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The Right Way
to Invest

Finding Income in a Low Rate World

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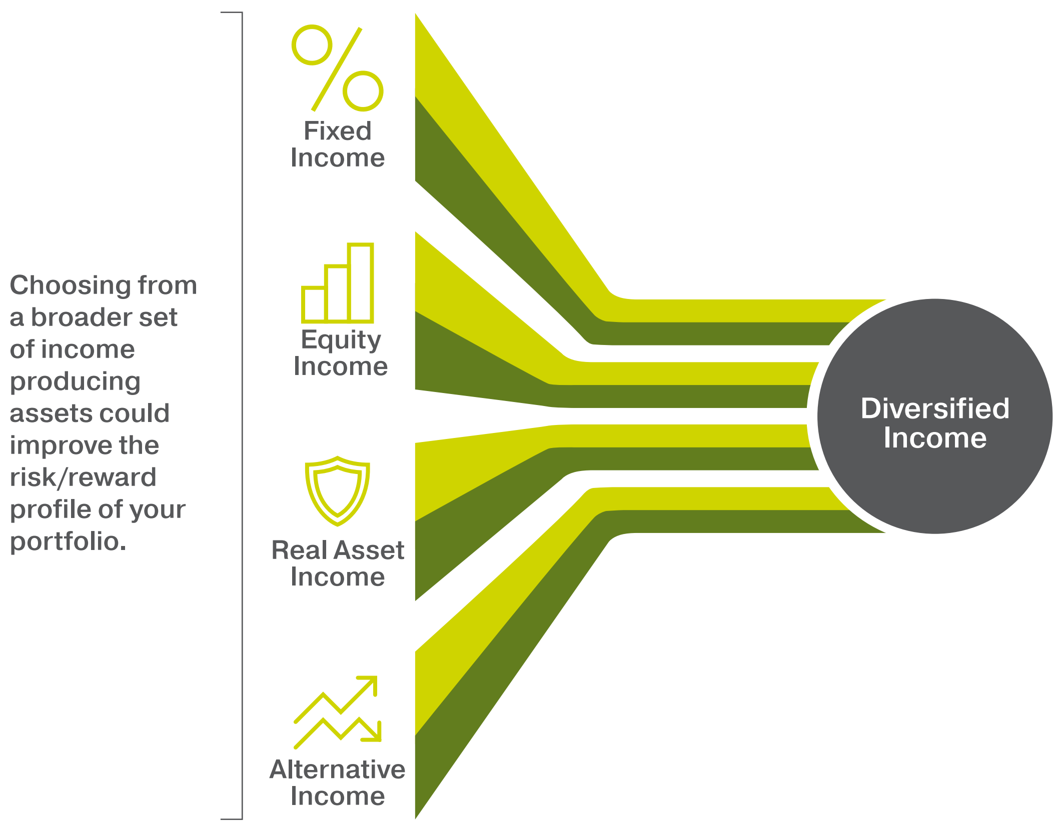
Executive Summary

- Historically low interest rates have left investors starved for income.
- Investors who want higher income may be willing to diversify but aren't sure how to manage the higher risks associated with other asset classes.
- A diversified income strategy that brings together core bonds and other income-producing asset classes may deliver the best of both worlds—additional income at an acceptable risk level.

The Perennial Income Challenge—and a Potential Solution

Years of stubbornly low interest rates have continued to frustrate investors seeking income. Savers everywhere crave yield without excessive risk, but finding one silver-bullet solution remains elusive. Ultra-safe bonds offer paltry payouts while higher yielding investments come with notably greater risk and volatility. So what's an investor to do? In short: cast a wider net.

