



Canterbury Consulting

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Quarterly Asset Class Report

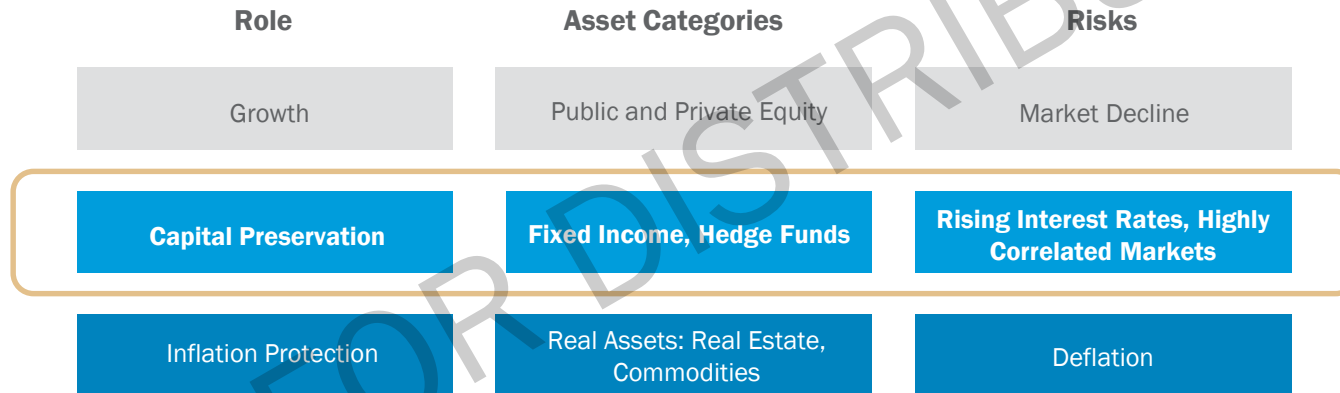
Tax Exempt Fixed Income

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September 30, 2019

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 capital and mitigate volatility
- Provide measured exposure to the diverse universe of fixed income securities
- 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 as of September 30, 2019

Fixed Income

	QTD	YTD	1 Year	3 Years	5 Years	7 Years	10 Years
Barclays Global Aggregate	0.71	6.32	7.60	1.59	2.00	1.21	2.34
Barclays US Agg Bond	2.27	8.52	10.30	2.93	3.38	2.72	3.75

U.S. Treasurys

BofAML 3M US Treasury Note	0.58	1.85	2.44	1.55	1.00	0.74	0.55
Barclays Short Treasury	0.56	1.95	2.56	1.58	1.05	0.79	0.62
Barclays Intermediate Treasury	1.18	5.22	7.58	1.80	2.19	1.59	2.39
Barclays Long Term US Treasury	7.92	19.77	24.79	4.07	6.77	4.76	6.87
Barclays US Treasury TIPS 1-5Y	0.27	3.88	3.68	1.60	1.28	0.76	1.83
Barclays US Treasury US TIPS	1.35	7.58	7.13	2.21	2.45	1.06	3.46

U.S. Corporate Credit

Barclays US Corp IG	3.05	13.20	13.00	4.50	4.72	4.09	5.56
S&P/LSTA Leveraged Loan	0.99	6.79	3.10	4.53	3.98	4.11	5.22
BofAML US HY Master II	1.22	11.50	6.30	6.07	5.36	5.87	7.85
BofAML US HY BB-B Constrained	1.68	12.21	7.87	6.00	5.49	5.84	7.62
BofAML US Corporate AAA	4.05	14.53	15.96	4.82	5.24	3.94	4.78
BofAML US Corporate AA	2.99	10.60	11.91	3.81	4.30	3.55	4.60
BofAML US Corporate A	2.92	12.09	12.66	4.06	4.49	3.80	5.25
BofAML US Corps BBB	3.17	14.00	13.09	5.04	4.84	4.55	6.29
BofAML US High Yield BB	2.06	13.05	9.67	5.96	5.93	6.03	7.91
BofAML US High Yield B	1.22	11.21	5.81	6.08	5.01	5.59	7.36
BofAML US High Yield CCC	-2.27	6.13	-4.85	6.03	4.44	5.83	8.33

