



Canterbury Consulting

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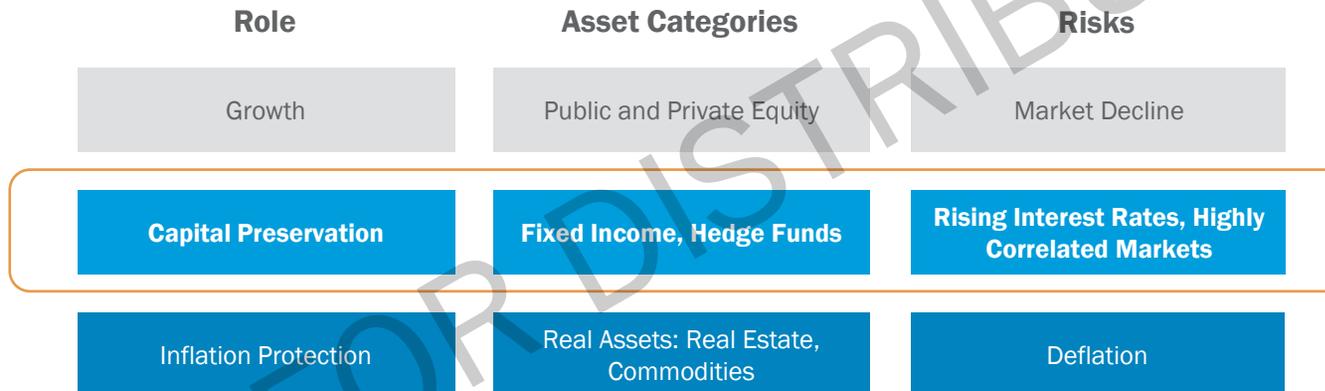
Quarterly Asset Class Report Tax-Exempt Fixed Income

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December 31, 2022

Canterbury Consulting recommends and communicates asset-class strategy with the objective of constructing a diversified portfolio of fixed income strategies designed to (in aggregate):

- Preserve capital and mitigate volatility
- Provide measured exposure to the diverse universe of fixed income securities
- Exhibit returns uncorrelated to equity markets



- Canterbury fixed income portfolios are set up with a goal to deliver consistent net-of-fees excess returns and moderate tracking error versus the Barclays Global Aggregate.
- Relative to the index, Canterbury’s current fixed income portfolios will exhibit lower duration, similar credit quality, and higher yields.

