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Monthly Economic & Capital Market Update

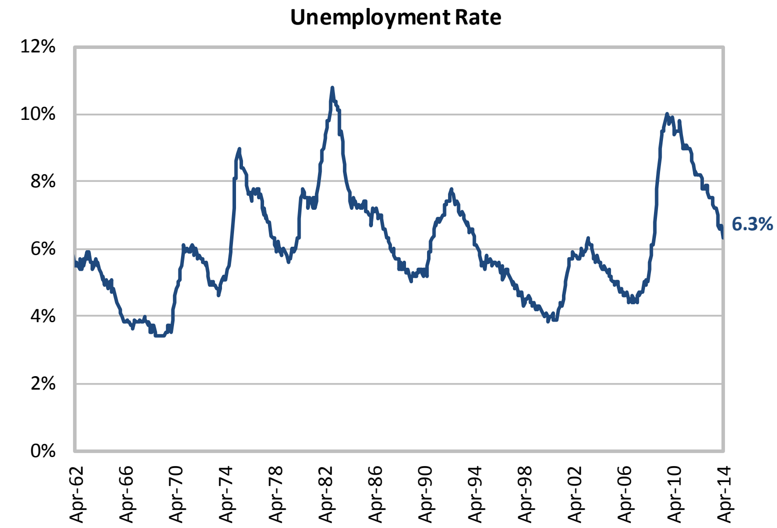
April 2014

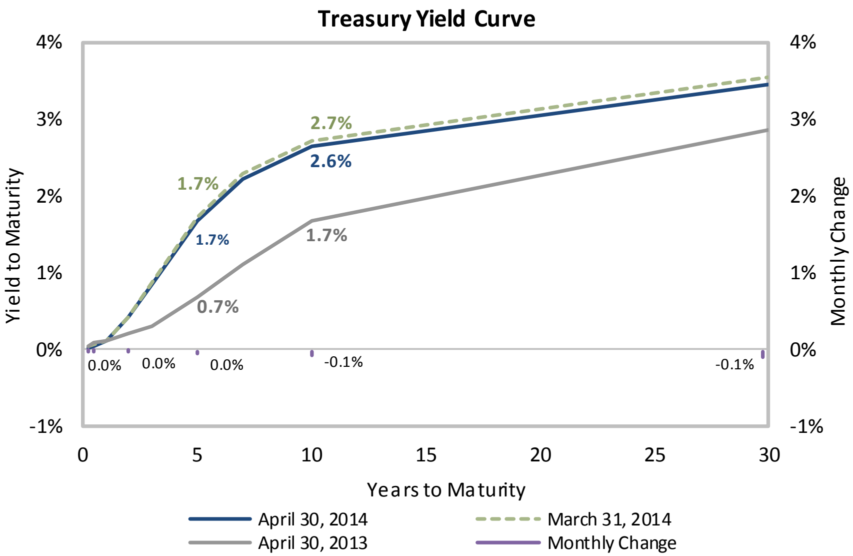
Economy

- As expected, the FOMC announced another $10B reduction in monthly asset purchases at its April meeting. The Committee has decreased monthly purchases of Treasuries and mortgage-backed securities by nearly half since it began tapering at the beginning of 2014 ($85B per month to $45B currently).
- The unemployment rate fell 0.4% to 6.3% in April, its lowest level since September 2008. Nonfarm payrolls increased by 288,000, well above expectations of 218,000. It should be noted, however, that the labor force participation rate declined to its lowest level since 1978.
- Real GDP growth (annualized) for the first quarter of 2014 was 0.1% according to the BEA's advance estimate, significantly below expectations of 1.1% growth. Decreased investment in inventories and lower state and local government spending negatively impacted growth during the quarter.
- Consumer prices, as measured by the Consumer Price Index, rose 0.2% in March. Core CPI, which excludes food and energy, also increased 0.2%. Consumer prices were up 1.5% for the 12 months ending March, while the core rate increased 1.7%.
- The Producer Price Index increased 0.5% in March. Excluding food and energy, the PPI increased 0.6%. The PPI rose 1.4% year-over-year ending March, while core prices also rose 1.4%.
- Housing market figures were weaker than expected for March. Housing starts (up 2.8% month-over-month), building permits (-2.4%), and new home sales (-14.5%) all missed economists' expectations, while existing home sales declined 0.2%. Rising mortgage rates present an additional headwind for the housing market. While rates decreased for the month, they are well above levels of one year ago.
- US manufacturing expanded during April according to the ISM Manufacturing Index. The employment component of the index increased significantly during the month as manufacturers hired more employees. The index rose from 53.7 in March to 54.9 in April; a figure over 50 implies expansion.
- Retail sales (ex auto and gas) and inventories at US wholesalers are expected to have increased 0.4% and 0.5%, respectively, in March.

