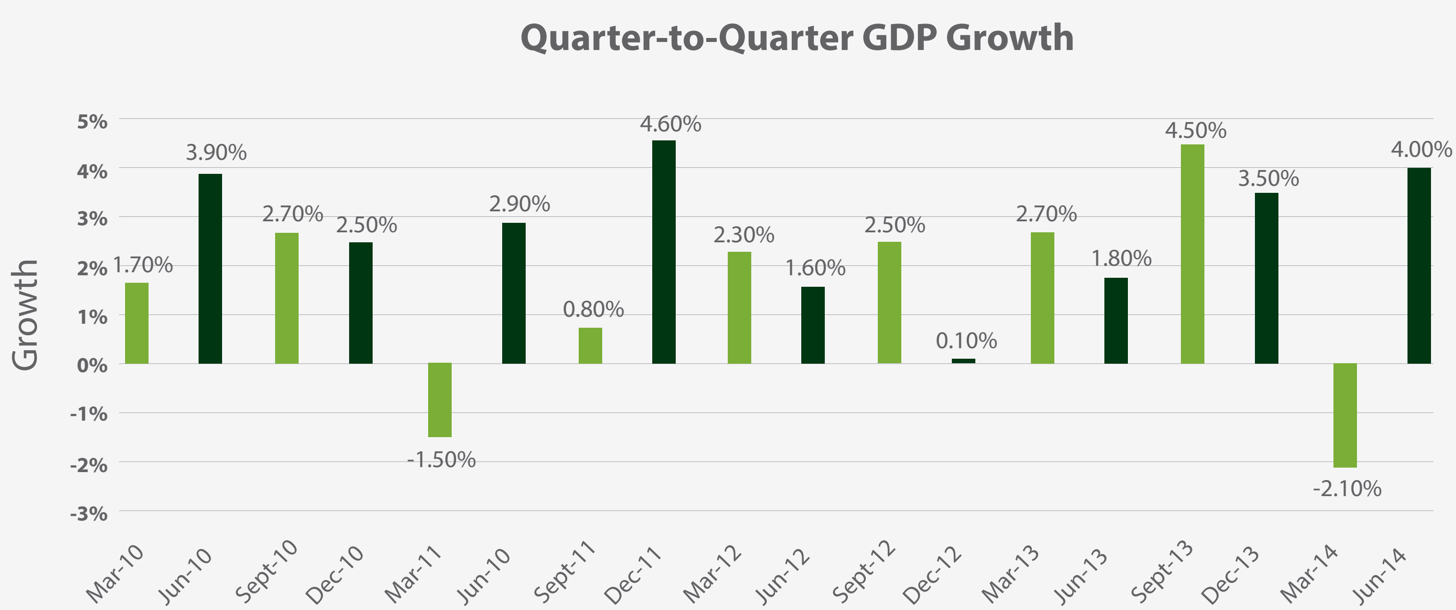
ELMTREE FUNDS
TRACKER
2014 VOLUME 3

IN THIS ISSUE

2014 market**Outlook**

In the first quarter of 2014, GDP declined at an annualized rate of 2.1%, which marked the worst quarter since Q1 2009. This contraction was due to severe weather throughout the United States that discouraged consumer spending, home sales, and auto sales. However, the economy rebounded in the second quarter of the year with estimated annualized GDP growth of 4.0%, according to the Bureau of Economic Analysis. Consumer spending, which accounts for more than two thirds of economic activity, increased 2.5% for the quarter, as Americans spent more on manufactured goods. Increased business investment, government spending, and home building also contributed to the second quarter expansion. Although the advance estimate is encouraging, the GDP measure is subject to change as more economic data becomes available.



2014 marketOutlook (continued)

At the end of the second quarter the unemployment rate was 6.1%, down from 7.5% in Q2 2013. However, that rate ticked up to 6.2% at the end of July as employers added a seasonally adjusted 209,000 jobs and more workers participated in the labor market. Even with the increase, the employment picture is bright. July marked the end of a six month period where monthly job gains averaged 244,000, significantly higher than the 187,000 per month average over the past three years. Furthermore, July was the first time since 2007 that employers added 200,000 or more jobs in six consecutive months.

