Quarterly Asset Class Report
Taxable Fixed Income

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December 31, 2022

canterburyconsulting.com

Role in the Portfolio

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 after-tax wealth and mitigate volatility
- Maintain comparable exposure to the broad municipal market
- Focus exposure based on state domicile and after-tax returns
- Exhibit returns uncorrelated to equity markets

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 global fixed income portfolios are set up with a goal to deliver consistent after-tax and net-of-fees excess returns and moderate tracking error versus the Barclays Municipal Bond Index. The goal for taxable fixed income portfolios are to have a high-quality bias with sensitivity toward taxes.
- Canterbury's fixed income portfolios seek to exhibit benchmark-like, after-tax yields and credit quality through more portfolio diversification and lower duration. Portfolio diversification will depend on the client's state of domicile and individual goals (i.e. income vs. capital preservation).

Index Returns as of December 31, 2022

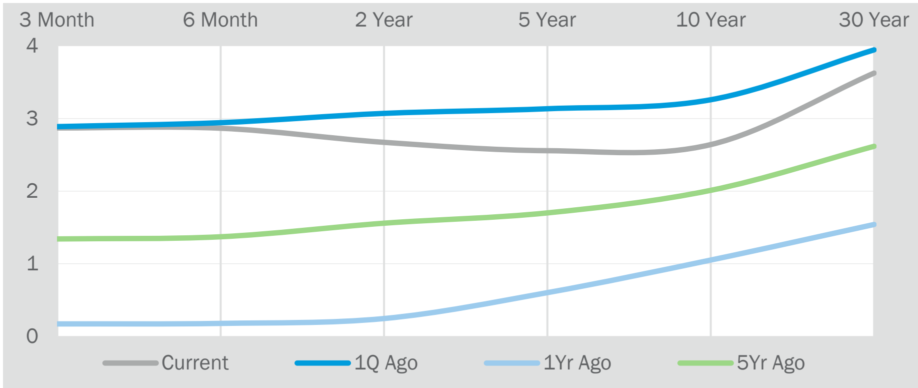
Fixed Income

	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

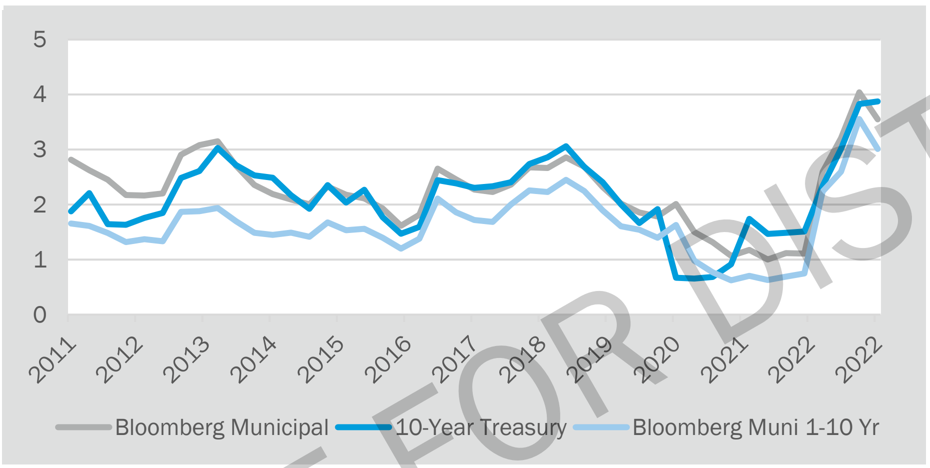
Market Environment as of December 31, 2022

