

US Economy



The disappointing business and consumer spending reported early this year is not consistent with the still-ebullient consumer and business surveys. As the benefits of tax reform become more tangible, we expect business spending to regain the momentum evident in the second half of 2017.

Monetary Policy



As US economic momentum continues into 2018 and the expansionary fiscal impact of the 2017 tax reforms is experienced, this raises the probability the Federal Reserve will increase the fed funds rate four times this year.

Bond Markets



Heightened inflationary concerns that grabbed the headlines help explain the sharp rise in bond yields in 2018. The so-called crowding out effect, from increased Treasury bond issuance to fund higher deficits, may be a longer term reason for what is likely the beginning of a bear market for bonds.

Continued narrow spreads between rates of high yield debt and comparable maturity Treasuries suggest that high yield investors remain unconcerned about an imminent rise in default rates, although valuations appear full at these price levels.

Equity Markets



After hitting historic lows last year, volatility returned to US equity markets with a vengeance in February. Earnings will be the primary driver of mid to high single digit returns over the remainder of the year. Further expansion of valuation multiples is unlikely, given the upward bias for interest rates.

Economic Forecast provided by HPM Partners

	Current	12-Mo Forecast	2018 est.
Fed Funds Rate	1.50%	2.00%	
Crude Oil WTI (\$/bbl)	\$60.99	\$55.00	
Gold (\$/ozt)	\$1,305.20	\$1,250.00	
US 10-Year Treasury Yield	2.80%	2.75%	
S&P 500 Index	2,677	2,800	
HY Fixed Income Spread**	359 bps	425 bps	
World GDP Growth Rate			3.75%
US GDP Growth Rate			2.70%

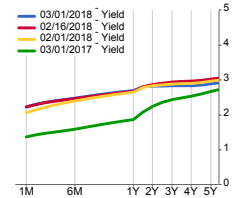
*Source: Factset
**High Yield Spread is the BofA Merrill Lynch High Yield Master II relative to the US 10-Year Treasury Bond.

Rate Environment

Treasury Statistics/Rates

	Current	YTD %	Historical	
			52-Wk HI	52-Wk LO
US Treasury 2yr	2.20%	94 bps	2.27%	1.17%
US Treasury 5yr	2.57%	55 bps	2.68%	1.62%
US Treasury 10yr	2.80%	33 bps	2.94%	2.04%
US Treasury 30yr	3.08%	0 bps	3.22%	2.66%
LIBOR - 3 Month	2.02%	103 bps	2.02%	1.09%
LIBOR - 6 Month	2.22%	91 bps	2.22%	1.39%
LIBOR - 12 Month	2.51%	82 bps	2.51%	1.70%

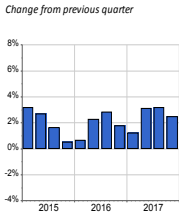
LIBOR Curve



Treasury Statistics and Libor Curve provided by Factset

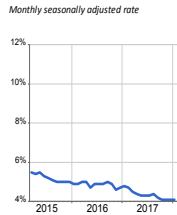
Key Economic Data

REAL GDP



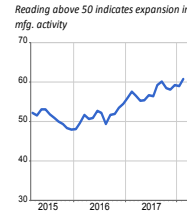
Source: Department of Commerce

UNEMPLOYMENT RATE



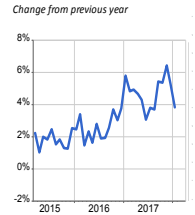
Source: Bureau of Labor Statistics

PMI



Source: Institute for Supply Mgmt.

RETAIL SALES



Source: Bureau of the Census

Equity Market Performance

Index	Current	% Change			52 Week HI	52 Week LO	Trailing P/E	Forward P/E	Current Yield
		Last Week	YTD	52 Week					
DOW	24,411.59	-0.67%	1.69%	28.08%	26,616.71	20,404.49	19.38	16.38	2.13%
S&P 500	2,677.37	-0.61%	1.83%	22.43%	2,872.87	2,328.95	19.89	16.76	1.93%
NASDAQ	7,216.18	0.46%	5.35%	33.39%	7,505.77	5,793.82	26.88	21.79	0.00%
R2000	1,524.24	-1.98%	-1.36%	12.72%	1,610.71	1,345.24	19.77	22.90	0.00%
VIX (S&P)	21.72	2.00%	79.80%	60.04%	37.32	9.14	N/A	N/A	N/A

*Source: Factset

LBO Market

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
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Purchase Price Multiple

Large Corporate	8.40x	8.70x	9.20x	10.40x	9.70x	9.74x	11.98x	10.15x	10.03x	10.24x	10.19x	9.24x	11.09x	11.35x	11.85x	9.15x	9.91x	10.60x	10.53x	13.20x
Middle Market	8.60x	7.80x	8.70x	8.10x	8.30x	8.62x	8.90x	8.52x	8.57x	9.56x	9.65x	10.08x	9.63x	9.70x	10.23x	9.64x	9.49x	9.63x	10.82x	10.29x

Average Leverage Multiple (EBITDA < \$15M)

Senior Leverage	2.82x	3.30x	3.16x	3.30x	3.23x	3.24x	3.39x	3.35x	3.35x	3.62x	3.39x	3.63x	3.46x	3.78x	3.72x	3.43x	3.86x	3.86x	3.97x	3.83x
Total Leverage	3.25x	4.09x	3.48x	3.96x	3.85x	3.86x	4.15x	4.01x	3.76x	4.16x	4.10x	4.09x	3.95x	4.28x	4.35x	4.07x	4.31x	4.37x	4.33x	4.22x

Average Total Equity Contribution

Private MM	47.2%		49.0%	49.3%	47.3%	48.0%	45.7%	48.4%	52.4%	51.0%	51.4%	52.9%	52.8%	51.9%	54.4%	51.7%	49.8%	55.3%	50.4%
Institutional MM	43.1%		43.0%	40.9%	42.0%	47.0%	40.4%	45.0%	45.7%	50.0%	44.8%	N/A	49.1%	40.5%	39.1%	42.3%	45.6%	51.0%	55.4%
Large Corp.	30.8%		31.0%	35.0%	31.4%	40.2%	33.9%	38.5%	39.2%	39.1%	38.5%	43.7%	44.3%	45.5%	35.6%	40.3%	40.3%	37.6%	47.2%

LBO Market Data was provided by Thomson Reuters

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