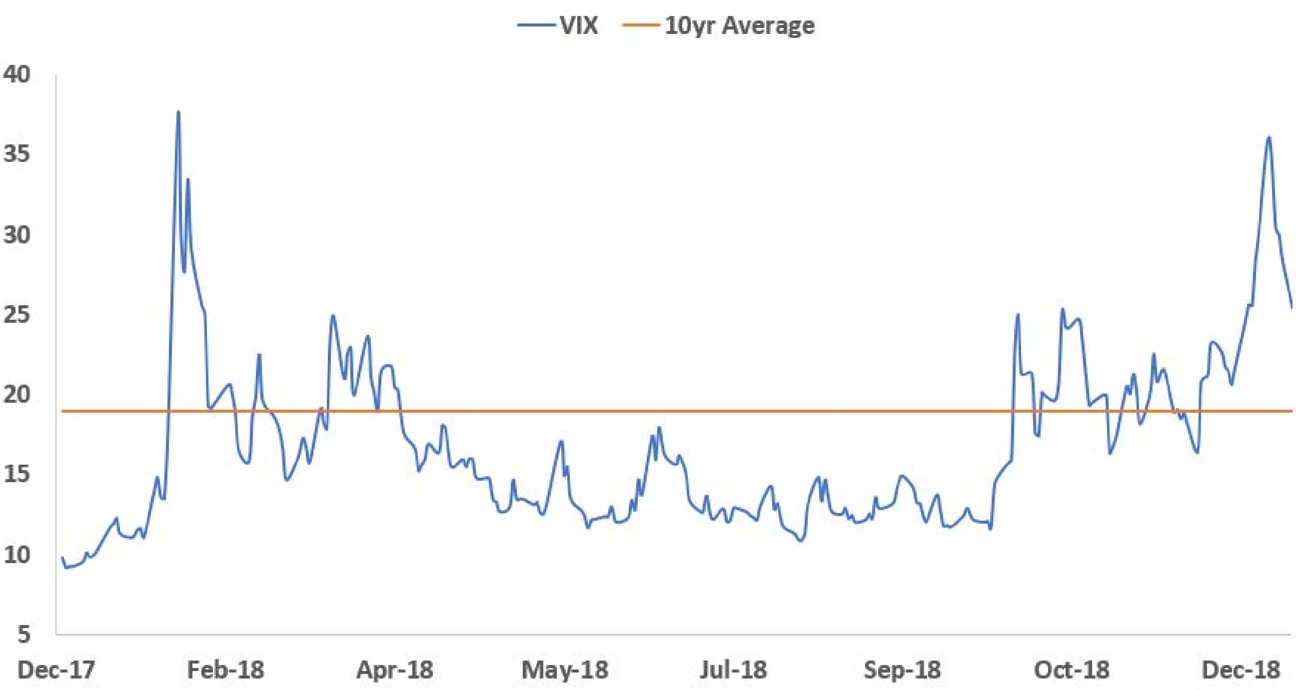
Global Market Review

The year that just ended was one of the most challenging since the Great Financial Crisis of 2008. International equity markets declined over 14%, international currencies declined by approximately 4%, commodities dropped almost 13%, and the U.S. equity market fell almost 5%. This negative financial performance occurred in a context on strong economic growth, strong consumer confidence, and strong manufacturing confidence. Central banks, collectively, maintained accommodative monetary policy; however, towards the end of the year, market expectations of various central banks began to change. Growth remained a key concern as trade and the threat of a trade war between the U.S. and China was a central theme during the year. In the following paragraphs, we delve deeper into many of last year's performance drivers.

