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Monthly Economic & Capital Market Update

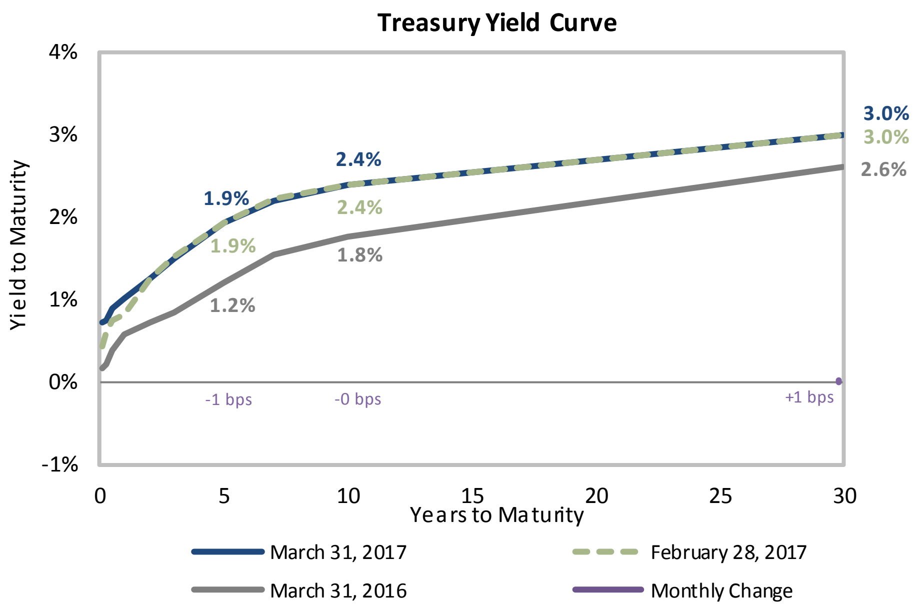
March 2017

Economy

- Economic data releases continued to surprise to the upside throughout the world in March, lifting global equity prices. Subsiding fears of a global trade war, combined with rising investor concerns that the process of implementing pro-growth US policies may be more difficult than previously expected, contributed to the outperformance of international markets. Continued progress in the US labor market and steadily increasing inflation were catalysts for the Federal Reserve to raise short-term interest rates in March, and at the end of the month investors were pricing into markets two more rate hikes to 1.25% by the end of 2017.
- The US economy experienced positive job growth for the 78th consecutive month in March as employers added 98,000 new payrolls. The number of jobs added was below economists' expectations of 180,000, partly due to warmer-than-expected weather in January and February that pulled forward many new jobs into the first two months of 2017. The unemployment rate declined 20 bps to 4.5%, its lowest level since May 2007, and the labor force participation rate remained unchanged at 63.0%. Wage growth, as measured by the change in average hourly earnings of private sector workers, was 2.7% over the 12 months ending March, a slight decrease from February's 2.8% wage growth. Payrolls from January and February were revised downward by 38,000 total jobs.
- Real GDP grew at a 2.1% annual rate during the fourth quarter, according to the final estimate released by the Bureau of Economic Analysis, above the second estimate of 1.9%. GDP growth overall for the US economy in 2016 was 1.6%, below 2015's 2.6% growth rate. Per the Atlanta Federal Reserve, GDP growth for the first quarter of 2017 is expected to be 1.2% annualized.
- March marked the 87th consecutive month of expansion in the US services sector. The ISM non-manufacturing Purchasing Managers Index (PMI) came in at 57.2, slightly below February's record high of 57.6. Any reading over 50.0 indicates expansion in the services sector.

Yield Curve

- The spread between 2-year and 30-year Treasuries expanded 2 bps to 175 bps in March. Over the past 30 years, the spread between 2-year and 30-year Treasuries has averaged 168 bps.



Growth Assets

March 31, 2017

Public Equities

- US stocks underperformed their international counterparts in March and for the first quarter of 2017, reversing the trend that began following the US election in November. Strong economic data throughout the world, in addition to decreased concerns surrounding global trade barriers and political change in Europe, contributed to equity market gains.
- Master limited partnerships (MLPs) returned -1.3% in March. MLPs saw negative returns across almost all sectors, with the exception of general partners (+2.8%), shipping (+0.9%), and gathering and processing (+0.6%). Detractors included energy services (-7.3%) and coal (-3.9%). MLPs have gained 3.9% year-to-date, with distribution yields falling 8 bps to 7.0% so far in 2017.

Public Debt

- The Bloomberg Barclays High Yield Index returned -0.2%, only the second month of negative returns over the past year, as spreads widened by 20 bps to 383 bps.
- Local currency-denominated emerging market debt gained 2.3%, continuing to outperform other fixed income markets. Currency fluctuations were a tailwind to returns, contributing 0.9% on top of gains from principal and interest.

