CanterburyConsulting

Quarterly Asset Class Report

Global Equity

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March 31, 2015

Role in the Portfolio

Canterbury Consulting recommends and communicates asset-class strategy with the objective of constructing a diversified portfolio of long-only equity strategies designed to (in aggregate):

(i) Provide growth of portfolio assets in excess of inflation and spending rates

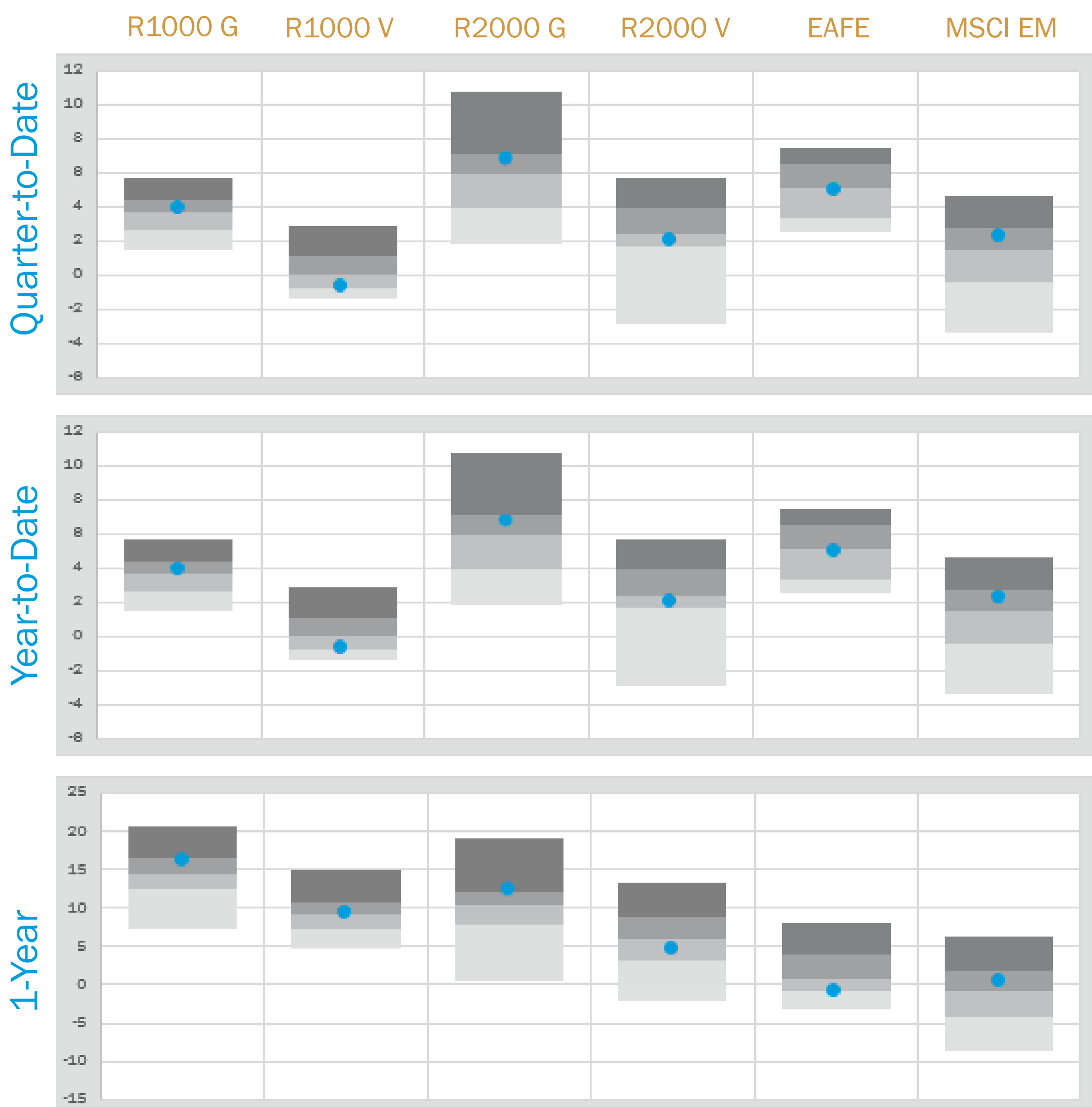
(ii) Maintain comparable exposure to the global equity market

