

# 529 INVESTMENT OVERVIEW

Fourth Quarter 2016

## HIGHLIGHTS

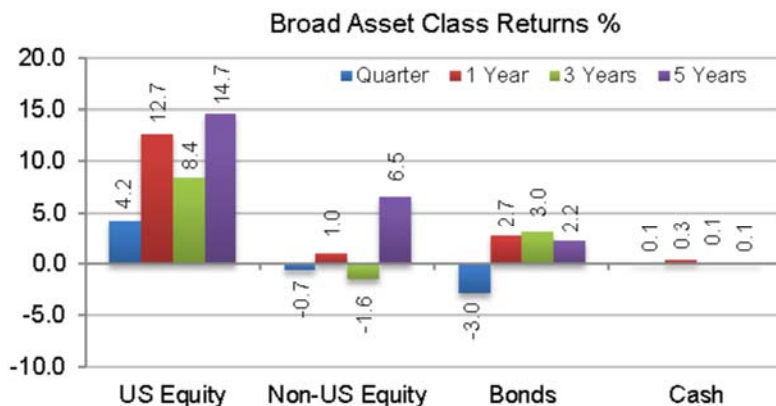
- Fourth quarter US Equity markets had another strong quarter to end 2016 while Non-US Equity markets finished the quarter in negative territory.
- Bond markets had its poorest quarter in over 5 years as the Bloomberg Barclays US Aggregate index fell (3.0%).
- Despite strong US Equity returns, results for all age-bands decreased for all time periods measured when compared to last quarter.
- In general, Direct Sold plans saw greater relative performance decreases over the quarter compared to Advisor Sold plans.
- Direct Sold plans also continued to provide better risk-adjusted returns than Advisor Sold plans.



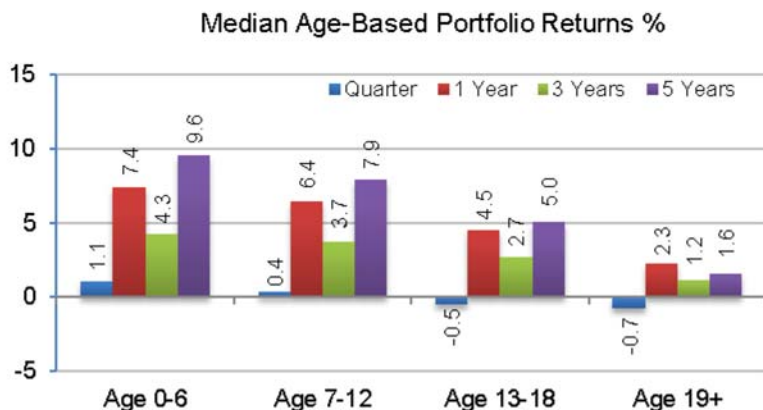
## ASSET CLASS RETURNS

- US Equities remained strong, returning 4.2% during the quarter.
- Non-US Equities finished slightly negative in 4Q2016 which also dropped the 3-year annualized return down to (1.6%).
- Bond returns suffered their worst quarterly returns in over 5 years.
- Cash returns (and other short-term investments) remain low and in line with previous quarters.

