



Canterbury Consulting

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Quarterly Asset Class Report

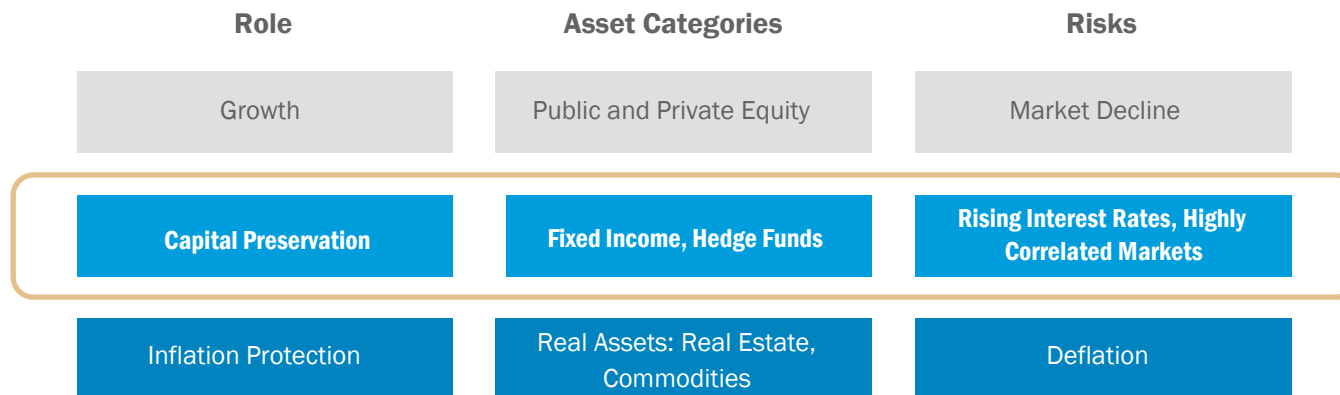
Taxable Fixed Income

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December 31, 2015

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

- (i) Preserve after-tax wealth and mitigate volatility
- (ii) Maintain comparable exposure to the broad municipal market
- (iii) Exhibit returns uncorrelated to equity markets



- Canterbury global fixed income portfolios are expected to deliver consistent after-tax and net of fees excess returns and moderate tracking error versus the Barclays Municipal Bond Index
- Canterbury’s fixed income portfolios will exhibit benchmark-like after-tax yields and credit quality. However, they will do so with more portfolio diversification and lower duration

Index Returns

Fixed Income

	QTD	YTD	1 Year	3 Years	5 Years	7 Years	10 Years
Barclays US Agg Bond	-0.57	0.55	0.55	1.44	3.25	4.09	4.52

U.S. Treasuries

BofAML 3M US Treasury Note	0.03	0.08	0.08	0.07	0.09	0.12	1.26
Barclays Short Treasury	-0.03	0.13	0.13	0.12	0.15	0.20	1.41
Barclays Intermediate Treasury	-0.86	1.18	1.18	0.79	2.11	2.04	3.75
Barclays Long Term US Treasury	-1.38	-1.21	-1.21	2.57	7.74	4.74	6.73
Barclays U.S. Treasury TIPS 0-5Y	-0.35	-0.02	-0.02	-0.92	0.81	2.52	2.77
Barclays US Treasury US TIPS	-0.64	-1.44	-1.44	-2.27	2.55	4.31	3.93

U.S. Corporate Credit

Barclays US Corp IG	-0.58	-0.68	-0.68	1.67	4.53	7.09	5.29
S&P/LSTA Leveraged Loan	-2.10	-0.69	-0.69	2.04	3.41	10.21	4.31
BofAML US HY Master II	-2.17	-4.64	-4.64	1.64	4.84	12.63	6.81
BofAML US HY BB-B Constrained	-1.13	-2.79	-2.79	2.27	5.25	11.60	6.43
BofAML US Corporate AAA	0.21	0.57	0.57	1.76	3.63	3.60	4.16
BofAML US Corporate AA	-0.18	0.86	0.86	1.93	3.87	5.15	4.50
BofAML US Corporate A	-0.08	0.62	0.62	1.98	4.58	6.78	4.74
BofAML US Corps BBB	-1.12	-2.19	-2.19	1.43	4.78	9.11	5.98
BofAML US High Yield BB	-0.11	-1.04	-1.04	3.12	5.88	12.08	7.26
BofAML US High Yield B	-2.40	-5.00	-5.00	1.14	4.48	11.15	5.65
BofAML US High Yield CCC	-8.48	-15.02	-15.02	-2.21	2.09	14.53	6.62

Securitized

Barclays ABS	-0.57	1.25	1.25	0.95	2.31	5.76	3.29
Barclays MBS	-0.10	1.51	1.51	2.01	2.96	3.72	4.64
Barclays CMBS	-1.16	0.94	0.94	1.28	3.87	8.92	5.29

