



Canterbury Consulting

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## Quarterly Asset Class Report

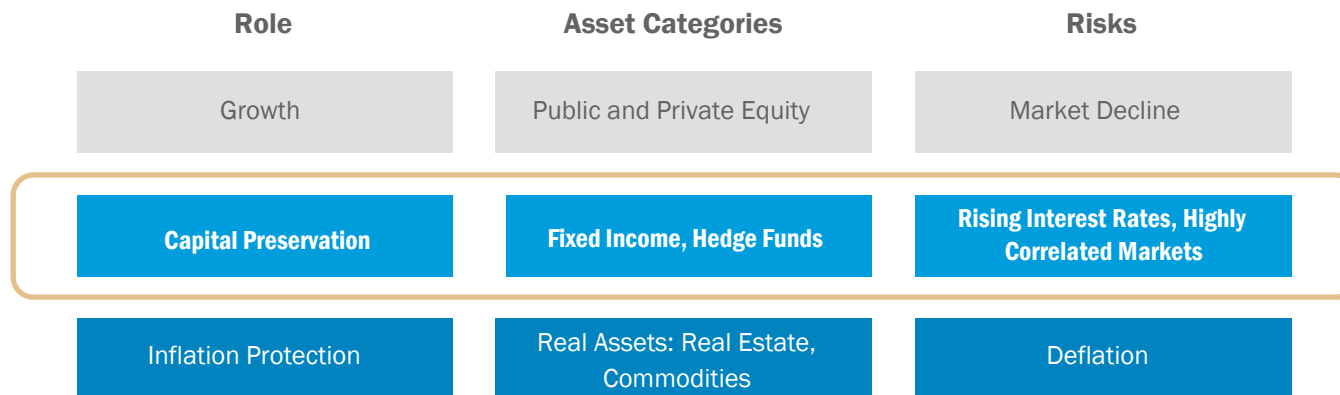
### Tax Exempt Fixed Income

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March 31, 2016

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	5.90	5.90	4.57	0.87	1.81	3.72	4.35
Barclays US Agg Bond	3.03	3.03	1.96	2.50	3.78	4.52	4.89
Canterbury Benchmark <sup>1</sup>	5.40	5.40	3.62	1.45	2.54	4.65	4.86

### U.S. Treasurys

BofAML 3M US Treasury Note	0.10	0.10	0.18	0.09	0.10	0.12	1.16
Barclays Short Treasury	0.19	0.19	0.27	0.17	0.17	0.22	1.33
Barclays Intermediate Treasury	2.35	2.35	2.25	1.53	2.59	2.43	4.04
Barclays Long Term US Treasury	8.15	8.15	2.77	6.13	9.66	6.73	7.97
Barclays U.S. Treasury TIPS 0-5Y	1.81	1.81	1.41	-0.45	0.72	2.08	2.96
Barclays US Treasury US TIPS	4.46	4.46	1.51	-0.71	3.02	4.16	4.62

### U.S. Corporate Credit

Barclays US Corp IG	3.97	3.97	0.92	3.03	5.17	7.98	5.82
S&P/LSTA Leveraged Loan	1.55	1.55	-1.25	1.85	3.23	8.98	4.27
BofAML US HY Master II	3.25	3.25	-3.99	1.75	4.71	12.35	6.85
BofAML US HY BB-B Constrained	3.15	3.15	-2.34	2.51	5.15	11.11	6.52
BofAML US Corporate AAA	4.42	4.42	2.87	3.47	4.49	5.19	4.69
BofAML US Corporate AA	3.68	3.68	2.46	3.20	4.56	6.27	4.97
BofAML US Corporate A	3.64	3.64	2.01	3.27	5.15	7.78	5.25
BofAML US Corps BBB	4.27	4.27	-0.36	2.73	5.36	9.39	6.53
BofAML US High Yield BB	3.71	3.71	-0.04	3.72	5.93	11.38	7.43
BofAML US High Yield B	2.45	2.45	-5.24	1.00	4.20	10.91	5.58
BofAML US High Yield CCC	3.82	3.82	-13.31	-2.69	1.81	15.15	6.54