Yield Curve

- Yields fell slightly across the middle and long end of the curve in April. The spread between 2-year and 30-year Treasuries tightened 10 bps to 305 bps.
- The next meeting of the FOMC will be June 17-18, 2014.





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Public Equities

- Domestic equities (S&P 500) underperformed international equities (MSCI EAFE) by 70 bps in April. Small cap growth stocks were the worst performers during the month, falling 5.1% as US investors gravitated to more traditional large cap value stocks.
- Lower quality coal (up 7%) and propane (up 6%) MLP sectors outperformed in April. Energy infrastructure MLPs including natural gas pipelines, crude oil & refined products pipelines, and gathering and processing sectors traded in a narrow band between 3.5% and 3.9%. General Partner MLPs were flat for the month, as many of these securities range from fully valued to overvalued based on historical metrics.

Public Debt

- In April, high yield bonds earned a return of 0.6% as spreads tightened 15 bps to 345 bps. Historically, high yield spreads have averaged 525 bps.

Private Equity

- Deal value picked up in the 1st quarter of 2014 compared to the 4th quarter of 2013 in both the US and the rest of the world, but declined slightly in Europe. However deal volume trailed fundraising, causing an increase in uninvested capital. Globally, funds are now sitting on $950 billion of uninvested capital, up from $890 billion at the end of 2013 and a new all-time high. Accommodative debt markets and increasing levels of uninvested capital continue to sustain high deal prices and a challenging investment environment according to managers.

