



Canterbury Consulting

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Quarterly Asset Class Report

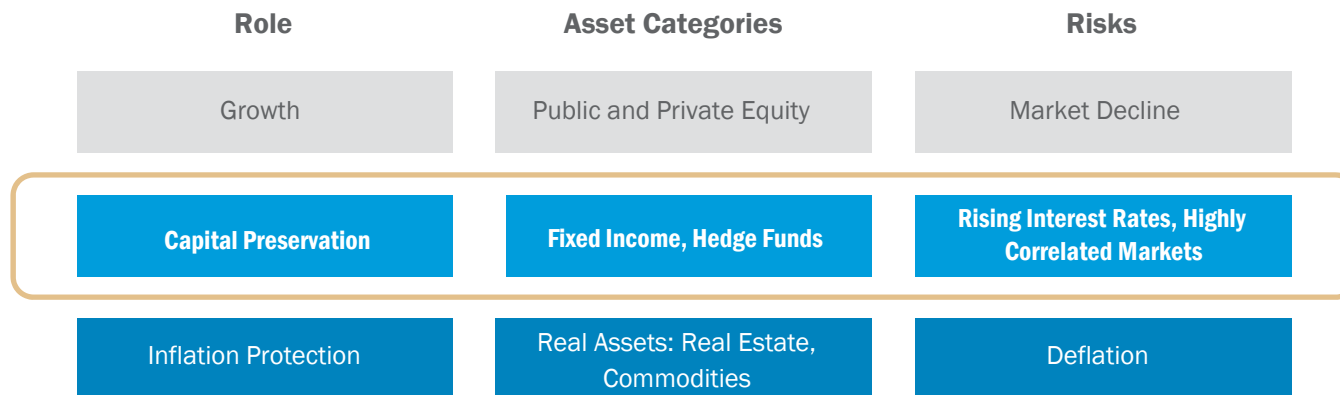
Taxable Fixed Income

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December 31, 2016

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 Global Aggregate	-7.07	2.09	2.09	-0.19	0.21	1.72	3.29
Barclays US Agg Bond	-2.98	2.65	2.65	3.03	2.23	3.62	4.34

U.S. Treasurys

BofAML 3M US Treasury Note	0.06	0.34	0.34	0.15	0.13	0.13	0.82
Barclays Short Treasury	0.09	0.53	0.53	0.25	0.21	0.22	0.99
Barclays Intermediate Treasury	-2.25	1.06	1.06	1.60	1.03	2.41	3.50
Barclays Long Term US Treasury	-11.67	1.33	1.33	7.78	2.52	7.03	6.67
Barclays U.S. Treasury TIPS 0-5Y	-0.16	2.81	2.81	0.54	0.48	1.45	2.78
Barclays US Treasury US TIPS	-2.41	4.68	4.68	2.26	0.89	3.38	4.36

U.S. Corporate Credit

Barclays US Corp IG	-2.83	6.11	6.11	4.23	4.13	5.38	5.47
S&P/LSTA Leveraged Loan	2.26	10.16	10.16	3.58	5.11	5.29	4.64
BofAML US HY Master II	1.88	17.49	17.49	4.72	7.35	8.00	7.34
BofAML US HY BB-B Constrained	1.26	14.72	14.72	4.89	7.05	7.81	6.94
BofAML US Corporate AAA	-4.73	3.18	3.18	4.33	2.48	4.16	4.03
BofAML US Corporate AA	-3.02	3.80	3.80	3.88	3.39	4.39	4.45
BofAML US Corporate A	-3.13	4.38	4.38	4.08	3.98	5.18	4.75
BofAML US Corps BBB	-2.57	8.14	8.14	4.44	4.79	6.11	6.34
BofAML US High Yield BB	0.68	13.22	13.22	5.68	7.26	8.16	7.58
BofAML US High Yield B	2.11	16.94	16.94	4.02	6.83	7.50	6.16
BofAML US High Yield CCC	5.94	36.46	36.46	4.15	8.94	8.69	8.12

Securitized

Barclays ABS	-0.70	2.03	2.03	1.72	1.70	2.77	3.02
Barclays MBS	-1.97	1.67	1.67	3.07	2.06	3.11	4.28
Barclays CMBS	-3.15	2.68	2.68	2.21	3.07	5.76	5.09

