



Canterbury Consulting

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## Quarterly Asset Class Report

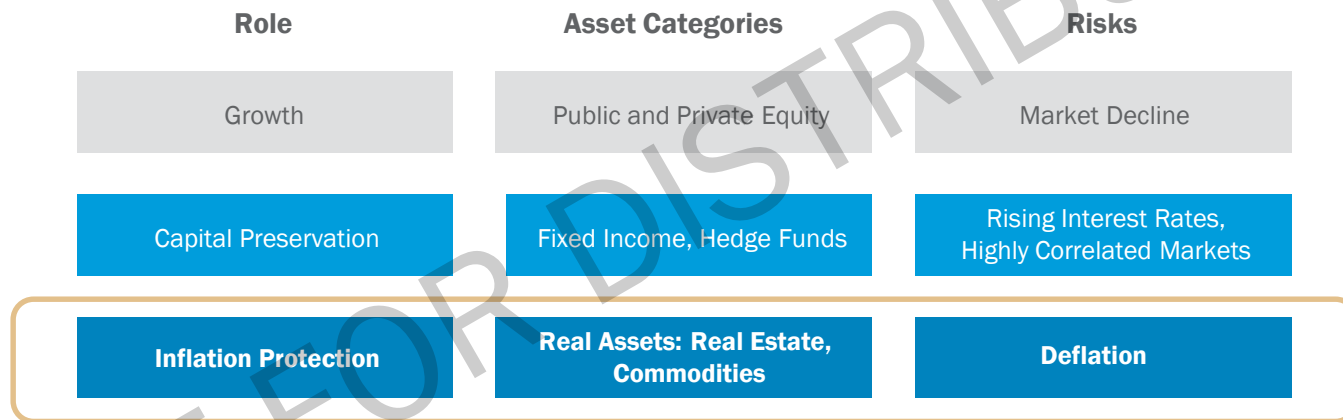
### Real Assets

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September 30, 2019

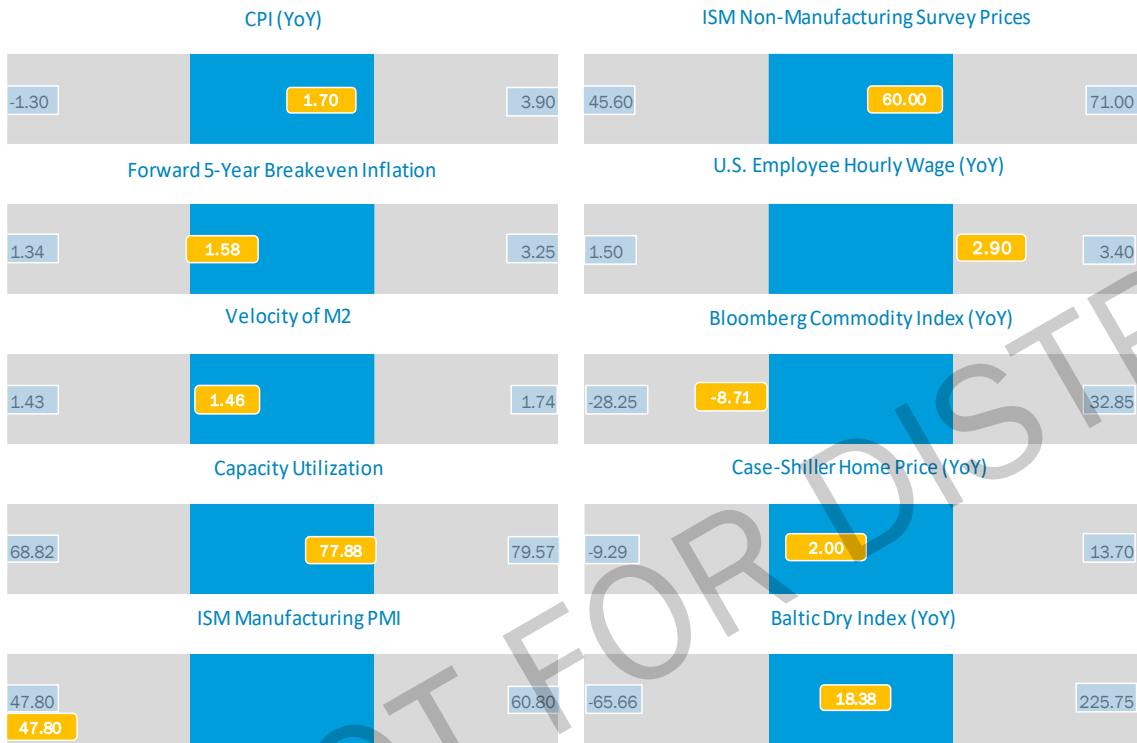
Canterbury Consulting recommends and communicates asset-class strategy with the objective of constructing a diversified portfolio of real asset strategies designed to (in aggregate):

