VANTAGE CONSULTING GROUP
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Market Review

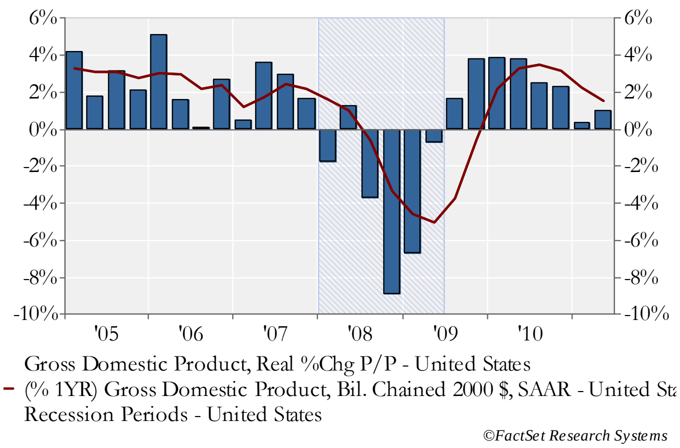
August 2011

Economic Review

S&P downgraded U.S. sovereign credit rating from AAA to AA+ for the first time in history and placed the nation on negative outlook citing a broken political process.

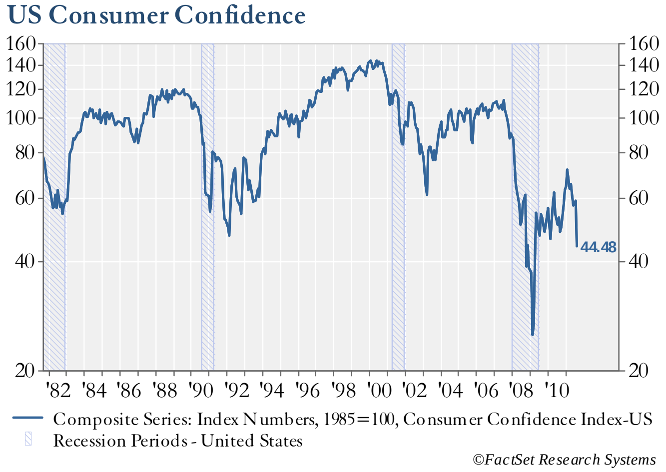
Economic data continued to be disappointing. The U.S. economy expanded at a slower pace than previously estimated during the second quarter of 2011. The second quarter real GDP was revised lower from the BEA's advance estimate of 1.3% to 1.0%, primarily because of downward revisions to net exports and to inventory investment. These were partly offset by upward revisions to business fixed investment and to consumer spending.

US Real GDP Growth



The U.S. Consumer Confidence Index fell to its lowest level in over two years amidst the prolonged debt ceiling discussions, downgrade of the U.S. credit rating by S&P and increasing fears of a recession. The Confidence Index fell from 59.2 to in July to 44.5 in August. The Present Situation Index decreased to 33.3 from 35.7 and the Expectations Index decreased to 51.9 from 74.9 last month.

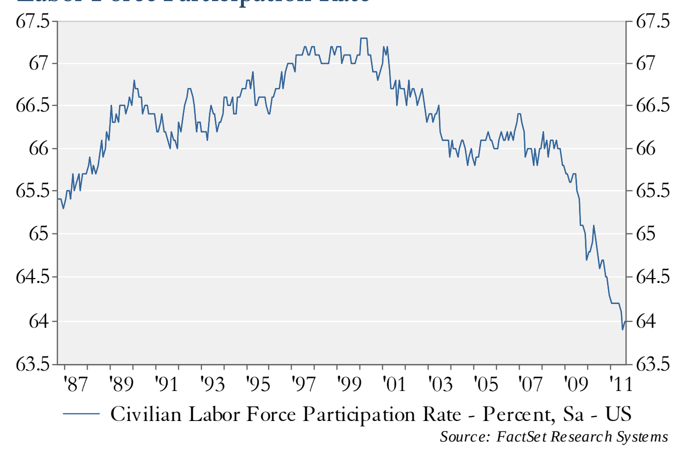
US Consumer Confidence



The ISM manufacturing index fell to 50.6 last month from 50.9 in July, the lowest level since July 2009 and well above the consensus of 48.8. The ISM non-manufacturing index increased to 56.3 in August from 52.7 a month earlier. Values above 50 indicate an expansion.

