



Canterbury Consulting

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## Quarterly Asset Class Report

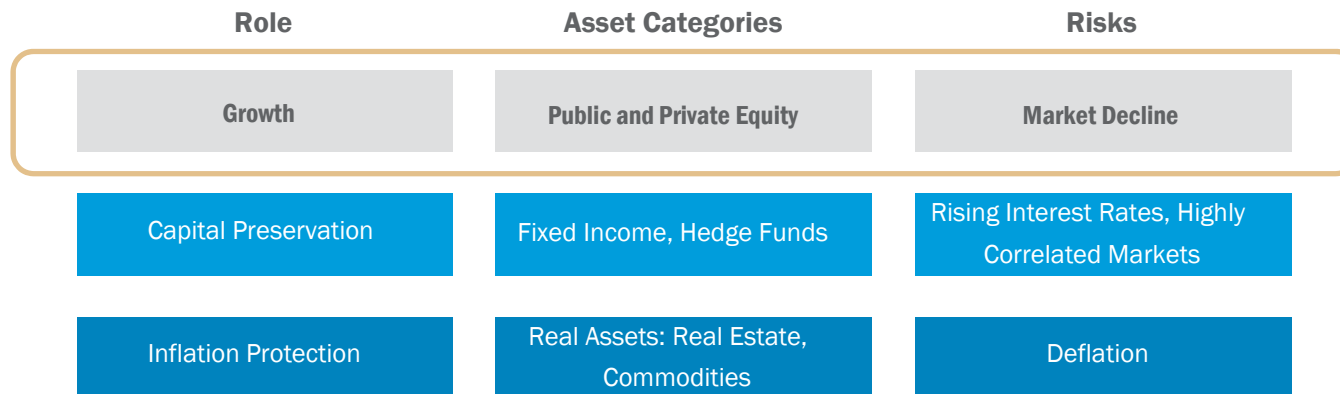
### Global Equity

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September 30, 2018

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

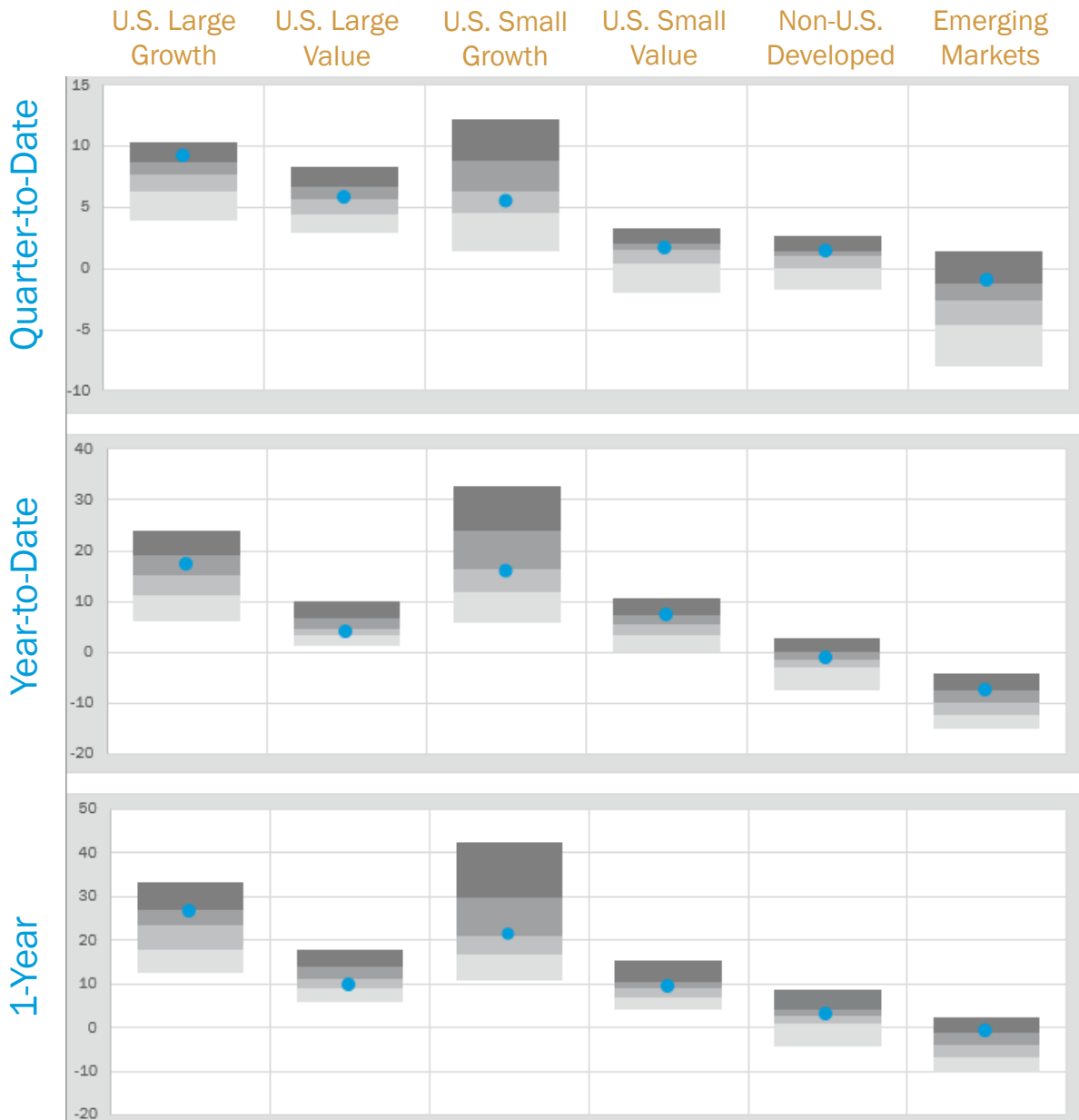
- (i) Provide growth of portfolio assets in excess of inflation and spending rates
- (ii) Maintain comparable exposure to the global equity market
- (iii) Exhibit returns uncorrelated to fixed income markets



