CanterburyConsulting

Quarterly Asset Class Report

Tax-Exempt Fixed Income

December 31, 2023

canterburyconsulting.com

Role in the Portfolio

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 capital and mitigate volatility
- Provide measured exposure to the diverse universe of fixed income securities
- Exhibit returns uncorrelated to equity markets

Role	Asset Categories	Risks
Growth	Public and Private Equity	Market Decline
Capital Preservation	**Fixed Income, Hedge Funds**	**Rising Interest Rates, Highly Correlated Markets**
Inflation Protection	Real Assets: Real Estate, Commodities	Deflation

- Canterbury fixed income portfolios are set up with a goal to deliver consistent net-of-fees excess returns and moderate tracking error versus the Bloomberg U.S. Aggregate and Bloomberg Global Aggregate.
- Relative to the index, Canterbury's current fixed income portfolios may exhibit neutral-to-slightly lower duration, similar credit quality, and higher yields.

Index Returns as of December 31, 2023

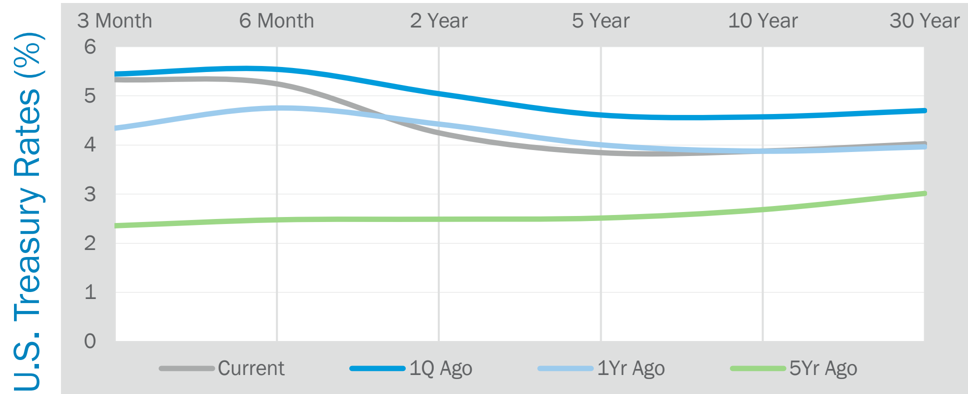
Fixed Income

	QTD	YTD	1 Year	3 Years	5 Years	7 Years	10 Years
Bloomberg Global Aggregate	**8.10**	**5.72**	**5.72**	**-5.51**	**-0.32**	**0.62**	**0.38**
Bloomberg US Agg Bond	**6.82**	**5.53**	**5.53**	**-3.31**	**1.10**	**1.29**	**1.81**
U.S. Treasurys							
BofAML 3M US Treasury Note	1.37	5.03	5.03	2.18	1.92	1.76	1.28
Bloomberg Short Treasury	1.46	5.09	5.09	2.01	1.89	1.73	1.28
