CanterburyConsulting

Quarterly Asset Class Report

Global Equity

canterburyconsulting.com

September 30, 2015

Role in the Portfolio

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

(i) Provide growth of portfolio assets in excess of inflation and spending rates

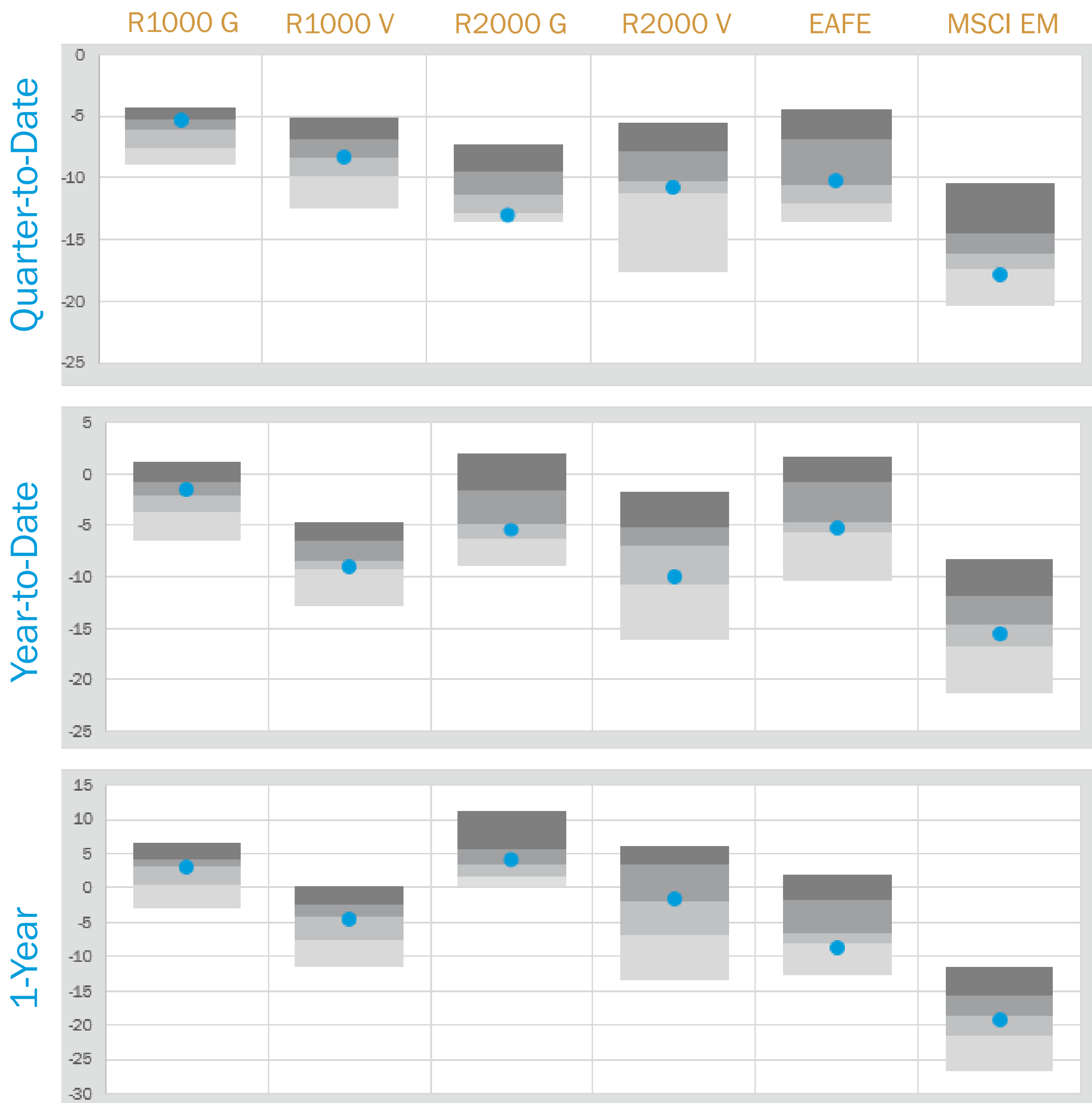
(ii) Maintain comparable exposure to the global equity market