Securitized

Barclays ABS	0.92	4.13	5.42	2.24	2.25	1.79	2.82
Barclays MBS	1.37	5.60	7.80	2.32	2.80	2.36	3.14
Barclays CMBS	1.89	8.64	10.51	3.07	3.47	2.87	5.55

Municipals

Barclays Municipal	1.58	6.75	8.55	3.19	3.66	3.39	4.16
Barclays Muni 1-10	0.67	4.31	5.92	2.21	2.29	2.16	2.78

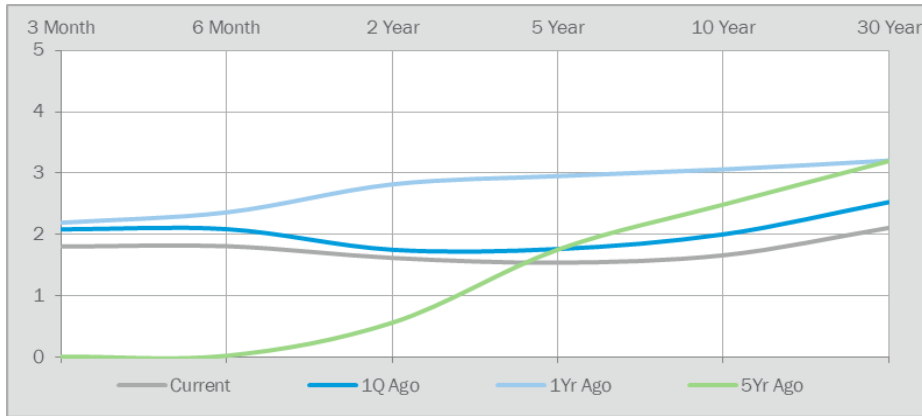
Global

Citi WGBI	0.85	6.27	8.13	1.19	1.80	0.59	1.69
Barclays Gbl Agg Ex USD	-0.58	4.38	5.34	0.43	0.87	0.01	1.28
JPM EMBI Plus	-1.68	8.92	8.20	1.87	4.31	3.27	5.89

