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Monthly Economic & Capital Market Update

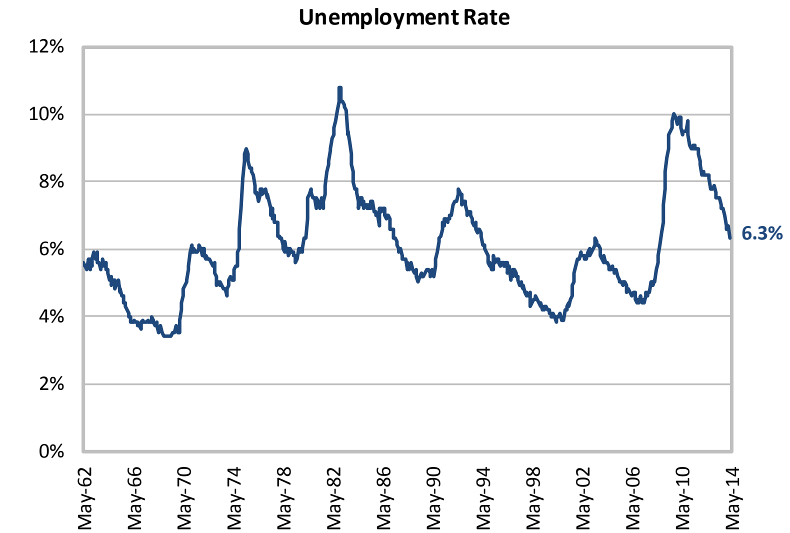
May 2014

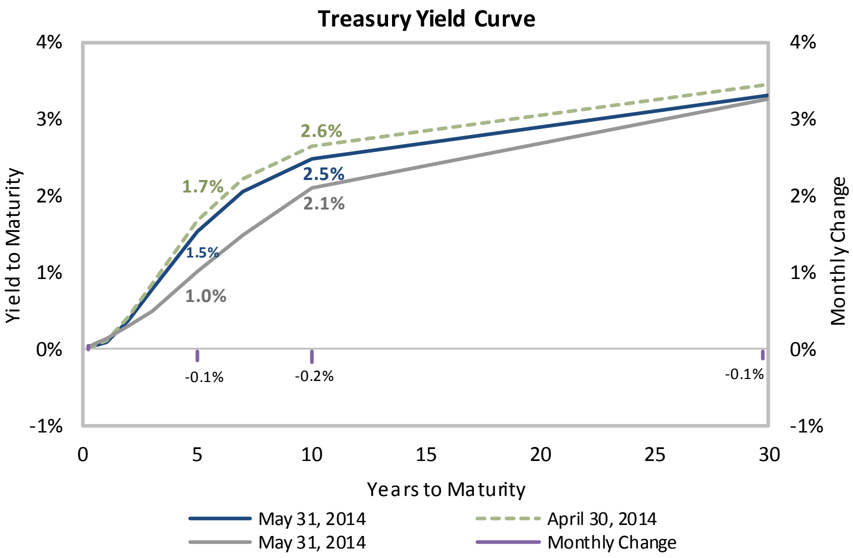
Economy

- Data released during May indicate that the US continues to rebound following a winter that caused the country's economy to contract during the first quarter. This, combined with ongoing accommodative monetary policy by the world's most influential central banks, helped push risk assets higher during the month.
- The unemployment rate remained at 6.3% in May. Nonfarm payrolls increased by 217,000, slightly beating the market's expectation of 215,000. The labor force participation rate held constant at 62.8%, its lowest level since 1978.
- Real GDP growth (annualized) for Q1 2014 was -1.0% according to the BEA's second estimate, below expectations of -0.5% growth. Decreased investment in inventories and lower state and local government spending negatively impacted growth during the quarter, as well as a substantial reduction in exports and a greater than expected increase in imports.
- Consumer prices, as measured by the Consumer Price Index, rose 0.3% in April. Core CPI, which excludes food and energy, increased 0.2%. Consumer prices were up 2% for the 12 months ending April, while the core rate increased 1.8%.
- The Producer Price Index increased 0.6% in April. Excluding food and energy, the PPI increased 0.5%. The PPI rose 2.1% year-over-year ending April, while core prices rose 1.9%.
- Housing market figures were mixed for April. Housing starts (up 13.2% month-over-month) and building permits (8%) beat economist expectations, while new home sales (6.4%) and existing home sales (1.3%), did not. Mortgage rates fell during May yet remain slightly above levels of one year ago.
- US manufacturing expanded during May 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 54.9 in April to 55.4 in May; a figure over 50 implies expansion.
- Retail sales (ex auto and gas) were down 0.1% in April but are expected to have increased by 0.4% in May. Inventories at US wholesalers were up 1.1% in April, meeting expectations.

