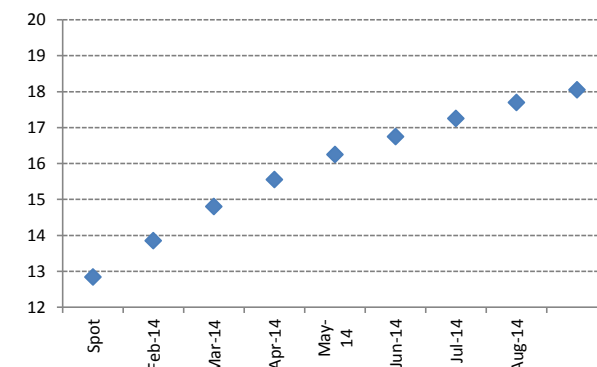


Index Investment Strategy

VOLATILITY AND CORRELATIONS			
Implied Volatility Measures	VIX	1m ±	Realized (1Yr)
S&P 500 (VIX®)	12.84	-3.37	10.99
S&P ASX 200 (A-VIX)	11.91	-2.98	12.7
S&P TSX 60 (VIXC)	9.21	-4.14	10.49
Hang Seng (VHSI)	13.95	-1.97	15.35
10 Year US Treasury Note (VXTYN)	4.90	-0.28	5.43
Gold ETF (GVZ)	15.62	-6.17	22.05
Investable Volatility Indices	1 Month	YTD	1 Year
S&P VIX Short-Term Futures Index	-16.62%	-6.44%	-56.40%
S&P VIX Mid-Term Futures Index	-9.53%	-3.07%	-33.00%
S&P Dynamic VIX Index	-3.99%	-0.52%	-19.90%
S&P 500 Dynamic VEQTOR Index	1.89%	-0.26%	12.39%
S&P CBOE Buy-write Index	2.83%	0.53%	11.63%
Correlations (Month-end)	1 Year	3 Year	10 Year
S&P 500 / 10 Year US Treasuries	28.23%	-48.51%	-25.73%
S&P 500 / Commodities Correlation	9.77%	65.06%	45.28%
S&P 500 / US Dollar Correlation	-29.23%	-62.58%	-54.17%
Emerging / Developed Correlation	86.47%	87.76%	88.28%

HEDGING COSTS
Vix Futures Term Structure



VIX Futures Indices Roll Costs (Monthly)

Short-term futures	-6.86%	
Mid-term futures	-3.40%	
Credit Default Swap Indices	Current	1m ±
S&P US Investment Grade CDS	61.96 bps	+ 2.52 bps
S&P US High Yield CDS	256.79 bps	-4.70 bps

COMMENTARY

Volatility and Credit Risk (as of Jan 22th)

- The VIX® is down over the past month (vs Dec 16) and the current reading of 12.84 suggests that the potential for significant moves lies only to the upside. VIX Futures are back in contango accordingly, although - given the depressed level of the Spot price - the short-term roll cost is historically speaking fairly low. The Australian, Hong Kong and Canadian VIX-equivalents are also down, a pattern repeated elsewhere across developed markets.
- The big news over the last month was again provided by the Fed, where a positive outlook regarding the US economy smoothed the announcement of a reduction in US quantitative easing. Elsewhere the World Bank saw signs of the global economy “bouncing-back”, forecasting a healthy growth of 2.2% in developed economies, while in the UK unemployment fell within 0.1% of the BoE’s threshold for considering an interest rate rise.
- The bond markets continue to anticipate less volatility going forward, although the significant yield re-pricings of 2013 set a reasonably high bar for expectations. Similarly, the lower implied volatility of gold suggests that the worst for this asset may be over, at least in the short term.
- Credit spreads are largely unchanged and remain close to their five-year lows, investment grade CDS up by 3 bps and high yield CDS down by 5 bps.
- Today sees the US initial unemployment claims, expected to confirm that December’s disappointing numbers were indeed an anomaly, while in Geneva delegations from around 40 countries will be participating in UN-sponsored peace talks aimed at finding a solution to the increasingly complex war in Syria.

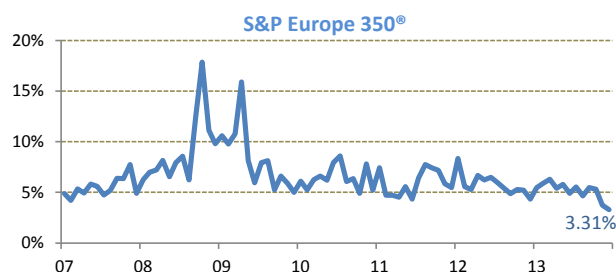
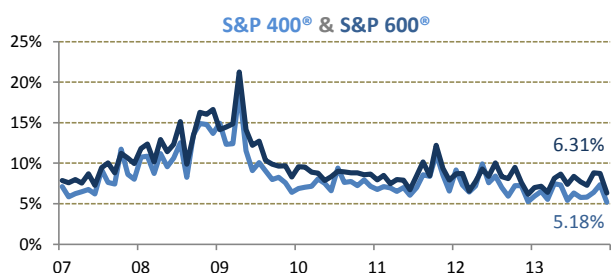
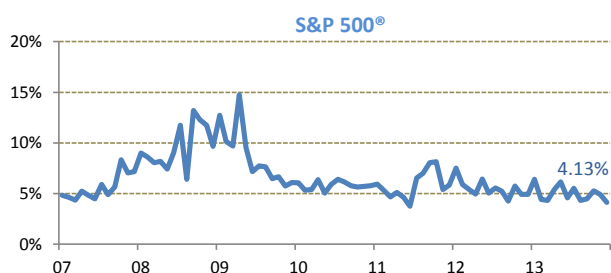
Correlation and Dispersion (as of Dec. 31st)