Increasing Volatility

During 2018, financial market volatility returned to the market. The CBOE SPX Volatility Index, a broad measure of equity implied volatility, rose 130%, from 11.04 as of 12/31/2017 to 25.42 as of 12/31/2018. The financial market volatility observed in 2017 was abnormally low and in 2018, it reverted. Financial markets experience two volatility spikes starting in February and December of 2018. Many investors pointed to a U.S. central bank that was unwinding its balance sheet and raising its short-term rates as catalysts for increased volatility. Yet, in 2017 the U.S. central bank was already reducing its balance sheet and raising short-term rates. Throughout the Year, the market also became hyper-focused on the evolving trade negotiations between the U.S. and China. Despite the U.S. and China being the world's two largest economies, based on gross-domestic-product, the trade between the two countries represents only a small percentage of global trade. These negotiations were not resolved at the end of the year and will likely be a key driver of financial market performance moving forward.

Figure 1. Evolution of The CBOE SPX Volatility Index

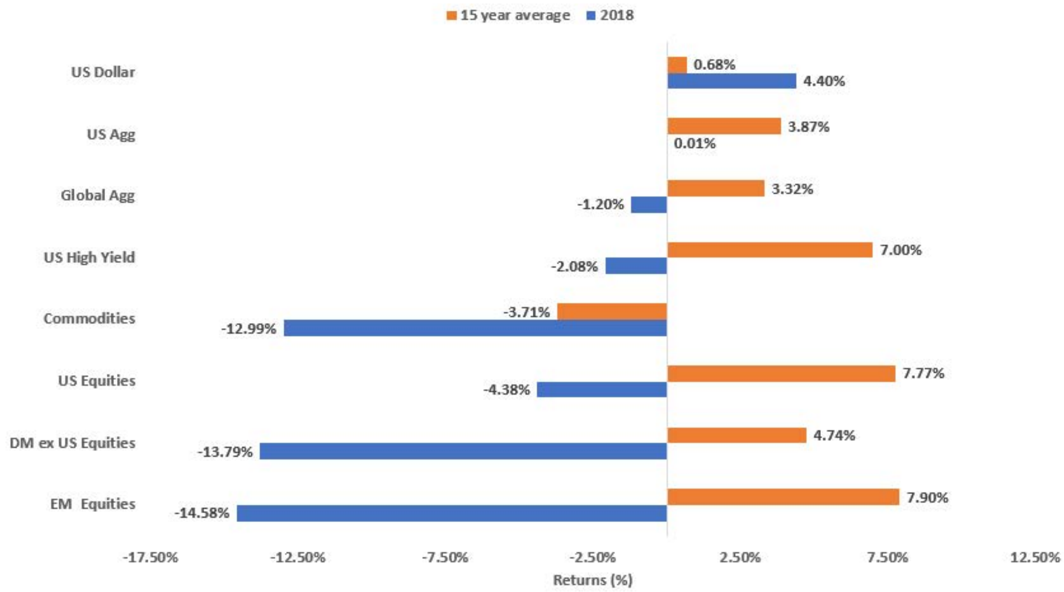


Source: Innealta Capital using Bloomberg. Timeframe 12/31/2008 to 12/31/2018. "10-yr Average" refers to the ten-year simple average using monthly data from 12/31/2008 to 12/31/2018. Past performance is not indicative of future results.

Mixed Returns

Unlike 2017, during which all global equity markets returned above-average positive returns, financial market returns during 2018 were predominantly negative. Across equities, the U.S. equity market, as measured by the S&P 500 declined 4.38%, while international equity markets, denominated in U.S. dollars, also produced negative returns - the MSCI All Country World ex. U.S. Net USD index declined 14.2%. Within fixed income markets, the Bloomberg Barclays Global Aggregate Bond Index fell 1.2% and the Bloomberg Barclays US High Yield Corporate Index fell 2.08% while the Bloomberg Barclays US Aggregate Bond Index ("the Agg") rose 0.01%. Many of the broad-based measurements of equities, fixed income and commodities performance underperformed their respective long-term trend returns. This result, in our opinion, was rather peculiar given the strong backdrop of economic growth and consumer confidence in all regions.

