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Monthly Economic & Capital Market Update

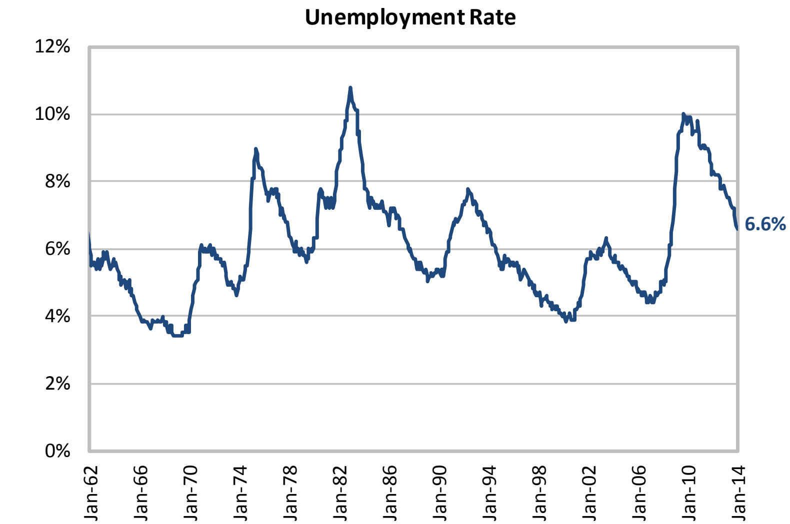
January 2014

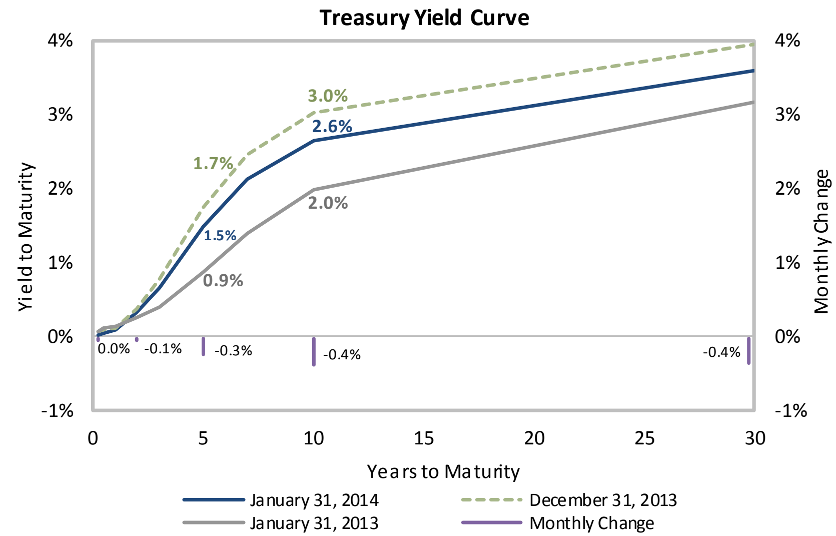
Economy

- Increased economic activity and improving labor market conditions were cited as reasons for a further reduction of Quantitative Easing at the FOMC's January meeting. Going forward, the Fed will purchase Treasuries and MBS at a pace of $65 billion per month, down $10 billion from the previous rate of $75 billion per month.
- The unemployment rate fell to 6.6% in January, its lowest level since October 2008. Nonfarm payrolls increased by 113,000, well short of expectations of 180,000. The labor force participation rate rose slightly during the month, up from a December level that was a five-year low.
- Gross domestic product expanded at a 3.2% annual rate during the fourth quarter of 2013, according to the BEA's advance estimate.
- Consumer prices, as measured by the Consumer Price Index, rose 0.3% in December. Core CPI, which excludes food and energy, increased 0.1%. Consumer prices were up 1.5% for the 12 months ending December, while the core rate increased 1.5%.
- The Producer Price Index decreased 0.4% in December. Excluding food and energy, the PPI increased 0.3%. The PPI rose 1.2% year-over-year ending December, while core prices rose 1.4%.
- Abnormally cold weather negatively affected housing construction during December, as housing starts fell 9.8% during the month. Building permits (-3.0%) and new home sales (-7.0%) also disappointed in December, coming in lower than expected. Despite low December numbers, the housing market showed significant improvement in 2013.
- US manufacturing continued to expand in January, but at a much lower rate than anticipated. The ISM Manufacturing Index was 51.3 versus expectations of 56.0, and dropped for the second straight month from November's high reading of 57.0. An ISM figure over 50 implies expansion.
- Retail sales (ex auto and gas) rose 0.6% in December, while inventories at US wholesalers are expected to have increased by 0.5% in December.

