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AUGUST FLASH REPORT (MONTH ENDING AUGUST 31, 2011)

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1800 Robert Fulton Drive, Suite 110, Reston, VA 20191 | Phone (703) 871-5962 | Fax (703) 766-3394

Tysons Corner • Reston • Leesburg

www.CapitalFiduciaryAdvisors.com

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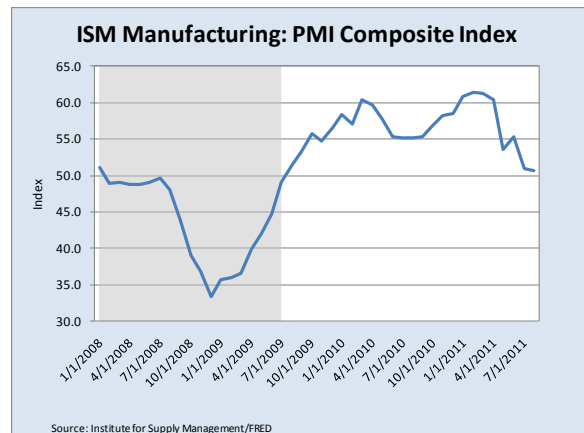
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- May be highly illiquid;*
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ECONOMICS: WEAK JOBS DATA UNDERSCORES BROADER SLOWDOWN

As far as summer months go, August was one of the most memorable in recent history, as a confluence of events, from the debt ceiling debates to concerns about sovereign debt in Europe, weighed on market and economic confidence. In aggregate, data was disappointing in a number of areas, particularly employment, but there were also several areas that held up better than expected. With macroeconomic uncertainty building, however, there is an increasing probability that the Federal Reserve will be forced to undertake another round of quantitative easing. In the meantime, conflicting signals from economic indicators will remain the norm.

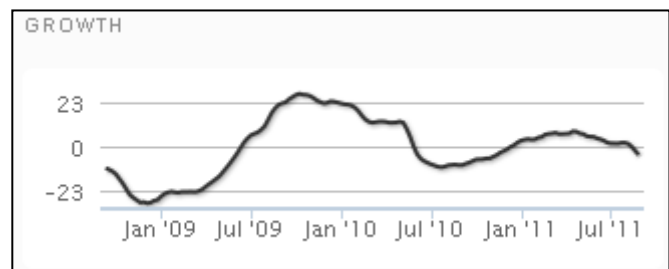
Without a doubt, the most disappointing sector in August was employment. According to the Bureau of Labor Statistics, the change in nonfarm payroll employment was exactly zero in the month of August, while the unemployment rate stayed at 9.1%. The private sector (which has been an area of modest strength with average job growth of 163,500 in the first seven months of the year) also turned in a disappointing performance, growing by a meager 17,000. A lack of confidence by firms was to blame for the weak hiring, but employees are also losing confidence in their job stability. Nearly one in three workers is concerned about the possibility of being laid off, almost identical to survey results from 2009, and four percentage points above 2010. Almost one in every five workers who makes more than \$75,000 per year is concerned about losing their job and, for households making less than \$50,000, the ratio rises to two in five. Job growth has been, and continues to be, an area of frustration for policymakers, corporations and consumers.

One area that held up better than anticipated was manufacturing. A number of regional manufacturing indices, such as those in Philadelphia and Richmond, signaled a slowdown in the sector, but the national ISM PMI declined less than feared in August, falling 0.3 to 50.6. The PMI is a survey of numerous manufacturing firms on conditions in the industry and PMI readings above 50 indicate manufacturing expansion, while readings below 50 are indicative of contraction. In addition, new factory orders for July came in much better than expected, posting an increase of 2.4%. Auto production proved to be a key driver of new orders, as previous supply constraints from Japan continue to disappear. New orders for motor vehicles increased 14.8%.



Source: Federal Reserve Bank of St. Louis

Of some concern in recent weeks is the Weekly Leading Index (WLI) from the Economic Cycle Research Institute. The WLI is designed to capture cyclical turns in US economic activity. After peaking in March, the WLI growth rate began to decline, eventually crossing into negative territory in early August. Currently sitting at -4.3, it is rare for the growth rate to fall below zero without a recession ensuing. There is one major exception, however, which actually occurred last summer. The WLI growth rate fell as low as -10.9, and a recession did not occur. That was due in large part to quantitative easing measures enacted by the Federal Reserve



Source: Economic Cycle Research Institute

last fall and the outcome might have been different if QE did not materialize. It will be important to watch the WLI going forward to see if recent trends are indicative of a recession, or merely another bump in the road.

The economy continued to sputter along in August. A number of unusual events heightened economic volatility in the month, particularly the uncertainty surrounding the debt ceiling debate in Washington. The hope is that with many of those uncertainties gone, confidence will return to the corporate and consumer sector. Hope is not a strategy worth relying on, though, and economists will closely watch higher frequency data points (initial jobless claims, for instance) in the weeks ahead for greater clarity on the state of the economy. Until then, the best approach is to wait and see.

Federal Reserve: It was a busy month for the Federal Reserve because of disappointing economic growth and the annual Fed conference held in Jackson Hole at the end of the month. At the FOMC meeting in early August, the Fed took the highly unusual step of stating that the Fed Funds rate would be kept at 0% to 0.25% until at least mid-2013. That statement caught many economists by surprise, as it created the perception that economic growth is likely to be weak for another two years. Later in the month, minutes from that meeting were released and they showed some FOMC participants were ready to undertake additional easing measures to support the economy. With the announcement that rates would remain low until 2013, coupled with the fact that the September FOMC meeting was expanded from one to two days, it looks much more likely that new quantitative easing measures are being considered.

Sources: Institute for Supply Management, Bureau of Labor Statistics, Bureau of Economic Analysis, Federal Reserve, Federal Reserve Bank of St. Louis, Bloomberg, Econoday, ECRI

