From the desk of Eric J. Freedman, Chief Investment Officer

MARKET THOUGHTS | 8.7.11

Dear Client-

We recognize that continued developments across world markets have been unsettling. Most recently, the ratings agency Standard & Poor's has downgraded U.S. long term debt to AA plus from AAA, with the U.S. losing its highest rating for the first time in history. We want you to be aware of what we are doing on your behalf amidst a dynamic market environment as well as provide context around the S&P decision.

Our first concern rests on implications for money market funds. While we have been aware of the downgrade possibility as well as the potential impact of European debt contagion, we wanted to re-examine client money market funds due to speculation that these funds would be forced to sell their Treasury holdings post the downgrade. We have reviewed the money market funds held by CAPTRUST clients, including their investment mandates as outlined in their prospectuses. At this point, we are comfortable that the money market funds that we have exposure to will ***not*** be forced sellers of their Treasury holdings. This is because of flexibility within their prospectuses as well as the fact that S&P continues to rate short term debt as A-1+, which is their highest rating.

Where we have daily data, we continue to monitor individual fund performance through our daily monitoring system across asset classes and business lines. The last few days' volatility has provided us with a lot of data on benchmark-relative performance, and should we find anything out of the ordinary, we will contact you and take appropriate action.

We have been digesting the global reaction to Friday night's news, and at this point the tone and feedback are very mixed. We will be vigilant in monitoring developments around the world and factor them into our decisions and recommendations.

Key Observations on the S&P Downgrade:

-The S&P debt downgrade only impacts long-term debt. Short-term debt remains at S&P's highest rating.

-Moody's and Fitch, the other two ratings agencies, have recently retained their highest ratings for U.S. debt.

-We do not expect money markets and other short-term fixed income players to be forced sellers of Treasury paper.

-Treasuries are the largest part of the global cash bond market, so speculation about what this downgrade may mean on the back of some anecdotal claims should be looked at with skepticism. That doesn't mean that these bonds cannot fall in price, but it is a very deep market.

-The S&P downgrade comes with considerable controversy:

-S&P (and the other ratings agencies) did an extremely poor job of rating debt leading into the 2008-09 Financial Crisis, and their practices and policies have been questioned

-A $2 trillion mathematical error on S&P's part (discovered by the Treasury) surrounding levels of domestic discretionary spending initially halted the debt downgrade

-Concerns about political criteria entering into S&P's decision

-Immediately following S&P's announcement, the U.S. Federal Reserve and federal banking agencies provided important guidance to banking organizations. Since banks need to back up loans using collateral such as Treasury bonds, any change to the value regulators assign to Treasuries as collateral would be potentially disruptive. The federal banking agencies have announced that for backstop capital purposes, the treatment of Treasuries and other securities issued or guaranteed by the U.S. government and its agencies and entities is unaffected by S&P's ratings downgrade, which is good news for banks.

-Broad implications for other debt, including countries with weaker fiscal positions but higher ratings, as well as the knock-on impact on municipal bonds and residential/commercial real estate debt, are still too early to tell. Entities like municipalities that require a lot of federal backing may be downgraded, as well as Fannie Mae and Freddie Mac, but none of that has been announced.

The real implication for global financial markets is on borrowing costs. If US debt holders sell their holdings, in effect demanding a higher yield for US bonds, borrowing costs will rise. Given the economy's existing fragility, this would be another headwind. However, we do not expect to see a massive short-term jump in bond yields. The downgrade could result in some incremental selling, but we think it is premature to conclude that interest rates will move markedly higher in the short term.

There is a potential positive in this downgrade. Post the initial finger-pointing and blame game assigning, S&P's action could serve as the catalyst that policymakers need to make real structural reform and progress. Given current political acrimony, this may seem idealistic, but the downgrade will likely shape political discourse and election results going forward.

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As we have highlighted in past *Market Thoughts*, we recognize that these are unsettling, news-driven periods. The global market reaction post S&P's downgrade is uncertain, but we want to emphasize that irrespective of the market's reaction during any one or two day period, investors need to assess their time horizon, capital needs and comfort with the likelihood of a continued volatile period. No one likes to see their plan or wealth balances decline, but any reaction to these volatile times should come after careful introspection and dialogue. We will continue to provide updates and assessments as these events unfold and we prepare for other developments. If we can be of further help, please do not hesitate to let us know.