

Currently, the Sub-Adviser to the Dunham International Stock Fund, Arrowstreet Capital, Limited Partnership, has overweight positions in Russian stocks. The Fund's exposure to Russia is 5%, which is approximately a 4% overweight versus the Index. The Russian overweights are concentrated in the energy basket, with lesser overweights in the materials and financials baskets. Gazprom and Lukoil (both Russian energy companies) are large individual positions in the portfolios.

After the recent sell-off as a result of the Ukraine crisis, Russian equities remain attractive. The Russian energy basket in particular has double digit annualized percentage forecasts in excess of the MSCI Emerging Markets Index. The Russian ruble forecast is close to neutral. The risk of Russian positions has clearly increased, including the risk of outright expropriation. However, given the overall low levels of market volatilities and portfolio tracking error, the risk changes are less influential in determining portfolio positioning.

The forecasts that motivate these overweight positions are driven by value and extreme (negative) sentiment. While most Russian stocks have poor momentum, the attractive valuations of Russian energy stocks more than offset this. For example, as of April 29, 2014, Bloomberg reported Gazprom's trailing twelve month price-to-earnings ratio to be under three. Although one can quibble about the appropriate multiple or the correct way to compute it, it is clear to Arrowstreet that a significant amount of negative future developments have already been priced in by the market.

Arrowstreet believes that political events, such as this unfortunate episode, can create mispricing or act as a catalyst to reduce mispricing. If the market in question was already priced cheaply to recognized risks before the event and then sells off further in the resulting panic, forward looking the situation may be an attractive buying opportunity. Arrowstreet believes that Russian equities in 2014 fit this characterization. As their forecasts for Russian energy stocks have not declined meaningfully, Arrowstreet expects to maintain or increase our exposure to Russia.

When similar negative events take place in markets that are expensive and driven by momentum, the event may be a catalyst that changes the momentum and leads to a medium-term decline to lower valuation levels. This was the case in Summer 2008 during the analogous political event of Russia invading Georgia. In that case, Arrowstreet's models organically sold off Russian exposure from the portfolios that had been mainly motivated by short-term momentum considerations before the event. One important reason for the sell response was that in early 2008 the price-to-earnings ratio of, for example, Gazprom was about twelve, not under three.

In short, Arrowstreet believes that their expected return forecasts are well-designed to respond to these kinds of political crises, and that the response sensibly reflects the basis of the original forecasts for the positions in question. This is not to say that these political crises cannot have negative portfolio implications: they can, and this one did. Roughly speaking, we will benefit from the onset of these events as frequently as we are harmed by them. Arrowstreet does believe, however, that their process is well-designed to respond to the aftermath of these events.

PERFORMANCE AS OF MARCH 31, 2014¹

	Previous 3 Months	YTD	1 Year	3 Year	5 Year	Since Inception (12/10/04)	Expense Ratio ²
DNINX	0.46%	0.46%	18.15%	6.57%	18.37%	6.19%	2.12%

Important Disclosures

¹Source: Dunham & Associates via Gemini Fund Services, LLC.

²Expense ratios are gross of any fee waivers and reflect those in Dunham's most recent Prospectus.

This report was written by Arrowstreet Capital, Limited Partnership, the Sub-Adviser to the Dunham International Stock Fund and was prepared by Dunham & Associates Investment Counsel, Inc., the Investment Adviser to the Dunham Funds. Views expressed are as of May 12, 2014, and are subject to change at any time based on market conditions. Expense ratios are per the most recent prospectus and related prospectus supplements. Data is unaudited and the information may not be representative of current or future investment strategy. Please contact your investment advisor for a more complete explanation. Returns include change in share prices and reinvestment of all dividends and capital gain distributions (if any). The Dunham Funds are distributed by Dunham & Associates Investment Counsel, Inc., a FINRA member.

The performance data quoted represents past performance. Current performance may be higher or lower than the performance data quoted. Past performance does not guarantee future results. 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 original cost. Performance as of the most recent month-end may be obtained by calling (800) 442-4358. N shares have no initial sales charge or contingent deferred sales charges (CDSC).

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Investors should consider the investment objectives, risk factors, charges, and expenses of the Dunham Funds carefully before investing. This and other important information is contained in the Fund's summary prospectus and/or prospectus, which may be obtained by calling (800) 442-4358. Please read prospectus materials carefully before investing or sending money. Investing involves risk, including possible loss of principal.

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