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Monthly Economic & Capital Market Update

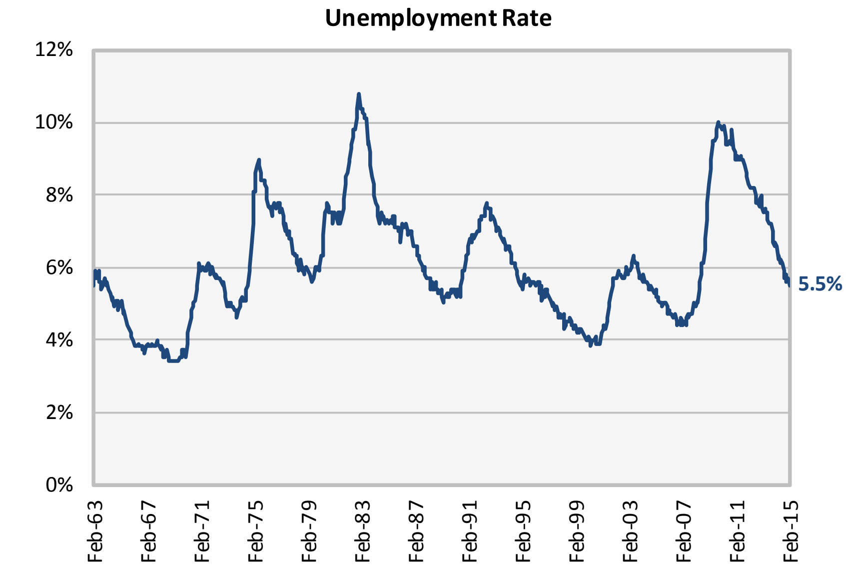
February 2015

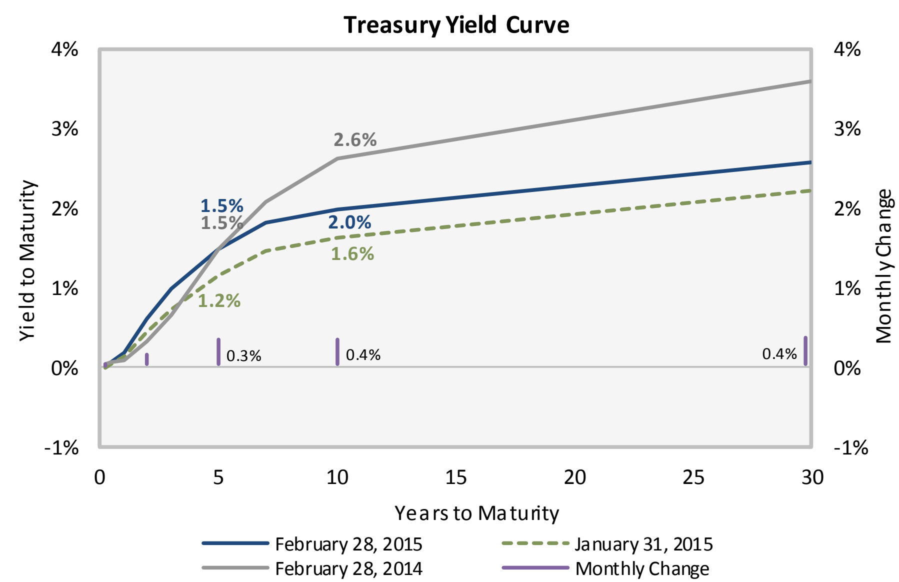
Economy

- US economic data releases during February generally came in below economist expectations. The improving US economy has raised projections for growth and production, and with the exception of the labor market, these higher expectations have not been met. On the other hand, European economies have mostly experienced the inverse of this scenario thus far in 2015; figures have been beating very low expectations and the prospects for European growth are slowly improving. The US remains further along in the economic cycle than many other global economies, and investors are expecting the Federal Reserve to raise short term interest rates in 2015. Conversely, many foreign central banks have cut interest rates to reverse low growth and deflationary pressures. Through the end of February, 20 foreign monetary policy authorities had taken such action so far in 2015.
- The unemployment rate fell from 5.7% to 5.5% in February. Job growth was strong, with the economy adding more than 200,000 jobs for the 12th consecutive month. Nonfarm payrolls increased by 295,000, beating economist expectations of an increase of 235,000, and previously published figures for December and January were revised downward by a total of 18,000 jobs.
- US consumer prices, as measured by the Consumer Price Index (CPI), fell 0.1% during the 12 months ending January 2015. Core prices, which exclude food and energy costs, rose 1.6% over the same period. The wide disparity between headline and core CPI has been a result of falling energy prices. Over the 12 months ending February 2015, crude oil prices (WTI) fell 52%, and the average price of a gallon of gasoline fell 30% to $2.43 per gallon.
- Real GDP growth for the fourth quarter of 2014 was 2.2% annualized according to the second estimate from the Bureau of Economic Analysis, 40 basis points lower than the initial estimate of 2.6%. The downward revision was due to lower growth in inventory investment than previously expected. Real GDP growth for calendar year 2014 was 2.4% on an annualized basis.

