



Canterbury Consulting

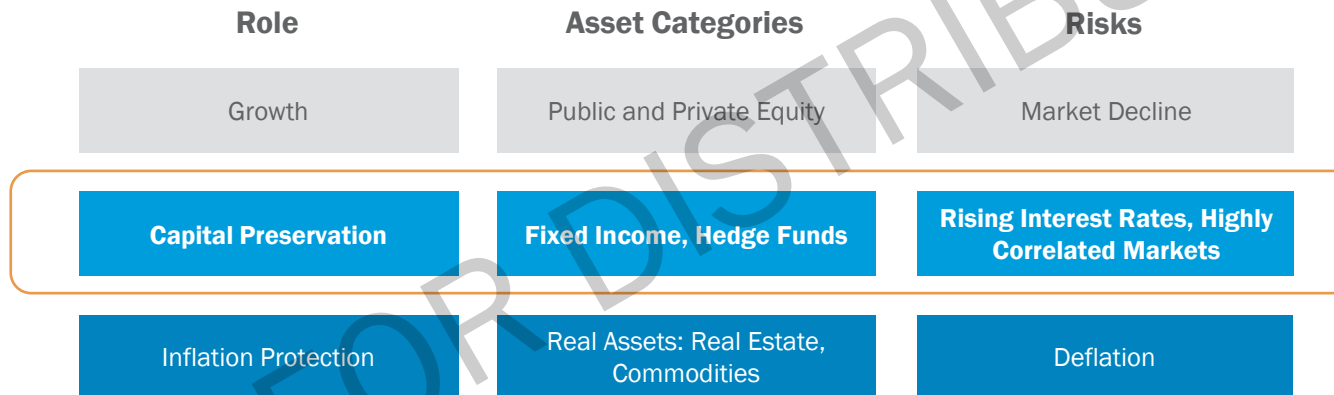
Quarterly Asset Class Report Taxable Fixed Income

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March 31, 2023

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

- Preserve after-tax wealth and mitigate volatility
- Maintain comparable exposure to the broad municipal market
- Focus exposure based on state domicile and after-tax returns
- Exhibit returns uncorrelated to equity markets



- Canterbury global fixed income portfolios are set up with a goal to deliver consistent after-tax and net-of-fees excess returns and moderate tracking error versus the Barclays Municipal Bond Index. The goal for taxable fixed income portfolios are to have a high-quality bias with sensitivity toward taxes.
- Canterbury’s fixed income portfolios seek to exhibit benchmark-like, after-tax yields and credit quality through more portfolio diversification and lower duration. Portfolio diversification will depend on the client’s state of domicile and individual goals (i.e. income vs. capital preservation).