Yield Curve

- Yields fell slightly across the entirety of the curve in May. The spread between 2-year and 30-year Treasuries tightened 10 bps to 295 bps.
- The next meeting of the FOMC will be June 17-18, 2014.





Growth Assets

May 31, 2014

Public Equities

- May was yet another strong month for equities. Domestic equities (S&P 500) outperformed international equities (MSCI EAFE) by 70 bps, with domestic small cap value stocks (R2000 Value up 0.6%) being the worst performers for the month.
- General Partner MLPs (up 8%) and Natural Gas Pipeline MLPs (up 6%) led advancing sectors during May. General Partner yields further compressed as investors continue to support these securities, as their cash flow splits relative to their limited partner units remain favorable. All other subsectors outside of coal (down 4%) were positive for the month. Broadly, MLP yields compressed during the month as the Alerian MLP Index yield compressed 36 bps, settling in at 5.6% at the end of May.

Public Debt

- In May, high yield bonds earned a return of 0.9% as spreads widened 5 bps to 350 bps. Historically, high yield spreads have averaged 520 bps.

Private Equity

- Deal value picked up in Q1 2014 compared to Q4 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 $950B of uninvested capital, up from $890B 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 environment according to managers.

Private Debt

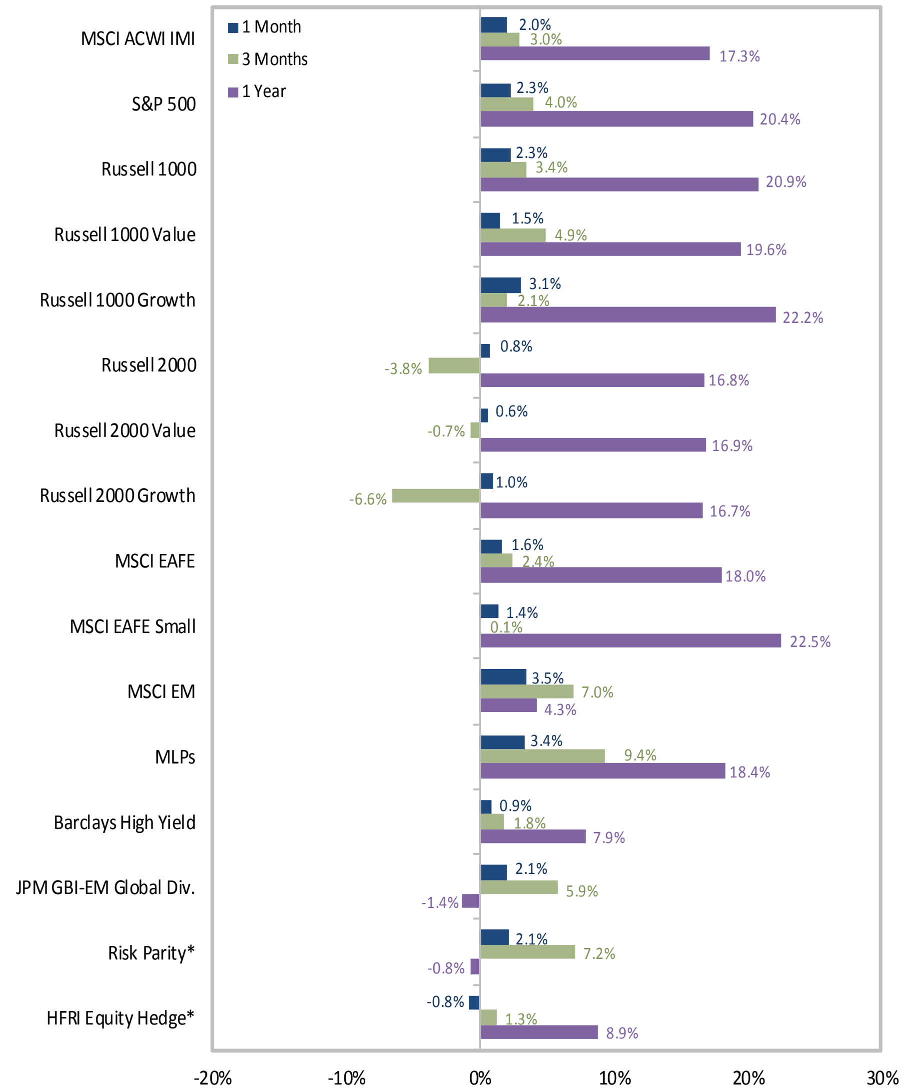
- The availability and aggressive terms from senior lenders has allowed debt levels to increase to a new cycle high of 5.6x EBITDA. This remains lower than the prior cycle high of 6.2x in 2007. The willingness of senior lenders to reach deeper into capital structures and accept higher levels of risk has been particularly challenging for mezzanine providers. According to data from S&P, mezzanine's share of new deal capital structures was 0% in Q1 2014. This compares to a typical share of 5-10% over the prior 10 years.

