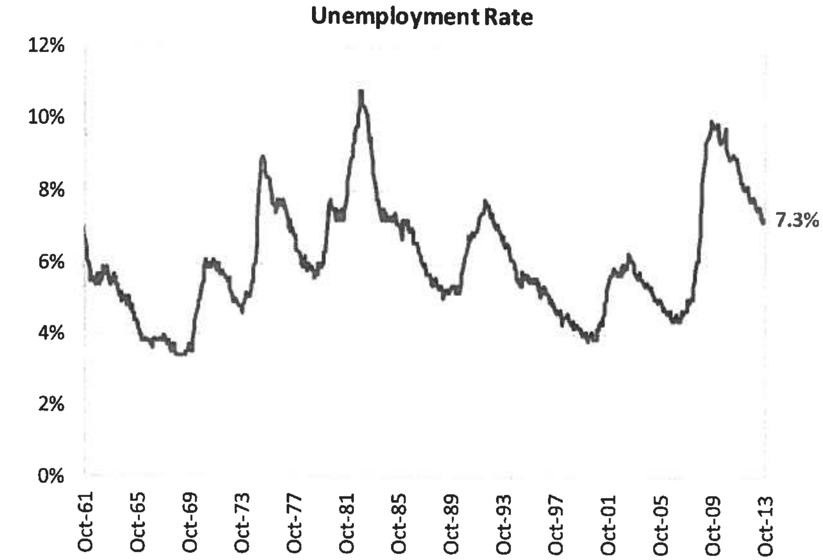
Summit *Strategies Group*
8182 Maryland Avenue, 6th Floor
St. Louis, Missouri 63105
314.727.7211

Monthly Economic & Capital Market Update

October 2013

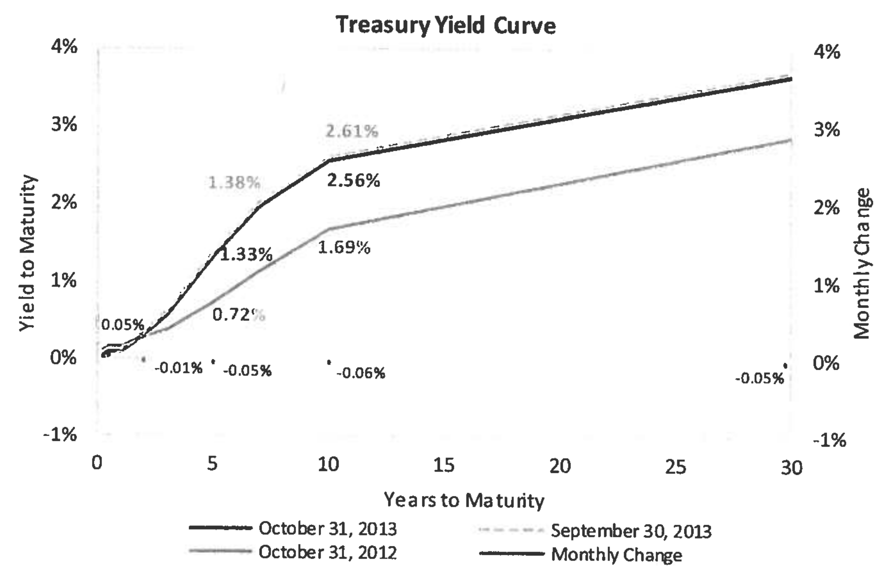
Economy

- 2013 continues to reward risk-on investors, as many equity markets hit multi-year highs in October. Expectations that the Federal Reserve will hold off on tapering QE pushed markets higher during the month, in addition to more positive data from Europe. A 16-day government shutdown that began October 1 did not appear to impact financial markets, but reports say the shutdown could cost the US between $2 and $6 billion in economic output.
- The unemployment rate rose to 7.3% in October, up 0.1% from the previous month. 204,000 jobs were created during the month, nearly doubling expectations of 120,000 new jobs. The labor force participation rate continues to decline, and is currently at its lowest level (62.8%) since March 1978.
- Gross domestic product expanded at a 2.8% annual rate during the third quarter, beating economists' expectations of 2.0% growth. GDP growth is at its highest level since the third quarter of 2012.
- Consumer prices increased 0.2% in September. Core CPI, which excludes food and energy, increased 0.1%. Consumer prices were up 1.2% for the 12 months ending September, while the core rate increased 1.7%.
- The Producer Price Index decreased 0.1% in September. Excluding food and energy, the PPI increased 0.1%. The PPI rose 0.3% year-over-year ending September, while core prices rose 1.2%.
- Rising mortgage rates softened the housing recovery in September, as existing home sales fell 1.9%. Housing starts increased slightly during the month (0.3%).
- US manufacturing continued its expansion in October, as the ISM Index came in at 56.4, its highest level in two years. Retail sales (ex auto and gas) increased 0.4% in September, while inventories at US wholesalers are expected to have increased by 0.4% in September.