Yield Curve

- Janet Yellen has been sworn in as Chair of the Federal Reserve. Her first meeting as the head of the FOMC will be March 18-19, 2014.
- Yields fell across the curve in January. The spread between 2-year and 30-year Treasuries tightened 32 bps to 327 bps.





Public Equities

- Domestic equities (S&P 500) outperformed international equities (MSCI EAFE) by 50 bps in January. International small caps were the best equity performers, down 1.5% for the month.
- Upstream MLPs (up 4%), MLP General Partners (up 2%), and Refined Products Pipeline MLPs (up 2%) outperformed during January. All other MLP sectors were within a tight range, returning both slightly positive and slightly negative. Small cap MLPs continued to outperform large cap MLPs during the month.

Public Debt

- In January, high yield bonds returned 0.7% as spreads widened 25 bps to 405 bps.

Private Equity

- Private equity new deal volume was down 10% in 2013 versus 2012. However, the aggregate value of deals is slightly higher, resulting in the highest average deal size since 2007. Fundraising strengthened significantly, increasing 52% Q4 over Q3 and 170% over Q4 2012.

Private Debt

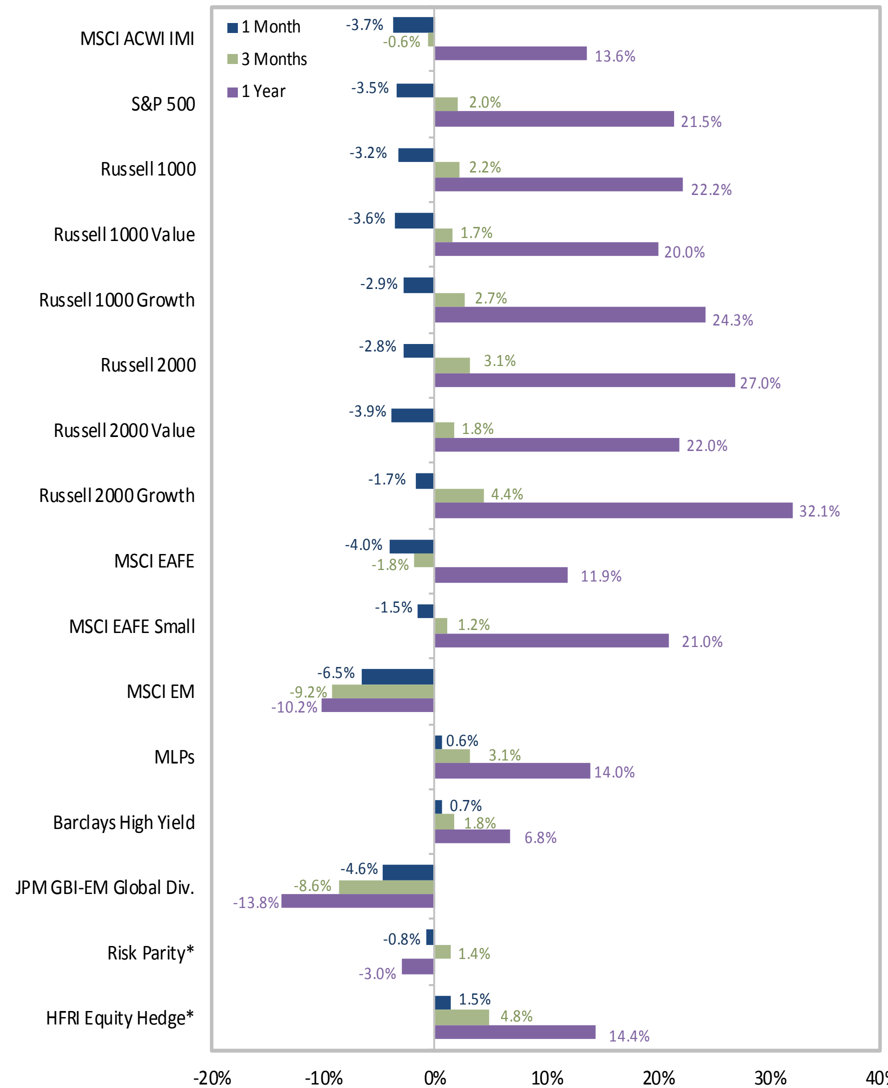
- Debt markets remain extremely accommodating to corporate issuers. The loan market is approaching frothy levels, as evidenced by the return of covenant lite loans, increasing leverage ratios, and attractive pricing (for the borrower). New leveraged loans totaled $605 billion in 2013, up 30% over 2012 and above pre-crisis boom years. CLOs are back; CLO issuance for 2013 totaled $82 billion across 170 new vehicles, a post-crisis high.

