Canterbury Consulting

Quarterly Asset Class Report
Tax-Exempt Fixed Income

canterburyconsulting.com

September 30, 2021

Role in the Portfolio

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

- Preserve capital and mitigate volatility
- Provide measured exposure to the diverse universe of fixed income securities
- Exhibit returns uncorrelated to equity 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 fixed income portfolios are set up with a goal to deliver consistent net-of-fees excess returns and moderate tracking error versus the Barclays Global Aggregate.
- Relative to the index, Canterbury's current fixed income portfolios will exhibit lower duration, similar credit quality, and higher yields.

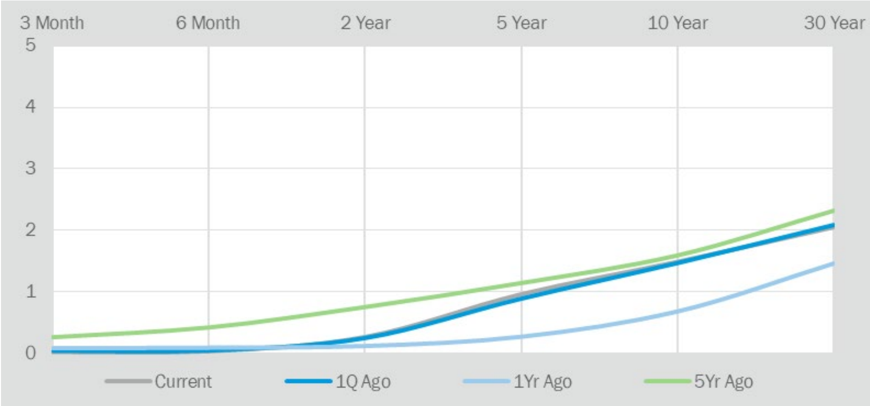
Index Returns as of September 30, 2021

Fixed Income

	QTD	YTD	1 Year	3 Years	5 Years	7 Years	10 Years
Barclays Global Aggregate	**-0.88**	**-4.06**	**-0.91**	**4.24**	**1.99**	**2.17**	**1.86**
Barclays US Agg Bond	**0.05**	**-1.55**	**-0.90**	**5.35**	**2.94**	**3.26**	**3.01**
U.S. Treasurys							
BofAML 3M US Treasury Note	0.01	0.08	0.09	1.24	1.18	0.90	0.65
Barclays Short Treasury	0.02	0.06	0.08	1.35	1.25	0.97	0.72
Barclays Intermediate Treasury	-0.01	-1.15	-1.38	4.00	1.98	2.21	1.81
Barclays Long Term US Treasury	0.47	-7.49	-10.27	9.21	3.31	5.43	4.39
BBgBarc U.S. Treasury TIPS 1-5Y	1.39	4.31	5.86	4.96	3.18	2.50	1.94
Barclays US Treasury US TIPS	1.75	3.51	5.19	7.45	4.34	3.90	3.12
U.S. Corporate Credit							
Barclays US Corp IG	0.00	-1.27	1.74	7.44	4.61	4.74	4.87
S&P/LSTA Leveraged Loan	1.11	4.42	8.40	4.14	4.58	4.18	4.91
BofAML US HY Master II	0.94	4.67	11.46	6.62	6.36	5.76	7.29
BofAML US HY BB-B Constrained	0.94	3.84	9.76	6.89	6.16	5.75	7.08
BofAML US Corporate AAA	-0.42	-3.32	-1.82	7.90	4.52	4.91	4.01
BofAML US Corporate AA	-0.11	-1.87	-0.12	6.39	3.78	4.14	4.03
BofAML US Corporate A	-0.19	-1.90	0.13	6.93	4.11	4.40	4.55
BofAML US Corps BBB	0.06	-0.32	3.63	7.95	5.21	5.02	5.50
BofAML US High Yield BB	1.07	3.78	9.74	8.16	6.54	6.35	7.41
BofAML US High Yield B	0.69	4.02	9.97	5.47	5.77	5.09	6.72
BofAML US High Yield CCC	1.01	10.62	24.11	3.63	6.87	5.49	8.12
Securitized							
Barclays ABS	0.05	0.23	0.59	3.50	2.36	2.34	2.13
Barclays MBS	0.10	-0.67	-0.43	3.85	2.17	2.55	2.41
Barclays CMBS	-0.03	-0.53	0.52	5.81	3.25	3.49	3.80
Municipals							
Barclays Municipal	-0.27	0.79	2.63	5.06	3.26	3.57	3.87
Barclays Muni 1-10	0.02	0.32	1.15	3.68	2.36	2.37	2.47
Global							
Citi WGBI	-1.24	-5.93	-3.33	3.73	1.35	1.74	1.06
Barclays Gbl Agg Ex USD	-1.59	-5.94	-1.15	3.17	1.10	1.22	0.90
JPM EMBI Plus	-1.11	-4.20	1.20	4.68	2.31	3.92	4.80