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 decreased across the long end of the curve in October. The spread between 2-year and 30-year Treasuries tightened 4 bps to 333 bps.



Public Equities

- Domestic equities (S&P 500) outperformed international equities (MSCI EAFE) by 120 bps in October. EM was the best equity performer, up 4.9% for the month.
- MLPs returned 2.7% during October. MLP consolidations drove value during the month. Several IPOs debuted in October bringing the year-to-date total to 16, which is approaching the high of 2006 when 18 companies were listed. MLPs were largely unaffected by the government shutdown. Smaller MLP subsectors including coal (up 8.0%), upstream (up 4.3%), and propane (up 4.3%) outperformed during the month. The only negative performer was crude oil pipelines, returning -0.3% during October.

Public Debt

- In October, high yield bonds returned 2.5% as spreads tightened 45 bps to 415 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

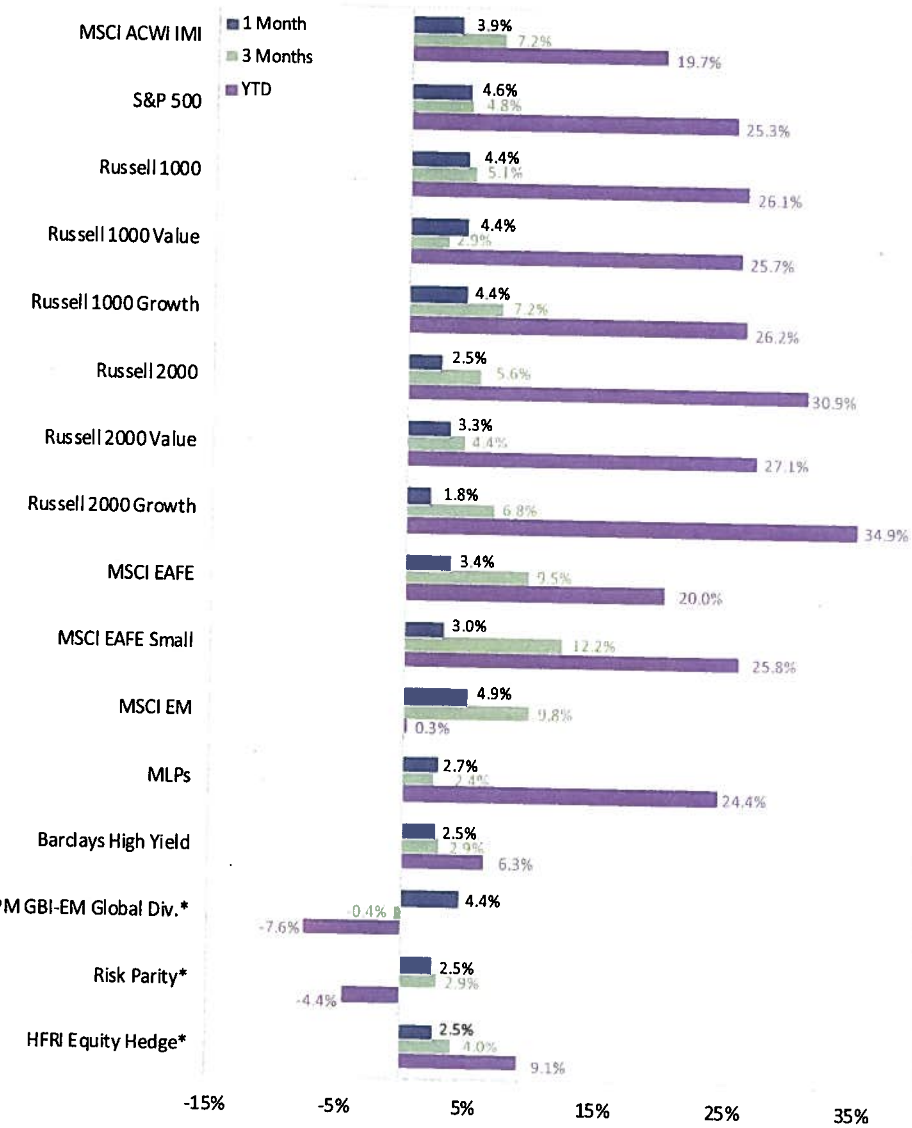
- The debt markets remain extremely accommodating to corporate issuers. The loan market is approaching frothy levels, as evidenced by the return of covenant lite loans, increasing leverage ratios, and attractive pricing (for the borrower). Inflows from both retail and institutional investors (including 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 September, 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 September, leading all hedge fund strategies but lagging 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.

