Summit Strategies Group
8182 Maryland Avenue, 6th Floor
St. Louis, Missouri 63105
314.727.7211

Monthly Economic & Capital Market Update

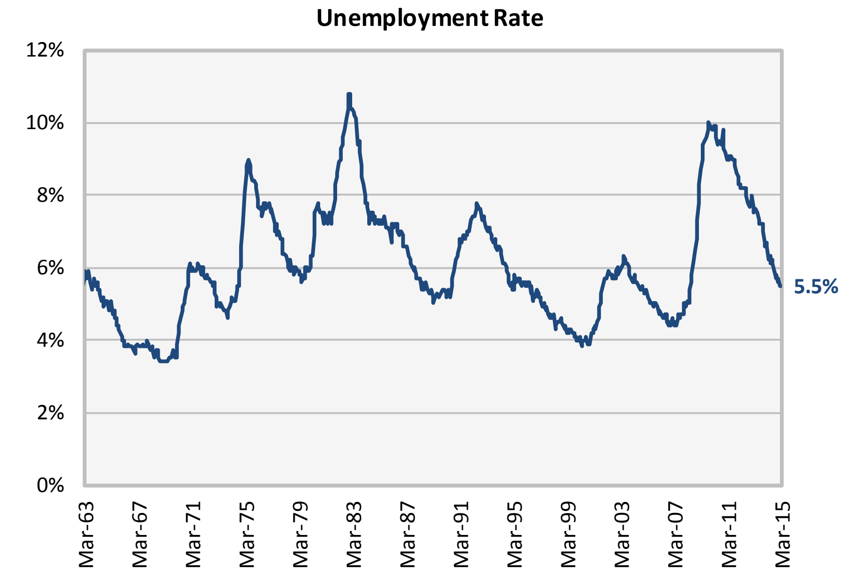
March 2015

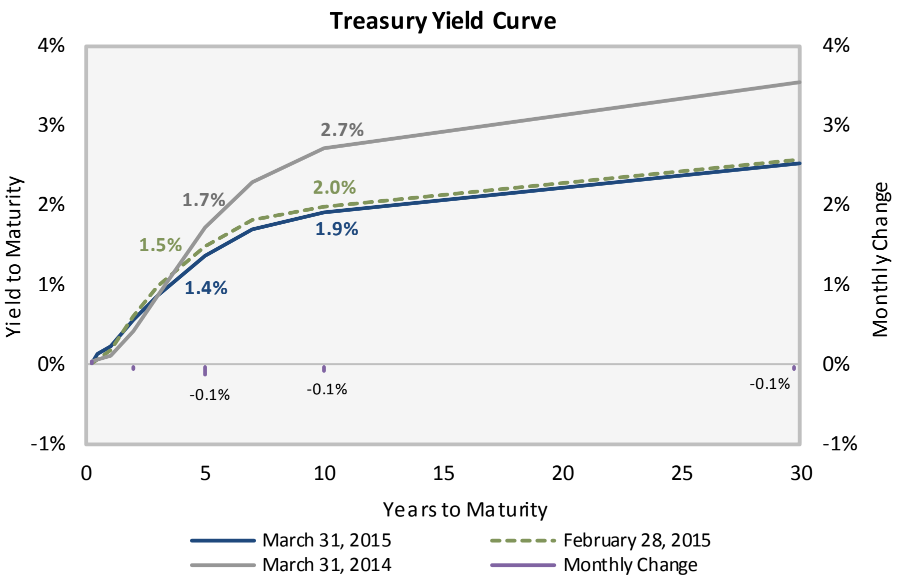
Economy

- The US economy continued to expand in March, but data releases generally fell short of expectations during the month; such has been the story for the economy year-to-date in 2015. Colder than normal winter temperatures, the rising US dollar, and a slowdown in the energy sector have weighed on US growth, which is estimated to have moderated in the first quarter.
- The unemployment rate was unchanged at 5.5% in March, holding at its lowest level since May 2008. 126,000 jobs were added during the month, well below economist projections of 250,000 jobs added and ending a streak of 12 straight months of at least 200,000 new jobs. Additionally, previously published figures for January and February were revised downward by a total of 69,000 workers. Wages rose 2.1% over the 12 months ending March.
- US consumer prices, as measured by the Consumer Price Index (CPI), rose 0.2% during February after falling in each of the previous three months. CPI was unchanged for the 12 months ending February. Core prices, which exclude food and energy costs, rose 1.7% over the same period. 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 52.5 in March. While a number over 50 implies economic expansion, the PMI has fallen in recent months.
- Real GDP growth for the fourth quarter of 2014 was 2.2% annualized according to the third and final estimate from the Bureau of Economic Analysis. While the third estimate was unchanged from the second, expectations were for growth to be revised up slightly. Real GDP growth for calendar year 2014 was 2.4% on an annualized basis. The Federal Reserve Bank of Atlanta has estimated 0% growth for the first quarter of 2015.

