

**ICSIX**

**DYNAMIC U.S. OPPORTUNITY**



**Innealta**  
C A P I T A L

# INNEALTA CAPITAL

We are a quantitative asset manager specializing in risk-managed, global investment solutions. Proper diversification is the core principle behind our investment approach. Our investment strategies are designed with the goal of achieving high risk-adjusted returns throughout the various, and distinct phases of the business cycle.

**Legacy:** Innealta's team has a rich history in successfully managing and advising global investment portfolios delivered via models, separately managed accounts, and mutual funds; portfolio managers have an average of fifteen years of industry experience.

**Framework:** Initiated in the mid-1990s, our proprietary, rules-based, quantitative framework parses and systematically analyzes hundreds of corporate fundamental, macroeconomic, and behavioral variables to estimate future asset returns and volatility.

**Process:** Our portfolio managers use our quantitative framework to inform their decision-making process. This systematic, repeatable process allows our team to merge proprietary forecasts with portfolio optimization, trade cost analysis, and risk monitoring.

**Flexibility:** Our investment strategies utilize individual stocks, derivatives, and exchange-traded funds (ETFs). For each unique investment objective, we use the most appropriate vehicle to gain the desired exposures to various financial market segments.



# INVESTMENT TEAM

## CHIEF INVESTMENT OFFICER

### **Vito Sciaraffia, PhD**

- PhD in Business, MS in Business, and MA in Mathematics from the University of California at Berkeley
- MBA and MF from the University of Chile and BS in Economics from the Catholic University of Chile
- Prior employers include Dimensional Fund Advisors, Citigroup, and JP Morgan
- Finance faculty member at the McCombs School of Business at The University of Texas at Austin

## PORTFOLIO MANAGEMENT

### **Joshua Kocher // Portfolio Manager**

- MBA in Finance from Columbia University and BS in Chemical Engineering from the University of Virginia
- Prior employers include MKP Capital, Credit Suisse, and Susquehanna Investment Group
- Seventeen years of investment experience, including trading and portfolio management

### **Alfred Zhang // Research Analyst**

- MS in Financial Mathematics from The University of Chicago
- BS in Applied Math and Economics from China's Southwestern University of Finance and Economics

### **Ray Chen // Research Analyst**

- MS in Statistics from Rice University
- BS in Physics from Michigan State University

### **Alex Gross // Investment Analyst**

- BS in Finance from the Carlson School of Management at The University of Minnesota

## STRATEGY RESEARCH

### **Francisco Simian // Senior Economist**

- MS in Computer Science from The University of Chicago
- MA in Economics from The University of Chicago

### **Gonzalo Maturana, PhD // Academic Advisor**

- PhD in Finance from the McCombs School of Business at The University of Texas at Austin
- M.A. in Applied Economics and B.S. in Engineering from the University of Chile
- Assistant Professor of Finance at the Goizueta Business School at Emory University

*Our multidisciplinary team possesses several advanced degrees, including PhD, MBA, and MS from top academic institutions.*

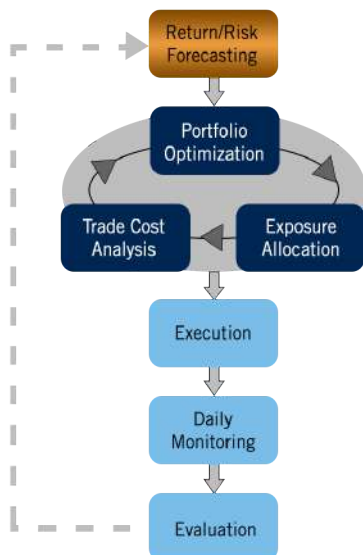
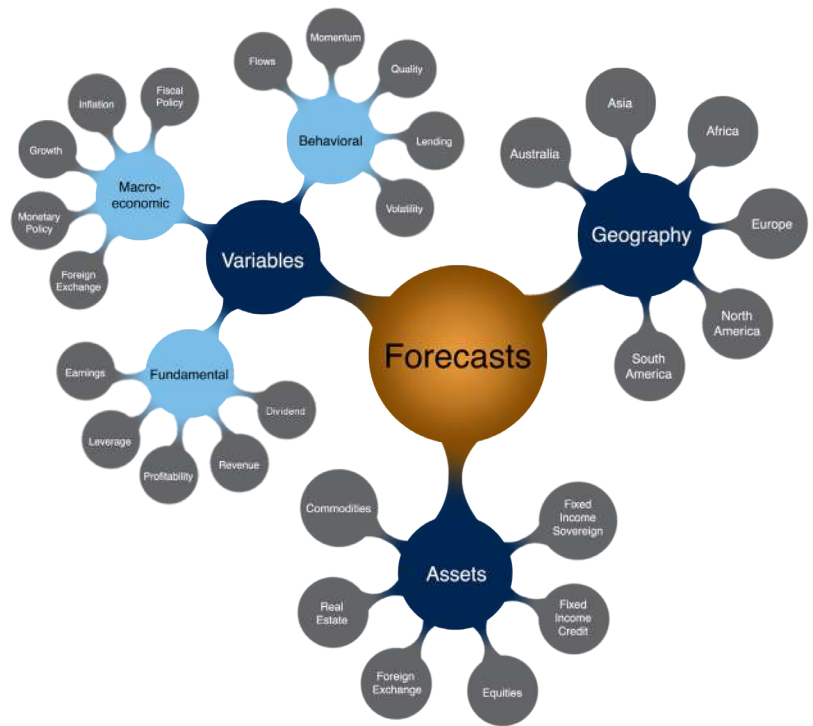


