Janus Henderson
INVESTORS

MARKET GPS

INVESTMENT OUTLOOK

June 2023

Position your portfolio for the trends and opportunities ahead

Contents

Market GPS blends the thinking of our investment teams and our Portfolio Construction and Strategy (PCS) Team. The PCS Team performs customized analyses on client portfolios, providing differentiated, data-driven diagnostics. From thousands of consultations, the team identifies trends, themes, and opportunities in portfolio construction. By combining the insight of our investment teams with the client focus of PCS, our goal is to help you position your portfolio for the route ahead.

Portfolio pivot? Balancing defense and offense

Investors entered 2023 anticipating calmer markets after last year's historic inflation, rise in interest rates, and the expectation that a higher cost of capital would weigh on economic growth. Recently added to the list was turmoil within the banking sector. While regulators' actions have likely stemmed the risk of contagion, enough assumptions were undone to beg the question of whether markets have entered an even more challenging environment.

We believe they have. The global economy is clearly late cycle, with central banks coming to the end of rate hikes. Many investors adopt a defensive posture when facing an economic downturn. Yet, with a probable soft patch so well telegraphed – and potentially somewhat priced in – we think investors, while acknowledging further downside risk, could soon go on offense, especially as this stage of the cycle may present opportunities for active security selection that can benefit from idiosyncratic risk.

Equities: Quality matters – even more

At the beginning of the year, we stated that, as the global economy faced a mid-cycle adjustment, equity investors should prioritize quality, which we define as companies with sound balance sheets and stable cash flows. That message is truer than ever. As customers' access to credit weighs on revenues and higher input costs squeeze margins, 2023 earnings may drift toward the lower end of consensus range.

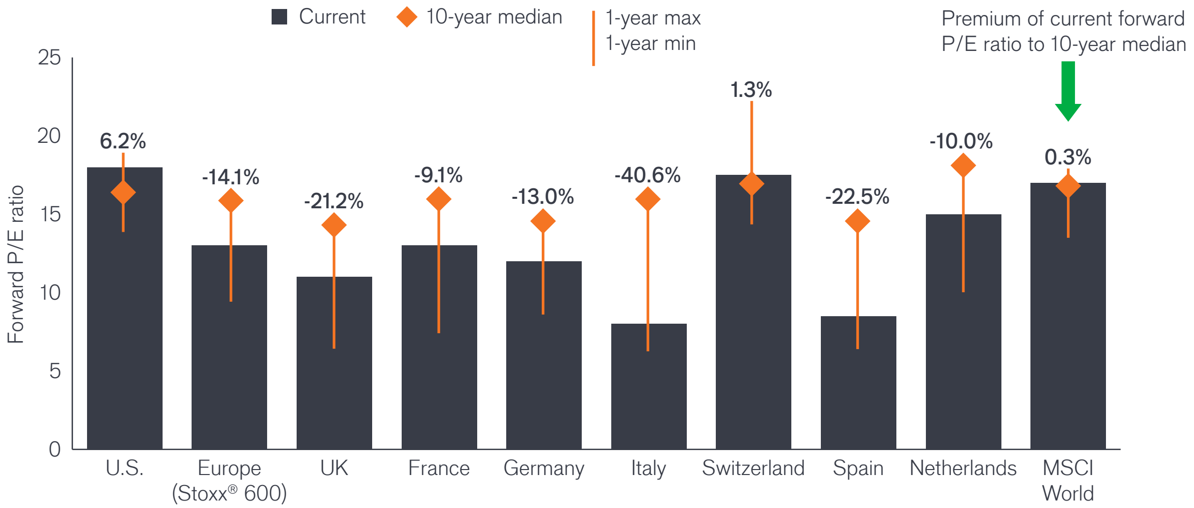
The current breadth of risks heightens our concern about how those risks may impact stocks. Yet, rather than seeking to avoid risk, investors could use volatility to take advantage of the dislocations that can occur between a stock's price and a company's underlying fundamentals. For example, higher rates and volatility have created opportunities within the technology sector. We expect to see a greater dispersion of returns over the mid-term based on companies' ability to execute operationally and maintain profitability in a slowing economy. With headwinds apparent, healthcare also merits consideration. Biotechnology, in our view, holds particular promise as do profitable small- and mid-cap companies that could outperform early in a recovery.

Leaning into Europe

A similar dynamic is at play geographically. With many global indices tilted toward the U.S., benchmark-tracking investors could be exposed to a notable economic slowdown as tighter credit conditions potentially magnify the impact that the Federal Reserve's (Fed's) rate-hiking campaign will have on growth. We believe the potential for attractive returns exists in the U.S., but investors should be afforded the opportunity to determine for themselves their level of exposure by country.

Historical and current price-earnings ratios in select markets

While P/E ratios are at above-average levels in the U.S., many European countries still trade at significant discounts.



Source: Bloomberg, as of 30 April 2023. P/E ratio = price-to-earnings ratio. **Past performance is no guarantee of future results.**

While focusing on quality during the downturn, investors should also think ahead by considering attractively priced cyclical exposure in markets that are most likely to lead the way out of recession. We believe Europe could fit this criterion. There are risks, but if the current trajectory continues, the cyclical nature of European stocks means they could be well positioned to outperform as the economy moves toward recovery.

