



Canterbury Consulting

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Quarterly Asset Class Report

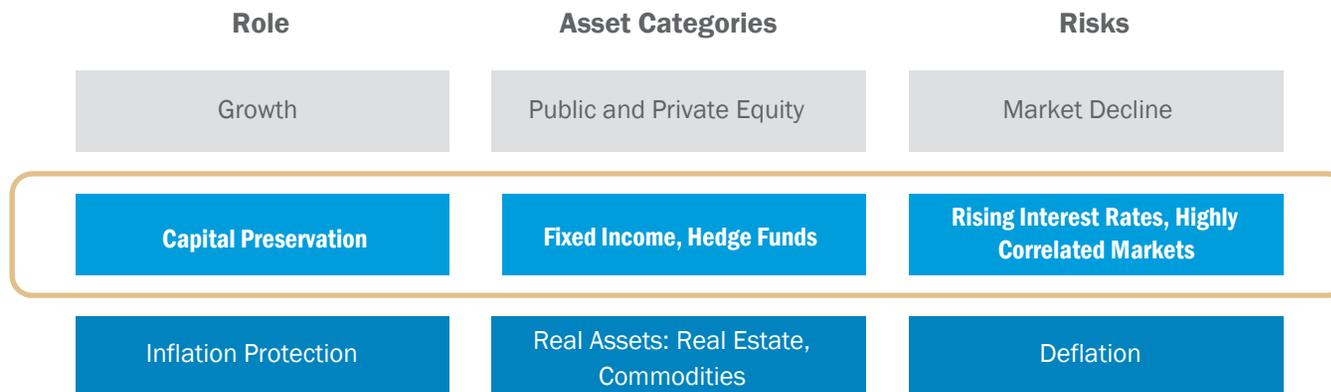
Taxable Fixed Income

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September 30, 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 after-tax wealth and mitigate volatility
- (ii) Maintain comparable exposure to the broad municipal market
- (iii) 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
- 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

Index Returns

Fixed Income

	QTD	YTD	1 Year	3 Years	5 Years	7 Years	10 Years
Barclays Global Aggregate	1.76	6.25	-1.26	1.30	0.48	1.62	3.31
Barclays US Agg Bond	0.85	3.14	0.07	2.71	2.06	2.95	4.27

U.S. Treasuries

BofAML 3M US Treasury Note	0.26	0.54	0.60	0.32	0.22	0.19	0.50
Barclays Short Treasury	0.28	0.58	0.67	0.41	0.30	0.27	0.65
Barclays Intermediate Treasury	0.34	1.56	-0.73	1.59	1.00	1.62	3.15
Barclays Long Term US Treasury	0.58	6.02	-6.35	4.85	2.84	5.27	6.89
Barclays U.S. Treasury TIPS 0-5Y	0.48	0.67	0.51	0.63	0.22	1.18	2.27
Barclays US Treasury US TIPS	0.86	1.72	-0.73	1.62	0.02	2.64	3.90

U.S. Corporate Credit

Barclays US Corp IG	1.34	5.19	2.21	4.10	3.46	4.61	5.74
S&P/LSTA Leveraged Loan	1.04	2.97	5.30	3.87	4.09	4.75	4.72
BofAML US HY Master II	2.04	7.05	9.06	5.86	6.38	7.34	7.72
BofAML US HY BB-B Constrained	1.94	6.57	7.91	5.79	6.15	7.10	7.25
BofAML US Corporate AAA	1.41	5.76	0.75	4.14	2.77	3.51	4.24
BofAML US Corporate AA	1.02	3.96	0.83	3.62	2.85	3.64	4.55
BofAML US Corporate A	1.20	4.67	1.40	3.88	3.17	4.27	4.99
BofAML US Corps BBB	1.58	6.11	3.38	4.16	4.03	5.27	6.68
BofAML US High Yield BB	2.05	6.79	7.52	6.43	6.37	7.27	8.00
BofAML US High Yield B	1.80	6.36	8.60	5.12	5.89	6.94	6.41
BofAML US High Yield CCC	2.65	9.78	16.30	6.64	7.73	8.49	8.72

Securitized

Barclays ABS	0.42	1.56	0.86	1.80	1.33	1.95	2.88
Barclays MBS	0.96	2.32	0.30	2.44	1.96	2.72	4.13
Barclays CMBS	0.79	2.89	-0.35	2.58	2.10	3.63	5.04

Municipals

Barclays Municipal	1.06	4.66	0.87	3.19	3.01	3.87	4.52
Barclays Muni 1-10	0.65	3.43	1.03	1.96	1.90	2.48	3.52

