Sands Large Cap Growth\Touchstone Sands Large Cap Growth Fund

FOCUS LIST RESEARCH REPORT

Summary of Opinion:

Consulting Group Investment Advisor Research (CG IAR) has placed the Large Cap Growth product on our Focus List because we have a high opinion of this strategy and believe it to be an investment option to own over the course of a full market cycle. In recent years, Sands Capital Management (SCM) has added personnel to an already above-average research team, and thus expanded their overall research capability. With a sole focus on growth investing, Sands has demonstrated an ability to successfully implement their investment process in a consistent manner over time. Also, CG IAR has a high level of confidence in the firm's business structure due to a diversified client base and growing number of employee equity owners, which should provide strong incentives to retain key employees and attract talented investment professionals in the future.

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STRATEGY DETAILS

INVESTMENT STYLE:	*Large Cap Growth*
EQUITY SUB-STYLE:	*Aggressive Growth*
BENCHMARK:	*Russell 1000 Growth Index*
RESEARCH STATUS:	*Focus List*
PRODUCT TYPE:	*Separately Managed Account & Mutual Fund*
TICKER	*PTSGX*

www.touchstoneinvestments.com

www.sandscapital.com

STRATEGY DESCRIPTION

Sands manages a large capitalization growth portfolio with a long-term orientation. With bottom-up, fundamental analysis, Sands focuses on six criteria: sustainable above-average earnings growth potential, leadership position in a promising space, unique business franchise, clear mission, financial strength, and a rational valuation relative to the market and its business prospects.

Focus List		Snapshot				
Investment Capabilities	**Business Evaluation**	**Short-Term Performance Analysis (≤ 3Yrs)**	**Long-Term Performance Analysis (> 3 Yrs)**	**Track Record Reliability**	**Expected Benchmark Sensitivity**	**Expected Portfolio Turnover**
Above Average	**Above Average**	**Above Expectations**	**Above Expectations**	**High**	High	High
Average	Average	In-Line	In-Line	Moderate	Moderate	Moderate
Needs Improvement	Needs Improvement	Below Expectations	Below Expectations	Low	**Low**	**Low**

See Opinion Description at the end of this report.

Positive Attributes

- Experienced PM operating within a well defined and consistently implemented investment process
- Strong analyst team with above average research skills
- Thorough research-oriented approach to stock selection and risk management
- Sole focus on growth investing

Points to Consider

- Frank Sands Sr. transitioned CIO and PM duties to Frank Sands Jr. in August 2008
- Fairly concentrated portfolio of 25-25 stocks
- Low turnover of approximately 25% annually
- Above average stock specific risk due to the potential for large individual position sizes
- Aggregate market capitalization of portfolio typically lower than the benchmark
- Benchmark agnostic investment process

Areas of Concern

- Flagship Large Cap Growth strategy accounts for a vast majority of total firm AUM
- SCM typically executes trades for SMA accounts after institutional accounts

Performance Expectations

- Given a mid-cap bias, performance should be strong in markets where mid-cap stocks and growth are in favor
- Benchmark agnostic approach may lead to material differences in sector weights and aggregate performance relative to the benchmark
- CG IAR assigns an Aggressive Growth sub-style to this product given its tendency to exhibit above average growth and valuation metrics relative to the benchmark

Performance Opinion

- Sands Large Cap Growth has outperformed across all shorter-term periods including QTD, YTD, 1-Yr, and also has significantly outperformed over the past 3-Yr period by 666 basis points annually. As such, CG IAR considers short-term performance to be above expectations.
- Although material performance shortfalls occurred in 2006 and 2008, CG IAR considers long-term performance for the strategy to be above expectations as well. Sands Large Cap Growth has outperformed annually by 364 and 379 basis points respectively over a 5- and 10-yr period.

News Summary

- 1Q11 – Michael Clarke joins as Research Analyst with coverage in the Information Technology sector.
- 1Q11 – Davis Catlin promoted to Research analyst working on the Industrials and Consumer teams.
- 3Q10 – Julian Pick, Sector Head and Global Growth PM, leaves the firm and is not expected to be replaced.
- 4Q09 – Michael Raab and Mathew Luneberg promoted to Research Analyst for Financials & Energy, respectively.
- 2Q09 – Brian Christensen promoted to Research Analyst to focus on the Healthcare sector.

Additional Analyst Comments

- In 3Q 2008, SCM executed a well-documented leadership transition in which Frank Sands Jr. became the key person, ultimate decision-maker for the portfolio, as well as the Chief Investment Officer and Chief Executive Officer after Frank Sands, Sr. turned 70 in September 2008. CG IAR believes Frank Sands Jr. has the ability to fill this role given his research ability, tenure as a portfolio manager, and involvement in every aspect of SCM's business strategy.
- Analysts focus on companies in growing sectors such as financial services, health care, advanced technology, branded consumer and specialty retail because SCM considers these sectors to be key growth drivers within the broad markets. However, SCM initiated a new research team focused on Industrials & Communications, which had not been a focus of the research team previously.
- Investors should be aware that the portfolio has a smaller weighted-average market capitalization relative to many peer large cap growth portfolios. As such, the portfolio typically holds several companies with market capitalizations less than $5.0 billion and generally has low exposure to the largest market cap quintile within the benchmark
- CG IAR views favorably that the dominant portion of asset growth has come from within large institutional client relationships.
- CG IAR views negatively that SCM typically executes trades for SMA accounts (including FS) after institutional accounts. As such, CG IAR believes that there is a potential detrimental impact for SMA accounts at SCM due to these trading rotation practices. Although a different account type and minimum account size, CG IAR notes that the performance of accounts within the FS platform have underperformed their institutional counterparts annually since inception onto the FS platform in 2002.

