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Monthly Economic & Capital Market Update

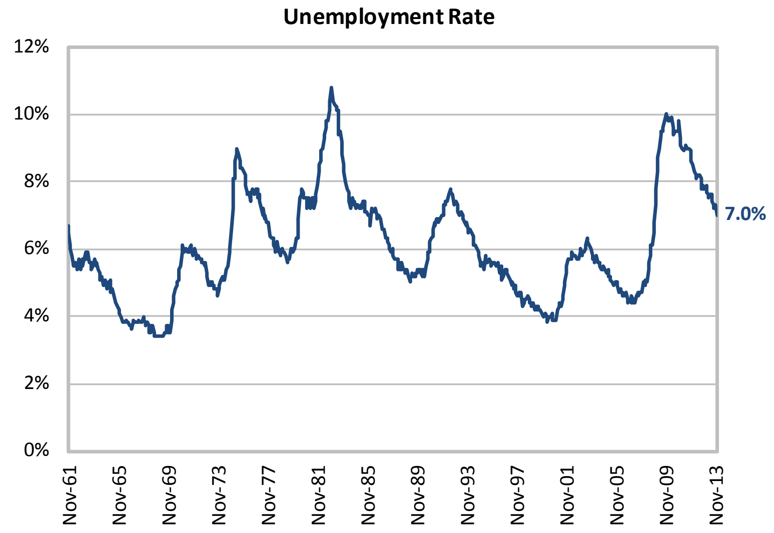
November 2013

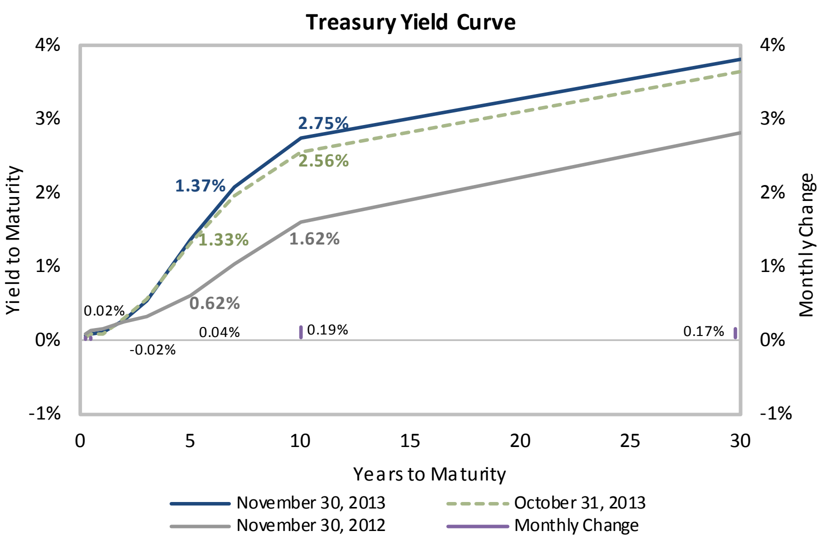
Economy

- The global economy continued to gain momentum in November. Central banks remain accommodative to financial markets, as easy-money policies have pushed many equity indices to all-time highs.
- The unemployment rate fell to 7.0% in November, its lowest level since November 2008. Nonfarm payrolls increased by 203,000, beating expectations of 185,000. The labor force participation rate unexpectedly rose during the month, as 800,000 workers claim to have rejoined the workforce.
- Gross domestic product expanded at a 3.6% annual rate during the third quarter, up from the BEA's initial estimate of 2.8%.
- Consumer prices fell by 0.1% in October. Core CPI, which excludes food and energy, increased 0.1%. Consumer prices were up 1.0% for the 12 months ending October, while the core rate increased 1.7%.
- The Producer Price Index decreased 0.2% in October. Excluding food and energy, the PPI increased 0.2%. The PPI rose 0.3% year-over-year ending October, while core prices rose 1.4%.
- Building permits increased 6.2% in October, a sign that the housing market continues to recover. Existing home sales fell 3.2% during October, but remain 5-6% higher than in 2012.
- US manufacturing continued its expansion in November as the ISM Index came in at 57.3, well above economists' expectations of 55.1. An ISM figure over 50 implies expansion.
- Retail sales (ex auto and gas) increased 0.3% in October, while inventories at US wholesalers are expected to have increased by 0.3% in October.

