THE NEW YORK FAMILY OFFICE

Your Contact in the U.S.

Newsletter: 2nd Quarter 2013

U.S. Private Sector Defies Fiscal Headwinds and Higher Taxes

The U.S. real GDP grew at an annual rate of 1.8% in the first quarter, but the consensus view among economists is that the second quarter will weaken with strength returning in the second half of 2013. The current consensus view is 2.0% real GDP growth for 2013 versus 2.2% in 2012.

So far, the private sector has been more resilient in the face of large fiscal headwinds than previously anticipated. The combined fiscal drag from the increased payroll tax rate and sequester spending cuts total $225 billion for this year. All together, it is estimated that government spending declines will subtract approximately 0.8% from GDP in 2013.

Despite weak income gains, consumer spending improved moderately and may continue to grow at its modest pace until the economy recovers enough to deliver stronger spending power from wage growth. The increased consumer spending is supported by improved consumer confidence and a rebound in aggregate household net worth to a record level which surpassed the pre-recession peak recorded in the third quarter of 2007. Net worth has increased through the positive wealth effect as a result of rising equity and home prices. The positive wealth effect helps supplement still weak income gains generated by average workers. While not all families have benefitted from the rise in net worth, the wealth effect is broadening as the housing recovery continues and home prices increase. In addition, consumers have also aggressively deleveraged over the past five years and are again becoming more comfortable with borrowing, although much more cautiously and amid tighter lending conditions than prior to the Great Recession.

The economic recovery in the U.S. is still a work in progress and requires monetary ease to support asset prices in the hope that it will spur additional spending to support employment growth. However, in a press conference on June 19, 2013 Ben Bernanke, Chairman of the Federal Reserve Bank (Fed), shared important details on the Fed's quantitative easing (QE3) exit strategy. If the economic recovery progresses as anticipated, the Federal Reserve will be able to begin its exit from QE3 by reducing its asset purchases later this year. In case the subsequent data remains broadly aligned with the Fed's current expectations for the economy, the Fed would continue to reduce the pace of purchases in measured steps through the first half of next year, ending purchases around midyear 2014. In this scenario the unemployment rate would likely be near 7.0% in the middle of next year and Ben Bernanke suggested that this unemployment rate is low enough to end asset purchases. He also noted that the general path of the Fed's exit strategy would likely follow the principles set out in 2011, with the exception that the majority of the members of the Federal Open Market Committee (FOMC) see the Fed as likely to hold onto its holdings of mortgage backed securities to maturity rather than actively selling them.

Bernanke's announcement signaled the start of the end of the most prolonged period of monetary easing in the history of the U.S. The future will show whether QE3 caused potential misallocations of capital or mispricing of risk by pushing market participants into riskier assets to generate yield. In the aftermath of the crisis, risk aversion was severe and a return to some risk-taking behavior is a necessary part of the economic healing process. However, there is some concern that the pendulum swung too far in the other direction and that the effects will become apparent as interest rates rise.

In the coming years, the Fed will juggle supporting economic growth while containing increased potential for mid-term inflationary pressures. This will be a challenging balancing act for the potential successor for Ben Bernanke as Chairman of the Fed.

The Geographic Concentration of Manufacturing across the U.S.

Manufacturing has been one of the major bright spots in the U.S. economic recovery of the last few years, contributing more than 25 percent of the overall growth in GDP between 2009 and 2011 and adding roughly 500,000 new jobs between the beginning of 2010 and the end of 2012. This trend is especially welcome as manufacturing jobs often provide higher wages and better benefits than non-manufacturing jobs.

However, the importance of manufacturing to the economy is not uniform across the U.S. as there is geographic concentration in the manufacturing industries. A U.S. Department of Commerce report, which examined the importance of manufacturing in local economies, found that, although manufacturing accounts for a significant share of jobs and earnings in almost all states, a large portion of manufacturing jobs are concentrated in the Midwest and the South.

Specifically, the report found:

- In 2010, there were 629 counties, or roughly 20 percent of all U.S. counties, where earnings paid to manufacturing employees accounted for at least 20 percent of total earnings of all employees.