Additional News Summary

- 3Q08 – Product added to the Focus List

Portfolio Traits

Equity	
Range of Holdings	25-30 stocks
Maximum Position Size	1-12% of portfolio
Econ Sector Constraints	No Constraints
Tracking Error Target	No Target
Typical Annual Turnover	15-25% annually
Invests in ADRs	Yes
Invests in ETFs	No
Invests in Derivatives	No
Invests in IPOs	Yes
Liquidity Constraints	No Constraints
Maximum Cash	5%
Typical Cash Position	0-5%
Est. Product Capacity	$25 billion

Source: Sands Capital Management

Investment Capabilities Overview

Portfolio Management Team

- Frank Sands, Jr. is the CEO and CIO at Sands Capital Management and was hired to assume the CIO role at the firm from Frank Sands Sr. who planned to be less involved in the day to day management of the portfolio and firm upon reaching the age of 70 in September 2008.
- He is supported by a research team that includes seven Global Sector Heads, eight Research Analysts, and seven Research Associates.

Investment Philosophy & Process

- SCM's investment philosophy is based upon the notion that stock price appreciation is driven by sustained above-average growth of earnings.
- The firm seeks to build portfolios with high-quality, seasoned, and growing businesses; and focus on investing only in the best ideas across a variety of attractive and growing business spaces.
- SCM focuses on six key investment criteria: 1.) sustainable above-average earnings growth relative to the Russell 1000 Growth Index, 2.) leadership position in a promising business space, 3.) significant competitive advantages and/or a unique franchise, 4.) clear mission and value added focus, 5.) financial strength, and 6.) rational valuation relative to the market (S&P 500 Index) and to its business prospects.
- Using a quantitative growth search that looks for strong historical and projected sales and earnings growth, a universe of approximately 300 stocks is created that serves as a watch list to track companies within key growth sectors such as Consumer/Retail, Financial Services, Information Technology, Health Care, and Energy. This growth search plays an important part in the investment process by eliminating many business sectors, and helping SCM to avoid stagnating or contracting companies and/or industries.
- SCM then conducts a "Leader" search that focuses on the following seven qualitative factors to identify the true leaders within the most promising businesses: 1.) creating growth drivers: new products or services and entering new markets, 2.) developing and anticipating important industry trends, 3.) creating competitive barriers, 4.) gaining market share, 5.) building financial muscle to weather adverse periods and fund new opportunities, 6.) displaying highly capable management ability, 7.) applying technology to add value. Typically this search results in 60-80 companies across 15-20 growing industries.
- The universe is further narrowed by creating a "New Opportunities" list that is reserved for companies that warrant closer attention by the investment team.

Summary of Investment Capabilities Opinion

- CG IAR considers Frank Sands, Jr. to be an above-average investment professional given his research ability, PM tenure, and active involvement in the firm's business affairs.
- The investment process is well defined and properly structured given the firm's emphasis on team-based, proprietary, fundamental research.
- We believe the investment process is opportunistic with above-average flexibility in valuation, market capitalization, sectors and position sizes.
- A key differentiator from other aggressive growth managers is that SCM typically has low turnover and invests in companies with a track record of positive earnings, and will not invest in those with negative earnings.
- CG IAR views positively that the depth of the research staff has grown in recent years due to their Research Associate program, which has served as a proving ground for future analyst opportunities at SCM.

Other Key Items

Decision-Making

- The investment team meets formally twice a week and informally on an ad-hoc basis.
- All members of the investment team at SCM are involved with investment and portfolio decisions and strive to come to a consensus.
- With consensus from the investment team, Frank Sands Jr. is the final decision maker for all purchases and sales, and position sizes within the portfolio.
- In September 2008, Frank Sands Jr. assumed ultimate decision-making responsibility for the portfolio from Frank Sands Sr.

Sell Process

- Sands will typically sell a stock from the portfolio when a company no longer meets SCM's six investment criteria, and when the fundamental, underlying issues that are the cause of the problems are not deemed by SCM to be solvable within an acceptable timeframe.
- The primary analyst on a company also develops "hypothetical sell cases" or scenarios that would precipitate a sell decision based upon SCM's investment process.
- With input from the investment team and the CIO ultimately determines when to sell and where to reinvest the proceeds.

Track Record Reliability

- The SMA track record is considered above average as it contains a majority of firm-wide assets, has been consistently managed by a stable investment team, and is considered to be representative of the team responsible for creating the Large Cap Growth track record.
- CG IAR notes that SMA dispersion, as measured by the annual standard deviation of returns among accounts in the Tax-Exempt Institutional Equity composite, has been low since 2001.
- The mutual fund track record is also considered above average as the fund has been consistently managed by Sands Capital management with the same investment process over the long term.

