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Monthly Economic & Capital Market Update

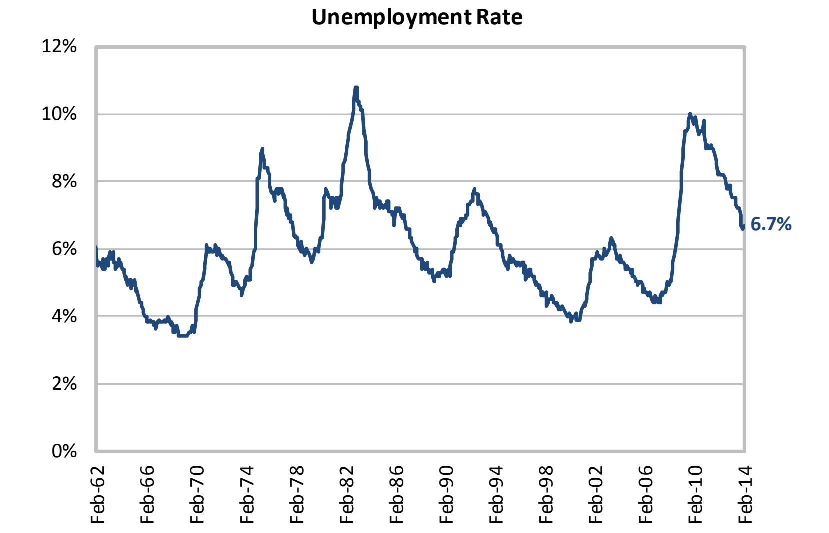
February 2014

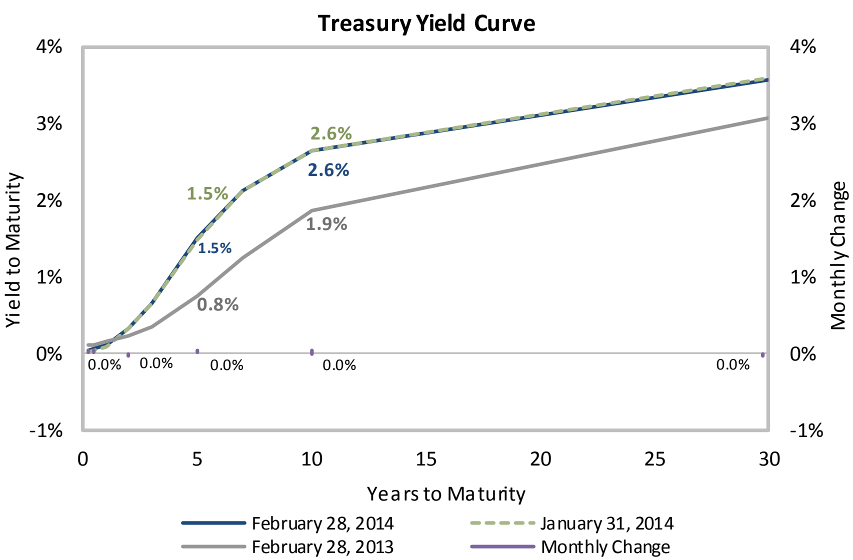
Economy

- Global equity markets rose in February as investors shrugged off weak economic data and uncertainty regarding China and Ukraine. Extreme weather negatively impacted growth during the winter months, but to what extent is difficult to measure. Despite the recent weakness it appears the economy may be gaining strength heading into spring. Consumer confidence increased from January to February, with Americans showing more optimism regarding the outlook for the US.
- The unemployment rate rose 0.1% to a level of 6.7% in February. However, nonfarm payrolls increased by 175,000, beating expectations of 149,000. The labor force participation rate held constant at 63%, just above a five-year low.
- Gross domestic product expanded at a 2.4% annual rate during the fourth quarter of 2013, according to the BEA's second estimate. The initial estimate for fourth quarter GDP was 3.2%.
- Consumer prices, as measured by the Consumer Price Index, rose 0.1% in January. Core CPI, which excludes food and energy, increased 0.1%. Consumer prices were up 1.6% for the 12 months ending January, while the core rate also increased 1.6%.
- The Producer Price Index decreased 0.2% in January. Excluding food and energy, the PPI increased 0.2%. The PPI rose 1.2% year-over-year ending January, while core prices rose 1.3%.
- Abnormally cold weather and rising home prices continued to negatively affect the housing market in January. Housing starts (-16.0% month-over-month), building permits (-5.4%), and existing home sales (-5.1%) all missed economists' expectations. Rising mortgage rates are also a headwind for the housing market. Rates remained stable in January, but are well off their lows from January 2013.
- US manufacturing expanded at a faster pace than expected in February, rebounding from a January level that was the lowest for the ISM Manufacturing Index since May 2013. The index came in at 53.2, beating the survey figure of 52.3. An ISM figure over 50 implies expansion.
- Retail sales (ex auto and gas) fell 0.2% in January, while inventories at US wholesalers are expected to have increased by 0.5% in January.

