



Canterbury Consulting

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Quarterly Asset Class Report

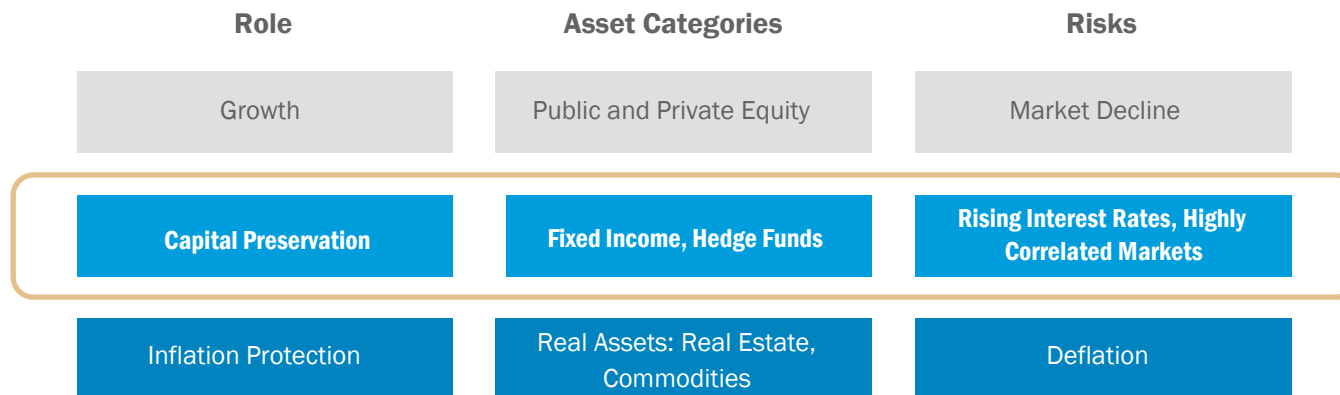
Taxable Fixed Income

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June 30, 2016

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 after-tax wealth and mitigate volatility
- (ii) Maintain comparable exposure to the broad municipal market
- (iii) Exhibit returns uncorrelated to equity markets



- Canterbury global fixed income portfolios are expected to deliver consistent after-tax and net of fees excess returns and moderate tracking error versus the Barclays Municipal Bond Index
- Canterbury’s fixed income portfolios will exhibit benchmark-like after-tax yields and credit quality. However, they will do so with more portfolio diversification and lower duration

Index Returns

Fixed Income

| | QTD | YTD | 1 Year | 3 Years | 5 Years | 7 Years | 10 Years |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Barclays Global Aggregate | 2.89 | 8.96 | 8.87 | 2.80 | 1.77 | 3.43 | 4.40 |
| Barclays US Agg Bond | 2.21 | 5.31 | 6.00 | 4.06 | 3.76 | 4.58 | 5.13 |

U.S. Treasuries

| | | | | | | | |
|----------------------------------|------|-------|-------|-------|-------|------|------|
| BofAML 3M US Treasury Note | 0.09 | 0.19 | 0.25 | 0.11 | 0.11 | 0.12 | 1.05 |
| Barclays Short Treasury | 0.16 | 0.34 | 0.38 | 0.21 | 0.19 | 0.22 | 1.23 |
| Barclays Intermediate Treasury | 1.28 | 3.66 | 4.04 | 2.44 | 2.40 | 2.93 | 4.14 |
| Barclays Long Term US Treasury | 6.44 | 15.12 | 19.30 | 10.46 | 10.31 | 8.84 | 8.77 |
| Barclays U.S. Treasury TIPS 0-5Y | 0.85 | 2.68 | 1.66 | 0.62 | 0.57 | 2.00 | 2.90 |
| Barclays US Treasury US TIPS | 1.71 | 6.24 | 4.35 | 2.31 | 2.63 | 4.31 | 4.75 |