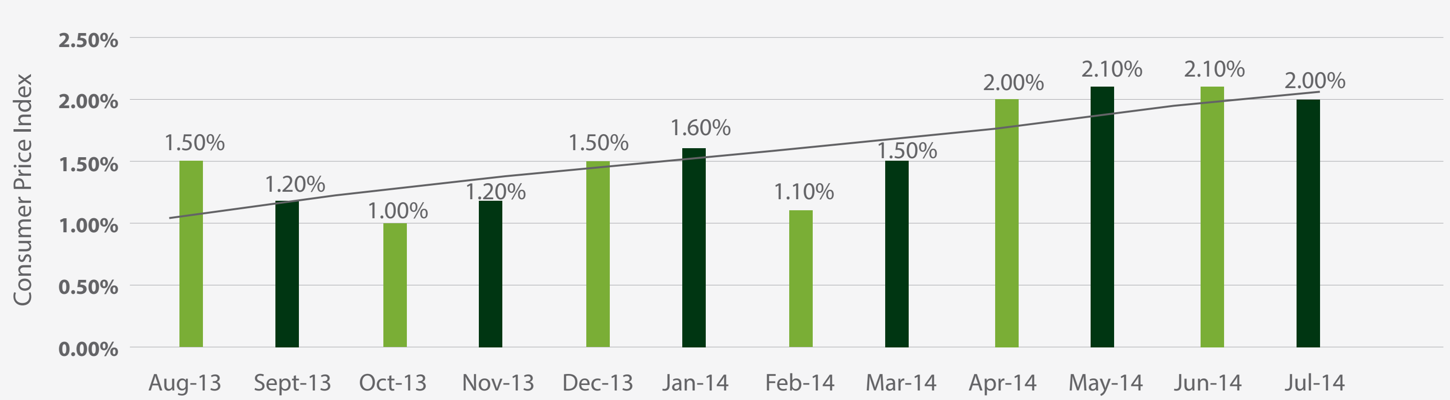
Inflation has also been increasing as GDP and the job market improves. In July, the consumer-price index, a common measure of inflation, rose 2.0% from a year earlier, compared with June's annual gain of 2.1%. Energy prices fell 0.3% for the month, but were largely offset by a 0.4% rise in food prices. The Fed sets an annual inflation target at 2.0%. However, it prefers to use the Commerce Department's price index as a gauge for personal consumption, which in June was up 1.6% from a year earlier.

The Fed continues to keep rates low, evidenced by the 10 Year Treasury Note yielding between 2.51% and 2.33% over the past three months. Even as the Fed has reduced its monthly bond purchases to 25 billion a month, rates have continued to fall mainly because of investors' return to safety during this time of geopolitical uncertainty in Ukraine, Iraq, and Gaza. Furthermore, investors and economists are also increasingly concerned that the Fed may wait too long before raising short-term interest rates.

It is clear that the market expects the Fed to raise short-term rates sometime in mid-2015. However, in light of improved employment rates and increased inflation measures, many market participants and economists are calling for a sooner than expected increase in rates in order to prevent financial markets from overheating. While some Fed officials are sympathetic to this view, most are taking a more patient approach.

Top Fed officials are concerned with several issues including the economy's first quarter contraction, turmoil abroad, weakness in the residential housing sector, and slow growing household incomes. Rather than increasing interest rates sooner than expected, these top fed officials prefer to wait for further information that indicates increasing economic activity, an improved labor market, and healthy inflation. If unemployment continues to fall faster than expected and if inflation moves rapidly toward the 2.0% target, then the Fed may hike rates closer to the end of 2014 or the beginning of 2015.