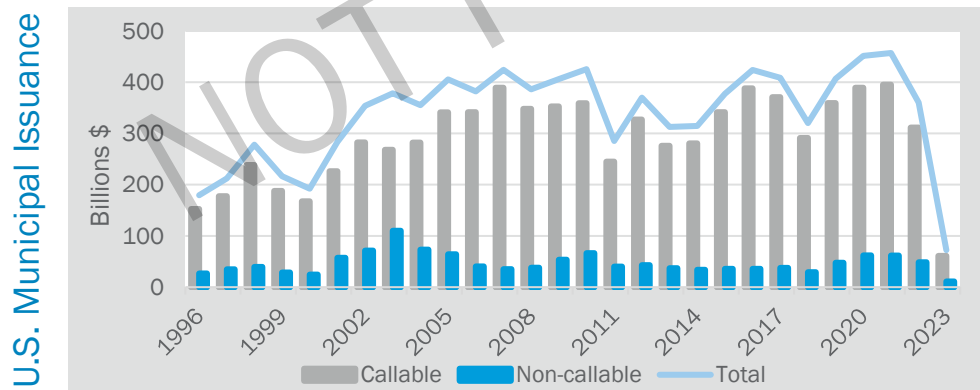
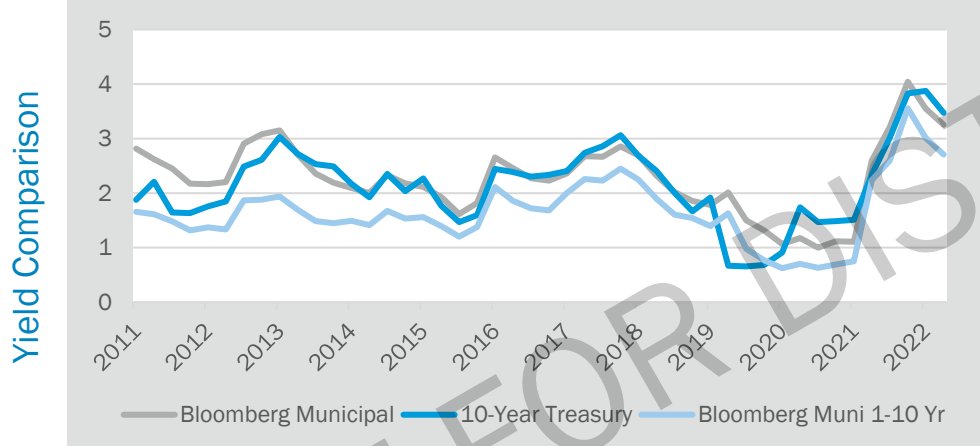
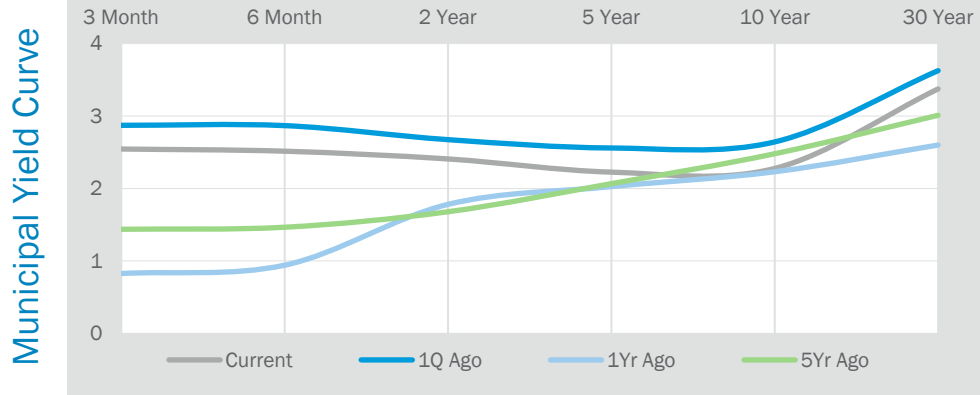
Index Returns as of March 31, 2023

Fixed Income

	QTD	YTD	1 Year	3 Years	5 Years	7 Years	10 Years
Bloomberg Global Aggregate	3.01	3.01	-8.07	-3.43	-1.34	-0.27	0.07
Bloomberg US Agg Bond	2.96	2.96	-4.78	-2.77	0.91	0.88	1.36
U.S. Treasurys							
BofAML 3M US Treasury Note	1.14	1.14	2.60	0.93	1.47	1.25	0.90
Bloomberg Short Treasury	1.15	1.15	2.27	0.76	1.43	1.23	0.91
Bloomberg Intermediate Treasury	2.27	2.27	-1.54	-2.33	1.06	0.63	0.90
Bloomberg Long Term US Treasury	6.17	6.17	-16.00	-11.33	-0.35	-0.49	1.45
Bloomberg U.S. Treasury TIPS 1-5Y	2.26	2.26	-1.14	3.34	2.92	2.35	1.48
Bloomberg US Treasury US TIPS	3.34	3.34	-6.06	1.75	2.94	2.44	1.49
U.S. Corporate Credit							
Bloomberg US Corp IG	3.50	3.50	-5.55	-0.54	1.62	2.01	2.32
Morningstar LSTA Leveraged Loan	3.23	3.23	2.54	8.52	3.63	4.60	3.76
BofAML US HY Master II	3.72	3.72	-3.56	5.84	3.06	5.02	4.03