Private Debt

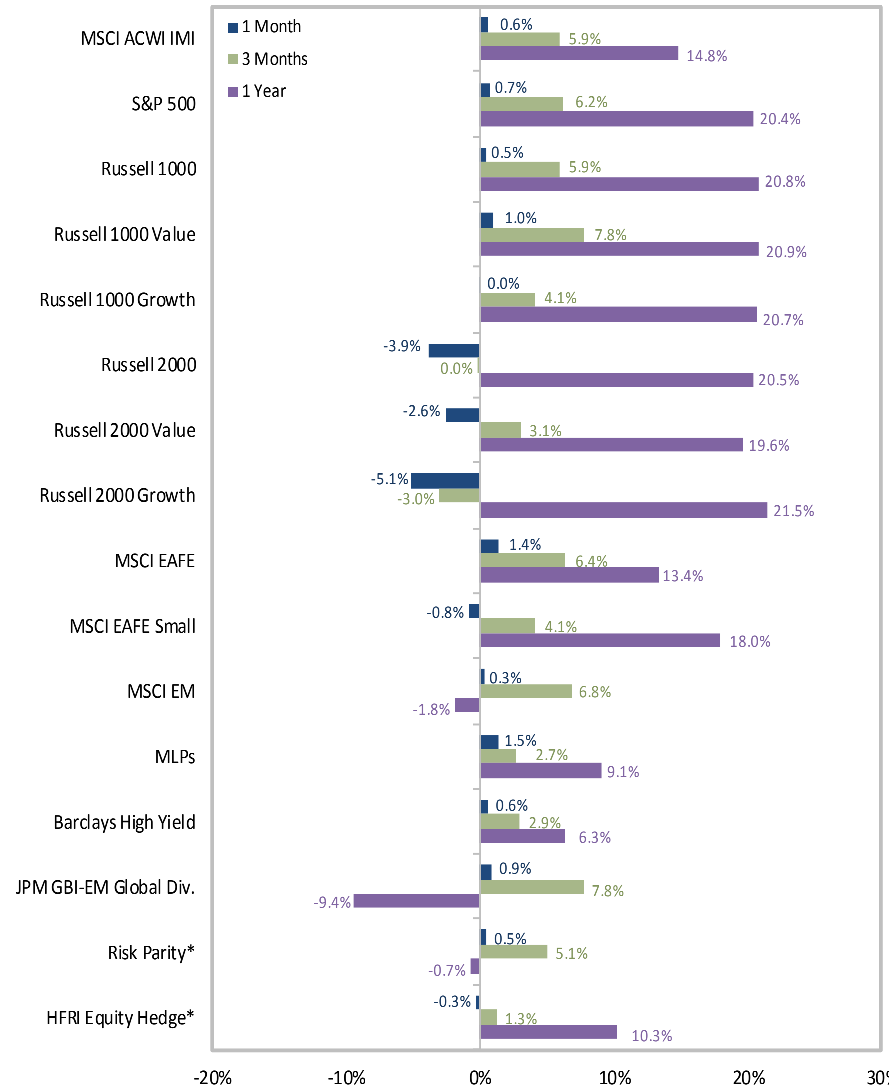
- The availability and aggressive terms from senior lenders has allowed debt levels to increase to a new cycle high of 5.6x EBITDA. This remains lower than the prior cycle high of 6.2x recorded in 2007. The willingness of senior lenders to reach deeper into capital structures and accept higher levels of risk has been particularly challenging for mezzanine providers. According to data from S&P, mezzanine's share of new deal capital structures was 0% in the 1st quarter of 2014. This compares to a typical share of 5-10% over the prior 10 years.

Risk Parity

- Risk parity-based strategies produced muted returns in March, with small gains from equity and credit sectors and small losses from commodity and fixed income allocations. Risk parity has returned 5.1% thus far in 2014.

Growth Hedge Funds

- The HFRI Equity Hedge Index saw losses in March as the equity market experienced a strong reversal in high momentum sectors such as technology and bio-tech. Manager dispersion for the month was large, with many top-performing 2013 managers giving back significant gains. The Event-Driven Index was roughly unchanged on the month as distressed strategies posted small gains and merger arbitrage posted small losses.



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

Public Debt

- The Barclays Capital Aggregate returned 0.8% in April.
- Government bonds were also up, returning 0.6% for the month.
- Corporate bonds saw returns of 1.2% in April as investment grade spreads tightened 5 bps to 100 bps. Corporate bond spreads have historically averaged 135 bps.
- Mortgage-backed securities returned 0.9% for the month as agency MBS spreads tightened 5 bps to 35 bps, below the historical average of 70 bps.
- International bonds were among the top fixed income performers for the month, as the Barclays Global Aggregate ex US outperformed the US Aggregate by 50 bps.

