



Canterbury Consulting

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## Quarterly Asset Class Report

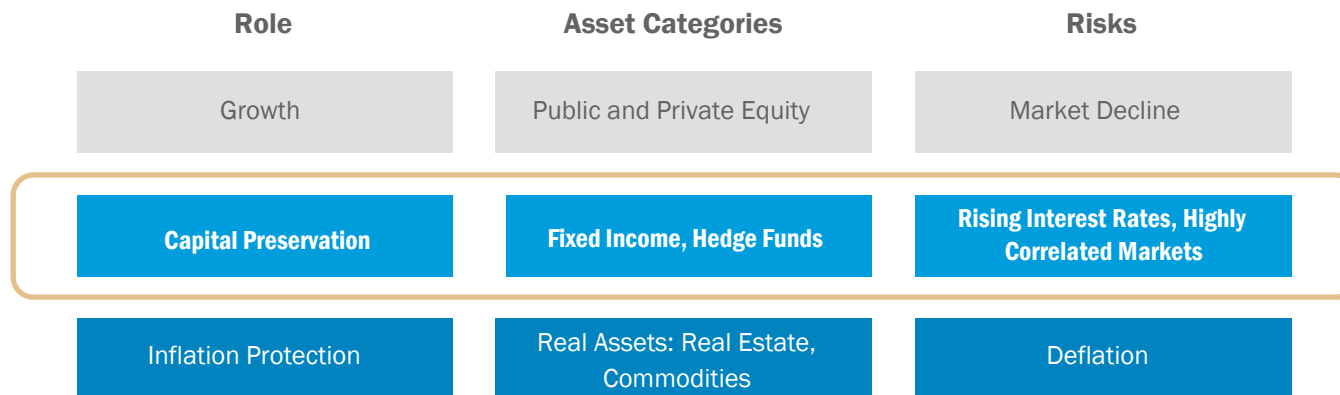
### Taxable Fixed Income

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September 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
<b>Barclays Global Aggregate</b>	<b>0.82</b>	<b>9.85</b>	<b>8.83</b>	<b>2.13</b>	<b>1.73</b>	<b>2.66</b>	<b>4.26</b>
<b>Barclays US Agg Bond</b>	<b>0.46</b>	<b>5.80</b>	<b>5.19</b>	<b>4.02</b>	<b>3.08</b>	<b>4.10</b>	<b>4.79</b>

### U.S. Treasurys

BofAML 3M US Treasury Note	0.09	0.29	0.31	0.14	0.12	0.13	0.93
Barclays Short Treasury	0.09	0.44	0.41	0.22	0.20	0.22	1.10
Barclays Intermediate Treasury	-0.26	3.39	2.50	2.22	1.63	2.65	3.82
Barclays Long Term US Treasury	-0.36	14.71	13.13	11.16	5.48	8.10	8.06
Barclays U.S. Treasury TIPS 0-5Y	0.29	2.98	2.62	0.53	0.67	1.74	2.78
Barclays US Treasury US TIPS	0.96	7.27	6.58	2.40	1.93	4.00	4.48

### U.S. Corporate Credit

Barclays US Corp IG	1.41	9.20	8.56	5.62	5.13	6.02	5.91
S&P/LSTA Leveraged Loan	3.08	7.72	5.46	3.39	5.24	5.51	4.60
BofAML US HY Master II	5.49	15.32	12.82	5.27	8.24	8.62	7.59
BofAML US HY BB-B Constrained	5.00	13.29	12.01	5.60	8.01	8.32	7.20
BofAML US Corporate AAA	0.40	8.30	8.53	5.96	3.50	4.76	4.65
BofAML US Corporate AA	0.55	7.03	6.84	5.12	4.29	4.94	4.90
BofAML US Corporate A	1.00	7.75	7.67	5.43	4.99	5.76	5.23
BofAML US Corps BBB	2.09	11.00	9.75	5.87	5.80	6.84	6.77
BofAML US High Yield BB	4.23	12.45	12.33	6.53	8.27	8.75	7.89
BofAML US High Yield B	6.07	14.53	11.78	4.51	7.69	7.91	6.36
BofAML US High Yield CCC	8.63	28.81	17.88	3.59	9.38	9.33	8.18

### Securitized

Barclays ABS	0.20	2.74	2.16	2.06	1.89	3.07	3.21
Barclays MBS	0.60	3.72	3.61	3.61	2.65	3.49	4.65
Barclays CMBS	0.42	6.02	4.78	3.47	4.35	6.64	5.55

### Municipals

Barclays Municipal	-0.30	4.01	5.58	5.54	4.48	4.58	4.75
Barclays Muni 1-10	-0.11	2.22	2.87	2.89	2.59	3.02	3.79

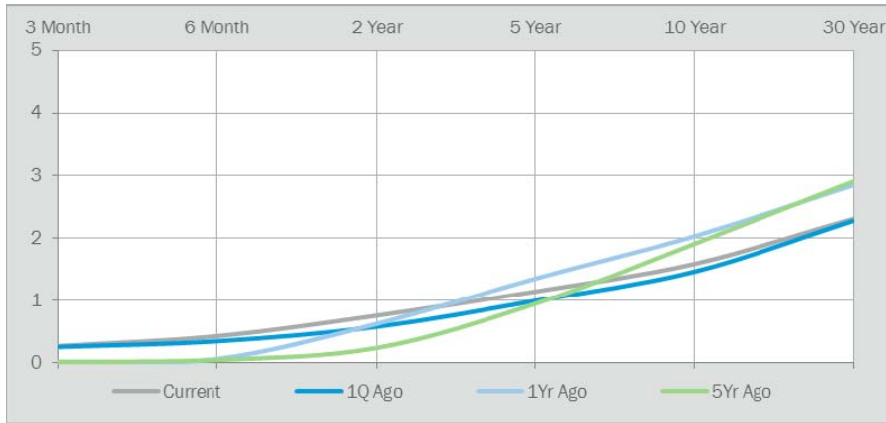
### Global

Citi WGBI	0.30	11.07	9.71	1.78	0.77	1.90	4.10
Barclays Gbl Agg Ex USD	1.03	13.09	11.67	0.75	0.70	1.64	3.82
JPM EMBI Plus	3.11	15.78	17.83	7.99	7.35	7.66	7.62

