September Update | As of August 31, 2015

AUGUST 2015 IN REVIEW

ECONOMY:

U.S. GROWTH HOLDING STEADY AFTER Q2 GDP REVISED UPWARD TO 3.7%

Economic Data

Economic reports received in August, which are largely based on economic activity in July, continued to support steady U.S. economic growth despite headwinds from a strong dollar, cutbacks in capital expenditures in the oil patch, and slower growth in emerging markets. Including the August revision of second quarter gross domestic product (GDP) data from 2.3% to 3.7%, the U.S. economy grew 2.7% over the last four quarters. While there have been concerns that the U.S. may be flirting with "stall speed," it has now maintained trailing-year growth of over 2% for five consecutive quarters, the first time it has maintained such a steady rate of growth in the current expansion.

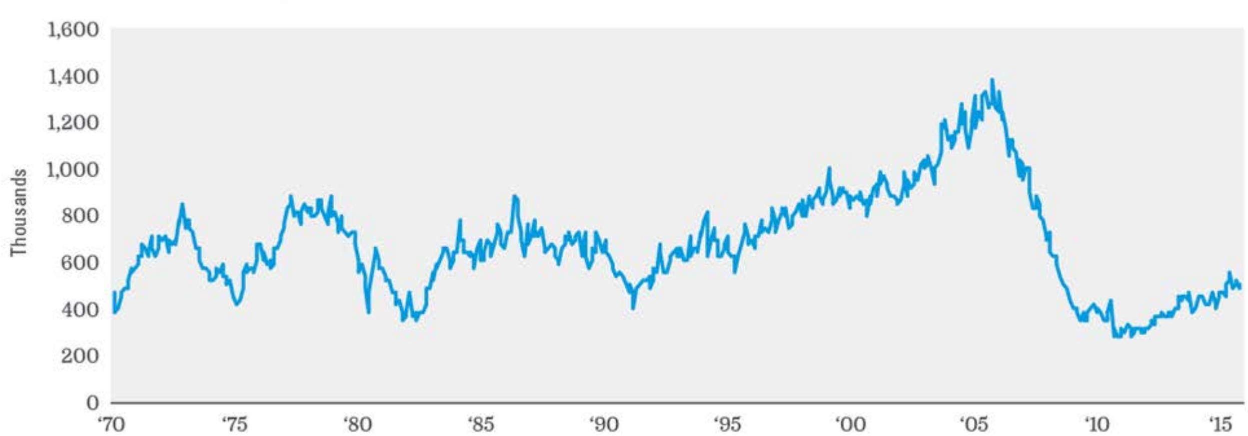
Employment numbers continued to lean positive in August, but some concerns about underlying weakness persist. The economy added 215,000 jobs in July 2015 and has averaged over 240,000 new jobs per month for the last year. New claims for unemployment, a more timely indicator, fell to 271,000 for the week ending August 22, while the four-week average fell to 272,500, a 15-year low. But wage growth remains subdued despite pressures in some high demand industries, and measures of worker productivity growth are still a concern.

Housing data, while far from the levels seen even prior to the mid-2000s housing boom, have also started to pick up. New one-family home sales have surged over 25% year over year and existing home sales have climbed over 10%, according to July data. There continues to be a mismatch between supply and demand, keeping inventories low, with the supply relative to demand (the "months' supply") in the bottom third of values over the last 50 years.

Manufacturing activity in the U.S. showed signs of improvement in July despite ongoing headwinds from the strong dollar and reduced oil capital expenditures. The Institute for Supply Management's manufacturing Purchasing Managers' Index (PMI) declined from 53.5 to 52.7, remaining over the 50 level that indicates expansion; but its key leading component, the new orders index, rose to its highest level of the year despite export weakness, which may indicate a pick-up in domestic demand. The manufacturing component of industrial production rose 0.8% in July, topping expectations and accelerating from the prior month. Finally, shipments of non-defense capital goods excluding aircraft, a proxy for business spending, topped consensus expectations in July despite a large upward revision to the June data.

