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

Monthly Economic & Capital Market Update

September 2017

Economy

- The global economy continued its expansion during September, supported by relatively strong growth across major regions. High levels of consumer confidence, corporate earnings growth, and central bank accommodation throughout the world have contributed to equity market gains; MSCI ACWI IMI gained 2.1% during September and has now risen in each of the last 11 months.

- The US economy experienced negative job growth for the first time in seven years in September. Employers shed 33,000 jobs, missing economists' expectations of 80,000 new jobs, largely due to the impact of Hurricanes Harvey and Irma. However, the unemployment rate declined 20 bps to 4.2%, its lowest level since 2001. Wage growth, as measured by the change in average hourly earnings of private sector workers, was 2.9% over the 12 months ending in September, an increase of 0.4% from August. Payrolls from August were revised upward by 13,000 total jobs.

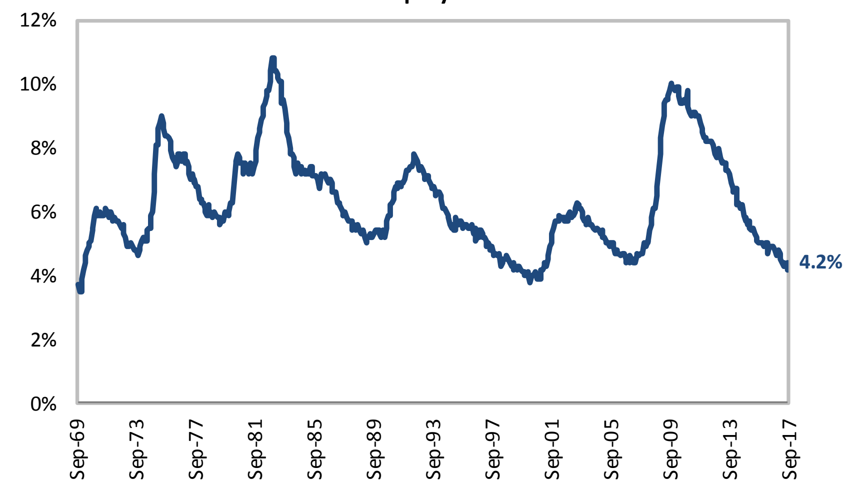
- Real GDP grew at a 3.1% annualized rate during the second quarter of 2017 according to the third estimate released by the Bureau of Economic Analysis. The increase in real GDP from 1.2% in the first quarter reflected positive changes in consumer and government spending, business investment, and exports. The Atlanta Federal Reserve currently projects 2.8% GDP growth for the third quarter, down from estimates near 4% earlier in the quarter as a result of hurricane-related effects.

- Economic activity in both the manufacturing and services sectors continues to expand, as measured by purchasing managers indices (PMI). The US ISM Manufacturing PMI increased 2.0 points in September to 60.8, its highest level since May 2004; an Index reading over 50 suggests expansion in the sector. Manufacturing has now been a boost to US growth for 13 consecutive months. The Non-Manufacturing (or services) PMI also continues to reflect strength, gaining 4.5 points in September to 59.8. US services have expanded 93 consecutive months.

Yield Curve

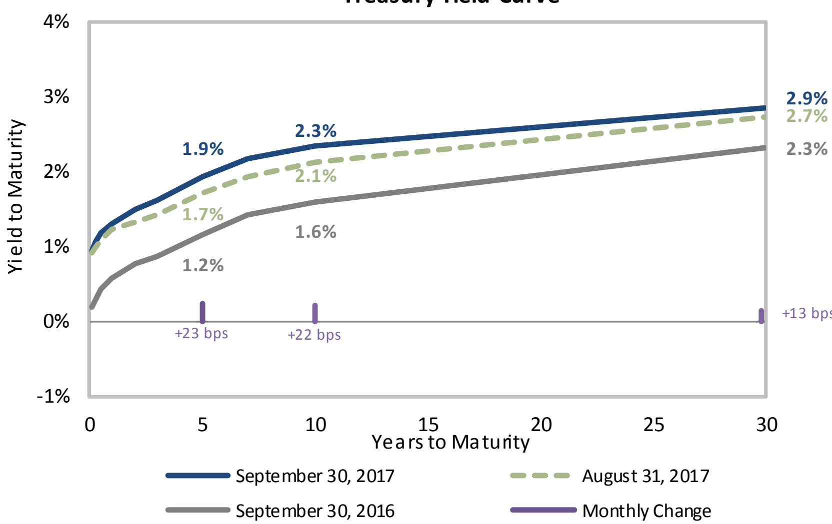
- The spread between 2-year and 30-year Treasuries tightened 3 bps to 137 bps in September. Over the past two years, the 2-30 spread has tightened by 82 bps, with the long end of the curve mostly unchanged while short-term yields have been lifted by Federal Reserve rate hikes. The 20-year average spread between 2-year and 30-year Treasuries is 191 bps.