### Securitized

Barclays ABS	1.36	1.36	1.71	1.38	2.46	4.87	3.40
Barclays MBS	1.98	1.98	2.43	2.70	3.24	3.68	4.85
Barclays CMBS	3.50	3.50	2.89	2.49	4.24	9.73	5.72

### Municipals

Barclays Municipal	1.67	1.67	3.98	3.63	5.59	5.59	4.86
Barclays Muni 1-10	1.11	1.11	2.55	2.21	3.25	3.46	3.97

### Global

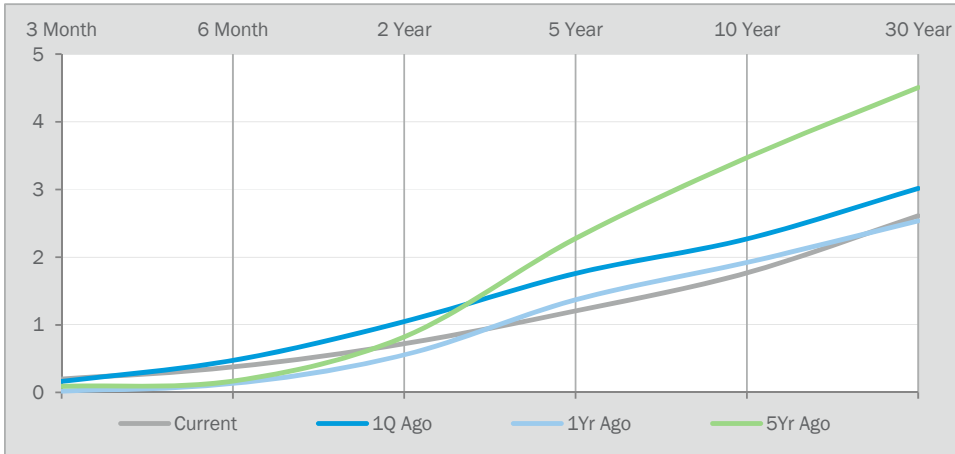
Citi WGBI	7.09	7.09	5.92	0.49	1.16	2.74	4.19
Barclays Gbl Agg Ex USD	8.26	8.26	6.69	-0.32	0.39	3.11	3.89
JPM EMBI Plus	5.94	5.94	5.88	2.78	6.08	9.26	7.12

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

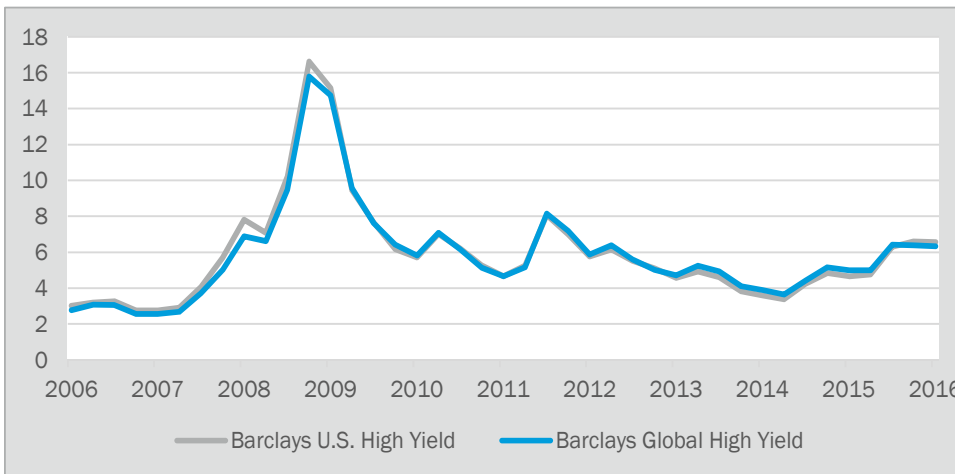
# Market Environment

## Fixed Income

### U.S. Treasury Rates



### High Yield Spreads



### World Bond Yields

10-Year Sovereign Rates (%)										
Country	US	JAP	CHI	GER	ITL	FRA	UK	BRA	SPA	CAN
Rates (3/31)	1.77	-0.04	2.82	0.15	1.22	0.48	1.41	5.39	1.43	1.22
Rates (12/31)	2.27	0.26	2.81	0.63	1.59	0.98	1.96	7.12	1.76	1.39