Yield Curve

- The Fed left the overnight lending rate unchanged (0-0.25%) as of its October 30 meeting and did not reduce monthly Treasury and MBS purchases. Chairman Bernanke stated the FOMC will continue to closely monitor unemployment and inflation in the coming months. The Committee meets next on Wednesday, December 18.
- Yields increased across the curve in November. The spread between 2-year and 30-year Treasuries widened 20 bps to 353 bps.





Public Equities

- Domestic equities (S&P 500) outperformed international equities (MSCI EAFE) by 220 bps in November. Small cap growth was the best equity performer, up 4.1% for the month.
- MLP General Partners (GPs) surged during the month of November, up 10.8%. This is a developing trend as GPs are expected to achieve higher earnings growth rates over the short term compared to Limited Partner units. Active managers generally share this view and have increased allocations to GPs in 2013. Gathering & processing MLPs (down 0.8%) pulled back after several months of strong performance while natural gas pipelines (up 3.9%) and refined products pipelines (up 3.5%) performed well in November. Coal MLPs struggled, down 3.8% during the month.

Public Debt

- In November, high yield bonds returned 0.5% as spreads tightened 10 bps to 405 bps.

Private Equity

- Private equity new deal volume remained light in the third quarter, and exit activity moderated. Aggregate exit value totaled $64 billion, which was down 33% vs. the second quarter of 2013, and down 13% vs. the third quarter of 2012. Fundraising has picked up, with year-to-date through September already matching funds raised in all of 2011. If Q4 stays on pace, the full year 2013 will be 18% greater than 2012. Lastly, the average fund size raised in 2013-to-date is at an all-time high.