(iii) Exhibit returns uncorrelated to fixed income 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 global equity portfolios are expected to deliver consistent net of fees excess returns and moderate tracking error versus the MSCI All Country World Index over longer periods of time
- Relative to the index, Canterbury equity portfolios will employ higher allocations to small- and mid-cap equities, comparable volatility (achieved through manager selection), and moderate tracking error

Performance (%) as of March 31, 2015



Blue dots represent the returns of the benchmark; gray floating bar charts represent the peer groups by quartile
Source: Morningstar Direct

- After U.S. large cap stocks outperformed their small cap counterparts for the first three quarters of 2014, we have seen two consecutive quarters of outperformance from small caps
- The most noticeable dispersion in the quarter was between growth and value, where growth stocks outperformed value across the market capitalization spectrum
- Results for active managers were mixed in the first quarter of 2015
  - U.S. growth indices were difficult to beat whereas value indices performed well below the median manager (large and small cap)
  - Non-U.S. developed markets continue to be an area where active managers are able to outperform, the 1-year peer group rank for the index is in the 4th quartile

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Market Capitalization Mix

Equity: U.S. Market Cap

		Current	10 Year Avg	Deviation from Mean*	Large	Neutral	Small
Valuation	Russell Top 200 Current P/E (Large Cap)	17.52	15.60	1.20			+
	R2000 Current P/E (Small Cap)	45.38	84.09	-0.23		-	
	Avg P/E Ratio (Large/Small)	0.39	0.36	0.16		-	
	Russell Top 200 EV/EBITDA^ (Large Cap)	11.34	9.96	0.99		-	
	R2000 EV/EBITDA (Small Cap)	13.52	12.54	0.54		-	
	Avg EV/EBITDA Ratio (Large/Small)	0.84	0.81	0.26		-	
	Russell Top 200 P/S (Large Cap)	1.86	1.53	1.40			+
	R2000 P/S (Small Cap)	1.22	1.00	1.14	+		
	Avg P/S Ratio (Large/Small)	1.53	1.54	-0.06		-	
Solvency	Russell Top 200 Debt/EBITDA (Large Cap)	3.95	5.05	-1.12	+		
	Russell 2000 Debt/EBITDA (Small Cap)	4.67	5.09	-0.65		-	
	Avg Debt/EBITDA Ratio (Large/Small)	0.85	1.01	-0.67		-	
Growth	Russell Top 200 LT EPS Gr (Fwd) (Large Cap)	8.13	2.87	0.09		-	
	R2000 LT EPS Gr (Fwd) (Small Cap)	8.85	10.99	-1.30	+		
	Avg Growth Ratio (Large/Small)	0.92	0.31	0.12		-	
Economy	Case Shiller Home Price (YoY)	4.56	0.75	0.38		-	
	Total Leading Economic Indicators	121.40	111.01	1.04			+
	Currency (USD v Broad Basket)	98.36	81.71	3.26			++
	Curve Steepness 2's to 10's	1.37	1.50	-0.15		-	

**Deviation from mean represents how many standard deviations the current value is above or below the 10-year average, also known as the "Z-Score"*
^EV/EBITDA, also known as the "enterprise multiple," is a ratio used to determine the value of a company. Unlike P/E, the enterprise multiple takes debt into account. This is often the ratio used by companies looking to acquire another business

- There are various valuation metrics used to determine the relative attractiveness of the equity universe – Canterbury prefers Price/Earnings, EV/EBITDA, and Price/Sales. No one metric is a sole determinant
- Despite having a strong quarter relative to large cap stocks, small caps look slightly less expensive
- The solvency data suggest a bias toward large cap stocks. The table to the left shows that large cap companies, in general, are carrying less debt on their balance sheets than their small cap counterparts
- The growth and economic metrics shown are split with growth slightly in favor of large cap stocks but a strengthening U.S. dollar will present a relative tailwind for smaller, generally more domestically oriented, businesses