Annualized Inflation (TTM)



Net Lease Market Update

Select Income REIT acquires $3B CCIT portfolio

Select Income REIT has approved a definitive merger agreement to acquire Cole Corporate Income Trust (CCIT) for approximately $3 billion. The CCIT portfolio is comprised of 16.1 million square feet and is 100% occupied. The average remaining lease term of the portfolio is 12 years with no major expirations until 2022. The portfolio makeup is 75% office and 25% industrial. The portfolio is estimated to have traded for a 5.7% cap rate.

"MANAGEMENT TAKE": *On the surface, the $3 billion dollar acquisition seems dilutive to shareholders since SIR trades at an implied cap rate of 8.1%. However, with access to cheap debt on average at 3.7% and increasing its total REIT loan-to-value from 21% to 45%, SIR can neutralize the 5.7% portfolio cap rate and improve their asset base with investment grade tenants on long term leases and diversify its footprint in the US. Management believes that the transaction creates shareholder value as SIR gains size and economies of scale as it competes for more product in the marketplace.*

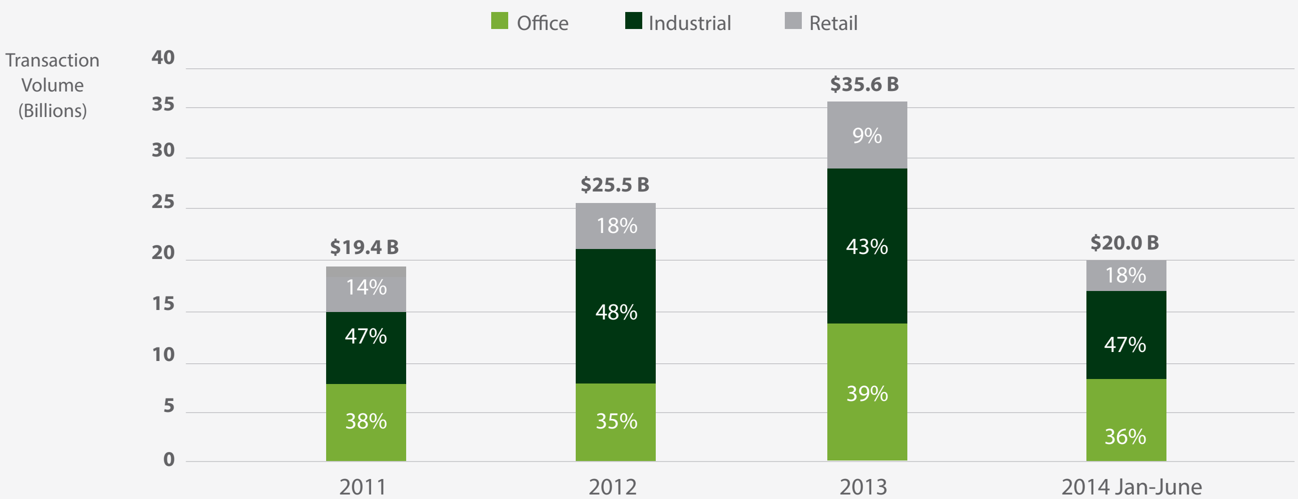
Real estate company Store Capital files for IPO

Real estate owner Store Capital Corp, backed by private equity firm Oaktree Capital Management LLC, filed on August 29th for an initial public offering of common stock. Store has a portfolio of more than 700 properties across 43 states as of Q2 2014. Reuters reported in July that Store Capital had hired banks to explore a potential offering that could raise $300 million to $500 million and value the company at about $2 billion.

