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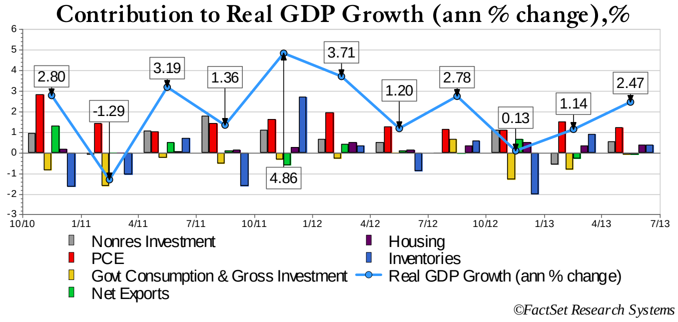
Market Review

September 2013

Economic Review

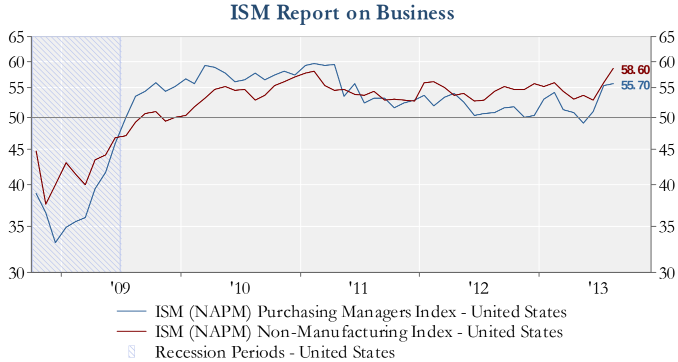
Second quarter U.S. real GDP growth was unchanged at 2.5% according to the third and final estimate from the Bureau of Economic Analysis, below the consensus estimate of 2.7%. The increase in real GDP during the second quarter primarily reflected positive contributions from personal consumption expenditures (PCE), fixed investment, and private inventory investment that were partly offset by a negative contribution from federal government spending. Second quarter growth was more than double the 1.1% growth rate of the first quarter, but was sluggish compared to historical growth rates. The economic expansion following the 2007-2009 recession is the weakest of the post-second World War era.

Contribution to Real GDP Growth (ann % change),%



Manufacturing reports released in September were mixed. Industrial production increased 0.4% in August after declining slightly in July. The Chicago Fed's National Activity Index turned positive in August for the first time since February. The data of several regional manufacturing indices reflected a softening of manufacturing activity, while the August ISM manufacturing and non-manufacturing data came in stronger than expected during August. The ISM Manufacturing Index rose 0.3% to 55.7, the fastest pace in over two years. New Orders rose 4.9% from last month to 63.2%, the highest level since April 2011; however, the Production index fell to 62.4 from 65

ISM Report on Business

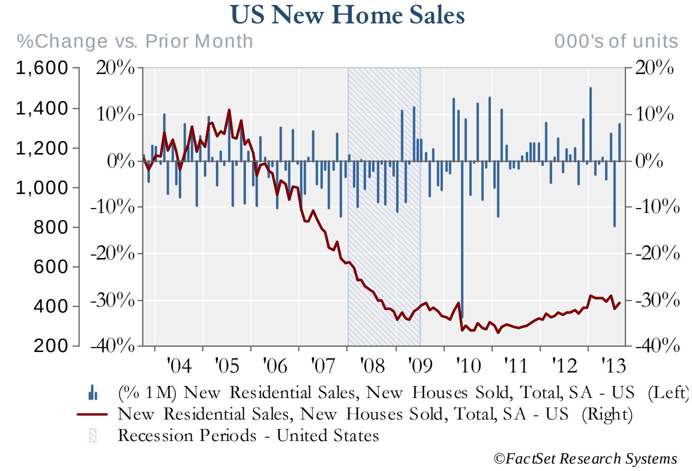


and the employment gauge decreased 1.1% to 53.3. The Non-manufacturing index increased to nearly an eight year high of 58.6, from 56 the prior month, as business activity and new orders expanded the most in over two years. A reading above 50 indicates expansion, while a reading below 50 indicates contraction.

Personal Income rose 0.4% in August, the highest since February. Personal Spending activity remained modest, rising 0.3%, up from 0.2% in July. The Personal Saving rate edged higher to 4.6%. Retail Sales increased 0.2% in August, rising for the fifth consecutive month led by strong car sales. Retail Sales ex-autos and gas posted an increase of 0.1%.