Unemployment Rate



Source: Bloomberg.

Treasury Yield Curve



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Growth Assets

September 30, 2017

Public Equities

- Equity markets gained once again during September. Investors in the US reacted positively to economic data and remained optimistic about potential tax reform, as the S&P 500 increased 2.1%. Small caps outperformed their larger peers, as the Russell 2000 gained 6.2%. Outside the US, developed market equities outperformed emerging, rising 2.5% compared to -0.4%, respectively.
- Master limited partnerships (MLPs) returned 0.7% for the month, driven by strong performance in the energy services sector. Year-to-date, the Alerian MLP Index has returned -5.6% and the distribution yield has increased 60 bps to 7.7%.

Public Debt

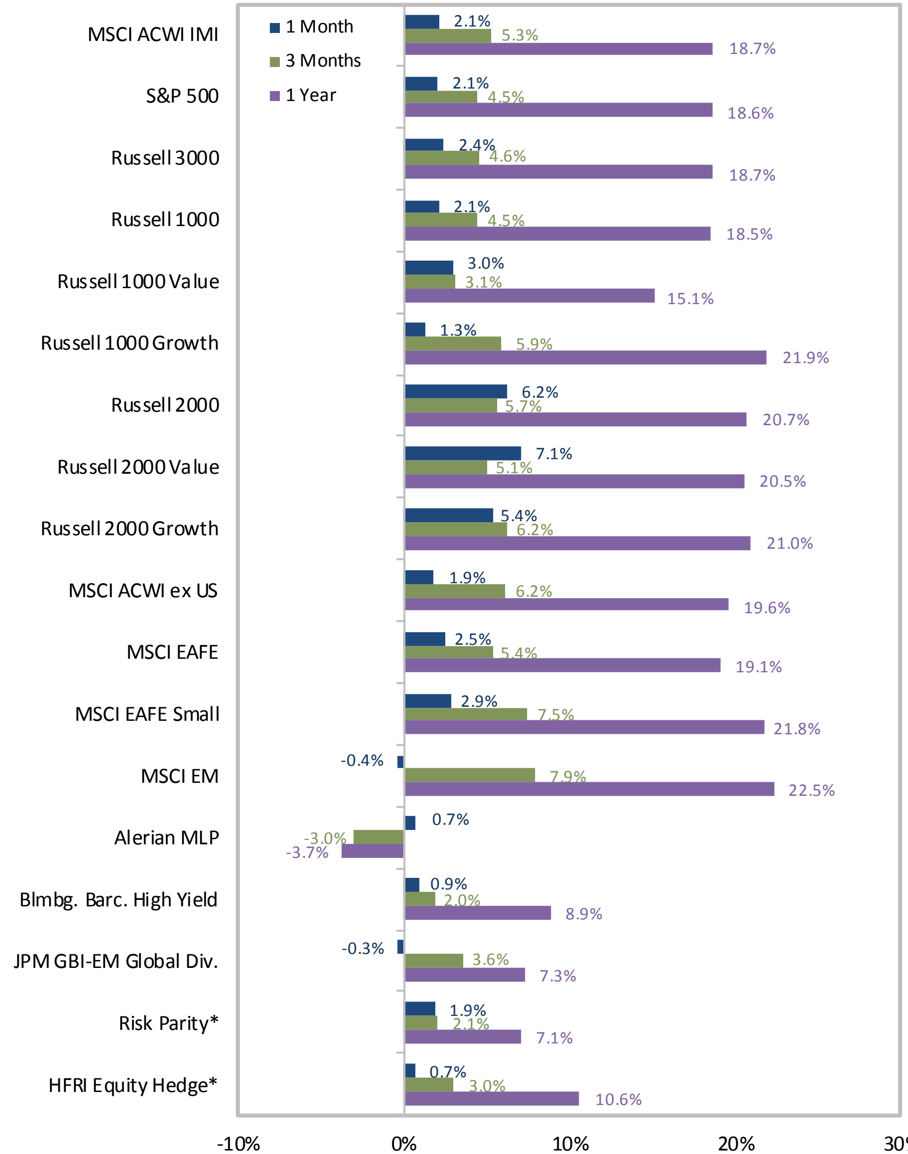
- The Bloomberg Barclays US High Yield Index returned 0.9% for September, benefitting from reduced macroeconomic tension, increased optimism regarding potential tax reform, and a rally in the energy sector. Spreads neared multi-year lows, tightening to 347 bps.
- Local currency-denominated emerging market debt returned -0.3% in September. Currency served as a headwind of -1.1% for the month, while principal added 0.8%. Emerging market local bonds ended September yielding 6.0% with duration of 5.1 years.

