GREYCOURT

*For the Month Ending August 31st, 2010 **

Capital Markets Flash Report

US Equity Markets	Aug-10	Y-T-D
Large Stocks:		
S&P 500	-4.51%	-4.62%
Russell 3000	-4.71%	-4.26%
Russell 1000	-4.47%	-4.37%
Russell 1000 Growth	-4.67%	-5.68%
Russell 1000 Value	-4.28%	-3.03%
Small Stocks:		
Russell 2500	-5.92%	-1.00%
Russell 2000	-7.40%	-2.96%
Russell 2000 Growth	-7.29%	-3.44%
Russell 2000 Value	-7.52%	-2.53%
International Equity Markets**		
MSCI EAFE	-3.09%	-7.61%
MSCI EAFE Growth	-2.70%	-5.65%
MSCI EAFE Value	-3.49%	-9.59%
MSCI Europe	-3.66%	-9.97%
MSCI Japan	-2.28%	-1.48%
MSCI Emerging Markets	-1.91%	-0.09%
Hedge Fund Markets***		
HFRX Indexes:		
Convertible Arbitrage	1.24%	4.81%
Distressed	-0.63%	1.37%
Equity Hedge	-0.64%	-1.85%
Equity Market Neutral	-3.38%	-1.40%
Event Driven	-0.46%	-0.30%
Macro	1.01%	-1.96%
Relative Value Arbitrage	0.54%	3.41%
US Fixed Income Markets		
U.S. Treasury Bonds (1)	2.55%	12.49%
Treasury Inflation-Protected Securities (2)	1.93%	6.32%
Tax-Exempt Bonds (3)	2.04%	6.09%
Corporate Bonds (4)	1.57%	11.02%
High-Yield Bonds (5)	-0.36%	6.74%
Real Asset Markets		
DJ UBS Commodity Index Total Return	-2.55%	-5.93%
FTSE NAREIT Equity Index	-1.39%	14.00%

Overview

With the end of summer fast-approaching, risk assets have failed to maintain their momentum (in either direction) so far in 2010. Rallies stemming from strong Q1 and Q2 earnings and increased M&A activity have been short-lived. Prices for risk assets (with a few notable exceptions) have largely been held in check by a weak economic backdrop and the massive debt overhang in the public sector. Consumers seem to be improving their own fragile balance sheets but not nearly fast enough to totally dispel concerns of a double-dip. Last week, 2nd Qtr U.S. GDP was revised downward to a sobering 1.4% annualized growth rate.

US Equity

In August, financial services stocks lost 7% with regional banks being hit especially hard, dropping almost 11%. Domestic large cap equities as a whole lost 4.5%. Small caps fell 7.4%. So far this year, equity prices have struggled to advance (and for the most part have lost ground) despite the strong margins and significant cash positions enjoyed by many of the S&P 500 companies.

International Equity

Developed international markets slipped again in August as the MSCI EAFE Index dropped 3% and is now down 7.6% for the year. Emerging markets have held their own in 2010, pulling in roughly flat for the year-to-date. The 9.5% advance in the Yen has boosted the total return on Japanese equities so far this year. However, the stronger Yen has dimmed the outlook for Japan's export-driven businesses, resulting in a 1.5% drop in overall returns. Developed European economies, France and Germany, fell nearly 6% each. These moves were accompanied by a 3% drop in the Euro.

Hedge Funds

Equity-oriented strategies gave back much of their July gains during the most recent month. Most managers in this space have missed out on recent upswings in the market due to defensive positioning. However, equity hedge strategies are adding value on the downside, falling only 0.63% in August. Equity market neutral strategies fell sharply in August (down 3.4%) and dipped into the red for the year.

Macro strategies performed well in August, returning 1%, but are still negative for the year. For the time being, this is a positive development for many hedge managers that have moved away from other strategies and into this space. However, we are mindful of the long-term implications of strategy drift and crowded trades. Event-driven strategies were negative for the month and year-to-date which comes as a surprise given the uptick in M&A activity.

Fixed Income

Bond funds continue to see positive inflows in 2010 as investors diversify their previously equity-heavy portfolios. These investors have shown a preference for quality though. Investment grade corporate bonds are now up 11% for the year while speculative grade credits are up 6.7% after having dropped slightly in August. Treasury yields continued their slide in August, boosting YTD returns for intermediate treasuries to over 12.5%, with the yield on the 10-year Treasury dropping to 2.53%. TIPS and Munis both returned a healthy 2% for the month.

Real Assets

The NAREIT Equity REIT Index continues to widen the performance gap relative to broader equity markets. Cash-rich S&P 500 companies are now trailing higher-yielding REITS for the year by 1860 bps! Once again, this display of risk appetite represents a stark contrast to the coincident rally in Treasuries.

Spot prices for natural gas plummeted by 23% in August! The story here continues to be one of too much supply (American shale) and too little demand (frail economy). Commodities fell broadly 2.5% for the month and have now dropped 6% thus far in 2010.

(1) Fidelity Spartan Intermediate Treasury Bond Index is used as a proxy for intermediate US Treasury bond funds. (2) Vanguard Inflation-Protected Securities Fund is used as a proxy for US Treasury Inflation Protected Securities funds. (3) Vanguard Intermediate-Term Tax-Exempt Fund is used as a proxy for tax-exempt bond funds. (4) Vanguard Intermediate-Term Investment Grade Bond Fund (Admiral shares) is used as a proxy for intermediate corporate bond funds. (5) Vanguard High-Yield Corporate Fund is used as a proxy for high-yield corporate bond funds.

Data Source: Bloomberg ** The MSCI returns are gross returns calculated in US Dollars. * Hedge Fund Index returns are reported using Simple Price Appreciation and are only available on a one day lag. For complete Index Descriptions, please go to http://www.greycourt.com/indices.html*