(iii) Exhibit returns uncorrelated to fixed income 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 equity portfolios are expected to deliver consistent net of fees excess returns and moderate tracking error versus the MSCI All Country World Index over longer periods of time
- Relative to the index, Canterbury equity portfolios will employ higher allocations to small- and mid-cap equities, comparable volatility (achieved through manager selection), and moderate tracking error

Performance (%) as of September 30, 2015



Blue dots represent the returns of the benchmark; gray floating bar charts represent the peer groups by quartile
Source: Morningstar Direct

- Large-cap stocks outperformed small-cap stocks during the quarter as the market slid into correction territory. Growth is still outperforming value on a year-to-date and one-year basis, but small-cap value stocks outperformed their growth counterparts

- With the exception of non-U.S. developed, the median active manager has generated benchmark-like returns over the past year

- Results for active managers were mixed in the third quarter of 2015

  – In the second quarter of 2015, active small-cap growth managers underperformed as biotech stocks drove index returns. This quarter, that relationship flipped as biotech stocks lost around 18%

  – Active managers in the hard-hit EM space mostly outperformed their benchmark, while managers in the relatively strong large-cap growth space mostly lagged

Market Capitalization Mix

Equity: U.S. Market Cap		Current	10 Year Avg	Deviation from Mean*	Large	Neutral	Small
Valuation	Russell Top 200 Current P/E (Large Cap)	16.72	15.63	0.66		-	
	R2000 Current P/E (Small Cap)	34.71	70.18	-0.19		-	
	Avg P/E Ratio (Large/Small)	0.48	0.37	0.76		-	
	Russell Top 200 EV/EBITDA^ (Large Cap)	11.30	9.95	1.00			+
	R2000 EV/EBITDA (Small Cap)	16.87	12.90	1.79	+		
	Avg EV/EBITDA Ratio (Large/Small)	0.67	0.78	-0.92		-	
	Russell Top 200 P/S (Large Cap)	1.75	1.54	0.83		-	
	R2000 P/S (Small Cap)	1.10	1.02	0.43		-	
	Avg P/S Ratio (Large/Small)	1.58	1.52	0.58		-	
Solvency	Russell Top 200 Debt/EBITDA (Large Cap)	4.25	4.92	-0.72		-	
	Russell 2000 Debt/EBITDA (Small Cap)	6.62	5.16	2.00	++		
	Avg Debt/EBITDA Ratio (Large/Small)	0.64	0.97	-1.31	+		
Growth	Russell Top 200 LT EPS Gr (Fwd) (Large Cap)	8.27	8.90	-0.01		-	
	R2000 LT EPS Gr (Fwd) (Small Cap)	10.70	10.95	-0.14		-	
	Avg Growth Ratio (Large/Small)	0.77	0.82	-0.01		-	
Economy	Case Shiller Home Price (YoY)	4.96	0.32	0.49		-	
	Total Leading Economic Indicators	123.70	111.24	1.24			+
	Currency (USD v Broad Basket)	96.35	82.01	2.44			++
	Curve Steepness 2's to 10's	1.41	1.57	-0.18		-	

**Deviation from mean represents how many standard deviations the current value is above or below the 10-year average, also known as the "Z-Score"*
^EV/EBITDA, also known as the "enterprise multiple," is a ratio used to determine the value of a company. Unlike P/E, the enterprise multiple takes debt into account. This is often the ratio used by companies looking to acquire another business