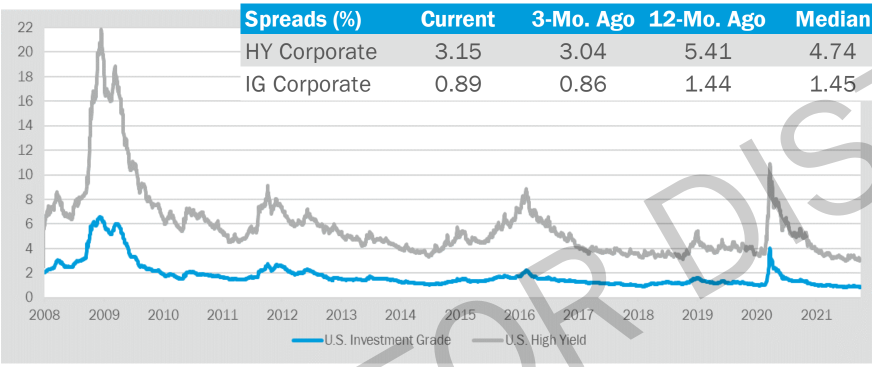
Market Environment as of September 30, 2021

U.S. Treasury Rates



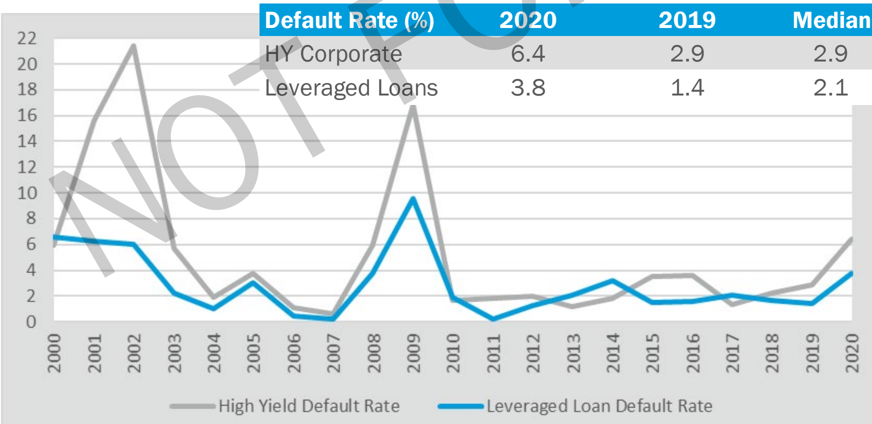
Corporate Spreads

Spreads (%)	Current	3-Mo. Ago	12-Mo. Ago	Median
HY Corporate	3.15	3.04	5.41	4.74
IG Corporate	0.89	0.86	1.44	1.45



