CAPITAL MARKETS REVIEW
3Q2013

RVKuhns & ASSOCIATES, INC.

OVERVIEW
September 30, 2013

Faced with softer U.S. economic growth, fiscal policy uncertainty, and minimal inflationary pressure, the Federal Reserve surprised many market participants in September with its decision to delay tapering of its quantitative easing (QE) program. Global Equity markets rallied in response and produced positive results for the quarter, while Fixed Income re-gained some lost ground from the prior quarter's declines. The headline unemployment rate declined from 7.6% to 7.3% during the quarter. Job growth has been slow but steady, with a significant portion of the improvement due to reduced labor force participation. While real GDP growth remains low, stock prices traded near record highs intra-quarter and bond yields remain near historical lows. Despite the increasing threat of U.S. involvement in Syria, geopolitical events had limited market impact.

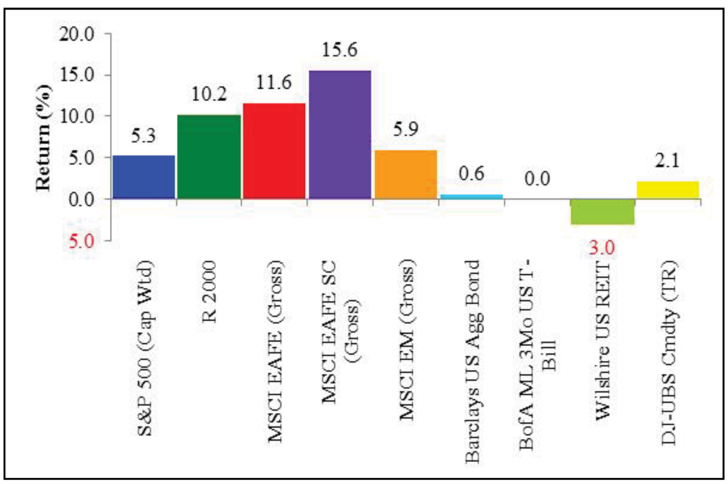
Also in September, Larry Summers withdrew his candidacy to succeed Ben Bernanke as the Chairman of the Federal Reserve when his term ends in January. With the withdrawal of Mr. Summers, most experts concluded that Vice Chairwoman Janet Yellen would be the leading candidate. President Obama validated this belief with his formal nomination of Ms. Yellen in early October. Markets generally responded positively, as the prevailing view is that Ms. Yellen will adhere to a more accommodative monetary policy, perhaps further delaying the tapering of QE.

The Fed has simultaneously quadrupled the size of its balance sheet through QE programs and the U.S. federal government now has the highest public debt levels relative to GDP since post-WWII. These developments appear to be magnifying political polarization. On the last day of the quarter, Congress missed its deadline to continue funding discretionary spending, forcing a partial government shutdown. While the third quarter generated positive performance overall, Equity markets declined late September in anticipation of the shutdown and continued to sell-off in the fourth quarter as the shutdown persisted as of the release of this commentary. Investors are becoming increasingly uneasy with the Congressional impasse on raising the nation's borrowing limit. While most experts believe that Congress will resolve the situation (at least temporarily) by the October 17th deadline, the previously unthinkable outcome of a U.S. debt default has at least entered the realm of possibility.

TRAILING PERIOD PERFORMANCE

	QTD	CYTD	1 Year	5 Years	10 Years
S&P 500 (Cap Wtd)	5.3	19.8	19.3	10.0	7.6
R 2000	10.2	27.7	30.1	11.2	9.6
MSCI EAFE (Gross)	11.6	16.6	24.3	6.9	8.5
MSCI EAFE SC (Gross)	15.6	22.4	29.8	11.8	10.7
MSCI EM (Gross)	5.9	4.1	1.3	7.6	13.2
Barclays US Agg Bond	0.6	1.9	1.7	5.4	4.6
BofA ML 3Mo US T-Bill	0.0	0.1	0.1	0.2	1.7
Wilshire US REIT	3.0	2.7	5.3	5.6	9.4
DJ-UBS Cmdty (TR)	2.1	8.6	14.4	5.3	2.1

