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Monthly Economic & Capital Market Update

December 2016

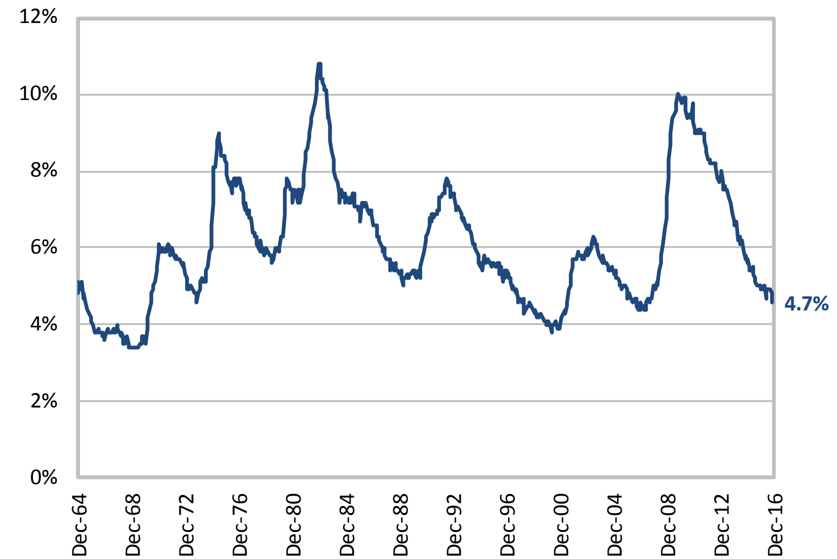
Economy

- The most prominent event of December was the highly anticipated Federal Reserve interest rate hike. After keeping the federal funds rate static since December 2015, the Federal Open Market Committee (FOMC) increased rates by 25 bps to a range of 0.5% to 0.75%, marking the second interest rate increase in a decade. The culmination of a strengthening labor market as well as moderate economic expansion fueled the committee's decision to increase rates. The Fed signaled three additional rate hikes for 2017, and predicted interest rates to be 1.4% by the end of the year. Since the rate hike had been forecasted by investors prior to the meeting, financial markets did not show a major reaction to the Fed's announcement.
- The US economy experienced positive job growth for the 75th consecutive month in December. Employers added 156,000 jobs during the month, below market expectations of 175,000 new jobs. The unemployment rate rose slightly to 4.7% from last month's 4.6% figure, and the labor force participation rate remained unchanged over the past year at 62.7%. Wages, as measured by average hourly earnings of private sector workers, rose 2.9% year-over-year, up 40 bps from November. December's strong wage gains marked the highest year-over-year increase since 2009, but remains relatively muted from a historical perspective. Revisions to figures from October and November resulted in 19,000 more jobs than previously reported.
- Real GDP grew at a 3.5% annualized rate during the third quarter according to the third estimate from the Bureau of Economic Analysis, a 30 bps increase from the second estimate of 3.2%. The adjustment reflected an increase in nonresidential fixed investment, personal consumption expenditures, and government spending. GDP growth rates (annualized) in the first and second quarters of 2016 were 1.1% and 1.4%, respectively.
- December marked the 83rd consecutive month of expansion in the US services sector. The ISM non-manufacturing Purchasing Managers Index (PMI) remained at a record high of 57.2, matching November's figure. A reading over 50.0 indicates expansion in the services sector.