BofAML US HY BB-B Constrained	3.55	3.55	-2.96	5.34	3.26	4.72	4.05
BofAML US Corporate AAA	4.54	4.54	-7.40	-3.86	1.40	1.46	2.06
BofAML US Corporate AA	3.59	3.59	-5.93	-2.31	1.06	1.18	1.78
BofAML US Corporate A	3.26	3.26	-5.10	-1.30	1.51	1.65	2.13
BofAML US Corps BBB	3.56	3.56	-5.07	1.02	1.89	2.60	2.64
BofAML US High Yield BB	3.37	3.37	-2.32	5.35	3.79	4.77	4.46
BofAML US High Yield B	3.81	3.81	-3.86	5.51	2.68	4.76	3.62
BofAML US High Yield CCC	4.84	4.84	-8.88	8.71	0.75	6.11	3.39
Securitized							
Bloomberg ABS	1.86	1.86	0.37	0.58	1.63	1.43	1.41
Bloomberg MBS	2.53	2.53	-4.85	-3.31	0.20	0.28	1.00
Bloomberg CMBS	1.81	1.81	-3.93	-1.43	1.40	1.15	1.55
Municipals							
Bloomberg Municipal	2.78	2.78	0.26	0.35	2.03	1.85	2.38
Bloomberg Muni 1-10	1.84	1.84	1.81	0.71	1.79	1.44	1.67
Global							
Bloomberg Global Aggregate TR Hdg USD	2.90	2.90	-3.86	-2.13	0.95	1.19	1.93
Bloomberg Gbl Agg Ex USD	3.06	3.06	-10.72	-4.13	-3.17	-1.28	-0.99
FTSE WGBI	3.51	3.51	-9.55	-5.29	-2.35	-1.06	-0.60
JPM EMBI Plus	1.87	1.87	-8.42	-4.94	-3.12	-0.92	0.17