Private Assets

- Fundraising slowed in Q3 2017, as Preqin estimated total commitments of $96M versus $137M the quarter prior. However, of note is that Apollo Global Management raised the largest private equity fund in history at $25 billion of total commitments, indicative of the ongoing frothy environment for private equity. This increase in capital has caused LBO purchase price multiples to rise above 10x EBTIDA, following a slight decline in 2016.
- Leverage multiples have increased to over 5.5x EBTIDA in 2017, following a decline in 2016. We continue to see robust demand for private debt funds, as momentum increased in Q3 2017. This ongoing demand from investors has helped support higher leverage levels and kept a ceiling in place for average loan spreads.

Hedge Funds

- Risk parity strategies gained in August. Gains were driven by nominal bonds, while inflation-linked bonds and equities also contributed. Commodity allocations were mostly unchanged.
- Growth hedge funds contributed in August. Equity long/short funds gained, while activist strategies detracted. Distressed and merger arbitrage strategies were flat.



* 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

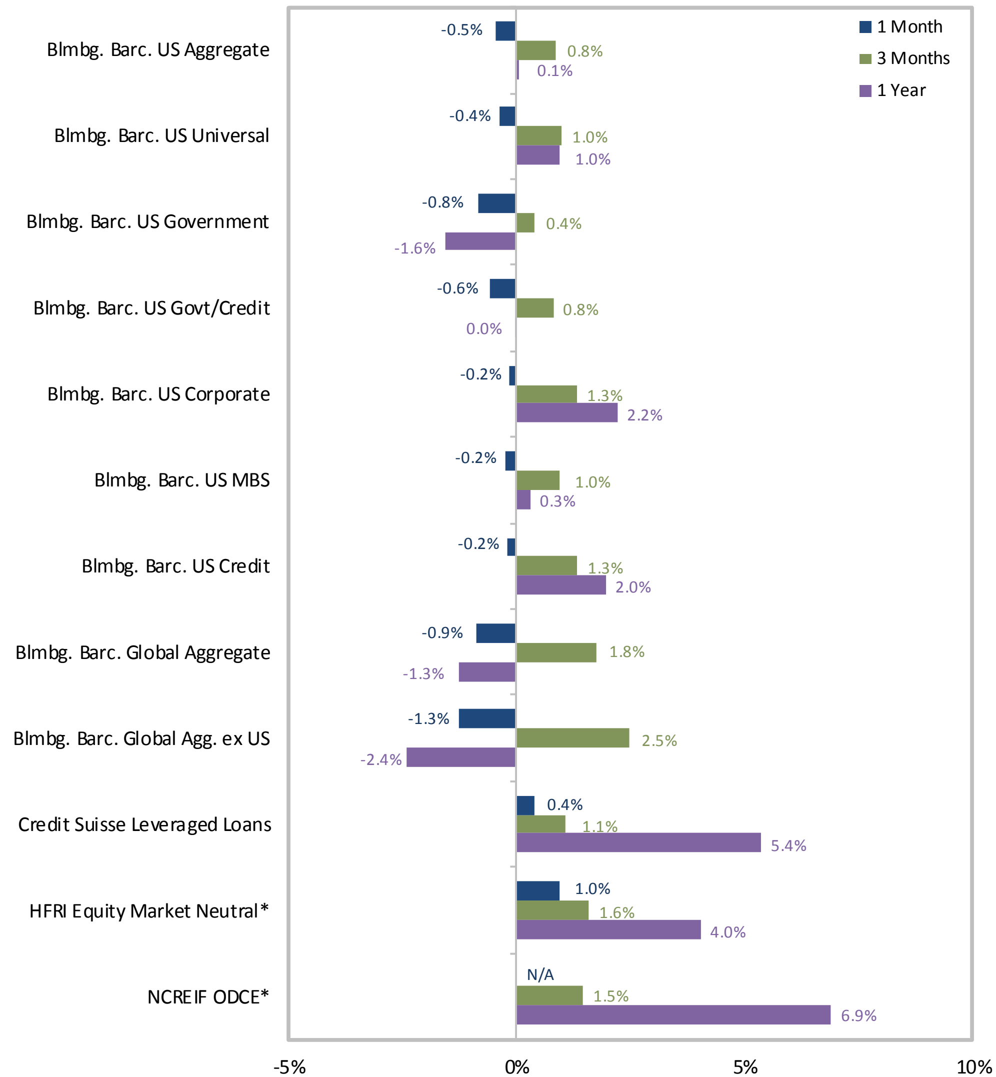
- At its September meeting the US Federal Reserve announced it will begin reducing its holdings of Treasuries and mortgage-backed securities in October. As a result of Quantitative Easing, the Fed's balance sheet has expanded nearly $3.5 trillion since 2007 to $4.5 trillion. Given the progress made in the economy during the recovery from the financial crisis, the Fed views the current environment as an opportunity to begin normalizing its balance sheet and create 'dry powder' for the next economic downturn. While the Fed does not expect this to significantly impact the economy or markets, going forward a significant buyer of fixed income will be slowly exiting the market.
