CAPITAL MARKETS REVIEW
Q4 2013

RVKuhns & ASSOCIATES, INC.

OVERVIEW
December 31, 2013

The fourth quarter capped off an impressive year for domestic equity markets, with the S&P 500 returning 10.5% for the quarter and 32.4% for the year. The US bond market, on the other hand, had a challenging year, finishing the quarter -0.1% and ending the year -2.0%. This marks the first negative year for bonds in over fourteen years. While there are concerns around future interest rate hikes, the steep yield curve suggests the market is already pricing in substantial rate increases during 2014. During the quarter, the US once again flirted with default in October as politicians clashed over appropriations and the debt ceiling. After a 16-day federal shut-down, both sides came to an interim agreement on appropriations and postponed the debt ceiling until February 7, 2014.

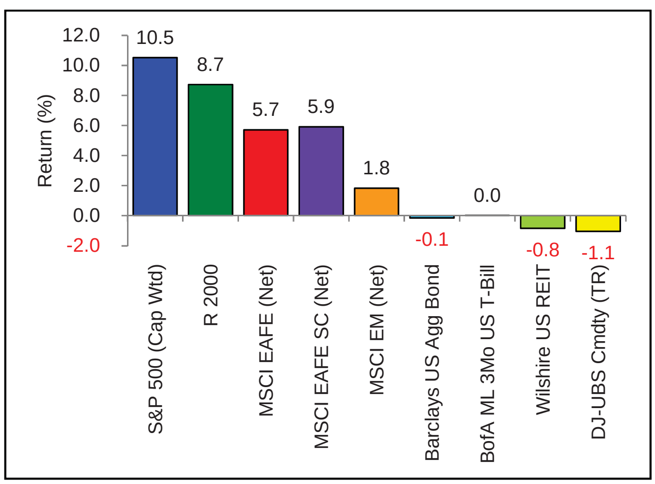
After the Federal Reserve surprised markets in September by not reducing the pace of their Quantitative Easing (QE) program, positive economic news allowed for a modest reduction in purchases from $85 billion per month to $75 billion to begin in January 2014. While the Fed is expected to continue to reduce asset purchases throughout 2014, further reductions will be data-dependent and the timeline for a full exit from QE remains unknown. The Fed also stated that they will likely keep the Federal Funds Rate at 0.00-0.25% even after unemployment has reached their 6.5% threshold. While Ben Bernanke will be replaced as Fed Chair by Janet Yellen after the next Fed meeting on January 28-29, expectations are that her policies will largely be an extension of Mr. Bernanke's previous agenda.

Federal actions were largely consistent with economic indicators, which continued to show progress throughout the quarter. The unemployment rate dropped to 7.0% on job gains of 203,000 in November and 200,000 in October. While strong jobs numbers are a positive sign for the economy, a persistently low participation rate suggests that the job market is not yet back to full health. Final GDP figures for Q3 were revised upwards from an initial reading of 2.8% to 4.1% based on stronger consumer spending and private inventory growth, while inflation remains tepid at 1.7%. Home prices also ended the year on a strong note, with the S&P/Case-Shiller index up 13.6% year-over-year despite mortgage rates rising 1.2% in 2013.

TRAILING PERIOD PERFORMANCE

	QTD	CYTD	1 Year	5 Years	10 Years
S&P 500 (Cap Wtd)	10.5	32.4	32.4	17.9	7.4
R 2000	8.7	38.8	38.8	20.1	9.1
MSCI EAFE (Net)	5.7	22.8	22.8	12.4	6.9
MSCI EAFE SC (Net)	5.9	29.3	29.3	18.5	9.5
MSCI EM (Net)	1.8	-2.6	-2.6	14.8	11.2
Barclays US Agg Bond	-0.1	-2.0	-2.0	4.4	4.6
BofA ML 3Mo US T-Bill	0.0	0.1	0.1	0.1	1.7
Wilshire US REIT	-0.8	1.9	1.9	16.7	8.4
DJ-UBS Cmdty (TR)	-1.1	-9.5	-9.5	1.5	0.9

QTD PERFORMANCE



ASSET CLASS COMMENTARY

U.S. Equity

Active management performance improved due to an increase in market breadth, a decrease of intra-stock correlations to long-term averages, and a greater role of fundamentals in determining stock prices. Under such conditions, active managers tend to be more effective in identifying individual securities positioned for outperformance. On the other hand, with domestic equity markets returning over 30% for the year, the incremental value-add for active management was less pronounced in 2013.

