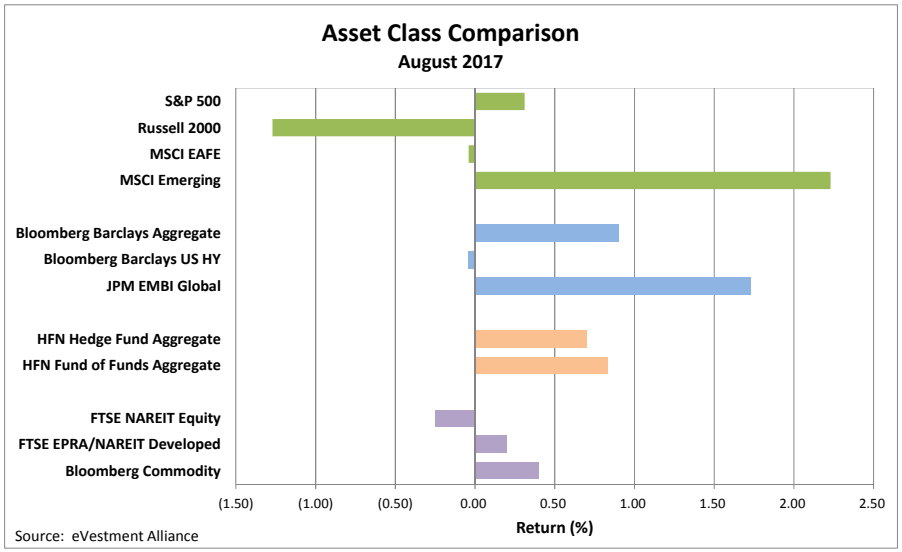
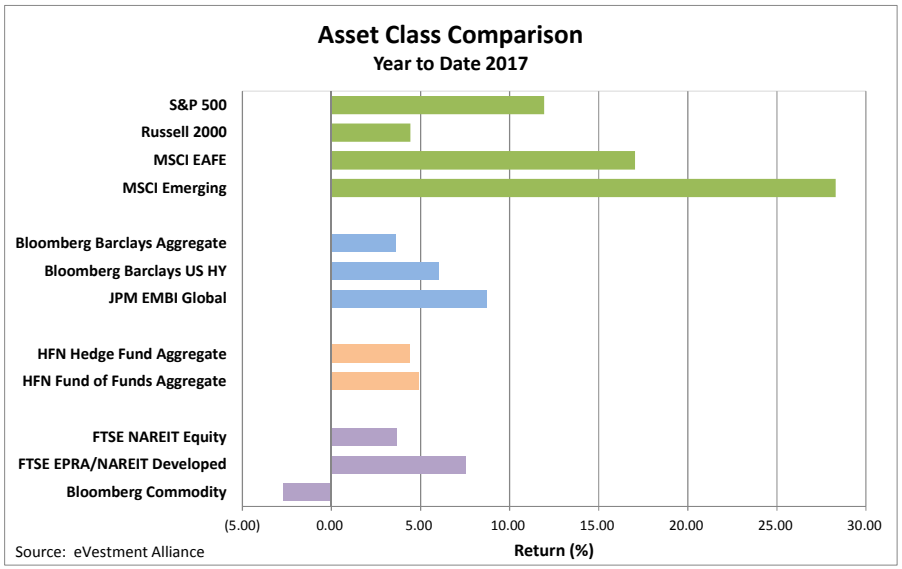
MESA: Monthly Market Flash

August 2017





Market Overview

- Similar to July, political issues had a significant impact on investor sentiment and asset class returns during August. In the U.S., demonstrations in Charlottesville, Virginia, turned violent with negative reactions magnified by comments from President Trump that were viewed as an insufficient denouncement of hateful rhetoric. As a result, two CEO advisory councils that had been formed by the President were disbanded following the high-profile resignations of numerous council members. Equity markets swung up and down with increasing volatility the remainder of the month, with weakness following a terrorist attack in Barcelona, Spain on August 18th, followed by improved market sentiment, especially in the U.S., as reports out the following week suggested progress was being made on tax reform. Finally, political uncertainty flared up again late in the month following a North Korean ballistic missile test that included a flight path over mainland Japan.

- Views toward global economic conditions were mostly unchanged during the month. News on the economic front was mostly positive, with solid data out of Europe and Japan highlighting the period. The key surprise came out of the U.K., where the Bank of England lowered expectations for 2017 growth rates and held steady on interest rates. As has been the case for many months, the focus on global interest rate policies remained elevated, with a keen focus on any commentary coming from the U.S. Federal Reserve or the European Central Bank. July Fed meeting minutes indicated further guidance on the pace of Fed balance sheet reductions would be addressed at the September meeting, while a meeting of the world's largest monetary policy makers at Jackson Hole, Wyoming, produced little new guidance on the future of global interest rates.

