



Canterbury Consulting

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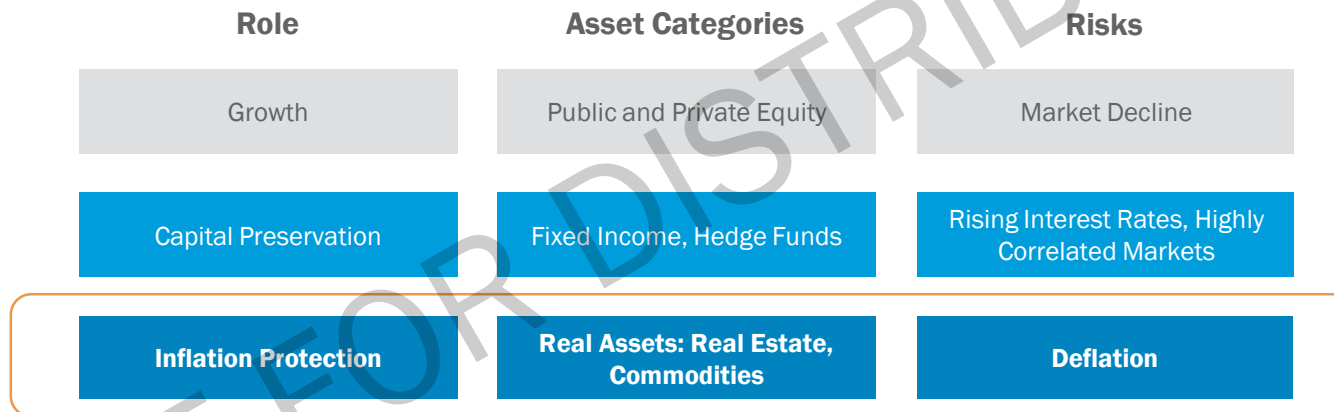
## Quarterly Asset Class Report Real Assets

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June 30, 2020

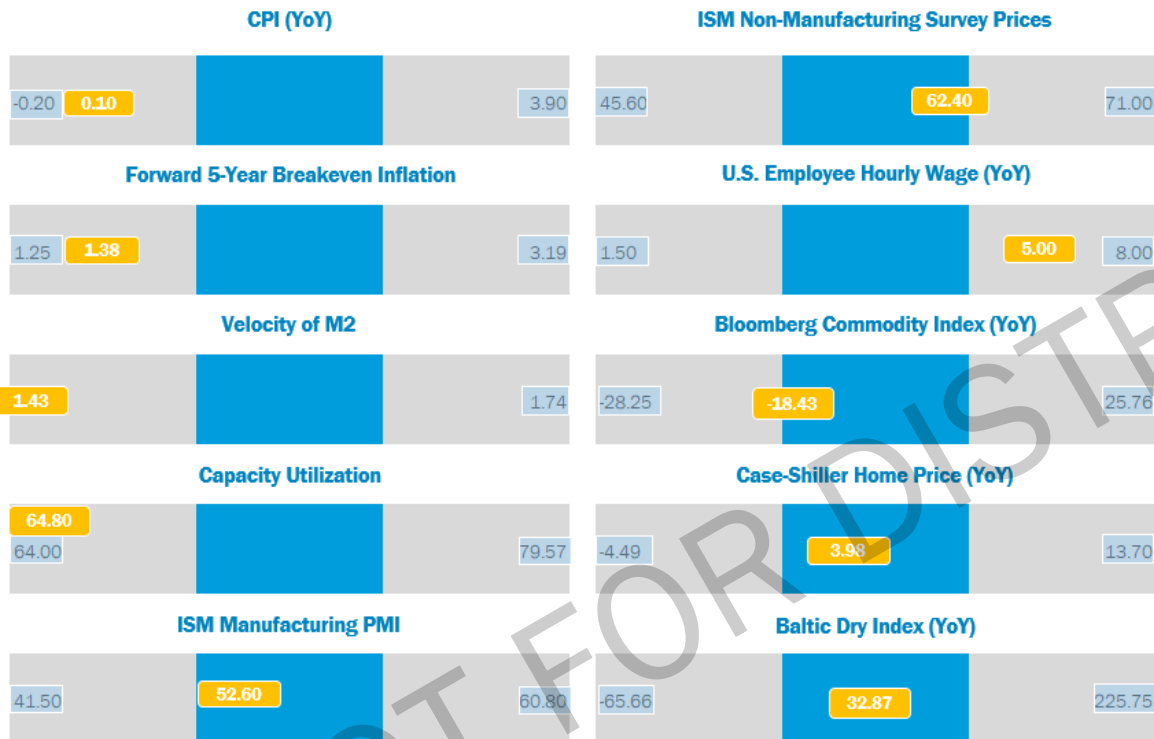
Canterbury Consulting recommends and communicates asset-class strategy with the objective of constructing a diversified portfolio of real asset strategies designed to (in aggregate):

