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Monthly Economic & Capital Market Update

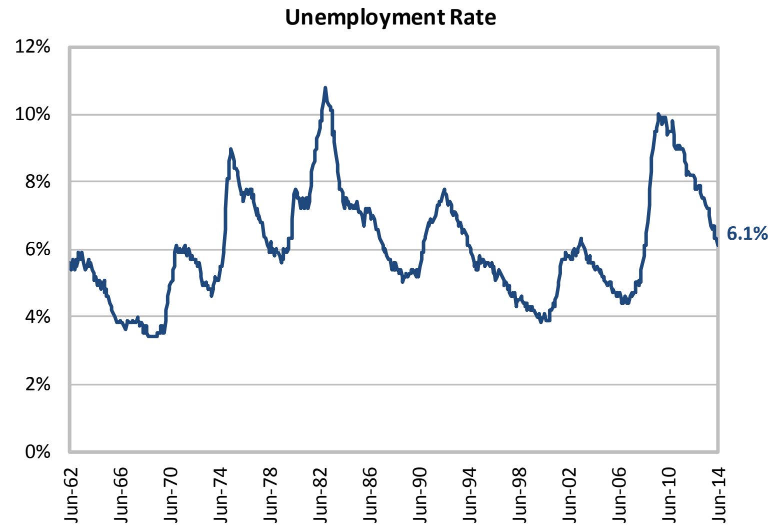
June 2014

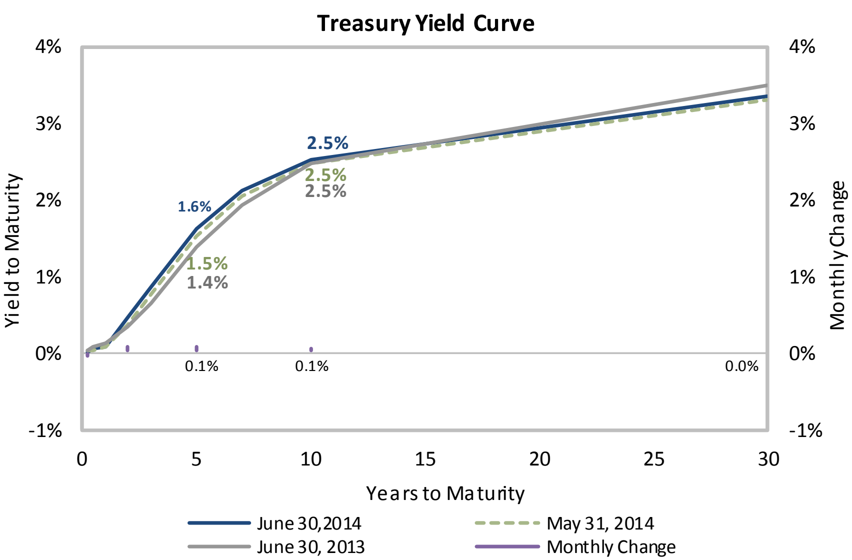
Economy

- The US economy continued to recover in June, as indicated by strong manufacturing figures and a positive jobs report. Domestic equity indices continued to reach new highs and international equity markets also advanced, while bond markets were roughly flat for the month as yields rose slightly.
- The FOMC met in June, reducing monthly asset purchases from $45B per month to $35B per month. The Fed's bond buying program is expected to conclude later this year, most likely during the fourth quarter. The next FOMC meeting will be July 29-30.
- The unemployment rate fell 0.2% to 6.1% in June, its lowest level since September 2008. Nonfarm payrolls increased by 288,000, beating expectations of 217,000, and April and May figures were revised upwards by a combined 29,000 jobs. The labor force participation rate remained at 62.8% for the third consecutive month.
- Real GDP growth (annualized) for Q1 2014 was -2.9%, according to the BEA's final estimate, following previous estimates of 0.1% and -1.0%. The downward revision was due to lower-than-expected healthcare spending, inventories, and exports.
- Consumer prices, as measured by the Consumer Price Index, rose 0.4% in May. Core CPI, which excludes food and energy, increased 0.3%. Consumer prices were up 2.1% for the 12 months ending May, while the core rate increased 2.0%.
- The Producer Price Index declined 0.2% in May. Excluding food and energy, the PPI decreased 0.1%. The PPI rose 2.0% year-over-year ending May, while core prices also rose 2.0%.
- Housing market figures were mixed for May. Housing starts (down 6.5% month-over-month) and building permits (down 6.4% month-over-month) decidedly underperformed economist expectations, while new home sales came in much stronger than expected, increasing 18.6%. Existing home sales (up 4.9%) were positive as well. Mortgage rates ended June unchanged from the previous month.
- US manufacturing continued to expand in June, but at a slightly lower rate than in May, according to the ISM Manufacturing Index. The index fell from 55.4 in May to 55.3 in June; a figure over 50 implies expansion.
- Retail sales (ex auto and gas) were flat in May and are expected to have increased in June, while inventories at US wholesalers are projected to be up 0.6% in May.

