Innealta CAPITAL

Innealta Capital Global All Asset Strategy
Moderate

June 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.

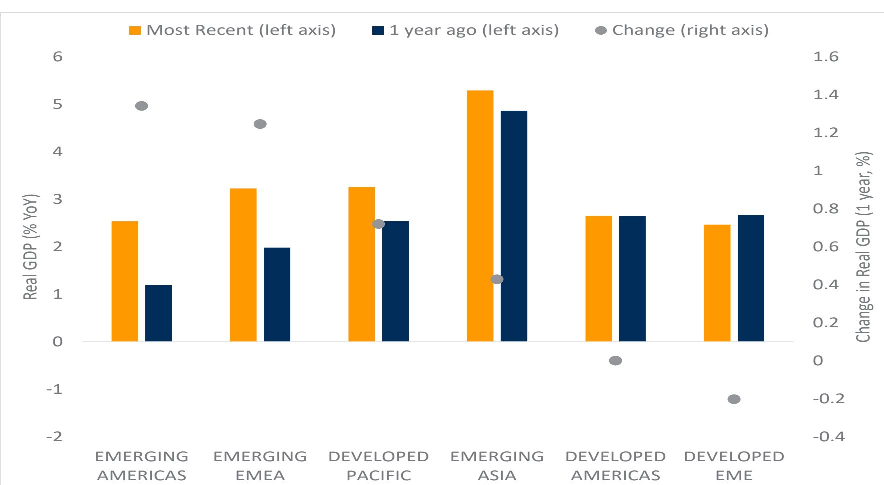
Outlook

Financial markets continued a similar trend in June as Emerging Market assets and global fixed income negatively performed while U.S. equities, commodities, and real estate positively performed. Trade concerns continue to negatively impact investor sentiment in Emerging Markets despite the fact that many emerging market economies would benefit as alternatives for U.S. demand or Chinese supply. The U.S. dollar strengthened moderately, which also created a headwind for Emerging Market assets.

We maintain a long-term view that the U.S. dollar will depreciate relative to other major Developed Market currencies. Key factors in our view is the increasing U.S. debt, on both an absolute basis and relative to other developed market economies, and the increasing U.S. current account deficit, both on an absolute basis and relative basis. It is possible that the US can renegotiate trade deals with China however important to recognize the China represents less than 40% of total U.S. trade. Finally unlike other major central banks, the U.S. Federal Reserve ("FED") has already undergone two years of tightening monetary policy. We would anticipate over the next year that investor expectations of monetary policy across other major central banks such as the European Central Bank and the Bank of Japan will shift towards tightening, which, theoretically, would make those currencies more attractive as interest rates rise.

Heading into the corporate earnings season, we anticipate strong sales and earnings growth in U.S. equities given the level of overall macroeconomic growth. We feel comfortable with U.S. equity earnings growing in excess of 15% year-over-year. Within U.S. equity sectors we prefer Financials and Energy given their earnings and sales growth. Finally across international equity markets we generally prefer those regions with improving macroeconomic growth as we believe that long-term macroeconomic growth is tied to corporate earnings growth.

Macroeconomic Growth Snapshot

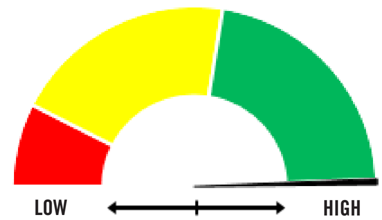


Source: Innealta Capital using Bloomberg data. Time frame 06.30.2017 to 06.30.2018.

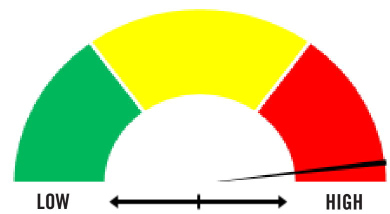
Macro View Snapshot

Positive | Caution | Negative

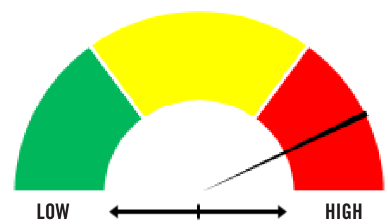
Gauge 1: Growth



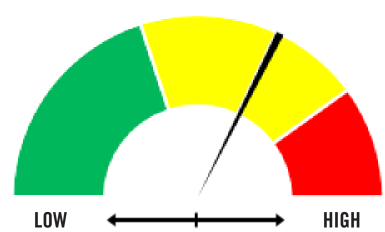
Gauge 2: Inflation



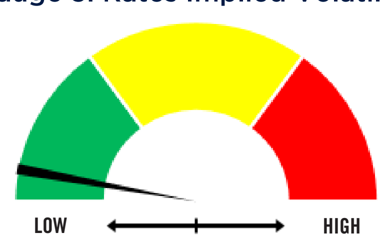
Gauge 3: Fed Short-Term Rates



Gauge 4: Equity Implied Volatility



Gauge 5: Rates Implied Volatility



Source: Innealta Capital. All gauge charts reflect the opinion of the innealta capital investment team view of various indicators.

