

## **Fund Investment Objective and Strategy**

Source Capital seeks a maximum total return for shareholders from both capital appreciation and investment income to the extent consistent with protection of invested capital. We strive to accomplish this objective over a full market cycle, which we generally consider to be five to seven years.

The Fund employs a balanced strategy using stocks and bonds to try to meet this goal. Generally, 50%-70% of the Fund's assets will be allocated to equities and 30%-50% to fixed-income. The Fund will vary its allocation to equities and fixed-income over time as a function of the opportunity set based on the equity managers' evaluation of prospects in the stock market. The Fund invests in public equities of large businesses from around the world as well as primarily U.S.-domiciled fixed-income securities, both investment and non-investment grade.

The FPA Contrarian Value (CV) and FPA Absolute Fixed Income (AFI) teams will co-manage the Fund. The CV team will manage the equities sleeve and make the asset allocation decisions, while the AFI team will manage the fixed-income sleeve. The portfolio managers will utilize an investment philosophy that is consistent with FPA's overall value-oriented strategies.

We seek to have the Fund provide a better-than-average experience for its clients/shareholders. We can have neither pride nor sense of accomplishment if our clients, the very people we are in business to provide a service to, do not appropriately benefit from the relationship.

## **Equity Objective**

The equity sleeve of the Fund will be managed in a fashion consistent with the principles of the FPA CV strategy. We seek for our equity portfolio to generate equity-like returns over the long-term while taking less risk than the market and avoiding permanent impairment of capital on the total portfolio. With a larger-capitalization and global focus, we consider the S&P 500 and MSCI ACWI appropriate benchmarks.

The terms "long-term" and "equity-like return" can have an exactness and measurability. The term "risk," on the other hand, is inherently imprecise and its meaning is different for different people. Risk stems from the uncertainty that exists in the world. We – along with the rest of humanity – simply do not know what will happen next, so we are left with trying to guard against all manner of eventualities, while recognizing that more things *can* happen than *will* happen.

## **Equity Philosophy**

We are absolute value investors.

We invest our money alongside yours, an alignment of interests we maintain across FPA. We view ourselves as the guardians of the capital entrusted to us.

We view ourselves as pragmatists with a healthy respect for what we do not know. We are neither optimists nor pessimists, as we invariably find ourselves hoping for the best while preparing for the worst. Value investing is a familiar discipline but CV pursues a relatively unique strategy. We believe that CV differentiates itself because we invest on an absolute value basis, have a flexible mandate and a long-term orientation, consider the macroeconomic environment, understand risk, and only seek to commit capital when the potential reward justifies the risk assumed.

## **Absolute Value Investing**

We seek genuine bargains, not relatively attractive securities.

We invest only in positions that we believe offer a compelling economic risk/reward proposition on an absolute basis. If prospective investments do not meet that requirement, then we wait until they do. We have no interest in merely buying the inexpensive. We want to purchase a stock at a substantial discount to that company's worth or intrinsic value.<sup>1</sup> Our flexible mandate gives us more tools to pursue an "absolute" path to value investing, in which success is measured by positive returns. We reject the "relative value" path favored by some portfolio managers, who may declare victory when the stock market has declined 40% and they lost just 35% of their clients' principal.

### ▪ **Flexible Mandate**

CV operates with a flexible mandate. We have proven our ability to invest in a variety of industries and geographies while frequently holding cash. Our partners' support and understanding of our process allows us to invest in those areas that appear most attractive on an absolute basis without regard for style box or conventional wisdom.

We believe our freedom, along with our willingness to hold cash, gives us a long-term advantage. For example, if the shares of foreign-domiciled companies appear less expensive than their U.S. counterparts, then we may invest more money overseas. If domestic and foreign stocks appear priced to perfection with little regard for exogenous risk, then our cash residual may build as we await opportunities to invest with less downside and more upside. The approach to cash holdings is discussed further in our 2004 Special Commentary, *The Case for Cash*.<sup>2</sup> We believe our investment flexibility greatly enhances the likelihood that we could deliver an equity-like return with less risk over the long-term.

### ▪ **Long-Term Focus**

We believe the only way to accomplish our goal is to, at times, accept short-term underperformance. We measure our investment results over years, rather than in quarters, months, or days. We do not carry the bogey of having to excel each calendar year on our back. We think of long-term as generally five to seven years, a not atypical market cycle. What happens over any fraction thereof lies outside of our capability (and concern). Over shorter periods, temporary excesses in both the securities market and the economy have a tendency to distort reality and cloud understanding.