# Market Environment

## Fixed Income

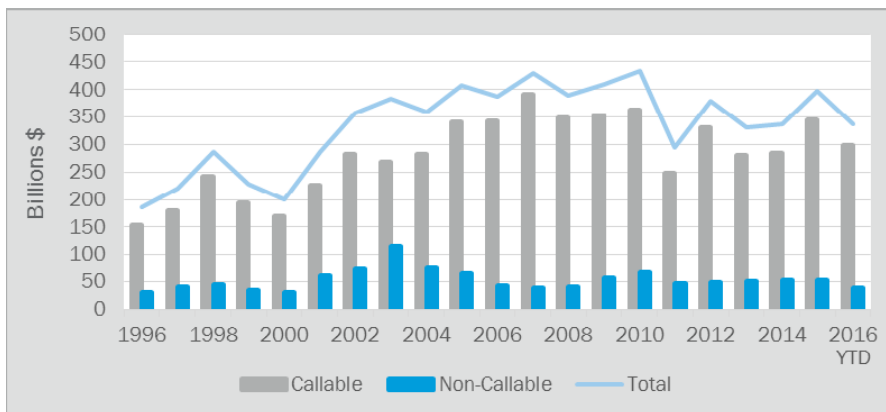
### U.S. Treasury Rates



### Yields



### U.S. Municipal Issuance



- Developed market bond yields stayed range bound as economic conditions were relatively unchanged during the quarter. The U.S. 10 Year Treasury rate increased by 12 basis points and interest rates in Japan moved slightly higher as well
- Investment grade and high yield spreads continued to tighten as investor demand remained strong. In a rare move, two European companies issued IG debt at negative yield to maturities. CCC-rated securities continued to outperform. In aggregate, the CCC universe has returned over 28% YTD
- Emerging market debt held up well as the Fed remained dovish and volatility stayed muted. The rebound in commodity markets continued to support export-oriented emerging markets
- Municipal yields increased slightly with treasury yields, however inflows from investors continued to be consistent. Municipal bond issuance is on pace to match or outpace 2015 by year end

# Portfolio Characteristics

## Fixed Income

### Sector Distribution

	Current Portfolio	Barclays Municipal Bond Index	Barclays 1-10 YR Muni Bond
US Treasury	2.7%	0.0%	0.0%
Agency	2.1%	0.0%	0.0%
Local Authority (non-US)	0.5%	0.0%	0.0%
Municipal (US)	44.7%	100.0%	100.0%
Sovereign (non-US)	19.4%	0.0%	0.0%
Supranational	0.3%	0.0%	0.0%
Corporate	8.3%	0.0%	0.0%
Bank Loans	3.8%	0.0%	0.0%
MBS	7.3%	0.0%	0.0%
ABS	0.3%	0.0%	0.0%
CMBS	0.7%	0.0%	0.0%
Other & Cash	9.9%	0.0%	0.0%

### Regional Distribution - Country Allocation

	Current Portfolio	Barclays Municipal Bond Index	Barclays 1-10 YR Muni Bond
US	73.0%	100.0%	100.0%
Non-US Developed	15.8%	0.0%	0.0%
Non-US Emerging	11.2%	0.0%	0.0%

### Currency Allocation

	Current Portfolio	Barclays Municipal Bond Index	Barclays 1-10 YR Muni Bond
US	88.4%	100.0%	100.0%
Non-US Developed	-2.8%	0.0%	0.0%
Non-US Emerging	14.4%	0.0%	0.0%

### Portfolio Characteristics

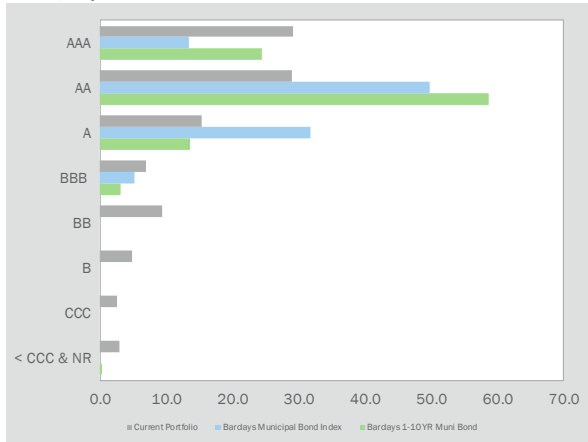
	Current Portfolio	Barclays Municipal Bond Index	Barclays 1-10 YR Muni Bond
Effective Duration	2.47	6.56	4.00
Yield to Maturity (%)	3.62	2.18	1.20
Coupon Rate (%)	4.17	4.81	4.80
Average Credit Quality (Barclays)	A	AA	AA

### Portfolio Checklist

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

1. The yield-to-maturity ("YTM") should be 80% of the YTM of the benchmark or greater
2. Duration should not exceed the benchmark
3. Average credit quality, using Barclays methodology, should be BBB or higher
4. No sector should exceed 50% of the total allocation and at least half of the sectors should have allocations greater than 2.5%
5. No region (see "Regional Distribution") should exceed 75% of the total allocation

### Credit Quality Distribution vs. Benchmark



- 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