A Diversified Approach to Income Investing



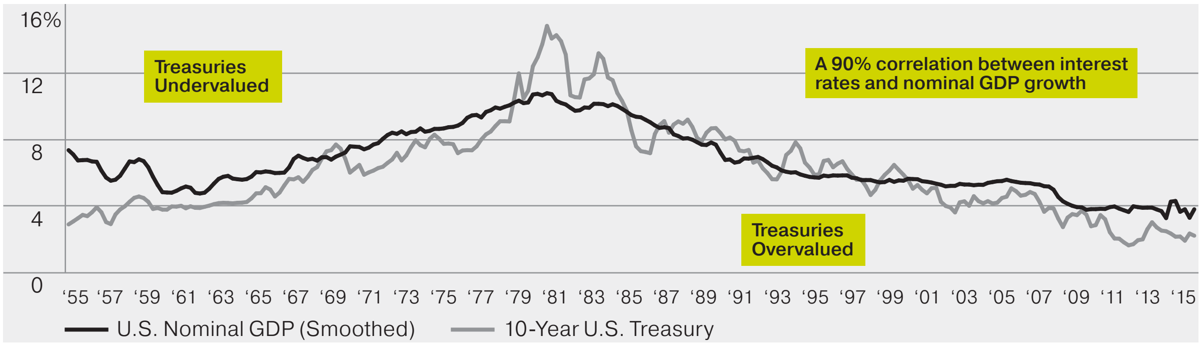
A well-diversified, income solution that draws from numerous income-producing asset classes—including not only bonds but also stocks, real assets and alternatives, allows investors to earn competitive yields without taking on excessive risk.

Interest Rates Likely to Remain Low for Long

Many investors are overweight cash, hoping to use it to lock in higher rates when yields finally head higher. The odds don't favor them.

Rates Closely Track Growth—Which Is Likely to Remain Modest Exhibit 1

Exhibit 1: Interest Rates Tend to Follow Nominal Growth Rates in the Gross Domestic Product (GDP)



Source: Bloomberg, 8/31/15. **Past performance does not guarantee future results.**

While GDP growth may now be signaling that today's low 10-Year Treasury yield has room to back up slightly, current economic conditions are likely to sustain the long-term trend of slower growth and low government bond yields. These conditions include:

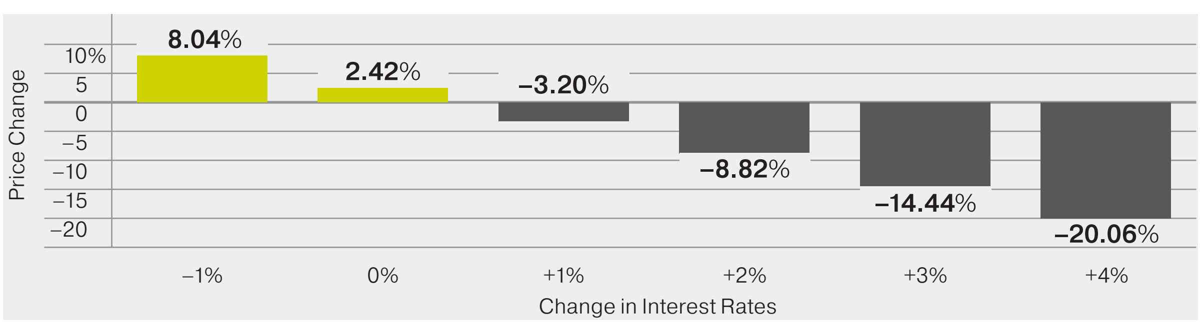
- Global deleveraging
- Weak wage growth
- Easy monetary policy
- Baby Boomers retiring from the work force
- Growing institutional demand for bonds, which drives up prices and brings down yields

Today's Core Bond Yields Won't Protect You from Rate Increases

Beyond limiting purchasing power, today's rock bottom yields also limit the potential for future capital appreciation to pad low bond coupons as rates no longer have much room to fall. And while rates aren't likely to climb much, even a relatively small 1% 12-month rise in rates would be enough to more than negate today's paltry core bond yields. **Exhibit 2**

Exhibit 2: Core Bond Interest Rate Sensitivity

(Hypothetical returns of Barclays Aggregate Bond Index based on interest rate moves over the next 12 months)



Source: Barclays Live, 8/31/15. Interest rates represented by the 10-Year Treasury Yield. Index definitions can be found on the last page.

