CanterburyConsulting

Global Positioning Statement™

canterburyconsulting.com

March 31, 2018

Drivers of the Market

Volatility Makes a Comeback

- Last year's market optimism continued through most of January, however, most equity markets pulled back significantly in February and once again in March. 2018 has seen more 1% swings in the market than in all of 2017 combined. The Volatility Index, which settled near all-time lows in 2017, spiked to a high in February, a level seen only once in the last five years.
- U.S. equities were slightly negative in the quarter as volatility increased and trade policy and inflation concerns loomed. International developed equities were negative for the quarter and emerging markets equities were the one bright spot in the equity space; emerging markets were supported by a weaker US dollar and stable commodity prices and finished up 1% for the quarter.
- U.S. core fixed income was negative over the quarter as interest rates moved higher on the back of the Fed's more "hawkish" stance. An increase in volatility also hurt investment grade and high yield corporate bonds. Moreover, corporate bonds that had longer maturities underperformed their shorter maturity counterparts given the move up in rates. Non-U.S. developed bonds did well as rates stayed range-bound. Emerging market debt, both in hard and local currency, continued to perform as the growth picture improved.
- Oil prices rallied over the quarter as global demand remained robust. Commodities were slightly negative as trade war concerns put pressure on the complex.

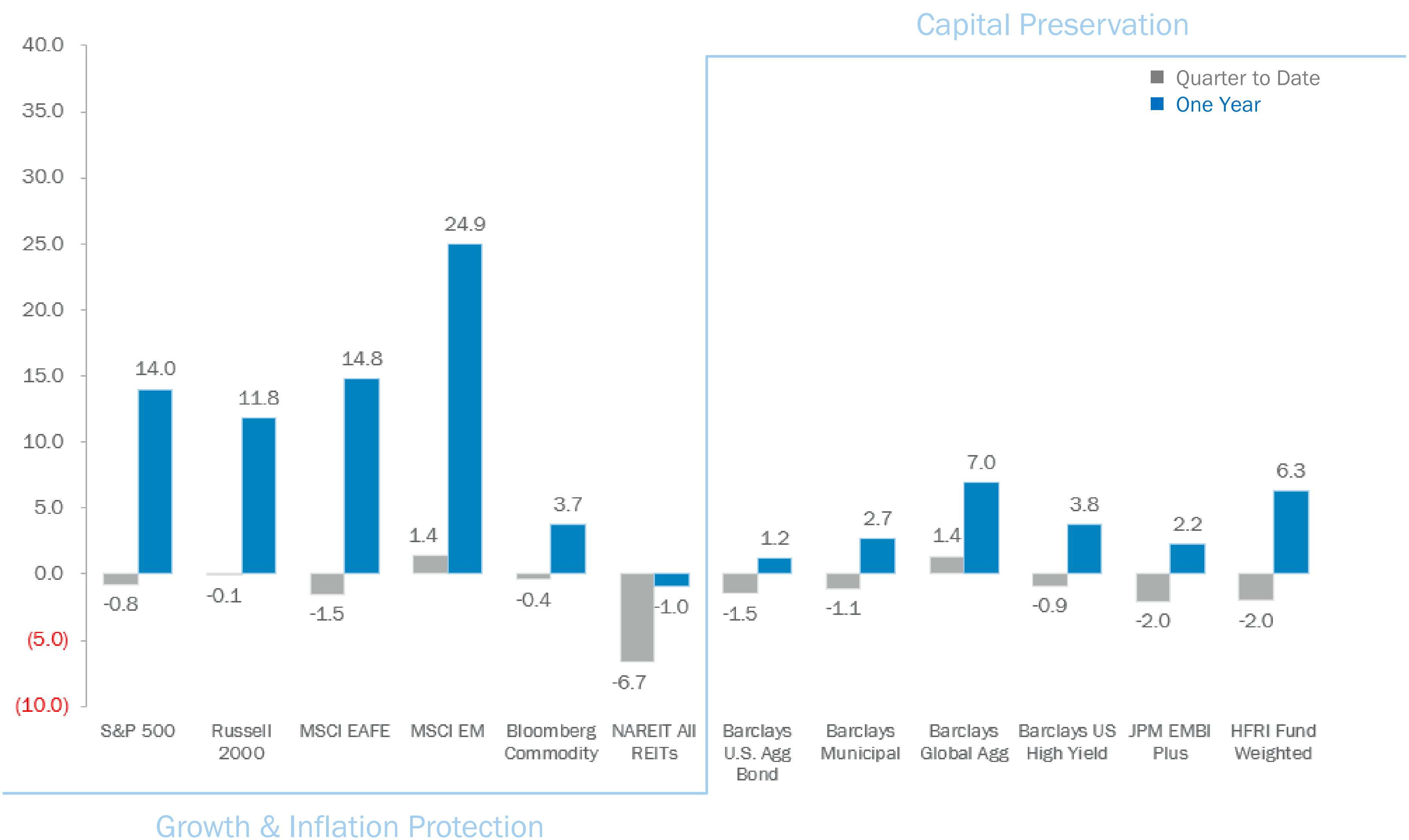
Returns through March 31, 2018

Index	QTD	1 Year
Growth MSCI ACWI	(1.0%)	14.9%
Capital Preservation Barclays Global Aggregate	1.4%	7.0%
Inflation Protection Morningstar U.S. Real Asset*	(2.0%)	2.4%