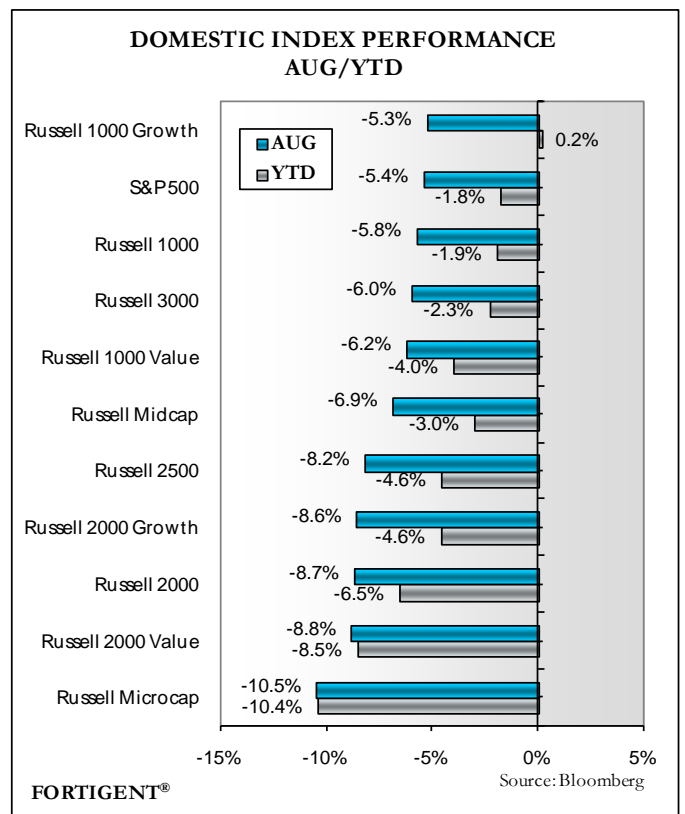
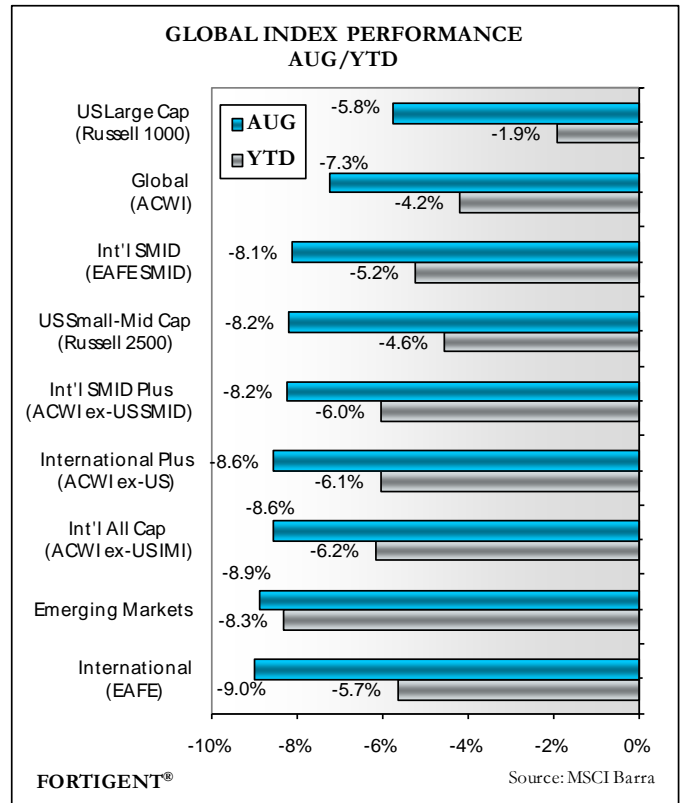
GLOBAL EQUITIES: STOCKS PLUNGE ON MACRO FEARS

Global equity markets roiled in August as fears of a slowing/contracting global economy, signs of contagion in Europe's ongoing sovereign debt crisis, and a general feeling of political incompetence among Western leaders culminated in mass risk aversion. A peak to trough decline of 18% in the blue chip indices midway through the month pulled most markets into near-bear territory, bringing along with it extreme levels of volatility not seen since 2008's historic free-fall. The daily throes of equity markets were punctuated by the Dow Jones Industrial Average, which experienced an incredible four consecutive 400 point moves for the first time in the index's 115 year history.

A subsequent relief rally in the run up to Fed Chairman Ben Bernanke's annual Jackson Hole speech erased a portion of the losses started in late July, but global markets finished August down over 7% (as represented by the MSCI AC World Index). Of the major regional/country components, the US outperformed the rest of the world with a return of (-5.5%), while Japan, Asia ex-Japan, and Emerging Markets finished down between 8% and 9%. Europe was the clear laggard, finishing down 10.0%.

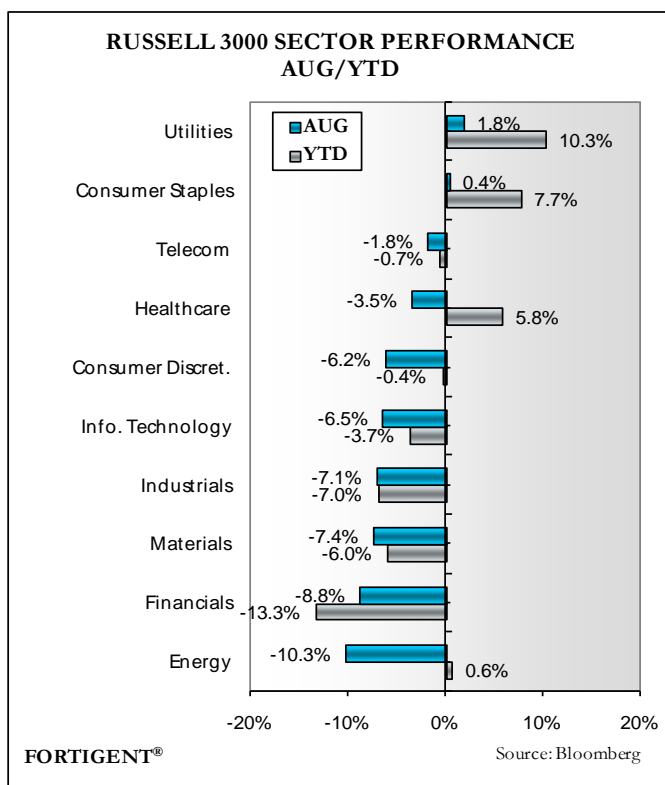
Domestic Equities: Those who postulated that a last minute debt ceiling resolution and a US downgrade were priced into equity markets were left dumbfounded when August trading commenced. Domestic equities tumbled across the capitalization spectrum, falling below pre-Lehman levels. Equities declined at the fastest pace since November 2008, prompting the triggering of the oft-mentioned "death cross" on August 16 – when the 50-day exponential moving average (EMA) crossed the 200-day EMA. In the midst of the storm, earnings were resilient with 67.6% of companies beating top-line and 60% beating bottom-line estimates.

In aggregate, Q2 earnings came in stronger than Q1 but investor response was lackluster at best. Within the S&P 500, companies that surprised to the upside were flat on the day of the report while those that missed EPS expectations fell in excess of 4.5%. The response becomes even more exaggerated when looking at mid and small cap stocks, with those surprising to the upside gaining 0.4% and those with



weaker EPS falling 6.4%. Company guidance was also confounding because despite all of the macro headlines, companies in aggregate raised forecasts. According to Bespoke, of the 2,150 companies that reported, 7.3% raised guidance while 6.6% lowered. This is not a large spread, but it resulted in the ninth consecutive earnings season in which companies were more positive than not.

Analysts were not so optimistic, continuing a five-month trend of negative revisions. Net revisions fell to their lowest level since April 2009 with industrials, materials, and financial companies taking the brunt of analyst pessimism. Nearly 50% of companies in these sectors have had earnings revised downward. Only utility companies saw net positive revisions. Net revisions should be kept in mind when evaluating investor sentiment, but ought not to be used to determine market direction. For example, the last time analysts were this pessimistic (April 2009), markets rallied 100%.



