



Canterbury Consulting

Quarterly Asset Class Report Taxable Fixed Income

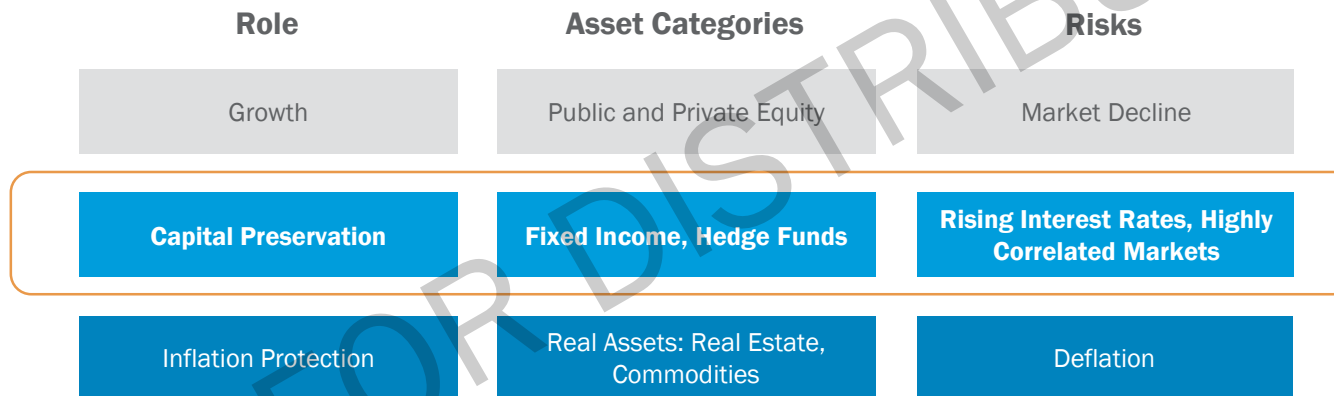
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canterburyconsulting.com