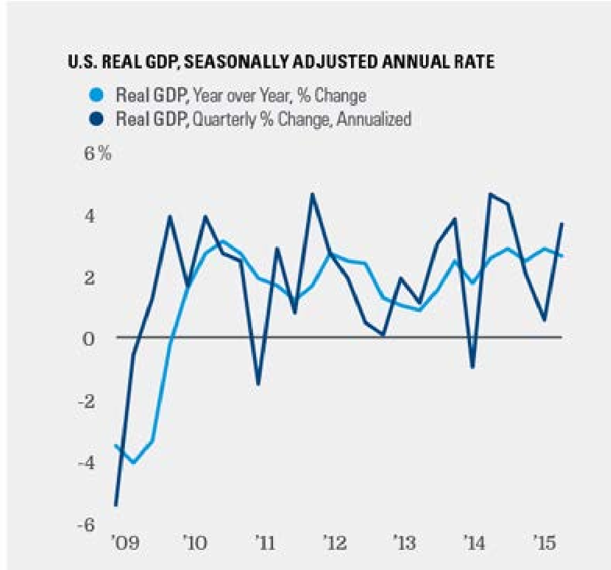
Leading indicators continue to signal low prospects of a recession on the horizon. The Conference Board's

NEW ONE-FAMILY HOUSES SOLD, SEASONALLY ADJUSTED ANNUAL RATE



Leading Economic Index (LEI), an aggregate of 10 leading indicators, rose 4.1% in July, which has historically been associated with only a 4% chance of recession in the next 12 months. The Citi Economic Surprise Index for the U.S. has climbed steadily over the last several months, toward the crossover point from an average downside surprise to an average upside surprise, indicating that economists' expectations may be carrying a downside bias.

Concerns about slowing emerging market growth and a strong dollar may continue to keep U.S. economic growth somewhat restrained, but economic data from the last month indicate there have been enough positive factors offsetting those headwinds to keep the U.S. on a steady growth path.



Central Banks

The Federal Open Market Committee (FOMC), the policy arm of the Federal Reserve (Fed), did not meet in August and will next meet September 16 – 17, 2015. The minutes from the FOMC's July 28 – 29 meeting, released on August 19, contained little that was new and continued to emphasize that the timing of the first rate hike will be data dependent. Events since the July meeting, including downward pressure on inflation due to lower commodity prices and a strong dollar, concern about China's growth path, and rising stock market volatility, likely point to continued restraint at the September meeting.

Global central banks remain broadly accommodative with the Bank of Japan and the European Central Bank also actively engaged in aggressive quantitative easing (QE) programs. China was the only major economy to make a policy change in August, the People's Bank of China lowering its benchmark lending rate by 0.25% to 4.6%, its fifth rate cut since November 2014, while cutting its reserve ratio requirement by 0.50%.

GLOBAL EQUITIES:

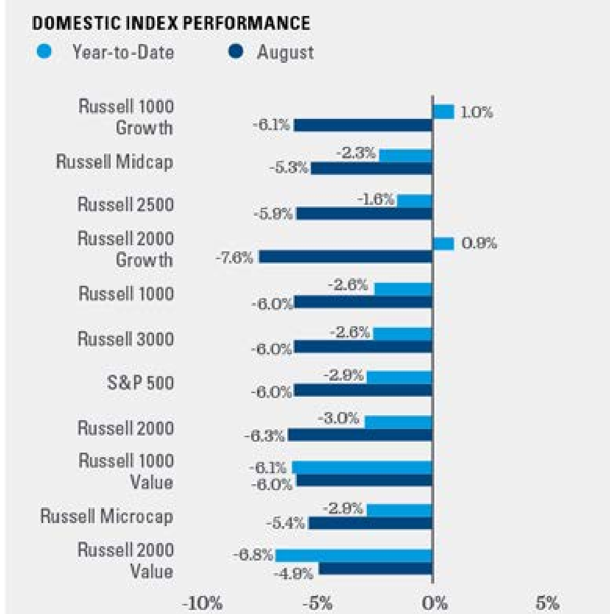
CHINA GROWTH CONCERNS TRIGGER CORRECTION

U.S.

U.S. markets, as measured by the S&P 500 Index, experienced their first market correction (a decline of more than 10% from the peak close) since 2011 in August after China's modest devaluation of the yuan, ineffectual efforts to stave off market declines, and weak manufacturing data reignited global growth concerns. Worries about weakening commodity prices, a prospective first Fed rate hike in late 2015, slow earnings growth, and above-average valuations added to market jitters.

The S&P 500 Index entered August already 1.5% off its May 21, 2015, all-time closing high of 2130.82 and was only down 1.2% for the month as of close on Wednesday, August 19, before losing more than 10% over the next four trading sessions. The first large sell-off, on Thursday, August 20, lacked a major catalyst, although China's yuan devaluation the prior week was part of the backdrop. A weak overnight reading on Chinese manufacturing activity fueled investor anxiety heading into Friday, leading the S&P 500 to shed 3.2%, its worst one-day loss since August 2011. Continued weakness in overseas markets coming out of the weekend led the S&P 500 to gap sharply lower at open on Monday, August 24, straining trading mechanisms. An attempted midday rally fizzled and the index finished down 3.9%. Losses were comparatively modest at -1.4% on Tuesday, August 25, but heavy intraday volatility erased an almost 3% gain earlier in the day. Bargain hunting and a lift from strong U.S. economic data, highlighted by durable goods orders and a strong upward revision to GDP growth for the second quarter of 2015, finally let the bulls gain some traction, propelling the S&P 500 to a two-day rally of 6.4% before two quieter days closed out the month.

