July 2018 Commentary and Strategy Review

About the Strategy

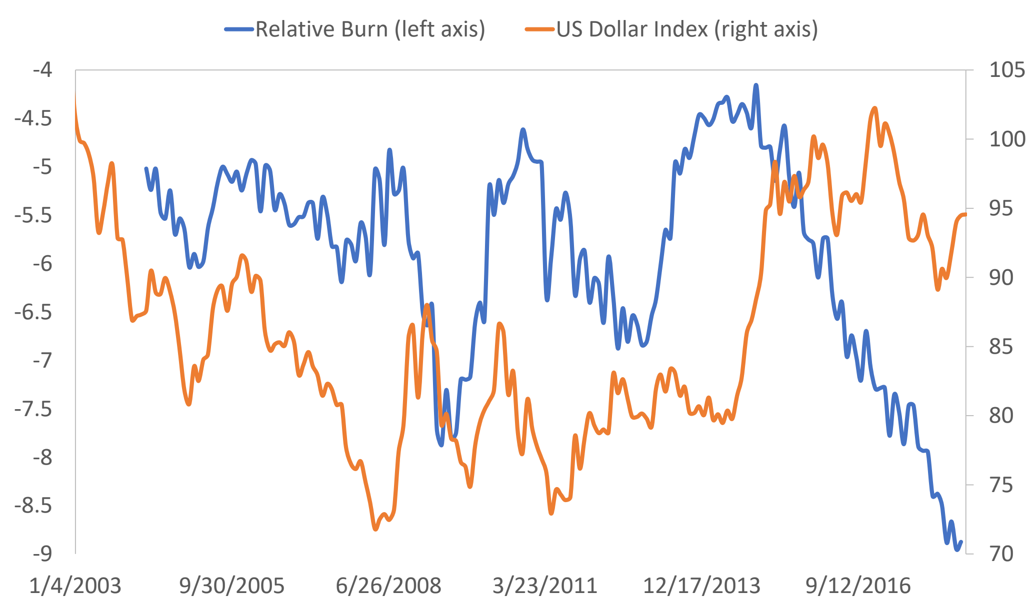
The Country Rotation Portfolio ("CRP") provides market exposure to over 40 international equity markets and global fixed income via exchange-traded funds. Innealta's Investment Team manages the CRP strategy to a balanced benchmark of 70% MSCI All Country World ex U.S. Index ("ACWX") and 30% Bloomberg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

Another month and no significant escalation in trade war concerns. An agreement not to impose further tariffs between the US and the EU was reached at the end of July. Car imports were allegedly in the cross-hairs of the Trump administration, something that would have hurt Europe's largest economy, Germany. Additionally, during July, U.S. corporate earnings, which are a reasonable proxy for global macroeconomic growth, showed growth above expectations and year-over-year growth of more than 20%. As the U.S. is a large consumer of global goods and services, we view the corporate earnings information as a positive for international equities. Additionally, analysts' expectations for next year's growth in earnings is only 7%; and if analysts increase their earnings expectations, which is currently our base case, we would anticipate U.S. earnings growth next year somewhere between 8 to 12%.

We maintain a long-term view that the U.S. dollar will depreciate. Core to our view is that U.S. current account and the U.S. fiscal deficit relative to its trading partners will continue to expand, and such an expansion would ultimately generate dollar weakness. The current account measures private spending, while the fiscal deficit measures public spending. The most recent reading of U.S. fiscal deficit stood at 3.4% of nominal GDP, and the current account deficit was 2.4% of nominal GDP. We do not feel the U.S. will have an issue sourcing debt to fund its spending. However, from a credit-risk perspective, the market's expectations of creditworthiness of the U.S. may become the issue. Empirically, the U.S. dollar index tended to rise and fall as the relative spending between the U.S. and the Eurozone rose and fell (sum of U.S. current account and fiscal budget balance less the sum of the Eurozone's current account and fiscal budget balance). At the current level of relative spending, the implied price of the U.S. Dollar index would be lower by more than 20%.

FIGURE 1: U.S. Current Account and Fiscal Deficit



SOURCE: Innealta Capital using data from Innealta Capital and Bloomberg as of 07.31.2018. "Dollar Index" refers to the US Dollar index. "Relative burn" refers to the sum of the U.S. current account, as a percentage of GDP) and the US fiscal balance, as a percentage of GDP, less the sum of the Eurozone current account, as a percentage of GDP, and the Eurozone fiscal balance, as a percentage of GDP.