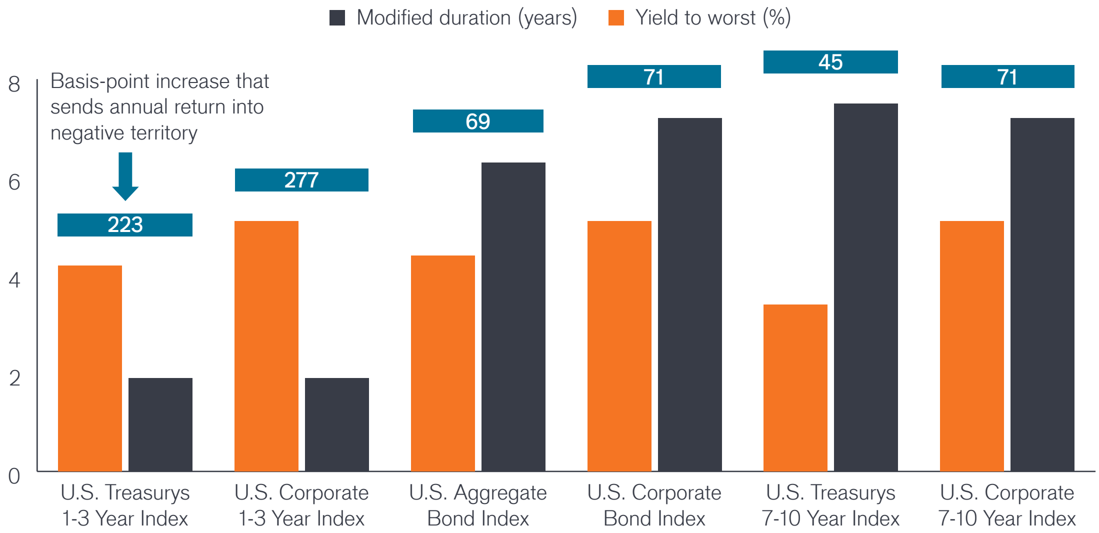
Fixed income: Take what the market is giving

Higher rates mean that a bond allocation again can offer attractive income generation, the potential for capital appreciation, and the accompanying benefit of diversification against riskier asset classes. Consequently, we expect to see increased allocations to bonds as investors seek defensive strategies for the downturn.

After a long absence, shorter-dated bonds are now offering mid-single-digit returns. And with the global economy likely slowing, longer-duration intermediate bonds hold the potential for capital appreciation. Within credit, we believe resilient investment-grade businesses are likely to weather a downturn better than more cyclically exposed issuers.

Rise in interest rates required to wipe out a bond's annual income

Shorter-duration bonds have significantly higher yield cushions than those with longer-dated maturities.



Source: Bloomberg indices, Janus Henderson, as of 30 April 2023.

An environment for alternatives

Alternative strategies aimed at lowering the downside risk of a broad allocation were conceived for volatile periods like this. We believe the current environment is set up well for a multi-strategy approach that seeks to capitalize on the dispersion we expect to see between securities of resilient companies and those of more vulnerable firms as the global economy slows.

Staying nimble

As the global economy resets to a higher-inflation, higher-rate regime – and one fraught with geopolitical risk and a trend toward deglobalization – we expect price dislocations to emerge across asset classes and sectors. We believe nimble investors, including those willing to deviate from their benchmark, will make the most of the opportunity to pivot their portfolios from defense to offense.

U.S. Equity

A brighter future in small/mid-caps

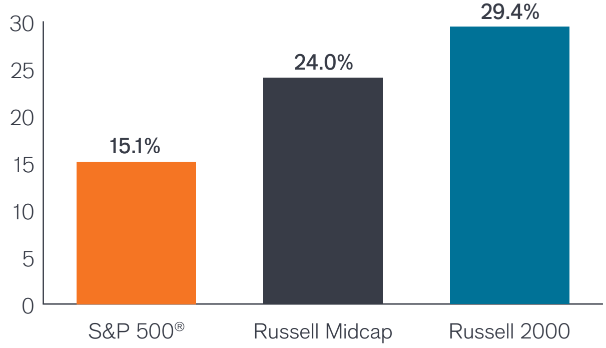
U.S. equity YTD returns by style and size

YTD returns

	Value	Core	Growth
Large	2.5%	8.8%	15.5%
Mid	1.3%	3.5%	7.6%
Small	-3.1%	0.9%	4.8%

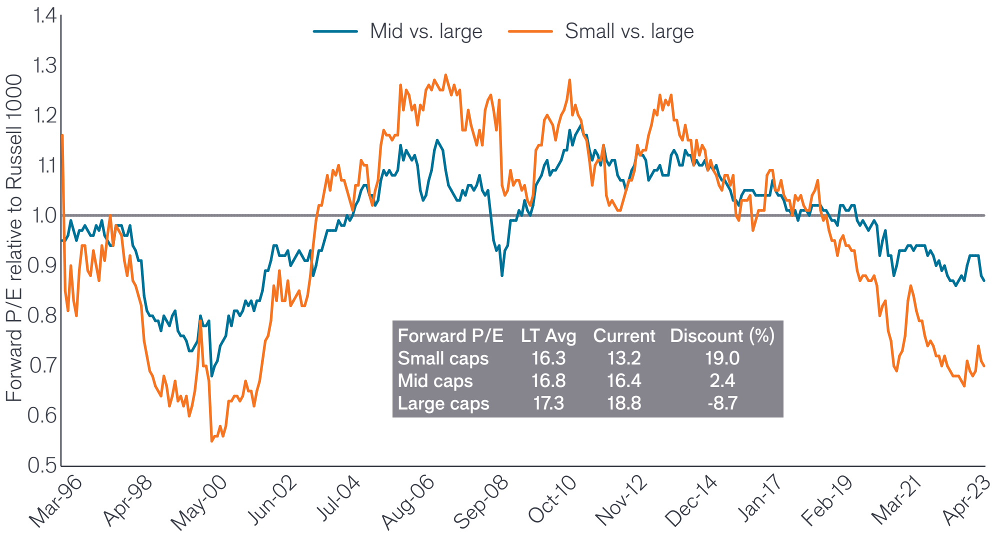
Source: Morningstar. Based on Russell indices. As of 30 April 2023.

Cumulative return, start of recession through 12 months following recession end



Source: Morningstar, National Bureau of Economic Research, U.S. Bureau of Labor Statistics, Bureau of Economic Analysis, 1980-2022, as of 30 April 2023.