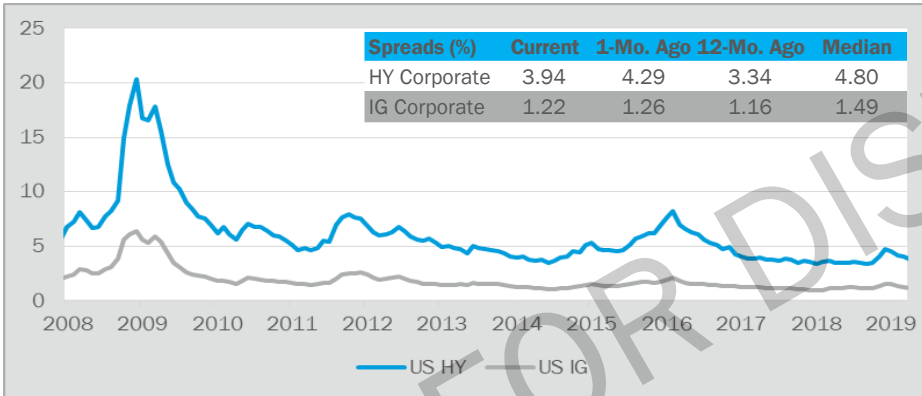
Market Environment

Fixed Income

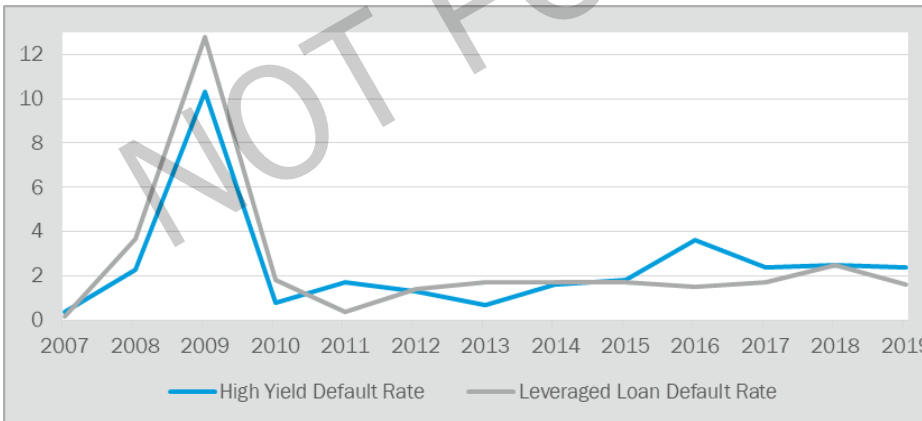
U.S. Treasury Rates



Corporate Spreads



Default Rates

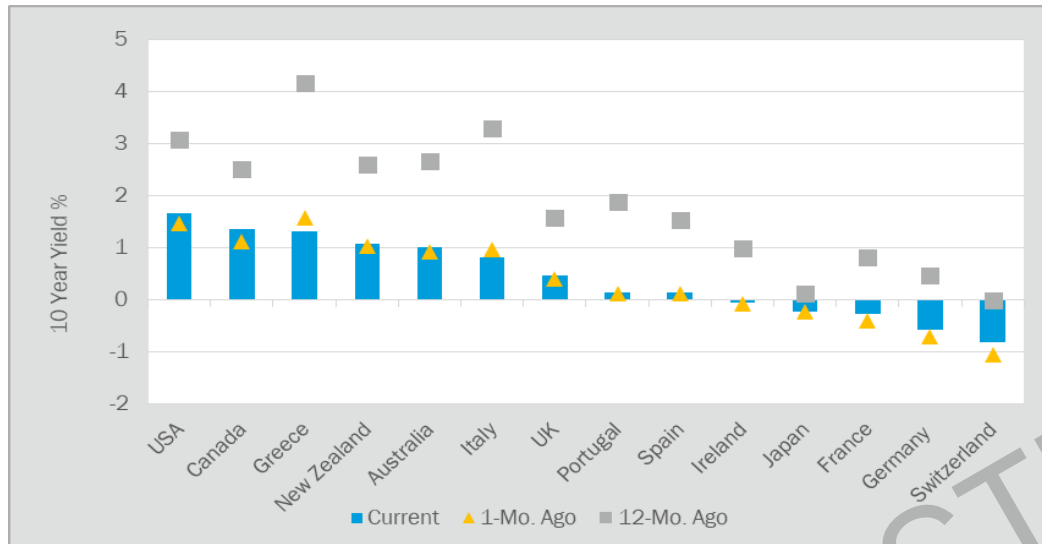


- U.S. Treasuries delivered positive returns during the quarter as the Fed cut interest rates in July and September. Global growth concerns have created a large bid for government bonds, not only in the U.S., but also in other developed economies. Further stimulus from the European Central Bank resulted in local bond yields moving further into negative territory. Negative-yielding debt now represents approximately \$17 trillion of the global bond market.
- Both investment grade and high yield corporate bonds generally performed well in the third quarter as investors continued to seek incremental yield. Higher quality outperformed lower quality corporate credit, and CCC-rated debt posted negative returns. Investors have tended to avoid the CCC space given the deteriorating fundamentals of underlying companies
- Emerging market debt posted mixed performance. Several companies benefited from accommodative policies from developed central banks. On the other hand, countries such as Argentina made headlines during the quarter as concerns mounted over the country's debt sustainability and pending political election.