Municipals

Barclays Municipal	1.50	3.30	3.30	3.16	5.35	5.97	4.72
Barclays Muni 1-10	0.63	2.20	2.20	2.02	3.16	3.63	3.86

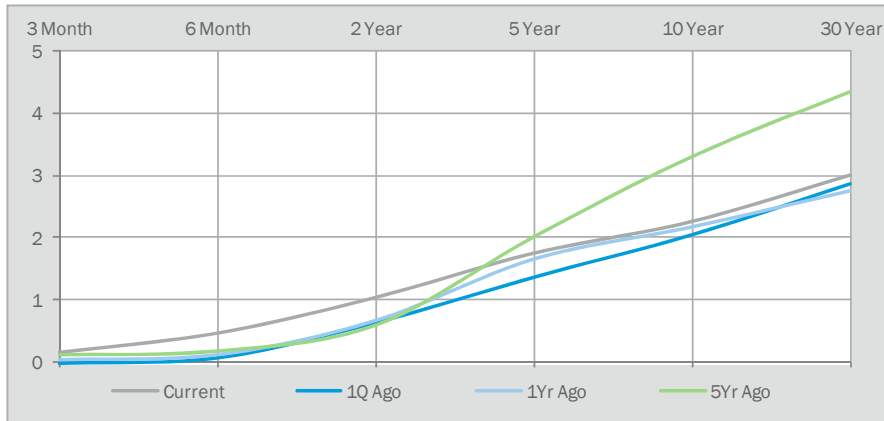
Global

Citi WGBI	-1.23	-3.57	-3.57	-2.70	-0.08	1.03	3.44
Barclays Global Aggregate	-0.92	-3.15	-3.15	-1.74	0.90	2.39	3.74
Barclays Gbl Agg Ex USD	-1.26	-6.02	-6.02	-4.07	-0.83	1.14	3.10
JPM EMBI Plus	1.77	1.82	1.82	-0.30	5.02	8.75	6.69