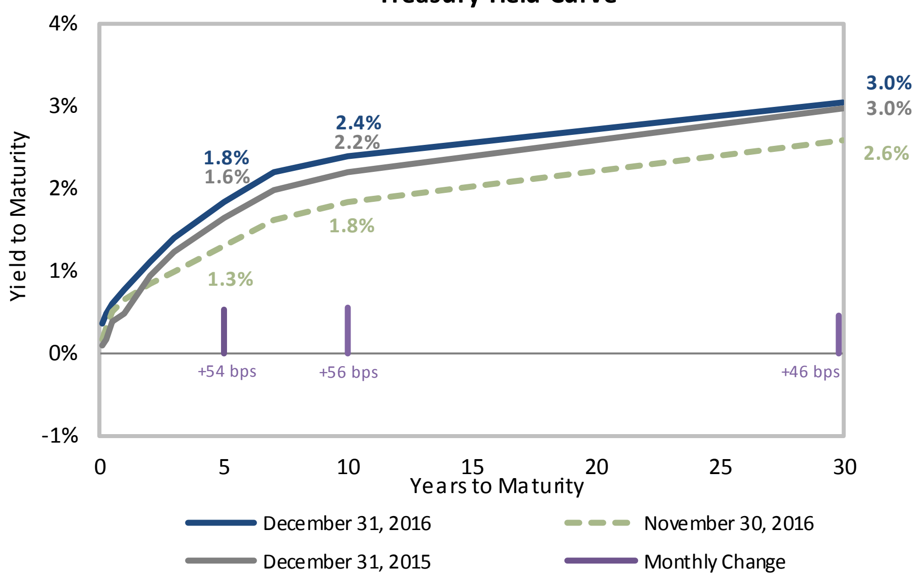
Yield Curve

- The spread between 2-year and 30-year Treasuries contracted 4 bps to 188 bps in December. Over the past 30 years the spread between the 2- and 30-year Treasuries has averaged 167 bps.

Unemployment Rate



Treasury Yield Curve



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Growth Assets

December 31, 2016

Public Equities

- In December, US equity markets continued to post positive returns as the S&P 500 gained 2.0% and the Russell 2000, led by value stocks, increased 2.8% for the month. International markets rebounded from November declines with MSCI EAFE Index and MSCI EAFE Small Cap gaining 3.4% and 2.9%, respectively. Emerging markets, while positive, lagged their developed peers returning 0.2% during the month.
- Master limited partnerships (MLPs) returned 4.4% in December. Positive returns were posted across all sectors, while the downstream sector led outperformance at 10.6%. Positive performance for the month can also be attributed to the production cut agreement made by OPEC leaders at the end of November. Year-to-date, MLPs have gained 18.3%, with energy services being the largest contributor at 69.8%.

Public Debt

- The high yield sector returned 1.8% for the month of December, regaining losses observed in November and bringing quarter-to-date performance to 1.8%. Heightened confidence in the energy sector due to increasing commodity prices drove performance.
- Local currency-denominated emerging market debt returned 1.9%, regaining a small portion of the 7.0% loss observed in November and bringing year-to-date returns to 9.9%.

Private Equity

- Purchase price multiples, as measured by S&P Leveraged Commentary and Data (S&P LCD), continue to suggest significantly different environments for larger deals vs. those in the middle market. In 2015, larger deals and middle market deals both had an average purchase price multiple of 10.7x; in 2016 purchase price multiples for larger deals have increased, while those of middle market deals have moderated. Manager sentiment suggests that the lower multiples in the middle market demonstrate managers remain disciplined on pricing.