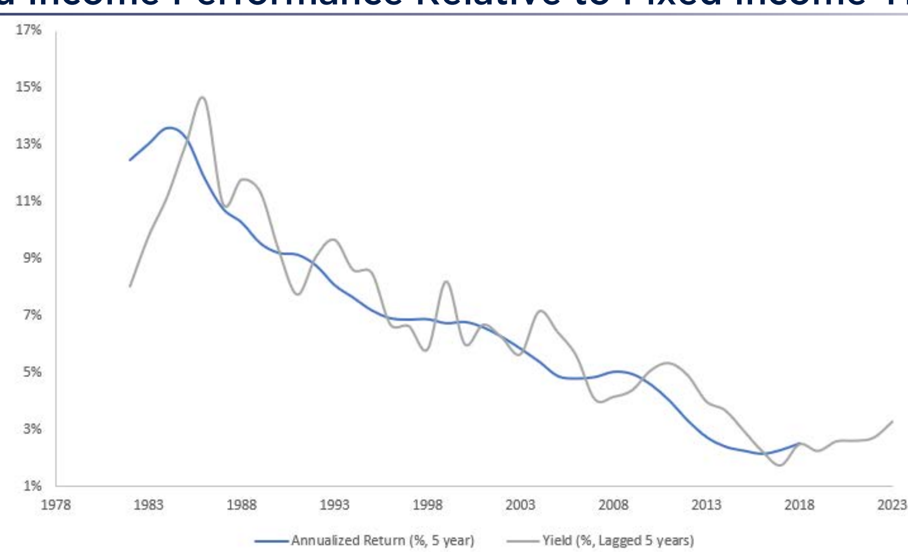
Figure 2. Broad Market Performance



Source: Innealta Capital using Bloomberg. Time frame 12/31/2008 to 12/31/2018. "15 year average" refers to the annualized return from 12/31/2008 to 12/31/2018. "the Year" refers to the return from 12/31/2008 to 12/31/2018. "U.S. Dollar" refers to the U.S. Dollar Index. "Commodities" refers to the Bloomberg Commodities index. "U.S. Equities" refers to the S&P 500 Total Return Index. "US Agg" refers to the Bloomberg Barclays US Aggregate Bond Index. "Global Agg" refers to the Bloomberg Barclays Global Aggregate Bond Index. "US High Yield" refers to the Bloomberg Barclays US Corporate High Yield Total Return Index. "DM ex US Equities" refers to the MSCI EAFE Net Total Return Index. "EM Equities" refers to the MSCI Emerging Markets Net Total Return Index. Past performance is not indicative of future results.

Over the year, the relationship between fixed income and equities continued to evolve. Traditional fixed income did not offer the "safe-haven" status as it did in previous periods when equity markets declined. In 2018 U.S. fixed income, as measured by the Bloomberg Barclays U.S. Aggregate bond index, appreciated only 0.01% and International fixed income, as measured by the Bloomberg Barclays Global Aggregate bond index, declined 1.20%. In our opinion, the low all-in yield levels of most traditional fixed income securities such as U.S. Treasuries or investment grade credit, will continue to limit its longer-term expected return. For example, comparing the rolling five-year annualized return of the Agg to the yield of the Agg five years ago, a clear trend shows that as the yield has decreased so has the returns. This makes both intuitive and economic sense as the coupon component of fixed income driver most of the return.

