Economic & Capital Markets Outlook

BNY MELLON INVESTMENT STRATEGY & SOLUTIONS GROUP

SECOND QUARTER 2014

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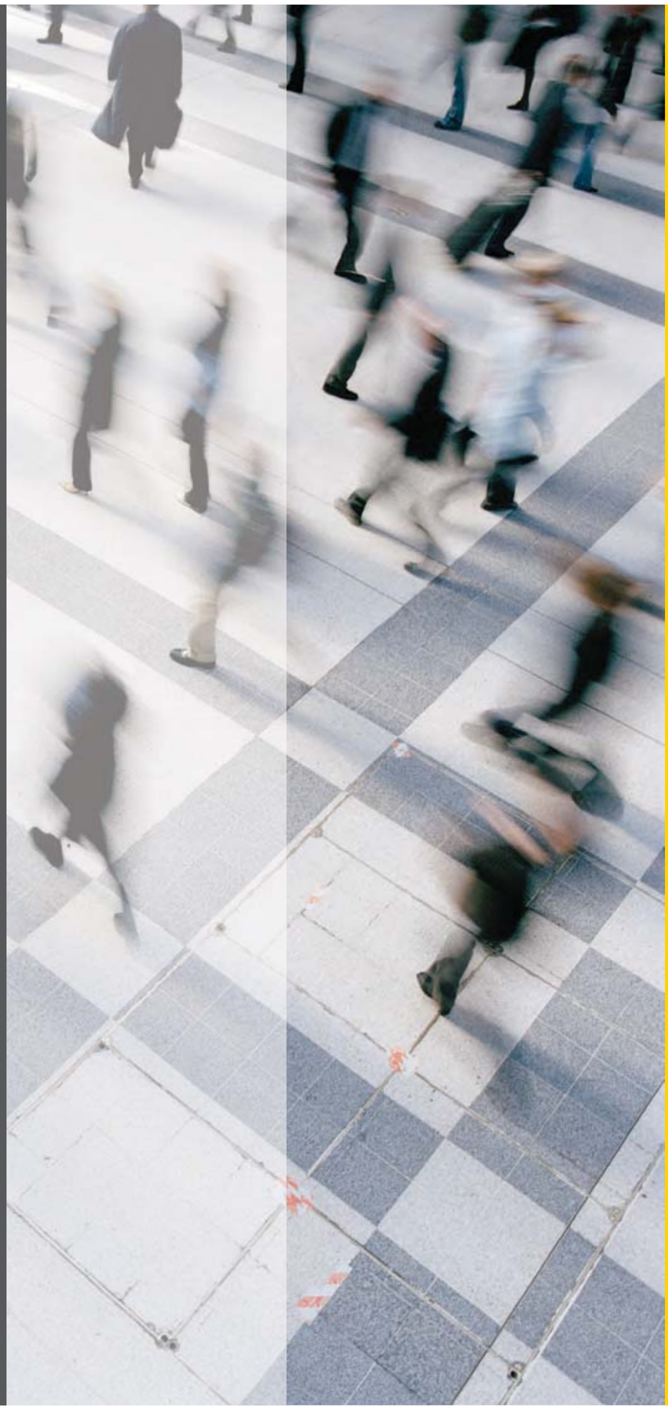


BNY MELLON

Executive Summary

ISSG CMC SUMMARY ASSET ALLOCATION

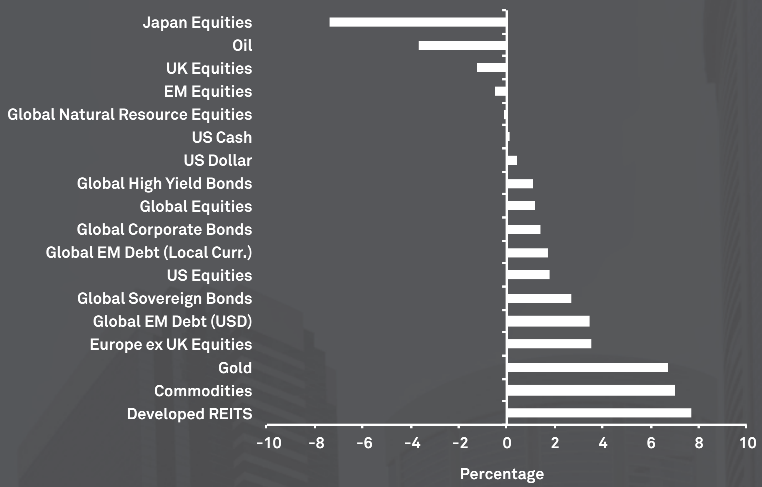
	Current	Benchmark
Global Equities	57%	50%
Global Bonds	43%	50%
Cash	0%	0%

- Risk assets taking pause amid transition from policy to fundamentals
- Rate normalization continues; Duration becoming less overvalued; watching credit valuations closely.

FIVE THINGS TO WATCH IN Q2 2014

1. Escalation of tensions in the Ukraine.
2. ECB action vs. deflation threat in the Eurozone.
3. US economic data for confirmation first quarter slowdown was weather related.
4. Japan wage and consumption data post VAT implementation on April 1st.
5. Signs of accelerating corporate or local government defaults in China.

FIG. 1: GLOBAL ASSET PERFORMANCE
% change over 3 months to 31/03/14

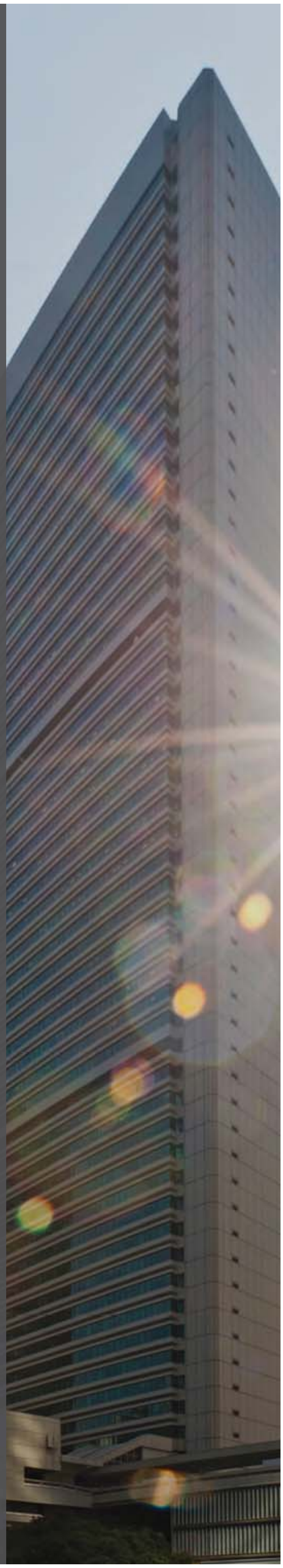


Source: Thomson Reuters Datastream & ISSG

ABOUT THE INVESTMENT & STRATEGY SOLUTIONS GROUP

The BNY Mellon Investment Strategy and Solutions Group (ISSG) partners with clients to develop thoughtful and actionable solutions to broad investment policy issues. We engage in an ongoing dialogue with our institutional clients to achieve a deep understanding of their concerns and needs. Harnessing the full depth and breadth of our global network of specialized investment boutiques across all asset classes and return/risk objectives, we help craft comprehensive strategies relevant for our clients' specific investment objectives and policies.

The ISSG Capital Markets Committee (CMC) governs asset allocation policy and assesses the market outlook for the global multi-asset strategies and solutions managed by ISSG.