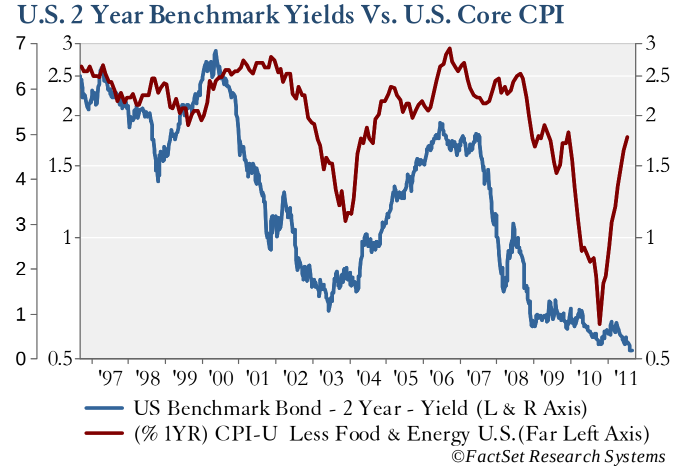
The unemployment rate remained flat at 9.1%, while non-farm payrolls failed to show any new jobs in August and the government sector continued to shed jobs. The June and July payroll numbers were revised down by 58,000. The employment-population ratio ticked up 0.1% to 58.2% in August, but is still near record lows. The Labor Force Participation Rate is near 27 year lows and stood at 64% in August. The rate generally has been between 66% and 68% during the last couple of decades before the onset of the financial crisis.

Labor Force Participation Rate



The Consumer Price Index climbed more than forecast in July, squashing hopes of any immediate monetary stimulus announcement. CPI increased 0.5% (vs. consensus of 0.2%) from the previous month and 3.6% year over year. Core CPI (CPI ex food and energy), which is closely monitored by the Federal Reserve, increased 0.2% from the previous

U.S. 2 Year Benchmark Yields Vs. U.S. Core CPI



month and 1.8% year over year. Government bond yields dropped to new lows in August in spite of inflation picking up. Short term yields roughly track inflation, as shown in the chart on the page one. However, since 2008, yields have disconnected from inflation. While inflation has picked up since late last year, the two year rates have gone down as the Federal Reserve stepped up efforts to keep these rates low.

Following the downgrade, the U.S. Federal Reserve promised to hold its benchmark interest rates near zero at least through middle of 2013, suggesting a weak economic outlook that will keep wages and prices low. Towards the end of the month, Fed Chairman Bernanke stopped short of any immediate commitments, but did outline steps that Federal Reserve could take in order to provide some stimulus. Weakening consumer confidence and lack of jobs growth puts increasing pressure on the Federal Reserve to provide more monetary stimulus to the economy.

Markets remained concerned about the European sovereign debt crisis. The European Central Bank took steps to purchase Italian and Spanish debt to reduce concerns of the debt crisis turning into a contagion. Rumors concerning the health of European Banks caused share prices to fall sharply, prompting the regulators to announce a short term ban on short selling the financial stocks.

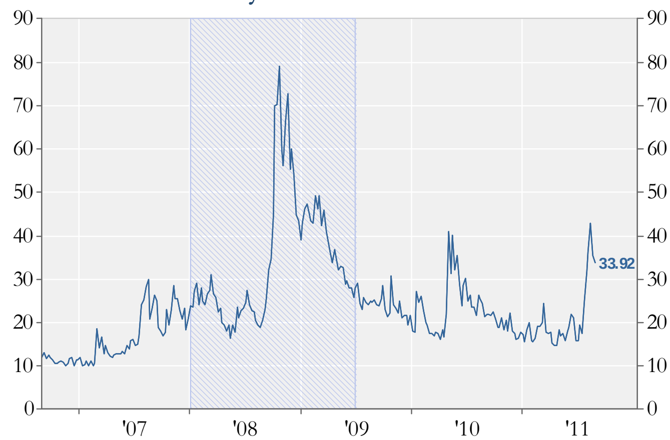
Equity Markets

August was a turbulent month for global markets as equities tumbled for the fourth straight month on Eurozone and U.S. sovereign debt concerns and a slowing global economy.

