



Canterbury Consulting

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Quarterly Asset Class Report

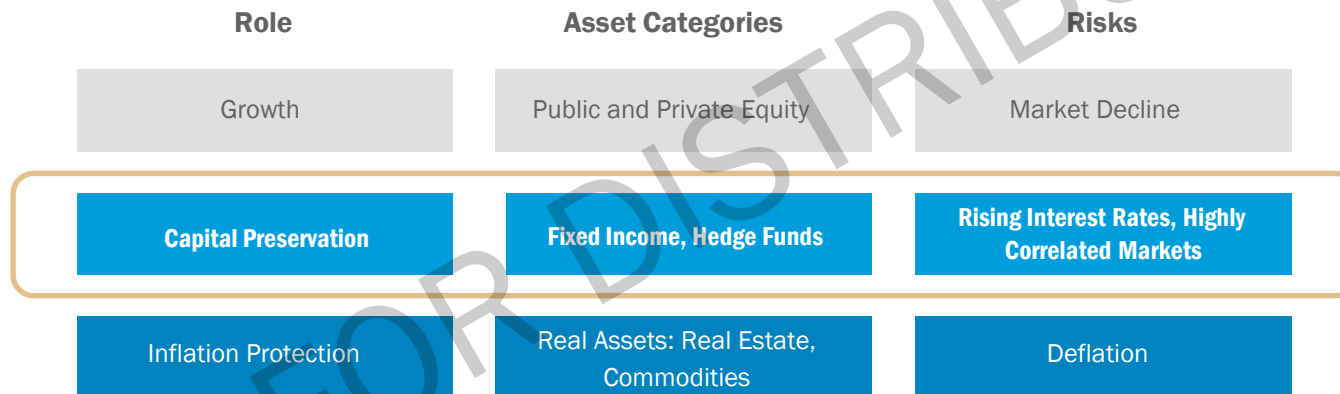
Taxable Fixed Income

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June 30, 2019

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

- Preserve after-tax wealth and mitigate volatility
- Maintain comparable exposure to the broad municipal market. Focus exposure based on state domicile and after-tax returns
- Exhibit returns uncorrelated to equity markets



- Canterbury global fixed income portfolios are expected to deliver consistent after-tax and net of fees excess returns and moderate tracking error versus the Barclays Municipal Bond Index. Taxable fixed income portfolios are expected to have a high quality bias with sensitivity toward taxes.
- Canterbury’s fixed income portfolios will exhibit benchmark-like after-tax yields and credit quality. However, they will do so with more portfolio diversification and lower duration. Portfolio diversification will depend on state of domicile presides and the clients individual goals (i.e. income vs. capital preservation).

Index Returns (06/30/19)

