Canterbury Consulting

Quarterly Asset Class Report

Global Equity

canterburyconsulting.com

March 31, 2016

Role in the Portfolio

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

(i) Provide growth of portfolio assets in excess of inflation and spending rates

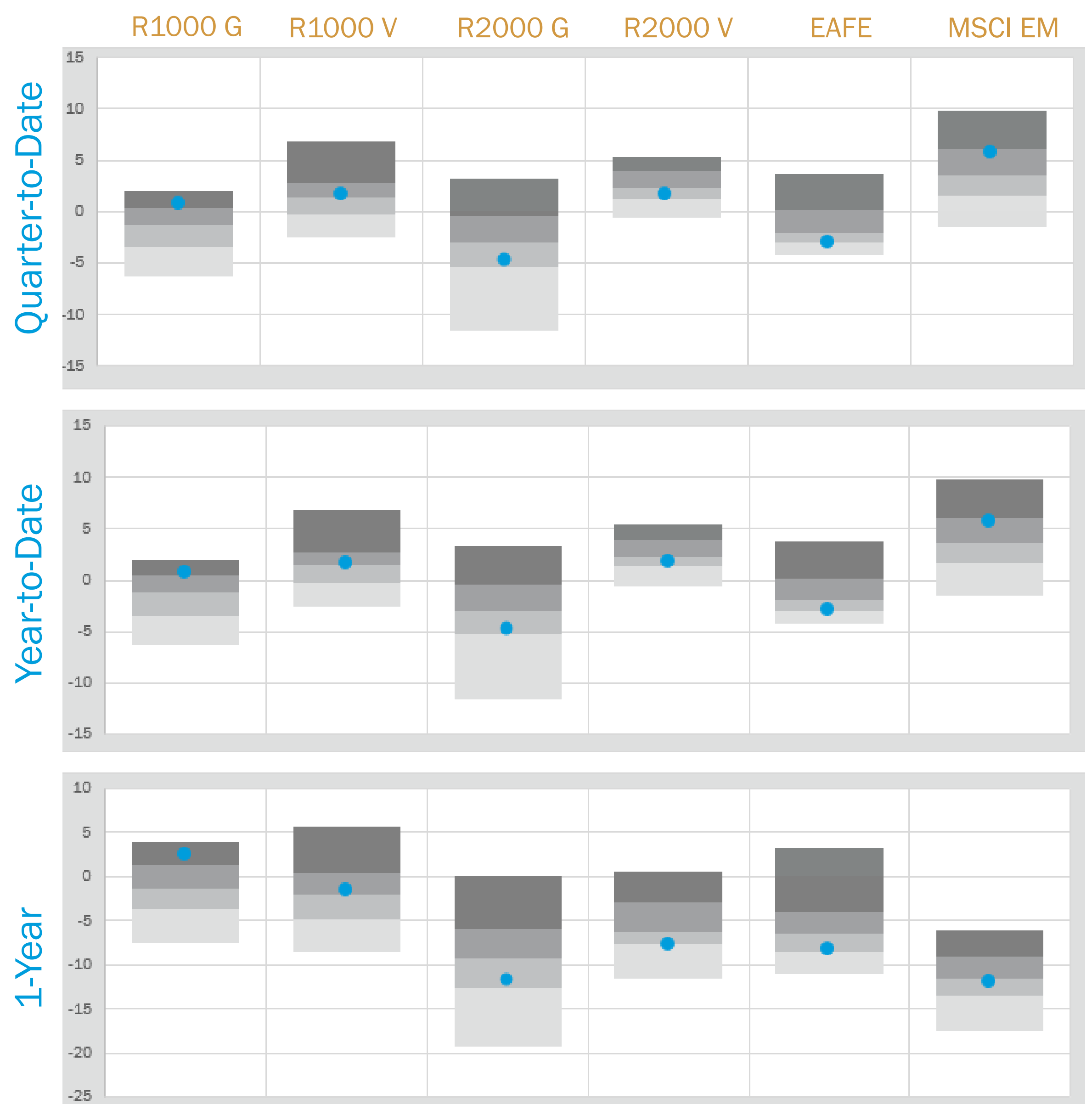
(ii) Maintain comparable exposure to the global equity market