Figure 3. Fixed Income Performance Relative to Fixed Income Yields

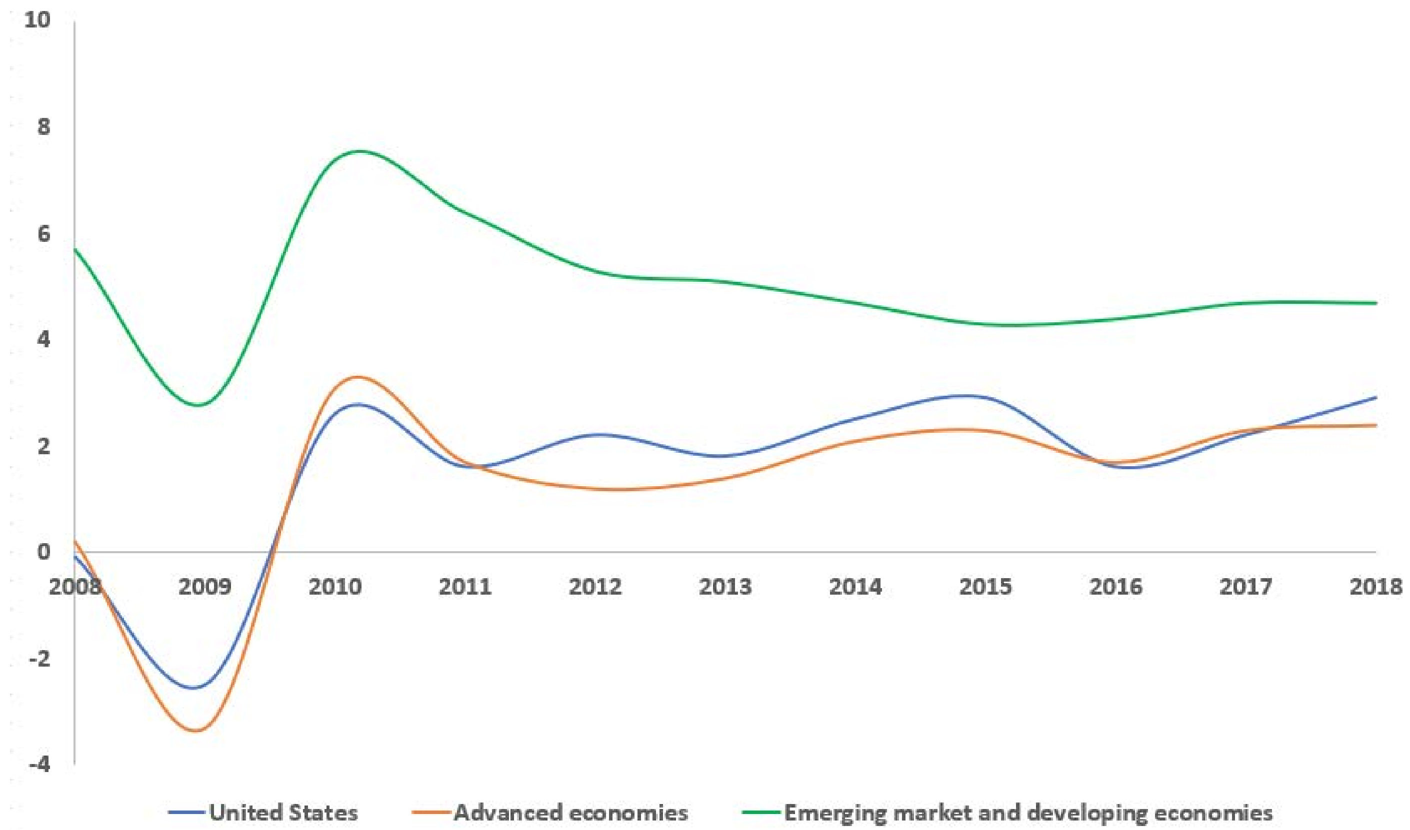


Source: Innealta Capital using Bloomberg. Timeframe 12/31/1977 to 12/31/2018. The Bloomberg Barclays U.S. Aggregate bond index used as fixed income proxy. "Yield" refers to yield-to-worst. Yield value lagged by five years. Past performance is not indicative of future results.