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Key Investment Professionals

Investment Team Overview	Position	Area of Coverage	CFA	Advanced Degree From	Experience		
					Career	Firm	Product
Frank Sands, Sr.	Chairman	Generalist	●	U. of Virginia	1969	1992	1992
Frank Sands, Jr.	CEO & CIO	Generalist	●	U. of Virginia	1995	2001	2001
Thomas Ricketts	Sr. PM/Sr. Analyst	Healthcare	●		1995	1995	1995
Michael Sramek	Sr. PM/Sr. Analyst	Energy	●	Vanderbilt	1998	2002	2002
David Levanson	Sr. PM/Sr. Analyst	Industrials.	●	U. of Virginia	1993	2000	2000
Perry Williams	Sr. PM/Sr. Analyst	Consumer	●	Northwestern	1995	2005	2005
Sunil Thakor	Sr. PM/Sr. Analyst	Fin. Services	●	Columbia	2002	2006	2006
John Freeman	Sr. PM/Sr. Analyst	Tech & Media	●		2004	2006	2006

Source: Sands Capital Management

Other Key Professionals

Name	Position	Area of Responsibility	CFA	Advanced Degree From	Experience		
					Career	Firm	Product
Robert Puff	Vice Chairman		●	Wharton	1974	2005	
Robert Hancock	Managing Director	COO & CCO		St. Joseph's Univ.	1981	2004	
Michael Hotchkiss	Managing Director	Client Relation & Bus. Develop.			1986	2004	
Kevin Murphy	Director	Wealth Mgmt.	●	Georgetown	1999	2002	
Dennis Adams, Jr.	Head Trader	Trading			2002	2004	2004

Source: Sands Capital Management

Primary Functions of Key Professionals

Name	Security Selection	Security Research	Portfolio Construction	Trading	Client Service	Business Management
Frank Sands Sr.	●	●	●			●
Frank Sands, Jr.	●	●	●			●
Thomas Ricketts	●	●	●			
Michael Sramek	●	●	●			
David Levanson	●	●	●			
Perry Williams	●	●	●			
Sunil Thakor	●	●	●			
John Freeman	●	●	●			
Robert Puff						●
Robert Hancock						●
Dennis Adams, Jr.				●		
Kevin Murphy					●	
Michael Hotchkiss					●	

Source: Sands Capital Management

Business Structure Overview

History/Ownership

- In February 1992, Frank Sands, Sr. and Bill Johnson founded Sands Capital Management (SCM) in Arlington, Virginia.
- Initially developed and refined by Frank Sands Sr., this strategy was incepted in 1986 while at another investment management firm where Mr. Sands was CIO and Mr. Johnson was a PM.
- Frank Sands, Jr. joined SCM as Director of Research in 2000, and was appointed CEO&CIO in 2008.
- In May 2001, Bill Johnson sold his 20% ownership interest to Frank Sands, Jr. thus making the firm 100% family/employee owned.

Business Plan

- The Large Cap Growth Equity portfolio remains the flagship product.
- SCM plans to hard close the product if AUM reaches $25 billion.
- SCM seeded the Healthcare Leaders product in 2007, and hired Michael Rubin to enhance their Healthcare research effort. SCM estimated capacity for the portfolio to be approximately $3.0 billion
- In order to "globalize" and utilize a more global perspective with regard to growth investing, SCM added a Global Growth portfolio in 2008 to focus on the trend of growth outside of the domestic equity markets.
- SCM plans to continue expanding equity ownership for key employees.
- Recent asset growth has come from large institutional accounts.

Legal/Compliance

- The most recent SEC audit was June 2010. SCM states they have addressed various changes to policies and procedures as recommended by the SEC.
- There are no other legal or compliance issues overhanging the firm.

Summary of Business Structure Opinion

- The transition of leadership from Frank Sands Sr. to Frank Sands Jr. was well-planned and documented, and Frank Sands, Jr. had ample time to assume a more active role in the decision-making process for the portfolio and in the management of the business.
- Although we view the turnover of investment personnel in 2007 negatively, CG IAR believes the overall business environment remains stable, and notes that there was no turnover at all prior to that date.
- CG IAR views positively that SCM has proactively managed AUM growth by selectively closing the product and raising account minimums.
- CG IAR views positively that SCM is committed to broadening equity participation of key professionals at the firm as an incentive to keep key personnel turnover at a minimum.
- Although having a single product is considered a strength of the firm from an investment perspective, it is a risk from a business standpoint should performance lag its benchmark for an extended period of time and the firm experience substantial outflows.
- CG IAR views positively the addition of the Health Care Leaders and Global Growth portfolios to the firm's product offerings as these additions should help diversify the firm's revenue stream and client mix.
- CG IAR notes that SCM has adamantly stated that they are "fiercely independent." As such, we would view negatively the acquisition of all or a portion of the firm at any time in the near future.

Other Key Factors

Incentives/Alignment of Interests

- Investment team members receive a salary, a qualitative bonus, and an investment results bonus, which represents a significant portion of total compensation.
- The investment results bonus is a result of the 1-, 3, and 5-year variance between SCM's Tax-Exempt Institutional Equity Composite and the Russell 1000 Growth Index.
- Qualifying investment team members and other key professional also receive equity ownership distributions based upon net income at the firm.

