

Market Environment

October 2015

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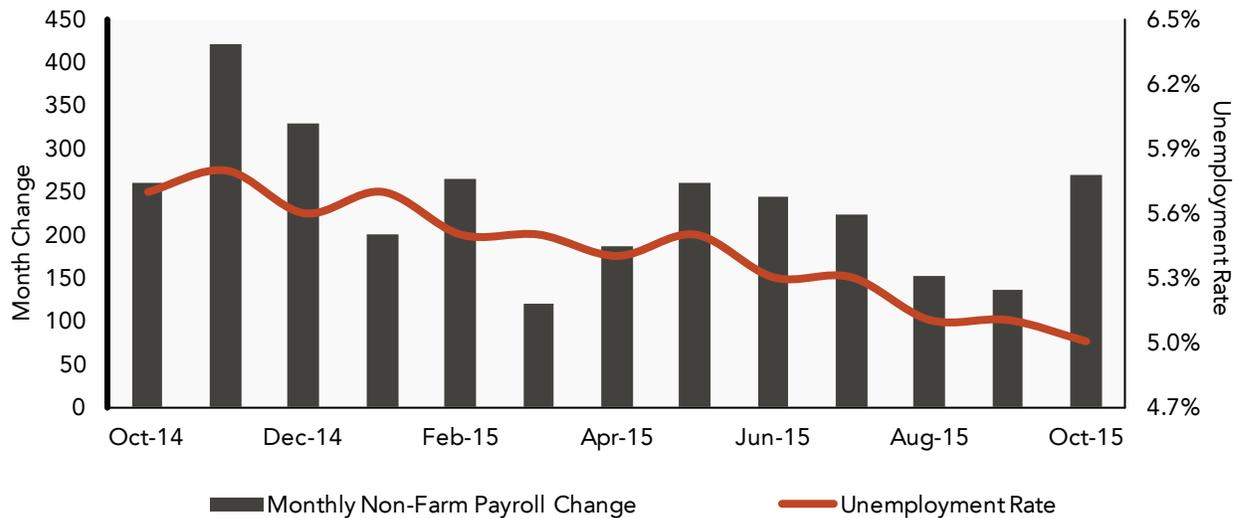
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U.S. Economy

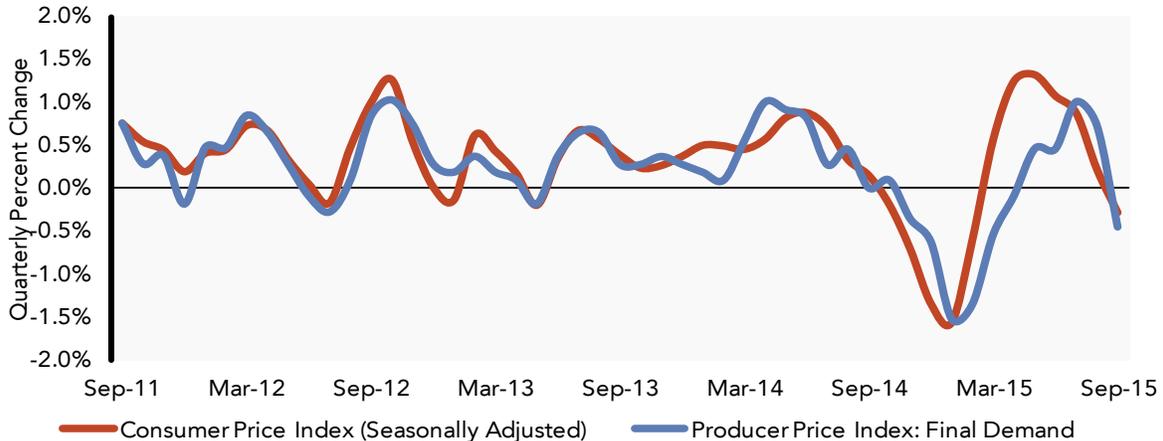
The unemployment rate declined to 5.0% for the month of October. The number of unemployed persons also decreased to 7.9M and is down 1.1M during the trailing 12 months. The participation rate remained at 62.4. The employment-population ratio rose slightly from last month to 59.3. Average duration of unemployment increased to 28.0 weeks during the month, but is down from 32.9 weeks this time last year. The broader U-6 measure of unemployment fell below 10% for the first time since the recession, declining to 9.8%. The non-farm payroll, the net number of non-farm jobs added or subtracted per month, rose by 271K. Job growth has averaged 235K per month in the last twelve months. Job growth during October was strongest in professional and business services (78K), health care (45K), retail trade (44K), food services (42K), and construction (31K), while employment fell in mining (5K). Employment in other major industries was largely unchanged during the month. Non-farm payroll employment for August and September were revised to show 12K more jobs than previously reported.