While yields could still experience periodic, slight increases, interest rates are likely to remain historically low for a long period. That means investors will have to look beyond core bonds for attractive levels of income. The answer may be to combine their core bond holdings with asset classes they might have not traditionally considered to support their income needs.

Risk/Reward Considerations in the Search for Income Solutions

Strategies to pursue income can span many asset classes, from bonds and equities to real assets and alternatives. Investors must take a number of important considerations into account in evaluating these opportunities.

1 Finding Income Comes with Tradeoffs Exhibit 3

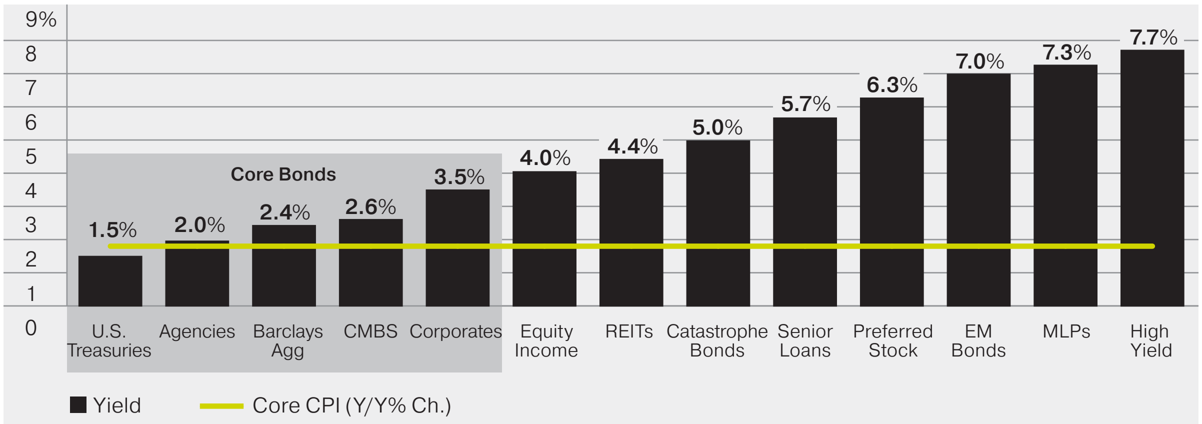
Exhibit 3: Single Strategy Risk/Reward Tradeoffs Highlight Need for Multi-Asset Class Solutions

Asset Class	Sub Asset Class	Benefits	Drawbacks
Fixed Income	**Core Bonds**	Reliable current income, low relative volatility	Low yields, high valuation, duration risk
	Global High Yield	Attractive yield and default risk compensation, lower duration risk	Volatility, drawdown
	EM Bonds (Local Currency)	High yield with currency and interest rate diversification	Event risk/fund-flow sensitivity
	Senior Floating Rate Bank Loans	Attractive yield, low core bond correlation and low duration risk	Volatility, drawdown
Equity Income	**Domestic Dividend**	Potential income and capital growth/inflation hedge	Volatility, drawdown
	Preferred Stock	High yield, low relative volatility	Junior to bonds in capital structure/callable
Real Asset Income	**Master Limited Partnerships**	High yield, income growth and low core bond correlation	Volatility, drawdown
	Global REITS	Attractive yield, currency diversification, inflation hedge	Volatility, drawdown
Alternative Income	**Event Linked** (Catastrophe Bonds)	High yield, diversifier with low equity/bond correlation, low volatility	High tail risk; low relative liquidity

2 Looking Beyond Core Bonds for Higher Yields

Core bonds—treasuries, agency bonds, investment-grade corporates—struggle to deliver the yields other types of income-producing assets do. **Exhibit 4**