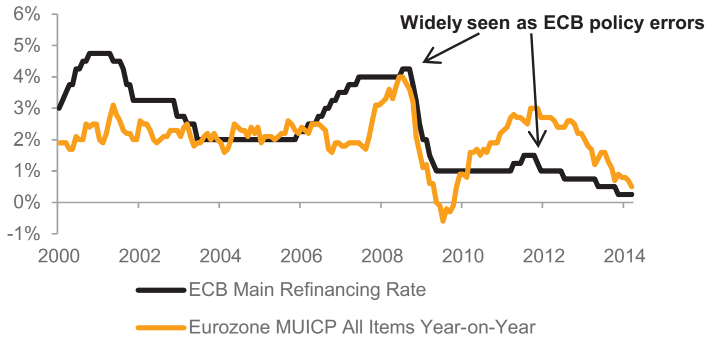


What We Are Watching

THEME	ISSG VIEW	ASSET CLASS IMPACT	RISKS TO VIEW	RECENT CONSIDERATIONS FOR ISSG VIEW
GLOBAL GROWTH	Expectations for global growth continue in an upward trajectory, with DM strengthening and EM weakening. Positive revisions to growth have taken a pause.	Should provide continuing momentum for developed market risk assets. Attractive relative valuations in developing markets are starting to attract capital.	Policy mistakes in the developed world and/or a disorderly end to loose monetary policy leaves EM economies with current account deficits exposed, and derails the current growth trajectory.	Less room for positive surprises in developed markets have moved risk assets closer to fair value in the face of future uncertainties.
GLOBAL INFLATION	Little concern about inflation in the US or in several parts of the emerging world. In Europe, inflation is low and still getting lower.	Whilst monetary policy remains a significant driver of market returns, inflation remains highly relevant to monetary policy setting.	Barbell of inflation risks: an unexpected inflation shock in the US as the central bank has over-estimated labour market slack, or a deflationary spiral in Europe.	Developed markets experiencing moderate downward revisions and emerging markets face continued upward pressure.
MONETARY POLICY	Significant differentiation in central bank views, with the ECB concerned about deflation, the US about asset bubbles and employment, China about private credit growth.	The volatility in EM assets resulting from the start of the tapering process seems to have finished and there are signs that it is starting to reverse. DM risk assets seem to be stable in the face of existing information.	Poor communications or revisions to forward guidance in the US; ECB unwillingness to consider QE; China moving either too fast or too slow in its tightening efforts.	Unexpected signs that the ECB is considering QE; occasionally unclear communications from the Federal Reserve suggesting that rates may be raised sooner than expected, but settle at a long-term lower level.
FISCAL POLICY	Japan tightens fiscal policy with a sales tax increase; elsewhere in the developed world, Fiscal policy remains a controversial and arguably under-used tool.	The impact of the Japanese sales tax increase is not yet fully known; a significant drop in economic activity, combined with other weak data from Japan may hurt risk asset prices.	Japanese wage increases are realized, consumption is unaffected and Japanese asset prices move higher rapidly given weak performance so far in 2014.	The demand pull forward ahead of VAT increase is creating noise around economic data that merits caution in the near term.
EMERGING MARKETS	Financial vulnerability combined with fundamentally sound macro-economics has created an attractive valuation opportunity in emerging market equities.	EM equities positioned to do well in a renewed global growth environment with rising inflation expectations.	There are no signs of second-round effects in EM financial systems, but a reduction in Chinese economic activity would reduce aggregate demand across Asia-Pacific economies	Recent economic data from China indicates a stabilization of growth, generating optimism throughout Asia-Pacific.
“TAIL RISK MONITOR”	Tensions in the Ukraine escalate, causing commodity price spikes in Europe; combined with core deflation in many Euro areas and ECB inactivity.	Globally, risk assets come under pressure as (rationally or irrationally) risk aversion increases.	Ukraine tensions ease, the ECB takes any necessary monetary policy action.	Our base case remains an easing of Ukraine tensions and orderly normalization of monetary policy in the US. ECB Monetary policy remains an unknown.

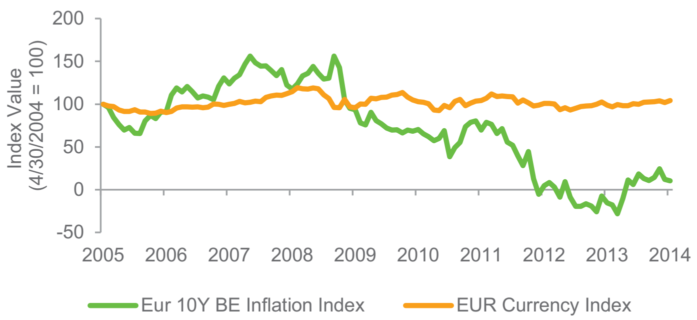
Key Charts: Economics And Markets

Fig. 2: ECB: Still making up for past mistakes



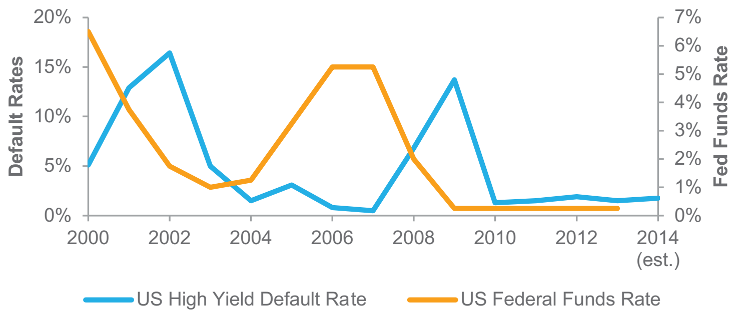
Central bank action and central bank credibility have played a critical role in the economic recovery. The ECB is generally seen as the most hawkish central bank, for a long time was insisting that price stability (and not economic performance) should be the only input into the policymaking process. Interest rate rises both during and after the financial crisis were widely seen as mistakes, and may have contributed to the deflationary state seen in much of Europe at the moment.

Fig. 3: Euro strength creating headwinds to economic growth



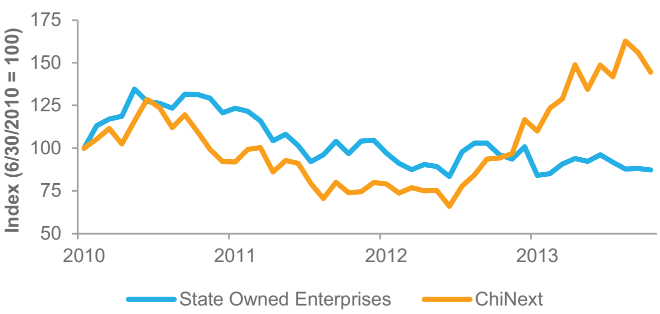
The search for yield, combined with the reduced threat of a dissolution of the Eurozone, has led to a surge in demand for European periphery sovereign debt. This, in turn, has led to a surge in demand for the Euro and has pushed the currency to highs not seen for some time. This Euro strength is harmful to the economy by damaging export demand and is one of the factors driving inflation to all-time lows. These factors – excess currency strength and very low inflation – arguably make a suitable backdrop for more aggressive monetary or credit easing.

Fig. 4: Do rising rates equal rising defaults?



