GREYCOURT

Capital Markets Flash Report

For the Month Ending February 28, 2014

US Equity	Feb-14	YTD
Large Stocks:		
S&P 500	4.6%	1.0%
Russell 3000	4.7%	1.4%
Russell 1000	4.7%	1.4%
Russell 1000 Growth	5.1%	2.2%
Russell 1000 Value	4.3%	0.6%
Small Stocks:		
Russell 2000	4.7%	1.8%
Russell 2000 Growth	4.8%	3.0%
Russell 2000 Value	4.6%	0.5%
International Equity**		
MSCI All-Country World ex-US	5.1%	0.3%
MSCI EAFE	5.6%	1.3%
MSCI EAFE Growth	5.5%	0.8%
MSCI EAFE Value	5.7%	1.9%
MSCI Europe	7.3%	3.2%
MSCI Japan	-0.5%	-4.4%
MSCI Emerging Markets	3.3%	-3.4%
Hedge Funds***		
HFRX Indexes:		
Convertible Arbitrage	0.4%	1.1%
Distressed	1.6%	2.3%
Equity Hedge	1.5%	2.6%
Equity Market Neutral	2.3%	1.3%
Event Driven	0.6%	1.3%
Macro	2.3%	2.7%
Relative Value Arbitrage	2.6%	2.0%
Fixed Income		
U.S. Intermediate Treasuries (1)	0.2%	1.1%
U.S. Long Treasuries (2)	0.8%	6.4%
U.S. TIPS (3)	0.4%	2.4%
Tax-Exempt Bonds (4)	1.2%	3.1%
Corporate Bonds (5)	1.0%	2.8%
High-Yield Bonds (6)	2.0%	2.7%
Real Assets		
Commodities (7)	6.2%	6.6%
Real Estate Investment Trusts (8)	4.7%	8.1%

Overview

US GDP grew by 2.4% in the 4th quarter, down from the prior estimate of 3.2%. Unusually harsh winter weather across the US is partly to blame for the weakness and is expected to have a negative impact on 1st quarter GDP growth as well. Ukrainian President Viktor Yanukovych was overthrown this month, leaving the country in desperate need of US and European financial, and perhaps military, aid as its sovereignty is threatened by Russia.

US Equity

The S&P 500 surged 4.6% for the month, bringing total return for the year to 1% after a dismal start in January. Small cap stocks experienced a similar rebound, building year-to-date total return to nearly 2%. The rally was broad-based across sectors with the notable exceptions of telecoms and utilities. Corporate earnings were solid in the 4th quarter with 62% of S&P 500 companies exceeding analysts' bottom line estimates. The corporate revenue picture was even brighter as 64% of companies beat estimates (historical and recent quarterly beat rates have been closer to 50%).

International Equity

Developed international stocks gained 5.6% driven by Europe's strong performance (+7.3%) and a slight decline in Japanese stocks. Interestingly, Japan's returns came against a backdrop of decent economic news, suggesting an analogy to US quantitative easing (i.e., good news is bad news for equities because of the likelihood of reduced stimulus). Emerging markets gained 3.3% in February, retracing half of January's fall. Returns have been highly differentiated as EM Latin America and EM Europe dramatically underperformed EM Asia with Mexico, Russia, and Turkey experiencing double-digit losses.

Hedge Funds

Volatility eased this month as emerging markets fears (at least as expressed by investors) subsided and EM central banks were not scrambling to stem currency declines as they did in January. Robust M&A activity and speculation continued in February and we expect strength in this area to continue given organic growth challenges, low interest rates, and healthy US corporate balance sheets. After an excellent start to 2014, returns to low volatility, absolute return strategies should be positive in February and year-to-date, ahead of equity markets. Long-short equity strategies were likely the top performers this month.

Fixed Income

In a welcome sign for investors burned by taper fears in 2013, declining interest rates have boosted fixed income returns so far in 2014. Rates were very stable in February (Ukrainian turmoil boosted demand for Treasuries despite continued Fed tapering). Municipal bond fund flows have been steadily positive so far in 2014 after significant outflows last year. High yield bonds rallied 2% while investment grade corporates and munis posted modest gains. Higher yielding municipal bonds continue to offer compelling valuations while most sectors of the bond market are either fairly-valued or over-valued.

Real Assets

Commodities gained 6.2% in February on the back of rising energy and precious metal prices. REITs added 4.7% in February, bringing year-to-date gains to 8.1% (710 basis points of outperformance versus US large caps). Much of the recent rally has been a technical reversal of overly negative sentiment that was related to interest rate fears.

*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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