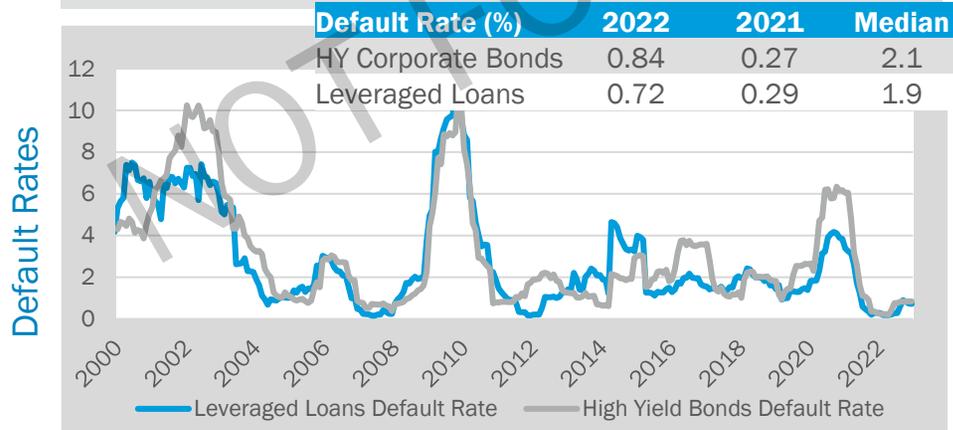
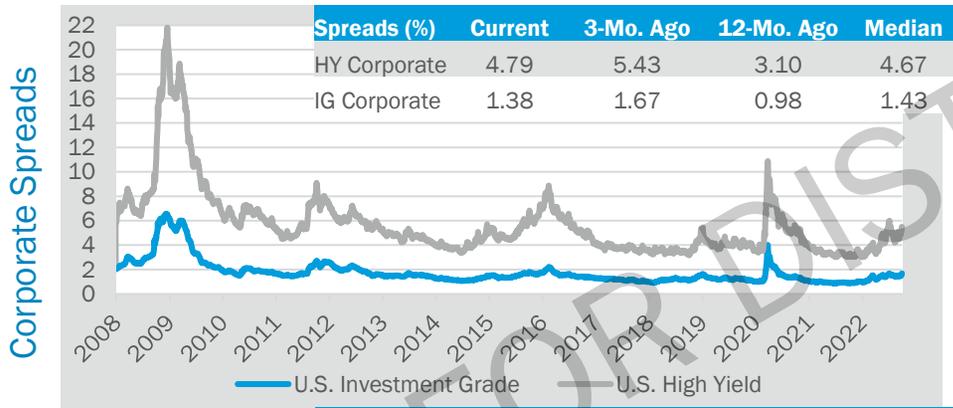
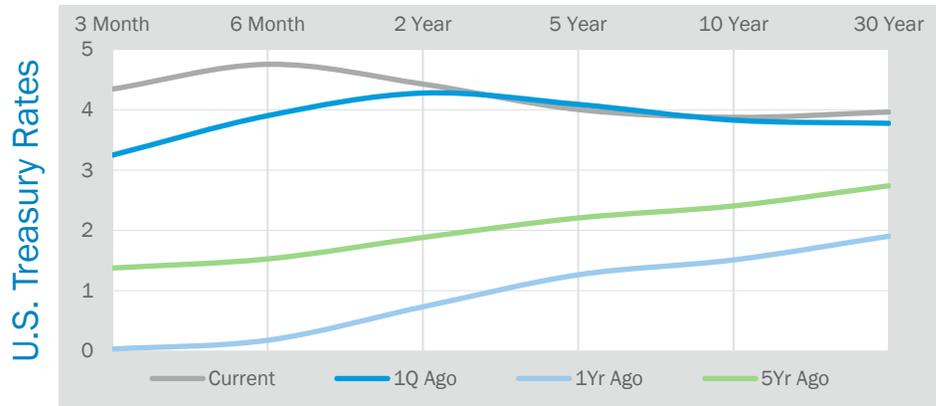
Index Returns as of December 31, 2022