- The 10-year US Treasury yield ended September at 2.3%, up 21 basis points from August. Yields increased as geopolitical concerns eased, clearing the pathway for another potential Fed rate hike this year.
- The Bloomberg Barclays US Aggregate returned -0.5% in September, bringing year-to-date returns to 3.1%. Treasuries were the worst performing sector in the Index given their higher duration. Spreads tightened in the corporate sector.
- The Bloomberg Barclays Global Aggregate returned -0.9%. Principal was the primary driver of performance, detracting 0.7%, while currency detracted 0.4% and coupon added 0.2%.
- Public bank loans, as measured by the Credit Suisse Leveraged Loan Index, returned 0.4%. Three year discount margins decreased by 4 bps, ending the month at 432 bps. B-rated issues were the top performer in the Index.

Relative Value Hedge Funds

- Relative value hedge funds gained in August, with the strongest contribution from equity market neutral strategies. Volatility and credit arbitrage strategies also contributed, while convertible arbitrage was flat.

Core Real Estate

- Core real estate returns for the second quarter of 2017 were 1.7% gross and 1.5% net, bringing the one-year gain for core funds to 6.9%. Strong but declining gains in the commercial real estate market have been supported by the US cyclical expansion, with strong labor market growth fueling demand while supply remains limited. 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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Inflation

- TIPS were down slightly during September, as real yields rose due in part to the release of the Republican tax plan outline. Consistent with mostly strong economic data during the month, 10-year inflation expectations rose 8 bps to 1.85%, near the 10-year average of 1.98%. Despite improvements in the economy and progression through the business cycle, market participants are still expecting inflation to fall short of the Federal Reserve's 2% target over the next decade.