Risk Parity

- Risk parity-based strategies underperformed balanced allocations (60/40 blends) during December. Equity gains were more than offset by losses from inflation-linked and nominal bonds, which suffered as interest rates rose following the FOMC taper announcement.

Growth Hedge Funds

- The HFRI Equity Hedge Index continued gains in December and 2013, leading all index sectors and posting its best calendar year since 2009. Event-driven managers also posted gains for the month, with distressed and restructuring strategies outperforming merger arbitrage.



* 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 1.5% in January.
- Government bonds were also up, returning 1.3% for the month.
- Corporate bonds saw returns of 1.8% in January as investment grade spreads held constant at 115 bps.
- Mortgage-backed securities returned 1.6% for the month as agency MBS spreads were unchanged at 35 bps.
- The Barclays Global Aggregate ex US Index returned 0.8% for the month, underperforming the US Aggregate by 70 bps.

Private Debt

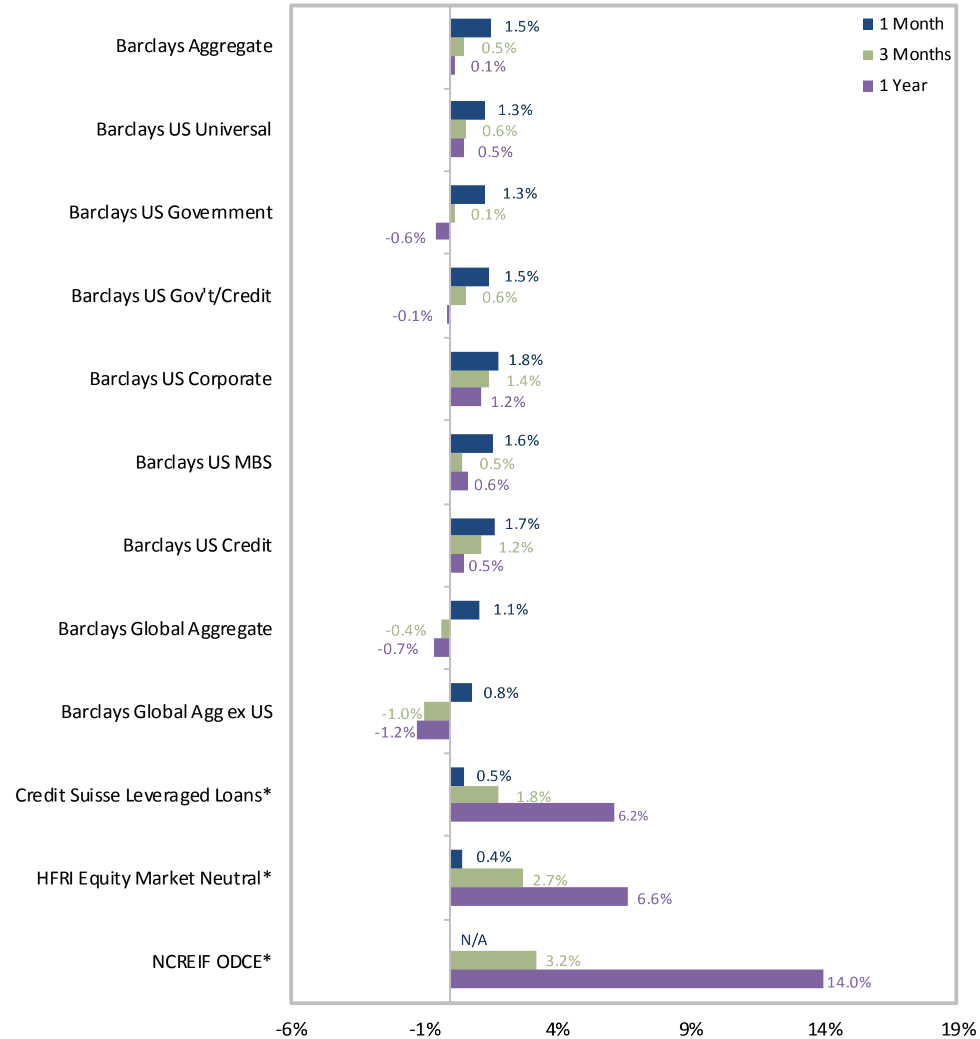
- Leveraged loans returned 0.5% in December and were up 6.2% in 2013.

Relative Value Hedge Funds

- The HFRI Equity Market Neutral Index closed out the year with another positive month, making 2013 the best calendar year for the index since 2006. Mortgage/ABS relative value funds and corporate credit funds posted additional gains on continued spread tightening in the fourth quarter.