Municipals

Barclays Municipal	-3.62	0.25	0.25	4.14	3.28	4.18	4.25
Barclays Muni 1-10	-2.32	-0.15	-0.15	1.96	1.79	2.66	3.48

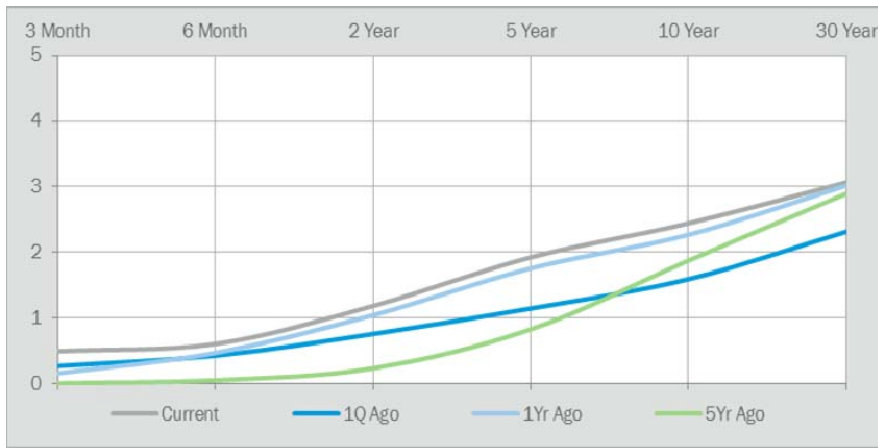
Global

Citi WGBI	-8.53	1.60	1.60	-0.84	-0.99	0.89	2.99
Barclays Gbl Agg Ex USD	-10.26	1.49	1.49	-2.59	-1.39	0.30	2.44
JPM EMBI Plus	-5.32	9.62	9.62	5.82	5.10	6.62	6.60

