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Monthly Economic & Capital Market Update

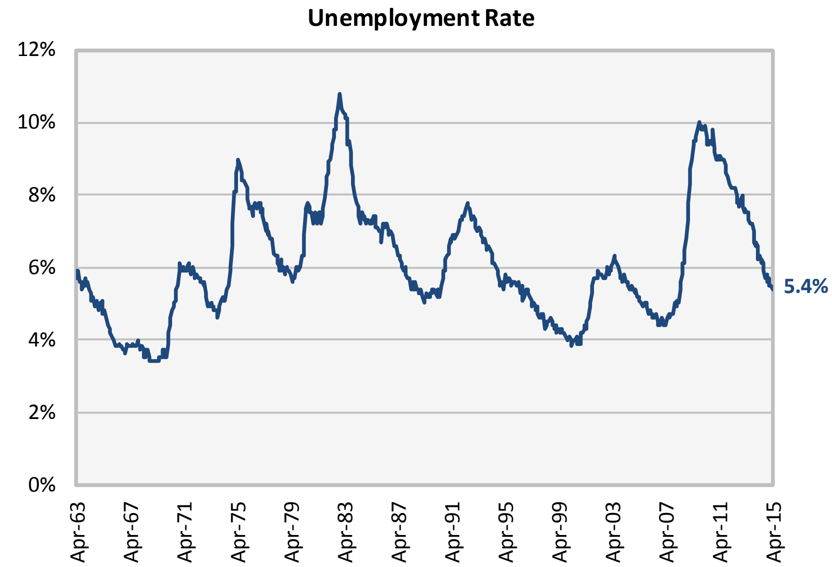
April 2015

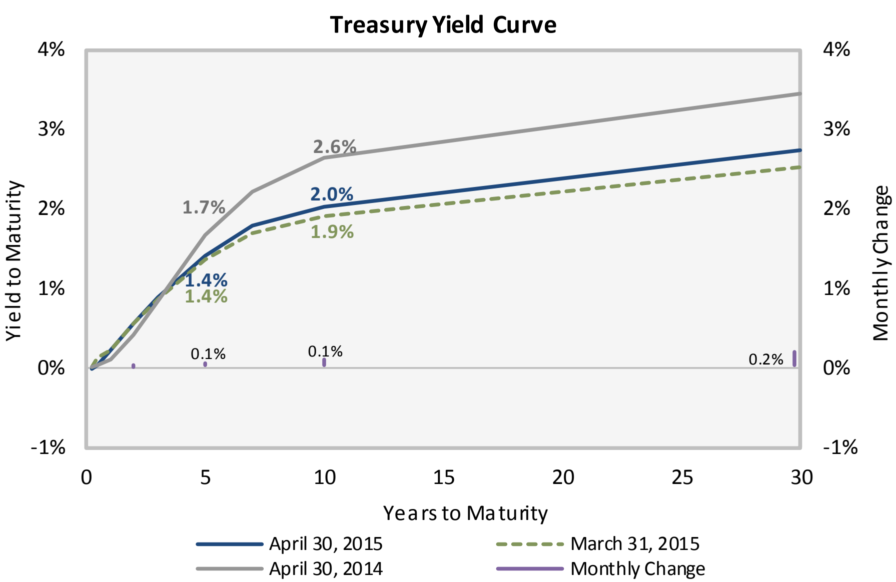
Economy

- Economic data releases generally did not meet expectations in April, continuing the trend from the first quarter of 2015. Growth has been broadly lackluster in the years following the Great Recession, as US companies have been slow to raise their workers' wages. Consumer spending makes up approximately 70% of the US economy, so sustainable growth is unlikely to materialize until American consumers see their paychecks grow at a level that increases their purchasing power.
- The unemployment rate fell 10 basis points (bps) to 5.4% in April, its lowest level since May 2008. 223,000 jobs were added during the month, in line with economist projections of 224,000 jobs added. The previously published figures for February and March were revised downward by a combined 39,000 jobs. Wages rose 2.2% over the 12 months ending April.
- US consumer prices, as measured by the Consumer Price Index (CPI), rose 0.2% during March. CPI declined 0.1% for the 12 months ending March. Core prices, which exclude food and energy costs, rose 0.2% for the month and 1.8% for the 12 months ending March. The wide disparity between headline and core CPI has been a result of falling energy prices.
- The Institute for Supply Management's Purchasing Managers' Index (PMI), a gauge of future demand and manufacturing activity in the US, came in at 51.5 versus expectations of 52.0 in April; a number over 50 implies economic expansion. While US PMIs remain expansionary their levels have decreased in recent months, suggesting lower demand expectations going forward. Many respondents of the survey cited the stronger US dollar as a leading reason for the downward trend in demand; as the dollar strengthens, exports from the US become more expensive from the perspective of foreign importers.
