

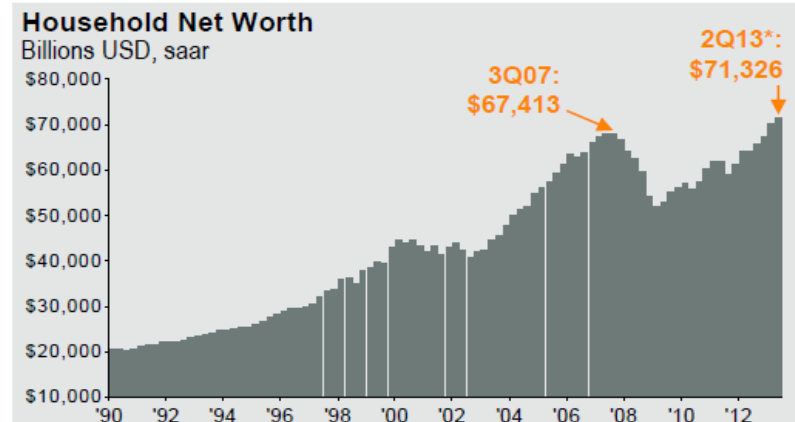
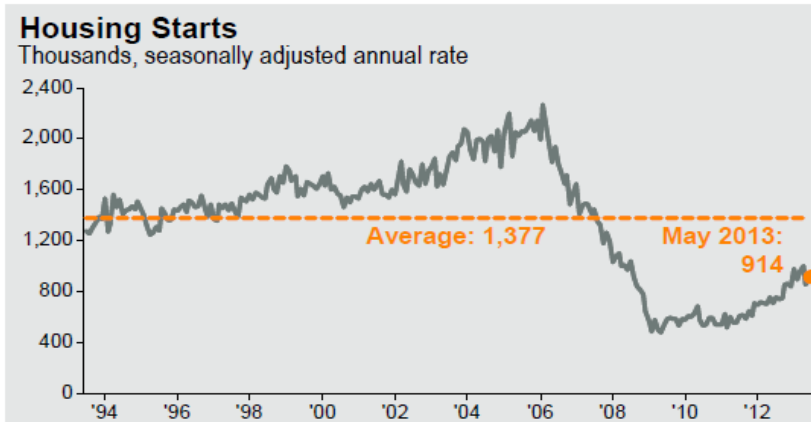
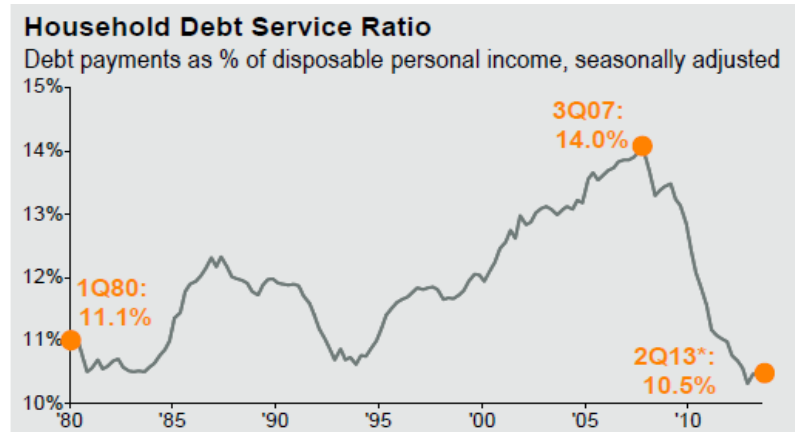
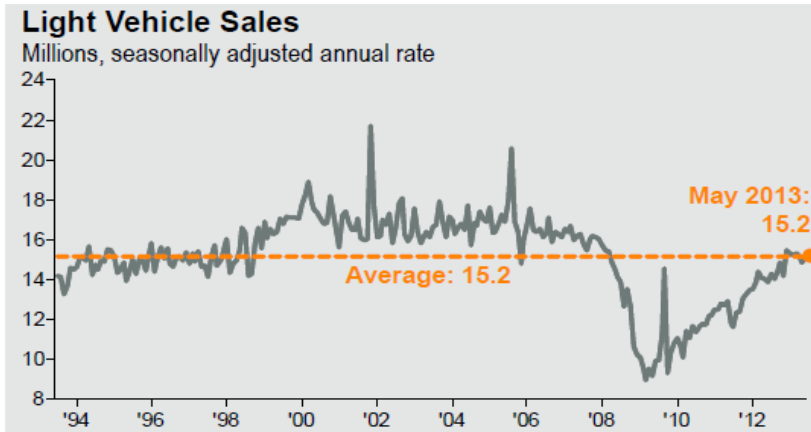
Q3 2013 LOOK AHEAD