The VIX index rose sharply during the beginning of August as equity markets saw several days of volatile trading. Market swings in excess of 4% were posted for four consecutive days during the second week of August. The S&P 500 lost 6.65% on August 8th, after Standard and Poor downgraded the U.S. credit rating to AA+ from AAA. The Index rebounded 4.74% the next day after the U.S. Federal Reserve promised to freeze interest rates for the next two years.

The equity market weakness continued, on worries about European banks as well as the downbeat assessment of the U.S. economy. The S&P 500 posted gains in the latter half of the month on indications that the European Central Bank might reverse rate hikes and signs that the Euro-Bond proposal was gaining acceptance as a long term Euro debt solution. Speculation about a new round of monetary easing and better than expected PMI figures from Europe and China helped the equity markets but were not enough to overcome the damage done earlier in the month.

CBOE VIX Volatility Index



The S&P 500 Total Return Index fell 5.43% in August, its fourth consecutive month in decline and is down 1.77% for the year. At one point in August, the Index was down nearly 15% before staging a 10% rally. Small cap stocks continued to underperform large and mid-cap stock. The Russell 2000 Index declined 8.7%, while the S&P Mid-Cap slid 7.11%.

Measured in US Dollars, the MSCI World Index lost 7% in August. The Index is down 3.53% for the year. The MSCI EAFE Index declined a hefty 9.02%, while the MSCI Emerging Markets declined 8.9% last month. Measured in their local currencies, the FTSE 100 and STOXX 600 indices lost 6.62% and 10.27% respectively. Year to date, the FTSE 100 has declined 14%, while the STOXX 600 has fallen 11.77%.

Bond Markets

The U.S. credit downgrade, European debt crisis and slowing global economy led to a rally in U.S. Treasuries and German Bunds, as investors continued to be cautious amidst a bearish sentiment. Even after the U.S. debt rating downgrade by Standard & Poors, U.S. Treasury securities outperformed U.S. corporates and other government bonds, posting their biggest monthly gain since the beginning of 2009.

Barclays Capital U.S. Aggregate Government Treasury Index was up 2.78% in August, the best monthly returns since December 2008. The yield on the 10 year Treasuries dropped to 1.97% (intra-day) on August 18th. The yield fell 57 basis points in August, the most since December 2008 to close at 2.23%. Corporate debt spreads widened, with Barclay Capital U.S. High-Yield Index down 3.24%. The U.S. bond market, as measured by the Barclays Capital U.S. Aggregate Index, increased 1.46% in August and is up 5.88% for the year.

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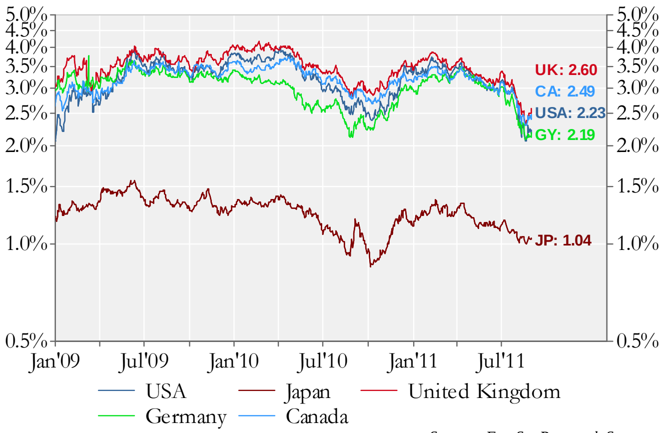
Global 10Y Treasury Yields



Source: FactSet Research Systems

The yield on the German 10 Year Bunds hit record lows, reaching 2.03% mid-August. Bund yields dropped over 30 bps during the month of August to close at 2.19%. The UK 10 Year GILT yield declined 26 bps for the month, closing at 2.60%.

