



Canterbury Consulting

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## Quarterly Asset Class Report Real Assets

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June 30, 2021

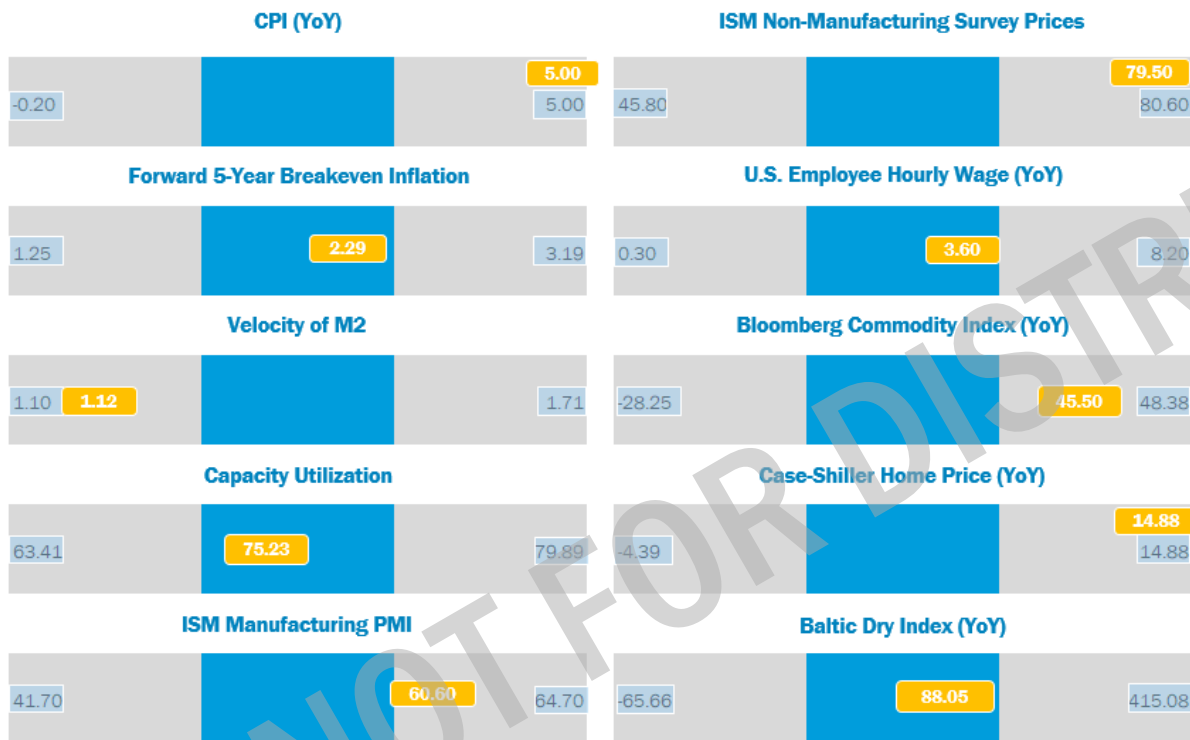
Canterbury Consulting recommends and communicates asset-class strategy with the objective of constructing a diversified portfolio of real asset strategies designed to (in aggregate):

- Preserve purchasing power
- Generate uncorrelated returns to other asset classes
- Manage the volatility profile of the segment

Role	Asset Categories	Risks
Growth	Public and Private Equity	Market Decline
Capital Preservation	Fixed Income, Hedge Funds	Rising Interest Rates, Highly Correlated Markets
<b>Inflation Protection</b>	<b>Real Assets: Real Estate, Commodities</b>	<b>Deflation</b>

- Real assets are appropriate for investors with long time horizons (10+ years) and inflation-linked liabilities.
- Real asset portfolios should aim to maximize high inflation sensitivity and high inflation reliability.
- Portfolio allocations will differ depending on the client’s risk tolerance.