Similar to the above comments around European peripheral debt, the global search for yield has also driven demand for higher yielding credit. The combination of very low interest rates and tight credit spreads has potentially allowed corporate borrowers – including those at risk of default – to borrow at low cost and therefore stay solvent. There is some evidence of this in the unnaturally low default rates seen over the last four years. Rising interest rates may remove the prop that has been allowing these companies to stay afloat, and increase default rates.

Fig. 5: EM: Attractive valuation or get what you pay for?



The relative valuation of the broader emerging market complex has attracted capital in hopes of capturing above average growth at below average valuations. Yet, consistent with our theme that emerging markets need to be thought of in a more differentiated fashion, a large portion of the relative valuation of emerging markets is being driven by state owned enterprises. These companies have different dynamics than non state-owned enterprises, and may suffer rather than benefit from structural reform. They therefore may merit a lower valuation given their potentially limited return on equity and invested capital.

Figure 2 Source: Source: Eurostat; Jan 2000 – Jan 2014
Figure 3 Source: Source: Bloomberg; May 2005 – Mar 2014
Figure 4 Source: Fitch, Bloomberg; 2000 – 2014; Estimate Source: Fitch
Figure 5 Source: Bloomberg; Jun 2010 – Mar 2014

ISSG Global Heatmaps

Fig. 6: ISSG Global Macroeconomic Heat Map

Global Macroeconomic Heatmap (Last 3 years as of 03/04/14)	Inflation	Inflation Revisions	Growth (PMI)	Growth Revisions	Monetary Policy	Surprise vs. Consensus	Company Earnings
United States	1.1%	-0.5%	53.7	0.1%	0.0	-41.8	-1%
United Kingdom	1.7%	-0.1%	55.3	0.9%	-0.4	25.3	-30%
Eurozone	0.5%	-0.7%	53.0	-0.1%	-0.1	-9.0	12%
Japan	1.5%	0.5%	53.9	0.5%	-0.3	-50.4	-4%
Brazil/Latam	5.7%	0.4%	50.4	-1.6%	0.9	17.3	3%
Russia/CEEMEA	6.2%	-0.1%	48.3	-1.9%	0.1	66.0	-6%
India/Asia Pacific	4.7%	1.5%	51.3	-1.5%	0.2	-39.0	-7%
China	2.0%	-0.5%	50.3	-0.7%	0.2	-108.2	14%

This heat map is designed to display a wide spectrum of macroeconomic trends across the major global regions over the past three years. Green and red shading indicate what we believe to be positive and negative levels, respectively, of the indicated variables; while green and red borders indicate positive and negative changes over the last quarter. Yellow shading indicates neutral readings. The time series lines are shown merely for ease of comparing trends, and are not meant to convey any particular values or levels. See appendix for series definitions and sources.

This quarter's Macroeconomic Heat map (Fig 6) continues to exhibit a divergence in economic growth momentum between mature and developing economies. Not surprisingly, US economic surprises have shown a negative trend given the severe weather in the first quarter, which has led to economic reports which are below expectations. A key to the second quarter and beyond will be clear signs of positive economic data which supports the idea that the slowdown in the US has, in fact, been weather related. Beyond the US, Japanese economic data has been failing to meet expectations as well. In addition to tough economic comparisons from 2013, Japan is also dealing with accelerated demand that has been pulled forward ahead of the implementation of the VAT on April 1, 2014. The optimism around upcoming Indian elections combined with inflation expectations being revised down is leading towards positive growth revisions in the Indian economy. An election victory for a market friendly party may lead to further positive revisions and realization of attractive valuations in the country.

Fig. 7: ISSG Global Correlation Heat Map

Global Correlation Heatmap (Last 3 years as of 03/04/14)	World Equity	EM Equity	DM Bonds	EM $ Bonds	DM IG Corps Hedged	DM HY Corps Hedged	Commod	Dollar
World Equity	14.8%	0.80	-0.39	0.44	-0.06	0.61	0.50	-0.37
EM Equity		15.6%	-0.29	0.56	0.09	0.66	0.53	-0.38
DM Bonds			2.8%	0.19	0.71	-0.09	-0.21	0.01
EM $ Bonds				7.8%	0.46	0.69	0.35	-0.34
DM IG Corps Hedged					3.7%	0.45	-0.02	-0.07
DM HY Corps Hedged						6.3%	0.40	-0.30
Commod							15.4%	-0.46
Dollar								7.1%

The Global Correlation Heatmap is designed to convey levels and changes in correlation and volatility numbers across major asset classes. Numbers in the unshaded cells represent the current exponentially weighted volatility level, with green and red fonts representing low and high levels relative to a time-weighted 3 year mean. The lower left half of the Heatmap, displaying exponentially-weighted weekly correlation pair data for the last 3 years, is included to allow users to compare trends and is not meant to convey any particular values or levels. The upper right half of the Heatmap reflects the current observation for the same data series. Green and red shading indicate what we believe to be low and high levels, respectively, of the current observation relative to a time weighted 3 year mean, while green and red borders indicate a significant decrease or increase over the last quarter.

The Global Correlation Heat map (Fig 7) exhibits a few interesting developments over the last quarter. Given the movement and concern over rising interest rates around the world, duration continues to dominate the fixed income landscape as exhibited by the rising correlation of developed market sovereign bonds and developed market investment grade bonds – hedged. On the positive side, lower correlations between emerging markets and global equities may be indicating that emerging market equities are resuming their diversification role in investment portfolios. Related to that point, the correlation between commodities and emerging market equities has also been in decline. The decline in correlation between emerging market equities and commodities is one that we are watching closely as it may indicate a transition within developing nations away from economic growth driven by fixed capital formation and towards growth driven by consumption.

Economic Outlook

Though developed economy economic growth seems to be on a long-term improving trend (Fig 8), we saw some reversals in the first quarter of this year. Severe weather meant that there was uncertainty over the reliability of economic indicators in the US, as well as much debate over the situation in US labour markets. In Asia-Pacific, credit cycles amongst many of the more advanced economies appear to have peaked, with capital inflows declining and corporate leverage at elevated levels. The geopolitical situation in the Ukraine, and the future trajectory of Chinese growth, remain unresolved questions and subject to much debate.

One interesting development thus far in 2014 has been a decoupling of central bank policies. In the developed world, the US is relatively ahead of the curve, already starting to curtail its monetary stimulus. In second place is Japan, which has a QE program in place but seems more likely to expand rather than reduce it. Finally there is Europe, where (although the LTRO program of 2011 had QE-like characteristics), no formal bondbuying program has yet been announced. We also see China managing a different challenge, attempting on the one hand to moderate credit growth, manage quality-of-life issues such as air pollution, and control industrial overcapacity, whilst on the other hand avoiding a rapid slow-down or higher unemployment.

Whilst global growth continues to head higher, global inflation remains well anchored (Fig 9). Yet, unlike revisions to global growth, revisions to global inflation expectations are trending lower lead by the Eurozone, Japan, and BRICs (Fig 10). The issue is most acute in the Eurozone where recent inflation readings were amongst the lowest in years and have the ECB poised to inject additional liquidity into the region or even take action via other non-traditional methods. Should inflation in the Eurozone continue at such low levels, or even dip lower, the ECB may be forced to intervene in order to defend against a deflationary spiral in the region. Adding a layer of complexity to this situation has been the recent strength in the Euro which appears to be driven by demand for the Euro as global investors look for yield in the form of periphery country debt. A strong Euro provides a headwind to the export competitiveness of the region and potentially increases deflationary pressures.