June 30, 2022

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 June 30, 2022

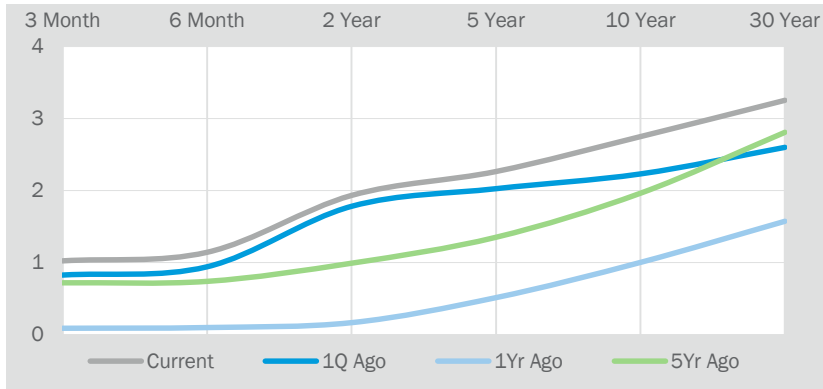
Fixed Income

	QTD	YTD	1 Year	3 Years	5 Years	7 Years	10 Years
Barclays Global Aggregate	-8.26	-13.91	-15.25	-3.22	-0.55	0.50	0.11
Barclays US Agg Bond	-4.69	-10.35	-10.29	-0.93	0.88	1.42	1.54
U.S. Treasuries							
BofAML 3M US Treasury Note	0.12	0.17	0.18	0.68	1.15	0.92	0.66
Barclays Short Treasury	-0.02	-0.15	-0.15	0.63	1.13	0.93	0.69
Barclays Intermediate Treasury	-1.67	-5.80	-6.35	-0.31	0.87	1.00	0.96
Barclays Long Term US Treasury	-11.93	-21.25	-18.45	-2.94	0.51	1.83	1.63
BBgBarc U.S. Treasury TIPS 1-5Y	-1.50	-2.14	0.38	3.45	2.99	2.43	1.64
Barclays US Treasury US TIPS	-6.08	-8.92	-5.14	3.04	3.21	2.82	1.73
U.S. Corporate Credit							
Barclays US Corp IG	-7.26	-14.39	-14.19	-0.99	1.28	2.35	2.62
S&P/LSTA Leveraged Loan	-4.45	-4.55	-2.78	2.09	2.91	3.26	3.74
BofAML US HY Master II	-9.97	-14.04	-12.66	-0.04	1.96	3.40	4.41
BofAML US HY BB-B Constrained	-9.50	-13.64	-12.20	0.04	2.07	3.33	4.34
BofAML US Corporate AAA	-7.35	-15.22	-14.76	-1.18	1.45	2.44	2.17
BofAML US Corporate AA	-6.36	-13.38	-13.10	-1.21	0.96	1.82	2.07
BofAML US Corporate A	-6.01	-12.75	-12.80	-0.81	1.29	2.19	2.48
BofAML US Corps BBB	-7.32	-14.92	-14.76	-0.75	1.53	2.61	3.07
BofAML US High Yield BB	-8.62	-13.53	-11.97	0.85	2.56	3.83	4.70
BofAML US High Yield B	-10.70	-13.79	-12.48	-0.82	1.52	2.80	3.95
BofAML US High Yield CCC	-13.91	-17.12	-16.43	-1.84	0.36	3.19	4.25
Securitized							
Barclays ABS	-0.91	-3.77	-4.27	0.51	1.38	1.46	1.43
Barclays MBS	-4.01	-8.78	-9.03	-1.44	0.36	0.86	1.18
Barclays CMBS	-2.85	-8.28	-8.89	-0.16	1.58	1.84	2.12
Municipals							
Barclays Municipal	-2.94	-8.98	-8.57	-0.18	1.51	2.08	2.38
Barclays Muni 1-10	-0.57	-5.03	-4.91	0.24	1.25	1.52	1.63
Global							
Bloomberg Global Aggregate TR Hdg USD	-4.30	-9.06	-8.94	-1.13	1.16	1.79	2.23
Barclays Gbl Agg Ex USD	-11.01	-16.49	-18.78	-5.07	-1.75	-0.29	-1.06
Citi WGBI	-8.91	-14.79	-16.77	-4.27	-1.17	0.08	-0.69
JPM EMBI Plus	-12.46	-26.65	-27.71	-8.66	-4.02	-0.63	0.38

