



Canterbury Consulting

Quarterly Asset Class Report Taxable Fixed Income

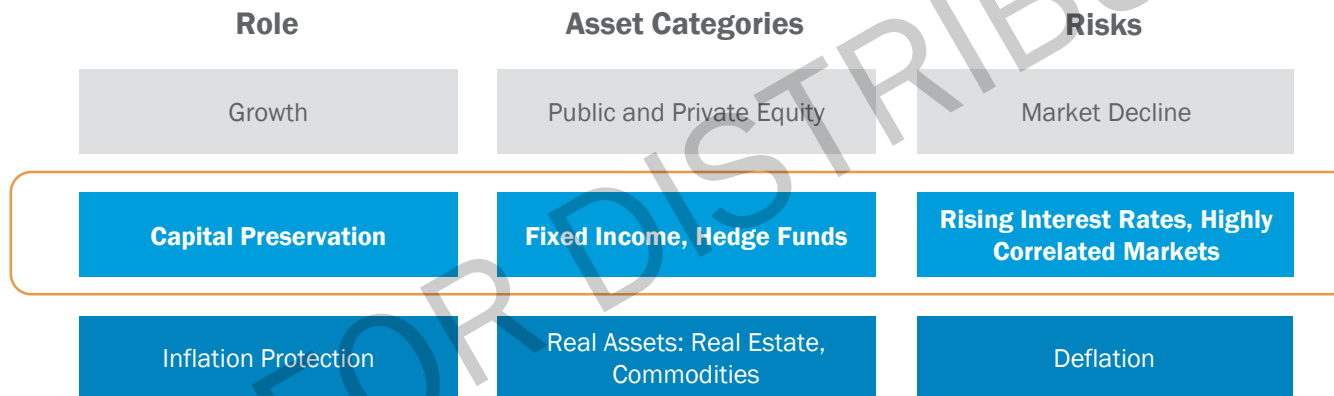
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canterburyconsulting.com

September 30, 2021

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 set up with a goal to deliver consistent after-tax and net-of-fees excess returns and moderate tracking error versus the Barclays Municipal Bond Index. The goal for taxable fixed income portfolios are to have a high quality bias with sensitivity toward taxes.
- Canterbury’s fixed income portfolios seek to exhibit benchmark-like, after-tax yields and credit quality through more portfolio diversification and lower duration. Portfolio diversification will depend on the client’s state of domicile and individual goals (i.e. income vs. capital preservation).

Index Returns as of September 30, 2021

Fixed Income

	QTD	YTD	1 Year	3 Years	5 Years	7 Years	10 Years
Barclays Global Aggregate	-0.88	-4.06	-0.91	4.24	1.99	2.17	1.86
Barclays US Agg Bond	0.05	-1.55	-0.90	5.35	2.94	3.26	3.01

U.S. Treasuries

BofAML 3M US Treasury Note	0.01	0.08	0.09	1.24	1.18	0.90	0.65
Barclays Short Treasury	0.02	0.06	0.08	1.35	1.25	0.97	0.72
Barclays Intermediate Treasury	-0.01	-1.15	-1.38	4.00	1.98	2.21	1.81
Barclays Long Term US Treasury	0.47	-7.49	-10.27	9.21	3.31	5.43	4.39
BBgBarc U.S. Treasury TIPS 1-5Y	1.39	4.31	5.86	4.96	3.18	2.50	1.94
Barclays US Treasury US TIPS	1.75	3.51	5.19	7.45	4.34	3.90	3.12

U.S. Corporate Credit

Barclays US Corp IG	0.00	-1.27	1.74	7.44	4.61	4.74	4.87
S&P/LSTA Leveraged Loan	1.11	4.42	8.40	4.14	4.58	4.18	4.91
BofAML US HY Master II	0.94	4.67	11.46	6.62	6.36	5.76	7.29
BofAML US HY BB-B Constrained	0.94	3.84	9.76	6.89	6.16	5.75	7.08
BofAML US Corporate AAA	-0.42	-3.32	-1.82	7.90	4.52	4.91	4.01
BofAML US Corporate AA	-0.11	-1.87	-0.12	6.39	3.78	4.14	4.03
BofAML US Corporate A	-0.19	-1.90	0.13	6.93	4.11	4.40	4.55
BofAML US Corps BBB	0.06	-0.32	3.63	7.95	5.21	5.02	5.50
BofAML US High Yield BB	1.07	3.78	9.74	8.16	6.54	6.35	7.41
BofAML US High Yield B	0.69	4.02	9.97	5.47	5.77	5.09	6.72
BofAML US High Yield CCC	1.01	10.62	24.11	3.63	6.87	5.49	8.12

