



Canterbury Consulting

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Quarterly Asset Class Report

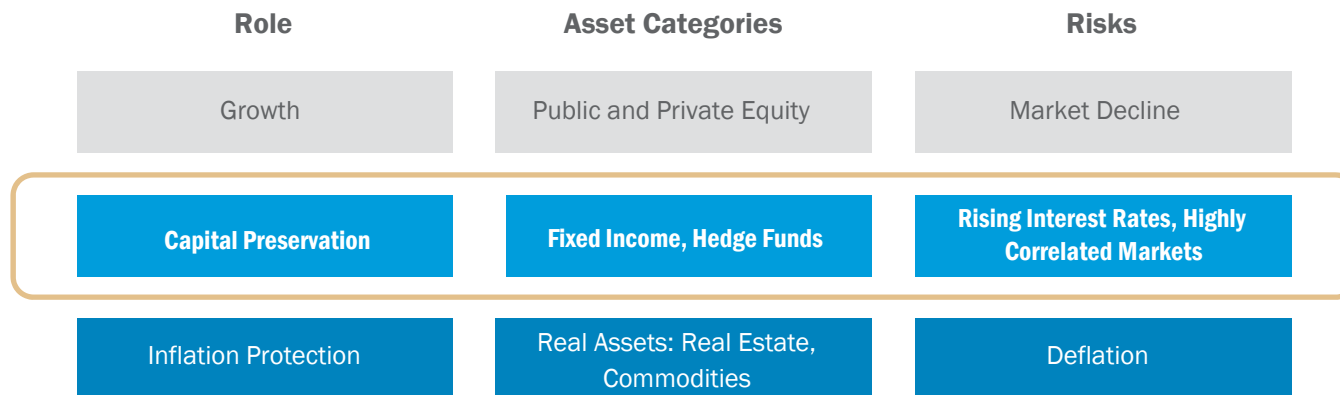
Tax Exempt Fixed Income

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March 31, 2017

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

- (i) Preserve capital and mitigate volatility
- (ii) Provide measured exposure to the diverse universe of fixed income securities
- (iii) Exhibit returns uncorrelated to equity markets



- Canterbury fixed income portfolios are expected to deliver consistent net of fees excess returns and moderate tracking error versus the Barclays Global Aggregate
- Relative to the index, Canterbury’s current fixed income portfolios will exhibit lower duration, similar credit quality, and higher yields

Index Returns

Fixed Income

	QTD	YTD	1 Year	3 Years	5 Years	7 Years	10 Years
Barclays Global Aggregate	1.76	1.76	-1.90	-0.39	0.38	2.01	3.34
Barclays US Agg Bond	0.82	0.82	0.44	2.68	2.34	3.48	4.27
Canterbury Benchmark ¹	1.74	1.74	0.30	1.04	1.40	2.93	4.10

U.S. Treasurys

BofAML 3M US Treasury Note	0.09	0.09	0.33	0.17	0.15	0.14	0.70
Barclays Short Treasury	0.12	0.12	0.46	0.27	0.23	0.23	0.88
Barclays Intermediate Treasury	0.54	0.54	-0.72	1.57	1.24	2.32	3.40
Barclays Long Term US Treasury	1.40	1.40	-5.00	5.83	4.04	7.10	6.71
Barclays U.S. Treasury TIPS 0-5Y	0.70	0.70	1.69	0.71	0.35	1.43	2.62
Barclays US Treasury US TIPS	1.26	1.26	1.48	2.03	0.97	3.48	4.24

U.S. Corporate Credit

Barclays US Corp IG	1.22	1.22	3.31	3.65	3.96	5.22	5.44
S&P/LSTA Leveraged Loan	1.15	1.15	9.72	3.57	4.58	4.78	4.55
BofAML US HY Master II	2.71	2.71	16.88	4.62	6.85	7.69	7.34
BofAML US HY BB-B Constrained	2.28	2.28	13.76	4.65	6.61	7.52	6.91
BofAML US Corporate AAA	0.90	0.90	-0.30	3.55	2.73	4.00	3.97
BofAML US Corporate AA	1.01	1.01	1.13	3.44	3.34	4.24	4.42
BofAML US Corporate A	1.15	1.15	1.87	3.57	3.76	5.01	4.71
BofAML US Corps BBB	1.77	1.77	5.55	3.87	4.51	5.85	6.34
BofAML US High Yield BB	2.01	2.01	11.37	5.29	6.83	7.72	7.59
BofAML US High Yield B	2.67	2.67	17.19	3.98	6.40	7.36	6.14
BofAML US High Yield CCC	5.17	5.17	38.23	4.86	8.14	8.49	8.19