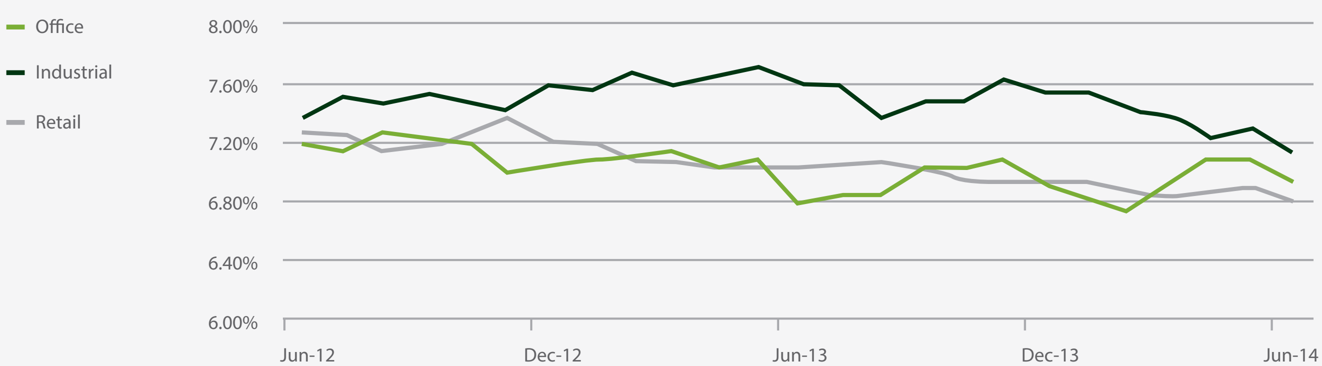
"MANAGEMENT TAKE": *The Store IPO was highly anticipated by ElmTree due to the backing of Oaktree Capital and an experienced management team in the public markets. CEO Chris Volk led Spirit Finance's IPO over a decade ago and it's ultimate sale to Macquarie Investment that created tremendous shareholder value. The IPO comes when the public REIT market seems to be extremely healthy as investors flock back to dividend stocks in search for yield since the sentiment of rising interest rates seem to have subsided. With net lease REITs trading at an average multiple of 16.7 times, Store should be able to leave some money on the table and still clear the market given their size and underlying asset base. Their strong sponsorship and experienced management team will help fill the void for institutional investors looking to increase their exposure to net lease real estate since players like Realty Income and American Realty Capital (ARC) continue to raise most of its equity capital*

marketWatch

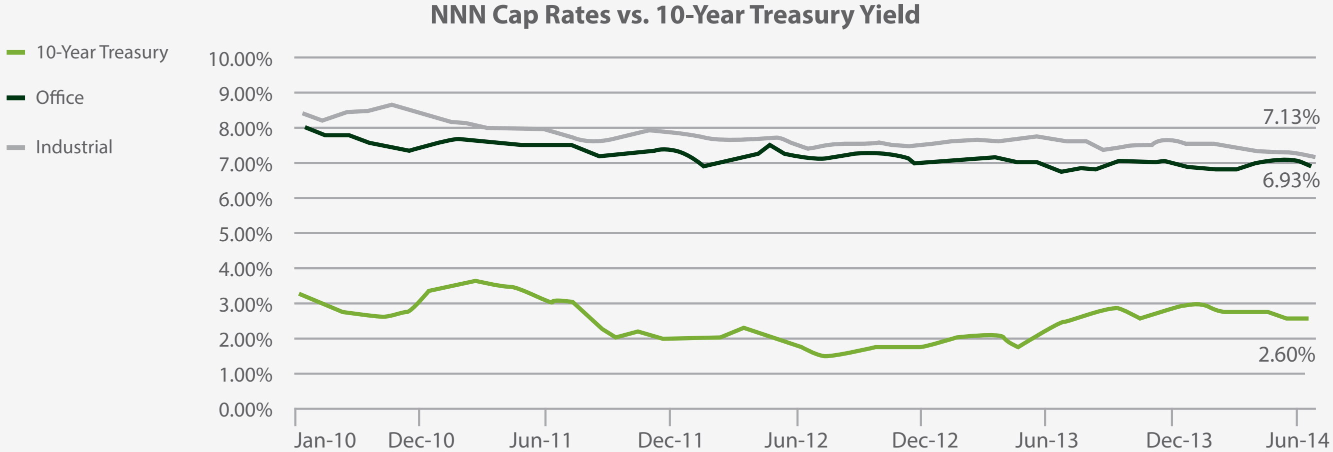
Net Lease Sales Volume



Net Lease Sector Cap Rates



NNN Cap Rates vs. 10-Year Treasury Yield



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