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Monthly Economic & Capital Market Update

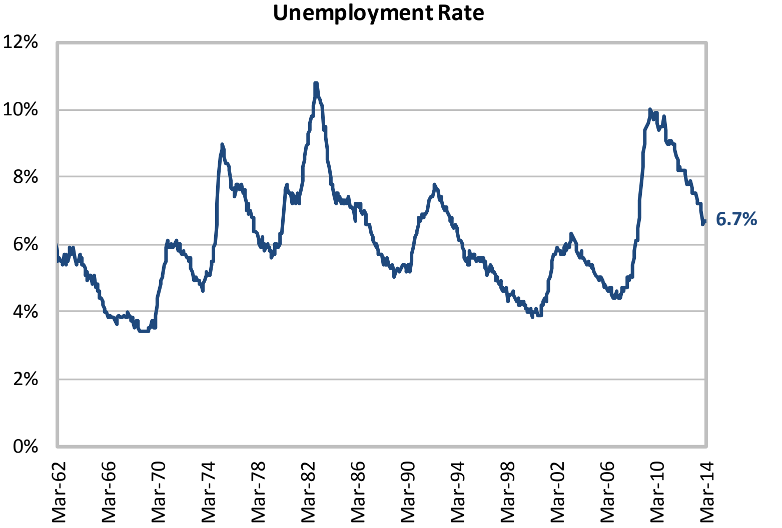
March 2014

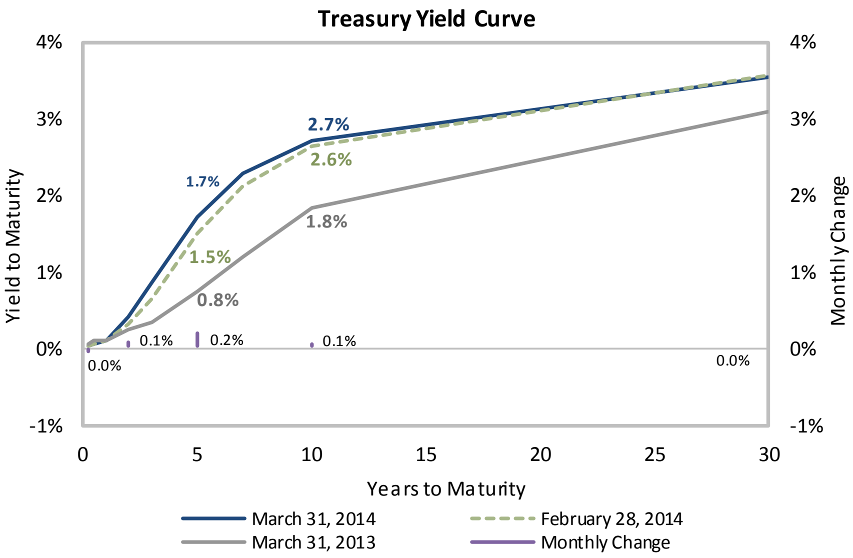
Economy

- The Federal Reserve, citing continued improvements in the labor market and broader economy, decided to decrease monthly asset purchases at its March meeting. Beginning in April, the Fed will purchase mortgage-backed securities and Treasury bonds at a rate of $55B per month, down from the previous rate of $60B.
- The unemployment rate held constant at 6.7% in March. Nonfarm payrolls increased by 192,000, slightly below expectations of 200,000. The labor force participation rate rose 0.2% to 63.2% and remains near a five-year low.
- Gross domestic product expanded at a 2.6% annual rate during the fourth quarter of 2013, according to the BEA's third estimate. The initial estimate for Q1 2014 will be released later this month.
- Consumer prices, as measured by the Consumer Price Index, fell 0.1% in February. Core CPI, which excludes food and energy, fell 0.2%. Consumer prices were up 1.1% for the 12 months ending February, while the core rate increased 1.6%.
- The Producer Price Index decreased 0.2% in February. Excluding food and energy, the PPI increased 0.2%. The PPI rose 0.9% year-over-year ending February, while core prices rose 1.1%.
- Abnormally cold weather and rising home prices continued to negatively affect the housing market in February. Housing starts (-0.2% month-over-month) and new home sales (-3.3%) missed economists' expectations, while existing home sales declined 0.4%. Rising mortgage rates present an additional headwind for the housing market. Rates rose slightly in February, but remain well below historical levels.
- US manufacturing expanded during March, a sign that the economy is accelerating after winter weather caused decreased demand across the country in previous months. The ISM Index came in at 53.7; a figure over 50 implies expansion.
- Retail sales (ex auto and gas) rose 0.3% in February, while inventories at US wholesalers are expected to have increased by 0.5% in February.

