April 2013

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BANK AT HOME PremierBank

Cyprus Bailout Renews Focus on European Troubles

Recent Economic Indicators

Thomson Reuters/Univ. of Michigan Consumer Sentiment	78.6
Consumer Confidence	59.7
Existing Home Sales, Monthly Change	0.8%
New Home Sales, SAAR*	411,000
Personal Income, Monthly Change	1.1%
Personal Consumption Expenditures, Mo Chg	0.7%
Non-farm Payroll Increase/Decrease	88,000
Unemployment Rate	7.6%
ISM Non-Manufacturing Index	54.4
ISM Manufacturing Index (PMI)	51.3
New Durable Good Orders, Monthly Change	-5.2%
Industrial Production, Monthly Change	0.7%
Capacity Utilization	79.6
Retail Sales, Monthly Change	1.1%
CPI, Monthly Change, NSA	0.8%
CPI Core, Monthly Change, NSA	0.7%
PPI, Monthly Change, NSA	0.7%
PPI Core, Monthly Change, NSA	0.2%
U.S. Trade Deficit	$43 Bil
Q4 2012 Non-farm Productivity, Qtrly Chg	-1.9%
Q4 2012 Real GDP, Quarterly Change, SAAR*	0.4%

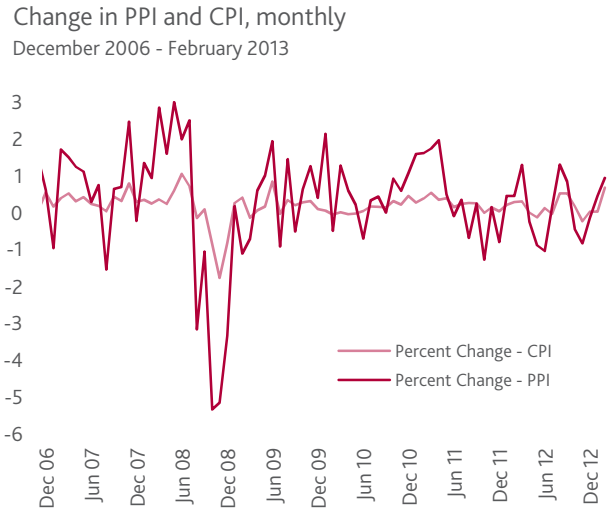
*Seasonally Adjusted Annual Rate
Values reflect most recent data available at the time of publication.
Source: Bureau of Economic Analysis of the U.S. Department of Commerce, U.S. Department of Labor, Federal Reserve, Thompson-Reuters University of Michigan, Institute for Supply Management, National Association of Realtors, The Conference Board, U.S. Census Bureau, Bloomberg.

Overview

Cyprus dominated the headlines for much of March as the small Mediterranean nation sought a €10 billion bailout from the European Union to avoid financial collapse. Cyprus has been crippled by a deep recession and losses its oversized banking sector sustained on investments in Greece. The original deal proposed by European regulators required Cyprus to raise €5.8 billion on its own and called for an unprecedented 6.75% tax on deposits of less than €100,000 and 9.9% on anything above €100,000. The announcement had Cypriots protesting in the streets and rushing to ATMs around the country trying to pull their money out of the banks. It also had Russia up in arms. Cyprus is a massive off-shore banking center, and Russian elite looking to avoid taxes and political risk at home make up about one-third of all deposits in Cyprus banks. The original proposal was rejected by lawmakers, but after days of frantic negotiations a deal was struck to stave off the disorderly collapse of Cyprus' two largest banks – the Bank of Cyprus and Popular Bank of Cyprus – and a likely exit from the eurozone for the tiny Mediterranean country. The new bailout plan protects deposits of less than €100,000 but will result in a "haircut" totaling about €4.2 billion from larger depositors at the two banks. Shareholders and bondholders of the two banks will likely be completely wiped out as the two are broken up into a "good bank" and a "bad bank". Long lines formed as Cypriot banks opened again to customers for the first time in two weeks, but things were relatively orderly as strict limits on cash withdrawals prevented a run on the banks.

The third estimate of fourth quarter GDP in the U.S. was revised up slightly to 0.4% from the second estimate of 0.1%. The upward revision was largely due to a smaller net export gap and stronger growth in nonresidential structures. Despite the uptick, fourth quarter GDP is still underwhelming largely due to temporary factors. The initial estimate for first quarter GDP will be released in April and consensus expectations are for much stronger growth.

Source: Federal Reserve Bank of St. Louis



Source: Federal Reserve Bank of St. Louis

Employment

Employment data started out well in March, with the number of Americans filing for first time unemployment benefits declining to 334,000 for the week ended March 9, pushing the four-week average down to a recovery low of 346,750. The trend reversed course after that, and the March employment report ended up disappointing, falling more than 100,000 short of expectations. Total payrolls rose a meager 88,000 during the month, but on a positive note February payrolls were revised up 32,000 to 268,000. Private sector growth was weighed down by the retail sector, which lost 24,000 jobs. Meanwhile governments shed 7,000 jobs during the month with the U.S. Postal Service cutting 12,000 from their ranks. Despite the weaker establishment survey, the household survey reported a one-tenth point drop in the unemployment rate to 7.6%. However, the improvement was solely based on a drop in the denominator as close to half of a million discouraged workers left the labor force, bringing the participation rate down to 63.3% – its lowest level since May 1979. There is not much to like about this report, but payroll data can be volatile and it is typically subject to massive revisions so this may just be a blip and not the beginning of a trend.