Private Debt

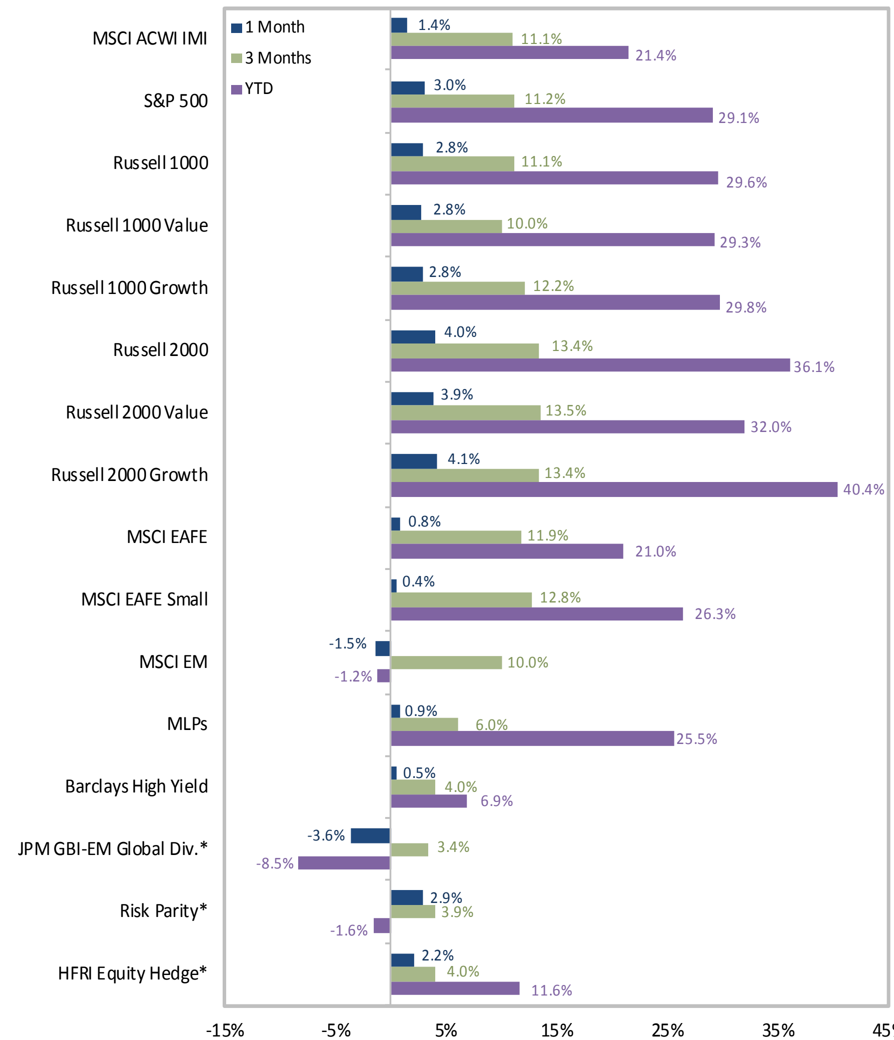
- The debt markets remain extremely accommodating to corporate issuers. The loan market is approaching frothy levels, as evidenced by the return of covenant lite loans, increasing leverage ratios, and attractive pricing (for the borrower). Inflows from both retail and institutional investors (including new CLO issuance) continued in September, providing support for senior floating rate debt markets as lenders are pressured to put their capital to work. Refinancing of existing deals has been the main driver of supply in the loan market this year. However, new deal volume picked up in September, driven by five LBO deals each in excess of $2 billion. Pricing has tightened, with an average reduction of 121 bps throughout the year, stabilizing around L+500 bps with a 1.25% floor plus fees. Leverage ratios are creeping higher, with senior debt/EBITDA into the 5x range for senior loans with average equity contribution of 30%, matching 2007 lows.

Risk Parity

- Risk parity-based strategies performed roughly even with balanced allocations (60/40 blend) during October, as most asset classes contributed to performance but lagged the rally in global equities. Commodity exposures were the sole detracting asset class for the month.

Growth Hedge Funds

- The HFRI Equity Hedge Index posted gains in the month of October, leading all hedge fund strategies but continuing to lag the equity market rally. Sector and emerging market-focused funds posted the largest gains for the month. Event-driven managers also posted gains for the month, with distressed strategies outperforming merger arbitrage strategies.



* Data was not available at time of publication - data is previous month's.
Note: Risk Parity returns are based on an internally comprised benchmark.

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Public Debt

- The Barclays Capital Aggregate returned -0.4% in November.
- Government bonds were also down, returning -0.3% for the month.
- Corporate bonds saw returns of -0.2% in November as spreads tightened 5 bps to 125 bps.
- Mortgage-backed securities returned -0.6% for the month as agency MBS spreads were unchanged.
- The Barclays Global Aggregate ex US Index returned -1.1% for the month, underperforming the US Aggregate by 70 bps.