- U.S. long-term interest rates declined along the yield curve as global growth (and recessionary) concerns came to the forefront and rates in Japan and Europe went negative or moved closer to zero
- High yield bonds had a volatile quarter, however the BoFA Master II High Yield Index was up 3.25% by the end of March. High yield started to rebound by the middle of February as commodity and oil prices bounced back from their lows
- Rates declined and currencies appreciated in several EM countries as a dovish Fed and a rebound in commodity prices took priority. Positive investor sentiment in the second half of the quarter led to a rally in emerging markets

# Portfolio Characteristics

## Fixed Income

### Sector Distribution

	Baseline Portfolio	Barclays Global Aggregate	Barclays Aggregate
US Treasury	22.7%	18.8%	36.4%
Agency	2.7%	6.1%	8.2%
Local Authority (non-US)	0.5%	12.4%	0.0%
Municipal (US)	1.1%	0.0%	0.0%
Sovereign (non-US)	18.6%	26.8%	0.0%
Supranational	0.2%	2.2%	0.0%
Corporate	14.1%	18.0%	24.3%
Bank Loans	4.0%	0.0%	0.0%
MBS	28.1%	15.7%	28.6%
ABS	2.7%	0.0%	0.6%
CMBS	2.9%	0.0%	1.8%
Other & Cash	2.4%	0.0%	0.1%

### Regional Distribution - Country Allocation

	Baseline Portfolio	Barclays Global Aggregate	Barclays Aggregate
US	69.6%	38.7%	100.0%
Non-US Developed	15.7%	55.8%	0.0%
Non-US Emerging	14.7%	5.5%	0.0%

### Regional Distribution - Currency Allocation

	Baseline Portfolio	Barclays Global Aggregate	Barclays Aggregate
US	87.2%	44.9%	100.0%
Non-US Developed	-0.5%	52.5%	0.0%
Non-US Emerging	13.3%	2.6%	0.0%

### Portfolio Characteristics

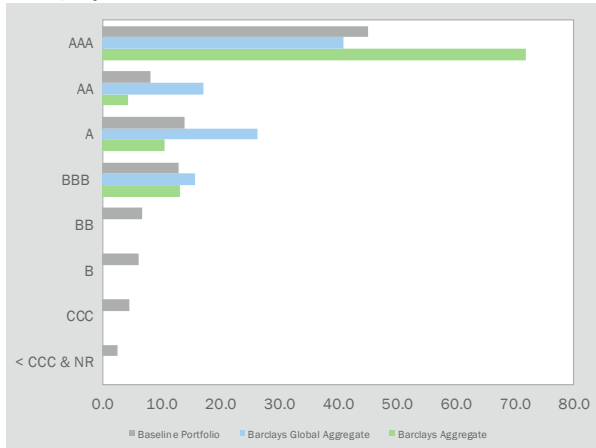
	Baseline Portfolio	Barclays Global Aggregate	Barclays Aggregate
Effective Duration	4.17	6.60	5.68
Yield to Maturity (%)	3.82	1.77	2.59
Coupon Rate (%)	3.85	2.96	3.18
Average Credit Quality (Barclays)	A	AA	AA

### Portfolio Checklist

	Baseline Portfolio	Barclays Global Aggregate	Barclays Aggregate
Yield <sup>1</sup>	✓	✓	✓
Duration <sup>2</sup>	✓	✓	✓
Credit Quality <sup>3</sup>	✓	✓	✓
Sector Diversification <sup>4</sup>	✓	✓	✗
Region Diversification <sup>5</sup>	✓	✓	✗

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
- Canterbury recommends maintaining a portfolio of high quality securities that is rated investment grade or better on average. This reaffirms that fixed income helps mitigate risk and increases diversification in a portfolio
- Due to low yields in non-U.S. developed fixed income markets, investors should maintain an underweight exposure to the region relative to the Barclays Global Aggregate