Securitized

Barclays ABS	0.54	0.54	1.20	1.72	1.64	2.53	2.93
Barclays MBS	0.47	0.47	0.17	2.69	2.04	2.96	4.16
Barclays CMBS	0.77	0.77	-0.03	2.11	2.61	4.59	5.02

Municipals

Barclays Municipal	1.58	1.58	0.15	3.55	3.25	4.23	4.33
Barclays Muni 1-10	1.53	1.53	0.27	2.03	2.00	2.77	3.54

Global

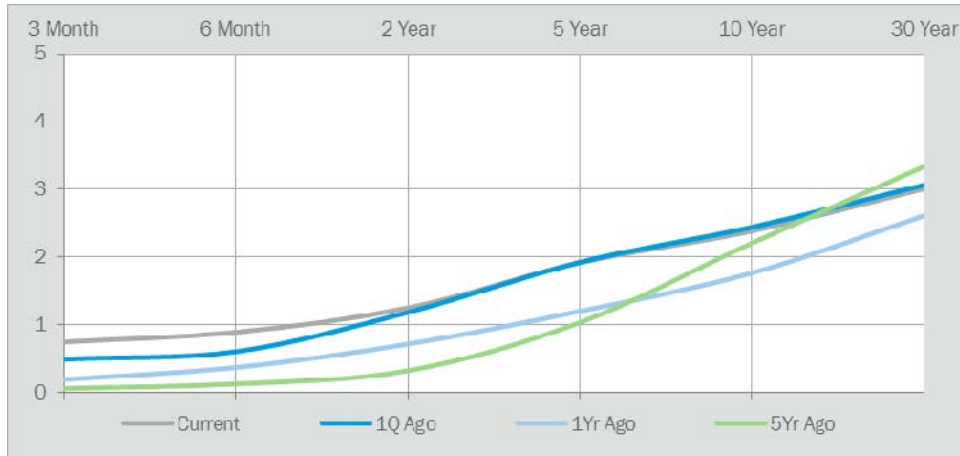
Citi WGBI	1.55	1.55	-3.65	-1.20	-0.58	1.31	3.03
Barclays Gbl Agg Ex USD	2.48	2.48	-3.93	-2.68	-1.13	0.89	2.58
JPM EMBI Plus	3.78	3.78	7.39	5.93	5.05	6.64	6.74