Yield Curve

- After increasing early in the month, yields subsided in the second half of June to end slightly higher than May 31 levels. The spread between 2-year and 30-year Treasuries tightened 5 bps to 290 bps.





Growth Assets

June 30, 2014

Public Equities

- Domestic equities (S&P 500) outperformed international equities (MSCI EAFE) by 110 bps during June. US small cap growth stocks were the best performers for the month, returning 6.2% as investors once again rotated into high-growth sectors and companies.
- Compression of yields continues to be a trend among MLPs. The Alerian MLP Index yield settled at 5.3% at the end of June, which represents a 30 basis point compression during the month. General partner MLPs (up 15%) and crude oil pipeline MLPs (up 8%) led advancing segments, while downstream-focused MLPs were the only segment to decline (down 2%) during the month.

Public Debt

- In June, high yield bonds earned a return of 0.8% as spreads tightened 15 bps to 335 bps. Historically, high yield spreads have averaged 520 bps.

Private Equity

- Deal value picked up in Q1 2014 compared to Q4 2013 in both the US and the rest of the world with the exception of Europe. However, deal volume trailed fundraising, causing an increase in uninvested capital. Globally, funds are now sitting on $950B of uninvested capital, up from $890B at the end of 2013 and at a new all-time high. Accommodative debt markets and increasing levels of uninvested capital continue to sustain high deal prices and a challenging environment according to managers.