Market Environment as of March 31, 2023

Fixed Income

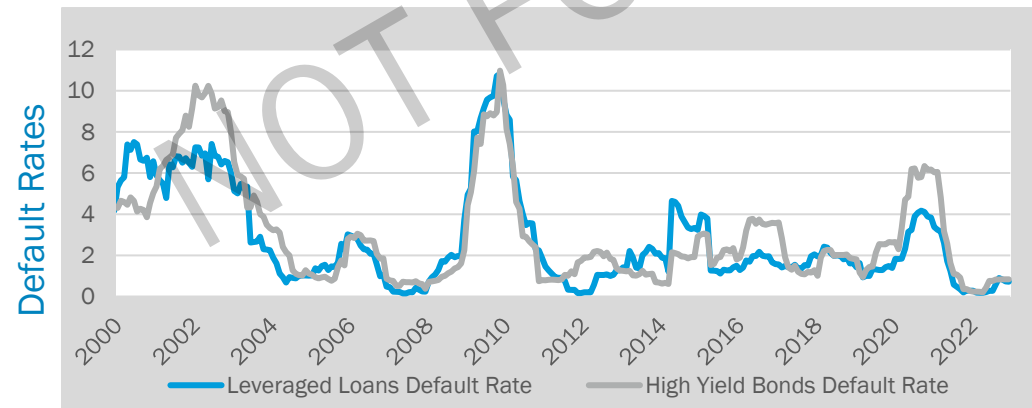
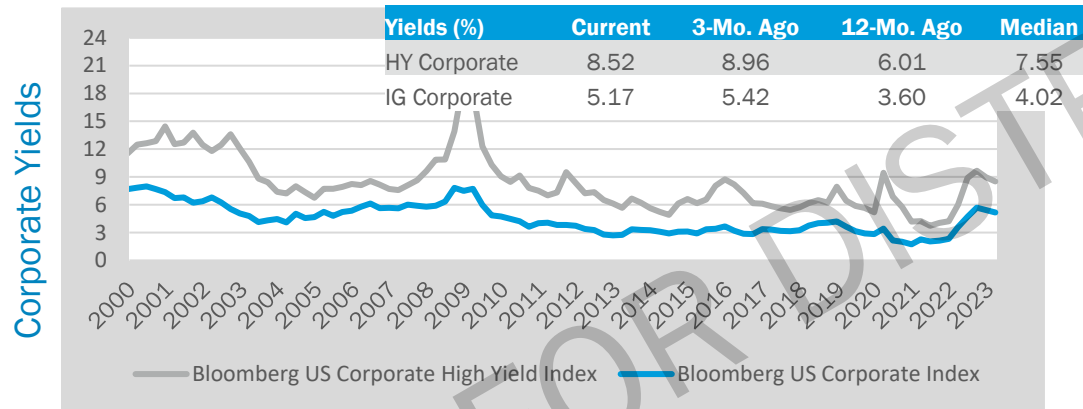
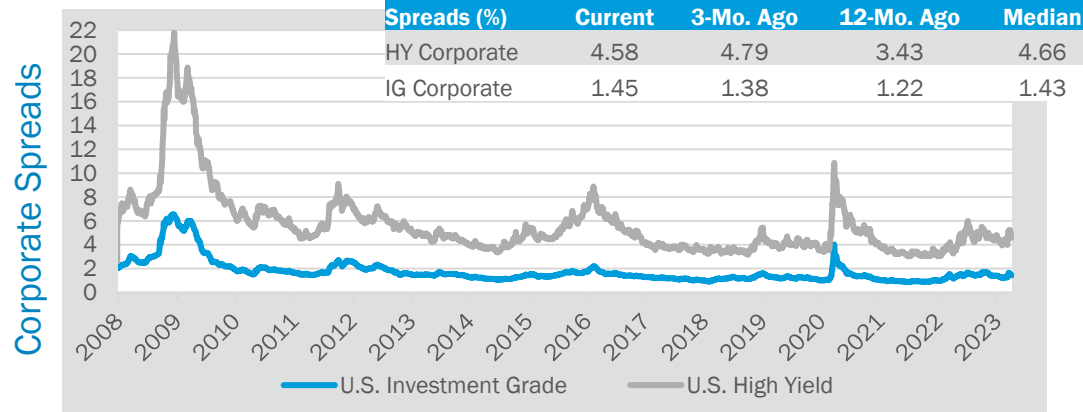


