CanterburyConsulting

Quarterly Asset Class Report

Global Equity

June 30, 2015

canterburyconsulting.com

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

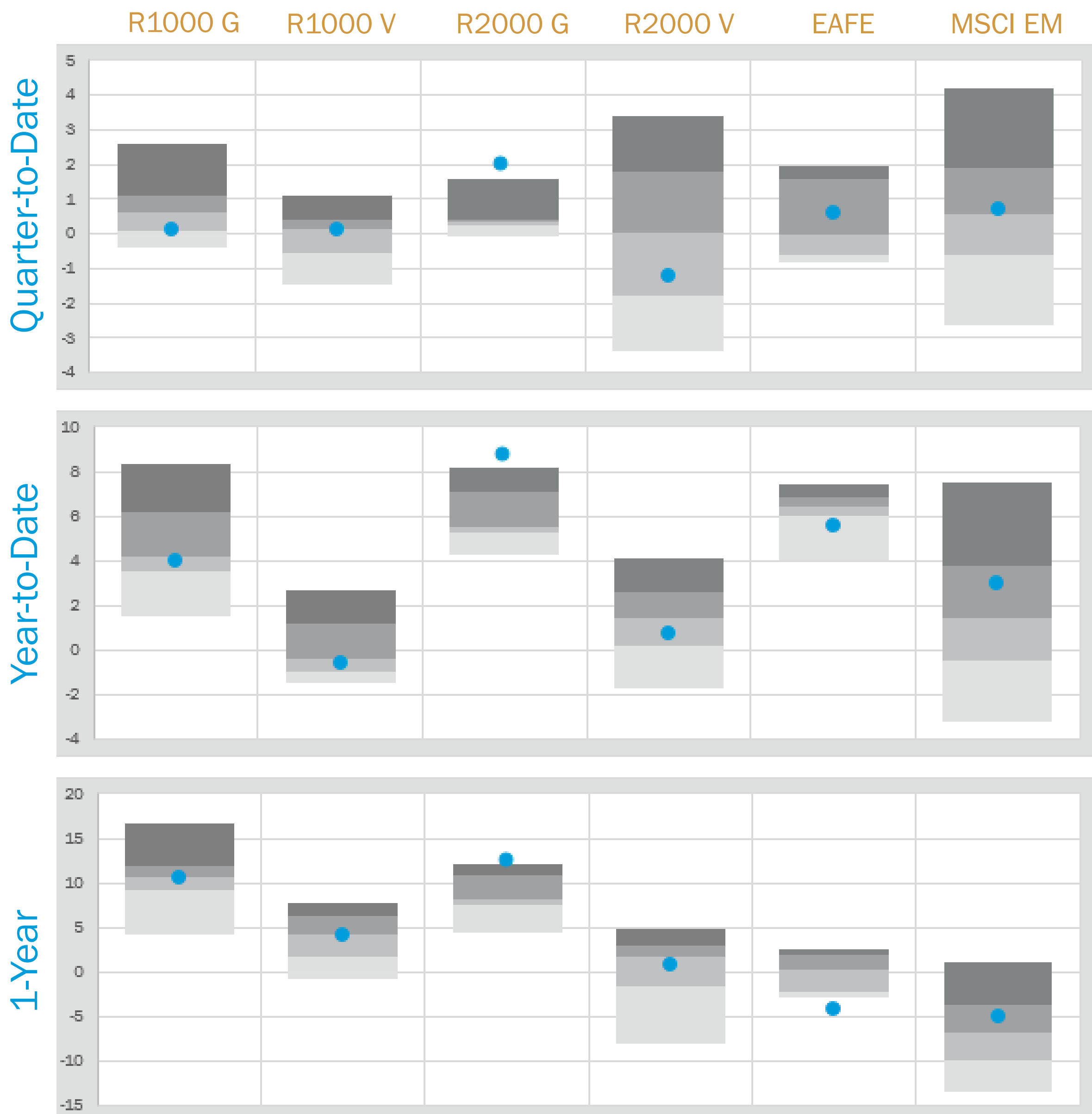
(ii) Maintain comparable exposure to the global equity market

(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 June 30, 2015



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

- Growth has outperformed value across the market cap spectrum over the first half of 2015 as investors anticipate rising interest rates
- The wide dispersion of returns in emerging markets provides an opportunity for active managers within that space to distinguish themselves
- Results for active managers were mixed in the second quarter of 2015
  - Active managers in the small-cap growth space have been struggling against their index, with over 95% underperforming over the past year, held back primarily by underweights to the high-flying healthcare sector
  - Non-U.S. developed markets continue to be an area where active managers are able to outperform, with over 95% of active managers outperforming over the past year