Ownership And Parent Company	
Name of Owner	**Percent Owned**
Sands family members	80%
SCM employees	20%
Publicly Traded	**Ticker Symbol**
No	N/A

Source: Sands Capital Management

Assets Under Management ($ Millions)

Year	Firm	Strategy
2Q 2011	$18,050	$15,800*
2010	$16,100	$14,300
2009	$13,867	$12,423
2008	$8,380	$8,300
2007	$20,591	$20,529
2006	$19,632	$19,632
2005	$19,260	$19,260

Source: Sands Capital Management

*AUM includes approximately $1.1 billion in a mutual fund as of 03/31/11.

OPINION OVERVIEW DESCRIPTION

Investment Capabilities - Represents CG IAR's opinion of the investment manager's investment capabilities with respect to the product under evaluation. This section covers the areas of quality of investment professionals, portfolio management, research and process execution. As these areas are not mutually exclusive, but rather interrelated, it is important to render a cohesive opinion on these areas of an organization. This section has three potential opinion outcomes: Above Average, Average and Needs Improvement. Above Average conveys that CG IAR has a high degree of confidence and conviction in a manager's investment capabilities. An opinion of Average denotes that, while CG IAR has a generally favorable view, it may have some concerns about the investment manager's investment capabilities. An opinion rating of Needs Improvement generally indicates that CG IAR has material concerns about the investment manager's overall investment capabilities. For example, this could be the result of sizable personnel departures, poor execution of stated investment discipline or a limited research effort.

Business Evaluation - Represents CG IAR's opinion of the state of the investment manager's overall business condition. This area reviews items such as ownership structure, trends in assets under management, legal and/or compliance issues, investment professional incentives and trading policies. This area has three potential opinion outcomes: Above Average, Average and Needs Improvement. Above Average conveys that CG IAR has a high degree of confidence and conviction in a manager's overall business structure and believes that there are limited to no material issues. An opinion of Average denotes that, while CG IAR has a generally favorable view, it may have some concerns about the investment manager's business structure. An opinion rating of Needs Improvement generally indicates that CG IAR has material concerns about the investment manager's overall business structure. For example, this could be the result of what we believe to be material legal and/or compliance issues, material asset loss, ownership issues or ineffective incentives for the investment professionals.

Short-Term & Long-Term Performance Analysis - The opinion for performance is broken into two components: 1) Short-Term Performance Analysis represents CG IAR's opinion of the investment product's performance typically over a time period of the trailing three years or less, 2) Long-Term Performance Analysis represents CG IAR's opinion of the investment product's performance typically over a time period of more than the trailing three years. These areas have three potential opinion outcomes: Above Expectations, In-Line and Below Expectations. Above Expectations conveys that CG IAR believes the investment product has performed better than expected given investment biases and market conditions, while an opinion of In-Line denotes that CG IAR believes the investment product has performed as expected given investment biases and market conditions. A rating of In-Line should not be interpreted negatively, but rather that the investment product is performing as expected. An opinion rating of Below Expectations generally indicates that CG IAR has concerns about the investment product's overall investment performance given our knowledge of the investment manager's process and the overall market conditions.

Track Record Reliability - Represents CG IAR's opinion of the overall integrity of the investment performance displayed to clients or potential clients. This area takes into consideration items such as portfolio manager tenure on a respective strategy, construction of the performance composite, and consistency in the execution of a stated investment process. This area has three potential opinion outcomes: High, Moderate and Low. High conveys that CG IAR believes the investment performance track record has a high degree of integrity and is representative of what investors could expect over time, while an opinion of Moderate denotes that CG IAR may have some concerns as it relates to the historical performance track record. An opinion rating of Low generally indicates that CG IAR has material concerns about the investment product's historical performance track record. For example, if an investment product has had a long standing portfolio manager that has delivered solid performance results over the last five years relative to a benchmark and the portfolio manager is replaced by a new portfolio manager that instills a new investment process, CG IAR may consider the historical performance track record to be non-representative of the new investment discipline.

Expected Benchmark Sensitivity - Represents CG IAR's opinion of how closely an investment product's performance is expected to "track" the investment performance of CG IAR's designated performance benchmark for a particular investment product. This area evaluates the historical investment performance tracking of a given investment product relative to a respective benchmark as well as the investment manager's current approach to active portfolio management. In evaluating benchmark sensitivity, CG will use relevant statistical measures such as tracking error and R-Squared as well as portfolio construction guidelines such as economic sector constraints and benchmark relative position sizing. This area has three potential opinion outcomes: High, Moderate and Low. In CG IAR's opinion, High conveys that a product is anticipated to be managed with a high degree of emphasis on its benchmark with relatively tight control over the product's active weights relative to that benchmark. High benchmark sensitivity does not mean wide deviations from the benchmark will not happen, but that the investment manager seeks to reduce them. Moderate conveys that a product's management is anticipated to have some amount of benchmark sensitivity, but is able to make meaningful, but controlled, allocations away from a benchmark. Low denotes that a product places little to no emphasis on its assigned benchmark. Performance from a month-to-month and year-to-year basis may deviate significantly from its benchmark.