Analysts do have a perplexing environment to analyze. Hewlett Packard's very weak earnings report and the announcement that the company may be looking to get out of the PC business sent shockwaves through the technology sector. The resignation of Apple's Steve Jobs did little to dampen those waves.

Financials, which were already under stress from intercompany MBS-related suits, were hit with another blow when the Federal Housing Finance Agency (FHFA) filed a \$200 billion suit against 17 of the world's largest financial institutions in early September.

Even before the suit, companies like Bank of America (BAC) were under the microscope due to capital adequacy concerns. BAC quelled some of the negativity when it agreed to sell \$5 billion in preferred stock and warrants to Berkshire Hathaway at the end of August. When evaluating the details of the deal, however, many were struck by BAC's willingness to accept such unfriendly terms. Buffett, in much the same way he did with Goldman Sachs before the Lehman Brothers' collapse, was able to negotiate a tremendous deal for Berkshire. With BAC, he locked in a 6% yield on preferreds that BAC can buy back at a 5% premium, as well as warrants for 700 million shares with a strike price of \$7.14. Accepting such terms highlights a tenuous state of affairs for global financial institutions, which portends for heightened volatility in the months ahead.

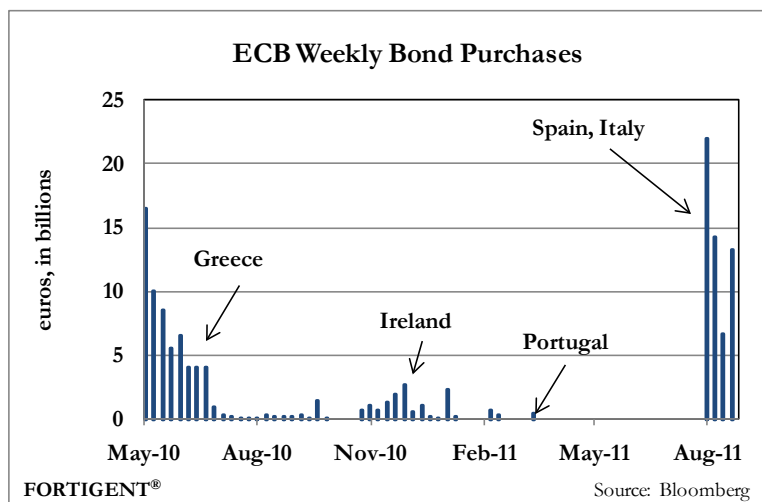
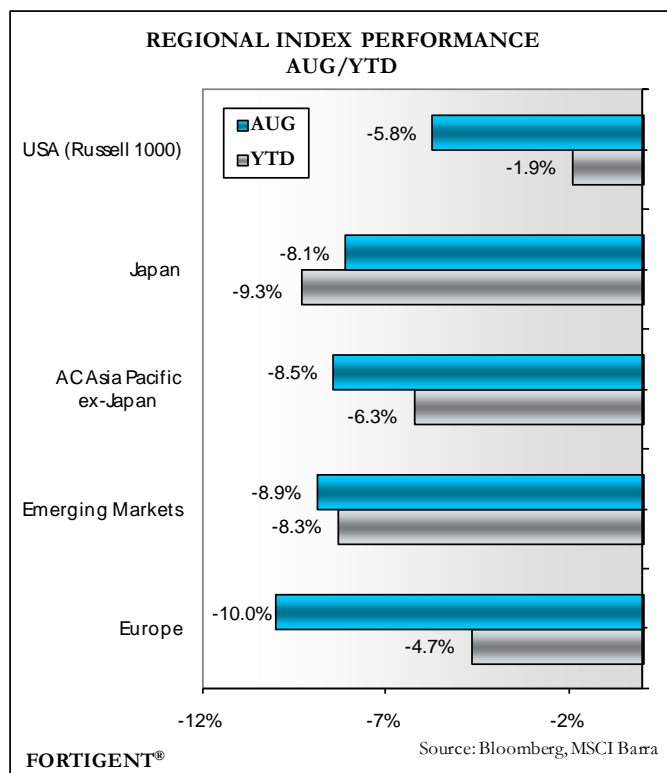
Sector performance was as expected for a market concerned about a double dip. The most cyclical sectors (industrials, materials, and energy) led declines while defensive and high-yielding sectors (utilities, consumer staples, and telecom) outperformed. From a capitalization standpoint, larger companies fared best. Growth issues outperformed value as technology stocks outperformed financials.

International Equities: Weakness in European equities weighed down non-US markets in August, as the broad MSCI ACWI ex-US index fell 8.6%. Fears surrounding the extended European debt saga reached new heights early in the month when it appeared contagion was spreading to Italy and Spain. Government debt yields and prices of CDS instruments insuring against default on that debt spiked sharply in late

July/early August, indicating a severe loss of confidence in both countries. It took a significant bond buying program by the ECB of Italian and Spanish debt to stabilize those markets.

European stocks fell broadly in August on the heels of these concerns, led down by financials (-15%) and more economically-sensitive sectors including materials (-13%), industrials (-11%), and consumer discretionary (-12%) stocks. Unsurprisingly, the Eurozone was punished most, with financials in the core economies of Germany and France getting decimated to the tune of (-20%).

By country there was a fair level of dispersion in European returns, with tiny Finland leading performance at (-4%) and Greece lagging at (-29%). While Greece's position was certainly no surprise, Germany (-19%) was the second worst performing country in the global index. The country announced shockingly weak Q2 growth during the month, with GDP expanding a paltry 0.1% over the quarter. This compared to 1.3% three months prior and was the lowest figure in two years. Germany's recent economic weakness is troubling as it brings into question its ability to act as lender of last resort for the region – or, at least, its political will to do so. Amid unfavorable opinion from local constituents, German Chancellor Angela Merkel is already having difficulty convincing officials in her own parliament to participate in rescues for their troubled monetary union. Ms. Merkel will find it increasingly less palatable to back bailouts of the European periphery if her own country's growth stalls.



Japanese equity markets were not much of a safe-haven in August, posting a mediocre (-8.1%) return – despite continued strength of the Japanese yen. The yen's relentless march upward against the US dollar underscores the futility of the Bank of Japan's efforts to artificially weaken the currency, which they once again attempted in early August. Japan's rebound from natural and economic disaster in March showed signs of slowing during the month, as the country's manufacturing PMI eased to a three-month low. The index's measure of new export orders fell the most since April, undercutting momentum for the economy's growth engine heading into the fall.

Despite superior fiscal conditions and stronger growth levels, Asian and emerging markets fell alongside developed equities in August. The MSCI AC Asia Pacific ex-Japan index fell 8.5%, even after strong

relative performance from its largest index member, Australia. The country fell 4.4%, among the top global markets in August, despite a weak Aussie dollar which accounted for more than half of that decline. Outside of small member countries New Zealand and the Philippines, the rest of the Asia ex-Japan index lagged.