Risk Parity

- Risk parity-based strategies produced strong gains in April, with positive contributions from all major asset classes. The largest contributions were from nominal and inflation-linked exposures for the month.

Growth Hedge Funds

- The HFRI Equity Hedge Index saw losses in April as the strong reversal in high momentum sectors such as technology and bio-tech that began in March continued. 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 fixed income-focused event strategies continued to grind out gains.



* 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

- Bond markets benefited from falling rates during May. The yield on the 10-year Treasury fell 17 bps to 2.48% during the month.
- Core plus fixed income (US Universal) returned 1.2% for the month, slightly outperforming core (US Aggregate).
- Government bonds were also up, returning 0.9% for the month.
- Corporate bonds saw returns of 1.4% in May as investment grade spreads held constant at 100 bps. Corporate bond spreads have historically averaged 135 bps.
- Mortgage-backed securities returned 1.2% for the month as agency MBS spreads tightened 5 bps to 30 bps, below the historical average of 70 bps.
- International bonds returned 0.2% in May, as the Barclays Global Aggregate ex US underperformed the US Aggregate by 90 bps.

Private Debt

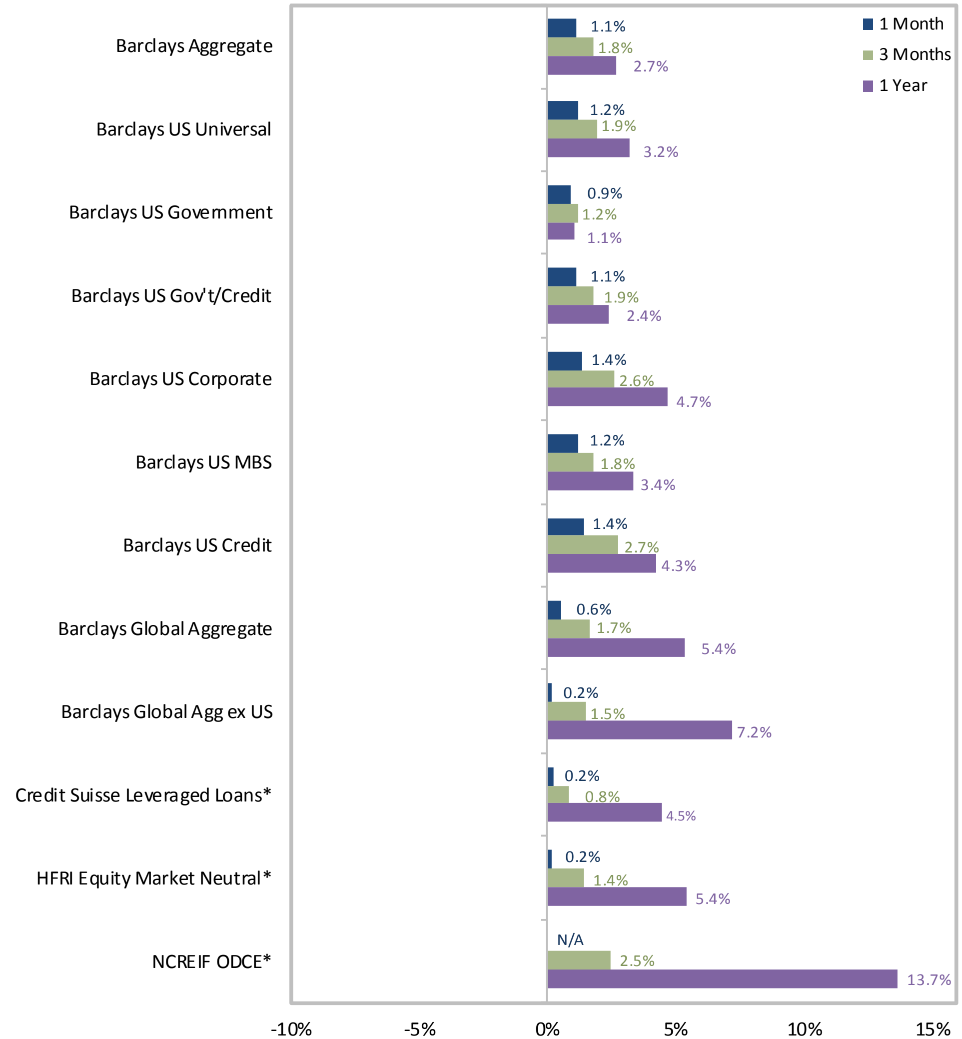
- Leveraged loans returned 0.2% in April and were up 4.5% for the 12 months ending April.

