CanterburyConsulting

Quarterly Asset Class Report

Hedge Funds

canterburyconsulting.com

March 31, 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):

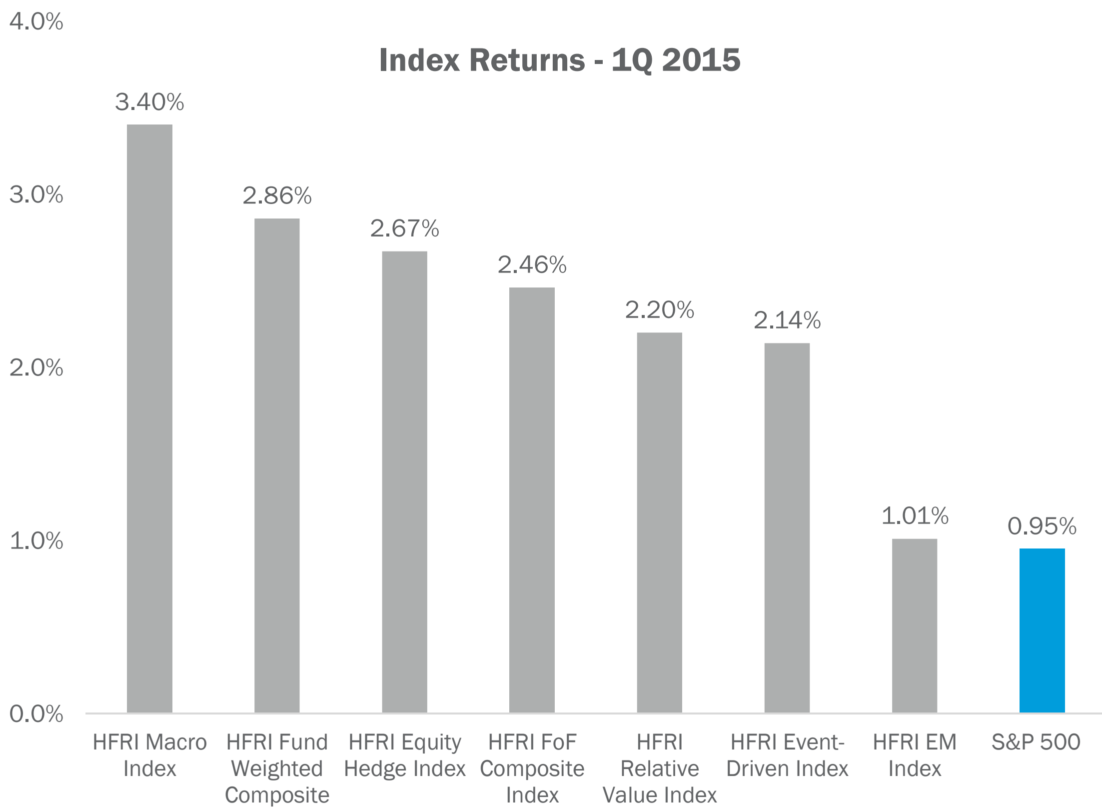
(i) Preserve capital and mitigate volatility

(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



- Coming off a difficult year in 2014, Hedge Funds performed well on an absolute and relative basis in the first quarter of 2015. The quarter's returns were the result of alpha generation in January and March coupled with market upside capture in February.
- Strength from sectors like health care and consumer discretionary as well as regions like Europe and Japan drove most of the positive performance
- Macro managers had the best opportunity set as currencies, commodities, stocks and bonds all fluctuated throughout the first three months of this year
- According to Morgan Stanley, in 1Q 2015 the median hedge fund return outpaced the S&P 500 and the MSCI All Country World Index for the first time in 6 years

Drivers of Performance

- The expiration of Quantitative Easing (QE)
  - Business fundamentals returned as the primary driver of security prices
- 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 drove higher without currency headwinds
  - Performance varied across the different business sectors that make up the index universe
  - Currencies and commodity prices experienced volatility
  - M&A activity continued with merger deals announced by Kraft/Heinz, Simon Property/Macerich, AbbVie/Pharmacyclics and others
- Global monetary policies have diverged
  - QE programs are in their early stages in markets like Japan and Europe which has buoyed stock prices
  - Global central banks are actively cutting interest rates and easing credit

Canterbury Consulting 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 expect markets to experience volatility with greater frequency in 2015

— First quarter returns were encouraging as hedge funds managed to outpace the market. Long/short equity returns outperformed multi-strategy managers as well as long/short credit managers. 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