Public Debt

- The Barclays Capital Aggregate returned 0.8% in October.
- Government bonds were also up, returning 0.5% for the month.
- Corporate bonds were up 1.5% in October as spreads tightened 10 bps to 140 bps.
- Mortgage-backed securities returned 0.7% for the month as agency MBS spreads were unchanged.
- The Barclays Global Aggregate ex US Index returned 1.1% for the month, outperforming the US Aggregate by 30 bps.

Private Debt

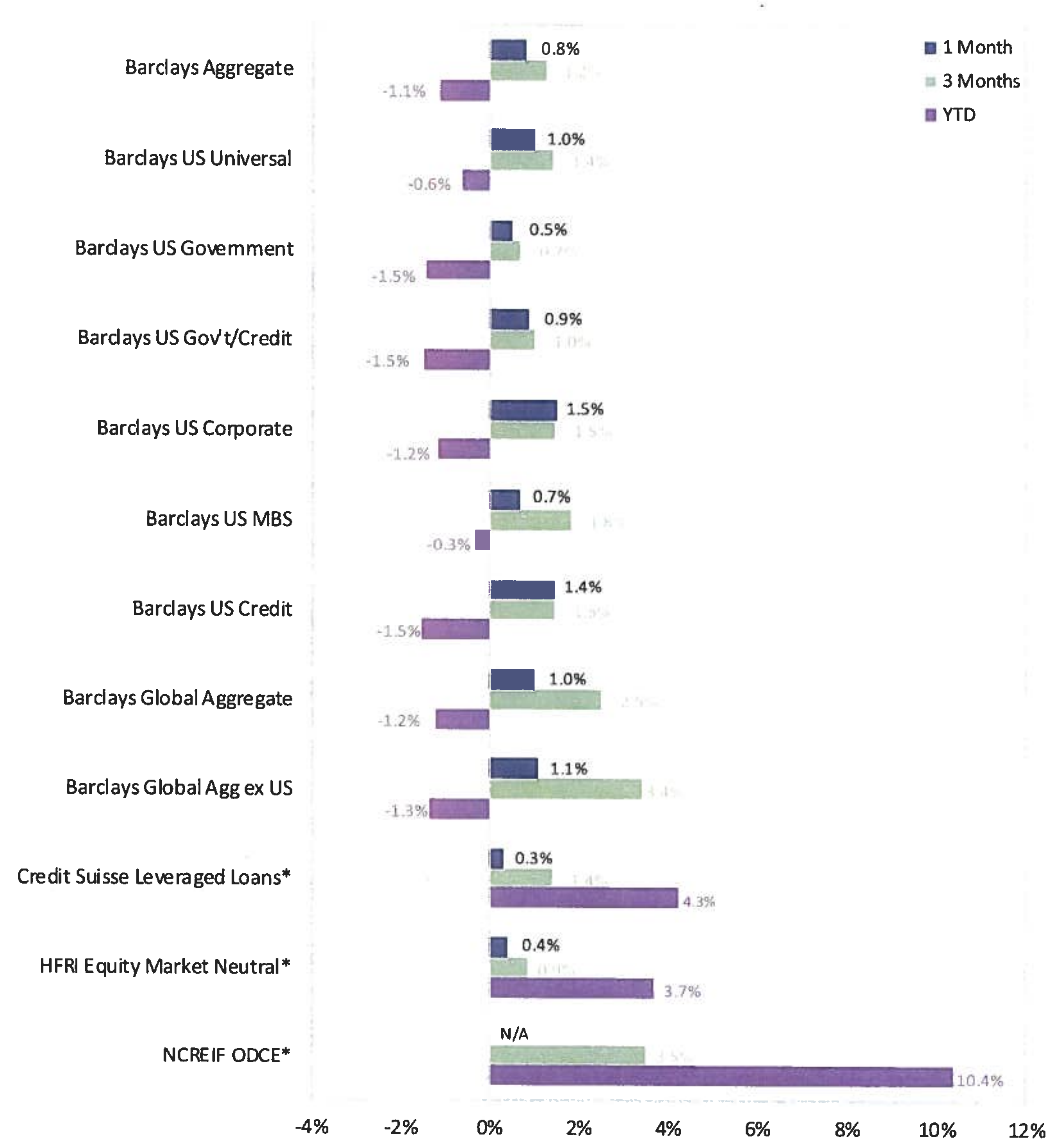
- Leveraged loans returned 0.3% in September and are up 4.3% year-to-date.

Relative Value Hedge Funds

- The HFRI Equity Market Neutral Index posted small gains during September. Other relative value strategies, including convertible arbitrage and mortgage/ABS relative value funds, posted additional gains on spread tightening following the FOMC meeting.

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.



* Data was not available at time of publication - data is previous month's.

Diversification Assets

October 31, 2013

Inflation

- TIPS were up 0.6% in October, but remain down (-6.2%) year-to-date.

