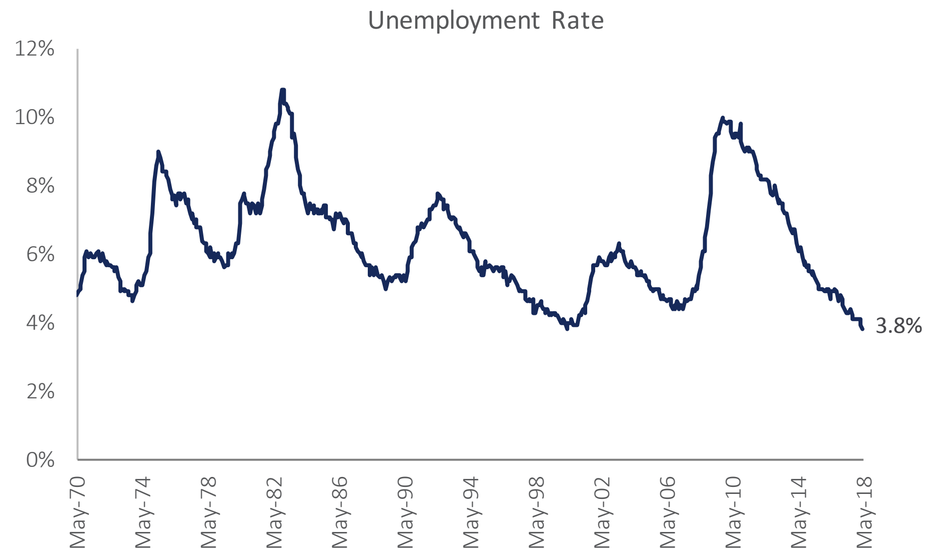
Summit Strategies Group

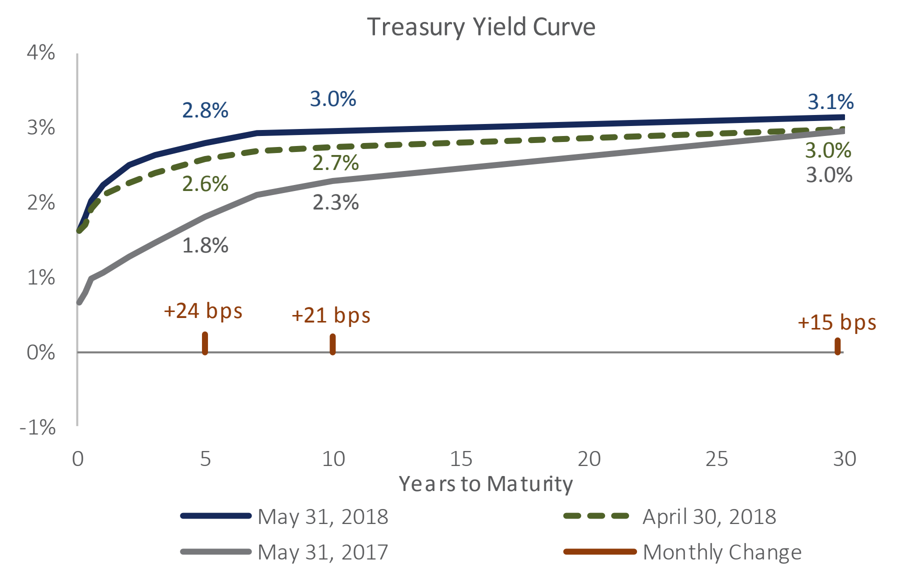
Economic and Capital Market Update

May 2018

Economic Perspective

- The global economic landscape was largely unchanged during May, as the trend of increased growth throughout the world remains intact. Geopolitical headlines, most notably surrounding new political leadership in Italy and US trade tensions, continued to impact markets sporadically throughout the month. As a result, equity market volatility remained elevated compared to 2017's low levels. The backdrop of strong global growth and positive earnings persisted, however, and global equity markets gained 0.4% in aggregate for the month.
- US non-farm payrolls increased by 223,000 during May, above consensus estimates of 190,000 new jobs. The unemployment rate declined 10 bps to 3.8%, its lowest level since April 2000. The US economy has now experienced positive job growth for 92 consecutive months, the longest streak since labor market data collection began in the 1940s. Thus far in 2018 employers have added an average of 207,000 jobs per month, outpacing 2017's average of 182,000. Wage growth, remains relatively muted but has increased in recent months; wages grew 2.7% over the 12 months ending May, up 10 bps from April.
- Real GDP in the US grew at a 2.2% annualized rate during the first quarter of 2018, according to the second estimate released by the Bureau of Economic Analysis. The percent change in real GDP is 10 bps lower than the advance estimate, reflecting downward revisions to private inventory investment, residential fixed investment and exports. Overall, GDP growth was 2.6% for 2017, specifically 2.9% in the fourth quarter. The current estimate of second quarter GDP growth, according to the Atlanta Federal Reserve, is 4.8% annualized.