We avoid the temptation to look out beyond a prospective market cycle by remembering John Maynard Keynes' observation that "in the long run we are all dead." Nevertheless, great patience may prove necessary even in intermediate-term time frames.

Patience as an investment virtue may only be attained through education. We believe you should only invest with a manager whose philosophy and process you understand. Otherwise, you could find yourself unable to stomach what will certainly be more challenging periods.

We have underperformed in the past, and there will be times when we do so in the future. Current and prospective Fund investors need ask themselves how they might behave during the CV strategy's inevitable challenging periods.

### ▪ **Macroeconomic Considerations**

Unlike many value investors, we incorporate an understanding – sometimes limited – of the macroeconomic environment in our security analysis and portfolio construction. We recognize that we must consider bigger-picture extremes as we assess a company's current and prospective intrinsic

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<sup>1</sup> **Intrinsic value:** The present value of future cash flows or the price a knowledgeable and possibly strategic buyer might pay for the business.

<sup>2</sup> See [The Case for Cash](#) on our website, [fpafunds.com](http://fpafunds.com) under Special Commentaries.

value and how its business/industry might fare versus our macro view. This has caused us to overweight certain industries and, at times, to completely avoid others.<sup>3</sup> Whether we use a top-down or bottom-up approach will depend on the company, industry, valuation, economy and our conviction in our assessment of each.

- **Risk – Permanent Loss of Capital or Volatility?**

We cannot eliminate risk, but we seek to identify it, understand it, minimize it and be adequately compensated for it.

The word risk has no precise meaning in an investing context but there is plenty of it, including: credit, currency, obsolescence, fraud, sovereign, interest rate, inflation, litigation, expropriation, customer concentration, vendor disruption, competition, economic, balance sheet, political, permanent impairment, mark-to-market losses and more – much more.

Risk goes hand in hand with investing. Even if you do not like the stock market and choose to remain in cash, then you still will have assumed inflation risk. If inflation subsequently moves higher, the value of your cash erodes. Every choice (and doing nothing is still a choice) trades one risk for another. If we tried to avoid all risk, then we would have little chance of accomplishing our goals. So, in a world where risk is unavoidable, the CV mission, on a portfolio basis, is to seek to minimize the risk of permanent capital impairment.

We reject volatility as a measure of risk. (Using volatility to measure risk is a bit like using a thermostat to measure a car's speed. You'll get a number, but not much understanding.) However, we know a highly volatile investment may not serve our clients well, since large fluctuations in price may create stress, causing our clients to invest or cash-out at precisely the wrong times. Lower volatility is not the aim of CV's investment process, but it has proven to be a natural by-product.<sup>4</sup>

Investors need to understand their own risk tolerances – both psychological and practical – instead of adopting a theoretical model prescribed by age bracket or wealth. Although we view risk as the potential for permanent loss of capital, we recognize that other investors may feel differently and that those investors might let volatility drive their investment decisions. Volatility creates extreme price movements during which an investor can choose to buy or sell.<sup>5</sup> We believe our investors must be aware of how they will react to price volatility. We are not oblivious to the fact that most individual and institutional investors can find themselves in the uncomfortable position of defending to their clients, employers, spouses, or even themselves a stock that keeps declining, or owning common stocks at all in a declining market.

A Morningstar study of mutual fund investors' trading demonstrated that there is a financial cost to trading decisions triggered by market volatility. In addition to reinforcing the established fact that mutual fund investors have a "tendency to buy high and sell low," the study also demonstrated that investor returns generally lagged those of funds' published total returns and pointed to a fund's volatility as "a key determinant in whether its investor returns are good or bad."<sup>6</sup> The findings are not surprising. Letting volatility dictate investment decisions has proven the bane of many mutual fund (and stock) investors. We want our investors' return experience to closely match our fund's returns.

Although we do not directly manage volatility and can offer no assurances of a smooth investment experience, we believe our approach gives us a good chance of providing a less volatile ride than the

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<sup>3</sup> See [Elephants in the Room](#) and [The Raw Deal](#) on our website, [fpafunds.com](#) under Special Commentaries.