Economic Growth

Whereas as financial market and macroeconomic events during the twelve months preceding the Year could be described as growing and stable, financial market and macroeconomic events during the Year were tense and volatile. Economic growth, throughout the Year, remained the stalwart positive indicator as the U.S economy continued to expand - nominal GDP at the end of September 2018 was 5.5% versus a reading of 4.2% in September 2017. Additionally, on an inflation adjusted basis, real GDP, both current and forecasts, appear stable and not in the stressed environment like in 2008. U.S inflation increased modestly as the U.S. Personal Consumption Expenditure, also known as the "PCE Deflator", increased to 1.88% (11/30/2018) from 1.61% (11/30/17). Despite the actual growth, financial markets became fixated on the potential growth impact from a trade war between the U.S. and China, who collectively account for approximately 5% of global trade. Tariff actions on both sides contributed to an increase in currency volatility, higher interest rates, and a decrease of confidence within Emerging Markets assets.

Figure 4. Macroeconomic Growth Across Regions

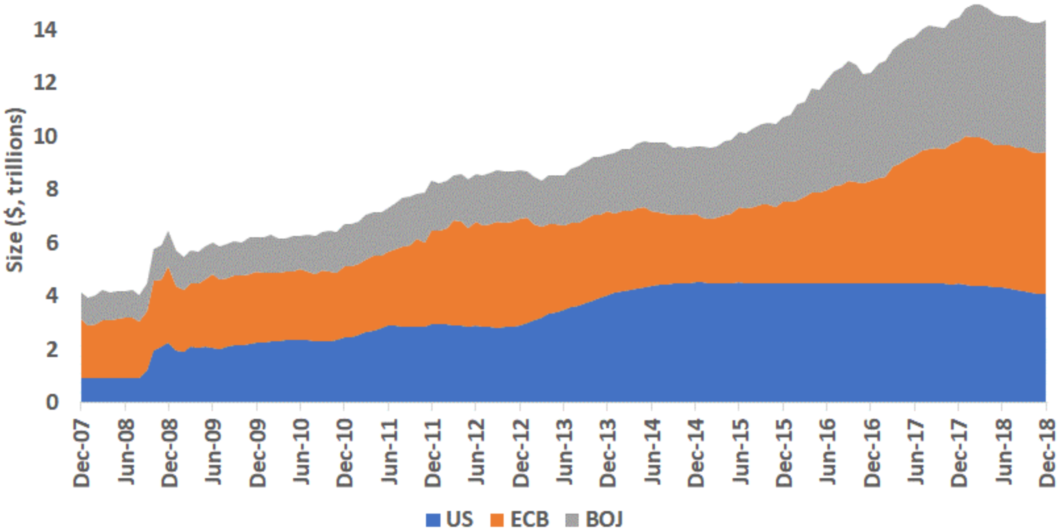


Source: Innealta Capital using IMF data. "United States" refers to the United States. "Advanced economies" refers to developed market economies including the United States. Time frame 12/31/2008 to 12/31/2018. Past performance is not indicative of future results.

Monetary Policy

Central banks remained a key focus for financial markets in the past year as monetary policy continue to diverge. Within the U.S., the U.S. Federal Reserve Bank ("FED") used four 0.25% interest rate hikes to raise the short-term lending rates from 1.50% to 2.50%. Additionally, the FED continued its' balance sheet reduction goal by not reinvesting principal and interest proceeds. Alternatively, the European Central Bank ("ECB") and the Bank of Japan ("BOJ") kept both their respective short-term lending rates and their respective balance sheets at same level. Neither the ECB or the BOJ have communicated any changes to policy nor have macroeconomic indicators such as inflation or employment suggested a policy change. Towards the end of 2018, financial market expectations of U.S. monetary policy shifted from FED rate hikes in 2019 to a FED rate pause in 2019. If the FED pauses or even cuts short-term rates, all things being equal, we would view such action as supportive for U.S. and Emerging Market assets.