Yield Curve

- The spread between 2-year and 30-year Treasuries was unchanged at 200 bps at the end of March, holding at the lowest level for this spread since 2007. Rates fell slightly across the curve as weaker data led the market to believe the Federal Reserve's first interest rate hike might be pushed back to later in 2015.





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Growth Assets

March 31, 2015

Public Equities

- The global equity market returned -1.3% in March as US and international developed market large cap stocks, which make up over 75% of the global market capitalization, both fell more than 1%. Within the US market, small cap (Russell 2000, 1.7%) outperformed large cap (Russell 1000, -1.2%) by 290 basis points. Strong performance year-to-date by US small caps has been due in part to their insulation from the recent volatility in currency markets and impact of the rising US dollar.
- All MLP sub-sectors declined in March. Natural gas pipeline MLPs (-2%) performed best within the energy infrastructure sub-sectors, while shipping MLPs (-1%) performed best within the non-energy infrastructure sub-sectors. Upstream MLPs (-12%) performed the worst of any sub-sector as both crude oil and natural gas commodity prices declined further during the month.

Public Debt

- High yield bond prices fell during March with the Barclays US High Yield Index returning -0.5%. Spreads widened 35 bps to 465 bps, but remain below their 20-year average of 530 bps.

Private Equity

- Deal value remained flat throughout 2014 as managers competed 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

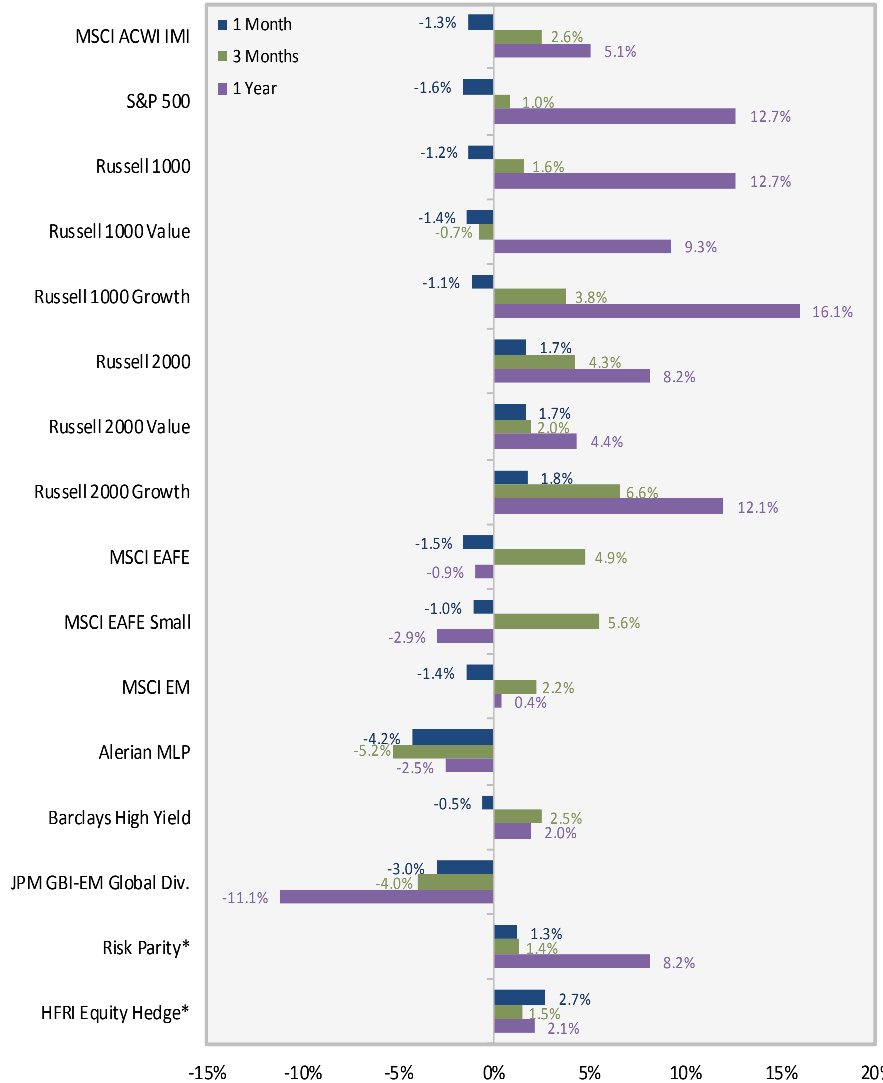
- Availability and aggressive terms from senior lenders have allowed debt levels in the larger end of the market to increase to another new cycle high of 5.9x EBITDA. This remains lower than the prior cycle high of 6.2x recorded in 2007. As the credit cycle has progressed, credit standards and spreads 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 generated gains in February. Equity and commodity allocations contributed while nominal and inflation-linked bonds detracted.