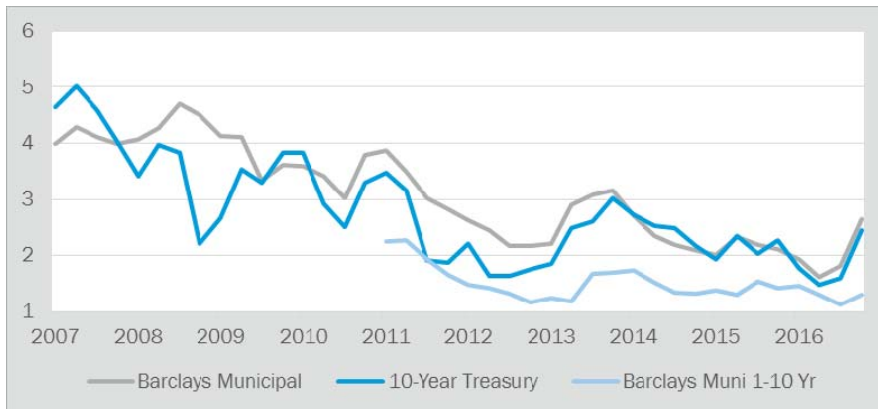
Market Environment

Fixed Income

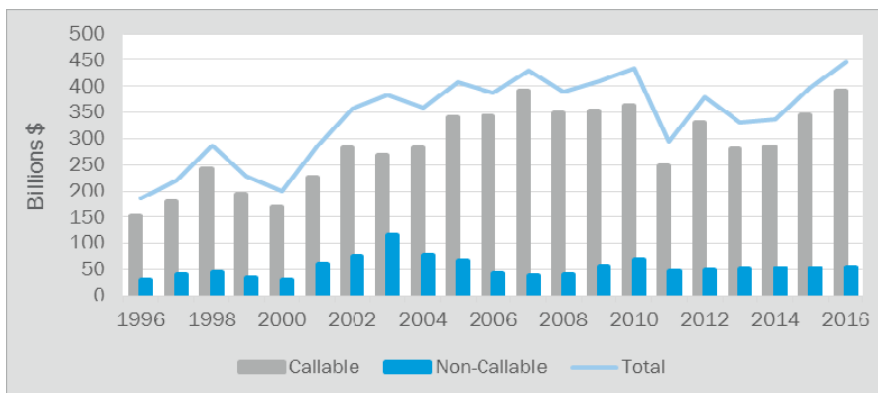
U.S. Treasury Rates



Yields



U.S. Municipal Issuance



- Developed market bond yields rose quickly and swiftly as a result of Donald Trump’s U.S. Presidential Election victory and the Federal Reserve’s December rate hike. Markets are expecting the Trump Administration to implement significant fiscal stimulus by way of infrastructure spending. Pro-growth market sentiment led to a ‘risk-on’ rally which negatively affected U.S. Treasuries
- Emerging market debt was mixed during the quarter. Mexican bonds were negatively affected by Trump’s victory as trade and protectionist concerns led to a bond sell-off. Brazilian rates held steady as the country continued down the path of positive economic and political reform
- Investment grade and high yield spreads continued to narrow on the back of pro-growth market sentiment. Speculative-grade bonds in energy and industrial sectors performed well in anticipation of Trump’s infrastructure spending plan
- Municipal yields increased alongside sovereign yields. Uncertainty over the Trump Administration’s potential tax reform also had a negative effect on municipal bonds. Moreover, mutual fund outflows from the retail market caused spreads to widen over the quarter

Portfolio Characteristics

Fixed Income

Sector Distribution

	Current Portfolio	Barclays Municipal Bond Index	Barclays 1-10 YR Muni Bond
US Treasury	0.9%	0.0%	0.0%
Agency	2.3%	0.0%	0.0%
Local Authority (non-US)	0.5%	0.0%	0.0%
Municipal (US)	45.2%	100.0%	100.0%
Sovereign (non-US)	18.9%	0.0%	0.0%
Supranational	0.4%	0.0%	0.0%
Corporate	9.2%	0.0%	0.0%
Bank Loans	3.5%	0.0%	0.0%
MBS	7.3%	0.0%	0.0%
ABS	0.3%	0.0%	0.0%
CMBS	0.8%	0.0%	0.0%
Other & Cash	10.7%	0.0%	0.0%

Regional Distribution - Country Allocation

	Current Portfolio	Barclays Municipal Bond Index	Barclays 1-10 YR Muni Bond
US	72.8%	100.0%	100.0%
Non-US Developed	15.3%	0.0%	0.0%
Non-US Emerging	11.9%	0.0%	0.0%

Currency Allocation

	Current Portfolio	Barclays Municipal Bond Index	Barclays 1-10 YR Muni Bond
US	88.3%	100.0%	100.0%
Non-US Developed	-4.1%	0.0%	0.0%
Non-US Emerging	15.7%	0.0%	0.0%

Portfolio Characteristics

	Current Portfolio	Barclays Municipal Bond Index	Barclays 1-10 YR Muni Bond
Effective Duration	2.28	5.16	4.02
Yield to Maturity (%)	3.57	2.59	4.25
Coupon Rate (%)	4.25	4.77	4.82
Average Credit Quality (Barclays)	A	AA	AA

Portfolio Checklist

	Current Portfolio	Barclays Municipal Bond Index	Barclays 1-10 YR Muni Bond
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

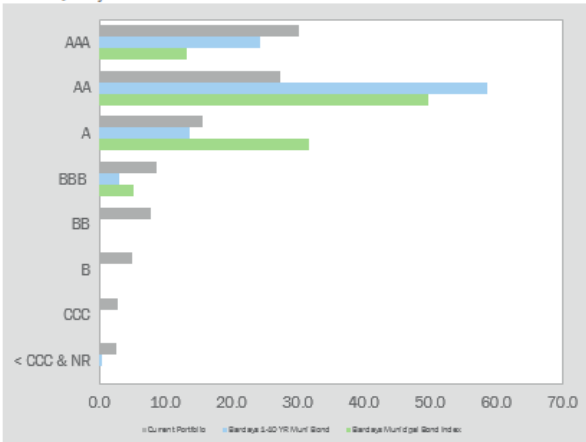
2. Duration should not exceed the benchmark

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

Credit Quality Distribution vs. Benchmark



The Baseline Portfolio has allocations to the following investment manager types: 50% Municipals, 30% Global, 10% Credit, and 10% Mortgage-Backed
Source of Benchmark Information: Barclays

- Canterbury recommends reducing interest rate exposure by targeting a portfolio duration less than that of the benchmark (Barclays Municipal Index)
- 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 as 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.)