Exhibit 4: Traditional Sources Struggle to Deliver Real Income



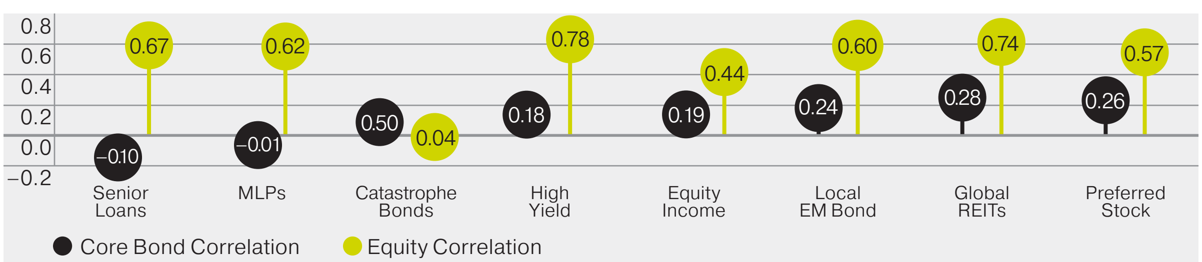
- In a low rate world, the higher levels of income available from non-traditional sources make them quite attractive for investors.
- Additionally, if interest rates do rise again, all bonds may be affected, but those asset classes with lower duration risk than core bonds—like high yield and emerging market bonds—are likely to experience much less significant price declines than core bonds would.

Source: Bloomberg, 8/31/15. Asset classes are represented by the following indices (in the order they appear on the chart): U.S. Treasuries Index, Agencies Index, Barclays U.S. Aggregate Bond Index (represented as Core Bond): Commercial Mortgage-Backed Securities Index, Corporate Grade Bond Index; Custom Equity Income Index (comprised of S&P 500 Utilities, S&P 500 Telecom and S&P 500 Consumer Staples Indices), FTSE NAREIT Equity REIT Index; Swiss Re Catastrophe Bond Index; Credit Suisse Leveraged Loan Index; S&P Preferred Stock Index; JPMorgan GBI-EM Global Diversified Index; Alerian MLP Index; and the JPMorgan High Yield Bond Index. Index definitions can be found on the last page. **Past performance does not guarantee future results.**

3 Non-Traditional Income Strategies Are Good Diversifiers

To boost diversification, investors want asset classes that don't move in the same direction under similar market conditions. Historically, many non-traditional income strategies have enjoyed low correlations to core bonds and, to a lesser extent, to equities as well. **Exhibit 5**

Exhibit 5: Powerful Diversifiers



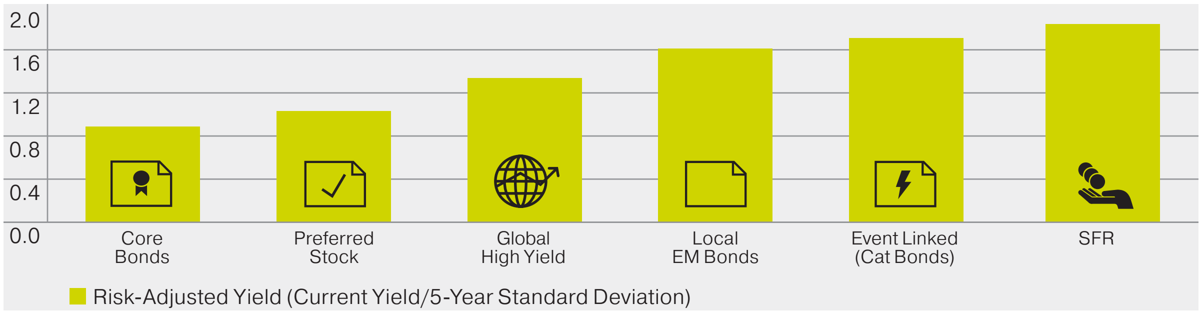
- The diversification potential that these asset classes can provide a broad portfolio can potentially offset the higher risks associated with each of these strategies.
- MLPs, senior loans and event-linked bonds offer the greatest cross-asset-class diversification benefits.

Source: Bloomberg 8/31/15. Global REITS are based on the FTSE EPRA NAREIT Global Index. Custom Equity Income Index comprised of S&P 500 Utilities, S&P 500 Telecom and S&P 500 Consumer Staples Indices. **Note:** Based on trailing 5-year monthly correlation to the Barclays Aggregate Bond Index (Core Bond) and the S&P 500 (Equity). Index definitions can be found on the last page.