Securitized

Barclays ABS	0.05	0.23	0.59	3.50	2.36	2.34	2.13
Barclays MBS	0.10	-0.67	-0.43	3.85	2.17	2.55	2.41
Barclays CMBS	-0.03	-0.53	0.52	5.81	3.25	3.49	3.80

Municipals

Barclays Municipal	-0.27	0.79	2.63	5.06	3.26	3.57	3.87
Barclays Muni 1-10	0.02	0.32	1.15	3.68	2.36	2.37	2.47

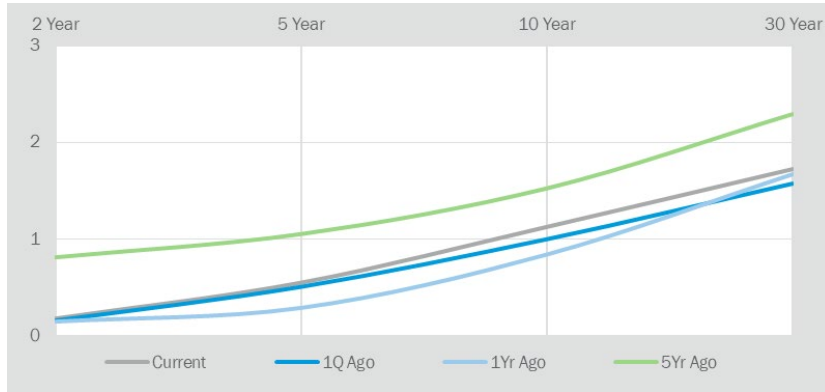
Global

Citi WGBI	-1.24	-5.93	-3.33	3.73	1.35	1.74	1.06
Barclays Gbl Agg Ex USD	-1.59	-5.94	-1.15	3.17	1.10	1.22	0.90
JPM EMBI Plus	-1.11	-4.20	1.20	4.68	2.31	3.92	4.80

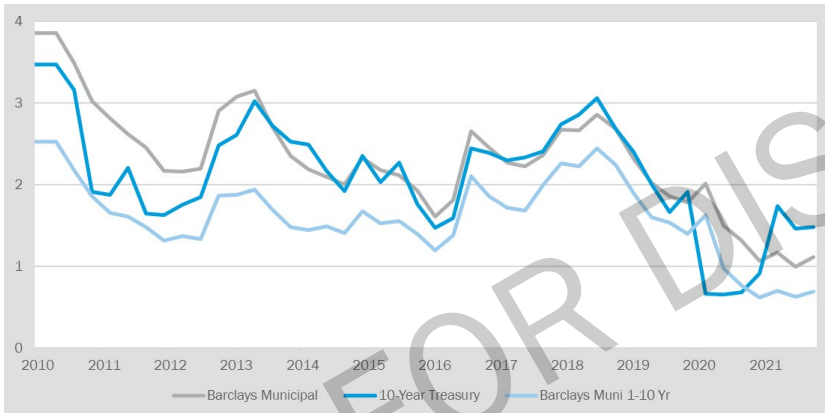
Market Environment as of September 30, 2021

