

June 2018 Commentary and Strategy Review

About the Strategy

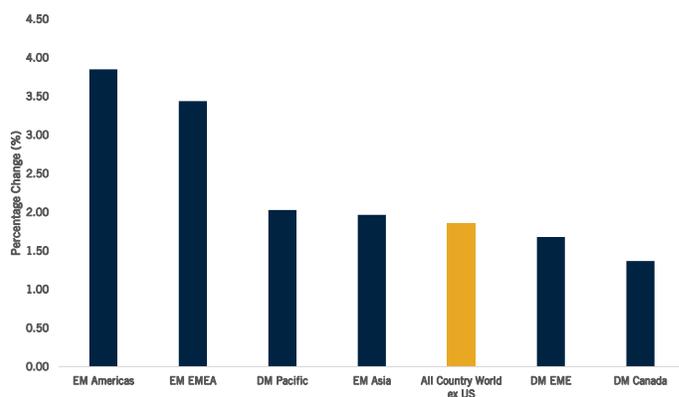
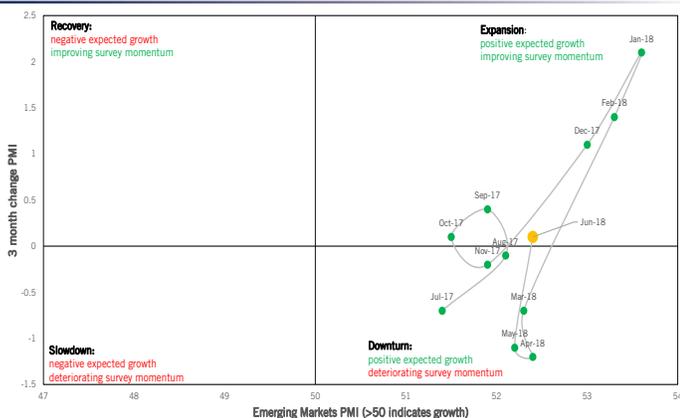
The Country Rotation Portfolio (“CRP”) provides market exposure to over 40 international equity markets and global fixed income via exchange-traded funds. Innealta’s Investment Team manages the CRP strategy to a balanced benchmark of 70% MSCI All Country World ex U.S. Index (“ACWX”) and 30% Bloomberg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

International Equities Outlook

International equity markets experienced another tumultuous month due to trade tensions and country specific news. The MSCI All Country World ex U.S. index (“ACWX”) declined 1.88%. Despite the negative performance, implied volatility markets, a commonly used measure for investor risk aversion, declined over the month. The CBOE Emerging Markets ETF Volatility Index (“VXEEM”) decreased from 20.11 to 19.43, and the Euro Stoxx 50 Volatility index (“VSTOXX”) declined from 17.65 to 16.63. In our opinion, the declining market volatility is an indication that the market is becoming more comfortable with potential trade tensions. For example, the June release for the Markit Emerging Market Composite PMI index still shows expected growth, and the index has resumed positive momentum.

Our positive outlook for Emerging Market equities relative to Developed Market equities remains the same. In a market environment characterized by low interest rates and low volatility, we believe that drivers related to growth – macroeconomic growth, earnings growth, etc. - will be the most important going forward. Despite the increased market volatility, growth sentiment surveys, as shown in Figure 1, still indicate positive growth within Emerging Market economies and recently the pace of that growth is also positive. To benefit from this trend, we believe, the fund should be positioned within those regions and countries with the highest positive sensitivity to increasing growth. Figure 2 shows the historically observed beta of various MSCI regional equity indices versus the JPM Global Manufacturing PMI index. Emerging markets, particularly those in the Americas, Europe, Middle East and Africa regions exhibit the most substantial growth betas, and as such, the fund has overweights in these regions.

FIGURE 1: Growth Expectations Across Emerging Markets **FIGURE 2: Equity Region Beta to Growth**



Innealta Capital using Bloomberg data. “Emerging Markets PMI” refers to the Markit Emerging Markets Composite PMI index. Time frame 04.30.2017 to 06.30.2018. Frequency monthly.

Investments cannot be made in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges. Past performance is no guarantee of future results.

Source: Innealta Capital using Bloomberg data. Values represent the historically observed beta using monthly percentage changes in regional equity MSCI indices versus monthly percentage changes in the JPM Global Manufacturing PMI index. Time frame 07.31.2015 to 06.30.2018. “EM Asia” refers to the MSCI EM Asia Index. “EM EMEA” refers to the MSCI EM Europe, Middle East, and Africa index. “EM Americas” refers to the MSCI EM Americas index. “DM Canada” refers to the MSCI Canada index. “DM EME” refers to the MSCI Europe and Middle East index. “DM Pacific” refers to the MSCI Pacific index. “All Country World ex-US” refers to the MSCI All Country World ex US index.