Bloomberg Intermediate Treasury	3.99	4.28	4.28	-1.86	1.02	1.09	1.25
Bloomberg Long Term US Treasury	12.70	3.06	3.06	-11.41	-1.24	0.01	2.28
Bloomberg U.S. Treasury TIPS 1-5Y	2.88	4.45	4.45	1.92	3.29	2.52	1.94
Bloomberg US Treasury US TIPS	4.71	3.90	3.90	-1.00	3.15	2.49	2.42
U.S. Corporate Credit							
Bloomberg US Corp IG	8.50	8.52	8.52	-3.29	2.63	2.41	2.95
Morningstar LSTA Leveraged Loan	2.87	13.32	13.32	5.76	5.80	4.77	4.42
BofAML US HY Master II	7.06	13.46	13.46	2.00	5.21	4.43	4.51
BofAML US HY BB-B Constrained	7.12	12.58	12.58	1.73	5.19	4.38	4.53
BofAML US Corporate AAA	8.42	6.48	6.48	-5.55	1.57	1.90	2.62
BofAML US Corporate AA	7.33	6.70	6.70	-4.05	1.39	1.60	2.27
BofAML US Corporate A	7.65	7.58	7.58	-3.39	2.26	2.14	2.72
BofAML US Corps BBB	8.24	9.46	9.46	-2.77	3.18	2.88	3.35
BofAML US High Yield BB	7.34	11.44	11.44	1.37	5.54	4.59	4.91
BofAML US High Yield B	6.78	13.96	13.96	2.24	4.85	4.18	4.13
BofAML US High Yield CCC	6.60	20.36	20.36	3.61	4.53	4.08	4.10
Securitized							
Bloomberg ABS	3.48	5.54	5.54	0.22	1.92	1.85	1.81
Bloomberg MBS	7.48	5.05	5.05	-2.86	0.25	0.67	1.38
Bloomberg CMBS	5.25	5.42	5.42	-2.45	1.68	1.77	1.90
Municipals							
Bloomberg Municipal	7.89	6.40	6.40	-0.40	2.25	2.56	3.03
Bloomberg Muni 1-10	5.05	4.32	4.32	0.01	1.82	1.98	1.97
Global							
Bloomberg Global Aggregate TR Hdg USD	5.99	7.15	7.15	-2.11	1.40	1.68	2.41
Bloomberg Gbl Agg Ex USD	9.21	5.72	5.72	-7.21	-1.56	0.00	-0.79
FTSE WGBI	8.08	5.19	5.19	-7.18	-1.39	-0.09	-0.31

