CanterburyConsulting

Quarterly Asset Class Report

Real Assets

December 31, 2016

canterburyconsulting.com

Role in the Portfolio

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

(i) Preserve purchasing power

(ii) Generate uncorrelated returns to other asset classes

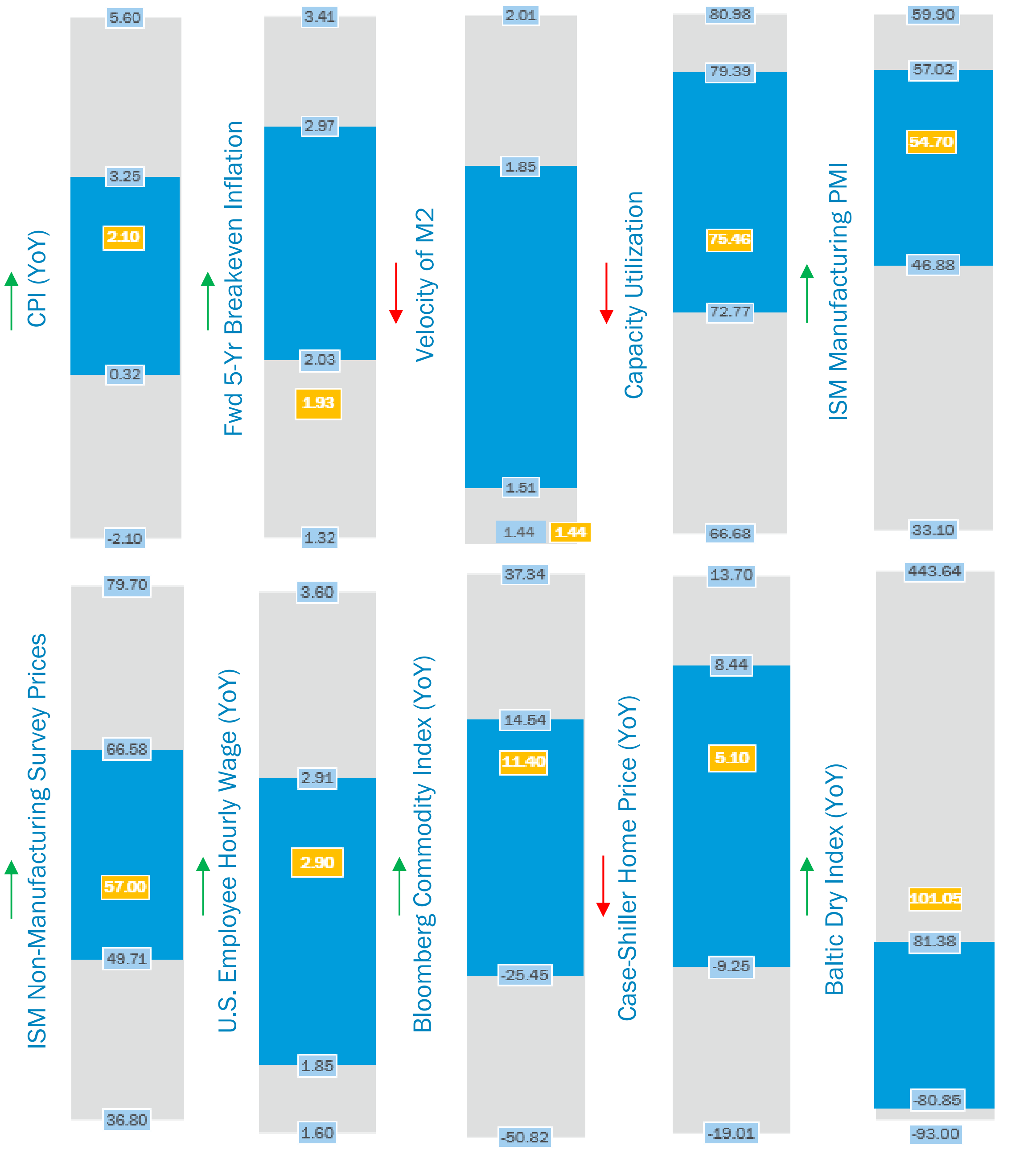
(iii) Provide high risk-adjusted returns within the constraints of (i) and (ii)

