Innealta CAPITAL

Innealta Capital Sector Rotation Strategy

June 2018 Commentary and Strategy Review

About the Strategy

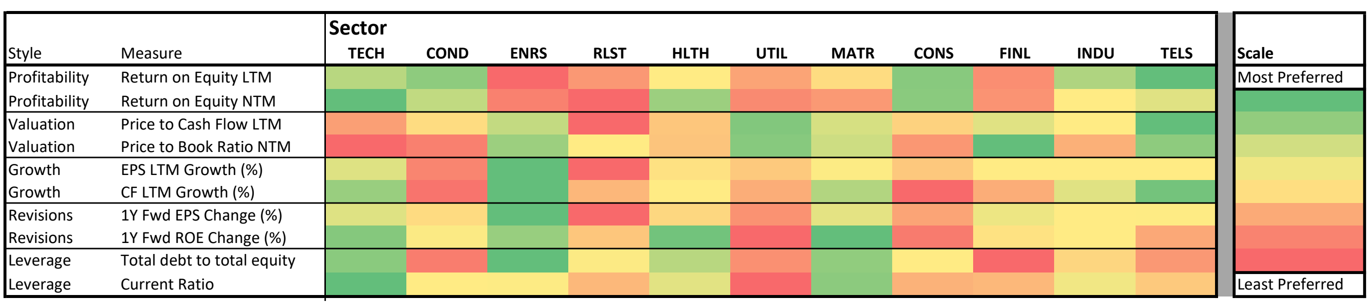
The Sector Rotation Portfolio ("SRP") provides market exposure across U.S. equities and U.S. fixed income via exchange-traded funds. Innealta's Investment Team manages the SRP strategy to a balanced benchmark of 70% S&P 500 Index and 30% Bloomberg Barclays U.S. Aggregate Bond Index. This benchmark reflects the average desired weight of equity and fixed income investments 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 within U.S. equity and U.S. fixed income.

US Equities Outlook

Trade war threats continued to dominate headlines during June, and we anticipate the trend to continue during July. However, July will bring some reprieve from these headlines as corporations release second-quarter earnings. With real US gross domestic product growth over 3% year-over-year and U.S. Purchasing Managers Institute index above 50 – which implies that survey responders anticipate growth – we would expect U.S. equity earnings growth greater than 10%. We believe that our estimates are reasonably conservative as some research firms are anticipating earnings growth near 20%.

Each day we review the corporate fundamental data across U.S. equity markets. The heatmap, shown in Figure 1, reflects Innealta Capital's investment team view across a subset of the fundamental information that we track. Each metric, in our opinion, has time-varying importance and some metrics are more important to certain sectors than to other sectors. In the current market, environment characterized by historically low interest rates and historically low volatility, we believe that growth and earnings expectations, shown in the table as revisions, are the more important drivers. Referring to the table – note that green is preferred over red – the Energy, Financials, and Technology sectors appear attractive. Although ICSIX was positioned defensively at the end of June, we anticipate a strong earnings season, and we hope to use any volatility to reduce the defensive position.

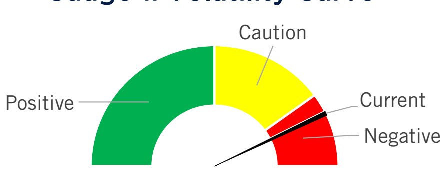
FIGURE 1: Innealta Capital view of various corporate fundamental data across S&P 500 Sectors



Source: Innealta Capital using Bloomberg data. Timeframe 06/30/2008 to 06/30/2018, frequency weekly. "TECH" refers to the S&P 500 Information Technology Select Sector index. "COND" refers to the S&P 500 Consumer Discretionary Select Sector Index. "INDU" refers to the S&P 500 Industrials Select Sector index. "HLTH" refers to the S&P 500 Healthcare Select Sector index. "MATR" refers to the S&P 500 Select Sector index. "ENRS" refers to the S&P 500 Energy Select Sector index. "FINL" refers to the S&P 500 Financial Select Sector index. "UTIL" refers to the S&P 500 Utilities Select Sector index. "CONS" refers to the S&P 500 Consumer Staples Select Sector Index. "RLST" refers to the S&P 500 Real Estate Select Sector index. "TELS" refers to the S&P 500 Telecommunications Select Sector index. "LTM" refers to last twelve months. "NTM" refers to next twelve months.

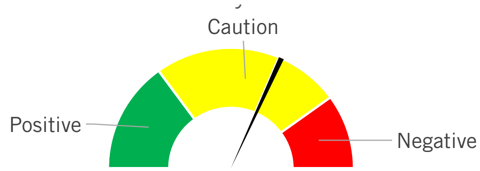
FIGURE 2: Volatility Gauges

Gauge 1: Volatility Curve



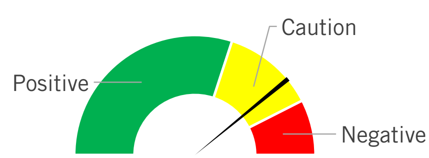
Source: Innealta Capital. Figure represents a stylized view the Innealta Capital investment team's view on the shape of the CBOE VIX futures curve.

Gauge 2: Volatility Level



Source: Innealta Capital. Figure represents a stylized view the Innealta Capital investment team's view on the shape of the CBOE Volatility index level.

