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Monthly Economic & Capital Market Update

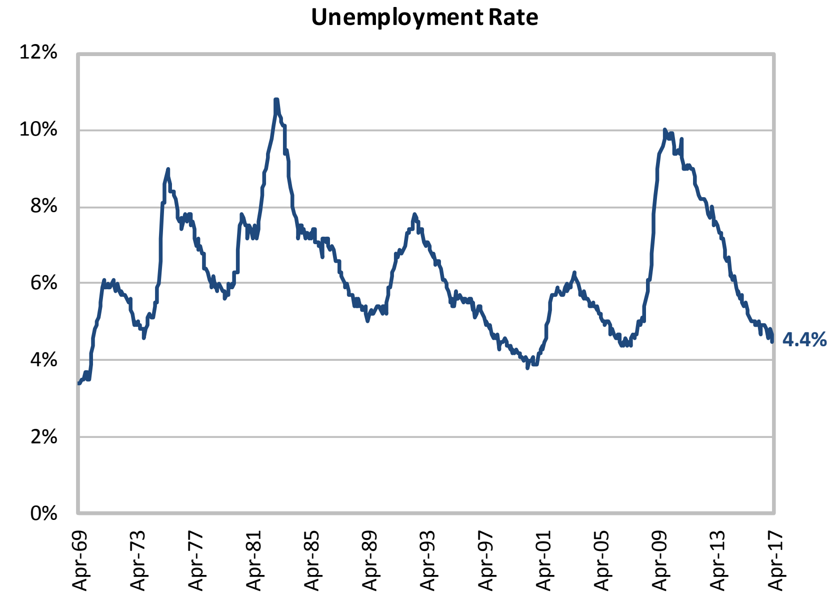
April 2017

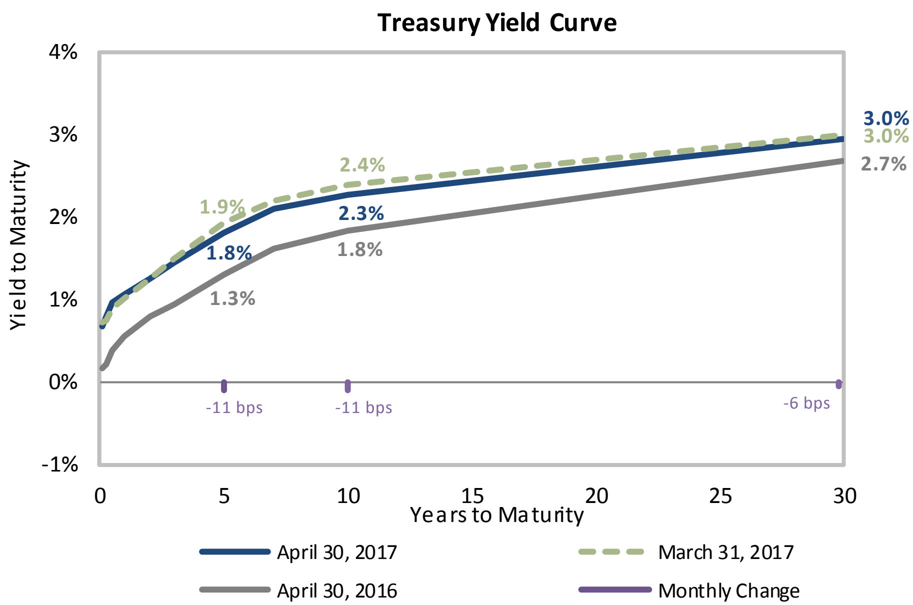
Economy

- The event that most impacted markets during April was the French presidential election. Leading up to the vote, investors were viewing the outcome as a potential signal of the strength of the eurozone. Equity markets around the world rose significantly after the centrist candidate led following the first round of voting, indicating subsiding fears of rising populism in Europe and a potential French exit from the eurozone. In the US, the Trump administration unveiled an outline of its proposed tax reform focusing on pro-business policies; however, markets were mostly unchanged due to the lack of details and uncertainty regarding the timeline for implementation.
- The US economy experienced positive job growth for the 79th consecutive month in April as employers added 211,00 new payrolls, exceeding economists' expectations of 190,000 new jobs. The unemployment rate declined 10 bps to 4.4%, its lowest level since May 2007, and it now matches the lowest level of the expansion from 2002–2007. Wage growth, as measured by the change in average hourly earnings of private sector workers, was 2.5% over the 12 months ending in April, a slight decrease from March's 2.7% wage growth. Payrolls from February and March were revised downward by 6,000 total jobs. Over the past three months, job gains have averaged approximately 174,000.
- Real GDP grew at a 0.7% annual rate during the first quarter of 2017, according to the first estimate released by the Bureau of Economic Analysis; if unchanged in future revisions, the first quarter would be the lowest quarter of growth since Q1 2015 and would come in below Q4 2016's final estimate of 2.1%. Positive contributions came from nonresidential and residential fixed investment, while contributions from personal consumption and business inventories were lower than in previous quarters. Per the Atlanta Federal Reserve, GDP growth for Q2 2017 is on pace to be 4.3% annualized.