- Gas futures were up sharply in August following hurricane Harvey, while gold moved to post-election highs on flight-to-quality flows. These gains helped the commodity index post its 2nd straight monthly gain. This is in contrast to the prior four months which saw lower commodity prices and inflation readings registering below desired levels identified by policy makers. Low inflation readings have fueled investor doubts about the ability and desire of the U.S. Fed to continue on its recent tightening program. Similar concerns have been raised about how quickly a reduction in policy accommodation in Europe might occur. As a result, interest rates in all key developed markets moved lower in August.

Equity Markets

- Global equity markets were mixed in August, as political tensions were high during the period. The S&P 500 index gained 0.31% for the month, recording the 10th straight monthly gain for the index. Relative return trends across capitalization and sectors continued in August, with large cap stocks outperforming small caps and growth stocks outperforming value stocks. Technology shares continued to post strong gains, with August's 3.5% advance adding to the year-to-date results (+26.6%). Also performing well in August were healthcare and utility stocks. Telecom and energy shares reversed course from last month's gains, falling 5.2% and 2.0%, respectively. Foreign developed equity markets were influenced by many of the same factors impacting the U.S. and generated muted results. While individual markets were marginally higher or lower, the MSCI EAFE, index was off 0.04% on the month. This loss masks the fact that within Europe economic conditions continued to improve while investor sentiment also strengthened. The emerging markets outperformed again, gaining 2.2% on the month with strength seen across all regions. This puts the emerging markets up 28.3% year to date, a sizable return advantage over the developed market indices.

Fixed Income Markets

- Treasury yields were notably lower across the yield curve in August on flight to quality flows and concerns that the pace of monetary tightening would need to slow following lackluster inflation readings below Fed-desired levels. The 10-year Treasury yield fell to 2.12% from 2.30%, the lowest level since November of last year. The Bloomberg Barclays Aggregate index posted a gain of 0.90% on the month, with the move lower in interest rates and the resultant strong gains from U.S. Treasuries driving the index return. Investment grade credit lagged during the period, while non-investment grade securities, including both high yield and bank loans, posted losses in August.

Alternative Strategies

- Hedge fund strategies were mostly positive on the month, with the year-to-date underperforming strategy, CTA Managed Futures, leading the charge with a 1.6% gain. Equity long short and macro managers also performed well, helping the HFN Hedge Fund Aggregate index to a 70 bps gain in August. Both strategies benefited from a rise in intra-month volatility given political tensions. Event driven was a relative laggard for the month, with distressed performing most poorly with credit spreads widening during the period.

Developed Market Returns (%)

	Month	Year to Date
S&P 500	0.31	11.95
Russell 2000	(1.27)	4.43
MSCI EAFE ($)	(0.04)	17.03
MSCI Europe ($)	0.06	18.88
MSCI UK ($)	(0.77)	11.97
MSCI Japan ($)	(0.05)	12.09
MSCI Pacific ex Japan ($)	0.26	18.66

Source: eVestment Alliance, MSCI

Emerging Market Returns (%)

	Month	Year to Date
MSCI EM ($)	2.23	28.29
MSCI EM Asia ($)	1.43	32.15
MSCI EM EMEA ($)	4.39	16.00
MSCI EM Latin America ($)	4.62	24.76

Source: eVestment Alliance, MSCI

U.S. Fixed Income Returns (%)

	Month	Year to Date
Bloomberg Barclays Aggregate	0.90	3.64
Bloomberg Barclays Government	1.06	3.11
Bloomberg Barclays U.S. TIPS	1.06	2.37
Bloomberg Barclays U.S. Inv. Grade Corp	0.78	5.38
Bloomberg Barclays U.S. Mort. Backed	0.73	2.55
Bloomberg Barclays U.S. High Yield	(0.04)	6.06
Credit Suisse Leveraged Loan	(0.14)	2.63

Source: eVestment Alliance, Bloomberg Barclays, Credit Suisse

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

	Month	Year to Date
Citigroup Non-U.S. WGBI Hedged	0.98	1.46
Citigroup Non-U.S. WGBI Unhedged	1.23	10.16
JP Morgan EMBI Global	1.73	8.76

Source: eVestment Alliance, Citigroup, JP Morgan