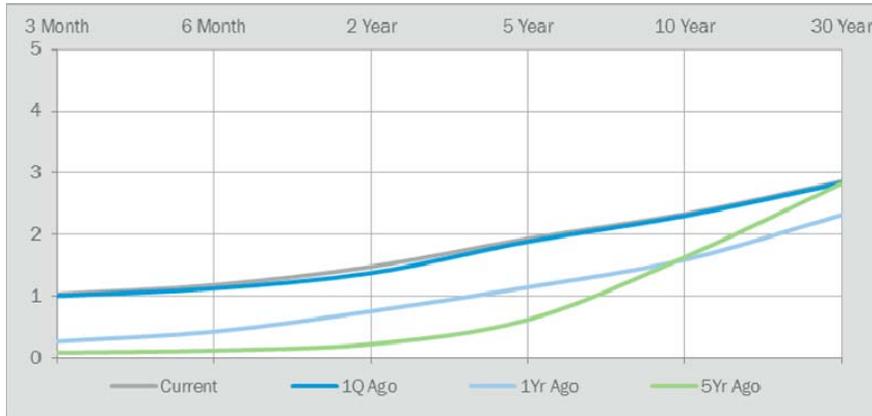
Global

Citi WGBI	1.81	6.38	-2.69	0.88	-0.43	0.80	2.95
Barclays Gbl Agg Ex USD	2.48	8.74	-2.42	0.20	-0.73	0.62	2.57
JPM EMBI Plus	2.23	8.64	2.86	6.30	4.03	5.82	7.10