Private Debt

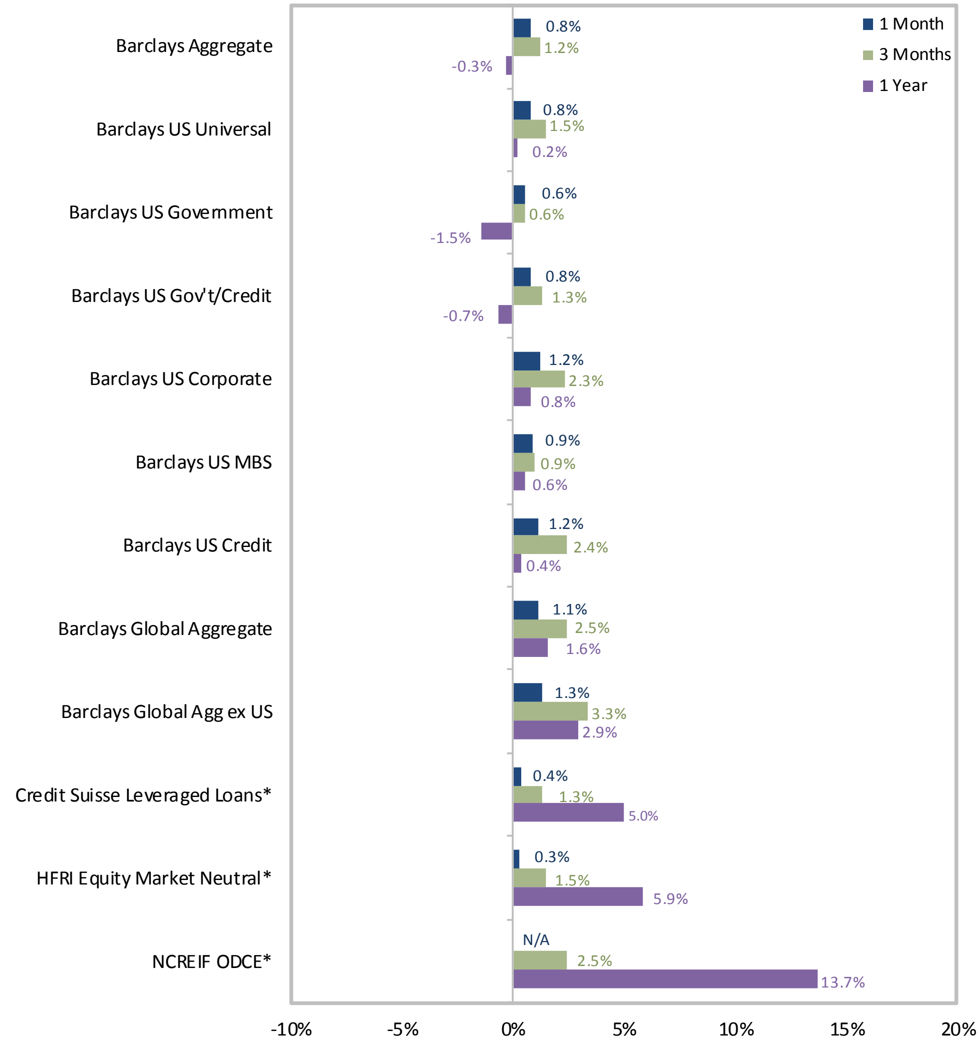
- Leveraged loans returned 0.4% in March and were up 5.0% over the 12 months ending March.

Relative Value Hedge Funds

- The HFRI Equity Market Neutral posted modest gains for the quarter and in March, led by value-driven factors. Other relative value strategies, including mortgage/ABS relative value funds and corporate credit funds, continued to post gains as fixed income strategies benefited from ongoing spread compression.

Core Real Estate

- Although core real estate had its lowest return in five quarters in Q1, fundamentals in the sector have continued to stay strong. The 2.5% overall return on the NCREIF ODCE Index was fueled by more income-oriented returns and less appreciation. With retail sales up 3.8% year-over-year and corporate profits back to peak levels from 2007, Summit remains constructive on the space. Our only hesitation is the influx of new capital coming into the space from other sectors, which has limited purchases for open-end core funds.



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Diversification Assets

April 30, 2014

Inflation

- TIPS returned 1.4% in April. Despite rising 1.3% over the past three months, TIPS have lost 6.0% in the last year.