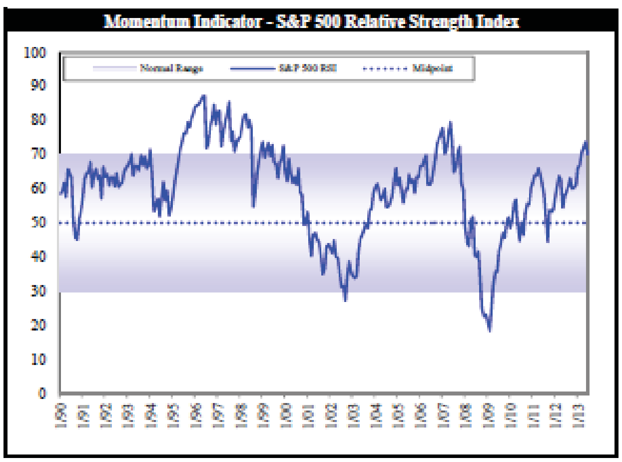
QTD PERFORMANCE



ASSET CLASS COMMENTARY

U.S. Equity

The U.S. Equity market produced positive returns in July and September, with a correction period occurring in August. The quarter resulted in positive returns overall. High beta stocks continued to outperform low beta stocks, supporting the view that a risk rally continues as investors are willing to pay more for companies with less stable financial profiles. Investment managers have expressed some concern that the rally has become overheated, but many remain positioned for a slight upward trend heading into the fourth quarter. Managers are expecting a mixed market due to ongoing macro concerns, apprehension that the Fed will tighten in 2014, and valuations potentially reaching peak levels in the fourth quarter.



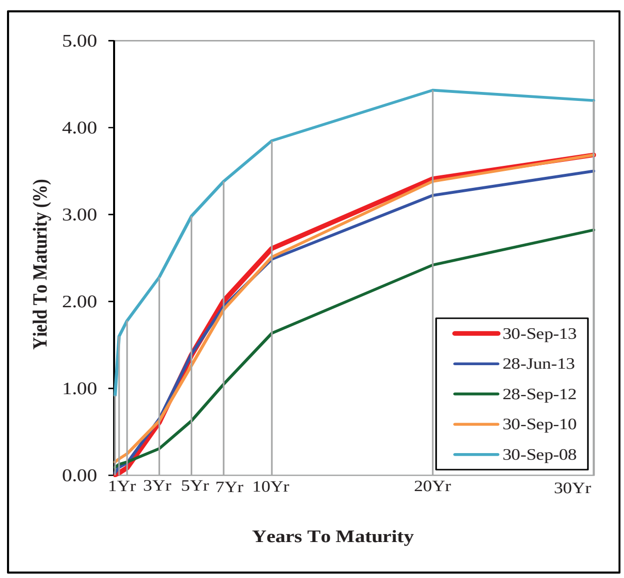
Non-U.S. Equity

Despite increased international market volatility, the quarter ended in positive territory for most markets including Emerging Markets. Investors shifted away from those areas of the markets that have been perceived as "safe" and started moving into more economically sensitive areas of the market. While all sectors were positive for the quarter, defensive sectors such as Health Care, Consumer Staples, and Utilities were the worst performing. Telecom, Materials, and Industrials were the best performing international sectors with double digit returns.

The dollar depreciated slightly relative to other developed market currencies which improved returns for U.S. based investors (as investments made in other currencies appreciated). The MSCI EAFE index in U.S. Dollar terms outperformed local currency returns by over 400 bps. The three-year return for Emerging Markets has been flat while nearly all other equity markets have rallied significantly. Despite this potential value opportunity, managers have been cautious with respect to rotating into Emerging Markets, particularly into commodity sensitive securities.