After being one of the best performing countries in 2013, Japan has started off 2014 in disappointing fashion by finishing the first quarter down approximately 9% in local currency terms. In addition, looking at our breakdown of regional revisions (Fig 10) Japan is seeing negative revisions to both growth and inflation. Whilst tough economic comparisons are one factor driving negative revisions, the bigger issue that we are watching closely is the effect of the Value Added Tax (VAT) which took effect on April 1st. Recent economic data from Japan still indicates a cautious stance. Keys things to watch in Japan in the coming months will be signs of real wage increases from ongoing labor negotiations and/or additional stimulus from the Bank of Japan.

Fig. 8: Expected Global Growth and Growth Revisions

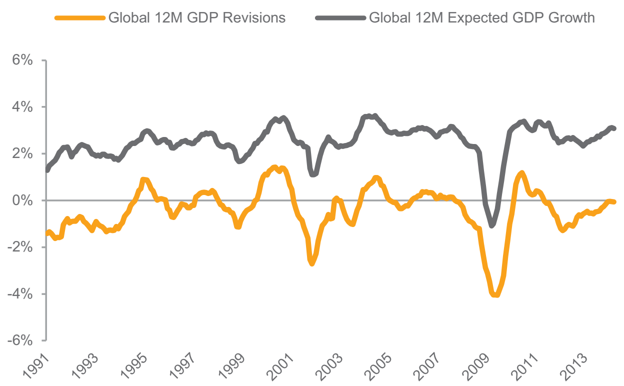


Fig. 9: Expected Global Inflation and Inflation Revisions

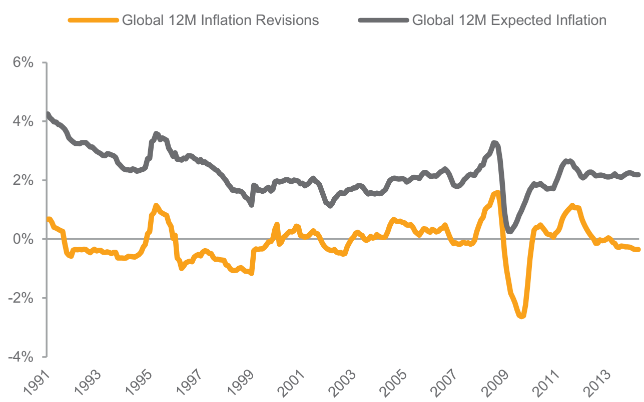


Fig. 10: Quarterly Regional Revisions for Growth and Inflation

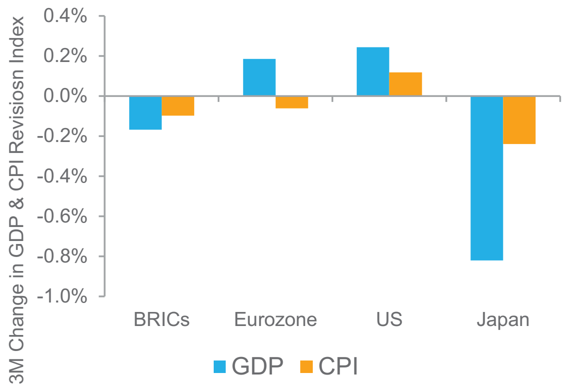
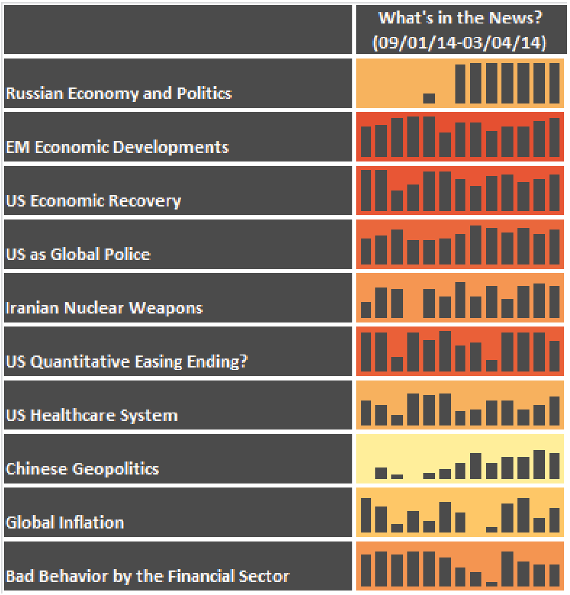


Figure 8, 9, & 10 Source: ISSG, Datastream, and Consensus Economics as of 31 March 2014.

Economic Outlook, *continued*

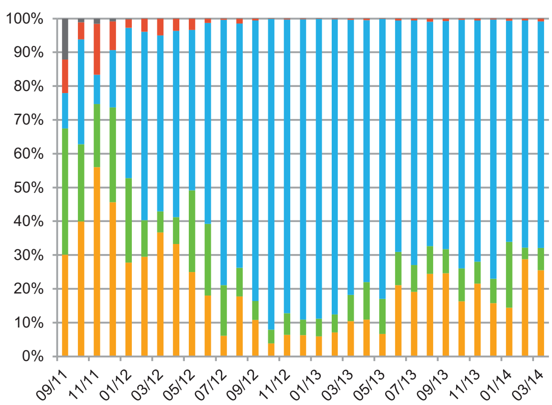
Fig. 11: Global Headline Hotlist



The above graphic shows the top ten most mentioned themes that are relevant to financial markets in order of their ranking on April 3rd, 2014. The bar height shows the frequency of the coverage of each theme in the news for each of the last 13 weeks, with the furthest right bar representing the most recent ranking. The color of the background denotes the average intensity over the past quarter. Using financial media and influential blogs identified by multiple teams at BNY Mellon, those stories are used to highlight the hottest topics each week across over 3,000-6,000 news items. Story summaries are classified using a Bayesian classifier which is trained on stories from the last six months. Training stories are manually tagged and classified by a senior strategist.

Source ISSG as of March 2014.

Fig. 12: RBAA* Regime Probabilities



Source ISSG as of 31 March 2014.

Looking at this quarter's Headline Hotlist (Fig 11) it is not surprising to see that Emerging Markets occupy the top two spots. In particular, the events that have taken place in the Ukraine over the last few months have pushed the Russian Economy into the top position in terms of news concentration. The situation in the Ukraine continues to be one of the items that we are most closely watching.

There are two critical components to the events in the Ukraine that could have far reaching effects on capital markets. The first component relating directly to an expanding geopolitical risk premium in emerging markets that put additional downward pressure on the asset class. The second component involves the inflationary effects that an escalation in the Ukraine could have on global markets. The Ukraine is one of the largest exporters of wheat in the world. In addition, much of the energy, in the form of natural gas and/or oil, that European countries require flows through the Ukraine. Should there be a persistent supply shock to energy prices in Europe as a result of a Ukrainian escalation, it may increase the probability of a pre-mature tightening of monetary policy by the ECB to control inflation at exactly the wrong time. Finally, a shock to global wheat supplies may also put upward pressure on global inflation expectations as well.

China continues to dominate the landscape of Emerging Markets beyond the events in the Ukraine. Economic data in the world's second largest economy continued to be mixed throughout the first quarter. Despite the affirmation by the Chinese government that the targeted rate of economic growth remains 7.5%, global investors seem to be becoming more skeptical that the targeted level is sustainable. The effects and timing of the Lunar New Year in the first quarter make the economic data hard to compare. As a result, we expect that any economic data out of China going forward will be heavily scrutinized as will any signs of additional policy action by the PBOC.