Gauge 3: Volatility Change



Source: Innealta Capital. Figure represents a stylized view the Innealta Capital investment team's view on the 21-day change in the front-month contract of CBOE VIX futures.

Innealta Capital Sector Rotation Strategy

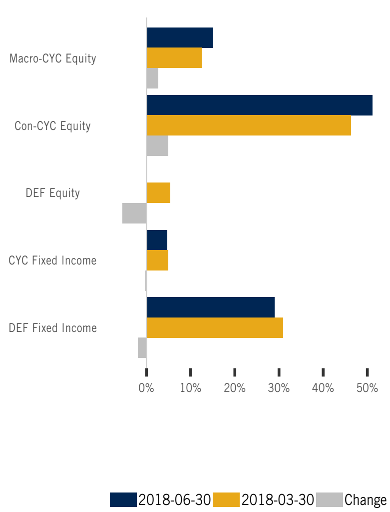
Performance

U.S. equity markets recovered modestly during June despite the increase in financial market volatility - the CBOE volatility index moved from 15.43 to 16.09 during the month. During June, the S&P 500 returned 0.62% while the Innealta Capital Sector Rotation strategy returned +0.12% gross-of-fees, and the strategy's benchmarkDynamic U.S. Opportunity fund returned 0.24%. Over the past three months, ending on June 30th, 2018, the S&P 500 returned 3.43%, while the Dynamic U.S. Opportunity fund returned 4.40%.

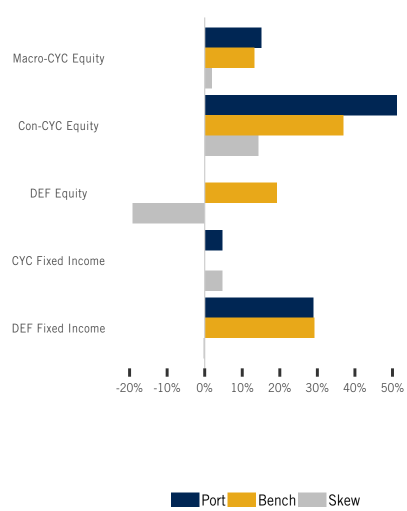
During June, trade war concerns continued to dominate headlines and, in our opinion, was the primary driver of increasing implied volatility. We use the CBOE Volatility Index ("VIX"), which measures implied option volatility in the S&P 500, as a gauge for investor insurance demand in equity markets. The higher the VIX, the more investors are willing to pay for insurance. Volatility demand is part of our short-term risk management approach, and as it increases, we would likely increase our defensive positioning in the portfolio relative to our baseline. By the end of June, two of our three VIX metrics breached cautionary levels. The short-term change in the VIX and the shape of the volatility curve – i.e., is the curve contango, backwardation, or flat – signaled us to increase the defensive positioning within the portfolio.

The Innealta Capital investment team did not make any position changes in the strategy during June. The top contributors to the strategy's performance were allocations to the Consumer Discretionary and Energy sectors while the top detractos to the strategy's performance were allocations to Diversified Financials and Regional Banks. The strategy maintained overweight positions, relative to its benchmark, in Consumer Cyclical equities and Macro Cyclical equities.

Portfolio Changes
Trailing 3 Months



Portfolio Skews
As of 06.30.2018



SOURCE: Innealta Capital using data from Innealta Capital and Bloomberg as of 06.30.2018. "Bench" refers to a blended benchmark of 60% S&P 500 and 40% Bloomberg Barclays U.S. Aggregate bond index. See last page for complete definitions.

Strategy Performance as of 06.30.2018

	Gross (%)	Net (%)	Benchmark(%)
1-Month	0.12	0.09	0.4
3-Month	3.51	3.15	2.36
YTD	2.6	1.88	1.36
1-Year	10.72	9.2	9.8
3-Year	8.89	7.38	8.86
5-Year	6.16	4.63	10.05
Inception	6.27	4.87	10.47

Strategy Statistics

	Portfolio	Bench.
Alpha (%)	0.59	0.00
Beta (%)	0.40	1.00
R-Squared	45.46	100.00
Std. Dev (%)	4.82	8.15

SOURCE: Innealta Capital using data as of 06.30.2018. Benchmark represents a 70/30 blend of the S&P 500 TR Index and the Bloomberg Barclays Capital 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.*

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.* **DEF Equity***: Defensive Equity refers to the Healthcare, Consumer Staples, Utilities, and Real Estate sectors.* **Con-CYC Equity***: Consumer -Cyclical Equity refers to the Consumer Discretionary, Information Technology, Telecom, and Financials sectors.* **Macro-CYC Equity***: Macro-Cyclical Equity refers to the Energy, Materials, and Industrials sectors.*

*For comparison purposes, the composite is measured against a blended benchmark: 70% S&P 500 Index / 30% Bloomberg Barclays U.S. Aggregate Bond Index. **The S&P 500 Index** is a broad market sample based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. **The Bloomberg Barclays US Aggregate Bond Index** 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. **The CBOE Volatility Index (VIX Index)** is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.*

The "Benchmark Performance, Trailing 1-Month" chart contains return data for the individual S&P 500 sector indices as defined by GICS. Additional information can be found at http://us.spindices.com/index-finder/?currentSearchCriteriaName=&AssetFamily=equity&query=energy&resultsPerPage=25.

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

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043-INN-7/26/2018