Private Debt

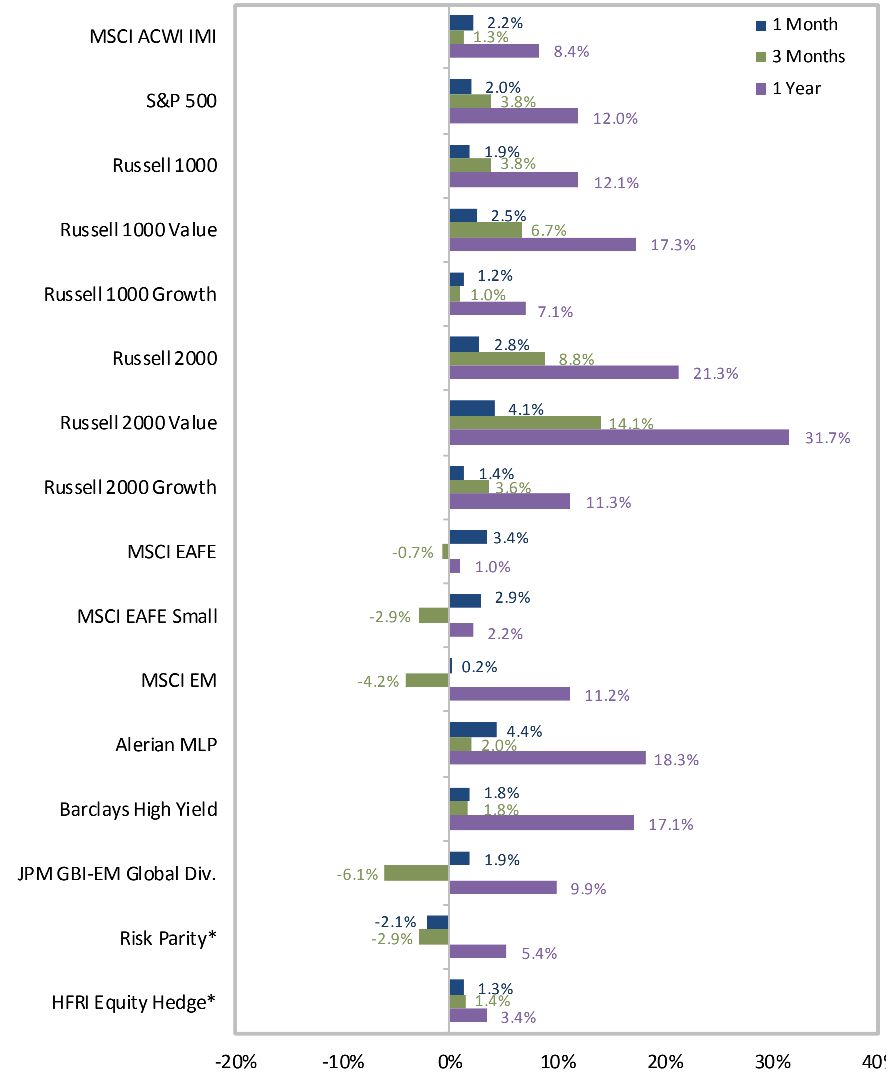
- Debt multiples for both middle market deals and larger deals have on average been lower than those experienced in 2015. After declining significantly during the first half of 2016, multiples of deals less than $50m in EBITDA reverted back to levels seen over the past few years during the third quarter. Equity contribution in deals of all sizes in 2016 has been consistent with what was experienced in 2015, around 44%.

Risk Parity

- Risk parity strategies detracted in November with nominal and inflation-linked bonds being the largest detractors while equity allocations contributed.

Growth Hedge Funds

- Growth hedge funds contributed in November led by a tailwind from market performance. Activist strategies were the strongest contributors, followed by long/short equity. Distressed and merger arbitrage strategies contributed as well.