Growth Hedge Funds

- Long/short equity strategies performed well in February, including recovering energy-related strategies. Activists posted very strong performance, as did most event-driven strategies.



* 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 fell during March. Bond market volatility has increased over the first three months of 2015, 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 March yielding 1.9%, well below its 20-year average of 4.3%. Yields outside the US also remain very low; for example, the German 10-year Bund ended March yield 0.18%, its lowest level ever.
- Core fixed income (Barclays Aggregate) outperformed core plus (Barclays US Universal) by 10 bps during the month, as higher-risk fixed income, such as high yield, underperformed safer bonds.
- US Government bond prices rose in March as yields fell, returning 0.6%.
- Corporate bonds also rose in March, with spreads widening 5 bps to 130 bps. Corporate bond spreads have averaged 145 bps over the past 20 years.
- Mortgage-backed securities returned 0.4% for the month as agency MBS spreads held constant at 20 bps, the lowest level for MBS spreads since August 2010.
- International bonds continued to face the headwind of the rising US dollar, with the Barclays Global Aggregate ex-US Index returning -2.1% in March.

Private Debt

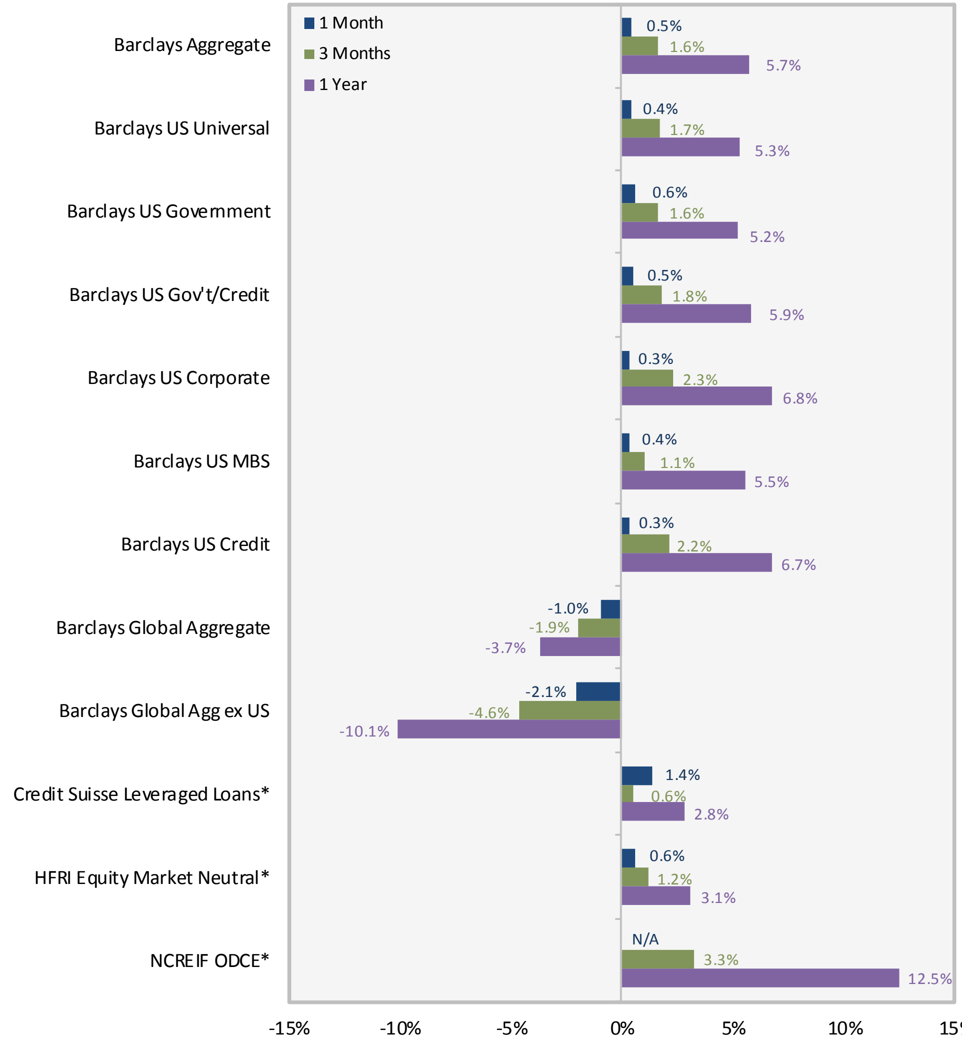
- Leveraged loans performed well in February, bringing the one-year return for the Credit Suisse Leveraged Loan Index to 2.8%.