In addition to the rate of growth in China, any additional signs of distress in the "shadow" banking system will most likely lead towards a sell off in the country and potentially other countries. The default of a Chinese corporate bond in March has caused an increased level of angst amongst global investors as to more potential problems in the corporate bond markets of developing countries. Slowing Chinese growth rates may accelerate defaults in credit markets and ultimately be an impetus to a broader sell off in credit markets.

The ISSG Regime Probabilities* (Fig 12) continue to exhibit a rising probability of a Warming regime whereby revisions to both growth and inflation expectations are increasing. The combination of a steep yield curve, which favors a strong lending environment, and a global economy the continues to stabilize and improve in terms of demand are the major drivers behind the increasing probability of a Warming regime. More importantly, the combined probability of a "tail" regime in the form of a Too Hot or Too Cold regime remains extremely low. The end result is a high probability of a regime which is favorable to risk assets.

*Regime Based Asset Allocation (RBAA) is a proprietary asset allocation model created by the ISSG which considers asset returns in the context of regimes created by underlying changes in growth and inflation expectations. Contact the ISSG for detailed information on this research. Please see appendix for information regarding regime categories.

Asset Class Outlook

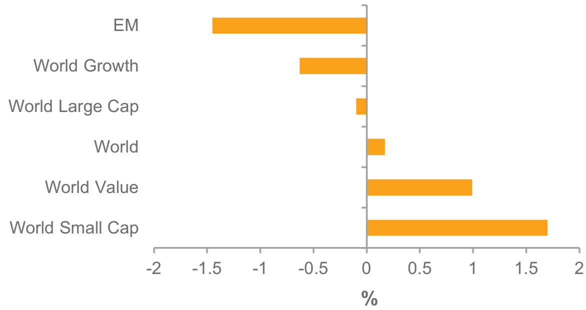
Global Equity Markets:

	ISSG CMC View	Valuation Model	Momentum Model	RBAA Model
U.S. Equity	Overweight	Favorable	Neutral	Favorable
	As expected, in March the US central bank removed its quantitative guidance for monetary policy normalization in favor of more “qualitative” assessments. This has left US equity markets uncertain about the path of future policy and in search of a new “anchor” for asset prices. While uncertain, policy remains accommodative and valuations are reasonable. We are closely watching for positive economic surprises to support a weather related slowdown as opposed to something more serious.			
Europe ex UK Equity	Underweight	Favorable	Neutral	Favorable
	Despite the possibility of additional monetary stimulus from the ECB, the threat of low inflation from lack of demand remains a key concern; especially with a strong Euro acting as a headwind for export strength. Headline risk around the AQR in the next several months adds to our concerns and reason to be underweight.			
Pacific ex Japan Equity	Neutral	Favorable	Favorable	Favorable
	While valuations remain attractive, there is still large exposure to commodities that are in the process of adjusting to excess supply. This point has given our committee reason to move to a neutral position despite attractive valuations in the region.			
Japan Equity	Neutral	Favorable	Unfavorable	Unfavorable
	Japan is one of the worst performing asset classes in 2014 after a very strong 2013. The underperformance relative to global equities begins to make the valuation attractive. Yet, we are waiting for resumption of positive economic data and wage gains after the implementation of restrictive fiscal policies on April 1st of this year.			
UK Equity	Neutral	Favorable	Neutral	Favorable
	An increase in demand against depleted inventories combined with a pause in fiscal retrenchment has led to strong economic momentum. We are watching monetary policy closely as the UK approaches the 7% unemployment rate. With inflation running at low levels in Europe broadly, we are cautious on the chance of premature monetary tightening.			
EM Equity	Overweight	Favorable	Favorable	Favorable
	The divergence between developed and developing countries has continued into 2014. Within emerging markets we are mindful of a divergence in valuations between state owned entities (SOE's) and private enterprises. With central bank credibility improving and attention on differentiating between countries and regions, we remain overweight the asset class.			
REIT Equity	Underweight	Neutral	Favorable	Favorable
	A lack of investor confidence in risky assets over the past few years increased the desirability of investments which were perceived to be "real" assets, or which provided a high and relatively stable level of income. REITs were a beneficiary of these trends, but as bullish sentiment now develops, their earnings multiples and valuations appear stretched relative to other equities.			
Global Natural Resource Equity	Neutral	Favorable	Favorable	Neutral
	The commodities complex appears to be stabilizing as “worst case scenarios” around Chinese economic growth are reduced in probability. These equities stand to benefit should this trend continue given their relative valuations. We remain neutral while waiting for signs of further acceleration in both Chinese and global growth.			

Fig. 13: ISSG CMC Global Asset Class Views

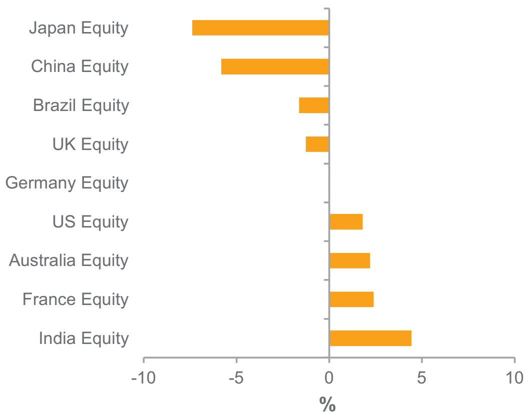
ASSET CLASS	*ISSG VIEW*
Global Equities	+7.0%
U.S.	O/W
Europe Ex U.K.	U/W
Pacific Ex-Japan	Neutral
Japan	Neutral
U.K.	Neutral
EM	O/W
REITS	U/W
Global Natural Res.	Neutral
Global Bonds	-7.0%
U.S. Sovereign Debt	U/W
U.K. Sovereign Debt	U/W
Japanese Sovereign Debt	U/W
German Sovereign Debt	U/W
High Yield	Neutral
U.S. IG Corp. Bonds	Neutral
EM Local Cur. Debt	Neutral
EM USD Sovereign Debt	Neutral
Cash	+0.0%

FIG. 14: GLOBAL EQUITY INDEX PERFORMANCE
% change vs MSCI AC World Index over 3 months to 31 Mar 14



Source: Thomson Reuters Datastream & ISSG

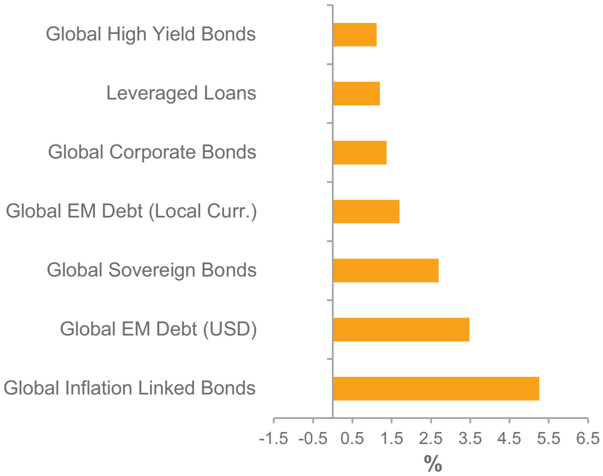
FIG. 15: COUNTRY INDEX PERFORMANCE
% change over 3 month to 31 Mar 14



