



Canterbury Consulting

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## Quarterly Asset Class Report

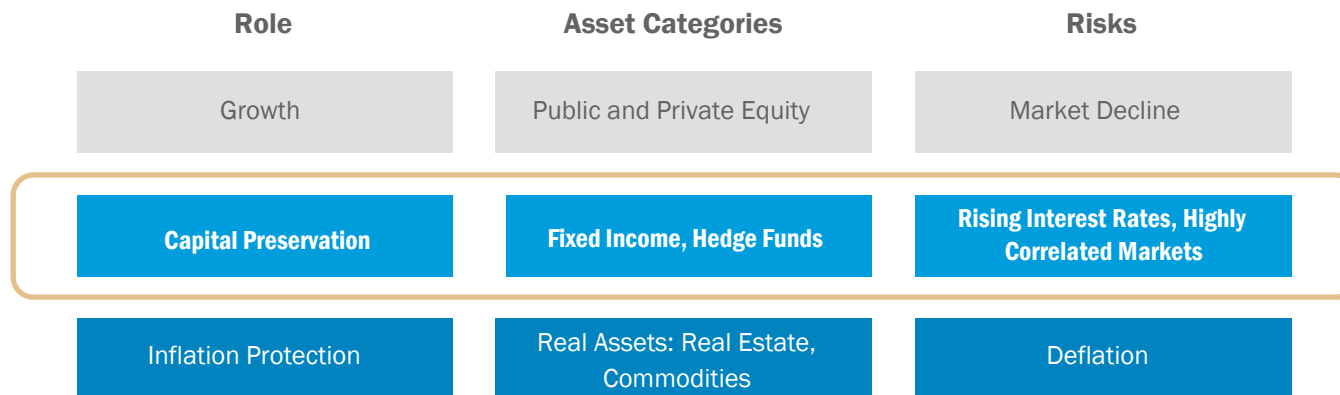
### Institutional Fixed Income

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September 30, 2015

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 capital and mitigate volatility
- (ii) Provide measured exposure to the diverse universe of fixed income securities
- (iii) 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 blended attribution benchmark: 50% Barclays U.S. Aggregate Bond/40% Barclays Global Aggregate ex U.S./10% BofA ML High Yield Master II
- Relative to the index, Canterbury’s current fixed income portfolios will exhibit lower duration, similar credit quality, and higher yields

# Index Returns

## Fixed Income

	QTD	YTD	1 Year	3 Years	5 Years	7 Years	10 Years
Canterbury Benchmark <sup>1</sup>	0.67	-1.18	-1.62	-0.63	1.69	4.32	4.34
Barclays US Agg Bond	1.23	1.13	2.94	1.71	3.10	4.85	4.64

### U.S. Treasuries

BofAML 3M US Treasury Note	0.03	0.05	0.06	0.07	0.09	0.16	1.34
Barclays Short Treasury	0.06	0.15	0.15	0.14	0.16	0.30	1.50
Barclays Intermediate Treasury	1.24	2.06	3.05	1.09	1.92	3.09	3.91
Barclays Long Term US Treasury	5.08	0.17	8.80	2.78	6.22	7.55	6.99
Barclays U.S. Treasury TIPS 0-5Y	-0.65	0.33	-1.19	-0.66	1.03	1.78	2.79
Barclays US Treasury US TIPS	-1.15	-0.80	-0.83	-1.83	2.55	3.88	4.01

### U.S. Corporate Credit

Barclays US Corp IG	0.83	-0.10	1.66	2.23	4.32	7.77	5.39
S&P/LSTA Leveraged Loan	-1.35	1.44	0.92	3.24	4.51	6.51	4.66
BofAML US HY Master II	-4.90	-2.53	-3.57	3.48	5.94	9.89	7.12
BofAML US HY BB-B Constrained	-4.26	-1.68	-2.04	3.71	5.99	9.07	6.65
BofAML US Corporate AAA	2.16	0.36	3.29	1.60	3.10	5.08	4.21
BofAML US Corporate AA	1.44	1.04	3.27	2.23	3.57	6.12	4.58
BofAML US Corporate A	1.15	0.69	2.69	2.31	4.19	7.35	4.80
BofAML US Corps BBB	-0.63	-1.08	-0.41	2.41	4.77	8.48	6.14
BofAML US High Yield BB	-3.16	-0.93	-0.19	4.10	6.24	9.92	7.31
BofAML US High Yield B	-5.66	-2.67	-4.30	3.14	5.68	8.29	6.05
BofAML US High Yield CCC	-8.36	-7.14	-11.55	1.93	5.23	10.94	7.55