<sup>4</sup> We believe most individuals and institutions should have their long-term savings managed by those who seek to protect capital *before* pushing to make a return on that capital. The Contrarian Value team, therefore, looks down (to see what risk lies below) before looking up (to see what opportunities might lie amongst the stars). Once we have assured ourselves that capital can be preserved, we then seek ways to grow real after-tax wealth at an acceptable rate. This strategy is aimed at allowing our investors to – at a minimum – win by not losing. We have accomplished that goal over our first 22 years, and we will work to continue to do so prospectively. Cumulative experience (rather than repetitive) and a deeper pool of analytical talent should help.

<sup>5</sup> Most investors, consultants, and advisors have greater apprehension with regards to the volatility associated with downward price movements. Upside "vol" is more welcomed – except by short sellers.

<sup>6</sup> Per Morningstar, "investor return" (also known as dollar-weighted return) measures how the average investor fared in a fund over a period of time. Investor return incorporates the impact of cash inflows and outflows from purchases and sales and the growth in fund assets. For more information please see <http://corporate.morningstar.com/us/documents/PR/Investorreturnsfactsheet.pdf>

stock market. We hope our strategy, the Fund's return pattern and our communications with you improve the odds that your return more closely mirrors the Fund's return.

More importantly, regardless of the environment, we aim to distinguish ourselves by using volatility to our advantage rather than to our detriment. Instead of composing a portfolio designed to mimic the performance of some benchmark or index, we utilize a deeply-held contrarian philosophy oriented toward pushing back on a rising market by reducing exposure (thus allowing cash to increase) and conversely, leaning into a falling market and spending that cash to opportunistically buy inexpensive securities.

We hope that we have made it evident that we spend a disproportionate amount of our time evaluating and managing company-specific and macroeconomic risk. We believe that if we look to limit the downside of your portfolio, the upside will take care of itself.

- **Upside/Downside**

We invest your money in stocks that have what we believe to be advantageous upside/downside characteristics. Put another way, we seek to make a multiple of what we could potentially lose. In managing our portfolios, we accept that we will not always win and that “good” “bets” will sometimes be lost. What we seek to avoid is making bad bets. In addition to targeting asymmetric payoffs, we try to improve our odds further by conducting deep due diligence to gain a clear understanding of the underlying business and its industry, and then, wherever possible, applying some differentiated knowledge.

### **Equity Process**

There is always a wide array of prospective investments from which to choose. We invest in an opportunistic manner based on our view of the world and the businesses and situations that we understand. We look for what is out of favor. We look for bad news. We take into account what the landscape is today and how it might change over time, both organically and through exogenous events. We mostly hold our own counsel, speaking to relatively few “investment professionals” outside FPA. We prefer to spend less time on Wall Street and more time with people on Main Street – customers, competitors, company executives – because we believe the interaction improves our understanding of businesses and industries. Then we read, read, read. And then, we read some more.

Next, we decide which investments might offer the best opportunities for us to reach our established longer-range goal (specific to the Fund's equity sleeve). We then devote our time accordingly.

As we seek to gain comfort with a given investment, we determine what we need to know to prove - or disprove – the original thesis that drew our interest and triggered further research. We may read current and historic SEC filings and conference call transcripts, review pertinent periodicals, study the competition, and/or establish a model, among other things. We then work to gain a knowledge edge, an understanding of the business or industry that may not be universal. Some companies are followed too well for us to differentiate ourselves in this fashion but we certainly try. Such due diligence may take the form of conversations with ex-employees, vendors, industry consultants, etc.

Our bigger picture efforts have helped us identify areas of opportunity, and it has assisted us in avoiding landmines. Knowing the Titanic is unsinkable does not keep it afloat after it's steered into an iceberg. We study the macro to avoid a similar fate.

The Fund finds opportunities in the following types of equities<sup>7</sup> that generally have market values in excess of \$10 billion, a subset of equities used in the CV strategy:

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<sup>7</sup> We invest in stocks that are generally greater than ~\$10 billion USD in market capitalization at the time of purchase. [We now have the ability to convert our typical 13G to a 13D filing. We can now add activism as a periodic *defensive* tool should the need arise. We expect 13D filings to be rare, but there have been times in the past when it would have been advantageous, and we expect that will be the case, on occasion, in the future.]

- Compounders – The world’s great businesses. Unquestionable competitive strength. Solid balance sheets. Shareholder-centric management. We think of these as infinite duration bonds with rising coupons.
- 3:1s – An investment in a business possibly of a lesser quality than that of a compounder, but still a good business and likely to have greater upside potential. We prefer to invest in these businesses when our assessment of the upside/downside (what we can make vs. what we can lose) has a ratio of 3:1 or better.
- Shorter-Term Opportunities – Identified catalyst(s) expected to have positive impact on the value of the underlying business and therefore its stock price. For example, operational turnarounds, balance sheet optimization, corporate action, etc.
- Sum of the Parts – The value of a company’s disparate parts significantly exceeds its current stock price.