Deflation

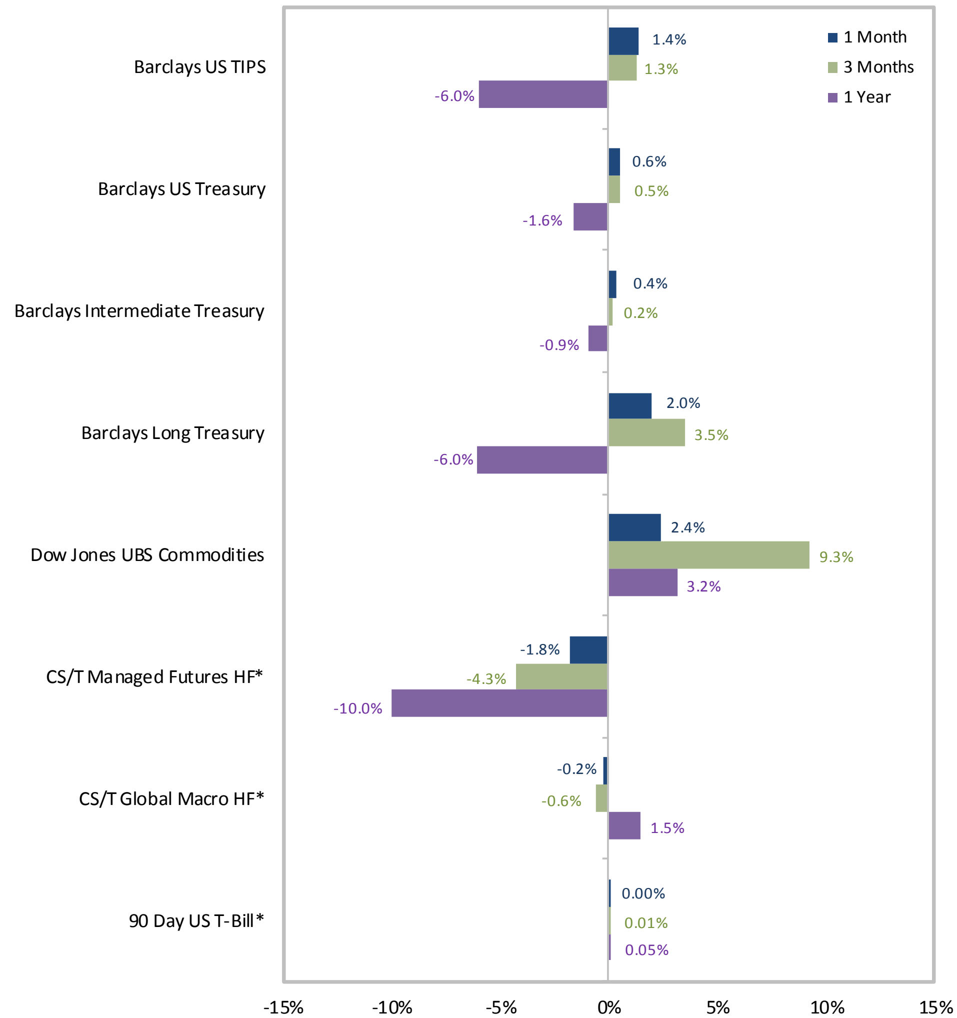
- Treasuries rose 0.6% during the month.
- Intermediate Treasuries returned 0.4% and long duration Treasuries returned 2.0% as yields fell across the long end of the curve. Intermediate and long Treasuries have earned -0.9% and -6.0%, respectively, over the past year.
- Cash continues to offer virtually no return, as 90 Day T-Bills have gained just 5 bps over the past year.

Commodities

- The Dow-Jones UBS Commodity Index rose for the fifth straight month, returning 2.4%. Nearly every DJ-UBS component appreciated during the month with the exception of lean hogs (down 7%), silver (down 3%), sugar (down 3%), and WTI crude oil (down 2%). Nickel (up 15%), coffee (up 14%), and natural gas (up 10%) led advancers during the month.

Tactical Trading

- Managed futures continued to struggle in March, with losses from equity indices and commodities, and small gains from currency positions.
- Global macro hedge funds produced a modest loss as currency positions and emerging markets reversed course over the month.



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