

### January 2018 Commentary and Strategy Review

#### About the Strategy

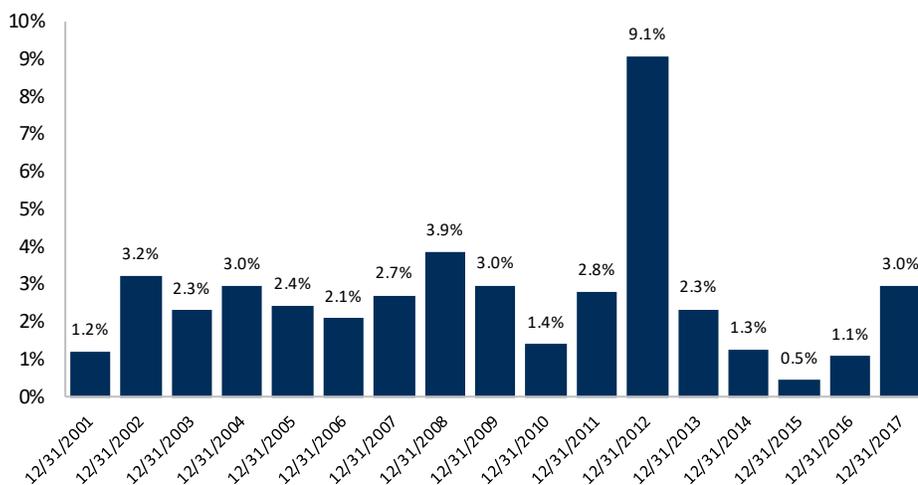
The Country Rotation Portfolio (“CRP”) provides market exposure to over 40 international equity markets and global fixed income via exchange-traded funds. Innealta’s investment team manages the CRP strategy to a balanced benchmark of 70% MSCI All Country World ex U.S. Index and 30% Bloomberg Barclays Global Aggregate Bond Index. This benchmark reflects the average desired weight of equity and fixed income investments through a business cycle. Innealta Capital utilizes a proprietary quantitative framework that combines traditional corporate fundamental, macroeconomic and behavioral data to produce risk and return forecasts. The investment team then utilizes those forecasts along with trading optimization techniques and portfolio design research to create a unique portfolio, that, in our opinion, best suits a client’s risk-adjusted goals within international equity and global fixed income.

#### Outlook

Overall, we remain positive on the international equity opportunity set, particularly Emerging Market equities. Macroeconomic growth indicators, both “hard” data, such as Gross Domestic Product (“GDP”) and Industrial Production, and survey/sentiment data, such as Purchasing Manager Indices and Consumer Confidence, continue to increase. For example, the average yearly GDP growth for Emerging Market countries in the 4th quarter of 2017 was 5.7% compared to an average of 2.7% for Developed Market ex U.S. countries. The “Chart of the Month,” shown below, displays the excess GDP growth in Emerging Market countries relative to Developed Market countries through time. Note that each year Emerging Markets exhibited higher GDP growth. Outside traditional macroeconomics, Emerging Market corporate fundamentals remain positive as both actual earnings and earnings expectations continue to grow. We are concerned about valuation levels in select Western European countries. Finally, we continue to perceive the valuation gap between Emerging Market equities and U.S. equities will be supportive of Emerging Market equities.

#### Chart of the Month

EM Over DM - Excess GDP Growth



SOURCE: Innealta Capital using data from 12.31.2001 to 12.31.2017.

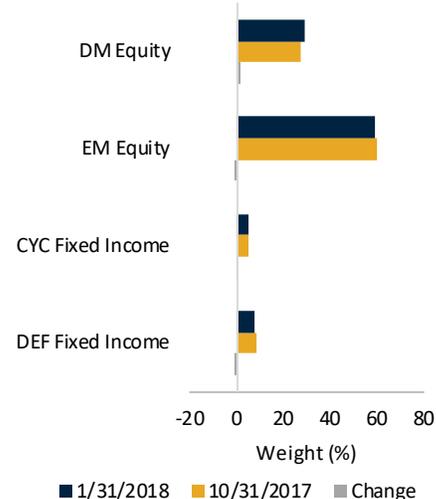
In the chart above, GDP, at each specific point in time, represents the average of the year-over-year change in GDP for a specific region. Excess GDP is the difference between Emerging Market (“EM”) average GDP growth and the Developed Market (“DM”) average GDP growth. EM refers to the 24 countries defined as “Emerging Markets” by MSCI. DM refers to the 23 countries defined by MSCI as “Developed Markets.”