- Preserve purchasing power
- Generate uncorrelated returns to other asset classes
- Manage the volatility profile of the segment



- Real assets are appropriate for investors with long time horizons (10+ years) and inflation-linked liabilities.
- Real asset portfolios should aim to maximize high inflation sensitivity and high inflation reliability.
- Portfolio allocations will differ depending on the client’s risk tolerance.

# Asset Class Indicators



## Real Assets

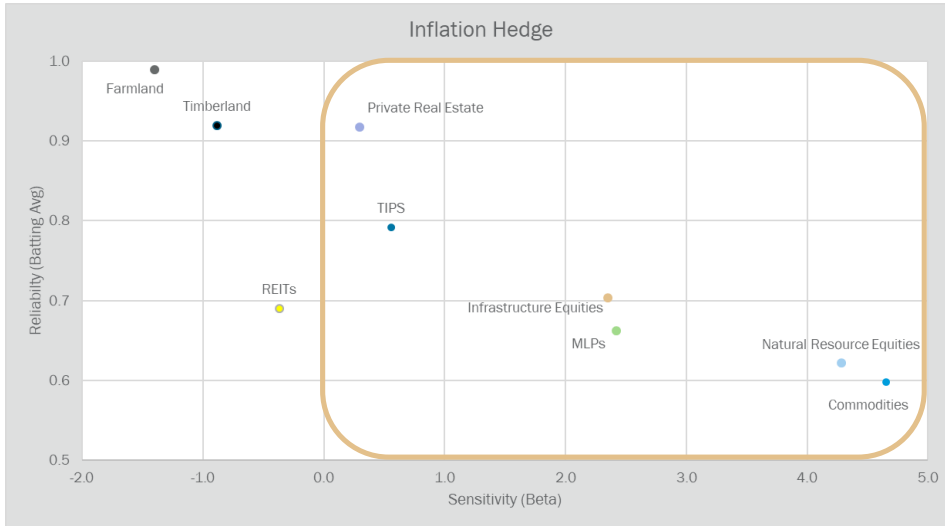
Current

+ 1 Standard Deviation From the Mean

10-Year High and Low

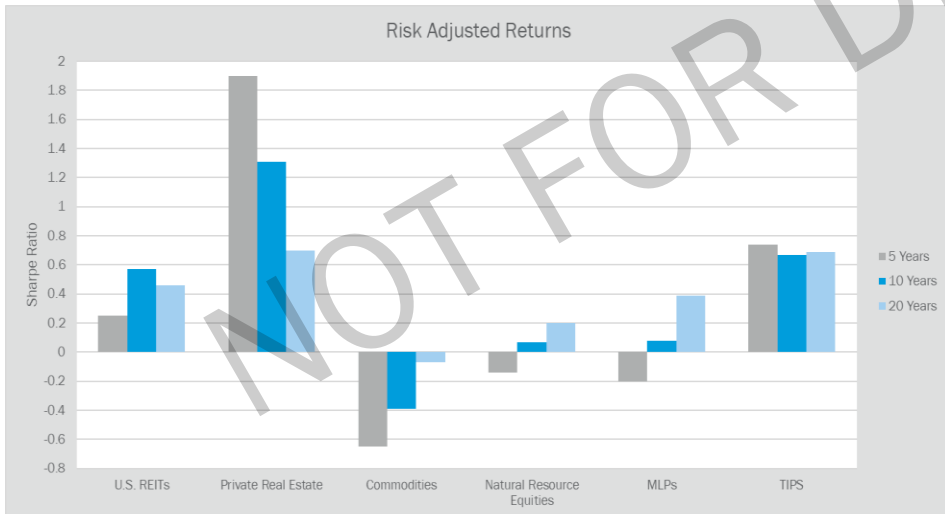
- Canterbury monitors several inflation and real asset indicators to help detect imbalances that are expected to cause price pressures.
- Inflation breakeven rates remained subdued and were well below 2% as the market continued to discount inflation given the lack of economic demand.
- Commodities and energy-related assets benefited from the broad market rebound as well as from more certainty related to oil supply/demand.
- PMI Manufacturing indicators rebounded over the quarter. However, breakeven inflation rates and CPI figures remained at 10-year lows.