Fixed Income

	QTD	YTD	1 Year	3 Years	5 Years	7 Years	10 Years
Bloomberg Global Aggregate	4.55	-16.25	-16.25	-4.48	-1.66	0.12	-0.44
Bloomberg US Agg Bond	1.87	-13.01	-13.01	-2.71	0.02	0.89	1.06
U.S. Treasurys							
BofAML 3M US Treasury Note	0.91	1.49	1.49	0.77	1.31	1.10	0.79
Bloomberg Short Treasury	0.85	0.98	0.98	0.66	1.26	1.09	0.80
Bloomberg Intermediate Treasury	1.02	-7.77	-7.77	-1.39	0.46	0.64	0.69
Bloomberg Long Term US Treasury	-0.59	-29.26	-29.26	-7.40	-2.20	-0.23	0.60
Bloomberg U.S. Treasury TIPS 1-5Y	1.30	-3.96	-3.96	2.32	2.48	2.33	1.30
Bloomberg US Treasury US TIPS	2.04	-11.85	-11.85	1.21	2.11	2.60	1.12
U.S. Corporate Credit							
Bloomberg US Corp IG	3.63	-15.76	-15.76	-2.88	0.45	2.08	1.96
Morningstar LSTA Leveraged Loan	2.74	-0.60	-0.60	2.55	3.31	4.38	3.67
BofAML US HY Master II	3.98	-11.22	-11.22	-0.23	2.12	4.95	3.94
BofAML US HY BB-B Constrained	4.32	-10.58	-10.58	-0.20	2.31	4.66	3.94
BofAML US Corporate AAA	2.46	-18.94	-18.94	-3.88	-0.08	1.44	1.54
BofAML US Corporate AA	2.68	-16.00	-16.00	-3.23	-0.03	1.20	1.42
BofAML US Corporate A	3.11	-14.69	-14.69	-2.73	0.38	1.70	1.79
BofAML US Corps BBB	4.06	-15.86	-15.86	-2.68	0.75	2.70	2.32
BofAML US High Yield BB	4.33	-10.57	-10.57	0.51	2.76	4.82	4.31
BofAML US High Yield B	4.33	-10.58	-10.58	-0.94	1.82	4.56	3.52
BofAML US High Yield CCC	1.12	-16.32	-16.32	-1.68	-0.12	5.96	3.44
Securitized							
Bloomberg ABS	0.81	-4.30	-4.30	-0.11	1.18	1.36	1.23
Bloomberg MBS	2.14	-11.81	-11.81	-3.22	-0.53	0.20	0.74
Bloomberg CMBS	1.02	-10.91	-10.91	-1.63	0.77	1.39	1.36
Municipals							
Bloomberg Municipal	4.10	-8.53	-8.53	-0.77	1.25	1.70	2.13
Bloomberg Muni 1-10	2.87	-4.51	-4.51	-0.10	1.30	1.34	1.54
Global							
Bloomberg Global Aggregate TR Hdg USD	0.99	-11.22	-11.22	-2.59	0.36	1.24	1.70
Bloomberg Gbl Agg Ex USD	6.81	-18.70	-18.70	-5.94	-3.07	-0.59	-1.64
FTSE WGBI	3.82	-18.26	-18.26	-5.75	-2.54	-0.58	-1.22
JPM EMBI Plus	8.70	-24.67	-24.67	-8.34	-3.87	-0.37	-0.35