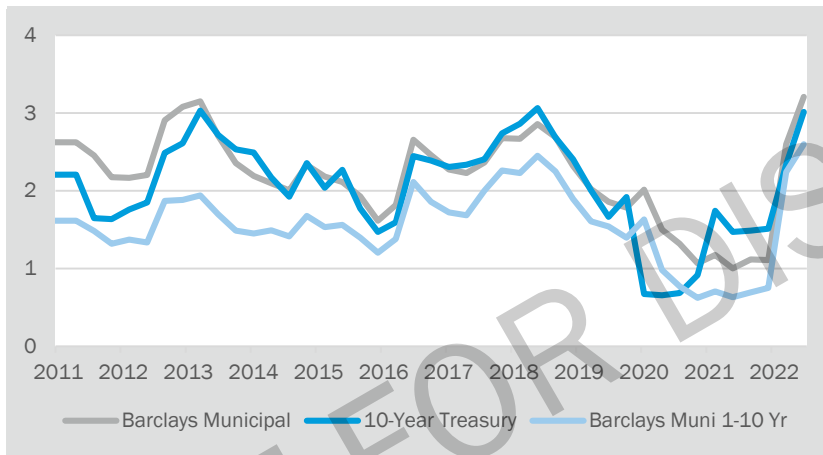
Market Environment as of June 30, 2022

Fixed Income

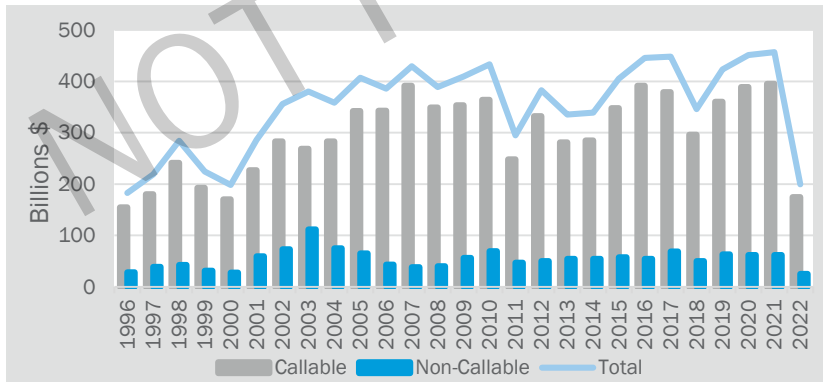
Municipal Yield Curve



Yield Comparison



U.S. Municipal Issuance

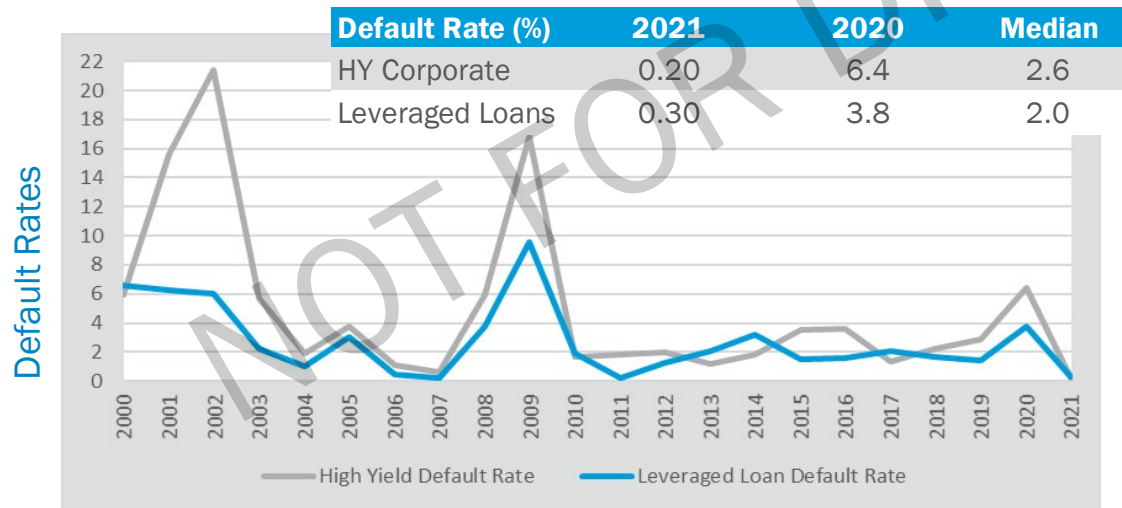
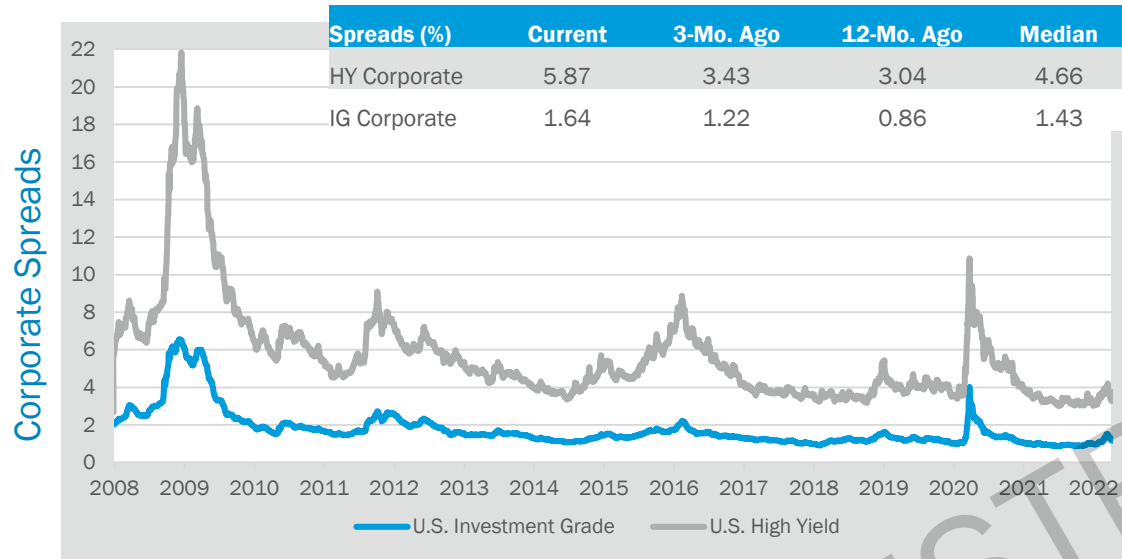


- Amid growing inflation, the Federal Reserve raised the key interest rate twice, 50 basis points in May and 75 basis points in June.
- Chairman Powell communicated that he is prepared to move more quickly to reduce policy support if supply/demand imbalances and externalities from the Russia/Ukraine war continue to weigh on inflation. The FOMC is prepared to raise interest rates up to 3.25% - 3.5% by year-end.
- The municipal yield curve ended the quarter higher across all maturities, particularly the long-term, resulting in a relatively steep curve.
- Municipal bond issuance reached a peak of approximately \$457 billion in 2021, the highest in over a decade. Issuance year-to-date is approximately 10% lower YoY.

