CanterburyConsulting

Global Positioning Statement™

canterburyconsulting.com

March 31, 2019

Drivers of the Market

Strong Rebound Across Markets

- Equity markets rose quickly at the start of the first quarter and dropped to a more cautious pace in March, rebounding from a weak end to 2018 as concerns over the China-U.S. trade dispute eased and central banks grew more accommodative. The Federal Reserve (Fed) settled further into its dovish stance and as the quarter ended, the Fed lowered its projections for U.S. growth and inflation, and reduced its expectations for interest rate hikes.

- International equities recovered well in the first quarter and were also supported by central banks stepping away from tighter monetary policy and by optimism over global trade. However, worries over a slowdown in the global economy remain as Germany experienced near zero growth in the last three months of 2018 and as Italy slipped into recession.

- Fixed income performed well as a dovish Fed and positive market sentiment resulted in lower interest rates and tighter credit spreads. High yield was the best performing sector as credit swiftly rebounded from the December lows. The treasury yield curve continued to flatten and briefly inverted between 3 month and 10 year maturities. The move has led investors to question the health of the U.S. economy, however, an inverted yield curve doesn't necessarily indicate a pending recession.

- Real assets significantly rebounded as positive growth sentiment and accommodative policies benefited commodities and real estate. OPEC continued to cut oil supply, which was accretive to underlying prices.