Figure 5. Evolution of Central Bank Balance Sheets

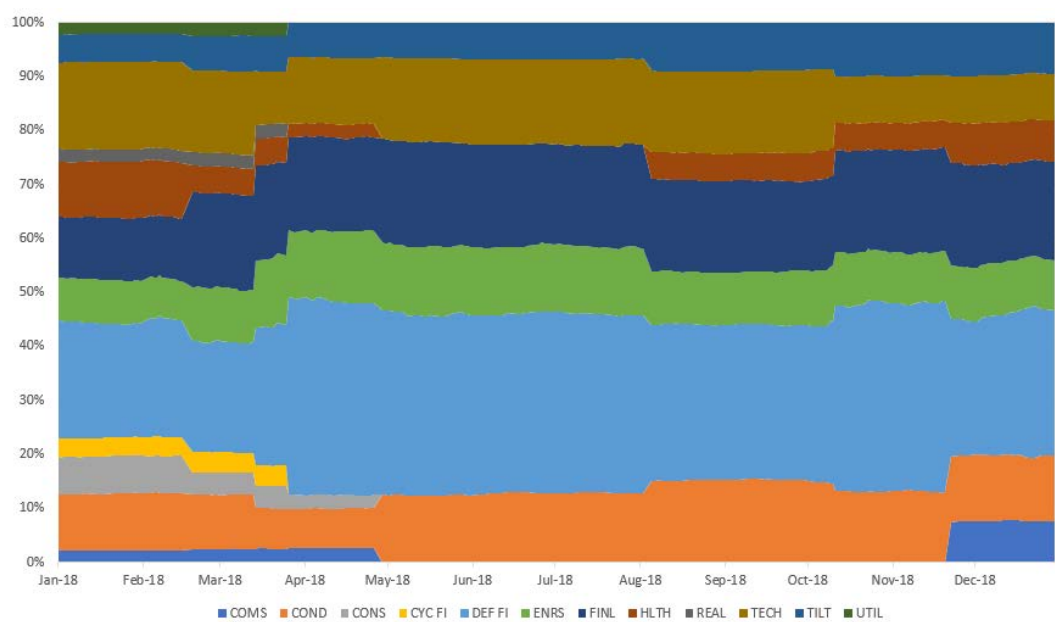


Source: Innealta Capital using Bloomberg. Timeframe 12/31/2007 to 12/31/2018. Monthly frequency. "US" refers to the U.S. Federal Reserve balance sheet denominated in U.S. Dollars. "ECB" refers to the European Central Bank balance sheet in U.S. Dollars. "BOJ" refers to the Bank of Japan balance sheet in U.S. Dollars. Past performance is not indicative of future results.

Holdings Review

At the start of the calendar year the Sector Rotation Strategy ("SRP") held overweight positions, relative to its benchmark - a blended benchmark of 70% S&P 500 Total Return Index and 30% Bloomberg Barclays U.S. Aggregate bond index - in U.S. small capitalization equities and the Energy and Consumer Discretionary sector while underweight positions in Defensive fixed income, Industrials, and Materials. In the case of small capitalization equities, the relative valuations compared to large capitalization equities was attractive. In the case of the Energy and Consumer Discretionary sector, the investment team viewed the above average earnings growth and expected returns given the positive macroeconomic growth environment were attractive. Over the course of the year, SRP updated its holdings multiple times to reflect changing market. At the end of June 2018, the strategy had slowly increased its Defensive fixed income positions and its consumer-cyclical positions in the Energy, Financials and Technology sectors. Within the Defensive fixed position, the strategy reduced its duration risk by selling longer-date fixed income and investing in a combination of shorter-dated fixed income and floating rate fixed. The strategy maintained a preference for the Energy and Financials sectors due to strong earnings growth and attractive relative valuations compared to other sectors. At the end of the calendar year, December 31st, 2018, SRP held overweight positions, relative to its benchmark, in small-capitalization weighted equities in addition to the Financials and Energy sectors.

