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Monthly Economic & Capital Market Update

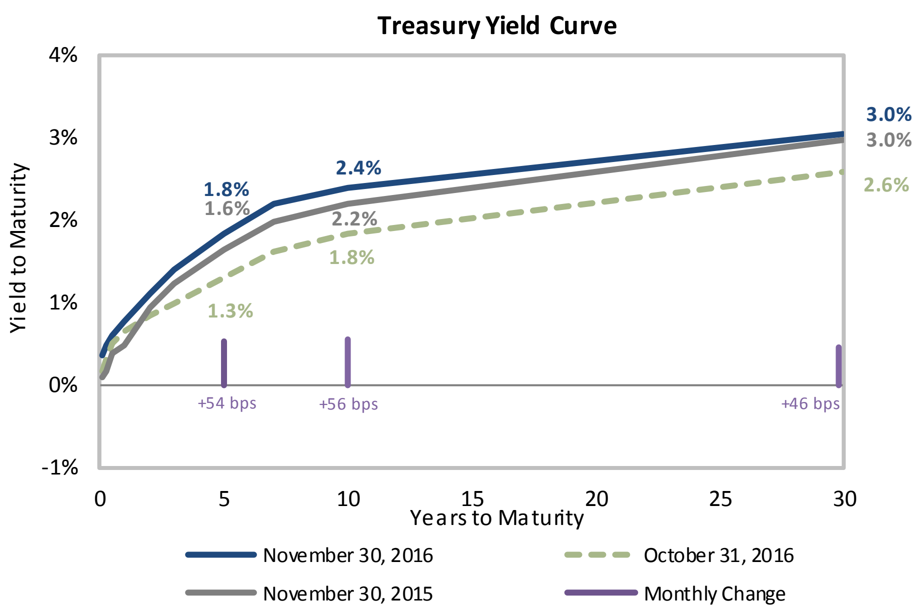
November 2016

Economy

- The most notable event of November 2016 was the election of Donald Trump as the 45th President of the United States. As the election outcome was largely unanticipated by investors and pollsters, markets adjusted to potential policy changes throughout the remainder of the month. The market reaction was generally consistent with the President-elect's proposed economic and trade policies, which are expected to increase growth and inflation (most notably in the US). The rising growth and inflation expectations, along with continued tightening within the labor market, support the Fed's intent to increase interest rates at its December meeting. As of November 30th, market-implied interest rate projections suggested the likelihood of a rate hike to be 100%, up from 71% in October.
- The US economy experienced positive job growth for the 74th consecutive month in November, adding 178,000 payrolls. Additionally, the labor force participation rate declined 10 bps to 62.7%, and payrolls from August and September were revised downward by 2,000 total jobs. Year-to-date, employment growth has averaged 180,000 new jobs per month, down from an average increase of 229,000 in 2015. Despite fewer jobs added per month in 2016, the labor market continues to tighten as evidenced by the unemployment rate reaching its lowest level since August 2007 at 4.6%. Wages, as measured by average hourly earnings, rose 2.5% over the year ending November, falling 30 bps from October's 2.8%. Although wage growth declined month-over-month, labor market pressures should continue to increase wage growth in coming months.
- Real GDP grew at a 3.2% annualized rate during the third quarter according to the second estimate from the Bureau of Economic Analysis, a 30 bps increase from the advance estimate of 2.9%. The adjustment reflected an increase in personal consumption expenditures that was larger than previously estimated. The increase in real GDP growth reflected positive contributions from personal consumption expenditures, exports, private inventory investment, federal government spending, and nonresidential fixed investment.
- November marked the 82nd consecutive month of expansion in the US services sector. The ISM non-manufacturing Purchasing Managers Index (PMI) rose 0.2 to a record high of 57.2, exceeding the previous high of 57.1 in September. A reading over 50.0 indicates expansion in the services sector.

Yield Curve

- Yields rose across the curve during November. The spread between 2-year and 30-year Treasuries expanded 18 bps to 192 bps, above 30-year average spread of 167 bps.



Growth Assets

November 30, 2016

Public Equities

- In November, US equity markets posted strong gains following the US election results. For the month, the S&P 500 gained 3.7% and the Russell 2000 increased 11.2%. As the dollar strengthened, international markets declined, with large and small cap developed stocks falling 2.0% and 2.8%, respectively. Emerging markets also declined, losing 4.6% for the month.
- Master limited partnerships (MLPs) returned 2.3% during the month. General partners and E&P saw the largest gains of 9.1% and 8.3%, respectively; downstream was the only sector with negative performance, declining 4.0%. Energy services, coal, and gathering and processing have been the strongest-performing MLPs in 2016 at 66.1%, 37.4%, and 33.7%, respectively. YTD, the Alerian MLP index has returned 13.3%.