Consumer Confidence & Spending

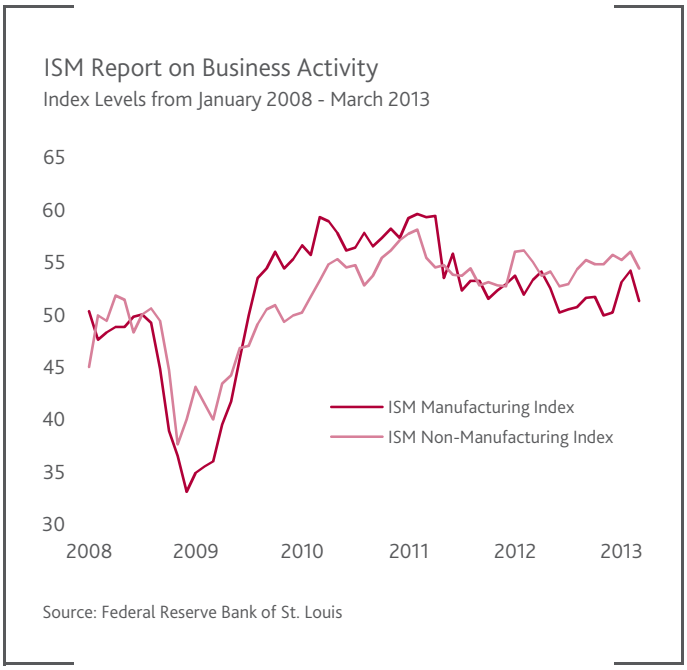
Retail sales showed surprising strength in February despite the headwinds created by payroll tax increases and delayed income tax returns. Sales jumped passed expectations of a 0.6% gain by rising 1.1%, with gasoline sales spiking 5.0%. It was no surprise gasoline sales were a big contributor given the price of gas rose every single day of the month, but strength was seen in many of the other subcomponents as well including motor vehicles sales which were up 1.1%. It appears so far that most people have shrugged off the negative impact of tax increases, but a decline in confidence does raise questions about the consumers' willingness to spend. Consumer confidence fell 8.3 points in March to 59.7, eliminating most of the rebound seen in February. Despite the decline in the overall number, plans to buy houses are up which is a good sign for the housing market.

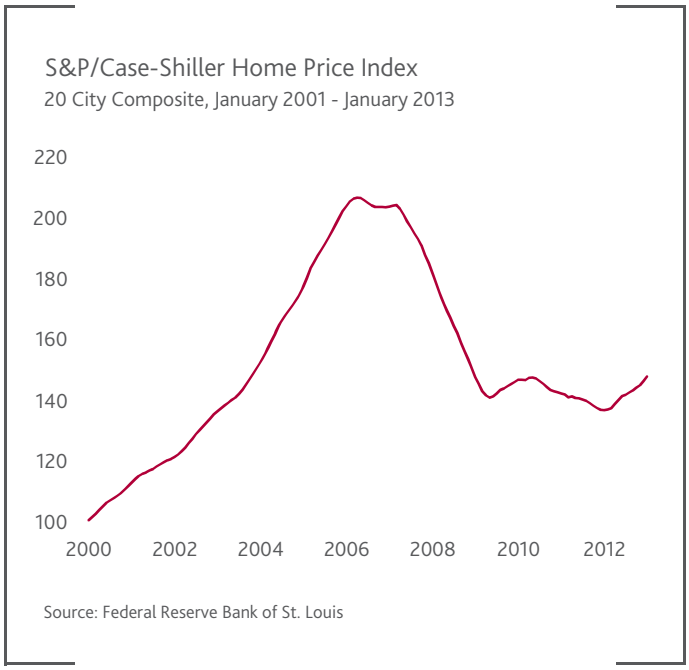
Inflation

The increase in energy prices had a sizeable impact on headline inflation numbers for February. Prices at the producer level rose a significant 0.7% for the month; the energy component led with a 3.0% surge. Food prices fell 0.5% helping to offset some of the bite from higher gas prices. The year-over-year rate heated up to 1.8% from 1.4% in January. Prices at the consumer level also bumped up by 0.7%, with energy again leading the pack posting a 5.4% gain during the month after falling 1.7% in January. Gasoline significantly recovered from a January drop of 3% as prices jumped 9.1% in February.

