



Canterbury Consulting

Global Positioning Statement™

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December 31, 2018

Drivers of the Market

The Unusual Disconnect between Fundamentals and Markets

- 2018 was a year of record highs and sharp reversals. The S&P 500 rose in the first three quarters and posted a decline for the year after a precipitous drop in the fourth quarter, a first ever for the index. Although economic measures have remained positive and growth in the U.S. has well exceeded post-recession numbers, other factors including above average equity valuations, a hawkish Federal Reserve, tariff concerns, rising labor costs and weaker than expected growth outside of the U.S. have put pressure on equity markets.
- International equities were down 11.5% in the quarter and down 14.2% for the year. A strong U.S. dollar, trade tensions between China and the U.S., and Brexit concerns have continued to put a strain on the asset class. Looking in to the first quarter, U.S. and international equities are trading at a discount to their long term averages.
- U.S. core fixed income generated positive returns as risk assets sold off during the fourth quarter. In December alone, the 10 year treasury yield moved from 3.0% to 2.7% as investors worried about a slowing economy and an uncertain political climate. The high yield sector experienced its worst quarter of the year as lower quality credits experienced decent spread widening.
- Energy as a whole sold off in the fourth quarter as oil production from the U.S. shale basins increased significantly. Furthermore, trade uncertainty from the U.S. and China intensified, which resulted in lower prices for industrial metals.

Fourth Quarter 2018

Returns through December 31, 2018

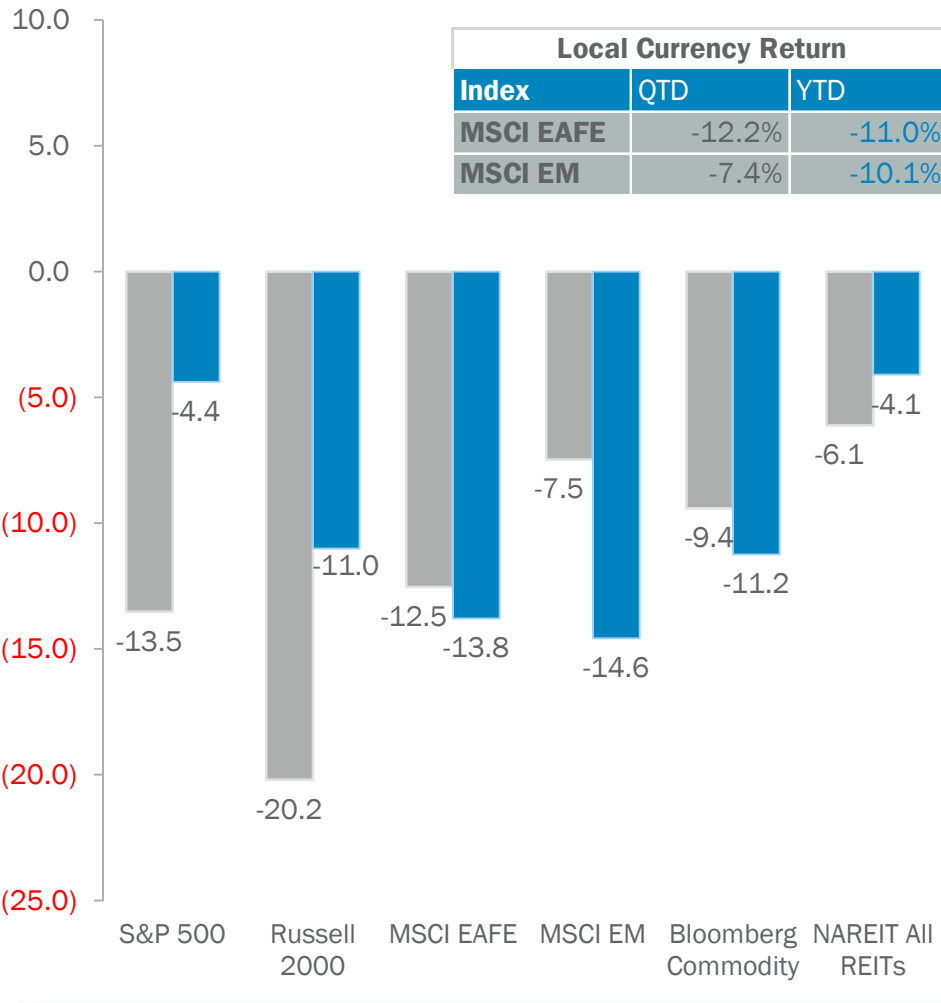
Index	QTD	YTD	1 Year
Growth			
MSCI ACWI	(12.8%)	(9.4%)	(9.4%)
Capital Preservation			
Barclays Global Aggregate	1.2%	(1.2%)	(1.2%)
Inflation Protection			
Morningstar U.S. Real Asset*	(6.9%)	(3.3%)	(3.3%)