# Asset Class Indicators



## Real Assets

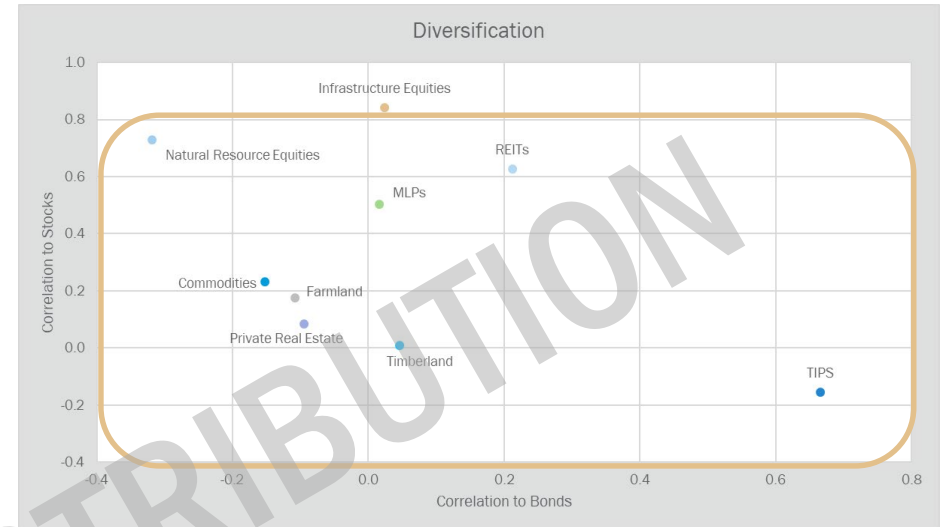
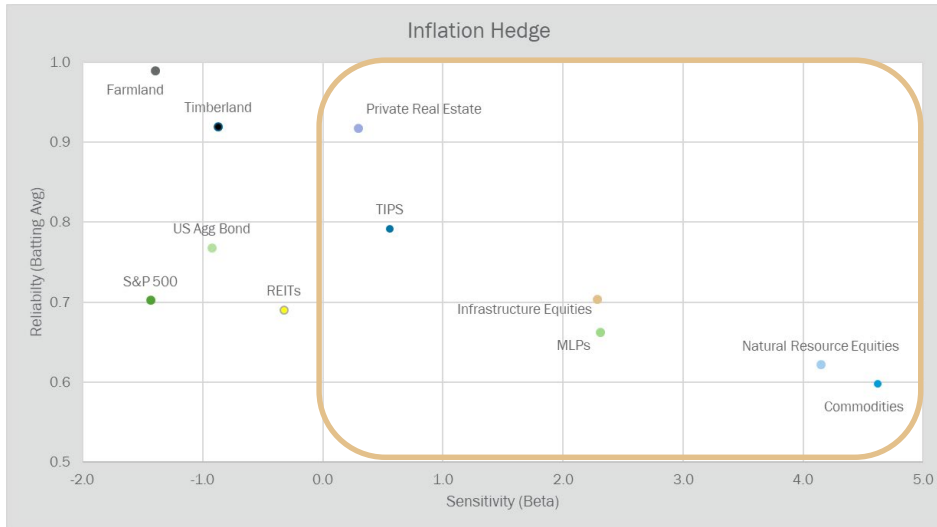
Current