Small and mid caps remain historically cheap vs. large caps



Forward P/E	LT Avg	Current	Discount (%)
Small caps	16.3	13.2	19.0
Mid caps	16.8	16.4	2.4
Large caps	17.3	18.8	-8.7

Source: FactSet, as of 30 April 2023. Small = Russell 2000. Mid = Russell Mid Cap. Large = Russell 1000. **Past performance is no guarantee of future results.**

Investment recap

- Segments of the U.S. equity market felt the pain of higher interest rates, most acutely with the failure of several regional banks, which prompted broader concern throughout the financial system.
- The Fed slowed the pace of its hikes amid signs of waning inflation and weaker economic activity, and investors anticipated an eventual pause in the central bank's tightening cycle.
- Smaller companies rebounded to start the year but gave up that outperformance as the market rotated back to large-cap growth stocks amid banking uncertainty.

Investment outlook

- U.S. small- and mid-cap companies are typically levered to the economic cycle and have historically outperformed large caps during recessions and the early stages of recoveries, as large companies are generally slower to respond to a changing economic environment.
- Many of the excesses of the last several years have been shed in the small- and mid-cap universes, with absolute valuations still below historical averages and relative valuations (vs. large caps) remaining attractive.
- Small- and mid-cap companies tend to be more U.S.-centric, potentially benefiting from the long-term themes of reshoring/deglobalization while also being less sensitive to U.S. dollar fluctuations.

PCS perspective

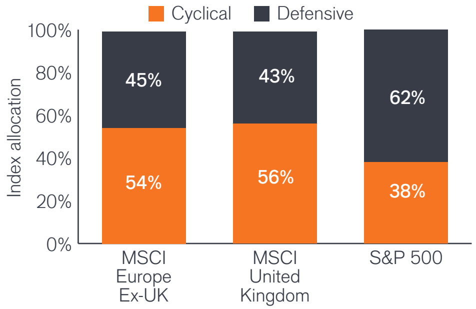
- Timing the market is notoriously difficult, but historically cheap relative valuations in small/mid-cap companies can provide a potential buffer against future uncertainty while also allowing investors to position for a recovering environment.
- We believe the large-cap bias of the last decade may not persist as market leadership shifts and the macro environment changes. Despite economic uncertainty, we think investors should consider at least a neutral weighting in small/mid-caps to take advantage of potential future trends.
- With corporate earnings facing potential headwinds, we believe it is prudent to take an active approach in the small/mid-cap space to focus on higher-quality companies and avoid unprofitable ones – roughly 25% of stocks in the Russell 2500™ Growth Index currently do not earn money.*

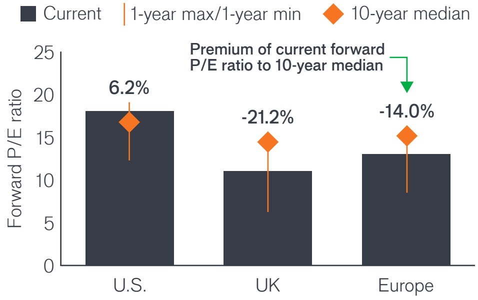
* Source: Janus Henderson Investors, as of 30 April 2023.

European Equity

Europe overcoming the noise

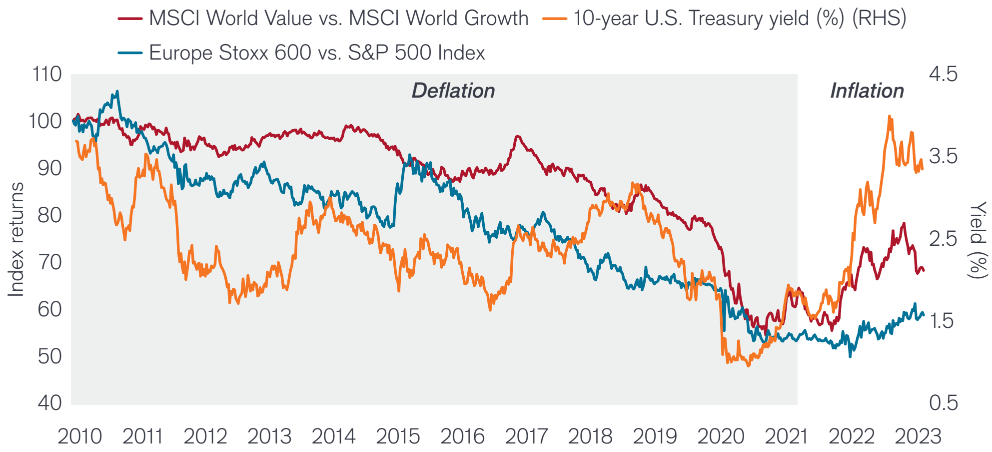
European equities contain more cyclical stocks, which have typically performed well during rate rises





Source: (LHS) Janus Henderson PCS, Morningstar. Cyclical sectors include consumer cyclicals, energy, financials, industrials, and materials. Defensive includes communication services, consumer defensive, healthcare, technology, real estate, and utilities. Janus Henderson PCS, Bloomberg, as of 30 April 2023 (RHS). Forward P/E ratio as of 30 April 2023.

U.S. vs. Europe returns: European equities as of April 2023 are trading at a discount vs. the U.S.



Source: Janus Henderson PCS, Morningstar, as of 30 April 2023. Stoxx 600, S&P 500 Index, MSCI World Value, MSCI World Growth, total return indices. **Past performance does not predict future returns.**

Investment recap

- Failures in the U.S. banking system were felt globally with the merger of two major European banks (Credit Suisse and UBS) combined with ongoing concerns over the conflict in Ukraine.
- Despite this backdrop, European equity markets produced a strong start to the year, up 15% (vs. 9% for U.S. equities)*, buoyed by a stabilization of gas prices, China's economy reopening to the world, and speculation that the end of monetary tightening is near.
- The European Central Bank (ECB) continued to raise rates in 2023 to temper inflation and the German 10-year bund yield reached a multi-year high of 2.75% in March.