(1) 50% Barclays US Agg/40% Barclays Global Agg ex US/10% BofA ML HY Master II

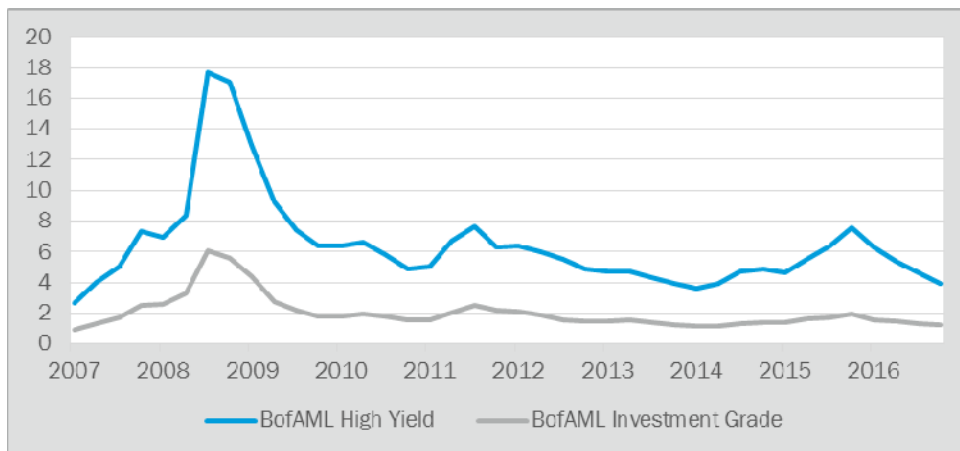
Market Environment

Fixed Income

U.S. Treasury Rates



Corporate Spreads



World Bond Yields

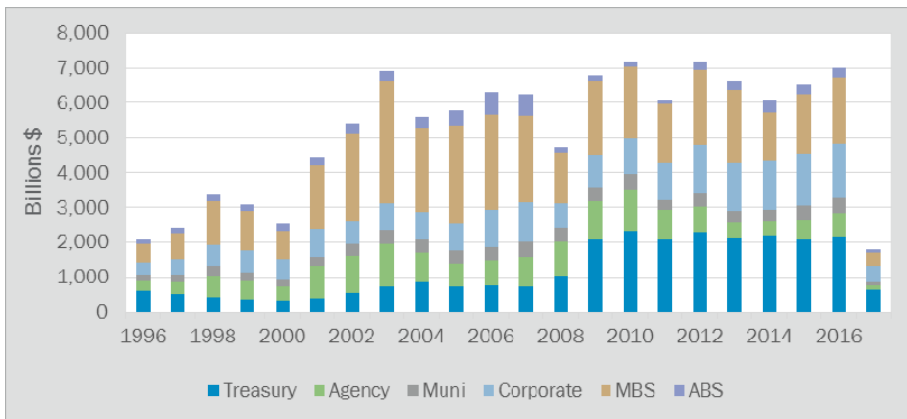
10-Year Sovereign Rates (%)											
Country	US	JAP	CHI	GER	ITL	FRA	UK	BRA*	MXN*	SPA	CAN
Rates (12/31)	2.44	0.05	3.00	0.20	1.81	0.68	1.23	11.37	7.40	1.38	1.71
Rates (03/31)	2.39	0.06	3.27	0.32	2.30	0.96	1.14	10.06	7.00	1.64	1.62

*local currency

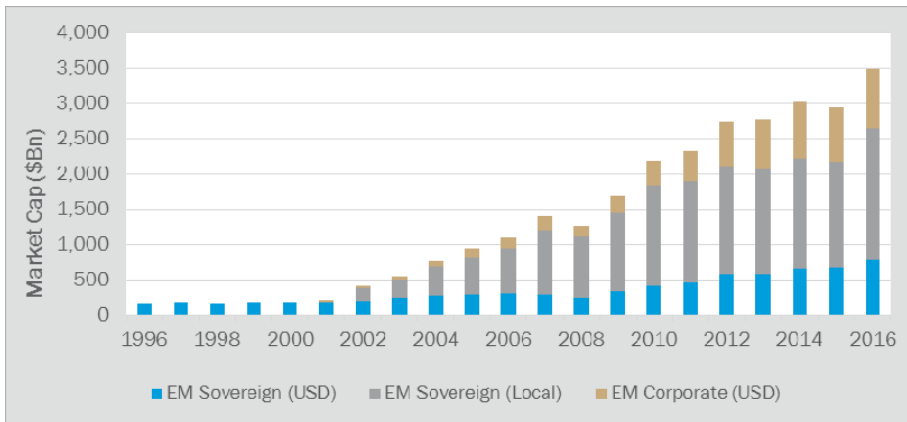
- Fixed income generated positive performance despite the Fed hiking rates in March. While a potential March rate hike was somewhat unexpected at the beginning of the year, the Fed reiterated it's cautious and data-dependent stance to normalizing interest rates
- Interest rates stayed relatively range-bound over the quarter. The short end of the yield curve moved higher on the back of the Fed's actions
- Spread sectors continued to tighten on the back of strong corporate data. High yield spreads narrowed relative to investment grade spreads as energy-related defaults continued to roll off
- Local currency EM debt outperformed as investors shifted to higher growth regions. Interest rates in Latin America moved lower as structural and political reform continued to be positive

Market Environment

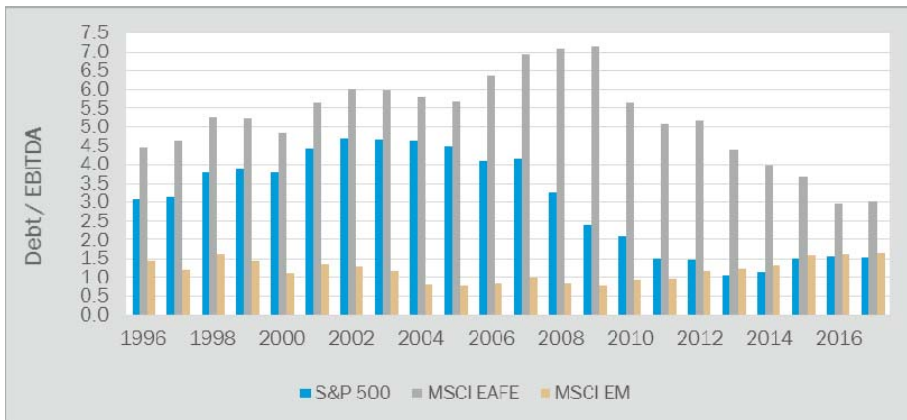
U.S. Bond Issuance



EM Debt Size



Corporate Leverage



Asset Class Report Updates

- U.S. treasury issuance significantly increased after the financial crisis. Since the Fed began tapering, treasury issuance plateaued while corporate and MBS issuance continued to grow
- The EM debt market has grown significantly since 1996. While investors have worried about EM liabilities denominated in U.S. dollars, debt denominated in local currency has exponentially grown since 2004
- Corporate leverage across the globe significantly decreased after 2008 with European and Japanese leverage higher than that of the U.S. and EM. Leverage in the U.S. and EM has since grown while leverage in Europe and Japan has moderated