The Consumer Price Index (CPI-U) decreased .2% during the month of September. Within CPI-U, food rose .4%, and energy declined 4.7%. In the last twelve months, the CPI-U was unchanged with food increasing by 1.6%. Energy declined by 18.4% during this time period. Core CPI rose .2% in September and has increased by 1.9% in the trailing twelve months. The Producer Price Index for final demand fell .5% in September and has declined 1.1% in the last twelve months. The index for final demand services decreased by .4%, while the final demand goods index declined by 1.2%.

Unemployment Data: Monthly Non-Farm Payroll Change and Unemployment Rate



U.S. Inflation Data: Consumer Price Index & U.S. Inflation Price Index (Year over Year)



Source: Bureau of Economic Analysis, Bureau of Labor Statistics

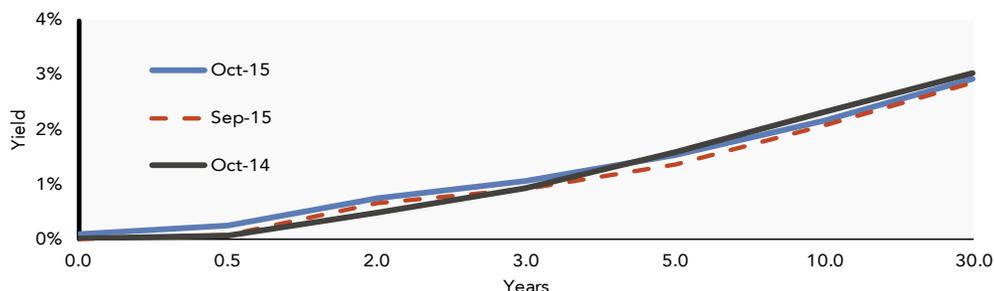
Fixed Income

As concerns over China's hard landing dissipated and the market sensed that the global credit selloff may have overshot, risk credit asset classes reversed their trajectory. Both high yield bonds and hard currency emerging markets bonds returned 2.7% for the month. On the other hand, investors reduced their holdings in safe haven assets, sending long-dated U.S. Treasury bonds to a -0.5% return, the worst-performing fixed income asset class during the month. The Agg broke even for the month, while non-U.S. developed markets bonds were slightly positive given the reduced volatility. The yield curve rose across the board in this risk-on environment, with the most yield increases occurring in the belly of the curve. The 10-year yield was up 10 basis points, ending the month at 2.16%.