Source: Thomson Reuters Datastream & ISSG

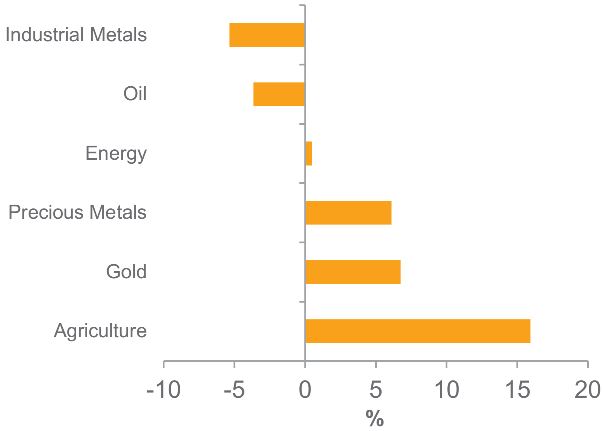
Asset Class Outlook, *continued*

FIG. 16: FIXED INCOME PERFORMANCE
% change over 3 months to 31 Mar 14



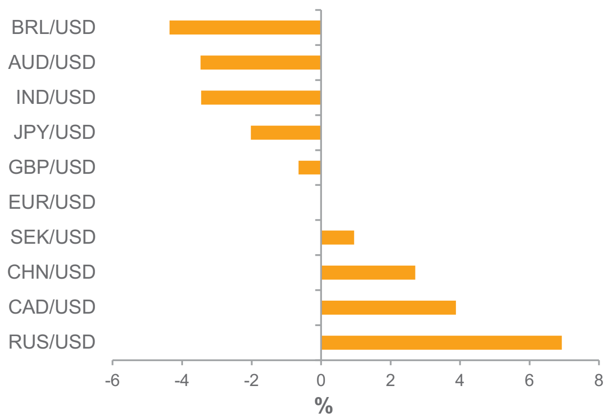
Source: Thomson Reuters Datastream & ISSG

FIG.17: COMMODITIES PERFORMANCE
% change 3 month to 31 Mar 14



Source: Thomson Reuters Datastream & ISSG

FIG. 18: FX CURRENCY PAIRS
% change 3 months to 31 Mar 14



Source: Thomson Reuters Datastream & ISSG

Global Bond Markets:

	ISSG CMC View	Valuation Model	Momentum Model	RBAA Model
Developed Sovereigns	Underweight	Unfavorable	Unfavorable	Unfavorable
	Rates remain in an upward trend, driven both by improving economic outlooks globally and the recent start of "tapering" in the US. Developed sovereign bonds have moved further away from overvalued but we believe rate normalization will continue.			
High Yield	Neutral	Unfavorable	Favorable	Unfavorable
	We continue to watch higher yielding credit carefully given low default rates, very tight spreads, and increasing issuances of covenant lite debt. This fact, combined with our preference for spread instead of duration keeps us neutral.			
Investment Grade Corporate Bonds	Neutral	Unfavorable	Unfavorable	Unfavorable
	We have moved to a neutral position within IG corporate debt. The combination of slightly less duration than aggregate bonds and a small spread make this asset class attractive relative to pure sovereign bonds.			
Emerging Markets - Local	Neutral	Favorable	Neutral	Neutral
	Emerging Market Local Currency debt remains an exotic asset class to many investors, and as such relative yields are still attractive. However, most EM currencies cannot be hedged, and therefore this asset class will come with the potential for significant currency volatility that may in some cases dominate the yield pick up. Improving global growth prospects should provide a more constructive backdrop for this asset class at later points in this cycle.			
Emerging Markets - USD	Neutral	Unfavorable	Favorable	Neutral
	We have moved to a neutral in USD EM debt as well. We are growing more cautious. Inflationary pressures, combined with the potential need to defend currencies from capital outflows leave little policy room to support growth should it deteriorate sharply. However, 2014 may see political windfalls and reform in some key EM economies (India, Brazil, Mexico), boosting returns through lower credit spreads.			
Cash	Neutral	N/A	N/A	N/A
	We have eliminated our cash overweight. The recent pick up in long term yields changes the relative value of holding cash versus fixed income spread products.			

COMMODITIES

Geopolitical events and weather related effects have plagued commodity markets through the first quarter of 2014 and their longer term effects are still unclear. Drought conditions in Brazil are causing both sugar and coffee prices to soar. Those same conditions are also affecting expectations for wheat supplies, as are the tensions in the Ukraine, one of the world's largest wheat exporters. Ukraine worries are also affecting natural gas and crude oil prices into Europe. Base metals appear to be stabilizing in anticipation of stronger Chinese growth. We expect downward pressure on natural gas through the Spring injection season as temperatures warm but not so much that air conditioning demand picks up in the US. Gasoline inventories in the US may tighten ahead of the summer driving season.

CURRENCIES

The Euro remains front and center in currency markets. The strength of the Euro has taken many market observers by surprise, including the ECB. A Euro/USD in the range of 1.40 to 1.45 is a range where ECB intervention may increase in probability.

Please see appendix for further information.

Performance Monitor

FIG. 19 : CAPITAL MARKETS
% change over 1 year to 31 Mar 14

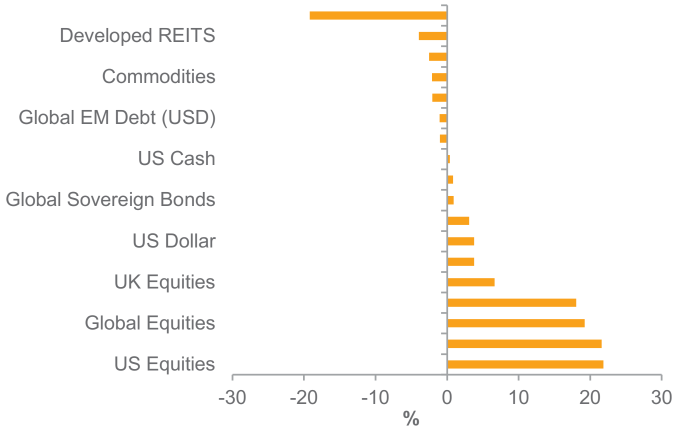


FIG. 20: EQUITY COUNTRY INDEX PERFORMANCE
% change over 1 year to 31 Mar 14

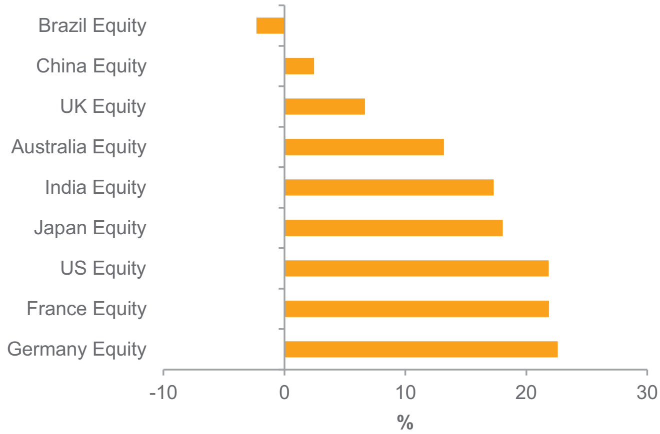


FIG. 21: GLOBAL EQUITY PERFORMANCE
% change vs MSCI World Index over 1 year to 31 Mar 2014