Market Capitalization Mix

	Equity: U.S. Market Cap	Current	10 Year Avg	Deviation from Mean*	Large	Neutral	Small
Valuation	Russell Top 200 Current P/E (Large Cap)	17.92	15.62	1.41			+
	R2000 Current P/E (Small Cap)	49.67	82.80	-0.21		-	
	Avg P/E Ratio (Large/Small)	0.36	0.36	0.01		-	
	Russell Top 200 EV/EBITDA^ (Large Cap)	11.90	9.95	1.43			+
	R2000 EV/EBITDA (Small Cap)	17.68	12.73	2.41	++		
	Avg EV/EBITDA Ratio (Large/Small)	0.67	0.79	-0.97		-	
	Russell Top 200 P/S (Large Cap)	1.87	1.53	1.37			+
	R2000 P/S (Small Cap)	1.26	1.01	1.26	+		
	Avg P/S Ratio (Large/Small)	1.49	1.53	-0.43		-	
Solvency	Russell Top 200 Debt/EBITDA (Large Cap)	4.13	4.99	-0.90		-	
	Russell 2000 Debt/EBITDA (Small Cap)	6.09	5.13	1.43	+		
	Avg Debt/EBITDA Ratio (Large/Small)	0.68	0.99	-1.27	+		
Growth	Russell Top 200 LT EPS Gr (Fwd) (Large Cap)	11.78	3.14	0.14		-	
	R2000 LT EPS Gr (Fwd) (Small Cap)	10.72	10.99	-0.17		-	
	Avg Growth Ratio (Large/Small)	1.10	0.33	0.15		-	
Economy	Case Shiller Home Price (YoY)	4.91	0.48	0.45		-	
	Total Leading Economic Indicators	123.10	111.04	1.20			+
	Currency (USD v Broad Basket)	95.49	81.96	2.45			++
	Curve Steepness 2's to 10's	1.71	1.53	0.20		-	

**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
- Valuation for large cap stocks appears stretched across the different metrics, but small-cap stocks appear very expensive based on EV/EBITDA due to a large increase in net debt
- Increased debt levels in small-cap companies have made them less attractive than large-cap stocks from a solvency standpoint
- The growth data is neutral, but continuing economic and U.S. dollar strength will present a relative tailwind for smaller, generally more domestically oriented businesses

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	18.20	16.43	0.90		-	
	MSCI ACWI Current P/E	17.75	16.62	0.30		-	
	Avg P/E Ratio (US /ACWI)	1.03	1.01	0.18		-	
	S&P 500 EV/EBITDA^	12.00	10.21	1.52			+
	MSCI ACWI EV/EBITDA	10.55	9.53	0.99		-	
	Avg EV/EBITDA Ratio (US/ACWI)	1.14	1.07	1.66			+
	S&P 500 P/S	1.81	1.42	1.60			+
	MSCI ACWI P/S	1.40	1.20	1.03	+		
	Avg P/S Ratio (US/ACWI)	1.29	1.19	1.17			+
Solvency	S&P 500 Debt/EBITDA	4.00	4.88	-0.98		-	
	MSCI ACWI Debt/EBITDA	5.52	6.43	-1.30			+
	Avg Debt/EBITDA Ratio (US/ACWI)	0.72	0.75	-0.34		-	
Growth	S&P 500 LT EPS Gr (Fwd)	11.21	2.93	0.11		-	
	MSCI ACWI LT EPS Gr (Fwd)	11.33	9.86	0.21		-	
	Avg Growth Ratio (US/ACWI)	0.99	1.01	-0.02		-	
Economy	Currency (USD v Broad Basket)	95.49	81.96	2.45			++

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- The valuation results remain in favor of the rest of the world ("R.O.W.") relative to the U.S., although the relationship continues to decrease as R.O.W. valuation trends upwards
- The solvency data is mixed, but has shifted to slightly favoring the R.O.W., although Debt/EBITDA levels are still well below historical averages for both U.S. and R.O.W.
- The growth metrics remain fairly neutral, with the current market showing very little deviation from historical averages
- A strong U.S. Dollar should provide a tailwind for the R.O.W. relative to the U.S.; current levels are still well above their historical averages, but have moderated since last quarter