*40% TIPS, 30% L/S Commodity, 15% REITs, 10% Global Nat. Resources, 5% MLPs

Index Returns (%)

Through March 31, 2018



Source: Morningstar

Economic Data

First Quarter 2018

Year over Year Statistics[1]

	March 29, 2013	March 31, 2014	March 31, 2015	March 31, 2016	March 31, 2017	March 30, 2018
S&P 500	1,569.19	1,872.34	2,067.89	2,059.74	2,362.72	2,640.87
S&P 500 EPS	99.98	107.14	111.39	106.83	112.82	124.07
P/E of S&P 500	15.60	17.48	18.56	19.28	20.94	21.28
P/E of MSCI EAFE	17.23	18.36	17.74	22.13	19.22	16.07
P/E of MSCI EM	12.88	12.34	13.71	16.56	14.68	15.32
S&P 500 Earnings Yield	6.41	5.72	5.39	5.19	4.77	4.70
Fed Funds Effective Rate	0.14	0.08	0.11	0.36	0.79	1.51
3 Month LIBOR	0.28	0.23	0.27	0.63	1.15	2.31
10 Year Treasury Yield	1.85	2.72	1.92	1.77	2.39	2.74
30 Year Mortgage Rate	3.67	4.38	3.79	3.65	3.99	4.27
Barclays U.S. Agg Yield	2.76	3.10	2.91	3.21	3.33	3.76
Barclays HY Spread	4.57	3.58	4.66	6.56	3.83	3.54
Gold ($/oz)	1,597.50	1,284.01	1,183.57	1,232.75	1,249.20	1,325.48
WTI Crude Oil ($/bbl)	97.23	101.58	47.60	38.34	50.60	64.94
Unemployment Rate	7.50	6.70	5.50	5.00	4.50	4.10
Headline CPI[2]	1.50	1.50	(0.10)	0.90	2.40	2.20
VIX Index	12.70	13.88	15.29	13.95	12.37	19.97

Forward Looking Forecasts[1]

	Real GDP[3]	CPI[3]	Unemployment[3]	10-Yr Treasury[3]
2018	2.8%	2.4%	3.9%	3.1%
2019	2.4%	2.2%	3.7%	3.5%

S&P 500 EPS[4]	Forward P/E[4]
$157.66	16.75
$172.34	15.32

MSCI EAFE EPS[4]	Forward P/E[4]
$145.52	13.78
$151.94	13.20

MSCI EM EPS[4]	Forward P/E[4]
$95.11	12.10
$104.48	11.02

(1) Source: Bloomberg
(2) Values are carried forward from the most recent reported value (3/31/2018)
(3) Forecasts are consensus opinions from 98 forecasting agencies (Median)
(4) 2018: Forward 12 month estimate 2019: Forward 24 month estimate
Estimate calculated from quarter end (i.e. Mar. 31, 2017 – Mar. 31, 2018). Price in P/E ratio static as of quarter end