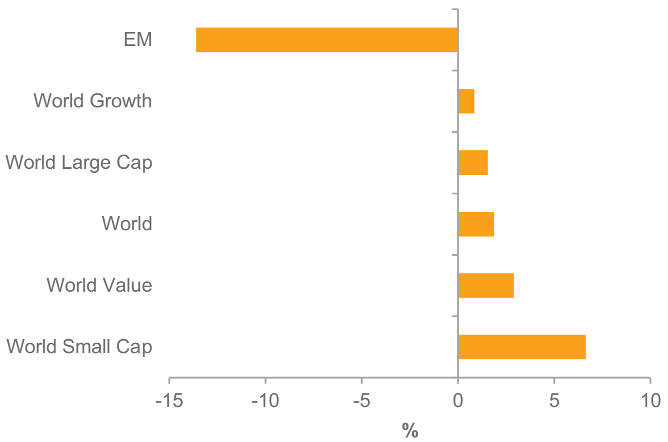


FIG. 22: FIXED INCOME PERFORMANCE
% change over 1 year 31 Mar 14

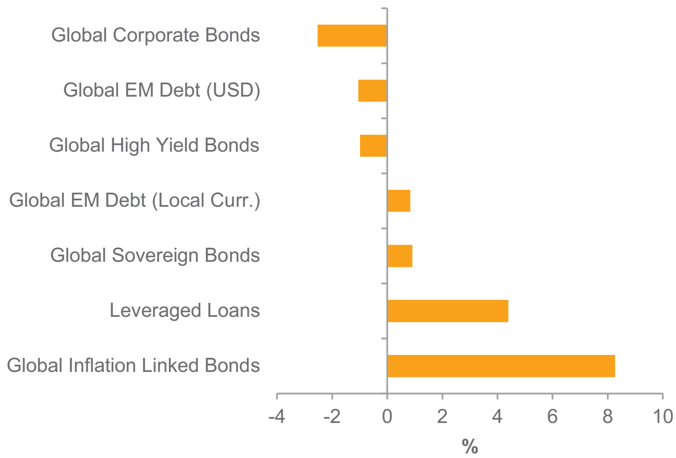


FIG. 23: COMMODITIES PERFORMANCE
% change 1 year to 31 Mar 14

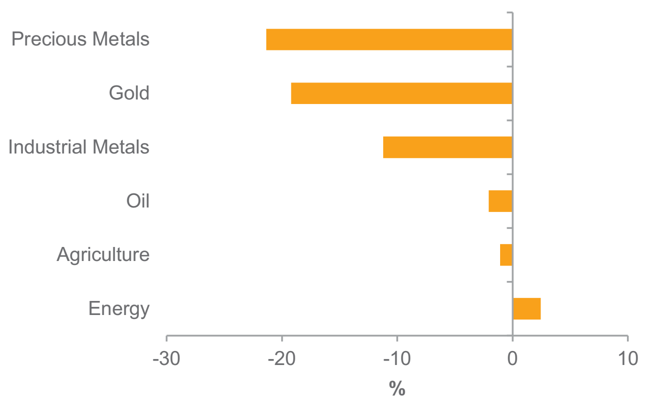
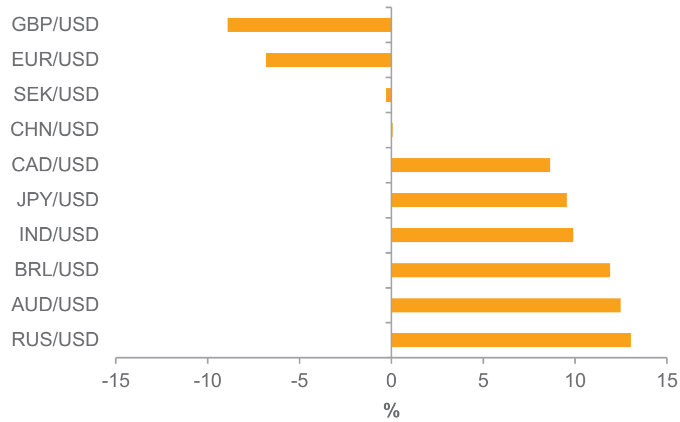


FIG. 24: FX CURRENCY PAIRS
% change 1 year to 31 Mar 14



Source for all charts: Thomson Reuters Datastream & ISSG

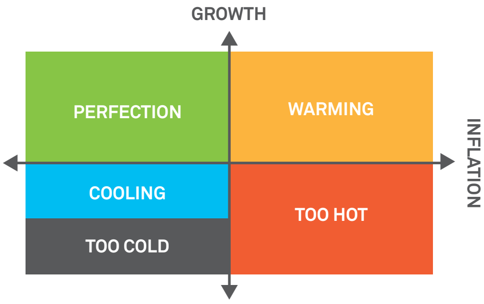
Appendix & Disclosures

ASSET	INDEX	DEFINITION
Commodities	Dow Jones UBS Commodities Index Total Return (USD Index)	The Dow Jones UBS Commodities index is an index that tracks the performance of broad based commodities.
Gold	Gold Bullion LBM USD/ozt	Tracks the performance of gold bullion spot prices.
Oil	Brent Crude Month FOB USD/BBL	Tracks the performance of Brent Crude Oil spot prices.
Global Sovereign Bonds	JPM Global GBI (USD Index)	Tracks the performance of global sovereign bonds.
Developed Sovereigns		US, UK, Japan, and German Sovereign Debt securities
US Equity	S&P 500 (USD Index)	Tracks the performance of 500 of largest market capitalization equities in the United States.
US Cash	JPM US Cash Index (3M) (USD Index)	Tracks the performance of US 3 month treasury bills.
US Dollar	JPM USD Index Real Broad	Tracks the performance of the US Dollar against a basket of broad currencies.
Global Corporate Bonds	Barclays Global Agg Corp (USD Index)	Tracks the performance of aggregate corporate bonds.
Developed REITS	FTSE E/N Dev REITS (Local Currency)	Tracks the performance of global real estate investment trusts in developed markets.
Global Natural Resource Equities	S&P Gbl Nat Resource Equities (USD Index)	Tracks the performance of global equities linked to natural resources.
Global Investment Grade Bonds	Barclays Inv Grade Corporates (USD Index)	Tracks the performance of aggregate investment grade corporate bonds.
Global Inflation Linked Bonds	Barclays Global Agg Infl-Lkd (USD Index)	Tracks the performance of global inflation linked bonds.
Global High Yield Bonds	Barclays Global High Yield (USD Index)	Tracks the performance of global high yield bonds rates below investment grade.
Global Equities	MSCI World (LC Index)	Tracks the performance of developed market global equities.
MSCI AC World	MSCI AC World Index	Tracks the performance of developed market global equities
Global EM Debt (USD)	JPM EMBI Global Composite (USD Index)	Tracks the performance of dollar based emerging market sovereign bonds.
EM Equities	MSCI Emerging Markets (LC Index)	Tracks the performance of emerging market equities.
UK Equities	FTSE 100 (LC Index)	Tracks the performance of equities domiciled within the United Kingdom.
Europe Ex UK Equities	MSCI Europe ex UK (LC Index)	Tracks the performance of equities domiciled in Europe and not including the UK.
Japan Equity	MSCI Japan (LC Index)	Tracks the performance of equities domiciled in Japan.
Pacific Ex Japan Equity	MSCI Pacific ex Japan (LC Index)	Tracks the performance of equities domiciled in the Asia - Pacific region but not including Japan.
Germany Equity	DAX 30 (LC Index)	Tracks the performance of 30 of largest equity market capitalization companies in Germany.
Eurozone Equity	EuroStoxx 50 (LC Index)	Tracks the performance of 50 of largest equity market capitalizations in the Eurozone.
France Equity	CAC 40 (LC Index)	Tracks the performance of 40 of the largest equity market capitalizations of France.
Australia Equity	ASX All Ordinaries (LC Index)	Tracks the performance of the largest equity market capitalizations of Australia.
Brazil Equity	MSCI Brazil (LC Index)	Tracks the performance of the equities domiciled in Brazil.
India Equity	MSCI India (LC Index)	Tracks the performance of equities domiciled in India.
China Equity	MSCI China (LC Index)	Tracks the performance of equities domiciled in China.
World Growth	MSCI World Growth (LC Index)	Tracks the performance of growth oriented equities as defined by MSCI.
World Large Cap	MSCI World Large Cap (LC Index)	Tracks the performance of large equity market capitalization companies.
World Value	MSCI World Value (LC Index)	Tracks the performance of value oriented equities as defined by MSCI.
World Small Cap	MSCI World Small Cap (LC Index)	Tracks the performance of small equity market capitalization companies.
Leveraged Loans	S&P Leveraged Loan Index (USD Index)	Tracks the performance of leveraged loans.
Global EM Debt (Local Curr.)	JPM GBI Emerging Markets (USD Index)	Tracks the performance of local currency denominated emerging market bonds.
Agriculture	S&P GSCI Agriculture Total Return (USD Index)	Tracks the total return performance of agricultural commodity futures.
Precious Metals	S&P GSCI Precious Metals Total Retn	Tracks the total return performance of futures for precious metals related futures.
Industrial Metals	S&P GSCI Industrial Metals Total Retn (USD Index)	Tracks the total return performance of futures for industrial metals related commodities.
Energy	S&P GSCI Energy Total Return (USD Index)	Tracks the total return performance of futures for energy related commodities.
EUR/USD	EUR/USD	Tracks the performance of the Euro / US Dollar exchange rate.
RUS/USD	RUS/USD	Tracks the performance of the Russian Ruble / US Dollar exchange rate.
CHN/USD	CHN/USD	Tracks the performance of the Chinese Renminbi / US Dollar exchange rate.
SEK/USD	SEK/USD	Tracks the performance of the Swedish Krona / US Dollar exchange rate.
GBP/USD	GBP/USD	Tracks the performance of the British Pound / US Dollar exchange rate.
AUD/USD	AUD/USD	Tracks the performance of the Australian Dollar / US Dollar exchange rate.