4 For Strong Risk-Adjusted Returns, Look to Yield Efficiency

Investors who want to augment the income derived from their core bond portfolios should consider yield efficiency—a measure of the yield per unit of risk. Surprisingly, for investors who have traditionally considered investment-grade bonds as “safe” investments, many non-traditional income strategies—including senior loans, high yield bonds, EM local currency bonds, catastrophe bonds and preferred stocks—all currently sport higher yield efficiency than core bonds do. **Exhibit 6**

Exhibit 6: High Yield Efficiency

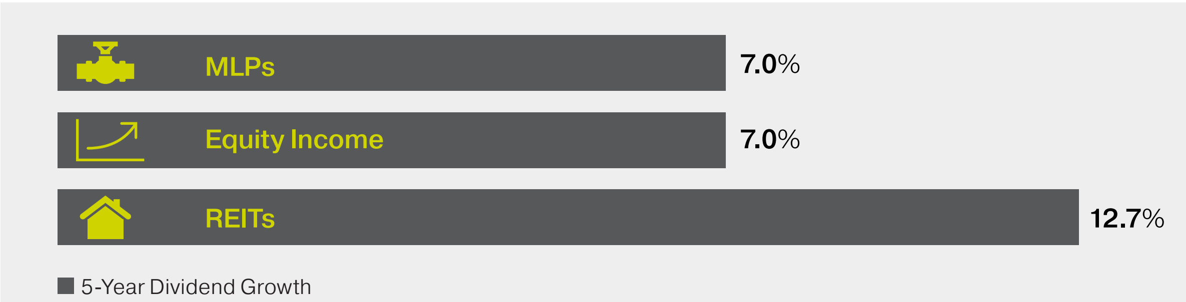


Source: Bloomberg, 8/31/15. Risk-adjusted yield is a custom calculation made by dividing current yield by historical 5-year standard deviation of returns. Asset classes are represented by the following indices (in the order they appear on the chart): Barclays U.S. Aggregate (represented as Core Bond); S&P Preferred Stock Index; JPMorgan Global High Yield Index; JPMorgan GBI-EM Global Diversified Index; Swiss Re Catastrophe Bond Index; Credit Suisse Leveraged Loan Index. Index definitions can be found on the last page. **Past performance does not guarantee future results.**

5 To Maintain Purchasing Power, Consider Assets with Dividend Growth Potential

While most fixed income asset classes have a fixed coupon, the income—in the form of dividends—produced by other asset classes has the potential to grow over time. In fact, over the past five years, MLPs, dividend-paying stocks, and Real Estate Investments Trusts (REITS), have all delivered attractive levels of dividend growth. **Exhibit 7**