### Securitized

Barclays ABS	0.74	1.83	2.38	1.21	2.12	4.79	3.41
Barclays MBS	1.30	1.61	3.43	1.98	3.03	4.36	4.71
Barclays CMBS	1.39	2.13	3.37	2.05	4.21	7.43	5.47

### Municipals

Barclays Municipal	1.65	1.77	3.16	2.88	4.14	5.85	4.64
Barclays Muni 1-10	1.18	1.56	1.98	1.87	2.70	3.99	3.84

### Global

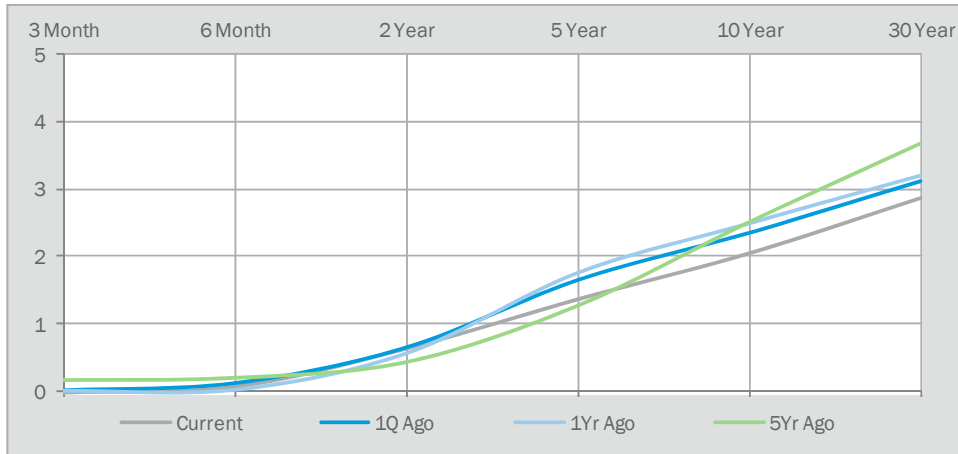
Citi WGBI	1.71	-2.38	-3.83	-2.86	-0.19	2.44	3.37
Barclays Global Aggregate	0.85	-2.25	-3.26	-1.59	0.81	3.28	3.71
Barclays Gbl Agg Ex USD	0.64	-4.82	-7.67	-4.00	-0.85	2.12	2.98
JPM EMBI Plus	-0.92	0.05	-0.89	0.18	4.17	7.73	6.73

(1) 50% Barclays US Agg/40% Barclays Global Agg ex US/10% BofA ML HY Master II

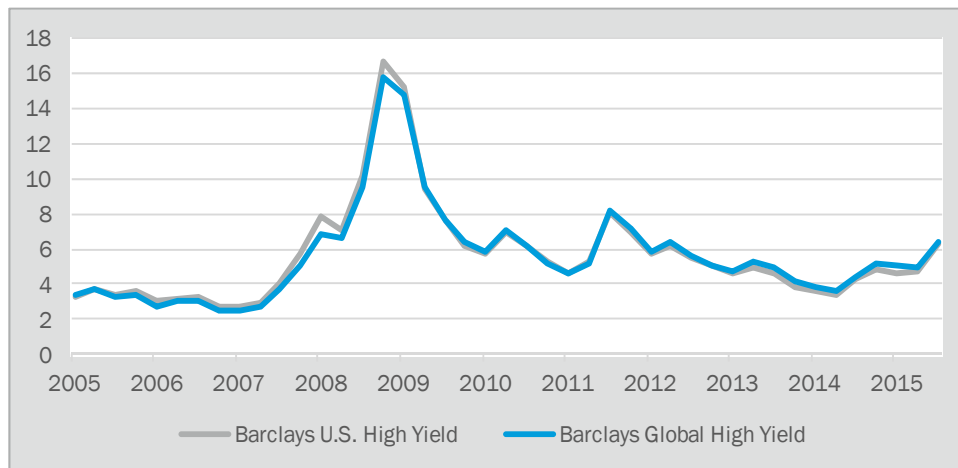
# Market Environment

# Fixed Income

## U.S. Treasury Rates



## High Yield Spreads



## World Bond Yields

10-Year Sovereign Rates (%)										
Country	US	JAP	CHI	GER	ITL	FRA	UK	BRA	SPA	CAN
Rates (9/30)	2.04	0.35	3.23	0.59	1.72	0.98	1.76	5.95	1.89	1.43
Rates (6/30)	2.35	0.45	3.58	0.76	2.33	1.19	2.02	4.69	2.29	1.68