We recognize that the Fund’s returns will be driven not just by what we own but also by what we do not own. The Fund’s cash weighting will increase when we do not find enough appropriate investments. That cash is a residual of our investment process rather than a remnant of our macro-thinking. Cash helps us protect the downside and gives us the ability to take advantage of future opportunities.

### **Fixed Income Objective**

The fixed income sleeve of the Fund will adhere to the principles of the FPA AFI strategy, which is designed to seek to deliver long-term excess real return with less volatility than the overall bond market. To that end, the strategy aims to generate (a) a positive total return on a rolling twelve-month basis and (b) a total return in excess of CPI + 100 basis points on a rolling five-year basis. This total return strategy seeks to achieve a combination of income and price appreciation with an emphasis on capital preservation.

### **Fixed Income Philosophy**

We do not like to lose money.

The AFI strategy is not a relative value strategy. Success or failure will not be measured relative to the performance of an index or a peer group, since losing less money than an index is still a loss. Moreover, we will not buy a bond hoping that a decrease in the bond’s spread or a decrease in interest rates will lead to price appreciation. Rather, our measure of value when investing in bonds will be whether a bond’s expected future cash flows adequately compensate us for taking on credit risk and duration risk on an absolute total return basis.

Fixed income is an episodic asset class that moves between extremes, with periods of high yield and low risk and periods of low yield and high risk. The AFI strategy has a flexible mandate that allows it to take advantage of the high-yield/low-risk environments while preserving capital during low-yield/high-risk environments. During the low-yield/high-risk environments, we will not reach for yield. Rather, in such periods, we will employ a disciplined investment process that focuses on capital preservation to seek to preserve investors’ buying power on a real basis for high-yield/low-risk periods.

To accomplish these goals, we adhere to the following principles:

- Absolute Return: We are absolute return investors, and each investment must meet our strict fundamental research and macroeconomic criteria, not just offer opportunity relative to other alternatives.
- Flexible Mandate: We do not bind ourselves to any one benchmark or index. Moreover, we do not have limitations in the types and duration of fixed income assets we may buy. In the absence of attractive investment opportunities, we hold cash. This flexibility is key to our ability to preserve capital and achieve our long-term objectives.
- Long-term Focus: Our investment time horizon is usually three to five years. We expect to hold our investments to maturity unless fundamental valuation parameters change. We are not speculators, and we adhere to a strict investment discipline.

- **Alignment of Interest:** We invest alongside our investors as partners in our process. As managers, we have significant amounts of our own capital invested in our strategy.
- **Strict Risk/Reward Parameters:** Risk of permanent loss is a critical element in our thinking, and so each investment must compensate for its unique risks while offering a margin of safety.
- **Independent Decision Making:** We do not follow the crowd. We are independent in our decision-making and are often viewed as contrarian in our strategy and execution.

### **Fixed Income Process**

Our process requires discipline, patience, intellectual rigor and a long-term view. We seek to invest in individual securities that adequately compensate us for the potential risk of permanent capital loss and that meet the objectives described above. We build our portfolio by starting with 100% cash, then add individual investments that meet our risk/reward criteria. As a result, cash is the residual of our investment process. Our investment flexibility allows us to invest only where we see value.

A bond (or any other type of fixed income investment) is a claim backed by an asset such as a business, real estate, etc. Not unlike an equity investment, the value of a bond depends on the value of the underlying asset. Our research process is focused on valuing assets and then understanding the value of our claim on those assets.

Bonds have an asymmetric return profile, since they do not fully participate in changes in the underlying asset's value. A bond may only partially participate in increases in the underlying asset value, with a bond's potential value capped at par. On the other hand, a bond may fully participate in decreases in asset value, with the potential for the bond to be worth zero. Due to the asymmetry in a bond's future value, we invest in bonds by preparing for the worst and hoping for the best. Since bonds have limited upside potential, our research process focuses on identifying the myriad of ways in which a bond could lose value. This process applies when ascertaining both credit risk and duration risk.