Market Environment as of December 31, 2022

Fixed Income

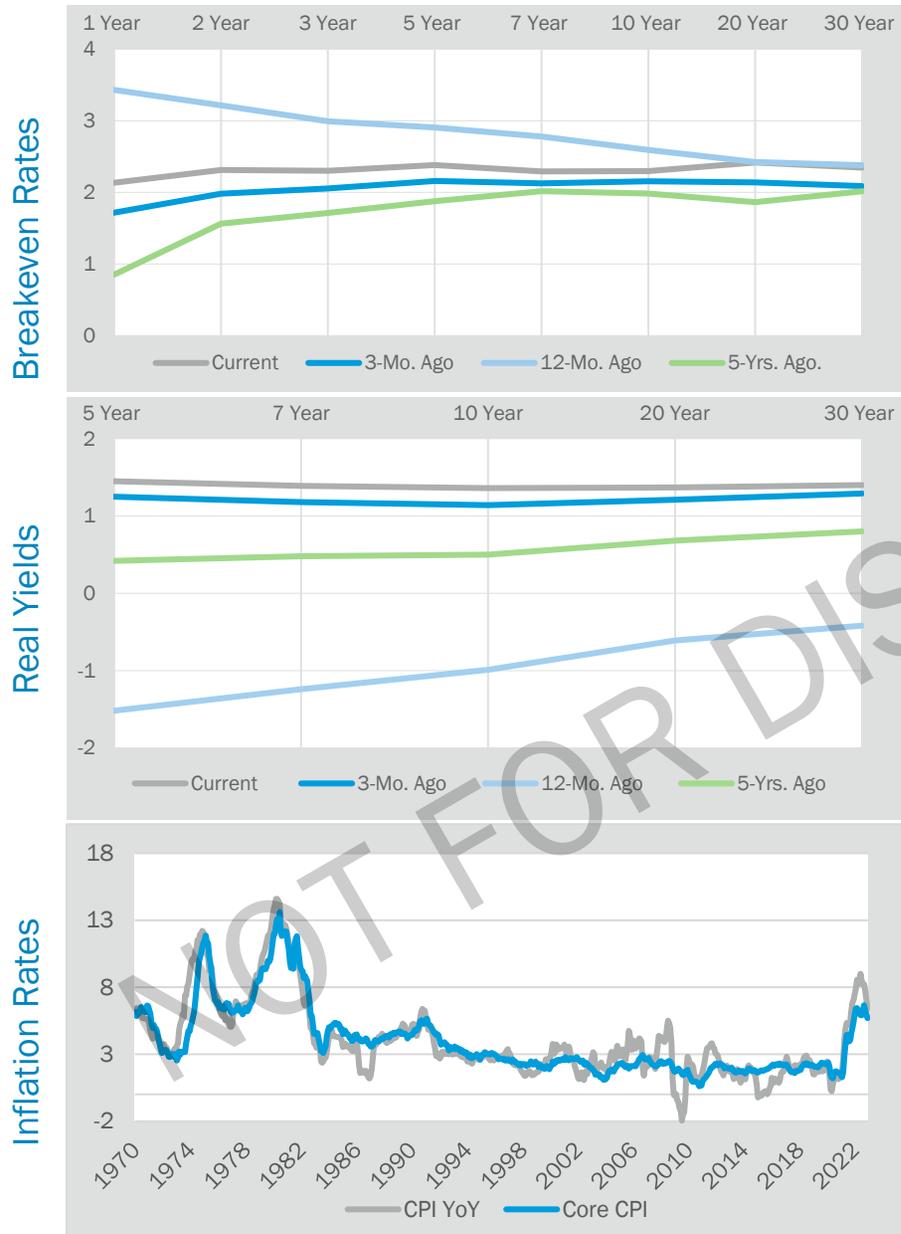


- Amid elevated inflation, the Federal Reserve raised the key interest rate twice, 75 basis points in November and 50 basis points in December to a range between 4.25% - 4.50%.
- Chairman Powell communicated that the pace of interest rate hikes is likely to slow given that inflation is showing signs of cooling, however, would keep rates at higher levels for longer.
- The treasury yield curve increased on the front-end given the expected pace of interest rate hikes by the Fed, while the long-end had little change over the quarter. As a result, the yield curve between 2-year and 10-year maturities inverted further.
- Bonds, represented by the Bloomberg U.S. Aggregate Bond Index, had their worst calendar year performance in recent history, surpassing the lows of the 1970's and 1980's.
- Investment grade (IG) spreads narrowed from 167 basis points (bps) to 138 bps over the quarter while high yield (HY) spreads narrowed from 543 bps to 479 bps.

Sources: Federal Reserve Economic Data, U.S. Treasury Department, S&P LCD, JP Morgan. Data as of 12/31/2022.

Market Environment as of December 31, 2022

Fixed Income



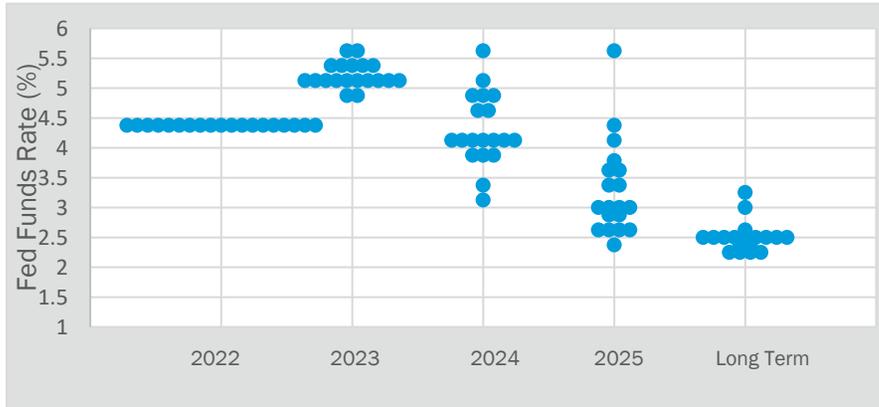
- Breakeven inflation rates marginally increased across the curve over the quarter. The breakeven rate is the implied inflation rate for a given maturity and is calculated by subtracting the real yield of a treasury bond from the nominal yield.
- Current long-term breakeven rates imply that inflation should trend above the Fed's original inflation target of 2% in the long run.
- Real yields across the curve marginally increased, showing that nominal yields kept up with the pace of inflation.
- Inflation continues to be driven by supply/demand imbalances as a result of the pandemic, the Ukraine/Russia war, tight labor market, high wage growth, and various supply chain disruptions across the globe.

