



Canterbury Consulting

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Quarterly Asset Class Report

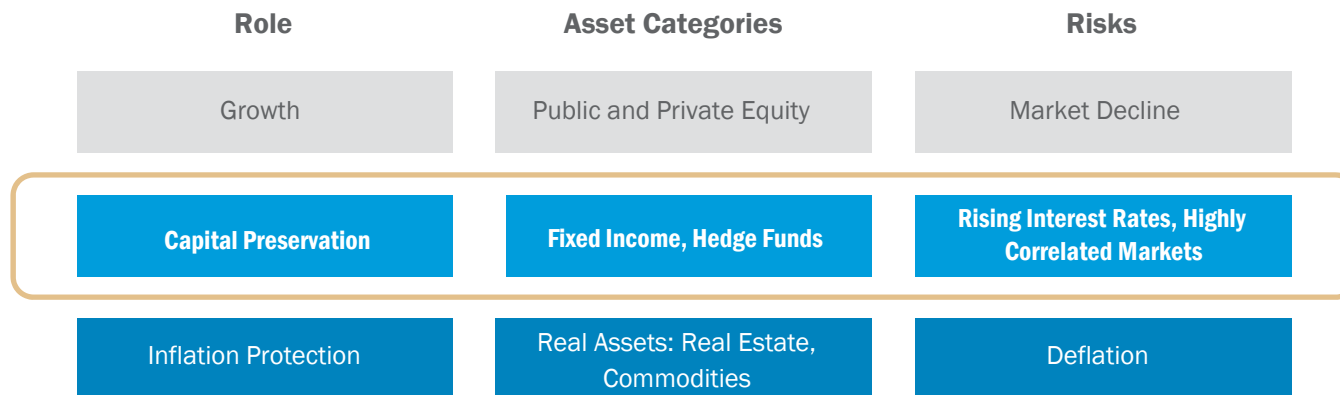
Tax Exempt Fixed Income

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December 31, 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 Benchmark¹	-0.93	-2.10	-2.10	-0.76	1.67	3.60	4.31
Barclays US Agg Bond	-0.57	0.55	0.55	1.44	3.25	4.09	4.52

U.S. Treasuries

BofAML 3M US Treasury Note	0.03	0.08	0.08	0.07	0.09	0.12	1.26
Barclays Short Treasury	-0.03	0.13	0.13	0.12	0.15	0.20	1.41
Barclays Intermediate Treasury	-0.86	1.18	1.18	0.79	2.11	2.04	3.75
Barclays Long Term US Treasury	-1.38	-1.21	-1.21	2.57	7.74	4.74	6.73
Barclays U.S. Treasury TIPS 0-5Y	-0.35	-0.02	-0.02	-0.92	0.81	2.52	2.77
Barclays US Treasury US TIPS	-0.64	-1.44	-1.44	-2.27	2.55	4.31	3.93

U.S. Corporate Credit

Barclays US Corp IG	-0.58	-0.68	-0.68	1.67	4.53	7.09	5.29
S&P/LSTA Leveraged Loan	-2.10	-0.69	-0.69	2.04	3.41	10.21	4.31
BofAML US HY Master II	-2.17	-4.64	-4.64	1.64	4.84	12.63	6.81
BofAML US HY BB-B Constrained	-1.13	-2.79	-2.79	2.27	5.25	11.60	6.43
BofAML US Corporate AAA	0.21	0.57	0.57	1.76	3.63	3.60	4.16
BofAML US Corporate AA	-0.18	0.86	0.86	1.93	3.87	5.15	4.50
BofAML US Corporate A	-0.08	0.62	0.62	1.98	4.58	6.78	4.74
BofAML US Corps BBB	-1.12	-2.19	-2.19	1.43	4.78	9.11	5.98
BofAML US High Yield BB	-0.11	-1.04	-1.04	3.12	5.88	12.08	7.26
BofAML US High Yield B	-2.40	-5.00	-5.00	1.14	4.48	11.15	5.65
BofAML US High Yield CCC	-8.48	-15.02	-15.02	-2.21	2.09	14.53	6.62

Securitized

Barclays ABS	-0.57	1.25	1.25	0.95	2.31	5.76	3.29
Barclays MBS	-0.10	1.51	1.51	2.01	2.96	3.72	4.64
Barclays CMBS	-1.16	0.94	0.94	1.28	3.87	8.92	5.29

Municipals

Barclays Municipal	1.50	3.30	3.30	3.16	5.35	5.97	4.72
Barclays Muni 1-10	0.63	2.20	2.20	2.02	3.16	3.63	3.86