Yield Curve

- Janet Yellen has been sworn in as Chair of the Federal Reserve. Her first meeting as the head of the FOMC will be March 18-19, 2014.
- Yields held constant across the curve in February. The spread between 2-year and 30-year Treasuries tightened 1 basis point to 326 bps.





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Growth Assets

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Public Equities

- Domestic equities (S&P 500) underperformed international equities (MSCI EAFE) by 100 bps in February. The MSCI EAFE Index was the best-performing equity index for the month, returning 5.6%.
- Small cap MLPs continued to outperform large cap MLPs during the month. MLP sectors continued to trade in a fairly narrow band, with MLP general partners (up 5%) and refined products pipeline MLPs (down 1%) encompassing the highest and lowest returns for February. Boardwalk Pipeline Partners (natural gas pipelines) became the first investment grade MLP to cut its distribution. This is a company-specific event not indicative of asset class fundamentals. Boardwalk had exhibited diminishing earnings guidance for years and the cut is not entirely surprising. Earnings and distribution growth remain strong for the asset class as a whole.

Public Debt

- In February, high yield bonds returned 2.0% as spreads tightened 40 bps to 363 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

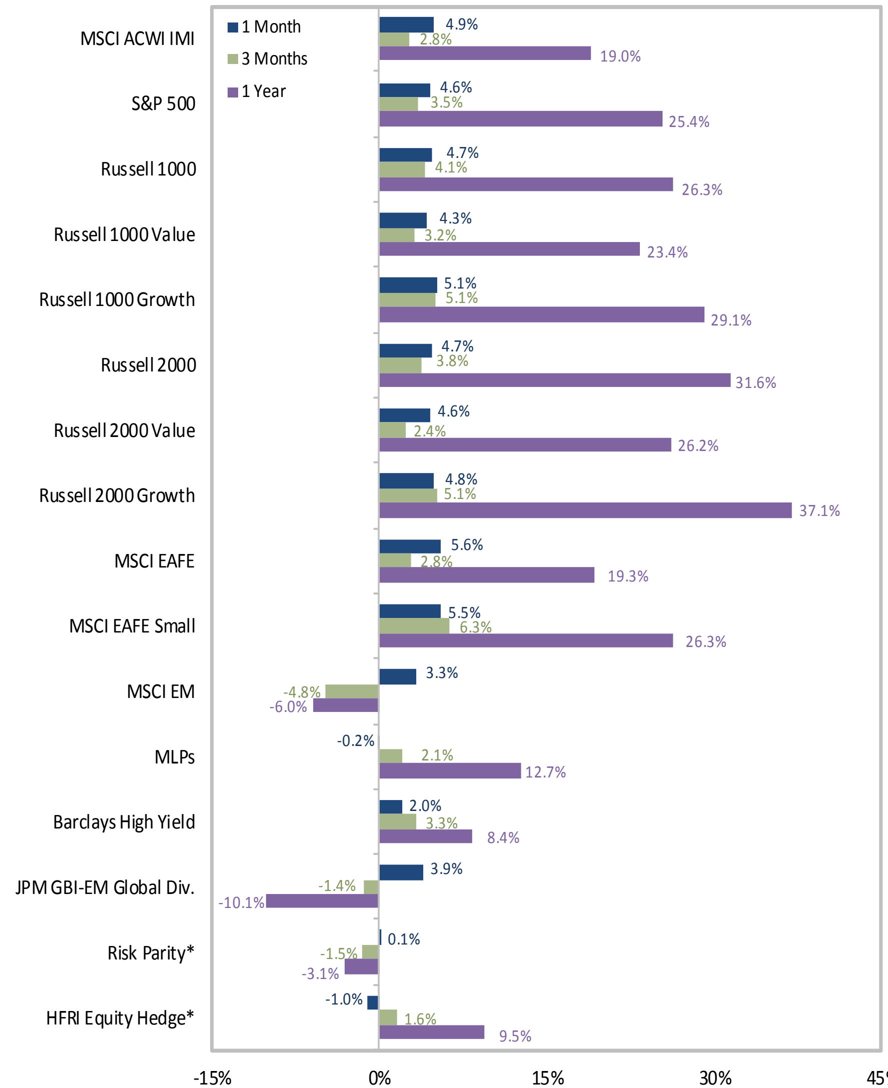
- Debt markets remain extremely accommodating to corporate issuers. The loan market is approaching frothy levels, as evidenced by the return of covenant lite loans, increasing leverage ratios, and attractive pricing (for the borrower). New leveraged loans totaled $605 billion in 2013, up 30% over 2012 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 were roughly unchanged to start the year. Losses from equities and credit exposures were offset by gains from inflation-linked bonds and nominal bonds as yields rallied.