- Real GDP growth for the first quarter of 2015 was 0.2% annualized according to the initial estimate from the Bureau of Economic Analysis. Expectations were approximately 1.0% on average; a sharp decline in energy-related capital spending weighed on the GDP figure, as falling oil prices have led oil companies to cut jobs and spending. Additionally, adverse winter weather and a port strike on the west coast contributed to weaker-than-expected growth in Q1.

Yield Curve

- The spread between 2-year and 30-year Treasuries increased 20 bps to 220 bps at the end of April. Rates rose slightly across the curve as inflation expectations increased.





Growth Assets
April 30, 2015

Public Equities

- The global equity market was led higher by emerging market stocks in April. Emerging markets returned 7.7% in April, with China performing the best on an individual country basis. In the US market large caps outperformed small caps, which sold off at the end of the month following a strong start to 2015.
- All MLP subsectors except for coal MLPs (-1.4%) advanced during the month. The Alerian MLP Equal Weight Index advanced modestly higher than the Alerian MLP Index indicating smaller cap MLPs recovered more strongly than large cap MLPs. As crude oil surged higher (+25%) in April on higher global oil demand expectations, upstream MLPs (+20%) and energy services MLPs (+9%) led advancing subsectors. All other advancing MLP subsectors returned greater than 4% during the month.

Public Debt

- High yield bond prices rose during April with the Barclays US High Yield Index returning 1.2%. Spreads tightened 25 bps to 440 bps and remain below their 20-year average of 530 bps.

Private Equity

- Purchase price multiples, as measured by S&P Leveraged Commentary and Data (LCD), were 9.5x at the end of the first quarter; this multiple is higher than any annual average on record. Pricing is being driven by managers competing with each other and a renewed vigor from corporate buyers, who have a lower cost of capital and significant cost synergies that support higher prices. Despite this market dynamic, fundraising has not dropped significantly from the robust pace of 2014. Fundraising continues to be fueled by record distributions across the industry as well as investors increasing allocations in a search for higher returning assets.