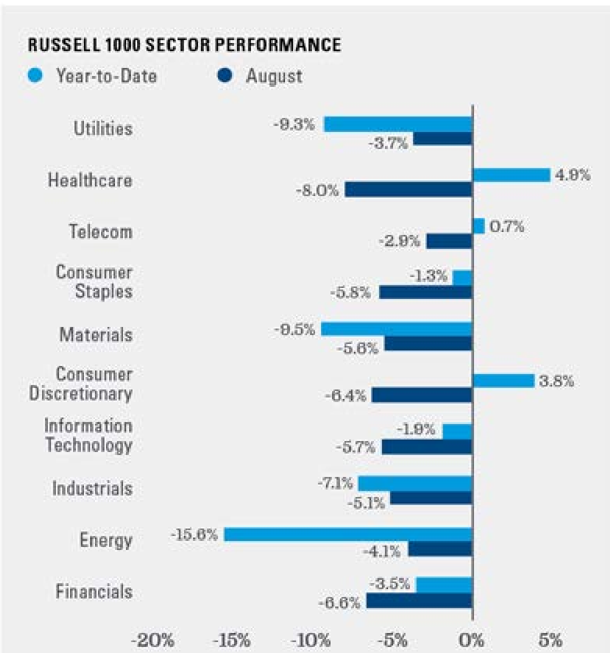
Not surprising given the market volatility, sector performance had a defensive tilt, utilities and telecom topping the sector rankings in August. Outperformance was largely a function of these sectors' below-average equity market sensitivity, as a small increase in the 10-year Treasury yield in August nullified any benefit from rate sensitivity. Energy also fared well on a late-month surge after oil prices jumped more than 20% over the month's final three trading sessions. Healthcare finished at the bottom of the sector rankings despite exhibiting strong second quarter earnings growth and the best earnings beat rate among sectors for the quarter, according to Thomson Reuters data. Healthcare has become the most growth oriented of the defensive sectors and weakness in higher growth, higher valuation industries had a negative impact on performance.



International Developed/Emerging Markets

U.S. markets outperformed both international developed and emerging markets in August, as measured by the MSCI EAFE and Emerging Markets Indexes. Trade with China plays a more important role for developed Europe, China's regional trading partners (including Japan), and, in particular, the major commodity producers than it does for the U.S., and added selling pressure was reasonable given the market's focus on China. While more dependent on Chinese trade, the Eurozone and

Japan continue to benefit from low commodity prices, a strong U.S. dollar, and gradual structural reforms, helping them to outpace emerging market performance in August, and the MSCI EAFE Index remains positive on a total return basis year to date. Chinese equity markets, as represented by the Shanghai Composite, continued to experience extreme levels of volatility as inconsistent and occasionally heavy-handed intervention by Chinese authorities and poor communication failed to restore investor confidence.



FIXED INCOME:

INTEREST RATES END FLAT DESPITE TURBULENT MONTH

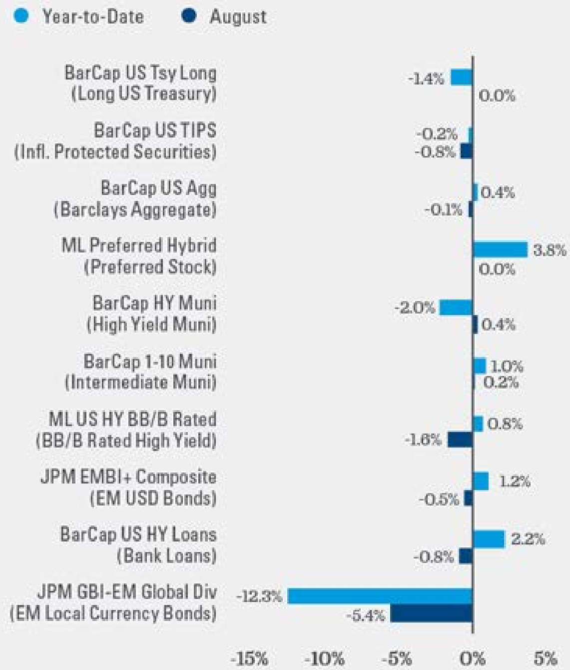
Interest rates rose slightly during August, with the 10-year Treasury yield ending the month at 2.21%, up from 2.20% at the end of July. Despite a muted change for the month, interest rates were volatile during August, falling as low as 2.01% on August 24. Treasury yields declined intramonth on flight to safety trades in response to heightened volatility and weakness in global equity markets.