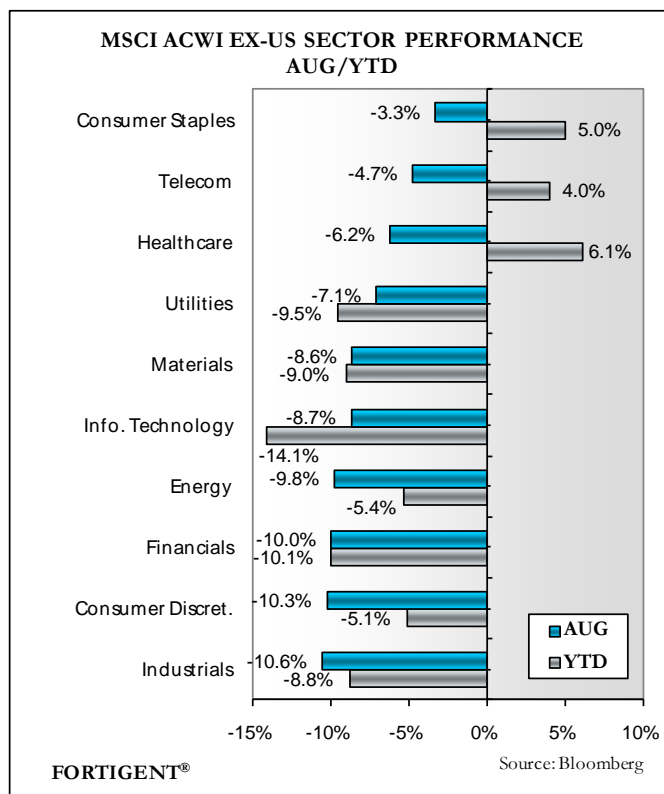
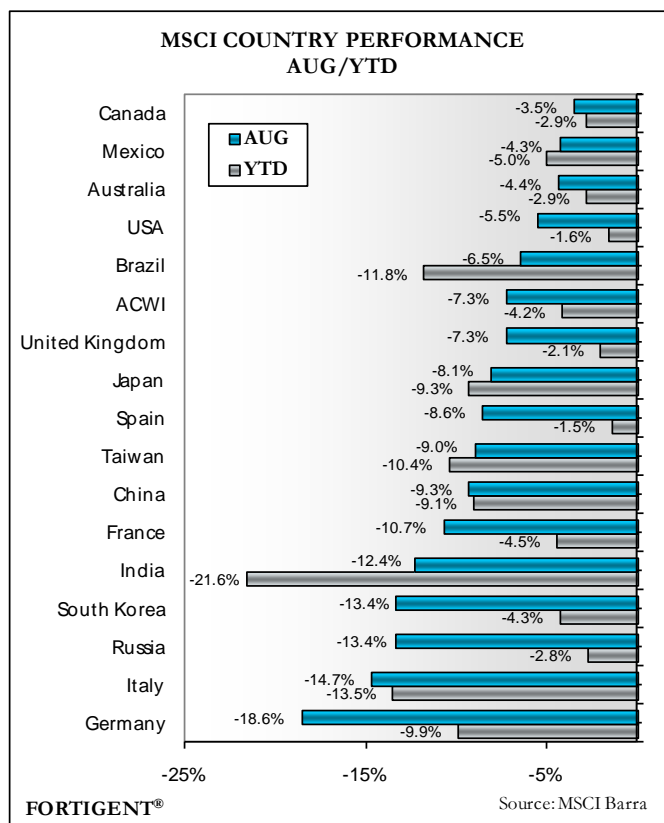
The MSCI Emerging Markets index fell 8.9% in August, dragged down by a 10% decline in its largest subcomponent, EM Asia. The segment was affected by weakness in its largest member countries, South Korea (-13%), India (-12%), and China (-9.3%). In contrast, EM Latin America was the index's strongest component, falling "only" 5.4%.

The remaining piece of the emerging markets index fared poorly in August, with the Europe, Middle East, and Africa (EMEA) index falling 8%. If not for strong relative performance from its largest component, South Africa (-1%), performance would have been much worse – several EMEA countries including Russia, Turkey, Hungary, and Poland were among the worst performers globally. South Africa was buoyed by its 25% weighting in materials stocks, primarily comprised of gold miners, which rose just over 1% during the month.

Whether because of illiquidity or a perceived lack of connection with more established global markets, frontier markets held up relatively well in August. The MSCI Frontier Markets Index declined 5.1% during the month, with stronger returns from its Asia and EMEA sub-components.

Investor risk aversion led to outperformance by defensive sectors in August, with consumer staples (-3.4%) and telecom (-4.8%) stocks posting the strongest returns in the MSCI ACWI ex-US index. Performance in those sectors were even stronger in emerging markets, at (-2.2%) and (-1.3%), respectively, as they are perceived as domestic industries that are more insulated from the broader global economy. In contrast, more cyclical sectors

including consumer discretionary and industrials performed poorly in both the emerging and developed indices. Not surprisingly, financials were also weak, declining 10% in the international benchmark as concerns about the solvency of European banks continued to weigh on investor confidence in the sector.



Looking ahead, volatility should continue to dominate equity markets and headlines. With the European situation reaching a new apex, it will likely take another large scale rescue measure by European leaders to restore confidence. With each successive breakdown in the situation, however, the necessary magnitude of such a measure gets larger and larger. The €440 billion European Financial Stability Facility (EFSF), once applauded by markets, now appears grossly

inadequate. With European leaders from the region's core economies facing anti-bailout sentiment from their populous, there is little political will for a meaningful solution. A short-term band-aid solution is more likely, pushing on the European nightmare into 2012 and keeping investors skittish in the interim.

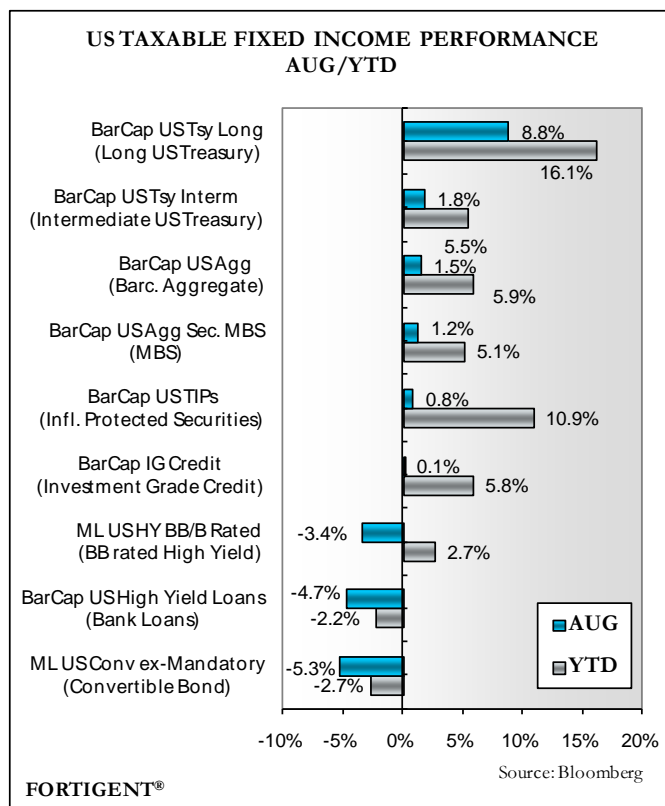
Source: MSCI, Bloomberg, WSJ, The Economist, MarkitEconomics, Thomson Reuters, S&P, Bespoke Investment Group, FactSet, Morningstar, Russell