- Amid elevated inflation, the Federal Reserve raised the key interest rate twice, 25 basis points in February and 25 basis points in March to a range between 4.75% - 5.00%.
- The FOMC considered skipping a rate increase at their March meeting given banking turmoil from the failures of Silicon Valley Bank and Signature Bank, but ultimately decided to follow through with an interest rate hike as stress quickly subsided.
- At the most recent March meeting, the Fed communicated that price pressures and demand for labor remained elevated, making further interest rate hikes potentially appropriate. However, bank lending conditions will be monitored and weighed into their decision.
- Yields across the municipal bond yield curve decreased over the quarter, further inverting the spread between 2-year and 10-year maturities.
- Municipal bond issuance in the first quarter of 2023 was 26% lower relative to the same time period in 2022, which was already lower than the prior year.

Sources: Securities Industry and Financial Markets Association (SIFMA), U.S. Treasury Department, Barclays, Bloomberg. Data as of 03/31/2023

Market Environment as of March 31, 2023

Fixed Income



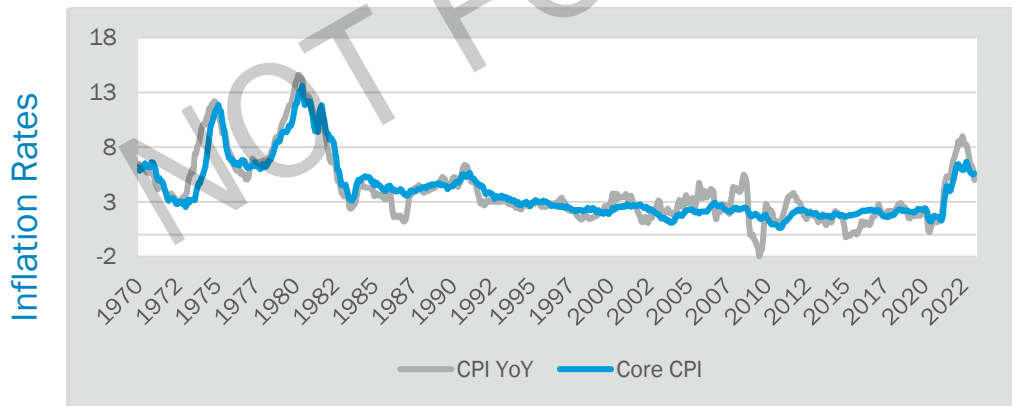
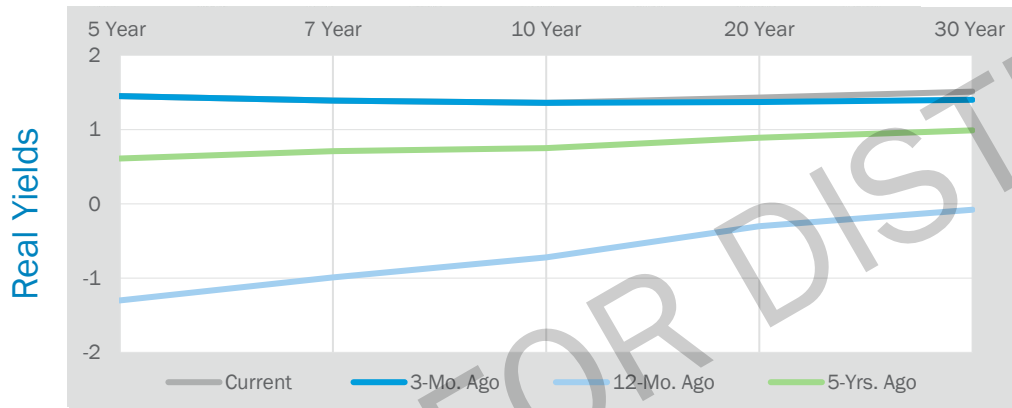
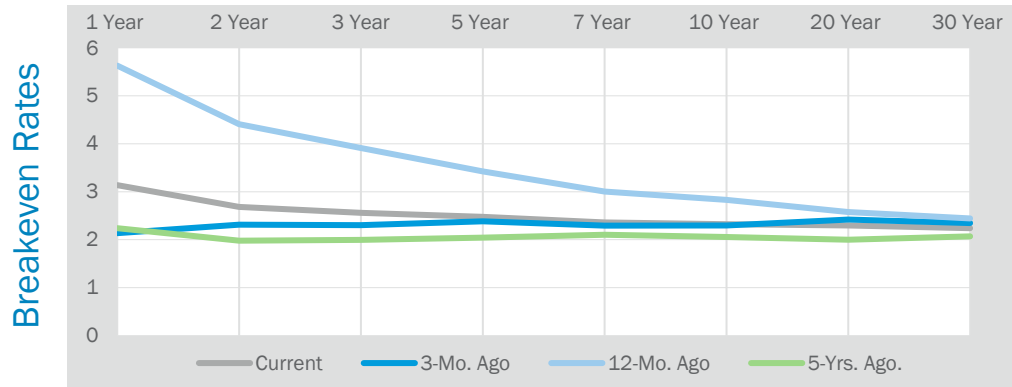
- Investment grade (IG) spreads increased from 138 basis points (bps) to 145 bps over the quarter while high yield (HY) spreads narrowed from 479 bps to 458 bps.
- The yield for investment grade and high yield corporate bonds decreased by 25 bps and 44 bps to 5.17% and 8.52%, respectively.
- Although corporate credit spreads remained in line with long term medians, corporate credit yields continued to be modestly above historical*.

Sources: Federal Reserve Economic Data, S&P LCD, JP Morgan, Bloomberg Indices. Data as of 03/31/2023. S&P LCD Lev Loan Defaults, JP Morgan HY Bond Defaults, Data as of 12/31/2022

*Long term median is defined as median data since 2000.