Sources: Securities Industry and Financial Markets Association (SIFMA), U.S. Treasury Department, Barclays, Bloomberg. Data as of 6/30/2022

Market Environment as of June 30, 2022

Fixed Income

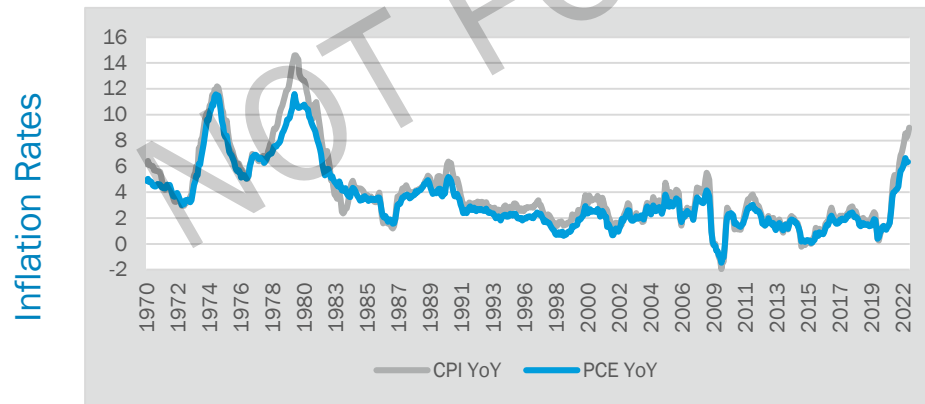
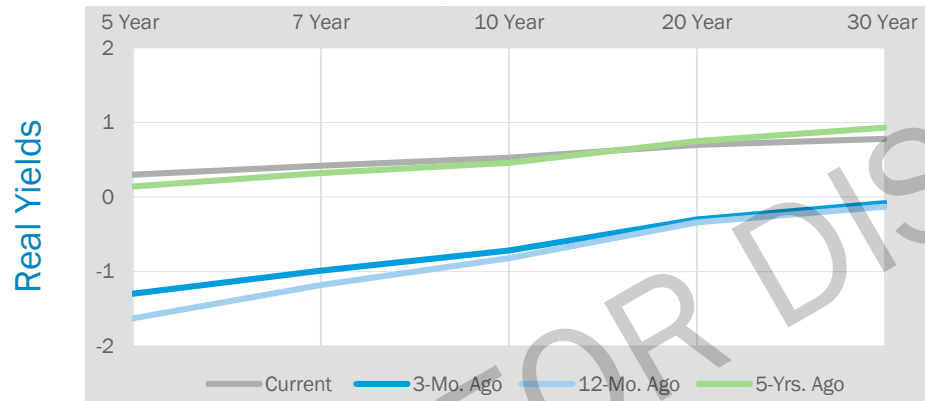
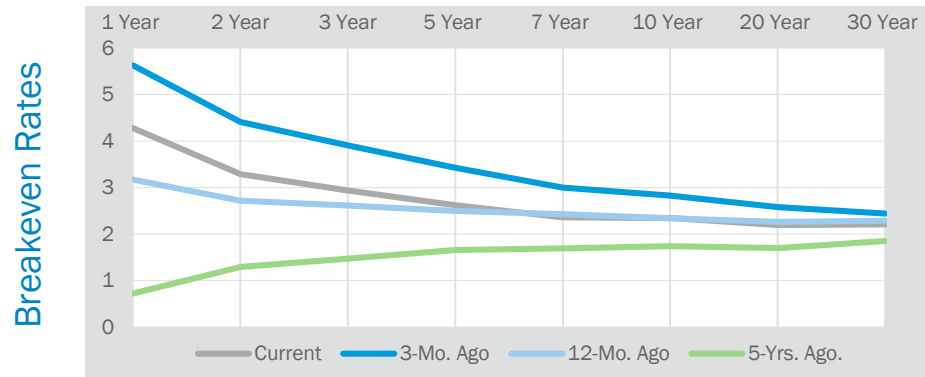