Source: Morningstar Direct



## MEDIAN AGE-BASED PORTFOLIO RETURNS

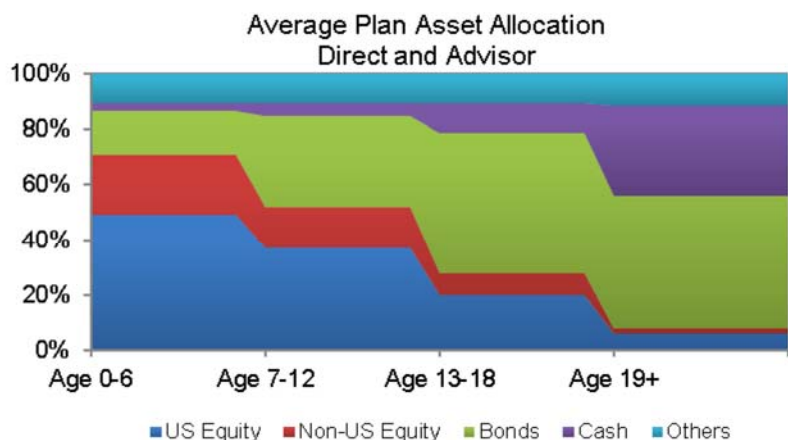


- Median returns decreased for all age-bands over all time periods measured.
- Quarterly returns for the Age 13-18 and 19+ age-bands were negative over the period.
- 1-, 3-, and 5-year returns remain positive for all age-bands.
- Poor Non-US Equity returns depressed performance for the more equity-heavy Age 0-6 and 7-12 age-bands during the quarter.

Source: Morningstar Direct

\*Returns are net of fees. Advisor Plan returns reflect A Shares excluding the effects of sales charges.

## AVERAGE PLAN ASSET ALLOCATION



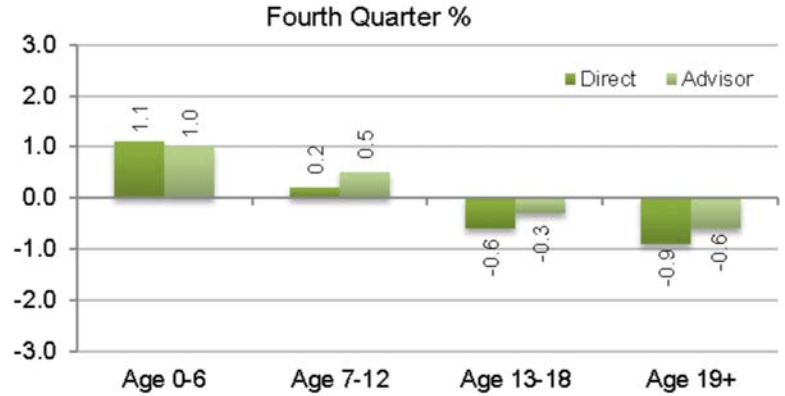
- The average plan (Direct and Advisor) has allocated approximately 66% to Equities (US and Non-U.S.) in age-based portfolios between 0-6.
- The average Equity allocation is split between approximately 72% US and 28% Non-US throughout the entire glide path.
- Median Equity exposure at Age 19+ decreased to approximately 7.2%.
- The median Cash allocation decreased for all age-bands.

Source: Morningstar Direct

## DIRECT vs. ADVISOR SOLD 3-MO. RETURN

- Quarterly median performance decreased for all age-bands.
- Direct Sold plans saw larger relative drops in performance versus Advisor Sold plans.
- The Advisor Sold Age 0-6 age-band saw the largest performance deterioration, decreasing -3.3% over the previous quarter.
- Poor fixed income returns caused the Age 13-18 and 19+ age-bands in both Direct Sold and Advisor Sold programs to earn negative returns.

Source: Morningstar Direct

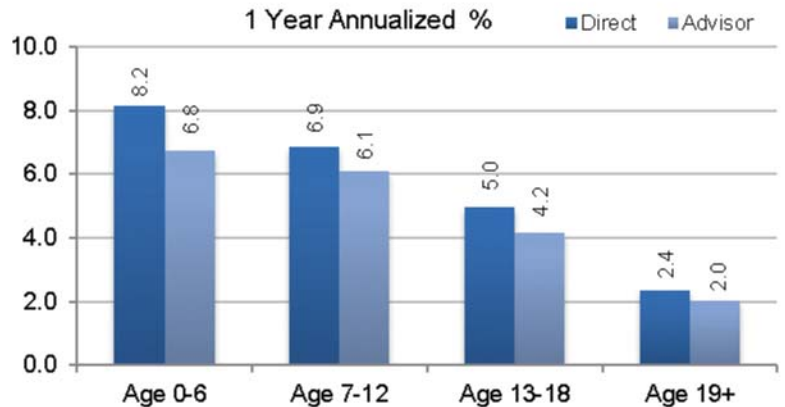


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## DIRECT vs. ADVISOR SOLD 1 YEAR RETURN

- 1-year median returns for all age-bands decreased when compared to the previous quarter.
- Direct Sold Plans experienced greater performance deterioration over last quarter compared to Advisor Sold Plans across all age-bands.
- Direct Sold plans continue to outperform Advisor Sold plans over all age-bands
- Outperformance by Direct Plans was highest (+1.4%) in the Age 0-6 age-band.