Currency

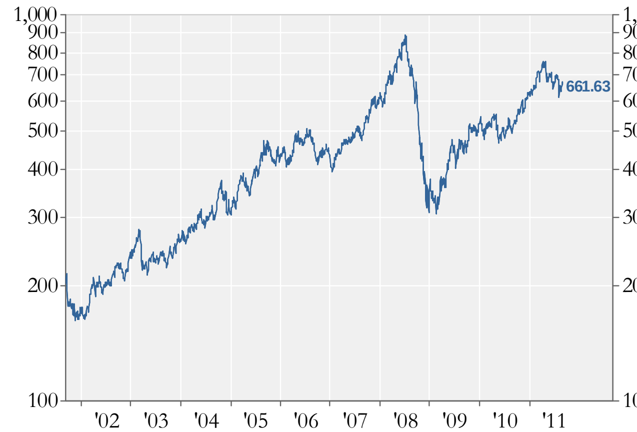
The dollar index, a measure of US Dollar against basket of six major currencies, was up 0.3% to close at 74.12. The index is down 6.21% for the year. The Australian Dollar, Swiss Franc, Canadian Dollar and the British Pound were among the weakest currencies.

The Swiss Franc was particularly volatile in August, as nervous investors looked for safe havens amidst the global market turmoil. The yield on Swiss government bills even turned negative as investors preferred to protect their assets rather than chase yields. The currency reached a high against the Euro during the second week of August. The Swiss Central Bank had to intervene several times to quell the demand for the currency. The British Pound depreciated 0.81% vs. the US Dollar in August, to close at 1.6283 USD. The Euro appreciated 0.19% during the same period to close at 1.4398 USD.

Commodity Markets

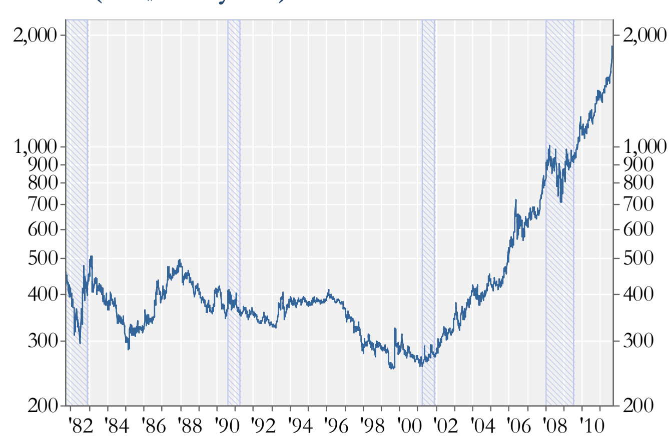
Commodities prices were mixed in August. The commodity markets, as measured by S&P GSCI Index, lost 1.8% in August. The Index is up 3.27% in 2011. The Dow Jones UBS Commodity Index gained 1% in August and is up 1.31% for the year. Economically sensitive sectors, including energy and industrial metals, led the August decline. However the ongoing European and U.S. debt concerns benefited the precious metals. S&P GSCI Precious Metals Index was up 10.9% last month. The S&P GSCI Agriculture Index rallied 9.4% during the same period due to adverse weather and reduced crop yield estimates.

S&P GSCI Commodity Spot Index



Gold recorded strong gains in August, reaching new highs as its safe haven status remained intact in the turbulent markets. Gold futures hit a peak of $1,917 per troy ounce on August 22nd. However, increases in exchange margin requirements and a fear of a speculative bubble caused the prices to pullback towards the end of the month. Gold futures gained 12.3% for the month, up 28.87% for the year and closed at 1,831.70 per troy ounce.

Gold (US$/Troy Oz)



Nymex Crude oil declined 7.2% and Copper declined 6.1% in August on signs of slowing global economy. Coffee, Wheat and Corn were the biggest gainers in commodities during August. Coffee surged over 20% on rising demand and reports of damaged crops from heavy rainfall in Colombia. Corn rallied nearly 15% in August as dry weather adversely impacted the crop yields.