U.S. Corporate Credit

| | | | | | | | |
|-------------------------------|-------|-------|-------|------|------|-------|------|
| Barclays US Corp IG | 3.57 | 7.68 | 7.94 | 5.42 | 5.43 | 6.99 | 6.23 |
| S&P/LSTA Leveraged Loan | 2.92 | 4.51 | 0.94 | 2.76 | 3.79 | 6.57 | 4.46 |
| BofAML US HY Master II | 5.88 | 9.32 | 1.71 | 4.18 | 5.70 | 9.95 | 7.44 |
| BofAML US HY BB-B Constrained | 4.61 | 7.90 | 2.13 | 4.62 | 5.86 | 9.21 | 7.06 |
| BofAML US Corporate AAA | 3.30 | 7.87 | 10.44 | 5.72 | 4.71 | 5.40 | 5.03 |
| BofAML US Corporate AA | 2.67 | 6.45 | 7.79 | 5.17 | 4.70 | 5.72 | 5.25 |
| BofAML US Corporate A | 2.94 | 6.69 | 7.83 | 5.40 | 5.30 | 6.77 | 5.60 |
| BofAML US Corps BBB | 4.27 | 8.72 | 6.82 | 5.47 | 5.72 | 7.97 | 7.04 |
| BofAML US High Yield BB | 4.03 | 7.89 | 4.36 | 5.74 | 6.45 | 9.76 | 7.90 |
| BofAML US High Yield B | 5.39 | 7.98 | -0.58 | 3.24 | 5.14 | 8.63 | 6.13 |
| BofAML US High Yield CCC | 14.21 | 18.58 | -0.55 | 1.80 | 4.50 | 11.71 | 7.70 |

Securitized

| | | | | | | | |
|---------------|------|------|------|------|------|------|------|
| Barclays ABS | 1.17 | 2.54 | 2.72 | 2.05 | 2.34 | 3.94 | 3.48 |
| Barclays MBS | 1.11 | 3.10 | 4.34 | 3.76 | 3.00 | 3.74 | 4.96 |
| Barclays CMBS | 2.01 | 5.57 | 5.80 | 3.64 | 4.20 | 8.34 | 5.94 |

Municipals

| | | | | | | | |
|--------------------|------|------|------|------|------|------|------|
| Barclays Municipal | 2.61 | 4.33 | 7.65 | 5.58 | 5.33 | 5.66 | 5.13 |
| Barclays Muni 1-10 | 1.22 | 2.34 | 4.21 | 3.17 | 3.03 | 3.54 | 4.07 |

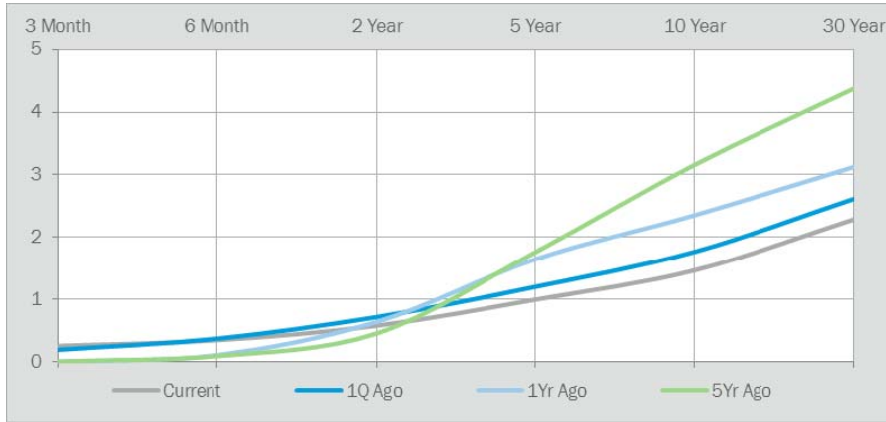
Global

| | | | | | | | |
|-------------------------|------|-------|-------|------|------|------|------|
| Citi WGBI | 3.41 | 10.74 | 11.26 | 2.65 | 1.18 | 2.73 | 4.22 |
| Barclays Gbl Agg Ex USD | 3.40 | 11.94 | 11.24 | 1.85 | 0.35 | 2.59 | 3.83 |
| JPM EMBI Plus | 6.00 | 12.29 | 13.22 | 7.08 | 6.43 | 8.69 | 8.01 |