Source: Morningstar Direct

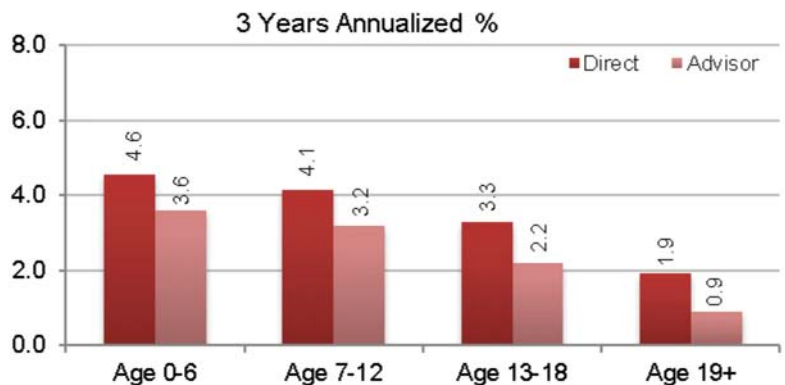


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## DIRECT vs. ADVISOR SOLD 3 YEAR RETURN

- 3-year returns decreased for all age-bands across both programs.
- Direct Sold plans continue to outperform the Advisor Sold plans over all age-bands.
- Outperformance by Direct Plans was highest (+1.1%) in the Age 13-18 age-band.
- The Direct Sold Age 0-6 age-band saw the largest decrease (-2.0%) in performance from last quarter.

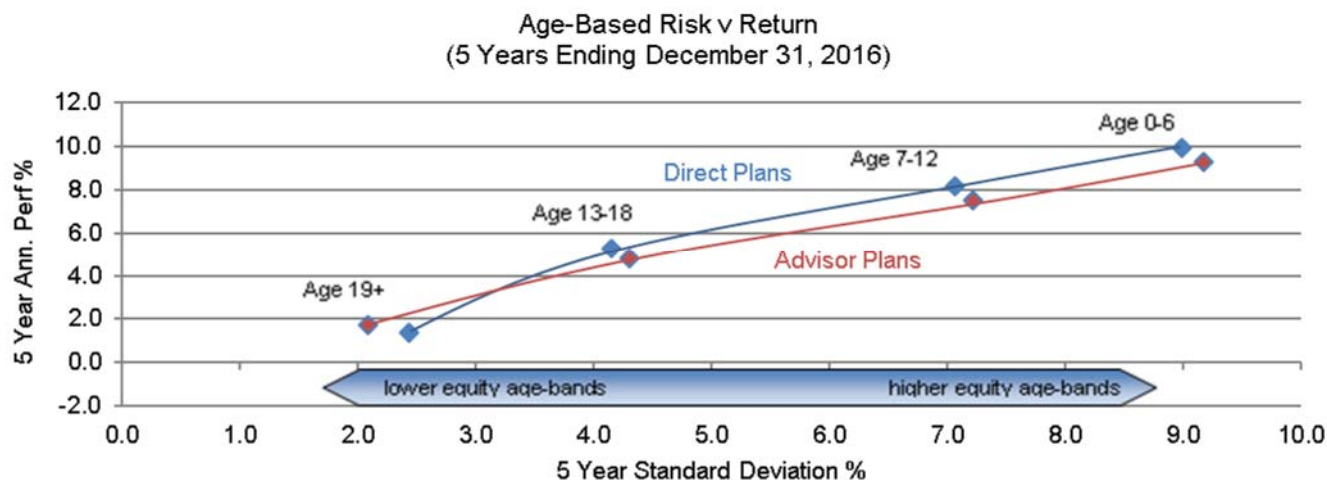
Source: Morningstar Direct



\*Returns are net of fees. Advisor Plan returns reflect A Shares excluding the effects of sales charges.