Market Environment as of March 31, 2023

Fixed Income

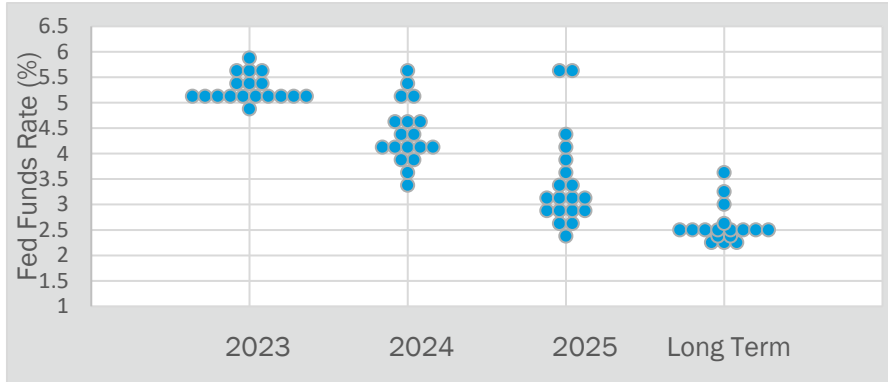


- Front-end breakeven inflation rates increased over the quarter while intermediate-to-long-term breakevens remained unchanged. The breakeven rate is the implied inflation rate for a given maturity and is calculated by subtracting the real yield of a treasury bond from the nominal yield.
- Current long-term breakeven rates imply that inflation should trend above the Fed's original inflation target of 2% in the long run.
- Real yields from the 5-year maturity and beyond remained unchanged, showing that nominal yields outpaced implied inflation.
- Inflation continues to be driven by supply/demand imbalances, the Ukraine/Russia war, tight labor markets, and high wage growth.

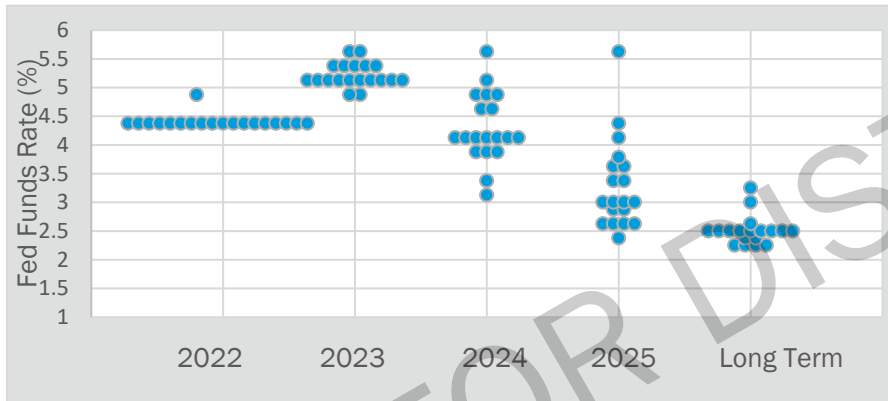
Source: Bloomberg, FRED, CPI & PCE Data, U.S. Breakeven Rates, U.S. Treasury Inflation-Indexed Rates. Data as of 03/31/2023