Source: Bloomberg, FRED, CPI & PCE Data, U.S. Breakeven Rates, U.S. Treasury Inflation-Indexed Rates. Data as of 12/31/2022.

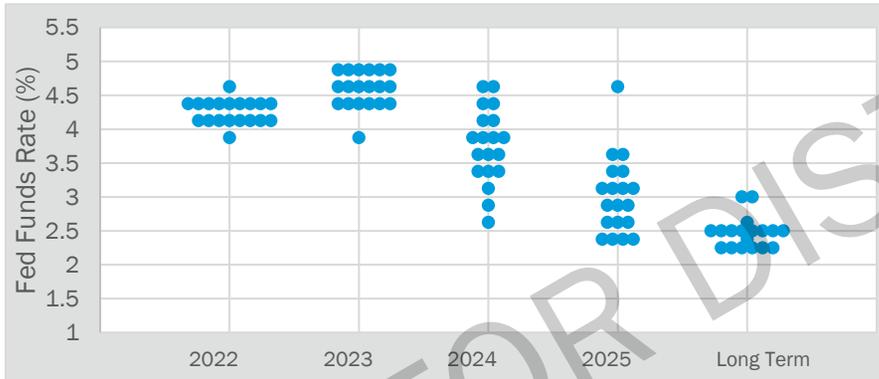
Market Environment as of December 31, 2022