Exhibit 7: Inflation Protection Through Dividend Growth



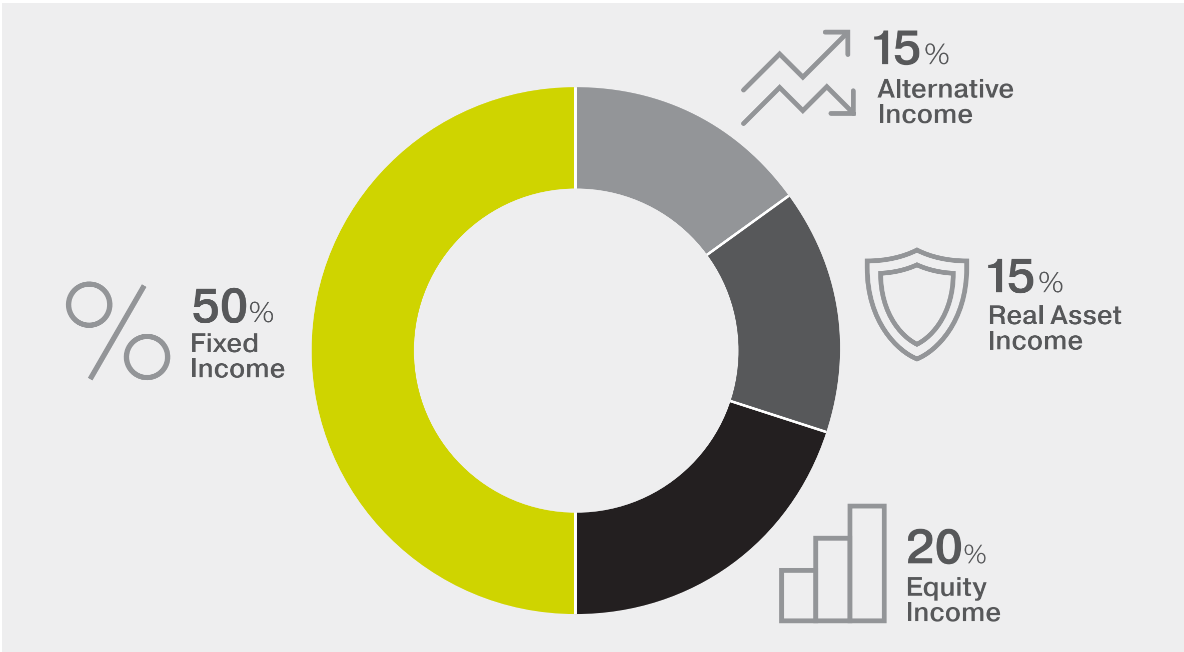
- While inflation is not a major concern now, dividend growth may help investors keep pace with or even surpass price increases, thereby preserving their purchasing power.
- The inclusion of these asset classes in an income strategy replaces interest rate risk with equity risk, which may be a better relative bet at current valuations.

Source: Bloomberg, 8/31/15. Asset classes are represented by the following indices (in the order they appear on the chart): Alerian MLP Index; Custom Equity Income Index (comprised of S&P 500 Utilities, S&P 500 Telecom and S&P 500 Consumer Staples Indices); MSCI REIT Index. Index definitions can be found on the last page. **Past performance does not guarantee future results.**

Bringing It All Together

A diversified, actively managed strategy that draws income from fixed income, real asset, equity and alternative sources has the potential to alleviate today's most vexing income challenges: stubbornly low yields, looming interest rate risk and the need for both reliable income growth and greater overall portfolio diversification. A hypothetical example of such a multi-asset strategy can illustrate its potential benefits. **Exhibit 8**

Exhibit 8: A Hypothetical Multi-Asset Income Allocation Could Deliver Higher Yield Without Excessive Risk



- The hypothetical multi-asset income allocation sports a 5.9% yield, double that of Barclays Aggregate Bond Index. (As of 8/31/15)
- With a 4.6% trailing 5-year standard deviation, its risk level would have been higher than core bonds' 2.7%, but not excessive.
- The hypothetical multi-asset income allocation would have delivered additional diversification benefits:
  - A low 33% correlation to core bonds[1]
  - The potential for growth of income—and the resulting hedge against inflation—from the 35% allocation to equities and real assets

Source: Bloomberg, 8/31/15. The hypothetical fixed income allocation is a custom blend of the JPMorgan Global High Yield Index, the Barclays U.S. Aggregate, and the JPMorgan GBI-EM Global Diversified Index and the Credit Suisse Leveraged Loan Index; The Hypothetical Real Asset Income portfolio is a custom blend of FTSE NAREIT Equity REIT Index and the Alerian MLP Index; The Alternative Income portfolio is the Swiss Re Catastrophe Bond Index; The Equity Income portfolio is a custom blend of S&P Preferred Stock Index, S&P 500 Utilities, S&P 500 Telecom and S&P 500 Consumer Staples Indices. Index definitions can be found on the last page. Diversification does not guarantee profit or protect against loss.

1. Sources: Barclays, OppenheimerFunds proprietary research.

A Complement to Core Bonds, Not a Substitute

We see multi-asset income exposure as complementing core bond allocations rather than replacing them. After all, treasuries, agencies and investment-grade corporates, while low yielding, provide valuable portfolio ballast during periods of heightened volatility, making it risky to abandon exposure altogether. Instead, a multi-asset income strategy can complement an existing core bond allocation. In moving to such a strategy, investors might consider any overfunded money market and/or core bond positions as potential sources of funds for their multi-asset allocations.