*40% TIPS, 30% L/S Commodity, 15% REITs, 10% Global Nat. Resources, 5% MLPs

December 31, 2018

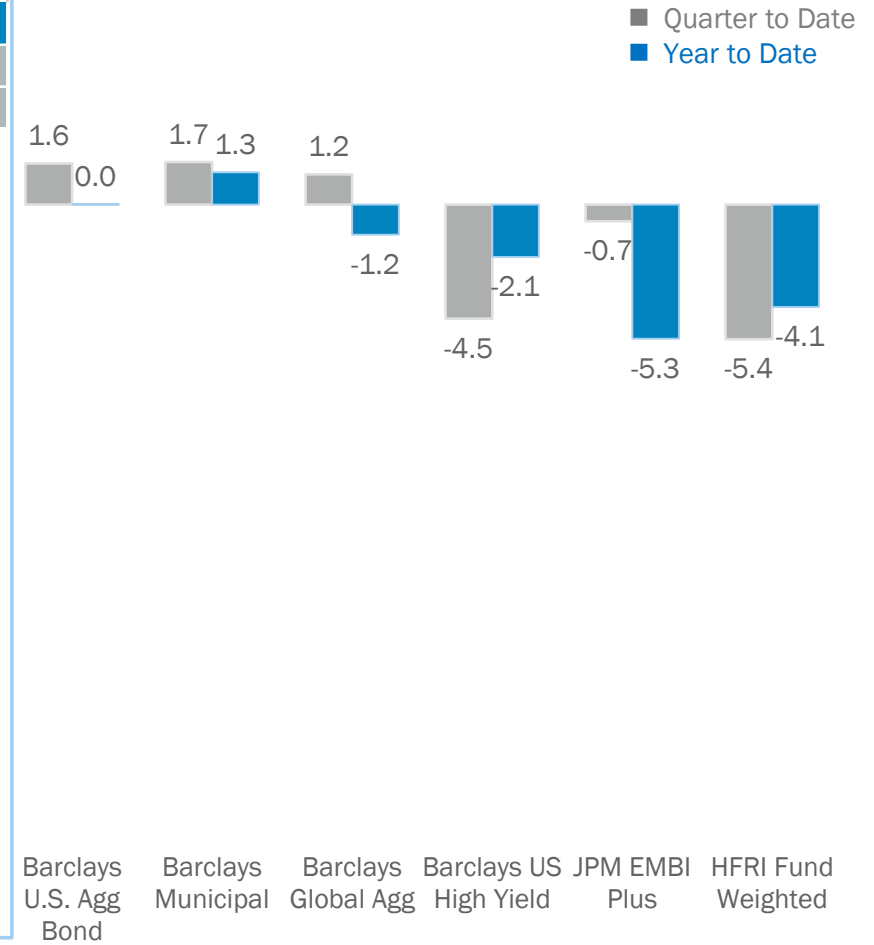
Index Returns (%)

Through December 31, 2018



Local Currency Return		
Index	QTD	YTD
MSCI EAFE	-12.2%	-11.0%
MSCI EM	-7.4%	-10.1%

Capital Preservation



Growth & Inflation Protection

Source: Morningstar

December 31, 2018

Year over Year Statistics¹

	December 31, 2013	December 31, 2014	December 31, 2015	December 30, 2016	December 29, 2017	December 31, 2018
S&P 500	1,848.36	2,058.90	2,043.94	2,238.83	2,673.61	2,506.85
S&P 500 EPS	105.85	112.40	108.79	108.97	122.97	146.45
P/E of S&P 500	17.46	18.32	18.79	20.54	21.74	17.12
P/E of MSCI EAFE	17.97	16.75	21.35	20.00	17.54	13.45
P/E of MSCI EM	10.78	13.07	15.27	14.16	15.20	11.56
S&P 500 Earnings Yield	5.73	5.46	5.32	4.87	4.60	5.84
Fed Funds Effective Rate	0.09	0.12	0.24	0.54	1.30	2.27
3 Month LIBOR	0.25	0.26	0.61	1.00	1.69	2.81
10 Year Treasury Yield	3.03	2.17	2.27	2.44	2.41	2.68
30 Year Mortgage Rate	4.54	3.99	3.90	4.06	3.85	4.51
Barclays U.S. Agg Yield	3.26	3.11	3.67	3.37	3.25	4.20
Barclays HY Spread	3.82	4.83	6.60	4.09	3.43	5.26
Gold (\$/oz)	1,201.64	1,184.37	1,061.10	1,147.50	1,302.80	1,282.49
WTI Crude Oil (\$/bbl)	98.42	53.27	37.04	53.72	60.42	45.41
Unemployment Rate	6.70	5.60	5.00	4.70	4.10	3.70
Headline CPI²	1.50	0.80	0.70	2.10	2.10	2.20
VIX Index	13.72	19.20	18.21	14.04	11.04	25.42