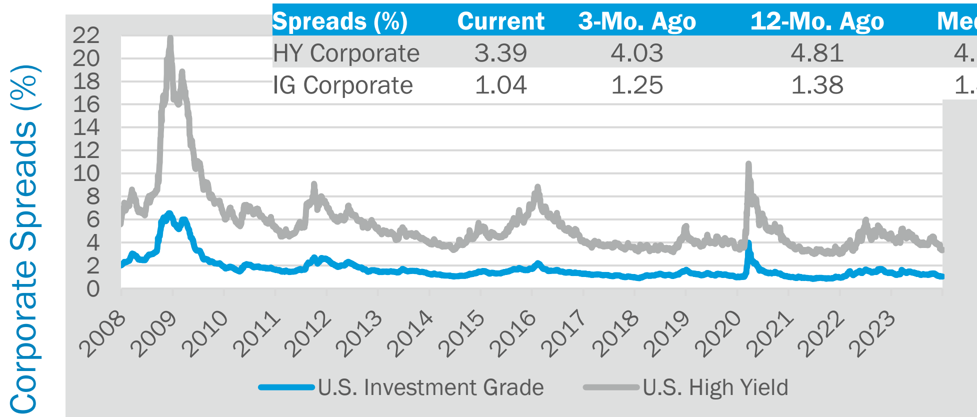
as of 12/31/2023

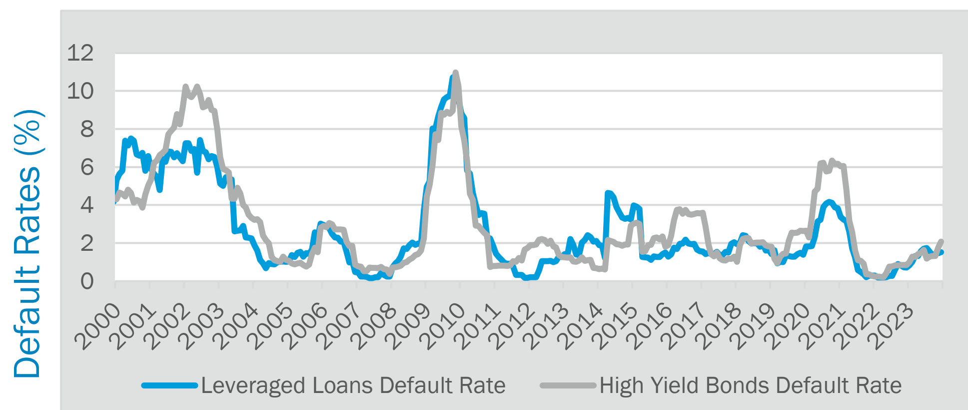
Market Environment as of December 31, 2023