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	16.89	20.10	-0.19		-	
	MSCI ACWI Current P/E	17.75	16.62	0.30		-	
	Avg P/E Ratio (EAFE/ACWI)	0.95	1.12	-0.39		-	
	MSCI EAFE EV/EBITDA^	9.39	9.12	0.25		-	
	MSCI ACWI EV/EBITDA	10.55	9.53	0.99		-	
	Avg EV/EBITDA Ratio (EAFE/ACWI)	0.89	0.96	-1.63	+		
	MSCI EAFE P/S	1.10	0.98	0.66		-	
	MSCI ACWI P/S	1.40	1.20	1.03	+		
	Avg P/S Ratio (EAFE/ACWI)	0.78	0.81	-0.65		-	
Solvency	MSCI EAFE Debt/EBITDA	7.34	8.83	-1.32	+		
	MSCI ACWI Debt/EBITDA	5.52	6.43	-1.30			+
	Avg Debt/EBITDA Ratio (EAFE/ACWI)	1.33	1.37	-0.64		-	
Growth	MSCI EAFE LT EPS Gr (Fwd)	13.26	5.38	0.21		-	
	MSCI ACWI LT EPS Gr (Fwd)	11.33	9.86	0.21		-	
	Avg Growth Ratio (EAFE/ACWI)	1.17	0.69	0.16		-	
Economy	USD/EUR	1.11	1.33	-2.13	++		

- Valuation slightly favors non-U.S. developed relative to R.O.W.
- Solvency levels remain attractive for both non-U.S. developed and R.O.W. stocks
- The growth metrics are neutral, with the current market showing very little deviation from historical averages as a slowdown in emerging markets has offset growth in developed markets while a stronger Dollar has kept a lid on U.S. earnings growth
- A strengthening U.S. Dollar presents a tailwind for non-U.S. developed countries as they are able to price their products more competitively vs. their U.S. competitors

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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	13.99	13.41	0.21		-	
	MSCI ACWI Current P/E	17.75	16.62	0.30		-	
	Avg P/E Ratio (EM/ACWI)	0.79	0.81	-0.26		-	
	MSCI EM EV/EBITDA^	7.82	7.97	-0.07		-	
	MSCI ACWI EV/EBITDA	10.55	9.53	0.99		-	
	Avg EV/EBITDA Ratio (EM/ACWI)	0.74	0.83	-0.44		-	
	MSCI EM P/S	1.12	1.28	-0.56		-	
	MSCI ACWI P/S	1.40	1.20	1.03	+		
	Avg P/S Ratio (EM/ACWI)	0.80	1.07	-1.46	+		
Solvency	MSCI EM Debt/EBITDA	4.07	3.12	1.20			+
	MSCI ACWI Debt/EBITDA	5.52	6.43	-1.30			+
	Avg Debt/EBITDA Ratio (EM/ACWI)	0.74	0.50	1.44			+
Growth	MSCI EM LT EPS Gr (Fwd)	7.79	24.00	-0.08		-	
	MSCI ACWI LT EPS Gr (Fwd)	11.33	9.86	0.21		-	
	Avg Growth Ratio (EM/ACWI)	0.69	2.05	-0.12		-	

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- Valuation metrics are slightly in favor of Emerging Markets ("EM"). In particular, the EV/EBITDA and P/S metrics suggest that EM is more attractive than the R.O.W.
- The solvency data is in favor of the R.O.W. EM companies have far more debt on their balances sheets than they have had historically while the R.O.W. companies have kept debt at historically low levels
- The growth metrics remain neutral, with the current market showing very little deviation from historical averages

Source: MSCI

Portfolio Characteristics

Recommended Ranges

Market Cap (U.S.)	Minimum	Maximum	R3000
Large Cap (> $25.5B)	50.0%	70.0%	65.1%
Mid Cap ($3B - $25.5B)	25.0%	40.0%	27.4%
Small Cap (< $3B)	2.5%	12.5%	7.5%

Region	Minimum	Maximum	MSCI ACWI
U.S.	45.0%	65.0%	48.6%
Non-U.S. Developed	25.0%	40.0%	39.1%
Emerging Markets	5.0%	20.0%	12.0%

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
- Stretched valuations and increased debt levels in small cap stocks have shifted our market cap exposures to a more neutral position, after historically being overweight small caps
- 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