## DIRECT vs. ADVISOR SOLD RISK/RETURN 5 YR %

- On average, Advisor Plan results (age-based portfolios) continue to experience slightly more volatility (standard deviation) than Direct Plans over the latest 5-years, except in the Age 19+ age-band.
- The Advisor Sold Age19+ age-band has provided a higher return than the Direct Sold equivalent while exhibiting less volatility.



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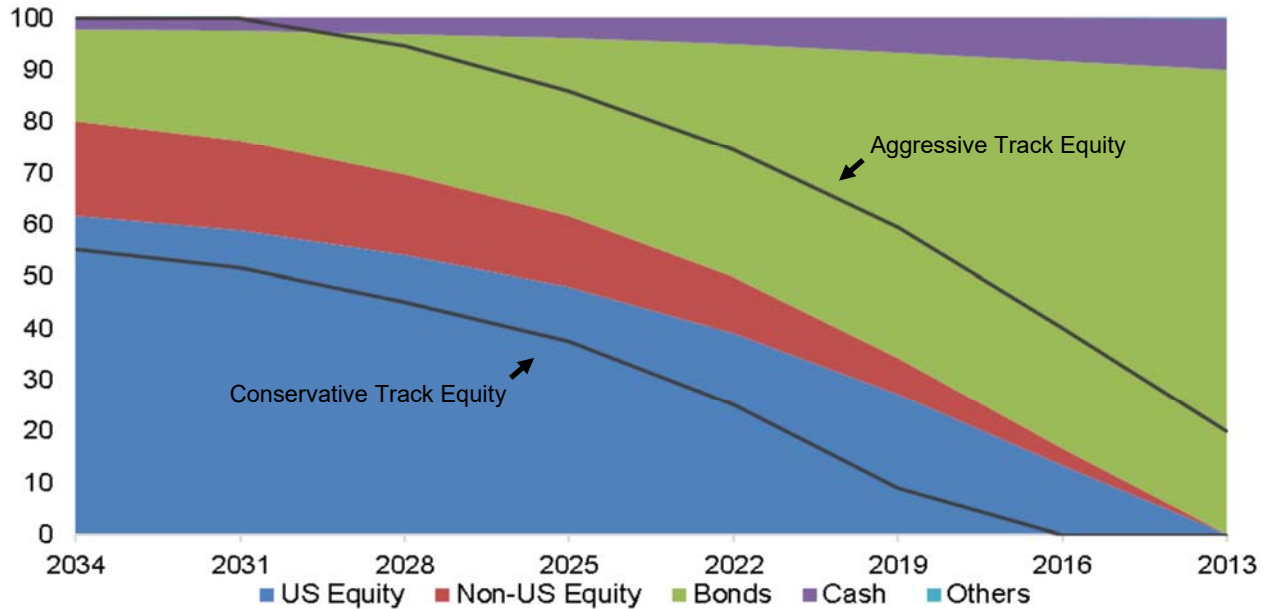
## MARKET SUMMARY

SUMMARY STATISTICS	1 YEAR		3 YEAR		5 YEAR	
	Return	Avg. Std. Deviation	Return	Avg. Std. Deviation	Return	Avg. Std. Deviation
<b>BROAD BENCHMARKS</b>						
U.S. Equity (Russell 3000)	12.7	11.3	8.4	11.0	14.7	10.7
Non-U.S. Equity (MSCI EAFE NR)	1.0	13.4	-1.6	12.6	6.5	13.5
Bonds (BC Aggregate Bond)	2.7	3.7	3.0	3.0	2.2	2.9
Cash (3-month T-Bills)	0.3	0.0	0.1	0.0	0.1	0.0
<b>DIRECT SOLD PLANS (Median)</b>						
Age 0-6	8.2	9.1	4.6	8.9	10.0	9.0
Age 7-12	6.9	6.7	4.1	6.7	8.2	7.1
Age 13-18	5.0	3.9	3.3	4.1	5.2	4.2
Age 19+	2.4	2.3	1.9	2.2	1.4	2.4
<b>ADVISOR SOLD PLANS (Median)</b>						
Age 0-6	6.8	6.9	3.6	9.3	9.3	9.2
Age 7-12	6.1	7.4	3.2	7.3	7.5	7.2
Age 13-18	4.2	3.9	2.2	3.9	4.8	4.3
Age 19+	2.0	1.9	0.9	1.9	1.7	2.1

