

April 2018 Commentary and Strategy Review

About the Strategy

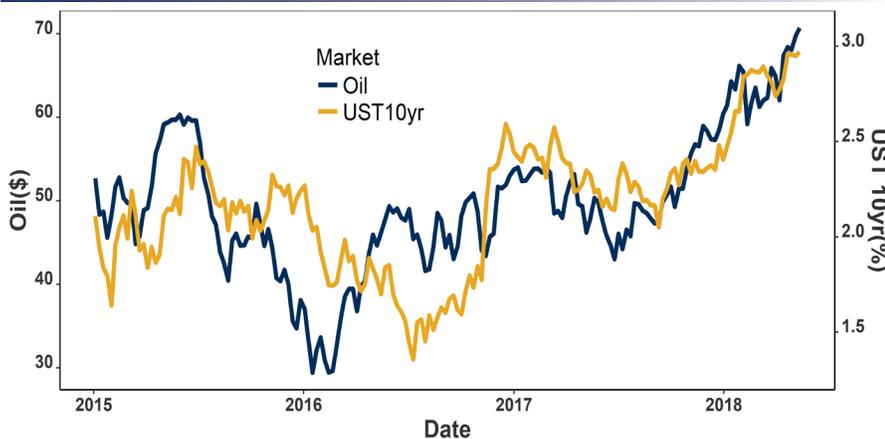
The Fixed Income Portfolio ("FI") provides market exposure across various sectors within global fixed income via exchange-traded funds. Innealta's Investment Team manages the FI strategy relative to the Bloomberg Barclays U.S. Aggregate Bond index. Innealta Capital utilizes a proprietary quantitative 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 the fixed income space.

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.

We continue to anticipate that traditional fixed income markets – treasuries, collateralized debt, and investment-grade credit – will experience significant headwinds over the next few months. This view does not imply that their respective total returns will be negative, rather we believe their upside potential is limited. One headwind that we see for more duration sensitive fixed income is rising oil prices. A consensus view in financial markets is that declining unemployment will increase wages, which will increase inflation. Although this may occur, we think a more likely situation is that rising oil prices will create inflationary pressures, which will dampen more duration sensitive fixed income returns. Geopolitical risks, such as a potential trade war and a treaty renegotiation with Iran, should provide a tailwind to oil prices. Within our fixed income allocations, we continue to reduce duration sensitive debt sectors in favor of short duration, floating rate, inflation-protected or senior bank loan debt.

FIGURE 1: Oil and Treasury Dynamics



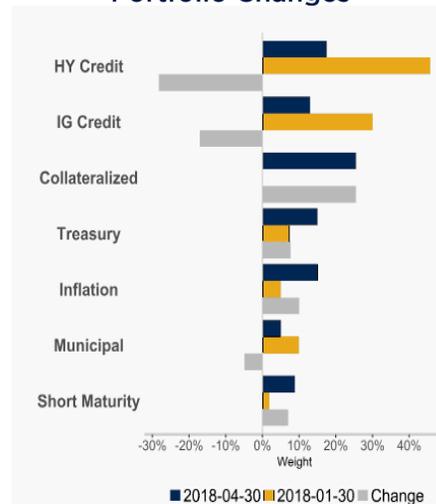
SOURCE: Innealta Capital using data from Bloomberg as of 04.30.2018.

Strategy Statistics

	Port	Benchmark
Alpha (%)	-0.07	0.0
Beta (%)	0.81	1.0
R-Squared (%)	45.37	100.0
Std.Dev (%)	3.36	2.79

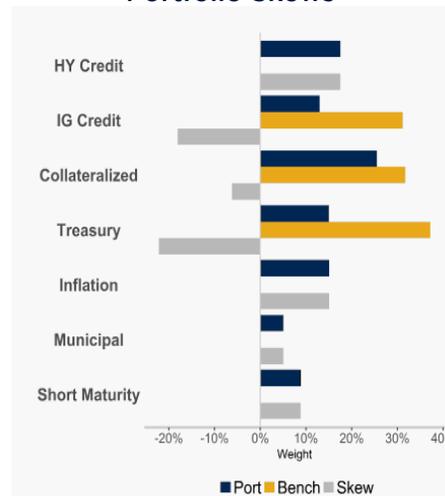
Source: Innealta Capital using data from Bloomberg. Data from 12.31.2009 to 04.30.2018. Benchmark represents the Bloomberg Barclays U.S. Aggregate Bond Index. Inception date for the portfolio is December 31, 2009.

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 as of 04.30.2018.

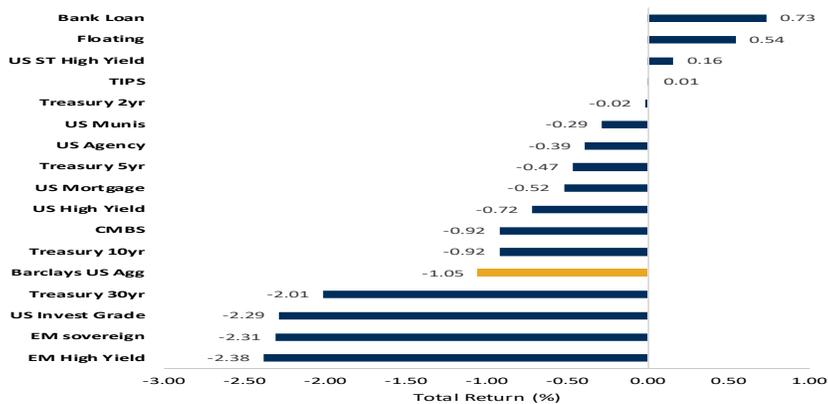
Performance

Although volatility in fixed income markets decreased during April, oil prices and inflation expectations increased, which coincided with negative performance within aggregate fixed income for the month. The Bloomberg Barclays U.S. Aggregate bond index (“AGG”), a broad measure of fixed income, declined 74 bps for the month. The top performers during April were U.S. High Yield and U.S. bank loans while the worst performers during April were ten-year U.S. Treasuries and thirty-year U.S. Treasuries.