Yield Curve

- Yields rose across the short end of the curve in March. The spread between 2-year and 30-year Treasuries tightened 12 basis points to 314 bps.
- The next meeting of the FOMC will be April 29-30, 2014.





Public Equities

- Domestic equities (S&P 500) outperformed international equities (MSCI EAFE) by 140 bps in March. International small caps were the best equity performers, as the MSCI EAFE SC Index rose 3.4% in March.
- For March, MLP returns were driven by modest yield compression, being equally distributed across large and small capitalization MLPs. MLP General Partners continued their strong run, earning 7% this month. Traditional energy infrastructure sectors (natural gas pipelines, refined products pipelines, and gathering & processing MLPs) all performed well, up 3% during March. Upstream MLPs fell 5% during the month as natural gas prices came down from peak winter pricing.

Public Debt

- In March, high yield bonds earned a return of 0.2% as spreads tightened 5 bps to 360 bps. Historically, high yield spreads have averaged 525 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

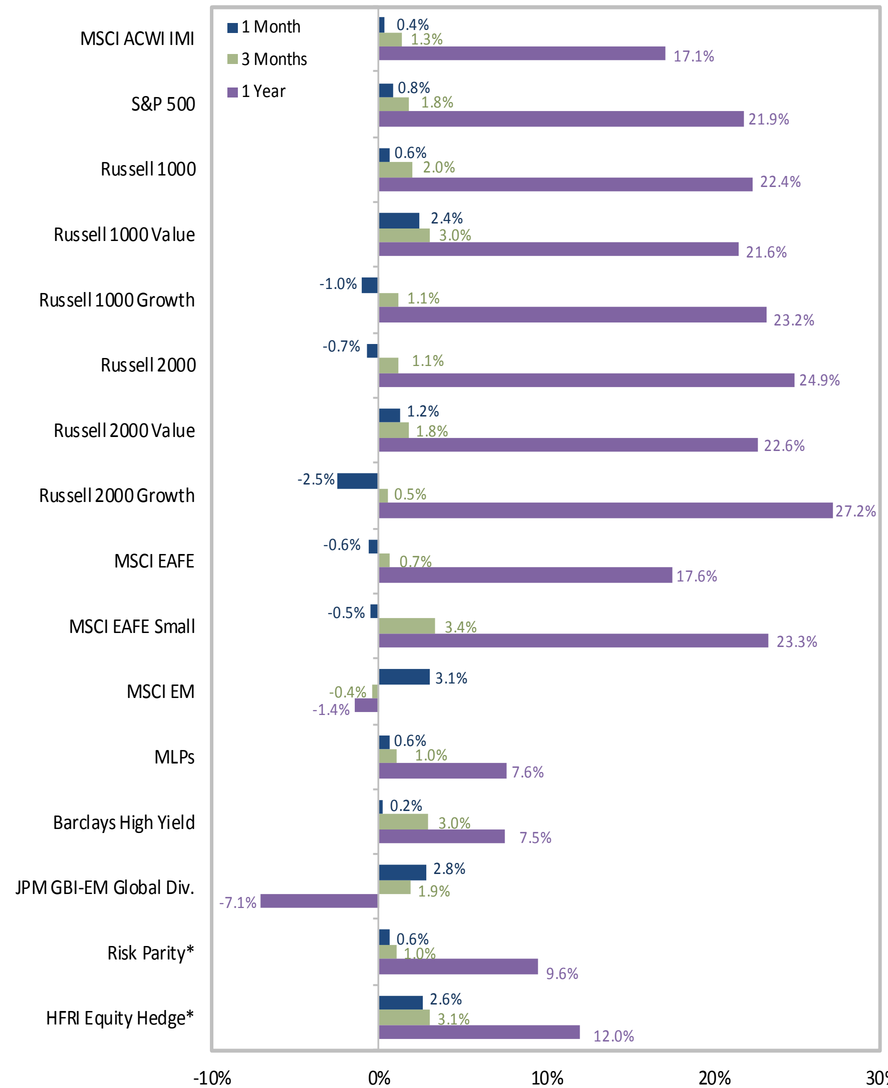
- Debt markets remain accommodating to corporate issuers. The loan market is approaching frothy levels, as evidenced by the return of covenant lite loans, increasing leverage ratios, and attractive pricing (for the borrower). New leveraged loans totaled $605 billion in 2013, up 30% over 2012 and above 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 produced a strong month in February, with gains across all major asset classes. The largest contributors included global equities and commodities.