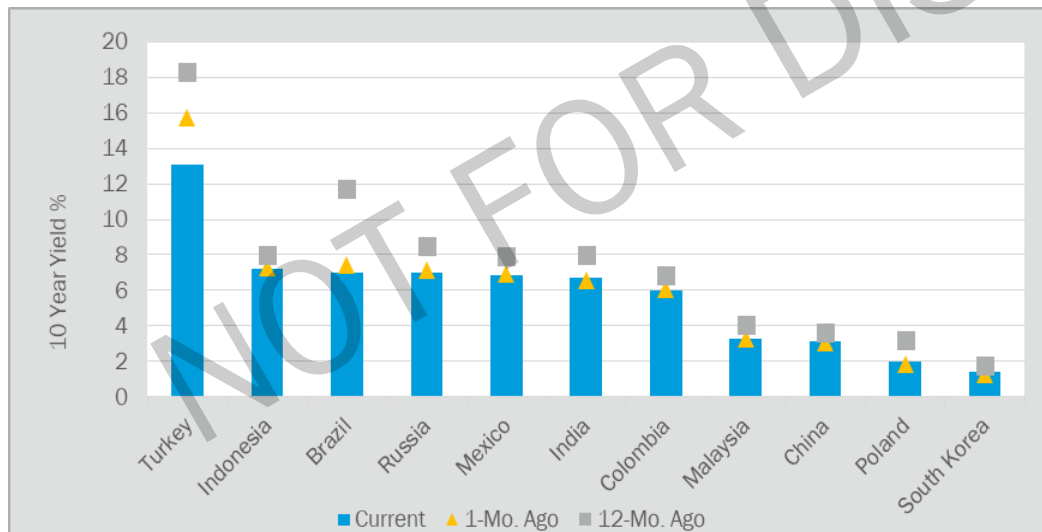
Market Environment

Fixed Income

Developed Yields



EM Yields (Local Currency)

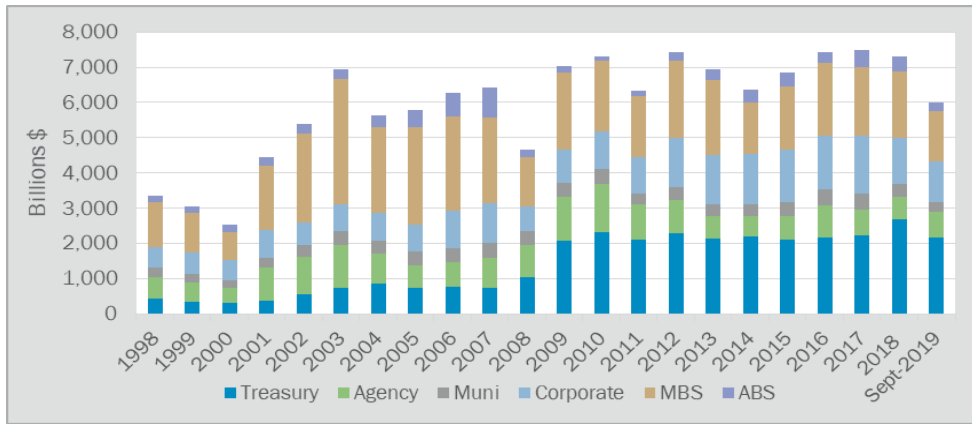


- The charts on the left display 10-year interest rates for developed and emerging market countries. The blue line represents the current 10-year yield, the triangle represents the yield 1 month prior, and the gray square represents the yield 12 months prior.
- Developed market yields moved considerably lower over the last 12 months. Slowing global growth, accommodative central bank policies, and the lack of inflation has resulted in compressed yields and falling interest rates.
- Emerging market yields marginally declined year-over-year. Country-specific economic and political developments have the largest effect on interest rates. For instance, positive economic and political developments in Mexico and Brazil have resulted in increased demand for sovereign debt.

