CanterburyConsulting

Quarterly Asset Class Report

Global Equity

canterburyconsulting.com

March 31, 2018

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

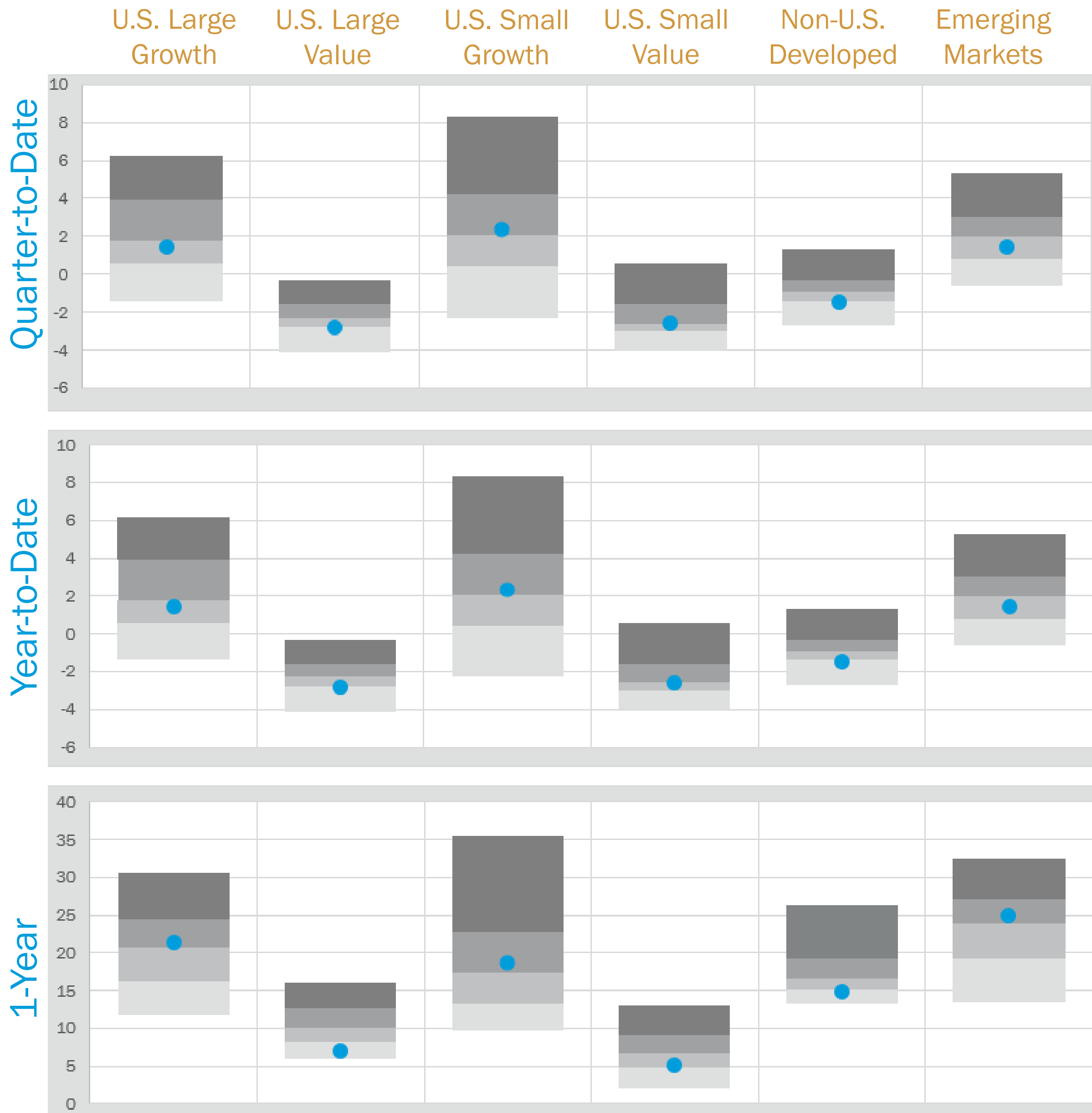
(iii) Exhibit returns uncorrelated to fixed income markets

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

Performance (%) as of March 31, 2018

Equity Review



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

- After a volatile quarter, growth has continued the 2017 trend of outperforming value. U.S. growth stocks were positive for the quarter as U.S. value stocks ended in negative territory.
- The majority of our active managers had strong performance in 2017 and the majority of them have continued to outperform their respective benchmarks in the first quarter, finding opportunity amid the volatility.
- International developed equities were negative for the quarter as fears of a global trade war loomed. Emerging markets equities held up relatively well compared to many other markets, supported by strong GDP and corporate earnings growth as well as a weakening US dollar.