Investment outlook

- Market expectations for a severe recession have diminished with expectations for a soft economic landing.
- While falling energy prices have caused headline inflation to drop, core inflation remains stubbornly high. Markets do not expect the ECB to abruptly end the rate-hiking cycle, although the potential for further significant rises is limited.
- Robust company data, the absence of an energy crisis, and easing price pressures have improved the outlook for European equities, but near-term volatility warrants a focus on higher-quality companies with sound fundamentals.

PCS perspective

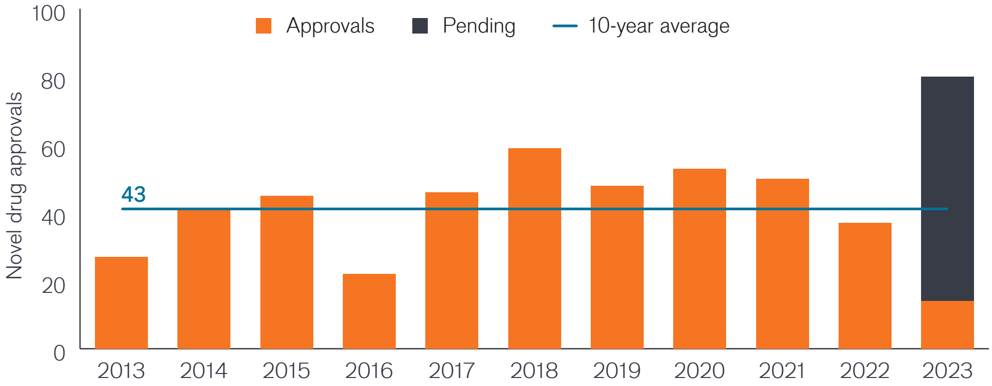
- The valuation gap between European stocks and their U.S. peers offers investors an opportunity to reduce U.S. equity concentration while gaining access to companies with potential downside protection given their lower prices and discounted P/E ratios relative to historical averages.
- European equities are also paying dividends that are almost double that of the U.S. (3.0% vs. 1.7% as of end April 2023), which potentially offers another line of defense as well as attractive income in today's inflationary environment.
- As markets recover, cyclical sectors like consumer discretionary (luxury goods) and industrials tend to lead the way. An active, flexible approach to European companies can provide offense with more cyclical exposure than the growth-heavy U.S. market.

* Source: Morningstar, as of 30 April 2023. European equity = MSCI Europe Index USD, U.S. Equities = S&P 500 Index.

Healthcare

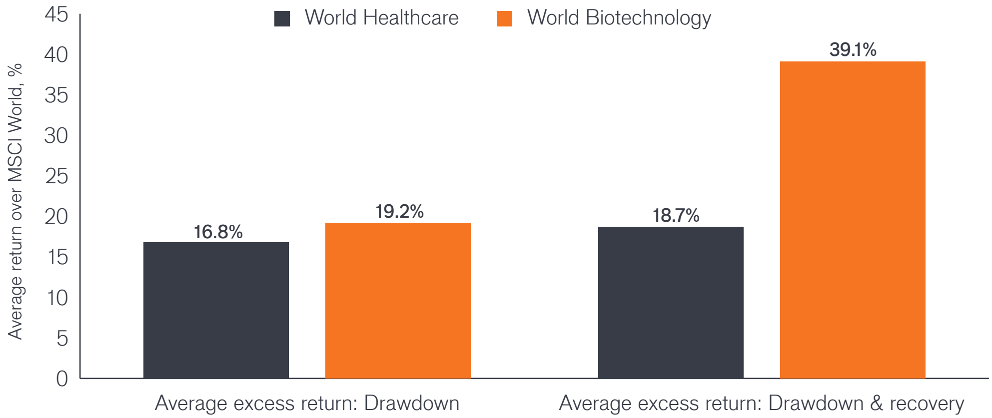
Innovative defense

Novel drug approvals by year, with 2023 looking like a record-breaking year



Source: Food and Drug Administration, as of 30 April 2023.

Average excess return over MSCI World for five market drawdowns/ recoveries since 2000



* Last market downturn period recovery and full-cycle end date is as of 30 April 2023.

Source: Morningstar, Global equity sectors and subsectors based on MSCI World Index. Average of downturn periods are 1 Apr 2000-9 Oct 2002, 1 Nov 2007-9 Mar 2009, 3 May 2011-4 Oct 2011, 13 Feb 2020-23 Mar 2020, 5 Jan 2022-12 Oct 2022. Recovery periods are based on MSCI World, for the final period 30 April 2023 in the case of the recent recovery.

Investment recap

- The healthcare sector lagged the broader equity market as investors gravitated to mega-cap technology stocks. Managed care firms, which outperformed during the risk-off market in 2022, were especially hard hit.
- The failure of Silicon Valley Bank was a headwind for biotech. Amid concerns about the potential for tighter lending conditions, as well as attractive valuations, merger and acquisition (M&A) activity picked up.
- Clinical progress maintained momentum, with more than 80 new therapies up for Food and Drug Administration (FDA) review, 16 of which have already received approval.

Investment outlook

- We believe the underperformance of healthcare is primarily due to misplaced optimism about the economy. Steady demand for pharmaceuticals and other medical care could appeal to investors if inflation and/or tightening credit conditions persist.
- At the same time, the sector continues to be priced at a discount to longer-term averages, with many biotech companies trading below levels of cash on their balance sheets.
- Biotech made significant clinical advances in 2022. Many therapies could represent the start of major new product cycles, which typically drive revenue growth for a decade or more.