Private Debt

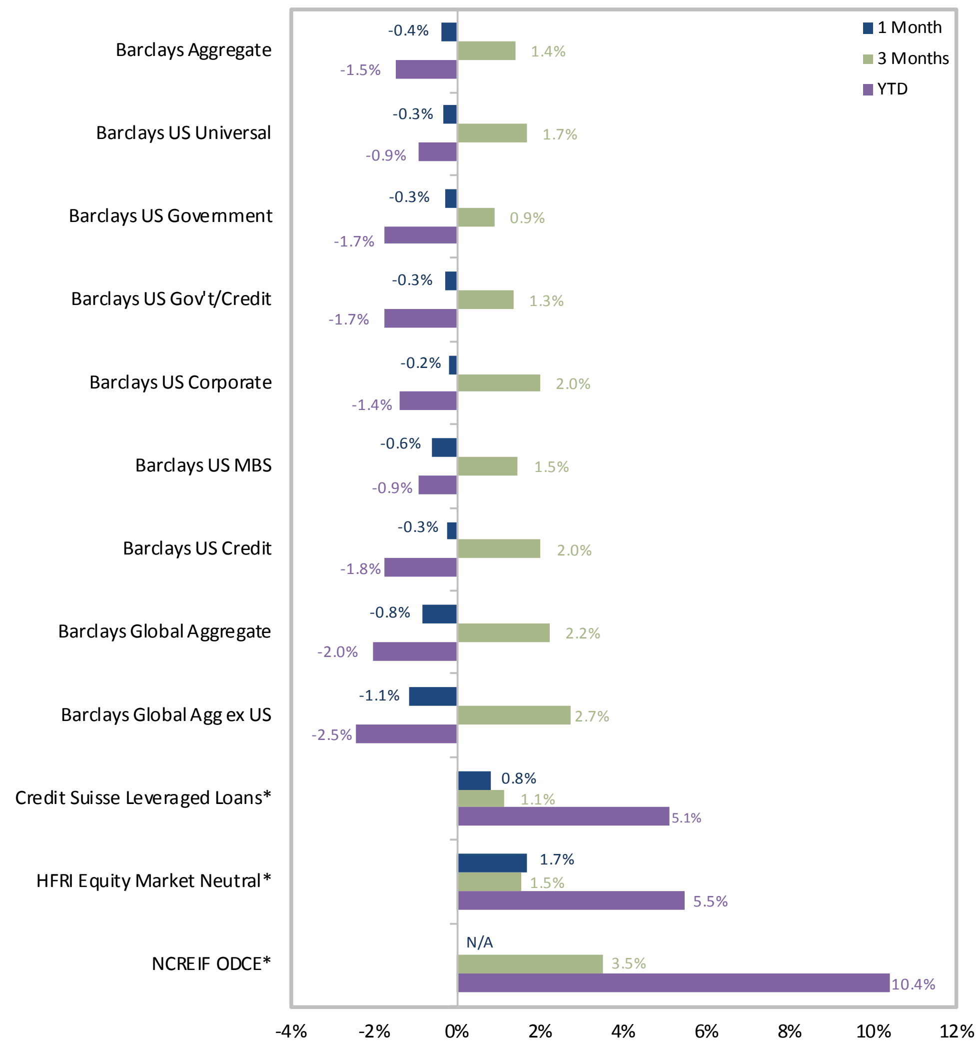
- Leveraged loans returned 0.8% in October and are up 5.1% year-to-date.

Relative Value Hedge Funds

- The HFRI Equity Market Neutral Index posted its strongest monthly gain in over 10 years. Other relative value strategies, including convertible arbitrage and mortgage/ABS relative value funds, posted additional gains on continued spread tightening in the quarter.

Core Real Estate

- Core real estate returns for the third quarter were quite strong, with the index posting a 3.5% gain. The total return was driven by accelerated income growth fueled by rising rents and occupancies. Commercial real estate fundamentals continue to improve, and demand for core real estate remains strong, as evidenced by the $7 billion in fund contribution queues.



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Diversification Assets

November 30, 2013

Inflation

- TIPS returned -1.1% in November and remain down (-7.2%) year-to-date.