# QUANTITATIVE FRAMEWORK & PROCESS

## FRAMEWORK

Innealta employs a quantitative framework rooted in academically proven, empirically tested research. It provides a repeatable process for estimating assets' risk and returns, based on three methodologies:

- **Fundamental Analysis:** financial statements' data is used to evaluate the return potential of individual firms, results which can then be aggregated up to industries or countries. Data tend to be updated at a "slow pace."
- **Macroeconomic Analysis:** economic data are utilized to estimate the return potential of broad areas of the market, results which can then be disaggregated down to industries or countries. Data tend to be updated at a "medium pace."
- **Behavioral Analysis:** Shifts in market sentiment and patterns are studied and used to forecast the return of various market segments. Data tend to be updated at a "fast pace."



## PROCESS

The implementation of our strategies relies on a multi-step continuous loop that seeks to optimize each portfolio's risk/return characteristics. We aim to provide maximum diversification delivered in the most effective and cost-efficient manner:

- Framework's estimates are aggregated and interpreted, and target portfolio is constructed.
- Target portfolio is adjusted based on the available representation, liquidity, and price of desired exposures.
- Execution occurs using multiple broker-dealers in order to improve efficiency, and reduce relationship-dependence.
- Daily monitoring and rebalancing ensure portfolios maintain, among others, appropriate risk/return characteristics.

# GICS® SECTORS OF THE S&P 500

Sector and Industry Group	S&P 500 Weight (%)	Sector Weight (%)
<b>Consumer Discretionary</b>	<b>13.4</b>	<b>100.0</b>
Automobiles & Components	0.6	4.7
Consumer Durables & Apparel	1.2	9.2
Consumer Services	1.7	13.0
Media	2.3	17.2
Retailing	7.5	56.0
<b>Consumer Staples</b>	<b>7.7</b>	<b>100.0</b>
Food, Beverage & Tobacco	4.2	54.7
Food & Staples Retailing	2.0	25.7
Household Products & Personal Products	1.5	19.6
<b>Energy</b>	<b>6.2</b>	<b>100.0</b>
Energy	6.2	100.0
<b>Financials</b>	<b>13.5</b>	<b>100.0</b>
Banks	6.1	45.2
Diversified Financials	5.0	37.5
Insurance	2.3	17.3

Table Note: Innealta Capital using 06.30.18 data from Bloomberg

Sector and Industry Group	S&P 500 Weight (%)	Sector Weight (%)
<b>Health Care</b>	<b>13.9</b>	<b>100.0</b>
Health Care Equipment & Services	6.3	45.6
Pharmaceuticals, Biotechnology & Life Sciences	7.6	54.4
<b>Industrials</b>	<b>9.5</b>	<b>100.0</b>
Capital Goods	6.8	71.2
Commercial & Professional Services	0.6	6.8
Transportation	2.1	22.0
<b>Information Technology</b>	<b>25.6</b>	<b>100.0</b>
Semiconductors & Semiconductor Equipment	3.9	15.3
Software & Services	15.9	62.2
Technology Hardware & Equipment	5.7	22.5
<b>Materials</b>	<b>2.6</b>	<b>100.0</b>
Materials	2.6	100.0
<b>Real Estate</b>	<b>2.8</b>	<b>100.0</b>
Real Estate	2.8	100.0
<b>Telecommunication Services</b>	<b>1.9</b>	<b>100.0</b>
Telecommunication Services	1.9	100.0
<b>Utilities</b>	<b>2.9</b>	<b>100.0</b>
Utilities	2.9	100.0