Yield Curve

- The spread between 2-year and 30-year Treasuries widened 20 bps to 200 bps during February, rising from what was the lowest level for this spread since 2007 in January. Rates rose across the curve in anticipation of the Federal Reserve's first rate increase.





Growth Assets
February 28, 2015

Public Equities

- Equity markets bounced back in February after getting off to a slow start to 2015 in January. The 5.6% return for MSCI ACWI IMI, which represents the global equity market, was the highest monthly return for the Index since January 2012. International developed stocks slightly outperformed the broad US market for the month, fueled by further policy easing by foreign central banks.
- Lower quality MLPs and MLP General Partners led advancing subsectors during the month. Upstream (+12.6%), energy services (+9.9%), and coal/natural resources MLPs (+9.5%) recovered from recent negative performance. Refined products pipeline MLPs led infrastructure-focused MLPs, returning 5.9% during the month, as the subsector continues to benefit from lower crude oil prices being a tailwind for refiners.

Public Debt

- High yield bonds performed well, returning 2.4% in February as spreads tightened 80 bps to 430 bps; after tightening during the month, spreads are well below their 20-year average of 530 bps.

Private Equity

- Deal value remained flat throughout 2014 as managers compete against increasingly acquisitive strategic buyers. While competing for new deals, managers have benefited from the same dynamic by selling portfolio companies to the same buyers. Exits via a strategic sale were 50% higher in 2014 than they were in 2011, 2012, and 2013. Fundraising remains very strong, and managers are taking advantage to raise larger pools of capital with shorter fundraising cycles than the period since 2007. Fundraising has persisted despite record high levels of uninvested capital.

