CanterburyConsulting

Quarterly Asset Class Report

Global Equity

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canterburyconsulting.com

December 31, 2015

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

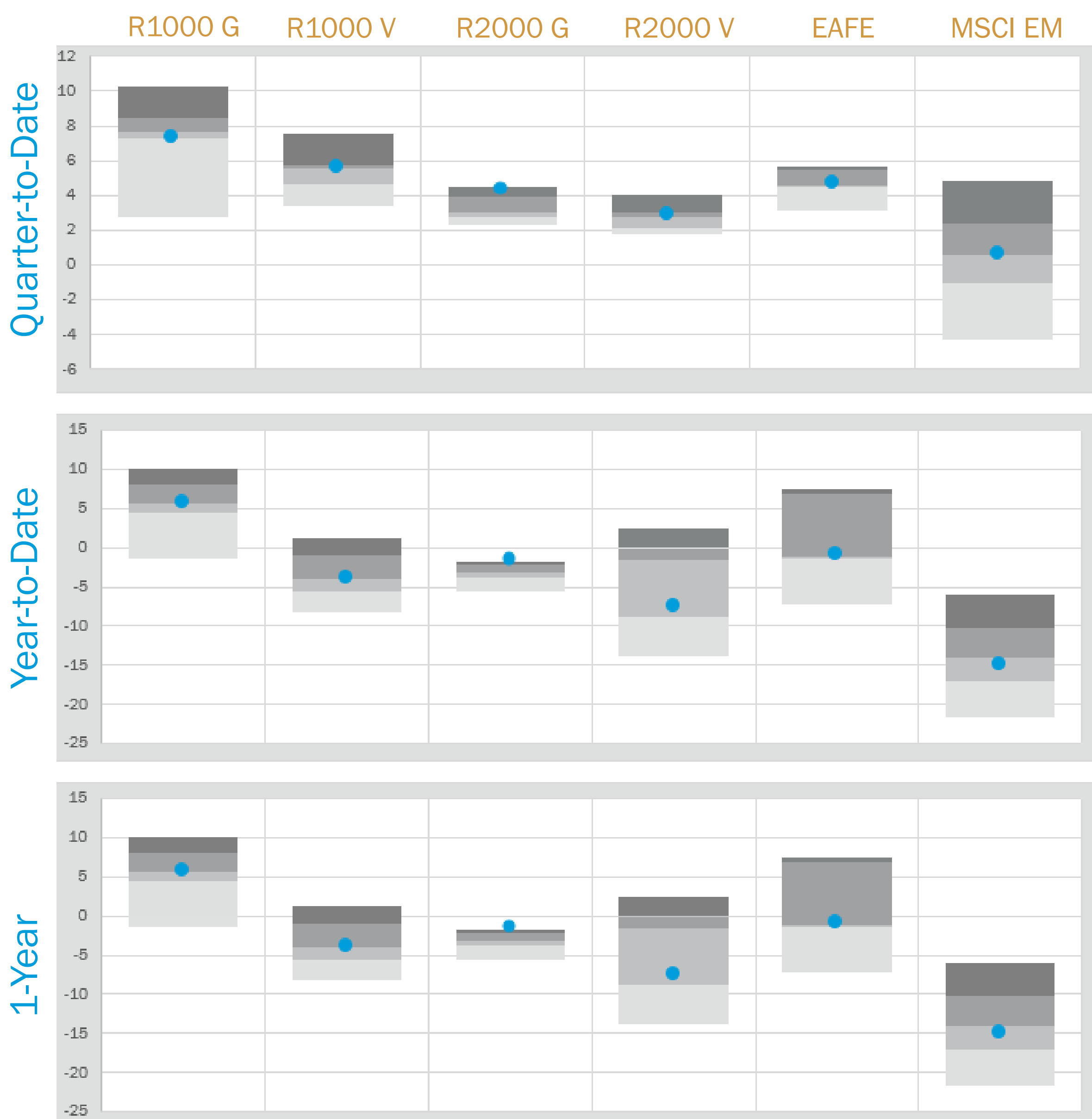
(ii) Maintain comparable exposure to the global equity market