Relative Value Hedge Funds

- Income hedge funds were positive in February. The top performers were volatility and credit-oriented strategies.

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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Inflation

- TIPS declined slightly in March, returning -0.5%. The 12-month gain for the Barclays US TIPS Index was 3.1% as of March 31.

Deflation

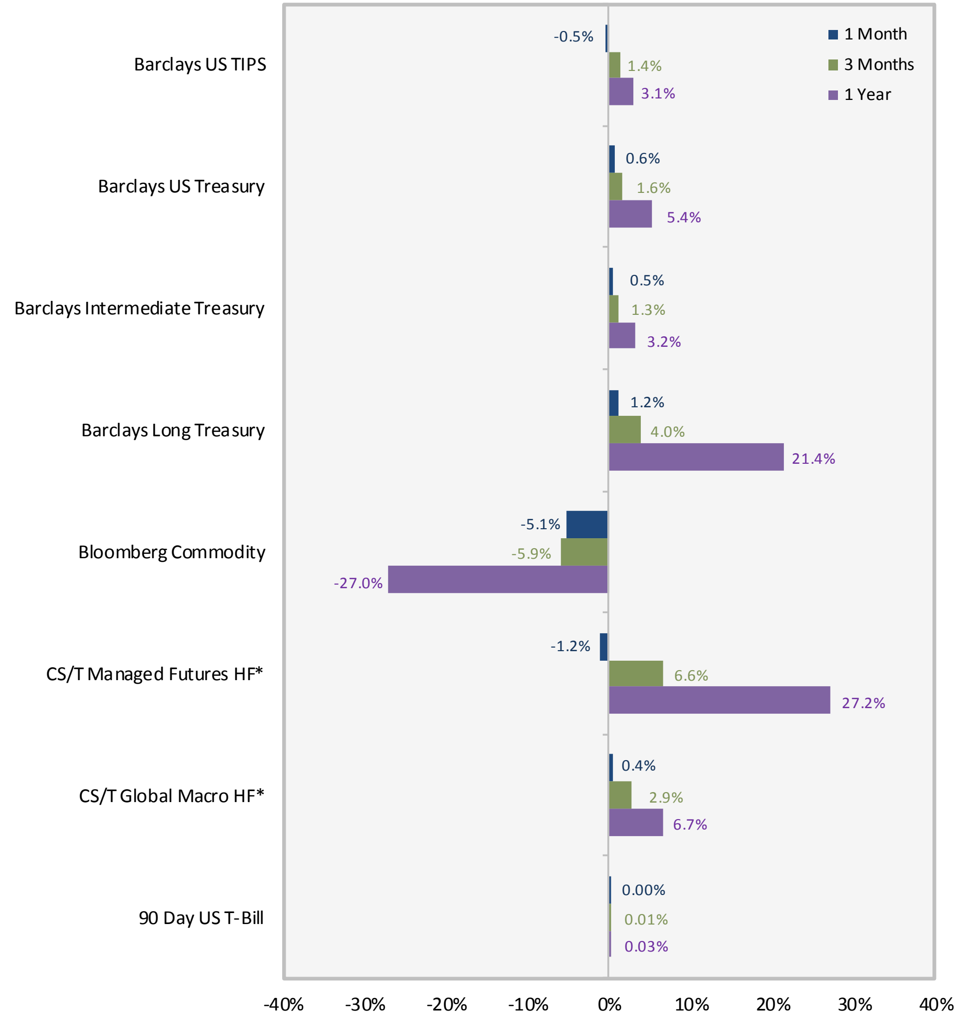
- Treasury prices rose during March, with the Barclays US Treasury Index returning 0.6% during the month.
- Intermediate Treasuries returned 0.5% and long duration Treasuries returned 1.2% for the month. Intermediate and long Treasuries have earned 3.2% and 21.4%, respectively, over the past year. Long duration fixed income has performed particularly well, as rates at the long end of the yield curve have declined to historic lows.
- Cash continues to offer virtually no return, as 90-Day T-Bills have gained just 3 bps over the past year.

Commodities

- Sugar (-14%) and the soybean complex (beans -6%, oil -7%, and meal -8%) declined furthest in March within the agriculture sector. Brent crude oil declined 12% during the month compared to only a 4% decline in the US benchmark WTI, as WTI was already at a significant discount to Brent. Gasoline prices rose a modest 1% during March, supported by increased demand. Metals were generally flat with the exception of nickel, which fell 12% in March due to a saturated Chinese market for the metal and limited prospects for demand growth.

Tactical Trading

- Diversification hedge funds were mixed in February. Discretionary global macro strategies contributed while managed futures detracted.



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