(iii) Exhibit returns uncorrelated to fixed income markets

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

- Canterbury global equity portfolios are expected to deliver consistent net of fees excess returns and moderate tracking error versus the MSCI All Country World Index over longer periods of time
- Relative to the index, Canterbury equity portfolios will employ higher allocations to small- and mid-cap equities, comparable volatility (achieved through manager selection), and moderate tracking error

Performance (%) as of March 31, 2016



Blue dots represent the returns of the benchmark; gray floating bar charts represent the peer groups by quartile
Source: Morningstar Direct

- During the first quarter, value outperformed growth and emerging markets outperformed developed markets
- Large-cap growth active managers continued to struggle against their benchmark, with over 75% of active managers underperforming the Russell 1000 Value for both the quarter and the trailing one-year period
- International developed active managers had an easier time beating their benchmark, with roughly 75% of active managers outperforming the MSCI EAFE during both the quarter and the trailing one-year period
- The rebound in commodities during the first quarter lifted emerging markets and value stocks, while weakness in the health care sector weighed on growth stocks

Market Capitalization Mix

Equity Review

	Equity: U.S. Market Cap	Current	10 Year Avg	Deviation from Mean*	Large	Neutral	Small
Valuation	Russell Top 200 Current P/E (Large Cap)	18.29	15.70	1.52			+
	R2000 Current P/E (Small Cap)	35.23	70.42	-0.19		-	
	Avg P/E Ratio (Large/Small)	0.52	0.39	0.92		-	
	Russell Top 200 EV/EBITDA^ (Large Cap)	12.52	9.96	1.86			+
	R2000 EV/EBITDA (Small Cap)	19.80	12.98	2.97	++		
	Avg EV/EBITDA Ratio (Large/Small)	0.63	0.78	-1.25	+		
	Russell Top 200 P/S (Large Cap)	1.89	1.55	1.33			+
	R2000 P/S (Small Cap)	1.13	1.02	0.61		-	
	Avg P/S Ratio (Large/Small)	1.67	1.54	1.23			+
Solvency	Russell Top 200 Debt/EBITDA (Large Cap)	4.40	4.82	-0.48		-	
	Russell 2000 Debt/EBITDA (Small Cap)	7.84	5.20	3.18	++		
	Avg Debt/EBITDA Ratio (Large/Small)	0.56	0.94	-1.60	+		
Growth	Russell Top 200 LT EPS Gr (Fwd) (Large Cap)	18.36	8.88	0.16		-	
	R2000 LT EPS Gr (Fwd) (Small Cap)	8.46	11.00	-1.33	+		
	Avg Growth Ratio (Large/Small)	2.17	0.81	0.27		-	
Economy	Case Shiller Home Price (YoY)	5.75	-0.12	0.65		-	
	Total Leading Economic Indicators	123.20	111.24	1.19			+
	Currency (USD v Broad Basket)	94.59	82.37	1.84			+
	Curve Steepness 2's to 10's	1.05	1.63	-0.70		-	

**Deviation from mean represents how many standard deviations the current value is above or below the 10-year average, also known as the "Z-Score"*
^EV/EBITDA, also known as the "enterprise multiple," is a ratio used to determine the value of a company. Unlike P/E, the enterprise multiple takes debt into account. This is often the ratio used by companies looking to acquire another business

- There are various valuation metrics used to determine the relative attractiveness of the equity universe – Canterbury prefers Price/Earnings, EV/EBITDA, and Price/Sales. No one metric is a sole determinant
- The valuation data are mixed, with large-cap stocks looking expensive based on P/E and P/S, but small-cap stocks looking very expensive on an EV/EBITDA basis
- Small-cap Debt/EBITDA increased to a 10-year high during the quarter, signaling potential solvency risk
- Growth estimates currently favor large-cap stocks, while healthy economic indicators favor small-cap stocks, which are typically more economically sensitive and domestically oriented

