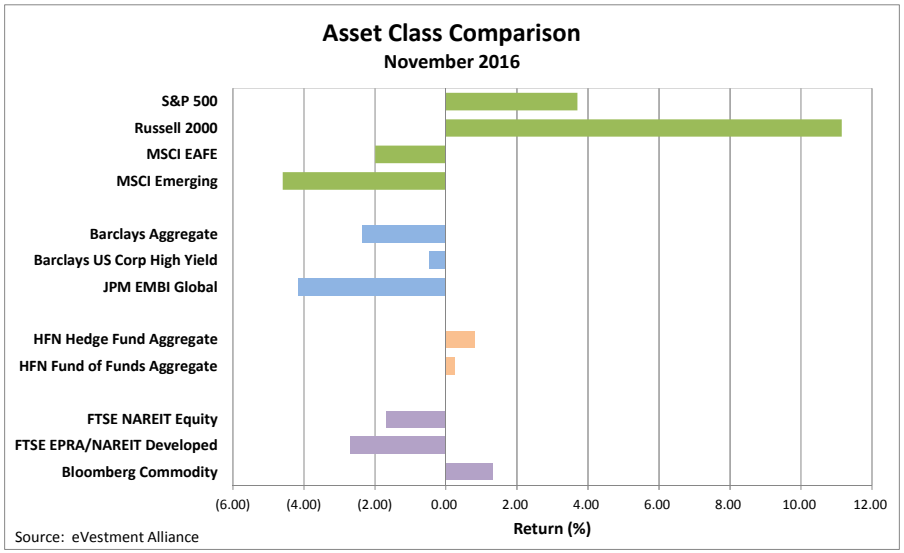
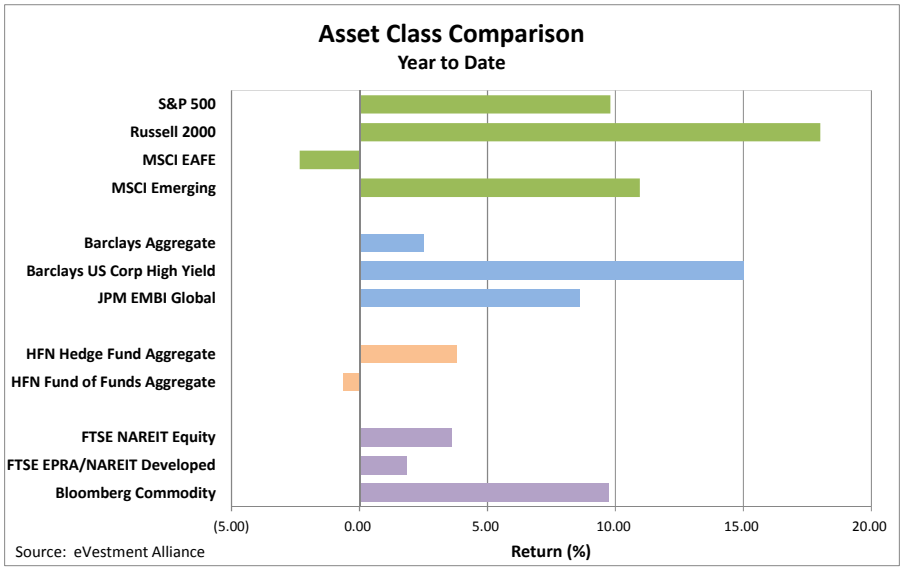
MESA: Monthly Market Flash

November 2016





Market Overview

- November's market action was dominated by the U.S. election. The surprise election of Donald Trump and the results of Congressional races, awarding majority control to the Republicans, sent investors scrambling to assess the global macroeconomic and financial market impact. The U.S. stock market advanced and bonds sold off as market participants embraced risk amid the view that pro-growth policies will dominate under the new administration. Domestically-oriented equities, particularly higher beta small caps surged. Return dispersion among sectors was meaningful. Financial stocks advanced on an increase in rates and steepening of the yield curve with prospects for reduced regulation also bolstering sector performance. Energy and industrial company stocks performed strongly as well. Consumer staples and interest rate sensitive sectors such as utilities and REITS lost ground. Bonds experienced the most meaningful monthly pullback in recent memory as market rates backed up significantly. Credit outperformed but performance was hampered by an increase in interest rates.

