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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. stocks finished Friday with modest weekly gains after climbing in and out of negative territory, as investors seemed confused as how to interpret comments regarding rates from Federal Reserve officials.

a) ***Dow Jones +1.17% MTD -5.54% YTD -5.02%*** b) ***S&P 500 +0.95% MTD -5.25% YTD -2.07%***
c) ***Russell 2000 +0.56% MTD -6.01% YTD -2.68%***

Drivers: I) ***There was a "pretty strong case" for a September rate hike before China devalued its currency earlier this month, said Fed Vice Chairman Stanley Fischer on Friday.*** China's surprise forex decision and the subsequent market turmoil have changed circumstances and could have an impact on the Fed's decision in September, Fischer said in a television interview from Jackson Hole. ***But he quickly added it was too soon to tell for sure.***

II) ***New York Fed President William Dudley, a pivotal member of Fed Chairwoman Janet Yellen's inner circle, backed away Wednesday from supporting an interest-rate hike at the U.S. central bank's September meeting***. Wild swings in global financial markets, the slowing Chinese economy and falling commodity prices have increased the "downside risks" to the U.S. economic outlook somewhat, Dudley said in brief remarks to reporters Wednesday.

III) ***The U.S. economy grew at a faster 3.7% annual pace in the second quarter, up from the initial estimate of growth at a 2.3% clip***, the Commerce Department reported last week. Economists forecast gross domestic product would be revised up to 3.3%, but business investment was stronger than expected. ***Consumer spending, the main driver of U.S. economic activity, led the way as usual.*** Outlays were revised up to 3.1% from 2.9% in the second quarter after a tepid 1.8% gain in the first three months of the year.

IV) *Consumer spending in the U.S. rose 0.3% in July, the Commerce Department reported Friday.* Economists had expected a 0.4% increase. Spending looks firmer underneath the surface as the government revised consumer spending in June to an increase of 0.3%, compared with an original estimate of 0.2% growth. ***Meanwhile, personal income rose 0.4% for the fourth straight month. Wages and salaries rose 0.5% in July, the biggest gain since last November.***

V) ***Equity prices in August are negative, with Mid-Cap and Value along with Utilities leading equity price performance. The laggards for the month are Small Cap and Growth Stocks along with Healthcare and Financials.***

Capitalization: Large Caps -5.23% (YTD -1.75%), ***Mid-Caps -4.54%*** (YTD -1.57%) and ***Small Caps -6.01%*** (YTD -2.68%). Style: ***Value -4.54%*** (YTD -5.54%) and ***Growth -5.47%*** (YTD +2.97%). Industry Groups (Leaders): ***Healthcare -6.12%*** (YTD +5.68%), Consumer Discretionary -5.75% (YTD +5.39%), Communication -3.16% (YTD -0.28%), Consumer Staples -5.20% (YTD -0.55%) and Technology -4.56% (YTD -0.93%). (Laggards): Energy -5.19% (YTD -15.80%), Basic Materials -5.04% (YTD -9.47%), ***Utilities -1.87%*** (YTD -7.02%), Industrials -4.53% (YTD -7.64%) and ***Financial Services -6.05%*** (YTD -3.52%).

EUROPEAN EQUITIES

The Stoxx Europe 600 Index rose last week from 361.28 to 363.28, to close higher by +0.55%. European stocks ended up for the week after a roller coaster ride, boosted by upbeat U.S. growth data, which helped off-set recent concerns about China growth. Year to date the Stoxx Europe 600 is up +6.05% (MTD -8.35%).

Drivers: I) ***The U.K. economy expanded 0.7% between April and June***, the Office for National Statistics said, unchanged from the first estimate released last month, ***even though the annualized rate was lowered slightly to 2.7% from 2.8%.*** The updated figures attest Britain was the second fastest-growing economy in the Group of Seven club of advanced countries, surpassed by the U.S. alone.

II) ***Business confidence in Germany beat expectations in August despite mounting uncertainty over market developments in China and emerging markets.*** The Ifo survey's main indicator released on Tuesday was 108.3 for

August, beating the previous month's 108 and surpassing economists' expectations of 107.5 in a survey ahead of the release. The German economy remains stable despite global turbulence.

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The EuroStoxx 600 Index rose by +0.55% for the week (MTD -8.35% YTD +6.05%).***

ASIAN EQUITIES

Asian equity markets were down slightly for the week, as Chinese stocks surged for two straight trading days amid suspected government buying, but sharp declines Monday and Tuesday left the market down nearly 8% for the week. The Dow Jones Asia Pacific Index was down -0.30% for the week.

Drivers: I) ***The People's Bank of China moved to ease the economy further on Wednesday, saying it will inject 140 billion yuan ($21.80 billion) into the financial system through a short-term liquidity adjustment (SLO) operation.*** The SLO loans come with a 2.3% interest rate. Short-term liquidity operations were launched by the PBOC in 2013 to reduce fluctuations in liquidity and stabilize interbank funding costs.