Source: Russell

Region Mix – U.S. vs. Global

	Equity: Region (U.S./Global)	Current	10 Year Avg	Deviation from Mean*	U.S.	Neutral	R.O.W.
Valuation	S&P 500 Current P/E	18.73	16.51	1.14			+
	MSCI ACWI Current P/E	18.14	16.41	0.46		-	
	Avg P/E Ratio (US /ACWI)	1.03	1.01	0.21		-	
	S&P 500 EV/EBITDA^	13.07	10.40	2.19			++
	MSCI ACWI EV/EBITDA	11.40	9.58	1.58	+		
	Avg EV/EBITDA Ratio (US/ACWI)	1.15	1.09	1.64			+
	S&P 500 P/S	1.84	1.45	1.47			+
	MSCI ACWI P/S	1.40	1.21	0.94		-	
	Avg P/S Ratio (US/ACWI)	1.31	1.20	1.29			+
Solvency	S&P 500 Debt/EBITDA	4.41	4.79	-0.46		-	
	MSCI ACWI Debt/EBITDA	6.39	6.39	0.00		-	
	Avg Debt/EBITDA Ratio (US/ACWI)	0.69	0.74	-0.70		-	
Growth	S&P 500 LT EPS Gr (Fwd)	13.71	8.80	1.01	+		
	MSCI ACWI LT EPS Gr (Fwd)	8.03	9.60	-0.09		-	
	Avg Growth Ratio (US/ACWI)	1.71	0.97	1.22	+		
Economy	Currency (USD v Broad Basket)	94.59	82.37	1.84			+

**Deviation from mean represents how many standard deviations the current value is above or below the 10-year average, also known as the "Z-Score"*
^EV/EBITDA, also known as the "enterprise multiple," is a ratio used to determine the value of a company. Unlike P/E, the enterprise multiple takes debt into account. This is often the ratio used by companies looking to acquire another business

- U.S. stock valuations are well above historical norms. Rest of the world ("R.O.W.") valuations are relatively attractive, but are also above their own historical averages
- The solvency data is benign, suggesting that leverage is at healthy levels for both U.S. and R.O.W. stocks
- Growth estimates swung from negative to positive for both U.S. and R.O.W. stocks during the quarter. U.S. stocks currently have higher growth prospects
- The U.S. Dollar remains at a historically high level vs. a broad basket of currency, but weakened from the previous quarter. The strong dollar has been a headwind to U.S. companies that export their goods and services overseas

Source: MSCI and Standard & Poor's

Region Mix – Non-U.S. Developed vs. Global

	Equity: Region (Non-U.S. Dev/Global)	Current	10 Year Avg	Deviation from Mean*	Non-U.S. Dev	Neutral	R.O.W.
Valuation	MSCI EAFE Current P/E	18.61	18.49	0.01		-	
	MSCI ACWI Current P/E	18.14	16.41	0.46		-	
	Avg P/E Ratio (EAFE/ACWI)	1.03	1.09	-0.15		-	
	MSCI EAFE EV/EBITDA^	10.13	9.19	0.85		-	
	MSCI ACWI EV/EBITDA	11.40	9.58	1.58	+		
	Avg EV/EBITDA Ratio (EAFE/ACWI)	0.89	0.96	-1.45	+		
	MSCI EAFE P/S	1.08	0.98	0.56		-	
	MSCI ACWI P/S	1.40	1.21	0.94		-	
	Avg P/S Ratio (EAFE/ACWI)	0.78	0.81	-0.78		-	
Solvency	MSCI EAFE Debt/EBITDA	8.21	8.84	-0.59		-	
	MSCI ACWI Debt/EBITDA	6.39	6.39	0.00		-	
	Avg Debt/EBITDA Ratio (EAFE/ACWI)	1.28	1.38	-1.56	+		
Growth	MSCI EAFE LT EPS Gr (Fwd)	5.19	5.52	-0.01		-	
	MSCI ACWI LT EPS Gr (Fwd)	8.03	9.60	-0.09		-	
	Avg Growth Ratio (EAFE/ACWI)	0.65	0.65	0.00		-	
Economy	USD/EUR	1.14	1.32	-1.62	+		