Fixed Income

After a difficult second quarter, Fixed Income markets regained lost ground, although not without interest rate volatility. The 10-year yield rose 30 basis points in July and August as investors anticipated "tapering" of the Fed's current bond purchase strategy and dropped 17 basis points in September after learning the Fed would continue asset purchases. Demand for Mortgage Backed Securities (MBS) re-emerged after the Fed announced it would continue to purchase $40 billion per month of MBS under the QE program. Credit sectors also contributed to performance, led by Bank Loans and High Yield. Lower rated High Yield has been the best performing Fixed Income sub-sector, up over 9% year-to-date. During the quarter, Emerging Market debt returns stabilized somewhat, however, returns remain negative for the year.



ASSET CLASS COMMENTARY (continued)

Absolute Return Strategies

Based on early performance estimates, Multi-Strategy Funds of Hedge Funds (FoHF) posted positive results in the third quarter, with returns ranging from 1% to 2%. Performance for direct Hedge Funds in the quarter varied significantly by strategy, but Long-biased Long/Short Equity extended its year-to-date trend as a leading return generator. FoHF managers with heavier exposure to this strategy have generally outperformed, while those with dedicated short equity exposure have typically lagged peers given the stock market strength year-to-date. As was the case in the second quarter, Managed Futures strategies were among the weakest performing strategies in the third quarter given intra-quarter market reversals and a lack of consistent trends.

Some Hedge Funds reduced long net exposures towards quarter-end given uncertainty surrounding a partial shutdown of the U.S. government and the looming deadline to raise the debt ceiling. Year-to-date through the end of the third quarter, Multi-Strategy FoHF returns range from 5% to 9%. These managers are on pace to exceed T-Bills+5% for a second straight year, although many still lag on a trailing three year basis.

Global Tactical Asset Allocation (GTAA) / Liquid Alternative Strategies

During the third quarter, continuing strength in the U.S. Equity market was overshadowed by the effects of a growth rebound in Europe as the fragile region emerged from recession. Emerging Markets, while also positive during the quarter, lagged their developed counterparts across the capital structure due to evolving balance of payments issues in India, Indonesia, Brazil, and Turkey. As a result, value biased GTAA managers that remain long Emerging Markets relative to developed economies continued to struggle. U.S. long duration Fixed Income was a headwind until September 18th when the Fed announced it would table the “taper talk” as yields rose only marginally during the quarter. Global Bonds rallied to the tune of 2.8% as measured by the Barclays Global Aggregate.

While underlying GTAA managers differ significantly in allocations, the majority are cautiously positioned while emphasizing return-oriented sub-strategies due to less favorable outlooks for traditional asset classes such as domestic fixed income.

Diversified Inflation Strategies (Real Return)

Despite a muted inflationary environment, Diversified Inflation Strategies managed to post positive returns in the third quarter after sustaining three straight quarters of weak performance. In a dramatic reversal from last quarter, natural resource equities and precious and industrial metals experienced strong returns. Managers with strategic allocations generally outperformed over this period. Exposures to energy also appreciated following continued tension in the Middle East.

While third quarter performance was favorable, one-year inflation expectations (as measured by the market implied breakeven rate) fell again to 0.4%, suggesting a challenging near-term environment for Diversified Inflation Strategies.

Real Estate

Core U.S. Real Estate continued its strong 2013 gains through the third quarter. Preliminary results show the underlying funds within the ODCE benchmark gained between 2.6% and 4.3% during the quarter.

U.S. REITs posted a negative 2.9% return for the quarter. The underperformance was largely attributed to rising interest rates as the market reacted negatively mid quarter to the Fed’s intent to eventually taper its bond buying program. Non-U.S. REITs posted strong gains, led by Japan and the United Kingdom, posting quarterly gains of 13.5% and 12.9% respectively in USD terms.

Most major markets and property types continue to show improving rents and occupancies, indicating that the recovery in commercial real estate is well underway. Major transactions during the quarter included DDR and Blackstone partnering in a $591 million of acquisitions across nine prime retail power centers.