Private Debt

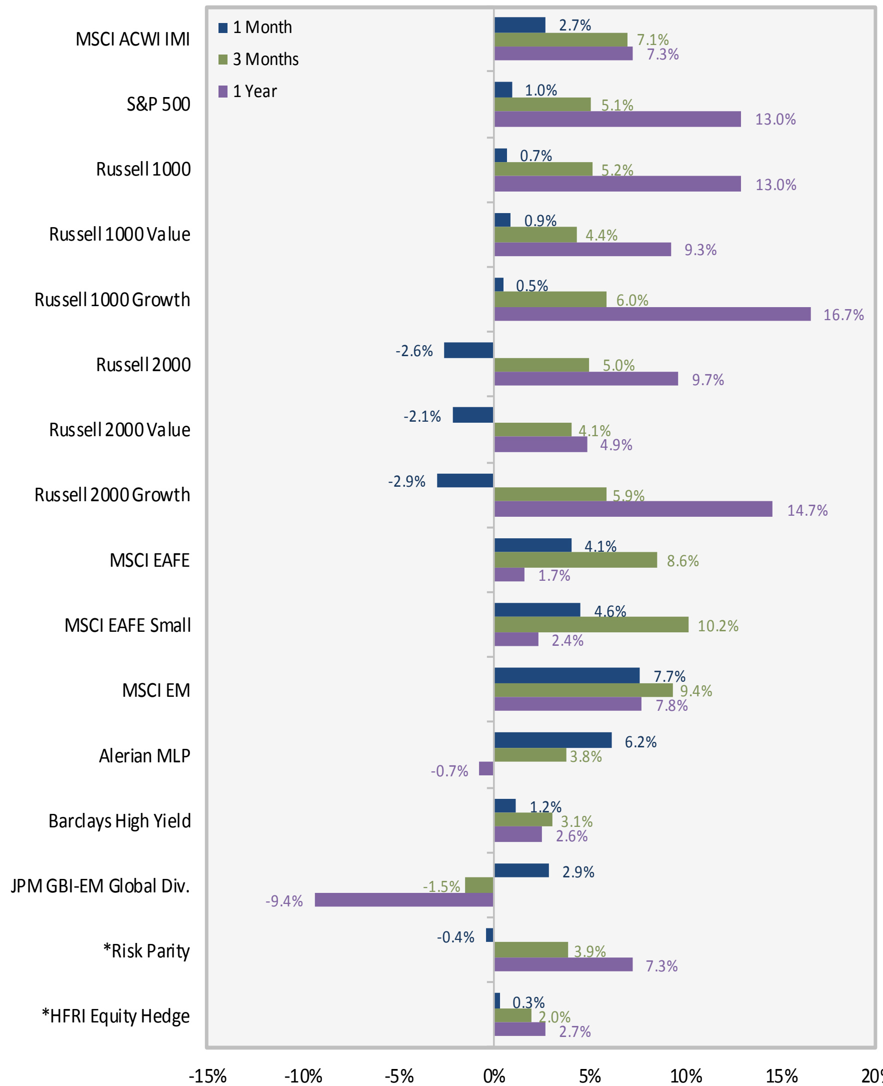
- There was an uptick in covenant relief amendments in the first quarter. While it is only one quarter of data, we will be monitoring for more reliefs in coming quarters as oil prices test the capital structures of several sponsor-backed deals in the oil patch. Debt/EBITDA ratios remain near all-time highs, but capital structures appear to be on firm footing; capex and interest coverage remain significantly higher than the low coverage rates seen in 2006 and 2007.

Risk Parity

- Risk parity managers generated mixed returns in March. Global nominal bonds contributed positive returns while commodity allocations detracted.

Growth Hedge Funds

- Long/short equity managers made gains in March, particularly for energy-oriented portfolios. Activists and special situations managers led event-driven performance.



* 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 generally rose, albeit modestly, across the world in April. Bond market volatility remains elevated compared to levels in recent years, as investors have reacted to global economic data, commentary from Federal Reserve officials regarding the timing of the first interest rate increase, and ongoing central bank intervention outside the US. The 10-year US Treasury ended April yielding 2.0%, up 10 bps from its March level but well below its 20-year average of 4.3%. Yields outside the US remain low but rose during the month; the German 10-year Bund ended April yielding 0.35%, twice its rate from the previous month.
- 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 April as yields rose, returning -0.5%.
- Corporate bonds also declined in April, with spreads remaining unchanged. Corporate bond spreads have averaged 145 bps over the past 20 years.
- Mortgage-backed securities were unchanged in April as agency MBS spreads fell 5 bps to 15 bps, the lowest level for MBS spreads since August 2010.
- International bonds gained as the rise in the US dollar reversed for the month, with the Barclays Global Aggregate ex-US Index returning 2.2%.