- Investment grade (IG) spreads widened by 42 basis points (bps) over the quarter while high yield (HY) spreads widened by 244 basis points.
- The yield for investment grade and high yield corporate bonds increased by 110 bps and 288 bps to 4.70% and 8.89%, respectively.
- The default rate on loans and bonds peaked in 2020 due to accommodative monetary & fiscal policy. As a result, overall bankruptcies are at their lowest levels in over a decade.

Sources: Federal Reserve Economic Data, S&P LCD, American Bankruptcy Institute, Moody's, Bloomberg Indices. Data as of 6/30/2022. Default rate data as of 12/31/2021.

Market Environment as of June 30, 2022

Fixed Income



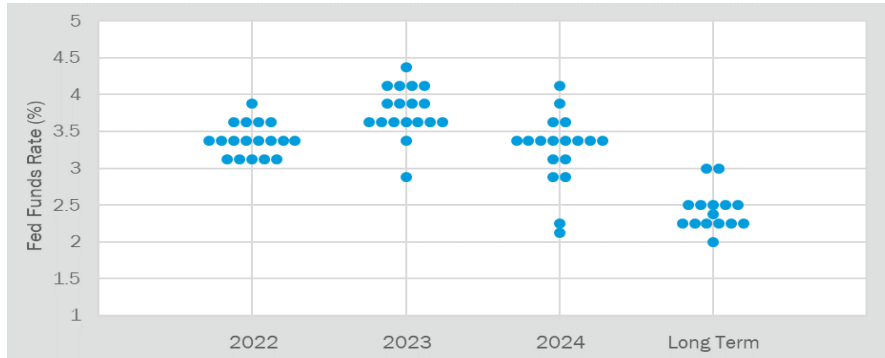
- Breakeven inflation rates on the short end of the curve decreased while long-term breakeven rates remained relatively stable around 2.5%. The breakeven rate is the implied inflation rate for a given maturity and is calculated by subtracting the real yield of a treasury bond from the nominal yield.
- Current long-term breakeven rates imply that inflation should trend above the Fed's original inflation target of 2% in the long run.
- Intermediate and long-term real yields increased into positive territory and reached levels not seen since 5 years ago.
- Inflation is being driven by supply/demand imbalances, the Ukraine/Russia war, a tight labor market, high wage growth, and various supply chain disruptions across the globe.

Source: Bloomberg, FRED, CPI & PCE Data, U.S. Breakeven Rates, U.S. Treasury Inflation-Indexed Rates. Data as of 6/30/2022

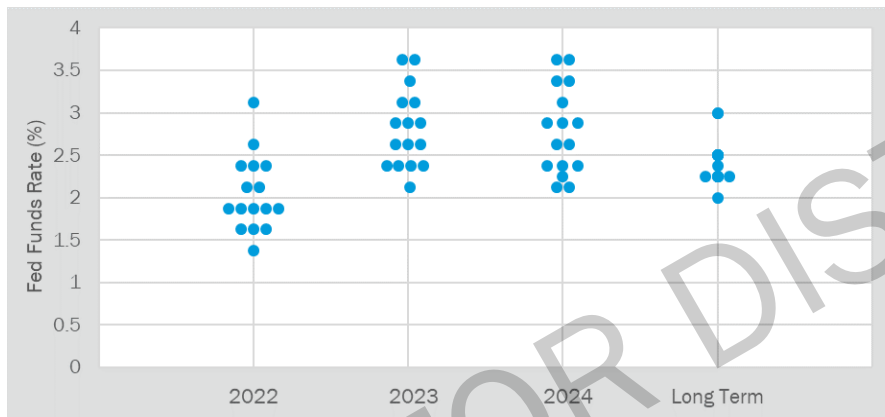
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Fixed Income