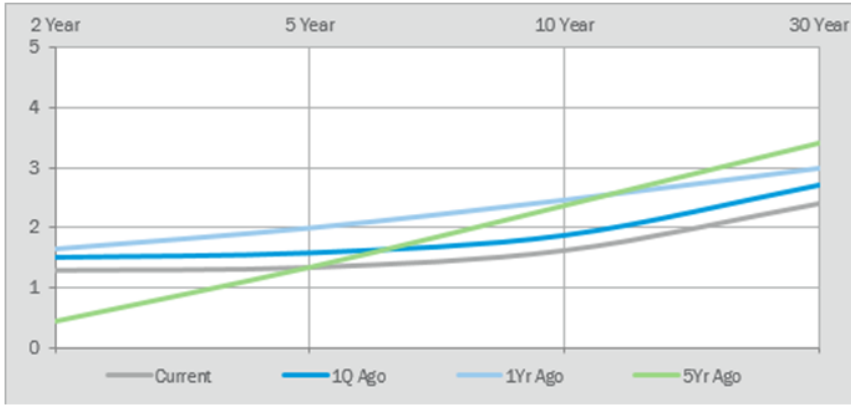
Fixed Income

	QTD	YTD	1 Year	3 Years	5 Years	7 Years	10 Years
Barclays Global Aggregate	3.29	5.57	5.85	1.62	1.20	1.57	2.89
Barclays US Agg Bond	3.08	6.11	7.87	2.32	2.95	2.62	3.90
U.S. Treasurys							
BofAML 3M US Treasury Note	0.65	1.26	2.36	1.38	0.88	0.66	0.50
Barclays Short Treasury	0.71	1.38	2.48	1.42	0.95	0.72	0.58
Barclays Intermediate Treasury	2.36	3.99	6.19	1.31	1.95	1.51	2.44
Barclays Long Term US Treasury	6.03	10.98	12.30	1.34	5.71	3.65	6.53
Barclays US Treasury TIPS 1-5Y	1.82	3.60	3.41	1.60	0.91	0.87	2.03
Barclays US Treasury US TIPS	2.86	6.15	4.84	2.08	1.76	1.17	3.64
U.S. Corporate Credit							
Barclays US Corp IG	4.48	9.85	10.72	3.95	4.08	4.20	6.07
S&P/LSTA Leveraged Loan	1.68	5.74	3.97	5.24	3.68	4.46	6.17
BofAML US HY Master II	2.57	10.16	7.58	7.54	4.70	6.37	9.22
BofAML US HY BB-B Constrained	2.82	10.36	8.62	7.14	4.81	6.24	8.58
BofAML US Corporate AAA	4.86	10.08	11.58	3.57	4.55	3.64	4.85
BofAML US Corporate AA	3.53	7.39	9.31	2.98	3.75	3.51	4.89
BofAML US Corporate A	4.12	8.90	10.24	3.41	3.92	3.93	5.75
BofAML US Corps BBB	4.66	10.50	11.00	4.67	4.17	4.76	6.97
BofAML US High Yield BB	3.16	10.77	9.99	6.71	5.21	6.39	8.84
BofAML US High Yield B	2.42	9.87	7.05	7.75	4.36	6.06	8.36
BofAML US High Yield CCC	0.65	8.60	0.13	9.83	4.16	6.98	11.14
Securitized							
Barclays ABS	1.67	3.17	4.98	1.99	2.07	1.83	3.35
Barclays MBS	1.96	4.17	6.22	2.06	2.56	2.32	3.24
Barclays CMBS	3.28	6.62	8.95	2.57	3.04	3.11	6.57
Municipals							
Barclays Municipal	2.14	5.09	6.71	2.55	3.64	3.50	4.72
Barclays Muni 1-10	1.54	3.62	5.12	1.94	2.30	2.24	3.06
Global							
Citi WGBI	3.57	5.38	5.48	1.00	0.85	0.89	2.21
Barclays Gbl Agg Ex USD	3.42	4.99	4.10	0.97	-0.12	0.71	2.10
JPM EMBI Plus	4.36	10.78	11.68	3.50	4.22	4.52	7.11