#### Strategy Statistics

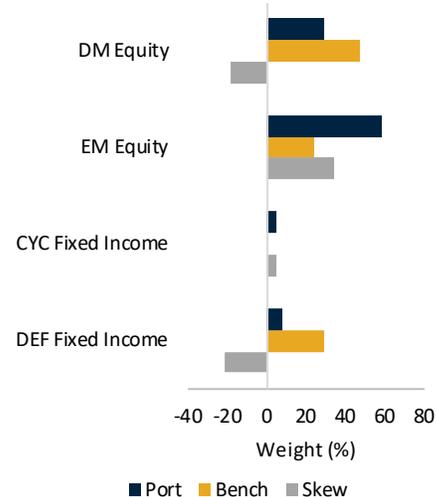
	Port	Benchmark
Alpha	3.47	0.00
Beta	0.39	1.00
R-Squared	0.56	1.00
Std. Dev.	5.88	11.20

SOURCE: Innealta Capital using data from Bloomberg. Data from 12.31.2009 to 01.31.2018. Benchmark represents a 70/30 blend of the MSCI ACWI ex US NR Index and the Bloomberg Barclays Capital Global Aggregate Bond Index. Inception date for the portfolio is December 31, 2009.

#### Portfolio Changes



#### Portfolio Skews



SOURCE: Innealta Capital using data from Innealta Capital and Bloomberg as of 01.31.2018

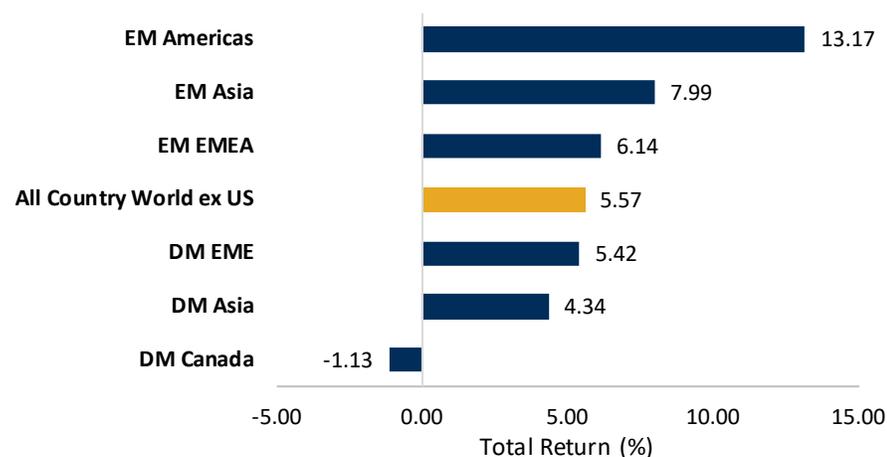
### Performance

International equity markets showed strong one-month performance during January and Emerging Market regions outperformed Developed Market Regions. All three Emerging Market geographic regions - Americas, Asia, and Europe, Middle East, and Africa ("EMEA") – outperformed the MSCI All Country World ex U.S. benchmark.

For example, MSCI Emerging Market Latin America in USD terms returned 13.17%. The performance of Emerging Market regions, in USD terms, benefited by approximately 3.2% during January due to currency changes while the local performance varied between approximately 3% and 10%. Shown in the "Currency Movements" chart below, the U.S. Dollar Spot index, which measures U.S. Dollar performance against a basket of Developed Market currencies, declined 3.4% in January.

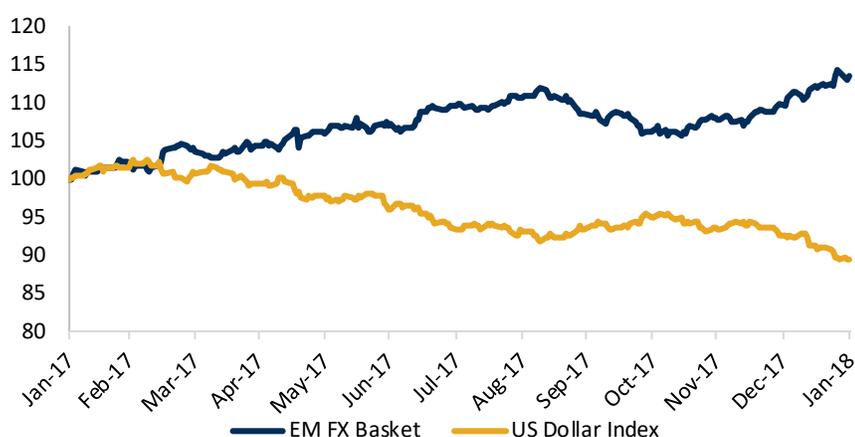
The Innealta Country Rotation Portfolio also exhibited strong monthly performance, returning 5.68% gross of fees in January. The top two contributors to the portfolio's performance during the month were equity allocations in South Africa and Russia and the bottom two contributors were an equity allocation to the Philippines and fixed income. The portfolio closed the month with overweight allocations relative to the benchmark in Emerging Market equities and Cyclical Fixed Income while underweight allocations in Developed Market equities and Defensive Fixed Income. The portfolio did not experience any significant changes in positioning during the month.

**FIGURE 1: Benchmark Performance, Trailing 1-Month**



SOURCE: Innealta Capital using data from 12.31.2017 to 01.31.2018 from Bloomberg.

