



Canterbury Consulting

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Quarterly Asset Class Report

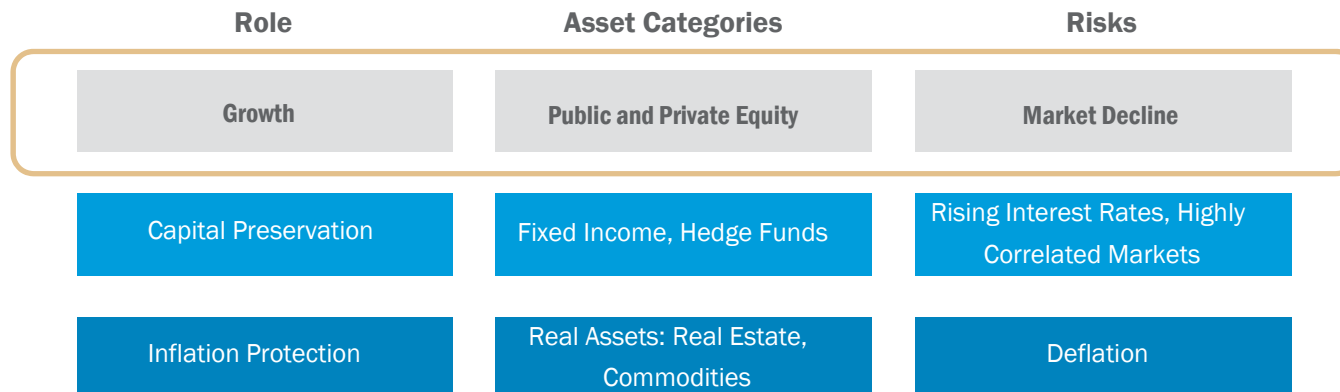
Global Equity

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December 31, 2018

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):

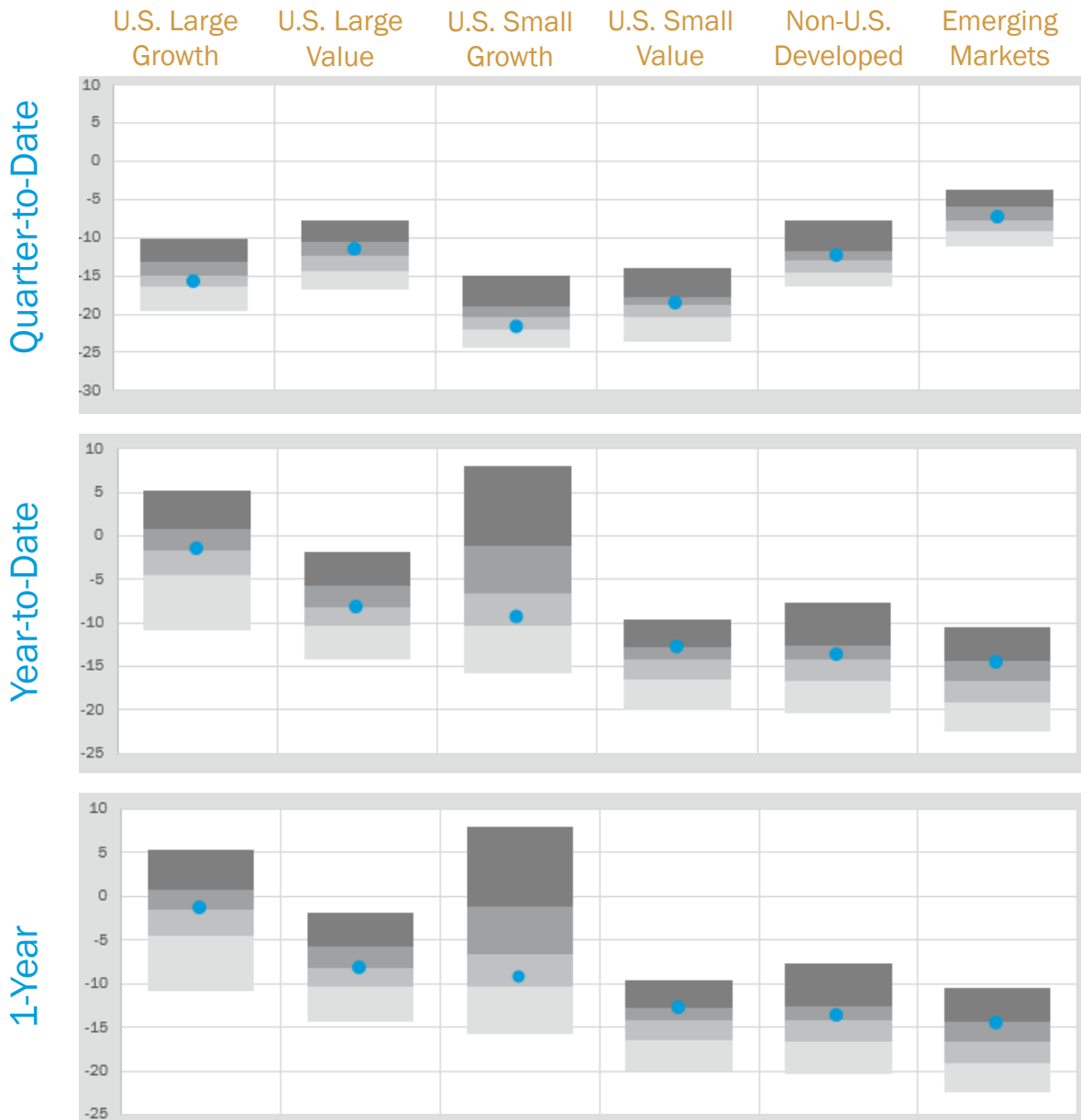
- (i) Provide growth of portfolio assets in excess of inflation and spending rates
- (ii) Maintain comparable exposure to the global equity market
- (iii) Exhibit returns uncorrelated to fixed income markets