Business Activity

Industrial production numbers came in positive for February, beating analyst expectations and showing a 0.7% gain after a flat January. The manufacturing component jumped 0.8%, led by a 3.6% rise in motor assemblies. The positive manufacturing data will likely boost first quarter GDP estimates after a somewhat weak January gave analysts some cause for concern. Growth in manufacturing slowed in March, though, as the ISM manufacturing index declined a sizeable 2.9 points to 51.3. The new orders component fell 6.4 points to 51.4, but new export orders showed some improvement rising 2.5 points to 56.0. The survey also indicated hiring trends were positive with the employment component at its highest level since June. The opposite was the case in the non-manufacturing survey, which saw the employment component fall 3.9 points to 53.3. This dragged the headline index for the service side of the economy down to 54.4 – its lowest level since July. Both reports indicate the rate of growth is slowing a little, but neither in dramatic fashion.





Housing

The housing market data released this month is showing a mix of lower sales volume but higher prices. New home sales dropped 4.6% in February to an annual pace of 411,000 while the median sales price rose 3.0% to $246,800. The downtick in sales volume coupled with a small increase in inventory helped the supply increase to 4.4 months from 4.2 months in January. The S&P Case-Shiller 20-city index, whose data is more of a lagging indicator, showed a price increase of 1.0% in January.

The NAHB housing market index fell two points in March to 44 – the second straight decline – providing some indication the housing market is slowing down a little. The decline was largely attributed to a lack of available lots and credit for potential homebuyers, but the outlook going forward still looks to be improving. Housing permits and starts were both up moderately in February. Sales of existing homes also improved marginally during the month, up 0.8% to an annualized pace of 4.98 million units. A nice surprise in the report was an increase in supply which has been constrained lately.

World Economy

The Bank of Japan announced a bold set of policies to fight the threat of deflation. The central bank has pledged to achieve newly installed Prime Minister Shinzo Abe's 2% inflation target at the "earliest possible time". The BoJ is taking a page out of Bernanke's playbook saying it will expand its balance sheet by purchasing longer-term debt and other more exotic securities. At an annual pace of 60-70 trillion yen the new purchases should double the monetary base over the next two years. By driving down the value of their currency the country hopes to boost exports, but in doing so they run the risk of sparking a currency war.

Figures released by the European Union showed unemployment hit a record high of 12.0% in the eurozone in February. Southern countries are suffering the most, as are younger people with nearly 1 in 4 people under the age of 25 being unemployed. It is unlikely this number will improve in the near-term, especially in the wake of the messy Cypriot bailout.

Fixed Income Markets End the Month Mixed

Fixed Income Current Yields	3/31/2013
3 Month U.S. T-bill	0.07%
2 Year U.S. Treasury	0.25%
5 Year U.S. Treasury	0.77%
10 Year U.S. Treasury	1.87%
30 Year U.S. Treasury	3.10%

Total Returns	1 Month	YTD
Barclays U.S. Aggregate	0.08%	-0.12%
Barclays U.S. Govt./Credit	0.15%	0.27%
Barclays U.S. Municipal Bond	-0.43%	0.29%
Barclays U.S. Corp. High Yield	1.00%	2.90%
Barclays U.S. Long Credit A	-0.45%	-1.79%
Barclays U.S. Treasury 20+ Year	-0.25%	-2.89%
Barclays Global Aggregate	-0.25%	-2.10%
Barclays Emerging Markets	-0.57%	-1.46%

1 Month and YTD data as of: 3/31/2013

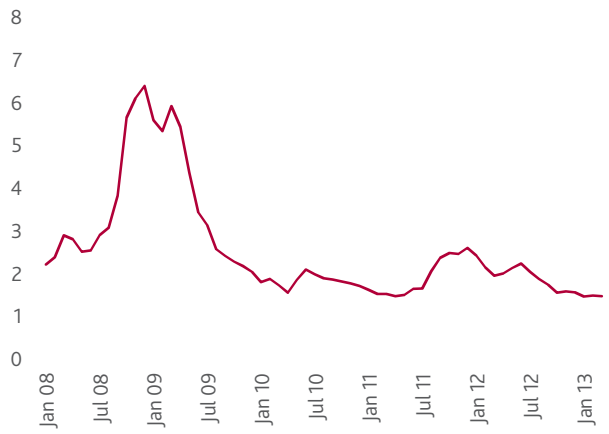
Values reflect most recent data available at the time of publication.
Source: Morningstar, Inc., U.S. Department of the Treasury, Barclays Capital