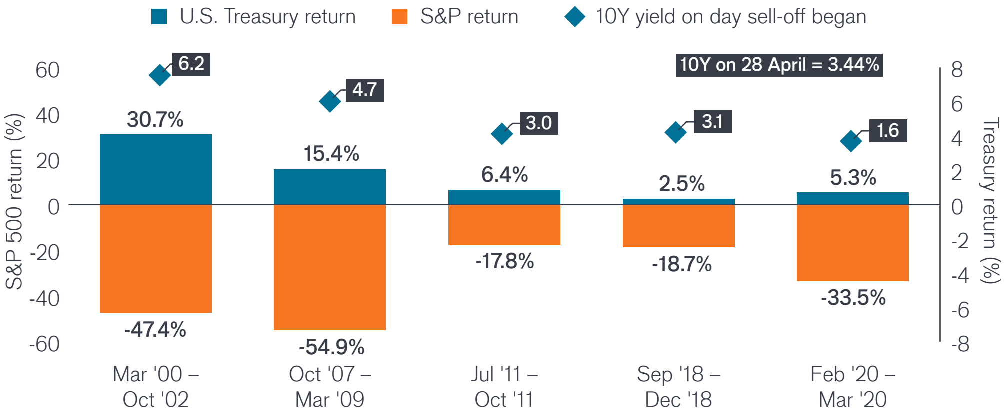
PCS perspective

- Attractive valuations, continuous innovation, and the potential for M&A within healthcare are reflective of the sector's defensive and growth characteristics, potentially making it an opportune time for investors to add exposure to this sector.
- The historical outperformance of healthcare – and the narrower biotech sub-sector – versus the broader market through the drawdown and recovery phases of the past five sell-offs is indicative of these characteristics.
- In a higher rate environment in which the cost of capital has increased, we think it is important to pay close attention to fundamentals – particularly near-term cash flows, valuations, and revenue generation.
- In our view, an active approach grounded in sector-specific expertise could be the key to identifying biotech companies that are likely to produce better clinical data and superior market results.

Duration

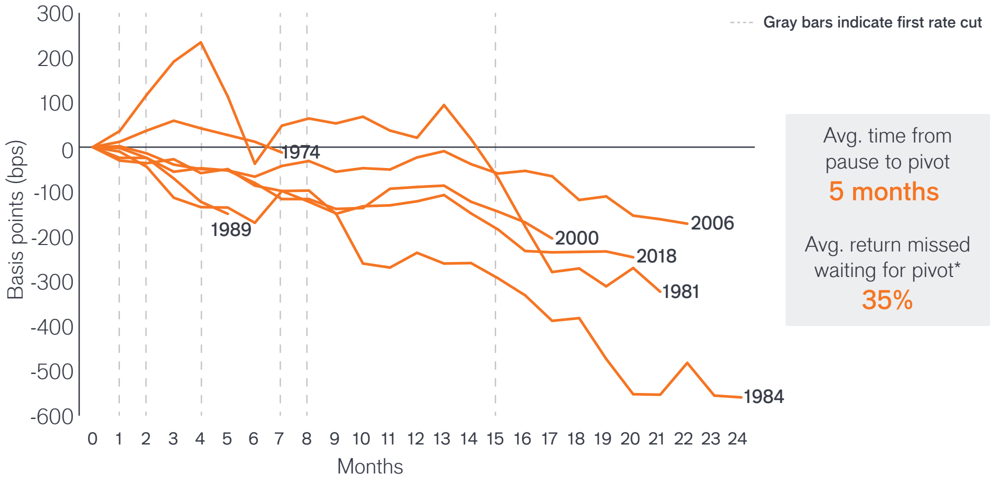
Don't wait for a pivot

Look to duration for risk-off diversification



Source: Morningstar, as of 30 April 2022.

Monthly change in 10Y Treasury yields from Fed pause



Source: Janus Henderson. *Return lost from Fed pause through the 2-year trough in rates by waiting for first rate cut.

Investment recap

- Following the worst year on record for duration-sensitive assets in 2022, so far 2023 has shown a reversal of that trend. Inflation has moderated gradually, and we expect this to continue.
- Amid turmoil in the banking sector, long-duration assets have outperformed short-duration assets, highlighting their defensive nature during times of market stress.
- The Fed has raised interest rates three times in 2023, but at this point we think it is done (or extremely close to being done) with the fastest rate-hiking cycle since the 1980s.

Investment outlook

- As concerns around inflation abate, we expect growth to take center stage as the key risk on investors' minds.
- With the chances of recession having increased materially as banks tighten lending standards, we think investors should be thinking about positioning portfolios for what could be coming (a fall in rates) and not for what has already transpired (rising rates).
- We believe investors can benefit from exposure to interest-rate risk to lock in higher rates for longer terms, while also potentially benefitting from price appreciation if rates fall on the back of a cooling economy.