Current U.S. Economic Conditions: Normal Growth

Contraction

U.S. GDP Growth: 0.0% - 1.9%

U.S. Earnings: Meeting forecasts

U.S. Credit Markets: Expanding spreads

Volatility (VIX): 25-40

Yield Curve: Flattening yield curve

Investor Sentiment: Demand greater risk premium

Normal Growth

U.S. GDP Growth: 2.0% - 4.0%

U.S. Earnings: Meet or Exceed forecasts

U.S. Credit Markets: Normal spreads, Normal defaults

Volatility (VIX): Normal 15-25

Yield Curve: Yield curve stable

Investor Sentiment: Investors showing rational buying

Panic

U.S. GDP Growth: Negative

U.S. Earnings: Worse than pessimistic forecasts

U.S. Credit Markets: Wide spreads, High defaults

Volatility (VIX): > 40

Yield Curve: Inverted yield curve

Investor Sentiment: Investors sell indiscriminately

Manic Growth

U.S. GDP Growth: Greater than 4.0%

U.S. Earnings: Exceed optimistic forecasts

U.S. Credit Markets: Low defaults, Low spreads

Volatility (VIX): Below 15

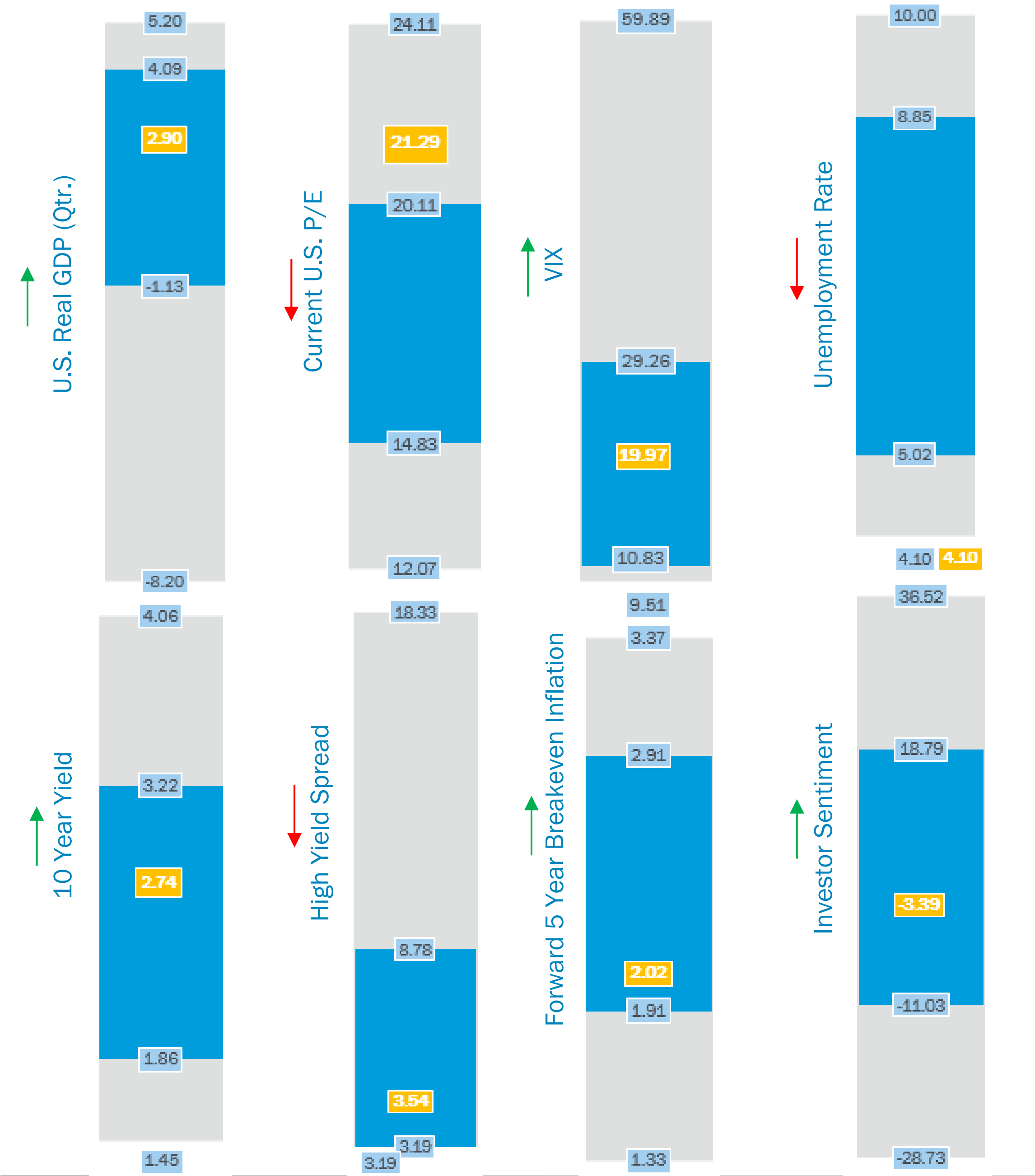
Yield Curve: Yield curve steepens

Investor Sentiment: Investors eager to purchase at any price

Measurements
U.S. GDP Growth: Quarterly U.S. Real GDP standard deviation from 10 year U.S. Real GDP
U.S. Earnings: Compare S&P earnings estimates to the % of earnings that met or exceeded forecasts
Spreads: Quarterly Barclays HY Bond spread standard deviation from 10 year Barclays HY Bond spread
Defaults: Quarterly HY default rate standard deviation from 10 year HY default rate
Volatility: Quarterly VIX standard deviation from 10 year VIX
Yield Curve: Difference between U.S. 30 year rates and 2 year rates
Sentiment: Spread between Bull Sentiment Index and Bear Sentiment Index. Quarterly spread standard deviation from 10 year spread

Global Positioning Indicators

First Quarter 2018



March 31, 2018

Current

+- 1 Standard Deviation From the Mean

10-Year High and Low

Higher Current Number (YoY)