Market Environment as of March 31, 2023

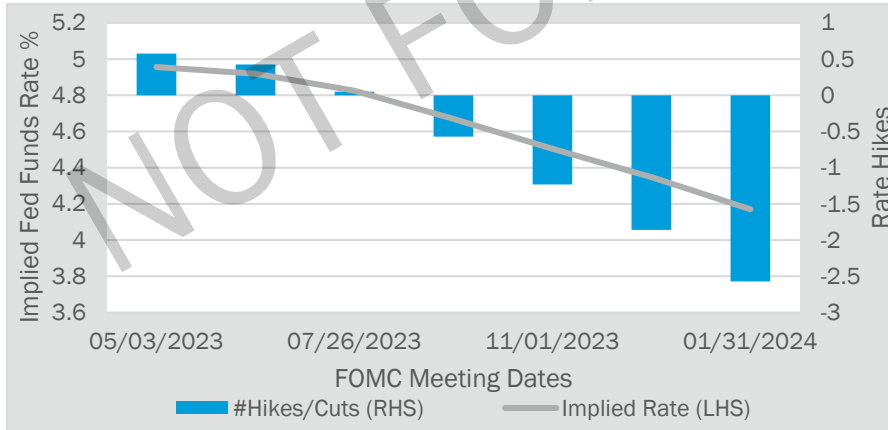
Fed Dot Plot
March 2023



Fed Dot Plot
December 2022



Implied Fed Funds Rate
& Rate Hike



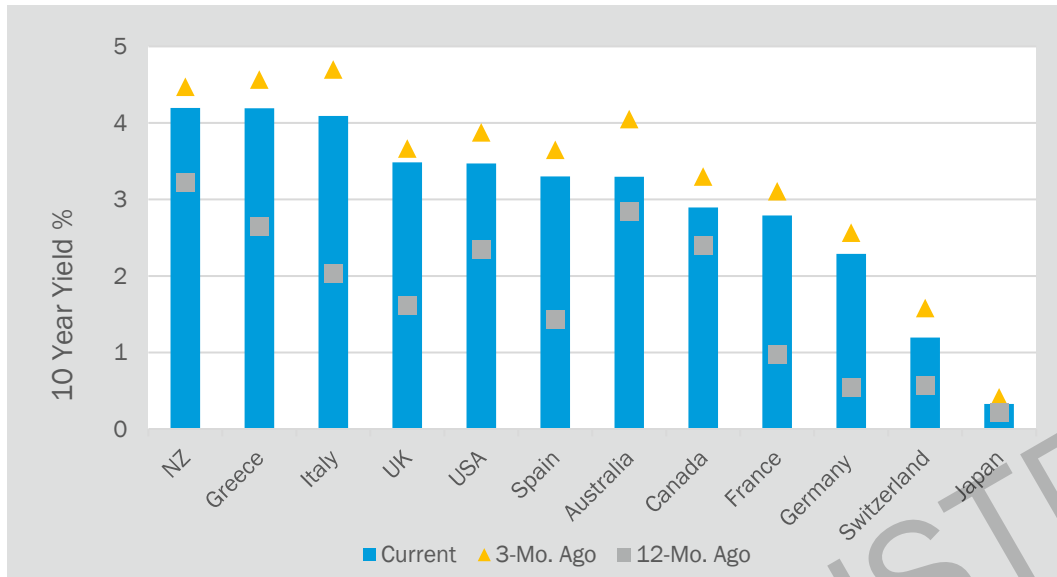
- The fed funds rate forecast remained unchanged at 5.0% - 5.25% by the end of 2023, as represented by the Fed Dot Plot.
- As of end of March, market participants expected the Fed to begin cutting interest rates at the July FOMC meeting in 2023.
- The Fed Dot Plot represents where each of the Federal Open Markets Committee (FOMC) members believe the fed funds rate will be in the future.
- The implied fed funds rate is where market participants believe the fed funds rate will be based on futures prices.

Source: Bloomberg. December FOMC Dot Plot. Fed Funds Futures as of time of December FOMC meeting. Implied Fed Funds Futures & Rate Hike Probabilities as of 03/31/2023.

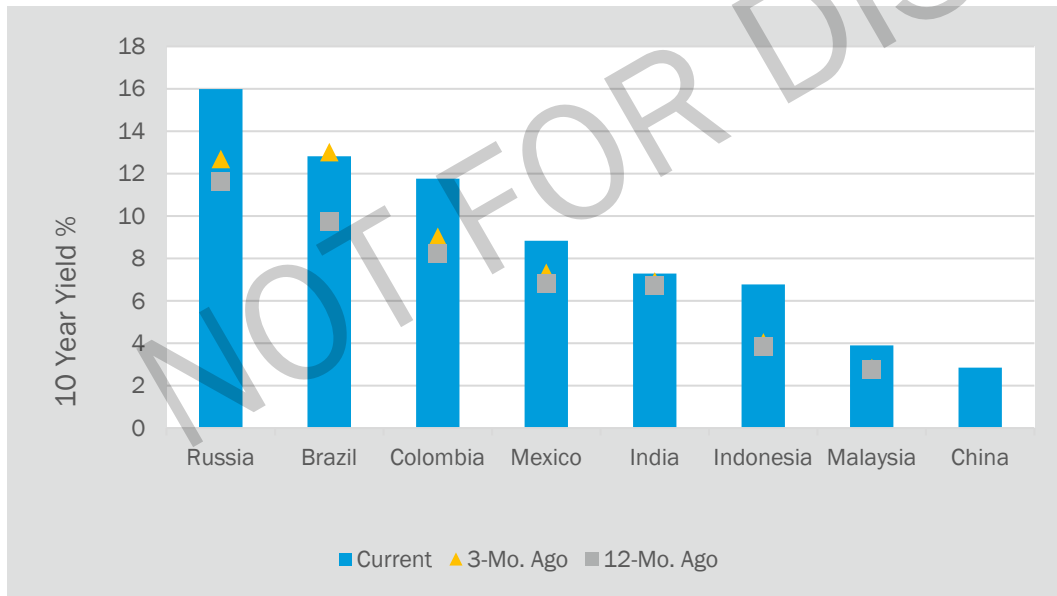
Market Environment as of March 31, 2023

Fixed Income

Developed Yields



EM Yields (Local Currency)



- As a result of banking concerns, developed market sovereign bond yields ended the quarter modestly lower.
- Emerging markets (EM) sovereign yields remained relatively unchanged on a quarter-over-quarter basis.
- Emerging markets and developed market currencies generally appreciated relative to the U.S. dollar over the quarter due to increasing short-term rates across the globe.