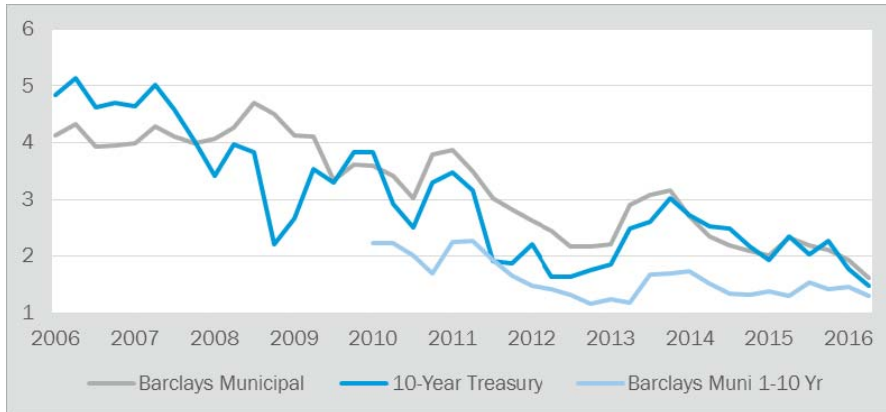
Market Environment

Fixed Income

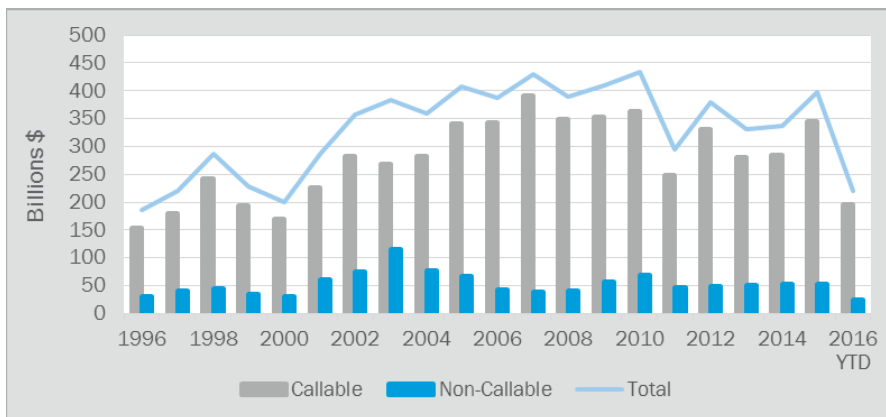
U.S. Treasury Rates



Yields



U.S. Municipal Issuance



- Developed market bond yields continued to decline as investors sought safe haven assets. The U.S. 10 Year Treasury rate declined by 30 basis points and interest rates in Japan and Europe moved into negative territory
- High yield spreads widened after the ‘Brexit’ news, however risky bonds subsequently rebounded as investors factored in a lower for longer interest rate environment. The BofA High Yield Master II ended the quarter up 5.88%
- While select emerging markets bonds and currencies sold down significantly after the “Brexit” outcome, both rallied shortly after markets realized the UK is a relatively small export partner for emerging markets as a whole. From a regional perspective, Brazil was one of the best performers as political and economic uncertainties eased
- Municipal yields continued to fall in tandem with treasury yields. Contrary to seasonal norms, June delivered strong returns as investors anticipated a rate hike pause