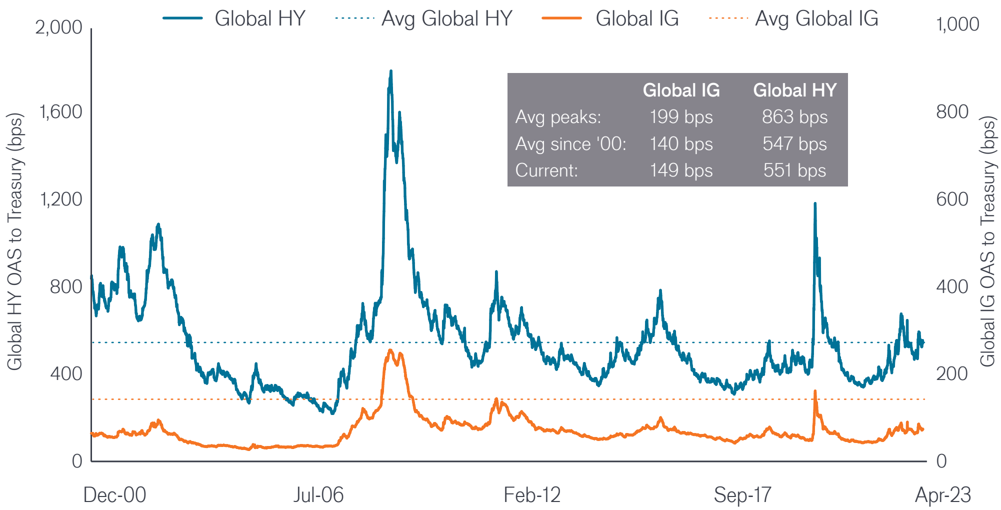
PCS perspective

- Investors wisely decreased their duration exposure in 2022 by overweighting money markets and other short-term assets.
- The inverted yield curve has rewarded this move by providing higher yields and less interest rate volatility than longer-duration investments. While it may make sense to continue owning some assets short on the curve, we believe it's time to start adding duration.
- Historically, longer-dated yields start to decline when the Fed pauses its rate-hiking cycle but before the central bank pivots and cuts rates.
- The future path of interest rates is extremely hard to predict. But with yields higher than they've been in over a decade and a potential recession looming, we believe now is the time to lock in today's rates for longer durations.

Corporate Credit

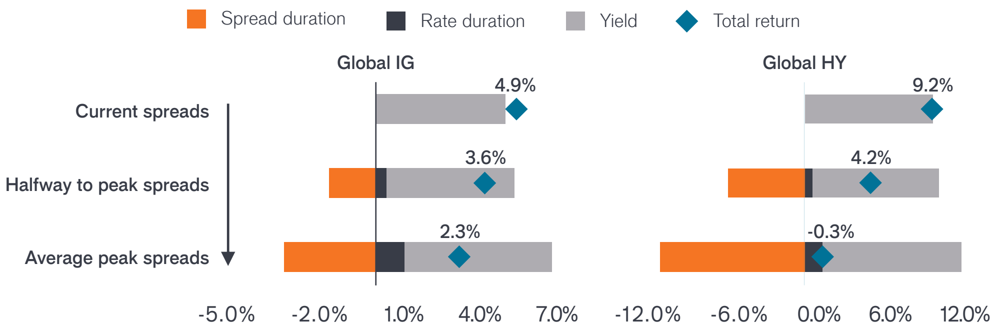
Yield: Quality over quantity

Pricing in investment grade better reflects recession risk



Source: Bloomberg as of 30 April 2022. Global HY = Bloomberg Global High Yield TR USD, Global IG = Bloomberg Global Aggregate Corporate TR USD. OAS = option-adjusted spread. Average peak spreads ex '08 and COVID.

High starting yield can help weather spread widening



Source: Janus Henderson, as of 30 April 2022, assuming 1-year holding period. Average peak spreads ex '08 and COVID.

Investment recap

- Corporate credit markets initially performed well before the turmoil in the banking sector undid some of the gains and sent spreads wider, particularly among financials and real estate. Income, however, helped credit deliver positive total returns.
- Credit spreads were volatile but rangebound, with technicals broadly supportive and fundamentals buoyed by nominal economic growth remaining elevated even as real growth waned. Resilient earnings helped keep leverage ratios in check.
- Investment-grade spreads continued to price in more of a slowing growth environment than non-investment grade (non-IG) spreads, while financials were wider relative to non-financials given recent sector stress.

Investment outlook

- Credit markets could test the wider end of the recent spread range as the cumulative effects of tighter credit conditions take hold, aggravated by deterioration in liquidity from quantitative tightening.
- Technicals remain supportive, with the maturity wall still a ways off. However, the higher yields that are attractive to investors can be a burden for some companies that need to refinance, particularly those with single-stack capital structures.
- Traditional sector cycles and synchronization remain out of kilter as spending patterns normalize post-COVID. This presents opportunities at the security level for careful credit selection, where the emphasis remains on issuers that can navigate a slowing economy.

PCS perspective

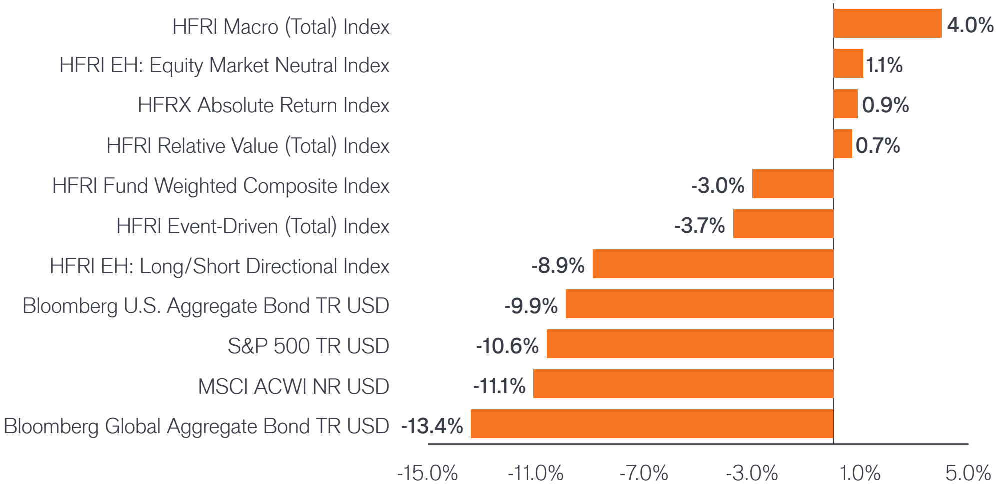
- Despite narrow spreads, IG offers starting yields over 5.0%* – well above previous levels – and the potential to be more resilient in a downturn. This combination can provide investors with attractive income opportunities and risk mitigation.
- Non-IG is generally subject to larger losses than its IG counterparts during a market downturn. However, the higher starting level of carry – currently almost 9.5%* – means non-IG spreads would have to widen to historical non-crisis peak levels before leading to negative total return.
- In a year where the economic outlook remains uncertain, we believe investors should focus on credit quality and turn to managers with the ability to identify companies with strong fundamentals to help navigate volatility and default risk.