Private Equity

- The strong fundraising environment for private equity has continued into 2017, as the industry is likely to see record levels of first quarter capital raising since the global financial crisis. According to Preqin, approximately 175 private equity funds reached a final close in the first quarter, raising a combined $89b. Preqin expects these figures to rise by an additional 10% as more information becomes available, thus surpassing the $90b raised by funds closed in Q1 2016. Purchase price multiples for middle-market LBOs, as measured by S&P Leveraged Commentary and Data (S&P LCD), have remained relatively stable from 2016 at 9.6x YTD.

Private Debt

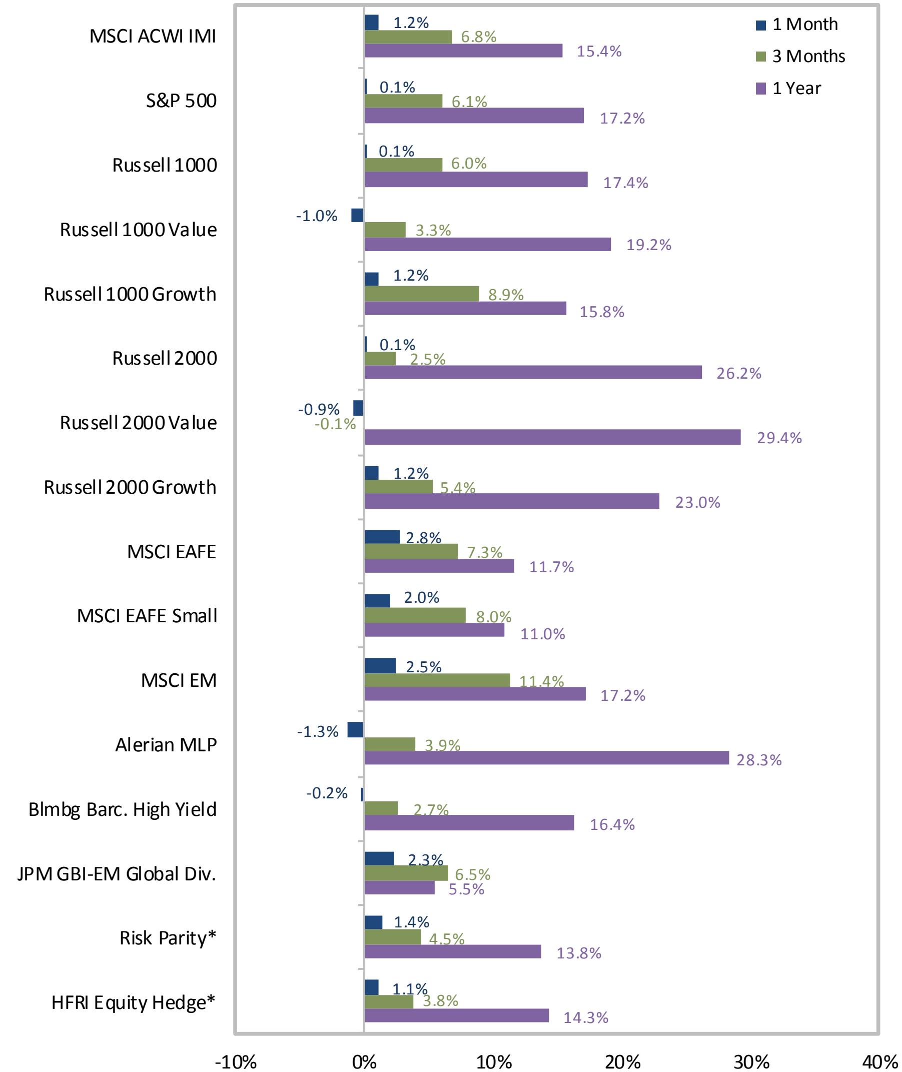
- In Q1 2017, 21 private debt funds closed for a combined total of $21b, below the record $50b secured in Q4 2016. However, the level of capital secured surpassed last year's Q1 level of $11b, as the momentum for direct lending strategies continued; direct lending funds accounted for 62% of total capital raised. Nearly two-thirds of all private debt funds closed during the quarter exceeded their target size.

Risk Parity

- Risk parity strategies were positive in February, with gains distributed across asset classes. Nominal interest rates were the greatest contributor, followed by equities. Gains in commodities and inflation-linked bonds were muted.

Growth Hedge Funds

- Growth hedge funds contributed in February, with gains in equity long/short and event-driven hedge funds. Healthcare-oriented funds were strong contributors, as well as activists. Strategies outside of the energy sector were generally positive.



* 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.

