CanterburyConsulting

Quarterly Asset Class Report

Hedge Funds

canterburyconsulting.com

June 30, 2015

Role in the Portfolio

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

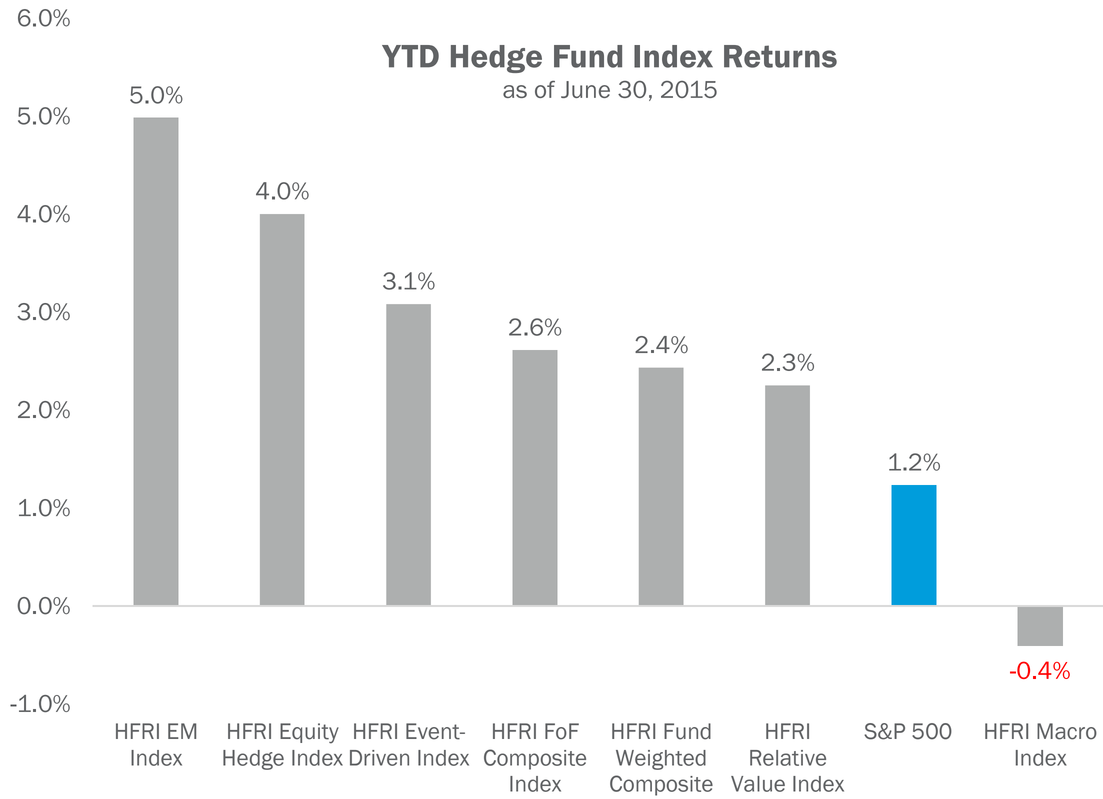
(i) Preserve capital and mitigate volatility

(ii) Maintain exposure to a diversified set of securities in global markets

(iii) Exhibit uncorrelated investment returns

Role	Asset Categories	Risks
Growth	Public and Private Equity	Market Decline
Capital Preservation	**Fixed Income, Hedge Funds**	**Rising Interest Rates, Highly Correlated Markets**
Inflation Protection	Real Assets: Real Estate, Commodities	Deflation

- Canterbury Consulting recommends a diversified mix of long/short equity, long/short credit and multi-strategy managers for client portfolios. We depend on managers with strategies that rely upon superior security selection and portfolio management, not leverage or quantitative models, to generate performance
- Short term returns from Canterbury hedge funds may act differently than broad market indices, but they should generally protect from losses in negative markets and participate with the gains of positive markets
- Over a full market cycle, Canterbury hedge fund portfolios are expected to produce market-like returns with a significantly lower volatility profile



- 2Q performance was muted, but Hedge Funds have performed well on an absolute and relative basis through the first half of 2015
- Strength continues to come from sectors like health care and consumer discretionary stocks while commodity related names suffered volatile swings
- Markets have experienced volatility with increased frequency due to financial turmoil in Greece and Puerto Rico, a strengthening U.S. dollar, and Chinese equity market losses
- Macro strategies gave back 1Q gains in the second quarter and is one of the few broad strategies that has a YTD loss

Drivers of Performance

Quantitative Easing (QE) policies

- The expiration of QE in the U.S. market has allowed business fundamentals to become the primary driver of security prices
- Meanwhile, Quantitative Easing policies are in full effect in European and Asian markets encouraging investment in those regions
- As the U.S. creeps towards its first interest rate hike, global central banks are actively cutting interest rates and easing credit

Robust opportunity set to generate returns long and short

- The current strength of the US Dollar hurt larger U.S. companies, but small cap stock prices have moved higher without currency headwinds
- Dispersion among business sectors and a renewed focus on fundamentals have allowed managers to generate alpha from long and short investments
- Currencies and commodity prices experienced volatility

Long/short equity strategies lead

- After a prolonged period of trailing peers, long/short equity strategies have performed well generating uncorrelated returns with less volatility than the markets

Canterbury recommends a diversified mix of long/short equity, long/short credit, and multi-strategy managers. We expect positive absolute and relative returns from hedge fund strategies as the market headwinds that have accompanied this prolonged rally dissipate

- Hedge fund managers and Canterbury expect markets to experience volatility with greater frequency in 2015 that will create long and short opportunities across equity and credit securities
- Long/short equity returns could outperform multi-strategy managers as well as long/short credit managers for an extended period. This is a reversal from the longer term trend, but we believe that this could persist for some time going forward due to the lack of distressed credit and special situation opportunities
- Historically, rising rate environments have favored actively managed investment strategies. Falling rates has supported positive market returns, but with interest rate hikes in our future, Canterbury is focused on recommending exposure to a diversified line-up of managers that can generate alpha through portfolio management and superior security selection
- Canterbury expects managers who excel at exposure management, security selection and position sizing to outperform benchmarks in a market with increased volatility and dispersion of investment returns
- Canterbury recommends that clients keep their hedge fund allocations at target weights with an even split between long/short equity and multi-strategy/credit hedge funds