Fixed Income



Spreads (%)	Current	3-Mo. Ago	12-Mo. Ago	Median
HY Corporate	3.39	4.03	4.81	4.60
IG Corporate	1.04	1.25	1.38	1.41

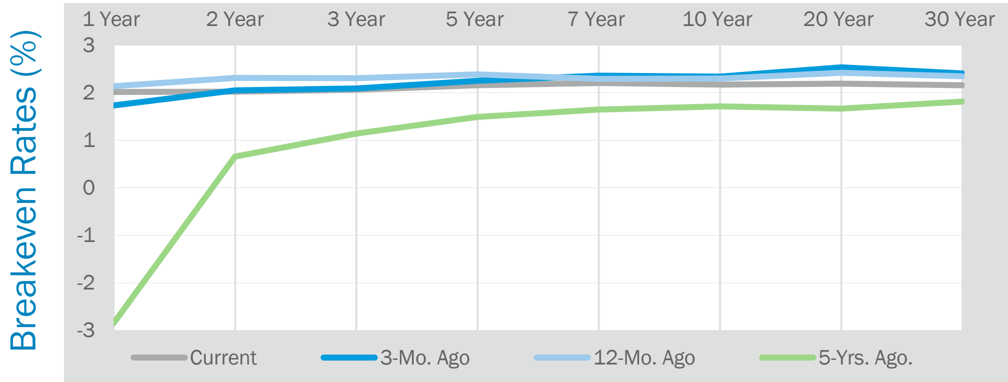


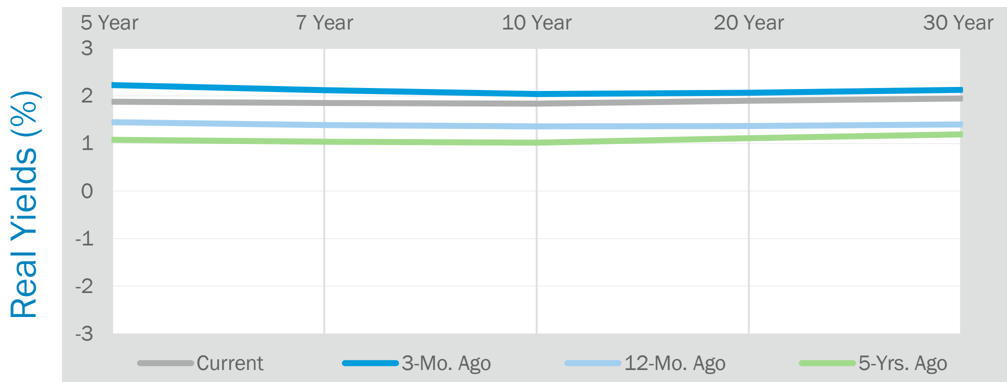


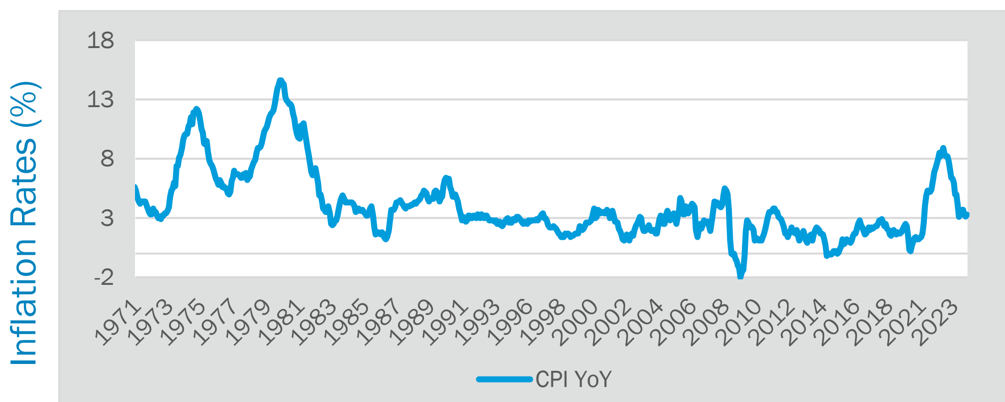
- In the fourth quarter, the Federal Reserve opted to keep rates unchanged within a range of 5.25% - 5.50 as inflation continued to trend lower.
- During the December FOMC meeting, the Fed communicated that there is heightened risk associated with maintaining interest rates at elevated levels for an extended period. This marked a significant shift from their September FOMC meeting, where they had announced the possibility of keeping rates higher for longer.
- The 2024 fed funds rate forecast was revised lower due to the Fed's view on the risks of elevated interest rates. The dot plot released in December implied three rate cuts of 25 basis points by the end of 2024. At the September FOMC meeting, two rate cuts were on the table for 2024.
- Intermediate-to-long-term treasury yields fell during the quarter as the Fed signaled potential rate cuts in 2024. Risk assets also rallied alongside the Fed's announcement.
- Investment grade (IG) spreads narrowed from 125 basis points (bps) to 104 bps, and high yield (HY) spreads narrowed from 403 bps to 339 bps over the quarter. Both were well below their long-term median levels [1].

Sources: Federal Reserve Economic Data, U.S. Treasury Department. Data as of 12/31/2023. S&P LCD Lev Loan Defaults, JP Morgan HY Bond Defaults, Data as of 12/31/2023