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Economy Is Improving in Some Key Areas

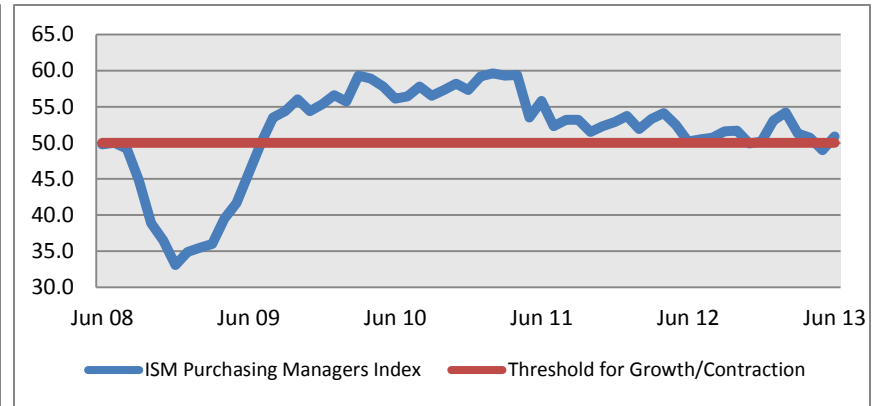
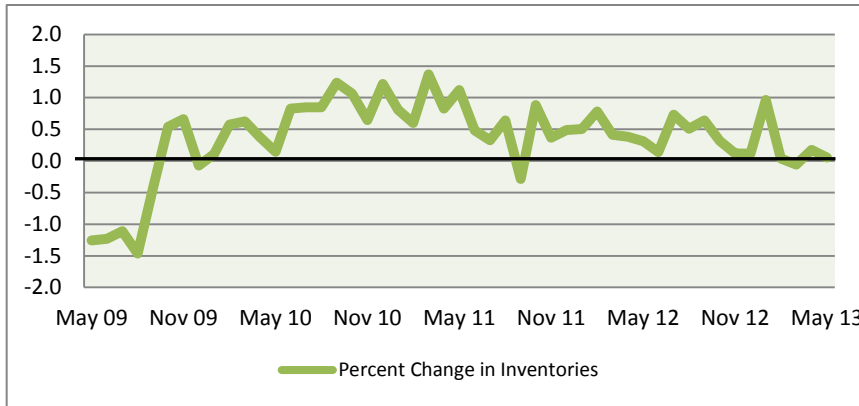
Improvement in the housing market, auto sales, and personal balance sheets



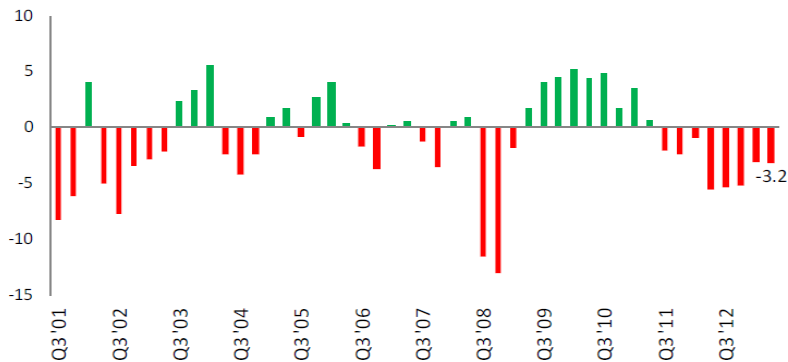
Source: JP Morgan Asset Management "3Q 2013 Guide to the Markets", p. 18, 20.