- April marked the 88th consecutive month of expansion in the US services sector. The ISM non-manufacturing Purchasing Managers Index (PMI) came in at 57.5, slightly below February's record high of 57.6. Any reading over 50.0 indicates expansion in the services sector.

Yield Curve

- The spread between 2-year and 30-year Treasuries tightened 6 bps to 169 bps in April. Over the past 30 years, the spread between 2-year and 30-year Treasuries has averaged 168 bps.





Growth Assets

April 30, 2017

Public Equities

- Emerging and international equity markets continued to outperform the US during April, a trend that has now extended over the past year. Positive equity market returns for the month were primarily driven by strong performance during the final week following the results of the first round of the French election.
- Master limited partnerships (MLPs) returned -1.3% in April. MLPs saw negative returns across almost all sectors, with the exception of shipping (+0.04%) and natural gas pipelines (+0.4%). MLPs have gained 2.6% year-to-date, with distribution yields falling 28 bps to 6.7% during the month of April.

Public Debt

- The Bloomberg Barclays High Yield Index returned 1.2%, offsetting the 0.2% loss observed in March. Spreads tightened by 12 bps to 371 bps, though remain above the 12-month lows of 363 bps at the end of February.
- Local currency-denominated emerging market debt gained 1.2%, with currency and local rates contributing to the positive return during the month.

Private Equity

- The strong fundraising environment for private equity has continued into 2017, as the industry is likely to see record levels of first quarter capital raising since the global financial crisis. According to Preqin, approximately 175 private equity funds reached a final close in the first quarter, raising a combined $89b. Preqin expects these figures to rise by an additional 10% as more information becomes available, thus surpassing the $90b raised by funds closed in Q1 2016. Purchase price multiples for middle-market LBOs, as measured by S&P Leveraged Commentary and Data (S&P LCD), have remained relatively stable from 2016 at 9.6x YTD.