Benchmark Annualized Performance: Select Fixed Income Indices

	Month	3-Month	YTD	1 Year	3 Year	5 Year	10 Year
Broad Market Indices							
BarCap Aggregate	0.0%	0.5%	1.1%	2.0%	1.6%	3.0%	4.7%
BarCap Gov./Credit	0.0%	0.5%	0.9%	1.7%	1.5%	3.1%	4.7%
BarCap Long Gov./Credit	0.4%	0.4%	-2.0%	1.3%	1.9%	6.5%	6.9%
Intermediate Indices							
BarCap Int. Gov./Credit	-0.1%	0.5%	1.7%	1.9%	1.4%	2.3%	4.2%
Government Only Indices							
BarCap Long Gov.	-0.5%	1.0%	-0.3%	5.2%	2.6%	6.7%	7.1%
BarCap Government	-0.3%	0.5%	1.4%	2.4%	1.2%	2.4%	4.3%
BarCap Int. Government	-0.3%	0.5%	1.7%	2.0%	1.0%	1.7%	3.9%
BarCap 1-3 Year Gov.	-0.1%	0.2%	0.9%	0.8%	0.7%	0.7%	2.6%
91 Day T-Bill	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	1.4%
BarCap U.S. TIPS	0.3%	-1.1%	-0.6%	-1.4%	-2.0%	2.1%	4.2%
Corporate Bond Indices							
BarCap U.S. Credit	0.5%	0.4%	0.2%	0.9%	1.8%	4.2%	5.4%
BarCap U.S. Long Credit	1.0%	0.1%	-3.0%	-0.9%	1.5%	6.4%	6.7%
BarCap High Yield	2.7%	-1.7%	0.2%	-1.9%	4.1%	6.2%	7.6%
CSFB Leveraged Loan Index	-0.1%	-1.4%	1.5%	0.8%	3.6%	4.5%	4.4%
Securitized Bond Indices							
BarCap Mortgage	0.1%	0.7%	1.7%	2.5%	2.1%	2.8%	4.8%
ABS	-0.2%	0.3%	1.6%	1.6%	1.1%	2.0%	3.4%
CMBS	-0.2%	0.7%	2.1%	2.6%	2.3%	4.3%	5.5%
Non-US Indices							
Barclays Global Aggregate	0.2%	0.8%	-2.0%	-3.1%	-1.5%	0.6%	3.9%
BarCap Global Aggregate Ex-US	0.3%	1.1%	-4.5%	-6.7%	-3.8%	-1.2%	3.2%
JPM EMBI Global Diversified	2.7%	0.5%	2.7%	0.4%	2.1%	4.9%	7.3%

Yield Curve: Change Over Time



Source: Barclays

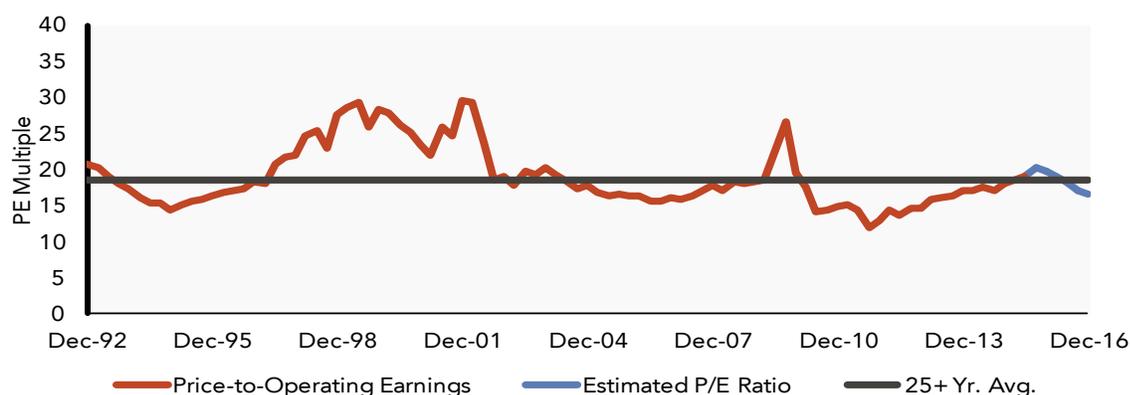
U.S. Equity

Following widespread declines in the third quarter U.S. equity markets rebounded in October. The S&P 500 posted a +8.4% return in October, its best monthly performance since October 2011, and currently has a year-to-date return of +2.7%. For both October and year-to-date, large & mega cap stocks are the best performing size segment while small and mid cap stocks have lagged on a relative basis. Growth indices continue to outperform value indices year-to-date led by a +6.9% return in the Russell 1000 Growth. All ten S&P 500 sectors were positive in October with the strongest performance coming from the Materials (+13.5%) and Energy (+11.4%) sectors – areas that experienced the steepest declines during the third quarter. Interest rate sensitive sector Utilities had the weakest relative performance, returning +1.1% during the month.

