

US Equity	Oct-13	YTD
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Large Stocks:

S&P 500	4.6%	25.3%
Russell 3000	4.2%	26.5%
Russell 1000	4.4%	26.1%
Russell 1000 Growth	4.4%	26.2%
Russell 1000 Value	4.4%	25.8%

Small Stocks:

Russell 2000	2.5%	30.9%
Russell 2000 Growth	1.8%	34.9%
Russell 2000 Value	3.2%	27.1%

International Equity**

MSCI All-Country World ex-US	3.7%	14.5%
MSCI EAFE	3.4%	20.5%
MSCI EAFE Growth	2.6%	19.9%
MSCI EAFE Value	4.1%	21.1%
MSCI Europe	4.3%	21.7%
MSCI Japan	0.0%	24.5%
MSCI Emerging Markets	4.9%	0.6%

Hedge Funds*****HFRX Indexes:**

Convertible Arbitrage	0.8%	2.6%
Distressed	0.2%	9.8%
Equity Hedge	0.6%	5.3%
Equity Market Neutral	1.9%	8.7%
Event Driven	1.1%	0.6%
Macro	1.5%	12.5%
Relative Value Arbitrage	1.9%	8.4%

Fixed Income

U.S. Intermediate Treasuries ⁽¹⁾	0.4%	-0.5%
U.S. Long Treasuries ⁽²⁾	1.3%	-8.7%
U.S. TIPS ⁽³⁾	0.6%	-6.2%
Tax-Exempt Bonds ⁽⁴⁾	0.8%	-2.1%
Corporate Bonds ⁽⁵⁾	1.5%	-1.4%
High-Yield Bonds ⁽⁶⁾	2.5%	6.3%

Real Assets

Commodities ⁽⁷⁾	-1.5%	-9.9%
Real Estate Investment Trusts ⁽⁸⁾	4.3%	7.5%

Overview

U.S. consumer confidence plunged in October as the threat of a U.S. default during the government shutdown proved an early Halloween scare. Despite rising equity market valuations and the political class' best efforts to undermine confidence, investor sentiment remains robust. 1.7% U.S. core inflation is below the Fed's long-term target of 2.0% and showing no signs of acceleration while real wages are up nearly 1% from this time last year, their largest gain in four years. The latest Fed minutes confirmed that monetary policy in the U.S. will remain accommodative; market participants now expect tapering to begin in early 2014 and quantitative easing to end by late 2014.

US Equity

The S&P 500 gained 4.6% this month, rallying sharply after market fears of a prolonged U.S. government shutdown and debt default subsided. Earnings season is now underway and so far, 75% of U.S. corporations have beaten earnings estimates. Unfortunately, this positive earnings story has been tempered by tepid revenue growth and weak earnings guidance. Despite all of the belly-aching about bubbly equity valuations, the S&P 500 remains just moderately expensive relative to trailing 12-month and forward earnings. As evidenced by October's underperformance versus large caps, investors might finally be cooling a bit on small caps. We suspect a combination of valuation, growth, and interest rate concerns were the drivers. Despite underperforming large caps this month, small caps still added 2.5% and are up 31% for the year.

International Equity

International equities rose 3.4% this month even as Japan's equity market fell flat. Europe's inflation rate was lower than expected, fueling speculation that the ECB would provide additional monetary stimulus. This sentiment drove the Euro 0.4% lower versus the US dollar and helped European equities to a 4.3% gain. Emerging market equities added 4.9% this month and with that performance have matched or exceeded the return of developed markets for three consecutive months. The rally brought EM equities into positive territory for 2013 yet the year-to-date performance gap with developed markets is still a massive 20 to 25 percentage points.

Hedge Funds

Most hedge strategies added to year-to-date gains in October, although very few have kept up with (let alone exceeded) the rapid rise in global equity prices. On average, global macro strategies have performed at a high level in 2013 with large dispersion in underlying manager returns. The best performers in global macro correctly anticipated capital market responses to global central bank policy while the laggards have not. The opportunity set for skilled long-short equity strategists remains rich as a result of lower cross-equity correlations.

Fixed Income

Bond yields drifted lower this month as weaker economic data increased the likelihood of further extensions to the Fed's quantitative easing timeline. High yield bonds rallied 2.5% this month, bringing their year-to-date gain to 6.3%. This return is consistent with our expectation from the beginning of the year. Going forward, defaults should remain low and high yield bond performance will depend on the path of nominal interest rates. If higher inflation drives up nominal rates, high yield bonds will take a hit. Conversely, if nominal rates are driven higher by real economic growth and demand for credit, high yield bonds will hold up well.

Real Assets

REITs continued their Fed-induced rebound this month, matching the return of US large caps. Year-to-date, REITs have struggled with the headwind of higher interest rates. The DJ-UBS Commodity Index fell slightly in October as the price for WTI crude oil dropped 5.4% in response to growing US oil supplies. This action also drove the Brent-WTI spread to \$12/bbl. U.S. natural gas prices fell 4%. Strength in base metal prices (aluminum, lead, nickel, zinc) prevailed in contrast to weak energy prices.

*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 Return (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