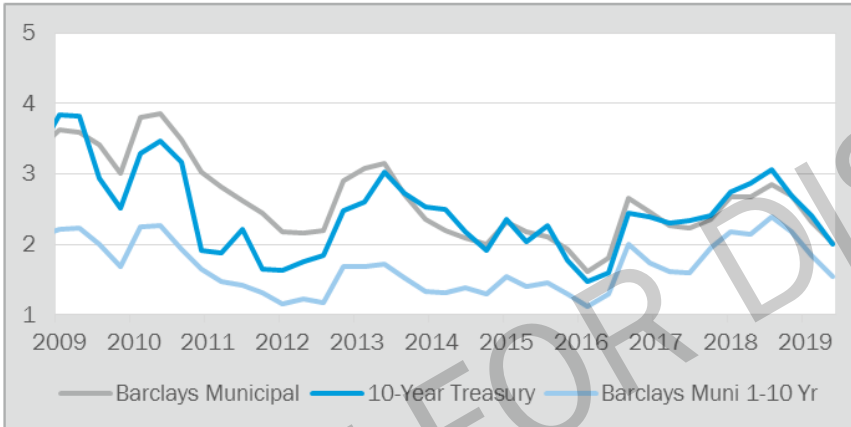
Market Environment

Fixed Income

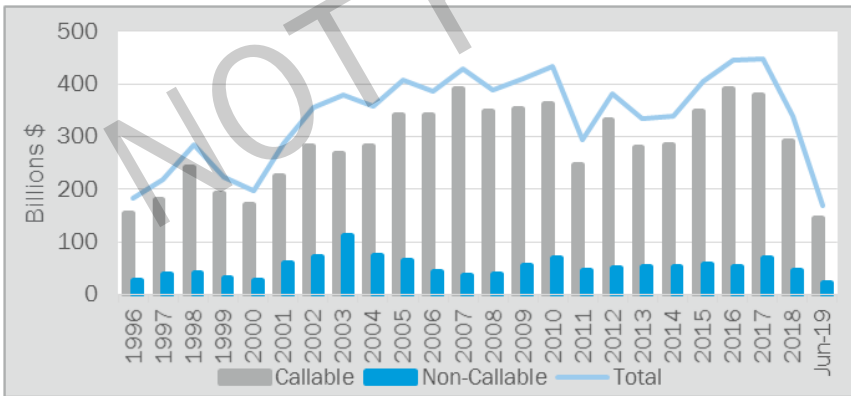
Municipal Yield Curve



Yield Comparison



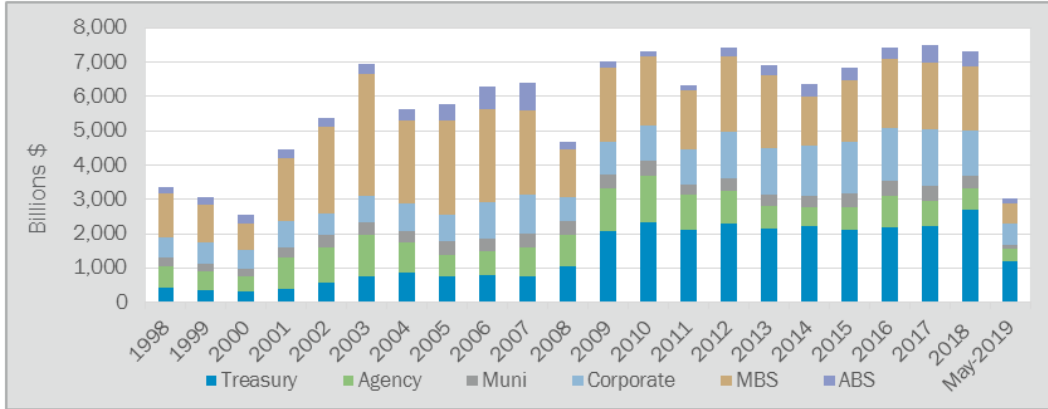
U.S. Municipal Issuance



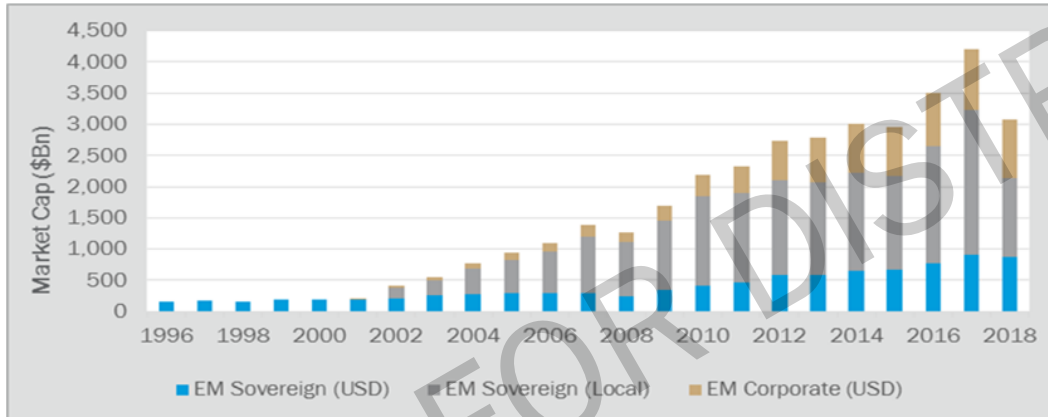
- Core fixed income generated positive returns as heightened trade tariff concerns, lower growth, and inflation expectations resulted in falling long-term interest rates. During the quarter, the 10-year Treasury moved from 2.4% to 2.0% and the 30-year Treasury moved from 2.8% to 2.5%. Concurrently, the Fed continued to communicate dovish guidance and signaled that a rate cut may occur as early as July.
- The high yield sector generated positive returns, however, higher quality (BB-rated credits) outperformed lower quality (B & CCC-rated credits) given the market's volatility.
- Emerging market debt posted positive returns as lower global inflation expectations continued to trend lower. The Fed's renewed accommodative monetary policy and a potential China-U.S. trade deal could provide a supportive backdrop for EMD.
- Municipal bonds generated positive performance and rates moved in tandem with Treasuries during the quarter. Municipal bonds are in high demand and new supply is relatively benign.