Growth Hedge Funds

- The HFRI Equity Hedge Index bounced back in February, as fundamental and energy/basic material funds surged while emerging market funds posted mixed results. Event-driven managers produced positive results for the month, led by distressed managers.



* 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 -0.2% in March.
- Government bonds were also down, returning -0.3% for the month.
- Corporate bonds saw returns of 0.1% in March as investment grade spreads tightened 5 bps to 105 bps. Corporate bond spreads have historically averaged 135 bps.
- Mortgage-backed securities returned -0.3% for the month as agency MBS spreads widened 5 bps to 35 bps, below the historical average of 70 bps.
- International bonds were unchanged for the month, as the Barclays Global Agg ex US underperformed the US Aggregate by 20 bps.

Private Debt

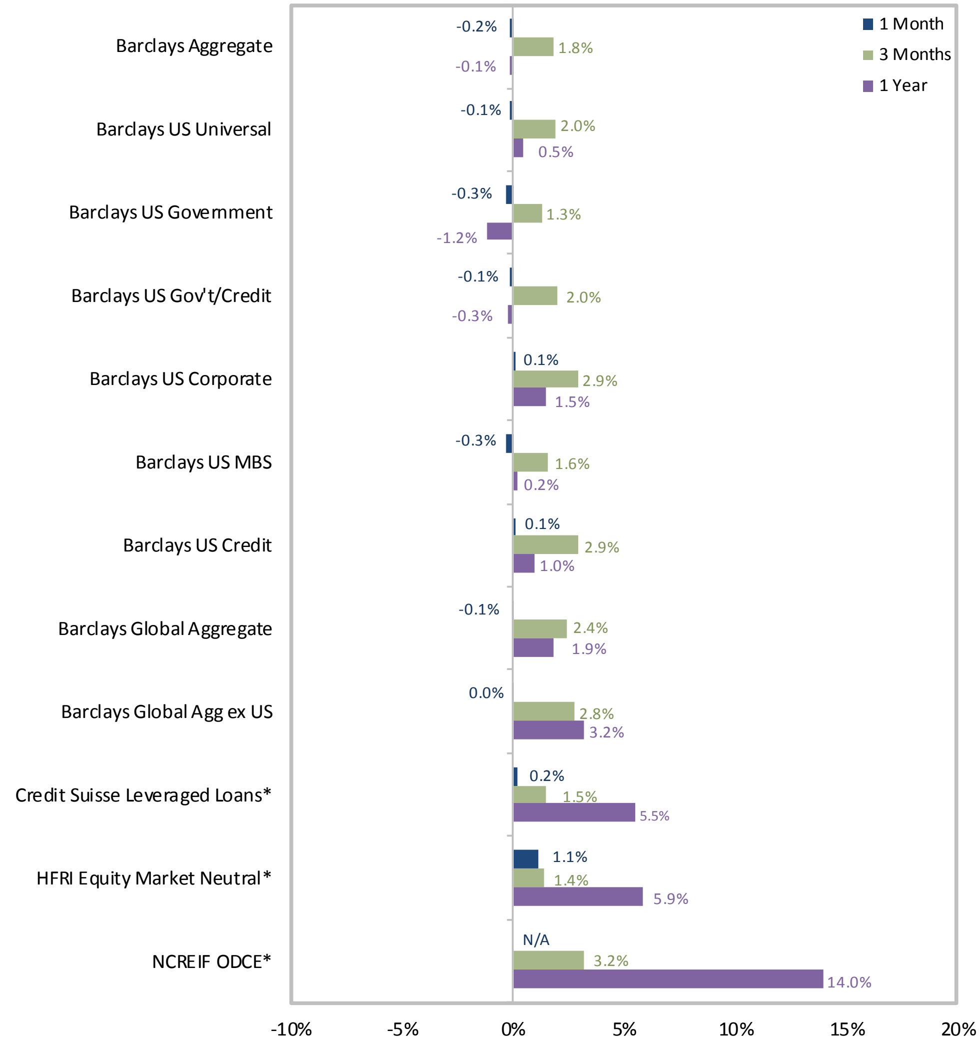
- Leveraged loans returned 0.2% in February and were up 5.5% over the 12 months ending February.

Relative Value Hedge Funds

- The HFRI Equity Market Neutral posted a modest gain in February. Other relative value strategies, including mortgage/ABS relative value funds and corporate credit funds, posted gains as fixed income strategies continued to benefit from spread compression.

