

April 2018 Commentary and Strategy Review

About the Strategy

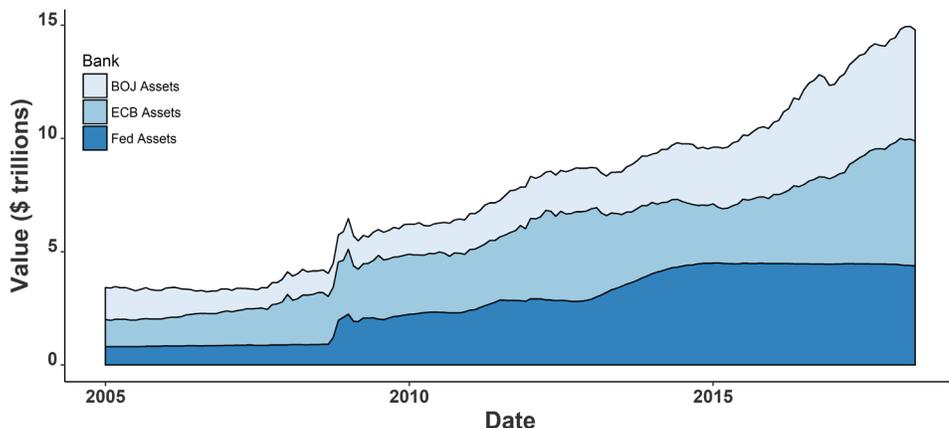
The Country Rotation Portfolio (“CRP”) provides market exposure to over 40 international equity markets and global fixed income via exchange-traded funds. Innealta’s Investment Team manages the CRP strategy to a balanced benchmark of 70% MSCI All Country World ex U.S. Index (“ACWX”) and 30% Bloomberg 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 employs 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

During April, financial markets paused from the above average and increasing volatility that characterized the first three months of the year. Concerns around a full-scale trade war between the United States and China eased and the first few weeks of the earnings season showed better than expected growth in both sales and earnings. U.S. equities, as measured by the S&P 500, and International equities, as measured by the MSCI All Country World ex U.S. index (“ACWX”), appreciated by 0.38% and 1.60% respectively. The CBOE Volatility Index (“VIX”), a proxy for short-term financial market insurance demand, declined from 19.97 to 15.93. While shorter-dated option demand declined in April, demand for longer-dated options remains elevated and signals, at least in our opinion, the likelihood of elevated volatility over the next few months.

Moving forward we expect that trade war issues will remain a concern for the market and we can already see that growth rate in earnings expectations has started to decline. Our base case is that these issues will be resolved and the global growth theme remains intact. Outside of the U.S., we anticipate developed market central banks – particularly the European Central Bank and the Bank of Japan – are more likely to shift to tightening monetary policy than central banks within Emerging Markets. Emerging Market economies are experiencing below average inflation and Emerging Market Central Banks, in our opinion, can continue accommodative monetary policy to support growth. In that scenario, we continue to view the macroeconomic data as more supportive to Emerging Markets than Developed Markets.

FIGURE 1: Evolution of Central Bank Assets



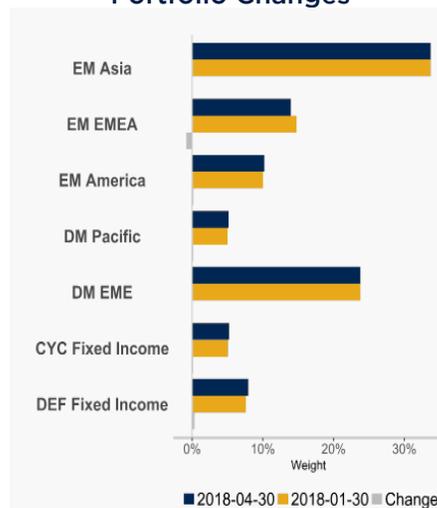
SOURCE: Innealta Capital using data from Bloomberg as of 04.30.2018.

Strategy Statistics

	Port	Benchmark
Alpha (%)	2.55	0.0
Beta (%)	0.41	1.0
R-Squared (%)	54.96	100.0
Std.Dev (%)	6.09	11.12

SOURCE: Innealta Capital using data from Bloomberg. Data from 12.31.2009 to 04.30.2018. 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



SOURCE: Innealta Capital using data from Innealta Capital and Bloomberg as of 04.30.2018.

Portfolio Skews



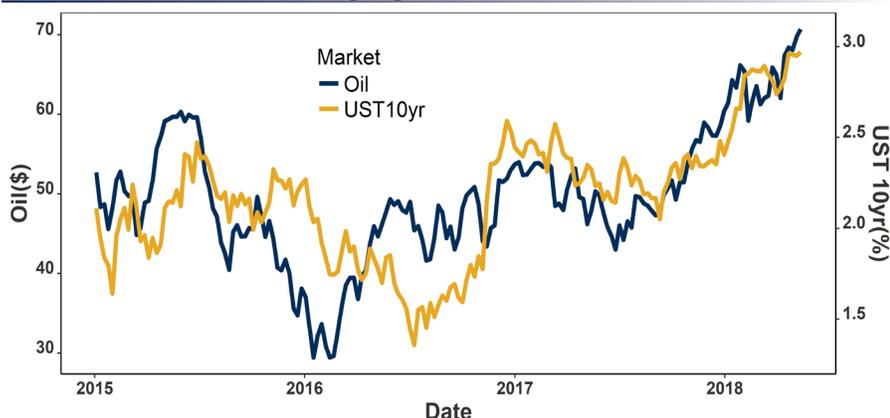
SOURCE: Innealta Capital using data from Innealta Capital and Bloomberg as of 04.30.2018.