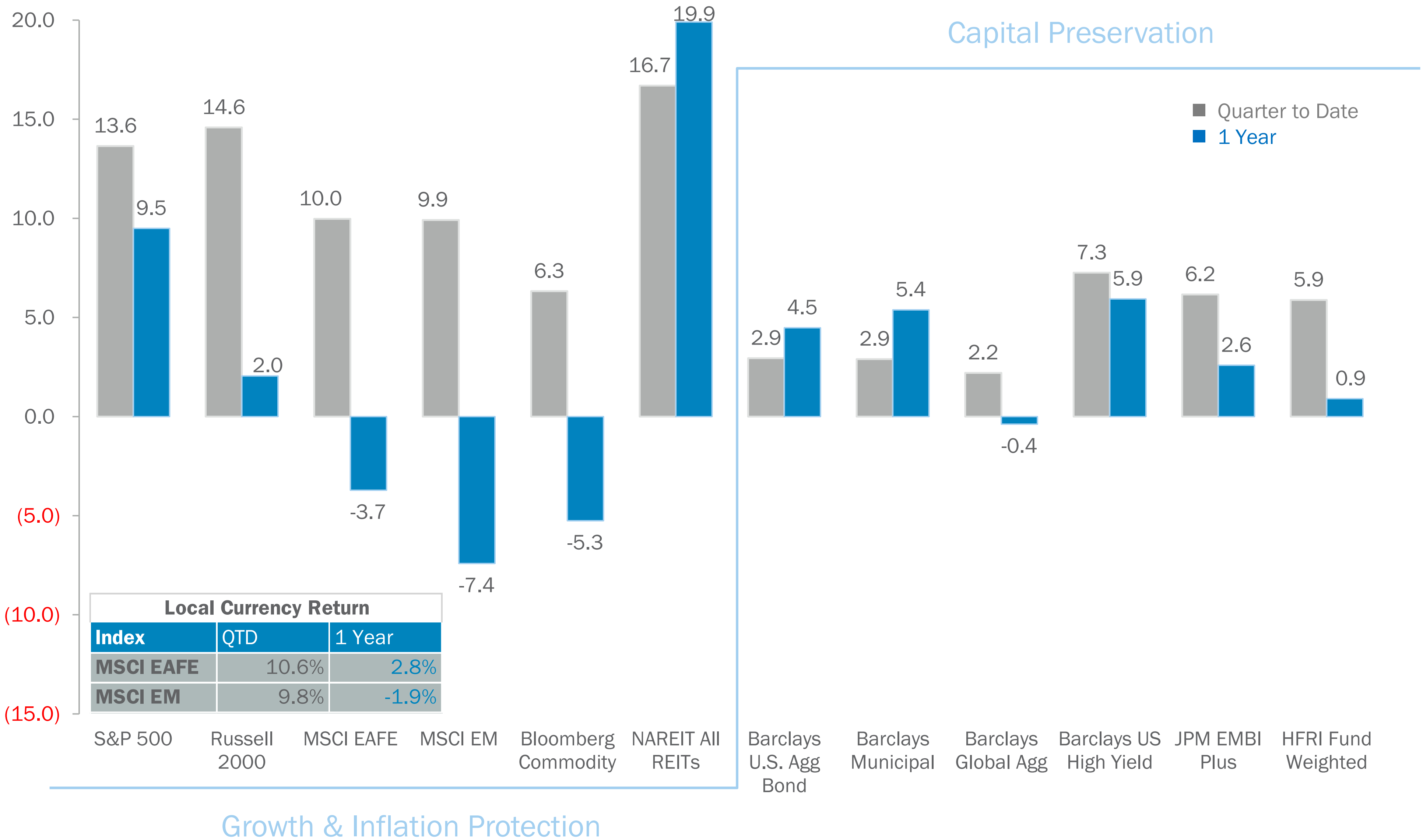
Returns through March 31, 2019

Index	QTD	1 Year
Growth MSCI ACWI	12.2%	2.6%
Capital Preservation Barclays Global Aggregate	2.2%	(0.4%)
Inflation Protection Morningstar U.S. Real Asset*	6.7%	5.2%

*40% TIPS, 30% L/S Commodity, 15% REITs, 10% Global Nat. Resources, 5% MLPs

Index Returns (%)

Through March 31, 2019



Local Currency Return

Index	QTD	1 Year
MSCI EAFE	10.6%	2.8%
MSCI EM	9.8%	-1.9%

Source: Morningstar

Economic Data

First Quarter 2019

Year over Year Statistics[1]

	March 31, 2014	March 31, 2015	March 31, 2016	March 31, 2017	March 30, 2018	March 29, 2019
S&P 500	1,872.34	2,067.89	2,059.74	2,362.72	2,640.87	2,834.40
S&P 500 EPS	107.22	112.05	105.91	112.44	134.50	151.67
P/E of S&P 500	17.46	18.45	19.45	21.01	19.64	18.69
P/E of MSCI EAFE	18.36	17.74	22.13	19.22	16.58	15.30
P/E of MSCI EM	12.33	13.73	16.59	14.77	14.67	13.02
S&P 500 Earnings Yield	5.73	5.42	5.14	4.76	5.09	5.35
Fed Funds Effective Rate	0.08	0.11	0.36	0.79	1.51	2.41
3 Month LIBOR	0.23	0.27	0.63	1.15	2.31	2.60
10 Year Treasury Yield	2.72	1.92	1.77	2.39	2.74	2.41
30 Year Mortgage Rate	4.38	3.79	3.65	3.99	4.27	4.08
Barclays U.S. Agg Yield	3.10	2.91	3.21	3.33	3.76	3.63
Barclays HY Spread	3.58	4.66	6.56	3.83	3.54	3.91
Gold ($/oz)	1,284.01	1,183.57	1,232.75	1,249.20	1,325.48	1,292.38
WTI Crude Oil ($/bbl)	101.58	47.60	38.34	50.60	64.94	60.14
Unemployment Rate	6.70	5.40	5.00	4.40	4.00	3.80
Headline CPI[2]	1.50	(0.10)	0.90	2.40	2.40	1.50
VIX Index	13.88	15.29	13.95	12.37	19.97	13.71

Forward Looking Forecasts[1]

	Real GDP[3]	CPI[3]	Unemployment[3]	10-Yr Treasury[3]
F12 month	2.4%	1.9%	3.7%	3.0%
F24 month	1.9%	2.2%	3.6%	3.0%

S&P 500 EPS[4]	Forward P/E[4]
$166.83	16.99
$185.15	15.31

MSCI EAFE EPS[4]	Forward P/E[4]
$136.27	13.76
$147.73	12.69

MSCI EM EPS[4]	Forward P/E[4]
$85.81	12.33
$95.30	11.10

(1) Source: Bloomberg
(2) Values are carried forward from the most recent reported value (3/31/2019)
(3) Forecasts are consensus opinions from 98 forecasting agencies (Median)
(4) F12 month: Forward 12 month estimate F24 month: Forward 24 month estimate
Estimate calculated from quarter end (i.e. Mar. 31, 2019 – Mar. 31, 2020). Price in P/E ratio static as of quarter end

Current U.S. Economic Conditions: Normal Growth

Contraction

U.S. GDP Growth

U.S. Earnings Yield: Below average earnings yield

U.S. Credit Markets

Volatility (VIX)