Growth indices slightly outperformed value for the year. Within large cap indices the Russell 1000 Growth outperformed the Russell 1000 Value by 95 basis points. The Russell 2000 recorded its fourth best year ever, and the spread between growth and value names was more pronounced relative to large cap. For small caps, the first half of 2013 was defined by strength in healthcare and weakness in interest rate-sensitive sectors. The second half of the year was led by stocks with higher earnings growth and P/E multiples.

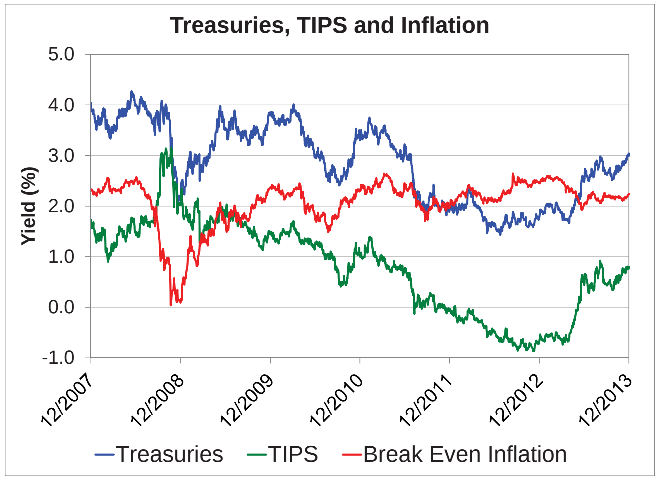
Non-U.S. Equity

Developed international markets were positive, but trailed domestic markets for both the quarter and the calendar year. Emerging market indices were positive for the quarter, but declined by 2.6% for the year due to underperformance during the first half of 2013. During the quarter, four of the top five performing sectors of the MSCI ACWI Ex USA Index were cyclical in nature: financials, industrials, information technology and consumer discretionary. Investor confidence continues to improve, leading to a move away from defensive sectors.

There is some increased optimism in both developed international and emerging markets based on favorable valuations. On the other hand, forecasters continue to predict an extended period of subpar growth as unemployment rates remain high. Further, social unrest in some countries has led to uncertainty concerning the success of policy reforms. While the consensus regarding global growth is more positive compared to years past, there are still known obstacles preventing the world economy from reaching full capacity.

Fixed Income

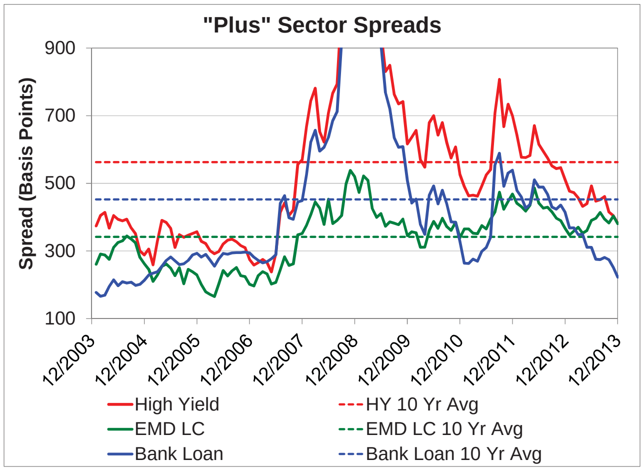
The fourth quarter finished off a tough year for bonds. Since the announcement of the Fed's intent to taper QE purchases in Q2, yields have risen significantly as investors looked to exit ahead of the Fed. The yield on the 10-year Treasury ended the year at 3.04%, up 126 basis points from the beginning of the year. The yield curve is very steep, with the spread between the 2-year and 30-year Treasury near all-time wides. TIPS (as shown by the green line in the graph below) also struggled as breakeven inflation has fallen (red line).