Expected Portfolio Turnover - Represents CG IAR's opinion of how actively the portfolio is managed from the perspective of trading activity (purchases, sales, additions, trims, etc.). We do not view these ratings positively or negatively, but render an opinion for this category so Financial Advisors, Private Wealth Advisors, Private Bankers and clients have some idea as to the overall level of activity that takes place in a given portfolio. High activity may result in a portfolio that is less tax-efficient for taxable clients, whereas Low activity may result in a more tax efficient portfolio for taxable clients. This area has three potential opinion outcomes: High, Moderate and Low. In CG IAR's opinion, High conveys an investment product that is likely to have more than 90% turnover on an annual basis, while Moderate indicates expected annual portfolio turnover in the range of 30% - 90% and Low indicates expected annual portfolio turnover of less than 30%.

DEFINITIONS

Sub-Styles: Subjective classifications designed to assist with manager selection and performance evaluation based on Consulting Group Investment Advisor Research ("CG IAR") understanding of a manager's long-term investment philosophy and portfolio structuring biases and techniques. At points in time managers may display attributes of other sub-style classifications, and these classifications may change due to changes in the capital markets, evolution of performance benchmarks, industry trends, or changes involving a manager's personnel or process.

Aggressive Growth: Generally seek higher growth-rate companies, may place less emphasis on valuations and more emphasis on shorter-term and possibly momentum factors, and may demonstrate a greater willingness to invest in more speculative companies. Valuations are generally at a premium to the growth benchmark and volatility and turnover are frequently higher than peers.

Russell 1000 Growth - Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

GLOSSARY OF TERMS

5 Yr Forward EPS Growth Rate - the annualized percentage change between the most recent actual fiscal year EPS and the 5-year EPS consensus analyst forecast.

Adjusted Trailing P/E - P/E (price-to-earnings) is measured by taking the current price of a stock divided by the most recent 12 months trailing earnings per share. When calculating Adjusted Trailing P/E, the P/Es below 2.0 are shown as N/A and excluded from the calculation. As a result, Adjusted Trailing P/E can bias the aggregate P/E value higher than would normally be reported. The Adjusted Trailing P/E for the portfolio is a weighted average for the stocks in the portfolio (i.e. the results for different securities are weighted according to the proportion of the portfolio represented by each security).

ADRs - American Depositary Receipts are U.S. dollar denominated forms of equity ownership in non-U.S. companies. These shares are issued against the local market shares held in the home market. ADRs are typically listed on U.S. exchanges such as NYSE, AMEX and NASDAQ.

Alpha - measures the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by Beta. A positive Alpha figure indicates the portfolio has performed better than its Beta would predict. A negative Alpha indicates the portfolio's underperformance given the expectations established by the Beta. The accuracy of the Alpha is therefore dependent on the accuracy of the Beta. Alpha is often viewed as a measurement of the value added or subtracted by a portfolio's manager.

Asset-backed securities (ABS) - securities backed by a pool of assets, typically loans or accounts receivable, originated by banks, specialty finance companies, or other credit providers.

Average Capitalization - the total capitalization of the portfolio divided by the number of securities in a portfolio.

Average Coupon - the weighted average interest rate, expressed as a percentage of face value, paid on the bonds in the portfolio.

Batting Average - measures how frequently a portfolio outperforms its benchmark on a quarterly basis. The statistic is obtained by dividing the number of quarters in which the portfolio outperformed the total return of the benchmark by the total number of quarters. For example, a portfolio with a batting average of 60% has outperformed the index more than it has underperformed.

Beta - measures a portfolio's volatility relative to its benchmark. A portfolio with a Beta higher than 1.0 has historically been more volatile than the benchmark, while a portfolio with a Beta lower than 1.0 has been less volatile. The accuracy of the Beta is dependent on R-Squared.

Commercial Mortgage-Backed Security (CMBS) - mortgage-backed security that is secured by the loan on a commercial property.

Collateralized Mortgage Obligation (CMOs) - mortgage-backed security that creates separate pools of pass-through payments for different classes of bondholders with varying maturities, called tranches. The repayments from the pool of pass-through securities are used to retire the bonds in the order specified by the bonds' prospectus.

Convexity - measures the sensitivity of a bond's duration to changes in interest rates. Convexity can be positive or negative. Unlike most fixed income securities, bonds with negative convexity tend to fall in value as interest rates decline and vice versa.

Credit Quality Rating - weighted average of the assessments of credit worthiness given by credit rating agencies such as Standard & Poor's Ratings Services, Moody's Investors Service, and Fitch Ratings to bonds in the portfolio. Credit rating agencies evaluate issuers and assign ratings based of their opinions of the issuer's ability to pay interest and principal as scheduled.

Down Capture Ratio - the ratio of the portfolio's overall performance to the benchmark's overall performance, considering only periods that are negative in the benchmark. A Down Capture Ratio of less than 1.0 indicates a portfolio that outperforms the relative benchmark in the benchmark's negative quarters and preserves more of the portfolio's value during down markets.

Effective Duration - a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change.

Excess Returns - represents the average quarterly total returns of the portfolio relative to its benchmark. A portfolio with a positive Excess Return has on average outperformed its benchmark on a quarterly basis. This statistic is obtained by subtracting the benchmark return from the portfolio's return.