Yield Curve

Investor Sentiment

Normal Growth

U.S. GDP Growth: Above average growth

U.S. Earnings Yield

U.S. Credit Markets: Spreads below average

Volatility (VIX): Below average volatility

Yield Curve

Investor Sentiment: Above average sentiment

Panic

U.S. GDP Growth

U.S. Earnings Yield

U.S. Credit Markets

Volatility (VIX)

Yield Curve: Significantly below average spread

Investor Sentiment

Manic Growth

U.S. GDP Growth

U.S. Earnings Yield

U.S. Credit Markets

Volatility (VIX)

Yield Curve

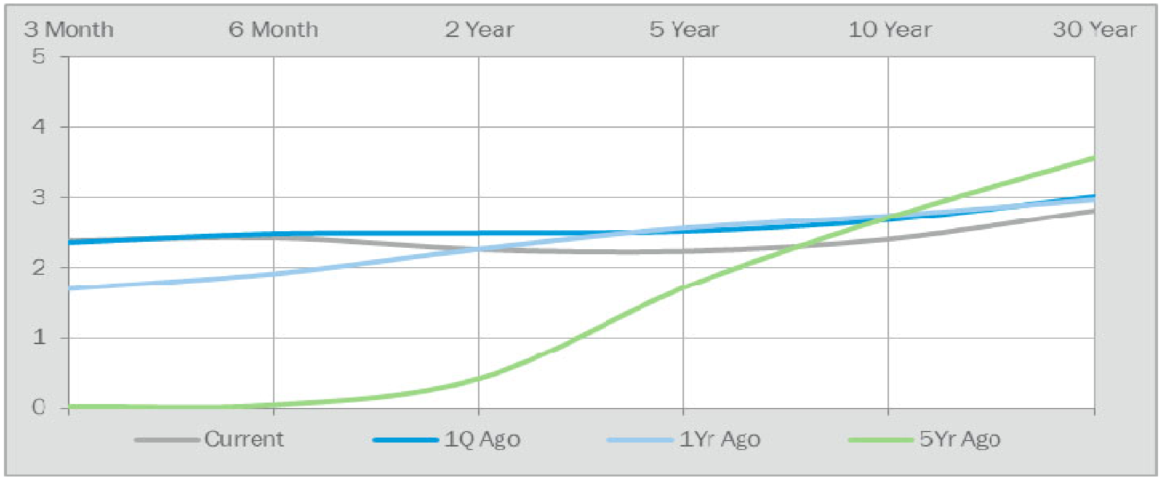
Investor Sentiment

Metrics	Quarter avg.	10-year avg.
U.S. GDP Growth: Current quarter U.S. Real GDP versus the 10 year U.S. Real GDP average	2.2%*	2.0%
U.S. Earnings Yield: Quarter avg. S&P 500 earnings yield versus the 10 year S&P 500 earnings yield average	5.5%	5.8%
U.S. Credit Markets: Quarter avg. Barclays US Corporate HY Average OAS versus the 10 year average	398 bps	526 bps
Volatility (VIX): Quarter avg. VIX average versus the 10 year VIX average	15.0	18.2
Yield Curve: Quarter avg. 30-year yield minus the quarter avg. 2-year yield versus the 10 year average	55 bps	240 bps
Investor Sentiment: Quarterly Sentiment spread versus the 10 year average spread. Spread measured by difference between Bull Sentiment Index and Bear Sentiment Index.	8.7	5.1