Sector	Annualized Return	Average Cross-Correlation
Consumer Discretionary	16.4%	0.79
Financials	7.0%	0.71
Information Technology	14.6%	0.75
Telecommunication Services	6.1%	0.67
Energy	1.0%	0.70
Industrials	9.7%	0.79
Materials	5.7%	0.75
Consumer Staples	9.9%	0.72
Health Care	12.7%	0.71
Real Estate	7.8%	0.67
Utilities	6.6%	0.63

● Consumer-Cyclical   ● Macro-Cyclical   ● Defensive

SOURCE: Innealta Capital using data from Bloomberg.

Total return data denominated in USD from 06.30.08 to 06.30.18. Average correlations calculated using monthly total returns of S&P 500 sector indices for each respective sector. "Average Cross-Correlation" displays the average pair-wise correlation of each sector to one another.



# RISK AND REWARD ACROSS SECTORS

Balancing reward versus risk remains a core function of asset management. The figure below shows the reward as measured by annual return, and the risk as measured by the annualized standard deviation of daily returns of the eleven S&P 500 sectors over the trailing twelve months. During this period, the Consumer Staples sector exhibited the lowest risk while the Financials sector exhibited the highest absolute return and highest ratio of return per unit risk. The strategy utilized in the Innealta Sector Rotation Portfolio seeks to balance the reward and risk of each chosen sector with the portfolio's overall goal of optimizing risk-adjusted return.



	<b>Technology</b>	<b>Discretionary</b>	<b>Energy</b>	<b>S&amp;P500</b>	<b>Materials</b>	<b>Financials</b>
<b>Return</b>	31.3%	23.6%	21.0%	14.4%	9.9%	9.6%
<b>Std. Dev (%)</b>	17.4%	13.4%	17.3%	9.1%	15.0%	16.4%
	<b>Health Care</b>	<b>Industrial</b>	<b>Real Estate</b>	<b>Utilities</b>	<b>Telecom</b>	<b>Staples</b>
<b>Return (%)</b>	7.1%	5.3%	5.0%	3.4%	1.4%	-3.9%
<b>Std. Dev (%)</b>	13.8%	14.3%	12.8%	12.4%	19.0%	11.9%

SOURCE: Innealta Capital using data from Bloomberg

Return and Annualized Standard Deviation calculated using daily total returns of each S&P 500 sector index, and the S&P 500 TR USD Index, from 06.30.17 to 06.30.18 and are presented in order of descending 1-yr total return. "Rank" denotes the ordinal position of each GICS Sector and the S&P 500 Index based upon risk-adjusted return, as measured by annual return divided by annualized standard deviation.

# WHY ACCESS TO SECTORS?

Investing directly in individual S&P 500 sectors, rather than investing in a market-wide index, creates an opportunity to capitalize on the significant return dispersion observed across the S&P 500 sectors. Shown below are the 11 S&P 500 sectors ranked each year based on the corresponding year's performance. With the benefit of complete hindsight, the return potential of buying the top performers and avoiding the bottom performers is quite large. The constituents of the top- and bottom-performing sectors changes over time, implying that a sector-based portfolio could benefit from proper active management. Innealta Capital's quantitative framework parses the hundreds of variables necessary to continuously analyze each of these sectors and then informs the Investment Team about potential opportunities.