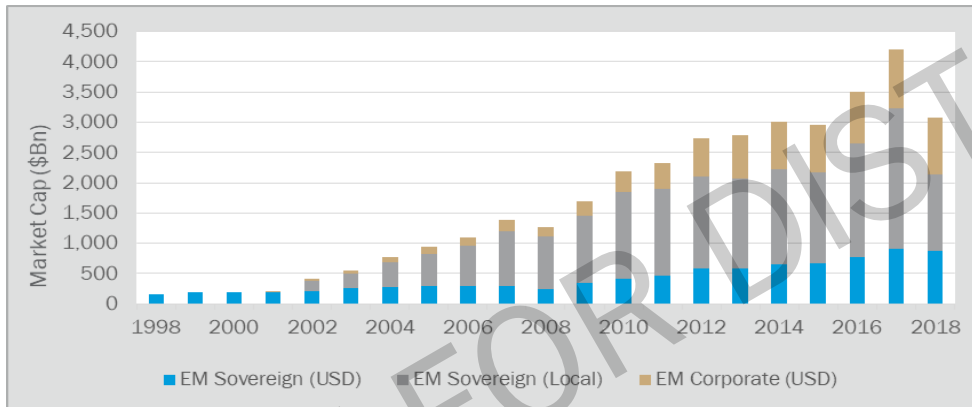
Market Environment

Fixed Income

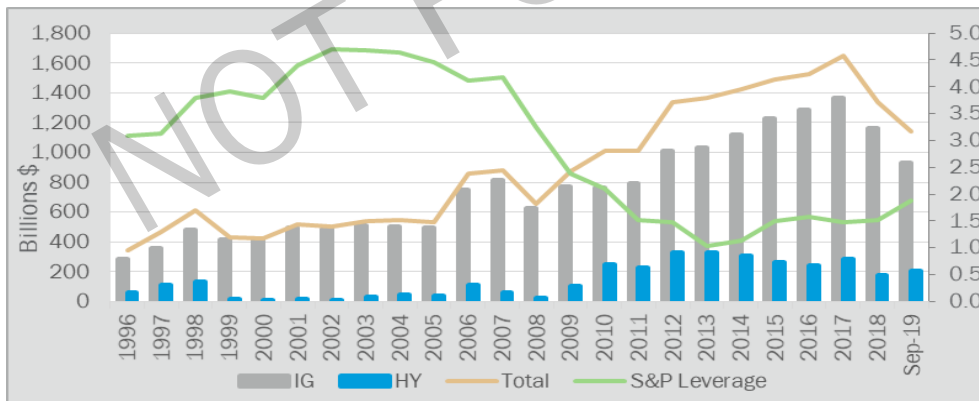
U.S. Bond Issuance



EM Debt Size



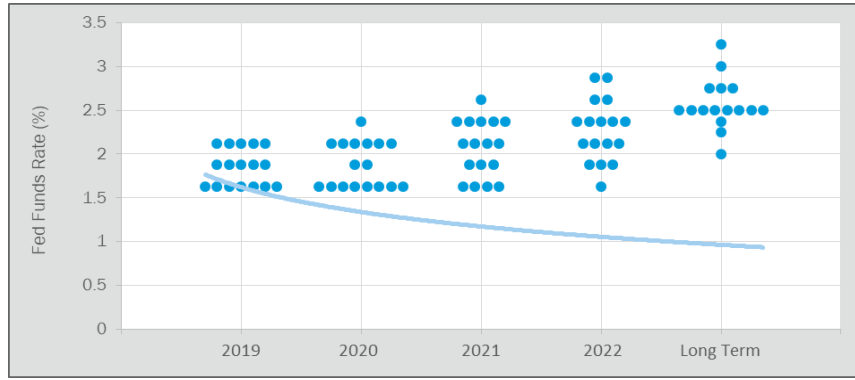
Corporate Issuance & Leverage



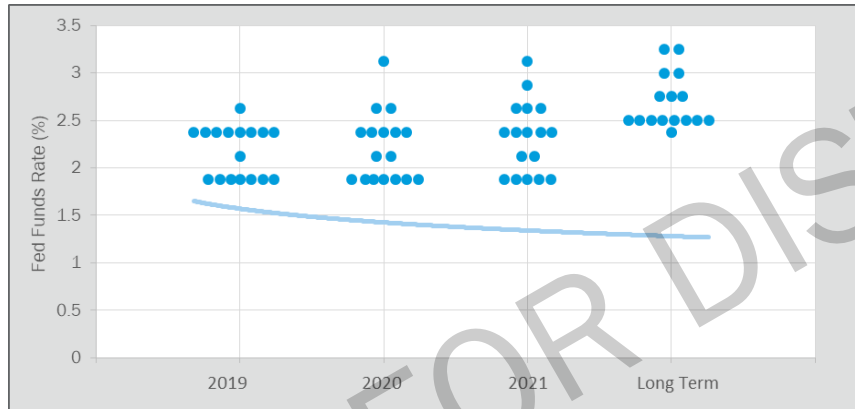
- U.S. Treasury issuance significantly increased after the financial crisis. Since the Fed began tapering, Treasury issuance plateaued while corporate and mortgage-backed security issuance continued to grow.
- The EM debt market has grown significantly since 1996. While investors have worried about EM liabilities denominated in U.S. dollars, debt denominated in local currency has exponentially grown since 2004.
- Corporate leverage significantly decreased after 2008. Leverage in the U.S. and EM has since grown while leverage in Europe and Japan has moderated.