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

Income Assets

December 31, 2016

Public Debt

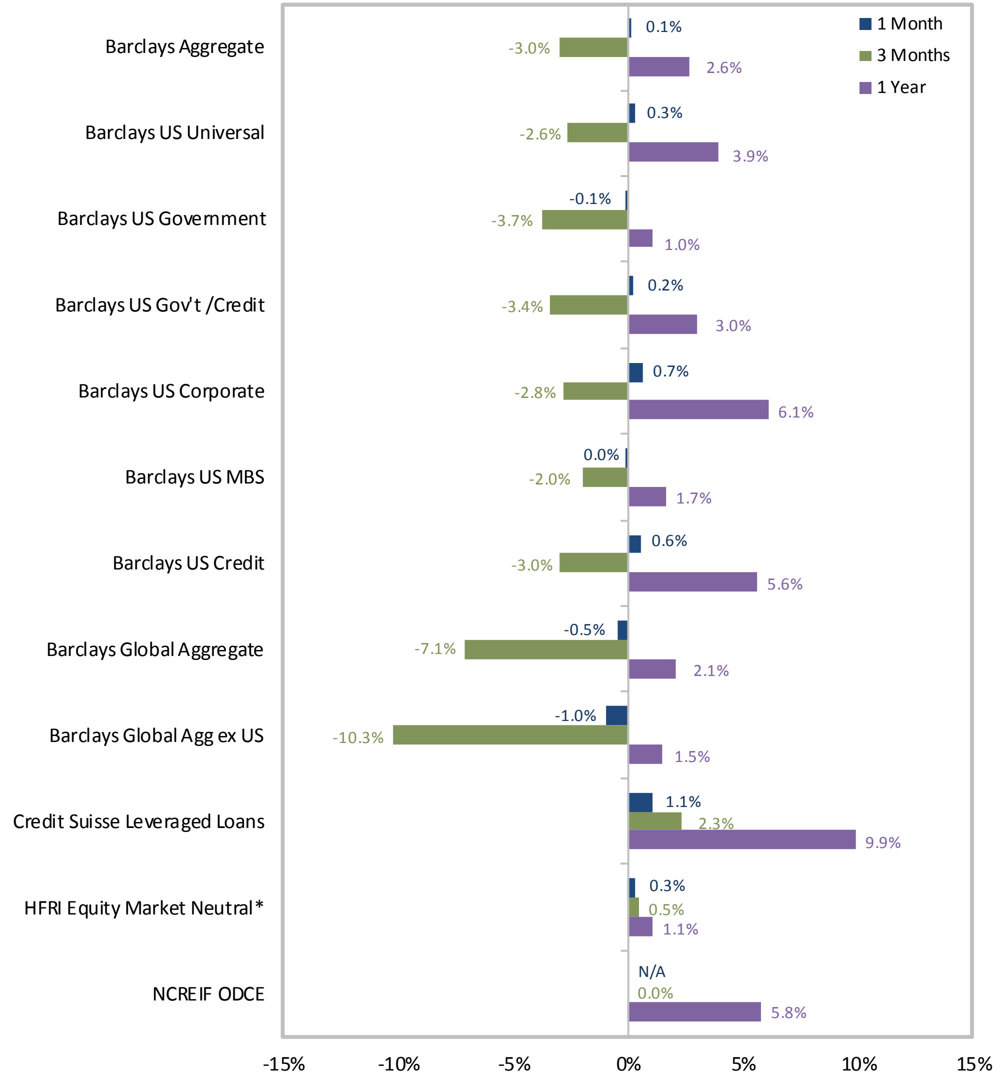
- The 10-year US Treasury yield ended December at 2.4%, unchanged from the end of November despite the Federal Reserve interest rate increase.
- Investment grade corporates saw spreads tighten by 6 bps during the month, offsetting the rise in yields, and allowing a positive return of 0.7% for December.
- The duration of the securitized sector of the Barclays Aggregate continued to increase, ending the month at 4.5 years as rising rates caused prepayment assumptions to fall. The duration of the sector has increased significantly in the second half of 2016, as duration was 2.6 years at the end of June.
- International bonds continued to decline, returning -1.0% in December and bringing QTD losses to nearly 11%.
- The short duration nature of bank loans continued to be positive during December despite the lower volatility in rates, with the asset class returning 1.2% during the month. Retail and institutional fund flows continue to be a tailwind for loans and have been for all of 2016, supporting the asset class despite declines in CLO issuance.

Relative Value Hedge Funds

- Relative value hedge funds were positive in November. Volatility arbitrage was the strongest contributor, while convertible, asset-backed, and equity market neutral strategies were also up modestly. Fixed income arbitrage was the only detractor from performance for the month.

Core Real Estate

- The third quarter return for the NCREIF ODCE Index was 2.1% gross (and 1.8% net), composed of 1.1% income and 1.0% appreciation. The third quarter returns reflect historic norms, as outsized appreciation returns have diminished but overall real estate fundamentals remain healthy. Positive job creation, continued high consumer confidence, and a limited amount of new supply have all contributed to strong returns.



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Inflation

- Inflation expectations continued to increase during December, ending the month with ten-year inflation expectations above 2.0%.