Fixed Income

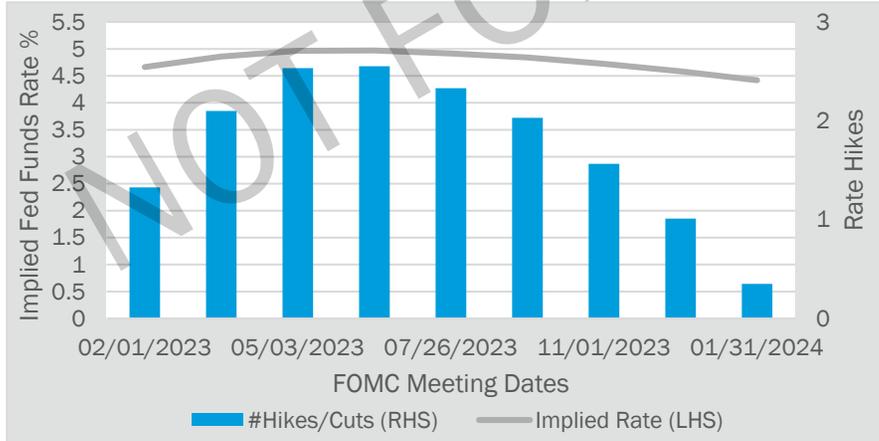
Fed Dot Plot
December 2022



Fed Dot Plot
September 2022



Implied Fed Funds Rate &
Rate Hike Probabilities



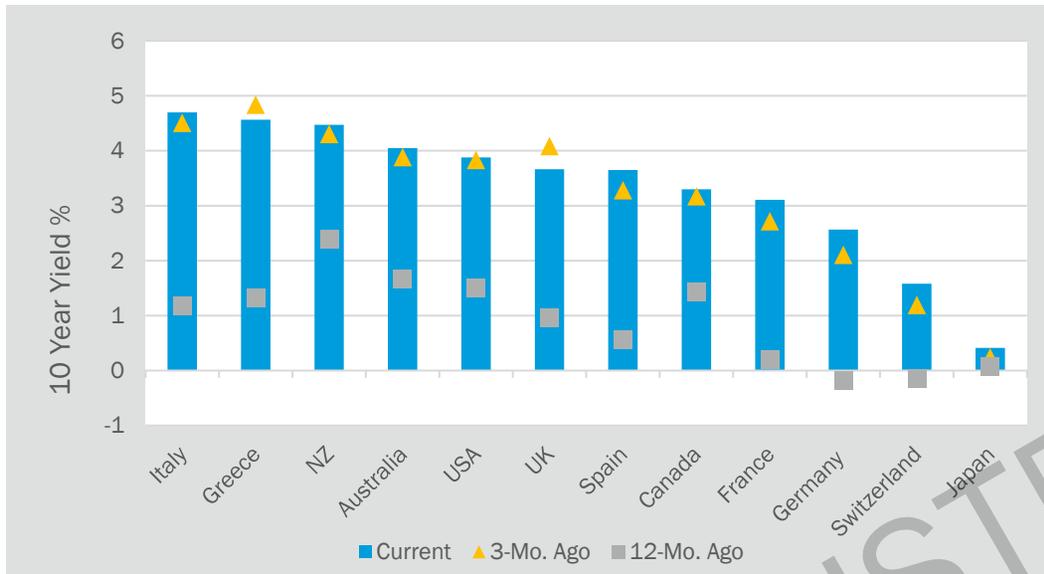
- The Federal Reserve increased its fed funds rate forecast range over the quarter from 4.5% - 4.75% to 5.0% - 5.25% by the end of 2023, as represented by the Fed Dot Plot.
- As of end of December, market participants expected the Fed to begin cutting interest rates at the July FOMC meeting in 2023.
- The Fed Dot Plot represents where each of the Federal Open Markets Committee (FOMC) members believe the fed funds rate will be in the future.
- The implied fed funds rate is where market participants believe the fed funds rate will be based on futures prices.

Source: Bloomberg. December FOMC Dot Plot. Fed Funds Futures as of time of December FOMC meeting. Implied Fed Funds Futures & Rate Hike Probabilities as of 12/31/2022.

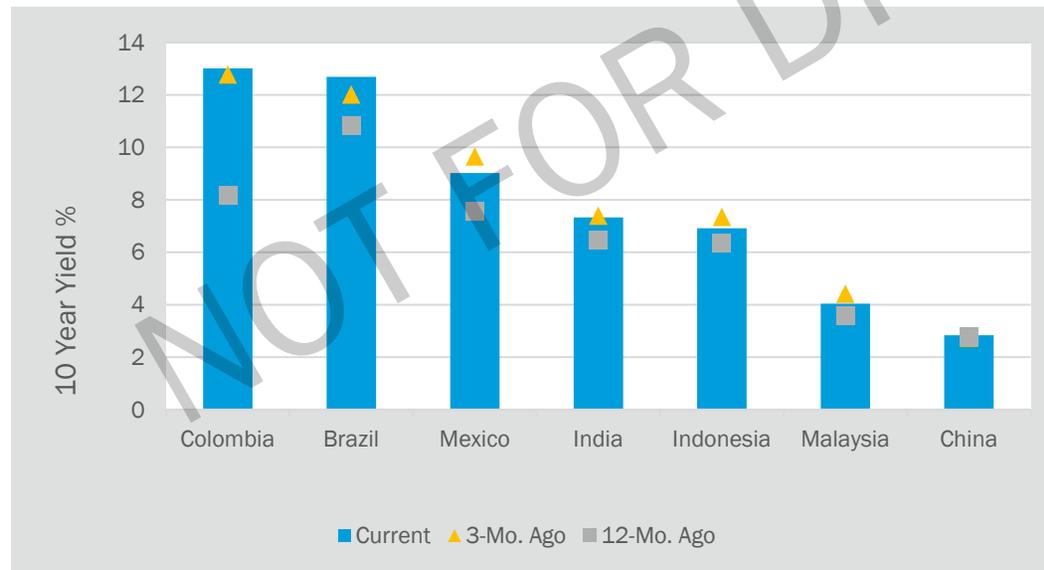
Market Environment as of December 31, 2022

Fixed Income

Developed Yields



EM Yields (Local Currency)



- Developed sovereign bond yields ended the quarter higher. Countries that faced elevated inflation prints and hawkish central bank signaling saw long-term yields rise higher than others.
- Emerging markets (EM) sovereign yields remained relatively unchanged on a quarter-over-quarter basis.
- Emerging and developed market currency performance generally improved as the U.S. dollar depreciated across most currencies.