Performance

International equity market performance, in U.S. dollar terms, was mixed during April. The MSCI All Country World ex U.S. Index ("ACWX") declined 1.76% while the top performing regions, Developed Market Europe and Middle East and Developed Market Canada returned 2.89% and 1.93% respectively. An interesting observation during April was the positive correlation in the USD Dollar index and dollar denominated crude oil prices. Empirically, a rising U.S. dollar tends to coincide with falling oil prices and vice versa. During April, the U.S. Dollar index appreciated 2.08% and front-month West Texas Intermediate crude futures increased 5.60%. We believe this pricing action was caused more by a short-term change in positioning rather than a long-term change in the fundamentals.

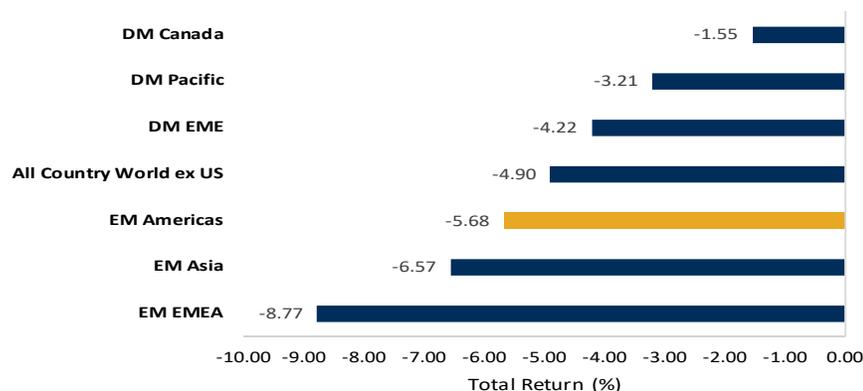
The Innealta Capital Country Rotation Strategy returned -1.87% on a gross of fee basis while its blended benchmark returned +0.64%. During April, the top contributors to the strategy's performance were allocations to India, Peru and Germany while the top detractors to the strategy's performance were allocations to Russia, Brazil and Indonesia. The current portfolio has overweight allocations, relative to its benchmark, in the Emerging Market Asia region and Emerging Market Europe, Middle East and Africa region. Additionally, the portfolio has underweight allocations, relative to its benchmark, in defensive fixed income investments such as treasuries and investment grade credit. During April, the Investment Committee did not rebalance the portfolio.

FIGURE 2: Oil and Treasury Dynamics



SOURCE: Innealta Capital using data from Bloomberg as of 03.31.2018 to 04.30.2018.

FIGURE 3: Benchmark Performance, Trailing 3-Month



SOURCE: Innealta Capital using data from Bloomberg as of 01.31.2018 to 04.30.2018.

Top Contributors

1. iShares MSCI India ETF (INDA)
2. iShares MSCI Peru ETF (EPU)

Bottom Contributors

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

SOURCE: Innealta Capital using Innealta Capital data from 03.31.2018 to 04.30.2018.

Strategy Performance

	Gross (%)	Net (%)	Benchmark (%)
1-Month	-1.87	-2.01	0.64
3-Month	-6.76	-6.95	-3.88
YTD	-1.47	-1.82	0.21
1-Year	11.36	10.42	12.29
3-Year	4.93	3.8	4.32
5-Year	4.22	2.97	4.18
Inception	6.05	4.74	4.75

SOURCE: Innealta Capital using data as of 04.30.2018. 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.

DEF Fixed Income: Defensive Fixed Income refers to any debt type contained within the Bloomberg Barclays U.S. Aggregate Bond or the Bloomberg Barclays Global Aggregate Bond index as well as inflation protected debt and municipal debt. **CYC Fixed Income:** Cyclical Fixed Income refers to Emerging market debt, both USD and locally denominated, and U.S High Yield. **DM America:** Developed Market Americas refers to Canada. **DM EME:** Developed Market Europe and Middle East refers to Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Israel, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and United Kingdom. **DM Pacific:** Developed Market Pacific refers to Australia, Hong Kong, Japan, New Zealand, and Singapore. **EM America:** Emerging Market Americas refers to Brazil, Chile, Colombia, Mexico, and Peru. **EM EMEA:** Emerging Market Europe, Middle East, and Africa refers to Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa, Turkey, and United Arab Emirates. **EM Asia:** Emerging Market Asia refers to China, India, Indonesia, Korea, Malaysia, Pakistan, Philippines, Taiwan, and Thailand.

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.

12117 FM 2244 | Building 3, Suite 170 | Austin, Texas 78738 | p: 737.808.4640 | f: 512.402.1014 | www.innealtacapital.com

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