Deviation from mean represents how many standard deviations the current value is above or below the 10-year average, also known as the "Z-Score"
^EV/EBITDA, also known as the "enterprise multiple," is a ratio used to determine the value of a company. Unlike P/E, the enterprise multiple takes debt into account. This is often the ratio used by companies looking to acquire another business

- Non-U.S. developed countries remain attractively valued versus the R.O.W. based on all three valuation metrics. This valuation gap expanded slightly after the emerging markets rally in the first quarter
- Debt levels are in line with historical norms across the globe, but the solvency data is slightly in favor of Non-U.S. developed countries
- Growth estimates for global equities swung from negative to positive during the quarter, and are now in neutral territory
- The U.S. dollar weakened vs. the Euro over the quarter, but remains at above its 10-year average level. The strong dollar has been a tailwind for companies with costs based in Europe and revenues coming from the U.S.

Source: MSCI

Region Mix – Emerging Markets vs. Global

	Equity: Region (EM/Global)	Current	10 Year Avg	Deviation from Mean*	EM	Neutral	R.O.W.
Valuation	MSCI EM Current P/E	13.87	13.32	0.20		-	
	MSCI ACWI Current P/E	18.14	16.41	0.46		-	
	Avg P/E Ratio (EM/ACWI)	0.76	0.81	-0.45		-	
	MSCI EM EV/EBITDA^	7.95	7.83	0.10		-	
	MSCI ACWI EV/EBITDA	11.40	9.58	1.58	+		
	Avg EV/EBITDA Ratio (EM/ACWI)	0.70	0.82	-1.39	+		
	MSCI EM P/S	1.03	1.24	-0.70		-	
	MSCI ACWI P/S	1.40	1.21	0.94		-	
	Avg P/S Ratio (EM/ACWI)	0.74	1.04	-1.47	+		
Solvency	MSCI EM Debt/EBITDA	4.53	3.27	1.50			+
	MSCI ACWI Debt/EBITDA	6.39	6.39	0.00		-	
	Avg Debt/EBITDA Ratio (EM/ACWI)	0.71	0.52	1.11			+
Growth	MSCI EM LT EPS Gr (Fwd)	5.13	9.70	-0.01		-	
	MSCI ACWI LT EPS Gr (Fwd)	8.03	9.60	-0.09		-	
	Avg Growth Ratio (EM/ACWI)	0.64	1.09	-0.01		-	

**Deviation from mean represents how many standard deviations the current value is above or below the 10-year average, also known as the "Z-Score"*
^EV/EBITDA, also known as the "enterprise multiple," is a ratio used to determine the value of a company. Unlike P/E, the enterprise multiple takes debt into account. This is often the ratio used by companies looking to acquire another business

- After the rally in the first quarter Emerging Markets ("EM") stocks are no longer cheaper than their historical averages, but they remain attractively valued compared to the R.O.W. based on all three valuation metrics
- The level of debt on EM balance sheets continues to be above historical norms, but has moderated from the previous quarter
- Growth estimates turned negative for stocks globally, but estimates for EM companies held up relatively well and remain positive

Source: MSCI

Portfolio Characteristics

Recommended Ranges

Market Cap (U.S.)	Minimum	Maximum	R3000
Large Cap (> $25.5B)	50.0%	70.0%	68.0%
Mid Cap ($3B - $25.5B)	25.0%	40.0%	26.1%
Small Cap (< $3B)	2.5%	12.5%	5.8%

Region	Minimum	Maximum	MSCI ACWI
U.S.	45.0%	65.0%	53.0%
Non-U.S. Developed	25.0%	40.0%	37.4%
Emerging Markets	5.0%	20.0%	9.6%

Client objectives and constraints may cause allocations to vary from recommended ranges

- Canterbury has been decreasing its home country bias as U.S. equity valuations remain stretched and the strong dollar presents a headwind for American companies with global operations
- Our market cap exposures are currently in a more neutral position. Valuation, growth, and economic indicators do not support a major shift at this time
- As the equity market cycle matures, Canterbury believes its utilization of active managers that can avoid overvalued regions, sectors, and securities will be a strong value-add