(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 December 31, 2015



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

- Growth outperformed value and large-cap outperformed small-cap in the fourth quarter, continuing the trend for the year. In a volatile, low-growth environment, investors favored large companies with strong organic growth prospects

- Small-cap growth active managers struggled against their benchmark throughout 2015, as even the 95th percentile manager failed to beat the Russell 2000 Growth net of fees

- Dispersion among emerging markets managers remained high in the fourth quarter, with top-quartile managers earning significant excess returns

- Dispersion among small-cap value and international developed managers notably decreased in the fourth quarter, with active returns clustering tightly around index returns

Market Capitalization Mix

Equity: U.S. Market Cap

	Equity: U.S. Market Cap	Current	10 Year Avg	Deviation from Mean*	Large	Neutral	Small
Valuation	Russell Top 200 Current P/E (Large Cap)	18.03	15.67	1.41			+
	R2000 Current P/E (Small Cap)	39.86	70.32	-0.16		-	
	Avg P/E Ratio (Large/Small)	0.45	0.38	0.53		-	
	Russell Top 200 EV/EBITDA^ (Large Cap)	12.23	9.95	1.67			+
	R2000 EV/EBITDA (Small Cap)	17.93	12.85	2.53	++		
	Avg EV/EBITDA Ratio (Large/Small)	0.68	0.78	-0.89		-	
	Russell Top 200 P/S (Large Cap)	1.88	1.55	1.31			+
	R2000 P/S (Small Cap)	1.07	1.02	0.29		-	
	Avg P/S Ratio (Large/Small)	1.75	1.53	2.04			++
Solvency	Russell Top 200 Debt/EBITDA (Large Cap)	4.37	4.87	-0.56		-	
	Russell 2000 Debt/EBITDA (Small Cap)	5.85	5.12	1.09	+		
	Avg Debt/EBITDA Ratio (Large/Small)	0.75	0.96	-0.91		-	
Growth	Russell Top 200 LT EPS Gr (Fwd) (Large Cap)	-1.20	8.98	-0.17		-	
	R2000 LT EPS Gr (Fwd) (Small Cap)	9.69	11.10	-0.77		-	
	Avg Growth Ratio (Large/Small)	-0.12	0.82	-0.19		-	
Economy	Case Shiller Home Price (YoY)	5.54	0.08	0.59		-	
	Total Leading Economic Indicators	124.60	111.27	1.32			+
	Currency (USD v Broad Basket)	98.63	82.19	2.61			++
	Curve Steepness 2's to 10's	1.22	1.60	-0.44		-	

**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
- After enjoying a strong quarter, large-cap stocks now look expensive based on all three metrics, while small-cap valuations have become more reasonable
- The solvency data continues to remain in favor of large-cap stocks, but small-cap leverage has come down from its previously overheated levels
- The growth data remains neutral, but continuing economic and U.S. dollar strength will present a tailwind for smaller, generally more domestically oriented businesses relative to larger multi-nationals

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	18.26	16.48	0.92		-	
	MSCI ACWI Current P/E	17.95	16.37	0.42		-	
	Avg P/E Ratio (US /ACWI)	1.02	1.01	0.05		-	
	S&P 500 EV/EBITDA^	12.47	10.37	1.79			+
	MSCI ACWI EV/EBITDA	10.91	9.56	1.20	+		
	Avg EV/EBITDA Ratio (US/ACWI)	1.14	1.09	1.57			+
	S&P 500 P/S	1.81	1.44	1.43			+
	MSCI ACWI P/S	1.37	1.21	0.79		-	
	Avg P/S Ratio (US/ACWI)	1.32	1.19	1.43			+
Solvency	S&P 500 Debt/EBITDA	4.30	4.82	-0.62		-	
	MSCI ACWI Debt/EBITDA	6.08	6.39	-0.48		-	
	Avg Debt/EBITDA Ratio (US/ACWI)	0.71	0.75	-0.53		-	
Growth	S&P 500 LT EPS Gr (Fwd)	-1.55	8.83	-2.32			++
	MSCI ACWI LT EPS Gr (Fwd)	-3.36	9.48	-1.73	+		
	Avg Growth Ratio (US/ACWI)	0.46	0.99	-0.89		-	
Economy	Currency (USD v Broad Basket)	98.63	82.19	2.61			++