Source: Bloomberg



Farmland, Timberland, and REITs are screened from inclusion in real asset portfolios because they don't exhibit a sensitivity to inflation of greater than zero.

Infrastructure equities are screened from real asset portfolios because they have a correlation of greater than 0.8 to equities.

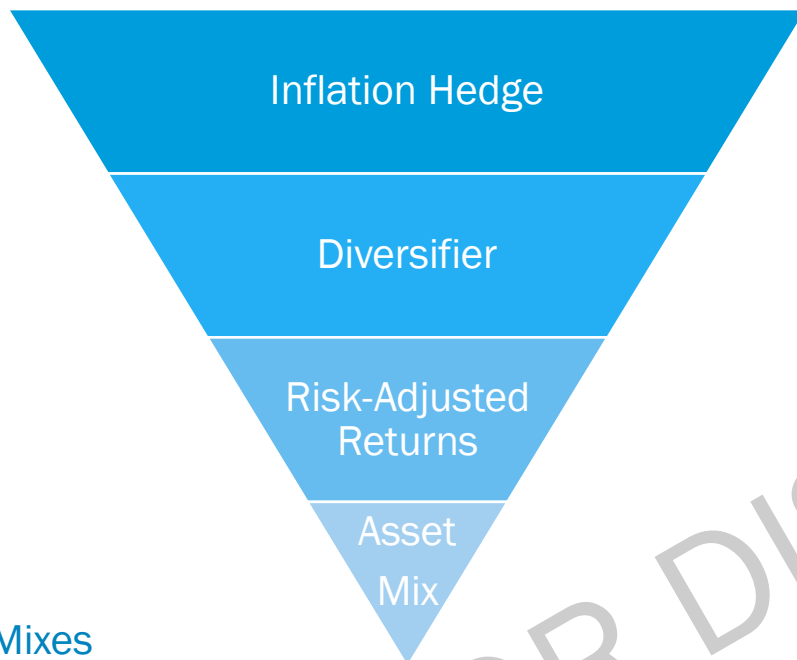


Risk-adjusted returns of the remaining asset classes are used to help optimize real asset portfolios.

1) Based on 10-yr rolling data since inception 2) Takes average from 10-yr rolling data: FTSE NAREIT All Equity (1972), Bloomberg Commodity (1991), S&P NA Natural Resources (1996), Alerian MLP (1996), S&P Global Infra. (2002), NCREIF Property (1978), NCREIF Farmland (1992), NCREIF Timberland (1987), & Barclays US TIPS (1997) 3) as of June 30, 2020

## Portfolio Process & Construction

### Screening Process



### Asset Mixes

Mixes	Sensitivity	Reliability	Correlation to Stocks	Correlation to Bonds	Sharpe Ratio
Liquid Direct	2.86	0.68	0.22	0.11	0.12
Dynamic Multi-Asset*	1.97	0.71	0.35	0.19	0.36
Diversified Direct	2.22	0.74	0.19	0.06	0.32
Morningstar U.S. Real Asset Index	0.83	0.78	0.68	0.05	0.42
CPI	1.00	1.00	-0.11	-0.28	NA

\* Principal DRA Strategy Mix

Based on historical data from 3/1/1997 to 6/30/2020

Sharpe ratios are 10-year trailing returns

## Real Assets

- Canterbury utilizes a screening process to narrow down the asset classes for inclusion in real asset portfolios based on pre-specified roles:
  - **Inflation Hedge**  
High reliability (>50%) and sensitivity (>0) to inflation
  - **Diversifier**  
Low correlation (<0.8) to stocks and bonds
  - **Risk-Adjusted Returns**  
Sharpe ratio is considered when optimizing the allocations to remaining asset classes
- These roles are used to help build portfolios of real assets that exhibit a high degree of sensitivity (>1) and reliability (>60%) to inflation, show a low correlation to stocks and bonds (<0.6), and generate competitive risk-adjusted returns (>0.5).