\*Returns are net of fees. Advisor Plan returns reflect

Source: Morningstar Direct

Morningstar 529 Benchmark Asset Allocation  
Moderate Track



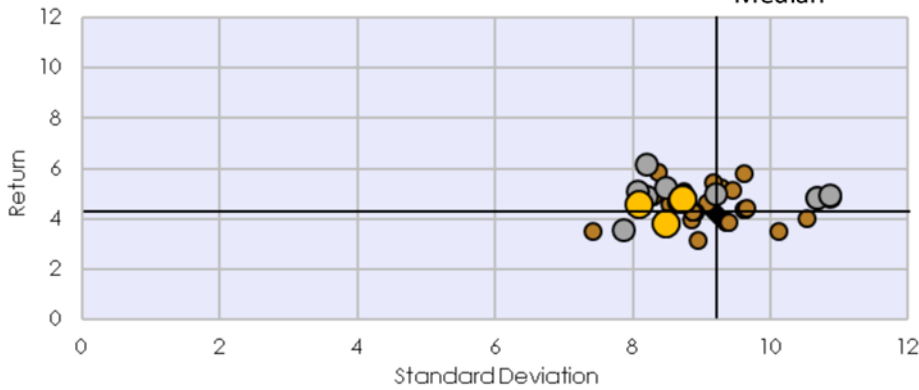
- Total allocations to equity remained consistent when compared to previous quarters.
- Moderate Morningstar 529 benchmark allocations are generally more equity-heavy at the 0-6 age-band than the average (Direct & Advisor) 529 plan, and more bond-heavy at the 19+ age-band.
- Morningstar benchmark allocations to Cash and Others Assets typically don't exceed 10% of total portfolio allocation, while the average Age 19+ portfolio allocates 29% to cash.

SUMMARY STATISTICS	1 YEAR		3 YEAR		5 YEAR	
	Return	Avg. Std. Deviation	Return	Avg. Std. Deviation	Return	Avg. Std. Deviation
<b>Aggressive Track</b>						
2034	12.1	11.5	6.9	10.7	12.7	10.6
2028	11.6	11.1	6.7	10.4	12.6	10.4
2022	9.7	8.8	6.0	8.5	11.0	8.7
2016	6.6	5.1	4.8	5.2	8.0	5.8
<b>Moderate Track</b>						
2034	10.2	9.1	6.2	8.5	10.7	8.5
2028	9.3	8.1	5.8	7.7	10.1	7.9
2022	7.5	6.0	5.1	6.0	8.4	6.2
2016	4.3	2.9	3.5	3.1	5.1	3.6
<b>Conservative Track</b>						
2034	8.0	6.2	5.1	6.0	8.0	6.0
2028	7.0	5.3	4.8	5.2	7.4	5.4
2022	5.1	3.5	3.9	3.6	5.7	4.0
2016	2.7	2.4	2.2	2.0	2.3	2.2

Source: Morningstar Direct

The following graphs highlight the risk-adjusted returns of the portfolios for the programs (direct and advisor) that earned medal ratings from Morningstar versus their respective peer median. Data set limited to include portfolios with current data available and moderate portfolios for programs with multiple tracks.