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- U.S. stock valuations have become stretched after the rally in the fourth quarter, and the rest of the world ("R.O.W.") remains relatively attractive, although valuations there have begun to creep up as well
- The solvency data is benign, suggesting that leverage is at healthy levels for both U.S. and R.O.W. stocks
- Growth estimates have come down dramatically and are now negative for both regions, with outlook for the relatively more resource-driven R.O.W. looking particularly bleak
- A strong U.S. Dollar should continue to be a tailwind for the developed R.O.W. relative to U.S., as the currency translation has a negative impact on earnings of U.S. companies that conduct business 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	18.31	18.34	0.00		-	
	MSCI ACWI Current P/E	17.95	16.37	0.42		-	
	Avg P/E Ratio (EAFE/ACWI)	1.02	1.09	-0.15		-	
	MSCI EAFE EV/EBITDA^	9.84	9.18	0.60		-	
	MSCI ACWI EV/EBITDA	10.91	9.56	1.20	+		
	Avg EV/EBITDA Ratio (EAFE/ACWI)	0.90	0.96	-1.25	+		
	MSCI EAFE P/S	1.10	0.98	0.63		-	
	MSCI ACWI P/S	1.37	1.21	0.79		-	
	Avg P/S Ratio (EAFE/ACWI)	0.80	0.81	-0.13		-	
Solvency	MSCI EAFE Debt/EBITDA	8.34	8.84	-0.46		-	
	MSCI ACWI Debt/EBITDA	6.08	6.39	-0.48		-	
	Avg Debt/EBITDA Ratio (EAFE/ACWI)	1.37	1.38	-0.17		-	
Growth	MSCI EAFE LT EPS Gr (Fwd)	10.07	5.90	0.11		-	
	MSCI ACWI LT EPS Gr (Fwd)	-3.36	9.48	-1.73	+		
	Avg Growth Ratio (EAFE/ACWI)	-	0.71	-	++		
Economy	USD/EUR	1.09	1.33	-2.17	++		

- Non-U.S. developed countries remain attractively valued versus the R.O.W. based on all three valuation metrics
- Debt levels have continued to trend upward, but are still at low levels compared to historical averages for both regions
- While they have come down, growth estimates for non-U.S. developed companies remain strong, while growth estimates for the R.O.W. took a major cut and are now in negative territory
- The U.S. dollar's strength vs. the euro hurts American companies that derive profit from overseas, and conversely benefits European companies that compete with American exporters

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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	12.22	13.18	-0.35		-	
	MSCI ACWI Current P/E	17.95	16.37	0.42		-	
	Avg P/E Ratio (EM/ACWI)	0.68	0.80	-1.29	+		
	MSCI EM EV/EBITDA^	7.24	7.84	-0.26		-	
	MSCI ACWI EV/EBITDA	10.91	9.56	1.20	+		
	Avg EV/EBITDA Ratio (EM/ACWI)	0.66	0.82	-0.74		-	
	MSCI EM P/S	0.92	1.26	-1.14	+		
	MSCI ACWI P/S	1.37	1.21	0.79		-	
	Avg P/S Ratio (EM/ACWI)	0.67	1.05	-1.92	+		
Solvency	MSCI EM Debt/EBITDA	4.32	3.19	1.41			+
	MSCI ACWI Debt/EBITDA	6.08	6.39	-0.48		-	
	Avg Debt/EBITDA Ratio (EM/ACWI)	0.71	0.51	1.22			+
Growth	MSCI EM LT EPS Gr (Fwd)	6.23	10.11	-0.03		-	
	MSCI ACWI LT EPS Gr (Fwd)	-3.36	9.48	-1.73	+		
	Avg Growth Ratio (EM/ACWI)	-	0.75	-	++		

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- Emerging Markets ("EM") stocks remain cheap 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%	66.1%
Mid Cap ($3B - $25.5B)	25.0%	40.0%	26.6%
Small Cap (< $3B)	2.5%	12.5%	7.3%

Region	Minimum	Maximum	MSCI ACWI
U.S.	45.0%	65.0%	52.8%
Non-U.S. Developed	25.0%	40.0%	37.7%
Emerging Markets	5.0%	20.0%	9.5%

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, but valuation and economic indicators may be supportive of a shift towards 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