— 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 December 31, 2018

Equity Review



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

- All major equity indices fell in the quarter as a combination of factors including above average equity valuations, a hawkish Federal Reserve, tariff concerns, and weaker than expected growth outside of the U.S. put pressure on equity markets.
- U.S. large cap stocks held up relatively better than U.S. small cap stocks in the quarter and for the year. Active small cap growth managers had the most success outperforming their benchmark.
- International developed equities fell double digits in the quarter following the global sell-off. Emerging markets (EM) held up better than most major equity indices for the quarter, however EM suffered the biggest losses for the year.

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)	17.08	17.21	-0.05	-	
	R2000 Current P/E (Small Cap)	44.56	48.15	-0.26	-	
	Avg P/E Ratio (Large/Small)	0.38	0.45	-1.06	+	
	Russell Top 200 EV/EBITDA^ (Large Cap)	11.80	10.16	0.85	-	
	R2000 EV/EBITDA (Small Cap)	17.68	15.32	0.58	-	
	Avg EV/EBITDA Ratio (Large/Small)	0.67	0.67	-0.07	-	
	Russell Top 200 P/S (Large Cap)	2.07	1.71	0.90	-	
	R2000 P/S (Small Cap)	0.97	1.06	-0.44	-	
	Avg P/S Ratio (Large/Small)	2.14	1.62	2.84		++
Solvency	Russell Top 200 Debt/EBITDA (Large Cap)	4.14	4.47	-0.59	-	
	Russell 2000 Debt/EBITDA (Small Cap)	6.89	5.98	0.74	-	
	Avg Debt/EBITDA Ratio (Large/Small)	0.60	0.78	-1.10	+	
Growth	Russell Top 200 LT EPS Gr (Fwd) (Large Cap)	11.30	9.12	0.54	-	
	R2000 LT EPS Gr (Fwd) (Small Cap)	10.12	10.38	-0.10	-	
	Avg Growth Ratio (Large/Small)	1.12	0.92	0.37	-	
Economy	Case Shiller Home Price (YoY)	5.03	2.83	0.30	-	
	Total Leading Economic Indicators	111.80	92.59	1.85		+
	Currency (USD v Broad Basket)	96.17	86.54	1.17		+
	Curve Steepness 2's to 10's	0.20	1.64	-1.99	+	

*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

Equity Review

- There are various metrics used to value the equity universe. Canterbury prefers Price/Earnings, EV/EBITDA, and Price/Sales.
- P/E multiples for small caps dropped below their long term average in the quarter. Large caps also experienced a drop in their P/E multiple and are trading in line with their long term averages.
- Despite concerns of a potential slowdown in growth in 2019, forward looking growth estimates have improved for both large cap and small cap stocks.
- The spread between the 10-year and 2-year US Treasury narrowed slightly in the quarter following the Fed's fourth interest rate hike in 2018. However, the Fed did suggest there could be fewer rate hikes next year than originally anticipated, which could provide relief to the progressively flattening yield curve.

Source: Russell

Region Mix – U.S. vs. R.O.W.

Equity Review

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	17.68	-0.26		-	
	MSCI ACWI Current P/E	14.92	17.44	-0.70		-	
	Avg P/E Ratio (US /ACWI)	1.14	1.02	1.43			+
	S&P 500 EV/EBITDA [^]	11.79	10.53	0.68		-	
	MSCI ACWI EV/EBITDA	10.10	9.81	0.20		-	
	Avg EV/EBITDA Ratio (US/ACWI)	1.17	1.07	1.81			+
	S&P 500 P/S	1.91	1.61	0.77		-	
	MSCI ACWI P/S	1.41	1.27	0.55		-	
	Avg P/S Ratio (US/ACWI)	1.36	1.26	1.15			+
Solvency	S&P 500 Debt/EBITDA	4.02	4.37	-0.59		-	
	MSCI ACWI Debt/EBITDA	5.38	6.18	-1.21			+
	Avg Debt/EBITDA Ratio (US/ACWI)	0.75	0.71	1.03			+
Growth	S&P 500 LT EPS Gr (Fwd)	9.94	8.84	0.26		-	
	MSCI ACWI LT EPS Gr (Fwd)	11.11	9.85	0.08		-	
	Avg Growth Ratio (US/ACWI)	0.89	0.96	-0.17		-	
Economy	Currency (USD v Broad Basket)	96.17	86.54	1.17			+

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- Valuation multiples have come down quite significantly for both U.S. equities and equities outside of the U.S. From a relative standpoint, global equities are more attractively valued.
- Debt levels remain below long-term averages for both U.S. and global (R.O.W.) stocks, suggesting healthy leverage conditions.
- Expected earnings growth has come down slightly both domestically and abroad, but remains above long-term averages.
- The U.S. dollar experienced continued strength in the quarter, hurting international returns. Trade war concerns and geopolitical uncertainty may cause markets to react negatively and ultimately further boost dollar strength.