Source: Russell

Region Mix – U.S. vs. Global

	Equity: Region (U.S./Global)	Current	10 Year Avg	Deviation from Mean*	U.S.	Neutral	R.O.W.
Valuation	S&P 500 Current P/E	18.28	16.35	0.98		-	
	MSCI ACWI Current P/E	17.31	16.53	0.20		-	
	Avg P/E Ratio (US /ACWI)	1.06	1.01	0.46		-	
	S&P 500 EV/EBITDA^	11.66	10.14	1.26			+
	MSCI ACWI EV/EBITDA	10.19	9.48	0.68		-	
	Avg EV/EBITDA Ratio (US/ACWI)	1.14	1.07	1.43			+
	S&P 500 P/S	1.80	1.41	1.67			+
	MSCI ACWI P/S	1.36	1.19	0.87		-	
	Avg P/S Ratio (US/ACWI)	1.33	1.19	1.53			+
Solvency	S&P 500 Debt/EBITDA	3.83	4.89	-1.18	+		
	MSCI ACWI Debt/EBITDA	5.44	6.42	-1.38			+
	Avg Debt/EBITDA Ratio (US/ACWI)	0.70	0.76	-0.62		-	
Growth	S&P 500 LT EPS Gr (Fwd)	7.94	2.68	0.07		-	
	MSCI ACWI LT EPS Gr (Fwd)	14.61	11.67	0.14		-	
	Avg Growth Ratio (US/ACWI)	0.54	0.73	-0.10		-	
Economy	Currency (USD v Broad Basket)	98.36	81.71	3.26			++

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- In general, the valuation results are strongly in favor of the rest of the world ("R.O.W.") relative to the U.S. This relationship decreased slightly in the first quarter as non-U.S. stocks, in general, outperformed their U.S. counterparts
- The solvency data is mixed, slightly favoring the U.S. as these businesses tend to hold less debt on their balance sheet
- The growth metrics are fairly neutral, with the current market showing very little deviation from historical averages
- A strong U.S. Dollar should provide a tailwind for the R.O.W. relative to the U.S., current levels are well above their historical averages

Source: MSCI and Standard & Poor's

Region Mix – Non-U.S. Developed vs. Global

Equity: Region (Non-U.S. Dev/Global)		Current	10 Year Avg	Deviation from Mean*	Non-U.S. Dev	Neutral	R.O.W.
Valuation	MSCI EAFE Current P/E	17.84	19.99	-0.12		-	
	MSCI ACWI Current P/E	17.31	16.53	0.20		-	
	Avg P/E Ratio (EAFE/ACWI)	1.03	1.12	-0.20		-	
	MSCI EAFE EV/EBITDA^	9.07	9.13	-0.05		-	
	MSCI ACWI EV/EBITDA	10.19	9.48	0.68		-	
	Avg EV/EBITDA Ratio (EAFE/ACWI)	0.89	0.96	-1.78	+		
	MSCI EAFE P/S	1.05	0.97	0.43		-	
	MSCI ACWI P/S	1.36	1.19	0.87		-	
	Avg P/S Ratio (EAFE/ACWI)	0.77	0.81	-0.94		-	
Solvency	MSCI EAFE Debt/EBITDA	7.30	8.84	-1.38	+		
	MSCI ACWI Debt/EBITDA	5.44	6.42	-1.38			+
	Avg Debt/EBITDA Ratio (EAFE/ACWI)	1.34	1.38	-0.46		-	
Growth	MSCI EAFE LT EPS Gr (Fwd)	5.62	8.53	-0.09		-	
	MSCI ACWI LT EPS Gr (Fwd)	7.75	11.79	-0.18		-	
	Avg Growth Ratio (EAFE/ACWI)	0.73	0.89	-0.07		-	
Economy	USD/EUR	1.07	1.34	-2.73			++