Fixed Income

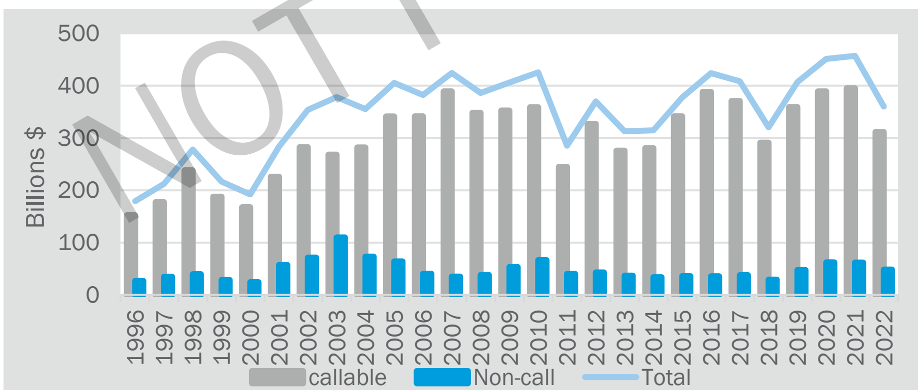
Municipal Yield Curve



Yield Comparison



U.S. Municipal Issuance

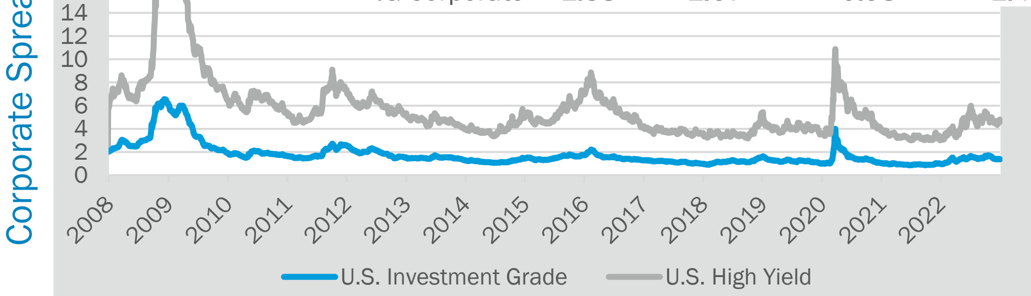


- Amid elevated inflation, the Federal Reserve raised the key interest rate twice, 75 basis points in November and 50 basis points in December to a range between 4.25% - 4.50%.
- Chairman Powell communicated that the pace of interest rate hikes is likely to slow given that inflation is showing signs of cooling, however, would keep rates at higher levels for longer.
- The municipal yield curve remained relatively unchanged on the front-end while the long-end decreased, creating an inverted yield curve.
- Municipal bond issuance reached a peak of approximately $457 billion in 2021, the highest in over a decade. Issuance in 2022 was 21% lower relative to 2021.

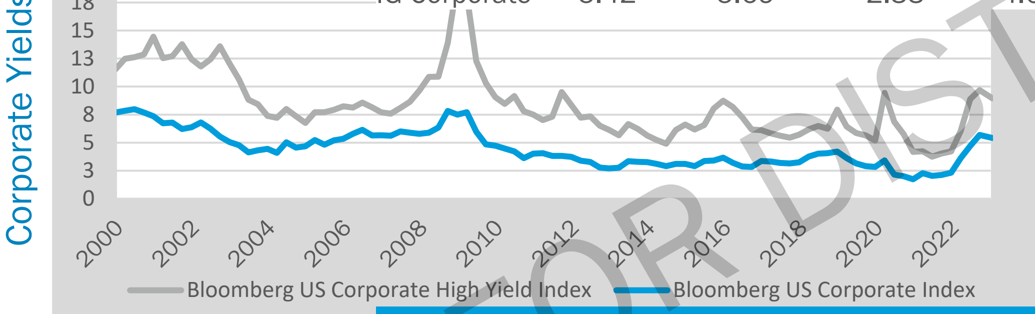
Sources: Securities Industry and Financial Markets Association (SIFMA), U.S. Treasury Department, Barclays, Bloomberg. Data as of 12/31/2022

Market Environment as of December 31, 2022

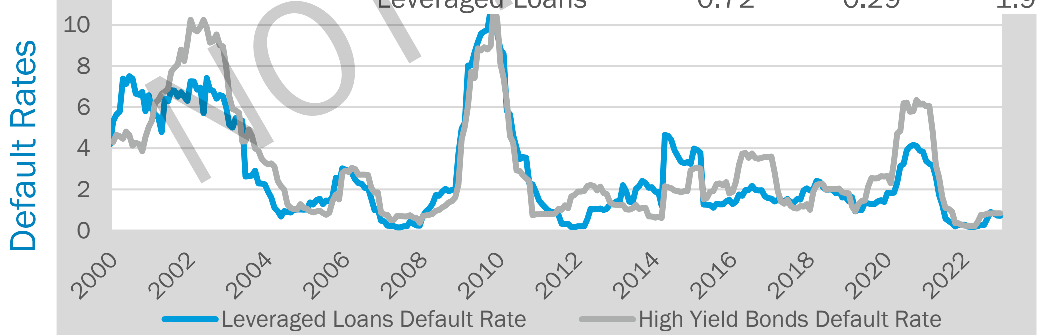
Spreads (%)	Current	3-Mo. Ago	12-Mo. Ago	Median
HY Corporate	4.79	5.43	3.10	4.67
IG Corporate	1.38	1.67	0.98	1.43