Private Debt

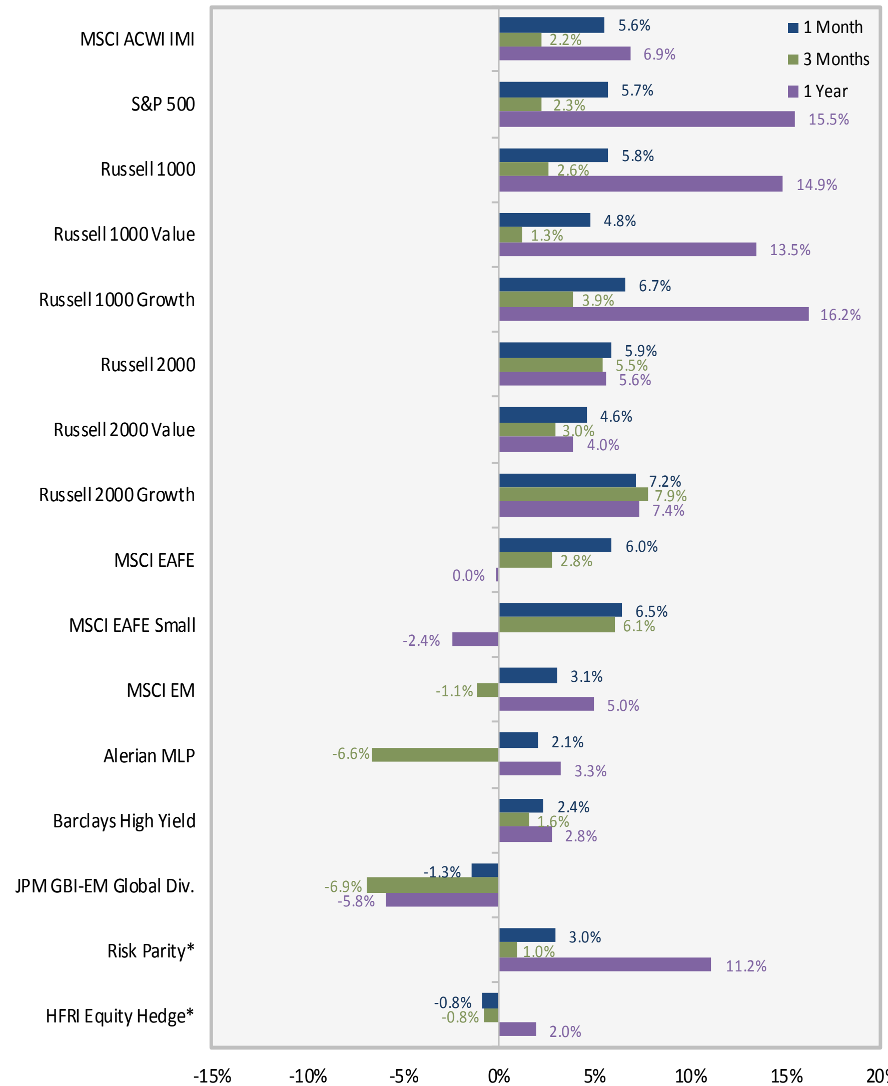
- Availability and aggressive terms from senior lenders have allowed debt levels in the larger end of the market to increase to another new cycle high of 5.9x EBITDA. This remains lower than the prior cycle high of 6.2x recorded in 2007. As the credit cycle has progressed, credit standards and spreads among lenders to private equity sponsors have decreased. Some managers have reported an improved pricing environment for senior lenders since May 2014 resulting in 25-50 bps of return premium. The opportunity for distressed buyers of corporate paper appears to be a few years away as accommodative debt markets and economic momentum support low default rates.

Risk Parity

- Risk parity strategies were positive in January, with gains from global sovereign bonds driving performance. Equities and commodities detracted.

Growth Hedge Funds

- Growth hedge funds were generally down in January. Fundamental long/short equity managers performed poorly in the falling market. Value and energy-oriented firms struggled with the continuing weakness in oil prices, while technology and healthcare-oriented-funds were positive. Event-driven strategies detracted in both credit and equity-oriented strategies, with activist and distressed strategies leading declines.



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

Public Debt

- Interest rates in most developed economies rose during February. Bond market volatility has increased over the first two months of 2015, as investors have reacted to economic data and commentary from Federal Reserve officials regarding the timing of the first interest rate increase. The 10-year US Treasury ended January yielding 1.9%, well below its 20-year average of 4.3%. Yields outside the US also remain very low; the Barclays Global Aggregate ex-US Index ended the month yielding just 0.9%.
- Core fixed income (Barclays Aggregate) underperformed core plus (Barclays US Universal) by 30 bps during the month, as higher-risk fixed income, such as high yield, outperformed safer bonds.
- US Government bond prices fell in February as yields rose, returning -1.5%.
- Corporate bonds also fell in February, with spreads tightening 10 bps to 125 bps. Corporate bond spreads have averaged 145 bps over the past 20 years.
- Mortgage-backed securities returned -0.2% for the month as agency MBS spreads tightened 15 bps to 20 bps, the lowest level for MBS spreads since August 2010.
- International bond prices once again declined during February, with the Barclays Global Aggregate ex-US Index returning -0.8%.