FIXED INCOME: BUY RISK-FREE AA+ RATED TREASURIES WHEN ALL ELSE FAILS

US Taxable Markets: The circumstances surrounding the passage of the debt ceiling bill proved less than satisfactory for Standard & Poor's, resulting in a downgrade of US Treasury debt to AA+. This less-than-stellar news was further complicated by a steady and louder drum beat of economic data suggesting the global economy slowed in the last two months. In recognition of the downward trend, and perhaps in attempt to force some certainty in an uncertain environment, the Federal Reserve essentially locked its Fed Funds rate at the current 0-0.25% level until 2013. All of this, along with continued uncertainty surrounding the European sovereign debt crisis, resulted in broad-based demand for risk-free assets. This forced a drop in US Treasury yields which, despite the downgrade, remained the quality asset of choice for most investors around the world. The drop in yields was large and sharp: a full 80 basis points for 10-year notes and 30-year bonds in just 2.5 weeks. The result was hefty performance: the BarCap US Treasury index posted a return of 2.8%, while long Treasury investors realized a return of 8.8% for the month.

Conversely, credit risk was not the investment of choice in August. US investment grade bonds gained just 10 basis points in the month. Yields for investment grade bonds held steady as spreads for investment grade debt widened nearly 60 basis points in response to falling Treasury yields.

High yield bonds and leveraged loan investments were not for the faint of heart in August as "risk off" trading led to significant outflows from both areas of the credit markets. Loan outflows were particularly strong, at \$4.7 billion in August or 10.5% of assets under management according to JPMorgan. This record outflow reflects an investor base that looked to shun risk. But it may also reflect a reallocation away from floating rate investments now that the Federal Reserve appears on hold until 2013. The net result was a sharp price drop of leveraged loans, from \$94 to \$89 based on S&P index data. An uncomfortable drop, but to put this in context, the index price at the 2008-09 crisis low was around \$60. High yield bonds realized a similar adjustment as the option adjusted spread (OAS) for high yield bonds increased a full 1% to 711 basis points, based on BarCap index data. This index posted OAS levels



US Treasury Yields

Security	7/31/2011	8/31/2011	1 Mo Change
90 Day	0.09	0.00	-0.12
2 Year	0.36	0.20	-0.39
5 Year	1.36	0.96	-1.04
10 Year	2.80	2.22	-1.07
30 Year	4.12	3.60	-0.73

SOURCE: BLOOMBERG

US TIP Yields

Security	7/31/2011	8/31/2011	1 Mo Change
5 year	-0.84	-0.86	-0.79
10 Year	0.35	0.14	-0.83
20 Year	1.08	0.87	-0.73
30 Year	1.37	1.15	-0.69

SOURCE: BLOOMBERG

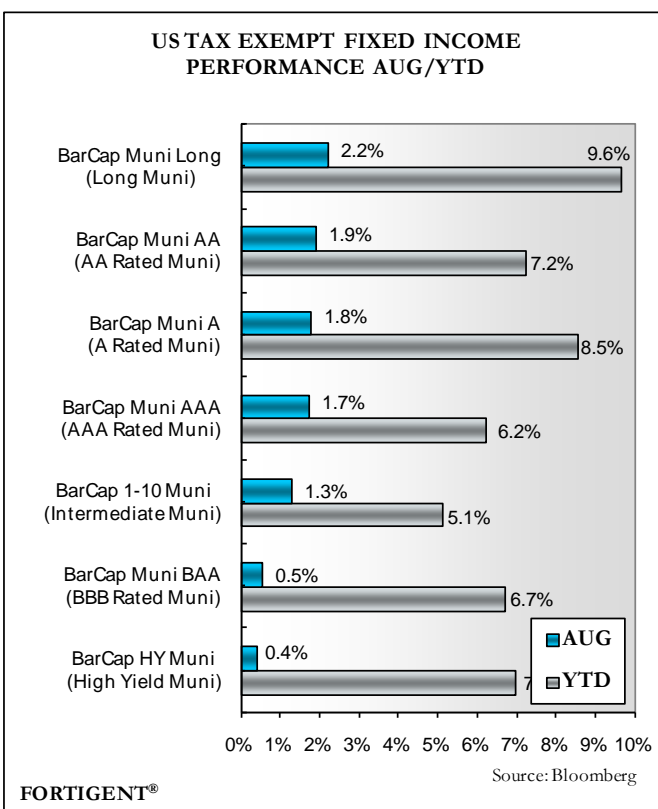
of 1700 basis points in early 2009. In terms of performance, leveraged loans lost 4.7% in the month while high yield bonds lost 4% based on BarCap data.

In review of credit quality, there was little activity as no new issuers defaulted. However for the first time in nearly two years, credit trends turned negative as credit downgrades outpaced upgrades in the month by a ratio of 1.1 to 1. In general, the markets remained opened to issuers as some new bonds and loans were placed, but overall issuance remained constrained as companies waited for calmer markets to look for funding. August is traditionally a quiet month for the high yield and leveraged loan new issuance calendar, and this may have had some impact on the lack of supply as well. Nevertheless, the lack of issuance was a stark contrast to the past two years where new issuance has been robust.

Mortgage backed investors remained relatively protected in the month. The BarCap securitized index gained a bit over 1% in the month as yields fell in sympathy with Treasuries. Despite record low mortgage rates, refinancing of loans remains relatively contained as it appears those that can refinance have already done so. As a result, the OAS for agency MBS modestly expanded in the month, increasing just 20 basis points. The biggest concern in the MBS market was related to the potential for government policy being crafted to spur greater refinancing. However it appears market consensus is that a full-scale refinancing program is unlikely; rather, a modification to existing programs could occur to target a larger number of distressed home owners.

Municipal Market: Following the downgrade of US sovereign debt, 11,000 municipal issues were downgraded in sympathy; however, this had little effect on the muni market. The muni market posted its strongest August performance in 20 years as primary supply remained constrained and fell below 2010 levels, yet investor demand remained fairly strong. During the month yields fell in sympathy with US Treasuries, however the drop was not as sharp leading to compelling valuations of munis relative to Treasuries. This generated demand from crossover buyers and banks which in turn forced muni yields lower as the month came to a close. Reflecting this activity, higher quality intermediate munis generated a 1.4% return in the month based on BarCap data. Similar to the taxable credit markets, lower quality underperformed. BBB rated munis generated 50 basis points while high yield munis produced 40 basis points. In general, as yields fell for long term munis, the spread for both areas of the market widened. High yield munis widened to 394 basis points relative to higher quality munis. In context of 2008-09, yields for high yield munis reached 700 basis points at the height of the crisis.