The S&P/Case-Shiller Home Price Index 20 city average continued to show positive momentum in home prices with a 12.4% year over year increase in July. Existing home sales posted a strong 1.7% gain in August, possibly reflecting buyers' fear of higher mortgage rates surrounding the Fed's discussion of tapering. New home sales rebounded in August, rising 7.9% to 421,000 from a downwardly revised 390,000 in July. Pending home sales declined for the third consecutive month, reflecting a slowdown in purchase activity. Housing starts rose 0.9% to 891,000, lower than the 917,000 expected.

US New Home Sales



Inflation remained below the top of the range of what the Federal Reserve considers acceptable. The PCE deflator was up just 1.2% on year over year basis and the Core PCE deflator, which excludes food and energy, also was up 1.2%, both well below the Fed's target of 2%. The Consumer Price Index (CPI) rose 0.1% in August, less than the 0.2% expected, while year over year CPI rose 1.5%. Core CPI increased 0.1% in August and is up 1.8% on a yearly basis. Wholesale prices, as measured by the Producer Price Index (PPI), came in slightly above consensus forecasts, rising

0.3% during August. Core PPI remained unchanged. Year over year, PPI and Core PPI are now up 1.4% and 1.1%, respectively. The 5 year,5 year forward breakeven inflation rate closed at 2.45% in August, an increase of 7 basis points from August.

The Federal Open Market Committee (FOMC) surprised the markets by leaving monetary policy unchanged in September after alluding to tapering during the past few months. The FOMC may have been surprised by the violent sell-off in the aftermath of its tapering comments noting, "the tightening of financial conditions observed in recent months, if sustained, could slow the pace of improvement in the economy and labor market". The Chairman also noted uncertainty surrounding fiscal policy.

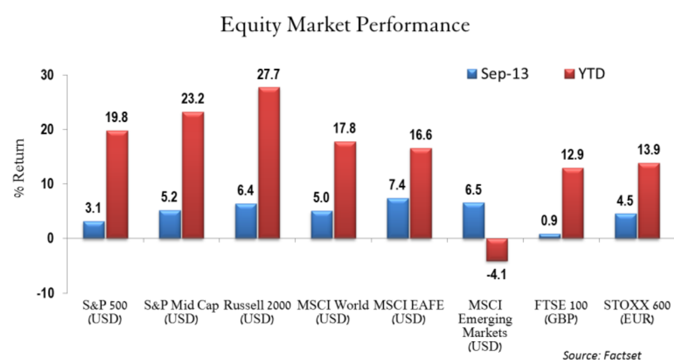
Japanese second quarter GDP was revised up to an annualized 3.8% growth rate, from 2.6%, driven by significant improvements in capital expenditures from the private sector. Prime Minister Shinzo Abe has pushed aggressive stimulus policies in effort to reflate the Japanese economy, and the stronger growth recently is being interpreted as evidence that the policies are accomplishing that goal. In China, the Purchasing Managers Index (PMI) edged up to 50.2 in September, showing an improvement driven by Beijing's July infrastructure stimulus and property market strength. HSBC also raised its Chinese GSP growth forecast from 7.4% to 7.7%.

Economic data across Europe in September fueled optimism that the recovery is picking up steam. Retail sales rose 0.7% in August, and much of the improvement was due to substantial increases in Spain and Portugal. In addition, the Eurozone PMI rose to a 27-month high of 52.2 in September from 51.5 in August. Unemployment, however, continues to lag the broader economic improvement across Europe, as the unemployment rate sits at a near record of 12%. In Germany, Angela Merkel won reelection of Chancellor in the national elections, which seemingly validates the measures pushed by the German leader in handling aid to struggling Eurozone countries.

Equity Markets

Equity markets rallied across the board in September, recovering from a poor month in August and adding to strong year-to-date performance. The S&P 500 rose 3.1% in September, and is up 19.8% in 2013. Domestic Mid and Small Cap stocks performed better, each adding over 5%. International stocks posted strong results in September as well, as the MSCI World Index gained 5% and the MSCI EAFE added 7.4% in USD terms. Emerging Markets (EM) gained 6.5%, though the index continues to post year-to-date losses. The FTSE 100 and STOXX 600 indices, the main benchmarks for British and Eurozone stocks, gained 0.9% and 4.5% in September respectively.