During April, the Innealta Capital Fixed Income Portfolio returned -1.06%, on a gross-of-fee basis. Within the portfolio, the top detractors to performance were allocations to Emerging Market debt and international Treasuries while the top contributors to performance were allocations to floating rate bonds and senior bank loans.

The Investment Committee (“IC”) rebalanced the Fixed Income Portfolio on 04.26.2018 to reflect the changing dynamics within the fixed income markets. Overall, the portfolio reduced longer-maturity duration risk, reduced international credit risk, added short-term duration risk, and increased inflation protected and floating rate risk. The portfolio’s overall volatility level will likely decline due to the changes, and the volatility will likely be less than the benchmark. The portfolio opened positions in short maturity US Treasuries (SHY), US Treasury inflation notes (TIP), and USD-hedged, non-US dollar denominated investment-grade bonds.

FIGURE 2: Benchmark Performance, Trailing 3-Month



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

Top Contributors

1. PIMCO 0-5 Year High Yield Corp Bond (HYS)
2. iShares Floating Rate Note (FLOT)

Bottom Contributors

1. iShares iBoxx \$ Invest Grade Corp Bond (LQ)
2. VanEck Vectors EM Local Curr Bond ETF (EMLC)

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

Strategy Performance

	Gross (%)	Net (%)	Benchmark(%)
1-Month	-1.06	-1.16	-0.74
3-Month	-2.24	-2.35	-1.05
YTD	-2.97	-3.24	-2.19
1-Year	-0.81	-1.58	-0.32
3-Year	0.32	-0.45	1.07
5-Year	0.37	-0.38	1.47
Inception	3.19	2.54	3.19

SOURCE: Innealta Capital using data as of 04.30.2018. Benchmark is the Bloomberg Barclays U.S. 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 strategy is measured against the Bloomberg Barclays US Aggregate Bond Index.

"Barclays Agg" refers to **The Bloomberg Barclays US Aggregate Bond Index** which is representative of the entire universe of taxable fixed-income investments. It includes issues of the US Government and any agency thereof, corporate issues of investment grade quality (Baa/BBB or better), and mortgage-backed securities. "Treasury 2yr" refers to the **The Merrill Lynch 2-year U.S. Treasury Futures Total Return Index** which measures the performance of a fully collateralized rolling 2-year U.S. Treasury futures position. "Treasury 5yr" refers to **The Merrill Lynch 5-year U.S. Treasury Futures Total Return Index** which measures the performance of a fully collateralized rolling 5-year U.S. Treasury futures position. "Treasury 10yr" refers to **The Merrill Lynch 10-year U.S. Treasury Futures Total Return Index** which measures the performance of a fully collateralized rolling 10-year U.S. Treasury futures position. "Treasury 30yr" refers to **The Merrill Lynch 30-year U.S. Treasury Futures Total Return Index** which measures the performance of a fully collateralized rolling 30-year U.S. Treasury futures position. "US High Yield" refers to **The iBoxx USD Liquid High Yield Index** which is an index composed of U.S. dollar-denominated, investment-grade corporate bonds. "TIPS" refers to **The Bloomberg Barclays US Treasury Inflation Notes TR Index Value Unhedged USD Index** which consists of inflation-protection securities issued by the US Treasury. They must have at least one year until final maturity and at least \$250 million par amount outstanding. They are rated investment grade by at least two of the following rating agencies: Moody's, S&P, Fitch. They must be fixed rate, dollar denominated and non convertible. "US Munis" refers to **The S&P Municipal Bond Index** which is a broad market value weighted index that seeks to measure the U.S. municipal bond market. "US Invest Grade" refers to **The iBoxx Investment Grade Index**, which is composed of U.S. dollar-denominated, investment-grade corporate bonds. "US Mortgage" refers to **Bloomberg Barclays US MBS Index Total Return Value Unhedged USD**, which measures the performance of investment grade fixed-rate mortgage-backed pass through securities of GNMA, FNMA, and FHLMC. "US Agency" refers to the **Barclays U.S. Agency Index**, which measures performance of callable and non-callable agency securities issued by US government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. government. "EM sovereign" refers to the **JPMorgan EMBI Global Core Index**, which measures a broad, diverse U.S. dollar denominated emerging market debt instruments. EM High Yield" refers to the **Morningstar Emerging Markets High Yield Bond Index**, which tracks the performance of the below-investment grade U.S. dollar denominated emerging market sovereign and corporate bond market. "Bank Loan" refers to the **S&P/LSTA U.S. Leveraged Loan 100 Index**, which measures the performance of the largest facilities in the leveraged loan market. "CMBS" refers to the **Bloomberg Barclays U.S. CMBS Investment Grade Index**, which measures the market of conduit and fusion CMBS deals with a minimum current deal size of \$300 million. "Floating" refers to the **Bloomberg Barclays US FRN <5 Years Index**, which is a subset of the US Floating-Rate Note (FRN) Index, which measures the performance of USD denominated, investment grade, floating-rate notes across. "US ST High Yield" refers to the **Markit iBoxx USD Liquid High Yield 0-5 Capped Index** which tracks exposure to liquid high yield corporate bonds maturing between 0 and 5 years. "US 5yr BE, US 10yr BE, and US 30yr BE" refers to the **US Breakeven Indices**, which measure the breakeven inflation rate by subtracting the real yield of the inflation linked maturity curve from the yield of the closest nominal Treasury maturity. The result is the implied inflation rate for the term of the stated maturity.

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.

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

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