Equity Returns: Select Index Performance

	Month	Qtr.	YTD	1 Year	3 Year	5 Year	10 Year
Broad Market Indices							
Dow Jones (17,663.54)	8.6%	0.5%	1.0%	4.1%	13.2%	12.5%	8.2%
Wilshire 5000	8.0%	-1.2%	2.2%	4.7%	16.0%	14.1%	8.0%
Russell 3000	7.9%	-1.6%	2.0%	4.5%	16.1%	14.1%	7.9%
Large-Cap Market Indices							
S&P 500 (2,079.36)	8.4%	-0.6%	2.7%	5.2%	16.2%	14.3%	7.9%
Russell 1000	8.1%	-1.2%	2.4%	4.9%	16.3%	14.3%	8.0%
Russell 1000 Value	7.6%	-1.9%	-2.1%	0.5%	14.5%	13.3%	6.8%
Russell 1000 Growth	8.6%	-0.5%	6.9%	9.2%	17.9%	15.3%	9.1%
Mid-Cap Market Indices							
Russell MidCap	6.2%	-3.0%	0.0%	2.8%	16.6%	13.9%	8.9%
Russell MidCap Value	6.1%	-2.3%	-2.0%	0.5%	15.9%	13.6%	8.4%
Russell MidCap Growth	6.3%	-3.8%	1.9%	4.9%	17.2%	14.1%	9.1%
Small-Cap Market Indices							
Russell 2000	5.6%	-5.9%	-2.5%	0.3%	13.9%	12.1%	7.5%
Russell 2000 Value	5.6%	-3.1%	-5.0%	-2.9%	11.7%	10.5%	6.2%
Russell 2000 Growth	5.7%	-8.5%	-0.1%	3.5%	16.2%	13.6%	8.7%

Operating Earnings Ratio: S&P 500



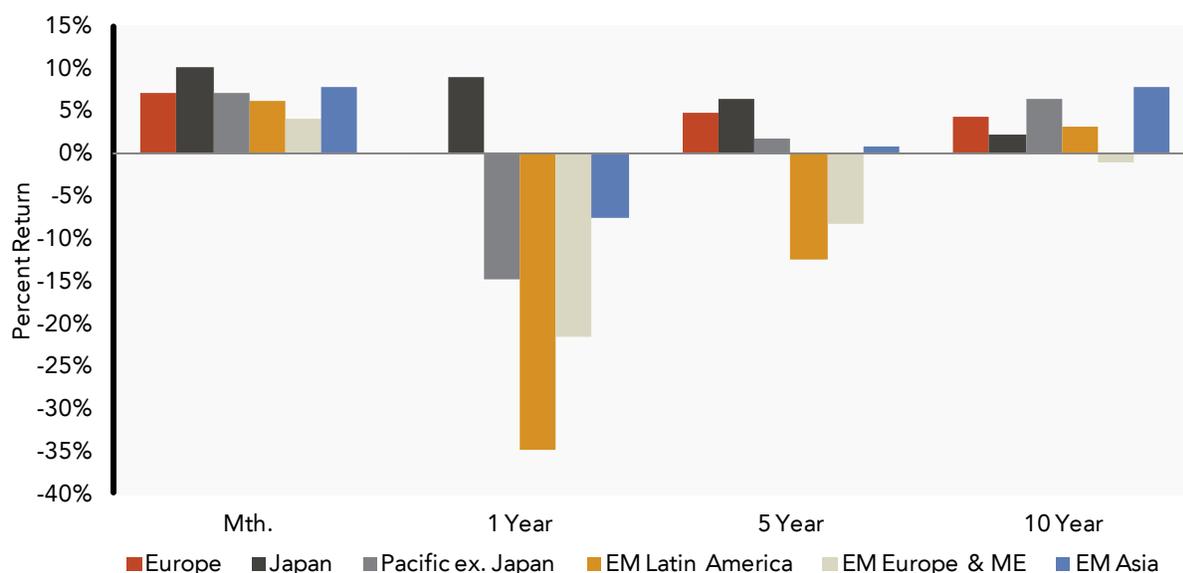
Non-U.S. Equity

In October, equities across the globe produced positive returns, rebounding from a tough and volatile third quarter. After having time to digest the summer events from China, market concerns of a hard landing have diminished, at the moment. After five straight negative months, emerging markets (EM) posted a solid gain of 7.1%. However, the asset class still has much ground to make up, down 9.5% for the year. Asia was the top performing region in EM with China (9.1%) and Korea (11.3%) leading the way. Contributing to investor returns, emerging market currencies were largely positive for the month (1.7%), with the Indonesian Rupiah (6.7%) and Columbian Peso (6.8%) as standouts. Developed markets outperformed emerging, returning 7.8% in October and bringing year-to-date returns (2.1%) into positive territory. Japan, a top contributor, returned 10.1%.