With longer-term interest rates ending August largely unchanged, long-term Treasury returns were nearly flat. The Barclays U.S. Aggregate posted a 0.1% loss on the month, as more economically sensitive components of the index were hurt by risk-off selling pressure during August.

Given the risk-off backdrop and pressure on high-yield energy due to falling oil prices, higher credit quality outperformed lower quality — high-yield was negative for the month, returning -1.6%. Commodities-related weakness and concerns over China's growth path was a headwind for emerging markets debt, which returned -0.5% during August.

Municipals continued to enjoy favorable seasonality, with short, intermediate, and long municipals all in slightly positive territory for the month. High-yield munis were in the positive as well, returning 0.4%.

FIXED INCOME PERFORMANCE



US TREASURY YIELDS

Security	7/31/15	8/31/15	Change in Yield
3 Month	0.08	0.08	0.00
2 Year	0.67	0.74	0.07
5 Year	1.54	1.54	0.00
10 Year	2.20	2.21	0.01
30 Year	2.92	2.95	0.03

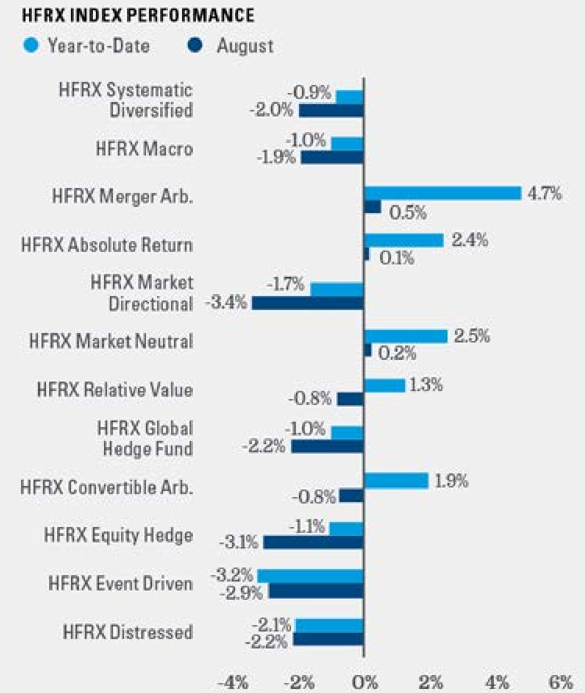
AAA MUNICIPAL YIELDS

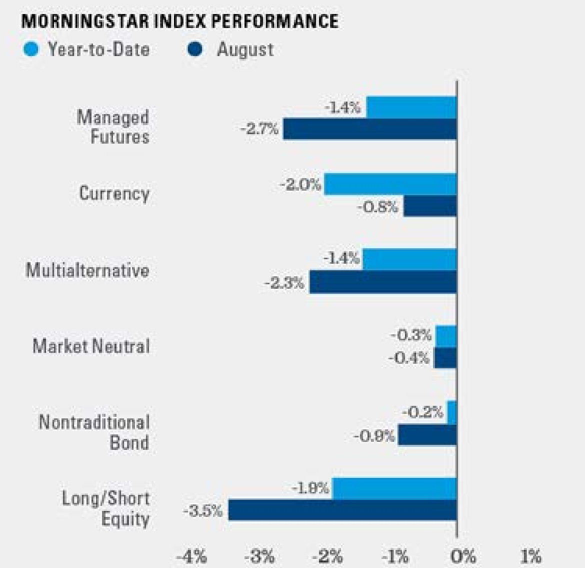
Security	7/31/15	8/31/15	Change in Yield
2 Year	0.66	0.65	-0.01
5 Year	1.40	1.40	0.00
10 Year	2.40	2.38	-0.02
20 Year	3.82	3.84	0.02
30 Year	4.53	4.49	-0.04

ALTERNATIVES:
EQUITY MARKET NEUTRAL POSITIONED FOR PROTECTION

The steep sell-off in global equity markets left more directional alternative investment strategies in negative territory, while defensive/low-beta equity market neutral managers were able to successfully navigate the drastic increase in volatility. The HFRX Equity Market Neutral Index returned 0.2% during the month and has now returned 2.5% year to date, second in total return only to merger arbitrage strategies (+4.7%). After lagging the majority of alternative strategies through the end of June, market neutral managers delivered a gain of 1.6% during the past two months, versus the S&P 500's decline of 4.0%.