Deflation

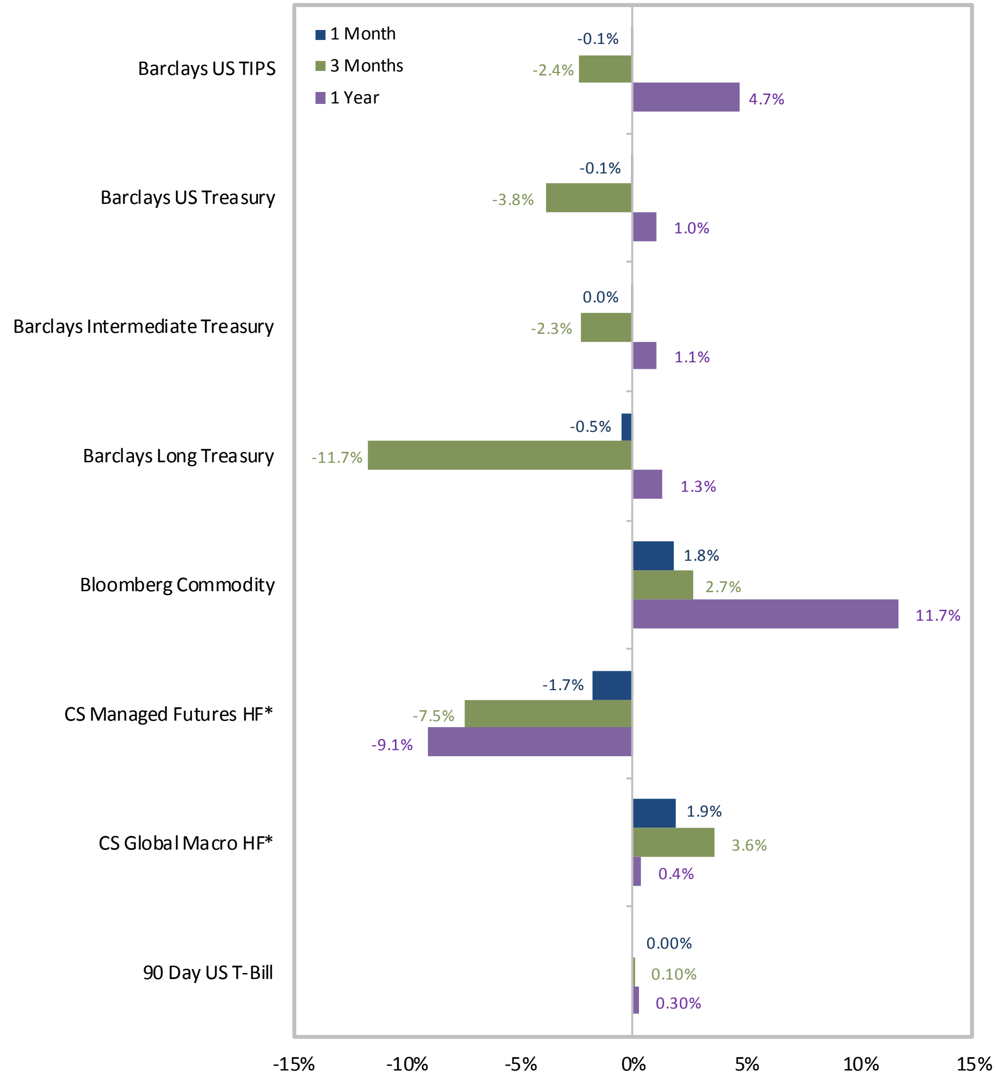
- The Bloomberg Barclays Long Treasury Index returned -0.5% for the month as the yield on the 30-year Treasury increased 3 bps to 3.1%.
- Cash continues to offer no relative return, as the 90-day T-bills were flat for the month and returned 0.3% for the one-year period.

Commodities

- The Bloomberg Commodity Index returned 1.8% for December. The largest detractor from performance was precious metals, as nickel underperformed -11.0% for the month. Lean hogs and Brent crude oil produced the highest returns of 29.6% and 12.6%, respectively. Year-to-date, the index remains positive at 11.7% with Zinc and Natural Gas being the largest contributors to performance.

Tactical Trading

- Tactical trading hedge funds posted mixed performance in November as discretionary global macro strategies posted gains while trend-following strategies detracted.



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