Private Debt

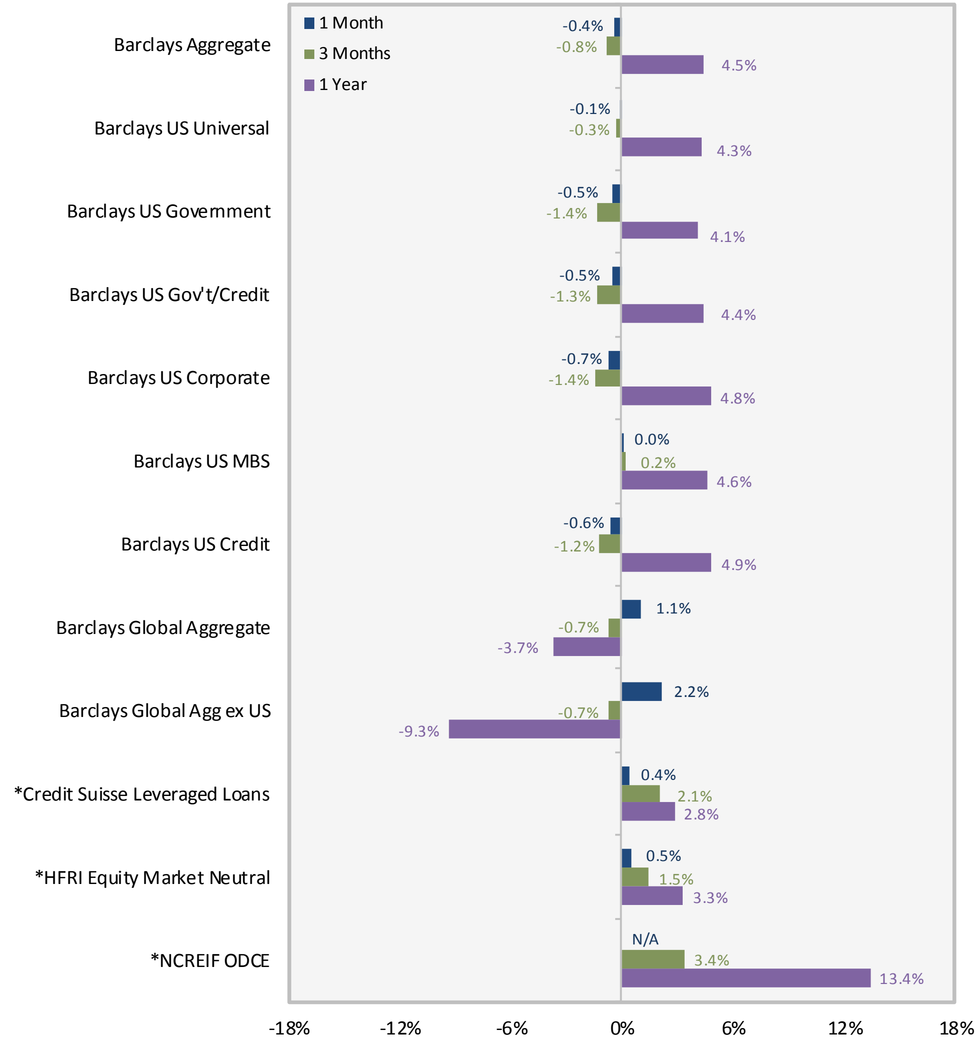
- Leveraged loans gained in March, bringing the one-year return for the Credit Suisse Leveraged Loan Index to 2.8%.

Relative Value Hedge Funds

- Equity market neutral strategies were positive in March, as were most other relative value strategies. Multi-strategy funds generated the strongest returns, while credit and volatility strategies also gained.

Core Real Estate

- The first quarter gross return for core real estate is 3.4%, as measured by the NCREIF ODCE Index. Economic growth throughout the U.S. has fueled favorable returns in the commercial real estate sector. Another contributing factor to the appreciating returns by the NCREIF ODCE Index has been financing, as funds with maturing debt continue to benefit from historically low Treasuries.



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Inflation

- TIPS performed well in April, returning 0.7%. The 12-month gain for the Barclays US TIPS Index was 2.5% as of April 30.