- Indiana and Ohio had the most counties where manufacturing accounted for at least 20 percent of total earnings (50 and 48 counties, respectively), followed by Tennessee (42 counties), Wisconsin (40 counties), Georgia (36 counties), Iowa (36 counties) and Kentucky (31 counties).

- These counties are more likely to be located outside of metropolitan areas. About 68 percent of counties with at least 20 percent of total earnings derived from manufacturing were located in rural or micropolitan areas.

- There were 181 counties spread over 27 states where manufacturing jobs made up at least 20 percent of total employment. Indiana and Ohio had the largest number of such counties, at 26 and 16, respectively. Again, these counties are more likely to be located outside of metropolitan areas as roughly 80 percent are located in rural or micropolitan areas.

How Can Investors Indirectly Participate in America's Oil and Gas Boom?

In 2012 U.S. crude-oil production increased by more than one million barrels per day, the biggest increase in oil production in the world and the largest in U.S. history. Most of the oil is coming from dense shale-rock formations, such as the Bakken Shale in North Dakota and the Eagle Ford Shale in Texas. The growth in energy exploration and production is due to the widespread use of horizontal drilling and hydraulic fracturing, or fracking.

There are different ways for investors to participate in America's oil and gas boom and clearly infrastructure is a meaningful way to do so. For example, the renaissance of the U.S. railroad is based on the fact that there was not enough capacity to transport oil from remote areas where it is explored to existing oil refineries. In

2010 Warren Buffett invested in Burlington Northern Santa Fe (BNSF), the second largest freight railroad network in North America, because he realized that BNSF was perfectly positioned to transport the crude out of North Dakota.

There are other opportunities to invest in underdeveloped infrastructure in the U.S. The Bakken region covers approximately 200,000 square miles (approximately 518,000 square kilometers) in North Dakota, Montana and Saskatchewan and is geographically one of the largest oil fields in the world. Today, North Dakota is already ranked second in oil production behind Texas among U.S. states (up from sixth in 2008). From 2007 to 2011 the region's oil-related workforce has grown from 2,000 to over 20,000. The region's population is expected to increase more than 60% by 2015 and the increase in workforce is projected to be even higher. But where do all these people live? Current housing product in the area is in short supply, typically of poor quality and built by inexperienced developers. The landscape is littered with cheaply built, temporary solutions (containers, trailer parks, etc.) with no amenities, no finishes, and no landscaping. Some experienced large real estate developers see this as an opportunity to become an early entrant in a rapidly expanding market. They are raising money to develop workforce housing solutions and address the housing shortage in the Bakken centered around fast growing, small towns. Similar opportunistic plays are expected to emerge in other remote regions throughout North America. However, it is critical to understand the risks involved in these investments and get to know the specific markets.

Study of Activist Hedge Funds

Activist hedge funds make plenty of headlines and draw a lot of attention in the media. However, a study by Professor Nickolay Gantchev of the University of North Carolina revealed that activist hedge funds often see their gains wiped out because of the high cost of mounting a proxy fight.

Professor Gantchev discovered in his study of 1,164 campaigns by 171 hedge funds that the average hedge fund makes less money on its activist investments than on its non-activist portfolio. On average a campaign ending in a proxy fight has costs of $10.71 million. The estimated monitoring costs reduce activist returns by more than two-thirds resulting in a mean net activist return close to zero. However, the top quartile of activists earns higher returns on their activist holdings than on their non-activist investments. Manager selection and monitoring is critical.

Large Foreign Institutional Funds and Sovereign Wealth Funds Are Starting U.S. Real Estate Investments

During the last four years since the official end of the Great Recession in June 2009, foreign investment activity has been concentrated in the primary U.S. real estate markets like Boston, New York, Washington, D.C., San Francisco and Los Angeles. Investors were flocking towards "secure" investments in core and core-plus properties, which compressed cap rates and elevated prices to pre-crash levels and above.