Global

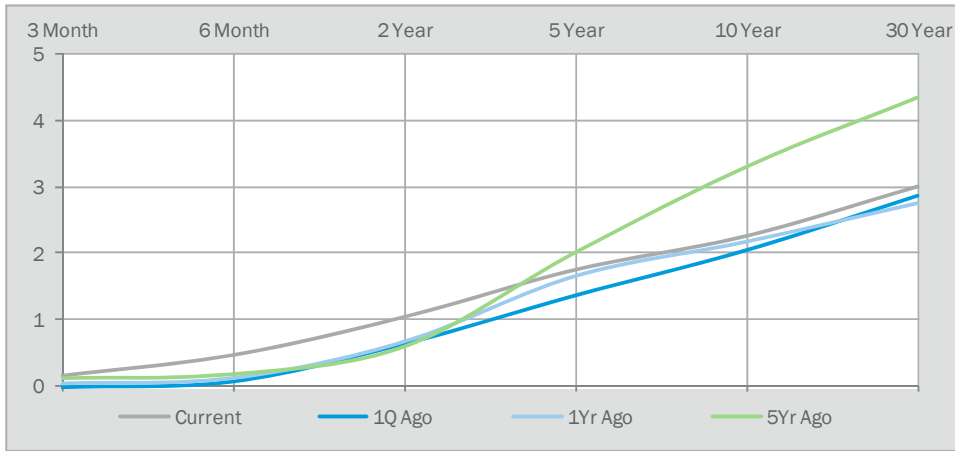
Citi WGBI	-1.23	-3.57	-3.57	-2.70	-0.08	1.03	3.44
Barclays Global Aggregate	-0.92	-3.15	-3.15	-1.74	0.90	2.39	3.74
Barclays Gbl Agg Ex USD	-1.26	-6.02	-6.02	-4.07	-0.83	1.14	3.10
JPM EMBI Plus	1.77	1.82	1.82	-0.30	5.02	8.75	6.69

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

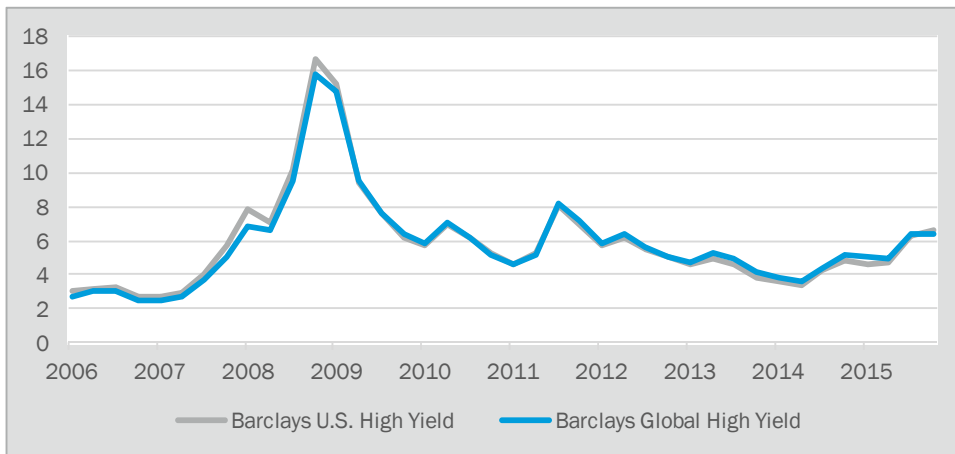
Market Environment

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 (12/31)	2.27	0.26	2.81	0.63	1.59	0.98	1.96	7.12	1.76	1.39
Rates (9/30)	2.04	0.35	3.23	0.59	1.72	0.98	1.76	5.95	1.89	1.43

- After delaying a U.S. tightening cycle in September, the FOMC decided to raise short term rates by 25 basis points in December. Policy makers cited strong employment, growth, and inflation metrics as reasons to begin monetary policy normalization. This was the first Fed rate hike since 2006
- U.S. rates rose along the yield curve, however the curve flattened as short term rates rose at a higher pace relative to long term rates. The 10 year Treasury increased approximately 20 basis points as global volatility concerns temporarily subsided
- The BofA ML High Yield Master II declined by -2.2% and spreads continued to widen in the 4th quarter. Declining commodity prices continued to negatively affect debt situated in the energy and basic materials sectors. Moreover, liquidity concerns put pressure on the high yield complex
- Rates continued to rise in several EM countries as growth and inflation metrics were far from encouraging. Lackluster growth in China, commodity pricing pressure, and U.S. dollar appreciation have led to higher rates and depreciating currencies in EM

Portfolio Characteristics

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	14.4%	26.5%	24.0%
Bank Loans	3.9%	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	-1.0%	0.0%	0.1%

Regional Distribution - Country Allocation

	Recom'd Portfolio	Fixed Income Benchmark	Barclays Aggregate
US	66.9%	58.3%	100.0%
Non-US Developed	17.5%	39.5%	0.0%
Non-US Emerging	15.6%	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

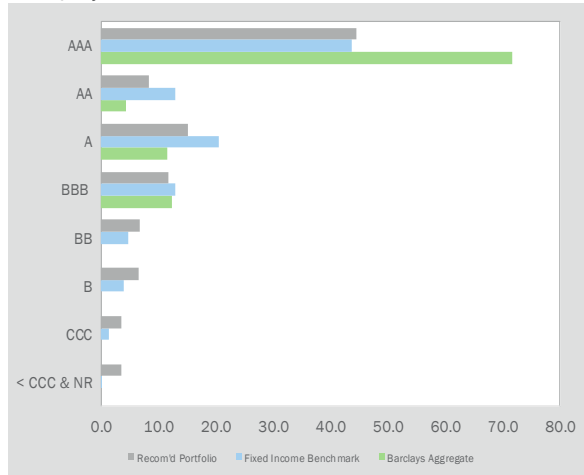
	Recom'd Portfolio	Fixed Income Benchmark	Barclays Aggregate
Effective Duration	4.03	6.22	5.60
Yield to Maturity (%)	3.40	2.40	2.31
Coupon Rate (%)	3.83	3.38	3.20
Average Credit Quality (Barclays)	A	A	AA

Portfolio Checklist

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

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

Fixed Income

- 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