Deflation

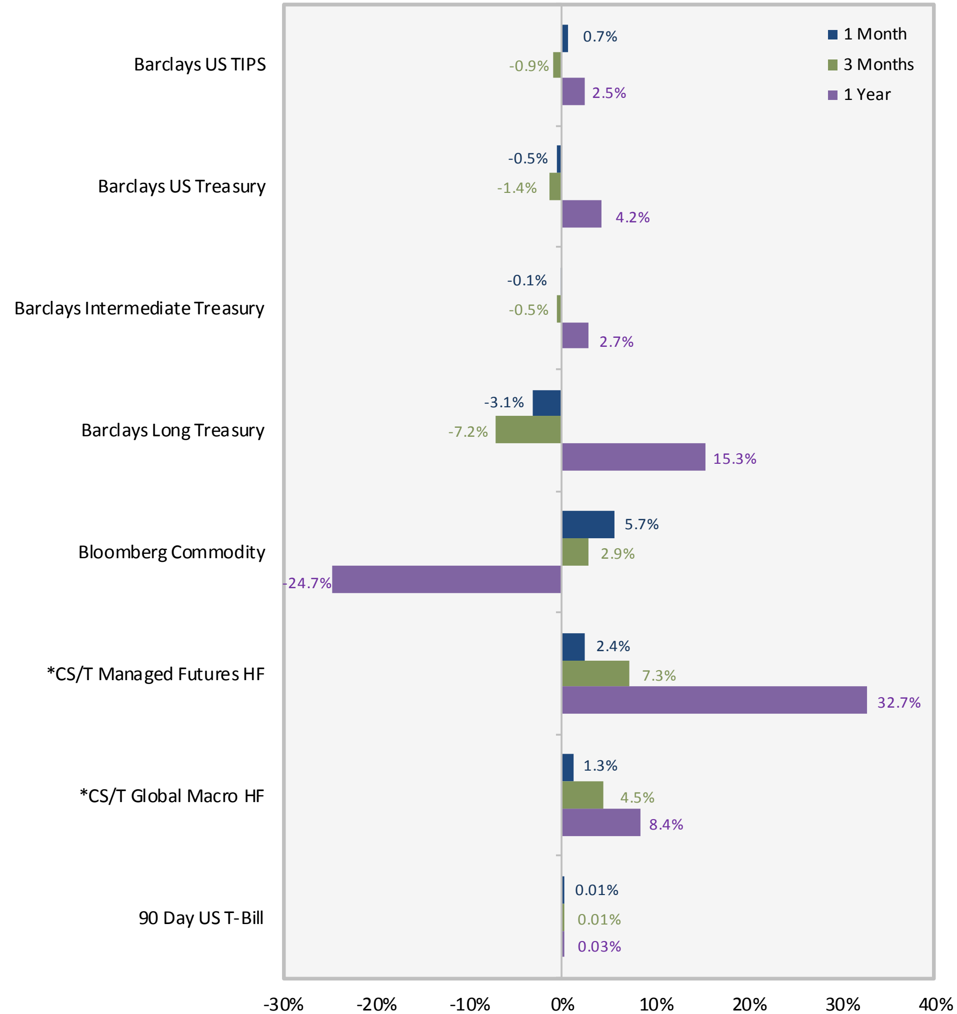
- Treasury prices fell during April, with the Barclays US Treasury Index returning -0.5% during the month.
- Intermediate Treasuries returned -0.1% and long duration Treasuries returned -3.1% for the month. Intermediate and long Treasuries have earned 2.7% and 15.3%, respectively, over the past year. After declining to all-time lows in January, long-term interest rates have risen in recent months. As of January 30, the 30-year Treasury yield was 2.2%; at the end of April, this yield had risen to 2.7%.
- Cash continues to offer virtually no return, as 90-Day T-Bills have gained just 3 bps over the past year.

Commodities

- Commodities posted their second positive month of the past ten in April. Supply and demand factors were generally supportive and the US dollar weakened modestly during the month. Attribution was driven by all energy (WTI crude oil +25%, Brent crude oil +21%) and industrial metals commodities pricing significantly higher on improving supply and demand balances. Crude oil and industrial metals were supported by an improving outlook for Chinese demand. Further, all soft agriculture commodities (coffee, cotton, and sugar) advanced in April. Precious metals were flat, while agriculture and livestock commodities had mixed performance due to supportive growing conditions.

Tactical Trading

- Trend followers and discretionary global macro mangers both gained in March, continuing strong recent performance led by the trend followers.



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