Private Debt

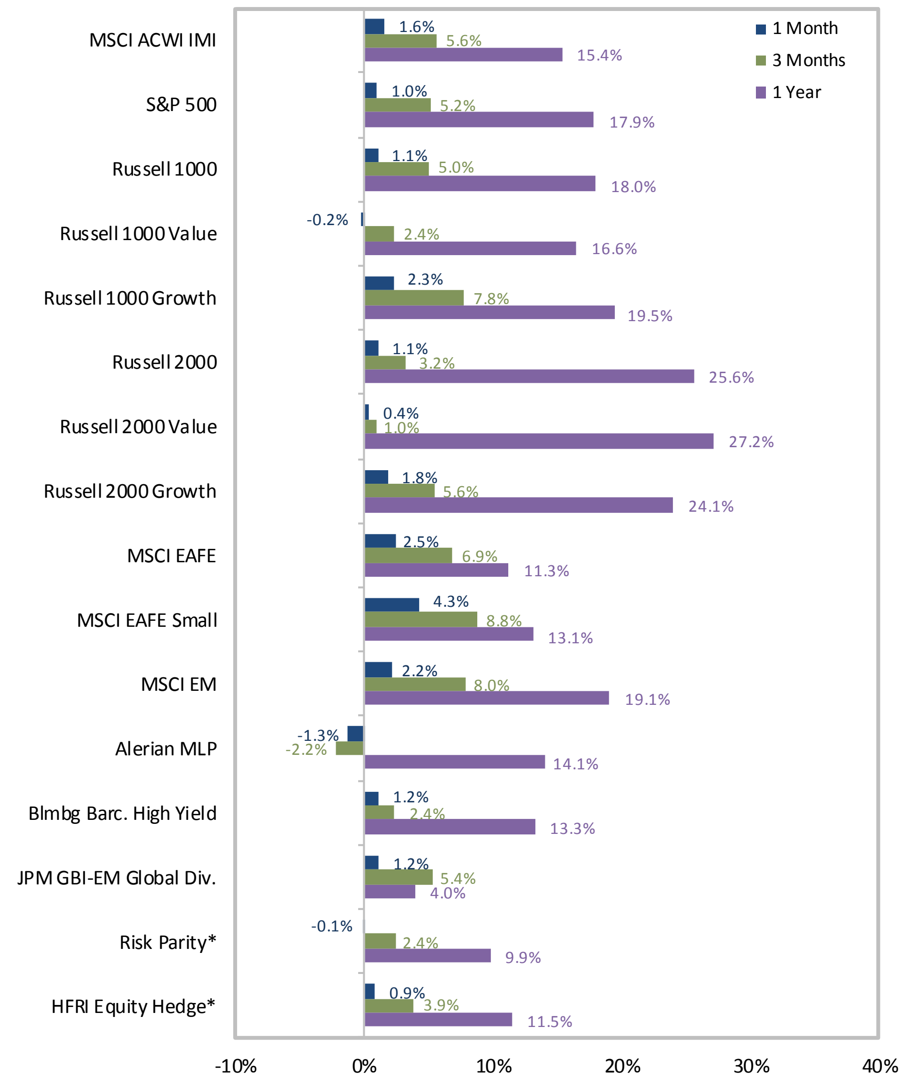
- In Q1 2017, 21 private debt funds closed for a combined total of $21b, below the record $50b secured in Q4 2016. However, the level of capital secured surpassed last year's Q1 level of $11b, as the momentum for direct lending strategies continued; direct lending funds accounted for 62% of total capital raised. Nearly two-thirds of all private debt funds closed during the quarter exceeded their target size.

Risk Parity

- Risk parity strategies were relatively flat in March. Equity and credit exposure contributed while commodities and bond exposure detracted.

Growth Hedge Funds

- Growth hedge funds were positive in March. Long/short equity generated gains, with the largest contributions coming from the technology sector. Event-oriented strategies were more mixed as merger arbitrage contributed while distressed and activist strategies detracted.



* Data was not available at time of publication – returns are previous month's.
Note: Risk Parity returns are based on an internally comprised benchmark.
All returns are USD.