Portfolio Characteristics

Fixed Income

Sector Distribution

	Current Portfolio	Barclays Global Agg	Barclays Aggregate
US Treasury	25.6%	15.3%	36.6%
Agency	2.5%	4.6%	7.4%
Local Authority (non-US)	0.3%	2.7%	0.0%
Municipal (US)	0.6%	0.3%	0.0%
Sovereign (non-US)	15.3%	41.3%	0.0%
Supranational	11.2%	20.2%	25.1%
Corporate	7.2%	0.1%	0.0%
Bank Loans	3.6%	0.0%	0.0%
MBS	29.7%	11.8%	28.6%
ABS	2.5%	0.2%	0.5%
CMBS	2.7%	0.8%	1.8%
Other & Cash	-1.6%	2.7%	0.0%

Regional Distribution - Country Allocation

	Current Portfolio	Barclays Global Agg	Barclays Aggregate
US	74.3%	39.1%	100.0%
Non-US Developed	12.0%	55.2%	0.0%
Non-US Emerging	13.8%	5.7%	0.0%

Currency Allocation

	Current Portfolio	Barclays Global Agg	Barclays Aggregate
US	89.0%	45.5%	100.0%
Non-US Developed	-2.9%	51.6%	0.0%
Non-US Emerging	13.9%	2.9%	0.0%

Portfolio Characteristics

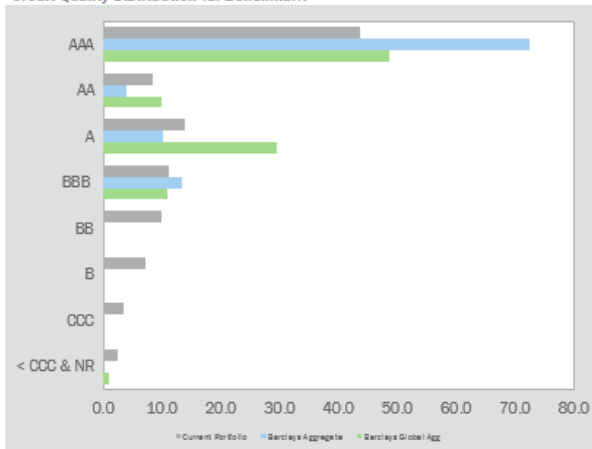
	Current Portfolio	Barclays Global Agg	Barclays Aggregate
Effective Duration	4.24	6.80	6.00
Yield to Maturity (%)	4.16	1.64	2.61
Coupon Rate (%)	4.27	2.72	3.06
Average Credit Quality (Barclays)	A	AA	AA

Portfolio Checklist

	Current Portfolio	Barclays Global Agg	Barclays Aggregate
Yield ¹	✓	✓	✓
Duration ²	✓	✓	✓
Credit Quality ³	✓	✓	✓
Sector Diversification ⁴	✓	✓	✗
Region Diversification ⁵	✓	✓	✗

1. The yield-to-maturity ("YTM") should be 80% of the YTM of the benchmark or greater
2. Duration should not exceed the benchmark
3. Average credit quality, using Barclays methodology, should be BBB or higher
4. No sector should exceed 50% of the total allocation and at least half of the sectors should have allocations greater than 2.5%
5. No region (see "Regional Distribution") should exceed 75% of the of the total allocation

Credit Quality Distribution vs. Benchmark



The Baseline Portfolio has allocations to the following investment manager types: 45% Core Plus, 30% Global, 10% Credit, and 15% Mortgage-Backed

Source of Benchmark Information: Barclays

- Canterbury recommends targeting a portfolio duration less than that of the benchmark (Barclays Global Aggregate) in order to reduce interest rate risk
- Investors can lower portfolio duration (while maintaining yield) by allocating to credit and diversifying globally
- To ensure the fixed income allocation reduces overall portfolio risk and provides diversification, Canterbury seeks to maintain a portfolio that, on average, is investment grade or better
- With low yields in non-U.S. developed fixed income markets, investors should consider maintaining an underweight exposure to the region relative to the Barclays Global Aggregate