**Deviation from mean represents how many standard deviations the current value is above or below the 10-year average, also known as the "Z-Score"*
^EV/EBITDA, also known as the "enterprise multiple," is a ratio used to determine the value of a company. Unlike P/E, the enterprise multiple takes debt into account. This is often the ratio used by companies looking to acquire another business

- In general, the valuation results are fairly neutral, slightly favoring an overweight to non-U.S. developed countries versus the R.O.W.
- Solvency levels are high globally and in non-U.S. developed countries. The current ratio between the two regions are almost exactly in line with their long-term average
- The growth metrics are neutral, with the current market showing very little deviation from historical averages
- A strengthening U.S. Dollar presents a tailwind for non-U.S. developed countries

Source: MSCI

Region Mix – Emerging Markets vs. Global

	Equity: Region (EM/Global)	Current	10 Year Avg	Deviation from Mean*	EM	Neutral	R.O.W.
Valuation	MSCI EM Current P/E	12.64	13.31	-0.24		-	
	MSCI ACWI Current P/E	17.31	16.53	0.20		-	
	Avg P/E Ratio (EM/ACWI)	0.73	0.81	-0.85		-	
	MSCI EM EV/EBITDA^	7.55	7.82	-0.22		-	
	MSCI ACWI EV/EBITDA	10.19	9.48	0.68		-	
	Avg EV/EBITDA Ratio (EM/ACWI)	0.74	0.82	-0.99		-	
	MSCI EM P/S	1.04	1.28	-0.81		-	
	MSCI ACWI P/S	1.36	1.19	0.87		-	
	Avg P/S Ratio (EM/ACWI)	0.77	1.07	-1.70	+		
Solvency	MSCI EM Debt/EBITDA	4.09	3.02	1.59			+
	MSCI ACWI Debt/EBITDA	5.44	6.42	-1.38			+
	Avg Debt/EBITDA Ratio (EM/ACWI)	0.75	0.48	1.79			+
Growth	MSCI EM LT EPS Gr (Fwd)	13.40	9.76	0.16		-	
	MSCI ACWI LT EPS Gr (Fwd)	14.61	11.67	0.14		-	
	Avg Growth Ratio (EM/ACWI)	0.92	1.08	-0.06		-	

*Deviation from mean represents how many standard deviations the current value is above or below the 10-year average, also known as the "Z-Score"
^EV/EBITDA, also known as the "enterprise multiple," is a ratio used to determine the value of a company. Unlike P/E, the enterprise multiple takes debt into account. This is often the ratio used by companies looking to acquire another business

- Valuation metrics are somewhat neutral, slightly favoring Emerging Markets ("EM"). In particular, the EV/EBITDA metrics suggest that EM is more attractive than the R.O.W.
- The solvency data is in favor of the R.O.W. In general, EM companies have far more debt on their balances sheets than they have had historically. However, this relationship is improving as EM companies become more efficient with their capital
- The growth metrics are neutral, with the current market showing very little deviation from historical averages

Source: MSCI

Portfolio Characteristics

Recommended Ranges

Market Cap (U.S.)	Minimum	Maximum	R3000
Large Cap (> $24.5B)	50.0%	70.0%	65.1%
Mid Cap ($3B - $24.5B)	25.0%	40.0%	27.4%
Small Cap (< $3B)	2.5%	12.5%	7.5%

Region	Minimum	Maximum	MSCI ACWI
U.S.	45.0%	65.0%	50.3%
Non-U.S. Developed	25.0%	40.0%	38.8%
Emerging Markets	5.0%	20.0%	10.9%

Client objectives and constraints may cause allocations to vary from recommended ranges

- The portfolio ranges conveys Canterbury's desire to maintain a home country bias
- Market cap exposures are similar to the index with an overweight to mid cap at the expense of large cap. Canterbury invests in active managers that have some flexibility with regard to market cap
- Our portfolios are overweight consumer discretionary because that is where investment managers are finding the best opportunities. They are also underweight REITs and Utilities where valuations have become stretched
- Canterbury aims to construct concentrated portfolios with attractive growth-to-value characteristics