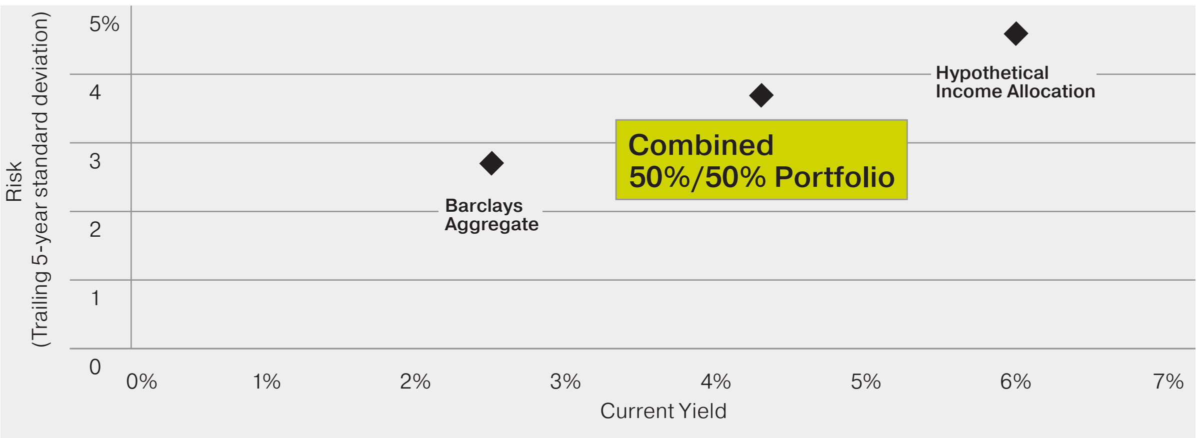
A Reasonable Risk/Reward Compromise

Maximizing the income potential of multiple asset classes can involve more than simply starting with a core, investment-grade bond position and then bolting on a satellite allocation of high yield bonds, senior loans or master limited partnerships.

For investors seeking a moderate rise in income with an equally moderate increase in their risk exposure, the ideal solution could lie in an even split between a core bond positon and a diversified multi-asset income strategy. **Exhibit 9**

Exhibit 9: Blending Core Bonds with a Multi-Asset Income Strategy

Higher Yield Without Excessive Risk



- A 50% core bond/50% multi-asset income strategy would have delivered an attractive yield of 4.2% while sporting a reasonable, 5-year trailing standard deviation of only 3.7%.

Sources: Bloomberg, Barclays, Oppenheimer Proprietary Research, 8/31/15.

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Alec Young serves as an investment strategist in the firm's capital markets research group. He formulates and communicates multi-asset class investment thought leadership and optimization of client portfolios. From 2005 through early 2014, he served as the global equity strategist at Standard & Poor's, where he authored U.S. and international investment strategy reports, published strategic asset allocation models and co-chaired S&P's investment policy committee. He has been quoted often in *The Wall Street Journal*, *Financial Times* and *The New York Times*, is a frequent guest on CNBC and Bloomberg TV and has been featured as a speaker at many industry conferences.