- Purchasing managers indices (PMI), which provide a timely measure of sentiment and growth, remain elevated but below 2017 levels. The JP Morgan Global Manufacturing PMI posted a nine-month low of 53.1 in May, down from 53.5 in April; an index level over 50 implies expansion in the sector. Global manufacturing reached a 6-year high of 54.5 at the end of 2017. The JP Morgan Services PMI increased from 53.8 to 54.3 during May, its highest level since January. The rise in the services PMI calmed concerns over slowing consumer demand from earlier in the year, as the services measure was lower in March and April.





Source: Bureau of Labor Statistics for Unemployment Rate, Bloomberg for Yield Curve.

Growth Assets

Public Equities

- Global equity markets saw modest gains in May, rising for the second straight month after declining in February and March. Positive earnings from the first quarter acted as a tailwind for equity markets, although recently stock prices have not experienced the rally that has historically accompanied such strong earnings reports. Across markets, domestic companies (Russell 3000, +2.8%) outperformed international (MSCI ACWI ex US, -2.5%) as strong US economic data and a rising US dollar drove performance.
- Master limited partnerships followed up April's 8.1% gain with a 5.0% return in May, combining to make the best two-month period for the Alerian MLP Index since April 2016. Gains were propelled by increasing sentiment across the energy complex and encouraging earnings from MLP companies, and MLPs rose despite oil price declines of 2.2% for the month. The trailing 12-month distribution yield for the Alerian MLP Index declined 32 bps to 7.8% throughout the month.