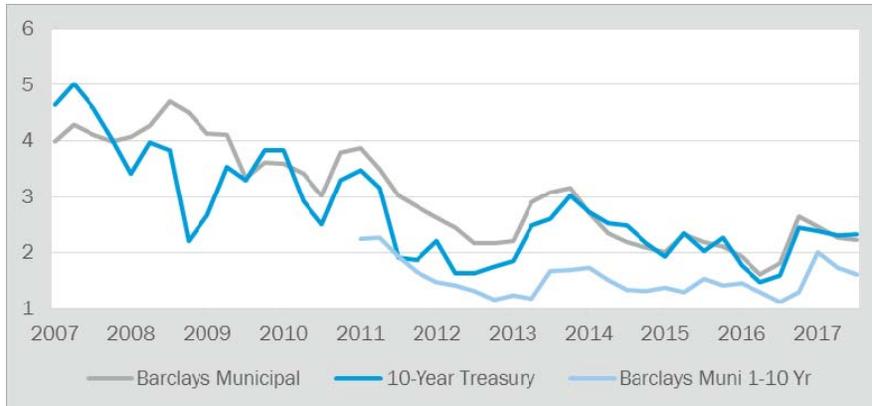
Market Environment

Fixed Income

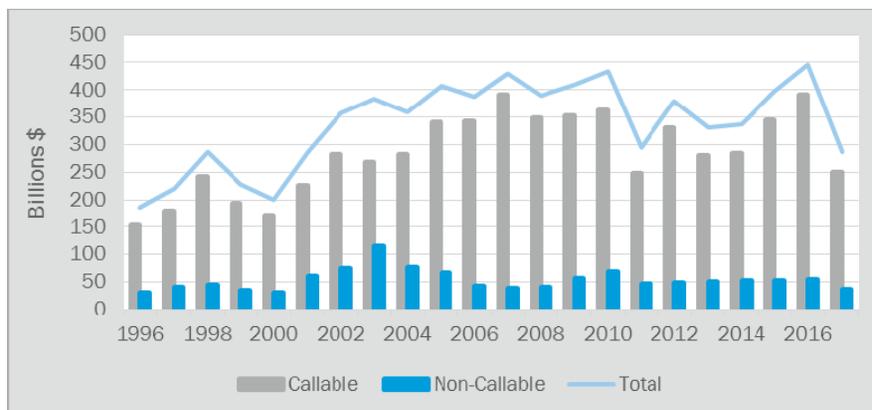
U.S. Treasury Rates



Yields



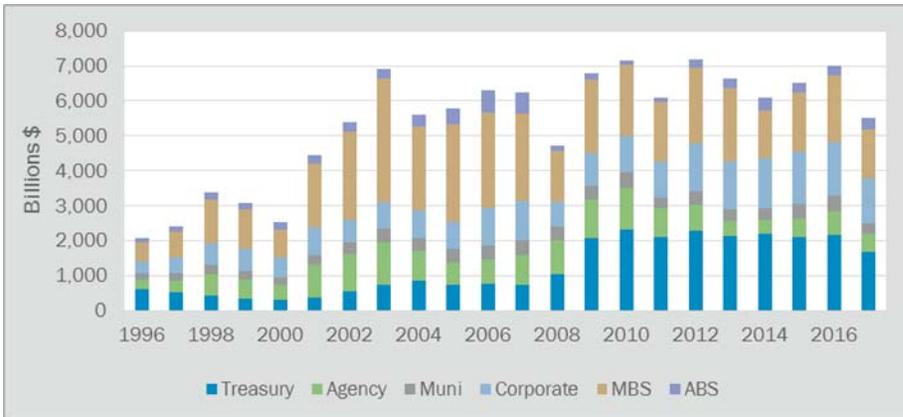
U.S. Municipal Issuance



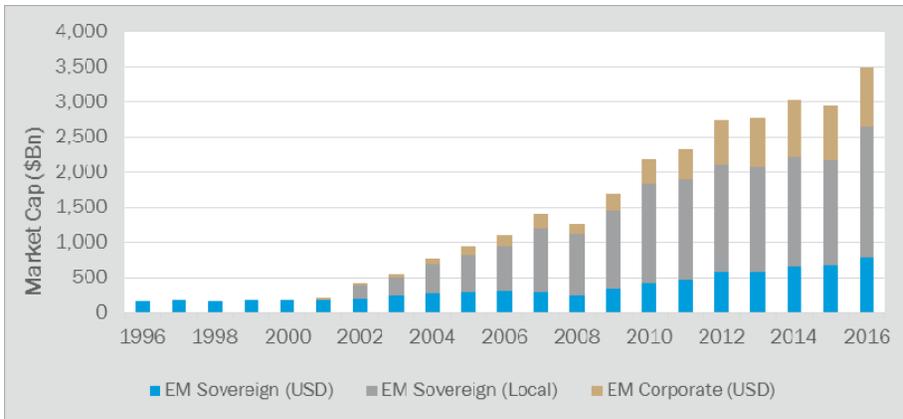
- Fixed income posted positive performance as market participants anticipated a gradual pace for rate hikes. The FOMC decided to keep the target federal funds rate neutral over the quarter, however, the group outlined a plan to reduce the Fed’s treasury and agency holdings. The Fed will take a cautious approach to reducing the balance sheet over time
- High yield and EM debt continued to perform well as investors continued to add to riskier assets. Positive U.S. growth and constructive consumer spending led to tighter spreads
- Non-U.S. interest rates remained range-bound over the quarter. European HY debt rates went below those of treasuries as foreign investors continued their search for yield
- Municipal bonds performed well as rates stayed range-bound. The Trump Administration’s comments on Puerto Rico’s debt and damage from the hurricanes negatively affected the country’s distressed bonds

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
- Non-U.S. interest rates remained range-bound over the quarter. European HY debt rates went below those of treasuries as foreign investors continued their search for yield

Portfolio Characteristics

Fixed Income

Sector Distribution

	Current Portfolio	Barclays Municipal Bond Index	Barclays 1-10 YR Muni Bond
US Treasury	2.6%	0.0%	0.0%
Agency	3.3%	0.0%	0.0%
Local Authority (non-US)	0.3%	0.0%	0.0%
Municipal (US)	45.7%	100.0%	100.0%
Sovereign (non-US)	17.7%	0.0%	0.0%
IG Corporate	2.6%	0.0%	0.0%
HY Corporate	7.3%	0.0%	0.0%
Bank Loans	2.7%	0.0%	0.0%
MBS	7.8%	0.0%	0.0%
ABS	0.3%	0.0%	0.0%
CMBS	0.7%	0.0%	0.0%
CLO	0.0%	0.0%	0.0%
Other & Cash	8.6%	0.0%	0.0%

Regional Distribution - Country Allocation

	Current Portfolio	Barclays Municipal Bond Index	Barclays 1-10 YR Muni Bond
US	73.9%	100.0%	100.0%
Non-US Developed	14.5%	0.0%	0.0%
Non-US Emerging	11.7%	0.0%	0.0%

Currency Allocation

	Current Portfolio	Barclays Municipal Bond Index	Barclays 1-10 YR Muni Bond
US	89.0%	100.0%	100.0%
Non-US Developed	-2.6%	0.0%	0.0%
Non-US Emerging	13.7%	0.0%	0.0%

Portfolio Characteristics

	Current Portfolio	Barclays Municipal Bond Index	Barclays 1-10 YR Muni Bond
Effective Duration	3.04	5.15	4.04
Yield to Maturity (%)	4.07	2.14	1.72
Coupon Rate (%)	4.79	4.74	4.81
Average Credit Quality (Barclays)	AA	AA	AA

Portfolio Checklist

	Current Portfolio	Barclays Municipal Bond Index	Barclays 1-10 YR Muni Bond
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

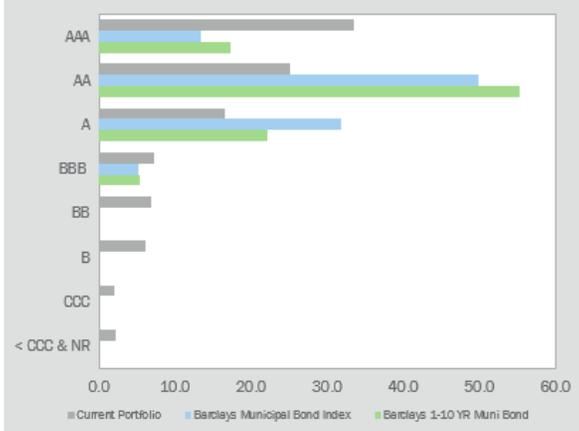
2. Duration should not exceed the benchmark

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: 50% Municipals, 30% Global, 10% Credit, and 10% Mortgage-Backed
Source of Benchmark Information: Barclays

- Depending on a client's equity exposure, duration and credit allocations can fluctuate 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 maximize the risk return relationship of fixed income portfolios by spreading risk across several factors (interest rate, credit, prepayment, liquidity, currency, political, counterparty, etc.)