Default Rates

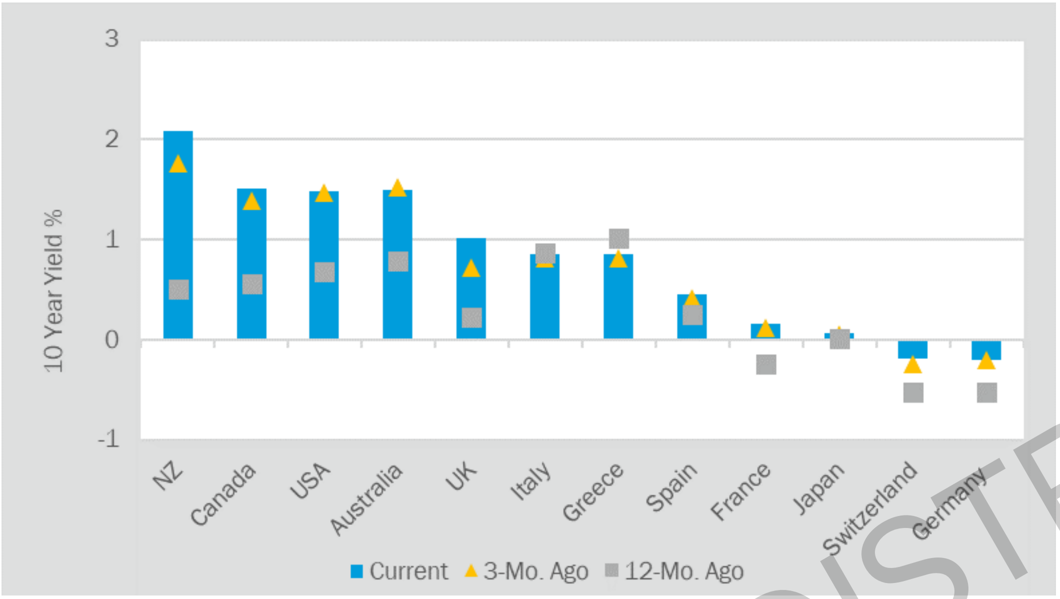
Default Rate (%)	2020	2019	Median
HY Corporate	6.4	2.9	2.9
Leveraged Loans	3.8	1.4	2.1



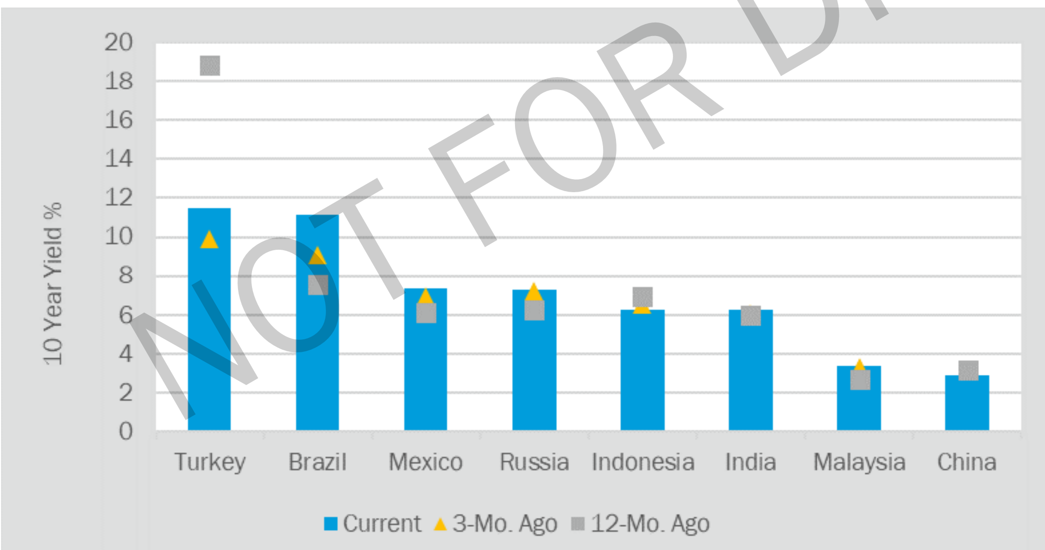
- In September, the Fed expressed a slightly more hawkish tone by hinting at implementing an asset purchase taper program by year-end. By moving up the taper timeline, the central bank is signaling adequate economic growth and employment conditions while acknowledging that inflation is meeting or exceeding the 2% target.
- Chairman Powell also expressed that “rate liftoff” is unlikely during tapering, which insinuates that an interest rate increase will likely not happen until the middle-to-end of 2022.
- The treasury yield curve experienced volatility but did not meaningfully change quarter-over-quarter. However, the long end of the yield curve steepened during the last week of September and the first week of October as inflation concerns persisted.
- Investment grade (IG) and high yield (HY) credit spreads marginally widened over the quarter. The Evergrande credit situation resulted in a selloff across select emerging market debt. In general, spreads remain at historic tights.