Performance

June return dispersion across various international equity market regions declined in June from the elevated levels in May. The top-performing MSCI equity region, MSCI Developed Market Canada, returned 1.70% while the bottom performing region, MSCI Emerging Market Asia, declined 4.65%. The MSCI Emerging Market Net Total Return USD index fell 4.15%, while the Innealta Capital Country Rotation Strategy fell 3.45%.

The Innealta Capital Investment Team did not make any strategy changes during June. Top contributors to the strategy's performance in June were allocations to Russia, Switzerland, and New Zealand while the top detractors to the strategy's performance were allocations to Thailand, South Korea and Indonesia. At the end of June, the strategy remained overweight, relative to the benchmark, in Emerging Market equities and cyclical fixed income while underweight, relative to the benchmark, in Developed Market equities and defensive fixed income. Despite the recent volatility in Emerging Markets, the Innealta Capital investment team believes that in the current market environment the best opportunities are tied to growth and Emerging Market equities are likely to exhibit higher inflation-adjusted growth over the long term.

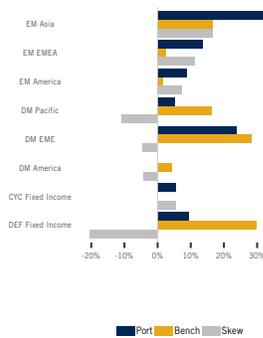
Strategy Performance as of 06.30.2018

| | Gross (%) | Net (%) | Benchmark(%) |
|-----------|-----------|---------|--------------|
| 1-Month | -3.45 | -3.47 | -1.45 |
| 3-Month | -8.35 | -8.53 | -2.67 |
| YTD | -7.97 | -8.35 | -3.07 |
| 1-Year | 2.31 | 1.43 | 5.51 |
| 3-Year | 3.59 | 2.48 | 4.47 |
| 5-Year | 3.48 | 2.23 | 4.74 |
| Inception | 5.08 | 3.8 | 4.25 |

Portfolio Changes Trailing 3 Months



Portfolio Skews As of 06.30.2018



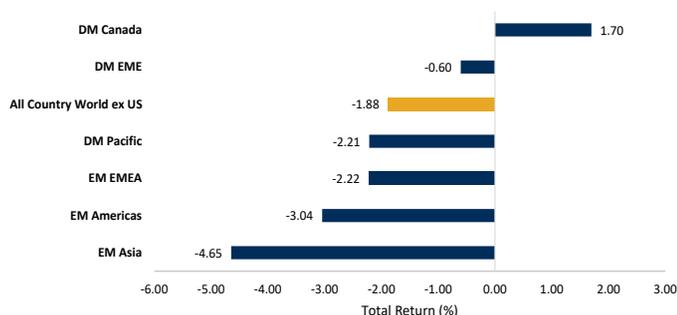
SOURCE: Innealta Capital using data from Innealta Capital and Bloomberg as of 06.30.2018. Note that "Bench" in the Portfolio Skews illustration refers to blended benchmark of 70% MSCI All Country World ex US Index and 30% Bloomberg Barclays Global Aggregate Bond Index. See last page for complete definitions.

Strategy Statistics

| | Portfolio | Bench. |
|--------------|-----------|--------|
| Alpha (%) | 1.77 | 0.00 |
| Beta (%) | 0.42 | 1.00 |
| R-Squared | 53.72 | 100.00 |
| Std. Dev (%) | 6.30 | 11.06 |

Source: Innealta Capital using data from Bloomberg. Data from 12.30.2009 to 06.30.2018. 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.

Broad Equity Market Performance



SOURCE: Innealta Capital using data from Innealta Capital and Bloomberg as of 06.30.2018. Time Frame 05.31.2018 to 06.30.2018. See last page for complete definitions.

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, LLC is an independent registered investment advisor and is the investment advisor for certain mutual funds. AFAM Capital, Inc. is an independent registered investment advisor and is the investment advisor to individually managed client accounts and certain mutual fund. Investing involves risk, principal loss is possible, and there can be no assurance that investment objectives will be achieved. Past performance is no guarantee of future results. Innealta Capital, LLC and AFAM Capital, Inc. only transact business in states where each is properly registered or exempt from registration. Registration of an investment adviser does not imply any certain level of skill or training. Innealta Capital, LLC and AFAM Capital, Inc. are not affiliated.

13215 Bee Cave Pkwy | Building A, Suite 240 | Austin, TX 78738 | p: 737.808.4640 | www.innealtacapital.com

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