During the past six months, several large foreign players announced investments in the U.S. real estate market and it has been interesting to learn about the different motivations and strategies and to understand where they see investment opportunities materialize:

1) Canadian Pension Funds

Canadian funds have been among the first to invest in U.S. commercial real estate after the downturn. During the financial crisis, many of the larger Canadian pension funds had most of their real-estate exposure in Canada, where property prices fell but not as sharply as in the U.S. and bounced back relatively quickly to 2007 peak levels. Since then Canadian pension funds found more attractive risk-adjusted returns south of the border and poured approximately $9 billion into U.S. commercial real estate in the past three years.

Currently, Canadian funds see value in the U.S. as they expand beyond their own overheated property market. William Tresham, President of global investments for Ivanhoe Cambridge, the real estate investor for Caisse de dépôt et placement du Québec (CDPQ), said that the majority of institutional Canadian investors would say the U.S. is number one on their investment list. They are concerned about the European economy, Asian markets are not as well understood and Canadian assets are around all-time highs. CDPQ manages public pension plans in the Canadian province of Quebec and has $159 billion in assets under management. Oxford Properties, the real estate investor for the Ontario Municipal Employees Retirement System has about $20 billion in property investments, primarily in Canada, but is expanding quickly in the U.S. So far, Oxford Properties has invested $1.5 billion in U.S. real estate and says it expects that to rise to $5 billion by 2015. The Canada Pension Plan with $170 billion in assets under management has invested more than $5 billion in U.S. property since 2006 and the group responsible for the Americas (including Canada) has grown from four to 45 in the same period.

2) European Funds

AXA Real Estate Investment Managers has started to build a U.S. investment platform and to buy assets for selective strategies. During the global financial downturn, most investors have been risk-averse and focused on core properties in the top real estate markets like London and Paris. This has driven up prices and compressed cap rates below five percent. As a result of steep prices for core real estate, more and more seasoned investors look at secondary markets and their interest in non-core properties is rising. That might mean investing in distressed assets or in properties with the potential to add substantial value through repurposing or refurbishment to provide better returns and greater value. Also AXA found that the core markets in the U.S. are quite expensive and is looking at properties all around the country as part of a yield play strategy.

Norges Bank Investment Management (NBIM) manages the Norwegian Government Pension Fund Global often referred to as the Norwegian oil fund. It is the world's largest sovereign wealth fund and got the approval from the Norwegian government to start investing in U.S. real estate in December 2012. The fund is seeking low-risk assets which meet its pensioners' needs and is targeting well-leased prime office and retail space in markets like Boston, New York and Washington, D.C. Prices for these assets are high today and they will pay four to five cap rates. In the past, the fund has often made big investments nearing or exceeding $1 billion, and has always bought alongside an experienced and deep pocketed real estate partner who co-invests about 50 percent and shares their long-term investment horizon. It is likely that the fund plans to follow the same strategy in the U.S.

Philanthropy

For many principals philanthropy is a very personal matter, because to them philanthropy has a deeper meaning and is often more important than investing.

Whether family members support philanthropy with their knowledge, time or fortune, it is the opportunity to do something meaningful and measurable, get the next generation involved and convey family values.

In this context, we take the liberty of introducing two interesting U.S. non-profit organizations, which may be of interest for families in GSA (Germany, Switzerland and Austria) or may serve as inspiration for similar purposes:

1) American Prairie Foundation: Creation of a Unique Prairie and Wildlife Reserve Larger than Yellowstone
2) Astia: Funding, Growth and Leadership for Women-Led Companies

American Prairie Foundation: Creation of a Unique Prairie and Wildlife Reserve Larger than Yellowstone

The American Prairie Foundation also known as the American Prairie Reserve is an independent non-profit organization (www.americanprairie.org) formed in 2001 to create and manage a large-scale wildlife reserve in the grasslands of northeastern Montana, the heart of America's Great Plains. The goal is to assemble an area of more than three million acres (in total approximately 1.4 million hectares), east of the Rocky Mountains and north of the Missouri River. This region was identified by The Nature Conservancy as a top priority for grassland conservation, owing to the relatively pristine condition of the land and the diversity of wildlife species in the area. World Wildlife Fund (WWF) decided to initiate a conservation effort and determined that an independent non-profit organization, capable of focusing all its time and resources on the preservation of Montana's Northern Great Plains, would be the best vehicle through which to initiate a large-scale conservation effort.