- In overseas markets, developed markets outperformed emerging with certain countries, particularly in Latin America, selling off meaningfully on the likelihood of more protectionist trade policies. Mexico, which was the target of much of Trump's election season rhetoric on both trade and immigration, saw its currency and equity markets drop on U.S. election results. The U.S. Dollar advanced against most major market currencies with the Mexican Peso down more than 8% in November. The Japanese Yen was down more than 8% as well as the BOJ left interest rates unchanged and continued to target interest rate levels along select portions of the yield curve conceding that its massive stimulus efforts of the past were unsuccessful. In Europe, the view that an ECB taper of massive stimulus measures may be in the offing too put pressure on the markets as did the jarring effects of the results of the U.S. Presidential election and the upcoming Italian referendum. The Euro currency was down about 3.5% versus the Dollar.

- Despite U.S. Dollar strength, commodity markets were higher this month. Industrial metals were the big winner while precious metals saw a pullback. Gold was down 8%. Crude oil prices were up about 4% due in large part to OPEC's decision to actually cut production beginning in January 2017.

Equity Markets

- Performance across markets and sectors diverged considerably. In the U.S., small cap stocks outperformed large caps by more than 700 bps on the expectation of higher growth policies such as more infrastructure spending, deregulation, changes in trade policies and lower taxes. Given this backdrop, cyclicals outperformed defensive sectors. The best performing sectors included financials, industrials, energy and materials while the laggards included utilities, consumer staples, REITS and information technology stocks. Value outperformed growth. In overseas markets, volatility increased, the U.S. dollar strengthened and concern over a populist resurgence in upcoming European elections weighed on markets. Developed markets outperformed emerging for the month but emerging markets remain the year's performance leaders. In the U.K. the pound sterling advanced as a court ruled that Parliamentary approval is needed to start the process of exiting the European Union, signaling a likely delay in Brexit.

Fixed Income Markets

- Interest rates increased dramatically and the yield curve steepened. The largest yield increases occurred in the belly of the curve with the 10-year Treasury increasing 56 bps to end the month at 2.38%. Rates backed-up as investors piled into risk assets and shunned bonds on more inflationary government policies and the view that the Fed would likely hike rates in December. Lower quality bonds outperformed the more interest rate sensitive, higher quality sectors. Mortgage backed securities were the relative laggards underperforming like-duration Treasury securities on an increase in rate volatility and concerns over extension risk. Investment grade corporates outperformed like-duration Treasuries by 52 bps. Floating rate leveraged loans (+0.32%) and less interest rate sensitive speculative grade credit (-0.47%) held in reasonably well. Emerging market bonds sold off on the heels of an increase in market rates. Rates backed up across the globe with unhedged non-dollar bonds underperforming on dollar strength.

Alternative Strategies

- Long/short equity, event-driven and credit-oriented strategies were the big winners this month as were fundamental macro strategies. Trend followers lagged. With divergence across sectors, positioning was the key to performance which varied widely among hedge fund managers.

Developed Market Returns (%)

	Month	Year to Date
S&P 500	3.70	9.81
Russell 2000	11.15	18.01
MSCI EAFE ($)	(1.99)	(0.35)
MSCI Europe ($)	(2.18)	(3.26)
MSCI UK ($)	0.33	(4.39)
MSCI Japan ($)	(2.41)	3.89
MSCI Pacific ex Japan ($)	(0.08)	8.53

Source: eVestment Alliance, MSCI

Emerging Market Returns (%)

	Month	Year to Date
MSCI EM ($)	(4.60)	16.30
MSCI EM Asia ($)	(3.33)	11.68
MSCI EM EMEA ($)	(4.87)	17.61
MSCI EM Latin America ($)	(10.61)	45.34

Source: eVestment Alliance, MSCI

U.S. Fixed Income Returns (%)

	Month	Year to Date
Barclays Aggregate	(2.37)	2.51
Barclays Government	(2.59)	1.15
Barclays U.S. TIPS	(1.92)	4.80
Barclays U.S. Inv. Grade Corp.	(2.68)	5.40
Barclays U.S. Mortgaged Backed	(1.71)	1.69
Barclays U.S. High Yield	(0.47)	15.01
Credit Suisse Leveraged Loan	0.32	8.62

Source: eVestment Alliance, Barclays, Credit Suisse

Non-U.S. Fixed Income Returns (%)

	Month	Year to Date
Citigroup Non-U.S. WGBI Hedged	(1.18)	4.75
Citigroup Non-U.S. WGBI Unhedged	(5.66)	2.80
JP Morgan EMBI Global	(4.17)	8.63

Source: eVestment Alliance, Citigroup, JP Morgan