Historical EPS Growth - calculated by regressing over time the quarterly earnings per share for the past 20 quarters to determine the share's historical growth rate in earnings. The quarterly historical growth rate for each share is then annualized and the Historical EPS Growth shown in this report is the weighted average of these results.

Information Ratio - represents the Excess Return divided by the Tracking Error. It provides a measure of the historical consistency of the portfolio's overperformance or underperformance relative to its benchmark. A higher, positive Information Ratio suggests that the portfolio's excess returns may have been the result of making measured or moderate bets against the relevant benchmark's risk exposures.

Long Term EPS Growth Rate - analyst consensus of expected annual increase in operating earnings per share over the company's next full business cycle - usually three to five years. The Long Term EPS Growth Rate for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Maturity - the weighted average portfolio length of time until the principal amount of a bond must be repaid.

Median Cap by Portfolio Weight - the midpoint of market capitalization (market price multiplied by shares outstanding) of a portfolio's stock holdings, weighted by the proportion of the portfolio's assets invested in each stock. Stocks representing half of the portfolio's holdings are above the median, while the rest are below it.

Modified Adjusted Duration - measures the sensitivity of the percentage change in the price of a bond portfolio for a given change in yield, shown as a number of years to maturity. This figure is calculated as the weighted average of the durations of the securities in the portfolio.

Mortgage-backed securities (MBS) - securities backed by a mortgage loan or a pool of mortgage loans secured by real property. Investors receive payments of interest and principal that are derived from payments received on the underlying mortgage loans.

Pass-Through Security - security backed by a package of assets. A servicing intermediary collects the monthly payments from issuers and, after deducting a fee, remits or passes them through to the holders of the pass-through security.

P/E - the current price of a stock divided by the most recent 12 months trailing earnings per share. P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

R-Squared (R2) - represents the percentage of the volatility of returns that is attributable to movements of the benchmark. It is a measure of "co-movement" between portfolio returns and benchmark returns. The closer the portfolio's R2 is to 100%, the more closely the portfolio correlates to, or follows, the benchmark. Generally, highly diversified portfolios have higher R2 percentages.

Rolling Annualized Performance - measures the consistency of a portfolio's performance. For example, with three-year annualized returns rolled annually, the return shown for a given period is actually an annualized return for a particular year and the previous two years. Since performance is assessed over longer periods, the returns rolled annually give a better indication of trends.

Sharpe Ratio - measures a portfolio's rate of return based on the risk it assumed and is often referred to as its risk-adjusted performance. Using Standard Deviation and returns in excess of the returns of T-bills, it determines reward per unit of risk. This measurement can help determine if the portfolio is reaching its goal of increasing returns while managing risk.

Standard Deviation - quantifies the volatility associated with a portfolio's returns. The statistic measures the variation in returns around the mean return. Unlike Beta, which measures volatility relative to the aggregate market, Standard Deviation measures the absolute volatility of a portfolio's return.

Tracking Error - represents the Standard Deviation of the Excess Return. This provides a historical measure of the variability of the portfolio's returns relative to its benchmark. A portfolio with a low Tracking Error would have quarterly Excess Returns that have exhibited very low volatility.

Trailing P/E - is measured by taking the current price of a stock divided by the most recent 12 months trailing earnings per share. The Trailing P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Up Capture Ratio - measures the portfolio's overall performance to the benchmark's overall performance, considering only periods that are positive in the benchmark. An Up Capture Ratio of more than 1.0 indicates a portfolio that outperforms the relative benchmark in the benchmark's positive quarters.

Weighted Capitalization - the average portfolio market capitalization (market price multiplied by shares outstanding), weighted by the proportion of the portfolio's assets invested in each stock.

Year 1 EPS Growth Yield - analyst consensus of Year 1 EPS forecast minus last fiscal year's reported EPS, normalized by dividing by current price. The Year 1 EPS Growth Yield for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Yield to Worst - The lowest potential yield that can be received on a bond without the issuer actually defaulting. The yield to worst is calculated by making worst-case scenario assumptions on the issue by calculating the returns that would be received if provisions, including prepayment, call or sinking fund, are used by the issuer.

Source: CG IAR

IMPORTANT DISCLOSURES

Report for Use Only in Investment Advisory Programs

This report is only to be used in Morgan Stanley Smith Barney investment advisory programs and not in connection with brokerage accounts.

CG IAR Services Only Apply to Certain Investment Advisory Programs

CG IAR evaluates certain investment products for the purposes of some - but not all - of Morgan Stanley Smith Barney's investment advisory programs (as described in more detail in the applicable Form ADV Disclosure Document for Morgan Stanley Smith Barney LLC). If you do not invest through one of these investment advisory programs, Morgan Stanley Smith Barney is not obligated to provide you notice of any CG IAR status changes even though it may give notice to clients in other programs.

Focus List, Approved List and Tactical Opportunities List; Watch Policy

CG IAR uses two methods to evaluate investment products in applicable advisory programs: Opinion Research (and investment products meeting this research standard are described as being on the Focus List) and Access Research (and investment products meeting this research standard are described as being on the Approved List). In general, Opinion Research entails a more thorough evaluation of an investment product than Access Research. Sometimes an investment product may be evaluated using the Opinion Research process but then placed on the Approved List instead of the Focus List.