[1] BofA IG & HY spreads data starting Jan 2006

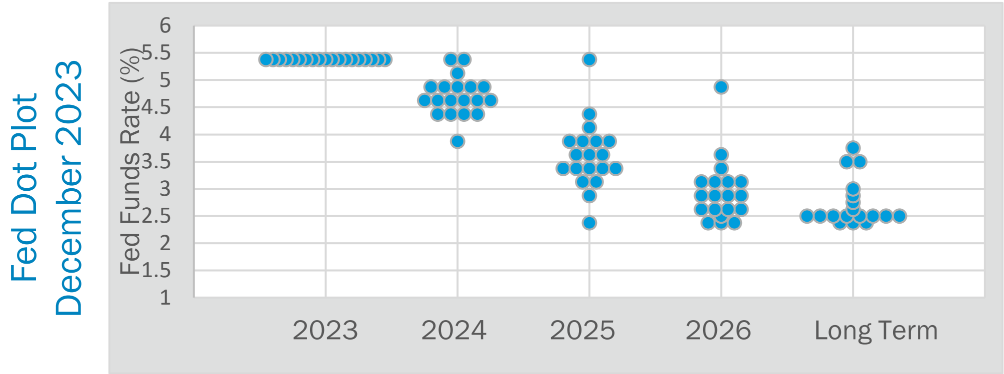


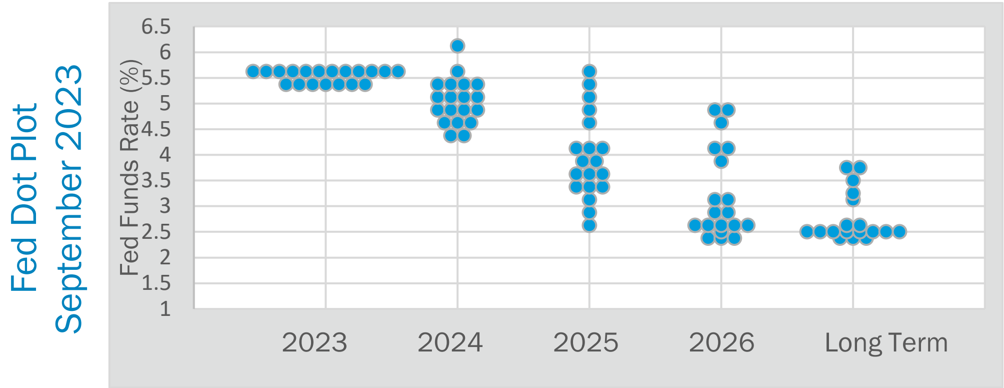


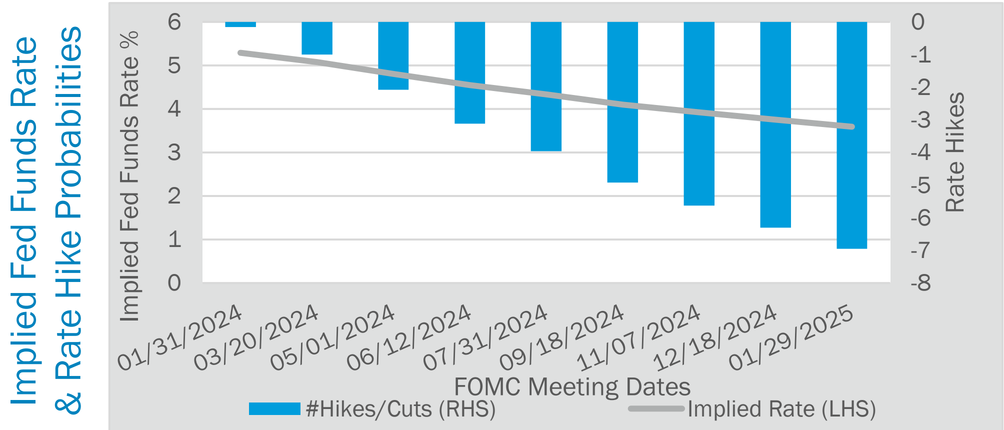


- Front-end breakeven inflation rates remained relatively unchanged while intermediate-to-long-term breakevens slightly fell towards 2%. The breakeven rate is the implied inflation rate for a given maturity and is calculated by subtracting the real yield of a treasury bond from the nominal yield.
- Breakeven rates currently imply that inflation should trend in line with the Fed's original target of 2% in the near-term. Intermediate-to-long-term breakevens imply that inflation could run slightly higher than the Fed's inflation target.
- Real yields from the 5-year maturity and beyond marginally fell, showing that inflation outpaced nominal yields.
- Inflation continues to be driven by supply/demand imbalances, economic growth, tight labor markets, high wage growth, and high spending within services.

Source: Bloomberg. FRED. CPI & PCE Data. U.S. Breakeven Rates. U.S. Treasury Inflation-Indexed Rates. Data as of 12/31/2023.

