GREYCOURT

For the Month Ending June 30th, 2010 *

Capital Markets Flash Report

US Equity Markets	Jun-10	Y-T-D
Large Stocks:		
S&P 500	-5.24%	-6.65%
Russell 3000	-5.75%	-6.05%
Russell 1000	-5.57%	-6.40%
Russell 1000 Growth	-5.51%	-7.64%
Russell 1000 Value	-5.63%	-5.12%
Small Stocks:		
Russell 2500	-7.14%	-1.69%
Russell 2000	-7.75%	-1.94%
Russell 2000 Growth	-6.71%	-2.31%
Russell 2000 Value	-8.73%	-1.63%
International Equity Markets**		
MSCI EAFE	-1.19%	-12.93%
MSCI EAFE Growth	-0.10%	-10.48%
MSCI EAFE Value	-2.29%	-15.38%
MSCI Europe	-0.78%	-16.30%
MSCI Japan	-2.06%	-2.65%
MSCI Emerging Markets	0.32%	-6.04%
Hedge Fund Markets***		
HFRX Indexes:		
Convertible Arbitrage	0.09%	1.90%
Distressed	-3.22%	0.91%
Equity Hedge	-1.17%	-3.21%
Equity Market Neutral	-0.43%	2.29%
Event Driven	-0.54%	-0.74%
Macro	-1.05%	-2.06%
Relative Value Arbitrage	0.36%	1.35%
US Fixed Income Markets		
U.S. Treasury Bonds (1)	2.45%	8.05%
Treasury Inflation-Protected Securities (2)	1.07%	4.41%
Tax-Exempt Bonds (3)	-0.29%	2.29%
Corporate Bonds (4)	1.62%	6.71%
High-Yield Bonds (5)	1.11%	2.91%
Real Asset Markets		
DJ UBS Commodity Index Total Return	0.32%	-9.60%
FTSE NAREIT Equity Index	-5.02%	5.56%

Overview

Investors are starting to come to grips with the prospect of a world devoid of stimulus-spending. June's abysmal global equity market results are a continuation of the broad market weakness that began in May. There are many good reasons to be skeptical about economic growth over the near term: unemployment remains stuck at 9.7%, consumer confidence is falling, Chinese GDP growth is reported to be slowing, news out of the G20 points to imposition of austerity measures rather than more stimulus and prevailing views on the housing market points to another round of price weakness.

US Equity

June was another terrible month for US equities adding to May's sharp losses. For the month, the S&P500 fell by over 5% while riskier small caps lost significant value, dropping nearly 8% in June thereby erasing all of their YTD gains. Classically safe-haven utility stocks were the only sector within the US equity markets to be spared a big drop in value this month.

On the bright side, US large cap equity valuations are beginning to look interesting as P/E ratios (currently at 15X trailing earnings) are now below L-T averages.

International Equity

Compared to truly terrible performance earlier this year, European equities actually performed OK in June (dropping by "*only*" 0.78%). Unlike May, the euro dollar had little impact on returns this month as it ended June about where it began. This seemingly stable month over month performance for the European currency unit masks what was high level of intra period volatility. The Japanese stock market fell in line with other countries (down 2.06% in USD terms).

Hedge Funds

Most hedge managers came into June with reduced levels of risk (i.e., lower gross and net exposures). As a result, June losses for most strategies were modest relative to those seen in the equity markets.

We are hearing consistent laments (aka, whining) from hedge managers of all types that fundamentals matter little as markets are now trading almost completely on the basis of headline news. Correlations across markets remain very high.

Fixed Income

The flight to quality has boosted US Treasuries in a big way. Year-to-date, Intermediate Treasuries are up over 8%. Concerns over deflation in the short-term and tepid "New Normal" growth for the foreseeable future have forced nominal yields to multi-year lows with the yield on 10-year Treasuries dipping below 3%.

Despite the near certainty of higher tax rates in 2011, municipals have lagged other fixed income sectors so far this year, generating only a 2% total return versus high-yield and investment-grade corporate bonds which are up 3% and 6.5% respectively. Concerns over the credit-worthiness of particular states (especially Illinois which truly appears to be a basket case) have made their mark on news headlines in the past month.

Real Assets

Although REITs fell by 5% in June, they continue to puzzle us (and some of our managers) as they remain up well over 5% for the year. Of the major asset classes listed in this report, REITS have only been outpaced by US Treasuries (and investment-grade corporate bonds) thus far in 2010. This is an interesting paradox to say the least considering well articulated concerns about the commercial and residential real estate markets as well as the divergent risk profiles of Treasuries and REITs.

Commodities rose 0.32% for the month. This modest month over month gain masks what was an extremely volatile period. Most fundamental commodities traders have been whipsawed as many were stopped out of their positions thereby "forcing" them to lock in losses incurred earlier in the month. China's slower growth projections hit base metals particularly hard (copper was down 5.5%, while aluminum was 3% lower). Oil was up slightly (0.63%) and natural gas rose 4.7%.

(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*