Public Debt

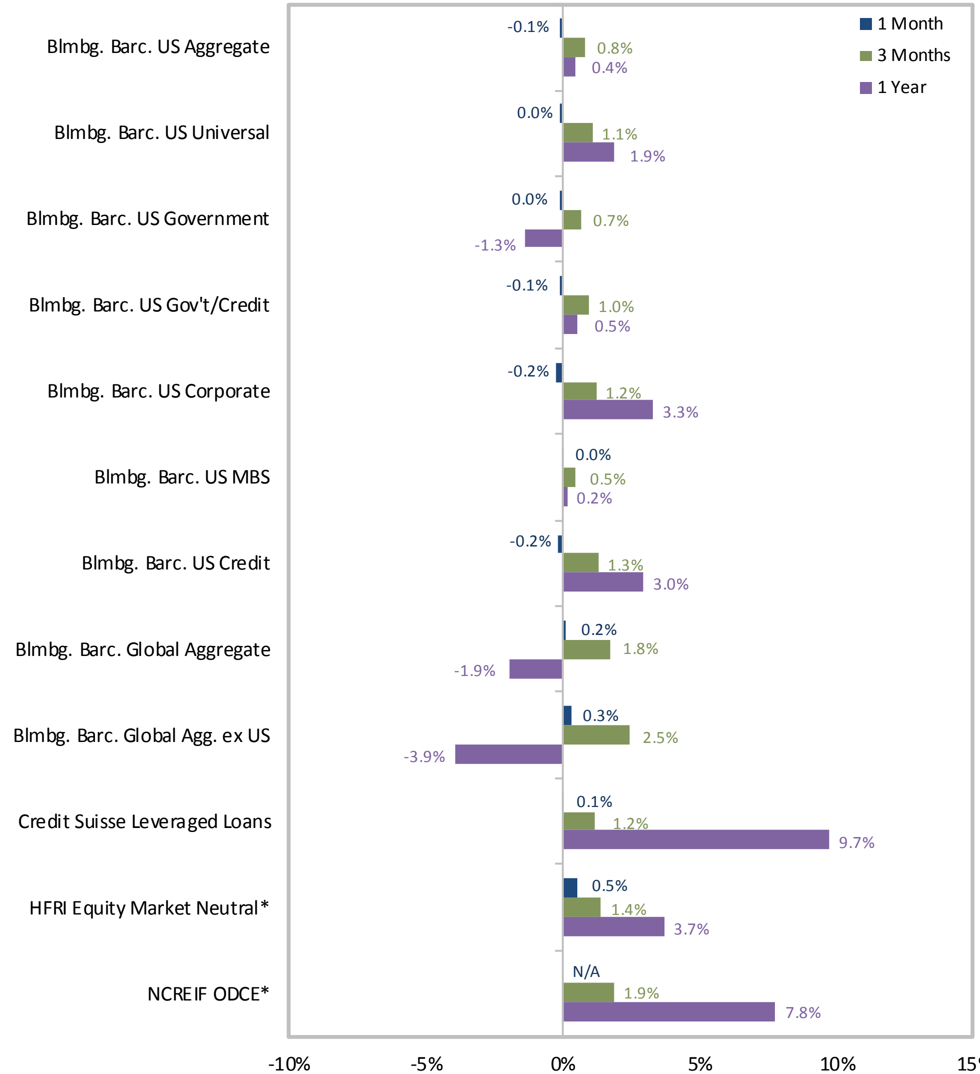
- The 10-year US Treasury yield was volatile during March, starting the month at 2.36% before rising to 2.62% mid-month and falling to end the month relatively flat at 2.42%.
- The Bloomberg Barclays Aggregate ended the month with duration of 6.0 years, the highest level on record. The increasing duration of the Index is reflective of falling prepayment assumptions of mortgage-backed securities, which represented 28.5% of the Index at month end.
- International bonds posted a return of 0.3% during March, with currency and coupon gains overcoming losses from principal. Over the past year, currency has been a net detractor of 2.3% for the Bloomberg Barclays Global Aggregate ex-US Index for an unhedged dollar investor.
- Bank loans returned 0.1% during the month of March as lower principal, a result of refinancing, was offset by coupon payments. Despite headlines of record-setting gross issuance, investors should note that 80% of issuance has been repricing and refinancing. Gross issuance for the month totaled $111B, while net issuance was a more reasonable $22B.

Relative Value Hedge Funds

- Relative value hedge funds were generally positive in February. Credit and equity relative value strategies contributed, while only volatility arbitrage detracted.

Core Real Estate

- The fourth quarter return for the NCREIF ODCE Index was 2.1% gross and 1.9% net, with the majority of gains coming from income rather than price appreciation. Continued progress in the labor market and economic recovery have acted as a tailwind for real estate performance, with the asset class turning in a strong gain of 7.8% in 2016. As capitalization rates have decreased in recent years, so have core real estate returns; 2016's return was the lowest since 2009 for the asset class.