Private Debt

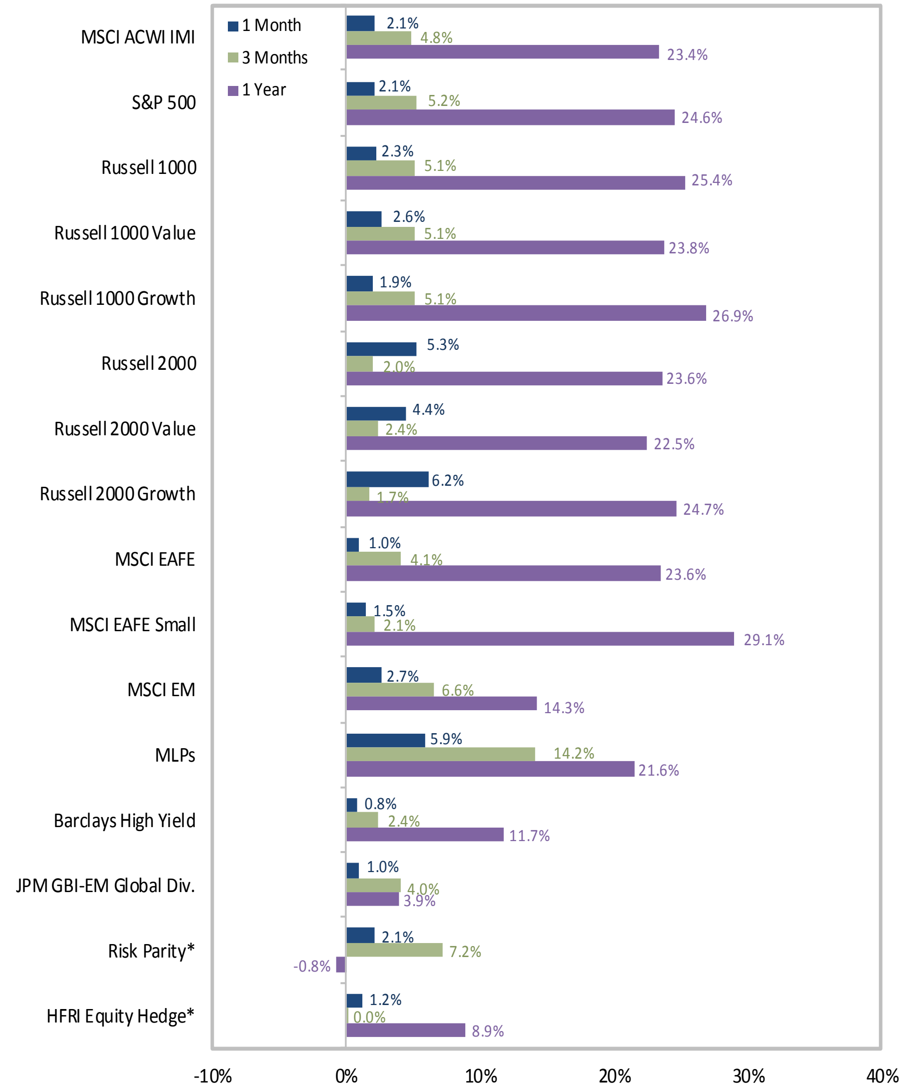
- The availability and aggressive terms from senior lenders has allowed debt levels to increase to a new cycle high of 5.6x EBITDA. This remains lower than the prior cycle high of 6.2x in 2007. The willingness of senior lenders to reach deeper into capital structures and accept higher levels of risk has been particularly challenging for mezzanine providers. According to data from S&P, mezzanine's share of new deal capital structures was 0% in Q1 2014. This compares to a typical share of 5-10% over the prior 10 years.

Risk Parity

- Risk parity-based strategies continued with strong gains in May, with positive contributions from all major asset classes. The largest contributions were from nominal interest rate exposures as rates rallied globally.

Growth Hedge Funds

- The HFRI Equity Hedge Index saw a reversal of recent weakness for the month of May as equity activists and emerging market-focused managers posted strong performance. The Event-Driven Index also posted gains for the month as fixed income-focused event strategies have produced positive performance every month year-to-date.



* 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

- After reaching a high of 2.65% during the month, the yield on the 10-year Treasury ended June at 2.53%. This yield is well below historical average levels; since 1980 the average yield on the 10-year Treasury has been 6.85%.
- Core plus fixed income (US Universal) returned 0.2% for the month, slightly outperforming core (US Aggregate).
- Government bonds were slightly negative, returning -0.1% in June.
- Corporate bonds also saw returns of -0.1% in June as investment grade spreads held constant at 100 bps. Corporate bond spreads have historically averaged 135 bps.
- Mortgage-backed securities returned 0.3% for the month as agency MBS spreads tightened 5 bps to 25 bps, below the historical average of 70 bps.
- International bonds (Barclays Global Agg ex US) led all fixed income and outperformed the US Aggregate by 110 bps.