Public Debt

- High yield reversed the gains observed in October during November, returning -0.5% for the month and bringing QTD performance to -0.1%.
- Local currency-denominated emerging market debt had its worst month of the year, returning -7.0% as fears regarding protectionist US policy led to broad EM declines.

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

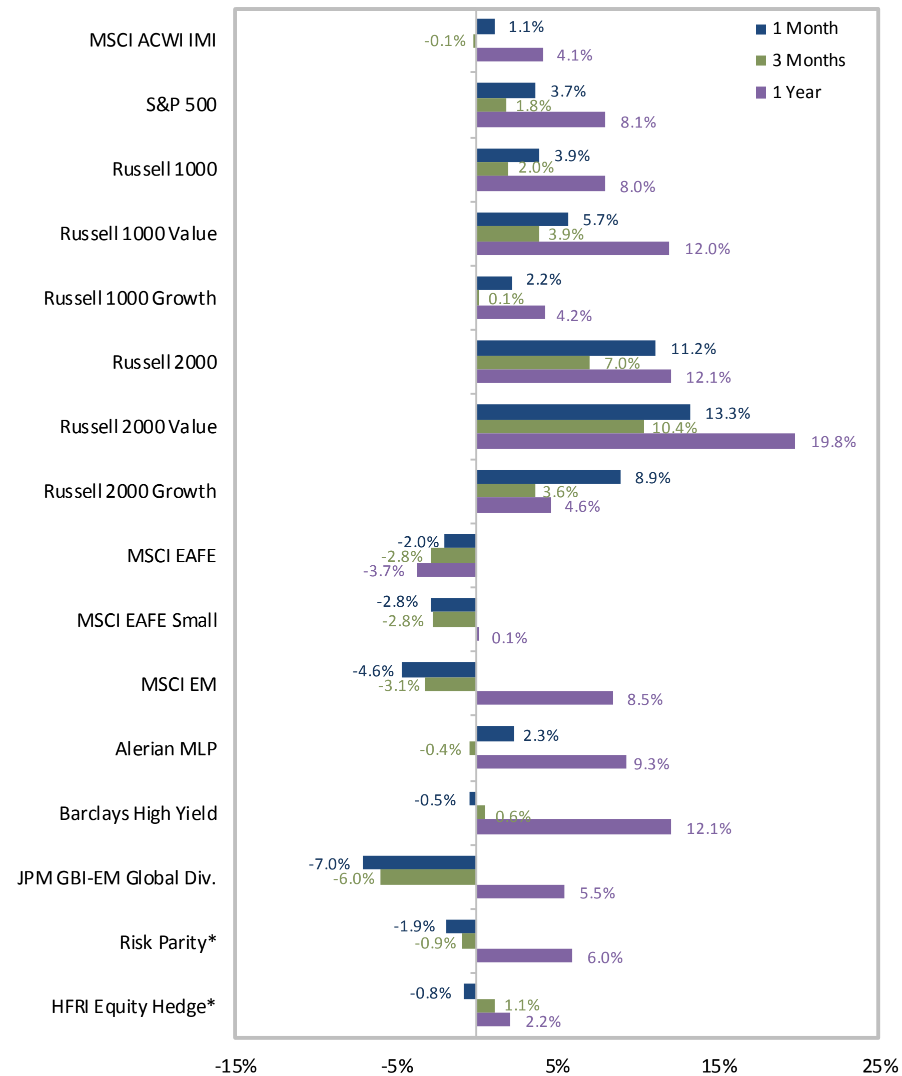
- Debt multiples for both middle market deals and larger deals have on average been lower than those experienced in 2015. After declining significantly during the first half of 2016, multiples of deals less than $50m in EBITDA reverted back to levels seen over the past few years during the third quarter. 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 declined during October. Losses were spread across most markets, with nominal interest rate exposures detracting most significantly.

Growth Hedge Funds

- Growth hedge funds detracted in October. Equity long/short losses were broadly distributed across sectors, while activist strategies and merger arbitrage also detracted; distressed strategies were among the lone contributors for the month.