Source: Morningstar Direct

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)	21.13	16.88	1.68			+
	R2000 Current P/E (Small Cap)	47.96	45.70	0.21		-	
	Avg P/E Ratio (Large/Small)	0.44	0.46	-0.34		-	
	Russell Top 200 EV/EBITDA^ (Large Cap)	12.95	9.89	1.76			+
	R2000 EV/EBITDA (Small Cap)	17.69	14.36	1.06	+		
	Avg EV/EBITDA Ratio (Large/Small)	0.73	0.70	0.40		-	
	Russell Top 200 P/S (Large Cap)	2.31	1.64	1.82			+
	R2000 P/S (Small Cap)	1.27	1.04	1.12	+		
	Avg P/S Ratio (Large/Small)	1.82	1.59	1.65			+
Solvency	Russell Top 200 Debt/EBITDA (Large Cap)	4.24	4.62	-0.54		-	
	Russell 2000 Debt/EBITDA (Small Cap)	6.18	5.70	0.49		-	
	Avg Debt/EBITDA Ratio (Large/Small)	0.69	0.83	-0.76		-	
Growth	Russell Top 200 LT EPS Gr (Fwd) (Large Cap)	9.55	8.83	0.17		-	
	R2000 LT EPS Gr (Fwd) (Small Cap)	6.37	10.59	-1.81	+		
	Avg Growth Ratio (Large/Small)	1.50	0.86	1.30	+		
Economy	Case Shiller Home Price (YoY)	6.40	1.10	0.60		-	
	Total Leading Economic Indicators	108.70	90.85	1.96			+
	Currency (USD v Broad Basket)	89.97	85.16	0.58		-	
	Curve Steepness 2's to 10's	0.47	1.74	-2.03	++		

**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". '+' denotes one standard deviation, and '++' denotes two standard deviations in favor of the asset class*

^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 metrics used to value the equity universe. Canterbury prefers Price/Earnings, EV/EBITDA, and Price/Sales. No one metric is a sole determinant.
- With over 30% of small cap names in the Russell 2000 unprofitable, the P/E multiple tends to be much larger. However, from a sales perspective, small cap appears more attractive.
- Leverage remains at normal levels for both large- and small-cap stocks.
- Growth estimates favor large-cap stocks over small cap stocks, however, potential fiscal stimulus out of Washington D.C. could improve the case for small cap.
- Improving economic indicators continue to be a tailwind for smaller, domestically-oriented companies. However, a flattening yield curve implies slower growth, which favors more defensive large-cap stocks.

Source: Russell

Region Mix – U.S. vs. R.O.W.

	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	21.29	17.44	1.46			+
	MSCI ACWI Current P/E	18.48	17.20	0.34		-	
	Avg P/E Ratio (US /ACWI)	1.15	1.02	1.38			+
	S&P 500 EV/EBITDA^	13.05	10.24	1.60			+
	MSCI ACWI EV/EBITDA	11.24	9.63	1.12	+		
	Avg EV/EBITDA Ratio (US/ACWI)	1.16	1.06	2.18			++
	S&P 500 P/S	2.17	1.54	1.71			+
	MSCI ACWI P/S	1.64	1.24	1.69	+		
	Avg P/S Ratio (US/ACWI)	1.32	1.24	0.97		-	
Solvency	S&P 500 Debt/EBITDA	4.15	4.51	-0.50		-	
	MSCI ACWI Debt/EBITDA	5.67	6.30	-0.94		-	
	Avg Debt/EBITDA Ratio (US/ACWI)	0.73	0.71	0.41		-	
Growth	S&P 500 LT EPS Gr (Fwd)	10.58	8.70	0.42		-	
	MSCI ACWI LT EPS Gr (Fwd)	9.94	9.63	0.02		-	
	Avg Growth Ratio (US/ACWI)	1.06	0.96	0.22		-	
Economy	Currency (USD v Broad Basket)	89.97	85.16	0.58		-	

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- Equities outside of the US tend to be more attractively valued than US equities.
- Debt levels are below long-term averages for both U.S. and R.O.W. stocks, suggesting healthy leverage conditions.
- Although R.O.W. stocks tend to be more attractively valued, US equity top-line revenue growth has improved and earnings growth, supported by tax reform, has continued to trend upwards.
- The U.S. dollar weakened slightly but remains at an elevated level. The dollar's strength hurts U.S. exporters and benefits foreign companies that export goods and services to the U.S.

Source: MSCI and Standard & Poor's

Region Mix – Non-U.S. Developed vs. R.O.W.