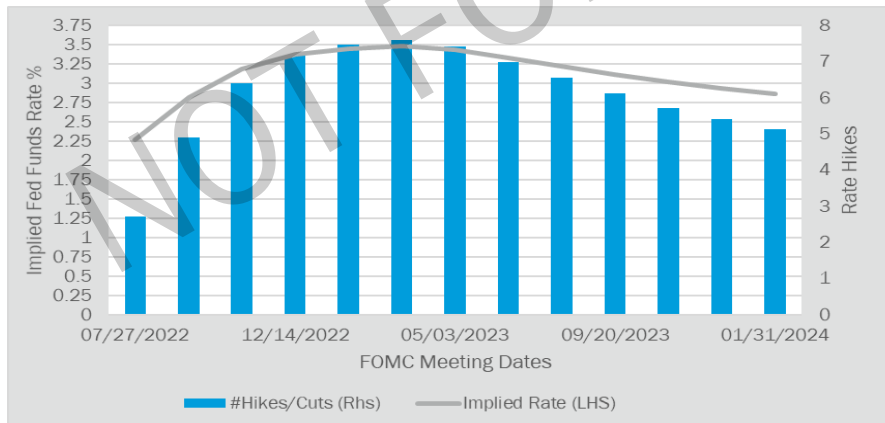
Fed Dot Plot
March 2022



Fed Dot Plot
December 2021



Implied Fed Funds Rate
& Rate Hike Probabilities



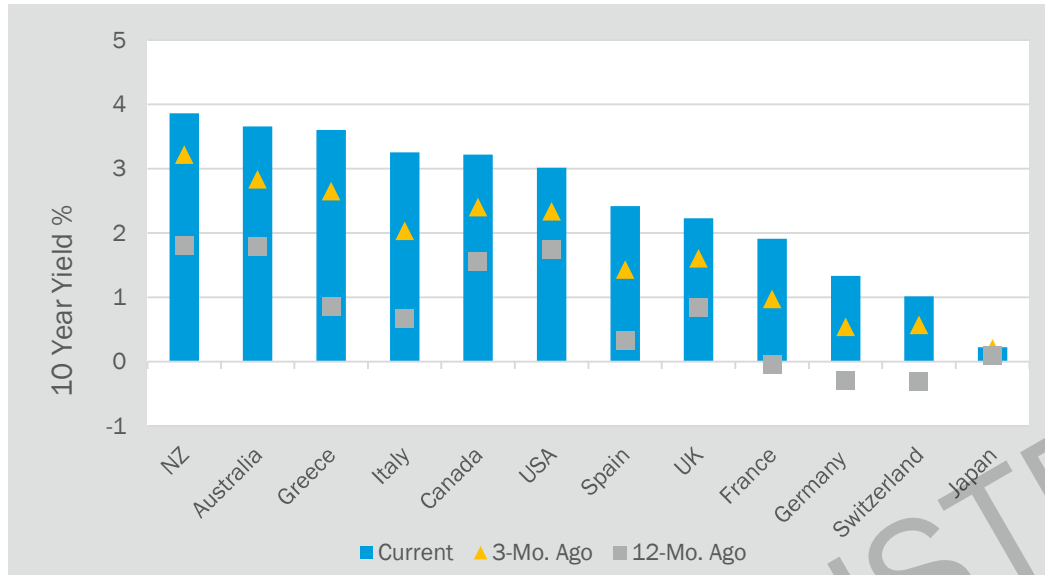
- The Federal Reserve increased its fed funds rate forecast from the prior quarter with the possibility of raising its key interest rate up to 3.5% by the end of 2022.
- As of end of June, market participants expect the Fed to reach their fed funds rate forecast of 3.25% - 3.5% by year-end.
- The Fed 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 6/30/2022.