Risks to Consider

Investments in securities of growth companies may be especially volatile. There is no guarantee that the issuers of stocks held by mutual funds will declare dividends in the future, or that if dividends are declared, they will remain at their current levels or increase over time. Foreign investments may be volatile and involve additional expenses and special risks, including currency fluctuations, foreign taxes and geopolitical risks. **Emerging and developing markets** may be especially volatile. Due to the recent global economic crisis that caused financial difficulties for many European Union countries, Eurozone investments may be subject to volatility and liquidity issues. **Preferred shares** are subject to interest rate risk; when interest rates rise, the value of the preferred stock having a fixed dividend rate tends to fall. Preferred shares do not represent a liability of the issuer and, although generally ranking ahead of common stock in a bankruptcy or insolvency, would generally rank behind liabilities of the issuer. **Fixed income** investing entails credit risks and interest rate risks. When interest rates rise, bond prices generally fall, and a Fund's share prices can fall. **Below-investment-grade** ("high yield" or "junk") bonds are more at risk of default and are subject to liquidity risk. **Event-linked securities** are fixed income securities for which the return of principal and interest payment is contingent on the non-occurrence of a trigger event that leads to physical or economic loss. If the trigger event occurs prior to maturity, the Fund may lose all or a portion of its principal and additional interest. **Senior loans** are typically lower rated (more at risk of default) and may be illiquid investments (which may not have a ready market). Investments in real estate companies, including **REIT**s or similar structures, are subject to volatility and risk. Smaller real estate companies may also be subject to liquidity risk. Investing in **MLPs** involves additional risks as compared to the risks of investing in common stock, including risks related to cash flow, dilution and voting rights. Each Fund's investments are concentrated in the energy infrastructure industry with an emphasis on securities issued by MLPs, which may increase volatility. Energy infrastructure companies are subject to risks specific to the industry such as fluctuations in commodity prices, reduced volumes of natural gas or other energy commodities, environmental hazards, changes in the macroeconomic or the regulatory environment or extreme weather. MLPs may trade less frequently than larger companies due to their smaller capitalizations which may result in erratic price movement or difficulty in buying or selling. Additional management fees and other expenses are associated with investing in MLP funds. Diversification does not guarantee profit or protect against loss.

Index Definitions

The S&P 500 Index is a market capitalization weighted index of the 500 largest domestic U.S. stocks.

The S&P 500 Utilities Index tracks the utilities GICS sector of the S&P 500, a market capitalization weighted index of the 500 largest domestic U.S. stocks.

The S&P 500 Telecommunications Index tracks the utilities GICS sector of the S&P 500, a market capitalization weighted index of the 500 largest domestic U.S. stocks.

The S&P 500 Consumer Staples Index tracks the utilities GICS sector of the S&P 500, a market capitalization weighted index of the 500 largest domestic U.S. stocks.

The S&P U.S. Preferred Stock Index is designed to serve the investment community's need for an investable benchmark representing the U.S. preferred stock market. Preferred stocks are a class of capital stock that pays dividends at a specified rate and has a preference over common stock in the payment of dividends and the liquidation of assets.

The Barclays Aggregate Bond Index is an index of U.S. Government and corporate bonds that includes reinvestment of dividends.

The Barclays Aggregate U.S. Treasuries Index represents public obligations of the U.S. Treasury with a remaining maturity of one year or more.

The Barclays Aggregate Agencies Index, Agency Mortgage-Backed Securities (MBS) and Commercial Mortgage-backed Securities (CMBS) Index represent the U.S. Government-Related Agencies, U.S. MBS and CMBS components of the Barclays U.S. Aggregate Bond Index, respectively.

The Barclays Aggregate Corporate Bond Index represents primarily investment-grade corporate bonds within the Barclays Aggregate Bond Index.

The Barclays High Yield Bond Index covers the universe of fixed rate, non-investment-grade debt.

The JPMorgan GBI-EM Global Diversified Index tracks total returns for local-currency-denominated money market instruments in the emerging markets.

The JPMorgan Domestic High Yield Index tracks the investable universe of domestic below-investment-grade bonds in the United States.

The JPMorgan Global High Yield Index tracks the investable universe of global below-investment-grade bonds.

The Alerian MLP Index is a composite of the 50 most prominent energy Master Limited Partnerships (MLPs)

The Credit Suisse Leveraged Loan Index is a composite index of senior loan returns representing an unleveraged investment in senior loans that is broadly based across the spectrum of senior bank loans and includes reinvestment of income (to represent real assets).

The MSCI U.S. REIT Index is a free float market capitalization weighted index that is comprised of Equity REITs securities that belong to the MSCI U.S. Investable Market 2500 Index.

The FTSE National Association of Real Estate Investment Trusts (NAREIT) Equity REITS Index is an index consisting of certain companies that own and operate income-producing real estate that have 75% or more of their respective gross invested assets in the equity or mortgage debt of commercial properties.

The FTSE EPRA/NAREIT Global Index is designed to track the performance of listed real estate companies and REITS in both developed and emerging markets.

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