- Preserve purchasing power
- Generate uncorrelated returns to other asset classes
- Provide high risk-adjusted returns within the constraints of the two previous points



- 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



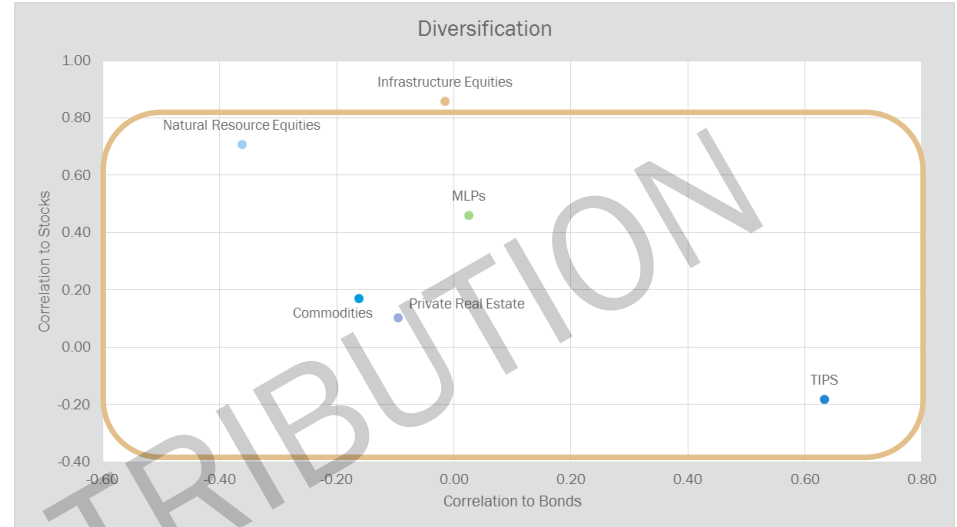
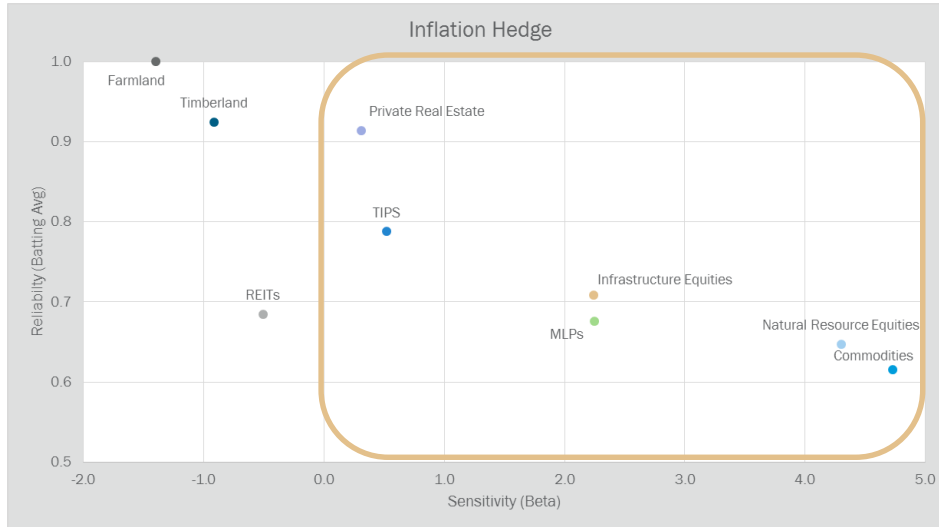
## Real Assets