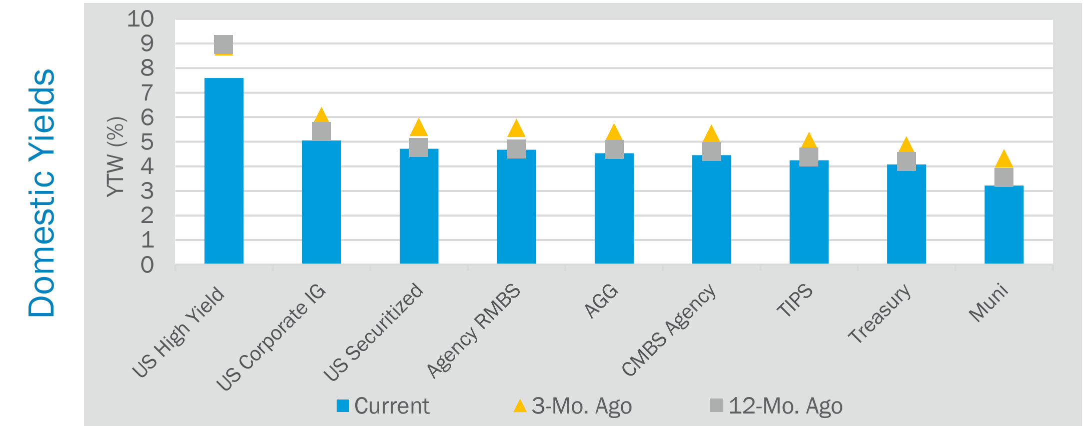


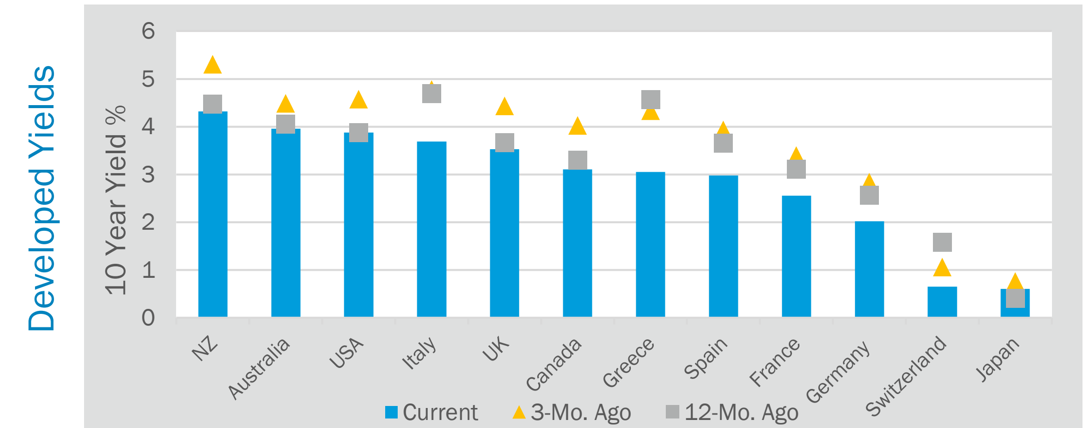


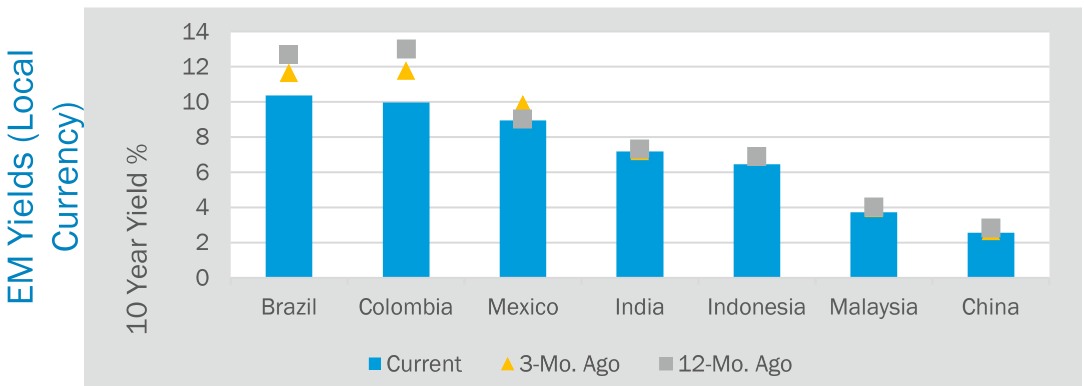


- The December fed funds rate forecast showed that rates could end the year in a range between 4.5% - 4.75% by the end of 2024 as represented by the Fed Dot Plot. This implies three rate cuts of 25 bps by the end of the year.
- As of the end of December, market participants expected six interest rate cuts of 25 basis points by the end of 2024.
- The Fed Dot Plot represents where each of the Federal Open Markets Committee (FOMC) members believe the fed funds rate will be in the future.
- The implied fed funds rate is where market participants believe the fed funds rate will be based on futures prices.

Source: Bloomberg. December FOMC Dot Plot. Fed Funds Futures as of time of December FOMC meeting. Implied Fed Funds Futures & Rate Hike Probabilities as of 12/31/2023.