Fixed Income

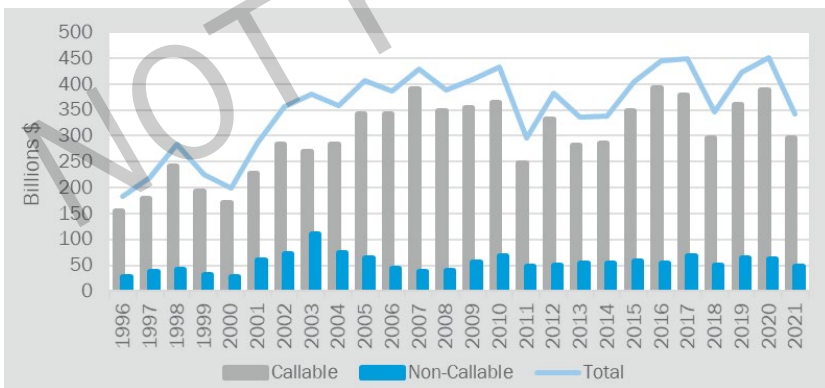
Municipal Yield Curve



Yield Comparison



U.S. Municipal Issuance

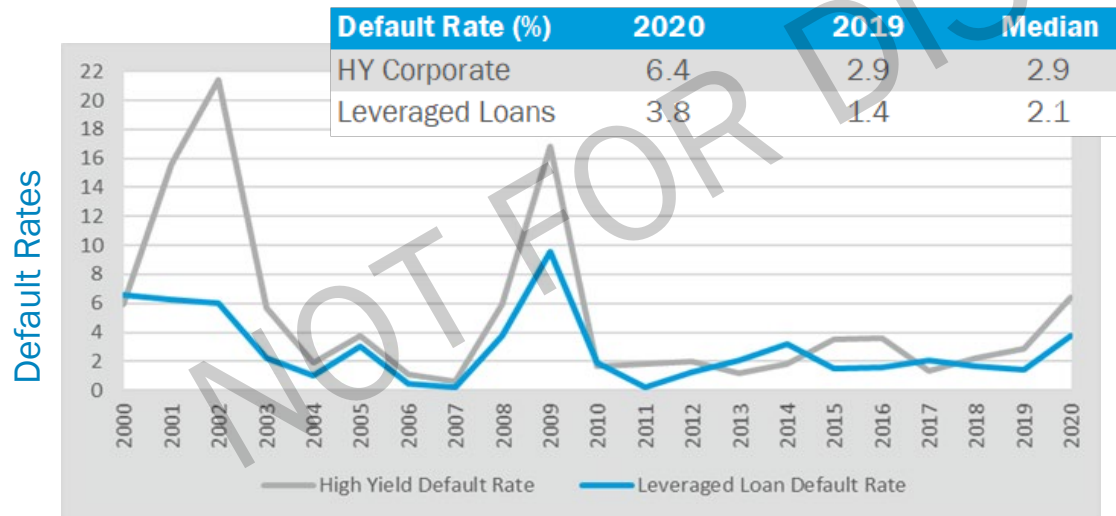
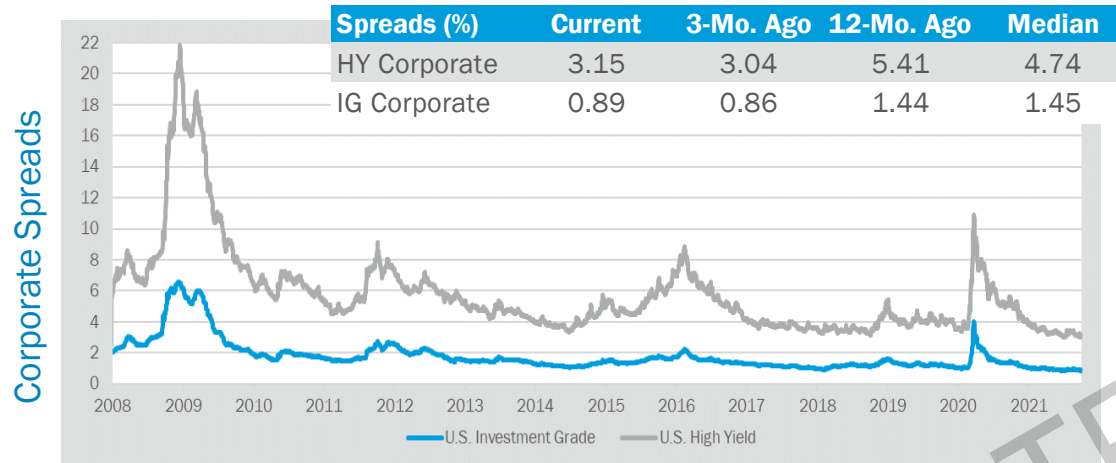