Forward Looking Forecasts¹

	Real GDP ³	CPI ³	Unemployment ³	10-Yr Treasury ³	S&P 500 EPS ⁴	Forward P/E ⁴	MSCI EAFE EPS ⁴	Forward P/E ⁴	MSCI EM EPS ⁴	Forward P/E ⁴
F12 month	2.9%	2.4%	3.9%	2.7%	\$168.41	14.89	\$137.65	12.49	\$87.73	11.01
F24 month	2.6%	2.2%	3.6%	3.3%	\$175.81	14.26	\$144.98	11.86	\$91.85	10.51

(1) Source: Bloomberg

(2) Values are carried forward from the most recent reported value (12/31/2018)

(3) Forecasts are consensus opinions from 98 forecasting agencies (Median)

(4) F12 month: Forward 12 month estimate F24 month: Forward 24 month estimate

Estimate calculated from quarter end (i.e. Dec. 31, 2018 - Dec. 31, 2019). Price in P/E ratio static as of quarter end

Current U.S. Economic Conditions: Normal Growth

Contraction

U.S. GDP Growth: 0.0% - 1.9%

U.S. Earnings: Meeting forecasts

U.S. Credit Markets: Expanding spreads

Volatility (VIX): 25-40

Yield Curve: Flattening yield curve

Investor Sentiment: Demand greater risk premium

Normal Growth

U.S. GDP Growth: 2.0% - 4.0%

U.S. Earnings: Meet or Exceed forecasts

U.S. Credit Markets: Normal spreads, Normal defaults

Volatility (VIX): Normal 15-25

Yield Curve: Yield curve stable

Investor Sentiment: Investors showing rational buying

Panic

U.S. GDP Growth: Negative

U.S. Earnings: Worse than pessimistic forecasts

U.S. Credit Markets: Wide spreads, High defaults

Volatility (VIX): > 40

Yield Curve: Inverted yield curve

Investor Sentiment: Investors sell indiscriminately

Manic Growth

U.S. GDP Growth: Greater than 4.0%

U.S. Earnings: Exceed optimistic forecasts

U.S. Credit Markets: Low defaults, Low spreads

Volatility (VIX): Below 15

Yield Curve: Yield curve steepens

Investor Sentiment: Investors eager to purchase at any price

Measurements

U.S. GDP Growth: Quarterly U.S. Real GDP standard deviation from 10 year U.S. Real GDP

U.S. Earnings: Compare S&P earnings estimates to the % of earnings that met or exceeded forecasts

Spreads: Quarterly Barclays HY Bond spread standard deviation from 10 year Barclays HY Bond spread

Defaults: Quarterly HY default rate standard deviation from 10 year HY default rate