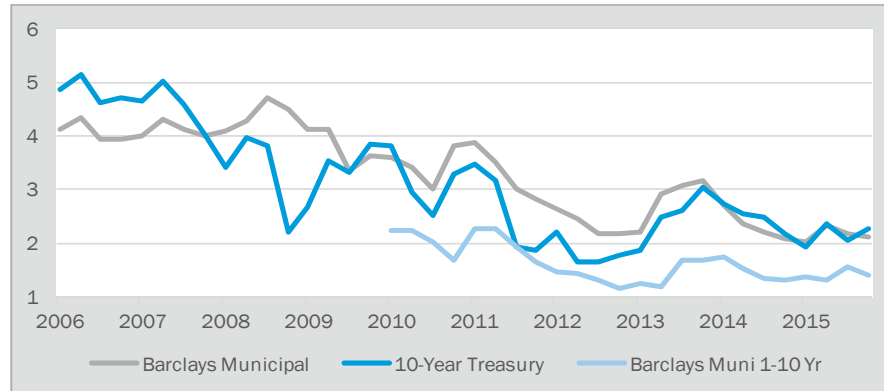
Market Environment

Fixed Income

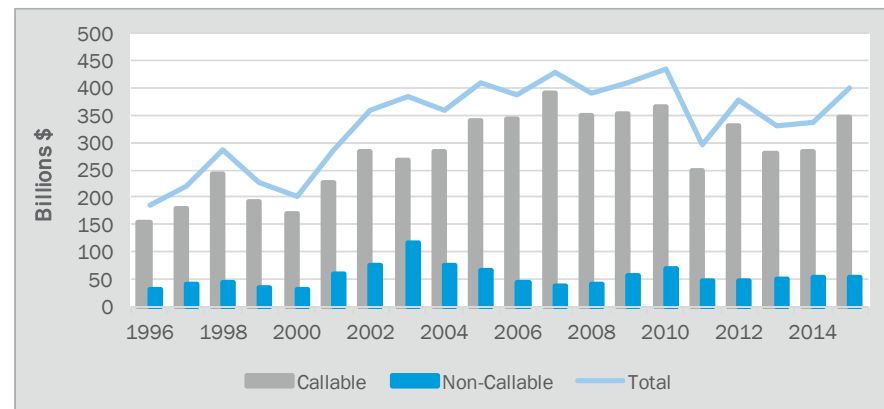
U.S. Treasury Rates



Yields



U.S. Municipal Issuance



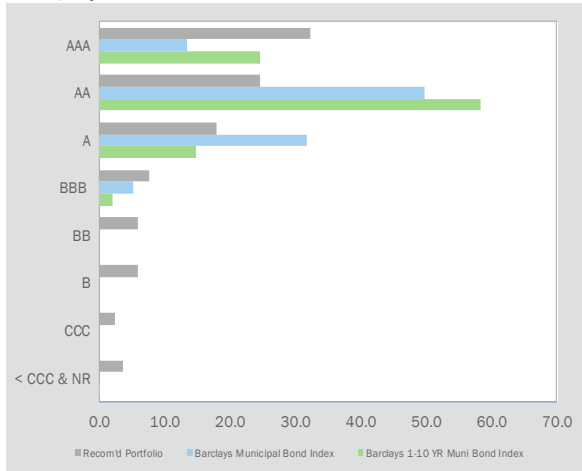
- After delaying a U.S. tightening cycle in September, the FOMC decided to raise short term rates by 25 basis points in December. Policy makers cited strong employment, growth, and inflation metrics as reasons to begin monetary policy normalization. This was the first Fed rate hike since 2006
- U.S. rates rose along the yield curve, however the curve flattened as short term rates rose at a higher pace relative to long term rates. The 10 year Treasury increased approximately 20 basis points as global volatility concerns temporarily subsided
- The BofA ML High Yield Master II declined by -2.2% and spreads continued to widen in the 4th quarter. Declining commodity prices continued to negatively affect debt situated in the energy and basic materials sectors. Moreover, liquidity concerns put pressure on the high yield complex
- Rates continued to rise in several EM countries as growth and inflation metrics were far from encouraging. Lackluster growth in China, commodity pricing pressure, and U.S. dollar appreciation have led to higher rates and depreciating currencies in EM
- New issuance in the municipal market was slow largely from seasonal factors. This along with a high level of municipal bond fund inflows led to a tight supply/demand balance during the quarter

Portfolio Characteristics

Sector Distribution

	Recom'd Portfolio	Barclays Municipal Bond Index	Barclays 1-10 YR Muni Bond Index
US Treasury	2.5%	0.0%	0.0%
Agency	4.5%	0.0%	0.0%
Local Authority (non-US)	0.0%	0.0%	0.0%
Municipal (US)	43.8%	100.0%	100.0%
Sovereign (non-US)	19.3%	0.0%	0.0%
Supranational	0.2%	0.0%	0.0%
Corporate	6.7%	0.0%	0.0%
Bank Loans	3.9%	0.0%	0.0%
MBS	7.8%	0.0%	0.0%
ABS	0.5%	0.0%	0.0%
CMBS	0.8%	0.0%	0.0%
Other & Cash	10.0%	0.0%	0.0%

Credit Quality Distribution vs. Benchmark



Regional Distribution - Country Allocation

	Recom'd Portfolio	Barclays Municipal Bond Index	Barclays 1-10 YR Muni Bond Index
US	72.8%	100.0%	100.0%
Non-US Developed	17.9%	0.0%	0.0%
Non-US Emerging	9.3%	0.0%	0.0%

Regional Distribution - Currency Allocation

	Recom'd Portfolio	Barclays Municipal Bond Index	Barclays 1-10 YR Muni Bond Index
US	87.6%	100.0%	100.0%
Non-US Developed	1.3%	0.0%	0.0%
Non-US Emerging	11.1%	0.0%	0.0%

Portfolio Characteristics

	Recom'd Portfolio	Barclays Municipal Bond Index	Barclays 1-10 YR Muni Bond Index
Effective Duration	2.94	6.56	4.00
Yield to Maturity (%)	3.45	2.18	1.53
Coupon Rate (%)	4.10	4.81	4.82
Average Credit Quality (Barclays)	A	AA	AA

Portfolio Checklist

	Recom'd Portfolio	Barclays Municipal Bond Index	Barclays 1-10 YR Muni Bond Index
Yield ¹	✓	✓	✓
Duration ²	✓	✓	✓
Credit Quality ³	✓	✓	✓
Sector Diversification ⁴	✓	✗	✗
Region Diversification ⁵	✓	✗	✗

1. The yield-to-maturity ("YTM") should be 80% of the YTM of the benchmark or greater
2. Duration should not exceed the benchmark
3. Average credit quality, using Barclays methodology, should be BBB or higher
4. No sector should exceed 50% of the total allocation and at least half of the sectors should have allocations greater than 2.5%
5. No region (see "Regional Distribution") should exceed 75% of the of the total allocation

Fixed Income

- Canterbury recommends reducing interest rate exposure by targeting a portfolio duration less than that of the benchmark
- Investors can lower portfolio duration (while maintaining yield) by allocating to credit and diversifying globally
- Inefficiencies in the municipal market allow us to target similar credit quality to the benchmark with much less duration risk
- Canterbury attempts to maximize the risk return relationship of fixed income portfolios by spreading risk across several factors (interest rate, credit, prepayment, liquidity, currency, political, counterparty, etc.)

The representative portfolio has allocations to the following investment manager types: 50% Municipals, 30% Global, 10% Credit, and 10% Mortgage-Backed