Private Debt

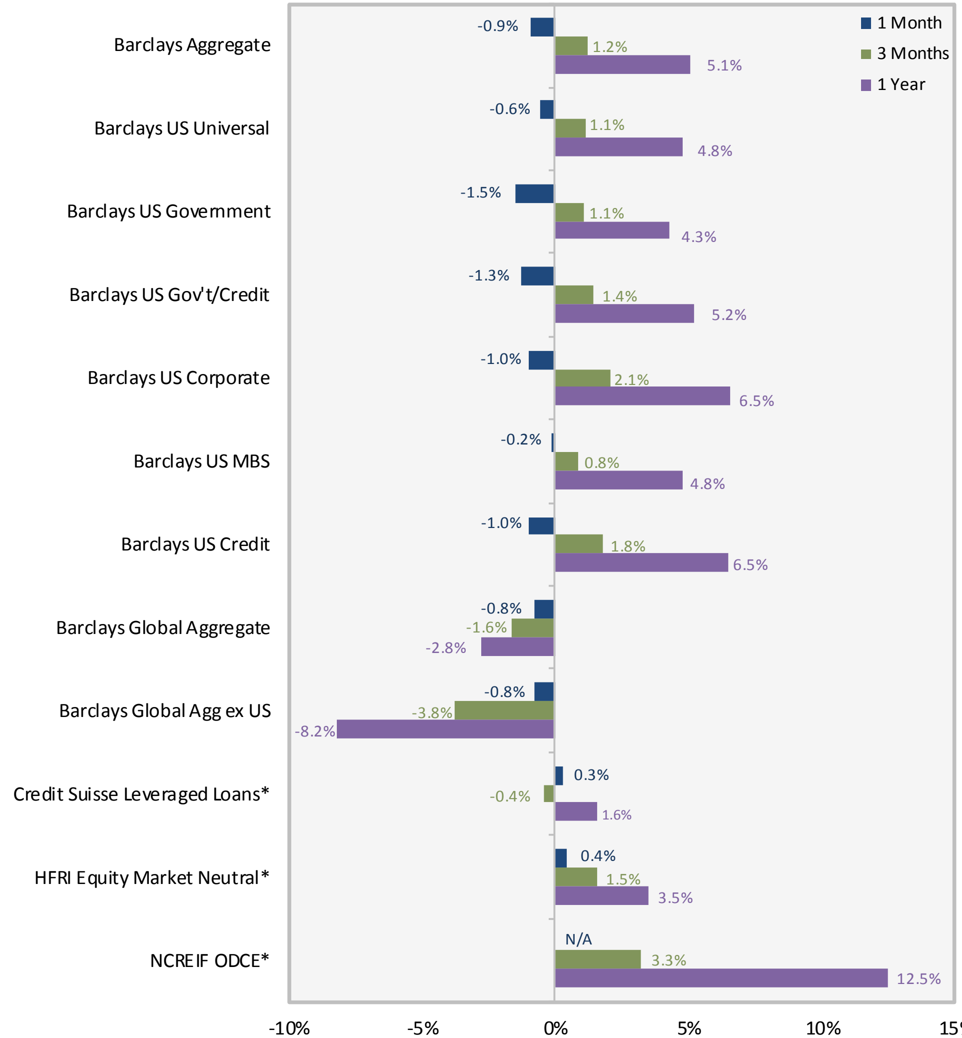
- Leveraged loans saw modest gains in January, as well as for the 12 months ending January.

Relative Value Hedge Funds

- Income hedge funds were mixed in January. Equity market neutral funds produced small gains while corporate credit and asset-backed strategies generally detracted from performance.

Core Real Estate

- The fourth quarter 2014 return for core real estate was 3.3%, as measured by the NCREIF ODCE Index, resulting in a 2014 calendar year return of 12.5%. Continued improvement in fundamentals and income growth for most properties throughout the US fueled the strong performance during the quarter. Cap rate compression continues to play a minimal role when looking at the total return attribution – in spite of the decline in US Treasury rates. Finally, new construction projects have increased at a modest pace, supporting favorable supply-demand metrics in several key markets.



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Diversification Assets

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Inflation

- TIPS declined in February as real yields rose, returning -1.2%. The 12-month gain for the Barclays US TIPS Index was 3.1% as of February 28.