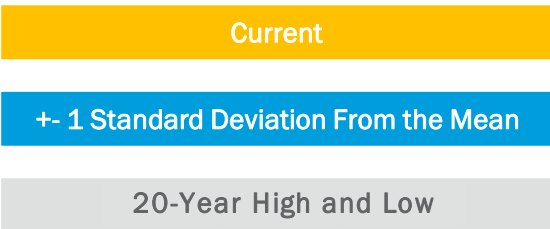
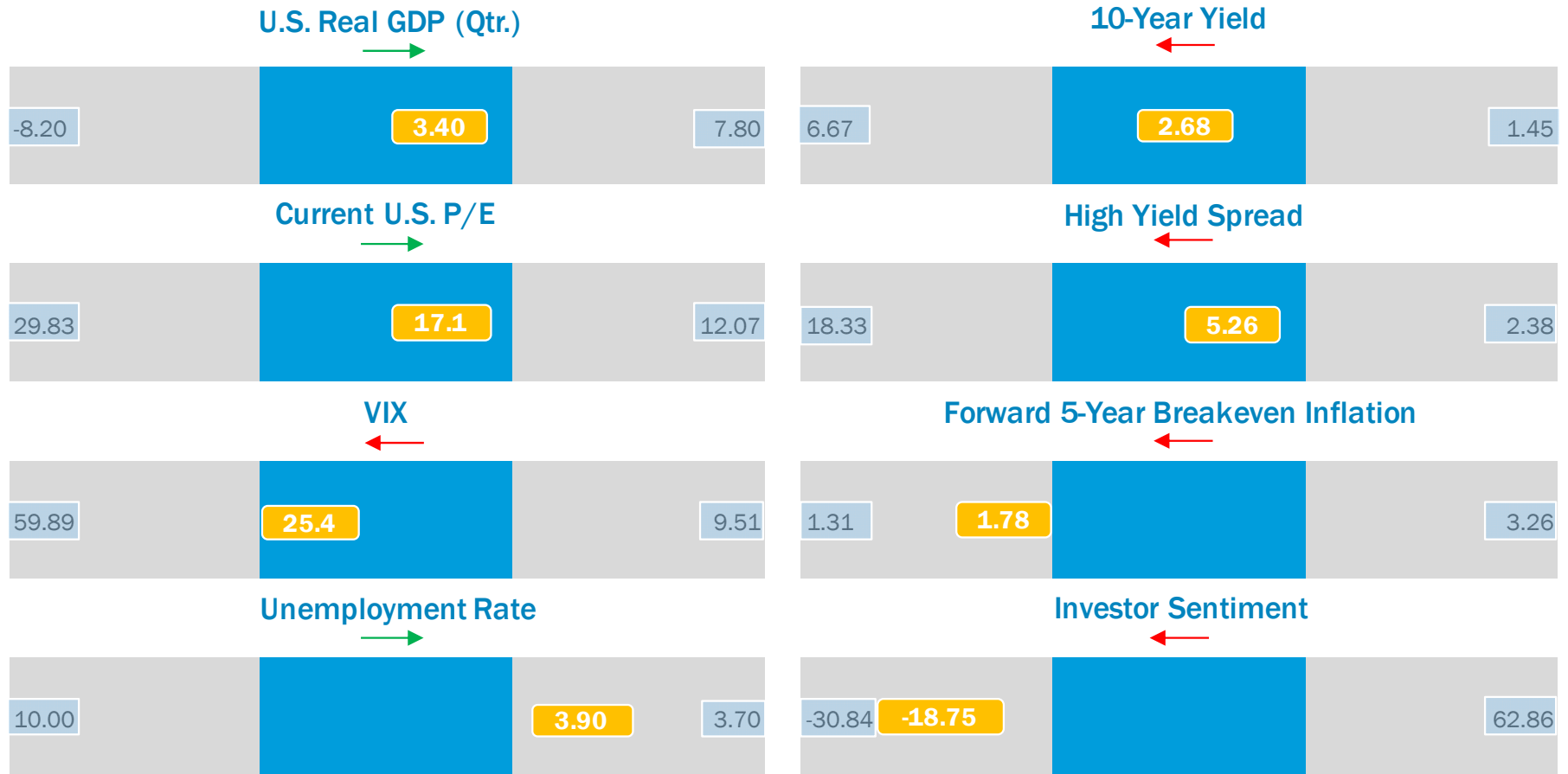
Volatility: Quarterly VIX standard deviation from 10 year VIX

Yield Curve: Difference between U.S. 30 year rates and 2 year rates

Sentiment: Spread between Bull Sentiment Index and Bear Sentiment Index. Quarterly spread standard deviation from 10 year spread

Global Positioning Indicators

Through December 31, 2018



December 31, 2018

	GROWTH		CAPITAL PRESERVATION		INFLATION PROTECTION
Asset Class	Public Equity	Private Equity	Fixed Income	Hedge Funds	Real Assets
Benchmark	MSCI ACWI	Cambridge U.S. Private Equity Index	Barclays Global Aggregate	HFRI Fund Weighted	Morningstar U.S. Real Asset
Canterbury Positioning	<ol style="list-style-type: none"> 1. Consider rebalancing back to emerging markets target if underweight 2. Allocate to high active share strategies 	<ol style="list-style-type: none"> 1. Focus on operational hands-on strategies 2. Prudent use of leverage 	<ol style="list-style-type: none"> 1. Maintain diversification & defensive posture with interest rates and credit 2. Maintain home country bias 	<ol style="list-style-type: none"> 1. Balance allocations between long/short equity and long/short credit 	<ol style="list-style-type: none"> 1. Diversify exposure to real assets 2. Rebalance real asset exposure
Reason	<ol style="list-style-type: none"> 1. Better diversification and lower valuations in emerging markets 2. Later stage recovery and rising interest rates support thoughtful security selection 	<ol style="list-style-type: none"> 1. Persistent value creation independent of market cycle 2. Late stage in the recovery 	<ol style="list-style-type: none"> 1. Interest rate risk is expensive in the current low rate environment. Credit spreads are tighter than median levels 2. Less non-U.S. developed currency risk and a better hedge against investor liabilities 	<ol style="list-style-type: none"> 1. Equity and credit strategies look equally attractive 	<ol style="list-style-type: none"> 1. Increases the reliability of the asset class against inflation 2. Many investors' allocations to real assets have fallen below target ranges
Positioning Shifts	None	None	None	None	None