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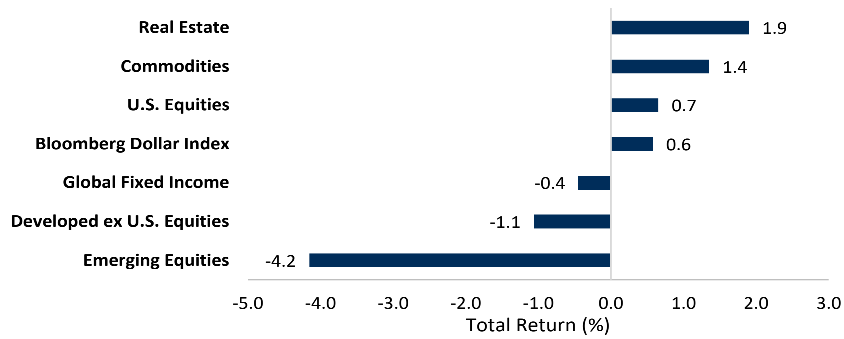
Performance

During June, the Innealta Capital Global All-Asset Moderate portfolio returned -0.93% on a gross-of-fee basis while its blended benchmark returned -0.23%. Year-to-date, the portfolio returned -0.23% on a gross-of-fee basis while its blended benchmark returned 0.13%. The portfolio benefited from overweight allocations, relative to its benchmark, in U.S. equities, 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 U.S. equities and commodities, while the top two detractors to the portfolio performance were European equities and Emerging Market equities.

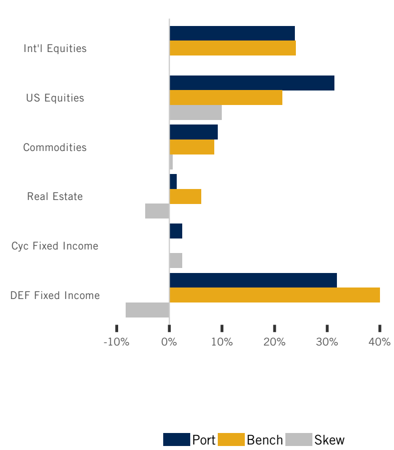
The Innealta Capital investment eam believes that the current portfolio reflects the view of increasing global growth, increasing inflation, and low financial market volatility. Thus the investment team did not rebalance the strategy during June. The portfolio maintains an overweight, relative to the benchmark, in U.S. equities and cyclical fixed income. Although the portfolio's aggregate international equity position is approximately neutral relative to the benchmark, the portfolio has a modest overweight to Emerging Market equities relative to Developed Market ex-U.S. equities. Finally the portfolio maintains an underweight, relative to the benchmark, in defensive fixed income. Additionally within this asset class, the portfolio has reduced duration risk in favor of shorter duration debt, floating rate debt, or inflation protected debt.

Multi-Asset performance, Trailing 1-Month

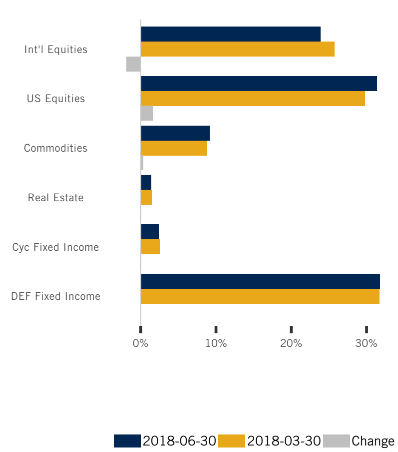


Source: Source: Innealta Capital using Bloomberg data. Time frame 05.31.2018 to 06.30.2018. "Real Estate" refers to the Dow Jones Global Select Real Estate Securities Total Return Net Index. " Commodities" refers to the S&P GSCI Total Return Index in USD. "U.S. Equities" refers to the Russell 3000 Total Return Index. "Bloomberg Dollar Index" refers to the Bloomberg Dollar Spot Index. "Global Fixed Income" refers to the Bloomberg Barclays Global Aggregate Bond Index. "Developed ex-U.S. Equities" refers to the MSCI World ex USA Index. "Emerging Equities" refers to the MSCI Emerging Net Total Return USD Index.

Portfolio Changes
Trailing 3 Months



Portfolio Skews
As of 06.30.2018



Source: Source: Innealta Capital using Bloomberg data. Time frame 05.31.2018 to 06.30.2018. Note that "Bench" in the Portfolio Skews illustration refers to blended benchmark of 71% 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. See last page for complete definitions.

Strategy Performance

	Gross (%)	Net (%)	Benchmark(%)
1-Month	-0.93	-0.94	-0.23
3-Month	-0.28	-0.49	0.12
YTD	-0.23	-0.77	0.13
1-Year	8.82	7.7	8.21
3-Year	5.92	4.73	4.84
5-Year	5.83	4.69	4.53
Inception	6.96	5.9	5.15

SOURCE: Innealta Capital using data as of 06.30.2018. 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.

Strategy Statistics

	Portfolio	Bench.
Alpha (%)	0.84	0.00
Beta (%)	0.98	1.00
R-Squared	91.62	100.00
Std. Dev (%)	8.80	8.60

Source: Innealta Capital using data from Bloomberg. Data from 12.30.2009 to 06.30.2018. Note that "Bench" in the Portfolio Skews illustration refers to blended benchmark of 71% 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, 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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