CanterburyConsulting

Quarterly Asset Class Report

Hedge Funds

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December 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):

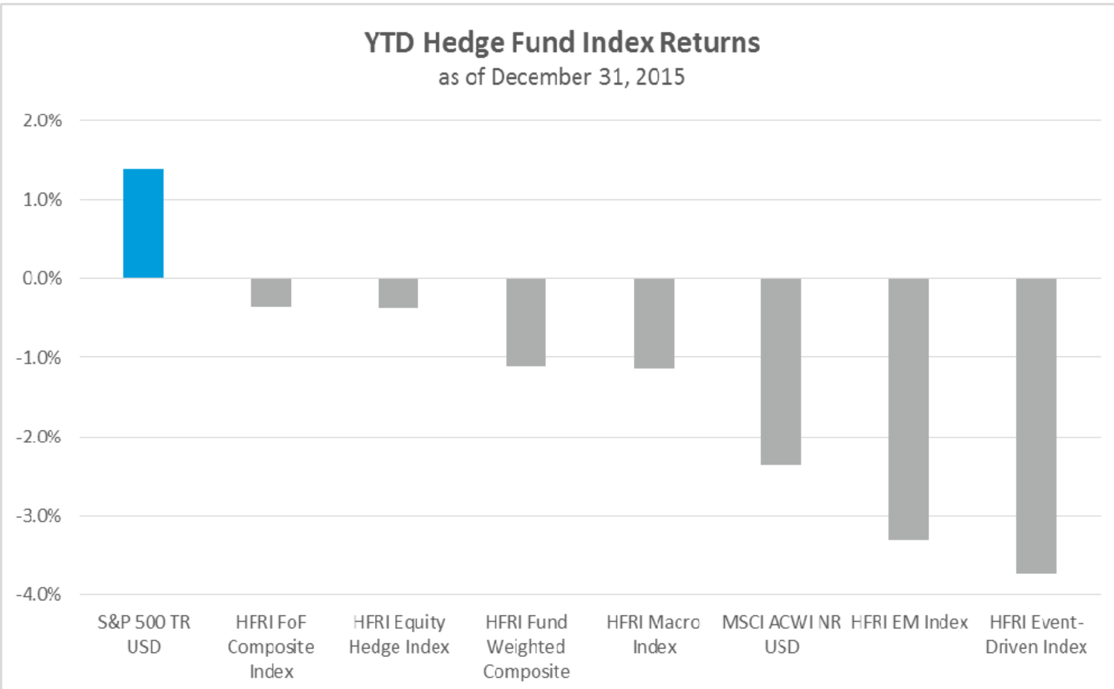
(i) Preserve capital and mitigate volatility

(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



Source: HFRI

- 4Q performance was mixed across the board, despite a significant rally for global equity markets in October. In December, the ECB fell short of market expectations for additional stimulus which led to widespread losses for the month
- Global credit markets fell in 4Q due to technical factors as investors focused more on the negative impact of lower oil prices, as well as potential contagion, than the positive impact to consumer spending
- Large-cap and growth-oriented businesses strongly outperformed smaller cap and value-oriented peers
- Among S&P 500 sectors, consumer discretionary and consumer staples drove performance while energy and materials were the worst performers
- Emerging market funds posted larger losses as the impact from the China slowdown and falling commodity prices became more pronounced

Drivers of Performance

Slower global growth and a low return environment

- Growth in China has been less than expected which has led to a downgrade of higher growth names, resulting in better short opportunities
- Meanwhile, Quantitative Easing policies are in full effect in European and Japanese markets encouraging investment in those regions
- Divergence in global monetary policy - the U.S. implemented its first interest rate hike since 2006 while global central banks are actively cutting interest rates and easing credit

Higher volatility brings better opportunities

- Dispersion among business sectors and a renewed focus on fundamentals have allowed managers to generate alpha from long and short investments
- Currencies and commodity prices experienced volatility
- If the macro environment were to change dramatically, managers remain nimble to adjust exposures and protect capital

Late cycle positioning

- As the business cycle extends into the later innings, managers are positioning portfolios accordingly, especially on the credit side, waiting for dislocations before adding risk
- Market returns in credit and equities have shown a deceleration over the past three years which provides good opportunities to take calculated superior risk adjusted bets on the long and short side

Canterbury 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 and Canterbury expect markets to experience volatility with greater frequency during the first half of 2016 which should create long and short opportunities across equity and credit securities

— Long/short equity managers could outperform multi-strategy managers as well as long/short credit managers for an extended period. This is a reversal from the longer term trend and will be temporary in nature until markets enter into the distressed debt cycle

— Canterbury expects the opportunity set for distressed managers to pick up materially in 2016. Within the US HY market, the number of bonds yielding >10%, >15%, and >20% increased by 126%, 177% and 186% over the past six months, respectively

— Historically, rising rate environments have favored actively managed investment strategies. Falling rates have 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