- Despite falling cross-stock correlations, and in every market we measure, the spread of returns among different stocks has continued to tick down, recording several new lows. December saw the lowest dispersion on record for each of the Developed Ex-US, the S&P 400 and the Europe 350 indices; the second lowest on record for the S&P 600 and the S&P 500.
- The spread of returns among different asset classes - as measured by the dispersion of the multi-asset portfolio - bucked the trend and rose slightly during December.

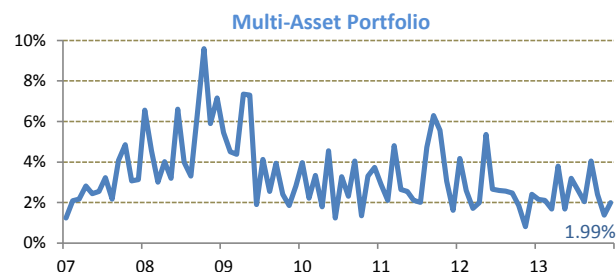
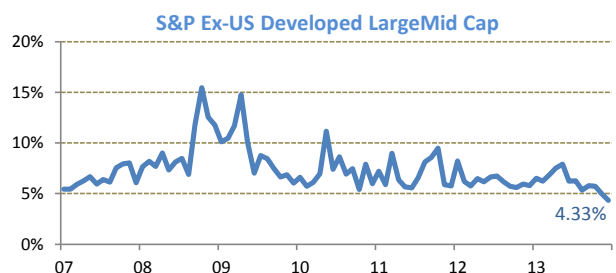
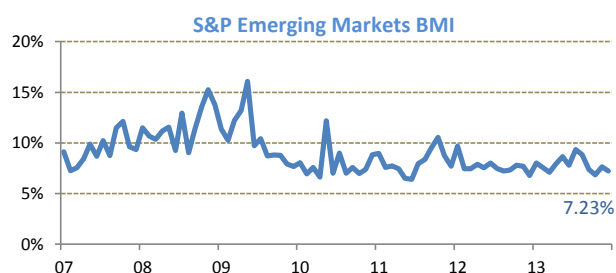
Source: S&P Dow Jones Indices LLC and/or its affiliates as of January 22, 2014. See notes for additional sources. Index performance based on total return. Charts and graphs are provided for illustrative purposes. Past performance is no guarantee of future results. For more information, please visit our website at www.spdji.com

Index Investment Strategy

DISPERSION: US & EUROPE



DISPERSION: GLOBAL & MULTI-ASSET



Notes

- Volatility measures:** Sources S&P Dow Jones Indices / CBOE. Respective VIX and 1 month (changes in those levels as of January 22, 2014. 1 year realized volatility calculated according to previous 1 years daily returns, annualised.
- Investible Volatility Indices:** Sources S&P Dow Jones Indices / CBOE as of January 22, 2014. More information is available on each of these indices at www.spdji.com and www.cboe.com.
- Correlations:** Sources S&P Dow Jones, NYSE. Correlations of monthly returns between total return indices, in USD. Commodities are represented by the S&P GSCI Total Return index, US Treasuries by the S&P/BGCantor 7-10 year UST Index, US dollar represented by the DXY Index (Source: NYSE). All provided to month-end December 2013.
- VIX Futures Indices Roll Costs (Monthly):** VIX futures roll costs are expressed as the weighted sum of the percentage difference in price between each future and the future next closer to expiry (or the spot price in respect of the first future), expressed as a fraction of that futures price and weighted according to that future's weight in the either the S&P VIX Short-Term Futures Index, or the S&P VIX Mid-Term Futures Index, as appropriate.
- Dispersions:** See the paper "Dispersion: Measuring Market Opportunity" for a definition of index dispersion (www.spindices.com/documents/research/research-dispersion-measuring-market-opportunity.pdf). Dispersions are calculated monthly to December 2013 in each instance. The Multi-Asset Portfolio comprises equal weights in each of: the S&P 500°, S&P Europe 350°, S&P Emerging Market BMI, S&P GSCI Commodities, S&P TOPIX 150, Barclays Aggregate U.S. Corporate High Yield, Barclays Aggregate U.S. Bond and Citigroup WorldBIG Non-US issuers excluding Domestic Sovereign Indices. All total returns in USD unhedged.

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