By buying land next to already protected areas, the American Prairie Foundation wants to stitch together a place bigger than Yellowstone National Park in Wyoming and about 5.5-times the size of the State of Saarland in Germany. But the success of the project hinges on more than just land. It depends on bringing back the creature of this realm: bison, prairie dogs, beaver and other wildlife.

Long ago, an intricate balance of natural forces, water, fire and drought, shaped and defined the prairie. In the 1800s the pioneers found a seemingly endless bounty of animals unequalled in North America. But in less than 100 years the prairie has profoundly changed and nearly all the herds are gone. Modern civilization took over and ranches and farms dominate the land. But the times are changing again. The human population of the northern prairie is declining as new generations head off to the cities. Vast stretches of intact native grassland are now primed for rebirth and the creation of one of the largest private conservation projects in the United States' history, the American Prairie Reserve, is in motion.

This ambitious project drew the attention of National Geographic, which produced the documentary titled American Serengeti in 2010.

An interesting aspect for supporters residing in Germany is the formation of a German sister non-profit or-

ganization called Freunde der American Serengeti e.V. (www.americanserengeti.de) which allows donations to be deducted on their German tax returns.

Astia: Funding, Growth and Leadership for Women-Led Companies

Founded in 1999 in Silicon Valley, Astia is an innovative global not-for-profit organization (www.astia.org) that propels women's full participation as entrepreneurs and leaders in high-growth businesses, fueling innovation and driving economic growth.

Astia offers customized executive services for women-led companies that accelerate access to capital, address core business challenges to ensure the companies achieve high growth, and increase the financial literacy and leadership of the founders. Currently, Astia serves four markets: Silicon Valley, New York, Europe, and India.

Astia focuses its attention on a small number of high-potential companies and encourages applications for its programs. The qualification criteria are:

- An innovative product or offering in a high-growth sector such as Technology, Life Science, Clean Tech, or, in certain circumstances, high-growth Consumer Products or Services
- A high-growth investment opportunity (at any stage of growth)
- An exceptional team, product, and business strategy
- A significant market opportunity with initial customer traction or feedback
- A defendable competitive advantage
- At least one woman in a leadership role (at C-level) and in a significant position of equity and influence

Designed for entrepreneurs by entrepreneurs Astia programs provide access to capital, ensure sustainable high-growth, and develop the executive leadership of the women on the founding team. Its services are delivered by a community of more than 450 experts that comprise the Astia Advisor Network. This network currently includes more than 300 former and current C-level startup executives and 200 investors from across a broad range of disciplines. The benefits of the programs include:

- High-touch, customized advisory services focused on high-growth and driving to exit
- Access to VCs and angel investors
- Expert advice by a team of current and former CEOs, VCs, angels and successful entrepreneurs
- Presentation skills coaching by leading experts
- Participation in the week-long program for entrepreneurs
- Strategic business planning advice
- Fundraising advice including strategy and alternative options
- Product development reviews
- Sales and marketing strategy sessions

Astia prouds itself to offer programs for high-growth start-ups that deliver results. Since 2003 the programs' results include:

- Over 60% fundraising success rate within one year of joining Astia
- Raising more than $1 billion by presenting companies
- 26 exits to date (including two IPOs)

Economic Indicators & U.S. Dollar Foreign-Exchange Rates

Economic Indicators	May 2013	March 2013	May 2012	May 2010	May 2008
Employment	175,000	88,000	69,000	431,000	(49,000)
Unemployment Rate	7.6%	7.6%	8.2%	9.7%	5.5%
Avg. Weekly Hours (Manuf.)	40.8	40.8	40.5	40.5	41.0
Avg. Overtime Hours (Manuf.)	3.3	3.4	3.2	3.0	3.8
Building Permits	974,000	902,000	780,000	574,000	969,000
Housing Starts	914,000	1,036,000	708,000	593,000	975,000
Consumer Confidence Index	76.2	61.9	64.4	62.7	57.2
Purchasing Managers Index	49.0	51.3	52.5	57.8	48.8