* 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

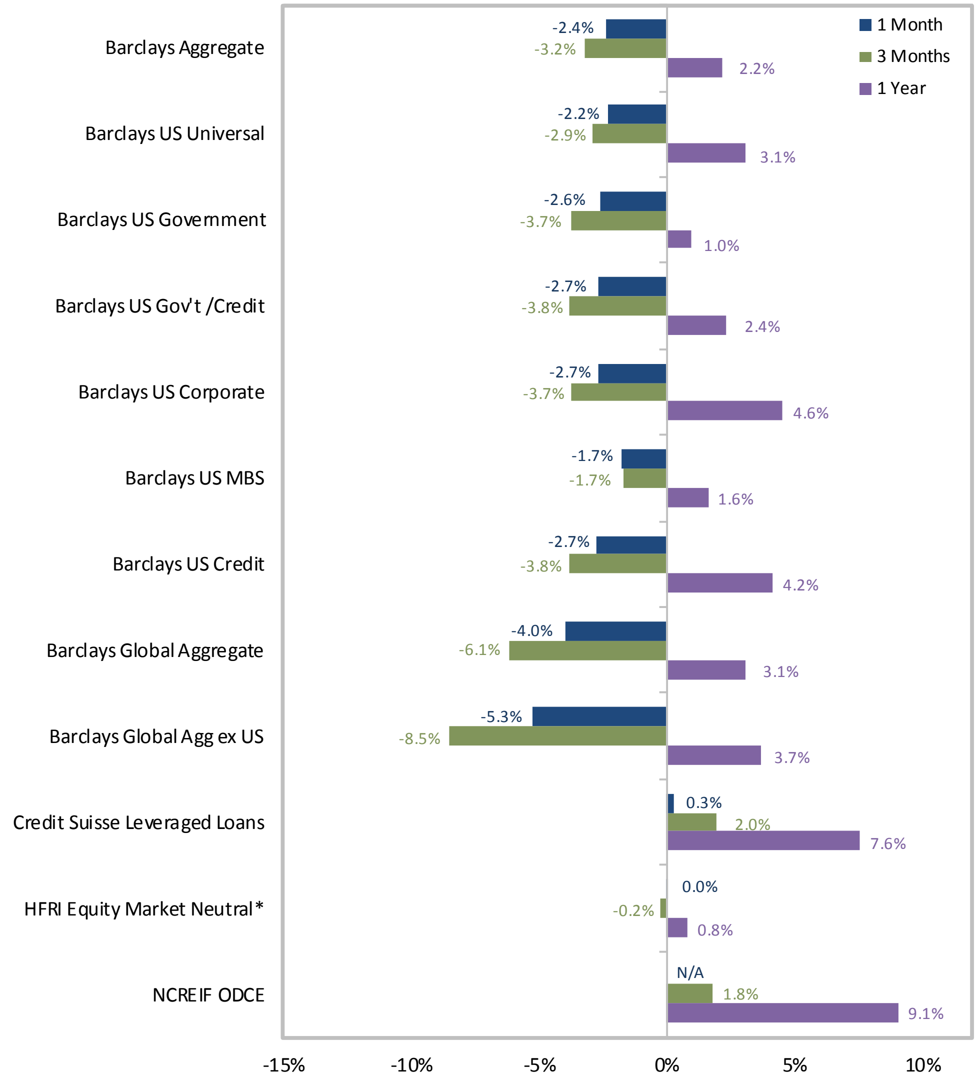
- The 10-year US Treasury yield ended November at 2.4%, up 56 bps from the end of October following the results of the election. The rise in yields experienced during November was the largest for the 10-year Treasury since December 2009.
- Investment grade credit saw spreads tighten by one basis point during the month, slightly offsetting the principal loss caused by the increase in yield for the index.
- The duration of the securitized sector of the Barclays Aggregate increased by more than one year as rising rates caused prepayment assumptions to fall, increasing the duration of the mortgage backed security sector that represents almost 28% of the overall index.
- International bonds continued their October declines, returning -5.3% in November and bringing QTD losses to nearly 10%.
- The duration-neutral aspect of loans continued to be a positive during November, with the asset class again being the top performer in fixed income. Retail and institutional fund flows continue to be a tailwind for loans; technical demand has driven the percent of loans trading above par to over 47%, up from just 6% at the end of June.

Relative Value Hedge Funds

- Income hedge funds were mostly unchanged in October. Credit-oriented funds were the strongest contributors. Convertible and volatility arbitrage programs also contributed, while equity market neutral was flat.