Public Debt

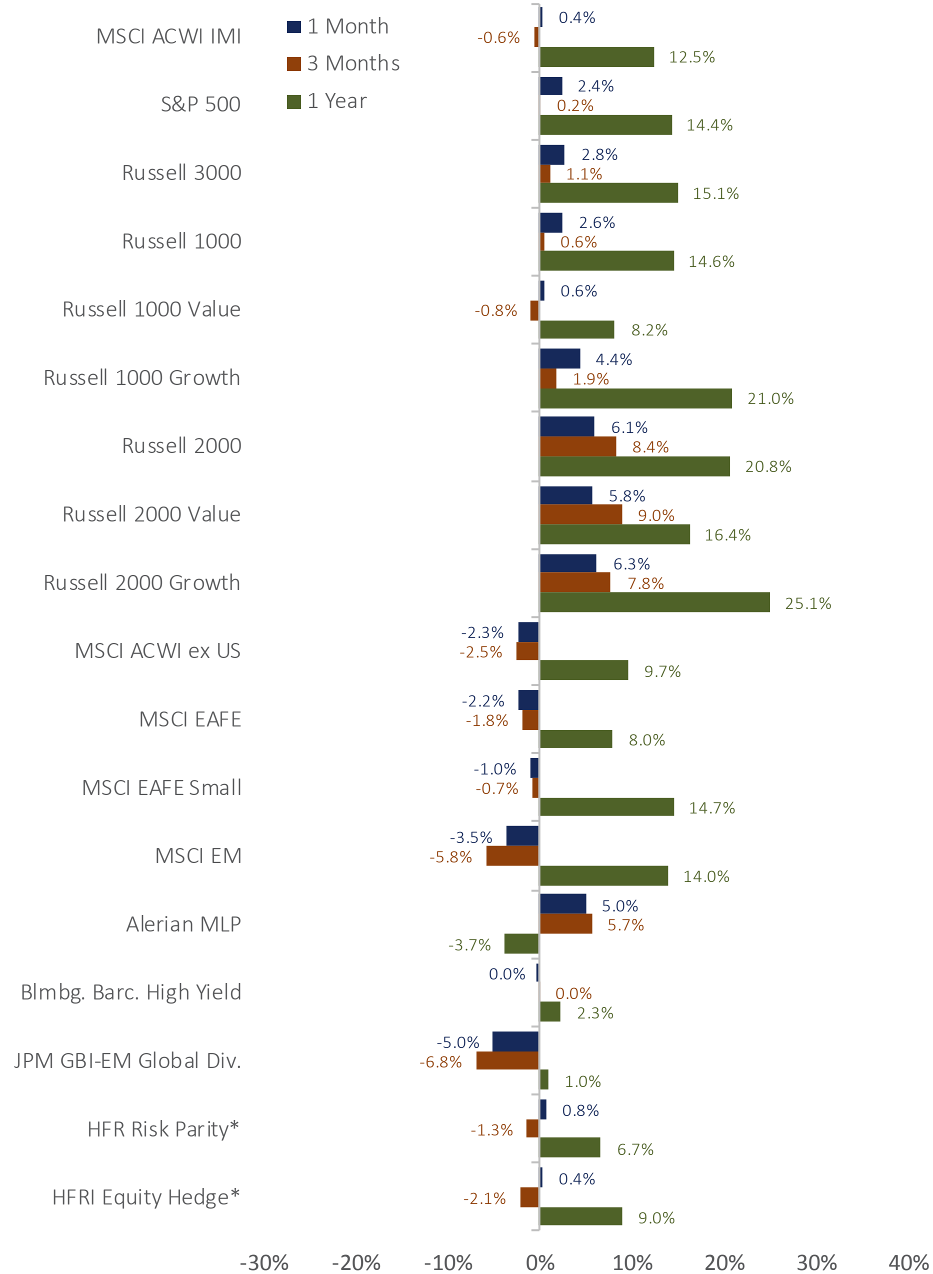
- High yield bonds were unchanged for the month as yields rose 16 bps to 6.4%. High yield spreads over treasuries ended at a 2018 high of 362 bps after widening 24 bps during the month; over the past 20 years high yield spreads have averaged 510 bps over treasuries.
- Local currency-denominated emerging market debt declined 5.0% during May, the worst return and largest monthly outflow from EMD funds since November 2016. Concerns over dollar strength and rising US rates drove outflows.

Private Assets

- At the end of Q1 2018, Preqin estimates there were 2,575 funds in market targeting a collective $844B in capital commitments. This robust fundraising and a competitive deal landscape has pushed dry powder levels to $1.09T. The industry typically sees a slowdown in fundraising activity at the beginning of each year as many funds aim to close prior to year-end. However, the private equity market witnessed its fewest fund closures during the first quarter of 2018 in the last five years.

Hedge Funds

- Risk parity strategies saw modest gains in April, as gains for nominal and inflation-linked bonds outpaced declines from equities and commodities.
- Growth hedge funds returned 0.4% in April, underperforming US equities by 50 bps.



*Data was not available at time of publication – returns are previous month's. All returns are USD.