Credit risk is the risk of permanent loss of capital. Our investment process focuses on understanding whether the borrower has the willingness and ability to pay us back the money we are owed. When assessing the creditworthiness of borrowers, we research the value of the borrower's assets and the borrower's ability to generate cash flow, including anything that might impact asset value or the ability to generate cash flow such as secular trends; customer, competitor and supplier dynamics; and the regulatory environment. We also research the borrower's capital structure to understand how our claim on the borrower's asset value and cash flow can be reduced or impeded.

Duration risk is the risk of near-term price movements caused by changes in yield as a result of changes in Treasury rates or credit spreads. Consistent with our goal of low-volatility returns, we seek to buy bonds at prices that provide insulation from near-term movements in yields.

In applying our investment process to fixed income, we divide the bond market into two segments:

- **High-Quality - (Securities rated A- and above).** Price movement in high-quality bonds is closely linked to macroeconomic factors such as the level of interest rates and inflation, as well as economic cycles and monetary and fiscal policy. Nevertheless, though duration is a primary driver of returns (both near term and long term), we do not ignore credit risk. Instead, we seek to understand bond-specific and sector-specific credit risk. Our investment process seeks to identify high-quality bonds that meet our absolute return criteria of compensating us for the risk of permanent capital loss while also providing limited exposure to near-term price movements caused by macroeconomic factors.
- **Credit-Sensitive - (Securities rated BBB+ and below).** Price movement in credit-sensitive bonds is primarily linked to the credit quality of the issuer and the issuer's willingness and ability to meet its contractual interest and principal payments. As such, though we evaluate duration risk, we focus our research on understanding credit risk.

Finally, we ask ourselves whether the price of the bond is attractive on an absolute return basis, relative to the risk of permanent loss of capital, relative to duration risk and relative to inflation. We will only invest when we can buy at an attractive price.

### **Fixed Income Portfolio Construction**

We will target an allocation of 75% of the fixed income portfolio to high-quality assets and 25% in credit-sensitive assets. However, the actual allocation of the fixed income portfolio to high-quality assets may range from 67% to 100% of the fixed income portfolio, and the actual allocation to credit-sensitive assets may range from 0% to 33% of the fixed income portfolio. The actual allocation will depend on available investment opportunities and the timing of changes to the Fund's allocation between equity and fixed income. Specifically, because of our absolute return, long-term oriented approach to investing, we will only invest in credit-sensitive assets to the extent that we feel we are compensated for the risk of permanent capital loss and near-term price volatility. As such, in the absence of attractive credit-sensitive investment opportunities, we will allocate more of the portfolio to high-quality assets or hold more cash.

Separately, fixed income markets, particularly markets for credit-sensitive assets, have varying degrees of liquidity. Increases in the Fund's allocation to fixed income are thus most easily accomplished on a short-term basis by increasing the fixed income portfolio's allocation to high-quality assets. For example, starting with a 40% allocation of the Fund's assets to fixed income and assuming that 75% of the fixed income portfolio is invested in high-quality assets, if the Fund's allocation to fixed income were to increase to 50% of the Fund's assets, then this increase in the fixed income allocation would be most efficiently accomplished by investing in additional high-quality assets rather than credit-sensitive assets. Consequently, the fixed income portfolio's allocation to high-quality assets would increase from 75% of the fixed income portfolio to 80%, and the allocation to credit-sensitive assets would decrease from 25% of the fixed income portfolio to 20%. Similarly, decreases in the Fund's allocation to fixed income are most easily accomplished on a short-term basis by decreasing the fixed income portfolio's allocation to high-quality assets. Using the example above, if the Fund's allocation to fixed income were to decrease from 40% of the Fund's assets to 30%, then this decrease in the fixed income allocation would be most efficiently accomplished by selling high-quality assets rather than credit assets. As a result, the fixed income portfolio's allocation to high quality assets would decrease from 75% of the fixed income portfolio to 67%, and the allocation to credit assets would increase from 25% of the fixed income portfolio to 33%.

The fixed income portfolio's duration, sector allocation and yield are the cumulative result of the individual, bond-specific investment decisions made consistent with the process described above.

Unlike an open-ended fund, which needs to maintain liquidity for investor redemptions, we may take advantage of the lack of daily in/outflows due to the Fund's closed-end nature. So instead of holding cash and cash equivalents, we may instead opportunistically own more "illiquid" assets (as defined by the SEC) and more assets that have greater near-term price volatility (including, but not limited to, interest-only securities).