Relative Value Hedge Funds

- The HFRI Equity Market Neutral posted small positive gains in April, led by value-driven factors. Other relative value strategies, including mortgage/ABS relative value funds and corporate credit funds, posted some of the best hedge fund sector returns for the month, as fixed income strategies and positive carry strategies continue to benefit from the low yield and volatility environment.

Core Real Estate

- Although core real estate had its lowest return in five quarters in Q1 2014, 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

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Inflation

- TIPS returned 2.1% in May and are up 4.8% year-to-date.

Deflation

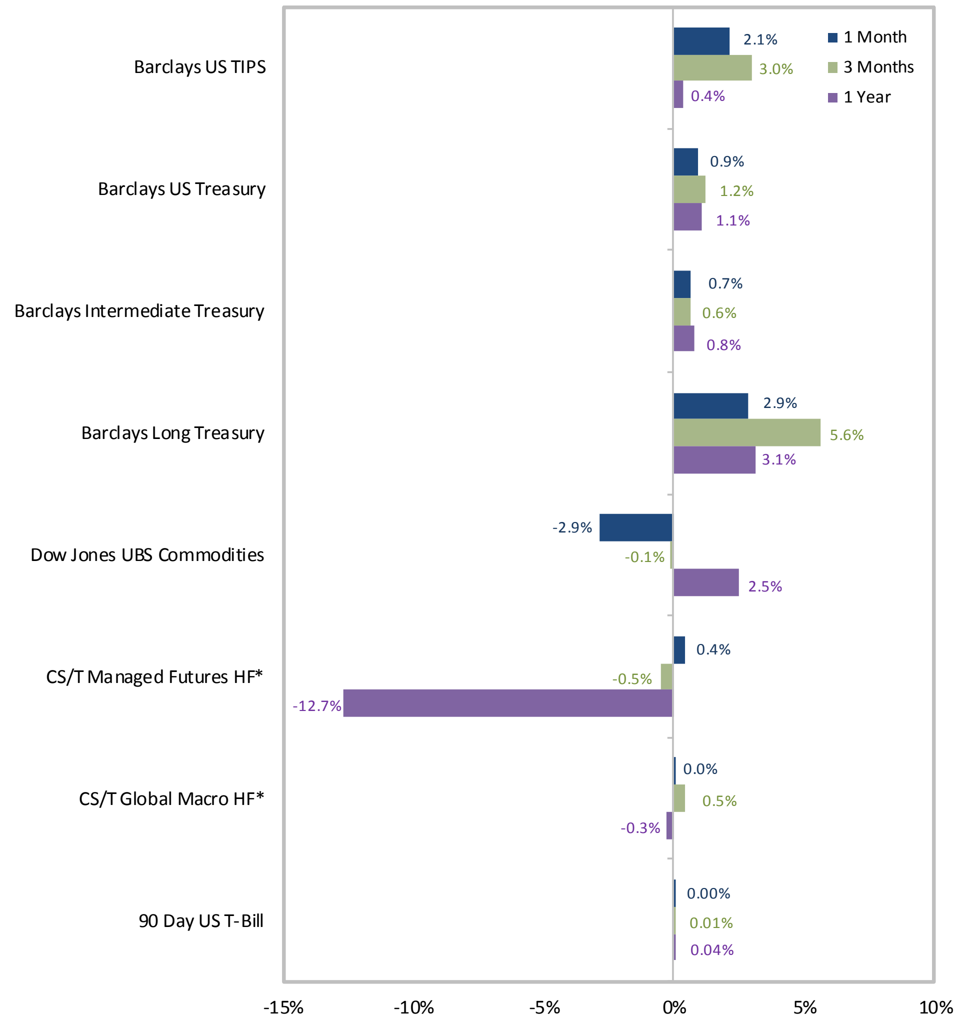
- Treasuries were up 0.9% during the month.
- Intermediate Treasuries returned 0.7% and long duration Treasuries returned 2.9% as yields fell across the curve. Intermediate and long Treasuries have earned 0.8% and 3.1%, respectively, over the past year.
- Cash continues to offer virtually no return, as 90 Day T-Bills have gained just 4 bps over the past year.

Commodities

- The Dow-Jones UBS Commodity Index declined in May (down 2.9%) following five consecutive months of positive returns. Inventory and supply growth across agriculture commodities forced prompt month contracts downward with coffee and wheat returning -13% and -12%, respectively. Crude oil was modestly higher and natural gas fell (down 6%) during May. Precious metals prices modestly declined, while industrial metals prices modestly advanced.

Tactical Trading

- Managed futures produced small positive gains in April from fixed income positions and mixed commodity performance.
- Global macro hedge funds were roughly unchanged as managers have decreased risk positions during the choppy market environment year-to-date.



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