Key: ● Gold ● Silver ● Bronze ◆ Morningstar Median

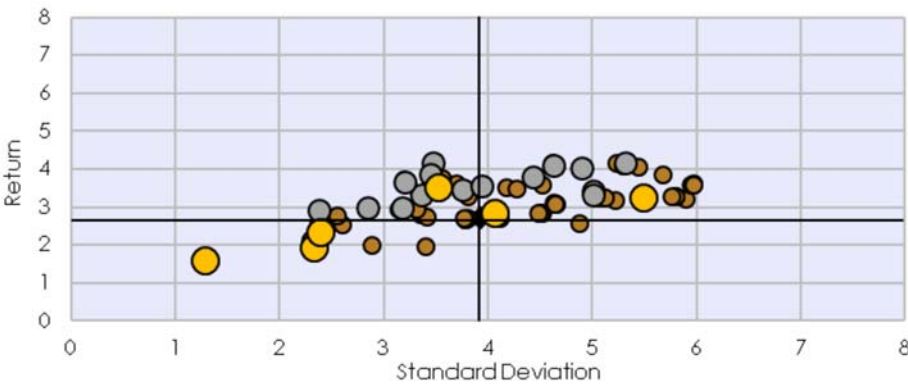
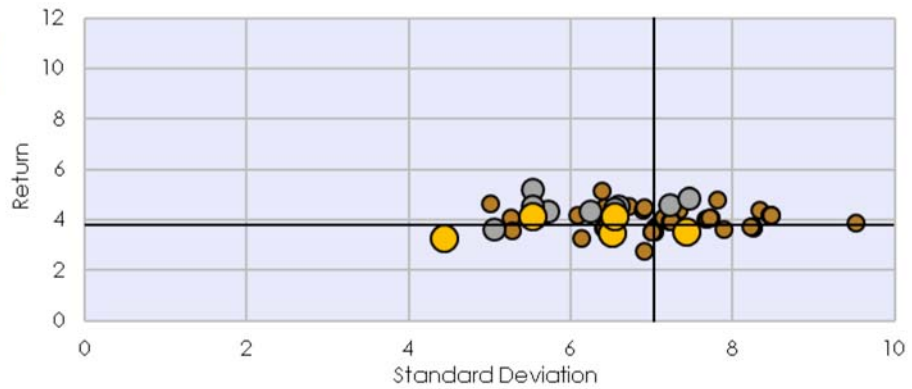


**Ages 0-6**

– Higher medal-rated Age 0-6 portfolios mostly have lower volatility than the median Age 0-6 portfolio.

**Ages 7-12**

– Gold medal-rated Age 7-12 portfolio typically saw lower volatility than the median portfolio, but overall, medal-rated portfolio performance was mixed.

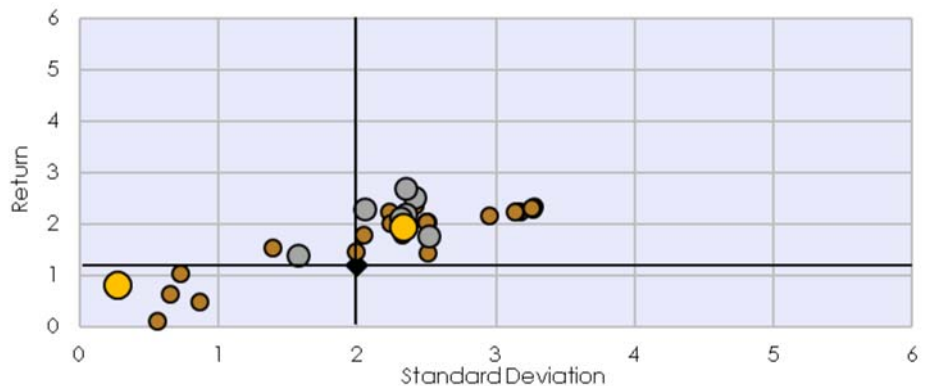


**Ages 13-18**

– Nearly all medal-rated Age 13-18 portfolios earned either higher returns or lower volatility than the median portfolio.

**Ages 19+**

– All Age 19+ medal-rated portfolios have either higher returns or lower volatility than the median Age 19+ portfolio.



Source: Morningstar Direct

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