RIVERFRONT INVESTMENT GROUP

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QUARTERLY COMMENTARY

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THIRD-QUARTER 2013 OVERVIEW

The equity markets saw a return of volatility during the third quarter with the ongoing debate over the debt ceiling, questions about the Federal Reserve tapering, anxiety over Syria, and then the possibility of a US government shutdown as we closed the month. Even though the third quarter ended as the shutdown began, we are encouraged by our belief that US economic expansion is on a sustainable growth path and that global economic conditions continue to show signs of improving momentum. We believe stock markets will be higher by next year end, and that any correction would be difficult to trade successfully. While the shutdown will likely dampen US economic growth for the fourth quarter of 2013 and could impact the beginning of 2014, it also could result in the Federal Reserve delaying its plan to taper – likely resulting in a somewhat neutral effect, in our opinion. As such, all the RiverFront portfolios are positioned in "risk-on" mode. This positioning served us well as all strategies outperformed their RiverFront composite benchmarks during the quarter and are also outperforming those benchmarks on a year-to-date and trailing 12-month basis.

Within the equity portion of the portfolios, we remain overweight developed international with an emphasis on Europe and Japan. Throughout 2013, our Price Matters® framework has suggested that developed international was undervalued, but these stocks had lagged relative to the S&P 500 for much of the year as investors were plagued with lingering doubts about the European economic status and whether Japanese economic reform was "real." However, data from both these regions suggests they are experiencing business expansions in both their manufacturing and services sectors, and the equity markets have responded favorably. Within the US, our preference remains in sectors that tend to be higher beta such as financials, industrials, and technology. These areas of the US market have also been attractively valued and showed strong relative performance during the quarter. In addition, all portfolios have an allocation to US micro cap equities.

During the third quarter, the RiverFront risk management discipline forced a review of emerging markets given that we had significantly reduced exposure during the second quarter. Improving data coming out of China resulted in a reversal of momentum within emerging markets stocks. The combination of improving momentum and attractive valuations prompted us to reinvest across all portfolios; however, we remain underweight emerging markets relative to levels determined through our 2013 Capital Market Assumption process. Within emerging markets we have increased our exposure to Asia in countries such as China, Taiwan, and Korea – countries with trade surpluses and foreign currency reserves. In the balanced strategies, we continue to be overweight equities relative to fixed income. Interest rates continue to hover near historic lows, and we believe we have marked the end of the 30-year bull market for bonds.

In contrast to most equity indices, year-to-date fixed income returns are negative – further eroding investors' purchasing power and creating considerable opportunity cost. Our current fixed income positioning has our bond maturities at less than three years and includes both short-term investment grade and short-term high yield. Additionally, we have begun to lower our exposure to corporate loans.

Performance Drivers

The portfolios benefitted during the quarter from the overweight to developed international. In addition to overweights to Europe and Japan, specific country investments in Germany and the UK were also positive contributors. The emphasis on high beta as well as the allocation to micro caps were positive contributors. Specific equity sectors that contributed positively included consumer discretionary, health care, industrials and technology.

Balanced Portfolios: The overweight to stocks relative to fixed income was a positive contributor. After having a strong period of outperformance, MLPs lagged during the third quarter and had a negative impact on the portfolios' performance. We believe MLPs could have a difficult time outperforming in a rising rate environment; thus, we recently reduced our position. Within traditional fixed income, some of the individual positions lagged given that their maturities are less than a year out. Finally, despite the decision to increase our allocation to emerging markets, the underweight relative to the composite benchmarks had a negative impact on performance.

Growth Portfolios: Even though it was minimal, our cash position was a detractor to performance during the quarter. Despite the decision to increase our allocation to emerging markets, the underweight relative to the composite benchmarks had a negative impact on performance.

Important Disclosures

Past performance is no guarantee of future results.

RiverFront's Price Matters® discipline compares inflation-adjusted current prices relative to their long-term trend to help identify extremes in valuation.

The Standard & Poor's (S&P) 500 Index measures the performance of 500 large cap stocks, which together represent about 75% of the total US equities market. It is not possible to invest directly in an index.

Investments in international and emerging markets securities include exposure to risks such as currency fluctuations, foreign taxes and regulations, and the potential for illiquid markets and political instability.

High-yield securities are subject to greater risk of loss of principal and interest, including default risk, than higher-rated securities. In a rising interest rate environment, the value of fixed-income securities generally declines.

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Technology and Internet-related stocks, especially of smaller, less-seasoned companies, tend to be more volatile than the overall market.

Beta measures volatility relative to a benchmark. A result greater than 1.0 implies that a security is more volatile than the benchmark; a result less than 1.0 suggests that the security is less volatile than the benchmark. Betas may change over time.

MLP investing includes risks such as equity- and commodity-like volatility. Also, distribution payouts sometimes include the return of principal and, in these instances, references to these payouts as "dividends" or "yields" may be inaccurate and may overstate the profitability/success of the MLP. Additionally, there are potentially complex and adverse tax consequences associated with investing in MLPs. This is largely dependent on how the MLPs are structured and the vehicle used to invest in the MLPs. It is strongly recommended that an investor consider and understand these characteristics of MLPs and consult with a financial and tax professional prior to investment.

Riverfront Investment Group, LLC, is registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940. Riverfront manages a variety of fee-based asset allocation portfolios. The company manages several portfolios comprised of various equity and fixed-income securities.

Information provided in this report is for educational and illustrative purposes only and should not be construed as individualized investment advice. The investment or strategy discussed may not be suitable for all investors. Investors must make their own decisions based on their specific investment objectives and financial circumstances. Past performance is no guarantee of future results.