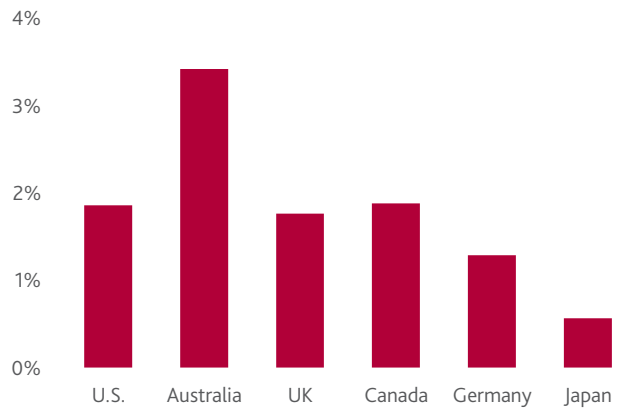
Overview

The financial troubles in Cyprus drove some investors to the safety of Treasuries during March, with the yield on the 10-year Treasury note recently closing at 1.85%, down from 2.06% in mid-March. Because government debt moves in correlation with technical indicators over the short-term, many strategists feel yields could move lower after the ten-year yield traded below both its 100-day and 200-day moving averages. Although investment grade and high yield corporates realized positive returns for the month, non-U.S. sovereign bonds from both the developed and emerging markets lost ground as investors seem to view corporate America as being largely shielded from the problems in Europe. The biggest positive for the U.S. remains the aggressive securities purchases from the Fed – $40 billion per month in mortgage backed securities and $45 billion in Treasuries. The liquidity stemming from these purchases appears to be supporting a wide variety of "risk-on" assets.

Meanwhile, in a post-meeting press conference, the Fed gave a clear view the current quantitative easing program will last through year-end. As a result, the markets will now likely focus on how far the central bank is willing to go in terms of reducing its support for the markets as it draws down the size of its asset-buying program at the end of the fourth quarter. Just as the fiscal cliff provided all the angst heading into year-end 2012, nervousness over reduced Fed support will emerge as a fresh source of concern by early fall.

More bond-buying stimulus also raises the possibility of inflation. Although inflation is not currently a concern from a labor cost perspective, the perception the central bank will do whatever it takes to reflate the economy has some market participants concerned. The yield gap, or difference in yields, between Treasuries and similar maturity TIPS (Treasury Inflation Protected Securities), an indication of traders' outlook for consumer prices, widened to its highest level in 13 months.





Largely attributable to a general improvement in the economy, the spread, or difference in yields, between Treasuries and corporates has tightened this year. Such a pattern is not unusual when concerns about economic recession begin to diminish. However, although it may be a few months away, strategists suggest corporate yields will begin to rise along with Treasury yields. We recommend investors prepare by focusing on shorter duration securities.

Corporate

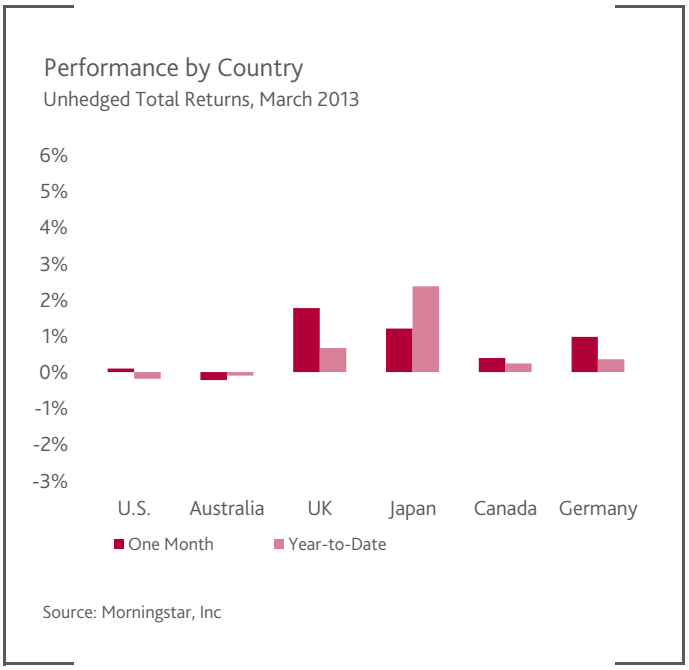
Despite a strong rally last month, the investment grade corporate sector finished March ahead 0.02% bringing Q1 returns to -0.11%. However, investor demand for investment grade bonds remains robust, with year-to-date flows into investment grade mutual fund flows totaling more than $40 billion. Flows into bank loan mutual funds have also been strong, with year-to-date net inflows already surpassing the 2012 total as investors seek yield and protection from a potential rise in interest rates. From a sector perspective, Financials have outperformed all other areas of the investment grade market this year, with spreads compressing by more than 15 basis points year-to-date. Within this sector, banks have continued to perform well, with senior bank debt now trading at historically attractive levels relative to Industrials. Despite the move higher in bank debt, many analysts remain constructive on these bonds as recent earnings suggest fundamentals in the sector are continuing to improve. Given U.S. banks' strengthened capital and liquidity positions as well as supportive macroeconomic trends, we recommend an overweight position in this area of the fixed income market.

High yield bonds rallied once again gaining 1.02% for the month, brining year-to-date returns to 2.89%. However, the strength of the new issue market and the historically low level of yields have raised questions as to whether investors are abandoning disciplined fundamental analysis in their search for yield. So far in 2013, at least three voting members of the FOMC have referred to the "reach for yield", implying the Federal Reserve is keeping a close eye on bond market behavior. Given the severity of the sell-off in 2008-09, the scrutiny of the high yield market is understandable. Although the rally in high yield may continue given investors' "reach for yield", we continue to recommend diversifying exposure to high yield by transitioning to short-duration mutual funds and ETFs.