Deflation

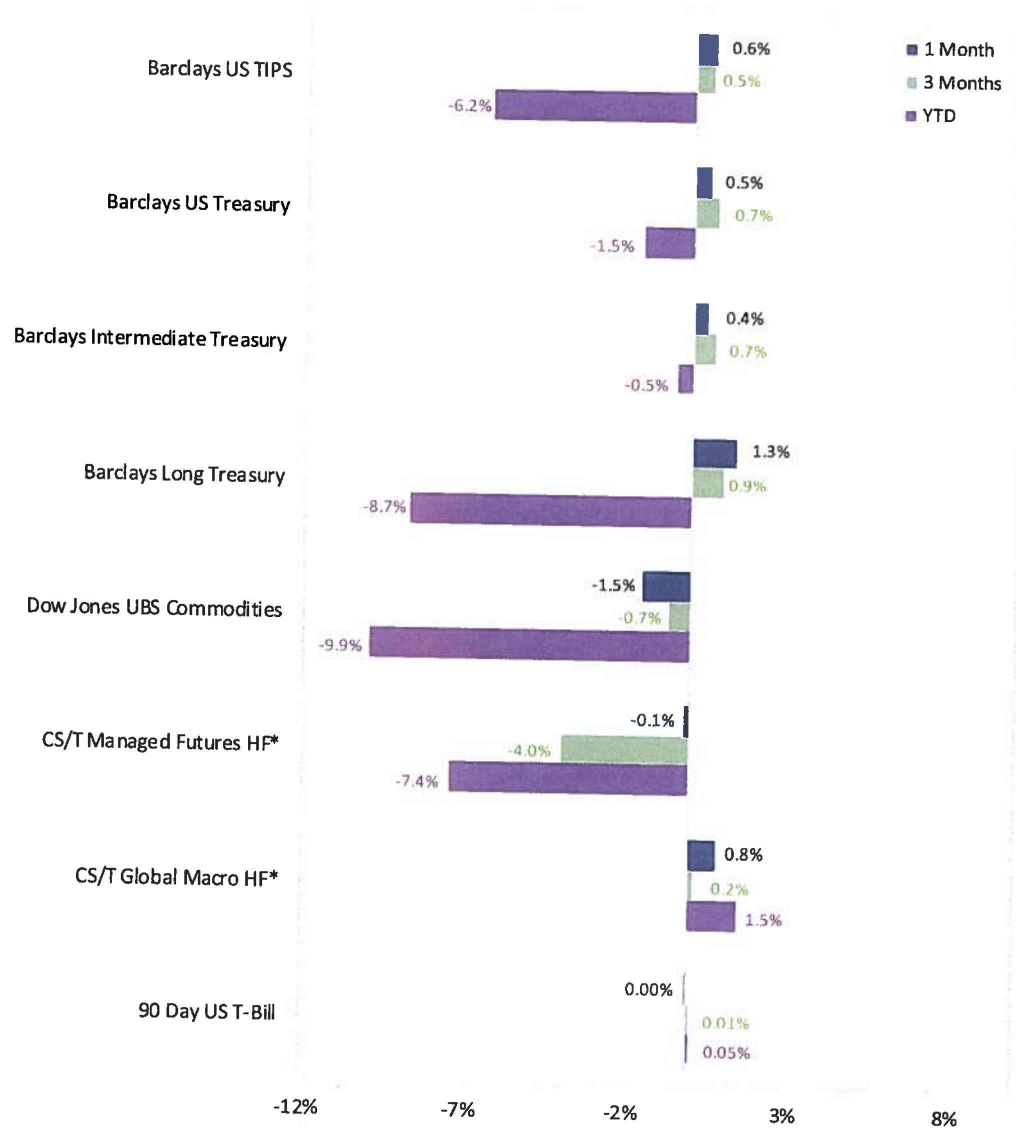
- Treasuries were up 0.5% in October.
- Intermediate Treasuries gained 0.4% during the month and long duration Treasuries rose 1.3%. Intermediate and long Treasuries have earned -0.5% and -8.7%, respectively, year-to-date.
- 90-day T-bills are up 5 bps year-to-date.

Commodities

- Commodities returned -1.5% during October. WTI Crude Oil (11% of the index) declined (-5.8%) as it once again began to decouple with the global Brent Crude oil contract, which returned 0.4% during the month. Several agriculture commodities declined sharply, with cotton down (-10.4%) amid surplus Chinese production and coffee down (-7.3%) due to stronger than expected Brazilian output. Precious metals were largely flat, while industrial metals were flat to modestly positive during the month.

Tactical Trading

- Managed futures posted flat performance during September, as long stock exposure and currency gains were broadly offset from losses in energies.
- Global macro hedge funds posted gains for September, as long equity exposure and high yielding EM positions rallied. Manager dispersion continues to remain elevated with varied views on fixed income, currencies, and equity valuations.



* Data was not available at time of publication - data is previous month's.