Growth Hedge Funds

- The HFRI Equity Hedge Index started 2014 with muted losses, as fundamental and energy/basic material funds struggled. Technology and healthcare funds were able to generate gains, but not enough to offset these losses. Event-driven managers posted mixed results for the month, with distressed and merger arbitrage strategies squeaking out gains while other sectors posted small losses.



* 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 0.5% in February.
- Government bonds were also up, returning 0.3% for the month.
- Corporate bonds saw returns of 1.0% in February as investment grade spreads tightened 5 bps to 110 bps. Corporate bond spreads have historically averaged 135 bps.
- Mortgage-backed securities returned 0.3% for the month as agency MBS spreads were unchanged at 35 bps, below the historical average of 70 bps.
- The Barclays Global Aggregate ex US Index returned 2.0% for the month, outperforming the US Aggregate by 150 bps.

Private Debt

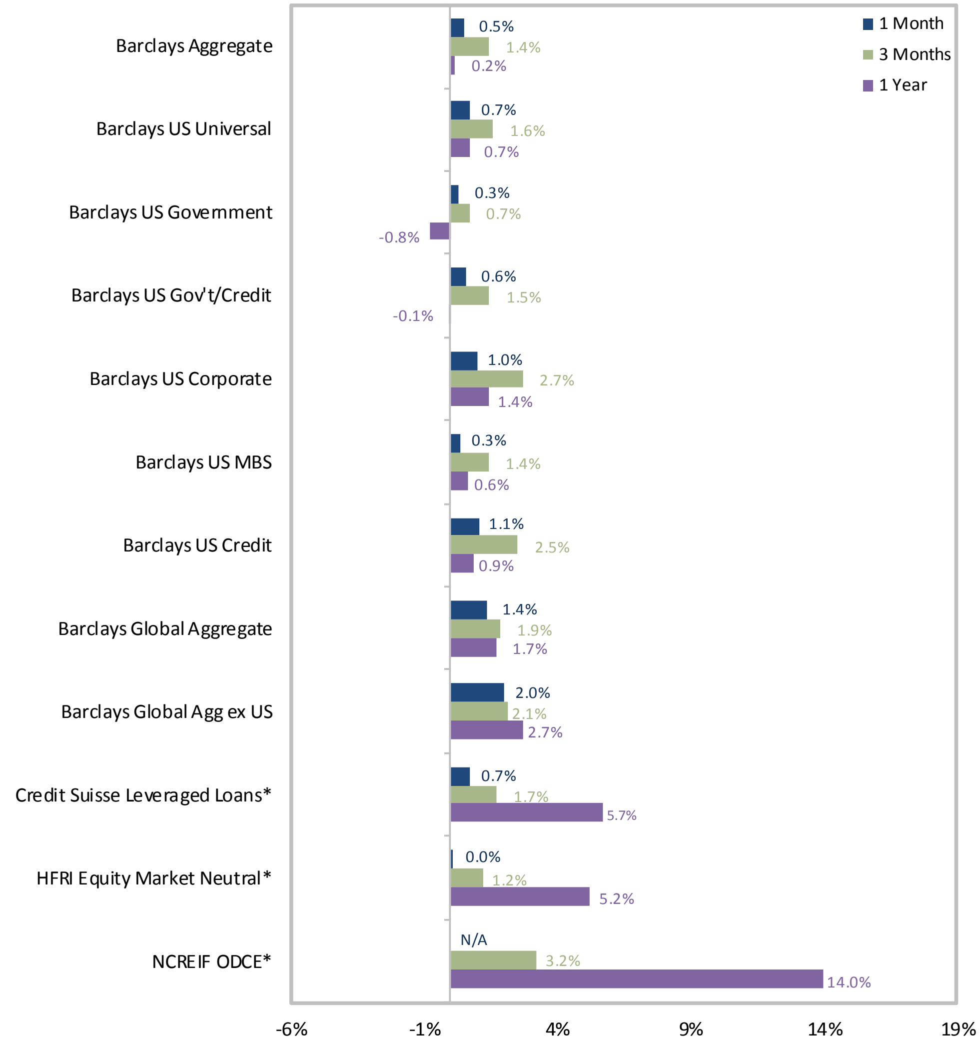
- Leveraged loans returned 0.7% in January and are up 5.7% over the past 12 months.