- There are various valuation metrics used to determine the relative attractiveness of the equity universe – Canterbury prefers Price/Earnings, EV/EBITDA, and Price/Sales. No one metric is a sole determinant
- Due to the stock market correction in the third quarter, valuation for large-cap stocks has become less stretched than last quarter, although valuation metrics remain above their long-term averages
- Small-cap stocks have high levels of debt compared to large-cap stocks, which is why we are less optimistic on small-cap stocks.
- The growth data remains neutral, but continuing economic and U.S. dollar strength will present a relative tailwind for smaller, generally more domestically oriented businesses

Source: Russell

Region Mix – U.S. vs. Global

	Equity: Region (U.S./Global)	Current	10 Year Avg	Deviation from Mean*	U.S.	Neutral	R.O.W.
Valuation	S&P 500 Current P/E	16.99	16.45	0.28		-	
	MSCI ACWI Current P/E	16.31	16.35	-0.01		-	
	Avg P/E Ratio (US /ACWI)	1.04	1.01	0.29		-	
	S&P 500 EV/EBITDA^	11.49	10.36	1.01			+
	MSCI ACWI EV/EBITDA	10.12	9.58	0.51		-	
	Avg EV/EBITDA Ratio (US/ACWI)	1.14	1.08	1.41			+
	S&P 500 P/S	1.69	1.43	1.02			+
	MSCI ACWI P/S	1.30	1.21	0.45		-	
	Avg P/S Ratio (US/ACWI)	1.30	1.19	1.27			+
Solvency	S&P 500 Debt/EBITDA	4.15	4.86	-0.83		-	
	MSCI ACWI Debt/EBITDA	5.87	6.39	-0.75		-	
	Avg Debt/EBITDA Ratio (US/ACWI)	0.71	0.75	-0.58		-	
Growth	S&P 500 LT EPS Gr (Fwd)	8.20	8.97	-0.16		-	
	MSCI ACWI LT EPS Gr (Fwd)	9.27	9.45	-0.03		-	
	Avg Growth Ratio (US/ACWI)	0.88	1.03	-0.19		-	
Economy	Currency (USD v Broad Basket)	96.35	82.01	2.44			++

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- Valuations for both the U.S. and the rest of the world ("R.O.W.") equity markets have come down closer to long-term averages, but the R.O.W. still remains attractive on a relative basis
- Debt/EBITDA levels are still below historical averages for both U.S. and R.O.W., but increased slightly from last quarter
- The growth metrics remain fairly neutral, with the current market showing very little deviation from historical averages
- A strong U.S. Dollar should provide a tailwind for the R.O.W. relative to the U.S., as it helps non-U.S. companies compete more effectively for sales in the U.S. and elsewhere

Source: MSCI and Standard & Poor's

Region Mix – Non-U.S. Developed vs. Global

	Equity: Region (Non-U.S. Dev/Global)	Current	10 Year Avg	Deviation from Mean*	Non-U.S. Dev	Neutral	R.O.W.
Valuation	MSCI EAFE Current P/E	16.75	18.19	-0.08		-	
	MSCI ACWI Current P/E	16.31	16.35	-0.01		-	
	Avg P/E Ratio (EAFE/ACWI)	1.03	1.08	-0.12		-	
	MSCI EAFE EV/EBITDA^	9.17	9.14	0.03		-	
	MSCI ACWI EV/EBITDA	10.12	9.58	0.51		-	
	Avg EV/EBITDA Ratio (EAFE/ACWI)	0.91	0.96	-1.23	+		
	MSCI EAFE P/S	1.03	0.98	0.25		-	
	MSCI ACWI P/S	1.30	1.21	0.45		-	
	Avg P/S Ratio (EAFE/ACWI)	0.79	0.81	-0.43		-	
Solvency	MSCI EAFE Debt/EBITDA	7.95	8.80	-0.77		-	
	MSCI ACWI Debt/EBITDA	5.87	6.39	-0.75		-	
	Avg Debt/EBITDA Ratio (EAFE/ACWI)	1.35	1.38	-0.41		-	
Growth	MSCI EAFE LT EPS Gr (Fwd)	13.78	5.34	0.22		-	
	MSCI ACWI LT EPS Gr (Fwd)	9.27	9.45	-0.03		-	
	Avg Growth Ratio (EAFE/ACWI)	1.49	0.72	0.26		-	
Economy	USD/EUR	1.12	1.33	-1.99	+		