- In September, the Fed expressed a slightly more hawkish tone by hinting at implementing an asset purchase taper program by year-end. By moving up the taper timeline, the central bank is signaling adequate economic growth and employment conditions while acknowledging that inflation is meeting or exceeding the 2% target.
- The treasury yield curve experienced volatility but did not meaningfully change quarter-over-quarter. However, the long end of the yield curve steepened during the last week of September and the first week of October as inflation concerns persisted.
- The municipal bond curve marginally steepened over the quarter in response to the Fed's hawkish stance around policy support.
- The Muni/Treasury ratio slightly increased, particularly in longer dated maturities as long-term municipal yields rose more relative to Treasuries.
- Municipal bond issuance slowed down in the third quarter but YTD issuance is still higher than 2020 levels by approximately 4%.

Sources: Securities Industry and Financial Markets Association (SIFMA), U.S. Treasury Department, Barclays, Bloomberg

Market Environment as of September 30, 2021

Fixed Income



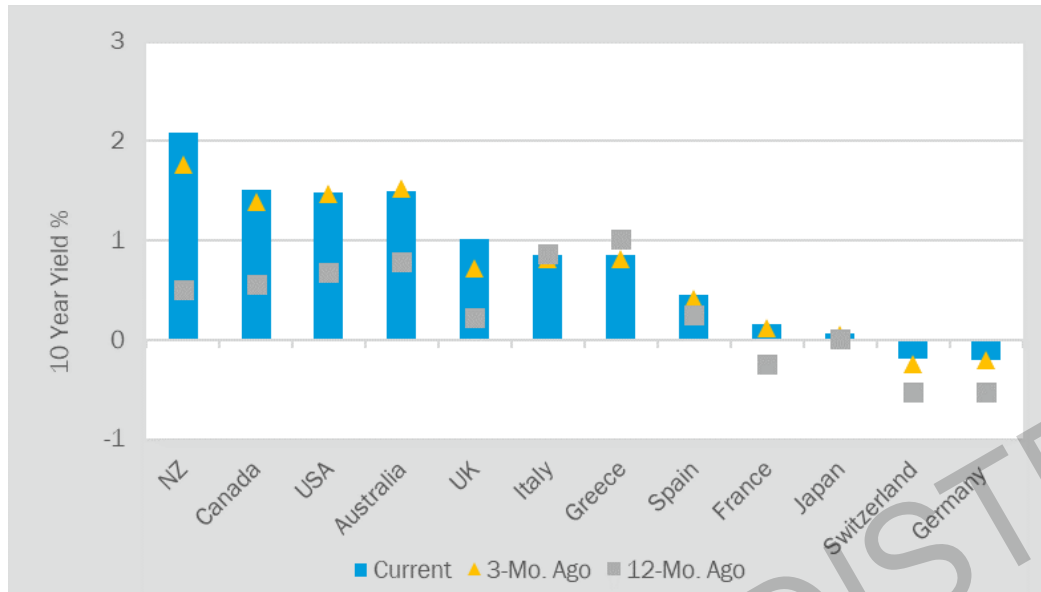
- Investment grade (IG) and high yield (HY) credit spreads marginally widened over the quarter.
- The Evergrande credit situation resulted in a selloff across select emerging market debt. In general, spreads remain at historic tights.

Sources: Federal Reserve Economic Data, World Bank, U.S. Treasury Department, Barclays

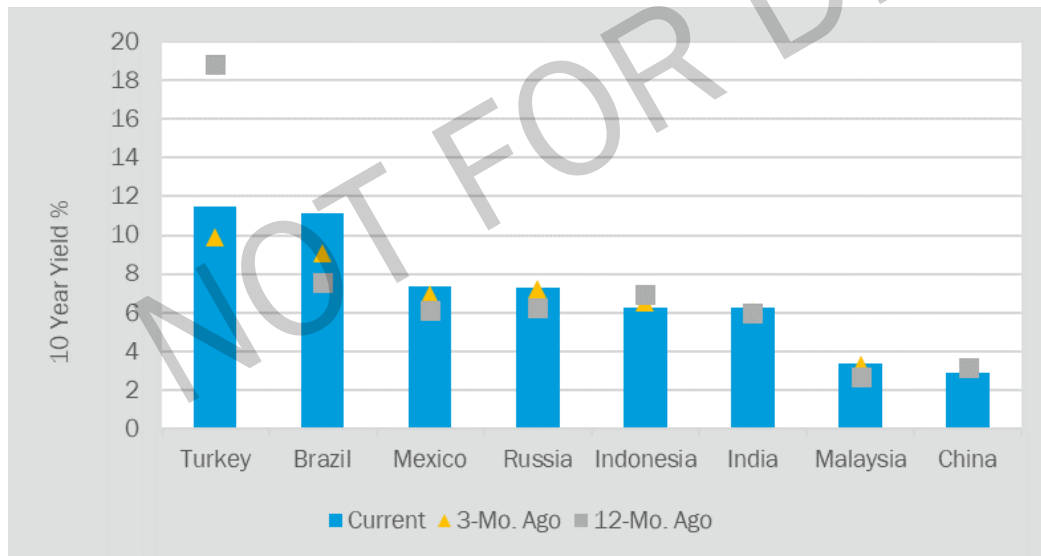
Market Environment as of September 30, 2021