Fed Dot Plots

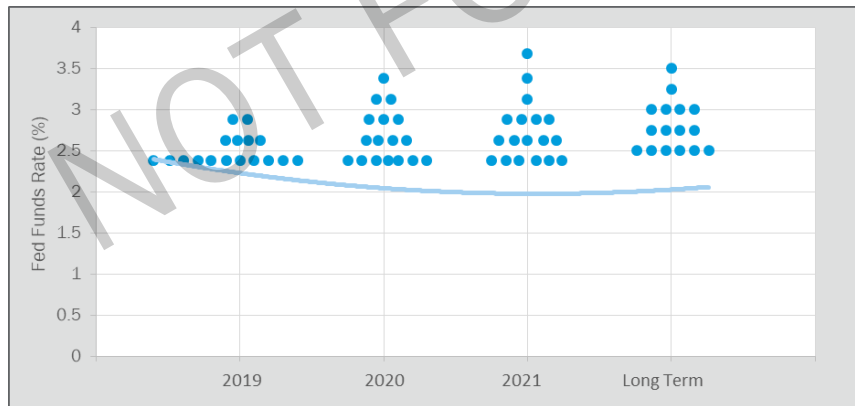
Sept. 2019 Meeting



June 2019 Meeting



March 2019 Meeting



- The dot plot charts display Federal Open Market Committee (FOMC) participant projections of where the Fed Funds Rate should be over the next several years.
- The light blue line represents the Fed Funds futures, which measures the market's projection on where the Fed Funds Rate will be.
- The graphs on the left display projections from the last three FOMC meetings.
- Fed Funds projections for 2019 declined when the Fed decided to cut interest rates. While the Fed's long term interest rate forecast adjusted downward, the market continues to price rates much lower.



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.



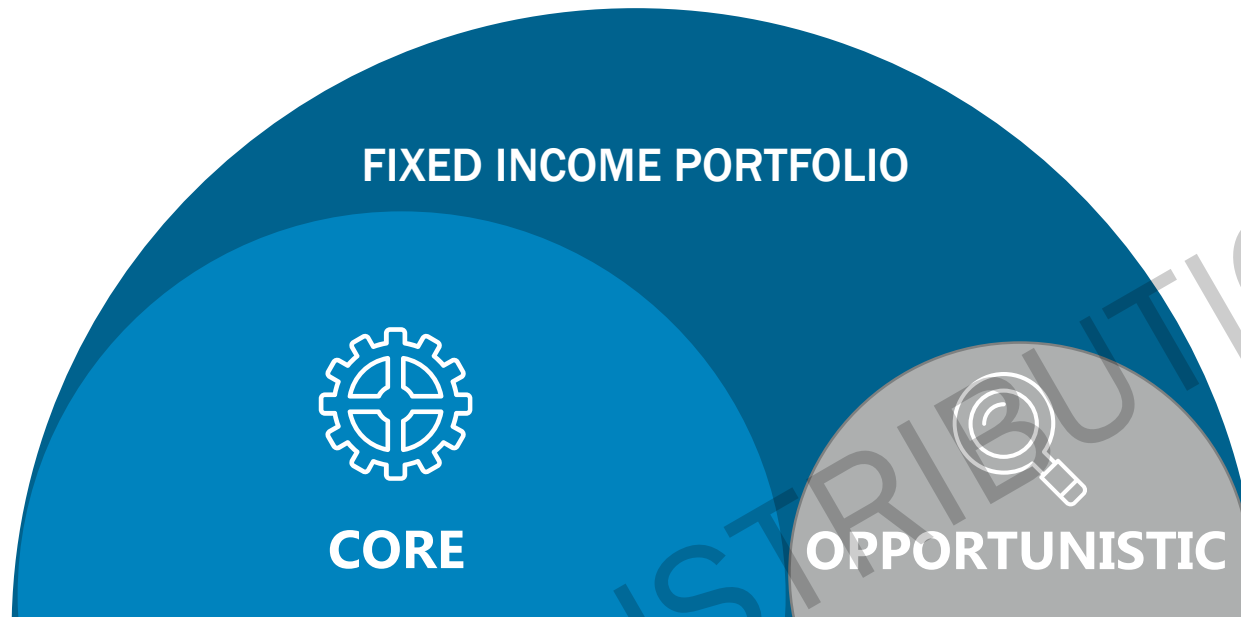
Tax Considerations

- 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