- Non-U.S. developed continues to look attractive relative to the R.O.W. on valuation
- Debt levels remain low for both non-U.S. developed and R.O.W. stocks, but have crept up since last quarter
- The growth metrics remain neutral, but earnings forecasts have come down across the board, suggesting slowing global growth
- A strengthening U.S. Dollar is a headwind to emerging markets relative to non-U.S. developed. Emerging markets companies rely more heavily on dollar-denominated debt, and the strong Dollar makes it more expensive for them to service it

Source: MSCI

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Region Mix – Emerging Markets vs. Global

	Equity: Region (EM/Global)	Current	10 Year Avg	Deviation from Mean*	EM	Neutral	R.O.W.
Valuation	MSCI EM Current P/E	11.62	13.31	-0.62		-	
	MSCI ACWI Current P/E	16.31	16.35	-0.01		-	
	Avg P/E Ratio (EM/ACWI)	0.71	0.81	-1.03	+		
	MSCI EM EV/EBITDA^	7.01	7.83	-0.36		-	
	MSCI ACWI EV/EBITDA	10.12	9.58	0.51		-	
	Avg EV/EBITDA Ratio (EM/ACWI)	0.69	0.82	-0.59		-	
	MSCI EM P/S	0.93	1.26	-1.12	+		
	MSCI ACWI P/S	1.30	1.21	0.45		-	
	Avg P/S Ratio (EM/ACWI)	0.72	1.06	-1.75	+		
Solvency	MSCI EM Debt/EBITDA	4.49	3.15	1.67			+
	MSCI ACWI Debt/EBITDA	5.87	6.39	-0.75		-	
	Avg Debt/EBITDA Ratio (EM/ACWI)	0.76	0.50	1.57			+
Growth	MSCI EM LT EPS Gr (Fwd)	5.69	7.13	-0.01		-	
	MSCI ACWI LT EPS Gr (Fwd)	9.27	9.45	-0.03		-	
	Avg Growth Ratio (EM/ACWI)	0.61	1.02	-0.04		-	

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- A sharp decline in Emerging Markets ("EM") equity has resulted in attractive valuations relative to R.O.W., particularly based on P/E and P/S metrics
- On the other hand, the solvency data urges caution on EM. Debt/EBITDA levels for EM companies continued to increase over the quarter. This measure has gradually trended upwards over the past 10 years.
- The growth metrics remain neutral, with the current market showing very little deviation from historical averages

Source: MSCI

Portfolio Characteristics

Recommended Ranges

Market Cap (U.S.)	Minimum	Maximum	R3000
Large Cap (> $25.5B)	50.0%	70.0%	64.9%
Mid Cap ($3B - $25.5B)	25.0%	40.0%	27.5%
Small Cap (< $3B)	2.5%	12.5%	7.6%

Region	Minimum	Maximum	MSCI ACWI
U.S.	45.0%	65.0%	51.5%
Non-U.S. Developed	25.0%	40.0%	38.0%
Emerging Markets	5.0%	20.0%	10.5%

Client objectives and constraints may cause allocations to vary from recommended ranges

- Canterbury has been decreasing its home country bias as non-U.S. equity valuations remain relatively attractive and the strong dollar presents a headwind for American companies with global operations
- Stretched valuations and increased debt levels in small cap stocks have shifted our market cap exposures to a more neutral position, after historically being overweight small caps
- As the equity market cycle matures, Canterbury believes its utilization of active managers that can avoid overvalued regions, sectors, and securities will be a strong value-add, particularly in the non-U.S. space