In terms of municipal credit quality, revenues are relatively robust, increasing 11% in the second quarter as compared to the same period in 2010 (as



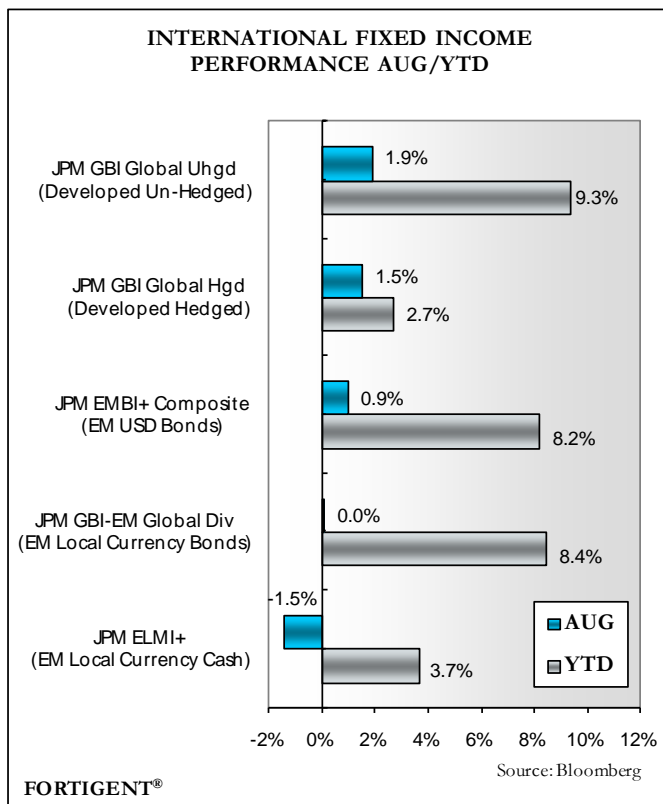
AAA Municipal Yields

Security	7/31/2011	8/31/2011	1 Mo Change
2 Year	0.60	0.50	-0.25
5 Year	1.50	1.29	-0.39
10 Year	2.88	2.57	-0.59
30 Year	4.75	4.41	-0.48

SOURCE: BLOOMBERG

reported by the Rockefeller Institute of Government). Unfortunately, receipts remain well below levels seen in 2008. According to Municipal Market Advisors, defaults are trending upward as August was the second consecutive month where the number of first time defaulting credits exceeded 2010 levels. Year to date, 73 issuers defaulted for the first time, impacting \$1.5 billion in outstanding principal. The vast majority of defaults have affected smaller, non-rated issuers.

International Markets: As the risk-off trade prevailed worldwide, the debt of most major sovereigns realized sharp drops in yield. The yield for the JP Morgan Global Bond Index fell approximately 20 basis points in the quarter to 2.2%, amid sharp drops in yields of Eurozone debt, specifically Italy and Spain. Modest changes in yields for Australia, Belgium, and Sweden were offset by a lack of rate adjustment in Japan. The net result was a positive performance of 1.5% on a hedged basis. On an unhedged basis, the index generated 1.9% as the dollar devalued relative to the larger constituents in the index, specifically the yen and euro.



In review of the distressed Euro nations, specifically Portugal, Ireland, Italy, Greece and Spain, the predominant market concern remains concentrated on Greece and Portugal, as both exhibit inverted yield curves – short term debt yields are higher relative to longer term. Problems surrounding other nations of this infamous group appear less worrisome as the month closed. However, as the political process continues, volatility should persist.

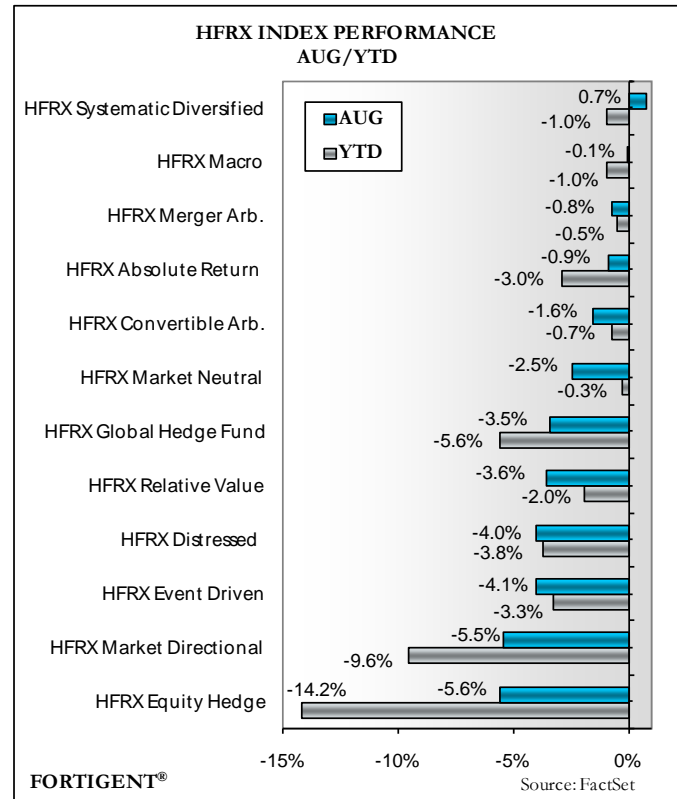
In review of emerging market performance, yields fell as the prospect of slower growth led many investors to adjust their expectations for overheating EM economies. Yields for the JPMorgan Global Bond - Emerging Markets index fell approximately 30 basis points in the month as most major EM regions experienced lower yields. Unfortunately, any price benefit generated by this adjustment was offset for US investors as the dollar appreciated relative to most EM currencies. The full brunt of the appreciation is exemplified by the 1.5% loss posted by the JPM ELMI+ index.

Sources: Barclay’s Capital, Bloomberg LP, J.P. Morgan, Municipal Market Advisors

ALTERNATIVES: HEDGE FUNDS STRUGGLE TO STAY POSITIVE IN CHOPPY MARKET

With abundant amounts of economic and market volatility in place during the month of August, hedge fund managers faced losses across the board. Only one strategy finished in positive territory for the month and many lost in excess of 3%. The good news is that while most strategies were down, they all generally outperformed the equity markets and the 5.5% loss in the S&P 500 Index. The bad news is that all hedge fund strategies are now negative on a YTD basis.

The lone positive strategy last month was Systematic Diversified, again proving the diversification benefits of CTAs and managed futures products. The HFRX Systematic Diversified Index rose 0.7% in the month, benefiting from long positions in government bonds, interest rates, and precious metals. Each of those areas rallied as investors sought “safe haven” assets. Equities were a challenging trade for many trend following strategies in August, due to the violent day-to-day and intraday price moves, but a slightly bearish stance was additive to performance for many managers.



Macro strategies were the second best performer, losing 0.1% for a loss of 1.0% on the year. Preliminary returns for macro managers were mixed on balance, with some making money in similar trades as managed futures managers, but others suffering from positions in emerging market equities and commodities. Crude oil, as an example, lost nearly 5% over the course of the month, but was down considerably more before a snapback rally in the second half of the month.