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**

- Real assets are appropriate for investors with long time horizons (10+ years) and inflation linked liabilities
- Canterbury's real asset portfolios are expected to deliver net of fees returns in excess of the diversified benchmark over full market cycles. The benchmark is equally weighted to TIPS, commodities, and commodity stocks:
  - 33% Barclays U.S. TIPS 1-5 Yr/ 33% Bloomberg Commodity / 17% S&P North American Natural Resources / 17% Alerian MLP

Asset Class Indicators

Real Assets



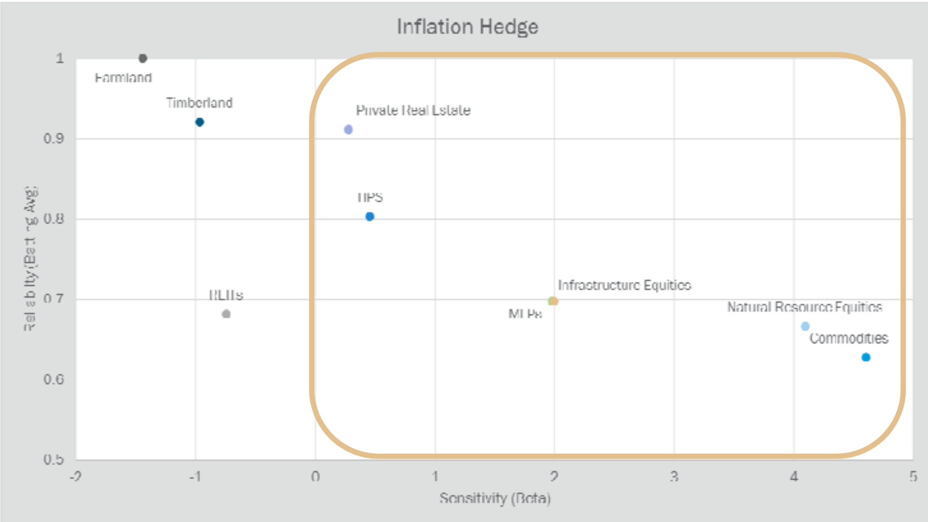
Current

+- 1 Standard Deviation From the Mean

10-Year High and Low

↑ Current number higher YoY ↓ Current number lower YoY

- Canterbury monitors several inflation and real asset indicators to help detect imbalances that are expected to cause price pressures
- The forward five-year breakeven inflation rate, calculated as the difference between yields in TIPs and Treasuries, widened as the market priced in higher inflation expectations. Larger fiscal stimulus and a faster than projected Fed rate hike path led to the higher expectations
- Both ISM survey numbers continued to improve over the quarter. As a result, manufacturing and service sectors continued to expand
- Oil prices climbed over the quarter as a result of OPEC's production cut decision. Various metals posted negative returns on the back of a higher U.S. dollar and higher interest rates



Farmland, Timberland, and REITs are screened from inclusion in Real Asset portfolios because they don't exhibit a sensitivity to inflation of greater than zero