Relative Value Hedge Funds

- The HFRI Equity Market Neutral Index finished January roughly flat. Other relative value strategies, including mortgage/ABS relative value funds and corporate credit funds, posted gains as fixed income strategies were relatively insulated from the weakness in equities.

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
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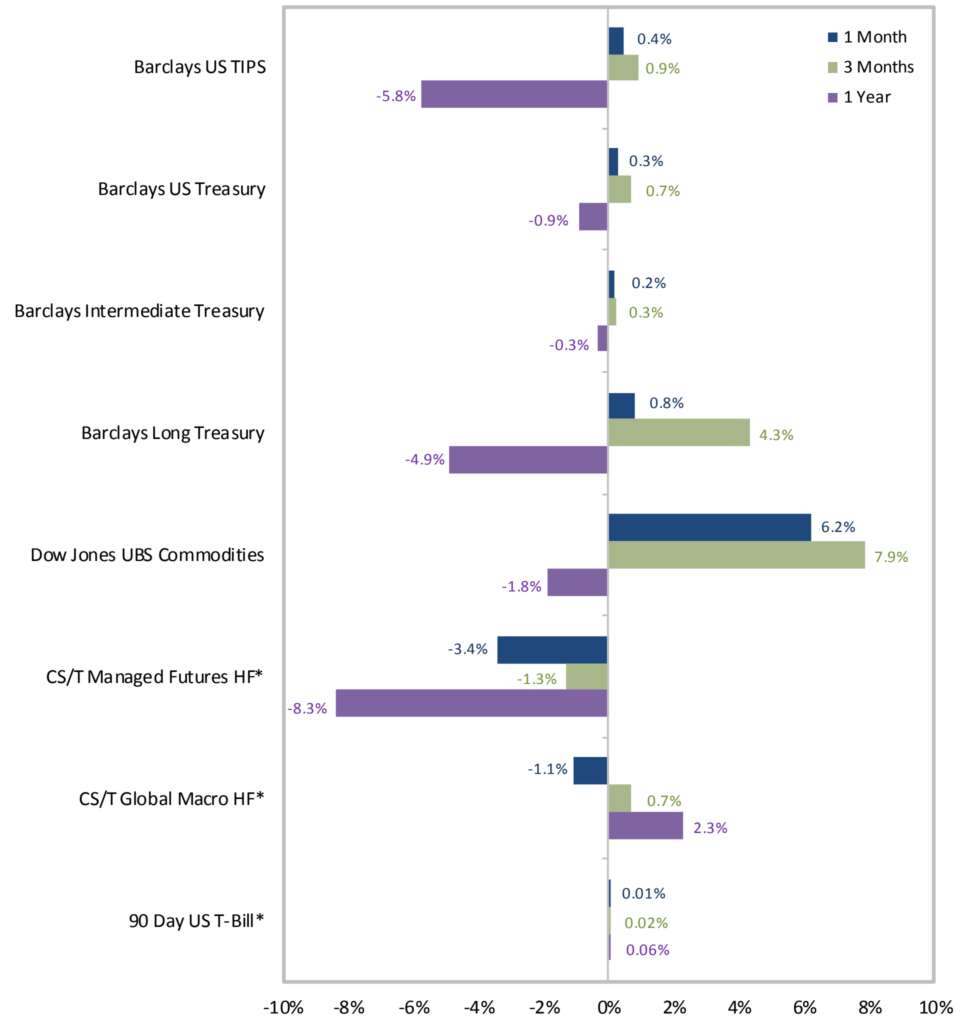
Inflation
- TIPS returned 0.4% in February. Despite rising 0.9% over the past three months, TIPS have lost 5.8% in the last year.

Deflation
- Treasuries rose 0.3% in February, as yields remained stable.
- Intermediate Treasuries returned 0.2% during the month and long duration Treasuries returned 0.8%. Intermediate and long Treasuries have earned -0.3% and -4.9%, respectively, over the past year.
- Cash continues to offer virtually no return, as 90 Day T-Bills have gained just 6 bps over the past year.

Commodities
- Commodity indices rose for the second straight month. Select agriculture commodities remain challenged amid elevated supply levels. Livestock commodities were all positive during the month. Natural gas, the second largest index exposure, returned 17% as the cold US winter continued to deplete storage below seasonal levels. Gold returned 3%, but all other metals were slightly down during the month.

Tactical Trading
- Managed futures posted losses in January. Losses were concentrated in long equity index exposures, short Japanese yen exposure, and short precious metals positions. Fixed income exposures generated small gains for the month.
- Global macro hedge funds started the year with a modest loss, as Japanese reflationary trades and emerging market exposure detracted from performance.



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