Yields (%)	Current	3-Mo. Ago	12-Mo. Ago	Median
HY Corporate	8.96	9.68	4.21	7.55
IG Corporate	5.42	5.69	2.33	4.02



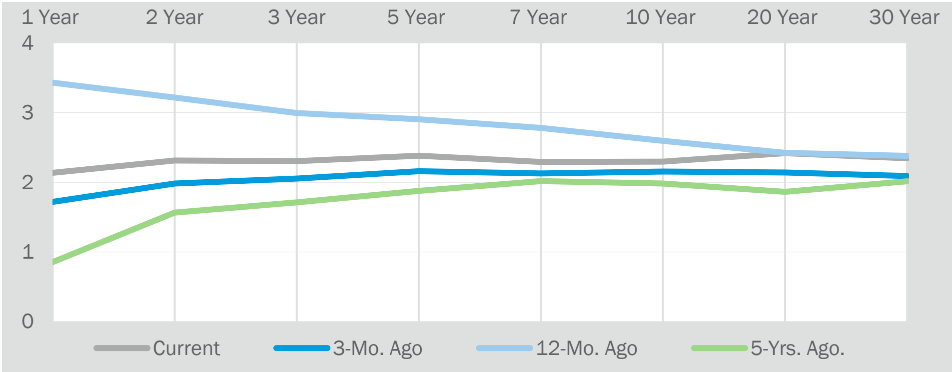
Default Rate (%)	2022	2021	Median
HY Corporate Bonds	0.84	0.27	2.1
Leveraged Loans	0.72	0.29	1.9



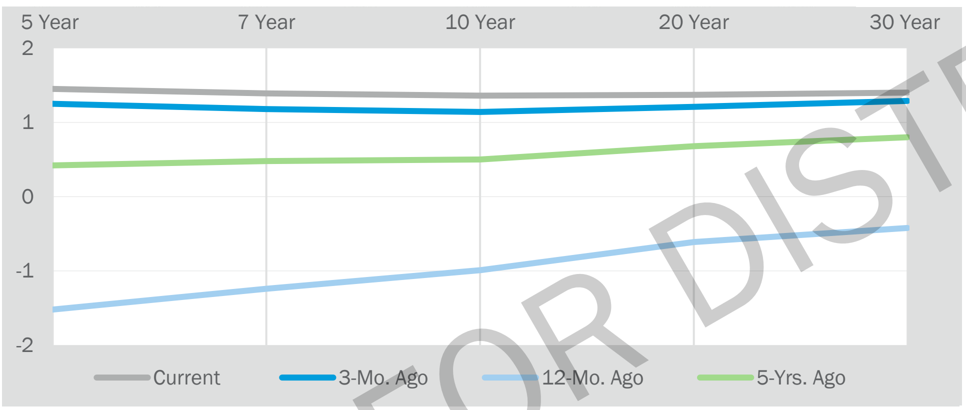
- Investment grade (IG) spreads narrowed from 167 basis points (bps) to 138 bps over the quarter while high yield (HY) spreads narrowed from 543 bps to 479 bps.
- The yield for investment grade and high yield corporate bonds decreased by 27 bps and 72 bps to 5.42% and 8.96%, respectively.
- The default rate on loans and bonds peaked in 2020 due to accommodative monetary & fiscal policy.