*Source: Bloomberg, as of 30 April 2023.

Alternatives

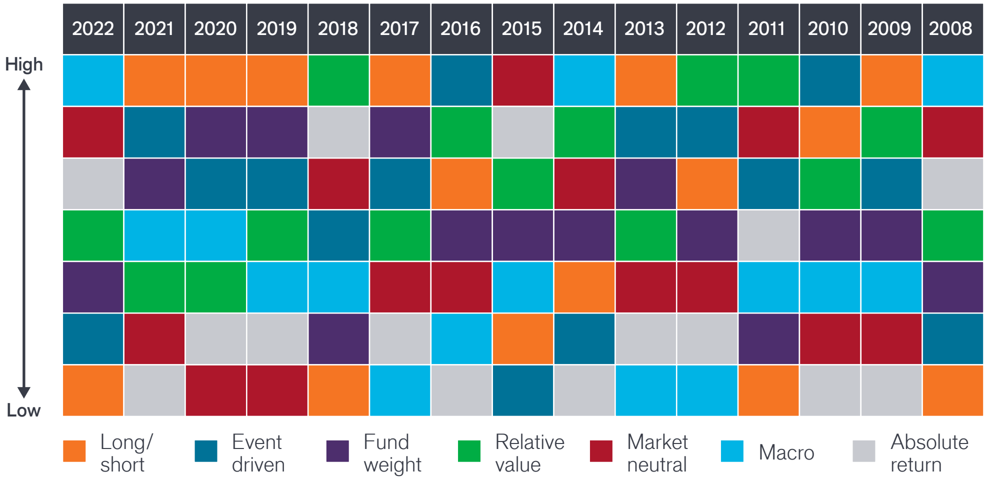
Rising rates open different doors

January 2022 – April 2023: Alternatives vs. major market indices



Source: Hedge Fund Research (HFR) and Morningstar, as of 30 April 2023.

Calendar year returns for alternatives



Source: HFR and Morningstar as of 30 April 2023. Calendar year data. **Past performance is no guarantee of future results.**

Investment recap

- Global markets found renewed vigor in early 2023, underpinned by a more benign outlook for inflation, fueling hopes of a peak in interest rate hikes amid increased optimism that the world would avoid a severe recession.
- While the banking crisis that gripped markets in March did not prove to be systemic for the wider financial sector, the ensuing pivot in U.S. rates was negative for many trend following strategies. Higher stock dispersion, however, was positive for long/short strategies able to benefit from rotating markets.
- A pickup in corporate activity – reflected in higher convertible new issuance and equity capital market activity – and a surge in M&A were both good news for those liquid alternatives strategies that require market activity to put capital to work.

Investment outlook

- We are starting to see the impact of rising interest rates in areas of the economy where growth has been underpinned by an era of cheap borrowing, suggesting a more difficult market environment in later 2023 and into 2024.
- Higher volatility and wider spreads across asset classes are providing opportunities that the diverse liquid alternatives sphere is typically suited to take advantage of, although this also presents challenges for risk management.
- Investors may want to consider alternative strategies that can demonstrate a consistently low correlation to traditional asset classes (such as equities and bonds) and that offer the potential to mitigate drawdowns in an environment where uncertainty is likely to persist.

PCS Perspective

- Liquid alternative strategies can benefit from the performance dispersion – created by volatility and higher interest rates – among companies that adjust to the new environment those that do not.
- The uncorrelated returns of liquid alternative strategies have the potential to limit a portfolio's losses and reduce overall volatility. Smaller losses coupled with upside market participation can make recoveries easier to navigate.
- Our analysis shows that an allocation to alternatives could result in smaller losses than those of similar portfolios without alternatives, while on average still capturing 90% of the upside.
- For investors considering alternatives, active strategy selection is key, as we can see that the performance of liquid alternative sub-strategies varies over a cycle.

Glossary

Basis point (bp) = 1/100 of a percentage point. 1 bp = 0.01%, 100 bps = 1%.

Bloomberg Global Aggregate Bond Index is a broad-based measure of the global investment grade fixed-rate debt markets.

Bloomberg Global Aggregate Corporate Bond Index measures global investment grade, fixed-rate corporate bonds.

Bloomberg Global High Yield Index is a broad-based measure of the global high-yield fixed income markets.

Bloomberg U.S. Aggregate Bond Index: A broad-based measure of the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market.

Bloomberg U.S. Corporate Bond Index: Measures the investment grade, fixed-rate, taxable corporate bond market.

Bloomberg U.S. Treasury 1-3 Year Index: A measure of nominal U.S. Treasury securities with maturities ranging from 1 to 2.999 years.

Bloomberg U.S. Corporate 1-3 Year Index: A measure of U.S. dollar denominated, investment-grade, fixed rate, taxable corporate bonds with maturities between 1 and 3 years.

Bloomberg U.S. Treasury 7-10 Year Index: Measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury with maturities of 7 to 9.9999 years to maturity.

Bloomberg U.S. Corporate 7-10 Year Index: A measure of U.S. dollar denominated, investment-grade, fixed rate, taxable corporate bonds with maturities between 7 and 9.999 years.

10-Year Treasury Yield is the interest rate on U.S. Treasury bonds that will mature 10 years from the date of purchase.

Carry is the excess income earned from holding a higher yielding security relative to another.

Correlation measures the degree to which two variables move in relation to each other. A value of 1.0 implies movement in parallel, -1.0 implies movement in opposite directions, and 0.0 implies no relationship.