Investment products may move from the Focus List to the Approved List, or vice versa. CG IAR may also determine that an investment product no longer meets the criteria under either research process and will no longer be recommended in investment advisory programs (in which case the investment product is given a "Not Approved" status).

CG IAR has a "Watch" policy and may describe a Focus List or Approved List investment product as being on "Watch" if CG IAR identifies specific areas that (a) merit further evaluation by CG IAR and (b) may, but are not certain to, result in the investment product becoming "Not Approved". The Watch period depends on the length of time needed for CG IAR to conduct its evaluation and for the investment manager or fund to address any concerns. CG IAR may, but is not obligated to, note the Watch status in this report with a "W" or "Watch" next to the "Status" on the cover page.

Certain investment products on either the Focus List or Approved List may also be recommended for the Tactical Opportunities List based in part on tactical opportunities existing at a given time. The investment products on the Tactical Opportunities List change over time.

For more information on the Focus List, Approved List, Tactical Opportunities List and Watch processes, please see the applicable Form ADV Disclosure Document for Morgan Stanley Smith Barney LLC. Your Financial Advisor, Private Wealth Advisor or Private Banker can also provide upon request a copy of a paper entitled "Manager Research and Selection: A Disciplined Process".

No Obligation to Update

Morgan Stanley Smith Barney has no obligation to update you when any information or opinion in this report changes.

Strategy May Be Available as a Separately Managed Account or Mutual Fund

Strategies are sometimes available in Morgan Stanley Smith Barney investment advisory programs both in the form of a separately managed account ("SMA") and a mutual fund. These may have different expenses and investment minimums. Your Financial Advisor, Private Wealth Advisor or Private Banker can provide more information on whether any particular strategy is available in more than one form in a particular investment advisory program.

Consider Your Own Investment Needs

This report is not intended to be a client-specific suitability analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities (includes securities of Citigroup, Morgan Stanley, and/or their affiliates if shown in this report). Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon.

Performance and Other Portfolio Information

General

Past performance does not guarantee future results. There is no guarantee that this investment strategy will work under all market conditions. As a result of recent market activity, current performance may vary from the performance shown in this report.

Benchmark index

Depending on the composition of your account and your investment objectives, any indices shown in this report may not be an appropriate measure for comparison purposes and are therefore presented for illustration only.

Indices are unmanaged. They do not reflect any management, custody, transaction or other expenses, and generally assume reinvestment of dividends, accrued income and capital gains. Past performance of indices does not guarantee future results. You cannot invest directly in an index.

Performance of indices may be more or less volatile than any investment product. The risk of loss in value of a specific investment (such as with an investment manager or in a fund) is not the same as the risk of loss in a broad market index. Therefore, the historical returns of an index will not be the same as the historical returns of a particular investment product.

Other data

Portfolio analysis may be based on information on less than all of the securities held in the portfolio. For equity portfolios, the analysis typically reflects securities representing at least 95% of portfolio assets. This may differ for other strategies, including those in the fixed income and specialty asset classes, due to availability of portfolio information.

Other data in this report is accurate as of the date this report was prepared unless stated otherwise. Data in this report may be calculated by the investment manager, Morgan Stanley Smith Barney or a third party service provider, and may be based on a representative account or a composite of accounts.

Securities holdings

Holdings are subject to change daily, so any securities discussed in this report may or may not be included in your portfolio if you invest in this investment product. Your portfolio may also include other securities in addition to or instead of any securities discussed in this report. Do not assume that any holdings mentioned were, or will be, profitable.

Performance and Other Portfolio Information

General

Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. To obtain performance information, current to the most recent month-end, please contact the fund directly at the website set out on the cover page of this report. There is no guarantee that this investment strategy will work under all market conditions. As a result of recent market activity, current performance may vary from the performance shown in this report.

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Sources of Data

Material in this report has been obtained from sources that we believe to be reliable, but we do not guarantee its accuracy, completeness or timeliness. Third party data providers make no warranties or representations relating to the accuracy, completeness or timeliness of the data they provide and are not liable for any damages relating to this data.

ASSET CLASS AND OTHER RISKS

Investing in **stocks, mutual funds** and **exchange-traded funds ("ETFs")** entails the risks of market volatility. The value of all types of investments may increase or decrease over varying time periods.

Nondiversification: For a portfolio that holds a concentrated or limited number of securities, a decline in the value of these investments would cause the portfolio's overall value to decline to a greater degree than a less concentrated portfolio. Portfolios that invest a large percentage of assets in only one industry sector (or in only a few sectors) are more vulnerable to price fluctuation than those that diversify among a broad range of sectors.

IPO securities: Investment in initial public offerings (IPO) exposes the portfolio to additional risks associated with companies that have little operating history as public companies, as well as to the risks inherent in those sectors of the market where these new issuers operate.

Value and growth investing also carry risks. Value investing involves the risk that the market may not recognize that securities are undervalued and they may not appreciate as anticipated. Growth investing does not guarantee a profit or eliminate risk. The stocks of these companies can have relatively high valuations. Because of these high valuations, an investment in a growth stock can be more risky than an investment in a company with more modest growth expectations.