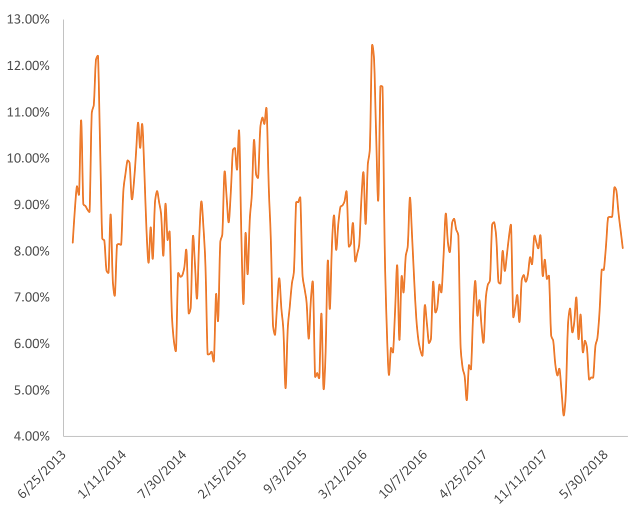
Innealta Capital Country Rotation Strategy

Performance

Equity markets rebounded strongly in July, as trade concerns continued to ease and corporate earnings matched or exceeded expectations. Developed markets outperformed emerging markets: the MSCI Emerging Market Index returned 2.19%, while the MSCI World ex US Index returned 2.46%. Regional return dispersion continues to be elevated: the MSCI EM Americas Index returned 9.23%, while the MSCI EM Asia Index, which is predominantly China, returned +0.78%. Negative sentiment towards Chinese equities continues to increase, as expected growth in forward earnings continued to decline.
The benchmark, a blend of 70% MSCI All Country World ex US Index and 30% Bloomberg Barclays Global Aggregate Bond Index, returned 1.62% in July, while the Innealta Capital Country Rotation Strategy returned 4.03%.

The Innealta Capital Investment Team did not make any strategy changes during July. Top contributors to the strategy's performance in July were allocations to Poland and Brazil, while the top detractors to the strategy's performance were allocations to China and Turkey. At the end of July, 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 enviornment, the best opportunities are tied to growth, and that Emerging Market equities are likely to exhibit higher inflation-adjusted growth over the long term.

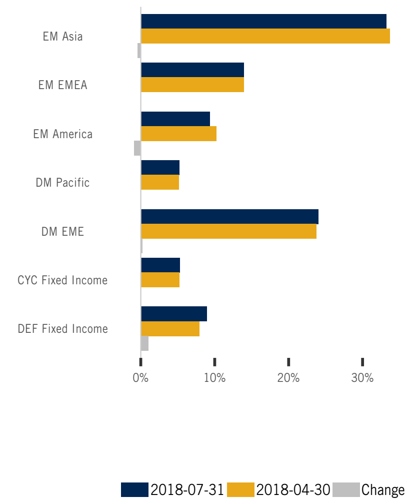
Figure 2: Return Dispersion in International Equity Markets



SOURCE: Innealta Capital using data from Innealta Capital and Bloomberg as of 07.31.2018. Dispersion index calculated as the cross-sectional standard deviation of rolling thirteen week returns for all net USD total return indices with the MSCI Developed Market and Emerging Market country universe. Past performance is no guarantee of future results.

Portfolio Changes

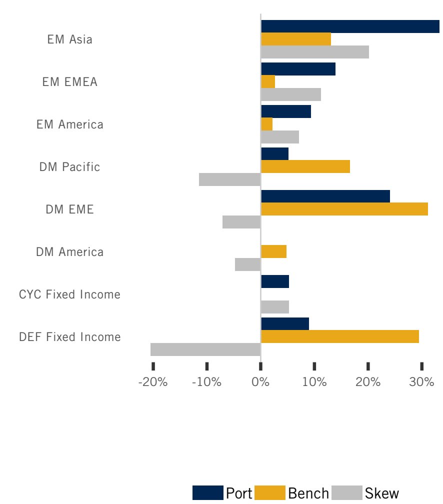
Trailing 3 Months



SOURCE: Innealta Capital using data from Innealta Capital and Bloomberg as of 07.31.2018. See last page for complete definitions.

Portfolio Skews

As of 07.31.2018



SOURCE: Innealta Capital using data from Innealta Capital and Bloomberg as of 07.31.2018. Benchmark represents the MSCI ACWI ex US NR Index. For example, "EM Asia" represents the percentage of the benchmark within the EM Asia region. 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.

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.

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