— Canterbury global equity portfolios are expected to deliver consistent net of fees excess returns and moderate tracking error versus the MSCI All Country World Index over longer periods of time

# Performance (%) as of September 30, 2018

## Equity Review



Blue dots represent the returns of the benchmark; gray floating bar charts represent the peer groups by quartile

- U.S. markets ended the quarter in positive territory with large-cap outpacing small-cap stocks and growth once again outperforming value stocks. Non U.S. developed stocks edged positive in the quarter but are still negative for the year.
- Our domestic active managers had another strong quarter, however our international developed and emerging market managers lagged their respective benchmarks. Managers that were overweight tech and emerging markets experienced a broad sell-off in those markets amid trade uncertainty.
- Despite positive earnings, economic growth, and improving consumer sentiment, emerging markets equities were flat for the quarter in local currency and negative for U.S. investors as continued strength of the U.S. dollar hurt performance.

Source: Morningstar Direct

## Market Capitalization Mix

## Equity Review

### Equity: U.S. Market Cap

|           | Current                                     | 10 Year Avg | Deviation from Mean* | Large | Neutral | Small |
|-----------|---|-------------|----------------------|-------|---------|-------|
| Valuation | Russell Top 200 Current P/E (Large Cap)     | 21.18       | 17.13                | 1.54  |         | +     |
|           | R2000 Current P/E (Small Cap)               | 55.59       | 48.59                | 0.65  |         | -     |
|           | Avg P/E Ratio (Large/Small)                 | 0.38        | 0.45                 | -0.92 |         | -     |
|           | Russell Top 200 EV/EBITDA* (Large Cap)      | 13.85       | 10.04                | 2.00  |         | +     |
|           | R2000 EV/EBITDA (Small Cap)                 | 19.80       | 14.68                | 0.02  |         | -     |
|           | Avg EV/EBITDA Ratio (Large/Small)           | 0.70        | 0.69                 | 0.09  |         | -     |
|           | Russell Top 200 P/S (Large Cap)             | 2.48        | 1.69                 | 1.97  |         | +     |
|           | R2000 P/S (Small Cap)                       | 1.23        | 1.05                 | 0.83  |         | -     |
|           | Avg P/S Ratio (Large/Small)                 | 2.02        | 1.61                 | 2.52  |         | ++    |
| Solvency  | Russell Top 200 Debt/EBITDA (Large Cap)     | 4.16        | 4.51                 | -0.59 |         | -     |
|           | Russell 2000 Debt/EBITDA (Small Cap)        | 6.73        | 5.75                 | 1.01  | +       |       |
|           | Avg Debt/EBITDA Ratio (Large/Small)         | 0.62        | 0.80                 | -1.23 | +       |       |
| Growth    | Russell Top 200 LT EPS Gr (Fwd) (Large Cap) | 10.09       | 8.95                 | 0.29  |         | -     |
|           | R2000 LT EPS Gr (Fwd) (Small Cap)           | 8.46        | 10.40                | -0.82 |         | -     |
|           | Avg Growth Ratio (Large/Small)              | 1.19        | 0.89                 | 0.64  |         | -     |
| Economy   | Case Shiller Home Price (YoY)               | 5.92        | 2.24                 | 0.46  |         | -     |
|           | Total Leading Economic Indicators           | 111.20      | 91.84                | 1.93  |         | +     |
|           | Currency (USD v Broad Basket)               | 95.13       | 86.20                | 1.10  |         | +     |
|           | Curve Steepness 2's to 10's                 | 0.24        | 1.68                 | -2.08 | ++      |       |

