

April 2018 Commentary and Strategy Review

About the Strategy

The Global All Asset Strategy (“GAA”) provides market exposure across the six major assets – equities, sovereign fixed income, commodities, currencies, credit fixed income, and real estate – via exchange-traded funds. The Innealta Capital investment team creates three different portfolios – Conservative, Moderate, and Growth – that have varying risk levels, based on the GAA framework. The investment team manages each portfolio relative to a unique, balanced benchmark. For example, Innealta’s Investment Team manages the Global All Asset Moderate strategy (“GAAM”) to a balanced benchmark of 40% Bloomberg Barclays Global Aggregate Bond Index, 24% MSCI All Country World ex U.S. Index, 21% Russell 3000 Index, 9% S&P GSCI Total Return Index, and 6% Dow Jones Global Select Real Estate Securities Index. The benchmark reflects the desired average weight of each asset class 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 across all major asset classes.

Outlook

During April, financial markets paused from the above average volatility that has 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 exhibited higher 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 VIX 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.

From a multi-asset perspective, we remain optimistic on risky assets, such as equities and commodities, while cautious on fixed income and real estate. The current earnings announcements in U.S. corporations show growth above expectations and year-over-year earnings growth of more than 20%. Outside of the U.S., earnings growth in European equity markets remains low, while earnings growth in emerging markets is approximately 19%. We anticipate that rising oil prices will increase inflation and inflation expectations, which will limit expected return for fixed income and real estate. Within our Global All-Asset portfolios, we maintain overweight allocations, relative to the benchmark, in U.S. and international equities, and underweight allocations in Defensive Fixed Income and Real Estate.

FIGURE 1: Oil and Treasury Dynamics



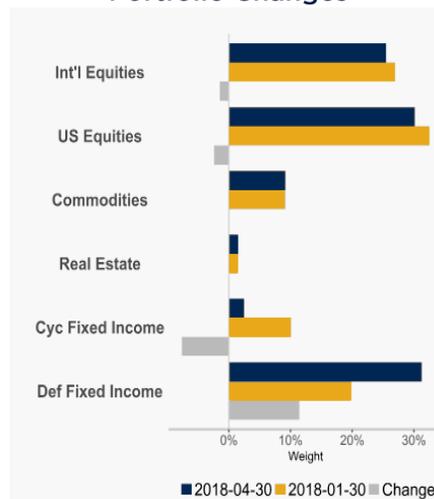
SOURCE: Innealta Capital using data from Bloomberg as of 04.30.2018.

Strategy Statistics

| | Port | Benchmark |
|---------------|-------|-----------|
| Alpha (%) | 0.86 | 0.0 |
| Beta (%) | 0.98 | 1.0 |
| R-Squared (%) | 91.75 | 100.0 |
| Std.Dev (%) | 8.87 | 8.68 |

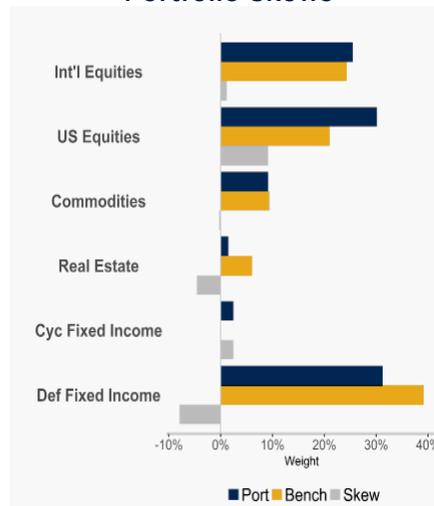
SOURCE: Innealta Capital using data from Bloomberg for the Global All Asset - Moderate Portfolio. Data from 12.31.2009 to 04.30.2018. The benchmark is 21% Russell 3000 Index / 24% MSCI ACWI ex US NR Index / 6% Dow Jones Global Select Real Estate Securities NR Index / 9% S&P GSCI Total Return CME / 40% Bloomberg Barclays Global Aggregate Bond NR 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



