Innealta Capital Global All Asset Strategy
Moderate

August 2018 Commentary and Strategy Review

ABOUT THE STRATEGY

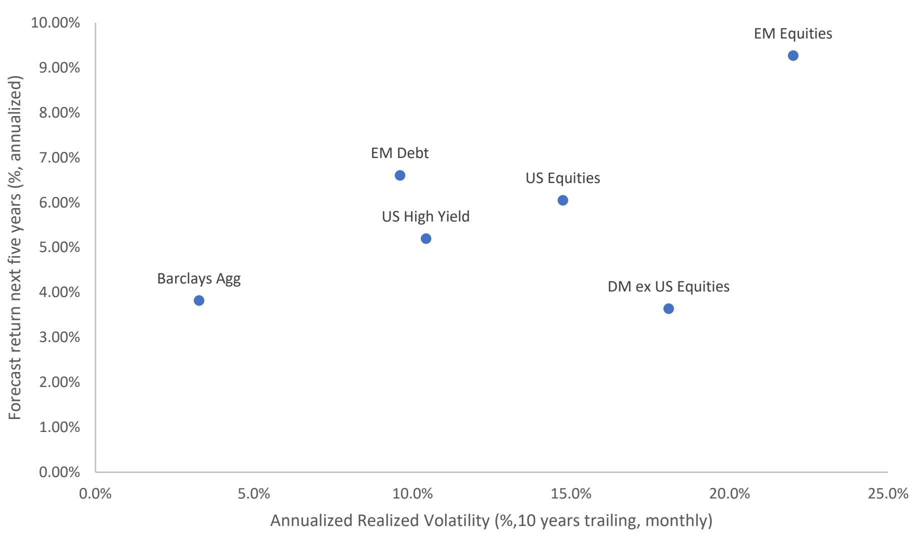
The Global All Asset Strategy ("GAA") provides market exposure across the six major assets -equities, sovereign fixed income, commodities, currencies, credit fixed income, and real estate- via exchange-traded funds. The Innealta Capital investment team creates three different portfolios – Conservative, 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

As the emerging market equity drawdown continues, we review our long-term forecasts across equity and fixed income for financial market opportunities. Using a valuation framework, the best opportunities exist within Emerging Market equities and Emerging Market debt. To forecast the total return over the next five years, we use a valuation risk premium relative to the ten-year US Treasury for equity markets and we use the yield-to-worst for fixed income markets. To scale the opportunities for risk, we compare the return forecasts against the trailing ten-year volatility and assume that the trailing ten-year volatility is a reasonable forecast for the next five years. Using this approach Emerging Market equities offer the highest overall return but also the highest expected volatility. U.S. Equities and Emerging Markets debt also offer attractive expected returns given the expected volatility. However, we would expect that Developed Markets ex US Equities do not offer enough expected return per unit of expected risk.

Valuation forecasts offer a fairly reliable return forecast for longer-term horizons, in this analysis five years, but for more intermediate-term return forecasts we prefer to incorporate macroeconomic data. One trend that we think is likely to continue over the next 6 to 12 months is elevated macroeconomic growth. If this plays out, we prefer U.S. Equities, Commodities, and Emerging Market equities given their empirically higher sensitivity to positive macroeconomic growth. Currently we see a divergence between the performance of commodities and the level of macroeconomic growth. Given that divergence and our longer-term forecast, we continue to prefer U.S. equities and Emerging Market equities within a multi-asset portfolio.

EXPECTED RETURN vs. EXPECTED RISK



Source: Innealta Capital using Bloomberg data. As of 08.31.2018. "US Equities" refers to the S&P 500. "DM Equities" refers to the MSCI EAFE index. "EM Equities" refers to the MSCI Emerging Market equity index. "Barclays Agg" refers to the Bloomberg Barclays U.S. Aggregate bond index. "US High Yield" refers to the Bloomberg Barclays U.S. Corporate High Yield Total Return Index. "EM Debt" refers to the Bloomberg Barclays EM USD Aggregate Total Return Index.