Income Assets

Public Debt

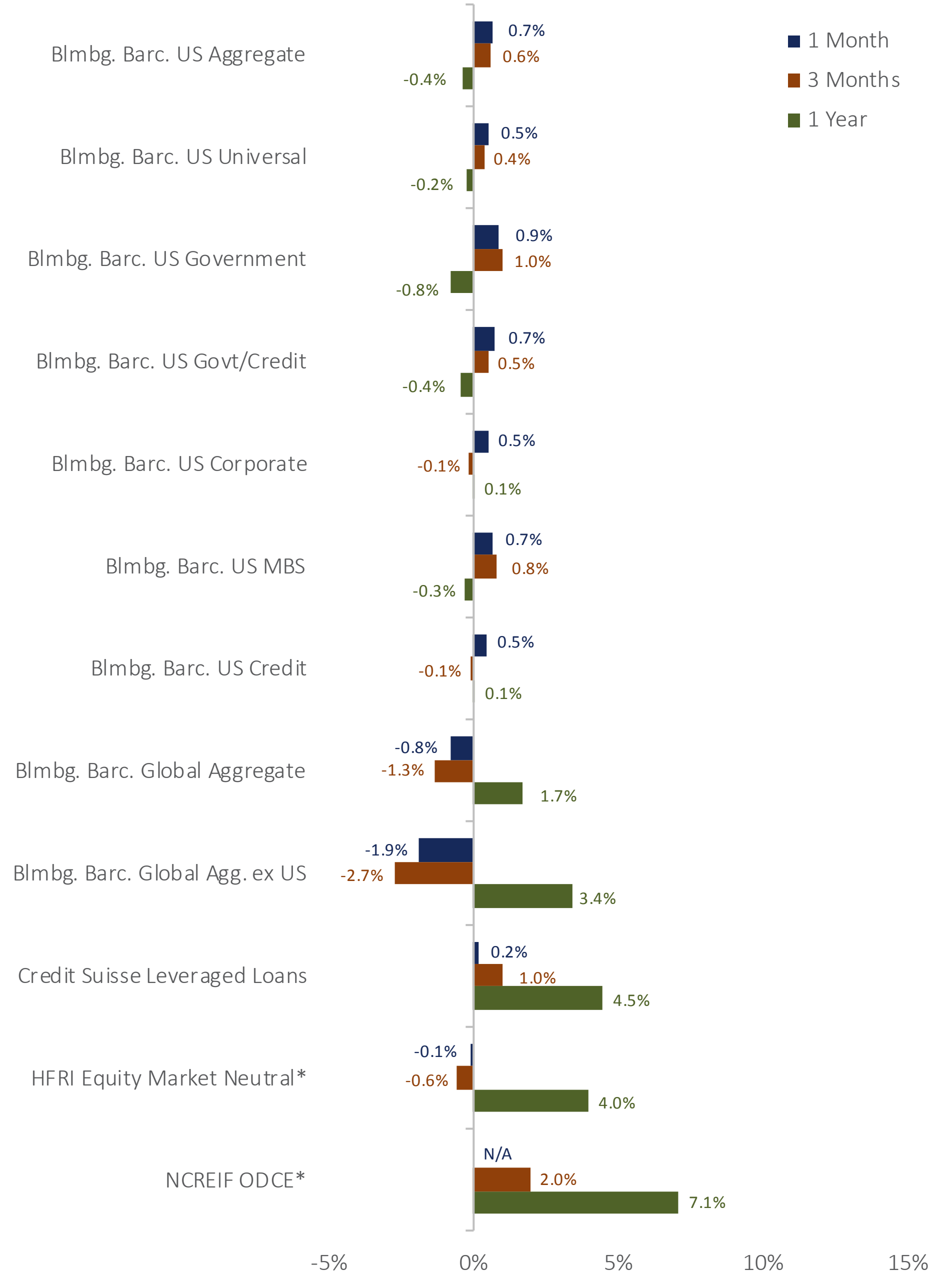
- The upward pressure on yields from strong US economic data was outweighed by the downward pressure from geopolitical concerns, and as a result the 10-year Treasury yield ended May 9 bps lower at 2.9%. To-date in 2018 10-year yields have risen 45 bps, with the rise in yields predominately driven by increased expectations for Federal Reserve rate hikes.
- The Bloomberg Barclays US Aggregate returned 0.7% for the month. Within the Index, credit modestly underperformed treasury allocations as credit spreads widened; the option-adjusted spread for corporate bonds over treasuries expanded by 7 bps to 115 bps. Credit spreads remain near their lowest levels since 2007.
- The Bloomberg Barclays Global Aggregate ex US underperformed the US Aggregate by 260 bps, resulting from appreciation in the dollar. Over the past year, however, the Global Agg ex US has outperformed the US Agg by 380 bps, primarily as a result of dollar depreciation versus foreign currencies.
- Public bank loans, as measured by the Credit Suisse Leveraged Loan Index, gained 0.2% during May. Investor demand for floating-rate debt during the year-to-date rise in yields has resulted in outperformance of bank loans over core fixed income and most other fixed income assets.