Figure 6. Holdings Progression

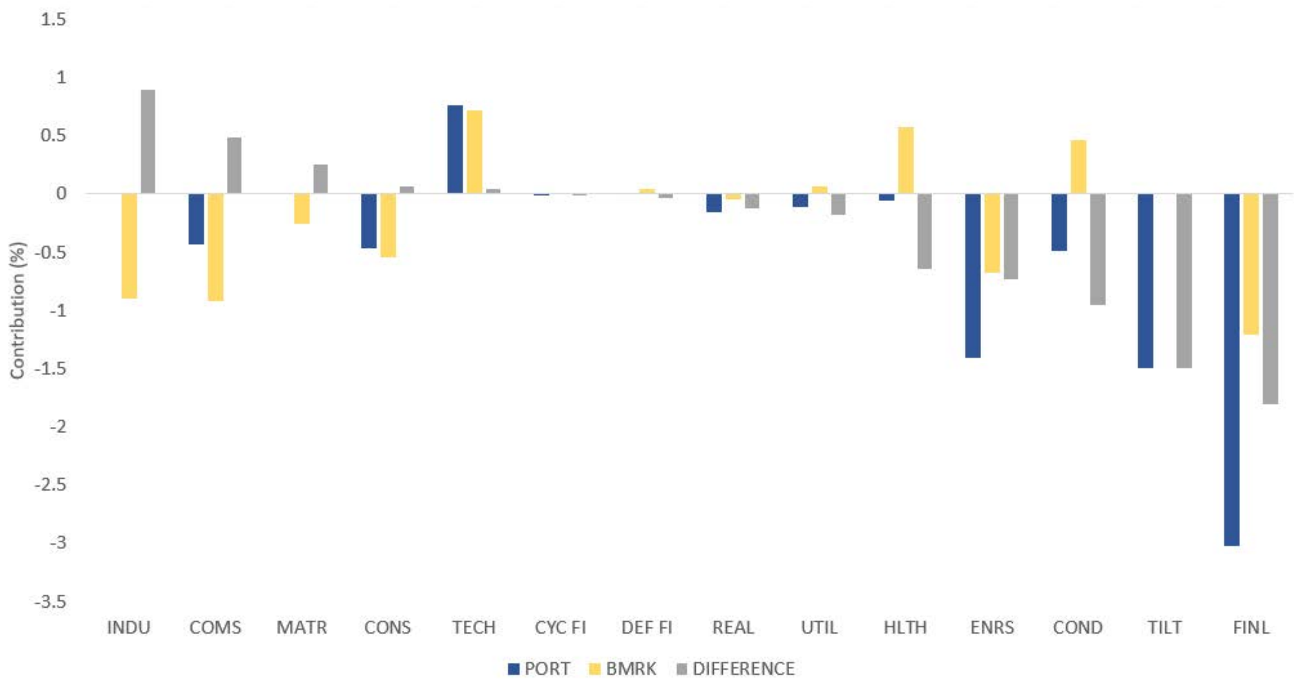


Source: Innealta Capital as of 12/31/2018. Timeframe 12/31/2017 to 12/31/2018. "COMS" refers to the Telecommunication Services sector. "COND" refers to the Consumer Discretionary sector. "CONS" refers to the Consumer Staples sector. "CYC FI" refers to cyclically sensitive fixed income sectors such as U.S. High Yield debt. "DEF FI" refers to defensive fixed income positions. Past performance is not indicative of future results. "ENRS" refers to the Energy sector. "FINL" refers to the Financials sector. "HLTH" refers to the Healthcare sector. "MATR" refers to the Materials sector. "REAL" refers to the real estate sector. "TECH" refers to the Technology sector. "TILT" refers to any factor tilted investment such as small capitalization equities. "UTIL" refers to the Utility sector.