Distressed lost 4% in August and is down an almost equal amount YTD. According to J.P. Morgan, there were no defaults in August, and the YTD total number of defaults stands at 11. Roughly 1.4% of outstanding bonds trade at 50% or below par value and another 9.6% of loans trade below 80% of par. The overall high yield market lost a bit more than 3.5% in August, but CCC rated bonds were down more than 7%, while defaulted bonds lost 2.9%. Top losers last month include Chinese paper and packaging company Sino-Forest and industrial company Aquilex. On the positive side, names such as Eastman Kodak and DTE Energy traded higher.

In a market marked by as many extreme moves as we witnessed in August, hedge funds proved their value by providing modest downside protection, and even positive performance in some instances. Hedge funds earn their keep in markets such as these, and thus far, investors who were disappointed by 2008 performance have reasons to be satisfied by August 2011 performance.

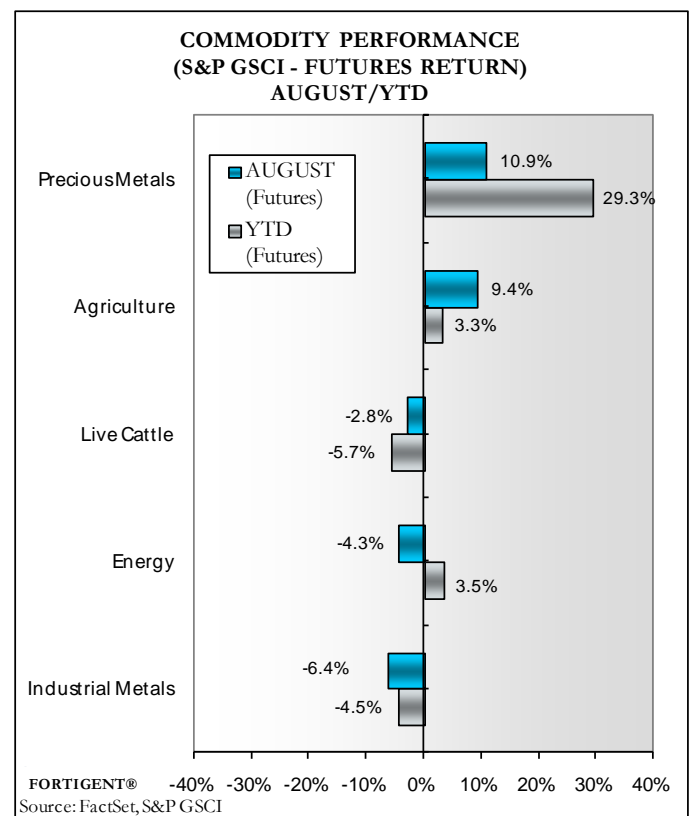
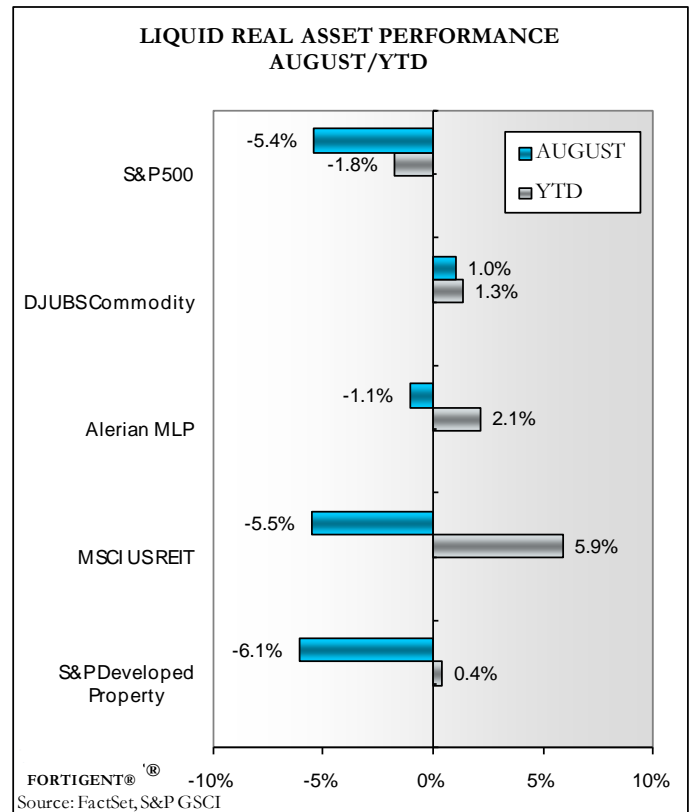
Sources: HFRX, Factset, Financial Times, J.P. Morgan

LIQUID REAL ASSETS: DIVERGENT RETURNS

Any sensitivity to global growth was punished during the month as a US downgrade and degenerating conditions in Europe resulted in a selloff in risky assets. Continuing supply constraints supported agriculture commodities while worries of global currency debasement propped up precious metals. MLPs held up relatively well as investor hunger for yield was strong enough to offset concerns of falling energy prices. REITs tumbled alongside equities, as the housing, retail, and manufacturing picture continued to deteriorate.

Commodities: Energy and industrial metals traded down for much of the month as concerns of global instability weighed on economically sensitive commodities. In energy, progress made by rebels in Libya suggested eventual resumption of oil and natural gas exports. Progress should be slow and any setback bears watching, but the light at the end of the tunnel has been lit. Prior to the war, Libya exported nearly 80% of its oil production (~1.55 million barrels per day or 3% of global production), with more than 30% headed to Italy, 14% to Germany, and 10% to France and China. Although the output is relatively small from an overall global standpoint, it should not be ignored. When the revolution hit the wires in February, crude oil prices popped more than 4% in a day and continued to trend higher for several months. As the war now comes to a close, investors should expect downward pressure on oil prices.

Although industrial metals traded down, emerging market demand remained strong. This was illustrated by the price progression of iron ore, and more specifically iron's performance (used in steelmaking and infrastructure) versus copper (used in a wide array of products). China consumes nearly 40% of global copper production and almost 70% of iron ore, which is why it was interesting to see copper correct 5.7% in August when iron prices actually rose. Iron ore does not have a robust futures market, resulting in less speculative trading. The majority of trading is done at spot which is settled quarterly between producers (such as Brazil and India) and consumers (China). Given that speculation plays a smaller role in iron prices, it may be a better gauge of long-term economic activity than copper (copper is often called Dr. Copper due



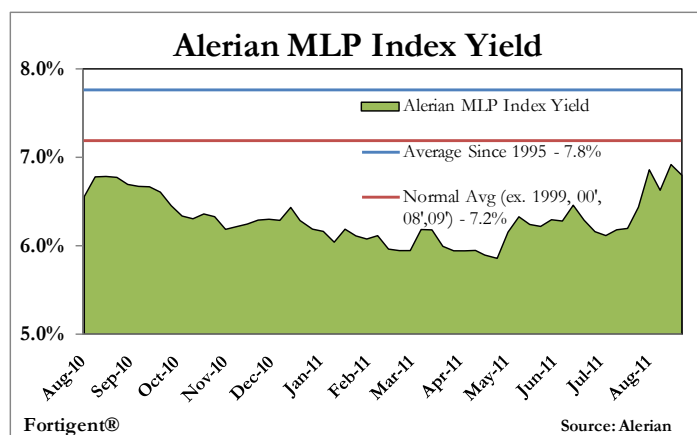
to its ability to gauge economic growth). As such, investors may want to consider a second opinion from Dr. Iron for an emerging market growth prognosis.

