



Canterbury Consulting

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Quarterly Asset Class Report

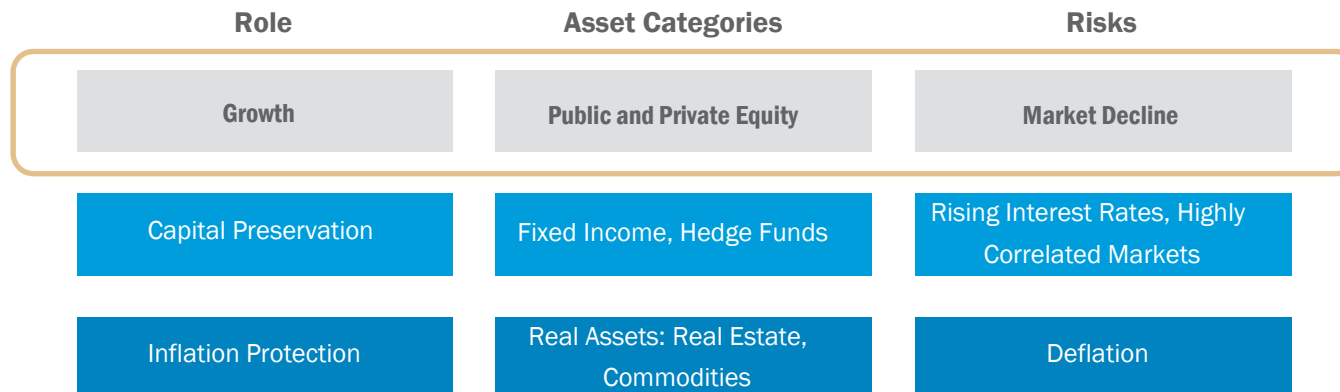
Global Equity

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June 30, 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 June 30, 2018

Equity Review



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

- Following a volatile negative first quarter, the U.S. markets ended positive in the second quarter with U.S. small cap stocks outperforming large cap. Small cap stocks have moved out of negative territory for the year, however large value is still slightly negative.
- Our active managers had a more difficult quarter keeping up with their respective benchmarks. Industrials and staples, industries often underweight by managers, were top performers.
- Despite positive earnings, growth, and consumer sentiment, international developed equities and emerging markets equities were both negative for the quarter as a strengthening U.S. dollar hurt performance and trade war fears shook the markets.

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)	20.70	16.95	1.44		+
	R2000 Current P/E (Small Cap)	43.94	46.43	-0.23		-
	Avg P/E Ratio (Large/Small)	0.47	0.46	0.27		-
	Russell Top 200 EV/EBITDA^ (Large Cap)	13.33	9.96	1.86		+
	R2000 EV/EBITDA (Small Cap)	30.13	14.44	4.64	++	
	Avg EV/EBITDA Ratio (Large/Small)	0.44	0.70	-2.92	++	
	Russell Top 200 P/S (Large Cap)	2.37	1.66	1.84		+
	R2000 P/S (Small Cap)	1.23	1.04	0.90		-
	Avg P/S Ratio (Large/Small)	1.92	1.60	2.15		++
Solvency	Russell Top 200 Debt/EBITDA (Large Cap)	4.31	4.57	-0.39		-
	Russell 2000 Debt/EBITDA (Small Cap)	6.10	5.69	0.42		-
	Avg Debt/EBITDA Ratio (Large/Small)	0.71	0.82	-0.68		-
Growth	Russell Top 200 LT EPS Gr (Fwd) (Large Cap)	14.50	8.84	1.45	+	
	R2000 LT EPS Gr (Fwd) (Small Cap)	8.69	10.50	-0.78		-
	Avg Growth Ratio (Large/Small)	1.67	0.87	1.73	+	
Economy	Case Shiller Home Price (YoY)	6.56	1.67	0.58		-
	Total Leading Economic Indicators	109.50	91.29	1.91		+
	Currency (USD v Broad Basket)	94.47	85.69	1.07		+
	Curve Steepness 2's to 10's	0.33	1.71	-2.10	++	

*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. No one metric is a sole determinant.
- P/E multiples continue to look high for small caps as over 30% of small cap names in the index are unprofitable. From a price-to-sales perspective, small cap appears more attractive.
- Leverage remains at normal levels for both large- and small-cap stocks.
- Growth estimates continue to favor large-cap stocks, however small caps' heavier domestic revenue may be better insulated from a strong U.S. dollar and escalating trade tensions.