Lower Current Number (YoY)

- Canterbury monitors several economic and market indicators to help detect potential imbalances or trends
- Risk assets were mixed in the quarter. Investor sentiment waned and volatility rose amid fears of a potential trade war and inflation concerns
- The Volatility Index, which settled near all-time lows in 2017, finished the quarter 7 points higher than the previous year

Global Positioning Statement™

Canterbury's Position

	GROWTH		CAPITAL PRESERVATION		INFLATION PROTECTION
Asset Class	Public Equity	Private Equity	Fixed Income	Hedge Funds	Real Assets
Benchmark	MSCI ACWI	Cambridge U.S. Private Equity Index	Barclays Global Aggregate	HFRI Fund Weighted	Morningstar U.S. Real Asset
Canterbury Positioning	1. Consider rebalancing back to emerging markets target if underweight 2. Allocate to high active share strategies	1. Focus on operational hands-on strategies 2. Prudent use of leverage	1. Maintain diversification & defensive posture with interest rates and credit 2. Maintain home country bias	1. Balance allocations between long/short equity and long/short credit	1. Diversify exposure to real assets 2. Rebalance real asset exposure
Reason	1. Better diversification and lower valuations in emerging markets 2. Later stage recovery and rising interest rates support thoughtful security selection	1. Persistent value creation independent of market cycle 2. Late stage in the recovery	1. Interest rate risk is expensive in the current low rate environment. Credit spreads are tighter than median levels 2. Less non-U.S. developed currency risk and a better hedge against investor liabilities	1. Equity and credit strategies look equally attractive	1. Increases the reliability of the asset class against inflation 2. Many investors' allocations to real assets have fallen below target ranges
Positioning Shifts	None	None	None	None	None