Fixed Income

Developed Yields



EM Yields (Local Currency)



- Developed sovereign bond yields marginally increased over the quarter. Countries that faced inflation concerns and hawkish central bank signaling saw long-term yields rise higher than others.
- Emerging markets (EM) sovereign debt also experienced higher rates given the Evergrande situation.
- EM currencies underperformed in the third quarter as the U.S. Fed signaled a decrease in policy support, causing the dollar to appreciate relative to most EM currencies.

Source: Bloomberg



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.



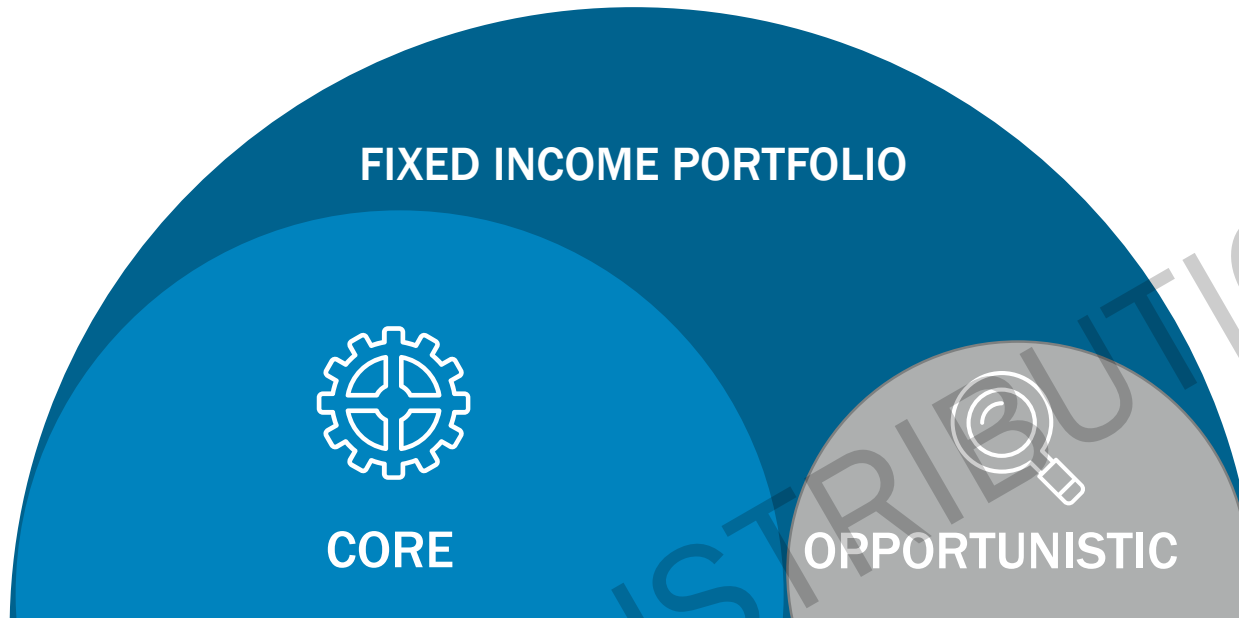
Tax Considerations

- 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?



Characteristics

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



Exposure

- Treasuries
- Agencies
- Investment grade corporate
- MBS



Characteristics

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



Exposure

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