Some Signs of Weakness Remain

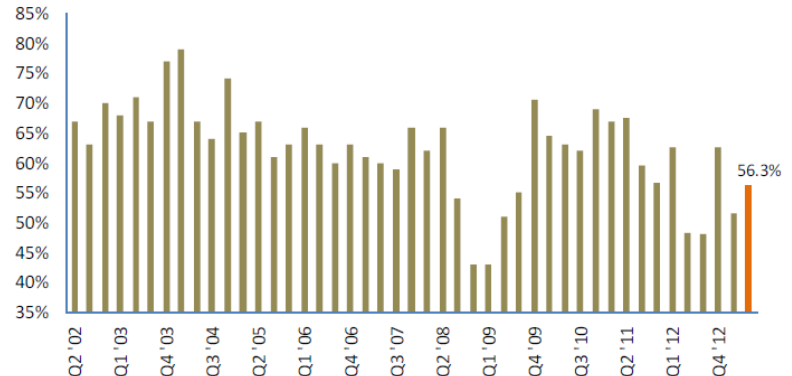
Inventory growth has been slow, manufacturing is tilting toward weakness, companies have been lowering guidance, and revenue growth is weak



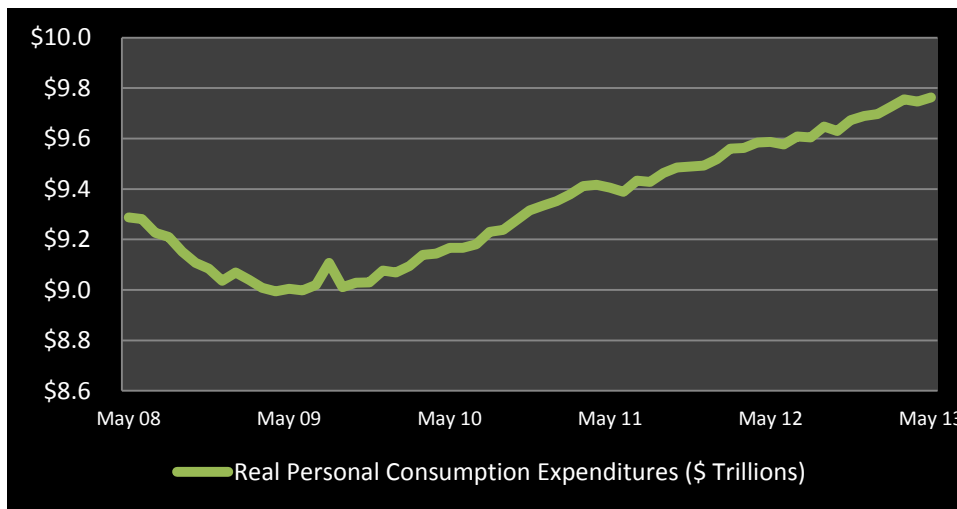
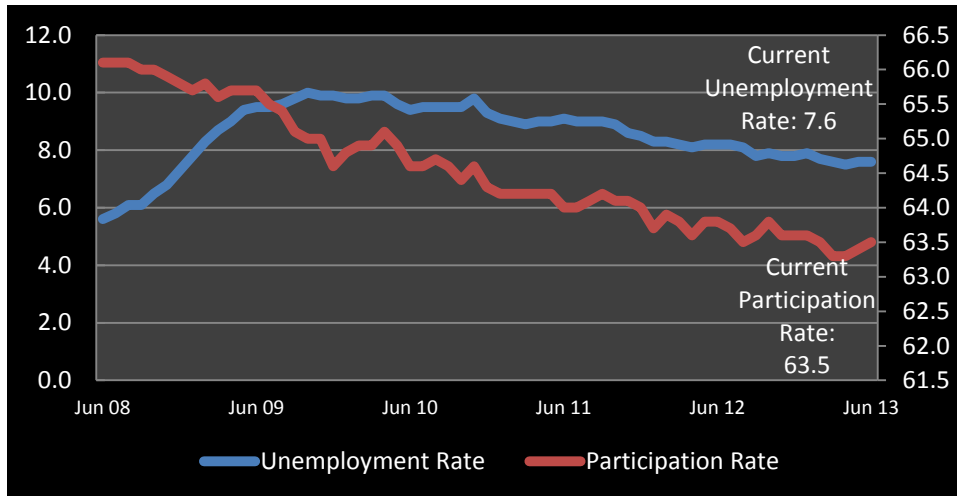
Spread Between % of Companies Raising vs. Lowering Guidance