ASSET	INDEX	DEFINITION
BRL/USD	BRL/USD	Tracks the performance of the Brazilian Real / US Dollar exchange rate.
CAD/USD	CAD/USD	Tracks the performance of the Canadian Dollar / US Dollar exchange rate.
IND/USD	IND/USD	Tracks the performance of the Indian Rupee / US Dollar exchange rate.
JPY/USD	JPY/USD	Tracks the performance of the Japanese Yen / US Dollar exchange rate.
EUR FX		Tracks the performance of the Euro / US Dollar exchange rate.
GBP FX		Tracks the performance of the British Pound / US Dollar exchange rate.
JPY FX		Tracks the performance of Japanese Yen / US Dollar exchange rate.
EM FX		Tracks the performance of a basket of Emerging Markets currencies versus the US Dollar.
US 10Y Yield		Tracks the performance of the yield on the 10 year US treasury note.
Inflation	Headline Consumer Price Index	Tracks the performance of inflation as reported by respective national economic statistics bureaus.
Growth (PMI)		Tracks the performance of purchasing managers indices in each country to proxy GDP growth.
Surprise vs. Consensus	Citigroup Economic Surprise Index	A measure of economic data reported versus expectations created by Citigroup.
Company Earnings		A proprietary diffusion index of positive and negative analyst earnings estimate revisions.
Monetary Policy		Derived from the futures curve for short term interest rates as indicative of central bank policy.
Inflation Revisions		A proprietary measure of cumulative economist revisions for future levels of inflation in a country.
Growth Revisions		A proprietary measure of cumulative economist revisions for future real economic growth in a country.
ECB Main Refinancing Rate		Tracks the minimum bid rate that banks in the Eurozone have to pay when they borrow money from the European Central bank (ECB).
Eurozone MUICP All Items		Tracks the annual changes in the Monetary Union Index of Consumer Prices for the countries in the European Monetary Union. Calculated by taking the weighted average of inflation of each country in the monetary union.
Inflation	Euro 10Y BE Inflation Index	Tracks the monthly changes in 10 year expected inflation rates in the Eurozone.
Euro Currency	EuroCurrency Index	Tracks the monthly changes in the EUR / USD spot currency exchange rate.
US High Yield Default Rate		Tracks the expected bond default rates within the US High Yield bond market.
US Federal Funds Rate		Tracks the level of the US Federal Funds Rate which is the interest rate at which depository institutions actively trade balances at the Federal Reserve of the United States on an overnight and uncollateralized basis.
State Owned Enterprises	CSI State-Owned Enterprises Composite Index	Consists of all the local state owned enterprises at Shangahi and Shenzhen stock exchanges, which aims to reflect the performance of all local state-owned listed companies.
ChiNext	ChiNext board index	ChiNext is an independent market in China, offering a platform for the needs of enterprises engaged in independent innovation and other growing venture enterprises. The ChiNext board indices comprehensively and objectively reflect overall price moves of ChiNext board stocks.
Dollar (Figure 7)	Bloomberg US Dollar Index (DXY Index)	Tracks the performance of the US dollar against a basket of global currencies.
DM Bonds	JPMorgan GBI Global Unhedged LC	Tracks the performance of non-US developed market investment grade corporate bonds denominated in local currency.

These benchmarks are broad-based indices which are used for comparative purposes only and have been selected as they are well known and are easily recognizable by investors. Comparisons to benchmarks have limitations because benchmarks have volatility and other material characteristics that may differ from the portfolio. For example, investments made for the portfolio may differ significantly in terms of security holdings, industry weightings and asset allocation from those of the benchmark. Accordingly, investment results and volatility of the portfolio may differ from those of the benchmark. Also, the indices noted in this presentation are unmanaged, are not available for direct investment, and are not subject to management fees, transaction costs or other types of expenses that the portfolio may incur. In addition, the performance of the indices reflects reinvestment of dividends and, where applicable, capital gain distributions. Therefore, investors should carefully consider these limitations and differences when evaluating the comparative benchmark data performance. The foregoing index licensers are not affiliated with The Bank of New York Mellon Corporation, do not endorse, sponsor, sell or promote the investment strategies or products mentioned in this presentation and they make no representation regarding advisability of investing in the products and strategies described herein. Valuation Model – The ISSG Valuation Model considers relative valuations across the asset classes that we rank. We consider the current values placed on future cash flows of the securities against their historical longer-term trend levels. Momentum Model – The ISSG Momentum Model considers relative price momentum across the asset classes that we rank. Our research shows that this can be an indicator of continued appreciation potential in the future. RBAA Model – The ISSG Regime Based Asset Allocation Model defines five macroeconomic regimes based on the interaction of growth and inflation expectations. We believe changes to these expectations drive regime shifts and influence asset returns.

BNY Mellon ISSG RBAA Regimes:



CORRELATION HEAT MAP DEFINITIONS

ASSET CLASS	INDEX — please see above for definitions
World Equity	MSCI AC World (LC Index)
EM Equity	MSCI Emerging Markets (LC Index)
DM Bonds	JPMorgan GBI Global Unhedged
EM $ Bonds	JPMorgan EMBI Global Composite (USD Index)
DM IG Corps Hedged	Barclays Global Aggregate Corp Index (USD Index)
DM HY Corps Hedged	Barclays Global High Yield (USD Index)
Commodities	Dow Jones – UBS Commodities Index Total Return (USD Index)
Dollar	US Dollar Index

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