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

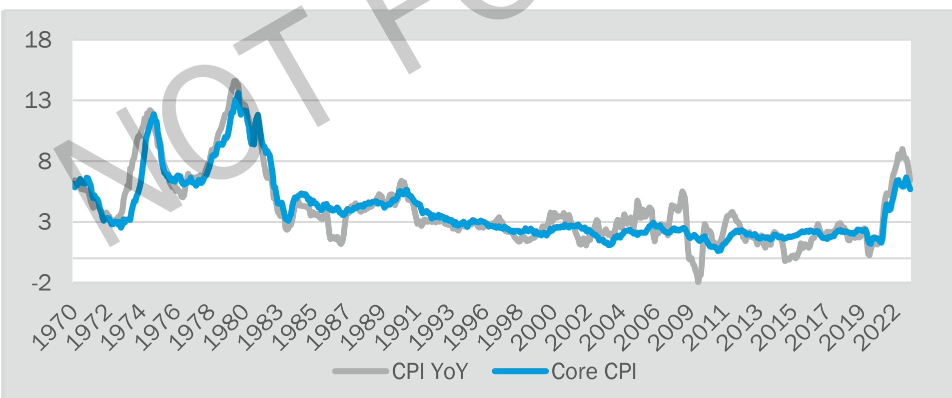
Breakeven Rates



Real Yields



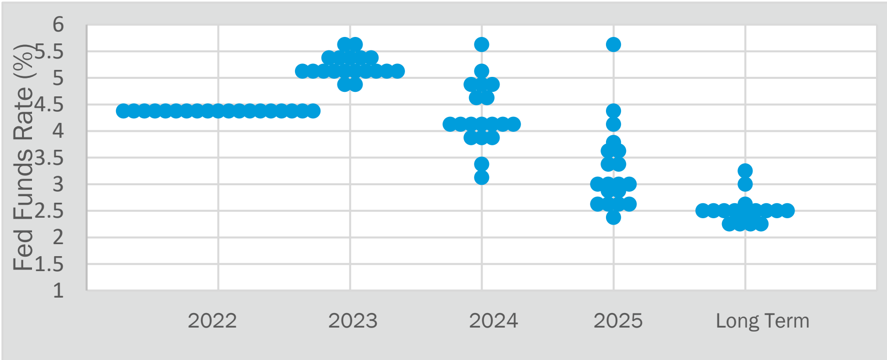
Inflation Rates



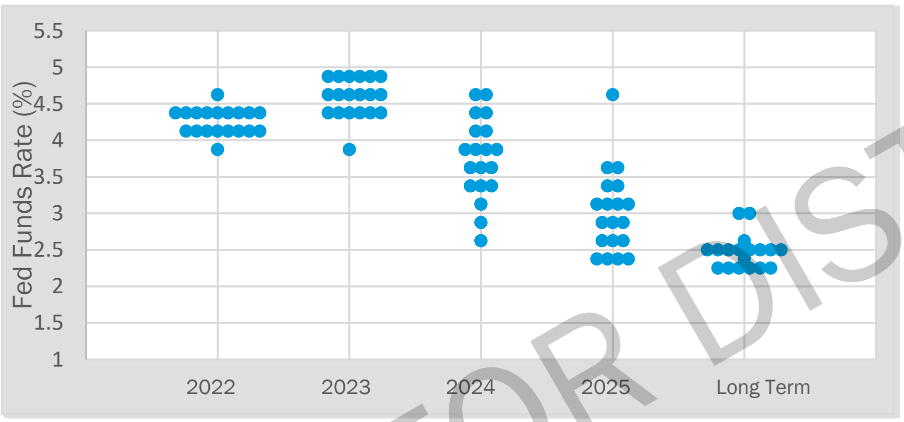
- Breakeven inflation rates marginally increased across the curve over the quarter. The breakeven rate is the implied inflation rate for a given maturity and is calculated by subtracting the real yield of a treasury bond from the nominal yield.
- Current long-term breakeven rates imply that inflation 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