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	18.95	18.73	0.02		-	
	MSCI ACWI Current P/E	18.48	17.20	0.34		-	
	Avg P/E Ratio (EAFE/ACWI)	1.03	1.07	-0.14		-	
	MSCI EAFE EV/EBITDA^	9.69	9.09	0.55		-	
	MSCI ACWI EV/EBITDA	11.24	9.63	1.12	+		
	Avg EV/EBITDA Ratio (EAFE/ACWI)	0.86	0.95	-1.99	+		
	MSCI EAFE P/S	1.23	0.97	1.47			+
	MSCI ACWI P/S	1.64	1.24	1.69	+		
	Avg P/S Ratio (EAFE/ACWI)	0.75	0.79	-1.30	+		
Solvency	MSCI EAFE Debt/EBITDA	7.50	8.91	-1.34	+		
	MSCI ACWI Debt/EBITDA	5.67	6.30	-0.94		-	
	Avg Debt/EBITDA Ratio (EAFE/ACWI)	1.32	1.41	-1.89	+		
Growth	MSCI EAFE LT EPS Gr (Fwd)	8.22	5.75	0.04		-	
	MSCI ACWI LT EPS Gr (Fwd)	9.94	9.63	0.02		-	
	Avg Growth Ratio (EAFE/ACWI)	0.83	0.72	0.02		-	
Economy	USD/EUR	1.23	1.28	-0.36		-	

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- All equities are currently expensive, but non-U.S. developed equities remain attractively valued relative to the R.O.W.
- Debt levels remain low for non-U.S. developed stocks as a whole, but there are some areas, such as banks, where leverage remains a concern.
- Strengthening corporate earnings, improving GDP and attractive economic conditions provide a strong case for non-US developed equities.
- The euro slightly appreciated vs. the dollar during the quarter, but the dollar remains strong relative to its historical average. A strong dollar benefits European exporters with costs in euros and revenues in dollars.

Source: MSCI

Region Mix – Emerging Markets vs. R.O.W.

Equity: Region (EM/Global)

		Current	10 Year Avg	Deviation from Mean*	EM	Neutral	R.O.W.
Valuation	MSCI EM Current P/E	15.32	13.47	0.69		-	
	MSCI ACWI Current P/E	18.48	17.20	0.34		-	
	Avg P/E Ratio (EM/ACWI)	0.83	0.78	0.63		-	
	MSCI EM EV/EBITDA^	9.55	8.02	1.34			+
	MSCI ACWI EV/EBITDA	11.24	9.63	1.12	+		
	Avg EV/EBITDA Ratio (EM/ACWI)	0.85	0.84	0.18		-	
	MSCI EM P/S	1.42	1.17	1.31			+
	MSCI ACWI P/S	1.64	1.24	1.69	+		
	Avg P/S Ratio (EM/ACWI)	0.87	0.97	-0.52		-	
Solvency	MSCI EM Debt/EBITDA	4.56	3.73	1.01			+
	MSCI ACWI Debt/EBITDA	5.67	6.30	-0.94		-	
	Avg Debt/EBITDA Ratio (EM/ACWI)	0.80	0.60	1.26			+
Growth	MSCI EM LT EPS Gr (Fwd)	18.56	8.94	0.22		-	
	MSCI ACWI LT EPS Gr (Fwd)	9.94	9.63	0.02		-	
	Avg Growth Ratio (EM/ACWI)	1.87	0.71	2.69	++		

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- EM equities and global equities ("R.O.W.") are trading at valuation multiples higher than their 10-year average.
- Elevated debt levels are more of a concern for emerging markets than they are for R.O.W.
- Growth estimates tend to fluctuate from quarter to quarter, but they currently favor EM equities.

Source: MSCI

Portfolio Characteristics

Recommended Ranges

Market Cap (U.S.)	Minimum	Maximum	R3000
Large Cap (> $26.4B)	50.0%	70.0%	68.7%
Mid Cap ($3.0B - $26.4B)	25.0%	40.0%	25.6%
Small Cap (< $3.0B)	2.5%	12.5%	5.7%

Region	Minimum	Maximum	MSCI ACWI
U.S.	45.0%	65.0%	52.4%
Non-U.S. Developed	25.0%	40.0%	35.93%
Emerging Markets	5.0%	20.0%	11.67%

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

- Canterbury has been decreasing its home country bias as U.S. equity valuations remain stretched and the strong dollar presents a headwind for American companies with global operations.
- Our market cap exposures are currently in a more neutral position. Valuation, growth, and economic indicators do not support a major shift at this time.
- 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.