Non-U.S. Equity Performance: Select Indices

	Month	Qtr.	YTD	1 Year	3 Year	5 Year	10 Year
MSCI ACWI ex U.S. IMI	7.2%	-5.0%	-1.2%	-3.9%	5.1%	2.8%	4.4%
MSCI ACWI ex U.S.	7.4%	-5.4%	-1.8%	-4.7%	4.7%	2.6%	4.2%
MSCI EAFE (U.S. dollar)	7.8%	-5.2%	2.1%	-0.1%	8.0%	4.8%	4.1%
MSCI EAFE (Local)	7.9%	-8.9%	7.3%	11.9%	15.6%	9.5%	5.0%
MSCI EAFE Value	7.4%	-6.9%	-1.4%	-4.2%	6.8%	3.7%	3.1%
MSCI EAFE Growth	8.3%	-3.5%	5.6%	4.1%	9.2%	5.8%	4.9%
S&P Global ex U.S. Small Cap	6.0%	-9.7%	3.7%	2.8%	8.7%	5.1%	6.7%
S&P Developed ex U.S. Small Cap	5.6%	-7.9%	6.3%	6.4%	10.8%	7.0%	6.5%
MSCI Emerging Markets	7.1%	-5.5%	-9.5%	-14.5%	-2.9%	-2.8%	5.7%
MSCI Frontier Markets	3.7%	-4.5%	-10.2%	-17.8%	7.8%	2.1%	-1.8%

Regional Performance: Equity Market Performance by Region



Source: Encorr, Standard & Poors

Hedge Fund

Hedge fund strategies ended October in positive territory across the board with the exception of global macro, which was down 0.5%. On the positive end of the spectrum, hedged equity strategies led the way in October, but despite being up 3.2%, drastically underperformed relative to the broader equity market which was up 8.4%. Small-cap stocks – a component of many hedged equity strategies – underperformed relative to large caps, which contributed to the hefty spread between hedged equity strategies and the broad U.S. equity market. Additionally, long European, health care, financials, and telecom positions lagged relative to other sectors and as a result, also contributed to the relative underperformance within hedged equity strategies.

Hedge Fund Performance: HFR Strategy Index Returns

	Month	Qtr.	YTD	1 Year	3 Year	5 Year	10 Year
HFRX Global	1.5%	-2.8%	-1.6%	-2.0%	1.9%	0.1%	0.6%
HFRX Hedged Equity	1.9%	-3.3%	-1.3%	-1.0%	3.9%	-0.1%	0.2%
HFRI Composite	1.7%	-2.0%	0.0%	0.6%	4.6%	3.2%	4.5%
HFRI Fund of Funds	0.9%	-2.9%	0.0%	1.5%	4.6%	2.6%	2.7%
HFRI Convertible Arbitrage	1.2%	0.1%	2.9%	3.5%	4.7%	3.5%	5.2%
HFRI Equity Hedge	3.2%	-2.0%	0.6%	0.7%	6.1%	3.7%	4.1%
HFRI Event-Driven	1.7%	-2.8%	-1.4%	-1.2%	4.9%	4.0%	5.0%
HFRI Macro	-0.5%	-2.1%	-1.5%	0.9%	1.5%	0.3%	3.8%
HFRI Merger Arbitrage	1.3%	-0.5%	2.6%	3.9%	3.6%	2.7%	4.7%
HFRI Relative Value	1.7%	-0.6%	1.8%	1.5%	4.9%	5.0%	6.1%

Ten Year Risk Return: Hedge Fund Returns vs. Public Markets



Source: HFR, Bloomberg

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