Municipals

In a traditionally week month for munis the Barclays Municipal Bond index lost -0.43% as investors sold tax-exempt securities to help make April 15 tax payments. Making munis attractive from a valuation perspective, the ratio between interest rates on municipal bonds and U.S. Treasury securities rose to its highest level since last July. From a demand perspective, investors pulled $513 million from muni mutual funds and ETFs for the four weeks ending March 27, according to Lipper U.S. fund flows data. The largest ETF tracking this $3.7 trillion market, iShares S&P National AMT-Free Muni Bond (MUB), has traded at a discount or a very small premium to NAV over the last four weeks. However, as the muni market moves out of the current weak technical period, we would expect performance and fund flows to stabilize.

We continue to believe municipal bonds represent one of the few attractive sectors in the fixed income markets today. While the basic tenet of supply and demand affects all financial markets to some degree, it is particularly influential in the municipal bond market as supply can become uneven and demand relies on a relatively narrow band of buyers. From a supply perspective, tight municipality budgets combined with onerous pension and health care obligations have led to a low level of new supply coming to the market despite historically low interest rates. At the same time, demand remains robust, particularly from retail investors who typically hold securities for long periods, which reduces volatility. Despite the short-term effects the U.S. government's sequestration may bring to the market, we feel current supply/demand metrics will favorably influence the muni space over the course of at least the next year. For investors seeking tax-free income, we continue to recommend municipal bonds given their attractive risk/return characteristics.



International

The Barclay's Global Treasury ex-US index returned -0.47% on an unhedged basis, but gained 0.96% on a local currency basis, consistent with a stronger U.S. dollar against other major currencies. Despite a modest loss for the index, many safe-haven countries rose in their local currencies with Canada, Germany, France, Japan and the United Kingdom posting gains for the month. Italy (+0.45%) and Spain (+0.28%) also rose in their local currencies as market participants returned to some of the riskier eurozone regions amid improving investor sentiment.

Eurozone government borrowing costs, as measured by 10-year sovereign bond yields, are nearing record low levels. The driver cited by some analysts for this latest move is renewed interest in European bonds from Japanese institutional investors, including large life insurers and some banks. In Japan, new stimulus measures designed to weaken the yen have forced government bond interest rates lower, particularly on the short end of the yield curve. Because Japanese life insurance companies are heavily exposed to long-dated Japanese government bonds, actions by the Bank of Japan to weaken the yen greatly affect investment decisions made by these companies. Many strategists suggest demand for safe-haven eurozone bonds from countries such as Germany and France with yields higher than similar maturity Japanese bonds will increase, driving yields lower. At the same time, Japanese banks, traditionally with a focus on intermediate-term maturities, have been major investors in European government debt since 2012. This trend will likely continue given the outlook for a weaker yen. Looking forward, many analysts feel if the Bank of Japan continues to focus on weakening the country's currency, this dynamic could continue to support eurozone bond markets.

End of the U.S. Financial Crisis?

Almost six years ago, in June of 2007, the market reached its most recent high for 10-year U.S. Treasury yields of almost 5.30%. Interest rates have since plunged as a result of the financial crisis. However, with the 10-year note trading between 1.75% and 2.00% after bottoming at 1.38% in July of 2012, many strategists believe the financial crisis in the U.S. is finally ending. While the macro environment may not be optimal, the U.S. seems to be decoupling from an ongoing global crises as its markets no longer appear to be significantly affected by global systemic risks, particularly those currently occurring in Europe. Our banking system has been largely recapitalized, the housing market appears to have bottomed with housing prices rebounding, and corporate earnings and economic data are generally positive. Relative to other developed markets that continue to be affected by financial and economic crises, the U.S. fixed income and currency markets remain strong. These markets are now a favorite among global investors seeking safety, stability and insurance to protect against unforeseen risks.

First Quarter Returns Strong in U.S., but Lag Overseas

Total Returns	1 Month	YTD
Dow Jones Industrial Average	3.86%	11.93%
S&P 500	3.75%	10.61%
NASDAQ Composite	3.48%	8.52%
S&P 100	3.34%	9.58%
S&P 400 MidCap	4.78%	13.45%
S&P 600 SmallCap	4.24%	11.81%
Russell 2000	4.62%	12.39%
MSCI EAFE	0.88%	5.23%
MSCI EAFE Small Cap	1.94%	8.48%
MSCI Emerging Markets	-1.70%	-1.57%