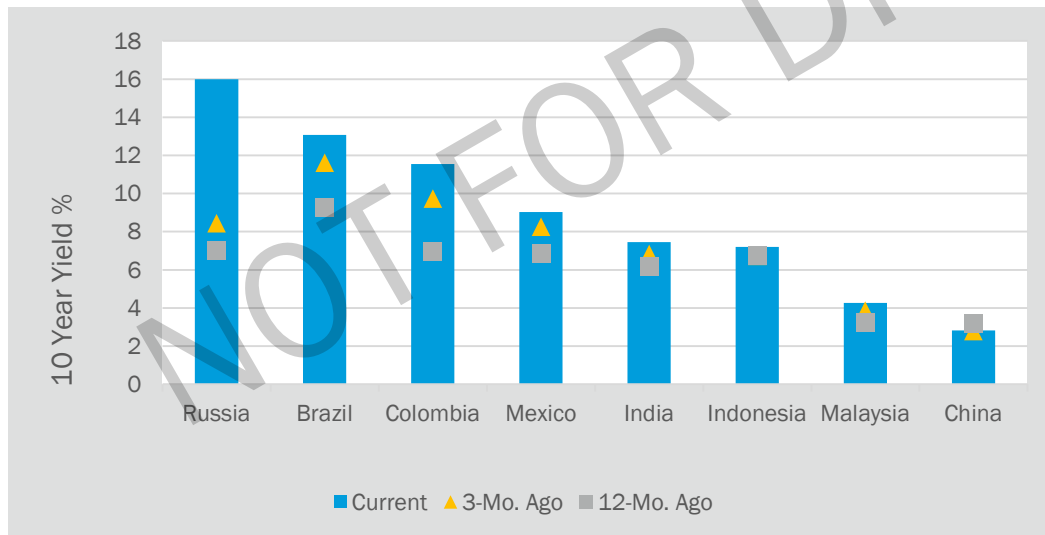
Market Environment as of June 30, 2022

Fixed Income

Developed Yields



EM Yields (Local Currency)



- Developed sovereign bond yields ended the quarter higher. Countries that faced elevated inflation prints and hawkish central bank signaling saw long-term yields rise higher than others.
- Emerging markets (EM) sovereign yields remained relatively unchanged on a quarter-over-quarter basis, with the exception of Russia. Russia continues to face strict sanctions from major developed economies amid the war with Ukraine.
- Emerging and developed market currency performance was generally weak as the U.S. dollar appreciated relative to most global currencies.

Source: Bloomberg. Data as of 6/30/2022.



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.



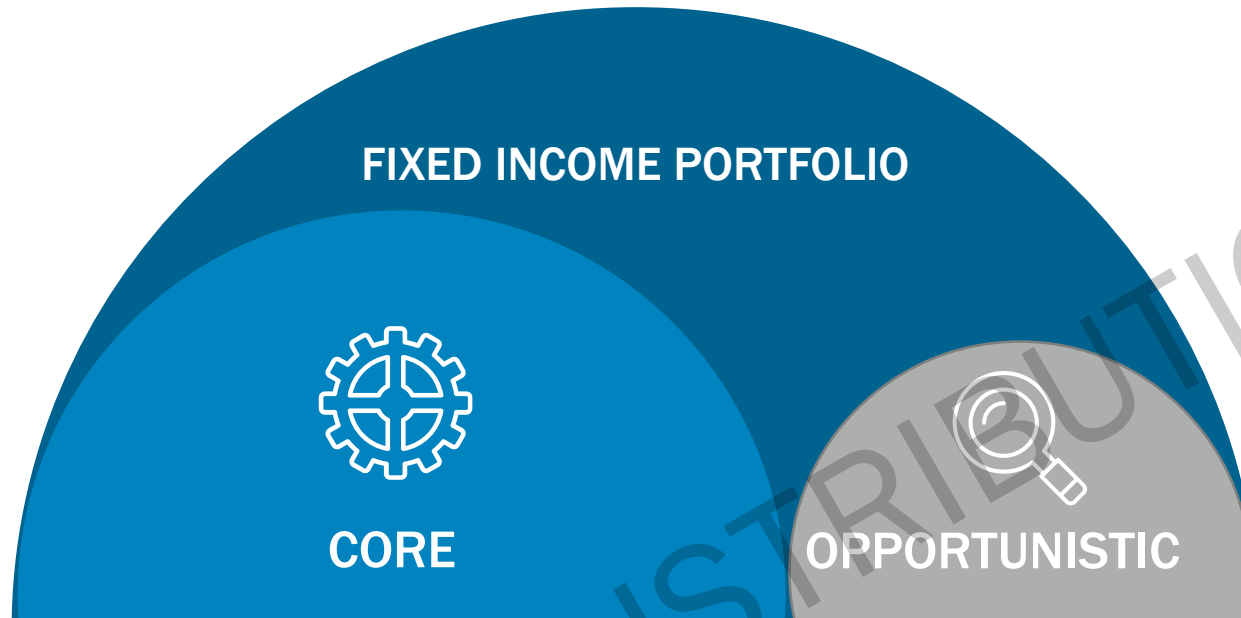
Tax Considerations

- 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