Source: Bloomberg. Data as of 12/31/2022.



Goals

- Are clients seeking to preserve capital, generate total return, or blend the two within a fixed income segment?
- What level of risk related to portfolio correlation is the client looking to incur?



Interest Rate & Inflationary Environment

- How does the current interest rate regime and inflationary environment affect return and risk (i.e. stagnant, slow-rise, rapid rise)?
- What level of interest rate volatility is the client willing to take?



Risk Tolerance

- How much risk is a client willing to take?
- Duration, yield curve positioning, sector exposure, credit exposure, the correlation to equities, and the client's distribution flows are important factors to measure.



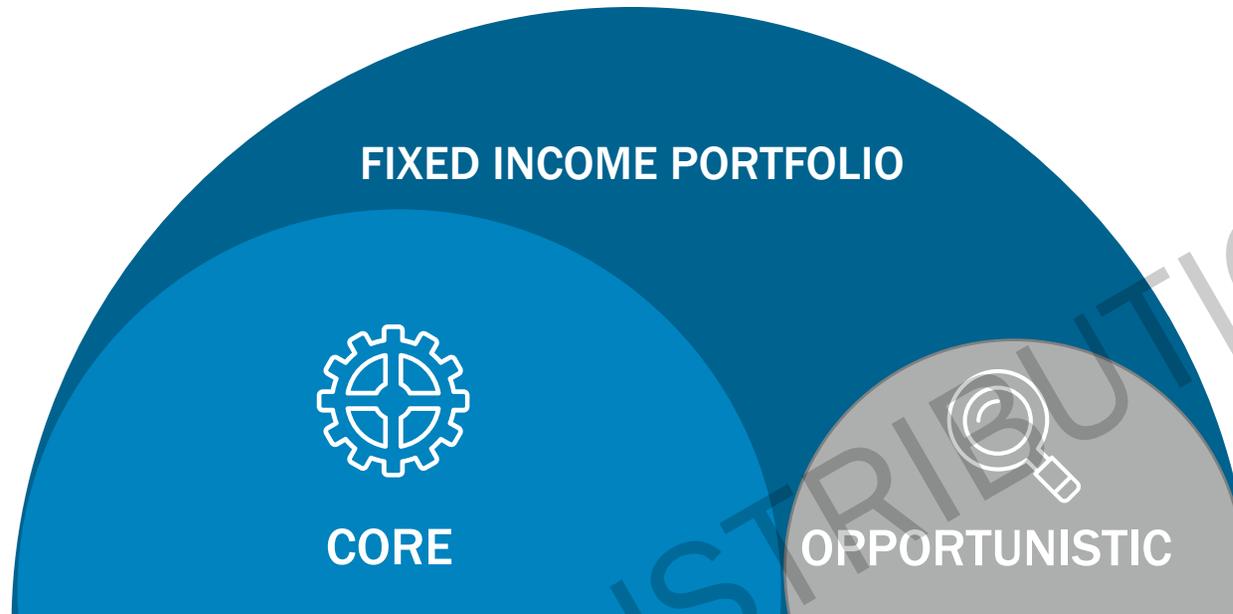
Tax Considerations

- Is the client's status taxable or tax-exempt?
- Does the client have a higher threshold given the respective tax situation?



Time Horizon

- Does the client have short term or long term goals?
- Are spending requirements quarterly, annually, or longer?
- Is spending consistent with the return/risk profile of the portfolio?



Characteristics

- Low volatility
- Uncorrelated to equities
- U.S. Focus



Exposure

- Treasuries
- Agencies
- Investment grade corporate
- MBS



Characteristics

- Income orientated
- Total return focus
- Uncorrelated to core bonds



Exposure

- Non-U.S. developed sovereigns
- EM sovereigns
- High yield
- Bank loans
- Private debt