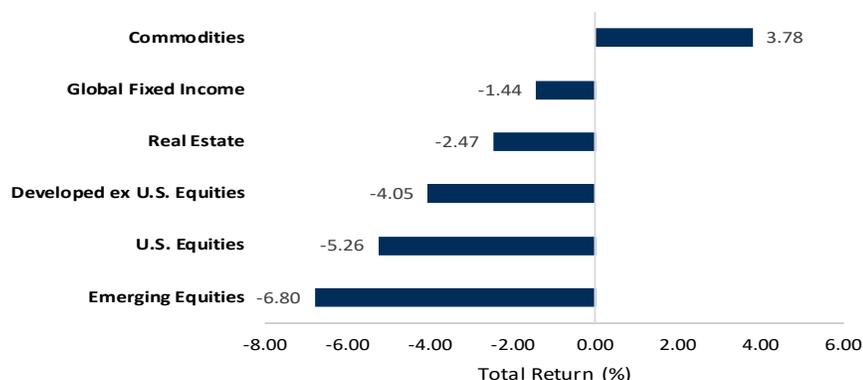
SOURCE: Innealta Capital using data from Innealta Capital as of 04.30.2018.

Performance

Broad asset classed performance during April showed a similar trend as in March, with commodities continuing its positive trend. Although the trade war concerns waned, rising inventories and increased probability of a change in the Iran agreement, helped support oil prices. Fixed Income continued to decline as rising inflation – due to higher oil prices – and tightening monetary policy hurt returns.

During April, the Innealta Capital Global All-Asset Moderate Portfolio returned -1.18%, while its blended benchmark returned -0.82%. The portfolio benefited from overweight allocations, relative to its benchmark, in cyclical fixed income and an underweight allocation, relative to its benchmark, in defensive fixed income. The top two contributors to portfolio performance during the month were investments in broad-based commodities, while the top two detractors to the portfolio's performance were Emerging Market Equities and Frontier Market Equities. The Investment Committee did not rebalance the portfolio during April.

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. PowerShares DB Optimum Yld Commodity (PDBC)
2. Energy Select Sector SPDR (XLE)

Bottom Contributors

1. Vanguard Interm-Tm Corp Bond Fund (IEMG)
2. Financials Select Sector SPDR ETF (VCIT)

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

Strateav Performance

| | Gross (%) | Net (%) | Benchmark(%) |
|-----------|-----------|---------|--------------|
| 1-Month | -0.01 | -0.2 | 0.39 |
| 3-Month | -3.02 | -3.22 | -2.69 |
| YTD | 0.04 | -0.48 | 0.4 |
| 1-Year | 10.49 | 9.35 | 10.28 |
| 3-Year | 5.43 | 4.25 | 4.06 |
| 5-Year | 4.61 | 3.48 | 3.78 |
| Inception | 7.14 | 6.06 | 5.29 |

SOURCE: Innealta Capital using data from Bloomberg for the Global All Asset - Moderate Portfolio. Data from 12.31.2009 to 04.30.2018. The benchmark is 21% Russell 3000 Index / 24% MSCI ACWI ex US NR Index / 6% Dow Jones Global Select Real Estate Securities NR Index / 9% S&P GSCI Total Return CME / 40% Bloomberg Barclays Global Aggregate Bond NR 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.

For comparison purposes, the strategy is measured against a blended benchmark: 21% Russell 3000 Index, 24% MSCI ACWI ex US NR Index, 6% Dow Jones Global Select Real Estate Securities NR Index, 9% S&P GSCI CME Index, 40% Bloomberg Barclays Global Aggregate Bond NR Index. **The Russell 3000 Index** measures the performance of the largest 3,000 U.S. companies. **The MSCI All Country World Index ex US NR** captures large- and mid-cap representation across 22 of 23 developed markets countries-excluding the United States. **The Dow Jones Global Select Real Estate Securities NR Index** represents equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded globally. **The S&P GSCI CME Index** is a measure of general commodity price movements and inflation in the world economy. Index is calculated primarily on a world-production-weighted basis comprised of the principal physical commodities futures contracts. **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. 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. **The MSCI World ex USA Index** is a free-float weighted equity index that captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries - excluding the United States. **The MSCI Emerging Markets Index** captures large and mid cap representation across 23 Emerging Markets (EM) countries. With 846 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

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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