Relative Value Hedge Funds

- Relative value hedge funds saw a slight decline in April, outperforming core fixed income by 60 bps as yields rose. Over the past year ending April, relative value strategies gained 4.0% while the Bloomberg Barclays US Aggregate returned -0.3%.

Core Real Estate

- Core real estate returns for the first quarter were 2.2% gross and 2.0% net, bringing the one-year gain for core funds to 7.1% net. Core real estate gains have moderated from the 11%+ annualized returns of 2013-2015, but limited supply increases and continued strong demand have acted as tailwinds for the market.



*Data was not available at time of publication – returns are previous month's. All returns are USD.

Diversification Assets

Inflation

- TIPS returned 0.4% during May as real yields were unchanged while market-implied inflation expectations declined 10 bps. At the end of May, 10-year breakeven inflation expectations were 2.1%, up 10 bps from the beginning of 2018. 10-year real yields were 0.8% at the end of May and have doubled after beginning 2018 at 0.4%.

Deflation

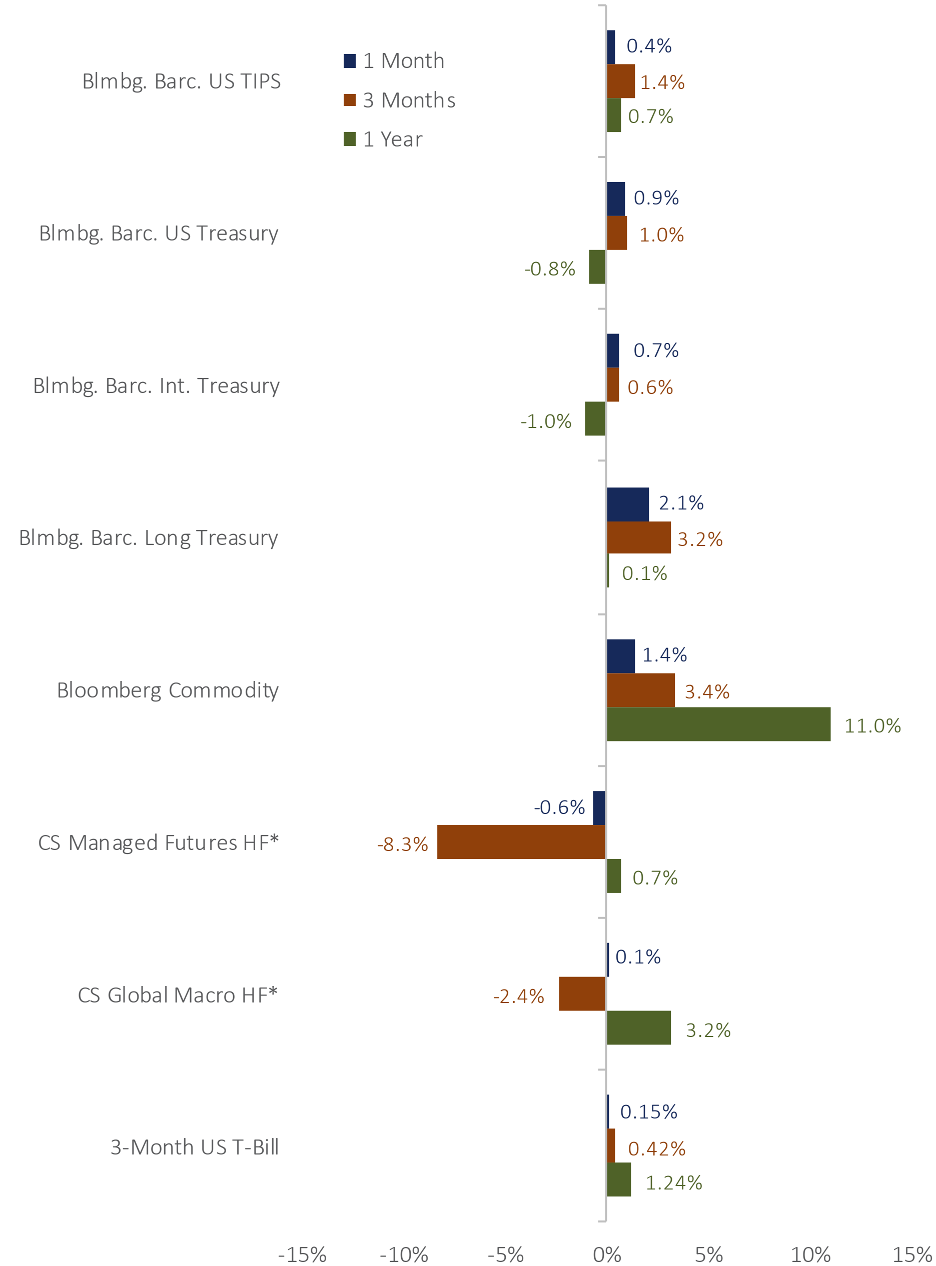
- The Bloomberg Barclays Long Treasury Index returned 2.1%, with the 30-year Treasury yield falling 10 bps to 3.0%. Over the past year, 30-year yields have risen 17 bps while yields on all other treasury maturities have risen by significantly more. Anchored long-term treasury yields suggest the bond market's pricing of long-term growth and inflation have not changed significantly over the past year. Continued strong demand for the perceived safety of US bonds from global investors has also capped yields at the long end of the curve.