Core Real Estate

- Core real estate continued to show strong gains during the fourth quarter of 2013 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

March 31, 2014

Inflation

- TIPS returned -0.5% in March. Despite rising 1.9% over the past three months, TIPS have lost 6.5% in the last year.

Deflation

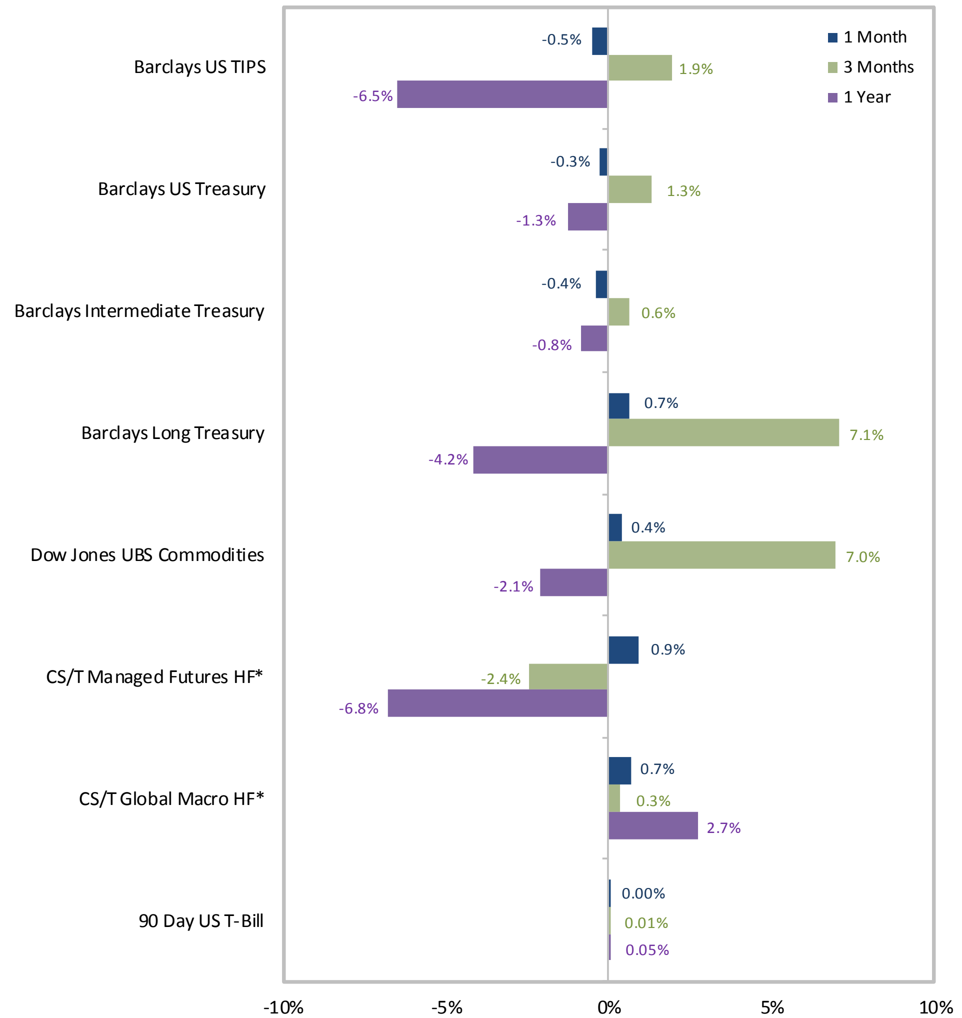
- Short-duration fixed income struggled in March as yields rose across the short end of the curve.
- Treasuries fell 0.3% during the month.
- Intermediate Treasuries returned -0.4% and long duration Treasuries returned 0.7%. Intermediate and long Treasuries have earned -0.8% and -4.2%, respectively, over the past year.
- Cash continues to offer virtually no return, as 90 Day T-Bills have gained just 5 bps over the past year.

Commodities

- The Dow-Jones UBS Commodity Index rose for the fourth straight month in March. Gains in nearly all agricultural commodities offset mostly negative performance in energy and metals sectors. Lean hogs (up 18%), wheat (up 16%) and corn (up 10%) led advancers during the month. Silver (down 7%), copper (down 7%), and natural gas (down 5%) led decliners during the month.

Tactical Trading

- Managed futures reversed course in February, posting small gains for the month, yet remaining negative on the year. The largest gains were from long equity index exposures, currency positions, and energy exposure.
- Global macro hedge funds produced a modest gain, as Japanese reflationary trades and equity exposure produced positive performance on muted risk taking.



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