1 Month and YTD data as of: 3/31/2013

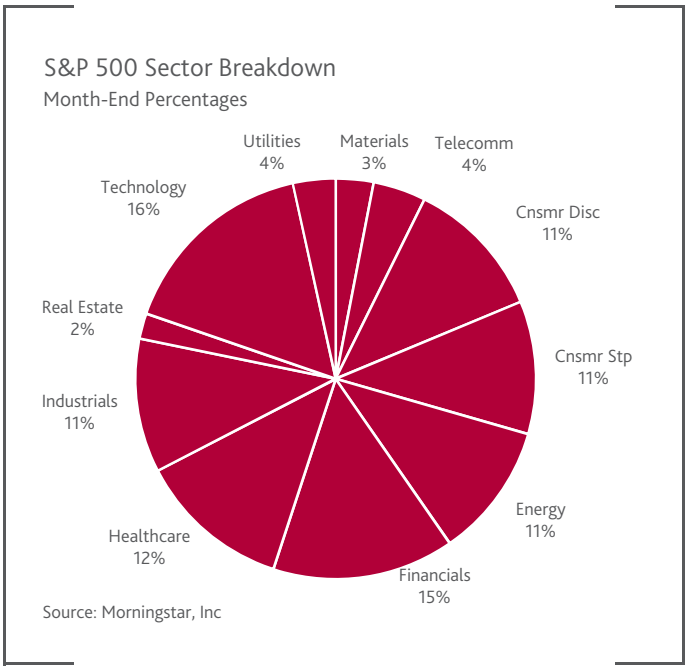
Values reflect most recent data available at the time of publication.
Source: Morningstar, Inc.

Overview

All three major domestic stock market indices were higher again in March as economic data continued to indicate strength at the consumer, housing and manufacturing levels. The markets hit a blip mid-month with news of the banking crisis in Cyprus, but rebounded nicely the last week of the month.

The total return for the Dow Jones Industrial Average in March was 3.9% with the index closing at 14578.54. The broader S&P 500 Index returned 3.8% for the month, finishing at 1569.19. The technology heavy NASDAQ Composite Index ended the month at 3267.52, posting a return of 3.5%. For the first quarter of 2013, the indices returned 11.9%, 10.6% and 8.5% respectively, with most of the underperformance in the NASDAQ Index being attributed to Apple's 13.1% decline.

The value of global mergers and acquisitions increased only 10% in the first quarter, but jumped 76% in the U.S. from the year-ago quarter. Deals announced included bids for control of Dell, the Berkshire Hathaway acquisition of Heinz, and Comcast's purchase of the remaining half of NBC Universal from GE. On the IPO front, U.S. companies going public raised 29% more in the first three months of 2013 compared to 2012, but the number of deals actually decreased from 39 to 25. More importantly, the stocks have seen strong gains which should bode well for the IPO environment going forward in 2013. While the European debt crisis has impacted M&A deals globally, funds raised in European IPOs doubled compared to last year.



Domestic Equity

Health Care (+6.4%), Utilities (+5.4%), Consumer Staples (+4.9%) and Consumer Discretionary (+4.9%) were the strongest S&P 500 Index sectors in the month of March. Biotech names such as Gilead (+14.6%), Biogen Idec (+15.8%) and Celgene (+12.2%) led the group. Exelon (+11.3%) and Center Point Energy (+11.8%) helped power the Utilities sector ahead of the benchmark. Within Staples, food and drug retailers such as Walgreen's (+16.5%), Kroger (+13.5%) and Safeway (+11.1%) were standouts. Walgreen's reported earnings ahead of expectations and announced a new deal with a major pharmaceutical distributor. Sectors underperforming the S&P 500 Index in March were Energy (+1.9%), Industrials (+2.2%) and Materials (+2.4%). Year-to-date investors have bid up the traditionally defensive sectors including Health Care (+15.8%), Consumer Staples (+14.6%) and Utilities (+13.0%), all of which fared poorly in 2012, especially in the fourth quarter over uncertainty about dividend tax rates. Information Technology (+4.6%), Materials (+4.8) and Telecomm Services (+9.5%) posted the weakest returns in the first quarter of 2013.

According to S&P, mid cap equities outperformed both large cap and small cap last month. The S&P MidCap 400 Index return of 4.8% was higher than the 4.4% increase for the S&P Small Cap 600 Index and the 3.8% return for the S&P 500. Year-to-date, mid cap equity (+13.5%) returns have been stronger than both small cap (11.8%) and large cap (+10.6%). Mid cap outperformance can be attributed to higher weightings in Financials and Industrials; these sectors have outperformed their large cap peers.

Returns for large cap value stocks were in-line with growth in March. Value outperformed growth in mid cap and underperformed in small cap stocks. The return for the S&P MidCap 400 Value Index (+5.1%) was higher than the S&P MidCap 400 Growth Index (+4.4%). Year-to-date, mid cap value stocks have shown the best performance (+14.8%), while large cap growth equities have lagged (+9.3%).

International Equity

Developed International equity indices underperformed domestic markets in March. The broad MSCI EAFE Index of developed markets increased only 0.9% in U.S. dollar terms for the month, as slight declines in France (-1.4%) and Germany (-1.0%) were partially offset by a 5% return for the Japan MSCI Index. Italy (-5.2%), Spain (-5.9%) and Greece (-3.2%) continued to be weak with news of the Cyprus crisis. Year-to-date through the end of March Japan leads all returns (+11.7%), while other major markets such as the UK (+2.5%), Germany (+0.3%) and France (0.6%) trailed far behind.