\*Deviation from mean represents how many standard deviations the current value is above or below the 10-year average, also known as the "Z-Score". '+' denotes one standard deviation, and '++' denotes two standard deviations in favor of the asset class

^EV/EBITDA, also known as the "enterprise multiple," is a ratio used to determine the value of a company. Unlike P/E, the enterprise multiple takes debt into account. This is often the ratio used by companies looking to acquire another business

- There are various metrics used to value the equity universe. Canterbury prefers Price/Earnings, EV/EBITDA, and Price/Sales.
- P/E multiples continue to look high for small caps as over 30 percent of small cap names in the index are unprofitable. However, from a price-to-sales perspective, small cap appears more attractive.
- Forward looking growth estimates have come down slightly for large-cap stocks. A strong U.S. dollar has hurt some of the more internationally sensitive companies, however small caps' heavier domestic revenue may be better insulated from a strong U.S. dollar and escalating trade tensions.
- The spread between the 10-year and 2-year US Treasury has continued to tighten, a trend that began in 2014. The spread is at its lowest point since the 2008 recession, the result of an expected slowdown in growth and higher interest rates stimulated by the Fed. The tight spread favors large cap stocks that tend to outperform small cap stocks prior to a business cycle peak.

Source: Russell

## Region Mix – U.S. vs. R.O.W.

## Equity Review

| Equity: Region (U.S./Global) |                                 | Current | 10 Year Avg | Deviation from Mean* | U.S. | Neutral | R.O.W. |
|------------------------------|---------------------------------|---------|-------------|----------------------|------|---------|--------|
| Valuation                    | S&P 500 Current P/E             | 20.98   | 17.62       | 1.23                 |      |         | +      |
|                              | MSCI ACWI Current P/E           | 17.77   | 17.37       | 0.11                 |      | -       |        |
|                              | Avg P/E Ratio (US /ACWI)        | 1.18    | 1.02        | 1.72                 |      |         | +      |
|                              | S&P 500 EV/EBITDA^              | 13.80   | 10.40       | 1.80                 |      |         | +      |
|                              | MSCI ACWI EV/EBITDA             | 11.38   | 9.73        | 1.11                 | +    |         |        |
|                              | Avg EV/EBITDA Ratio (US/ACWI)   | 1.21    | 1.07        | 2.84                 |      |         | ++     |
|                              | S&P 500 P/S                     | 2.27    | 1.59        | 1.75                 |      |         | +      |
|                              | MSCI ACWI P/S                   | 1.63    | 1.26        | 1.49                 | +    |         |        |
|                              | Avg P/S Ratio (US/ACWI)         | 1.39    | 1.25        | 1.65                 |      |         | +      |
| Solvency                     | S&P 500 Debt/EBITDA             | 4.08    | 4.40        | -0.53                |      | -       |        |
|                              | MSCI ACWI Debt/EBITDA           | 5.48    | 6.23        | -1.14                |      |         | +      |
|                              | Avg Debt/EBITDA Ratio (US/ACWI) | 0.74    | 0.71        | 0.96                 |      | -       |        |
| Growth                       | S&P 500 LT EPS Gr (Fwd)         | 10.23   | 8.82        | 0.31                 |      | -       |        |
|                              | MSCI ACWI LT EPS Gr (Fwd)       | 15.42   | 10.05       | 0.35                 |      | -       |        |
|                              | Avg Growth Ratio (US/ACWI)      | 0.66    | 0.97        | -0.84                |      | -       |        |
| Economy                      | Currency (USD v Broad Basket)   | 95.13   | 86.20       | 1.10                 |      |         | +      |