Commodities

- The Bloomberg Commodity Index gained 1.4% during May as commodities continued their strong recent performance. Though oil declined 2.2% for the month, prices have increased 38.7% over the past year and have contributed significantly to commodity index gains; over the trailing 12 months the Bloomberg Commodity Index has returned 11.0%. The best-performing commodities for the month included lean hogs (15.6%), nickel (11.5%), and sugar (11.0%); detractors included live cattle (-15.1%) and soybean meal (-4.3%).

Tactical Trading

- Tactical trading strategies remained relatively flat in April, with managed futures declining 0.6% in aggregate and global macro funds gaining 0.1%. Shifting trends across asset classes have challenged managed futures funds, which have returned 0.7% over the past year.



*Data was not available at time of publication – returns are previous month's. All returns are USD.

Disclosures

Summit has prepared this presentation for the exclusive use of its intended audience. Any information contained in this report is for information purposes only and should not be construed to be an offer to buy or sell any securities, investment consulting, or investment management. The information herein was obtained from various sources, which Summit believes to be reliable. Summit cannot assure the accuracy of any third-party-generated numbers. Past performance is no guarantee of future results, and no graph, chart, or formula can, in and of itself, be used to determine which managers or investments to buy or sell. Any forward-looking projection contained herein is based on assumptions that Summit believes are reasonable, but which are subject to a wide range of risks, uncertainties, and the possibility of loss. Actual results and performance will differ from those expressed or implied by such forward-looking projections.

This report may contain opinions developed by Summit. Summit does not guarantee the accuracy or completeness of the information contained in this report. The opinions, market commentary, portfolio holdings, and characteristics are as of the date(s) shown and subject to change.

Private investments and hedge funds are subject to less regulation than other types of pooled vehicles. Alternative investments may involve a substantial degree of additional risk, including the risk of total loss of an investor’s capital and lack of liquidity, and therefore may not be appropriate for all investors. Clients should review the Offering Memorandum, the Subscription Agreement, and any other applicable documents prior to investing. Summit does not provide legal or accounting advice. Clients should consult with their own legal advisor and/or accountant on these opportunities, including the review of any Subscription Document, Offering Memorandum, or Partnership Agreement.

Summary statistical data such as standard deviation (risk), Sharpe ratio, and tracking error is calculated using industry-standard methodology. Details regarding these calculations are available upon request.