% of Companies Beating Revenue Estimates by Quarter: 2002-Present



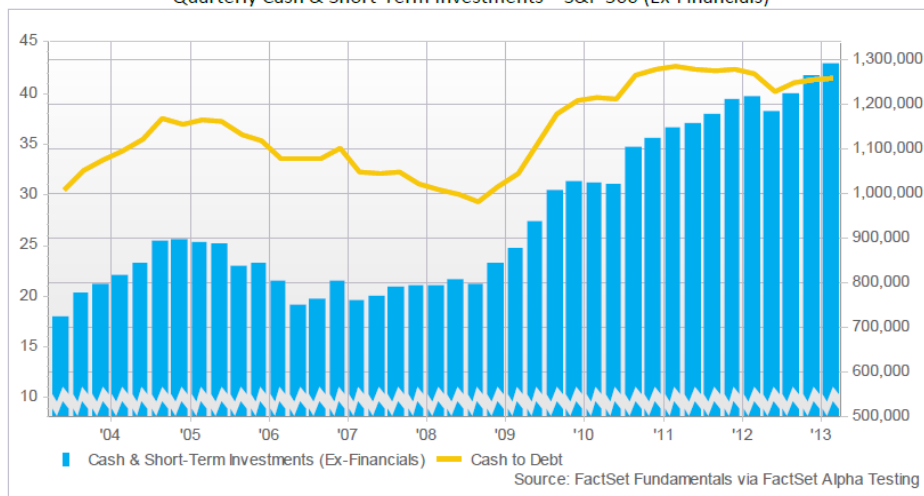
Consumer: Improving, Albeit Slowly



- The unemployment rate has been improving, but the participation rate is still anemic.
- Voluntary job quits have been trending up, but are still at pre-recession levels.
- Real personal consumption expenditures have been rising.
- Is unemployment cyclical or structural?
 - Technological change
 - Baby Boomer retirement

Corporations: Still Cautious

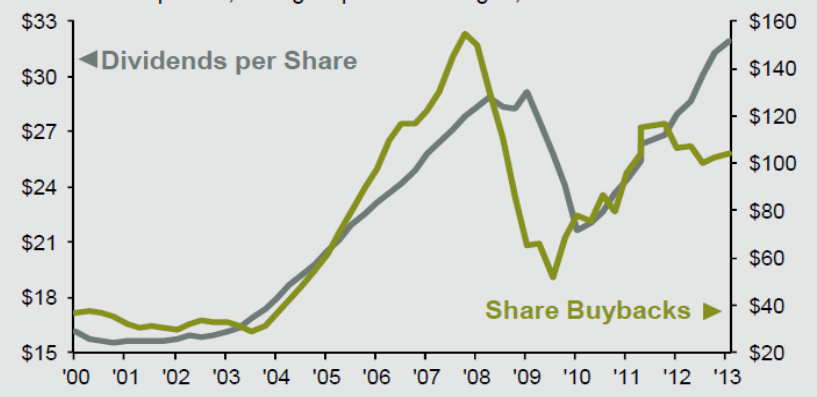
Quarterly Cash & Short-Term Investments – S&P 500 (Ex-Financials)



- Even more cash on the sidelines now: corporations are simply not seeing growth opportunities.
- Cash balances in S&P 500 companies (ex-financials) had accelerating growth in Q2, and capital expenditures have slowed.
- Corporations are returning capital to shareholders:
 - Aggregate dividends per share on the S&P 500 grew 15.1% year over year.
 - Buybacks are up 17.2% year over year.