- The 10-year Treasury rate declined approximately 30 basis points in the third quarter as global growth concerns fueled a rotation into 'safe haven' assets
- Short-term rates remained low as the Fed continued to delay the anticipated tightening cycle
- Investors positioned on the long end of the curve were rewarded as the Barclays Long Term Treasury Index returned 5% which outpaced the shorter maturity indexes
- The BofA ML High Yield Master II declined by -4.9% as increased market volatility resulted in spread widening. Energy and Basic Material debt continued to trade at significant discounts relative to other core high yield sectors
- Non-U.S. bonds denominated in local currency continued to struggle as concerns over growth in China and low demand for commodities took hold. Specifically, Emerging Market debt incurred the most downside volatility

# Portfolio Characteristics

## Fixed Income

### Sector Distribution

	Recom'd Portfolio	Fixed Income Benchmark	Barclays Aggregate
US Treasury	22.5%	18.2%	36.5%
Agency	3.1%	4.3%	8.6%
Local Authority (non-US)	0.0%	5.5%	0.0%
Municipal (US)	1.2%	0.0%	0.0%
Sovereign (non-US)	19.0%	28.0%	0.0%
Supranational	0.2%	0.0%	0.0%
Corporate	14.9%	26.5%	24.0%
Bank Loans	3.7%	0.0%	0.0%
MBS	30.3%	16.3%	28.4%
ABS	3.0%	0.3%	0.6%
CMBS	3.4%	0.9%	1.9%
Other & Cash	-1.4%	0.0%	0.1%

### Regional Distribution - Country Allocation

	Recom'd Portfolio	Fixed Income Benchmark	Barclays Aggregate
US	67.1%	58.3%	100.0%
Non-US Developed	17.2%	39.5%	0.0%
Non-US Emerging	15.7%	2.2%	0.0%

### Regional Distribution - Currency Allocation

	Recom'd Portfolio	Fixed Income Benchmark	Barclays Aggregate
US	87.6%	60.0%	100.0%
Non-US Developed	1.3%	38.1%	0.0%
Non-US Emerging	11.1%	1.9%	0.0%

### Portfolio Characteristics

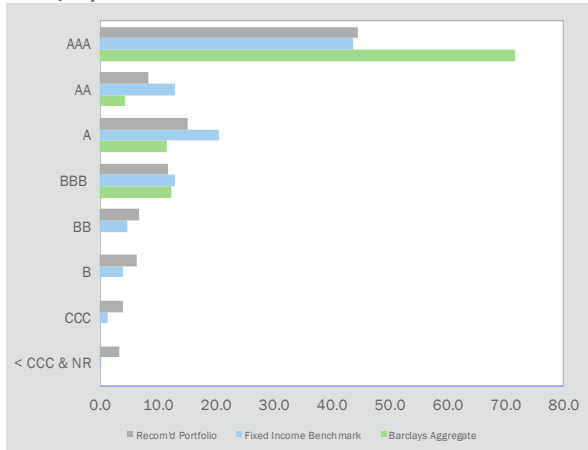
	Recom'd Portfolio	Fixed Income Benchmark	Barclays Aggregate
Effective Duration	4.04	6.22	5.60
Yield to Maturity (%)	3.35	2.28	2.31
Coupon Rate (%)	3.84	3.39	3.20
Average Credit Quality (Barclays)	A	A	AA

### Portfolio Checklist

	Recom'd Portfolio	Fixed Income Benchmark	Barclays Aggregate
Yield <sup>1</sup>	✓	✓	✓
Duration <sup>2</sup>	✓	✓	✓
Credit Quality <sup>3</sup>	✓	✓	✓
Sector Diversification <sup>4</sup>	✓	✓	✗
Region Diversification <sup>5</sup>	✓	✓	✗

- The yield-to-maturity ("YTM") should be 80% of the YTM of the benchmark or greater
- Duration should not exceed the benchmark
- Average credit quality, using Barclays methodology, should be BBB or higher
- No sector should exceed 50% of the total allocation and at least half of the sectors should have allocations greater than 2.5%
- No region (see "Regional Distribution") should exceed 75% of the of the total allocation

### Credit Quality Distribution vs. Benchmark



The representative portfolio has allocations to the following investment manager types: 45% Core Plus, 30% Global, 10% Credit, and 15% Mortgage-Backed

The representative benchmark has allocations to the following indices: 50% Barclays U.S. Agg, 40% Barclays Global Agg ex U.S., 10% BofA High Yield Master II

- Canterbury recommends targeting a portfolio duration less than that of the benchmark in order to reduce interest rate risk
- Investors can lower portfolio duration (while maintaining yield) by allocating to credit and diversifying globally
- Canterbury recommends maintaining a portfolio of high quality securities that is rated investment grade or better on average. This reaffirms fixed income's role in the portfolio of a risk mitigator and a diversifier
- Due to low yields in non-U.S. developed fixed income markets, investors should maintain an underweight exposure to the region relative to the Recommended Benchmark