Public Debt

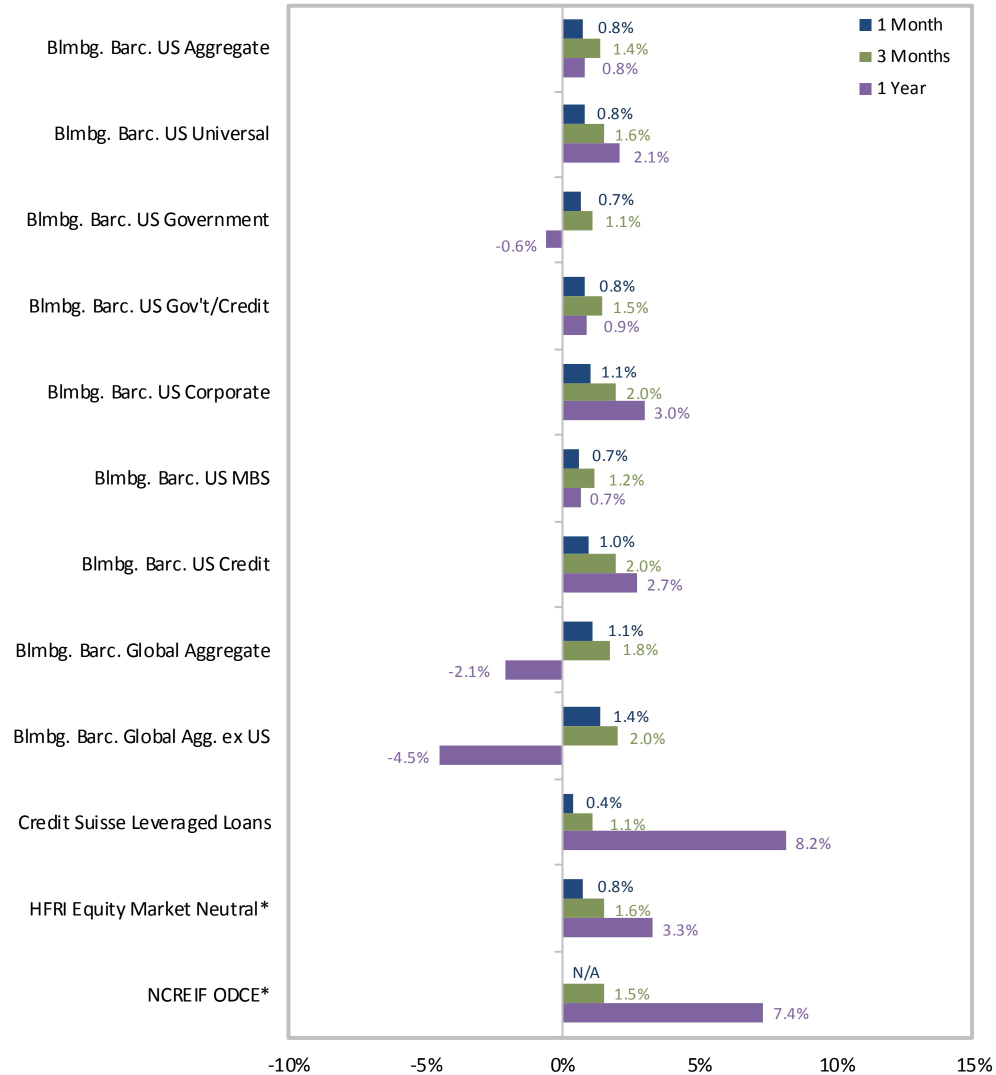
- The 10-year US Treasury yield was volatile during April. The 10-year yield began the month at 2.35% before falling to 2.18% mid-month, then subsequently rose to end the month relatively flat at 2.29%.
- The Bloomberg Barclays Aggregate generated returns of 0.8% during the month, with long duration outperforming short duration as rates fell across the curve.
- For global bonds, April 2017 was the first month to generate a positive return from both currency and principal since July 2016. The Bloomberg Barclays Global Aggregate Index returned 1.1% for the month, which was the second-best month for the Index in 2017.
- The average price of the Credit Suisse Leveraged Loan Index increased modestly to $97.56, the highest price to end a month since April 2015. The Index returned 0.4% for the month, indicative of the continuing trend of coupon-like returns.

Relative Value Hedge Funds

- Relative value hedge funds contributed in March. Equity market neutral and volatility arbitrage posted the strongest gains, while credit-oriented strategies were neutral.

Core Real Estate

- Core real estate returns for the first quarter of 2017 were 1.8% gross, 1.5% net, bringing the one-year gain for core funds to 7.4%. Continued strong gains in the commercial real estate market have coincided with the US economic expansion, with strong labor market growth fueling demand while supply remains limited. Of note is that in recent quarters price appreciation has slowed compared to prior in the expansion, with a larger percentage of real estate gains now being generated through income.



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Diversification Assets

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Inflation

- TIPS returned 0.6% during April, with 10-year real yields declining 4 bps to 0.36%. The duration of the Bloomberg Barclays TIPS Index has been volatile over the past 12 months, ranging from 6.7 years to 4.7 years at the end of May 2016 and January 2017, respectively. The duration of the Index ended April at 5.7 years, flat from March.