Private Debt

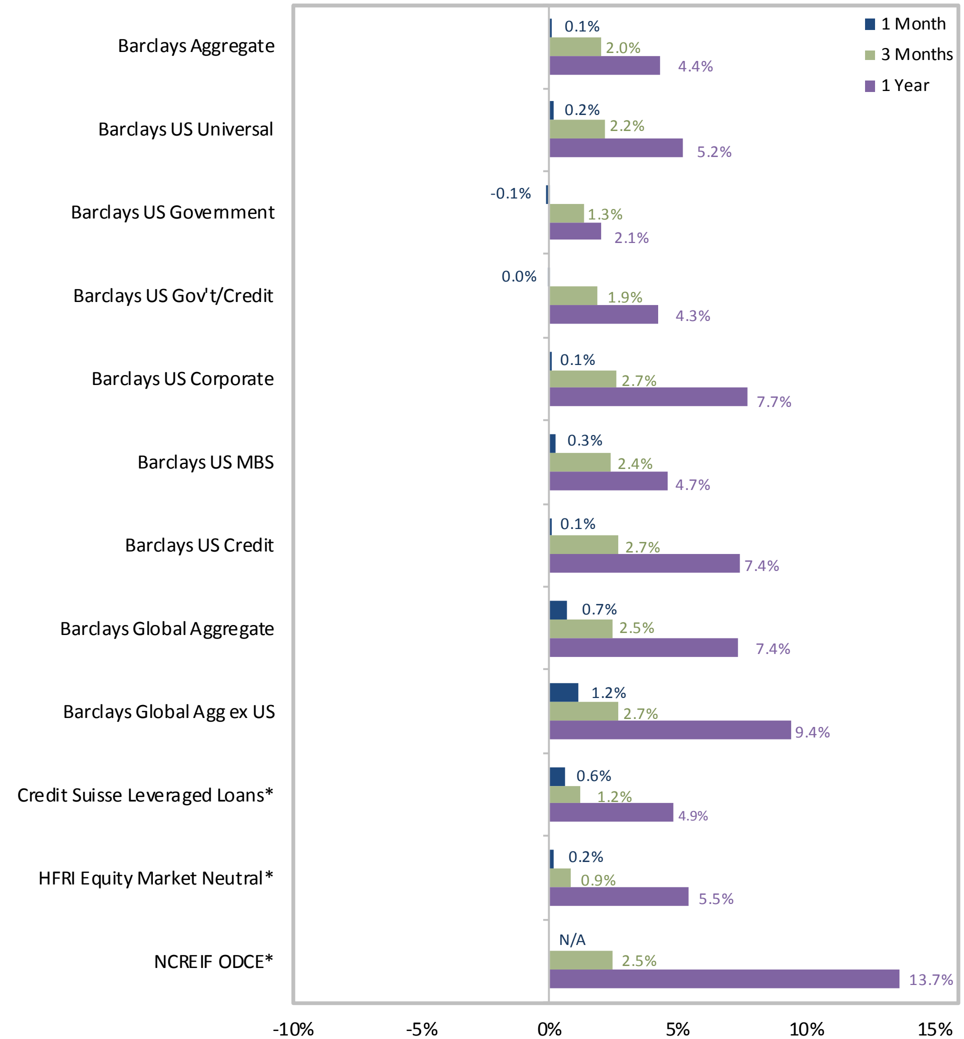
- Leveraged loans returned 0.6% in May and were up 4.9% for the 12 months ending May.

Relative Value Hedge Funds

- The HFRI Equity Market Neutral posted small positive gains in May, led by value-driven factors. Other relative value strategies, including mortgage/ABS relative value funds and corporate credit funds, continued to benefit from carry-seeking investor sentiment.

Core Real Estate

- Although core real estate had its lowest return in five quarters in Q1 2014, fundamentals in the sector have continued to stay strong. The 2.5% overall return on the NCREIF ODCE Index was fueled by more income-oriented returns and less appreciation. With retail sales up 3.8% year-over-year and corporate profits back to peak levels from 2007, Summit remains constructive on the space. Our only hesitation is the influx of new capital coming into the space from other sectors, which has limited purchases for open-end core funds.



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Diversification Assets

June 30, 2014

Inflation

- TIPS returned 0.3% in June and are up 4.4% over the past year.