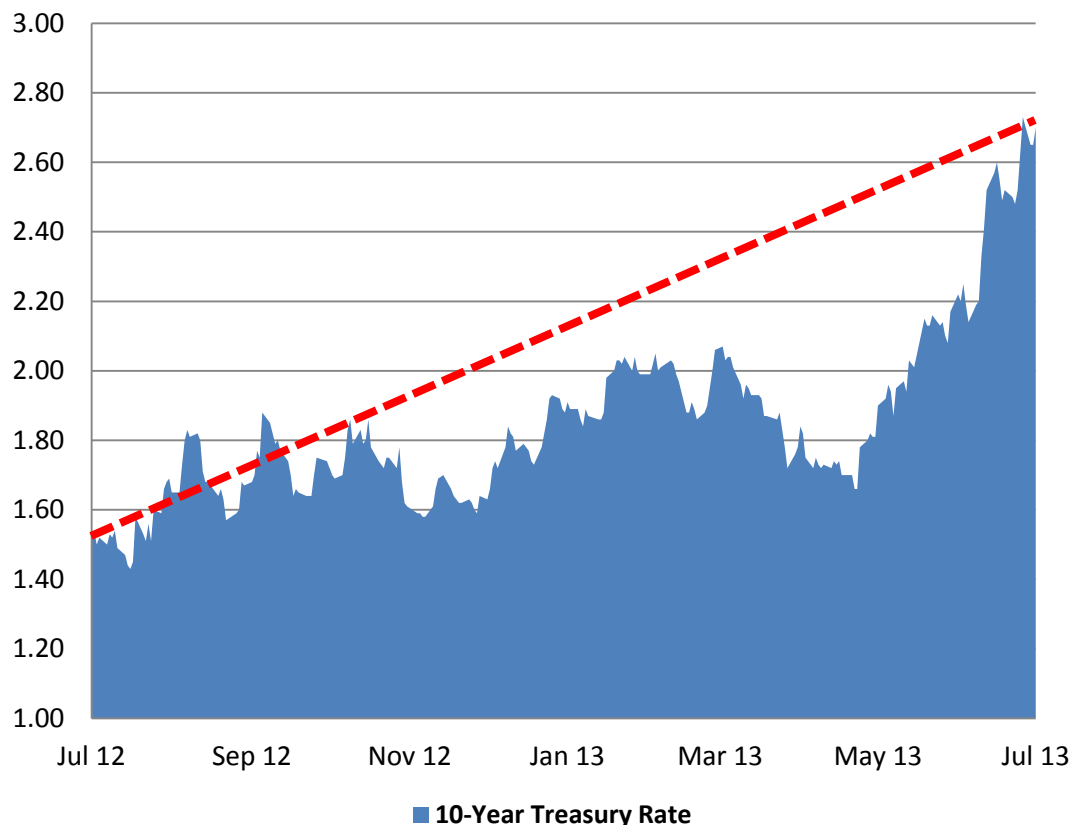
Cash Returned to Shareholders

S&P 500 companies, rolling 4-quarter averages, billions USD



New Fixed Income Reality

The Federal Reserve will have to end its asset purchases eventually, which we already knew, but the Fed made this clear in May