**FIGURE 2: Currency Movements, Trailing 12-Months**



SOURCE: Innealta Capital using data from 01.31.2017 to 01.31.2018 from Bloomberg.

### Top Contributors

1. iShares MSCI Brazil Capped Index ETF (EWZ)
2. VanEck Vectors Russia ETF (RSX)

### Bottom Contributors

1. iShares MSCI Philippines Fund ETF (EPHE)
2. Vanguard Total Bond Market ETF (BND)

SOURCE: Innealta Capital using Innealta Capital data from 12.31.2017 to 01.31.2018.

### Strategy Performance

	Gross	Net	Benchmark
1-Month	5.68	5.51	4.24
3-Month	8.85	8.62	6.94
YTD	5.68	5.51	4.24
1-Year	25.27	24.14	22.64
3-Year	9.21	7.98	7.79
5-Year	6.07	4.76	5.48
Inception	7.17	5.83	5.41

SOURCE: Innealta Capital using data as of 01.31.2018. Benchmark is a 70/30 blend of the MSCI ACWI ex US NR Index and the Bloomberg Barclays Capital Global Aggregate Bond Index. Inception date for the portfolio is December 31, 2009.

**Disclosures & Important Information**

The U.S. Dollar is the currency used to express performance. The strategy includes portfolios charged bundled or wrap fees and portfolios charged transaction fees or trading costs. Bundled fee portfolios pay a fee based on a percentage of assets under management in place of a transaction fee. They include the advisor's fee and, in most cases, also include a fee for investment management and portfolio monitoring. Live returns are presented net of management fees, gross of withholding taxes on any dividends, interest or capital gains, and include the effects of trading costs and reinvestment of all income. Net of fee performance was calculated using actual management fees charged to the client. Gross returns are shown as supplemental information, include the effects of the reinvestment of all income, and are stated gross of all fees except for transaction fees, when charged.

Past performance is no guarantee of future results.

**Investing involves risk, principal loss is possible, and there can be no assurance that investment objectives will be achieved. Past performance is not indicative of future results. Exchange traded funds (ETFs) are subject to risks similar to those of stocks, such as market risk, and investors who have their funds invested in accordance with the portfolios may experience losses. Additionally, fixed income (bond) ETFs are subject to interest rate risk, which is the risk that debt securities in a portfolio will decline in value because of increases in market interest rates. Investments in foreign investments may incur greater risks than domestic investments. For more information on the risks associated with investment in ETFs, please refer to AFAM Capital's Form ADV Part 2A.**

Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Actual investment management fees will vary, beginning at 1.5% per annum. Our full management fee schedule is described in more detail in AFAM's Form ADV Part 2A.

**Alpha** is a measure of the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by beta. **Beta** is a measure of volatility, or systematic risk, of a portfolio in comparison to a benchmark. A beta greater than one indicates more volatility, while a beta less than one indicates less volatility than the relevant benchmark. **Annualized Standard Deviation** is a measure of the dispersion of investment returns from the mean. A higher standard deviation indicates higher volatility. **R Squared** is a measure of how close the relationship is between a portfolio and its benchmark.

For comparison purposes, the composite is measured against a blended benchmark: 70% MSCI ACWI ex US NR Index / 30% Bloomberg Barclays Global Aggregate Bond NR Index. **The MSCI ACWI ex US NR Index** captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 24 Emerging Markets (EM) countries. **The Bloomberg Barclays Global Aggregate Bond NR Index** is a measure of global investment grade debt from twenty-four different local currency markets. This multi-currency benchmark includes fixed-rate treasury, government-related, corporate and securitized bonds from both developed and emerging markets issuers. **The MSCI Emerging Markets (EM) Latin America Index ("EM Americas")** captures large and mid cap representation across 5 Emerging Markets (EM) countries in Latin America. **The MSCI Emerging Markets (EM) Asia Index** captures large and mid cap representation across 9 Emerging Markets countries. **The MSCI Emerging Markets EMEA Index** captures large and mid cap representation across 10 Emerging Markets (EM) countries in Europe, the Middle East and Africa (EMEA). Net total return indexes reinvest dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties. **The MSCI Europe and Middle East Index ("DM EME")** captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe together with Israel in the Middle East. **The MSCI Pacific Index ("DM Asia")** captures large and mid cap representation across 5 Developed Markets (DM) countries in the Pacific region. **The MSCI Canada Index ("DM Canada")** is designed to measure the performance of the large and mid cap segments of the Canada market.

Net total return ("NR") indexes reinvest dividends after the deduction of withholding taxes, using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

It is not possible to invest directly in an index. Blended benchmarks are calculated daily and rebalanced quarterly.

Innealta Capital is a division of AFAM Capital, Inc., a Registered Investment Advisor to individually managed client accounts and certain mutual funds. The firm only transacts business in states where it is properly registered or exempt from registration. Registration of an investment adviser does not imply any certain level of skill or training.

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