II) ***Last Tuesday, the PBOC cut its leading interest rate by 25 basis points, or a quarter of a percentage point, and the reserve-requirement ratio for commercial banks by 50 basis points.*** The rate cut was the fifth by the PBOC since November, bringing the one-year benchmark lending rate to 4.6%. The reserve requirement now stands at 18%. The rate refers to the deposits that banks must keep on reserve with the PBOC. ***Lowering the rate frees up more money for lending.***

II) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was lower by -1.54% (MTD -7.04% YTD +9.66%), the Hang Seng Index was down by -2.90% (MTD -12.27% YTD -9.49%) and the Shanghai Composite dropped by -7.85% (MTD -11.77% YTD -0.07%).***

FIXED INCOME

Treasury yields saw their largest rise since June as comments from Federal Reserve Vice Chairman Stanley Fischer revived fears of a Federal Reserve rate increase in September.

Performance: I) ***The 10-year Treasury yield was higher last week, ending at 2.182% up from 2.041%. The 30-year yield climbed higher last week rising from 2.730% to 2.911%.***

II) Performance for the week, month-to-date and year-to-date. ***Barclays US Aggregate Bond*** was down-***0.59%*** last week, ***MTD -0.08% and YTD +0.51%***. The ***Barclays US MBS TR fell by -0.20%*** last week, MTD ***+0.12% and YTD +1.06%***. The ***BofAML US HY Master II was higher last week by +0.28%, MTD -1.85% and YTD -0.05%.***

COMMODITIES

The DJ Commodity Index advanced last week rising from 271.40 to 276.96 but is down month to date -2.61% (YTD -14.43%) as better than expected U.S. economic data gave hope for higher growth.

Performance: I) ***Oil prices rose last week on growing expectations that overall weakness in prices will soon prompt sizable declines in production.*** For the week the price of oil rose from $40.29 to $45.33 per barrel.

II) ***The ICE USD Index***, a gauge of the greenback's movement against six other major currencies, ***was higher rising from 94.80 to 96.15 for the week. The USD climbed higher against the euro and the pound as U.S. stocks stabilized and a spate of strong U.S. economic data helped assuage investors' fears of sustained market turmoil.*** For the week the Yen rallied higher advancing from ¥122.05 to ¥ 121.70 but the Euro was weaker falling from 1.1388 to 1.1184 against the USD.

III) ***Gold fell last week as Thursday's stronger than expected GDP report suggests the U.S. economy may on stronger footing than the market had expected.*** For the week gold declined from $1159.9 to $ 1133.3.

HEDGE FUNDS

Hedge funds returns in August are lower, with all core strategies Equity Hedge, Event Driven, Distressed, Macro/CTA and Relative Value in negative territory.

Performance:

I) ***The HFRX Global Hedge Fund Index is lower at -2.23% MTD and -1.01% YTD.***
II) ***Equity Hedge is negative at -3.11% MTD and has fallen -1.10% YTD.***
III) ***Event Driven has declined MTD -3.08*****%** ***and is down YTD -3.39%.***
IV) ***Distressed Debt is lower at -2.68% MTD and is negative YTD -2.58%***
V) ***Macro/CTA is down at -1.45% MTD and is up -0.54% YTD.***
VI) ***Relative Value Arbitrage has fallen by -1.04% and is up +1.05% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into next week investors after last week's roller coaster performance in the financial markets, one would say that volatility is here is stay. Last week, the VIX posted its largest-ever weekly jump of 118%. Then, ***on Monday, the VIX shot up to its highest level in nearly seven years, and by the end of the session, the index had gained 45% or more on two consecutive days, the first time that's happened in the history of the index.***

Although hardly unexpected, events that triggered the sharp rise in the VIX were China's devaluation of the yuan, the continuing plunge in Chinese stocks, and worries the government had lost control of the world's second-largest economy. After a few more turbulent days in the market going forward, the VIX may settle in above its established 10-year average of 20, after the past few years between 10 and 15. The VIX historically has a tendency to go through cycles. ***The index had two four-year cycles since 1990 where volatility was low only to sharply rebound to higher levels for a period of time.***

On the economic data front August employment numbers (projected to rise from 215,000 to 223,000), out Friday, will be the most closely scrutinized data point. Another solid month of job gains would signal steady domestic growth and ***could nudge Fed officials closer to raising interest rates at their mid-September policy meeting. But many economists believe the central bank is more likely to hold off due to international turmoil.*** Officials also will closely examine details on labor-force participation, underemployment (expected to fall from 5.3% to 5.2%) and wages.

The Institute for Supply Management's manufacturing purchasing managers index for August (estimated to fall from 52.7% to 52.0%), reporting Tuesday, will offer the latest details on overall growth, new orders and hiring. This is one survey that may capture some fallout from China-related market turmoil. The Commerce Department's report on factory orders for July (projected to drop from 1.80% to 1.0%), out Wednesday, will provide a more granular, if backward-looking view of U.S. manufacturing.

A stronger dollar made U.S. products more expensive in overseas markets and foreign goods cheaper here domestically. That is a headwind for some U.S. companies as their goods and services are competing against international rivals. ***Through June this year, exports were down nearly 3% compared with the same period last year. July trade figures are out Thursday (the trade deficit is project to fall from -$43.8 billion to -$41.8 billion.***