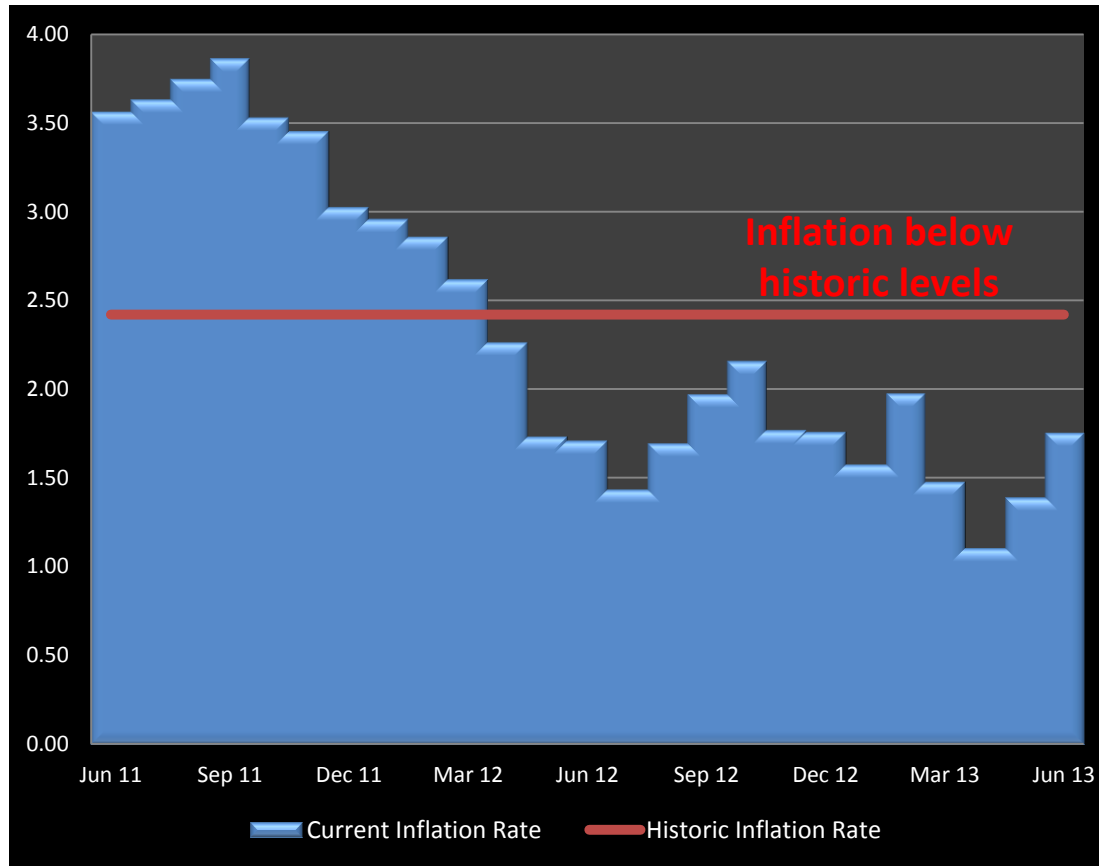


- Rates have been rising over the past year, and rose sharply after Bernanke's comments on May 22.
- Nearly all fixed income sectors suffered accordingly.

Sector	Performance since Bernanke Speech (May 22—June 30)
US Aggregate	-2.51%
Inv. Grade Corporate	-4.10%
High Yield	-3.77%
Mortgage-Backed	-1.78%

- Other scenario: what if the Fed ends QE simply because it hasn't been effective in reducing unemployment?

Fixed Income Still a Critical Component



- The main purpose of fixed income is to hedge your equities in a pullback and provide a stable, predictable income stream.
- Fixed income also hedges against deflation.
- Investors can use low duration, floating rate, and absolute return strategies to hedge against rising rates.

Emerging Markets: Mixed Outlook

Country	1-Year Performance (June 2012 – June 2013)
Indonesia	21.81%
India	13.59%
Mexico	12.40%
China	5.46%
Russia	4.93%
MSCI Emerging Markets Index	3.22%
Colombia	-6.61%
Chile	-10.06%
Brazil	-10.82%

3-month SHIBOR rate



- Diverging performance: not all emerging markets behave the same.
- Rising SHIBOR (China interbank lending rate) shows possible credit tightening in China.
- Active management and focus on quality could help navigate this space.
 - Targeting stocks off of the MSCI Emerging Markets Index could lead to better performance and reduced correlations.