Core Real Estate

- Core real estate continued to show strong gains during the fourth quarter as the index posted a 3.2% gain and finished up 14% for the year. These gains were fueled by a continued increase in tenant demand with a limited supply of new construction. As commercial real estate fundamentals continue to improve, Summit expects more investment activity in secondary markets to occur as prices in some primary markets now exceed pre-recessionary levels. While we remain optimistic about the sector in 2014 we are also cautious about these pricing levels relative to a potential rise in interest rates.



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Diversification Assets

January 31, 2014

Inflation

- TIPS returned 2.0% during the first month of 2014, yet remain down (-6.2%) for the 12 months ended January 31.

Deflation

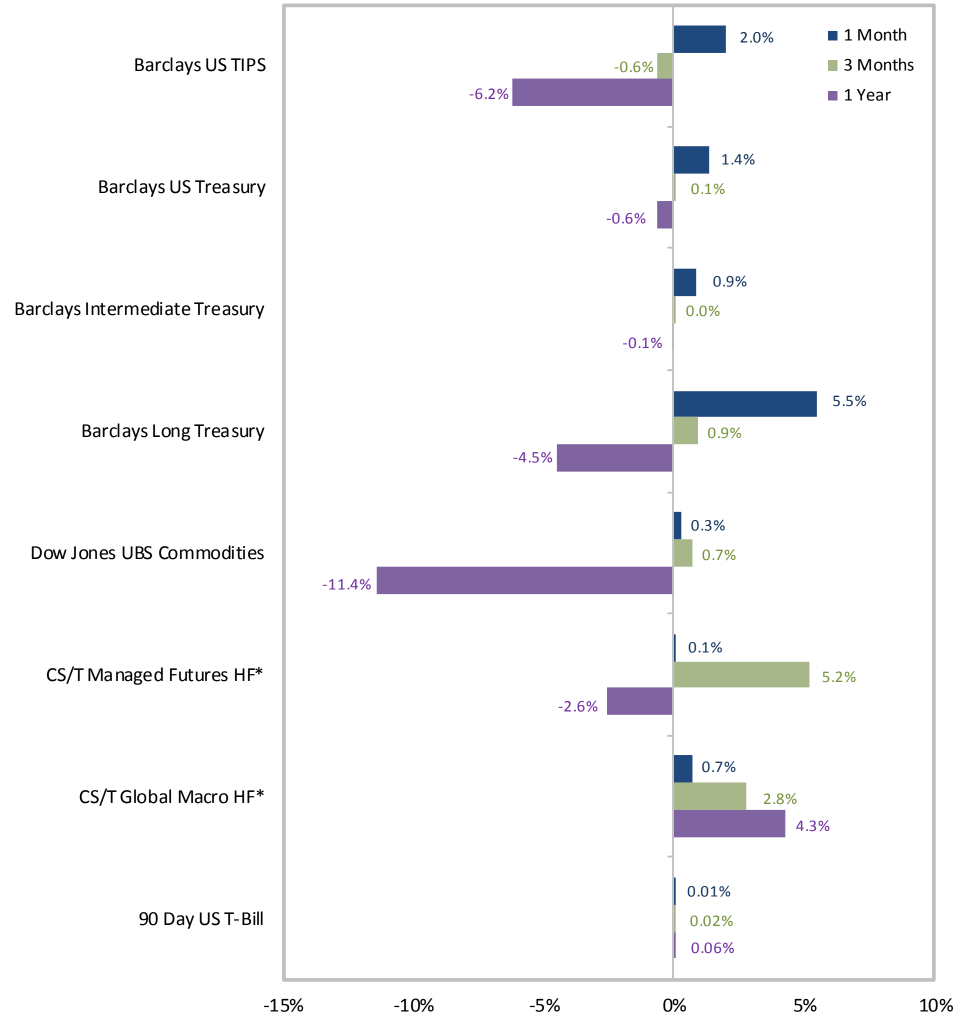
- Treasuries rose 1.4% in January, as yields fell across the curve.
- Intermediate Treasuries returned 0.9% during the month and long duration Treasuries returned 5.5%. Intermediate and long Treasuries have earned -0.1% and -4.5%, respectively, over the past year.
- 90-day T-bills continue to offer virtually no return, gaining 6 bps over the past year.

Commodities

- Commodity indices rose for the second straight month. Select agriculture commodities remain challenged amid elevated supply levels. Livestock commodities were all positive during the month. Natural gas, the second largest index exposure, returned 17% as the cold US winter continued to deplete storage below seasonal levels. Gold returned 3%, but all other metals were slightly down during the month.

Tactical Trading

- Managed futures were slightly positive in December, with gains from long equity exposures generally being offset from losses in fixed income.
- Global macro hedge funds closed out 2013 with modest gains for the month and calendar year. Positions and trading were somewhat light going into 2014.



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