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Inflation

- Inflation expectations remained relatively stable during March, with 10-year breakeven inflation expectations ending the month slightly below 2.0%.

Deflation

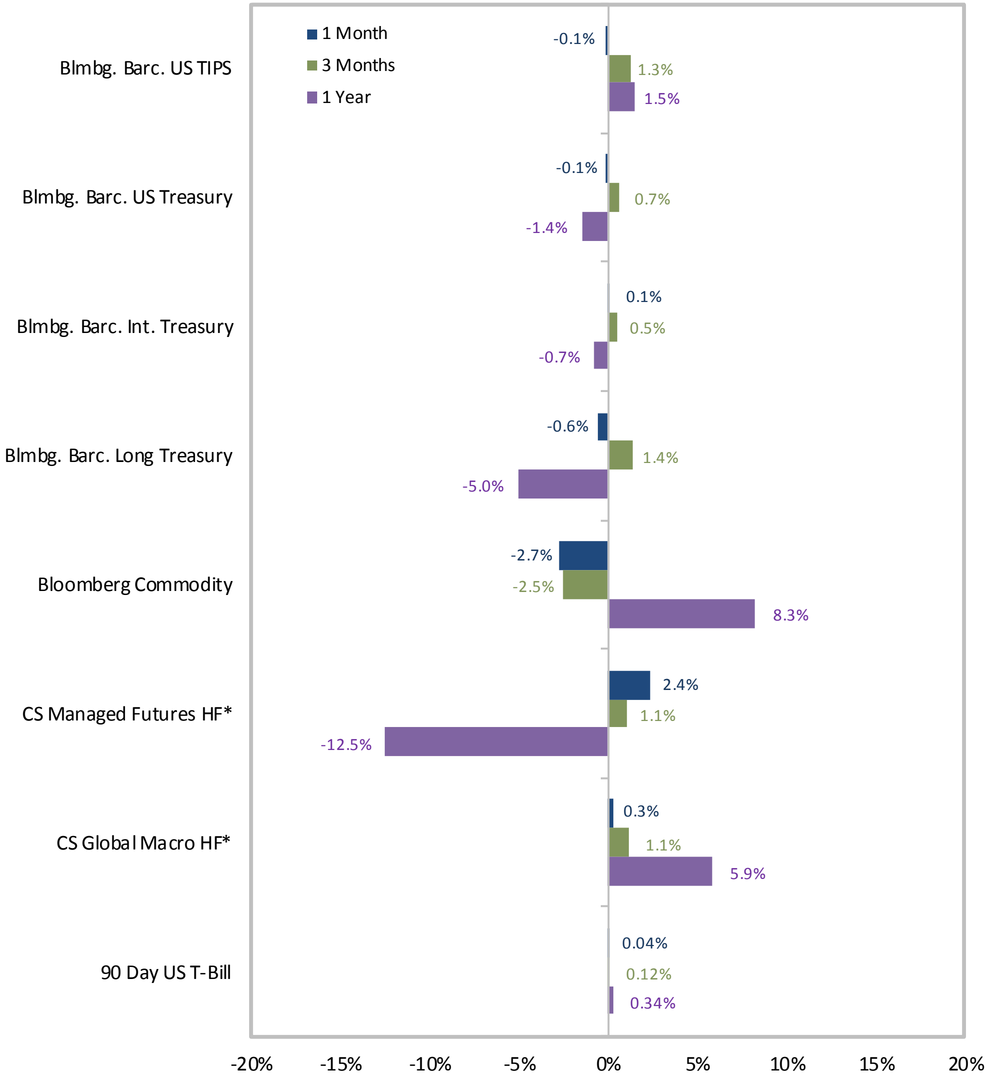
- The Bloomberg Barclays Long Treasury Index returned -0.6% for the month, -0.8% of which can be attributed to price return, which was modestly offset by coupon payments.
- Cash continues to offer low returns, as 90-day T-bills gained 4 bps during March and 0.3% over the past year.

Commodities

- The Bloomberg Commodity Index returned -2.7% for the month of March and was down 2.5% for the quarter. Natural gas and gasoline were the strongest performers for the month, gaining 15.0% and 12.4%, respectively. The largest detractor from overall performance was sugar, returning -13.2%; grains and livestock also posted negative returns. In particular, despite growth in consumer demand, prices in agriculture continue to decline reflecting high levels of global stock.

Tactical Trading

- Tactical trading hedge funds were positive in February. CTAs posted strong performance on positive trend following results, while discretionary global macro also contributed modestly.



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