Portfolio Characteristics

Fixed Income

Sector Distribution

| | Current Portfolio | Barclays Municipal Bond Index | Barclays 1-10 YR Muni Bond |
|--------------------------|-------------------|-------------------------------|----------------------------|
| US Treasury | 2.3% | 0.0% | 0.0% |
| Agency | 2.1% | 0.0% | 0.0% |
| Local Authority (non-US) | 0.4% | 0.0% | 0.0% |
| Municipal (US) | 42.9% | 100.0% | 100.0% |
| Sovereign (non-US) | 18.4% | 0.0% | 0.0% |
| Supranational | 0.2% | 0.0% | 0.0% |
| Corporate | 7.0% | 0.0% | 0.0% |
| Bank Loans | 4.0% | 0.0% | 0.0% |
| MBS | 7.4% | 0.0% | 0.0% |
| ABS | 0.3% | 0.0% | 0.0% |
| CMBS | 0.7% | 0.0% | 0.0% |
| Other & Cash | 14.2% | 0.0% | 0.0% |

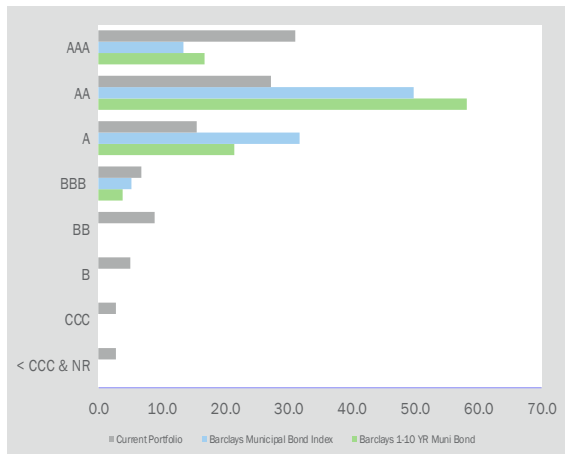
Regional Distribution

| | Current Portfolio | Barclays Municipal Bond Index | Barclays 1-10 YR Muni Bond |
|------------------|-------------------|-------------------------------|----------------------------|
| US | 74.0% | 100.0% | 100.0% |
| Non-US Developed | 15.2% | 0.0% | 0.0% |
| Non-US Emerging | 10.7% | 0.0% | 0.0% |

Portfolio Characteristics

| | Current Portfolio | Barclays Municipal Bond Index | Barclays 1-10 YR Muni Bond |
|-----------------------------------|-------------------|-------------------------------|----------------------------|
| Effective Duration | 2.71 | 6.15 | 3.80 |
| After-tax YTM (%) | 3.79 | 1.93 | 1.62 |
| Coupon Rate (%) | 4.09 | 4.79 | 4.86 |
| Average Credit Quality (Barclays) | A | AA | AA |

Credit Quality Distribution vs. Benchmark



Portfolio Checklist

| | Current Portfolio | Barclays Municipal Bond Index | Barclays 1-10 YR Muni Bond |
|-------------------------------------|-------------------|-------------------------------|----------------------------|
| Yield ¹ | ✓ | ✓ | ✓ |
| Duration ² | ✓ | ✓ | ✓ |
| Credit Quality ³ | ✓ | ✓ | ✓ |
| Sector Diversification ⁴ | ✓ | ✗ | ✗ |
| Region Diversification ⁵ | ✓ | ✗ | ✗ |

- The after-tax YTM should be 80% of the after-tax 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

- Canterbury recommends reducing interest rate exposure by targeting a portfolio duration less than that of the benchmark (Barclays Municipal Index)
- Investors can lower portfolio duration (while maintaining yield) by allocating to credit and diversifying globally
- Inefficiencies in the municipal market allow us to target similar credit quality as the benchmark with much less duration risk
- Canterbury attempts to maximize the risk return relationship of fixed income portfolios by spreading risk across several factors (interest rate, credit, prepayment, liquidity, currency, political, counterparty, etc.)

The Baseline Portfolio has allocations to the following investment manager types: 50% Municipals, 30% Global, 10% Credit, and 10% Mortgage-Backed
Source of Benchmark Information: Barclays