Deflation

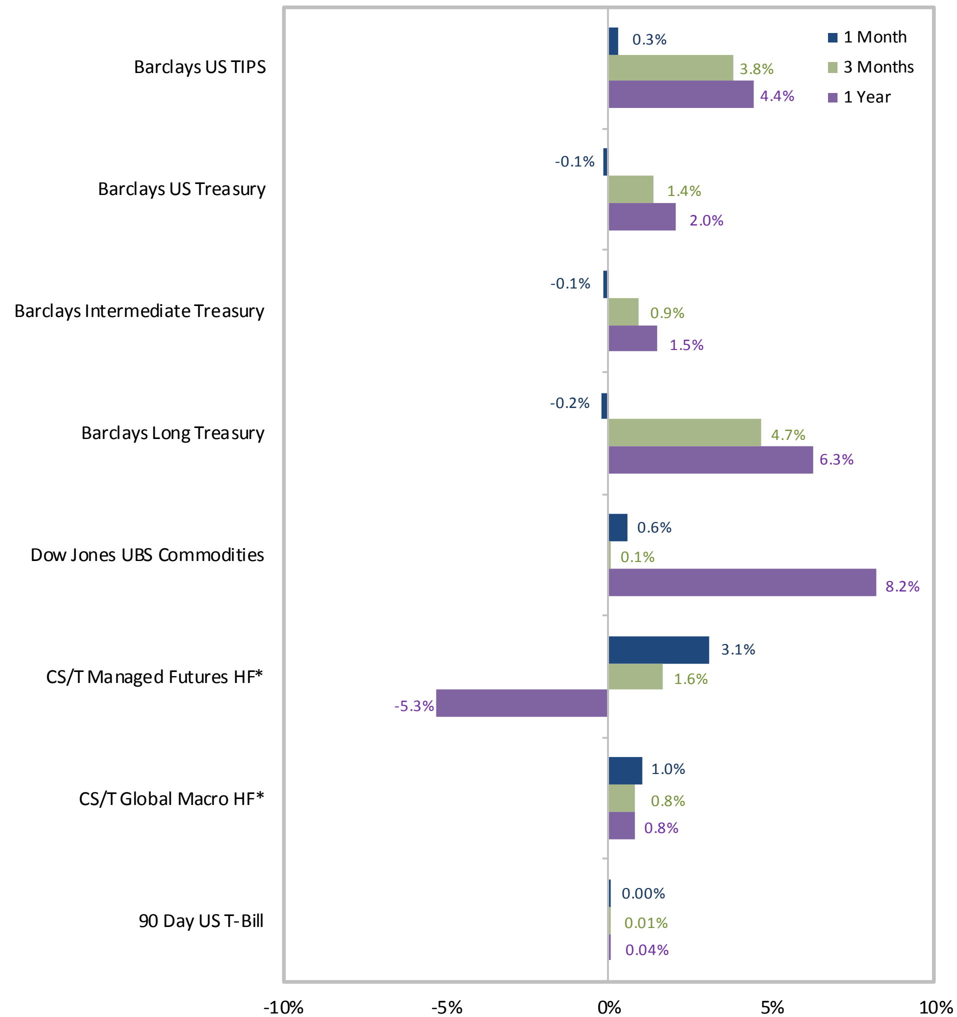
- Treasuries returned -0.1% during the month.
- Intermediate Treasuries also returned -0.1% and long duration Treasuries returned -0.2%. Intermediate and long Treasuries have earned 1.5% and 6.3%, respectively, over the past year.
- Cash continues to offer virtually no return, as 90 Day T-Bills have gained just 4 bps over the past year.

Commodities

- On July 1 the Dow-Jones UBS Commodity Index was renamed the Bloomberg Commodity Index following its acquisition by Bloomberg in April of this year. Nearly all agriculture commodities declined during the month, as supply growth outpaced estimates. Both livestock commodities were up, with lean hogs up 17% due to supply constraints caused by the PED virus. Both gold (up 6%) and silver (up 12%) advanced in June. Industrial metals broadly advanced due to reduced inventories within zinc and copper markets. Energy commodities were largely flat during the month.

Tactical Trading

- Managed futures produced strong gains in May from long equity and fixed income exposures.
- Global macro hedge funds were also up in May, bringing year-to-date performance back into positive territory. Carry-focused positions drove performance for the month.



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