\*Deviation from mean represents how many standard deviations the current value is above or below the 10-year average, also known as the “Z-Score”. ‘+’ denotes one standard deviation, and ‘++’ denotes two standard deviations in favor of the asset class

^EV/EBITDA, also known as the “enterprise multiple,” is a ratio used to determine the value of a company. Unlike P/E, the enterprise multiple takes debt into account. This is often the ratio used by companies looking to acquire another business

- Equities outside of the U.S. tend to be more attractively valued than U.S. equities, however both are trading above their 10-year averages.
- Debt levels are below long-term averages for both U.S. and global (R.O.W.) stocks, suggesting healthy leverage conditions.
- Expected earnings growth has come down slightly both domestically and abroad, but are still above long-term averages.
- The U.S. dollar experienced continued strength in the quarter, hurting international returns. Although fundamentals appear strong abroad, trades wars and geopolitical uncertainty may cause markets to react negatively and ultimately further boost dollar strength.

Source: MSCI and Standard & Poor's

## Region Mix – Non-U.S. Developed vs. R.O.W.

## Equity Review

| Equity: Region (Non-U.S. Dev/Global) |                                   | Current | 10 Year Avg | Deviation from Mean* | Non-U.S. Dev | Neutral | R.O.W. |
|--------------------------------------|-----------------------------------|---------|-------------|----------------------|--------------|---------|--------|
| Valuation                            | MSCI EAFE Current P/E             | 15.56   | 18.89       | -0.27                |              | -       |        |
|                                      | MSCI ACWI Current P/E             | 17.66   | 17.37       | 0.08                 |              | -       |        |
|                                      | Avg P/E Ratio (EAFE/ACWI)         | 0.88    | 1.07        | -0.60                |              | -       |        |
|                                      | MSCI EAFE EV/EBITDA <sup>^</sup>  | 9.40    | 9.12        | 0.25                 |              | -       |        |
|                                      | MSCI ACWI EV/EBITDA               | 11.37   | 9.72        | 1.11                 | +            |         |        |
|                                      | Avg EV/EBITDA Ratio (EAFE/ACWI)   | 0.83    | 0.94        | -2.41                | ++           |         |        |
|                                      | MSCI EAFE P/S                     | 1.18    | 0.98        | 1.10                 |              |         | +      |
|                                      | MSCI ACWI P/S                     | 1.63    | 1.26        | 1.48                 | +            |         |        |
| Avg P/S Ratio (EAFE/ACWI)            | 0.72                              | 0.78    | -1.99       | +                    |              |         |        |
| Solvency                             | MSCI EAFE Debt/EBITDA             | 7.21    | 8.78        | -1.48                | +            |         |        |
|                                      | MSCI ACWI Debt/EBITDA             | 5.49    | 6.22        | -1.11                |              |         | +      |
|                                      | Avg Debt/EBITDA Ratio (EAFE/ACWI) | 1.31    | 1.41        | -1.92                | +            |         |        |
| Growth                               | MSCI EAFE LT EPS Gr (Fwd)         | 66.24   | 6.36        | 1.06                 | +            |         |        |
|                                      | MSCI ACWI LT EPS Gr (Fwd)         | 14.39   | 10.04       | 0.28                 |              | -       |        |
|                                      | Avg Growth Ratio (EAFE/ACWI)      | 4.60    | 0.77        | 0.92                 |              | -       |        |
| Economy                              | USD/EUR                           | 1.16    | 1.26        | -0.86                |              | -       |        |

\*Deviation from mean represents how many standard deviations the current value is above or below the 10-year average, also known as the “Z-Score”. ‘+’ denotes one standard deviation, and ‘++’ denotes two standard deviations in favor of the asset class

<sup>^</sup>EV/EBITDA, also known as the “enterprise multiple,” is a ratio used to determine the value of a company. Unlike P/E, the enterprise multiple takes debt into account. This is often the ratio used by companies looking to acquire another business

- All equities are currently expensive, but non-U.S. developed equities remain attractively valued relative to the R.O.W.
- Debt levels remain low for non-U.S. developed stocks and R.O.W. equities.
- Synchronized global growth provides a strong case for both non-U.S. developed and R.O.W. equities. EAFE EPS growth estimates are currently on the high end, but estimates tend to exhibit a high amount of volatility so this quarter’s estimate is not overly significant.
- The euro slightly depreciated vs. the dollar during the quarter and the dollar remains strong relative to its historical average. A strong dollar benefits European exporters with costs in euros and revenues in dollars.