Conclusions

Outlook:

- Expect the Federal Reserve to withdraw out of necessity. Monetary policy has run its course, for better or worse.
- Fiscal policy is what's left, but dependent on political realities (infrastructure investments and health care spending).
- Industrial metals are driven by emerging market demand.

Recommendations:

- Continue to focus on splitting the fence between growth and quality.
- Consider targeted investment in industrial and precious metals, as cost of production now exceeds spot prices, and supply could therefore shrink.
- Keep hedges intact for both inflation and deflation.
- Focus on more active management in emerging markets and fixed income.

Mean Reversion Dashboard

Style Current P/E as a % of 20yr Avg. P/E

	Value	Blend	Growth
Large	96.4%	86.2%	79.4%
Mid	104.7%	100.0%	85.5%
Small	107.2%	99.5%	89.6%

Regional Fwd P/E as a % of 10yr Avg. Fwd P/E

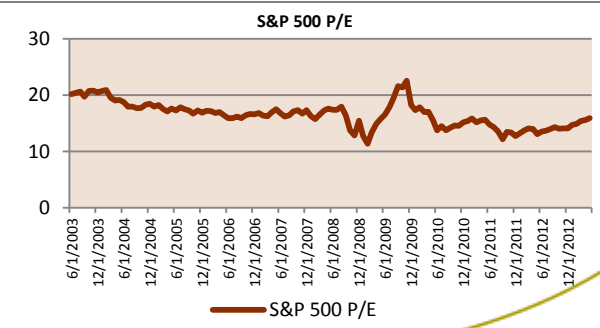
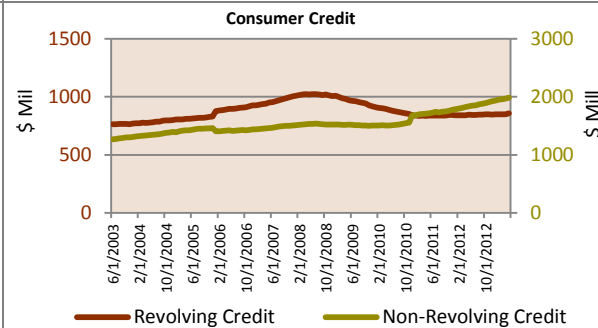
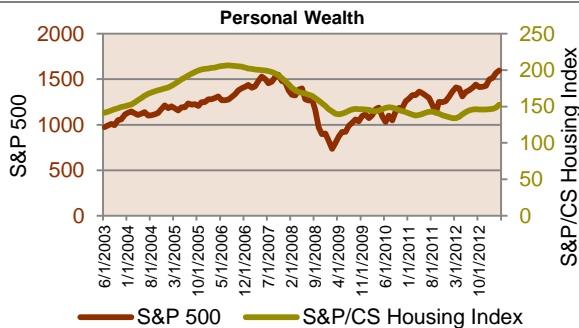
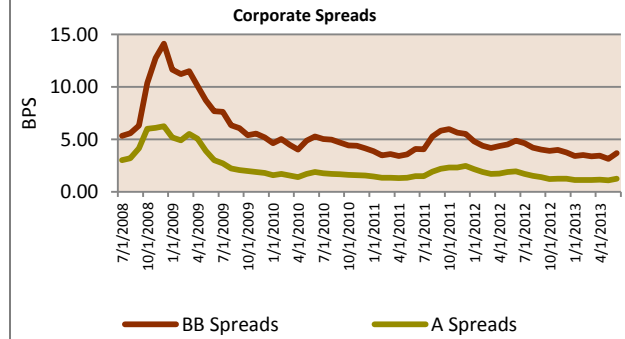
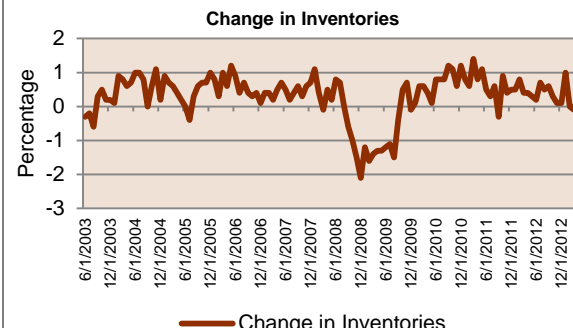
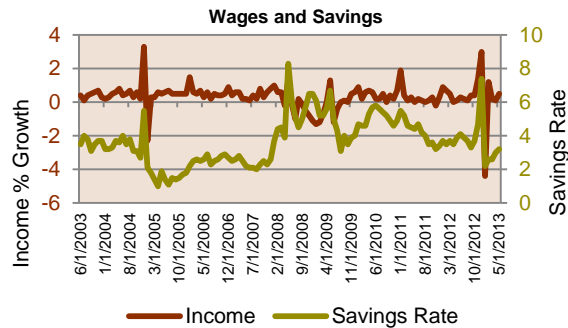