+1 Standard Deviation From the Mean

10-Year High and Low

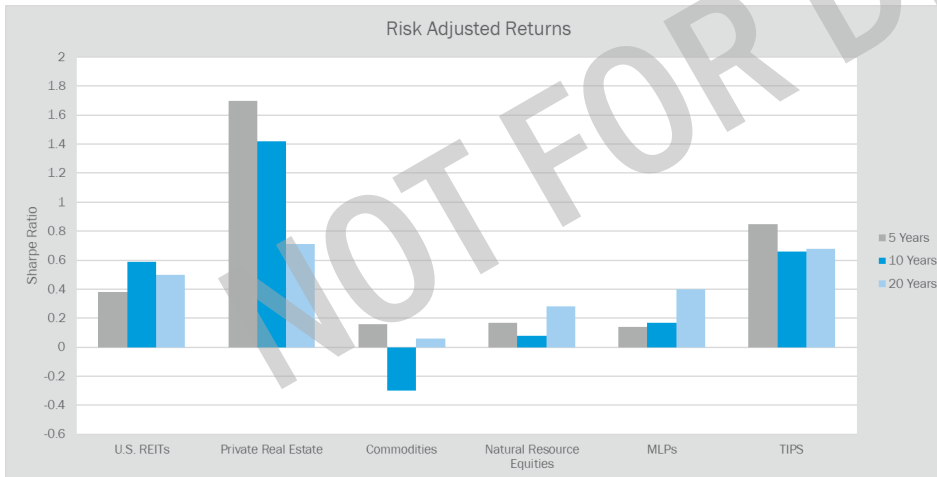
- Canterbury monitors several inflation and real asset indicators to help detect imbalances that are expected to cause price pressures.
- Inflation, measured by CPI, increased over the quarter from 2.6% at the end of Q1 to 5.4% at the end of Q2. Inflation breakeven rates marginally decreased over the quarter but still remained above 2%.
- Commodities and energy-related-assets continued to benefit from renewed demand from an economic reopening and higher inflation expectations.
- ISM manufacturing and non-manufacturing indicators remained above historic levels over the quarter as companies continued to rebuild their inventories.

Source: Bloomberg as of June 30, 2021



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.

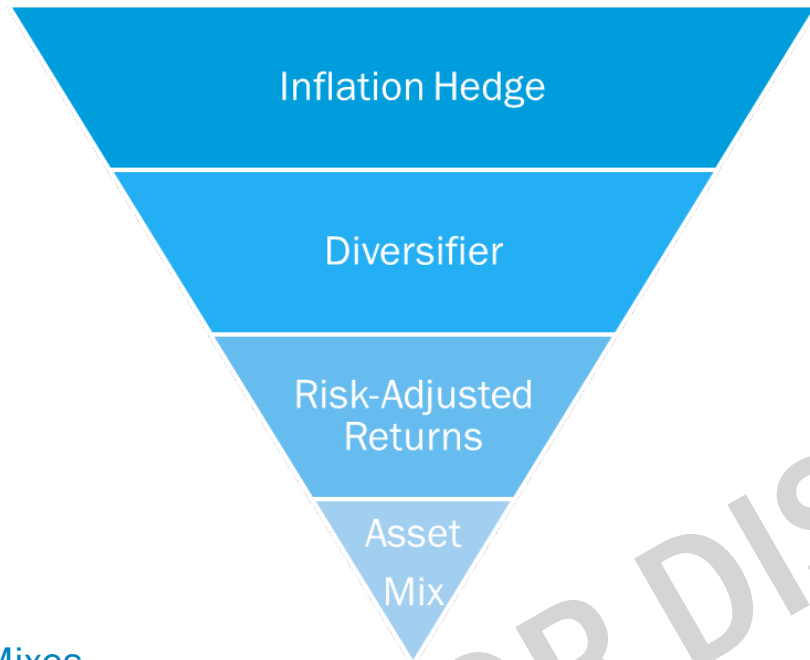


Risk-adjusted returns of the remaining asset classes are used to help optimize real asset portfolios.

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, 2021

# Portfolio Process & Construction

## Screening Process



## Asset Mixes

Mixes	Sensitivity	Reliability	Correlation to Stocks	Correlation to Bonds	Sharpe Ratio
Liquid Direct	2.81	0.68	0.24	0.12	0.16
Principal Diversified Real Assets	2.06	0.72	0.46	0.06	0.39
Diversified Direct	2.18	0.74	0.20	0.07	0.48
Morningstar U.S. Real Asset Index	0.85	0.78	0.69	0.05	0.43
CPI	1.00	1.00	-0.11	-0.28	NA

Based on historical data from 3/1/1997 to 6/30/2021  
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, show a low correlation to stocks and bonds (<0.6), and generate competitive risk-adjusted returns (>0.5).