GREYCOURT

Capital Markets Flash Report

For the Month Ending August 31, 2013

US Equity	Aug-13	YTD
Large Stocks:		
S&P 500	-2.9%	16.1%
Russell 3000	-2.8%	17.0%
Russell 1000	-2.8%	16.7%
Russell 1000 Growth	-1.7%	15.7%
Russell 1000 Value	-3.8%	17.6%
Small Stocks:		
Russell 2000	-3.2%	20.0%
Russell 2000 Growth	-2.0%	23.9%
Russell 2000 Value	-4.4%	16.4%
International Equity**		
MSCI All-Country World ex-US	-1.4%	3.3%
MSCI EAFE	-1.3%	8.5%
MSCI EAFE Growth	-1.3%	9.3%
MSCI EAFE Value	-1.3%	7.8%
MSCI Europe	-1.3%	8.9%
MSCI Japan	-2.2%	14.8%
MSCI Emerging Markets	-1.7%	-9.9%
Hedge Funds***		
HFRX Indexes:		
Convertible Arbitrage	-0.8%	1.6%
Distressed	-0.1%	9.6%
Equity Hedge	0.0%	4.0%
Equity Market Neutral	-1.7%	5.5%
Event Driven	-1.4%	-0.2%
Macro	-0.3%	8.9%
Relative Value Arbitrage	-1.2%	4.4%
Fixed Income		
U.S. Intermediate Treasuries (1)	-0.5%	-1.6%
U.S. Long Treasuries (2)	-0.8%	-10.2%
U.S. TIPS (3)	-1.5%	-8.1%
Tax-Exempt Bonds (4)	-1.4%	-4.9%
Corporate Bonds (5)	-0.7%	-3.5%
High-Yield Bonds (6)	-0.6%	2.7%
Real Assets		
Commodities (7)	3.4%	-6.2%
Real Estate Investment Trusts (8)	-6.6%	-0.4%

Overview

Second quarter US GDP growth was revised upward to 2.5% from 1.7%. The change was driven by export growth associated with continued expansion in US manufacturing. Consumer spending remains challenged by higher taxes and slow wage growth as real wages and spending increased by a paltry 0.1% in July. The silver lining in the consumer cloud, however, is that consumer weakness has helped keep core inflation in check and lent support to Fed policies. The strong recovery in residential real estate has been a bright spot in the broader economy although recent sharp increases in interest rates have slowed the positive trend making it unclear whether the setback is temporary or a more ominous sign.

Global concerns related to Syria jumped last week amid speculation the US would lead an attack in response to the use of chemical weapons. With little popular domestic support and no coalition of allies other than France, expectations of US action moderated regarding this tragic and complex two year-old civil war.

US Equity

In the final trading days of August, US markets responded poorly to the prospect of large-scale US involvement in Syria. For the month, the S&P 500 fell by 2.9% and small caps fell by 3.2%. Within large cap companies, growth-oriented tech stocks significantly outpaced value-oriented sectors such as utilities. Small cap growth stocks outperformed small cap value stocks by 240 basis points.

International Equity

International equities fell modestly this month outperforming US equities by 150 basis points. Only one-third of this differential outperformance came from changes in exchange rates as market participants seem to be embracing the economic and investment theme of gradual European recovery.

Emerging markets fell 1.7% this month despite a positive return from China. The negative performance of Indian stocks was an extreme outlier in the index as stocks dropped 10% for the month and the Rupee sustained significant losses versus the US dollar. Last week, the Indian government intervened in domestic energy markets to mitigate the currency impacts on consumers. Stocks and the Rupee stabilized in response to the news.

Hedge Funds

Based on early indications, returns for low-volatility, multi-strategy funds will be slightly negative to flat for August. Defensive positioning, evidenced by low net exposures to equity and fixed income markets, was generally rewarded. Long-short equity strategies tended to be down for the month, although less than long-only investments, while distressed, deep-value and event-driven strategies posted small gains. As we have seen in recent months, global macro strategists continue to find opportunities in emerging market-related tail-risk hedges and across Japanese stocks and bonds based on Japan's enormous stimulus program.

Fixed Income

August was yet another tough month for fixed income. Interest rates moved higher in the 2-5 year range of the yield curve as yields on longer bonds (10+ years) were fairly stable. Losses were broad-based across duration and credit quality. TIPS and high yield bonds gave back their respective gains from July as economic news was mixed. We don't believe it's likely the Fed will be aggressive in its tapering timeline; nonetheless, investor sentiment is pessimistic given recent poor performance and uncertainty about interest rates and Fed support.

Real Assets

Commodities rebounded sharply this month as demand for industrial metals improved and energy prices were bolstered by the conflict in Syria. With this month's drop, REITs are now flat for the year and have significantly underperformed broader equity indices in recent months. This poor performance has been driven by a back-up in interest rates and a decline in the value of underlying, leveraged real estate investments.

*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

(1) Barclays US Total Treasury Intermediate Total Return (2) Barclays US Total Treasury Long Total Return (3) Barclays US Treasury Inflation-Protected Securities Total Retun (4) Barclays Municipal Bond Total Return (5) Barclays US Corporate Investment-Grade Total Return (6) Barclays High-Yield US Corporate Total Return (7) Dow Jones UBS Commodity Total Return (8) FTSE NAREIT Equity REIT Index Total Return

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