The total return for the MSCI Index for Emerging Markets was negative (-1.6%) as Chinese stocks (-4.6%) continued to decline. Russia (-3.5%) and Brazil (-1.1%) were also weak. For the first three months of the year, the index is down 1.7%. We remain confident in our increased allocation to emerging market stocks as we predict leading economic indicators in most developing economies will continue to advance helped by infrastructure improvements, increased domestic consumption and higher value exports.

Hedging Strategies Finally Begin to Pick Up

Price Change	1 Month	YTD
Dow Jones UBS Commodity Index	0.72%	0.02%
Oil	5.66%	5.89%
Copper	-3.50%	-5.00%
Gold	1.12%	-4.78%
NAREIT-All REITs	2.64%	8.04%
NAREIT-Industrial/Office	1.68%	9.38%
NAREIT-Residential	2.70%	6.42%
S&P Global Property Ex-US	1.63%	5.61%
HFRI Emerging Markets Index	-1.04%	2.39%
HFRI Fund Wtd Comp. Index	1.15%	3.87%
HFRI Equity Market Neutral	0.67%	2.62%
HFRI Event Driven	1.02%	3.75%
HFRI Market Defensive	0.71%	1.62%
HFRI Merger Arbitrage	0.69%	0.88%
HFRI Short Bias	-2.39%	-5.50%

1 Month and YTD data as of: 3/31/2013

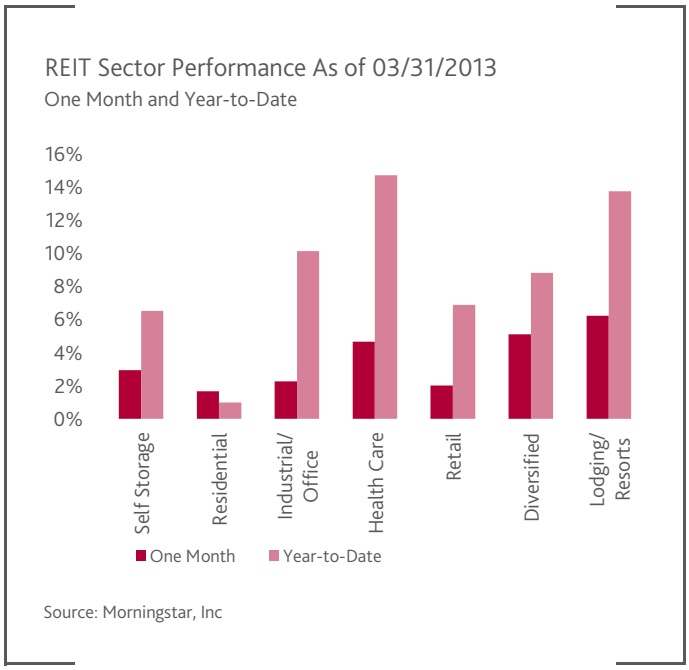
Values reflect most recent data available at the time of publication.
Source: Morningstar, Inc.

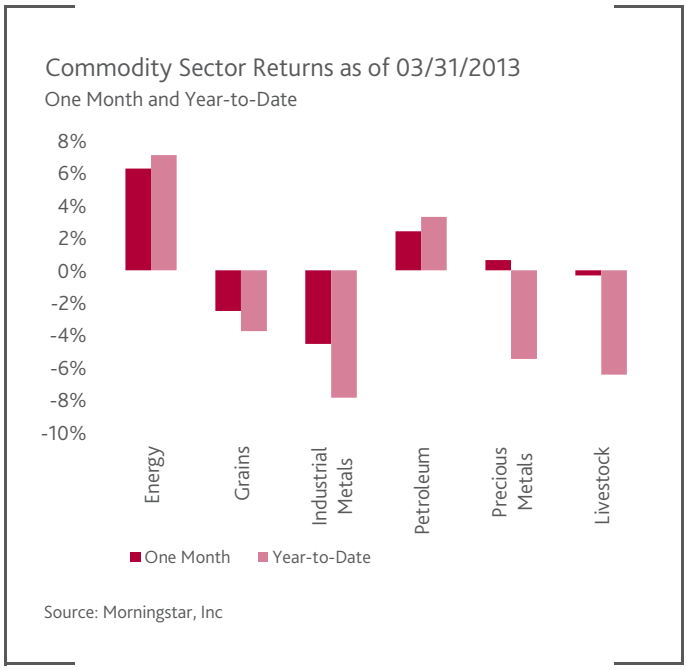
Overview

Commodities reported slightly positive gains for the month, but not enough to offset February losses keeping year-to-date performance in the red. REITs trailed the broader markets for the month and quarter, but still lead on a one-year basis. Hedging Strategies set a new high after a 20-month drawdown.