Sources: Federal Reserve Economic Data, World Bank, U.S. Treasury Department, Barclays

Developed Yields



EM Yields (Local Currency)



- Developed sovereign bond yields marginally increased over the quarter. Countries that faced inflation concerns and hawkish central bank signaling saw long-term yields rise higher than others.
- Emerging markets (EM) sovereign debt also experienced higher rates given the Evergrande situation.
- EM currencies underperformed in the third quarter as the U.S. Fed signaled a decrease in policy support, causing the dollar to appreciate relative to most EM currencies.

Source: Bloomberg

Factors that Affect Fixed Income Portfolios

Goals

- *Are clients seeking to preserve capital, generate total return, or blend the two within a fixed income segment?*
- *What level of risk related to portfolio correlation is the client looking to incur?*

Interest Rate & Inflationary Environment

- *How does the current interest rate regime and inflationary environment affect return and risk (i.e. stagnant, slow-rise, rapid rise)?*
- *What level of interest rate volatility is the client willing to take?*

Risk Tolerance

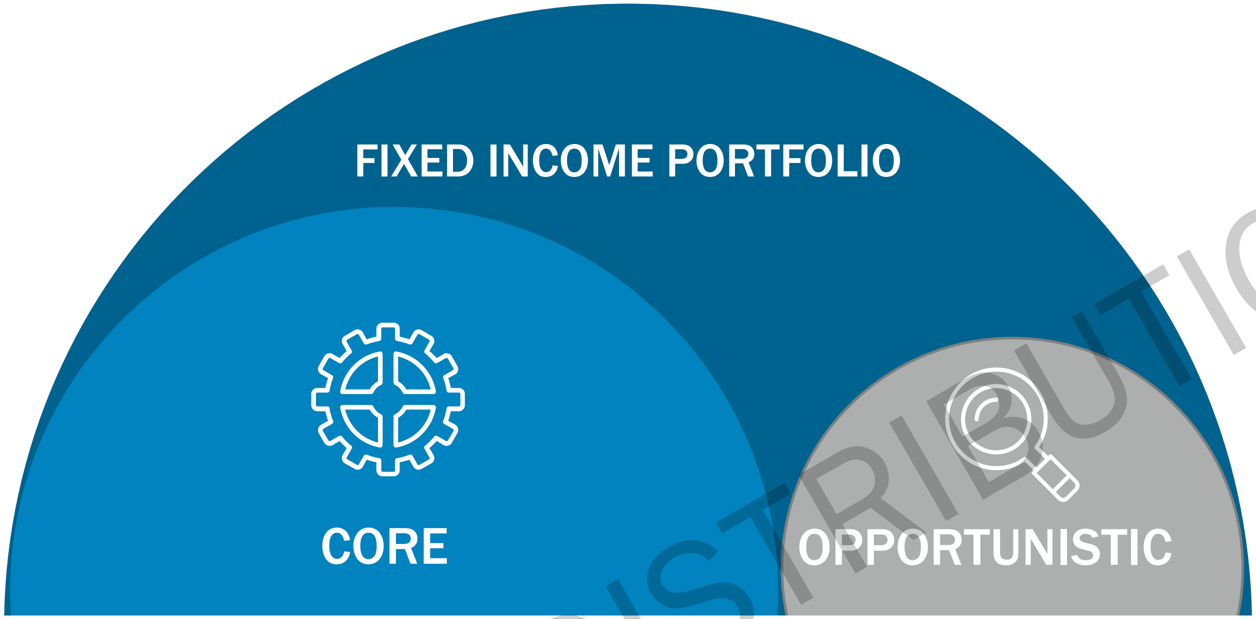
- *How much risk is a client willing to take?*
- *Duration, yield curve positioning, sector exposure, credit exposure, the correlation to equities, and the client's distribution flows are important factors to measure.*

Tax Considerations

- *Is the client's status taxable or tax-exempt?*
- *Does the client have a higher threshold given the respective tax situation?*

Time Horizon

- *Does the client have short term or long term goals?*
- *Are spending requirements quarterly, annually, or longer?*
- *Is spending consistent with the return/risk profile of the portfolio?*



Characteristics

- Low volatility
- Uncorrelated to equities
- U.S. Focus

Exposure

- Treasuries
- Agencies
- Investment grade corporate
- MBS

Characteristics

- Income orientated
- Total return focus
- Uncorrelated to core bonds

Exposure

- Non-U.S. developed sovereigns
- EM sovereigns
- High yield
- Bank loans
- Private debt