Credit Spread is the difference in yield between securities with similar maturity but different credit quality. Widening spreads generally indicate deteriorating creditworthiness of corporate borrowers, and narrowing indicate improving.

Duration measures a bond price's sensitivity to changes in interest rates. The longer a bond's duration, the higher its sensitivity to changes in interest rates and vice versa.

HFRI EH: Equity Market Neutral Index measures the performance of hedge fund strategies that use quantitative strategies to invest in securities with a net equity market exposure no greater than 10% long or short.

HFRI EH: Long/Short Directional Index measures the performance of hedge fund strategies in the HFR Database that are not considered equity market neutral.

HFRI Event-Driven (Total) Index measures the performance of hedge fund strategies that invest in companies currently or prospectively involved in corporate transactions.

HFRI Fund Weighted Composite Index is a global, equal-weighted index of single-manager funds that report to HFR Database.

HRFI Macro (Total) Index Macro measures the performance of hedge fund strategies that use a broad range of strategies that anticipate movements in underlying economic variables and the impact these have on all available asset classes.

HFRI Relative Value (Total) Index measures the performance of hedge fund strategies who aim to benefit from valuation discrepancy in the relationship between multiple securities.

HFRX Absolute Return Index measures the performance of a wide variety of hedge fund strategies including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage.

MSCI Europe Index℠ reflects the equity market performance of developed markets in Europe.

MSCI World Index℠ reflects the equity market performance of global developed markets.

MSCI World Growth Index℠ reflects the performance of growth stocks from global developed markets.

MSCI World Value Index℠ reflects the performance of large and mid cap equity securities exhibiting value style characteristics across global developed markets.

MSCI All Country World Index℠ reflects the equity market performance of global developed and emerging markets.

MSCI United Kingdom Index is designed to measure the performance of the large and mid cap segments of the UK market.

MSCI Europe ex UK Index captures large and mid cap representation across developed markets countries in Europe excluding the UK.

Price-to-Earnings (P/E) Ratio measures share price compared to earnings per share for a stock or stocks in a portfolio.

Quantitative Tightening (QT) is a government monetary policy occasionally used to decrease the money supply by either selling government securities or letting them mature and removing them from its cash balances.

Russell Midcap® Index reflects the performance of U.S. mid-cap equities.

Russell 1000® Index reflects the performance of U.S. large-cap equities.

Russell 2000® Index reflects the performance of U.S. small-cap equities.

Russell 3000® Index reflects the performance of broad U.S. equities.

Glossary (continued)

Russell 2500™ Growth Index reflects the performance of U.S. small to mid-cap equities with higher price-to-book ratios and higher forecasted growth values.

S&P 500® Index reflects U.S. large-cap equity performance and represents broad U.S. equity market performance.

STOXX® Europe 600 Index represents large, mid and small caplitalization companies across 17 countries in the European region.

U.S. Treasury securities are direct debt obligations issued by the U.S. Government. The investor is a creditor of the government. Treasury Bills and U.S. Government Bonds are guaranteed by the full faith and credit of the U.S. government, are generally considered to be free of credit risk and typically carry lower yields than other securities.

Value stocks can continue to be undervalued by the market for long periods of time and may not appreciate to the extent expected.

Volatility measures risk using the dispersion of returns for a given investment.

Yield curve plots the yields (interest rate) of bonds with equal credit quality but differing maturity dates. Typically bonds with longer maturities have higher yields. An **inverted yield curve** occurs when short-term yields are higher than long-term yields.

Yield cushion, defined as a security's yield divided by duration, is a common approach that looks at bond yields as a cushion protecting bond investors from the potential negative effects of duration risk. The yield cushion potentially helps mitigate losses from falling bond prices if yields were to rise.

Yield to worst (YTW) is the lowest yield a bond can achieve provided the issuer does not default and accounts for any applicable call feature (ie, the issuer can call the bond back at a date specified in advance). At a portfolio level, this statistic represents the weighted average YTW for all the underlying issues.

Risks

Actively managed portfolios may fail to produce the intended results. No investment strategy can ensure a profit or eliminate the risk of loss.

Alternative investments include, but are not limited to, commodities, real estate, currencies, hedging strategies, futures, structured products, and other securities intended to be less correlated to the market. They are typically subject to increased risk and are not suitable for all investors.

Any risk management process discussed includes an effort to monitor and manage risk which should not be confused with and does not imply low risk or the ability to control certain risk factors.

Diversification neither assures a profit nor eliminates the risk of experiencing investment losses.

Equity securities are subject to risks including market risk. Returns will fluctuate in response to issuer, political and economic developments.

Fixed income securities are subject to interest rate, inflation, credit and default risk. The bond market is volatile. As interest rates rise, bond prices usually fall, and vice versa. The return of principal is not guaranteed, and prices may decline if an issuer fails to make timely payments or its credit strength weakens.

Foreign securities are subject to additional risks including currency fluctuations, political and economic uncertainty, increased volatility, lower liquidity and differing financial and information reporting standards, all of which are magnified in emerging markets.

Growth stocks are subject to increased risk of loss and price volatility and may not realize their perceived growth potential.

Health care industries are subject to government regulation and reimbursement rates, as well as government approval of products and services, which could have a significant effect on price and availability, and can be significantly affected by rapid obsolescence and patent expirations.

High-yield or "junk" bonds involve a greater risk of default and price volatility and can experience sudden and sharp price swings.

Idiosyncratic risks are factors that are specific to a particular company and have little or no correlation with market risk.

Smaller capitalization securities may be less stable and more susceptible to adverse developments, and may be more volatile and less liquid than larger capitalization securities.

Technology industries can be significantly affected by obsolescence of existing technology, short product cycles, falling prices and profits, competition from new market entrants, and general economic conditions. A concentrated investment in a single industry could be more volatile than the performance of less concentrated investments and the market as a whole.

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