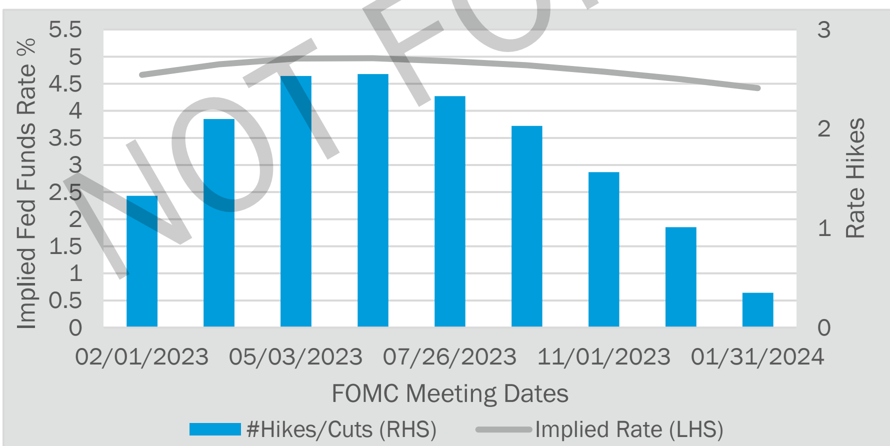
Fed Dot Plot December 2022



Fed Dot Plot September 2022



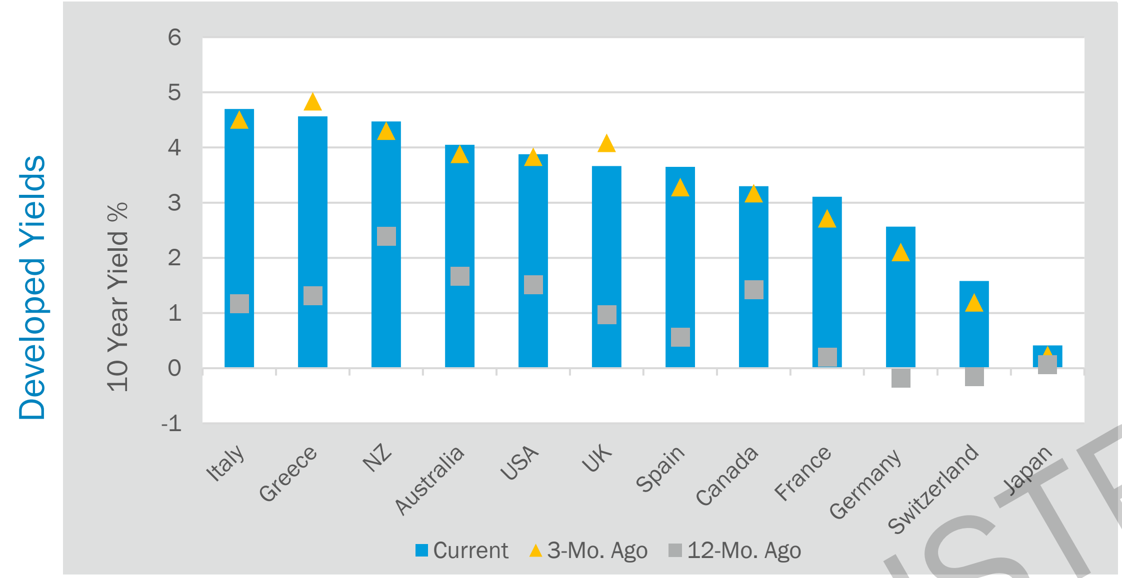
Implied Fed Funds Rate & Rate Hike Probabilities