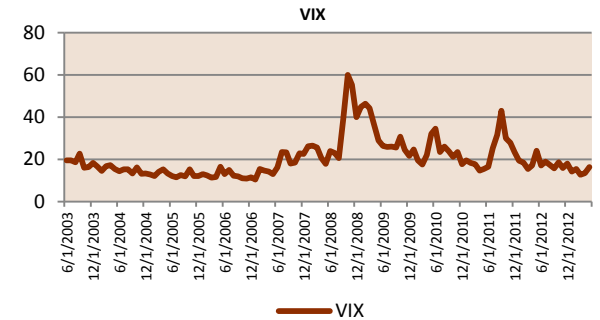
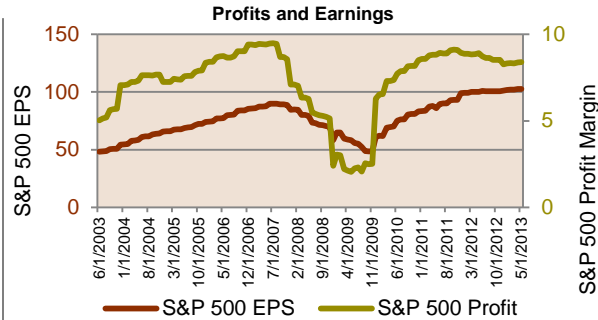
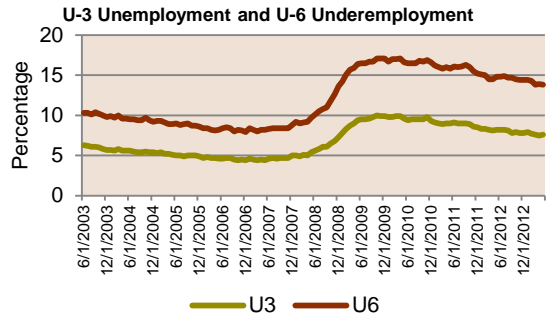
ACWI	EAFE Index	EM Index	United States	Germany	U.K.	China	Brazil	India
97.0%	96.2%	90.7%	100.0%	95.8%	94.3%	69.2%	109.0%	91.9%

Sector Current P/E as a % of 20yr Avg. P/E

Financials	Technology	Health Care	Industrials	Energy	Cons. Discr.	Cons. Staples	Telecom	Utilities	Materials
97.5%	57.6%	79.8%	82.8%	66.5%	92.7%	89.2%	202.0%	129.0%	92.7%

Source: JP Morgan Asset Management "3Q 2013 Guide to the Markets", p. 5, 9, 54-55. JP Morgan sources data from MSCI, FactSet, Standard & Poor's, and Russell Investment Group. Trailing P/E ratios are bottom-up values defined as month-end price divided by the last 12 months of available reported earnings. Historical data can change as new information becomes available. Past performance is not indicative of future returns.

Economic Dashboard



Source: Bloomberg LP and Federal Reserve. Data is from sources deemed to be reliable. No representation or warranties either expressed or implied are made as to the accuracy of the information presented. Data as of 6/30/2013.