Market Environment

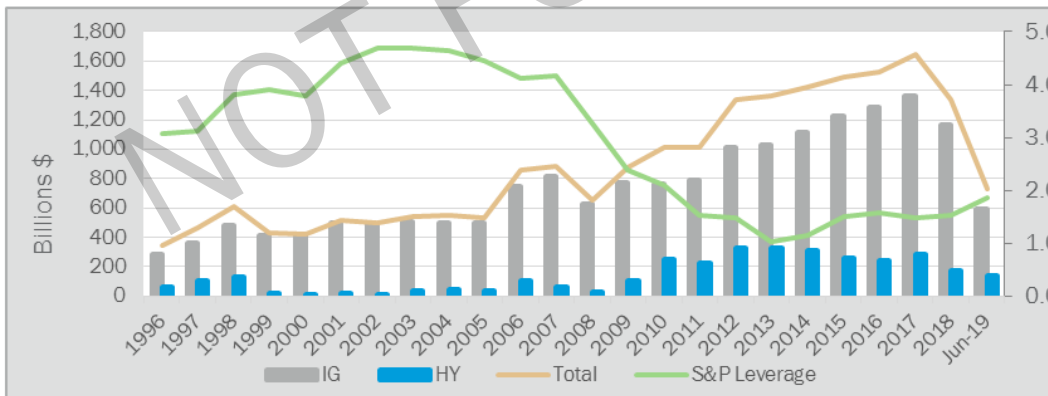
U.S. Bond Issuance



EM Debt Size



Corporate Issuance & 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 significantly decreased after 2008. Leverage in the U.S. and EM has since grown while leverage in Europe and Japan has moderated.

Portfolio Characteristics

Fixed Income

Sector Distribution

	Baseline Portfolio	Barclays Municipal Bond Index	Barclays 1-10 YR Muni Bond
US Treasury	7.5%	0.0%	0.0%
Agency	0.5%	0.0%	0.0%
Local Authority (non-US)	0.0%	0.0%	0.0%
Municipal (US)	48.7%	100.0%	100.0%
Sovereign (non-US)	7.2%	0.0%	0.0%
IG Corporate	1.4%	0.0%	0.0%
HY Corporate	6.3%	0.0%	0.0%
Bank Loans	3.5%	0.0%	0.0%
MBS	7.4%	0.0%	0.0%
ABS	0.4%	0.0%	0.0%
CMBS	0.8%	0.0%	0.0%
CLO	0.5%	0.0%	0.0%
Other & Cash	15.9%	0.0%	0.0%

Regional Distribution

	Baseline Portfolio	Barclays Municipal Bond Index	Barclays 1-10 YR Muni Bond
US	95.8%	100.0%	100.0%
Non-US Developed	-4.3%	0.0%	0.0%
Non-US Emerging	8.5%	0.0%	0.0%

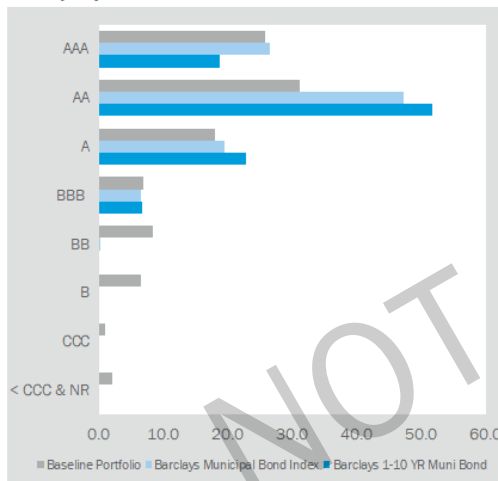
Currency Distribution

	Baseline Portfolio	Barclays Municipal Bond Index	Barclays 1-10 YR Muni Bond
US	91.2%	100.0%	100.0%
Non-US Developed	0.1%	0.0%	0.0%
Non-US Emerging	8.7%	0.0%	0.0%

Portfolio Characteristics

	Baseline Portfolio	Barclays Municipal Bond Index	Barclays 1-10 YR Muni Bond
Effective Duration	3.16	5.02	3.97
Yield to Maturity (%)	4.79	3.30	2.44
Coupon Rate (%)	4.43	4.60	4.73

Credit Quality Distribution vs. Benchmark



Portfolio Checklist

	Baseline Portfolio	Barclays Municipal Bond Index	Barclays 1-10 YR Muni Bond
Yield ¹	✓	✓	✓
Duration ²	✓	✓	✓
Credit Quality ³	✓	✓	✓
Sector Diversification ⁴	✓	✗	✗
Region Diversification ⁵	✗	✗	✗

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

- Depending on a client's equity exposure, duration and credit allocations can vary within the fixed income segment.

- Fixed income portfolios should target a duration less than that of the benchmark (Barclays Municipal Index) in order to reduce interest rate risk.

- Investors can lower portfolio duration (while maintaining yield) by allocating to credit and diversifying globally.

- Inefficiencies in the municipal market allow us to target similar credit quality as the benchmark with much less duration risk.

- Canterbury attempts to optimize the risk-return relationship of fixed income portfolios by spreading risk across several factors (interest rate, credit, prepayment, liquidity, currency, political, counterparty, etc.).

The Baseline Portfolio has allocations to the following investment manager types: 50% Municipals, 30% Global, 10% Credit, and 10% Mortgage-Backed

Source of Benchmark Information: Barclays

As of 06/30/19