International securities may carry additional risks, including foreign economic, political, monetary and/or legal factors, changing currency exchange rates, foreign taxes and differences in financial and accounting standards. International investing may not be for everyone. These risks may be magnified in emerging markets.

Small- and mid- capitalization companies may lack the financial resources, product diversification and competitive strengths of larger companies. The securities of small capitalization companies may not trade as readily as, and be subject to higher volatility than, those of larger, more established companies.

Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which allows the issuer to retain the right to redeem the debt, fully or partially, before the scheduled maturity date. Proceeds from sales prior to maturity may be more or less than originally invested due to changes in market conditions or changes in the credit quality of the issuer.

Ultra-short bond funds generally invest in fixed income securities with very short maturities, typically less than one year. They are not money market funds. While money market funds attempt to maintain a stable net asset value, an ultra-short bond fund's net asset value will fluctuate, which may result in the loss of the principal amount invested. They are therefore subject to the risks associated with debt securities such as credit and interest rate risk.

High yield bonds are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues.

Real estate investments: property values can fall due to environmental, economic or other reasons, and changes in interest rates can negatively impact the performance of real estate companies.

Derivatives, in general, involve special risks and costs that may result in losses. The successful use of derivatives requires sophisticated management, in order to manage and analyze derivatives transactions. The prices of derivatives may move in unexpected ways, especially in abnormal market conditions. In addition, correlation between the particular derivative and an asset or liability of the manager may not be what the investment manager expected. Some derivatives are "leveraged" and therefore may magnify or otherwise increase investment losses. Other risks include the potential inability to terminate or sell derivative positions, as a result of counterparty failure to settle or other reasons.

Mortgage-backed securities ("MBS"), which include collateralized mortgage obligations ("CMOs"), also referred to as real estate mortgage investment conduits ("REMICs"), may not be suitable for all investors. There is the possibility of early return of principal due to mortgage prepayments, which can reduce expected yield and result in reinvestment risk. Conversely, return of principal may be slower than initial prepayment speed assumptions, extending the average life of the security up to its listed maturity date (also referred to as extension risk). Additionally, the underlying collateral supporting MBS may default on principal and interest payments. Investments in subordinated MBS involve greater credit risk of default than the senior classes of the same issue. MBS are also sensitive to interest rate changes which can negatively impact the market value of the security. During times of heightened volatility, MBS can experience greater levels of illiquidity and larger price movements.

Commodities: The commodities markets may fluctuate widely based on a variety of factors including, but not limited to, changes in supply and demand relationships; governmental programs and policies; national and international political and economic events, war and terrorist events; changes in interest and exchange rates; trading activities in commodities and related contracts; pestilence, technological change and weather; and the price volatility of a commodity.

Alternative/hedged strategies may use various investment strategies and techniques for both hedging and more speculative purposes such as short selling, leverage, derivatives and options, which can increase volatility and the risk of investment loss. Alternative/hedged strategies are not appropriate for all investors. A short sales strategy includes the risk of loss due to an increase in the market value of borrowed securities. Such a strategy may be combined with purchasing long positions in an attempt to improve portfolio performance. A short sales strategy may result in greater losses or lower positive returns than if the portfolio held only long positions, and the portfolio's loss on a short sale is potentially unlimited. The use of leverage can magnify the impact of adverse issuer, political, regulatory, market, or economic developments on a company. A decrease in the credit quality of a highly leveraged company can lead to a significant decrease in the value of the company's securities. In a liquidation or bankruptcy, a company's creditors take precedence over the company's stockholders.

No Tax Advice

Morgan Stanley Smith Barney and its affiliates do not render advice on tax and tax accounting matters to clients. This material was not intended or written to be used, and it cannot be used or relied upon by any recipient, for any purpose, including the purpose of avoiding penalties that may be imposed on the taxpayer under U.S. federal tax laws.

If any investments in this report are described as "tax free", the income from these investments may be subject to state and local taxes and (if applicable) the federal Alternative Minimum Tax. Realized capital gains on these investments may be subject to federal, state and local capital gains tax.

Please consult your personal tax and/or legal advisor to learn about any potential tax or other implications that may result from acting on a particular recommendation.

Conflicts of Interest

CG IAR's goal is to provide professional, objective evaluations in support of the Morgan Stanley Smith Barney investment advisory programs. We have policies and procedures to help us meet this goal. However, our business is subject to various conflicts of interest. For example, ideas and suggestions for which investment products should be evaluated by CG IAR come from a variety of sources, including our Morgan Stanley Smith Barney Financial Advisors and their direct or indirect managers, and other business persons within Morgan Stanley Smith Barney or its affiliates. Such persons may have an ongoing business relationship with certain investment managers or mutual fund companies whereby they, Morgan Stanley Smith Barney or its affiliates receive compensation from, or otherwise related to, those investment managers or mutual funds. For example, a Financial Advisor may suggest that CG IAR evaluates an investment manager or fund in which a portion of his or her clients' assets are already invested. While such a recommendation is permissible, CG IAR is responsible for the opinions expressed by CG IAR. See the conflicts of interest section in the applicable Form ADV Disclosure Document for Morgan Stanley Smith Barney LLC for a discussion of other types of conflicts that may be relevant to CG IAR's evaluation of managers and funds.

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