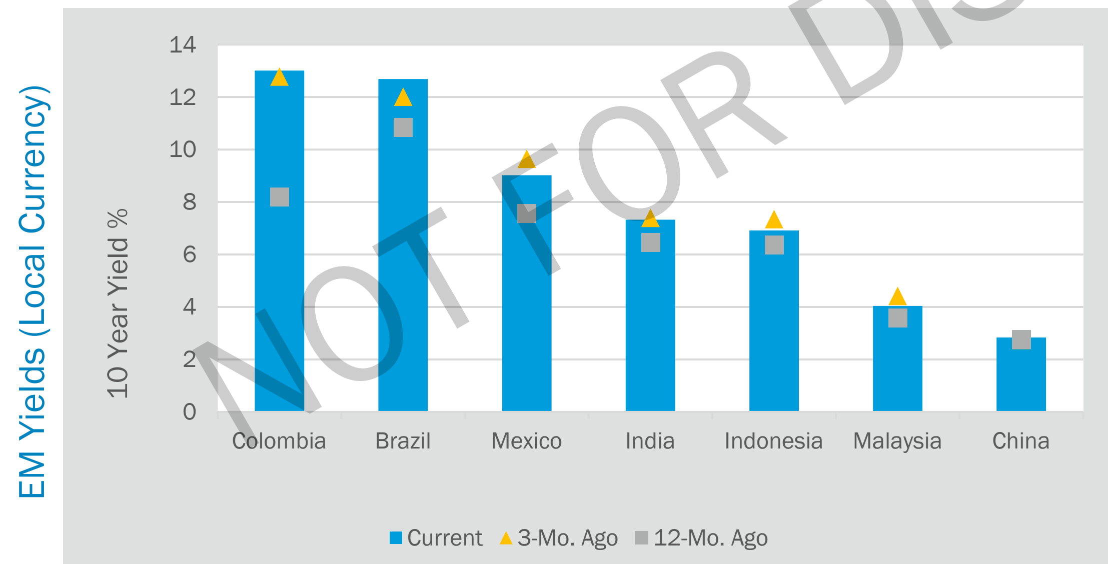


- The Federal Reserve increased its fed funds rate forecast range over the quarter from 4.5% - 4.75% to 5.0% - 5.25% by the end of 2023, as represented by the Fed Dot Plot.
- As of end of December, market participants expected the Fed to begin cutting interest rates at the July FOMC meeting in 2023.
- 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.

Fixed Income





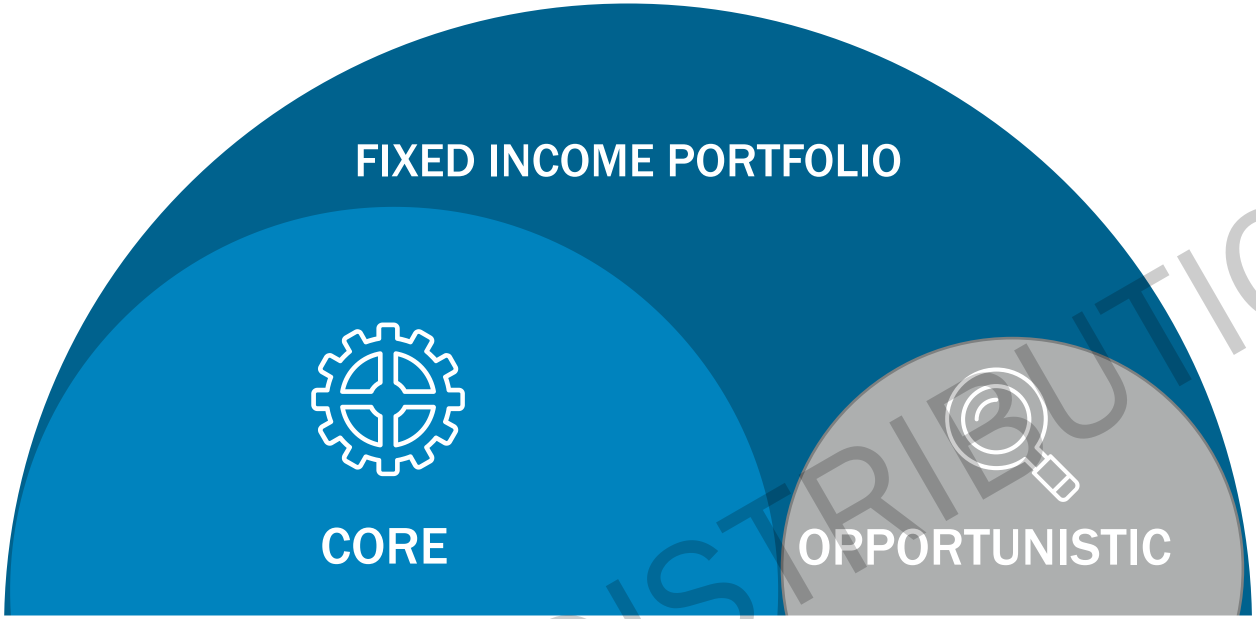
- Developed sovereign bond yields ended the quarter higher. Countries that faced elevated inflation prints and hawkish central bank signaling saw long-term yields rise higher than others.
- Emerging markets (EM) sovereign yields remained relatively unchanged on a quarter-over-quarter basis.
- Emerging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

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

Factors that Affect Fixed Income Portfolios

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?*

Building a Fixed Income Portfolio



Core

Characteristics

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

Exposure

- Treasuries
- Agencies
- Investment grade corporate
- MBS

Opportunistic

Characteristics

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

Exposure

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