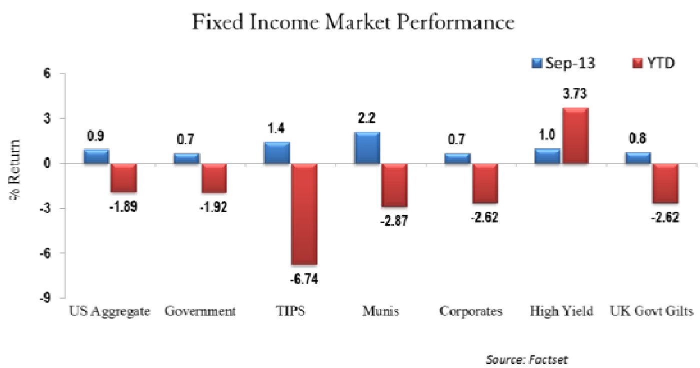
Equity markets continue to be highly sensitive to announcements by the Federal Reserve and speculation surrounding stimulus programs. Stocks rose strongly into mid-month, and rallied over 1% after the September 18th announcement from the Federal Reserve that the committee would not taper bond purchases in the short term. In addition, Larry Summers' withdrawal from consideration for the Fed Chairman position has left Janet Yellen as the clear frontrunner. Yellen, a former San Francisco Fed President, is viewed as a dove, leading to further speculation of continued stimulus. The equity markets were likewise calmed by improving international conditions in September. After a military engagement in Syria seemed all but assured in August, a breakthrough between American, Russian, and Syrian officials led to an agreement under which Syria will voluntarily surrender its cache of chemical weapons to international authorities.



Bond Markets

U.S. Bond markets, as measured by Barclays U.S. Aggregate, were up 0.9% in September. Markets were focused on the FOMC decision during the first half of the month. U.S. Treasury rates had pushed higher over the prior four months in anticipation of a partial withdrawal of stimulus, with the 10 Year Treasury yield touching 3% on September 5th. The Fed's decision not to taper pushed the yield on the 10 Year Treasury down 15 bps in the hours following the news. Dovish comments from Federal Reserve officials and rising uncertainty about looming political showdowns over the federal budget and the debt ceiling helped support Treasuries during the second half of the month. Credit spreads remained flat in September, with the credit index option adjusted spread OAS at +135 basis points over Treasuries.

Yields on the 10-year and 30-year U.S. Treasury Bonds declined 18 and 1 bps, respectively. The 10-year Bond closed at 2.62%, while the 30-year Bond closed at 3.69%. The yield on German 10-year benchmark bonds declined 7 bps to close September at 1.78%. The yield on UK 10-year benchmark bonds declined 5 bps to close at 2.54%.



Commodities

The S&P GSCI Total Return Index, a gauge of 24 leading raw materials, lost 3.39% in September. Energy and Precious Metals posted large losses to lead the index lower. The Precious Metals sub-index was the worst performer, losing 5.3% in September and is now off 22.28% year-to-date. The Petroleum and Energy sub-indices each lost over 4%, as a calming in the Middle East (specifically Egypt and Syria) pulled energy-related commodities lower after a strong rally in August. The Softs sub-index, which tracks crops such as coffee, sugar, and grains, was the strongest sub-index in September, gaining 5.17%. A rebound in emerging market currencies and a weakening US Dollar helped the Softs index, a major component of emerging economies.

Cocoa was the strongest performing commodity in September, as a forecast of insufficient supply and strengthening of emerging market currencies led the commodity 8.37% higher. Sugar rallied 7.82% in September, similarly fueled by strengthening currencies and a weak Brazilian harvest. Crude Oil fell 4.17% and the refined products (Gasoil, Gasoline, and Heating Oil) each fell over 5%. Gold fell 4.95% and Silver fell 7.68%, though both spiked on September 18th following the Fed's announcement to maintain current levels of stimulus.

Currency

The US Dollar Index, a measure of the Dollar against six trading partners, lost 2.27% in September to close at 80.2. The US Dollar weakened more than 1% immediately following the Fed's announcement to refrain from reducing asset purchases. The US Dollar had gained strength and reached a 3-year high on July 9th. New Zealand's Dollar rallied 7.7% against the US Dollar, the biggest gainer amongst sixteen trading partners. The Euro climbed 2.7% against the US Dollar to close at 1.3536 USD/Euro and the British Pound rallied 4.7% against the US Dollar to close at 1.6194 USD/GBP.