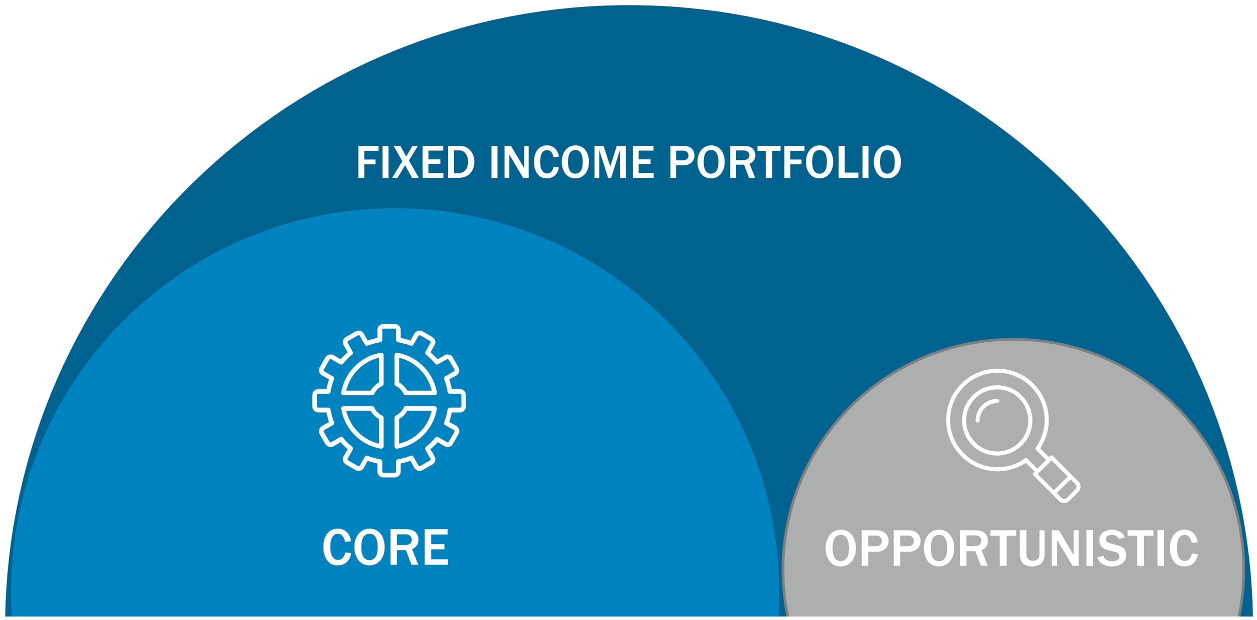
- The U.S. fixed income markets saw a strong rally over the quarter on the back of a dovish Fed.
- Global developed market yields fell on the Fed's rate expectations and on slower global growth prospects for 2024.
- Emerging markets (EM) sovereign yields generally fell during the quarter as inflation continued to trend lower in certain regions.
- Low-rate expectations in 2024 across developed markets also contributed to lower emerging market yields.
- Developed market and emerging market currency performance was generally positive relative to the U.S. dollar over the quarter.

Source: Bloomberg. Data as of 12/31/2023.

Factors that Affect Fixed Income Portfolios

Goals	• *Are clients seeking to preserve capital, generate total return, or blend the two within a fixed income segment?* • *What level of risk related to portfolio correlation is the client looking to incur?*
Interest Rate & Inflationary Environment	• *How does the current interest rate regime and inflationary environment affect return and risk (i.e. stagnant, slow-rise, rapid rise)?* • *What level of interest rate volatility is the client willing to take?*
Risk Tolerance	• *How much risk is a client willing to take?* • *Duration, yield curve positioning, sector exposure, credit exposure, the correlation to equities, and the client's distribution flows are important factors to measure.*
Tax Considerations	• *Is the client's status taxable or tax-exempt?* • *Does the client have a higher threshold given the respective tax situation?*
Time Horizon	• *Does the client have short term or long term goals?* • *Are spending requirements quarterly, annually, or longer?* • *Is spending consistent with the return/risk profile of the portfolio?*

Building a Fixed Income Portfolio



Core

Characteristics

- Low volatility
- Uncorrelated to equities
- U.S. Focus

Exposure

- Treasuries
- Agencies
- Investment grade corporate
- MBS

Opportunistic

Characteristics

- Income orientated
- Total return focus
- Uncorrelated to core bonds

Exposure

- Non-U.S. developed sovereigns
- EM sovereigns
- High yield
- Bank loans
- Private debt