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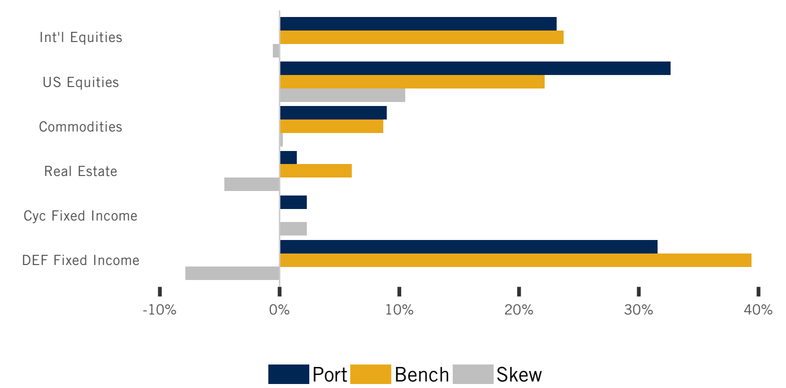
POSITIONING

During August, the Innealta Capital investment team did not rebalance the Global All Asset ("GAA") strategies. The GAA strategies maintain overweight allocations, relative to the Innealta benchmark, in U.S. Equities, Cyclical Fixed Income, and International Equities. By default, the strategies maintain underweight allocations, relative to the Innealta Capital benchmark, in Real Estate, Defensive Fixed Income, and Commodities. Although the strategy has a slight underweight to Commodities and a intermediate-term view of elevated macroeconomic growth, the Innealta Capital investment team believes that U.S. equities and Emerging Market equities are a more attractive opportunity. Within the International Equities allocation, the strategy maintains an overweight in Emerging Market equities relative to Developed Market equities.

PORTFOLIO CHANGES - TRAILING 3 MONTHS



Source: Source: Innealta Capital using Bloomberg data. Time frame 05.31.2018 to 08.31.2018. 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.

THEMES

-Positive macroeconomic growth with growing consumer confidence

Earnings growth is positively related to improving macroeconomic growth.

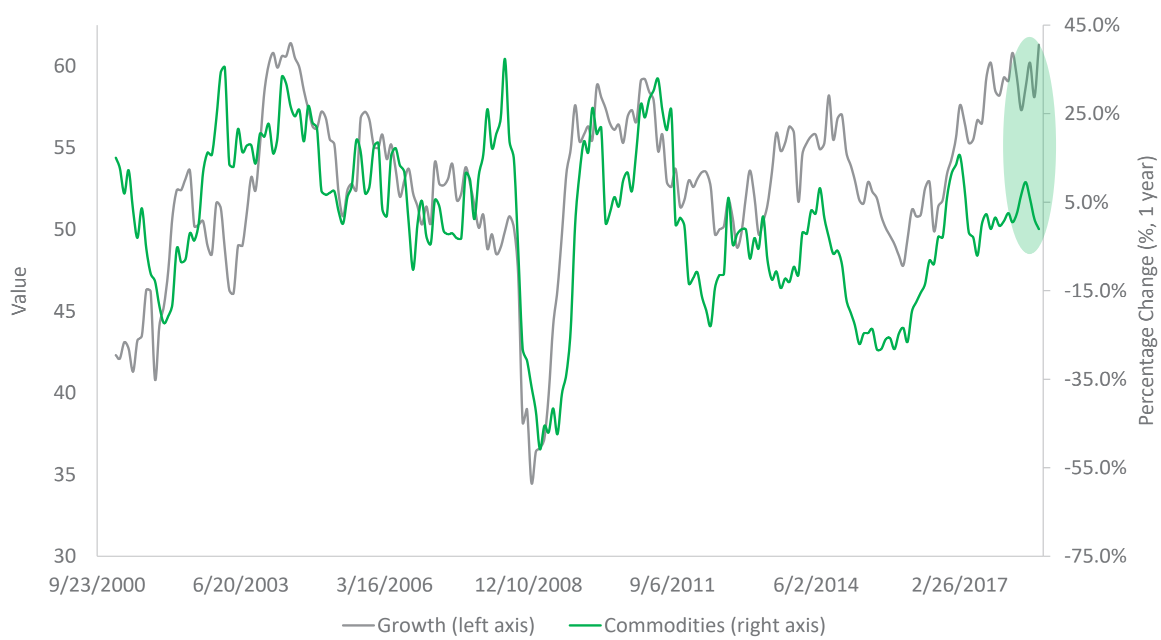
Portfolio implications: Prefer equities over fixed income. Prefer EM over DM. Prefer the Energy, Consumer Discretionary, Information Technology, and Financials sectors.

-Higher inflation

Higher inflation reduces the attractiveness of certain sectors within fixed income.

Portfolio implications: The composition of the defensive fixed income allocation differs from the benchmark by approximately 50%. The strategy is also overweight in short-term Treasuries, bank loans, and currency-hedged international treasuries.

GROWTH vs. COMMODITIES



Source: Innealta Capital using Bloomberg data. As of 08.31.2018. Frequency monthly. "Growth" refers to the ISM Manufacturing PMI index. "Commodities" refers to the Bloomberg Commodity 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.*

*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.

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