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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Diversification Assets

November 30, 2016

Inflation

- Inflation expectations continued to increase during November, with 10-year inflation break-evens rising to 2.0% at month end for the first time since September 2014. Despite this, increasing real yields, due to rising expectations of a December Federal Reserve interest rate increase, detracted from TIPS returns.

Deflation

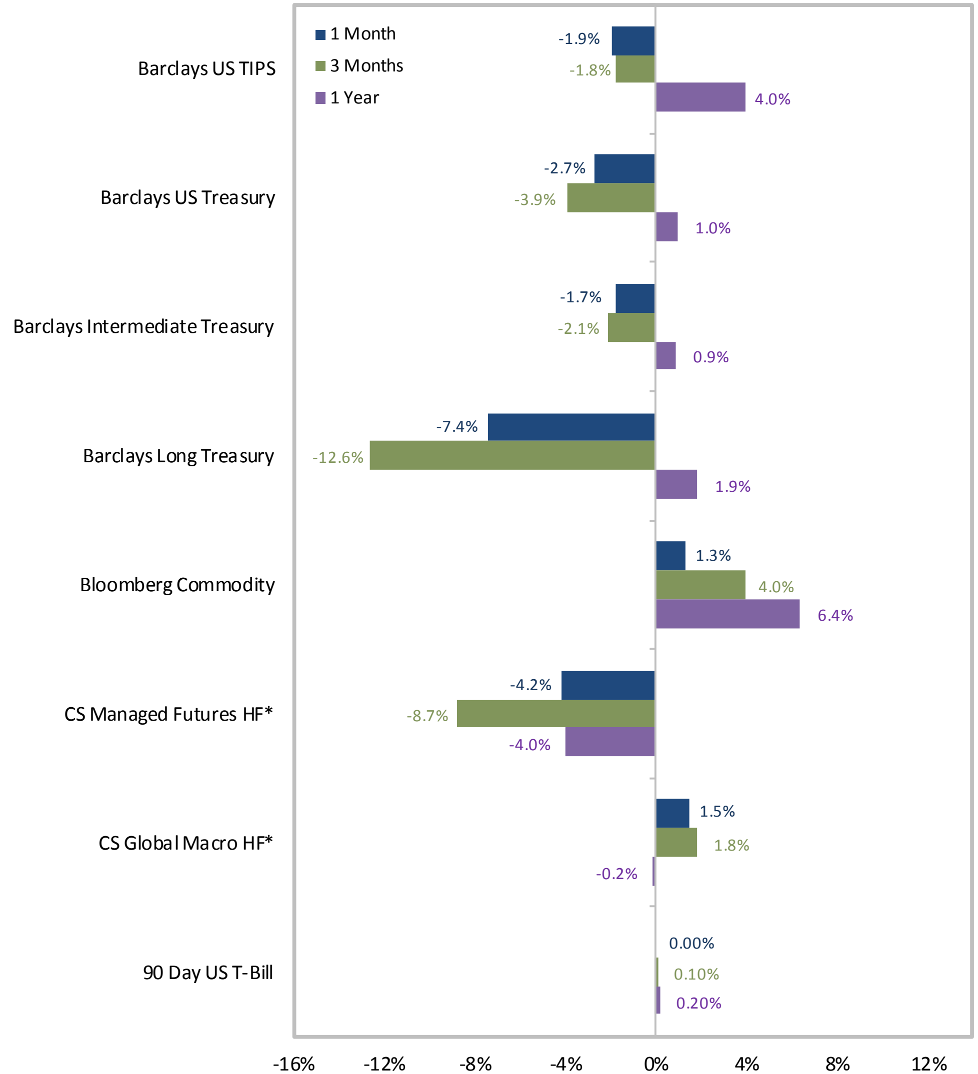
- The Barclays Long Treasury Index returned -7.4% as the yield on the 30-year Treasury increased 45 bps to 3.0%.
- Cash continues to offer no relative return, with 90-day T-bills offering no return during month of November and 0.2% for the one-year return.

Commodities

- The Bloomberg Commodity Index increased to 1.3% during November. Energy outperformed the broad Index as WTI crude oil gained 5.5% over the month and was up 18.7% for the 12-month period; over the month heating oil and gasoline gained 5.0% and 2.8%, respectively. Copper and natural gas were major contributors for the month, gaining 18.9% and 10.8%, respectively. The largest detractor from performance for the month of November was coffee at -10.1%.

Tactical Trading

- Diversification hedge funds detracted in October. CTAs declined on poor trend-following performance, while discretionary global macro funds contributed.



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