Source: Bloomberg. Data as of 03/31/2023



Goals

- Are clients seeking to preserve capital, generate total return, or blend the two within a fixed income segment?
- What level of risk related to portfolio correlation is the client looking to incur?



Interest Rate & Inflationary Environment

- How does the current interest rate regime and inflationary environment affect return and risk (i.e. stagnant, slow-rise, rapid rise)?
- What level of interest rate volatility is the client willing to take?



Risk Tolerance

- How much risk is a client willing to take?
- Duration, yield curve positioning, sector exposure, credit exposure, the correlation to equities, and the client's distribution flows are important factors to measure.



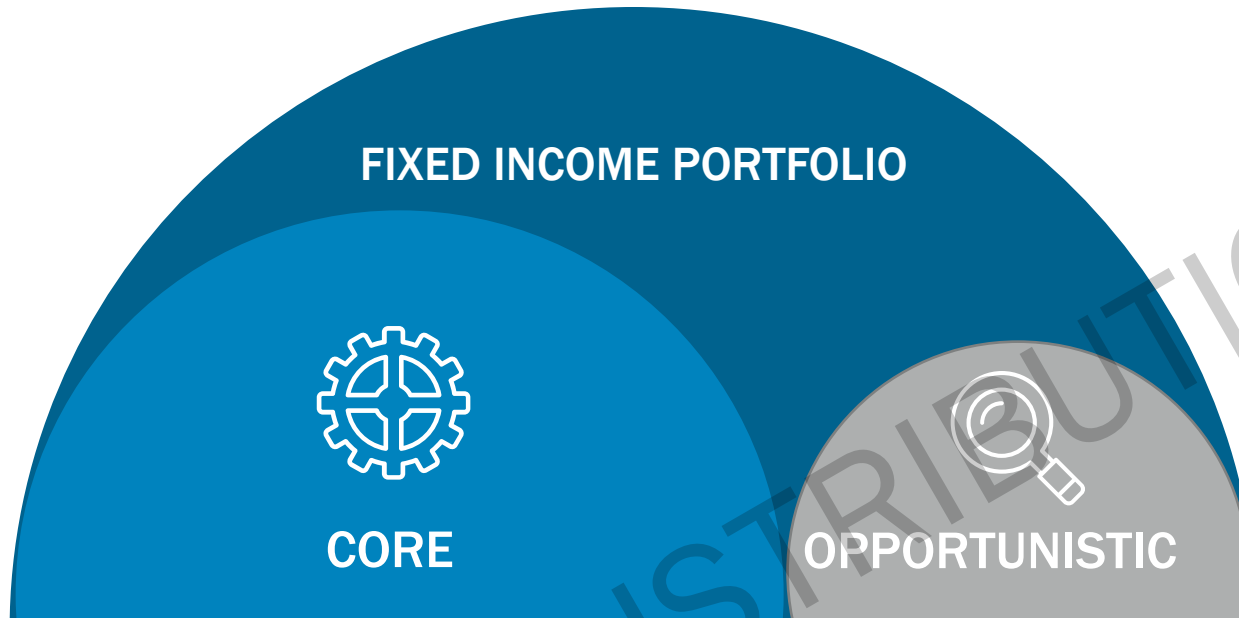
Tax Considerations

- Is the client's status taxable or tax-exempt?
- Does the client have a higher threshold given the respective tax situation?



Time Horizon

- Does the client have short term or long term goals?
- Are spending requirements quarterly, annually, or longer?
- Is spending consistent with the return/risk profile of the portfolio?



Characteristics

- Low volatility
- Uncorrelated to equities
- U.S. Focus



Exposure

- Treasuries
- Agencies
- Investment grade corporate
- MBS



Characteristics

- Income orientated
- Total return focus
- Uncorrelated to core bonds



Exposure

- Non-U.S. developed sovereigns
- EM sovereigns
- High yield
- Bank loans
- Private debt