Deflation

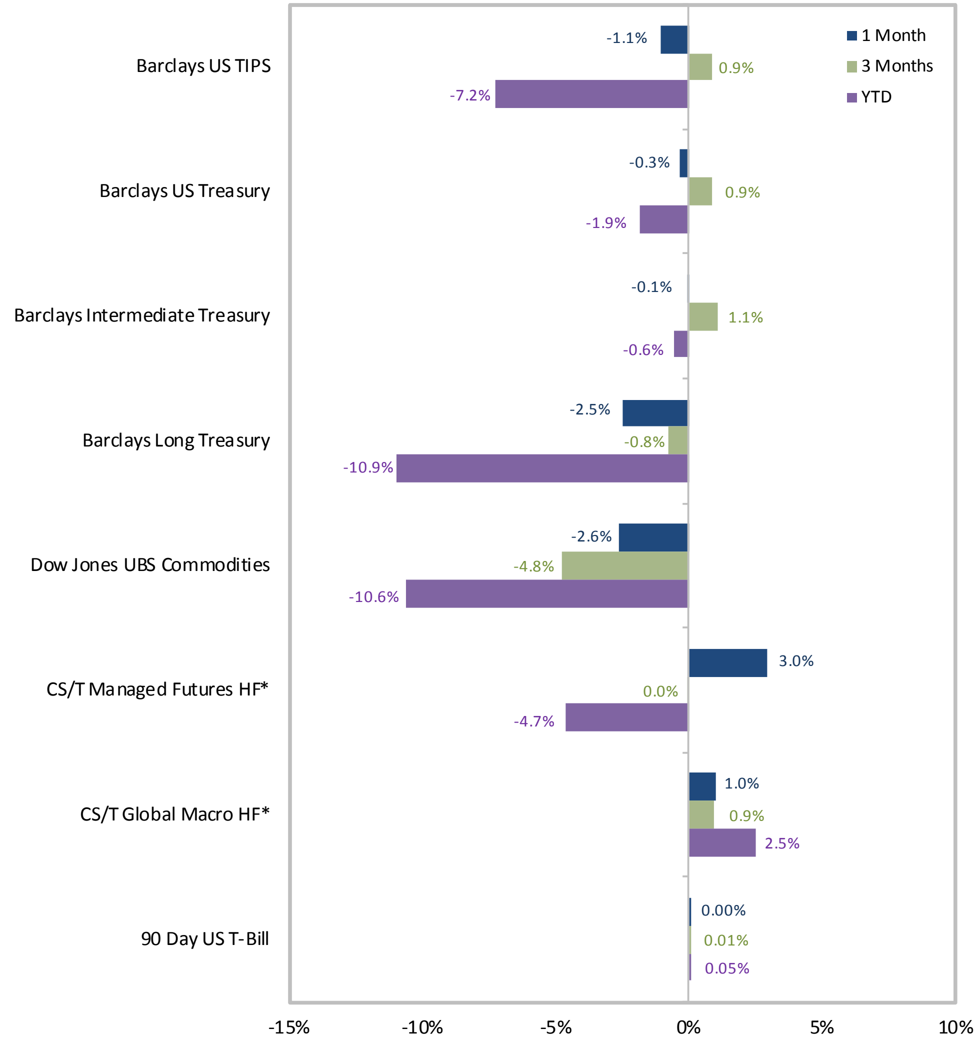
- Treasuries fell 0.3% in November.
- Intermediate Treasuries returned -0.1% during the month and long duration Treasuries returned -2.5%. Intermediate and long Treasuries have earned -0.6% and -10.9%, respectively, year-to-date.
- 90-day T-bills are up 5 bps year-to-date.

Commodities

- Commodities continued their downward trend, losing 2.6% during November. All metal types, both precious and industrial, declined during the month with gold, silver, aluminum and nickel all falling greater than 5%. Fundamentals remain challenged for the global metals industry. Wheat (down 1.9%) and corn (down 3.0%) fell further due to growing supply. Livestock is nearing a cyclical bottom and is poised for a rebound in coming months. Natural gas rebounded (up 10.4%), while US crude oil fell 3.8% during the month amid supply growth and a large inventory build-up in Cushing, Oklahoma.

Tactical Trading

- Managed futures posted strong performance during October, benefiting from long stock exposure and fixed income positions.
- Global macro hedge funds posted gains for October, as long equity exposure across emerging markets, global fixed income, and equities were somewhat offset by long commodity positions.



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