Deflation

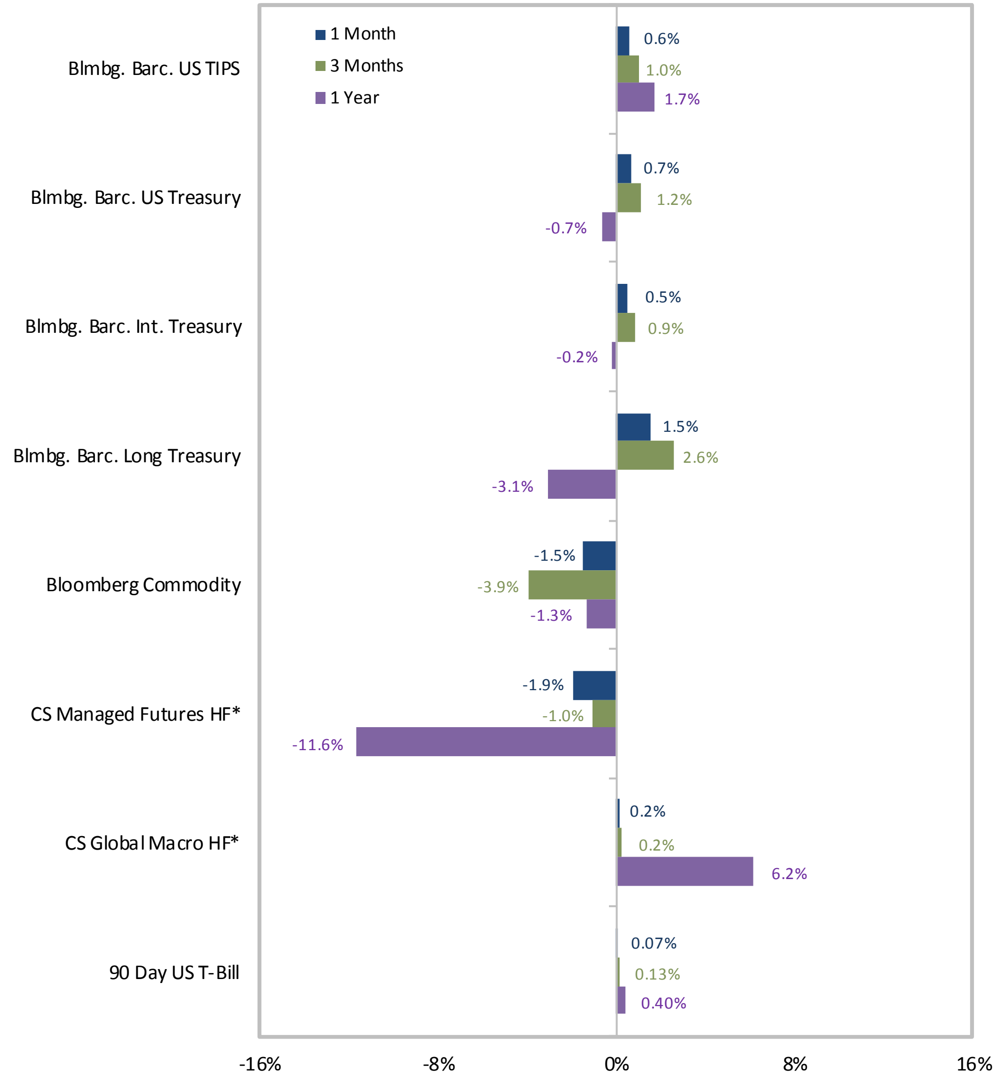
- The Bloomberg Barclays Long Treasury Index returned 1.5% for the month, 1.3% of which can be attributed to price return.
- Cash continues to offer low returns, as 90-day T-bills gained 0.07% during April and 0.4% over the past year.

Commodities

- The Bloomberg Commodity Index returned -1.5% for the month of April. Performance was predominately driven by the decline in energy prices, as oversupply remains a primary factor in pricing pressure despite compliance among OPEC members. Investors anticipate OPEC will extend supply cuts into the second half of 2017. The worst overall performer was gasoline, returning -8.9%, while live cattle (+15.0%) turned in the strongest gains.

Tactical Trading

- Tactical trading hedge funds detracted in March. Managed futures funds detracted while discretionary global macro strategies were unchanged in aggregate.



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