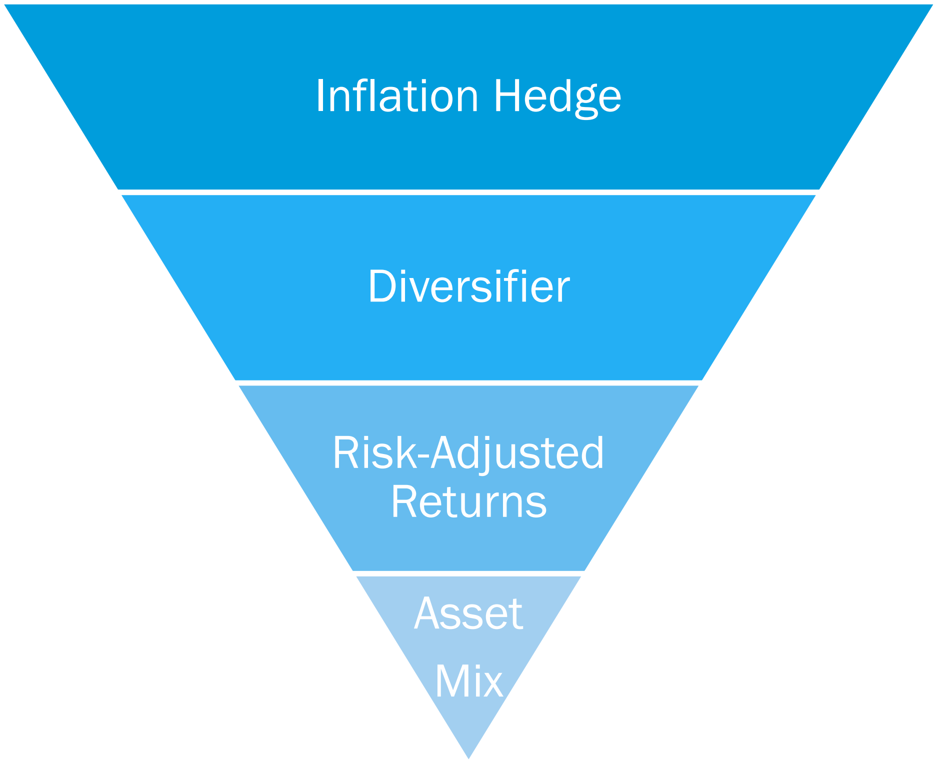
Infrastructure Equities are screened from Real Asset portfolios because they have a correlation of greater than 0.8 to equities

Risk-adjusted returns of the remaining asset classes are used to help optimize Real Asset portfolios

1) Based on 10-yr rolling data since inception 2) Takes average from 10-yr rolling data: REITs (1972), Commodities (1991), NR Equities (1996), MLPs (1996), Infra. Equities (2002), Private RE (1978), Farmland (1992), Timber (1987), & TIPS (1997)

Portfolio Process & Construction

Screening Process



Asset Mixes

Mixes	Sensitivity	Reliability	Correlation to Stocks	Correlation to Bonds	Sharpe Ratio
Liquid Direct	2.70	0.70	0.17	0.10	0.24
Diversified Direct	2.09	0.76	0.14	0.05	0.34
Morningstar U.S. Real Asset Index	*0.67*	*0.81*	*0.64*	*0.03*	*0.61*
CPI	*1.00*	*N/A*	*0.04*	*-0.12*	*-0.10*

Based on historical data from 3/1/1997 to 9/30/2016.
Sharpe ratios are 10 year trailing returns
The composition for each mix is shown on the following page.

- Canterbury utilizes a screening process to narrow down the asset classes for inclusion in real asset portfolios based on pre-specified roles:

  Inflation Hedge:
  High Reliability (>50%) and Sensitivity (>0) to Inflation

  Diversifier:
  Low Correlation (<0.8) to Stocks and Bonds

  Risk-Adjusted Returns:
  Sharpe Ratio is considered when optimizing the allocations to remaining asset classes

- These roles are used to help build portfolios of real assets that exhibit a high degree of sensitivity (>1) and reliability (>60%) to inflation, low correlation to stocks & bonds (<0.6), and generate competitive risk-adjusted returns (>0.5)

Recommended Mixes & Allocations

Real Assets

Current Recommendations

Liquid Direct	Managers	Exposures
Commodities	50.0%	33.0%
TIPS		33.0%
MLPs	25.0%	17.0%
Natural Resource Equities	25.0%	17.0%
Portfolio Ranges	5-10%	

Diversified Direct*	Managers	Exposures
Commodities	33.0%	25.0%
TIPS		25.0%
MLPs	17.0%	12.5%
Natural Resource Equities	17.0%	12.5%
Private Real Estate*	33.0%	25.0%
Portfolio Ranges	5-15%	

Multi-Asset	Managers	Exposures
Dynamic Multi-Asset Mix	100.0%	100.0%
Portfolio Ranges	5-10%	

- Utilizing the framework laid out in this document, we can develop a diversified mix of exposures to the real asset universe
- Investors with smaller real asset portfolios, or those who are unable or unwilling to take on illiquidity, can still gain diversified access to real assets by investing in a dynamic multi-asset manager mix
- A portfolio's allocation to real assets will fall within a range and be determined by expectations for inflation and underlying assets

**Private Real Asset allocations will vary by client appetite and output from private capital pacing models*