Source: MSCI

## Region Mix – Emerging Markets vs. R.O.W.

## Equity Review

| Equity: Region (EM/Global) |                                 | Current | 10 Year Avg | Deviation from Mean* | EM | Neutral | R.O.W. |
|----------------------------|---------------------------------|---------|-------------|----------------------|----|---------|--------|
| Valuation                  | MSCI EM Current P/E             | 12.64   | 13.44       | -0.30                |    | -       |        |
|                            | MSCI ACWI Current P/E           | 17.77   | 17.37       | 0.11                 |    | -       |        |
|                            | Avg P/E Ratio (EM/ACWI)         | 0.71    | 0.77        | -0.93                |    | -       |        |
|                            | MSCI EM EV/EBITDA <sup>^</sup>  | 8.25    | 7.91        | 0.29                 |    | -       |        |
|                            | MSCI ACWI EV/EBITDA             | 11.38   | 9.73        | 1.11                 | +  |         |        |
|                            | Avg EV/EBITDA Ratio (EM/ACWI)   | 0.72    | 0.82        | -1.13                | +  |         |        |
|                            | MSCI EM P/S                     | 1.21    | 1.16        | 0.27                 |    | -       |        |
|                            | MSCI ACWI P/S                   | 1.63    | 1.26        | 1.49                 | +  |         |        |
|                            | Avg P/S Ratio (EM/ACWI)         | 0.74    | 0.95        | -1.09                | +  |         |        |
| Solvency                   | MSCI EM Debt/EBITDA             | 4.24    | 3.78        | 0.56                 |    | -       |        |
|                            | MSCI ACWI Debt/EBITDA           | 5.48    | 6.23        | -1.14                |    |         | +      |
|                            | Avg Debt/EBITDA Ratio (EM/ACWI) | 0.77    | 0.62        | 1.00                 |    |         | +      |
| Growth                     | MSCI EM LT EPS Gr (Fwd)         | 18.99   | 9.00        | 0.58                 |    | -       |        |
|                            | MSCI ACWI LT EPS Gr (Fwd)       | 15.42   | 10.05       | 0.35                 |    | -       |        |
|                            | Avg Growth Ratio (EM/ACWI)      | 1.23    | 0.75        | 0.96                 |    | -       |        |

\*Deviation from mean represents how many standard deviations the current value is above or below the 10-year average, also known as the “Z-Score”. ‘+’ denotes one standard deviation, and ‘++’ denotes two standard deviations in favor of the asset class

<sup>^</sup>EV/EBITDA, also known as the “enterprise multiple,” is a ratio used to determine the value of a company. Unlike P/E, the enterprise multiple takes debt into account. This is often the ratio used by companies looking to acquire another business

- EM equities are relatively more attractive from a valuation standpoint than R.O.W. equities. EM’s P/E multiple dropped below its long term average in the quarter as the space sold off.
- Elevated debt levels are more of a concern for emerging markets than they are for R.O.W., particularly for those EM countries with dollar denominated debt, if there is continued U.S. dollar strength.
- Growth estimates tend to fluctuate from quarter to quarter and estimates currently favor global equities.

Source: MSCI

## Portfolio Characteristics

### Recommended Ranges

| Market Cap (U.S.)          | Minimum | Maximum | R3000 |
|----------------------------|---------|---------|-------|
| Large Cap (> \$26.4B)      | 50.0%   | 70.0%   | 69.0% |
| Mid Cap (\$3.0B - \$26.4B) | 25.0%   | 40.0%   | 25.0% |
| Small Cap (< \$3.0B)       | 2.5%    | 12.5%   | 6.0%  |

| Region             | Minimum | Maximum | MSCI ACWI |
|--------------------|---------|---------|-----------|
| U.S.               | 45.0%   | 65.0%   | 54.0%     |
| Non-U.S. Developed | 25.0%   | 40.0%   | 34.8%     |
| Emerging Markets   | 5.0%    | 20.0%   | 11.3%     |

Client objectives and constraints may cause allocations to vary from recommended ranges

## Equity Review

- Canterbury believes non-U.S. equities are attractively valued compared to U.S. equities due to the strong U.S. dollar and high valuations in U.S. equities.
- Our market cap exposures target a neutral position. Valuation, growth, and economic indicators do not support a major shift at this time.
- As the equity market cycle matures, Canterbury believes its utilization of active managers that can avoid overvalued regions, sectors, and securities will be a strong value-add.