Investment Grade Credit struggled to keep up with both High Yield and Bank Loans during the quarter, continuing the underperformance seen all year. Investor demand for higher yielding sectors, such as High Yield and Bank Loans, has driven significant spread tightening (shown by the red and blue lines on the graph on the subsequent page). High Yield and Bank Loan spreads peaked in 2008 at 1,833 and 1,802, respectively and are not shown due to scale.

In the developed markets, real policy rates remain low across the globe. Japan's continuation of "Abenomics" has kept Japanese Government Bond yields under 1%, ending the year at 0.74%, while the European Central Bank reduced interest rates from 50 basis points to 25 basis points in November. Emerging Market Debt (EMD) returns were mixed for the quarter with Hard Currency outperforming Local Currency by over 3%. Both Hard Currency and Local Currency EMD had a difficult year after selling off drastically in the Q2 "taper tantrum" (as shown by the green line in the graph on the following page).

ASSET CLASS COMMENTARY (continued)



Absolute Return Strategies

Hedge funds delivered relatively strong returns in Q4, capping the industry's best calendar year since 2009. Based on initial estimates, multi-strategy fund of hedge funds (FoHFs) posted gains ranging from 2% to 4% during the quarter, driven by long/short equity funds that benefited from the rally in developed equity markets. Long/Short Credit was also a strong performer, as credit spreads continued to tighten in the ongoing search for attractive yields.

For the year as a whole, most multi-strategy FoHFs delivered positive returns in each quarter, and estimates of YTD performance range from 8% to 14%. Although hedge funds trailed the performance of most equity markets in 2013, this is within our expectations given their hedged equity exposure. Many managers look forward to a market environment with higher dispersion and volatility which could highlight the benefits of hedging market exposure and generating return on both long and short positions.

Global Tactical Asset Allocation (GTAA) / Liquid Alternative Strategies

The fourth quarter offered a continuation of themes that have been playing out all year. Namely, managers that maintained relatively high exposure to US equities outperformed those that tilted toward international or EM equities. As a result, strategies that more closely track a blended 60/40 index achieved higher returns than less benchmark-constrained GTAA managers. In particular, strategies that use cyclically adjusted P/E ratios as a harbinger for valuation signals have fared poorly, as the signal has failed to mean revert.

Emerging markets continued to lag behind their developed counterparts on the equity side in Q4, but were granted a reprieve in fixed income markets as investors seemed to focus less on the current account issues that plagued much of the EM world in the first three quarters of the year. Combined with rising rates in the US and other developed markets, EM bonds outperformed slightly during Q4.

Diversified Inflation Strategies (Real Return)

Diversified Inflation Strategies detracted as real assets experienced losses on continued limited inflationary pressure. Despite unprecedented monetary stimulus, the inflationary environment remains subdued, with expectations of future inflation remaining anchored to the Fed's long-term goal of 2%. Such conditions proved difficult for strategies designed to perform best during persistently high or unexpected inflation.

Managers with sizable exposure to precious metals were hit the hardest while TIPS, broader commodities markets, and REITS also performed poorly. Those with allocations to natural resource equities benefitted from a continuing rally in equity markets, and floating rate debt markets also produced positive returns. Managers with strategic allocations to these spaces should outperform the inflation hedging strategies that limit equity beta exposure.

Real Estate

Core U.S. real estate closed out 2013 with continued strong performance. Preliminary return figures show the ODCE index components gained between 3% and 4% during the quarter and were up between 14% and 17% for the full year. Publicly-traded real estate fared much more poorly than private real estate, returning approximately 4% for the year.

Most major markets and property types continue to show increases in rents and occupancies, indicating continued strength. U.S. commercial real estate had a strong finish to 2013 with office vacancies declining by 30 basis points to reach 14.8% in Q4 2013. For the year, the vacancy rate declined by 60 bps, the best annual performance since 2006. Industrial vacancies declined 140 bps during 2013 and are now 330 bps below the recessionary peak However, some signs of weakness are beginning to emerge in apartments in selected markets throughout the U.S.