Current

+ 1 Standard Deviation From the Mean

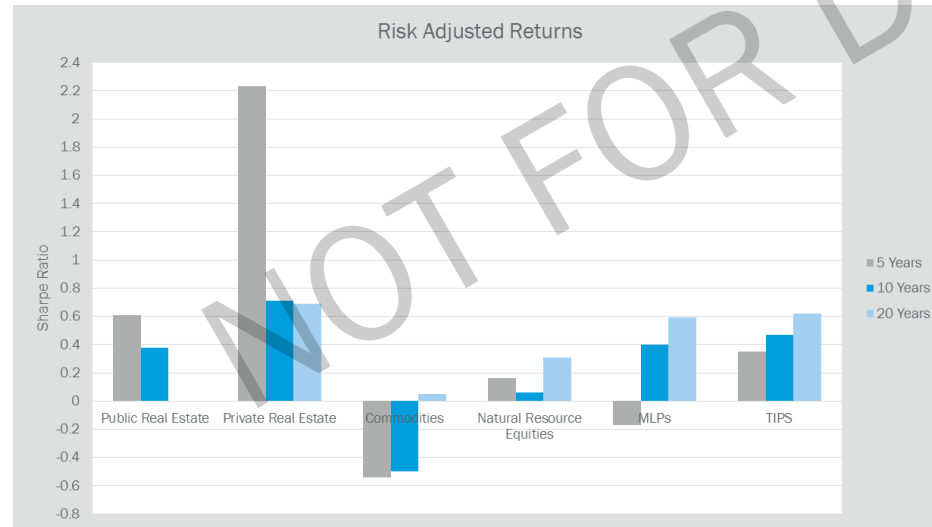
10-Year High and Low

- Canterbury monitors several inflation and real asset indicators to help detect imbalances that are expected to cause price pressures.
- Most current asset class indicators are within their one standard deviation band. Manufacturing has entered contraction territory as shown by the PMI number dropping below 50.
- Oil markets fluctuated, but moved lower during the quarter as investors assessed the lack of global growth and demand. While geopolitical issues in Saudi Arabia and Venezuela affected oil supply, the lack of optimism over a U.S.-China trade deal had a significant impact on prices.



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.

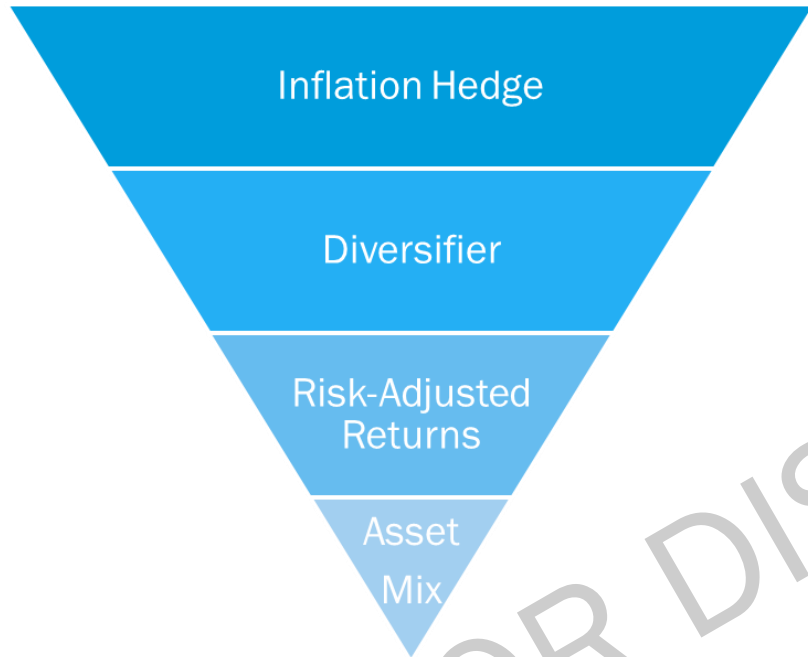


Risk-adjusted returns of the remaining asset classes are used to help optimize real asset portfolios.

1) Based on 10-yr rolling data since inception 2) Takes average from 10-yr rolling data: FTSE NAREIT All Equity (1972), Bloomberg Commodity (1991), S&P NA Natural Resources (1996), Alerian MLP (1996), S&P Global Infra. (2002), NCREIF Property (1978), NCREIF Farmland (1992), NCREIF Timberland (1987), & Barclays US TIPS (1997) 3) as of June 30, 2018

# Portfolio Process & Construction

## Screening Process



## Asset Mixes

Mixes	Sensitivity	Reliability	Correlation to Stocks	Correlation to Bonds	Sharpe Ratio
Liquid Direct	2.85	0.69	0.19	0.10	0.07
Dynamic Multi-Asset*	1.88	0.75	0.46	0.00	0.36
Diversified Direct	2.21	0.74	0.17	0.05	0.23
Morningstar U.S. Real Asset Index	0.77	0.77	0.65	0.04	0.39
CPI	1.00	1.00	-0.11	-0.28	NA

\* Principal DRA Strategy Mix

Based on historical data from 3/1/1997 to 6/31/2018

Sharpe ratios are 10-year trailing returns

## Real Assets

- 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).