Other Indicators	May 31, 2013	March 28, 2013	May 31, 2012	May 28, 2010	May 30, 2008
S&P 500 Index	1,630.74	1,569.19	1,310.33	1,089.41	1,400.38
S&P 500 - Trading Volume (in thousands)	4,099,600	3,304,440	4,557,620	4,871,210	3,845,630
VIX (Volatility Index)	16.30	12.70	24.06	32.07	17.83

Real GDP	2013 Q1	2012 Q4	2012	2010	2008
Real GDP	1.8%	0.4%	2.2%	3.0%	(0.3%)

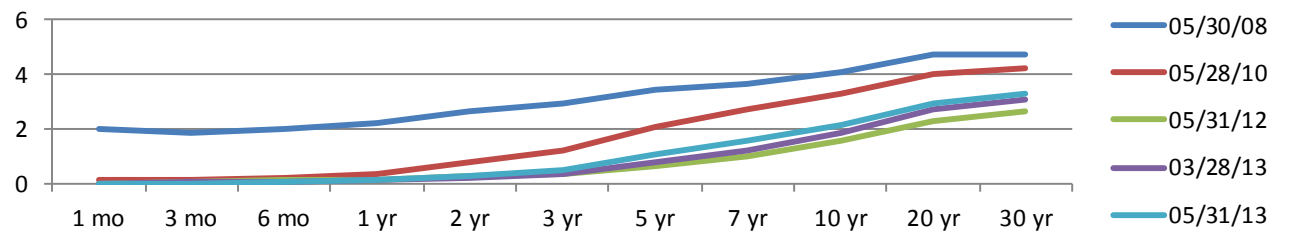
Inflation	May 2013	March 2013	2012	2010	2008
Inflation	1.4%	1.5%	2.1%	1.6%	3.8%

Currency Exchange Rates	May 31, 2013	March 28, 2013	May 31, 2012	May 28, 2010	May 30, 2008
EUR / USD	1.2987	1.2815	1.2440	1.2299	1.5586
GBP / USD	1.5164	1.5139	1.5576	1.4514	1.9764
CHF / USD	1.0429	1.0514	1.0357	0.8661	0.9584
CAD / USD	0.9671	0.9833	0.9740	0.9477	1.0109
CNY / USD	0.1616	0.1593	0.1576	0.1462	0.1439
JPY / USD	0.0099	0.0106	0.0126	0.0110	0.0095

Note: Some Numbers May Be Updated Due to Revisions of Official Statistics.

Interest Rates, Real Estate & Taxes

Treasury Yield Curve (in %)



Base Rates	June 3, 2013	2 Weeks Ago	One Year Ago
30 Day LIBOR	0.19%	0.20%	0.24%
U.S. Treasury			
5 Year	1.06%	0.85%	0.67%
10 Year	2.16%	1.97%	1.56%

10-Year Fixed Rate Ranges by Asset Class	Max. LTV	Class A	Class B/C
Anchored Retail	70-75%	T + 210	T + 220
Strip Center	65-70%	T + 230	T + 240
Multi Family (Non-Agency)	70-75%	T + 195	T + 200
Multi Family (Agency)	75-80%	T + 190	T + 195
Distribution/Warehouse	65-70%	T + 210	T + 220
R&D/Flex/Industrial	65-70%	T + 225	T + 240
Office	65-75%	T + 200	T + 215
Full Service Hotel	55-65%	T + 265	T + 290

Note: T = Interest Rate for 10-Year U.S. Treasury (2.16%)
Source: Cushman & Wakefield (June 3, 2013). Due to the market volatility in the past few weeks, C&W did not provide more recent numbers.

Simplified Presentation of the Most Important U.S. Federal Tax Rates:	
Income Tax	10-35% / 10-39.6%*
Long-Term Capital Gains (LTCG)	15% / 20%*
"Qualified" Dividends	15% / 20%*
Corporate Tax	15-35%
Gift and Estate Tax	18-35% / 18-40%*

Note: * = As of January 1, 2013 higher tax rates apply for individuals earning more than $400,000 (and couples earning more than $450,000).

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For questions or scheduling meetings, please contact us.
We are looking forward to hearing from you.

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