In the event driven industry, pure merger arbitrage managers were again able to weather the volatile stock market (HFRX Merger Arbitrage up 0.5%); however, long-biased activist managers who were unhedged declined along with the broader market. In the macro space, managers were negative for the month; however, as they historically have done, many funds still provided a respectable level of downside protection during the equity sell-off, as the HFRX Macro and HFRX Systematic Diversified returned -1.9% and -2.0%, respectively. The sell-off in domestic equity markets acted as a headwind, as many long-term systematic managers were positioned long, but these losses were offset by short commodity contracts and certain long fixed income positions. For those managers who also have short-term trend following models, losses were further mitigated by gains in shorting domestic and European equity contracts. While such models may act an overall drag on performance during periods of sustained long-term market trends, during sudden trend reversals, they act as a strong diversifier and risk tool for volatile market environments.





ANOTHER ROUGH MONTH FOR LIQUID REAL ASSETS

Few bright spots were to be found in yet another down month in August for liquid real assets (LRA). Surprisingly, this occurred even with a weaker U.S. dollar. Volatility roiled markets worldwide, which benefited gold while oil found footing and also ended positive. The 10-year Treasury rate traded in a 28-basis-point range (0.28%) but ended the month up just 1 basis point (0.01%).

MLPs & Global Listed Infrastructure

Master limited partnerships (MLP) found another risk to trigger selling — a broad market sell-off — during the month to add to its ills of late. The Alerian MLP Index fell -5.0% compared with a return of -6.0% for the S&P 500. The last full week of August proved very strong for MLPs, exhibiting a sharp rebound after the broad market correction early in the week. Following August 24, the Alerian MLP Index was up more than 1% for each of the next four days. With the yield on the Alerian MLP Index now trading above 7%, perhaps investors will find value in the sector and provide prices some support going forward.

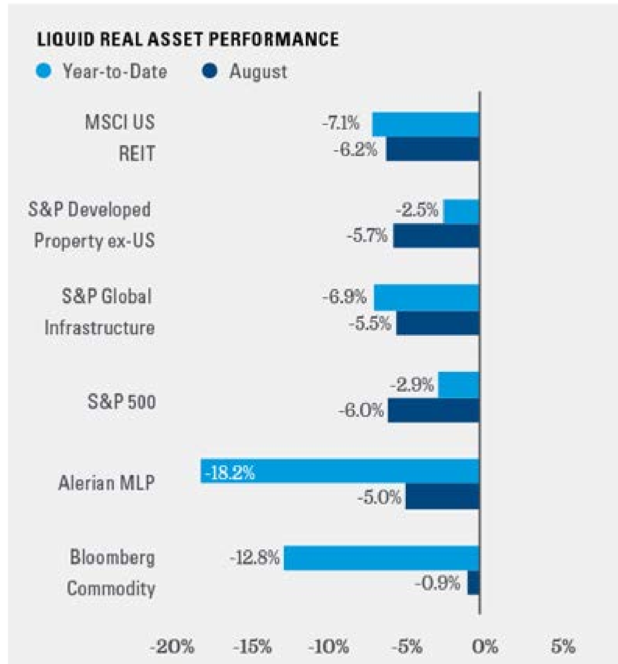
Global infrastructure continued its general downtrend that started in late April with the S&P Global Infrastructure Index returning -5.5% in August. The sector was trading roughly flat until the market correction in the last full week of the month when the sector traded down sympathetically. On August 24, the sector was down greater than 4%.

REITs

U.S. REITs gave back their gains from July, losing 6.2% in August, as measured by the MSCI U.S. REIT Index. The primary catalyst for the decline was the broad market sell-off, as was the case in many other sectors. To wit, the MSCI U.S. REIT Index lost -4.7% on August 24 and then fell -2.6% the following day. Residential and retail REITs outperformed the broad REIT market.

Commodities

Commodities in general, as measured by the Bloomberg Commodity Index, were roughly flat for the month (returning -0.9%). The index's level of performance, however, belied a wide dispersion of returns amongst its constituents. Oil was in a downtrend for much of the month up until the final few trading days of August where it rose greater than 6% in each of those three trading sessions. This was driven by OPEC signaling that it may entertain cutting production, as well as lower output estimates from U.S. drillers. All of this amounted to a monthly increase of 4.4% (West Texas Intermediate). Agricultural commodities lost ground from a combination of upgraded U.S. crop estimates and concerns over demand from China. Gold finished the month up 3.4% primarily propelled by anxiety around the global markets.



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