Deflation

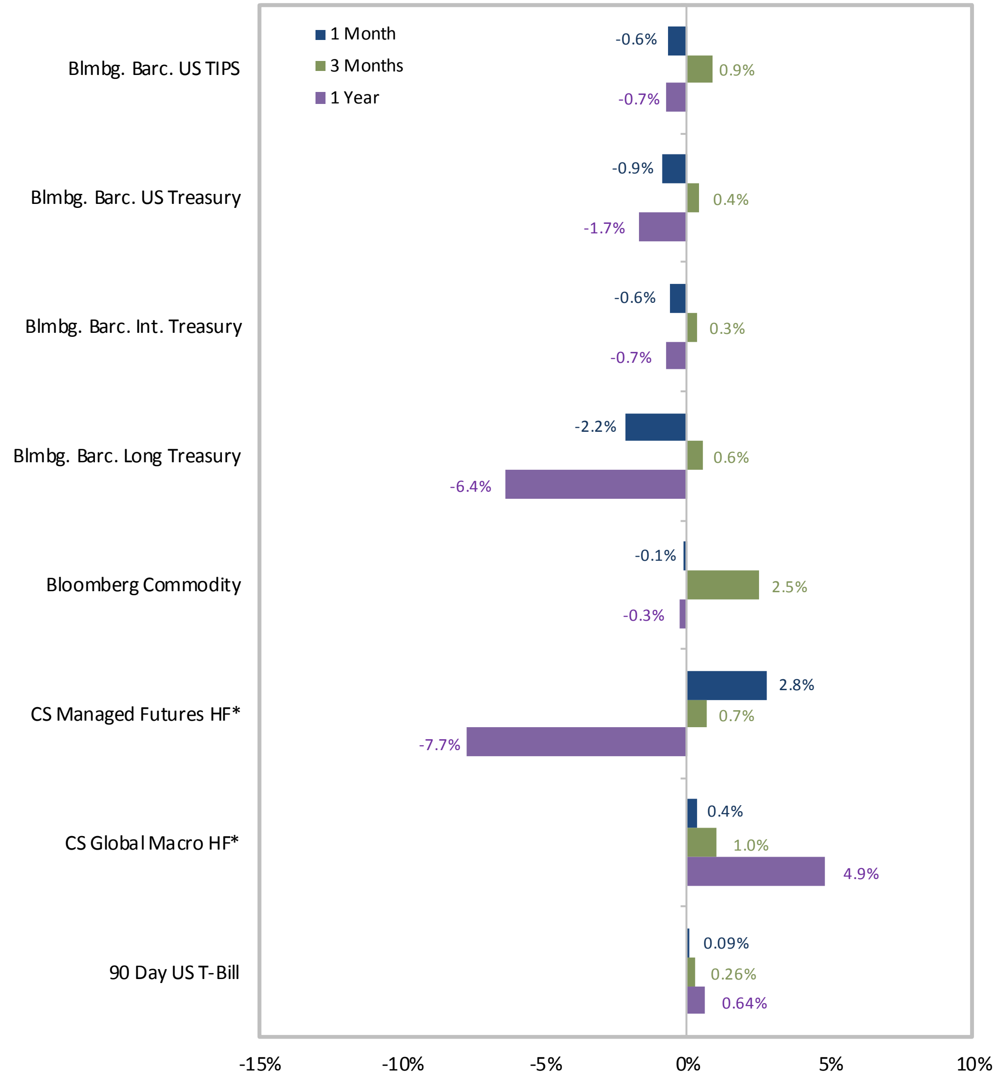
- The Bloomberg Barclays Long Treasury Index returned -2.2%, with -2.4% being related to price return, as long-end yields rose during the month. Yields for the Index ended at 2.8% compared to 2.6% at the end of August.

Commodities

- The Bloomberg Commodity Index returned -0.1%, as strong performance by grains was offset by poor performance by industrial and precious metals. The Bloomberg Commodity Index returned -0.3% for the trailing year, as strong performance by industrial metals was offset by soft commodities.

Tactical Trading

- Tactical trading hedge funds performed well in August, with strong performance in managed futures strategies. Discretionary global macro also contributed modestly.



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