Deflation

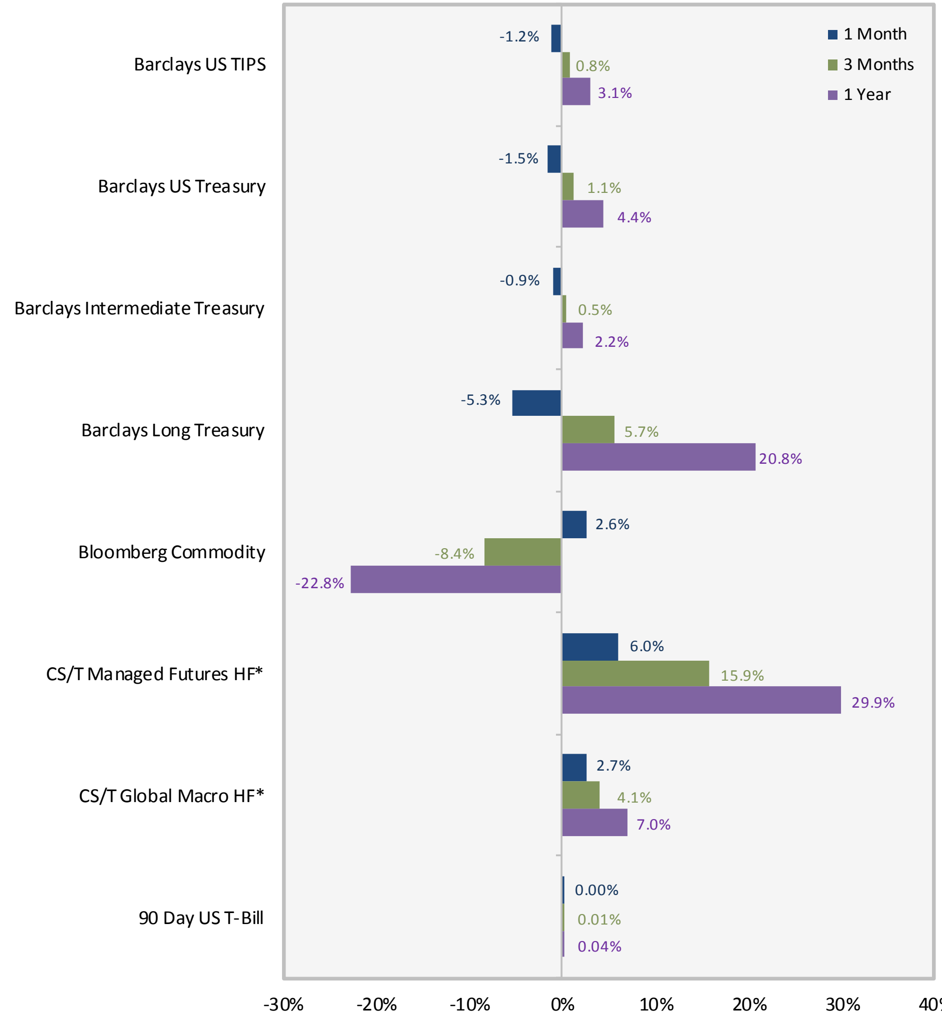
- Treasury prices fell during February, with the Barclays US Treasury Index returning -1.5% during the month.
- Intermediate Treasuries returned -0.9% and long duration Treasuries returned -5.3% for the month. Intermediate and long Treasuries have earned 2.2% and 20.8%, respectively, over the past year.
- Cash continues to offer virtually no return, as 90-Day T-Bills have gained just 4 bps over the past year.

Commodities

- Commodities recovered modestly in February on recovering oil and energy prices. Brent crude oil (+22.2%) significantly outperformed WTI crude oil (+8.2%) as US oversupply and continued inventory build continued to act as headwinds for pricing. Agricultural and soft commodities were mixed. Both precious metals traded modestly downward in February. Industrial metals were all generally flat with the exception of copper, which returned 10.7% during the month following price declines earlier in the year.

Tactical Trading

- Diversification hedge funds generated strong gains in January. Trend-following strategies continue to produce strong results. Discretionary macro managers were more mixed, with exposure to the Swiss Franc strongly influencing performance following the Swiss National Bank's decision to abandon its peg to the euro.



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