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	20.72	17.52	1.19			+
	MSCI ACWI Current P/E	17.74	17.27	0.13		-	
	Avg P/E Ratio (US /ACWI)	1.17	1.02	1.54			+
	S&P 500 EV/EBITDA^	13.25	10.32	1.62			+
	MSCI ACWI EV/EBITDA	11.31	9.67	1.12	+		
	Avg EV/EBITDA Ratio (US/ACWI)	1.17	1.07	2.25			++
	S&P 500 P/S	2.18	1.56	1.63			+
Solvency	S&P 500 Debt/EBITDA	4.15	4.46	-0.46		-	
	MSCI ACWI Debt/EBITDA	5.76	6.26	-0.76		-	
	Avg Debt/EBITDA Ratio (US/ACWI)	0.72	0.71	0.26		-	
Growth	S&P 500 LT EPS Gr (Fwd)	13.42	8.73	1.04	+		
	MSCI ACWI LT EPS Gr (Fwd)	26.38	9.90	1.06			+
	Avg Growth Ratio (US/ACWI)	0.51	0.96	-1.00			+
Economy	Currency (USD v Broad Basket)	94.47	85.69	1.07			+

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- Equities outside of the U.S. tend to be more attractively valued than U.S. equities, however both are trading above their 10-year averages.
- Debt levels are below long-term averages for both U.S. and global (R.O.W.) stocks, suggesting healthy leverage conditions.
- Earnings growth, both domestic and abroad, continue to look strong going into the second half of 2018. Earnings growth expectations have increased significantly for R.O.W. stocks since last quarter.
- The U.S. dollar strengthened in the quarter, hurting international returns. Although fundamentals appear strong abroad, potential escalating trade wars may mean more room for markets to react negatively and for the U.S. dollar to further strengthen in the second half of 2018.

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	19.18	18.78	0.03		-	
	MSCI ACWI Current P/E	17.74	17.27	0.13		-	
	Avg P/E Ratio (EAFE/ACWI)	1.08	1.07	0.04		-	
	MSCI EAFE EV/EBITDA [^]	9.50	9.11	0.35		-	
	MSCI ACWI EV/EBITDA	11.31	9.67	1.12	+		
	Avg EV/EBITDA Ratio (EAFE/ACWI)	0.84	0.95	-2.35	++		
	MSCI EAFE P/S	1.17	0.98	1.09			+
	Avg P/S Ratio (EAFE/ACWI)	0.73	0.79	-1.74	+		
Solvency	MSCI EAFE Debt/EBITDA	7.72	8.85	-1.08	+		
	MSCI ACWI Debt/EBITDA	5.76	6.26	-0.76		-	
	Avg Debt/EBITDA Ratio (EAFE/ACWI)	1.34	1.41	-1.49	+		
Growth	MSCI EAFE LT EPS Gr (Fwd)	-25.17	4.43	-0.50		-	
	MSCI ACWI LT EPS Gr (Fwd)	26.38	9.90	1.06			+
	Avg Growth Ratio (EAFE/ACWI)	-0.95	0.54	-0.35		-	
Economy	USD/EUR	1.17	1.27	-0.82		-	

*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

- 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 and R.O.W. equities.
- Synchronized global growth provides a strong case for both non-U.S. developed and R.O.W. equities. Although EAFE EPS growth is currently negative, this number tends to fluctuate quite significantly and is only half a standard deviation from its mean.
- The euro slightly depreciated vs. the dollar during the quarter 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	13.40	13.44	-0.01		-	
	MSCI ACWI Current P/E	17.74	17.27	0.13		-	
	Avg P/E Ratio (EM/ACWI)	0.76	0.78	-0.33		-	
	MSCI EM EV/EBITDA [^]	8.88	8.02	0.76		-	
	MSCI ACWI EV/EBITDA	11.31	9.67	1.12	+		
	Avg EV/EBITDA Ratio (EM/ACWI)	0.78	0.83	-0.60		-	
	MSCI EM P/S	1.24	1.17	0.43		-	
	MSCI ACWI P/S	1.59	1.25	1.42	+		
	Avg P/S Ratio (EM/ACWI)	0.78	0.96	-0.93		-	
Solvency	MSCI EM Debt/EBITDA	4.59	3.73	1.08			+
	MSCI ACWI Debt/EBITDA	5.76	6.26	-0.76		-	
	Avg Debt/EBITDA Ratio (EM/ACWI)	0.80	0.60	1.24			+
Growth	MSCI EM LT EPS Gr (Fwd)	20.33	9.14	0.71		-	
	MSCI ACWI LT EPS Gr (Fwd)	26.38	9.90	1.06			+
	Avg Growth Ratio (EM/ACWI)	0.77	0.75	0.04		-	

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[^]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

- EM equities are trading around their 10-year average valuation multiples, whereas R.O.W. equities 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., 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%	67.7%
Mid Cap (\$3.0B - \$26.4B)	25.0%	40.0%	25.9%
Small Cap (< \$3.0B)	2.5%	12.5%	6.4%

Region	Minimum	Maximum	MSCI ACWI
U.S.	45.0%	65.0%	52.0%
Non-U.S. Developed	25.0%	40.0%	35.9%
Emerging Markets	5.0%	20.0%	12.1%

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

Equity Review

- Canterbury has been decreasing its U.S. equity exposure as valuations remain stretched and foreign currencies are attractively valued due to the strong U.S. dollar.
- 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.