Turning to gold – after a month in which gold ETFs accumulated another 70 tonnes (\$3.5 billion at prevailing prices), gold ETFs saw outflows in August despite a 12.3% price rise. Investors pulled more than 9 tonnes (\$550 million) out of gold ETFs during what was a very volatile month for gold prices (high of \$1,900 and low of \$1,700). GLD, the largest gold bullion ETF, exemplified the volatility. The ETF had net redemptions of almost \$2 billion by the end of August, despite having two days in which it gathered more than \$1 billion in new asset flow. In fact, for two days GLD was the largest ETF in the world, surpassing SPY (S&P 500 ETF). What makes this interesting is that today investors comprise a large portion of gold demand, more than they have over the past 30 years. Prior to 2008, about 65% of gold demand came from jewelry. Investors accounted for approximately 20%, with the rest spread across industrial use and producer hedging. Today, investment demand has risen to more than 40%, while jewelry has fallen to less than 50%.

Investments come in many shapes and sizes (ETFs, futures, bullion bars, coins, gold leaf, etc.), but regardless of the medium, more of the metal is in the hands of those that like to keep their gold safe and underground. For example, ETFs hold approximately 2,200 tonnes of gold bullion. While this is an insignificant sum compared to the 30,000 tonnes held by investors in non-exchange traded vehicles, it is quite sizable when weighed against the 2,689 tonnes that was mined last year. A large portion of the metal is now in the hands of those that can quickly get in and out, which ultimately portends for a more volatile pricing environment.

MLPs: The Alerian MLP index traded down in August and is now more than 8% off its 2011 high. Despite the decline, yields finished the month below their historical average.

It was a relatively quiet month for MLPs. Public partnership taxation overhaul talk calmed in lieu of bigger battles on Capitol Hill. Hurricane Irene took an easterly rout up the US coast, and although it caused damage and flooding in New England, there was little impact on drillers, pipelines, and refiners.



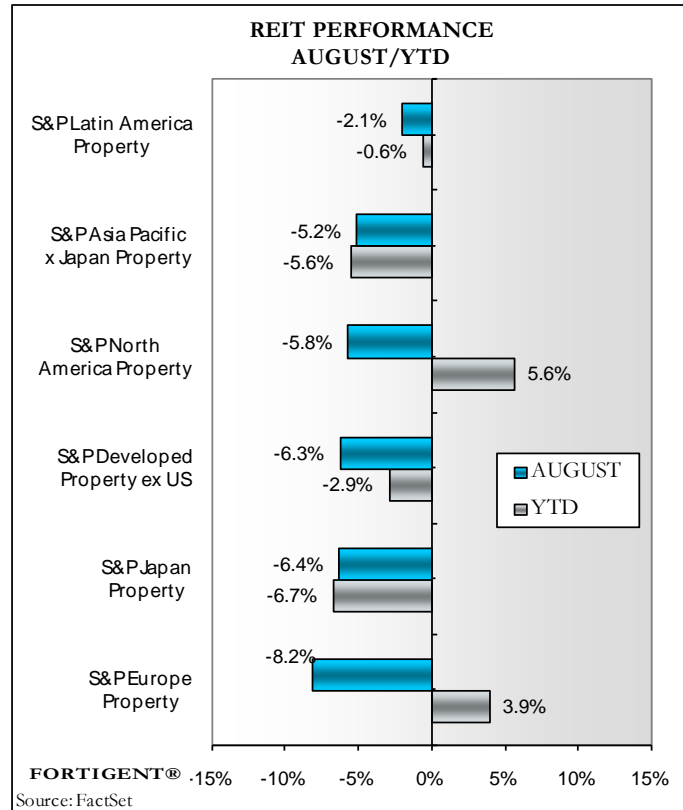
It was quiet on the IPO front as well. Through the first seven months this year, eight IPOs (7 MLPs, 1 GP) raised in excess of \$4 billion dollars. August stock market volatility shut down IPO activity, but several remain on deck for the fall. With a current backlog of seven companies waiting to go public, 2011 could be one of the largest MLP IPO years ever. There is concern that new supply may not be consumed as voraciously as it was in 2010 by market participants. Nevertheless, seeing sub-7% yields prevailing through the first wave of IPOs in 2011 shows that investor hunger for yield has yet to relent.

Lastly, Chairman Bernanke's comments ahead of the Jackson Hole speech that effectively guaranteed low interest rates until 2013 were a big boon for MLPs, an asset class that historically averages a 300 bps spread to 10-year Treasuries. With the 10-year at 2%, MLP yields could conceivably fall to as low as 5%, making an all time low. Conversely, if US Treasury buyers decide to take a break and yields move higher, MLPs would likely face pressure.

REITs: After several quarters of divergent returns, global REIT markets fell in tandem in August.

In the US, decelerating manufacturing and weak employment data took a toll on industrial and office REITs. The MSCI US Industrial REIT index fell 21.0% for the month, while office REITs fell 7.5%. Prologis, which makes up nearly 75% of the industrial REIT sub-index, was the main detractor despite reporting funds from operations (FFO) 21% above expectations in July. On the opposite end of the spectrum, residential REITs rose 0.4% during the month, aided by strength in multifamily housing.

Despite price weakness, domestic REITs finished earnings season in strong shape. More than two-thirds reported earnings ahead of expectations, with the greatest positive surprise coming from the much maligned industrial REITs. Retail REITs were the only REIT sub-industry to report negative earnings surprise.



Europe REITs lost their YTD lead during the month due to growing political and fiscal uncertainty. Not surprisingly, emerging Europe properties lagged (-27.2%), with Turkey (-22.4%) and Poland (-25.2%) the biggest detractors. Developed Europe fared only slightly better, as Spain, Italy, Germany, and UK property indices fell in excess of 10%. Switzerland REITs were a relative bright spot, falling less than 3% with the help of a 25bps drop in rates on August 3.

Asian markets fared better. The cessation of interest rate hikes brought support for Australian and New Zealand properties which fell less than 3%. Japanese REITs struggled during the month, despite accommodative domestic policies. The central bank extended its J-REIT purchase program in August, after initially expanding it in March 2011.

Latin American REITs were the best performers during the month. A 50bps rate reduction by Brazil's central bank in late August was seen as supportive. The move was somewhat surprising, however, given that only in July the central bank raised rates by 25bps to 12.5%.

Sources: S&P, WSJ, CBRE, FactSet, Alerian, commodityonline.com, worldinterestrates.com