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Last 10Yr
Technology 62%	Real Estate 32%	Utilities 20%	Financials 29%	Discretionary 43%	Real Estate 30%	Discretionary 10%	Energy 27%	Technology 39%	Discretionary 12%	Discretionary 16%
Materials 49%	Discretionary 28%	Staples 14%	Discretionary 24%	Healthcare 41%	Utilities 29%	Healthcare 7%	Telecom 23%	Materials 24%	Technology 11%	Technology 15%
Discretionary 41%	Industrials 27%	Healthcare 13%	Real Estate 20%	Industrials 41%	Healthcare 25%	Staples 7%	Financials 23%	Discretionary 23%	Energy 7%	Healthcare 13%
Real Estate 27%	Materials 22%	Real Estate 11%	Telecom 18%	Financials 36%	Technology 20%	Technology 6%	Industrials 19%	Financials 22%	Healthcare 2%	Staples 10%
Industrials 21%	Energy 20%	Telecom 6%	Healthcare 18%	Technology 28%	Staples 16%	Real Estate 5%	Materials 17%	Healthcare 22%	Real Estate 1%	Industrials 10%
Healthcare 20%	Telecom 19%	Discretionary 6%	Industrials 15%	Staples 26%	Financials 15%	Telecom 3%	Utilities 16%	Industrials 21%	Utilities 0%	Real Estate 8%
Financials 17%	Staples 14%	Energy 5%	Materials 15%	Materials 26%	Industrials 10%	Financials -2%	Technology 14%	Staples 13%	Materials -3%	Financials 7%
Staples 15%	Financials 12%	Technology 2%	Technology 15%	Energy 25%	Discretionary 10%	Industrials -3%	Discretionary 6%	Utilities 12%	Financials -4%	Utilities 7%
Energy 14%	Technology 10%	Industrials -1%	Staples 11%	Utilities 13%	Materials 7%	Utilities -5%	Staples 5%	Real Estate 11%	Industrials -5%	Telecom 6%
Utilities 12%	Utilities 5%	Materials -10%	Energy 5%	Telecom 11%	Telecom 3%	Materials -8%	Real Estate 3%	Energy -1%	Telecom -8%	Materials 6%
Telecom 9%	Healthcare 3%	Financials -17%	Utilities 1%	Real Estate 2%	Energy -8%	Energy -21%	Healthcare -3%	Telecom -1%	Staples -9%	Energy 1%

SOURCE: Innealta Capital using data from Bloomberg. Total return data denominated in USD from 12.31.07 to 06.30.18. "Last 10Yr" refers to annualized total return over the trailing 10-year period, as of 06.30.18.

## **IMPORTANT NOTES**

*Innealta Capital LLC is a Registered Investment Advisor, and is the Investment Advisor to certain proprietary mutual funds and individually managed client accounts. Registration of an investment adviser does not imply any certain level of skill or training.*

*The Innealta ETF Sector Rotation strategy is based on a quantitatively driven asset allocation approach that apportions portfolio assets to specific U.S. sector equity markets, as defined by the S&P Global Industry Classification Standard, based on the specific risk/reward characteristics of each. Dollars not allocated to equities are invested in an actively managed portfolio of ETFs representing fixed income and other asset classes. The ETFs that are included in the portfolio change over time.*

*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. Real estate ETFs are subject to the risk that real estate stocks will decline because of adverse market conditions for the real estate industry or declines in real property values. For more information on the risks associated with an investment in ETFs, please refer to Innealta's Form ADV Part 2A.*

*Annualized Standard Deviation is a measure of the dispersion of investment returns from the mean. A higher standard deviation indicates higher volatility.*

*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 "Sector Rotation Equity Universe" and the "Why Access to Sectors" charts contain return data for the individual S&P 500 sector indices as defined by GICS. Additional information can be found at [http://us\[dot\]spindices\[dot\]com/index-finder/?currentSearchCriteriaName=&AssetFamily=equity&query=energy&resultsPerPage=25](http://us[dot]spindices[dot]com/index-finder/?currentSearchCriteriaName=&AssetFamily=equity&query=energy&resultsPerPage=25).*

*The U.S. Dollar is the currency used to express performance. It is not possible to invest directly in an index. Indexes are unmanaged and have no fees or expenses. The Funds consist of securities that may vary significantly from those in the ICSIX Dynamic U.S. Opportunity and performance calculation methods may not be entirely comparably. Accordingly, comparing results shown to those of the ICSIX Dynamic U.S. Opportunity may be of limited use.*

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**PAST PERFORMANCE NOT INDICATIVE OF FUTURE RESULTS.**

**FOR USE BY INVESTMENT PROFESSIONAL ONLY.**

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Contact Us:  
855.994.2326  
[consulting@innealtacapital.com](mailto:consulting@innealtacapital.com)

**Innealta**  
C A P I T A L

13215 Bee Cave Pkwy  
Building A, Suite 240  
Austin, Texas 78738  
[innealtacapital.com](http://innealtacapital.com)