. Dollar				●		Stronger domestic growth and a less dovish Fed policy (relative to other developed markets' central banks) support a stronger dollar going forward.
Cash		●				Monetary policy by developed market central banks reduces the attractiveness of cash, especially on an after-inflation basis.

* Many products that pursue Alternative Investment strategies, specifically private equity and hedge funds, are available only to pre-qualified clients.

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Asset allocation and diversification do not assure a profit or protect against a loss during declining markets.

The investments discussed have varying degrees of risk. Some of the risks involved with equities include the possibility that the value of the stocks may fluctuate in response to events specific to the companies or markets, as well as economic, political or social events in the U.S. or abroad. Bonds are subject to interest rate, inflation and credit risks.

U.S. Treasury inflation-indexed securities are subject to interest rate risk. While you may be able to liquidate your investment in the secondary market, you may receive less than the face value of your investment. Investments in high-yield bonds may be subject to greater market fluctuations and risk of loss of income and principal than securities in higher rated categories. Investments in foreign securities involve special risks, including foreign currency risk and the possibility of substantial volatility due to adverse political, economic or other developments. These risks are magnified for investments made in emerging markets. Investments in a certain industry or sector may pose additional risk due to lack of diversification and sector concentration. Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates, and risk related to renting properties, such as rental defaults. There are special risks associated with an investment in commodities, including market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors. Investment returns may fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost. Market-Linked investments have varying payout characteristics, risks and rewards, and investors need to understand the characteristic of each specific investment, as well as those of the linked asset. MLIs can be complex, involve fees and expenses, and may not be suitable for all investors. Options involve risk and are not suitable for all investors. Before engaging in the purchase or sale of options, investors should understand the nature of and extent of their rights and obligations and be aware of the risks involved in investing with options. Prior to buying or selling an option, clients must receive the options disclosure document Characteristics and Risks of Standardized Options.

Alternative Investments are speculative and subject to a high degree of risk. Although risk management policies and procedures can be effective in reducing or mitigating the effects of certain risks, no risk management policy can completely eliminate the possibility of sudden and severe losses, illiquidity and the occurrence of other material adverse effects.

Investments in Master Limited Partnerships (MLPs) in the energy sector will be subject to more risks than if the investment were broadly diversified over numerous sectors of the economy. A downturn in the energy sector of the economy could have a larger impact on an investment that does not concentrate in the sector. At times, the performance of securities of companies in the sector may lag the performance of other sectors or the broader market as a whole. In addition, there are several specific risks associated with investments in the energy sector, including the commodity price risk, depletion risk, supply and demand risk, and catastrophic event risk, among others.