### **Fixed Income Portfolio Review**

We monitor each investment in the portfolio to ensure that its fundamental performance is consistent with our investment thesis. In addition, as interest rates and spreads change, we review each holding to ensure that it continues to offer us adequate compensation for credit risk and duration risk. To the extent that an investment's fundamental performance is inconsistent with our expectations and/or an investment no longer offers us adequate returns for the credit risk or duration risk we are taking, we will seek to reduce or eliminate our exposure to that investment.

### **Fund Asset Allocation**

The CV team will decide how much of the Fund will be invested in equities and fixed income securities, having made such asset allocation decisions for more than two decades. The amount invested in equities will be relatively similar to the equity exposure in the CV Strategy – a derivative of bottom-up equity investment decisions. For example, in a sharp market decline, the CV team may decide to take advantage of buying opportunities that may drive a different asset allocation, one more exposed to equities. The AFI team will have responsibility for investing the balance in fixed income securities.

## **Important Disclosures**

***You should consider the Fund's investment objectives, risks, and charges and expenses carefully before you invest. The prospectus details the Fund's objective and policies, an other matters of interest to prospective investors as well as existing shareholders. Please read the Fund's prospectus carefully before investing. You may obtain a copy of the prospectus by visiting the website at [www.sourcecapital.com](http://www.sourcecapital.com), by email at [crm@fpafunds.com](mailto:crm@fpafunds.com), or by calling toll free, 1-800-279-12412 (option 1).***

***Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. On December 1, 2015, a new portfolio management team assumed management of the Fund and the Fund transitioned to a balanced strategy. Performance prior to December 1, 2015 reflects the performance of the prior portfolio manager and investment strategy and is not indicative of performance for any subsequent periods.***

Investing in closed-end funds involves risk, including loss of principal. Closed-end fund shares may frequently trade at a discount or premium to their net asset value. In addition, there is no guarantee the Fund's investment objectives will be achieved. You should consider the Fund's investment objectives, risks, and charges and expenses carefully before you invest.

The views expressed herein and any forward-looking statements are as of the date of the publication and are those of the Portfolio Management Team. Future events or results may vary significantly from those expressed and are subject to change at any time in response to changing circumstances and industry developments. This information and data has been prepared from sources believed reliable, but the accuracy and completeness of the information cannot be guaranteed and is not a complete summary or statement of all available data.

Portfolio composition will change due to ongoing management of the Fund. References to individual securities are for informational purposes only and should not be construed as recommendations by the Fund or the Portfolio Managers. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the security examples discussed.

Value securities, including those selected by the Fund's portfolio managers, are subject to the risks that their intrinsic value may never be realized by the market and that their prices may go down. In addition, value style investing may fall out of favor and underperform growth or other styles of investing during given periods. Securities selected by the portfolio managers using a value strategy may never reach their intrinsic value because the market fails to recognize what the portfolio managers consider to be the true business value or because the portfolio managers have misjudged those values.

Stock markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. The Fund may purchase foreign securities, including American Depository Receipts (ADRs) and other depository receipts, which are subject to interest rate, currency exchange rate, economic and political risks; this may be enhanced when investing in emerging markets.

Interest rate risk is when interest rates go up, the value of fixed income securities, such as bonds, typically go down and investors may lose principal value. Credit risk is the risk of loss of principal due to the issuer's failure to repay a loan. Generally, the lower the quality rating of a security, the greater the risk that the issuer will fail to pay interest fully and return principal in a timely manner. If an issuer defaults the security may lose some or all of its value.

The return of principal in a bond investment is not guaranteed. Bonds have issuer, interest rate, inflation and credit risks. Lower rated bonds, callable bonds and other types of debt obligations involve greater risks. Mortgage-backed securities and asset-backed securities are subject to prepayment risk and the risk of default on the underlying mortgages or other assets.

Mortgage securities and collateralized mortgage obligations (CMOs) are subject to prepayment risk and the risk of default on the underlying mortgages or other assets; such derivatives may increase volatility. Convertible securities are generally not investment grade and are subject to greater credit risk than higher-rated investments. High yield securities can be volatile and subject to much higher instances of default. The

Fund may experience increased costs, losses and delays in liquidating underlying securities should the seller of a repurchase agreement declare bankruptcy or default.

S&P 500 Index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The index focuses on the large-cap segment of the market, with over 80% coverage of U.S. equities, but is also considered a proxy for the total market.

The MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 44 country indices comprising 23 developed and 21 emerging market country indices.

Indices do not reflect any commissions or fees which would be incurred by an investor purchasing the underlying securities. You cannot invest directly in an Index.