Source: MSCI and Standard & Poor's

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

Equity Review

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	13.41	18.94	-0.45		-	
	MSCI ACWI Current P/E	14.92	17.44	-0.70		-	
	Avg P/E Ratio (EAFE/ACWI)	0.90	1.07	-0.54		-	
	MSCI EAFE EV/EBITDA [^]	8.30	9.17	-0.83		-	
	MSCI ACWI EV/EBITDA	10.10	9.81	0.20		-	
	Avg EV/EBITDA Ratio (EAFE/ACWI)	0.82	0.94	-2.28	++		
	MSCI EAFE P/S	1.03	0.99	0.21		-	
	MSCI ACWI P/S	1.41	1.27	0.55		-	
Avg P/S Ratio (EAFE/ACWI)	0.73	0.78	-1.62	+			
Solvency	MSCI EAFE Debt/EBITDA	6.94	8.71	-1.62	+		
	MSCI ACWI Debt/EBITDA	5.38	6.18	-1.21			+
	Avg Debt/EBITDA Ratio (EAFE/ACWI)	1.29	1.40	-2.17	++		
Growth	MSCI EAFE LT EPS Gr (Fwd)	9.77	5.55	0.08		-	
	MSCI ACWI LT EPS Gr (Fwd)	11.11	9.85	0.08		-	
	Avg Growth Ratio (EAFE/ACWI)	0.88	0.71	0.04		-	
Economy	USD/EUR	1.15	1.26	-0.93		-	

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- Following the market decline, both non-U.S. developed and R.O.W. equity valuations have moved closer to their long term averages, however, the former remains slightly more attractive.
- Debt levels remain low for non-U.S. developed stocks and R.O.W. equities.
- Earnings growth forecasts remain attractive for both non-U.S. developed and R.O.W. equities, as both are trading above their long term averages.
- The euro remained relatively flat in the quarter vs. the dollar and 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 Review

Equity: Region (EM/Global)		Current	10 Year Avg	Deviation from Mean*	EM	Neutral	R.O.W.
Valuation	MSCI EM Current P/E	11.60	13.51	-0.75		-	
	MSCI ACWI Current P/E	14.92	17.44	-0.70		-	
	Avg P/E Ratio (EM/ACWI)	0.78	0.78	0.03		-	
	MSCI EM EV/EBITDA [^]	8.32	7.97	0.34		-	
	MSCI ACWI EV/EBITDA	10.10	9.81	0.20		-	
	Avg EV/EBITDA Ratio (EM/ACWI)	0.82	0.82	0.11		-	
	MSCI EM P/S	1.14	1.17	-0.19		-	
	MSCI ACWI P/S	1.41	1.27	0.55		-	
	Avg P/S Ratio (EM/ACWI)	0.81	0.94	-0.70		-	
Solvency	MSCI EM Debt/EBITDA	4.33	3.83	0.68		-	
	MSCI ACWI Debt/EBITDA	5.38	6.18	-1.21			+
	Avg Debt/EBITDA Ratio (EM/ACWI)	0.80	0.63	1.21			+
Growth	MSCI EM LT EPS Gr (Fwd)	8.01	9.13	-0.07		-	
	MSCI ACWI LT EPS Gr (Fwd)	11.11	9.85	0.08		-	
	Avg Growth Ratio (EM/ACWI)	0.72	0.77	-0.10		-	

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- Both EM equities and R.O.W. equities are trading more in line with historical valuations and EM equities appear to be trading at an appropriate discount to R.O.W. equities.
- Elevated debt levels are more of a concern for emerging markets than they are for R.O.W., particularly for those EM countries with dollar denominated debt, if there is continued U.S. dollar strength.
- Growth estimates tend to fluctuate from quarter to quarter and estimates currently favor global equities.

Source: MSCI

Portfolio Characteristics

Recommended Ranges

Market Cap (U.S.)	Minimum	Maximum	R3000
Large Cap (> \$26.4B)	50.0%	70.0%	69.8%
Mid Cap (\$3.0B - \$26.4B)	25.0%	40.0%	24.5%
Small Cap (< \$3.0B)	2.5%	12.5%	5.8%

Region	Minimum	Maximum	MSCI ACWI
U.S.	45.0%	65.0%	55.0%
Non-U.S. Developed	25.0%	40.0%	34.1%
Emerging Markets	5.0%	20.0%	10.9%

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

Equity Review

- Canterbury believes non-U.S. equities are attractively valued compared to U.S. equities due to the strong U.S. dollar and high valuations in U.S. equities.
- Our market cap exposures target a 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.