Commodities

Commodities showed modest gains in March as energy and precious metals moved up while agricultural commodities dropped significantly led by coffee, sugar, soybeans and wheat each falling more than 3%; sugar and wheat have declined around 10% year-to-date. The DJ UBS Commodity Index was up 0.67% for the month and finished the quarter at -1.13% after a big February drop. Natural gas spot prices jumped 15.43% in March due to ongoing storage depletion; current storage levels are now at 2-year lows. Oil prices were mixed but WTI showed stronger gains than Brent Crude, causing the difference between the two benchmark oil prices to contract to their lowest level since July 2012. WTI gained 5.66% and Brent fell 1.22% to end at $97.23/barrel and $110.02/barrel, respectively. In other crude oil news the U.S. Energy Information Administration announced that later this year U.S. oil production will surpass imports for the first time since 1995. Despite both the increase in oil production and the reduction of fuel consumption here in the U.S., we have yet to see significant impact on consumer gasoline prices due primarily to increasing costs from oil production and distribution occurring in remote areas like North Dakota and Wyoming. These facilities must get oil to refining stations and major cities, which grows increasingly expensive without the appropriate infrastructure. Analysts estimate that nearly $17 can be tacked onto a barrel of oil when transportation costs, such as pipelines, trains or barges, are taken into account. Furthermore, refiners must add ethanol to their fuel pursuant to federal law. Finally, oil and fuel shipped between U.S. ports must be shipped by American vessels operated by American crews per legislation passed in 1920. Designed to protect the American shipping industry, this law makes it cheaper for a refiner to





ship fuel from the gulf to South America than to the northeastern U.S. because they can use foreign ships when transporting to South America. Citigroup commodities chief analyst Ed Morse postulates this legal obstacle adds up to $8 per barrel of oil once shipped. The Energy Policy Research Foundation suggests oil and gasoline prices could remain volatile this year as additional and existing federal regulations regarding fuel refining and processing capacity continue to affect prices.

Hedge Funds

Hedge funds extended their gains in March, ending Q1 at record levels. The HFRI Fund Weighted Composite Index gained 1.2% last month, bringing year-to-date gains to 3.9% with top contributors from Fixed Income-base Relative Value Arbitrage and Equity Hedge strategies, according to Hedge Fund Research. The HFRI Relative Value Arbitrage Index gained 1.5% in March, and is now up 3.8% on the year. Equity Hedge funds led strategy gains in Q1 as the HFRI Equity Hedge Index gained 1.5% last month, bringing year-to-date returns to 5.3%. Kenneth Heinz, president of HFR, believes that despite certain differences, 2013 has started in a very similar manner to 2012, "with a risk-on trading environment contributing to strong performance from equities and more balanced gains from hedge funds as macro risks remain pronounced." HFR noted the HFRI Fund Weighted Composite Index closed Q1 with a net asset value (NAV) of 11,482, surpassing the previous peak in April 2011, ending a 20-month drawdown while also setting a new performance high mark for the industry. According to HFR, an investment of $1,000 in the hedge fund industry at the start of 1990, as represented by the HFRI, would have grown to $11,482 as of the end of Q1, an 11.5x increase. For comparison purposes, the same initial investment in the S&P 500 would have grown by approximately 7.3x.

Real Estate

Real estate investment trusts (REITs) had a strong end to Q1, but still managed to lag the broader stock market. The FTSE NAREIT All REIT Index gained 3.29% last month, while the FTSE NAREIT All Equity REIT Index posted returns of 3.01%, trailing the S&P 500 which gained 3.75%. Overall, the U.S. REIT market delivered solid returns in the first quarter of 2013, even though they underperformed the broader equity market. The FTSE NAREIT All REIT Index is up 9.11% on the year, while the FTSE NAREIT All Equity REITs Index delivered a total return of 8.10% in Q1, compared to the S&P 500's return of 10.61%. However, according to data from the National Association of Real Estate Investment Trusts (NAREIT), REITs did outperform equities on a 12-month basis ending March 28. One-year performance as of quarter-end for the FTSE NAREIT All REITs Index was 18.73% and the FTSE NAREIT All Equity REITs Index delivered 17.11%, while the S&P 500's return was 13.96%. Nearly every sector and subsector of the U.S. REIT market delivered positive returns in Q1, with many providing double-digit returns. Mortgage REITs, which were up 3.5% in March, led the market with a 17.84% total return in the first quarter fueled by the commercial and home financing segments posting gains of 23.71% and 16.59%, respectively.

Also, in the current low interest rate environment REITs' strong dividend yield continued to set them apart from the broader markets. According to NAREIT, the dividend yield of the FTSE NAREIT All REITs Index on March 28 was 4.11%, and the yield of the FTSE NAREIT All Equity REITs Index was 3.31%. By comparison, the dividend yield of the S&P 500 was 2.15%. Also in Q1, REITs raised a significant amount of capital from the public markets. In the first quarter, REITs gained $22.6 billion, including $16.1 billion in equity. This amount outpaced the $19 billion raised in Q4 of last year and $21.2 billion raised in last year's first quarter. Analysts at NAREIT claim REITs have used the raised capital for both acquisitions and balance sheet debt reduction. At the start of this year's first quarter, the debt ratio for equity REITs was 35.1%, near its historic low and down from 38.6% at the beginning of 2012's first quarter.

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