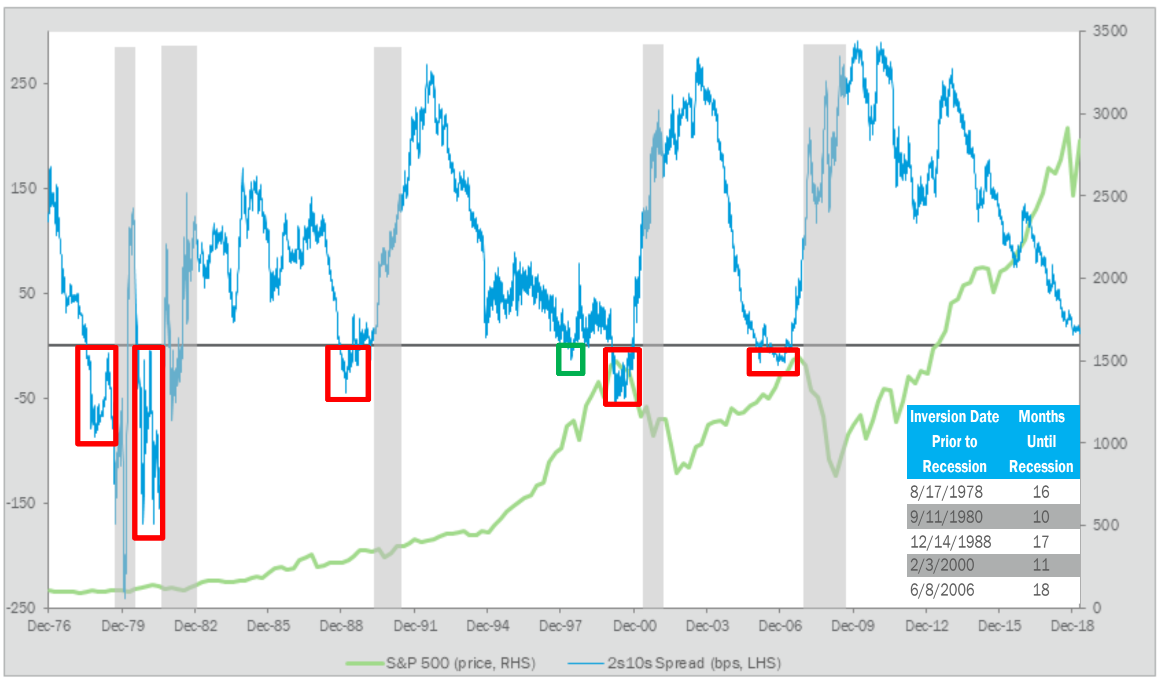
**U.S. GDP Growth is the current, end of quarter reading. Source: Bloomberg*

Yield Curve Inversion – What to Expect?

U.S. Treasury Yield Curve



Yield Curve Inversions & U.S. Recessions



*U.S. recessions displayed as shaded bar lines

- The treasury yield curve has significantly flattened over the last five years. The shift is a function of short interest rates moving higher (i.e. restrictive Fed monetary policy) and long interest rates moving lower (i.e. low growth and low inflation expectations).
- Many investors fear that a flat or inverted yield curve is a sign that a recession in the near-term is imminent. While an inverted yield curve typically precedes a recession, the timing and severity cannot be predicted by the yield curve itself. Furthermore, the yield curve does not affect current economic conditions, but is instead a direct reflection of them.
- The bottom chart shows the spread differential between 2-year treasurys and 10-year treasurys. When spreads turn negative, the yield curve inverts between 2 year and 10 year maturities.
- The red boxes denote yield curve inversions prior to U.S. recessions (shaded areas). The green box denotes the yield curve inverting without a recession (summer 1998).
- The timing between yield curve inversions and recessions is inconsistent and has ranged from 10-18 months.
- There is little to no correlation between inversion and recession length or severity. The 2007 Great Financial Crisis resulted in a -5% decline in GDP and was preceded by a shallow inversion. Conversely, the 1980 recession resulted in a -2.2% decline in GDP and was preceded by a steep and prolonged inversion.
- In all, predicting the timing and severity of a recession based on the shape of the yield curve is inconclusive.

Sources: St. Louis Fed; Bloomberg; Bureau of Economic Analysis

Global Positioning Indicators

Through March 31, 2019

Source: Bloomberg

Global Positioning Statement™

Canterbury's Position

	GROWTH		CAPITAL PRESERVATION		INFLATION PROTECTION
Asset Class	Public Equity	Private Equity	Fixed Income	Hedge Funds	Real Assets
Benchmark	MSCI ACWI	Cambridge U.S. Private Equity Index	Barclays Global Aggregate	HFRI Fund Weighted	Morningstar U.S. Real Asset
Canterbury Positioning	1. Consider rebalancing back to emerging markets target if underweight 2. Allocate to high active share strategies	1. Focus on operational hands-on strategies 2. Prudent use of leverage	1. Maintain diversification & defensive posture with interest rates and credit 2. Maintain home country bias	1. Balance allocations between long/short equity and long/short credit	1. Diversify exposure to real assets 2. Rebalance real asset exposure
Reason	1. Better diversification and lower valuations in emerging markets 2. Later stage recovery and rising interest rates support thoughtful security selection	1. Persistent value creation independent of market cycle 2. Late stage in the recovery	1. Interest rate risk is expensive in the current low rate environment. Credit spreads are tighter than median levels 2. Less non-U.S. developed currency risk and a better hedge against investor liabilities	1. Equity and credit strategies look equally attractive	1. Increases the reliability of the asset class against inflation 2. Many investors' allocations to real assets have fallen below target ranges
Positioning Shifts	None	None	None	None	None