Performance Review

Over the entire year ending on December 31st, 2018, the Sector Rotation Strategy achieved a total return of -6.91% versus a loss of 2.75% for the Benchmark. Allocations to small capitalization equities and Financials were the top detractors to the portfolio's performance, while the allocation to Technology was the top contributor to the portfolio's performance. From an attribution perspective, allocations to Financial and small capitalization equities had the most negative attribution, while the underweight allocations to Industrials and Materials had the greatest attribution to the strategy. The strategy continues to prefer Financials and small capitalization equities due to attractive valuations and relatively higher expected return in a positive growth environment.

Figure 7. 2018 Contribution Breakdown



Source: Innealta Capital as of 12/31/2018. Timeframe 12/31/2017 to 12/31/2018. "PORT" refers to the Sector Rotation Strategy. "BMRK" refers to a blended benchmark of 70% S&P 500 Index and 30% Bloomberg Barclays U.S. Aggregate Bond index. Please note that contributions were calculated using model portfolio and should be viewed as a gross-of-fees return series. The performance does not account for any transactions costs or management fees, other than the management fees embedded within each portfolio holding. "COMS" refers to the Telecommunication Services sector. "COND" refers to the Consumer Discretionary sector. "CONS" refers to the Consumer Staples sector. "CYC FI" refers to cyclically sensitive fixed income sectors such as U.S. High Yield debt. "DEF FI" refers to defensive fixed income positions. Past performance is not indicative of future results. "ENRS" refers to the Energy sector. "FINL" refers to the Financials sector. "HLTH" refers to the Healthcare sector. "MATR" refers to the Materials sector. "REAL" refers to the real estate sector. "TECH" refers to the Technology sector. "TILT" refers to any factor tilted investment such as small capitalization equities. "UTIL" refers to the Utility sector. Past performance is not indicative of future results.

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 Innealta 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 Innealta's Form ADV Part 2A.

Glossary & Risk Considerations

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. With 1,866 constituents, the index covers approximately 85% of the global equity opportunity set outside the U.S. Net total return 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 Bloomberg Barclays Global Aggregate Bond NR Index** is a measure of global investment grade debt from twenty-four different local currency markets. Net total return 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. 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. **CBOE SPX Volatility Index or VIX, is a real-time market index that represents the market's expectation of 30-day forward-looking volatility. Derived from the price inputs of the S&P 500 index options, it provides a measure of market risk and investors' sentiments. ***Bloomberg Barclays U.S. Aggregate Bond Index*** is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and nonagency) ***Bloomberg Barclays US High Yield Corporate Index*** measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. ***U.S. Dollar Index*** is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies. ***Bloomberg Commodities index*** is a broadly diversified commodity price index distributed by Bloomberg Indexes. ***S&P 500 Total Return Index*** is a total return market-capitalization-weighted index of the 500 largest U.S. publicly traded companies by market value, The index is widely regarded as the best single gauge of large-cap U.S. equities. ***MSCI EAFE Net Total Return Index*** is an equity index which captures large and mid cap representation across 21 Developed Markets countries* around the world, excluding the US and Canada. With 920 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. ***MSCI Emerging Markets Net Total Return Index*** captures large and mid cap representation across 24 Emerging Markets (EM) countries*. With 1,125 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. **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.*

Unmanaged index returns do not reflect any fees, expenses or sales charges, and it is not possible to invest directly in an index.

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.

Past performance information provided for the periods prior to September 30, 2018 reflects the performance of the strategy's prior investment adviser, AFAM Capital, Inc. ("AFAM"), and, specifically, the Innealta Capital division of AFAM ("Innealta Division"). Innealta Capital, LLC was formed through a reorganization of the Innealta Division. Prior to the reorganization, the strategy was managed by the principals of the Innealta Division, now the principals at Innealta Capital, LLC, who were primarily responsible for the performance results. Innealta Capital, LLC intends to pursue the same investment strategy that was pursued while its principals were employed by AFAM.

Innealta Capital, LLC is an independent registered investment advisor and is the investment advisor for certain mutual funds and individually managed client accounts. 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 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.

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137-INN-01/31/2019